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L/4731
1 December 1978

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GENERAL AGREEMENT ON TARIFFS AND TRADE

Original: Spanish

CENTRAL AMERICAN COMMON MARKET

Report by the Permanent Secretariat of the General Treaty of Central American Economic Integration

In accordance with the reporting procedures on regional agreements and the calendar established for this purpose by the Council of Representatives (L/4445), the Permanent Secretariat of the General Treaty of Central American Economic Integration (SIECA) has submitted the following report.

The Permanent Secretariat of the General Treaty of Central American Economic Integration (SIECA) presents a brief summary of the activities of the Central American Common Market in the past two years, i.e. since the thirty-second session, held on 9 and 10 November 1976.

On that occasion, fairly full information was given to the CONTRACTING PARTIES concerning the draft Treaty of the Central American Economic and Social Community which the High Level Committee had presented to the governments of the region for examination. Since then, in each Central American country, the draft has been the subject of broad internal consultation with the various sectors concerned, and has also been examined in various regional seminars organized by associations of industrialists, traders, workers and the academic world. The Chambers of Industry of nearly all the countries concerned have also expressed their views on this matter.

As is logically to be expected, the signature of a new Treaty will have to be preceded by lengthy negotiations, and major political decisions will have to be made.

Another aspect to which the Central American Governments attach great importance concerns the Central American tariff and customs régime. For the member countries of the Central American Common Market, the common external tariff and the customs code, together with the free-trade area, constitute fundamental instruments of the Common Market because, in a certain way, they define the economic area of regional dimension that the economic integration is designed to achieve.

In briefly outlining the historical background of these fundamental instruments, it is relevant to note that the member States began this task in the 1950s through a negotiations process with a view to drawing up a common tariff nomenclature (NAUCA), which was adopted between 1956 and 1959 to replace fairly rudimentary national nomenclatures. By 1963, tariff equalization had been achieved for approximately 95 per cent of tariff headings and a Uniform Customs Code had been signed.

While the tariff equalization and the harmonization of customs systems implied significant progress toward the establishment of the Common Market and the modernization of national systems, it is clear that in the present decade the instruments signed between 1956 and the 1960s may not be the most appropriate ones for meeting the new needs of the internal development and external trade of Central America. Accordingly the Governments decided to undertake a thorough review of the tariff and customs régime in order to adjust it to those new needs.

For the meetings of the High Level Committee, a number of studies were prepared on the matter, which served to clarify concepts and led up to the relevant consensus and chapters of the draft Treaty.

Nevertheless, the above-mentioned review had to be developed and carried through and accordingly at the beginning of 1975 the thirteenth meeting of Ministers of Economy requested SIECA to prepare a report on scope, content and procedures for the review of Central American tariff policy. The report, comprising four volumes and sixteen annexes, was submitted to the Governments (Ministers of Economy and Finance, and Presidents of Central Banks) in July-August 1975. It was then examined by national groups set up for that purpose, and in July 1976 the sixteenth meeting of Ministers of Economy approved an agreement setting forth the major policy lines to be observed by the new tariff and customs régime and the parameters to govern the review and describing the institutional organization, at both national and regional level, that would implement it.

Since that date the Central American countries and the regional institutions have devoted a large part of their energy to this vast and complex task.

In the field of tariff policy, it is agreed that the tariff should serve to support the integrated economic and social development policy of the countries of the region. In this perspective, its basic function is to afford protection to producing activities so that they may develop in reasonable conditions of efficiency. To that end, the tariff should not have any functions of a fiscal or balance-of-payments character, which could be effectively dealt with through other instruments.

Furthermore, it is appropriate that the tariff should continue to be a common instrument, and to ensure that the incidence of tariffs is the same in all the member countries; that is why one of the most important mandates concerns the arrangements that will have to be made in respect of other instruments of economic policy, to the extent that these have effects of a typically tariff character; these are tax exemptions, surcharges and differential rates of consumption tax that affect only imports from the rest of the world. The tariff will also have to establish the bases for co-ordination with other instruments of economic policy and rules allowing tariff amendments to be made in the light of conjunctural situations or to adjust it to new needs of economic and social development.

As regards the characteristics of the new tariff, the nomenclature will be derived from that of the Brussels Customs Co-operation Council, allowing comparisons at international level, since it is much more highly developed from the customs aspect; duties will in general be established on an ad valorem basis so as to avoid any distortions resulting from conjunctural factors in international economic relations and to ensure that the agreed levels of effective protection are maintained for producing activities.

In brief, the aim is to set up in the short term a modern and efficient instrument that corresponds better to the development needs of Central America and shows clearly and reliably to producers just what net protection is provided for their activities, and to traders and consumers the customs duties that are applied on imports of goods. In this way, too, the Central American Common Market will have a convenient instrument for attending to its external trade relations.

The Governments and SIECA are carrying out this task together through an ad hoc machinery that has been set up, consisting of national groups and the Assembly of Co-ordinators of those groups, which has held more than eight meetings to date. It is hoped that by the end of this year a draft new Central American tariff and customs régime can be presented to the Governments, together with two additional documents: a study on the fiscal and balance-of-payments effects of the new tariff, with proposals for dealing with any very substantial changes, if any; and a proposal on procedures for consultation with interested sectors, modalities and a time-table for final negotiation of the instrument.

Recently, at their Third Special Meeting held on 1 and 2 September 1978, the Ministers of Economy of Central America, expressed the view that the work of reviewing the Central American tariff and customs system was a matter of extreme necessity and urgency, and accordingly agreed to establish the new régime as soon as possible since, inter alia, this task is closely interrelated with the process of restructuring the Central American Common Market.

To translate these measures into concrete terms, the same ministerial meeting agreed that the Assembly of Co-ordinators will act as a pre-negotiation group and will prepare, by 31 March 1979, a draft Central American tariff and customs régime which will include a proposal concerning the new legal commitment and the new tariff. These will be examined by a meeting of Ministers of Economy in the second quarter of 1979. In the meanwhile, consideration is to be given to matters connected with exemptions, consumption taxes and tariff surcharges; there will likewise be an opportunity to consider how a flexible machinery is to function and the basis for co-ordination with instruments and policies, in particular in the fields of taxes, exchange, monetary matters and external trade relations.

It is appropriate to underline that the Central American economic integration programme has not been conceived as a movement toward isolation or autarky. Rather, it is a matter of promoting development of the region through integration, so that it may be better placed to attend to its external economic relations, mainly in the trade field.

In this way the Common Market endeavoured to avail itself of the advantages offered by united action by one economic entity of regional dimension much larger than action by five countries in their individual capacity. Consequently, the governments of the region have adopted a series of resolutions which underline the active and joint participation of the countries of the region in various international negotiating fora, in particular in the Multilateral Trade Negotiations that are taking place within GATT, and to which the Central American Common Market has attached particular importance in view of the results that they can have for the economies of the member countries of the Central American Common Market.

ANNEX

CENTRAL AMERICA: Value of Total Extra-Regional and Intra-Regional Trade, 1970-1976

(in million Central American pesos)

	1970		1971		1972		1973		1974		1975		1976		1977	
	total	extra/intra	total	extra/intra	total	extra/intra	total	extra/intra	total	extra/intra	total	extra/intra	total	extra/intra	total	extra/intra
CACH																
Imports c.i.f.	1,234.0	935.0 299.1	1,304.3	1,027.9 276.4	1,411.9	1,104.7 306.7	1,845.7	1,457.3 388.4	2,922.3	2,400.8 521.5	2,945.9	2,411.9 534.0	4,233.9	3,491.1 742.8		
Exports f.o.b.	1,098.0	811.7 286.3	1,107.0	834.2 272.8	1,131.6	1,024.1 107.5	1,663.7	1,280.4 383.3	2,109.1	1,576.6 532.5	2,298.7	1,761.4 537.3	3,892.3	3,149.5 742.8		
GUATEMALA																
Imports c.i.f.	284.3	219.3 65.0	303.3	236.9 66.4	349.7	258.9 68.8	427.4	337.8 89.6	697.4	572.1 122.1	732.7	629.6 103.1	732.5	609.6 119.4		
Exports f.o.b.	290.2	187.9 102.3	283.1	201.1 92.0	328.1	229.4 98.7	436.2	306.2 130.0	572.1	408.9 163.2	623.5	454.4 169.1	571.3	280.5 189.1		
EL SALVADOR																
Imports c.i.f.	213.6	15.3 60.6	247.4	183.8 63.6	278.1	202.8 75.3	373.8	281.0 92.8	563.4	450.7 112.7	598.0	469.7 128.3	547.5	219.8 170.4		
Exports f.o.b.	228.3	154.5 73.8	228.4	147.4 81.0	277.3	184.8 92.5	358.3	245.8 112.5	462.5	312.7 149.8	513.4	371.6 141.8	544.6	158.2 176.1		
HONDURAS																
Imports c.i.f.	220.7	165.8 54.9	193.4	177.1 16.3	192.8	170.5 22.3	262.2	229.8 32.4	380.1	338.2 41.9	404.3	352.6 51.7	394.7	73.5 58.4		
Exports f.o.b.	169.7	151.7 18.0	182.8	177.4 5.4	195.9	190.1 5.8	246.8	236.8 10.0	253.3	229.6 23.7	293.3	266.7 26.6	347.3	42.5 35.7		
NICARAGUA																
Imports c.i.f.	198.7	148.7 50.0	210.4	156.8 53.6	218.5	157.7 60.8	327.0	237.1 89.9	561.7	431.0 130.7	516.9	404.2 112.7	391.8	160.4 140.3		
Exports f.o.b.	178.6	132.5 46.1	187.2	139.8 47.4	249.4	193.2 56.2	277.9	217.6 60.3	380.9	289.4 91.5	375.2	282.6 92.6	424.1	116.9 117.8		
COSTA RICA																
Imports c.i.f.	316.7	248.0 68.7	349.7	273.2 76.5	372.8	293.3 79.5	455.3	371.6 83.7	719.7	605.7 114.0	694.0	579.6 114.4	133.9	169.7		
Exports f.o.b.	231.2	185.1 46.1	225.4	178.4 47.0	280.9	229.5 51.4	344.5	274.0 70.5	440.3	336.0 104.3	493.3	386.1 107.2	96.0	144.7		