

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/456

22 November 1955

Limited Distribution

CONTRACTING PARTIES
Tenth Session

FREE-TRADE AREA BETWEEN NICARAGUA AND EL SALVADOR

Note by Secretariat concerning the Fourth Annual Report by the Government of Nicaragua

The Free-Trade Treaty between Nicaragua and El Salvador, which entered into force on 21 August 1951 and which was the subject of the CONTRACTING PARTIES' Decision of 25 October 1951 (BISD., Vol. II, p. 30) provides for exemption from import and export duties, taxes, charges, etc. of the products listed in the Schedule annexed to the Treaty. To qualify for exemption, goods must have originated in either country and must consist of natural products or articles manufactured mainly from raw materials of either country. When this question came before the CONTRACTING PARTIES at the Sixth Session, it was understood that the Schedule included all the products which had entered into the trade between the two countries in recent years.

At the Ninth Session, when receiving the Third Annual Report, the CONTRACTING PARTIES requested the Government of Nicaragua to provide in its Fourth Report "an analysis of the trade between the two countries in relation to the operation of the Treaty, especially that part of the trade not covered by the Treaty, and a list of the main products on which duties are still levied". The Government of Nicaragua has complied with this request by distinguishing in the statistics of its trade with El Salvador in 1954, between the products covered by the Treaty and those to which duty exemption has not been extended. It appears from the Report that only about 1 per cent of the exports to El Salvador are not covered by the Treaty, whereas some 15 per cent of the imports from El Salvador are not exempt from duty.

The secretariat has examined the statistics provided in the Report and has compared them with the published trade returns of El Salvador. Notes on the results of the examination are annexed. It appears that a large part of the 15 per cent of Nicaragua's imports from El Salvador which is composed of non-Treaty products is in fact transit trade and therefore is not covered by the Treaty nor by the provisions of Article XXIV:8(b) of the General Agreement, relating to the definition of a free-trade area, which requires the elimination of "duties and other restrictive regulations of commerce ... on substantially all the trade between the constituent territories in products originating in such territories".

In each of the first three Reports, the Government of Nicaragua stated that the extension of the Treaty to products not included in the Schedule was under consideration by the two Governments, but in the Fourth Report it states that the Schedule has not been modified or extended "as the two Governments seem satisfied with the development of trade in the items included in the Schedule".

The Treaty also provides that the scheduled products shall be exempt from measures of quantitative control, but the two Governments reserved the right "to adopt measures of total or partial control on importation or exportation" in respect of certain items. These items include maize and beans which are important items among Nicaragua's exports to El Salvador. The Government of Nicaragua stated in its Third Report that "regular quantities of maize are exported in November and December". In each of the last four years a restriction has been imposed on this trade:

in 1951-1952, El Salvador prohibited imports of maize;

from September 1952 - January 1953, El Salvador again prohibited imports of maize;

from November 1953 - May 1954, Nicaragua prohibited exports of maize and beans, and

in October 1954, El Salvador again imposed a prohibition on imports of maize.

Nicaragua stated in the Third and Fourth Annual Reports that the trade surpluses with El Salvador would have been greater if the trade in maize had not been restricted.

ANNEX

NOTES ON TRADE BETWEEN NICARAGUA AND EL SALVADOR

1. In order to shed some light upon the trade between Nicaragua and El Salvador, especially in items not covered by the Free-Trade Treaty, the foreign trade statistics of El Salvador have been consulted with the results set out below.

2. The total value of trade in 1954 between the two countries according to their respective returns was as follows:

	Nicaraguan returns (L/437) (thousand US dollars)	Salvadorean returns*
Exports from Nicaragua to El Salvador	1,829	1,837
Imports of Nicaragua from El Salvador	1,565	1,264

* Comercio Exterior 1954

In view of the close agreement regarding exports from Nicaragua to El Salvador (which was fully confirmed by a number of spot checks in respect of various commodities), and given the negligible importance of non-treaty products among these exports according to the Nicaraguan report (L/437), the detailed comparison between the returns of the two countries was limited to the imports of Nicaragua from El Salvador.

3. As regards the treaty products and non-treaty products respectively, the major items checked added up as follows:

	Nicaraguan returns (thousand US dollars)	Salvadorean returns
Total imports of Nicaragua	1,565	1,264
Treaty products	1,326	n.a.
of which checked	1,309	1,150
Other products	239	n.a.
of which checked	226	98

In addition, El Salvador's returns show four relatively large items for which no counterpart could be identified in the Nicaraguan returns, i.e. coffee, lubricating oils, ceramics and office supplies (other than paper), accounting for about \$5,000.

4. Hence, the excess of the Nicaraguan over the Salvadorean trade values is accounted for as follows (thousand US dollars):

Total discrepancy	301		
of which not checked		in Nicaraguan returns	in Salvadorean returns
treaty products	17	}	11
non-treaty products	13		
of which checked			
treaty products	159		
non-treaty products	128		
Minus exports from El Salvador not identified	- 5		

5. It therefore appears that a large part of the trade in non-treaty products (\$128,000 out of \$239,000) is comprised of items not appearing in the Salvadorean returns. Among these, the following are the most important:

	Nicaraguan returns	Salvadorean returns	Difference
<u>Non-treaty products</u>			
Rubber products	43.4	7.7	35.7
Machinery (including electrical) and vehicles	133.1	46.4	86.7
Cinema films	13.8	-	<u>13.8</u>
			136.2 ¹

Since El Salvador is a large importer (and probably not a producer) of these commodities, it is very likely that the considerable value of Nicaragua's imports of non-treaty products from El Salvador is due to the fact that such products are recorded by Nicaragua as originating in El Salvador, although they are merely re-exported by that country.

¹This figure exceeds \$128,000 because a number of small items are larger according to Salvadorean returns.