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Introduction

The purpose of this memorandum is to acquaint the interested manufacturer with the existence and characteristics of two new Free Zones in Colombia - one at the new airport at Palmaseca near Cali (population: 1,000,000), and the other in the port of Buenaventura (population: 130,000) on the Pacific Coast. The Zones, created in July 1970, are now being designed to attract the maximum interest of traders and manufacturers. Arthur D. Little, Inc. has been engaged to work with the management of the two Zones in planning their facilities and organization.

In this memorandum the essential characteristics of the Zones and their cost factors are presented, so that potential users can estimate the attractiveness of the Zones for their purpose.

International Trade Facilities

Free Zone warehouse facilities at Buenaventura will be provided for trading by sea with the principal cities of Colombia - Bogotá, Medellín, and Cali. The airport at Palmaseca will have Free Zone warehouse facilities for trading by air with the Cauca Valley region which, with 10% of Colombia's population, produces about 25% of its food and 25% of its exports. These facilities complement those already existing at the Barranquilla Free Zone, on the north coast of the country. The Free Zones permit duty free import and export of goods. Payment of duties is required only as products clear the Zone destined for Colombia.

Export Manufacturing Facilities

Manufacturing for export within the Free Zones should be of special interest to companies with labour-intensive operations. The combination of extremely low-cost easily trained labour at Cali/Palmira and Buenaventura, excellent transportation facilities, and geographic proximity to major markets in the United States and Europe, is worth investigating. The following are salient points to consider.

1. Labour

The labour pool is large, with wages ranging from US\$0.30 - \$0.36 per hour actually worked (including all fringe benefits) for unskilled workers. This may be compared with the current U.S. cost for unskilled labour of US\$2.50 per hour actually worked including fringe benefits.

2. Transportation

Geographically, Palmaseca and Buenaventura are as close to the East Coast of the United States as are the cities on the West Coast of the United States (2,500 miles or 4,000 kilometers). Freight service by sea and air is good: four ships are handled daily at Buenaventura; there are several daily flights to the United States and Europe from Cali, as well as frequent connections to the rest of Central and South America.

3. Ease and Speed of Operations

The Zones will be designed to reduce red tape to a minimum, as the management of the Zones is convinced that their success will depend on their ability to turn goods around rapidly and efficiently. For example, cargo aircraft landing at Palmaseca will be cleared directly to the Zone, with all customs procedures taking place under Zone management and within the territory of the Zone. The Free Zone at Buenaventura will offer similar facilities for unloading cargo from ships.

3. Business Climate

The business climate of Colombia is attractive for export manufacturing. The country is too heavily dependent on coffee exports and has for some years been trying to diversify its exports. Thus, any new manufacturing enterprise aimed at markets in the United States, Europe and the Far East, would be welcomed. Foreign exchange and control restrictions earlier created difficulties for Free Zone operations in Colombia, but these were eliminated by law during 1970, and will not apply to the Free Zones at Buenaventura and Palmaseca.

Interviews with American, Canadian, European and Colombian businessmen in Cali have indicated a favourable climate for business operations. Living conditions for management families in Cali are of good quality by international standards, with good schools, clubs, and pleasant suburban communities. Buenaventura does not offer similar facilities but is only 30 minutes by air and 2½ hours by car from Cali, suggesting the possibility that general managers with operations at Buenaventura could supervise them from a base in Cali.

Colombian Economy

Colombia is a developing country of 21 million population, mainly agricultural but with increasing industrial activity. In recent years, the manufacturing industry has been the most dynamic branch of the economy.

Principal exports are coffee (60% of exports), sugar, tobacco, bananas, cotton and rice. The country also produces and exports gold, silver, platinum, copper, iron, lead, mercury, coal, zinc, asbestos, quartz, sulfur, mica, salt, oil and emeralds.

The most important products in the manufacturing industry are canned foods, textiles, rubber goods, glass and glassware, cement, chemicals, fuel oil, electrical appliances, steel, leather and goods, lumber and vegetable oils.

The Colombia GNP is about \$6 billion dollars and has been growing at more than 4% per year recently. Exports total about 18% of GNP.

Free Zone Advantages

Two important advantages will be granted to enterprises establishing in the Free Zones:

1. Freedom of International Trade

Enterprises establishing in the Free Zones will be allowed to import and export freely all types of goods such as equipment, furniture, manufactured and semi-manufactured goods, parts, and raw materials, without restrictions, bond, licenses, or taxes of any type.

Any Colombian product entering the Free Zones will be considered as a Colombian export, and will be favoured with a Certificate of "Abono Tributario" (CAT) which may be later used to pay Colombian taxes. Any Free Zone product that enters the Colombian market will be considered as an import and will be subject to the same legal requisites as any other import, with payment effected by Exchange Certificates.

2. Exchange Rate Freedom

Foreign Exchange is strictly controlled; however, according to Decree 3 dated January 1970, companies establishing in the Free Zones will be granted complete freedom from this control; in other words, they may use their dollars as they please without any control. The only restriction is that natural or juridical persons domiciled in Colombia must be paid for services Colombian pesos. Freedom from exchange control is especially important, not only to guarantee freedom of international commerce, which is essential for export industries, but also for remitting of profits, return of capital to country of origin, and payments to foreign companies for royalties and services. There will be no restriction or limitation for any of these operations inside the Free Zones.

Labour Availability and Cost

According to the 1964 Census, the Cauca Valley contained about 10% of Colombia's population or 1,733,053 inhabitants (856,250 males and 876,803 females with a ratio of 70% urban 30% rural. These inhabitants were in the following age groups: 45% under 15 years; 50% between 15 and 59 and 5% over 59. The estimated labour force 1970 was 638,000. The rate of unemployment is high, and it is believed that about 134,000 are readily available to work.

Cali, Palmira and Buenaventura are the main cities of the Cauca Valley, and contain 50% of its total population. A high proportion of the available labour present has a third or fourth grade education.

The following table shows our estimates of available labour for the Valley and the main cities for 1970 and 1980.

Available Labour Force

	<u>Cauca Valley</u>	<u>Cali/Palmira</u>	<u>Buenaventura</u>
1970	134,000	62,000	7,000
1975	158,000	92,000	9,000
1980	194,000	110,000	11,000

Minimum wages set by the Colombian Government for Buenaventura and Cali/Palmira are currently 17.30 Colombian pesos per day or approximately US\$0.90. Total fringe benefits for workers including pay for one day of rest per week, vacation, subsistence allowance, semi-annual bonus, social security, family medical expenses, pension contributions, and other miscellaneous social benefits amount to approximately 83% of the above cost. Actual pay scales vary with different company policies, however the following is a practical guide:

	<u>Nominal Wage Pesos per day</u>	<u>Total U.S. Dollar Cost Including all Fringes per hour actually worked</u>
Unskilled, training	17.30 - 20.00	0.20 - 0.24
Trained Unskilled	25.00 - 30.00	0.30 - 0.36
Semi-Skilled	35.00 - 50.00	0.42 - 0.59
Skilled	50.00 - 75.00	0.59 - 0.89

Companies establishing inside the Free Zones are subject to the same taxes and fringe benefits for labour as those operating outside of Free Zones.

Land and Buildings

The Palmaseca Free Zone is located on a 500 acre tract adjacent to the air cargo terminal at the new international airport about 12 miles from Cali. There is a new highway connecting the airport with Cali, and rail service is nearby. The land is flat and dry and will pose no problems for construction.

The Buenaventura Free Zone is located on a 110 acre tract immediately adjacent to the new dock facilities. The land is cleared and level, but will necessitate building on piles.

Services and utilities, such as water, electricity and sewers will be available to the lot lines and each Zone will have paved roads and sidewalks, police and fire protection, and other amenities normally expected in high-grade industrial parks.

Warehouse and production buildings will be constructed of steel and concrete comparable to United States standards. Heating is not required. Construction costs, which can be assumed by the company locating in the Zone or reflected in the rental rates, are roughly 50% of United States cost for comparable buildings. For example, warehouse construction in Cali will cost about US\$4.00 per square foot. Manufacturing plants about US\$7.00 per square foot. Cost in Buenaventura will be approximately 20% higher.

Energy

<u>Fuels</u>	<u>US\$/Gallon</u>
Gasoline, High Test	0.14
Gasoline, Regular	0.12
Diesel Fuel	0.085
Kerosine	0.072
Fuel Oil	0.05
<u>Electricity, Industrial</u>	<u>US¢</u>
Monthly Demand Charge, per KW	0.50
Charge per KWH	0.0116

Transportation

General Air Cargo Rates for 100 Pound Minimum Shipment

(US\$/Kilo)

<u>To</u>	<u>Los Angeles</u>	<u>Chicago</u>	<u>New York</u>
Cali, Colombia	1.28	1.37	1.4
Mexico City, Mexico	0.73	0.85	0.9
San Juan, Puerto Rico	1.06	0.71	0.8
Shannon, Ireland	3.31	2.72	2.8
Rome, Italy	3.90	3.31	3.4
Tokyo, Japan	4.50	4.66	4.7
Hong Kong	4.67	4.83	4.9

Maritime Rates, Colombia, Selected Commodities
(US\$/Short Ton)

	<u>United States</u>		<u>Europe</u>	
	<u>To</u>	<u>From</u>	<u>To</u>	<u>From</u>
Foods	22 - 65	82	- -	-
Vegetable Oils	22 - 80	-	27	-
Synthetic Fiber	40	59	74	96
Agricultural Machinery + Canned Foods	-	45	-	74