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The attached paper has been revised to include the 1968 revision of the 1965 CARIFTA Agreement.

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Subregional Integration Movements in the Western Hemisphere

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Subregional Integration Movements in the Western Hemisphere

I. Introduction

The purpose of this paper is to summarize the main characteristics of the original treaties and agreements which have been signed among Western Hemisphere countries to form regional and subregional trade integration groups. Rather than describe the characteristics of one treaty after another, this paper has been subdivided by main topics, showing how the individual associations approach and/or deal with the same subject.

Only the original structure of each individual agreement has been described. In other words, no attempt has been made to discuss in analytical terms the progress made under each of the individual organizations. In fact, this will be precisely the topic of a forthcoming paper. Another subject slated to be dealt with in a separate paper is that of the Development Lending Institutions that have been formed under the auspices of each regional integration movement, namely, the Central American Bank for Economic Integration under the Central American Common Market; the Caribbean Development Bank under the Caribbean Free Trade Association; and the Andean Development Corporation under the Andean Group (of the Cartagena Agreement).

The individual characteristics of the free trade movements within each chapter are dealt with in chronological order in accordance with the date of establishment of each association covered, that is, beginning with the CACM, which was the first to be organized although not in its present form. Actually, the Central American integration movement first became formalized with the Multilateral Treaty for Free Trade and Central American Economic Integration, signed in Tegucigalpa on June 10, 1958. However, this multilateral treaty became an integral part of the General Treaty for Central American Economic Integration, signed in Managua on December 13, 1960. Something similar has occurred in the case of the Caribbean integration movement. The original 1965 Agreement came again to the consideration of the Fourth Heads of Government Conference held in Barbados in October 1967. Although the basic framework of the 1965 CARIFTA Agreement remained practically the same, few changes were made which were mainly designed to establish differential treatment for the less developed countries, particularly regarding trade in agricultural products. The new CARIFTA Agreement which took effect on May 1, 1968 drew up a "Plan for Caribbean Integration" and the corresponding resolution was included as Annex A and became an integral part of the Agreement. This integration plan considered the new CARIFTA Agreement as only the first step toward a fuller form of integration which has served as the frame of reference for the Seventh Heads of Government Conference, which took place in Trinidad and Tobago in October 1972. This conference agreed, in principle, to the formation of a Caribbean Community embracing a Caribbean Common Market by May 1, 1973. This paper, however, will not deal with the proposed changes but only with the existing arrangements. Set out below are particulars of the existing treaties, indicating the original participants as well as subsequent members.

Subregional Integration Movements

Treaty or Agreement	Date and Place of Signature	Original Signing Members	Subsequent Members	Head-quarters
General Treaty for Central American Economic Integration (CACM)	December 13, 1960 Managua, Nicaragua	Guatemala El Salvador Nicaragua	Honduras Costa Rica	Guatemala City, Guatemala
Latin American Free Trade Association (LAFTA)	February 18, 1960 Montevideo, Uruguay	Argentina Brazil Chile Mexico Paraguay Peru Uruguay	Bolivia Colombia Ecuador Venezuela	Montevideo, Uruguay
Caribbean Free Trade Association (CARIFTA)	December 15, 1965 Dickinson Bay, Antigua	Antigua Barbados British Guiana (now Guyana)	British Honduras Dominica Grenada Jamaica St. Christopher-Nevis-Anguilla St. Lucia Montserrat Trinidad and Tobago St. Vincent	Georgetown, Guyana
Andean Subregional Integration Agreement (Cartagena Agreement)	May 26, 1969 Bogotá, Colombia	Bolivia Chile Colombia Ecuador Peru		Lima, Peru

II. Institutions and Their Structure Under Each Treaty

1. General Treaty for Central American Economic Integration (CACM)

The CACM operates through three main institutions: the Central American Economic Council, the Executive Council, and the Permanent Secretariat.

a. Central American Economic Council

The Economic Council, the highest authority of the CACM Treaty, is composed of the Ministers of Economy of each member country. The Council meets as often as is necessary, in any of the Central American capitals. The main functions of the Council are those of guiding the integration of the Central American economies, coordinating the economic policies of the Contracting Parties, and ruling on the recommendations of the Executive Council.

b. Executive Council

The Executive Council is composed of one delegate and a deputy designated by each of the Contracting Parties. It meets in any of the Central American capitals as often as necessary, upon the request of any of the Contracting Parties, or when convened by the Permanent Secretariat.

The main functions of the Executive Council are those of administering the CACM Treaty and following through on all decisions and work necessary to bring into practice Central American economic union. The Council issues all directives necessary to ensure the fulfillment of obligations under the Treaty and seeks solutions to problems arising from the application of its directives; it has assumed all functions originally assigned to the Central American Commission for Free Trade.1/ The specific functions of the former Commission had been recorded as follows:

(1) To propose to the Contracting Parties appropriate measures for the development and gradual improvement of the free trade zone and to draft definite plans for this purpose.

(2) Upon the request of one or more of the Contracting Parties, to study all subjects related to the development of intra-Central American trade and to propose measures to deal with any problems.

1/ Created under the Multilateral Treaty for Free Trade and Central American Economic Integration signed in Tegucigalpa on June 10, 1958 (see reference p. 1).

(3) To study production and trade activities and to recommend items for addition to the free trade list, as well as carry out those functions conducive to (a) the unification of tariffs and customs regulations; (b) the establishment of equal fiscal treatment for state monopoly goods and goods subject to production, sales, or consumption taxes; (c) the drafting of agreements for the purpose of avoiding the double imposition of indirect taxes; (d) the drafting of agreements to facilitate intra-Central American transportation; and (e) the unification of weights and measures under the metric system.

(4) To undertake the collection and analysis of statistics and other data pertaining to trade.

c. Permanent Secretariat (SIECA)

The Secretariat (headquartered in Guatemala City) represents and serves at all times both the Economic Council and the Executive Council. It is staffed with an Executive Secretary as its chief executive officer, who is appointed for a three-year term by the Economic Council.

The Secretariat's main functions are:

(1) To supervise application of the present Treaty as well as those from which this Treaty emerged.1/

(2) To supervise compliance to resolutions of the Economic Council and the Executive Council.

(3) To carry out all functions delegated to it by the Executive Council.

(4) To supervise the execution of all studies and other tasks decided upon by the Economic and Executive Councils.

2. Latin American Free Trade Association (LAFTA)

The LAFTA operates through two main institutions--the Conference and the Permanent Executive Committee, complemented by the Secretariat.

a. Conference

This is the highest authority of the Treaty. The Conference is composed of a delegation from each member country headed by an ambassador. It convenes in ordinary session once a year, in the place chosen at the previous meeting, and in extraordinary sessions if requested by the Executive Committee. Attendance at all sessions requires a quorum of at

1/ These treaties were (a) the Multilateral Treaty for Free Trade and Central American Economic Integration (June 10, 1958); (b) the Agreement on the Treatment of Integration of Central American Industries, signed in Tegucigalpa on July 10, 1958; (c) the Central American Treaty on the Equalization of Import Duties, signed in San José on September 1, 1959; and (d) bilateral agreements which were in effect at that time.

least two thirds of the Contracting Parties. Decisions to be approved require at least two thirds of the votes.

The main functions of the Conference are (1) to take all necessary actions for the execution of the Treaty and to examine the effects of their application; (2) to promote negotiations between the Contracting Parties on the National Lists and the Common List of goods for reciprocal trade; (3) to approve the annual expenditure budget of the Executive Committee and determine the contribution of each Contracting Party; (4) to establish and approve its own and also the Executive Committee's by-laws; (5) to elect the President and Vice President for each session; (6) to appoint the Executive Secretary of the Secretariat; and (7) to act on matters of common interest to all member countries.

b. Permanent Executive Committee

The Committee (headquartered in Montevideo) consists of one permanent representative and one alternate for each of the Contracting Parties. Each Contracting Party has one vote.

The functions and obligations of the Executive Committee are (1) to convene the Conference; (2) to submit for the Conference's approval the annual work schedule and the Committee's annual expenditure budget; (3) to represent the Association in negotiations with third countries and international institutions and in all contracts and other acts of private and public law; (4) to undertake the studies assigned to it by the Conference and to propose to the Conference those recommendations it may deem necessary; (5) to submit to the Conference for its ordinary sessions an annual report on the Committee's activities and on the results of application of the Treaty; (6) to request technical assistance and the cooperation of other individuals from both national and international organizations; (7) to adopt the decisions delegated to it by the Conference; (8) to carry out all duties assigned to it by the Conference; and (9) the Committee may also set up consultative commissions.

The Secretariat is headed by an Executive Secretary elected by the Conference for a three-year term and who may be re-elected for the same term. The Executive Secretary participates in the Committee's sessions but has no vote. The Secretariat is also the Secretariat of the Conference. The Secretariat organizes the work schedules of the Conference and the Committee; prepares a projection of its annual expenditure budget for the Committee; and recruits and contracts technical and administrative personnel as required by the Committee.

3. Caribbean Free Trade Association (CARIFTA)

The Association operates mainly through the Council and such other organs as the Council may set up. The Treaty also provides for the creation of examining committees.

a. Council

Each member is represented at the Council and has one vote. The Council may take decisions which shall be binding on all members and also make recommendations to members. Decisions and recommendations require unanimous vote, except where the Agreement provides otherwise. Decisions and recommendations shall be regarded as unanimous unless a Member Territory casts a negative vote. Decisions and recommendations which are to be made by majority vote require the affirmative vote of a majority of all Member Territories.

The Council's main responsibilities are (1) to exercise such powers and functions as are conferred upon it by the Treaty; (2) to supervise the application of the Agreement and keep its operation under review; and (3) to consider what other action should be taken by members to promote the attainment of the Association's objectives and to facilitate the establishment of closer links with other countries, unions of countries, or international organizations.

The main purposes of Council decisions are (1) to lay down the rules of procedure of the Council and of any other organ of the Association, which may include provision that procedural questions be decided by a majority vote; (2) to make arrangements for Secretariat services required by the Association; and (3) to establish the arrangements necessary for financing the administrative expenses of the Association and for preparing an annual budget. All expenses are to be shared equally by the Member Territories.

b. Examining committees

Whenever any Member Territory considers any benefit conferred upon it by the Treaty or any objective of the Association is being or may be frustrated, and should no satisfactory understanding be reached by the Member Territories concerned, the matter may be referred to the Council. The Council shall promptly, by majority vote, make arrangements for examining the matter. Such arrangements may include an Examining Committee, to be appointed by majority vote of the Council, comprising persons selected for their competence and integrity and who, in the performance of their duties, shall neither seek nor receive instructions from any Territory, authority, or organization other than the Association.

c. Commonwealth Caribbean Regional Secretariat

The 1968 revision of the CARIFTA Agreement formalized the existence of the Secretariat as created by the Council in accordance with the attributions conferred to it by the original 1965 Agreement. It determined that the Regional Secretariat is to be the principal administrative organization of the Association and that the Council may entrust it, and may set up other organs, committees, and bodies to entrust them, with such functions as the Council considers necessary to assist it in accomplishing its tasks.

4. Andean Subregional Integration Agreement (Cartagena Agreement)

The Andean Pact group operates through three main institutions: the Commission, which is the highest authority; the Board, its technical organ; and the Committee, which act as auxiliary organs.

a. Commission

The Commission is composed of representatives from each Member Country. It is headed by a President--the term of office is for one year and is rotated among the Member Countries in alphabetical order. The Commission holds three ordinary sessions a year, generally at the Board's headquarters (Lima). However, Members may agree to meeting in other places. Attendance at all meetings is obligatory for all Members. Extraordinary meetings may be held when called by the President.

The Commission's main functions are (1) to formulate the general policy of the Agreement; (2) to approve the main guidelines for the coordination of Members' development plans; (3) to appoint the three members of the Board; (4) to issue instructions to the Board; (5) to delegate functions to the Board; (6) to approve, reject, or correct Board proposals; (7) to oversee Members' adherence to this Agreement and their obligations under the LAFTA; (8) to approve the annual budget and establish Member Countries' contributions; (9) to issue its own by-laws; (10) to propose changes in the Agreement; and (11) to take any other action that may be deemed necessary.

b. Board

The Andean Pact Board (headquartered in Lima) is composed of three members, who are appointed by the Commission for a term of three years and who are eligible for re-election. The members must be Latin Americans.

The main functions of the Board are the following: (1) to supervise the correct application of the Agreement; (2) to carry through the mandates of the Commission; (3) to submit proposals to the Commission which it considers would speed fulfillment of the Agreement; (4) to undertake studies necessary for the correct application of the special treatments for Bolivia and Ecuador; (5) to participate in meetings of the Commission; (6) to evaluate results of the application of the Agreement; (7) to carry out technical studies requested by the Commission; (8) where appropriate, to execute the instructions of the Committees; (9) to carry out functions of a permanent secretariat and to maintain permanent contact with the member governments through the entities designated by the respective governments; (10) to write its own by-laws for the approval of the Commission; (11) to prepare the annual budget for approval of the Consultative Committee; (12) to prepare an annual work program, which should include the studies requested by the Commission; (13) to present an annual report to the Commission; (14) to propose to the Commission the organizational structure of the Board's technical department; (15) to appoint and dismiss its own technical and administrative personnel; no nationality restrictions exist for the hiring of this personnel; (16) to commission studies by third parties; (17) to promote periodic meetings on specific subjects; and (18) to carry out other studies of a pertinent nature.

c. Committees

Two committees are mentioned in the original Agreement. The first is the Consultative Committee, made up of representatives of each Member Country. The main function of this Committee is to advise the Board whenever it believes this advice is necessary and to analyze the Board's proposals before they are presented to the Commission. The second, the Social and Economic Committee, is made up of representatives of industry and labor from each Member Country. The Agreement stipulates that the specific functions of this Committee are to be finally determined by the Commission.

III. Treaties General Objectives

1. CACM

The CACM Treaty, signed on December 13, 1960, was the outgrowth of prior agreements of the Central American countries, the main one of which was the Multilateral Treaty for Free Trade and Central American Economic Integration. Thus, for the CACM Treaty it was thought that its objectives needed to be spelled out only in a general fashion. The introductory part states that the purpose of the Treaty is the gradual integration of the economies, the attainment of the enlargement of markets, the development of local manufacture through the interchange of goods and services, and the improvement of standards of living and levels of employment of the populations with the ultimate target of contributing to Central American economic unity.

2. LAFTA

The general objectives of the Association are expressed as the expansion of trade and the complementation of the economies. In order to achieve the continuous expansion and diversification in reciprocal trade, the Contracting Parties will endeavor (1) to provide each other with concessions that will assure a treatment no less favorable than that in existence before the signing of the Treaty; (2) to incorporate within the National Lists the largest possible number of products already being traded among the Contracting Parties; and (3) to add to National Lists those products remaining outside reciprocal trade.

The Contracting Parties will endeavor to harmonize their import and export regulations and the treatment of goods and services and capital movements from outside the area. To accelerate the process of integration, the Contracting Parties agreed (1) to promote the coordination of their industrialization policies by supporting understanding among specific industrial sectors; and (2) to aim at complementation agreements by industrial sectors.

3. CARIFTA

Originally, the objectives of this Association were stated as follows: (1) to promote the expansion and diversification of trade in the area of the Association; (2) to ensure that trade among Member Territories takes place under conditions of fair competition; (3) to encourage the progressive development of the economies in the area; and (4) to foster harmonious development and liberalization of Caribbean trade by the removal of all barriers.

The 1968 revision enlarged the objectives of the Association to include further stipulation aimed at: (1) the encouragement of a balanced and progressive development of the economies of the Area. For this purpose, the resolution adopted by the Fourth Heads of Government Conference, and included in the 1968 revision of the Agreement, provided that studies be initiated to determine whether the objective of achieving trade expansion to the mutual benefit of member states could be facilitated by the establishment of a common external tariff in whole or in part. The same resolution determined that the United Nations' ECLA Secretariat for the Caribbean be asked to undertake a number of studies and among them those on the harmonizing of incentives and the feasibility of establishing certain regional industries; and (2) ensuring that the benefits of free trade are equitably distributed among the Member Territories.

4. Cartagena Agreement

The Agreement's principal objectives are spelled out as follows: (1) to encourage the rapid attainment of economic development; (2) to increase employment opportunities; (3) to improve members' balance of payments positions; (4) to contribute toward the solution of the infrastructure problems; (5) to reduce the differences in development among the member countries; and (6) to make more efficient use of scientific and technological resources and to promote research.

It is indicated that these objectives should be achieved through (1) a system of industrial programing; (2) a special regime for the agricultural sector; (3) adequate planning of the physical and social infrastructure; (4) harmonization of monetary, financial, exchange, and fiscal policies, which are to include a special statute for the treatment of foreign capital; (5) a common commercial policy vis-à-vis third countries; and (6) harmonization of the planning methods and techniques.

IV. Trade Liberalization Programs

1. CACM

In the Multilateral Treaty for Free Trade and Central American Economic Integration (1958), the Contracting Parties decided to eliminate all import and export duties and all other taxes, surcharges, and contributions--except those earmarked to cover costs--on a list of products which was included as an annex to the Treaty. This list included mainly food products and certain

local manufactures. Later, with the General Treaty for Central American Economic Integration (1960), the Signing Parties granted each other free trade of all products originating in their respective territories, with the only limitations being special regimes as listed in Annex A to the Treaty. Annex A contained lists of products to be exempted from free trade. The lists were agreed on a bilateral basis, namely, Guatemala with El Salvador, Honduras, and Nicaragua; El Salvador with Honduras and Nicaragua; and Honduras and Nicaragua. The lists also included a program for either the gradual reduction (between three and six years) of duties or the suspension of authorizations to establish import controls beyond the first six years of the Treaty's existence. Very few product exceptions were included where the duties or controls could be maintained indefinitely.

2. LAFTA

The basic objective expressed in the Treaty is to eliminate all import charges within a period not longer than 12 years beginning in 1960. These charges are defined as (1) import duties and (2) any surcharges or other charges of equivalent effect of a fiscal, monetary, or exchange nature. However, charges in respect of services are excepted.

The liberalization program is to be achieved through periodic negotiations among the Contracting Parties in order to attain (1) National Lists containing yearly reductions of duties and other restrictions which each Contracting Party grants to the other Contracting Parties; and (2) a Common List of products on which the Contracting Parties agree, by collective decision, to eliminate duties and other restrictions for the intrazone trade within the coming 12 years.

The procedures to attain the foregoing were outlined in the following manner:

(1) For the formulation of the National Lists, each Contracting Party must grant annually to the others reductions in duties equivalent to not less than 8 per cent of the weighted average of the existing duties for third parties until all duties are totally eliminated. The revised National Lists will become effective on January 1 of each year.

(2) The Common List should include products whose value accounts for the following minimum percentages of total world trade of the Contracting Parties: 25 per cent within the first 3 years, 50 per cent within the first 6 years, 75 per cent within the first 9 years, and essentially of all the trade within 12 years.

The inclusion of products in the Common List is irreversible. The withdrawal of products appearing only on the National List may be negotiated with the Contracting Parties.

3. CARIFTA

The original 1965 CARIFTA Agreement stipulated that, subject to specific provisions, Member Territories shall not apply any import duty on goods eligible for tariff treatment. Import duties are defined to mean

(1) any tax or surcharge of customs and (2) any other charges of equivalent effect of a fiscal, monetary, or exchange nature. Charges in respect of services are excepted.

The specific provisions covered certain products (mainly paints, detergents, bagasse board, wood furniture, metal furniture, knitted underwear, and shirts) and called for the progressive elimination of the basic duty on those products. Import duties on the trade of these eight items were to be removed in five annual steps of 20 per cent, to be completed by January 1971.

The 1968 CARIFTA Agreement had similar provisions, but with the deadlines for the removal of duties extended. As from May 1, 1968, import duties were eliminated among Member Territories with the exception of 18 trade items specified in a reserve list for which there is a provision for phased removal of duties. In the four more development members (MDMs),1/ import duties on three commodities on the reserve list were eliminated immediately, and those on the remaining items were to be removed in five annual steps of 20 per cent, ending May 1, 1973. Other Member Territories were allowed 10 years, ending May 1, 1978 to effect the elimination of duties with one half to be removed by May 1, 1973.

4. Cartagena Agreement

The purpose of the Andean Pact is the elimination of all charges and restrictions on imports originating in any Member Country. Charges are defined as (1) import duties and (2) all surcharges and other charges of equivalent effect of a fiscal, monetary, or exchange nature. Charges in respect of services are excepted.

The procedure for the elimination is to be automatic, gradual, and irreversible until total liberalization of imports is attained on or before December 31, 1980. The process of elimination of tariffs is to be applied to (1) the products of Sectorial Programs of Industrial Development;2/ (2) products of the Common List in accordance with the LAFTA Agreement; (3) products not now produced in any of the countries of the Subregion; and (4) the rest of the products.

The Agreement provides for the liberalization of the charges on "the rest of the products" as follows: (1) The starting point to be based on the highest duty within the three large countries (Chile, Colombia, and Peru), but which in any case could not be higher than 100 per cent ad valorem on the c.i.f. value. As of December 31, 1970 any duty in excess of 100 per

1/ Less developed members (LDMs) were defined in Annex B of the 1968 Agreement as all those Member Territories other than Barbados, Guyana, Jamaica, and Trinidad and Tobago.

2/ Sectorial Programs for Industrial Development must be approved by the Commission before December 31, 1973. However, if by that time, the Board finds that additional Programs can be proposed to the Commission with respect to products already reserved but not included in the Programs, the deadline will be extended to December 31, 1975.

cent of the c.i.f. value must be reduced to at least that level. (2) Thereafter, yearly reductions of 10 percentage points must be introduced until elimination of duties is reached, on or before December 31, 1980.

With regard to imports for Sectorial Programs for Industrial Development, if the terms covering their production are not complied with, they must be exempted from duties, as follows: (1) if not produced within the Subregion they must be exempted as of December 31, 1973 or December 31, 1975, as the case may be, depending on whether an extension date of the Program has been granted; and (2) the rest are to be totally exempt by December 31, 1980.

V. Clauses of Most Favored Nation Treatment

Only two of the regional agreements have specific provisions in regard to most favored nation treatment.

1. CACM

The Contracting Parties agreed to maintain the Central American Exception Clause within the commercial treaties, to be adhered to on the basis of the most favored nation treatment.

2. LAFTA

The clause of a most favored nation treatment is spelled out in the LAFTA Treaty, as follows: any advantage, favor, exemption, immunity, or privilege, applied by one Contracting Party in relation to a product originating in or destined to any country outside the LAFTA area, will be immediately and unconditionally extended to the similar product originating in or destined to the territory of any other Contracting Party. All the advantages, favors, etc., already granted or to be granted to facilitate border traffic are exempted from this treatment.

The most favored nation treatment is extended to the regulations on capital movements.

VI. Exceptions to the Trade Liberalization Programs

1. CACM

Of the treaties covered, the CACM is the only one that does not incorporate any specific exception clauses to deal with emergency situations, such as may arise from balance of payments disequilibria.

2. LAFTA

In the Montevideo Treaty, under "safeguard" clauses, it is stipulated that the Contracting Parties may authorize any one of their members, on a temporary basis, in a nondiscriminatory manner, and provided it does not represent a reduction of normal consumption level in the importing country, to impose import restrictions on those products originating in the Zone, and included in the liberalization programs, in those cases where imports are being made in quantities or under conditions such as to threaten or actually give rise to serious difficulties in similar production activities of significant importance to the member's national economy.

Measures to correct disequilibrium in the balance of payments may be extended, on a temporary basis and in a nondiscriminatory manner, to the intrazone trade on products incorporated in the liberalization programs. The Contracting Parties may apply measures ad referendum, but the Party applying them has the obligation to communicate them to the Permanent Executive Committee. The Committee in turn may call for a meeting of the Conference. However, whenever such measures have been in effect for more than a year, the Committee is to send to the Conference a proposal for the immediate initiation of negotiations to seek their elimination.

3. CARIFTA

The entire exemptions regime in the Caribbean Agreement is covered under the chapter entitled Deflection of Trade which is identical in both the 1965 and the 1968 Agreements. It is stipulated that trade is said to be deflected when (1) imports by a member from another member of a particular product are increasing as a result of the reduction or elimination of duties or because the duties imposed on the raw material imports of the exporter are lower; and (2) when the increase in imports is causing serious injury to the local production of the importing member.

When deflection of trade as defined above occurs, the Council shall keep under review the question of deflections. It shall take such decisions as are necessary, by amending the rules of origin or whatever else is considered appropriate. Should a deflection of trade of a particularly urgent nature occur, any Member Territory may bring the matter to the Council's immediate consideration. The Council shall take a decision as quickly as possible, in general within a month, and it may, by majority decision, authorize interim measures to safeguard the position of the Member Territory concerned. Such measures should not continue for longer than two months unless an authorized extension is granted by the Council.

When a member is considering reductions in the effective level of duties, it must notify the Council not less than 30 days before such reductions come into effect. The Council shall consider all representations from other members that the reduction could possibly lead to a deflection of trade.

For the purpose of safeguarding its balance of payments, any Member Territory may introduce quantitative restrictions on imports. Any action of this nature must be reported to the Council, preferably before the measures come into force. Should the balance of payments difficulties persist beyond 18 months and the measures applied seriously disturb the operations of the Association, the Council must examine the situation and suggest procedures to attenuate their effect. A member that has taken such measures shall be requested to eliminate them as soon as its balance of payments situation improves.

A further stipulation in the Agreement is that should a Member Territory experience an appreciable rise in unemployment resulting from a substantial decrease in internal demand for a domestic product, and this decrease in demand be the result of increased imports from other Member Territories or of the progessive reduction or elimination of duties, charges, or quantitative restrictions, then that member may (1) limit those imports by means of quantitative restrictions to a rate not less than the rate of such imports in the 12-month period immediately preceding the date of enforcement of the restrictions. Such restrictions should not be continued for a period longer than 18 months, unless authorized by a majority decision of the Council; and (2) take such other measures as may be authorized by majority decision of the Council. The continued application of any of these provisions beyond December 31, 1970 is left to the decision of the Council.

In addition to the above stipulations, the 1968 Agreement included specific provisions for the trade in agricultural products. The Agricultural Marketing Arrangements Protocol required each Member to estimate every year its import requirements or production surplus, and the availability for export therefrom, and empowered the Secretariat to make the respective trade allocations. This Protocol further stipulates that imports of any agricultural commodity into a Member Territory shall be from within the Area. Imports from outside the Area are permissible by prior approval of the Secretariat.

4. Cartagena Agreement

The Andean Pact adopted all regulations under the title "safeguard" clauses in the Montevideo Treaty (see LAFTA, Chapter VI, p. 12). In addition, the Cartagena Agreement stipulates that, in the case of exchange devaluations, any Member Country that considers itself at a disadvantage may adopt necessary corrective measures, but only with the Board's approval. In any event, the measures taken may not result in an actual reduction of the import levels existing immediately prior to the devaluation. The "safeguard" clauses would not apply to any products of the Subregion included in the Sectorial Programs for Industrial Development.

One provision of the Cartagena Agreement is that Member Countries may present to the Board a list of those products already being produced in the Subregion which should be exempted from the liberalization program and the process of establishment of a common external tariff. The products listed, however, could not be any of those included in the Common List under the LAFTA. The lists of Colombia and Chile were not to include more than 250 items and that of Peru not more than 450 items.

VII. Industrial Promotion and Development Provisions

1. CACM

The CACM Treaty also incorporated the Agreement on the Treatment of Integration of Central American Industries, signed in Tegucigalpa on July 10, 1958. That Agreement defined the integration industries as those enterprises that, at a minimum operating capacity, must have access to the Central American market to be able to produce under reasonably economic and competitive conditions. The application of the Agreement was to be the subject of individual additional protocols, approved by the Contracting Parties, which should stipulate (1) the country or countries where these industries were to be located, their minimum capacity, and the conditions under which additional plants could be admitted; (2) the quality standards for the articles produced by these industries together with other indispensable requisites for the consumers' protection; (3) the rules governing the participation of Central American capital in these industries; (4) the minimum prices, for customs purposes, which would be applied to the integration industries' products; and (5) other pertinent details.

It is specified in the CACM Treaty that the products of plants adhering to the rules under the Treatment of Industries will enjoy the benefits of free trade within the area. The by-products of these same industries, not included in the Treatment, will enjoy successive reductions of 10 percentage points a year on Central American duties.1/

2. LAFTA

The Montevideo Treaty does not specifically go into the procedures to be followed to promote the integration and growth of industry within the Zone. In the general objectives of the Treaty it is stated that the Contracting Parties, in order to accelerate the process of integration, have agreed to promote the coordination of their industrial policies as well as the finalization of complementation agreements by industrial sectors.

3. CARIFTA

Among the general statements on the principles and objectives of this Agreement, one of the most important objectives is the pursuit of efficient industrial complementation within the area. The general principle for the establishment of new enterprises is that the conditions required for persons from other Member Territories should be no less favorable than for

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1/ The Treaty mentions that the Central American Bank for Economic Integration is to be created as the main instrument for the financing and promotion of the industrial integration movement. As indicated earlier, the description of the development lending institutions within each treaty is to be the subject of a separate paper.

persons of the Member Territory where the industry is to be established. The Council is empowered to determine whether any additional or different provisions are necessary to promote the establishment of new enterprises, and it may recommend incentive provisions to members. Any member considering the introduction of or alteration to incentive legislation must notify the Council.

The 1968 amendment to the Agreement which embodied the resolution adopted by the Fourth Heads of Government Conference stipulated that in order to encourage the balance and progressive development of the economies of the Area, the United Nations' ECLA Secretariat for the Caribbean should be asked to undertake a number of studies with special emphasis on the harmonizing of incentives and the feasibility of establishing certain regional industries.

4. Cartagena Agreement

The Member Countries undertook the obligation to start a process of industrial development within the Subregion through joint programing that should meet the following objectives: (1) a larger expansion, specialization, and diversification of industrial production; (2) the exploitation of the area's available resources; (3) the improvement of productivity and the more efficient use of the factor of production; (4) the economies of large-scale production; and (5) the equitable distribution of benefits.

In order to achieve these objectives, the Commission must approve Sectorial Programs of Industrial Development, as proposed by the Board, to be jointly executed by the Member Countries. These sectorial programs should contain provisions on the following aspects: (1) specification of the product(s) to be promoted; (2) joint programing of the new investments at a subregional level and of the measures to be taken to ensure the financing; (3) establishment of plants among the Member Countries; (4) coordination of all actions directly affecting the program; (5) liberalization programs, which may contain different completion schedules, varying in accordance with the country or the product, but which, in any case, must ensure the free access of the respective product(s) to the subregional market; (6) common external tariffs; and (7) a time period by which the rights and obligations arising from a program would be maintained in case the Agreement is denounced.

The Board must develop programs aimed at achieving the physical integration of the economies, but with special emphasis on industry. These programs should include guidelines for (1) the immediate creation of specific projects to be incorporated in the national plan of each country, bearing in mind priorities; (2) the adoption of the steps necessary to ensure the availability of adequate financing for the required preinvestment studies; (3) the obtainment of adequate technical and financial assistance for execution of the projects; and (4) the coordination and adoption of policies vis-a-vis the national credit institutions and, particularly, the Andean Development Corporation to ensure the flow of financial resources not available within the Subregion.

VIII. Taxation Policies

1. CACM

The Central American Treaty states that whenever products being traded are subject to taxes or other internal charges on their production, sale, distribution, or consumption in one of the Contracting Parties, this country may equally tax goods of the same nature imported from another Contracting Party, provided it also imposes the same taxes on the same goods from third countries. Furthermore, the Contracting Parties agreed that, in establishing internal consumption taxes, the following general rules would be followed: (1) these taxes may be established for whatever amount is deemed necessary whenever there is an internal production of the article to be subject to the tax, or whenever this article is not produced in any of the Contracting States; (2) when there is no production in one of the States but the article is produced in any of the others, the State not producing the article will not be allowed to impose consumption taxes on this article except by favorable resolution of the Executive Council; and (3) if one of the Parties has established an internal consumption tax and production of this article is started in any of the other Parties with no production existing in the Party that established the tax, the Executive Council, at the request of the interested Party, may examine the case and issue the appropriate resolution.

The Contracting Parties to the Treaty agreed to attain within the shortest possible time a reasonable standardization of their internal legislation on fiscal incentives for industrial development.

2. LAFTA

The Montevideo Treaty covers in only a general way the treatment of internal taxation. Products originating in the territory of one of the Contracting Parties must enjoy in the territories of the others a treatment no less favorable than that applicable to the national products, insofar as taxes and other internal charges are concerned.

3. CARIFTA

On revenue duties and internal taxation applicable to imported goods, a Member Territory may not (1) apply any fiscal charges in excess of those applied to domestic goods; nor (2) apply fiscal charges to imported goods of a kind not produced in its territory in substantial quantities in such a way as to protect domestic production of different kinds of goods that are substitutable for the imported ones and which do not bear taxes of equivalent incidence of the imported goods.

It is further stipulated in the CARIFTA Agreement that a Member Territory must notify the Council of all fiscal charges applied which are not identical for imported goods and the like domestic goods.

For the application of these provisions the following definitions are adopted in the Agreement: (1) fiscal charges are defined as revenue duties, internal taxes, and other internal charges on goods; (2) revenue duties are defined as customs duties and other similar charges applied primarily for the purpose of raising revenue; and (3) imported goods are goods acceptable for tariff treatment.

Export duties may not be applied by the Member Territories on trade within the area. However, re-export duties on goods exported to territories outside the area may be introduced, as may other measures considered necessary to prevent evasion of duties in respect of such trade.

The 1965 Agreement provided that Member Territories may impose internal taxes on products imported by CARIFTA members, provided that identical rates of tax are levied on similar products produced at home or imported from outside countries, subject to a special arrangement for rum imports on which the protective revenue duty must be reduced by 60 per cent by January 1, 1967, and thereafter by four annual steps of 10 per cent to end by January 1, 1971. The 1968 Agreement added beer, liquor, and petroleum to the list of imports subject to the special arrangement, and distinguished between more developed members (MDMs) and less developed member (LDMs) regarding the progressive elimination of duty. The MDMs must eliminate revenue duties in five years, 60 per cent by May 1, 1969 and thereafter four annual steps of 10 per cent, ending May 1, 1973. The LDMs must eliminate revenue duties in ten years ending May 1, 1978, with 50 per cent to be eliminated by May 1, 1973.

4. Cartagena Agreement

Other than the general intention expressed in the Pact in regard to the objectives to be achieved through the harmonization of monetary, financial, exchange, and fiscal policies, the Cartagena Agreement does not make any specific references on the subject of taxation.

IX. Agricultural Policies

1. CACM

The question of trade in agricultural products was not dealt with specifically in the 1960 Treaty. However, those agricultural products on which all duties had been eliminated were listed in the Annex to the Multilateral Treaty for Free Trade and Central American Economic Integration (1958). In the General Treaty for Central American Economic Integration of 1960, those agricultural products that the Contracting Parties had chosen not to liberate were enumerated in detail in the bilateral lists.

2. LAFTA

The Montevideo Treaty stipulates that the Contracting Parties must endeavor to coordinate their policies on agricultural production and development in order to achieve a better use of internal resources and an improvement in the standard of living of the rural populations, and as a means of ensuring an adequate supply of foodstuffs.

Within the first 12 years of the Treaty, any Contracting Party may apply measures, on a nondiscriminatory basis, to trade in agricultural products to limit imports to amounts necessary to cover domestic production deficits and to equalize the price of the imported product with that of the domestic product. The Contracting Party applying such measures must so inform the other Parties.

Also during the first 12 years, the expansion of trade in agricultural products should be achieved through agreements among the Contracting Parties to cover domestic deficits. The Parties were to give priority to imports of products originating in the Zone, under normal competitive conditions.

Should the exports of one of the Contracting Parties decrease because of measures adopted by another Party, the case may be presented to the Permanent Executive Committee for consideration.

3. CARIFTA

No special provisions covering the trade in agricultural products were recorded in the original 1965 Agreement. The 1968 Agreement stipulated, however, that all tariff and quantitative restrictions applied to CARIFTA agricultural products must be removed before May 1, 1968, except that quantitative restrictions could be retained on those products listed in the Agricultural Marketing Arrangements Protocol. Until such time as a regional agricultural policy is agreed upon, Member Territories are allowed to subsidize domestic agriculture through government aid and through the operations of public undertakings such as agricultural marketing agencies.

4. Cartagena Agreement

This Agreement includes in its main objectives the eventual adoption of common policies in the agricultural sector. These policies are listed as (1) improvement in the standard of living of the rural populations; (2) increase in agricultural production and productivity; (3) specialization in regard to a better use of the factors of production; and (4) the regional substitution of imports, increase of exports, and opportune and adequate supply for the subregional market.

These objectives were to be achieved through (1) joint programs for the development of specific agricultural products or groups of products; (2) adoption of common commercialization schemes through agreements for the supply of agricultural products among member countries' respective state enterprises; (3) promotion of agreements among the state enterprises concerned with the planning and/or execution of agricultural policies; (4) incentives for the promotion of exports; (5) joint programs for applied research and technical and financial assistance; and (6) the adoption of common norms and programs on vegetable and animal health.

X. Provisions on Export Subsidies, Commercial Practices, and Origin of Goods

1. CACM

The Contracting Parties may not grant exemptions or reductions of customs duties for imports of raw materials or component parts from outside the Central American area to be used in articles produced in the Signing States. Imports by Governments may be subject to the scrutiny of the Executive Council.

No Contracting Party may grant, either directly or indirectly, subsidies on the export of goods to any other CACM country, nor may it maintain or establish systems that would result in the sale of a particular merchandise for export to another CACM country at a price lower than the established selling price of such merchandise in its own market. Any practice resulting in discriminatory pricing is to be considered an indirect subsidy to exports whenever it brings the export sale price to a level lower than the domestic price. But, any exemption from internal production, sale, or consumption taxes should not be considered as an export subsidy; and this same rule applies to the sale of foreign exchange in free markets. However, in regard to sales of foreign exchange, in case of doubt, the matter must be submitted to the judgment of the Executive Council.

Each Contracting Party must avoid, by every possible legal means, the export of goods to the territory of another CACM member at prices lower than "normal value". Export prices are considered below normal value when (1) the price is lower than for the same merchandise when sold for domestic consumption; (2) the price is lower than that for comparable merchandise being exported to a third country; or (3) the price is lower than the cost of production plus a reasonable margin for sales expenses and profit.

Should any Contracting Party believe unfair commercial practices other than those mentioned above are being applied, it may not stop trade by unilateral decision but should submit the matter to the consideration of the Executive Council. The Executive Council must rule and advise the Parties concerned whether they are authorized to apply protection measures in accordance with the regulations of the Treaty.

The trade of goods enjoying the benefits stipulated in the Treaty must be covered by a customs form signed by the exporter containing his declaration of origin. This customs form is subject to inspection by the customs officers in the countries of origin and destination. In case of doubt, any of the Parties may ask for the intervention of the Executive Council. It is provided that the Executive Council will not consider as indigenous those products simply assembled, packed, or blended in the exporting country. The Executive Council was to issue complete regulations on the procedures to be followed for the determination of origin of goods.

2. LAFTA

The regulations of this Treaty on commercial practices are of a general nature. It was left to the Contracting Parties to agree on the general criteria regarding (1) proof of origin of merchandise; (2) simplification and unification of the different steps and formalities relating to reciprocal trade; (3) negotiations for an establishment of a common nomenclature for tariff and statistical purposes; (4) definition of what is to be considered as frontier traffic; (5) establishment of circumstances that would determine cases of dumping and other unfair trade practices.

The Treaty also stipulated that the re-export of goods was prohibited except after a product had been subject to additional transformation or manufacturing processes.

Export subsidies and other similar measures are prohibited except in cases of (1) tax exemptions for products to be used for domestic consumption and (2) tax refunds or "drawbacks".

3. CARIFTA

Both the 1965 and the 1968 Agreements are most specific with regard to government subsidies, and stipulate that members shall neither maintain nor introduce (1) any of the following forms of aid on exports of goods and services: (a) currency retention schemes or any similar practices that involve a bonus on exports or re-exports; (b) direct subsidies to exporters; (c) remission, calculated in relation to exports, of direct taxes or social welfare charges on industrial or commercial enterprises; (d) any exemption from charges or taxes or from the payment of amounts exceeding those effectively levied at one or several stages in the form of indirect taxes or other charges; (e) in respect of deliveries by governments of imported raw materials for export business on different terms than for domestic business, the charging of prices below world prices; (f) in respect of government export credit guarantees, the charging of premiums which are manifestly inadequate to cover the long-term operating costs and losses of the credit insurance institutions; (g) the granting by governments or government agencies of export credits at rates below those these agencies have to pay for funds; and (h) the bearing by the government of all or part of the costs incurred by exporters in obtaining credit; and (2) any other form of aid, the main

purpose or effect of which is to frustrate the benefits expected from the removal or absence of duties and quantitative restrictions as required by this Agreement. However, the 1968 Agreement stipulates that none of these provisions shall apply to agricultural products until such time as a regional policy with respect to their production and marketing, including subsidies, has been agreed upon. Also, this same agreement stipulated that the provisions contained in (2) above shall not apply in respect of inter-regional trade within the Area in any manufactured goods until Member Territories have agreed upon a regional policy with respect to incentives to industry.

The Agreement goes on to stipulate that if the application of any form of export aid by a Member Territory frustrates the benefits expected from the removal of duties and quantitative restrictions as required by the Agreement, the Council may, by majority decision, authorize any Member Territory to suspend to the Member Territory which is applying the aid, the application of those benefits under this Agreement which the Council considers appropriate. The Council is furthermore empowered to amend the afore-mentioned provisions.

The following commercial practices are incompatible with the Treaty: (1) an agreement between enterprises resulting in restrictions or distortions of competition within the area; and (2) one or more enterprises taking unfair advantage of a dominant position within the area or part of it. The Council is empowered to decide whether further provisions are necessary to deal with restrictive commercial practices.

This Agreement does not prevent any Member from taking action against dumped or subsidized imports provided such action is consistent with any international obligations to which the Member is subject.

The Agreement stipulates that members may refuse to accept for area tariff treatment those goods that benefit from export "drawbacks".

4. Cartagena Agreement

The Agreement stipulated that, before December 31, 1971, the Commission must decide on a proposal, to be prepared by the Board, covering regulations required to avoid or correct any practices, such as dumping, undue price manipulations, maneuvers, aimed at disturbing the normal supply of raw materials, or others of equivalent effect, which could distort normal competition within the Subregion.

On the basis of proposals made by the Board, the Commission must adopt adequate provisions for the verification of origin of goods.

It is the responsibility of the Board to supervise adherence to all regulations pertaining to export subsidies, commercial practices, and origin of goods.

XI. Exceptions to the General Rules for Less Developed Countries

1. CACM

All member countries are subject to the same treatment.

2. LAFTA

The Contracting Parties agreed that in order to facilitate the growth of the economies of Bolivia, Ecuador, and Paraguay, defined as Lesser Relative Economic Development Countries (LREDC), they may (1) authorize a Party to grant to an LREDC advantages not extended to the other Contracting Parties, in order to stimulate the installation or the expansion of productive activities; (2) authorize an LREDC to carry out its program for the reduction of duties and other restrictions over longer periods of time than those generally stipulated; (3) authorize any of the LREDC's to adopt the proper measures needed to correct eventual balance of payments disequilibria; (4) authorize an LREDC to apply whenever necessary, on a temporary basis, in a nondiscriminatory manner, and as long as it does not imply a reduction in the regional consumption, measures to protect its national production of products of basic importance for its economic development included in the liberalization program; (5) carry out collective negotiations in favor of one of the LREDC's in support of measures of a financial or technical nature, applicable inside or outside the Zone, designed to achieve the expansion of new and/or existing productive activities, primarily those designed to industrialize their own raw materials; and (6) promote and support technical assistance programs of any of the Contracting Parties which are designed to increase the productivity levels in an LREDC.

3. CARIFTA

While the 1965 Agreement stated that all members were subject to equal treatment, the 1968 Agreement provided several mechanisms for ensuring that LDMs benefit more fully from economic integration. Most of these special treatments have already been mentioned in the preceding sections of this paper and they refer to: (1) the general objectives of the Agreement (Section III.3); (2) the trade liberalization programs (Section IV.3); and (3) the taxation policies (Section VIII.3).

Finally, the 1968 Agreement specifically stipulated that upon any application made for the promotion of industrial development in LDMs, the Council may, if necessary, as a temporary measure in order to promote the development of an industry, authorize an LDM by majority decision, to suspend area tariff treatment on any imports.

4. Cartagena Agreement

Bolivia and Ecuador were granted special regimes in the Andean Pact. In the area of industrial policies, and within the Sectorial Programs of Industrial Development, these countries are to be assigned, on a priority basis, new plants together with the corresponding production to be established in their territories. The Programs must contemplate exclusive advantages and preferential treatments in favor of Bolivia and Ecuador in order to facilitate their effective access to the subregional market.

In order to permit the immediate participation of Bolivia and Ecuador in all the benefits of an enlarged market, member countries must eliminate all duties and restrictions on imports from these countries in accordance with the following provisions: (1) "the rest of the products"[1] must have irreversibly free access to the subregional market not later than December 31, 1973. For this purpose, duties are to be automatically eliminated in three successive annual reductions of 40 per cent, 30 per cent, and 30 per cent, respectively, starting on December 31, 1971; (2) the Commission, acting on a proposal from the Board, was to approve the list of products to be liberalized in favor of Bolivia and Ecuador on January 1, 1971; (3) those products selected for the Industrial Development Sectorial Programs, but which were not included in them within the prescribed time limits, must be totally free of duties in favor of Bolivia and Ecuador by January 1, 1972, or by January 1, 1976 in those cases where they had benefited by the extension provisions contemplated in the Industrial Programs.[1]

Before March 31, 1971, the Commission, at the proposal of the Board, must establish preferential margins in favor of the respective lists of products of special interest to Bolivia and Ecuador, establishing the dates on which these margins were to apply after April 1, 1971. The lists of these products should be made up of articles included within those classified as "rest of the products," and referred to in Chapter IV.

XII. Common External Tariff

1. CACM

On September 1, 1959, the Central American republics signed in San José, Costa Rica, the Central American Agreement on the Equalization of Import Duties and a protocol on the Central American Preferential Customs Treaty. In this Agreement, the Contracting Parties decided to adopt a common customs policy and to agree on uniform import duties, following the general guidelines for the economic development needs of Central America. To achieve these targets, it was agreed that a common tariff for imports will be adopted no later than five years after signature of the Agreement. This Agreement included an annex containing a list of goods with a common external tariff as well as preferential tariffs for

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[1] As referred to in Chapter IV, Trade Liberalization Programs, Section 4, Cartagena Agreement (paragraph 1, p. 11).

Central American goods and a second list of goods representing exceptions to the first one. The list of exceptions contained a uniform tariff, as well as the unification process, including uniform prices, which should be introduced at the end of the transitional period but in any case no later than five years. This Agreement was absorbed in the General Treaty for Central American Economic Integration of December 13, 1960, on which date a new protocol, the Central American Unification Agreement on Import Duties, also was signed.

2. LAFTA

No mention was made in this Treaty about the possible or eventual adoption of a common external tariff.

3. CARIFTA

As initially mentioned, among the objectives of the Association as enumerated by the 1968 Agreement was that of encouraging the balanced and progressive development of the economies of the Area. For this purpose, the Commonwealth Caribbean countries, in accordance with the resolution adopted by the Fourth Heads of Government Conference, were to take immediate steps to initiate studies to determine whether this objective will be facilitated by the establishment of a common external tariff, in whole or in part.

4. Cartagena Agreement

Adoption of a common external tariff was one of the main targets of the Andean intergration movement. The Agreement specifies that, in signing, Member Countries had agreed to adopt a common external tariff, which must go into effect before December 31, 1980. The project was to be prepared before December 31, 1971, and by December 31, 1976 all countries must have begun the implementation process.

Before December 31, 1970, the Commission had to approve a proposal from the Board (1) establishing adequate protection for subregional production; (2) creating a progressive margin of subregional preference; (3) facilitating adoption of a common external tariff; and (4) stimulating efficiency in subregional production.

XIII. Other Financial Stipulations

1. CARIFTA

All members must periodically exchange views on all aspects of financial and economic policies. The Council may make recommendations to members on these policies to ensure the smooth operation of the Association.

2. Andean Pact

The Andean Pact stipulated that the Board must present proposals to achieve coordination of member countries' financial policies on the following main points: (1) the channeling of public and private savings to finance projects in the Subregion; (2) the financing of trade among Member Countries and with third countries; (3) the adoption of measures to facilitate capital flows within the Subregion, particularly for the development of industry, services, and trade, as they relate to the enlarged market; (4) the strengthening of LAFTA's multilateral clearing systems, and the eventual establishment of a Subregional Clearing and Payments House together with a system of reciprocal credits; (5) the establishment of standards for solving problems arising from double taxation; and (6) the formation of a common reserve fund.

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