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SUBJECT

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FROM : Department of State DATE:

SUBJECT : LAFTA Foreign Ministers Meeting, Asuncion, Paraguay August 28-September 2, 1967

REF :

I. Report on the LAFTA Meeting

The Foreign Ministers of the Latin American Free Trade Association met in Asuncion, Paraguay, August 28-September 2, 1967 to consider specific measures to convert LAFTA into a Common Market, as they had been instructed by their Presidents in Chapter I, Sections 2 and 4 of the Summit Action Program. The meeting did not succeed in reaching agreement on the key measures to implement these Sections, on which under the terms of the Montevideo Treaty agreement has to be unanimous, but it did approve in principle the Andean Common Market and a number of less important resolutions. Its failure to agree on the key resolutions was not surprising, since it was the Foreign Ministers' first attempt to tackle the serious and difficult problems assigned them by their Presidents as recently as April of this year.

A. Preparations for the Meeting

1. In the period between the April Summit meeting and the Asuncion meeting, LAFTA's Permanent Executive Committee (PEC) and the LAFTA Secretariat had carried out a number of technical-level meetings in Montevideo. These meetings had drafted a number of specific resolutions for consideration by the Foreign Ministers in Asuncion, of which the most important

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Drafted by: ARA/ECP:EFChase 9/22/67

Contents and Classification Approved by: ARA/ECP: Joseph A. Silberstein

Clearances: E/GCP - J.E. Williams   ARA - R.M. Sayre dealt with the establishment of a margin of intra-zonal preference as of January 1, 1968 (I.4.b.&c. of the Summit Action Program), a system of programmed elimination of tariffs on LAFTA common list items between 1969 and 1973 (related to I.2.a.), and a "standstill" on new intra-regional trade barriers as of Jan. 1, 1968 (I.4.a.). These resolutions, however, still contained reservations. Two other resolutions dealt with the key questions of establishing a common external tariff and a system for programmed elimination of all tariffs and other restrictions on intra-regional trade (I.2.a.), but would only have incorporated into LAFTA the principles agreed at the Summit and established general guidelines, leaving open the key issues of methodologies to be employed and rates of liberalization. In particular, they failed to resolve the question that has always plagued LAFTA--reciprocity, or an equitable sharing of benefits to all three categories of LAFTA countries, to be obtained through various types of preferential treatment for all except the three big countries, Argentina, Brazil, and Mexico.

2. The proposed resolution on programmed elimination of trade barriers drafted by the Permanent Executive Committee clarified the areas of agreement and dispute. The resolution indicated general acceptance of the following concepts:

(a) All products would be covered;

(b) Elimination would start as of January 1, 1970 from the MFN level of duties and restrictions applicable to third countries, less the margins of intrazonal preference already established;

(c) Products on the national list would be affected when the level of programmed elimination under the new schedule exceeds the level of concessions negotiated under the Treaty of Montevideo;

(d) There should be different treatment for the three categories of members;

(e) There should be special norms for agricultural products;

(f) New safeguard measures should be developed to supplement those existing under the Treaty of Montevideo;

(g) Periodic reviews should be made to assure reciprocity.

3. On the other hand, the PEC was unable to agree on (a) immediate action to allow free access for certain products of the least developed countries (Summit Action Program, I.2.d.), or (b) the relative timetable for trade liberalization. The draft resolution merely provided that the PEC would be instructed to reach agreement before the next Council meeting (presumably in 1968) and submit its recommendations then. On the first issue, the majority in the PEC wished to provide free access for certain LDC products as of January 1, 1970; the least developed insisted on access as of January 1, 1968. On the second issue, the majority favored a timetable for tariff liberalization that would completely liberalize zonal markets for the least developed countries by 1975, for those of insufficient markets by 1980, and for the "big three" by 1985. The PEC representatives of Argentina, Brazil, and Mexico, however, had found this schedule unacceptable and proposed instead that the rate of liberalization should differ by category of importing member, rather than origin of the export product. This would allow MFN treatment within the zone, since any particular country would have only one tariff schedule for intra-regional trade, rather than three. Under this timetable, by 1980 the "big three" would reduce their intra-zonal tariffs by 80%, the middle group by 50.5%, and the poorest by 33.5%. This proposal seems less definite regarding the complete attainment of free trade by 1985.

4. Finally, Argentina had reserved its position in the PEC on the whole resolution, insisting that non-tariff barriers should be completely eliminated before the programmed tariff cuts start.

5. Since the PEC was unable to agree on the relative rates of intra-regional trade liberalization for all products over the 1970-1985 period, it apparently compromised by recommending elimination over the 1969-1973 period of tariffs and other restrictions on common schedule items. This schedule lists products which under LAFTA rules are to be freely traded within the region by 1973, although there is no requirement that this take place prior to that date. It is being negotiated in four increments; by the end of 1967, it should include products which constitute 50% of the aggregate value of intra-regional trade. Furthermore, the PEC had been able to agree on the other two major trade liberalization measures included in the Summit Action Program, the margin of preference and the standstill or freeze on intra-regional trade barriers. The recommended margin of preference, to be established by cuts in tariffs and other barriers, was 20% by Argentina, Brazil, and Mexico; 12% by the middle group; and 8% by the least developed countries.

6. The lack of agreement on a timetable for tariff harmonization and establishment of a common external tariff followed from the inability to agree on a timetable for intra-regional trade liberalization. The draft resolution on tariff harmonization merely called for a close link between the two timetables and instructed the CP's to put into effect before 1970 the Brussels Tariff Nomenclature, the Brussels Definition of Value, and systems of ad valorem tariffs.

7. In addition to the above preparations in Montevideo, a draft resolution to establish the LAFTA-CACM Coordinating Committee was prepared in a preliminary joint meeting at San Jose in July 1967 and a draft resolution establishing criteria for a subregional group among the Andean countries was drafted by the Bogota group in Caracas in August 1967.

B. The Debate

1. The United States did not participate in the LAFTA meeting, although it did send an Observer to the joint LAFTA-CACM meeting that followed it. The following account, accordingly, is based upon impressions gleaned from various participants, both here in Washington and reported from the field. Furthermore, the critical negotiations designed to break the impasse on the resolutions took place in closed sessions generally attended only by heads of delegations. Under the circumstances, it is obviously incomplete and probably contains inaccuracies.

2. Reportedly, the initial debates were harmonious and seemed to indicate that the meeting would be able to agree on the major resolutions. The only significant controversy was over the treatment of non-tariff barriers, on which Argentina had reserved its position. Then, on the fourth day, Paraguay introduced several new resolutions, the most important of which called for complete elimination of duties and restrictions on a number of important Paraguayan exports by January 1, 1968. Furthermore, Paraguay indicated that it could not accept any of the important resolutions until the meeting had satisfied its demands. This created a crisis, since the more advanced countries were not prepared to meet Paraguay's initial demands or similar demands by Ecuador and Bolivia, the other two members of the least developed category.

3. After prolonged negotiations on this issue, agreement appeared to be reached on a compromise whereby all tariffs on imports from the least developed countries would be eliminated within five years. At the last moment, however, Peru conditioned its acceptance upon obtaining treatment almost equal to that of the poorest countries. Reportedly, it insisted on complete elimination of barriers against its exports within 8 years. If the meeting had agreed to this demand, it would in effect have represented an agreement to eliminate all tariffs within the region over a period of 5 years for the least developed countries, 8 years for those of insufficient markets, and 15 years for the others. As might have been anticipated from the PEC discussions, the Foreign Ministers refused to accept the Peruvian position; Peru refused to budge and thus under the unanimity rule vetoed the resolution that would have satisfied the least developed countries. In turn, Paraguay vetoed the other important resolutions that could have allowed LAFTA to begin the process of conversion to a Common Market.

4. Peru also played a major role in the controversy over treatment of non-tariff barriers. In discussing the draft "standstill" resolution, Peru and Argentina insisted upon complete elimination of non-tariff barriers within the region as a pre-condition for the proposed standstill. This position was primarily directed against Mexico, which relies upon import licensing to protect its industries. When Argentina finally accepted the Mexican position that non-tariff barriers should be eliminated <u>pari passu</u> with other barriers rather than immediately, this left Peru alone. During the preparation for the Summit, Peru had also taken this position at Buenos Aires and later at Montevideo (where its reservation is reported in Appendix 3 of the Final Report of the Special Committee of Presidential Representatives.) In any event, Paraguay's veto of the "standstill" resolution left this difficult question unresolved.

5. Reportedly a small closed group discussed ways of financing integration adjustment costs. We are not sure what took place in this meeting; one report, however, indicates that Mexico and Venezuela favored the establishment of an integration fund without any U.S. contribution and expressed doubt that the fund should provide balance of payments assistance, as anticipated in the Summit Action Program. Other reports indicate that Argentina expressed an interest in a U. S. contribution to the fund but on terms that would limit U. S. control over the funds. This would imply that the

Latin Americans would rely primarily upon their own resources and supplement them with external funds obtained from several sources. Brazil apparently is thinking along similar lines; it regards Latin American control, direction, and management as fundamental features of any fund. The fund might be operated by the IDB, but it would be managed by a separate Board of Governors controlled by Latin Americans.

C. Results

1. As a result of the above disputes, the meeting agreed only on the following measures:

(a) Creation of the LAFTA-CACM Coordinating Committee to speed the process of creating a Latin American Common Market through convergence of the CACM with LAFTA (the U.S. is expected to have Observer status with this group);

(b) Norms for the establishment of subregional groups;

(c) Approval of "bases" for the establishment of an Andean Common Market;

(d) Special assistance to Bolivia;

(e) Creation of a Secretariat unit to assist the least developed countries;

(f) Amendments to the protocol for settlement of trade disputes; and

(g) Temporary (only through 1972) reclassification of Uruguay as a least developed country.

2. The Final Act of the Meeting instructed the PEC to continue its studies on the unresolved issues and, further, to prepare a report on personnel and financial requirements for carrying out these studies. The resolution on financing the studies mentions obtaining additional funds from the Contracting Parties and international financial bodies.

II. Joint LAFTA-CACM Meeting

1. After the LAFTA Foreign Ministers Meeting, they met jointly with the CACM Foreign Ministers on September 1 and 2 primarily to give final approval to the resolution establishing the Joint Coordinating Committee, mentioned above. In addition, they agreed that the Committee should hold its first meeting in the second quarter of 1968 and that it should treat the following as priority matters:

(a) Clarification of nature, scope and timing of the process of convergence between the two groups;

(b) Possibility of subregional groups between members of the two organizations;

(c) Possibility of opening industrial complementation agreements to all Latin American countries;

(d) Establishment of tariff preferences in accordance with the degree of development for Latin American countries;

(e) Standstill on import restrictions for members of both groups.

2. Upon receipt of an invitation in the name of the LAFTA-CACM Foreign Ministers, the U. S. attended this meeting as an Observer 1/ and attempted to have the resolution amended to make clear that the Coordinating Committee could invite the U.S. to its meetings. However, the Central Americans lacked authority to accept changes in the text, so that the U. S. had to be satisfied with assurances that a way would be found to invite it. While this question has not been finally settled, it may be that the invitation for us to observe the Asuncion meeting may serve as a precedent for the future. Moreover, the final act of the meeting has not been issued; we understand that it may include a statement to the effect that the Foreign Ministers recommended that interested non-Latin American countries be invited to attend Coordinating Committee meetings as Observers.

1/ The Colombian Government had attempted to have the U. S. invited to both meetings, but the Brazilians and Argentines opposed.

III. Post-Mortem

1. To assess the prospects so as to be able to plan our tactics accordingly, we asked our Embassies to discuss integration issues with Latin American Government representatives, with particular attention to the timing of the next LAFTA Ministerial meeting, steps that might be taken in preparation for the meeting, and their thoughts regarding the effect of the Asuncion meeting upon LAFTA's ability to meet the timetable contemplated in the Summit Action Program. The following represents a synthesis of their reports as well as those of our Observers in Asuncion and information obtained in Washington from international civil servants.

2. The general conclusion seemed to be that the meeting was neither a success nor a failure, had some significant substantive results, but represented only the beginning of a long and difficult negotiation. The most encouraging aspect of the meeting was the surprising degree of acceptance of the concept of automatic tariff cuts and other measures for intra-regional trade liberalization. Mexico in fact spoke of the guidelines for trade liberalization as having been agreed but not formally accepted due to the Paraguayan veto. In this respect, the Asuncion meeting was a "step" in the Latin American integration process.

3. At the same time, the meeting highlighted some of the difficult and complex administrative, technical, and political problems that have to be overcome in the movement to a LACM.

4. In the first place, most participants agreed that the technical preparations for the meeting had been inadequate, with the result that the Foreign Ministers were presented with too many unresolved issues. The LAFTA Secretariat had prepared some papers, and the PEC had reached agreed positions on some of the problems. The Foreign Ministers, however, were not able to limit action to the resolved issues, and other related issues surfaced to prevent agreement.

5. It is not surprising, however, that technical preparations were generally inadequate. The LAFTA Secretariat consists of only 22 professionals; most government representatives on the PEC were

appointed when LAFTA was concerned with items much more routine than the establishment of a LACM. Obviously both Secretariat and PEC will have to be strengthened if LAFTA is to move ahead. The PEC has been instructed to prepare a report on LAFTA's personnel and financial requirements. To support their representatives on the PEC, it will probably be necessary for Governments to assign additional technicians to Montevideo. It will also be essential for Governments to provide continuous policy guidance to their representatives. Only in this way can the agreements be reached at the PEC level that will prepare the way for another Ministerial meeting.

6. Most countries apparently believe that the next Foreign Ministers meeting will be held in Montevideo in the first half of 1968, although they caution that the necessary technical agreements must first be reached. The main role of the Foreign Ministers Meeting should be to ratify positions already hammered out at the technical level.

7. The Andean countries, of course, were pleased that they obtained approval in principle for their proposed Andean Common Market. The United States supports this proposed subregional group as a step toward the larger LACM. The Andean countries themselves believe their subregional group necessary to allow them to compete with the big countries in a LACM. Furthermore, their proposed guidelines definitely envisage the Andean Common Market as fitting within the general integration movement.

8. Nevertheless, LAFTA's approval of the subregional group concept makes it more essential that LAFTA reach agreement on a LACM, if the continent is not to splinter into a number of subgroups. Paradoxically, at least initially, the Andean effort might make such agreement more difficult. Several of the Andean countries have been the strongest supporters of integration; there is the danger that their energies will now be directed primarily to their own problems. It is, accordingly, encouraging that both Argentina 1/ and Brazil took

1/ Many suspect that there was a large element of bluff in the remarkably advanced position taken by the Argentines, i.e., they fully expected the others would not be able to agree. The effects are nevertheless quite positive, since they are now on record and have publicly congratulated themselves regarding a position they will find it difficult to renege on in the future.

a positive approach to integration at the Asuncion meeting, since they may have to carry more of the burden in LAFTA, while Chile and Colombia are absorbed with the Andean Group.

9. There was some tendency to blame Peru or Paraguay for the failure of the meeting, but most participants tended to emphasize substantive difficulties. Furthermore, Paraguay was obviously supported by the other relatively less developed countries; reportedly several other countries had their own problems and were relieved that Peru bore the onus for blocking agreement. Mexico expressed the view that it could have reached agreement with Peru on non-tariff barriers, if Paraguay had not raised the more difficult problem of preferential treatment for the least developed countries.

10. Further study of the effects of non-tariff barriers upon trade within the region seems necessary. At first glance, Peru's position on non-tariff barriers seems extreme and somewhat illogical. The proposed "standstill" resolution applies equally to tariffs and non-tariff barriers and would prohibit increases in either. Some countries, particularly Mexico, rely for protection primarily upon non-tariff barriers; others, such as Peru, upon tariffs. Mexico could not be expected to dismantle its protective system merely to obtain a commitment from its LAFTA trading partners not to raise their tariffs. Mexico is, however, prepared to eliminate import licensing in intra-region trade pari passu with the elimination of tariffs. Peru has much to gain by obtaining access to markets that now rely upon import licensing to protect their industries from foreign competition and in many cases prohibit such competition. With free trade Peru would have access on the same conditions as domestic producers and be similarly protected from outside suppliers. On the other hand, Peru cannot offer this advantage to other regional producers, since its tariffs are relatively low and it does not license imports. Peru, accordingly, would seem to have more to gain by the elimination of intra-regional trade barriers than many other Latin American countries, although it obviously cannot expect to obtain these benefits completely at one fell swoop on January 1, 1968.

11. It is clear, however, that the demands of the least developed countries could represent a major obstacle to Latin American integration since the Montevideo Treaty makes it possible for them to veto

any protocol designed to modify the Treaty. It is not easy to prove that they have been hurt by integration to date, nor to prove that they have been helped. They point to the fact that new industries have not been located in their countries as a result of the preferential treatment they have received to date. They clearly believe that more needs to be done for them, particularly to assure that they get their share of new industries. Finding a solution to their demands acceptable to the other countries may be the crux to breaking the present impasse.

12. Agriculture is another crucial area that has hardly been touched. Nevertheless, it is generally believed that some special treatment for intra-regional trade in agriculture products will be necessary.

13. The problems thus are complex and require many difficult decisions. The Latins themselves have to resolve these problems. Any U.S. advice would have to be tactful. (As we have seen, some Latin Americans believe that they should not seek a U.S. contribution to their integration fund to avoid having to give the U.S. a voice in the operations of the Fund.) Argentina has pointed out that outside pressure at this time would probably be counter-productive and that offers of financial assistance would be irrelevant. This view would seem to make sense unless the financial assistance can be specifically tailored to help solve the particular problems that are holding up decisions. Accordingly, offers of financial assistance might best be directed to the financing of the technical studies that would help resolve problems such as the non-tariff barrier one or to some type of special assistance to the least developed countries that would help eliminate their fears.

KATZENBACH,ACTING