In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on Colombia. Volume B (Tables) is presented in document C/RM/S/4B.

The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by Colombia. As required by the Decision, in preparing its report the Secretariat has sought clarification from Colombia on its trade policies and practices.


NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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I. THE ECONOMIC ENVIRONMENT

(1) Major Features of the Colombian Economy

1. Colombia is geographically the fifth largest country in Latin America after Brazil, Argentina, Mexico and Peru. Its population of about 30 million people is growing by almost 2 per cent annually. Over the past few years, economic growth has been stronger than population growth so that Colombia's real per capita income increased - a rare feature in Latin America of the 1980s. Last year, GDP per capita reached about US$1,300 (Tables I.1 and I.2).

2. Trade expansion is an important element in Colombian economic growth. In 1989, merchandise exports and imports, combined, corresponded to 27 per cent of GDP, a new peak. In addition, there is substantial trade in services. However, throughout the 1980s, Colombia's trade fluctuated more than real GDP (Table I.3).

3. The wide movements in trade, with strong increases in some years and declines in others, reflect the fact that Colombia has been highly dependent, for export revenue, on a few primary commodity markets. Despite its small overall share in world trade, currently 0.2 per cent, Colombia is a major exporter of coffee, cut flowers, bananas and some minerals.

4. At times, the fluctuations in Colombia's foreign exchange earnings have disrupted the process of economic and social development. They also have made it more difficult for the country to cope with its high external debt, equivalent to 240 per cent of exports in 1989. In an effort to stabilizing exports and promoting their growth, Colombia has diversified its export mix with considerable success in recent years. These changes in trade are based on a more general diversification of the Colombian economy.

(i) Agriculture

5. Agriculture is a leading economic activity in Colombia, accounting for 22 per cent of GDP and around 30 per cent of employment. Total area farmed has been estimated at around 6 million hectares of which one million are dedicated to coffee production. Large scale farms, with an area of over 2,500 hectares, account for almost one-fifth of the total area farmed.

6. Agriculture is the source of more than 40 per cent of export earnings. The main export items are coffee, bananas, cut flowers, cotton, raw sugar, crustaceans and fish.

7. After growing at an average annual rate of close to 3 per cent in 1985-86, agricultural output expanded by about 7 per cent in 1987. The strongest increases in agricultural production were recorded for tobacco, barley, coffee, sorghum and rice. In 1988, agricultural output barely increased, but growth resumed to between 6 and 7 per cent in 1989.
(ii) **Mining and oil extraction**

8. According to a recent mining census, a total of some 35 minerals are exploited in 7,306 mines. Colombia produces petroleum, coal and several other minerals including gold, platinum, iron ore and emeralds. Most mining is surface mining, and only about one quarter is below ground.

9. Mining and oil activities have grown rapidly in importance in recent years, and currently account for 4½ per cent of GDP compared with about one per cent in the early 1980s. Oil production has been one of the most dynamic sectors, with an increase in output from 56 million barrels in 1983 to 137 million barrels in 1988. In 1986, Colombia became a net oil exporter (Table A1.1). Coal production also increased threefold since 1983, to more than 15 million tons in 1988. The bulk of coal production is exported. The share of mining and oil extraction in Colombia's exports was 20 per cent in 1989, up from 0.5 per cent in 1983.

(iii) **Manufacturing**

10. Manufacturing accounts for about one-fifth of GDP and employs around 16 per cent of the labour force. In 1987, non-durable consumer goods accounted for one half of manufacturing output, intermediate goods for 40 per cent and capital goods for 8 per cent. The main branches are food processing, beverages, textiles, chemicals, metals, paper and petrochemicals. Intermediate products have shown significant development in the 1980s. They include cement, wood, iron and steel, paint, flooring and roofing materials and steel and plastic piping. A variety of machinery and transport equipment is also produced.

11. After expanding rapidly in the late 1960s and early 1970s, the growth of manufacturing output became weaken in the second half of the 1970s and production absolutely declined between 1979 and 1983. In the following years, manufacturing output recovered (Chart I.1). In 1988, growth in manufacturing fell to below 4 per cent, with expansion concentrated in transport equipment, wood furniture, footwear and clothing. Preliminary figures for 1989 point to a further slowdown of manufacturing production.
12. In the 1980s, exports of manufactures expanded at an above-average rate, but not as rapidly as those of oil and minerals. Between 1980 and 1988, the share of manufactures in Colombian merchandise exports rose from 30 to 36 per cent. Currently, main export items include semi-manufactures, chemicals, foodstuffs, steel, clothing and a variety of other consumer goods.

(2) Recent Economic Performance

13. During the 1970s, assisted by an investment activity averaging nearly 19 per cent of GDP, Colombian economic growth was close to 6 per cent annually. The coffee boom of 1975-80 helped to sustain high levels of investment. However, unemployment and the distribution of income were areas of major concern for the Colombian Government.

14. After the coffee boom period, growth in aggregate demand was maintained through higher public expenditure and foreign borrowing. In 1982-83, the public sector deficit reached 7.5 per cent of GDP, and a current account deficit of nearly 10 per cent of GDP was recorded (Table I.4 and Chart I.2). In 1983-84, the Government introduced substantial import controls to halt the outflow of reserves, while maintaining public expenditure to preserve growth.
15. In late 1984, an economic adjustment programme was initiated, including a reduction of the fiscal deficit, a major devaluation of the Colombian peso, and a gradual relaxation of the import restrictions introduced in 1983.

16. After a period of adjustment, the economy grew at more than 5 per cent in both 1986 and 1987. The public sector deficit was turned into a slight surplus in 1986, before being reversed into a deficit of 1.4 per cent of GDP in 1987. The current account turned from a deficit of around US$1,600 million in 1985 to a surplus of around US$500 million in 1986, supported by a strong performance of coffee exports. In 1987, a small current account deficit was again recorded (Table I.2).

17. The current account adjustment process is reflected in the increase in the gross savings ratio between 1982 and 1986. The gap between total investment and gross saving was continuously reduced from more than 5 per cent of GDP in 1982 to almost balance in 1987. In 1988, gross savings fell again slightly short of investment (Chart I.3).
18. In 1988, Colombia's export volume declined and economic growth slowed down to less than 4 per cent. Real gross national expenditure was driven by public consumption and gross fixed capital formation which spilled over into an 11 per cent expansion of import volume (Table I.5). The fiscal deficit increased to 2.6 per cent of GDP. Inflation accelerated to 28 per cent and the current account deficit widened to around US$350 million. As a result of net capital inflows, foreign exchange reserves increased for the fourth consecutive year, to almost US$3.3 billion.

19. The external debt reached US$16.4 billion in 1988, almost 80 per cent owed by the public sector. The ratio of foreign debt to Colombian exports increased from 230 per cent in 1987 to 255 per cent in 1988. In 1989, this
ratio was an estimated 240 per cent. While Colombia has been able to avoid rescheduling, debt service has been a serious burden.

20. According to the National Planning Department, real GDP grew by 3 per cent in 1989, despite the political, social and economic disruption caused by drug-related activities. At the same time, it is estimated that coffee export revenue fell by some US$400 million, or around 7 per cent of 1989 merchandise exports\(^2\), following the suspension of the International Coffee Agreement. Expanding non-coffee exports more than offset the decline in revenue from coffee. Inflation and unemployment fell in 1989, and the current account deficit was reduced to US$180 million.

21. As part of its adjustment strategy designed to diversify the economy and to deal with the debt problem, Colombia liberalized its foreign direct investment legislation in 1987, in line with the new Andean Group guidelines (Chapter III). The new provisions allow for 100 per cent foreign ownership, equal treatment for foreign and Colombian investors, and profit remittance up to 25 per cent (higher in the mining sector). Foreign investment inflows peaked in 1986 and 1989, with major new investments in the coal mining sector. For example, in 1989, almost 55 per cent of total foreign direct investment of US$475 million was in the mining sector (Charts I.4 and I.5).

\(^1\)Along with Paraguay, Colombia is the only Latin American country which did not reschedule its debt in the 1980s.

\(^2\)In late February 1990, the arabica price is reported to have registered a small increase resulting from the impact of drought on Brazilian crop and a temporary reduction in exports from Mexico.
Chart 1.4
Approved foreign investment in Colombia, 1981-89

Source: National Planning Department, Colombia, 1990.

Chart 1.5
Foreign investment by sector, 1989

Source: National Planning Department, Colombia, 1990.
3. **Trade Performance**

22. Throughout the 1980s, Colombia's foreign trade was characterized by substantial fluctuations. After a steep fall of the value of merchandise exports in 1981, the process of recovery was slow. However, in 1986, merchandise exports increased by more than two-fifths, driven by a substantial real devaluation of the peso, a sharp increase in coffee prices, and a strong performance of petroleum and minerals exports. In 1987 and 1988, merchandise export revenue stabilized at around the level reached in 1986. The dependence on coffee exports was reduced, which, in turn, was the basis for a further expansion of merchandise exports in 1989. Import performance between 1980 and 1988, was by and large a mirror image of export developments (Table 1.5 and Chart I.6).

![Chart I.6](image)

**Chart I.6**
**Merchandise trade in Colombia, 1980-88**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance</th>
</tr>
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<tbody>
<tr>
<td>1980</td>
<td>2.5</td>
<td>1.8</td>
<td>0.7</td>
</tr>
<tr>
<td>1981</td>
<td>3.0</td>
<td>2.2</td>
<td>0.8</td>
</tr>
<tr>
<td>1982</td>
<td>3.5</td>
<td>2.5</td>
<td>1.0</td>
</tr>
<tr>
<td>1983</td>
<td>3.8</td>
<td>2.7</td>
<td>1.1</td>
</tr>
<tr>
<td>1984</td>
<td>4.2</td>
<td>3.0</td>
<td>1.2</td>
</tr>
<tr>
<td>1985</td>
<td>4.4</td>
<td>3.2</td>
<td>1.2</td>
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<tr>
<td>1986</td>
<td>4.6</td>
<td>3.4</td>
<td>1.2</td>
</tr>
<tr>
<td>1987</td>
<td>4.8</td>
<td>3.6</td>
<td>1.2</td>
</tr>
<tr>
<td>1988</td>
<td>5.0</td>
<td>3.8</td>
<td>1.2</td>
</tr>
</tbody>
</table>

*Source: DANE, National Department of Statistics.*

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3 In Colombia trade statistics are available from three different sources. The Foreign Trade Institute (INCOMEX) registers exports and imports approvals. The Central Bank (Banco de la República) measures the foreign exchange flows. The National Department of Statistics (DANE) compiles the movements of merchandise recorded by customs. The figures according to these sources can be quite different. For example, in 1988 merchandise exports, based on balance-of-payments figures, decreased by around 8 per cent, but increased at the same rate according to customs figures (Table I.5).
Commodity pattern of trade

23. Traditionally, Colombia's principal export has been coffee. Its share in total merchandise exports was over 60 per cent in 1980. At its peak level, in 1986, export revenue from coffee amounted to US$3,020 million, or 63 per cent of total merchandise exports. The awareness of the risks involved in the strong dependence on a single commodity led to initiatives designed to promote export diversification.

24. As a result of these efforts, and also reflecting price developments on the world coffee market, Colombia's export structure has changed substantially. Agriculture's share in total exports decreased from around 70 per cent in 1980 to slightly over 40 per cent in 1988, largely reflecting the decline in the share of coffee in total merchandise export revenue to 34 per cent in 1988. The most dynamic export development occurred in mining. From a tiny fraction of Colombia's merchandise exports in the first half of the 1980s, oil and mining products grew to about 20 per cent of merchandise exports in 1988, largely due to rapidly increasing exports of coal and petroleum (Chart I.7).

Chart I.7
Composition of Colombian exports, 1980-88

Source: DANE, National Department of Statistics.
25. Despite export diversification, a small number of commodities continue to contribute a large proportion of Colombia's export earnings (Tables I.6 and AI.1). For example, coffee, petroleum, coal, bananas and cut flowers accounted for almost 70 per cent of total export revenue in 1988. Hence, world market conditions for these products have important implications for Colombia. However, non-traditional exports are growing rapidly, including tropical fruits, flowers, and shrimps in the agricultural sector and chemicals, printed matter, textiles, apparel, leather and footwear in the manufacturing sector.

26. On the import side, chemicals and non-electrical machinery have been leading items. Consumer goods account for a relatively small share of Colombia's merchandise imports (Table I.7).

27. In the context of stringent import and exchange restrictions introduced in 1983, the value of merchandise imports declined between 1982 and 1986. In more recent years, imports of a broad range of products have risen, including raw materials and capital goods whose imports are encouraged by Colombia's tariff and licensing structure. The most important change in the import structure has been the virtual elimination of fuel imports, as Colombia became a net exporter of petroleum products in 1986. Refined petroleum imports have persisted due to a shortage in local refining capacity. These accounted for 3.6 per cent of imports in 1988.

(ii) Regional pattern of trade

28. Colombia's three most important trading partners are the United States, the European Communities (particularly the Federal Republic of Germany) and Japan (Tables I.8 and AI.2). In 1988, these three together accounted for more than two-thirds of merchandise trade.

29. Between 1978 and 1988, the United States' share in total exports increased from 30 to almost 40 per cent. In 1988, coffee, bananas and flowers accounted for almost 45 per cent of the US$2 billion exports to the United States.

30. Coffee alone made up more than four-fifths of exports to the Federal Republic of Germany. Coffee and precious stones represented almost 75 per cent of exports to Japan.

31. Other important markets for Colombia's exports include the Netherlands, Venezuela, France, Panama and Chile. The main products exported are coffee and ferro-nickel to the Netherlands and France, clothing to Panama, and PVC and cotton to Venezuela and Chile.

32. The share of the Andean Group countries in Colombian exports has decreased from 10 per cent in 1978 to 7 per cent in 1988, reflecting mainly lagging exports to Venezuela. Main export items in trade with the Andean Group area are PVC, cotton and printed matter.
33. Following the United States, Japan and the Federal Republic of Germany, Colombia's main import sources are Brazil, Mexico, France and Canada. The United States ranked as the single largest supplier of machinery and equipment. The United States is also the major supplier of office machinery, data processing equipment and heavy construction machinery, while Japan has captured a large share of the market for telecommunications equipment.

34. Colombia's main Latin American trading partners are Brazil, Mexico, Venezuela, Panama, Argentina and Peru. Despite preferential agreements between Colombia and other Latin American countries within the Andean Group and the Latin American Integration Association (LAIA), Colombia's recorded trade with these countries has not expanded faster than its total merchandise trade.

(4) Outlook

35. According to the Central Bank forecasts for 1990, the increase in real GDP will be close to 3 per cent, continuing the slowdown of economic growth that began in 1988 (Table I.2). Inflation is expected to decelerate slightly from 26 per cent in 1989 to 25 per cent in the current year. Increased security costs connected to drug-related activities will be a matter of particular concern for the Colombian Government.

36. The current account deficit is expected to increase sharply to an estimated US$974 million, assuming an 11 per cent increase in merchandise import value (excluding gasoline and military equipment) and a 4 per cent increase in merchandise export revenue. Colombia expects to increase its coffee export volume to 12 million bags, but as the price forecast is down to US$0.7 a pound, the value of coffee exports is expected to decrease from US$1,486 million in 1989 to US$1,139 million. Petroleum export volume is expected to increase by 22 per cent, but there are uncertainties depending on the possibility of renewed guerrilla attacks on the pipelines.

37. Trade performance is crucial in view of the level of Colombia's indebtedness. Debt service payments will reach peak levels in 1990.
II. TRADE POLICY REGIME: OBJECTIVES AND FRAMEWORK

(1) Introduction

38. Colombia is a unitary republic, with a democratic and representative form of government under a constitution adopted in 1886. The Colombian constitution guarantees freedom of thought and expression, of association and assembly, of conscience and creed. Private ownership of property is guaranteed, except when public interest or necessity justify expropriation. Foreigners residing in the country and foreign-owned business entities enjoy the same basic rights of liberty, personal security and property ownership as Colombians and Colombian-owned businesses.

39. Legislative power is exercised by the National Congress, which consists of a Senate and a House of Representatives, elected for four years. Judicial power is exercised by a Supreme Court of Justice, a Council of State, and diverse separate tribunals. The Supreme Court is the highest authority in civil and commercial matters, as well as in labour, penal and constitutional affairs. The Council of State is the highest court for matters involving public administration, State responsibility and tax disputes.

40. Laws may originate in either House, on the initiative of its respective members or of the Cabinet Ministers (Article 79 of the Constitution). Exceptions to this Article are that tax laws and organic laws of the Public Ministry must originate exclusively in the House of Representatives; and some specific laws may not be enacted or amended, except by virtue of bills adopted by the corresponding standing committees. Treaties and conventions entered into by the Government with foreign powers must be ratified by Congress before becoming effective. To become law, bills must be approved in each House.

41. The executive branch is headed by the President, who serves for a four-year term and may not be immediately re-elected. Two political parties, Liberal and Conservative, have controlled Colombia's democratic government in this century, except for the period of military rule between 1953 and 1957. The term of the Liberal President currently in office will end on 6 August 1990. Cabinet ministers and governors of departments are appointed by the President, but municipal mayors are elected by ballot.

42. The Colombian Government encourages free competition in all economic endeavours, except public services. However, with the stated objective of protecting consumers, the Government has established price controls on certain products and services such as milk and other food products, medical supplies, tyres, gasoline, fertilizers, and international transportation. The relevant policies are implemented through the Superintendency of Industry and Commerce. Legislation also exists to guard against unfair trade practices and monopolistic activities. However, the Government may authorize certain agreements which, although restricting free competition, aim at stabilizing the production of individual goods or services which are important for the country's overall economy.
43. Under Article 205 of the Colombian Constitution, any reduction in import duties shall become effective 90 days after the approval of the law establishing it, and shall be made by one-tenth in each of the 10 subsequent months. Any increase shall be made by one-third in each of the three months following the approval of the law.

2) Trade Policy Objectives

44. In 1984, Colombia launched an adjustment programme with the objectives of facilitating export-led growth and encouraging export diversification. The principal elements of the programme have been maintenance of a realistic exchange rate, reduction or elimination of import and export restrictions, cuts in the average tariff level and the dispersion of rates, and changes in export incentives.

45. In March 1990, a new programme was announced, continuing the gradual liberalization process for the period 1990-92 and forward to 1995. In the short run, the import licensing régime is being re-formulated and some tariff changes (both reductions and increases) are being made. The longer run aim is to reduce the incidence of the import licence régime and rationalize the tariff in order to improve the competitiveness of the Colombian economy, boost exports and raise economic growth.

(i) General trade policy objectives

46. For most of this century, Colombia’s trade policies were oriented towards supporting domestic import-substituting industries by providing generally high levels of protection. Between the early 1950s and the 1984 adjustment programme, there were three phases of trade liberalization and three subsequent reversals. Coffee booms allowed short-lived import surges, followed by sudden reversals in the case of foreign exchange shortages.

47. In 1954, an import liberalization programme was initiated, but the process was reversed in 1955. Law 1 of 1959 allowed the Government to set new priorities for import licences. The sectors chosen were the mineral industries, machinery and equipment. By 1962, all but 15 tariff items required prior licences.

48. In 1965, multiple exchange rates were introduced, with a preferential rate for some imports. A second liberalization programme began. A large number of import items was transferred from the prior licensing list to the free list. Quantitative restrictions were replaced by higher tariffs. This process was reversed by the end of 1966, in the context of a balance-of-payments crisis.

49. In 1967, Decree Law 444 was adopted as Colombia’s basic trade legislation. It introduced the framework for export incentives, intended to offset the anti-export bias. This framework includes the Vallejo Plan system, granting duty-free access to imported inputs for exporters; a Tax Rebate Certificate (Certificado de Abono Tributario, CAT), in its present version called Tax Reimbursement Certificate (CERT); and export credit facilities.
50. Between 1967 and 1981, the role of tariffs for regulating the level of imports was intensified. However, in 1982, balance-of-payments problems again led to a major return to quantitative import restrictions. By 1984, only 23 tariff items remained on the free list.

51. In 1985, a selective liberalization programme began, especially by transferring items from the prohibited list to the prior licensing list and from the prior licensing list to the free list. Moreover, the foreign exchange budget was increased. Main objectives of Colombian trade policies became the growth and diversification of exports, the stabilization of commodity prices, and the gradual liberalization of imports, to the extent permitted by export earnings and access to fresh financial resources (GATT, BOP/290).

52. These objectives were reflected in a number of trade measures adopted since 1985. The foreign exchange budget for imports was further increased, the number of items on the free list became larger over time, and tariffs were reduced from a simple average of 41 per cent in 1985 to 31 per cent in 1987 and 26 per cent last year.

53. On the export side, Colombia has focused on achieving greater growth and diversification, in order to lessen economic instability caused by fluctuations in the prices of a few basic commodities, in particular coffee. The emphasis is on the promotion of non-traditional exports through exchange rate management, the control of inflation, and rationalization of export-promotion instruments. The Export Promotion Fund (PROEXPO), also created by Decree-Law 444 in 1967, is in charge of providing exporters with foreign market information, enhancing marketing skills, and providing export finance. Since 1987, import licences for capital goods and spare parts have been granted almost automatically, so that exporters may choose between domestic and imported goods on the basis of quality, price, delivery and terms of financing (GATT, document BOP/290).

54. As noted above, the new programme announced in March 1990 aims at "rationalizing" the external trade sector. Details are given in Chapter IV.

(ii) Objectives in the Uruguay Round

55. Colombia views the Uruguay Round as an important opportunity to address, in a multilateral forum, several issues of special concern to it. These include tropical products, agriculture, tariffs, subsidies and countervailing measures. Colombia also participates actively in some other Negotiating Groups such as Services, Intellectual Property, Trade-Related Investment and GATT Articles.
56. Colombia is one of the 13 member countries of the Cairns Group. It supports the objectives of the Group to achieve a firm commitment to substantial reform of market access, internal support measures and all subsidies, including the prohibition of export subsidies in agriculture, and to bind such undertakings under new GATT rules and disciplines.

57. In the negotiations on tropical products, Colombia’s objective is to achieve complete liberalization for products of special interest to developing countries. In 1988, Colombia presented request lists of concessions to industrialized countries. In December 1988, a first set of concessions was negotiated. It included tariff reductions by the European Communities for cut flowers.

58. For tariffs, Colombia’s objective is to achieve substantial reductions of applied rates for products excluded from the GSP scheme, such as textiles and articles of leather. Colombia is also participating actively with a view to give more precision to GATT rules for subsidies and countervailing measures and special treatment for developing countries.

59. In the negotiations on services, Colombia is seeking a flexible framework which would allow a developing country to protect and develop the domestic service sector. In this area, Colombia supports safeguard measures for balance-of-payments protection, developing a service industry or restraining the surge of imports, and the possibility of signing preferential agreements at regional levels on a non-m.f.n. basis. Colombia also holds that for developing countries the range of services to be covered may be more limited.

60. Colombia seeks an agreement on rules which offer fair protection to trade-related intellectual property rights. Colombia maintains that developing countries need special treatment because of their dependance on technology imports.

4 The other members of the Cairns Group are Argentina, Australia, Brazil, Canada, Chile, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay.

5 Products included in these lists were, among others, coffee, bananas, tobacco, flowers and tropical fruit. Countries involved were Australia, Austria, Canada, the European Communities, Finland, Japan, New Zealand, Norway, Sweden, Switzerland, and the United States.

6 Tariffs for cut flowers were reduced from 24 per cent to 20 per cent in spring and summer, and from 17 per cent to 15 per cent during the rest of the year.
(3) **General Trade Laws and Trade Legislation**

61. As noted above, Colombia's trade policy is based on the International Exchanges and Foreign Trade System established by Decree Law 444 of 22 March 1967. The law aims to promote Colombia's economic and social development and exchange equilibrium by promotion and diversification of exports; appropriate use of available foreign exchange; control of demand for foreign exchange, in particular with a view to discouraging capital flight and speculation; encouragement of foreign capital investment consistent with the general interests of the national economy; repatriation of capital and establishment of regulations governing Colombian investments abroad; and the establishment and maintenance of foreign exchange reserves at a level sufficient for the normal operation of international exchanges (Article 1 of Decree Law 444).

62. Under this law, the Colombian Foreign Trade Institute (Superintendencia de Comercio Exterior, which later became INCOMEX, Instituto Colombiano de Comercio Exterior) was established to administer government policy on external trade, which is formulated by the interministerial Joint Trade Commission. The Export Promotion Fund (PROEXPO) was also established under the 1967 law. Decree 691 of 1967 gives INCOMEX the responsibility of monitoring import and export prices to prevent under- or over-invoicing, with a view to discouraging capital flight, tax evasion, dumping, or illegal collection of export incentives.

63. Decree 1484 of 1973 introduced a new customs tariff based on the Common Tariff Nomenclature of the Andean group member countries, known as NABANDINA. The first four digits of this nomenclature correspond to the first four digits of the Customs Cooperation Council Nomenclature, CCCN.

64. Law 48 of December 1983 stipulated new conditions for export promotion through tax reimbursement certificates (CERT), replacing the previous tax credit certificate (CAT) system. This law also made provisions for the reorganization of free-trade zones and the regulation of barter, clearing and triangular trade arrangements (abolished in 1986).

65. Legislation governing non-competitive behaviour includes general laws prohibiting unfair trade practices, and more specific regulations governing international transactions. Law 155 of 1959 forbids any trade agreement that, directly or indirectly, tends to limit production, supply, distribution, or consumption of raw materials, locally-manufactured or imported goods, and local or foreign services for the purpose of determining or maintaining inequitable prices detrimental to consumers or to producers of raw materials. Exceptions are granted when such practices are to stabilize a sector producing goods or services of general interest to the economy. Practices defined as illegal in international treaties and conventions are also prohibited. The legislation gives the Government the right to intervene by setting prices and monitoring the activities of individual firms.

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7 These sectors include food, clothing, sanitation, housing, fuel, transport, electricity, water and gas, pipelines, banking, insurance and education.
66. As a member of the Andean Group, Colombia subscribes to provisions of the Cartagena Agreement prohibiting practices that distort competition among its members, such as dumping, improper price manipulation, or operations intended to disrupt the normal supply of raw materials. The safeguard clause of the Agreement allows temporary measures to prevent damage arising from a surge in imports from other members.

67. Other important statutes are Law 74 of December 1989, which regulates foreign investment in the financial sector, and Decree 624 of March 1989 which provides for a list of products exempted from sales tax.

68. In March 1990, the Government established new trade measures aimed at increasing exports and raising economic growth. These measures continue the trade liberalization process in which Colombia is engaged. New control measures are being implemented in order to avoid illegal practices such as smuggling, under-invoicing and dumping.

(4) Structure of Trade Policy Formulation

69. The basic trade legislation passed by Congress determines the broad framework in which the Government formulates and implements its trade policies. The following institutions are responsible for trade policy formulation:

(i) The National Council of Economic and Social Policy (Consejo Nacional de Política Económica y Social, CONPES). The Council is chaired by the President of the Republic and is composed of the Ministers of Foreign Affairs, Finance, Agriculture, Economic Development, Public Works, Labour; the Chief of the National Planning Department; the Director of the Foreign Trade Institute (INCOMEX); the Governor of the Banco de la República (Central Bank); and the Manager of the National Federation of Coffee Growers. The main functions of CONPES include defining and coordinating general guidelines for the specialized government agencies; formulating recommendations for the elaboration of general plans and development programmes; and studying and defining the basis for investment programmes and public expenditure to be presented to the National Congress.

(ii) The Foreign Trade Council (Consejo Directivo de Comercio Exterior). The Council is the supreme body dealing with Colombia's foreign trade and is chaired by the Minister of Economic Development. Other members of this Council are the Ministers of Foreign Affairs, Finance, Agriculture, Mines and Energy; the Chief of the National Planning Department; the Governor of the Central Bank; the Manager of the National Federation of Coffee Growers; the Director of the Export Promotion Fund (PROEXPO); and the Director of the Foreign
The Council is responsible for programming and co-ordinating foreign trade policy and evaluating its results; co-ordinating foreign trade policy with monetary policies and customs and economic development issues; establishing policies for trade administration by INCOMEX; and approving and modifying the lists of free, prior licensing and prohibited imports.

(iii) The Monetary Board (Junta Monetaria). The Board's members include the Ministers of Finance, Economic Development and Agriculture, the Chief of the National Planning Department; the Governor of the Central Bank; and the Director of INCOMEX. The functions of the Monetary Board are to execute monetary, exchange and credit measures implemented by the Central Bank; to draw up the budget for the country's foreign exchange receipts and expenditure and to authorize the financing of international reserves; and to determine for which activities foreign exchange can be purchased for payments abroad.

(iv) The Ministry of Economic Development. This Ministry deals with economic policy formulation as well as economic and social development plans; co-ordinates trade policy formulation through the Foreign Trade Council; participates in the formulation of monetary and exchange policies; establishes domestic input absorption quotas in collaboration with the Ministry of Agriculture; determines the industrial products which benefit from the assembly tariff régime; and executes Government policies on non-competitive behaviour.

(v) The Foreign Trade Institute (Instituto Colombiano de Comercio Exterior, INCOMEX). INCOMEX is the principal agency entrusted with the implementation of foreign trade policy. As such, it carries out import and export policy, registers all imports and exports for statistical purposes, analyses trade with third countries, evaluates Colombia's position in bilateral and multilateral trade agreements, and verifies prices of imports and exports to prevent over- or under-invoicing. Its role in policy formulation includes preparation of lists of free, prior licensing and prohibited imports, formulation of policy on the special import-export systems, undertaking studies required for Colombia's participation in the Latin American Integration Association (LAIA), the Andean Group and other multilateral economic and commercial bodies, and preparing Colombia's position in international negotiations on trade and development, including GATT and UNCTAD, for approval by the Foreign Trade Council.

(vi) The Export Promotion Fund (PROEXPO). This agency seeks to strengthen Colombia's export performance through a wide range of activities, including general export promotion, commercial development and credit facilities.
(vii) The Ministry of Foreign Affairs. This Ministry is involved in the formulation of the Government's international economic policy and cooperates in its execution and co-ordination with the public and private sectors. For example, the Ministry participates in the definition of the guidelines for the trade and economic policy that Colombia pursues in international organizations. These functions are carried out by the Subsecretariat of Economic Affairs.

(viii) The Ministry of Agriculture. This Ministry defines the development programmes on agricultural products for exports. It also fixes rules for the establishment of domestic input absorption quotas and prepares propositions on Tax Reimbursement Certificates (CERT) for agricultural products for approval by PROEXPO.

(ix) The National Planning Department. The Department acts as Secretariat of CONPES, including the conduct of research and analysis on policies and mechanisms to be discussed in CONPES. It also proposes the Economic and Social Development Plans and co-ordinates basic studies for the elaboration of projects in industrial development, domestic and international trade, foreign investment and agricultural development.

70. The Joint Commission for Foreign Trade (Comisión Mixta de Comercio Exterior) is composed of the Foreign Trade Council and representatives of the private sector. This Commission is an advisory body to the Government, examining foreign trade and trade policy developments and making recommendations. The Joint Commission has not met in recent years. However, informal contacts between private associations and the Government are frequent.

71. In Colombia, there is no agency carrying out trade policy evaluations on a regular basis. Policy review is undertaken at the request of the Government by INCOMEX, the National Planning Department and other relevant agencies for the Foreign Trade Council and CONPES, especially in the context of trade policy reforms.

(5) Trade Agreements

(i) Colombia in GATT

72. In principle, Colombia applies the most-favoured-nation clause to all countries, whether contracting parties to GATT or not.

Colombia is a signatory to the Tokyo Round Code on Bovine Meat. It has observer status in the following Agreements or Arrangements: Technical Barriers to Trade; Subsidies and Countervailing Measures; Customs Valuation; Import Licensing Procedures; and Anti-Dumping. Colombia is considering adhering to the Codes on Subsidies and Technical Barriers to Trade.

74. Under the Colombian Constitution, all international agreements signed by the Government must be ratified by Congress. Accession to the GATT was ratified by law in 1981. It therefore takes precedence over national laws other than those for which Colombia claimed "grandfather" status - in this instance customs valuation procedures.

(ii) Preferential trading arrangements

75. Colombia is a member of the Latin American Integration Association (LAIA) and the Cartagena Agreement (Andean Group). Since very recently, Colombia has participated in the Global System of Trade Preferences between developing countries (GSTP). A bilateral agreement signed with Peru in 1938, and modified in 1982, grants tariff and non-tariff preferences for the benefit of the remote Amazon territories.

(a) The Latin American Integration Association (LAIA)

76. The Latin American Integration Association was established in 1980 as a continuation of the Latin American Free Trade Association (LAFTA) by the Governments of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. Their aim was to renew the integration process started in 1960 with the original Treaty of Montevideo, while at the same time adjusting the objectives and mechanisms of the integration scheme in a manner consistent with the region's economic situation and possibilities.

77. The member countries have established an area of economic preferences, comprising a regional tariff preference; regional-scope agreements, in which all member countries participate; and partial-scope agreements that bind only their signatories. In addition a Reciprocal Payments and Credit Agreement was signed on 25 August 1982. Under this agreement, bilateral credit lines were established between the Central Banks to minimize the use of foreign exchange in intra-regional transactions. There is multilateral clearance of balances accumulated in the bilateral accounts over four months; outstanding balances are paid in US dollars (Table AIV.2).

8 As regards the Subsidies Code, Colombia's main concern is to obtain the "injury test" in the United States investigations on Colombian products.
78. Colombia has concluded various agreements under the 1980 Treaty of Montevideo:

(i) In the framework of regional-scope agreements, Colombia has granted partial opening of its market in favour of Bolivia, Ecuador, and Paraguay, relatively less-developed LAIA members. Colombia is also a signatory to the Regional Tariff Preference Code (Article 5), which includes a 60 per cent basic tariff preference, with differential treatment according to the type of trading partner.

(ii) Colombia has signed partial-scope agreements with Argentina, Brazil, Chile, Mexico, Paraguay and Uruguay for renegotiating preferences granted during the LAFTA period (1961-80). In late April 1988, Colombia and Argentina have signed a further agreement to stimulate integration between the two countries by increasing bilateral trade, industrial, scientific and technological cooperation.

79. Article 25 of the 1980 Treaty of Montevideo allows member countries to draw up partial-scope agreements with non-LAIA countries in Latin America. Colombia signed agreements with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and, in December 1988, an agreement with Cuba which includes mutual tariff preferences and reduction or elimination of levies and other restrictions.

80. In October 1988, a partial-scope agreement on "Co-operation and Trade in the fields of Culture, Education, and Science" was signed by Argentina, Brazil, Colombia, Mexico, Peru, Uruguay and Venezuela under Article 14 of the Treaty. The signatory countries agreed to the free movement of cultural, educational and scientific material, works of art, collectors' pieces and antiques.

(b) Andean Group

81. In 1969, Bolivia, Colombia, Chile, Ecuador and Peru signed the Cartagena Agreement establishing the Andean group. Venezuela became a member in 1973, while Chile withdrew from the Group in 1976.

82. Originally, the Andean integration model intended to establish common customs regulations, the harmonization of economic policies and the co-ordination of national plans. Member countries decided to amend the Cartagena Agreement by the "Modifying Protocol of Quito" adopted in March 1987.

83. According to the new text, the objectives of the Agreement are to promote harmonic and balanced development, in fair conditions, in the member countries by means of integration and economic and social cooperation, to accelerate growth and the expansion of job opportunities, and to facilitate participation in the regional integration process (Article 1 of the Modifying Protocol).
84. Article 3 of the Protocol enumerates the mechanisms:

- gradual harmonization of economic and social policies and an approximation in the respective national legislations;
- joint programming, the intensification of the sub-regional industrialization process and the execution of industrial programmes;
- a trade liberalization programme;
- a common external tariff;
- programmes to accelerate the development of the agricultural and agro-industrial sectors;
- channelling of internal and external resources to the sub-region in order to promote the financing of investments in integration projects;
- infrastructural integration; and
- preferential treatment for Bolivia and Ecuador.

Decision 220 attached to the Quito Protocol gives member States greater autonomy in defining conditions for direct foreign investment and has led to a marked relaxation of rules for investment in the Andean Group. The new investment regulations applied in Colombia are described in Chapter III.

85. In 1987, exports from Colombia accounted for 43 per cent of overall intra-Andean Group exports. As for imports, Colombia's share in intra-Andean Group trade fell from 58.2 per cent in 1984 to 24.1 per cent in 1987, largely reflecting import substitution in petroleum.

86. Before the signing of the Modifying Protocol, in April 1985 Colombia concluded bilateral agreements with Ecuador, Peru and Venezuela; these agreements expired in August 1987 (Ecuador and Venezuela) and February 1988 (Peru), respectively. In 1986, almost 38 per cent of Colombia's intra-Andean Group imports were made under these bilateral agreements.

(c) Global System of Trade Preferences between Developing Countries (GSTP)

87. Colombia assisted in the establishment of the Global System of Trade Preferences between 77 Developing Countries in 1988. In this context, Colombia has granted a preferential margin of 30 per cent of the applied rate for coriander seeds; crude olive oil; purified olive oil; phosphoric anhydride; orthophosphoric acid and other acids. The ratification of the Agreement is pending in the Colombian Congress.
III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

(1) Exchange Rate and Foreign Exchange Allocation

88. The nominal exchange rate of the Colombian peso is adjusted daily by the authorities under a "crawling peg" system, linked to a basket of foreign currencies. Adjustments take into account the movements of prices in Colombia relative to those in its major trading partners (Table III.1); the level of Colombia's foreign exchange reserves; and Colombia's overall balance-of-payments performance.

89. Buying and selling rates are quoted daily for the US dollar, the intervention currency, as well as for certain other currencies. These daily quotations are based on the rates for the US dollar in foreign markets. All exchange transactions are effected through Colombia's Central Bank, the Banco de la República, or through authorized commercial banks.

90. There are number of taxes or tax exemptions which, in the view of the IMF, lead in practice to differential exchange rates for different commodities, notably a 6.5 per cent tax on coffee export proceeds; tax reimbursement certificates (CERT) granted at five different percentage rates for most export proceeds; the imposition of a remittance tax at two different rates on certain service payments (a 20 per cent tax on profit remittances by branches of foreign companies and a 12 per cent tax on other specific profit and income remittance abroad); and an 85 per cent advance exchange licence deposit for import payments (Chapter IV).

91. In the view of the Colombian authorities, there is only one exchange rate in place. In particular, the authorities see the exchange licence deposit for import payments as a monetary instrument rather than a method of exchange control.

92. All foreign exchange receipts by exporters must be surrendered to the Central Bank except for the export proceeds of ECOPETROL, the State oil enterprise, and part of the export earnings of State enterprises on minerals which may be retained in foreign exchange. Exporters have the choice of either immediate conversion of export proceeds into Colombian pesos or acquisition of exchange certificates which can then be used in payments for imports of merchandise or invisibles. Accounts in foreign

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10Austrian schillings, Belgian francs, Canadian dollars, Danish kroner, Deutschemark, French francs, Italian lire, Japanese yen, Netherlands guilders, Pounds sterling, Spanish pesetas (selling rate), Swedish krona, and Swiss francs.

11See IMF, op. cit.
currency may be held by insurance companies, export firms, transportation companies, and other specified entities, upon prior authorization of the Central Bank.

93. Foreign exchange for payments must be purchased through the Central Bank (Banco de la República) or the commercial banks, with an approved exchange licence. A deposit (consignación) of 85 per cent of the value of goods imported (95 per cent before May 1989) is required at least 20 days before an application for an exchange licence.

94. The Monetary Board (Junta Monetaria) establishes an annual foreign exchange budget. Within that budget, the amounts necessary to cover the obligations of the Central Bank and to service the external debt of the public agencies are set aside on a priority basis. Remaining foreign exchange available for imports is allocated by the Foreign Trade Council in the following order: raw materials and spare parts; imports for the "El Cerrejón" coal project; public sector imports of agricultural products; fuel imports; capital goods imports for export industries; and other imports.

95. The annual foreign exchange budget was increased from US$3.3 billion in 1985 to US$5.7 billion in 1989. It is allocated on a monthly basis. In 1989, the ratios for the distribution of the foreign exchange budget were 40 per cent for the free import list and 60 per cent for prior licensing items (Table III.2).

96. All registered imports are classified either as reimbursable or non-reimbursable. If an import is reimbursable, an importer having a licence is assured of foreign exchange from the Central Bank. If it is not, he must supply foreign exchange from his own sources. In practice, "non-reimbursable" imports are mainly those entering under aid grants and goods imported as part of a direct investment.

97. Table III.3 shows the distribution of imports by foreign exchange régime. Reimbursable imports increased from US$3,723 million in 1985 to US$6,347 million in 1989. Their share in total Colombian imports rose from 79 per cent to 95 per cent.

98. Settlements between LAIA member countries are made through accounts maintained within the framework of the multilateral clearing system of the Latin American Integration Association (Chapter II). There are also reciprocal credit agreements with China, Cuba, the Dominican Republic, Spain, Yugoslavia, the Soviet Union and member countries of the Central American Common Market (Appendix Table AIV.2). A bilateral payments agreement persists with Hungary. A similar agreement with Poland was suspended in November 1989.

99. The Central Bank is the only agency entitled to purchase, sell, hold, import, or export gold (except gold coins for numismatic purposes). Imports of non-monetary gold are rare. The Central Bank purchases locally-produced gold at the average price prevailing in the London, Zurich and New York markets on the day preceding the domestic gold purchase, plus
a charge of 3 per cent. It levies a tax of 2 per cent ad valorem on the total payment received by the miner. Domestic gold sales for industrial use are also made by the Central Bank.

(2) Foreign Investment

100. Before June 1987, foreign investment was governed by the Andean Pact Decision 24. Foreign companies were required to become national or "mixed" enterprises if they wished to exploit the wider Andean market. Limits were set on the remittance of profits, dividends, and capital. Foreign investment was banned from various sectors.12

101. In June 1987, the Andean Group agreed to rewrite the terms for foreign investment in a new Decision 220. As a result, member countries have greater autonomy in designing their own foreign investment policy and regulations governing foreign investment.

102. Currently, Colombia's foreign investment regulations are governed by Decree No. 1265 of July 1987, which is consistent with the provisions of Decision 220. The Decree brought about several important changes, including the abolition of the requirement to form mixed companies, except for companies seeking to benefit from the Andean Group joint tariff régime; authorization of 100 per cent foreign-owned companies; the right of nationals to sell equity to foreigners; an obligation on the Colombian Planning Office to respond to applications for foreign investment within 45 days, failing this deadline the applications are automatically approved; and authorization of payment of royalties to patent holders for new technology. Furthermore, foreign enterprises now have access to all domestic credit facilities, except for long-term credit not linked to multilateral financial institutions. Foreign enterprises also have access to government export promotion mechanisms under the same conditions given to domestic or mixed enterprises.

103. Profits of up to 25 per cent of the value of any direct foreign investment may be transferred abroad annually. In the case of the mining sector, the allowable transfer rate is the New York Prime Rate plus 25 points.

12 Public services, insurance companies, commercial banks and other financial enterprises, domestic transport companies, all types of media and domestic marketing companies.

13 Under the provisions of the Cartagena Agreement, foreign investment that becomes 51 per cent Colombian-owned by the thirtieth year after its registration, is entitled to these benefits. Member countries of the Andean group are treated as Colombian investors for purposes of fulfilling the ownership requirement.
104. Several Colombian government entities are involved in the approval, registration and control of foreign investment. They include:

- The National Planning Department (Departamento Nacional de Planeación). Its approval is necessary for most investments. Its decisions are based on policies set by the National Council of Economic and Social Policy (CONPES). Factors considered in granting an authorization include effects on employment and the balance of payments, effects on local industries, and possible associations with domestic investors.

- The Central Bank. Through its Exchange Office, the Bank acts in conformity with resolutions of the Monetary Board and registers and controls the movements of foreign currency related to foreign investments.

- The Ministry of Mines and Energy. Its approval is required for investments in mining activities and in enterprises engaged in the processing of minerals and transportation and distribution of hydrocarbons.

105. Foreign direct investment is still prohibited in certain sectors, including public services, television, film distribution and showing, domestic passenger transport and residential construction.

106. In early 1988, the tax on profits and dividends paid by companies, whether domestic or foreign owned, was reduced from 30 to 25 per cent. Dividends reinvested in Colombia were exempted from taxation.

107. During 1989, there was a sharp increase in foreign investment. The amount approved reached US$475 million in 1989, compared with US$190 million in 1988 (Table III.4).

(3) Exchange Rate Movements and Trade Performance

108. In 1984, the Colombian peso was devalued in nominal terms by 29 per cent. At the same time, the Government announced that it would use a crawling peg system to maintain the real exchange rate at the level of 1975, the year in which the exchange parity was deemed to have properly reflected the country's economic realities. This real exchange rate policy was viewed as essential to facilitate the gradual reduction of foreign exchange and trade restrictions and controls with the aim of improving the competitiveness of the economy (GATT document BOP/256).

109. The Government reached the real exchange rate target by the end of 1985, after having devalued the peso by another 51 per cent in nominal terms, representing a devaluation of about 29 per cent in real terms

14 For the composition of CONPES, see Chapter II.
(Table III.5). Since then, steady daily adjustments under the crawling peg system have aimed to keep the real exchange at its 1985 level (GATT document BOP/290).

110. This exchange rate policy contributed to the growth of non-traditional exports at an annual average rate of nearly 20 per cent between 1987 and 1989. These exports include bananas, cut flowers, petroleum, coal, nickel and a variety of light manufactures (textiles, clothing, food and beverages, graphic arts, and chemicals). In turn, the growth of non-traditional exports more than compensated the effect of the fall in coffee export receipts caused by the sharp decline of coffee prices.
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

111. Since 1984, Colombia has been gradually opening its foreign trade régime through phasing out most of the import prohibitions and reducing the scope of import licensing introduced for balance-of-payments purposes in 1983, as well as rationalizing its tariff structure. This trend has been confirmed by the new liberalization programme announced in March 1990 aimed at continuing the process of modernization of the Colombian economy.

112. Between early 1984 and 1989, the scope of import prohibitions fell markedly from over 16 per cent of all tariff positions to one per cent, or 54 items, mainly food items. This list of prohibited items remains untouched by the new programme.

113. Prior import licensing has been a widely-used trade policy measure. However, between 1984 and 1989, the scope of prior import licensing was reduced from 93 to 60 per cent of all tariff lines. Moreover, according to the Colombian authorities (INCOMEX), the licensing system was applied in a much more flexible manner and import licences were granted virtually automatically for some of the 3,090 tariff positions still subject to prior licensing.

114. Under the new programme, introduced in March 1990, some products - mainly those for which licences had been granted virtually automatically - have been transferred from the prior-licensing list to the free list. As a result, the share of tariff items on the prior licensing list has been further reduced to 43.3 per cent, and items on the free list now account for 55.6 per cent of all tariff lines. The remaining items under licensing are reclassified according to four categories, notably items under (i) a tariff survey scheme; (ii) "prior-free" licensing; (iii) prior licensing under a quota scheme; and (iv) "prior-prior" licensing. Details regarding these concepts are given below.

115. The evolution of tariffs also illustrates the gradual opening of the Colombian economy. The simple average rate for all products decreased to 26 per cent in 1989. The tariff was restructured with a view to reducing rates and compressing ranges.

116. Nevertheless, the tariff range remains considerable, from 200 per cent for motor vehicles to duty-free for paper and paperboard, printed matter and works of art and collectors' pieces. Tariff escalation is present in virtually all product categories. Tariffs and import licensing have been combined in a way in which import licensing often appears to be the binding constraint. Since the licensing system generally favours the import of raw materials and capital goods, escalation effects remain.

117. For a few products, trade within the framework of the Andean Pact agreements provide for tariff quotas.
118. Almost all imports are affected by a 16 per cent surcharge, which was 18 per cent until March 1990. In addition, for some products, there are so-called promotion fees on imports or exports. Also, for agricultural products, such as cereals and fruit and vegetable juices, there is a further 15 per cent charge on imports for retail sale.

119. Under the new programme tariffs remain unchanged for 4,064 items. They have been reduced for 133 items and increased for 202 items. For the remaining 744 items the tariff level may be changed, depending on the results of tariff surveys. The objective of the new programme is to reduce, in five years, the simple average tariff rate, including the import surcharge, to 25 per cent.

120. Import quotas are maintained on some agricultural products, principally wheat, oilseeds, barley and malt.

121. Other measures affecting imports are sanitary and phytosanitary regulations for a broad cross section of mainly agricultural products, administered through a system of prior approval. There are certain provisions for marking and labelling. Technical standards apply in some areas. State-trading enterprises manage imports of certain agricultural products, petroleum and petroleum products. Government procurement regulations give preference to local suppliers.

122. Some measures to control exports are in place, such as prior approvals for agricultural products. Moreover, coffee exports are regulated through a variety of measures such as minimum surrender prices and an export tax.

123. Measures to promote exports include a tax reimbursement certificate (CERT) for certain non-traditional exports, special systems (Vallejo Plan and Import-Export system), and financial credit provided by the Export Promotion Fund (PROEXPO).

124. Half of all Colombian imports and half of coffee exports transported by sea are required to be shipped by Colombian vessels. Under the new trade measures, this requirement has been softened in the case of coffee exports.

(2) Measures Directly Affecting Imports

(i) Registration

125. All imports into Colombia, other than those classified as "minor imports" with an f.o.b. value of less than US$500, are subject to registration with INCOMEX. Urgently needed spare parts not exceeding US$10,000 are also classified as minor imports and are not subject to registration. All import registrations by public sector agencies are screened by INCOMEX to determine whether local substitutes are available.
126. In January 1990, the charge for an import registration form was Col$8,000 approximately equivalent to US$18. The delay for an import registration was about one day for a product on the free list and, on average, between five and 10 days for a product on the Prior Licensing list.

127. All imports for which foreign exchange is required (reimbursable imports) are subject to an advance exchange licence deposit (consignación), at a rate of 85 per cent of the value of the exchange licence. The deposit has to be lodged at the official rate for exchange certificates at least 20 days prior to applying for an exchange licence.

(ii) Tariffs

128. The tariff structure of Colombia is based on the Customs Cooperation Council Nomenclature (CCCN), adapted to conform to the common tariff nomenclature of the Andean Group (NABANDINA). The first four digits correspond to the CCCN and the last four to the NABANDINA. In October 1989, the Colombian tariff schedule comprised 5,142 items. For trade with Latin American Integration Association (LAIA) member countries, Colombia uses the LAIA tariff nomenclature, which is also consistent with the CCCN.

129. Import duties are generally levied ad valorem on the c.i.f. value of imports. Certain cinematographic products are subject to specific duties.

130. Tables IV.1 to IV.3 show the distribution of tariffs in 1988. The rates ranged from 0 to 200 per cent, in about 25 steps. The rates of 100 and 200 per cent are assigned to motor vehicles. Forty-five per cent of the tariff items face an import duty of less than 20 per cent; 15 per cent of the items have an import duty of more than 45 per cent.

(a) Average tariff levels

131. Tariff reforms introduced since 1985 were designed to compress tariff ranges and reduce average levels. This is reflected in the development of average rates and standard deviations of the tariffs between 1984 and 1988 (Table IV.4). Both the simple and the weighted average rates were halved between 1984 and 1988. The weighted average rate was consistently below the simple average rate, indicating the progressively greater restriction of imports as tariff rates increase.

15 Tables IV.2 and IV.3 also show the share of duty-free items in all tariff lines or in Colombia's merchandise import value. Because of the impact of tariffs on trade flows, as well as other measures restricting imports, this share cannot be taken to assess the openness of the Colombian economy. For example, at the limit, with prohibitive tariffs, duty-free imports would account for 100 per cent of total imports.
132. In 1988, Colombia's simple average ad valorem tariff across all products was an estimated 27.3 per cent and the import-weighted average was 21.5 per cent. Tariff averages by product category ranged between 0 and 62.7 per cent (Table IV.1).

133. In 21 out of the 34 major sectors included in the GATT Tariff Study Format, weighted averages are lower than simple averages. Excluding firearms imports, the largest difference is evident for tobacco, with a simple average tariff of 38.3 per cent and an import-weighted average of 16 per cent.

134. Changes in tariff levels have been introduced under the March 1990 programme. For 133 items, tariffs are reduced. Tariff increases apply for 202 items. For 744 items, tariffs will be determined by a "survey mechanism", under which potential importers will propose the maximum rate they are able to pay.

(b) Tariff bindings

135. When acceding to GATT, Colombia bound 36 tariff items, representing 0.7 per cent of the total number of tariff lines in 1989. The value of imports entering Colombia at bound rates in 1989 was US$278 million, or 5.6 per cent of total merchandise imports, up on a steady path from US$179 million in 1985.

136. As Table IV.5 shows, 28 per cent of the bound items are organic chemicals, 17 per cent machinery and mechanical appliances and 11 per cent handtools. This table also presents the import licensing régime and the value of imports of the bound items in 1989. More than 60 per cent of the bound items are in the Free list. For three items, dried peas, lentils and fresh apples, duties higher than bound rates are applied to imports from non-contracting parties to the GATT.

(c) Tariff preferences and exemptions

137. Colombia extends three types of tariff preferences. One is the preference granted to Andean Group member countries, under which many imports from these countries enter Colombia duty-free. Second, Colombia extends tariff preferences under partial-scope or regional-scope agreements between Latin American Integration Association (LAIA) countries. The third type of tariff preference is granted through concessions negotiated under the Global System of Trade Preferences (GSTP) between developing countries, established in Belgrade in April 1988.  

16 These figures exclude imports coming from non-contracting parties to GATT, in particular, the Soviet Union, the German Democratic Republic, China, Taiwan and Panama.

17 As noted above, the GSTP must still be approved by the Colombian Congress before it can be applied. Under the GSTP, Colombia intends to (Footnote Continued)
138. Tariffs and other charges are reduced by an extensive system of exemptions. These may cover the basic tariff, the 16 per cent import surcharge, the sales tax or any combination of the three. Exemptions are granted to imports of goods under the Vallejo Plan as well as in certain commodity-specific and importer-specific cases.

(d) Tariff escalation

139. Calculations for 1988 average tariffs for agriculture and industry by stage of processing show substantial tariff escalation (Tables IV.6 and IV.7). According to these estimates, tariff escalation was steeper for agricultural products than for industrial products. The simple average tariff for processed agricultural products was twice the simple average tariff for primary agricultural products.

140. Tariff escalation is also evident in estimates of weighted average tariffs in the two sectors. However, due to weighting, the average tariff for semi-processed agricultural products was lower than that for unprocessed products.

141. The tariff exemptions mentioned above are generally granted to imported inputs for domestic production. Therefore, many of these exemptions add to the extent of tariff escalation.

(e) Valuation

142. Colombia is an observer to the Agreement on the Implementation of Article VII of the General Agreement on Tariffs and Trade (the Customs Valuation Code). In calculating the base of dutiable value, Colombia adheres to the concept of "normal price" as set forth in the "Brussels Definition of Value" (BDV), and explanatory notes thereto, of the Customs Co-operation Council. The normal price is taken to be the price that would exist under conditions of free competition between independent buyers and

(Footnote Continued)
grant a tariff preference margin of 30 per cent of the normal tariff rate for coriander seeds, crude olive oil, refined or purified olive oil, phosphoric anhydride, orthophosphoric acid and other acids.

18Products for which exemptions may be granted include machinery, technical equipment, parts, and accessories imported by mining companies, to be used for the exploration and exploitation of mines; machinery and equipment imported for oil exploration, construction of certain pipelines and expansion of petroleum refinery projects (subject to prior approval by the Ministry of Mines and Energy); machinery for the fertilizer industry; donations to scientific and educational institutions; capital goods for fisheries; paper for books and publishers; imports to the free ports of San Andres and Providencia; and several items imported into the Amazon region and the free-trade zones. For details on the Vallejo Plan, see the Section "Measures Directly Affecting Exports" below.
sellers at the time and place of customs valuation. Exceptions to the foregoing valuation method are that customs may establish official prices.

(f) Maximum tariff

143. Colombia's tariff regulations provide for the possibility of imposing a so-called "maximum tariff" in certain circumstances. This tariff can be levied on goods originating in, or coming from, countries applying to Colombia a treatment less favourable than that which they apply to other countries or prejudicial to the vital interests of the nation. The imposition of a maximum tariff must be agreed by the Ministers of Foreign Affairs and Finance.

144. The maximum tariff can take the following form:

(a) in the case of dutiable goods, a surtax equal to the duty appearing in the general tariff, with a minimum of 30 per cent ad valorem;

(b) in the case of goods free of duty under the general tariff, an import duty of 30 per cent ad valorem.

145. In practice, Colombia has never applied the maximum tariff.

(iii) Levies and other charges

146. In 1986, four customs surcharges and indirect taxes were combined to form a single import surcharge of 18 per cent. The previous surcharges were the Export Promotion Fund (PROEXPO) of 5 per cent, a temporary charge of 8 per cent, a 3 per cent stamp tax, and a 2 per cent surcharge for consular services. With the new programme introduced in 1990, the surcharge tax was reduced to 16 per cent. A further reduction to 14.5 per cent is envisaged for 1992.

147. Exceptions to this additional tax include reduced rates of 10 per cent for such items as literary and scientific prizes and awards, paper for scientific and cultural books, certain capital goods; 8.5 per cent for GATT bound items; and 5 per cent for imports of

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19 The normal price is the price applied, under free competition, to foreign identical or similar products. To determine a normal price of a product, the authorities take into account the sales price, under free competition conditions, of a foreign product which has identical or similar characteristics. The time, quantity and commercial level have to be the same. If from the analyses, various prices resulted, then the average of these has to be considered. Official prices are set when the Customs Directorate believes that there is under-invoicing or when technical considerations require it, such as in the case of used cars.
fertilizers or their ingredients, provided that these are done through public agencies or fertilizer-producing firms. Imports under the Vallejo Plan, imports into the free ports of San Andres and Providencia, food imports by the Agricultural Marketing Institute (IDEMA) and foreign missions are entirely exempt from the customs surcharge.

148. A sales tax at rates from 4 to 35 per cent is applied to a range of products. The rates are the same whether goods are produced in Colombia or imported. The only exception is for wine and vermouths, which bear a 10 per cent sales tax when originating in Colombia or member countries of the Latin American Integration Association (LAIA), but 35 per cent otherwise. In 1988, 26 per cent of tariff items were free from sales tax, 72 per cent were subject to a sales tax of 10 per cent, 1 per cent to a tax of 35 per cent (mostly alcoholic beverages).

(iv) Minimum prices

149. Minimum f.o.b. import prices were imposed on fish oils and selected fixed vegetable oils. According to official sources, these minimum import prices were eliminated in 1989. However, the new programme provides for the establishment of a "System of Price Information", in which minimum reference prices will be used in order to avoid illegal trade practices such as smuggling. Prices of motor vehicles have to be certified by the Chamber of Commerce of the country of origin and reconfirmed by a consular visa.

(v) Anti-dumping and countervailing duty actions

150. Colombia has observer status in both the Committee on Anti-Dumping and the Committee on Subsidies and Countervailing Measures. Colombian companies sometimes allege "dumping", but there is no existing Colombian law to deal with the prevention of this practice. However, Law 48 of December 1983 authorises the Government to issue new regulations dealing with "unfair trade practices". Under the new programme announced in March 1990, the Colombian Government has proposed legislation covering unfair trade practices such as dumping and subsidies.

(vi) Rules of origin

151. A certificate of origin for imports coming from LAIA or the Andean Group countries is required to benefit from tariff preferences. General LAIA guidelines are used to determine whether a product is of sub-regional origin in order to qualify for these preferences. Generally, a product is considered of sub-regional origin if 50 per cent or more of the f.a.s. value of the finished product is of sub-regional origin.

20 As a developing country, Colombia is more concerned about the rules of origin that its products have to satisfy to benefit from the GSP scheme (Footnote Continued)
(vii) **Import prohibitions**

152. In 1984, Colombia prohibited the importation of items representing 16.5 per cent of all tariff lines. The list of prohibited goods included products considered to be luxury goods, products which could be dispensed with temporarily, or products produced domestically or where current stocks could supply internal demand.

153. Currently, 54 items (one per cent of the total) remain on the prohibited list. No change has been made to this régime in the new trade programme but the Government is considering the transfer of some products to the prior licence régime. The items on the prohibited list may, under the regulations of the regional agreements, be imported from Andean Group members or within LAIA partial-scope Agreements. In these cases, the corresponding items are treated as if they were on the prior licensing régime. Prohibited items may be also imported into two free ports which exist in Colombia (San Andres and Providencia Islands).

(viii) **Import licensing**

154. Colombia has observer status to the GATT Agreement on Import Licensing Procedures. Until February 1990, Colombia's imports were subject to the following régimes:

- (a) freely importable goods, requiring only registration with the Colombian Institute of Foreign Trade (INCOMEX);
- (b) goods subject to prior approval, requiring an import licence, granted at the discretion of INCOMEX following guidelines laid down by the Foreign Trade Council; and
- (c) goods included in the prohibited import list, which may only be imported under special circumstances.

The Foreign Trade Council (Consejo Directivo de Comercio Exterior) decides whether a product should be placed on the Free or the Prior Import Licence list. The Foreign Trade Institute (INCOMEX) Board of Imports approves or denies all import licence applications.

(Footnote Continued)

in the industrialized countries. INCOMEX is in charge of granting a certificate of origin for Colombian products.

21 These comprise crustaceans and molluscs, meat and fish preparations, sugar confectionery, chocolate and other food preparations containing cocoa, pastry, biscuits, cakes, soups, spirits, selected tobacco products and pyrotechnic articles. See GATT document BOP/290.
155. The free-import régime covered different products, depending on the trading partners involved. A free list was applicable to all countries. Additional items were given free treatment, when imported from individual member countries of the Latin American Integration Association (LAIA). Further special lists were applicable to less-developed member countries of the LAIA and to members of the Andean Group.

156. Import licences are generally valid for six months. However, there are important exceptions: the validity is three months for imports of live animals, vegetable products, animal oils and fats, and products from the food industry, and twelve months for imports of capital goods. Import licences can be extended for two successive three-month periods.

157. In 1984, the number of items under prior licensing was 4,160, or 83 per cent of all tariff lines. As trade deficits began to decline in 1985, Colombia began to liberalize its import licensing régime and, in October 1989, 3,090 items, or 60 per cent of the total, remained under prior licensing (Table IV.8). INCOMEX has also streamlined the procedures for granting licences. Most decisions are made within two weeks, whereas they previously required up to six months.

158. Under the new programme announced in March 1990, the prior licensing régime was modified by transferring 861 items, mainly inputs and capital goods, to the free list. Furthermore, 744 items were transferred to a special category in which tariff surveys will determine tariff levels and imports will be restrained by a fixed foreign exchange allocation, set at US$150 million for 1990. This special category is composed mainly of consumer goods and special inputs such as textiles and tools. The remaining 1,485 items are classified in three groups: 781 items in a "prior-free" list for which import licence will be granted automatically; 350 items in a "prior-quota" list for which a foreign exchange quota is fixed; and 354 items in a "prior-prior" list for which licences will be granted following the same criteria as before. Products in the last group are mainly agricultural products, and some chemical and pharmaceutical products. According to the programme, during the next two years, tariffs will replace the protection given to the special "tariff survey" category as all products in this group will be transferred to the free list. The objective of the programme for the next two years is therefore to reduce the licensing régime to 28.9 per cent of the total tariff items or 1,485 items.

159. In 1987, INCOMEX received almost 113,000 applications for licences, approving 74 per cent and rejecting 26 per cent. Total applications represented US$7 billion, and the licences granted totalled US$5.5 billion. In 1989, the number of applications was almost 90,000, reflecting the lower number of tariff items subject to licensing. The percentage of approvals increased to 93 per cent (Table IV.9).
160. In making decisions on import licensing applications, the INCOMEX Board of Imports refers to criteria laid down in Decree-Law 444. INCOMEX assigns first priority to inputs and consumers' necessities like medicine and food not produced in Colombia and second priority to capital goods.

161. The statistics in Table IV.10 confirm the relevance of these priorities. Since 1984, the share of raw materials and capital goods in total import licences granted has risen from 77 to 86 per cent. The steady decline in licences granted for combustibles reflects the substitution of domestic for foreign petroleum and coal.

162. Raw materials, industrial inputs, capital goods and replacements may be totally or partially exempted from prior licensing requirement if imported for use in the production of goods intended for export. The special import-export systems (so-called Vallejo Plan and SIEX) facilitate imports of such goods. Moreover, prior licensing is not required with respect to certain goods if imported from LAIA member countries under bilateral preferential agreements (Resolution No. 31 of May 1983, INCOMEX).

163. By stage of processing, in 1988 freely-importable items were mainly semi-processed inputs (56 per cent of tariff positions) and capital equipment (18 per cent of tariff positions; Table IV.7). On the other hand, the most restricted groups were finished goods and food and agricultural products. Average tariffs were higher for prior licensing import goods than for freely-importable goods. The difference is greater for finished goods, transport equipment, pharmaceuticals and other intermediates than for raw materials or semi-processed inputs.

164. Table IV.11 contains data on actual imports by economic use, from 1982 to 1988. These figures differ from the total value of licences because not all imported items require licences and not all import licences result in imports. In 1982, actual imports were 90 per cent of licences.

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22 These criteria include the importance of the product to satisfy consumer needs and to increase the level of employment; the contribution to the development and diversification of exports and the effect on the balance of payments; the net foreign exchange savings obtained by import substitution; the availability of national production and the necessity of protecting the consumer against price and quality abuse; when imported products are produced in the country, the need for timely imports in especially depressed regions; for goods not produced domestically, their degree of scarcity, grade of necessity and their retail price relative to the cost of importation; the importers' inventories compared to the sales; and the value of licences for the same product requested by the importer in previous periods.

23 Some observers have noted that consumer and capital goods' imports have been sensitive to the size of the foreign exchange budget, increasing as it increased and declining as it contracted.
This ratio climbed to 99 per cent in 1983, and in 1984 actual imports exceeded licences by 13 per cent. During the period 1985-88, the ratio fluctuated between 77 per cent and 88 per cent. The composition of actual imports more or less followed the composition of licences.

(ix) Import quotas

165. Imports of wheat, oilseeds, barley and malt are subject to import quotas established by the Ministry of Agriculture. According to the Colombian authorities, the import quotas were established in response to distortions in the international markets and on balance-of-payments considerations. The import quotas are set globally and reviewed annually. 24

(x) Sanitary and phytosanitary regulations and special requirements

166. Phytosanitary and sanitary certificates are required for imports of live animals, animal products and vegetable products. Consular certification is also required. Even if sanitary controls are carried out in the exporting countries, the Colombian Agricultural Institute (ICA) has to check sanitary conditions of these products at its offices. Delays depend on the product, country of origin and volume.

167. Special authorization certificates ("visto bueno") from various Colombian ministries are required on imports of certain goods. The Colombian Agricultural Institute (ICA) issues certificates for cereals, oilseeds, animal and vegetable fats and oils, inorganic chemicals, organic chemicals, tanning and dyeing extracts, and albuminoidal substances. Imported manufacturers and distributors of fertilizers must be licensed by the Ministry of Agriculture (Decree No. 2022). Imports of mixed fertilizers, fertilizing materials, and soil dressings must be registered with the same Ministry, as must imports of raw hides and skins, articles of leather, furskins and artificial fur. Imports as well as exports of pharmaceutical products require registration by the Ministry of Health. 25

168. The Quality Control Laboratories of the Colombian Customs make chemical analyses for a wide range of goods to determine the correct tariff classification and rate of duty. 26

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24 In 1989, the import quota for these products was set at 1.1 million tonnes and it is expected to decline to 0.9 million tonnes this year.

25 A major concern for Colombian authorities is the sanitary and phytosanitary regulations in foreign markets, such as the United States, the European Community and Japan.

26 Among the goods requiring this analysis are medicaments, surface

(Footnote Continued)
(xi) Technical standards

169. The Colombian Institute of Foreign Trade (INCOMEX) does not require specific technical standards for any product for which an import licence or import registration form is being submitted. Exceptions are specifications established by the Colombian Institute of Technical Standards (ICONTEC) that apply to imports made by Colombian Government entities through international bids.

(xii) Marking and labelling

170. In general, neither INCOMEX nor the Customs Authorities require specific marks or labels for the approval of the import registration form. The two exceptions are food and pharmaceutical products. Marking and labelling requirements are the same for domestic and imported products.27 Specific minimum description requirements apply to some electrical and non-electrical machinery.

171. Under the new programme announced in early March 1990, INCOMEX and the Customs Authorities will require minimum descriptions in order to avoid smuggling practices.

(xiii) Government procurement

172. Purchases made and public works contracted by the Ministries or decentralized entities of the Government are regulated by Decree Law 222 of 1983. This statute applies to purchases made by the Government (Ministries and Administrative Departments), public entities such as the post office

(Footnote Continued)

active agents, metals, alloys, metallurgical products, chemical products, antibiotics, rubber, plastics, fungicides, herbicides, inorganic chemicals, petrol and its derivatives, food, fats, waxes and essential oils, pure organic chemicals, and paper.

27 The following information must be marked on the labels: (a) For food products, the specific name of the product, ingredients in order of predominance, name and address of the manufacturer, number of the official licence, and the serial or production number of the unit must be included. The contents of the product by metric measurements should also be included on the label. (b) For pharmaceutical products, the Ministry of Health’s Office of Drug Control and Narcotics determines which drugs will require prescriptions. The information that must be included on the labels of these products is whether they are for sale under some prescription (medical, dental or veterinary). The label must also contain the generic name, the commercial name, net weight or volume, licence number and lot control number. The date of expiration should be included for those products having limited shelf life. Advertising material and brochures for non-prescription drugs are subject to prior approval by the Office of Drug Control and Narcotics.
(ADPOSTAL) and radio and television broadcasting (INRAVISION), trading and industrial State enterprises, and companies having more than 90 per cent of State participation in the capital.

173. Under this statute, the state has assumed the power unilaterally to interpret, alter or cancel all public works and purchase contracts. The Government can unilaterally interpret public sector contracts to prevent disruptions in their implementation; change them unilaterally when it is in the public interest without changing the object of the contract or affecting the economic benefit granted to the contractor; or cancel them if the contracts are deemed detrimental to public interest.

174. On similar proposal conditions, official entities give preference to local goods and services, when the required goods or services include international competitive bidding. On international bids for government projects, foreign firms are required to make their proposals through local representatives.

175. Under Decree Law 222, a foreign contractor must associate with (or sub-contract) a Colombian firm for no less than 40 per cent of the contract's value. For comparison with local offers, foreign offers bear a minimum import duty of 25 per cent, even if the actual import duty is less than 25 per cent (Article 278 of Decree 222). For purposes of comparison, the value of proposed foreign goods must include the transport cost, insurance, import duties and all other costs that are normally associated with importation. National offers must be evaluated including all transport costs necessary for the product to be in the place of destiny. A distinction is also made considering the contract's value. For example, in public works, if the value is less than Col$20 million, bidding is not required; if it is between Col$20 million and Col$50 million private bidding is required (in private bidding, no public announcement is made but registered firms are asked to present proposals); and if the value of the contract is greater than Col$50 million, public bidding is required. In international bids, Colombia takes into account the situation of the bilateral trade balance with the respective country in order to seek trade reciprocity.

176. In the new trade policy programme, the Colombian Government has stated that reforms to the legislation on government procurement are to be considered.

(xiv) Countertrade and similar agreements

177. In 1986, Decree 1459 abolished all systems of special trade arrangements which were established in 1984 (barter, clearing trade and triangular trade). Countertrade agreements with Romania, Bulgaria and Poland were suspended in January 1987, September 1987 and November 1989, respectively.
178. In 1988, Israel signed an agreement to import, over a period of four years, two million tonnes of coal valued at US$100 million. In turn, Israel will export to Colombia aeroplanes and other products of the aeronautics industry valued at about US$250 million (GATT document L/6435).

179. Colombia has signed reciprocal credit agreements with 21 countries. However, in June 1989, the reciprocal credit agreements signed with five of these countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) were terminated.

(xv) **State-trading enterprises**

180. Imports of certain agricultural products, crude petroleum and petrol are carried out by official entities, the Agricultural Marketing Institute (IDEMA) and the Colombian Petroleum Enterprise (ECOPETROL). The main objectives of the Agricultural Marketing Institute (IDEMA) are to guarantee a normal supply of agricultural products to the domestic market and to regulate the domestic production by stabilizing prices. IDEMA keeps regulatory stocks equivalent to close to one month of domestic consumption, which are built either by buying domestic production or by importing from third countries, depending on the level of the national crop.

(xvi) **Free-trade zones**

181. Colombia has six commercial and industrial free trade zones (Barranquilla, Cartagena, Palmaseca, Cucuta, Santa Marta and Buenaventura). The regulations for free industrial and commercial trade zones generally permit raw materials, machinery, equipment, and other products to be imported free of duties and without obtaining a prior import licence. Importers can maintain stocks of merchandise in warehouses in the zones without paying duties or surtaxes until items are brought into the national customs territory. Companies established in a free-trade zone are granted complete freedom from exchange control and profit remittances. Manufacturers using the free zones for their activities are eligible for the benefits from Colombia's membership in the Andean Group.

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28 The countries are: Argentina, Bolivia, Brazil, Chile, China, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, the Soviet Union, Spain, Uruguay, Venezuela and Yugoslavia (Table AIV.2).

29 The main functions of IDEMA are to buy, sell and distribute certain agricultural products; to maintain adequate operating stocks; to import and export certain other products and intervene in the marketing of strategic agricultural commodities. One of IDEMA's main tools is the provision of support prices for wheat, barley, corn, sorghum, sesame, beans and rice. The purpose of the price support is to guarantee that domestic producers can recover production costs or realize a minimum level of income per unit of output. IDEMA's import policy seeks to equate prices of the imported products with the support prices plus distribution costs.
182. The share of free-zone production in total domestic production is only around 0.1 per cent. Currently, output of Barranquilla and Palmaseca (near Cali), combined, represents around 85 per cent of the total production of free-trade zones. Almost 70 per cent of production is clothing and 10 per cent leather manufacturing.

183. Legislation passed in 1985 (Law 109) places special emphasis on transforming the free-trade zones into export-processing zones (EPZ). Incentives include:

- exemption from all corporate income and capital taxes on manufacturing activities;
- exemption from remittance and income withholding taxes and interest on payments for technical services abroad;
- exemption from national, municipal and local taxes;
- elimination of ceilings on profit remittances and capital repatriation for free-zone users; and
- unrestricted foreign ownership of free-zone enterprises.

Since 1986, firms operating in free zones have been allowed to receive loans from local Colombian financial institutions.

184. Free ports are located on the San Andres and Providencia islands. Goods are exempt from import duties when the merchandise is sold in the port area, although a special consumption tax is charged.

185. The international free perimeter on the Amazon, established by joint agreement of Colombia and Peru for the benefit of the remote Amazon territories, extends free-entry privileges to raw materials and capital goods that will contribute to the development of this area. The Colombian port in this area, Leticia, operates as a free port.

(3) Measures Directly Affecting Exports

186. In Colombia, registration is necessary for all exports except samples and products in non-commercial quantities. When registering an export transaction, exporters have to provide INCOMEX with a personal or banking guarantee corresponding to 5 per cent of the registered amount of exports. Colombian exports fall into one of the following categories:

- Freely-exportable goods without special requirements. Normal procedures of exporter registration, export registration and guarantee provision apply.
- Goods subject to special conditions. They include agricultural products, fertilizers, vegetable and animal products, precious metals, arms and ammunition. To be registered by INCOMEX, these products require a prior approval (visto bueno) by the
appropriate government entities, such as the Ministry of Agriculture, Health, the National Institute for Renewable Natural Resources and the Environment (INDERENA). The main reasons for controlling exports of these products are to guarantee normal supply in the domestic market and to protect natural non-renewable resources.

- Goods subject to temporary export suspension. None currently exist.

- Goods subject to export prohibition. They include goods forming the artistic, historical and archaeological patrimony of Colombia.

187. All exchange proceeds from exports must be surrendered to the Central Bank, except for proceeds of the State oil company ECOPETROL and exports of minerals by State enterprises. Coffee export revenues must be surrendered within 20 days from the date of registration of the export; for other goods, the period is generally six months. However, longer terms are permitted for books, magazines, and other printed matter (18 months), for capital goods (two years), and for other goods that normally require more extended payment terms.

188. On surrendering export proceeds to the Central Bank, exporters of commodities other than coffee, raw cattle hides, or petroleum and petroleum products may receive tax reimbursement certificates (CERT - Certificados de Reembolso Tributario). The certificates credit a certain percentage of the total earnings surrendered. The rates applied depend on the product and the country of destination (Table AIV.1). The certificates are freely negotiable and are quoted on the stock exchange.

189. Minimum surrender prices for coffee, bananas and a few other exports are set from time to time by the Monetary Board. The intention is to defend an adequate price level for Colombian exports in foreign markets, and to prevent under-invoicing of exports.

190. Exports of coffee are subject to the following regulations:

- minimum surrender price (reintegro) after deduction of freight and insurance;

- a tax in foreign exchange at the rate of 6.5 per cent ad valorem

30 The tax revenue is shared: 3.2 percentage points are paid to the National Coffee Fund, 0.8 percentage points to the Departmental Committees of Coffee Growers, and the remainder provides revenue for the Treasury.
either surrender without payment (in the form of untreated coffee) of the equivalent of 35 per cent of the export volume of Excelso coffee (retención cafetera) or payment of the peso equivalent to the National Federation of Coffee Growers;

an additional tax of 6 per cent ad valorem (pasilla y ripio tax) paid either in kind or in pesos to the National Federation of Coffee Growers.

The domestic price for export-type coffee is fixed (expressed in pesos per "carga" of 125 kilogrammes).

191. Colombia's export incentives are designed to promote non-traditional exports, that is goods other than coffee and petroleum products. The instruments of export promotion policy were stated in Decree-Law 444 of 1967. Currently, export incentives include three major elements, notably the CERT indirect tax rebate scheme, the Vallejo Plan system, which provides exporters with access to duty-free imported inputs, and subsidized PROEXPO credit.

(i) The tax reimbursement certificate (CERT)

192. The tax reimbursement certificate (Certificado de Reembolso Tributario, CERT) is a mechanism to compensate exporters of all products other than coffee, raw cattle hides, or petroleum and petroleum products for indirect taxes paid. The certificate is a freely negotiable document issued by the Central Bank, and it may be used to pay national taxes on profits, sales or imports. The holder of the certificate can also use it as an income tax credit or exchange it on the stock market.

193. CERT was introduced by Law 48 of December 1983 to replace a previous tax credit certificate (Certificado de Abono Tributario, CAT, established by Decree Law 444) which had a similar purpose. The rate of CERT may be changed as required by the Export Promotion Fund (PROEXPO). Nevertheless, after having changed some rates five times between April 1984 and January 1987, PROEXPO has varied the rates no more than once a year since 1987. CERT may be given in favour of any non-traditional merchandise export.

194. CERT is paid on the f.o.b. value of exports for exporters not receiving duty-free imports under the Vallejo Plan system. For those who receive duty-free imports under the Vallejo Plan system, CERT is paid on the domestic value-added, calculated as the difference between the duty-free inputs and the f.o.b. value of exports. CERT payments were initially taxable, but are now tax-exempt.

195. CERT rates are not directly related to the indirect taxes paid. Initially, CERT levels favoured manufactured exports, with rates ranking from 1 per cent to 35 per cent. In 1987 and 1988, the levels and coverage of the CERT system were modified with a view to reducing the financial cost of the mechanism and the dispersion of the rates. The spread in CERT rates was reduced to 3-12 per cent in 1988 (Table IV.12). According to the March 1990 programme, CERT levels will be maintained stable during 1990.
196. CERT rates vary both among and within categories of products (Table AIV.1). CERT rates also vary by export destination. Some items shipped to Panama and Venezuela receive no CERT. Several items shipped to the United States or Puerto Rico receive either no CERT or at a rate lower than that for exports to the rest of the world (cut flowers, raw sugar). For certain textile and clothing exports destined for the United States or Puerto Rico, the CERT rates were maintained at levels established in Decree 3155 of October 1985 (6 and 9.6 per cent).

(ii) The Vallejo Plan System and the Import-Export System (SIEX)

197. Since the mid-1950s, and initially motivated by a desire to use excess industrial capacity, the import content of certain exports, mainly manufactured goods, has been exempted from import duties, prior deposits, consular fees, and the need to obtain prior import licences, subject to some stringent conditions. In 1959, the Vallejo Plan was introduced, allowing registered exporters to import inputs duty-free, import licences being granted without regard to the availability of domestically-produced substitutes.

198. The Vallejo Plan was broadened under Decree Law 444 of 1967 and subsequently amended in 1985 by Decree 631. Under present regulations, the benefits from the Vallejo Plan are obtained by establishing an export plan in a contract with the Colombian Foreign Trade Institute (INCOMEX). Exporters under the Vallejo Plan may import a variety of products free of prior deposit, licences, customs or consular fees.

199. For exporters, the Vallejo Plan system thus offers

- time savings: imports of raw materials and inputs are automatically approved avoiding administrative delays; similar treatment is granted to imports of capital goods and spare parts for the production of exportable goods;

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31 The items include saddlery, harnesses, handbags, toilet cases, briefcases, articles of wood, cotton tents, camping goods, wooden seats and footwear with outer soles of leather.

32 The items include raw materials and inputs for production of articles exclusively destined for exports; products which will subsequently be incorporated by another enterprise into export products; inputs for the production of articles which, if imported, would be exempt from customs duties, even when such production is not exclusively destined for exports; machinery and equipment destined to expand capacity, provided that all the additional output will be exported; and foreign-financed capital goods to expand capacity of exporting firms.
certainty: exporters under the Vallejo Plan system are sure that they will have access to imports of raw material, inputs or capital goods, even in difficult periods, given that this system does not depend on the foreign exchange budget fixed by the Monetary Board;

easier customs procedures and merchandise transport: Vallejo Plan firms are exempt from the requirement to use Colombian vessels for their imports ("Reserva de Carga"); and

cost reductions, mainly due to the possibility of importing duty-free raw materials and inputs.

Moreover, Vallejo Plan exporters may also benefit from the financial credit granted by PROEXPO, and may be eligible for CERT certificates calculated on the domestic value added of the exported products.

200. Under the adjustment programme of 1984-85, the Vallejo Plan was reformed in order to simplify procedures and facilitate approval of applications. Moreover, two other régimes were incorporated:

- the Vallejo-Junior Plan. Under this régime, exporters do not need to establish a formal export plan contract with INCOMEX, but are entitled, upon exporting, to import duty-free the same raw materials which were used in the exports;

- the Special Import-Export System called SIEX (Sistemas Especiales de Importación-Exportación). Under SIEX, exporters pay duties on their imported inputs and receive CERT benefits on the total value of the export rather than on the domestic value-added only.

SIEX was created by Decree 1208 in April 1985, as a new export promoting mechanism, complementary to the Vallejo Plan system. Through SIEX, exporters have an easier access to import registrations for raw materials and inputs that are destined to the production of exportable goods.

201. As mentioned above, the main difference between the Vallejo Plan and SIEX is that the former allows import duty exemptions and CERT payments to be calculated on the domestic value-added; the latter does not allow import duty exemption and the CERT is paid on the f.o.b. value of exports. If the additional value of CERT is lower than the import duties actually paid, it is beneficial for an exporter to use the Vallejo Plan system. Indeed, a document of the Central Bank, published in 1987, notes that SIEX was not extensively used because of the greater profitability of the Vallejo Plan.

202. Under the new programme, formalities for the use of the Vallejo Plan are to be streamlined.
(iii) The Export Promotion Fund (PROEXPO)

203. The Export Promotion Fund (Fondo de Promociôn de Exportaciones, PROEXPO) was established under Decree Law 444 of 1967. Its objective is to increase the external trade of Colombia and strengthen its trade balance and balance of payments.

204. PROEXPO is currently engaged in a wide range of activities, including the discount of credit given by exporters to their foreign buyers; issuing guarantee documents and operations linked to Colombian exports; financing export promotion activities; the promotion of export diversification studies; the provision of advance payments for freights, insurances and warehousing costs for export products; and intermediary services for export credits granted by international financial institutions.

205. PROEXPO also aims at promoting commercial activities abroad. For this purpose, PROEXPO provides information to different industrial sectors, technical assistance in foreign markets, quality control, assistance in packing, export transactions, transportation and documentation, as well as export credit.

206. Export credit from PROEXPO is administered by the Central Bank, which makes funds available directly or through financial institutions. Criteria used by PROEXPO in granting export credit include the contribution of the export activity to domestic employment; costs of production and exportation; the situation in foreign markets; the efficiency of transport and marketing; the relative importance of domestic inputs incorporated in the export products; the share of exports in total production; export growth of the firm applying for credit; and effects on income distribution.

207. PROEXPO offers the following types of financial credit:

(a) Preshipment credit to finance the working capital of firms producing or marketing export goods. This credit may cover up to 80 per cent of the half-yearly export reimbursement programme. Credit terms vary between six months and one year. The interest rate corresponds to the nominal DTF (fixed-term deposit rate), as determined weekly by the Central Bank.

33 Exceptions include 60 per cent for flowers; 90 per cent for vegetables and farm shrimp; and 100 per cent for exports done by international trading companies.

34 The interest rate is the higher of the DTF at the end of the quarter or: an annual rate of 22.5 per cent for flowers; an annual rate of 28.2 per cent for textiles and garments; an annual rate of 27 per cent for articles of leather.
(b) Postshipment credit to finance the credit granted by the exporter to his foreign buyers. This credit may cover 100 per cent of the credit granted by exporters. It has a one-year term for consumption goods and a five-year term for capital goods. The interest rate of postshipment credit is equal to the nominal DTF fixed weekly by the Central Bank, and payable at the end of each three-month period.

(c) Fixed investment credit to finance investment to be used in the production, quality control, preservation and marketing of exportable goods. The credit amount is fixed according to the share of exports in total sales of the project. It ranges between 15 per cent coverage of the fixed investment project, (if the share of exports in total sales is less than 10 per cent), to 90 per cent coverage (if the share of exports is over 50 per cent). Quality-control projects may receive 100 per cent cover. The credit term is five years. The interest rate depends on the size of the firm, the type of the project and the good to be exported.

(d) Other lines of credit aimed at financing the capitalization of exporting firms; technical assistance, quality management, design, packing and training programmes; export promotion of goods and services such as pre-investment studies, market studies, advertising, participation to international fairs; and exports of technical services.

Credits are not granted for exports of coffee, raw leather, petroleum and products thereof, precious and semi-precious stones, and gold.

(iv) Export controls

208. Article 46 of Decree Law No. 444 of 1967 establishes that the Foreign Trade Council can exercise prior verification of certain products. Export controls can be exercised

35 Exceptions are set for textiles and apparel exports to the United States and Puerto Rico for which the interest rate is given by the higher of 28.2 per cent annually or the DTF; and for exports of leather articles to the United States and Puerto Rico for which the interest rate is given by the higher of 27 per cent or the DTF.

36 For small firms and pilot projects, the interest rate is 18 per cent; for medium firms, it is 22 per cent and for large firms the nominal DTF. For exports of flowers, the interest rate is the higher of 25 per cent or the rate corresponding to the size of the firm; and for textiles and apparel exports the interest rate is the higher of 26.8 per cent or the rate corresponding to the size of the firm.
to defend foreign markets by guaranteeing quality and adequate supply of goods;

- to establish standards in respect of quality, packaging, marks and other requirements;

- to limit or prohibit the export of articles needed to ensure domestic supply; and

- to protect the flora, fauna and non-renewable natural resources.

209. Various Government entities, such as the Ministry of Agriculture, the Colombian Agricultural Institute (ICA), and the National Institute for Renewable Natural Resources and the Environment (INDERENA), must give prior approval for some products in the fields of agriculture and precious metals.

(4) Other Measures Affecting Production and Trade

210. The Industrial Development Institute (Instituto de Fomento Industrial, IFI) has been promoting Colombia’s industrial development since 1940. Its activities focus on industrial promotion (identifying, promoting, managing and participating in projects and industrial undertakings) and industrial credit (development financing offered to the productive sector). IFI is the largest financial institution in Colombia, accounting for more than 25 per cent of the total loan portfolio of the nation’s industrial development entities. It contributes to the creation of new enterprises and supports companies facing administrative or financial crises. As a finance corporation, IFI provides promotion credits under special terms and interest conditions. Criteria for granting credits include the creation of new industries, expansion of existing ventures, and export generation. IFI makes investments in sectors such as metalworking, chemicals, mining, agro-industry and fishing. It seeks partnership with both Colombian and foreign investors, stimulating development in those areas in which the private sector is not active. 38

37 IFI was created in 1940 as a state-owned corporation, subject to regulations governing industrial and trade organizations. In 1963, it was charged with the additional function of a financial corporation. In 1968, the Institute came under the jurisdiction of the Ministry of Economic Development.

38 The Industrial Development Institute participates in various companies in automobiles, metalworking, chemical, petro-chemical, mining, cement, fisheries and agro-industry. It also participated in Papelcol S.A. (pulp plant using sugar-cane bagasse and production of printing materials); Pestolu S.A. (production of fish and shrimp); Citricos de Colombia S.A. (Footnote Continued)
211. In its promotion efforts, IFI also finances pre-investment studies to help identify market conditions and resources needed for future enterprises. The Institute established promotional agencies in many areas of the country.

212. Development credit lines (credito de fomento) are offered by the Central Bank as rediscount lines to financial intermediaries. The volume of development credit increased from Col$14 billion in 1983 to Col$36 billion in 1988. The first sector benefiting from development credit was agriculture. Medium- and long-term credit has been provided at less-than-market interest rates in the past, but in recent years, rates have been made variable by linking them to the DTF rate.

213. In the agricultural sector, many government agencies cooperate to achieve the aim of Colombia's agricultural policy to increase food production. The Agricultural Bank (Caja Agraria) channels credit and essential inputs to small farmers. The Colombian Agricultural Institute (ICA) participates in the research and technology assistance area. Moreover, there is a price support scheme for several agricultural products, including rice, sorghum, maize, soya, kidney beans, barley, wheat and sesame (AG/FOR/REV/COL/1).

(Footnote Continued)
(cultivation, industrialization and marketing of citric products); Cementos Rio Claro S.A. (cement plant); and Químicos de Occidente (caustic soda production). Other projects cover shrimp production (in captivity); gold mining, etc.
V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Agriculture

214. Colombia's diverse climate and topography permit the production of a wide variety of crops, and agriculture has long been a mainstay of the economy. Agriculture accounted for close to 22 per cent of Colombia's gross domestic product in 1989. Agricultural products contribute about two-fifths of export revenue but account for only a small share of imports (Tables V.1 and V.2).

215. Agriculture has become increasingly diversified (Tables AV.1-3). While coffee continues to be the main crop and leading export, Colombia is also the world's second largest exporter of fresh flowers, and the third largest exporter of bananas. These two products represented 65 per cent of non-coffee agricultural exports in 1988. Significant amounts of rice, sugar, tobacco, grain, potatoes and cocoa are also produced.

216. In 1988, cereals represented 32 per cent of total agricultural imports, or 2 per cent of total imports of merchandise. Oilseeds, fats and oils are further important agricultural imports.

217. Government policies aimed at increasing agricultural productivity have led to the wider availability of credit and improved profitability of this sector. The agricultural sector is maintained by selective credit facilities and support prices for eight commodities. Twice a year, the Ministry of Agriculture establishes support prices to be paid by the State Agricultural Marketing Institute (IDEMA) for sesame, rice, beans, corn, sorghum, soybeans, wheat and barley. These are based on domestic production costs, developments in international prices, and the level of import restrictions. In 1986 and 1987, support prices were lower than domestic market prices and purchases by IDEMA were therefore very limited.

218. Until recently, IDEMA enjoyed a complete monopoly on the import of cereals, dry legumes, and oilseeds. Currently, only oilseeds remain in this list. However, imports of wheat and barley still have to be made through IDEMA, while other products need prior approval by IDEMA.

219. Importers of all agricultural inputs for the domestic industry must satisfy the "absorption quota" scheme fixed by the Ministries of Agriculture and Development. This local content scheme was established in 1988.

220. Official credit for the sector is channelled through the Caja Agraria and the Agricultural Financial Fund (Fondo Financiero Agropecuario, FFAP).

(i) Foodstuffs, live animals and meat (Tariff Categories 24 and 26)

221. Foodstuffs are a wide-ranging category, which includes fruits, vegetables, coffee, spices, cocoa, sugar, meat and other products (Table V.3). The main food products imported into Colombia are fruit, vegetables, milled goods and spices. Most fruit and vegetables come from
neighbouring Andean countries and hence benefit from preferential duty-free entry. Similarly, most cocoa beans are imported from Ecuador under preferential terms. Other foods are mainly imported from m.f.n. sources. This structure of imports is reflected in the differences between simple and weighted tariff averages. In 1988, the simple m.f.n. tariff average for this category was 40.4 per cent, while the weighted average was 24.6 per cent.

222. Prepared foodstuffs bear relatively high tariff rates. Examples include prepared or preserved fruit (56.3 per cent); prepared or preserved vegetables (47.5 per cent); coffee and tea extracts (50 per cent); chocolate and other preparations containing cocoa (60 per cent); and sugar confectionery (50 per cent). Imports of the last two sub-categories are prohibited.

223. Phytosanitary regulations, including prior approval by the Colombian Agricultural Institute (ICA), apply to imports of all foodstuffs.

(a) Coffee

224. Colombia participated actively in the successive International Coffee Agreements established in 1962, 1976 and 1983. These agreements between main producing and consuming countries established price guidelines and a system of export quotas for member countries, taking into consideration the demand in importing countries. The quotas are distributed among exporting countries based on past exports, stocks and other specific situations in each country. The last agreement expired on 30 September 1989, when the member countries failed to achieve a new agreement, leading to the collapse of the International Coffee Agreement.

225. Colombia is second only to Brazil in world coffee production. Coffee is still Colombia's most important foreign exchange earner, although its share in total exports has fallen from 63 per cent in 1986 to 34 per cent in 1988 and, after the collapse of the International Coffee Agreement, to 24 per cent in 1989.

226. Coffee policy is determined by the Government in collaboration with the National Federation of Coffee Growers, a private association which represents coffee producers and is responsible for marketing Colombia's coffee. Its activities include the enforcement of quality control, the provision of technical assistance and storage facilities, and the promotion of Colombian coffee sales abroad. The Federation is also entrusted with the management of the resources of the National Coffee Fund, which is the main recipient of revenue from coffee and channels a proportion of its resources to a variety of social projects in the coffee growing regions.

227. The objective of coffee policy is the stabilization of coffee growers' real income. The instruments used by the authorities to achieve the stabilization are: a domestic support price; a minimum foreign exchange surrender requirement; an ad valorem coffee export tax; and a retention quota (Tables V.4 and AV.4).
228. The domestic support price guarantees a minimum price for the domestic coffee grower. While domestic growers are free to sell to private exporters if they can offer a better price, the Federation purchases from growers any amount of untreated coffee at the domestic support price.

229. The minimum foreign exchange surrender requirement is a legally required amount in foreign exchange, set by the Monetary Board, which must be surrendered by exporters to the Central Bank for each 70 kg. bag of coffee exported. It is kept broadly in line with international coffee prices. The minimum exchange surrender requirement also serves as the base for the export tax calculation.

230. The ad valorem coffee export tax is the main source of direct coffee export revenue for the Central Administration and the National Coffee Fund. Since 1983, the tax rate has been 6.5 per cent of the exchange surrender requirement. The contribution of the tax on coffee exports to government revenues has been diminishing as a result of a policy to increase the share of revenues earmarked to the National Coffee Fund. The proceeds are distributed between the National Coffee Fund, Departmental Committees of the Federation, and the Central Administration, according to ratios of 3.2, 0.5 and 2.5 percentage points, respectively.

231. The retention quota (rentención cafetera) is a fixed amount of coffee that exporters must deliver to the National Coffee Fund for each 100 bags of coffee exported. It constitutes the main source of financing the Fund’s operations. In establishing the level of the retention quota, the authorities take into account the volume and sales value of the coffee crop, the levels of the exchange rate and the taxes on coffee. The retention quota was raised from 15 per cent in 1981 to 68 per cent at the beginning of 1985, and reduced to 35 per cent in December 1987 and to 5 per cent in August 1989. The reduction of the quota has been intended to stimulate coffee sales to the international market by private exporters (Table AV.4).

(b) Bananas and other tropical fruit


233. The Government plays no direct rôle in banana production and marketing. In formulating policy guidelines, it relies on advice from the private sector, particularly the Union of Uraba growers (UNIBAN, Unión de Bananeros de Urabá). Exports of bananas like other non-coffee agricultural export products, have benefited from a variety of economic incentives (Chapter IV). In 1989, the tax reimbursement certificate (CERT) for exports of bananas was set at 3 per cent.
In 1974, Colombia, Costa Rica, Guatemala, Honduras and Panama created the Union of Banana Exporting Countries (UPEB). The Union serves as a forum for policy discussion between member countries. Subsequently, the Dominican Republic, Nicaragua and Venezuela joined the organization. In recent years, the Union attempted to implement a price stabilization scheme, while continuing its efforts to coordinate the production and pricing policies of member countries.

Tropical fruits other than bananas are a small but expanding export industry. The most important fruit species are passion fruit, curaba, granadilla, mangos, pineapple, limes and papaya. Promoted by public assistance, some twenty-five new tropical fruit export companies were created in 1988. Exports of pineapples, avocados, mangos, citrus fruit, fresh grapes, berries, melons and preserved fruit benefit from a CERT incentive of 12 per cent.

(c) Cocoa and sugar

In 1988, Colombian imports of cocoa and cocoa preparations reached US$3.9 million. Almost two-thirds of these imports were cocoa beans. More than 90 per cent of imports of cocoa and cocoa preparations originate in countries with which Colombia has preferential trading agreements, such as Ecuador.

In 1988, the simple m.f.n. tariff average for all cocoa and chocolate products was 34.2 per cent, with the rate for cocoa beans set at 17.5 per cent and for other items rising to 60 per cent, the highest rate on any foodstuffs. This provides a high degree of protection not only to local manufacturers but also to exporters from preferential sources, from which most of Colombia's imports come. Imports of cocoa paste, cocoa butter and cocoa powder are subject to import licensing, while imports of chocolate and other preparations containing cocoa are prohibited. An additional 15 per cent import duty is charged on products ready for retail sale.

Health and sanitary regulations apply across the board. Moreover, domestic industries using cocoa beans as inputs must satisfy an "absorption quota" fixed by the Ministry of Development. In addition to the import duty, importers of cocoa beans are charged with a promotion fee (cuota de fomento) amounting to 10 per cent of the import value.

Exports of cocoa beans increased from US$40,000 in 1983 to US$3.6 million in 1986 and to US$20.9 million in 1988 (Table AV.3). Cocoa exporters must pay a promotion levy of 3 per cent of the sales price for each kilogramme exported. Until September 1989, cocoa exporters had also to include in their registration forms a certificate of origin bearing stamps showing their contribution to the reserves stabilization scheme of the International Cocoa Organization. Exports of cocoa do not benefit from CERT incentives.

Imports of sugar and confectionery were US$3.4 million in 1988. In 1988, the simple average tariff for this product group was 29.3 per cent. Tariff rates for individual items or product groups vary substantially,
ranging up to 50 per cent for sugar confectionery. Imports of sugar require a sanitary certificate granted by the Ministry of Health. Imports of sugar confectionery are generally prohibited.

241. Raw sugar exports have increased to US$56 million in 1988, from a trough of US$16 million in 1987. However, they have not regained their 1983 level of US$69 million (Table AV.3). Colombia exports also other refined sugar (US$5.2 million in 1987), sugar confectionery (US$3.7 million), and molasses (US$3.3 million).

242. Exports of raw sugar to the United States are restrained by a system of quotas. For the period 1 January 1989 through 30 September 1990, a quota of 58,136 metric tons was allocated to Colombia.

243. The CERT incentive for exports of sugars and sugar confectionery was 9 per cent in 1989. Exceptions are glucose exports which had a rate of 5 per cent, and a 3 per cent rate for exports of raw sugar to the United States.

(d) Animals and meat products (Tariff Study Category 26)

244. Animals and meat products accounted for 1.8 per cent of agricultural imports in 1988. The simple average tariff on animals and animal products was 36.2 per cent and the weighted average 24 per cent reflecting the relatively high value of live animals imported. For preserved meat and meat products, the corresponding rates were 51.7 and 52.6 per cent. Import licensing applies to all categories. All products of meat preparations are on the list of prohibited imports. Health and sanitary regulations apply to all animals and meat products.

245. The export incentive given through the CERT system is 5 and 9 per cent for live animals’ exports, 12 per cent for meat of bovine, sheep or goat, and 5 or 9 per cent for exports of other meat and edible meat offal.

(ii) Grains, milling products, cereal preparations, bakers’ goods (Tariff Study Categories 25, 24.09)

246. Grains are the most important product group in imports of agricultural commodities. In 1988, they represented almost 28 per cent of agricultural imports. The principal cereals imported by Colombia are certain hard wheats and barley.

247. Imports of grains are controlled by the Agricultural Marketing Institute (IDEMA). Import controls and price support by IDEMA help to keep domestic support prices above international prices for maize, wheat and sorghum. The support price for barley has fluctuated around the world price level and that for rice has usually been lower (Table V.5).

\[39\] In the case of live animals, only 8 per cent of the relevant tariff items are subject to CERT incentives.
248. The simple average tariff for grains is less than half the simple average for the whole agricultural sector (15.9 per cent against 36.8 per cent; Table V.3). Tariffs on grain-based products are considerably above those on grains.

249. An additional import charge of 15 per cent is applied to imports of cereals for retail sale. Imports of wheat and oats require the payment of a promotion fee (cuota de fomento), amounting to 0.10 Colombian pesos per kilo.

250. Exporters of wheat, barley, oats, and corn must pay a promotion fee of 0.75 per cent of the sales price of each kilogramme of domestic production. For rice, this fee is 0.5 per cent. At the same time, exports of rice benefit from a CERT incentive of 9 per cent. There is no CERT incentive for exports of other grains. Ninety per cent of the tariff items for cereal preparations (CCCN Chapter 19) are subject to a CERT incentive of either 5 or 9 per cent.

(iii) Oilseeds, fats and oils (Tariff Study Category 27)

251. Growth in production of edible fats and oils in Colombia has been rapid, from 127,000 metric tons in 1981 to 221,000 metric tons in 1988. The annual production of palm oil, the fastest growing product in this category, more than doubled between 1981 and 1988 (Table AV.1). African palm, an important raw material of solid oils, was first planted in Colombia in the 1960s along the Atlantic Coast. Its production has been growing rapidly in recent years, and Colombia is now among the world's largest producers.

252. Despite strong growth of domestic production, oilseeds, fats and oils represented 27.4 per cent of total agricultural imports in 1988, reaching US$125 million. These items ranked ninth in Colombia's total imports in 1988. Oilseeds and oleaginous fruit accounted half of the imports in this category.

253. The simple tariff average for imports of oilseeds, fats and oils and their products was 37.6 per cent in 1988 and the weighted average tariff was 25.7 per cent. Tariffs within this sector rise, on a simple average basis, from 10 per cent on certain oilseeds to 50 per cent on certain waxes and oil-based products, showing considerable tariff escalation. It is also notable that most imports of vegetable oils come from preferential sources. The highest simple tariff average within this category was 44.6 per cent for vegetable oils (Table V.6).

254. Prior approval by the Ministry of Agriculture is needed for importing oilseeds, fats and oils into Colombia. Applications are usually handled by the ICA (Colombian Institute of Agriculture), which verifies the sanitary conditions of the imported products. Imported products for human consumption must be approved by the Ministry of Health (visto bueno).
255. The Ministry of Agriculture periodically assigns global quotas for imports of oilseeds, and fats and oils. Moreover, producers importing some products of this category must also take up an absorption quota of domestic oleaginous inputs. Importers of oilseeds and oleaginous fruit must pay a promotion fee (cuota de fomento), amounting to 0.05 Colombian pesos for each kilogramme imported.

256. Exports of oilseeds, fats and oils also require prior approval by the Ministry of Agriculture in order to guarantee the sanitary conditions of the exported products, if the importing country requires so. The approval procedures are delegated to the Colombian Institute of Agriculture.

257. Exports of oilseeds, fats and oils accounted for 0.01 per cent of total Colombian exports in 1988, or US$4 million. CERT incentives for exports of oilseeds and oleaginous fruit are limited to a few individual products (castor oil, sesame seed, origin and seeds for planting). Castor oil and sesame seed exports have a rate of 12 per cent. For other items, the rates are 9 per cent.

(iv) Cut flowers, plants, vegetable materials; lacs, gums, etc.
(Tariff Study Category 28)

258. Flower cultivation was introduced some 15 years ago and has flourished under the country's favourable climatic and soil conditions. Colombia's cut flowers exports have become the sixth largest exchange earner, bringing in some US$190 million in 1988 (Table AV.3). Today, Colombia is the world's second largest exporter of fresh-cut flowers after the Netherlands. The United States is by far the largest market for Colombian-grown flowers, accounting for more than three-quarters of exports. The main export varieties are carnations, pompoms, chrysanthemums and roses.

259. Compared with the flower-growing sectors of other nations, Colombia's production is labour intensive. Direct employment in the sector was approximately 70,000 in 1987. The industry also generates substantial employment in sectors such as transportation, packaging and chemicals. In December 1989, the United States authorities introduced anti-dumping duties which almost doubled tariffs on Colombian miniature carnations and chrysanthemums. Colombian representatives accused the US of "trade harassment" at a GATT Council meeting in late February 1990.

260. There is a 5 per cent CERT incentive for exports of cut flowers and flower buds to markets other than the United States or Puerto Rico (exports to the latter two markets are not promoted by incentives). In December 1989, the United States authorities introduced anti-dumping duties which almost doubled tariffs on Colombian miniature carnations and chrysanthemums. Colombian representatives accused the US of "trade harassment" at a GATT Council meeting in late February 1990.

40 INCOMEX figures report cut flowers exports of US$206 million in 1988, on an export registration basis (Table V.1).

41 Examples of products that have found increased usage through the flower trade include cardboard boxes for air shipments; fertilizers, insecticides and pesticides; polyethylene film; and refrigeration equipment.
261. Imports of live plants and other vegetable-based products accounted for 0.3 per cent of total Colombian imports in 1988, or US$15 million. The bulk of imports were live plants, mainly root-stock for use in the flower-growing sector, and vegetable saps and extracts. Imports of live plants and flower products require prior approval of the Ministry of Agriculture (function exercised by ICA), that verifies the phytosanitary condition of the imported product. In 1988, live plants bore a duty of 5 per cent and vegetable saps and extracts an average rate of 15 per cent with peaks of 25 per cent. The overall simple average rate for the group was 16.4, and the weighted average tariff 10 per cent (Table V.7).

262. Exports of bamboo, guadua, piassava, etc. require prior approval of the National Institute for Renewable Natural Resources and the Environment (INDERENA, Instituto Nacional de los Recursos Naturales Renovables y del Ambiente).

(v) Beverages and spirits (Tariff Study Category 29)

263. In 1988, the share of beverages and spirits in total agricultural imports was 2.7 per cent (US$12 million). Wine, together with fruit and vegetable juices, accounted for close to half of the total. Beverages and spirits bear high import duties, notably, a simple average tariff of 61 per cent, and a weighted average of 65.6 per cent (Table V.8). The m.f.n. rates are 60 per cent for fruit and vegetable juices, 55 per cent for wine, and between 50 and 70 per cent for spirits. Imports of fruit and vegetable juices for retail sale are charged an additional duty of 15 per cent.

264. Imports of several spirits are prohibited. Health and sanitary regulations apply to all imports of beverages and spirits.

265. Exports of passion fruit juice and sugar cane spirits have grown most rapidly. Exports of passion fruit juice started only in 1986, fetching US$5 million, but substantially less in the two following years. In 1989, these exports rebounded sharply to reach US$15 million. Sugar cane spirits exports increased from US$1.3 million in 1983 to US$3.2 million in 1988.

266. One fifth of tariff items of beverages and spirits (CCCN Chapter 22) benefit from CERT incentives. A rate of 9 per cent applies to exports of spirits obtained from sugarcane, anisettes, creams and other spirits. Other items are promoted by a rate of 5 per cent.

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42 Grappa; other spirits obtained from grapes or agaves; anisette; cream liqueurs; and other liqueurs.
(vi) Dairy products (Tariff Study Category 30)

267. In 1988, imports of dairy products accounted for 2.7 per cent of total agricultural imports, equivalent to a share of 0.2 per cent in total Colombian imports. The bulk of imports of this category was fluid milk.

268. The simple average tariff for dairy products is 48.3 per cent. Imports of cheese bear a rate of 60 per cent. Imports of milk and cheese are, at the same time, subject to minimum official prices. Health and sanitary regulations apply to all imports of dairy products (Table V.9). There are no CERT export incentives.

(vii) Fish, shellfish and products (Tariff Study Category 31)

269. Imports of fish, shellfish and products totalled US$27 million in 1988, the fifth largest category in imports of agricultural products. Within this category, imports of fish, accounted for more than 90 per cent. Most fish imports come from preferential sources duty-free under Andean Group arrangements.

270. The simple average m.f.n. tariff for imports of fish, shellfish and products was 46.8 per cent in 1988. Duties on prepared or preserved fish and crustaceans are higher than on fresh or frozen seafood. Imports of prepared fish are prohibited, as are imports of crustaceans and molluscs. There is an additional 15 per cent import duty for goods presented for retail sale (Table V.10).

271. Exports of lobsters, crayfish and shellfish have increased from US$32 million in 1986 to US$46 million in 1988 (Table AV.3). Exports of fish have also grown steadily from US$3 million in 1986 to US$15 million in 1988. Some products in this category must be approved by the National Institute for Renewable Natural Resources and the Environment prior to being exported. Exports of fish, crustaceans and molluscs benefit from a CERT incentive of 12 per cent.

272. Experiments in shrimp farming in Colombia were launched in 1970, with the assistance of PROEXPO. As of 1989, Colombia had 30 farms and 10 hatcheries for shrimp larvae production. More than 7,400 acres are devoted to shrimp farming, which in 1988 produced approximately 1,300 tonnes weight of shrimp. Production of some 4,500 tonnes is targeted for 1992. Exports of farmed shrimp reached over US$10 million in 1988, up from about US$2 million in 1987. Shrimp exports have mainly been to the United States market, although recently there has been some penetration of European markets.

(viii) Tobacco (Tariff Study Category 32)

273. In 1988, imports of tobaccos stood at US$3 million. Imports of manufactured tobacco are prohibited. The simple average tariff for tobacco ranges between 22 per cent for unmanufactured tobacco and 50 per cent for manufactured tobacco (Table V.11).
274. Imports of tobacco are subject to a promotion fee amounting to 5 Colombian pesos per kilo for unmanufactured tobacco and 10 Colombian pesos per kilo for manufactured tobacco.

275. Exports of Colombian black tobacco decreased from US$22 million in 1986 to US$12 million in 1988 (Table AV.3). All tobacco exports are promoted by CERT incentives of 9 or 12 per cent; the highest CERT rate applies to light tobacco exports.

276. The mining sector, while still small, has played a particularly dynamic rôle in recent economic developments, mainly because of the expansion of the vast El Cerrejón coalfields in northern Colombia. Petroleum and natural gas, coal, gold, silver, platinum, iron ore, and emeralds are Colombia's principal mineral products. Coal and petroleum are the main foreign exchange earners. Petroleum output increased from 61 million barrels in 1984 to 141 million barrels in 1987. In 1988, oil production dropped to 137 million barrels due to guerrilla activity (Table V.12). Colombia became a net oil exporter in 1986, a position lost in 1975. In 1987, petroleum exports amounted to US$1,369 million, but declined to US$986 million in 1988 reflecting lower world prices and disruptions in production (Table V.13). The main oilfield is Caño Limón.

277. Coal production increased from 6.6 million metric tons in 1984 to 15.5 million metric tons in 1988. The sharp increase in coal output resulted in a near doubling of the value of coal exports in the period 1985-87. In 1988, coal exports reached US$296 million (Tables V.12 and V.13).

278. As a result of a vigorous expansion programme, Colombia is becoming a major Latin American petroleum producer. The oil production strategy is under the direction of ECOPETROL (Empresa Colombiana de Petroleos), the State oil company, which undertakes exploration, drilling and refining both independently and in association with foreign firms.

279. ECOPETROL operates alongside more than a dozen international petroleum companies. While a fully state-owned organization, the company is permitted to engage in all the functions of an integrated oil company and has complete administrative autonomy. It concentrates on basic activities such as exploration, development of oil fields, and refining. In addition to its petroleum related activities, ECOPETROL participates in a major chemical complex (Monomerios Colombo-Venezolanos) and in the government coal mining agency CARBOCOL. In 1985, ECOPETROL established a permanent research centre (Colombian Petroleum Institute).

280. Royalty and income tax contributions from the oil industry have become a major element in central Government revenue. Under Colombian law, all production from old concessions, association contracts or ECOPETROL is subject to royalties of 2.5 per cent for the municipality where the
exploitation is being carried out; 9.5 per cent for the Department or Province in which the municipality is located; and 8 per cent for the National Government. These funds are to be invested in community development projects.

281. ECOPETROL also invests part of its profits in the long-term development of the regions where it operates, focusing on health, education, road construction, electrical projects, communication and industrialization.

282. The present system of association contract exploration was established in 1974 to replace concessions. Association contracts enable the Government, through ECOPETROL, to grant an area of land to an associated oil company for exploration at its own risk and responsibility. When a commercial oil field is verified, ECOPETROL and the associated company each assume 50 per cent of the costs relating to the development of that area. After deduction of the 20 per cent Government royalties, production is divided equally between the partners. In addition, ECOPETROL has established a shared-risk association contract for the exploration and development of oil and gas in specific areas. In this framework, ECOPETROL participates in exploration risks by contributing to the required investment.

283. As a result of these activities, Colombia's known oil reserves have risen from 549 million barrels in 1980 to 2.2 billion barrels in 1988. The growth in production has increased exports of crude oil rapidly (85,781 barrels a day in 1986; 317,147 barrels a day in 1987). More than two-thirds of exports go to the United States, and 17 per cent to Puerto Rico. Other markets are Trinidad, Canada, Chile, Jamaica and Costa Rica.

284. In addition to crude petroleum, Colombia exports petroleum derivatives, particularly fuel oil and diesel. There is no CERT incentive for these exports.

285. Colombia imports mainly refined petroleum products. In 1988, imports of gasoline, including aviation spirit, stood at US$154 million. The simple average tariff for petroleum was 11 per cent and the weighted average 3.5 per cent (Table V.14).

(ii) Coal and natural gas (Tariff Study Category 9)

287. Government policy in the coal sector is administered by CARBOCOL (Carbones de Colombia) which is a public corporation established in 1976. The current operations of CARBOCOL include exploration, exploitation, processing and marketing, both domestic and international.

288. The major coal mine is El Cerrejón, where CARBOCOL has established a joint venture with INTERCOR (International Colombia Resource Corporation), a fully-owned subsidiary of EXXON Corporation. Each company shares equally in the production expenses and output; moreover, CARBOCOL receives 15 per cent royalty for INTERCOR’s share of coal production and additional revenue if INTERCOR's profits exceed a stipulated amount.

289. The second major mining deposit is located in La Loma. In 1988, the Government signed a contract with Drummond Co. of the United States to exploit coal of this deposit.

290. In 1988, imports of coal and natural gas reached US$5.4 million, almost entirely products derived from coal or gas. The simple average tariff for this product category was 19.8 per cent (Table V.14).

291. Exports of bituminous coal, coke and semi-coke of coal, pitch and pitch coke are subject to a CERT incentive of 9 per cent. Exports of anthracite benefit from a rate of 5 per cent.

(iii) Precious stones and precious metals (Tariff Study Category 7)

292. After petroleum and coal, the extraction of precious metals is the most important mining activity in Colombia in terms of sales. Colombia produces silver, platinum and emeralds. The production of platinum more than doubled from 10 thousand troy ounces in 1984 to 26 thousand troy ounces in 1988. The production of silver increased from 153 thousand troy ounces in 1984 to 211 thousand troy ounces in 1988 (Table V.12). Emerald production cannot be accurately assessed because of illegal mining activities; according to official figures, emerald exports were worth US$62 million in 1987. In 1987, the National Federation of Emerald Producers and Exporters was set up with a view to bringing control over production and marketing of emeralds.

293. Imports of this tariff study category reached US$1 million in 1988, consisting mainly of jewellery. The simple average tariff was 35.8 per cent, and the only non-tariff measure affecting imports was the prior licensing system (Table V.15).

294. Gold is Colombia’s largest precious metal extract. Considering the importance of gold for Colombia's foreign exchange position, Decree 384 of February 1985 was issued to regulate the mining of precious metals, including provisions to control environmental damage on rivers subject to placer operations. Gold production increased continuously until 1986, reaching 1.3 million troy ounces, and following a sharp decline in 1987 recovered to 933 thousand troy ounces in 1988. Gold is a significant source of export earnings, generating, in 1988, close to US$410 million, or about 7 per cent of the total merchandise export revenue of Colombia.
295. Emeralds exports increased from US$60 million in 1987 to US$90 million in 1988 (Table V.1). Japan is the single largest market for emeralds. Exports of precious stones and precious metals do not benefit from any CERT incentive, except for imitation jewellery which is subject to a 5 per cent CERT rate.

(iv) **Ores and metals** (Tariff Study Category 08)

296. This Tariff Study Category covers a variety of products, including ores and metal waste, iron and steel, copper, nickel, aluminium, lead, zinc, tin, and metal manufactures. Colombia's reserves of iron ore are estimated at about 100 million metric tons, most of them with an iron content of 41 to 46 per cent. One of the major iron ore deposits is operated by Acerias Paz del Rio, Colombia's fully integrated steel mill. 43

297. The simple average tariff for the category is 24.6 per cent. Tariffs range from 5 per cent for unwrought non-ferrous metals to 45 per cent for metal manufactures (Table V.16). There is thus substantial tariff escalation.

298. Imports of ores and metals were US$549 million in 1988, ranking fourth behind chemicals, non-electrical machinery and transport equipment. Semi-manufactured products of iron and steel represented almost 56 per cent of imports in this category while 23 per cent of imports were non-ferrous metals, especially copper and aluminium products.

299. Since 1982, Colombia has produced ferronickel for export based on the processing of domestic laterite ores. Cerromatoso, the nickel enterprise, is a joint venture between Billiton (a Shell subsidiary) and Colombia's Institute of Industrial Development (Instituto de Fomento Industrial, IFI). The company has emerged as one of the major nickel producers in Latin America and its profitability has risen considerably, reflecting the rise in international prices. Available reserves of nickel ore are estimated at some 17 million metric tons. Ferronickel exports grew from US$48 million in 1986 to US$161 million in 1988 (Table V.13). Ferronickel is the single most important export item of this Tariff Study category. Ferronickel exports do not benefit from CERT incentives.

300. Exports of ores and metals, excluding iron ore and ferronickel, are relatively small. CERT levels for exports of these products are between

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43 There are also four semi-integrated steel plants which account for half of Colombian crude steel production. The annual output of crude steel rose from 420 thousand tons in 1980 to 725 thousand tons in 1988.
5 and 12 per cent. Exports of nickel, magnesium, beryllium, zinc and their articles do not benefit from CERT incentives.

(v) Mineral products and fertilizers (Tariff Study Category 06)

301. This category includes stone sand and gravel, crude and manufactured fertilizers, glass and glassware, and other crude and manufactured minerals such as salt, sulphur or cement. In 1988, imports of mineral products and fertilizers ranked in sixth place, reaching US$215 million. Manufactured fertilizers accounted for two-thirds of those imports.

302. The simple average tariff for this category as a whole was 23.8 per cent; the weighted average was 7.2 per cent reflecting the heavy weighting of fertilizers in the total. Fertilizers faced the lowest tariffs in this category. The highest tariffs within this category were applied to miscellaneous mineral manufactures and glass (Table V.17).

303. Colombia’s fertilizer industry, centred along the north coast, has developed over the last 20 years. Products used in the manufacture of fertilizers as well as fertilizing substances and the like are subject to a reduced tariff rate of 1 per cent ad valorem, on approval by the Ministry of Agriculture. Exports of fertilizers have a CERT rate of either 5 or 9 per cent. The top rate is provided for composite and complex fertilizers.

304. Gypsum deposits in various regions have been under exploitation for many years. The annual output, close to 310 thousand metric tons, covers about 80 per cent of the requirements of the nation’s Portland cement industry. Limestone is widely found in Colombia, with output registering about 14 million metric tons in 1988. In 1988, cement production was 6.3 million metric tons, of which 2 million metric tons were exported to the United States and Caribbean area. In 1988, cement and clinker exports reached US$66 million. Cement and Portland cement, ceramics, glass and glassware exports benefit from a 9 per cent CERT rate. The CERT rates for other exports of articles of stone, plaster, cement, asbestos, mica and similar materials are 12 per cent. All tariff items in the relevant CCCN Chapters are included in the CERT system.

44 A single rate of 9 per cent for metallic ores (covering 12.5 per cent of the tariff items in the corresponding CCCN Chapter); copper and articles thereof (60.4 per cent of the CCCN Chapter); lead and articles thereof (33.3 per cent of the CCCN Chapter); tin and articles thereof (40 per cent of the CCCN Chapter); and miscellaneous articles of base metal (all items in the CCCN Chapter); a rate of either 9 or 12 per cent for iron and steel and articles thereof (70 per cent of the CCCN Chapter); and tools (all tariff items); a rate of 5 or 9 per cent for aluminium and articles thereof, except unwrought aluminium, waste, wrought bars and plates.
(3) Manufacturing Industry

305. The history of Colombia's manufacturing sector goes back to the 1930s, when the Great Depression led to a shift in policy towards import substitution in many developing countries. In the 1950s, the rapid pace of urbanization and shifts in demand patterns were further driving forces behind the development of this sector. Today, manufacturing industries contribute, like agriculture, about one-fifth to GDP. Consumer goods account for about half of industrial output, intermediate goods for 38 per cent and capital goods for the balance.

306. It was not until the late 1960s and early 1970s that there was a move towards exports. The process was initially slow, but by 1987 manufactures accounted for about 20 per cent of total exports.

307. Between 1984 and 1988, total manufacturing production increased at an annual average rate of 6 per cent. In 1986, the main sectors were food products (23 per cent of manufacturing output); beverages (13 per cent); chemicals (12 per cent); and textiles (8 per cent). In this period, the most dynamic sectors, in terms of production growth, were wood products, paper and paper products, chemicals and leather goods (Table V.18).

308. Main export products include chemicals, publishing and graphic arts products, textiles and garments and machinery equipment. Chemicals are also the main import product followed by non-electrical machinery, transport equipment, electrical machines and apparatus, and pulp, paper and paperboard (Table V.19).

309. The simple average tariff rate for all industrial products, excluding petroleum, was 25.8 per cent in 1988, and the weighted average was 21.5 per cent. Average tariffs for industrial products are thus substantially lower than those for agricultural products.

310. Tariff escalation in the industrial sector is reflected in the fact that the simple average tariff for raw materials is 19 per cent, for semi-finished manufactures 22.1 per cent and for finished manufactures 29.1 per cent. The weighted tariff averages show the same pattern.

311. Industrial development policy is directed towards promoting private sector activity while limiting the activity of public enterprises to the production of coal and petroleum. The Colombian Government's Institute of Industrial Development (Instituto de Fomento Industrial, IFI) has been an active promoter of industrial expansion.

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The figures in Table V.18 include some agricultural manufactured products which were already addressed in previous sections.
312. In July 1987, Colombia liberalized its regulations on direct foreign investment, following an agreement among the Andean Group member countries to encourage foreign investment (see Chapter III). Under the new regulations, almost all sectors were opened to foreign investment, and firms can be completely foreign-owned for a period of 30 years. Maximum annual profit remittances were raised from 20 per cent to 25 per cent of the foreign investment, and foreign-owned firms were allowed to borrow from the domestic financial system. The new regulations add to the promotion of industrial development in Colombia.

(i) **Chemicals** (Tariff Study Category 10)

313. Chemicals are the most important import category in Colombia, accounting for US$1,082 million or 22 per cent of total imports of merchandise in 1988. Organic chemicals represented 42 per cent of imports of this category, and plastic materials 21 per cent.

314. The simple average tariff for chemicals imports of 19.5 per cent is well below the average tariff for other industrial categories. Within chemicals, the lowest average m.f.n. tariff is 9.5 per cent for medical and pharmaceutical products; the highest average tariff is 57.9 per cent for articles of plastics (Table V.20).

315. Subject to prior approval by the Ministry of Agriculture and a classification opinion issued by the General Customs Directorate, chemical inputs for the production of fertilizers, insecticides, fungicides, and animal-feeding concentrates, are dutiable at a rate of 0.1 per cent. Under the same conditions and for the same purposes, the import duty for artificial resins and plastic materials is reduced to 5 per cent.

316. Organic as well as inorganic chemicals imports need a minimum description which, among other aspects, comprises the commercial name of the product, the composition, the number on the sanitary register, and the final use of the product. Imports of products that may be used in drug processing need prior approval "visto bueno" by the National Narcotics Council (Consejo Nacional de Estupefacientes).

317. Imports and exports of pharmaceutical products are required to be registered with the Ministry of Health.

318. Colombia's chemical industry produces basic chemicals as well as fertilizers, plastic resins, pharmaceuticals, insecticides, paints, and several other chemical products. The industry not only satisfies a good portion of the domestic demand for chemicals, but also generates

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46 These items are hydrochloric acid, acetone, ethyl ether, chloroform and 16 other products.
significant exports. Chemical exports increased from US$146 million in 1986 to US$218 million in 1988. The main chemical export products are polyvinyl chloride (PVC) and polystyrene (Table V.19).

319. Export incentives apply to almost all products in this category, ranging between 5 and 12 per cent. 

(ii) Non-electric machinery; electrical machines and apparatus
(Tariff Study Categories 11 and 12)

320. In 1986, electric and non-electric machinery accounted for 3.1 and 1.7 per cent respectively of manufacturing production (Table V.18).

321. Non-electrical machinery ranks second among all import categories. In 1988, imports reached US$810 million. The most important items include construction, mining and handling equipment and power-generating machinery. Simple average tariff within this category ranged from 7.8 per cent for agricultural machinery to 29.6 per cent for heating and cooling equipment (Table V.21).

322. In 1988, electrical machines and apparatus worth US$399 million were imported, largely telecommunications apparatus and machinery for industry. The simple and weighted average tariffs, 26.4 per cent and 27.5 per cent respectively, were higher than for non-electric machinery (Table V.22). Tariffs range from 5 to 75 per cent.

323. For both electric and non-electric machinery, the National Customs Policy Council (Consejo Nacional de Política Aduanera) may grant, regardless of the country of origin, a reduced uniform tariff duty, provided that the imported machinery is for use in projects of economic and social interest for the country. In its decisions, the Council takes into account the size of the firm; the existence of national production; commitments under the Andean group or other integration processes; the

47 The production of PVC in Colombia began in 1965 with a polymerization plant using imported vinyl chloride (Petroquimica Colombia). By now, existing PVC plants are capable of covering the entire domestic requirements for PVC suspensions. However, imports of PVC emulsions continue (vinyl chloride).

48 CERT rates of either 5 or 9 per cent apply to exports of organic and inorganic chemicals as well as pharmaceutical, artificial resins and plastic materials (except exports of polyvinylchloride bags). Rates of 9 and 12 per cent apply to exports of tanning and dyeing extracts, especially several colouring matter of vegetable origin, and albuminoidal substances, especially gelatine. A single rate of 5 per cent is granted to exports of soap, organic surface-active agents, washing preparations, concentrates of essential oils, perfumery, cosmetic and toilet preparations, and other miscellaneous chemical products.
technological degree and economic and social impacts of the project; and effects on the environment.

324. As for almost all categories, imports of electric or non-electric machinery are dutiable at a rate of 5 per cent if they are destined to the production of fertilizers. To this end, prior approval by the Ministry of Agriculture is needed as well as a certificate of INCOMEX proving the non-existence of domestic substitutes.

325. There are also specific minimum description requirements for imports of certain non-electric as well as electrical machinery, in particular machinery such as pumps, mechanical appliances, agricultural and horticultural machinery for soil preparation or cultivation, internal combustion piston engines as well as single- and multi-phase electric motors.

326. All exports of electrical machinery and equipment and almost all items in the CCCN Chapter of boilers, machinery and mechanical appliances are granted CERT incentives of either 9 or 12 per cent.

(iii) Transport equipment (Tariff Study Category 13)

327. In 1986, transport equipment accounted for 3.1 per cent of Colombian manufacturing production (Table V.18). Production grew steadily between 1986 and 1988 at an average annual rate of almost 18 per cent, recovering from the sharp decline in production in 1985. Imports of transport equipment, US$607 million, ranked third in 1988. The bulk of these imports were motor vehicles, in particular passenger motor cars.

328. Imports of motor vehicles are charged with 39.8 per cent, the highest average tariff in transport equipment; motor vehicles for the transport of persons were subject to the highest individual tariff duty, notably 200 per cent (Table V.23). For a number of motor vehicles, minimum import prices are set. Import licences are denied for cars valued less than US$5,000 (f.o.b.).

329. A variety of tariff reductions are applied to imports of certain transport equipment, regardless of the country of origin. For example, subject to prior approval by the Ministry of Economic Development, imported parts for the assembly or manufacture of motorcycles are dutiable at a reduced rate of 9 per cent. There are also some tariff reductions for imports of motor vehicles by the Financial Transport Corporation (Corporación Financiera del Transporte); aircraft imports by air transport industries (1 per cent, subject to prior approval by the Civil Aviation Administration Department); or CKD material for Colombian assembly plants.

The reduced tariff rate is 10 per cent when the investment project is in Bogotá, Medellín, Cali or their surroundings; 5 per cent when the project is outside these areas; and 1 per cent when the machinery imported is to be used in the production of goods in "under-developed" regions, or to be used for the protection of the environment.
330. Exports of aircraft, fishing boats and other ships, railway fixtures and fittings, motor vehicles, and some other transport equipment are supported by a 9 per cent CERT incentive. The CERT rate for exports of brake gear and parts thereof is 12 per cent.

(iv) **Pulp, paper and paperboard** (Tariff Study Category 04)

331. Colombia is well-endowed with cellulose fibres, including tropical and coniferous woods, as well as several annual fibre crops, in particular sugar cane bagasse. In addition, it has abundant sources of energy. Both factors have assisted the development of its pulp, paper and paperboard industry.

332. Diversification in this sector has gone down-stream. The printing and publishing industry in Colombia is the leading exporter of publications in Latin America. The industry has been growing at an average rate of 6 per cent in recent years, and in 1988 exports totalled US$110 million (Tables V.18 and V.19). Colombia ranks second only to Spain in exports of printed material in the Spanish language.

333. Imports of these products are still sizeable. In 1988, imports amounted to US$206 million, of which 60 per cent were paper and paperboard and 19 per cent pulp and waste paper. These imports face a simple average tariff of 34.9 per cent and a weighted average of 18.1 per cent (Table V.24).

334. Tariff escalation is pronounced in this sector. Simple average tariffs increase from 17.3 per cent for pulp and waste paper, to 34.2 per cent for paper and paperboard, to 35.5 per cent for printed matter, and to 44.6 per cent for manufactured articles. Most pulp is imported duty-free from preferential sources.

335. Exports of paper-making material are not included in the CERT system. A 9 per cent CERT incentive applies for exports of paper and paperboard, articles of paper pulp, of paperboard (except newsprint paper, kraft paper, hard paperboard, cellulose wadding, wallpaper and boxes). There is also a rate of 12 per cent for exports of printed books, brochures, newspapers, journals and periodicals.

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50Weighted averages follow the same escalation except for printed matter for which the weighted average was 1.1 per cent due to the fact that almost 80 per cent of printed matter imports enter duty-free.
336. Hit hard by a recession in the early 1980s, the textiles sector implemented austerity programmes in 1983. By streamlining operations, modernizing equipment and increasing productivity, Colombia's textile companies improved their international competitiveness. Increasing internal and external demand in the following years, and a relatively favourable climate for Colombian exports to the United States also played an important role in the recovery of the industry.

337. Currently, textiles and apparel constitute the nation's third most important manufacturing branch and the second largest industrial employer. The sector occupied fifth place amongst Colombia's non-traditional exports in 1988. Exports of textiles and garments increased from US$237 million in 1987 to US$357 million in 1988 (Table V.1). Prominent export items include cotton yarns, fabrics and garments, with the United States being the single largest market.

338. CERT incentives are granted to textile exports at three different rates, 5, 9 and 12 per cent. There is a special list of CERT levels for exports of textiles to the United States or Puerto Rico which are, in general, lower than those for exports to other countries. Metallized textiles, flax and ramie, and old clothing are excluded from CERT incentives.

339. Colombia has a bilateral agreement with the United States on exports of textiles and clothing. Until 1986, specific limits were in force on twills and sateens, other wool apparel, pyjamas and other nightwear and other cotton apparel; the current agreement, concluded for the period 1 April 1987 to 31 March 1990, contains only one specific restriction, on cotton sateens. Colombia also signed an agreement with the EEC for the period 1 January 1987 to 31 December 1991 establishing a consultation system without fixing export quota levels. To date, the EEC has never called Colombia for consultation.

340. In 1988, imports of textiles and clothing reached US$113 million. Textile fibres and waste (synthetic and artificial fibres) represented 42 per cent of imports in this category.

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51 Between 1980 and 1985, textile industry net investment amounted to US$497 million. In 1985, an estimated 70 per cent of gross investment was allocated to the acquisition of machinery and equipment. Traditionally less capital intensive, the garment industry experienced similar trends. For the period 1980-85, a total of US$61 million was invested in the garment industry.

52 For details on the agreements with the United States and the European Communities, see GATT documents COM.TEX/SB/1170, 1357 and 1428.
341. In 1988, the simple average tariff for imports of textiles and clothing was 47.2 per cent, way above the average tariff for all products. Sub-categories with a simple average tariff of more than 50 per cent include clothing and clothing accessories (69 per cent), made-up articles and related products (58.7 per cent), and fabrics and similar products (53 per cent). The average tariff for textile fibres and waste was 26.3 per cent, the lowest within textiles (Table V.25). The range of duties again shows considerable tariff escalation, with duties of 5 per cent on yarns and up to 70 per cent on clothing.

342. Imports of cotton yarn are subject to a promotion fee (cuota de fomento), requiring a fixed payment in Colombian pesos for each kilogramme imported. Some products require minimum descriptions, including silk yarn; yarn of man-made fibres; metallized yarn; wool and other animal hair; flax and ramie; cotton yarn; and yarn of other vegetable textile fibres.

(vi) Rubber, rawhides and skins, leather and furskins; footwear and travel goods; wood and cork; furniture (Tariff Study Categories 01, 02, 03, 15 and 17)

343. Rubber, rawhides and skins, leather and furskins, wood and cork, and furniture together accounted for 2.3 per cent of Colombian imports in 1988 (US$116 million). Imports of rubber, largely raw rubber, are by far the leading product group in this category (Tables V.26-28).

344. Footwear and travel goods have the highest simple average tariff (62.7 per cent), followed by furniture (40 per cent), wood and cork (38.4 per cent), and rawhides, raw skins, leather and furskins (30.3 per cent). The simple average tariff for imports of rubber is 27.6 per cent.

345. For all categories, except furniture, tariff escalation is pronounced. In particular, for manufactured rubber, wood and cork articles, the simple tariff average exceeds that for raw inputs almost by a factor of three. In the case of rawhides and skins, leather and furskins, the simple tariff average for manufactured articles is twice as high as the tariff for raw inputs (45 per cent against 20.4 per cent).

346. In 1988, imports of footwear and travel goods were very small, notably US$2.7 million. The simple average tariff for imports of footwear and travel goods was as high as 62.7 per cent.

347. Leather is the main export category. Between 1980 and 1988, exports of leather and leather products grew at an average annual rate of 23 per cent, reaching US$122 million in 1988 (Table V.19).

348. Exports of footwear and travel goods accounted for 1.4 per cent of total Colombian exports in 1988. Both sectors are experiencing a good export performance. For example, annual growth rates between 1983 and 1988 were almost 40 per cent for footwear exports and 23 per cent for travel goods exports.
349. Technological progress in Colombia's footwear industry has improved the country's production capacity, and the industry has in recent years registered solid growth in exports. Exports totalled US$42 million in 1988, up 45 per cent from the previous year (Table V.1). The largest market is the United States, with approximately a 70 per cent share of total footwear exports, followed by Venezuela (14 per cent) and Panama (9 per cent).

350. Exports of footwear and travel goods, except to Venezuela or Panama, benefit from a 12 per cent CERT incentive. For footwear exports to Venezuela and Panama, the exception applies only to certain footwear with outer soles of leather.

351. Exports of rubber (except raw), rawhides, skins and leather are granted a CERT incentive of either 5 or 9 per cent. Articles of leather are supported by an export incentive of 12 per cent, except for some products exported to Panama, Venezuela, the United States or Puerto Rico, which have no CERT incentive. The CERT rates for exports of wood and cork are 9 per cent, and those for furskins and artificial fur are 5 per cent.

(vii) Other products (Tariff Study Categories 14, 16, 18 to 23)

352. These heterogeneous residual category accounted for 4.4 per cent of Colombian imports in 1988 (US$220 million). The main item is imports of professional, scientific and controlling instruments (US$81 million). Tariffs for these products range from duty-free to 70 per cent (Table V.29). CERT rates applying to exports of these products are given in Table AIV.1.
VI. TRADE DISPUTES

(1) GATT Dispute Settlement Cases

353. Colombia settles its trade disputes via the diplomatic channels including the GATT. It has no statutory domestic procedures for conducting consultations or negotiations with trading partners in case of trade disputes.

354. Colombia has never been involved, as a defendant, in any GATT dispute settlement procedure.

355. Colombia, together with nine other contracting parties, initiated a complaint against the EEC sugar régime in April 1982 and held consultations with the EC in September 1982. Following these consultations, Colombia, along with the other complainants, reserved their rights under the GATT.

(2) Other Cases

356. The Andean Group, in which Colombia participates, has a special organ, the Andean Court of Justice, to settle disputes concerning the application of the Cartagena Agreement. Similarly, the Committee of the Latin American Integration Association (LAIA) is charged to "propose formulae to solve issues brought forth by member countries claiming non-observance of some of the rules or principles of the Montevideo Treaty" (Article 35).

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53 The complaint was also made by Argentina, Australia, Brazil, Cuba, the Dominican Republic, India, Nicaragua, Peru and the Philippines. See GATT MTN.GNG/NG13/W/4/Rev.1.

54 See C/M/161 and L/5309 and Adds.1 to 5.
VII. SUMMARY OBSERVATIONS

(1) Colombia in World Trade

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

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

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

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

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

(2) Institutional Framework

362. Under the Colombian Constitution, the Congress has the power to determine the broad framework for the conduct of trade policies. The present legal basis for trade policies is Decree-Law 444 of 1967.
363. Responsibility for the formulation of specific trade policies is fragmented among many Ministries and other official institutions. Co-ordination of trade policy formulation is provided by inter-agency consultation under the overall direction of the Foreign Trade Council. The Colombian Institute of Foreign Trade (INCOMEX) provides the Secretariat for the Council.

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

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

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

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

(3) Trade Policy Features and Trends

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

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

(i) Recent evolution

370. Colombia's economic history since the 1950s has been marked by successive periods of market opening and restriction. In 1983, responding to a major balance-of-payments crisis, the Government substantially tightened access to the Colombian market, in particular through import licensing.
371. A comprehensive, long-term adjustment programme was launched in late 1984, comprising macro- and micro-economic policy reforms. In the following years, fiscal policy was formulated with a view to getting the public sector and current account deficits under control. Exchange rate policies were set to achieve a realistic level of the Colombian peso. This was accompanied by a gradual liberalization of the external trade and, more recently, a major change in the foreign investment régime.

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

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

(ii) Type and incidence of trade policy instruments

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

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

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

377. Bindings cover 36 of the 5,142 tariff lines, largely relating to certain chemicals, machinery and tools. In 1989, imports entering Colombia under bound rates accounted for less than 6 per cent of total merchandise imports.

378. The trade liberalization programme since 1984 involved a lowering of average tariff levels and a compression of tariff ranges. Nevertheless, the variation of tariff rates remains huge. Ad valorem tariffs range from duty-free to 200 per cent (passenger motor vehicles). High tariff sectors include footwear and travel goods, beverages and spirits, fish and fish products, textiles, furniture, office and stationery supplies, and dairy products.
379. The effective tariff protection accorded many intermediate and final goods is likely to be considerably higher than nominal tariffs would suggest. First, tariff escalation is present in most product categories (although there are some cases where tariffs on semi-processed goods are lower than on raw materials). Second, tariff exemptions for imported inputs are widespread, in particular on inputs for exportable goods.

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

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

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

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

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

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

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

387. A sales tax, at widely differing rates, is in place in Colombia. The same rates are applied for imported and domestically produced goods, with the exception of preferences for wines and vermouths from LAIA countries.
388. In the context of government procurement, all import registrations by public bodies are checked by INCOMEX to verify whether local substitutes are available. Preference is generally given to local producers in government procurement contracts.

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

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

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

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

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

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

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

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

(iii) Temporary measures

397. The import restrictions introduced in 1983 and early 1984 were designed as temporary measures for balance-of-payments purposes. Pursuant to Article XVIII:B of the General Agreement, a full consultation with Colombia was held in 1985 in the Committee on Balance-of-Payments Restrictions, and two simplified consultations in 1987 and 1989.
398. Colombia applies no anti-dumping or countervailing measures. Colombia has never taken recourse to Article XIX of the GATT. Safeguard clauses in the framework of the Andean Group and the Latin American Integration Association have been used very seldom by Colombia.

(iv) New initiatives

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

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

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

(4) Trade Policies and Foreign Trading Partners

402. The trade policy reforms in Colombia have been occurring at a time when Colombia has been facing difficult conditions in major export markets. Coffee export revenues have been affected heavily by the collapse of the International Coffee Organization, and coffee is still subject to tariffs and internal taxes in many industrialized countries. Cut flowers face provisional anti-dumping duties on top of m.f.n. tariffs in the United States. In the EC, cut flowers and bananas from Colombia face m.f.n. tariffs up to 20 per cent, and exports of bananas meet with some additional trade barriers in some member States. Other tropical products such as cocoa, pineapples or mangoes exported by Colombia have remained subject to tariffs, and, in some cases, phytosanitary restrictions in major industrialized countries. Agricultural subsidies or quotas in developed
markets have adversely affected meat and sugar exports. Textiles, clothing and leather articles face a variety of tariff and non-tariff barriers in most foreign markets.

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