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Colombia and Venezuela after the Uruguay Round: Trade Policy Reforms and Institutional Adjustments

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I. INTRODUCTION

Colombia and Venezuela, the two largest countries in the Andean Community (AC), have pursued trade liberalization and reform not only unilaterally but also in the context of regional integration arrangements, and, more recently, in response to multilateral trading rules and commitments negotiated in the Uruguay Round.[1] Hence, trade reform and liberalization has taken place at three levels: unilateral, regional, and multilateral.

Colombia and Venezuela have shown their commitment to the multilateral rules and practices, as settled by the World Trade Organization (WTO), by introducing changes to their trade practices in response to the Uruguay Round Agreements (URAs). These modifications have implied challenges in a large number of areas, mainly in the realm of the common trade policy framework they share as the most active members of the AC. Among these changes, the reform of the Andean Common Automotive Policy (ACAP), export promotion instruments and anti-dumping and countervailing duties have been prominent.

This paper discusses these two countries' main trade policy reforms and institutional adjustments resulting from the URAs, resorting to the AC common trade policy framework and to the selection of issues and sectors, like agriculture and auto assembly, of particular importance for both countries. The role of the private sector in shaping these policies is taken into consideration, although its impact and participation has been limited. It is quite paradoxical that while a new generation of more competitive and aggressive businessmen is emerging and taking advantage of the new trade opportunities, the participation of the private sector in trade negotiations has been weak.

Following this introduction, Section II provides an overview of the previous reform and adjustment process in both countries set forth at the unilateral and regional level. The discussion of these two dimensions of trade liberalization will provide an adequate framework to analyze the policy changes related to the URAs that have already taken place, and the future trade reform agenda. This is because the trade policy changes required to

[1]/ The Andean Group changed its name to Andean Community in early 1996 by amending the protocol of the Cartagena Agreement (*Protocolo de Trujillo*). This protocol established that the grouping work towards becoming a full-fledged common market by 2005.

comply with the mentioned multilateral undertaking have been, and will continue to be, largely determined by the previous liberalization efforts carried out unilaterally and regionally and by the future evolution of the Andean Community. Trade results are also discussed in this section, considering that the re-establishment of the Andean Group led to rapidly increasing trade flows within the block, most notably non-traditional exports.[2] Thus not only the extent of trade between them has increased, but the nature of their trade has changed.

Section III analyzes current instruments of trade policy, accounting for WTO commitments and business' role in each case. It grants special attention to some aspects of the common trade policy framework: the auto sector and agriculture. Other areas, such as export promotion instruments, contingent protection measures and bilateral trade problems are also discussed in this part of the paper.

Section IV evaluates the main implications of WTO commitments on business and government interests in terms of costs and benefits. Market access, dispute settlement procedures, tariff predictability and agriculture are the areas were benefits were accrued to business, while export incentives and TRIMS commitments were seen as the leading costs of the URAs.

Section V argues that private sector participation in the trade and integration agenda has been limited. It focuses on three issues: i) the institutional framework governing public and private sector dialogue; ii) the real channels through which the private sector participates in trade negotiations; and iii) the identification of the most active business groups in trade policy formulation and implementation.

Section VI discusses the Andean Community's future trade negotiations agenda and private sector participation in defining such a course of action. And Section VII gives the conclusions.

II. TRADE POLICY REFORMS AND INTEGRATION CHOICES

During the first half of the 1990s, Colombia and Venezuela made considerable progress in the area of economic reforms. The Colombian economic and structural reform program was known as *apertura* (openness) and the Venezuelan *el gran viraje* (great

[2]/ During the 1990-95 period, imports within the Andean Group grew by a remarkable 27% per year and

turnaround). There were, of course, special traits to these reform programs, but their basic design resembled the "Washington Consensus", actively promoted by the multilateral institutions, certain academic institutions and think tanks.[3] Their trade regimes were opened, financial distortions were eased, currency controls were abolished, privatization of state-owned enterprises were undertaken, and some general deregulation took place (i.e. labor).[4] Additionally, important complementary reforms were adopted in areas such as infrastructure and foreign investment.[5]

At the unilateral front, the economic and structural reforms, in general, and the unilateral trade liberalization, in particular, made it easier for these countries to accept further trade reform commitments resulting from the URAs and the rules and practices of the multilateral trading system. And at the regional front, the revival of the Andean Group and the active regional integration agenda created favorable conditions that serviced the acceptance of multilateral commitments. It is interesting to note that some regional agreements signed by Colombia and Venezuela establish disciplines that go further than what has been consented to at the multilateral level.[6]

This section is made up of two parts. The first one discusses the unilateral reforms and the trade policy objectives. The second part portrays the economic integration strategy, the role of the Andean Community in changing and reforming trade policy, and the obtained trade results.

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exports by 35% per year, perhaps the fastest effect of integration recorded to date.

[3]/ This term was coined by John Williamson (1993, 1997) and summarized the set of policy prescriptions he believed most policy makers and academics concerned with development subscribed to. An outer-oriented policy is prominent on his list.

[4]/ The Colombian the exchange rate regime was changed from a crawling peg to an exchange rate band system, which in practice equals a dirty float. On 25 September 1999 Colombia eliminated the ER band and let the peso float after losing some US$300m in less than 48 hours defending the currency from speculative attacks (Colombia lost US$1.3bn in reserves between Sept.98-Sept.99). Venezuela reintroduced exchange controls in mid 1994 (a de facto quantitative trade restriction) and a fixed exchange rate regime. Exchange controls were lifted in mid 96 and an exchange rate band system similar to that of Colombia has been in place since then.

[5]/ The reforms were initiated in Colombia under stable and positive economic conditions. On the Colombian reforms see Hommes, Montenegro and Roda (1994). In sharp contrast, Venezuela faced a serious economic crisis when the reforms were launched. At the start of 1989, Venezuela was operating in an increasingly isolated and grossly inefficient economy on the brink of hyperinflation and socioeconomic collapse. See Naim (1993) on the Venezuelan reform process.

[6]/ A good example of integration agreements that go beyond multilateral disciplines is the G-3 Agreement. Formed in 1994, the G-3 is a free trade area that comprises Mexico, Colombia and Venezuela and covers treatment in market access, rules of origin, phytosanitary measures, government procurement, investment, services, and intellectual property.

A. Unilateral Reforms

1. A Break with the Past: New Trade Policy Objectives

Unilateral trade liberalization in Colombia and Venezuela in 1990-91 and 1989-91, respectively, was implemented as part of a broader package of structural reform. The reforms aimed at promoting macroeconomic stabilization and redefining the role of the State (i.e. greater reliance on price mechanisms rather than government intervention). The countries' reforms included unilateral trade liberalizing movements complemented with an active economic integration agenda. The integration process was set forth under the "open regionalism" premise, a term which embodies the concept of open-ended, non-exclusive preferential trade agreements (PTAs).

Trade liberalization and the open integration strategy signaled a clear break with inward-oriented strategies of development. Previous reliance on import-substitution industrialization strategies (ISI) and the historical excessive protection given to the productive sector were acknowledged as the causes of the lack of competitiveness of the economies and as the main explanation for the generalized anti-export bias (Nogues & Quintanilla, 1993, p.289). It is worth noting that the diminishing participation of Latin American countries (LAC) in world trade in the 1970-85 period was substantially reversed by the unilateral liberalization trend. Braga, Nogués & Rajapatirana (1995, p.4) estimate that during 1991-93, the region integrated with the rest of the world at a faster pace than all other developing regions of the world.

The liberalization trend was fostered not only by the mounting frustration with the poor results of inward-oriented regimes.[7] The economic crisis triggered by the debt crisis of 1982, the demonstration effect of the Asian "tigers" and the support from the multilateral institutions for freer trade also played a pivotal role.[8] The economic crisis of the 1980s,

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[7]/ For a comprehensive review of economic development policies in Latin America, see Eliana Cardoso & Anne Helwege (1995).

[8]/ Braga, Nogués and Rajapatirana (1995), p.4. One could also assert that ideas also played an important part in this process. Krueger (1997) does a fine review on the evolution on thinking on trade reform. See A. Krueger (1997, p.17) for an explanation of the demonstration effect of the East Asian economic success story.

which was felt more strongly in Venezuela than in Colombia, no doubt assisted in the diffusion of political opposition against trade reform and increased openness.[9]

Thus, since the early 1990s, the underlying trade policy objective of Colombia and Venezuela has been to improve the competitiveness of their economies and enhance their growth prospects through an outward-looking development strategy, relying on export expansion as one of the pillars of sustained growth.[10] In turn, this export growth would be aided by the active economic integration strategy pursued by both countries. This strategy resulted in the deepening of existing trade agreements and the negotiation of new ones, which granted more permanence to the reform of the trade regime, a subject matter to which we will return to below.

However, the export growth and diversification objective is yet to be reached. Very briefly, Colombia still exports mainly primary goods and oil is Venezuela's main export. During the 1990s, Colombia and Venezuela have faced a complex domestic macroeconomic situation, compounded by the international financial crises. Growth slowed down considerably in 1998 and a marked recession took place in 1999 in both countries. Thus, export growth stalled and recent recovery has been slow. Additionally, both countries have been dealing with substantial difficulties at the political level.

The next section is devoted to describing the major components of the unilateral trade reforms in Colombia and Venezuela, emphasizing on tariff and regulatory reforms prior to URA-induced trade policy reform.

2. Major Components of the Unilateral Trade Reforms

There are four prominent components of reform in the Colombian and Venezuelan autonomous unilateral trade reform process: reduction of trade restrictions and "tariffication" of quantitative restrictions; rationalization of export incentives; institutional reform of trade policy entities; and full participation in the multilateral trading system.

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[9]/ For a complete survey of the political economy of transformation in the Andean countries, see Edwards (1998).

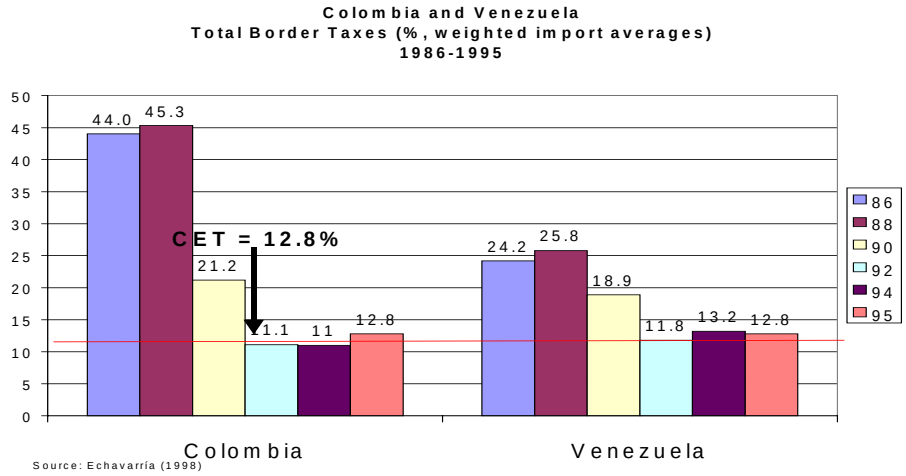
[10]/ This outer oriented trade policy objective was accompanied, of course, by a number of other policy measures -including macroeconomic stabilization efforts, fairly uniform incentives (primarily through the exchange rate), a more flexible labor market policy, adequate attention to infrastructure, and an appropriate domestic commercial code. However, changing trade policy was understood as one of the essential ingredients if there were to be hope for improved economic performance (Krueger, 1997).

a) Tariff and Non-tariff Barriers

Trade reforms in Colombia and Venezuela pursued greater neutrality of trade incentives, in parallel with a reduction of trade restrictions (i.e. eliminating import permits, lowering tariffs, eliminating import quotas, etc.) and/or the "tariffication" of quantitative restrictions (QRs). The commitment to neutrality at the initial stages of the reforms, besides seeking to allow prices to allocate resources in a more efficient manner, wished to level the playing field for all participants and to eliminate special privileges for specific sectors. It was argued that this pledge to neutrality would also protect government officials and their policies from particular interest groups fighting to retain the prerogatives they had enjoyed for decades (Naim, 1993).

Figure 1 summarizes the evolution of trade-weighted border taxes (tariffs and non-tariff barriers) in Colombia and Venezuela between 1986 and 1995, the solid representing the level of the Andean common external tariff (CET). The initial ad-valorem tariffs were much higher in Colombia (44 percent) than in Venezuela (24 percent). In 1994 ad-valorem tariffs were at low levels by historical standards: 11 percent in Colombia and 13 percent in Venezuela.

Figure 1

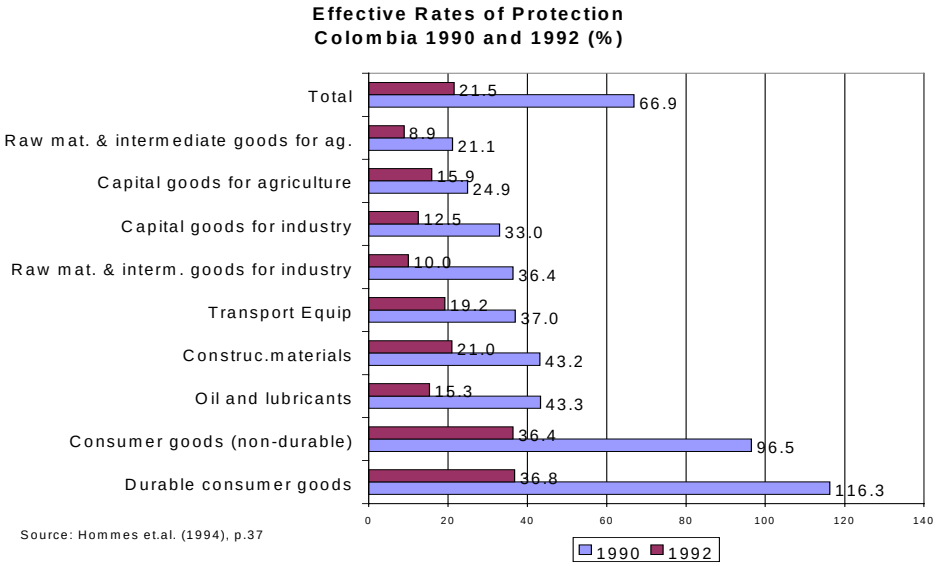


Regarding quantitative restrictions, it is noteworthy that Venezuela was the only Andean country that did not have any "disguised" border taxes before 1992 (Echavarría, 1998). They represented 63 percent of the official tariff in the year they were definitely

removed in Colombia (1988).[11] Regarding other non-tariff barriers, Colombia eliminated the IDEMA, a state trading enterprise that monopolized agricultural imports, and the complex import-licensing regime. Venezuela also eliminated import licensing and some import prohibition practices.

These two measures, reduction of tariffs and elimination of quantitative restrictions, led to the reduction of the effective rates of protection (ERP). Drawing on the Colombian case as an example, Figure 2 shows that total ERP fell from 66.9% in 1990 to 21.7% in 1992. The greatest ERP declines were observed in consumer goods, both durable and non-durable, and oil and lubricants. The lowest reduction was observed in capital goods for agriculture.

Figure 2



Source: Hommes et.al. (1994), p.37

In November 1994, in the framework of the Andean Group, an agreement was reached on a common external tariff (Decision 370) that started operating in February 1995.[12] The common external tariff (CET) was designed with a range of 5, 10, 15 and 20 percent. Raw materials and intermediate goods carry the low rates in the range including some full tariff exemptions. The higher rates apply to final goods. The motivation behind

[11]/ Non-tariff barriers in Colombia included an additional tax (Art.9, Law 50/84), a tax for export promotion, and taxes for the industrial promotion institute (IFI), for the agricultural bank (Caja Agraria) and for the National Treasury (Echavarría 1998).
[12]/ Decision is the name given to rules originating from meetings of the Andean Trade Ministers (*Comisión*).

escalating import taxes is to favor the internal production of raw materials in order to export higher value-added goods. The Andean countries have accepted a wide range of exemptions to the application of the basic CET levels, concentrated in raw materials, capital goods, agriculture and the auto sector. The implications of these exemptions, and of the regulations governing special sectors (i.e. agriculture and autos) are fully discussed in Section III.A.

The CET does not cover the five Andean countries (Bolivia, Colombia, Ecuador and Venezuela) because, on the one hand, Bolivia was authorized by Decision 370 to apply its domestic tariff levels on a permanent basis, currently 5 and 10 percent. The member countries decided to keep the special treatment granted to Bolivia during the ISI era, recognizing its less developed status in comparison to the other member countries. On the other hand, Peru decided in early 1992 to undertake an observer status regarding any CET agreement. Peru is supposed to join the CET in 2006, perhaps hoping that by then the Andean CET structure will evolve towards a low and uniform tariff similar to the one Peru currently applies.[13]

With the adoption of the CET in 1995, tariffs increased marginally in Colombia (from 11 to 12.8 percent) and Venezuela (from 11.8 to 12.8 percent), but are much lower and homogeneous than in the past.[14] Table 1 compares the 1995 CET with the national tariffs of 1992, when most unilateral reforms had already taken place, and shows that the adoption of the CET increased protection in all sectors, even in "transport equipment" factoring in the rates established by the automotive pact.[15] Venezuela protects "foods and beverages" relatively more than Colombia and Ecuador, and "transport equipment" relatively less. Also, and for obvious reasons, Venezuela tends to protect "oil and lubricants" less than the other two countries. Ecuador gives less protection to raw materials in general.

[13]/ Peru has a flat tariff of 12% with some exceptions in agriculture and textiles and clothing, which raise the average nominal tariff level to 13.2%.

[14]/ Because of this observation, Echavarría (1998) argues that the adoption of the CET provides the correct long-term signals to a private sector looking for stability.

[15]/ The percentages are based on the Decision 370 of 1994, which does not include the automotive act (which established a 35 percent tariff to transport equipment and 3 percent to CKD). Average CET rates could actually be lower since countries can apply lower tariffs for goods not produced in the region.

Table 1

The CET (1995) and National Tariffs (1992) /1

(%)		CET /2	National Tariffs 1992				
UN Broad Economic Categories		(1995)	Bolivia	Colombia	Ecuador	Peru	Venezuela
1	Foods and Beverages	15.8	10.0	14.8	13.5	17.6	16.1
6	Other Consumer Goods	17.6	10.0	15.0	14.5	20.7	14.4
3	Oil and Lubricants	9.7	10.0	9.7	9.2	15.0	2.2
2	Other Raw Materials	11.9	10.0	10.2	8.7	16.1	10.1
5	Transport Equipment	16.4	9.7	20.6	15.0	15.2	15.4
4	Other Capital Goods	11.9	8.8	9.2	7.2	15.2	8.4
7	Others	18.3	10.0	14.0	17.2	15.5	9.2
	TOTAL	**12.8**	**9.4**	**11.1**	**10.2**	**16.2**	**11.8**

Source: Echavarría (1998), p.88

Notes: /1: Import weighted averages

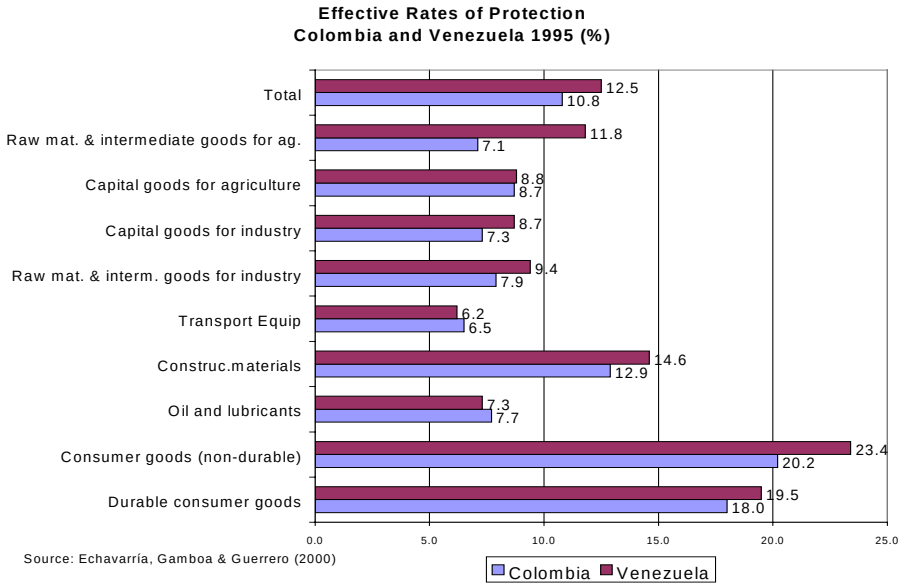
/2: Figures based on Decision 370 of 1994, excluding Automotive Pact tariffs and other excemptions.

Echavarría (1998, Table A-1, p.101) estimates that dispersion was also reduced drastically. In 1986 there were 29 border-tax levels (26 tariff levels) in Colombia and 41 (41) in Venezuela, compared to the four levels of the CET. The standard deviation also decreased considerably. It was reduced from particularly high levels in Venezuela: from 28.4 percent in 1986 to 4.8 percent in 1995. Colombia had a standard deviation of 16.9 percent in 1986 and of 4.8 percent by 1995. The maximum level reached by total border taxes in 1986 was 135 percent in Colombia and 113 percent in Venezuela. The maximum tariff was reduced to 35 percent with the adoption of the CET. Thus, the nominal protection granted by the tariff structure after the reforms lowered dispersion and is fairly homogeneous.

The lower nominal protection associated with the adoption of the CET and the reduction in NTBs also meant reduced ERP rates, both in their nominal and dispersion levels. Figure 3 shows recent ERP calculations for Colombia, and Venezuela (Echavarría, Gamboa & Guerrero, 2000). Total ERP protection is 10.8 percent in Colombia and 12.5 percent in Venezuela. The ERP calculations show that Colombia and Venezuela tend to protect more consumer goods, both non-durable and durable, followed by construction materials, raw materials and capital goods. Even though the pattern is similar, the Venezuelan sector averages tend to be higher in most sectors. The effective rates of

protection differences between Colombia and Venezuela answer to the wide range of permitted exemptions to the basic CET levels (see Section III below).

Figure 3



Source: Echavarría, Gamboa & Guerrero (2000)

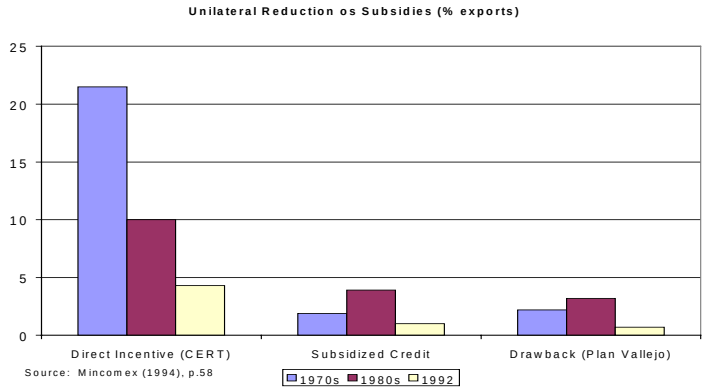
Summarizing, after the unilateral trade reforms border protection relies mainly on tariffs, thus providing more neutral trade incentives to the private sector. The reforms significantly reduced total border taxes (tariffs and NTBs), as well as tariff dispersion levels and effective rates of protection. With the adoption of the CET, the tariff structure was not modified substantially, and the absolute level is one of the lowest reached by these countries ever. Within the CET, tariff escalation promotes the internal elaboration raw materials. There are exemptions to the four tier CET, concentrated in raw materials, capital goods, agriculture and automobiles and spare parts, which will be discussed later on (see Section III.A) and are the cause of the differences in effective rates of protection between the two countries.

b) Export incentives

Before the unilateral reforms there were many export incentives in Colombia and Venezuela in order to offset the bias against exports. During the reforms, Colombia reduced many of the existing subsidies, like those under Plan Vallejo (subsidies associated with

imported raw materials and capital goods used in the production of exports), from 9.7 percent of total exports in 1989 to 2.3 percent in 1991 (see Figure 4).

Figure 4



Similarly, export subsidies (*Certificado de Reembolso Tributario* or CERT) on the final exported goods were reduced from an average of 8.4 percent in 1989 to 7.6 percent of total exports in 1991. Also, export credit subsidies (through Proexpo, the entity in charge of export promotion and export finance back then) were reduced from 0.7 percent to 0.3 percent of total exports over the same period.

Venezuela had direct export subsidies, input subsidies (specially oil-related), special lines of subsidized credit (through Finexpo), and matching funds for export development.[16] As of 1989 Venezuela applied a special fiscal credit program (*programa de incentivo fiscal*) reserved for agricultural exports of products considered to be "vulnerable" because of diverse reasons, which made them quite discretionary and non-neutral among agricultural products. The program's coverage was reduced by two thirds between 1989 and 1993, covering only 9.5% of the fob value of benefited exports (1993).[17]

Since 1991 Venezuela has used a drawback system for manufacture exports. In theory the system only returns to exporters indirect taxes on inputs used on the elaboration of exportable goods, but in 1994 it also covered consumption and value-added (VAT) taxes.

Some pricing practices in the energy sector have translated into indirect subsidies and have been particularly important in Venezuela. Refined domestic petroleum products

[16]/ Rajapatirana (1999), p.2-3

traditionally have been sold below world prices. Also, electricity prices have been fixed to producers of certain products.

Some of these instruments still exist today with slight modifications to comply with URA obligations while others are being phased-out, a subject that is discussed in Section III.C.

c) Trade-related Institutional Reforms

Trade-related institutional reform aspired to make the trade policy making process a centralized one, reflecting national interests rather than being dominated by sectoral ones. This particular reform acknowledges the necessity of increasing the voice of the private sector in the trade policy-making process. This was done by adapting existing institutions and eliminating others -products of a bygone era of protection- to a new development model, and creating within them several fora for private sector participation in the trade decision making process (discussed in Section V).

In this context, in 1991 Colombia centralized trade policy making under one institution, the Foreign Trade Ministry (Mincomex), a considerable undertaking for a country that had fifty three -rather uncoordinated- government entities involved in the formulation and execution of the country's trade policy (Mincomex, 1993, p.8). Proexpo, the entity in charge of export promotion and export finance, was divided into two institutions: Proexport (1991) and Bancoldex (1992). Proexport is the entity, under the surveillance of the Ministry of Foreign Trade, in charge of export promotion and marketing assistance. Bancoldex is a second-tier bank of mixed ownership covering export finance needs of domestic exporters and foreign buyers of Colombian exporters. Rajapatirana (1998a, p.10) states that the Colombian institutional trade reforms and liberalization went further than many countries at the time, mainly because these considerably reduced the degree of discretion given to trade-related agencies, like Incomex, to make and implement trade policy.[18]

Venezuela followed the Colombian example in late 1995 creating the Ministry of Industry and Trade (MIC), merging the foreign trade institute (*Instituto de Comercio*

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[17]/ WTO (1996), Trade Policy Review: Venezuela, p. 85.

[18] Incomex was totally eliminated in May 2000. The General Direction of Foreign Trade within the Ministry of Foreign Trade assumed all of its functions, like investigating anti-dumping and subsidy allegations.

Exterior, ICE) and the Ministry of Promotion (*Ministerio de Fomento*). With the Foreign Trade Law that enabled this merger, export promotion activities were passed on from the ICE to the newly created Bancoex, the entity in charge of export finance as a second-tier bank, export promotion and marketing assistance. These institutional changes are considered supportive of the continuation of the outward-oriented trade regime.

d) WTO Participation

The institutional reforms and the autonomous trade liberalization were reinforced and complemented with the security of market access and improved transparency resulting from Colombia's and Venezuela's participation in the multilateral trading system. Colombia became a GATT member in 1981 and Venezuela acceded in 1990. By signing the Marrakech agreement in 1994, they both are founding members of the WTO, agreeing to bind and adopt the rules and conventions of the multilateral trading system.

Achieving security of market access elsewhere certainly served government authorities to mount political will in support of freer trade. Also, improving transparency worked as a commitment device to certain rules of behavior. For example, once they have agreed to certain tariff rates, they are bound not to raise those rates except under very specific and widely known conditions, which works against potential rollback of the reforms (tariff reductions, elimination of NTBs, renewed openness to foreign investment, etc).

Their negotiation strategy to become GATT members was quite different, particularly with respect to market access, partly because GATT was more demanding in the 1990s on the topic of tariff ceilings. However, the main explanation is to be found in their productive structure differences.

Table 2 compares Colombia and Venezuela’s GDP structure. Venezuela is highly dependent on oil: “mining and quarrying” activities account for 29.4% of GDP, around 45% of tax revenues and nearly 80% of exports. Venezuela's non-oil industry is around 18.7% of GDP, and agriculture is only 4.7% of GDP. Key exports other tan fuel are aluminum, motor vehicles (mainly to the Andean region), iron and steel products, coal and coke, and agro-industrial goods, such as canned and simply preserved fish. In contrast, Colombia has a much larger agriculture sector, 13.4% of GDP, and “mining and quarrying” has a much lower share of total GDP at 9.7%. Industry is more diverse in Colombia even

though it has a smaller GDP share than in Venezuela, and therefore Colombia's export structure is less dependent on primary goods exports. Nearly 45% of Colombian exports are non-traditional (NT) --this is other than coffee, oil, coal, nickel and bananas-- and main exports under this category are agro-industrial products, flowers, textiles and clothing, refined sugar, synthetic and plastic fibers, printing and editorial products and motor vehicles.

Table 2

GDP Structure by Origin 1998

	Colombia	Venezuela
Agriculture	13.4	4.7
Industry	16.4	18.7
Mining and quarrying	9.7	29.4
Construction	5.3	5.1
Electricity, gas, water	2.5	2.0
Services	52.8	40.1

Source: IADB Statistics, constant 1990 US$

What is really relevant is that these differences translated into dissimilar sectoral interests when accessing to the GATT. Because of the desire to provide protection for its important agricultural sector, Colombia negotiated very high tariff ceilings for agriculture while Venezuela did not have clear incentives to do so. Therefore, Venezuela agreed to bind agriculture tariffs based on recent historic trade data and, therefore, at lower levels than Colombia. In practice, these lower tariff ceilings for agricultural products avoided future trade diversion within the Andean Community, particularly with Colombia and Ecuador, because Venezuela cannot increase its tariffs in order to establish a future common external tariff for these goods.

B. Economic Integration and the Andean Trade Policy Framework

One of the most outstanding features of the trade reforms has been the active involvement of Colombia and Venezuela in negotiating new integration agreements with other nations in the region and in reviving the Andean integration agreement. In a political economy sense, these regional agreements have been important for both countries because they have helped build consensus and commitment to the trade liberalization process by accomplishing trade openness gradually rather than all at once. These favorable conditions for commercial liberalization have enabled the Colombian and Venezuelan governments to

set up straightforward tariff-reduction schedules and comprehensive integration schemes that point towards full liberalization of trade in the near future and, thus, service the acceptance of multilateral commitments.

The next two sections describe the new integration agreements and the Andean Community's rejuvenation process and trade results are presented.

1. New Integration Agreements of the 1990s

Colombia and Venezuela signed bilateral free trade treaties with Chile, which entered into force in 1994, and with the Caribbean Common Market (CARICOM). Colombia and Venezuela have a comprehensive free trade agreement with Mexico, known as the G3 agreement, which took effect on January 1, 1995.[19] Both countries jointly signed a framework agreement on free trade with the Central American Common Market (CACM) in 1994 and with Mercosur in 1998, but have not yet negotiated schedules on tariff reductions and trade liberalization. Recently, in August 1999, a free trade agreement was signed between the Andean Community and Brazil, built upon progress reached in the AC-Mercosur framework agreement. The AC-Brazil treaty was followed by an AC-Argentina treaty signed in March 2000, signaling the recent success of the block's coordination instances before third parties in trade negotiations (see Section VI.A).[20]

It is worth noting that Colombia and Venezuela have a GSP preference agreement with the European Union (EU) related to their fight against illegal drug trafficking. Similarly, Colombia enjoys preferential access to the US market under the Andean Trade Preference Act (ATPA), in recognition to their fight against illegal drug trafficking and production activities.

2. The Revival and Deepening of the Andean Integration Agreement

Venezuela and Colombia are the largest countries in the Andean Community. The other members are Bolivia, Ecuador and Peru. The Andean Group was established in May 26, 1969, when the representatives of Bolivia, Colombia, Chile, Ecuador, and Peru signed the Cartagena Agreement. Venezuela joined the group in 1973 (Decision 70) and Chile left

[19]/ Under the G3, most tariffs are to be reduced to zero by the year 2004 (special treatment was given to agriculture, agro-industrial, and automotive sectors.

[20] Bolivia did not participate in the AC-Brazil and AC-Argentina treaties since it already was a member of Mercosur.

in 1975 (Decision 102). The Andean Group's instruments were: i) a liberalization program among the member countries; ii) the CET; iii) the industrial development programs; and iv) a common policy towards foreign investment. This integration agreement, after a short-lived success, stagnated in the mid-seventies and was almost abandoned throughout the 1980s.

A revival of the agreement began in 1989 when the presidents of the Andean countries assumed the direct leadership of the integration process, setting up clear guidelines for the entry into force of a free trade agreement and the adoption of a CET. But important differences regarding the objectives of overall trade policy within the group started to emerge, making these goals difficult to attain within the initial deadlines. What is relevant for the purpose of this study is that, in many ways, these differences still stand and, thus, influence at present date trade policy making.

Succinctly, these differences were the following: while Bolivia and Peru wanted to pursue more aggressive free trade reforms, Colombia and Venezuela maintained a more protectionist stance, arguing that higher tariffs were still necessary to encourage the formation of a stronger industrial base.[21] It is noteworthy that the Colombian government, however, has been more typically inclined to assume the leadership within the group than the rest of the member countries (Rajapatirana, 1999, p.8).

Because of their common trade policy objectives and the stalled negotiations for deeper Andean integration, Colombia and Venezuela started to negotiate a free trade area that started operating in March 1992, with a CET that covered around 90 percent of the tariff schedule. Ecuador rejoined the process later on and liberalized trade with its partners in January 1993, participating also in the Andean Common Automotive Policy (see Section III.A.1). Because of the Colombian-Venezuelan initiative, and after intense and complex negotiations with the other members, agreements were also reached on eliminating administered trade (except agriculture and automobiles and spare parts) and to establish a customs union.

[21]/ For example, as part of the general Peruvian policy aimed at imposing a lower CET, in May 1992 Peru unilaterally suspended the preferential treatment granted to imports from within the Andean Group (Edwards, 1995, p.156). Peru decided in 1995 to apply a low and uniform tariff of 12% with some exceptions in agriculture and textiles and clothing, which rise the average tariff to 13.2%.

Colombia and Venezuela have developed a common trade policy framework within the AC covering some economic sectors and trade-related measures. The administered trade for auto assembly and agriculture, both highly sensitive sectors, are subject to special treatment and, therefore, represent exemptions to the CET. Common rules and regulations are applied to other areas such as anti-dumping (AD) and countervailing duties (CVDs) foreign investment, intellectual property, and transportation. Some of these are discussed later on for analyzing the pending trade reform agenda in relation to the URAs.

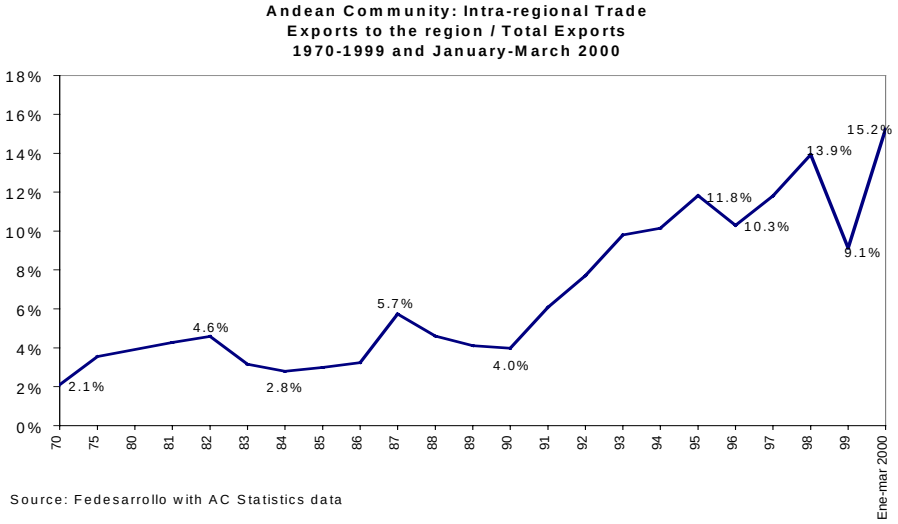
The next section is devoted to the trade results of the renewed Andean integration process and the evolution of bilateral trade.

3. Trade Results

Trade flows within the Andean Community (intra-regional trade) were very dynamic during the 1990-95 period, growing by a remarkable 29 percent per year, especially due to manufactures. This trend was reversed in 1996 when intra-regional exports fell 1.5 percent. Then, intra-regional export growth improved in 1997 (20%) and suffered yet another relapse in 1998 (-5.2%), except for manufactures that showed a 2 percent annual growth and represented 89% of total Andean trade in 1998.

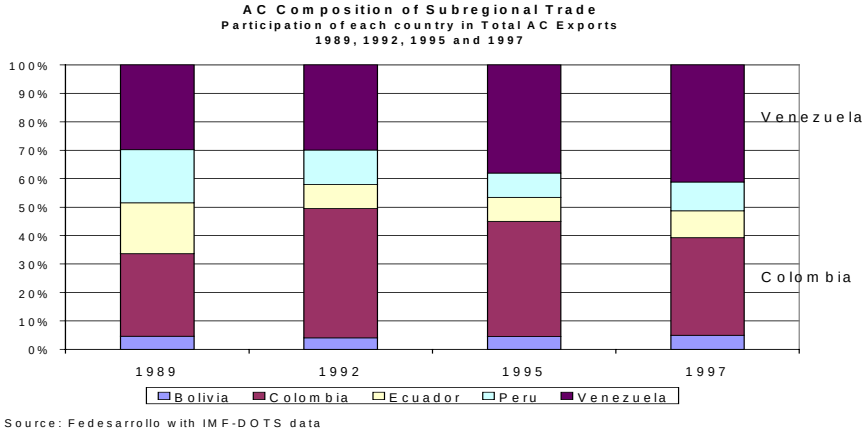
Despite these recent intra-regional trade growth setbacks, mainly due to the economic growth slowdown of the member countries and the domestic demand plunge, intra-regional exports have continued to increase their participation in the region's total exports (Figure 5). In 1989 intra-regional trade did not exceed 4.1 percent of total Andean exports to the subregion and reached near 10, 12 and 14 percent in 1996, 1997 and 1998 respectively.

Figure 5



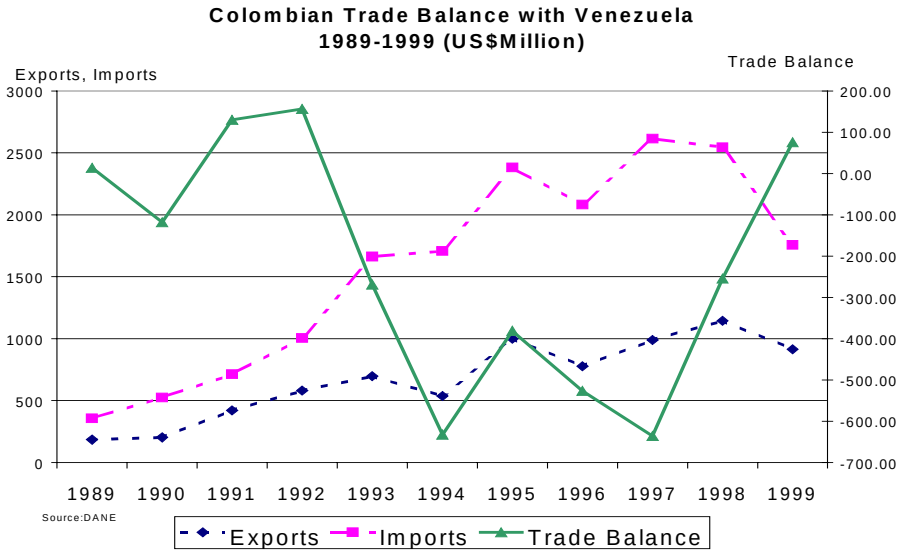
The trade results also show that Colombia and Venezuela are the countries with the greatest participation in sub-regional exports --34.3% and 41.2% respectively in 1997--, followed by Peru (10.1%), Ecuador (9.5%) and Bolivia (4.9%). Figure 6 shows that this structure has not changed significantly in recent years; Colombia and Venezuela represent more than 70 percent of total sub-regional exports. This explains, to some extent, the resolution of Colombia and Venezuela in carrying forward the integration process.

Figure 6



Colombia has had a persistent trade deficit with Venezuela throughout the 1990s, except for the period 1991-1992 (Figure 7). In 1998 the bilateral trade deficit seems to be narrowing, but is still significant (US$254 million). The principal goods traded between them include food and beverages, autos and auto parts, chemicals, textiles and clothing, oil and oil products, and metallic products. All of these products are categorized as non-traditional exports except for oil.

Figure 7



In fact, most of the intra-regional export growth has taken place in industrial goods, in a major proportion intra-industrial. Echavarría (1998) shows that intra-industry trade between the Andean countries rose 40 percent in 1995, a figure much higher than for exports to other regions or countries. This partially explains why the agreement has such a high acceptance level among local entrepreneurs, since trade expansion takes places in both directions in each industrial sector, without destroying sectors. For example, Colombia exports auto parts to Venezuela and Venezuela, in turn, exports the assembled vehicle to Colombia.

Other evidence presented by Echavarría (1998) points out that the most dynamic export products of the AC to the region are not very far from the average in terms of capital intensity or revealed comparative advantage. This means that the AC member countries are

relatively efficient producers of those goods exported to the region. The author also finds that trade creation effects amply dominates trade diversion in the 1986-95 period. This occurred in almost all the industrial sectors, both in Colombia and Venezuela, except for "metal products and machinery" and "non-metallic minerals" in the case of Venezuela. Trade creation was especially marked in "textiles, footwear and clothing" and in "wood products" in Colombia and Venezuela, and in "iron and steel" in Venezuela.[22]

In addition to the benign static effects that these results display, important dynamic effects have also taken place. A survey by Fedesarrollo (April 1999) to a broad group of industrial firms in Colombia reveals that, by exporting to the Andean market, many of them learn how to export in the regional market to later compete in the more challenging international markets (Echavarría, Zuleta & Zuluaga, 1999).

The following section describes the most important trade policy instruments and their management in the changed institutional environment.

III. CURRENT INSTRUMENTS OF TRADE POLICY

This chapter examines the most relevant aspects of the common trade policy framework that Colombia and Venezuela share as members of the AC, accounting for WTO commitments and business interests in each case. The subjects discussed include the following: two special sectors (agriculture and autos), the common external tariff, the recent surge of contingent protection, and the main bilateral trade problems among them. Export promotion is also reviewed as an area were multilateral commitments restricted previously used instruments, such as direct subsidies.

Throughout this chapter it will be argued that the URAs have not translated into significant changes in the practices governing agriculture and automotive trade. Also, that the URAs have not meant significant and positive changes in the tariff structure of Colombia and Venezuela. In addition, improved WTO rules and procedures regarding anti-dumping and CVDs have not prevented increased protectionism with the use of such instruments. However, the URAs have been positive in other areas, in particular regarding improved export promotion practices.

[22]/ Echavarría, 1998, p.92. Evidence shown in this paper supports the view that unilateral trade liberalization is the main factor behind the rapid growth of total and manufactured exports to the region. This perhaps explains why trade diversion has been minimal.

A. Special Sectors

Most the Andean Group's sectoral policies and industrial programs were dismantled during the 1990s, with the exception of the automotive sector. Special treatment has been granted to agriculture, particularly a system of price bands for these products has been in place in Colombia since 1991 and later extended to Venezuela and Ecuador in 1995. The policy applied to the auto sector has been powdered and painted to comply with UR obligations, and the price band system is likely to be called into question in the near future. These special sectors are part of the trade policy framework shared by Colombia and Venezuela.

Even though these special sectors do not have an important coverage in terms of tariff lines, they are significant in terms of the distortions they create, which may be contrary to the criteria and objectives of trade policy. Additionally, these two sectors are well represented by business groups that exert effective lobbying activities in favor of maintaining their special sector status within the AC framework.

1. Auto Sector

The auto assembly industry has received special treatment and protection in the AC since 1993, when the Andean Common Automotive Policy (ACAP) was designed and put in operation by means of a six-year automotive pact. Under this policy, Venezuela, Ecuador and Colombia jointly established rates of 35 percent for passenger vehicles, 15 percent for mass transit and cargo vehicles and 3 percent for kits (CKD). Given the low domestic value-added in the car assembly activity, the effective rates of protection could go as high as 50 percent.

The 1993 ACAP imposed low regional content requirements to this industry so as to qualify for reduced duties on imports. The local content requirement for passenger cars was 32 percent in 1997 and 33 percent in 1998. Colombia, Ecuador and Venezuela jointly notified to the WTO these local content requirements because of their inconsistency with their obligations under the WTO Agreement on Trade-Related Investment Measures (TRIMS), and thus agreed to eliminate such requirements by the end of 2000.

To meet this deadline, a new auto pact was formalized on 16 September 1999, replacing the one signed in 1993, covering 28 tariff lines at the 8 digit level. It is considered

by the member countries to be WTO compatible since it eliminates local content requirements and replaces it with rules of origin (ROO), set at 60 percent. For those auto assembly companies fulfilling the ROO, the new pact establishes that auto assembly firms may request an authorization from government to establish a free trade zone within their company (*Régimen Suspensivo*). If the firm has been authorized to establish such a free trade zone, it does not need to pay import tariffs on inputs and kits until the auto is duly nationalized.

However, one thing is what the new ACAP establishes on paper to state that it is meeting its WTO obligations and another quite different thing is what is actually employed by the Andean countries. It has been documented that in December 1999 the Andean Automotive Policy Council determined that it would not eliminate all local content requirements, mainly as a response to lobbying by auto assembly and auto parts business groups in both countries. Instead, it decided to increase at least one requirement gradually to 34 percent by the year 2006. These local content requirements are embedded in the very complicated rules of origin governing this trade, promoting import substitution of auto parts and integration among domestic providers of auto parts. Obviously, this revised policy may be inconsistent with Colombia and Venezuela's WTO obligations under the TRIMS agreement. And it is likely to change only if the United States continues to denounce these types of inconsistencies and exert some sort of bilateral pressure, as it does in its Foreign Trade Barriers documents, or if a WTO member country directly asks the WTO for an investigation.

The auto assembly industry represented 11 percent of total intra-AC trade in 1998, reaching US$606 million, making it the most important industrial sector in the intra-regional trade. Venezuela, Ecuador and Colombia, the three Andean countries with auto assembly sectors, produced 121, 27 and 64 thousand units respectively in 1998.

2. Agriculture

The Colombian and Venezuelan liberalization programs have proceeded much slower in agriculture than in industry, largely because authorities have desired to stabilize farm incomes, isolate agriculture from fluctuations in world prices and from unfair trade practices by foreign countries. Consequently, agriculture has received special treatment within the Andean trade policy framework.

Agriculture protection was reduced in the early nineties by setting agricultural import tariffs in accordance to CET rates, dismantling most quantitative restrictions and replacing them with variable levies.[23] The monopoly on agricultural imports on the part of the state trading enterprises, like the Colombian IDEMA, import licensing and some import prohibitions were eliminated and almost all export restrictions were banned. But protection then rose with the introduction of a system for smoothing price fluctuations based on price bands.

Currently, this system is the agricultural sector's main source for protection. Other measures have also been applied to the sector such as procurement agreements (*convenios de absorción*) in Colombia, and agricultural import licenses in Venezuela, both introduced for some agricultural commodities. In the bilateral trade, several other types of restrictions have been applied, mainly a transship cargo requirement imposed by Venezuela, a liquor monopoly applied by Colombian regional governments, and several related to product certification and sanitary considerations.

a) Andean Price Band System (SAFP)

Colombia and Venezuela have made use of the agricultural price band mechanism since 1991, and the number of products subject to the system increased steadily between 1991 and 1995. This system was redefined in 1995 and extended to Ecuador, in the context of the CET negotiations, to harmonize the application of the system (i.e. product coverage and ceiling and floor price calculations). The Andean Price Band System (*Sistema Andino de Franjas de Precios*, SAFP) entered into force in April 1995 by means of Decision 371.

The system covers certain basic agricultural items and associated products, for a total of 144 tariff items (8 digit, harmonized system) included in 12 GTAP sectors (see Table 3).[24] They represent a small proportion of all harmonized items (2.3%) and of total trade (3.3% for Colombia and Venezuela together), but their relative importance is high for some sectors: more than 97 percent of total trade for wheat, paddy rice, sugar, vegetable oils and fats, and oil seeds. And more than 20 percent for bovine cattle and sheep and meat products nec; the weight is relatively minor for cereal grains and dairy products.

[23]/ However, some agricultural goods still remain in the exceptions lists (Annex 4 of Decision 370). For example, as of July 1999, ten agricultural items remained in the Colombian list (Arguello, 1999, p.49).
[24]/ Recently, the number of tariff lines covered by the SAFP increased to 149.

Table 3

Products under Price Bands in the Andean Community

GTAP 50 Name	No. of items under Price Bands (Harmonized system, 8 digits)	Trade under price bands/Total Trade (%)		
		Colombia	Venezuela	Colombia and Venezuela
Paddy Rice	2	91.8	100.0	99.8
Wheat	3	100.0	99.8	99.9
Cereal grains nec	5	16.8	5.5	11.7
Oil seeds	7	96.4	98.2	97.6
Crops nec	1	0.00	0.10	0.01
Bovine cattle, sheep and goat, horse meat prods	3	0.87	86.33	55.25
Meat products nec	28	35.5	8.8	29.9
Vegetable oils and fats	29	97.6	98.0	97.8
Dairy products	26	8.5	1.6	2.5
Sugar	6	99.3	99.3	99.3
Food products nec	28	12.8	28.3	17.6
Chemical, rubber, plastic prods	6	0.04	0.03	0.03
12 GTAP Sectors	144	9.8	20.3	13.7
All GTAP Sectors	6201	3.3	3.3	3.3

Source: Author's calculations with GTAP data base (1995)

The SAFP operates as a system of variable import levies. The price bands are set every six months based on minimum and maximum prices and affect imports of certain agricultural items originating in countries other than those of the AC.

Official tariffs increase when the international prices are lower than the "floor", and are reduced when they go over the "ceiling" for 13 marker products and all items in each of the 13 groups.[25]

Colombia and Venezuela have used several arguments to defend the system's application. They have claimed that the resulting tariffs are not in violation of their tariff binding commitments. Also, they have mentioned that the Agriculture Agreement is not clear on the definition of variable levies, in theory prohibited by the WTO, and it does not forbid that tariffs be changed every fifteen days, as it happens with the application of the SAFP. They also have set forth sophisticated arguments like the following: since customs valuation by means of minimum prices is generally prohibited under the WTO's

implementation agreement of Article VII, they have resorted to a special and differential treatment clause contained under paragraph 2 of Annex III of this agreement. This is because the mentioned clause allows developing countries the use of minimum prices for customs valuation on a temporary basis (Arguello, 1999, p.52).[26]

In reality, these arguments show that the ambiguity of WTO's norms supplies these countries with considerable room to maneuver and uphold the system. The SAFP uses variable levies and minimum and reference prices, and, therefore, the system should be looked at more closely by the WTO.

Besides the "illegality" of the system, the SAFP causes several types of problems. First, the application of the SAFP has generated additional protection, both nominal and effective, than the CET rate in all of the marker products except in two of them during some periods (Torres & Osorio, 1998) instead of stabilizing prices (Rajapatirana, 1998ª and 1998b) as originally intended. This can be explained by the long five-year "memory" of import or reference prices used to calculate the variable levy, which make the bands unresponsive to price declines, creating significant distortions regarding the protection granted to the productive sectors.[27]

Second, and related to the first, the lower tariff bindings made by Venezuela (and Ecuador) regarding agricultural commodities have contributed to nullify the price stabilization objective of the SAFP. In practice, the SAFP only operates fully in Colombia and with exceptions in Venezuela (and Ecuador). This situation favors Venezuelan (and Ecuadorian) special interests since prices tend to be higher in Colombia, and creates substantial distortions to the sub-regional competition conditions of these commodities.

Third, the additional protection that the SAFP gives to agricultural commodities in the bands has harmed the processed food industries that use them as inputs. For example, the high nominal tariff set for sugar by the SAFP in March 2000 generated negative effective rates of protection for the sugar products' industry (Echavarría, Gamboa & Guerrero, 2000, see Table 4).

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[25]/ These basic agricultural commodities are the following: powdered milk, wheat, malting barley, yellow and white corn, crude palm and soybean oils, white rice, soybeans, white and raw sugars, chicken and turkey pieces, and pork meat.
[26]/ Colombia has also used reference prices for some manufactures.
[27]/ S.Rajapatirana (1998a), p.14.

Fourth, the high protection has caused frictions with import competing countries. For example, mainly because of US pressure, through the bilateral trade meetings, Colombia issued Decree 2650 on December 1999 establishing a maximum tariff rate of 40 percent for imports of soybeans and soybean products. Before the mentioned Decree, these imports were subject to an average tariff rate of 60 percent blocking competition from US exporters.

Fifth, the system's high tariffs can sometimes be in violation of their multilateral commitment with respect to agriculture tariff bindings, which were negotiated at different levels by the countries that use the SAFP as mentioned above (see Table 8). The WTO has expressed its concern about this potential problem, particularly during the Venezuelan trade policy review of 1996, but to date the countries have always stated, as already mentioned above, that the resulting SAFP tariffs do not violate the tariff binding conditions negotiated with the WTO.[28] For example, during the last meeting of the Agricultural Committee of the WTO, held on June 26, 2000, Venezuela was asked to explain if the SAFP violated tariff bindings commitments and Venezuelan authorities responded in the negative.

Lastly, since the price band mechanism does not adequately serve the purpose of stabilizing the prices of agricultural products, other measures would be more appropriate depending on the type of good involved. Torres & Osorio (1998, p.46-47) propose the use of other mechanisms and practices, instead of the SAFP, that respond to product-specific problems and lessen the distortions caused by the high protection granted to these types of agricultural products. To mention a few of their proposals, cereal producers could receive direct payments in exchange of verifiable crop-substitution compromises, a WTO permitted practice known in the United States and Mexico as "deficiency payments". For products such as milk, chicken pieces and pig meat, for which price volatility is not a problem but rather their low international prices, a system of minimum import prices could be a better solution that the SAFP.

Some of the aforementioned problems of the SAFP explain why Colombian business groups representing the agricultural commodities included in the agricultural bands lobby in favor of the system. Even though prices are not always stabilized by the

[28]/ Interestingly, during the trade policy reviews (TPR) of 1996, Venezuela was directly questioned about the SAFP and Colombia was not, and the mechanism was not fully expounded and criticized in both countries' TPR texts.

SAFP, the producers of these commodities are being granted additional protection that sometimes even isolates them from third country competitors. And, in general, agro-industrial business groups tend to oppose it, such as in the case of products that use sugar as their main raw material. However, there have been times when certain agro-industrial businessmen have lobbied in favor of the bands, particularly when resulting protection of the commodities in SAFP has been low.

Venezuela's agriculture business groups do not have clear-cut interests in the SAFP as compared to their Colombian counterparts because Venezuela is a net importer of these goods, except for sorghum, rice and white corn. In contrast, agro-industrial business groups in Venezuela are widely protected by the SAFP and by the lower tariffs that can be applied to imports in comparison to Colombia because of their lower WTO tariff bindings in agriculture (see Table 8). And Venezuela does not limit the tariffs of agro-industrial products that use them as inputs, which considerably increases their competitiveness in the sub-region compared to Colombia who imports them at higher rates.

Summing up, the SAFP is a system that grants additional protection instead of stabilizing prices of some basic agricultural goods. The variable import levies often result in high and sometimes prohibitive tariffs, generating problems in food producing industries and obviously restricting import competition. The United States has unilaterally pressured Colombia (and other Andean countries) to change such practices, and they have responded modifying some of them. Even though Colombia, Ecuador and Venezuela have resorted to special clauses to maintain this practice, it could be easily called into question in the near future by the WTO, for example if they violate their tariff binding commitments or by a more comprehensive trade policy review.[29] The countries could use other practices that address product-specific problems, therefore lessening the distortions created by the SAFP. And business interests in both countries tend to lobby in support the system, even though it sometimes harms agro-industrial producers, particularly in Colombia.

b) Colombia's Domestic Absorption Agreements

Colombia has implemented procurement or absorption agreements (*convenios de absorción*) that require importers to purchase a government-specified quantity of

[29]/ The next trade policy review is scheduled for 2001.

domestically produced goods as a precondition for the granting of import licenses. These agreements have been used for some agricultural commodities (wheat barley, sorghum and palm oil), focusing on improving prices for domestic producers by ensuring outlets for their output and controlling surpluses. The 1996 WTO Report on Colombia recognized that this policy can potentially have restrictive effects on imports but no accurate estimation has yet been made. What can be easily established is that purchasers of these commodities do so at higher than world market prices.

The domestic absorption contracts were notified to the WTO Committee on TRIMS when in fact it is an attempt at managed trade. Therefore, this kind of notification is an illustrative example of how a specific restrictive measure is authorized by the WTO even though it is not technically fall under the category it is being notified.

The use of this instrument was permitted until the year 2000 and, recently, in response to pressure by domestic agricultural producers, the Colombian government requested authorization to continue using absorption requirements for agricultural commodities until 2006. The WTO has yet to respond to this request.

c) Venezuela's Import Licenses

The Ministry of Agriculture of Venezuela has sometimes used an import licensing system to limit imports of sensitive products and/or diverse sanitary considerations. The following are two examples of these types of measures.

The Ministry of Agriculture implemented a yellow corn import licensing system in February 1997, ostensibly to administer its WTO tariff-rate quota for sorghum and yellow corn. However, this measure also had the effect of enforcing absorption requirements for domestic sorghum. Under this system, feed manufacturers must purchase a government assigned amount of domestic sorghum at the official price (higher than world prices) in order to obtain import licenses for yellow corn.

The Ministry of Agriculture sometimes also imposes a ban on the import of some agricultural products. For example, imports of onions, potatoes and forage seeds from the United States were prohibited in late 1998. The Ministry maintains a ban on the import of citrus products as well, citing the danger of disease.

B. The Andean CET

One of the central instruments of current trade policy in Colombia and Venezuela is the Andean common external tariff (CET), which has a range of 5, 10, 15 and 20 percent. As mentioned above in Section II.A.2.a), the adoption of the CET did not imply a substantial modification of the tariff structure. This facilitated gathering support for the adoption of the instrument since the private sector did not perceive the CET as a threat to their special interests, already embedded in the CET levels. In addition, the CET received such support by business groups because several types of exceptions were also adopted, opening up a channel for lobbying, though more limited than it was in the past.

However, the diverse exceptions to the basic tariff levels prohibit the CET from being a truly common tariff structure for Colombia, Ecuador and Venezuela, and providing more protection to processed intermediates and finished goods.[30] They create important distortions in the assignment of resources as well as trade distortions. We will show that the CET exceptions are crucial in the explanation of the level and variance found in the effective rates of protection (ERP) estimations presented below. This measure will reveal that the distortions caused by such exemption practices may be contrary to the trade policy objectives of Colombia and Venezuela.

The CET exceptions are concentrated in raw materials, capital goods, agriculture (the SAFP) and the auto sector (the ACAP) and can be classified in two categories, permanent and temporary. One permanent exception to the basic CET levels is the application of rates of 0 or 5 percent to raw materials and capital goods that are not produced by, or available from, other members of the AC. There are 2,200 8-digit tariff lines included in this type of exception category, mostly used by Colombia (85% of the 2,200 products), followed by Venezuela (75%) and Ecuador (67%).[31] Another permanent exception is the special treatment granted to 15% of the total Ecuadorian tariff universe, equivalent to 990 tariff lines included in Annex 2 of Decision 370 (the one that established the CET). Ecuador can reduce the tariff of these products by 5 percent. The other two types of permanent exceptions are the SAFP and the auto agreement, which were fully expounded above.

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[30]/ The purpose of escalating tariffs is to achieve substantial implicit protection on final goods.
[31]/ Andean Community General Secretariat (1999), p.12.

The most important temporary exception is a set of lists contained in Annex 4 of Decision 370. Colombia and Venezuela have 230 products each and Ecuador 400 in their list. These lists of temporary exemptions were to be gradually eliminated in a four-year period. However, this deadline was changed by means of Decision 466 of 25 May 1999 and the remaining items on the lists were to be incorporated into the CET by June 2000. To meet this arrangement, Colombia and Venezuela withdrew 20% of the products in the list in August 1999, but Ecuador broke its pledge to do the same. Because of this, Venezuela and Colombia refused to withdraw an additional 40% in January 2000, but surprisingly in April 2000 Venezuela kept up with the schedule set forth in Decision 466 and started applying CET levels to 40% of the remaining products on its list. The General Secretariat of the AC declared that Colombia and Ecuador are in violation of their CET related compromises. Nevertheless, this situation will not lead to any type of sanctions until the Andean Justice Tribunal renders its judgment.

Table 4 shows recent ERP estimates (simple averages of 8-digit ERP calculations by sectors) for Colombia and Venezuela and a measure of nominal protection, the import-weighted nominal tariff that includes SAFP tariffs (March 2000). These calculations factor in all of the aforementioned CET exceptions, except for the products contained in Annex 4 of Decision 370. For the economy as a whole, Venezuela has an import-weighted average tariff of 18.1% and Colombia 14.5%; the 3.6 percentage difference could be explained by the fact that most of Venezuela's imports are made through the higher CET rates (15 and 20%).[32] The nominal protection is fairly homogeneous since the standard deviation of the import-weighted nominal tariff among all tariff lines is relatively low and similar in Colombia and Venezuela, 12.5% and 12.4% respectively. Therefore, the exceptions to the CET basic levels do not cause substantial differences in terms of nominal protection.

In contrast, the effects of the CET's exceptions are important for the effective rate of protection in both countries. Average effective protection for all sectors is lower than the nominal protection, 10.8% in Colombia and 12.5% in Venezuela. Also, the ERP structure is considerably more dispersed compared to nominal protection, as evidenced by the high standard deviation within sectors and for the aggregate average (Colombia 26.3% and Venezuela 25.7%).

[32]/ Echavarría, Gamboa & Guerrero (2000).

This extremely dispersed ERP structure ends up contravening the CET's trade policy objective of giving more protection to finished goods: the ERP rates tend to be lower than the nominal rates in most finished goods sectors. In other words, if the "escalating tariffs" criterion was readily applied, ERP should tend to be higher in such sectors. Instead, the observed ERP is, in many cases, lower than the import-weighted tariffs, a situation that creates significant distortions in the assignment of productive resources within the economy. Also, the high ERP variance and dispersion, as evidenced by an elevated standard deviation, originates significant trade flows distortions by making a market more attractive than the other.

These distortions are quite impressive for agricultural commodities and agricultural products. Sectors 12-15 on Table 4, many of which are included in the SAFP, have ERP rates higher than nominal rates, except for 13 "oils and fats, animal and vegetable" (in Colombia and Venezuela) and 15 "mill products" (in Colombia). Also, the standard deviation of effective rates of protection within agriculture sectors is quite high, ranging between 40 and 114, signaling important production distortions in this sector.

This protection structure in agriculture has led to low ERP rates in sectors that use these highly protected commodities as inputs, mainly 20 "beverages", 18 "cocoa, chocolate; sugar products", and 19 "other food products nep". Of course, these types of distortions are key in explaining why aggregate ERP is lower than nominal protection in both countries for these products.

The ERP results for "transport equipment" are different from those initially expected. As mentioned in Section III.A.1, since the ACAP establishes tariff rates of 3 percent for kits (CKD), 35 for passenger vehicles and 15 percent for mass transit and cargo vehicles, ERP could be as high as 50 percent. However, it turns out that "transport equipment" has lower ERP rates than the import-weighted tariffs. In fact, the nominal (import-weighted) protection average for the sector is 21 percent in Colombia and 25 percent in Venezuela, while ERP lower in both countries, 10 percent in Colombia and 9 percent in Venezuela. There are two possible explanations for these results: firstly, the 28 tariff lines included in the ACAP have a low weight in this aggregation; and, secondly, the tariff lines for kits, that carry an import tax of 3 percent, also are not important in the weighted sector averages.

In sum, the effective protection structure shows that the implicit objective behind escalating import taxes is not being met because the exceptions applied to the four basic CET levels. Effective protection to final goods is, in most cases, lower than nominal protection. Given the nominal and effective rates of protection estimations presented above, it is clear, on one hand, that the special treatment granted by the SAFP is the main source of protection distortions in Colombia and Venezuela, not only in agricultural commodities but also for those sectors that use them as raw materials. The SAFP is also a non-optimal instrument for providing price stability to the commodities included in the bands. On the other hand, the aggregate impact of the special treatment granted to vehicles and spare parts is not significant, contrary to what was initially expected. Finally, these special cases create opportunities for lobbying practices and thus prevent the CET from providing equal trade incentives among the Andean Community members, particularly Colombia and Venezuela.

Table 4

Nominal and Effective Rates of Protection (%)

		Colombia			Venezuela		
		Nominal	Effective		Nominal	Effective	
	Sector /3	Average	Average	Std.Dev.	Average	Average	Std.Dev.
1	Coffee without roasting	10	9	*	10	9	*
2	Other agricultural products	41	9	13	42	11	14.2
3	Live animals and animal products	7	2	6.8	7	2	6.5
4	Forestry products and wood extraction	5	4	4.4	5	5	4.1
5	Fish and other fish products	16	2	7.8	20	6	9.8
6	Soft coal and lignite; peat	5	4	0	5	4	0
7	Crude petroleum, natural gas natural; minerals uranium and thorium	10	6	4	9	6	2.7
8	Metallic minerals	5	3	2.5	5	4	0
9	Other non-metallic minerals	5	4	2.1	5	4	1.8
10	Electricity and gas (city)	0	2	3.7	5	0	3.7
12	Meat and fish	36	49	114.3	35	58	108.4
13	Oils and fats, animal and vegetable	71	54	97	75	57	93.9
14	Dairy products	44	46	44.9	52	58	40.8
15	Mill products; starch and its products	39	27	89.7	29	32	86.5
16	Sugar	148	154	89.3	151	153	89.3
17	Processed coffee	19	16	7.6	20	19	2.5
18	Cocoa, chocolate, sugar products	20	-15	10.3	20	-15	10.3
19	Other food products nep	16	2	9.6	16	4	7.2
20	Beverages	21	10	9.4	23	12	4.3
21	Tobacco products	20	20	0	20	20	0
22	Yarns and textile fibers	19	13	11.8	17	14	11
23	Textile products (excluding apparel)	17	18	9.8	14	19	7
24	Woven fabrics; wearing apparel.	20	21	4.6	20	22	3.9
25	Leather and leather products	14	9	12.5	18	8	12.1
26	Wood products	14	14	13.3	13	17	10.5
27	Paper products	10	12	10.4	7	17	7.7
28	Publishing	11	12	13.9	4	15	14.2
29	Petroleum, coal products	13	7	4.3	9	7	3.8
30	Chemical products	8	3	12.1	9	5	12.2
31	Rubber and plastic products	15	17	10.3	16	19	7.9
32	Glass, glass products and other non-metallic products	14	13	8.2	13	14	6
33	Furniture and other transportable goods nec	17	17	9.9	18	18	9.2
34	Wastes and debris	7	9	12.8	4	10	12.6
35	Metals and ferrous metal products	11	9	9	12	10	8.2
36	Machinery and equipment nec	9	8	7.8	10	10	7.3
37	Other machinery and electronic equipment	7	6	7.3	10	9	7.1
38	Transport equipment	21	10	19.5	25	9	18.4
0	**TOTAL**	14.5	10.8		18.1	12.5	
	Standard Deviation	12.5		26.3	12.4		25.7

Notes: /1: Nominal Protection: import weighted tariff averages (with SAPF, March 2000); /2: Effective protection: simple averages by sector.
/3: The sector aggregation corresponds to the National Account Categories of the DANE-Colombia in order to use the technical coefficients for ERP calculations; */: The coffee sector has just one tariff line.
Source: Echavarría, Gamboa & Guerrero (2000)

C. Export Promotion

In contrast with other policy areas discussed previously in this section, export promotion policies are not part considered as part of the AC framework and, thus, are designed at the national level. Hence, national agencies are responsible for export promotion and finance in each country, while sharing the general objective diversifying their country's export structure since their participation in world markets has been concentrated in a few products (oil in Venezuela; coffee, oil, coal, nickel, flowers and bananas in Colombia). For this purpose they have used several instruments to promote non-traditional exports, particularly after opening up their economies to trade in the early 1990s. And some of these instruments had to be modified to comply with multilateral commitments.

This section discusses the general framework used by Colombia and Venezuela to promote exports, emphasizing on some particular instruments that are being phased out in response to URA commitments. It is important to note that even though export promotion policies have not been evened out at the AC level, there is an agreement between the member countries on using most fiscal incentives with an impact on trade (agriculture is an exception) only to third country exports.

1. Export Promotion and Export Finance

Colombia and Venezuela have agencies responsible for providing guidance and support for strengthening of export activities and export credit under competitive market conditions.

In Colombia, Proexport, a publicly owned fund supervised by Mincomex, is responsible for promoting Colombian exports, giving advice and support to national businessmen in their international marketing activities. Bancoldex is a second-tier bank of mixed ownership responsible for export finance of direct and indirect exporters and foreign buyers of Colombian products. The private sector widely uses their services and grades them quite well. In fact, the latest World Economic Forum survey ranks Colombia's export-related institutional support in a third place out of a total of 59 countries.

Before 1995, export promotion in Venezuela was the responsibility of the foreign trade institute (ICE) and export finance was provided by a special fund administered by the

Central Bank of Venezuela. The Foreign Trade Law of 1995 created Bancoex, a second-tier bank that also assumed foreign trade institute's (*Instituto de Comercio Exterior*, ICE) export promotion functions, starting operations in 1997.[33] In the meantime, the Ministry of Industry and Trade (MIC) also promoted exports by facilitating marketing information to the private sector. In 1999, Bancoex designed a scheme to facilitate private sector participation in the design its plans and programs, creating for this purpose a Promotion Committee that will also monitor their implementation. Private and public representatives jointly chair this Committee. This new export promotion and finance arrangement has been in operation for such a limited time that it is quite difficult to access its impact on private sector export activities. However, Bancoex is expected to assume a more active role in response to the recent announcement made by the Chavez administration that oil resources will be channeled to promoting production and export diversification.[34]

2. Export Incentives

Colombia and Venezuela have a number of export incentives different from the credit and information and marketing assistance incentives mentioned above, mainly fiscal incentives and free export zones. The main trend in both countries is to phase out notified export subsidies and eliminate sector specific incentives, excepting, of course, agriculture and the auto assembly sector previously discussed in this chapter.

a) Colombia

Table 5 summarizes the main export promotion instruments and their status under WTO provisions. As mentioned above in Section II.A.2.b), export subsidies were drastically reduced as part of the unilateral reforms implemented in the early 1990s, particularly in Colombia. Recently, the Colombian Government decided to totally eliminate the CERT incentive, originally introduced in 1967, starting the 2001 fiscal year, even though it was being gradually phased out the CERT's subsidy component until 2003. This step was taken because of fiscal constraints and, at present, authorities are deciding if they keep only a duty-drawback for exporters.

[33]/ The ICE used to receive private sector donations to fund export promotion activities.
[34]/ Financial Times, August 2-3, 2000.

Table 5

Main Export Promotion Instruments and Status under WTO Provisions

Colombia	WTO Status	Venezuela	WTO Status
Information and marketing assistance: Proexport	NA	Information and marketing assistance: Bancoex	NA
Credit incentives: Bancoldex	NA	Credit incentives: Bancoex	NA
Free-trade zones: (15 of which 3 are touristic)	NA, except the duty-free machinery imports practice	Free export zones (Paraguaná, and 5 in development)	NA
Investment incentives	NA	Investment incentives	NA
Fiscal incentives: CERT (totally eliminated in 2001)	Subsidy component prohibited; NA if it evolved to a duty drawback system	Fiscal incentives: Fiscal Credit Program (*programa de crédito fiscal)* for agriculture	NA
Custom incentives: drawback, temporary admission, etc.	NA	Custom incentives: drawback, temporary admission, etc.	NA
Fiscal incentives: SIEX inputs (*Plan Vallejo*)	NA	Fiscal incentives: suspension or refund of duties and VAT to exporters *(programa de reintegro)*	NA
Fiscal incentives: SIEX capital goods (*Plan Vallejo bienes de capital*)	P because of export performance requirements	Fiscal incentives: suspension/reimbursement program for manufacture exports (includes VAT and consumption taxes)	NA
Regional Development: Regional Foreign Trade Committees (CARCE) (13) and Marginal Areas Free-trade zones (4, created in 1999)	NA	Regional Development: Export promotion committees (*Comités de Promoción Comercial*) (13) and regional assitance offices (*Oficinas Regionales de Apoyo, ORACE*) (6 in 1997)	NA
Int.Marketing Associations (*Sociedades de Comercialización Internacional*) (437 in 1999)	NA, receive VAT exception	Pricing practices in Energy Sector (refined petroleum below world prices, fixed electricity rates)	D

Source: WTO-Trade Policy Reviews, Mincomex-Colombia and MIC-Venezuela
Note: NA non actionable; P prohibited; D status under discussion

The capital goods chapter of the special import-export program SIEX, which grants duty-free access to capital goods for the production of export goods subject to export performance requirements, is being phased out because it was notified as an export subsidy. In contrast, the SIEX for inputs is non-actionable since it does not involve export performance requirements. Compared to the CERT program, a possible elimination of the SIEX does not translate into increased fiscal income for government.

The free-trade zones regime is used to promote economic and regional development by granting preferential conditions to foreign trade in goods and services in this areas. The legislation governing this practice was updated and notified to the WTO.

Other incentives in operation are regional committees, made up of private and public sector representatives, to promote exports in remote and isolated areas (regional foreign trade committees or CARCE). Also, Colombia has aggressively pursued the establishment of international marketing associations, which summed 437 in 1999 and are mainly dedicated to trading abroad bananas, sugar, emeralds, flowers and coal, benefiting from a VAT exemption.

So, Colombia only changed two of its fiscal incentive practices in response to URA obligations (CERT and SIEX-capital goods), more specifically to notifications of promotion practices made to the WTO.

b) Venezuela

Venezuela has reduced the number of export subsidies it provides, but retains a duty drawback system. Exporters can also get a rebate of 16.5 percent wholesale tax paid on imported inputs. Foreign as well as domestic companies are eligible for these drawback privileges. But exporters of foreign owned firms complain of long delays in receiving rebates.

Exporters of selected agricultural products -coffee, cocoa, some fruits, and certain seafood products- receive a tax credit equal to 10 percent of the export's f.o.b. value under the *Programa de Crédito Fiscal*. Under the WTO's agreement on agriculture, the budget for this program should limit to certain percentages and quantities of total agricultural goods under the program by 2005.[35]

As mentioned in Section II.A.2.b), Venezuela has assisted domestic production by providing through the supply of refined petroleum products at below world prices. This has also been done through other indirect subsidies, like, in the agriculture sector, tax incentives granted by the fiscal credit program, and input subsidies on irrigation, electricity and fixed producer prices on certain items.

[35]/ WTO (1996). *Trade Policy Review: Venezuela*, p.84.

Export promotion to assist in regional development has been carried out through the free trade zone of Paraguaná, which dates back to 1973, and assistance through regional offices called *Oficinas Regionales de Apoyo (ORACE)* of the Ministry of Industry and Commerce (MIC). There are also 13 joint export promotion committees (*Comités de Promoción Comercial, CPC)* that periodically meet to aid in this purpose.

From all of the above, it can be stated that even though the URAs significantly reduced the space to apply export subsidies, there is still significant room to provide other types of export incentives with greater transparency, such as duty drawbacks, along with other complementary export promotion instruments. In the area of export incentives, it is clear that the multilateral agreements have been a positive force in adopting better policy practices that are more neutral among sectors, though the unilateral trade liberalization had already advanced a great deal in this respect.

The next section discusses the recent surge for contingent protection in Colombia and Venezuela that has been taking place even though the URAs also reduced the space for discretionary policies in this field.

D. The Surge of Contingent Protection and Domestic Pressures for Protection

This section discusses the recent surge of contingent protection as a response to sectoral pressures from lobbies that have felt the bite from import competition. The regulatory framework is briefly mentioned to discuss such demands for protection, which has translated into a considerable rise in anti-dumping claims by the private sector. Anti-dumping activity has increased especially against each other and specific bilateral problems are also rising. Countervailing duties and safeguards are also reviewed.

1. Regulatory Framework

Colombia introduced anti-dumping (AD) and countervailing duty (CVD) legislation in 1991 during the *Apertura* process and Venezuela did the same in 1992, motivated by the aim of off-setting (rather than imposing countervailing duties) industrial country subsidies and providing a solution for alleged deficiency in the customs procedures (Rajapatirana, 1998a, p.11). Colombia modified its domestic anti-dumping laws in 1995 to conform to WTO rules, which seems to have eroded Colombia's earlier more stringent test for anti-

dumping (Guash & Rajapatirana, 1998, p.22). Recently, Venezuela also modified its legislation to conform to WTO rules and regulations. In Colombia, the Incomex was the responsible agency for investigating these practices until May 2000, when it was merged into the *Dirección General de Comercio Exterior* within the Ministry of Foreign Trade. The mirror institution in Venezuela is the *Comisión Anti-dumping y Sobre Subsidios* (CASS), a decentralized agency of the Ministry of Industry and Trade (MIC).

Colombian and Venezuelan domestic anti-dumping law is not applied to imports originating from member AC countries. In the case of dumping between the Andean Community nations, a super-national anti-dumping law (Decision 283 of 1991) applies, and the administering authority is the General Secretariat (GS). This super-national law was replaced by Decisions 456 and 457 in May 1999 to comply with WTO rules and regulations governing the application of anti-dumping and countervailing duties on imports from member countries.[36]

There are two instances in which the GS decides on dumping cases involving countries outside the Andean Community. The first is when the anti-dumping measures must be imposed in more than one member country. The second is when a foreign producer is causing material injury to the exports from one Andean Community member to another.

Regarding safeguards, the Andean Community adopted Decision 452 on April 1999. This decision establishes the Community's safeguard mechanism for third country imports that threaten or cause harm to local production and intra-regional trade. Authorities have claimed that this regulation follows the spirit of the WTO Safeguard Agreement. However, some authors support the view that these regulations are less stringent than before (Guash & Rajapatirana, 1998, p.22).

2. Cases

Table 6 summarizes the anti-dumping, subsidy and safeguard cases that have been presented to the Andean Community's General Secretariat (GS) for investigation and subsequent authorization for the imposition of duties. The table shows the place of origin of the product, the demanding country, and if the investigation led to the imposition of provisional and/or final duties.

A total of 16 anti-dumping cases have been presented to the GS since 1991, mainly against a varied list of Colombian products such as slide fasteners, crown corks and stoppers, polyester fibers, syringes, and flat-rolled iron or non-alloy steel among others. Venezuelan products that have been investigated include iron and steel products, sinks and wash basins of stainless steel and electric motors. Nearly 50 percent of the cases led to the imposition of final duties and a similar percentage of provisional duties were denied. Since 1998 there have been a total of 8 anti-dumping investigations by the GS, four of them involving Colombia and Venezuela, showing the recent rise of the use of this instrument at the Andean level.

Table 6

Andean Community Anti-dumping, Subsidy and Safeguard Cases			
Product Origin	Demanding Country	Provisional Duties	Final Duties
Anti-dumping 1991-July 2000:			
Bolivia = 1	Bolivia = 0	YES = 4	YES = 7
Colombia = 8	Colombia = 4	NO = 9	NO = 4
Ecuador = 4	Ecuador = 2	Pending = 0	Pending = 2
Peru = 1	Peru = 5	Suspended	Suspended
Venezuela = 4	Venezuela = 5	Investigation = 3*	Investigation = 3*
Others=2			
Total Cases=16			
Number of Cases between 1998-July 2000: 8			
Subsidies 1992-1999 (two cases in 1992, one in 1999):			
Venezuela = 2	Colombia = 2	YES = 0	YES = 0
India = 1	Peru = 1	NO = 2	NO = 1
Total Cases = 3		Investigation terminated by demanding party = 1	Investigation terminated by demanding party = 2
Safeguards 1991-1999:			
All countries = 5	Colombia = 8		YES = 2
Bolivia = 2	Ecuador = 1		NO = 4
Colombia = 1	Peru = 2		Suspended duties = 6
Ecuador = 5	Venezuela = 1		
Venezuela = 1			
Total Cases = 12			

Source: AC Resolutions
Note: /* the investigation was terminated on three cases from 1992-94 on petition of the demanding country

[36]/ In 1997, Colombia defined as a priority to make more expeditious the procedures to apply safeguards, anti-dumping and countervailing duties. As a result of this objective, the legislation was modified again, also in accordance to WTO standards.

Table 7 summarizes the number of cases that have been investigated using Colombia's domestic anti-dumping and countervailing duty legislation.[37] Between 1991 and late 1999 there have been a total of 29 AD and CVD cases, initiated as a response to private sector demands. The products were from the European Union (6 cases), United States (4), Russia (3), non AC Latin American Countries and the Caribbean (3) and China (1), South Korea (1), and Vietnam (1). Recent AD cases have involved tires (from South Korea), rice (Vietnam), polyvinyl chloride (USA), and several steel products (Russia). The two subsidy cases investigated did not end in the imposition of duties while 11 of 27 AD cases finalized with the imposition of final duties. Therefore, there is a clear trend in Colombia to increasingly resort to the application of anti-dumping duties.

Table 7

Colombia: Anti-dumping and Countervailing Duty Cases
1991 - 4 August 1999

Total Cases	Provisional duties (dumping)	Final duties (dumping)
Dumping = 29	YES = 11	YES = 11
Subsidies = 2	NO = 10	NO = 8
Investigation request denied:	Pending = 0	Pending = 2
Dumping = 8		
Subsidies = 2		

Source: Ministry of Foreign Trade of Colombia
Note: these cases do not include AC investigations included in Table 6

Only been three AC investigations against alleged subsidy practices have taken place, and none led to the imposition of CVDs. Two of these investigations took place in 1992, associated with Venezuelan exports of phenol-alcohol (an input for the production of plastics) and rice to Colombia. The last subsidy claim took place in 1999 against Indian exports of "ampicillin and its salts" negatively affecting Peruvian exports to the Andean region. The case was terminated in February 2000 on request of the Peruvian firm that had originally demanded investigation because evidence of harm was only found for the Colombian market, and, thus, no duties were imposed.

Colombia has actively requested AC authorization for the imposition of safeguards, accounting for 8 out of a total of 12 cases between 1991 and 1999 (Table 6). Interestingly, the SG has only authorized two demands, both made by Colombia against Ecuadorian exports of polypropylene sacs (1994) and veneer sheets and sheets for plywood (1996).

[37]/ Comparable information from CASS-Venezuela was not available.

From all of the above, it is clear that during the 1990s private sector demands for protection by means of anti-dumping duties have been on the rise in the Andean Community, particularly between Colombia and Venezuela. Compared to AD claims, safeguard investigation petitions have been marginal, as well as CVD cases. Evidence found for non-AC anti-dumping cases in Colombia also shows that private sector allegations of dumping are rising significantly, while government remains silent about the way AD duties are used to gain protection rather that to respond to unfair practices. Thus, the fine-tuning of anti-dumping policy, following WTO standards, does not seem to be the answer to prevent the slippage into protection with the use of this instrument.

The next section studies the main bilateral trade problems between Colombia and Venezuela different from anti-dumping, CVD and safeguard cases.

3. Bilateral Trade Problems

There are several unresolved bilateral trade restrictions different from those taken care of through the imposition of AD and CVD duties. These bilateral problems have emerged because of pressures from lobbies negatively affected by the almost free trade situation that exists between Colombia and Venezuela. Also because of some particular contraband cases and, more importantly, domestic legislation that is still not WTO consistent, like Colombia's long-standing restrictions on the regional liquor trade.

The issues on this agenda are usually discussed between the trade ministers every three months, and no subject has ever been submitted to the WTO for resolution. Rather, both countries have opted for a cooperative dialogue, which advances quite slowly. The last meeting of this sort took place in Caracas on June 7, 2000, and each country expounded the areas or themes that they consider distress the bilateral trade agenda.

Colombia has four main bilateral problems with Venezuela. One is the transportation restriction set on Colombian ground carriers. The latter have to transship Colombian cargo to Venezuelan trucks in the frontier. Recently (June 2000), the Andean Tribunal of Justice ordered Venezuelan authorities to stop this practice, and subsequently the transport sector in Venezuela has threatened to block all trade if the Venezuelan government complies. The second problem is the use of sanitary permits to restrict the entry of Colombian meat, eggs and potatoes, basically because these goods are quite competitive and easily displace those produced in Venezuela. The third dispute is related to

a 2 percent additional customs tax that is quite costly to Colombian exporters and is prohibited according to AC regulations. The last problem relates to an import quota set on sugar. The AC's General Secretariat should be soon pronouncing itself on the validity of this measure and the trade remedies that Colombia can employ.

Venezuela's trade problems with Colombia are mainly three: i) the Colombian legislation on liquor trade; ii) the contraband of cigarettes from Maicao (northeastern free port in Colombia); and iii) delays in the expedition of import licenses for glassware and diapers. The last two are considered marginal problems in comparison to the liquor trade.

The Colombian liquor legislation, put into question in the past by several other countries but never by the WTO, establishes that the regions have monopoly power over the trade of this product and can set up the conditions that govern this market. To solve this problem, a bill was recently sent to Congress aiming at modifying this practice and enabling competition from third countries in regional markets. However, its approval is not likely due to the high monopoly revenue obtained by the regions and, thus, strong lobbies in Congress opposing this project.

IV. WTO COMMITMENTS: COSTS AND BENEFITS

This section analyses the main implications of WTO commitments in Colombia and Venezuela, mainly based on interviews of key players within business associations and government officials, aimed at determining how they evaluate the costs and benefits of the URAs for their firm/sector and for the country as a whole.

A common opinion found among domestic actors in Colombia and Venezuela was that with the exception of some “fine tuning”, there have been few economic and policy adjustments perceived as brought about by the URAs. Rather, sub-regional developments, like the Andean integration process, are thought to be major sources of change regarding trade rules and practices. Therefore, the main conclusion found was that costs are not as significant as they were originally thought to be.

As mentioned before, most of the “big” trade reforms, oriented to opening up the economy and leaving behind the import substitution model, have come about unilaterally and in the context of the AC framework. Also, as argued in Chapter III, noteworthy gray

areas for crafty interpretation of WTO norms remain that enable government to continue granting some sort of sectoral protection (like in the agriculture and auto sectors), although the available room to maneuver was reduced. Anti-dumping relief has also become a source for specific sector protection. Therefore, the private sector has not felt great tensions arising from multilateral disciplines. Rather, they have been mostly interested in following trade practice developments at the Andean level since these are sensed to have a direct impact on their production and exporting activities.

The next sections summarize the arguments set forth by private and public sectors regarding costs and benefits associated with WTO commitments.

A. Benefits

The major benefit identified by the private and public sectors relates to market access. As members of the WTO, Colombian and Venezuelan businessmen have gained security of market access and, to some extent, greater transparency in trading rules and procedures applied by all trading partners that are WTO members.

The public sector also made emphasis on three URA-related beneficial issues. Firstly, being WTO members provides greater certainty, as well as a sort of insurance, to the international business community that they will not act arbitrarily in changing their trade policies. Second, they serve government officials as a barrier against renewed protectionist pressures, both from interest groups and within the administration itself, as has recently occurred in Colombia because of fiscal strains. They also work against potential rollback of actions carried out unilaterally (tariff reductions, elimination of NTBs, renewed openness to foreign investment, among others), locking in trade liberalization.

Another significant benefit identified by public and private actors is associated with the improvements made to dispute settlement procedures in the Uruguay Round. These enhanced norms have granted a higher level of rights to small countries, enabling Colombia and Venezuela to participate on equal footing in the resolution of trade disputes, both with developed and developing countries. For example, Colombia was one of the countries that established a panel against EU banana trade practices. Also, Colombia recently asked for a panel against Nicaragua because the latter imposed a 35 percent tariff on Colombian products due to a frontier delimitation dispute. Interestingly, some private sector representatives pointed out that they agreed with the way Colombia and Venezuela handle

their bilateral trade problems, which takes place at the bilateral level usually using as referee the Andean Community's General Secretariat.

Tariff bindings, a commitment by a country not to raise the tariff above the agreed or bound level, is a subject understood by the public sector as an important benefit of the URAs. Table 8 shows the levels to which Colombia and Venezuela bound their tariffs. As discussed in Section III.B, bound levels are greater than the applied level (except in agriculture because of the SAFP), providing the private sector with some room to push for protection. However, the existence of the four-tier Andean CET and the commitment to the Andean integration process (see Section II.B.2) has prevented the use of increasing tariffs to the maximum bound levels. Therefore, in practice the CET has been more useful in avoiding increases in tariff levels than WTO bindings. The private sector, in contrast, sees these tariff ceilings as a negative commitment since it affects future protection possibilities. Thus, this particular commitment has led the private sector to call for other types of protectionist measures, such as AD duties.

Table 8

Tariff Bindings: Colombia and Venezuela		
Product	**Colombia**	**Venezuela**
Manufactures	35% except motor vehicles, textiles (including hats) and parachutes (40%), and some chemicals, rubber and leather products (30%)	35% except motor vehicles (40%)
Agriculture	Between 15 and 227% (most are set at 70%) except peas for consumption (15%), fresh apples (20%) and lentils (15%)	Between 10 and 135% (most are set at 30 and 40%)

The Uruguay Round agreement to phase out the Multifiber Agreement (MFA) in a ten year period, starting 1995, has been taken by the private sector as a significant benefit derived from the URAs. Since much of the liberalization will be coming at the end of the period, at present it can only be stated that it is highly likely that Colombia's textile and apparel sector will likely gain market participation because of its high level of

competitiveness. Venezuela's textile and apparel sector also will likely benefit, but to a lesser extent compared with Colombia's because of its limited size and participation in world markets.

With respect to the inclusion of agriculture into the multilateral trading system, the public and private sectors have somewhat different opinions. The public sector considers that the Uruguay Round Agreements provided strong arguments to oppose domestic agricultural interests that wanted to revive already eliminated protection measures, such as non-tariff barriers. Without the multilateral agreement, government's opposition to agriculture lobbies would have been very difficult, especially because of the considerable strains this sector has suffered from increased foreign competition. Domestic agricultural sectors in each country, but especially in Colombia, find that their countries unnecessarily tied up their hands regarding protection options, particularly because of their competitiveness deficiencies and accounting for the fact that developed countries continue to strongly subsidize and protect this sector.

B. Costs

The private sector asserted that the limited field of action for export incentives, particularly export subsidies, is one of the leading costs of the URAs. Oddly, export subsidies were already quite low (Section II.A.2.b) before Colombia and Venezuela ascribed to the URAs. This result was also obtained in a Fedesarrollo survey (April 1999). Colombian firms sustained then that they needed government subsidies, through instruments such as CERT and SIEX, in order to export successfully, particularly to the Andean region, albeit the subsidy component of these instruments was marginal by then. Therefore, it may well be that, as a legacy of ISI, the private sector is still expecting some sort of direct export incentive from government.

Another important cost identified by the private sector, chiefly by the auto assembly industry, is associated with the Trade-Related Investment Measures (TRIMS) Agreement and the restriction to local content requirements. As explained in Section III.A.1, Colombia and Venezuela have protected the auto assembly and spare parts sector by means of an Andean Common Automotive Policy (ACAP). Local content requirements have been instrumental in creating an important intra-regional market in these goods. After intense lobbying by the auto assembly and spare parts industry, Colombia and Venezuela opted to

keep local content requirements disguised as rules of origin. So, no real adaptation cost has yet been incurred by the auto industry.

V. PRIVATE SECTOR PARTICIPATION IN THE COMMERCIAL AND INTEGRATION AGENDA

This section analyzes private sector participation in Colombia and Venezuela's trade and integration agenda and focuses on three issues. The first one is the institutional framework governing public and private sector communication. The second one describes the actual means of participation of private actors in trade negotiations, such as regional integration agreements and multilateral negotiation rounds. Finally, the last one identifies the most active business groups in trade policy formulation and implementation.

A. The Institutional Framework for Private Participation in Trade and Integration Policy

Since the early 1990s, private sector participation in commercial policy has been increasing as a result of the Constitutional Reform of 1991. The new Constitution is based on a principle that replaced the concept of “representative democracy”. The new principle can be labeled as “participation democracy”, which can be best described as a mechanism that works at the political, economical and social levels.

At the economic level, since 1991 the executive branch has established rules for the execution of the Constitutional participation principle. In the case of foreign trade and integration topics, in particular, several private sector participation ways and means have been formally developed.

Interestingly, this discussion on participation ways and means between the private and the public sector has not meant increased influence of private interests in the trade and integration policy design process. They certainly have made the interaction practice between public officials and private actors more democratic, opening up a space for all business groups' interests to be voiced. In practice, as expressed below, the most important and specific claims made by the private sector regarding trade and integration are still made

by means of "informal" mechanisms such as bilateral meetings, press articles and conferences in conventions, among others.

Although the Constitutional reform caused a huge shift in the relation between private agents and the government, the commercial liberalization and the integration strategy undertaken in the early 90s in Colombia, in some sense, compelled both the public and the private sector to act together. This, in turn, was seen as a way to prevent a possible failure of the new development model.[38]

The 7th Law of 1991 created for the first time a Foreign Trade Ministry as a part of the executive branch and establishes and regulates foreign trade. This Law states that when the government issues rules to regulate foreign trade, they must support and facilitate private initiatives and efforts of all economic agents in foreign trade operations.[39] Besides this, it established a Joint Commission of Foreign Trade, embodied by the Foreign Trade Superior Council and representatives of the private sector. This Superior Council is the adviser organ to the national government in foreign trade topics, and is preceded by the president.[40] The main objective of the Joint Commission of Foreign Trade is to analyze the foreign trade policy and to formulate requests to the national government.

Subsequently, the presidential Decree 2350 of 1991 established the rules for the execution of the aforementioned Law. With regard to private sector participation in the policy design process, this decree states that the foreign trade sector in Colombia is made up of public entities, the Joint Commission of Foreign Trade, and the business sector. Additionally, it determines that trade related entities must interact in a coordinated manner in order to adequately exert their functions and formulate policy. Equally, the Foreign Trade Ministry relies on advisory committees at the national and regional levels. Businessmen and private representatives are part of these committees.

In spite of the existence of these participation schemes, during the 1990s regular sessions took place only in limited opportunities. This finding is quite interesting since the first half of the 1990s was characterized by profound commercial reforms and an active

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[38]/ See Lleras de la Fuente, C. (1992) "La concertación económica entre los sectores público y privado en la Constitución Nacional" remarks presented to National Congress of Exporters ANALDEX. Cartagena, Colombia.

[39]/ Numeral 6 of article 2.

integration strategy. Rather, as mentioned above, increased private sector participation in the design and implementation of trade policy has taken place by means of other mechanisms, different from mentioned up to this point.

Since its creation, the Foreign Trade Ministry developed a working method that favors concert with private agents. This Ministry is a communication channel between private actors and the government, as well as a coordination instance within the later. With regard to the negotiations at the multilateral and bilateral level, in 1991 a working system with trade business associations was adopted, which does not hinder entrepreneur participation, based on experiences set forth by Andean Group and Nafta. The main objective of this system was to maintain a permanent communication and coordination channel with private sector. Particularly, this working system was used actively in the negotiation of The Group of Three Agreement (G-3) and in subsequent negotiations like those between the Andean Community and Mercosur. With regard to WTO negotiations, the use of this working system has concentrated only in certain topics related to agriculture and textiles and clothing.

During all negotiations, the "linking strategy" with private sector has worked well through preparatory meetings, basically because these have been intended as a discussion ground for the definition of the negotiating position. Similarly, throughout the negotiation process the private sector is continuously informed of the negotiations, when considered necessary, by means of a mechanism commonly referred as “next door room”. However, these mechanisms are mainly used to argue about technical aspects, while the key aspects of the negotiation are tackled at the highest political level (ministerial or, even, presidential) or through discussions in the press media. Business groups sometimes actively use the press to voice their opinions on aspects they might not have considerable political leverage. In this way, the government is forced to counter-argument business' positions through the media instead of resorting to discussion promoted within the "next door room".[41] This

[40]/ The is conformed by the President and Ministers of Economic Development, Foreign Trade, Foreign relations, Finance, Agriculture, Mining and Energy, the National Planning Department Chief and the Central Bank Manager.

[41]/ See the letter sent in 1992 to the President by Fedemetal, the manufacturers of metallurgic and machinery, and the other one sent by the National Association of Manufacturers in 1994 with regard to the Group of Three negotiations. FEDEMETAL (1992). Editorial Comment in *Carta Metalúrgica*, second quarter, July, Bogotá; ANDI (1994) “Carta al Presidente” in Revista de la ANDI, May-June, Bogotá.

situation is a consequence of the private sector's heterogeneity and its resulting weakness, as mentioned below.

Recently, the 7th Law of 1991 was amended, and the Decree 2350 of 1991 was revoked by means of the Decree 1159 of June 1999. Essentially, the participation mechanisms of the private sector are maintained and certain aspects were defined better. Besides this, the working scheme that the Ministry used for the negotiations was legally formalized within the functions of the Negotiation Divisions in the Ministry.

The Decree 1159 of 1999 integrates the Foreign Trade System by the Public Administration Subsystem, the Joint Subsystem, and the Entrepreneurial Subsystem. The first one includes all entities in the government that exert functions in the foreign trade field. The Joint Subsystem is composed by the Joint Commission of Competitiveness and Foreign Trade, and by advisory committees at the national and regional levels.[42]

The Decree modifies the structure and functions of the Foreign Trade Ministry. Particularly, two Negotiation Divisions were created. The first one is devoted to multilateral negotiations and the second one concentrates on bilateral negotiations and international organisms. Among the functions of the Multilateral Negotiations Division is to establish mechanisms that allow coordination and higher participation of the private sector in trade negotiations (Article 15, no.3). The Bilateral Negotiations Division also has this function and, in particular, is compelled to maintain a high coordination with public and private entities about the topics negotiated in the WTO, specifically intellectual property rights, investments, services, environment and labor standards (Article 16, no.15).

B. Participation of the Private Sector in Trade Negotiations

Industrial policy in Colombia has not been characterized by marked selective criteria. In spite of the use of protection mechanisms during decades, such as high tariffs and quantitative import restrictions, there never were attempts to favor specific sectors. In fact, Ocampo and Esguerra (1992) state that in Colombia the political balance hindered the adoption of an aggressive industrialization policy and made the use of marked selective

[42]/ It must be noted that now the Joint Commission has between its objectives to elaborate proposals about strategies addressed to develop foreign trade and the competitiveness of the firms.

criterions troublesome.[43] Unlike other coffee producing countries, in Colombia the huge economic importance that coffee growers acquired was counteracted by the emergence of an equally important industrial sector, but without any clear dominance of an industrial group over another.

As previously mentioned, the Colombian private sector is quite heterogeneous. Besides this, the relative power of the different agents that compose it is considerably fragmented. Particularly, in the case of the manufacturing sector, there are few business associations and groups that gather the most important sectoral interests. However, these organizations lack unity in objectives and criteria which make them weak in the process of concert. In fact, Ocampo and Esguerra (1992) emphasize that, with exception of the National Federation of Coffee Growers (FEDECAFE) and the National Association of Manufacturers (ANDI), historically business associations or groups have been weak. Their weakness has been proved during critical moments of economic decision such as the *apertura* reforms of the early 1990s.[44]

Notwithstanding the above, the trade unions have certain advantages with respect to other civil organizations, particularly in organizational development and access to decision-making centers. As previously mentioned, this access can be formal or informal but, in any case, international negotiations represent a successful example of public and private sectors working together procuring to concert. This objective has been reached because, in a certain way, technical aspects are definitive in negotiations and, thus, during a negotiation process the government needs the private sector's input. This has been the case in negotitations regarding textile contingents in the Multi-fiber Agreement (MFA), preferences granted under the Generalized System of Preferences (GSP), intellectual property rights (IPR) and regional trade agreements, among others.

However, the private sector has been excluded from the negotiations when considered necessary. Ocampo and Esguerra (1992) quote the case of the decisions adopted within the Andean Group in Galápagos in December of 1989 that later were consigned in the Act of Barahona in 1991, resulting in the consolidation of the Andean free trade area.

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[43]/ Ocampo J.A. and Esguerra P. (1992), "*Concertación y política industrial: la experiencia colombiana a la luz de algunos casos internacionales de éxito*" paper presented to National Congress of Exporters ANALDEX. Cartagena, Colombia.

Equally, the decisions adopted by the Presidents in the Declaration of Port Spain in 1993, during the negotiation of the Group of Three Agreement, were made without private sector participation. Finally, WTO negotiations have not been an exemption. Examples of this are the tariff bindings set by the government and the financial services negotiations in the early 90s.

C. Most Active Business Groups in Commercial Topics

As was mentioned above, the heterogeneity of the private sector in Colombia does not allow the identification a single powerful private grouping or sector. However, there is a business association that clusters the most important manufacturing firms: the National Association of Manufacturers (ANDI). Its relative power is high compared to other business associations and is usually preferred by government as moderator with the private sector. But there are several other business associations that represent specific activities or sectors, which usually share ANDI's importance status, representing the plastic and petrochemical producers (ACOPLASTICOS), the metallurgic and machinery producers (FEDEMETAL) and the exporters (ANALDEX), among the most prominent ones.

VI. THE AGENDA FOR FUTURE TRADE NEGOTIATIONS

One of the main objectives of the trade policy agenda deals with strengthening the integration policy as a key component of Colombia and Venezuela's exporting strategy. To attain this objective, Colombia and Venezuela's trade policy has to deal with challenges at three levels: (i) multilateral negotiations, (ii) hemispheric and regional negotiations, and (iii) penetrate further other markets. An element that cuts across these three levels is the process initiated last year of increased coordination of their negotiation position before the WTO, the FTAA process and preferential trade agreements with other Latin American countries, like Brazil and Argentina.

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[44]/ About the weakness of the trade-unions also see Urrutia M. (1983), Gremios, política económica y democracia. FEDESARROLLO, Bogotá, Colombia.

A. Coordination in Negotiations

The coordinated participation of the Andean Community in future multilateral negotiations, the FTAA and regional negotiations started to be a tangible possibility because AC members have recently shown the necessary political will for this undertaking.

Starting April 1997, the Presidents of the Andean countries expressed a common interest in enhancing the block's participation in trade negotiations, particularly in the Free Trade Area of the Americas (FTAA) and WTO. To attain this objective, the Andean trade ministers have increasingly recognized the pivotal role that the private sector plays for the long-run success of such undertakings.[45] Thus, authorities have agreed to concert each fora's thematic agenda through meetings with the representatives of the private sector. These meetings are coordinated by the Andean Community's General Secretariat, and the elaboration of the lists of private sector representatives is the responsibility of trade authorities. The Colombian and Venezuelan private sector is usually represented in such meetings by ANDI and FEDECAMARAS, respectively.

There have been concrete steps in the direction of consolidating this coordination strategy. On one hand, the Andean Community finished negotiation preferential trade agreements with Brazil (August 1999) and Argentina (March 2000), showing the success of this coordination strategy. On the other hand, they defined an agenda to coordinate their negotiating position to face the prospect of a new round of multilateral negotiations (see below)[46] and planned to use the "next door room" communication strategy with the private sector (described in Section V.A)

B. Multilateral negotiations: Colombia and Venezuela and the World Trade Organization

With the possibility of a new multilateral round of negotiations being launched during the 1999 WTO trade ministerial in Seattle, the Andean Community, under Colombian leadership, prepared the following an extensive agenda regarding future WTO

[45]/ On April 1997, in the context of the IX Andean Presidential Council, the heads of state of the Andean countries defined as a priority the need to strengthen the Community's participation in international forums, particularly in the FTAA and WTO negotiations. In the X Andean Presidential Council, which took place on March 1998 in Guayaquil, Ecuador, the presidents agreed to fortify their coordination with regard to the WTO. Another meaningful step was taken on 9 December 1998 when, for the first time, the Andean Community delivered a common speech with common stances on some general issues before the WTO's General Council.

[46]/ Decision 454 of May 4, 1999.

negotiations, which is summarized below.[47] This common position was considered fundamental to preservation the Andean common policy on the aforementioned topics and also in order to increase their negotiating stance.

1) Broadening of the negotiation agenda. There was extreme concern and opposition to the possible broadening of the limits of the negotiations, mainly regarding labor and the environment.
2) FTAA. There was also concern about the relationship between the FTAA process and the new multilateral round of negotiations, because the countries may overlook one of the two negotiations given the limited available human resources.
3) Agriculture. The Andean countries wanted to ask for a clearer definition on export subsidies and internal support mechanisms that generate distortions in world markets. Also, at Colombia's request, they wanted to obtain special treatment for those countries that have illicit crop substitution programs. Colombia wanted to undertake negotiations in order to replace domestic crop absorption requirements for some agricultural goods with competitiveness programs.
4) TRIMS. They wanted to seek an extension of the deadline of the common automobile policy (ACAP) that was notified under the TRIMS agreement and, if possible, renegotiate TRIMS because of the importance of local content requirements to the common Andean automotive and agricultural policies.
5) Services. The Andean countries expressed their interest in revising the exceptions to most favored nation (MFN) treatment and the special exception to air transport. In this subject, they are interested in including pending issues in the WTO's Services Council regarding safeguards, subsidies and public contracting.
6) Government procurement. There was some discussion, but no agreement, on the possibility of implementing common rules and regulations with regard to government procurement since neither Colombia nor Venezuela have adhered to the Government Procurement Code of the WTO.

[47]/ This section is based on the *aide memoir* of the First Bilateral Andean Community - United States Trade and Investment Council (TIC) Meeting, held on May 28, 1999, and internal documents from the Ministry of Foreign Trade of Colombia.

C. Hemispheric and regional negotiations

The current administrations in Colombia and Venezuela seek to maintain an active participation in both regional and hemispheric negotiations. At the regional level, the authorities aim to consolidate the Andean Common Market by December 31, 2005, strengthening through this action the Andean free trade area and the customs union. Particularly, they consider that it is necessary to correct some distortions derived from the common external tariff and to strengthen areas such as physical integration, technical and sanitary rules, government procurement and customs regulation. It is worth pointing out the fact that the auto and agriculture exceptions, that considerably distort protection granted by the CET, are not being discussed.

Additionally, as a result of the importance that the Andean trade has to Colombia and Venezuela, the authorities estimate that is fundamental to maintain the Andean Community consensus regarding the negotiation with Mercosur. Besides this, for Colombia and Venezuela a definition of a common international relations agenda is essential to continue strengthening the Andean position in international fora.

Moreover, the Andean Community has expressed to the presidents of the Central America Common Market its interest in deepening economic and trade relations between these two blocks by means of a trade agreement. Also, the Andean countries have started negotiations with Panama, aimed at signing a free trade agreement.

At the hemispheric level, Colombia and Venezuela have maintained an active participation in the preparatory meetings of the Free Trade Area of the Americas (FTAA) negotiations.[48] Because the most important market for merchandise exports for Colombia and Venezuela, both overall and for manufactured goods, is NAFTA, particularly the United States, they have a big stake in bringing the Free Trade Area of the Americas to fruition. Thus, the trade interests of Colombia and Venezuela in the FTAA appear to be clear: delay and possible death of the drive for hemispheric free trade would deprive them of the favorable access to the U.S. market that the FTAA offers.

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[48]/ The last meeting of hemispheric trade ministers was accomplished in Costa Rica in March of 1998 and the second Summit of the Americas was carried out in April of 1998 in Chile. The FTAA negotiations were initiated during the second Summit and they will be concluded no later than 2005. Additionally, the countries shall reach an agreement on specific business facilitation measures by the end of this year. The nine negotiating groups started negotiations during 1998.[48] All groups have presented information on the status of the different negotiation topics, and some of them have started to declare their stance with regard to the addressed issues.

D. Strengthening of other markets

Besides the regional and hemispheric integration strategy, Colombian and Venezuelan economic authorities have established an agenda to improve trade relations with the European Union.

The authorities will concentrate their efforts mainly in three aspects. First, to promote a greater use of commercial preferences that Colombia and Venezuela obtained as a result of the so-called Special Cooperation Program (SCP-drugs régime). Second, to defend Colombia's position on the Banana Régime that was approved in January of 1999, establishing a greater quota for banana exports from Colombia. Third, to encourage joint ventures and strategic alliances between Colombian and European entrepreneurs.

VII. CONCLUSIONS

1) The Uruguay Round Agreements (URAs) have played a marginal role with regard to liberal trade policy changes in Colombia and Venezuela. In fact, during the 1990s, most of trade policy and institutional reform to embrace an outward-oriented economic development model, leaving behind import substitution industrialization policies, took place unilaterally.

2) The Andean regional integration process has been the most significant agreement in terms of redefining much of both countries trade policy. For example, the Andean CET has been a warranty to maintain stable tariffs and clear trade rules and regulations for local entrepreneurs and foreign investors.

3) The active integration strategy undertaken in the early 90s compelled both the public and private sector to act together. However, authorities have been able to exclude the private sector from trade negotiations when deemed necessary because of the historic weakness of business associations in both countries. Therefore, since government can override private sector participation, private interests do not have a great deal of influence over the trade and integration policy design process at a time where they could be cashing in on increased trade opportunities by participating more actively with government on a trade agenda.

4) Because significant loopholes in the URAs are still present, Colombia and Venezuela have been able keep trade practices that are supposedly prohibited at the multilateral level. Agriculture still uses prohibited instruments such as minimum prices, and the auto sector applies local content requirements masked as rules of origin. Thus, the private sector still enjoys of considerable space to obtain sector specific policies, which are non-neutral among economic sectors and generate significant distortions.

5) The URAs related to tariffs have not meant significant and positive changes in the tariff structure of Colombia and Venezuela. The exceptions to the four basic levels of the common external tariff, mainly the Andean price band mechanism (SAFP), have

generated an extremely distorted and dispersed ERP structure that goes against the trade policy function rooted in an escalated tariff structure, that of granting higher protection to final goods.

6) The URAs have improved export promotion practices in Colombia and Venezuela. Export subsidies are being phased-out as originally agreed and the use of other export promotion instruments is currently more transparent. Colombia and Venezuela are actively using, or planning to use, duty drawbacks, credit incentives, and information and marketing assistance.

7) The adoption of improved WTO rules and procedures regarding anti-dumping has not prevented a slippage into sector-specific protection with the use of this instrument. In fact, the private sector has increasingly demanded specific protection through anti-dumping claims, as exemplified by the AC cases and the Colombian case study.

8) Several bilateral trade disputes riddle the Colombian-Venezuelan relationship, none of which have been taken to the WTO for resolution. Some of these disputes involve long-standing practices, like Colombia's regional monopolistic liquor trade, that go against multilateral trading principles.

9) The private sector perceives that the URAs has not implied considerable costs, except for reduced export subsidy practices and some practices used in the auto assembly industry. Rather, trade policy developments and the Andean level are sensed to have a large impact on their activities.

10) The main benefits associated with the URAs are increased market access, tariff bindings, dispute settlement procedures and phasing-out of the Multi-fiber agreement. The private sector identified as URS-related costs the prohibition of local content requirements and direct export subsidies.

11) Colombia and Venezuela have increased their coordination in trade negotiations. Considerable progress was observed in the definition of a common position regarding WTO-related negotiations.

12) Because of its comprehensive coverage of trade disciplines, to a great extent the future of Colombian and Venezuelan trade policy is intimately linked to the future nature of the Andean Community and its other members.

13) The real challenge for Colombia and Venezuela is how to address the remaining integration agenda, particularly that of the AC integration process, while not neglecting their UR obligations. Also, how to increase trade-related private sector benefits.

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Frases destacadas y abstract:

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5	At the unilateral front, the economic and structural reforms, in general, and the unilateral trade liberalization, in particular, made it easier for these countries to accept further trade reform commitments resulting from the URAs and the rules and practices of the multilateral trading system.
7	Thus, since the early 1990s, the underlying trade policy objective of Colombia and Venezuela has been to improve the competitiveness of their economies and enhance their growth prospects through an outward-looking development strategy, relying on export expansion as one of the pillars of sustained growth
15	The institutional reforms and the autonomous trade liberalization were reinforced and complemented with the security of market access and improved transparency resulting from Colombia's and Venezuela's participation in the multilateral trading system
22	A broad group of industrial firms in Colombia reveals that, by exporting to the Andean market, many of them learn how to export in the regional market to later compete in the more challenging international markets
29	The SAFP is a system that grants additional protection instead of stabilizing prices of some basic agricultural goods
34	Given the nominal and effective rates of protection estimations, it is clear that the special treatment granted by the SAFP is the main source of protection distortions in Colombia and Venezuela, not only in agricultural commodities but also for those sectors that use them as raw materials
36	Even though export promotion policies have not been evened out at the AC level, there is an agreement between the member countries on using most fiscal incentives with an impact on trade (agriculture is an exception) only to third country exports.
41	Colombian and Venezuelan domestic anti-dumping law is not applied to imports originating from member AC countries. In the case of dumping between the Andean Community nations, a super-national anti-dumping law (Decision 283 of 1991) applies, and the administering authority is the General Secretariat.
45	A common opinion found among domestic actors in Colombia and Venezuela was that with the exception of some “fine tuning”, there have been few economic and policy adjustments perceived as brought about by the URAs.
46	As members of the WTO, Colombian and Venezuelan businessmen have gained security of market access and, to some extent, greater transparency in trading rules and procedures applied by all trading partners that are WTO members.
48	The private sector asserted that the limited field of action for export incentives, particularly export subsidies, is one of the leading costs of the URAs.
49/50	In practice, as expressed below, the most important and specific claims made by the private sector regarding trade and integration are still made by means of “informal” mechanisms such as bilateral meetings, press articles and conferences in conventions, among others.
55	The Presidents of the Andean countries expressed a common interest in enhancing

	the block's participation in trade negotiations, particularly in the Free Trade Area of the Americas (FTAA) and WTO.
59	The Andean regional integration process has been the most significant agreement in terms of redefining much of both countries trade policy.

Abstract:

This paper discusses Colombia and Venezuela's main trade policy reforms and institutional adjustments resulting from the Uruguay Round Agreements. It analysis resorts to the Andean Community trade policy framework and selects issues and sectors of particular importance for both countries, like agriculture and auto assembly. It particularly takes into consideration the role of the private sector in shaping these policies, focusing on the institutional framework and practices that mould its participation. The paper also examines current instruments of trade policy and evaluates the main costs and benefits of WTO commitments for business and government interests. Finally, it discusses the future trade negotiations agenda of the Andean Community and the private sector’s engagement in its design.