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Andean Pact Common Market Initiative In Danger Of Dissolution

by Barbara Khol

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April 21: In a decree promulgated Tuesday, the Peruvian government suspended preferential tariffs applied to Andean nation imports. The "non-discriminatory" measure imposes the same rates, 15 to 20%, applied to all imports. The Peruvian government invoked Article 79-A of the Cartagena Agreement, which permits temporary suspension of such tariffs in the event of market distortions inhibiting fair competition. In recent months, Peruvian businesspeople and officials have complained about unfair competition, or subsidized imports entering the domestic market, mainly from Colombia. Meanwhile, the Peruvian government has not yet eliminated all types of subsidies affecting exports. Peruvian officials have called on Andean Pact member- nation governments (Bolivia, Colombia, Ecuador, Peru and Venezuela) to coordinate macroeconomic policies in order to resolve such problems. Despite an agreement by the five heads of state in this regard, such coordination has failed to materialize. Rafael Serrano, interim coordinator of the Cartagena Agreement Council, said he was very concerned about the impact of Lima's decision. He added that the process of establishing the Andean Pact free trade zone has effectively been put on hold. Zero-level tariffs applied to Andean Pact products was scheduled to enter into effect on June 1 this year. The move is described as a prelude to an Andean nation free trade zone and customs union. At the last presidential summit, the five heads of state approved a 5% minimum and a 20% maximum tariff rate to be imposed on imports from outside the region (common external tariff, or AEC). Since then, however, integration and trade ministers have been unable to reach agreement on tariff application by product and product category. Venezuelan politicians and businesspeople distanced themselves from President Carlos Andres Perez's decision, announced April 15, to suspend diplomatic relations with Peru. Their concerns were focused, above all, on the future of the Andean Pact. Early this year, Colombia and Venezuela pushed regional free trade arrangements forward, despite reluctance by Bolivia and Peru. Bogota and Caracas adopted this policy because of delays in reaching agreement on the AEC. Foreign Minister Humberto Calderon Berti announced over the weekend that President Perez will not attend the next Andean Pact summit meeting, scheduled for June in Galapagos, if the "Peruvian situation" remains unchanged or deteriorates. Juan Falconi Ecuadoran Industry, Trade and Integration Minister, and head of the Cartagena Agreement Commission commenced contacts with counterparts to organize a meeting aimed at "seeking solutions" to prevent the collapse of regional integration efforts. April 22: Luis Trujillo, president of the Chamber of Commerce in Guayaquil, Ecuador, said the Peruvian decision was "a nationalist posture." Ecuadoran business leader Omar Maluk said the Peruvian decision was unfair, nationalist, and precipitous. Trujillo and other business leaders, however, said the Peruvian decree was "logical" in light of the Andean Pact's inconsistencies. Radio reports from Bogota indicated that the government will soon announce a decision to freeze negotiations with Ecuador on the AEC. Colombian officials and businesspeople say both Ecuador and Peru are responsible for obstructing the creation of a regional free trade zone. Ecuadoran officials insist on excluding about 1,000 products from the AEC and intraregional free trade agreements. Peru has been accused of "disinterest" in opening up the domestic market to Colombian competitors. Rafael Serrano, interim coordinator of the Cartagena Agreement Council,

said Article 79-A of the Agreement stipulates temporary suspension of trade preferences in cases of specific products, not a generalized suspension as applied by Peru. April 24: Miguel Rodriguez Mendoza, director of the Venezuelan Foreign Trade Institute (IVCE), said Venezuela will respond in a reciprocal fashion to the Peruvian government's decision unless Lima reconsiders. Reciprocity, he added, means withdrawing preferential tariffs applied to Peruvian imports. Rodriguez Mendoza said the Cartagena Agreement's Article 79-A is not applicable as employed by the Peruvian government, "because it refers only to specific products, and not the entire economy." In a press statement, Venezuela's most influential business organization, Fedecamaras, suggested that the government "revise its integrationist policy" by strengthening trade ties with Colombia and Mexico. The statement added, however, that the "Peruvian process must not affect the integration program underway in the rest of the Andean Pact" nations. April 26: Falconi announced that the Cartagena Agreement Commission governing board will convene in Quito (Ecuador) on April 29-30. He said participants are expected to set a date for the postponed presidential summit. The top agenda items are "problems affecting the Andean Pact," and the AEC. The Colombian government announced implementation of reciprocity in trade with Peru. In brief, 15 to 20% tariffs will be imposed on Peruvian imports. April 28: Falconi said that if the Andean Pact is dissolved, Ecuador will join the Group of Three (Colombia, Mexico and Venezuela). April 29: Spokespersons for the Ecuadoran Industry, Trade and Integration Ministry said the Cartagena Agreement Commission meeting scheduled to begin Wednesday was cancelled. On Tuesday evening, Colombian and Peruvian representatives notified Minister Falconi that they were unable to attend. (Basic data from numerous reports by Spanish news service EFE, 04/21/92; Agence France-Presse, 04/21/92, 04/22/92, 04/24/92, 04/26-29/92)

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