

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/2370

8 March 1965

Limited Distribution

CONTRACTING PARTIES
Twenty-Second Session

Original: Spanish

LATIN AMERICAN FREE TRADE AREA

The following communication has been received from the Executive Secretary of the Latin American Free Trade Association:

"The following document has been prepared to serve as background to the report which member States of the Latin American Free Trade Association which are members of GATT will submit to the session.

"I wish to point out that, as in previous years, this submission is of a preliminary and unofficial character and that the aforementioned countries will submit the official document."

REPORT OF THE ACTIVITIES OF THE LATIN AMERICAN FREE TRADE ASSOCIATION UP TO 31 DECEMBER 1964

The report on the activities of the Latin American Free Trade Association (LAFTA) up to 31 December 1963 which was submitted to the CONTRACTING PARTIES to GATT at their twenty-first session contained a detailed account of the various aspects of the functioning and programmes of LAFTA, covering not only the work done but also the institutional framework and the creation of organs in various sectors in connexion with implementation of the Montevideo Treaty. The present report therefore supplements the information furnished last year and refers exclusively to the Association's activities in 1964.

During this period LAFTA did a great deal of work aimed at broadening and strengthening the integration process between the member States. Mention may be made in particular of the meeting of high level experts held at Montevideo in September 1964, which considered the general problem of integration in the various fields of economic activity; acting on the report of that meeting, at their fourth Special Session held at Bogota in October-December the Contracting Parties adopted definitions of fundamental importance which laid down detailed directives and established a programme for translating into action the integration objectives set forth in the Treaty with a view to the formation of an economic union between the member countries.

During the period under reference and within this general framework, the Association continued its activities aimed at the creation of a free-trade area between Latin American countries, in conformity with the provisions of the Montevideo Treaty and Article XXIV of GATT. In addition to the above-mentioned Bogota meeting, the Conference of the Contracting Parties held special sessions at Montevideo between 26 May and 19 October.

INSTITUTIONAL ASPECTS

The Bogota Conference took decisions designed to meet certain functional requirements of the Association. It empowered the Standing Executive Committee to create councils in each of the sectors of economic activity connected with integration. The councils are to be composed of persons responsible for the conduct of the policies concerned in each of the Contracting Parties. The Conference itself has already decided to establish a council on financial and monetary policy, composed of the presidents, directors or general managers of the central banks or similar institutions.

In addition, it instructed the Standing Executive Committee to re-arrange the technical advisory committees, as necessary. The Committee has established an Advisory Committee on Trade Policy which will perform the tasks hitherto entrusted to the Advisory Committee on Customs Questions and, in addition, will deal with all other aspects relating to foreign trade and the integration process.

Liberalization programme

In accordance with the mechanisms laid down in the Montevideo Treaty, the progressive establishment of the free-trade area, for which a transitional period of twelve years is provided, is proceeding through two parallel and convergent processes of trade liberalization. On the one hand, in annual negotiations the countries grant each other reductions of customs duties and import restrictions, and these are recorded in the National Schedule of each Contracting Party. The reductions in charges cover not only customs duties but also all other charges having an equal effect on imports, and they must represent an annual cumulative reduction averaging not less than 8 per cent of the duties and charges applicable to third countries. In October 1964, the Contracting Parties held their fourth annual round of negotiations. To date, approximately 8,600 concessions have been granted, and including those which each country granted to all the others. The reductions in charges which were agreed to at the fourth negotiating round became effective in each of the member countries on 1 January this year.

An examination of concessions according to the various categories of products shows that more than 50 per cent of the articles included in the liberalization programme consist of products of the chemical and engineering industries, electrical apparatus and equipment, base metals and manufactures thereof. Concessions on agricultural commodities and products derived from the industrial processing of such commodities account for nearly 30 per cent, the remaining 20 per cent being made up of various products.

In addition to the concessions granted under this regular negotiating machinery, the Contracting Parties have granted non-extendable advantages on a large number of products to Ecuador and Paraguay, pursuant to Article 32 of the Treaty.

Common schedule

The other process which contributes towards implementation of the liberalization programme is the negotiation of the Common Schedule, listing products on which the Contracting Parties undertake by collective decision to eliminate all charges and other restrictions on intra-area trade before the end of the twelve-year transitional period. The Common Schedule consists of products which, in terms of the aggregate value of trade among the Contracting Parties, constitute not less than 25 per cent during the first three-year period of operation of the Treaty; 50 per cent during the second three-year period; 75 per cent during the third three-year period, and substantially all of such trade before the end of the transitional period. In compliance with these provisions, in 1964 the Contracting Parties held negotiations in order to draw up the first Common Schedule.

Development of intra-area trade

As regards the expansion of intra-area trade, in the first years of operation of the free-trade area all the member countries except Brazil and Colombia had larger exports in 1963 than in 1961. Taken together, intra-regional exports rose from \$298.7 million in 1961 to \$425.4 million in 1963, representing an increase of 42.4 per cent. Total trade in both directions rose from \$658.9 million in 1961 to \$951.8 million in 1963, an increase of 44.5 per cent.

REGIONAL TRADE IN 1961, 1962, 1963 and 1964 (ESTIMATE)

(in million dollars)

Countries	Imports (c.i.f.)			Index 1963 1961 = 100	Exports (f.o.b.)			Index 1963 1961 = 100
	1961	1962	1963		1961	1962	1963	
Argentina	126.0	103.2	101.9	80.9	100.0	141.4	185.5	185.5
Brazil	45.2	128.6	164.0	362.8	95.2	75.8	75.9	79.7
Colombia	10.2	12.5	21.4	209.8	6.1	7.4	6.0	98.4
Chile	94.5	80.5	120.0	127.0	34.8	39.4	49.3	141.7
Ecuador	4.1	3.8	5.1	124.4	7.5	6.0	7.9	105.4
Mexico	4.1	6.1	10.8	263.4	7.9	16.7	26.0	329.1
Paraguay	9.8	6.1	9.4	95.9	9.9	10.9	10.7	108.1
Peru	31.8	45.2	62.0	194.9	31.5	48.8	49.1	155.9
Uruguay	34.5	34.0	31.8	92.2	5.8	8.0	15.0	258.6
Total	360.2	420.0	526.4	146.1	298.7	354.4	425.4	142.4

Source: LAFTA, according to official data received for member countries.

Trade statistics for 1964 are still being compiled, but provisional calculations indicate that total trade in both directions amounted to more than US\$1,100 million, representing an increase of more than 70 per cent over 1961.

Complementarity and integration programme

At their third regular session, held at Montevideo in October-December 1963, the Contracting Parties agreed to initiate a programme for co-ordination of economic policies and harmonization of the foreign trade regulating machinery of the member countries.

This decision by the Contracting Parties was based on the undertakings and intentions set forth in the Montevideo Treaty and on the resolutions and decisions which constitute the legal framework of IAFITA, as well as on experience gained in the first two years of implementation of the liberalization programme. On this occasion, it was recognized as necessary and, in the view of some countries, essential to develop through concrete rules and pragmatic measures the common objectives set forth in the preamble to the Treaty and in a series of provisions therein, with a view to integration of the economies of the Contracting Parties in all their fundamental aspects. In connexion with the latter, mention should be made of Article 15 which is designed to ensure fair competitive decisions within the expanded market, for which purpose it is necessary to harmonize commercial policy systems; Article 16, which contains an undertaking to promote the gradual and increasing co-ordination of industrialization policies; Article 27, which sets forth similar objectives in respect of agricultural development policies; and Article 54 which states the cardinal principle of directing action by the Contracting Parties towards the objective of establishing a Latin-American common market.

The need for programmes to supplement and strengthen the liberalization programme has become increasingly apparent because of the diversity of commercial policies towards third countries and the disparity of mechanisms and situations within the area market, all of which hamper the process of eliminating charges and restrictions on intra-area trade. At the third regular session of the Conference the following were mentioned as being the main obstacles of this type: the growing complexity of the negotiating machinery because of the number and variety of charges and restrictions applied to a given product in the various countries; differences in preferential margins causing disparity in the incentive effect on trade which liberalization of a given category of products could have in the various territories of the contracting parties; difficulties of applying the principle of reciprocity; distortion of competition and disparity of situations in regard to investments, arising from the different cost of imported goods because of the factors mentioned above, and the complex nature of the problem of origin because of these substantial differences in policies and mechanisms.

Even though the difficulties inherent in other aspects of general economic policy could not be identified as precisely as in the case of the trade policy sector, and particularly in the customs field (where the negotiating mechanism provided ample and valuable experience), it was realized that a wide co-ordination plan covering all economic sectors would have to be undertaken by stages, without prejudice to any priorities which might be necessary. Accordingly, after lengthy exchanges of views, Resolution 75 (III) was drawn up setting forth in detail a broad programme for the co-ordination of policies and harmonization of instruments, and instructing a special high-level committee to orientate the plan and make proposals for its successive stages, with the assistance of the various technical advisory committees already in operation in the Association.

The Special Committee of high-level experts carried out this task and produced a report on the basis of which, at the fourth regular session of the Conference, the Contracting Parties drew up a wide programme for complementarity and integration of their economies, which was approved by Resolution 100 (IV). The programme lays down a set of basic directives for economic policy including principles, objectives and criteria for the co-ordination of policies in the various fields of activity of LAFTA, together with a programme of action for the necessary studies to be made and basic documents prepared so that the Contracting Parties can take the necessary decisions.

The basic directives include some fundamental principles, for example, the harmonious promotion of the economic development of the area through the progressive economic complementarity and integration of the Contracting Parties, on the basis of equitable distribution of the results of the integration process; adequate competitive conditions; and the creation of conditions conducive to the establishment of the Latin American common market through collective action by the member countries.

In addition, the basic outlines have been defined for the co-ordination of policies in each of the main economic sectors. In the field of foreign trade, common guidelines and systems are to be adopted for the application of a joint commercial policy. For this purpose, the necessary measures will be taken to ensure the fullest possible equalization of charges and restrictions applied on imports from third countries, for it is clearly necessary to create fair competitive conditions in the area market which would also permit an improvement in regional productivity levels.

As regards the formulation of industrial development policy, the principle that all Contracting Parties should share in the benefits of integration has been defined and re-affirmed, special attention being given to problems deriving

from the different levels of development of member countries, the characteristics of their respective industrial structures, and the particular ability of each of them to initiate or expand certain production sectors. To this end, guide-lines have been set as regards the location of certain industries, in accordance with common general objectives, and the bases have been laid for proceeding with integration by sectors after specialized studies have been made in each one of them.

With respect to agricultural development and in order to co-ordinate and harmonize the policies of Contracting Parties, guide-lines are being set for progressively raising productivity levels through better use of available resources; in addition, social and economic conditions in the various member countries are to be studied as well as better utilization of the area market for regional products. At the same time, rules are being drawn up for determining the trade régime to cover agricultural products after the end of the transitional period.

In the financial and monetary field, the stated objective is to achieve the maximum co-operation between national systems, through closer contacts between banks, establishment of credit facilities for financing intra-area trade, analysis of the effects of exchange policy on intra-area trade flows, and the possible adoption of criteria regarding foreign investment and the movement of area capital.

Finally, emphasis is being laid on the importance of problems of infrastructure and the need to proceed with the necessary studies for their solution.

Complementarity agreements

The Montevideo Treaty provides for the possible conclusion of complementarity agreements in respect of industrial sectors, setting forth liberalization programmes for the products in the sectors concerned, in order to contribute to the liberalization of trade and promote the development of activities, particularly industrial ones, on a regional scale. In the first three years of application of the Treaty, however, experience showed that entrepreneurs in the member countries were not in favour of such agreements because the advantages provided for in them were subject to unrestricted application of the most-favoured-nation principle. Because of this situation, and in order to facilitate and speed up measures and procedures for the conclusion of sectorial complementarity agreements between member countries, Resolution 99 (IV) was adopted. Under this Resolution, in order to make use of the advantages or exemptions granted under a complementarity agreement, Contracting Parties which have not negotiated or signed such agreements can benefit from the exemptions mutually agreed upon by the parties thereto only subject to the granting of adequate compensation.

In formulating the liberalization programmes set forth in such agreements, account will have to be taken of their status as auxiliary measures to the overall liberalization programme for the establishment of the free trade area, and they must therefore be limited to the twelve-year transitional period established under Article 2 of the Treaty.

In accordance with the stated objective of LAFTA to promote the balanced and harmonious development of each of the countries participating in the Latin-American integration process, countries covered by the régime set forth in Article 32 of the Treaty will share in the benefits granted under complementarity agreements even if they have not taken part in their formulation and are not a party to them.

In connexion with complementarity agreements, it should be noted that the agreement on electronic tubes, which had been signed in February 1964, entered into force on 1 April 1964 as between five Contracting Parties. This agreement follows on that relating to statistical and similar machinery and electronic data-processing systems which has been in effect since 1962. Work is proceeding in other industrial sectors, both private and official, with a view to the possible conclusion of further agreements of this kind.

Origin

In 1964, the Association embarked on the work programme called for under resolutions adopted in 1963, regarding the establishment of requirements of origin for products in intra-area trade. The Committee has adopted a number of decisions establishing requirements of origin for a series of products in which there is considerable trade within the area.

Application of escape clauses and special provisions on trade in agricultural products

During the period covered by this report, the Contracting Parties did not invoke the escape clauses contained in Chapter VI of the Treaty. As regards the provisions in Chapter VIII, the Chilean Government announced that it had invoked the provisions of Article 28 in regard to linseed oil and butter. In the first case a quota was fixed, and in the second, countervailing duties were applied.

Meeting of entrepreneurs

In the course of the year there was great activity in the private sector, as reflected in a series of meetings of entrepreneurs from the various LAFTA member countries in pursuance of the programme initiated in 1963. Among the meetings held, whose conclusions were forwarded to the governments concerned for consideration, mention may be made of

those covering the following sectors: wood and wood manufactures; paper and cellulose; food industry; cold storage industry; railway equipment industry; chemical industry; agricultural machinery; construction machinery, including road-making machinery; rubber industry; engineering industries and textile industry.

Programme for 1965

In addition to its ordinary work programme, in 1965 the Association will begin to carry out the tasks provided for in Resolution 100 (IV) on economic complementarity and integration and will hold a number of meetings of various kinds. In this connexion, mention should be made of the meeting of Ministers of Foreign Affairs which was decided upon under Resolution 112 of the Bogota Conference for the purpose of adopting the necessary political solutions to speed up the economic integration and complementarity process between the Contracting Parties. This meeting is scheduled to take place between 1 April and 31 August 1965.

In the early part of the year, an intergovernmental meeting on water transport will also be held.