

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## ACCESSION OF COLOMBIA

### Memorandum on Foreign Trade Régime

The Government of Colombia has submitted the following memorandum describing its foreign trade régime.

Contracting parties wishing to put forward questions in connexion with the memorandum are requested to submit them to the secretariat in writing by 1 July 1969. These questions will be assembled by the secretariat and transmitted to the Government of Colombia for reply. Questions and replies will then be distributed to serve as background documentation for the proceedings of the Working Party on the Accession of Colombia.

## THE FOREIGN TRADE OF COLOMBIA

### INTRODUCTION

The new trends in the development of world trade in recent years, the need to extend shrinking markets in this country and the policy at present being followed by the Government of Colombia of active participation in all multilateral trade organizations are some of the various reasons which incited those responsible for the commercial policy of Colombia to apply for provisional accession to the General Agreement on Tariffs and Trade.

For this purpose and in accordance with one of the necessary preliminary conditions we are submitting for consideration by the Director-General, the secretariat and the Contracting Parties the present document concerning the foreign trade of Colombia.

The document is divided into three parts: the first contains an analysis of the foreign trade of Colombia from the time when the country began to take part in world trade down to the present, indicating the main characteristics at different stages of that period.

The second part describes the machinery of commercial policy and the way in which it has been used by the country to draw up a system of standards governing our commercial relations with other countries.

The third and last part describes the structural aspects of our foreign trade and the various organizations which are responsible not only for the formulation but also for the practical application of the commercial policy of Colombia.

Finally, in order to illustrate much of the information contained in this document, we give in an appendix a number of statistical tables from which it is possible to draw certain conclusions concerning the development of the foreign trade of Colombia during the past twelve years.

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## I. HISTORICAL ANALYSIS

### 1. Background and basic concepts

The foreign trade of Colombia began to take an active part in world trade about the end of the nineteenth century. At the beginning this was characterized by a steady development in exports of products from the primary sector, more particularly tobacco, indigo, cinchona bark, gold, petroleum, coffee and a few other commodities which were placed with more or less efficiency on the international market. The result was a rate of increase in foreign trade and in the general economic activity of the country which was by no means high but which nevertheless could be considered satisfactory. Generally speaking it might be said that this stage in the economic development of Colombia came to an end at the beginning of the great world depression of 1930. From that year onwards there began a period of decline in Colombian foreign trade which was reflected in a reduction in exports and in a defensive attitude against imports which led to prohibitions, tariffs and exchange control.

This situation forced the country into a stage of finding substitutes for imports, beginning with those commodities which do not require complicated techniques or costly investment, such as the traditional industries involving vegetable crops. These included beverages, textiles, foodstuffs, etc., and there was little difficulty in developing those. Between 1929 and 1932, for example, the coefficient of imports as compared with the total domestic output fell by two thirds as compared with preceding years.

The stage of exports of a single product passed successively through such items as tobacco, indigo and cinchona bark, but it was finally coffee which from 1912 onwards began to have great importance for Colombia. In that year exports of coffee amounted to a total value of \$16.5 million. Coffee exports rose to an extremely important level in world trade in 1919 when the value amounted to \$58.4 million, but it was from 1942 onwards that the national economy began to depend almost entirely on exports of this commodity. Thereafter there began a period of expansion in the foreign trade of Colombia which reached its peak in 1954, when coffee prices on the international market were at the highest level in history, and the return to Colombia for its exports amounted to more than \$550 million worth of foreign currency. The annual average income from this source has been US\$330 million. Since then the country has never obtained such an amount from the sale of coffee abroad, and there were appreciable reductions in exports of this product in 1955 and 1956.

### 2. The foreign trade of Colombia since 1957

Since Colombia began to play a part in the foreign trade of the world it has shown the same characteristics as are common to all developing regions, namely large-scale imports of manufactured goods, exports consisting mainly of raw materials, little diversification in exports, a constant lack of balance

in the trade figures and permanent difficulties as regards the balance of payments. In addition, it must be pointed out that the fact that foreign trade was dependent on exports of a very small number of products made this sector extremely vulnerable, with serious consequences for the general economic and social development of the country.

If we look in more detail at this situation we shall find that from 1957 until 1968 coffee was responsible for about 72 per cent of the total value of exports from Colombia; petroleum contributed 15 per cent and the so-called minor exports (i.e. those other than coffee and petroleum) represented 13 per cent.

This meant a very difficult situation since the two products, coffee and petroleum, represented at this period 87 per cent of the total receipts for exports and this will continue to be the case unless there is some change in the international market situation for the products which are of importance for Colombia.

(a) Imports

After imports reached their peak in 1953 as a result of the rise in the international price for coffee and the consequent exchange situation, which reached its culminating point in 1954, prices began to fall almost vertically until 1959 as the result of the very large reduction in the price of coffee as compared with other prices on the market and this meant a decrease in Colombia's ability to import and subsequently a devaluation of the peso in 1957 and direct and indirect restrictions on imports imposed by the Government. These restrictions were intended, among other things, to produce a surplus in the balance of trade so as to overcome the delays in short-term payments which were pending, but this was only partly successful. In 1960 and 1961 total imports rose by \$104 million and \$141 million respectively as compared with 1959, owing to an improvement in purchasing power resulting from an increase in the price of coffee; they declined again in the following years because of a fall in the income from exports.

It should also be mentioned that the increase in the income from coffee led to a larger volume of imports in 1964. In 1965 there was a marked fall in imports as a result of the very restrictive policy followed by the Government.

In March 1966 the Government of Colombia introduced a more liberal system for imports so that the industry of the country could be provided with the raw materials and the capital goods required and could therefore work more efficiently and compete more easily on the international market. However, the absence of any planned policy for giving effect to this system meant that there was strong pressure on imports, an increase in the external debt, a marked reduction in reserves of foreign currency and by the end of that year a critical situation as regards the balance of payments because of the acute adverse trade balance of more than \$166 million which was the highest figure in the history of Colombian foreign trade.

As a result of the difficult period through which the country passed at that time the Government introduced an emergency economic policy within the framework of which the Foreign Trade Council of the period went over to a system of issuing permits in advance for all imports entering the country, including those which had been declared free of licence under the mechanism of the Latin American Free Trade Association. As a result of these measures the foreign trade of Colombia was subjected to very great restrictions during 1967 and the first half of 1968. However, the provision of foreign exchange for the purchase of raw materials and industrial equipment for commercial operations proceeded normally without any damage to the productive structure of the country.

In 1967 imports fell by \$177 million but rose rapidly in 1968 as a result of the improved economic situation of the country; the amount of the increase was approximately \$128 million.

(b) Exports

The total value of exports from Colombia is determined largely by coffee because it represents such a large proportion of the total receipts of foreign currency in the country. The Government has been conscious of the danger which this situation represents for its economy and has joined with the industrialists of the country in an endeavour to increase the yield of foreign currency but unfortunately this effort was largely offset by the steady fall in the price not only of coffee but also of other basic exports. In 1957 sales abroad amounted to \$511 million whereas eleven years later in 1967 they amounted to barely \$510 million.

The problem is even more serious when one remembers that a country like Colombia which is in process of development has an increasing need for capital equipment and raw materials which are not produced in the country, and in order to purchase those items it must logically possess an increasing amount of foreign currency. However, as we have just seen there has not been an increase in the amount of foreign currency because of the international supply and demand situation which has led to an increasingly ruinous price for our exports. In considering this situation from the point of view of the economic growth of the country we do not wish to be pessimistic but we must draw attention to the close connexion which exists between our foreign trade and the economic progress of the country, which means that any decline in the former inevitably causes difficulties for the latter.

3. Composition of Colombian foreign trade, 1957-1967

The details of the structure of Colombian foreign trade during the period under consideration show the following main characteristics:

### Vulnerability

The foreign trade of Colombia has been excessively vulnerable because of the lack of adequate diversification in the commodities exported; thus two commodities, coffee and petroleum, have during the period under consideration constituted in themselves 87 per cent on an average of the total value of the country's exports.

The value of exports from Colombia fluctuated very greatly from 1957 to 1967, with a slight revival in 1964, but in general showing a downward trend. The situation is therefore somewhat serious; in 1957 the total volume of exports from Colombia was 4,915,136 tons with a value of \$511 million. Eleven years later, in 1967, exports amounted to 7,000,657 tons (2,085,521 tons more than in 1957) and yet the amount received was only \$510 million. This shows that the country had obviously made a great effort to secure an increase in foreign currency coming from exports but that this great effort was rendered null and even outweighed by the increasingly unfavourable terms of trade resulting essentially from the steady fall in the international price not only of coffee but also of all our other basic exports.

### Imports

The total value of imports showed an upward trend and in 1966 reached a figure of \$674 million, which is the highest in the history of our foreign trade and which left the country with an adverse trade balance of more than \$166 million. In 1967 imports fell to \$497 million.

### Financing the trade deficit

The adverse trade balances were met in part by international loans which in many cases had to be covered in Colombian pesos by means of appropriations in the national budget, thus contributing considerably to the inflationary situation in the country.

### Value per exchange unit

The imbalance between prices per unit of exchange became more marked in the course of this period. The price paid per ton of exports fell steadily whereas the expenditure of the country on each ton imported rose. In 1967, the value of each ton exported was \$72.84 whereas the cost of the unit of imports was \$405.57, thus giving a net adverse balance of \$332.73.

### Exports of coffee

Exports of coffee from Colombia suffered a marked decline during the last eleven years except for a slight recovery in 1964. As a result the share of this product in the total exports of the country fell from 83.13 per cent in 1957 to only 63.23 per cent in 1967. Mention must also be made of the fact that while the production of coffee remained more or less

constant during the period in question the gross internal yield from coffee, the area under cultivation and the proportion of coffee to the total agricultural output of the country have fallen to a considerable extent. Colombia provides approximately 14 per cent of the world exports of coffee. This is the highest proportion of any country, followed by Ethiopia, Uganda, Guatemala and Salvador.

#### Exports of petroleum

Exports of petroleum represented in 1967 some 62 per cent of the total volume of exports although the proportion of foreign currency which it brought into the country was only 12 per cent during that year.

#### Countries to which exports were made

More than 85 per cent of Colombian exports went to the United States, the Federal Republic of Germany, the Netherlands and the United Kingdom in that order. During the last five years Spain has also become an important market for Colombian products.

#### Origin of imports

Just as in the case of exports, Colombian imports come traditionally from the same sources. The United States continues to be the chief supplying country, being responsible for over 53 per cent of imports on the average during the period under consideration.

#### Trade with the United States

The United States continues to be the most important country from the point of view of Colombian foreign trade. In 1967 trade with that country (imports and exports) represented 44 per cent of our total foreign trade.

#### Trade with Europe

Although it is not possible to speak of the geographical distribution of exports by country it can be done by areas. Our trade with Europe and particularly with the countries of the European Common Market has been increasing steadily. In 1967, for example, approximately 40 per cent of our trade was with countries of Western Europe.

#### Minor exports

The so-called minor exports (that is, leaving aside coffee and petroleum) increased by 175 per cent during the period under consideration, representing \$46 million in 1957 and \$126 million in 1967. This rapid increase was the direct result of the incentives introduced from 1959 onwards, the development of new branches of exports, more especially from 1964 onwards, and the constant efforts of the Government to introduce diversification in the goods available for export. The preliminary figures for minor exports in 1968 show a total of approximately \$157 million.

### Diversification of exports

During 1968 Colombia exported some 580 different commodities apart from coffee and petroleum. However, because of the low level of our minor exports and the instability and downward trend of international prices for our products, this section of our exports did not produce any significant reduction in our economic dependence on coffee.

### Composition of exports

Minor exports consisted mainly of the following products in this order of importance: bananas, cotton, fuel oil, sugar, unmanufactured tobacco, cotton fabrics, paper boxes and bags, sawn wood, Portland cement, cotton yarn, vegetable oil cake, shellfish, tyres for motor-cars, asbestos-cement tubes and beef. These products together represented in 1967 approximately 76 per cent of the minor exports. The remaining 24 per cent consisted of a fairly large number of products none of which individually was of much importance. Some 80 per cent of minor exports went to the following countries in descending order: United States, the Federal Republic of Germany, Netherlands, Peru, Argentina and Ecuador.

### Degree to which products were worked up

The following are the outstanding characteristics of Colombian foreign trade in respect of the degree to which products are worked up:

- (a) A high proportion of exports of primary products which has always remained above 85 per cent of the total exports.
- (b) Exports of manufactured and semi-manufactured goods which, although there was a rapid increase in the proportion during the period under consideration, nevertheless represented only about 14 per cent of the foreign currency received in the country in respect of exports during 1967.
- (c) As regards imports, the majority are manufactured goods, followed by semi-manufactured goods and raw materials - in other words the reverse order from exports.
- (d) The trend of exports of raw materials has been mainly to the United States and Europe, whereas the chief markets for manufactured and semi-manufactured goods have been Central and South America.

### Trade of Colombia with the LAFTA

The speed with which trade between Colombia and the countries which are now members of the LAFTA developed is one of the most vital aspects which must be noted in connexion with the foreign trade of the country. In 1961 the value



of the imports and exports with those countries was \$19.5 million, whereas in 1966 it was \$89.7 million; in 1967, as a result of temporary restrictions imposed by certain countries it had fallen to approximately \$28 million. There was a fresh expansion in 1968 when those restrictions were withdrawn.

Apart from the increase in trade between Colombia and the other members of the LAFTA, the Treaty of Montevideo was undoubtedly a decisive factor in enabling the country to increase its exports of manufactured and semi-manufactured goods. In 1957 exports to the area of the two categories of goods amounted to \$1,532,000, or 22 per cent of total exports to the LAFTA, whereas in 1966 exports of manufactured and semi-manufactured goods to the area amounted to a value of \$19,514,575, or 61.26 per cent of the total exports to all the countries at present members of the LAFTA.

#### Participation in world trade

The participation of Colombia in world trade has certain characteristics which give rise to concern. This refers in particular to the steady decline both in absolute and in relative terms in the fraction of that trade coming to our country: from 0.42 per cent in 1957 it fell to 0.27 per cent in 1967.

#### Situation as regards exchange prices

The position of the country as regards exchange prices since 1952 fell into two fairly distinct periods: the first lasted from 1952 to 1957 when the situation was favourable and enabled a larger quantity of goods to be imported; the second began in 1957 and reversed the previous situation, mainly because of a steady fall in the international price for coffee. From that year onwards there has been a serious situation in the international trade of the country and the main factor in solving the situation would seem to be an improvement in the conditions at present existing in international markets for the exports of Colombian products.

The close relationship which has been maintained between the economic development of the country and external factors suggests that it would be possible to restrict the process of economic contraction, more particularly by getting rid of the negative aspects of the external sector.

#### Commercial and payments agreements

Colombia has at present commercial and payments agreements based on the compensation system with Spain and with six Socialist countries: German Democratic Republic, Bulgaria, Hungary, Poland, Romania and Yugoslavia. The compensation agreement which previously existed between Colombia and the Soviet Union has been changed into a system of free convertibility.

The total commercial exchanges between Colombia and the countries just mentioned (imports and exports) have risen considerably since 1967 because of the liberal commercial policy practised by the Government in recent years.

The value of imports through the system of exchange agreements during 1967 was approximately \$61 million. Exports amounted to about \$45 million, which meant an unfavourable balance for Colombia of \$16 million. In 1968 imports amounted to \$61.6 million, exports to \$49.1 million, and the unfavourable trade balance to \$12.5 million.

The main commodities imported under this system have been motor vehicles, their components and spare parts, chemical and pharmaceutical products and machinery and equipment for the wood and metal working industries.

In addition to those products mention should be made of chloride of potassium and tractors which come from Eastern Germany; ships, locomotives, cork and wheat from Spain; ball bearings from the Soviet Union and electrical appliances from Hungary and Yugoslavia.

There is only a small range of export commodities under this system, the main one (and in some cases the only one) being coffee and occasionally unmanufactured tobacco and cotton to Eastern Germany and Spain and bananas and paper products to Eastern Germany and Bulgaria.

The foreign trade of Colombia with the countries with which it had exchange agreements in 1967 represented 10 per cent of its total foreign trade and in 1968 approximately 10.7 per cent.

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## II. COMMERCIAL POLICY OF COLOMBIA

### 1. The machinery of commercial policy

#### (a) The system of tariffs

##### Nomenclature

Up to 1964 Colombia used for its foreign trade the Geneva nomenclature. However, this system of classification of commodities was gradually becoming out-of-date because of the increasing complexity of international trade and consequently the Government, by Decree No. 3168 of 21 December 1964, abolished the use of the Geneva nomenclature and adopted instead the Brussels nomenclature (BTN). In this Decree it was laid down in addition as a fundamental principle that tariffs would cease to be a fiscal instrument and would instead be an instrument for economic development. In order to show the effect of this, one may take for example the year 1967 during which the income from tariffs represented only 12 per cent of the real income of the country for the year.

##### Customs tariffs

Customs tariffs are charged on the c.i.f. value of the imported goods, which means that all specific duties and other similar charges which existed previously have been abolished. In this way an attempt has been made to rationalize our import system and make it technically sounder.

While making full allowance for possible defects in the method employed, we have calculated that the average incidence of Colombia's ad valorem duties in 1967, dividing the value of the duties paid into the total value of imports during the year, shows a level of approximately 26 per cent, which might be considered reasonable.

It should be stated however that a very small number of the items on our tariff list are subject to comparatively high rates of duty. However, those are either luxury goods or are subject to high rates for health reasons and consequently they are of little importance in our total import trade.

In fixing tariff rates the policy which has been followed is intended to bring up-to-date and into line with the economic development of the country the rates which are charged, and the decision is dictated by circumstances such as the development of new sources of national production which deserve reasonable protection, the need to promote the integration of the protected industry into the general system, the desirability of extending to the consumer the benefits of industrialization, the need to avoid the development of monopolies under the shelter of customs protection and the need to ensure that foreign investments are not only effective but also help to promote economic development. Finally, as was mentioned earlier, customs tariffs are so organized that they are intended to act as an instrument to promote national economic development and not to secure increased income for the State.

(b) Legal regulations concerning imports

Three separate systems for the importation of goods have been set up in order to channel imports into areas which will promote the economic development of the country and help to achieve and maintain a level of reserves sufficient for the normal organization of international exchanges, to provide an adequate supply of foreign currency, to maintain a reasonable balance of payments, to suppress consumption of certain commodities which are not considered essential and to provide adequate and reasonable protection for existing national industries and for those which may be set up to promote a variety of exports. These three systems are as follows:

Free importation

In general terms the commodities which can be freely imported are those which are necessary for consumption in the country but which are not produced in the country or which are not produced in sufficient quantity to satisfy domestic demand.

Imports of items included in this list do not require prior authorization from the Imports Board of the Colombian Institute of Foreign Trade; this approval is granted automatically when the application is registered. However the Board is entitled to ask for information to prove that the prices mentioned in the application do not involve the illegal transfer of capital abroad.

Prior licensing

The importation of commodities included in the prior licensing list requires permission from the Imports Board, which can approve the application in whole or in part, postpone a decision, refuse permission or reduce the quantity asked for.

In considering requests for importation the Colombian Institute of Foreign Trade, operating through the Imports Board, takes into account the following circumstances:

1. The degree of importance of meeting the needs of popular consumption and maintaining or increasing the level of employment which might be achieved by accepting the application.
2. The contribution of these imports to promoting and diversifying exports and their possible favourable effect on the balance of payments of the country.
3. The possible net saving in foreign currency which might be achieved by refusing these imports.

4. If the commodities are produced in the country, whether the production suffices to meet demand in the area for which the commodities are destined and whether it is necessary to protect the consumer against abuses in prices and quality.
5. The urgency of helping the development of local industries in particularly backward areas by importing suitable raw materials even when the commodities imported are produced in the country.
6. In the case of commodities which are not produced in the country account is taken of the greater or lesser scarcity of those articles and the degree of need for them. Account is also taken of the selling price to the consumer as compared with the costs of imported commodities.
7. The volume of stocks in the possession of the importer as compared with the total requirements of his undertaking.
8. The value of the import licences for the same article applied for by the importer over a given period as compared with his applications for earlier periods.

#### Importation prohibited

The legislation clearly states that the list of commodities the importation of which is prohibited must contain only commodities which might endanger the health or safety of individuals, essentially luxury items and those for which the market is sufficiently met by national production at reasonable prices. However, in the case of gifts, diplomatic baggage, a shortage of domestic supplies and other special circumstances, commodities may be allowed into the country even if they are on the prohibited list.

#### Additional import surcharges

There are three additional surcharges on imports, the total of which is 4 per cent ad valorem. These are:

A surcharge of  $1\frac{1}{2}$  per cent on the c.i.f. value of the goods imported, which is payable to the National Coffee Fund, the body which is responsible for giving effect to official plans for the replacement and diversification of crops.

An additional surcharge of  $1\frac{1}{2}$  per cent on the c.i.f. value of the goods imported which is transferred to the Export Promotion Fund which was set up in 1967 to finance operations connected with the promotion and diversification of Colombian exports.

Consular fees of 1 per cent on the f.o.b. value of the imported goods, these fall due at the time when registration is granted and are payable in Colombian legal currency at a rate of exchange with foreign currency which is fixed from time to time by the Finance Ministry.

(c) Fiscal arrangements

In view of the urgent need to increase the non-traditional exports of the country so as to reduce as far as possible its economic dependence on coffee, the Government made a number of fiscal arrangements. Thus it set up a special import-export system according to which nationals of the country or corporations which were producing firms or exporting firms could enter into a contract with the Government to bring in free of duty raw materials and other items to be used in the production of commodities intended solely for sale abroad. These contracts could be in a variety of forms and were subject to strict Government control.

(d) Tax arrangements

With the same object in mind the Government introduced certain tax arrangements, the most important of which was the certificate of tax receipts. When foreign exchange was received in return for exports of petroleum or its derivatives, raw hides or coffee, the Bank of the Republic issued to the exporter a certificate of tax receipt to the equivalent in legal Colombian currency of 15 per cent of the total amount of foreign exchange received. These receipts were accepted at par by the tax collecting offices in payment of income or other tax, customs duties or sales tax, as from one year after the certificate had been issued to the exporter by the Bank of the Republic.

(e) Rates of exchange

Because of the difficulties resulting from the world depression in 1930 Colombia, like other Latin-American countries, adopted a policy of control of foreign trade and international exchanges. It was from that date that multiple rates of exchange began to be one of the chief instruments for the control of imports in order to maintain the balance of payments, and thus were used for the first time as a deliberate instrument of policy in connexion with the replacement of imports and the promotion of industrial development. This situation continued until 1966 when there were three rates of exchange in the country: one for coffee, one for petroleum and one for other exports and imports, the last mentioned being the market rate. During this period there was an increasing tendency to use flexible rates of exchange, reflecting the search by the authorities for an adequate mechanism to adjust these rates to the ever changing economic conditions both within and outside the country and to deal with the problems of the flight of capital and prevalent inflationary process.

From 1957 to 1962 the currency of Colombia was devalued several times for the purpose inter alia of stimulating exports and reducing the pressure for imports. These two aims were achieved almost immediately but not with lasting effect because the trade balance remained unstable until 1966 when the country ended up with a deficit of more than \$166 million, which was the highest in the history of our foreign trade. In order to overcome this situation the Government, as was explained earlier, found itself obliged to introduce certain forms of commercial

policy with reasonably favourable results. It then became necessary to simplify or if possible to eliminate the unduly complex system of multiple exchange rates. As a result there are at present only two exchange rates:

1. A rate of exchange under which the dollar is equivalent to nine Colombian pesos; this is used for the sale of foreign currency intended for the purchase of crude petroleum to be refined in the country. As will readily be understood, this is used to a very limited extent.
2. The second rate, which applies to all other operations, is represented by the so-called "exchange certificate" issued by the Bank of the Republic in exchange for foreign currency. The rate at which these certificates are issued fluctuates according to the average of the various daily quotations on the market concerned. Thus the rate of exchange is constantly adjusted to the real value of the currency.

(f) Monetary arrangements

Prior deposits

The Monetary Board of the Republic of Colombia, which was set up to determine national monetary policy, decided in 1963 to require prior deposits in respect of imports of commodities for the sole purpose of withdrawing from monetary circulation a certain quantity of currency in an attempt to control the chronic inflationary process from which the country suffered. Prior deposits, which must be paid into the Bank of the Republic before the request for imports is submitted to the Colombian Institute of Foreign Trade, are equal to a percentage of the value in pesos of the application, and are paid at a rate of exchange fixed periodically by the Ministry of Finance. Those deposits cannot be refunded until the goods have entered the country. They remain frozen in the Bank of the Republic and neither the Bank nor the Government can use them.

Prior deposits are not required in the case of imports made by official bodies or branches of the public service, those covered by special systems for the promotion of exports, those undertaken in accordance with international agreements signed by Colombia, and any others which may be decided upon by the Government for reasons of public interest.

(g) Trade and payments agreements

(Compensation agreements)

The way in which the Socialist countries engage in foreign trade, the desire to create and maintain a steady flow of trade between Colombia and those countries and the necessity of finding in Europe new markets for coffee and consolidating existing ones were all among the reasons which induced the Government of Colombia to make use of the method of trade agreements.

Two stages can be distinguished in commercial relations with the Socialist countries according to the purposes in view: the first was from 1959 to 1966 and the second began in 1967.

In 1959 a Colombian commercial mission was sent to study the European market for coffee, to advance the negotiations which were already under way, to increase the sale of coffee in these markets and finally to examine the kind of organization which should be set up to extend the sale of coffee and promote interchange of trade with the countries in question.

Since the coffee market in the Socialist countries was controlled, subject to quotas and centralized in the hands of official bodies the trade mission thought that the best method of developing substantial trade with those countries would be a system of bilateral agreements. Accordingly, agreements were signed with Hungary, Romania, USSR and Yugoslavia and the agreement already existing with the German Democratic Republic was expanded. As was mentioned earlier, the main purpose of the mission was to look for wider markets for coffee and to build up an initial system of agreements.

The second stage in trade relations with the Socialist countries, which began in 1967, was motivated particularly by the new official policy of seeking more flexible and effective machinery for regulating the trade of Colombia with the Socialist countries. According to the present Government programme in the field of commercial policy efforts are being made to extend economic relations with the Socialist countries - that is, to adopt other means of interchange of goods, taking into account the new principles whereby international trade is used as an instrument in ensuring the economic and social development of the less advanced countries.

The policy which is at present being worked out with the Socialist countries is far reaching and ambitious. At this new stage it is no longer merely a question of increasing our sales of coffee, but also of trying to purchase various basic products such as tobacco, cotton, rice, etc. and also manufactured and semi-manufactured products. Similarly, a great effort is being made by means of rational policy of imports to make use of the favourable balance which we at present have with those countries. For instance, we are trying to use those balances to purchase some of the commodities and capital goods required for our economic and social development. Finally, in so far as the volume of trade in both directions develops we will hope to obtain technical and financial assistance.

The Socialist countries with which Colombia at present has trade and payments agreements are: Democratic Republic of Germany, Bulgaria, Hungary, Poland, Romania and Yugoslavia. A trade agreement providing for free convertibility exists with the USSR.

A similar agreement based on a system of compensation was signed with Spain in 1964, and since that time our trade with that country has developed so rapidly that within a few years Spain became the third country in order of importance from the point of view of our foreign trade.



The solid basis on which the trade of Colombia with the countries with which trade and payments agreements have been signed is being established and the new lines being followed in our commercial policy have opened up for the Government the possibility to develop multilateral trade and free convertibility in its relations with those countries as has already been done with the Soviet Union and Czechoslovakia.

(h) Some aspects of the monetary situation

The monetary situation of the country at the present time is fully satisfactory. As regards the means of payment in circulation it may be pointed out that during 1968 they increased by Col\$1,967 million, reaching a total of \$15,417 million or an increase of 14.6 per cent. This is the lowest increase in the last five years and may be considered as appropriate in the light of the rates of development of output and prices during 1968. This expansion has not led to inflation because it was offset by an increase in the deposits which the various banks had made with the bank of issue (\$996 million) and the amount of \$308 million provided by the prior deposits for imports. At the same time the improved handling of our monetary and fiscal policy, better systems for securing savings and marked advances in production enabled us to reduce the rate of inflation to levels which may be considered normal for any developing country.

The index of prices as compared with the average for trade in general showed an increase of 4.4 per cent for 1968, and this again was the lowest increase registered in the last five years. As regards reserves of gold and foreign currency, the situation has improved considerably: from a negative situation in past years it improved by the end of 1968 in that there were positive reserves which were tending to grow.

The current account of the balance of payments showed a surplus of \$11.5 million which helped to increase the reserves of the country in 1968.

(i) External debt and financing

In view of the difficulties concerning the trade balance to which frequent reference has been made in the present study, the country has been obliged to have recourse constantly and to an increasing extent to foreign capital. The ratio of the gross foreign capital entering the country as compared with total exports has continued to rise, one of the main reasons being the limitations on exports. The external debt of Colombia has therefore risen to a considerable sum thus emphasizing the weakness in recent years of the efforts made to find substitutes for imports. This has increased the pressure on the balance of payments because it accentuated the chronic inadequacy of the receipts from exports to meet the growing need to make payments abroad.

Because of the steadily increasing burden involved in meeting the external debt at a time when the conditions for obtaining loans were becoming more and more difficult, and because of the normal limitations on a greater net income from

foreign capital and the comparatively low level of international reserves it has been difficult to import the capital goods necessary for the development of the country.

On 1 January 1967 the external debt of Colombia was \$1,014 million which was the fifth in Latin America after Brazil, Mexico, Argentina and Chile. The debt was approximately twice the value of our exports and represented \$54 per head of the population.

The per capita financial aid granted to the country during 1967 was approximately \$480. Thus the proportion of net financial external aid in the gross national product of Colombia was 1.2 per cent during that year.

(j) General lines of Colombian trade policy

In general the basic principle of the trade policy of Colombia is universality - that is, that the country should trade with all geographical areas and countries of the world, should take an active part in the work of international trade and development organizations, should consolidate its traditional markets, should increase its trade with new markets, should seek better conditions in international markets for its basic products and for the export of manufactured and semi-manufactured products, should participate actively in the integration of Latin America and in short should work for the opening up and conquest of new markets.

The following steps among other are being taken to achieve these aims:

1. The new lines of commercial policy in Colombia attach great importance to the participation of the country in multilateral trade institutions. In this way it is felt that as our economic conditions continue to improve we can dispense with many of the measures which have been used temporarily to correct the difficulties in connexion with our balance of payments.
2. Emphasis is placed on trade with countries with a high rate of economic growth.
3. Great efforts are being made to change the present character of our exports so as to build up a group of products with a high rate of elasticity of demand so that demand will increase whenever the income level of the consumers rises.
4. External financing has in recent years been used for productive investments and for specific projects forming part of the general plan for the economic development of the country.

5. In order to ensure the harmonious development of industrialization and at the same time to take account of the possibilities of the market special studies are being carried out which should enable us to define a planned system for finding substitutes for imports, selecting those which will have positive effects on the balance of payments in such a way that the resulting saving in foreign exchange will be greater than the amount that has to be paid out.
6. Our country has endeavoured to promote the growth of integration among the Latin-American countries so as to provide scope for the production of manufactured goods and particularly capital equipment.
7. With the setting up of the Export Promotion Fund, to which reference will be made later in connexion with the institutions concerned with foreign trade, effective systems have been set up and are being developed for credit and for the financing and insurance of exports.
8. The Colombian Institute for Technical Standards has established special systems for checking the quality of goods to be exported so that they comply with the required technical specifications and can therefore be readily placed on the international market.
9. More intense efforts are being made to diversify production and the export of commodities, particularly finished products, and more especially those which can have a direct or indirect positive effect on other branches of the economy.
10. We are playing an active part in the various international agreements concerning the basic products (coffee, sugar, etc.) so as to achieve, in so far as circumstances permit, a certain degree of stability as regards prices and the quantities placed on the market.

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### III. ORGANIZATIONAL STRUCTURE OF COLOMBIAN FOREIGN TRADE

#### 1. Foreign Trade Council

This Council is the supreme body dealing with the foreign trade of the country and its main function is to formulate Colombia's commercial policy. It consists of:

The Minister of Economic Development (Chairman).

The Minister of Foreign Affairs.

The Minister of Finance.

The Minister of Agriculture.

The Chief of the Administrative Planning Department.

The Manager of the Institute for the Promotion of Industry.

The Manager of the Bank of the Republic.

The Manager of the National Coffee Federation.

The Director of the Fund for Promoting Exports.

The Director of the Institute of Foreign Trade (in a consultative capacity with no vote).

The Secretariat of the Council is in the hands of the Division for Economic Integration and Commercial Exchanges of the Institute.

In addition to the general function assigned to the Council, it is also responsible for the following:

- The co-ordination of commercial policy with monetary, customs and economic development policy.
- The study of problems of Latin American integration with a view to harmonizing policies as regards trade, currency, salaries, labour problems and foreign investments.
- To approve commercial agreements entered into by the Bank of the Republic, the Fund for Promoting Exports and the National Coffee Federation.

- To comment in advance on any international agreements which the Government is proposing to enter into and on any international treaties on commercial matters which have to be submitted to Congress for approval.
- To indicate the degree to which certain products should be worked up before being exported, to lay down standards for channelling exports through specialized bodies and to fix standards as to quality, packing, trade marks and other requirements for various goods to be exported.
- To regulate the investment of Colombian capital abroad in the form of equipment.
- To fix limits for the exports of articles of prime necessity.
- To impose restrictions to protect the fauna and flora of the country and its natural resources.
- To make the monthly distribution in accordance with the foreign exchange budget.
- To plan and co-ordinate foreign trade policy and assess the results.
- To draw up and modify the lists of free, prior registration and prohibited imports.
- To establish a programme for the policy of Colombia in the LAFTA and approve lists of offers and requests for negotiations within that body.
- To take decisions on problems of international transport and make recommendations thereon.
- The Council also acts as the Board of the Colombian Institute of Foreign Trade (INCOMEX).

## 2. Colombian Institute of Foreign Trade

The Colombian Institute of Foreign Trade, which was set up by Executive Decree No. 2976 of 4 December 1968, is a public body enjoying legal personality, administrative autonomy and financial independence. Its main task is to carry out the policy of the Government as regards foreign trade, in doing which it works in close co-operation with the other government bodies engaged in similar or complementary tasks, and more particularly, the Ministry of Foreign Affairs, the Directorate of Customs and the Fund for Promoting Exports. In addition the Institute fulfils the following functions:

- To make recommendations to the Government on foreign trade policy.

- To lay down aims and programmes for exports.
- To undertake studies of foreign markets.
- To give effect to the imports policy.
- To make the necessary studies for negotiating loans in connexion with foreign trade.
- To prepare the list of free, prior registration and prohibited imports.
- To undertake the studies required for the participation of Colombia in the LAFTA and in other Latin American multinational bodies of economic character.
- To study problems of commercial exchanges with neighbouring countries.
- To analyze the commercial exchanges of Colombia with other countries and its position in international commercial agreements and institutions. It also defines, in co-operation with the Ministry of Foreign Affairs, the attitude to be taken by Colombia in any meetings concerning trade and development.
- To control the international prices of imports and exports.

The machinery of the Institute includes a Division for Economic Integration and Commercial Exchanges which is responsible for carrying out the policy of Colombia in connexion with the LAFTA and for preparing studies on the participation of the country in other forms of Latin-American integration; it also makes studies and recommendations on these subjects and defines the attitude which the country should take in various international and commercial development meetings and in multilateral commercial organizations. There are three other divisions dealing respectively with administration, imports and exports.

### 3. Fund for Promoting Exports

The Fund for Promoting Exports is an autonomous body with legal personality which acts in conjunction with the Bank of the Republic on the basis of a contract drawn up between the Bank and the Government. Its principal objective is to strengthen the balance of payments of the country by increasing the number and variety of the goods exported.

In order to carry out the aims which have been set for it, the Fund may operate both within and outside the country, in national or foreign currency and directly or through public or private bodies in which it may or may not hold shares, as well as through credit establishments. In order to ensure that Colombian exports can compete on foreign markets and that the exporters have sufficient financial resources of the kind required, the fund engages in the following operations among others:

- Discounting for exporters' letters of credit granted to foreign purchasers.
- Granting loans and financing studies concerning the promotion and diversification of exports.
- Providing finance for the promotion of exports with a view to opening up new foreign markets and extending the existing ones.
- Making advances for the payment of freight, insurance, customs duties and warehousing costs for exported products and providing credits in the case of contracts.
- Granting facilities for the development of the transport system with a view to stimulating foreign trade.
- Granting continuous assistance to exporters and keeping them informed of the possibilities on foreign markets.
- Organizing seminars, engaging in propaganda, sending samples to foreign markets and encouraging exporters in Colombia to take part in international affairs and exhibitions.
- Organizing insurance schemes for exports.

#### 4. Monetary Board

The Monetary Board of the Republic of Colombia, which was established on 20 August 1963 to regulate the money market and draw up a monetary and exchange policy for the country, is composed as follows:

- The Minister of Finance (Chairman).
- The Minister of Economic Development.
- The Minister of Agriculture.
- The Chief of the Administrative Planning Department.

- The Director of the Institute of Foreign Trade.
- The Manager of the Bank of the Republic.

The main tasks of the Monetary Board are:

- To determine which activities can be granted foreign currency in order to make payments abroad.
- To regulate the storage of coffee in warehouses or depositories abroad on behalf of the National Coffee Federation.
- To regulate operations connected with exchange certificates.
- To regulate the purchase and sale of gold by the Bank of the Republic, which is the only body in the country entitled to undertake these operations.
- To lay down rules for deposits in foreign currency either in the country or abroad.
- To determine the amount, duration, requirements and other conditions for deposits prior to importation or for the extension of such deposits.
- To regulate the payment of foreign currency to the Bank of the Republic by credit establishments.
- To indicate the requirements for obtaining exchange licences.
- To regulate cases in which authority can be granted for Colombian legal tender to come into or go out of the country.
- To regulate the granting of guarantees and sureties for obligations for foreign currency.
- To lay down conditions and quantities for the transfer of sums required for the payment of services in foreign currency.
- To regulate the duration, rates of interest and other conditions of foreign loans to private individuals.
- To draw up a budget for foreign currencies coming into and leaving the country.
- To indicate the form and procedure to be followed for repaying foreign currency to the Bank of the Republic.



- To authorize the financing of international reserves.
- To fix the exchange rate for operations connected with petroleum.
- To indicate the exchange rate to be used in keeping the accounts of international reserves.

5. National Council on Tariff Policy

This Council was set up by the Government by Decree No. 1345 of 1959 in order to centralize in the hands of a single body the determination of the tariff policy of the country. It consists of:

The Minister of Finance (Chairman)

The Minister of Agriculture

The Minister of Economic Development

A Senator

A Representative of the Chamber

A Representative of the National Planning Department

The Director of Customs

The Director of the Colombian Institute of Foreign Trade

The Manager of the Institute for Industrial Development.

The main tasks of the National Council for Tariff Policy are:

- To amend the scales of tariffs for imports and exports, within certain limits prescribed by the constitution or the legislation, if the rates are thought to be excessive or inadequate.
- To make such reforms as may be thought necessary in the nomenclature of goods to be imported.
- To fix the official prices at which ad valorem duties should be paid when unfavourable economic factors warrant such a step.
- To express views on the customs and tariff aspects of agreements and treaties concerning foreign trade which the country is proposing to sign.

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- To advise the competent authorities in drawing up lists of commodities which can be considered for importation.
- Any other duties prescribed by the legislation.

6. General Directorate of Customs

The General Directorate of Customs, which comes under the Ministry of Finance, is the body responsible for interpreting the legislation on customs and tariffs, ensuring compliance with it throughout the country and also collecting the yield of tariffs and other similar charges which fall within its scope.

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We trust that the above will suffice to give effect to the purpose which was mentioned in the introduction to this document and we shall be happy to provide any additional information which you may think necessary.

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TABLE 1  
TOTAL EXPORTS OF COLOMBIA 1957-1968

Year	Gross tons	Value FOB US\$	US\$/Tons
1957	4,915,136	511,108,000	103.9
1958	4,770,441	460,715,000	96.5
1959	5,538,642	473,004,000	85.4
1960	5,805,435	464,578,000	80.0
1961	5,254,538	434,467,000	82.6
1962	5,068,072	463,403,000	91.4
1963	5,735,728	446,657,000	77.8
1964	6,000,789	548,136,000	91.3
1965	7,592,068	539,144,300	71.0
1966	7,175,113	507,591,200	70.7
1967	7,000,657	509,879,000	72.8
1968 (1)	-	546,626,654	-

SOURCE: National Department of Statistics (DANE): (Monthly Bulletins of Statistics and Tables of Exports).

(1) Records - Institute of Foreign Trade (INCOMEX) and Ministry of Mines.

TABLE 2  
TOTAL IMPORTS OF COLOMBIA 1957-1968

Year	Gross tons	Value in \$'000	US\$/Tons
1957	1,469,851	482,575	328.31
1958	1,033,337	399,932	387.02
1959	991,614	415,588	419.10
1960	1,209,535	518,585	428.74
1961	1,441,026	557,129	386.61
1962	1,425,971	540,351	378.93
1963	1,149,680	506,023	440.14
1964	1,495,740	586,291	391.97
1965	1,074,485	453,502	422.06
1966	1,804,468	674,092	373.57
1967	1,225,218	496,908	405.57
1968 (1)	-	624,904	-

SOURCE: - National Department of Statistics (DANE): (Monthly Bulletins of Statistics Nos. 181 of April 1966 and 193 of April 1967).

(1) Records - INCOMEX.

TABLE 3  
TRADE BALANCE 1957-1968

YEAR	IMPORTS	EXPORTS	BALANCE
1957	482,575	511,108	+ 28,533
1958	399,932	460,715	+ 60,783
1959	415,588	473,004	+ 57,416
1960	518,585	464,578	- 54,007
1961	557,129	434,467	- 122,662
1962	540,351	463,403	- 76,948
1963	506,023	446,657	- 59,366
1964	586,291	548,136	- 38,155
1965	453,502	539,144	+ 85,642
1966	674,092	507,591	- 166,501
1967	496,908	509,879	+ 12,971
1968 (1)	624,904	546,626	- 78,278

SOURCE: National Department of Statistics (DANE): (Bulletins of Statistics Nos. 181 and 193).

(1) Records - INCOMEX and Ministry of Mines.

TABLE 4  
VALUE PER UNIT (TON) OF IMPORTS AND EXPORTS 1957-1967

YEAR	US\$ per ton imported	% 1957=100	US\$ per ton exported	% 1957=100	Difference	% 1957=100
1957	328.3	100.00	103.9	100.00	224.4	100.00
1958	387.0	117.87	96.5	92.87	290.5	129.45
1959	419.1	127.65	85.4	82.19	333.7	148.70
1960	423.8	130.61	80.0	76.99	343.8	155.43
1961	386.6	117.75	82.6	79.45	304.0	135.47
1962	378.9	115.41	91.4	87.94	287.5	128.11
1963	440.1	134.05	77.8	74.87	362.3	161.45
1964	392.0	119.40	91.3	87.87	300.7	134.00
1965	422.1	128.57	71.0	68.33	351.1	156.46
1966	373.6	113.79	70.7	68.04	302.9	134.98
1967	405.6	123.54	72.8	70.06	332.8	148.30

SOURCE: Based on the figures in Tables 1 and 2.

TABLE 5  
EXPORTS OF COFFEE 1955-1968

YEAR	Gross tons	Value in US\$ '000 (FOB)	% of total exports	Average US\$/Tons
1955	352,033	485,444	83.13	1,378.97
1956	304,161	411,419	76.61	1,352.63
1957	289,412	388,787	76.06	1,343.36
1958	326,440	354,514	76.92	1,106.93
1959	384,803	361,248	76.37	938.78
1960	356,265	332,249	71.51	932.56
1961	339,050	307,827	70.85	906.70
1962	393,757	332,220	71.69	843.71
1963	367,998	303,005	67.86	823.69
1964	384,784	394,361	71.94	1,024.88
1965	338,105	343,901	63.78	1,017.14
1966	337,282	328,266	64.67	973.27
1967	333,877	322,372	63.22	965.47
1968 (1)		353,792	64.72	

SOURCE: National Department of Statistics (DANE).

(1) Records - INCOMEX.

TABLE 6  
EXPORTS OF PETROLEUM 1957-1968

YEAR	Gross tons	% of volume exported	Value FOB (US\$'000)	Dollars per ton	% of value exported
1957	4,029,674	81.98	76,295	18.93	14.92
1958	3,413,904	71.56	66,571	19.49	14.44
1959	3,980,550	71.86	73,291	18.41	15.49
1960	4,353,065	74.98	79,998	18.37	17.21
1961	3,861,182	73.48	68,239	17.67	15.70
1962	3,401,809	67.12	60,584	17.80	13.07
1963	4,364,220	76.08	77,198	17.68	17.28
1964	4,248,404	70.79	74,962	17.64	13.67
1965	5,609,742	73.88	88,169	15.71	16.35
1966	4,894,174	68.21	71,675	14.64	14.12
1967	4,310,342	61.57	61,212	14.20	12.00
1968 (1)	2,480,777	-	36,334	14.64	6.64

SOURCE: National Department of Statistics (DANE).

(1) Ministry of Mines.



TABLE 7  
MINOR EXPORTS

YEAR	Gross tons	Value in US\$'000	% of total exports	Dollars per ton
1957	596,050	46,026	9.00	77.21
1958	1,030,097	39,630	8.60	38.47
1959	1,173,289	25,465	5.38	21.70
1960	1,096,105	52,331	11.26	47.74
1961	1,054,307	58,401	13.44	55.39
1962	1,272,506	70,599	15.24	55.48
1963	1,003,510	66,343	14.85	66.11
1964	1,367,601	78,813	14.37	58.62
1965	1,646,223	107,074	19.85	65.12
1966	1,943,657	107,650	21.20	55.38
1967	2,356,438	126,295	24.78	53.60
1968 (1)	-	156,103	28.64	-

SOURCE: National Department of Statistics (DANE).

(1) Records - INCOMEX.

TABLE 8  
COLOMBIAN EXPORTS  
1957-1966  
Percentages of Total Exports

YEAR	RAW MATERIALS	SEMI-MANUFACTURED	MANUFACTURED
1957	97.38	0.63	1.62
1958	95.87	0.64	2.80
1959	96.09	0.50	2.90
1960	96.20	0.36	2.87
1961	94.30	2.14	3.11
1962	92.50	3.55	3.91
1963	92.78	3.50	3.83
1964	91.50	3.43	5.19
1965	88.62	5.56	5.59
1966	86.13	5.89	7.87

TABLE 9  
DEVELOPMENT OF COLOMBIAN TRADE WITHIN LAFTA  
\$'000

YEAR	Imports	Exports	Trade balance
1957	12,443	6,668	- 5,775
1958	10,529	4,281	- 6,248
1959	10,821	4,086	- 6,735
1960	8,035	6,228	- 1,807
1961	12,099	7,414	- 4,685
TREATY OF MONTEVIDEO			
1962	14,144	8,371	- 5,773
1963	22,526	6,970	- 15,556
1964	34,919	12,787	- 22,132
1965	39,355	19,764	- 19,591
1966	57,904	31,851	- 26,053
1967	37,889	23,500	- 14,389
1968	38,745	29,828	- 8,917

SOURCE: National Department of Statistics (DANE).

TABLE 10  
COLOMBIA'S SHARE IN WORLD TRADE

YEAR	SHARE %
1957	0.42
1958	0.38
1959	0.37
1960	0.37
1961	0.36
1962	0.34
1963	0.30
1964	0.32
1965	0.26
1966	0.28
1967	0.27

TABLE 11

INDEX OF PRICES IN COLOMBIAN FOREIGN TRADE  
IN TERMS OF EXCHANGES 1952-1966  
Base 1952 = 100

YEAR	Index of import prices CIF	Index of export prices FOB	Exchange relationship of prices
1952	100.0	100.0	100.0
1953	95.2	103.4	108.6
1954	95.2	124.1	130.4
1955	96.9	110.0	113.5
1956	98.9	110.3	111.5
1957	161.1	173.0	107.4
1958	247.8	225.3	90.9
1959	249.5	192.4	77.1
1960	255.4	203.8	79.8
1961	260.9	202.7	77.7
1962	263.3	192.5	73.1
1963	333.3	220.0	66.2
1964	329.3	262.5	79.7
1965	350.4	285.6	81.5
1966	460.0	297.8	64.7

SOURCE: National Department of Statistics (DANE).

TABLE 12

IMPORT CAPACITY 1952-1966  
Base 1952 = 100

YEAR	Index of quantity of exports	Exchange relationship of prices	Import capacity
1952	100.0	100.0	100.0
1953	121.8	108.6	132.3
1954	112.5	130.4	146.7
1955	111.9	113.5	127.0
1956	101.0	111.5	112.6
1957	96.2	107.4	103.3
1958	101.5	90.9	92.3
1959	122.2	77.1	94.2
1960	115.9	79.8	92.5
1961	109.9	77.7	85.4
1962	122.7	73.1	89.7
1963	120.3	66.2	79.6
1964	124.9	79.7	99.5
1965	118.0	81.5	96.2
1966	115.0	64.7	74.4

SOURCE: National Department of Statistics (DANE).