MULTILATERAL ECONOMIC CO-OPERATION IN LATIN AMERICA

Volume I
Text and Documents

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EXPLANATION OF SYMBOLS

The following symbols have been used throughout this volume:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A minus sign (—) indicates a deficit or decrease.

A full stop (.) is used to indicate decimals.

A space is used to distinguish thousands and millions (3 421 520).

A stroke (/) indicates a crop year or fiscal year — e.g., 1954/55.

An asterisk (*) is used to indicate figures partially or wholly estimated.

Use of a hyphen (-) between dates representing years — e.g., 1950-1954 — normally signifies an annual average for the calendar years involved, including the beginning and end years: "to" between the years indicates the full period — e.g., "1950 to 1954" means 1950 to 1954, inclusive.

References to "tons" indicate metric tons; and to "dollars", United States dollars, unless otherwise stated.

The term "billion" signifies a thousand million.

Details and percentages in tables do not necessarily add to totals, because of rounding.

PRELIMINARY NOTE

In 1959 the Economic Commission for Latin America published a volume under the title of *The Latin American Common Market*[1] which brought together various reports and studies on this subject, to which the secretariat has devoted considerable effort and much research. It therefore seemed appropriate to keep the Latin American Governments and people informed of the progress made by the common market project which in the last few months has led to the signature of important agreements in Central America as well as in other parts of the region. The present volume is designed to meet this need; it is the first of two volumes which together will make up the complete publication.

In the present volume, the General Treaty on Central American Economic Integration and the Montevideo Treaty — the latter preceded for purposes of information by the reports of the Working Group on the Latin American Regional Market — form the nucleus of a number of texts in which the movement towards multilateral economic collaboration in Latin America has gradually taken definite shape. The first two parts of the volume are devoted to Central American economic integration and to the Latin American Free Trade Association. The third part consists of various documents and studies on payments and credit, on customs policy, nomenclature and procedures, and lastly, on trade policy in the Greater-Colombia countries.

In presenting this first volume, the aim of the secretariat is simply to provide — conveniently arranged according to their subject-matter — a collection of official instruments, reports by the various organizations concerned and texts, which have either not been circulated as widely as they should have been — this is true of many of them — or were scattered among a number of publications. Hence, the document does not pretend to be more than a compilation, but it should be extremely useful as a source of information and a reference work for study and research.

In the second volume, which will be issued in 1962, the secretariat will present what is admittedly lacking in the first — that is, an analysis and interpretation of the facts contained in the texts assembled here. Many of these are indicative in themselves of the progress already made towards a Latin American common market, but it is essential to evaluate and assess the results obtained and determine the best paths to follow in future. The secretariat has already embarked upon this work, and as stated above will shortly publish the relevant studies.

[1] United Nations publication, Sales No.: 59.II.G.4, July 1959.

A. CENTRAL AMERICAN ECONOMIC INTEGRATION

I. GENERAL TREATY ON CENTRAL AMERICAN ECONOMIC INTEGRATION

(Managua, 13 December 1960)

The Governments of the Republics of Guatemala, El Salvador, Honduras and Nicaragua,

For the purpose of reaffirming their intention to unify the economies of the four countries and jointly to promote the development of Central America in order to improve the living conditions of their peoples,

Mindful of the need to expedite the integration of their economies, consolidate the results so far achieved and lay down the principles on which it should be based in the future,

Having regard to the commitments entered into in the following instruments of economic integration:

Multilateral Treaty on Free Trade and Central American Economic Integration;

Central American Agreement on the Equalization of Import Duties and Charges and its Protocol on the Central American Preferential Tariff;

Bilateral treaties on free trade and economic integration signed between Central American Governments;

Treaty on Economic Association signed between Guatemala, El Salvador and Honduras,

Have agreed to conclude the present Treaty and for that purpose have appointed as their respective plenipotentiaries:

H.E. The President of the Republic of Guatemala: Mr. *Julio Prado García Salas*, Minister for Co-ordinating Central American Integration, and Mr. *Alberto Fuentes Mohr*, Head of the Economic Integration Bureau

The H. Junta de Gobierno of the Republic of El Salvador: Mr. *Gabriel Piloña Araujo*, Minister for Economic Affairs, and Mr. *Abelardo Torres*, Under-Secretary for Economic Affairs

H.E. The President of the Republic of Honduras: Mr. *Jorge Bueso Arias*, Minister for Economic and Financial Affairs

H.E. The President of the Republic of Nicaragua: Mr. *Juan José Lugo Marenco*, Minister for Economic Affairs

who, having exchanged their respective full powers, found to be in good and due form, have agreed as follows:

CHAPTER I

CENTRAL AMERICAN COMMON MARKET

Article I

The Contracting States agree to establish among themselves a common market which shall be brought into full operation within a period of not more than five years from the date on which the present Treaty enters into force. They further agree to create a customs union in respect of their territories.

Article II

For the purposes of the previous article the Contracting Parties undertake to bring a Central American free-trade area into full operation within a period of five years and to adopt a standard Central American tariff as provided for in the Central American Agreement on the Equalization of Import Duties and Charges.

CHAPTER II

TRADE REGIME

Article III

The Signatory States shall grant each other free-trade treatment in respect of all products originating in their respective territories, save only for the limitations contained in the special régimes referred to in Annex A of the present Treaty.

Consequently, the natural products of the Contracting States and the products manufactured therein shall be exempt from import and export duties including consular fees, and all other taxes, dues and charges levied on imports and exports or charged in respect thereof, whether they be of a national, municipal or any other nature.

The exemptions provided for in this article shall not include charges or fees for lighterage, wharfage, warehousing or handling of goods, or any other charges which may legally be incurred for port, storage or transport services; nor shall they include exchange differentials resulting from the existence of two or more rates of exchange or from other exchange arrangements in any of the Contracting States.

Goods originating in the territory of any of the Signatory States shall be accorded national treatment in all of them and shall be exempt from all quantitative

or other restrictions or measures, except for such measures as may be legally applicable in the territories of the Contracting States for reasons of health, security or police control.

Article IV

The Contracting Parties establish special interim régimes in respect of specific products exempting them from the immediate free-trade treatment referred to in article III hereof. These products shall be automatically incorporated into the free-trade régime not later than the end of the fifth year in which the present Treaty is in force, except as specifically provided in Annex A.

The products to which special régimes apply are listed in Annex A and trade in them shall be carried on in conformity with the measures and conditions therein specified. These measures and conditions shall not be amended except by multilateral negotiation in the Executive Council. Annex A is an integral part of this Treaty.

The Signatory States agree that the Protocol on the Central American Preferential Tariff, appended to the Central American Agreement on the Equalization of Import Duties and Charges, shall not apply to trade in the products referred to in the present article for which special régimes are provided.

Article V

Goods enjoying the advantages stipulated in this Treaty shall be designated as such on a customs form, signed by the exporter and containing a declaration of origin. This form shall be produced for checking by the customs officers of the countries of origin and destination, in conformity with Annex B of this Treaty.

If there is doubt as to the origin of an article and the matter has not been settled by bilateral negotiation, any of the Parties affected may request the intervention of the Executive Council to verify the origin of the article concerned. The Council shall not consider goods as originating in one of the Contracting States if they originate or are manufactured in a third country and are only simply assembled, wrapped, packed, cut or diluted in the exporting country.

In the cases mentioned in the previous paragraph, importation of the goods concerned shall not be prohibited provided that a guaranty is given to the importing country in respect of payment of the import duties and other charges to which the goods may be liable. The guaranty shall be either forfeited or refunded, as the case may be, when the matter is finally settled.

The Executive Council shall lay down regulations governing the procedure to be followed in determining the origin of goods.

Article VI

If the goods traded are liable to internal taxes, charges or duties of any kind levied on production, sale, distribution or consumption in any of the signatory countries, the country concerned may levy an equivalent amount on similar goods imported from the other Contracting State, in which case it must also levy at least an equivalent amount for the same respective purposes on similar imports from third countries.

The Contracting Parties agree that the following conditions shall apply to the establishment of internal taxes on consumption:

(*a*) Such taxes may be established in the amount deemed necessary when there is domestic production of the article in question, or when the article is not produced in any of the Signatory States;

(*b*) When the article is not produced in one Signatory State but is produced in any of the others, the former State may not establish taxes on consumption of the article concerned unless the Executive Council so authorizes;

(*c*) If a Contracting Party has established a domestic tax on consumption, and production of the article so taxed is subsequently begun in any of the other Signatory States, but the article is not produced in the State that established the tax, the Executive Council shall, if the State concerned so requests, deal with the case and decide whether the tax is compatible with free trade. The States undertake to abolish these taxes on consumption, in accordance with their legal procedures, on receipt of notification to this effect from the Executive Council.

Article VII

No Signatory State shall establish or maintain regulations on the distribution or retailing of goods originating in another Signatory State when such regulations place, or tend to place, the said goods in an unfavourable position in relation to similar goods of domestic origin or imported from any other country.

Article VIII

Items which, by virtue of the domestic legislation of the Contracting Parties, constitute State monopolies on the date of entry into force of the present Treaty, shall remain subject to the relevant legislation of each country and, if applicable, to the provisions of Annex A of the present Treaty.

Should new monopolies be created or the régime of existing monopolies be changed, the Parties shall enter into consultations for the purpose of placing Central American trade in the items concerned under a special régime.

CHAPTER III

EXPORT SUBSIDIES AND UNFAIR TRADE PRACTICES

Article IX

The Governments of the Signatory States shall not grant customs exemptions or reductions in respect of imports from outside Central America of articles adequately produced in the Contracting States.

If a Signatory State deems itself to be affected by the granting of customs import franchises or by governmental imports not intended for the use of the Government itself or of its agencies, it may submit the matter to the Executive Council for its consideration and ruling.

Article X

The Central Banks of the Signatory States shall co-operate closely in order to prevent any currency speculation that might affect the rates of exchange and to maintain the convertibility of the currencies of the respective countries on a basis which, in normal conditions, shall guarantee the freedom, uniformity and stability of exchange.

Any Signatory State which establishes quantitative restrictions on international monetary transfers shall adopt whatever measures are necessary to ensure that such restrictions do not discriminate against the other States.

Should serious balance-of-payments difficulties arise which affect, or are apt to affect, monetary relations in respect of payments between the Signatory States, the Executive Council, acting of its own accord or at the request of one of the Parties, shall immediately study the problem in co-operation with the Central Banks for the purpose of recommending to the Signatory States a satisfactory solution compatible with the maintenance of the multilateral free-trade régime.

Article XI

No Signatory State shall grant any direct or indirect subsidy favouring the export of goods intended for the territory of the other States, or establish or maintain any system resulting in the sale of such goods for export to any other Contracting State at a price lower than that established for the sale of similar goods on the domestic market, due allowance being made for differences in the conditions and terms of sale and taxation and for any other factors affecting price comparability.

Any measure involving the fixing of, or discrimination in, prices in a Signatory State which is reflected in the establishment of sales prices for specific goods in the other Contracting States at levels lower than those that would result from the normal operation of the market in the exporting country shall be deemed to constitute an indirect export subsidy.

If the importation of goods processed in a Contracting State with raw materials purchased under conditions of monopoly at artificially low prices should threaten existing production in another Signatory State, the Party which considers itself affected shall submit the matter to the consideration of the Executive Council for a ruling as to whether an unfair business practice is in fact involved. The Executive Council shall, within five days of the receipt of the request, either give its ruling or authorize a temporary suspension of free trade, while permitting trade to be carried on subject to the award of a guaranty in the amount of the customs duties. This suspension shall be effective for thirty days, within which period the Executive Council shall announce its final decision. If no ruling is forthcoming within the five days stipulated, the Party concerned may demand a guaranty pending the Executive Council's final decision.

However, tax exemptions of a general nature granted by a Signatory State with a view to encouraging production shall not be deemed to constitute export subsidies.

Similarly, any exemption from internal taxes levied in the exporting State on the production, sale or consumption of goods exported to the territory of another State shall not be deemed to constitute an export subsidy. The differentials resulting from the sale of foreign currency on the free market at a rate of exchange higher than the official rate shall not normally be deemed to be an export subsidy; if one of the Contracting States is in doubt, however, the matter shall be submitted to the Executive Council for its consideration and opinion.

Article XII

As a means of precluding a practice which would be inconsistent with the purposes of this Treaty, each Signatory State shall employ all the legal means at its disposal to prevent the export of goods from its territory to the territories of the other States at a price lower than their normal value, if such export would prejudice or be liable to prejudice the production of the other States or retard the establishment of a national or Central American industry.

Goods shall be deemed to be exported at a price lower than their normal value if their export price is less than:

(*a*) The comparable price in normal trade conditions of similar goods destined for domestic consumption in the exporting country; or

(*b*) The highest comparable price of similar goods for export to a third country in normal trade conditions; or

(*c*) The cost of production of the goods in the country of origin, plus a reasonable amount for sales expenses and profit.

Due allowance shall be made in every case for existing differences in conditions and terms of sale and taxation and for any other factors affecting price comparability.

Article XIII

If a Contracting Party deems that unfair trade practices not covered in article XI exist, it cannot impede trade by a unilateral decision but must bring the matter before the Executive Council so that the latter can decide whether in fact such practices are being resorted to. The Council shall announce its decision within not more than 60 days from the date on which it received the relevant communication.

If any Party deems that there is evidence of unfair trade, it shall request the Executive Council to authorize it to demand a guaranty in the amount of the import duties.

Should the Executive Council fail to give a ruling within eight days, the Party concerned may demand such guaranty pending the Executive Council's final decision.

Article XIV

Once the Executive Council has given its ruling on unfair trade practices, it shall inform the Contracting Parties whether, in conformity with this Treaty, protective measures against such practices should be taken.

CHAPTER IV

TRANSIT AND TRANSPORT

Article XV

Each of the Contracting States shall ensure full freedom of transit through its territory for goods proceeding to or from the other Signatory States as well as for the vehicles transporting these goods.

Such transit shall not be subject to any deduction, discrimination or quantitative restriction. In the event of traffic congestion or other instances of *force majeure*, each Signatory State shall treat the mobilization of consignments intended for its own population and those in transit to the other States on an equitable basis.

Transit operations shall be carried out by the routes prescribed by law for that purpose and shall be subject to the customs and transit laws and regulations applicable in the territory of transit.

Goods in transit shall be exempt from all duties, taxes and other charges of a fiscal, municipal or any other character levied on transit, irrespective of their destination, but may be liable to the charges usually applied for services rendered which shall in no case exceed the cost thereof and thus constitute *de facto* import duties or taxes.

CHAPTER V

CONSTRUCTION ENTERPRISES

Article XVI

The Contracting States shall grant national treatment to enterprises of other Signatory States engaged in the construction of roads, bridges, dams, irrigation systems, electrification, housing and other works intended to further the development of the Central American economic infrastructure.

CHAPTER VI

INDUSTRIAL INTEGRATION

Article XVII

The Contracting Parties hereby endorse all the provisions of the Agreement on the Régime for Central American Integration Industries, and, in order to ensure implementation among themselves as soon as possible, undertake to sign, within a period of not more than six months from the date of entry into force of the present Treaty, additional protocols specifying the industrial plants initially to be covered by the Agreement, the free-trade régime applicable to their products and the other conditions provided for in article III of the Agreement.

CHAPTER VII

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Article XVIII

The Signatory States agree to establish the Central American Bank for Economic Integration which shall be a juridical person. The Bank shall act as an instrument for the financing and promotion of a regionally balanced, integrated economic growth. To that end they shall sign the agreement constituting the Bank, which shall remain open for the signature or accession of any other Central American State which may wish to become a member of the Bank.

It is, however, established that members of the Bank may not obtain guaranties or loans from the Bank unless they have previously deposited their instruments of ratification of the following international agreements:

The present Treaty;

Multilateral Treaty on Free Trade and Central American Economic Integration, signed on 10 June 1958;

Agreement on the Régime for Central American Integration Industries, signed on 10 June 1958; and

Central American Agreement on the Equalization of Import Duties and Charges, signed on 1 September 1959, and its *Protocol* signed on the same day as the present Treaty.

CHAPTER VIII

TAX INCENTIVES TO INDUSTRIAL DEVELOPMENT

Article XIX

The Contracting States, with a view to establishing uniform tax incentives to industrial development, agree to ensure as soon as possible a reasonable equalization of the relevant laws and regulations in force. To that end they shall, within a period of six months from the date of entry into force of the present Treaty, sign a special protocol specifying the amount and type of exemptions, the time limits thereof, the conditions under which they shall be granted, the systems of industrial classification and the principles and procedures governing their application. The Executive Council shall be responsible for co-ordinating the application of the tax incentives to industrial development.

CHAPTER IX

ORGANS

Article XX

The Central American Economic Council, composed of the Ministers of Economic Affairs of the several Contracting Parties, is hereby established for the purpose of integrating the Central American economies and co-ordinating the economic policy of the Contracting States.

The Central American Economic Council shall meet as often as required or at the request of any of the Contracting Parties. It shall examine the work of the Executive Council and adopt such resolutions as it may deem appropriate. The Central American Economic Council shall be the organ responsible for facilitating implementation of the resolutions on economic integration adopted by the Central American Economic Co-operation Committee. It may seek the advice of Central American and international technical organs.

Article XXI

For the purpose of applying and administering the present Treaty and of undertaking all the negotiations and work designed to give practical effect to the Central American economic union, an Executive Council, consisting of one titular official and one alternate appointed by each Contracting Party, is hereby established.

The Executive Council shall meet as often as required, at the request of one of the Contracting Parties or when convened by the Permanent Secretariat, and its resolutions shall be adopted by majority vote. In the event of disagreement, recourse will be had to the Central American Economic Council in order that the latter may give a final ruling.

Before ruling on a matter, the Executive Council shall determine unanimously whether the matter is to be decided by a concurrent vote of all its members or by a simple majority.

Article XXII

The Executive Council shall take such measures as it may deem necessary to ensure fulfilment of the commitments entered into under this Treaty and to settle problems arising from the implementation of its provisions. It may likewise propose to the Governments the signing of such additional multilateral agreements as may be required in order to achieve the purpose of Central American economic integration, including a customs union in respect of their territories.

The Executive Council shall assume, on behalf of the Contracting Parties, the functions assigned to the Central American Trade Commission in the Multilateral Treaty on Free Trade and Central American Economic Integration and the Central American Agreement on the Equalization of Import Duties and Charges, as well as those assigned to the Central American Industrial Integration Commission in the Agreement on the Régime for Central American Integration Industries, as well as the powers and duties of the joint commissions set up under bilateral treaties in force between the Contracting Parties.

Article XXIII

A Permanent Secretariat is hereby instituted, as a juridical person, and shall act as such both for the Central American Economic Council and the Executive Council established under this Treaty.

The Secretariat shall have its seat and headquarters in Guatemala City, capital of the Republic of Guatemala, and shall be headed by a Secretary-General appointed for a period of three years by the Central American Economic Council. The Secretariat shall establish such departments and sections as may be necessary for the performance of its functions. Its expenses shall be governed by a general budget adopted annually by the Central American Economic Council and each Contracting Party shall contribute annually to its support an amount equivalent to not less than fifty thousand United States dollars (US$50,000), payable in the respective currencies of the Signatory States.

Members of the Secretariat shall enjoy diplomatic immunity. Other diplomatic privileges shall be granted only to the Secretariat and to the Secretary-General.

Article XXIV

The Secretariat shall ensure that this Treaty, the Multilateral Treaty on Free Trade and Central American Economic Integration, the Agreement on the Régime for Central American Integration Industries, the Central American Agreement on the Equalization of Import Duties and Charges, bilateral or multilateral treaties on free trade and economic integration in force between any of the Contracting Parties, and all other agreements relating to Central American economic integration already signed or that may be signed hereafter, the interpretation of which has not been specifically entrusted to another organ, are properly executed among the Contracting Parties.

The Secretariat shall ensure implementation of the resolutions adopted by the Central American Economic Council and the Executive Council established under this Treaty and shall also perform such functions as are assigned to it by the Executive Council. Its regulations shall be approved by the Economic Council.

The Secretariat shall also undertake such work and studies as may be assigned to it by the Executive Council and the Central American Economic Council. In performing these duties, it shall avail itself of the studies and work carried out by other Central American and international organs and shall, where appropriate, enlist their co-operation.

CHAPTER X

GENERAL PROVISIONS

Article XXV

The Signatory States agree not to sign unilaterally with non-Central American countries any new treaties that may affect the principles of Central American economic integration. They further agree to maintain the " Central American exception clause " in any trade agreements they may conclude on the basis of most-favoured-nation treatment with any countries other than the Contracting States.

Article XXVI

The Signatory States agree to settle amicably, in the spirit of this Treaty, and through the Executive Council

or the Central American Economic Council, as the case may be, any differences which may arise regarding the interpretation or application of any of its provisions. If agreement cannot be reached, they shall submit the matter to arbitration. For the purpose of constituting the arbitration tribunal, each Contracting Party shall propose to the General Secretariat of the Organization of Central American States the names of three magistrates from its Supreme Court of Justice. From the complete list of candidates, the Secretary-General of the Organization of Central American States and the Government representatives in the Organization shall select, by drawing lots, one arbitrator for each Contracting Party, no two of whom may be nationals of the same State. The award of the arbitration tribunal shall require the concurring votes of not less than three members, and shall have the effect of *res judicata* for all the Contracting Parties so far as it contains any ruling concerning the interpretation or application of the provisions of this Treaty.

Article XXVII

The present Treaty shall, with respect to the Contracting Parties, take precedence over the Multilateral Treaty on Free Trade and Central American Economic Integration and any other bilateral or multilateral free-trade instruments signed between the Contracting Parties; it shall not, however, affect the validity of those agreements.

The provisions of the trade and economic integration agreements referred to in the previous paragraph shall be applied between the respective Contracting Parties in so far as they are not covered in the present Treaty.

Pending ratification of the present Treaty by any of the Contracting Parties, or in the event of its denunciation by any of them, the trade relations of the Party concerned with the other Signatory States shall be governed by the commitments entered into previously under the existing instruments referred to in the preamble of the present Treaty.

Article XXVIII

The Contracting Parties agree to hold consultations in the Executive Council prior to signing any new treaties among themselves which may affect free trade.

The Executive Council shall examine each case and determine the effects that the conclusion of such agreements might produce on the free-trade régime established in the present Treaty. On the basis of the Executive Council's examination, the Party which considers itself affected by the conclusion of these new treaties may adopt whatever measures the Council may recommend in order to protect its interests.

Article XXIX

For the purposes of customs regulations relating to free trade, the transit of goods and the application of the Central American Standard Import Tariff, the Contracting Parties shall, within a period of one year from the date of entry into force of the present Treaty, sign special protocols providing for the adoption of a Central American Standard Customs Code and the necessary transport regulations.

CHAPTER XI

FINAL PROVISIONS

Article XXX

This Treaty shall be submitted for ratification in each State in conformity with its respective constitutional or legislative procedures.

The instruments of ratification shall be deposited with the General Secretariat of the Organization of Central American States.

The Treaty shall enter into force, in the case of the first three States to ratify it, eight days following the date of deposit of the third instrument of ratification and, in the case of the States which ratify it subsequently, on the date of deposit of the relevant instrument.

Article XXXI

This Treaty shall remain effective for a period of twenty years from the date of its entry into force and shall be renewable indefinitely.

Upon expiry of the twenty-year period mentioned in the previous paragraph, the Treaty may be denounced by any of the Contracting Parties. Denunciation shall take effect, for the denouncing State, five years after notification, and the Treaty shall remain in force among the other Contracting States so long as at least two of them remain parties thereto.

Article XXXII

The General Secretariat of the Organization of Central American States shall act as depositary of this Treaty and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States and shall also notify them immediately of the deposit of each instrument of ratification as well as of any denunciation which may be made. When the Treaty enters into force, it shall also transmit a certified copy thereof to the Secretary-General of the United Nations for the purposes of registration as set forth in Article 102 of the United Nations Charter.

Article XXXIII

The present Treaty shall remain open for the accession of any Central American State not originally a party thereto.

Provisional article

As soon as the Government of the Republic of Costa Rica formally accedes to the provisions of this Treaty, the organs hereby established shall form part of the Organization of Central American States (OCAS) by an incorporation agreement; and the OCAS shall be reorganized in such a way that the organs established

by this Treaty retain all their structural and functional attributes.

IN WITNESS WHEREOF the respective plenipotentiaries have signed the present Treaty in the City of Managua, capital of the Republic of Nicaragua, this thirteenth day of the month of December nineteen hundred and sixty.

For the Government of Guatemala:

Julio Prado García Salas
Minister for Co-ordinating Central American Integration

Alberto Fuentes Mohr
Head of the Economic Integration Bureau

For the Government of El Salvador:

Gabriel Piloña Araujo
Minister of Economic Affairs

Abelardo Torres
Under-Secretary for Economic Affairs

For the Government of Honduras:

Jorge Bueso Arias
Minister of Economic and Financial Affairs

For the Government of Nicaragua:

Juan José Lugo Marenco
Minister of Economic Affairs

II. CENTRAL AMERICAN AGREEMENT ON THE EQUALIZATION OF IMPORT DUTIES AND CHARGES

(San José, Costa Rica, 1 September 1959)

The Governments of the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica,

Bearing in mind the commitments contracted under the terms of the Multilateral Treaty on Free Trade and Central American Economic Integration, signed at Tegucigalpa on 10 June 1958, and being convinced that, if the Central American free-trade area is to be established in its final form within ten years, pursuant to the provisions of the said Treaty, their respective customs tariffs must be equalized,

Have decided to conclude the present Agreement, and for that purpose have appointed as their respective plenipotentiaries:

H.E. The President of the Republic of Guatemala: *Eduardo Rodríguez Genis*, Minister of Economy;

H.E. The President of the Republic of El Salvador: *Alfonso Rochac*, Minister of Economy;

H.E. The President of the Republic of Honduras: *Jorge Bueso Arias*, Minister of Economy and Finance;

H.E. The President of the Republic of Nicaragua: *Enrique Delgado*, Minister of Economy;

H.E. The President of the Republic of Costa Rica: *Alfredo Hernández Volio*, Minister of Economy and Finance;

who having exchanged their full powers, found to be in good and due form, have agreed as follows:

CHAPTER I

SYSTEM OF EQUALIZATION OF IMPORT DUTIES AND CHARGES

Article I

The Contracting States agree to establish a common tariff policy and decide to set up a Central American import tariff consistent with the integration and economic development requirements of Central America. To this end, they agree to equalize import duties and charges within not more that five years from the date on which the present Agreement enters into force.

The Signatory States shall maintain the Standard Central American Tariff Nomenclature as the basis of the customs tariff for imports.

Article II

For the purposes of article I hereof and of article IV of the Multilateral Treaty on Free Trade and Central American Economic Integration, the Contracting States agree to adopt forthwith the tariffs and tariff denominations specified in Schedule A. They likewise agree to establish an interim system of exemptions, with a view to progressive equalization, in respect of the items included on Schedule B. The two schedules form an integral part of the present Agreement.

Article III

The Contracting Parties, besides aiming at tariff equalization in conformity with article IV of the Multilateral Treaty on Free Trade and Central American Economic

Integration and with a view to expediting the establishment of the Central American import tariff, pledge themselves, with respect to additions to Schedules A and B, to observe, by preference, the following order of priorities:

(*a*) Commodities in respect of which the immediate or progressive liberalization of trade is provided for under the terms of bilateral free-trade treaties concluded between the Contracting Parties to this Agreement;

(*b*) Goods manufactured in Central America;

(*c*) Imported goods for which goods produced in Central America may be substituted over the short term;

(*d*) Raw materials, intermediate products and containers, priority being given to those required for the production and sale of the items included in the foregoing sub-paragraphs; and

(*e*) Other goods.

Article IV

Once tariff equalization has been achieved in respect of the items comprised in the groups of products referred to in the foregoing article, the Contracting States pledge themselves to apply to these same items multilateral free-trade treatment within not more than five years, without exceeding the ten-year time limit stipulated in article I of the Multilateral Treaty for the establishment of the free-trade area in its final form.

Article V

The Parties engage not to impose or levy any tax other than those provided for in this Agreement on imports of goods included in Schedules A and B. The bases for valuation adopted are the c.i.f. import value in the case of the *ad valorem* part, and, for the specific component, the standard physical units set forth in Schedules A and B.

If any of the Signatory States is not in a position to abolish consular fees immediately in respect of the goods included in Schedules A and B, it shall be entitled to maintain the fees as such, discounting the value they represent from the *ad valorem* part of the duty and/or charge agreed upon. The term " duty and/or charge agreed upon " shall be understood to mean the duty and/or charge immediately applicable by all Parties to the goods included in Schedule A; that which all Parties pledge themselves to reach by the end of the interim period, in the case of goods included in Schedule B; and the tariffs established by any of the Parties with a view to progressive equalization in respect of the goods included in Schedule B and to attainment of the stipulated standard duty by the end of the interim period.

In the case of items which are equalized at levels below the consular fees — either immediately (Schedule A) or by the end of the interim period (Schedule B) — the Signatory States shall not charge consular fees.

Article VI

The Contracting States agree to the establishment of fixed equivalences, solely for equalization purposes, between the currency units in which each country's tariff duties are expressed and a common currency unit equivalent to the United States dollar. These equivalences, which are those existing at the date of signature of the present Agreement, are established as follows: Guatemala, 1 quetzal; El Salvador, a currency unit equivalent to the United States dollar; Honduras, 2 lempiras; Nicaragua, a currency unit equivalent to the United States dollar; and Costa Rica, 5.67 or 6.65 colons, according to the exchange provisions applicable to the item in question. If a country makes any change in the equivalence of its currency unit *vis-à-vis* the United States dollar in respect of goods included in Schedules A and B, it shall be under the obligation to alter its tariffs immediately in the proportion necessary to maintain equalization.

Article VII

In order to make the equalization of import duties and charges effective, the Contracting Parties shall renegotiate any multilateral or bilateral pacts that remain in force with non-signatories of the present Agreement whereby tariffs lower than those established herein are consolidated, and shall release themselves from the consolidation commitment assumed within not more than one year from the date of deposit of the corresponding instrument of ratification of this agreement. Likewise, the Contracting Parties undertake to refrain from signing new agreements or tariff concessions with other countries which are contrary to the spirit and objectives of the present Agreement and, in particular, to the provisions of this article.

Article VIII

Wheresoever the duty agreed upon for a specific product is higher than the tariff in force in one or more of the Contracting Parties, the countries concerned shall apply, in all inter-Central American trade not covered by the free-trade régime, the lower tariff in force, unless the Central American Trade Commission decides otherwise.

The preferential tariffs which the Parties pledge themselves to establish are set forth in Schedule A and in Annex 6 of Schedule B (this annex forms an integral part of the Schedule in question).

" Tariff in force " shall be understood to mean the sum of the tariff duties, consular fees and other duties, charges and surcharges levied on imports of the goods listed in Schedules A and B at the time the present Agreement is signed. Legal rates and charges for services rendered are not included.

As this Agreement is specifically Central American in character and constitutes one of the bases for the customs union of the Contracting Parties, the Signatory States agree to maintain the " Central American exemption clause " with respect to third countries, to the extent that the application of the preferential tariff system established by the present article is concerned.

Article IX

The Schedules appended to this Agreement shall be expanded, by agreement among the Contracting States, through the signing of successive protocols and in accordance with respective constitutional procedures.

CHAPTER II

CENTRAL AMERICAN TRADE COMMISSION

Article X

The Signatory States agree to set up a Central American Trade Commission, made up of representatives of each of the Contracting Parties, which shall meet as often as its work requires or when any of the Contracting States so requests.

The Commission (or any of its members) shall be entitled to travel freely in the territory of the Contracting Parties in order that matters within its purview may be studied on the spot, and the authorities of the Signatory States shall provide such information and facilities as it/they may need for the discharge of its/their functions.

The Commission shall have a permanent Secretariat, which shall be responsible to the Secretariat of the Organization of Central American States.

The Commission shall adopt its own rules of procedure unanimously.

Article XI

The following shall be the terms of reference of the Central American Trade Commission:

(*a*) To recommend to the Contracting Parties measures conducive to the establishment of the Central American customs tariff referred to in this Agreement;

(*b*) To study, at the request of one or more Governments, topics or matters relating to the development of tariff equalization and in particular to the implementation of the present Agreement and to propose the measures that should be adopted in order to solve such problems as may arise;

(*c*) To study production and trade activities in the signatory States and recommend additions to Schedules A and B;

(*d*) To act as the agency responsible for co-ordinating tariff equalization, taking into special consideration the progress made in this field by virtue of bilateral treaties signed between Central American countries, with a view to submitting early proposals for standard duties and charges and endeavouring to promote their adoption by all the Contracting Parties. In this connexion, the Parties undertake to notify the Commission of bilateral tariff equalization agreements as soon as these are negotiated;

(*e*) To study the various aspects of the maintenance of uniformity in the application of the Standard Central American Tariff Nomenclature and to recommend to the Contracting Parties such amendments as may seem advisable in the light of experience and from the standpoint of increased diversification of production in Central America;

(*f*) To take steps calculated to establish and maintain uniformity in customs regulations.

In the discharge of its functions, the Commission shall utilize the studies carried out by other Central American and international bodies.

CHAPTER III

GENERAL PROVISIONS

Article XII

The Contracting Parties agree to renegotiate at the request of any one of their number, and through the Central American Trade Commission, the standard duties and charges agreed upon and the standardized tariff classification. The renegotiation shall affect only those goods in respect of which it is applied for.

Decisions in this connexion shall be adopted by the unanimous vote of the States for which the Agreement is in force. In any event, every change shall be introduced at uniform levels.

Article XIII

The Signatory States agree that differences arising in connexion with the interpretation or application of any of the provisions of this Agreement shall be settled amicably, in accordance with the spirit of the Agreement, through the Central American Trade Commission. In the event of failure to reach agreement, controversies shall be decided by arbitration. To form the tribunal of arbiters, each of the Contracting Parties shall submit to the Secretariat of the Organization of Central American States the names of three magistrates from its respective Supreme Court of Justice. From the complete list of candidates, the Secretary-General of the Organization of Central American States and Government representatives to this Organization shall choose by lot five arbiters to form the tribunal, each of whom must be of a different nationality. The ruling of the tribunal of arbiters shall be awarded on the affirmative vote of at least three of the members present, and shall have the effect of *res judicata* for all the Contracting Parties in respect of any point settled in connexion with the interpretation or application of the provisions of this Agreement.

CHAPTER IV

INTERIM SYSTEM

Article XIV

To facilitate the equalization of import duties and charges in the case of products with respect to which, for economic, fiscal or other motives, it is impossible to establish a standard tariff to be applied immediately by all Parties, the Contracting States establish an interim system of progressive equalization.

The Contracting States agree to adopt progressively, for the goods included in Schedule B, the standard duties given in column 1 of the said Schedule, each Party conforming to the time limit (column II), to the initial tariffs (column III) and to the tariff denomination established therein.

The first change in the initial tariffs shall be introduced twelve months after the date on which the present Agreement enters into force, and succeeding modifications shall be affected for periods of 12 months exactly, until the duty agreed upon is reached.

In annexes 1 to 5 of Schedule B, the tariffs applicable by the Contracting Parties during each year of the interim period are set forth. These annexes form an integral part of Schedule B.

When progressive equalization is being put into effect, the annual decrease or increase in tariffs which must be introduced by each Contracting Party shall not be less than the quotient resulting from division of the total amount of the decrease or increase to be effected by the number of years in the interim period. This commitment shall be binding on the Contracting States except in so far as, during the interim period, they may have introduced annual changes exceeding those agreed upon.

This interim system does not preclude the immediate adoption of the standard duty by a group of countries smaller than the total number of the Contracting Parties, or release the remaining country or countries from the commitment to attain the said standard duty by means of progressive equalization.

When the interim period ends for each of the goods or articles included in Schedule B, these shall be automatically transferred to Schedule A.

CHAPTER V

FINAL PROVISIONS

Article XV

This Agreement shall be submitted by each State for ratification in conformity with its pertinent constitutional and legal procedure and shall enter into force, for the first three countries to deposit the instrument of ratification, on the date of deposit of the third such instrument, and, for countries acceding thereafter, on the date of deposit of their respective instruments of ratification. Its duration shall be twenty years from the date of its entry into force, and it shall be tacitly renewed for successive ten-year periods.

The Contracting States agree that the tariff equalization of goods included in Schedule B shall be completed by the end of the interim period which shall begin upon the entry into force of the Agreement. Consequently, they agree to effect progressive tariff equalization within the time limit established at the end of the interim period, without changing the year-by-year tariffs established in the relevant annex of Schedule B, each State taking as a base the level which it would have reached if it had deposited its instrument of ratification upon the entry into force of the Agreement.

The present Agreement may be denounced by any of the Signatory States at least two years before the date of expiry of the initial period or of the succeeding periods during which it is in force. Denunciation shall become effective for the denouncing State at the date on which the corresponding period of validity of the Agreement ends, and the Agreement shall remain in force for the other Parties so long as at least two of them continue to uphold it.

Article XVI

The present Agreement shall be deposited with the Secretariat of the Organization of Central American States, which shall send certified copies to the Chancelleries of each of the Contracting States and shall also notify them of the deposit of the pertinent instruments of ratification, as well as of any denunciation which may take place within the time limits established in that connexion. Upon the entry into force of the Agreement, it shall also transmit a certified copy to the Secretariat of the United Nations for registration in conformity with Article 102 of the United Nations Charter.

Provisional article

With respect to the implementation of article X of this Agreement, the Contracting Parties agree that preferential duties shall not be applicable to the items or sub-items of the Standard Central American Tariff Nomenclature which are included both in annex A of the Multilateral Treaty and in Schedules A and B of the present Agreement.

Provisional article

The Signatory States agree that representatives of the Parties for which the Agreement has not entered into force shall be entitled to attend meetings of the Central American Trade Commission as observers with the right to speak but not to vote.

IN WITNESS WHEREOF, the respective plenipotentiaries sign the present Agreement at the city of San José, capital of the Republic of Costa Rica, this first day of September one thousand nine hundred and fifty-nine.

For the Government of Guatemala:

Eduardo Rodríguez Genis
Minister of Economy

For the Government of El Salvador:

Alfonso Rochac
Minister of Economy

For the Government of Honduras:

Jorge Bueso Arias
Minister of Economy and Finance

For the Government of Nicaragua:

Enrique Delgado
Minister of Economy

For the Government of Costa Rica:

Alfredo Hernández Volio
Minister of Economy and Finance

III. PROTOCOLS TO THE CENTRAL AMERICAN AGREEMENT ON EQUALIZATION OF IMPORT DUTIES AND CHARGES

1. Central American Preferential Tariff

(San José, Costa Rica, 1 September 1959)

The Governments of the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica,

Whereas the Contracting States have signed the Central American Agreement on the Equalization of Import Duties and Charges, the purpose whereof is to promote free trade in Central America,

Being convinced that the establishment of a Central American preferential tariff will be conducive to the expansion of their reciprocal trade and will further the creation of new productive activities,

Have decided to conclude the present Protocol, and for that purpose have appointed as their respective plenipotentiaries:

H.E. The President of the Republic of Guatemala: *Eduardo Rodríguez Genis*, Minister of Economy;

H.E. The President of the Republic of El Salvador: *Alfonso Rochac*, Minister of Economy;

H.E. The President of the Republic of Honduras: *Jorge Bueso Arias*, Minister of Economy and Finance;

H.E. The President of the Republic of Nicaragua: *Enrique Delgado*, Minister of Economy;

H.E. The President of the Republic of Costa Rica: *Alfredo Hernández Volio*, Minister of Economy and Finance;

who, having exchanged their full powers, found in good and due form, have agreed as follows:

Article I

The Contracting States agree to grant one another, as from the date on which this Protocol enters into force, a preferential tariff of 20 per cent on imports of the natural products of their territories and goods manufactured therein. The reduction shall be applicable to the sum total of import duties and charges including tariff duties, consular fees and other surcharges and taxes.

Article II

The Signatory States agree to maintain the " Central American exemption clause " with respect to the application of the preferential tariff established in the preceding article.

Article III

This Protocol shall be subject to ratification by each State, in conformity with its pertinent constitutional and legal regulations, and shall enter into force for the first three countries to deposit the instrument of ratification on the date of deposit of the third such instrument, and for countries subsequently acceding on the date of deposit of their respective instruments of ratification. Its duration shall be twenty years from the date of its entry into force, and it shall be tacitly renewed for successive ten-year periods.

The present Protocol may be denounced by any of the Signatory States at least two years before the date of expiry of the initial period or of the succeeding periods during which it is in force. Denunciation shall become effective for the denouncing State at the date on which the corresponding period of validity of the Agreement ends, and the Agreement shall remain in force for the other Parties so long as at least two of them continue to uphold it.

Article IV

Ratification of this Protocol is independent of the ratification of the Central American Agreement on the Equalization of Import Duties and Charges signed on the same date by the Contracting Parties, and denunciation of this instrument is likewise independent of denunciation of the aforesaid Agreement.

Article V

The Secretariat of the Organization of Central American States shall be the depositary of the present Protocol, of which it shall send certified copies to the Chancelleries of each of the Contracting States, notifying them likewise of the deposit of the pertinent instruments of ratification, as well as of any denunciation which may take place within time limits established in that connexion. Upon the entry into force of the Protocol, it shall also transmit a certified copy to the United Nations Secretariat for registration purposes, in conformity with Article 102 of the United Nations Charter.

IN WITNESS WHEREOF the respective plenipotentiaries sign the present Agreement at the city of San José, capital of the Republic of Costa Rica, this first day of September one thousand nine hundred and fifty-nine.

For the Government of Guatemala:

Eduardo Rodríguez Genis
Minister of Economy

For the Government of El Salvador:

Alfonso Rochac
Minister of Economy

For the Government of Honduras:

Jorge Bueso Arias
Minister of Economy and Finance

For the Government of Nicaragua:

Enrique Delgado
Minister of Economy

For the Government of Costa Rica:

Alfredo Hernández Volio
Minister of Economy and Finance

2. Amplification of Schedules

(Managua, 13 December 1960)

The Governments of the Republics of Guatemala, El Salvador, Honduras and Nicaragua,

By virtue of commitments contracted under article I of the Central American Agreement on the Equalization of Import Duties and Charges, signed at San José, Costa Rica, on 1 September 1959, and under articles II and IV of the General Treaty on Central American Economic Integration, signed at Managua, Nicaragua, on this same date,

Convinced that the liberalization of trade and the equalization of customs tariffs should proceed simultaneously, in order that conditions favourable to the expansion and diversification of production in Central America may be created as promptly as possible and that artificial differences in production costs as among the Signatory States may be eliminated,

Have decided to sign the Present Protocol, and for that purpose have appointed as their respective plenipotentiaries:

H.E. The President of the Republic of Guatemala: *Julio Prado García Salas*, Minister for Co-ordinating Central American Integration, and *Alberto Fuentes Mohr*, Head of the Economic Integration Bureau;

The H. Junta de Gobierno of the Republic of El Salvador: *Gabriel Piloña Araujo*, Minister of Economic Affairs, and *Abelardo Torres*, Under-Secretary for Economic Affairs;

H.E. The President of the Republic of Honduras: *Jorge Bueso Arias*, Minister of Economic and Financial Affairs;

H.E. The President of the Republic of Nicaragua: *Juan José Lugo Marenco*, Minister of Economic Affairs;

who, having exchanged their full powers, found to be in good and due form, have agreed as follows:

Article I

The Contracting States agree, in accordance with article IX of the Central American Agreement on the Equalization of Import Duties and Charges, to amplify Schedules A and B of the said Agreement by means of the present Protocol.

Article II

The Contracting Parties agree to adopt forthwith the tariffs and tariff descriptions specified in Schedule A of the present Protocol.

Article III

In compliance with the interim régime of progressive tariff equalization, established by virtue of article XIV of the Central American Agreement on the Equalization of Import Duties and Charges, the Contracting Parties agree to adopt, for the goods included in Schedule B of the present Protocol, the standard duties specified in column I of the said Schedule, each Party conforming to the time limit (column II), to the initial tariffs (column III) and to the tariff descriptions established therein.

In annexes 1 to 4 of Schedule B, the tariffs applicable by the Contracting Parties during each year of the interim period are set forth. These annexes form an integral part of Schedule B.

Article IV

Among such Contracting Parties as shall have agreed upon the liberalization of their reciprocal trade as a general interim régime, besides granting one another specific preferential treatment in exceptional cases, the provisions in the first and second paragraphs of article VIII of the Central American Agreement on the Equalization of Import Duties and Charges relating to preferential tariffs shall be null and void.

Article V

This Protocol shall be submitted to each State for ratification in conformity with its pertinent constitutional or legal procedures.

The instruments of ratification shall be deposited with the General Secretariat of the Organization of Central American States. The Protocol shall enter into force, for the first three countries to deposit the instrument of ratification, eight days after the date of deposit of the third such instrument and, for countries acceding thereafter, on the date of deposit of their respective instruments of ratification.

Article VI

The General Secretariat of the Organization of Central American States shall be the depositary of the present Protocol and shall send certified copies thereof to the Ministry of Foreign Affairs of each of the Contracting States, notifying it likewise of the deposit of each of the pertinent instruments of ratification. Upon the entry into force of the Protocol, it shall also transmit a certified copy thereof to the United Nations Secretariat, for registration purposes, in conformity with Article 102 of the United Nations Charter.

Article VII

The duration of the present Protocol shall be contingent upon that of the Central American Agreement on the Equalization of Import Duties and Charges.

Article VIII

The present Protocol shall be open to accession by any Central American State which is a Party to the Central American Agreement on the Equalization of Import Duties and Charges.

Provisional article

The Contracting Parties agree to sign, not later than six months from the date of entry into force of the present instrument, such additional protocols as may be needed for the equalization of import duties and charges on the goods listed in the Central American Agreement on the Equalization of Import Duties and Charges, article III, paragraphs (*a*), (*b*), (*c*) and (*d*).

Provisional article

The Contracting Parties agree that the tariffs established by virtue of the present Protocol and in the Central American Agreement on the Equalization of Import Duties and Charges shall not necessarily be applicable to goods imported from the Republic of Costa Rica.

Provisional article

The Contracting Parties agree that the tariffs and other provisions set forth in the present Protocol and in the Central American Agreement on the Equalization of Import Duties and Charges are not applicable to natural products imported from the territory of Belize to which Guatemala grants special treatment.

IN WITNESS WHEREOF, the respective plenipotentiaries sign the present Protocol in the city of Managua, capital of the Republic of Nicaragua, this thirteenth day of the month of December nineteen hundred and sixty.

For the Government of Guatemala:

Julio Prado García Salas
Minister for Co-ordinating Central American Integration

Alberto Fuentes Mohr
Head of the Economic Integration Bureau

For the Government of El Salvador:

Gabriel Piloña Araujo
Minister of Economic Affairs

Abelardo Torres
Under-Secretary for Economic Affairs

For the Government of Honduras:

Jorge Bueso Arias
Minister of Economic and Financial Affairs

For the Government of Nicaragua:

Juan José Lugo Marenco
Minister of Economic Affairs

IV. MULTILATERAL TREATY ON FREE TRADE AND CENTRAL AMERICAN ECONOMIC INTEGRATION

(Tegucigalpa, 10 June 1958)

The Governments of the Republic of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica, desirous of intensifying and strengthening their common bonds of origin and brotherhood, and with a view to effecting the progressive integration of their economies, ensuring the development of their markets, promoting the production and exchange of goods and services and raising the standards of living and employment of their respective populations, thereby contributing to the re-establishment of the economic unity of Central America, have agreed to conclude the present Multilateral Treaty on Free Trade and Central American Economic Integration, which shall be progressively implemented, and for that purpose have appointed as their respective plenipotentiaries:

H.E. The President of the Republic of Guatemala: *José Guirola Leal*, Minister of Economic Affairs;

H.E. The President of the Republic of El Salvador: *Alfonso Rochac*, Minister of Economic Affairs;

H.E. The President of the Council of Ministers, exercising the powers of the Executive of the Republic of Honduras: *Fernando Villar*, Minister of Economic Affairs and Finance;

H.E. The President of the Republic of Nicaragua: *Enrique Delgado*, Minister of Economic Affairs;

H.E. The President of the Republic of Costa Rica: *Wilburg Jiménez Castro*, Vice-Minister of Economic Affairs and Finance;

who, having exchanged their respective full powers, found in good and due form, have agreed as follows:

CHAPTER I

TRADE RÉGIME

Article I

With a view to creating a customs union between their respective territories as soon as conditions are favourable, the Contracting States hereby agree to establish a free-trade régime, which they shall endeavour to perfect within a period of ten years from the date on which the present Treaty enters into force. To that end, they resolve to abolish as between their territories the customs duties, charges and conditions hereinafter mentioned, in respect of the commodities specified in the appended schedule constituting annex A to this Treaty.

Consequently, the natural products of the Contracting States and the articles manufactured in their territories, provided that they are included in the aforesaid schedule, shall be exempt from import and export duties as well as taxes, dues and charges levied on imports or exports or on the occasion of importation or exportation, whether they be of a national, municipal or any other nature and whatever their purpose.

The exemptions stipulated in this article shall not include charges for lighterage, wharfage, warehousing or handling of goods or any other charges which may legitimately be levied for port, warehouse or transport services; nor shall they include exchange differentials resulting from the existence of two or more rates of exchange or from other exchange regulations in any of the Contracting States.

When a commodity or article included in the annexed schedule is subject to internal taxes, charges or duties of any kind levied on production, sale, distribution or consumption in any of the Contracting States, the State concerned may levy an equivalent amount on similar goods imported from another Contracting State.

Article II

Goods originating in the territory of any of the Contracting States and included in the schedule appended to this Treaty shall be accorded in all the Contracting States the same treatment as domestic goods and shall be exempt from any quota or other restrictions except for such measures as may be legally applicable in the territories of the Contracting States for reasons of public health, security or police control.

Article III

Goods originating in any of the Contracting States and which are not included in the annexed schedule shall be accorded unconditional and unlimited most-favoured-nation treatment in the territory of the other Contracting States.

The above treatment shall not, however, be extended to concessions granted pursuant to other free trade treaties concluded between Central American States.

Article IV

The Contracting States, convinced of the necessity of equalizing their customs tariffs and firmly determined to establish a customs union between their territories, undertake, subject to the opinion of the Central American Trade Commission referred to hereinbelow, to equalize the duties and other charges imposed by them individually on imports of goods listed in the schedule appended hereto, or which may be subsequently included therein, and on their principal raw materials and the necessary containers.

For the purposes indicated in the preceding paragraph, the Commission shall prepare and submit to the Contracting Governments, within a period not exceeding one year, the appropriate draft contractual agreement or agreements for the equalization of import duties.

Article V

The Governments of the Contracting States shall endeavour to refrain from obtaining or granting customs exemptions on imports from outside Central America of articles produced in any of the Contracting States and listed in the schedule appended hereto.

The Contracting States shall further endeavour to equalize the advantages granted by them to industries producing any of the articles listed in the schedule, to the extent that such advantages might, in the opinion of the Central American Trade Commission, entail unfair competition in the said goods.

Article VI

Subject to the opinion of the Central American Trade Commission, the schedule appended to this Treaty may be extended by mutual agreement between the Contracting States, by means of additional protocols and in accordance with their respective constitutional procedures.

Article VII

In order that they may enjoy the advantages stipulated in this Treaty, the goods listed in the schedule appended hereto shall be entered on a customs form, signed by the exporter and containing a declaration of origin. That form shall be produced for inspection to the customs officers of the countries of origin and destination, in conformity with annex B of this Treaty.

Article VIII

The Central Banks of the Contracting States shall co-operate closely with a view to preventing any currency speculation that might affect the rates of exchange and maintaining the convertibility of the currencies of the respective countries on a basis which, in normal conditions, shall guarantee the freedom, uniformity and stability of exchange.

Any of the Contracting States which establishes quota restrictions on international currency transfers shall adopt the measures necessary to ensure that such restrictions do not discriminate against the other States.

In case of serious balance of payments difficulties which affect or are apt to affect the monetary and payments relations between the Contracting States, the Central American Trade Commission, acting of its own motion or at the request of one of the Governments, shall immediately study the problem for the purpose of recommending to the Contracting Governments a satisfactory solution compatible with the multilateral free trade régime.

CHAPTER II

DISCRIMINATORY PRACTICES

Article IX

Subject to the provisions of the bilateral Central American treaties in force and to any provisions that may be agreed upon in future treaties between Central

American States, the Contracting States agree to the following provisions with a view to ensuring a broad application of the principle of non-discrimination in their trading relations:

(*a*) Any goods not included in the schedule appended to this Treaty and subject to quota restrictions imposed by a Contracting State shall, upon importation from the territory of another Contracting State or upon exportation to such a territory, be accorded treatment no less favourable than that accorded to similar goods of any other origin or destination;

(*b*) No Contracting State shall establish or maintain any internal duty, tax or other charge on any goods, whether or not included in the appended schedule, originating in the territory of another Contracting State, nor shall it enact or impose any regulations regarding the distribution or retailing of such goods, when such charge or regulations place or tend to place the said goods in an unfavourable position by comparison with similar goods of domestic origin or imported from any other country;

(*c*) Should a Contracting State establish or maintain a place of business or an agency or grant special privileges to a specific establishment to attend exclusively or principally, permanently or occasionally, to the production, exportation, importation, sale or distribution of any goods, such State shall grant to the traders of the other Contracting States equitable treatment with respect to purchases or sales which the said place of business, agency or establishment effects abroad. The institution concerned shall act in accordance with private business practice and shall afford the traders of the other countries reasonable opportunity to compete for participation in such purchases or sales.

CHAPTER III

INTERNATIONAL TRANSIT

Article X

Each of the Contracting States shall ensure full freedom of transit through its territory for goods proceeding to or from another Contracting State.

Such transit shall not be subject to any deduction, discrimination or quota restriction. In the event of any traffic congestion or any form of *force majeure*, each Contracting State shall handle consignments intended for its own population and those in transit to the other States on an equitable basis.

Transit operations shall be carried out by the routes prescribed by law for that purpose and subject to the customs and transit laws and regulations applicable in the territory of transit.

Goods in transit shall be exempt from all duties, taxes and other fiscal charges of a municipal or other character imposed for any purpose whatsoever, except charges generally applicable for services rendered or for reasons of security, public health or police control.

CHAPTER IV

EXPORT SUBSIDIES AND UNFAIR BUSINESS PRACTICES

Article XI

No Contracting State shall grant any direct or indirect subsidy towards the export of any goods intended for the territory of the other States, or establish or maintain any system resulting in the sale of such goods for export to any other Contracting State at a price lower than the comparable price charged for similar goods on the domestic market, due allowance being made for differences in the conditions of sale or in taxation and for any other factors affecting price comparability.

Any measure which involves fixing of prices or price discrimination in a Contracting State shall be deemed to constitute an indirect export subsidy if it involves the establishment of a sales price for specific goods in the other Contracting States which is lower than that resulting from normal competition in the market of the exporting country.

However, tax exemptions or refunds of a general nature granted by a Contracting State with a view to encouraging the production in its territory of specified goods, shall not be deemed to constitute an export subsidy.

Similarly, any exemption from internal taxes chargeable in the exporting State on the production, sales or consumption of goods exported to the territory of another State shall not be deemed to constitute an export subsidy. Furthermore, the differences resulting from the sale of foreign currency on the free market at a rate of exchange higher than the official rate shall not normally be deemed to be an export subsidy; in case of doubt, however, on the part of one of the Contracting States, the matter shall be submitted to the Central American Trade Commission for its consideration and opinion.

Article XII

As a means of precluding a practice which would be inconsistent with the purposes of this Treaty, each Contracting State shall employ all the legal means at its disposal to prevent the exportation of goods from its territory to the territories of other States at a price lower than their normal value, if such exportation would prejudice or jeopardize the production of the other States or retard the establishment of a domestic or a Central American industry.

Goods shall be considered to be exported at a price lower than their normal value if their price on export is less than:

(*a*) the comparable price, in ordinary trading conditions, of similar goods destined for domestic consumption in the exporting country; or

(*b*) the highest comparable price of similar goods on their export to any third country in ordinary trading conditions; or

(*c*) the cost of production of the goods in the country of origin, plus a reasonable addition for sales cost and profit.

Due allowance shall be made in each case for differences in conditions of sale or in taxation and for any other factors affecting price comparability.

Article XIII

If, notwithstanding the provisions of this chapter, an unfair business practice is discovered, the State affected shall take steps with the competent authorities of the other State to ensure the elimination of that practice and, if necessary, may adopt protective measures, provided that the matter is then referred to the Central American Trade Commission for study and appropriate recommendations.

CHAPTER V

TRANSPORT AND COMMUNICATIONS

Article XIV

The Contracting States shall endeavour to construct and maintain lines of communication to facilitate and increase traffic between their territories.

They shall also endeavour to standardize the transport rates between their territories as well as the relevant laws and regulations.

Article XV

Commercial and private vessels and aircraft of any of the Contracting States shall be accorded in ports and airports of the other States open to international traffic the same treatment as is extended to national vessels and aircraft. The same treatment shall be extended to passengers, crews and freight of the other Contracting States.

Land vehicles registered in one of the Contracting States shall enjoy the same treatment in the territory of the other States, for the duration of their temporary stay there, as is accorded to vehicles registered in the State of visit.

Motor transport undertakings of any Contracting State engaged in providing inter-Central American services for passengers and freight shall enjoy in the territory of the other States the same treatment as domestic undertakings.

Private vehicles and vehicles which are not used for the regular inter-Central American transport of persons and goods shall be admitted to the territory of the other Contracting States under a temporary duty-free importation system and shall be subject to the relevant legislative provisions.

Vessels of any Contracting State plying between the ports of Central America shall be subject, in the ports of the other States, to the same coastal shipping régime as domestic vessels.

The provisions of this article shall not affect the duty to comply with the formalities of registration and control prescribed in each country in respect of the entry, stay or exit of vessels, aircraft or vehicles for reasons of public health, security or police control, public policy or fiscal necessity.

Article XVI

The Contracting States shall endeavour to improve the telecommunications systems between their respective territories and shall direct their combined efforts towards the attainment of that objective.

CHAPTER VI

INVESTMENTS

Article XVII

Each of the Contracting States, acting within the framework of its constitution, shall grant national treatment to capital investments made by nationals of the other States, and shall recognize the right of such persons to organize or manage production, commercial or financial undertakings, or to participate therein, on the same footing as its own nationals; each Contracting State shall also extend equitable and nondiscriminatory treatment to applications for transfers of funds accruing from capital investments made by nationals of the other States.

CHAPTER VII

CENTRAL AMERICAN TRADE COMMISSION

Article XVIII

The Contracting States agree to establish a Central American Trade Commission, to which each of the Contracting States shall appoint a representative; the Commission shall meet as frequently as its work may require or at the request of any of the Contracting States.

The Commission or any of its members may travel freely in the Contracting States to study matters within the Commission's competence in the field, and the authorities of the Contracting States shall provide them with whatever information and facilities may be necessary for the proper discharge of their functions.

The Commission shall have a permanent secretariat, which shall be under the responsibility of the General Secretariat of the Organization of Central American States.

The Commission shall adopt its rules of procedure unanimously.

Article XIX

The functions of the Central American Trade Commission shall be as follows:

(*a*) To propose to the Contracting States measures conducive to the development and improvement of the Central American free-trade zone referred to in this Treaty as well as measures designed to attain the objectives

of Central American economic integration, and to prepare a specific plan for such purposes including a customs union and the establishment of a Central American common market;

(*b*) At the request of one or several Governments to study questions and matters relating to the development of inter-Central American trade, in particular those connected with the application of this Treaty, and to propose measures for the solution of any problem which may arise;

(*c*) To study production and trade in the Contracting States, to recommend additions to the appended schedule and to take appropriate measures to ensure:

(i) The standardization of customs tariffs and regulations;

(ii) The establishment of a single fiscal system for articles under State monopoly and for goods subject to production, sales and consumption taxes;

(iii) The conclusion of agreements designed to avoid double taxation in the matter of direct taxes;

(iv) The improvement of inter-Central American transport through the conclusion of appropriate agreements;

(v) The application of the decimal metric system of weights and measures.

(*d*) To collect and analyse statistics and other data relating to trade between the Contracting States.

In fulfilling these functions, the Commission shall avail itself of the reports and studies made by other Central American and international organizations and agencies.

The Central American Trade Commission shall give priority attention to the problem of equalizing customs tariffs and shall submit to the Economic Council of the Organization of Central American States, for consideration at its ordinary sessions, draft contractual agreements covering the greatest possible number of products.

Article XX

The competent authorities of the Contracting States shall collect, classify and publish the statistical data relating to import, export and transit operations carried out under the terms of this Treaty, in accordance with the rules laid down, by mutual agreement, by the Central American Trade Commission and the statistical organizations of the Contracting States.

CHAPTER VIII

INDUSTRIAL INTEGRATION

Article XXI

With a view to promoting industrial development consistent with the purpose of this Treaty, the Contracting States shall adopt, by mutual agreement, measures designed to further the establishment or expansion of regional industries directed towards a Central American common market and of particular interest to the economic integration of Central America.

CHAPTER IX

GENERAL PROVISIONS

Article XXII

The Contracting States shall adopt, as a basis for their customs tariffs and statistics, the Uniform Central American Customs Nomenclature (*Nomenclatura Arancelaria Uniforme Centroamericana* (NAUCA)) and the Uniform Central American Nomenclature for Exports.

Article XXIII

The nationals of any Contracting State shall enjoy in the territory of all other Contracting States national treatment in commercial and civil matters, in accordance with the internal legislation of each State.

Article XXIV

Considering that this Treaty is specifically Central American in character and is designed to lay the foundations for a customs union of the Contracting States and for the progressive integration of their economies, the Contracting States agree that before signing or ratifying any multilateral agreements relating to commodities, trade or customs concessions, and before acceding to any international organization established under those agreements or negotiating any arrangements within the framework of such an organization, they shall consult each other with a view to agreeing, if possible, on a common and united policy.

The Contracting States shall also endeavour to adopt a common position at inter-American or world economic conferences or meetings.

The Contracting States agree to maintain the " Central American exception clause " in any trade agreements they may conclude on the basis of most-favoured-nation treatment with any countries other than the Contracting States.

The Contracting States declare that, in concluding this Treaty, they are prompted by the desire to establish closer mutual links, as States of Central America governed by the special principles of a Central American public law. To that end, they agree that if any of the trade agreements they may conclude with other countries or their participation in other international arrangements should constitute an obstacle to this Treaty, particularly as a result of the provisions embodied in the other treaties permitting other countries to claim no less favourable treatment, they shall renegotiate or, as the case may be, denounce them at the earliest opportunity, with a view to avoiding the difficulties or prejudice which might ensue for the Contracting States as a result of claims of that nature.

The Contracting States also undertake not to conclude any new agreements with other countries which are

contrary to the spirit and purposes of this Treaty and, in particular, to the provisions of this article.

Article XXV

The Contracting States agree to settle amicably, in the spirit of this Treaty, and through the Central American Trade Commission, any differences which may arise in the interpretation or application of any of its provisions. If agreement cannot be reached, they shall submit the matter to arbitration. For the purpose of constituting the arbitral tribunal, each Contracting State shall propose to the Secretariat of the Organization of Central American States the names of three judges from its Supreme Court of Justice. From the complete list of candidates, the Secretary-General of the Organization of Central American States and the Government representatives in the Organization shall select, by drawing lots, a tribunal composed of five arbitrators, no two of whom may be nationals of the same State. The award of the arbitral tribunal shall require the concurring votes of not less than three members, and shall be binding on all the Contracting States so far as it contains any ruling concerning the interpretation or application of the provisions of this Treaty.

Article XXVI

Any provisions of this Treaty which are broader in scope than those contained in other trade treaties between Central American countries shall prevail over the latter.

With a view to promoting the consolidation and enlargement of the multilateral free trade régime, the Contracting States shall endeavour to extend free trade zones established by virtue of bilateral treaties.

CHAPTER X

TEMPORARY RÉGIMES

Article XXVII

With a view to the gradual application, whenever advisable, of the free-trade régime established by virtue of the present Treaty, the Contracting States may conclude special protocols for the adoption of temporary régimes introducing progressive tariff reductions, which shall be carried into effect by stages and shall be applicable to products not listed in annex A with the ultimate purpose of incorporating them in the said annex.

The Contracting States may also, in like manner, establish special temporary régimes for products not included in annex A which may be subject to import or export quota restrictions.

In exceptional cases and for specified products, there may also be established, by means of additional protocols between all of the Contracting States, a free trade régime applicable only to certain specified Contracting States and providing for progressive reductions in customs tariffs with the remaining country or countries, with the ultimate aim of securing the incorporation of the products concerned in annex A.

CHAPTER XI

FINAL PROVISIONS

Article XXVIII

This Treaty shall enter into force, in the case of the first three States to ratify it, on the date of deposit of the third instrument of ratification; and in the case of the States which ratify it subsequently, on the date of deposit of the relevant instruments of ratification.

This Treaty shall remain valid for a period of ten years from the initial date of its entry into force; it shall be tacitly renewable for successive periods of ten years.

Any Contracting State may denounce this Treaty by giving notice to that effect not later than six months before the date on which the initial or any subsequent period of validity expires. Denunciation shall take effect, for the denouncing State, as from the date of expiry of the relevant period of validity of the Treaty. The Treaty shall remain in force as between the other Contracting States so long as at least two States continue to be parties thereto.

This Treaty shall be submitted for ratification in each Contracting State in conformity with their respective constitutional or legislative procedures.

The General Secretariat of the Organization of Central American States shall act as depository of this Treaty and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States. It shall also notify the Contracting States of the deposit of the relevant instruments of ratification as well as of any denunciation which may occur within the prescribed time-limit. When the Treaty comes into force, it shall also transmit a certified copy thereof to the Secretary-General of the United Nations, for registration in conformity with Article 102 of the United Nations Charter.

IN WITNESS WHEREOF the respective plenipotentiaries have signed this Treaty.

DONE at the City of Tegucigalpa, D.C., Honduras, this 10th day of June 1958.

For the Government of Guatemala:

1. With reservation to article XXV of this Treaty, in accordance with the provisions of paragraph 3, subparagraph *(b)*, of article 149 of the Constitution of the Republic.

2. With the reservations made by Guatemala to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

José Guirola Leal
Minister of Economic Affairs

For the Government of El Salvador:

With the reservations made by El Salvador to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Alfonso Rochac
Minister of Economic Affairs

For the Government of Honduras:

With the reservations made by Honduras to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Fernando Villar
Minister of Economic Affairs and Finance

For the Government of Nicaragua:

With the reservations made by Nicaragua to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Enrique Delgado
Minister of Economic Affairs

For the Government of Costa Rica:

With the reservations made by Costa Rica to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Wilburg Jiménez Castro
Vice-Minister of Economic Affairs and Finance

V. AGREEMENT ON THE RÉGIME FOR CENTRAL AMERICAN INTEGRATION INDUSTRIES

(Tegucigalpa, 10 June 1958)

The Governments of the Republic of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica,

Having regard to the objectives of the Central American Economic Integration Programme which was undertaken through the Central American Economic Co-operation Committee and, in particular, to article XXI of the Central American Multilateral Free Trade and Integration Treaty,

Desirous of strengthening the natural and traditional bonds of brotherhood which unite their countries, and of co-operating towards the solution of their common economic problems,

Having as their basic aim the improvement of the living standards of the Central American peoples and the rational use, for that purpose, of their natural resources, and being convinced that, within the economic development programmes of the Central American Isthmus, the integration of their economies offers favourable prospects for the expansion of trade between their countries and for a more rapid industrialization process on the basis of mutual interest,

Have decided to conclude the present Agreement, which prescribes a Régime for Central American Integration Industries, and for that purpose have appointed as their respective plenipotentiaries:

H.E. the President of the Republic of Guatemala: *José Guirola Leal*, Minister of Economic Affairs;

H.E. the President of the Republic of El Salvador: *Alfonso Rochac*, Minister of Economic Affairs;

H.E. the President of the Council of Ministers exercising the powers of the Executive of the Republic of Honduras: *Fernando Villar*, Minister of Economic Affairs and Finance;

H.E. the President of the Republic of Nicaragua: *Enrique Delgado*, Minister of Economic Affairs; and

H.E. the President of the Republic of Costa Rica: *Wilburg Jiménez Castro*, Vice-Minister of Economic Affairs and Finance

who, having exchanged their full powers, found in good and due form, have agreed as follows:

Article I

The Contracting States undertake to encourage and promote the establishment of new industries and the specialization and expansion of existing industries within the framework of Central American economic integration, and agree that the development of the various activities which are or may be included in such a programme shall be effected on a reciprocal and equitable basis in order that each and every Central American State may progressively derive economic advantages.

Article II

The Contracting States declare their interest in the development of industries with access to a common Central American market. These shall be designated Central American integration industries and shall be so declared jointly by the Contracting States, through the agency of the Central American Industrial Integration Commission established in conformity with article VIII of this Agreement.

The Contracting States shall regard as Central American integration industries those industries which, in the judgement of the Central American Industrial Integration Commission, comprise one or more plants which require access to the Central American market in order to operate under reasonably economic and competitive conditions even at minimum capacity.

Article III

The application of the present Régime to the Central American integration industries is subject to signature

by the Contracting States, in respect of each of the said industries, of an additional protocol stipulating:

(*a*) The country or countries in which the industrial plants covered by this Régime are to be initially situated, the minimum capacity of the said plants and the conditions under which additional plants are to be subsequently admitted into the same or other countries;

(*b*) The quality standards for the products of the said industries and any other requirements that may be deemed convenient for the protection of the consumer;

(*c*) The regulations that may be advisable as regards the participation of Central American capital in the enterprises owning the plants;

(*d*) The common Central American tariffs which shall be applied to the products of Central American integration industries; and

(*e*) Any other provisions designed to ensure the attainment of the objectives of this Agreement.

Article IV

The products of plants which form part of a Central American integration industry and which are covered by the present Régime, shall enjoy the benefits of free trade between the territories of the Contracting States.

The products of plants which form part of the same industry but which are not covered by the Régime, shall enjoy in the Contracting States successive annual reductions of ten per cent in the applicable uniform Central American tariff, from the date specified in the relevant additional protocol. As from the tenth year, such products shall enjoy the full benefits of free trade.

Except as provided in the preceding paragraph and in any other provisions of this Agreement or of the additional protocols, all trade in commodities produced by the Central American integration industries shall be governed by the provisions of the Central American Multilateral Free Trade and Economic Integration Treaty.

Article V

In conformity with the provisions of article IV of the Central American Multilateral Free Trade and Economic Integration Treaty, the Central American Trade Commission shall give priority consideration to the equalization of the customs duties and other charges levied upon imports of commodities that are similar to or substitutes for the commodities produced by the Central American integration industries covered by the additional protocols to this Agreement, as well as upon imports of raw materials and of the containers necessary for their production and distribution.

Article VI

Since the Contracting States intend to grant to the Central American integration industries ample fiscal incentives, the enterprises owning industrial plants covered by the present Régime shall enjoy, in the territory of the countries where such plants are or may be established, the benefits and exemptions prescribed by the national legislation of the country concerned.

Article VII

Except in cases of emergency, the Governments of the Contracting States shall not grant customs duty exemptions or reductions below the Central American common tariff on any imports from countries outside Central America of goods which are equal or similar to or substitutes for goods manufactured in any of the Central American countries by plants of industrial integration industries, nor shall they apply to such imports preferential exchange rates equivalent to such exemptions or reductions.

The Governments and other State bodies shall also give preference in their official imports to the products of the Central American integration industries.

Article VIII

In order to ensure due application of this Agreement and of the additional protocols, the Contracting States agree to establish a Central American Industrial Integration Commission, to which each of the Contracting States shall appoint a special representative; the Commission shall meet as frequently as its work may require or at the request of any of the Contracting States.

The Commission or any of its members may travel freely in the Contracting States in order to study matters within the Commission's competence in the field, and the authorities of the Contracting States shall provided them with whatever information and facilities may be necessary for the proper discharge of their functions.

The Commission shall have a permanent secretariat which shall be under the responsibility of the General Secretariat of the Organization of Central American States.

The Commission shall adopt its rules of procedure unanimously and shall prescribe the regulations relating to the conduct of matters within its competence, in particular the regulations relating to the conditions and form in which, in each specific case, the views of private enterprise shall be heard.

Article IX

Individuals or bodies corporate desiring the incorporation of a given plant into the present Régime shall present an application to that effect to the Secretariat of the Central American Industrial Integration Commission and accompany it with the required information.

When the Secretariat has sufficient information available, it shall advise the Commission of the application. If the Commission finds that the project meets the aims of this Agreement, the application shall be referred for an opinion to the Central American Research Institute for Industry or to any other person or body that the Commission considers competent. Such opinion shall take into account the technological and economic aspects of the project and, in particular, the market prospects, and the costs incurred shall be borne by the interested parties.

The Commission shall decide on the project on the basis of the said opinion, and if it finds the project capable of being realized, shall make whatever recommendations it considers pertinent to the Governments of the Contracting States on the conclusion of the protocol covering the industry concerned and on the conditions to be stipulated.

When the project refers to a plant which forms part of an industry already covered by a protocol, the Commission may, in conformity with the terms of the relevant protocol and of this article, declare that the plant shall be admitted to the benefits of the present Régime and advise to that effect the Governments of the Contracting States.

Article X

The Central American Industrial Integration Commission shall submit an annual report on its activities to the Contracting States.

The Commission shall periodically carry out studies with a view to enabling the Governments to evaluate the results of the application of the present Régime.

The Commission may propose to the Contracting States measures favourable to the development of the Central American integration industries and to the efficient functioning of their plants. The Commission may also propose to the Governments any measures necessary to resolve any problems arising from the application of this Agreement.

Article XI

The Contracting States agree to settle amicably, in the spirit of this Agreement, any differences which may arise in the interpretation or application of any of its provisions or of the additional protocols. If agreement cannot be reached, they shall submit the matter to arbitration. For the purpose of constituting the arbitral tribunal, each Contracting State shall propose to the General Secretariat of the Organization of Central American States the names of three judges from its Supreme Court of Justice. From the complete list of candidates, the Secretary-General of the Organization of Central American States and the Government representatives in the Organization shall select, by drawing lots, a tribunal composed of five arbitrators, no two of whom may be nationals of the same State. The award of the arbitral tribunal shall require the concurring votes of not less than three members and shall be binding on all the Contracting States so far as it contains any ruling concerning the interpretation or application of the provisions of this Agreement and of the additional protocols.

Article XII

This Agreement shall be submitted for ratification in each Contracting State in conformity with its respective constitutional or legislative procedures.

This Agreement shall come into force on the date of deposit of the last instrument of ratification. It shall remain in force for twenty years and shall be tacitly renewable for successive periods of ten years.

Any Contracting State may withdraw from this Agreement provided that notice of withdrawal is given not later than two years before the date on which the initial or any other subsequent period of validity expires.

If a Contracting State gives notice of withdrawal after the prescribed time limit but before a new period of validity has commenced, such notification shall be valid, but the Agreement shall remain in force for two further years after the beginning of the new period.

In the event of denunciation of this Agreement, the same shall remain in force as regards its additional protocols until the expiry of the latter.

Should a Contracting State denounce this Agreement, the other Contracting States shall determine whether the Agreement shall cease to have effect between all the Contracting States or whether it shall be maintained between such Contracting States as have not denounced it.

The additional protocols to this Agreement shall be approved in conformity with the constitutional or legislative procedures of each country.

Article XIII

The General Secretariat of the Organization of Central American States shall act as depository of this Agreement and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States. It shall also notify the Contracting States of the deposit of the relevant instruments of ratification as well as of any denunciation which may occur within the prescribed time-limit. When the Agreement comes into force, it shall also transmit a certified copy thereof to the Secretary-General of the United Nations, for registration in conformity with Article 102 of the United Nations Charter.

Transitional Article

In order to promote an equitable distribution of the Central American industrial integration plants, the Contracting States shall not award a second plant to any one country until all of the five Central American countries have each been assigned a plant in conformity with the protocols specified in article III.

IN WITNESS WHEREOF the respective plenipotentiaries have signed this Agreement.

DONE in the city of Tegucigalpa, D.C., capital of the Republic of Honduras, on 10 June 1958.

For the Government of Guatemala:

With a reservation regarding article XI of this Treaty, in accordance with the provisions of paragraph 3, subparagraph (*b*) of article 149 of the Constitution of the Republic.

José Guirola Leal

Minister of Economic Affairs

For the Government of El Salvador:

Alfonso Rochac
Minister of Economic Affairs

For the Government of Honduras:

Fernando Villar
Minister of Economic Affairs and Finance

For the Government of Nicaragua:

Enrique Delgado
Minister of Economic Affairs

For the Government of Costa Rica:

Wilburg Jiménez Castro
Vice-Minister of Economic Affairs and Finance

VI. AGREEMENT ESTABLISHING THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

(Managua, 13 December 1960)

The Governments of the Republics of Guatemala, El Salvador, Honduras and Nicaragua agree to create, by virtue of the present Agreement, the Central American Bank for Economic Integration, in accordance with the following provisions:

CHAPTER I

NATURE, PURPOSE AND HEADQUARTERS

Article 1

The Central American Bank of Economic Integration is an international juridical person and shall perform its functions in conformity with the present Agreement and with its Regulations.

Article 2

The purpose of the Bank shall be to promote the economic integration and balanced economic development of the member countries. In pursuance of this objective, its activities shall be primarily designed to meet the needs of the following investment sectors:

(*a*) Infrastructural projects to complete existing regional systems or counterbalance disparities in basic sectors which hinder the balanced economic development of Central America. Consequently, the Bank shall not finance infrastructural projects of purely local or national scope which will not contribute to the completion of the said systems or to the counterbalancing of significant disequilibria as between the member countries;

(*b*) Projects for long-term investment in industries of a regional character or of importance for the Central American market, which will help to increase the supply of goods available for intra-Central American trade, or for such trade and the export sector. The Bank's activities shall not include investment in essentially local industries;

(*c*) Co-ordinated agricultural projects aiming at the improvement or expansion of farms or the replacement of less economic by more economic farms and conducive to Central American regional self-sufficiency;

(*d*) Projects for the financing of enterprises that need to expand their operations, modernize their processes or change the structure of their production in order to improve their efficiency and their competitive capacity within the common market with a view to facilitating free trade among the Central American countries;

(*e*) Projects for financing services vital to the operation of the common market;

(*f*) Other productive projects calculated to create economic complementarity among the member countries and to expand intra-Central American trade.

Article 3

The Bank shall have its headquarters and head office in the city of Tegucigalpa, in the Republic of Honduras, and shall be empowered to establish branch offices, agencies and correspondents.

CHAPTER II

CAPITAL, RESERVES AND RESOURCES

Article 4

The Bank's initial authorized capital shall be a sum equivalent to sixteen million United States dollars, to which each of the States members shall subscribe four million dollars, payable in its respective national currency.

One half of the capital subscribed by each member State shall be paid as follows: the equivalent of one million dollars within sixty days from the date of entry into force of the present Agreement, and the equivalent of one million dollars within fourteen months of the said date.

The rest of the capital subscribed shall be payable as and when called in by decision of the Board of Governors, with the concurring vote of at least one Governor from each member State.

The Bank shall be empowered to augment its capital if all the members of the Board of Governors adopt a unanimous decision to that effect.

Article 5

The shares of the member States in the capital of the Bank shall be represented by stock certificates issued in favour of the States concerned. These certificates shall confer upon their holders equal rights and obligations, shall not yield interest or dividends and shall not be taxable or transferable.

Such net profits as may accrue to the Bank in the course of its operations shall be deposited in a capital reserve fund.

The responsibility of the members of the Bank, as such, shall be confined to the amount of their capital subscription.

The capital contributed in national currency by each of the member States shall enjoy a guarantee of free convertibility at the official exchange rate most favourable to the Bank.

Each of the member States engages to maintain the value in United States dollars of the capital contribution which it has disbursed to the Bank. Should a change take place in the external official exchange rate for any of the national currencies concerned, the Bank's resources in that currency shall be adjusted in the exact proportion required to maintain their value in United States dollars.

Article 6

In addition to its own capital and reserves, the resources of the Bank shall include the product of loans and credits obtained in capital markets and any other resources received in any legal form.

CHAPTER III

OPERATIONS

Article 7

The capital, capital reserves and other resources of the Bank shall be used solely for the fulfilment of the purpose set forth in article 2 of the present Agreement. To this end, the Bank shall be empowered:

(*a*) To study and promote the investment opportunities created by the economic integration of the member States, duly programming its activities and establishing the necessary financing priorities;

(*b*) To make or participate in long and medium-term loans;

(*c*) To issue bonds of its own, which may or may not be guaranteed by means of sureties, pledges or mortgages;

(*d*) To participate in the issuance and placing of credit documents of all kinds, related to the fulfilment of its purpose;

(*e*) To obtain loans, credits and guarantees from Central American, international and foreign financial institutions;

(*f*) To act as intermediary in the concerting of loans and credits for the Governments, public institutions and established enterprises of the member States, to which end it shall institute such arrangements for co-operation with other Central American, international and foreign institutions as it may deem expedient in that connexion, and shall be empowered to take part in the preparation of the specific projects concerned;

(*g*) To guarantee the commitments of public institutions or private enterprises up to such amounts and for such periods as the Board of Governors may determine;

(*h*) To obtain guarantees from the member States for the purpose of securing loans and credits from other financial institutions;

(*i*) To provide, using its own resources or those it may obtain for the purpose, executive, administrative and technical advisory services for the benefit of applicants for credit;

(*j*) To conduct all such additional business as may be necessary, under the terms of the present Agreement and its Regulations, for the furtherance of its purpose and operation.

Article 8

The Bank shall finance only economically sound and technically feasible projects and shall refrain from making loans or assuming any responsibility whatsoever for the payment or refinancing of earlier commitments.

CHAPTER IV

ORGANIZATION AND ADMINISTRATION

Article 9

The Bank shall have a Board of Governors, a Board of Directors, a President and such other officials and employees as may be deemed necessary.

Article 10

All the powers of the Bank shall be vested in the Board of Governors. Each member country shall provide two Governors, who shall be absolutely independent in the exercise of their functions and shall have separate votes; one of them shall be the Minister of Economic Affairs or his equivalent, and the other shall be the president or manager of each country's Central Bank, or his equivalent. From among the Governors the Board shall elect a President, who shall remain in office until the next regular meeting of the Board.

Article 11

The Board of Governors shall be at liberty to delegate all its powers to the Board of Directors, except those relating to the following procedures:

(*a*) Calling-in of capital contributions;

(*b*) Augmentation of the authorized capital;

(*c*) Determination of capital reserves on the basis of proposals made by the Board of Directors;

(*d*) Election of the President and determination of his emoluments;

(*e*) Determination of the emoluments of the Directors;

(*f*) Examination of the interpretations placed upon the present Agreement by the Board of Directors and ruling thereon in case of appeal;

(*g*) Authorization of the conclusion of general agreements relating to co-operation with other agencies;

(*h*) Appointment of outside auditors to check financial statements;

(*i*) Adoption and publication, following the auditor's report, of the over-all balance-sheet and the statement of profits and losses;

(*j*) Adoption of decisons, in the event of the Bank's terminating its operations, with respect to the distribution of its net assets.

Article 12

The Board of Governors shall retain full control over all the powers which, in accordance with article 11, it may delegate to the Board of Directors.

Article 13

The Board of Governors shall convene in regular session once a year. It shall also be at liberty to meet in special session whenever it so determines or whenever it is convened by the Board of Directors. The Board of Directors shall convene the Board of Governors whenever one of the member States so requests.

Article 14

At the meetings of the Board of Governors, one half of the total number of Governors plus one shall constitute a quorum. In all cases except that provided for in article 4, decisions shall be made by the concurring votes of one half of the total number of Governors plus one.

Article 15

The Board of Directors shall be responsible for the conduct of the operations of the Bank and to this end shall be entitled to exercise all the powers delegated to it by the Board of Governors.

Article 16

There shall be one Director for each State member of the Bank, elected by the Board of Governors. The Directors shall be appointed for a term of five years and shall be eligible for re-election for successive periods. They shall be citizens of the member States and persons of acknowledged capacity and wide experience in economic, financial and banking affairs.

Article 17

The Directors shall remain in office until their successors are appointed or elected. When a Director's post falls vacant, the Governors shall proceed to appoint a deputy for the remainder of the period.

In the event of a Director's absence for legitimate reasons, the Board of Directors shall be empowered to appoint his temporary substitute.

Article 18

The Directors shall work full time in the Bank and shall, in addition, discharge such functions as the President may assign to them.

Article 19

The Board of Directors shall be of a permanent character and shall operate at the headquarters of the Bank.

The Board of Directors shall determine the basic organization of the Bank, including the number of major administrative and professional posts and the general responsibilities attaching, shall adopt the budget, and shall lay before the Board of Governors proposals for the establishment of reserves.

Article 20

The Board of Governors shall elect from among the Directors the President of the Bank, who shall be its legal representative. Similarly, it shall appoint the person who, should the President himself be prevented from so doing, shall exercise his authority and his functions. The President shall take the chair at the meetings of the Board of Directors and shall conduct the ordinary business of the Bank. His vote shall carry the same weight as that of the other members, except in the event of a tie, in which case he shall have two votes.

Article 21

There shall be an Executive Vice-President who shall be appointed by the Board of Directors on the proposal of the President of the Bank. He shall exercise the authority and discharge the administrative functions determined by the Board of Directors.

The Executive Vice-President shall attend the meetings of the Board of Directors, but without the right to vote.

Article 22

In the discharge of their functions, the President, officials and employees of the Bank shall be answerable to it alone and shall acknowledge no other authority. The member States shall respect the international character of this obligation.

Article 23

The primary consideration to be borne in mind by the Bank in appointing its staff and determining their conditions of service shall be the need to ensure the highest possible degree of efficiency, competence and integrity. Staff shall also be recruited with due regard to equitable geographical distribution.

Article 24

The Bank, its officials and its employees — with the exception of the Governors in their respective countries — shall be debarred from taking active part in political affairs.

CHAPTER V

INTERPRETATION AND ARBITRATION

Article 25

Any difference of opinion as to the interpretation of the provisions of the present Agreement which may arise between any member and the Bank or among member States shall be submitted for a ruling to the Board of Directors.

The member States especially affected by the difference in question shall have the right to direct representation before the Board of Directors.

Any member State shall be entitled to demand that the solution proposed by the Board of Directors in accordance with the first paragraph of this article shall be submitted to the Board of Governors, whose decision shall be final. Pending the Board's decision, the Bank shall be empowered to take such action as it may deem necessary on the basis of the decision reached by the Board of Directors.

Article 26

Should any disagreement arise between the Bank and a State which has ceased to be a member, or between the Bank and one of its members after it has been agreed that the operations of the institution shall be terminated, the controversy shall be submitted for arbitration to a tribunal composed of three persons. The Bank and the State concerned shall each appoint one of the arbiters, and shall jointly appoint a third and disinterested party. Should agreement not be reached with respect to the last mentioned appointment, the third member shall be chosen by lot from among the Presidents of the Supreme Courts of Justice of the member States, with the exception of that of the country concerned.

The third arbiter shall be empowered to decide upon all questions of procedure in cases where the parties are not in agreement.

CHAPTER VI

IMMUNITIES, EXEMPTIONS AND PRIVILEGES

Article 27

The Bank, in the discharge of its functions and in conformity with its purposes, shall enjoy in the territory of the member States the immunities, exemptions and privileges which are set forth in this chapter or which may be otherwise granted to it.

Article 28

It shall be possible to institute judicial proceedings against the Bank only before a competent tribunal in the territory of a member State where the Bank shall have established an office, or where it shall have appointed an agent or legal representative empowered to accept the writ or notice of a judicial complaint, or where it shall have issued or guaranteed securities.

Article 29

The Bank's property and other assets, wheresoever situated and whosoever be the holder thereof, shall enjoy immunity from attachment, sequestration, embargo, distraint, auction, adjudication or any other form of seizure or alienation or forfeiture, so long as no definitive judgement has been pronounced against the Bank.

The property and other assets of the Bank shall be deemed to be international public property and shall enjoy immunity in respect of investigation, requisition, confiscation, expropriation or any other form of seizure or forfeiture by executive or legislative action.

The Bank's property and other assets shall be exempt from restrictions, regulations, controls and moratoria of every kind, except as otherwise provided in the present Agreement.

Article 30

The files and records of the Bank shall be inviolable and shall enjoy absolute immunity.

Article 31

In territories of the member States the Bank's communications shall be entitled to the same franchises as are granted to official communications.

Article 32

The personnel of the Bank, whatever their category, shall enjoy the following privileges and immunities:

(*a*) Immunity in respect of judicial, administrative and legislative proceedings relating to acts performed by them in their official capacity, unless the Bank waives such immunity;

(*b*) In the case of non-nationals of the member State concerned, the same immunities and privileges in respect of immigration restrictions, registration of aliens and military service requirements, and other facilities relating to exchange and travel regulations, which the State grants to other member States in respect of personnel of comparable rank.

Article 33

(*a*) The Bank, its income, property and other assets, as well as any operations and transactions which it may effect in accordance with the present Agreement, shall be exempt from taxes of every kind and from customs duties and other charges of a similar nature. The Bank shall likewise be exempt from all responsibility in connexion with the payment, withholding or collection of any tax, impost or duty;

(*b*) The bonds or securities issued or guaranteed by the Bank, including dividends or interest thereon, whosoever be their holder, shall not be subject to duties or taxes of any kind;

(*c*) The salaries and emoluments paid by the Bank to its personnel of whatsoever category shall be exempt from taxation.

CHAPTER VII

REQUIREMENTS FOR OBTAINING GUARANTEES OR LOANS

Article 34

It is hereby established that the members of the Bank shall not be entitled to obtain guarantees or loans from the said institution unless they have previously deposited the instruments of ratification of the following international agreements:

General Treaty on Central American Economic Integration, signed on the same date as the present Agreement;

Multilateral Treaty on Free Trade and Central American Economic Integration, signed on 10 June 1958;

Agreement on the Régime for Central American Integration Industries, signed on 10 June 1958;

Central American Agreement on the Equalization of Import Duties and Charges, signed on 1 September 1959, and the *Protocol* signed on the same date as the present Agreement.

CHAPTER VIII

ACCESSION OF NEW MEMBERS

Article 35

Central American States not signatories of the present Agreement shall be entitled to accede to it at any time.

CHAPTER IX

DISSOLUTION AND LIQUIDATION

Article 36

The Bank shall be dissolved:

(*a*) By unanimous decision of the member States; or

(*b*) When only one of the Parties continues to uphold the present Agreement.

In the event of dissolution, the Board of Governors shall determine the conditions under which the Bank shall terminate its operations, liquidate its obligations and distribute among the member States the surplus capital and reserves remaining after the discharge of the obligations in question.

CHAPTER X

GENERAL PROVISIONS

Article 37

The present Agreement shall be of unlimited duration and cannot be denounced earlier than twenty years from the date of its entry into force. Denunciation shall become effective five years after its presentation. The Agreement shall remain in force if at least two countries continue to uphold it.

Article 38

The present Agreement shall enter into force as from the date on which the third instrument of ratification is deposited with the General Secretariat of the Organization of Central American States. For Central American countries acceding to it subsequently, it shall enter into force from the date of deposit of the pertinent instrument with the said Secretariat.

Article 39

In the event of a signatory State's separation from the Bank, the State shall continue to be responsible for its obligations to the Bank, whether direct or deriving from loans, credits or guarantees obtained prior to the date on which the State ceases to be a member. However, it shall not be responsible in respect of loans, credits or guarantees effected subsequently to its withdrawal.

The rights and obligations of the seceding State shall be determined in conformity with the Special Liquidation Balance Sheet which shall be drawn up for the purpose on the date on which the country's separation becomes effective.

Article 40

The Bank shall be empowered to make its facilities available for the organization and operation of a clearing-house on behalf of the Central Banks if and when they so request.

Article 41

The General Secretariat of the Organization of Central American States shall be the depository of the present Agreement and shall transmit certified copies thereof to the Ministry of Foreign Affairs of each of the Contracting States, which it shall immediately notify of the deposit of each of the instruments of ratification, as well as of any denunciation which may be presented. On the entry into force of the Agreement, it shall also transmit a certified copy thereof to the United Nations Secretariat for registration purposes in conformity with Article 102 of the United Nations Charter.

Article 42

The Bank constituted by virtue of the present Agreement is the institution referred to in resolutions 84 and 101 of the Central American Economic Co-operation Committee, and, in founding it, Guatemala, El Salvador and Honduras are complying with the provisions respecting the establishment of the Development and Assistance Fund laid down in the Economic Association Treaty and the Protocol concluded by them on 8 June 1960.

Provisional article

The amounts advanced by the Governments for the initial expenditure arising from the establishment of the Bank shall be deemed to constitute part of their capital contributions to the Bank.

Provisional article

The first meeting of the Board of Governors of the Bank shall be convened by the Ministry of Foreign Affairs of the Republic of Honduras at the earliest opportunity and not later than sixty days from the date of entry into force of the present Agreement.

In witness whereof the respective plenipotentiaries sign the present Agreement in the city of Managua, capital of the Republic of Nicaragua, this thirteenth day of the month of December, nineteen hundred and sixty.

For the Government of the Republic of Guatemala:

Julio Prado García Salas
Minister for Co-ordinating Central American Integration

Alberto Fuentes Mohr
Head of the Economic Integration Bureau

For the Government of the Republic of El Salvador:

Gabriel Piloña Araujo
Minister of Economic Affairs

Abelardo Torres
Under-Secretary for Economic Affairs

For the Government of the Republic of Honduras:

Jorge Bueso Arias
Minister of Economic and Financial Affairs

For the Government of the Republic of Nicaragua:

Juan José Lugo Marenco
Minister of Economic Affairs

B. LATIN AMERICAN FREE TRADE ASSOCIATION

I. REPORTS OF THE FIRST AND SECOND SESSIONS OF THE WORKING GROUP ON THE LATIN AMERICAN REGIONAL MARKET

1. Bases for the formation of the Latin American regional market

Report of the first session of the Working Group (Santiago, Chile, 3 to 11 February 1958)

Background data

Pursuant to resolution 116 (VII), adopted by the Commission at its seventh session, the secretariat invited a group of prominent Latin Americans to take part in a discussion on the problems of the regional market in Latin America, under the terms of reference specified in the said resolution for the Working Group on this topic.

The Group was composed of the following members:

Mr. José Garrido Torres, President of the National Council of Economy of Brazil

Mr. Rodrigo Gómez, Director-General of the Banco de México, S.A., Mexico

Mr. Flavián Levine, Professor of the University of Chile and Executive Vice-President of the Compañía de Acero del Pacífico (Huachipato)

Mr. Eustaquio Méndez Delfino, President of the Buenos Aires Stock Exchange and former President of the Honorary National Commission of Economy and Finance of Argentina

Mr. Juan Pardo Heeren, former Minister of Finance of Peru

Mr. Galo Plaza, former President of the Republic of Ecuador

Mr. Joaquín Vallejo, former Minister of Development of Colombia

The Group met at the headquarters of the ECLA secretariat from 3 to 11 February 1958. Its members elected Mr. Galo Plaza Chairman, and Mr. Joaquín Vallejo Rapporteur.

The secretariat of the Group was constituted by the following:

Executive Secretary: Mr. Raúl Prebisch

Deputy Director: Mr. Louis N. Swenson

Secretary of the Commission: Mr. Alfonso Santa Cruz

Secretary of the session: Mr. Esteban Ivovich, Chief, Inter-Latin American Trade Section

Consultants: Mr. Fernando Illanes, Consultant on Trade Policy

Mr. Jorge Ahumada, Chief, Economic Development Division

Mr. Carlos Quintana, Chief, Industrial Development Division

Mr. Nuno de Figueiredo, Co-ordinator of Regional Market Studies

Mr. Santiago Macario, Deputy Chief, Inter-Latin American Trade Section

Bearing in mind the substance of the resolutions discussed in Annex I, the Group based its discussions on the studies and reports transmitted to it by the secretariat and the documents submitted to it in the course of its deliberations, details of which are given in the same annex.

As a result of its discussions, the Group adopted the report which follows, resolving at its final meeting that the secretariat should transmit the said report, with the suggestions and recommendations contained therein and with such comments as the secretariat might deem appropriate, to the Governments members of the Commission. The Group likewise agreed that its conclusions should be disseminated as widely and as quickly as possible.

Introduction

The social need to develop the Latin American countries makes it a matter of increasing urgency to devise effective ways and means of accelerating the rate of growth of their real *per capita* income. It is now fully recognized that such ways and means must necessarily be based on the technical improvements in agriculture and the progressive industrialization of the countries in question. Modern technology offers an almost unlimited potential for the attainment of these ends, as is testified by the experiments of paramount historical importance which are being carried out before our eyes. Will Latin America be able to take full advantage of this potential ? A formidable obstacle stands in the way. Industrialization calls for an extensive market without which the countries of the region will be unable to achieve the high level of productivity characteristic of the great industrial centres. Such a market could be available to Latin America, but it has been broken up into twenty watertight compartments. Now that a common market has been formed in Western Europe, that the Scandinavian peoples are making efforts in the same direction and that the countries of Eastern Europe are apparently engaged in a process of integration, Latin America constitutes the only large population group in the world which, in a vast territory endowed with a wealth of natural resources, is wasting for want of economic integration the immense potential represented by modern technology.

In 1955 the population of Latin America numbered some 175 million persons, and it is estimated that it will have increased by a further 100 million by 1975. The share of the active population in this increment should amount to approximately 38 million. If the trends registered in the last twenty years continue, out of this substantial addition to the region's labour force only 5 million will be absorbed by agricultural activities, or fewer still if, as is greatly to be desired, technical progress in agriculture is expedited. Thus about 33 million persons will be left to seek productive employment in other sectors; and of these a considerable proportion will have to be absorbed by the process of industrialization and under conditions of continuous technological progress. There will be a very serious waste of resources if the Latin American countries continue to pursue a policy of industrialization in watertight compartments.

ECLA has viewed this problem in a clear light, and the member Governments agreed in principle upon the need to set up a regional market, first at the initial session of the Trade Committee, held in November 1956, and subsequently, in May 1957, at the seventh session of the Commission in La Paz. Likewise, at the recent inter-American economic conference in Buenos Aires (August 1957), the Governments categorically endorsed the proposal to create a Latin American regional market.[1]

In compliance with the instructions issued to it at the La Paz session, the secretariat has invited the present Working Group to co-operate in the preparatory work for putting this vitally important project into effect. For this purpose the Group has had a series of prior studies at its disposal. The concept of the economic integration of Latin America, which found early expression in ECLA's *Economic Survey of Latin American, 1949*, has been progressively developed in subsequent documents. In this connexion, it should be pointed out that definite ideas on the regional market's structure first appear in the study entitled *Payments and the regional market in inter-Latin American trade.*[2] All this material has been very useful to the Working Group, as have also the additional reports presented by the secretariat before and during the meetings of the Group.

Thus, the concept of the Latin American regional market has long been gradually taking shape, and the Group deems it a privilege to have had the present opportunity of giving it new impetus by formulating what should, in the Group's opinion, constitute the market's essential bases. The establishment of the European common market has rendered the creation of a Latin American regional market a more pressing need; in the first place because it shows how an idea that some years ago might have been considered utopian quickly gains ground when enlightened statesmen give it the support of their prestige and define it with conviction; and, secondly, because the European common market, undeniable as are its advantages to its six member countries and beneficial as its indirect repercussions may prove for Latin America, will produce in addition some adverse effects mainly as a result of the preferential measures introduced in favour of the member's overseas territories. However much concerted action on the part of the Latin American countries may mitigate such effects, it would not be feasible to imagine that they can be entirely averted. Furthermore, the European common market will powerfully stimulate the technological revolution which is already taking place in the agriculture of the countries concerned as well as in their production of synthetic raw materials; and all this is bound to have unfavourable consequences for the producer countries of Latin America.

A negative reaction, however, is not enough. Latin America's positive reaction must be the creation of the regional market. The time is ripe to take this step resolutely and without detriment to the region's advantageous trade relations with the great industrial centres. Latin America will continue to buy from them in so far as they absorb its exports, which the countries of the region will have to promote to the fullest possible extent. But the composition of Latin American imports must be further modified and brought into line with the capacity for external payments. If this process is carried out within the broad framework of the regional market, Latin American industry will be vigorously spurred on towards new and more efficacious forms of expansion, with favourable consequences for the economic development of the region. In the course of this task of substituting domestic production for imports, the sooner Latin America speeds up its production of capital goods, which at present are imported because their manufacture in watertight compartments is anti-economic, the sooner will the region be able to counter such foreign trade setbacks as may accompany the advantages attendant upon the European common market.

From another point of view, it would be a mistake to consider that the main justification of the common

[1] [*Note by the secretariat*] Annex II of this report contains the text of the relevant resolutions adopted by ECLA and OAS.

[2] [*Note by the secretariat*] The report in question was published under this title by the secretariat in 1956 and was prepared by the economists Mr. José Garrido Torres (Brazil) and Mr. Eusebio Campos (Argentina) in their capacity as consultants, after they had carried out a survey in various South American countries with the co-operation of the secretariat. The following were among the recommendations with which the report closed:

"It is considered that agreements should be concluded with a view to promoting — by means of collaboration among several countries, and on a basis of financial contributions from both regional and foreign sources — the establishment or development of industries that require substantial capital and wide markets...

"It is felt to be expedient that in the field of trade policy steps should be taken to establish general principles and certain specific procedures conducive to the gradual building up of a regional market on multilateral and competitive bases. This regional market would permit the intensification of those Latin American lines of industrial production in which a reduction in costs and future expansion basically depend upon an increase in consumer capacity.

"At this level, and as a preliminary phase, the drawing up of an industrial map of Latin America is suggested, mainly with a view to the determination of possible and advisable action."

The study referred to was published in *Inter-Latin American trade: current problems* (E/CN.12/423), United Nations publication, Sales No.: 57.II.G.5, pp. 93 *et seq.*

market lies in the incentives it will afford to the production of capital goods and intermediate products that require complex processing. This applies especially to the more advanced of the Latin American countries, where conditions have been becoming increasingly favourable for the establishment of such activities; but the vast possibilities for expansion, consolidation and specialization among existing consumer goods industries, as well as those others which will undoubtedly come into being by virtue of the regional market, must not be overlooked.

The situation of the less advanced countries is also of vital importance. The system of watertight compartments has virtually cut them off from the favourable effects of industrialization in the more highly developed countries. The significance of this problem is obvious, and the regional market must provide the indispensable conditions for its solution. The less developed countries of the region will have to find the decisive stimulus to their own industrialization in rising levels of consumption in those that have reached a higher stage of development. This calls for special treatment. If the treatment accorded in the regional market were to be exactly the same for countries at different stages of the industrialization process, the inequalities would tend to be perpetuated. To reduce and finally eliminate them, special incentives to the industrial development of the less advanced countries will have to be provided, for the mutual benefit of both groups.

Bearing in mind these considerations and others which will be discussed later, and in conformity with its terms of reference, the Group presents the following bases on which the Latin American regional market may be established. In formulating them, the Group has been guided first and foremost by the idea that such bases will be effective only in so far as they offer ample opportunities to private enterprise and its achievements. The Governments will plan the structure of the regional market, but it will be for private enterprise to give it life; and in the pursuit of this aim, the countries concerned will have to take special care that their legitimate efforts towards industrialization do not deprive agriculture and the infrastructure of essential resources, thus jeopardizing the balanced development of their economy and, in the final issue, weakening their rate of growth.

On these foundations it will be possible to build up the specific projects which the Governments members of the Commission have requested this Working Group to recommend. To this end a series of analyses will have to be carried out on the lines suggested to the secretariat in the third part of the present document, in which comments are presented concerning the bases enumerated below.

ENUMERATION OF THE BASES

I. *Universality of membership in the regional market*

Membership in the regional market must be open to all the Latin American countries, for which reason it is essential that conditions acceptable to all of them be established from the outset.

The universal nature of the regional market agreement does not, however, imply that countries closely linked by geographical proximity or common economic interests shall not be empowered to enter into negotiations among themselves. But it is essential that these negotiations be effected within the framework of a general agreement, and along such lines that the reciprocal concessions involved are not exclusive and are automatically extended to other member countries, or to such countries as may become members in the future if all do not accede to the initial agreement.

II. *Range of the regional market in respect of commodities*

The ultimate aim of the regional market must be the inclusion of all goods produced within its area. This concept does not mean, however, that the regional market must become effective immediately for all such goods. It only implies that the agreement will have to establish procedures and time-limits for the progressive abolition of those customs duties and restrictions which nowadays hamper or prevent inter-Latin American trade. In other words, the agreement must be immediate but its implementation gradual.

Once this principle is established, various ways of putting it into practice are conceivable, which must be carefully examined before final recommendations are made.

III. *Development of the less advanced countries*

The less advanced countries must be accorded special treatment to enable them, through progressive industrialization and the over-all strengthening of their economies, to share fully in the benefits of the regional market.

With this end in view, their import duties and restrictions must be reduced more slowly than in the more advanced countries, in accordance with formulae to be studied; and such formulae must further establish facilities for exports from the countries in question, and especially for goods produced by their new industries and other activities, so as to ensure equitable trade reciprocity. In addition, other measures must be devised, especially of a financial nature, conducive to the more rapid development of the less advanced countries.

IV. *The tariff system* vis-à-vis *the rest of the world*

One implication of the regional market is that it will be desirable eventually to establish a single customs tariff *vis-à-vis* the rest of the world. But in some countries the tariff has been deprived of its protectionist role, and has been superseded by restrictive measures of various kinds. Until these are replaced by a new tariff, an interim system will have to be established to ensure the progressive abolition of such restrictions in the countries in question to an extent equivalent to the tariff reductions effected by other member countries.

V. *Specialization in industries and other activities*

The specialization in industries and other activities which is one of the objectives of the regional market

must be the outcome of the free interplay of economic forces within the over-all conditions established by the agreement, and without precluding the pursuance of an investment policy calculated to further as effectively as possible the aims of the said agreement.

It is inconsistent with this principle to accord specific countries the exclusive right to install certain industries or activities, or to impose restrictions on free competition, except as regards the special features of the integration programme of the Central American countries, which in this context must be considered as a single unit, if such is the form of membership they desire.

VI. *The payments system*

In the interest of greater efficiency, the regional market must have a special system of multilateral payments conducive to maximum inter-Latin American trade reciprocity, and not detrimental to the possible participation of Latin America in the re-establishment of a more general multilateralism. It is essential that, under the system established, the member countries be protected against all exchange risks.

VII. *Temporary import restrictions*

Member countries must have the right to impose temporary import restrictions, in accordance with regulations to be laid down in the agreement, and provided that basic remedial measures of monetary, fiscal and economic policy are also adopted, when such a step is rendered necessary by:

(*a*) The magnitude and persistence of the disequilibrium in their balance of payments with the other member countries; and

(*b*) The need to facilitate reabsorption of manpower, in the course of the readjustments consequent upon the changing industrial structure.

VIII. *Safeguard for agriculture*

Member countries must have the right to restrict imports of agricultural commodities, limiting them to given proportions of the increment in consumption, should this be indispensable for the normal maintenance of agricultural activities.

IX. *Rules of competition*

To promote the smooth functioning of the regional market, steps must be taken to prevent the export trade of a member country from prejudicing, by means of unfair competitive practices, the activities of other member countries, either through competitive currency depreciation or by any other method.

Member countries must also refrain from discriminatory practices, so that export prices may be the same for any given commodity, irrespective of the market of destination.

X. *Credit and technical assistance*

The regional market must be provided with an effective system of credit and technical assistance, both in order to stimulate intra-regional exports and with a view to furthering the installation and development of the industries concerned.

XI. *The advisory body*

The problems that the functioning of the regional market will involve call for the creation of an advisory body constituted by the member Governments, and the establishment of a system of arbitration.

XII. *Role of private enterprise*

For the formation of the regional market the agreement of the respective Governments is required. But the making of such a market a going concern will depend to a large extent on private enterprise, on its understanding of the problem and on its ability to turn to account the immense advantages offered by the regional market for industrialization, for the introduction of more advanced agricultural techniques and for over-all economic development.

It is, therefore, deemed highly desirable to enlist the active co-operation of the organizations representing private enterprise, in both the national and the international field, for the study and discussion of these problems.

COMMENTS ON THE BASES AND RECOMMENDATIONS

Bases I and II. *Universality of membership in the regional market*

The greater the number of countries and the wider the range of commodities included in the regional market, the greater will be the possibilities of reciprocal trade and the more flexible the market's operations, inasmuch as the liquidation of balances among member countries will be facilitated.

It therefore appears desirable that the agreement should be open for accession to all the Latin American countries and, at the same time, that formulae should be evolved flexible enough to allow countries in close geographical proximity or with specific interest in common to make mutual concessions. While such concessions may originally be designed to promote the mutual interests of the countries concerned, they should be extended to other member countries without any intent of exclusiveness.

As regards the commodities, a careful examination will have to be made of ways and means of gradually and progressively reducing duties and restrictions. Because of their complementarity or the fact that they have not yet been produced or are produced in only one country, in the case of certain commodities — for example, some traditional items of trade and also, to a large extent, capital goods and durable consumer goods, as well as some important intermediate products — the reduction of duties and restrictions could be embarked upon without any limitations. At the other extreme are the industries producing goods for current consumption. Here, reduction must be gradual and progressive in

order to allow for adjustments and increased specialization in the various sectors and to avoid the serious maladjustments which would otherwise occur.

In considering this aspect of the regional market, the secretariat should take into account various methods of reduction, whether they refer to all commodities, to groups of similar or related commodities or to individual trade items.

Basis III. *Development of the less advanced countries*

It is essential for the success of the regional market that the less advanced countries should find in it incentives, lacking at present, for vigorous industrialization. However, if such countries acceded to the agreement on the same terms as the more advanced countries, this objective would not be achieved because of the greater industrial productivity of the latter. To prevent this, various procedures must be studied. For example, it might be possible to maintain for a judicious period the reasonable amount of protection required by the industries of the less advanced countries which are working for their own internal market, while the duties and restrictions for the same and other industries in the more advanced countries are gradually eliminated. Another possibility would be to promote the establishment of export industries in the less advanced countries and to grant the necessary facilities for importing the products of these industries to the more advanced countries. All these alternatives must be considered.

At the same time, an analysis will have to be made of the manner in which credit facilities could be granted to these countries to help them finance their export industries. Furthermore, it is to be hoped that foreign capital might well find in the countries in question the incentives for industrial investment which are lacking today, since such investment would have at its disposal an extensive regional market instead of the narrow range of markets at present available.

This does not mean that the more advanced countries should make a sacrifice in favour of the others. Quite clearly, the interests involved are reciprocal. Under the preferential trade system which the regional market implies, the exports made by the less developed to the more developed countries will give the former a purchasing power that will largely be used to buy the manufactured products of the latter, particularly when the countries concerned succeed in establishing a multilateral system of payments which will encourage the utilization of credit balances within the regional market itself and which will reduce to a minimum the outflow of dollars or other freely convertible currencies to the rest of the world.

Without these special arrangements, the more advanced countries would have great difficulty in selling their capital goods and other goods whose costs are higher than those in other parts of the world. Certainly, the enlargement of the market and the consequent increase in productivity will gradually bring costs closer to world levels. In the meanwhile, it would be logical to expect that the less developed countries will be unwilling to grant preferences in respect of such goods if they have to spend their hard currencies in order to purchase them, but if they are able to pay for them with additional exports, especially of manufactured goods, a wide field of mutual interest will be opened for both groups of countries.

Basis IV. *The tariff system* vis-à-vis *the rest of the world*

There are two ways of tackling the problem of a preferential policy: that of the free trade zone and that of adopting a single customs tariff *vis-à-vis* the rest of the world. The first method would have the advantage of not requiring any readjustment of existing tariffs *vis-à-vis* third countries: each country would maintain or establish *vis-à-vis* the rest of the world the duties which it desired — subject to the limitations imposed by the treaties in force — and would undertake only to grant those progressive reductions which the agreement required for the other countries operating within the same system. However, in certain circumstances, the lack of a common tariff for certain commodities imported from third countries would have serious disadvantages.

On the other hand, it is no easy task to work out a common tariff. In particular, there are countries where the tariff has disappeared as the result of inflation and has been replaced by restrictions of a different kind. It might take time to re-establish the tariff, but there is no need to wait for this to happen before the common market agreement is concluded. Intermediate stages may be envisaged at once. The progressive reduction of duties and restrictions could be started within a free trade zone, while the decisive steps were being taken for the establishment of a common tariff. It would be advisable for the secretariat to analyse the various alternatives in this field, including that for which provision is made in article XXV of GATT, and, at the same time, to devise suitable ways and means of gauging the magnitude of both the restrictions and the customs duties introduced for the purposes of reductions contemplated in this report.

Basis V. *Specialization in industries and other activities*

Many consumer goods industries in the Latin American countries may possibly have attained an apparently satisfactory size in comparison with their counterparts in the advanced industrial centres. However, a close examination will reveal that the smallness of the market in Latin America compels factories to produce an excessive variety of articles, while factories in the more advanced centres have reached a high degree of specialization. The regional market will stimulate such specialization in Latin America. The time required for the reduction of duties and restrictions will allow the gradual introduction of the necessary readjustments and may possibly encourage the merger of industrial interests between firms of different countries or the conclusion of mutual agreements to attain the necessary specialization in this and other cases.

All this should come about as the result of the free interplay of interests, which is not incompatible with

effective guidance through financial agencies. But in no case should it lead to exclusive arrangements which prevent competition or the entry of new enterprises.

Basis VI. *The payments system*

In the abstract, a regional market without a special payments system is conceivable; but, in practice, the full potential of the market will not be realized without it. A system in which any credit balance in favour of one country might give rise to an immediate outflow of foreign exchange to the rest of the world would mean a substantial weakening of the regional market. It is therefore necessary to create incentives to ensure that such balances are used within the market itself.

For this purpose, it will be necessary to examine the possibility of organizing a credit system at the same time as the multilateral payments system.

The Group noted with satisfaction that the meeting of representatives of some of the Central Banks in Montevideo, convened by ECLA, recommended parity for units of account in bilateral agreements and laid the foundations for the voluntary transfer of balances. It is to be hoped that the second meeting, to which all the Latin American Central Banks should be invited, will work out wider formulae for multilateral compensation and that an immediate programme for the elimination of certain restrictions which interfere with trade will open the way for the automatic transferability of intra-regional balances.

Basis VII. *Temporary import restrictions*

The incentive to use balances within the regional market itself referred to in the preceding section (Basis VI) will be a powerful stabilizing factor. But it is possible that certain transitory factors or inflationary pressure may produce disequilibria which, because of their nature and magnitude, cannot be remedied by additional credits. Such a situation may compel the debtor countries to impose restrictions on imports from the regional market. However, it is essential that such restrictions should conform to certain norms and that they should be applied for a limited time, since other measures must be adopted to attack the disequilibrium at its source. In this respect, the bodies to be established under the agreement could provide useful advice and guidance.

Consideration must also be given to cases in which the disequilibrium is of a structural character, or, in other words, when a country has not succeeded in attaining a rate of economic development similar to that of others without a persistent trend towards external disequilibrium. In this instance, firm action must be taken to stimulate exports and replace imports by domestic production. Monetary readjustment in accordance with the provisions and practices of the International Monetary Fund is one possible method. But some thought should be given to protective measures of limited scope which could be introduced only after the views of the bodies concerned had been heard. These are delicate matters which require careful consideration.

There is another type of disequilibrium which will have to be taken into account. The regional market will tend to accelerate the rate of growth of the Latin American countries. This fact and the more or less prolonged period of time which will have to be allowed for the reduction of duties and restrictions will facilitate the readjustment of the economic activities of a country when it is faced with competition from other member countries.

Cases may arise, however, where, because of the nature of an activity or its geographical position, it is not easy to transfer labour no longer required by that activity to others in process of development. In these cases, it is logical that a country should be able to impose temporary restrictions on imports which give rise to such difficulties.

Basis VIII. *Safeguards for agriculture*

From the point of view of the foregoing comments agriculture is in a special position. In certain cases, safeguards have been necessary to protect it against competition from other Latin American countries. This is a fact towards which no hard-and-fast attitude can be adopted. On the one hand the introduction of advanced techniques in agriculture in the countries concerned may enable them to face such competition on favourable terms. On the other hand it must not be forgotten that with the passage of time a marked increase in consumption may require that those activities now enjoying protection be maintained and stimulated, because the surplus of the exporting countries may gradually be reduced through the growth of their own consumption.

In the light of these possible changes it is necessary to proceed with caution and to accord special treatment to agricultural activities, without losing sight of the need to draw up programmes for the gradual replacement of certain costly lines of production by others in which productivity is higher, both for the benefit of the consumer and in order to promote the more efficient utilization of available productive resources.

Basis IX. *Rules of competition*

The essence of a regional market lies in its competitive character. But the success of such competition must be the result of better productive ability and not of arbitrary factors. These factors may be of different kinds. If the external depreciation of a country's currency is continually higher than internal depreciation, export prices might fall, to the detriment of other countries competing on the market.

In other cases unfair competition might be rather the result of deliberate procedures, taking the form of apparent or concealed subsidies. These practices are not compatible with the regional market.

Basis X. *Credit and technical assistance*

In this field also it is necessary to proceed with caution, for, while the accelerated development brought about by the regional market will give rise to greater

need for investment resources, there is the risk of embarking on over-ambitious projects which, however well conceived, may prove difficult to carry out in practice. A beginning should be made with modest undertakings which could extend their field of action as they proved to be reliable and efficient.

The credit requirements inherent in the regional market are of two types: first, the financing of exports and, second, the financing of industries which produce these exports. So far as the former is concerned, a system of medium-term credits designed specifically to encourage exports of capital goods will have to be organized. Consideration should be given to the possibility of entrusting these credit operations to the same body which is responsible for the system of multilateral payments, without precluding the appropriate use of existing financial organizations, both domestic and foreign.

As regards the financing of industries, particularly those producing for exports, the enlargement of the market will undoubtedly provide private domestic and foreign capital with more powerful incentives than at present. These incentives will encourage the pooling of capital from different countries for the development of industries which serve the regional market, and other forms of financial co-operation. Yet national resources will clearly be insufficient and recourse will have to be had to international credit resources. It will therefore be necessary to consider the possibility of establishing a special development agency to carry out these financing operations, which should be complemented by measures of technical assistance in regard to which international organizations could provide very valuable support.

The secretariat should study the possible repercussions on the regional market of the different kinds of treatment now accorded by the Latin American countries to investors.

Basis XI. *The advisory body*

The Group does not consider that the Latin American countries are yet ready to establish at the outset an executive authority for the regional market although this might constitute an objective for the future. Accordingly, it would prefer an organization of an advisory type but whose influence might in time become decisive if its efficiency and impartiality conferred upon it an unquestionable moral authority. This report has dealt with various circumstances in which a country has to take emergency measures which run counter to the aims of the agreement and which might cause harm to third countries. The advisory body would intervene in all such cases. What is more, its opinion should first be sought so that the country which considers itself prejudiced by measures taken by other countries may apply for a ruling. For this purpose, it would suffice to establish a procedure for appointing arbitrators in the specific cases which may arise.

Besides these functions, the advisory body should be responsible for following the development of the regional market, giving guidance to the organization previously referred to and fostering increasing co-ordination between the economic policies of the various countries, in order to ensure the efficient operation of the market itself.

Basis XII. *Role of private enterprise*

A perusal of the text in which the basis is described will suffice to show the desirability of requesting the secretariat that, in carrying out the studies and research entrusted to it in connexion with the regional market, it should explore the views of the private sector on this problem and seek the necessary ways and means of obtaining its active co-operation, both in the national and in the international field.

OTHER RECOMMENDATIONS TO THE SECRETARIAT

The trade agreements in force between Latin American countries on the one hand and the rest of the world on the other are usually based on the unconditional application of the most-favoured-nation clause. With few exceptions, these agreements contain no provisions excluding from the application of this clause the special treatment which the Latin American countries would have to accord one another in order to establish the regional market.

Consequently, whatever the juridical procedure selected in due course for the establishment of the market — customs union, free-trade zone or any other — before it can be put into effect, changes in a certain number of existing agreements will have to be negotiated with countries in other parts of the world.

To facilitate this process, it would be advisable henceforward for the Latin American countries, while continuing to honour their existing trade treaties, to endeavour to introduce, whenever they sign new agreements with countries in other regions or renew or modify instruments currently in force, a proviso couched in broad terms in favour of the regional market and of inter-Latin American trade in general.

The Group therefore recommends to the secretariat that it bring these opinions to the attention of Governments, laying stress on the advantages for the re-negotiation of existing agreements with third countries, and for the incorporation therein of the proviso referred to, which would be afforded by the establishment of a regular system of consultation utilizing the Trade Committee mechanism. Such a system would permit the co-ordination of measures of trade policy, and, moreover, would make it easier to implement the suggestions put forward at a similar level in ECLA resolution 121 (VII), which recommends to the Latin American countries that they consider the desirability of carrying out consultations, especially on the possible repercussions of the European common market.

Similarly, it would be advisable for the secretariat to call the attention of Governments to the fact that certain situations arising out of the Rome Treaty seem to offer an opportunity of including reservations or provisos that may facilitate the establishment of the regional market.

In this context, the secretariat might usefully carry out a study of the contractual aspects of the establishment of the regional market, first collecting data and opinions from the appropriate Latin American governmental organizations and from experts in this field.

In addition, an examination should be made of how far the concessions granted to member countries of the regional market might be prejudicial to the interests of non-member countries, especially in cases where certain special arrangements were in force between the latter and some of the members of the market.

Another of the Group's recommendations to the secretariat relates to maritime transport. The Group has taken note of the studies already carried out in this field and of the secretariat's instructions to pursue them. It would be highly desirable for them to be completed as soon as possible, as the shortcomings of the transport system constitute a serious obstacle to trade.

In this and other aspects of the work of compiling the information and background data needed for the preparation of the regional market project, the secretariat will have to maintain close and constant contact with the Latin American Governments. To this end the secretariat should, in the Group's opinion, recommend to the Governments that each country set up a body responsible for dealing with all matters relating to the study of regional market problems.

Similarly, it would be well for the secretariat to consider the most effective means whereby, through the expansion and diversification of trade, the present structural disequilibria in the latter could be remedied, in conformity with resolution 119 (VII).

Again, in view of the interest aroused by the proposed Latin American regional market and its potentialities, the Group feels that it would be useful if data on new industrial projects in the various countries were available at regular intervals. It consequently suggests that the secretariat consult the Governments as to their views on this idea and the possibilities of putting it into practice.

This seems to the Group to bring to a close the first phase of the important task entrusted to it by the United Nations. According to the instructions it has received from the Governments members of ECLA, its ultimate objective is to prepare a project for the structure of the regional market in Latin America. At this first session it has had to confine itself to establishing certain essential bases, which are, however, far from constituting even a preliminary project; this would be premature from every point of view. The bases in question are merely points of departure, so that the new studies which the secretariat is asked to undertake, in addition to those recommended to it by the Governments, may provide the data required for the drawing-up of specific and final proposals.

It would be impossible to conclude this report without express mention of the fact that all the members of the Group, who have taken part in these discussions in their own personal capacity, wish to place on record their satisfaction at the high quality of the technical studies prepared by the secretariat and its collaborators ever since the idea that ECLA should organize the preparatory work for the creation of a regional market was first broached. The Group recognizes the great progress made by the Central Banks Working Group, which established the bases for an orderly, safe and practical payments system, as well as the Trade Committee's invaluable more general contributions to the rapid attainment of the proposed objective. It therefore wishes to thank and congratulate both these bodies, as well as the permanent staff of the ECLA secretariat, under the guidance of its Executive Secretary, Mr. Raúl Prebisch, and the consultants who were invited to collaborate with the secretariat prior to and during the Group's preliminary work. The members of the Group also wish to express their gratitude to the Chilean Government and the various national authorities for their generous hospitality, which provided a propitious and pleasant setting for the work of the Group, and faithfully reflected Chile's traditions of courtesy.

Annex I

RESOLUTIONS ADOPTED PRIOR TO THE SESSION AND LIST OF BACKGROUND DOCUMENTS

1. In the course of its work, the Group took into account the following points connected with the terms of reference assigned to it by the Trade Committee.

(*a*) Under the terms of resolution 101 (VI), adopted on 15 September 1955, the Economic Commission for Latin America, after considering the secretariat document entitled *Study of Inter-Latin American Trade* (E/CN.12/369), resolved to set up a Trade Committee, as a permanent organ of the Commission.

The purpose of the Committee is to intensify inter-Latin American trade without losing sight of " the fundamental necessity of increasing over-all world trade ". In the resolution mentioned the Commission recommended to the Committee that it should prepare specific proposals with a view to solving the practical problems of inter-Latin American trade as well as bases to facilitate intra-regional trade negotiations, in keeping with existing international commitments.

(*b*) At its first session (Santiago, November 1956) the Trade Committee adopted the following resolutions with a view to the gradual accomplishment of its tasks:

Resolution 1 (I) on the gradual introduction of a multilateral payments system. A permanent Working Group was formed by the Central Banks of some of the Latin American clearing-accounts countries in order to study the establishment of the system in question. For the intervening period of transition the resolution adopts certain principles — in particular that of parity for units of account and convertible currencies for the same operations — designed to co-ordinate existing bilateral payments mechanisms [a] and to pave the way for the multilateral transferability of balances.

Resolution 2 (I) relating to the problems arising from the parallelism and idle capacity existing in certain Latin American industries, and partly attributable to the small size of the individual

[a] The Central Banks Working Group held its first session in Montevideo from 29 April to 10 May 1957. The result of its work was the drafting of a standard payments agreement and also an inter-bank agreement — now in force — on the compilation and exchange of comparable data relating to inter-Latin American clearing accounts. The Group resolved to hold a second session during 1958.

countries' markets. The resolution recommended to the secretariat that, in order to determine what measures were advisable to remedy the situation, it should make an inventory of existing industries in Latin America, and that it should report to the Trade Committee on the progress of the studies concerned.

Resolution 3 (I) on procedures for the creation of a regional market. As the future industrial development of Latin America requires markets larger than those at present in existence, this resolution set up a Group of Experts to complete the studies carried out by the secretariat to date and also to undertake the following tasks:

(i) To define the characteristics of the regional market, bearing in mind the differing degrees to which the countries of the region are industrialized;

(ii) To study its possibilities and projections; and

(iii) To submit recommendations on basic principles and procedures for its establishment, within the terms of reference of the Trade Committee as defined in resolution 101 (VI).

Resolution 4 (I) recommending to Governments the adoption of a policy for the gradual liberalization — either unilaterally or through bilateral or multilateral agreements — of intra-regional trade in natural products, raw material and foodstuffs.[b]

(*c*) At the Commission's seventh session (La Paz, Bolivia, 15-29 May 1957), member Governments recommended that the secretariat should "call the attention of the Group of Experts to the specific situation of those Latin American countries which are landlocked or whose economic structure is dependent on a single branch of production or lacks diversification, so that the Group may consider, in planning the structure of the regional market, the possibilities for the absorption of the exportable commodities of such countries and for facilitating their industrial development within such a market" (resolution 116 (VII).[c] At the same time the Group was requested to consider the desirability of facilitating the formation of enterprises with capital supplied jointly from two or more countries and to study the problems facing the development of a regional market, with due regard to each and every Latin American country and to its situation and possibilities.

(*d*) At the Economic Conference of the Organization of American States (Buenos Aires, Argentina, 15 August to 4 September 1957) the Governments of this hemisphere adopted a resolution [c] in which, after referring to the studies and projects already undertaken by the Economic Commission for Latin America, its Trade Committee and the Central Banks Working Group on behalf of the expansion of trade within the area, they unanimously proclaimed "the desirability of gradually and progressively establishing a Latin American regional market on multilateral and competitive bases".

(*e*) Furthermore, in resolution 3 (I) of the Trade Committee, to which reference has already been made, it was stated that the conclusions reached by the Group of Experts of the Regional Market, together with the comments made by the ECLA secretariat and those received from other international organizations, would be submitted directly to the member Governments for their consideration and comments. When this procedure had been complied with the secretariat should in due course disseminate as widely as possible the documents transmitted to the member Governments. In addition, the study prepared by the Group of Experts, or a progress report, together with the comments of the secretariat and the Governments, would be presented to the next session of the Trade Committee.

2. Besides taking into consideration the foregoing resolutions, the Group utilized as background documents in the course of its proceedings the studies prepared by the ECLA secretariat, and in some cases by its consultants, in connexion with inter-Latin American trade and the regional market, together with those of other organizations, as listed below:

A. *Background documents*

(1) *Study of Inter-Latin American Trade* (E/CN.12/369/Rev.1), United Nations publication, Sales No.: 56.II.G.3.

(2) *Inter-Latin American trade: current problems* (E/CN.12/423), United Nations publication, Sales No.: 57.II.G.5; with special reference to the account of proceedings of the first session of the Trade Committee (pages 7 to 14), and to part II, section 3, "Payments and the regional market to inter-Latin American trade" (pages 93 to 105).

(3) Resolutions 116 (VII) of the Economic Commission for Latin America, given in *Annual Report (15 May 1956-29 May 1957)* (E/CN.12/451), pages 106 to 108 and 113 to 115.

(4) ECLA activities relating to payments and the regional market in Latin America (E/CN.12/483).

(5) Final Act of the Economic Conference of the Organization of American States (Buenos Aires, Republic of Argentina, 15 August-4 September 1957), with special reference to resolution XL, "Recommendation on a Latin American regional market" (pages 86-87).

(6) *Liberalización del Comercio Interlatinoamericano* (documents 3.1957 of the Organization of American States).

(7) Outline of the problems of the regional market (E/CN.12/C.1/WG.2/1).

(8) Some problems of the Latin American regional market (E/CN.12/C.1/WG.2/2).

(9) Pierre Uri, Suggestions concerning the Latin American regional market (E/CN.12/C.1/WG.2/3).

(10) Main background data relating to the Working Group (E/CN.12/C.1/WG.2/4).

(11) Hollis B. Chenery, Alternative approaches to economic integration in Latin America (E/CN.12/C.1/WG.2/5).

(12) *El movimiento de integración económica centroamericana* (Information document).

B. *Documents distributed during the session*

(1) *Exposición del Dr. Raúl Prebisch, Director Principal a cargo de la Secretaría Ejecutiva de la CEPAL en la sesión inaugural, el día 3 de febrero de 1958* (Conference Room Paper No. 1).

(2) *Sugestiones del Dr. José Garrido Torres en cuanto al método de trabajo del Grupo* (Conference Room Paper No. 2).

(3) *Notas del Dr. José Garrido Torres sobre los conceptos generales y procedimientos a considerar a la luz de las cuestiones planteadas en los capítulos I a V del documento* E/CN.12/C.1/WG.2/1 (Conference Room Paper No. 3).

(4) *Notas del Dr. José Garrido Torres sobre el problema del financiamiento del comercio interlatinoamericano y sobre la eventual necesidad de un organismo operativo para el sistema de pagos multilaterales* (Conference Room Paper No. 4).

(5) *Compilación de informaciones sobre política comercial* (Conference Room Paper No. 5).

[b] See the text of resolutions 1(I) to 4 (I) of the Trade Committee in *Inter-Latin American trade: Current problems, op. cit.*, pages 14 to 17.

[c] See complete text in annex II of the present report.

Annex II

RESOLUTIONS ON THE REGIONAL MARKET ADOPTED BY THE ECONOMIC COMMISSION FOR LATIN AMERICA AND BY THE ECONOMIC CONFERENCE OF THE ORGANIZATION OF AMERICAN STATES

A

The Economic Commission for Latin America,

Considering:

(*a*) That the Trade Committee, established under the terms of resolution 101 (VI) adopted at the sixth session of the Commission, held its first session at Santiago, Chile, in November 1956, and has presented a report on the result of its work (E/CN.12/423) to the current session of the Commission;

(*b*) That it is desirable to complete the studies specifically relating to the creation of a regional market in Latin America;

(*c*) That the trends indicated in document E/CN.12/C.1/4, presented at the first session of the Trade Committee, have become more clearly marked since that date, a development which might have unfavourable repercussions on Latin America's extra-regional and intra-regional trade;

(*d*) That resolutions 46 (V), 69 (V) and 101 (VI) recommended to the secretariat and to the Trade Committee that they devote special attention to the trade of those Latin American countries which are landlocked, or whose economic structure is based on a single branch of production or is little diversified;

(*e*) That greater mobility of capital among the Latin American countries would be advantageous;

(*f*) That it is desirable for the regional market to be gradually extended until it covers Latin America as a whole, in order to increase the benefits and possibilities of fuller development and economic integration which such a market may offer;

Decides:

1. To congratulate the secretariat on the efficiency with which it has discharged its responsibilities pursuant to resolution 101 (VI);

2. To express satisfaction at the success of the Trade Committee's first session, to take note with satisfaction of all those aspects of its report relating to the regional market, and to endorse resolutions 2 (I) and 3 (I) of the aforesaid Committee;

3. To take note of the instructions to the secretariat both as regards the inventory of existing industries in Latin America and with respect to the convening of a group of experts to undertake the work pursuant to resolution 3 (I);

4. To recommend to the secretariat:

(*a*) That it consider the desirability of expediting the implementation, within the shortest possible time, of resolutions 2 (I) and 3 (I) of the Trade Committee, with a view to taking a more decisive step towards their underlying objective;

(*b*) That it conduct research and compile all data that may serve as a basis for the work of the Group of Experts mentioned in resolution 3 (I), at the earliest opportunity, so that the availability of such background information may facilitate the task of the Group;

(*c*) That it call the attention of the Group of Experts to the specific situation of those Latin American countries which are landlocked or whose economic structure is dependent on a single branch of production or lacks diversification, so that the Group may consider, in planning the structure of the regional market, the possibilities for the absorption of the exportable commodities of such countries and for facilitating their industrial development within such a market;

(*d*) That it also request the Group of Experts to consider, in planning the structure of the regional market, the desirability of facilitating the formation of enterprises with capital supplied jointly from two or more countries;

(*e*) That it request this Group to study the problems facing the development of a regional market, in which study consideration would be given to each and every Latin American country, bearing in mind its situation and possibilities;

5. To empower the secretariat to request, should it deem this necessary, the collaboration of other competent international agencies in the preparation of the studies or compilation of the data referred to in paragraph 4, items (*a*) and (*b*).

B

The Economic Conference of the Organization of American States,

Bearing in mind:

The study presented by the secretariat of the Organization of American States on Liberalización del Comercio Interlatinoamericano (Document 3);

The report presented to this Conference by the United Nations Economic Commission for Latin America, entitled "ECLA activities relating to payments and a regional market in Latin America" (E/CN.12/483); and resolution 117 adopted at the seventh session of the Economic Commission for Latin America;

Considering:

That the increasing economic development of the Latin American countries calls for a greater expansion of inter-Latin American trade which will enable the available human and material resources to be turned to better account;

That the future development of certain industries, especially the basic industries, requires, among other factors, high capital density and more complex production techniques, and, consequently, the stimulus provided by markets larger that that of any one country;

That it would be advisable to study measures and suggest possible approaches to economic integration which take into account all the countries of Latin America and which will be conducive to the creation of a broad Latin American market;

That in this connexion it is particularly important to bear in mind the processes of economic integration which are taking place in other regions of the world, and which, according to the methods adopted, may have perceptible effects on the trade and development of the Latin American economies, as stated in resolution 121 (VII) of the Economic Commission for Latin America;

That the Economic Commission for Latin America, through its appropriate organs, has made progress in its studies on payments systems and other subjects connected with the creation of the Latin American regional market;

That a group of central bank experts from Latin American countries between which bilateral accounts are in force is studying the establishment of a régime that will gradually lead to a multilateral payments system, which in turn constitutes a preliminary step towards the creation of conditions favourable to a regional market; and

That co-ordination and co-operation between the Inter-American Economic and Social Council and the Economic Commission for Latin America is advisable from every point of view, so as to prevent duplication of work and expenditure, as well as the dissipation of effort, and that such co-ordination has been shown by experience to constitute a satisfactory method of work.

Declares

That it is desirable gradually and progressively to establish a Latin American regional market on multilateral and competitive bases; and

Decides:

1. To recommend to the Inter-American Economic and Social Council that, to avoid duplication, after consultation between its secretariat and the secretariat of the Economic Commission for Latin America, and subject to the terms of the co-operation agreements in force between these two organizations, it take part in studies and other work preparatory to the creation of the Latin American regional market;

2. To request the Inter-American Economic and Social Council that it inform the Economic Commission for Latin America of the substance of this resolution, and of the points of view on the Latin American regional market expressed by the various representatives attending the present conference, so that they may be taken into account in the further pursuit of the studies undertaken on this topic;

3. To express its gratitude to the Economic Commission for Latin America for the valuable data supplied to this session in document E/CN.12/483.

(Resolution XL of the Economic Conference of the Organization of American States) [a]

2. Recommendations concerning the structure and basic principles of the Latin American common market

Report of the second session of the Working Group (Mexico City, 16 to 27 February 1959)

BACKGROUND DATA

Pursuant to resolution 116 (VII), adopted by the Economic Commission for Latin America at its seventh session, and the decision taken by the Working Group on the Latin American Regional Market at its first session, held at Santiago, Chile, in February 1958, the secretariat convened this second session to enable the Group to consider in more specific terms the bases for the formation of the Latin American common market outlined at the first session.

The Group was composed of the following members:

Carlos D'Ascoli, Senator (Venezuela)

José Garrido Torres, Executive Director of the Department of Currency and Credit of Brazil

Rodrigo Gómez, Director-General of the *Banco de México*

Flavian Levine, Director of the *Banco Central de Chile*, Professor of the University of Chile, Manager of the *Compañía de Acero del Pacífico*

Carlos Lleras Restrepo, Senator (Colombia)

Eustaquio Méndez Delfino, President of the Buenos Aires Stock Exchange and former President of the Honorary National Commission of Economy and Finance of Argentina

Raymond F. Mikesell, Professor of the Economics Department of the University of Oregon, United States

Juan Pardo Heeren, Former Minister of Finance of Peru

Galo Plaza, Former President of the Republic of Ecuador

The Group met at the Mexico Office of the Economic Commission for Latin America from 16 to 27 February 1959. Mr. Galo Plaza and Mr. Carlos Lleras Restrepo were elected Chairman and Rapporteur respectively.

Mr. Philippe de Seynes, Under-Secretary for Economic and Social Affairs, opened the session and conveyed to the Group the good wishes of the Secretary-General of the United Nations.

The ECLA secretariat collaborated closely with the Group both in the preparation of documents and in the discussions themselves. The following staff members attended:

Raúl Prebisch, Executive Secretary of the Economic Commission for Latin America

Esteban Ivovich, Chief, Trade Policy Division (secretary of the session)

Santiago Macario, Economist, Trade Policy Division

Consultants from the ECLA Mexico Office

Cristobal Lara Beautell, Acting Director

Pedro Abelardo Delgado, Secretary of the Central American Economic Co-operation Committee

Rafael Izquierdo, Economist, Trade Section

Salvador Vilaseca, Assistant to the Director

Officials specially invited by the secretariat

Cecilio Morales, Director of the Economic Department, Organization of American States

Ricardo Almanza, General Secretary of the Board of Foreign Trade, Ministry of Foreign Affairs, Mexico

Rafael Urrutia Millán, Director-General of Financial Studies, Ministry of Finance and Public Credit, Mexico

Octaviano Campos Salas, Director-General of Trade, Ministry of Industry and Trade, Mexico

Agustín López Munguía, Technical Sub-Director of Financial Studies, Ministry of Finance and Public Credit, Mexico

Guillermo Ramos Uriarte, Chief, Department of Trade Policy, Ministry of Industry and Trade, Mexico

Julio Ocádiz, Deputy Chief of Economic Research, *Nacional Financiera de México, S.A.*

The Group took as a basis for its work the report prepared by the secretariat, " Possible alternatives for the establishment of the Latin American regional market " (E/CN.12/C.1/WG.2/7).

As the result of the session, the Group adopted the attached report which will be submitted by the secretariat to the Trade Committee at its second session to be held in Panama during May 1959.

[a] Unofficial translation.

At the end of the session, both the Chairman of the Group and the Executive Secretary of ECLA expressed their gratitude to the Government of Mexico and the *Banco de México* for all the attention and facilities which the Group members had received during their stay in Mexico.

INTRODUCTION

At its first session, the Working Group prepared a series of bases or points of view designed to serve as a guide for further studies on the gradual and progressive establishment of the Latin American common market. At the same time, it requested the secretariat of the Economic Commission for Latin America to carry out additional studies and research which would help the Group to continue its work during its recently completed second session.

The secretariat's contribution proved highly useful during that session and enabled the members of the Group to crystallize, in the form described in this report, their ideas on the structure which the common market should assume and on the basic principles which should govern its operation.

The Group feels that if, at the eighth session of ECLA to be held at Panama City in May 1959, member Governments give their general approval to the recommendations set out in this report, the secretariat could then prepare, in close collaboration with the Governments concerned, an initial common market draft agreement which would help to bring together those countries interested in putting the idea into immediate effect.

The task is not easy. But the existence of a ready-made structure and of some clearly-defined working principles, approved by Governments, would make it less difficult. Even so, the method of expressing this structure in terms of specific projects and of setting targets for reductions in duties and similar taxes and restrictions will require an effort of considerable magnitude as regards both time and concentration. However, this work must be done, and one of the advantages of approving these recommendations would be that a specific model would be provided. Otherwise, the work would prove extremely complicated and time-consuming.

Given the essential character of these recommendations, which are presented to the secretariat for transmission to member Governments, and given the Group's terms of reference, the members of the Group have never had any intention of formulating a specific agreement.[3] The definition of terms and their scope, required in such a draft, have not been considered in this case. It was felt preferable to put forward basic ideas, bring out their general content and avoid those special cases or problems which require individual interpretation. The Group feels that what is required at the moment is to sketch the general outline of the common market so as to provide the secretariat with a basis for entering upon a new stage in its work. Governments, with this clear outline before them, will be in a better position to weigh the advantages of the common market and its repercussions on their respective economies. Progress towards an agreement for actually setting up such a market will thus be facilitated.

Of course, more time than was available to the Group at this second session would have been needed to tackle further problems of the common market's establishment and operation. Approval of these recommendations by Governments would constitute the essential starting-point for entering into these other matters.

Mr. Raymond Mikesell pointed out that he was unable to agree with every point of detail in the report.[4]

BASIS FOR A POSSIBLE AGREEMENT SETTING UP THE LATIN AMERICAN COMMON MARKET

A. *Structure*

I. *Objectives*

1. The agreement setting up the common market is designed to help expedite the balanced economic development of Latin America, its progressive industrialization and the introduction of improved techniques in its agriculture and other primary activities, with a view to promoting higher levels of living for its people, through:

(*a*) The establishment of a preferential system for trade between Latin American countries; and

(*b*) The growth of its foreign trade as a result of the expansion of industrial exports and the promotion of exports of agricultural and other primary commodities, both within Latin America and with the rest of the world.

II. *Juridical form*

2. The juridical form contemplated in this agreement is that of a free-trade zone designed to be transformed gradually into a customs union, it being understood that this form may be adapted to the actual requirements of Latin America.

III. *Customs and liberalization régime*

3. In order to establish the common market gradually and progressively for all products included in the international trade of the Latin American countries, the reduction of customs duties and other similar taxes and restrictions will be carried out in two stages.

The first stage, lasting ten years, will involve the substantial reduction, among the parties to the agreement, of customs duties and other taxes similar in their effect and the elimination of other restrictions converted, where necessary, into customs duties.

[3] Trade Committee resolution 3 (I), under which the Working Group was set up, assigned to it the following functions: (*a*) to define the characteristics of the regional market, bearing in mind the differing degrees to which the countries of the region are industrialized; (*b*) to study its possibilities and projections; (*c*) to submit recommendations on basic principles and procedures for its establishment, within the terms of reference of the Trade Committee as defined in resolution 101 (VI) (E/CN.12/410).

[4] See the annex to this report.

The reductions referred to in this section will be irrevocable, except as provided in sections II and IX of the Basic Principle, and will be effected in the following manner:

(*a*) Within one year from the entry into force of the agreement, a uniform percentage reduction will be applied to each of the customs duties, together with an equivalent reduction of other restrictions;

(*b*) Within five years from the entry into force of the agreement, non-tariff restrictions will be eliminated or converted into customs duties, except as provided in section IX of the Basic Principles; and

(*c*) During the first stage of ten years, customs duties and other taxes similar in their effect will continue to be reduced to the point where they reach the average levels fixed in accordance with the criteria laid down in paragraphs 5 and 8 below.

The Committee on Trade Policy and Payments referred to in point XI (henceforward " the Committee ") will supervise the implementation of the provisions set forth in this section and of any additional pacts entered into by member countries in carrying out the agreement, for the purpose of effecting gradually and progressively the specified reductions.

4. During the second stage, the reduction of duties and similar taxes will proceed further, and, as this reduction progresses, the preferences referred to in paragraph 10 will be gradually abolished in order to complete the organization of the common market.

Before the end of the first stage, the Committee will make arrangements for negotiations to fulfil the above purpose.

IV. *Classification of products*

5. With a view to carrying out the measures referred to in paragraph 3, products will be divided into the following three categories:

Category I. Primary goods;

Category II. Capital goods, motor vehicles, other durable goods, intermediate articles and others for which demand tends to grow relatively intensively or a large import substitution margin exists;

Category III. Manufactured goods for current consumption in respect of which demand tends to grow relatively slowly and import substitution possibilities may become exhausted or considerably strained, except for the import substitution margin in those countries in the incipient stage of development referred to in paragraph 7.

V. *Programme for the first stage*

6. During the first stage, the reduction of customs duties and of other taxes similar in their effect will be carried out in the following manner:

(*a*) Abolition of such duties and taxes in the case of products in category I, with the exceptions to be agreed upon — when they are indispensable and with particular reference to agricultural commodities — in order not to affect certain branches of production so long as it is impossible to put the productive factors involved to more economic use;

(*b*) For products in category II, the target will be the reduction or abolition of customs duties to the point where, within this category, the lowest possible average is achieved in order to intensify regional trade in these items;

(*c*) For products in category III, the target for the reduction of customs duties will be lower than that for category II to ensure that the specialization of existing industries and their adaptation to common market conditions is effected gradually and without creating difficulties which impede the regular employment of the productive factors involved.

VI. *Régime for relatively less developed countries*

7. In order to encourage the development of countries in the early stages of industrialization and to make the benefits of the common market available to them on bases of effective reciprocity with the industrially more advanced countries, they will be given differential treatment.

For this purpose, the Latin American countries will be classified as follows according to their respective available margins of import substitution and their respective export possibilities in each of the categories of goods listed in paragraph 5:

Group A. Countries of more advanced development in categories II and III.

Group B. Countries of relatively advanced development as regards manufactured goods for current consumption (category III), and whose production of capital goods and other goods in category II is incipient or non-existent.

Group C. Countries of incipient development as regards manufactured goods for current consumption (category III) and undeveloped as regards capital goods and other goods in category II.

8. The following procedure will be adopted for according differential treatment to countries of incipient development in Groups B and C;

(*a*) The agreement will establish their reduction targets during the first stage, for categories of products in which their development is incipient, at average levels of duty moderately higher than those generally laid down for parties to the agreement;

(*b*) Negotiations will be held within the Committee whereby a given group of countries will grant special concessions to countries whose development is incipient as regards products in categories II and III. (Such concessions may be made by countries in Group A to those in Group B or C or by countries in Group B to those in Group C.) If the concession is made to a country in Group C, it will be automatically extended to the other countries of this group; if it is granted by a country in Group B, it will be extended automatically to countries in Groups B and C.

In return for these special concessions, countries in the early stages of development may in turn grant facilities for imports of capital goods or other goods in Category II from countries in Group A or B or for imports of current consumer goods from countries in Group B, either by reducing customs duties below or within the average level fixed for them or by increasing their duties *vis-à-vis* the rest of the world if that should prove necessary to establish an effective preference in respect of given items. The facilities which countries in Groups A and B receive by virtue of this reciprocity will be extended automatically to all the parties to this agreement.

VII. *Size of the market and initial groupings*

9. The common market must include all the Latin American countries or the greatest possible number of them. This aim will not prevent an initial group of countries from launching the common market, provided (*a*) all the countries of Latin America are invited to the initial negotiations; and (*b*) those that do not sign the agreement at the outset are allowed to do so later in one of the following ways;

(i) within the first year of operation of the agreement, in which case the new members will be allowed the same periods of time for reducing their customs duties as those fixed for the original signatories;

(ii) after the agreement has been in operation for more than one year, in which case the new members will be allowed the periods of time still remaining to the original signatories for achieving the targets specified. However, it may be agreed upon after negotiation that the period of ten years laid down in paragraph 3 should start from the date of accession of the new signatory, both as regards the reductions it is to grant and those to be granted to it by the other signatories.

VIII. *Specific complementarity and specialization agreements*

10. For the purpose of promoting industrial complementarity or specialization, two or more participants, linked by geographical proximity or common economic interests, may, with the Committee's approval, agree upon reductions or abolitions in respect of customs duties which are not designed to be extended automatically to the other members. Such reductions or abolitions will not be calculated at the average level of customs duties laid down as a general target for all parties to the agreement.

IX. *Treaties on trade or economic matters not covered by the agreement*

11. Member countries which consider it necessary may enter into treaties among themselves for settling specific trade or economic matters not covered by the agreement, such as those relating to their border trade or the pooling of natural resources from adjacent national zones.

Such treaties must be submitted for the Committee's approval.

X. *Most-favoured-nation treatment*

12. In each signatory country, the products and services originating in the other signatory countries, or exported to them, will enjoy in all respects treatment no less favourable than that granted to any country, whether a party to the agreement or not.

Hence, all the reductions of customs duties — as well as the reduction or abolition of taxes and other restrictions which, in fulfilment of the established targets or of any higher ones, a country may make unilaterally, bilaterally or multilaterally — will be extended to the other signatories, except for the following:

(*a*) special concessions granted reciprocally to countries in the early stages of industrial development, in accordance with paragraph 8;

(*b*) reductions resulting from the industrial complementarity and specialization agreements referred to in paragraph 10, and the treaties mentioned in paragraph 11;

(*c*) existing preferential concessions, the elimination of which must be brought about gradually in order to avoid disrupting normal trade channels;

(*d*) the concessions provided for in the instruments of the Central American common market.

The temporary differences in customs duties resulting from the accession of additional countries to the agreement, in accordance with paragraph 9, will not be affected by the application of the rules set forth in the first and second sub-paragraphs of this section.

XI. *Committee*

13. For the purpose of administering the agreement and facilitating the attainment of its ends, a Committee on Trade Policy and Payments composed of representatives of all the member countries will be set up to carry out the negotiations arising from the agreement.

B. *Basic principles*

The Working Group considers that the structure which has been recommended for the establishment of the Latin American common market should be supplemented with a series of basic principles which cover various aspects of the actual operation of the market, so as to ensure the successful attainment of its aims.

For this purpose, the Working Group recommends the adoption of the following basic principles which will have to be worked out in further detail during the negotiations required for the adoption of the agreement itself:

I. *Reciprocal trade benefits of the common market*

1. For the success of the common market it is important that all the member countries should have the opportunity of expanding their exports at the same time as they take action to reduce their duties, taxes and other restrictions on imports. To this end, member countries which, as a result of the facilities granted to them, increase their exports to the common market without a proportionate increase in their imports, should

accelerate the rate at which they reduce their duties, taxes and other restrictions.

The Committee, after consulting member countries, will submit recommendations for the attainment of this objective.

II. *Stability in reciprocal treatment*

2. Member countries will not increase among themselves the duties, taxes and other restrictions in force in each of them at the time of their accession to the agreement nor those resulting from the reductions and abolitions they may subsequently make, either in fulfilment of the targets set in the agreement or within the régime of special concessions referred to in paragraph 8 of this report relating to the structure.

The following cases will constitute exceptions to this rule:

(*a*) cases in which a member country wishes to modify its customs tariff in order to enable the tariff to absorb the effects of non-tariff restrictions. Such a transfer may be effected only during the first five years of operation of the agreement;

(*b*) emergency cases provided for in section VIII of the Basic Principles;

(*c*) other exceptional cases agreed upon between the member countries during their negotiations preceding the conclusion of the agreement.

III. *Determination of the origin of goods*

3. As soon as it has been constituted, the Committee will lay down the criteria or principles to be followed for determining when a product originates from one of the member countries, for the purposes of applying the preferential treatment accorded in the free-trade zone.

IV. *Equalization of customs duties*

4. At regular intervals, the Committee will specify the products in respect of which it will be necessary to arrange for the equalization of customs duties for imports from third countries, either for the purpose of establishing an adequate regional preference or in order to solve other problems resulting from lack of uniformity in existing duties. As regards these products, member countries will agree, through negotiations in the Committee and bearing in mind the Committee's recommendations, upon the common duties to be adopted and the form and time-limit or gradual stages of their adoption.

V. *Co-ordination of trade policy*

5. Through the Committee, the member countries will endeavour to conduct jointly or, if this is not possible, in co-ordination, trade negotiations with third countries to ensure the common protection of their interests and to see that any concessions which may be granted to third countries do not preclude a suitable margin of preference within the common market or that such concessions do not impede the application of the agreement and the attainment of its objectives.

VI. *Special programme for the reduction of high customs duties*

6. The Committee will consider the desirability of drawing up regulations to secure the reduction among member countries of very high customs duties. To this end, the Committee may establish a periodic compulsory percentage reduction of those customs duties which exceed the value of the products in question by a certain percentage.

VII. *Rules of competition*

7. In order to contribute to the smooth working of the common market, exports from one member country should not be allowed to interfere, through unfair competitive practices, with the activities of other participants, either as a result of competitive currency depreciation or in any other way.

Member countries must also refrain from discriminatory practices, so that the export prices of each article remain the same irrespective of the market of destination.

The Committee will be the judge of when a member country is engaging in discriminatory or unfair practices in its trade with the others and will take action to remedy the situation.

VIII. *Measures to remedy balance-of-payments disequilibrium*

8. Member countries whose over-all balance-of-payments has improved as a result of the reduction policy will accelerate the rate at which they lower their duties, taxes and other restrictions. The Committee will make recommendations for the achievement of this objective.

Those members which, as a result of this reduction policy, have incurred a deficit, or increased an existing one, may temporarily slow down the rate of reduction after consulting the Committee. However, this slowing down will not absolve the debtor countries from the obligation of taking action to correct their disequilibrium.

IX. *Emergency measures (safeguard clauses)*

9. If the application of the measures for reducing customs duties and other taxes and restrictions provided for in the agreement should give rise to serious disturbances in any important sector of a country's economic activity, or cause considerable unemployment of labour which cannot be absorbed in other activities, the country concerned may suspend temporarily, as an emergency measure, the application of concessions already granted as well as the granting of new concessions. At the same time, it may put into effect special measures to protect the national interests involved.

The Committee will be duly informed of the suspension; will promptly examine the underlying causes; and will initiate whatever collective measures it deems necessary for remedying it.

If the suspension of concessions should be prolonged for more than one year, negotiations will be held, at the request of any member country, with a view to re-establishing the reciprocal situation prevailing before, or to finding new ways and means of ensuring equilibrium.

X. *Customs and statistical co-ordination*

10. Within five years from the entry into force of the agreement, member countries will adopt a standard customs nomenclature, as well as common customs definitions, procedures and regulations, and will co-ordinate their national statistics, bearing in mind the different needs which will arise from the implementation of the agreement and the operation of the common market.

The Committee will lay down the necessary criteria in order to facilitate the implementation of this provision.

XI. *Participation of representatives of economic activities*

11. In the organization and operation of the common market, the Committee will maintain close contact with representatives of the different economic activities and enlist their help in the preparation of appropriate measures.

XII. *Payments régime*

12. The effective operation and development of the common market will require the organization of a payments and credit régime to facilitate the multilateral liquidation of transactions between member countries. The criteria to be adopted in this respect should envisage the opening of sufficient credit to encourage a substantial growth of trade within the common market.

COMMENTS ON THE RECOMMENDATIONS

A. *Comments on the structure*

I. *Objectives*

In support of the conclusions reached by the Working Group during its first session at Santiago in February 1958, the report recommends to Governments the gradual and progressive formation of a Latin American preference zone as a further step towards constituting the common market. In this zone, all products, both primary and industrial, of Latin American origin should receive, in trade between the various countries, preferential treatment *vis-à-vis* the rest of the world.[5]

The Group considers that, at the present stage of Latin American economic development, this preferential system is essential to boost industrialization. Apart from the beneficial effects which it will have on the level of living of the population, it will enable Latin American industry to develop its industrial exports to the rest of the world and thus invigorate its international trade.

II. *Juridical form*

The Group considered that, to begin with, the common market should be legally constituted as a free-trade zone. It thus does not explicitly recommend the immediate establishment of a common customs tariff for all the Latin American countries *vis-à-vis* the rest of the world, as in the case of a customs union, although gradual progress must be made towards this objective to facilitate the development of the common market.[6]

In this respect the Group feels that Latin America should work out a solution suited to its action requirements, i.e., in harmony both with the conditions and with the possibilities of its economic development. Consequently, the choice of the free-trade zone and its gradual evolution towards a customs union does not in any way imply strict adherence to pre-conceived formulae, but an effort to adapt these formulae to the actual Latin American situation.

III. *Specific objectives and stages for their attainment*

The final objective of the common market is the elimination of all duties and restrictions between the Latin American countries.

The Group began by considering in detail whether: (*a*) an attempt should be made from the outset to secure an absolute undertaking by all the participating Governments to abolish completely customs duties and other similar restrictions within a given period; or (*b*) whether it would be more desirable to divide the common market process into stages and to try to fix limited objectives for an initial stage, leaving for subsequent negotiation, during a second stage, whatever measures seem advisable in the light of the experience gained.

To accept an absolute undertaking from the outset in a field in which Latin America is completely lacking in experience might prove to be a real leap in the dark. Fortunately, such a course is unnecessary. The final aim of achieving the common market and the possibility of reaching initial agreement on limited but very specific and well-defined objectives are perfectly compatible. The gradual attainment of such objectives should provide Governments with experience of the best way of reaching the final objective within a more or less short period.

In this context, it is felt — and this report so recommends — that the most suitable type of agreement would be one under which participating Governments would undertake to eliminate all their restrictions or convert

[5] As regards this trade in traditional commodities, the Trade Committee, in resolution 4 (I), paragraph 2, recommends to Governments:

"... (*b*) That such products be marketed among the Latin American countries at international prices and on terms similar to those prevailing for the region's trade with the rest of the world; and that, prices and other conditions being equal, the commodities in question be purchased as far as possible wthin Latin America, to the extent permitted by the foreign trade régime of the countries of the region;

"(*c*) That in accordance with prevailing world market conditions, countries which cannot meet their own needs purchase such products as far as possible from the usual sources of supply within Latin America, in so far as the producer countries are in a position to meet the requirements of their regular customers, and, in the case of countries maintaining payments agreements, when the payment availabilities created in the consumer countries so permit."

[6] Under Basic Principle IV, the Committee is to specify at regular intervals the products in respect of which customs duties on imports from outside the common market should be equalized or standardized in the member countries.

them into customs duties and reduce the amount of these duties in such a way that, after a period of ten years, the average level of customs protection does not exceed a certain level. Once this aim has been achieved, the Governments, profiting from the experience gained, would enter into new general negotiations with a view to agreeing in what form, to what extent and within what period of time the reduction of duties could be continued during a second stage.

The main advantage of a formula of this kind is that it combines a cautious attitude with a firm decision to reduce the present levels of protection among the Latin American countries. Even though the undertaking is only a partial one, it nevertheless sets specific objectives which pave the way towards the common market. The idea would court failure in actual practice if Governments merely expressed pious intentions without any agreement on a substantial reduction of present tariff levels. In the Group's opinion, such an undertaking is the minimum required as a starting-point for the formation of the common market.

Reference has just been made to the idea of reducing import duties to a certain average level, after a period consisting of a given number of years.[7] This procedure offers two essential advantages: (*a*) it will allow Governments great flexibility in the application of reductions; and (*b*) it will facilitate negotiations for the accession of new countries.

So far as flexibility is concerned, the average will enable each Government to initiate and continue the reduction of duties and restrictions in the form best suited to its interests, always provided that the average level agreed upon is finally reached. Within the margin of flexibility of this average-level procedure, each Government would be free to continue introducing unilaterally the reductions to be effected in fuifilment of the undertaking made, or to negotiate such reductions bilaterally or multilaterally with other contracting countries. However, it is important to stress again that these reductions would not be carried out haphazardly but according to a clear-cut plan: that of not exceeding, at the end of the first stage, the average level of import duties agreed upon.

An example will throw further light on this idea. Suppose that, within a given category of goods, the present level of customs duties in a given country is 40 per cent and that the Governments agree to reduce the average in question to 10 per cent at the end of the ten-year period. This in no way signifies that customs duties will have to be reduced to 10 per cent for all the products in that category. On the contrary, the Government of the country in question may reduce duties in the manner it considers most convenient. It is conceivable, for example, that for a third of the imports in this category duties may be eliminated altogether; for another third, the average might be reduced to 5 per cent; and hence for the remaining third an average of 25 per cent could be maintained.[8] This latter average would include duties higher than 25 per cent to compensate for other relatively low duties. In other words, the system is extremely flexible and will enable Governments to take expedient measures without infringing the undertaking to reduce the average level to the agreed figure.

In order to achieve even greater flexibility, the manner in which these reductions in the average are to be carried out periodically would not be laid down in the agreement but would be left for a subsequent decision by Governments in a committee of representatives, whose establishment is also recommended by the Working Group. In this way, if the gradual reduction of import duties among member countries were not proceeding at the proper speed for the purpose of the agreement, measures might be worked out for increasing the tempo, and intermediate targets might even be adopted.

The average system also offers great advantages in connexion with the accession of new countries. For if an initial group of countries had begun to form the common market, any country wishing to join it later could be incorporated simply by accepting the averages agreed on by the others.

If this procedure were not followed, the incorporation of a new country would give rise to difficult and troublesome negotiations, which would be the more protracted the greater the number of contracting countries. Moreover, it would be difficult to determine the equivalence of concessions between the countries already in the common market and the one wishing to join it.

All this is avoided by the averages system. The new participant will merely have to undertake to reduce average customs duties in the manner agreed on by the other parties to the agreement to become a member.

The Working Group did not consider it advisable to specify the amount of the desirable reduction in duties in exact terms. It believes that for the moment it is enough to establish the procedure for making the reduction, and the stages by which the plan should be carried out. If at the forthcoming session at Panama, Governments should take a decision with regard to the procedure recommended in this report, the problem of the actual target figure for the reduction of import duties can then be taken up. Once the relevant recommendation had been approved by Governments, the secretariat, together with such experts as it may be decided to appoint, would carry out a careful investigation with a view to submitting to Governments for their consideration, the alternatives considered most suitable.

In addition to the averages system as a means of reducing customs duties and equivalent charges within a period of ten years, the Working Group recommends that this process should be initiated at once, within the first year of operation of the agreement, by means of an

[7] It should be emphasized that what is contemplated under the average-level procedure is not an undertaking to reduce the initial level of duties by a given percentage but an undertaking to bring those duties to a certain agreed average level on the completion of a stipulated period of years.

[8] This would happen if the import figure, and hence the weighting in the average, is equal for each of the three parts into which the products in this category have been divided for the purpose of the illustration.

initial reduction (not in the form of an average) of each and every customs duty and restriction (of the order say of 5 to 10 per cent) with a view to introducing the preferential system forthwith and giving it an initial impetus which might perhaps be decisive for Latin American trade. These cuts would later be counted as part of the reductions towards the average to which reference has already been made.

Similarly, the Group recommends to Governments that within the first five years of operation of the agreement all currency, quota or financial difficulties, etc. hampering Latin American trade should be lifted. Since these restrictions are due, in a number of countries, to the fact that the customs tariff has lost its effectiveness in practice, partly as a result of inflation, the Group recommends that Governments should be left to decide whether or not and to what extent to convert these restrictions into customs duties before abolishing them.[9] Naturally, the customs duties thus increased would be subject to the levels agreed on and to the reduction rate or procedure fixed for the gradual attainment of those levels.

The Group recommends that in principle the reduction of customs duties and other equivalent charges (as also the elimination of other restrictions) should be irrevocable, so as to ensure the stability of the reciprocal treatment — with exceptions which will be dealt with in the appropriate place.[10]

IV and V. *Classification of products and programme for the first stage*

The Group considered it advisable to recommend to Governments that in the initial common market agreement products should be divided into three categories according to their nature and to the degree of development of the industries concerned in the various Latin American countries. These three categories are as follows:

Category I. Primary goods.

Category II. Capital goods, motor vehicles, other durable goods, intermediate articles and others for which demand tends to grow relatively intensively or a large import substitution margin exists; and

Category III. Manufactured goods for current consumption in respect of which demand tends to grow relatively slowly and import substitution possibilities may become exhausted or considerably strained.

The position of these three groups from the point of view of possibilities for the reduction of duties and the addition of restrictions recommended for the first ten-year stage is very different. Thus, for example, the primary goods which are for the most part traditional items in inter-Latin American trade offer the greatest immediate possibilities, in the Group's view. Many of them, especially mineral products and other raw materials, could in a relatively short time be freed from tariff and other restrictions.

In the sphere of agriculture, however, there are important instances in which the Working Group urges proceeding with caution, for the two reasons given in the comments on Basis II in its previous report.[11] In the case of some of these products, the gradual improvement of agricultural techniques would be a first step towards their full incorporation in the common market, with a view to establishing satisfactory conditions of inter-Latin American competition. As regards other articles it is possible that future increases in their consumption will in some cases tend to reduce the exportable surpluses of producing countries in Latin America and that that will compel other Latin American countries to maintain or increase their production even at costs above international prices, with a consequent need for protection against the rest of the world.[12]

To look at the matter from another point of view, the rapid growth of the population of Latin America and the absolute need to improve the quality of their diet call more and more urgently for the better use of the land available through a gradual improvement of techniques. The common market will greatly assist this productive development by permitting countries which, owing to unsuitable ecological conditions, are able to produce certain foods (or raw materials) only at relatively high costs, to obtain them on more favourable terms from other Latin American countries and use their land for other types of production.

The lack of a common market, and more particularly the lack of satisfactory payments arrangements between the Latin American countries, has been one of the factors hampering this better use of the productive capacity of the land. To change this situation will require a careful combination of measures of trade policy with adequate programmes of agricultural development.

It will be seen from the foregoing that special attention needs to be given to the agricultural products at present subject to duties or restrictions, and that they should be dealt with, in view of their small number and the special problems they present, through product by product negotiations.

The other two categories relate to industrial products. Category II comprises products of industries which might be described as dynamic, in view of the intensive expansion which may be expected of them in coming decades in the industrially more advanced countries of Latin America without, however, excluding the possibility that they may take root and prosper in the hitherto less developed countries.

[9] See sub-paragraph (*a*) of Basic Principle II.

[10] Basic Principle II provides more specifically for an obligation not to increase the duties, charges and restrictions referred to, whether original or already reduced, but indicates certain exceptions which should be made, in the Group's opinion, to this rule.

[11] See document E/CN.12/C.1/WG.2/6, p. 10.

[12] Since the Working Group made this observation, recent studies by the Secretariat have shown that this is in fact taking place in such important products as wheat, with regard to which it is very unlikely that the present supply-deficit of Latin America as a whole can be reduced in the next twenty years. It would be unwise therefore to drop the present system of protection without introducing other measures to stimulate domestic production of this and of other foodstuffs.

The dynamic industries are in the main those producing capital goods, intermediate or semi-finished products and certain durable consumer goods (in particular the products of the metal transforming industries). These industries are characterized by their high degree of capital intensity, their reliance on a substantially expanding market — by virtue both of the growth of demand and of the extensive possibilities such goods offer for import substitution — and by the fact that they are new industries or industries which do not yet exist in Latin America. They thus have rapid growth prospects and offer broad and immediate possibilities of complementarity, specialization and reconstruction without the serious adjustment problems which the regional market would entail for already established and consolidated industries or industries limited to a vegetative rate of growth. In other words, it is in these dynamic industries that the greatest benefits could be derived with the least disturbances and adverse reactions.

This fact is of decisive importance for the common market. It is not a matter of one country — in any static sense — increasing its production at the expense of others; there is room for all, if the basic conditions are created which will permit the specialization of production; and this will be the easier the more rapid the growth of demand and production in the dynamic development of the common market.

The position of the dynamic industries would thus seem to be highly suited to a policy of relatively rapid reductions of tariffs and restrictions, subject to the differential treatment provided for in the case of countries in which these industries are at an early stage of development.

The situation is quite different as regards the industries included in Category III, industries producing goods for current consumption. In the more developed countries, these industries are already fully established; in many of them, import substitution has been completed for some time, and the growth of production will tend to be slower than in the dynamic industries, gradually following the population growth. It is clear, however, that if a common market is established and export possibilities are opened up, some of these industries might receive a strong impetus towards expansion.

With regard to the less developed countries, although they offer room for the expansion of these industries because the import substitution margin has not yet been closed — on the contrary, it remains very wide in some of them — the competition of the more developed countries could, if caution is not exercised, have unfavourable immediate consequences for certain branches of industry.

These considerations induced the Working Group to recommend different targets for these two different groups of industrial products. For Category II, which covers capital goods and other products of the dynamic industries, it recommends as a target a low average rate of duties which will stimulate Latin American trade in these products to the greatest extent possible. For Category III, consisting of manufactured goods for current consumption, a higher average is recommended, in order not to force during the initial stage of ten years, a reduction of duties which could perhaps cause disturbances to existing industries. The reduction will have to be graduated in such a way as to facilitate the progressive development of these industries towards forms of specialization and greater productivity which will enable them to develop within a broad system of inter-Latin American competition.

Furthermore, to set a higher average rate of duties as the target for this category of products would not prevent those countries in which the manufacture of certain goods of current consumption showed dynamic characteristics from obtaining from others — with respect to such products and within the general programme of reductions — substantial tariff cuts, perhaps even greater than those fixed for products in Category II.

VI. *System for less developed countries*

It will be recalled that the main concern of the Working Group at its first session was to arrive at common market formulae which, far from placing difficulties in the way of the industrial growth of the less developed Latin American countries, would give them a vigorous impetus towards industrialization; at the present session the Working Group reached final conclusions on this very important aspect of the matter. The Group accordingly considers it advisable that the agreement should contain a classification of countries according to the degree of development in them of the industries in Categories II and III, as follows:

Group A should comprise the countries which might be called the economically more advanced countries of Latin America, countries in which the industries producing goods for current consumption — those in Category III — are in full process of development, while the capital and other durable goods industries — those in Category II — are already making steady progress in response to the demands of their economic development. Group B comprises those countries in which the industries manufacturing goods for current consumption have also developed in a manner similar to those of countries in the previous group, while yet retaining a wider import substitution margin, but in which, on the other hand, the capital-goods and other industries in Category II are either incipient or non-existent. Group C comprises countries in which the industries producing goods for current consumption are still in the early stages of development and in which there is a wide import-substitution margin and no capital-goods industries — apart from certain exceptions, usually concerned with intermediate products.

The Working Group believes that diffential treatment should be given for the benefit of countries in groups B and C. To this end, it proposes that in the common market agreement, with respect to these two groups of countries, and as a target to be achieved during the first stage, a moderately higher average level of duties should be established for the categories of goods produced by industries at the incipient stage of development. Thus, for instance, if it were established as a general target for the capital and other goods in Category II that in ten

years a level of customs duties should be reached of not more, on an average, than 10 per cent of the value of imports, then for the countries in groups B and C an average level of duties of, for instance, 15 per cent could be established for this category of products. The same could be done with respect to consumer goods in category III; in the case of these, an average level could be established for countries in group C higher than that generally agreed on for countries in groups A and B.[13]

The Working Group attaches considerable importance to such differential treatment, for if all countries were considered equal from the point of view of economic development the common market agreement would embody a manifest inequality of treatment. In point of fact, if treatment is to be equal the inequality of countries must be fully recognized. But this is not the only way in which the Group has tried to provide for favourable treatment of the less developed countries; it also recommends that Governments should make special concessions in favour of these groups of countries. This requires some explanation.

In establishing a higher level of customs duties as the target for the less developed countries the Working Group, while not wanting to encourage them to adopt anti-economic forms of industrialization, wishes to recognize the fact that owing to their lower productivity and their smaller over-all resources — in comparison with the more advanced countries — they require a greater degree of protection for the time being. These countries, however, will have to be given strong additional incentives in order to ensure that, while receiving this greater degree of average protection, they are able to embark on vigorous industrialization with the common market in mind. This is the idea behind the special concessions. An example will help to give a clearer idea of the scope and purposes of the latter. Let us suppose that a country in group C at an early stage of development agrees by negotiation — through the Committee — with one or more advanced countries in group A to abolish customs duties for certain capital goods in which the latter are interested, either within the average applicable to them or within a lower average, if the country in question considered that desirable. In exchange for the facilities it thus granted, the group C country would receive special concessions from the more advanced countries, for example, exemption from duties for the entry into their territory of certain products which the group C country was in a position to produce economically and to export to the group A countries' market. In order that the concession thus received by the group C country should be effective, it would be extended automatically only to other countries at an early stage of development in the same group, and not to countries in groups A and B. Thus, the group C countries would have available to them the broad and growing market of the group A country as a stimulus to their industrialization and their industrial export trade.

For their part, the group B countries which have made considerable advances in their consumer industries could similarly enter into special negotiations with the countries at an early stage of development in these goods — those in group C — in order to arrange reciprocal concessions of the same kind.

All this means that within the preferential Latin American system there would be a system of special preferences for the relatively small countries, with a view to creating conditions likely to attract domestic or foreign capital and to ensuring the use of their skills in progressive and rational industrialization, not only for the benefit of their domestic markets, but also for that of the common market. It should, however, be pointed out that these preferences would be in their favour only and that whatever facility an industrially advanced — group A — or moderately advanced — group B — country received in return for these concessions, would automatically be extended to all member countries by virtue of the most-favoured-nation clause.

VII. *Extent of the market and initial groupings*

The Working Group has already, in its first report, expressed the view that the common market should embrace the largest possible number of countries. This does not necessarily mean that it could not begin with an initial nucleus of countries having a more active interest in its formation. But in order that the market should from the very outset be of the kind desired, the Working Group considers it of vital importance to put two proposals before Governments: the first, that all Latin American countries should be invited to the initial drafting of the agreement; the second, that countries which for one reason or another decide not to participate at the beginning should be enabled to do so at any later stage without entering into complicated negotiations. This possibility has already been referred to in commenting on the advantages offered by the averages system in connexion with the accession of new countries.

There are possible identities of interest which might facilitate the formation of a broad orbit of countries. Thus, the fact that the trade of seven countries in the southern area makes up about 90 per cent of the total trade among Latin American countries (petroleum excluded) readily suggests that these countries might act as the initial nucleus of the common market. But there are other countries geographically remote from them which, for reasons of common interests, might wish to participate in this nucleus. The area of identity of interest might well be found in the field of the dynamic industries. Apart from other things, this common denominator would be a very strong factor, both for the present and for the future, in broadening the initial nucleus of the common market, and in the opinion of the Working Group everything should be done to prevent any weakening of this constructive force.

Nothing of all this, however, can be hoped for if a static viewpoint is adopted. The common market is not intended as a means for freezing present trade relations;

[13] One member of the Working Group particularly urged the secretariat, in its report to Governments, to consider the case of countries with a high level of internal costs. He felt that it would be advisable, in order to facilitate the incorporation of these countries in the common market agreement, for them to be allowed the average fixed countries in group C, even if they had well-developed consumer industries.

on the contrary, the intention is to create a new pattern of trade in accordance with the profound structural changes which the Latin American economy must undergo in coming decades if it is to show vigorous growth. And geographical distance in a rapidly industrializing Latin America cannot have the same significance as it had when the countries of Latin America concentrated almost entirely on primary production for the large industrial centres. All this tends to reinforce the idea of the broadest possible grouping.

The Working Group believes that the formation of other types of groupings of countries, through exclusive arrangements, could be an obstacle to the creation of a Latin American common market. On the other hand, it is clear that geographical proximity will create, within the common market, very tightly-knit trading areas among certain groups of countries; this, however, must be the spontaneous result of the facts themselves, and not the consequence of a policy of excluding other Latin American countries solely because of their remoteness — a remoteness which will, in any case, be overcome as transport improves.

VIII. *Specific agreements for complementarity and specialization*

The above considerations should not prevent countries which are closely linked by their geographical proximity or by an identity of interests from making complementarity or specialization arrangements between themselves in order to increase the productivity and reduce the costs of certain industries. These arrangements would not — as would be desirable — be easy to put into effect if the exemptions from or reductions of customs duties agreed on between the countries concerned were at once extended to other countries by virtue of the most-favoured-nation clause. Hence, the latter clause should not be applied in such cases. This situation would, of course, have to be temporary in character, lasting until such time as the industries in question had been able to strengthen themselves through their complementarity or specialization. In addition, the Working Group considers it essential that the customs duties thus abolished or reduced should not be counted in connexion with the average levels laid down in the agreement; they would, in other words, be additional to those granted generally and would in no way affect the obligation to fulfil promises undertaken in the agreement.

IX. *Other special agreements*

In addition to the special arrangements just mentioned, the Working Group considers that the agreement should permit other special agreements between countries designed to stimulate border trade of the development of zones or basins of interest to two or more of them. It therefore recommends that such agreements should be permitted, subject, however, to the Committee's approval.

X. *Most-favoured-nation treatment*

The members of the Working Group are convinced that the sound operation of the regional market depends on the granting of equality of opportunity to all participating countries, apart from the differential treatment to be accorded, for the reasons already explained, to countries at the earliest stage of industrial development and that resulting from specialization and complementarity agreements and other arrangements of a temporary nature. In addition, the Group explicitly recognized an exception in favour of the preferences and other concessions resulting from Central American economic integration — which amounts to considering the Central American countries as an economic unity.

XI. *Trade and payments policy committee*

The common market agreement will have to lay the foundations of a policy for the gradual and continuous economic integration of Latin America within the market. But, in addition, this policy must pursue constant aims and must be continuously adapted to changing circumstances. With this end in view the Group considers it advisable that there should be set up an intergovernmental committee formed of high-ranking representatives of the contracting countries. This committee would be responsible for considering problems of trade policy, payments and the administration of the agreement. Mention has been made in the course of this report of the need for countries to undertake negotiations on particular matters dealt with in the agreement; it would be useful if these negotiations could take place within the committee even if they were to be carried on between restricted groups of countries, in order to ensure the correlation of common interests. Owing to the nature of the Working Group, this report does not go into detail regarding the functions of the committee; it would be desirable that in preparing the draft agreement the secretariat should expressly enumerate these functions and clearly specify which matters should be decided by a simple majority and which should require the unanimous assent of the member countries.

B. *Comments on the basic principles*

As they supplement or amplify the principles recommended in the part of this report dealing with structure, the meaning and purpose of most of the so-called " basic principles " proposed is obvious. However, the Group felt that some comments were called for on certain of them to which it has given special attention.

I. *Reciprocal trade benefits of the common market*

The Group considered the possibility that the progressive establishment of the common market through the gradual reduction or abolition of customs duties and other taxes and restrictions might bring substantially greater benefits to some member countries than to others. These greater benefits would probably be reflected in a persistent tendency, on the part of those to whom this was more advantageous, to export more to other common-market countries than they imported from them. In the Group's view the countries which find themselves in this position should increase the rate of reduction of their duties and other taxes and re-

strictions in order to promote their imports and so offer the others greater opportunities of participating adequately in the reciprocal trade benefits of the common market.

II. *Co-ordination of trade policy*

Apart from the recommendation concerning the need for member countries to carry out their trade negotiations in co-ordination with third countries, the Working Group agreed to recommend that the Latin American countries should endeavour forthwith to initiate negotiations with a view to securing recognition of regional preference through the inclusion of a Latin American waiver clause in the agreement in force, or in process of approval, with third countries; and that they should also bear in mind the advantages of this objective in the negotiations they will have to undertake with the members of the European Common Market or with other countries members of GATT.

The Working Group also recommended the renegotiation of trade treaties with third parties which might impede the participation of the Latin American country concerned in the common market.

III. *Special programme for the reduction of high customs duties*

Customs duties which, because they are too high, restrict or even render impossible the importation of the products on which they are levied will have very little effect on the determination of the weighted average level of duties, and perhaps none at all, since such weighting is based precisely on actual imports of each product. It might thus be possible for a member country, by the end of the first stage contemplated in the agreement, to reach the duty averages set as the target, or even much lower ones, while maintaining high duties on a large number of items. Furthermore, it is conceivable that the average level of duties reached by a given country (calculated in the manner described) will rise as that country reduces the duties on certain items, if the volume of imports of these is thereby increased to any great extent.

It is for this reason that the Working Group stresses the advisability of the Committee's laying down rules designed to ensure or promote the effective reduction of very high duties, for example by establishing a compulsory periodic percentage reduction for customs duties whose effect on the value of the products concerned exceeds a certain percentage.

IV. *Measures to remedy balance-of-payments disequilibrium*

The success of measures to reduce duties, taxes and restrictions will depend to a large extent on the attitude of the contracting countries towards the achievement and maintenance of their balance-of-payments equilibrium. It is possible that, as a result of such a policy, a contracting country might improve its balance-of-payments situation. In that event, the Committee should advise it to adopt further liberalization measures so that, through the resultant increase in its imports, it can help the debtor countries in their development.

Similarly, countries in the reverse position could, after consulting the Committee, take steps to reduce the rate of liberalization if that proved necessary.

V. *Escape or safeguard clauses*

Similarly, the Group considered the possibility that the concessions granted by a member country within the common market might provoke serious disturbances in some important industry or substantial unemployment among workers who cannot be absorbed in other branches of economic activity. In this case it recommends that the agreement should contain safeguard or escape clauses to allow countries in this kind of situation temporarily to suspend the concessions granted, or to withhold the granting of further rebates, without prejudice to any other measures which it may or ought to take to correct its imbalance, especially if it is of a structural kind.

VI. *Payments system*

The Group also noted with satisfaction the efforts of the secretariat to formulate a draft payments system between the Latin American countries, and hopes that it will be possible, at the next session of the Central Banks, to reach definitive formulae, because an effective payments arrangement and the smooth working of the common market are closely inter-related. Without wishing to interfere in the deliberations of the Central Banks, the Working Group would like to stress the desirability of considering, in these arrangements, the possibility of granting extensive credits, through a suitable payments system, in order to facilitate inter-Latin American trade and to prevent restrictive measures from being taken owing to payment difficulties.

VII. *The inter-Latin American financing agency and the common market*

The Working Group took note with satisfaction of the statements made by the observer sent by the Inter-American Economic and Social Council to the effect that, at the meetings being held at Washington with a view to the establishment of a Latin American financing agency, special interest is being taken in the credits and investments intended for setting up industries for the common market. The Group also considers it pertinent at this stage to point out the desirability of introducing a system of short- and medium-term credits in order to encourage exports from the industries of the Latin American countries, and it would welcome a study of this aspect of the problem.

Annex

After this report was published, the secretariat received a communication from Mr. Raymond Mikesell in which he amplified the observations referred to in the final paragraph of the introduction.[a] His comments are as follows:

1. The agreement establishing the Latin American common market should stipulate a specific date or range for the complete liberalization of trade within the area to be covered by the market.

[a] See p. 46.

Unless this is done, it might well appear from point 1 (*a*) of the Structure, which concerns the creation of a preferential system for inter-Latin American trade, that the principal objective of the common market agreement is to establish a preferential trading area instead of a true free trade area or customs union. This impression would be strengthened by the statement made in the comments on the Structure that the juridical form of the agreement would not necessarily have to conform to a pre-established pattern.

2. Article VIII of the Structure seems to leave the door open to bilateral negotiations of a discriminatory nature. It is understandable that provisions might be made for accelerating the establishment of a common market in particular commodities, provided such arrangements conform to reasonable standards and all countries that wish to do so may take part. Special agreements might also be made to liberalize border traffic between adjacent frontier zones. But the provisions contained in the Structure as it stands are too broad and contain no safeguard other than the prerequisite that the agreement concerned should be adopted by the Committee. As this does not seem to provide adequate protection, the Working Group should make recommendations as to the criteria which the Committee should follow in the case of special agreements of this nature.

3. Lastly, Mr. Miskesell considers that, as he pointed out on several occasions during the Working Group's session, exceptions to the most-favoured-nation principle referred to in point X of the Structure should have a definite time limit or range.

II. TREATY ESTABLISHING A FREE-TRADE AREA AND INSTITUTING THE LATIN AMERICAN FREE-TRADE ASSOCIATION *

(Montevideo, 18 February 1960)

The Governments represented at the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries,

Persuaded that the expansion of present national markets, through the gradual elimination of barriers to intra-regional trade, is a prerequisite if the Latin American countries are to accelerate their economic development process in such a way as to ensure a higher level of living for their peoples,

Aware that economic development should be attained through the maximum utilization of available production factors and the more effective co-ordination of the development programmes of the different production sectors in accordance with norms which take due account of the interests of each and all and which make proper compensation, by means of appropriate measures, for the special situation of countries which are at a relatively less advanced stage of economic development,

Convinced that the strengthening of national economies will contribute to the expansion of trade within Latin America and with the rest of the world,

Sure that, by the adoption of suitable formulae, conditions can be created that will be conducive to the gradual and smooth adaptation of existing productive activities to new patterns of reciprocal trade, and that further incentives will thereby be provided for the improvement and expansion of such trade,

Certain that any action to achieve such ends must take into account the commitments arising out of the international instruments which govern their trade,

Determined to persevere in their efforts to establish, gradually and progressively, a Latin American common market and, hence, to continue collaborating with the Latin American Governments as a whole in the work already initiated for this purpose, and

Motivated by the desire to pool their efforts to achieve the progressive complementarity and integration of their national economies on the basis of an effective reciprocity of benefits, decide to establish a Free-Trade Area and, to that end, to conclude a Treaty instituting the Latin American Free-Trade Association; and have, for this purpose, appointed their plenipotentiaries who have agreed as follows:

CHAPTER I

NAME AND PURPOSE

Article 1

By this Treaty the Contracting Parties establish a Free-Trade Area and institute the Latin American Free-Trade Association (hereinafter referred to as " the Association "), with headquarters in the city of Montevideo (Eastern Republic of Uruguay).

The term " Area ", when used in this Treaty, means the combined territories of the Contracting Parties.

CHAPTER II

PROGRAMME FOR TRADE LIBERALIZATION

Article 2

The Free-Trade Area, established under the terms of the present Treaty, shall be brought into full operation within not more than twelve (12) years from the date of the Treaty's entry into force.

Article 3

During the period indicated in article 2, the Contracting Parties shall gradually eliminate, in respect of substan-

* The Montevideo Treaty was originally concluded and signed by Argentina, Brazil, Chile, Paraguay, Peru and Uruguay. The signatory Governments deposited their respective instruments of ratification on 2 May 1960. The instruments of accession by Colombia and Ecuador were deposited on 30 September 1961 and 3 November 1961 respectively.

tially all their reciprocal trade, such duties, charges and restrictions as may be applied to imports of goods originating in the territory of any Contracting Party.

For the purposes of the present Treaty the term " duties and charges " means customs duties and any other charges of equivalent effect — whether fiscal, monetary or exchange — that are levied on imports.

The provisions of the present article do not apply to fees and similar charges in respect of services rendered.

Article 4

The purpose set forth in article 3 shall be achieved through negotiations to be held from time to time among the Contracting Parties with a view to drawing up:

(*a*) National Schedules specifying the annual reductions in duties, charges and other restrictions which each Contracting Party grants to the other Contracting Parties in accordance with the provisions of article 5; and

(*b*) a Common Schedule listing the products on which the Contracting Parties collectively agree to eliminate duties, charges and other restrictions completely, so far as intra-Area trade is concerned, within the period mentioned in article 2, by complying with the minimum percentages set out in article 7 and through the gradual reduction provided for in article 5.

Article 5

With a view to the preparation of the National Schedules referred to in article 4, sub-paragraph (*a*), each Contracting Party shall annually grant to the other Contracting Parties reductions in duties and charges equivalent to not less than eight (8) per cent of the weighted average applicable to third countries, until they are eliminated in respect of substantially all of its imports from the Area, in accordance with the definitions, methods of calculation, rules and procedures laid down in the Protocol.

For this purpose, duties and charges for third parties shall be deemed to be those in force on 31 December prior to each negotiation.

When the import régime of a Contracting Party contains restrictions of such a kind that the requisite equivalence with the reductions in duties and charges granted by another Contracting Party or other Contracting Parties is unobtainable, the counterpart of these reductions shall be complemented by means of the elimination or relaxation of those restrictions.

Article 6

The National Schedules shall enter into force on 1 January of each year, except that those deriving from the initial negotiations shall enter into force on the date fixed by the Contracting Parties.

Article 7

The Common Schedule shall consist of products which, in terms of the aggregate value of the trade among the Contracting Parties, shall constitute not less than the following percentages, calculated in accordance with the provisions of the Protocol:

Twenty-five (25) per cent during the first three-year period;

Fifty (50) per cent during the second three-year period;

Seventy-five (75) per cent during the third three-year period;

Substantially all of such trade during the fourth three-year period.

Article 8

The inclusion of products in the Common Schedule shall be final and the concessions granted in respect thereof irrevocable.

Concessions granted in respect of products which appear only in the National Schedules may be withdrawn by negotiation among the Contracting Parties and on a basis of adequate compensation.

Article 9

The percentages referred to in articles 5 and 7 shall be calculated on the basis of the average annual value of trade during the three years preceding the year in which each negotiation is effected.

Article 10

The purpose of the negotiations — based on reciprocity of concessions — referred to in article 4 shall be to expand and diversify trade and to promote the progressive complementarity of the economies of the countries in the Area.

In these negotiations the situation of those Contracting Parties whose levels of duties, charges and restrictions differ substantially from those of the other Contracting Parties shall be considered with due fairness.

Article 11

If, as a result of the concessions granted, significant and persistent disadvantages are created in respect of trade between one Contracting Party and the others as a whole in the products included in the liberalization programme, the Contracting Parties shall, at the request of the Contracting Party affected, consider steps to remedy these disadvantages with a view to the adoption of suitable, non-restrictive measures designed to promote trade at the highest possible levels.

Article 12

If, as a result of circumstances other than those referred to in article 11, significant and persistent disadvantages are created in respect of trade in the products included in the liberalization programme, the Contracting Parties shall, at the request of the Contracting Party concerned, make every effort within their power to remedy these disadvantages.

Article 13

The reciprocity mentioned in article 10 refers to the expected growth in the flow of trade between each Contracting Party and the others as a whole, in the products included in the liberalization programme and those which may subsequently be added.

CHAPTER III

EXPANSION OF TRADE AND ECONOMIC COMPLEMENTARITY

Article 14

In order to ensure the continued expansion and diversification of reciprocal trade, the Contracting Parties shall take steps:

(*a*) To grant one another, while observing the principle of reciprocity, concessions which will ensure that, in the first negotiation, treatment not less favourable than that which existed before the date of entry into force of the present Treaty is accorded to imports from within the Area;

(*b*) To include in the National Schedules the largest possible number of products in which trade is carried on among the Contracting Parties; and

(*c*) To add to these Schedules an increasing number of products which are not yet included in reciprocal trade.

Article 15

In order to ensure fair competitive conditions among the Contracting Parties and to facilitate the increasing integration and complementarity of their economies, particularly with regard to industrial production, the Contracting Parties shall make every effort — in keeping with the liberalization objectives of the present Treaty — to reconcile their import and export régimes, as well as the treatment they accord to capital, goods and services from outside the Area.

Article 16

With a view to expediting the process of integration and complementarity referred to in article 15, the Contracting Parties:

(*a*) Shall endeavour to promote progressively closer co-ordination of the corresponding industrialization policies, and shall sponsor for this purpose agreements among representatives of the economic sectors concerned; and

(*b*) May negotiate mutual agreements on complementarity by industrial sectors.

Article 17

The complementarity agreements referred to in article 16, sub-paragraph (*b*), shall set forth the liberalization programme to be applied to products of the sector concerned and may contain, *inter alia*, clauses designed to reconcile the treatment accorded to raw materials and other components used in the manufacture of these products.

Any Contracting Party concerned with the complementarity programmes shall be free to participate in the negotiation of these agreements.

The results of these negotiations shall, in every case, be embodied in protocols which shall enter into force after the Contracting Parties have decided that they are consistent with the general principles and purposes of the present Treaty.

CHAPTER IV

MOST-FAVOURED-NATION TREATMENT

Article 18

Any advantage, benefit, franchise, immunity or privilege applied by a Contracting Party in respect of a product originating in or intended for consignment to any other country shall be immediately and unconditionally extended to the similar product originating in or intended for consignment to the territory of the other Contracting Parties.

Article 19

The most-favoured-nation treatment referred to in article 18 shall not be applicable to the advantages, benefits, franchises, immunities and privileges already granted or which may be granted by virtue of agreements among Contracting Parties or between Contracting Parties and third countries with a view to facilitating border trade.

Article 20

Capital originating in the Area shall enjoy, in the territory of each Contracting Party, treatment not less favourable than that granted to capital originating in any other country.

CHAPTER V

TREATMENT IN RESPECT OF INTERNAL TAXATION

Article 21

With respect to taxes, rates and other internal duties and charges, products originating in the territory of a Contracting Party shall enjoy, in the territory of another Contracting Party, treatment no less favourable than that accorded to similar national products.

Article 22

Each Contracting Party shall endeavour to ensure that the charges or other domestic measures applied to products included in the liberalization programme which are not produced, or are produced only in small quantities, in its territory, do not nullify or reduce any concession or advantage obtained by any Contracting Party during the negotiations.

If a Contracting Party considers itself injured by virtue of the measures mentioned in the previous paragraph, it may appeal to the competent organs of the Association with a view to having the matter examined and appropriate recommendations made.

CHAPTER VI

SAVING CLAUSES

Article 23

The Contracting Parties may, as a provisional measure and providing that the customary level of consumption in the importer country is not thereby lowered, authorize a Contracting Party to impose non-discriminatory restrictions upon imports of products included in the liberalization programme which originate in the Area, if these products are imported in such quantities or under such conditions that they have, or are liable to have, serious repercussions on specific productive activities of vital importance to the national economy.

Article 24

The Contracting Parties may likewise authorize a Contracting Party which has adopted measures to correct its unfavourable over-all balance of payments to extend these measures, provisionally and without discrimination, to intra-Area trade in the products included in the liberalization programme.

The Contracting Parties shall endeavour to ensure that the imposition of restrictions deriving from the balance-of-payments situation does not affect trade, within the Area, in the products included in the liberalization programme.

Article 25

If the situations referred to in articles 23 and 24 call for immediate action, the Contracting Party concerned may, as an emergency arrangement to be referred to the Contracting Parties, apply the measures provided for in the said articles. The measures adopted must immediately be communicated to the Committee mentioned in article 33, which, if it deems necessary, shall convene a special session of the Conference.

Article 26

Should the measures envisaged in this chapter be prolonged for more than one year, the Committee shall propose to the Conference, referred to in article 33, either *ex officio* or at the request of any of the Contracting Parties, the immediate initiation of negotiations with a view to eliminating the restrictions adopted.

The present article does not affect the provisions of article 8.

CHAPTER VII

SPECIAL PROVISIONS CONCERNING AGRICULTURE

Article 27

The Contracting Parties shall seek to co-ordinate their agricultural development and agricultural commodity trade policies, with a view to securing the most efficient utilization of their natural resources, raising the standard of living of the rural population, and guaranteeing normal supplies to consumers, without disorganizing the regular productive activities of each Contracting Party.

Article 28

Providing that no lowering of its customary consumption or increase in anti-economic production is involved, a Contracting Party may apply, within the period mentioned in article 2, and in respect of trade in agricultural commodities of substantial importance to its economy that are included in the liberalization programme, appropriate non-discriminatory measures designed to:

(*a*) Limit imports to the amount required to meet the deficit in internal production; and

(*b*) Equalize the prices of the imported and domestic product.

The Contracting Party which decides to apply these measures shall inform the other Contracting Parties before it puts them into effect.

Article 29

During the period prescribed in article 2 an attempt shall be made to expand intra-Area trade in agricultural commodities by such means as agreements among the Contracting Parties designed to cover deficits in domestic production.

For this purpose, the Contracting Parties shall give priority, under normal competitive conditions, to products originating in the territories of the other Contracting Parties, due consideration being given to the traditional flows of intra-Area trade.

Should such agreements be concluded among two or more Contracting Parties, the other Contracting Parties shall be notified before the agreements enter into force.

Article 30

The measures provided for in this chapter shall not be applied for the purpose of incorporating, in the production of agricultural commodities, resources which imply a reduction in the average level of productivity existing on the date on which the present Treaty enters into force.

Article 31

If a Contracting Party considers itself injured by a reduction of its exports attributable to the lowering of the usual consumption level of the importer country as a result of the measures referred to in article 28 and/or an anti-economic increase in the production referred to in the previous article, it may appeal to the competent organs of the Association to study the situation and, if necessary, to make recommendations for the adoption of appropriate measures to be applied in accordance with article 12.

CHAPTER VIII

MEASURES IN FAVOUR OF COUNTRIES AT A RELATIVELY LESS ADVANCED STAGE OF ECONOMIC DEVELOPMENT

Article 32

The Contracting Parties, recognizing that fulfilment of the purpose of the present Treaty will be facilitated by the economic growth of the countries in the Area that

are at a relatively less advanced stage of economic development, shall take steps to create conditions conducive to such growth.

To this end, the Contracting Parties may:

(*a*) Authorize a Contracting Party to grant to another Contracting Party which is at a relatively less advanced stage of economic development within the Area, as long as necessary and as a temporary measure, for the purposes set out in the present article, advantages not extended to the other Contracting Parties, in order to encourage the introduction or expansion of specific productive activities;

(*b*) Authorize a Contracting Party at a relatively less advanced stage of economic development within the Area to implement the programme for the reduction of duties, charges and other restrictions under more favourable conditions, specially agreed upon;

(*c*) Authorize a Contracting Party at a relatively less advanced stage of economic development within the Area to adopt appropriate measures to correct an unfavourable balance of payments, if the case arises;

(*d*) Authorize a Contracting Party at a relatively less advanced stage of economic development within the Area to apply, if necessary and as a temporary measure, and providing that this does not entail a decrease in its customary consumption, appropriate non-discriminatory measures designed to protect the domestic output of products included in the liberalization programme which are of vital importance to its economic development;

(*e*) Make collective arrangements in favour of a Contracting Party at a relatively less advanced stage of economic development within the Area with respect to the support and promotion, both inside and outside the Area, of financial or technical measures designed to bring about the expansion of existing productive activities or to encourage new activities, particularly those intended for the industrialization of its raw materials; and

(*f*) Promote or support, as the case may be, special technical assistance programmes for one or more Contracting Parties, intended to raise, in countries at a relatively less advanced stage of economic development within the Area, productivity levels in specific production sectors.

CHAPTER IX

ORGANS OF THE ASSOCIATION

Article 33

The organs of the Association are the Conference of the Contracting Parties (referred to in this Treaty as " the Conference ") and the Standing Executive Committee (referred to in this Treaty as " the Committee ").

Article 34

The Conference is the supreme organ of the Association. It shall adopt all decisions in matters requiring joint action on the part of the Contracting Parties, and it shall be empowered, *inter alia:*

(*a*) To take the necessary steps to carry out the present Treaty and to study the results of its implementation;

(*b*) To promote the negotiations provided for in article 4 and to assess the results thereof;

(*c*) To approve the Committee's annual budget and to fix the contributions of each Contracting Party;

(*d*) To lay down its own rules of procedure and to approve the Committee's rules of procedure;

(*e*) To elect a Chairman and two Vice-Chairmen for each session;

(*f*) To appoint the Executive Secretary of the Committee; and

(*g*) To deal with other business of common interest.

Article 35

The Conference shall be composed of duly accredited representatives of the Contracting Parties. Each delegation shall have one vote.

Article 36

The Conference shall hold: (*a*) a regular session once a year; and (*b*) special sessions when convened by the Committee.

At each session the Conference shall decide the place and date of the following regular session.

Article 37

The Conference may not take decisions unless at least two-thirds ($^2/_3$) of the Contracting Parties are present.

Article 38

During the first two years in which the present Treaty is in force, decisions of the Conference shall be adopted when affirmative votes are cast by at least two-thirds ($^2/_3$) of the Contracting Parties and providing that no negative vote is cast.

The Contracting Parties shall likewise determine the voting system to be adopted after this two-year period.

The affirmative vote of two-thirds ($^2/_3$) of the Contracting Parties shall be required:

(*a*) To approve the Committee's annual budget;

(*b*) To elect the Chairman and Vice-Chairmen of the Conference, as well as the Executive Secretary; and

(*c*) To fix the time and place of the sessions of the Conference.

Article 39

The Committee is the permanent organ of the Association responsible for supervising the implementation of the provisions of the present Treaty. Its duties and responsibilities shall be, *inter alia*:

(*a*) To convene the Conference;

(*b*) To submit for the approval of the Conference an annual work programme and the Committee's annual budget estimates;

(*c*) To represent the Association in dealings with third countries and international organs and entities for the purpose of considering matters of common interest. It shall also represent the Association in contracts and other instruments of public and private law;

(*d*) To undertake studies, to suggest measures and to submit to the Conference such recommendations as it deems appropriate for the effective implementation of the Treaty;

(*e*) To submit to the Conference at its regular sessions an annual report on its activities and on the results of the implementation of the present Treaty;

(*f*) To request the technical advice and the co-operation of individuals and of national and international organizations;

(*g*) To take such decisions as may be delegated to it by the Conference; and

(*h*) To undertake the work assigned to it by the Conference.

Article 40

The Committee shall consist of a Permanent Representative of each Contracting Party, who shall have a single vote.

Each Representative shall have an Alternate.

Article 41

The Committee shall have a Secretariat headed by an Executive Secretary and comprising technical and administrative personnel.

The Executive Secretary, elected by the Conference for a three-year term and re-eligible for similar periods, shall attend the plenary meetings of the Committee without the right to vote.

The Executive Secretary shall be the General Secretary of the Conference. His duties shall be, *inter alia*:

(*a*) To organize the work of the Conference and of the Committee;

(*b*) To prepare the Committee's annual budget estimates; and

(*c*) To recruit and engage the technical and administrative staff in accordance with the Committee's rules of procedure.

Article 42

In the performance of their duties, the Executive Secretary and the Secretariat staff shall not seek or receive instructions from any Government or from any other national or international entity. They shall refrain from any action which might reflect on their position as international civil servants.

The Contracting Parties undertake to respect the international character of the responsibilities of the Executive Secretary and of the Secretariat staff and shall refrain from influencing them in any way in the discharge of their responsibilities.

Article 43

In order to facilitate the study of specific problems, the Committee may set up Advisory Commissions composed of representatives of the various sectors of economic activity of each of the Contracting Parties.

Article 44

The Committee shall request, for the organs of the Association, the technical advice of the secretariat of the United Nations Economic Commission for Latin America (ECLA) and of the Inter-American Economic and Social Council (IA-ECOSOC) of the Organization of American States.

Article 45

The Committee shall be constituted sixty days from the entry into force of the present Treaty and shall have its headquarters in the city of Montevideo.

CHAPTER X

JURIDICAL PERSONALITY — IMMUNITIES AND PRIVILEGES

Article 46

The Latin American Free-Trade Association shall possess complete juridical personality and shall, in particular, have the power:

(*a*) To contract;

(*b*) To acquire and dispose of the movable and immovable property it needs for the achievement of its objectives;

(*c*) To institute legal proceedings; and

(*d*) To hold funds in any currency and to transfer them as necessary.

Article 47

The representatives of the Contracting Parties and the international staff and advisers of the Association shall enjoy in the Area such diplomatic and other immunities and privileges as are necessary for the exercise of their functions.

The Contracting Parties undertake to conclude, as soon as possible, an Agreement regulating the provisions of the previous paragraph in which the aforesaid privileges and immunities shall be defined.

The Association shall conclude with the Government of the Eastern Republic of Uruguay an Agreement for the purpose of specifying the privileges and immunities which the Association, its organs and its international staff and advisers shall enjoy.

CHAPTER XI

MISCELLANEOUS PROVISIONS

Article 48

No change introduced by a Contracting Party in its régime of import duties and charges shall imply a level of duties and charges less favourable than that in force before the change for any commodity in respect of which concessions are granted to the other Contracting Parties.

The requirement set out in the previous paragraph shall not apply to the conversion to present worth of the official base value (*aforo*) in respect of customs duties and charges, providing that such conversion corresponds exclusively to the real value of the goods. In such cases, the value shall not include the customs duties and charges levied on the goods.

Article 49

In order to facilitate the implementation of the provisions of the present Treaty, the Contracting Parties shall, as soon as possible:

(*a*) Determine the criteria to be adopted for the purpose of establishing the origin of goods and for classifying them as raw materials, semi-manufactured goods or finished products;

(*b*) Simplify and standardize procedures and formalities relating to reciprocal trade;

(*c*) Prepare a tariff nomenclature to serve as a common basis for the presentation of statistics and for carrying out the negotiations provided for in the present Treaty;

(*d*) Determine what shall be deemed to constitute border trade within the meaning of article 19;

(*e*) Determine the criteria for the purpose of defining "dumping" and other unfair trade practices and the procedures relating thereto.

Article 50

The products imported from the Area by a Contracting Party may not be re-exported save by agreement between the Contracting Parties concerned.

A product shall not be deemed to be a re-export if it has been subjected in the importer country to industrial processing or manufacture, the degree of which shall be determined by the Committee.

Article 51

Products imported or exported by a Contracting Party shall enjoy freedom of transit within the Area and shall only be subject to the payment of the normal rates for services rendered.

Article 52

No Contracting Party shall promote its exports by means of subsidies or other measures likely to disrupt normal competitive conditions in the Area.

An export shall not be deemed to have been subsidized if it is exempted from duties and charges levied on the product or its components when destined for internal consumption, or if it is subject to drawback.

Article 53

No provision of the present Treaty shall be so construed as to constitute an impediment to the adoption and execution of measures relating to:

(*a*) The protection of public morality;

(*b*) The application of security laws and regulations;

(*c*) The control of imports or exports of arms, ammunition and other war equipment and, in exceptional circumstances, of all other military items, in so far as this is compatible with the terms of article 51 and of the treaties on the unrestricted freedom of transit in force among the Contracting Parties;

(*d*) The protection of human, animal and plant life and health;

(*e*) Imports and exports of gold and silver bullion;

(*f*) The protection of the nation's heritage of artistic, historical and archaeological value; and

(*g*) The export, use and consumption of nuclear materials, radioactive products or any other material that may be used in the development or exploitation of nuclear energy.

Article 54

The Contracting Parties shall make every effort to direct their policies with a view to creating conditions favourable to the establishment of a Latin American common market. To that end, the Committee shall undertake studies and consider projects and plans designed to achieve this purpose, and shall endeavour to co-ordinate its work with that of other international organizations.

CHAPTER XII

FINAL PROVISIONS

Article 55

The present Treaty may not be signed with reservations nor shall reservations be admitted at the time of ratification or accession.

Article 56

The present Treaty shall be ratified by the signatory States at the earliest opportunity.

The instruments of ratification shall be deposited with the Government of the Eastern Republic of Uruguay, which shall communicate the date of deposit to the Governments of the signatory and successively acceding States.

Article 57

The present Treaty shall enter into force for the first three ratifying States thirty days after the third instrument of ratification has been deposited; and, for the other signatories, thirty days after the respective instrument of ratification has been deposited, and in the order in which the ratifications are deposited.

The Government of the Eastern Republic of Uruguay shall communicate the date of the entry into force of the present Treaty to the Government of each of the signatory States.

Article 58

Following its entry into force, the present Treaty shall remain open to accession by the other Latin American States, which for this purpose shall deposit the relevant instrument of accession with the Government of the Eastern Republic of Uruguay. The Treaty shall enter into force for the acceding State thirty days after the deposit of the corresponding instrument.

Acceding States shall enter into the negotiations referred to in article 4 at the session of the Conference immediately following the date of deposit of the instrument of accession.

Article 59

Each Contracting Party shall begin to benefit from the concessions already granted to one another by the other Contracting Parties as from the date of entry into force of the reductions in duties and charges and other restrictions negotiated by them on a basis of reciprocity, and after the minimum obligations referred to in article 5, accumulated during the period which has elapsed since the entry into force of the present Treaty, have been carried out.

Article 60

The Contracting Parties may present amendments to the present Treaty, which shall be set out in protocols that shall enter into force upon their ratification by all the Contracting Parties and after the corresponding instruments have been deposited.

Article 61

On the expiry of the twelve-year term starting on the date of entry into force of the present Treaty, the Contracting Parties shall proceed to study the results of the Treaty's implementation and shall initiate the necessary collective negotiations with a view to fulfilling more effectively the purposes of the Treaty and, if desirable, to adapting it to a new stage of economic integration.

Article 62

The provisions of the present Treaty shall not affect the rights and obligations deriving from agreements signed by any of the Contracting Parties prior to the entry into force of the present Treaty.

However, each Contracting Party shall take the necessary steps to reconcile the provisions of existing agreements with the purposes of the present Treaty.

Article 63

The present Treaty shall be of unlimited duration.

Article 64

A Contracting Party wishing to withdraw from the present Treaty shall inform the other Contracting Parties of its intention at a regular session of the Conference, and shall formally submit the instrument of denunciation at the following regular session.

When the formalities of dununciation have been completed, those rights and obligations of the denouncing Government which derive from its status as a Contracting Party shall cease automatically, with the exception of those relating to reductions in duties and charges and other restrictions, received or granted under the liberalization programme, which shall remain in force for a period of five years from the date on which the denunciation becomes formally effective.

The period specified in the preceding paragraph may be shortened if there is sufficient justification, with the consent of the Conference and at the request of the Contracting Party concerned.

Article 65

The present Treaty shall be called the Montevideo Treaty.

In witness whereof the undersigned Plenipotentiaries, having deposited their full powers, found in good and due form, have signed the present Treaty on behalf of their respective Governments.

Done in the city of Montevideo, on the eighteenth day of the month of February in the year one thousand nine hundred and sixty, in one original in the Spanish and one in the Portuguese language, both texts being equally authentic. The Government of the Eastern Republic of Uruguay shall be the depositary of the present Treaty and shall transmit duly certified copies thereof to the Governments of the other signatory and acceding States.

For the Government of the Argentine Republic:

(Signed) Diógenes Taboada

For the Government of the United States of Brazil:

(Signed) Horacio Lafer

For the Government of the Republic of Chile:

(Signed) Germán Vergara Donoso

For the Government of the Republic of the United Mexican States:

(Signed) Manuel Tello

For the Government of the Republic of Paraguay:

(Signed) Raúl Sapena Pastor
Pedro Ramón Chamorro

For the Government of Peru:

(Signed) Hernán Bellido
Gonzalo L. de Aramburu

For the Government of the Eastern Republic of Uruguay:

(Signed) Horacio Martínez Montero
Mateo Magariños de Mello

Protocol No. 1

ON NORMS AND PROCEDURES FOR NEGOTIATIONS

On the occasion of the signing of the Treaty establishing a free-trade area and instituting the Latin American Free-Trade Association (Montevideo Treaty), the signatories, thereunto duly authorized by their Governments, hereby agree upon the following Protocol:

TITLE I

Calculation of weighted averages

1. For the purposes of article 5 of the Montevideo Treaty, it shall be understood that, as a result of the negotiations for the establishment of the National Schedules, the difference between the weighted average of duties and charges in force for third countries and that which shall be applicable to imports from within the area shall be not less than the product of eight per cent (8%) of the weighted average of duties and charges in force for third countries multiplied by the number of years that have elapsed since the Treaty became effective.

2. The reduction mechanism shall therefore be based on two weighted averages: one corresponding to the average of the duties and charges in force for third countries; and the other to the average of the duties and charges which shall be applicable to imports from within the Area.

3. In order to calculate each of these weighted averages, the total amount that would be represented by the duties and charges on aggregate imports of the goods under consideration shall be divided by the total value of these imports.

4. This calculation will give a percentage (or *ad valorem* figure) for each weighted average. It is the difference between the two averages that shall be not less than the product of the factor 0.08 (or eight per cent) multiplied by the number of years elapsed.

5. The foregoing formula is expressed as follows:

$$t \leqslant T \text{ (1-0.08}n\text{) in which}$$

t = weighted average of the duties and charges that shall be applicable to imports from within the area;

T = weighted average of duties and charges in force for third countries;

n = number of years since the Treaty entered into force.

6. In calculating the weighted averages for each of the Contracting Parties, the following shall be taken into account:

(*a*) Products originating in the territory of the other Contracting Parties and imported from the Area during the preceding three-year period and further products included in the National Schedule concerned as a result of negotiations;

(*b*) The total value of imports, irrespective of origin, of each of the products referred to in sub-paragraph (*a*), during the three-year period preceding each negotiation; and

(*c*) The duties and charges on imports from third countries in force as on 31 December prior to the negotiations, and the duties and charges applicable to imports from within the Area entering into force on 1 January following the negotiations.

7. The Contracting Parties shall be entitled to exclude products of little value from the group referred to in sub-paragraph (*a*), provided that their aggregate value does not exceed five per cent (5%) of the value of imports from within the Area.

TITLE II

Exchange of information

8. The Contracting Parties shall provide one another, through the Standing Executive Committee, with information as complete as possible on:

(*a*) National statistics in respect of total imports and exports (value in dollars and volume, by countries both of origin and of destination), production and consumption;

(*b*) Customs legislation and regulations;

(*c*) Exchange, monetary, fiscal and administrative legislation, regulations and practices bearing on exports and imports;

(*d*) International trade treaties and agreements whose provisions relate to the Treaty;

(*e*) Systems of direct or indirect subsidies on production or exports, including minimum price systems; and

(*f*) State trading systems.

9. So far as possible, these data shall be permanently available to the Contracting Parties. They shall be specially brought up to date sufficiently in advance of the opening of the annual negotiations.

TITLE III

Negotiation of National Schedules

10. Before 30 June of each year, the Contracting Parties shall make available to one another, through the Standing Executive Committee, the list of products in respect of which they are applying for concessions and, before 15 August of each year (with the exception of the first year, when the corresponding final date shall

be 1 October), the preliminary list of items in favour of which they are prepared to grant concessions.

11. On 1 September of each year (with the exception of the first year, when the corresponding date shall be 1 November), the Contracting Parties shall initiate the negotiation of the concessions to be accorded by each to the others as a whole. The concessions shall be assessed multilaterally, although this shall not preclude the conduct of negotiations by pairs or groups of countries, in accordance with the interest attaching to specific products.

12. Upon the conclusion of this phase of the negotiations, the Standing Executive Committee shall make the calculations referred to in title I of this Protocol and shall inform each Contracting Party, at the earliest possible opportunity, of the percentage whereby its individual concessions reduce the weighted average of the duties and charges in force for imports from within the Area, in relation to the weighted average of duties and charges applicable in the case of third countries.

13. When the concessions negotiated fall short of the corresponding minimum commitment, the negotiations among the Contracting Parties shall be continued, so that the list of reductions of duties and charges and other restrictions to enter into force as from the following 1 January may be simultaneously published by each of the Contracting Parties not later than 1 November of each year.

TITLE IV

Negotiation of the Common Schedule

14. During each three-year period and not later than on 31 May of the third, sixth, ninth and twelfth years from the time of the Treaty's entry into force, the Standing Executive Committee shall supply the Contracting Parties with statistical data on the value and volume of the products traded in the Area during the preceding three-year period, indicating the proportion of aggregate trade which each individually represented.

15. Before 30 June of the third, sixth and ninth years from the time of the Treaty's entry into force, the Contracting Parties shall exchange the lists of products whose inclusion in the Common Schedule they wish to negotiate.

16. The Contracting Parties shall conduct multilateral negotiations to establish, before 30 November in the third, sixth, ninth and twelfth years, a Common Schedule comprising goods whose value meets the minimum commitments referred to in article 7 of the Treaty.

TITLE V

Special and temporary provisions

17. In the negotiations to which this Protocol refers, consideration shall be given to those cases in which varying levels of duties and charges on certain products create conditions such that producers in the Area are not competing on equitable terms.

18. To this end, steps shall be taken to ensure prior equalization of tariffs or to secure by any other suitable procedure the highest possible degree of effective reciprocity.

IN WITNESS WHEREOF the respective representatives have signed the Protocol.

DONE at the City of Montevideo, on the eighteenth day of the month of February in the year one thousand nine hundred and sixty, in one original in the Spanish and one in the Portuguese language, both texts being equally authentic.

The Government of the Eastern Republic of Uruguay shall act as depositary of the present Protocol and shall send certified true copies thereof to the Governments of the other signatory and acceding countries.

For the Government of the Argentine Republic:

Diógenes Taboada

For the Government of the Republic of the United States of Brazil:

Horacio Lafer

For the Government of the Republic of Chile:

Germán Vergara Donoso

For the Government of the Republic of the United Mexican States:

Manuel Tello

For the Government of the Republic of Paraguay:

Raúl Sapena Pastor
Pedro Ramón Chamorro

For the Government of Peru:

Hernán Bellido
Gonzalo L. de Aramburu

For the Government of the Eastern Republic of Uruguay:

Horacio Martínez Montero
Mateo Magariños de Mello

Protocol No. 2

ON THE ESTABLISHMENT OF A PROVISIONAL COMMITTEE

On the occasion of the signing of the Treaty establishing a free-trade area and instituting the Latin American Free-Trade Association (Montevideo Treaty), the signatories, thereunto duly authorized by their Governments, taking into consideration the need to adopt and coordinate measures to facilitate the entry into force of the Treaty, hereby agree as follows:

1. A Provisional Committee shall be set up, composed of one representative of each signatory State. Each representative shall have an alternate.

At its first meeting the Provisional Committee shall elect from among its members one Chairman and two Vice-Chairmen.

2. The terms of reference of the Provisional Committee shall be as follows:

(*a*) To draw up its rules of procedure;

(*b*) To prepare, within sixty days from the date of its inauguration, its work programme, and to establish its budget of expenditure and the contributions to be made by each country;

(*c*) To adopt the measures and prepare the documents necessary for the presentation of the Treaty to the Contracting Parties of the General Agreement on Tariffs and Trade (GATT);

(*d*) To convene and prepare for the first Conference of Contracting Parties;

(*e*) To assemble and prepare the data and statistics required for the first series of negotiations connected with the implementation of the liberalization programme provided for in the Treaty;

(*f*) To carry out or promote studies and research, and to adopt whatsoever measures may be necessary in the common interest during its period of office; and

(*g*) To prepare a preliminary draft agreement on the privileges and immunities referred to in article 47 of the Treaty.

3. In technical matters, the Provisional Committee shall be assisted in an advisory capacity by the United Nations Economic Commission for Latin America (ECLA) and the Inter-American Economic and Social Council (IA-ECOSOC), of the Organization of American States, in accordance with the relevant Protocol.

4. The Provisional Committee shall appoint an Administrative Secretary and other requisite staff.

5. The Provisional Committee shall be inaugurated on 1 April 1960, and its quorum shall be constituted by not less than four members. Up to that date, the Officers of the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries shall continue to discharge their functions, for the sole purpose of establishing the Provisional Committee.

6. The Provisional Committee shall remain in office until the Standing Executive Committee, provided for in article 33 of the Treaty, has been set up.

7. The Provisional Committee shall have its headquarters in the City of Montevideo.

8. The Officers of the above-mentioned Conference are recommended to request the Government of the Eastern Republic of Uruguay to advance the necessary sums to cover the payment of staff salaries and the installation and operational expenses of the Provisional Committee during the first ninety days. These sums shall be subsequently reimbursed by the States signatories of the present Treaty.

9. The Provisional Committee shall approach the signatory Governments with a view to obtaining for the members of its constituent delegations, as well as for its international staff and advisers, such immunities and privileges as may be needful for the performance of their duties.

IN WITNESS WHEREOF the respective representatives have signed the present Protocol.

DONE at the City of Montevideo, on the eighteenth day of the month of February in the year one thousand nine hundred and sixty, in one original in the Spanish and one in the Portuguese language, both texts being equally authentic. The Government of the Eastern Republic of Uruguay shall act as the depositary of the present Protocol and shall send certified true copies thereof to the Governments of the other signatory and acceding countries.

For the Government of the Argentine Republic:

Diógenes Taboada

For the Government of the Republic of the United States of Brazil:

Horacio Lafer

For the Government of the Republic of Chile:

Germán Vergara Donoso

For the Government of the Republic of the United Mexican States:

Manuel Tello

For the Government of the Republic of Paraguay:

Raúl Sapena Pastor
Pedro Ramón Chamorro

For the Government of Peru:

Hernán Bellido
Gonzalo L. de Aramburu

For the Government of the Eastern Republic of Uruguay:

Horacio Martínez Montero
Mateo Magariños de Mello

Protocol No. 3

ON THE COLLABORATION OF THE UNITED NATIONS ECONOMIC COMMISSION FOR LATIN AMERICA (ECLA) AND OF THE INTER-AMERICAN ECONOMIC AND SOCIAL COUNCIL (IA-ECOSOC) OF THE ORGANIZATION OF AMERICAN STATES

On the occasion of the signing of the Treaty establishing a free-trade area and instituting the Latin American Free-Trade Association (Montevideo Treaty), the signatories, thereunto duly authorized by their Governments, hereby agree as follows:

1. With reference to the provisions of article 44 of the Treaty and in view of the fact that the secretariats of ECLA and of IA-ECOSOC have agreed to assist the organs of the Latin American Free-Trade Association with advice on technical matters, a representative of each of the secretariats in question shall attend the meetings of the Standing Executive Committee of the above-mentioned Association when the business to be discussed is, in the Committee's opinion, of a technical nature.

2. The appointment of the representatives referred to shall be subject to the prior approval of the members of the said Committee.

IN WITNESS WHEREOF the respective representatives have signed the present Protocol.

DONE at the City of Montevideo, on the eighteenth day of the month of February in the year one thousand nine hundred and sixty, in one original in the Spanish and one in the Portuguese language, both texts being equally authentic. The Government of the Eastern Republic of Uruguay shall act as the depositary of the present Protocol and shall send certified true copies thereof to the Governments of the other signatory and acceding countries.

For the Governement of the Argentine Republic :

Diógenes Toboada

For the Government of the Republic of the United States of Brazil:

Horacio Lafer

For the Government of the Republic of Chile:

Germán Vergara Donoso

For the Government of the Republic of the United Mexican States:

Manuel Tello

For the Government of the Republic of Paraguay:

Raúl Sapena Pastor
Pedro Ramón Chamorro

For the Government of Peru:

Hernán Bellido
Gonzalo L. de Aramburu

For the Government of the Eastern Republic of Uruguay:

Horacio Martínez Montero
Mateo Magariños de Mello

Protocol No. 4

ON COMMITMENTS TO PURCHASE OR SELL PETROLEUM AND PETROLEUM DERIVATIVES

On the occasion of the signing of the Treaty establishing a free-trade area and instituting the Latin American Free-Trade Association (Montevideo Treaty), the signatories, thereunto duly authorized by their Governments, hereby agree:

To declare that the provisions of the Montevideo Treaty, signed on 18 February 1960, are not applicable to commitments to purchase or sell petroleum and petroleum derivatives resulting from agreements concluded by the signatories of the present Protocol prior to the date of signature of the above-mentioned Treaty.

IN WITNESS WHEREOF the respective representatives have signed the present Protocol.

DONE at the City of Montevideo, on the eighteenth day of the month of February in the year one thousand nine hundred and sixty, in one original in the Spanish and one in the Portuguese language, both texts being equally authentic.

The Government of the Eastern Republic of Uruguay shall act as depositary of the present Protocol and shall send certified true copies thereof to the Governments of the other signatory and acceding countries.

For the Government of the Argentine Republic:

Diógenes Taboada

For the Government of the Republic of the United States of Brazil:

Horacio Lafer

For the Government of the Republic of Chile:

Germán Vergara Donoso

For the Government of the Republic of the United Mexican States:

Manuel Tello

For the Government of the Republic of Paraguay:

Raúl Sapena Pastor
Pedro Ramón Chamorro

For the Government of Peru:

Hernán Bellido
Gonzalo L. de Aramburu

For the Government of the Eastern Republic of Uruguay:

Horacio Martínez Montero
Mateo Magariños de Mello

Protocol No. 5

ON SPECIAL TREATMENT IN FAVOUR OF BOLIVIA AND PARAGUAY

On the occasion of the signing of the Treaty establishing a free-trade area and instituting the Latin American Free-Trade Association (Montevideo Treaty), the signatories, thereunto duly authorized by their Governments, hereby agree:

To declare that Bolivia and Paraguay are at present in a position to invoke in their favour the provisions in the Treaty concerning special treatment for countries at a relatively less advanced stage of economic development within the Free-Trade Area.

IN WITNESS WHEREOF the respective representatives have signed the present Protocol.

DONE at the City of Montevideo, on the eighteenth day of the month of February in the year one thousand nine hundred and sixty, in one original in the Spanish and one in the Portuguese language, both texts being equally authentic.

The Government of the Eastern Republic of Uruguay shall act as depositary of the present Protocol and shall send certified true copies thereof to the Governments of other signatory and acceding countries.

For the Government of the Argentine Republic:

Diógenes Taboada

For the Government of the Republic of the United States of Brazil:

Horacio Lafer

For the Government of the Republic of Chile:

Germán Vergara Donoso

For the Government of the Republic of the United Mexican States:

Manuel Tello

For the Government of the Republic of Paraguay:

Raúl Sapena Pastor
Pedro Ramón Chamorro

For the Government of Peru:

Hernán Bellido
Gonzalo L. de Aramburu

For the Government of the Eastern Republic of Uruguay:

Horacio Martínez Montero
Mateo Magariños de Mello

Resolution I

MEETINGS OF GOVERNMENTAL REPRESENTATIVES OF CENTRAL BANKS

The Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries,

In view of the report submitted to the Conference by the Meeting of Governmental Representatives of Central Banks, held at Montevideo in January 1960,

Considering the desirability of continuing the studies on payments and credits to facilitate the financing of intra-Area transactions and therefore the fulfilment of the purposes of the Treaty establishing a Free-Trade Area and instituting the Latin American Free-Trade Association,

Decides:

1. To take note of the above-mentioned report;

2. To request the Provisional Committee to convene informal meetings of governmental experts from the central banks of Argentina, Bolivia, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay, which shall be organized by the secretariat of the United Nations Economic Commission for Latin America (ECLA);

3. To establish that the object of these meetings shall be the continuance of the studies on credits and payments to facilitate the financing of intra-Area transactions and therefore the fulfilment of the purposes of the aforesaid Treaty;

4. To request the United Nations Economic Commission for Latin America (ECLA), the Inter-American Economic and Central Council (IA-ECOSOC) of the

Organization of American States and the International Monetary Fund for their advice and technical assistance;

5. To extend the invitation to experts from the central banks of such countries as may have acceded to the said Treaty.

Montevideo, 18 February 1960

For the Government of the Argentine Republic:

Diógenes Taboada

For the Government of the Republic of the United States of Brazil:

Horacio Lafer

For the Government of the Republic of Chile:

Germán Vergara Donoso

For the Government of the Republic of the United Mexican States:

Manuel Tello

For the Government of the Republic of Paraguay:

Raúl Sapena Pastor
Pedro Ramón Chamorro

For the Government of Peru:

Hernán Bellido
Gonzalo L. de Aramburu

For the Government of the Eastern Republic of Uruguay:

Horacio Martínez Montero
Mateo Magariños de Mello

Resolution II

MORATORIUM GRANTED TO BOLIVIA FOR SIGNATURE OF THE TREATY

The Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries,

Considering the generous spirit of co-operation displayed by Bolivia in its participation in the negotiations for the conclusion of the Treaty establishing a Free-Trade Area and instituting the Latin American Free-Trade Association,

Mindful of the motives adduced by the delegation of Bolivia to explain why, for reasons of *force majeure*, it is unable to sign the above-mentioned Treaty on the present occasion,

Decides to grant the Government of Bolivia a moratorium of four (4) months during which it will be free to accede to the aforesaid Treaty as a signatory State.

Montevideo, 18 February 1960

For the Government of the Argentine Republic:

Diógenes Taboada

For the Government of the Republic of the United States of Brazil:

Horacio Lafer

For the Government of the Republic of Chile:

Germán Vergara Donoso

For the Government of the Republic of the United Mexican States:

Manuel Tello

For the Government of the Republic of Paraguay:

Raúl Sapena Pastor
Pedro Ramón Chamorro

For the Government of Peru:

Hernán Bellido
Gonzalo L. de Aramburu

For the Government of the Eastern Republic of Uruguay:

Horacio Martínez Montero
Mateo Magariños de Mello

III. REPORT OF THE THIRD SESSION OF THE TRADE COMMITTEE *
(Santiago, Chile, 8 to 12 May 1961)

1. The present report reviews the proceedings of the Trade Committee of the Economic Commission for Latin America, which met at Santiago, Chile, from 8 to 12 May 1961.

2. The report is divided into two parts. Part I gives the membership of the Committee and describes the organization of its work, reproduces the agenda on which its meetings were based and summarizes the discussions. The resolutions adopted by the Committee at the close of its proceedings are given in part II.

3. The text of the present report was approved by the Committee for submission to the Commission, at the closing meeting on 12 May 1961.

* Issued earlier in mimeographed form as document E/CN.12/C.1/19/Rev.1 (25 May 1961).

PART I

THIRD SESSION OF THE COMMITTEE

A. MEMBERSHIP, ATTENDANCE AND ORGANIZATION OF WORK

Opening and closing meetings

4. The opening meeting of the Committee was held on 8 May 1961. Addresses were delivered by Mr. Esteban Ivovich of the Economic Commission for Latin America, Mr. Leopoldo Hugo Tettamanti, of the delegation of Argentina, and Mr. Mateo J. Magariños de Mello, representative of the Latin American Free-Trade Association.

5. The closing meeting of the Committee was held on 12 May 1961. Addresses were delivered by Mr. Plácido García Reynoso, head of the delegation of Mexico, Mr. Jorge Mendez, head of the delegation of Colombia and Chairman of the third session of the Committee, and Mr. Esteban Ivovich of the Economic Commission for Latin America.

Membership and attendance

6. The session was attended by representatives of all the States members of the Committee, namely, Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, France, Guatemala, Haiti, Honduras, Kingdom of the Netherlands, Mexico, Nicaragua, Panama, Paraguay, Peru, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay and Venezuela. The complete list of representatives is given in annex I of the present report.

7. Representatives of British Guiana and British Honduras attended the third session of the Committee in the capacity of associate members of the Commission.

8. In accordance with paragraph 6 of the Commission's terms of reference, the representatives of the following States Members of the United Nations but not members of the Commission attended the third session in a consultative capacity: Austria, Belgium, Canada, Czechoslovakia, Hungary, India, Israel, Italy, Japan, Jordan, Poland, Romania, Spain, Sweden, Union of Soviet Socialist Republics, United Arab Republic and Yugoslavia (see annex I). The Federal Republic of Germany sent an observer, under the terms of resolution 632 (XXII) of the Economic and Social Council.

Organization of the work

Election of officers

9. At its first meeting, on 8 May 1961, the following officers were elected:

Chairman: Jorge Mendez (Colombia)

First Vice-Chairman: Leopoldo Hugo Tettamanti (Argentina)

Second Vice-Chairman: Guillermo Stewart Vargas (Uruguay)

Rapporteur: Julio Prado García Salas (Guatemala)

Secretariat

10. The secretariat of the Committee was composed of the following members:

Esteban Ivovich, Director, Trade Policy Division
Alejandro Power, Secretary

Technical advisers:

Carlos Castillo, Deputy Director, Mexico Office
Alberto Solá
Santiago Macario
Alberto Quevedo

B. AGENDA

11. At its first meeting the Committee adopted the following agenda:

1. Opening addresses
2. Election of officers
3. Adoption of the agenda
4. Regional economic integration: recent trends
   (*a*) The Latin American Free-Trade Association (Montevideo Treaty)
      (i) Analysis of the recommendations of the Trade Committee and of the Montevideo Treaty with respect to establishing the Latin American common market
      (ii) Work carried out or in course of execution by the Latin American Free-Trade Association
   (*b*) Central American economic integration
   (*c*) Trade problems of Colombia, Ecuador and Venezuela

Documents:

The Latin American movement towards multi lateral economic collaboration (E/CN.12/567)

Report of the tenth session of the Central American Trade Sub-Committee (E/CN.12/CCE/234)

Note by the secretariat on the Central American common market (E/CN.12/587)

Consultative meetings on trade policy: report of the third series of meetings between Colombia, Ecuador and Venezuela (Quito, 7-10 December 1960) (E/CN.12/555)

5. Financial problems of the Latin American common market

Documents:

Foreign private investments in the Latin American Free-Trade Area (E/CN.12/550) United Nations publication, Sales No.: 60.II.G.5

Papers on financial problems prepared by the secretariat of the Economic Commission for Latin America for the Latin American Free-Trade Association (E/CN.12/569)

6. Customs policy and the Latin American common market

Documents:

Report of the first session of the Working Group on Customs Questions (Montevideo, 1-12 August 1960), submitted to the ECLA Trade Committee, with a Note by the secretariat (E/CN.12/568)

Customs duties and other import charges and restrictions in Latin American countries: average levels of incidence (E/CN.12/554 and Add.1, Argentina; Add.2, Bolivia; Add.3, Brazil; Add.4, Colombia; Add.5, Chile; Add.6, Ecuador; Add.7, Mexico; Add.8, Paraguay; Add.9, Peru; Add.10, Uruguay; and Add.11, Venezuela)

7. Consideration and adoption of the report of the third session of the Trade Committee (E/CN.12/C.1/19)

8. Date and place of the fourth session of the Trade Committee

C. ACCOUNT OF PROCEEDINGS

Regional economic integration: recent trends

12. At the opening of the Committee's proceedings, the secretariat called attention to the great advances made in the field of economic co-operation among Latin American countries, as reflected in the progress achieved by the committee responsible for the Central American Economic Integration Programme and the entry into force of the Montevideo Treaty. Those developments had been possible because — unlike former attempts which had failed — both the Central American movement and the Montevideo Treaty were based on thorough research into real conditions in the countries likely ultimately to accede to them.

13. Speaking on behalf of the delegations, the representative of Argentina expressed the satisfaction of the Governments members of the Committee with the excellent background documents prepared by the secretariat, and stressed that the latter's work should now be extended to Latin America's extra-regional trade problems, and, in particular, to collaboration in the formulation of Latin America's trade policy *vis-à-vis* trade associations in other continents.

14. The Committee studied the report on the Latin American movement towards multilateral economic co-operation (E/CN.12/567). Prior to the actual discussion the representative of the Latin American Free-Trade Association and Chairman of the Montevideo Provisional Committee explained the present status of the process which had begun with the conclusion of the Montevideo Treaty. To that end, he reviewed the activities of the Provisional Committee between the signing of the Treaty on 18 February 1960 and the simultaneous deposit of the instruments of ratification by the signatories on 2 May 1961. Outstanding among those activities was the preparation of the information required by the Contracting Parties of the General Agreement on Tariffs and Trade (GATT), which had studied the Montevideo Treaty at their sessions in May and October 1960. He also gave an account of the meetings of experts which the Provisional Committee had been convening, covering such fields as customs problems, transport and the processing of foreign trade statistics. With regard to the next steps to be taken, he stated that the Montevideo Treaty would enter into force on 1 June 1961, i.e., thirty days from the date of deposit of the instrument of ratification, that the first conference of the contracting parties would be convened in July, and that the Standing Executive Committee would be set up on 1 August, the month in which the first series of negotiations was expected to begin.

15. The Committee expressed its satisfaction at the secretariat's contribution to the preparation of the Montevideo Treaty and requested it to continue to give technical advice to the organs of the Latin American Free-Trade Association, in conformity with the terms of article 44 of the Treaty. (See resolution 11 (III).)

16. The Committee discussed the relationship between the provisions of the Montevideo Treaty and the general principles it suggested in its resolution 6 (II) should be observed for the formation of the Latin American common market. The result of the discussion was that the Committee recognized with satisfaction that the Treaty conformed to those principles.

17. It was pointed out that the apparent weakness of the Treaty was that its provisions for the automatic implementation of the liberalization programme was determined not only by political considerations, but mainly by the economic conditions prevailing in the Latin American countries. In that connexion, it was suggested that an automatic liberalization mechanism applicable to all goods indiscriminately might seriously affect existing structures of production and give rise to disinvestment in many sectors. Consequently, and in view of the shortage of available capital and the need to safeguard current levels of employment, it was considered preferable that the liberalization process should take place very gradually on the basis of negotiations each year so that without undue prejudice to interests already established there should be an opportunity for the gradual development of new trade flows and the promotion of investment in the most needful and desirable fields.

18. The consensus of opinion was that the Treaty constituted a suitable instrument for securing economic complementarity in Latin America and that its conclusion therefore represented a highly significant advance towards the attainment of that objective. It was stressed, however, that the Treaty represented only a first step in that direction, since the time had come for the interested Governments to avail themselves of its provisions with the resolute intention of linking up the individual national markets in respect of all those economic sectors for

which the existence of a broader market was a necessary or indispensable requisite, if maximum utilization of resources was to be achieved, the economic development process expedited and a better level of living ensured for the peoples of the region.

19. The Committee considered that, in accordance with the recommendation contained in its resolution 6 (II) regarding participation by the greatest possible number of countries, and in accordance with the provisions of the Montevideo Treaty designed to facilitate membership by other Latin American countries, it would be desirable for the Governments which had not so far decided to become parties to the multilateral treaties concluded in Latin America, to give careful consideration to the problems which their ultimate participation might involve. In that connexion, the secretariat was requested to help to clarify the problems concerned so that all the Latin American countries could with the least possible delay associate themselves with the multilateral economic co-operation movements. (See resolution 11 (III).)

20. The delegation of Bolivia expressed its Government's regret at being unable for the moment to accede to the Montevideo Treaty. The economic, social and political problems which his country was facing prevented it from enjoying the benefits it might derive from participation in the Latin American Free-Trade Association, at least until the country had consolidated the progress made in land reform and industrialization.

21. Furthermore, in connexion with the position of the Latin American countries which were not yet members of the existing multilateral groups, the Committee considered that the secretariat should in its studies take special account of the problems of trade relations between such countries and the multilateral groups, with a view to the gradual establishment of conditions necessary for a future economic association among all the republics of Latin America.

22. The representative of GATT expressed his organization's satisfaction at the entry into force of the Montevideo Treaty and took note of the efforts made by the signatory countries to ensure that their Association was in line with the GATT rules regarding the establishment of free-trade areas. As to the interest of the Latin American countries in the activities carried on within GATT, he drew attention to the importance of the activities resulting from the establishment of the common external tariff by the European Economic Community. The tariff obliged the States members of the Community to raise certain duties hitherto consolidated in the GATT machinery. To do so they had to show that the benefits resulting from reductions in the common tariff for the same product in other member States offset the increases introduced. Otherwise, the Community must provide compensation in respect of other products or allow countries not satisfied with the compensation offered to withdraw equivalent concessions. The negotiations on the subject had run into many difficulties and it was hoped that the negotiations due to commence within GATT in the near future would lessen the unfavourable effects it was feared would result from the application of the common tariff. The European Economic Community had announced its intention of offering a 20 per cent reduction in its duties provided it met with an adequate response from the industrialized countries but it would be prepared to refrain from claiming an equivalent counterpart from the less developed countries.

23. The GATT representative further stated that according to the estimates made by his organization, price fluctuations for raw materials in the world markets during the last three years had meant a loss of income of nearly 7,000 million dollars to the under-developed countries as compared with what they would have earned if 1957 price levels had been maintained. To counteract price fluctuations, recourse was being had to international agreements on products to prevent the disorganization of markets and provide a cushion for falling prices. GATT considered that basic solutions to the problems of the under-developed countries could be found when such countries were in a position to export manufactured goods competitively. To achieve that, the industrial countries must understand that a change in the structure of international trade was essential.

24. The Committee considered the situation deriving from the trade relations between the Latin American countries and those of other regions, including Africa, and recommended to the secretariat that as part of its work programme it should study the problems relating to the expansion of Latin America's trade with the rest of the world, taking into account the trade problems which might arise in connexion with groups of countries in the other regions concerned.

25. In view of the new turn being taken by intra-Latin American trade relations through the multilateral associations in operation, the Committee considered that the training of national technical experts specializing in trade policy was a vital necessity. Some delegations reported on the difficulties their countries had experienced in that direction owing to the shortage of personnel technically qualified to deal with such matters. With that in view, the Committee requested the secretariat to organize special training courses in trade policy, with particular reference to matters connected with the current movement towards multilateral economic co-operation. (See resolution 14 (III).) In that connexion, mention was made of the valuable experience gained by GATT, and attention was drawn to the desirability of taking advantage of it in the organization of the training courses contemplated by ECLA.

26. The Committee recognized that among the most important problems affecting the development of intra-Latin American trade flows were those arising from the shortage of satisfactory transport media, from the conditions in which existing transport facilities operated and from certain relevant problems of trade policy.

27. In the opinion of the Committee, the points which the secretariat should study in the course of its work included the determination of the tonnage to be transported — and, bound up with that, the availability of shipping, storage facilities and other matters affecting the regular operation of transport services — as well as

the possible bases for solving certain trade problems connected with transport which affected the progress of market integration programmes. Consequently, the Committee agreed to recommend to the secretariat that in carrying out its activities in connexion with the gradual implementation of the Trade Committee's programme it should devote special attention to the influence of transport problems on intra-Latin American trade and study ways and means of solving such problems, including those relating to trade policy. The Committee pointed out the desirability of carrying out such studies in co-operation with the appropriate organs of the multilateral agreements on economic integration in Latin America, when they related to the contracting parties to such agreements. (See resolution 15 (III).)

28. The Committee unanimously agreed that in many Latin American countries the tourist industry constituted an important source of foreign exchange earnings, and that in some of them it was quite as important as other basic sectors of national income.

29. It was also recognized that certain measures to restrict tourist trade adopted by countries from which there was a substantial flow of tourists might be seriously prejudicial to the interests of the countries towards which the tourist flow was directed. The Committee therefore agreed that its members should be invited, in drafting customs or similar regulations, to take into account the possible effects of such provisions on the flow of tourists into other countries of the region, and to avoid such measures where they were likely to have an adverse effect on the tourist industry. (See resolution 16 (III).)

30. The delegation of the United States, while endorsing the Committee's recommendations in that field, said that "in voting for this resolution, members should recognize that the United States is considering terminating, at least temporarily, the extraordinary exemption of 400 dollars which it allowed to returning United States residents as a post-war recovery measure, but continuing the 100-dollar exemption. The United States does not consider this action on its part as being inconsistent with the resolution."

Agricultural problems in relation to the regional integration programme

31. The Trade Committee held a joint meeting with the Agriculture Committee of the ninth session of the Commission to consider the study on the role of agriculture in the Latin American agreements on the formation of common markets or free-trade areas (E/CN.12/551), prepared by the joint ECLA/FAO group. It was stressed that the solution of Latin America's agricultural problems could contribute enormously to the success of the programmes for regional economic integration, and that the latter, in turn, would play a decisive part in solving such problems. The document also described the main aspects of intra-regional trade in agricultural commodities and analysed the possible repercussions of economic integration agreements on the agricultural sector.

32. The secretariat stressed the part to be played by agriculture in the Montevideo Treaty, and pointed out that the Treaty provided a valuable opportunity for remedying certain distortions apparent in the agricultural structure of Latin America, resulting, *inter alia*, from the complete isolation from regional competition in which agriculture had been developing in the countries of the area, where agricultural production lagged behind demand.

33. Some delegations pointed out that ECLA should undertake studies to provide the bases for possible co-ordination of agricultural and industrial development policies within the Latin American Free-Trade Area, with a view to solving both the above-mentioned problem and others, particularly that of productivity.

Economic Integration of Central America

34. The Committee considered and noted with satisfaction the effort made in 1960 by the Governments of El Salvador, Guatemala, Honduras, and Nicaragua to further the process of integration of their economies. The decision of those Governments to expedite the establishment of the common market and integrated regional development culminated in December 1960 in the conclusion of the General Treaty on Central American Economic Integration, the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges and the Agreement establishing the Central American Bank for Economic Integration. The General Treaty and the Equalization Protocol were at present being formally ratified and it was hoped that they would enter into force within a matter of months. The Central American Bank would start operations in May 1961 and the negotiations for uniform customs tariffs would be completed in June 1961.

35. In virtue of the above-mentioned treaties and agreements, the countries concerned were tending to broaden considerably the initial scope of the free-trade system between their territories. To that effect they had fixed a maximum time-limit of five years for the proper establishment of the free trade area, that period coinciding with the time-limit previously allowed for the adoption of a uniform customs import tariff. They had decided to establish an institute for financing integration and had adopted a series of measures in other fields: fiscal incentives and specialization of their industrial activities.

36. The Government of Costa Rica was not a signatory of the Managua treaties. However, the treaties contained clauses which explicitly left Costa Rica free to take a decision unilaterally and whenever it thought fit regarding its accession. The Committee was glad to hear from the Costa Rican delegation that once the studies being carried out had been concluded, his Government would decide how and when to join the Central American common market.

37. The delegations of El Salvador, Guatemala and Nicaragua drew attention to the work carried out in the matter of tariff nomenclature, which had led to the adoption of a standard nomenclature for imports and exports among the six countries of Central America. All agreements and negotiations regarding free trade and tariff equalization had been based on that nomenclature.

They also stated that for that reason the Central American countries must make a reservation concerning the recommendation adopted by other Latin American countries regarding the adoption of the Brussels nomenclature.

38. The delegation of Nicaragua said that Nicaragua was the only country in Central America which was a Contracting Party of GATT, and expressed the hope that, as on a previous occasion, GATT would approve the commitments Nicaragua had assumed in signing the new treaties on regional economic integration.

39. The delegation of Honduras referred to the benefits that Honduras would derive from its participation in the Central American Programme, which would be of assistance in raising the level of living of its population by intensive public action in regard to public health, transport, communications and education. The delegation of El Salvador referred to various problems which had had to be resolved so as to establish a methodology suited to the needs of tariff equalization and negotiations regarding free trade. It also made reference to some of the other activities which were being carried out, including industrial integration and specialization, standardization of tariff and tax legislation, port facilities and co-ordination of rational agricultural policies.

40. Lastly, the delegation of Guatemala stressed that the Central American Bank for Economic Integration would facilitate the integrated development of the member countries and enable them to act with greater independence in regard to the financing of integrated development. The Guatemalan delegation also referred to the Central American Economic Council and to the Executive Council, the governing and executive bodies established under the General Treaty for the general organization and administration of the common market.

Trade problems of Colombia, Ecuador and Venezuela

41. The secretariat reported to the Committee on the work carried out in connexion with the study of problems deriving from the trade relations of Colombia, Ecuador and Venezuela with one another and with the rest of the Latin American countries, and of possible ways and means of solving them.

42. In this context, the Committee took note of the report of the third series of meetings on trade policy between Colombia, Ecuador and Venezuela (E/CN.12/555). At the meetings in question, which took place at Quito in December 1960, it had been possible to state that the three countries considered the multilateral framework to be the most propitious setting for the fuller and more balanced development of the Latin American economies. Such a framework was provided by the Montevideo Treaty.

43. They agreed that, while bilateral trade treaties — or agreements among the three countries concerned — might constitute a satisfactory solution for certain specific problems, they did not, in view of the low level of complementarity of the three economies, afford the necessary base for the smooth and co-ordinated development of trade or integration programmes.

44. For that reason Colombia, Ecuador and Venezuela had declared that they would take the necessary steps to accede to the Montevideo Treaty when they deemed it opportune, and with due regard to the characteristics of their respective economies. Ecuador and Venezuela stated their intention of requesting the States members of the Latin American Free-Trade Association to grant them special treatment for that would take into account the conditions to which they referred.

45. The delegation of Colombia informed the Committee that its Government has submitted a bill to Congress requesting authorization for Colombia's accession to the Montevideo Treaty. Passage of the bill, which was virtually assured in view of the favourable reception accorded to it by Parliament and by certain sectors of public opinion, would enable Colombia to participate almost from the outset in the negotiations of the contracting parties.

46. The delegation of Colombia also reaffirmed the pledge given by Colombia at the Quito meetings that within the organs of the Latin American Free-Trade Association it would support the treatment which Ecuador and Venezuela hoped to receive so that they could join the Association. It also told the meeting that Colombia was prepared to bring its bilateral agreements with Ecuador into line with the provisions of the Montevideo Treaty.

47. The delegation of Colombia also recognized that accession to the Montevideo Treaty would lead to certain readjustments in the productive activities of the Contracting Parties which, under the principle of free competition, would tend to seek the level of the most productive activities. In its opinion, regional integration would be hard to achieve if new industries with a high level of productivity, looking mainly towards the regional market, were to exist alongside others, already established and less efficient, which produced only for domestic markets. According to Colombia, the success of the Treaty depended not so such on the instrument itself as on the Contracting Parties' capacity to promote their internal development and on the scale of external aid while the process of import substitution was still in its initial stages. Again, the structure of production would have to be given the necessary capacity to adapt itself to regional specialization. Like other delegations, the delegation of Colombia deemed it necessary to co-ordinate the development policies of individual countries with the targets established under the regional economic integration programme.

48. The delegation of Ecuador pointed out that the positive effects of the Montevideo Treaty could be secured only by ensuring the smoothly co-ordinated development of all the Contracting Parties. That was why Ecuador hoped to obtain recognition in the Latin American Free-Trade Association as a country at a relatively less advanced stage of economic development, since the treatment it would then receive, by contributing to the solution of Ecuador's current industrial development problems, would remove one of the chief obstacles to its accession to the Montevideo Treaty.

49. Like the delegations which had already spoken, the delegation of Venezuela also declared its interest in the Latin American integration movement as embodied in the Montevideo Treaty. It stated, however, that its country could not yet adopt a decision on the matter until it had been guaranteed special treatment consonant with the present features of its economic structure.

50. The delegations of Ecuador and Venezuela reaffirmed to the Trade Committee the desire they had expressed at the Quito meetings that the secretariat should co-operate with the Governments concerned in the study of obstacles to the possible future accession of the two countries to the Montevideo Treaty and that it should suggest ways and means of solving them.

51. The delegation of a Contracting Party of the Treaty and the representative of the Provisional Committee of the Latin American Free-Trade Association thanked the delegations of Colombia, Ecuador and Venezuela for their statements and agreed that the appropriate organs of the Association would give due consideration to the position of the three Greater-Colombia countries.

Financial problems

52. The Committee considered documents E/CN.12/550 and E/CN.12/569 containing, respectively, the report prepared by an advisory group on foreign private investment in the Latin American Free-Trade Area and some papers on financial problems prepared by the secretariat for the use of the Latin American Free-Trade Association.

53. It was considered that the recent trend towards eliminating bilateral payments agreements which had until recently been the main channel for intra-Latin American trade offered a solution to the possible problem arising out of the existence of heterogenous types of payments systems within the sphere of the Free-Trade Area. It was pointed out, however, that the disappearance of bilateral credits might cause some difficulty in regard to the maintenance of certain flows of trade, particularly when such flows involved products offered in the international markets under very liberal payments conditions as a result of agricultural surplus disposal programmes.

54. The delegation of Brazil considered the trend towards the elimination of bilateral accounts to be a good sign, but believed that the process of liberalization would be facilitated by the establishment of a credit mechanism within the framework of the Free-Trade Area. To that end, it pointed out that, particularly in the first years of operation of the Latin American Free-Trade Association, the rate of liberalization would be higher if the participating countries could be sure of financial assistance to cover the disequilibria likely to arise as a result of the removal of import restrictions which in some cases had limited or prevented imports for many years.

55. The delegation of Peru stated that its Government's policy was based on monetary stability as a condition for furthering economic development. The position of the under-developed countries was not such that they could grant one another automatic credits, since the foreign currencies earned by their exports had to be used within a very short period for the acquisition of capital goods which the Area did not yet produce at competitive prices. The Peruvian delegation reaffirmed the position it had taken at the Lima meetings and at the session of the Central Banks Working Group at Montevideo.

56. The representative of the International Monetary Fund expressed his organization's confidence that the forms taken by intra-Latin American co-operation for development would be in keeping with the prevailing trends in the world towards the reduction of restrictions and discriminatory practices. In that connexion, he said that free convertibility and monetary stability could contribute effectively to establishing the Latin American common market firmly. As to temporary payments imbalances which might arise from the execution of liberalization programmes, the Fund would give favourable consideration to granting financial assistance, provided that the interested countries did not go back on their intention of ensuring the stability and convertibility of their currencies.

57. The delegation of the United Kingdom stressed the need to avoid any retrogression from the convertibility of currencies already achieved in Latin America. The European Payments Union had been created at a time when all the currencies concerned were inconvertible; Latin America was already beyond that stage. As regarded the question of reciprocal credits, given the generally low level of the Latin American countries' exchange reserves, it would seem unwise to try to commit countries in advance to grant automatic credits. Reference had been made in the documents to the possibility of an arrangement on the lines of the European Monetary Agreement and it would be useful to recall that credit granted under that Agreement had to be justified by the pursuance of appropriate external and internal policies — it was not automatic.

58. Another problem which commanded the Committee's attention was the financing of exports, particularly of equipment and production goods. It was considered that the development of trade in such goods in Latin America would necessarily mean the establishment of machinery enabling exporters in the area to offer financing conditions, in the matter of time limits and rates of interest, equal to those made available by exporters in large industrial countries. Apart from the difficulty of obtaining the necessary resources, it was also pointed out that there was no insurance system such as existed in almost all the industrialized countries, and that the rates of interest prevailing in Latin America were higher than those in Western Europe and the United States.

59. The representative of the Inter-American Development Bank said that his organization shared the concern as to the need to provide means of finance for inter-Latin American exports of capital goods, and within the limits of the resources available, and in so far as its statutes allowed, the Bank was prepared to give full attention to the solution of the problem.

60. Reference was also made to the difficulties that might arise from the lack of proper relations between commercial banks in the Latin American countries owing to the fact that trade had developed largely on the basis of direct negotiations established between the central banks. The representative of the *Centro de Estudios Monetarios Latinoamericanos* (CEMLA) stated that misgivings had been expressed on that point at the last executive meeting of the Centre, since it was recognized that Latin American banks were not sufficiently experienced to provide skilled co-operation in dealing with the highly complex problems of payments, transfers of funds, Latin American foreign exchange holdings and so forth, which could not be solved without an expansion in Latin American trade.

61. The Committee reviewed the report on foreign investment (E/CN.12/550) in the countries signatories of the Montevideo Treaty, prepared by an advisory group appointed by ECLA and OAS. During the discussions prior to the signing of the Montevideo Treaty, two points had been of particular concern: first, possible competition among the participating countries to provide disproportionate incentives with a view to attracting foreign investment, thereby affecting the establishment of productive activities in the most economic sites and, second, the unfavourable position in which national entrepreneurs were liable to find themselves in the face of an influx of new and modern industries financed by foreign investment and encouraged by the prospects of expansion afforded by the Free-Trade Area. The first problem called for the reconciliation of the treatment applicable to foreign investment, but the marked disparities in the aims and mechanism of the policies adopted in that matter by Latin American countries made it very difficult — for the present at least — to formulate general principles for the mutual observance of rules sufficiently elastic to compare with the liberal methods prevailing in certain countries, and at the same time sufficiently rigid to fit in with the restrictive approach observable in others. There were, however, certain fields in which the possibility of such reconciliation might be explored by making the necessary studies, e.g. those systems related to movement of capital and remittance of profits, interest and royalties, the adjustment of tax systems in so far as they affected the competitive position of the manufactured goods in trade, the adoption of common standards for the revaluation of assets, and the establishment of the bases for a general agreement on double taxation. The problem of the situation of local capital called for the creation of means and incentives to promote the modernization of existing enterprises, and the exploration of appropriate methods for bringing national capital into association with the flow of new investment deriving from the formation of expanded trading areas.

62. The delegation of Mexico, endorsing the views of the secretariat, expressed the hope that the Latin American countries would take steps to ensure that the enhanced opportunities offered by the Free-Trade Area were not monopolized by foreign investors armed with greater technical and financial resources. Mexico, realizing the possible unfavourable repercussions of certain foreign investments on economic development programmes, was restricting the inflow of foreign capital to the basic sectors of the economy or to those in which national capital was operating at a satisfactory level of efficiency and in other cases, favoured the formation of joint enterprises in which the major proportion of the capital was of domestic origin, represented by registered shares.

63. The delegation of Chile stressed that, as part of the regional integration process in the Latin American countries, a new approach should be made to various aspects of their respective domestic policies which would necessarily become the concern of the region as a whole. The fiscal, monetary and exchange policies of each country in the Area would play an increasingly important part at the regional level. The Chilean delegation also considered that an endeavour should be made to solve such problems by means of concerted action, since they might otherwise act as a brake on the movement towards the common market. At the same time, it would be desirable to consider the best way of assuring the untrammelled movement of capital from one country in the Area to another.

Customs policy and the Latin American common market

64. In its consideration of customs policy, with particular reference to the Latin American common market, the Committee began by taking note of the report of the first session of the Working Group on Customs Questions (Montevideo, Uruguay, 1 to 12 August 1960).[1] The Working Group, which was set up in accordance with Trade Committee resolution 7 (II), dealt on that occasion with various aspects of customs techniques, such as the adoption by the countries of Latin America of a standard customs nomenclature, a standard definition of customs value and standard definitions of basic customs terms and also other topics related to the training of customs personnel, the study of the simplification and standardization of customs procedures and documents, special customs régimes, etc. and also certain items related to the interpretation and execution of the Montevideo Treaty.

65. One of the delegations stated that the resolutions approved by the Working Group met the requirements which arose, in the matter of customs techniques, from the programmes for making the economies of the Latin American countries complementary and from the need to improve and modernize the import régimes of those countries and their customs operations. Accordingly, the States members of the Latin American Free-Trade Association had already decided, through the Provisional Committee, to adopt the decisions and recommendations set forth in the report of the Working Group and had suggested to the remaining Latin American countries that they should follow suit with a view to facilitating their possible participation in the Free-Trade Area.

66. The countries participating in the Central American Economic Integration Programme were in a special position, for some years earlier they had adopted a

[1] E/CN.12/568.

standard tariff nomenclature (NAUCA), drawn up in conformity with the specific characteristics of their economies and with the structure of their foreign trade. Those countries also followed standard practices in other aspects of their customs régimes.

67. In view of the foregoing considerations, the Committee decided to approve the report of the first session of the Working Group on Customs Questions and to endorse the resolutions and recommendations adopted at that session. It also recommended to the Latin American countries not participating in the Central American Economic Integration Programme that they should adopt the Brussels Nomenclature, as well as the Customs Co-operation Council's definition of customs value, and the standard definition of basic customs terms as indicated by the Working Group. Stress was laid on the desirability of adopting the foregoing classifications and definitions at the earliest opportunity in the case of States signatories of Latin American trade liberalization agreements and in the case of other countries which were considering adherence to those agreements. (See resolution 13 (III).)

68. The Committee recognized that by way of supplementing the adoption of the Customs Co-operation Council's definition of customs value, every country which had not yet done so should establish a central valuation office, as recommended in the relevant resolution of the Working Group. It also acknowledged the advantages, from the standpoint of trade policy, that would be represented by the adoption of *ad valorem* duties in national tariffs, in so far as each individual country was in a position to do so. With respect to the training of customs personnel, the Committee reaffirmed the recommendation of the Working Group to the Latin American countries to the effect that customs training schools should be established.

69. The Committee agreed to request the ECLA secretariat to give priority, in compliance with the decisions of the Working Group, to studies relating to customs procedures and documentation and to special customs régimes; to request for the purpose, when it deemed such action advisable, the collaboration of the Customs Co-operation Council and other international agencies; and to convene, in due course, a second session of the Working Group on Customs Questions.

70. In connexion with some of the foregoing topics, the observer from the Customs Co-operation Council described the work of that agency in the field of tariff nomenclature, customs value and other aspects of customs technique, as well as the collaboration between the Council and the ECLA secretariat.

71. The Committee also discussed certain problems of customs policy in relation to the secretariat study on customs duties and other import charges and restrictions in eleven Latin American countries, and their average levels of incidence (E/CN.13/554 and Adds.1 to 11). In that context, the Committee, endorsing some of the conclusions deriving from the aforesaid study, decided, in its resolution 12 (III), to recommend to the Latin American countries that they should build up a customs policy designed to encourage the most efficient productive activities and those considered to be of basic importance for the development of their national economies and the expansion of foreign trade, in view of the importance of co-ordinating national economic development programmes and promoting the increasing complementarity of their economies. For the attainment of the above-mentioned objectives, as well as others pursued through agreements on the liberalization of trade and on economic complementarity, it was essential that the Latin American countries should simplify and co-ordinate their import régimes and restore the status of the customs tariff as a basic — although not necessarily the only — instrument of their trade policy. (See resolution 12 (III).)

72. Finally, in the same resolution, the Committee agreed to request the secretariat to continue and expand its studies on tariff policy in the Latin American countries, endeavouring to bring to light and suggest the measures best calculated to achieve the ends referred to in the preceding paragraph.

PART II

RESOLUTIONS ADOPTED

73. At its third session, the Trade Committee adopted the following resolutions:

11 (III). Multilateral economic co-operation
12 (III). Customs policy
13 (III). Customs questions
14 (III). Special training courses in trade policy
15 (III). Transport
16 (III). Development of the tourist industry
17 (III). Place and date of the fourth session of the Trade Committee

11 (III). MULTILATERAL ECONOMIC CO-OPERATION

The Trade Committee,

Cognizant of document E/CN.12/567, relating to the Latin American movement towards multilateral economic co-operation, in which the ECLA secretariat reviews the relevant developments in Latin America during the last two years,

Having established that the Montevideo Treaty, whereby the Latin American Free-Trade Association is instituted and a Free-Trade Area created, adheres in all essentials to the principles which, in its resolution 6 (II), this Committee recommended should be complied with in the formation of the Latin American common market,

Convinced that the establishment of the above-mentioned Free-Trade Area constitutes a real advance towards the integration of the markets of the individual Latin American countries which is necessary in order to improve productivity, expedite economic growth and, as a result, afford better levels of living and more employment opportunities to the populations of Latin America,

Bearing in mind that, in view of current trends in the world economy, it is extremely important for the studies and other activities of ECLA to take into consideration the problems connected with foreign trade and trade policy as between Latin America and other regions of the world,

Decides:

1. To take note with satisfaction of the part played by the secretariat of the Economic Commission for Latin America in the preparation of the Montevideo Treaty;

2. To recognize with satisfaction that the Montevideo Treaty is in harmony with the general principles which this Committee recommended should be complied with in the formation of the Latin American common market, and that the said Treaty constitutes a satisfactory instrument for establishing a free-trade area and for advancing towards the desired complementarity between the Latin American economies;

3. To request the secretariat of the Economic Commission for Latin America to continue giving technical advice to the organs of the Latin American Free-Trade Association, in conformity with the terms of the Montevideo Treaty;

4. To request the secretariat of the Economic Commission for Latin America, likewise, to devote special attention in its studies to the problems of trade relations between currently existing multilateral groups and those countries of the region which are not yet members of the groups in question;

5. To recommend to those Latin American Governments which have not yet signed or decided to sign the multilateral treaties so far concluded in Latin America to study with the co-operation of the ECLA secretariat the problems raised by their possible accession to such instruments;

6. To recommend to the secretariat that, in carrying out its studies on trade policy, it give special consideration to those concerning the expansion of trade between the Latin American countries and those of other regions, and examine the problems of trade relations with countries or groups of countries in other parts of the world;

7. To recognize that the Trade Committee should, at its next session, review the progress achieved in the implementation of the integration programme of the Central American common market and of the programme relating to the Latin American Free-Trade Association.

10 May 1961

12 (III). CUSTOMS POLICY

The Trade Committee,

Having noted the ECLA secretariat document E/CN.12/544, which analyses the situation with respect to customs duties and other import charges and restrictions in Latin American countries, together with their average levels of incidence,

Bearing in mind that, according to the conclusions drawn from the said study, the import régimes in force in the majority of the Latin American countries are characterized by their decided complexity, by the secondary importance often assigned in them to customs tariffs, by frequent changes in the treatment accorded to imports of specific goods and by systems of duties and charges which are sometimes incompatible with the efficient use of available resources,

Bearing in mind likewise that this situation is an obstacle to the application and extension of agreements conducive to the liberalization of intra-regional trade,

Considering that fuller and more efficacious use could be made of the customs tariff as the basic instrument of a trade policy aiming at increased specialization and complementarity among the Latin American economies, as well as at the establishment of export flows of manufactured goods to countries outside the region and, in general, the expansion and diversification of Latin America's existing export trade,

Decides:

1. To take note with satisfaction of document E/CN.12/554 and to request the ECLA secretariat to continue and extend such studies;

2. To recommend the Latin American countries to build up a customs policy designed to encourage the most efficient productive activities and those considered to be of basic importance for the development of their national economies and the expansion of foreign trade, in view of the importance of co-ordinating national economic development programmes and promoting the increasing complementarity of their economies;

3. To stress the fact that for the attainment of the above-mentioned objectives, as well as others pursued through agreements on the liberalization of trade and on economic complementarity, it is essential that the Latin American countries simplify and co-ordinate their import régimes and restore the status of customs tariff as a basic instrument of their trade policy, giving it the necessary flexibility for its adaptation to the structural changes inherent in the process of economic development;

4. To request the ECLA secretariat to endeavour, in carrying out its studies on tariff policy in the Latin American countries, to bring to light and suggest the measures best calculated to achieve the aforesaid ends.

10 May 1961

13 (III). CUSTOMS QUESTIONS

The Trade Committee,

Cognizant of document E/CN.12/568, containing the Report of the first session of the Working Group on Customs Questions which was set up in compliance with resolution 7 (II) of this Committee,

Considering that the points discussed at the session in question, and the resolutions adopted, meet the requirements in the field of customs techniques arising from

the economic complementarity programmes of the Latin American countries and from the need to improve and bring up to date the latters' import régimes,

Bearing in mind moreover that several years ago the Central American countries adopted extended tariff nomenclatures drawn up in consonance with the specific characteristics of their economies and the structure of their foreign trade, on the basis of which they have already made considerable progress in the preparation of the Central American common tariff, having likewise adopted standard criteria in relation to other aspects of their customs régimes,

Decides:

1. To take note with satisfaction of the Report of the first session of the Working Group on Customs Questions (document E/CN.12/568);

2. To endorse the resolutions adopted by the said Working Group in relation to the definition and verification of customs value, definitions of basic customs terms, customs procedures and training of customs officials, save with respect to countries participating in the Central American Economic Integration Programme in the case of points which affect or diverge from the standard criteria upon which they have already agreed;

3. To recommend to those Latin American countries not covered by the Central American Economic Integration Programme that as their standard nomenclature they adopt the Brussels Tariff Nomenclature, as suggested by the Working Group on Customs Questions in its resolution 1(I);

4. To stress the need for the standard tariff nomenclature, definition of customs value and definition of basic customs terms whose adoption has been recommended by the Working Group to be put into effect at the earliest possible date by countries participating in Latin American agreements on the liberalization of trade or expecting to accede thereto in the near future;

5. To urge that, by way of supplementing the adoption of the Customs Co-operation Council's definition of customs value, those Latin American countries which have not yet done so establish a central valuation office, on the lines recommended in the relevant resolution of the Working Group on Customs Questions;

6. To call attention to the advantages represented by the adoption of *ad valorem* duties in the tariffs of the Latin American countries, in so far as the special conditions prevailing in each country permit, since this would considerably facilitate the use of the tariffs as effective instruments of trade policy;

7. To reiterate the Working Group's recommendation to the Latin American countries that training schools for customs officials be created;

8. To request the ECLA secretariat that, in continuing its studies on customs questions, it devote special attention to those relating to customs procedures and documents, special customs régimes, and other matters indicated by the Working Group or considered to be of interest by the secretariat itself, and that to this end it request, when appropriate, the collaboration of the Customs Co-operation Council and other international agencies, and that it convene in due course a second session of the Working Group to discuss such questions.

10 May 1961

14 (III). SPECIAL TRAINING COURSES IN TRADE POLICY

The Trade Committee,

Bearing in mind that the current Latin American movement towards multilateral economic co-operation has found tangible expression in the agreements relating to the Central American Economic Integration Programme and to the Latin American Free-Trade Association established by the Montevideo Treaty,

Considering that in other parts of the world important associations of countries have been formed and are in process of formation within the framework of economic and trade agreements established on multilateral bases,

Cognizant of the need for economic programming in the Latin American countries to be carried out on bases which must often take into account larger trade areas and, therefore, the corresponding aspects of trade policy,

Realizing that the adaptation of Latin America to the trends of the world economy in respect of multilateral relations and the consequent negotiation between countries or groups of countries substantially increases the complexity and scope of trade policy, creating situations and problems which can be dealt with only by specialists, of whom there is a marked scarcity in the field in question in Latin America,

Decides:

1. To recommend to the secretariat that it organize, to the extent to which its resources permit and as systematically as possible, courses on specialized training in trade policy, covering in particular subjects relating to the current movement towards multilateral economic co-operation;

2. To request the secretariat that, in the conduct of these courses, it endeavour to enlist the co-operation of the public and private, national and international agencies whose activities are connected with trade policy, and that, in determining the place where the courses are to be given, it bear in mind the geographical situation of the Latin American countries.

10 May 1961

15 (III). TRANSPORT

The Trade Committee,

Bearing in mind that the availability of means of transport and the conditions in which they operate are basic features of the development of inter-Latin

American trade as a whole, as well as of the effectiveness of the multilateral agreements by which it is hoped to integrate the markets,

Decides:

1. To recommend to the ECLA secretariat that in carrying out the studies comprised in the programme of the Trade Committee, it should devote special attention to problems relating to the availability and operating conditions of transport for inter-Latin American trade commodities and the incidence of freight charges on their final cost, and examine the other aspects of the trade policy problems associated with these matters;

2. To recommend likewise that in so far as the said studies relate to the transport problems of countries participating in multilateral economic integration agreements, they be carried out in close co-operation with the competent organs of the agreements in question.

10 May 1961

16 (III). DEVELOPMENT OF THE TOURIST INDUSTRY

The Trade Committee,

Considering that the expansion of exports of goods and services from the Latin American region is conducive to improvement in the level of living of its peoples,

Considering that the foreign exchange income accruing from the tourist industry is of vital importance for the economy of some countries of the Latin American region,

Deems that any new measure which is inconsistent with the development of the flow of tourists to such countries may create problems of supreme economic and social importance for the latter countries;

Invites the States members of ECLA to take into account, in drafting legislation or regulations of a customs or other nature, the importance of encouraging the flow of tourists into other countries of the region and to avoid measures which may jeopardize this flow.

10 May 1961

17 (III). PLACE AND DATE OF THE FOURTH SESSION OF THE TRADE COMMITTEE

The Trade Committee,

Considering that, in conformity with the agenda, the place and date of the next session should be determined,

Considering that recent developments in the field of trade policy make it impossible to foresee exactly the most suitable date for the fourth session of the Committee,

Decides to authorize the Executive Secretary of the Commission to convene the fourth session of the Committee, after consultation with the member Governments, at whatever place and on whatever date he deems most appropriate.

10 May 1961

Annex

LIST OF REPRESENTATIVES

MEMBERS OF THE COMMISSION

Argentina

Representative: Leopoldo Hugo Tettamanti

Members: Enrique Augusto Siewers, Carlos S. Vailati

Bolivia

Representative: Germán Monroy Block, Ambassador to Chile

Members: Jorge España Smith, Heriberto Centellas Maldonado, Agapito Feliciano Monzón

Brazil

Representative: João Batista Pinheiro

Members: Miguel Alvaro Ozório de Almeida, Gerson Augusto da Silva, Othon do Amaral Henriquez Filho, Diogo Adolpho Nunes Gaspar, Jorge Rezende, Luís Emígdio Pinheiro Câmara, Antônio Carlos de Abreu e Silva, Lia Barreto, Rômulo Barreto Almeida

Chile

Representative: Abelardo Silva

Alternates: Rui Barbosa, Samuel Radrigán, Víctor Leiva, Eduardo Morgan, Miguel Echeñique, Carlos Massard, Eduardo Cisternas

Members: Fernando Silva, Ricardo Lira, Roberto Durán, Sergio Silva, Julio Riethmuller, Víctor Grosman, Edgardo Boeninger

Colombia

Representative: Jorge Méndez

Members: Alfonso Patiño Rosselli, Juan Martínez Villa, Klaus Vollert, Fernando Corral Maldonado.

Costa Rica

Representative: Hernan Bolaños Ulloa, Ambassador to Chile

Cuba

Representative: Rolando Díaz Aztarain, Minister of Financial Affairs

Members: Juan F. Noyola Vázquez, Juan José Díaz del Real, Ambassador to Chile

Dominican Republic

Representative: José Martínez Moraga

Ecuador

Representative: Germanico Salgado

Members: Benito Ottati, Hugo Jativa Ortiz, Jaime Cifuentes, Tarquino León Argudo

El Salvador

Representative: Francisco Aquino Herrera, Minister of Agriculture.

Member: Víctor Manuel Cuellar Ortiz, José Mixco Fischnaler

France

Representative: Gabriel Lisette

Members: Jean Duflos, Pierre Dubrevil, Alexandre Kojeve, Ives Delahaye, René Letondot, Marquess d'Aurelle de Paladines, Gérard Dubois

Guatemala

Representative: Julio Prado García Salas
Member: Carlos Díaz Durán

Haiti

Representative: Andre Faraune

Honduras

Representative: Salomón Paredes Regalado, Ambassador to Chile
Member: Valentín J. Mendoza

Kingdom of The Netherlands

Representative: C. D. Kroon
Alternates: H. S. Radhakishun, J. Kaufman
Members: R. A. C. Henriquez, A. J. Jesurum, R. A. Ferrier, F. Kupers, E. O. van Suchtelen

Mexico

Representative: Plácido García Reynoso, Under-Secretary for Industry and Trade
Members: Francisco Apodaca Osuna, Roberto H. Orellana R., Octaviano Campos Salas, Roberto Gatica Aponte, Carlos Quintana, Ernesto Huergo Huergo, Ricardo Sánchez Luna, Rodrigo Acosta Proudina, Oscar Castro, Enrique Pérez López, Sergio Luis Cano, Lauro Reyes Medrano

Nicaragua

Representative: Gustavo A. Guerrero
Member: Armando Luna Silva

Panama

Representative: Enrique Gerardo Abrahams, Ambassador to Chile
Member: Gilberto Orillac

Paraguay

Representative: Romulado Cabrera
Member: Eliodoro Maciel

Peru

Representative: Manuel Seoane, Ambassador to Chile
Members: Vicente Cerro Cebrián, Octavio Tudela, Tulio de Andrea, Rodolfo León Carrera

United Kingdom of Great Britain and Northern Ireland

Representative: I. T. M. Pink, Ambassador to Chile
Members: M. Lam, G. G. Simpson, J. G. Thompson, V. G. Huntrods

United States of America

Representative: Herbert F. Propps
Members: Ralph Korp, Anthony Poirier

Uruguay

Representative: Guillermo Stewart Vargas
Members: Daniel Pérez del Castillo, Crisólogo Brotos, Eduardo N. Delgado, Néstor Ruocco

Venezuela

Representative: Enrique Tejera Paris
Members: Valmore Acevedo, Virgilio Fernández, Abel Cifuentes Spinetti, Luis Rodríguez Malaspina

ASSOCIATE MEMBERS OF THE COMMISSION

British Guiana

Representative: Cheddie Jagan
Member: Clifton C. Lowachee

British Honduras

Representative: G. C. Price, Prime Minister
Member: R. I. Castillo

REPRESENTATIVES OF STATES MEMBERS OF THE UNITED NATIONS, NOT MEMBERS OF THE COMMISSION, ATTENDING IN A CONSULTATIVE CAPACITY

Austria

Representative: Walter Brünner

Belgium

Representative: Alain de Thysebaert, Ambassador to Chile
Member: Marcel Houllez

Canada

Representative: Paul Tremblay, Ambassador to Chile
Member: J. R. Midwinter, Leonard Houzer

Czechoslovakia

Representative: Karel Almasy
Member: Vaclav Jeslinek

Hungary

Representative: Denes Viczenik

India

Representative: J. N. Dixit

Israel

Representative: Elizier Doron, Ambassador to Chile
Member: Samuel Goren

Italy

Representative: Giorgio Paolo Cuneo

Japan

Representative: Ryuichi Ando
Member: Shintaro Tani, Hisashi Kunihiro

Jordan

Representative: Suhail K. Tell

Poland

Representative: Wojciech Chabasinski
Member: Czestaw Slowakiewicz

Romania

Representative: Ruica Pamfil

Spain

Representative: Juan Luis Pan de Soraluce y Olmos, Count San Roman
Member: Raimundo Bassols Jacas

Sweden

Representative: Carl-Henrik Petersen

Union of Soviet Socialist Republics

Representative: S. Mikhailov
Members: E. Kosarev, V. Gorgasidze, A. Filatov

United Arab Republic

Representative: Gabr Al-Atrash

Yugoslavia

Representative: Faust Ljuba

REPRESENTATIVE OF A STATE, NOT A MEMBER OF THE UNITED NATIONS, ATTENDING IN A CONSULTATIVE CAPACITY

Federal Republic of Germany [a]

Representative: Hellmut Hoff

REPRESENTATIVES OF SPECIALIZED AGENCIES

International Labour Organisation (ILO)

Representative: Ana Figueroa
Members: Paul Cassan, B. Ghosh

Food and Agriculture Organization of the United Nations (FAO)

Representative: Hernán Santa Cruz
Members: Jean Moser, Jacobo Schatan, Thomas Carroll

United Nations Educational, Scientific and Cultural Organization (UNESCO)

Representative: Oscar Vera
Members: Jorge Fernández, José Blat Gimeno

International Bank for Reconstruction and Development (IBRD)

Representative: Burke Knapp, Vice-President
Members: William Diamond, Joaquin Meyer

International Monetary Fund (IMF)

Representative: Jorge del Canto
Member: Edgar Jones

World Health Organization (WHO)

Representative: Dr. Hugo Enríquez

World Meteorological Organization (WMO)

Representative: Charles S. Gilman

International Atomic Energy Agency (IAEA)

Representative: Alwyn Freeman

REPRESENTATIVES OF INTER-GOVERNMENTAL AND OTHER ORGANIZATIONS

General Agreement on Tariffs and Trade (GATT)

Representative: Jean Royer

Latin American Free-Trade Association

Representative: Mateo J. Magariños de Mello

Inter-American Development Bank (IDB)

Representative: Felipe Herrera, President
Members: Cleantho de Paiva Leite, José C. Cárdenas, Raul Rey Alvarez

Centre for Latin American Monetary Studies (CEMLA)

Representative: Javier Marquez, Director

Inter-Governmental Committee for European Migration (ICEM)

Representative: Antonio Lago Carballo
Member: Leon Subercaseaux Errazuriz

European Economic Community (EEC)

Representative: Luigi Fricchione
Members: Franco Gianfrachi, Ives Gibert

Customs Co-operation Council (CCC)

Representative: Emilio Gómez Pallete

Organization of American States (OAS)

Representative: Jorge Sol Castellanos, Under-Secretary for Economic and Social Affairs
Members: Enrique Lerdau, Director, Division of Trade and International Finance; Francisco Mardones Restat

REPRESENTATIVES OF NON-GOVERNMENTAL ORGANIZATIONS

CATEGORY A

International Co-operative Alliance (ICA)

Representative: Rafael Vicens

International Chamber of Commerce (ICC)

Representative: Tomás Sepúlveda Whittle

International Confederation of Free Trade Unions (ICFTU)

Representative: Wenceslao Moreno
Member: Manuel Guerra Jiménez

International Federation of Christian Trade Unions (IFCTU)

Representative: Jose Goldsack
Members: Alfredo Di Pacce, Ramón Venegas Cattasco, Clemente Pérez Pérez, Eusebio Alviz

World Federation of Trade Unions (WFTU)

Representative: Juan Vargas
Member: Domiciano Soto

CATEGORY B

Catholic International Union for Social Services (CIUSS)

Representative: Adriana Izquierdo Phillips
Member: María Isabel Núñez Meyer

[a] Attending in accordance with resolution 632 (XXII) of the Economic and Social Council.

C. OTHER ASPECTS OF MULTILATERAL ECONOMIC CO-OPERATION IN LATIN AMERICA

I. PAYMENTS AND CREDITS

Certain studies previously issued only for restricted circulation, and relating to various financial problems connected with the Latin American common market project, are reproduced below. The studies in question * were carried out as part of the work programme laid down in resolutions 1 (I) and 9 (II) of the Trade Committee, and were specially prepared at the request of the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries. The secretariat was likewise requested to organize a meeting of governmental representatives of central banks, which was held at Montevideo, Uruguay, in January 1960, and the findings of which can be studied in the relevant report, also included in the following pages.

1. Payments and credits in the Free-Trade Area: possible systems **

I. GENERAL CONSIDERATIONS

A. Purpose of the report

1. At the First Conference held by the Governments of Argentina, Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay at Montevideo in early September 1959, for the purpose of drafting a free-trade area treaty, it was agreed to invite governmental representatives of the Central Banks of these countries to meet, also at Montevideo, in early December with a view to studying the payments questions arising in connexion with the operation of the area.[1]

In order to facilitate the work of the Central Banks meeting, the Governments concerned requested the Economic Commission for Latin America and the International Monetary Fund to carry out special studies on the payments problem and as to possible solutions, recommending that due account be taken, in making these studies, of the views expressed on the matter by the delegations at the Montevideo Conference.

In resolution 9 (II) (Panama, May 1959), the Trade Committee requested the ECLA secretariat to study the problem of payments in an inter-Latin American Common Market. Although this report refers particularly to the situation of the seven countries that are interested in creating the free-trade area, the evaluations and conclusions in it are to a large extent valid for all the countries of Latin America and should be regarded in some measure as a prelude to the report requested by the Trade Committee.

B. Views expressed at the Montevideo Conference

2. There was general agreement among the delegations present to the effect that the efficient operation of the area would be assisted if all settlements for intra-area trade and transactions could be effected on a uniform basis. If this should not prove practicable, it would be necessary to consider establishing some payments mechanism which would harmonize so far as possible the different systems in operation, from the point of view of their effect on intra-area trade.

There was no disagreement as to the advisability of developing a credit mechanism which would contribute to the achievement of the following objectives:

(*a*) To counter the depressive effects exerted on intra-area trade by the seasonal imbalances in its flows; and

(*b*) To facilitate the policy of trade expansion resulting from the programme for reducing and eliminating customs duties and other restrictions in the area.

However, though there was agreement on the need for establishing some form of special credit facilities, the scope of the system and the sources from which such credit should come were not discussed in detail.

3. In addition, individual delegations indicated the general position of their respective countries on certain aspects of the payments questions. These views may be broadly summarized as follows:

(*a*) Countries which have long enjoyed convertibility — as is the case of one possible member of the area in particular — are not in favour of any system that would involve the adoption of restrictive practices with respect to such convertibility. Nor do they wish to endorse a system which would balance payments within the group of participants. In their opinion, the successful operation of the free-trade area so far as payments are concerned could be ensured if each country avoided persistent disequilibria in its balance-of-payments position *vis-à-vis* the rest of the world;[2]

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* Issued earlier in mimeographed form under the title of "Papers on financial problems prepared by the secretariat of the Economic Commission for Latin America for the use of the Latin American Free-Trade Association" (E/CN.12/569, 1 March 1961).

** Issued for restricted distribution on 30 October 1959 as working paper No. 1 of the series presented at the meeting of governmental representatives of Central Banks (Montevideo, January 1960).

[1] Resolution 3, adopted at the Montevideo Conference for the Establishment of a Free-Trade Area, invites the Central Banks of other Latin American countries to send observers to the meeting.

[2] It should be recalled in this connexion that article 4 of the projected treaty establishes the principle of reciprocity by virtue of which equivalence is to be maintained between the benefits resulting from trade concessions.

(*b*) Countries which, within their over-all programme of monetary reform, have lately been taking steps to apply and maintain a system of increasing convertibility — as several of those interested in joining the free-trade area — would not favour any approach conducive to the strengthening or reinstatement of the restrictive or bilateral procedures, that their reforms would eliminate or tend to eliminate; and

(*c*) Countries — such as one of those taking a leading part in inter-Latin American trade — which, for various reasons, find it neither possible nor advisable to abandon, either immediately or in a fairly short space of time, the bilateral accounts through which, without having to use convertible currency, they now settle the bulk of their transactions with most of Latin America, favour a payments system for the area that would be so constructed as to be compatible with the use of bilateral accounts and gradual progress towards convertibility and the expansion of multilateral procedures.

C. CREDIT FACILITIES

4. At this juncture, a brief commentary should be made on the general relationship between the movement towards eliminating artificial and selective barriers to the development of multilateral trade in the area, and the advisibility of maintaining credit mechanisms among the members of the area.

5. Factors such as the unification of the multiple exchange rates into a single effective rate; the consequent disappearance of the indirect import subsidies that frequently resulted from the existence of multiple exchange rates as well as of the duties originating in the same source which often had to be borne by exports and hence by certain productive activities; and the replacement of direct methods of payments control and import selection by those of an indirect nature, apart from other positive factors deriving from the monetary reforms, will undoubtedly have a salutary effect on foreign trade as a whole.

6. Nevertheless, the movement towards uniform and more orthodox settlement arrangements does not appear to be helpful to the expansion of inter-Latin American trade as such, in view of the special circumstances surrounding the development of such trade. The method of direct control over imports and exports enabled each country to grant preferences or special treatment to other countries in the region with respect to their reciprocal trade and reduced the growth of competition by similar goods from other markets. With the abolition of direct controls, the possibility of retaining the special treatment granted through that channel has disappeared. The consequent slackening of trade flows has been followed by a drop in the production of certain items. And although, to a certain extent, recourse is now being had to another kind of preferential treatment — that of exempting Latin American countries from the obligation to make prior deposits which is currently imposed on importers in many countries — the incentive it offers is less powerful than that given by the old method. Moreover, the concession of this new type of stimulus is essentially impermanent, since the amount of the prior deposit may be changed at any time, and as progress is achieved in granting freedom of trade and payments over a wider area, may be reduced and may ultimately disappear altogether.

7. Once the free-trade area has been established, however, it will have other means at its disposal for giving substantial encouragement to area trade, since under the terms of the programme, it will reduce and eliminate, for its members, customs duties and charges and other general restrictions. As this elimination of barriers is expected to give a strong impulse to branches of trade that are today virtually non-existent, namely, durable manufactured goods and capital goods, concern is naturally felt as to the possible impact on exchange holdings if settlements are effected in freely convertible currencies or in currencies that are freely transferable within the area. Moreover, one of the basic principles of the free-trade area is that there should be reciprocity of benefits deriving from the operation of its rules, but these benefits — so far as individual countries are concerned — may accrue gradually and it might well be necessary, by the granting of credits, to bridge the gap between the immediate results of concessions granted by an individual country and the benefits of reciprocal concessions from its partners that would not be felt until after a certain lapse of time.

8. In general, it would seem fair to say that the provision of special credit facilities, linked to intra-area trade, would help to allay the doubts and hesitations that would naturally be aroused by the implementation of the trade liberalization measures provided for in the programme and would assist in ensuring reciprocity of concessions and advantages deriving therefrom.

D. INTERNATIONAL PAYMENTS

9. In principle, the settlement of international transactions in the area could take place in any of the following ways:

(*a*) Exclusively in convertible currencies (including credits in such currencies);

(*b*) Exclusively through bilateral accounts (including bilateral credit margins granted reciprocally thereunder);

(*c*) Partly in convertible currencies and partly over bilateral accounts (including both credits in convertible currencies and bilateral credit margins).

10. The views expressed at the Montevideo Conference indicate that the first possibility mentioned above is unlikely to prove — at least for the time being — generally acceptable, since there are some countries which consider it preferable to keep the existing bilateral payments accounts in operation, because they feel it would be premature to demolish a structure whose disappearance might in their opinion be prejudicial to the trade levels attained in certain sectors. Moreover, they do not wish to find themselves obliged to settle seasonal imbalances, which are often high, in convertible currency. These are valid arguments and it only remains to ensure that, if settlements are effected through bilateral accounts,

the necessary measures are taken to prevent such monetary arrangements from distorting the flow of trade in the area or from resulting in discrimination against those countries that wish to settle in convertible currencies.

11. The second possibility (all settlements to be effected through bilateral accounts) would also seem unlikely to be generally acceptable. What is more, it would seem counter to the tendency that has developed in recent months towards the suppression of bilateral settlement procedures. But if, none the less, it should be agreed to adopt bilateral credit and settlement methods throughout the area, it is clear that some mechanism would have to be established (as was the case, for instance, in Europe, with the European Payments Union) which would effectively multilateralize, at periodic intervals, the whole or a substantial part of the balances accruing on these accounts. If this were not achieved, intra-area trade would not develop, as is essential, on multilateral lines, there would exist the risk of trade flows being dictated by monetary and not by commercial considerations, and the resulting distortions, and almost inevitable discriminations, would tend to defeat the objectives of the free-trade area itself.

12. Finally, there is the possibility that settlements within the area should take place both in convertible currencies and through the use of bilateral accounts, according to the arrangements adopted by individual pairs of countries. This method — which has the advantage of being flexible and dynamic — would have the disadvantage that the basis of settlements within the area would not be uniform. But how serious is this disadvantage ? And again the answer would seem to turn on the degree of transferability accorded to the balances held on the bilateral accounts and the extent to which bilateral arrangements would tend to introduce discrimination in intra-area trade. If the private trader is free to carry out authorized transactions anywhere in the area, without discrimination as to country, and, automatically, to make or receive payment for this transaction, then the risk of discrimination can only arise in inter-Government transactions; and this risk can to a large extent be eliminated by regular, periodic and multilateral compensation of the balances held on the bilateral accounts (or a substantial part thereof) through some central agency.

13. Some suggestions as to how a mixed system of settlements of this sort (i.e. with some countries settling in convertible currencies and others through bilateral accounts) could operate in practice will be offered in another part of this paper.

E. PAYMENTS SYSTEMS

14. During recent years, consideration has frequently been given in Latin America to the setting-up of some form of payments system along the lines developed in Europe from 1947 onwards. In fact, in Europe, this development passed through three stages. The earliest — a somewhat limited multilateral payments agreement — lasted from 1947 until 1949. It was then succeeded by the European Payments Union (EPU), which provided for complete transferability inside the Organization for European Economic Co-operation (OEEC) area and a substantial system of mutual credits. In December 1958, when most European countries has restored external convertibility to their currencies, the EPU was replaced by the European Monetary Agreement, which had been expressly designed to enter into operation in this eventuality.[3]

The development of a compensation system, as a preliminary step leading to a payments union, as occurred in Europe, presupposes the existence of a considerable number of bilateral accounts, since the volume of possible multilateral transfers that the system can produce increases with the number of surplus and deficit balances brought into compensation, and, conversely, if the number of bilateral accounts is relatively small, the system is unlikely to produce any worthwhile results. Until fairly recently, the number of bilateral accounts maintained by the Latin American countries and the tendency to establish new accounts, even towards the end of 1958, favoured a move towards multilateralism by gradual development from some simple system for compensating bilateral balances. However, the recent shift towards the suppression of bilateral accounts, the desire not to adopt new ones, and the possibility of taking more efficient steps to eliminate bilateralism would seem to suggest that progress through some compensation system — essentially based on the maintenance of bilateral accounts — is no longer the most suitable procedure for the Latin American area.

F. AGENCY

15. If the need for special credit facilities in the area is accepted and, even more, if some part of the settlements for intra-area trade are effected through bilateral accounts and there is agreement on the need for some mechanism that will achieve periodic multilateralization

[3] It will be recalled that one of the cardinal points of policy of the Organization for European Economic Co-operation was that freedom of trade and freedom of payments must go forward together, and that some system of mutual credits was necessary to reinforce the reserves of member countries and enable them to expand their trade multilateralization measures. Thus the OEEC's trade liberalization code, which has been in operation since August 1950 and whose adoption was made conditional on the coming into force of the European Payments Union, states that " the need to create as wide a market as possible in which goods and services may be freely exchanged cannot be completely achieved until a sufficient equilibrium is restored to intra-European payments, as part of the effort towards establishment of a single system of multilateral trade in the world, an equilibrium which will enable member countries to exchange goods and services freely with each other without endangering their monetary reserves "; and one of the express purposes of the European Payments Union was " to facilitate in the largest possible measure the liberalization, on a non-discriminatory basis, of trade and visible transactions " and to " provide member countries, in particular, with reserves to play in part the role of gold and foreign currency reserves ".

Finally, the European Fund, which was set up under the European Monetary Agreement that entered into force in December 1958, was established expressly " to provide the member countries with credit in order to aid them to withstand temporary over-all balance-of-payments difficulties, in cases where these difficulties endanger the maintenance of the level of their intra-European liberalization measures ".

of some part or the whole of these balances, then it will be necessary to establish a central agency.

The precise functions of such an agency will have to be established in full technical detail, but, in broad terms, it is suggested that its terms of reference could be:

(*a*) To act as the channel through which the intra-area credit arrangements, especially if these are automatic, will be operated;

(*b*) To provide the mechanism for the multilateralization of the balances held on bilateral accounts; and

(*c*) To provide a centre for the compilation of financial data and for financial studies, on the basis of which the area's monetary problems would be examined and discussed by the competent bodies.

It is clear that, if the agency is to carry out efficiently the functions described above, it will have to have its own resources. And this in turn will mean that it will have to be endowed with its own independent personality in international law.

16. The amount of the agency's capital or fund will depend on what arrangements are reached as to intra-area credit facilities and for the multilateralization of balances on bilateral accounts and thus can only be determined at a later stage. Suffice it to say here that the agency's capital or fund:

(*a*) Might be derived from quotas subscribed by the member countries and also, possibly, from contributions from non-member Governments and international organizations;

(*b*) Need not be subscribed in full at the time of the agency's establishment. It would for instance be perfectly possible for a relatively small percentage to be paid over initially and for the balance of the agreed contributions to be called up as and when the agency has need of further funds.

It need hardly be added that the agency would have to maintain the closest relations with the Central Banks of the member countries and that it would be subject to the authority and directives of the competent bodies of the free-trade area.

II. THE FUNCTIONS AND OPERATION OF A PAYMENTS SYSTEM

17. Two of the major functions of a payments system designed to assist the full and harmonious development of the free-trade area will be:

(*a*) To ensure as far as possible that the maintenance of bilateral accounts and credit margins does not have a discriminatory effect on intra-area trade, and

(*b*) To act as a channel through which the intra-area swing credit arrangements — especially if these are automatic — will be operated.

These two functions of the system are to some extent inter-related, at least in so far as its multilateral credit arrangements must take account — in whole or in part — of the development of the balances on the bilateral accounts. For the sake of clarity, however, it will be preferable to consider separately the various ways in which the functions in question can be carried out.

18. But first a word as to the general framework of the system. It is envisaged that:

(*a*) A central agency would be established with which the Central Banks of all member countries would maintain an account;

(*b*) These accounts would be kept in United States dollars and at regular intervals — every 60 or 90 days — the balance thereon would be determined, taking account of the payments and transfers which the rules of the system provide should be reported to the agency for incorporation by the latter in its books;

(*c*) When the balances have thus been determined — at the end of each " accounting period " — the Agency would then proceed with the settlement of the balances; these settlements would be effected — as provided for under the rules of the system — either in credit, or in convertible currencies, or partly in credit and partly in convertible currencies.

19. When intra-area transactions are settled freely in convertible currencies, there is clearly no need for any special mechanism to ensure the multilateralization of such payments.

The position is however quite different where settlements are effected over bilateral accounts, the balances on which can only be used for making payments to the bilateral partner in question. Here the danger is twofold. In the first instance, a country in approximate equilibrium with the area may find itself in considerable payments difficulties if its imports are having to be paid for, in the main, in convertible currencies, whilst the bulk of its exports are being settled over bilateral accounts and thus in currency which cannot be used to pay for its imports.

The second danger arises from the pressures which settlements over non-transferable bilateral accounts may well create on the flows of trade. For instance, in the case cited above, the country in question may be compelled to switch a substantial part of its imports to the bilateral partner in order to use its accumulating bilateral surplus and to diminish the strain on its convertible currency reserves. Similarly, substantial bilateral credit facilities might induce countries to favour the placing of imports where such credits are available, even though normal commercial considerations might suggest that the purchases be effected in some other country of the area.

20. The simplest way of avoiding these difficulties would be to provide, through a payments mechanism, for the multilateralization, at regular intervals, of all balances on the bilateral accounts. This was, indeed, one of the major purposes of the European Payments Union, whose provisions in this regard effectively eliminated any real risk of trade distortions resulting from financial considerations.

But whilst this must be the goal towards which Latin American payments arrangements should move as

rapidly as circumstances permit, it would seem clear that its immediate attainment is not possible, and that some interim arrangement must be developed which will allow, and indeed encourage, a more gradual progress towards complete monetary transferability within the area, and thence, to full convertibility.

21. A number of possibilities might be considered to this end, of which, perhaps, the two following suggestions might be the easiest to operate in practice. It could be agreed that limits should be set to the swing credits available on bilateral accounts and that any balance in excess of this figure — at the end of the "accounting period" — should be transferred to the agency and thus rendered available for use by any creditor country in the area. Clearly, the efficacy of this provision would depend on the size of the credit margins within which bilateral balances would retain their strictly bilateral character.

An alternative method for partially multilateralizing the bilateral accounts, would be to provide that at the end of each accounting period, a certain percentage — say 20 per cent to begin with — of the bilateral balances or of some of them should be transferred to the agency. A percentage figure of this order of magnitude would mean that credit extended bilaterally would be multilateralized over a period of some 15 to 18 months and thus would allow ample time for the reversal of seasonal swings.[4] It would, however, be necessary to reach agreement on how the bilateral balances existing at the time of the coming into force of the payments system should be dealt with.

22. But whatever method be adopted — another, for instance, would be to transfer balances that had been continuously outstanding for longer than a given time — the procedure in the agency would be the same.

The creditor country's multilateral account in the agency would be credited with the amount transferred and the debtor country's account would be correspondingly debited; and those credit or debit entries would then be taken into account in the agency's calculations of settlement against multilateral credit of resulting dollar payments.

23. Another situation remains to be considered. There may be, and actually are, countries which export essential commodities such as sugar and cotton to other possible members of the area and which register persistent and substantial credit balances against the importers of these items.

Once the area had been established, the system of reciprocity in respect of the concessions granted which it would bring into operation would perhaps influence such situations, but would probably do so by gradual degrees. Meanwhile, the country with a persistent credit balance would be able to incorporate into the system only a proportion of the value of its exports of the commodities in question. This proportion would gradually increase from year to year until it reached 100 per cent, or until the date at which the competent organs of the area reconsidered the problem.

24. Another important function of the payments system will be to provide — through the agency — a channel for the granting and receipt of credits, in support of the area's trade liberalization policy.

It would clearly be in the interests of the system that it should be able to operate with the maximum degree of automaticity; and thus that each country's credit margin in the agency — and the procedures under which these credit margins are to be operated — should be agreed on at the time the system is established.

25. Once the amounts of the credit margins had been agreed on, two questions would have to be settled, namely:[5] (*a*) how will the credit margins be operated in the context of the agency's periodic settlements ? and (*b*) how will the positions of individual countries be calculated in the agency for the purpose of determining their entitlement to receive credit or their obligation to grant it, and for the purpose of determining what payments in convertible currencies are due to or by the agency ?

26. On the first point, any number of formulae can be conceived, but in the interests of simplicity (and also to avoid the risk of too severe a drain on the agency's assets) the choice would seem to lie between: (*a*) settling deficits and surpluses wholly in credit up to the limit of the credit margins, and thereafter wholly in convertible currencies; or (*b*) settling deficits and surpluses in part by the use of credit margins, the balance being settled in convertible currencies; and when the credit margin is exhausted, entirely in convertible currencies.

Arguments can be advanced in favour of both systems and the decision — which does not, of course, affect the amount of credit available to, or made available by, each country in the system — is essentially a matter for discussion and negotiation between the Member countries in the light of their individual preferences.

27. It should be noted that in both cases the agency would require a capital or fund of its own. This need arises from the possibility that one or more creditor countries might have exhausted their credit margins to the agency (and thus be entitled to receive settlement wholly in convertible currencies) at a time when the deficit countries had still not reached the limits of their credit margins and were thus settling with the agency wholly in credit, or partly in credit and partly in convertible currencies.

III. POSSIBLE SYSTEMS

28. Before the formulas for harmonizing the different views on the payments problem currently held by the countries interested in joining the free-trade area are expounded, a brief account should be given of the recent general evolution of inter-Latin American payments. The bilateral accounts, through which most trade transactions used to be channelled, had extremely heterogeneous bases and procedures. The almost com-

[4] Multilateral settlement does not preclude the reservation of certain bilateral balances in order to meet trade contingencies.

[5] See para. 41 *et seq.*

plete absence of parity between the value of units of account and that of convertible currency for equivalent operations distorted the price system and conduced to the perpetual freezing of balances. In the last two years the outlook has been favourable to the creation of the conditions required to pave the way for multilateral agreements. The initial stage is characterized by the adoption of the Standard Agreement and Standard Banking Procedure at the first session of the Central Banks Working Group (Montevideo, 1957) and their application to nearly all clearing-account trade. The establishment of parity between units of account and actual dollars, above all, and the consequent influence of this system on quotations of goods at international prices provided the fundamental elements for a continuation of the movement towards multilateralism.

At its second session the Central Banks Working Group (Rio de Janeiro, 1958) threw fresh light on the payments problem and its evolution and also drew up a Protocol to regulate, in the event that the countries continued to maintain accounts, the transfer of balances which were being effected, in an incidental way, on the basis of the Standard Agreement.[6]

In view of these antecedents, of the lines of action that emerged from the recent Conference at Montevideo and of the tendency revealed in the last few months for the suppression of bilateral accounts, some payments formulae might be proposed for transactions within the free-trade area.

Some of these formulae are based on the possibility of organizing *a priori* credit systems and might be adopted if — as is the case in the countries which would constitute the area — the opinion continues to prevail that, because of general considerations related to the aggregate balance of payments, the use of dollars for current trade transactions in the area should be reduced as much as practicable. Another formula, based on credits *a posteriori*, would take effect if all transactions through current accounts were settled in dollars.

A. SYSTEM OF *a priori* CREDITS (COMBINED SYSTEM)

29. The system would be developed at two different levels. The first would relate to transactions effected by countries not linked by bilateral accounts; and the second to countries members of the system and linked by bilateral accounts. The agency for the system would maintain one account per country, through which the multilateral payments and claims would be effected and into which the bilateral balances agreed on would be incorporated.

30. The mechanism of the system might prove somewhat complicated if the agency registers individually all claims and payments inherent in the internal trade of the area. In order to simplify the scheme, it would be necessary to choose operational decentralization.[7]

Each Central Bank would determine which commercial banks or other institutions in its country were authorized to operate as part of the system. These authorized institutions would effect claims and payments through their representatives in the other countries of the area. At the end of each accounting period, or when convenient, the commercial banks would liquidate their net position in the corresponding Central Bank, which would thus register only one balance — debit or credit — for each authorized institution. The consolidation of these balances would of course be the position which each Central Bank would register with the agency. The latter would take cognizance of the positions of all Central Banks.

31. Within this scheme it would not be difficult to locate any discrepancies that might appear when the operations were computed. All that would be required would be for the authorized institutions to declare, at the end of each accounting period, their balances with each of their representatives. As the declarations of each pair of representatives in respect of their reciprocal operations must be equal to each other — one with a plus and the other with a minus sign — discrepancies could be quickly cleared up by this means.

32. From another point of view, the adoption of this scheme would channel inter-Latin American trade operations through the private banking system, whose intervention in such trade has hitherto, for various reasons, been less than its participation in trade with the rest of the world.

33. Under the system, the countries maintaining bilateral accounts would operate in exactly the same way as the multilateral account countries as regards their relations with these latter. From this point of view, all the member countries' participation in the agency would be subject to common regulations and procedures.

34. The establishment of the agency would not necessarily involve the termination of bilateral relations based on extant payments agreements. While they deemed it preferable, the parties to such agreements would continue to effect their reciprocal payments through the accounts concerned, but, as has already been said, on condition that they adhered to the rules of the Montevideo Standard Agreement.

Periodically, at the close of the same periods agreed upon for the regular liquidations effected by the agency, specific proportions of the bilateral-account balances would be transferred to the multilateral system. To this end, a fixed proportion of the balance registered in each

[6] See the following ECLA documents: *Report submitted to the ECLA Trade Committee by the Central Banks Working Group on a multilateral payments system* (E/CN.12/484); *Inter-Latin American payments* (E/CN.12/C.1/WG.1/8 and annexes I and II); *Report submitted to the Trade Committee of the Economic Commission for Latin America by the Central Banks Working Group on a multilateral payments system* (E/CN.12/C.1/WG.1/10/Rev.1).

[7] Should such decentralization not exist, the following procedure would have to be followed. Payments under such heads as the value of the goods traded, transport and insurance expenditure and other items whose inclusion is agreed upon would be effected through each of these accounts. To liquidate operations use would be made of documentary or clean credits or orders for payment, opened or issued by Central Banks or directly by commercial banks or other institutions in the country concerned, notification of these being sent to the agency for book-keeping purposes and, as an authorization of reimbursement, to the Central Bank of the country on which payment is incumbent.

bilateral account on a given date, irrespective of the amount such balances represented, should be incorporated into the agency's multilateral compensation. This proportion might be, for instance, 20 per cent of the bilateral balance concerned.

The proportion of the bilateral balances which would be transferred to the agency through the application of this arrangement, would determine the position of member countries in their bilateral relations and would be included in the position of each country deriving from its dollar transactions.

35. The following example sheds some light on the foregoing procedure as regards the incorporation into the system of a proportion of the bilateral balances.

For simplicity's sake, let it be supposed that there are only four members and that bilateral relations exist between countries B and D and between countries C and D.

The bilateral balances susceptible of liquidation through the agency would be:

B-3	D 3
C-4	D 4

and the following would be the multilateral balances:

A	8
B	-3
C	2
D	-7

Assuming that we are dealing with the first period of operations and that the initial position of each country shows no balance, the following result would be obtained:

Country	*Multilateral position*	*Bilateral position*	*Net position*	*Balance with the agency*
A	8	0	8	+ 5
B	- 3	- 3	- 6	- 5
C	2	- 4	- 2	- 2
D	- 7	+ 7	0	0

It is thus clear that, if the multilateral credit were, for example, 5 for each member, country A would obtain a reimbursement of 3 and country B would have to effect a payment of 1, which means that the agency would have to make a net disbursement of 2, offset by an equivalent increase in its credit balance.

The model presented shows how greatly the use of convertible currency in the financing of intra-area trade could be reduced, especially if it is borne in mind that the multilateral positions correspond only to the difference between exports and imports.

B. *A posteriori* CREDIT SYSTEM

36. A scheme of this kind would be applied if it were considered desirable that current intra-area transactions between countries that practised or had adopted convertibility, or between such countries and the parties to bilateral accounts, should be negotiated daily in dollars.

Bases for operation

37. The system would comprise two phases, one corresponding to dollar payments, and the other deriving from the incorporation of part of the bilateral balances into the system for automatic multilateral settlement.

38. As has already been pointed out, the agency would have at its disposal a capital or fund in dollars formed with the quotas subscribed by members, as well as with contributions — perhaps of a complementary nature — from Government or international institutions outside the area.

Each country would grant a credit to the agency and would receive one from it in return. The amount of this swing credit would be established on the basis of considerations such as those developed in paragraphs 41 *et seq.*

39. The members would compile and forward to the agency periodical data, relating to accounting periods of 60 or 90 days, on the net balance of the dollar claims and payments effected by each of them as a result of their reciprocal current transactions. To this end, each central bank would compute the data supplied to it by the commercial banks or other institutions authorized to effect exchange operations.

Furthermore, at the same regular intervals of 60 or 90 days, the countries maintaining accounts would transfer to the agency the previously stipulated proportion of the balance on each bilateral account, with a view to its multilateral settlement.

40. The agency would determine each member's net position at the end of the accounting period concerned, taking into consideration the two elements mentioned, i.e., the balance on dollar payments and the balance resulting from the multilateral settlement of proportions of bilateral balances.

When a country's net position indicated that it had effected dollar payments in excess of its dollar receipts, the agency would automatically furnish it with a sum equivalent to the excess disbursement, to be debited against the credit due to it, always provided that this were still sufficient to cover the amount involved. Otherwise, the automatic loan would be reduced to the amount of the credit margin available.

Again, if a country's net position showed that its receipts had exceeded its payments, it would surrender to the agency a sum in dollars equivalent to the resulting net balance. But, as in the preceding case, this procedure would be put into effect in so far as the credit margin in question permitted.

The procedure described could be illustrated by means of the figures in the example given in paragraph 35.

On the basis of the hypothetical positions postulated for the four countries, and on the assumption that the multilateral credit were 5 for each member and that

the accounting period concerned was the first, the results would be as follows:

Country	Multilateral payments	Bilateral position	Net position	Amounts surrendered: to the agency	Amounts surrendered: by the agency	Balance with the agency
A	8	0	8	5		5
B	− 3	− 3	− 6		2	− 5
C	2	− 4	− 2	2		− 2
D	− 7	7	0		7	0

The agency's receipts amount to 7 and its disbursements to 9, with a net outflow of 2, equivalent to the amount by which the net debit balance of the member countries increases.

Country A registers a favourable balance of 8 in its multilateral relations and shows no bilateral position. It therefore surrenders 5 to the agency, this being the limit of its swing credit. Thus its position *vis-à-vis* the agency stands at plus 5.

Now comes the case of country B. It has disbursed 3 under the head of dollar payments. It also has to meet a payment of 3 to the agency, for purposes of the settlement of its bilateral position. As the agency will give it back 2 under this head — i.e., the difference between the amount payable and the limit of its swing credit — country B is left with its credit utilized (minus 5) and has effected a net disbursement of 1.

Country C's earnings amount to 2, which it surrenders to the agency; it also has to surrender another 4 as the result of its bilateral movement. In this case, the latter sum is debited against the credit due to the country concerned, which will be left with a balance of minus 2.

Country D loses 7 on its dollar claims and payments. In addition, it shows a positive bilateral balance of 7, which will be restored to it by the agency. The two positions will therefore compensate each other and its balance will stand at 0.

If exactly the same situation were to recur in succeeding periods, the results would be as follows:

Country	Balance with the agency	Multilateral payments	Bilateral position	Net position	Amounts surrendered: to the agency	Amounts surrendered: by the agency	New balance with the agency
A	5	8	0	13			5
B	− 5	− 3	− 3	− 11	3		− 5
C	− 2	2	− 4	− 4	2		− 4
D	0	− 7	7	0		7	0

Country A is left with its surplus. Country B's dollar payments are not reimbursed and it pays its bilateral balance, since it has no credit margin available. Country C surrenders 2 to the agency, which assumes a bilateral commitment of 4 by increasing the same country's debit balance by 2. Country D compensates its positions; it receives 7 from the agency and maintains its balance at 0.

If a third period with the same figures were to be assumed, the situation would be as shown below. The agency, which in the preceding period surrendered dollars to the amount of 2, now does so for 1. The net debit balance of the members increases by this amount.

Country	Balance with the agency	Multilateral payments	Bilateral position	Net position	Amounts surrendered: to the agency	Amounts surrendered: by the agency	New balance with the agency
A	5	8	0	13			5
B	− 5	− 3	− 3	− 11	3		− 5
C	− 4	2	− 4	− 6	3		− 5
D	0	− 7	7	0		7	0

A change takes place in the situation of country C, which has used up its entire credit and in the future will have to meet the whole of its commitments with dollar payments.

Finally, the results of a fourth period, given the same positions, are shown below:

Country	Balance with the agency	Multilateral payments	Bilateral position	Net position	Amounts surrendered: to the agency	Amounts surrendered: by the agency	New balance with the agency
A	5	8	0	13			5
B	− 5	− 3	− 3	− 11	3		− 5
C	− 5	2	− 4	− 7	4		− 5
D	0	− 7	7	0		7	0

By the time this fourth period is reached, the agency's receipts and expenditure balance one another. The net amount it surrenders in dollars has risen to 5, and the net balance owed to it by the member countries represents the same sum.

C. ASPECTS COMMON TO BOTH SYSTEMS

1. *Multilateral credit*

41. Upon entering the agency, the members would grant a standing credit. The granting of such credit would not constitute a new departure. Apart from existing in bilateral accounts, it also exists to a certain extent — with dollar coverage—in inter-Latin American trade, since trade credits are often granted for varying terms to facilitate specific exports payable in dollars. In addition, the country granting credit within the system would receive credit in return. The credit could be fixed at a suitably low level (the amount to be settled by negotiation). Furthermore, credit must be granted if the objectives of the free-trade area are to be attained.

In the case of both the *a priori* and *a posteriori* systems, each country's swing credit with the agency would have to be established chiefly on the basis of the size of seasonal disequilibria in traditional trade. Some attempt to provide against a possible and perhaps a rapid expansion of imports as a result of the establishment of the free-trade area would also have to be made.

Table 1

Trade transactions between Argentina, Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay, 1958 [a]

(F.o.b. values in millions of dollars)

	Exports	*Imports*	*Balance*	
Argentina				
Multilateral	7.9	13.2	− 5.3	
Bilateral	115.6	134.4	− 18.8	(With Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay)
Bolivia				
Multilateral	—	3.9	− 3.9	
Bilateral	0.2	7.7	− 7.5	(With Argentina, Chile and Uruguay)
Brazil				
Multilateral	1.9	1.5	0.4	
Bilateral	141.5	89.4	52.1	(With Argentina, Chile and Uruguay)
Chile				
Multilateral	3.6	29.5	− 25.9	
Bilateral	28.5	32.9	− 4.4	(With Argentina, Bolivia and Brazil)
Paraguay				
Multilateral	13.2	9.2	4.0	
Bilateral	0.5	0.5	—	(With Uruguay)
Peru				
Multilateral	35.0	4.7	30.3	
Bilateral	2.6	11.2	8.4	(With Argentina)
Uruguay				
Multilateral	1.8	1.4	0.4	
Bilateral	10.9	23.7	− 12.8	(With Argentina, Bolivia, Brazil and Paraguay)

Source: Official foreign trade statistics.

[a] According to ECLA's figures, 1958 is representative of the three-year period 1956-1958.

Note: The classification of trade transactions as multilateral and bilateral transactions is approximate.

To facilitate the formation of some idea of the possible magnitude of multilateral credits, it may be worth while to study table 1, which presents the values represented by trade among the seven countries interested in setting up the free-trade area. The table draws a distinction between trade on the basis of bilateral accounts and trade covered in dollars. On the basis of these values, some preliminary estimates may be hazarded as to the possible amount of each country's swing credits with the agency.

42. One criterion on which to base an estimate of the possible magnitude of credits would be the assumption that these would have to be sufficient to cover in dollars the value of the transactions effected during one quarter, or, in other words, equivalent to one-fourth of the value of the annual trade of the country concerned with the area. As regards the proportions of the bilateral balances to be liquidated through the agency, since the credits established in the bilateral accounts would still exist, a smaller proportion could be fixed, such as, for example, 10 per cent of the value of annual trade through the bilateral accounts concerned.

Accordingly, the estimates given in table 2 were prepared.

Table 2

Inter-Latin American Free-Trade Area: estimate of possible magnitude of multilateral credit

(Millions of dollars)

Country	*25 per cent multilateral trade*	*10 per cent bilateral trade*	*Total A* [a]	*Credit B* [b]
Argentina	5.3	25.0	30.3	15.2
Bolivia	1.0	0.8	1.8	0.9
Brazil	0.8	23.1	23.9	11.9
Chile	8.3	6.1	14.4	7.2
Paraguay	5.6	0.1	5.7	2.9
Peru	9.9	1.4	11.3	5.7
Uruguay	0.7	3.5	4.2	2.1

Source: ECLA, on the basis of the figures in table 1.

[a] The credits in column A were estimated for each country on the basis of 25 per cent of the value of the trade effected in 1958 in convertible currency, and 10 per cent of the value of trade thorough bilateral accounts.

[b] The credits in column B were calculated on the same bases as in the case of column A, but the average value of imports and exports was taken.

43. It is of interest to compare the credits of which the possible amount is indicated in table 2 with trade balances in 1958 as between the countries that would be organizing the area, in order to form some idea of what would have been the size of the surpluses to be multilaterally liquidated through the agency. This is the purpose of table 3. The estimates presented in this table must be taken with some degree of caution, since the f.o.b. value of exports on which they had to be based is not altogether representative of the balance-of-payments situation, because the statistics for services and other invisible items are not available. Furthermore, as the bilateral balances would in the first place be absorbed outside the agency by the credits provided for in the bilateral accounts concerned, table 3 was based on the hypothesis that a proportion equivalent to 20 per cent of the value of the balances in question would be incorporated in the multilateral liquidation process. Lastly, it should be pointed out that the estimates had to be worked out on the basis of annual balances, whereas in practice the agency would effect liquidations at shorter intervals of 60 or 90 days. Consequently, there might well be seasonal disequilibria sharper than those reflected in the annual balance.

44. Once the magnitude that would be registered by the multilateral swing credits as a result of the negotiation conducted on the organization of the system has been ascertained, it will be possible to make an accurate estimate of the maximum amount of the capital or fund within the agency.

Time-lags would derive, as has already been pointed out, from the following circumstance. It may happen that several debtor countries have not exceeded the limit of their credits as at a given date, and are thus free from any obligation to effect payments to the agency. The latter, in turn, might find itself compelled to effect payments on the same date to a creditor country which had concentrated all the deficits of the debtor members in its positive balance. It would thereby have exceed its credit level and would thus be in a position to claim payment of the surplus.

The mode of operation of this capital or fund would resemble, up to a point, that of the cash assets or cash reserve of a commercial bank.

In the case of the agency, the assets in its balance would comprise the stock of dollars constituting its capital, plus its credits against debtor countries. Its liabilities, on the other hand, would include credits against the agency in favour of creditor countries and the book values of dollar holdings as registered in favour of the countries or institutions which supplied them. If trade movements in the area develop in conditions of relative equilibrium and members' balances do not exceed the credit limits established, the agency's cash holding will register no movement whatsoever. On the other hand, disequilibria in either direction in so far as they exceed the credit level, may reduce or augment the cash reserve, within limits that can be calculated with complete accuracy.

In these circumstances, the less favourable hypothesis is that by which six of the seven members of the area might reach at one and the same time their debtor credit limit, and the seventh country, with the lowest credit level, would be the creditor of all of them. In such an event, the maximum amount which the agency would be obliged to disburse would be 87 million dollars in the case of estimate A and 44 million in that of estimate B.

This hypothesis is extremely unlikely to materialize. The figures in table 3, prepared in accordance with the assumptions explained above, suggest that the agency would not have had to make any payment in case A (income and expenditure to the amount of 17 million dollars) and a net disbursement of 2 million in case B (income 25 million dollars and expenditure 27 million).

The establishment of certain special interim conditions to facilitate accession to the system in the case of countries whose balances in the trade that would be covered by the area are persistently favourable, would help to prevent the occurrence of a phenomenon such as that visualized in the foregoing hypothesis.

Table 3

Estimate of receipts and payments deriving from transactions in 1958 [a]

(Millions of dollars)

Country	Credit [b]		Balance [c]	Receipts or payments (—)	
	A	B		A	B
Argentina	30	15	− 9	—	—
Bolivia	2	1	− 6	− 4	− 5
Brazil	24	12	14	—	2
Chile	14	7	− 27	− 13	− 20
Paraguay	6	3	4	—	1
Peru	11	6	28	17	22
Uruguay	4	2	− 4	—	− 2

Source: ECLA, on the basis of the figures in table 1.

[a] Based on example given in table 2 above.

[b] See note to table 2. Figures are rounded.

[c] Multilateral plus 20 per cent of bilateral balances.

2. *Situation of surviving bilateral accounts*

45. As has already been mentioned, the surviving bilateral accounts would be connected with the *a priori* or *a posteriori* credit system by the surrender of a fixed proportion of the balance (which would be revised from time to time) for purposes of the periodical and automatic liquidation effected by the agency.

It is useful to consider how this provision would affect accounts registering high seasonal balances, like the account between Argentina and Brazil, the countries which maintain the largest inter-Latin American trade flow. In this account a great deal of weight is carried by certain goods in respect of which trade values fluctuate appreciably from one year to another. Moreover, the operations arising out of trade in the goods in question are concentrated in certain periods of each year. The sharpest fluctuations are registered in the case of wheat, trade in which is conditioned by the following two main

variables: the volume of production, both in Argentina and in Brazil, and the size of Brazil's purchases in other markets. Fluctuations are also observable in trade in fresh fruit and timber.

Table 4 presents the balance of the Argentine-Brazilian payments account at the close of each of the last four years. It may be noted that in the period as a whole the balance of payments between the two countries showed a net surplus of 61 million dollars, in favour of Brazil, with disequilibria reaching 35 million dollars in a single year.

Table 4

Balances of the account held between Argentina and Brazil as on 31 December of each year

(Millions of dollars)

Year	Balance [a]	Difference in respect to the preceding year
1955	+ 10.1	
1956	− 12.1	22.2
1957	− 15.8	3.7
1958	+ 19.2	35.0

Source: ECLA, on the basis of data supplied by the *Banco Central de la República Argentina* and the Department of Currency and Credit *(Superintendencia da Moeda e Crédito)* of Brazil.

[a] The signs refer to the position of Brazil.

These extremely marked fluctuations tend to cancel each other out, but over very long terms. Argentina and Brazil have therefore established an unlimited swing credit in their payments account, so that neither country runs the risk of having to divert dollars to the financing of its trade.

Situations like this account for the caution with which the prospect of a change in the existing payments system among some Latin American countries is viewed in some circles and for the anxiety that progress towards multilateralism and convertibility should be gradual enough to allow time for the expansion of trade in such items as manufactured goods — trade in which might attain a more even and steady flow than the commerce in primary commodities at present prevailing — to impart some degree of stability to trade flows between the two countries and in the area as a whole.

3. *Credits and internal means of payment*

46. How far would the credits granted under the *a priori* or *a posteriori* system have inflationary effects in each country?

It is common knowledge that the inflationary effect of an export against credit is exactly the same as that deriving from another whose value has been received in dollars which have gone to increase the foreign exchange reserve of the exporter country. In other words, the expansionist effect depends on the possibility of applying the resources obtained from such exports to new imports, which would be facilitated within the system by the participation of the largest possible number of countries.

The expansionist monetary repercussions of the credits which would be required under the agency system may be regarded as fairly limited if their possible magnitude is related to the volume of internal means of payment of the countries interested in the formation of the area. According to the preliminary calculations in this paper, possible credits would represent between 0.9 and 1.8 per cent of the means of payments of the countries as a whole.

IV. FINAL REMARKS

47. In this paper, two possible systems for multilateral credits and the periodic settlement of transactions among the participating countries have been outlined.

The main differences between the two systems may be summed up as follows:

(*a*) With respect to transactions effected through bilateral accounts, the two systems are identical. In both cases, part of the bilateral balances would be liquidated multilaterally and the resulting net surplus incorporated into the over-all position of each member so that it can be subjected to the settlement rules that are agreed upon.

(*b*) When transactions are effected in dollars, each system will be applied in a different way: (i) under the *a priori* credit system, countries with a surplus would grant internal credits to countries with a deficit for the duration of each accounting period, i.e., for the 60-day or 90-day interval between the agency's settlements. Such credits differ fundamentally from, and are supplementary to, the multilateral credits agreed upon with the agency. Their amount would, of course, be equal to the amount of the surplus recorded for multilateral credits during the whole of the accounting period; (ii) under the *a posteriori* credit system, there would be no internal credit.

48. The operation of the two systems would also differ to some extent:

(*i*) Under the *a posteriori* system, dollar payments for daily transactions would be effected by commercial banks as usual through letters of credit, payment orders or drafts, chargeable to the accounts held by the partner banks among themselves and cleared on New York or any other centre adopted for the same purpose. Under the *a priori* system, on the other hand, operations among commercial banks would be undertaken as usual, except that settlements among partner banks would be cleared on the corresponding Central Banks.

(*ii*) Both systems would require an accurate computation of transactions in order to establish the balance between payments and claims. In either case, it should be possible to decentralize the computation so that the Central Banks would receive from commercial banks only the final balance for the operations of each bank with its partner banks in the area. In the one case, the Central Banks would naturally take these balances, against payment or claim in local currency, whereas, in the other, they would have a purely statistical value and would be used to ascertain the final position for payments and claims actually effected during each accounting period.

(*iii*) The accounts maintained under either system by each Central Bank with the agency would also be alike inasmuch as they would reflect each country's position *vis-à-vis* the other participants in the area as a whole. Under one system, each country would debit or credit its account with the amount accruing from its daily transactions, whereas, under the other, the results of periodic settlements would not be shown until the close of each accounting period. In both cases, however, that part of the bilateral balances agreed upon for transfer to the agency for multilateral settlement would be periodically incorporated.

49. Either of the two formulas outlined, or any other of a similar nature, would provide the credit facilities required to forge ahead boldly with the programme of trade liberalization and, at the same time, gradually to impart the necessary uniformity and convertibility to intra-area payments. The countries themselves would have to study the positive and negative features of each system in the light of their own interests and possibilities as well as of the common desire to attain the aims pursued by the free-trade area.

2. Considerations on the system of reciprocal credits in the Free-Trade Area *

During talks which representatives of the secretariat of the Economic Commission for Latin America (ECLA) held in Washington last November with officials of the International Monetary Fund, as well as with representatives of the United States Government connected with the Fund, an explanation was given of the meaning and scope of the two alternative proposals for a system of reciprocal credits submitted by the secretariat to the Governments participating in the forthcoming central banks meeting at Montevideo.[1] The most important points elucidated in the Washington talks are briefly reviewed below, together with certain relevant comments.

I

1. The establishment of a system of reciprocal credits for the projected free-trade area is not dictated by balance-of-payments considerations. Indisputably, payments equilibrium must be sought in the aggregate, not bilaterally or with respect to a group of countries. The aim pursued is not to balance payments, but to stimulate an energetic liberalization policy in respect of trade among the countries of the area. Most of those that have already attained convertibility have done so through the application of heavy surcharges or prior deposits to restrict imports. The imposition of these restrictions has been decisively influenced by general motives connected with the balance of payments.

In practice, apart from what might be achieved through negotiations within the General Agreement on Tariffs and Trade (GATT), a liberalization pact designed to abolish such restrictions *vis-à-vis* the rest of the world in general, in exchange for equivalent concessions, would be inconceivable. But such an agreement might well be feasible among the Latin American countries, since in each of them the increase in each one's imports brought about by the liberalization policy would be concomitant with the effect on its own exports of the liberalization measures applied by the other countries. This is a promising field for the expansion of trade.

Presumably, no country would adopt such a liberalization policy unless reciprocity existed. Moreover, the reciprocity principal was clearly defined by the Governments in the draft treaty on a free-trade area adopted at Montevideo.

It would not be justifiable to import against dollars, from countries members of the area, goods which on account of the dollar shortage are not now imported from the rest of the world. As regards imports at present effected from the rest of the world, what would be the point of ceasing to purchase them in other regions and bringing them in from within the area if they still had to be bought with the dollars that are so hard to come by? If such imports were not paid for on the basis of additional exports, no advantage would attach to the deflection of trade towards the area, as, commercially speaking, imports from the rest of the world are usually more attractive.

It may be useful to recall the essence of the principle of reciprocity. The countries of the area are proposing to expand their trade in order to expedite economic development. If a country increases its imports from the rest, it stimulates their development, and consequently may expect that its partner countries will encourage its own development by purchasing more of its exports. There is nothing in this which differs essentially from the principle of reciprocity as it is traditionally observed in any negotiation of commercial treaties.

2. In the course of the Washington talks two criticisms of the reciprocity principle as formulated in the draft treaty were put forward. The more important was to the effect that mere correlation between the expansion of imports and that of exports did not necessarily imply equivalent benefits. A country might in fact increase its exports of goods whose sale within the area depended only slightly or not at all upon preferences, and receive in return imports which could be effected only if they were granted markedly preferential treatment.

The reply to this criticism is that such situations must be subject to negotiation. If a country has no difficulty in exporting certain goods to the world market, it may not have to depend on preferences in order to find a sale for them within the area. There would consequently be no reason to apply the reciprocity principle in the case of exports effected in this way, without need of preferential treatment. As stipulated in the draft treaty, this principle would be applicable only to goods enjoying such preferences.

* This section complements section 1. It was drafted on 14 December 1959 and presented at the meeting of governmental representatives of Central Banks held at Montevideo in January 1960.

[1] See above "Payments and credits in the Free-Trade Area projected by Latin American countries".

Furthermore, each country will be free to choose the goods in respect of which it wishes to grant preferences, and will do so in the degree and measure in which it can obtain similar treatment from the other countries of the area. Thus, the application of the reciprocity principle, far from being automatic, would be dependent on negotiation among the contracting parties.

The second criticism was that the reciprocity principle might give rise to arbitrarily-created situations. A persistent excess of exports over imports might perhaps be the result of natural factors which would have to be respected. But what is meant by " natural factors ", and which of them are involved here ? Would the term be used in its proper sense, when the tariff system — the outcome of a specific policy — restricted imports ? Of course not. If, by virtue of the concessions granted by its partner countries, a country develops a certain persistent excess of exports to the area, the logical inference seems to be that it should speed up its liberalization policy in order to increase its imports from the area. It is precisely thus that the application of the reciprocity principle was visualized in the draft treaty.

II

3. In connexion with the system of reciprocal credits, attention was drawn to the following two essential aspects:

(*a*) First, countries which, as a result of liberalization policy, develop an excess of imports from the area should have at their disposal credits up to a pre-determined limit to enable them to absorb the possible adverse effects of the policy in question, time being thus allowed for their exports to feel the benefit of the liberalization measures applied by the other countries. In default of such credits, prudence would dictate the greatest caution in putting liberalization policy into effect, lest new external payments problems should be created.

(*b*) Secondly, countries developing an excess of exports would have to grant credits to the importer countries, again up to pre-determined limits.

Unquestionably, if these latter creditor countries, without granting any credit at all, were immediately to receive payment for their excess exports, they would have little interest in taking prompt measures to expedite their liberalization policy. But if they were under the obligation to grant a credit, and this could be mobilized within the area for the purpose of effecting more imports, a strong incentive to liberalization would be generated.

4. There would seem to be no fundamental objection to these two principles, which are grounded on considerations of trade policy, not of payments policy. The objections raised related rather to the method of application. A great deal of stress was laid on the undesirability of granting credits to debtor countries automatically. Such credits, it was affirmed, should be made the subject of negotiation. They should preferably be granted only when a deterioration in the aggregate balance-of-payments rendered such a step essential, and always providing that it did not jeopardize the policy of monetary control which a country had to pursue in order to achieve balance-of-payments equilibrium.

However, it is clear that the certainty of having credit available would help to induce countries to carry their liberalization policy as far as they considered feasible and that the lack of automaticity, at any rate to begin with, might seriously affect the scope and efficacy of the measures adopted.

Undoubtedly, Governments will have to weigh the pros and cons of these arguments with great care, before finally deciding on the solution they will select for so important an aspect of the problem.

5. The desirability of a lesser degree of automaticity was also discussed in connexion with the credits to be granted by countries with a favourable balance. In this context, it was suggested that the credit might be liquidated when the creditor country demonstrated that the disparity between imports and exports was due not to its own policy but to that of the debtor countries. How far the exercise of such a faculty could be carried would of course depend upon the degree of automaticity of the credits granted to debtor countries, since these are two closely inter-related aspects of one and the same problem.

III

6. It was emphasized in the discussion that what was essential was the availability of a credit system which would facilitate liberalization within the area, always through the expansion, not the contraction, of trade.

If this criterion is adopted, the selection of the credit system will depend mainly upon practical considerations. In the report submitted by the ECLA secretariat to the Governments concerned, two alternative formulae are put forward; one of these was prompted by certain aspects of the European Payments Union machinery, while the other takes into account certain features of the subsequent European Monetary Agreement.

Strong objections were raised to the first formula. Its adoption would mean that accounts had to be kept of all the trade operations of each country with the other members of the area. It was feared that such a system might help to perpetuate bilateralism in those countries which had not yet succeeded in eliminating it, or to re-establish it in those where it had already been discarded. To avert this risk, the avoidance of any kind of accounting system was felt to be desirable.

The existence of the risk is undeniable, although it may be recalled that in Europe's experience the Payments Union, rather than perpetuating bilateralism, helped to get rid of it. The determinants of bilateralism are not accounting systems, since these did not previously exist, but phenomena of another sort, which are just what the policy of liberalization and reciprocity in the free-trade area would seek to remedy.

There is yet another motive of concern. The fluctuations of the exchange rate, in the course of daily operations, might give rise to speculative manœuvres. The only way of preventing this would be to concentrate all

operations in the central bank of the country concerned, a procedure which would detract from the desired speed and simplicity as regards the formalities involved.

7. To forestall such misgivings, the secretariat report also presents an alternative formula whereby operations in the area would be liquidated daily in dollars. Periodically, countries which, according to a statistical reckoning, had shown a surplus attributable to liberalization would have to deposit the dollars they had received, up to a certain pre-determined sum. These resources would be placed at the disposal of countries with a deficit, in the form of loans. Thus the unit of account, implicit in the preceding formula, would be completely eliminated.

Alongside this advantage, the formula under discussion has the drawback — as was pointed out — that a central bank might find itself compelled to purchase dollars on the market in order to make the deposit referred to at a time the surplus in its favour had not yet brought an inflow of dollars to strengthen its foreign exchange position. However, in so far as the countries of the area decided against making these reimbursements and deposits automatic, the disadvantage indicated, if indeed it is one, could be modified or eliminated.

8. The trend towards the re-establishment of convertibility is unquestionably of great importance. But it must be accompanied by sweeping measures to liberalize trade among the countries members of the area. The more numerous these members become, the more effectively can the liberalization policy be implemented and the more faithfully the reciprocity principle be observed.

Liberalization policy and the restoration of convertibility are perforce complementary to the introduction of the latter and a system of reciprocal credits creates no obstacle. On the contrary, the success of a liberalization policy stimulated by the reciprocal credit system would help to make convertibility an established and lasting reality.

3. Report of the meeting of governmental representatives of Central Banks to the second session of the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries *

(Montevideo, 12 to 19 January 1960)

1. This report summarises the conclusions reached at the Meeting of Governmental Representatives of Central Banks held at Montevideo, Uruguay, in January 1960, in compliance with resolution 3 adopted at the first session of the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries (Montevideo, 16-30 September 1959).

2. In this resolution, the Conference, after taking note that the delegations present had reported on the payments systems in force in their respective countries and had voiced their opinions as to the best way of effecting payments in the Area, expressed the view that their statements had raised special questions which should be examined at length. It therefore recommended that a meeting should be convened at which top-ranking experts would represent the Central Banks of the countries that were negotiating the establishment of the free-trade area. It also requested the United Nations Economic Commission for Latin America (ECLA) and the International Monetary Fund (IMF) to undertake special studies on internal payments problems in the projected free-trade area on ways and means of solving them. The resolution further invited the Central Banks of the other Latin American countries to send observers to the meeting, and, lastly, requested ECLA to organize the meeting and, together with the IMF, to provide technical assistance while it was in progress.

I. MEETING OF GOVERNMENTAL REPRESENTATIVES OF CENTRAL BANKS

A. ATTENDANCE AND ORGANIZATION OF WORK

Opening meeting

3. The session was inaugurated on 12 January 1960 in the Board Room of the *Banco de la República Oriental del Uruguay*, which generously provided all the facilities needed for the success of the proceedings. At the opening meeting an address was delivered by Mr. Mateo Magariños de Mello, Chairman of the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries. Speeches were also made by Mr. Homero Martínez Montero, Minister for Foreign Affairs of Uruguay, and Mr. Felipe Gil, head of the Uruguayan delegation. Mr. Luis Mackenna, head of the Chilean delegation, spoke on behalf of the delegations present. After the officers had been elected, a statement on technical aspects was made by Mr. Raúl Prebisch, Executive Secretary of ECLA. He was followed by Mr. Herbert K. Zassenhaus, representing the International Monetary Fund.

Membership and attendance

4. The meeting was attended by representatives of Argentina, Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay, and observers from the Central Banks of Colombia, Ecuador and Mexico, as well as from the Board of Governors of the United States Federal Reserve System, the United Nations Economic Commission for Latin America, the International Monetary Fund, the Organization of American States and the Inter-American Council of Commerce and Production. The list of participants is as follows:

Governmental representatives

Argentina: Alberto H. Mage, Exchange Manager, Central Bank; Rodolfo Korenjak; Teodoro A. Fernández; *Adviser:* Anibal Silva Garretón.

Bolivia: Mario Ojara Agreda, General Adviser to the Ministry for Foreign Affairs; Hugo Ortíz Justiniano; Claudio Calderón; Luis Viscarra.

* This report, previously issued as a provisional document, is reproduced below, unrevised, because of the interest attaching to its content.

Brazil: Herculano Borges da Fonseca, Chief of the Division of Economics, Department of Currency and Credit; Paulo Cabral de Mello; Ernane Galveas; Alcides P. Costa; Lázaro Bauman das Neves; Irlio Octavio de Figueiredo Pessoa; J. O. Knaack de Souza (Observer).

Chile: Luis Mackenna, General Manager of the Central Bank; Eduardo Morgan.

Paraguay: Juan Félix Morales, Director of the Central Bank; Julio Sanabria.

Peru: Emilio Foley, General Manager, *Banco Agropecuario*; José Morales Urresti; Rodolfo León Carrera.

Uruguay: Felipe Gil, Director, *Banco de la República*; Antonio Odicini Lezama; Crisólogo Brotos; Mario H. Maldini; Romeo Maeso Sueiro; Luis I. Carlevaro; Julio C. Solsona Flores; Washington E. Demaría; Alberto Casal; Alberto Morillo Otero; Juan C. Arrosa; Juan A. Eguiluz; Juan C. Mussio; *Advisers:* D. Flaubiano Simoens Arce; Luis C. Panizza; Gilberto Boasso; Raúl H. Torre; Fernando Oliú; Washington E. Souto; Mario Buchelli; Justo B. Otegui.

Governmental observers

Colombia: Rodrigo Botero, Economic Adviser, *Banco de la República.*

Ecuador: José María Avilés Mosquera, Director, Exchange Department, Central Bank.

Mexico: Octaviano Campos Salas, Manager, *Banco de México.*

Panama: Fernandio Díaz, Deputy Manager, *Banco Nacional.*

Representatives of various national and international organizations

United Nations Economic Commission for Latin America

Raúl Prebisch, Executive Secretary; Esteban Ivovich, Director, Trade Policy Division; Alberto Solá, Economist, Trade Policy Division; Julio Valdés, Deputy Secretary of the Commission.

Organization of American States

Phillip Glaessner, Deputy Director, Department of Economic and Social Affairs; *Advisers:* Michael Zuntz; Fernando Fugazot.

International Monetary Fund

Herbert K. Zassenhaus.

Inter-American Council of Commerce and Production

Carlos Sanguinetti, Vice-President for the American continent; José Ma. Roca Sienra, Adviser, Uruguayan Section.

Board of Governors of the United States Federal Reserve System

Ives Maroni, Economist, Division of International Finance.

Officers

5. The meeting elected the following officers:

Chairman: Felipe Gil (Uruguay)
Vice-Chairmen: Alberto H. Mage (Argentina)
Herculano Borges da Fonseca (Brazil)

Secretariat

6. The duties of the secretariat of the meeting were discharged by the ECLA secretariat under Mr. Esteban Ivovich.

B. AGENDA

7. The following agenda was adopted:

1. Opening speeches
2. Election of officers
3. Adoption of the agenda
4. Possible credit and payments systems
5. General discussion
6. Adoption of the report and conclusions to be submitted to the second session of the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries

Documents

8. Payments and credits in the free-trade area projected by Latin American countries: possible systems

Memorandum on a system of swing credits in the free-trade area projected by Argentina, Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay

Further considerations on the system of swing credits in the free-trade area

Payments problems among the countries proposing to form a Latin American Free-Trade Area and possible solutions (International Monetary Fund report)

II. CONCLUSIONS

9. As a result of the discussions, the representatives of the Central Banks of the participating countries established the following conclusions:

Conclusions of the Meeting of Governmental Representatives of Central Banks, to be brought to the attention of the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries

Governmental representatives of the Central Banks of Argentina, Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay met at Montevideo on 12-19 January 1960, in conformity with resolution 3, adopted at the first session of the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries.

The meeting examined the information relating to the different payments systems — through bilateral accounts and in convertible currencies — in use in the region and

discussed the way in which credits might be used to facilitate the achievement of the economic ends pursued by the establishment of a free-trade area.

During the discussions important elucidatory statements were made on fundamental aspects of the questions under consideration and useful guide-lines were laid down, thanks to which it will be possible to press on gradually with the endeavour to find solutions that will meet the dynamic requirements of the free-trade area. The conclusions reached by the meeting in that respect were as follows:

(*a*) In the field of payments the target to be aimed at is free currency convertibility;

(*b*) The fact that differing systems of payments and credits are in force in the region is no obstacle to the entry into operation of the free-trade area, in accordance with the firm intention of the countries represented at the meeting;

(*c*) In the free-trade area, every endeavour must be made to obviate the discriminatory treatment to which the existence of differing payments and credit systems might otherwise give rise;

(*d*) In order that the free-trade area may fully attain its objectives, access to appropriate credits for the financing of intra-area transactions should be facilitated. To this end, the study of possible systems of payments and credits should be continued, due regard being paid to the observations and views expressed in the course of the meeting.

4. The reciprocal credits system for the Free-Trade Area *

OBSERVATIONS BY THE ECLA SECRETARIAT ARISING OUT OF THE MEETING OF GOVERNMENTAL REPRESENTATIVES OF CENTRAL BANKS

The Montevideo discussions cleared the way for the establishment of a credit system which would meet the requirements of the free-trade area. They showed that in such a system there was nothing which conflicted with the principle of convertibility or with any other sound monetary principle. Yet certain misgivings were expressed in connexion with the institution of an agency to handle credit operations among the countries of the area. These apprehensions were no longer grounded on reasons of principle, but on considerations relating to the ill-effects that might result from possible mismanagement. In this context, too, the Montevideo talks were very enlightening.

I. THE ESSENTIAL PRINCIPLE OF RECIPROCITY

Equivalence of trade benefits

The Governments interested in the establishment of the free-trade area requested the secretariat to study a credit system suited to its purposes. Such a system could not be projected in the abstract, but only in close relation to the objectives of the area in question. The basic end pursued is the creation of additional inter-Latin American trade flows, which by promoting industrial specialization, and brisker competition within the area, as well as more efficient productive utilization of the land, may help to speed up the rate of economic development.

There is no reason why the creation of these additional trade flows should affect trade with the rest of the world. The volume of this latter is dependent upon external demand, especially from the great industrial centres, and on the capacity of the Latin American countries to satisfy such demand and to avoid certain errors of economic policy which have jeopardized export possibilities in the recent past.

With a view to attaining the objective referred to, the proposed draft treaty sets up a preferential system under which negotiations will have to be conducted for the reduction and abolition of duties and restrictions among the contracting parties. Obviously, in the course of such negotiations each country will endeavour to ensure that the benefits it receives from the other members are equivalent to those it grants them. But, however great the care and wisdom displayed, there will be no possible way of assessing the results of these reciprocal benefits in advance. It was therefore deemed expedient to include in the draft provision for a corrective procedure, consisting in successive adjustments, whereby effective reciprocity could be achieved.

Before this procedure is explained, a point should be cleared up in connexion with the kinds of goods traded. On the one hand, a first category includes those export commodities which find a relatively easy sale on the world market, and which the contracting parties will have no particular interest in diverting towards the free-trade area through the system of preferences. And on the other hand, there are most of the goods in which inter-Latin American trade is at present conducted, together with those industrial products which might give rise to steadily expanding reciprocal trade flows. It is this second category of goods that will be the subject of negotiations under the preferential system.

The first category comprises a few traditional export commodities. The rate of growth of world demand for these is, of course, relatively weak, and the development of Latin American demand will open up new prospects for the expansion of production. Only a preferential system will enable these possibilities to be exploited to the full.

Method of achieving equivalence in practice

The only yardstick whereby the effects of the reciprocal benefits granted can be measured in practice is the increase in each member country's exports and imports of all the goods covered by the preferential system. The aim of the procedure established in the draft treaty is to ensure that countries with a persistent export surplus of the commodities in question *vis-à-vis* the other members of the area expedite the reduction or abolition of duties and restrictions in order to facilitate the development of

* This section has hitherto only been circulated for internal use at the second session of the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries.

countries in the opposite situation, i.e., having a persistent import surplus. Naturally, if the objectives of the treaty are to be fulfilled, each country will have to map out its programme for the reduction or elimination of duties and restrictions so that it will be able to negotiate for reciprocal benefits in the governmental committee to be set up under the terms of the draft agreement. In cases where a persistent export surplus occurs, the implementation of this programme will have to be speeded up. It might be advisable for the following supplementary provision to be included in the treaty: if the foregoing measure proved inadequate, the country with a persistent import surplus would be entitled to reduce and abolish duties and restrictions at a slower rate.

Reciprocal encouragement of economic development

The fact that reciprocity is established in relation to commodities in respect of which benefits would be accorded, other commodities being excluded, is clear proof that the principle in question is dictated not by balance-of-payments considerations but by motives of trade policy.

What are these motives ? It has already been pointed out that the underlying purpose of the Free-Trade Areas is to contribute to the acceleration of economic development. The expansion of exports achieved by any given country with the help of the concessions it has been granted encourages its economic development, and in return it must afford the other members a corresponding stimulus through the increase of their own exports. Otherwise, what would be the advantage of the Free-Trade Area for a country that increased its imports from the rest as a result of the preferential system, without securing a corresponding expansion of its exports ? What is more, not only would it obtain no benefits, but the consequences of this lack of equivalence might actually be prejudicial to it, since it would have to pay for the difference between exports and imports in dollars that it could have used more advantageously for imports from the rest of the world.

Reciprocity with the rest of the world

Following this explanation of the *raison d'être* of the reciprocity principle, the question may arise why it should be extended only to the Free-Trade Areas countries, and not to the rest of the world. There is an essential difference with respect to export possibilities. In inter-Latin American trade such possibilities are vast, both for traditional export commodities and, more particularly, for those industrial goods in which very little trade has hitherto been conducted. The same is not usually true of the Latin American countries' trade with the great industrial centres. Here the prospects are, for the time being, limited, and an intensive expansion of exports of traditional commodities can hardly be expected, since it is common knowledge that, in their case, the income-elasticity of demand is relatively slight. Undeniably, the feebleness of world demand for such goods is also partly attributable to the protectionist policy pursued by the importer countries; were this relaxed, considerable impetus might well be given to Latin America's exports. From another point of view, no intensive development of the region's capacity to export manufactured goods to the great industrial centres could reasonably be expected. Yet such a possibility does indeed exist, and in a high degree, within the sphere of inter-Latin American trade, and as it is exploited in practice and the volume of industrial output increases, alongside increased specialization in manufacturing activities, costs will gradually fall also, and the region will find it feasible to begin exporting industrial products to the great centres on a relatively large scale. There will then be an opportunity — at present precariously limited to traditional commodities — of negotiating with these centres on bases of reciprocity, although not necessarily on the lines laid down in the treaty.

II. THE RECIPROCAL CREDITS SYSTEM

Function of credits

It was stated above that, if reciprocity is to be achieved in practice, individual countries will have to expedite or retard the implementation of their programmes for the reduction or elimination of duties and restrictions. However, it will take some time for these readjustments to yield results, and, in the meanwhile, there will still be instances in which the increases in exports and imports generated by the treaty fail to keep abreast of each other. This constitutes a strong argument in favour of the establishment of a reciprocal credits system.

The monetary reserves of the Latin American countries are generally far from sufficient, and the trend of their import requirements from the rest of the world is apt to climb more rapidly than that of their export possibilities. In these circumstances, prudence would seem to counsel great caution as regards liberalization commitments (in the broadest sense of the term, i.e., reduction and abolition of duties and restrictions), unless additional credits are available to cover any balance-of-payments deterioration to which this liberalization policy may give rise. In other words, the function of credit will be to allow time for the possible adverse effects of liberalization measures on a country's balance of payments to be succeeded by the favourable consequences of those liberalization measures which countries with a persistent export surplus will have to adopt.

Thus, the secretariat, in compliance with the request submitted to it, has studied a credit system calculated to help in ensuring that the principle of reciprocity, which is the cornerstone of the whole agreement, is respected. The Montevideo discussions, it must be repeated, strengthened the conviction that a system of this kind can be established without prejudice to any basic monetary principle.

Credits and convertibility

In this connexion, concern was expressed as to whether a reciprocal credits system might not present an obstacle on the road to convertibility on which some of the Latin American countries have successfully started out, or, what would be even worse, actually compel them to

retrace their steps. The discussion showed that there would be no objection whatever to the establishment of a reciprocal credits system entirely in dollars, not in units of account, which would in no way jeopardize convertibility. For the sake of elucidating so important a point, a reminder must first be given of how such a system might operate.

A reciprocal credits agency would be set up for the countries of the area, through which the reciprocal credits that each country was prepared to grant to the others as a whole, and *vice versa*, would be negotiated periodically and in advance.

An agency contrived on these lines would have no reason to intervene in international payments. These would be effected in dollars, as in the case of ordinary operations under a convertibility system; but periods (possibly quarterly) for computing the results of such payments would be set. If, at the end of any given quarter, the reckoning were to show that a country had paid out more dollars than it had received by virtue of area preferences, and that the outcome had been a deterioration in its balance-of-payments position, the country concerned would be empowered to make use of the credit previously assigned to it. In other words, the country would recover its excess dollar disbursement, wholly or in part, according to the relation between this excess and the credit granted.

The dollars thus recovered by countries with an import surplus could be used unrestrictedly both within the Free-Trade Area and in the rest of the world, without any effect on convertibility. On this point it would seem that the doubts existing prior to the Montevideo talks were completely dispelled.

Source of funds for the system

This was not equally true, however, of certain misgivings relating to the resources that would be contributed under the system to enable it to grant the credits just referred to. In this context, an important distinction was drawn during the discussions with respect to the source of such funds. Dollar contributions might be determined in advance, in the shape of quotas to be subscribed by each country in accordance with certain indices of financial capacity; or they might be based in each instance on the surplus dollar payments received by any country (as previously described) in consequence of the preferential concessions. This distinction does not mean that the two sources are mutually incompatible, for even if the second were drawn upon for contributions, it would be necessary, as shown in the ECLA reports, for the system to have a capital fund at its disposal, which might be set up with contributions from the first of the sources indicated.[1]

[1] Yet another combination of funds from the two sources is conceivable. For example, contributions might be established in advance and a quota fixed for each country, but instead of their being payable immediately, these contributions would be claimed only when it became necessary to grant credits to countries with an import surplus. In such an event, countries with a correlative excess of exports would be called upon to contribute their pre-established quotas.

Operation of the agency

Before passing to the objections raised to the second source of funds, it may be useful to give a brief explanation of how the system would operate on the basis of contributions of this type.

Countries which had received surplus dollar payments would be under the obligation to deposit them with the agency at the end of the period of reckoning, up to the amount of the credit they had pledged themselves to grant. The credit thus extended by any one country to the agency would not be frozen; on the contrary, it would be available to cover an import surplus should the said country's position be reversed as a result of the acceleration of its programme for the reduction of duties and restrictions, to which reference was made earlier. Thus, if a country which had previously shown an export surplus came to have an import surplus, and had consequently effected excess payments, it could recover the dollars concerned, as in the preceding case, by means of a credit granted by the agency, and this credit would be compensated at once with as much as was necessary of the credit extended by the country to the agency.

The root of the arguments against contributions of this order lies in the incentive that would thus be provided for an expansion of imports from the area; for it would obviously be to the interest of a country which had granted credit to the agency to mobilize it as quickly as possible, by making more purchases from other member countries. This is exactly what is aimed at in the treaty, and the criticisms levelled at this objective will be discussed below.

III. OBJECTIONS TO A CREDIT SYSTEM BASED ON RESOURCES DERIVING FROM EXPORT SURPLUSES

Limited application of creditors' resources

The most important objection related to the mobilization of credit resources granted to the agency by countries with export surpluses. Such resources, it was asserted, should be available to cover imports not only from within the area, but also from the rest of the world. Were this the case, implementation of the principle of reciprocity, far from being promoted, would be impeded; in order to retain at its disposal for the longest possible time resources which it could use to effect purchases anywhere else in the world, on better terms, generally speaking, than within the area, a country with an export surplus resulting from benefits obtained under the treaty would be inclined to wait until the last moment before honouring the liberalization commitments imposed by the principle of reciprocity.

Another view expressed was that restricting to the Free-Trade Area the use of the resources deposited with the agency would imply non-convertibility. This would mean that any credit which could not be used in all parts of the world would run counter to the principle of convertibility. This point too was discussed at length.

The loans issued by the International Bank for Reconstruction and Development are by their very nature unrestrictedly available for use anywhere in the world. The credits granted by the United States Export-Import Bank, on the contrary, like those of the Development Fund and some of those extended by European countries, can be applied only in ways that will promote the export trade of the countries according them, and not to finance exports from other parts of the world. If these limitations were not considered incompatible with the principle of convertibility, there is no reason why such a drawback should be imputed to credits granted with a view to furthering reciprocal export trade within the area, that is, to attaining the primary objective of the treaty.

Diversion of exports from the world market

A further argument adduced was that, in order to liquidate such credits against the agency, the creditor country would find itself compelled to divert normal trade flows, to the detriment of exports that could easily be sold to the rest of the world by other countries, which would thus be induced to import from the area goods that they had formerly purchased freely in any part of the world.

The reply to this contention was that reciprocity and the credits system related to the goods classified in the second of the categories mentioned above, in respect of which the expansion of exports was desirable. There is no reason why a country that finds it easy to sell certain commodities on the world market should accept or negotiate preferences and reciprocity in respect of these trade items unless it is attracted by the prospect of opening up a new market within the Latin American region. But such a situation is obviously not typical, since most countries will plainly be interested in availing themselves of the advantages offered by the Latin American market in order to boost production.

Non-essential imports

It was also contended that the available resources held by a country in the agency (or the credit it could obtain therefrom) might encourage non-essential or luxury imports. This is, of course, an argument which bears on the use of a country's monetary reserves in general, not only the agency funds, and raises a problem of a different nature which must not be confused with the question under consideration. If it is felt to be desirable on economic grounds to curtail consumption of luxury items, the mere levying of import duties does not solve the problem, since it may prove an incentive to capital investment in the production of such goods and this has actually happened in some cases; the taxation concerned would then have to be extended to these lines of production too, if the aim was to restrict consumption. But were this not so, there would be no reason why liberalization measures should not be applied to imports of such goods whenever the time seemed ripe for such a step, as here too the advantages of specialization and division of labour within the Free-Trade Area still hold good.

Discrimination against debtors

It was also affirmed that the accumulation of credits would lead to trade discrimination; the creditor country might find itself obliged, at a given moment, to rechannel the exports it had been shipping to debtor countries in order not to increase the amount of credits deposited. To this objection two definite replies were vouchsafed. In the first place, there would be no room for discrimination under the agreement. Secondly, there would be no question of establishing unlimited credits; their amount would be determined by negotiation among the parties and in relation to the volume of trade. What is more, such credits would be negotiable at regular intervals, and if they proved disproportionate to the end pursued, there would be nothing to prevent reduction of the amount involved in the course of the next negotiation.

Credits granted by countries with an aggregate payments deficit

It was likewise pointed out that the system under discussion would mean that a country to which a dollar surplus had accrued from its intra-area operations would have to grant credit to the agency and return all or some of the dollars in question, even if it registered a payments deficit on the rest of its transactions, both within the area (in goods belonging to the first category and not covered by the treaty) and with the rest of the world. If such a situation should arise, it would not be through trade with the area that the deficit would have to be remedied, but by the application of appropriate balance-of-payments measures, whether these were of a monetary nature or of a more far-reaching kind designed to bring about structural changes and restore equilibrium. Moreover, a country in such a situation could not expect to right itself at the expense of the monetary reserves of another country whose balance-of-payments position had deteriorated as a result of a liberalization policy.

Automaticity of credits

The automaticity of credits also gave rise to certain objections. Nevertheless, there was a consensus of opinion to the effect that credits should not be negotiated in every individual case, but that a credit line should be established for a given period, after which recourse should be had to renegotiation for the introduction of such adjustments as were seen to be advisable in the light of experience. A credit line thus operated would have the advantages of automaticity inasmuch as it would give debtor countries the assurance that in specific circumstances, previously agreed upon, they would have free access to credit; and at the same time it would be flexible enough for any undesirable situation that might arise to be remedied by means of the adjustments referred to.

Consolidation of convertibility

If the whole problem is viewed in broader perspective, it is clear that a reciprocal credits system which encouraged the development of trade among the countries of

the area, far from impeding convertibility, would help to establish it on sounder bases than the very shaky foundations existing in several of the South American countries to-day.

To make some currencies convertible, exchange control measures have had to be replaced by exchange restrictions in the shape of surcharges and prior deposits. This is undoubtedly a step in the right direction; but, on the other hand, the fact that the movement towards convertibility has had to be accompanied by these restrictions can hardly afford much cause for satisfaction. The balance-of-payments situation must therefore be improved by degrees, so that the exchange restrictions in question can be abolished (not only among the Latin American countries, as has already been done in some cases, but *vis-à-vis* the rest of the world), and the only customs duties applied to imports are those necessitated by protectionist or fiscal considerations. The sole way of achieving such an improvement in the balance of payments will be through the expansion of exports and import substitution; and in the whole of this field, the institution of the Free-Trade Area and the establishment of a reciprocal credits system would be of vital importance. Thus, far from making convertibility harder to achieve, these measures would contribute to its consolidation.

Objections to the creation of an agency

To sum up, as a result of the Montevideo talks, which constituted the preparatory work, it should be possible, in the opinion of the ECLA secretariat, to consider specific ways and means of establishing a reciprocal credits system, which, without affecting the essential principle of convertibility, will contribute to the attainment of the fundamental objectives of the Free-Trade Area.

Undoubtedly, an indispensable prerequisite for a credits system would be the establishment of an agency with juridical powers. This idea too was in itself a target for criticism. Doubts were expressed regarding how such an agency could be run by the countries concerned. Attention has just been drawn to the apprehension felt with regard to excessive accumulations of credit and the discriminations to which they might lead, and, in addition, to the non-essential imports which a country might use such credits to effect.

All these motives of concern form part of a much broader problem. The policy of the Free-Trade Area will not be easy to carry out. Never before have the Latin American Governments embarked upon joint action of such far-reaching scope, and to put this idea into practice they will have to initiate an experiment which, particularly in the early days, will present great difficulties. It will depend upon how these problems are solved whether the Free-Trade Area is to be really effective in promoting trade and economic development, or is to become a static mechanism, and even one which may, unless handled with a high sense of responsibility produce disturbing effects.

The suggestion that the Governments will be unable to shoulder this responsibility with success cannot be considered an adequate motive for not creating the Free-Trade Area or for depriving it of a proper credit mechanism. The Governments will of necessity have to try the experiment and learn by their own mistakes, and this effort must at all costs be made if they are to solve their fundamental growth problems. To suppose that the basic principles for the satisfactory operation of the area and supervision of their implementation must be provided from outside, instead of emerging as a genuine outcome of the experiment itself, would be to shirk observance of the very principle of international co-operation.

II. CUSTOMS POLICY, NOMENCLATURE, TECHNIQUES AND PROCEDURES

1. Customs duties and other import charges and restrictions in Latin American countries: average levels of incidence *

INTRODUCTION

1. This study, which has been carried out in pursuance of resolution 6 (II) of the Trade Committee of the Economic Commission for Latin America (ECLA),[1] has two main aims:

(*a*) To present a systematic outline of the import régime in force in each of the ten South American countries and in Mexico, indicating at the same time, for each of the products and headings included in a sample representing the bulk (at least 85 per cent) of imports for each country in one or more recent years, the import duties, other charges of similar effect and other restrictions (quantitative and exchange restrictions, etc.) to which their entry into the country was liable on a given date;

(*b*) To calculate for groups and categories of products, as well as for the sample as a whole, the average levels of incidence (weighted averages and simple arithmetic means) of such duties and charges of similar effect.

2. With respect to three of these countries (Argentina, Brazil and Chile), a special study has been made of all

* Issued earlier in mimeographed form as document E/CN.12/554 (13 February 1961).

[1] Operative paragraph 3 (*c*) of the resolution requests the secretariat of ECLA " to give priority to and complete studies on the tariff, exchange and foreign trade systems . . . as regards the aspects which it considers to have a fundamental bearing on the formation of a common market ".

their customs headings, reclassified and grouped according to the Brussels Tariff Nomenclature (BTN) and according to the groups and categories referred to in sub-paragraph (*b*) above. The purpose of this study is to determine the corresponding arithmetic means, and to identify, on the one hand, products whose imports are subject to charges regarded as excessive and, on the other, products free of duties and charges.

3. For the purposes outlined in paragraph 1, a sample was selected for each country composed of products, average imports of which in 1957-58 — except for Argentina and Venezuela (1959 only), Uruguay (1957), Brazil (average for 1957-59) and Colombia (average for 1956-58) — exceeded a given value, thus making the sample representative of at least 85 per cent of total imports.

4. The selected products were classified on the basis of the United Nations Standard International Trade Classification (SITC) [2] and allocated to three categories and ten groups,[3] as follows:

Category I. Primary goods

Group 1: Unprocessed foodstuffs
Group 2: Raw materials
Group 3: Unprocessed fuels

Category II. Capital goods, intermediate goods and durable consumer goods

Group 1: Intermediate products
Group 2: Processed fuels
Group 3: Capital goods
Group 4: Durable consumer goods

Category III. Manufactured goods for current consumption

Group 1: Processed foodstuffs (including drinks and tobacco)
Group 2: Finished products of the chemical and pharmaceutical industries
Group 3: Other goods for current consumption

These three categories correspond to those envisaged in the recommendations on the structure and basic principles for a Latin American common market made by the Working Group on the Latin American Regional Market at its second session in Mexico in February 1959.[4] The purpose of the subdivision into various groups is to determine the corresponding individual levels of incidence, in order to provide more background information for this and other studies, as well as for possible negotiations concerning the common market.

5. Special attention was paid, in placing the SITC items in these categories and groups, to the considerations that led the Working Group on the Regional Market to adopt the three categories referred to, and also to the content that the Group gave to those categories. Accordingly, the groups in category II include products for which, because of their nature and the degree of development of the industries concerned in the various Latin American countries, demand may be expected to grow relatively rapidly, or which offer a wide margin for import substitution. The groups in category III include manufactured goods for current consumption for which demand is likely to increase relatively slowly and the margin for import substitution has either disappeared or shrunk considerably. Hence yarns, threads and fabrics, although essentially intermediate products, have been classified in group 3 of category III with other goods for current consumption, instead of in group 1 of category II.

6. When the products included in the import sample had been classified under these groups and categories, the following information was provided for each of them:

(*a*) the code number of the corresponding SITC item, and its code number in the national customs and statistical classifications; (*b*) the volume, value and unit price of imports for the year or period in question; (*c*) the specific and/or *ad valorem* duties chargeable on its entry into the country on a given date (general duty according to the customs tariff and, when applicable, the agreed or negotiated duty payable under the most-favoured-nation clause, and preferential duty),[5] the *ad valorem* equivalent of the specific duty,[6] total customs charges expressed in *ad valorem* terms, and the amount collected by the customs under the most-favoured-nation clause; (*d*) other charges with an effect equivalent to import duty and the corresponding amount collected by the customs or cost; and (*e*) other restrictions that are not the equivalent of customs duties — prior permits, bans, tie-in purchase requirements, quotas, etc. — and all other features concerning the import régime of the product in question (exchange category, exemption from duty under certain conditions, etc.).

7. For each of the groups and categories referred to (see paragraph 4 above), and for the sample as a whole,

[2] According to what was the official version from 1950 until 1960, when it was replaced by the SITC-BTN III, or revised SITC.

[3] The annex (issued in Spanish only) gives a list of the SITC items for all these categories and groups.

[4] See *The Latin American common market* (United Nations publication, Sales No.: 59.II.G.4), pp. 38 *et seq.*

[5] The effective duty is deemed to be that to which each product is liable on a given date, under the customs tariff or, in the case of negotiated duties, under the trade treaties in force. Consequently, no account has been taken of exemptions or total or partial suspensions of duty granted on a temporary or sporadic basis, or under special exemption systems, in order either to facilitate imports of a product considered essential, in order to cover a temporary deficit, or to encourage domestic industry, or because the imports are made by Government or semi-Government bodies, etc. (see paragraphs 26 to 32 below). Such exemptions do not constitute changes in the customs tariff itself, as they are generally of an administrative nature, or are granted in each case by administrative decision, or depend on the nature of the importer or the fulfilment of certain conditions, etc., or are of a temporary nature.

[6] The *ad valorem* equivalent of the specific duty is obtained by dividing the latter by the unit value of the product, obtained in turn from import statistics. Thus, the equivalent value so obtained is only approximate, since for various reasons this unit or statistical value may not correspond to the real price of the product, or that price may have been subject to subsequent changes.

separate calculations were made of the weighted averages (weighted by the value of the imports of each product) and arithmetic means, in respect of customs duties proper applicable under the most-favoured-nation clause, on the one hand, and in respect of other charges of similar effect, including the cost of financing prior deposits, on the other. The average levels of incidence for each country are shown in the tables concerned.

8. A separate annex was drawn up for each country;* in addition to detailed information for each product and the table showing levels of incidence referred to in paragraphs 7 and 8, this annex includes an introductory note specifying the factors taken into consideration for the country concerned (minimum import value of the products, reference date selected for duties and other charges in force, etc.). These annexes also outline the general import régime (customs duties, charges of similar effect and other restrictions on imports), special régimes of liberalization or exemption, statistical and other problems met with, and how they are solved, and any other information considered relevant.

9. The present general study summarizes the main features of the import régimes of the countries in question, and elucidates, compares and analyses the average levels of incidence of import duties and charges calculated for the various countries. It also indicates the conclusions that can be drawn from the various background data used in preparing the present study, and from their processing and analysis.

10. This study was possible thanks to the valuable co-operation of the customs authorities in some countries and of the central banks or bodies responsible for tariff policy in others. In most cases it was in fact they who did the preliminary work in selecting the products, identifying the duties and other charges and restrictions applying to their imports, and solving statistical and other problems. Nevertheless, the information, interpretations and conclusions contained in the present document with respect to, for example, what is to be regarded as the import duty or régime applying to the individual products in each country, are not official, and the ECLA secretariat assumes full responsibility for them.

I. STRUCTURE OF IMPORT RÉGIMES

11. The most striking features of the import régime in most of the countries studied were their complexity and their extremely restrictive character, resulting either from the very high level of the import duties or from the application of direct controls. Both features, particularly the second, are covered and analysed in greater detail below. This section will deal only with the main elements of the import régimes and their role in the import policy of the countries concerned.

1. CUSTOMS DUTIES

12. The first of the component elements of these import régimes to be dealt with will be the customs duties and other charges of similar effect. The duties set forth in the customs tariffs of the countries studied are predominantly of the mixed type, that is, a specific duty plus an *ad valorem* duty. The exceptions include Brazil, which has only *ad valorem* duties, and Venezuela, where the duties are mainly specific, with only an occasional mixed duty. The customs tariff in Chile is also almostly entirely specific, unless the *ad valorem* tax on the nationalized value of the goods is regarded as a customs duty; this tax is in fact referred to in the customs tariff. The Argentine and Uruguayan tariffs do not include any mixed duties on any single item, but the duties are specific for some items and *ad valorem* for others. For the purposes of this study, *ad valorem* duties levied in those two countries on the basis of an official price, known as the " official base value " (*aforo* or *valor de aforo*), are regarded as specific duties, since the effect is similar. In Mexico also, the *ad valorem* duty is normally levied on the basis of an official price, although only when that price is higher than the value declared by the importer; furthermore, this official price is revised and brought up to date fairly frequently.

13. As in other parts of the world, and especially in Western Europe, the customs tariffs of Latin America show a fairly marked trend towards *ad valorem* duties. In some cases such duties have been introduced into tariffs that formerly consisted entirely of specific duties; in others, the frequency and level of *ad valorem* duties in mixed tariffs has been increased, and in a few cases tariffs that are wholly or predominantly *ad valorem* have been adopted.

14. From the early thirties on the customs tariff in most of Latin America, as in many other countries, became gradually less important as an instrument of trade policy. For reasons that are too well known to need repeating here, its function in this respect was largely usurped by exchange controls and other direct restrictions, or restrictions of other kinds. This movement was reversed during the fifties, when a number of Latin American countries abandoned direct controls or relaxed them considerably, obviously with the intention of once again forging the customs tariff into the basic instrument of import policy. However, this aim has been only partly achieved, because the factors that make the customs tariff a relatively rigid and inflexible instrument still persist. The most important of these factors is the consolidation of duties through the trade treaties in force, and the need for parliamentary approval to amend the tariff. In addition, customs tariffs, mainly because of the subsidiary role they continued to play as instruments for controlling imports, were, and in many cases still are, very out of date and ineffective. Before customs tariffs can once again function as basic instruments of trade policy, they will have to be redrafted, a task that will require several years if the new tariffs are to fulfil such functions properly.

2. CHARGES OF EQUIVALENT EFFECT

15. For the above reasons, the course usually followed in the Latin American countries that abandoned or considerably relaxed their exchange restrictions and other direct controls on imports has been to replace

* Available in Spanish only (E/CN.12/554/Adds.1 to 11).

those measures by non-tariff import charges of similar or equivalent effect to customs duties. In some cases they have been replaced by prior deposits, that is, by restrictions whose principle purpose, like that of a customs duty proper, is not the direct limitation of imports, but their indirect limitation through increasing their cost. It is even commonly stated that such additional charges are merely interim measures until a new customs tariff can be drawn up and put into effect.

16. In other cases, such non-customs import charges are introduced as a special measure for revenue purposes or to limit imports on balance-of-payments grounds and in order to avoid recourse to direct controls. In these cases, in contrast to the first group, such charges do not appear to be used for protectionist purposes.

17. Whatever the reason for levying these various charges equivalent in effect to customs duties, they exist in varying number and diversity in all the countries considered here. In this study such charges include any duty or charge levied on the imported product either exclusively, or at a higher rate than on the similar domestic product, which does not represent payment for services rendered. The charges in force in Latin American countries include the so-called exchange surcharges, taxes over and above customs duties, taxes on the remittance of funds abroad to pay for imports, consular fees charged in the form of a percentage of the value of the goods, import taxes on certain products of which the proceeds go to the development of domestic production of similar goods, domestic taxes (for example sales taxes) levied on imported goods either exclusively or at a higher rate than on similar domestic products, loading and unloading charges, general supplementary taxes or surcharges on customs duties for certain specific purposes (harbour construction, development of merchant shipping, etc.), forwarding charges, and other charges that do not represent payment for services rendered or that considerably exceed the cost of such services, etc.

18. Charges equivalent in effect to customs duties are also considered here to include the cost of financing prior deposits, calculated on the basis of the amount of the deposit, the period for which it is kept and the current rate of commercial interest. In practice, although such a measure is predominantly a monetary measure aimed at sterilizing means of payment and limiting the financial capacity to import, the prior deposit has a direct effect on the cost of the imports, and from this standpoint its impact is similar to that of an import charge.

19. On the basis of the available information, the import charges equivalent in effect to a customs duty, in accordance with the criterion described (see paragraph 17 above), and for which the average levels of incidence have been calculated, are indicated for each of the countries concerned. In some of these countries (Brazil, Colombia, Mexico, Peru and Venezuela), such charges are few and relatively low, the weighted average not exceeding 3.5 per cent of the value of the imports. (For Brazil no account has been taken of the cost of financing the advance payment of the agio or the higher cost of the foreign currency of products placed in the special category.) In other countries, such charges are both more numerous and higher. Thus, in Bolivia the average incidence is over 7 per cent and in Ecuador over 17 per cent, which in both cases represents almost half of the weighted average of the incidence of customs duties proper. In Paraguay, the average incidence of such charges exceeds that of the customs duties. The same applies, to an even greater extent, to Argentina, where the theoretical incidence of the so-called exchange surcharges is, on the average, eight times higher than that of the customs duties. For Chile it was not possible to arrive at a figure for the average incidence of the cost of the prior deposit and of the supplementary taxes that are replacing it, but there is no doubt that it is fairly high, and it may have a greater restrictive effect than the customs duties. Furthermore, if the Chilean import tax of from 3 to 30 per cent of the value of the goods after they have left the customs is not regarded as a customs duty, then non-customs charges on imports obviously far exceed the customs duties. Lastly, in Uruguay the average incidence of the surcharges and of the cost of financing the prior deposit established following the changes introduced by the decree promulgated at the end of September 1960 (that is, after the reference date selected for the import charges in force in Uruguay for the purposes of this study) undoubtedly exceed, perhaps by a considerable margin, the average incidence of the duties.

20. It may therefore be concluded that in four of the eleven countries concerned — Argentina, Chile, Paraguay and Uruguay — the incidence or restrictive effect of customs duties is less than that of other import duties and charges of equivalent effect. In at least one of these countries — Argentina — and to a lesser extent in Uruguay, customs tariffs are a very secondary means of controlling imports, non-customs duties and charges being the main channel through which import control is exercised. At the opposite end of the scale, duties and charges other than customs duties carry little weight in five of the countries concerned and are applied exclusively for revenue purposes. However, as will be shown later, this does not mean that customs tariffs are the only or even the chief means of import control in the countries concerned for in all of them except Peru imports are subject to exchange restrictions or direct controls.

3. EXCHANGE AND QUANTITATIVE OR DIRECT CONTROLS

21. The countries covered by this report have shown a tendency in recent years to abolish, reduce or simplify exchange and quantitative controls and to replace them by protectionist customs duties or — as a first stage — by similar charges of equivalent effect. Notwithstanding this trend, exchange and quantitative controls are still applied in varying degrees in several of these countries or, more specifically, in four of the five countries in which, as indicated in the previous paragraph, non-customs charges have little effect, namely in Brazil, Colombia, Mexico and Venezuela, as well as in Ecuador. Controls of this type are not applied in the six other countries (Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay), except to a very small extent

and in respect of a specific product, e.g., the ban in Argentina on imports of motor vehicles above a certain price level. All these countries except Peru, on the other hand, levy fairly heavy charges other than customs duties on imports.

22. Hence, Bolivia and Peru are the only countries covered in this report in which customs duties are the chief or virtually exclusive method of restricting imports. In the other countries customs duties play a less important role than in those two countries, even a fairly secondary role in some of them, and imports are restricted less by customs duties than by other charges of equivalent effect or, alternatively, by exchange and quantitative controls. One of these countries — Ecuador — applies both types of restrictions simultaneously.

23. Only one of the countries under review — Brazil — uses a system of exchange control the application of which has, in practice, resulted in multiple exchange rates. The effect of this system is: (*a*) to limit the total value of imports requiring foreign exchange cover to periodically estimated amounts; (*b*) to subsidize some imports by means of a special or favourable rate of exchange and to discourage others by an exchange rate which raises their cost substantially. In Ecuador, Colombia and, more recently, in Venezuela, exchange control is applied which does not in fact limit imports, since the importer is at liberty to resort to the open exchange market; its purpose is rather to subsidize imports or to ensure that they are not affected, or their cost increased, by sudden fluctuations or devaluations on the open exchange market. To this end, the three countries concerned allow imports to be paid for in whole or in part on the official exchange market at a rate which is more favourable — by about 10 per cent in Ecuador and Colombia and 20 per cent in Venezuela — than the open market rate.

24. Direct import restrictions in the form of bans and prior licences are applied more frequently and thoroughly. There are import bans on a number of items in Colombia and Ecuador and on a few in Venezuela. A prior import permit or licence — with or without periodical quotas — is required for a long list of items in Colombia, Mexico and Venezuela, and, at least in the last two countries, one of its main purposes is to prevent or restrict imports of goods likely to compete with locally-manufactured items. Prior import permits or licences are also required in Brazil — for items included in the special category — and in Ecuador, but are usually granted as a matter of course in both countries. They must therefore be considered a potential rather than an actual restrictive measure.

25. Lastly, several countries apply other restrictions to a few items. These include the tie-in purchase requirements of Colombia and Venezuela — in Colombia the granting of an import permit is contingent upon an undertaking by the importer to purchase a certain quantity of a similar domestically-produced item — State import monopolies, either *de jure* or *de facto*, the latter occurring when franchises are granted only to the State-owned enterprise, etc.

4. EXEMPTION FROM IMPORT DUTIES AND CHARGES

26. The policy of granting total or partial exemption from customs duties and other charges in respect of a number of imported items, depending upon their nature, their destination, the importer, etc., is one aspect of the import regulations in the countries under review, the significance and effect of which is so unusual as to constitute one of the chief means of protecting and stimulating domestic production.

27. The special exemption régimes now in force are listed for each country in the annexes to the present document. These régimes are numerous and varied, particularly in some countries. They usually provide for exemptions in respect of the following types of imports:

(*a*) Goods imported by governmental and semi-governmental organs (including State-owned petroleum, railway, shipping, electric power enterprises, etc.);

(*b*) Imports of machinery, equipment, other capital goods and, in some cases, raw materials for new industries, for the expansion of existing industries, or representing investment of foreign capital. This type of exemption is common in every country and in some — Ecuador, Mexico, Paraguay and Peru — is embodied in legislation for promoting industrial development. Certain conditions must normally be fulfilled, such as registration of the investment or enterprise, or prior authorization for its establishment and perhaps the signing of a special contract with the Government, the use of a minimum percentage of domestic raw materials, the classification of the industry as essential or basic, etc. In some countries, such as Brazil and Uruguay, the exemption is extended to imports of machinery, equipment, etc., in general, while Venezuela accords particularly favourable treatment to imports of raw materials and semi-finished goods — as well as equipment and machinery — for industrial or agricultural enterprises;

(*c*) Imports of machinery, equipment, tools, etc., for agriculture — in Argentina, Chile, Peru and Uruguay — or for certain industries (e.g., fisheries, mining, petroleum, steel, motor vehicles, fertilizers, electric power, etc.);

(*d*) Imports of some items, if imported by governmental organs, which leads to the *de facto* monopolies referred to in paragraph 25 — e.g., imports of wheat in Brazil — if the items are considered essential and domestic supply problems exist or if the importer fulfils the requirement of purchasing a certain quantity of similar domestically-produced items (as in Brazil and Venezuela), etc.;

(*e*) Imports into the " free-zones " of Argentina and Chile and the " free sectors " of Mexico.

Lastly, some countries — Argentina, Chile, Peru and Uruguay — have a drawback system, under which import duties paid are refunded when the goods are re-exported in a finished state, and two countries — Argentina and Paraguay — exempt from surcharges all or some imports from adjacent countries.

28. The chief purpose of the exemption régimes referred to — which usually do not apply to goods which are also manufactured locally — is, as was

indicated earlier, to promote domestic industry, supplementing the protection which this industry enjoys from import duties and other charges and restrictions by granting exemptions in favour of imports of items needed to establish the domestic industry, for its expansion and sometimes for its operation. In other cases, exemptions are designed to facilitate imports of some essential items or raw materials for industry in adequate amounts to make up for temporary or chronic shortages in domestic production, but without affecting outlets for domestically-manufactured goods. Exemptions in favour of goods imported by governmental or semi-governmental bodies seem to be based primarily on the very debatable contention that payment of duties and charges in such cases would merely be a book-keeping transaction.

29. An attempt has been made in the present document to measure the effect of these special exemption régimes by comparing the theoretical incidence of customs duties applied in the countries considered with their actual incidence, in other words with the relationship between the duties actually paid and the total value of the imports. While this comparison, shown in table 3, presents a number of serious difficulties and shortcomings,[6a] it nevertheless gives some idea of the order of magnitude of duties which have not been collected because of exemptions.

30. This order of magnitude is indeed considerable in most of the countries under review, the most extreme case being Argentina where the actual incidence of exchange surcharges — virtually the only burden on imports — was in 1959 only one third of the theoretical incidence calculated for that country in this report. The actual incidence of customs duties — including the *ad valorem* tax on nationalized value — is about 40 per cent of the theoretical figure for Chile, 50 per cent for Brazil, Colombia and Peru, 55 to 60 per cent for Venezuela, 56 to 72 per cent for Paraguay, 72 per cent for Mexico and about 90 per cent for Ecuador. The figures for Bolivia and Uruguay could not be calculated for lack of data (see table 3 below). It may be assumed, however, that in these countries the relationship between the actual and theoretical incidence of non-customs import charges is about the same as that indicated in respect of customs duties.

31. It therefore seems obvious that, as a factor determining the composition of imports and as an instrument for the protection and promotion of domestic industry, the policy of import tax exemptions in most of the countries considered carries as much, if not more, weight than customs duties, non-customs charges and direct restrictions. Moreover, it appears to be largely responsible for further minimizing the use and effect of customs duties and/or charges of equivalent effect in the import policy of these countries, except in so far as such duties and charges are fixed for many products at levels which are in fact so prohibitive as to make it possible to import these products unless they are totally or partly exempt from such duties and charges. In other words, the import duty or charge is tantamount in such cases to a ban on imports and the exemption régime to a system of prior licences or permits. In fact this exemption — not normally automatic — is subject to the fulfilment of certain conditions by the importer and, in any event, to an administrative decision, since the decision whether or not to grant the exemption usually lies with some office or branch of the executive authority.

32. It may therefore be asserted that the system of direct import controls by means of prior permits operates *de facto* not only in the countries already mentioned (see paragraph 24 above) but also — in respect of goods subject to exemption régimes — in others, such as Argentina, Brazil, Chile, Peru and Uruguay.

33. There are two main reasons for this policy of establishing high and even prohibitive duties and other charges on a number of products — including capital goods — and then to facilitate or permit imports by means of total or partial exemptions. So far as raw materials, foodstuffs and semi-finished goods are concerned, the purpose of this system is to enable imports to be cut to the minimum required to make up the gap in domestic production and to protect domestic production and, at the same time, prevent or try to prevent a rise in the cost of the imported article. To achieve this purpose, exemptions are granted only to close the gap, or subject to the importer purchasing a specific quantity of the domestically-manufactured product, or in the case of goods imported by governmental or semi-governmental organs. With regard to capital goods, the exemption régime is a means of controlling or guiding the establishment and development of specific industries, which in many cases can be set up or expanded only if exemption is granted.

5. THE RATE OF EXCHANGE

34. It is quite clear that the rate or multiple rates of exchange, as the case may be, at which goods are imported have a considerable influence on imports since they strengthen or weaken the restrictive effect of customs duties and other equivalent charges, unless there is a "neutral" exchange rate which does not affect imports in either direction. An exchange rate higher than the neutral rate, i.e., for an undervalued currency, means an additional standard charge on all imports in direct ratio to the undervaluation. On the other hand, a lower exchange rate, i.e., for an overvalued currency, constitutes a standard subsidy for imports, also in direct ratio to the overvaluation.

35. The problem is to define and determine the neutral rate of exchange. In this connexion, and again

[6a] In practice, the actual revenue from customs duties proper cannot be easily identified with any degree of accuracy from the tax statistics of most countries, nor is it possible in most cases to determine the revenue from other charges of equivalent effect. Available data on customs revenue relate to imports effected in earlier years, while the average levels of theoretical incidence have been calculated in this report on the basis of the duties in force in each country fairly recently — after having increased substantially in some countries — and of imports effected in earlier years, the composition of which may have been very different from what it is at present, etc. It has not been possible to calculate the actual incidence of non-customs charges — except in the case of the exchange surcharges levied in Argentina — for lack of information on the revenue from such sources.

from the point of view of its effect on imports, the most practical and closest concept would seem to be to define as neutral the rate of exchange which is equal to the general internal and external purchasing power of the currency, in other words one which equals the purchasing power of the different monetary units. According to this concept, a currency is overvalued if more goods can be bought outside with a given amount of foreign exchange of a certain country than inside the country. If the opposite is true, it is undervalued.

36. Whatever the criterion applied in order to define and determine the neutral rate of exchange and, therefore, to decide whether the exchange rate at which imports are effected in a given country is undervalued or overvalued, the neutral rate of exchange must clearly be taken into consideration in judging the level — whether average or specific for a given product — of duties and other charges levied by the country on its imports and in comparing that level with those prevailing in other countries. Thus, for instance, a high duty or a high average level of charges in a country with an overvalued exchange rate may be less restrictive or protectionist than a substantially lower charge or average level of charges in another country with an undervalued exchange rate.

37. The ECLA secretariat has recently completed a study on price levels and the purchasing power of currencies in ten Latin American countries — those covered in the present report (except Bolivia and Venezuela) plus Panama,[7] which provides a fairly accurate picture as regards whether their currencies are relatively undervalued or overvalued according to the criterion stated above (see paragraph 35), or at least an idea of the relationship maintained between the purchasing power of these currencies with respect to each other at the open market exchange rates. These exchange rates are the same as those at which imports are effected in the countries considered, except in Brazil, and, allowing for slight differences, in Colombia and Ecuador.

38. In accordance with the preliminary findings of the study and based on the open market exchange rates, with Mexico serving as the percentage basis, the price level indexes for the various countries covered by the report would be the following, taking into account both consumer and investment goods:

Uruguay	81	Colombia	99
Argentina	84	Mexico	*100*
Brazil	85	Ecuador	103
Paraguay	87	Chile	131
Peru	92		

As can be seen, there are considerable differences in the purchasing power of the currencies of the various countries. Taking Mexico as the base, these differences mean that the exchange rates for imports in Uruguay, Argentina, Paraguay and Peru strengthen, in decreasing order of magnitude, the duties and charges which these countries levy on imports. On the contrary, the official exchange rates in Colombia and Ecuador — more favourable to imports than the open market rates — and even more so in Chile, constitute an import subsidy which partly counteracts the effect of import duties and charges. The latter situation clearly prevails to an even greater extent in Venezuela. As for Brazil, the exchange rate for imports classified in the general category is not as favourable as the open market rate and therefore constitutes an additional import duty, and the same applies, though to a much greater extent, to the exchange rate for imports classified in the special category. On the other hand, the special or favourable rate for imports effected outside the exchange auction constitutes a heavy import subsidy.

39. The following section refers specifically to the average levels of incidence of duties and other charges on imports in the eleven countries covered in the present study. In interpreting and comparing these levels, the considerations set out with respect to the effect of exchange rates should be taken into account, although this has not been quantified in this report, nor has any attempt been made to adjust these levels of incidence to the effect of exchange rates.

II. AVERAGE LEVELS OF INCIDENCE OF CUSTOMS DUTIES AND OTHER IMPORT DUTIES AND CHARGES

1. NATURE AND SIGNIFICANCE OF THE AVERAGE LEVELS CALCULATED

40. One of the main purposes of the present study was to calculate the average levels of incidence — both weighted and arithmetic — of the customs duties and other import duties and charges applied in the eleven countries dealt with, both in general and in respect of each of the categories and groups of goods to which allusion has already been made (see paragraph 4 above). These averages were calculated in accordance with the methodology outlined in the introduction. Before the analysis and comparison of the results obtained is embarked upon, in order to ensure that they are not credited with greater accuracy than should really be attributed to them, nor their significance misinterpreted, some indication must be given of the meaning and scope of the average levels in question.

41. The first point to note is that these averages neither represent the degree of protection afforded or the restrictive effect produced by import duties and charges, nor constitute an accurate index of their relative level.

Thus, in the calculation of the weighted averages the weighting factor utilized was the value of imports of each of the goods included in the sample, which is directly influenced by the duties and other charges payable on entry, and, in addition, in many countries, by restrictions of other kinds, as well as by the franchises or exemptions granted. Effectively protectionist duties and charges, which severely limit importation or preclude it altogether, carry little or no weight in the computation of the average. It may therefore happen that for a country with a highly protectionist tariff — Brazil, for example —

[7] *Comparative prices and the purchasing power of currencies in selected Latin American countries:* (E/CN.12/589).

a lower average is obtained than for another with a tariff of a predominantly fiscal type, like Ecuador or Paraguay. Again, the fact that a country's imports of a given product may be scanty or non-existent does not necessarily mean that the importance of that product for its economy is slight.

The arithmetic mean has the serious defect that in its case the duty and/or charge on a good of secondary importance carries the same weight as that applied to one much more significant. While it is true that the arithmetic means obtained in the present paper — except in the special case of Argentina, Brazil and Chile — were calculated on the basis of a sample excluding products whose value within each country's imports is slight or nil, the defect persists in relation to the goods included. As regards those excluded from the sample, the same objection as has already been raised in connexion with the weighted average is applicable here.

42. Even if a satisfactory and practical solution for the problem of weighting were to be found — for example, by utilizing a weighting factor (such as the value of domestic production or consumption) which would reflect the relative importance of each product for the country's economy more faithfully than the value of imports — and even if imports were not subject to restrictions other than customs duties, the averages obtained for different countries would not necessarily indicate the protectionist effect of the national tariffs concerned. High duties in one country may not signify more effective protection or a greater barrier to imports than lower duties in another. Even with reference to specific goods, a relatively high duty may not afford sufficient protection if the industry producing the article in question operates in very unfavourable conditions, while a low duty may be protection enough for another activity which is in a better position to compete.

43. In this context, it should be recalled that the protectionist effect of the duty on a manufactured good is a function not only of the rate or level of the said duty, but also other variables, which include the percentage of value added to the product by domestic processing — *ceteris paribus*, the higher this percentage the less will be the protectionist effect of the duty — and the duty payable on the raw material, intermediate products, etc., used in its manufacture. Thus, the duty on a good may turn out to be high because it incorporates a " compensatory rate " whose purpose is to offset the effect of the duties payable on the raw material or intermediate products used.

44. Nevertheless, it seems an admissible assumption that as a general rule a high duty — the term being taken to include other charges having an equivalent effect — exerts a stronger protectionist or restrictive influence than a lower one. It likewise appears undeniable that the establishment of high duties with a view to protection for certain industries tends to force up the level of other duties also, so as to bring them into line with the changes in the relative prices of the factors of production of the activities concerned. This effect may be produced directly in some instances, through an increase in the cost of the raw materials or intermediate products utilized — compensatory duties are a case in point — or indirectly, through the diversion of factors of production towards the new industries enjoying protection, and the rise in overall price levels brought about by the development of less efficient industries. In other words, the establishment of high duties for the protection of certain industries renders it necessary for protectionist duties to be imposed, or for those already existing to be increased, in respect of other lines of manufacture. Consequently, a high average level of duties in a given country indicates, in principle, that protection is given to many sectors of the economy, or at least to some which are both important and relatively inefficient.

45. To the foregoing limitations with respect to the significance of average levels of duties and other charges must be added, in the case of several of the Latin American countries covered by the present study, the reservation that such duties and charges constitute only a part — sometimes the least important — of the restrictions applied to imports. Thus it comes about that in Mexico, where the average level of customs duties is relatively low, import restrictions for protectionist — or balance-of-payments — purposes operate mainly through the system of prior permits. This fact must never be lost sight of when any judgement on this average level of duties is formed, or when it is compared with that of other countries which do not apply direct import restrictions.

46. Another factor that must be borne in mind is the exchange rate in force for the imports concerned, since this, as has already been pointed out (see paragraphs 31 to 33 above), may represent an import subsidy or an additional import duty which offsets or strengthens the restrictive effect of duties and charges proper.

47. This does not hold good for the system consisting in exemption from duties and other charges. In accordance with the considerations set forth elsewhere (see paragraphs 31 to 33 above), when such a system is adopted duties and other charges are in fact generally replaced by prior permits, whose restrictive effect would seem to be determined by the theoretical level of the said duties or charges, that is, by the amount that would be payable on imports if exemption were not granted. In other words, the difference between the theoretical and the effective level of duties and other charges gives the measure of the restrictive effect of the prior permits required in order to obtain the relevant exemption or franchise.

48. To the above-mentioned limitations affecting the significance of the average levels of incidence of import duties and charges must be added others deriving from the nature of the data utilized and the methodology followed in the calculation of the average levels. The following should be taken into consideration: (*a*) the weighting factor used in the calculation of the weighted averages was the value of imports in a single year for some countries, a two-year average for the majority and a three-year average for others; (*b*) the period selected may not always be sufficiently representative of the composition of imports; (*c*) subsequently to and some-

times within the period to which the imports correspond, several countries increased or considerably modified their duties, charges and other restrictions, and one of them — Uruguay — radically altered its import régime, by all which reforms the composition of imports may have been appreciably influenced; (*d*) the *ad valorem* equivalence of specific duties was computed on the basis of the unit price of the good resulting from import statistics, which often differs — in some cases substantially — from the real price; (*e*) in several countries (Argentina, Brazil and Uruguay, for example), the classification or nomenclature used in import statistics is entirely different from that adopted for tariff purposes, so that for many products it was impossible to establish a satisfactory equivalence between the two — although in almost all countries this difficulty was less acute in the case of certain goods, owing to changes in the import tariff — while in Chile the discrepancy between tariff nomenclature and that adopted for the purposes of application of prior deposits and additional surcharges prevented these from being taken into account in the computation of average levels of incidence of import duties and charges; and so forth.

49. If, in view of all these limitations and considerations and with due regard to the possibility of a certain margin of error, recourse is had to supplementary background data, the analysis and comparison of the average levels of incidence of import duties and other charges calculated in the present study proves very useful. It does in fact enable an approximate idea to be formed of the order of magnitude of tariff levels (including charges of equivalent effect) in the various countries, both for imports as a whole and for categories and groups of products, as well as of the role played by duties and other charges in import policy. Furthermore, in the course of the process of compiling, systematizing and processing the data used in the calculation of the averages in question it is also possible to form a fairly adequate and complete impression of the structure of tariff duties — and other charges — in relation to each country, of the level of duties on individual goods, of the approximate degree of protection granted to specific industries, of the criteria by which import policy is guided, etc. An attempt has been made to incorporate all this in the present paper, in the section dealing with the conclusions reached.[8]

50. Once again it should be noted that the significance of the average levels calculated in the present study should not be over-estimated or misconstrued. They may be considered representative of the level of tariffs (including other non-tariff import duties and charges) in the countries covered by this study, always provided that what is understood by tariff level is the average — arithmetic mean or weighted average, as the case may be — of the percentages of the value of the goods constituting the bulk of each country's imports which are represented by duties and other charges of equivalent effect.

51. The procedure followed in the present study for the computation of the weighted averages of import duties and other charges is similar to that adopted by the United States Tariff Commission to determine the effects of the tariff concessions accorded by that country up to 1952 inclusive (comparison of the weighted averages of the duties in force before and after the granting of the said concessions). It is also analogous to that applied by the Commission of the European Economic Community, inasmuch as the average incidence of the common external tariff approved for the Community in question in March 1960 was calculated on the basis of the imports effected by the States members in 1958.[9] The Latin American Free Trade Association has adopted the same procedure in the calculation of the weighted averages of the duties and other charges applied by member countries in their reciprocal trade, which must serve as the basis for computation of the annual reductions to be effected under the provisions of the Montevideo Treaty. It would also have to be followed in computing the average levels of tariff incidence which the signatories of a possible future agreement on the gradual establishment of the Latin American common market would pledge themselves to attain in an initial phase, if this undertaking were to be carried out in line with the recommendations of the Working Group on the Latin American Regional Market.[10]

52. It may be noted in this connexion that although the results given by the method in question do not lend themselves to satisfactory inter-country comparisons, it is the best and perhaps the only practical way of measuring variations in a given country's tariff level. This is particularly true in respect of tariff variations resulting from concessions granted — for example, those deriving from trade treaties or from the agreement designed to establish a free-trade area — if and when the same weighting factor is utilized, that is, provided that duties and other charges before and after their modification or reduction are weighted by the imports effected in a single year or period. This requisite is fulfilled, for instance, by the formula adopted in the Montevideo Treaty, which applies the same weighting factor to duties and other charges on imports from within the area, on the one hand, and to those in force for third countries, on the other.

[8] The more detailed special study of customs duties and other import duties and charges in Argentina, Brazil and Chile was carried out precisely in order to furnish some of these supplementary background data. With the same end in view, in the calculation of the arithmetic means of incidence for the countries referred to, the tariffs concerned were taken into account in their entirety.

[9] United States Tariff Commission, *Effect of trade agreement concessions on United States tariff levels based on imports in 1952* (Washington, 1953) and Commission of the European Economic Community, *Third general report on the activities of the Community* (Brussels, 1960), p. 238. Although neither of these two publications gives a detailed account of the procedure followed in calculating tariff levels, both indicate that duties were weighted by the imports effected in a selected base year.

[10] See above "Treaty establishing a free-trade area and instituting the Latin American Free-Trade Association", Protocol No. 1, and *The Latin American common market* (E/LN.12/531), *op. cit.*

For a more detailed study of the problem represented by the measurement of tariff levels and information on other procedures differing from that adopted in the present study, see League of Nations, *Tariff level indices* (Geneva, 127-II.34) and Swedish Tariff Commission, *Revision of the Swedish Customs Tariff* (Stockholm, 1957).

2. COMPARISON BETWEEN THE WEIGHTED AVERAGES OF INCIDENCE OBTAINED

53. Tables 1 and 2 show, respectively, the weighted averages and arithmetic means calculated for the incidence of import duties and charges, broken down by groups and categories of products, in the case of each of the eleven Latin American countries included in the present study.

54. As was to be expected, in most instances the arithmetic mean is higher than the corresponding weighted average, but what is really significant is that a very close correlation between the two types of average can be observed. In fact, with few exceptions, they are in the same order of magnitude in each of the various countries, both for total imports and for groups and categories of products. This implies that the conclusions which can be deduced from examination and comparison of the weighted averages are corroborated, on the whole, by the arithmetic means.

55. The first noteworthy aspect of the results of the calculation is that most of the average levels of incidence of import duties and charges obtained are distinctly high. In two countries — Argentina and Paraguay — the weighted average exceeds 50 per cent and the arithmetic mean is over 60 per cent, and only in two others — Mexico and Uruguay — does the weighted average fall below 20 per cent. It must be noted that the average in question would have been a good deal higher in Uruguay's case, if the calculation had taken into account the surcharges and financing costs for the prior deposit imposed as from the end of September 1960, to replace the exchange controls, prior permits and import prohibitions which had previously been applied, particularly before the reform introduced in December 1959.

56. When classified in accordance with the magnitude of average levels of incidence of import duties and charges, the countries under consideration fall into the following groups:

A. *By weighted averages:*

Over 50 per cent	Paraguay and Argentina
From 40 to 50 per cent	Ecuador
From 30 to 40 per cent	Chile and Colombia
From 20 to 30 per cent	Brazil, Venezuela, Peru and Bolivia
Under 20 per cent	Uruguay and Mexico

B. *By arithmetic means:*

Over 60 per cent	Argentina and Paraguay
From 50 to 60 per cent	Venezuela and Ecuador
From 40 to 50 per cent	Chile, Colombia and Brazil
From 30 to 40 per cent	Bolivia
Under 30 per cent	Peru, Uruguay and Mexico

57. Another striking feature is the considerable scattering of the averages, as well as the substantial difference between those registered in the countries at the upper and lower extremes of the scale.

58. However, such differences are understandable and will be seen to counterbalance each other to an appreciable extent, for the majority of countries, if account is taken of other restrictions which some of them apply to imports. For example, Mexico, which has the lowest general level of incidence and applies the lowest or next to lowest rates to almost all groups and categories, prefers to use the system of prior permits as a means of controlling imports, to the extent that approximately 60 per cent of the total average value of imports for the period 1957-58 was constituted by goods thus controlled. It may also be supposed that this type of control prevented or severely restricted the entry of many other imports. Colombia, Ecuador and Venezuela also use this type of restriction to a greater or lesser extent and/or an import ban, while in Brazil the exchange control system acts as a brake, particularly on goods classified in the special category. If such restrictions were not in force, it is to be supposed that the aforementioned countries would make a much wider use of tariff protection, in which case the average level of their duties and charges on imports would be higher, and in some cases perhaps substantially higher, than those calculated in this report.

59. In judging and comparing the average levels of incidence in some countries, other factors must also be taken into account. In the case of Uruguay, it has already been explained that the averages had to be calculated before additional duties and charges and preliminary deposits had completely replaced direct restrictions and that these averages would be considerably higher if new calculations were to be made on the basis of the duties and charges now in force. In the case of Chile it was not possible, as has already been stated elsewhere, to include in the calculation of the averages either the cost of financing prior deposits or the amount of the additional tax. Both are fairly substantial and it may be assumed that, if they had been taken into account, the average rates of incidence for Chile would have been higher than for any of the other countries. (The cost of financing a prior deposit of 1,500 per cent for 90 days is the approximate equivalent of a 90 per cent charge on the c.i.f. value of the goods, and the additional tax in the case of many items is as much as 200 per cent.)

60. The average levels for Paraguay include the sales tax on imported goods; it has not, however, been possible to determine whether or not an equivalent tax is also levied on domestically-produced goods. If such a tax exists, then the sales tax on imports should not be taken into account and the average levels of incidence would be appreciably reduced (from 56.1 to 48.1 per cent for the overall weighted average and from 61.5 to 49.3 per cent for the arithmetic mean).

61. In Argentina and Paraguay, exchange or additional surcharges — which in Paraguay amount to as much as 20 per cent of the f.o.b. value or the equivalent of 24 per cent of the c.i.f. value for almost all items — have been weighted by the total for all imports, in accordance with the method adopted throughout this paper; thus neither Argentina nor Paraguay applies such charges to imports from neighbouring countries. Further-

Table 1

Weighted averages of theoretical incidence of customs duties and other duties or charges of equivalent effect on the c.i.f. value of imports in selected Latin American countries [a]

(Percentages)

	Country and import year or period										
	Argentina (1959)	*Bolivia (1957-58)*	*Brazil [b] (1957-59)*	*Chile [c] (1957-58)*	*Colombia (1956-58)*	*Ecuador (1957-58)*	*Mexico [d] (1957-58)*	*Paraguay [e] (1957-58)*	*Peru (1957-58)*	*Uruguay (1957)*	*Venezuela (1959)*
Duties and charges in force as at	30.IV.60	31.XII.59	31.VIII.60	15.III.60	30.IX.59	1.IX.59	31.XII.59	30.IX.60	15.IX.59	15.VII.60	23.II.60
Category I. Primary goods	*18.5*	*9.9*	*2.9*	*20.2*	*28.3*	*24.7*	*4.7*	*26.8*	*14.5*	*9.4*	*35.6*
Group 1. Unprocessed foodstuffs	40.6	8.7	1.1	14.2	45.6	23.9	4.1	24.4	12.9	11.0	20.3
Group 2. Raw materials	42.7	16.6	22.0	16.1	19.3	36.2	6.5	50.0	22.7	12.4	68.1
Group 3. Unprocessed fuels	1.0	12.1	0.8	34.1	[f]	[f]	1.4	51.5	[f]	0.1	[f]
Category II. Capital, intermediate and durable consumer goods	*64.7*	*13.4*	*36.9*	*39.6*	*28.3*	*40.7*	*14.1*	*61.9*	*18.6*	*19.3*	*12.6*
Group 1. Intermediate products	49.6	7.6	26.1	40.6	32.9	38.0	19.2	54.6	18.6	15.8	23.2
Group 2. Processed fuels	1.2	14.1	22.8	40.1	12.1	70.2	6.9	76.2	15.4	15.9	32.0
Group 3. Capital goods	78.2	13.3	45.6	37.3	22.2	29.2	11.7	53.1	15.1	22.3	5.2
Group 4. Durable consumer goods	699.7	29.4	79.1	83.7	113.7	75.2	56.2	72.6	33.3	20.3	14.3
Category III. Manufactured goods for current consumption	*66.5*	*34.2*	*40.4*	*56.8*	*48.2*	*62.3*	*30.8*	*59.9*	*35.9*	*19.2*	*66.3*
Group 1. Processed foodstuffs and tobacco ..	142.4	19.1	50.5	62.8	160.5	114.0	132.8	55.4	26.2	23.3	87.3
Group 2. Chemical and pharmaceutical products	62.9	20.8	35.4	14.7	24.6	42.0	9.8	49.2	20.4	9.5	37.5
Group 3. Other goods for current consumption	63.6	62.6	37.3	55.1	41.1	59.1	24.0	64.6	44.3	18.4	61.3
TOTAL	*52.8*	*20.4*	*28.8*	*38.2*	*32.1*	*46.7*	*13.8*	*56.1*	*21.8*	*15.9*	*28.0*

Source: E/CN.12/554/Adds.1 to 11 (Spanish only).

[a] Except in the case of Chile, the cost of financing prior deposits in countries applying this type of restriction (Colombia, Paraguay and Uruguay) is included among duties and charges of equivalent effect to an import duty. In respect of Paraguay and Venezuela, the incidence on the f.o.b. value is converted into terms of the equivalent incidence on the c.i.f. value.

[b] Excluding the higher cost of foreign exchange for products imported under the special category and the cost of financing advance payment of the agio or premium on foreign exchange purchased under the auction system.

[c] Excluding the incidence of the cost of financing prior deposits and of the supplementary duty or surcharge, since it could not be computed owing to difficulties with respect to tariff classification equivalences; but including the 3 per cent or 30 per cent *ad valorem* duty on the value of the nationalized goods.

[d] Average incidence on the statistical value, not on the value as recalculated at official prices.

[e] Including the sales tax, whose incidence on the c.i.f. value of total imports is approximately 8 per cent as a weighted average and 12 per cent as a simple arithmetical average. Incidences are expressed in terms of the equivalent incidences on the c.i.f. value.

[f] There were no imports of sufficient magnitude to warrant their inclusion in the sample.

Table 2

Arithmetic means averages of incidence of customs duties and other duties or charges of equivalent effect on the c.i.f. value of imports in selected Latin American countries [a]

(Percentages)

	Country and import year or period										
	Argentina (1959)	*Bolivia (1957-58)*	*Brazil [b] (1957-59)*	*Chile [c] (1957-58)*	*Colombia (1956-58)*	*Ecuador (1957-58)*	*Mexico [d] (1957-58)*	*Paraguay [e] (1957-58)*	*Peru (1957-58)*	*Uruguay (1957)*	*Venezuela (1959)*
Duties and charges in force as at	30.IV.60	31.XII.59	31.VIII.60	15.III.60	30.IX.59	1.IX.59	31.XII.59	30.IX.60	15.IX.59	15.VII.60	13.II.60
Category I. Primary goods	*54.2*	*21.1*	*13.4*	*40.8*	*43.3*	*34.0*	*7.8*	*48.2*	*18.1*	*12.3*	*52.2*
Group 1. Unprocessed foodstuffs	40.4	17.8	9.5	33.5	68.0	32.9	12.8	47.1	15.1	13.8	38.0
Group 2. Raw materials	65.0	27.0	19.7	45.1	30.9	35.8	7.0	50.0	22.5	12.4	75.7
Group 3. Unprocessed fuels	6.9	12.0	10.2	53.5	[f]	[f]	2.0	52.5	[f]	0.1	[f]
Category II. Capital, intermediate and durable consumer goods	*96.9*	*17.6*	*40.8*	*45.9*	*33.9*	*44.3*	*16.8*	*58.8*	*22.0*	*24.0*	*22.3*
Group 1. Intermediate products	62.1	12.1	31.0	45.3	35.9	43.7	17.2	59.1	23.6	22.7	40.4
Group 2. Processed fuels	4.0	14.8	29.3	45.5	11.4	61.0	7.1	59.1	15.9	21.2	40.3
Group 3. Capital goods	84.7	17.4	46.1	40.5	26.5	32.7	14.9	52.6	17.6	26.5	10.9
Group 4. Durable consumer goods	612.2	37.1	60.0	83.4	100.9	106.5	46.7	72.7	35.2	24.1	14.7
Category III. Manufactured goods for current consumption	*110.0*	*52.5*	*50.4*	*66.2*	*58.9*	*73.1*	*33.9*	*66.1*	*40.9*	*22.7*	*111.6*
Group 1. Processed foodstuffs and tobacco ..	136.4	35.9	56.3	126.4	137.6	124.8	121.6	70.2	29.1	18.4	287.0
Group 2. Chemical and pharmaceutical products	102.7	37.8	25.0	16.5	30.8	59.3	10.9	58.9	20.6	10.1	121.1
Group 3. Other goods for current consumption	108.6	58.7	52.0	64.5	57.1	67.6	28.3	65.5	47.9	26.0	74.0
TOTAL	*91.5*	*30.3*	*40.1*	*49.2*	*41.3*	*54.9*	*18.1*	*61.5*	*28.3*	*21.1*	*56.0*

Source: E/CN.12/554/Adds.1 to 11 (Spanish only).

[a] Except in the case of Chile, the cost of financing prior deposits in countries applying this type of restriction (Colombia, Paraguay and Uruguay) is included among duties and charges of equivalent effect to an import duty. In respect of Paraguay and Venezuela, the incidence on the f.o.b. value is converted into terms of the equivalent incidence on the c.i.f. value.

[b] Excluding the higher cost of foreign exchange for products imported under the special category and the cost of financing advance payment of the agio or premium on foreign exchange purchased under the auction system.

[c] Excluding the incidence of the cost of financing prior deposits and of the supplementary duty or surcharge, since it could not be computed owing to difficulties with respect to tariff classification equivalences; but including the 3 per cent or 30 per cent *ad valorem* duty on the value of the nationalized goods.

[d] Average incidence on the statistical value, not on the value as recalculated at official prices.

[e] Including the sales tax, whose incidence on the c.i.f. value of total imports is approximately 8 per cent as a weighted average and 12 per cent as a simple arithmetical average. Incidences are expressed in terms of the equivalent incidences on the c.i.f. value.

[f] There were no imports of sufficient magnitude to warrant their inclusion in the sample.

more, Argentina does not apply them to imports from Peru, nor Paraguay to imports from Uruguay. If these charges had been weighted only by imports subject to such charges, the average levels obtained would have been lower, particularly in respect of foodstuffs and raw materials. Similarly, these averages would have been smaller, although to a much lesser extent, not only for Argentina and Paraguay but also for Chile and Peru if, in calculating them, account had been taken of the preferential duties levied by Argentina on certain imports from Paraguay, by Paraguay to some items from Argentina, Brazil and Uruguay; by Chile to certain items from Argentina and Peru; and by Peru to a few imports from Chile.

62. Much larger adjustments would have to be made in the average levels of some countries to offset the impact of the exchange rate on imports (see above, paragraphs 34 to 39). Such an adjustment would involve a substantial reduction in the average levels calculated for Venezuela and, to a lesser extent, for Chile, but would imply an increase in those for Argentina, Paraguay, Peru and Uruguay.

63. The adjustments which might have resulted from taking account of the foregoing observations might have led to some — and in certain countries a considerable — change in the average levels shown in tables 1 and 2 and would have reduced the differences between the extremes. For obvious reasons, the most important of these considerations could not be included, namely the effect of applying direct controls to exports. It seems, however, most probable that their inclusion would not have led to any substantial change in the order of magnitude of the average levels of incidence. The countries concerned would probably have continued to be grouped in much the same way as indicated in paragraph 56.

64. The most important feature of the averages shown would have continued and might even have been accentuated, namely, the high level of most of them. The weighted averages range from a minimum of 13.8 per cent to a maximum of 56.1 per cent, the mean being of the order of 30 per cent. By way of contrast, the weighted average incidence of the common external tariff approved in March 1960 for the European Economic Community — resulting from its application to all the Community's imports in 1958 — is no more than 7.4 per cent,[11] and the average of duties in force in the United States as on 1 January 1953, weighted by imports for 1952, is only 5.1 per cent.[12]

65. These pronounced differences and the consequent conclusion that the level of duties and charges on imports is extremely high in the majority of the Latin American countries under consideration are borne out by the results obtained from the arithmetic means if these are calculated on the basis of all the tariff items. The arithmetic means for the three Latin American countries to which that appendix refers — Argentina, Brazil and Chile — are 151, 60 and 93 per cent respectively. Accordingly, they turn out, as was to be expected, to be higher than the weighted averages and the arithmetic means calculated solely on the basis of principal imports (see tables 1 and 2), but they remain in the same order for the three countries and maintain much the same proportional relationship to each other. For France, however — which country was included in the special study for comparative purposes as a European country applying relatively high duties — the arithmetic mean, calculated in the same way is not more than 18 per cent.

66. Differences of a similar order may be obtained by comparing the average levels of incidence by groups of products. For instance, the weighted average incidence of duties on raw materials in the common external tariff of the European Economic Community is negligible, while for the Latin American countries covered in this paper it ranges from 6.5 per cent for Mexico to 43 per cent for Argentina, 50 per cent for Paraguay and 68.1 per cent for Venezuela if unprocessed foodstuffs are excluded. (See table 1.) The weighted incidence of import duties on capital goods in only four of the countries under consideration — Bolivia, Mexico, Peru and Venezuela — is less than 20 per cent. It reaches 45 per cent in Brazil, 53 per cent in Paraguay and 78 per cent in Argentina. The average rate for equipment and other industrial products in the common external tariff of the European Economic Community — where a greater degree of protection than in the Latin American countries is justifiable for imports of capital goods — is from 14 to 17 per cent. The arithmetic means calculated for Argentina, Brazil and Chile, taking all tariff items into consideration, are — for each and every one of the ten groups and three categories considered in this paper, as also for all the sections and practically all the chapters of the Brussels Tariff Nomenclature — higher and frequently considerably so than in France. So far as these three Latin American countries are concerned the order of magnitude is usually higher for Argentina than for Chile and higher for Chile than for Brazil.[13]

67. The same conclusions regarding the high level of import duties and charges in the majority of the Latin American countries dealt with in this paper may be reached by comparing such duties and charges for each one of the tariff items. By whatever standard they may be judged, duties and charges on imports are too frequently excessively high. Confirmation of this is to be found, for example, in the relevant analysis for Argentina, Brazil and Chile. Although in those three countries such excessive duties and charges would seem to be commoner with levels in all cases higher than in the other Latin American countries, it cannot be denied that they are fairly representative of the general situation.

[11] Commission of the European Economic Community, *op. cit.*, p. 238. According to the Third General Report on the Activities of the Community, the weighted average incidence varies from one group of products to another. It is negligible in the case of raw materials, 5.9 per cent for manufactures and from 13.6 to 17.2 per cent for equipment and other industrial goods.

[12] United States Tariff Commission, *op. cit.* This average covers all imports including those free of duty, in accordance with the practice followed in this paper. Excluding free imports, the average incidence for imports paying duties and other charges is 12.2 per cent.

[13] It was not possible to take into account for Chile the additional tax or the cost of financing prior deposits.

68. One important reservation must be made. Many of the excessively high duties and charges to be found in the Latin American countries and particularly in Argentina, Brazil and Chile are or appear to be in many cases considerably higher than the rates that would be required to protect domestic industry and make imports prohibitive. In other words, the average rates of incidence obtained for a number of the Latin American countries are artificially high as a result of duties and charges greater than would be required to fulfil the purpose for which they were introduced. If such duties and charges were reduced to a level closer to that really required to ensure effective protection, the average rates of incidence would also fall to an appreciable extent without the restrictive effect of such duties and charges being nullified.

69. It is to be expected that with respect to Argentina, Brazil and Chile this fall would be greater in the case of the arithmetic means calculated for all tariff items. The same would also occur in the case of the weighted averages, as these include many products liable to prohibitive duties and charges but which are none the less imported — sometimes in large quantities — under one or other of the exemption régimes already referred to (see above paragraphs 26 to 33). In computing the average incidence, calculations are made as if such imports paid the duty or charge concerned because it exists and is in force. The exaggeratedly high level of the duty raises the average, particularly in respect of intermediate goods, capital goods and durable consumer goods for Argentina, in respect of processed and unprocessed foodstuffs, raw materials and intermediate goods for Venezuela, and in general in respect of capital goods and, to a lesser extent, intermediate goods for the remaining countries. The conclusion therefore seems obvious that, if exemptions were not granted — which apply most frequently, particularly in Argentina and Venezuela, to goods liable to very high or prohibitive duties and charges — the products enjoying such exemptions would not be imported or would be imported on a much smaller scale. The weighted averages would consequently probably be much lower than those shown in table 1.

70. The wide use of exemptions from import duties and charges in the majority of the Latin American countries included in this paper undoubtedly has an appreciable and varied effect on the magnitude of such duties and charges and on their theoretical levels. Some of these practices have already been described. Much more important than such exemptions is the fact that, in the majority of cases, the efficient use of special exemption régimes as an instrument of protection and guidance in industrial development requires the levying of high and even prohibitive import duties and charges; only if they exist and by authorizing total or partial exemptions from them can imports of given quantities for certain purposes be possible, the only alternative being to subject importation to a number of other conditions. Consequently, the level of duties and charges has to be higher than that which would prevail if such control did not operate through the granting of exemptions but rather through a direct system of prior import permits, as occurs, for example, in Mexico. As a result, the exemptions system is in itself a factor determining the high level of import duties and charges.[14]

71. In such circumstances, the level of the duty would, as has already been pointed out (see above, paragraph 47), give an approximate measure of the restrictive effect of the prior permit which is normally necessary in order to benefit from the exemption. However, in some of the countries studied, the existence of exemption régimes for goods imported by public bodies, State or semi-state enterprises, or for certain types of activity or industry — for example, railways, power, petroleum exploration and extraction, etc. — seems to give rise to theoretically high duties and charges on such products which are more noticeable for their absence than for their incidence. Accordingly, it is reasonable to suppose that at least part of the surcharges of 150 per cent theoretically applicable to the importation of many items into Argentina are attributable to the fact that, as such items are normally only imported under the exemption régime, it was not considered necessary to include them specifically in the lists of items free of surcharge or liable to rate of surcharges less than 150 per cent.

72. In any case, although it may be thought reasonable not to adjust, totally or partially, the theoretical levels of incidence of the import duties and charges so as to take into consideration the effects of the exemption régimes, it is obviously very interesting to compare the theoretical levels with the revenue from the duties and charges levied in practice. In general, this comparison has had to be confined — except in the case of Argentina — to the theoretical and real levels of customs duties proper, since there is no information available on the revenue from duties and charges of equivalent effects (see table 3). Moreover, even in the case of the revenue from customs duties, official statistics are not as precise as they might be in defining the items included under the head of "customs revenue", nor does this revenue necessarily correspond to the customs duties considered in the present study. Even so, a comparison of this type gives a fairly close idea of the scale of the exemptions and of the relation between the theoretical and real levels of incidence of import duties and charges in the case of the countries under review.

73. The difference between the averages for theoretical incidence as given in table 3 and those in the last line of table 1 is due to the fact that the latter include duties and charges that have an effect equivalent to customs duties. The difference therefore indicates the average incidence of the said duties and charges. It may be assumed that the special exemption régimes act in the same way on these duties and charges as on customs

[14] It may happen that, when a new customs tariff is drawn up or the existing tariff substantially modified, protective duties are levied in favour of industries not yet established but whose development it is proposed or thought desirable to stimulate. Later, pending the establishment of the new industry concerned, exemptions are granted to import the product which it is proposed to manufacture in the country. Or else, exemptions may also be granted if after the establishment of the new industry, it is not yet in a position to satisfy demand completely, and the exemption will then cover the difference between domestic output and demand.

Table 3

Theoretical and actual incidence of customs duties in certain Latin American countries

(Percentages)

Country		Weighted average of theoretical incidence of duties and charges [a]	Approximate average of actual incidence [b]	Proportion between actual and theoretical incidence
Argentina	Customs duties	4.6	2.8	61
	Exchange surcharges	47.3	16.6	35
Bolivia		13.0	...	...
Brazil		25.9	12-12.5	46-48
Chile		38.2 [d]	15.0 [d]	39
Colombia		28.7 [c]	13.7	48
Ecuador		29.7	26.8	90
Mexico		13.8	10.0	72
Paraguay		27.8	16-20	56-72
Peru		21.2	10-11	47-52
Uruguay		10.0 [e]	...	...
Venezuela		20.0 [f]	11-12	55-60

[a] E/CN.12/554/Adds.1 to 11 (Spanish only).

[b] Actual customs revenue in the most recent year or years for which data are available, expressed as a percentage of the total value of imports for those years.

[c] Duties in force in September 1959, after an appreciable increase in such duties in May 1959.

[d] Including the *ad valorem* tax on the nationalized value.

[e] Including the exchange surcharges in force as on 15 July 1960.

[f] Incidence estimated approximately on the basis of the duties in force prior to 1 September 1959; the incidence calculated on the basis of duties in force in February 1960 amounts to 28 per cent of the c.i.f. value.

duties, and that their real incidence must therefore differ from their theoretical incidence in approximately the same proportion as in the case of customs duties.

74. All the consideration, limitations and reservations mentioned with respect to the general averages of incidence of import duties and other charges are applicable, albeit to a varying extent, to the individual averages computed for each of the categories and groups in tables 1 and 2. This should also be borne in mind when making any analysis or comparison of these averages.

75. The analysis and comparison of individual averages leads to one observation — referring primarily to the weighted averages in table 1, although these averages bear out the arithmetic means in table 2 — and that is that, in most cases, the averages for the different categories and groups are inter-related, within each country, in such a way as to correspond, *grosso modo*, to what may be considered as the rational structure of the customs tariff and of other import duties and charges; in other words, the average incidence of such duties and charges is less for primary goods than for manufactures, etc. This conclusion is, however, subject to important limitations and reservations in view of the exceptions that are made and of the high level — unduly so in a large number of countries — of the averages for certain groups of products — unprocessed foodstuffs, raw materials and capital goods — for which a much more favourable treatment might be expected.

76. It is true that this situation is very largely attributable to the fact that the use of exchange and quantitative controls, as well as of special exemption régimes, has a far-reaching effect, as already noted, on the structure of import duties and charges in the countries under consideration. It is also evident that, in most of these countries, the structure in question suffers from serious shortcomings and in some ways has had and continues to have an adverse influence on their economic development.

77. Thus, although the average for the duties and charges on primary goods (Category I) is considerably less than that for manufactured goods for current consumption (Category III) in every country, this is primarily due not to the fact that duties and charges on goods in Category I are low — which indeed they are not — but to the exceedingly high level of duties on those in Category III, particularly processed foodstuffs (including beverages and tobacco).

78. Within Category I, the averages for the duties and charges levied in the majority of the countries on unprocessed foodstuffs and raw materials are surprisingly high. Although, in several countries, many of these charges are not applied or are applied partially through the exemptions régime, their high level is in any case indicative of heavy protection for the domestic production of such articles which does not seem very compatible with the countries' status as primary producers. Moreover, this protection for primary goods tends, as is only natural, to raise the level of duties and charges required to give adequate protection to intermediate and manufactured goods.

79. Another striking fact is the exceedingly high average level of duties and charges for capital goods in general, contrary to what might be expected in the case of countries that are developing economically but are not yet ready to produce such goods themselves. In fact, in four countries only are the charges less than 20 per cent and, in one alone, less than 10 per cent.[15] At this juncture it might be useful to recall once again that, since the duties and charges are, however, theoretical in many cases, imports are frequently protected by the exemption régime. Nevertheless, as pointed out before, exemptions are seldom granted automatically, as special authorization has to be obtained and certain requirements fulfilled.

80. Although in eight of the eleven countries studied, the average for the duties and charges on raw materials is less than for intermediate goods, in some instances the difference has been reduced. In the three remaining countries — Bolivia, Peru and Venezuela — the relation is the antithesis of what would be expected of a rational structure. Conversely, there is a more consistent and logical relation between the average for duties and charges on raw materials and intermediate goods, on the one hand, and on durable and non-durable consumer

[15] In this paper, the capital goods group includes components, spares and parts for such goods. These components, spares and parts are usually subject to fairly heavy duties and charges in the countries that manufacture items of this kind, which tends to raise the average incidence of duties and charges for the group as a whole.

goods, on the other — excluding chemical and pharmaceutical products which are often given preferential treatment as a group. There is one exception to this rule: in Venezuela the average for raw materials is higher than for other current consumer goods. Nevertheless, the exemption régime plays a major part as regards raw materials in that country.[16]

3. DISTRIBUTION OF IMPORTS BY CATEGORIES AND GROUPS OF PRODUCTS

81. It is clearly very difficult to form an opinion on and make a satisfactory interpretation of the average levels of incidence of import duties and charges for different groups and categories of products. This is because any comparison of averages has to be constantly adjusted in the light of fresh information and because the picture that emerges tends to be rather confused. The ideal solution would be to quantify or measure, for each group and category of products, the average level of the aggregate effect on imports of the different restrictions applied — customs duties, other charges, exchange and quantitative controls, etc. — and of the exemption régimes.

82. Although this solution is impracticable, a fairly close idea of the combined effect of the different elements that go to make up a country's import policy may be obtained from the composition or structure of its imports, as indicated in table 4 for the countries considered in this study. Admittedly, the composition of imports is only the outcome of the different measures that compose an import policy, but policy has a preponderant influence on composition and, in some cases, directly determines it. Moreover, the composition of imports is also largely dependent on a country's production structure and degree of economic development, both of them factors that, in turn, are closely linked to import policy, through the reciprocal operation of cause and effect.

83. The period covered by the data in table 4 is, of course, short — one year for Argentina, Uruguay and Venezuela; the annual average of a three-year period for Brazil and Colombia and that of a two-year period for the other countries — and therefore perhaps insufficiently representative. Nevertheless, it does show that the different countries have an import composition that is very much what might have been expected in view of their production structure, the respective stage reached by their economic activities and the criteria and considerations underlying their import policies.

84. A salient consideration has been and still is, in the majority of the countries, their balance-of-payments difficulties. Many of the restrictions on imports are imposed with these difficulties in mind. For this reason, the restrictions are applied selectively so as to limit imports of non-essential goods as far as possible while leaving the way open to goods that are essential for production or consumption (foodstuffs, raw materials, intermediate goods, fuels, capital goods). This explains, for instance, the high proportion of unprocessed foodstuffs in Uruguay's imports during 1957.

85. Of the percentages in table 4, those which best illustrate the general structure of production and the degree of economic development reached by each of the countries, as well as the effect of the import restrictions imposed for protectionist purposes or to stabilize the balance of payments, are undoubtedly the percentages for durable consumer goods (Group II-4), other current consumer goods (Group III-3), and, to a lesser extent, processed foodstuffs (Group III-1). The share of these groups in total imports is decidedly low in the more industrialized countries and high in the relatively less advanced countries.

86. The percentages for imports of capital goods (Group II-3) is also very high. In every country — except Argentina and Paraguay — this group of products is pre-eminent in the imports effected during the period to which the national data in table 4 refer. In the case of Argentina, the exception coincides with its economic situation in 1959. In every country, as pointed out before, these imports are given preferential treatment, either through the application of low duties and charges, or more commonly, through complete exemption from such charges, which would otherwise have a very limiting effect.

87. Lastly, it should be pointed out that, in the case of unprocessed foodstuffs (Group I-1) and fuels (Groups I-3 and II-2) — despite the fact that the relative magnitude of imports is primarily determined by structural or institutional factors — their importation on a large scale coincides with relatively low levels of duties and charges for such items, as may be seen from table 1. Only one of the countries under discussion — Colombia — levies on its imports of unprocessed foodstuffs duties and charges that are high in comparison with those levied on nearly all the other groups of products, as part of a protectionist policy and as an incentive to domestic production. Consequently, Colombia's imports of unprocessed foodstuffs are relatively smaller than those of the other countries, with the exception of Argentina.

III. CONCLUSIONS

88. On various occasions in the course of this study, conclusions have had to be drawn and comments made with respect to the general structural characteristics of the measures by means of which the import policies of the different countries are implemented, as regards the levels of duties and charges, etc. These conclusions and comments will be presented in a more systematic way in the following paragraphs, on the basis not only of the considerations outlined above but also of the many other background data collected during the preparation of this document.

89. The first point worth noting is the great complexity of the import systems in force in nearly all the countries

[16] The existence of serious defects in the structure of import duties and charges has been confirmed, in the case of Argentina, Brazil and Chile, by the analysis of these duties and charges, as well as by the calculations of average incidence for the categories and groups to which this study refers and for the chapters and sections of the Brussels Tariff Nomenclature, due account being taken of all items on the relevant tariffs.

Table 4

Latin America: Import distribution by groups and categories of products in selected countries

(Percentages)

	Argentina (1959)	*Bolivia (1957-58)*	*Brazil (1957-59)*	*Chile [a] (1957-58)*	*Colombia (1956-58)*	*Ecuador (1957-58)*	*Mexico [a] (1957-58)*	*Paraguay (1957-58)*	*Peru (1957-58)*	*Uruguay (1957)*	*Venezuela (1959)*
Category I. Primary goods	*26.1*	*8.7*	*24.4*	*20.1*	*10.9*	*5.6*	*13.6*	*14.6*	*11.6*	*34.3*	*6.5*
Group 1. Unprocessed foodstuffs	3.5	7.3	11.3	8.9	3.7	5.2	7.6	13.2	9.7	19.0	4.4
Group 2. Raw materials	7.6	1.2	2.2	5.7	7.2	0.4	4.8	1.3	1.9	9.3	2.1
Group 3. Unprocessed fuels	14.9	0.3	10.9	5.5	—	—	1.2	0.1	—	6.0	—
Category II. Capital, intermediate and durable consumer goods	*70.2*	*56.4*	*70.1*	*65.4*	*70.5*	*62.7*	*80.6*	*49.8*	*66.5*	*54.3*	*67.6*
Group 1. Intermediate goods	34.2	14.9	21.2	16.3	31.2	21.4	22.3	11.6	18.2	22.4	21.4
Group 2. Processed fuels	7.7	3.2	10.8	5.5	4.5	6.8	5.2	11.1	4.5	2.1	0.9
Group 3. Capital goods	27.2	33.1	36.8	41.8	33.3	28.9	51.9	18.8	34.6	26.2	34.9
Group 4. Durable consumer goods	1.0	5.3	1.4	1.8	1.6	5.6	1.2	8.4	9.2	3.6	10.5
Category III. Manufactured goods for current consumption	*3.7*	*34.8*	*5.4*	*14.5*	*18.6*	*31.7*	*5.8*	*35.6*	*21.9*	*11.4*	*25.9*
Group 1. Processed foodstuffs and tobacco	0.1	19.2	1.4	8.6	1.6	4.2	0.7	9.8	6.5	3.0	7.7
Group 2. Chemical and pharmaceutical products	0.5	3.6	0.8	1.0	3.7	7.5	2.5	5.3	2.9	0.6	3.1
Group 3. Other goods for current consumption	3.1	12.0	3.3	4.9	13.3	20.0	2.6	20.5	12.5	7.8	15.1
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Sample as a percentage of total imports	93.9	91.9	92.9	93.2	94.3	87.5	83.8	86.2	85.1	87.3	86.6

Sources: E/CN.12/554/Adds. 1 to 11 (Spanish only).

a Excluding imports into free zones and sectors.

considered. In most of them, there is a great multiplicity of import duties and charges and/or controls of other kinds, supplemented by the wide application of various administrative measures, particularly that of exemption from payment of duty.

90. As a result in only two of the eleven countries studied — Bolivia and Peru — is the customs tariff the prime instrument of trade policy and the principal determinant of the composition of imports. In all the others, these functions have been largely and even almost entirely usurped by non-customs duties and by restrictions and measures of other kinds. In some countries, the role of the customs tariff and its influence on the composition of imports are unquestionably of minor importance, and as an instrument it is often thought of, in such cases, as out of date or ineffectual.

91. Nevertheless, there is a marked tendency to eliminate exchange and other direct controls, as well as to restore to the customs tariff its onetime importance as the principal element in an import policy. This is not being done immediately; controls are first replaced during an interim period by non-tariff duties and charges and prior deposits. This transitional procedure is considered necessary primarily because the formulation of a new customs tariff requires much time and effort, and also because of the seeming persistence of a preference for restrictions — such as non-tariff duties and charges and prior deposits — that can be established, amended and applied by administrative decision, and are outside bounds set by the obligations contracted in trade agreements with respect to customs duties.

92. Another characteristic of the import régimes studied is their marked instability not only as regards their overall structure but also, and more particularly, with respect to the treatment accorded to individual products. In fact, in most of the countries, frequent changes are made in the lists of surcharges, additional taxes, prior deposits and permits, etc. and, in some, even in customs duties. This is apparently largely due to the fact that, precisely because of the ease with which these restrictions can be modified by administrative decision, the sectors concerned are continually pressing for more favourable treatment. Another factor is the desire to adjust the treatment accorded to the different products so as to bring it into line with the changes in the economy. Whatever the case, the untoward use of the flexibility inherent in a system that is subject to arbitrary administrative decisions foments uncertainty with all its consequent ill-effects on the national economies.

93. The foregoing considerations, and above all the way in which the majority of the countries have been devising and applying the different instruments of trade policy, explain why there has been no rational and well-planned import policy in these countries, in other words, a policy that derives from an integrated and well-balanced concept of economic development requirements.

94. It may be noted, indeed, that nearly all the countries in question lack a soundly conceived, planned and formulated policy of protectionism. On the contrary, protection is frequently provided in a haphazard and extremist way without sufficient regard for the more rational and efficient utilization of resources or the programming of economic development.

95. It is therefore customary in the countries under consideration for imports of goods that compete with those of domestic industry to be banned or subjected to a system of prior permits which is in practice tantamount to banning. In fact, one of the habitual prerequisites for authorizing imports is the assurance that the product has no domestic counterpart. Wherever direct controls have been abandoned, they have been replaced by a system of duties, charges, prior deposits, etc. which is prohibitive in its effects. In other words, the policy adopted is usually that of preventing or forestalling any real or potential competition from foreign goods.

Annex

CLASSIFICATION BY SITC ITEMS OF GOODS IN THE CATEGORIES AND GROUPS CONSIDERED IN THE PRESENT STUDY

Note: The annex is available in Spanish only. Part II of the Spanish version contains a list of the code numbers of the corresponding SITC items, which can be looked up in the Standard International Trade Classification (United Nations publication, Sales No.: 51.XVIII.1).

2. Report of the first session of the Working Group on Customs Questions *

(Montevideo, 1 to 12 August 1960)

INTRODUCTION

1. This document presents an account of the proceedings at the first session of the Working Group on Customs Questions, held at Montevideo (Uruguay) from 1 to 12 August 1960.

2. The Working Group was established by virtue of resolution 7 (II) of the Trade Committee of the United Nations Economic Commission for Latin America, adopted at Panama on 19 May 1959. In that resolution, the Trade Committee, considering " that, in order to attain the objectives for the establishment of the Latin American common market, it is necessary to standardize the tariff nomenclature of the Latin American countries ", decided to recommend to the ECLA secretariat, " that it should prepare, for consideration by the Trade Committee, suitable bases and procedures for the adoption of a standard tariff nomenclature in the Latin American countries ". When calling the session of the Working Group, the ECLA secretariat also took into account the request put before it in resolution No. 2 of the Provisional Committee of the Latin American Free-Trade Association that the session should be held at Montevideo. The purpose of the request was to facilitate the attendance of the representatives constituting the Provisional Committee and of their advisers and thereby to ensure that the maximum benefit would be derived from the Group's

* Issued earlier in mimeographed form as documents E/CN.12/C.1/WG.3/4/Rev.1 (24 August 1960) and E/CN.12/568 (1 March 1961).

work. The Committee therefore requested that, as regards the agenda of the session, priority should be given to certain items of particular interest to the Provisional Committee.

3. The secretariat, in complying with this request, gave weight to the close link between the customs questions which would be considered by the Working Group and matters connected with the operation of the Latin American Free-Trade Association. Accordingly, the agenda covered matters that interest all the Latin American countries to an equal degree and also other closely related items bearing on the Montevideo Treaty under which the Latin American Free-Trade Association was established.

4. With a view to the preparation of background documents for the first session of the Working Group on Customs Questions, the secretariat duly distributed a questionnaire on basic customs questions to all Latin American countries. As the secretariat did not, however, receive all the replies from Governments to the aforementioned questionnaire sufficiently in advance, the documentation for many of the items on the agenda had to be prepared mainly from information which the secretariat itself had at its disposal. Furthermore, special attention should be drawn to the valuable co-operation given in this matter by the Brussels Customs Co-operation Council, which seconded one of its technicians to collaborate as an adviser in the preparation of the aforementioned basic documents.

5. This report is divided into two parts. The first part indicates the membership of delegations and describes the organization of work. It gives a summary account of the proceedings during the session and provides an objective interpretation of the conclusions reached. The second part contains the resolutions approved by the Working Group.

6. This report was adopted by the Working Group at its closing meeting.

I. WORKING GROUP ON CUSTOMS QUESTIONS

A. DELEGATIONS PRESENT AND ORGANIZATION OF WORK

1. *Opening and closing meetings*

7. The opening meeting of the Working Group on Customs Questions took place in the assembly hall of the *Automóvil Club del Uruguay* on 1 August 1960. The following persons attended: the Minister for Foreign Affairs of the Eastern Republic of Uruguay, Commander Homero Martínez Montero; the Under-Secretary for Foreign Affairs of Uruguay, Mr. Mateo J. Magariños de Mello; other members of the Uruguayan Government, the heads and members of diplomatic missions of the Latin American countries and representatives of various Uruguayan public and private bodies. Mr. Esteban Ivovich, Director of the Trade Policy Division of the Economic Commission for Latin America, representing Mr. Raúl Prebisch, Executive Secretary of the Commission, took the chair.

8. The Minister for Foreign Affairs of Uruguay welcomed the delegations present on behalf of his Government. The Under-Secretary for Foreign Affairs and Chairman of the Provisional Committee of the Latin American Free-Trade Association then spoke on behalf of the Provisional Committee and of delegations present. The representative of the ECLA secretariat thanked those present for their attendance and the Uruguayan Government for its hospitality and for making it possible to hold the first session of the Working Group on Customs Questions at Montevideo. He also thanked the authorities of the *Automóvil Club del Uruguay* for having made their facilities available for holding the session.[1]

9. The closing meeting was also held in the assembly hall of the *Automóvil Club del Uruguay* on 12 August 1960. The following persons made statements: Mr. René Ortuño, permanent representative of the Argentine Republic on the Provisional Committee of the Latin American Free-Trade Association, on behalf of the delegations and the Provisional Committee; Mr. Romeo Maeso Sueiro, Chairman of the first session of the Working Group on Customs Questions; and Mr. Esteban Ivovich as representative of the Executive Secretary of ECLA.

2. *Attendance*

10. The meetings of the Working Group were attended by representatives, delegates and observers from the following Latin American States members of the Economic Commission for Latin America, and from intergovernmental and non-governmental organizations:

(i) *Representatives and members of delegations from Latin American States members of the Economic Commission for Latin America*

Argentina: Representative: Arnaldo Domingo Martino; Members: Carlos Bochert, Ricardo La Rosa, Juan Antonio Vito Burlando, Héctor R. Mastracchio, Fernando Pedro Bocci, Juan Carlos Díaz, Manuel Miguel Quintana, Juan José Flores, Victorio Jesús Silva

Brazil: Representative: Gerson Augusto da Silva; Members: Armindo Branco Mendes Cadaxa, Armindo Correa da Costa, Oto Ferreira Neves, Lucía Merinho Pirajá, Vinicius Ferraz Machado, Luis Emygdio Camara

Chile: Representative: Abelardo Silva Davidson (Ambassador); Members: Gustavo Valdivieso, Victor Leiva Araya, Juan Broughton

Colombia: Representative: Alberto Navas de Brigard

Cuba: Representative: Mario García Incháustegui (Ambassador); Member: Leonardo Bravo (Consul General)

Mexico: Representative: Mario Espinosa de los Reyes; Members: Guillermo López Vargas, Antonio Calderón Martínez, Rodrigo Vidal Ortiz

[1] All the speeches made during the opening meeting were distributed as information documents.

Paraguay: Representative: Hermes Troche; Members: Pablo E. Bergemann, Jesús G. Cañete, Juan Isasio Cabral

Peru: Representative: Vice-Admiral Pedro Mazuré A.; Members: Alejandro Bussalleu, Joaquín Monar Nuñez

Uruguay: Representative: Romeo Maeso Sueiro; Members: Enrique Bianchi, Ricardo Cat Vaeza, Hugo de Marco, Guillermo Doulas, Héctor Garicoits, Roberto González Casal, Alfredo Noé, Fernándo Papa Preve, Alfredo Ponce de León, Lauro Rodríguez, Alberto Rovira, Miguel Angel Vásquez Rolfi, Hugo Roselló

(ii) *Observers from inter-governmental organizations*

Inter-American Economic and Social Council of the Organization of the American States: Juan B. Schroder, Rodolfo León

(iii) *Observers from non-governmental organizations* [2]

Inter-American Council of Commerce and Production: Pedro Celia, Luis E. González Cuñarro, Mario Pena, Jorge Seré

3. *Secretariat*

11. The secretariat was as follows:

Esteban Ivovich, Representative of the Executive Secretary and Director of the Trade Policy Division of ECLA

Santiago Macario, economist, member of the Trade Policy Division of ECLA, Secretary of the Working Group

Alberto Sola, Alfredo Escobar, Alejandro Power, Mario Movarec, staff members of ECLA, advisers

Ruben Chelle, Deputy Administrative Secretary of the Provisional Committee of the Latin American Free-Trade Association

Emilio Gómez Pallete, official of the Customs Co-operation Council, acted as adviser to the secretariat

4. *Organization of work*

(a) *Election of officers*

12. At the opening meeting the following officers were elected:

Chairman: Romeo Maeso Sueiro (Uruguay)

Vice-Chairmen: Hermes Troche (Paraguay)
Alejandro Bussalleu (Peru)

Rapporteur: Mario Espinosa de los Reyes (Mexico)

(b) *Committees*

13. With a view to facilitating consideration of the items on the agenda, it was decided at the opening meeting to establish three committees with the following officers:

Committee 1. *Standard tariff nomenclature and customs value*

Chairman: Juan Carlos Díaz (Argentina)

Secretary: Santiago Macario (secretariat)

Committee 2. *Adoption of standard definitions of basic customs terms, customs procedures and definition of origin of goods for customs purposes*

Chairman: Armindo Correa da Costa (Brazil)

Secretary: Alfredo Escobar (secretariat)

Committee 3. *Consideration of certain customs matters connected with the Montevideo Treaty*

Chairman: Abelardo Silva Davidson (Chile)

Secretary: Alberto Sola (secretariat)

B. AGENDA

14. At the opening meeting, the Working Group adopted the following agenda:

I. Election of officers

II. Adoption of the agenda

III. General statements

IV. The standardization and co-ordination of certain aspects of the customs systems of Latin American countries

1. Standard tariff nomenclature:
   (*a*) Bases and procedures for its adoption
   (*b*) Its use as a common reference among the countries participating in the Latin American Free-Trade Association (Montevideo Treaty) with the object, *inter alia*, of facilitating tariff negotiations
2. Customs value
   (*a*) Standard definition for the purpose of levying *ad valorem* duties on imports
   (*b*) Practical application of the standard definition
3. Adoption of standard definitions of basic customs terms
   (*a*) Importation
   (*b*) Exportation
   (*c*) In-transit trade
   (*d*) Re-exportation
   (*e*) Temporary importation
   (*f*) Temporary exportation
   (*g*) Foreign goods
   (*h*) Nationalized goods
   (*i*) Border trade
   (*j*) Miscellaneous
4. Customs procedures: ways and means of standardizing or co-ordinating and simplifying customs procedures and documentation

[2] The representatives of the Inter-American Council of Commerce and Production were invited by the secretariat to attend the meetings of the Working Group.

5. Definition of origin of goods for customs purposes:

(*a*) Preliminary consideration from the customs standpoint

(*b*) Standard and procedures for verifying the origin of goods

Background documents: La uniformación o coordinación de ciertos aspectos de los sistemas aduaneros en los países latinoamericanos (E/CN.12/C.1/WG.3/2 and Add.1 to 3)

V. Consideration of certain customs matters related to the Montevideo Treaty:

(*a*) Meaning of the term " duties and charges " for the purposes of article 3 of the Treaty and its expression or equivalence in terms of *ad valorem* customs duties

(*b*) Definition of the term " duties and charges " for the purposes of article 5 of the Treaty

Background documents: Antecedentes para la definición de " gravámenes de efectos equivalentes a derechos aduaneros " y de " gravámenes vigentes " a los fines de la aplicación del Tratado de Montevideo (E/CN.12/C.1/WG.3/3/Rev.1 and Add.1/Rev.1)

VI. Other business

C. ACCOUNT OF PROCEEDINGS

1. *Standard customs nomenclature*

15. When the Group reached this item on its agenda, for which the basic document was E/CN.12/C.1/WG.3/2, prepared by the ECLA secretariat, it decided to consider the questions involved in the following order:

(1) Bases and characteristics of existing customs nomenclatures in various Latin American countries

(2) What nomenclature might be adopted as a common basis for the customs tariffs of Latin American countries

(3) Form in which the said nomenclature should be adopted and degree of detail in the breakdown of its hearings

(4) Rules and procedures to be followed for keeping the nomenclature up to date and ensuring its uniform application

(5) Use of the standard nomenclature for customs purposes:

(*a*) As a common point of reference in negotiations

(*b*) Gradual adoption by all Latin American countries as their national nomenclature

(6) Use of the standard nomenclature for statistical purposes:

(*a*) Rules and procedures

(*b*) Establishment of a regional centre for the processing of statistics

16. In accordance with this outline, the discussion opened with accounts of the bases and characteristics of each of the existing customs nomenclatures of the Latin American countries represented at the meeting. Those of Argentina, Chile and Paraguay did not correspond to the international type of classification, although those of Chile and Paraguay follow a logical and consistent order. Both Argentina and Chile are in the process of adopting the Brussels Tariff Nomenclature (BTN). The customs nomenclature in force in Uruguay corresponds to the *Draft Customs Nomenclature* of the League of Nations (as do those of Colombia and Ecuador), and the Peruvian nomenclature is based on the *Minimum List* drawn up for statistical purposes on the basis of the *Draft Customs Nomenclature*. The Mexican nomenclature, in its general lines and in the content of its sections although not in its headings, follows the Standard International Trade Classification (SITC), drawn up by the United Nations for statistical purposes. Lastly, the nomenclatures used by Brazil and Cuba correspond to the BTN, although with some changes in the headings, particularly in the case of Brazil.

17. Speaking of the nomenclature in force since 1956 in Mexico, the Mexican representative said that the SITC had been adopted as the basis, although with a number of changes in the items and sub-items, because at the time it was drafted more detailed knowledge was available on the SITC particularly through its use for the Standard Central American Tariff Nomenclature (NAUCA), whereas the BTN was still in the course of preparation. Thus far experience with the nomenclature adopted had been satisfactory; it had served well the purposes of the industrialization policy pursued by Mexico during recent years and, generally speaking, had met the requirements of tariff protection and economic and statistical analysis. He added that in his opinion the explanatory notes on the items and sub-items had serious drawbacks, because the rigidity they imparted to the contents of the items in question was liable to lead to tax evasion.

18. The Brazilian delegate said that his country's experience with the BTN had also been satisfactory; it had proved perfectly suited to the protectionist policy called for by the dynamic process of Brazil's industrialization, and there had been no difficulties or problems in its application.

19. The representatives of Argentina and Chile said that in their respective countries it had been decided, after study of the various alternatives, to adopt the BTN for the new customs tariffs that were being drawn up, since it was considered that that nomenclature fully met the requirements, particularly those relating to the industrialization process. Although experience was lacking as regards the practical application of the nomenclature, thus far no difficulties had arisen in drawing up the two national nomenclatures on the basis of the BTN. One of the main reasons for adopting the BTN had in fact been the existence of rules and interpretative notes for its sections and chapters and explanatory notes on its headings, all of which contributed to the exactitude necessary for its application.

20. By way of clarifying the doubts and queries raised by some representatives with respect to the adoption of the BTN, it was explained that the intention was not to impose a rigid nomenclature on the various countries but rather to give an indication of general lines and basic headings that they should respect, while remaining free to subdivide the headings in the way and to the extent they considered suitable for their own particular requirements. The same applied to the general rules and interpretative notes on the sections and chapters: their order and numbering should be respected and maintained, but that did not mean that any country was not free to add whatever further notes it wished in order to clarify further the content of the sections or chapters concerned, and especially the meaning of any subdivisions it might introduce.

With respect to the international obligations of countries that adopted the BTN, it was explained that only countries that were members of the Nomenclature Committee of the Customs Co-operation Council are obliged to adopt the nomenclature and to adhere strictly to its headings, general rules and interpretative notes. There is no such obligation or undertaking for other countries, although it is advisable that the nomenclature should be adopted without changes in order to preserve the desired uniformity, without prejudice to the right to establish additional subdivisions as required. This is, in fact, the principle adhered to by most of the 45 countries that have adopted the BTN without being members of the Nomenclature Committee.

21. In view of these and other considerations advanced during the debate, and without entering into the merits of drawing up a basic standard customs nomenclature specially for Latin America, it was agreed to recommend that the BTN should be adopted and that, in order to ensure the desired uniformity, while each country is left free to establish under every heading listed such subdivisions as it may deem expedient, the adoption of the nomenclature be effected (*a*) without omission of any of its headings, addition of any new headings or alteration of the numbering of the headings, and (*b*) without the introduction of any change in the general rules of its interpretation or in the notes to chapters or sections which might modify their content or the content of the headings.

With the same object of ensuring the desired uniformity, it was also decided to recommend that national customs tariffs in Latin America based on the BTN be drawn up and applied in conformity with the Explanatory Notes approved by the Customs Co-operation Council, while countries are left free to supplement the said notes with any they may deem necessary to define such subdivisions as they may establish. Both recommendations are included in resolution 1 (I). In this resolution the Working Group also suggests to the ECLA secretariat that it provide technical advice to the Latin American Governments on the occasion of their adoption of the Brussels Nomenclature in their national customs tariffs, and that in this connexion it seek the co-operation of the United Nations Bureau of Technical Assistance Operations and of the Customs Co-operation Council, and that in addition the ECLA secretariat should take the necessary steps to ensure that the nomenclature is kept up to date by the countries that adopt it in accordance with any recommendations that the Nomenclature Committee of the Customs Co-operation Council may make.

22. As regards the amount of detail in the breakdown that might be given to the BTN headings by the various Latin American countries in adopting it for their national customs nomenclature, it was concluded that, since the establishment of sub-items or sub-headings was closely linked with the particular circumstances and interests of each country, it would be neither practicable nor desirable to lay down any general rules or restrict the freedom of action of each country in any other way, so long as sufficient knowledge of those circumstances and interests was not available and so long as it was not necessary to standardize national nomenclatures at the subdivision level. Thus the signatories to the Montevideo Treaty would remain free to agree on whatever rules or standards they deemed appropriate for the purposes of applying the said Treaty.

23. The Working Group agreed that, in order to identify, in the national nomenclatures based on the common nomenclature, the subdivisions introduced by each country, it would be advisable to retain the decimal classification and add one or two digits, as required, to those used in the BTN. With respect to the gradual adoption of the BTN by all the Latin American countries as their national customs nomenclature, there was general agreement that it would not be appropriate for the time being to set any time limit for this adoption, which would have to depend on the particular circumstances of each country.

24. With respect to the use of the standard nomenclature as a common point of reference for the negotiations provided for in the Montevideo Treaty, the Group considered that the use of the BTN would be helpful for this purpose. As it was not feasible for the Group to enter into any detailed consideration of what rules and procedures should be followed for that purpose, it confined itself to commending this view to the attention of the Provisional Committee of the Latin American Free Trade Association.

25. With respect to the use of the standard nomenclature for statistical purposes, the Group considered it advisable that this and similar matters should be studied further at a conference of statistical experts with the advisory assistance of customs experts.

26. When the foregoing questions were being discussed, the Brazilian representative proposed that they should be given more extensive consideration, so that there could be a detailed discussion of how the BTN was to be used in relation to matters specifically connected with the Montevideo Treaty. With this aim in mind he submitted the following supplementary agenda to the Working Group:

1. Requirements to be met by the standard nomenclature in order to comply with the provisions of article 49 (*c*) of the Montevideo Treaty:

   1.1 Minimum degree of detail in breakdown for use as a common basis for the negotiations;

1.2 Minimum degree of detail in breakdown for standard presentation of foreign trade statistics;

2. Procedure for the drafting of a standard nomenclature:

2.1 Drafting of a Spanish-Portuguese version of the BTN;

2.2 Drafting on the basis of existing nomenclatures of a first breakdown of the BTN headings for the purpose of using it, as far as possible, in the first series of negotiations.

3. Establishing correlations between the standard nomenclature and each of the nomenclatures in use in the countries of the Area.

4. Appointment of a group of experts for the purposes of paragraphs 2 and 3 above.

5. Application of the standard nomenclature:

5.1 Procedures to be adopted to ensure that it is applied and kept continuously up to date;

5.2 Establishment of a specialized body, attached to the Standing Executive Committee of the Latin American Free-Trade Association, to:

5.2.1 Follow closely the application of the standard nomenclature;

5.2.2 Keep it up to date;

5.2.3 Study cases of doubt or disagreement as to its interpretation and make recommendations thereon;

5.2.4 To provide technical assistance in this field to the countries of the Area;

6. Adoption of the standard nomenclature by the countries of the Area as their national nomenclature:

6.1 Possibility of its immediate adoption by some or all of the countries of the Area, in view of the provisions of article 15 of the Montevideo Treaty;

6.2 Advisability of recommending that those countries that cannot adopt the nomenclature immediately should begin to make the necessary changes in their respective national nomenclatures so as to facilitate the change-over to the standard nomenclature.

27. The Working Group, although it shared the Brazilian representative's concern and recognized that, for the purposes of the Montevideo Treaty, it would be necessary to achieve a standard breakdown of the BTN to facilitate the negotiations provided for in that Treaty, considered that, in view of the short time available and of the fact that some representatives had stated that they needed more time to collect the necessary background information, it would not be possible at the current session to embark on a detailed analysis of the questions raised in the proposed supplementary agenda. It consequently decided to take note of that agenda and to transmit it to the Provisional Committee of the Latin American Free-Trade Association.

2. Definition and verification of customs value

28. For the consideration of this item of the agenda, referred to in document E/CN.12/C.1/WG.3/2/Add.1 prepared by the ECLA secretariat, the following order of business was proposed and adopted:

I

(1) The notion of " customs valuation " in the various Latin American countries

(2) The need to adopt a standard definition

(3) Component elements of a definition:

(*a*) Place of delivery of the goods

(*b*) Time when the price of the goods is taken into account

(*c*) Price of the goods

(*d*) Quantity of goods and level of the transaction

(4) Advisability of drafting a new definition or adopting an existing definition

II

(1) Administrative valuation agencies: existing offices and analysis of the various suitable methods of operation

(2) Analysis of some of the opinions of the Valuation Committee of the Customs Co-operation Council on particular cases (deferred payments, interest, production surpluses, goods no longer of use in the country of origin, dumping, etc.)

(3) Exports from the countries with a centrally planned economy and the extent to which they conform to the definition adopted.

29. With respect to item (1), each representative gave an account of the definition or concept of customs value and its actual application in his own country. These accounts, which were subsequently submitted in writing on the basis of a standard questionnaire or model and reproduced as annex I [3] of the present report show that there is a variety of criteria and procedures for determining the value of goods subject to *ad valorem* duties.

30. The Working Group recognized the need to arrive at a standard definition of customs value and also, as far as possible, to adopt standard procedures for its application in order to ensure that the actual incidence of *ad valorem* duties is not affected by differences in methods of valuation. This consideration is of special importance with respect to countries that are parties to agreements aimed at establishing customs unions, free-trade areas or any other kind of economic association.

31. In view of this recognized need, and desirous of arriving at a standard definition on the basis not of any preconceived idea but rather of an examination of the essential component elements of such a definition, the Group proceeded to consider those elements, namely,

[3] Available in Spanish only.

place of delivery of the goods, time when the price used as the basis of valuation is to be established, the price to be used as the basis of valuation, and effect on that price of the quantity of goods and level of the transaction.

32. The first element, the *place* where the goods are assumed to be for valuation purposes, is essential, since it governs the choice of the type of price used as the basis of valuation. There are a number of alternatives, the ex-factory price, the price at the port of shipment (f.a.s. or f.o.b. value), price at the port of destination (c.i.f. value) etc. Most countries, including the Latin American countries, use the c.i.f. price (value of the goods delivered at the port of destination) as the basis for levying duties (although others usually prefer the f.o.b. price, which is the value of the goods on board ship at the port of shipment). The Working Group expressed itself as generally in favour of the c.i.f. price, among other reasons because it was considered as representing the actual cost of the goods for the importer at the time of valuation. Because it is the price of the goods at the time of valuation, it is easier to determine or check, since at that time the goods, the importer and the customs official responsible for the valuation are all together in one place. The adoption of the f.o.b. price, on the other hand, might create difficulties, since if any inquiry were necessary it would have to be referred to the exporter market. However, in view of the fact that the question was not in fact one of vital importance, it was conceded that there might be economic or practical reasons why, in certain countries or instances, it might be better to use the f.o.b. rather than the c.i.f. price.

In view of the need to adopt a standard criterion, it was considered generally more suitable to use the c.i.f. price as the basis of valuation, that is, the price of the goods at the place where the goods are imported, and not at the place from which they are exported.

33. With respect to the *time* when the price to be used as the basis for valuation is established, it was likewise recognized that, generally speaking, it seemed more satisfactory and appropriate to choose the time when the duty becomes payable, that is, the base price would be the price of the goods at the time they are undergoing customs formalities in the importing country, which is also the time when the goods are valued. Each country could establish this time more specifically between the date on which the customs declaration is submitted or recorded and the date on which the goods are withdrawn from customs.

Without prejudice to its acceptance of the general criterion referred to, the Working Group took the view that that criterion should have a certain flexibility, and agreed that it would be advisable to leave a certain leeway with respect to the time element, so that countries that might prefer to do so could base valuation on the price of goods at the time of export instead of the time at which the duty becomes payable.

34. With respect to the price to be used as the basis of valuation of the goods, it was affirmed during the debate that the positive concept of price — that is, the actual sale price of the imported goods — would be unacceptable for the purposes of customs valuation, since that price might be different from the actual price established in a transaction effected on the open market. Moreover, in some cases there may not even be any such sale for various reasons: for example, there may be a special relationship or link between the buyer and seller (as in sales to subsidiary firms, to sole agents, etc.) which results in the price paid, or to be paid, not being the same as it would be if there were no such link; again, the commercial or consular invoice is usually accepted as proof of the price paid and this can be falsified or forged; or the purchase may have been made on exceptional or abnormal terms (for instance, for sales of surpluses, stock clearances, sales of liquidation stocks, etc.) not available to most importers; or there may not have been any actual sale (goods imported on consignment, for instance). Lastly, there may be a number of other reasons why the price actually paid by the purchaser, or at least the price appearing in the commercial invoice, may not be the price at which such goods are normally purchased by other buyers.

35. The Working Group decided that these problems would be solved by adopting, instead of the positive concept of price — the sale price, that is the price at which the goods " are " sold — a notional concept, in which the indicative " are " is replaced by the conditional " would be ": the price at which the goods to be valued " would be " sold under assumed conditions (for example, of independence between buyer and seller).

Accordingly, the essential condition for a price to be acceptable as a basis of valuation under this concept is that it must have been established under open market conditions, since it is only under such conditions that it can be stated that that would be the price at which any importer could obtain the goods in question from the same supplier.

During the discussion on this aspect of customs value, it became clear that the adoption of a definition of that value based on the above-described notional concept would not imply rejecting the validity of the price declared by the importer in the commercial or consular invoice. On the contrary, that price should in fact be given much weight as a point of departure, but it should be checked to determine whether or not it corresponds to what may be regarded as the normal market price of such goods. In determining this normal price, there must again be standards or rules derived from a given definition. It was pointed out that, in practice, no customs administration accepts the price declared by the importer without question; it is in fact subject to analysis on the lines described. But this does not change the fact in most cases that price coincides with that at which the goods " would be " sold according to the notional concept referred to, and which is consequently acceptable.

36. With regard to the elements represented by quantity and by the level at which the transaction is negotiated, and their influence on the sales price of the goods, the Working Group reached the conclusion that these should be taken into account in the determination

of customs value. It is, in fact, a current and accepted trade practice for the price at which merchandise can be obtained (that is, the discounts normally made on the basis price) to be related to the quantity sold and still more closely to the level at which the sale is effected, — between manufacturer and wholesaler, between one wholesaler and another, between wholesaler and retailer, etc.

37. On concluding its study of the elements which must be taken into account in the determination of customs value, the Working Group considered that they were satisfactorily embodied in the definition of customs value drawn up by the Customs Co-operation Council and commonly known as the " Brussels Definition ". In article I of this definition, it is established that for the purposes of the application of *ad valorem* customs duties, the value of goods to be imported for consumption is their " normal price ", that is, the price that would be fixed for the said goods, at the time when the customs duty became payable, under a contract of sale concluded in the open market between buyer and seller independent of each other. In its other articles the Definition specifies the place of delivery of the goods as an element in the concept of their " normal price " (port or place of introduction of the merchandise into the country of importation, which implies adoption of the c.i.f. value of the goods), the prerequisites for the existence of open market conditions, and the manner of determining the price of the goods to be valued when they are manufactured in accordance with any patented invention or are imported under a foreign trade mark.

38. After detailed study of each article of the Definition and its Explanatory Notes, the Working Group, by virtue of its resolution 2 (I) decided to recommend that the aforesaid " Brussels Definition " be adopted, since it fulfilled the theoretical and practical requisites considered desirable, with the reservation that the time element should be susceptible of interpretation with tolerance or latitude, in the sense that it might be taken to refer to the time of exportation of the goods.

39. The Brussels Definition of customs value having been adopted, the Working Group went on to consider the practical aspects of its application and the mechanism or procedure which might be recommended for the determination of the normal import values or prices of the various goods by each individual country, as well as the question of the agency or agencies to be responsible for this work and the means of verifying values that could be placed at the disposal of customs officials. In this connexion, it was felt to be desirable that each country should establish, either within or in close association with the national customs administration concerned, a central valuation office responsible for the compilation and analysis of data and information which would be of use to customs officials for the correct valuation of imported goods, whether by providing them with price lists and other background data, or through any other procedure which might be deemed satisfactory. Hence a recommendation to this effect was incorporated in resolution 2 (I), with the additional suggestion that such offices should make arrangements to interchange information and data likely to be reciprocally helpful to them in the efficacious discharge of their functions, and that they should adopt, so far as possible, standard methods or procedures for the collection and analysis of such material.

40. It was likewise decided in the same resolution to suggest to the ECLA secretariat that it should assist those Latin American Governments which so requested with technical advice on measures conducive to the implementation of the recommendations formulated, with the collaboration, when it deemed this necessary, of the Customs Co-operation Council, independently of any additional contacts which each individual country might establish directly with the Council.

41. The delegations of countries already possessing agencies of the kind recommended in paragraph 39 described their organization and mode of operation. The Working Group also took cognizance of information on certain particular problems relating to valuation practices, such as the determination of customs value for imports of goods whose production has been discontinued or of production surpluses, or in the case of countries where State trading prevails. In this same connexion, note was taken of the suggestions contained in the last part of the ECLA secretariat document E/CN.12/C.1/WG.3/2/Add.1.

3. *Definition of basic customs terms*

42. In the course of the general discussion of basic customs terms for which the background document was another paper prepared by the ECLA secretariat (E/CN.12/C.1/WG.3/2/Add.2), the Working Group agreed that in working out the various definitions a co-ordinating principle ought to be followed, so as to ensure that they were complementary and properly correlated. It was also deemed necessary to define the concepts " foreign goods ", " domestically-produced goods " and " nationalized goods ", since they were constituent elements in all definitions relating to customs operations.

The term " goods " was defined as in Explanatory Note (ii) on the concept of " importation ", the aim being to establish the exact scope of the term for customs purposes, by interpreting it to include all goods passing through customs instead of only those actually traded.

43. After examining each of the definitions proposed in the document referred to, the Working Group proceeded to adopt them in the form in which they are set forth in resolution 3 (I), deeming it necessary to supplement some of them with explanatory notes that would ensure a more precise elucidation of the concepts concerned.

44. In the course of the discussion, the following observations were formulated in connexion with certain customs operations:

(a) *Temporary admission.* Some delegations stated that under the head of operations of this type the entry of foreign goods for processing or manufacture was permitted under bond or on payment of duties reimbursable when the goods left the country.

It was determined that such operations should not be classified under the concept of " temporary admission ", as some of them would fit more appropriately into the drawback system, which might be studied at a later stage. The existence of a clear differentiation between the two systems was established, since the very term " temporary admission " implies a time limit, whereas under the drawback system the period during which the goods remain in the country may be indefinitely prolonged. In the former case the underlying reason for the suspension of import duties is the fact that the goods are not to be nationalized, while in the latter duties are payable because the goods are nationalized, even though they may leave the country at a later date.

In view of these considerations it was decided to add note (ii) to the definition of " temporary admission ".

(b) *Re-exportation.* The Working Group reached the conclusion that the scope attributed to this operation in article 50 of the Montevideo Treaty was not consistent with the correlation existing between the customs concepts of " importation " and " exportation ", since the first of these designates the legal entry, upon payment of duty, of goods intended for final use or consumption within a country, which thus become " nationalized ". Consequently, the redispatch abroad of nationalized goods would be defined as " exportation ".

Attention was also called to the fact that the concept of " re-exportation " adopted in article 50 of the Montevideo Treaty is not of a technical character, and makes determination of the nature of the operation conditional upon the industrial processing of the goods.

(*c*) *Domestically-produced goods.* The Working Group pointed out that the definition of this term formulated in resolution 3 (I), paragraph (*g*) related to customs operations, and could not be applied to a given product for purposes of determining its origin.

(*d*) *Border trade.* It was not considered expedient to define this aspect of trade, since, given its manifold facets, no definition would satisfy the individual interests of the different countries. In this connexion, too, it would be necessary, in order to facilitate negotiations between Latin American countries and especially among the members of the Latin American Free-Trade Association, to ascertain the provisions and principles governing such trade in each of the countries of the region. To this end, the ECLA secretariat might compile the said provisions and principles for the information of interested countries.

4. *Customs procedures*

45. After considering the ECLA secretariat document E/CN.12/C.1/WG.3/2/Add.3 and hearing what the various delegations had to say on the formalities and documents in use in their respective countries, the Working Group recognized that these customs documents and formalities varied to some extent, as did also the number of documents that had to be submitted to customs, both for imports and for exports. It was also noted that the customs formalities and documents relating to importation in the different countries had a common basis which would facilitate standardization and simplification.

46. The delegations agreed that the possibility of simplifying shipping formalities and documents, many aspects of which bore a close relation to customs procedures, should be considered in conjunction with the simplification of these latter.

47. Since multilateral treaties conducive to the liberalization of trade had already been concerted by Latin American countries, the Working Group felt that the studies which would be carried out for the purposes of simplifying customs formalities might afford a useful opportunity of devoting special attention to ways and means of establishing a simple and speedy procedure for the entry of goods to which liberalization measures were applied under such treaties.

48. In the same context, it was pointed out that in the view of the Customs Co-operation Council, which is carrying out comparative studies on the customs procedures observed in its member countries,[4] the improvement of any set of customs regulations could not be seriously contemplated without knowledge of its objectives, the texts by virtue of which it was applied and its practical implications. This suggested that a great deal of time-consuming work would have to be undertaken before acceptable conclusions could be reached in respect of the standardization and simplification of formalities.

49. The Group therefore considered that the work in question should be begun at the earliest possible date, to which end it decided, in resolution 4 (I), to recommend to the ECLA secretariat that in its current studies on customs questions it should give priority to the aspect of co-ordinating and simplifying customs and shipping procedures and documents, and should seek in that connexion, if necessary, the assistance of the Customs Co-operation Council and other international bodies.

5. *Origin of goods: preliminary consideration from the customs standpoint*

50. The Working Group was in agreement with the statement in the ECLA secretariat document E/CN.12/C.1/WG.3/2/Add.3, to the effect that the problem of the origin of goods within a free-trade area could be considered at the current session only from the administrative point of view. It therefore confined itself to placing on record that, in the opinion of the delegations present, the action of customs authorities with respect to the origin of goods should relate mainly to administrative aspects. Resolution 5 (I) embodies a declaration to that effect, and also suggests to the ECLA secretariat that, in consultation with the Latin American Free-Trade Association, it should prepare draft regulations and procedures relating to the certification of origin with a view to facilitating the administrative customs work referred to above.

[4] See Information document No. 1, *El Consejo de Cooperación Aduanera: su origen, estructura y actividades*, distributed at the present session, for a full account of the constitution of the said Council and the studies it has completed or is carrying out.

6. *Training of customs officials*

51. The Working Group also discussed the question of the training of customs officials, calling attention to the increasingly responsible nature of their work as a result of the important bearing that customs tariffs now have on economic policy and industrialization in the Latin American countries. Since, with few exceptions, these countries have at present no special training schools of the type indicated, the Working Group decided, in resolution 6 (I), to recommend the establishment of such schools and to suggest to the ECLA secretariat that, in co-operation with the United Nations Technical Assistance Board and other international bodies, it should provide countries, on request, with any advisory services that might be required for the fulfilment of the recommendation aforesaid.

7. *Meaning of the term " duties and charges " for the purposes of article 3 of the Montevideo Treaty, and its expression or equivalence in terms of* ad valorem *customs duties*

52. The Working Group broke down this item on the Agenda into the following three sections:

(*a*) Bases for the identification of " import duties and charges "

(*b*) Expression of import duties and charges in terms of *ad valorem* customs duties

(*c*) Import duties, charges and other restrictions existing in the various countries

Discussion was based on the background document entitled *Identificación de los conceptos que deben ser considerados como " gravámenes " a los efectos del artículo 3 del Tratado de Montevideo, y su expresión equivalente en términos de derechos aduaneros ad valorem* (E/CN.12/C.1/WG.3/3/Rev.1), prepared by the ECLA secretariat.

(a) *Bases for the identification of " import duties and charges "*

53. The phrase " customs duties and any other charges of equivalent effect " (Montevideo Treaty, article 3) was considered to comprise all duties, charges or taxes payable on or in relation to imports, provided that they do not represent payment of the approximate cost of services rendered. Monetary or exchange restrictions which directly affect the cost of imports will also be regarded as charges of equivalent effect.

54. Accordingly, in addition to customs duties proper, the following will be considered to constitute import duties and charges:

(i) Supplementary import duties;

(ii) Taxes on transfers of funds abroad in payment for imports;

(iii) Consular dues or fees, when they do not correspond to the cost of the service rendered;

(iv) Other import duties or taxes collected in return for services rendered, but appreciably in excess of their approximate cost;

(v) Taxes classified as internal, but applicable only to imported, not to domestically-produced goods (with the exception of the régime contemplated in chapter V of the Treaty), or heavier for the former than for similar domestically-produced articles (in this case it is the amount of the difference that will be regarded as an import duty);

(vi) Exchange surcharges;

(vii) Exchange allocation systems, when their effect is to raise the cost of foreign exchange for the financing of certain imports;

(viii) Cost of financing prior deposits or payments in advance;

(ix) Other duties, charges or restrictions representing direct or indirect protection for domestically-produced goods or import taxation imposed for fiscal or exchange reasons, if their effect is to raise the cost of imported merchandise.

55. In connexion with consular dues or fees, divergent opinions were expressed. Thus, while one delegation was in favour of abolishing them in their entirety, including consular formalities proper (consular invoices, visas for commercial invoices, etc.), in the view of another only that proportion of the total which was in excess of the cost of the service rendered should be eliminated, although the possibility of agreeing on their complete abolition for intra-Area trade should not be dismissed. A third delegation stressed that consular action benefited the importer, since it accredited the authenticity of the documents presented and strengthened the likelihood that the declaration of value was correct.

56. The Working Group analysed, among other import restrictions, those mentioned in the secretariat document, which would have to include certificates of essentiality and, where appropriate, health certificates. It was pointed out that prior deposits, as well as the application of a quota system to the foreign exchange supply, also acted as indirect quantitative restrictions.

(b) *Expression of import duties and charges in terms of* ad valorem *customs duties*

57. Broadly speaking, the Working Group was in agreement with the views propounded in the relevant section of document E/CN.12/C.1/WG.3/3/Rev.1. Nevertheless, it made the reservation that the bases and elements used for calculation purposes in each country ought to give a clear idea of the real incidence of duties and charges, estimated on the basis of a standard concept of value. At all events, it would be necessary to ascertain the exact extent to which the method of calculation applied, in each individual country, involved a difference or divergence from the calculation based on the standard concept of value adopted by the Latin American Free-Trade Association.

58. In this connexion it would be worth while to devote special attention to the divergences resulting from the adoption of the f.o.b. or c.i.f. value; the question of whether supplementary charges were or were not included in that value, the exchange rate used for conversion of the value expressed in terms of foreign ex-

change to national currency, and the situations arising from the adoption of official customs or base values (*aforos*) differing widely from the real value of the merchandise. Only thus could the real incidence of the import duties and charges in force in each country be accurately defined.

(c) *Duties, charges and other restrictions existing in the various countries*

59. In the course of reviewing the duties and charges of every type existing in each of the member countries, the individual delegations gave detailed accounts of the duties and charges and the mechanisms for their application in force in their respective countries. To supplement these oral explanations, the delegations furnished the information in writing reproduced in annex II [5] to the present report. In the opinion of the Working Group, such information might be of special interest in so far as it permitted countries to acquaint themselves with the principal characteristics of one another's import régimes.

8. *Concept of " duties and charges in force "*

60. The Working Group considered that the observations in the ECLA secretariat document E/CN.12/C.1/WG.3/3/Add.1/Rev.1 referring to the definition of the concept of " duties and charges in force " for the purposes of article 5 of the Montevideo Treaty would afford very useful guidance in future negotiations, since they formulated the criteria that might be adopted in establishing the bases for a definition of the said concept, both in respect of third countries (as a basis for the calculation of weighted averages) and in the initial relations between the signatories of the Treaty.

9. *Other business*

61. The delegations described each country's situation with regard to international treaties including a most-favoured-nation clause, treaties comprising tariff concessions or consolidations, special circumstances in respect of exemption or reduction of duties, etc. This information is included in annex II to the present report.

62. Since both this and the preceding item on the Agenda related to matters more closely allied to economic, trade and tariff policy than to specific problems of customs technique or theory, it was not considered incumbent upon the Working Group to formulate definite resolutions or recommendations on the topics concerned. The responsibility of the Group was limited to providing the opportunity for a comprehensive exchange of views and information, which would be of positive use in placing at each delegation's disposal the background data it would need during the negotiations contemplated in the Montevideo Treaty.

II. RESOLUTIONS ADOPTED

63. During the first session of the Working Group on Customs Questions, the following resolutions were adopted:

1 (I). Standard customs nomenclature

2 (I). Definition and verification of customs value

3 (I). Definitions of basic customs terms

4 (I). Customs procedures

5 (I). Administrative control of the origin of goods

6 (I). Training of customs officials

64. The text of the resolutions is given below.

Resolution 1 (I)

STANDARD CUSTOMS NOMENCLATURE

The Working Group on Customs Questions,

Bearing in mind resolution 7 (II) of the ECLA Trade Committee, as well as the document prepared by the ECLA secretariat in compliance with the said resolution (E/CN.12/C.1/WG/3/2), of which it takes note with satisfaction,

Considering that it would be desirable for the Latin American countries to adopt an up-to-date standard tariff nomenclature which would facilitate customs operations and tariff negotiations,

Believing that the adoption of such a standard tariff nomenclature is at the same time a factor of importance for the smooth working of multilateral treaties aiming at the liberalization of trade, such as those already concluded in Latin America,

Whereas the Brussels Tariff Nomenclature offers undeniable technical and practical advantages, having already been adopted by more than sixty countries,

Decides:

1. To recommend the adoption of the Brussels Tariff Nomenclature by the Latin American countries in their national customs tariffs;

2. To recommend likewise that, in order to ensure the desired uniformity, while each country is left free to establish under every heading listed in the aforementioned Nomenclature such subdivisions as it may deem expedient, the adoption of the Nomenclature be affected (*a*) without omission of any of its headings, addition of any new headings or alteration of the numbering of the headings, and (*b*) without the introduction of any change in the general rules for its interpretation or in the notes to chapters or sections which might modify their content or the content of the headings;

3. To recommend further, with the same end in view, that national customs tariffs based on the Brussels Tariff Nomenclature be drawn up and applied in conformity with the Explanatory Notes approved by the Customs Co-operation Council, while countries are left free to supplement the said notes with any they may deem necessary to define such subdivisions as they may establish;

4. To suggest to the ECLA secretariat that it provide technical advice to the Latin American Governments on the occasion of their adoption of the Brussels Nomenclature in their national customs tariffs, and that in this

[5] Available in Spanish only.

connexion it seek the co-operation of the United Nations Bureau of Technical Assistance Operations and of the Customs Co-operation Council;

5. To suggest to the ECLA secretariat, in addition, that it report in due course to those Latin American countries which have adopted the Brussels Nomenclature, so that they may keep it up to date, any changes introduced into the said Nomenclature as a result of recommendations made by the Customs Co-operation Council, and all such rules and regulations as may be adopted by the said Council to facilitate its uniform interpretation, independently of any direct information which countries acceding to the Council may receive;

6. To call the attention of the Provisional Committee of the Latin American Free-Trade Association to the desirability of considering the use of the Brussels Nomenclature as a point of reference for the purposes mentioned in article 49 (*c*) of the Montevideo Treaty.

12 August 1960

Resolution 2 (I)

DEFINITION AND VERIFICATION OF CUSTOMS VALUE

The Working Group on Customs Questions,

Bearing in mind the document entitled "*Valor Aduanero*" (E/CN.12/C.1/WG/3/2/Add.1) prepared by the secretariat of the Economic Commission for Latin America with the collaboration of the Brussels Customs Co-operation Council, of which it takes note with satisfaction,

Considering that the application of *ad valorem* customs duties requires an equitable system for the valuation of imported goods, based on a definition of customs value which is consistent with internationally-recognized theoretical principles and which at the same time affords practical bases for the solution of the various problems arising in connexion with the valuation in question,

Considering that it is necessary, especially among countries which are parties to agreements aiming at the establishment of customs unions, free-trade areas, or economic associations of any other type, for such a definition of customs value to be uniformly adopted, in order to prevent differences in systems of valuation from affecting the real incidence of *ad valorem* duties and charges,

Whereas the definition of customs value, with the relevant interpretative notes, contained in the Annex to the Agreement signed at Brussels on 15 December 1950, fulfils the above-mentioned requisites — as is clear from the analysis to which it was subjected in the course of discussion and from the experience of the countries which have applied it — and is also in line with the principles set forth in article VII of the General Agreement on Tariffs and Trade (GATT),

Decides:

1. To recommend that the Latin American countries adopt, for the valuation of imported goods, the Customs Co-operation Council's definition of customs value, together with the interpretative notes accompanying the said definition;

2. To point out that the tolerance recommended by the Valuation Committee of the Customs Co-operation Council in its Explanatory Notes, and implicitly accepted in Interpretative Note No. 5 to article I of the definition allows countries desirous of so doing to adopt as the time element the date of exportation of the goods;

3. To recommend likewise that those Latin American countries which have not yet done so establish, either within or in close association with the national customs administration concerned, a central valuation office, responsible for the compilation and analysis of data and information which will be of use to customs officials for the correct valuation of imported goods, whether by providing them with price lists and other background data, or through any other procedure which may be deemed satisfactory;

4. To recommend also that such offices make arrangements to interchange information and data likely to be reciprocally helpful to them in the efficacious discharge of their functions, and that they adopt, so far as possible, standard methods or procedures for the collection and analysis of such material;

5. To suggest to the secretariat of the Economic Commission for Latin America that it assist those Latin American Governments which so request with technical advice on measures conducive to the implementation of these recommendations and to the maintenance of the desired uniformity, and that in this connexion it solicit, when it deems this necessary, the collaboration of the Customs Co-operation Council independently of any additional explanations, suggestions and advice for which countries may apply to the Council.

12 August 1960

Resolution 3 (I)

DEFINITIONS OF BASIC CUSTOMS TERMS

The Working Group on Customs Questions,

Bearing in mind resolution 7 (II) of the Trade Committee of the Economic Commission for Latin America as well as the document prepared by the secretariat of the Commission and entitled "*Definición de términos aduaneros básicos*" (E/CN.12/C.1/WG.3/2/Add.2), of which it takes note with satisfaction,

Considering that it is highly desirable for the Latin American countries to adopt standard definitions for certain basic customs operations and terms, especially in order to facilitate the interpretation and application of multilateral treaties aiming at the liberalization of trade,

Decides:

1. To recommend that the Latin American countries should adopt the following customs definitions:

(a) *Importation:* the entry, after due compliance with the legal formalities, of foreign goods intended for final use or consumption within the country;

Notes:

(i) The phrase " after due compliance with the legal formalities " implies that all provisions of a legislative, regulatory or any other nature in force in the importer country with respect to the entry of foreign goods have been duly complied with;

(ii) The term " goods " covers all products, articles, manufactures, livestock and other movable tangible goods without any exception whatsoever;

(iii) The term " final " implies that the goods are admitted into the importer country without any stipulation to the effect that they are for re-export, in transit or to remain only temporarily in the country;

(b) *Temporary admission:* the duty-free entry, after due compliance with the legal formalities, or specific foreign goods which are to remain in the country for a limited time, on the condition that they are redispatched abroad:

Notes:

(i) The phrase " after due compliance with the legal formalities " covers the fulfilment of requirements relating to permits, bonds and other formalities in force in the importer country;

(ii) Goods entering a country for processing or manufacture are not included in the foregoing definition and shall be governed by the individual provisions laid down in each country's legislation;

(c) *Foreign goods:* goods brought into the country, from abroad and not nationalized, even if they were domestically produced or manufactured;

Optional supplementary clauses:

(i) Unless they are shown on reliable evidence to be of domestic origin;

(ii) Or if they were imported on a condition which is no longer being fulfilled;

(d) *Nationalized goods:* goods brought in from abroad which have been imported for final use or consumption after due compliance with all the legal formalities;

(e) *Exportation:* the dispatch abroad, after due compliance with the legal formalities, of domestically-produced or nationalized goods intended for final use or consumption abroad;

Note:

This definition does not cover the régimes for the provisioning of aircraft and vessels, which shall be governed by the special regulations in force in each country;

(f) *Temporary exportation:* the dispatch abroad duty-free, after due compliance with the legal formalities, of specific domestically-produced or nationalized goods which are to remain out of the country for a limited time, on the condition that they are returned to the country;

Note:

The phrase " after due compliance with the legal formalities " covers the fulfilment of requirements relating to permits, bonds, and other formalities in force in the exporter country;

(g) *Domestically-produced goods:* goods produced or manufactured in the country with domestic or nationalized materials;

(h) *Re-exportation:* the redispatch, after due compliance with the legal formalities, of foreign goods brought to the country but not nationalized;

Note:

The foregoing definition is based on a technical customs criterion and does not relate to the sense in which the term is used in the Montevideo Treaty (article 50);

(i) *International transit:* the passage through a country, after due compliance with the legal formalities, of foreign goods intended for a third country;

Note:

The foregoing definition does not affect the provisions in force in each country with respect to transit of domestically-produced or nationalized goods which, in order to be transferred from one part of the national territory to another, have to pass through foreign territory;

2. To recommend the continuance of the work programmes on customs questions and the preparation of projects and studies relating to other customs definitions, operations and régimes not included in paragraph 1 of the operative part of the present resolution, such as drawback, special temporary admission régimes, free ports, private warehouses, régimes relating to containers, samples and so forth, with due regard to the studies of a similar nature carried out in other countries or by other international organizations;

3. To suggest that consideration be given to the advantages which the Latin American countries would derive from participation in the international conventions dealing with such matters.

12 August 1960

Resolution 4 (I)

CUSTOMS PROCEDURES

The Working Group on Customs Questions,

Bearing in mind resolution 7 (II) of the Trade Committee of the Economic Commission for Latin America and the ECLA secretariat report on customs procedures (E/CN.12/C.1/WG.3/2/Add.3), first part, of which it takes note with satisfaction,

Considering that the existing multiplicity of customs procedures and documents in the different countries of Latin America gives rise to manifest difficulties which hamper the development and reduce the tempo of trade in general,

Considering that standardization and simplification of the customs formalities analysed and of the relevant documents would contribute to the smooth working of the multilateral treaties already concluded among Latin American countries,

Considering that an overall study of the problem might appropriately include examination of the question of related shipping formalities and documents,

Decides:

1. To recommend to the secretariat of the Economic Commission for Latin America that, in the current studies on customs questions, priority should be given to the aspect of co-ordinating and simplifying customs procedures and documents as well as shipping formalities and documents;

2. To suggest that, with a view to achieving this aim, the Latin American countries accede to existing agreements;

3. To suggest that, if necessary, the assistance of the Customs Co-operation Council and other international bodies should be sought;

4. To indicate the desirability of convening a second meeting of the Working Group on Customs Questions when sufficient progress has been made with the above-mentioned studies to justify such action.

12 August 1960

Resolution 5 (I)

ADMINISTRATIVE CONTROL OF THE ORIGIN OF GOODS

The Working Group on Customs Questions,

Bearing in mind resolution 7 (II) of the Trade Committee of the Economic Commission for Latin America and the ECLA secretariat report on the origin of goods a preliminary study from the customs standpoint (E/CN.12/C.1/WG.3/2/Add.3, second part), of which it takes note with satisfaction,

Considering that the activities of the Working Group, with the information at present available to it, are confined to a study of existing customs practices in the countries it represents,

Considering that the determination of the origin of goods is outside the purview of the Working Group,

Considering that, within the aforementioned field of action, it was not possible to do more than consider the documents relating to origin and pertinent regulations,

Decides:

1. To place on record its view that the action of customs authorities with respect to the origin of goods should relate mainly to the administrative aspects;

2. To suggest to the secretariat of the Economic Commission for Latin America that, in consultation with the Latin American Free-Trade Association, it should prepare and submit to a second meeting of customs experts draft regulations and procedures relating to the certification of origin with a view to facilitating the administrative customs work referred to in sub-paragraph 1;

3. To suggest to the secretariat of the Economic Commission for Latin America and to the Latin American Free-Trade Association that, in undertaking studies on the origin of goods, they should take into account existing studies on this subject by other countries and international bodies.

12 August 1960

Resolution 6 (I)

TRAINING OF CUSTOMS OFFICIALS

The Working Group on Customs Questions,

Bearing in mind the increasingly responsible nature of the work of customs officials as a result of the important bearing that customs tariffs now have on economic policy and industrialization in the Latin American countries,

Considering that fully trained staff are necessary for the proper application of customs tariff regulations,

Decides:

1. To recommend the establishment of training schools for customs officials in Latin America;

2. To suggest to the Montevideo Provisional Committee that it should include this subject in its consideration of customs questions;

3. To suggest to the secretariat of the Economic Commission for Latin America that, in co-operation with the United Nations Technical Assistance Board and other international bodies, it should provide countries on request with any advisory services that may be required for the fulfilment of the foregoing recommendation.

12 August 1960

Annex I

DEFINITIONS AND PROCEDURES FOR DETERMINING CUSTOMS VALUE IN VARIOUS LATIN AMERICAN COUNTRIES

A. *Questionnaire submitted to delegations attending the first session of the Working Group on Customs Questions*

Annex II *

IMPORT RÉGIMES IN FORCE IN LATIN AMERICAN COUNTRIES THAT ARE SIGNATORIES TO THE MONTEVIDEO TREATY

(Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay)

Note: These two annexes are available in Spanish only (see Spanish edition of this publication).

* Information provided by the delegations attending the first session of the Working Group on Customs Questions in addition to the information contained in document E/CN.12/C.1/WG.3/3/Rev.1. It refers especially to customs duties, charges of similar effect and other import restrictions in force in the countries concerned.

III. THE TRADE POLICY OF THE GREATER-COLOMBIA COUNTRIES

1. Consultations 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

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).[1]

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.

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 Ivovich, 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 Ivovich, 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 Serantes and Mr. Adolfo Crespo Ramírez were present at the consultations as observers for Argentina and Mexico, respectively.

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 Sálcedo Bastardo (Venezuela).

9. The secretariat for these meetings was formed by Mr. Esteban Ivovich, 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.

* Issued earlier in mimeographed form as documents E/CN.12/C.1/17 (27 December 1960) and E/CN.12/555 (20 February 1961).

[1] See the summary records of these meetings in documents E/CN.12/C.1/11, pp. 15 to 41, and E/CN.12/C.1/11/Add.2.

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:

(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 Ivovich, 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 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 circum-

stances 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 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 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 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 Montivedeo 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 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 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 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 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 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 Farfán
Jaime Ortiz Egas
Pedro Miranda Lalama

Alternates:

Hugo Játiva Ortiz
Jorge Naranjo Fiallos
Conto Patiño Martíñez
Guillermo Saenz 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

2. 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.

* Working paper prepared by the ECLA secretariat (for limited distribution only) for the third series of meetings on trade policy held between Colombia, Ecuador and Venezuela. It was issued in mimeographed form as part of document E/CN.12/555.

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 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 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.[1] 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 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

[1] 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.

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,[2] 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 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.[3]

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 Venzeualan 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*. 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.[4] 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 bolivar's

[2] 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.

[3] 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.

[4] See *Study of inter-Latin American trade*, United Nations publication, Sales No.: 56.II.G.3, pp. 100-101.

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 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 [5] 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.

[5] See documents E/CN.12/C.1/11 and E/CN.12/C.1/11/Add.2 for the relevant summary records.

3. 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 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 agree-

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ment, 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 Colombian-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.[1] The Greater-Colombia group, although useful light was shed on its problems during the Bogotá and Caracas meetings,[2] has not yet reached the point of launching specific multilateral 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.[3]

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 Colombian-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.

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

[1] 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, No. 1 (Santiago, Chile, March 1960), pp. 6-20.

[2] 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.

[3] 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).

predominant trends in the unofficial 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 petro-chemical 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 to the provisions of the Montevideo Treaty, could Ecuador, in order to attain the ends just referred to in connexion with the Colombian-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 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 RÉGIME ?

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 Organisation for European Economic Co-operation, the European Economic Community, the European Free-Trade Association, and, in Latin America, the free-trade area formed by five Central American countries,[4] the common market to which three belong[5] and which a fourth is on the way to joining,[6] 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 instruments are not of a supranational character, it would be a mistake to underestimate 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 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.[7]

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 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

[4] Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

[5] El Salvador, Guatemala and Honduras.

[6] Nicaragua.

[7] See annex II below.

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 Colombian-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 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.[8]

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.[9] 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,[10] Denmark, France, Hungary, Italy, Luxembourg,[11] the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom of Great Britain 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.

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, in compensation, reduces the duties on cacao and coffee beans, castor oil and raw rubber. Ecuador grants concessions in respect of

[8] See *Study of inter-Latin American trade*, *op. cit.*, p. 98 and footnote 102.

[9] 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.

[10] Trade relations between Colombia and Canada are governed by the treaty concluded with the United Kingdom of Great Britain and Northern Ireland.

[11] The most-favoured-nation clause in the agreement with the Netherlands is applied by extension to Luxembourg.

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,[12] 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.

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[13] 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, 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 others from the tropics.

[12] The application of the most-favoured-nation clause to the Netherlands is conditional.

[13] 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).

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 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 twelve 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 beforehand 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 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 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.[14] 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 Colombian-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 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.[15]

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

[14] 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).

[15] 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 or 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 per cent *ad valorem* duty payable by Brazil.

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 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 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 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 lines it seems very unlikely that wage levels would affect the intra-Area competitive capacity of the exports concerned.[16]

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.

[16] 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 treat-

Table 1

Treatment accorded to imports of petroleum products in selected Latin American countries [a]

Country	Crude petroleum	Fuel oil	Gas oil	Diesel oil	Kerosene	Ordinary petrol	Lubricants in bulk
Argentina							
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
Brazil [b]							
Effective import duty on c.i.f. cost (percentage)	—	35.0	40.0	40.0	50.0	37.5	75.0
Chile							
Specific duty unit	Tons gross weight	Gross tons	Gross tons	Gross tons	100 litres	100 litres	Tons
Specific duty	5.47 [c]	2.47 [c]	2.47 [c]	1.35 [c]	—	1.33 [c]	51.5
GATT	5.47 [c]						30.9
Ad valorem duty (percentage)		30/33 [d]	30/33 [d]	30/32 [d]	30	—	30/39
GATT (percentage)							30/35
Supplementary duty (percentage)	20.0						
Prior deposit (percentage)		5.0 (30 dls)	5.0 (30 dls)	5.0 (30 dls)	5.0 (30 dls)	5.0 (30 dls)	5.0 (30 dls)
Uruguay [e]							
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
Ad valorem duty (percentage)		21.2	84.8	84.8	25.3	20.2	45.5
Official base value (*aforo*)		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 authorize private firms to effect such imports, the usual duties and charges are payable.

ments. 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.

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.[17]

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 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.

[17] 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.

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 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 1

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 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;

Wood. 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 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 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 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
	Colombia	Ecuador	Venezuela	Total	Colombia	Ecuador	Venezuela	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	729			798	798	1 521
Birdssed, rape, millet, pure or blended							39	39	39

Table 2 (continued)

Commodity	*Imports from one another*				*Imports from the Free-Trade Area*				*Grand total*
	Colombia	*Ecuador*	*Venezuela*	*Total*	*Colombia*	*Ecuador*	*Venezuela*	*Total*	
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	701	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
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

Table 2 (concluded)

Commodity	Imports from one another				Imports from the Free-Trade Area				Grand total
	Colombia	Ecuador	Venezuela	Total	Colombia	Ecuador	Venezuela	Total	
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
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
TOTAL COMMODITIES	7 727	480	2 519	10 726	3 717	2 021	11 497	17 235	27 961
GRAND TOTAL	7 732	720	2 690	11 142	3 750	2 578	14 847	21 175	32 317

Source: Official foreign trade statistics of importer countries.

Annex III

THE TRADE POLICY OF VENEZUELA [a]

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.[b]

Some of these long-standing treaties currently in force, like others which have ceased to be applied in recent years,[c] 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 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

[a] 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.

[b] The most-favoured-nation treatment extended to the Netherlands is conditional.

[c] 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				*Agreed exceptions to the clause*			*Instruments in which they were compacted*	
Uncon-ditional	*Con-ditional*	*Article*	*Country*	*Border trade*	*Customs union or free-trade area*	*Greater-Colombia countries* [a]	*Description*	*Date*
×		16	Belgium				Friendship, trade and navigation treaty	1.3.1884
×		17	Bolivia				Peace, friendship, trade and navigation treaty	14.10.1883
×		[b]	Brazil				Trade *modus vivendi* [c]	11.6.1940
×		1 and 3	Canada	×	×	×	Trade *modus vivendi* [c]	11.10.1950
×		18 and 20	El Salvador				Friendship, trade and navigation treaty	27.8.1883
×		8	Italy				Friendship, trade and navigation treaty	19.6.1861
	×	3	Netherlands				Convention to re-establish diplomatic relations	11.5.1920
×		4, 6 and 11	Spain				Trade and navigation treaty	20.5.1882
×		4	United Kingdom				Friendship, trade and navigation treaty	29.10.1834
×		IX and X	United States	×	×		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.

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 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.[a]

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

[a] 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 or over, the duty is 1/4 of a cent per gallon (10.5 cents per barrel).

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. 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.[e]

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, 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 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.[f] 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 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

[e] 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.

[f] 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.

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.[g]

(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 Pecuario 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.

B. FOREIGN TRADE RÉGIME

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.

[g] 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.

2. *Imports*

30. Recently,[h] 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.

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 merchandize; 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

[h] 8 November 1960.

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 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, onions, 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.

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