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LATIN AMERICAN FREE TRADE ASSOCIATION

Information Furnished by Contracting Parties Belonging to the Association

IMPLEMENTATION OF THE TREATY

As stated in the first report by the contracting parties which are members of the Latin American Free Trade Association (L/1861/Add.1), the statutes and regulations of the Standing Executive Committee, the permanent body of the Association, were established at the first session of LAFTA (September to December 1961). In 1962 and 1963 the Committee was actively engaged in the study and consideration of the fundamental objectives of the Association, with a view to the full operation of the provisions of the Treaty.

In accordance with its powers, the Committee has established technical committees composed of representatives of all the contracting parties and co-ordinated by the secretariat. These committees are responsible for advising the organs of the Association on matters within their purview and, through them, proposing to the governments of contracting parties the solutions which they consider most appropriate for the proper achievement of the objectives of the Treaty. These advisory committees are as follows:

- Advisory Committee on Statistics
- Advisory Committee on Transport
- Advisory Committee on Origin
- Advisory Committee on Nomenclature
- Advisory Committee on Industrial Development
- Advisory Committee on Customs Questions
- Advisory Committee on Monetary Questions
- Advisory Committee on Agricultural Questions

In carrying out their mandate, the various organs of the Association receive technical advice from the United Nations Economic Commission for Latin America (ECLA), the Organization of American States (OAS) and the

Inter-American Development Bank (IDB), as well as from other international and regional organizations specialized in economic affairs.

The existence of LAFTA has also given rise to action at the managerial levels of the various economic sectors in the region, resulting in the establishment of associations of producers and consumers to study possibilities for Area integration in the various sectors concerned while co-operating with the Standing Executive Committee and the secretariat of the Association in the analysis and implementation of the most suitable procedures for attaining that objective. To date, a number of associations of this kind have been established and their activities are justifiably expected to yield positive results.

In addition, the Association has received valuable assistance from the Intra-American Trade and Production Council on matters within its purview; the Council links the principal professional organizations concerned in the trade and industry of all countries on the American continent and has extensive experience in this field.

PROGRESS OF WORK

Having regard to the fact that the reduction and elimination of customs duties and charges with equivalent effect are of fundamental importance for the progressive establishment of the Free Trade Area provided for in the Montevideo Treaty over the twelve-year transitional period, LAFTA has had to give careful attention from the outset of its activity to all the various customs problems which are closely connected with the integration process now under way.

This work has mainly concerned three well-defined aspects: first of all, nomenclature, with a view to furnishing a common basic instrument for the precise differentiation and definition of products under negotiation; next, customs technique with a view to commencing as soon as possible the gradual harmonization and standardization of the customs regulations of member countries; and lastly, instruments of commercial policy in order to identify and distinguish each of the charges and restrictions applied on imports by each country.

In compliance with a specific provision in the Treaty, the Brussels Tariff Nomenclature (BTN) has been adopted as a common basis for statistical records and tariff negotiations; as amended by the insertion of sub-divisions at the level of sub-items in order to meet the requirements of the Area, it is known as the NABALALC. In addition, a central statistical service has been set up at the Association's headquarters and a joint system has been established for the furnishing of data based on a statistical code drawn up for this purpose. This has required a considerable and sustained effort on the part of the statistical services in each country in furnishing data regularly and complying with the rules established for the system.

This system is being constantly improved through the work of the Advisory Committee on Customs Questions and the Advisory Committee on Nomenclature.

As regards the statistical aspects, the establishment of the above-mentioned systems has enabled the products included in the liberalization programme to be defined individually and consequently has made it possible to record trade movements in each of them with respect to the Association.

The object of the studies and projects undertaken by LAFTA in the sphere of customs technique is to achieve, through the gradual accomplishment of a permanent work programme, the fullest possible harmonization and uniformization of the customs régimes of countries in the Area, and to promote the study of all problems relating to development and the advance of customs techniques in those countries.

The adoption of uniform rules for determining the nationality of imported goods has so far led to the introduction of a few transitional rules, while studies are continuing with a view to the establishment of final regulations.

Following the first meeting on commercial policy and central banks, held at Bogota in April 1963, studies were undertaken on the possibility of harmonizing the tariff systems and the charges applied on imports from third countries, with particular reference to the desirability of adopting uniform charges, the need for comparative analyses of average levels of incidence and the need to determine the basis of conversion for the value of goods and establish the valuation basis to be used for comparing the level of charges, and also the selection of criteria for classifying products by group or any other appropriate ways. In the course of 1964 a comprehensive programme will be drawn up in this regard.

INDUSTRIAL DEVELOPMENT

From the outset, LAFTA has taken due account of the fact that the economic integration provided for in the Treaty can be attained only through the harmonious and co-ordinated acceleration of industrial development in the Area. Once the most urgent problems of organization and of strengthening and of expanding traditional trade flows had been solved, and trade within the Area had been multilateralized as a result of the first rounds of negotiations, the Association took up the study of problems of industrial complementarity and integration and of the implications which national development plans, already drawn up or in course of formulation, would have on the process.

In 1963, the work of the Association in the industrial sector covered two distinct aspects: on the one hand, the first meeting on the planning, promotion and orientation of industrial development, and on the other, meetings of industrial sectors concerned with specific industries.

In this way, the government bodies responsible for planning and development and also the private sector examined the industrial problems of the Area.

In order to commence the work to be done in this important field, and in compliance with a resolution adopted by the Conference at its second regular session, in April 1963 the first meeting took place at Lima of the organizations concerned with the planning, promotion and orientation of industrial development of member countries; the meeting was also attended by representatives of the United Nations Economic Commission for Latin America, the Inter-American Development Bank, the Inter-American Economic and Social Council of the Organization of American States, and the Committee of Nine (Committee of Experts on the Implementation of the "Alliance for Progress" Programme).

At this meeting, emphasis was laid on the need for an early examination of the various industrial development programmes, in order to avoid under- or over-production in basic sectors having regard to the global requirements of the Area market.

This point was expressed in the preamble to Resolution No. 1 of the meeting, which states that if economic integration is to be achieved, there must be proper co-ordination of the economic and social development plans of the contracting parties, so as to permit the smooth and balanced development of the Area, action being taken to avoid any repetition within the Area of the world division of countries exporting manufactures and countries exporting raw materials, and at the same time to enable the best use to be made of available resources.

Also, on the basis of a suggestion made by the above-mentioned meeting, the Committee established the Advisory Committee on Industrial Development to continue studies in this sector, i.e. to examine programming methods for promoting co-operation between the contracting parties in the implementation of their respective industrial development policies; to keep up to date and disseminate information on fundamental aspects of the industrial development of each country; to compile estimates of supply of and demand for equipment goods and other essential products for the growth process, in accordance with global or regional plans and specific projects; to transmit to all interested organizations and sectors in the contracting parties information concerning the principal industries already existing or to be established in each country; to carry out studies for the identification of goods not produced in the Area for which demand is met by imports from third countries, and to study the possibility of locating specified industries in certain countries, after effective harmonization of national development plans.

Completing this programme of work, in 1963 the Committee convened meetings of industrial sectors with the active participation of the entrepreneurs concerned, in order to analyze possibilities for integration and industrial complementarity in each sector and to examine the implications and progress of the liberalization programme in each of them.

A number of meetings of this kind were held in 1963 with the following main objectives:

- To establish the necessary contacts between industrial producers in the Area for the exchange of information on production conditions in their respective countries and the definition of the obstacles encountered in marketing their products within the Area.
- To enable private initiative to take an active part in the solution of negotiating problems with a view to a substantial increase in trade in products not traditionally exchanged.
- To determine each country's requirements of raw materials, equipment, goods and machinery in order to establish favourable conditions for industrial expansion.
- To encourage producers to make use of the instruments of the Montevideo Treaty, that is to say, negotiations and complementarity agreements, in order to achieve an expanded market.
- With the creation of the expanded market, to offer conditions for application of industrial development plans based on assured demand on an economically profitable scale, so as to permit the application of modern and efficient production techniques, leading to lower costs.

MONETARY MATTERS

The most positive results in this sector were achieved through the establishment by the Inter-American Development Bank of an export financing mechanism, which came into operation for capital goods on 1 January 1964 and is backed by a \$30 million fund set up for this purpose.

LAFTA has also given special attention to operational and exchange policy problems which affect the normal development of commercial transactions in the region. This was one of the principal topics discussed at the Bogotá meeting mentioned above, when each country furnished information regarding various aspects of restrictions applied in the monetary sector and the operational mechanisms of exchange policy in force. This led to a fruitful exchange of information, and the main problems were identified.

Consideration was also given to the desirability of starting to co-ordinate the financial systems existing within the Area and to the need for arrangements between the banking institutions of the member countries in order to strengthen existing financing media and achieve better inter-bank relations through correspondentship agreements providing for reciprocal facilities in the framework of fuller convertibility. All these matters will be examined at a meeting of representatives of central banks and of the commercial bank of the countries concerned, to be convened in due course by the Standing Executive Committee.

LIBERALIZATION PROGRAMME

The conference of the CONTRACTING PARTIES to the Montevideo Treaty held its third regular session at Montevideo in October-December 1963, with the participation of the nine countries which at present belong to the Arrangement, i.e. Argentina, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru and Uruguay.

The provisions of the Treaty regarding the liberalization of intra-Area trade have been complied with by means of the rounds of negotiations held so far which have more than met the minimum requirements of the Treaty that each country should make an annual reduction with respect to the other member countries amounting to not less than 8 per cent of the weighted average of existing duties and charges applicable to third countries. In addition, a number of non-tariff barriers to trade within the Area have been eliminated or reduced; in this connexion it should be noted that at the second regular session of the Conference the contracting parties, considering such procedures incompatible, resolved that no products should be included in the liberalization programme which were subject to any restriction under which a country reserved the right to impede or hinder the effects of a concession by a unilateral decision. This resolution has resulted in progress in the elimination of restrictions of this type on trade within the Free-Trade Area. It should be pointed out in this regard that the Treaty merely lays down the obligation to eliminate non-tariff restrictions or charges with equivalent effect before the end of the twelve-year transitional period, without fixing any time limits prior to that expiry date or specifying any progressive stages for the application of such measures.

In the negotiations aimed at including the largest possible number of products in the liberalization programme, the contracting parties have taken full account of the objective of stepping up intra-Area exchanges, which hitherto accounted for only a small proportion of the region's overall trade; consideration has also been given to the other fundamental objective of creating appropriate bases for stimulating trade with the rest of the world and co-operating effectively in international action for the expansion of international trade.

In the three rounds of negotiations held to date (1961, 1962 and 1963) and the special negotiations for the accession of Colombia, the contracting parties have granted a total of 8,247 duty reductions among themselves. A large number of these concessions cover entire headings or sub-headings in the NABALALC (LAFTA tariff nomenclature), so that the level fixed for each one of these concessions applies to a group of articles, and the number of products negotiated is considerably larger than the above figure.

The great variety of products negotiated is the logical result of the system of selective negotiation on a product-by-product basis which has in the past been used by LAFTA and has been the traditional practice in GATT. Certain practical and technical disadvantages have been encountered in this procedure and accordingly some thought has recently been given to its possible replacement in the future by some system of linear reduction; no decision has been possible in this regard, however, because the different tariff structures and different levels of duties, as well as the different characteristics of the other instruments of commercial policy and the disparate industrial development from one sector to another and from one country to another are all obstacles which must be considered in the formulation of an appropriate system.

From the point of view of the expansion of intra-Area trade, exports to the Area by all the contracting parties with the exception of Brazil rose in 1962, which was the first year of application of the liberalization programme and the only period for which complete figures are available (the figures for 1963 are in process of compilation). Taken together, intra-Area exports rose from \$291.2 million in 1961 to \$348.3 million in 1962, representing an increase of 19.6 per cent. Total trade in both directions rose from \$646.5 million in 1961 to \$764.1 million in 1962, an increase of 18.2 per cent.

Details of these figures are as follows:

1961 and 1962 - Intra-Area External Trade
(in thousand dollars)

Countries	Imports (c.i.f.)			Exports (f.o.b.)		
	1961	1962	Indice 1961=100 1962	1961	1962	Indice 1961=100 1962
Argentina	125,951.6	102,753.2	81.6	99,960.4	141,321.9	141.4
Brazil	45,175.5	128,613.0	284.7	95,242.0	75,808.0	79.6
Colombia	10,184.0	12,526.0	123.0	6,099.0	7,412.0	121.5
Chile	94,475.7	80,539.7	85.2	34,811.8	39,381.5	113.1
Mexico	4,145.7	6,123.7	147.7	7,884.4	16,716.5	212.0
Paraguay	8,910.0	6,050.0	67.9	9,886.8	10,888.8	110.1
Peru	31,826.3	45,186.0	142.0	31,549.2	48,776.0	154.6
Uruguay	34,526.8	34,036.2	98.6	5,826.2	8,014.6	137.6
Total	355,195.6	415,827.8	117.1	291,259.8	348,319.3	119.6

PROGRAMME FOR 1964

In accordance with the Resolutions adopted by the Conference and with the work in hand, LAFTA will have to carry out a heavy programme in 1964 covering all the sectors and subjects mentioned in this report.

First of all, a special session of the Conference will be held in May to commence negotiations on the Common Schedule provided for in the Treaty. It will be recalled that this schedule is to comprise products which account for not less than 25 per cent of the aggregate value of the trade among contracting parties. By including these products in the schedule, the contracting parties undertake to eliminate all duties and charges and other restrictions applied on imports of such goods from other countries in the Area before the expiry of the twelve-year transitional period. The minimum percentage of 25 per cent must be raised to not less than 50 per cent during the second three years of operation of the Treaty, and not less than 75 per cent during the third three-year period, thus ensuring the liberalization of the internal market which is one of the fundamental objectives of the Free Trade Area. The statistical material for these negotiations has already been prepared by the Standing Executive Committee and has been distributed to the member countries.

In addition, meetings of the various advisory committees will take place over the period February to August; some of them will have to work under a joint programme designed to speed up the integration process.

During the third session of the Conference, the contracting parties arrived at the conclusion that economic integration and the process of liberalizing intra-Area trade were being hampered by the diversity of economic policies of the LAFTA countries and more particularly because of the different treatment applied to imports from third countries. It was therefore proposed that this anomaly should be rectified by gradually harmonizing economic and commercial policies. The contracting parties therefore agreed that work should be started on a co-ordination programme which would be carried out in stages and would take account of all economic policy aspects involved in the integration process. In order to facilitate the task, the Advisory Committees on Industrial Development, Agricultural Questions and Monetary Questions were requested to meet during the first five months of 1964 in order to examine the policies of contracting parties in their respective sectors and to identify the problems affecting the integration progress in each one of them.

The results of these meetings - one of which, the Advisory Committee on Customs Matters, is already in progress - will be analyzed by a special committee composed of high-level experts from all the member countries, which will then report to the Conference and recommend appropriate action and provisions for the implementation of the programme.

The first stage consists of an analysis of the customs tariff instruments of the contracting parties, with a view to the possible preparation of a common external tariff. The tasks involved will not be limited solely to the customs aspects, but will also cover other related subjects so as to ensure the overall harmonization of the customs tariff systems of the member countries, with respect both to the tariff and to definitions, terminology, formalities, procedures, special régimes and other aspects of customs legislation.

In addition, sector meetings are to be held to consider various problems relating to industry.

Important work is being done in the relevant Advisory Committee on Transport in connexion with a Convention to intensify and regulate maritime traffic, and the Committee will also continue studies on problems concerning air freight.

In the agricultural sector, the Association will benefit from the co-operation of FAO which has nominated an agricultural economist to act in an advisory capacity. Apart from continuing the studies already in hand, the Association will establish a price and production information service so that a global exchange programme can be carried out, taking account of crop characteristics and other special features of intra-Area trade in this sector.