

GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

Spec(89)23
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DRAFT REPORT OF THE WORKING PARTY ON THE ACCESSION OF COSTA RICA

1. On 16-17 June 1987, the Council of Representatives appointed a Working Party to examine the application of the Government of Costa Rica to accede to the General Agreement under Article XXXIII, and to submit to the Council recommendations which might include a draft Protocol of Accession.

2. The Working Party met on 9 March 1988 and 1989 under the Chairmanship of H.E. Mr. J. Lacarte Muro (Uruguay).¹ The terms of reference and membership of the Working Party are set out in document L/6187/Addendum 1.

3. The Working Party had before it, to use as a basis for its discussions, a Memorandum on the Foreign Trade Régime of Costa Rica (L/6050) and the questions submitted by contracting parties on the Costa Rican trade régime and the replies of the Costa Rican authorities thereto (L/6185 and Addendum 1). In addition, the representative of Costa Rica made available to the Working Party the following material:

- National Development Plan 1986-1990
- Central American Treaty and Annexes
- Consumption levy
- Export controls
- Law on barter transactions
- Agricultural Policy: "Ongoing Dialogue", 1986-1990
- Appeals against acts of customs officials and activity of customs authorities
- Central Government: Income, Expenditure and Deficit
- Items below the 5 per cent fiscal floor
- Duties and other charges at customs level

¹The List of Representatives at the first meeting of the Working Party has been circulated in document Spec(88)12.

- Tariff structure by class of product
- Headings subject to import duties which are being unified (Part II) and which will not be unified (Part III)
- Central American legislation on the valuation of goods for customs purposes and Regulations of the National Committee for Customs Valuation
- Goods subject to selective consumption levies
- Goods subject to temporary import surcharges
- Trade Agreement with the Dominican Republic
- Treaty on free trade and preferential trade with Panama
- Acronyms of State institutions
- Decree No. 17774 - MEC which modifies temporarily certain rates in the Central American Import Tariff (L/6317).

4. In an introductory statement, the representative of Costa Rica referred to her country's heightened interest to accede to the Central Agreement. The multilateral trading system embodied in GATT was an essential factor for world economic development. Having regard to its developing country status and on the understanding that its present foreign trade régime was consistent with the General Agreement, Costa Rica had hoped that participation in the GATT would bring about significant benefits to its trading interests.

5. In the recent decades, Costa Rica had pursued economic and social development in the framework of a democratic and egalitarian political system which aimed at reducing social disequilibria and raising the standards of living of its population through sustained economic growth and improved educational, cultural and health systems. Recent developments both at the Central American and world levels had demonstrated the vulnerability of the Costa Rican economy and the urgent need to diversify, modernize and streamline the productive apparatus as well as the internal and external institutional framework. Through strict fiscal adjustment programmes aimed at achieving discipline and financial equilibrium and stimulating production, Costa Rica had been able to reverse the negative trends which had prevailed in the period 1979-1982 with respect to rates of

growth and inflation and in the evolution of foreign exchange rates.

6. Social development considerations including a more equitable income distribution and the need to strengthen Costa Rica's democratic institutions were the mainstay of current economic policies. Even though the expansion of exports would continue to be the main component of economic development and growth, the Costa Rican Government had been pursuing its adjustment efforts through a number of concomitant measures such as the following: reduction of the public sector deficit, mini-devaluations of the exchange rate, modernization of the banking system, liberalization of interest rates and credit policies, increased private and public sector savings, restructuring of public institutions including a programme with incentives for the voluntary departure of personnel, reductions in the price differentials for grains, rationalization of the Central American Import Tariff, etc. The adjustment through-growth programme presupposed the restructuring of the country's external obligations, the securing of additional financial resources and a more effective production and export sector in particular for non-traditional exports. A structural adjustment programme had set specific objectives for the production sector in particular agriculture and industry, the financial sector and the public sector.

7. As an active member of the Central American Common Market, Costa Rica had rights and obligations to respect. Consequently, Costa Rica fully supported Resolution 42(1) of the United Nations General Assembly which aimed at the establishment of a special programme of action for Central America. The President of Costa Rica, Dr. Oscar Arias, and the other Central American Presidents had recently signed the Esquipulas Agreements I, II and III aimed at the settlement of disputes through negotiation and dialogue and the achievement of peace in the region through substantive agreements. These regional efforts required the continued goodwill, support and cooperation of the international community to be successful. Costa Rica was encouraged by the support to the integrated development of Central America provided by a number of contracting parties.

8. Costa Rica, a developing country, fully supported the principles of non-discrimination, reciprocity, transparency and the rule of law in the trade policy field. Notwithstanding its current economic difficulties compounded by the restrictive practices and protectionist pressures affecting its exports, Costa Rica was firmly committed to the strengthening of both the multilateral trading system and the principle of special and differential treatment for developing countries. Costa Rica's participation in GATT as a full member was expected to contribute to the achievement of these objectives. Costa Rica was therefore ready to provide the information needed by contracting parties and invited interested contracting parties to commence the tariff negotiations required for accession as soon as possible.

I. General comments

9. Recalling that tariff negotiations were required for accession to the General Agreement under Article XXXIII, the Chairman noted that as of 16 June 1987, Costa Rica had invited contracting parties wishing to enter into tariff negotiations to contact the Costa Rican authorities (document L/6185 and GATT/AIR/2448). Some members of the Working Party indicated that they had been in touch with the Costa Rican delegation, their request lists had already been submitted or would be submitted shortly and negotiations with a view to the exchange of tariff concessions would be initiated promptly. The Working Party agreed to invite contracting parties interested in carrying out tariff negotiations with Costa Rica, which had not yet done so, to notify the Costa Rican authorities and inform the secretariat no later than 11 April 1988. It was also agreed to invite interested contracting parties to submit their request lists to Costa Rica, and to make every effort to conclude the tariff negotiations, as soon as possible (GATT/AIR/2576).

10. Members of the Working Party welcomed the application of Costa Rica for full accession to the General Agreement. Costa Rica's decision to negotiate for its accession to GATT at the time of the Uruguay Round of Multilateral Trade Negotiations was regarded as a significant contribution

to trade liberalization as well as a timely and positive development which reinforced confidence in the multilateral trading system. Moreover, Costa Rica's accession would contribute to the economic stability of Central America and bring to GATT deliberations a new voice from a region so far not widely represented in GATT. Members noted that Costa Rica's recent trade liberalization measures, tariff restructuring and simplification of customs formalities appeared to be in accord with the objectives of the General Agreement. Membership in GATT could be expected to enhance Costa Rica's economic growth and development, promote the efforts to diversify and expand Costa Rica's trade exchanges with contracting parties, and help to integrate Costa Rican industry more fully into the international trading system. Participation in GATT could also be expected to strengthen regional integration in the context of the Central American Common Market. Contracting parties should make every effort to expedite the process of full accession of Costa Rica to the General Agreement.

11. Recalling the links between Costa Rica and her country in the context of the Central American Common Market, a member emphasized that the economic needs of the Central American region had been recognized in Resolution 42(1) of the United Nations General Assembly. Her delegation hoped that the accession of Costa Rica to the General Agreement would be satisfactorily concluded without delay.

12. The Working Party carried out an examination of various points concerning Costa Rica's trade regime. During the examination in the Working Party, the Costa Rican delegation supplied additional information on the Costa Rican Government's economic and commercial policies. The main points brought out in the discussion in the Working Party are set out hereunder in paragraphs 13 to ...

II. Tariffs and levies system

Customs duties

13. In response to a question concerning the system of levies on imports,

the representative of Costa Rica said that the ad valorem duties, the 3 per cent tax on customs value and the surcharges were considered to be customs duties levied on imports. The most recent data available indicated that, in the period 1984-1986, these levies had represented over 32.8 per cent of total government receipts and approximately 17.8 per cent of total fiscal requirements. Having regard to the current structural adjustment programme which would restrain public expenditure and to the lowering of tariffs implemented by Costa Rica recently, his Government believed that the share of duties and taxes on total revenue might have decreased. The representative of Costa Rica added that the 3 per cent tax on customs value and the surcharges had been in effect in Costa Rica prior to the entering into force of the Central American Import Tariff. Even though Costa Rica intended to examine the possible simplification of the tariff system, it had not been possible, at this time, to consolidate all the customs duties into one single rate. The selective consumption levy, the 10 per cent sales tax and the other charges were considered to be internal taxes levied equally on both domestic and imported goods.

14. Concerning the rationalization of the level of protection in the Central American Import Tariff, the representative of Costa Rica said that since 1986 the structure of protection had been simplified; tariff rates now varied between duty-free and 100 per cent. Costa Rica and its CACM partners had eliminated excessive levels of protection setting maximum tariff rates and lowering the weighted average of nominal tariff protection from 75-80 per cent to 22.5 per cent as shown in the tabulation reproduced in document L/6185/Add.1.

Tax on customs value

15. In response to questions concerning the GATT justification of the tax on customs value, the representative of Costa Rica recalled that as stated in paragraph 13 above this tax which was considered to be a customs duty was not discriminatory. In the light of its development, financial and trade needs as a developing country, Costa Rica considered that this tax was fully consistent with the objectives of the General Agreement in particular Part IV thereof. It was also noted that the rate of the tax had recently been lowered from 3 per cent to 1 per cent and that the proceeds

of the tax were earmarked for medical care and welfare and child care centres.

Import surcharges

16. With reference to the establishment of import surcharges Costa Rica was asked to describe the scope and level of the import surcharges currently applied. The representative of Costa Rica said that 43.4 per cent of tariff items were currently subject to import surcharges whose average level was 2.5 per cent. The surcharges were currently applied to raw materials and capital goods at rates of 2 per cent and 12 per cent, respectively. Consumer goods did not have to pay surcharges. Due to Costa Rica's balance-of-payments problems, for automobiles the rate of the surcharge was 100 per cent. The surcharges were a temporary measure and there was a programme to phase them out gradually. He added that there was no relationship between the surcharges applied by the Central Bank and those that could be applied by the Central American Tariff Council.

17. Referring to the Central American Tariff and Customs Convention and the powers of the Central American Tariff Council, the representative of Costa Rica said that the Central American Tariff and Customs Convention had established a Technical Committee and a Tariff Council as the bodies which should examine requests to modify the tariff regime. Only in very exceptional cases would the Tariff Council agree to modify the levels of tariff rates multilaterally set. Article 23 of the Convention authorized the Tariff Council acting unanimously to apply surcharges of up to 100 per cent ad valorem. This provision had practically never been applied and it was not likely that it would be applied. Costa Rica would comply with the relevant GATT provisions and procedures if bound tariffs were increased for balance-of-payments reasons.

Recent changes in the tariff structure

18. In response to additional questions concerning recent changes in the tariff structure and Costa Rica's intentions in this regard, the representative of Costa Rica said that subject to approval by the

Legislative Assembly, Costa Rica intended to implement gradually a comprehensive programme of structural adjustment of the economy including foreign trade, the financial sector, the public sector, etc. In respect of foreign trade, the 3 per cent tax on customs value had already been reduced to 1 per cent and might be totally abolished in the period 1990-1992. Some surcharges levied on capital goods and finished goods might also be abolished in the period 1990-1992. Costa Rica expected to introduce gradual changes in the Import Tariff in such a way that by 1990 finished goods might be subject to a maximum tariff rate of 40 per cent; for textiles, clothing and footwear, the 40 per cent rate might become effective by 1992. In broad terms, the structure of protection being considered by Costa Rica might be as follows: 5-10-20 per cent for raw materials and goods produced in Central America; 20-30 per cent for intermediate goods, and 30-40 per cent for finished goods. The process of tariff simplification had been initiated in October 1987 when all tariff rates above 40 per cent had been lowered by 10 per cent with a few exceptions for a limited number of luxury products and other items. Pending the study and acceptance of the Costa Rican proposals by the Tariff Council of the Central American Common Market, these measures were being implemented on a temporary basis. Decree No. 17774-MEC of 7 October 1987 which lists the temporary changes introduced by Costa Rica to the Central American tariff rates has been reproduced in document L/6317. Costa Rica would in due course inform contracting parties of any other relevant developments. In noting that the measures contemplated in the structural adjustment programme went beyond the trade liberalization which might be expected from a small developing country, he said that Costa Rica hoped that these measures would be recognized as a very significant contribution to the process of accession to GATT.

Tariff negotiations

19. In recognizing that Costa Rica had made considerable progress in simplifying the system of import levies and taxes, some members of the Working Party noted that Costa Rica was a member of the Central American Common Market, and enquired how Costa Rica would handle the tariff negotiations required for accession. In this respect the spokesman for a

group of contracting parties stated that, in their view, tariff negotiations by CACM members on an individual basis might lead to different levels of bindings and a somewhat confusing situation. It was therefore suggested that Costa Rica might consider the possibility of negotiating tariff bindings across the board. The representative of Costa Rica said that since 1960 his country had been a member of the Central American Common Market. The CACM had succeeded in liberalizing trade among its members and had adopted a common external tariff based on a common nomenclature known as NAUCA 2. The General Treaty for Central American Economic Integration allowed members to enter into negotiations with third countries provided that consultations were undertaken in the relevant CACM bodies: the Technical Committee and the Tariff Council. In 1985 and 1986, the CACM had undertaken a substantive effort of simplification and rationalization of the tariff structure and adopted the CCCN. Any tariff concessions negotiated by Costa Rica in the context of accession to GATT would have to comply with the established consultation procedures, in particular if tariff rates were to be lowered. At present, 80 per cent was the maximum CACM tariff rate. Costa Rica would find it easier, therefore, to bind tariff rates at levels higher than those established in the CACM import tariff for the respective items. Recalling the three part structure of the Central American Import Tariff, the representative of Costa Rica said that the 1611 tariff items listed in Schedule I represented approximately 91 per cent of the items in the common tariff. The tariff items in Schedule III which would not have common rates represented some 4 per cent of the Import Tariff. In his view, even though under the existing procedures Costa Rica might have the possibility of negotiating individual tariff concessions which could be incorporated in Schedule III of the Import Tariff, it would not be advisable to follow such course of action in the present circumstances when the other CACM members had also initiated their process of accession to GATT.

20. In response to a further question concerning the specific limitations that existed on Costa Rica's ability to negotiate tariff concessions due to its membership in the Central American Common Market, the representative of Costa Rica said that the General Treaty for Central American Economic Integration limited the capacity to participate unilaterally in

international tariff negotiations. The Central American States had agreed that before entering into any multilateral agreements on commodities, trade or tariff concessions, or acceding to any international body set under such agreements, they would hold consultations in order to adopt a common position, if possible. Costa Rica had implemented certain temporary changes in the CACM tariff rates. From the point of view of Costa Rica, in connection with the accession to GATT, the course of action which would not put into jeopardy the Central American Import Tariff would be to bind duties at a maximum tariff rate of 80 per cent. As indicated in paragraph 9 above and having regard to the structural adjustment programme, Costa Rica was ready to enter into tariff negotiations with interested contracting parties.

Customs valuation

21. Noting that the Costa Rican customs valuation system did not include administrative or official price levels, a member asked whether Costa Rica would consider adhering to the Customs Valuation Code. In response the representative of Costa Rica referred to the statement which appears in paragraph 41 below and reiterated that his authorities were examining the question of accession to the MTN Agreements.

Selective consumption levy

22. Referring to the selective consumption levy, some members noted that having regard to the provisions of Article II of the General Agreement, the application of levies was permissible to the extent that they did not exceed the rates bound in the respective GATT schedule. Even though the need to levy taxes could be justified under GATT provisions such as Article XVIII, in their view, neither Part IV nor Article XVIII of the General Agreement authorized the discriminatory application of levies contrary to Article III. In response the representative of Costa Rica said that the selective consumption levy existed for reasons of fiscal and economic need and had no protective purposes. The selective consumption levy was levied on a non-discriminatory basis with respect to those domestic and imported goods which had been determined by the Legislative Assembly in the law

itself. In accordance with the law, this was a permanent levy for which the Executive could modify the rates initially established in the law up to a 10 per cent maximum. The maximum rate was currently 75 per cent. For imported goods, the base for the levy was the c.i.f. value plus customs duties, postal and consular charges etc. For domestic goods, the base for the levy was the sales price of the goods to the consumers as reflected in the respective commercial invoice. The selective consumption levy did not discriminate in any way against imported goods and was therefore consistent with the national treatment provision. In the event of the imposition of future levies or the modification of the existing levies, Costa Rica would comply with the relevant provisions of the General Agreement concerning notification and justification.

Levies on specific goods

23. Referring to the system of levies on specific goods, the representative of Costa Rica said that the tax levied on imported liquors and beers was identical to the tax levied on domestically produced liquors and beers. Even though the rates of the tax were the same, the legal bases were different. Moreover, the proceeds of the tax on imported liquors did not go to the Treasury's general fund but served to finance the activities of the Institute for Land Reform. Costa Rica considered that these levies were in full conformity with the provisions of Article III of the General Agreement.

III. Other trade policy instruments

Organic Law of the Central Bank

24. With reference to the Organic Law of the Central Bank of Costa Rica, in response to a question concerning the role of the Government when the Central Bank decided to impose trade restrictions, the representative of Costa Rica said that in accordance with the Organic Law, the Central Bank was not empowered to define economic policies on its own. The Central Bank was part of the Government. Therefore, its decisions had to be coherent and in line with the overall governmental financial, trade and monetary

policies. There was no risk that the Central Bank pursue independent policies because the Ministers of Planning, Finance, Industry, Economy and Commerce as well as representatives from the private sector sat on the Governing Board of the Central Bank. In response to a further question, he said that the application of measures such as surcharges, import deposits or quantitative restrictions would be notified in accordance with the relevant GATT provisions. He added that if balance-of-payments problems continued, Costa Rica would have to invoke Article XVIII as well as the 1979 Declaration on trade measures taken for balance-of-payments purposes.

Registration of confirmed orders

25. The representative of Costa Rica confirmed that the requirement of registration of confirmed orders was in the process of being abolished.

Advance deposits

26. In response to a question concerning the advance deposits, the representative of Costa Rica said that the Central Bank had the authority to require importers to make advance deposits when applying for the foreign exchange needed to pay for imports. The rate of the deposit had varied between 10 per cent and 50 per cent and could be as high as 100 per cent. The deposits were temporary, the current time period was fifteen days and the rate was 50 per cent for all imports except those originating in Central America. In accordance with the structural adjustment programme and having regard to the evolution of the balance-of-payments as well as the liquidity and inflation situation, it was Costa Rica's intention to eliminate the advance deposits by 1990.

Unfair trade practices

27. With reference to the application of countervailing duties or anti-dumping duties, some members enquired whether Costa Rica considered that the provisions of the General Agreement authorized the application of surcharges to deal with unfair trade practices. The representative of Costa Rica said that surcharges were not applied as countervailing or

anti-dumping duties. In accordance with the Central American Tariff and Customs Convention, in the event of subsidization or dumping, the CACM States could adopt whatever measures might be necessary including the modification of import duties. This provision of the Convention had been applied only in one instance. In 1972, Costa Rica had applied a surcharge to "lozas sanitarias" (sanitary tiles) originating in Colombia for reasons of dumping. The CACM had recently adopted anti-dumping legislation. After accession to the General Agreement, Costa Rica's internal legislation concerning unfair trade practices would be harmonized with the relevant GATT provisions.

Government procurement

28. Information was requested concerning the procedures for government procurement in Costa Rica and the possible participation of foreign suppliers. The representative of Costa Rica referred to the Law on Financial Administration and the implementing regulations concerning administrative contracts. The normal procedure was open or public tendering where anybody could bid. Selective tendering where only selected bidders could participate could be used in cases where its need was justified to the Comptroller of the Republic. Single tendering where the Government chose the supplier and awarded the contract without competition was a procedure used only in exceptional cases. The Law required full transparency and publicity in government procurement activities, open competition for bidding and fairness in the adjudication of contracts. If necessary, transactions could be subject to administrative and judicial review.

State-trading

29. With reference to State-trading by Costa Rica, within the meaning of Article XVII, with respect to energy, fertilizers and cement, the representative of Costa Rica said that there were no State monopolies in these sectors. He added that liquors, fertilizers and cement were also being manufactured and marketed by private sector entities. The State had participated in some corporations which operated on an autonomous basis.

However, in line with the principle of economic democracy and the structural adjustment programme, in some sectors, such as aluminium, entities were being privatized and, in others, such as cement and fertilizers, the market share of State owned entities was being reduced. The supply of energy was, in his view, as much a service as banking or insurance. This subject should be taken up in the Negotiating Group on Services to which Costa Rica intended to contribute with the purpose of promoting development and on the basis of the principles of mutual advantage and transparency.

National Liquor Distillery (FNL)

30. In response to questions concerning the production and operations of the National Liquor Distillery (FNL), the existence of a liquor monopoly, the situation of beer, wine and light alcoholic beverages, and the existence of distinctions between domestic and imported products, the representative of Costa Rica said that the National Liquor Distillery had been established in the middle of the nineteenth century to protect the health of the population from the illegal production of alcohol from the sugar cane. At present the production and trade monopoly had been abolished. In Costa Rica there were no restrictions on domestic production, importation or distribution of alcoholic beverages, whether or not light, and prices reflected market conditions. Distilleries were subject to sanitary regulations only. The National Liquor Distillery did not set prices nor did it engage in imports or exports. In the view of Costa Rica, Article XVII of the General Agreement was not applicable to the activities of the National Liquor Distillery.

Barter trade

31. With reference to the importance of trade exchanges under the Barter Law, the representative of Costa Rica said that due to the difficult economic situation of the countries in the Central American region, foreign trade transactions had been affected by serious payments problems. Barter trade was used in order not to increase the outstanding debt of countries such as El Salvador and Nicaragua. [In 1987], barter trade had represented

approximately 10 per cent out of [US\$90] million in exports to Central America. Barter trade had also been used occasionally for small transactions with other countries.

IV. Agricultural policy

32. With reference to the objectives of the National Development Plan 1986-1990, Costa Rica was requested to specify the mechanisms or trade policy instruments other than tariffs and import charges that were being used and would be used in order to achieve the goals of increasing self-sufficiency in the production of basic foodstuffs and diversifying the production structure with non-traditional exports and import substitution products. In addition, Costa Rica was requested to specify the GATT provisions that it would invoke to justify these measures. The representative of Costa Rica pointed out that in his country the National Development Plan had an indicative and not a mandatory character. The self-sufficiency and production diversification objectives set therein by the Costa Rican Government had been one of the results of the wide-spread economic crisis and the concurrent collapse in the prices of the country's traditional export commodities. Under these circumstances, the Government of Costa Rica had adopted a programme of structural adjustment whereby the public sector and its support services had transferred the economic risk to the private sector while providing certain facilities such as credit and harvest insurance, adjusting domestic prices to international prices, studying production zones, etc. In Costa Rica production was a matter of choice and there were no compulsory mechanisms. Producers were expected to take into account the principle of comparative advantage and other relevant market signals when determining investments, production, etc. The National Production Council (CONEPA) had the obligation to forecast the food products that would have to be imported to satisfy domestic demand. For statistical purposes CONEPA authorized imports while fully observing the principle of non-discrimination. Only in the absence of private importers would CONEPA itself become the importer of the commodities in short supply.

33. In response to a question concerning the relevance of Articles VIII, XI and XX of the General Agreement to the objectives and strategies being

pursued in the agricultural sector, the representative of Costa Rica said that the restrictions applied in certain cases to the importation or exportation of agricultural products were consistent with the general exceptions of Article XX. In his view, the powers to regulate the supply of certain agricultural products established in the organic law of the National Production Council (CONEPA) were also consistent with the objectives specified in the provisions of Article XI which under certain conditions give contracting parties the right to apply certain trade measures. Moreover, import and export formalities and documentation requirements had been minimized and simplified in line with the provisions of Article VIII of the General Agreement.

Limon Protocol

34. Referring to the Special Protocol on Grains (Limon Protocol) of 1965, the representative of Costa Rica said that in respect of staple grains the Central American countries had not yet achieved the objectives of coordination of national production and supply policies. The serious effects of the most recent drought in Central America confirmed this situation. The Limon Protocol did not involve preferential imports. In the event of exports, by one of the signatories, of the products listed therein, the Limon Protocol only gave to the other signatories the right of first refusal. In accordance with the San José Protocol, if the right of first refusal was exercised, prices were determined on a competitive basis by means of public tendering. Therefore, comparative costs prevailed in these transactions because the signatories were under no obligation or commitment to buy the products being sold.

National Production Council (CONEPA)

35. In reply to a question concerning the procedures to import staple grains by the National Production Council, the representative of Costa Rica said that in carrying out purchases of staple grains the National Production Council followed the normal contractual procedures and rules applied by the Costa Rican State which were established in the Law on the Financial Administration of the Republic. Therefore, suppliers were

generally chosen through open tendering procedures. A more detailed description of the tendering procedures applied by Costa Rica appears in paragraph 28 above.

36. With reference to the trade practices and price mechanisms applied by the National Production Council (CONEPA) with respect to staple grains and in response to a question concerning the conformity of its operations with Article XVII of the General Agreement, the representative of Costa Rica recalled the objectives for the agricultural sector established in the National Development Plan 1986-1990. The Government's policy was to encourage the domestic production of basic foodstuffs such as white maize, kidney beans, rice, milk, meat, etc., for which there were no production alternatives in the country with the aim of achieving self-sufficiency. Pursuant to its organic law, CONEPA had to make the assessment as to whether or not the domestic production of the basic foodstuffs would be sufficient to meet the demand. If the domestic production was considered insufficient, CONEPA authorized the import of the products in deficit through public bidding. Thus, wheat, milk and meat were among the basic foodstuffs that had to be imported permanently because domestic production could not meet the country's needs. At present, for legal reasons, the importation of basic foodstuffs had to be authorized by CONEPA. However, in the medium and long-term, trade in staple grains would be decentralized and autonomous. Therefore, with regard to the activities of CONEPA, Costa Rica would have no difficulties in complying with the provisions of Article XVII of the General Agreement.

37. In response to a further question, the representative of Costa Rica said that the following measures were being implemented in order to realise the goal of bringing a gradual shift in agriculture production towards more profitable crops: a realistic price policy, credit policy, harvest insurance, zoning, elimination of subsidies, etc. Floating prices had been set for certain commodities. These prices were based on the most recent ten year average. In order to avoid distortions, it had been decided that in no case would domestic prices be higher than 1.4 times international prices. Moreover, producers were entirely responsible for the disposal of any surpluses which might occur in the production of cereals. The

representative of Costa Rica added that his authorities would continue to implement a structural adjustment programme in the agricultural sector. Costa Rica intended to observe the relevant provisions of the General Agreement and was looking forward to joining in the decisions, at the international level, providing solutions for agricultural policies and trade which contracting parties might adopt in the context of the Uruguay Round of Multilateral Trade Negotiations.

V. Fiscal and financial incentives

Export incentives

38. With reference to the export incentives established in the Law on the Financial Equilibrium of the Public Sector, information was requested concerning the benefits available to export contract beneficiaries including the tax credit certificate programme (CATS) and the certificates for increasing exports programme (CIEX). The representative of Costa Rica said that the country's financial resources and industrial base were small. The system of export incentives was necessary to offset distortions in costs which affected the competitiveness of Costa Rica's export products. In the export contracts, the Government guaranteed up to 1996, to exporters of non-traditional products to non-traditional markets outside Central America and Panama, fiscal benefits in the form of income tax exemptions. Credits at preferential rates and accelerated depreciation benefits had not been granted. The amount of the tax credit certificate was related to the increase in the value of exports. The incentives programmes were in the process of being modified. Following the accession of Costa Rica to the General Agreement, the export incentives programmes would be notified in accordance with the relevant GATT provisions.

Export processing zones

39. With reference to the zones for export processing and industrial parks, the representative of Costa Rica said that the objective of the Law on Export Processing Zones was to promote exports. No more than 49 per cent of production could be transferred into Costa Rican customs territory.

This transfer was an importation for customs and statistical purposes; therefore, import duties and levies had to be paid. The reference to the preferential use of domestic raw materials in the export processing zones was indicative and not mandatory.

Industrial production incentives

40. With reference to the local content requirements applied for the purpose of granting production and export subsidies to certain industries, the representative of Costa Rica said that the Law on Industrial Production Incentives of 27 December 1985, and its implementing regulations of November 1986, had established measures aimed at encouraging the domestic production of goods on the basis of national development needs. Manufacturing industries which used industrial processes to contribute to the country's development by generating net foreign exchange earnings or by the local content of their production were entitled to certain benefits such as credits, accelerated depreciation, partial exemption from the territorial tax, facilities for the payment of income taxes, etc., which were applied without any form of discrimination. Having regard to the above mentioned objectives, Costa Rica would notify these practices pursuant to the relevant GATT provisions.

VI. MTN Agreements

41. In response to questions concerning Costa Rica's intention to join the MTN Agreements on Import Licensing Procedures, Customs Valuation and others, the representative of Costa Rica said that at present Costa Rica had entered into negotiations to accede to the General Agreement. The accession to the MTN Agreements as well as the acceptance of the Harmonized Commodity Description and Coding System would be additional contributions to the strengthening of the multilateral trading system which Costa Rica would consider in due course.

VII. Exchange rate system

42. In response to questions concerning the exchange rate system, the

representative of Costa Rica said that since 1983 Costa Rica had been implementing a system of mini-devaluations approved by the IMF and, in connection with the structural adjustment programme, by the World Bank. He added that the official exchange rate had only legal existence but possessed no economic significance. In setting the inter-bank exchange rate the following variables were taken into account: balance-of-payments situation, foreign exchange supply and demand, internal and external prices, rates of inflation, etc. The free market and inter-bank exchange rates remained unified.

VIII. Trade relations with LAIA member countries

43. In response to a question concerning the nature of the partial scope agreements between Costa Rica and some Latin American countries members of LAIA, the representative of Costa Rica recalled that the contracting parties to GATT members of LAIA had notified the 1980 Montevideo Treaty to GATT. In his opinion, the partial scope agreements were covered by the provisions of Article 25 of the Montevideo Treaty and by the Enabling Clause.

[TO BE COMPLETED]