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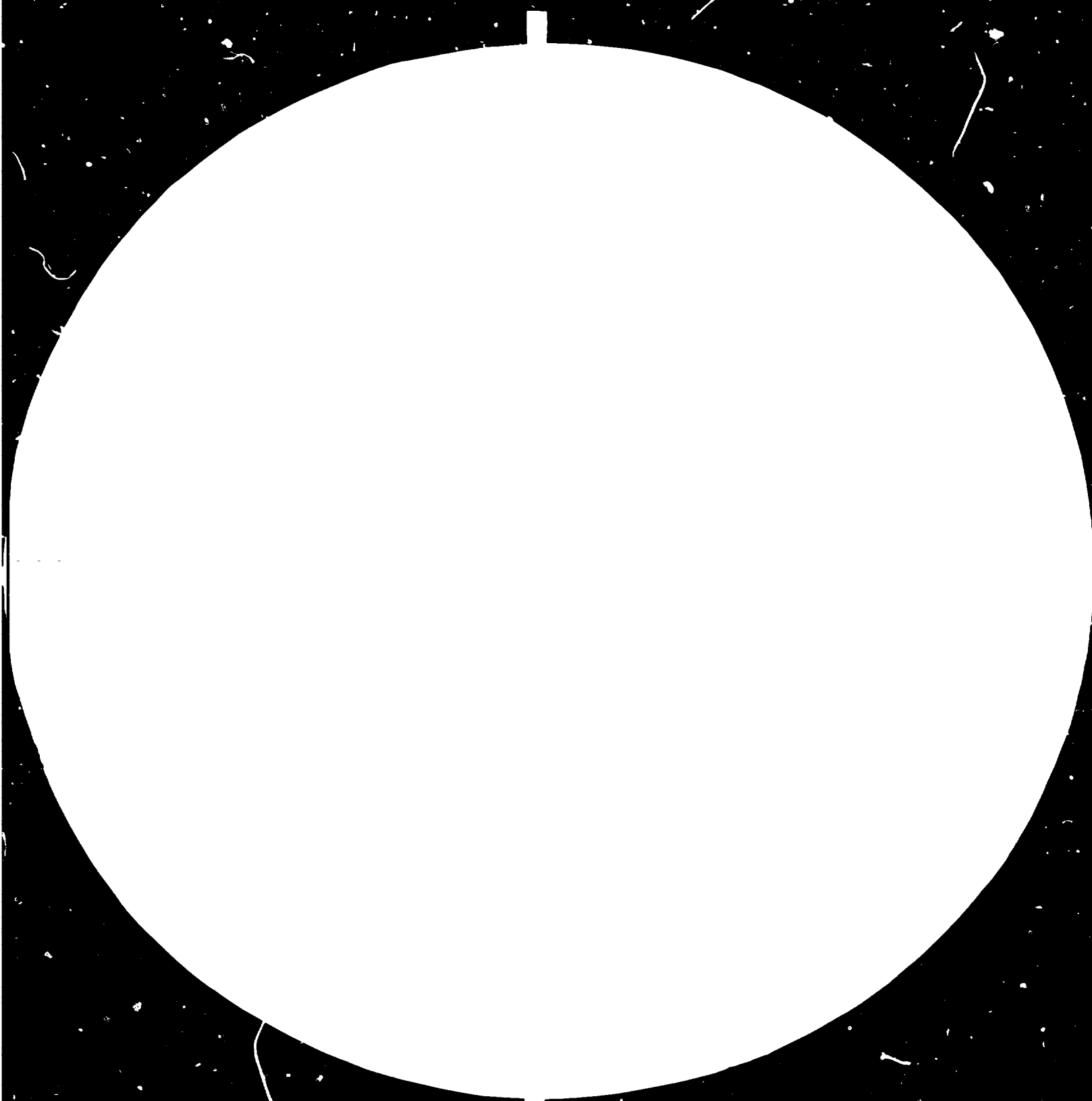

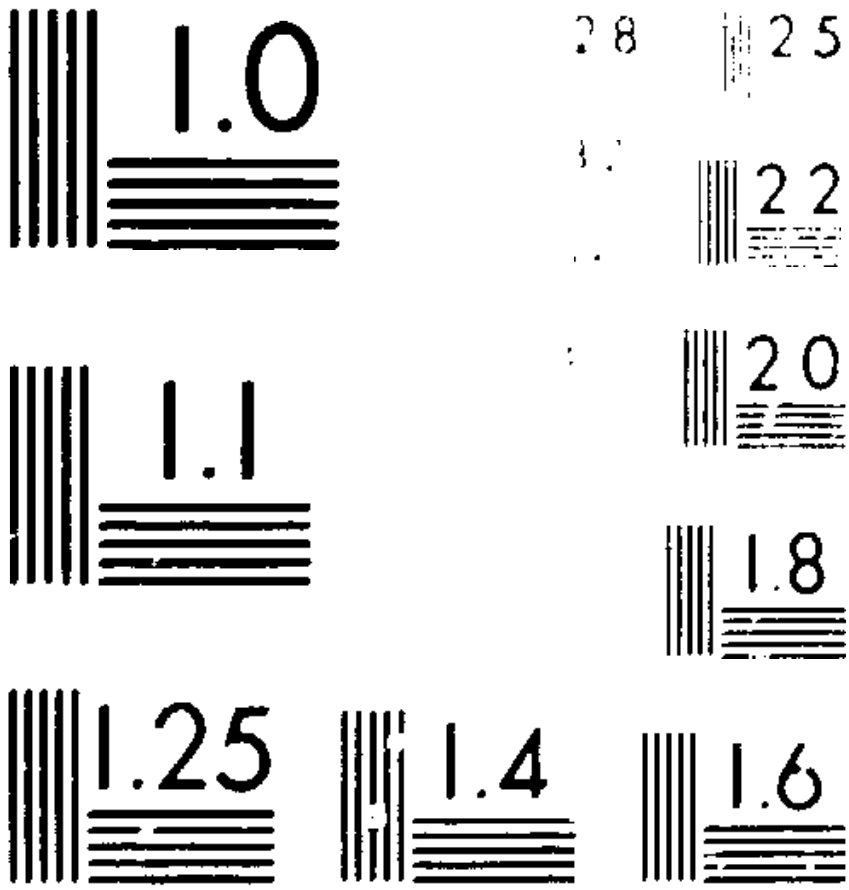
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GENERAL OVERVIEW OF THE ANDEAN GROUP*

Prepared by the
Board of the Cartagena Agreement

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CONTENTS

INTRODUCTION

The object of this document, based on the existing work of the Board, is to offer a general and summary overview of the Integration Agreement, with its main emphasis on the Joint Industrial Programming. To this end the work has been divided into two parts: firstly the background and contents of the Cartagena Agreement, and secondly the Joint Industrial Programming.

In the first part the background and objectives of the Agreement are described, together with the significance and application of its mechanisms, with the exception of those included in the Joint Industrial Programming.

In the second part the significance and application of the latter are explained, that is to say: the Sectorial Programs of Industrial Development, the Market Reservations for Bolivia and Ecuador, the Industrial Rationalization Programs and the Integrated Development Projects.

This document, which is purely for information, has been written because of the coming visit of the Delegation from the Association for Regional Cooperation of South East Asia Nations (ASEAN) to the Andean Group, to whom this general and summary overview will be presented.

PART ONE

GENERAL OVERVIEW OF ANDEAN INTEGRATION

I.- ORIGIN, OBJECTIVES AND MECHANISMS OF THE CARTAGENA AGREEMENT

a) Origin

On 16 August 1966 the Presidents of Colombia, Chile and Venezuela and the Representatives of the Presidents of Ecuador and Peru signed the "Declaración de Bogota"*, in which they stated their decision to accelerate the integration process within the framework of the Latin-American Free Trade Association (LAFTA)** and to implement concrete actions in favour of those countries of relatively less economic development and insufficient market, in order to achieve a harmonious and balanced development of the region, in accordance with the spirit of the Treaty of Montevideo. At the same time, in the "Bases for a Program of Immediate Action by the Member Countries", they agreed to coordinate industrial development policies in order to arrive at complementary agreements which would enable the establishment of new industries by the extension of existing ones to cover the extended market; they created a Joint Committee formed by Representatives of each participating country to carry out studies and to suggest proposals for the achievement of the planned program, and they recommended the creation of a Development Corporation to provide the necessary financial resources and technical assistance for carrying out projects of common interest.

The Joint Committee discussed the Draft Subregional Integration Agreement, prepared by the Committee of Experts: this was approved at the Sixth Meeting of the Joint Committee on 25 May 1969 in Cartagena, and was signed by the Plenipotentiary Representatives of Bolivia, Colombia, Chile, Ecuador and Peru on 26 May 1969 in Bogota.

The Subregional Integration Agreement came into effect on 16 October 1969.

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* Bogota Declaration

** LAFTA = ALALC (Asociatión Latinoamericana de Libre Comercio)

The Agreement Committee, by Decision 1, named the Subregional Integration Agreement the Cartagena Agreement.

On 31 December 1973 Venezuela signed the Cartagena Agreement, so becoming the sixth member.

On 30 October 1976 Chile left the Agreement, thus cancelling all rights and obligations arising from the same.

Some modifications were made to the Cartagena Agreement by the Lima (1976) and Arequipa (1978) Protocols in order to update and give flexibility to some of its mechanisms.

On 28 May 1979 the Presidents of the Andean Countries, meeting in Cartagena, signed the "Cartagena Mandate" whereby, after ten years of integration, they ratified the validity of the integrationist assumptions and established guide-lines for the improvement of the scheme.

b) Objectives

The objectives of the Cartagena Agreement are:

- To promote the balanced and harmonious development of the Member Countries;
- To accelerate their development through economic integration; and
- To establish favourable conditions for the formation of a Latin-American Common Market.

All these have the aim of improving the living standards of all the inhabitants of the Subregion.

c) Mechanisms

In order to achieve the above objectives the following mechanisms, amongst others, are available:

- The harmonization of economic and social policies and approximation of national legislations in pertinent matters;
- Joint programming, intensification of the industrial processes of the subregion and the carrying out of Sectorial Programs of Industrial Development;
- A Program of Trade Liberation;
- A Common External Tariff, the initial stage of which involves the adoption of a Common Minimum External Tariff;
- Programs prepared to expedite the development of the agrarian sector;
- The channelling of resources within and outside the Subregion, in order to obtain the financial resources necessary for the process of integration;
- Physical integration; and
- Preferential treatment in favour of Bolivia and Ecuador.

2.- INSTRUMENTS OF THE AGREEMENT

The Commission, the Board and the Tribunal of Justice are the principal instruments of the Agreement, being ancillary to the other instruments.

a) The Commission

It is the senior instrument of the Agreement and consists of a plenipotentiary representative from each Member Country.

It is primarily responsible for formulating the general policy of the Agreement, for adopting the necessary measures for the accomplishment of its objectives and for taking note of and resolving all other matters of common interest.

b) The Board

This is the technical instrument of the Agreement and consists of three members who remain in office for three years, who may be re-elected and who act in accordance with the interests of the Subregion as a whole.

It is responsible, among other functions, for the supervision of the application of the Agreement, the fulfilment of the instructions of the Commission and for submitting to the Commission proposals intended to facilitate or accelerate the fulfilment of the Agreement, directed towards achieving its objectives in the shortest possible time.

The Board performs the functions of a Permanent Secretariat to the Agreement and maintains direct contact with the Governments of the Member Countries through the organization which each of them designates for this purpose. Its headquarters are in Lima.

c) The Andean Tribunal of Justice

On 28 May 1979 the Treaty creating the Tribunal of Justice of the Cartagena Agreement as another principal instrument was signed (Article 6 of the Treaty of the Tribunal of Justice).

By this Tribunal the Cartagena Agreement improves its institutional structure.

The jurisdiction of the Tribunal is the legal framework of the Cartagena Agreement, covering the Agreement itself, its Protocols and Instruments, the Treaty of the Tribunal, the Decisions of the Commission and the Resolutions of the Board.

The Tribunal is competent to pronounce nullity of Decisions and Resolutions which infringe the rules forming the legal framework of the Cartagena Agreement.

The Tribunal is also concerned with the enforcement of the rules of subregional juridical laws.

The tribunal will also interpret, before final pronouncement, the rules forming the juridical framework of the Cartagena Agreement, so as to ensure their uniform application throughout the Subregion.

This Treaty will come into effect as soon as each Member Country has deposited its ratification instruments with the Commission Secretariat.

d) The Advisory Committee

This is the instrument through which Member Countries may maintain close contact with the Board. It consists of representatives of all Member Countries, who may attend the meetings accompanied by their advisors.

Its responsibility is to advise the Board, to cooperate in its work when required and to analyse proposals of the Board before they are examined by the Commission at the request of the latter.

e) The Economic and Social Advisory Committee (ESAC)

Its purpose is to link the economic activity sectors of the Member Countries with the principal instruments of the Agreement and to promote the active participation of managers and workers in the process of subregional integration.

The Committee is formed, on an equal basis, by three representatives of the workers and three representatives of the managers in each of the Member Countries.

Its responsibility is to advise the principal instruments of the Agreement on those matters requested by them, giving opinions on general or particular aspects of the integration process, and analysing on request the recommendations of the Board before they are examined by the Commission.

f) The Councils

The Commission, in order to expedite harmonization of the social and economic policies and to maintain close linking of the national organisms in charge of the formulation and execution of the above policies with the principal instruments of the Agreement, has created Planning, Monetary and Customs, Finance, Fiscal Policy, External Trade, Tourism, Social Matters, Health, Physical Integration, Agriculture and Statistics Councils.

The Councils are formed by representatives of the highest level of the national organizations in charge of the formulation and execution of development plans and their corresponding policies.

3.- HARMONIZATION OF ECONOMIC POLICIES AND COORDINATION OF DEVELOPMENT PLANS

The harmonization of economic and social policies and the coordination of national development plans, as laid down in the Cartagena Agreement, form the basic mechanisms of the process of Andean integration. Harmonization must be achieved in parallel with the formation of the extended market, and the basic objective is to allow the countries to profit efficiently and equitably from the new economic field.

The process of harmonization is achieved through the following mechanisms:

industrial planning, special regulations for the agricultural sector, planning of the social and physical infrastructure, harmonization of the customs, monetary, financial and fiscal policies, a common commercial policy in respect of third countries, etc.

The Commission has approved numerous decisions in the field of harmonization of economic policies, the following being the most important:

- Common Regulations for the Treatment of Foreign Capital and Trade Marks, Patents, Licences and Royalties (Decision 24 and amendments).

- Convention to prevent double taxation between Member Countries and Model Conventions to make similar agreements with other States outside the Subregion (Decision 40).

- Uniform Regulations for Multinational Companies and Treatment Applicable to Subregional Capital (Decision 46).

- Rules to prevent or correct practices which can distort competence within the Subregion, such as dumping, unfair manipulation of prices, strategems intended to disrupt normal supplies of raw materials, etc. (Decision 49).

- Basic Directives to harmonize legislation for industrial promotion in the Member Countries (Decision 49).

- Common Tariff Nomenclature of Member Countries of the Andean Group - NABANDINA (Decision 51).

- Subregional Regulations for the Temporary Introduction of Private Vehicles (Decision 50).

- Regulations for International Road Transport (Decision 56).

- Mechanisms and procedures for the harmonization of policies and coordination of the development plans of the Member Countries of the Cartagena Agreement (Decision 22).

- Andean Instrument for Social Security and Andean Instrument for Labour Migration (Decisions 113 and 116 respectively).

Special mention must be made of the Common Regulations for the Treatment of Foreign Capital and Trade Marks, Patents, Licences and Royalties, approved in December 1970 and amended in 1976 through Decisions 103 and 109.

The Regulations established a number of rules for foreign capital and technologies operating in the Andean countries in order to safeguard the interests of the receiving nations and, at the same time, to give adequate guarantees for foreign investment within the Subregion.

In regard to the Common Regulations those referring to the transformation of foreign companies which wish to enjoy the extended market, among others, in national or mixed companies, should be noted; the right of foreign investors to repatriate benefits up to 20% a year, each Member Country being able to authorize higher percentages; the ability of each Member Country to authorize and control the entry of foreign capital; the access of foreign companies to short and medium term internal credit; the control of technology transfers; etc.

In all cases it has been considered that the integration effort must benefit the countries concerned, and this assumes a rational control of foreign capital required to promote development in the Subregion.

Decision 24, instead of hindering foreign investment, has promoted it in the Subregion. During the period 1967-1971, which may be considered as the period immediately before the application of the Common Regulations, the average annual rate of growth of foreign investment in the Subregion was -0.4%, while in the period 1971-1977, with Decision 24 in force, the average annual rate was 7.6%.

4.- PROGRAM FOR TRADE LIBERATION

a) Duties and Restrictions - Nomenclature

The objective of this program is to eliminate duties and restrictions of all kinds on the importation of products originating in the territories of any of the Member Countries of the Andean Group. To this end Chapter V of the Cartagena Agreement defines the real meaning of "duties" and "restrictions of all kinds".

Colombia, Peru and Venezuela have already removed all types of restrictions on trade within the Subregion, with the exception of those relating to products reserved for Sectorial Programs of Industrial Development, which are to be removed according to the liberation procedure established in the respective program.

In accordance with Article 46 of the Agreement Bolivia and Ecuador will remove any kind of restrictions when they commence the Liberation Program for each product, according to the special rules established for these two countries.

As regards nomenclature it should be noted that the Member Countries have created NABANDINA (Decision 51), based on the Brussels Nomenclature (NAB)*, but adapted to the requirements of the mechanisms of the Andean Integration, having subsequently incorporated the updatings approved by the Brussels Customs Cooperation Council (Decision 145).

b) Rules of the Liberation Program

As far as the liberation of duties on trade within the Subregion is concerned the Andean Group adopted the Liberation Program, which is automatic and irrevocable and covers all kinds of products. The range of products has been divided into four sections:

- Products included in the First Section of the LAFTA Common List. They correspond to approximately 132 items in NABANDINA. These products were completely liberated from duties and restrictions

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* NAB = Nomenclature Avancelaria de Bruselas (Brussels Customs Nomenclature)

of any kind from 14 April 1970. Bolivia and Ecuador will complete the liberation of such products in the manner and at the time laid down in the Montevideo Treaty and in the Resolutions of the LAFTA Conference.

Liberation of products on the Common List, for which the Member Countries have granted advantages not applicable to Bolivia and Ecuador, within the mechanisms contemplated in the Montevideo Treaty, is solely for their own benefit. This exclusivity is limited to the country granting the concession.

Venezuela, in accordance with Decision 70 of the Commission, proceeded to remove totally all duties and restrictions of any kind for these products on 1 May 1974.

- Products which are not produced in any country of the Subregion, and which have not been reserved for the sectorial programs.

Initially these consisted of 228 items in NABANDINA and these were completely liberated from duties and restrictions of any kind as from 28 February 1971. This commitment was also fulfilled by Venezuela as from 1 May 1974.

From this List 43 items were reserved for production by Bolivia and 41 items for production by Ecuador. Liberation from duties and restrictions benefits only the country in whose favour this is effected. The period of reservation of the market for those products assigned to Bolivia and Ecuador ends on 31 December 1984.

By Decision 137 140 additional items were included in the list of products not produced in the Subregion and in respect of which liberation on behalf of the Member Countries was effected on 31 December 1978.

From these 140 items 4 were reserved for production in Bolivia and 11 items for Ecuador. The period of reservations for these products ends on 31 December 1988.

- Products Reserved for the Sectorial Programs of Industrial Development

This list covered about 1100 items of NABANDINA (Decision 59 of the Commission), corresponding to those products which, by their importance for the economic development of the Subregion, were selected for the establishment of industrial plants for supplying the total market of the Subregion.

The Commission, through Decision 137, excluded 259 products from the reserve list for industrial programming, establishing for them rules designed to expedite trading within the Andean market.

Other products of the reserve list, which were not included in the program until 31 December 1980, were to be liberated in the following way:

. On 31 December 1980 Member Countries had to adopt the initial point for reduction of duties.

. The rest of the duties must be removed by three annual and successive reductions of 30%, 30% and 40% as from 31 December 1981.

. In the case of Bolivia and Ecuador these products should be liberated as from 31 December 1980.

. For their part Bolivia and Ecuador had to initiate the reduction of duties for these products from 31 December 1980, completing it on 31 December 1990.

In Part II of this document those products which were the object of Industrial Sectorial Programming are dealt with in detail, and also those which were not included in the sectorial programs and which were reserved for production in Bolivia and Ecuador.

- Products subject to Automatic Reduction of Duties.

This list covers about 3000 NABANDINA items (Decision 145 of the Commission) and covers the remainder of the products in the tariff and which, not only because there is sufficient production of them in the countries, but also because they are not of basic importance for industrial programming at subregional level, were not included in the previous lists. These products are subject to the following Liberation Program.

i) Colombia and Peru adopted, as the initial duties reduction point (DRP), the lower level of the Tariffs of the respective LAFTA National Lists of those countries, in force on 26 May 1969, the date when the Cartagena Agreement was signed, a level that could not exceed 100% ad valorem CIF.

On 31 December 1970, all duties which exceeded the level indicated above were reduced to that level. From 31 December 1971, Colombia and Peru began to eliminate these duties by annual reductions of 10%, rising to 50% at the end of 1975. From 31 December 1976 the rate of reduction is 6% over the next 7 years and 8% on 31 December 1983. By that date liberation will be complete.

Venezuela, in accordance with Decision 70 of the Commission began to implement this Liberation Program on 1 May 1974. Consequently it took as the starting point for the reduction of duties the level already reached on that date by Colombia and Peru. Ex is made for duties below that starting point, these being retained until the other countries reach that level. From then on it will eliminate the rest of the duties at the same rate as Colombia and Peru until total liberation is achieved on 31 December 1983.

ii) For products originating in Bolivia and Ecuador, and destined for the other countries of the Subregion, a more accelerated reduction process was established; starting from the DRP they were liberated

in three years by reductions of 40% on 31 December 1971, 30% on 31 December 1972 and the remaining 30% on 31 December 1973.

iii) Moreover in order to facilitate direct access to the markets of the Subregion for products originating in Bolivia and Ecuador, the Commission, Decision 29 approved a list of products which, from 1 January 1971, were totally exempt from duties and restrictions of any kind.

In accordance with Decision 70 Venezuela liberated the products contained in these lists from all charges and restrictions as from 1 May 1974.

iv) Bolivia and Ecuador will liberate these products which are in the list of automatic reduction of duties from the level of their National Tariffs, by annual reductions which started on 31 December 1981 at an annual rate of 5% during the first three years; five of 10% each from 31 December 1984; one of 15% on 31 December 1989; and one of 20% on 31 December 1990.

c) Preferential margins for Bolivia and Ecuador

In order to facilitate the access of various products from Bolivia and Ecuador to the markets of other countries of the Subregion, under competitive conditions against similar products the Commission, by Decisions 34 and 65, established preferential margins for a list of products of special interest for both countries. By this Decision the level of the initial DRP is held stationary, and the last reduction will be made on 31 December 1983. At the same time Decision 137 approved a new list of products with preferential margins in favour of Bolivia and Ecuador, with suspension of the annual reductions realized by Colombia, Peru and Venezuela, from the time at which

production of the goods started in those countries. The same procedure must be applied for a list of products which were reserved for sectorial programs of industrial development, and which were not included until 31 December 1980.

d) List of Exceptions

In order to protect national production activities which are just starting, or which are susceptible to competition from similar products produced under better conditions by the other Countries, the Cartagena Agreement allowed Member Countries to list products to be excluded from the Liberation Program and from the process of adoption of the Common External Tariffs.

The List of Exceptions for Colombia and Venezuela include 250 NABALALC items; for Peru it included 450 items, reduced to 350 on 31 December 1974. This list will be reduced to 250 items on 31 December 1982.

Venezuela, according to the Additional Instrument to the Cartagena Agreement, had an additional list of 200 NABALALC items which was used, at discretion, to exclude products originating in Colombia or Peru. This additional list, applicable to either of these two countries, could not include more than 110 NABALALC items, and is valid only up to 31 December 1982.

Colombia and Peru, according to the Additional Instrument to the Cartagena Agreement, produced additional Exception Lists with not more than 30 NABALALC items and were also allowed to include new items in their additional lists, given that the total number in each list did not exceed the number of NABALALC items which Venezuela had incorporated in its additional list and in relation to the respective countries. The additional lists of Colombia and Peru are only applied with respect to Venezuela, and are valid up to 31 December 1982, except for up to 20 items which the Board may authorize Peru and Venezuela to maintain between themselves, and which may not remain in force after 31 December 1988.

Products included in the Lists of Exceptions will be totally liberated from duties and restrictions and protected by the Common External Tariffs by 31 December 1988 at the latest.

Bolivia and Ecuador enjoy preferential treatment in this matter. The List of Exceptions for Ecuador has 600 NABALALC items and the one for Bolivia has 350 items and 50 sub-headings in NABALALC. These two countries, according to the Additional Instrument to the Cartagena Agreement, also have additional lists of exceptions, of no more than 30 NABALALC items applicable only to Venezuela.

Bolivia was authorized by the Lima Protocol to present an additional list of exceptions with 236 NABALALC items in order to reach the same number of items as granted to Ecuador. Bolivia presented this list before 31 December 1975.

The products included in the Lists of Exceptions of Bolivia and Ecuador will be completely liberated from duties on 31 December 1993; this period may be extended in duly qualified cases by the Board of the Agreement.

The inclusion of products in the Lists of Exceptions of Colombia, Peru and Venezuela does not affect the export of goods originating in Bolivia and Ecuador and which have formed part of a significant trade between the respective country and Bolivia or Ecuador, or with good prospects of trade in the near future, as decided by the Board with the corresponding Resolution.

It must be emphasized that countries are entitled to withdraw products from their Lists of Exceptions at any time, in which case the product is immediately subject to the Liberation Program and External Tariffs in force, in the ways and at the levels established, and at the same time can enjoy the benefits of the Liberation Program.

Using this privilege Member Countries have withdrawn excepted products included in the Sectorial Programs of Industrial Development approved so far (Metal fabrication, Petrochemicals and Automobile) and other ranges of products. At present they have withdrawn, totally or in part, about 300 items.

e) Development of trade within the Subregion

The Liberation Program of the Agreement has already had its effect on trade in the subregion, although not so far to any great extent.

Trade within the subregion increased from $77.7 million FOB, not including oil, in 1970, to $923.2 million in 1979. Considering only industrial products trade increased from $33.2 million dollars in 1969 to $740.4 million in 1979.

Trade activity within the subregion is also shown in a qualitative manner, by increasing the number of products and hence trading prospects between the Member Countries.

5.- COMMON EXTERNAL TARIFF

To improve the extended market a Common External Tariff is needed; consequently the Cartagena Agreement made provision for the establishment of a Common External Tariff (CET), applicable to all products.

A CET is to be adopted in two stages:

a) The first stage is the Common Minimim External Tariff (CMET), the introduction of which started on 31 December 1971 and was in full operation in Colombia, Peru and Venezuela on 31 December 1975; Ecuador and Bolivia are not obliged to adopt the CMET except for those products which are not produced in the Subregion, for which minimal duties will be adopted by three annual approximations, from the date of starting production; and

b) The second stage will contain the definitive tariff levels (CET), now being negotiated.

The first CMET, which was in force up to 1976, showed an average of 40% protection ad valorem, with a maximum protection of 110%. Afterwards, by Decision 104 of the Commission, the CMET average was reduced to 29%, although retaining the same maximum.

Each of the Sectorial Programs of Industrial Development approved have their own CET, the average level being 10 points higher than the CMET in force.

The Cartagena Agreement requires that once a product is totally liberated from duties because of the fulfilment of the Liberation Program it will be subject totally to the CMET or CET tariff, as the case may be.

For those cases in which there is a temporary shortage of subregional offers affecting any of the Member Countries they will be able to reduce or withdraw temporarily the duties of the CMET under the terms laid down by Article 67 of the Agreement, after confirmation of the situation by the Board.

Member countries are not allowed to alter the common tariff duties unilaterally, but must consult before committing themselves with third parties in matters of tariffs.

6.- AGRICULTURAL SYSTEM

Chapter VII of the Cartagena Agreement establishes a special system for the agricultural sector, having regard to its economic and social importance and special characteristics.

The basic objectives of the system are: the improvement of living standards for the rural population, increased production and productivity, specialization for better use of production factors, the subregional replacement of imports,

diversification and increased exports and adequate and timely supplies on the subregional markets.

For this purpose the Agreement provides that the Commission shall study and approve joint programs of agricultural development by products or groups of products, common systems of marketing and agreements between the organizations in charge of planning and execution of agricultural policies, initiatives on the promotion of exports, joint programs of applied research and financial and technical assistance to the agricultural sector and common rules and programs on vegetable and animal health. In addition, and with the final purpose of adopting a common policy and the formulation of a directive plan, the Agreement also requires that the Member Countries shall accommodate their national policies and coordinate their agricultural development plans.

It is also important to note that an institutional scheme has been organized for agricultural integration, formed by: the Annual Meeting of Agricultural Ministers, the Agricultural Council, the Units of Agricultural Integration and the Technical Meetings of Government Experts.

Activities for agricultural integration have taken place in the areas of production, marketing, health, training and planning; the more significant advances are:

1) Production

The Board and the Member Countries are working actively in the development of specific projects concerning cereals, improved oil-bearing seeds and the meat and dairy industries, most of which will reach their stage of investment during 1982-1983.

The above is being achieved through projects covering the production and processing of palm trees, the production, certification and trading of seeds, the production and joint purchases of wheat, the

production of maize and sorghum and the agro-industrial production of cow's milk and meat.

Specific projects for agronomic integration cover a group of activities arranged between two or more Member Countries, designed to achieve the identification, formulation, design, financing and execution of concrete actions, among which production and productivity, food supply, technological development, the creation of multinational companies and agronomical development are of special importance.

b) Marketing

In addition to the marketing actions included above other activities have been developed, tending to create basic conditions for accelerating agricultural trade. Such activities are aimed at the execution of studies to develop the physical and institutional infrastructure of marketing, at reducing the present restrictions on trade within the subregion and at promoting trade in agricultural products.

To this end a provisional system of technical rules for agricultural products is being prepared: a Directory of Importers and Exporters of Agricultural Products in the Andean Group has been issued, the first Andean Agricultural Exhibition is being organized, a study of the infrastructure of storage and marketing for grain and oil-bearing products of the Subregion has been finalized, and studies of feasibility and design for the first centres for storing perishable products are now starting.

c) Animal and vegetable health

The Andean System of Agricultural Sanitation was created for the protection of the Subregion, and consists of Continual Sanitary Diagnosis, the Subregional Register of Phytosanitary and Zoosanitary Rules and Joint Actions.

Amongst the latter should be noted the Andean Program against coffee bush rust, the Andean Program against African swine fever and the Andean Program of Zones Free from Foot-and-mouth. Feasibility and design studies for the installation and commissioning of vegetable and animal quarantine stations should also be mentioned.

d) Agricultural Planning

Work on planning in the agricultural sector is basically directed towards achieving an adequate harmonization of the national development plans and creating technical conditions suitable for the formulation of the long-term Subregional Master Plan, which is to become an important directive instrument for the decisions to be taken both by the Community Organs of the Agreement and by the Ministries of Agriculture.

e) Program for Reciprocal Technical Cooperation and Training

Its basic aim is to offer opportunities for training and practical service in various activities related to the agricultural sector, taking advantage of the scientific and technological know-how, the institutional experience and the technical personnel within and outside the Subregion. It is intended that all physical resources and human potential relating to national and subregional priorities should be used in an integral and efficient way.

Through this Program 1280 subregional technicians have been trained.

f) Special Program for the Agricultural Development of Bolivia

This Program is being developed according to Article 71 of the Cartagena Agreement and Resolution 14 of the Second Meeting of Agricultural Ministers of the Andean Group; its main actions to date are the constitution of a Cattle Fund with contributions from

the cattle breeders, the Bolivian Government and the World Bank, feasibility studies to create a National Seed Company and for a new industrial refrigerated slaughter house and the study and promotion of a fruit project.

7.- COMMERCIAL COMPETITION

The Commission of the Cartagena Agreement, by Decision 45, established rules to prevent and correct those practices which may distort competition within the Subregion, such as dumping, undue manipulation of prices, strategems intended to disrupt normal supplies of raw materials and others of similar effect.

The Decision establishes rules not only for the case of practices originating in the territory of the Member Countries, but also for those originating in the territory of third party countries.

Considering the lack of experience of the Andean Group in this matter it was thought advisable, based on the results of the application of this Decision, to define basic elements allowing the characterization of those practices which distort or may distort competition in the Subregion, as well as new rules which can be necessary to prevent or correct those practices.

8.- SAFEGUARD CLAUSES

There are temporary restrictive measures, which a Member Country may

impose in extremely grave cases for its economy, on the products in the Program of Liberation. Such cases are included in the Cartagena Agreement and are as follows:

a) Those foreseen in Chapter VI of the Montevideo Agreement, produced by causes outside the Liberation Program of the Cartagena Agreement.

   In this group are included imports which are made in such quantities or conditions as to cause, or threaten to cause, great damage to certain productive activities, of significant importance for the economy of a country, and the event of deficits in the balance of payments.

b) Those for which fulfilment of the Liberation Program of the Agreement would cause, or threaten to cause, great damage to the economy of a Member Country or to a significant sector of its economic activity.

c) Cases of changes in the normal conditions of competition caused by a monetary devaluation operated by any of the Member Countries.

For all the above cases procedures have been established which the country introducing temporary restrictive measures must follow.

It is important to note that the Cartagena Agreement establishes that no safeguard clauses of any kind can be applied to the importing of products originating in the Subregion and included in Sectorial Programs of Industrial Development.

As far as the agronomic sector is concerned it is established that it will be possible to apply safeguard clauses to a limited list of products of this sector (Decision 80), after complying with the necessary regulations.

9.- ORIGIN OF GOODS

The main objective of the system to qualify the origin of goods, as established in the Cartagena Agreement, is to ensure that the benefits of opening up the Andean Market favour the Member Countries.

Qualification of origin in the Andean Group is made by specific requirements of origin (SRO) and general criteria. The latter are applied to all those products which do not have an SRO.

SRO are established in cases in which, because of special circumstances, it is necessary to define the processes which must be incorporated in the production of a specific good. Some of the specific objectives of the SRO are integration at subregional level of certain activities, industrial complementation, establishing equitable bases for competition, compatibility between the level of protection established and the degree of integration and temporary flexibility of the general criteria.

General criteria are used for the qualification of origin of large groups of products, unlike the SRO which are applied individually to products. Such general criteria are:

a) Goods "produced integrally", being those in which only subregional materials are used.

b) Goods considered of origin only because they are produced in the Subregion and which appear in a special list (Annex 1 of Resolution 82 of LAFTA).

c) Goods whose production process gives them a new individuality, different from the products imported from third countries which contribute to their production and characterized by the fact that the goods produced are classified under a NABALALC heading differing from the heading of those materials.

d) Goods resulting from processes of assembly, using subregional and other materials, in which the imported content must not be more than 50% of the FAS value of the goods.

e) The criteria included in each of the approved Sectorial Programs of Industrial Development, which apply to products from the sector concerned.

The general criteria, except e), are LAFTA norms applied as supplementary in the Andean Group, until special norms for the qualification of origin of goods in the Subregion are adopted.

10.- PHYSICAL INTEGRATION

a) The Cartagena Agreement, by Article 86, establishes that Member Countries shall undertake joint action to solve the problems of substructure which unfavourably affect the process of economic integration of the Subregion, this action to apply mainly to the energy fields, communications and transport, and to cover, in particular, the necessary measures to expedite frontier traffic amongst the Member Countries.

The Council of Physical Integration, created by Decision 71, is the institutional mechanism in charge of advising the principal instruments of the Agreement in defining policies for those sectors.

b) At the beginning of the process of integration it was considered advisable to give priority to the development of transport in the Andean Group. As far as road transport is concerned the Commission, by Decision 50, approved the subregional system for the temporary introduction of private vehicles, in which it is provided that each Member Country will allow the temporary introduction into its territory of vehicles owned by tourists coming from any other Member Countries, free of taxes and import duties, without requiring guarantees and without applying import restrictions and prohibitions, but with the obligation of re-exporting. The Regulations for this system were approved by the Commission as Decision 69.

c) On the other hand, and considering the high cost of transport and the long periods which delay services used in trade among the Member Countries, which is an obstacle for reciprocal trading, and taking into account the fact that road transport deserves priority attention in order to promote the physical integration of the area, the Commission, by Decision 56, established the system for international road transport between the Member Countries, and transport in transit, or among these and other countries, applying the principle or

reciprocity to all means used to carry out this service.

The system covers, inter alia, customs, migratory and transit aspects, and establishes norms for crossing frontiers by vehicles, passengers and loads, in order to maintain continuous and flexible traffic.

d) Another aspect which has been given special attention is the establishment, as a multinational project implying joint action by the Member Countries, of an Andean Trunk System of Roads for long distance transport, in order to link the Member Countries as directly as possible, by means of a continuous road, ensuring easy access to the main economic areas of the Subregion, to link the Andean Group with the rest of Latin American countries, with the view of extending the subregional trade, to achieve complete continental physical integration and to consider Andean trade in such a way that the cost of transport may be an incentive for that interchange.

Through the Andean Trunk System of Roads the following types of highways are to be established:

- Central Highways, to allow continuous interconnection, direct or immediate, between the Member Countries;

- Interregional Highways, as an extension of the Central Highways, to ensure the connection of the Andean area with the rest of Latin American countries, especially when they allow for a rapid extension of trading;

- Supplementary Highways, for the connection of other internal development areas, important from the subregional viewpoint, with the Central Highways and the Interregional Highways.

e) Studies are also being carried out on transport by sea and air, because of their importance for the development of subregional trade.

f) Finally it is worth noting that, in accordance with Article 4 of the Cartagena Agreement, Decision 141 of 29 May 1979 was issued, which implies collective support to help solve those problems arising from the inland situation of Bolivia, in those aspects related to the development of highways, railways, airlines, communications and transport from this country to the rest of the Member Countries and to the ports of the Pacific.

11.- FINANCIAL MATTERS

Chapter XII of the Cartagena Agreement indicates that Member Countries must coordinate their national policies in financial and payment matters in order to achieve the objectives of the Agreement.

For this purpose the following actions were, inter alia, envisaged in the Agreement: channelling public and private savings in the Subregion, financing trade amongst Member Countries, facilitating the movement of capital, strengthening the system of multilateral compensation of balances, and creating a common reserve fund.

As far as the institutional aspect is concerned the integration process has the following organizations:

- The Andean Development Corporation (CAF), the main financial organization for subregional integration, created in February 1968 by a Constitutional Agreement which grants the organization powers to execute practically any kind of financing operation intended to promote the process of subregional integration. With this purpose and within the spirit of rational specialization and equal distribution of investment within the area, taking into account the need for an efficient action in favour of the countries of less relative development and with an

adequate coordination with the body in charge of subregional integration, it stimulates the exploitation of resources and opportunities offered by the area through the creation of limited companies, technical assistance, pre-investment credits, work capital and execution, leasing and financing of exports among the Subregion and from the Subregion to third countries;

- The Andean System of Trade Financing, (SAFICO), created in 1974, controlled by the CAF, the objective of which is to facilitate the financing of trade between the Member Countries and with the countries outside the Subregion;

- The Andean Reserve Fund, (FAR), created in July 1978, is an Andean system of reciprocal cooperation and assistance to help solve problems of the balance of payments.

Other actions in the fields of financing and the movement of capital have been the revision of Decision 24 in order to facilitate the re-investment in existing companies, the creation of an uniform system for Andean multinational companies and regulations for creating the subregional capital, by Decision 46, at present being adjusted in view of the experience gained from its operation and, complementing the above action, Decision 40 designed to prevent double taxation.

12.- SOCIAL AND EDUCATIONAL INTEGRATION

According to Article 3 of the Cartagena Agreement the harmonization of economic and social policies is one of the mechanisms which will help to attain the objectives of the Agreement.

Consequently several agreements were signed in the educational, cultural, labour and health areas. The agreements signed are:

a) The "Andrés Bello" agreement. This was signed in Bogota in January 1970, and its objective is to accelerate the integral development of the signatory countries by means of combined efforts in education,

science and culture. Its aim is that the benefits derived from cultural integration ensure the harmonious development of the Andean Subregion and the conscious participation of the people as protagonists and beneficiaries of such processes.

Amongst its specific objectives are the promotion of knowledge and fraternity between the countries of the Andean region, the conservation of the cultural identity of the peoples of the region within the framework of their shared Latin-American heritage, and the application of science and technology to raising the living standards of the peoples of the region.

b) The "Simón Rodríguez" agreement. Initially signed as an agreement among Labour Ministers of the Andean Area in 1973, it was raised to the category of an International Agreement in 1976.

Its objective is to adopt plans and programs of common action to cooperate in achieving the objectives of the Cartagena Agreement, giving priority to the harmonization of social and labour legislation, professional training, utilization of the work force and mobility of manpower in the Subregion.

c) The "Hipólito Unanue" agreement. This was signed in December 1971. Its purpose is to improve human health in the Subregion through coordinated actions. For this, the Governments of the signatory countries promise to give priority to solving problems which affect the Andean nations similarly. Amongst these are the problems of health at frontiers, especially those linked with infectious diseases and migration, environmental sanitation, malnutrition, those derived from the increase in production and trade among the subregion where food, drugs and biological products are concerned, etc.

The Agreement proposes, among other points, the incorporation of the right to good health in the legislation of the countries, mutual technical assistance, the updating of sanitary agreements at frontiers, the promotion of studies and the development of programs of occupational health, the preparation of common sanitary norms to control trade in food of animal and vegetable origin, etc.

13.- PREFERENTIAL TREATMENT FOR BOLIVIA AND ECUADOR

The Cartagena Agreement provides for preferential treatment for two countries of lower economic development in the Subregion, Bolivia and Ecuador, in order to promote harmonious and balanced development, to provide an equal distribution of benefits and to contribute towards accelerating the growth of both countries through economic integration.

The preferential treatment which is shown in all the mechanisms and instruments of the Agreement, and which is extended to all the sectors and fields of action of the integration process, is shown by higher incentives for those countries and by special facilities for the fulfilment of the obligations attached to the Agreement.

The preferential treatment for Bolivia and Ecuador can be summed up in the following form:

- Total and anticipated liberation of duties and restrictions for a list of products originating in those countries from 1 January 1971, in order to allow them immediate participation in the extended market (Immediate Opening-up, Decision 29).

- From 31 December 1973, and also in anticipated form, about 2370 NABANDINA items originating in Bolivia and Ecuador enjoy complete exemption from duties and restrictions in the remaining Member Countries (Automatic Exemption).

- Market reservations for a list of products originating in these countries, a list which was enforced on 1 April 1971 (Decision 34) and which was subsequently updated and extended.

- Priority assignment of productions and efficient preferential treatment in the Sectorial Programs of Industrial Development.

- Authorization given to Bolivia and Ecuador to fulfil the Program of Liberation and the adoption of the Common External Tariffs over longer

periods than those indicated for the remaining countries, and to produce extended lists of products to be exempted from the Liberation Program and the External Tariff for a period extended until 1993.

- In other matters, such as financial cooperation and technical assistance the Member Countries act jointly, before the corresponding organizations, in favour of Bolivia and Ecuador.

The Commission of the Cartagena Agreement also approved the Special Program to Support Bolivia (Decision 119), taking into account the existence of various factors which make it difficult for that country to take advantage of the benefits of integration, such as the lack of a suitable physical infrastructure, insufficient skilled human resources, inadequate financial funds, problems derived from its inland situation, etc.

The Special Program to Support Bolivia was designed as an organic group of community actions to help that country to enjoy the benefits of Andean integration. With this in mind five initial projects for support were chosen, as follows:

- Identification of opportunities for the installation of ind strial plants;
- Promotion of the development of existing Bolivian industries;
- An integrated system for the promotion, financing and management of industrial projects;
- An integrated system to promote exports;
- Personnel training through the development of specific projects.

Bolivia and Ecuador have achieved some results from the application of this Preferential Treatment, although in different degree, with Ecuador obtaining more benefits from the integration.

The results achieved were less than the advantages expected, but in spite

of this it is obvious that the Cartagena Agreement is still an adequate system to enable those countries to take advantage of the process, provided that they accommodate their internal development policies to the policies of subregional integration.

14.- TECHNOLOGICAL ASPECTS

The technological policy of the Andean Group is defined through Decisions 24, 84 and 85, and also from the Andean System of Technological Information and the Andean Programs of Technological Development.

a) Decision 24 - Legislates, amongst other aspects, regarding marketing technology, and establishing certain norms for contracts dealing with technological transfer.

   The application of these norms presents some positive achievements such as the reduction of restrictive practices which the companies supplying technology used to include in their contracts, reductions in the direct cost of foreign technology, the increasing purchase of technology instead of leasing it, and the increase in the bargaining capacity of the local companies.

b) Decision 84 - Contains the Bases for a Technological Subregional Policy, with specific reference to the processes of generation, importation and assimilation of technology, and also for support to Sectorial Programs of Industrial Development. It indicates a group of political instruments to be developed to achieve the planned objectives, such as technological disintegration, the listing of technological capabilities, the international search for technology, and the Andean Programs of Technological Development (PADT).

c) Decision 85 - Contains Regulations for the Application of Norms to Patents, including, inter alia, regulations concerning patents of invention.

   Concerning the latter Decision 84 establishes basic norms on requirements for patents, the rights and obligations of the inventor,

procedures, etc.

d) Andean Technological Information System (SAIT). This was created by Decision 154 as a permanent mechanism for subregional cooperation, joint action and relations organized amongst the Member Countries in the field of technological information. It originated in the need for technological information of Member Countries, already noted in Resolutions 24, 84 and 85.

e) Andean Programs of Technological Development (PADT). Directed towards the assimilation and generation of technology, looking into the development of the more important natural resources of the Subregion and examining urgent problems of a social character. The following programs have been prepared and are being executed:

- Andean Copper Projects (PADT-Cu)

The central objective of the Andean Project of Technological Development in the area of Copper Hydrometallurgy, approved by Resolutions 86 and 87, is to transfer and adapt in Bolivia and Peru (receiver countries) three very specific technologies: copper extraction by an acid solution, extraction by bacterian acid lixiviation and recuperation through ion exchange and electrodeposition, allowing the production of copper under better conditions than the present ones, from low-grade oxide or sulphide ores.

Around this project highly qualified personnel have been trained, as well as a substructure able to work in an efficient and independent way with these three technologies.

At the same time it is intended to integrate multinational equipment for solving technological problems in those fields.

- Andean Forest Projects (PADT-REFORT)

Its aim is to contribute to a better understanding of the timbers of tropical forests, to use in a rational manner the scientific-technological substructure of the Subregion, to start work of coordination and connection between the competent national organizations, to transfer and disseminate existing technologies in

the area and to start or standardization and normalization of operational practices and techniques.

In the context of this Project a number of tests on forest species have been carried out, the Andean Laboratory of Wood Engineering (LADIMA) has been installed in Lima and the Andean System of Classification of Structural Wood has been established.

- PADT in the Food Field

Andean Projects of Technological Development in the Food Field, which were approved by Resolution 126, will contribute towards making it feasible to produce food at low cost and easy access, making possible the better use of available food resources in the Subregion.

Amongst the objectives of the five projects of Resolution 126 is the production, marketing and consumption, in the Andean Group, of formulated foods of high nutritional value and low cost, specially for small children, pregnant women and nursing mothers.

- PADT for the Rural Environment (PADT-Rural)

The aim is to promote the social and economic development of the rural environment, and this is a supporting instrument for national strategies, plans and programs. It was approved by Resolution 167. It consists of two projects: a) the Generation and Transfer of technology, and b) the selection and transfer of technology. Three instruments of assistance have also been created: the Subregional System for the Selection and Transfer of Technology, Subregional Technical Assistance and the Subregional Fund for Research and Transfer of Technology.

15.- EXTERNAL ECONOMIC RELATIONS

a) Bases

The Cartagena Agreement refers to its external economic relations in an implicit and explicit way.

Firstly and implicitly through Article 1, which establishes the participation of the Member Countries in the process of regional integration, among other basic objectives.

Secondly and explicitly through Article 8, concerned with coordinated action by the Member Countries in connection with problems arising from international trade and their participation in meetings and international organizations of economic character, Article 26, which establishes, among other things, the harmonization of exchange, monetary and financing policies and ways of handling foreign capital, as well as the establishment of a common commercial policy before third countries, Article 68, which establishes the obligation of the Member Countries not to alter unilaterally the CET and to consult each other before committing themselves in tariff matters with third countries and Articles 40, paragraph d) of 87 and 106, regarding joint actions in respect of international credit organizations.

The Cartagena Mandate, signed by the Andean Presidents in May 1979, also determined that joint external influence in the international economic relations with other countries, in cooperation and integration schemes, in international organizations and in transnational companies, constitutes one of the basic criteria which must direct subregional strategy.

b) Community and joint actions

The external economic relations of the Cartagena Agreement are effected by joint action and community action.

In the case of the joint action the Member Countries combine their efforts in a coordinate manner to achieve certain objectives, and do not need to commit the mechanisms of the Agreement, but must not contradict them. On the other hand the objective of this action may imply a common benefit, or only a benefit to one or other of the Member Countries. These actions used to be considered as executed by the "Andean Group", although the framework of coordination is the Cartagena Agreement.

Community external action, however, is effected through the instruments of the Agreement, committing it as an entity more than as a group of national wills. Consequently its execution cannot exceed the limits imposed by the mechanisms and the action realised is based on them.

The Commission and the Board take part both in joint action and in community action, but whilst they only coordinate or channel the former they determine or define and execute the latter.

c) Spokesmen

The international economic relations of the Andean Group take place with spokesmen of the regional area, with the group of developed countries and with multilateral organizations.

In the regional area, the relations with LAFTA, ALADI and SELA call for special note because of the priority given by the Agreement to regional and Latin-American integration and, for the same reason, with Argentina, Brazil and Mexico.

As far as relations with the developed countries and groups of countries are concerned the Agreement has started actions with the USA and with the EEC.

With the United States the Cartagena Agreement has signed a Memorandum of mutual understanding in order to establish the bases for effective cooperation of mutual interest in the areas of commerce, financing, science and technology and industrial, agricultural and infrastructure development. Within the general limits of the above document another Memorandum of mutual understanding was signed with that country, in the specific field of cooperation in Science and Technology in the areas of agronomy, industrial technology, energy, health, natural resources and technological information. From these contacts emerged a favourable atmosphere for the formalization of a Commercial Agreement with USA which allowed full participation of the five Andean Countries in the American Generalised System of Preferences and the drawing-up

of a consolidated list of products of interest for the Andean Group to make use of the advantages granted by that system.

The Cartagena Agreement has also carried out negotiations with the EEC, leading to the signing of an outline Agreement of economic cooperation.

As far as Andean negotiations in multilateral organizations are concerned it must be noted that they have followed the principles of horizontal cooperation and those required by the New International Economic Order. Within this framework the Andean countries are actively taking part in the initial negotiations for the establishment of the Global System of Commercial Preferences (SGPC) among developing countries, in the actions tending to reactivate the North-South Dialogue and in the Multilateral Commercial Negotiations reflected in GATT and in the United Nations Conference concerning Science and Technology for Development.

The Cartagena Agreement also has the intention of establishing direct links with countries and integrational organizations of the Third World.

d) Observers

The importance given by various countries and international organizations to the Andean integration process reflects their interest in taking part as observers in the technical organ. So far, the Board has granted that status to 32 countries and international organizations.

e) Andean Council of External Relations

This was formed on 12 November 1979 and its functions are, inter alia, to formulate the joint external policy of the Subregion and to direct and coordinate the various political, economic, social and cultural aspects of the joint external diffusion, all in close coordination with the Commission of the Cartagena Agreement.

PART TWO

THE JOINT INDUSTRIAL PROGRAM

A.- GENERAL ASPECTS

In the preliminary negotiations before the signing of the Cartagena Agreement, and also during its application, the Joint Industrial Program (JIP)* has been considered as the main innovation which makes the Andean Group different from other integration schemes. The JIP tries to prevent the imbalance in those integration processes where the participating countries have marked differences of industrial development and where the commercial mechanisms of the free market operate.

For this reason the Member Countries commit themselves in the Agreement to starting a process of Andean industrial development, through joint planning, to achieve, inter alia, the following objectives:

- Greater expansion, specialization and diversification of industrial production;
- The maximum utilization of the available resources in the Subregion;
- Improvements in productivity and in the efficient use of the productive apparatus;
- The operation of scale economies;
- Fair distribution of profits.

In addition the Agreement establishes that the industrial policy of the Subregion will consider the situations of Bolivia and Ecuador as special cases for assigning productions in their favour and the building of plants in their territories, in particular through their participation in the Sectorial Programs of Industrial Development.

The JIP was thus included in the basic mechanism of the Agreement to achieve a harmonious and balanced development of the Member Countries, which is one of the central objectives of the Cartagena Agreement. In fact the attention and efforts devoted to the JIP have been the characteristic feature of these first 12 years in the life of the Andean Group.

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* JIP = PIC (Programación Industrial Conjunta)

This second part describes each of the mechanisms forming the Joint Industrial Program (JIP), namely :

1.- The Sectorial Programs of Industrial Development (SPID).

2.- The product reservations for Bolivia and Ecuador (Decisions 28, 108 and 137, and Article 53 of the Agreement).

3.- The Industrial Rationalization Programs (IRP).

4.- The Integrated Development Projects (IDP).

B.- THE MECHANISMS OF THE JOINT INDUSTRIAL PROGRAM (JIP)

1.- The Sectorial Programs of Industrial Development (SPID)

The procedures established by the Andean Group (GRAN) for the approval of an SPID involve the following steps :

- Approval of a list of products reserved for sectorial industrial programming. Originally this list consisted of 1100 NABANDINA items, but 259 products were subsequently removed from the list.
- Submission of proposal by the Board, containing the draft SPID.
- Approval of the Programs by the Commission of the Cartagena Agreement.

The Agreement, by Article 48, has provided for the possibility that new SPID's can be adopted at any opportune time taking into consideration, inter alia, the importance of the Industrial Program as a fundamental mechanism of Andean integration.

By mandate of the Agreement a SPID should contain clauses covering :

- The determination of those products forming the object of the said Program;
- Joint programming of new investments at a subregional level and the means for ensuring its operation;

- The location of plants in the countries of the Subregion;
- The harmonization of policies in those aspects bearing directly on the Program;
- A program for the liberation of trade within the subregion involving products which are the object of the Program;
- A Common External Tariff;
- Periods during which the rights and obligations arising from the Program are to be continued in the event of cancellation of the Agreement.

The Sectorial Programs of Industrial Development emphasize the obligation of all Member Countries to apply the standards of the Common External Tariff (CET), not to deviate from or to alter the levels unilaterally, nor to adopt any measures which would modify the obligations by way of suspension or reduction or by partial or total refunds. In this way the products which are covered by the sectorial programs have guaranteed, in their favour, adequate protection in the face of competition from similar products from third countries and this, in conjunction with the liberation program for Subregional products and the other complementary measures included in the programs, gives a clear and absolute guarantee regarding the use and enjoyment of the expanded market for those companies which devote themselves to manufacture, and also to those exporters and importers who are responsible, through their respective channels, for marketing the products.

Furthermore, and by means of complementary measures, the obligations undertaken by Member Countries are set out with the object of ensuring industrial assignments in favour of those countries which are the beneficiaries of the same.

To this end the SPID contains clauses under which the Member Countries may not encourage production, in their territories, of those products which have not been allocated to them or, in regard to the same products,

grant any State aid or benefits of a tariff, fiscal, trading or any other type, nor to grant extensions to existing production in their territory, so as not to detract from the intentions expressed in the program.

The above obligations remain in force during the periods of reservation of the products as established in the programs.

Similarly each program makes provisions for the manner in which the Member Countries may employ incentives to develop exports of the assigned products, whether their destination be the subregional market or to third countries, up to the time that the Commission approves the program for the harmonization of the instruments and mechanisms for regulating external trading, as laid down in Article 30 of the Cartegena Agreement.

Member Countries are forbidden to apply safeguard clauses, that is to say restrictive measures, to those products which form part of the Sectorial Programs of Industrial Development. Similarly they are required to withdraw from their lists of exceptions those products which are the object of the Program. By these means full security and stability are provided for the complete supplying of the extended market.

In the Sectorial Programs of Industrial Development other clauses should be included when the characteristics of the Program so require, such as :

- The fixing of special standards or specific requirements concerning origin. The first relates to the establishment of such standards by the Commission and their inclusion in the respective programs: it is the responsibility of the Board to indicate the specific requirements. It is of considerable importance, in this matter, that by means of the dynamism of the industrial development of the Subregion there should be incorporated, into the final products and in a gradual manner, subregional materials and inputs.

- The joint programming of new investments at subregional level. This aspect may be implemented by means of the formation of multinational companies, utilizing to this end the uniform regime for multinational

companies in the Andean Group as approved by the Commission in Decision 46.

- Joint actions to come into effect between the Member Countries, so as to fulfil the necessary infrastructural requirements needed for the execution of the programs, giving special attention to the case of plants installed in Bolivia and Ecuador.

- The promotion, by two or more Member Countries, of the construction of integrated complexes so as to take fullest advantage of scale economies, and actions leading to the identification and negotiation on a joint basis for the technologies required for the implementation of the industrial programs.

- The establishment of a Commitee for each of the programs, having as its principal function to contribute towards the development of the respective industrial program, to facilitate the achievement of its objectives, to analyse the progress of the program in each of the countries, and to identify the means which would make possible the precise accomplishment of the objectives established in the program, recommending their adoption to the Board or to the Commission.

Up to the present time three Programs have been approved : the Metal Fabricating Program (MFP), the Petrochemicals Program (PCP) and the Automotive Industry Program (AIP); in addition to these, and by virtue of Decision 160, the list of products which will be the object of the Iron and Steel Program (ISP) have been approved.

It should also be pointed out that the mechanism entitled "Intersectorial Programs of Industrial Development" (IPID) was established in 1979 with the aim of dealing with any difficulties arising as a result of the approval of new SPID's. This mechanism has not, however, be put into operation up to the present time.

A description of each SPID is given below.

1.1 Metal Fabricating Program

a) Background and general aspects

The MFP had its origin in Decision 57, approved in 1972, and with the participation of Bolivia, Chile, Colombia and Peru. With the departure of Chile from the Andean Group and with the entry of Venezuela the Program had to be restructured, and this was done on 23 July 1979 by Decision 146.

Fundamentally the Program proposes to develop, at subregional level, productions which could not be efficiently realized on an exclusively local trading basis.

The scope of the MFP, which covers only part of the metal fabrications, consists of 267 NABANDINA items grouped into 76 units, these having been defined on the basis of technical and economic criteria of the minimum size of the projects which would be possible. The 76 units are divided up as follows : 21 of specialized machinery, 15 of general machinery, 11 of machine tools, 7 of electrical equipment, 1 of transport, 14 of miscellaneous instruments and tools and 7 of consumer goods and related products. It will be seen that capital goods predominate.

The 76 units were then assigned to the Member Countries, some in totality and some divided up.

b) Mechanisms and instruments

- Liberation Program. Decision 146 establishes a procedure for applying a program for the liberation of trade within the subregion, with a view to establishing a wider market which would allow the development of the assigned units.

  According to Decision 146 the Member Countries would, ninety days after its approval, eliminate all duties and restrictions on the importing of products corresponding to the allocation made and which originate in the favoured country, this action being irrevocable and irreversible.

In the case of an allocation which has been divided up the liberation of trade between the joint assignees is subject to a gradual process to be carried out as from the date of verification of production; notwithstanding this the said countries may agree to an acceleration of tariff reductions for their reciprocal trade.

In order to establish and ensure a margin of preference between those countries receiving an allocation all trade between those Member Countries which do not enjoy this allocation will be temporarily subject to import duties at a level equivalent to that of the CET.

Periods for reserved trade in favour of countries will vary in a selective manner, being longer for Bolivia and Ecuador. In accordance with this principle countries benefitting from an allocation will arrange their subregional trade and will reserve their internal markets until 1983 or 1989 (in the case of productions existing at the date of approval of Decision 146) or until 1987 or 1992 (for productions not verified at the same date). In both cases the later dates correspond to Bolivia and Ecuador, the former dates to Colombia, Peru and Venezuela.

- Common External Tariff. The object of this is to maintain preference margins for subregional production confronted with that from third countries and to regulate the productive efficiency of the sector. Its levels vary from 20% to 80%, with an arithmetic mean of 51%. Of the items forming the Program 87.6% have CET levels between 40% and 65%. The CET comes into force when the respective production commences and is verified by the Board, but the latest dates for its application are 31 December 1983 for Colombia, Peru and Venezuela and 31 December 1989 for Bolivia and Ecuador.

- Supplementary measures. There are several of these, of various forms, including the following : the temporary agreement of the countries not to encourage new productions of their territories or to expand those which exist when they correspond to allocations granted to the other Member Countries; the temporary agreement of Member Countries not to authorise foreign direct investment in their territories

when it involves products included in the units allocated to another country or to other countries of the Subregion; the obligation to apply the LAFTA standards concerning origin until the Commission adopts special standards for qualification of the origin of goods; the right to hold supplementary meetings, specialized or other, between the Member Countries, affecting only the markets of the subscribing countries; the agreement not to apply safeguard clauses to imports of products forming the object of the Program, originating in and coming from the Subregion; the acceptance of certain standards relating to the development of exports until the systems for the development of the same are harmonized, etc.

c) Progress of the Program

Of the 267 items which form the scope of the Program production has been verified in the case of 122, that is to say of 45.7% of them. This entry into production has not, however, been homogeneous throughout the Subregion: the figure for Colombia is 56%, for Peru 54%, for Venezuela 29%, for Ecuador 21% and for Bolivia 13%.

On the other hand this production has been principally in the field of capital goods: of the 122 items verified 29 are specialized machinery, 28 are general machinery, 10 machine tools, 23 electrical equipment, 2 transport equipment, 17 instruments and tools and 13 consumer goods and related products.

A total of 153 companies linked with verified production have been recorded; of this total 92 are subsequent to the date on which Decision 57 was approved and which, as has been indicated above, marked the commencement of the Program.

The degree of integration achieved by the companies is relatively high if the level of industrial development of the Member Countries is taken into account. Approximately 80% of the Peruvian and Venezuelan companies show a level of integration which is above 70%; in the case of Bolivia

the level of integration is in the region of 55%, whilst in Ecuador the level of integration ranges between 52% and 80%.

Trade within the subregion in the products allocated under the Program has shown considerable market dynamism in recent years, increasing from $5.6 million in 1975 to $17.8 million in 1979, with an annual rate of growth of 33.2% and a cumulative figure for exports of $53.2 million over the period. This major increase in trading can be attributed to the improvements in sales possibilities for existing products and also to the development of new production resulting from the support given by the Program, with a view to an expanded market.

1.2 Petrochemicals Program (PCP)

a) Background and general aspects

The Supplementary Agreement No.6 of LAFTA, signed in July 1968 by Bolivia, Colombia, Chile and Peru, represented the first Latin-American experience in the multilateral programming of the petrochemicals industry. This agreement incorporates the fundamental principle of product allocation to the participating countries and the agreement of each of the signatory countries not to encourage the establishment, on their territory, of plants intended for the production of the products allocated to other countries. These aspects were subsequently incorporated in the Petrochemicals Program of the Andean Group.

The Supplementary Agreement No.6 of LAFTA allocated the production of 17 products strictly classified within the petrochemicals sector and 22 phytosanitary products; it also established a CET ranging from 18% to 60% and fixed a date for the liberation of trading in the products forming the object of the Agreement between the countries participating in the same.

Subsequently, and in view of the desire shown by Ecuador to participate in the Supplementary Agreement No.6, the Commission of the Cartagena Agreement resolved, by Decision 18 of October 1970, that the petrochemicals industry should be programmed within the Andean context, with the participation of all the Member Countries, and entrusted the Board with the preparation of the relevant Proposal.

Decision 18 resulted in the commencement of an extended period of study and negotiations which culminated, nearly five years later in August 1975, in the approval of Decision 91 which contained the SPID for the petrochemicals sector.

The PCP had, as its objects, the better utilization of the hydrocarbon yielding resources of the Subregion, the increasing of the productivity of the existing plants and the efficient development of the sector, both to replace subregional imports and also to export to third countries. The Program corresponds to what may be termed an "open market model", with a relatively low level of protection and with a very great need for interconnection between the countries concerned and with third countries. It covers 161 products of which 56 are allocated, either exclusively or in a shared form, to the various countries, whilst the remainder are classified as non-allocated. The 56 allocated products correspond to the categories of incermediate and final products; of the non-allocated products 25 are basic products.

At the time of approval of the Program it was estimated that, once it had reached maturity, it would permit each of the countries in the Subregion to have integrated complexes: these, in respect of their design, capacity and efficiency, could be considered as being in the "second rank" at world level when compared with the complexes installed in countries such as the United States, Germany or England.

In all cases in the Proposal which gave rise to Decision 91 it was shown clearly that bilateral or multilateral agreements would be needed between the Member Countries or the finalizing of agreements with third

countries in order to develop such complexes, since the internal market of the Subregion would not be sufficient to sustain, from the outset, efficient integrated complexes in each of the countries.

It was forecast that production would rise from $ 110 million in 1975, equivalent to one-third of the demand, to $ 830 million in 1985, equivalent to the whole of the demand. For this development an investment of approximately $ 2000 million would be required, considering as basic the allocated products.

Finally the results of the overall evaluation of the Program, together with the withdrawal of Chile from the Andean Group, made a re-adjustment of Decision 91 necessary. To do this the Board put forward Proposal 119 in June 1980, this having now been submitted to the study stage on behalf of the Commission.

b) Mechanisms and Instruments

The principal mechanisms and instruments of the PCP are :

The allocation of production, the Program for Liberation of trade within the subregion, the Common External Tariff (CET) and the standards for the harmonization of certain economic means, preferential treatment in favour of Bolivia and Ecuador, joint actions and the timetable for investments.

The allocation of production, conceived as opportunities for investment granted to the Member Countries, are designed to concretize specializations in intermediate and final products such as plastics, synthetic fibres and rubbers. To this end the countries undertake not to encourage or to adopt measures in their respective territories which would be conducive to the manufacture of products within those allocated limits which had not been granted to them.

The liberation of trade within the subregion is of an immediate character for those productions coming from the countries which have received them as their allocation and for a group of other products from the non-allocated grouping, especially the basic products, whereas the liberation is gradual for the rest of the products.

In regard to the CET protective tariffs have been established between 20% and 35% under nominal terms. Adoption of the CET is immediate for existing productions or for productions now being initiated, and is gradual in the case of products not yet produced. In the field of harmonization all the customs' regimes for exceptions which are applicable to imports and systems for subsidies on exports are eliminated; it is also emphasized that devolution or exoneration on internal taxes may only be applied in the case of sales within the Subregion and that, in the case of sales to third countries all customs' exonerations are to be eliminated except in certain duly authorized situations. In regard to the origin of goods a special standard has been established according to which the only products which can benefit from the Program of Liberation are those manufactured in the Subregion with inputs produced in the same or which are imported from third countries, cancelling the whole of the CET.

The Program envisages preferential treatment for Bolivia and Ecuador, principally by means of the allocations, of periods to enjoy the expanded market, of the dates for adoption of the CET and the Program of Liberation and of means intended to result in equitable participation in the case of shared allocations.

Decision 91 gives special attention to the development of joint actions between Member Countries, such as the new investment programs, the development of integrated complexes between countries, collective measures to assure financing, and the location and acquisition of technology.

In the same way it establishes terms of expansion to form a timetable of investments, such as dates for the manufacture and presentation of technical and economic information about the projects and the commencement of manufacture.

c) Development of the Program

The execution of the PCP has fallen behind the development as outlined in Decision 91.

Between 1975 and 1980 the Andean Group increased its installed capacity for the manufacture of petrochemicals products by 481 tonnes/year. Nearly 60% of this increase was attributable to plants in Venezuela, more than 30% to plants in Colombia, 8% to plants in Peru and less than 1% to plants in Ecuador.

At present Venezuela has 45% of the Andean Group installed capacity, followed by Colombia with 43% and Peru with 9%.

At the margin of the limited development of the petrochemical projects it is clear that the Member Countries have promoted feasibility studies and other actions expanding the Development of the sector. The Member Countries could not start manufacturing

all the products assigned to them, and in fact no production will take place before 31 December 1985.

The delay in the Program can also be seen in the market figures for petrochemical products.

The Andean Group is still largely dependent on supplies originating from third countries: in 1979 95% of imports into the group were from outside the Subregion and of those more than 80% come from the U.S.A., the EEC and Japan, that is to say a high concentration from a few suppliers. This dependency on third countries means, at the same time, that the trading balance accumulated in the Subregion with the rest of the world in petrochemical products shows a deficit of $1990 m at current values in the period 1976-1979.

Exports within the Subregion increased from $10m in 1976 to $29m in 1979, with an accumulated figure of $78m, in current values, for the period, representing the starting level for Andean trading in these products.

There are various reasons for this low degree of program execution, the most significant being the international market recession and the excess installed capacity for petrochemical products at world level, the consequences of which directly affect the viability of the programs anticipated in Decision 91 and the size of the financial effort demanded by the execution of the projects.

1.3 The Automotive Industry Program (AIP)

a) Background and general aspects

The meeting of Industry Ministers of the Andean Group which took place in Bogota in May 1971 conferred a high degree of priority

on the approval and execution of this Program.

There were several reasons why it was considered necessary to draw up a program for this sector in the Andean context, and the following may be mentioned, amongst others: the favourable effects which this industry has on employment, technological development and the saving of currency; the need to begin a process of rationalization of the Andean automotive field which, because of its present heterogeneity, makes the establishment of car component industries very difficult; the need to have an extended market in order to make large-scale economies in the production of certain automotive components possible, and the conviction that the automotive industry is a valid option which the Andean Group has for utilising the development of the productive metal fabricating infrastructure.

Consistent with the priority which was assigned to the drawing-up of a program for this industry, the Board carried out an extensive study of the sector, which culminated in the submission of Proposal 45 to the Commission.

The Proposal, in its turn, was the subject of further studies and negotiations which included innumerable meetings of government experts in which the Board collected the opinions of the Member Countries, successive approximations being achieved which took definite shape in five amendments to the original Proposal. The AIP was finally approved, by Decision 120 of 13 September 1977, its central objective being the development of the automotive industry in the Subregion.

b) Mechanisms and instruments

Of the SPID's approved, the AIP is the one that presents the most complex system of mechanisms and instruments, owing to the very nature of this industry. A summary is given below of the mechanisms and instruments of this Program.

Scope - Covers vehicles and components.

The vehicles have been grouped into three groups of categories; vehicles for passengers and their derivatives (categories A); commercial vehicles, i.e. lorries and derivatives (categories B); and four-wheel-drive vehicles (categories C). Within each group the following categories were established:

Category A1: up to 1050 cc. cylinder capacity
Category A2: above 1050 cc and up to 1500 cc
Category A3: above 1500 cc and up to 2000 cc
Category A4: above 2000 cc.

Category B1.1: up to 3000 kg of vehicle gross weight
Category B1.2: above 3000 kg and up to 4,600 kg
Category B2.1: above 4,600 kg and up to 6,200 kg
Category B2.2: above 6,200 kg and up to 9,300 kg
Category B3: above 9,300 kg and up to 17,000 kg
Category B4: above 17,000 kg gross weight.

Category C: with four-wheel-drive and gross weight up to 2,500 kg or 2,700 kg when they use petrol or diesel engine, respectively.

The components, in their turn, cover three large groups: components demanded as a condition of national manufacture (DCM); components which must originate in the Subregion (DOS) and components not demanded (ND). Decision 120 contains lists of DCM and DOS components, the remainder correspond to ND components. The implications of each of these groups are explained below.

- Allocations - The AIP establishes allocations of vehicles and obligations to incorporate DCM components, which constitute principles of allocation.

The manufacture of vehicles has been allocated amongst the Member Countries in accordance with the above-mentioned categories, exclusive and shared allocations having been established.

In addition the Program gives special attention to the manufacture of DCM components, amongst which are precisely those which demand large production runs. The Program tends towards specialization by countries for the manufacture of these components. For this purpose each Member Country is required to manufacture, in its territory, the DCM components which it must incorporate into the vehicle which has been allocated to it, a condition without which that vehicle cannot enjoy an extended market. The requirement of national manufacture is for the vehicle allocated, but the same country may voluntarily manufacture that component to incorporate it into any other of its allocated vehicles.

When the country in which that component is being manufactured is in a position to produce it efficiently for some vehicle allocated to another Member Country, the Board will confer on the component in question the character of a requirement of subregional origin for that vehicle.

In this way a component required of a country as a condition of national manufacture (DCM) may become a requirement of subregional origin (DOS).

- Basic Model - This consists of a set of components, the characteristics of which must be defined in order to identify a subregional vehicle. Each country defines the technical characteristics of the engine,

the automatic or mechanical gearbox, the driving and trailing axles and the mechanical or hydraulic steering gear which the vehicle will use within the category which has been allocated to it.

On the basis of the basic model chosen each country can produce all the versions of vehicles it wishes to meet the different requirements or needs of the consumer. Those versions cannot involve modifications to the basic model chosen, except those which Decision 120 itself allows.

In the case of vehicles for passengers, several versions and derived vehicles may be produced, provided they comply with the characteristics which have been chosen for those components in the respective basic model, whilst other modifications permitted by the Program may also be introduced.

The manufacture of commercial vehicles (lorries and their derivatives) must also be done on the basis of the basic model which the signatory country has chosen.

In this case also the possibility has been foreseen of making modifications to the basic model without departing from the allocation, varying those components which do not form part of the basic model, such as tyres, chassis, suspension and braking system, the possibility of adopting different options with regard to the axles of the vehicle, certain modifications permitted in

the engine and the possibility of using, within certain limits, diesel engines as replacement for petrol engines which may have been defined in the basic model, etc.

Together with the choice of the basic model the countries must also identify, for each of their subregional vehicles, the characteristics of certain components (Appendix III-B of Decision 120). Several alternatives may be defined for each of those components.

- Origin and degree of integration - In the AIP the concepts of origin and of degree of integration are closely interconnected.

The Program establishes standards of origin for the vehicles and standards of origin and of degree of integration for the components.

By original vehicle is to be understood one which is manufactured in accordance with the basic model chosen by the Member Country within the category which has been allocated to it, which incorporates the components required of the respective vehicle as a condition of national manufacture (DCM), and which is produced in the country to which the corresponding category was allocated, except in cases of the agreements covered by Chapter VII of Decision 120. The original vehicle is also called the subregional vehicle.

By original component is to be understood one which complies with the degree of integration required. The general rule on degree

of integration requires that the reference value of the imported parts must not exceed 30% of the reference value of the component into which they are incorporated; that is to say, a degree of integration of not less than 70%. In the case of the DCM components the degree of integration required is national, whilst in the case of DOS components it is subregional.

As already stated DCM components may become specific requirements of subregional origin when the price of these components is equal to or less than the price from the extra-subregional supplier plus the respective CET. From the moment the Board confers on the DCM component in question the character of specific requirement of origin, it has to be obtained in the Subregion and cannot be imported from third countries. It must be pointed out that that quality of requirement of subregional origin is acquired only as regards the vehicles in which the component can be used in the way in which it is offered, but does not constitute a requirement of origin for all subregional vehicles.

In exceptional cases, in which it is not possible to achieve the national degree of integration of some DCM component in any of the Member Countries of which the respective requirement was made, the Board may authorize the reduction of that percentage and apply it to all countries. Decision 120 also empowers the Board to establish programs of progressive adoption of the degree of integration required of DCM components, with favourable treatment for Bolivia and Ecuador.

As regards DOS components it must be pointed out that, in order to avoid its requirement becoming unlimited protection, the Program empowers the Board to suspend the requirement when it considers it necessary and whenever the price which the manufacturer of the vehicle must pay for the subregional component is higher than the ex-works price of the same component originating in third countries, plus freight, insurance and the respective CET.

The Program likewise establishes the commitment to increase the integration of the vehicles, with the incorporation of the chassis and bodywork in the list of those components which must originate in the Subregion. In their turn, the parts imported from third countries which are incorporated into those components must not exceed 50% of the weight or the value of the chassis or bodywork, respectively.

- Assembly agreements. In Chapter VII of the Program the power of Member Countries is established to enter into agreements which permit the assembly of their respective subregional vehicles in the territory of any other country.

  In the adoption of this formula account has been taken of the fact that the export of CKD sets is less costly than the transfer of complete vehicles and also of the double freight which arises when a DOS component is imported from the very country to which the vehicle into which it is incorporated is going to be exported.

- Co-production agreements - By means of these agreements specialization may be established in the production of components, so that a country which was required to manufacture a certain component agrees that manufacture of the latter will be undertaken by another country with which it has an agreement. The following conditions must be met:

  a) The component in question must have been required as a condition of national manufacture (DCM) of some vehicle of the country which is going to manufacture it;

  b) The country which is going to manufacture the component must meet the national degree of integration required; and

  c) The country which makes the transfer must comply with the obligation to incorporate into its vehicle the component manufactured in the second country; consequently, it cannot manufacture the component in its territory for the vehicle in question, unless the contrary is covered by the agreement.

- Complementation agreements - These agreements relate to the manufacture of parts and pieces of a DCM component. By means of this instrument, two or more Member Countries can specialize in the production of certain parts and pieces of those components, which contributes towards improving the productive efficiency and the degree of specialization of the countries.

- Liberation Program for vehicles - In accordance with this program, each country may keep its national tariffs in force until 31 December 1981 for the case of Colombia, Peru and Venezuela and until 31 December 1983 for Bolivia and Ecuador.

  With effect from 31 December 1981 Colombia, Peru and Venezuela must lower their national tariffs by three equal, annual and successive reductions. Bolivia and Ecuador will free their markets for vehicles originating in the other countries by six annual and successive reductions, the first of which will take place on 31 December 1983 and the last on 31 December 1988.

  In the case of vehicles originating in Bolivia and Ecuador, the elimination of duties on the part of the other countries must be immediate, with effect from 31 December 1981.

- Liberation Program for components - The standards of the Liberation Program refer to two groups of components: DOS and other.

  a) As regards DOS components (Appendices V and IV-B of Decision 120), it is laid down that with effect from 31 December 1978 Colombia, Peru and Venezuela will apply duties not higher than the CET levels (Appendix VIII of Decision 120). Afterwards these countries will eliminate such duties among themselves in five

annual and successive reductions with effect from 31 December 1979, with preferential treatment for Bolivia and Ecuador, which will have the market of these three countries available in three years with effect from that date. For their part Bolivia and Ecuador will open their markets to products originating in Colombia, Peru and Venezuela, starting from their national tariffs, by means of six annual and successive reductions, the first of which will be effected on 31 December 1983 and the last on 31 December 1988.

b) As regards other components, that is to say DCM and ND, it is laid down that Colombia, Peru and Venezuela will meet this obligation among themselves, starting from their national tariffs in three annual and successive reductions, the first of which will be effected on 31 December 1981 and the last on 31 December 1983. These same countries will reduce duties totally in favour of Bolivia and Ecuador on 31 December 1981. For their part, the liberation of Bolivia and Ecuador for products originating in the other countries will occur in the same way as for DOS components, by means of six annual and successive reductions starting from their national tariffs.

- Acceleration of the Liberation Programs - The Program empowers Member Countries to voluntarily accelerate the liberation program for vehicles or components, within certain limits. In addition it foresees that when a DCM component becomes a specific requirement of origin for a vehicle of another Member Country, this country must eliminate at once the duties applicable to the importation of that component, for the vehicle indicated.

- Common External Tariff for vehicles - The AIP uses the concept of subregional vehicle, with the subregional and replacement characteristics, in order to define certain aspects of the Program,

including some relating to the CET. The subregional vehicle, as has already been stated, is the original vehicle. The vehicle with the characteristics of the subregional vehicle is that one which is manufactured in accordance with the basic models chosen by the Member Countries, but which does not meet the necessary requirement to be original. The replacement vehicle is that one which is not subregional or which does not comply with the characteristics of the subregional vehicle.

In some cases a differential tariff treatment was established for the import from third countries of vehicles with the characteristics of the subregional vehicle and of replacements, in the sense that the CET for the latter is higher for a time, with the object of discouraging their import and tending, in that way, to eliminate them gradually from the market and from the automotive field of the Subregion, with a view to concentrating and unifying the demand for components and of replacement parts and pieces. Thus, the tariff for passenger vehicles (categories A) with the characteristics of the subregional vehicle is 115% and that of replacements, also for passengers, is 155%.

Commercial vehicles (categories B) of up to 9,300 tonnes weight have a CET of 50%, those of more than 9.300 tonnes 40%. In addition, in the case of replacement vehicles of category B1.1, a different tariff of 65% was established.

Vehicles of category C have a CET of 50%.

The Program establishes a gradual process of approximation to the CET when national duties are lower than the latter. The process will take place in an annual, linear and automatic way between 31 December 1981 and 31 December 1983 for Colombia, Peru and Venezuela, and between 31 December 1983 and 31 December 1988 for Bolivia and

Ecuador. Member Countries whose national duties are higher than those of the CET are empowered to maintain them until 1983 and 1988, respectively.

In all cases the AIP establishes a commitment to anticipate the adoption of the CET when subregional production begins.

- Common External Tariff for components - This tariff is at a level between 35 and 55%, and its adoption must be carried out in the following way:

  a) For DOS components it is established that the Member Countries will begin a process of linear and automatic approximation of their national tariffs from 31 December 1978 to 31 December 1983 in the case of Colombia, Peru and Venezuela. Bolivia and Ecuador will carry out the same process from 31 December 1983 to 31 December 1988.

  b) In the case of other components the process of adoption on the part of Colombia, Peru and Venezuela will be effected between 31 December 1981 and 31 December 1983 and, on the part of Bolivia and Ecuador, between 31 December 1983 and 31 December 1988.

- Compensated interchange - This is an instrument by virtue of which components are imported for the products of the Program from other Member Countries, or from countries outside the Subregion, as the counterpart of an export. Member Countries may free totally from tax, customs duties and other additional taxes imports of components which are effected by means of compensated interchange.

  The value of imports during two calendar years may not exceed that of exports during the same period. Imports which are not compensated during that time must pay the corresponding CET duties.

Compensated interchange may only be used to import components intended for the production of vehicles originating in the country which effects the importation.

Compensated interchange may be used at subregional level and with third countries. In both cases Decision 120 establishes standards which safeguard the obligation to incorporate DCM and DOS components of subregional origin.

The main purpose of compensated interchange is the use of markets of third countries as a complement to the expanded market, in order to take greater advantage of scale economies.

- Disappearance of the replacement vehicle - Member Countries undertake to cease production of replacement vehicles in their territories. The commitment must be met in fixed periods of time which, in any case, are longer for commercial vehicles.

- Commitment not to encourage - Member Countries undertake not to encourage the start-up, in their respective territories, of the following forms of production:

  a) Vehicles included in categories allocated to another Member Country;

  b) Components required as a condition of national manufacture (which are not in Appendix IV-B of Decision 120) of a different Member Country, unless the country or countries of which national production was required grant appropriate authorization.

In the case of existing forms of production Member Countries undertake not to grant new benefits, nor to increase or improve those already in existence, when they involve the production of components which

would not have been required from the respective country.

- Other commitments - There are other commitments which have, as their aim, to contribute towards the forward movement of the AIP, such as that of not authorizing direct foreign investment for the production of vehicles allocated to other countries and of DCM components also required from different countries, that of non-application of safeguard clauses of any kind to the products covered by the program, originating in the Member Countries, and that of withdrawal of the products covered by the Program from the list of exceptions, if they were included in them.

- Harmonization of policies - The basic principle is established of non-discrimination between national and subregional forms of production, a principle which the AIP applies in respect of exchange, credit, prices, exports to the Subregion, state purchases, etc.

- Technical standardization - The Member Countries agree to undertake the work of technical standardization, in connection with the products covered by the Program, in aspects affecting the International System of Measurement, the International System of Adjustment and Tolerances and of Preferred Parameters, terminology; standardization of raw materials, materials and parts of non-specific use, so standardization of components which can be reduced in their variety and so widen their possibilities of use and harmonization of procedures of certification of quality and approval of the institutes which grant it.

c) Development of the Program - After the approval of the Automotive Program with the signing of Decision 120 in September 1977 the Member Countries met to conduct the appropriate negotiations with the transnational firms who possess the necessary technologies for the manufacture of the components required as a condition of

national manufacture for their vehicles allocated in the respective categories.

This process of negotiation, begun with great expectations and with good progress at preliminary level, was affected by economic conditions arising from the world situation, both on the technological side and on the economic, and there was a delay in taking decisions and choosing the basic models of vehicles to be manufactured. However this situation, from the technological point of view, favoured the Member Countries by giving them the opportunity of starting manufacture of their automotive products with the most advanced techniques and those most suited to the present conditions of the world automotive industry.

In view of the foregoing it is necessary to decide in the near future on an adjustment to the Prog m and, taking into consideration the need to harmonize technologies for the manufacture of important components, it is necessary to develop a related process of negotiations with the transnational automotive firms.

The process of selection of basic models on the part of Colombia for its allocations in categories A1 and A2, for which it has chosen vehicles of the characteristics of the Renault R-4 and R-18 respectively, is now concluded.

Ecuador, a country which, like Bolivia, is not obliged to define its basic models allocated, has chosen for its basic model in category A2 a Volkswagen Passat type vehicle of 1471 cc cylinder capacity.

Peru and Venezuela have not yet defined any of the vehicles corresponding to their allocations.

As regards the application of other mechanisms of Decision 120 it must be pointed out that at the present time the markets of Colombia, Peru and Venezuela should be free from restrictions and duties in favour of Bolivia and Ecuador for all their original automotive products, including vehicles. These countries have not been able to take full advantage of this situation because there is not an exportable supply which meets the requirements of origin laid down.

As regards Colombia, Peru and Venezuela, for the special DCM and DOS components, the Liberation Program requires at this date that duties on intra-subregional trade should have been reduced to two-fifths of the CET. Likewise the process of approximation to the CET should be at the level of three-fifths of that which Decision 120 lays down.

Although it is true that the Automotive Program has encountered difficulties in the way of its complete execution, the view prevails that it is appropriate and viable, for which reason the Andean Group is now setting about the task of studying and defining the adjustments which it would have to introduce into Decision 120 in order to bring it into line with the new realities of the world automotive industry, taking advantage of the flexibility of its own mechanisms and introducing the appropriate amendments which are required for it to work better.

1.4 Iron and Steel Program

By Decision 160 of December 1980, the list of products covered by this Program was approved, but its other mechanisms and instruments were not defined.

Until now there has been agreement to draw up a programme for this industry without allocations, in view of the fact that in four of the five Member Countries there are iron and steel installations with plans to develop them in the short term in the fifth and, in any case, there is the intention in all of them that they should develop this industry in their respective territories.

It is estimated that, notwithstanding the absence of allocations, other mechanisms may contribute significantly to the development of this industry, such as the CET and the Liberation Program.

Under study by the Commission at the present time is the matter of the other mechanisms and instruments of the Program, on the basis of Proposal 126 which the Board duly submitted.

2.- Market reservations for Bolivia and Ecuador

By Decisions 28, 108 and 137 some products not so far produced were reserved for production in Bolivia and Ecuador.

This reservation is achieved by the application of various measures which are directed towards the same objective:

- Colombia, Peru and Venezuela open their markets, completely and immediately, to the products originating in Bolivia and Ecuador; the opening benefits exclusively the country in favour of which the corresponding reservation is made;

- Periods of reservation of markets are fixed in favour of the products reserved for Bolivia and Ecuador, periods which in some cases extend up to 10 years.

- For reciprocal imports of products which were reserved for production by those two countries, Colombia, Peru and Venezuela adopt the same tariff duties as they must apply to imports originating in third countries in accordance with community standards in this respect. These duties, for their reciprocal trade, will be eliminated completely when the market reservation ceases.

- For their reciprocal trade Bolivia and Ecuador open their markets immediately, solely for products reserved in favour of the other country and originating in the latter.

- For imports of these products, originating in the other Member Countries, Bolivia and Ecuador must adopt the same duties as they apply to imports originating in third countries and will eliminate them completely when the market reservation ceases.

- Countries, other than the one in favour of which the reservation is made, undertake not to adopt measures of any nature which detract from the objectives pursued and, in particular, not to encourage in their territories the production of those products.

- Once the Board establishes the start of production in Bolivia or Ecuador, as the case may be, of the reserved products, the other Member Countries apply the duties of the CET or of the Common Minimum External Tariff, as the case may be, to imports coming from third countries.

It must be pointed out that Bolivia and Ecuador are obliged to begin production of the products reserved in their favour within given periods and that, in any case, the market reservation lapses if they do not meet that obligation.

The mechanism of reservation of markets for Bolivia and Ecuador is supplemented by the provisions of Article 53 of the Cartagena Agreement to the effect that, if the products which, having been selected for SPID's, are not included in them within the periods allowed, the Commission will select like numbers of lists of products not produced, to be produced in Bolivia and Ecuador, and will lay down the conditions and the period of reservation.

On the basis of this community standard, the Board has submitted Proposal 122, by which 12 items in the chemical and pharmaceutical fields are reserved for production in Bolivia, and 18 in Ecuador. This proposal is being studied at the present time by the Commission.

As regards the application of the mechanism a failure to take sufficient advantage of the opportunities for investment on the part of the countries in whose favour the reservations were established can be observed. Various factors have influenced this result; amongst others are those connected with internal events in those countries.

3.- Industrial Rationalization Programs (IRP)

This mechanism is intended for existing industries, the products of which are not incorporated in SPID's. The Programs must be drawn up on the basis of criteria of expansion, specialization and diversification of industrial production, the maximum use of the resources available in the area, improvements in productivity and the effective utilization of productive factors and the use of scale economies and the fair distribution of profits.

The Agreement provides that, for the purpose of establishing the IRP's the following factors, amongst others, will be taken into account:

a) The installed capacities of the existing plants;

b) The needs for financial and technical assistance for the installation, extension, modernization or conversion of industrial plants;

c) Requirements for training labour;

d) The possibilities of horizontal specialization agreements between firms in the same branch of industry;

e) The prospects for setting up related systems of marketing, technological research, or other forms of cooperation between similar firms.

The Agreement lays down that in the preparation of the IRP's preferential attention must be given to the industries of Bolivia and Ecuador which manufacture products which are included in the lists of exceptions of those countries. The products which appear in the lists of exceptions of the other countries must also be taken into account. All this is with the object of enabling the industries to meet competition.

Industrial Rationalization Programs have not yet been approved owing, inter alia, to the fact that the attention of the chief partners to the Agreement, in the 12 years the Andean Group has been in existence, has been concentrated on drawing up sectorial programs. In recent times, however, the Commission and the Board are giving greater importance to this mechanism, some investigational work into the subject having already got under way.

4.- Integrated Development Projects (IDP)

This mechanism has its origin in the Declaration of the Presidents of the Andean Group, signed in Cartagena in May 1979, and is reflected in Decision 139 of the Commission, approved immediately after the Declaration.

The objective of the IDP's is to contribute, as a community, to carrying out projects arising from the integration process.

They will refer preferably to products included in the SPID's but they may also be orientated towards projects involving any of the mechanisms of the Combined Industrial Program Planning, Liberation Program, Livestock Development Program, Industrial Rationalization Programs and Physical Integration Programs.

The projects basically contemplate a series of forms of collective cooperation, such as carrying out pre-investment and design studies, negotiating collectively, establishing multinational concerns, promoting investments, establishing marketing mechanisms and carrying out training operations.

The projects will be put into practice in three stages: firstly the Commission will define the projects, as well as their geographical location, and will approve a timetable for carrying out the specific studies; secondly the cooperative activity will be undertaken for the pre-investment and feasibility phases and thirdly the Commission will approve measures for the effective execution of the project.

At the present date no Integrated Development Projects have been approved.