

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## CENTRAL AMERICAN COMMON MARKET

### Summary of Agreements

The following summary of the various agreements and protocols leading to the creation of the Central American Common Market (CACM) has been compiled by the GATT secretariat on the basis of material supplied by the Government of Nicaragua and press reports.

1. On 13 November 1956 the CONTRACTING PARTIES decided that the Government of Nicaragua was entitled, with regard to the plans for the creation of a Central American Free Trade Area, to claim the benefits of the provisions of Article XXIV relating to the formation of free-trade areas (BISD, 5th Supplement, page 29). The Government of Nicaragua undertook to furnish to the CONTRACTING PARTIES, not later than 1 September of each year, a report on the progress achieved towards the elimination of tariffs and other restrictive regulations within the free-trade area.

2. The Multilateral Central American Free Trade and Economic Integration Treaty (document L/891) was signed on 10 June 1958 by Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador. It entered into force on 2 June 1959 in respect of Guatemala, Nicaragua and El Salvador and was ratified subsequently by Honduras.

The Treaty establishes that a free-trade régime shall be instituted within ten years from the entry into force of the Treaty. Customs duties, certain taxes, etc. shall be abolished within the area - although no timetable is fixed - in respect of 190 items, listed in Annex A (Article I).

The member States also declare their determination to establish a customs union. Within one year an agreement for the equalization of import duties on the free-trade items shall be prepared (Article IV).

In their first (1960) and second (1961) annual Reports (documents L/1302 and L/1564) under the Decision of 13 November 1956, the Government of Nicaragua stated that the Treaty had up to then had a very limited effect.

3. On 10 June 1958 there was also signed by Guatemala, Honduras, Nicaragua and El Salvador - and later by Costa Rica - an Agreement on the Régime of Central American Integrated Industries (document L/508/Add.2) which, however, is of a special nature and

does not directly affect the creation of the free-trade area. It entered into force on 4 June 1961 for the five countries. A protocol to this Agreement designating the first two integration industries (caustic soda and chlorated insecticides, and tyres and tubes) was signed on 29 January 1963.

4. In accordance with the stipulations of the Multilateral Integration Treaty (cf. 2 above), a Central American Agreement on the Equalization of Import Duties and Charges (document L/1302/Add.1) was signed on 1 September 1959 by Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador. It entered into force in respect of Guatemala, Nicaragua and El Salvador in September 1960 and has subsequently also entered into force for Honduras.

The Agreement provides for the establishment of a common tariff policy and the setting up of a Central American import tariff. To this end, import duties and charges will be equalized within not more than five years from the date of entry into force of the Agreement. The tariffs specified in Schedule A (266 items) to the Agreement will be adopted immediately, while an interim system is established for the progressive equalization of import duties for fifty-two items included in Schedule B. Further commodities can be added to these schedules.

In a communication from the Nicaraguan Government, dated 14 February 1961 (L/1425), it is stated that already the "aforos" (rates of duty) of 429 tariff items have been unified and a further 259 will be unified over a period of five years (although the schedules of the Equalization Agreement provided for the unification of the rates for only 266 items forthwith and fifty-two items within five years).

5. A Protocol to the Equalization Agreement (L/1302/Add.1), signed and entered into force at the same time and for the same countries as the Equalization Agreement (but not subsequently ratified by Honduras), provides that the contracting States grant to one another, as from the entry into force of the Protocol, a tariff preference of 20 per cent on all imports originating from their territories. This Protocol has, however, been superseded by the General Treaty (paragraph 7 below).

6. A Second Protocol to the Equalization Agreement (L/1705) accelerating the establishment of uniform external duties on imports from outside the area, was signed on 13 December 1960 by Guatemala, El Salvador, Nicaragua and Honduras. It has also been signed by Costa Rica; it entered into force in respect of the first three countries on 3 June 1961 and subsequently also for Honduras.

7. On 13 December 1960 the General Treaty for Central American Economic Integration was signed (L/1425) by Guatemala, El Salvador, Nicaragua and Honduras. Costa Rica signed the Treaty on 23 July 1962. The Treaty entered into force for the first three countries on 3 June 1961 and for Honduras on 16 August 1962; it was ratified by Costa Rica on 31 October 1963 and is thus in force for all five countries. The text of the Treaty has been distributed to the contracting parties in document L/1425/Add.1.

The Treaty expresses the need to accelerate the economic integration of the Central American countries. A common market is to be established between the contracting States in not more than five years from the entry into force of the Treaty and a customs union is to be set up. The customs union will be achieved by the establishment of a free-trade area within a period of five years and the adoption of a uniform Central American tariff policy in accordance with the Agreement on the Equalization of Import Duties and Charges. This reduces the transitional period for the establishment of the free-trade area from ten years, according to the Multilateral Free Trade Treaty, to five years.

All products originating from the territories of the member States shall receive, immediately upon the entry into force of the Treaty, free-trade rights exempting them from import and export duties and charges. Special transitional régimes for given products excluding them from direct free-trade treatment are established in Annex A to the Treaty. These products will be incorporated in the free-trade régime not later than at the end of the fifth year after the entry into force of the Treaty, except where specifically provided to the contrary in Annex A.

The Government of Nicaragua has explained that the list of such exceptions is very short and can be divided into three main categories: firstly, articles on which the duty is to be progressively reduced over a five-year period and completely eliminated in 1966; secondly, articles subject to increasing import quotas which will also be incorporated in the free-trade régime in 1966; and thirdly, three or four headings such as sugar, matches and two others which will not enjoy free trade in the near future.

8. A Ten-Year Commercial Agreement was signed on 2 August 1961 in Panama by the Ministers of Economy of Costa Rica, Nicaragua and Panama (document L/1706; cf. also L/1770 and L/1782). It was ratified in June 1962 by Nicaragua and Panama and entered then into force for these two countries. The Agreement grants preferential treatment or full exemption from customs duties and consular fees to goods included in lists that will be drawn up subsequently by a joint committee. Efforts are to be made to equalize the customs duties and taxes on imports and the transport charges of the three countries. Capital invested by one country in another will be accorded equal treatment with domestic capital.

9. On 23 November 1961, the CONTRACTING PARTIES decided (BISD, 10th Supplement, page 48) to waive the provisions of Article II, paragraph 1, of GATT in order to enable the Government of Nicaragua to increase bound rates of duty for the purpose of applying the common Central American rates, equalized in accordance with the Equalization Agreement of 1 September 1959 (cf. paragraph 4 above) and subsequent protocols and with the General Treaty for Central American Economic Integration of 13 December 1960 (cf. paragraph 7 above). Nicaragua shall, however, notify the Executive Secretary of any increases in bound rates and, before the expiry of the Waiver on 23 November 1964, renegotiate under Article XXVIII of GATT the modifications it has made in the bound rates.

10. A Third Protocol to the Equalization Agreement was signed in San José on 31 July 1962 between Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The Protocol entered into force for Costa Rica, Guatemala and Honduras on 29 April 1964 after having been ratified by these three Governments.

This Protocol makes the common external Central American tariff, which had up to then been applicable to about 50 per cent of the total number of items in the uniform Central American Tariff Nomenclature (NAUCA), applicable to 95.5 per cent of the items, or altogether 1,220 items. For fifty-six items classification only is still pending. Of the 1,220 equalized items, 1,080 are subject to immediate equalization; the remaining 140 will be equalized within five years from the entry into force of the Protocol.

11. A Fourth Protocol to the Equalization Agreement was signed on 29 January 1963 in San Salvador. It will enter into force when three of the signatory countries have ratified it; so far it has been ratified by Honduras only.

The Protocol inter alia modifies ten equalized duties agreed upon in earlier protocols, and decides that six items, which should have been gradually equalized over a period of up to five years, shall be immediately equalized.

12. A Protocol to the General Treaty for Central American Economic Integration was signed by Costa Rica, Guatemala, Honduras, Nicaragua and Salvador in Guatemala on 13 December 1963. The Protocol establishes a uniform customs legislation in the five countries and creates a common Central American customs service. It will enter into force when ratified by all five signatories.

13. There is also in force between Nicaragua and El Salvador a Free-Trade Area Treaty which was signed on 9 March 1951 and entered into force on 21 August 1951. The CONTRACTING PARTIES decided on 25 October 1951 that Nicaragua was entitled to claim the benefits of Article XXIV in respect of this Treaty. (BISD, Vol.II, page 30). Although this Treaty is still in force, it has, in fact, been superseded by the later, multilateral treaties.

14. In 1962 the Government of Nicaragua submitted for the first time instead of the two reports required under the Decisions of 25 October 1951 (cf. paragraph 13 above) and 13 November 1956 (cf. paragraph 1 above), a common report (L/1865) on the activities under the General Treaty for Central American Economic Integration (cf. paragraph 7 above), which, it claims, covers the trade originally provided for in the Nicaragua-El Salvador Free-Trade Area Treaty and the Multilateral Integration Treaty. A similar report was submitted in 1963 (L/2085).

15. An integration agreement between Central American States, to which Nicaragua is not a party, is the Treaty envisaging the creation of a customs union between Guatemala, El Salvador and Honduras, signed on 6 February 1960 in Guatemala. This Treaty, the official title of which is "Economic Association Treaty", became operative on 27 April 1960 following ratification by the Parliaments of the three signatory States. It has largely been superseded by the later agreements referred to above (paragraphs 7 to 11).