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Economic Commission for Latin America and the Caribbean

EFFECTIVE PROTECTION: A NOTE ON THE CENTRAL AMERICAN
COMMON MARKET EXPERIENCE

(Draft version)

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1. Introduction

This paper was prepared on request of UNCTAD' Secretariat, to serve as an information document for the West African Economic Community (CEAO). It explains, in a brief manner, how the Central American Common Market (CACM) adopted a new common external tariff system, based on the concept of effective protection. The new tariff entered into force on January 1, 1986, after 10 years of technical preparatory work and political negotiations. 1/

2. Contents

A brief reference is made on the evolution of CACM in point 3. Point 4 is devoted to summarize the basis on which the concept of effective protection was used by the CACM, as a guideline for the preparation of the new common external tariff system. Some of the main elements of the methodology adopted to put into force the new tariff are explained in point 5. Finally, point 6 is devoted to some considerations about the stage of the negotiation and final application of the agreement reached by the CACM governments on this matter.

3. Brief reference on the Central American Common Market (CACM)

The members of the Central American Common Market are the following countries: Costa Rica, El Salvador, Guatemala, Honduras

and Nicaragua. This economic integration scheme began in 1951. A first stage (1951-1959) was dedicated to the preparation of the main elements to be included in a basic treaty comprising the economic integration process to be followed. This was also the period in which the five countries signed, bilaterally, limited free trade agreements. As a whole, this stage allowed them to initiate economic integration with a strong technical background and a useful experience on the problems and ways to trade among themselves.

During the second stage (1960-1970) the main agreements were signed and entered into force. In these ten years the free trade zone among all five countries began to operate; the first common external tariff system was applied, aimed to protect the new economic area established; and an import substitution policy was adopted and applied. The tariff system was complemented by a harmonized system of fiscal incentives granted to industry; countries authorized imports of inputs and capital goods needed for manufacture development without paying tariffs or with preferential ones, depending upon the nature of the activity involved.

Another parallel programme permitted these countries to build: a modern road network which linked the main production and consumption centres of the five countries; a new telecommunications regional network; a new port capacity and

greater port facilities, both in the Atlantic and in the Pacific coasts; and develop a strong power generation capacity.

As could be expected, all these basic efforts needed a remodeled and improved governmental apparatus; also the Central American institutions began to function and gave the whole scheme a new strength for development. In addition of the Central American Integration Secretariat (SIECA), the other main institutions originally established, were: the Central American Bank for Economic Integration (BCIE), the Central American Research Institute for Industry (ICAITI) and the Central American Institute for Public Administration (ICAP). This stage has been called the "golden era" of CACM. In fact, the region became a new economic dynamic area, in comparison with the old times in which these countries were limited to national narrow markets and semi-feudal economic and political systems. International complementary financing was very important at this stage.

A third period (1970-1980) showed how, in spite of the economic integration positive influence, its benefits did not spread evenly among countries. At the same time, international economic trends and events influenced negatively on the CACM economic growth. This period can be characterized as one in which economic integration continues to function but did not advanced,

as it was expected. It was in this period where the needs to reform the tariff system were approved and the governments initiated actions for this purpose.

Finally, in the present stage, since 1980, the CACM has entered into a "static" situation of the integration process. Governments have agreed to maintain the integration as it is and to devote almost all efforts at their disposal -local and regional-to tackle the outstanding economic problems derived from the international crisis and its impact upon the Central American countries. For this purpose, they have established an informal system of continuous consultations on regional and international matters. Among the subjects attended with this new pragmatic approach, was the aproval of the new tariff system, adjusted to the new requirements for development.

Some brief commparisons are made in table 1 between CACM and CEAO.

4. The effective protection concept as a guideline

The first common external tariff adopted by CACM between 1954 and 1963 was designed to reach three basic objectives: (a) to define the custom territory of CACM; that is, to establish the new regional economic area of integration; (b) to protect the

Table 1
SOME COMPARATIVE DATA BETWEEN CACM AND CEAO
(Mainly 1982-1983)

Item	CEAO	CACM
1. Territory (km ²)	4 443 169	422 720
2. Inhabitants (thousands)	40 289	21 980
3. Density	9	52
4. GNP per capita (US\$)		
Average	390	938
Range	235 to 885	708 to 1 183
5. Urban population as percentage of total population	9.2 to 40.3	38.1 to 55.0
6. Labour force in agriculture as percentage of total LF	45.1 to 86.0	33.8 to 61.8
7. Total GNP (millions US\$)	15 721	20 613
8. Industry as percentage of GNP	77 to 25	18 to 29
9. Total trade (millions US\$)	8 290	8 370
Exports	3 510	3 750
Imports	4 780	4 620
10. Intra-regional trade	406	840
11. Total trade as percentage of GNP	52.7	40.6
12. Intra-regional trade as percentage of exports	11.6	21.8

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1984 and 1985.

industrial development, based on substitution of imports; and, (c) to assure tariff revenue, taking into account the heavy burden of this kind of taxes upon fiscal revenue.

Tariff was established product by product, taking into account mainly the effects of tariff by the way of the following mathematical formula:

$$t_e^n = \left[\frac{\text{specific tariff per physical unit}}{\text{physical unit value of imports}} \times 100 \right] + \left[\text{ad-valorem tariff} \right] \quad (A)$$

where t^n indicates the total direct tariff effect on imports of product n . This was the case of CACM because they had a mixed tariff including a specific component (usually expressed in dollars per gross kilogram) and an ad-valorem complementary component, expressed as a percentage of cif value of imports. 2/

As useful as this measurement can be for fiscal analysis or for price purposes on the part of importers, it does not offer a more general view of protection given by the tariff system on economic activity.

The use of the concept of effective protection provides the means for measuring on a more broadened basis the impact of the tariff system. 3/ The concept is usually defined as follows:

$$EP = \frac{\text{Value added estimated with tariffs} - \text{Value added estimated without tariffs}}{\text{Value added estimated without tariffs}} \quad (C)$$

As it can be seen, this fraction links the effect of tariffs on value added. An example may help to illustrate this concept. Suppose that a good X is produced without tariffs and its value is 100 monetary units. Let us suppose further that value added is 20 and inputs are 80. If a tariff of 20% is imposed on import of similar goods, then the internal price of good X could be increased. If internal market conditions are such that the increase is possible without reducing total sales income of the firm, price of product X can reach 110. Other inputs remaining in 80, value added of product X can then be 30 monetary units. Therefore, effective protection is measured in this case:

$$EP = \frac{30 - 20}{20} = .50$$

In other words, a tariff of 20% on a final product X generates an effective protection estimated in 50 points, being its value added 20, and no tariffs imposed on inputs. If a tariff is also applied to imported raw materials or other inputs used to produce a good X, then the level of protection varies. For example, if a 10% tariff is levied on all inputs imported to produce X, then the cost of inputs increases up to 88 monetary units and consequently the level of protection falls to:

$$EP = \frac{22 - 20}{20} = .10$$

On the basis of these propositions, some economic considerations were taken into account by CACM.

First of all, this concept can be interpreted as to indicate the degree of protection needed to increase value added, and therefore allowing to the establishment of a protective policy. In other words, from the tariff point of view, the promotion of economic activities can be designed by applying protective barriers by which tariffs and value added are linked properly.

Second, the concept of tariff protection as defined in (C) above is useful to distinguish levels of protection between economic activities. Consequently, it could be used to design a tariff system that could provide different tariff protection in accordance with development programmes or national aims. In summary, the concept can be use to assign to a tariff system the purpose of being a development policy instrument.

Third, the concept of effective protection also shows the result of the combined influence of tariffs on final goods and on inputs, all of them weighted by the value added generated in the production process. Therefore, if specific levels of protection are adopted on the grounds of economic policy decisions, it is possible to design a tariff system, incorporating such development goals.

Fourth, the measurement of effective protection gives a "potential" level of protection because it indicates the maximum

protection allowed to local production. Consequently, if competitiveness is high, the use of this "potential" protection in terms of increasing local prices, is limited. This element is very important in the case of CACM because it gives the possibility of establishing tariff levels that may limit inflation.

Finally, the new tariff system could then be used as an "specialized" instrument for economic growth purposes. In fact, a substantive level of import substitution has been reached by CACM since 1960, and custom's revenue, even though still important, represents now a lower proportion of total fiscal revenue. It was then agreed that governments should use other more adequate instruments and measures to attend fiscal revenue needs and for balance of payment purposes.

To prepare a regional project of new tariff system, to be negotiated further by the five governments of the CACM, they decided the establishment of working groups in each country devoted to the task of elaborating the national point of view on the matter. This internal position should be created by consensus. Consequently, members of these groups were governmental officials of sectors like commerce, public finance, integration, customs, industrial development, agriculture and Central Banks. Private sectors representatives were allowed. At a regional level a group was established, integrated by the

coordinators or chairmen of the national working groups. This ad-hoc forum was in charge of the adoption of regional consensus and the preparation of draft agreements.

5. The CACM methodology

(a) Adjustments to the protection formula

When it comes to the application of the effective protection concept it is necessary to stress that a lot of problems could arise. In the case of CACM, the most important limiting factors were linked with statistics.

In some cases, data needed was not available at all. In a variety of situations, the possibility to prepare proper data was not possible because of lack of basic accumulated information out of which the data needed could be obtained; in other cases, there were strong financial limitations to do so. Also, it happens that statistics were available but did not prove to be adequate for protection estimates because of various reasons like deficient comparability among countries. Governments agreed to adjust mathematical formulas that have been used to measure effective protection, so as to be able to count with comparative and representative basic information.

It was not possible, for example, to reach a higher distinction of economic activities further than four digits of the International Industrial Uniform Classification. In spite of it, this distinction gave a reasonable grouping of economic activities, showing the most productive activities in the region as well as those of special interest for the CACM countries. Rates of exchange were carefully selected to be the most representative; the monetary unit used for all figures was the US dollar.

The adjustment process began with the use of the formula of protection, based on Leontieff's production functions, used to measure protection:

$$EP = \frac{t_j - a_{ij} t_i}{1 - a_{ij}} \quad (D)$$

where t_j is the tariff on final products of activity j ; t_i is the tariff of inputs needed to produce final goods in activity j ; and a_{ij} is the technical coefficient by which the various inputs are used in activity j . Taking into account the limits of statistical information, the CACM countries arrived to a new expression of this concept. That is:

$$G_j = \frac{t_j - t_i \left(1 - \frac{V_j}{P_j}\right)}{\frac{V_j}{P_j}} \quad (E)$$

In this new way of expressing protection (G_j) per unit of production,

t_j = the tariff of the final goods produced by activity j ;

t_i = the tariff of inputs used to produce final goods in activity j ; 4/

V_j = the current value added in activity j ;

P_j = the current gross value of production; and

$\frac{V_j}{P_j}$ = the coefficient by which value added is related to production; this was considered in CACM as the estimate of a "productivity function".

Therefore, G_j is considered to measure protection on the same grounds as the concept of effective protection does; that is to say, it evaluates the effect of tariffs on the basis of value added. In addition, it has to be taken into account that

$$t_i (1 - V_j/P_j)$$

is the amount of tariff levy on inputs, and that t_j indicates the tariff to be charged on final goods. Therefore, the numerator

$$t_j - t_i (1 - V_j/P_j)$$

shows the total net tariff taxation on activity j . Then, G_j shows how net tariffs charges protect the generation of value added.

Some examples of estimates of G_j are included in table 2.

As can be seen, if value added is high (examples 1 to 3) protection is low, except when tariffs on final products are very high; input tariffs reduce the level of protection. When value

Table 2

CACM: ESTIMATES OF PROTECTION FIGURES PER UNIT OF PRODUCTION BASED
ON THE FORMULA USED TO ELABORATE THE NEW TARIFF SYSTEM

Case	V_j/P_j	t_i	t_j	G_j	Comments
1	.38	5%	45%	110	High value added and t_j ; low t_i
2	.38	5%	25%	58	Low t_j
3	.38	0	40	131	$t_i = 0$; total exceptions
4	.20	0	25	125	Medium value added; total exceptions; average t_j
5	.20	10	25	85	High t_i
6	.20	5	40	180	High t_j
7	.10	10	40	310	Very low value added; High t_i and t_j
8	.10	10	20	110	Low t_j
9	.10	0	20	200	Total exceptions

Source: Central American Integration Secretariat, Table of Protection
Values (G_j), document SIECA/78/FIA/1, May, 1978.

added is low, tariffs increase protection; therefore, efficient activities do not need high tariff support. Protection is greater if the difference between t_j and t^i increases.

Research made at the CACM Secretariat comparing protection estimates resulting from formulas (C) and (E), showed that there is an adequate similarity in both cases, that extends also to the resulting structure of protection among activities (ranking). It was also shown that the CACM formula has a bias which increases the figure of G_j , in comparison with EP. It was also shown that this bias is not significant in the range of the most representative values of tariffs.

(b) The use of protection criteria and other complementary elements

Once a consensus was reached regarding the mathematical formula to be used, CACM governments decided how to apply it.

First, they considered protection needed (G_j) to foster development in the next future as an independent variable. To determine the specific levels, they entered in a fase of analysis of the productive sector in the region since they belong to CACM. They also made estimates of levels of protection prevailing in the CACM countries around 1980. These estimates showed that protection varies from -35 to 1 041 points, being the modal rank from 35 to 75 points and the overall average of 71 points. 5/ These results also showed the high degree of dispersion and the lack of representativity of protection for development purposes.

It was also clear that the tariff system in force had created distortions between countries. 6/ Governments used also estimates of protection of other countries or groups of countries.

As a result, governments decided that under the new tariff system no activity should have less than 35 points of protection, measured in accordance with the accepted formula (G_j) indicated in (E); this allows for the general and basic lower technological limitations of CACM industries in relation to those in most advanced regions. Also they agreed that no activity should have more than 150 points of protection. As a consequence, all activities established in CACM territory will be protected with an specific level of protection within this rank, determined by:

- (a) the amount of value added; (b) the labour employment capacity; and, (c) the degree in which regional inputs are used. In addition to these basic elements, others were added also, taking into account: "traditionally", amount of exports outside the CACM and the net foreign assets contribution. 7/

In the case of inputs, a scale of tariffs 8/ was approved, as follows:

- (a) 5% tariff if inputs are not produced in the region; and
- (b) if inputs are produced, then:
 - (i) a 10% tariff if they are raw materials;
 - (ii) a 20% tariff if intermediate good; and,
 - (iii) a 30% tariff if a finished input.

To reach consensus in this matter, the situation of production of inputs within the region was carefully considered; an analysis was made about the imports of inputs from the rest of the world, and due consideration was given to the fiscal incentive policy applied by CACM since 1962. 9/

In relation to final goods, it was decided that in each one of the activities (j) the tariffs should be:

- 5% for goods not produced in activity j; and
- the tariff resulting from the application of the formula of protection (E), taking t_j as unknown.

In this way, tariffs of final goods are determined as a function of the level of protection adopted and the policy established in respect to inputs.

Later on, in the process of final negotiation of the tariff system, a clause was incorporated in the new agreement by which a special procedure could be utilized when production was not sufficient to attend CACM demand. Basically, this system allows countries to import the required shortage with a different and lower tariff.

In summary, the tariff system designed followed this criteria:

- a) indicating the level of protection for each activity in accordance with criteria and research prepared for this purpose (G_j);

- b) 10% to 30% tariff to inputs produced in the region, depending on the level of value added;
- c) 30% tariff to all capital goods produced in the region; in this case tariff should be similar to the one adopted for finished inputs;
- d) the tariff resulting from the application of the formula adopted, to all final goods produced; and,
- e) 5% tariff to all goods not produced in the CACM territory. 10/

It is necessary to mention that for goods which are final products of an activity and at the same time inputs of others, it was agreed that they could have a tariff calculated with the methodology approved as if it were only final products but, if this tariff showed signs to be high enough to affect the structure of the tariff system of the activity in which it is being used as an input, a decision should be taken to determine a new level; usually, this new tariff was adopted within a range of 35% to 40%, which is the lower bracket for final goods.

Again in the case of final products manufactured in the region, it was agreed that the highest tariff will be 100%.

Finally, governments agreed also in giving this methodology a high degree of automatism especially in determining tariffs for

final products. This procedure was considered favourable because it avoids, at least in this stage, the influence or pressures of groups interested in maintaining or gaining tariff privileges.

(c) Other items of the CACM tariff reform and methodology

In addition to the tariff it was agreed to change the nomenclature. The old one was common but limited because it was prepared on the basis of the original Statistics Trade International Classification (STIC); the new one is based on the Nomenclature of the Custom Cooperation Council (NCCC), institution which has its office in Brussels. Eighth digits were established in the new nomenclature, with the purpose of classifying imported goods. As it is known, the first four digits are compulsory, to assure international comparability. The additional four digits were CACM detailed items. This CACM-NCCC new nomenclature has, for the CACM countries, the advantages of: (a) assuring that tariff incidence is applied to the proper goods or group of goods concerned; (b) facilitating custom officers to classify adequately all goods, as well as identifying merchandise for tariff purposes; and, (c) facilitating further national and regional commercial policy activities, due to the fact that it is a modern nomenclature known widely at the international level.

Tariffs will be expressed only on an ad-valorem basis. Therefore, a complementary annex was included in the treaty to introduce custom valuation. In the case of CACM, no experience

was accumulated on this matter; the thumb-rule was that the ad-valorem component of the tariff should be applied on the cif value of imports, as declared by the importer. The new system is based on the positive value of imports, and all the rules and research compiled long ago by the Custom Cooperation Council. Governments decided to put into force this system immediately and, in the next future, to initiate studies to prepare the CACM to adopt the customs valuation system, that had been recently applied by developed countries.

Governments decided finally to prepare three studies to be presented to negotiators. These studies will be dedicated to estimate: (a) the effects of the tariffs on fiscal revenue; (b) the incidence of tariff changes on the balance of payments; and (c) the effect of the new tariff on prices. The results of these studies were: (a) in relation to balance of payments, that expected changes on import flows will not be substantial; (b) regarding prices (estimates based of the usual diet of the Central American population), those tariffs will have no inflationary effects, and (c) that fiscal revenue derived from tariffs will drop in a significant proportion, due mainly to the fact that goods not produced in the region will be levied with a tariff of 5% instead of with the high tariffs included in the old system. This last study stressed the need of revising and creating some other instruments to solve fiscal problems; in this

way, it is possible that the new tariff system could be dedicated mainly to development purposes.

The draft treaty includes also other rules of which some are briefly commented. First of all, there is a "flexibility system" by which tariff changes will be governed. Tariff adjustments will be made with a speedy procedure to avoid negative effect on internal production and to adjust protection for development needs at the precise moment it is required. The flexible procedure is applied also to tariff increases for products not yet manufactured in CACM countries, to give to the activity concerned the adequate protection. The council in charge of the application of the treaty is authorized to decide upon tariff changes in a short period of time, if the change is made within the 1% to 100% limit. Otherwise, changes should be sent to each one of the five Congresses and will be handled as a protocol modifying the treaty.

Secondly, an "scape clause" was included. No such rule was included in any other CACM agreement. This clause authorized countries to suspend temporarily, and by unilateral decision, the application of the treaty, in part or as a whole, under certain conditions and circumstances indicated in the treaty. A consensus has to be reached in each case to handle the problem. The treaty allows for measures to avoid further negative effects, and to help the country to apply the treaty again. Other countries could

apply temporary actions, if needed, to overcome particular negative effects caused by the suspension decided by the partner in trouble.

For the application of the treaty, two kinds of regional bodies were created. The council referred to above, which was integrated at the ministerial level, and that is in charge of the application of the treaty and of deciding the general policy to be followed. Other bodies can be created to take care of specialized aspects. These bodies should always inform the Council. Up to now two of these bodies have been established: the Tariff Commission, devoted to the task of preparing the tariff policy decision and tariff changes requested, and the Customs Commission in charge of the application of the new nomenclature, and of proposing the adjustments of custom valuation rules.

6. The negotiation stage

To negotiate the tariff system, governments nominated representatives, invested with legal power to carry on negotiations. These representatives gather in an ad-hoc regional commission. First, they adopted the methodology used because it assured a common procedure for the revision, on the same grounds as it was prepared. The 35 to 150 rank of protection was also

ratified; and the other economic elements considered to determine the level of protection to each activity were also taken into account.

During the process of negotiation, governments also held two special consultative meetings: one in which the Ministers of Finance and those in charge of integration matters in each country participated; and one attended by the Ministers of Finance, and Integration, and by the chairmen of the Central Banks. In these two meetings the project was evaluated in full.

As a result of the negotiations and of the meetings mentioned, the treaty was finally signed, including some changes; the main ones are hereby described.

For goods not manufactured in the region, the agreed tariff of 5% was modified in two cases. For a very selective group of products considered substantive and very important for development, the tariff was reduced to 1%. In other cases, also very specific, the tariff was increased for fiscal reasons, taking into account that the increased protection did not interfere with development goals.

In relation to inputs, for some of them, the approved tariff was greater than the limit of 30% early adopted for final inputs. Among the sound reasons given to improve protection in these cases, it can be mentioned that there was a need to develop special investment projects of basic inputs.

Substantive adjustments were also made for final goods manufactured in the region: governments established a list of products for which no agreement was possible at this stage; another list was approved which included products that do not need -in the governments' view- a common external tariff, mainly because these are products not manufactured in the region and which generated a high fiscal revenue. Consequently, the tariff system was divided into three groups: one including the uniform and common tariffs finally agreed, which comprised around 96% of the whole tariff system; a second group of products with different tariffs among countries; for these products, negotiation will continue further on; these differences in tariffs will not affect the system, because they were negotiated multilaterally. A third group included products for which the common tariff was not considered necessary; so each country establishes their tariffs unilaterally.

By request of specific governments, some products or group of products were evaluated in its effect upon economic activity and development, both for those particular countries and for the region as a whole; after a wide consideration of these cases, governments agreed to establish tariffs that would increase protection above the ceiling of 150 points or will lower it further down the floor of 35 points.

Negotiations concluded with an agreement to calculate, per each activity, its final level of protection, and, if necessary,

introduce adjustments to the agreed tariff by applying the flexibility clause. Also it was proposed that bodies in charge of the application of the treaty formulate, as a first task, norms and procedures to apply properly the flexibility and "sape" clauses as well as measures regarding unfair competition.

NOTES

1/ UNCTAD and ECLAC gave assistance to the CACM countries along the whole process. Between 1975 and 1981, UNCTAD was encharged of a project by which technical and financial support was given to the Central American Common Market governments and regional institutions. This technical co-operation included co-operation in the preparation of basis for iniciating the process, the elaboration of studies by which the methodology was designed, and the compilation and analysis of information prepared, and many other technical needs. During 1982 and throughout 1985, ECLAC gave co-operation on technical requirements for the final steps of the negotiation and application of the new tariff system.

2/ The formula (A) is valid only if there are no tariff exceptions, like the ones known as fiscal incentives or similar; if this type of franchise are allowed, then it is necessary to calculate t_e^n as indicated in formula (B):

$$t_e^n = \left[\frac{\text{tariff revenue collected on product } n}{\text{import value of } n \text{ subject to tariff}} \right] \times 100 \quad (B)$$

From imports of product n , it must previously be substracted the amount free of duties of imports of diplomatic missions and other missions authorized by specific agreement, and of course imports made by the Government itself.

3/ For basic references, see: W.M. Corden, "The structure of a tariff system and the effective protective rate", The Journal of Political Economy, June 1966, Vol. LXXIV, No. 3; H.G. Johnson, "The theory of effective protection and references", Economica, May 1969, Vol. XXXVI, No. 142; and, H.G. Grubel and H.H. Johnson, "Effective tariff protection", GATT, 1971.

4/ Calculated by weighting the t_e^n of each input by its value of imports as follows:

$$t_i = \frac{\sum t_e^n \cdot v^n}{\sum v^n}$$

in which v^n are net imports. A whole inventory was prepared, country by country, to determine the inputs imported and used in each activity j . Also, values of V_j and P_j to estimate the ratio V_j/P_j , were carefully calculated in each country; an specific large research was also elaborated, taking into account 1968-1978 data, to check the representativeness of this ratio, activity by activity, in accordance with the international clasiffication of economic activities used.

5/ In this case t_j was estimated as a simple average of all t_e of final goods produced in activity j ; t_j was estimated by weighting each t_e by its net value of imports registered; for the meaning of t_e^n , see point 4, formula (B). In this case, formula (B) was adjusted to incorporate other charges or surcharges of a tariff nature applied unilaterally in each country.

6/ One of the most significant factor of distortion was the erosion of the specific tariff used in CACM common tariff system (the amount of monetary units per physical unit of imports); the incidence of this kind of tariff has decreased continuously because unit prices of import increases constantly. At the same time, a significant change has occurred in the technics used to pack goods for shipping purposes. During the last 30 years weight per physical unit of imports has decreased steadily and sharply. Other distortions came from unilateral decisions of CACM countries to modify surcharges of a tariff nature. In any case, these factors disarranged the common tariff system originally agreed and of course, protection has been different among activities and countries.

7/ This concept was defined and measured by the difference between foreign assets received from exports outside CACM and foreign assets used to produce final goods.

8/ These are the tariffs that will be incorporated into the custom's tariff law (legal tariffs).

9/ Governments indicated previously its intention to eliminate this fiscal incentives' policy that became not more than a procedure by which inputs and capital goods from outside CACM were authorized (to specific industries that requested them and demonstrated the need of this benefit) to be imported free of duties or with a reduced level of duties. It was found that these privileges did not furnished their original purposes and became a very high social burden. It was also known that in various instances, the control was not enough, and other administrative difficulties had negative effects. Corruption was beginning to show its face.

10/ This 5% "floor" was adopted to assure a general and basic fiscal revenue similar to the amount of custom's administrative costs.