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GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1985 CONSULTATION WITH COLOMBIA

Background Paper by the Secretariat

I. Colombia's accession to GATT

1. Colombia acceded to the General Agreement on 3 October 1981, pursuant to a decision of the CONTRACTING PARTIES taken on 28 November 1979 (BISD 26S/222). In the Working Party on its accession, Colombia stated that its system of import licensing and certain other elements of its import régime were maintained for balance-of-payments purposes and to protect infant industries, and were, in its view, in conformity with Article XVIII of the General Agreement. Colombia would be prepared to apply and follow the relevant procedures contained in Article XVIII (BISD 26S/235).

2. Colombia noted that, at the time, over 55 per cent of the value of imports was covered by the free import régime. Since 1973, import policy had been gradually liberalized. Import licensing was used to limit global imports when foreign exchange problems occurred and as an instrument to promote economic development. (BISD 26S/232) Colombia also noted that in order to avoid inflationary pressures and safeguard foreign exchange, importers were required to deposit the equivalent in local currency of 35 per cent of the corresponding foreign currency value, for customs clearance of consumer goods and some raw materials. In addition, time limits varying from five months for consumer goods to ten years for capital goods for large industrial projects were applied to import payments. The representative of Colombia drew attention to the wide fluctuations in its balance-of-payments situation which had occurred largely as a result of movements in international coffee prices. (BISD 26S/235, paragraph 15).

II. Legal and administrative basis of import restrictions

3. The present trade and payments régime of Colombia has its origin in Decree-Law 444 of March 1967. Under this Law, the Colombian Institute of Foreign Trade (INCOMEX) was established to administer government policy on external trade, which is formulated by the interministerial Joint Trade Commission. Foreign exchange for imports is assigned by the Joint Trade Commission in administering trade policy. INCOMEX works in close co-ordination with the Customs authorities and the Fund for Export Promotion (PROEXPO) also established under the 1967 law.

4. Law No. 48 of December 1983 established new conditions for export promotion through the establishment of tax reimbursement certificates (CERT) replacing the previous tax credit certificate (CAT) system. The law also made provision for the reorganization of free-trade zones and the regulation of barter, clearing and triangular trade arrangements (see below, paragraphs 5, 15 and 21).

III. Methods used in restricting imports

5. The principal means used by the Colombian authorities to adjust imports for balance-of-payments reasons during the period under review were import licensing, including import prohibition, advance import payments deposits for consumer goods, and advance exchange licence deposits. Variations in unbound tariffs have also been used to provide revenue and regulate imports. Between December 1983 and June 1985, imports of certain products were required to be preferably made under barter, clearing or triangular trade operations. Maximum and or minimum import prices may also be prescribed by the authorities for certain products if irregularities in import prices are detected.

(a) Import licensing

6. Import licensing is administered by INCOMEX. All import transactions except those classified as "minor imports" or shipments with an import value of less than US$500 are subject to prior registration. Before 1984, imports were classified either as goods importable freely without licence, although subject to registration, or those subject to prior licensing. In 1984, a list of goods temporarily prohibited was introduced.

7. The import of particular consignments of goods on the prior licensing list may be approved by INCOMEX entirely or in part. INCOMEX may also postpone a decision on the matter or refuse permission to import. Colombia stated in its Memorandum on Foreign Trade Régime (L/4039) that the following considerations are taken into account in determining whether to approve import licence applications: the degree of importance of the goods for satisfying consumption needs and maintaining employment; the contribution of the goods to the promotion and diversification of exports; the net saving of foreign exchange which might be achieved by import substitution; the extent to which domestic production satisfies demand in the region to which the goods are destined; the need to assist the development of new industries in depressed areas; the scarcity of and selling prices of goods which are not produced locally; the level of the importer's stocks; and the value of import licences demanded compared to those requested in earlier periods. Specific approval by INCOMEX is required for each import permit application. In practice, therefore, the authorities can determine on a case-by-case basis and in a highly flexible manner the volume of individual goods which may be imported.

8. Throughout the 1970's and until 1982, Colombia followed a policy of gradual import liberalization which led, particularly since 1975, to a rapid increase in imports, which grew by over 20 per cent annually in U.S. dollar value between 1975 and 1982. In 1982, following a rapid increase in Colombia's current account deficit in 1981/82, the liberalization process was reversed by the introduction of prior licensing on some 490 tariff lines under Foreign Trade Council Resolution No. 39 of 7 September 1982. 824 more tariff lines were added to the prior licensing list in 1983 under Resolutions Nos. 7 and 8 of 25 March 1983, 11 of 29 March 1983, 15 of 19 April 1983 and 30 of 18 May 1983. (These measures were notified to GATT in document L/5542.) A further tightening of import policy took place during 1984 when some 2,000 tariff lines were placed under prior licensing and temporary

prohibitions placed on 834 tariff items, under Resolutions Nos. 12 of 28 February, 23 of 5 April, and 29 of 17 April 1984. (L/5542/Add.1 and Add.2.)

9. Since the beginning of 1985, some relaxation has taken place. 711 of the tariff lines prohibited in 1984 have again been permitted for import, subject to prior licensing, while 719 tariff lines subject to prior licensing have been liberalized, under solutions 10, 17 and 20 of February, April and May 1985 (L/5542/Add.4 and Add.5.).[1] Further products were moved from prohibited to prior licencing and from prior licensing to free importation in Resolutions 27 and 28 of July 1985 and 37 and 39 of October 1985.[2] At end-October 1985, 916 tariff lines (18 per cent) were in the free-import list, 4,006 lines (80 per cent) in the prior-licensing list and only 89 lines (1.8 per cent) remained prohibited.

(b) Advance deposits

10. Up till November 1983, an advance import payment deposit was in force under which interest free deposit certificates for foreign payments, denominated in foreign currency and valid for 36 months, were obtained in return for the compulsory deposit. The rate was reduced from 35 per cent in 1982 to 10 per cent by mid-1983. On 2 November 1983 this deposit was abolished (Monetary Board Resolution No. 99).

11. For all imports except for medicines, books, subscriptions to technical publications and imports financed with special credit lines from the Central Bank or the national budget, an advance exchange licence deposit (consignacion) is required. The rate has varied over the period since 1979 between 35 and 95 per cent of the value of the exchange licence, currently standing at 95 per cent.

(c) Tariff changes

12. Colombia's GATT schedule contains 36 tariff lines with bound duties varying between 15 and 80 per cent. Unbound tariffs on specific items have been adjusted from time to time; in addition, during the period under review, general increases in unbound tariffs, exept for goods included in the Cartagena Agreement liberalization and industrial programmes, basic household necessities, campers and other vehicles were made in November 1982 (20 per cent increase), June 1983 (10 per cent increase) and August 1984 (25 per cent increase).

(d) Financing conditions for imports and exports

13. The Colombian authorities have made frequent changes in the conditions of financing for imports and exports with a view to regulating import or export payments. In February 1982 the maximum term for import payments in general was extended to 180 days, while an eighteen month period was established for payment for books and other printed matter, and the payment periods for capital goods were established at up to seven years. In November 1983, domestic credit institutions were freed from restrictions concerning

[1] L/5542/Add.3 is a statement by Colombia that the measures were taken for balance-of-payments reasons pursuant to Article XVIII:B.

[2] An up to date list of the products falling under free-import and those subject to prohibition as of October 1985 is annexed to the Colombian Basic Document (BOP/256).

minimum acceptable financing terms for imports. In November 1984, new minimum financing periods were established of six months for settlement of 15 per cent of import value, one year for 30 per cent, two years for 60 per cent and the rest thereafter. In June 1985 the maximum periods of payment for capital and intermediate goods were reduced to two years and eleven months respectively. In relation to export proceeds, it was decreed in January 1982 that exports of consumer goods could be financed over one year and those of capital goods over five years, while export credits could be discounted at a 15 per cent interest rate by the central bank. In February and July of the same year terms for repatriation of export proceeds on products other than coffee and petroleum products were lengthened to five years for capital goods, eighteen months for books and printed matter, and one year for other products; in October 1984 this period was again reduced to five months. In July 1985 proceeds from exports of coal and ferro-nickel were made subject to repatriation periods of five months for 90 per cent of the total and ten months for 100 per cent; for other non-coffee exports, INCOMEX was authorized to approve maximum payment periods. The export proceeds retention rate applied to coffee was reduced from 39 to 35 per cent on May 1982, increased to 40 per cent in September of that year, 45 per cent in September 1983, 62 per cent in January 1984 and 68 per cent in May 1984, while the tax levied on exports of coffee was reduced from 12 to 9 per cent in September 1982 and to 6.5 per cent in September 1983.

(e) Allocation of foreign exchange

14. On the basis of Article 7 of Decree-Law 444 of 1967, the Monetary Board of Colombia is authorized periodically to draw up a foreign exchange budget and to establish priorities for the utilization of foreign exchange. The Foreign Trade Council can assign foreign exchange for imports within the budget according to a scale of priorities which gives first place to raw materials followed by fuels, spare parts, intermediate goods, agricultural inputs, basic consumption goods and capital goods. In 1984, a foreign exchange budget for imports was established on a monthly basis and in August 1984 it was allocated in the proportions of 17 per cent to goods entering under the free-import régime and 83 per cent to prior licensing items. For 1985, the foreign exchange budget was established at US$3,230 million. From 22 October 1985 its allocation was 35 per cent free-import, 65 per cent prior-licensing items. This measure appears to represent a supplementary constraint on imports, although its effects are difficult to separate from those of the licensing and prohibition measures mentioned in paragraphs 6-9 above.

(f) Barter and other arrangements

15. Special import-export arrangements for barter, clearing trade and triangular trade operations were introduced in early 1984, applying to imports of wines and spirits, typewriters, computers, tractors, vans and photographic equipment. Such arrangements were extended in June 1984 to allow trade in services to be conduced on this basis; however, no such transactions have been undertaken. The Colombian authorities considered barter not as a restraint on imports but as a way of permitting imports which would not otherwise have been possible. However, the relatively small benefits accruing from barter trade led the authorities to suspend the system with effect from July 1985.

IV. Treatment of imports from different sources

16. Colombia maintains special free-import lists negotiated under partial-scope agreements within LAIA, with Argentina, Brazil, Chile, Paraguay and Uruguay. Details have been notified to GATT in L/5542. Special free-import lists are also maintained, under the Cartagena Agreement, with other members of the Andean Group. The import prohibitions introduced in April 1984 did not apply to goods originating in Andean Group and goods negotiated with LAIA members. The movement of goods from free-import to prior licensing did not affect imports from Andean Group or LAIA sources with the exception of those subjects to safeguard clauses.

17. The advance import deposit payment mentioned in paragraph 10 above did not apply to imports from LAIA countries or others with which Colombia maintained reciprocal credit arrangements.

V. Commodities affected by the various forms of import restrictions

18. The prior licensing requirements introduced over the period 1982-1984 covered virtually the whole of Colombia's tariff schedule. The initial action taken in September 1982 applied to nearly 500 items of fresh, frozen and preserved foods, consumer goods regarded as luxury articles, and certain textile products including knitted fabrics and woollen blankets. In March and April 1983, 800 additional products brought under prior licensing included steel sheets and plates, day-old chicks, a variety of chemical products and many items of machinery and electrical equipment, rail and road vehicles, precision equipment, minerals, plastics, and further food products. By mid-May 1983 it was estimated that some 56 per cent of tariff lines were under prior licensing. In 1984, a total of some 2,100 additional tariff lines were brought under prior licensing: the goods added included most chemicals, chemical and photographic products, wood, cork and rubber products, paper, textiles not previously under licensing, metals and metal products, machinery of various types, hand tools, electrical equipment and apparatus, precision instruments, clocks and watches. The import prohibitions introduced in 1984 covered many consumer goods including various types of meat, fish, dairy products, vegetables and fruit, cereals, prepared foodstuffs and preserves, wines and spirits, minerals, leather, travel goods, carpentry products, textile and clothing products, footwear, stone, cement and ceramic articles, gems, certain household products in steel, copper and aluminium, kitchen equipment, household machinery and electrical goods, parts for motor vehicles, furniture, toys, lighters, pipes and works of art.

19. As noted in paragraph 9 above, most of the import prohibitions were lifted in February, April and May 1985. The main products remaining prohibited include fresh or preserved shellfish, certain sugar products, canned fruit and preserves, wines and spirits. In addition, some 220 tariff lines previously subject to prior licensing were liberalized in May 1985, including oil seeds and oleaginous fruit, certain minerals, some chemicals and pharmaceutical products, optical and photographic equipment and measuring instruments. The majority of products still remain subject to prior licensing.

VI. Effects of the import restrictions on trade

20. The impact of the import restrictions on trade was already apparent in 1983. However, the main effect is seen in import registration and licensing data for 1984 and 1985. Figures published by INCOMEX show the total value of import registrations made and licences requested falling from a peak of US$6.1 billion in 1982 to US$5.0 billion in 1983, a decline of 17.5 per cent, and to US$3.98 billion in 1984, or 65 per cent of the 1982 level. Import registrations made under the free licensing régime declined from US$3.3 billion (55 per cent of total imports) in 1982 to US$841 million, or 21 per cent of the total, for the year 1984. Data for the period January-March 1985 show a decline of 33 per cent in total import registrations as compared to the same period of 1984: free-régime import registrations fell to 16 per cent of the total. In terms of products, the largest declines in imports between 1983 and 1984 were in machinery and transport equipment, fuels and other minerals, and food, beverages and tobacco. It must be borne in mind that these figures do not necessarily represent the actual trend of imports since import licences are not necessarily fully used. Customs entry based import data, as shown in paragraph 30, show a more steady decline in imports.

VII. Alternative measures to restore equilibrium

21. During the period under review, Colombia combined its policy of more stringent import restrictions with other exchange rate and fiscal measures aimed at increasing international competitivity and promoting exports. As noted in paragraph 31 below, the "crawling peg" exchange rate depreciation was accelerated in 1984 and 1985 to result in a greater real effective exchange rate depreciation. As noted in paragraph 4 above, a new legal framework for export promotion was introduced in Law No.48 of December 1983. Under this Law exporters of goods other than coffee, raw hides and petroleum products may receive tax credit certificates (CERTS) at rates which can vary from 5 to 35 per cent of foreign exchange earnings surrendered to the Bank of the Republic, depending on the product and destination. The rates available can be varied from time to time by regulation to provide a flexible structure of export incentives.

22. The declared policy of the government for the period 1985-86 is to continue its efforts to reduce the current account deficit through a combination of exchange rate policy, intensified export promotion and a continuing gradual liberalization of imports.[1] The prospects for export development are dependent on a number of market and policy-related factors, discussed below.

IX. Developments in the Colombian economy

23. Colombia stands out among the major Latin American economies for its record of positive - though modest - growth and comparatively low inflation and levels of external indebtedness in the years following 1979, the date of the decision on its accession to GATT membership.

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[1] Banco de Bogota, Boletin de asuntos economicos, No.101-102, March-April 1985.

24. In 1984, real GDP increased 3 per cent, the economy being pulled out from a three-year-long decline in growth by fast export growth and increased import substitution (Chart I). Domestic policy measures adopted since late 1982 favoured home-oriented manufacturing. The vigorous expansion of these activities (in particular, car assembling, machinery, textiles and chemicals) more than offset the generally poor performance of other more export-oriented industries: manufacturing output, which had either declined or been virtually stable in the four preceding years, rose by over 6 per cent in 1984, to a record level. Coffee production declined by 16 per cent due to bad weather, while other crops improved their average performance; on the whole, agricultural production growth was below 2 per cent. Construction and most services recorded above-average rates of expansion. Mining was the fastest-growing sector in 1983 and 1984, as in nearly every year since 1979; its production increased 14 per cent in 1984, with petroleum and coal output and the extraction of precious metal ores, particularly gold and silver, sharply up. Despite some economic recovery, the unemployment rate rose and real wages virtually stagnated in 1984, so that household consumption showed only a small increment in real terms. This increase, however, coupled with further (though also small) growth of public consumption, sufficed to just balance the decline in gross investment spending.

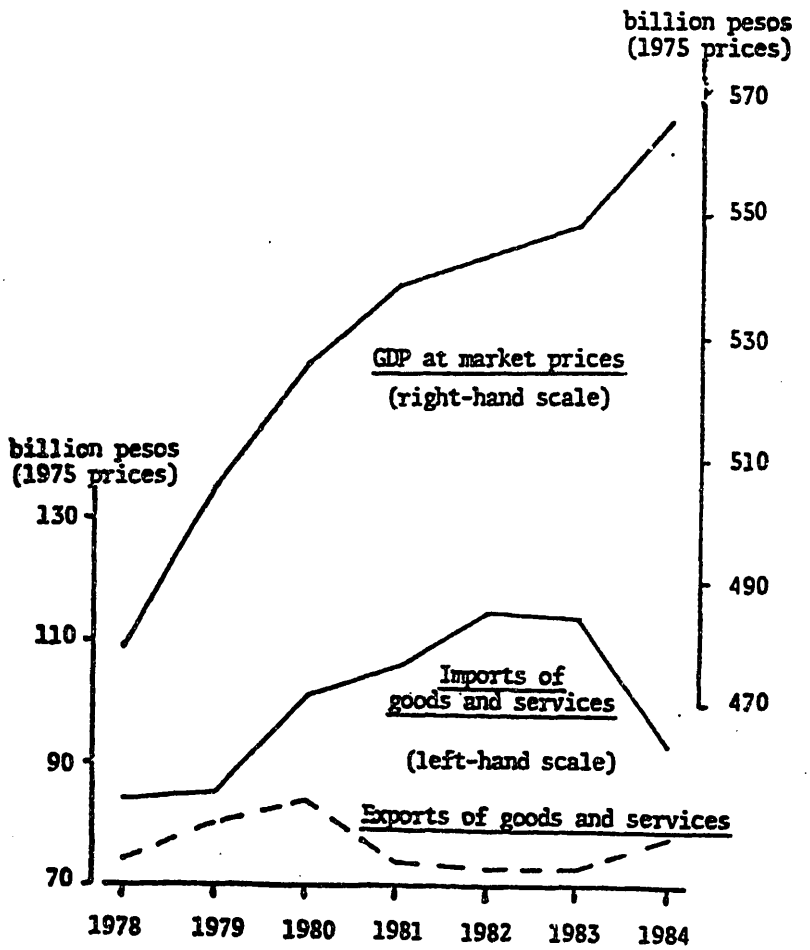
25. The inflation rate has varied between some 15 and 30 per cent since the early-1970's. From 1981 until mid-1984 it fell from 27 to 15 per cent; the trend was then reversed. Consumer prices climbed 18 per cent in the twelve months to December 1984, only marginally faster than in the previous year; in June 1985 the corresponding rate had reached almost 28 per cent. The exchange rate followed suit: after being reduced by 21 per cent during 1983, the dollar value of the peso declined by a further 22 per cent in 1984. The "crawling peg" exchange rate policy pursued in the last two years has aimed at maintaining the price competitiveness of Colombia's tradeable goods after many years of relative currency overvaluation. In the wake of accelerating inflation, the rate of depreciation of the peso increased in the first half of 1985. According to real effective exchange rate estimates, there has been a marked improvement of the average competitiveness of Colombia's manufacturing since mid-1983, particularly in recent months (Chart II).

26. Developments in Colombia's trade balance (f.o.b./c.i.f.) for the period since 1979 show a change from a small surplus in 1979 to a deficit of US$700 million in 1980 and a rapid increase of the deficit to US$2.4 billion in 1982. the deficit has subsequently been reduced to US$1 billion in 1984. The dollar value of exports fell by 26 per cent, from US$3.9 billion to US$3.0 billion between 1980 and 1981, mainly due to sharply reduced coffee export prices and earnings.

27. Colombia's export prospects are importantly affected by developments in world markets for coffee, sugar, bananas and cut flowers, the growth of demand for coal and other mineral products, and developments in main markets for textiles and clothing, as well as trade measures taken by neighbouring countries in the region. Coffee prices remained relatively low throughout 1982 and most of 1983; it was only from the fourth quarter of 1983 that an improvement was noted, and since then they have remained at a level around 20 per cent lower than in the period 1979-80.

CHART I

Developments in the Volume of Colombia's GDP and Trade in Goods and Services - 1978 to 1984

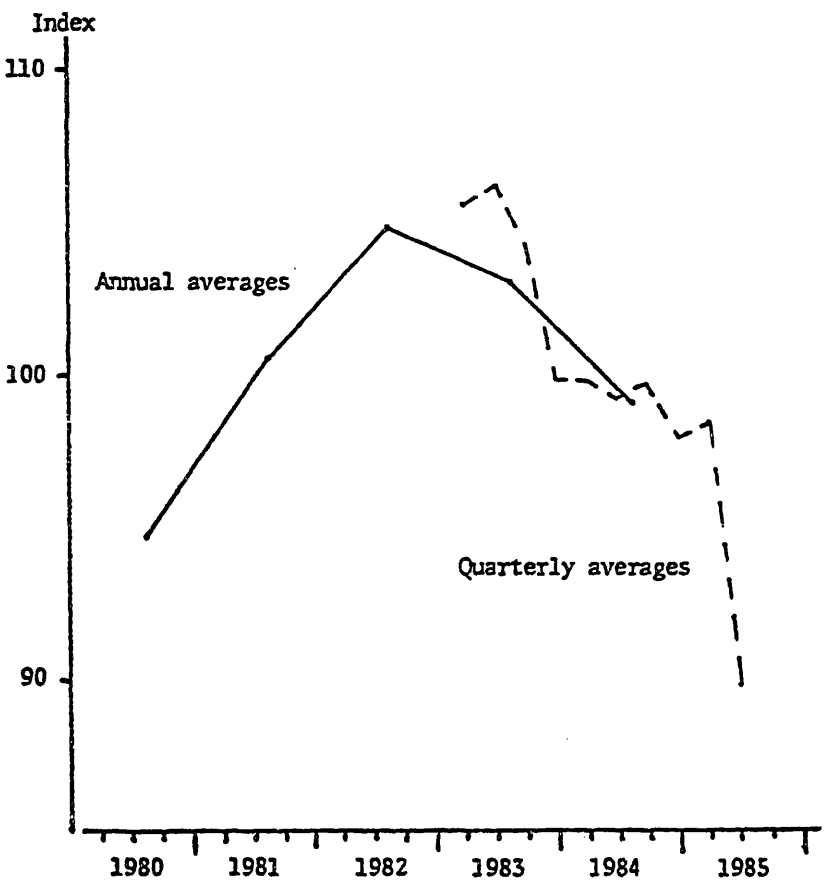


Source: Banco de la República, Revista, June 1985.

CHART II

Estimates of Colombia's Real Effective Exchange Rate Index, 1980-1985[a]

(1980-1982=100)



[a]A decline in the index indicates improvement of price competitiveness in manufactures.

Source: Morgan Guaranty Trust Co., Morgan international data.

Sugar earnings have fallen from US$161 million in 1980 to US$36 million in 1984 in the face of declining world prices, with the United States remaining the largest single market for Colombia's sugar, taking 131,000 tonnes in 1984, with a quota for Colombia within the United States' global quota system of 61,000 tonnes in 1984/85. In regional markets, Colombia's exports have been adversely affected by the general import contraction resulting from balance-of-payments problems in most Latin American countries. Exports to Western Hemisphere countries are estimated to have fallen by 35 per cent in dollar terms between 1981 and 1984, with sales to Colombia's five main Latin American trading partners (Venezuela, Ecuador, Panama, Argentina and Peru) declining by over 40 per cent.

28. Exports of manufactures, of which textiles and clothing account generally for about one-third, had exceeded US$0.8 billion in 1980 and 1981 but declined to US$0.55 billion in 1983. Colombia's textile exports to the European Communities and the United States are covered by bilateral agreements concluded under the Arrangement Regarding International Trade in Textiles. The current agreement with the EEC contains quotas on cotton yarn, cotton fabrics and man-made fibre fabrics; that with the United States, contains quotas on cotton sheeting, woollen suits, and man-made fibre jackets and blouses. (See document COM.TEX/SB/984/Add.1.) The question of the subsidy element contained in export promotion efforts is apparent in the countervailing action taken by the United States since 1980 on four Colombian products: leather clothing (1980), cut flowers (1982), clothing and textile mill products (1984). In each case undertakings have been made by Colombia. (See SCM/- series of documents.) Colombia is not a participant in the Agreement on Interpretation and Application of Articles VI, XVI and XXIII and does not therefore benefit from the injury clause in the United States.

29. The effect of Colombia's renewed competitiveness began to be seen in the export figures for 1984, when export earnings rose by 12 per cent; however, at US$3.46 billion, they remained well below the 1980 record total and only 5 per cent above 1979 levels (Chart III). Exports to the United States and European countries accounted for a large share of the recovery, with coffee exports to the United States increasing by nearly 50 per cent. Exports to Colombia's LAIA trading partners, which accounted for some 10 per cent of total exports in 1984, stagnated overall, although exports to the Andean Group increased by 10 per cent. Increased availabilities from the 1983/84 crop and higher international quotations pushed earnings from coffee exports to $1.8 billion, 17 per cent above their level in 1983 but still lower than the peak revenue obtained during 1978 to 1980. Other fast-growing exports in 1984 included fuel oil, bananas, cotton, ferro-alloys and plastic products, whereas marked declines were recorded in sales of a number of textile and clothing items.

30. The import bill, which had risen from US$3.2 billion in 1979 to reach US$5.5 billion in 1982, declined by nearly 10 per cent in each of the two following years and was down to US$4.5 billion in 1984. The reduction, entirely reflecting lower import volume, was partly the result of the increased import restrictions on consumer goods and strict control of other imports noted above and partly due to the sharp expansion of domestic crude petroleum extraction, improved food supply and relatively low investment

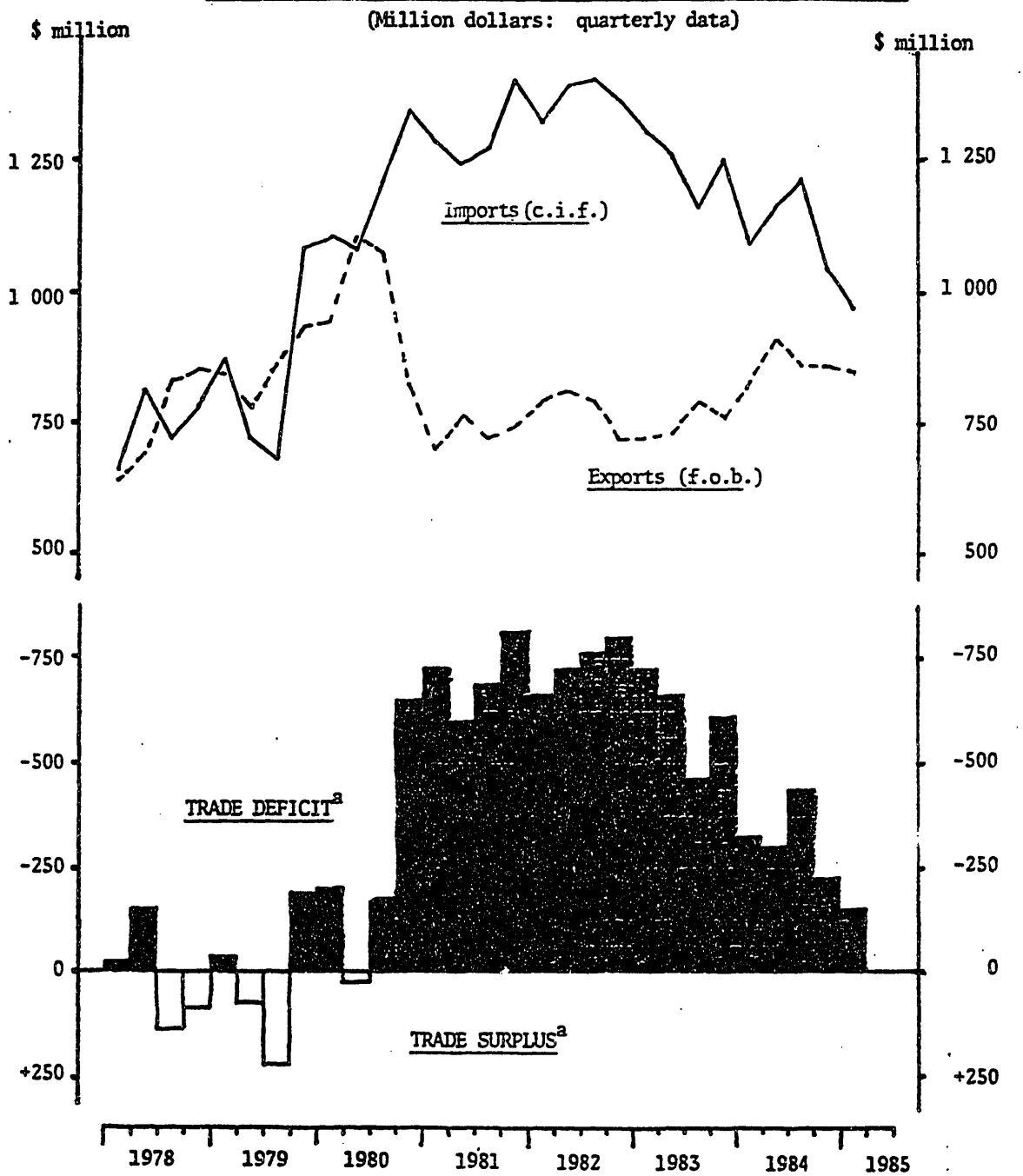
levels. Only imports of chemical inputs and car parts recorded significant increases in 1984.

31. Colombia's current account balance, which had declined from a surplus of US$104 million in 1980 to a deficit of US$2.8 billion in 1982, improved to -US$1.8 billion in 1984, with a reduction of a third in the goods and services deficit over the two years.

CHART III

The Value of Colombia's Foreign Merchandise Trade, 1978 to 1985

(Million dollars: quarterly data)



[a]Trade balance: exports (f.o.b.) minus imports (c.i.f.).

Source: International Monetary Fund, International Financial Statistics.