

# GENERAL AGREEMENT ON

RESTRICTED

# TARIFFS AND TRADE

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## ANDEAN GROUP

### Report Submitted by the Member States of the Andean Group

The following communication, dated 1 October 1990, has been received from the Permanent Representatives of Bolivia, Colombia, Peru and Venezuela.

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On behalf of the Member States of the Andean Group which are contracting parties to the General Agreement on Tariffs and Trade, we have the pleasure to transmit a report on the activities of the Andean Group.

The report is submitted for the attention of the GATT Committee on Trade and Development in accordance with the Decision of the CONTRACTING PARTIES of 28 November 1979, known as the Enabling Clause.

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REPORT BY THE ANDEAN GROUP ON ITS ACTIVITIES  
TO THE GATT COMMITTEE ON TRADE DEVELOPMENT

I. INTRODUCTION

The Cartagena Agreement, of which Bolivia, Colombia, Ecuador, Peru and Venezuela are members, was signed in 1969 and was initially set in the context of the regional integration process provided for by the 1960 Treaty of Montevideo. The main objective of the Agreement is to promote the balanced and harmonious development of the member States by a process of economic integration. To that end, it provides for mechanisms to build an expanded market through the liberalization of trade within the sub-region and the adoption of a common external tariff, as well as the implementation of joint industrial development programmes and the gradual harmonization of economic and social policies.

As a result of recent changes made in the legal arrangements of the Cartagena Agreement, it has become independent as regards aspects relating to the extension of the Montevideo Treaty, which has expired. Consequently, in accordance with paragraph 4(a) of the Decision adopted by the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade on 28 November 1979 concerning Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries, the Permanent Representatives of Bolivia, Colombia, Peru and Venezuela, in their twin capacity as member countries of the Cartagena Agreement and contracting parties to the General Agreement, hereby inform the CONTRACTING PARTIES of the activities carried out by the Andean countries under the Cartagena Agreement, for consideration by the Committee on Trade and Development.

This report is in four parts. The first part, which seeks to provide an overview in order to allow an appraisal of the present state of trade flows of the Andean countries, provides a description of the trade of the Andean Group both with third countries and within the sub-region. Part two outlines the main changes recently introduced in the legal arrangements of the Cartagena Agreement both as regards the mechanisms and instruments of sub-regional integration and in connection with the institutional framework. Part three contains an analysis of the Strategic Design for the Andean Group, a document recently adopted by the Presidents of the member countries of the Cartagena Agreement, which introduces a new orientation for the sub-regional integration process, establishing medium- and long-term guidelines and objectives. In the final part there is a description of the present situation of the various mechanisms and instruments aimed at reducing or eliminating tariffs among member countries and perfecting the sub-regional expanded market. This report provides information up to 31 July 1990.

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The Annexes, Decisions, Listings and the Consolidated Tariff Schedule mentioned in the Report are all available in the Secretariat (Development Division, Room 2010) for consultation.

## II. TRADE IN THE PERIOD 1987/89

This section of the report furnishes some details on Andean Group trade in 1987/89. The secretariat has been provided with a statistical annex giving detailed information on trade trends in the Andean Group for the period 1969/89, which allows a comprehensive evaluation of developments in sub-regional integration over those twenty years.

The Andean Group accounts for roughly 0.8 per cent of world merchandise trade. Nevertheless, that trade plays an important rôle in the economy of the Andean sub-region. Total imports and exports represented some 18 per cent, on average, of the Andean GDP in 1988. In 1989, total exports of goods amounted to US\$24,796 million, representing an upturn in trade compared with 1987 and 1988, but without yet reaching the levels attained in the early 1980s, when Andean Group exports began to decline. In 1980, they amounted to US\$30,272 million. Table 1 shows exports, imports and aggregate trade balance for the Andean Group and each of its member countries. It is interesting to note that 1988 is the first year in the 1980s in which the Andean Group had an aggregate deficit on its trade balance. This basically reflects the considerable increase in imports by Venezuela that year, together with the reduction in its exports.

Table 1 also gives information on Andean Group trade excluding trade in fuels. In this case, the position of the trade balance of the sub-region and its member countries is reversed, with a sustained deficit throughout the 1980s. In the three years under consideration only Peru achieved a trade surplus, which resulted from the severe contraction of imports owing to the sharp decline in its GDP.

Apart from fuels, which represent about 50 per cent of total sub-regional exports, the other main export products are agricultural products, such as coffee, bananas, cocoa, cotton, flowers and asparagus, among others; mining products, such as aluminium, copper, zinc, lead, iron ore, coal and gold and silver; fishery products such as prawns, fish oil and flour and canned fish; agro-industrial products such as sugar, coffee essence and chocolate; and industrial products such as cotton fabrics, jewellery articles, printed materials, mineral manufactures and cement, among others.

TABLE 1  
ANDEAN GROUP  
EXPORTS, IMPORTS AND TRADE BALANCE  
(millions of dollars)

	Total trade			Excluding fuels		
	1987	1988	1989	1987	1988	1989
<u>EXPORTS</u>						
Andean Group	21,684	20,783	24,796	9,044	10,432	12,273
Bolivia	570	597	819	314	378	605
Colombia	5,024	5,026	5,733	3,655	4,039	4,333
Ecuador	2,020	2,285	2,354	1,203	1,410	1,206
Peru	2,623	2,676	3,504	2,333	2,531	3,337
Venezuela	11,447	10,149	12,386	1,539	2,074	2,792
<u>IMPORTS</u>						
Andean Group	20,372	23,067	17,067	20,025	22,516	16,555
Bolivia	765	590	615	763	585	609
Colombia	4,228	5,005	5,010	4,121	4,829	4,780
Ecuador	1,891	1,714	1,855	1,865	1,699	1,834
Peru	3,205	2,893	2,018	3,085	2,630	1,856
Venezuela	10,283	12,865	7,569	10,191	12,773	7,476
<u>TRADE BALANCE</u>						
Andean Group	1,312	-2,334	7,729	-10,981	-12,084	-4,282
Bolivia	-195	7	204	-449	-207	-4
Colombia	796	21	723	-466	-790	-447
Ecuador	129	571	499	-662	-289	-628
Peru	-582	-217	1,486	-752	-99	1,481
Venezuela	1,164	-2,416	4,817	-8,652	-10,699	-4,684

The main imports by value are manufactures and consumer goods. Although the structure of foreign trade varies from one Andean country to another, depending on their natural resources and industrial specialization, the main imports are mass consumption agricultural products, such as milk, wheat, rice, and oils; industrial inputs and chemicals; machinery and tools; and motor vehicles and tractors.

Exports within the sub-region amounted to US\$1,063.3 million in 1987, with a slight drop in the following two years, as may be seen in Table 2. However, the export levels attained indicate a sustained recovery after the drastic fall in sub-regional trade which set in after 1981, when mutual trade peaked at US\$1,240 million of intra-Andean exports. This decline in trade was the result of the economic crisis in the sub-region and the adjustment measures adopted by member countries.

TABLE 2  
EXPORTS WITHIN THE SUB-REGION  
(millions of dollars)

	Total exports		
	1987	1988	1989
ANDEAN GROUP	1,063.3	974.3	961.7
Bolivia	30.7	27.5	51.0
Colombia	404.9	396.2	308.8
Ecuador	125.0	177.2	183.2
Peru	163.8	132.2	102.7
Venezuela	326.8	241.2	315.6

Unlike the total external trade of the Andean countries, the bulk of which - 76 per cent - consists of so-called traditional products (those traditionally exported whose traded value depends on world market prices, primarily on products of the primary (agricultural and mining) sector), in the case of trade within the sub-region it is non-traditional goods that have the most significant share - 67 per cent - of trade within the sub-region. As a consequence of integration, intra-sub-regional exports of non-traditional products have grown at an extraordinary pace, with growth rates significantly higher than those of total trade.

### III. MAIN CHANGES MADE IN THE LEGAL ARRANGEMENTS OF THE CARTEGENA AGREEMENT 1987/1988

By the early 1980s, the process of sub-regional integration, which was initially as original as it was dynamic, showed the symptoms of acute crisis as a result both of factors inherent in the model postulated in the Cartagena Agreement itself and also of other factors linked with the Andean economic and social crisis and a particularly adverse international environment.

The crisis in integration led member countries to reorganize the legal arrangements of the Cartagena Agreement. This began in 1983 and culminated in 1987 with the approval of the Protocol of Amendment of the Cartagena Agreement, and a set of Decisions of the Commission of the Cartagena Agreement which introduced significant changes in the legal arrangements of the process. The Quito Protocol and the set of Decisions that were adopted are a milestone in the integration process, adjusting it to the new realities of the sub-region.

#### 3.1 Protocol of Amendment of the Cartagena Agreement - "Quito Protocol"

At its Forty-Fourth Ordinary Session, held in Quito on 12 May 1987, the Commission of the Cartagena Agreement signed the Protocol of Amendment of the Cartagena Agreement which entered into force on 25 May 1988 after the final instrument of ratification by member countries had been deposited with the Board of the Cartagena Agreement. The Codified Text of the Cartagena Agreement as amended by the Quito Protocol was adopted by the Commission at its Fifty-First Extraordinary Session on 15 July 1988, by Decision 236.

A comparative table of the Cartagena Agreement, the Quito Protocol and the draft composite text, allowing a detailed appraisal of the changes made in the Cartagena Agreement, has been made available to the secretariat.

The Quito Protocol introduced the following major changes in the Cartagena Agreement:

- (i) With regard to objectives and mechanisms:

The references to the now extinct 1960 Treaty of Montevideo were replaced by references to the links between the Andean process

and the forces of regional integration, without renouncing the long-term objective of the gradual shaping of a Latin American common market. Other complementary objectives seek to foster better and greater co-operation among member countries in fields such as the strengthening of sub-regional solidarity and external actions of common interest, science and technology, tourism, services, utilization and conservation of natural resources, and mass media.

(ii) Institutional aspects:

The Quito Protocol improves the institutional system of the Agreement with the incorporation of the Court of Justice and the Andean Parliament as principal organs of the Agreement, and the Consultative Councils of Business and Labour as auxiliary bodies.

It also empowered member countries to make proposals on any of the matters covered by the Agreement, thus widening the powers originally granted by the Agreement exclusively to the Board of the Cartagena Agreement.

With respect to dispute settlement, it is worth mentioning that under the Quito Protocol member countries may not submit disputes that arise with regard to the application of the legal provisions of the Agreement to any tribunal, arbitration system or proceedings other than those provided for in the Protocol; dispute settlement is confined to the provisions of the Treaty establishing the Court of Justice of the Cartagena Agreement.

(iii) Harmonization of economic policies and co-ordination of development plans:

The Protocol provides for the harmonization of policies and co-ordination of development plans on a gradual and progressive basis so that these commitments are assumed as progress is made in shaping the expanded sub-regional market.

(iv) Industrial programming:

The Quito Protocol introduces greater flexibility for the industrial programming mechanism, while reaffirming the importance of this instrument and making it more realistic. The Sectoral Industrial Development Programmes are replaced by Industrial Integration Programmes, Complementarity Agreements and Industrial Integration Projects, as new modalities for integration in this sector.



(v) Expanded market:

With respect to the mechanisms aimed at shaping the expanded market, while the long-term objective of a customs union is maintained, no time-limits are laid down for completing the process. With regard to the liberalization programme, the time-limits are extended for opening markets in products reserved for the Industrial Development modalities and for the incorporation of a large proportion of the products excluded from the process, and a residual group of products continues to be excluded indefinitely from the Liberalization Programme commitments.

For the implementation of the Liberalization Programme by Bolivia and Ecuador, which had not begun it at the time of signing of the Protocol, time-limits are established for a first stage, and it is specified that the process will be continued and completed on a basis to be defined by the Commission following an evaluation.

It is important to note that two new mechanisms for exceptions to the Liberalization Programme are introduced: the Transitional Régime of Trade Management, which allows the application of import quotas for a group of products affected by special situations; and a new safeguard clause allowing the application of corrective measures to imports which disrupt domestic production of specific products.

With respect to the External Tariff, Bolivia and Ecuador have the possibility of applying the Common Minimum External Tariff; and no time-limit is set for the adoption of the Common External Tariff, which will depend on the progress made in the process.

In order to preserve the sub-regional preference and avoid discrimination against sub-regional production, the Quito Protocol provides for the mechanism of authorization by the Commission of tariff treatment of third countries and incorporates the most-favoured-nation clause.

Finally, the Commission is empowered to establish for Bolivia or Ecuador more favourable conditions and modalities than those provided for in the special régime for those countries, according to the level of development attained and the benefits achieved from integration.

(vi) Agricultural régime

The member countries are aware of the importance of promoting joint agricultural and agro-industrial development and attaining a higher degree of sub-regional food security. They therefore

provided in the Protocol for the implementation of an Agricultural and Agro-industrial Development Programme which includes, among other things, action aimed at the promotion of agricultural trade; adoption of joint development programmes for the sector, by products or groups of products; and the approval of joint agricultural and agro-industrial technological development programmes, including measures in the areas of research, training and technology transfer.

(vii) Economic and social co-operation:

The Protocol of Amendment includes a new chapter, XIV, on economic and social co-operation. The purpose is to widen the sphere of action of the Andean integration process so as to improve sub-regional participation in the international economy. Provision is made for co-operation activities in what are considered high-priority sectors for development, such as technology, natural resources, tourism, services, social development, frontier integration and mass communication media.

This chapter also introduces the commitment to joint action at the external level in matters of common interest, and the adoption of programmes to guide the joint external actions of member countries, especially as regards negotiations with third countries and groups of countries, as well as for participation in specialized bodies and forums dealing with international economic matters.

3.2 Main Decisions of the Commission of the Cartagena Agreement, 1987/1988

The Commission is the highest body of the Agreement and as such has exclusive powers to legislate on matters within its jurisdiction. The Commission adopts Decisions which have legal validity in member countries. This section of the report therefore indicates the main Decisions of the Commission during the years 1987 and 1988. A detailed description of the scope of the Decisions concerning the completion of the expanded market is to be found in Chapter V. The official texts of the Decisions adopted by the Commission during the period under consideration has been made available to the Secretariat for contracting parties.

At the Forty-Fourth Ordinary Session of the Commission of the Cartagena Agreement, held on 11 May 1987, a set of decisions of importance for the subregional process was adopted. Chief among these are the following:

- Decision 218, which amends Decision 6 on the Rules of the Commission of the Cartagena Agreement, serves to ensure consistency with the provisions of the Treaty creating the Andean Court of Justice of the Agreement.

- Decision 219 amends Decision 9 concerning the Rules of the Board so that its resolutions enter into force upon publication in the Official Journal of the Cartagena Agreement, and for the Board to submit the reforms of its organisation to the Commission for approval.
- Decision 220 replaces Decisions 24 and related decisions concerning the Common Régime for the treatment of foreign capital and trademarks, patents, licences and royalties; it provides for greater flexibility and maintains the preference, in the economic development of the sub-region, for genuinely national capital and enterprises of the member countries.

The principal changes in the Common Régime include the following:

With regard to the obligation to transform the foreign enterprise into a joint enterprise, it is provided that only foreign enterprises wishing to benefit from the advantages granted by the liberalization programme of the Cartagena Agreement are obliged to sign the transformation agreement. The transformation period is extended to thirty years for Colombia, Peru and Venezuela and thirty-seven for Bolivia and Ecuador.

In addition, foreign investment is allowed for the purchase of shares owned by national share-holders, in accordance with the legislation of the country concerned.

It also becomes possible to increase the capital of enterprises through new direct foreign investment, without the condition that the receiving enterprise should continue to be a joint enterprise.

The mechanism for reinvestment of profits is made more flexible, and profits earned by foreign enterprises may be freely reinvested, without the 7 per cent ceiling that previously existed.

All matters concerning the utilisation of domestic credit by foreign companies are left to national legislation.

With regard to the import and transfer of technology, the rules of the Common Régime are maintained since they are suitable for the scientific and technological development of Member Countries. However, payment of royalties between a subsidiary company and the parent company is permitted in special cases specified in advance by the member country concerned.

The special treatment established by Decision 24 for specific sectors of the economy of member countries (primary commodities, public services, banking, insurance, internal transport, advertising, etc.) is eliminated. However, each member country still has the power to reserve sectors for national enterprises.

With regard to dispute settlement, the provision of Decision 24 preventing acceptance of jurisdiction of foreign courts is repealed, and such matters are left subject to the provisions of national legislation.

- Decision 221 repeals Decisions 49 and 49a concerning directives for the harmonization of legislation on industrial development. A minimum programme of harmonization of foreign trade policies of member countries is adopted, in order to ensure the effective application of a margin of tariff preference on behalf of Andean industries and to establish a suitable framework for trade competition within the sub-region.
- Decision 222 replaces the Special Support Programme for Bolivia by an Andean Co-operation Programme for Bolivia, based in the city of La Paz. The purpose of the programme is to contribute to Bolivia's efforts to overcome its structural problems, encourage its active and effective participation in the integration process, progressively develop its production activities, strengthen its physical infrastructure and expand and diversify its exports.
- Decision 223 postponed the obligations stemming from Decision 120 on the Sectoral Development Programme for the motor-vehicle industry until the Protocol of Amendment entered into force, after which date it was repealed.
- Decision 224 amends Decision 185 concerning the Andean Joint Action Plan to assist in the solution of the transport and communications problems arising out of the landlocked situation of Bolivia.
- Decision 226 regulates, for the transition period, the third indent of Article 79 of the Agreement concerning the application of emergency corrective measures in cases where the Liberalization Programme causes or threatens to cause serious injury to the economy or a significant industry of a country, in order to facilitate the regulation of trade within the sub-region in certain sectors of the economy affected by special situations.
- Decision 227 provides for preferential treatment for Bolivia in the implementation of its Liberalization Programme and the Common External Tariff.

At its Forty-Sixth Ordinary Session, held on 10 and 11 December 1987, the Commission of the Cartagena Agreement adopted another set of Decisions which are worth highlighting:

- Decision 230 establishing rules for preventing or correcting practices that may distort competition within the sub-region, replacing Decision 45.

- Decision 231 on special rules of origin for goods.
- Decision 232 establishing general guidelines for the development of the Andean Export Promotion Plan.

Finally, at its Forty-Eighth Ordinary Session, held on 15 and 16 December 1988, the Commission adopted Decision 244, replacing Decision 169, on Andean Multinational Enterprises (EMA). Under this Decision, member countries have granted EMAs a series of advantages, incentives and other privileges. These advantages include the following: the products which EMAs produce enjoy the advantages of the Liberalization Programme of the Cartagena Agreement; EMAs have the possibility of participating in sectors of activity reserved for national investors; they can freely establish subsidiaries; their Andean and foreign shareholders have the right to transfer their net profits abroad without any restrictions; they enjoy tax incentives and are not subject to double taxation; they enjoy the same treatment as national firms as regards credit, public tendering, internal taxes and international financial treatment; and their employees may be considered as nationals for the purpose of the application of foreign-worker quotas.

#### IV. STRATEGIC DESIGN FOR THE ORIENTATION OF THE ANDEAN GROUP

In connection with the legal framework as amended by the Quito Protocol, the Presidents of the Member Countries of the Cartagena Agreement issued the Caracas Joint Declaration (3 February 1989) in which they announced their resolve to meet twice a year to examine, promote and strengthen the process of sub-regional integration. As a result, the integration process has entered a new stage of dynamism and consolidation under the direct leadership of the Heads of State. At the Presidential Meeting held in Machu Picchu, Peru, on 23 May 1990, the leadership rôle of the Heads of State was established with the signing of the Instrument for the Creation of the Andean Presidential Council and the Co-ordination System of Andean Integration Institutions, which is one of the principle institutional changes made in the Andean system of integration.

The Manifesto of Cartagena de Indias, issued at the Presidential Summit on 26 May 1989, laid down precise guidelines for the integration process, which included the mandate to draw up a Strategic Design for the Orientation of the Andean Group. The Strategic Design was adopted by the Presidents at Galápagos (17 and 18 December 1989). That document establishes guidelines for action during the present decade, and currently constitutes the general framework orienting the integration process.

The Strategic Design establishes two major, closely interrelated objectives for action during the decade of the 1990s: to consolidate the Andean economic space in a context governed by market forces, except for reasonable protection against imports from third countries; and to improve the articulation of the Andean Group at the international level. In light of these objectives, the Strategic Design establishes the general guidelines for the integration process. The Andean Group is currently

working on the modalities for the implementation of the actions provided for in the Strategic Design in order to speed up and consolidate sub-regional integration.

With respect to the objective of consolidating the Andean economic space, the Strategic Design lays down the following guidelines:

(i) Completion of the sub-regional expanded market.

The Strategic Design highlights the need to accelerate the completion of the sub-regional expanded market as this is one of the fundamental aspects of Andean integration and also because of its positive repercussions on the growth of production capacity and enhanced competitiveness at the international level. It is therefore planned to bring forward the time-limits for the completion of the Liberalization Programme, the adoption of the Common External Tariff and the dismantling of managed trade.

In line with the above, it is necessary to harmonize gradually the economic policies directly linked with the operation of the expanded market, especially the exceptional tariff régimes and incentives for exports within the sub-region. Progress must also be made in the co-ordination of foreign-exchange and monetary policies and the strengthening of financial and payment mechanisms.

At its Fifty-First Extraordinary Session, held on 12 and 13 February 1990, the Commission of the Cartagena Agreement adopted Decision 258 establishing the modalities for the implementation of the Strategic Design in the area of trade. Pursuant to that document it also adopted Decision 260 which replaces the duties of the Common Minimum External Tariff. The details of these Decisions are discussed in Chapter V of this report.

(ii) Improvement of transport and communications infrastructure and services.

The Strategic Design stresses implementation of policies and measures to improve, expand and modernize infrastructure capacity and provision of services in transport and communications. Appropriate utilization of the Andean territorial space also includes the use of shared eco-systems and natural resources in conformity with the purposes of integration.

(iii) Promotion of integration and co-operation in production sectors and for scientific and technological development.

Industrial integration should place special emphasis on the application of new integration modalities in this sector, inter alia for the purposes of reviewing the previous joint industrial programming, and should be in line with the objectives of speeding up the liberalization programme and improving the Common External Tariff.

The development of the production system should be undertaken on the basis of action to restructure and modernize it so as to improve productivity. The Strategic Design provides for the definition of a sub-regional technology policy so as to improve the scientific and technological input incorporated in the production system.

As far as the agricultural sector is concerned, the Strategic Design considers that it is fundamental to reduce dependence on imported foodstuffs and increase exports of traditional and non-traditional products. In accordance with this objective, macroeconomic and sectoral policies should not discriminate against the agricultural sector and avoid distorting relative prices.

In the services sector, policies should be adopted to expand and improve the efficiency of the sub-regional supply of services and enhance their international competitiveness in order to reverse the growing external deficit in such activities.

(iv) Easier movement of capital, goods, services and persons.

The conditions for national capital to circulate and operate in the Andean economic space will be improved. This includes mechanisms to encourage the formation of Andean multinational, binational and frontier enterprises. In addition, the conditions of access of foreign capital will be improved, particularly in cases that contribute to the development of production activities and the transfer of technology.

In order to improve the movement of goods within the sub-region, suitable conditions will be established, particularly as regards simplification and harmonization of provisions concerning regulation and control and the modernization of customs services.

With regard to service transactions within the sub-region, the Strategic Design provides for the start of a gradual and selective liberalization, in particular as regards activities linked with the production sectors involved in sub-regional integration or co-operation, such as transport and communications and tourism.

(v) Application of preferential treatment.

Preferential treatment for the economically less developed countries will be provided through both co-operation and integration actions. In particular, preferential treatment will be provided through the mechanisms aimed at accelerating the

consolidation of the expanded market, developing physical infrastructure and implementing industrial integration in its various forms, as well as specific technical and financial co-operation activities.

- (vi) Encouragement of frontier integration and tourism.

The Strategic Design provides for specific measures to support the development of frontier integration areas and make tourism an important source of sub-regional income, and an effective means for the common self-identification of the Andean peoples both among themselves and vis-à-vis others.

The second strategic objective involves improving the participation of the Andean Group in the world economy and asserting its presence in the international community, particularly at the Latin American level, through greater competitiveness of the Andean economies and joint action vis-à-vis third countries and in multilateral forums and negotiations. To that end it provides for the following actions:

- (i) Improvement of the Andean capacity to compete internationally.

The dynamic participation of the Andean Group in the international division of labour will be encouraged, with a view to taking advantage of the opportunities of technological change and trends in international trade, investment and financing, making the most of the possibilities offered by economic co-operation with third countries. Thus, the actions necessary to consolidate the Andean economic space will serve at the same time to expand and diversify Andean exportable supply, transport and communication links with the rest of the world, the creation of joint companies or other forms of association with foreign investors or suppliers to contribute to the development of sub-regional industries and technological capacity, and the introduction of advanced forms of international technical and economic co-operation, among other effects.

- (ii) Joint action vis-à-vis third countries and multilateral forums and negotiations should be increasingly generalized so as to become continuous and so that the Andean group asserts its status as a community partner in international economic relations.

- (iii) Convergence with the objectives of Latin American unity.

The Strategic Design sees the need to strengthen the presence of the Andean group at the Latin American level in order to contribute to the project of regional unity. This implies active joint participation in the economic and political spheres of regional collective action, as well as the strengthening of links with other integration or co-operation arrangements of Latin America and the Caribbean.



V. CONSOLIDATION OF THE ANDEAN ECONOMIC SPACE: COMPLETION OF THE SUB-REGIONAL EXPANDED MARKET

This chapter sets out the chief characteristics of the mechanisms for the consolidation of the sub-regional economic space, the progress made and the actions proposed to achieve the aims of the sub-regional integration process. Reference will be made to the main clarifications and amendments of the Strategic Design in relation to the Cartagena Agreement, whose commitments were made more flexible by the Quito Protocol.

5.1 Liberalization Programme

Article 41 of the Cartagena Agreement establishes as an objective of the Liberalization Programme the elimination of all charges and restrictions affecting imports of products originating in the member States.

The time-frames and procedures for the application of the Liberalization Programme differ according to whether charges or restrictions are concerned and, at product level, according to the lists in which these are to be found. Differences also exist in the time-tables for adopting commitments as between the countries at a more advanced state of economic development - Colombia, Peru and Venezuela - and those that are relatively less economically developed, namely Ecuador and Bolivia.

The scope of the commitments undertaken so far under the Liberalization Programme covers the List for Automatic Tariff Reduction, the List of the Common Schedule of what was formerly LAFTA, the List of Products Not Produced in the Sub-Region, the List of Products included in the Industrial Integration Programmes of the Petrochemical and Metallurgical Sectors and the programmes on behalf of Bolivia and Ecuador. Excluded from the Liberalization Programme are products on the Reserved List and those covered by the Industrial Integration Programmes of the steel-making and automotive sectors, for which liberalization programmes are to be drawn up in the current year, so that the entire Tariff is covered.

A listing has been made available to the secretariat from which the status of items in relation to the various lists and programmes can be assessed at the level of the NABANDINA headings, as well as a consolidated tariff schedule for the member States of the Cartagena Agreement which are also Contracting Parties to the General Agreement.

At the present time, 4,463 NABANDINA items representing 92.5 per cent of the Tariff are the subject of commitments under the Liberalization Programme. In this respect, a distinction should be made between the commitments of Colombia, Peru and Venezuela, which have accepted all of them, and those of Ecuador and Bolivia, to which we shall refer in detail later. The structure of the Liberalization Programme, as of 31 July 1990, is shown in the following table.

TABLE 3  
Liberalization Programme as of 31 July 1990  
(by NABANDINA items)

Programme Lists	No. of Items	Percentages
1. <u>Commitments undertaken</u>	<u>4,463</u>	<u>92.5</u>
<u>Automatic Tariff Reduction and Common Schedule</u>	<u>3,667</u>	<u>76.0</u>
- Tariff Reduction	3,561	
- Common Schedule	106	
<u>Not Produced in the Sub-region</u>	<u>371</u>	<u>7.7</u>
<u>Industrial Integration Programmes</u>	<u>425</u>	<u>8.8</u>
- Petrochemical	162	
- Metallurgical	254	
- Favouring Bolivia	1	
- Favouring Ecuador	8	
2. <u>Commitments to be undertaken</u>	<u>361</u>	<u>7.5</u>
<u>Reserved List</u>	<u>162</u>	<u>3.4</u>
<u>Industrial Integration Programmes</u>	<u>199</u>	<u>4.1</u>
- Steel-making	89	
- Ex-automotive	110	
2. <u>Total items</u>	<u>4,824</u>	<u>100.0</u>

Prepared by the Department of Trade, JUNAC

The member States may temporarily suspend their fulfilment of commitments under the Liberalization Programme through the Lists of Exceptions and the Managed Trade Regime. Unlike the Safeguard Clauses, which provide for the "ex-post" settlement of problems encountered by countries during the application of the commitments, the Lists of Exceptions and the Managed Trade Regime allow countries to withdraw "ex-ante" from honouring certain commitments under the Liberalization Programme.

It should be remembered that the serious liquidity crisis from which the Andean Group suffered in the years 1983 to 1986 led the member countries to disregard the advances made by the Liberalization Programme (Colombia, Peru and Venezuela had completed their automatic tariff reduction process in 1983) by imposing unilateral restrictions on products that had already been freed. After the adoption of the Quito Protocol in 1987, a programme was launched to dismantle non-tariff and exchange restrictions and to transform them into safeguard measures to remain in force up to December 1988, except for the exchange restrictions which were extended until June 1989. At present, the commitments undertaken to eliminate non-tariff and exchange charges and restrictions are being fully respected while restrictions of an administrative nature that could hamper sub-regional trade are being followed up.

The Strategic Design and Decision 258 (February 1990) provide for member States to complete, by 31 December 1995, the Liberalization Programme for all products in the Tariff, except for a residual body of products included in their Lists of Exceptions, which they will try to eliminate.

The characteristics and proposed time-table for the completion of the Liberalization Programme are as follows:

(a) Colombia, Peru and Venezuela

These countries have entered into commitments for the total liberalization of restrictions and charges on 92.5% of all tariff items. These commitments are set out in the Lists for Automatic Tariff Reduction, the Common Schedule, the Lists of Products Not Produced in the Sub-region and Industrial Integration Programmes; strict compliance with these commitments will be monitored.

(b) Ecuador

At the present time, Ecuador has entered into commitments under the Liberalization Programme relating to 92.5% of all tariff items. These commitments consist in the elimination of restrictions and a ten per cent (10%) tariff cut from the starting-point for tariff reduction as determined on the basis of the national Customs Tariff in force in August 1988.

Under Article 100 of the Agreement, as amended by the Quito Protocol, implementation of the Liberalization Programme was to begin on 21 November 1988, through the abolition of restrictions of all types, and continue through three annual and successive tariff cuts of five per cent (5%) each, starting on 31 December 1988. After the completion of these reductions, the Programme was to make a pause until the Commission, after assessing the extent of compliance with the Liberalization Programme, determined the time-frame and procedures for continuing to implement it.

This time-table has been amended by Article 2 of Decision 258 which implements the Strategic Design in the trade sector, in that Ecuador is to reduce its tariffs by ninety per cent (90%) from the initial level for such reduction by means of six annual and successive cuts of fifteen per cent (15%) each, the first of which should take place on 31 December 1990.

(c) Bolivia

Decision 227 (May 1987) authorized Bolivia to begin, in May 1990, to apply the Liberalization Programme to a list of products that were not essential to its economy through the elimination of all types of restrictions. As regards tariffs, it established an initial stage of annual tariff cuts of five per cent (5%), to be completed on 31 December 1993. At the conclusion of these reductions, the Programme was to make a pause until the Commission, after assessing the extent of compliance with the Liberalization Programme, determined the time-frame and procedures for further implementation. As regards other products, the Commission would establish the Liberalization Programme for them after assessing the benefits that Bolivia obtained from the integration process.

The Strategic Design and Article 2 of Decision 258 which implements the Design in the trade sector introduce significant changes in this respect. Bolivia undertakes to eliminate restrictions of all kinds by 26 May 1990 at the latest, and to eliminate all tariffs by 31 December 1995 through five annual and successive cuts of not less than twenty per cent (20%) each. The first would take place on 31 December 1991 for that part of the List for Automatic Tariff Reduction that corresponds to the products covered by paragraph (d) of Article 45 of the Cartagena Agreement. The Liberalization Programme would thus be completed.

(d) Reserved List

The Strategic Design for the Orientation of the Andean Group provided for a reduction in the number of products included in the Reserved List, for which no commitments have been made under the Liberalization

Programme. Article 7 of Decision 258, which implements the Strategic Decision, established that the Commission would adopt by 31 March 1990, a reduction in the number of products in the Reserved List of at least eighty per cent (80%). The Design also established that the products on the List in question which had not become the subject of industrial development measures by 1995 would be placed that year on the List for Automatic Tariff Reduction.

In accordance with the mandate of the Strategic Design, the Commission, by Decision 263 (March 1990), reduced the List of Reserved Products in order to apply Industrial Integration Modalities to 168 NABANDINA products. Subsequently, through Decision 268 (May 1990, to come into effect on 31 July 1990), the Commission approved the Liberalization Programme and the Common Minimum External Tariff applicable to the 706 products that were excluded from the former Reserved List.

Decision 268 establishes that, as of 31 July 1990, Colombia, Peru and Venezuela will not impose charges or restrictions, and that Bolivia and Ecuador will not apply restrictions, on imports of products originating in the sub-region and excluded from the former Reserved List. It also stipulates that within 30 days from the establishment by the Commission, at its next meeting, of the starting date for tariff reduction by Ecuador, on the basis of its consolidated National Tariff in force on 23 August 1988, Ecuador will make a reduction of ten per cent (10%) in its Tariff and will complete the liberalization of the remaining ninety per cent (90%) by means of six annual and successive cuts of fifteen per cent (15%) each, the first of which should take place on 31 December 1990. Bolivia, starting from its initial point of departure for tariff reduction, which would be determined before 31 December 1990 on the basis of its consolidated National Tariff in force on 26 May 1990, would liberalize all tariffs by means of five annual and successive cuts of not less than twenty per cent (20%) each, the first of which would take place on 31 December 1991.

(e) Lists of Exceptions

This mechanism of exception for a specific period of time from the commitments of the Liberalization Programme and from the Common Tariff was set up to protect certain national industries that were likely to be affected by the adoption of the commitments in question. The inclusion by a member State of a product in its List of Exceptions would preclude it from enjoying the advantages to be obtained from the Agreement until that product had been taken off the list.

The Cartagena Agreement provides that the Lists of Colombia, Peru and Venezuela can include up to a maximum of 250 NABALALC items, while those of Bolivia and Ecuador may include up to 600 NABALALC items.

Apart from any voluntary removals by member countries from the Lists, under the terms of the Quito Protocol, Colombia, Peru and Venezuela were to initiate the process of phasing out their Lists of Exceptions in December 1993 and complete it in December 1995 (the process would consist of three stages of 44, 45 and 87 items beginning on 31 December 1993, 31 December 1994, and 31 December 1995 respectively), but would be entitled to maintain a residual number of 75 NABALALC items for an indefinite period. Bolivia and Ecuador, on the other hand, were to begin the process of phasing out in December 1997 and complete it in December 1999, (divided into three stages of 105, 105 and 210 items beginning on 31 December 1997, 31 December 1998 and 31 December 1999 respectively), but could extend the deadlines and keep a residual body of 180 NABALALC items.

The Strategic Design, and Articles 3 and 4 of Decision 258 which implements the Design, bring forward by two years the time-table established by the Cartagena Agreement for the gradual elimination of the Lists of Exceptions. Colombia, Peru and Venezuela would dismantle them between 1991 and 1993, while Bolivia and Ecuador would do so between 1995 and 1997. After 31 December 1993, the economically more developed countries would be entitled to maintain a residual body of exceptions numbering no more than 75 NABALALC items, but should endeavour to eliminate these by 31 December 1995. Bolivia and Ecuador, however, would be entitled to maintain a residue of no more than 180 NABALALC items, which they would endeavour to eliminate by 31 December 1999.

The status of the member countries' Lists of Exceptions is shown in the following table.

TABLE 4

Lists of Exceptions to the Liberalization Programme  
as of 31 July 1990  
(by NABANDINA items)

Country	Number of Items	Percentages
Bolivia	790	16.4
Colombia	351	7.3
Ecuador	802	16.6
Peru	442	9.1
Venezuela	369	7.6
Total number of NABANDINA items	<u>4,824</u>	<u>100.0</u>

Prepared by the Department of Trade, JUNAC

(f) Temporary Managed Trade Régime

This régime of temporary exception to the implementation of the Liberalization Programme was established in 1987 by the Quito Protocol (Third Transitional Provision, Chapter XVII of the Agreement) for the purpose of resolving the problems which had arisen in subregional trade in certain products and which had resulted in unilateral non-compliance with the Agreement by most of the member States during the crisis in 1983-1986.

This mechanism essentially regulates market-access conditions in each member country for products included in that country's List of Managed Trade through the application of import quotas or ceilings. Its sphere of application is confined to products on the List for Automatic Tariff Reduction that are affected by special conditions. The incorporation of a product in a List of Managed Trade precludes it from enjoying the advantages to be derived from the Liberalization Programme.

The Managed Trade Lists of Colombia, Peru and Venezuela may contain products covered by no more than 50 NABANDINA items, and the annual, global and individual product quotas may not be less than thirty per cent (30%) of the average annual value of the corresponding imports from member countries during the period 1980-1985. Ecuador will fix the annual quotas applicable to the products on its lists for Colombia, Peru and Venezuela, which should be balanced with respect to the quotas set for its export products. It should be noted that Bolivia does not participate in the Temporary Managed Trade Régime (Decision 227).

The Agreement set 31 December 1997 as the time-limit for this Régime. It also stated that products on the Managed Trade Lists would be fully liberalized through the gradual enlargement of these quotas or withdrawal of items from the list; the global and product quotas would be enlarged on at least three occasions - on the first and the second by thirty per cent (30%) respectively and on the third by forty per cent (40%) of the average value of imports in 1980-1985. The expansions would take effect on 31 December 1992, 31 December 1995 and 31 December 1997 respectively.

The Strategic Design for the Orientation of the Andean Group, and Article 6 of Decision 258 which implements the Design, bring forward by six years the total elimination of the Régime through the reduction in 1990 of the number of products on their respective lists by at least eighty per cent (80%), the remaining twenty per cent (20%) being eliminated no later than 31 December 1991.

## 5.2 Common External Tariff

The Agreement of Cartagena, in Chapter VI, provides for the adoption of a Common External Tariff (AEC), following an initial stage during which a Minimum Common External Tariff (AEMC) would be applied. In the case of products without commitments under the AEMC, the establishment of preferential margins is provided for.

In this respect, under Article 68 of the Agreement member States undertake to hold the necessary consultations in the Commission before entering into tariff commitments with countries outside the sub-region.

The following table shows the status of commitments entered into with regard to the Common External Tariff as of 31 July 1990.



TABLE 5

Commitments Relating to the Common External Tariff as at 31 July 1990  
(by NABANDINA items)

<u>Liberalization Programme Lists</u>	<u>No. of items</u>	<u>Percentages</u>
1. <u>With AEMC commitments</u>	<u>4,014</u>	<u>83.2</u>
Automatic Tariff Reduction, less products under Dec. 162 (fertilizers)	3,551	73.6
Common Schedule	106	2.2
Goods Not Produced, less products under Dec. 162	357	7.4
2. <u>With AEC commitments</u>	<u>449</u>	<u>9.3</u>
<u>Industrial Integration Programmes</u>	<u>425</u>	<u>8.8</u>
Petrochemical	162	
Metallurgical	254	
Favouring Bolivia	1	
Favouring Ecuador	8	
<u>Fertilizers - Decision 162</u>	<u>24</u>	<u>0.5</u>
3. <u>Commitments to be undertaken</u>	<u>361</u>	<u>7.5</u>
<u>Reserved List</u>	<u>162</u>	<u>3.4</u>
<u>Industrial Integration Programmes</u>	<u>199</u>	<u>4.1</u>
- Steel-making	89	
- Ex-automotive	110	
4. <u>Total items</u>	<u>4,824</u>	<u>100</u>

Prepared by the Department of Trade, JUNAC

### 5.2.1 Common Minimum External Tariff

Article 63 of the Agreement lists, among the objectives of AEMC, establishing adequate protection for sub-regional production; progressively creating a sub-regional preference margin; facilitating the adoption of a Common External Tariff; and stimulating the efficiency of sub-regional production.

The scope of the AEMC mechanism is partial as regards both product coverage and the countries required to apply it. At the present time, it must be applied by Columbia, Peru and Venezuela to 83.2 per cent of the Tariff for products also subject to the Liberalization Programme (Lists for Automatic Tariff Reduction, Common Schedule, Lists of Products Not Produced in the Sub-region - except for products covered by Decision 162). The products in the Lists of Exceptions should be deducted from their number. The only commitments for Bolivia and Ecuador are to apply the AEMC to a limited number of products, relating to the List of Products Not Produced in the Sub-region when it has been verified that they are being produced. In this respect, the Agreement specifies that the implementation of the commitments should be completed in three years as from the date on which production began.

The Agreement also provides for some measures of exception for the deferment of application of the AEMC until production has been verified or its temporary suspension if sub-regional supplies are insufficient.

The AEMC was adopted by Decision 30 (December 1970) and its levels were amended by Decisions 104 (October 1976) and 260 (February 1990).

Decision 260, adopted this year, reduced the AEMC average level from 28.5 per cent to 17.8 per cent and lowered its maximum level from 110 per cent to 50 per cent; it also reduced its range from 19 to 7 levels ranging from 0 to 50 per cent. Moreover, with the adoption of Decision 268 (May 1990) 706 items removed from the former Reserved List were added to the number of NABANDINA products subject to the AEMC, raising these to 4,014 items. The average level was reduced from 17.8 to 16.5 per cent, with the greatest concentration at levels between 10 and 20 per cent.

In accordance with Articles 2 and 3 of Decision 260, the Commission, within six months from the entry into force of the Decision (September 1990) should review the tariff levels with a view to reducing them and define the scope, time-limits and modalities for the adoption by Ecuador of the community tariffs relating to a group of products of interest to the other member States, provided their application will not cause it difficulties. As regards Bolivia, the Commission, after assessing the degree of development it has attained and the benefits it has derived from integration, will determine the time-frame and procedures for applying the AEMC.

### 5.2.2 Common External Tariff

The Strategic Design for the Orientation of the Andean Group, and Article 5 of Decision 258 which implements the Design in the trade sector, require the Commission to approve the Common External Tariff by 31 December 1992. Its gradual adoption by member States should begin on that date, and should be fully applied by Columbia, Peru and Venezuela at the latest by 31 December 1997 and by Bolivia and Ecuador no later than 31 December 1999.

This contrasts with the provisions of the Quito Protocol of 1987 which, without specifying the time-frame, called upon member States to undertake to bring a Common External Tariff into force within the period of time and by the procedures to be determined by the Commission, bearing in mind the goal of gradually harmonizing the different economic policies of the member States. The Protocol also states that the AEC should establish adequate levels of protection for sub-regional production and that, on the date fixed by the Commission, Columbia Peru and Venezuela should begin the process of bringing into line with, on an annual, automatic and linear basis, the duties applicable under their national customs tariffs to imports of products not originating in the sub-region.

In addition, Article 65 of the Cartagena Agreement states that products coming under Industrial Integration Programmes are to be governed by the rules established by those Programmes for the Common External Tariff. At the present time AEC commitments are in force for products included in the Metallurgical and Petrochemical Programmes and in the special Programmes for Ecuador and Bolivia, the latter having been approved by Decisions 259 and 265 respectively (February and May 1990). Products relating to the fertilizer industry and covered by Decision 162 (December 1980) are also subject to these commitments.

### 5.2.3 Margins of Preference

Article 65A of the Agreement, introduced by the Quito Protocol in 1987, states that the Commission, at the proposal of the Board, may approve sub-regional margins of preference for products that are not yet subject to the commitments of the Liberalization Programme and of the Minimum Common External Tariff. On the basis of this Article, member States are entitled to institute margins of preference for products on the Reserved List as well as for those in the Lists of Exceptions. Bolivia and Ecuador may grant margins of preference for the remainder of the Tariff.

In this respect, Article 8 of Decision 258 stipulates that the Commission should establish, beginning in 1990, preferential margins for products that are maintained on the Reserved List and in the Lists of Exceptions.



### 5.3 Harmonization of Policies

Chapter III of the Agreement concerns the harmonization of economic policies and co-ordination of development plans. It also refers to the harmonization of economic legislation and of the instruments and mechanisms for regulating and promoting foreign trade.

#### 5.3.1 Harmonization of Economic Policies

Article 26 of the Agreement states that member States shall co-ordinate their development plans for specific sectors and gradually harmonize their economic policies. This process should be carried out simultaneously and in co-ordination with the creation of a sub-regional market, inter alia, by the following means: the harmonization of exchange, monetary, financial and fiscal policies, including the treatment of capital from the sub-region or from outside it; a common trade policy in relation to third countries; and the harmonization of planning methods and techniques.

In this connection, the Strategic Design for the Orientation of the Andean Group establishes that, starting in 1990, guidelines for exchange and monetary policy should be defined jointly for gradual incorporation into national economic programmes. These elements should include, among other aspects, external-sector equilibrium, the application of single, balanced exchange rates, price stabilization and the allocation of resources for financing sub-regional trade.

It further establishes that the measures to be taken in 1990 should include the setting up of a Permanent Sub-regional Information System for dialogue, co-ordination and consultation in the exchange, monetary and financing and payments spheres, with the participation of the Board of the Cartagena Agreement, the Andean Development Corporation, the Andean Reserve Fund, the General Secretariat of LAIA, and the central banks and other institutions of member States responsible for the design and application of the international monetary, exchange and financing and payments policies and measures.

#### 5.3.2 Harmonization of Instruments and Mechanisms for Regulating and Promoting Foreign Trade

The Agreement establishes, in Article 30, that the Commission, at the proposal of the Board, and taking into account the progress and requirements of the sub-regional integration process as well as the balanced operation of the mechanisms of the Agreement, should approve rules and define time-frames for the gradual harmonization of economic legislation and of the instruments and mechanisms for the regulation and promotion of member States' foreign trade which may have an impact on the mechanisms established for the formation of the sub-regional market.

The Strategic Design for the Orientation of the Andean Group, and Articles 9 and 10 of Decision 258 which implements the Design, refer specifically to the short-term action to be taken, and establish guidelines for initiating the harmonization of provisions on duty-free entry, incentives for intra-sub-regional exports and government procurement.

It is stated, in this respect, that the harmonization of duty-free entry is to take place in line with the revision of the Common Minimum External Tariff, including the elimination of exemptions granted for public sector imports, and that common rules should be adopted for government procurement by 1992 at the latest.

It should be noted that the Commission, through Decision 249 (July 1989), approved the Common Tariff Nomenclature of the States members of the Cartagena Agreement, (NANDINA), to supersede the NABANDINA. The new Nomenclature is based on the Harmonized Commodity Description and Coding System and so far has been put into force by Ecuador and Venezuela. The other member countries will bring it into effect in the course of the present year in compliance with Article 1 of Decision 267 (May 1990).

#### 5.4 Additional Mechanisms

##### 5.4.1 Rules on Trade Competition

Chapter VIII of the Cartagena Agreement concerns the rules that are indispensable for forestalling or remedying practices that are liable to distort competition within the sub-region such as dumping, undue price manipulation, manoeuvres intended to disrupt the normal supply of raw materials, and other similar practices.

Decision 230 (December 1987) establishes the common rules for trade competition. It replaces Decision 45 (December 1971), and introduces a relationship of cause and effect between practices and the injury caused or threatened as well as more specific procedures for the application of the rules. It should also be noted that the Strategic Design and Article 11 of Decision 258 provide for the revision of the common rules on trade competition with a view to ensuring fair competitive conditions.

Decision 230 defines the scope of the rules in the application of which the Board of the Cartagena Agreement will intervene, identifying the cases in which a member State may request such intervention, namely: when practices originating in the territory of a member State cause or threaten serious injury to its national industry or to its exports destined for another member State; and when the practices originating in a country outside the sub-region cause or threaten serious injury to its exports intended for another member country or to its national industry, and an amendment of the commitments under the Agreement would be required in order to redress the situation.

The Board may authorize the application of measures to forestall or remedy distortions in trade competition, provided that there is proof of the following: existence of the practices in question; existence of serious injury or threat thereof as a result of such practices; and a relationship of cause and effect between such practices and the serious injury or threat of injury. The corrective measures should preferably consist in the application of anti-dumping levies or duties equivalent to or less than the margin or magnitude of the distortions observed. These should be applied in the territory of the importing member State that has made a complaint or in the territory of the member State where the distortion occurs to the imports that are the object of the practice in question.

#### 5.4.2 Safeguard clauses

The purpose of safeguards is to enable member States to suspend temporarily their obligations under the Liberalization Programme in order to adjust to a particular situation or to deal with the situation that prompted their application. In this connection, Article 81 of the Agreement precludes them from being applied to imports of products covered by Industrial Integration Programmes and Projects.

Chapter IX of the Agreement defines safeguard clauses that authorize the application of remedial measures to imports of sub-regional origin in the following cases:

(a) Balance-of-payments disequilibrium (Article 78)

By means of this safeguard, a member State which has adopted measures to remedy the imbalance in its overall balance of payments may extend these measures, with the authorization of the Board, as a temporary measure and in a non-discriminatory manner to intra-sub-regional trade in products covered by the Liberalization Programme.

(b) Injury caused by compliance with the Liberalization Programme (Article 79)

This safeguard allows a member State to adopt, upon authorization by the Board, remedial measures of a temporary nature and in a non-discriminatory manner when the implementation of the Liberalization Programme of the Agreement causes or threatens to cause serious injury to the economy of a member State or to an important sector of its economic activity.

- (c) Imports of products originating in the sub-region which disrupt the national production of specific products by a member State (Article 79A)

By means of this safeguard, which was introduced by the Quito Protocol in 1987, a member State may apply remedial measures of a non-discriminatory and provisional nature, subject to a later decision of the Board, when products originating in the sub-region are imported in quantities or in conditions that disrupt the national production of specific products in the member State in question.

- (d) Disturbance of normal competitive conditions as a result of a currency devaluation by another member State (Article 80)

Through this safeguard a member State which believes itself to be harmed by a currency devaluation undertaken by another member State may bring the case before the Board. Once the disruption has been confirmed, the member State that has incurred injury may apply remedial measures of a temporary nature that are in keeping with the recommendations of the Board as long as the disturbance persists.

In addition, Articles 72, 73 and 74 of the Agreement authorize the application of remedial measures constituting exceptions to the Liberalization Programme commitments in the case of specific agricultural or livestock products listed in the Annex to Decision 80 (May 1974).

#### 5.4.3 Rules of origin

Chapter X of the Cartagena Agreement provides for the adoption of specific rules for the determination of the origin of goods, so that the benefits of the Liberalization Programme are confined to products originating in the member States.

For nearly two decades, intra-sub-regional trade was also governed by the LAFTA rules of origin, in force since 1960.

In December 1987, the Commission adopted Andean sub-regional rules by Decision 231. The general conditions for determining the origin of products may be summed up as follows:

- (a) products wholly produced and those produced in a member State which are listed in the Annex to the Decision in question;
- (b) products that comply with specific origin requirements established by the Board;



- (c) products which, in the course of their production, change their tariff heading from input to final product; and
- (d) assembled products, when the c.i.f. value of the imported materials does not exceed fifty per cent (50%) of the f.o.b. value of the final product.

Each member State is required to provide the relevant certificates to prove product origin.

#### 5.4.4 Trade financing and payments measures

The Cartagena Agreement (Article 89) and the Strategic Design provide for trade financing and payments measures to facilitate attainment of the goals of the integration process. In addition to each country's own mechanisms, which operate partly with funds from international financing organizations, member States make use of the resources made available by the Andean integration finance agencies - the Andean Development Corporation (CAF) and the Andean Reserve Fund (FAR) - and of the reciprocal payments and credits mechanisms of ALADI.

CAF has two trade financing mechanisms: the Andean Trade Financing System (SAFICO) and the Mechanism for Confirmation and Financing of Letters of Credit for Imports from Third Countries (MECOFIN).

SAFICO grants pre-shipment and post-shipment credits to exporters in the sub-region and post-shipment credits to importers of products originating in the sub-region. The rate of interest on the credits is fixed periodically in accordance with the cost of obtaining the funds and prevailing international market conditions, while duration is determined by the nature of the product and the scale of the operation.

SAFICO has been operating since 1974, either directly or through finance institutions of member States that are associated with CAF. In the short term it finances trade in non-traditional manufactures, semi-manufactures and primary products for export which have originated in the sub-region; it also finances trade in traditional commodities, except for petroleum and petroleum products, when imported by member States. Over the medium and long term, SAFICO finances exports of capital goods originating in the sub-region.

MECOFIN was created recently to assist member States whose possibilities of gaining access to credit lines offered by the international banking system have been eroded in the last few years. Its purpose is to open, confirm and/or finance letters of credit for imports of raw materials, inputs and capital goods, and their components and spare parts, exported from third countries and intended for basic industry or export industries. This mechanism operates over the short term up to 180 days only.

The Andean Pesos, issued by FAR, may be used for any type of payment between authorized holders of such Pesos, but in practice their utilization has been restricted to the settlement of clearing accounts under the ALADI Agreement on Reciprocal Payments and Credits and the payment of commitments to FAR. The authorized holders of Andean Pesos were originally the member Central Banks, FAR, CAF, the Board of the Cartagena Agreement and the Andean Parliament. In September 1986 conclusion agreements with other Latin American Central Banks, under which they became authorized holders, was authorized.

The Andean Peso has the following features: it is equivalent to one United States dollar; Andean Pesos must be redeemed against dollars up to six months after use by the authorized holder who acquired them from FAR; the user of the Andean Peso pays a rate of interest equivalent to LIBOR plus 1/4 of 1 per cent while the acceptor receives the LIBOR rate plus 1/8 of 1 per cent; and acceptors have the option of discounting Andean Pesos in advance in FAR.

As regards trade financing and payments, the Strategic Design aims at the strengthening of the financial capability of specialized trade financing and payments bodies; the adoption of measures connected with the operation of the Latin American Reserve Fund and greater use of existing financing and payments mechanisms, especially the Andean Peso.

#### 5.4.5 Trade Promotion Measures

Common trade promotion measures are mainly undertaken through the Andean Export Promotion Plan (PAPE), the general lines of which were approved by Decision 232 (December 1987).

PAPE has become one of the basic instruments for supporting the efforts of member States to consolidate the Andean economic space and improve the Andean Group's international participation. The following are some of its aims:

- (a) To identify major products at the sub-regional level that could be undertaken by Andean producers either individually or in association among themselves and with third countries, preferably in Latin America;
- (b) To strengthen Andean public and private institutions for promoting and diversifying exports by ensuring an effective share in the benefits of the sub-regional and world markets;
- (c) To improve and consolidate Andean supply available for export by contributing to the development of key export sectors;
- (d) To make better use of resources by allocating them to the production of goods and services for target markets identified as offering easier and improved access; and

- (e) To achieve improved links with third countries, using the wider sub-regional market as a basis for trade negotiations of mutual interest.

Among the measures contemplated are the following:

- (a) Strengthening of Institutions

In order to encourage the effective growth and diversification of the external sector in the sub-region, PAPE plans to maintain a programme for the support and guidance of public and private bodies responsible for export activities. Member States are given the necessary institutional backing for establishing a satisfactory process for designing and executing their export promotion programmes.

- (b) Facilitation and Simplification of Foreign Trade and Transport Documentation

The Strategic Design emphasizes the need to improve and modernize the rules governing goods transport in the sub-region. In this respect implementation of the sub-programme for facilitation and simplification of foreign trade documentation is essential for the consolidation of the sub-regional expanded market as well as for adequate access by the Andean economies to the international market.

- (c) Business Meetings

Business meetings between Andean entrepreneurs and those from third countries are encouraged with the aim of stimulating trade and industrial complementarity through personal contacts among businessmen. These contacts take the form of buyer/seller missions, business conferences and meetings of entrepreneurs. So far, 23 negotiating forums for entrepreneurs have been held covering a number of sectors including agriculture, agro-industry, engineering, electrical equipment and automobile parts.

- (d) Development of Andean trade with third markets

To improve the Andean Group's participation in the world economy, it is planned to obtain technical assistance to enable the Andean countries to widen their knowledge of the target markets of third countries; to match their supply to demand in these markets; and to carry out promotional activities for sub-regional exportable products.

(e) Andean Trade Information Network

It is essential for member States to have adequate and timely trade information to enable those involved in business activity to adapt to changes in the markets that interest them. Technical assistance activities of various kinds are therefore being undertaken with a view to strengthening the Andean trade information network.

(f) International Trading Enterprises and Andean Multinational Enterprises

The promotion and development of International Trading Enterprises and of Andean Multinational Enterprises are important for achieving the aims of the integration process and among other things, taking greater advantage of the trade benefits of an expanded market, the growth of intra-sub-regional trade and the diversification of Andean exports to the world market. A number of activities are being developed in this respect.

5.7 Export Credit Insurance

As an additional means of support for export management in the sub-region, it is intended that Export Credit Insurance should play a more prominent rôle and that its use should be gradually extended among the member States.

The different activities in this field are co-ordinated with the Andean Development Corporation, the Latin American Export Credit Insurance Association and the Latin American Association of Finance and Development Institutions.