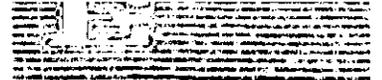


UNITED NATIONS  
ECONOMIC  
AND  
SOCIAL COUNCIL

COMMISSION DE  
LA AMERICA LATINA



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THIS DOCUMENT IS ALSO  
BEING SUBMITTED AT  
THE THIRD SESSION  
OF THE  
TRADE COMMITTEE

CONSULTATIVE MEETINGS ON TRADE POLICY

Report of the third series of meetings between  
Colombia, Ecuador and Venezuela  
(Quito, 7 to 10 December 1960)

Note by the secretariat



NOTE BY THE SECRETARIAT

The work on the expansion of inter-Latin American trade and the establishment of the regional market that the secretariat, in various resolutions adopted by the Governments members of the Economic Commission for Latin America at the sessions of the Commission and its Trade Committee, has been requested to undertake, includes the study of possible solutions to sub-regional problems which constitute obstacles to the attainment of the objectives in view.

To this end, Colombia, Ecuador and Venezuela agreed to hold two series of meetings of experts on trade policy, one at Bogotá (November 1958) and the other at Caracas (May 1959).

In furtherance of the programme of which these two series of consultations formed a part, and at the request of the above-mentioned Governments, a third was convened by the secretariat at Quito, Ecuador, in December 1960. This time the meetings were of an official character, since the competent authorities of the three countries considered that, in view of the work already carried out as well as of the new circumstances arising from the current movement towards multilateral economic co-operation in Latin America, the time had come to approach the topics concerned at the governmental level.

An account of the proceedings, together with the conclusions reached by the three Governments at this third series of meetings, was given in document E/CN.12/C.1/17, the revised text of which is reproduced in the following pages, with the addition of the papers prepared by the secretariat to facilitate discussion.

The secretariat hereby submits all this documentation to the Governments members of the Commission, for consideration at the ninth session of ECLA and the third session of the Trade Committee, which will be held concurrently at Caracas, in May 1961.



CONSULTATIONS ON TRADE POLICY; REPORT  
OF THE THIRD SERIES OF MEETINGS  
BETWEEN COLOMBIA, ECUADOR  
AND VENEZUELA

(Quito, 7 to 10 December 1960)

E/CN.12/0.1/17

27 December 1960

Editorial note: Some changes have been introduced in the presentation of the original document, which in no way affect its content.

A. PURPOSE OF THE MEETINGS, MEMBERSHIP  
AND ORGANIZATION OF WORK

Purpose of the meetings

1. In furtherance of the work programme under which the two previous series of similar consultative meetings had been held (at Bogotá in 1958 and at Caracas in 1959), the Governments of Colombia, Ecuador and Venezuela requested the secretariat of the Economic Commission for Latin America (ECLA) to convene a third series, with the primary object of considering along what lines these countries' trade policy might best be channelled in respect of their reciprocal economic and trade relations, with due regard to the new situations created by the active movement towards multilateral co-operation in which most of the Latin American countries were taking part.

Opening and closing meetings

2. The third series of consultations was held in the Law Courts (Palacio Legislativo) at Quito, Ecuador, from 7 to 10 December 1960. At the opening meeting, which took place in the assembly hall of the Casa de Cultura, an address was delivered by Mr. José Ceballos Carrión, Minister of Economic Affairs of Ecuador. Mr. Misael Pastrana Borrero, Minister of Public Works of Colombia, spoke on behalf of the delegations present. A statement was made to the meeting by Mr. Esteban Iovich, Chief of the ECLA Trade Policy Division.

3. The closing meeting was held on 10 December 1960. The speakers on this occasion were Mr. Enrique Tejera Paris, representative of Venezuela, who voiced the delegations' gratitude for the hospitality extended to the third series of consultations by Ecuador, and Mr. Esteban Iovich, Chief of the ECLA Trade Policy Division.

4. At the closing meeting, the present report of the third series of consultations was adopted.

Membership and attendance

5. The meetings were attended by delegations representing the Governments of Colombia, Ecuador and Venezuela. The complete list of representatives appears in an annex to the present report.

6. In virtue of the relevant applications submitted by their Governments, Mr. Ramón Meira Cerantes and Mr. Adolfo Crespo Ramírez were present at the consultations as observers for Argentina and Mexico, respectively.

/7. Mr. Pascual

7. Mr. Pascual Montanero, representing the Food and Agriculture Organization (of the United Nations (FAO)), attended the meetings as an observer.

Organization of work

Election of officers

8. At the third series of consultative meetings, the following officers were elected:

Chairman: Mr. José Ceballos Carrión (Ecuador)

Vice-Chairmen: Mr. Misael Pastrana Borrero (Colombia)  
Mr. José Luis Sálcido Bastardo (Venezuela)

9. The secretariat for these meetings was formed by Mr. Esteban Iovich, Chief of the ECLA Trade Policy Division; Mr. Alejandro Power, member of the ECLA Trade Policy Division, who acted as Secretary-General; and Mr. Julio Prado Vallejo, an official of the Ministry of Economic Affairs of Ecuador, as Assistant Secretary-General.

B. AGENDA

10. At the first meeting, held on 7 December, the following agenda was adopted:

I. General statements

II. Recent trends in bilateral agreements between Colombia, Ecuador and Venezuela

Documentation

Recent trends in bilateral agreements between Colombia, Ecuador and Venezuela (working paper)

III. Characteristics and mechanism of a possible multilateral treaty

IV. Effects of possible participation in a multilateral instrument on the bilateral treaties in force between Colombia, Ecuador and Venezuela

V. Guiding principles for future trade policy in relation to the Latin American movement towards multilateral economic co-operation

Documentation

Suggested guiding principles for the participation of Colombia, Ecuador and Venezuela in the Latin American movement towards multilateral economic co-operation (working paper)

/Background documents:

Background documents:

- (a) Consultations on trade policy (Bogotá, 13-18 November 1958)  
(E/CN.12/C.1/11), pp. 15 et seq.
- (b) Consultations on trade policy (Caracas, 2-7 May 1959)  
(E/CN.12/C.1/11/Add.2)

VI. Findings of the first session of the Working Group on Customs Questions with regard to the participation of Colombia, Ecuador and Venezuela in inter-Latin American Multilateral treaties

Documentation:

Informe de la primera reunión del grupo de trabajo para asuntos aduaneros (Montevideo 1-12 de agosto de 1960) que se eleva al Comité de Comercio de la CEPAL (E/CN.12/C.1/WG.3/4/Rev.1)

C. ACCOUNT OF PROCEEDINGS

Opening addresses and general statements

11. At the opening meeting of this series of consultations, Mr. José Ceballos Carrión, Minister of Economic Affairs of Ecuador, welcomed the delegations, and was thanked on behalf of the delegations of Colombia and Venezuela by Mr. Misael Pastrana Borrero, Minister of Public Works of Colombia. In both addresses, emphasis was laid on the importance of the third series of meetings in view of the need to study potentially suitable methods of channelling the trade policy of the Greater-Colombia countries, both in their reciprocal relations and vis-à-vis the other Latin American republics, along co-operative lines conducive to the economic development of all, to the co-ordination of that development on equitable terms and to the expansion of Latin America's intra-regional and extra-regional trade alike. In both addresses, too, appreciative reference was made to ECLA's collaboration in the technical elucidation of problems bearing on trade policy and on the acceleration of economic development in the Greater-Colombia countries, as well as to the preparation of the requisite studies for the third series of consultative meetings.

12. Mr. Esteban Iovovich, Chief of the ECLA Trade Policy Division, after thanking the previous speakers for their praise of the secretariat's work, made a brief statement on the implementation of the resolutions adopted by the Governments members of the Commission in connexion with  
/the formation

the formation of the common market, and on the relevant activities under way in respect of Central America and of the Free-Trade Association established by six South American countries, plus Mexico, under the Montevideo Treaty.

13. The discussion opened with a general statement by each delegation. That of Ecuador stressed the need for an objective evaluation of the factors which might be of real use in the task of offsetting and overcoming the repercussions on levels of living in the Latin American countries. produced by such circumstances as the now traditional deterioration of the terms of trade, and the difficulty of installing certain industries on account of the limited size of individual domestic markets. Another serious problem was that of agriculture's incapacity to provide employment for the increasing manpower supply deriving from the rapid growth of the population.

14. From the foregoing standpoints, the intention underlying the Montevideo Treaty was laudable, especially if it resulted in the provision of efficacious incentives for the establishment of industries that would eventually be able to produce on competitive terms. It was only natural, however, that in view of the particular structure of its economy, and of such considerations as the close relationship between its foreign trade and fiscal revenue, Ecuador, before adopting any definite attitude to the new circumstances affecting Latin American trade policy, should make a searching examination of the problems that would be created if it were to accede to a multilateral instrument of the Montevideo type.

15. Given Ecuador's geographical proximity to the other two Greater-Colombia countries, its traditional links with them and certain problems and interests which they all shared, it should first be considered whether the best plan for the moment might not be to pursue a policy aiming at the formation of a common market among the three countries in question, with the idea of subsequently studying the possibility of their accession, en bloc, to the Montevideo Treaty. At all events, Ecuador would attach great importance to any light that might be shed on that point.

16. The delegation of Colombia called attention to the differences between the atmosphere and circumstances of the third series of consultations and of the two that had preceded it. A new and highly significant factor had now made its appearance, in the shape of the Montevideo Treaty - signed by seven countries, four of which had already ratified it -, whose advent was bound to influence the trade policy of the whole of Latin America. At the two previous series of consultative meetings, the problems of trade and the prospects for its expansion as between Colombia, Ecuador and Venezuela had been discussed mainly from the angle of bilateral relations, but the desirability of perhaps reaching a tripartite agreement had also been borne in mind, at least with regard to certain aspects of the desired economic co-operation. The circumstances arising out of the Montevideo Treaty made it necessary to revise the criteria which had prevailed at the two series of meetings mentioned. If that revision - which would have to be undertaken during the Quito consultations - were to lead to the conclusion that it was advisable or essential to sign the Montevideo Treaty, a joint or co-ordinated approach on the part of Colombia, Ecuador and Venezuela would unquestionably facilitate the solution of the problems presented by their accession to that instrument, whether the step were taken by all three countries simultaneously or by only one or two of them for the time being.

17. To assuage the popular unrest deriving from its low per capita income levels, Colombia, like the other Latin American countries, was making every endeavour to improve its rate of development. Among the internal and external factors that constituted requisites for the attainment of such an end, it was impossible to overlook the expansion of the market on bases broad enough for import substitution to be extended to the manufacture of durable consumer and capital goods. This would be the sole way to achieve economic and specialized production, which was a goal impossible to attain when only small consumer markets were available. A free-trade area such as that instituted by the Montevideo Treaty afforded, in relation both to that and to other vital problems, glimpses of brighter prospects than could be opened up by bilateral agreements or a possible tripartite pact among the Greater-Colombia countries.

/18. The

18. The delegation of Venezuela, in its turn, expressed sincere interest in Latin American integration. Venezuela had traditionally been an advocate of Latin American unity in the political and economic spheres. In face of the tendency observable in the economies of the region and of the world to seek integration as a means towards the acceleration of development, it seemed difficult for a country to stand aloof from the movement and try to pursue in isolation, or on bilateral bases, a policy beneficial to its national interests. But despite Venezuela's conviction to that effect, its situation at the moment was such - owing to special circumstances of which everyone was aware - that it could not adopt decisions or take action with a view to acceding to associations like that constituted by the Montevideo Treaty, whose usefulness it considered obvious. Should one or more of the Greater-Colombia countries be in a position to decide to sign that instrument forthwith, Venezuela would view such a step with satisfaction, since the possible future accession of the others would thereby be facilitated.

Recent trends in bilateral agreements between Colombia,  
Ecuador and Venezuela

19. In the course of the discussion on recent trends in the concerting of bilateral agreements among the three countries, it was pointed out that practical results had so far been obtained only in the Colombo-Ecuadorian sector, notwithstanding the full and comprehensive elucidation of the problems and possibilities existing in the case of Colombia and Venezuela and in that of Venezuela and Ecuador, for which the Bogotá and Caracas consultations on trade policy had afforded opportunities. Hence it had become necessary to determine whether the programme of work which was being developed at the consultative meetings should hold firmly by bilateralism or should veer in the direction of a broader multilateral formula, either tripartite or of more ambitious regional scope.

20. In this context, the delegation of Colombia said that its country's efforts in the field of bilateral agreements were well known, their aim having been to convert into a reality the solutions advocated at the two previous series of consultations. But the policy with which they had been in line

/would have

would have to be adjusted to the new contingencies arising out of the Montevideo Treaty. Since the altered circumstances called for a change of attitude, in the future the necessary formulae would have to be sought within the multilateral framework, with due regard to the situations created by the existing bilateral instruments and to the need to maintain or reach special agreements in connexion with particular problems originating in geographical proximity or other causes.

21. In the opinion of the delegation of Venezuela, the bilateral system, while it had been useful when different conditions prevailed in the Latin American and world economies, had ceased to be so, in view of current trends in trade relations. Venezuela had not responded of late, nor did it intend to respond, to the overtures it had received from various European and Latin American countries with a view to the concerting of bilateral pacts; for it considered that the multilateral course was of greater benefit to all concerned. Its position in that respect was unequivocal, although it recognized that certain specific problems might in a few instances necessitate the conclusion of an occasional bilateral agreement. The signing of new bilateral trade treaties would make it more difficult for Venezuela to accede to multilateral agreements, which were in its opinion the best suited to the times.

22. The conclusion emerging from the discussion of item II of the agenda was that, generally speaking, the three countries regarded multilateralism as the more advantageous course to follow in their economic co-operation and trade relations, without repudiating such bilateral arrangements as might be essential for the solution of problems affecting only two of the countries, not all three.

Possible participation of Colombia, Ecuador and Venezuela  
in multilateral instruments

23. In view of their interdependence, the topics covered by items III, IV and V of the agenda were taken together.

24. One of the moot points raised was whether the desired multilateralism would prove more beneficial if it were confined to the three countries or if it were extended to a wider orbit like that resulting from the Montevideo

/Treaty. In

Treaty. In the relevant statements it was recognized that the framework afforded by the territories of the seven signatories of the Montevideo Treaty would of course permit of complementarity and specialized production in respect of a longer list of articles than could form the basis of trade within the narrower bounds of a tripartite agreement. The complexity of contemporary technological development and the increasing diversification of the supplies needed by a rapidly growing population made it advisable for efforts to be directed, in so far as was feasible, towards the establishment of a multilateral market proper.

25. It was felt that the meetings offered a favourable opportunity for consultations among the Governments of Colombia, Ecuador and Venezuela, in order to determine the policy that should be pursued if any or all of those countries were to decide to participate in Latin American economic integration agreements. Next, therefore, the delegations reviewed some of the principal characteristics of the Montevideo Treaty and of its mechanisms, as well as the nature of its provisions for special treatment to be accorded to contracting parties at a relatively less advanced stage of economic development. They then analysed the repercussions on the bilateral agreements in force between the Greater-Colombia countries that might result from a decision on the part of any or all of them to accede to the Montevideo Treaty.

26. In that connexion, and at the request of several members of the delegations, the representatives of the ECLA secretariat supplied various technical data bearing on points 2 and 3 of the document entitled Suggested guiding principles for the participation of Colombia, Ecuador and Venezuela in the Latin American movement towards multilateral economic co-operation.

Findings of the first session of the Working Group  
on Customs Questions

27. The delegations took note with satisfaction of the ECLA document containing a summary record of the conclusions reached at the meetings of customs experts held at Montevideo, from 1 to 12 August 1960, with respect to the standardization or co-ordination of certain aspects of customs

/systems, in

systems, in particular nomenclature, determination and checking of customs value and definition of basic customs terms. An account was also given of the existing programmes for carrying out the work in question.

28. The delegations recognized the importance of such matters, and especially of the readjustments that would have to be made in the national systems concerned to enable each country to participate, if it so desired, in multilateral treaties. They therefore declared their intention of taking the necessary action to promote the study of the questions referred to, for which the competent government departments in their countries were responsible.

#### Co-operation of ECLA

29. In the course of discussion, the delegations expressed the wish that ECLA should extend its co-operation with the Greater-Colombia countries to the following fields:

- (a) Preparation of projects to ensure complementarity among the three countries - taking into account both technical and trade policy considerations - in respect of the petrochemical and the steel and aluminium making industries;
- (b) Consultations and preliminary studies to pave the way for implementation of the agreement reached at the second series of consultations on trade policy (Caracas, 1959), with regard to co-ordination of the activities of the official economic programming organs of Colombia, Ecuador and Venezuela.

#### Alternative possibilities for multilateral action

30. When all the items on the agenda had been dealt with, the delegation of Ecuador proposed that in order to define the points on which agreement had been reached, a precise reply should be given to the following questions:

- (a) If the three Greater-Colombia countries were to decide in favour of multilateralism, would they aim at forming a tripartite association?
- (b) Would such a step constitute the first phase in a programme of action designed to culminate in the accession of the Greater-Colombia countries, en bloc, to the Montevideo Treaty?

/(c) Would the

- (c) Would the current third series of consultations leave Colombia, Ecuador and Venezuela in a position to decide individually as to their possible immediate accession to the Montevideo Treaty?
- (d) Would any member or members of the Greater-Colombia group that acceded to the Montevideo Treaty be able to maintain the existing bilateral treaties with other members? If so, on what bases?

31. The delegation of Colombia suggested the desirability of studying in addition one or two alternative possibilities for the action to be taken, in connexion with the fact that public opinion in that country was in favour of its early accession to the Montevideo Treaty, if possible prior to the conducting of the first tariff negotiations and to the definition of certain basic criteria which would have to be established by the organs of the Treaty in question. The alternative formulae suggested for the ingress of Colombia and Ecuador to the Latin American Free-Trade Association could be summed up as follows:

A. In the event of simultaneous accession:

- (a) The concessions granted in the bilateral treaty in the form in which it was in force at the date of deposit of the instruments of accession would be extended to the other members of the Association; or
- (b) The tariff treatments instituted by the bilateral treaty would be renegotiated within the Association, with the exception of those which exclusively benefited Ecuador in respect of its exports to Colombia, and which could therefore be recognized by the Association under the terms of chapter VIII of the Montevideo Treaty. Border trade régimes would also be excluded; or
- (c) Before Colombia and Ecuador joined the Association, those aspects of their bilateral treaty which related to tariff treatment would be denounced.

/B. In the

B. In the event of a separate decision:

- (a) The first country to join the Association would extend to the other members the tariff concessions granted in the Colombo-Ecuadorian bilateral treaty, in so far as they affected the imports of the country concerned; or
- (b) Prior to accession by unilateral or joint decision, those clauses of the Colombo-Ecuadorian bilateral treaty which dealt with tariff concessions would be denounced.

32. Before discussion of the foregoing alternatives began, the delegation of Venezuela reaffirmed its Government's interest in the Montevideo Treaty, which it regarded as an initial step towards the desired formation of the Latin American common market. Venezuela did not consider its participation unlikely if, when the time came, the organs of the Latin American Free Trade Association duly took into account certain special features of the country's economic structure. The same delegation also stated that the Government of Venezuela set a high value on ECLA's co-operation in the necessary technical elucidation both of potential solutions for the problems relating to Venezuela's possible accession to the Montevideo Treaty, and of the advantages that might accrue therefrom; and in that connexion it requested the secretariat's collaboration.

FINAL DECLARATION

33. As the outcome of the relevant discussions, at the closing meeting the three delegations formulated the following declaration on behalf of their respective Governments:

The delegations attending the third series of consultations on trade policy between Colombia, Ecuador and Venezuela,

Having considered the circumstances that have arisen since the series of consultative meetings held at Bogotá and Caracas, and in particular the fact that several countries have signed and ratified the Treaty concluded at Montevideo on 18 February 1960, whereby a Free Trade Area is established and the Latin American Free-Trade Association is instituted,

/Bearing in mind

Bearing in mind that because of their geographical contiguity and because they form part of a single economic area, it is incumbent upon them to aim at the closest possible reciprocal co-operation, without being deterred thereby from collaborating in arrangements of wider regional scope,

Considering that the expansion and liberalization of trade, in so far as it will provide broader markets for their increasing agricultural and industrial production, may constitute an important factor in the acceleration of the development of their respective economies, and, consequently, in the improvement of their peoples' levels of living,

Declare:

1. That the Governments of Colombia, Ecuador and Venezuela recognize the Montevideo Treaty as a suitable instrument for expediting the fuller and more balanced development of the Latin American economy;

2. That the Governments of Colombia and Ecuador will take the necessary steps towards formally joining at the earliest possible date the Latin American Free-Trade Association instituted by the Montevideo Treaty.

The Government of Venezuela, while fully endorsing the opinions embodied in the foregoing consideranda, reserves for a future occasion any statement on its possible accession to the Latin American Free-Trade Association;

3. That the Governments of Colombia, Ecuador and Venezuela will take immediate joint action to secure for Ecuador, within the above-mentioned Association, the special treatment for which the Montevideo Treaty makes provision in favour of contracting parties at a less advanced stage of economic development, since Ecuador considers this an essential condition of its accession to the Montevideo Treaty;

4. That the Governments of Colombia, Ecuador and Venezuela, bearing in mind the special conditions prevailing in the economy of the last-named country, will likewise take joint action with the object of securing special treatment for Venezuela, to offset the disadvantages it would suffer if its accession to the Montevideo Treaty were affected without due regard to the peculiar features of its present economic structure;

5. That the Governments of Colombia and Ecuador will study ways and means of adapting their bilateral agreements to the characteristics and mechanism of the Montevideo Treaty, in order to forestall any possible

/unfavourable repercussions

unfavourable repercussions on the economies of their respective countries which their accession to the said Treaty might produce;

6. That the Governments of Colombia, Ecuador and Venezuela request the ECLA secretariat to study, in consultation with them, the problems relating to the participation of each of the three countries in the Montevideo Treaty, and to put forward possible solutions for the same.

Annex

LIST OF REPRESENTATIVES

1. Representatives of the Governments participating in the meetings

COLOMBIA

Representatives:

Misael Pastrana Borrero, Minister of Public Works  
Jorge Méndez Munevar  
Bernardo Rueda Osorio  
Alejandro Uribe  
Pablo Cárdenas

Consultants:

Antonio Cortazar  
Rodrigo Botero

ECUADOR

Representatives:

José Ceballos Carrión, Minister of Economic Affairs  
José Pons  
José María Avilés Mosquera  
Mario Germánico Salgado  
Walter Pitarque  
Cristóbal Flores  
Julio Prado Vallejo  
Benito Ottati Moreira  
Roberto Serrano Rolando

Consultants:

César Alvarez Barba  
Alfredo Blum Flor  
César Chiriboga Villagómez  
Alberto Di Cappua  
Atahualpa Chávez González  
Bolívar Avila Cedeño  
Alberto Lanterno  
Cornelio Veintimilla Muñoz  
Roberto Crespo Ordoñez  
Ramon González Artigas Díaz

/Luis Urbina

Luis Urbina Farfán  
Jaime Ortiz Egas  
Pedro Miranda Lalama

Alternates:

Hugo Játiva Ortiz  
Jorge Naranjo Fiallos  
Conto Patiño Martínez  
Guillermo Sáenz Naranjo  
Néstor Vega Moreno  
Alberto León Ameida  
Alfonso Jaramillo  
Sócrates Bermúdez  
Miguel Peña Astudillo

VENEZUELA

Representatives:

Enrique Tejera París, Governor of the State of Sucre  
José Luis Salcedo Bastardo, Ambassador in Ecuador  
Néstor Coll Blasini  
Isaac Chocrón

Consultants:

Enrique Tarchetti  
José Cordero Cevallos

2. Governmental observers from other States

ARGENTINA

Observer:

Ramón Meira Serantes

MEXICO

Observer:

Adolfo Crespo Ramírez

3. Observers from specialized agencies

United Nations Food and Agriculture Organization (FAO): Pascual Montanero

/WORKING PAPERS



WORKING PAPERS PREPARED BY THE ECLA SECRETARIAT  
IN CONNEXION WITH THE THIRD SERIES OF CONSULTATIONS  
ON TRADE POLICY

EDITORIAL NOTE

The papers presented below had hitherto been issued only for limited distribution and for the internal use of the Third Series of Consultations on Trade Policy. In the second paper, Suggested guiding principles for the participation of Colombia, Ecuador and Venezuela in the Latin American movement towards multilateral economic co-operation, one or two comments arising out of the Quito meetings have been inserted.

A

RECENT TRENDS IN BILATERAL AGREEMENTS BETWEEN  
COLOMBIA, ECUADOR AND VENEZUELA

1. The paper entitled "Suggested guiding principles for the participation of Colombia, Ecuador and Venezuela in the Latin American movement towards multilateral economic co-operation" includes brief references to the trade treaties in existence among the Greater-Colombia countries. The present report enlarges upon these references in an endeavour to present a picture of the most important aspects and trends of contractual relations among the countries in question.

I. BETWEEN COLOMBIA AND ECUADOR

2. Since 1942, trade relations between Colombia and Ecuador have been governed by the treaty signed in that year and by supplementary instruments such as the 1949 payments agreement. The 1942 treaty establishes reciprocal freedom of trade and navigation and identical treatment for Colombian and Ecuadorian capital, as well as the application of the most-favoured-nation clause in respect of customs, navigation, exchange controls and import régimes. It also exempts a number of commodities from customs duties. However, certain import restrictions of a general nature adopted by Colombia from balance-of-payments motives, and others, relating to tariffs, instituted by Ecuador, have virtually annulled the effect of the customs exemptions.

1. The 1959 trade agreement

3. These circumstances, and others deriving from the need to regulate their intensive border trade, induced the two countries to conduct negotiations based on the principles laid down in the so-called Bogotá Declaration of 1958, which culminated in August 1959 with the signing of three treaties - one relating to trade, one to payments and a third to economic co-operation - that have already been ratified by Ecuador, although not yet by Colombia.

4. The 1959 treaty establishes the unconditional and unlimited application of the most-favoured-nation clause, with a reservation in favour of the preferences accorded by Colombia or Ecuador to adjacent countries in order to facilitate border trade.

The products of each party, on entering the other's territory, enjoy

/the same

the same treatment as domestically-produced goods. If import quotas are imposed, the country applying them shall accept from the other a volume of imports at least equal to its contribution to the supplies concerned in previous years.

a) Customs treatment for Ecuadorian products

5. Under the terms of the 1959 treaty, substantial tariff concessions are granted in favour of goods produced by Ecuador. The products affected are mainly primary commodities, in particular those grown in the Sierra - such as wheat, rice, maize, dry pulses, barley, malt and fresh fruit - and sugar. The implementation of these provisions would be a way of regularizing a traffic which at the present time is in great measure clandestine. Ecuador's production of the above-mentioned articles for the Colombian market is apparently expected to expand appreciably, perhaps with the co-operation of Colombian capital, when the new tariff régime is applied in their favour.

The treaty also refers to cacao from Ecuador. Colombia has been absorbing a considerable volume of Ecuador's exports of this commodity, which is an important one for the latter's balance of payments. Despite the fact that programmes for the development of cacao-growing are under way in Colombia, the treaty establishes the right of free entry for the Ecuadorian product.

6. It is of interest to note that the treaty institutes customs exemptions for Colombia's imports of certain chemical and laboratory products manufactured in Ecuador.

7. Those Ecuadorian products which are the object of tariff concessions on Colombia's part can be freely imported into the latter country. Imports of wheat and barley are effected by the Colombian National Institute of Supplies (Instituto Nacional de Abastecimiento - INA), whose purchases are intended to bridge the gap between domestic production and demand.

b) Customs treatment for Colombian products

8. Ecuador abolishes the duties on various Colombian chemical and pharmaceutical products and grants reductions ranging from 10 to 70 per cent in respect of many manufactures. The tariff régime for Colombian textiles comprises a specific duty varying between 7 and 17.60 sucres per kilogramme, plus a 10-per-cent ad valorem duty. These rates seem to have been calculated with a view to the equalization of Ecuadorian and Colombian textile prices

/and the

and the consequent discouragement of contraband. It is common knowledge that in recent years the improvement of productivity in Colombia's textile industry and the devaluation of the national currency have weighted the scales in favour of Colombia as regards the price difference between the two countries' textile products. Consequently, the Ecuadorian mills, although not working at full capacity, would seem to be accumulating an exceptionally large volume of stocks. It is hoped that the tariff régime applicable to textiles under the terms of the treaty will help to restore the situation to normal. Ecuador also accords Colombia customs reductions - and in some cases exemptions - in favour of such industrial products as plate glass and glass manufactures; aluminium and enamelware; electrical materials; agricultural machinery, machinery for the building industry and machine-tools; and household electrical appliances (wireless receiving sets, electric razors, etc.). Similarly, a number of important concessions - reductions and exemptions - are granted to the Colombian chemical and pharmaceutical industry.

c) Charges other than tariff duties

9. The two countries reciprocally consolidated charges equivalent in effect to customs duties, for goods on which the latter were negotiated. Among the charges thus consolidated are the Ecuadorian consular fee of 9.5 per cent and the special 10-per-cent rate applied by Colombia to cacao imports.

d) Exclusive character of customs treatment

10. The treaty contains several clauses relating to the nature of the special customs treatment which the two countries accord each other. Article VII states that the benefits reciprocally granted, especially those connected with the tariff régime, are conceded in virtue of their being adjacent States<sup>1/</sup>. It should be noted that in respect of the products covered by the special treatment neither of the two parties has specific commitments with third countries, except those of a generic character deriving from the most-favoured-nation clause.

e) Border trade

11. The treaty defines "border trade" as that which supplies essential commodities for use and consumption in towns and villages on the frontier. The joint standing commission instituted by the treaty is to lay before the

<sup>1/</sup> The economic co-operation agreement which Colombia and Ecuador signed in 1959 at the same time as the trade treaty defines the exclusive character of the treatment in question.

Governments draft proposals for a bilateral agreement which would serve as a basis for each country's internal regulations with respect to border trade.

## 2. The payments agreement

12. On the same date as the trade treaty, Colombia and Ecuador signed a payments agreement establishing the dollar of account for purposes of their transactions, quoted at the same rate as the free United States dollar for similar operations, and on the basis of a swing credit of up to half a million dollars. When the balance exceeds this limit, the creditor country may request the total or partial transfer of the excess to another clearing account in operation with a third Latin American country, or may reach an agreement with the debtor country for the payment of the excess in other exchange. If, within a period of six months, the excess is not cleared by one or other of the methods referred to, the creditor country may request total or partial payment in free United States dollars, by cable transfer.

This payments agreement, which is in line with the more flexible principles of the Montevideo standard agreement,<sup>2/</sup> supersedes that of 1949, which in its turn was modified in 1951 with the aim of converting the system of import and export licences reimbursable in national currencies into one whereby the value of the operations concerned would be reimbursed in dollars. The 1949-51 agreement stipulated that balances on the account were to be liquidated every six months at the creditor's request and that their equivalent in dollars would be paid in that currency not later than 30 days from the date of liquidation.

## 3. Economic co-operation

13. Together with the trade treaty and the payments agreement, an instrument relating to economic co-operation was signed, with the object of fostering the smooth co-ordination of the two countries' national economic development and trade policies. Among other measures to this end, the Governments of Colombia and Ecuador agreed to promote understandings between individual sectors, adopt provisions for the rapprochement of their respective markets within the general framework of Latin American integration, encourage the

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<sup>2/</sup> Adopted at the first session of the Central Banks Working Group, held at Montevideo from 29 April to 10 May 1957, as can be seen in the relevant report (E/CN.12/C.1/WG.1/5) incorporated in document E/CN.12/484.

formation of private enterprises on a basis of public or private capital and sponsor the establishment of a system of consultations on the policy to be pursued at economic congresses or with regard to accession to multilateral pacts affecting both parties.<sup>3/</sup>

## II. BETWEEN COLOMBIA AND VENEZUELA

### 1. The former modus vivendi

14. At the present time no trade agreement exists between Colombia and Venezuela. From 1934 to 1948 a frontier agreement, renewable annually, was in force. It did not include the most-favoured-nation clause, and established that Venezuelan salt imported through the customs houses of Cucuta and Arauca should enter Colombia duty-free. It also accorded tariff exemption to cattle - up to 25,000 head a year - exported from Venezuela to the Colombian department of Norte de Santander. This measure facilitated the fattening of Venezuelan cattle in Colombia. The instrument also stipulated that the customs duty on tinned fish from Venezuela should not exceed 15 Colombian centavos per kilogramme of gross weight.

Venezuela in turn refrained from taxing Colombian exports or imports in transit. The same exemption was enjoyed by goods from Cucuta which had to cross Venezuelan territory on their way to the Colombian Petroleum Company's camps in Catatumbo, and those passing through Venezuela in transit to Arauca.

15. As from August 1948 the modus vivendi was allowed to lapse, partly on account of the circumstances to be described below. However, pursuant to an administrative resolution adopted in that same year, the Venezuelan Government continues to maintain the exemption from transit dues in Colombia's favour.

The reasons for the failure to renew the modus vivendi include the fact that Colombia began to produce enough salt to satisfy the demand generated in areas adjacent to the Venezuelan frontier - in particular, that of stock-breeders in the Llanos - as a result of improvements in the transport system and because the salt trade had been centralized in the Banco de la República.

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<sup>3/</sup> This provision of the treaty is in harmony with the resolution adopted by the Joint Colombo-Venezuelan Commission to the effect that they should hold consultations, together with Ecuador, on matters relating to the determination of attitudes vis-à-vis intra-regional multilateral agreements. In both cases implicit reference is made to the Montevideo Treaty.

/Furthermore, the

Furthermore, the non-tariff restrictions on imports of consumer goods imposed in Colombia from balance-of-payments motives affected Venezuela's exports of tinned fish. This, and the progressive shortage of exportable cattle in Venezuela, virtually put a stop to traffic in the commodities which for years had been among the most important items in border trade. Thenceforward, the trade in question expanded and became more diversified, but the balances registered were in favour of Colombia, thus reversing the previous situation.

## 2. Changes in border trade

16. Since 1948, when the Colombo-Venezuelan modus vivendi ceased to be applied, the need to solve the problems of trade between the two countries, especially those originating in border trade characteristics and disequilibria, has become manifest.<sup>4/</sup> At the same time, it is clear that the conclusion of a trade agreement between them is no easy matter, owing to the peculiar structure of their respective economies and to the influence exerted on the scope and balance of trade movements by the differing evolution of their currency situations.

Thus, when the Colombian peso stood at par with or higher than the bolívar and, concurrently, customs duties and other import charges and restrictions were heavier in Colombia than in Venezuela, the flow of border traffic was primarily in the direction of Colombia or, at least, was relatively well-balanced. As the devaluation of the Colombian peso was intensified, without a corresponding rise in domestic production costs, the Venezuelan importer found that he could buy many Colombian goods at a price lower than he would have to pay for similar articles from home sources or from a third country. With the increase in the bolívar's purchasing power in terms of Colombian merchandise, demand expanded, while sufficient counterparts in the shape of Venezuelan products were not forthcoming. This situation is giving rise to a great deal of concern in Venezuela's industrial circles, and creates obstacles to the concerting of trade agreements between the two countries, especially if such agreements would involve prospects of

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<sup>4/</sup> See Study of inter-Latin American trade, United Nations Publications, Sales No: 1956.II.G.3, pp.100-101.

/the substantial

the substantial liberalization of commerce in manufactured goods.

### 3. Establishment of a joint commission

17. With a view to the solution of border trade problems and the study of adequate formulae for the aggregate trade between Colombia and Venezuela, a joint commission was set up in 1959. Besides drawing up a schedule of possible trade items, this commission has recommended, inter alia, that the two countries' development programmes be closely co-ordinated, and has suggested that the potential effects of Latin American multilateral agreements on their trade with each other and with the rest of the region be carefully analysed.

18. As in the case of the 1959 agreements between Colombia and Ecuador, the studies that are being undertaken in the context of bilateral relations between Colombia and Venezuela reveal that interest is felt in economic co-operation and in integration at a level higher than their mere reciprocal trade. It seems, however, that final decisions could hardly be made without due reference to the degree of conviction entertained by public opinion - especially in entrepreneurial circles - as to the possibility of participating in integration formulae which would facilitate the implementation of industrial expansion programmes.

### III. BETWEEN ECUADOR AND VENEZUELA

19. A variety of circumstances - transport difficulties, in no small measure - have combined to keep trade between Ecuador and Venezuela at very low levels, although at the consultations on trade policy held in 1958 and 1959 <sup>5/</sup> the existence of interesting possibilities for a fairly substantial volume of trade was clearly evidenced. Moreover, it seems that Ecuador would offer considerable inducements for the investment of Venezuelan capital.

There is at present no treaty relating to trade between the two countries, nor is the most-favoured-nation clause applied.

20. In consequence of the possibilities noted at the trade policy consultations referred to above, Ecuador and Venezuela established a joint commission which met at Quito in February 1960, and sketched out the bases for possible trade and economic co-operation treaties, including incentives to investment in the creation of industries producing for both markets.

<sup>5/</sup> See documents E/CN.12/C.1/11 and E/CN.12/C.1/11/Add.2 for the relevant summary records.



B

SUGGESTED GUIDING PRINCIPLES FOR THE PARTICIPATION OF COLOMBIA,  
ECUADOR AND VENEZUELA IN THE LATIN AMERICAN MOVEMENT  
TOWARDS ECONOMIC CO-OPERATION

I. INTRODUCTION

1. In Colombia, Ecuador and Venezuela the idea of establishing close reciprocal co-operation in economic affairs is frequently mooted. The grounds on which it is based include, in addition to historical links and geographical proximity, the possibility of expediting the development of the three countries through efficient utilization of their complementarity potential - both the natural possibilities relating to primary commodities produced in specific frontier areas, and those that would derive from the co-ordinated installation of certain industries.
2. The concept of economic co-operation seemed on the way to materialization in August 1948, when the above-mentioned countries, together with Panama, signed the Quito Charter, by virtue of which the Greater-Colombia Council (Consejo Grancolombiano) was constituted and operated in Caracas up to 1953. As the Charter was ratified only by Colombia and Ecuador, its provisions could not be put into force.

This setback, which various factors helped to determine, up to a point reflected the apprehensions aroused by the Charter in certain circles connected with private enterprise. These motives of concern included the possible repercussions of the application of the instrument on Venezuelan industry. The latter's factory costs were higher as a rule than those registered in Colombia and Ecuador, because of the greater proportional influence of wages. It was feared that, if the customs union contemplated in the Quito Charter became a reality, the resultant free circulation of goods among the three countries would redound to the detriment of Venezuela's industrialization process.

3. The Charter having been, in practice, repudiated, during the past decade trade among the three countries continued to be carried on through bilateral channels, and the only instruments successfully concerted with a view to its encouragement were the new treaties concluded between

/Colombia and

Colombia and Ecuador in relation to their reciprocal trade. Their long-standing agreement to grant each other most-favoured-nation treatment and exemption from customs duties on specific products was amplified in 1959 by means of instruments whose entry into force is now pending their ratification by Colombia.

Between Ecuador and Venezuela, whose reciprocal trade is insignificant, no treaty exists, and not even the most-favoured-nation clause is applied. Nor is there any trade treaty between Colombia and Venezuela, but the movement of goods between these two countries is considerable, although its levels fluctuate sharply; moreover, partly owing to the absence of a trade agreement, a good deal of this traffic takes the form of smuggling. In this connexion it must be acknowledged that the complexity of the circumstances attending such "unregistered" trade makes the conclusion of instruments for its regularization a very difficult matter. It has thus long been surrounded by an atmosphere of uncertainty which is unquestionably prejudicial to the economic sectors connected with Colombo-Venezuelan trade.

4. At the sessions of the Economic Commission for Latin America (ECLA), the Greater-Colombia countries have given their support to recommendations that studies be carried out on the expansion of inter-Latin American trade and the possibilities of establishing the regional market.

In connexion with such studies, various meetings of groups of experts have been convened for the purpose of consultations on trade policy, in order to elucidate problems which, on account of geographical proximity or other causes, are common to several countries. These series of meetings were organized by the ECLA secretariat in 1958 and 1959 for the southern countries of South America on the one hand, and for the Greater-Colombia republics on the other. In February 1960, the first of these two groups which was joined by Mexico in the final stage of its proceedings, signed the Montevideo Treaty, whereby the Latin American Free Trade Association is created.<sup>1/</sup> The Greater-Colombia group, although

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<sup>1/</sup> The Montevideo Treaty was signed by Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay on 18 February 1960. For its text, see "The Free-Trade Area", Economic Bulletin for Latin America, Vol. V., N° 1 (Santiago, Chile, March 1960), pp. 6-20.

useful light was shed on its problems during the Bogotá and Caracas meetings,<sup>2/</sup> has not yet reached the point of launching specific multi-lateral measures, and has deemed it necessary to sponsor a third series of consultations, accepting the invitation of the Government of Ecuador to hold them in Quito.

5. It is of interest to recall that at its first series of meetings (Bogotá, 13-18 November 1958), the group of Greater-Colombia experts advocated a solution of the multilateral type for their countries' reciprocal trade and industrial complementarity problems. It supported, in principle, the free-trade area formula as a transitional step towards the desired long-term goal of a customs union.<sup>3/</sup>

In the same context, various suggestions were formulated at this series of consultations with respect to the gradual paving of the way for multilateral economic co-operation. Although some of these suggestions were favourably received by the Governments concerned and certain aspects of them were subsequently taken into consideration by the Colombo-Venezuelan and Ecuadorian-Venezuelan joint commissions, it has become evident that misgivings similar to those that carried weight in the repudiation of the Quito Charter are still militating against the feasibility of a specific multilateral agreement among the three countries.

6. The establishment of the Latin American Free-Trade Association - which covers a major part of inter-Latin American trade relations - introduces a new element into the consideration of each country's individual policy vis-à-vis a possible multilateral treaty on intra-regional trade and economic co-operation.

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<sup>2/</sup> See annex I below. For the summary records of the consultations held at Bogotá and Caracas, see documents E/CN.12/C.1/11 (pp. 15-41) and E/CN.12/C.1/11/Add.2.

<sup>3/</sup> According to the text of the summary record of the Bogotá meetings, it was pointed out that, at first, the free-trade area would cover trade relations and economic complementarity between Colombia, Ecuador and Venezuela, in view of those countries' geographical proximity and certain characteristics and problems common to all of them, while provision would be made for the following two aspects as well: (a) the admission of any other country in the region which wished to take part on terms of full reciprocity; and (b) the correlation or ultimate merger of the area on the same reciprocal basis with others already existing or to be established in Latin America (op.cit., p.37).

/Inevitably, the

Inevitably, the repercussions of the Montevideo Treaty will exert an ever-increasing influence on the overall trade relations of the Latin American countries. Moreover, it would not be surprising if public opinion on common market projects were to some extent swayed thereby, and not only the corresponding decisions but also the choice of methods for their implementation were facilitated.

It should also be noted that, reconciling the rules inherent in a Free-Trade Area with the characteristics of economies in process of industrialization, as theirs are, the signatories of the Montevideo Treaty - prompted by motives of concern similar to those existing among the Greater-Colombia countries - adopted in the instrument in question a system under which each party can exclude from the trade liberalization programme, in accordance with specific norms, particular lines of production that it wishes to continue protecting. Apart from this, as the Treaty is based on reciprocity of concessions and contemplates the conclusion of industrial complementarity agreements aimed at facilitating the production of capital goods, durable consumer manufactures and certain raw materials which call for high capital density and extensive areas of distribution, it opens up the possibility that the prices of the manufactured goods concerned may gradually become competitive in world market terms.

7. In the course of the informal consultations held by the ECLA secretariat in connexion with the forthcoming Quito meetings, it was observed that governmental circles were greatly interested in making a thorough inquiry into whether such a formula as that of the Latin American Free-Trade Association was a satisfactory means of channelling economic co-operation and trade between Colombia, Ecuador and Venezuela, either through the signature of an agreement similar to the Montevideo Treaty but confined, during a preliminary phase, to those three countries, or else by means of their individual accession to the Montevideo Treaty itself.

In recent instruments, the Governments of the three countries have agreed to consult one another before taking up any definite position vis-à-vis multilateral agreements signed in the Latin American region.

8. During the above-mentioned informal consultations, the following were seen to be, for the moment, the predominant trends in the unofficial

/opinion of

opinion of trade policy experts, given in their personal capacity:

(a) Some consider that the Montevideo Treaty represents a satisfactory solution for the Greater-Colombia countries, since its inherent flexibility would afford them ways and means of settling questions of great concern to them, such as those relating to border trade, to the régime for countries at a relatively less advanced stage of economic development and to complementarity agreements;

(b) Others think that the course of acceding to the Montevideo Treaty or to any other multilateral agreement - even one confined to the three Greater-Colombia countries -, while desirable in principle, would as yet be premature. According to this view, a better expedient for the time being would be to seek solutions for the problems connected with the expansion of trade among the Greater-Colombia countries, and with the broadening of their markets for certain lines of production, in bilateral agreements similar to that not long ago concluded between Colombia and Ecuador. It is recalled in this connexion that the latter country is studying the possibility of concerting a bilateral treaty with Venezuela;

(c) Lastly, a third current of opinion, while not denying recognition, in principle, to the possible value of multilateral treaties, given certain conditions, in relation to the acceleration and diversification of economic development, would nevertheless deem it preferable that attention should first be concentrated on the important practical problems of the three countries' border trade, and that complementarity or integration prospects for specific branches of industrial production, especially the petrochemical industry, should be carefully explored.

9. In official circles, questions such as the following were asked:

(a) If Colombia and Ecuador were to accede to the Montevideo Treaty, together or separately, would they be able to maintain the exclusive treatment agreed upon between them, particularly that relating to the agricultural commodities produced by Ecuador whose right of free entry into Colombia is established by the bilateral treaty in question? What would be the position of the tariff concessions instituted by the treaty between Chile and Ecuador?

/(b) With regard

(b) With regard to the provisions of the Montevideo Treaty, could Ecuador, in order to attain the ends just referred to in connexion with the Colombo-Ecuadorian agreement, invoke chapter VIII of the aforesaid instrument, as a country at a relatively less advanced stage of economic development?

(c) In the event of Venezuela's acceding to the Montevideo Treaty, would the tariff concessions in force between that country and the United States be extended ipso facto to the signatories of the Treaty, with the majority of which Venezuela has at present no link in the shape of the most-favoured-nation clause?

10. The subjects to which the foregoing questions allude, and others to which reference will be made later, are allied to the régime of the most-favoured-nation clause. The Montevideo Treaty established this clause in its most comprehensive form, as a basic principle of the relations among the signatories, with two reservations - those concerning border trade on the one hand, and, on the other, the special concessions temporarily granted by the Contracting Parties to countries at a relatively less advanced stage of economic development.

At a later stage in the present report some considerations are formulated with respect to the practical significance of the most-favoured-nation clause in a free-trade area, should the Greater-Colombia countries decide to create one. The conclusion to which these considerations lead is that Venezuela's exports would have access to those special customs régimes in force between Colombia and Ecuador which are not peculiar to border trade, and the exports of Colombia and Venezuela to the concessions deriving from the treaty between Chile and Ecuador. In turn, the customs treatment established for United States goods under the terms of the agreement in force between the latter country and Venezuela would be extended to the exports of Colombia and Ecuador. If, on the other hand, instead of creating a special free-trade area, the three countries were to decide upon accession to the Montevideo Treaty, the same extension of privileges would automatically come into effect for all the signatories of that instrument, in conformity with article 18 of the said Treaty.

/Also at

Also at a later stage, a few points are raised in connexion with the scope of the provisions contained in chapter VIII of the Treaty, in so far as they authorize certain tariff concessions in favour of countries classified as being at a relatively less advanced stage of economic development.

11. During the consultations, some sources in the Greater-Colombia countries expressed the view that if the States in question showed an inclination to accede to the Montevideo Treaty, it might well happen that they could not do so simultaneously, since the trade policy problems with which such a step would confront them are of differing scope. On the other hand, it would be desirable for the country or countries that could decide to sign the Treaty to do so forthwith. By so proceeding, in their capacity as members of the Latin American Free Trade Association, they could avail themselves of its organs to help in seeking and applying the formulae that would have to be devised within the Association in order to facilitate the accession of the other Greater-Colombia countries.

12. The forthcoming Quito consultations will undoubtedly provide a good opportunity for the objective study, in the light of comprehensive discussion, of topics as important as those referred to in the preceding paragraphs. With this end in view, to facilitate the elucidation of problems and in response to suggestions made during the recent informal consultations, the ECLA secretariat has compiled the background data summarized in the present document and the annexes thereto.

## II. BILATERAL AGREEMENTS OR MULTILATERAL REGIME?

13. The first question raised in this context may be summed up as follows: Is it more to the interest of the Greater-Colombia countries to continue to conduct their reciprocal relations at the level of bilateral trade agreements, or to channel them within a multilateral instrument?

It is common knowledge that the growing world tendency to eliminate bilateral treaties is taking concrete shape through the system of multilateral customs agreements instituted by the General Agreement on Tariffs and Trade (GATT) and other instruments. Such pacts include that of the Benelux countries, the Organization for European Economic Co-operation, /the European

the European Economic Community, the European Free-Trade Association, and, in Latin America, the free-trade area formed by five Central American countries,<sup>4/</sup> the common market to which three belong<sup>5/</sup> and which a fourth is on the way to joining,<sup>6/</sup> and the free-trade area established by the Montevideo Treaty.

1. Advantages of multilateralism

14. Apart from the economic and political motives which may in each individual case prompt the concerting of multilateral treaties, these undoubtedly offer noteworthy practical advantages over the bilateral system from the angle of trade policy. The mere fact that the signatories are more than two in number improves the prospects for the diversification and sound expansion of trade. What is more, and most important of all, a multilateral treaty permits the establishment of incentives to more efficient utilization of the factors of production, thus helping the economies of the contracting parties gradually to reach a position in which they can provide employment for the factors in question at satisfactory levels and on competitive terms.

Again, even if the directive and administrative organs of the multilateral instrument are not of a supra-national character, it would be a mistake to under-estimate the value of their intrinsic continuity and the consequent specialized knowledge of the permanent representatives and Secretariat officials as elements making for the successful conduct of the systematic work entailed in attaining the treaty's objectives.

Among other arguments in favour of the multilateral system, it is worth while to point out that this method affords opportunities - such as bilateral treaties are unlikely to provide - for participating in agreements on complementarity by sectors of industry, and thus establishing in their national territory plants which could not operate in satisfactory economic conditions if they were dependent entirely upon domestic demand for support. Moreover, multilateralism makes it a feasible or a less arduous task to solve such problems as those of credit for the financing of exports

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<sup>4/</sup> Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

<sup>5/</sup> El Salvador, Guatemala and Honduras.

<sup>6/</sup> Nicaragua.

/and those

and those deriving from international transport. Yet again, it enables common bases of negotiation to be prepared for the conclusion of trade or other agreements - such as can seldom result from isolated action - with third countries or groups of countries.

Nor is it even extravagant to suppose that utilization of the resources of international financial institutions (the Inter-American Development Bank, for example) will be facilitated for parties to multilateral treaties through which complementarity agreements can be put into effect, since in the financing of the latter such resources could be turned to highly advantageous account.

2. Relation between the success of the instrument and the number of member countries

15. Under a multilateral instrument, as has already been pointed out, the wider diversity of production affords a broader margin for trade, facilitating tariff negotiations and the fulfilment of the obligations inherent in the treaty concerned.

In the case of the Greater-Colombia countries, this view is confirmed by a glance at the composition of the reciprocal trade between Colombia, Ecuador and Venezuela and that of the trade they maintain with the signatories of the Montevideo Treaty.<sup>7/</sup>

III. CONSIDERATIONS RELATING TO THE EFFECTS OF A POSSIBLE  
MULTILATERAL TREATY ON EXISTING SITUATIONS

1. Main characteristics of agreements in force

(a) Colombia

16. The only bilateral agreement on tariff concessions that Colombia has in force is the one it signed with Ecuador in 1942, supplemented by the additional convention of 1943.

17. The 1942 agreement establishes the most-favoured-nation clause in respect of customs, lifts taxation on goods in transit and exempts specific products of each party from import duties in Colombia and Ecuador. Excluded

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<sup>7/</sup> See annex II below.

from the most-favoured-nation treatment are the advantages accorded to adjacent countries in connexion with border trade, or those resulting from customs unions.

(a) The following are the Colombian products which enter Ecuador duty-free: woollen and printed cotton fabrics, pharmaceutical specifics, chemical products, glass and chinaware, iron and steel manufactures, leather goods, perfumery and other toilet articles, tin containers and crown caps, agricultural machinery, farm utensils, cigarettes, cigars and leaf tobacco.

(b) The following are the Ecuadorian products exempted from duties: rice, barley, wheat, sugar, cacao, beans, lentils, animal wool and woollen and cotton yarns, cotton textiles, woollen suitings, cement, petrol, coal gas, dry ice, plaster, butter, fresh fruit, meat (in brine, salted or in the form of jerked beef) and tagua wood manufactures.

18. The tariff treatment instituted by the 1942 Colombo-Ecuadorian pact is exclusive in character, as agreed between the parties in view of their position as adjacent countries and regarded as justifiable under the meaning of international resolutions such as that of the Seventh Inter-American Conference (no. 80) dated 24 December 1933, and that adopted by the Inter-American Financial and Economic Advisory Committee on 18 September 1941. In practice, this exclusive régime has exerted little influence on trade between the two countries, since the treaty contains provisions under which quantitative restrictions in respect of the negotiated products can be and actually have been applied to remedy balance-of-payments disequilibria and for other reasons. Again, from another point of view, the exclusive nature of the régime has had no major repercussions on the trade of Colombia and Ecuador with third countries. It must be remembered in this connexion that a substantial proportion of Colombo-Ecuadorian trade is carried on across the land frontier and for the principal purpose of supplying areas remote from the coast, so that competition from other sources of supply is difficult or impossible in the case of certain articles.

/Attention must

Attention must here be called to the fact that in 1945 the Government of the United States agreed not to claim the benefits of the special tariff treatment conceded by Colombia to Ecuador.<sup>8/</sup>

19. The 1959 treaty between Colombia and Ecuador was drawn up in order to replace that of 1942 by another on broader lines. Under the new treaty, a number of Ecuador's agricultural products would enter Colombia duty-free, a circumstance which would facilitate the development of temperate-zone farming in the Andean regions of Ecuador, thanks to the prospects of capital investment on the part of both countries. The counterpart items are mainly Colombian manufactures, on which the import duties imposed by Ecuador are reduced or eliminated altogether.

20. Besides the agreement with Ecuador, within Latin America, the most-favoured-nation clause is in force between Colombia and Argentina, Bolivia, Brazil and Chile. It should be noted that three of these countries are signatories of the Montevideo Treaty, while the fourth - Bolivia - which took part in the negotiating of that instrument, is studying the possibility of acceding to it.<sup>9/</sup> Colombia has also signed an agreement with Uruguay, not yet ratified, whereby most-favoured-nation treatment is established as between the two countries. In all these agreements, the clause in question is unconditional, except that in the case of Argentina, Brazil and Chile the benefits accorded to adjacent countries to facilitate border trade are excluded from its effects. Also excluded under the agreements with Argentina and Brazil are the concessions deriving from participation in customs unions or free-trade areas.

In the rest of the world, the countries to which Colombia extends the benefits of the most-favoured-nation clause are Belgium, Canada,<sup>10/</sup> Denmark,

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<sup>8/</sup> See Study of inter-Latin American trade, op.cit., p. 98 and footnote 102.

<sup>9/</sup> A Protocol extended by the signatories of the Montevideo Treaty grants Bolivia a moratorium expiring on 31 December 1960, during which it is free to accede to the instrument in question on an equal footing as a signatory State.

<sup>10/</sup> Trade relations between Colombia and Canada are governed by the treaty concluded with the United Kingdom of Great Britain and Northern Ireland:

/France, Hungary,

France, Hungary, Italy, Luxembourg,<sup>11/</sup> the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom of Great Briatin and Northern Ireland and the United States. Of these agreements, only three - those signed with Hungary, Italy and Norway - exclude from the treatment stipulated by the clause the special concessions relating to border trade and those obtained through membership of customs unions or free-trade-areas.

21. Colombia also maintains a customs co-operation agreement with Peru, which is in force for trade in certain frontier areas. It establishes a common customs tariff applicable to a large number of articles, as well as regulations - also in common - for the collection of the duties affecting the many goods specifically indicated in the agreement. The most-favoured-nation clause is not in force between Colombia and Peru.

22. The Colombian National Federation of Coffee-Growers (Federación Nacional de Cafeteros), with the authorization of the Banco de la República, has concluded private agreements with governmental foreign trade institutions in Czechoslovakia, Eastern Germany, Hungary, Romania, the Soviet Union and Yugoslavia. These pacts - virtually barter agreements - aim at promoting exports of Colombian coffee in exchange for goods from the other parties. A similar agreement has been signed with Israel.

(b) Ecuador

23. Chile and Ecuador, already linked by a tariff treaty signed in 1949, concluded another in 1957. This institutes the most-favoured-nation clause, with the following exceptions: special treatment accorded to adjacent countries; advantages extended by Ecuador under the terms of the Quito Charter; concessions deriving from the participation of Chile or Ecuador in multilateral agreements to which the other State is not a party; and benefits granted within a customs union or free-trade area.

24. The 1957 treaty lifts tariff duties on Chile's imports of bananas, pineapples, peanuts, alkaloids and their components, certain oilseeds, printed books, balsa wood, corozo in the piece, and "Panama" hats.

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<sup>11/</sup> The most-favoured-nation clause in the agreement with the Netherlands is applied by extension to Luxembourg.

Ecuador in turn exempts the following Chilean products from duties: hulled or unhulled oats, fresh fruit (grapes, sweet and Morello cherries and apples), printed books and periodicals, sodium and potassium nitrate and copper sulphate. Chile reduces the duties on cacao and coffee beans, castor oil and raw rubber; in compensation. Ecuador grants concessions in respect of copper wire or bars, pipes and tubes, plums and raisins, plywood, dynamite and mine fuses, chick-peas and vermouth.

So far only Ecuador has ratified the 1957 treaty.

25. The bilateral agreements with Chile and Colombia are the only two tariff instruments in force between Ecuador and other Latin American countries. As regards the rest of the world, the most-favoured-nation clause is established in Ecuador's trade treaties with Canada, the Federal Republic of Germany, France, Italy, Norway, Spain, Switzerland and Yugoslavia. With two exceptions - the agreements with the Federal Republic of Germany and with Italy - these treaties exclude from the effects of the clause concessions deriving from membership of customs unions or free-trade areas, as well as those granted to adjacent States and those originating in the Quito Charter. The agreement with France also stipulates that the clause shall not cover the privileges conceded by Ecuador to Colombian shipping considered as national under Ecuadorian law (Flota Mercante Grancolombiana) and to goods transported in such vessels.

(c) Venezuela

26. Venezuela has granted tariff concessions only in the agreement concluded with the United States in 1939 and modified in 1952. It also maintains the most-favoured-nation clause with Bolivia, Brazil and El Salvador among the Latin American countries, and Belgium, Canada, Italy, the Netherlands,<sup>12/</sup> Spain and the United Kingdom in the rest of the world. Only the agreements signed with Canada and the United States make any mention of the saving clause relating to participation in customs unions or free-trade areas. The modus vivendi with Canada excludes in addition the preferences granted by Venezuela to Colombia, Ecuador and Panama.

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<sup>12/</sup> The application of the most - favoured - nation clause to the Netherlands is conditional.

27. The concessions extended by Venezuela under the bilateral agreement with the United States have lost some of their practical significance since mid-1959, when quantitative restrictions were established.

2. The negotiations mechanism of the Montevideo Treaty

28. Discussion of what might be the effect on their extant agreements of the Greater-Colombia countries' possible accession to the Montevideo Treaty may usefully be preceded by a brief indication of the most important aspects of the negotiations mechanism of the said Treaty.

29. The basic commitment assumed by the signatories of the Montevideo Treaty consists in the elimination of existing duties, charges and restrictions on trade items which represent:

(a) Substantially all<sup>13/</sup> their imports from the other members of the Area, at an average annual rate of elimination of 8 per cent. The concessions resulting from the fulfilment of this obligation are to be specified in the National Schedule of the country concerned; and

(b) Substantially all the aggregate trade of all the member countries. In respect of this obligation no annual commitment is established, but each country is to proceed as suits its own convenience, provided that duties on the products in question have been totally eliminated by the time a period of 12 years has expired.

30. Presumably the member countries, by means of the pertinent negotiations, will promote the inclusion on the National Schedules of commodities which have not yet played a part in their trade. While this is a highly desirable course, and failure to follow it would be out of line with the aims of the Treaty, it must be pointed out that there is no specific engagement to expand trade by the addition of new items, at least in so far as this is not indispensable for the fulfilment of the collective obligations set forth in articles 4 (b) and 7 of the instrument.

31. When a country wishes to obtain preferences which will enable it to promote the exportation of products not previously included in its trade,

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<sup>13/</sup> In principle, "substantially all" is understood to mean a proportion of about 80 per cent of total trade (or total imports, as the case may be).

/it will

it will submit to one or more of the other States members an application for the extension of the concessions it needs. Through the negotiations conducted to that end, the counterpart concessions to be granted by the country taking the initiative will be established. The benefits thus agreed upon are applicable to all the members of the Free-Trade Area without compensation during an initial phase.

32. Only at first are the concessions to be extended gratuitously, for when, thanks to the advantages thereby obtained, a third country begins to develop a steady flow of exports, the countries by whose concessions it is benefiting will be entitled to request application of the clauses of the Treaty bearing on the principle of reciprocity. These clauses provide for subsequent negotiations, on the basis of which the countries developing their exports will in turn grant concessions designed to facilitate the establishment of new export lines on the part of the other members of the Free-Trade Area.

33. It has already been stated that the firm and immediate commitment assumed by every member country consists in the reduction of duties and the relaxation of restrictions on the products comprising substantially all its imports from the Area. In practice, the scope of this commitment is limited. It should be recalled in this connexion that, in general terms, existing trade is carried on under the auspices of exemptions or preferences established in bilateral agreements or granted unilaterally. That is, in many instances compliance with the commitment will be facilitated by the consolidation of special treatments which have long been applied. Moreover, such existing trade does not usually compete with the domestic activity of the States concerned, since it involves as a rule commodities that are not produced in the importer countries. A case in point is that of the exchange of certain temperate-climate products for other from the tropics.

34. The other commitment assumed by the signatories of the Montevideo Treaty is, as has already been said, that of eliminating duties, charges and restrictions in respect of the products that represent substantially all the aggregate trade of the Area. These will not necessarily be the same as the commodities constituting substantially all the imports of

/each individual

each individual country. In the first place, each member State's own exports of course form part of the aggregate trade of the Area. Thus, each country will also be under the obligation to eliminate duties and restrictions affecting imports of goods of which it is a traditional exporter. This would apply, for example, to copper and nitrate in the case of Chile, or coffee and bananas in that of Brazil. Secondly, it seems unlikely that the composition of each country's imports will coincide with that of the aggregate trade of all the States members.

Inevitably, therefore, it will happen that trade in certain products has to be liberalized despite the fact that they do not habitually appear among a given country's imports. Such commodities will be included in the Common Schedule for which the Treaty provides. In their case no commitment to effect a specific annual reduction exists. Each country has 12 years in which to adopt the necessary measures. It is thus free to distribute the reductions over this period in such a way as not to jeopardize existing situations and to promote the wise reorientation of certain production processes that might find themselves in some danger from external competition by the end of the said 12-year period.

35. The Treaty contemplates an additional mechanism designed to encourage and facilitate the elimination of duties and restrictions and, therefore, the expansion of trade: namely, that deriving from complementarity agreements by industrial sectors. Through these, and basically by virtue of understanding between representatives of the interested economic circles in each country, the liberalization of trade in the products of the industrial sector concerned can be planned along such lines that the consequent broadening of markets will stimulate the installation or consolidation of given industrial activities, allow the requisite investment programmes to be drawn up and enable enterprises to attain the dimensions most recommendable from the economic point of view.

36. To sum up, the objectives of the Montevideo Treaty comprise not only the elimination of duties, charges and restrictions which hamper existing trade but also the expansion of that trade by the incorporation of products which it does not at present include; all of which is to be achieved through negotiations based on the principle of reciprocity.

### 3. Effects on specific agreements

#### (a) Agreement between Colombia and Ecuador

37. As previously stated, various precise questions have been formulated as to how the exclusive tariff treatment compacted between Colombia and Ecuador would be influenced by the possible accession of one or both of these countries to the Montevideo Treaty.

The questions relate to aspects which merit careful consideration, for the treatment referred to covers important lines of agricultural production on the side of Colombia's purchases from Ecuador and a number of manufactures on that of Ecuador's imports from Colombia.

Several motives of concern present themselves in this connexion. Apparently, if at the time of joining the Free-Trade Association Colombia were to extend the treatment in question to the other members, its subsequent capacity for negotiation with them might be weakened, inasmuch as it would have authorized before hand the duty-free entry of agricultural commodities whose admission to its territory might otherwise have provided a basis for the negotiating of counterpart concessions in favour of Colombian products. In the case of Ecuador, apart from other repercussions, something similar might happen in respect of certain manufactured goods included on the exclusive-treatment schedule negotiated with Colombia, if this treatment were automatically incorporated into the Area's multilateral régime.

To facilitate the study of these problems at the forthcoming Quito meetings, various questions have been formulated, as was mentioned earlier, in the introduction to the present report. These questions are reproduced below, followed by a few preliminary explanations which may prove helpful in the discussions that will take place.

/(i) Automatic transmission

(i) Automatic transmission of concessions

First question: Would the tariff concessions established in the most recent treaty between Colombia and Ecuador have to be automatically transmitted to the other signatories of the Montevideo Treaty, or could this proceeding be modified on the grounds that the régime concerned is peculiar border trade?

38. Under article 18 of the Treaty, the transmission of concessions is automatic. Consequently, when a country accedes to the Treaty it extends to the other signatories all the most-favoured-nation or exclusive treatments which it has accorded up to that date in respect of imported goods and services entering its territory, and in return its own goods and services benefit by the preferential treatments in force for imports into the territories of the other members of the Area. The bilateral agreements from which such preferences emanate remain operative, although in practice, of course, the real effects of the treatments in question vary in scope ipso facto, and they may or may not be adjusted by means of renegotiation.

39. Although, as stated above, most-favoured-nation and exclusive treatments in force between pairs of signatories are automatically extended to the other members of the Area, it seems hardly likely that, in accordance with the mechanism of the Treaty, the concessions thus introduced will be taken into account at first in calculating the fulfilment by each member of the obligation to reduce customs duties on imports from the Area at an average annual rate of 8 per cent. It would be incumbent on the organs of the Treaty to determine, in due course, whether the computation indicated in paragraph 41 would be justifiable at a later date.

40. There are some pairs of signatories of the Treaty which at present grant each other certain exclusive treatments of a bilateral character. One possibility would be to denounce simultaneously all the agreements from which these preferences derive. This done, the exclusive treatments would be renegotiated with a view to their renewal or adjustment on a multilateral basis within the Area, and could then be taken into account in the calculations relating to the tariff reduction commitment established by the Treaty.

41. Whether or not this possibility materializes, the subsequent computation of reductions on behalf of the country extending them will in any event  
/depend upon

depend upon the decision reached by the States of the Area, prior to the tariff negotiations, as to the interpretation of the term "duties in force" to be adopted for the purposes of the negotiations in question.<sup>14/</sup> It would not be surprising if the extension of an exclusive treatment to the other members of the Area were to be included in the calculations when it implied an effective preference vis-à-vis other suppliers, and this was made clear during the negotiations conducted in conformity with articles 11 and 14 (a) of the Treaty (the latter in so far as it relates to the principle of reciprocity).

42. It would seem that the trade between Colombia and Ecuador to which the exclusive treatment stipulated in their treaty relates, although carried on by overland routes, cannot easily be covered by the definition of "border trade" to secure its exclusion from the régime of the Montevideo Treaty, especially if it is taken into consideration that article XVII of the Colombo-Ecuadorian agreement already contains a highly restrictive definition.

The signatories of the Montevideo Treaty have not yet made any exact pronouncement on the concept of "border trade". Possibly a definition may be reached by negotiation. If the concept were to prove broad enough to permit the exclusion of significant trade flows, the country thereby enabled to maintain a specific trade movement outside the Montevideo Treaty might in return find itself injured to an extent equalling or exceeding the benefits it enjoyed, if owing to the latitude of the definition it were cut off from exclusive treatments in other sectors of the Area.

(ii) Automatic counterparts

Second question: What would be the most important concessions that might be automatically extended to Colombia and Ecuador?

43. Argentina buys its coffee supplies - about 37,000 tons yearly, with an approximate value of 35 million dollars - entirely from Brazil. Brazilian coffee is exempted from the 20-per-cent exchange surcharge on the c.i.f. price which is in force in Argentina for coffee from other sources. It would appear that this benefit will be extended to coffee imported by Argentina from any other country in the Area.

44. The case of the same product in Chile may now be considered. This country applies a substantial reduction - larger than those it has compacted

<sup>14/</sup> See Antecedentes para una definición de lo que debe entenderse por gravámenes vigentes a los efectos del artículo 5 del Tratado de Montevideo (E/CN.12/C.1/WG.3/3/Add.1/Rev.1).

under the GATT and with Ecuador - to duties and charges on coffee from any country with which it maintains the most-favoured-nation clause. The reduction derives partly from an agreement with Brazil, under the terms of which Chile lowers the ad valorem duty to 8.5 per cent instead of the 30 per cent generally levied; and partly from a unilateral decision by the Government of Chile, by virtue of which, in order to prevent modifications of the exchange rate from raising the internal price of coffee, this commodity is exempted from the specific duty of 0.35 sixpenny gold pesos per kilogramme of gross weight.<sup>15/</sup>

<sup>15/</sup> Under the 1937 treaty between Cuba and Chile, the latter country agreed not to apply to imports of Cuban coffee customs duties or other internal taxes, charges or dues exceeding, the lowest in force at the date of signature of the said treaty. These minimum charges consisted of a specific duty of 0.35 sixpenny gold pesos per gross kilogramme and an ad valorem duty, which affected a considerable number of articles and amounted to 3.5 per cent of the c.i.f. value, plus 5 per cent of the value of the goods after they had entered the country. The same treatment accorded to Cuban coffee was extended by Chile to other countries through the operation of the most-favoured-nation clause. Subsequently, the ad valorem duty rose, in general, to 30 per cent, without in practice affecting the treatment negotiated for coffee.

When the Chilean-Cuban treaty of 1937 was superseded by that of 1952, the concession in favour of Cuban coffee - and consequently of coffee from other countries enjoying the same benefit by virtue of the most-favoured-nation clause - was suppressed. To obviate the difficulties that would be created in respect of imports of Brazilian coffee by the withdrawal of the concession and the automatic increase in the ad valorem duty, Chile, through an exchange of notes in May 1952, maintained the treatment originally granted to Cuban coffee under the 1937 agreement in favour of Brazilian coffee, and therefore, of coffee imports from the other countries with which it had compacted the most-favoured-nation clause.

Furthermore, Chile negotiated the specific duty on coffee within the GATT - reducing it to 0.25 gold pesos -, although not the 30-per-cent ad valorem duty. In the 1957 treaty between Chile and Ecuador the former grants the latter country treatment equivalent to that negotiated within the GATT. But by virtue of the most-favoured-nation clause, Chile applies both to Ecuadorian and to Colombian coffee the lower duties agreed upon with Brazil. By its own unilateral decision, Chile freed coffee imports from the specific duty in 1959, while continuing to apply the 8.5 ad valorem duty payable by Brazil.

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45. With the entry into operation of the Montevideo Treaty, the same treatment as at present would be extended by Chile to coffee from any country in the Free-Trade Area, and in respect of non-member countries would presumably be withdrawn. This would mean that apart from leaving the necessary margin between intra-area tariffs and those applied to the rest of the world, the importer country would reckon the difference in tariff levels as part of the reduction commitment inherent in the Treaty. At the same time, its capacity for negotiation with Brazil would be strengthened, since the margin might imply a substantial concession in that country's favour, which it would compensate with a similar benefit. Thus, again on the basis of general principles, in the future Chile might well grant coffee from countries outside the Area the treatment negotiated within the GATT, which is identical with that contemplated in the 1957 treaty between Chile and Ecuador.

46. It is worth while noting that the automatic extension of exclusive concessions - whether in the case of coffee or in that of any other trade item - does not mean that the enjoyment of such advantages will ultimately be gratuitous. The root principle of the Montevideo Treaty is that of reciprocity. Consequently, any marked disequilibrium in the magnitude of the benefits under discussion leads to negotiations designed to compensate them, on the basis of the steady improvement of trade levels. This implies that compensation will not be sought through the withdrawal of concessions, but rather by the intensification of those already granted or the incorporation of new trade items into the liberalization régime.

(iii) Discriminatory exchange measures

Third question: Do discriminatory exchange practices exist which might nullify or reduce the value of the concessions granted through the mechanism of the free-trade area?

47. Most-favoured-nation treatment within the Free-Trade Area and relating to the elimination of duties, charges and restrictions is also explicitly extended to the exchange régime. The risk suggested in the question is therefore non-existent.

/(iv) Classification of

(iv) Classification of Ecuador as a country at a relatively less advanced stage of economic development

Fourth question: In the event of Ecuador's accession to the Montevideo Treaty, it would seem reasonable to classify that country, in accordance with the opinion of certain experts consulted, as one at a relatively less advanced stage of development, for the purposes of chapter VIII of the Treaty. In that case, what prospects would be opened up for the discovery of a formula that would exempt from the régime of the Treaty the exclusive treatment granted each other by Colombia and Ecuador?

48. If the signatories of the Treaty agreed that Ecuador was entitled to invoke the provisions of chapter VIII, there would be several directions in which the formula referred to in the question might be sought. In any case it would be necessary for Ecuador and Colombia - if such a decision were reached - to make a prior study of the possible formula or alternative formulae which to that end they would submit to the Contracting Parties of the Montevideo Treaty for their consideration.

Such alternatives might be:

(a) To leave in force the treatment at present established in the bilateral treaty between Colombia and Ecuador, but to exclude from the effects of the Area's most-favoured-nation clause the provisions relating to Ecuador's exports to Colombia; or

(b) To leave in force only the latter treatment, on a unilateral and exclusive basis; or

(c) To bring the treatment into line with such other benefits as Ecuador's exports to the rest of the Area might enjoy as a result of the application of chapter VIII of the Montevideo Treaty.

49. As regards the first of these alternatives, it should be recalled that a considerable proportion of the Colombo-Ecuadorian exclusive treatment covers supplies for specific districts in the interior of the two countries. Given transport costs and other factors, it seems unlikely that competition on the part of similar goods from other countries - even if they were granted the same customs treatment - would have any significant restrictive repercussions on trade between Colombia and Ecuador. On each country's domestic production of the goods covered

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by the Colombo-Ecuadorian exclusive treatment, however, competition from similar merchandise of foreign origin would exert a much stronger influence if the concessions in point were extended multilaterally within the Free-Trade Area.

If the second alternative were chosen, Colombia would receive no compensation for the favourable treatment it accorded to Ecuador, but its capacity for negotiation with the other countries of the area would remain intact.

In the third case, the bases for the readjustment would be established as a result of the ad hoc negotiations conducted by the competent organs of the Latin American Free-Trade Association.

50. The selection of one of the foregoing procedures, or of any other, would unquestionably be contingent upon the findings that emerged from each country's study of the repercussions of the possible formulae on the movement of the products in which it trades.

(b) Treaty between Chile and Ecuador

51. Of the three Greater-Colombia countries, only Ecuador is a party to an agreement on customs treatment for specific goods with a signatory of the Montevideo Treaty. This agreement is the one it signed with Chile in 1957. The accession of Chile to the Montevideo Treaty - and, if the case should arise, the participation of Ecuador in a free-trade area to which Chile does not belong - will undoubtedly reduce the relative value of the treatments bilaterally agreed upon between the two countries, since presumably the products concerned will not be covered by the liberalization effected in the other area. It must be remembered that under the Chilean-Ecuadorian agreement, treatments deriving from customs unions or free-trade areas of which the contracting parties are members are excluded from the effects of the most-favoured-nation clause.

(c) Treaty between the United States and Venezuela

52. This treaty contains the saving clause relating to customs unions and free-trade areas. At the present time, for reasons which include the protection of domestic industry, Venezuela has quantitative restrictions

which are in force

in force

in force

in force

in force

in force that limit the entry of various goods for which the agreement established a specific customs treatment. It is understood that this instrument is shortly to be renegotiated with a view to its improvement.

53. If Venezuela were to accede to the Montevideo Treaty, in regard to the provisions of the latter the situation would seem to be as follows:

(i) The most-favoured-nation clause would become a basic principle of Venezuela's relations with the other signatories of the Treaty;

(ii) The tariff concessions accorded by Venezuela to the United States would be automatically extended to the Contracting Parties of the Montevideo Treaty, but with respect to the goods currently subject to quantitative restrictions, the practical significance of this extension would depend upon the characteristics of the import licence system. The contribution it represented could be counted in Venezuela's favour in the calculation of that country's annual reduction of import duties, charges and restrictions on goods from within the Free-Trade Area.

(iii) The automatic extension of concessions would not be gratuitous, since, in observance of the principle of reciprocity, the establishment of equitable compensations would be negotiated if perceptible disequilibria were noted in the magnitude of the resulting benefits.

#### 4. Wage levels in Venezuelan industry

54. When in 1958 the bases for a possible broad Latin American common market were projected for the first time, it was thought that the reduction and elimination of duties - to be effected gradually and on a basis of averages - might be made extensive to all the goods scheduled in the customs tariff, whether they were or were not currently traded among the member countries. One of the reactions to which the draft bases gave rise in Venezuela from the outset related to the difficulty it would find in competing in the market, owing to its high industrial wage levels, relatively superior to those of other countries in monetary terms. It was then suggested that, as a measure making for equity, Venezuela might be accorded some form of special treatment (for example, a rate of reduction of duties lower than the general percentage fixed for the other members).

55. The Montevideo Treaty entirely alters the situation. It stipulates the reduction and elimination of duties, not in respect of all the goods on the customs tariff, but only for those included in the signatories' reciprocal trade or incorporated into it by means of negotiations, and up to the point at which the magnitude of such reductions and eliminations is equivalent to substantially all the value of that trade ("substantially all" being estimated for these purposes at approximately eighty per cent of the total). This system would leave each country room to reserve for its own industry the opportunity of meeting domestic requirements in lines of production where it felt that customs protection should be maintained or established - especially since the interests of practically all the Contracting Parties of the Treaty would probably coincide as regards excluding from the liberalization procedure the goods produced by primary activities for whose output the domestic market is commonly reserved.

Nevertheless, as some of Venezuela's representative figures have clearly perceived the Treaty may open up what are perhaps unparalleled opportunities for the expansion of Venezuelan industry. The prospect of being able to rely on the support of so great a demand as the Free-Trade Area will afford in sectors whose development entails heavy investment and a high level of mechanization - with the corresponding reduction of the proportion of factory costs represented by wages - would undoubtedly facilitate the implementation of national programmes for the installation of such manufacturing activities as aluminium making, iron and steel and specific branches of the petrochemical industries. It is easy to imagine the impetus that accession to the Montevideo Treaty would give to some of these industries - for example, those producing artificial textile fibres, synthetic rubber and certain plastic raw materials, in all of which

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lines it seems very unlikely that wage levels would affect the intra-Area competitive capacity of the exports concerned.<sup>16/</sup>

Moreover, each individual Contracting Party will presumably abstain from negotiating exports or imports of a particular manufacture if it lacks competitive capacity or if the result would be ruinous competition for similar domestic products, unless the sacrifice were offset by advantages obtained in favour of other goods.

56. There is another aspect to which attention must be drawn. Apparently the Montevideo Treaty does not exclude the possibility of negotiating, within the framework of the complementarity agreements by industrial sectors for which it provides, the establishment of special terms for the reduction or elimination of duties, when the entry into operation of such agreements needs to be realistically adapted to the situation of the signatories. Such terms might consist, inter alia in temporarily granting a particular country special treatment - for instance, a more rapid rate of reduction of duties - for exports of the goods covered by the complementarity agreement to which the country concerned is a party.

#### 5. Trade in petroleum products

57. The possibility of Venezuela's joining the Latin American Free-Trade Association calls for a somewhat detailed study of the situations that might arise within the Association in connexion with trade in petroleum and petroleum products, which account for one fifth of total inter-Latin American trade.

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<sup>16/</sup> The report on water resources in Venezuela prepared by the ECLA secretariat (at present in preliminary draft form) shows that the productivity of that country's manufacturing industry notably improved between 1950 and 1959, rising from a level lower than the average for the Venezuelan economy as a whole (excluding the extractive industries) to 37 per cent higher by the end of the period cited. It is worth noting that during the same years the agricultural sector also registered a significant increase in productivity in absolute terms. To judge from these developments, provided that such trends in manufacturing and agriculture are maintained, the problem of the incidence of high wages on comparative costs would seem to be taking a turn for the better under the influence of the improvement in productivity.

As is well-known, Argentina, Brazil, Chile and Uruguay are major purchasers of petroleum, of which they buy substantial quantities from Venezuela. If the latter acceded to the Montevideo Treaty, its importance as a supplier of petroleum would have certain implications for the fulfilment of the liberalization programme at which the Treaty aims. The inclusion of hydrocarbons in the programme would be inevitable. While at the moment petroleum products might be excluded from the Common Schedule contemplated in the Treaty, on the grounds that they represent barely 2 per cent of the aggregate trade of the seven signatories, the accession of Venezuela without the inclusion of petroleum would mean that it was impossible to draw up a schedule of goods whose value amounted to that of substantially all trade.

58. The inclusion of petroleum on the Common Schedule, as well as on the National Schedules of habitual importers, would ipso facto facilitate, as far as the latter were concerned, the implementation of the liberalization programme. Given the volume of trade in petroleum, its computation would reduce the relative importance of the other products eligible for inclusion on the Common Schedule, and many of them might be relegated to a marginal status. Thus, in their case the application of the programme would not be compulsory.

59. Crude petroleum is already exempt from duties in Brazil and to all intents and purposes in Argentina, so that the two leading importer countries would be able to meet a considerable proportion of their liberalization commitment simply by consolidating existing treatments. The situation would be different in Chile and Uruguay. The former levies a specific duty of 5.7 dollars per ton, plus an additional 20-per-cent ad valorem duty which does not seem to be applied. Uruguay imposes a specific tax and a supplementary ad valorem duty calculated on a certain official base value (valor de aforo) which together total about 3.18 dollars per ton of crude. In both instances, the elimination of duties might result in a special treatment favouring Venezuela.

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60. Again, the situation with respect to crude differs from that of petroleum derivatives. In the four countries mentioned, imports of petrol and kerosene, as well as those of fuel oil, diesel oil and lubricants, are subject to various duties and charges (see table 1). Consequently, the benefits which liberalization would entail for Venezuela might be of some practical significance.<sup>17/</sup>

61. The value of liberalization for Venezuela is modified, however, by a circumstance deriving from the characteristics of trade in petroleum. In many countries imports are in practice effected solely by State trading agencies - such as the National Department of Fuels, Alcohol and Cement (Administración Nacional de Combustibles, Alcohol y Portland - ANCAP) in Uruguay - or by these agencies and a few big international enterprises. The purchasing policy of such firms and agencies may not be so strongly influenced by customs preferences as by other considerations, in its decisions on sources of supply. Nevertheless, it must be recalled in this connexion that the enterprises referred to generally have subsidiaries in Venezuela, so that the commercial effects of the special treatment accorded to petroleum within the Free-Trade Area might benefit that country considerably.

As regards the petroleum bought by State agencies, it would remain to be seen whether the hope of obtaining certain concessions for the sale of goods in Venezuela might channel such purchases in that country's direction. Apart from this, although the Montevideo Treaty makes no express

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<sup>17/</sup> The commitment to eliminate duties affects only those which have no equivalent in the shape of a tax applicable to the similar domestic product. In the case of petroleum derivatives such a situation often arises, although as a rule the tax on the domestic commodity is lower than the duty on the imported article, as is the case in Brazil. Thus, only that part of the import duty which was in excess of the internal tax would have to be eliminated.

Table 1  
TREATMENT ACCORDED TO IMPORTS OF PETROLEUM PRODUCTS IN SELECTED  
LATIN AMERICAN COUNTRIES <sup>a/</sup>

Country	Crude petro- leum	Fuel oil	Gas oil	Diesel oil	Kero- sene	Ordinary petrol	Lubricants in bulk
<b>Argentina</b>							
Specific duty unit	Ton	Ton	Ton	Ton	1 000 litres	1 000 litres	Ton
Specific duty	0.2	0.018	0.24	0.1	0.6	0.6	3.6
<b>Brazil <sup>b/</sup></b>							
Effective import duty on c.i.f. cost (percentage)	-	35.0	40.0	40.0	50.0	37.5	75.0
<b>Chile</b>							
Specific duty unit	Tons gross weight	Gross tons	Gross tons	Gross tons	100 litres	100 litres	Tons
Specific duty	5.47g/	2.47g/	2.47g/	1.35g/	-	1.39g/	51.5
GATT	5.47g/						30.9
<u>Ad valorem</u> duty (percentage)		30/33d/	30/33d/	30/32d/	30	-	30/39
GATT (percentage)							30/35
Supplementary duty (percentage)	20.0						
Prior deposit (percentage)		5.0(30dls)	5.0(30dls)	5.0(30dls)	5.0(30dls)	5.0(30dls)	5.0(30dls)
<b>Uruguay <sup>c/</sup></b>							
Specific duty unit		Gross tons	Gross tons	Gross tons	100 litres	100 litres	Tons
Specific duty		0.34	4.0	1.8	0.36	1.38	0.89
<u>Ad valorem</u> duty (percentage)		21.2	84.8	84.8	25.3	20.2	45.5
Official base value ( <u>aforo</u> )		8.8	14.0	10.5	1.29	3.51	4.21
Transfer tax on payments (percentage)	0.1						

a/ The present table shows specific duties and the official base value (aforo) calculated in terms of dollars.

b/ For purposes of the application of the single duty, the c.i.f. value in dollars is converted into cruzeiros at the exchange rate in force for imports of these products (100 cruzeiros to the dollar at present), not at the official exchange rate, which is the one used for conversion purposes in the case of other imports, and at the moment is 180 cruzeiros to the dollar. Consequently, the effective import duty on the c.i.f. cost in dollars, expressed in terms which permit comparison with the duty applied to other imports, works out at only 55.6 per cent of the latter. Imports of all these products are effected outside the auction system, at a favourable or subsidized exchange rate (100 cruzeiros to the dollar at present), as established in the Customs Tariff Act (Ley de Tarifa Aduanera), article 50, paragraphs 1 and 2, and to the amounts determined annually in the foreign exchange budget. Any imports in excess of such amounts would have to be effected within the pertinent special category. Imports of these products are exempt from the 5-per-cent customs clearance tax.

c/ The disembarkation charge of 20 gold pesos per ton is included in the specific duty.

d/ The first of the two figures given indicates the ad valorem duty on the value of the goods when formalities have been completed. The second represents the equivalent duty estimated on the basis of the c.i.f. value.

e/ The National Department of Fuels, Alcohol and Cement (Administración Nacional de Combustibles, Alcohol y Portland - ANCAP) holds the monopoly of imports of petroleum and derivatives, which it brings in duty-free. When ANCAP authorized private firms to effect such imports, the usual duties and charges are payable,

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stipulations with respect to official trade transactions, the Contracting Parties will presumably seek to conduct them in such a way as not to restrict trade in products covered by the liberalization programme. Should import restrictions result from State trading, they would have to be gradually eliminated in conformity with the provisions of the Treaty.

62. Lastly, it must be borne in mind that the current structure of inter-Latin American trade may undergo sweeping changes in consequence of the development of petroleum production in various countries, such as Argentina and Bolivia, for instance. In a few years' time, some of the latter may well become exporters of substantial volumes, for the sale of which they may seek guarantees through the mechanisms of the Free-Trade Area.

#### IV. OTHER ASPECTS

63. Brief mention will now be made of other subjects that aroused interest during the informal consultations preparatory to the Quito meetings.

##### 1. Exceptions in the most-favoured-nation clauses compacted with third countries

64. Membership of a free-trade area implies the need for the implicit or express introduction of the corresponding exception into any most-favoured-nation régime that may have been established in agreements with third countries. If the latter were to withhold their consent to the exception, the other possible procedure would be to revise the agreement concerned after verifying whether specific commodities habitually imported from countries outside the area really were adversely affected. This might apply to the pacts concluded with third countries by Colombia, Ecuador and Venezuela. Since these States are not members of the GATT, they are not covered by the automatic exception accorded to its Contracting Parties when they form a free-trade area under its regulations.

However, it is reasonably likely that if the Greater-Colombia countries create or join a free-trade area they will be able to secure explicit or express recognition of the exception, especially if the area  
/in question

in question observes the rules laid down by the GATT. Moreover, the problem is solved beforehand in the case of some treaties by virtue of the saving clauses they contain.

2. Customs negotiations between organs of two multilateral treaties

65. If a special free-trade area were established by the three Greater-Colombia countries, could this area, through its organs, conduct tariff negotiations with the Contracting Parties of the Montevideo Treaty?

As both associations would be based on the formula of the free-trade area, neither would unify or standardize the external tariff of its members, who would therefore have to negotiate individually with the States members of the other area, since group negotiations would not be practicable.

3. Accession of one and the same country to two multilateral treaties

66. Could a country be a member of two free-trade areas at the same time? It is hard to see how, unless in each area it was granted the corresponding exception to most-favoured-nation treatment in respect of the concessions concerted in the other area. This is a case not contemplated in the Montevideo Treaty, and should obviously be the object of negotiation when occasion arises.

4. Deposit of the instrument of accession

67. The requisite for the entry into force of the Montevideo Treaty is that the pertinent instrument of ratification be deposited by not fewer than three of the signatories. The Treaty comes into force 30 days after the third such instrument has been deposited. Meanwhile, Latin American countries that have not signed the Treaty can become contracting parties by depositing an instrument of accession. This becomes fully effective 30 days from the date of deposit, since accession constitutes a final act in itself. Therefore, if the formal accession of the country concerned has to be approved by Parliament, the necessary sanction must be obtained before the instrument is deposited.

Annex I

SOME POSSIBILITIES FOR TRADE AND ECONOMIC CO-OPERATION BETWEEN  
COLOMBIA, ECUADOR AND VENEZUELA

During the consultations on trade policy held at Bogota and Caracas in November 1958 and May 1959, one of the points that emerged was the desirability of a thorough investigation of the possibilities for trade and economic co-operation apparently existing or expedient in respect of the following items:

1. Agricultural sector

Long-staple cotton. Exports from Ecuador to Colombia and Venezuela. Investment of joint capital in the first of these countries to promote the development of cotton-growing;

Malted barley. Supplies from Ecuador for Colombian breweries situated near the Ecuadorian frontier. Exports from both Ecuador and Colombia to Venezuela;

Cattle and meat. Furtherance of Venezuela's cattle development programme on the basis of improved breeds from Colombia and Ecuador. Exports of meat and of cattle on the hoof for slaughter from Colombia to Venezuela;

Sheep, vicuñas, alpacas, etc. Exports of Ecuadorian wool to Colombia. Development of sheep farming in Ecuador on the basis of joint Colombian-Ecuadorian investment;

Dairy products. Imports of Ecuadorian produce into Colombia and Venezuela;

Wheat. Supplies of Ecuadorian wheat for Colombia and Venezuela;

Maize seed. Exports to Ecuador and Venezuela of Colombia's hybrid types for tropical and temperate climates, and of the soft and hard Ecuadorian types to Colombia;

Potato seed. Exports of certain special Colombian varieties to Venezuela;

Light tobacco. Supplies from Venezuela for the tobacco industry in Colombia and Ecuador;

Calf-hide. Exports from Ecuador to Venezuela;

Fish meal. Exports to Colombia from Ecuador

Banana flour. A possible collective agreement to develop the industrial processing of non-exportable bananas and their by-products, with a view

/to the

to the production of flour and balanced animal feeds for all three countries;  
Tinned fish. Understanding between Colombia and Venezuela on the use of Colombian oil and containers in the processing of tinned fish in Venezuela for consumption in Colombia;

Wool. Manufacture of Colombian plywood for Ecuador and exports of balsa wood from the latter country to Colombia and Venezuela;

Coal. Exports from Colombia to Ecuador;

Rice. Exports from Ecuador to Venezuela, as long as the latter's rice production deficit lasts.

## 2. Textile industry

Possibilities in this field would be limited by the circumstance that the textile industry, while relatively advanced, is at different stages in Colombia, Ecuador and Venezuela. However, it became apparent that as all lines of production are not yet covered, a desirable step would be to formulate a joint programme for the three countries aimed at selective production to supply the Greater-Colombia area. This complementarity programme would be based on a special customs régime.

In the textile branch, Venezuela would import from within the area fine yarn, rayon fibres, absorbent cotton and hygienic woven goods, and would export to it synthetic resins for the manufacture of artificial textiles and yarns.

## 3. Chemical industry

In this sector, and especially in the petrochemical industry, it would be expedient to conclude certain agreements for the purpose of combining lines of production and markets and exchanging technological data and experience. The possibility of concerting such agreements is strengthened by the fact that, broadly speaking, the national projects concerned are at the programming stage or only just being put into execution. Specialization seems particularly necessary in such lines as plastic raw materials and synthetic rubber.

Venezuela would export urea and ammonium nitrate to Ecuador, as well as powdered resin for the manufacture of polyethylene sheets.

## /4. Iron

#### 4. Iron and steel industry

In its initial phase, complementarity might relate to the following items: coke for steel making, tubes for the petroleum industry, flat products, metal structures, tinplate, drop-forging on thick plate, tractors and farm implements.

#### 5. Guidelines for sectoral complementarity

At the informal consultative meetings it was recommended that in the study of the bases for possible complementarity in the above-mentioned sectors, attention should be devoted to such aspects as the following:

- (a) Problems deriving from the differences in the proportion of industrial costs represented by wages in the three countries;
- (b) Effects of the joint demand of the Greater-Colombia area on the unit costs of production;
- (c) A common policy with respect to private investment;
- (d) Trade - especially customs - policy required to encourage the conclusion of complementarity agreements;
- (e) Accession of other Latin American countries to such agreements;
- (f) Co-operation on the part of representatives of private industry; and
- (g) Expansion of trade with the rest of Latin America.

#### 6. Economic complementarity

One of the recommendations formulated at the Caracas meetings was that an agreement on technical co-operation should be concluded between the programming agencies of Colombia, Ecuador and Venezuela, with a view to the joint drafting of development policy as well as to collaboration with the trade policy committees that would be set up by each of the three countries and whose main objective would be the promotion of their reciprocal trade relations.

To attain these ends, the three programming agencies would co-operate in the following activities:

- (a) The study of economic development projects for border zones;
- (b) The formulation of production programmes whose implementation at satisfactory levels of productivity would require a common market;
- (c) The

- (c) The exchange of information on technical assistance requirements, with a view to supplementing the assistance received and giving preference to the utilization of national experts; and
- (d) Reciprocal transmission of regular progress reports on their technical research and on any projects which may be of common interest.

To facilitate the fulfilment of the agreement, the three agencies would set up a common subsidiary body - the Technical Secretariat for Co-operation between Colombia, Ecuador and Venezuela. The secretariat of the Economic Commission for Latin America was requested to collaborate in the organization and operation of the technical secretariat contemplated in the agreement, and in the studies to be carried out.

Annex II

GREATER-COLOMBIA COUNTRIES' TRADE WITH ONE ANOTHER AND WITH THE  
SIGNATORIES OF THE MONTEVIDEO TREATY

1. Trade among the Greater-Colombia countries is concerned almost in its entirety with foodstuffs, which account for about 65 per cent of their aggregate trade. With the exception of chemical and pharmaceutical products, the goods traded do not represent identical lines of production. On the contrary, a considerable degree of complementarity characterizes the reciprocal trade in question. Fuels and other petroleum products are exported from Venezuela to Colombia and Ecuador; from Ecuador, rice to Venezuela and cacao, sugar, cereals and dry pulses to Colombia; cotton textiles, agricultural machinery and chemical products from Colombia to Ecuador; and from Colombia to Venezuela, sesame, milling machines for grinding maize or mincing meat, and livestock.
2. A comparative study of the composition of the imports effected by Colombia, Ecuador and Venezuela shows that whereas the goods they import from one another are mainly foodstuffs, a large proportion of their imports from the Free-Trade Area consists of raw materials, intermediate products and capital goods (see table 2). Venezuela, however, is still an importer of foodstuffs even in relation to the signatories of the Montevideo Treaty.
3. As regards the tariff régime applied to the products traded among the Greater-Colombia countries, Colombia's basic imports - cacao, sugar, cereals and pulses - are subject to the special treatment granted under the terms of the trade agreements signed by Colombia and Ecuador in 1942 and 1959. Chemical products, cotton textiles, agricultural machinery and certain kinds of machinery and tools that Ecuador purchases from Colombia are also covered by the same preferential customs régime. As regards Venezuela, only one item of any importance in its trade with Colombia - milling-machines for grinding corn or mincing meat - was negotiated in the agreement with the United States. Rice, on the other hand, which in 1957-58 accounted for over 60 per cent of the total value of Venezuela's purchases from the Greater-Colombia area, cannot be imported unless a permit is obtained in advance.
4. Of Colombia's imports from the Free-Trade Area, approximately 50 per  
/cent is

cent is represented by goods - greasy wool, raw cotton, chemical products - which are duty-free under the terms of the trade agreement with Ecuador. If Colombia extended this régime to the members of the Free-Trade Area through the most-favoured-nation clause, apart from the consequent reduction in the relative importance of the preferential treatment granted to Ecuador, the Ecuadorian products covered by the concessions might find themselves having to compete with similar articles from other countries in the Area.

What is more, the automatic extension of the aforementioned treatment to the Area might affect Colombia's capacity to negotiate within the Latin American Free-Trade Association, since the list of goods to which the concessions relate is a very long one.

Over 40 per cent of Venezuela's purchases from the Area corresponds to products negotiated in the agreement with the United States, outstanding among these being foodstuffs, certain chemical products and copper wire and cables. It must be noted, however, that an appreciable number of the articles in question - especially those of agricultural origin and some raw materials - are subject to the prior permit requirement in Venezuela. It seems, then, that the effects of extension to the Area of the treatment applied to the United States would be limited in so far as the tariff concessions inherent in that treatment would be modified by the permit system.

Table 2  
TRADE OF THE GREATER-COLOMBIA COUNTRIES WITH ONE ANOTHER AND  
WITH THE CONTRACTING PARTIES OF THE MONTEVIDEO TREATY:  
ANNUAL AVERAGE, 1957-58

(C.i.f. import values, in thousands of dollars)

Commodity	Imports from one another				Imports from the Free-Trade Area				Grand total
	Colom- bia	Ecu- dor	Vene- zuela	Total	Colom- bia	Ecu- dor	Vene- zuela	Total	
Live animals (excluding fish, crustacea and molluscs)			50	50	94	45	331	470	520
Products of the fishing industry			1	1			45	45	46
Cheese			4	4		1	547	548	552
Hulled rice			1 626	1 626					1 626
Sesame			113	113					113
Olives							8	8	8
Coconuts of copra			37	37					37
Cereals, pulses and vegetables	714		9	723			798	798	1 521
Birseed, rape, millet, pure or blended							39	39	39
Tinned and prepared foods			3	3			507	507	510
Unhulled oats						9		9	9
Hulled oats						495		495	495
Sugar and confectionery	1 386			1 386					1 386
Fresh fruit (grapes, apples, pears, quinces, etc.)						93	2 273	2 366	2 366
Raisins						7		7	7
Walnuts, unshelled						9		9	9
Brazil nuts and similar products						9		9	9
Pepper						16		16	16
Cacao and cocoa preparations	4 614			4 614					4 614
Tomato purée						3		3	3
Wheat							10	10	10
Dry fodder							75	75	75
Poultry eggs							123	123	123
Crude vegetable wax							23	23	23
Coffee extracts, essences and preparations		8		8		11		11	19
Tanned skins and hides			9	9	3		759	762	771
Untanned skins							48	48	48
Wool, horsehair and bristles	7			7	702	21		722	729
Pure woollen textiles		4		4		39		39	43
Straw			36	36			7	7	43
Quebracho extracts							540	540	540
Tanning and dyeing extracts					105		51	156	156
Malt						137		137	137
Wine						59	15	74	74
Raw cotton					772	49	111	932	932
Cotton textiles		43		43					43
Wool (greasy, washed, bleached or dyed)						49		49	49
Wool waste						7		7	7

/Table 2 (cont.)

Table 2 (continued 2)

Commodity	Imports from one another				Imports from the Free-Trade Area				Grand total
	Colom	Ecu	Vene	Total	Colom	Ecu	Vene	Total	
	bia	dor	zuela		bia	dor	zuela		
Combed yarns, mercerized or not							97	97	97
Artificial silk thread						5		5	5
White pine and pitch pine simply sawn							9	9	9
Wood, simply sawn							7	7	7
Wood, planed or tongued and grooved							39	39	39
Unspecified soft wood manufactures							31	31	31
Pharmaceutical specifics			42	42			226	226	268
Chemical and pharmaceutical products	70	95		165	174	59	293	526	691
Biological products other than organic serum			14	14			138	138	152
Cement			26	26					26
Rawhide and leather manufactures			6	6			43	43	49
Tallow and tallow manufactures						15	23	38	38
Unspecified artificial plastic manufactures			21	21			13	13	34
Navigable craft			47	47					47
Silver manufactures			1	1			145	145	146
Minted gold or gold bars or ingots weighing not less than 12 kilogrammes			251	251			10	10	261
Industrial preparations									
a) for sizing fabrics							7	7	7
b) for cleaning boilers							5	5	5
Fertilizers					105	109		214	214
a) natural and vegetable							112	112	112
b) chemical							35	35	35
Raw materials for plaiting and carving and other raw materials and unprocessed products of vegetable origin					6			6	6
Non-edible essential oils							3	3	3
Natural asphalts		46		46		35		35	81
Edible oils		74		74	658	4		662	736
Mineral fuels	530			530					530
Tar oils and their components						10		10	10
Light petroleum products						162		162	162
Aluminium collapsible tubes with screw caps							162	162	162
Crown caps							39	39	39
Paper and board					54	111		165	165
Printed books and graphic art products		1		1	5	1		6	7
Iron, castings and steel	50			50	693			693	743
Unspecified iron or steel tubings, coupling, stopcocks, joints			1	1			1 390	1 390	1 391
Iron and steel bars						285		285	285
Iron and steel bars, grooved, structural, ribbed or with attachments; also hollow bars							630	630	630

/Table 2 (cont.)

Table 2 (continued 3)

Commodity	Imports from one another				Imports from the Free-Trade Area				Grand total
	Colom bia	Ecu dor	Vene zuela	Total	Colom bia	Ecu dor	Vene zuela	Total	
Unspecified iron and steel manufactures							48	48	48
Copper					69	13		82	82
Copper bars and wire, coated or uncoated, wrought, etc.							609	609	609
Cinematographic reels							185	185	185
Unspecified instruments for arts and crafts							25	25	25
Cork manufactures							122	122	122
Passenger cars, motor-cycles, bicycles and other vehicles	119			119					119
Objets d'art and collectors' items					3			3	3
Sanitary apparatus and appliances			2	2			111	111	113
Unspecified devices for the protection of workers							187	187	187
Milling-machines and appliances for grinding corn or mincing meat			198	198			1	1	199
Packing-machines		49		49					49
Threshers and shellers		41		41					41
Cooking-stoves, water-heaters, ovens							197	197	197
Boilers, machinery, mechanical apparatus and instruments and spare parts	97			97	69			69	166
Machine-tools weighing from 100 to over 5 000 kilogrammes		15		15					15
Machine-tools weighing from 10 to over 5 000 kilogrammes		102		102		1		1	103
Electrical machinery and apparatus and articles for use in electrical engineering, and spare parts					21			21	21
Raw asbestos		2		2					2
Non-metallic ores			22	22		19	94	113	135
Salt, sulphur, earths and stones, lime	106			106					106
Optical, measuring and precision instruments and apparatus, and other unspecified instruments and apparatus					3			3	3
Chemical preparations and other products for cinematography and photography					109			109	109
Natural and artificial barium sulphate						13		13	13
Hemp, jute and manilla cables, rope and cord						11		11	11
Fishing-nets						40		40	40
Ceramic products					25			25	25
Glass for construction							15	15	15
Glass and glass manufactures					27			27	27
Railway sleepers							23	23	23
Crude lead					21	7	51	79	79
Iron or steel springs						57		57	57
Springs for vehicles							62	62	62
Medical and surgical instruments						5		5	5
Other commodities	34			34					34
<b>Total commodities</b>	<b>7 727</b>	<b>480</b>	<b>2 513</b>	<b>10 726</b>	<b>3 717</b>	<b>2 021</b>	<b>11 497</b>	<b>17 235</b>	<b>27 961</b>
<b>Grand total</b>	<b>7 732</b>	<b>720</b>	<b>2 690</b>	<b>11 142</b>	<b>3 750</b>	<b>2 578</b>	<b>14 847</b>	<b>21 175</b>	<b>32 317</b>

Source: Official foreign trade statistics of importer countries.

/Annex III

Annex III

THE TRADE POLICY OF VENEZUELA<sup>1/</sup>

1. In order to facilitate studies on the adaptation or readjustment of its trade policy which would be entailed by Venezuela's immediate or subsequent accession to multilateral agreements such as the Montevideo Treaties or others designed to promote inter-Latin American trade expansion and economic co-operation, the characteristics and orientation of Venezuela's contractual régime in respect of trade are briefly reviewed below.

A. TRADE AGREEMENTS

1. The overall picture

2. In comparison with other Latin American countries, Venezuela is a party to relatively few trade agreements (see table 3). The treaties signed by this country can be classified in two groups which correspond to different stages of its economic development.

The first comprises the traditional friendship, trade and navigation agreements whose clauses, without establishing customs reductions or exemptions for specific goods, relate to the import and export régime and stipulate the treatment to be accorded to natural and juridical persons, diplomatic and consular agents, and shipping. This group includes - to mention only the treaties in force today - those signed with Belgium (1884), Bolivia (1883), El Salvador (1883), Italy (1861), Spain (1882) and the United Kingdom (1834), as well as the 1920 agreement re-establishing diplomatic relations with the Netherlands.<sup>2/</sup>

Some of these long-standing treaties currently in force, like others which have ceased to be applied in recent years,<sup>3/</sup> have, by virtue of their most-favoured-nation clause, effectively influenced the placing of goods in Venezuela. The reason is that in this country the substantial

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<sup>1/</sup> See Study of inter-Latin American trade, op.cit., pp. 96-102, for a report on Colombia's trade policy. The ECLA secretariat has another study in preparation on the trade policy of Ecuador.

<sup>2/</sup> The most-favoured-nation treatment extended to the Netherlands is conditional.

<sup>3/</sup> The modus vivendi with France and Switzerland have not been renewed since 1956.

Table 3

VENEZUELA: TRADE AGREEMENTS IN FORCE WHICH GRANT MOST-FAVOURED-NATION TREATMENT

Clause		Article	Country	Agreed exceptions to the clause			Instruments in which they were compacted	
Un- con- di- tion- al	Con- di- tion- al			Border trade	Customs union or free-trade area	Greater- Colombia countries	Description	Date
X		16	Belgium				Friendship, trade and navigation treaty	1.3.1884
X		17	Bolivia				Peace, friendship trade and navigation treaty	14.10.1883
X		b/	Brazil				Trade modus vivendi <u>a/</u>	11.6.1949
X		1 and 3	Canada	X	X	X	Trade modus vivendi <u>a/</u>	11.10.1950
X		18 and 20	El Salvador				Friendship, trade and navigation treaty	27.8.1883
X		8	Italy				Friendship, trade and navigation treaty	19.6.1861
	X	3	Netherlands				Convention to re-establish diplomatic relations	11.5.1920
X		4, 6 and 11	Spain				Trade and navigation treaty	20.5.1882
X		4	United Kingdom				Friendship, trade and navigation treaty	29.10.1834
X		IX and X	United States	X	X		Modified trade reciprocity treaty	28.8.1952

Source: Ministry of Foreign Affairs, Convenios comerciales suscritos por la República de Venezuela que otorgan el tratamiento de nación más favorecida y permanecen en vigencia, Caracas, 1954.

a/ Including Panama.

b/ The relevant provision is inserted in the text of the note outlining the modus vivendi.

c/ Formalized by an exchange of notes between the Ministry of Foreign Affairs of Venezuela and the diplomatic representative concerned, and renewed annually upon expiry.

/inflow of

inflow of foreign exchange accruing from petroleum exports has enabled imports to be maintained at a high level for many years, much less drastic restrictive or selective measures having been imposed than in countries beset by chronic balance-of-payments difficulties.

Thus, while under agreements to which other Latin American countries are parties, the most-favoured-nation clause has often lost a good deal of its customs significance through the operation of the permits system, quotas, bans, differential exchange rates and other foreign trade controls, in Venezuela it has retained in greater measure its character as a factor positively facilitating the sale of the products it covers. This is evidenced by the fact that European countries, under the aegis of the clause, have succeeded in appreciably increasing their relative contribution to Venezuela's supplies of certain goods which benefit by specific reduction under the agreement between that country and the United States. Conversely, there are some Latin American countries which, because the agreement to apply the clause is no longer in force, have witnessed a proportional decrease in their exports to Venezuela in so far as these consist of items covered by the agreement between Venezuela and the United States. Nevertheless, the significance of the clause for Venezuela's imports have declined to some extent, since a short time ago the process of economic diversification, among other factors, induced the country to increase import restrictions and extend them to various products, in particular manufactured goods. When these restrictions affect commodities included in the agreement with the United States, they are likewise applicable in respect of countries supplying similar goods to the Venezuelan market.

3. Venezuela's second group of agreements is very small, and belongs to the period in which the Venezuelan economy was switching over from agriculture to mining. The rapid changes introduced into the structure of exports by this metamorphosis and the position of absolute predominance attained by hydrocarbons turned Venezuela's traditional trade policy into new channels.

The agreements belonging to this group are aimed mainly at guaranteeing markets for hydrocarbons. Of those at present in force, only one

/establishes reductions

establishes reductions and consolidations of customs duties on specific imported goods, i.e., the treaty between Venezuela and the United States, which in practice constitutes the axis of Venezuela's trade policy. The other extant instruments in this group are two modus vivendi with countries that are important to Venezuela for the sale of its petroleum - Brazil and Canada.

4. In its trade policy, Venezuela holds aloof from the General Agreement on Tariffs and Trade (GATT), apparently because of the peculiar structure of its trade. About 95 per cent of Venezuela's exports consists of petroleum products; and about three quarters of the total volume of these are purchased by countries with which Venezuela maintains bilateral agreements that embody a most-favoured-nation clause and thus ensure it non-discriminatory treatment in the markets concerned. It would seem that the authorities responsible for Venezuela's trade policy doubted whether the new or greater concessions - transmissible to all the Contracting Parties of the GATT - which Venezuela would secure for its petroleum would more or less counterbalance the extension of the reductions and consolidations compacted with the United States to all the GATT countries and the new benefits it would have to grant them. The size of Venezuela's importer market, and the freedom hitherto characterizing the exchange régime on the basis of which it operates, clearly have something to do with these misgivings. Such considerations seem to have carried weight when in 1952 the agreement signed by Venezuela and the United States in 1939 was revised outside the GATT. However, circumstances which seriously affected the balance of payments and the liquidity of the banking system, and which mainly resulted from an abnormal drain on the means of external payment, compelled the Government to institute foreign exchange controls in November 1960.

An analysis of the causes which determined the application of these measures would be out of place here. But were they to persist, the outcome might well be a complete recasting of Venezuela's traditional trade policy.

## 2. The agreement with the United States

5. In the United States the Venezuelan petroleum industry has a large market close at hand, which absorbs more than half of Venezuela's total exports. For its heavy fuel oil, in particular, there is a strong demand in power stations, mines, foundries and many other industries in the States along the North Atlantic seaboard, where domestic producers of coal and petroleum often advocate restriction of the flow of supplies from abroad.

Under the 1939 bilateral agreement, the United States granted Venezuela a substantial reduction of petroleum import duties, but only on a quantity not exceeding 5 per cent of the crude refined in the United States during the fiscal year preceding that in which the imports were effected. Under the terms of the 1943 treaty between Mexico and the United States, this tariff quota was abolished for imports from the former country. By virtue of the most-favoured-nation clause, the same concession was then extended to Venezuela. The treatment thus established lasted until the agreement between Mexico and the United States was denounced in 1950. Its expiration brought the tariff quota back into force, making it almost inevitable that Venezuela's exports to the United States would be subject to restriction, since in that year they already exceeded the stipulated 5 per cent of the crude handled by the United States refineries. Thus it was that in 1951 more than half the exports in question were unable to benefit by the reduction contemplated in the 1939 agreement because they were in excess of the quota, and on the surplus the whole of the tariff duty had to be paid.

6. When the agreement with the United States was revised in 1952, the quota system was eliminated. Under the régime agreed upon for United States imports, duties were payable according to the gravity of the petroleum (A.P.I. grades). The lowest duty corresponded to heavy products, which constitute about 45 per cent of Venezuela's output of crude.<sup>4/</sup>

7. For certain derivatives - petrol and other engine fuels, lubricants and some paraffin products -, the 1952 revision established a treatment

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<sup>4/</sup> The duty is 1/8 of a cent per gallon (5.5 cents per barrel) on petroleum of less than 25 A.P.I. grades. On that of 25 A.P.I. grades over or over, t. duty is 1/4 of a cent per gallon (10.5 cents per barrel).

similar to that already negotiated by the United States for the same items within the GATT. The importance of its inclusion in the 1952 instrument seems to derive from the fact that both Contracting Parties are empowered (article XVII) to terminate any part of the agreement at 30 days notice. If - to take a purely hypothetical case - such a decision were adopted in respect of the most-favoured-nation clause, the insertion referred to would safeguard the continuance of the above-mentioned tariff treatment for the Venezuelan products concerned.

8. As regards coffee, cacao and iron ore, the instrument consolidates exemption from customs duties in the United States, where these commodities, whatever their source, are not subject to tariff duties. In this connexion, consolidation forestalls the effects of a possible change in the régime as a whole.

9. Despite the elimination of the tariff quota (see paragraph 6 above), the 1952 agreement accords the United States - and, reciprocally, Venezuela, as far as its imports from the United States are concerned - the right to suspend and sometimes withdraw a customs concession, when its application is substantially detrimental to similar goods of domestic origin. The motive underlying this provision is much the same as in the case of the saving clauses incorporated in the GATT Charter.

10. The counterpart granted by Venezuela in return for the United States customs concessions may now be considered. The United States supplies about two thirds of Venezuela's total imports, which in 1959 amounted to an aggregate value of approximately 1,400 million dollars. Roughly half of these imports from the United States consists of goods benefiting by the concessions.

The customs concessions granted by Venezuela as a result of the 1952 readjustment, in the shape of reductions and, above all, consolidations, at present cover goods classified under 176 items, including machinery and equipment, raw materials and a considerable number of manufactured goods and foodstuffs.

11. The 1952 instrument introduced into the schedules, reductions and consolidations comprised in that of 1939 a series of modifications designed to encourage the diversification of the Venezuelan economy. But the latter's development in recent years is once again giving rise to a need

/for readjustments.

for readjustments. In this connexion, the aforesaid selective and restrictive measures recently adopted by Venezuela are symptomatic. Under the guise of an extension of the permit system, these measures affect a variety of foodstuffs, as well as other goods such as cigarettes, some alcoholic beverages, cables and wire (coated and uncoated), specific electrical appliances for household use and certain types of motor vehicles for which assembly plants exist in Venezuela.

12. Again, it is worth recalling that as early as 1957 the United States had begun to apply a programme of voluntary restrictions on imports of crude petroleum and derivatives. These restrictions became compulsory in the course of 1959. They would seem to originate mainly in the steadily increasing disparity between production costs in the United States and in other countries, in the consequent expansion of the former country's imports and in the effect of this on the domestic petroleum industry. The restrictions are a motive of serious concern in Venezuela, since its petroleum exports are extremely dependent upon the United States market.<sup>5/</sup>

13. Lastly, it should be pointed out that the appropriate authorities in the two countries are known to be in touch for the purpose of furthering studies conducive to the revision of the 1952 agreement.

### 3. Inter-Latin American policy

14. Broadly speaking, in comparison with that of other countries Venezuela's contractual activity with respect to Latin America has been slight. Hitherto it has taken virtually no steps to concert trade agreements.

The background data which probably account for Venezuela's attitude are complex. Firstly, various Latin American countries offer an attractive and growing market for the sale of petroleum products. But in no case do they extend a discriminatory customs régime to the imports concerned, the evolution of which is conditioned largely by such factors as the quotation of competitive sellers' prices and also, in the case of crude, the field of specialization of the refineries where it will be distilled. Consequently

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<sup>5/</sup> See "Economic developments in Venezuela in the 1950's", Economic Bulletin for Latin America, Vol. V, No. 1 (Santiago, Chile, March 1960), pp. 21-61.

any reduction or elimination in the customs treatment obtained by Venezuela within Latin America would be automatically transmitted to other supplier countries, unless it were incorporated in the framework of a free-trade area or customs union.

15. In Venezuela, moreover, neither the Government nor private enterprise seems convinced of the usefulness of systematically concluding agreements to supply Latin American countries with petroleum, the implementation of which might, and in the case of many of the applications submitted to Venezuela in this connexion actually would, mean that the latter was obliged to accept as a counterpart Latin American goods whose prices might be higher than world market quotations and had to put up with the temporary freezing of resources which clearing operations entailed.

16. Nevertheless, in the course of the last 15 years Venezuela has made a limited number of arrangements to barter petroleum - usually a part of the Government royalty consisting of 16.75 per cent of total production of crude - against other commodities from certain South American countries.

17. At the present time there are no data available on the real prospects which the negotiation of Venezuelan petroleum royalties in Latin America would offer, even if the corresponding operations were liquidated in actual dollars, as Venezuela would prefer, in view of the basic importance of petroleum for its balance of payments. To shed some light on the prospects in question, it would be useful to relate the volume represented by such royalties - classified by types of crude, according to A.P.I. grades - to the requirements of each importer country, the products in which its refineries specialize and the composition of the demand concerned.

#### 4. The most-favoured-nation clause

18. The extant agreements which establish most-favoured-nation treatment as between Venezuela and other Latin American countries are very few - only three - in number. Apart from the long-standing treaties still in force with Bolivia and El Salvador (countries whose trade with Venezuela, for geographical and other reasons, is on a very small scale), Venezuela maintains the most-favoured-nation clause only with Brazil.

This fact, and the abolition of the most-favoured-nation régime between Chile and Venezuela, are of interest inasmuch as they help to

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form some idea of the real significance of the extension of the régime in relation to the development of trade between Venezuela and other Latin American countries.

(a) The modus vivendi with Brazil

19. The modus vivendi with Brazil has been long in existence, for it dates from 1940, notwithstanding the precarious juridical character of an instrument which has to be renewed every year by means of an exchange of notes. Intrinsically, this modus vivendi simply represents the establishment of a most-favoured-nation clause.

In the world scale, Brazil holds fourth place among the purchasers of Venezuelan petroleum, while it comes first among Latin American buyers.<sup>6/</sup> The corresponding exports to Brazil are subject to the general non-discriminatory treatment which this country, like those of Latin America as a whole, accords to hydrocarbons. Under this general régime crude petroleum is a duty-free product.

20. The fact that the modus vivendi extends to Brazilian goods the same customs treatment that Venezuela grants to the United States has hitherto had few positive repercussions. There are several reasons for this. The treatment in question benefits various foodstuffs produced in the temperate zone, of which Brazil is not an exporter. Again, there is the problem of transport. Despite the relative geographical proximity of Brazil and Venezuela, their seaports are linked by few direct maritime freight services. The only way to obviate long waiting periods is to resort to transshipments, which considerably raise freight costs. Another reason why so little advantage is taken of the opportunities which the modus vivendi seems to offer for the sale of various Brazilian manufactures is to be found in the lack of commercial organizations, such as exist in the case of the traditional markets, for the purpose of promoting and facilitating the operations concerned. However, both the public sector

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<sup>6/</sup> In 1958 Venezuela's exports of petroleum to Brazil accounted for almost 6 per cent of its total world sales of this commodity. In the same year, Brazil's purchases amounted to one third of the total quantity of petroleum bought from Venezuela by Latin American countries.

and private enterprise are making some effort to exploit these possibilities in gradually increasing measure.

(b) The modus vivendi with Chile

21. This modus vivendi, which had been in force since 1941, lapsed in 1948, and the consequent discontinuance of the most-favoured-nation treatment it established began to produce restrictive effects on some of Chile's exports from 1952 onwards. In this latter year the tariff reductions granted by Venezuela to the United States in relation to preserved temperate-zone fruit and certain copper manufactures were first applied. The most-favoured-nation clause having disappeared with the expiration of the modus vivendi, these benefits could not be extended to similar exports from Chile. As from the year mentioned the proportional decrease in Chile's contribution to Venezuela's supplies of the goods concerned can clearly be seen from the available statistics.<sup>7/</sup>

(c) Other agreements

22. Between 1934 and 1948, Venezuela was a party to a bilateral agreement with Colombia for the regulation of border trade, especially in relation to Venezuela's exports of salt, cattle and tinned fish. It exempted goods in transit through Venezuela from payment of duties, but did not establish the most-favoured-nation clause with respect to trade between the two countries.

23. From 1943 to 1949 a modus vivendi was in force between Venezuela and Haiti, the sole object of which was to institute most-favoured-nation treatment.

5. Special arrangements

24. Apart from international agreements proper, a common practice has been for the Banco Agrícola y Pecuário de Venezuela to make administrative arrangements with State departments in other Latin American countries - such as, for example, the Colombian National Institute of Supply (Instituto Nacional de Abastecimiento - INA) - with a view to the barter of rice, sugar and maize from the countries in question against the surplus production of the Venezuelan canning industry, part of the value of these surpluses being paid in dollars.

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<sup>7/</sup> Imports of uncoated copper wire from Chile represented over 31 per cent of Venezuela's total imports in 1952, and only 17 per cent in 1956.

## B. FOREIGN TRADE REGIME

### 1. The customs tariff

25. Venezuela's customs tariff was reformed on 1 January 1959, on the basis of the Standard International Trade Classification (SITC), especially as adapted for the Standard Central American Tariff Nomenclature (Nomenclatura Arancelaria Uniforme Centroamericana - NAUCA). This reform did not alter the previous structure of that part of the tariff which relates to duties, and was confined to the reclassification of the existing duties under the new nomenclature.

26. Predominant in the tariff are specific duties, supplemented in some cases by an ad valorem tax which may amount to as much as 100 per cent. For such articles as wireless sets, passenger cars, refrigerators, etc., the tariff establishes a scale of specific duties varying according to the unit weight of the product concerned.

27. For purposes of the liquidation of ad valorem duties the competent authorities are empowered to determine the values of goods on which these duties are payable.

28. Various surcharges on the total amount represented by import duties also exist, and are applicable when the goods are brought into the country under special conditions or without fulfilment of some given requisite. Outstanding among these surcharges is that of 30 per cent payable on goods from the Guianas or from non-self-governing territories in the West Indies.

29. In addition to the import duties shown in the customs tariff, a consular fee is charged, which ranges from 2 to 3.5 per cent of the f.o.b. value of the goods according to the amount of imports involved.

### 2. Imports

30. Recently,<sup>8/</sup> Venezuela modified its traditional exchange system by establishing direct control of international exchange transfers.

31. In conformity with these new measures, foreign exchange earnings on exports of iron ore and other non-combustible ores, instead of being liquidated on the free market as before, will be bought by the Central Bank at the purchase rate of 3.33 bolivares to the dollar.

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<sup>8/</sup> 8 November 1960.

32. This foreign exchange, like that deriving from exports of hydrocarbons and purchased by the Central Bank at a rate of 3.09 bolivares to the dollar, as well as the revenue accruing to the Bank from the conversion into national currency of capital brought into the country after the establishment of exchange controls, will be used to cover the following requirements: those of the State and its autonomous institutes; imports by the private sector, insurance and reinsurance; transport costs; students' allowances and subsistence remittances for relatives; and certain transfers connected with movements of capital and invisible trade. Foreign exchange earnings from coffee and cacao exports, if sold to the Central Bank, are earmarked for the same purposes, although it should be noted that in the case of these products the exporter may liquidate his foreign exchange on the free market if he chooses.

33. The purchase of foreign exchange to defray import payments is authorized by the Central Bank on receipt of the following data: importer's name and type of activity; name of shipper or forwarding agent; full description of the goods concerned showing the relevant tariff item; f.o.b. and c.i.f. values of the merchandise; and country of origin.

34. When this formality has been completed and the Central Bank's authorization obtained, the foreign exchange needed can be purchased as soon as the goods concerned have reached a Venezuelan port or been despatched thereto. In particular circumstances, however, advance payments may be made and guarantees given. In such cases, a deposit in national currency is required, equivalent to 40 per cent of the value of the foreign exchange in question. Similarly, another guarantee deposit of up to 20 per cent is stipulated in respect of specific foreign exchange drafts for external payments on account.

35. These deposits will not yield interest. They will be incorporated into the national treasury as fines, if the operations for which they were made are not transacted within the predetermined time limits, i.e., 120 and 180 days respectively, for imports from the American continent and for those from other regions. In the case of import commodities which usually take a longer time to despatch - such as, for instance, capital goods - the time limit may be extended up to two years.

36. The customs tariff is used as an instrument of trade policy in two ways - through its scale of duties, and through exemptions from these in the interests of domestic productive activities.

37. Another instrument of trade policy is the system of prior import licences through which essentially quantitative restrictions, sometimes amounting to prohibition, are applied.

38. Exemption from duties may be total or partial. The goods benefited may be raw materials and intermediate or semi-manufactured products, machinery, implements and other industrial or agricultural requirements.

One of the conditions on which exemptions are granted in favour of raw materials is that neither they nor substitutes utilizable for the same purpose be produced in Venezuela, unless such domestic production is substantially inadequate in quantity or quality.

When domestic production does exist, exemption for raw materials is accorded only to the extent necessary to cover the deficit. It is often granted on the condition that a certain amount of raw material be purchased from domestic sources. In other cases the quantity certified to be required by the enterprise submitting the application is exempted usually for a period of six months.

39. There is a long list of raw materials and other goods for purely industrial use which can be imported wholly or partly duty-free. Exemptions or reductions in respect of these totalled a little over 134 million bolivares (40 million dollars) in 1959, as against 128 million in 1958 and 106 million in 1957.

In addition to the exemptions granted in favour of the manufacturing industry and agriculture, the amount of which is also considerable, there are others extended to the petroleum industry, to official agencies and in favour of certain goods for mass consumption.

40. The licence requirement is basically a protectionist measure, the aim of which is to control imports of certain goods similar to lines of domestic production which it is desired to protect or encourage. It should be noted that in exceptional instances this requirement may have a different purpose. Such is the case, for example, with wheat, where the object of the licence is to facilitate the fulfilment of Venezuela's commitments in relation to the

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corresponding international agreement.

Through the licence system an endeavour is made to limit imports of most of the products affected to the amount of deficit in domestic supplies, or, in other words, to the difference between local consumption and production. To this end, quotas are sometimes established, or importing is confined to given periods of the year. This applies, for instance, to imports of garlic, onion, potatoes and other agricultural commodities, which are licensed on the basis of quotas determined in conformity with the Ministry of Agriculture's recommendations.

41. In the case of a few products, the licence is granted only if the importer buys a given quantity of the same article from domestic sources.
42. In that of some commodities, imports are suspended, or an official monopoly exists.

### 3. Exports

43. Foreign exchange earnings from petroleum exports are purchased by the Central Bank at the rate of 3.09 bolivares to the dollar up to a certain sum, and 3.05 for the excess. The exchange rate for other exports is 3.33 bolivares to the dollar. Varying proportions of coffee and cacao exports, in certain circumstances, are granted special rates which may rise to 4.80 and 4.25 bolivares, respectively, in varying proportions and under a system whereby the rate improves as the world price of the commodity concerned declines.