

# GENERAL AGREEMENT ON

# TARIFFS AND TRADE

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## TRADE POLICY REVIEW MECHANISM

### COLOMBIA

#### MINUTES OF MEETING

Chairman: Mr. Rubens Ricupero (Brazil)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. Introducing the meeting, the Chairman recalled the objectives of the Trade Policy Review Mechanism. He noted that discussions would be based on a report by the Government of Colombia, contained in document C/RM/G/4, on a report by the Secretariat, contained in documents C/RM/S/4A and 4B, and a notification from Colombia circulated in document L/6675, containing details of new trade policy measures introduced in March 1990.

2. The report of the Government of Colombia followed the Outline Format for Country Reports agreed by the Council in July 1989 (C/M/235). The Secretariat document followed the format of its earlier reports. In line with the Decisions establishing the Trade Policy Review Mechanism, the Secretariat had sought clarification from Colombia on its trade policies and practices, as far as the factual information contained in the first six Chapters of its report was concerned.

3. The Chairman invited delegations to focus on the broad issues emerging from the review of the trade policies and practices of Colombia. Some contracting parties had given advance notice in writing of points they wished to raise at the meeting. These had been passed on to the Colombian delegation. He thanked the two discussants for having agreed to assist, in their personal capacity, the Council in its collective evaluation and assessment, and for their points relating to the review of Colombia which had been circulated by the Secretariat. He invited Mr. Stancanelli to open the discussion and Ambassador Hawes to make additional remarks.

## II. INTRODUCTORY REMARKS BY THE REPRESENTATIVE OF COLOMBIA

4. On behalf of the Government of my country, I wish to express Colombia's confidence in the multilateral trading system. The fact that Colombia is the second developing country to be the subject of these reviews and that it has recently acceded to the Subsidies Code is a sign of this.

5. I shall comment on developments in our trade policy since 1985, with particular emphasis on the recent measures taken by the Government to open up the economy under the Economic Modernization Programme adopted by CONFES (the National Council for Economic and Social Policy) and the Foreign Trade Council on 22 February 1990.

6. In implementing this modernization policy, our aim is to put an end to structural distortions in our economic development, to make Colombian business more competitive, within a framework of economic liberalization and internationalization, and to enhance the country's export capacity by making better use of our comparative advantage. The overall objective is to create conditions for a real and sustained rise in the levels of employment and income, and hence in the standard of living of the population.

7. It is quite clear from world trends that it is increasingly impossible to continue with the relative isolation from international price levels and technological changes, which some economies have maintained through trade policies that provide excessive protection.

8. Like the rest of Latin America in many respects, Colombia for many years implemented a development model characterized, on the one hand, by a policy of import substitution, with industrialization based on the domestic market and broad tariff and administrative protection for domestic industry against foreign competition; and on the other, by export promotion and prudent foreign-exchange management together with a gradual devaluation aimed at maintaining the competitiveness of our exports.

9. The "wearing out" of the import substitution model in recent years, together with the limitations inherent in the administration of scarce foreign exchange, resulted in low growth in productivity and inappropriate resource allocation. The latter was shown in an anti-export bias; both investment and production essentially tended to take place in sectors directed towards the guaranteed domestic market, in activities that were generally more capital-intensive than labour-intensive, and not necessarily in those sectors in which the country had the greatest comparative advantage and export potential.

10. Private investment in Colombia tended to decline in the long run. Measured in constant pesos at 1975 prices, it dropped from 12.3 per cent of Gross Domestic Product in 1970 to 9.8 in 1980 and 7.6 in 1985. The upturn, to a level close to 9 per cent, noted in the most recent period is insufficient, in our view.

11. These were all the results of the shortcomings noted earlier. The high levels of protection granted to domestic production led to distortions in relative prices and isolation from international competition, so that producers had very little incentive to implement technological changes, seek higher levels of business efficiency and improve the quality and variety of their products.

12. Ultimately, all of this led to shortfalls in productivity, exports, employment and satisfaction of the needs of local consumers at reasonable prices.

13. The foregoing diagnosis of trends in our economy underpinned our determination to carry through fundamental changes in the Colombian economic model.

#### New approach to trade policy

14. A document adopted by the Foreign Trade Council in July 1987 laid down the main guidelines for rationalizing policies on import controls and protection of domestic industry. At that time, a need was seen to restructure the tariff so as to reduce the spread of duties, eliminate excessive or negative effective protection, and to bring the tariff structure into line with that of domestic production.

15. It was also decided to carry out a gradual and selective shift of tariff headings from the prohibited import list then in force to the prior licensing system. Thus, prohibited items, which represented 16.5 per cent of the total tariff at the beginning of 1985, were a mere 1.1 per cent at the beginning of 1990. During the same period, a large number of headings were shifted from the prior-licensing system to the free-import list, which rose from 0.5 per cent to 38.9 per cent of total tariff lines.

16. Various mechanisms and instruments were also adopted to increase flexibility in the management of quantitative restrictions, such as special programmes for imports of raw materials and inputs and through the use of much more streamlined and flexible allocation criteria by the body responsible for approving import licences (INCOMEX).

17. It was possible to carry out this process since 1987 thanks to the relatively favourable performance of the external sector of the economy, as reflected by the economic indicators which have been circulated to you here.

18. With regard to import management, imports gradually began to expand from 1985, once the period of restriction beginning in 1984 had ended.

19. What I have described to you so far are the earlier modifications made in our trade policy with respect to import restrictions.

20. On 22 February of this year, a document was adopted whereby the flexibility of import policy will be further deepened. The purpose of this

change of model is to try to overhaul comprehensively and strengthen our production system and, as mentioned earlier, its export capacity.

21. In addition to these changes in our import policy, the Colombian Government has taken measures to promote construction and privatization of ports, changes in our shipping protection policy to allow competition from ships of other countries and encourage greater efficiency in our specialized entities, as well as measures aimed at improving the infrastructure underlying Colombia's foreign trade.

22. With more specific regard to changes in import policy, a large number of tariff headings have been moved to the free-import list, which currently covers 56 per cent of the total tariff. It should also be pointed out that a significant percentage of the headings subject to quantitative restrictions are processed automatically, just as if they were under the free-import régime. These tariff headings basically concern capital goods and inputs, which were already partially approved and thus are now subject to a system of automatic approval.

23. The remaining tariff headings on the prior licensing list have been placed there for various reasons. One group is subject to tariff surveys aimed at identifying tariffs for a set of goods whose access to our country was entirely restricted. This mechanism has been established for a period of not more than two years, after which these headings will then be shifted to the free import list. A small group of headings is reserved for reasons of national security or public health.

24. Besides these changes, in March 1990, the Government issued a decree furthering the rationalization of the tariff structure. The resulting structure is in keeping with that of our domestic production; duties on raw materials, inputs and capital goods have been reduced, and the average tariff on intermediate goods has been cut from 23 to 20.8 per cent and that on capital goods from 22 to 18.7 per cent. At the same time, the range of tariff rates has been narrowed by reducing the number of levels from 18 to only 6, so as to facilitate customs administration and avoid the distortions stemming from such a wide spread in the tariff structure. In addition, our additional duty has been reduced from 18 to 16 per cent.

25. Measures being adopted by the Government with a view to guarantee the efficiency of the new import policy comprise strengthening customs operations, a system of price reference, establishment of an importers register, and the elaboration of an anti-dumping statute.

26. These are the changes recently made in our import policy. In addition to this, Colombia, together with the other Latin American countries as a whole and particularly the Andean Group, has made faster progress in speeding up the dismantling of restrictions within its regional agreements than under our general policy with the rest of the world. Thus, in December, in Galápagos, Ecuador, commitments were agreed on for the liberalization of the entire tariff within the Andean group. Negotiations are also underway within the Latin American Integration Association, in which Colombia is playing a large and determined part.

27. All these developments are also underpinned by the country's solid macroeconomic position and we are confident that we will be able to continue making progress.

28. Colombia has made it clear that it will move to the management of imports through tariffs instead of quantitative restrictions, and is seeking to do this gradually. Clear steps in this direction have been taken during the first half of this year. These changes will also allow a substantial reduction in the criteria for the access of foreign goods to our country, in that the relevant determinations have become automatic, thus reducing the discretionary powers of officials by establishing clearly regulated procedures. Through other macroeconomic policy measures, which we shall explain later, we are trying to ensure that this process is sustainable, so that Colombia can contribute to the general policy of dismantling restrictions to trade with other countries of the world.

III. STATEMENT BY THE FIRST DISCUSSANT

29. First of all, I should like to stress the importance of the documentation provided by the Government of Colombia and the GATT Secretariat to enable us to carry out our analysis and focus our discussion on what we consider to be the salient issues.

30. I also think the statement by the Director of the Colombian Foreign Trade Institute should be highlighted: I believe it is very helpful in clarifying developments in the country's trade policy.

31. I shall try first to comment on the overall features of Colombia's trade policy, and above all its linkages with major aspects of macroeconomic policy, and also to consider the impact or influence of the external environment on that trade policy, as well as singling out some points which we think would deserve greater reflection or discussion in some depth.

32. Following that, in accordance with the informal arrangements for co-ordinating our statements, Ambassador Hawes will refer specifically and in greater detail to trade policy in particular, the economic modernization programme and Colombia's participation in the multilateral system, with special reference to the Uruguay Round.

33. A first point I wish to make - and this may appear to be something of an anecdote - concerns Colombia's accession to the General Agreement. This took place after the Tokyo Round, in 1981 to be precise. At that time Colombia faced a difficult external situation, a balance-of-payments crisis that was seriously affecting the country's fiscal and economic situation.

34. This is, I think, a very striking demonstration of Colombia's confidence in the multilateral system: starting from an unsatisfactory economic situation, Colombia unquestionably appreciates the fact that a multilateral trade system based on the General Agreement, and the advantages and benefits it provides, can constitute an important supporting framework for its domestic adjustment policies.

35. A second aspect I should like to mention concerns the linkage between the objectives of general economic policy and those of foreign trade or trade policy in particular.

36. For the Colombian Government, according to the report the delegation has provided, the priority in economic policy is economic and social development. This is basically conditioned by the growth of investment, exports (taking into account the small size of the domestic market), and continuity in the level of public expenditure, in particular to favour the development of productive activities.

37. Within foreign trade policy, and in connection with the overall objective of export development, a major rôle is played by the rationalization of the foreign trade system, with a view to achieving greater foreign competition with local production. In other words, the aim

is to assist the optimization of resource allocation in the economy and make greater use of general rather than specific policies in foreign trade, such as exchange policy management in the monetary sphere, and tariff protection to attain a balance in the external sector.

38. I should now like to refer specifically to two aspects I have mentioned, namely, the development of general policy in the light of the situation in the external sector and, secondly, the linkages with the international environment, or the situation of international trade and its impact on Colombian trade policy.

39. During the latter part of the 1980s, Colombia underwent an important process of economic adjustment and change. The fall in the price of coffee, which in the late 1970s represented over 60 per cent of total export receipts and a substantial source of fiscal revenues, led, as mentioned earlier, to serious trade and budget deficits during the period 1981 to 1984. These deficits temporarily sustained domestic economic activity, which nevertheless declined in terms of per capita product for the years 1982 to 1984.

40. Meanwhile, the external debt, measured in terms of exports of goods and services and the gross domestic product, reached 250 per cent and 40 per cent of these two aggregates respectively.

41. The imbalance in the savings-investment ratio reflected in the trends in the balance-of-payments current account and the public budget led to the adoption of an economic adjustment and diversification programme based on a combination of monetary and fiscal policy elements, with the adoption of strict exchange controls. This latter aspect of trade policy gave priority to the supply of inputs for production activities and of imports for the realization of major mining and energy projects.

42. Fiscal policy focused on increasing Government revenues through tariff adjustments and taxes related to the exploitation of new energy resources, without lowering the level of public expenditure. The aim was to try to avoid affecting the level of economic activity.

43. Monetary policy remained flexible, while the currency was substantially devalued in order to enhance the competitiveness of non-traditional exports, i.e. other than coffee.

44. Besides exchange-rate adjustments, institutional promotion, temporary importation of inputs and tax refunds were also used to encourage exports.

45. Exchange controls, through an annual foreign-exchange budget, supplemented the adoption of import restrictions based on a licensing system and quite a wide range of tariff rates.

46. Between 1985 and 1986, as a consequence of a combination of measures which could be called orthodox from an economic standpoint and other more

unconventional measures in relation to the specific situation of the Colombian economy, exports rose by 40 per cent, from 3.5 to 5.1 billion dollars, and by a further 15 per cent between 1986 and 1989, reaching 5.7 billion dollars.

47. This made it possible to introduce greater flexibility in the foreign-exchange budget and the import régime, as was mentioned by the Colombian delegation, and a growing number of tariff headings was placed on the free import list; for 1989, imports in this category amounted to 44 per cent of the total, as opposed to less than 20 per cent in 1985.

48. An important point is that the share of coffee in the value of exports has been gradually decreasing, from over 60 per cent at the beginning of the 1980s to 30 per cent today. The growth of exports was boosted primarily by energy exports, with a share of 24 per cent, and exports of non-traditional agricultural and industrial products.

49. Meanwhile, investment policy sought to ease regulations and requirements for the entry of foreign capital for productive purposes, as a major factor in the expansion of certain industries, in particular in the energy sector.

50. The effect on the international trading system of the adjustment both in traditional fiscal and monetary policies and in the foreign-exchange policy and ad hoc or unorthodox policies in the light of the balance-of-payments situation can be measured by the fact that despite a significant drop in coffee prices, similar to that which occurred in the previous decade, during this period Colombia's imports have continued to increase. In other words, there has not been the effect of restriction or adjustment and foreign-exchange control which had to be applied in the early 1980s: on the contrary, despite a similar drop in coffee prices, there has been increased flexibility in import policy and a rise in imports.

51. The trade balance moved into surplus for the period 1986-1989, with an annual average level of over 1 billion dollars, while the growth rate of gross domestic product has been over 3 per cent, with peaks in 1986 and 1987.

52. The recently adopted plan for the modernization of the economy confirms the aims of continuity of the policy of import liberalization, protection on the basis of a narrower range of tariffs, as the Colombian delegation pointed out, and promotion of greater competition in the domestic market from imported products in order to improve resource allocation.

53. As far as the continuation of this programme is concerned, the high level of unemployment and debt servicing remain perhaps the greatest unknown factors.

54. Bearing in mind what I have just said, I think that it would be interesting for the review of Colombia's trade policy to try to examine in

depth the interrelationship between monetary, fiscal and foreign-exchange policies and the unorthodox or unconventional aspects of trade policy I have mentioned.

55. Thus, we consider that the combination of general economic measures, such as exchange-rate adjustment and the application of foreign-exchange controls, may be an important point in this analysis.

56. The rôle of the public sector in helping to channel resources towards the diversification of production, either by the composition of public expenditure or by its investment and export-promotion policies could also be explored.

57. These aspects deserve special attention, in view of the trends noted in Colombia's economy and external sector.

58. I also think it would be important to refer to how debt servicing may to some extent be a decisive factor for Colombia's aim of basing its trade policy primarily on a framework of tariff protection and greater competition for resource allocation in the domestic market.

59. A second aspect concerns the external environment. Here I should like to point out that within Colombia's economic and social development objectives, foreign trade is a major instrument for promoting the growth and balance of its finances.

60. The goals of rationalizing the foreign trade system through greater use of exchange policy and tariff protection and of promoting foreign competition with local industry, are unquestionably linked with the development of trade and openness of world markets. It would therefore be interesting to analyse the rôle played by the Latin American market for the growth of Colombia's industrial exports, and the way in which restrictions stemming from the economic situation of many countries of the region constitute a limiting factor for the development of the country's exports.

61. It would also be interesting to see how the diversification and growth of non-traditional exports are conditioned by the trade régimes of the main consumer markets. Identification of the main measures, at sectoral level, could help to throw light on the link between the external environment and the implementation of the economic adjustment and modernization plans.

62. I believe, Mr. Chairman, that from the standpoint of overall trade policy and of the impact of the external environment, these are the aspects which participants should reflect upon and discuss in depth.

63. I should like to stress once again the importance I attach, in the reports by the Colombian Government and the Secretariat, to the positive rôle of the orientation of trade policy measures in Colombia and the influence these have had on the multilateral trading system through the growth of the country's imports as well as the gradual liberalization of its foreign trade régime.

IV. SUPPLEMENTARY REMARKS BY THE SECOND DISCUSSANT

64. As with the reports presented for the just completed review of Sweden's trade policy, I would also commend the Colombian authorities and the Secretariat for the documentation which has been placed before us. As a representative of a country which has itself been the subject of a review under the procedure which we are testing here, I am well aware of the magnitude of the task involved in assembling material of this kind. At the same time, I can indicate that my own authorities valued the experience, and that benefits continue to flow from having such a wide range of information about one's own trade policies available in this transparent and concentrated form. I hope that is an experience that will be shared by Colombia. I welcome also the opening remarks by Dr. Sarabia, who I think provided a fairly frank analysis of the shortcomings of some of the previous policies pursued by Colombia and the reasons for change.

65. Taking up from the remarks just made by Mr. Stancanelli, I note that Colombia has engaged for some time in a determined effort of economic restructuring in which trade policy change is a central ingredient. Moreover, external trade is playing a vital rôle in Colombia's development.

66. As we see in the documentation, Colombia began its adjustment policies from a narrow base in terms of export product mix and export markets and, over the course of the 1980s, external trade came to play an increasing rôle with merchandise imports and exports being equivalent, last year, to 27 per cent of GDP.

67. As the documentation also notes, and Mr. Stancanelli has referred to this, Colombia has succeeded in diversifying its export product mix, with the share of coffee in merchandise exports falling to around 25 per cent from some 60 per cent a decade earlier. Over that period also, we have seen petroleum and mining products rising to account for some 20 per cent of exports compared with less than 1 per cent in the early 1980s. So very clearly, more products in Colombia's export mix will have reduced their exposure to the rollercoaster ride of commodity price fluctuations and the impact that this can have right through the economy.

68. At the same time, Colombia's exports remain highly concentrated on the markets of the United States and the European Community, which together account for over 70 per cent of Colombian export earnings. In this sense, while not exceptional, given what we saw earlier today and yesterday in relation to Sweden's export dependence on certain markets, there is obviously reason for Colombia to closely monitor the health of the United States' and European Communities' economies and the direction of their trade policies. Of course that is an interest which we all share.

69. The most recent restructuring programme - the policy for modernization of the Colombian economy - was adopted in February this year. The main features of that programme have been set out in the documentation, and are summarized in the Secretariat document. Delegates might find it of value to focus on this programme. A number of elements of course have already been referred to by Dr. Sarabia in his opening statement.

70. Clearly, one important change is in the licensing system where items on the free list account for 56 per cent of all tariff lines. Other changes in view include a tariffication process, to be completed by 1992, which will reduce the licensing régime to 29 per cent of tariff lines.

71. On the tariff side, there have been reductions in 133 items and increases for 202 items. Tariffs on a further 744 items will be determined by a "survey mechanism", earlier referred to, under which potential importers will propose the maximum rate they are able to pay.

72. Proposed changes here include a plan to reduce in five years the simple average tariff rate, including import surcharge, to 25 per cent.

73. Delegations may wish to pursue further these aspects of the newly-adopted reform package. In this context, the documentation before us also notes that protection levels remain high and uneven, with considerable scope for imports to be subject to multiple measures; that is to say, tariffs, import licensing and other charges and non-tariff measures. Additionally, a very low proportion of Colombia's tariff is bound.

74. Delegations may find it useful also to consider the extent to which the complex system of trade policies and practices, together with the high degree of administrative discretion which characterizes the operation of Colombia's trade policies, and the tendency for protection to escalate with the degree of processing, are themselves structural impediments to Colombia's export development, and as well, to what extent these elements are addressed in the current reform efforts: for example, to note the impact of a highly discretionary import licensing system on trade flows.

75. Another change foreshadowed in the recent policy is the streamlining of export promotion measures. The documents inform us that the current export incentives, designed to promote non-traditional exports, are stated in Decree Law 444 of 1967 and include tax reimbursement certificates, special systems and financial credit. Delegations may wish to find out more about the proposed changes and streamlining of these policies.

76. Another important issue is that of stability and predictability of changes in Colombia's trade régime. Among the relevant questions here, to which the documentation provides some indication, are: where is the responsibility for trade policy-making located? We find reference to this being fragmented amongst many Ministries under the inter-agency co-ordination of a Foreign Trade Council, but nonetheless with substantial discretionary power. We should note also the arrangements existing for consultations with the private sector, which would appear to be ad hoc informal arrangements. And I think it may be worth also considering what provision may exist for regular review of trade policies.

77. The documentation before us notes that changes in trade policy have been frequent in Colombia and that a move towards trade liberalization has often been interrupted and reversed. In the light of the complex system of trade policy formulation, the apparent lack of formal consultation with the private sector and the lack of any agency carrying out trade policy

evaluation on a regular basis, one possible area for discussion may be the extent to which changes are foreseen in these and related areas which may have the aim of meeting the key component of the new programme, which is to rationalize foreign trade.

78. A further question related to this objective is how Colombia sees the rôle to be played by participation in the Uruguay Round. As we know, Colombia is a country which is playing a very constructive rôle in the Uruguay Round negotiations. Delegations will be interested to reflect on how further reform of Colombia's trade-related laws and regulations could be complemented by a more open and stable multilateral trading system, particularly in respect of primary commodity markets, upon which Colombia still so heavily relies.

79. A further related question is the extent to which policies on regional integration play a rôle in trade policy formulation and change. It would be of interest, for example, to explore further than does the documentation, the extent to which the Latin American Integration Association is a factor in Colombia's trade policy formulation and its impact on Colombia's trading situation and scope for future developments. In the documentation, although there is a good deal of information on the various regional agreements in which Colombia takes part, there is little sense of how these impact on trade policy formulation in terms of constraints and opportunities or how objectives in regional integration are related to broader trade policy objectives.

80. Another consideration which delegates might wish to consider is how these relate to Colombia's participation in the multilateral trading system. Mr. Chairman, we live in rather exciting times - globally speaking - not only politically and economically, but in trade policy formulation. And looking around the Latin American region, we see some very interesting economic and trade policy developments, for example in Mexico, Chile, Argentina and Brazil. It would therefore be of interest perhaps to hear from Colombia how developments in trade policy in those economies are impacting on its own considerations as it moves forward in the process of restructuring its trade policy.

V. STATEMENTS AND QUESTIONS BY MEMBERS OF THE COUNCIL

81. Members of the Council congratulated Colombia for being the second developing country to be reviewed, and complimented Colombia and the GATT Secretariat for the quality and coverage of the reports submitted. All members commended Colombia for continuing its trade liberalization process in a context of a major macroeconomic adjustment and severe difficulties caused by domestic and external factors.

82. The representative of Finland, speaking on behalf of the Nordic countries, remarked that Colombia was succeeding in its export diversification efforts and noted with appreciation the progress made by Colombia in increasing transparency and moving towards a more liberalized and predictable trade régime. However, he called attention to the existence of one element of uncertainty in the Colombian system of border protection, as the majority of tariff items remained unbound. He asked the Colombian delegation for further information on trade policy aspects of a new economic integration programme signed by Colombia, Mexico and Venezuela. He noted that Colombia's protective policy had hitherto negative effects on the growth of productivity in protected sectors, and asked whether sector-specific plans existed to increase productivity in sectors previously affected by the highly protective trade régime. He asked whether any tangible positive results could yet be perceived from the new foreign investment legislation. Noting that Colombia had established a time-frame for phasing out remaining quantitative restrictions, he asked at what date these would be eliminated. Finally, he asked when Colombia would adopt the Harmonized System nomenclature.

83. The representative of Canada congratulated Colombia on its policy orientation. Colombia was a supporter of a strong and effective multilateral trading system. Colombia had made progress in diversifying its exports and opening its market to international competition. Canada supported Colombia's efforts to cope with the challenges presented by low commodity prices, insecure markets for traditional exports, the debt burden and major disruptions to its social order.

84. While encouraging the trend of trade liberalization, the representative of Canada remarked that the Colombian import régime remained highly complex, discretionary and uncertain. He sought information on concrete measures to protect importers from uncertainties resulting from the import licence requirements; a timetable for eliminating the prior licensing régime; circumstances under which Colombia would eliminate the foreign exchange quota and the Government's priorities in its allocation; more information on the new system of import quota auctioning and the date when this system could be phased out by establishing clearly defined tariffs; and whether further reductions in the import surcharge were considered with a view to its eventual suppression. He also asked what guarantees could be put forward by Colombia against a possible reversal of the trade liberalization process. He welcomed Colombia's recent accession to the Subsidies Code, and encouraged its accession to other Codes.

85. The representative of the European Communities said that the contracting parties should acknowledge the price, in human life as well as in political and economic terms, being paid by Colombia in its firm stand in dealing with the drug problem. The debate had to be understood against this background. The Communities were committed to supporting Colombian efforts and were currently preparing a comprehensive initiative which would include trade-related provisions. He pointed out the great differences existing between the two countries reviewed this time. While Colombia's population was four times that of Sweden, its exports were one tenth those of Sweden and its per capita GDP some 6 per cent of the Swedish level. The European Communities encouraged Colombia to take advantage of the Uruguay Round negotiations to increase its levels of bound items and acceptance of GATT Codes. He welcomed the efforts made by Colombia to diversify its economy, in particular its export structure, and encouraged the steps taken towards regional integration.

86. The representative of the EC noted that further rationalization of, and greater transparency in, Colombia's complex import régime was a necessity. Colombia should aim to join the Import Licensing Code as soon as possible. He asked for more details on the weight in Colombia's trade of items recently transferred to the free list. He also sought further information on how the Colombian authorities assessed the "less favourable treatment" extended by other countries, in applying Colombia's so-called maximum tariff, and how this unilateral measure could be reconciled with commitments on tariff bindings. Concerning the new tariff survey system, he asked for more information on its operation, duration, the effect on time delays involved in importation, and on Colombia's view of the mechanism's compatibility with its obligations under Article II in relation to bound tariffs. Similarly, he raised the question of the compatibility with Article II of Colombia's import surcharge. Finally, he pointed out that the overall balance of payments was improving: if this continued, as shown in the Government report, he questioned whether recourse to the provisions of Article XVIII:B would any longer be needed.

87. The representative of the United States said that the trading relationship between Colombia and the United States was very important to both countries. Since 1984, Colombia had pursued a policy of market-oriented reforms, export diversification and progressive liberalization of imports. His authorities supported these measures, and wanted to assist the Colombian Government by exploring measures to expand trade opportunities for Colombia through the Uruguay Round negotiations and the Andean Initiative. The United States acknowledged that Colombia faced major challenges, from the drop in coffee prices to the continuing economic and social toll taken by drug-related violence. Despite these elements of major instability, Colombia was pushing forward with its programme of liberalization.

88. The United States hoped that efforts would be made to ease not only the level of import restrictions, but also their complexity. He raised concerns on the high level of tariffs, the additional import charge, the import licence régime, the lack of tariff bindings and the need to adopt the Harmonized System nomenclature. There was also need to reduce

remaining uncertainties in Colombia's trade régime by increasing the transparency of its import laws. He asked for clarification on the tariff survey mechanism and the extent to which this could lead to a "bidding up" of tariffs. Finally, he asked if future liberalization programmes would include reductions in tariff escalation and export subsidies.

89. The representative of Japan noted that Colombia had made great efforts to transform its economy into a free trading system since its accession to the GATT in 1981. He paid high tribute to the Government of Colombia for continuing its liberalization programme in difficult circumstances. He encouraged the Government to continue its efforts towards the liberalization of its economic, trade and foreign exchange policies. Areas of concern for Japan related to the reduction and elimination of the import surcharge, streamlining foreign trade laws and regulations, and the elimination of the requirement to use Colombian vessels for the transport of goods by sea. Japan also hoped that Colombia would soon join more Tokyo Round Codes.

90. The representative of Switzerland said that macro-economic data showed that the rationalization of economic policies undertaken by Colombia was achieving a better allocation of resources and improved productivity. Colombia's export product structure was becoming more diversified and less vulnerable to external shocks. However, he noted the continuing high concentration of export markets. Trade policy developments in other markets were thus crucial. In this context, he asked how Colombia viewed economic developments in trading partners other than the United States and the European Communities, particularly the Latin American countries. Noting that Colombia's import licensing system was still quite complex, he asked what further developments in this area could be envisaged. Tariff escalation also persisted and could be seen as a structural impediment for economic development. Tariff binding would increase the predictability and stability of Colombia's trade policies. He expressed his hopes for some results in this area within the Uruguay Round. Finally, he expressed high appreciation of Colombia's constructive rôle in the Round.

91. The representative of Brazil said that the two reports showed clearly that Colombia was observing its GATT commitments and had made serious and successful efforts to reduce its dependence on a few export products. He pointed out that, in spite of serious political and social disturbances, Colombia had pursued its adjustment efforts by adopting a new trade liberalization programme. Referring to the drug-related problem, he said that Colombia's efforts had been relatively greater than those made on the consumer side of the problem, and that these efforts must receive positive responses in the Uruguay Round of negotiations, particularly in the area of tropical products. Better market access for Colombia's export products was vital for necessary trade expansion, in the light of Colombia's unemployment problems and heavy debt burden.

92. Brazil's trade relations with Colombia were inhibited by the non-complementarity of the two economies, whose structure was largely competitive. Brazil, also facing huge financial problems, had decided to make similar liberalization efforts. These would lead to an erosion of

trade preference margins at the regional level. The Council should make reference to the problems resulting from the debt situation; in this connection, he expressed his hopes that negotiations in the Uruguay Round would deal adequately with the linkages between trade, investment and external finance.

93. The representative of Australia remarked that Colombia had one of the more broadly-based economies in Latin America, with a considerable potential for further economic expansion. Colombia's active participation in the Uruguay Round indicated its strong support for the GATT system. Welcoming the trade liberalization efforts undertaken by Colombia, in spite of setbacks, he encouraged the Government to strengthen these further by reducing administrative discretion and tariff escalation. Noting the substantial progress made in export diversification, he asked whether the Colombian authorities could provide an assessment of which measures had been most effective in achieving this result and details of any planned further efforts in this area.

94. The Australian representative asked whether Colombia had any formal review process of the level of assistance provided to industries. He posed some questions regarding the way in which import licences would be converted into tariffs under the present reform programme, the expected tariff levels resulting from the survey mechanism and the possibilities of binding a greater proportion of tariffs. Referring to tax exemptions and other concessions for exports, he noted that this had, to some extent, created differential exchange rates applied to different export commodities. He asked for more information on the proportion of Colombia's trade conducted with members of regional integration agreements and on steps pursued by Colombia to overcome its vulnerability to trade policy developments in respect of primary products in its two biggest markets.

95. The representative of Yugoslavia recognized the important efforts made by Colombia to stabilize its economy and the substantial results achieved, especially in diversifying its exports and rationalizing foreign trade. He mentioned that Yugoslavian companies had noted the slow pace of import licence authorization and of confirmation of already signed contracts, lower import quotas for Eastern European countries, and high tariff levels, including the additional import charge. Some Yugoslavian exporters had also complained of unfavourable purchasing practices vis-à-vis domestic producers despite lower offer prices. He encouraged Colombia further to liberalize and simplify its import régime.

96. The representative of India noted that, despite some diversification, Colombia continued to depend on a few traditional items for a high proportion of export earnings. Market conditions for these products would therefore have important implications for its trade. The recent sharp decline in the price of coffee was of particular concern. Colombia still had a serious debt burden and current account deficit. In spite of these difficult factors, Colombia was pursuing its policy of trade liberalization. He highly appreciated the recent measures undertaken by Colombia. The international community, especially Colombia's major trading

partners, should take concrete and substantive measures which could alleviate Colombia's difficulties.

97. The representative of Peru highlighted the importance of the social as well as economic development objectives, which trade and economic policies should fulfil. Development should be judged not only by economic criteria but also by the extent to which social stability was preserved. The external sector also played an important role in fighting drug-trafficking. In this respect, there was particular need for decisive actions concerning demand in consumer markets. Colombia had made efforts to control its domestic variables but external shocks, in particular international price fluctuations and protectionist measures in its main markets, had been a destabilizing factor. As a member of the Andean Group and the Latin American Integration Association, she confirmed that their countries were engaged in a process of regional integration and trade liberalization.

98. The representative of Argentina praised Colombia's trade liberalization and expansion plans. These efforts should be strengthened by good results in the Uruguay Round, especially in areas such as agriculture, tropical products, and textiles. He stressed Colombia's active participation in regional and sub-regional integration. The strengthening of the multilateral system and effective opening of markets would also contribute to increasing the predictability of Colombia's trade régime and reinforcing the liberalization and modernization process.

99. In a second statement, the first discussant drew attention to factors that would ensure the predictability of Colombia's general economic and trade policies. One of the objectives of the modernization process was to consolidate the results achieved, and to avoid the recurrence of past trade policy reversals. Exchange rate policy had become an important factor in the diversification of exports and in increasing the predictability of Colombia's trade policy. Opening of foreign markets and adequate continued external financing would be essential elements for the continuation of the modernization and adjustment process. Colombia's participation in the multilateral system would also ensure the continuity of the modernization process. Colombia was making serious efforts to continue its liberalization programme in spite of political and economic difficulties.

100. The second discussant stressed that the trend in Colombia's trade policy was in the right direction, and should keep going in the same direction. Noting the complexity and the discretionary aspects of the import régime, he encouraged Colombia to continue its simplification and the reduction of protection. Although Colombia had achieved some success in diversifying its export base, it was still heavily dependent on exports of agricultural and primary commodities. He hoped that the Uruguay Round would fulfil the best expectations of Colombia - as of many contracting parties - in this area. Finally, with regard to competitive or complementary elements in regional integration, he pointed out that many studies suggested that greater gains from lowering trade barriers on a regional basis could be achieved when similarity and competitiveness were present amongst regional partners.

VI. RESPONSES BY THE REPRESENTATIVE OF COLOMBIA

101. The representative of Colombia thanked the discussants and all participants for the comments made and the interest shown in the recent trade reforms undertaken by Colombia. He also thanked participants for supporting Colombia in its current war on drug processing.

102. He explained macroeconomic aspects of the current situation in Colombia and the aims of the recently-launched Rationalization and Modernization Programme. The main objective of this economic programme was to increase industrial productivity. Market mechanisms were seen as the best way of achieving this objective. During the 1980s, industrial productivity growth had been based essentially on capital-intensive methods. The new programme focused on gradually reducing tariffs, making administrative processes more flexible and eliminating distortions in price relationships, with a view to establishing a competitive economy.

103. Colombia's foreign exchange policy was aimed at achieving a competitive real exchange rate. This was seen as the best means of bringing competitiveness and promoting exports. Exchange rate policy was, however, managed prudently in order to ensure that the benefits of devaluation were not absorbed by inflation and that the fiscal deficit did not increase.

104. Improvements in the Colombian financial system should also have an immediate impact in increasing investment. Up till now, public investment in Colombia - which was equal to 50 per cent of total investment - had been biased against domestic producers. This bias was mainly due to the existence of a complete tariff exemption for official imports by public agencies and to the non-availability of long-term credit for domestic producers. In the new programme, exemptions were being eliminated, tariffs were being made more homogeneous and long-term credits were being made available for domestic producers at a rate linked to the financial markets. Two further measures aimed at creating greater efficiency were the privatization of ports, which would, in the long run, reduce costs of port infrastructure, and the promotion of transfer of technology by eliminating institutional impediments.

105. The sustainability of the process would depend entirely on the overall progress of the Colombian economy. The gradual approach taken by his Government was intended to ensure that there would be no reversal in the direction of the process. In his view, the Colombian economy was currently sufficiently healthy to continue this process in the near future; however, continuing inflows of capital would be required in order for Colombia to maintain its policy of servicing its debt without rescheduling.

106. Colombia had introduced its most significant tariff reforms of the last 5 years in March 1990. The largest tariff reductions were on capital goods, which had, in the past, borne high duties, impeding the renewal of Colombia's capital stock. However, these reductions, as well as the reduction of the import surcharge from 18 to 16 per cent, were possible

only to the extent the Government was able to consolidate other sources of revenue to offset the considerable fall in tariff-based income.

107. The Colombian representative stressed that the tariff survey mechanism was a transitional measure, aimed at collecting information on the potential demand for imports of a number of final consumer goods which were domestically produced and had previously been totally restricted. Once sufficient information on a product was gathered, a definitive tariff would be set and the item transferred to the free list. A list of nearly 750 items, divided into 8 groups, were subject to the new mechanism. Based on foreign exchange availability, an initial budget of US\$150 million was fixed for imports of these goods in 1990.

108. Importers participating in the survey have to specify, under seal, the surcharge (over the current tariff) which they would accept to pay in the event of being granted an import licence. Offers are arranged according to the tariffs proposed, in descending order, and the import values of the proposals are added, from the top, until the limit of the available budget is achieved. The transitional tariff is set at a level equivalent to the percentage of the lowest tariff offer included in the process. One single tariff surcharge level for each item is therefore established. As an example, in a recent survey, the resulting tariff surcharge for imported watches was 5 per cent over the current tariff. The survey mechanism was an automatic process with no room for discretion.

109. The representative of Colombia said that the decision to adopt the Harmonized System had been made by the Andean Group. Ecuador and Venezuela had already adopted this nomenclature and Colombia would do the same by January 1991.

110. The administration of Colombia's remaining quantitative restrictions was considerably simpler than in the past. At present, for 781 items in the "prior-free" group, licences were granted automatically. This was also a transitional group: items would gradually be transferred to the free list to the extent to which market access for Colombian goods was improved and financial credits assured for Colombian development. The management of import formalities had also been improved. Time delays had been cut and the agencies involved in granting licences had been decentralized. At present, import registration took very few hours and getting an import licence not more than two weeks.

111. The Government would consider a viable timetable for dismantling the licensing system. This would also depend on a fairly prudent exchange control system. If normal access to external markets and normal capital flows to Colombia were guaranteed, the Government should be able to eliminate remaining quantitative restrictions in two to three years. However, he emphasized that a clear time-frame for totally dismantling quantitative restrictions would also depend on prudent debt management and on economic conditions in other Latin American countries.

112. Colombia had taken a dynamic approach to achieving broader regional trade liberalization, both in the Andean Group and in the Latin American

Integration Association (LAIA). In the framework of the Andean Group, 57 per cent of tariff items were currently exempted from all levies or restrictions for trade between all members, and 81 per cent for trade between Colombia, Peru and Venezuela. The Andean Minimum Common External Tariff had also been reduced recently. He noted that in the context of the LAIA, a new round of negotiations was in view, in order to broaden the Regional Tariff Preference system. This would facilitate trade among all members. Responding to a question raised concerning a recent agreement between Colombia, Mexico and Venezuela ("The Group of Three"), he explained that this agreement was designed to strengthen cooperation in the fields of transport, use of energy and harmonization of policies with regard Caribbean countries.

113. The representative of Colombia stated that since the Uruguay Round of negotiations begun, Colombia had already made significant tariff reductions. In the Negotiating Group on Market Access, Colombia had offered to increase its tariff bindings to 1692 items at a ceiling level of 40 per cent. Further bindings would depend on the Uruguay Round results, particularly as regards market access for tropical products. In the Agriculture Group, Colombia sought to reduce subsidies and domestic assistance as well as to harmonize phytosanitary regulations which impede the competitiveness of Colombian products in international markets. As regards subsidies, Colombia sought MFN treatment and special and differential treatment for developing countries, and considered that it was also important to achieve greater discipline and a more rigorous methodology for the application of countervailing duties. Colombia rejected anti-dumping investigations for highly perishable products.

114. Finally, the Colombian representative made a statement concerning the application of the Subsidies Code. He wanted to bring to the attention of the international community the fact that the United States had decided not to apply the Code to Colombia, despite Colombia's recent accession to the Code.

115. In this connection, the representative of the United States recalled that United States' policy required any new signatory to the Subsidies Code to enter into a bilateral commitment regarding standstill and phase-out of subsidies. This policy had been examined in various GATT bodies. The United States had not yet been able to reach such an agreement with Colombia. The United States was, however, willing to continue discussions with a view to concluding an agreement in the near future.

116. Replying to the US representative, the representative of Colombia noted that the Subsidies Code, and the General Agreement, were multilateral instruments based on the MFN clause. Bilateral agreements should have no part in such instruments. His country reserved the right of recourse to the GATT dispute mechanism if necessary.

VII. CONCLUDING REMARKS BY THE CHAIRMAN

117. In the framework of the Trade Policy Review Mechanism, the Council undertakes a collective evaluation of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. In these closing remarks, following customary practice, I do not wish to substitute for the assessment made by the Council of Colombia's trade policies and practices, but rather, on my own responsibility, to bring together what I consider to have been the principal elements of this review.

118. The Council welcomed Colombia's readiness to be the second developing country to bring forward its trade policies and practices for review under the TPRM. The Council recognized that Colombia had been undergoing a process of major macro-economic adjustment at a time when the economy was confronted with serious external and internal difficulties. A particular burden was the heavy economic and social cost to Colombia of its ongoing combat against drug trafficking.

119. Several members noted that Colombia's high level of external debt and debt servicing made a co-ordinated approach by both Colombia and its trading partners to its trade and financial problems particularly important. The rôle of adequate market access for Colombia's exports was emphasized. Availability of external finance would also affect the scope for changes in trade policies.

120. Members observed that Colombia had, since the mid-1980s, been engaged in a process of trade liberalization. New measures of trade reform introduced early this year were seen as reinforcing the Government's commitment to Colombia's further integration into the world economy.

121. Many members noted that, over recent years, the process of trade liberalization in Colombia had been accompanied by successful efforts to diversify its export mix, away from heavy dependence on coffee. However, many non-traditional exports were in areas such as agriculture, other natural resource-based products, textiles, clothing and leather goods, in which considerable external obstacles to trade persist. Colombia's economic development remained vulnerable to conditions in its external trading environment.

122. Several members pointed out that the direction of Colombia's exports remained highly concentrated. Colombia was thus particularly affected by the trade policies of its major trading partners. Questions were raised regarding Colombia's possibilities to diversify the geographical spread of its trade both within the Latin American region and worldwide. The rôle that the Uruguay Round could play in facilitating the global and product diversification of Colombia's exports was emphasized.

123. It was noted that import prohibitions had been reduced considerably since 1985, and that discretionary licensing restrictions were progressively being replaced by tariffs. At the same time, tariffs themselves were being reduced. Such measures were important moves towards

greater transparency in Colombia's import régime. On the export side, subsidies had been cut back. Colombia's recent accession to the Subsidies Code was also seen as a positive step towards fuller participation in the multilateral trading system.

124. While expressing appreciation for these achievements, Council members noted several areas of concern. They included:

- (i) The continuing high levels and uneven structure of tariffs and non-tariff protection.
- (ii) The escalation of protection created by relatively high tariffs for processed products and tariff concessions for inputs.
- (iii) The lack of stability and predictability of Colombia's tariffs resulting from the small number of bound items. Members also asked how, in the case of some bound items, the import surcharge could be reconciled with Colombia's GATT obligations.
- (iv) The discretionary nature of Colombia's trade régime, in particular the import licensing system and the special import-export systems.
- (v) The complexity of the trade régime, stemming from the presence of multiple measures such as tariffs, import licensing, the import surcharge and a variety of promotional mechanisms affecting individual products, as well as the complex administration of trade measures.
- (vi) Differential exchange rates applied to earnings from exports of certain goods and services, which could constitute implicit export subsidies.
- (vii) Restrictive shipping provisions required by Colombia for exports and imports.

It was suggested that these elements could have a bearing on the efficient allocation of resources in Colombia and on its export performance. Members sought information concerning the expected date for Colombia to adopt the Harmonized System; the criteria under which Colombia could apply the "maximum" tariff; and Colombia's experience with its new foreign investment legislation introduced in 1987.

125. Members of the Council noted Colombia's active participation in regional preferential arrangements, and recent initiatives aimed at deepening the integration process. Questions were raised concerning the extent to which such arrangements might promote or constrain the rationalization of Colombia's foreign trade régime. Information was sought on a reported new agreement among Colombia, Mexico and Venezuela.

126. Members generally welcomed the new trade policy initiatives announced by Colombia in March 1990. These involved a further reduction in import

licensing, and the introduction of a "tariff survey" mechanism with the aim of establishing appropriate tariffs to replace import licensing by 1992. Some concerns were expressed on various aspects of this mechanism, including the possibility of "bidding up" tariff levels, uncertainty concerning the levels of tariffs to be applied to particular goods, and delays in trade transactions which might result from the process. Questions were asked concerning the likely duration of the tariff survey system and, more generally, whether any definite time-frame for phasing out import licensing and reducing tariffs was envisaged. Reference was made, in this context, to Colombia's favourable balance-of-payments and reserves position.

127. In replying to the points made, the representative of Colombia referred to the difficulties encountered by a developing country in liberalizing trade while obstacles to its exports persisted. Despite such obstacles, Colombia had faithfully serviced its heavy external debt. For Colombia, these problems were compounded by the financial and social impact on the economy of the war against drug trafficking. He stressed that, in spite of these adverse conditions, his Government remained convinced that the course of trade liberalization would be sustained.

128. The fundamental objective of Colombia's trade policy reforms was to increase productivity in the economy by reducing price distortions and increasing its flexibility. In this context moves had been made in the mid-1980s towards achieving a realistic real exchange rate. This was also the reason why the first tariff reductions focused on capital goods.

129. The speed of further trade liberalization was linked to Colombia's macro-economic performance, and to conditions of access in external markets. The pace of economic recovery in the neighbouring countries was also a factor. Colombia preferred to proceed prudently in order to avoid reversals in the trend of trade policies, as had happened earlier. Therefore, it was not appropriate to announce a fixed time schedule for further measures. However, barring major economic setbacks, the intention was to phase out quantitative restrictions over a period of two to three years. Efforts were also underway to reduce the dependence of Government revenue on trade-related taxes.

130. The recent reforms had led to a considerably simpler and more transparent import régime. For a large number of items, import licensing was now virtually automatic. The aim of the tariff survey mechanism was to enable the authorities to set appropriate tariff levels for final consumer goods, imports of which were previously highly restricted, on the basis of an assessment of the price effects of the existing licensing régime. Colombia had offered in the Uruguay Round to bind 1,692 tariff items at a ceiling rate of 40 per cent. The final outcome in the area of bindings would depend on the overall results of market access negotiations within the Round, particularly on tropical products.

131. Colombia was opening its economy to the world while, at the same time, promoting integration within the Latin American region. In the recent Galapagos Declaration, the Andean Group Presidents had decided to

reduce the common minimum external tariff, and to establish a common market by 1995. Within the Andean Group, Colombia was also committed to adopting the Harmonized System by 1 January 1991. In the framework of the Latin American Integration Association, a reduction in the number of products exempted from the regional tariff preference agreement was being studied. The Group of Three (Colombia, Mexico and Venezuela) aimed at greater cooperation in areas such as transport and energy policies.

132. In relation to Colombia's participation in the Subsidies Code, the representative of Colombia called the Council's attention to the decision taken on 6 June 1990 by the United States Administration not to apply the Subsidies Code - and hence the injury test - to Colombia. This decision was a negative response to Colombia's genuine efforts to integrate its economy more fully with the multilateral trading system. In response, the United States' representative explained the reasons for the United States action and indicated that the issue was open for further consultations.

133. In conclusion, the Council welcomed the positive developments in Colombia's trade policy. It encouraged Colombia to proceed steadily with eliminating non-tariff barriers, reducing tariffs, and simplifying administrative procedures related to trade in order to promote structural adjustment and the efficient functioning of the economy. Colombia was encouraged to negotiate the binding of a substantial proportion of its tariff in the context of the outcome of the Uruguay Round, and to accede to a wider range of Tokyo Round Codes.

134. The Council recognized the internal and external pressures on the Colombian economy. It emphasized the need for Colombia's major trading partners to facilitate market access for Colombian exports, and stressed that supportive measures at the international level in the area of trade and finance would considerably reduce the external constraints on Colombia's development.