

# WORLD TRADE ORGANIZATION

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Committee on Subsidies and  
Countervailing Measures

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## SUBSIDIES

### Request Pursuant to Article 27.4 of the Agreement on Subsidies and Countervailing Measures

#### COLOMBIA

The following communication, dated 31 December 2001, has been received from the Permanent Mission of Colombia.

#### **I. REQUEST AS REFERRED TO IN PARAGRAPH 10.6 OF WT/MIN(01)/17**

##### **A. INTRODUCTION**

1. In accordance with Article 27.4 of the Agreement on Subsidies and Countervailing Measures (SCM) and pursuant to paragraph 10.6 of the Ministerial Decision on Implementation-Related Issues and Concerns (WT/MIN(01)/17), the Government of Colombia requests the Committee on Subsidies and Countervailing Measures to extend the transition period for the continued application of the export subsidy programmes described below, and to grant the same treatment as regards eligible programmes and the duration of extensions of the transition period granted to other developing country Members that have requested such extension following the procedure set forth in document G/SCM/39. This request covers the following programmes:

- (i) Special Import-Export System for Capital Goods and Spare Parts (SIEX);
- (ii) Free-Zone Regime (ZF).

2. Colombia repeats that in view of the small share of its exports in world trade and the way in which the subsidies are granted, i.e. through tax exemption programmes, the programmes for which it is requesting an extension of the transition period and for which the new and full updating notification accompanies this document, do not constitute a trade-distorting element. Colombia's limited financial capacity does not enable it to include items in its national budget for the direct payment of exporters from the national treasury.

3. The mechanisms applied by Colombia through tax exemptions are not trade-restrictive: on the contrary, they stimulate the growth of imports.

4. Moreover, the subsidy component contained in the Tax Reimbursement Certificate (CERT) programme was eliminated on 13 January 2001 with the issue of Presidential Decree 033. The

elimination of this subsidy was an important step in the phasing out of export subsidies and should be recognized as such when considering the request for extension of the transition period for the other programmes mentioned in this communication.

5. This request is divided in two parts. The first part confirms Colombia's compliance with the premises laid down in paragraph 10.6 of the Ministerial Decision on Implementation-Related Issues and Concerns (WT/MIN(01)/17), making it eligible for the same treatment as granted to other developing countries under the procedure laid down in document G/SCM/39. The second part sets out the economic, financial and development needs justifying the extension of the transition period in Article 27.4 of the SCM Agreement.

**B. JUSTIFICATION IN TERMS OF THE OBJECTIVES SET FORTH IN PARAGRAPH 10.6 OF THE MINISTERIAL DECISION ON IMPLEMENTATION-RELATED ISSUES AND CONCERNS**

**1. Non-discriminatory treatment**

6. Paragraph 10.6 of the Ministerial Decision on Implementation-Related Issues and Concerns clearly states that countries like Colombia should receive identical treatment in relation to requests for extension of the transition period under Article 27.4 of the SCM Agreement.

7. To avoid discrimination and hence different treatment, paragraph 10.6 of the Decision provides that the SCM Committee should take account of a number of factors relating to the stage of development, the order of magnitude of share in world trade and relative competitiveness in granting extensions. Colombia submits that it conforms to all of these factors, and considers that they should be viewed and analysed in the light of the negative effects on its economy of discriminatory treatment in relation to other developing countries, particularly those that are geographically close to Colombia and to its export destination markets.

**2. Similar level of economic development**

8. With respect to level of development, Colombia and the countries of the Central American and Caribbean area are in fact at a similar stage. The figures for per capita income in 2000 show that the majority of Central American countries are ranked in the same category as Colombia in the World Bank classification, i.e. lower-middle-income. In the case of the Caribbean islands, per capita income ranges from lower-middle-income to upper-middle-income. In other words, according to World Bank criteria, Colombia and the Central American and Caribbean countries have similar levels of economic capacity and development.

**3. Similar order of magnitude of share in world trade**

9. A comparison between the level of Colombian exports and those of the countries of Central America and the Caribbean reveals that the order of magnitude of share in world trade is similar. According to information provided by the WTO Secretariat for the year 2000, the total share of Colombia and of the countries of Central America and the Caribbean in world exports in no case exceeded 0.25 per cent. The sum of Central American exports amounted to 0.22 per cent of world exports, while exports from the Caribbean islands accounted for 0.20 per cent, which is the same as the share recorded for Colombia.

10. Similarly, while the ratio of world exports to world GDP was about 20.4 per cent in 2000, for Colombia the total exports GDP/ratio was 14.8 per cent and for the Central American and the Caribbean countries, it averaged 22.6 and 31.8 per cent respectively. In this context, Colombian export openness is below the world average, while that of Central America and the Caribbean is

above. Indeed, the indicator for the Caribbean not only exceeds the world average by 10 per cent, but it is double the indicator for Colombia.

11. Although the degree of export openness of Central America and the Caribbean is higher than that of Colombia, owing to the low level of its exports the order of magnitude of share in world trade is similar in each case.

#### **4. Relative competitiveness**

12. The incentives granted to investment and exports enhance the competitive position of the countries that grant them in relation to other countries at similar stages of development and having a similar order of magnitude of share in world trade. If there were no such export subsidies or if they were expected to be phased out, domestic and foreign investors would move to other countries where such subsidies were guaranteed. Such a shift by investors would have a negative impact on Colombia, since capital outflows and a fall in exports could accentuate the deterioration in the balance of payments. With the consequent rise in unemployment, social costs would also be significant.

13. For example, there are 340 enterprises located in the free zones, employing more than 14,000 persons. Over the past five years, growth in this activity has been significant owing to the reforms introduced by the Government with a view to increasing the country's export orientation, thanks to which exports in the free zones currently exceed 400 million dollars and account for 10 per cent of Colombia's total industrial exports.

14. In the case of the SIEX, considerable investments have been made ever since the mechanism was introduced, with a view to developing modern production processes to promote Colombian exports. Over the past three years, the average annual capital goods imports that have benefited from the mechanism have totalled some 505 million dollars, stimulating exports, which have reached an average annual value of 5,324 million dollars. Because this incentive was applied so universally throughout the economy, it has generated a considerable amount of employment in the small and medium enterprises, big industry and large-scale natural resource export projects.

15. The export incentives accompanied by tariff benefits in the destination markets contribute to improving the competitive position among suppliers to the same market. In the case of Colombia and the countries of Central America and the Caribbean, the presence of both instruments has been fundamental in that it has paved the way for considerable growth in exports to the United States, the most important trading partner for all of the countries concerned.

16. Colombia, Central America and the Caribbean have a similar exportable supply to the United States. In the case of Colombia and the Caribbean, this includes hydrocarbons, chemicals, textiles, paper, leather industry products and foodstuffs. In the case of Colombia and Central America, it includes made-up articles, furniture, textiles, plastic and rubber products, coffee and bananas. The exportable supply produced on the basis of incentives such as the free zones is also very similar.

17. In spite of these similarities, the share of primary product exports to the United States is greater for Colombia than for Central America and the Caribbean, so that Colombia's exportable supply is more vulnerable to fluctuations in domestic demand in the United States and to changes in international commodity prices. Although the share of manufactured goods in total exports to the United States has gained ground, there is no comparison with the considerable volumes exported by the Central American and Caribbean competitors. To illustrate the point, in 2000 the United States imported from Central America, 6,684 million dollars worth of made-up goods, which corresponds to the total value of Colombian exports to that market in 2000. Caribbean exports of made-up goods amounted to about 50 per cent of total Colombian exports.

18. With a competitiveness similar to that of Central America and the Caribbean, Colombia could have a greater share in total United States imports. This has not been the case, partly because the use of export incentives based on the scope of tariff benefits has been greater in Central America and the Caribbean than in Colombia. In this context, if Colombia were not granted the extension for the application of export incentives, its prospects for increased growth in exports of manufactured goods to the United States and other markets would be seriously affected.

19. The presence or absence of export initiatives and subsidies would clearly make for a difference between Colombia and the Central American and Caribbean countries, which are at a similar stage of development and have a similar order of magnitude of share in world trade and relative competitiveness. This difference would have a determining effect on the investment decisions of domestic and foreign investors, who would move to the countries in which the maintenance of the initiatives was ensured.

#### C. ECONOMIC, FINANCIAL AND DEVELOPMENT NEEDS JUSTIFYING THE EXTENSION

##### 1. Recent performance of the Colombian economy

20. Like most Latin American countries, Colombia suffered the consequences of the Asian crisis of 1997-1998. Having maintained an annual growth rate of more than 4.5 per cent during the first five years of the past decade, the Colombian economy began a slowdown which led in 1999 to the worst recession of the 20<sup>th</sup> century, with a 4.1 per cent fall in GDP. The most severely affected sectors were the manufacturing industry, which fell by 10.2 per cent as compared to 1998, and the coffee sector, with the international price plummeting by more than 50 per cent owing to the drop in world demand and overproduction from the new coffee-producing countries.

21. The domestic rate of unemployment, which had been growing moderately from around 10 per cent five years ago, began to rise to levels never before experienced in the country's economic history, reaching 19.4 per cent in the seven main metropolitan areas.

22. In 2000, economic policy was directed towards boosting productive activity, maintaining competitiveness, achieving external balance and controlling inflation. Thus, during the first half of 2000, the Colombian economy grew by 3.6 per cent, stimulated by non-traditional exports. However, during the second half of 2000, the economic recovery began to show signs of weakness, and the year ended with an economic growth rate of 2.8 per cent.

##### 2. Economic outlook

23. In 2001, the decline in world demand and domestic demand, the high rate of unemployment and lagging private investment caused the National Planning Department to lower its economic growth target to somewhere between 2.0 and 2.4 per cent. In other words, product per capita is expected to stagnate or even to decline. Even if the most optimistic GDP growth rate were achieved, per capita product would reach US\$1,887 – the level recorded in 1993-1994. Given this limited level of economic activity, the different analyses conducted suggest that the rate of unemployment will remain at current levels, i.e. above 18 per cent.

24. Sluggish world growth, aggravated by the terrorist attacks of 11 September, continues to exert downward pressure on the prices of commodities and raw materials such as coffee, bananas and oil, while at the same time reducing the volume of non-traditional exports. This will unquestionably lead to an increase in the unemployment rate.

25. Meanwhile, internal factors include terrorist attacks against infrastructure, in particular in the oil transport area, which have resulted in a decline in exports of crude oil. Moreover, the outlook for domestic investment is not improving and credit is stagnating in spite of low interest rates.

### **3. The need for external financing and growth of exports**

26. In the financial area, according to current assumptions, there should be an estimated deficit in the current account of the balance of payments for this year of 2,113 million dollars, equivalent to 2.6 per cent of GDP. In 2002, the deficit is expected to rise considerably, reaching: 2,736 million dollars, or 3.2 per cent of GDP. This is due partly to the increase in the total net factor income balance which, from a deficit of 3,140 million dollars in 2001 would reach 3,423 million dollars, with an annual growth rate of 9 per cent, and partly to the decline in the balance of goods and non-factor services by approximately 390 million dollars. This implies greater foreign debt commitments in an uncertain environment, in spite of the pre-financing in place for 2002.

27. Indeed, based on current conditions, balance-of-payment projections show that the current account deficit would rise from 2.6 per cent of GDP in 2001 to 3.6 per cent in 2006, falling back to 2.4 per cent in 2008. This performance would imply an increase in the foreign debt up to 45,250 million dollars in 2008, equivalent to 45.8 per cent of GDP and approximately 7,200 million dollars above the current level.

28. To meet the obligations that this foreign debt would entail requires a dynamic growth in total exports, since the payment of factor services currently represents 30.4 per cent of the value of total exports and 58.1 per cent of the value of non-traditional exports. According to projections, total exports of goods should rise to 20,000 million dollars in 2008, at an average annual growth rate of 6.6 per cent, and non-traditional exports should reach 12,611 million dollars with an annual growth rate of 9.5 per cent. Clearly, total export growth requirements are fairly stringent: the average annual growth rate for the last decade (5.9 per cent) was lower.

29. This is why the Colombian economy needs to attract foreign investment, maintain a growing flow of export revenue and increase factor productivity in order to recover its long-term growth rate. Otherwise, growing foreign debt commitments will require a future adjustment programme which, in the short-term, would increase the rate of unemployment and the level of poverty in the country.

30. In this context, extension of the use of export support instruments would contribute to the objective of restoring the country's economic stability and the confidence of foreign investors.

### **4. The Economic Development Plan rests on the country's export strategy**

31. The low economic growth rate in Colombia over the past years has highlighted the need to turn the economic development model outwards on the grounds that the export momentum created by world demand and increased integration of the Colombian economy in the rest of the world could serve as a tool for generating higher sustained long-term growth rates. Thus, the current government's national development plan, "Change to Build Peace", has given the export sector a leading role in the country's economic and social development.

32. Hence the introduction of the Strategic Export Plan – PEE 1999-2009, with the participation of the Colombian private sector. The plan consists of a five-point strategy:

- To increase and diversify the exportable supply of goods and services based on world demand;

- to stimulate and boost foreign investment as a means of directly or indirectly promoting exports;
- to make export activities competitive;
- to regionalize the exportable supply;
- to develop the country's export culture.

33. To fulfil the Plan's objectives, the Government and the private sector introduced a policy of productivity and competitiveness involving support for scientific and technological development, training and education, promotion of small and medium exporting enterprises, stimulation of services exports, and development of export infrastructure. At the same time, it is fundamental to these measures and to the achievement of the Plan's objectives that the PEE should continue to apply export promotion instruments, to strengthen the process of integration, to maintain the consistency and transparency of its tariff policy, and to streamline procedures with a view to facilitating foreign trade transactions. This policy is accompanied by permanent follow-up mechanisms based on World Economic Forum competitiveness indicators.

34. The country's export incentives, particularly those for which an extension is being requested under Article 27.4 of the Agreement on Subsidies and Countervailing Measures, play an essential role within this export strategy:

- As a centrepiece in the diversification of exports by serving as platforms for the export of manufactured goods;
- by promoting the use of advanced technologies of foreign firms, stimulating specialization, boosting foreign investment in profitable economic activities and supplying the necessary foreign exchange for the acquisition of advanced technology that is not available locally;
- by producing a significant "demonstration effect", showing other entrepreneurs that exports can be profitable and dynamic – in other words by helping to promote export culture;
- by promoting regional development, generating employment and boosting productivity;
- by enhancing the competitiveness of Colombian exports through a reduction in transport, input and capital goods costs, and in general, by overcoming certain domestic market distortions.

35. Through its export strategy, the continuation of export subsidies and a stable macroeconomic and political environment, Colombia needs to increase its exports considerably, thereby generating employment, increasing per capita income and speeding up economic growth.

## **5. Negative externalities facing Colombian exports**

### **(a) Costs of the change in economic model**

36. The import substitution model of the end of the 1960s and beginning of the 1970s led to the establishment of industries near large consumer centres. Industry enjoyed a captive market with little exposure to international competition and with the added element of geographical protection. Export-

oriented infrastructure was practically non-existent and land transport routes between the centre of the country, where most of the production was located, and the sea ports, was precarious.

37. With the change in economic model at the beginning of the 1990s, Colombia was faced with the problem of deficient infrastructure which placed it at a considerable disadvantage *vis-à-vis* its competitors. The poor state of the roads, the insecurity and the lack of reliability made it difficult to ship goods from the production centres to the sea ports. A study conducted in 1995 revealed that the Colombian road network was 25 years behind and its inefficiency had cost the country 6.4 per cent of GDP over the past 20 years.

38. The problems have yet to be solved: Colombia has approximately 128,000 kilometres of roads, of which 10 per cent are paved, a proportion well below the Latin American average (20.1 per cent), the developing country average (30 per cent), not to mention the world average (55 per cent). The poor state of Colombia's road network has a direct impact on the competitiveness of its exports, since in addition to pushing up the already heavy internal freight costs, it causes delays in the delivery of goods. According to the National Competitiveness Survey conducted by the Ministry of Foreign Trade in 1999, 60 per cent of the enterprises stated that road transport was the factor that had the greatest impact on their costs and 56 per cent indicated that road transport was the poorest of the infrastructure services. The Global Competitiveness Report 2001-2002 issued by the World Economic Forum reveals the competitive disadvantage for Colombia of its poor road infrastructure, ranking it 68<sup>th</sup> among 75 countries.

(b) Security-related costs

39. In addition to the extra costs generated by infrastructure deficiencies, Colombian exports are faced with security problems due to the intensity of the country's internal conflict. The hydrocarbon and mining sectors, beneficiaries of the SIEX, have seen their costs increase as a result of crimes against their economic property committed by insurgent groups. This situation extends to the power generation and transmission system.

40. The outlook in terms of costs for enterprises is discouraging: insurance premiums rose in the wake of the attacks of 11 September, and in many cases, insurance companies refuse to cover risks associated with terrorism.

41. Generally speaking, the climate of insecurity in the country as a result of the internal armed conflict pushes up transaction costs throughout the economy, causing human and physical capital losses and raising the level of uncertainty and risk. For the same reason, the production sector is diverting resources towards non-productive activities such as security, discouraging long-term investment and adversely affecting competitiveness, growth and economic welfare. According to a study conducted by the National Planning Department, the armed conflict in Colombia has caused a loss in investment of 0.53 per cent of GDP in relation to the long-term average. The annual loss in growth has been estimated at 0.5 per cent of GDP which, in view of the longevity of the conflict in the country, now represents an accumulated value of 8 per cent of annual GDP.

42. Export incentives and subsidies play an important role in partially compensating the excess costs of the negative externalities associated with the poor infrastructure and security. The magnitude and complexity of these problems make any short-term solution impossible. The efforts of the current government under the Development Plan and the Peace Policy will bear fruit in the medium term – meanwhile, in the short term, the export subsidies are necessary.

D. CONCLUSIONS

43. The export subsidies for which Colombia is requesting an extension under Article 27.4 of the Agreement on Subsidies and Countervailing Measures and in conformity with paragraph 10.6 of the Ministerial Decision on Implementation-Related Issues and Concerns (WT/MIN(01)/17) play a leading role in the performance of Colombia's economy.

44. The effect of these subsidies on world trade is not significant in view of Colombia's minimal share in total world exports of 0.2 per cent, an order of magnitude similar to the countries mentioned in document G/SCM/39. Moreover, the way in which these mechanisms operate does not distort trade, and indeed enhances the openness of the Colombian economy to imports, since it involves the duty-free entry into the country of a significant group of products.

45. As stated throughout this document, the maintenance of the export subsidies is in keeping with Colombia's economic, financial, development and competitiveness needs. The reasons can be summarized as follows:

- Export flows must be strengthened in order to relieve future pressure on the balance of payments;
- it is essential to maintain a stable set of rules for domestic and foreign investors;
- Colombia's Development Plan and its Strategic Export Plan need the export incentives in order to achieve their targets and objectives;
- incentives for exporting companies must be maintained in order to maintain employment;
- export subsidies serve as a mechanism for the compensation of extra costs deriving from negative externalities to which productive activities in Colombia are subjected;
- Colombia's competitive situation with regard to other countries at similar stages of development, of similar competitiveness and having a similar order of magnitude of share in world trade – the factors mentioned in paragraph 10.6 of the Ministerial Decision on Implementation – could worsen if the application of the subsidies is not extended;
- the shifting of investment from Colombia to other countries where continued subsidies are guaranteed would have a negative impact at all levels of the national economy.

46. Colombia hopes that the Committee on Subsidies and Countervailing Measures will view this request favourably, and in conformity with paragraph 10.6 of the Ministerial Decision on Implementation-Related Issues and Concerns, will grant Colombia the same treatment in respect of the eligible programmes and the duration of the extensions of the transition period as the developing country Members who have requested an extension of the transition period following the procedures set forth in document G/SCM/39.

**II. OTHER REQUEST PURSUANT TO SCM ARTICLE 27.4**

Pursuant to Article 27.4 of the Agreement on Subsidies and Countervailing Measures (SCM), the Government of Colombia requests the Committee on Subsidies and Countervailing Measures to extend the transition period for the continued application of the export support programme known as



the Transport Compensation Mechanism (*Mecanismo de Compensación del Transporte* – MCT). Colombia considers the continued application of this programme to be advisable in view of its economic, financial and development needs.

Colombia hopes that the Committee on Subsidies and Countervailing Measures will give positive consideration to this request.

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