

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/560

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CENTRAL AMERICAN FREE-TRADE AREA

Request by Nicaragua

Note by the Executive Secretary

1. The Government of Nicaragua has submitted the text of a draft Central American Free-Trade Treaty and has requested that the CONTRACTING PARTIES take a decision similar to that of 25 October 1951 which recognized that Nicaragua was entitled to claim benefits of the provisions of Article XXIV in relation to its Free-Trade Area Treaty with El Salvador. Nicaragua wishes to have a "release from the obligation to extend to other contracting parties the treatment granted to Central American countries". Since El Salvador was not a contracting party, that decision was taken under paragraph 10 of Article XXIV. If the CONTRACTING PARTIES decide to approve Nicaragua's participation in the proposed Central American free-trade area, this decision would also have to be taken under paragraph 10, as Nicaragua is the only one of the Central American Republics which is a contracting party to the General Agreement.
2. The text of the draft Treaty has been circulated in L/508/Add.1. It is proposed to set up a free-trade regime with the ultimate objective of a customs union. The Treaty provides for free trade among the five Republics in the products listed in an Annex. These products would be free of all duties and restrictions on import and export. (There is attached to L/508/Add.1, however, a list of products on which one or more members of the free-trade area would wish to reserve the right to maintain export controls.) Associated with the draft Treaty is a programme for economic integration, and in L/508/Add.1 there is a list of products envisaged for integrated production which would eventually be added to the free list. The Treaty provides for the establishment of a Commission on Central American Trade which would have among its functions to recommend additions to the scheduled products and to take steps towards the unification of the customs tariffs and regulations of the participating countries. Both the expansion of the list and the equalization of duties would be studied by the Commission in respect of the industries selected to come under the Integration Regulations set out in L/508/Add.2. The fact that free trade is limited to certain products raises an important question which the CONTRACTING PARTIES will wish to examine. Do the products on which "the duties and other restrictive regulations of commerce" would be eliminated account for "substantially all the trade between the constituent territories in products originating in such territories" as required by the definition of a free-trade area in paragraph 8(b) of Article XXIV?

3. The Government of Nicaragua has submitted detailed statistics on the trade during the year 1955 among the five Central American Republics which are proposing to participate in the free-trade area. These statistics show for each of the five countries the f.o.b. value (expressed in US dollars) of imports from each of the other countries, as well as from the rest of the world, for each of the products listed in Annex A or included in the list of products envisaged in the programme for integration attached to the draft Treaty.

4. The attached table summarises this information, showing the value of imports of each country from each of the others, distinguishing in each case:

- (i) the import value of all products listed in Annex A (i.e. products to be included in the free-trade system);
- (ii) the import value of all products in the integration list; and
- (iii) the import value of all products not covered under either (i) or (ii).

According to these figures, the aggregate import value of trade among the five countries in 1955 was \$12.7 million, representing 3.2 per cent of aggregate imports from all sources. For Nicaragua alone, the aggregate value of imports from the other four countries was \$1.5 million, representing 2.2 per cent of imports from all sources.

5. The composition of trade among the five countries and of Nicaragua's imports from the other four countries was as follows:

Total f.o.b. Value of Imports in 1955
(thousand dollars and per cent)

	Imports of the five countries from each other		Imports of Nicaragua from the other four countries	
	thousand dollars	per cent	thousand dollars	per cent
Annex A goods	2,857.8	22.4	154.4	10.0
Integration goods	51.4	0.4	24.5	1.6
Other goods	9,827.6	77.2	1,363.5	88.4
Total	12,736.8	100.0	1,542.4	100.0

6. Products in Annex A and the integration list together accounted for 22.8 per cent of the total imports of the five countries from each other and for 11.6 per cent of Nicaragua's imports from the other four countries. In appraising these percentages, several factors should be taken into consideration.

7. In the first place, the total import values, in relation to which the foregoing percentages are computed, are too large since they do not cover only commodities originating in the Central American countries, but also such re-exports from each one of them as are destined to the others. In this connexion, it should be noted that re-exports seem to be important in the trade among the five countries, at least in certain cases. Thus, re-exports in 1954 represented 19 per cent of Nicaragua's, and 40 per cent of Costa Rica's, total exports to Honduras. Moreover, the overstatement due to re-export trade is further aggravated if the import figures relate to general imports (i.e. including commodities due to be re-exported) - as actually is the case in Nicaragua, Costa Rica and Guatemala. However, it is not possible to evaluate the effect of these shortcomings of the statistics available.

8. In respect of Nicaragua's imports from the other four countries, it should be noted that 80 to 85 per cent of her imports from El Salvador are already free from duties under the existing free-trade area treaty between the two countries. If the value of duty-free imports under this arrangement is substituted for the value of Annex A goods and "integration goods" in respect of Nicaragua's imports from El Salvador, the proportion of Nicaragua's imports from the four countries which is, or is to be, freed rises from 11.6 to 67.4 per cent. Similarly, the proportion of the total trade among the five countries covered by the existing or the proposed free-trade arrangement would rise from 22.8 to 33.4 per cent.

9. It should also be noted that the two lists at present appended to the draft Treaty do not cover the bulk of agricultural products. However, it is understood that it is contemplated to widen the scope of the proposed free-trade system to include trade in such products in the near future, with the proviso that each participating country could, in times of shortage, impose temporary restrictions on the export of such products. (The imposition of such restrictions is permitted under the definition of a free-trade area in Article XXIV:8(b)). If such provision were made in the Treaty, the effect would be to raise the proportion of trade among the five countries covered by free-trade arrangements from 22.8 to about 40.5 per cent. The corresponding proportion of Nicaragua's trade would not be affected significantly.

10. Finally, it is understood that the Government of Nicaragua proposes to conclude with Costa Rica and Guatemala free-trade arrangements similar to the existing agreement with El Salvador and that these would cover substantially all of Nicaragua's trade with those countries.

Valeur en 1955 des Importations des Cinq Républiques d'Amérique Centrale, En Ce Qui Concerne Le Commerce Entre Elles et Avec Les Autres Pays,
en distinguant (i) les articles visés par le projet de traité, (ii) les articles envisagés dans le programme d'intégration économique et (iii) tous les autres articles

L/560
Pages 4/5

Value of Imports in 1955 of the Five Central American Republics From Each Other and From All Other Countries,
distinguishing (i) goods to be included in the Free-Trade System, (ii) goods envisaged in the Programme for Economic Integration, and (iii) all other products

(thousand dollars, f.o.b.)
(milliers de dollars, f.o.b.)

Imports vers into	from en provenance de	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	The five countries combined	All other countries Autres Pays	Total
Costa Rica	(i)	..	161.7	1.7	103.5	2.2	269.1	10,196.6	10,465.7
	(ii)	..	0.1	0.0	0.4	0.1	0.6	10,395.4	10,396.0
	(iii)	..	111.4	14.8	48.8	152.0	327.0	66,280.3	66,607.3
	Total	..	273.2	16.5	152.7	154.3	596.7	86,872.3	87,469.0
El Salvador	(i)	248.7	..	637.0	1,002.0	146.4	2,034.1	13,762.2	15,796.3
	(ii)	-	..	20.3	0.8	-	21.1	9,862.0	9,883.1
	(iii)	108.6	..	1,134.4	3,218.1	522.8	4,983.9	61,413.1	66,397.0
	Total	357.3	..	1,791.7	4,220.9	669.2	7,039.1	85,037.3	92,076.4
Guatemala	(i)	0.3	70.2	..	235.4	-	305.9	16,652.3	16,958.2
	(ii)	0.1	0.6	..	-	-	0.7	11,017.5	11,018.2
	(iii)	107.5	643.1	..	308.7	-	1,059.3	62,907.2	63,966.5
	Total	107.9	713.9	..	544.1	-	1,365.9	90,577.0	91,942.9
Honduras	(i)	22.5	62.2	9.1	..	0.5	94.3	5,299.8	5,394.1
	(ii)	0.2	1.6	2.7	..	-	4.5	7,673.9	7,678.4
	(iii)	102.8	1,554.1	33.0	..	404.0	2,093.9	34,066.9	36,160.8
	Total	125.5	1,617.9	44.8	..	404.5	2,192.7	47,040.6	49,233.3
Nicaragua	(i)	65.9	77.4	0.2	10.9	..	154.4	8,993.5	9,147.9
	(ii)	1.7	20.7	0.3	1.8	..	24.5	9,399.8	9,424.3
	(iii)	179.6	1,093.2	23.4	67.3	..	1,363.5	49,710.0	51,073.5
	Total	247.2	1,191.3	23.9	80.0	..	1,542.4	68,103.3	69,645.7
Total five countries	(i)	337.4	371.5	648.0	1,351.8	149.1	2,857.8	54,904.4	57,762.2
	(ii)	2.0	23.0	23.3	3.0	0.1	51.4	48,348.6	48,400.0
Total des cinq pays	(iii)	498.5	3,401.8	1,205.6	3,642.9	1,078.8	9,827.6	274,377.5	284,205.1
	Total	837.9	3,796.3	1,876.9	4,997.7	1,228.0	12,736.8	377,630.5	390,367.3

Note : Imports into El Salvador of category (i) goods valued \$205,100 the origin of which is not specified have been left out of consideration.

Note : Il n'a pas été tenu compte dans le tableau d'importations d'articles de la catégorie (i) par El Salvador pour une valeur de \$205,100 dont l'origine n'est pas spécifiée.