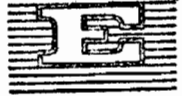


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Panama City, Panama, May 1959

CONSULTATIONS ON TRADE POLICY

Note by the secretariat

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NOTE BY THE SECRETARIAT

It became apparent, in the course of the preparatory work for the second session of the Trade Committee, that some of the characteristics of the problems implicit in inter-Latin American trade which are of particular importance to specific sectors of Latin America, as well as possible solutions, required closer study.

For this purpose the secretariat initiated in 1958 - and intends to continue in 1959 - a series of informal consultative meetings on trade policy among high-ranking experts, bearing in mind the existence of specific problems common to the countries interested in such meetings.

To date (March 1959) two series of meetings have been held. Prior to the second such session of the Trade Committee two more series of meetings will be held, in April, and it is intended to extend them thereafter to other groups of Latin American countries whose problems it will be important to examine in the future.

The present document contains the records of the first two series of meetings. The first, held at Santiago, Chile (August-September 1958), was attended by trade policy experts from Argentina, Brazil, Chile and Uruguay, and the second, held at Bogotá (November 1958), was attended by similar officials from Colombia, Ecuador and Venezuela. The secretariat considers it advisable for the Trade Committee, at its second session, to take note of these meetings and their results not only as regards the specific topics which were examined but also as an illustration of the discussion which the Committee will hold on the scope of the common market and its initial groupings^{1/} when it deals with the bases proposed by the Working Group on the Latin American Regional Market.

In transmitting to the Committee the attached documents, the secretariat wishes to state that the records of the consultative meetings to be held in April 1959, to which the same experts as attended the previous meetings have been invited, will be sent in due course. The group consisting of Argentina, Brazil, Chile and Uruguay will be reconvened at Santiago, and the other (Colombia, Ecuador and Venezuela) will meet this time at Caracas.

^{1/} Item 4 (a) (vii) of the provisional agenda (E/CN.12/C.1/8).

CONSULTATIONS ON TRADE POLICY

Summary record of the meetings held at the Headquarters
of the Economic Commission for Latin America, Santiago, Chile
(26 August - 1 September 1958)

From 26 August to 1 September 1958 inclusive, meetings were held at the Headquarters of the secretariat of the United Nations Economic Commission for Latin America for purposes of consultation on trade policy between the ECLA secretariat and experts from Argentina, Brazil, Chile and Uruguay.

This was the first of the series of consultations which the secretariat is planning to arrange with different groups of experts from Latin American countries, and which it will convene as specific common problems arise.

The purpose of this first series of meetings was to discuss the general and particular causes of the decline in the reciprocal clearing-account trade of the four countries mentioned, the 425 000 million dollars registered on the export side in 1955 having dropped to 320 million in 1957.

The following experts attended the meetings as consultants to the secretariat of the Commission, not as representatives of their respective Governments:

From Argentina: Adolfo España Solá, Under-Secretary for Foreign Trade;

Ovidio S. Ventura, Adviser, Finance Department; and
José Melero, Adviser, Trade Department.

From Brazil: Edmundo Penna Barbosa da Silva, Director, Department of Economics, Ministry of Foreign Affairs;

Antonio Correa do Lago, Director, Trade Division,
Ministry of Foreign Affairs;

Henrique de Oliveira Duprat, Chief, International
Agreements and Organizations Section, Department
of Currency and Credit.

From Chile: Fernando Illanes, Director, Department of Economics,
Ministry of Foreign Affairs;

Enrique Guzmán, official of the Ministry of Foreign
Affairs.

From Uruguay: Crisólogo Brotos, Director, Department of Trade
Policy, Ministry of Foreign Affairs.

/The following

The following representatives attended on behalf of the secretariat:

Raúl Prebisch, Executive Secretary;

Louis Swenson, Deputy Director;

Alfonso Santa Cruz, Secretary of the Commission; and

Esteban Iovovich, Chief, Trade Section, and secretary of the meetings.

Advisers: Guillermo Pegurier, Nuno F. de Figueiredo and Alberto Solá.

In its search for ways and means of solving the problems deriving from the sharp contraction noted in trade between the four countries in question, the group considered in principle the possibility of applying practical procedures based on joint action. Accordingly, the group studied the lines along which a co-ordinated trade policy in respect of liberalization measures and customs régimes could, if the Governments concerned so agreed, be put into operation. The main points covered in the discussion are summed up below.

Liberalization measures ^{1/}

1. In the opinion of the group of experts, the customs tariff is the most suitable instrument for creating incentives to intra-regional trade, but for various reasons, the chief of which is the contractual situation vis-à-vis countries in other parts of the world, it cannot be used for this purpose soon enough to solve the present urgent trade problems. The bases of a liberalization policy should therefore be studied, as well as the means of putting it into effect.
2. The aim of liberalization is to promote the expansion of trade both with Latin America and with the rest of the world. To this end, care must be taken that no measures are adopted which might cause a contraction in the present volume of trade with other regions, or of trade between some of the participating countries.

^{1/} Under this head consideration was given to matters concerning the elimination of trade barriers other than customs control, and, in the same connexion, to the importer's right to obtain automatically the foreign exchange he needs to cover the value of the goods imported.

3. The liberalization programme should be aimed at progressive and co-ordinated simplification of control and quota systems, with a view to stabilizing the balance of advantages and to providing stimuli to reciprocal trade by means of:

- (1) Automaticity;
- (2) Selectivity (liberalization by commodities or groups of commodities);
- (3) Elimination of administrative, quantitative, exchange and financial barriers;
- (4) Non-discrimination among participating countries;
- (5) Reciprocity;
- (6) Priority in the regional market for imports from the region itself;
- (7) Joint action in face of external factors which imply unusually strong competition;
- (8) Escape clause (safeguard to cover special situations);
- (9) Provision for the accession of new members on terms compatible with the balance of the system; and
- (10) An operational organ for the liberalization system, a procedure for consultation; decisions to be unanimous.

4. To ensure the efficient operation of the system, a time-limit should be fixed, with reference to a base period, for the liberalization of a given percentage of trade among participating countries.

The instruments whereby the system is to be instituted should be drawn up in such a way as to enable the administrative authorities in each country, in the course of implementation of the agreement concerned and pursuant to decisions taken in common with the other members, to extend or modify the lists of articles liberalized or the percentages of liberalization in relation to the base period.

5. In view of the structure of inter-Latin American trade, it would seem appropriate to aim at a balance of advantages between member countries on the basis of reciprocity, traditional commodities and manufactured goods being taken together for this purpose; in the case of the latter, it would still be possible to envisage the subsequent introduction of whatever ad hoc system experience and the quantum of trade in such goods might gradually suggest.

/The following

The following opinion was generally held: liberalization measures should be applied rapidly and simultaneously, although due recognition should be accorded to special situations.

In this connexion it was pointed out that, when the system of liberalization under discussion is applied, in the case of commodities subject to special terms of purchase - like wheat, whose incidence on the region's trade is of fundamental importance for the maintenance of proper equilibrium - maximum automaticity should be allowed to prevail in the purchasing arrangements concerned, so that imports can be kept at a level consistent with the effective consumer capacity of the purchaser country.

From another angle, the following views were expressed. During the preliminary phase, in order to secure the necessary balance of advantages between countries with different systems of foreign trade controls, it would be wise, for practical reasons, to seek a satisfactory method of offsetting customs concessions and incentives deriving from administrative, quantitative, exchange and financial measures.

6. With reference to the possible application of the principles enumerated in paragraph 3, the group reviewed the main trade items exchanged between the four countries (for details see the lists reproduced below), which at the present time account for more than 80 per cent of their reciprocal transactions. The current system for trade in each of these items was studied, together with the difficulties attendant upon its sale within the region and some of the measures that might be adopted to overcome them.

In this context, the consultants agreed that the lists referred to should be taken as illustrative, since the situation with respect to certain additional items of both agricultural and mining origin and to some manufactured goods was also discussed.

/Argentina

Argentina

Edible fats and oils
 Garlic
 Unhulled oats
 Olives
 Canary-seed
 Raw cotton
 Chilled and frozen meat
 Untanned cattle hides
 Malted barley
 Quebracho extract
 Fresh and dried fruit
 Wheat flour
 Wool and wool tops
 Pork lard
 Butter
 Seed potatoes
 Cattle for breeding
 Tallow or suet
 Wheat
 Tea
 Cattle and sheep on the hoof

Brazil

Vegetable oils
 Raw cotton
 Unrefined sugar
 Cacao beans
 Coffee beans
 Vegetable wax
 Vegetable fibres
 Fresh and dried fruit
 Timber in the round
 Tobacco
 Tea
 Maté

Chile

Garlic
 Virgin copper (bars and ingots)
 Processed and semi-processed copper
 Mineral coal and charcoal
 Malted barley
 Cellulose
 Vegetable fibres
 Fresh and dried fruit
 Iron and steel (bars and plate)
 Chick-peas
 Timber in the round
 Nuts (unshelled)
 Newsprint
 Crude iodine
 Nitrate

Uruguay

Chilled and frozen meat
 Malted barley
 Dolomite
 Fresh fruit (apples)
 Cattle and sheep for breeding
 Wheat flour
 Clean wool and wool tops
 Wheat

7. One consultant referred to the purchases of United States surpluses, effected by some countries under the provisions of United States Public Law No. 480, and to their profound repercussions on the economy of Argentina - the region's most important producer of the goods concerned - as regards both economic development and Argentina's over-all and regional balance of payments.

In this context, the group called attention to the desirability of prior consultations whereby reliable information could be obtained as to whether the Latin American suppliers were really unable to deliver the goods required.

8. Stress was laid on the advisability of importing cattle on the hoof through normal trade channels, so that they could be registered in the bilateral accounts and artificial payments disequilibria could thus be avoided. For this purpose it would be necessary to eliminate discrepancies between exchange and administrative measures in the exporter and importer countries. The group also discussed the advantages of the progressive substitution of chilled or frozen meat for cattle on the hoof.

9. The secretariat's limited staff and financial resources were mentioned in connexion with the magnitude of the task involved in making the inventory of Latin American industries recommended in the relevant resolution of the Commission. The group felt that the direct co-operation of Governments and industrial trade associations - a sine qua non - and the use of models or surveys prepared as examples by the secretariat in respect of specific industries (for instance, the manufacture of motor vehicles, railway equipment, or some chemicals, or the light metallurgical industries) would make it much easier to fulfil the purposes of the inventory. At the same time the data obtained would serve to promote co-operation and the expansion of trade in manufactured goods.

10. One more point was raised at the close of the group's preliminary discussion on those aspects of the possible variants of liberalization policy - both in its literal sense and in that of simplifying procedures and increasing automaticity - which seemed important enough to call for more thorough analysis: it was emphasized that, in developing any policy designed to stabilize trade flows in Latin America, an attempt should be

made to solve the problems deriving from the existing disequilibrium in the amounts of ocean freight available for transport between the Atlantic and South Pacific through the Straits of Magellan. The excess of idle hold capacity on this route tended to raise freight charges and thus to weaken the competitive capacity of Latin American goods. A trade policy aiming at liberalization and the expansion of traffic flows ought therefore to include appropriate measures to remove or reduce this handicap.

Payments

11. The group of experts discussed those aspects of trade policy which bore on the agenda for the second session of the Central Banks Working Group, to be held at Rio de Janeiro in November.

It was unanimously agreed that the programme deriving from resolution 1 (I) of the Trade Committee on inter-Latin American payments ought to be implemented as a projection or instrument of the trade policy measures undertaken with a view to stabilizing, expanding and diversifying intra-regional trade.

Consideration was given to the possibility of linking up bilateral clearing accounts, established in conformity with the principles of the Montevideo standard agreement, in a transitional system designed to permit the automatic or voluntary transfer of balances, in accordance with specific regulations. In the group's opinion, the introduction of such a system should be not only concurrent with the implementation of the progressive liberalization programme but inseparable from it. Consequently, participation in the former system would have to be conditional upon simultaneous accession to the liberalization scheme.

In the light of these considerations, agreement was reached on the following points:

- (a) The main topics to be dealt with at the forthcoming session at Rio de Janeiro would comprise:
 - (i) The drafting of a project for a compensation system, to be submitted to the Latin American clearing-accounts countries;
 - (ii) The technical aspects of a possible payments union and other matters connected with inter-Latin American payments problems.

/(b) A special

(b) A special committee should be set up to put into operation whatever inter-Latin American liberalization machinery was established, as well as the intra-regional payments system. The same idea might be applied in the case of other groups of countries with special common problems.

At the eighth session of the Commission, to be held in Panama, the ECLA secretariat would suggest the adoption of a resolution inviting the Latin American Governments to set up committees for the purpose described. These committees would be composed of representatives of the Governments concerned and would be empowered to make their own decisions.

In these circumstances, the group pointed out that, at the Rio de Janeiro session, the Central Banks Working Group might usefully be informed of the suggestion put forward by the consultants at the present meeting, so that in planning the structure of the compensation system it might take into consideration the desirability of a single committee for liberalization and payments.

Customs régime

12. No doubt was cast on the need to put the liberalization policy into effect at the earliest opportunity, since it would constitute an inevitable preliminary phase. But, on reviewing its complexities, the group unanimously agreed that rapid and resolute steps must be taken to establish an intra-regional preferential customs tariff which would impart substance and stability to the liberalization measures adopted. It was also felt that only through recourse to the tariff could final solutions be found to some of the most difficult problems besetting Latin American trade and its adjustment to world trade movements.

13. As an instrument conducive to the more complete integration of the Latin American economies, a preferential customs tariff would, in the first place, mean that reciprocal tariff advantages could be granted with a view to expanding trade between the countries adopting this procedure, thus promoting its development without adversely affecting trade with the rest of the world. Secondly, it would be easier to make allowance for special situations in respect of countries or goods. In the third place,

a Latin American preferential tariff would constitute a decisive step towards economic integration arrangements of wider scope, such as a free-trade zone or a customs union. Lastly, such a procedure, by enabling costs to be reduced as a result of the broadening of the markets, would give new Latin American products access to the world market and would thus lead to the ultimate diversification of the region's exports.

14. The group next studied the form that might be taken by exceptions to the unconditional most-favoured-nation clause established in Latin America's international commitments, either as a result of membership in GATT, or through bilateral treaties concluded with countries outside the region. The discussion led to the conclusion that it was necessary to institute a Latin American exception to the most-favoured-nation clause, and to invoke for that purpose the provisions of the GATT charter (see article XXV, paragraph 5 (a), (i)) which permit a waiver.

15. In the group's opinion, the efficacy of an intra-regional preferential tariff would be weakened if its use were contemplated only in relation to the four countries whose reciprocal trade problems were under consideration at the meeting.

Consequently, despite the fact that the members of the group were attending the meeting as experts and not as representatives of their Governments, they deemed it appropriate, in the light of their study of the problems on the agenda, to adopt the following resolution: That the ECLA secretariat should be requested to co-operate with the group by preparing as soon as possible a memorandum summing up the ideas expressed at the meeting. Such a memorandum might perhaps be useful to the Latin American Governments as a statement of basic ideas and suggestions which might be taken into consideration, inter alia, when action aimed at the introduction of a preferential tariff was undertaken.

16. The group considered that the memorandum in question should be drawn up on the following lines:

(a) The bases and objectives of the inter-Latin American preferential tariff system should be briefly stated in terms that would be of interest to the region as a whole;

/(b) This

(b) This statement should contain no commitment as to the juridical form which Latin American integration might ultimately take, but should suggest that possibly, as regards matters covered by the provisions of the General Agreement on Tariffs and Trade, the preferential tariff might later lead to the institution of some of the systems envisaged in the said General Agreement; and

(c) Mention should be made in the memorandum of the situation of those countries which would have to remodel their tariff system before they could participate in the preferential tariff system.

17. The group recommended that the secretariat of the Commission should send the memorandum to member Governments at the earliest opportunity, together with the present summary record, in order to provide an over-all picture of the problem and, in addition, explain the experts' reasons for asking the secretariat to prepare the document in question.

18. Furthermore, the experts present at the meeting would on their own account request their Governments to consider taking the following steps:

(a) Issuing instructions forthwith to their respective permanent delegations to GATT to the effect that through the Intersessional Committee they should endeavour to secure the inclusion of the inter-Latin American preferential tariff as one of the items on the agenda of the thirteenth session;

(b) Promoting discussion of the inter-Latin American preferential tariff - on the basis of the document to be prepared by the secretariat - at the series of meetings of the twenty-one Latin American Governments soon to be held in Washington. At these meetings it would perhaps be possible to define the instrument which would serve as a basis for international action to establish such a preferential tariff and for securing the accession of the largest possible number of Latin American countries. They would also provide an opportunity of enlisting the support of the countries represented for the proposals to be submitted to GATT.

(c) Presenting to GATT at its forthcoming thirteenth session, through those Latin American countries which are members of GATT, a communication, based on the above-mentioned memorandum, requesting the

/approval of

approval of its Contracting Parties for the establishment of an inter-Latin American preferential tariff in accordance with the terms of the General Agreement (article XXV, paragraph 5 (a)).

19. Should there be insufficient time to carry out the procedure outlined in the previous paragraph, the memorandum which the ECLA secretariat has been asked to prepare might be useful for the purpose of the action that each Government, separately or in conjunction with others, might deem it appropriate to take vis-a-vis GATT in respect of the inter-Latin American preferential tariff.

20. At the conclusion of its proceedings, the group underlined the importance of informal meetings of the type thus sponsored by the ECLA secretariat, since they afforded an opportunity for fuller co-operation between Government officials and the secretariat, as well as for joint efforts to solve problems common to the countries of the region.

Santiago, Chile, 1 September 1958.

SECOND SERIES OF CONSULTATIONS ON TRADE POLICY

Summary record of the meetings, held at the United Nations
Information Centre, Bogotá, Colombia

(13-18 November 1958)

1. From 13 to 18 November 1958, a series of consultative meetings on trade policy was held at the United Nations Information Centre in Bogotá, Colombia, between the secretariat of the United Nations Economic Commission for Latin America and trade policy experts from Colombia, Ecuador and Venezuela.
2. These meetings were part of the secretariat's plan to hold consultative meetings with various groups of experts from Latin American countries, which it convenes for the purpose of discussing specific matters of interest and problems common to these countries.
3. The following experts attended the meetings in a consultative capacity and not as representatives of their respective Governments:

Consultants

- From Colombia: Bernardo Rueda Osorio, Under-Secretary for Economic Affairs, Ministry of Foreign Affairs;
Germán Botero de los Ríos, Deputy Manager, Banco de de la República.
- From Ecuador: José María Avilés Mosquera, Director of Exchange, Banco Central;
José Corsino Cárdenas, Director of Economic Research, Banco Central.
- From Venezuela: Alejandro Power Aliberti, Assistant Director of Economic Policy, Ministry of Foreign Affairs;
Rafael Capriles Echeverría, Deputy Director, Banco Central.

Advisers

- From Colombia: Jorge Mejía Salazar, former Minister of Agriculture;
Jaime Jaramillo Gómez, Chief of Planning and Analysis, Ministry of Agriculture;
Augusto Hannaberg, Chief of the Balance-of-Payments Section, Banco de la República;

/Edgar Gutiérrez

Edgar Gutiérrez Castro, Secretary-General,
Ministry of Finance;

Miguel R. Galvis, Secretary-General, Ministry of
Development;

Jaime Sabogal R., Director of the Economic
Division, Ministry of Development;

Rodrigo Botero, Foreign Trade Adviser, Banco de
República;

Ariel Jaramillo Abad, Under-Secretary for Economic
Affairs, Ministry of Finance;

Antonio Cortázar Urdaneta, Adviser (Tariff
Director), National Customs Adviser Administration;

Hernando Franco Bravo, Deputy Manager, Institute
of Industrial Development.

From Ecuador: Jaime Suárez Morales, Adviser, Embassy of Ecuador
in Colombia.

From Venezuela: Domingo Felipe Maza Zavala, Deputy Chief,
Department of Economic Research, Banco Central;

Leandro Márquez Gómez, Chief of the Economic
Research Division, Ministry of Development;

Melchor Tineo Plaza, Commercial Attaché, Embassy
of Venezuela in Colombia.

The secretariat of the United Nations Economic Commission for Latin
America was represented by:

Raúl Prebisch, Executive Secretary;

Esteban Ivovich, Chief, Trade Section;

Raúl Rey Alvarez, United Nations Technical
Assistance Board;

Luis Pérez Arteta, Resident Representative of
the Technical Assistance Board in Colombia;

Jorge Méndez Munévar, Secretary of the meetings.

4. The group took into account certain problems peculiar to Colombia,
Ecuador and Venezuela, and in its discussions, which were of a tentative
and exploratory nature, it endeavoured to lay down a general pattern and
a systematic programme of the work that would have to be done in order to
establish the three countries' trade relations with each other and

/individually with

individually with the rest of Latin America on bases which would expedite the economic development of the area and increase its over-all foreign trade.

POSITIONS AS IMPORTERS AND EXPORTERS OF PRIMARY COMMODITIES

5. Since plans to diversify the present production of Colombia, Ecuador and Venezuela are changing these countries' respective positions as importers or exporters of agricultural commodities and of certain mining products that have been, or are still, traded in Latin America, the meetings began with an exchange of information among the experts on this subject. From the general picture thus built up, the present situation and medium-term prospects of the three countries may be summarized as follows as regards their production, self-sufficiency and exportable surpluses in respect of specific commodities:

Commodity	Colombia	Ecuador	Venezuela
Cotton	S	I	S
Oil	I	I	I
Rice	E'	E	I'
Sugar	E'	E'	S
Cacao	I	E	E
Coffee	E	E	E
Malted barley	S	I/E	I
Fresh fruit	I/E	I/E	I
Livestock for breeding	S	S	I
Meat
Timber	I/E	E	I'
Wheat	I	I	I
Maize	S/E	E	E
Potatoes: consumption	S/E	S/E'	I'
seed	S/E	S	I
Tobacco	I/E	I	I
Fish meal	I	E	I
Hides	...	S	I
Sea salt	E	S	S
Coal	E	I	...
Petroleum	E	I/E	E

I = Habitual importer
I' = Occasional importer
S = Self-sufficient

E = Habitual exporter
E' = Occasional exporter

/LATENT POSSIBILITIES

LATENT POSSIBILITIES FOR FURTHER TRADE

6. After completing its analysis of the current and medium-term import and export situation of each of the three countries in regard to the items listed, the group drew attention to several latent possibilities for trade that, on the whole, had not been sufficiently defined or explored. It was unanimously agreed that a thorough study should be made of the feasibility of transforming these potentialities into actual trilateral trade on the principle of reciprocal benefits for all three countries concerned. For that purpose, the study would necessarily have to include the preparation of bases for the respective inter-governmental agreements. The trade possibilities mentioned concern items such as the following which are briefly reviewed below.

Cotton

7. The dispatch of Ecuador's cotton surpluses for processing by Colombian textile industries into such finished goods as are not produced by the former country, and their subsequent re-export for consumption in Ecuador. (In this respect, it was pointed out that it might be advisable to encourage collaboration among private investors in any two countries of the area for the production of cotton, particularly of long-staple cotton, wherever conditions are suitable, as they seem to be in Manabí and Provincia del Oro in Ecuador, and Valle del Cauca in Colombia. It should also be determined whether any benefit was to be obtained from a policy which advocated that some traditionally stock farming areas in Colombia, nowadays sown to cotton, should revert to their original purpose provided that this was shown to be economically advantageous and that Colombia could supplement its domestic cotton supplies by importing from Ecuador.)

Malted barley

8. (a) Malted barley for the Colombian border zone to be supplied by Ecuador since, for reasons of transport, it is more expensive for Colombian breweries to buy domestic malted barley than the imported variety;

(b) Exports from Colombia and Ecuador to Venezuela, which annually imports more than 20 000 tons of malted barley, so far purchased entirely outside the area.

/Cacao

Cacao

9. Regular imports by Colombia, since it is estimated that for at least a decade the results of plans to increase cacao production in that country will be to cover the vegetative growth of domestic consumption which expands at a yearly rate of 3 to 5 per cent. (Colombian requirements - some 28 000 tons per annum - are met by importing up to approximately 50 per cent of that amount.)

Soluble coffee

10. Exports from Colombia to neighbouring countries.

Fresh fruit from the temperate zone

11. Legalization and liberalization of exports at present largely unregistered, from Ecuador to Colombia.

Livestock and meat

12. Contribution that Colombian and Ecuadorian livestock could make to Venezuela's programmes for expanding its herds and towards covering the national shortage of meat for consumption. The present deficit is estimated at some 55 000 tons annually, and, in spite of the progress made in enlarging the domestic livestock supply, it is likely to become even larger as a result of the increasingly rapid population growth and the rise in income levels.

Imports from Colombia and Ecuador to Venezuela might be facilitated by the conclusion of governmental agreements, provided that these are not incompatible with the livestock development policy followed by Venezuela, which is primarily interested in importing better breeding cattle and zebu stud bulls.

The preliminary study required to throw light on the possibilities of developing regular collaboration in this field should also pay due heed to health aspects, particularly those related to foot-and-mouth disease.

Although collaboration in stock farming between the three countries may at present be hampered by legislation based on their respective national development policies in this connexion, a joint study, in which

/the producers

the producers would take a direct part might well reveal what aspects of these policies could be modified in the common interest. From this point of view, and apart from the possibility of finding a market in Venezuela for improved breeding cattle and zebu stud bulls, the study might usefully explore the chances of exporting: (a) fat stock, from the Colombian zone of Cúcuta to the San Cristóbal area in Venezuela, and possibly chilled and frozen meat; (b) livestock from Colombia for fattening in Venezuela; and (c) pure-bred stud bulls from Ecuador to Colombia and Venezuela.

Sheep, vicuñas, alpacas, etc.

13. An increase in the numbers of these wool-bearing animals in the Andean area of Ecuador, to be achieved by attracting private capital, as far as possible in the form of joint investments. (It was noted that Colombia's annual import requirements in wool and raw material derivatives amount to some 15 million dollars.)

Dairy produce

14. Imports by Colombia and Venezuela of Ecuador's surplus butter, powdered milk and different cheeses, at present on a moderate scale with the possibility of considerable expansion later.

Wheat

15. Regular exports of Ecuadorian wheat grown in the vicinity of the Colombian frontier to the province of Nariño in the latter country, in quantities that might exceed 10 000 tons annually. (The province has facilities for milling wheat from Ecuador. If the raw material failed to materialize from this source, wheat could be bought elsewhere although the cost for the mills and consequently for the consumer would be much more. Meanwhile, Ecuador, lacking an adequate outlet for its wheat from La Sierra, is forced to sell it at high transport costs in other parts of the country, such as the coastal area, which is more economically supplied by imported wheat. In view of all these circumstances, it would be clearly advantageous for both countries to establish their wheat trade on a firm basis.)

Wheat seed

Wheat seed

16. Exports from Colombia to Ecuador and Venezuela of specialized seeds suitable for the needs of the flour-processing industries (manufacturers of noodles, biscuits, etc.)

Maize seed

17. (a) Exports from Colombia to Ecuador and Venezuela of different types of hybrid seeds for tropical and temperate zones developed at the Granja Experimental de Palmira.

(b) Exports from Ecuador to Colombia and Venezuela of certain hard and soft varieties of highly specialized seeds, such as those of maize for mote.

Potato seed

18. Exports to Venezuela of the Monserrate variety of potato seed developed in Colombia which can be stored for long periods, on the basis of agreements renewable, for example, every three years (for the purpose of planning production). (It was pointed out that the Caja Agraria and the Banco Agrícola y Pecuário might undertake the requisite negotiations on behalf of Colombia and Venezuela respectively.)

Tobacco

19. The opening up of markets for light tobacco which has a satisfactory level of productivity in Venezuela. These new markets constitute one of the reasons for Venezuela's participation in inter-Latin American agreements on the specialization of exports. (It should be noted that this tobacco is of such a high grade that Venezuela is able to manufacture the finest quality cigarettes, including some with filter tips, in world-famous brands.)

Both Colombia, and to a lesser degree, Ecuador, seem to offer a potential market for part of Venezuela's surplus high-quality light tobacco, either raw or in the form of cigarettes as specified in the corresponding reciprocal agreements that would have to be concluded.

The respective inter-governmental agreement (or agreements) should also provide for measures to discourage cigarette smuggling between the three countries.

/Yearling hides

Yearling hides

20. Ecuador to send moderate supplies of tanned and raw hides to Venezuela, which imports approximately 5 000 tons annually.

Fish and banana meals and balanced feeds

21. (a) Imports by Colombia of fish meal manufactured in Ecuador, which has large-scale plans to expand its present production of this item. (Colombia is entirely dependent on foreign sources for its fish meal.)

(b) Possible agreements to facilitate the utilization of the unexported part of banana production which could be used for various purposes, among them the manufacture of balanced feeds which would include fish meal or other suitable admixtures according to the respective consumption needs of poultry, livestock, pigs, etc. and to the relevant specifications based on the corresponding technical studies. (The contribution to be made in this and other respects by a collective agreement based on the principle of reciprocity as a step towards solving the banana surplus problem is particularly important for Ecuador, where some 100 million stems are already produced annually of which only about half are exported. The industrial disposal of the surplus may therefore help to maintain and strengthen the competitive status of the countries of the area on the world banana markets.)

(c) It was considered that in 10 years' time Venezuela's annual requirements of balanced feed for livestock might be as much as 300 000 tons.

Edible oils and fats

22. Supplies of sesame oil from Colombia for Ecuador's canned fish industry. (As well as covering Ecuador's deficit of oil for canning, Colombia would earn relatively more from exporting this item and could therefore, with due profit to the economy, import additional copra for domestic consumption instead of sesame oil and shortening.

Canneries

23. Possible agreements between Colombia and Venezuela, similar to that signed between Mexico and Venezuela, on sardine canning in the latter with

/tins and

tins and oil sent from Colombia, which lacks domestic sardine canning facilities, and the subsequent dispatch of the finished product for consumption in Colombia.

Timber

24. Exports of three-ply wood from Colombia for lining buildings in Ecuador, and exports of Ecuadorian balsa to Colombia and Venezuela for specialized uses.

Coal

25. Exports of coal from mines in the neighbourhood of Cali to satisfy Ecuador's requirements. (Within a year, Colombia hopes that these mines will yield an exportable monthly surplus of 10 000 tons, which could be shipped from the port of Buenaventura. It is estimated that in three or four years this figure will be tripled or quadrupled.)

Petroleum

26. (a) Feasibility of an agreement between Venezuela and Colombia to enable the latter to export petroleum for a certain time from the eastern llanos to third parties, using Venezuelan pipelines to bring it to the port of embarkation.

In return for specific compensation, under the terms of the agreement reached and subject to the laying down of pipelines to connect with the Venezuelan collecting pipe, such an arrangement would enable the Colombian producer to test the potential of his wells without any immediate heavy investment from which the yield would be uncertain, and to draw valid conclusions as to whether it would or would not be worth his while to extend his own oil pipelines through Colombian territory to the consumer centres or the port of embarkation. (In the course of the relevant discussion it was recalled that under Colombian law petroleum has to be shipped from Colombian ports. In the possible draft agreement between the two countries this circumstance would have to be taken into account, as would those affecting the arrangements which the Venezuelan authorities would have to make with

/the petroleum

the petroleum companies concerned and the enterprise owning the pipeline to be used by Colombia, in conformity, of course, with the stipulations of the contracts in force with these firms.)

(b) Supplies of Venezuelan petroleum and asphalt products for the Cúcuta area in Colombia, so that advantage could thus be taken of the fact that prices would be lower than those quoted for similar Colombian products, because transport costs would not be so heavy. (Analogous considerations might be adduced with respect to cement and other natural and industrial products.)

27. The group expressed its satisfaction at the prospects for the expansion of trade among the three countries in the products mentioned, as far as they could be judged from the very preliminary survey reviewed here, and pointed out that, while a more thorough analysis might perhaps reveal insuperable obstacles to trade in some of these items, it would presumably be very likely to bring to light other latent possibilities.

EXPANSION AND DIVERSIFICATION OF TRADE WITH THE REST OF LATIN AMERICA,
ON BASES OF RECIPROCITY

28. While the direct purpose of the meetings was the discussion of topics germane to economic and trade relations between Colombia, Ecuador and Venezuela, the expansion of such relations with the rest of Latin America was also of vital interest.

In this connexion, as an indication of certain aspects of the programme whereby the aims referred to might gradually be put into effect, the following points were singled out as worth considering for purposes of future joint action:

(a) Study of the establishment of lines of production such that Colombia, Ecuador and Venezuela could progressively increase their contributions to Latin America's supplies of pepper, cinnamon, cloves, vanilla and other spices.

(b) Possible development, and in some cases initiation, of imports of specified items by Colombia, Ecuador and Venezuela from the rest of Latin

/America, reciprocity

America, reciprocity being maintained by means of correlative exports from the three countries in question. The following were the items suggested:

- Fertilizers
- Cotton (especially long-fibre varieties)
- Edible oils and fats, or raw materials for same
- Malted barley for brewing
- Wheat and wheat flour
- Dairy products
- Wool
- Beans
- Lentils and chick-peas
- Fresh and preserved temperate-zone fruit
- Meat
- Wine
- Timber
- Tans
- Iron, copper, lead and zinc manufactures
- Woollen yarn
- Sewing-thread
- Copper sulphate
- Mechanical and chemical pulp and newsprint
- Railway equipment
- Miscellaneous

ECONOMIC COMPLEMENTARITY

29. In connexion with economic complementarity and the expansion of trade resulting therefrom, the consultants felt that it would be advantageous to develop a form of collaboration designed to promote specialization in certain branches of manufacturing, so that productivity might be improved and stronger incentives afforded to capital investment. A beginning should be made as soon as possible, since delay would mean each country's continuing to establish industries that would have to operate with a certain amount of idle capacity and, for this and other reasons, at a competitive disadvantage. Although the collaboration referred to would primarily involve Colombia, Ecuador and Venezuela, it would have to be established on bases which would not preclude the participation of any Latin American country that might desire to accede to the agreements concerned on terms of reciprocity.

The lines of production listed below were specifically mentioned as apparently lending themselves to the form of action suggested. Clearly,

/however, the

however, the decisive criterion would have to be to some extent determined by the findings of technical studies. These would establish whether particular forms of specialization could in fact be effectively and advantageously put into practice through agreements for which the bases would also be proposed in the studies concerned, for consideration by the interested Governments. The studies would therefore cover those aspects of trade policy which bore on the conclusion of possible agreements of this kind. The lines of production mentioned were the following:

(a) Manufacture of textiles. Despite the fact that this industry had developed to a notable extent, although relatively unevenly in the three countries, there were branches of production which existing installed equipment still failed to cover. Among these were some connected with the manufacture of certain basic raw materials for synthetic yarns, the plant for which would necessitate heavy investment in equipment and technique if the whole process were to be carried out from scratch. Apparently, greater investment opportunities might be offered to private capital, with the ensuing benefits for productivity and consumers, by means of selective production based on the increase in demand which would result from the fact that all three national markets would be available instead of only one. All this would in no way affect the structure of existing industries and their expansion programmes. Furthermore, the germ of industrial rivalries that might prove prejudicial both to investors and to consumers would thus be destroyed.

(b) Manufacture of chemicals and chemical products. There were good reasons for studying current projects in the individual countries from an over-all standpoint - especially in the case of the petrochemical industries -, in order to prevent duplication in the production of goods for which a single country might not provide a large enough market or for which factory costs were unduly heavy, either because the plants were unsuitably situated or because each aimed at producing a wide range of goods instead of specializing in those which it was relatively better equipped to produce. Since in each country the projects concerned were still in their initial phases or only at the programming stage, a joint study might yield practical results, inasmuch as it might establish
/criteria and

criteria and perhaps lead to the conclusion of production and market integration agreements, besides enabling advantage to be taken of the benefits deriving from the exchange of technological information and experience.

Specialization or co-ordination in respect of the lines of production undertaken, both among the three countries under consideration and as between them and other Latin American countries, on the basis of comparative advantages, seemed particularly necessary in the case of such items as plastic raw materials and synthetic rubber, since the situation and size of consumer markets strongly influenced the degree to which investment was economic and the prices paid by the consumer.

(c) Steel making and transforming industries. Possibilities for specialization in steel making and derived industries, taking into account at least the three countries under discussion, ought also to be covered by the short-term studies on economic complementarity, with reference to the following lines of production:

- (i) Coke for steel making. (Countries where there would be no domestic market for the by-products of coking, because supplies of similar products would be obtained from the petrochemical industry - as might be the case in Venezuela - might perhaps find economic advantages in importing coke rather than establishing coking plants of their own. In this respect it would be interesting to consider possible future collaboration between the steel mill at Paz del Río in Colombia and on the banks of the Orinoco in Venezuela;)
- (ii) Pipes for the petroleum industry. (The new Orinoco steel mill in Venezuela will shortly begin to produce 300,000 tons annually;)
- (iii) Flats;
- (iv) Metal structures;
- (v) Tinplate with hygienic finish for the canning industry. (The want of a container-making industry based on the manufacture of tinplate at world prices severely limits the development of the canning industry in Colombia, Ecuador and Venezuela. In Ecuador, for example,
/imported containers

imported containers are used in certain branches of the canning industry;)

- (vi) Heavy stamping;
- (vii) Tractors and agricultural implements.

30. The study of possible complementarity in the three sectors mentioned would have to take into account, inter alia, the following factors:

(a) Establishment of the general criteria that should be adopted when concluding possible specialization agreements with respect to the greater or lesser proportional significance of wages in each country's costs. (In this connexion, the conclusion of equitable agreements might perhaps be furthered if certain industries, the installation of which called for high capital intensity and which might therefore attain a degree of mechanization calculated to reduce the proportional influence of wages on costs, were as a general rule wholly or partly situated in countries where wages were relatively higher. The objective would always be the balanced distribution of benefits among the signatories);

(b) The fact that the demand coming all three countries would be greater and the effect of this circumstance on the unit costs of production;

(c) Joint policy to encourage private investment;

(d) Reciprocity among the signatories of each agreement, and the prospects which this would open up for complementarity agreements and a much more substantial expansion of trade with other Latin American countries;

(e) The requisite that the agreements in question should from the outset leave the way open for the accession of any other Latin American countries that might wish to join in such arrangements on a basis of reciprocity;

(f) The ad hoc tariff treatment that would be required to promote such forms of specialization as were proved to be desirable;

(g) The importance of providing opportunities for representatives of appropriate private enterprises to participate as actively as possible - alongside representatives of Governments and of the programming bodies concerned - in the studies mentioned and the preparation of the corresponding draft agreements.

31. The list of industries given above was not exclusive, and comprised only those that it would be important to cover during the first stage of the studies concerned.

32. It was requested that emphasis might be laid on the undoubted value of these studies as a guide to each of the interested countries in planning the industrial programmes concerned, even if they did not lead to the conclusion of specialization agreements.

33. For purposes of reference in connexion with possible future specialization efforts, whether they affected relations between Colombia, Ecuador and Venezuela or between them and the other Latin American countries, note was taken of the following preliminary list of goods which were among those the three countries mentioned were already producing or planning to produce:

- (a) Cornflour
- Caustic soda and chlorine
- Synthetic fertilizers
- Metallurgical coke
- Wireless receivers
- Sewing-machines
- Bicycles
- Simple tools
- Machine-tools
- Inner tubes and tyres
- Hat blocks
- Nylon cord for tyres
- Plywood for inner linings
- Fruit concentrates and preserves
- Soluble coffee
- Costume jewellery
- (b) Banana flour and other by-products of this fruit, including paper
- Size for textiles
- Fish meal
- Balanced feeds for livestock, based mainly on banana flour and fish meal
- Malted barley

By-products of cacao for the foodstuffs, pharmaceutical and cosmetics industries

Tagua buttons

Straw hats

Hard-fibre textiles and cordage

Corkwood

Woollen mats

Pyrethrum extract

Polyethylene bags for fruit and other foodstuffs

Castor-oil, refined for aviation

(c) Dodecyl benzene

Phenol and acetone resins

Polyethylene

Polystyrene

Synthetic rubber

Nylon resins, fibres and yarn

Pipes for the petroleum industry

Aluminium ingots and plate

Metal safes

Metal furniture

Mechanical toys

Plate glass and crystal

GENERAL CONSIDERATIONS

34. During the discussion previously reviewed, a few general considerations were put forward as guiding principles that might be helpful in connexion with the proposed reciprocal collaboration both among the economies of Colombia, Ecuador and Venezuela and also between them and the rest of Latin America.

Technological information

35. The exchange of technological information would necessarily have to be regarded as a part of the market expansion programme, as the pooling of experience was one way of increasing research capacity in relation both to agriculture and to industry. (In this context, the Colombian experts drew attention to the methods and findings of the
/research in

research in genetics and other fields carried out and under way at the Palmira, Tibaitata and Rio Sinú experimental stations, adding that the techniques employed and the results already obtained were at the disposal of any Latin American specialists who might wish to visit those stations or otherwise request information.)

Information on production, requirements and surpluses

36. One urgent need was the establishment of a regular exchange of information among the three countries - with a view to its subsequent extension to some or all of the other countries in the region - on production, exportable surpluses and seasonal or annual import requirements. Some procedure for consultation before the item concerned was purchased from other parts of the world should also be adopted. (This service would be maintained until the establishment of the analogous general inter-Latin American service contemplated by FAO and currently under discussion at FAO's Fifth Regional Conference at San José, Costa Rica.)

Inspection and arbitrage

37. The quality and classification of goods traded in the area should be properly checked before shipment abroad. Accordingly it would be desirable for regular arbitration procedures to be instituted whereby any differences arising between buyer and seller on account of imperfections in the merchandise despatched could be settled expeditiously, without recourse to diplomatic or consular intervention. (These suggestions were dictated by rather unfortunate experiences in the courses of trade between countries in the Northern and Southern Zones of South America.)

Liberalization

38. Quantitative restrictions or bans or the duties usually levied on exports - often intended to safeguard domestic supplies, or levied for fiscal reasons in the case of duties - seemed to have been partly responsible for hindering or slowing up the expansion of certain lines of agricultural production, and at the same time for encouraging the policy of selfsufficiency in importer countries, as well as the practice of smuggling. The liberalization of trade in specific goods would boost production of the items concerned and would help to maintain certain existing forms of specialization which, by means of reciprocal arrangements, might provide the basis for a profitable and thriving trade. On these and other grounds it was felt that the establishment of selective liberalization should be advocated in respect of trade movements among the three countries and, as far as possible, for their trade with the rest of Latin

Means of communication

39. It seemed essential to bear in mind that the broadening of markets through agreements among the three countries and later, possibly, between them and others in the region would necessitate the co-ordination of certain aspects of the policy to develop communications. For example, the feasibility of the suggestion that the commodities produced by Ecuador in frontier areas in the Andes might make a more effective contribution to supplies for the central districts of Colombia would depend upon the execution of certain communications projects in the latter's territory. When integration programmes were being concerted in respect of certain branches of industry, one of the factors taken into account in decisions as to the site of the plants concerned would have to be the transport facilities connecting them with the consumer centres. On that and other grounds, and with a view to the conclusion of agreements relating to industrial specialization or to the broadening of markets on a basis of reciprocity, it would be desirable to co-ordinate policy in respect of the three countries' national and international means of communication.

Services

40. With the co-operation of the appropriate Government officials and representatives of the enterprises concerned, it would be useful to clarify the role of the fleets belonging to Colombia, Ecuador and Venezuela in the following connexions bearing upon the proposed broadening of markets:

- (a) The expansion of inter-Latin American trade;
- (b) Stabilization of the balance of payments between each of the three countries and the other Latin American republics;
- (c) Special freight tariffs for inter-Latin American trade, and intra-regional agreements on the utilization of hold space, as well as the extension of national treatment to Latin American vessels;
- (d) The elimination of trans-shipments in inter-Latin American trade;
- (e) The proportional distribution among the fleets of certain types of transport essential for the promotion of economic complementarity;

/(f) Pooling of

- (f) Pooling of floating docks and of scaffolding and stocks for ship-building;
- (g) Port mechanization and utilization policy;
- (h) Liaison between national airline companies with a view to correlating their foreign service policy and to studying the establishment of joint repair and maintenance facilities for a regional service;
- (i) Joint action on specific aspects of policy for developing the tourist industry;
- (j) Insurance and reinsurance; and
- (k) Problems of international overland transport.

Withholding of coffee from the market

41. Mention was made at the meetings of the problem of the withholding of coffee from the market under the terms of the recent international agreement for the maintenance of coffee price levels on the world market. Attention was drawn to the need for inter-Latin American technological collaboration in order to find uses for stocks that could not be sold, in such products as soap, cosmetics, etc., so that production and storage costs might to some extent be covered.

Trade policy

42. Discussions on this topic were focussed on three of its aspects: (a) border trade; (b) the unconditional most-favoured-nation clause; and (c) the possible juridical structure of agreements relating to the broadening of markets and the ultimate establishment of a regional market.

43. With respect to border trade, it was pointed out that there were vast areas on the frontiers of Colombia, Ecuador and Venezuela where the following conditions, among others, prevailed in differing degrees:

- (a) Complementarity in specific lines of natural production and certain industrial items;
- (b) Economic desirability of supplies' being purchased by the consumer centres concerned, as well as by specific industries, from the neighbouring country, as prices paid by the consumer for similar domestically-produced goods were much higher on account of heavy transport costs and
/other factors;

other factors;

(c) The existence of customs and other duties on exports and imports, as well as quantitative restrictions, bans, permit requirements and other foreign trade regulations which, when unilaterally applied by each individual country without proper joint consideration of the special features of border trade, became incentives to smuggling.

44. The economic importance of unregistered trade was substantial at the present time, and it was pointed out that the flow of Colombian goods into Venezuela alone assumed considerable proportions at times. Hence it seemed clear that, if measures were adopted which were sufficiently flexible and were planned with due regard to the need for bilaterally affording each country's agricultural and industrial producers the security they at present lacked in drawing up their work programmes since such trade might at any moment be intensified, sharply reduced or suspended merely by unilateral administrative action on the part of the frontier authorities, there were sound possibilities of legalizing and maintaining reciprocal trade at a high level, provided that the agreements concerned made realistic and equitable provision for the safeguarding of each signatory's national interests. In this connexion, besides analysing other aspects, the group made a preliminary study of the ways in which desirable solutions might be affected by the two new factors dealt with below.

Tariff concessions in return for the lifting of import restrictions

45. The two factors in question were customs and administrative procedures. It was felt that consideration might be given to a method - which would not, of course, preclude others - whereby specific Colombian goods might be imported into Venezuela under certain tariff concessions. In return for these, Venezuelan goods in import categories that were banned in Colombia might be granted import licences on bases of reciprocity. Thus, for example, Venezuelan cement and tinned fish might satisfy demand in the Cúcuta area. The adoption of such a system of agreements would imply the application of practices that had been customary in countries which were short of foreign exchange for some but not all currency areas, and which therefore allowed certain goods to be imported only from those areas for which they possessed the necessary means of payment.

/The discussion

The discussion led to the following conclusion. In order that a decisive criterion might be established on the basis of which such inter-governmental agreements as were deemed desirable might be concerted, it would first be necessary to carry out, at the earliest possible moment, a specific study relating to particular commodities which were or might be traded, so that the probable practical significance on the kind of measures referred to might be assessed.

46. It was also important to consider whether such measures could be applied in foreign trade as a whole between Colombia, Ecuador and Venezuela, instead or merely in border trade, but on the principle of giving priority to tariff measures.

This would not preclude the consideration of de facto situations which in specific cases might make it advisable to establish equivalences between the customs concessions granted by one country and lifting of quantitative restrictions or bans by the other, so that the suitability of the measures adopted should not be sacrificed or subordinated to purely theoretical considerations.

Unconditional most-favoured-nation clause

47. In the course of more thorough discussion of the possibility that in bilateral agreements the unconditional most-favoured-nation clause might be established by Venezuela in its relations with Colombia and Ecuador, with respect not only to their traditional trade and its hoped-for expansion, but to possible specialization agreements, the following aspects were emphasized.

The tariff treatment accorded by Venezuela to goods from the United States covered in schedule 1 in the Treaty of 28 August 1952 consisted mainly in the consolidation of the over-all duties provided for in the Venezuelan tariff and, to a much lesser extent, in certain reductions of the general levels established by the tariff in question.

Consequently, if the same treatment were extended to Colombia and Ecuador through the most-favoured-nation clause, these would be no resultant change in the duties at present paid on Venezuela's imports of Colombian and Ecuadorean goods similar to those included in the schedule of Venezuela's consolidations in favour of the United States. What would happen was that existing duties would be lowered in respect of those

/goods - constituting

goods - constituting the smaller proportion - on which duties had been reduced by Venezuela for the United States in the 1952 Treaty. In the case of Venezuela's current imports of goods from Ecuador, the practical significance of the measure would for the present be slight, since the volume of trade between the two countries was so small.

48. With reference to the establishment of the most-favoured-nation clause in connexion with trade between Colombia and Venezuela, it was pointed out that, in order to foresee the practical effects of such a measure, more precise information would have to be obtained as to the approximate structure and value of unregistered trade between the two countries in the most important of the goods concerned.

49. Furthermore, attention was called to the fact that article 15, 1 (a) of the 1952 Treaty left Venezuela free to exclude the tariff system deriving from its membership of free trade areas or customs unions from the effects of the most-favoured-nation clause. This was an important fact in relation to possible inter-Latin American complementarity agreements. (Moreover, an exception was also made under the Treaty in respect of border trade.)

Juridical structure of a sub-regional or regional market

50. With regard to the way in which the tariff instrument would be used to further plans for widening markets in the three countries themselves, or on a more extensive geographical scale, the experts considered that, although the long-term objective was a customs union, the juridical system to be chosen in the meanwhile should be a free-trade zone. This differs from a customs union in that it is not obligatory to standardize the customs duties in force for third parties, and each participant is free to conduct its trade relations with the rest of the world as it pleases.

Although it might be decided that, from the outset, the free-trade zone should gradually and selectively include the commodities designated for the purpose by joint agreement between the participating countries, the reciprocal reduction in customs duties would necessarily be slow so that the established target should not be reached before, say, 10 to 15 years.

/It was

It was thought worth while to ensure that, in order to facilitate the integration of specific industries so as to remove all disruptive influences from relations between the contracting parties, imports of equipment or raw materials for the integrated industries should receive the same tariff treatment from each purchaser country.

It was pointed out that, at first, the free-trade zone would cover trade relations and economic complementarity between Colombia, Ecuador and Venezuela, in view of these 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 area which wishes to take part on terms of full reciprocity; and (b) the correlation or ultimate merger of the zone on the same reciprocal basis with others already existing or to be established in Latin America.

Negotiation of petroleum royalties

51. In view of the fairly frequent requests by countries of the area that Venezuela should negotiate agreements on petroleum royalties, the group was informed of the following basic trends in Venezuela's trade policy with regard to these royalties, which amount to 16 2/3 per cent of petroleum at the well-head, and the fact was mentioned incidentally that some royalty negotiations in the past had not been altogether favourable to Venezuela:

- (a) Royalties are paid on crude and not on refinery products;
- (b) Venezuelan interests are best served if royalties are sold to the oil companies themselves, since the country can thus obtain a higher price for its crude than that paid on the international market;
- (c) As the companies are given a special exchange rate, the Government may suffer losses if it takes a direct part in the negotiation of petroleum royalties owing to differences in the rates involved;
- (d) Royalties should in no case be negotiated directly if the petroleum involved is part of the volume normally imported from Venezuela by the purchasing country;

/(e) Up to

(e) Up to a point and with scrupulous reservations, the trends outlined would definitely not impede the consideration of agreements involving royalties on crude, provided that the inclusion of such royalties in a trade agreement would help to strengthen the country's negotiating position and enable it to export, on a reciprocal basis, items other than petroleum, particularly industrial commodities.

Government action

52. In the course of the discussions, the opinion was expressed that, on the basis of the preliminary clarification made at the meetings, Governments would be ready to take the following steps through regular diplomatic channels:

(a) The sending of observers from the Governments and from the Venezuelan textile industry to the meeting of the Joint Commission on the Colombian-Ecuadorian Trade Treaty scheduled to be held at Quito in January 1959;

(b) Study by an ad hoc joint commission of the basic principles for establishing a trade agreement - possibly preceded by a modus vivendi - for the regularization, diversification and increase of trade between Colombia and Venezuela; and

(c) Similar procedure with respect to trade between Ecuador and Venezuela.

Inter-Latin American payments

53. The experts considered the possible participation of their respective countries in the agreements, the gradual conclusion of which is advocated by the Central Banks Working Group set up by the States members of the Economic Commission for Latin America in order to bring about the progressive establishment of a multilateral payments system in the area and thereby pave the way for projects to widen existing markets and eventually to set up a regional market proper.

In this connexion, the Central Banks of Colombia (Banco de la República), Ecuador and Venezuela will take an active part in the Group's second session, scheduled to begin on 24 November at Rio de Janeiro.

/SUGGESTIONS BY

SUGGESTIONS BY THE CONSULTANTS

54. Before the end of the meetings, the consultants from Colombia, Ecuador and Venezuela, after examining different aspects of the three countries' trade and economic relations, recognizing the great possibilities of further trade expansion and realizing that one of the ways to fulfil them would be to establish a regular and permanent exchange of information on economic and trade matters, adopted the following agreement:

(1) "To negotiate with their respective Governments and Central Banks the establishment of a Committee in each country, with the primary objective of studying trade relations between Colombia, Ecuador and Venezuela and having, inter alia, the following functions:

- (a) To exchange information on:
 - (i) The state of agricultural and industrial markets;
 - (ii) Projects for industrial and agricultural development in order to ascertain the possibilities of co-ordinating the three countries' programmes in these respects;
- (b) To intensify studies on the prospects for trade in specific commodities between the three countries.
- (c) To carry out studies on:
 - (i) The possibilities and advantages of industrial specialization, taking into account the markets in the area;
 - (ii) Border trade;
 - (iii) The possibilities for joint investment in manufacturing enterprises and in enterprises providing services, and for joint programmes in regard to certain commodities;
- (d) To make recommendations to the Governments and appropriate bodies for the liberalization of trade and the preparation of juridical instruments to regularize and facilitate trade among the three countries;
- (e) To study possible incentives for inducing private foreign capital to contribute to the development of economic activity in the area;
- (f) To study the problems of communication and transport among the three countries with a view to suggesting suitable measures for improving their co-ordination and integration;

/(g) To take

(g) To take steps to disseminate more widely the joint reports and studies made and, in general, to promote effective action designed to further the trade and economic development of the three countries;

(h) To study possible fiscal, institutional and other impediments to the participation of private investment in joint projects for the area or for third markets;

(i) To study the efficiency of competitive industries with a view to encouraging private enterprise in the three countries to adopt internal measures for lessening discrepancies in productivity and promoting trade and specialization;

(j) To undertake joint studies on import substitution with a view to a common regional market;

(k) To co-ordinate customs policy among the three countries.

(2) The consultants considered it advisable that each of the Committees to be set up in each country should appoint a permanent official to direct the centralizing of information and co-ordinate the work of the Committee. This official should naturally keep in direct and constant touch with the co-ordinators of the other two Committees.

(3) The consultants suggested that the Committees might be composed of the following:

(a) One representative from the Ministry of Foreign Affairs;

(b) One representative from the Central Bank;

(c) One representative from the Planning Office (Oficina de Planificación);

(d) One representative from private enterprise.

(4) It would be desirable for the co-ordinators to meet at least once a year in each of the three capital cities in turn, in order to examine all matters relating to the work carried out or under way, and to improve the co-ordination of activities, if necessary.

(5) The consultants recommended that the activities of the Committees should be co-ordinated on a permanent basis through the secretariat of the United Nations Economic Commission for Latin America (ECLA), either directly, or, preferably, by means of a special office to be set up for this purpose in one of the capitals of the three countries".

/NEXT MEETING

NEXT MEETING

55. Dr. Alejandro Power Aliberti, Assistant Director of Economic Policy in the Ministry of Foreign Affairs of Venezuela and one of the consultants at the meetings, transmitted an invitation extended by his Government to hold further meetings at Caracas in order to proceed with the work begun at the current session. The invitation was cordially accepted, and it was agreed that Caracas should be the site of the next session.

56. In reviewing the results of the meetings, the consultants expressed their gratitude to the secretariat for its initiative in arranging this kind of consultation and for the technical work which it had carried out in preparation for the meetings.

Bogotá, 18 November 1958

