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GATT TRADE POLICY REVIEW

COLOMBIA

On 6-7 June 1990, the GATT Council will consider reports on the trade policies of Colombia, prepared by the Colombian Government and the GATT Secretariat. The reports will form the basis of a comprehensive examination of the trade policies of Colombia.

The reports cover all aspects of Colombia's trade policy, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; and the wider economic and developmental needs.

The trade policy review mechanism was launched in December 1989 as one of the early results of the Uruguay Round to enable a regular collective evaluation by the GATT Council of the full range of trade policies of individual GATT members.

Attached are summary sections of the reports prepared respectively by the Colombian Government and the GATT Secretariat.

The complete trade policy review of Colombia, including these two reports together with a record of the Council's discussion and of the Chairman's summing-up, is expected to be published in August 1990, and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland.

The reviews of Australia, Morocco and the United States, which were completed in December 1989, are also available from the GATT Secretariat.

TRADE POLICY REVIEWCOLOMBIA**Report by the GATT Secretariat - Summary Observations****(1) Colombia in World Trade**

Colombia accounts for 0.2 per cent of world trade. It is a major exporter of some primary commodities, notably coffee, cut flowers and some minerals. In the 1980s, shaped by world market developments for coffee and other primary commodities, Colombia's trade expanded less and fluctuated more, than world merchandise trade.

External trade is, however, playing an important and increasing rôle in Colombia's economic development. In 1989, merchandise imports and exports were equivalent to 27 per cent of GDP, an historical peak. In recent years, Colombia's integration in the world economy has been reinforced by growing trade in services and foreign direct investment.

Over the past decade, Colombia has made substantial progress in diversifying its export product mix. The share of coffee in merchandise exports has fallen from 60 per cent to around one quarter. This partly reflects the sharp decline in coffee prices in recent years, culminating in the collapse of the International Coffee Agreement in 1989. The other major factor in this change was the rapid export expansion of petroleum, coal, bananas, cut flowers, clothing, leather goods and several other non-traditional products. In consequence, Colombia's economy is less vulnerable than hitherto to shocks in individual commodity markets, such as the fall in coffee prices.

Colombia's export market diversification has advanced much less than its product diversification. The United States and the European Communities continue to be the source for over 70 per cent of export earnings. Trade policy developments in these markets can have a major impact on Colombia's export prospects, particularly in sensitive sectors such as clothing or for perishable products like cut flowers.

Further trade expansion is crucial for Colombia. High levels of unemployment and the growth of population exert pressures for income growth and job creation, emphasizing the urgent need to find alternatives to illegal drug-related sources of employment. Colombia also needs the foreign exchange to continue servicing its debt burden which, although low by Latin American standards, has remained substantial. Currently, around half of revenue from exports of goods and services is spent on debt service. These aspects have been important in guiding the Colombian authorities in their recent formulation of trade policies.

MORE

(2) Institutional Framework

Under the Colombian Constitution, the Congress has the power to determine the broad framework for the conduct of trade policies. The present legal basis for trade policies is Decree-Law 444 of 1967.

Responsibility for the formulation of specific trade policies is fragmented among many Ministries and other official institutions. Co-ordination of trade policy formulation is provided by inter-agency consultation under the overall direction of the Foreign Trade Council. The Colombian Institute of Foreign Trade (INCOMEX) provides the Secretariat for the Council.

Formal participation of the private sector in trade policy formulation is rare. Instead, informal contacts are the normal channel of communication between the Government and the business community.

Within the overall legal framework, Colombian trade policy is largely made through Presidential Decrees and specific regulations issued by Ministries or other official agencies. Decisions are regularly published in the official Gazette. Changes in trade policy have been frequent.

The discretionary power of the various Government bodies involved in trade policy is substantial. For example, through the issuance of licences, INCOMEX can influence the quantities of specific imports, the enterprises which may receive them and, by virtue of the licensing mechanism itself, the sources of imports. In many instances, traders have to deal with a relatively large number of agencies and formalities. These institutional features can be a source of uncertainty for domestic and foreign businesses in planning their investment, output and trade.

There is no official agency in charge of carrying out regular reviews of trade policies and their effects on trade flows. Policy evaluations in the context of trade policy reforms are undertaken by bodies such as INCOMEX or the National Planning Department.

(3) Trade Policy Features and Trends

Colombia acceded provisionally to GATT in 1975 and became a full contracting party in October 1981. Colombia participates in the Code on Bovine Meat, and has observer status in the Codes on Technical Barriers to Trade, Subsidies and Countervailing Measures, Customs Valuation, Import Licensing and Anti-Dumping Measures. Currently, the Colombian Government is considering accession to the Codes on Subsidies and Technical Barriers to Trade.

Colombia generally applies m.f.n. treatment to its trading partners, and about four-fifths of its imports come from m.f.n. sources. Preferential access is extended to many goods imported from the Andean Group and the Latin American Integration Association (LAIA), subject to complex product-specific and bilateral arrangements. In general, national treatment is applied to imported goods.

MORE

(i) Recent evolution

Colombia's economic history since the 1950s has been marked by successive periods of market opening and restriction. In 1983, responding to a major balance-of-payments crisis, the Government substantially tightened access to the Colombian market, in particular through import licensing.

A comprehensive, long-term adjustment programme was launched in late 1984, comprising macro- and micro-economic policy reforms. In the following years, fiscal policy was formulated with a view to getting the public sector and current account deficits under control. Exchange rate policies were set to achieve a realistic level of the Colombian peso. This was accompanied by a gradual liberalization of the external trade and, more recently, a major change in the foreign investment régime.

There has thus been a considerable opening of the Colombian market since 1984, comprising tariff cuts and reductions in import licensing and other non-tariff measures. Import prohibitions have fallen to 1 per cent of all tariff items, down from a share of 16.5 per cent in 1984. Nevertheless, the level of protection conferred by specific trade policy measures, particularly for finished goods, remains high and uneven. Tariffs and import licences are the main instruments of import policy, but imports are also subject to a number of other charges and non-tariff measures. A variety of export incentives and control measures also exists, again with a highly variable incidence across products.

A foreign exchange budget is established to cover all payments for imported goods and services. Within this budget, first priority is given to the obligations of the Central Bank and external debt services of public agencies. Then, the priorities are for imports of raw materials and spare parts, imports for the "El Cerrejon" coal project, public sector imports of agricultural products, fuel imports, capital goods imports for export industries, and other imports.

(ii) Type and incidence of trade policy instruments

With few exceptions, all imports into Colombia must be registered with INCOMEX, subject to a small administrative charge.

Tariffs have both protective and revenue purposes. In 1989, the simple average tariff was 26 per cent, less than half the 1985 level. Tariffs contribute some 10 per cent of total government revenue.

Preferential duty-free access is given to most goods from Andean countries. Some goods imported from LAIA member countries benefit from reduced or duty-free rates under "partial-scope", regional or bilateral agreements.

Bindings cover 36 of the 5,142 tariff lines, largely relating to certain chemicals, machinery and tools. In 1989, imports entering Colombia

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under bound rates accounted for less than 6 per cent of total merchandise imports.

The trade liberalization programme since 1984 involved a lowering of average tariff levels and a compression of tariff ranges. Nevertheless, the variation of tariff rates remains huge. Ad valorem tariffs range from duty-free to 200 per cent (passenger motor vehicles). High tariff sectors include footwear and travel goods, beverages and spirits, fish and fish products, textiles, furniture, office and stationery supplies, and dairy products.

The effective tariff protection accorded many intermediate and final goods is likely to be considerably higher than nominal tariffs would suggest. First, tariff escalation is present in most product categories (although there are some cases where tariffs on semi-processed goods are lower than on raw materials). Second, tariff exemptions for imported inputs are widespread, in particular on inputs for exportable goods.

For many products, prior import licensing, extended widely in 1983 and early 1984 for balance-of-payments reasons, appears to be the binding constraint, raising protection above the levels provided by tariffs. In these cases, the tariff has the sole function of raising government revenue.

Import licensing is applied selectively in all sectors. The régime has been progressively relaxed. In 1989, the free list represented close to 40 per cent of the total number of tariff lines, up from 0.5 per cent in 1984 (but still substantially below the 1980 level). Moreover, according to Colombian officials, a variety of items on the prior licensing list were admitted virtually automatically.

Prior licensing is most widespread for imports of finished goods. The structure of the licensing system thus favours imports of raw materials, intermediate inputs and capital goods at the expense of consumer products.

Beyond this, the impact of the licensing system on trade flows is difficult to assess because the criteria for granting any individual import licence are, by nature, discretionary and subjective. The licensing system, although largely intended to protect the balance-of-payments, is likely to have created uncertainty for investors and traders.

Import quotas are in place for some agricultural products. Import monopolies exist for oilseeds and petroleum.

An import surcharge of 16 per cent (essentially imposed for fiscal reasons) is a significant further component of trade taxes. In some cases, the tariff surcharge is reduced or exempted. For example, a rate of 8.5 per cent is levied on items bound under GATT, and imports under special import-export programmes, such as the Vallejo Plan, are exempt.

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For several goods, such as cereals and fruit or vegetable juices, an additional charge of 15 per cent is levied on imports for retail sale. Imports of some agricultural commodities are subject to a tax known as "promotion fee", whose rates vary by product.

A sales tax, at widely differing rates, is in place in Colombia. The same rates are applied for imported and domestically produced goods, with the exception of preferences for wines and vermouths from LAIA countries.

In the context of government procurement, all import registrations by public bodies are checked by INCOMEX to verify whether local substitutes are available. Preference is generally given to local producers in government procurement contracts.

On the whole, the presence of tariffs, import licences, import quotas, import monopolies, import surcharges, additional import fees and promotion fees, including preferential treatment, special reductions and exemptions, add up to a highly complex import policy régime.

On the export side, virtually all transactions must, as with imports, be registered. Almost all foreign exchange earnings from exports must be surrendered to the Central Bank.

Incentives to exporters include freedom from duties, other charges and import licensing requirements for imported inputs under the Vallejo Plan, tax reimbursement certificates (CERT), and subsidized export credits. There are also several free trade zones.

The tax reimbursement certificate (CERT) is intended to offset indirect taxes paid by exporters. However, there appears to be little direct relation between the levels of taxes and the rates of rebate. Other export incentives also differ across products. In many cases, monetary incentives may be less important than free access to imports of inputs, capital goods and spare parts.

In general, export incentives are designed to compensate for tariffs and other import restrictions, but their diversity makes it difficult to assess the degree of support given to particular activities or to firms in particular sectors, or the extent to which the objectives of the incentives are fulfilled.

Some products have at times been subject to export controls to guarantee domestic market supplies; exports of coffee are channelled through a monopoly; and promotion fees are charged on a few agricultural products for regional development purposes.

Measures affecting production and trade include support prices for certain agricultural products, mainly coffee and cereals. The aim is to stabilize producer incomes. A range of other regulations apply to the coffee sector. Furthermore, agricultural policies include certain local content schemes implemented through absorption quotas.

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Half of all Colombian imports and half of coffee exports transported by sea are required to be shipped by Colombian vessels.

(iii) Temporary measures

The import restrictions introduced in 1983 and early 1984 were designed as temporary measures for balance-of-payments purposes. Pursuant to Article XVIII:B of the General Agreement, a full consultation with Colombia was held in 1985 in the Committee on Balance-of-Payments Restrictions, and two simplified consultations in 1987 and 1989.

Colombia applies no anti-dumping or countervailing measures. Colombia has never taken recourse to Article XIX of the GATT. Safeguard clauses in the framework of the Andean Group and the Latin American Integration Association have been used very seldom by Colombia.

(iv) New initiatives

The policies implemented by Colombia since 1984 have contributed to a broadly satisfactory process of adjustment in the economy, including its external accounts, with growing trade. Colombia's current trade policy stance is to continue the liberalization process started in 1984. Gradual and steady trade expansion is seen as a key factor for improving efficiency in Colombia and promoting export growth. A new trade policy reform, intended to continue the process of export diversification and further gradual import liberalization, was announced in March 1990.

Under the new programme, the licensing system has been changed again. Items on the free list now account for 56 per cent of all tariff lines. Another 781 items are on a "prior-free" list, subject to automatic licensing. Of the remaining 2,229 items, 744 are scheduled for tariffication by 1992. These items, largely consumer goods, are subject to a fixed foreign exchange allocation (US\$150 million in 1990). A foreign exchange quota is also fixed annually for 350 items on a so-called "prior-quota" list. The remaining 354 items are treated as before in the prior-licensing system.

A number of other measures is also envisaged. The authorities intend to reduce, in five years, the simple average tariff rate, including the import surcharge, to 25 per cent. One step in this direction has already been announced, notably a reduction of the import surcharge from currently 16 per cent to 14.5 per cent by 1992. There are also plans to abolish the foreign exchange budget for items on the free list and to streamline export promotion measures. The requirements for using Colombian vessels for transport by sea are becoming more flexible.

(4) Trade Policies and Foreign Trading Partners

The trade policy reforms in Colombia have been occurring at a time when Colombia has been facing difficult conditions in major export markets. Coffee export revenues have been affected heavily by the collapse of the International Coffee Organization, and coffee is still subject to tariffs

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and internal taxes in many industrialized countries. Cut flowers face provisional anti-dumping duties on top of m.f.n. tariffs in the United States. In the EC, cut flowers and bananas from Colombia face m.f.n. tariffs up to 20 per cent, and exports of bananas meet with some additional trade barriers in some member States. Other tropical products such as cocoa, pineapples or mangoes exported by Colombia have remained subject to tariffs, and, in some cases, phytosanitary restrictions in major industrialized countries. Agricultural subsidies or quotas in developed markets have adversely affected meat and sugar exports. Textiles, clothing and leather articles face a variety of tariff and non-tariff barriers in most foreign markets.

The opening up of the Colombian economy is expanding business opportunities for foreign trading partners. Further reform of trade-related laws and regulations could be expected to create a more liberal, simple and predictable framework for traders. Such movement would be encouraged by a more open and stable external trading environment for Colombia. This would also reinforce Colombia's commitment to the multilateral trading system, which is reflected by its constructive participation in the Uruguay Round negotiations.

MORE

TRADE POLICY REVIEW
COLOMBIA

Report by the Colombian Government - Summary

I. Objectives of trade policies

Since 1984 Colombia has been implementing a macro-economic adjustment programme aimed at balancing the State's finances and strengthening the external sector, in which foreign trade has been given a leading rôle in growth; this should be reflected in a greater share of exports in the national product and an import policy primarily guaranteeing the expansion and transformation of the production system.

This programme is to be consolidated and deepened by means of a new programme, the "Policy for the Modernization of the Colombian Economy", adopted in late February 1990. The instruments for its implementation have not yet been finalized at the time of writing of this report.

A key component in this programme is the rationalization of foreign trade, with the aim of gradually and steadily introducing greater foreign competition for local production through a continuing reduction in quantitative restrictions on imports.

Import policy

The overall objective of Colombia's import policy is to ensure the availability of raw materials and capital goods of foreign origin necessary for the production of goods for domestic consumption and for export to world markets.

Under the recently adopted programme for the rationalization of foreign trade, during a first stage, 1990-1991, the aim is to increase the exposure of local industry to external competition through a progressive reduction in quantitative restrictions on imports and greater use of tariffs and the exchange rate as mechanisms for controlling trade.

During a second stage, estimated at three years, it is planned to cut tariffs gradually and steadily down to the level of protection considered desirable from a medium-term standpoint.

The specific objectives of the current import policy include the following:

- To diminish the high level of protection afforded to some industries, by gradually opening up the economy and exposing them to external competition.

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- To rationalize and gradually introduce greater flexibility into the management of the prior licensing system and the foreign-exchange budget for imports.
- To use the tariff as the main instrument of protection and selective stimulation of the production system.

Export policy

The primary objectives of export policy have been growth and diversification of exports.

The measures taken at the domestic level to achieve this goal include in particular appropriate exchange-rate management, control of inflation and streamlining of the export-linked import systems.

Steps are also being taken at the international level, such as active participation in consultations and negotiations that offer possibilities of achieving better conditions of access to industrialized countries (Generalized System of Preferences (GSP), GATT negotiations), the work of Colombia's trade offices abroad, and prominent participation in regional and sub-regional economic integration agreements (LAIA and Andean Group).

Under the recently adopted economic modernization strategy, the measures provided for on various fronts are expected to generate suitable structural conditions for the development of exports.

II. Wider economic and developmental needs, policies and objectives of Colombia

Within the framework laid down in the 1987-1990 National Development Plan, the Government's policies are aimed at ensuring that growth fulfils a definite social function and also at ensuring that social development constitutes a fundamental element in economic growth.

The economic growth strategy is aimed at ensuring that increases in production and productivity will meet the demand for goods and services and will guarantee satisfactory remuneration of production factors, in particular labour. The viability of this objective is based on an increase in private investment, exports and public spending.

Macroeconomic management is viewed not only from the standpoint of its effect on productive activity, but also as a means of directing the economy towards social development priorities. Fiscal, financial, exchange and foreign trade measures create permanent and stable conditions for increasing domestic saving, channelling it towards investment in productive activities and guaranteeing a level of public spending for social priorities.

Recent economic performance

The recent development of the Colombian economy has been strongly influenced by external events. The external debt crisis that affected many developing countries at the beginning of the 1980s was also a decisive factor in growth and the economic policy measures adopted. Although Colombia was the least indebted country in the region, it also suffered a number of external shocks (both favourable and unfavourable) which led to fluctuations in the domestic economy.

The rates of growth achieved in the mid-1980s, especially in 1986 and 1987 (5.8 per cent and 5.3 per cent respectively), were largely attributable to the performance of the economy's external sector, which achieved relatively satisfactory balances, mainly in trade: this was notably due to the rôle played by coffee, with a boom in 1986, and the excellent performance of non-traditional exports. With regard to fiscal policy, efforts were focused on reducing the large public sector deficit, which was achieved thanks to the results of the external sector and subsequently to implementation of the 1986 tax reform (Law 75).