

UNITED STATES TARIFF COMMISSION

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**ECONOMIC CONTROLS  
AND  
COMMERCIAL POLICY  
IN  
COLOMBIA**

One of a Series of Reports on  
Economic Controls and Commercial Policy  
in the American Republics .



Washington  
1945

UNITED STATES TARIFF COMMISSION

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FOREWORD

This is one of a series of reports on Economic Controls and Commercial Policies in the Latin American Republics.

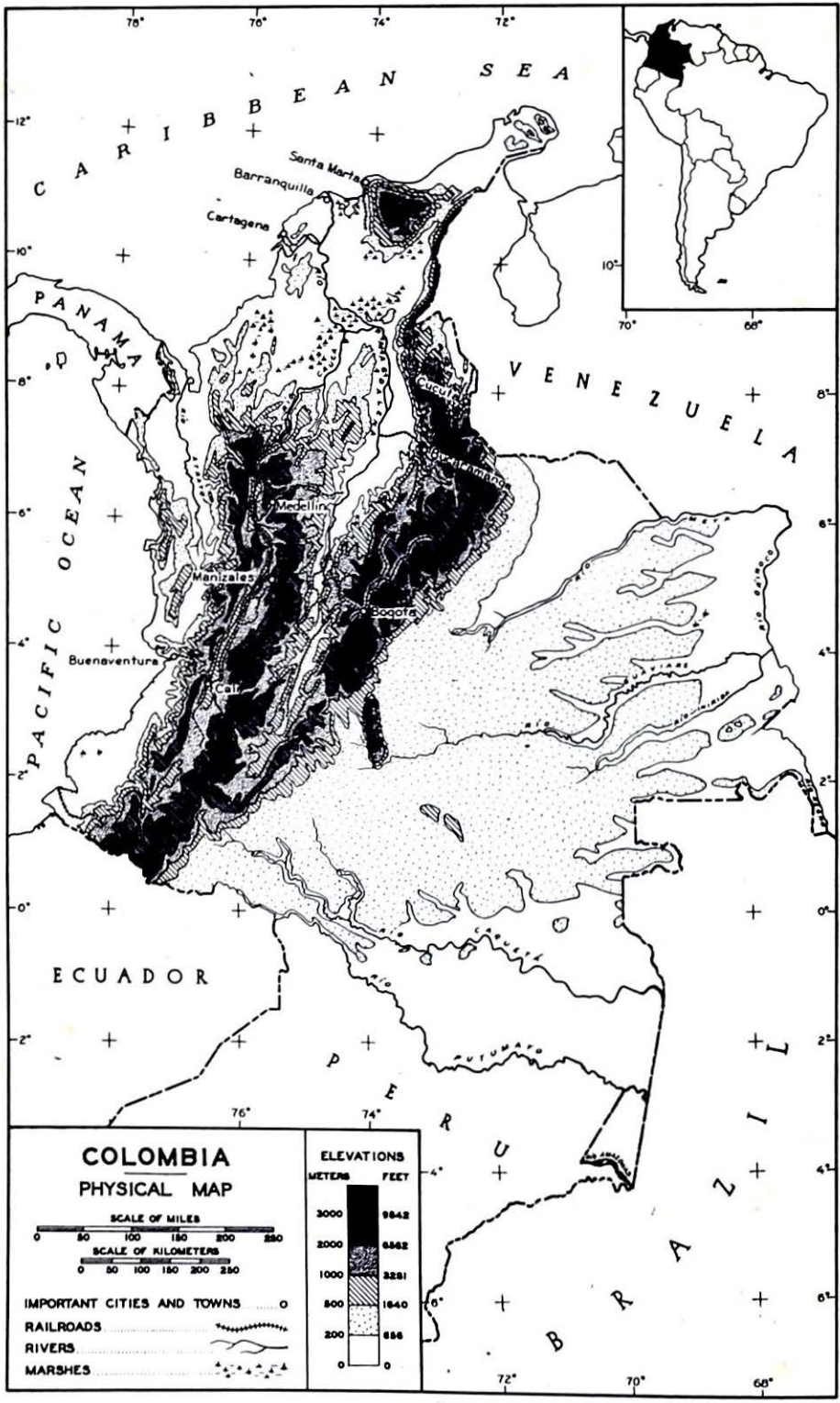
Other work in preparation by the Commission relating to trade problems of the American Republics includes a series of reports under each of the following headings: Mining and Manufacturing Industries; Agricultural, Pastoral, and Forest Industries; and Recent Developments in Foreign Trade.

In the preparation of this report the Commission had the services of David Lynch, Allyn C. Loosley, and other members of its staff.

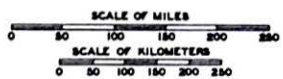
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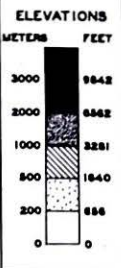
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**COLOMBIA  
PHYSICAL MAP**



- IMPORTANT CITIES AND TOWNS ○
- RAILROADS ————
- RIVERS ————
- MARSHES ————



## ECONOMIC CONTROLS AND COMMERCIAL POLICY IN COLOMBIA

### Introduction

#### Colombia—a summary description.

Situated in the northwestern part of South America, the Republic of Colombia <sup>1/</sup> is the only country on that continent with a coast line of both the Atlantic and Pacific Oceans. Its area, approximately 450,000 square miles, is about equivalent to that of Arizona, New Mexico, Nevada, and Colorado combined. Colombia is bordered by the Pacific Ocean, Panama, and the Caribbean Sea on the north, by Venezuela and Brazil on the east, and by Ecuador and Peru on the south.

The principal topographical features of Colombia are the three great parallel cordilleras of the Andes, which have elevations as high as 18,000 feet. These ranges, which traverse the western part of the country from north to south, dominate the entire economic life of the nation, making transportation from east to west extremely difficult and dividing the country into regions which differ from one another in climate, resources, racial characteristics, and economic development. In the intervening valleys, the Magdalena River and its tributaries flow the length of the country, affording an important means of communication. The greater part of the population lives in the valleys, which broaden as they extend north. To the east of the Andean ranges is a vast region in which the tributaries of the Orinoco flow eastward and those of the Amazon south-eastward. The llanos, constituting the northern portion of this region, consist of natural pasture lands; the selvas, in the southern part, are forested areas. Because of the diverse topography, the climate of Colombia varies considerably, ranging from tropical in the coastal plains, the llanos, and the selvas to temperate and cold in the higher altitudes.

According to the census of 1918, the population of Colombia was 5,855,000. In 1942 the number of inhabitants was estimated to be 9,523,000; the density is about 21 persons to the square mile. Most of the inhabitants, however, live in areas with elevations of more than 4,000 feet; nearly one-third of the population is urban. Bogotá, the capital and principal city, had a population of 367,000 in 1940. In that year only five other cities—Medellín (185,000), Barranquilla (170,000), Cali (113,000), Manizales (94,000), and Cartagena (91,000)—had populations of more than 75,000.

The people of Colombia are chiefly of European extraction (about two-tenths) and mixed races (about seven-tenths); the remainder are pure-blooded Indians and Negroes. Most of the Negroes live in the coastal plains and in the tropical valleys. There has been little immigration into Colombia since the beginning of the nineteenth century; foreigners in the country in 1938 numbered about 56,600. The language of the country is Spanish.

#### The Colombian economy. <sup>2/</sup>

The soil and climate of Colombia are especially favorable for agriculture which is the country's principal industry. More than one-third

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<sup>1/</sup> Officially known as República de Colombia.

<sup>2/</sup> This brief description of the Colombian economy relates principally to the period before the outbreak of the war.

of the entire population is actively engaged in agriculture, and probably four-fifths of the people are dependent directly upon tilling the soil. Because of the nature of the terrain, however, only a small portion of the country actually is under cultivation. The important crops are coffee, sugar, bananas, cacao, cotton, tobacco, rice, and indigo. Other products grown include oranges, pineapples, potatoes, and a wide range of tropical fruits and vegetables. Wheat, barley, and corn are cultivated in the Andean regions.

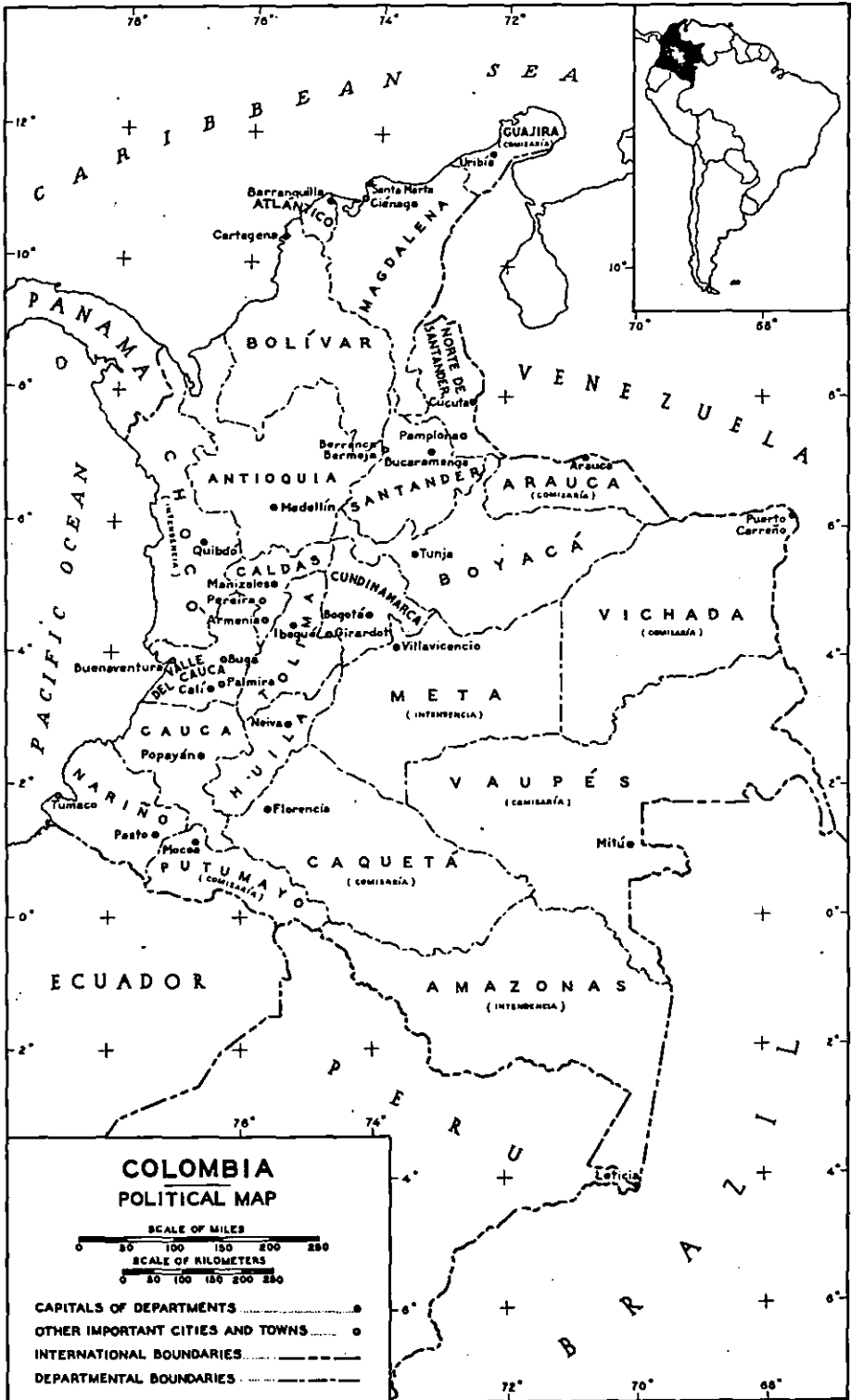
Coffee, the leading crop and the principal export, is grown chiefly in the Medellín district and in the Cauca Valley. Colombia ranks next to Brazil as an exporter of coffee, and is the world's leading producer and exporter of the mild variety. The banana industry is centered in the Santa Marta region of the Department of Magdalena, on the Caribbean coast. Production of cotton, which has been increasing in recent years, takes place in the Departments of Magdalena, Bolívar, Antioquia, Norte de Santander, and Santander, all in the northern part of the country. Sugarcane is grown principally in the Departments of Cundinamarca and Valle del Cauca. Tobacco is cultivated chiefly in the Ambalema district, the Departments of Santander, and the coastal lowlands.

Large areas of Colombia are suitable for grazing, and cattle raising has long been one of the country's principal industries. Pastoral activities are carried on in the coastal plain, the interior valleys, and the plateau regions. The llanos of eastern Colombia are an important potential grazing area, but, because of the lack of adequate transportation facilities, they are as yet undeveloped.

Colombian forests are extensive and the range of forest products is great. Besides oak, pine, and walnut, the forests contain mahogany, rubber, chicle, balsam, copaiba, dyewoods, and a variety of medicinal and other plants, including sarsaparilla, ipecacuanha, vanilla, cinchona, gum copal, divi-divi, the castor bean, and the tonka bean. Tagua, or vegetable ivory, used in making high-grade buttons, is an important product, large quantities being exported.

Colombia possesses extensive mineral resources, the most important of which are petroleum, gold, and platinum. The country ranks as the third most important producer of petroleum in Latin America, being exceeded only by Venezuela and Mexico. The output in recent years, most of which is exported, has averaged more than 20 million barrels annually; in 1939 it constituted about 7 percent of the total Latin American output. In recent years the production of gold has become increasingly important. Exports of the metal, which constitute a considerable part of Colombian total exports, were valued at 18 million dollars in 1937 and at 25 million in 1941. Besides being one of the few platinum-producing countries in the world, Colombia is also the principal source of emeralds. Reserves of coal and iron ore are extensive, but inaccessibility of most of the deposits has retarded their development. Other minerals occurring in the country include silver, copper, lead, antimony, mercury, manganese, mica, sulfur, quartz, natural phosphates, limestone, and salt, but most of these are not worked on a commercial scale.

Colombian manufacturing establishments produce a wide range of products, most of which may be classified as consumer goods. There is little heavy industry in the country. The principal products manufactured include textiles, cigars and cigarettes, beer, alcoholic beverages, flour and flour pastes, sugar, chocolate, metal manufactures, cement and cement products, chemical and pharmaceutical products, vegetable oils, shoes,



soft drinks, leather goods, soap, matches, and glassware. Recently established industries produce rayon fabrics, lard, canned fruits, canned fish, paper, and cardboard.

#### Pre-war foreign trade.

Before the war Colombia, as a foreign-trading nation, ranked seventh among the republics of Latin America and fifth among the countries of South America. In 1938 its exports (including gold to the value of 18.8 million pesos), amounted to 163 million pesos (91 million dollars), <sup>1/</sup> constituted about 5 percent of those from the 20 Latin American countries combined, and somewhat more than 6 percent of those of the 10 South American nations. Imports into Colombia in the same year amounted to 159 million pesos (89 million dollars), or 6 percent of aggregate Latin American imports, and more than 7 percent of total imports into South America. Exports in 1938 were equal to about \$12.20 per capita and imports to about \$10.20 per capita.

Exports from Colombia exceeded imports in each year of the period 1930-39; in the period 1930-36 the official statistics showed an excess of exports each year ranging from 20 million (1935) to 48 million dollars (1930). After 1936, however, when imports were recorded on a c.i.f. instead of an f.o.b. basis, the excess of exports was very much smaller.

Colombian exports consist almost entirely of agricultural products (principally coffee and bananas), and mineral products (chiefly petroleum, gold, and platinum). Three-fifths or more usually consist of coffee, and one-fifth of crude petroleum. Exports of manufactured products are negligible. Historically, the United States has been by far the principal purchaser of Colombian products; in 1938 the country's principal markets, with the share of the total value of exports purchased by each, were the United States, 53 percent; Germany, 15 percent; the Netherlands West Indies, 12 percent; and Canada, 10 percent.

In the decade 1929-38 the most notable features of the Colombian import trade were the increasing importance of machinery and the decline in imports of textile products; these trends reflected the growing industry of the country. Despite this growth, however, practically all imports consist of manufactured products; in 1938, 80 percent of the total consisted of finished manufactures, and 12 percent of semifinished products. The leading groups of imports customarily are machinery, textile products, metal manufactures, chemical products, and transportation equipment (largely automobiles, trucks, and other vehicles). On the basis of value, Colombian imports in 1938 came principally from the United States (51 percent), Germany (17 percent), and the United Kingdom (12 percent).

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<sup>1/</sup> Excluding gold, exports in 1938 were valued at 144 million pesos (81 million dollars). Inasmuch as gold represents the product of Colombian mines and not the movement of monetary reserves, exports of gold, from the standpoint of Colombia, are similar in economic significance to those of other minerals.



## General Character of Economic Controls and Commercial Policy

The role of the Government in the economic life of the nation has been less extensive in Colombia than in many Latin American countries; nevertheless numerous controls have been imposed, both over the internal economy and foreign trade. Governmental measures affecting foreign trade have been utilized for a variety of purposes: To obtain revenues for the national Government, to foster and protect domestic agriculture and industry, to promote industrialization, to husband foreign exchange, to promote exports, to provide wartime rationing of scarce imports, and to stabilize the coffee industry. Internal controls have been directed to related objectives, among which are the development of agricultural resources, the promotion of industrialization, and, particularly during wartime, the stimulation of the production of strategic commodities, the rationing of essential industrial materials, the control of prices, and the stabilization of the domestic economy.

The customs tariff on imports has been employed both as a source of Government income and as an instrument for the protection of industry and agriculture. Export taxes continue to make a modest contribution to the revenues of Colombia; these taxes fall principally on bananas and coffee. There are, in addition to regular tariff duties, a number of minor taxes on imports, most of which are designed to raise revenue for particular purposes. Exchange control was inaugurated in 1931; since that time, all exchange transactions have been subject to the supervision of the Exchange and Export Control Board. Licenses are required for both exports and imports, and all exchange dealings are subject to the control of the Bank of the Republic. All imports are classified into four categories with exchange preferences extended accordingly. Global quotas were established for imports of specified agricultural commodities in 1942. To facilitate the program of exchange control, compensation and clearing agreements were negotiated with a number of countries. The significance of these arrangements, has declined however, with the new trade relations and problems created by the war. In 1940, Colombia became a signatory to the Inter-American Coffee Agreement, which established export quotas for all coffee-producing areas in Latin America. Since the outbreak of war, specific measures have been adopted to mobilize the domestic economy in order to meet the needs of hemispheric defense; these include reexport control and regulation of the exportation of domestically produced strategic materials.

Other measures have extended control to various sections of the domestic economy. These have included Government monopolies operated primarily for revenue, programs undertaken to promote the coffee industry, and, in more recent years, policies inaugurated to maintain stability under the impact of wartime dislocations.

Since 1940, the officially sponsored National Federation of Coffee Growers has played an increasing role in regulating the coffee industry; revenue and capital to finance the Federation's operations have come from the Government. There are four important Government monopolies of trade; two, in operation before the war, control the sale of salt and liquor, and two, initiated since the outbreak of war, control the purchase of rubber and platinum. Several measures introduced in response to war conditions have inaugurated new controls: The Executive was given extensive power to initiate changes necessary to preserve economic stability under wartime conditions; the National Superintendency of Importations was empowered to ration the distribution, and to control the

prices, of essential imports; and a concerted program was inaugurated to develop Colombia's industrial potentialities. For example, the Industrial Development Institute was established to investigate, promote, and finance new industry. Similar aids have been made available to agriculture.

### Economic Controls and Commercial Policy Before 1940

Economic controls in Colombia before the war were concerned primarily with foreign trade and were imposed for one or more of three purposes: To raise revenue, to protect trade, or to allocate exchange balances. The very important coffee industry, more than any other segment of the economy, received special assistance from the Government.

#### The tariff.

The basic law governing Colombian tariff policy was an act of 1931.<sup>1/</sup> Before that date, the tariff was used principally for revenue, but subsequently it has been employed to stimulate agriculture and certain industrial enterprises. The tariff, on imports, however, is still an important source of national revenue; during the decade ended 1940, it accounted for approximately one-third of the national revenues from taxation, compared with one-half in the years before 1941.

Most of the tariff revisions between 1931 and 1940 were designed to extend protection to domestic industries; they covered a wide range of articles including foodstuffs, other agricultural commodities, and manufactured products. The world-wide movement toward increased trade restrictions and control during the 1920's, which reached a climax in the years following 1930, was reflected in Colombia in a variety of ways. One was the drive for protective tariffs. Under the pressure of manufacturers and other domestic producers, a series of tariff increases designedly protective were established in January, May, and September, 1931. At the same time, a minor number of decreases also became effective. The increases initiated in May were drafted especially to extend protection to agriculture, but provided as well for the stimulation of domestic production of numerous manufactured articles including shoes, wearing apparel, textiles, lumber, paper, glass bottles, and soaps. An Executive decree<sup>2/</sup> of September 27, 1931, made substantial upward revisions of the rates already in effect. This decree, which applied to a long list of commodities, was intended to achieve two purposes: To restrict the outflow of gold by reducing the volume of imports, and to lend further support to agriculture and to industrial production. The effective tariff rates on most foods, many articles of wearing apparel, motion-picture apparatus, and vehicles were doubled. Increases on two extensive lists of other products were by 25 and 50 percent of the former rates. The high rates of 1931 continued in effect with minor modifications throughout the period preceding the war.

Before May 20, 1936, the date on which the trade agreement between the United States and Colombia became effective, the Colombian tariff was essentially of the single-column type. The trade agreement provided for reductions of Colombia's basic rates on many items. These concessions were extended to third countries only on the basis of reciprocal unconditional most-favored-nation treatment.<sup>3/</sup>

<sup>1/</sup> Law No. 62, May 14, 1931, Diario Oficial No. 21695, May 22, 1931; Law No. 79 of June 19, 1931, Diario Oficial, July 4, 1931, is entitled the "Organic Customs Law" and provides for the administration of the customs service.

<sup>2/</sup> Decree No. 1715, September 27, 1931. This decree was promulgated pursuant to the grant of extraordinary powers permitting the Executive, for a period of 1 year, to initiate measures to reduce imports. (Law 99, September 24, 1931.)

<sup>3/</sup> United States Tariff Commission, The Foreign Trade of Latin America, part II, vol. 1, pp. 141-142, 1942; see also, United States Tariff Commission, Extent of Equal Tariff Treatment in Foreign Countries, pp. 83-84, 1937.

A law of December 9, 1931, provided for the application of penalty tariff rates on goods coming from countries not extending most-favored-nation treatment to Colombia; these duties were not to be more than one-fourth higher than the existing basic rates.<sup>1/</sup> The first application of maximum rates, however, was not decreed until July 23, 1936, when they were made applicable to imports from Thailand (Siam).

The Colombian tariff is high, and at present is a triple-column tariff policy, the operation of which is determined by trade balances. The maximum column (basic rates increased by one-fourth) is intended for countries which buy little from Colombia, or which specifically obstruct entry of Colombian products by quotas, exchange restrictions, or high customs duties. The basic or intermediate column applies to countries which purchase substantial quantities of Colombian products, and which place no special restrictions on such importations or payments therefor. The minimum column (conventional reductions below the basic rates) is extended to third countries only if they are entitled thereto by unconditional most-favored-nation agreements. May 1931 became effective by thirds at intervals of 30, 60, and 90 days. This principle of effecting changes by installments has also been applied in the case of tariff reductions. In 1931 those decreases which were made were applied by tenths—the first after 90 days and the remainder at 30-day intervals thereafter.

Colombian tariff rates are almost exclusively specific, and all but a few are levied on weight. The principal articles affected by ad valorem rates are vehicles, including automobiles and trucks.

The Executive has limited autonomous tariff powers; he has been vested by the Congress with the authority to impose penalty duties. As already stated, a law of December 9, 1931,<sup>1/</sup> authorized a second schedule of import duties, 25 percent higher than the prevailing rates, to be applied to the products of those countries which in the judgment of the Executive do not adequately facilitate the importation of Colombian products.

Still another administrative control over the tariff, not, however, lodged with the Executive, is the power to incorporate into the tariff schedule commodities not specifically provided for in the law. Since December 1931, this responsibility has been vested in the Supreme Customs Court.<sup>2/</sup> In addition to its appellate responsibilities, this tribunal, on its own initiative or upon application by an interested party, may fix the duties applicable to merchandise not specifically designated in the tariff, but may not transfer items from the free to the dutiable list. This authority is not limited to the assimilation of merchandise into classifications already provided in the tariff, but at times may be exercised to establish new classifications and rates. The rates of duty thus fixed by the court have the force of law so long as they are not annulled by legislative action.

#### Additional imposts on imports.

In addition to the duties levied in the customs tariff, several laws provide for other imposts to be levied against imports, including a canalization tax, municipal taxes, a surcharge on imports by parcel post, and consular fees. The canalization tax, which became effective in 1931,<sup>3/</sup> applies

<sup>1/</sup> Law No. 135, December 9, 1931, Diario Oficial, December 16, 1931.

<sup>2/</sup> Law No. 79, June 13, 1931; and Decree No. 2274, December 18, 1931.

<sup>3/</sup> Decree No. 945, July 15, 1930, modified by Decree Law No. 1031, June 19, 1931.

only to merchandise imported through customs houses on the north coast of Colombia for transshipment to the interior, and is levied for the purpose of securing revenue for the improvement of navigation facilities on the Magdalena River. It provides for a levy of 1.50 pesos per metric ton (about \$1.00 per long ton)<sup>1/</sup> on foodstuffs and prime necessities imported for transshipment to the interior, 3 pesos per metric ton on raw materials and articles indispensable to industry, 6 pesos on ordinary commodities of commerce and nonluxuries, and 12 pesos on dispensable or luxury articles.

The law of 1931<sup>2/</sup> provides for an additional charge if imported goods enter by parcel post; this surcharge amounts to 15 percent of the basic duties. Municipal taxes are levied by different municipalities in Colombia on various classes of imports; these taxes vary according to the municipality and the commodity. There are no consular fees, as such, but in lieu of them, exporters sending commodities to Colombia are required to pay a series of stamp fees applicable to the various shipping documents. In addition to the charges enumerated, Colombia imposes also a number of tonnage taxes on vessels entering its ports, for the purpose of financing various aids to navigation.

#### Export duties.

During the decade before 1940, export taxes played a minor role in the public finances of Colombia, accounting for only about 1 percent of the national revenue. Export duties have been levied primarily on coffee, the chief export, and (since 1931) on bananas, which rank fourth in value of exports. Other taxes have been imposed on tagua nuts, and platinum. Similarly, Colombia has imposed a severance tax on forest products at the time of exportation. The export tax on coffee was 10 centavos per bag of 60 kilograms<sup>3/</sup> before 1937; in May of that year,<sup>4/</sup> it was increased to 25 centavos per bag of 70 kilograms (about 1/10¢ per lb.). The export tax on bananas provided for in a law of 1931,<sup>5/</sup> is 3 centavos per bunch. The levies on exports of tagua nuts and platinum are, respectively, 3 and 5 percent ad valorem.

#### The system of exchange control.

Exchange control in the inter-war period, not only in Colombia but throughout the world, was largely a product of the economic crisis of 1929. The disruptions of foreign trade created by the depression and the world-wide financial insecurity, world-wide in its scope, induced many countries to resort to exchange-control measures in order to avoid, if possible, currency depreciation, debt default, and further deterioration of the domestic economy. Exchange control during this period was first inaugurated in Europe in 1931; since then numerous countries have adopted such programs. Colombia was the third of the Latin American Republics to take this step.

Exchange control<sup>6/</sup> has been in effect in Colombia since September 24, 1931,<sup>7/</sup> when the regulation of all remittances and funds in any form was delegated to the Exchange and Export Control Board (Oficina de Control de Cambios

<sup>1/</sup> The metric ton is 2204.6 pounds; the long ton, 2,240 pounds.

<sup>2/</sup> Law No. 62, May 14, 1931, Diario Oficial; Law No. 2224, December 18, 1931.

<sup>3/</sup> Law No. 76, 1927.

<sup>4/</sup> Law No. 41, effective September 1, 1937.

<sup>5/</sup> Law No. 30 and Decree No. 2223, 1931.

<sup>6/</sup> United States Tariff Commission, The Foreign Trade of Latin America, part II, vol. 1, pp. 219-220, 1942.

<sup>7/</sup> Law No. 99, 1931, authorized the President to suspend the free movement of gold and control exchange operations; Decree No. 1682, September 24, 1931, established exchange control; Decree No. 1871, October 21, 1931, created the Exchange Control Board; and Decree Nos. 2091 and 2092, November 1931, modified the above powers and procedures.

y Exportaciones). In addition to the control of exchange transactions, the country's gold production and export trade in gold also were placed under the same authority. Since then, exchange control has been applied with varying degrees of stringency.

The exchange regulations have been modified from time to time. In general, they have required delivery to the Central Bank, at the official rate, of a specified percentage of the exchange arising out of exports of certain commodities, the remainder being available for disposal in the free market to holders of exchange permits. The Control Board attempted to maintain a balance in the international transactions of the country. Exchange balances were usually allotted each week by the granting of permits for the purchase of exchange in amounts equal only to the foreign exchange delivered to the bank by exporters and by producers of gold. Applicants for exchange generally were required to make a prior deposit equal to a stated percentage of the exchange requested in order to check speculative transactions and to insure that exchange would be used as authorized.

Importers were required to obtain import licenses. The Commission adhered generally to a policy of giving preference to certain types of transactions. Luxury imports were frequently prohibited, and exchange was made available only for "necessary economic ends", which included imports not on the prohibited list and the servicing of the foreign debt. The granting of the license did not carry with it a guarantee that the needed exchange would be available, but importers generally experienced little difficulty in this connection.

The Stabilization Fund.—An agency destined after 1940 to become an influential factor in the exchange-control system was the Stabilization Fund created by decree in 1933 and approved by law in 1935.<sup>1/</sup> The resources of the Fund were originally created by a contribution of 1 million pesos by the Government from the profits derived from monetary devaluation; additional capital came from annual contributions representing a percentage of the profits of the Bank of the Republic.<sup>2/</sup> The Fund was empowered to buy and sell State bonds, with the object of stabilizing their prices and of influencing the money market in any manner which might be deemed in the national interest.<sup>3/</sup> The operations of the Fund have been subject to the control of the directors of the Bank.

Import quotas.—No comprehensive system of import quota controls seems to have been authorized or inaugurated in Colombia. The Exchange and Export Control Board, however, has on several occasions used its authority to allocate exchange on a commodity basis and to differentiate among commodities in the assignment of exchange rates. On October 1, 1936, the Government instituted a system of restricted motorcar imports based on quotas for the various producing countries; in 1938, quotas were prescribed for the importation of woolen and cotton textiles. In the same year, pursuant to a law of 1936,<sup>4/</sup> designed to stimulate domestic production of copra, its importation was restricted to an annual quota.<sup>5/</sup>

#### Commercial treaties and agreements.

Colombia is a party to a number of commercial treaties and agreements in which reciprocal most-favored-nation treatment is guaranteed. Many of these date from before the economic crisis beginning in 1929. Among the

<sup>1/</sup> Law No. 7, 1935.

<sup>2/</sup> Law No. 167 of 1938 increased the Government contribution to 3 million pesos.

<sup>3/</sup> Seventh Annual Report of the Bank of The Republic, June 30, 1930, pp. 22-23.

<sup>4/</sup> Article 5, Law 94, 1936.

<sup>5/</sup> Law No. 199, November 30, 1938, Diario Oficial, No. 23939, December 1, 1938. This quota was modified in 1939 by Executive Resolution No. 1515, October 7, 1939, Diario Oficial, No. 24192, October 11, 1939.

nations with which such agreements were in effect at the close of 1939 were Belgium, Bolivia, Brazil, Chile, Costa Rica, Czechoslovakia, France, Hungary, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States. <sup>1/</sup> A separate agreement with Peru, negotiated in 1938, provides for a customs union between the two countries covering the trade across their common border along the Amazon.

A significant step in the commercial relations between Colombia and the United States was the signing of a trade agreement, effective May 20, 1936. This agreement provided for reciprocal tariff concessions on many items and for reciprocal most-favored-nation customs treatment.

Compensation and clearing agreements.—Closely related to and supplementing the system of exchange control have been the compensation and clearing agreements concluded between Colombia and other countries. These agreements constitute bilateral attempts to balance the trade between the contracting nations, in order to facilitate export and import transactions without the necessity of transferring funds. The effect, of course, is to channelize trade between the signatory nations and to subject all commerce between them to control. These measures were adopted in part to preserve the stability of the currency system, and in part because Colombia, like many other raw-material-producing nations, was forced into bilateralism to secure or maintain markets for its export products.

During the period 1934-38, Colombia concluded formal compensation or clearing agreements with Italy <sup>2/</sup> (1934, 1936, 1938), Germany <sup>3/</sup> (1935, 1937, 1938), Czechoslovakia (1936, 1937), Denmark (1937), and Norway (1938). Trade with a number of other countries became compensatory in character, primarily because of action taken by the Exchange and Export Control Board. Such was the situation which prevailed in the trade with Spain, Thailand (Siam), the Soviet Union, China, Austria, and Czechoslovakia.

#### National aids to agriculture.

Colombia is essentially an agricultural country; consequently, a number of the more prominent measures of Government control have related to agriculture. The protective tariff increases of 1931 were extended to numerous agricultural products. In 1938, the National Cotton Board was created, and imports of raw cotton and cotton yarns were made subject to the approval of that body; the policy invoked was to restrict foreign purchases to such quantities as could not be produced domestically. It was at this time that the quota for cotton imports was established. In addition, the Cotton Board was given the responsibility of studying local production and industrial needs

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<sup>1/</sup> United States Tariff Commission, Reference Manual of Latin American Commercial Treaties, 1940.

<sup>2/</sup> A clearing agreement between Colombia and Italy was concluded in 1934, but was terminated in 1935. In 1936, a new clearing agreement was signed, and on April 28, 1938, an agreement involving import quotas and clearing arrangements was concluded. In 1929, Colombian imports from Italy were greatly in excess of exports to that country; in 1932, there was a small export balance in favor of Colombia. Colombian exports to Italy in 1936 and 1937 were double imports from Italy, but in 1938 imports and exports were almost equal.

<sup>3/</sup> Trade between Colombia and Germany was placed on an informal compensation basis in December 1934. From November 1935 to November 1936, relations were governed by an agreement of November 1935, which contemplated a balanced trade between the two countries. A balance adverse to Colombia resulted, however, and on November 10, 1936, the Exchange Control Board virtually suspended imports from Germany by limiting permits for such imports to raw materials and commodities urgently needed for Colombian industry. On June 1, 1937, a new agreement provided for a bilateral balancing of Colombian-German trade.

in order to assure adequate supplies of cotton textiles for the domestic market.

The Agricultural Credit Bank.—From time to time, numerous supplemental aids have been extended to agriculture. These have included Government-sponsored programs to encourage the cultivation of cotton, sugar, rice, and cocoa, and the use of modern agricultural techniques. Credits have been extended for these purposes through the Agricultural, Industrial, and Mining Credit Bank (Caja de Crédito Agrario, Industrial y Minero). Two important projects of this agency have been the distribution of barbed wire and staples to agriculturists and stock raisers at cost, and the use of a revolving loan fund to make similar distribution of fertilizers. Through the agency of the National Procurement Office, another fund was created to allow this Bank to purchase and import various supplies essential to development of agriculture.

An activity similar to those just described, but not financed by the Bank, was the creation of the National Veterinary Supply House (Almacén Nacional de Drogas e Implomentos de Uso Veterinario).<sup>1/</sup> In connection with this project, a permanent revolving fund was established for the purpose of maintaining stocks of veterinary drugs, insecticides, and other supplies necessary for the protection of the livestock industry. The merchandise thus purchased is made available at cost to farmers and livestock dealers.

#### The National Federation of Coffee Growers.

The Colombian economy is particularly dependent upon the coffee industry. Coffee is the predominant commercial crop,<sup>2/</sup> and by far the most important export commodity. During the past 30 years, this product has constituted from 40 to 80 percent of all exports; the proportion for 1940 was 49 percent. It is estimated that one-fourth of the entire population of the nation is dependent directly upon the coffee-growing industry for its livelihood. Colombia ranks second as a world source of coffee and is the chief source of mild coffee.

Before the war coffee growers in Colombia had a more favorable international position than the producers of most agricultural crops throughout the Americas. Because of the high quality of the Colombian product, and because of indirect support received from Brazilian coffee control measures, Colombia's output was subject to an increasing demand. The problem of surpluses did not plague the Colombian coffee grower, and before 1940 there had never been a heavy accumulation of stocks from one year to another, as was true in other producing countries.

The Government of Colombia, however, has supported an organization of the coffee industry in measures for improving conditions, including efforts to influence prices. In 1928, under the authority of a law of 1927, the National Federation of Coffee Growers was organized under the aegis, if not the sponsorship, of the National Government. The Federation operates under a contract with the Government, by the terms of which the Government is represented on the Control Board and participates directly in the formulation of policy.

This semi-official agency of the Government is composed of planters, growers, brokers, and bankers interested in coffee. The Federation is responsible for establishing quality standards and grades, and it inspects all coffee to see that it is properly classified, graded, and marked. Probably its chief function, however, has been to initiate measures to stabilize prices. Following the Pan-American Coffee Conference in 1936, the Federation embarked upon a program of coffee buying and selling with the purpose of using its resources

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<sup>1/</sup> Decree No. 2991, December 5, 1936, Diario Oficial, March 1, 1937.

<sup>2/</sup> Kathryn H. Wylie, The Agricultural Economy of Colombia, Foreign Agriculture, vol. V, No. 12, December 1941.

to stabilize the New York price of mild coffee. This program involved the purchase of Colombian grades whenever prices fell below a designated minimum, and the subsequent resale whenever such action would be most advantageous. Since 1936, therefore, the Federation has engaged in extensive dealings in the coffee market.

Most of the resources employed by the Federation to finance its buying operations have been supplied by the Government, in the form of loans or direct contributions. Early in its operations, the Federation obtained a loan of 500,000 pesos from the Bank of the Republic to be used as a revolving fund to finance its stabilization dealings; in 1937, this was increased to 1 million pesos. Additional credit was made available by allowing the Federation to discount warehouse receipts at the Bank up to 75 percent of the market price.

Another bond in the relationship between the Government and the Federation has been the direct contributions to support its operations. A law of 1927<sup>1/</sup> placed an export tax of 10 centavos on each bag of 60 kilograms. The proceeds of this tax were made available to the Federation and were used to grant loans to growers on their harvested crops. In 1937 this tax was increased to 25 centavos per bag of 70 kilograms, and the entire proceeds were allotted to the Federation.<sup>2/</sup> During most of the period between 1935 and 1940, a 10-percent tax on coffee-export drafts supplied additional funds to the Federation.<sup>3/</sup>

#### Government monopolies.

Direct Government participation in the industrial life of the nation has been quite limited. The Government has maintained a monopoly of the salt deposits which are administered either directly or in its behalf by the Bank of the Republic. Despite difficulties of administration, this monopoly has returned revenues of nearly 3 million pesos annually, or nearly 5 percent of the annual budget. Another monopoly reserved to the Government since 1905 is the distribution of alcoholic liquors.<sup>4/</sup> Subsequent legislation ceded this monopoly to the departmental governments; they are said to receive nearly 50 percent of their revenues from this source.

Emerald mining in Colombia is also carried on as a Government monopoly. Colombia is the world's principal source of emeralds; during the present century, however, the mines have been worked only periodically. In ordinary times, the entire output is sold under contract in Paris.

#### Economic Controls and Commercial Policy Since the Outbreak of the War

Three important considerations have influenced the formulation of Colombian economic policy since the outbreak of the war: (1) The industrial repercussions of hostilities as they affected the domestic economy, (2) the program adopted by the nations of the Western Hemisphere for economic collaboration and mutual defense, and (3) the severance of diplomatic relations with the Axis Powers immediately after the attack on Pearl Harbor.

Colombia has probably suffered less severely than other South American countries from the closing of European markets by the war and by the blockade.

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<sup>1/</sup> Law No. 76, 1927.

<sup>2/</sup> Law No. 41, effective September 1, 1937.

<sup>3/</sup> Law No. 21, 1935.

<sup>4/</sup> Legislative Decree No. 41, March 3, 1905.



The export demand for Colombian coffee held up remarkably well, at least until 1940. Nevertheless, the impact of the war created serious problems and disruptions; supplies of essential raw materials and industrial machinery were restricted or cut off, and shortages of exchange called forth new regulations. Colombia's cooperation with the other nations of the western world to achieve the objectives of hemispheric solidarity made inevitable the inauguration of new measures and controls. These included the delegation of emergency powers to the Executive, the control of strategic exports and reexports, the rationing of essential imports, and the stimulation of domestic production. One of the most important steps taken since 1940 has been the signing of the Inter-American Coffee Agreement, by which the 14 leading coffee-producing countries of the Western Hemisphere, in cooperation with the United States, initiated a program for a more orderly marketing of coffee.

#### Modification of import duties.

Since 1940 the basic essentials of the Colombian tariff system have been retained with few changes of importance. The revisions which have been effected, both upward and downward, are quite consistent with the recent policy of offering assistance and protection to domestic industry, although war conditions have tended to lessen the quantities of goods obtainable from foreign countries and the consequent reason for protection. In 1940, two increases in the tariff were made; one raised the duty on perfumed and medicinal soaps by 70 percent,<sup>1/</sup> and the other increased that on manufactured articles of leather by 50 percent. Tariff reductions also were few in number, and it is significant that these were motivated generally by the desire to extend assistance to domestic producers. Just before 1940, Colombian producers of vegetable lard substitutes were given temporary aid in their competition with imported animal fats by means of a substantial reduction of the duty on copra. This assistance was extended in 1940, and was subjected to both a time limitation and a quota. Late in 1941, babassu nuts were classified to permit them to enter under the same conditions as copra.<sup>2/</sup> The policy of fostering domestic manufactures was also invoked in measures granting tariff reductions on the following industrial raw materials: Wood matchsticks (1939).<sup>1/</sup> mechanical wood pulp (1940),<sup>2/</sup> and natural silk (1940).<sup>4/</sup> The net effect of two decrees in 1942<sup>5/</sup> was a reduction of the rate of duty on crown corks. This change was designed to aid the domestic bottling and brewing industry, which had become handicapped by tin-plate shortages created by the war.

The Colombian tariff has thus remained fairly constant since 1939, as have the other charges collected on imports. The only change in such charges has been a reduction in the canalization tax, collected as a surtax on imports through the north coast ports of Colombia. This tax was reduced by one-fifth, effective January 1, 1941.<sup>6/</sup>

#### Export controls.

Export controls employed by Colombia since the war have been of three types: The use of export taxes, a cattle embargo, and the establishment of export standards. Since 1940 the export-tax system has been continued with little modification except the imposition of an export duty of 1 centavo per kilogram on cattle hides, effective in July 1942.<sup>7/</sup> The embargo on exports of cattle, one of a series of measures to aid the livestock industry applied to the exportation of breeding stock of designated strains.<sup>8/</sup> A decree of November 1939<sup>9/</sup> prohibits the export of any native seeds, plants, or shoots

<sup>1/</sup> Law No. 58, December 20, 1939.

<sup>2/</sup> Resolution No. 442, December 24, 1941.

<sup>3/</sup> Decree No. 504, Diario Oficial, March 15, 1940.

<sup>4/</sup> Decree No. 1404, Diario Oficial, July 23, 1940.

<sup>5/</sup> Decree No. 868, March 31, 1942; and Decree No. 1762, July 18, 1942.

<sup>6/</sup> Law No. 111, December 21, 1940, Diario Oficial, December 27, 1940.

<sup>7/</sup> Decree No. 1698, July 15, 1942.

<sup>8/</sup> Decree No. 1455, Diario Oficial, July 26, 1940.

<sup>9/</sup> Decree No. 2202, November 20, 1939.

unless authorized by the Ministry of National Economy, and requires that all lumber products be marked as produced in Colombia. This decree represents a part of a national conservation program for forest resources.

Numerous recommendations have been made by marketing experts to the effect that the standardization of grades and the adequate labeling of products would prove advantageous to many Latin American industries. In line with these recommendations, the Government of Colombia established regulations governing the grading, marking, and packaging of tobacco for the purpose of securing a readier acceptance of the Colombian product in foreign markets by establishing a reputation for uniformity in weight and quality. These modifications still leave Colombia with a very limited number of export controls. Indirectly, of course, the system of exchange control must be considered also as a control of exports.

Commercial agreements concluded or extended.

Colombia has entered into or extended the duration of six commercial agreements since the outbreak of the war. Most of these were in process of negotiation before September 1939 and were promulgated soon thereafter. Thus far, the war apparently has resulted in no alteration of past commercial policy.

Probably the most significant new agreement was that with Chile,<sup>1/</sup> ratified in 1942.<sup>2/</sup> This treaty provides for unconditional most-favored-nation treatment between the two nations and, in addition, for numerous reciprocal tariff concessions.<sup>3/</sup> Four additional unconditional most-favored-nation treaties were approved by the Colombian Congress shortly after the outbreak of war in Europe. These agreements were concluded with Norway,<sup>4/</sup> Italy,<sup>5/</sup> Hungary,<sup>6/</sup> and Argentina.<sup>7/</sup> In all of these agreements the contracting parties granted unconditional most-favored-nation treatment in substantially all matters relating to commerce and navigation, including customs duties, internal taxes, import quotas, and foreign-exchange control.<sup>8/</sup> Another commercial agreement with Venezuela in 1941 extended a previous arrangement negotiated in 1936 whereby specified quantities of Venezuelan salt and cattle were permitted to enter Colombia free of duty.<sup>9/</sup>

<sup>1/</sup> United States Tariff Commission, Reference Manual of Latin American Commercial Treaties, 1940, p. 97, for notice of the negotiation of this treaty.

<sup>2/</sup> Ratified by the Colombian Congress on December 21, 1940, and by the Chilean Congress on November 20, 1942.

<sup>3/</sup> Under provisions of the agreement, Chile accorded reduced duties on a number of Colombian exports, including canned and dried tropical fruits and tobacco. Colombia, on its part, granted lower duties on a list of Chilean products including canned cereals; vegetables; fresh, dried, and canned fruit; specified meats; evaporated, condensed, and powdered milk; shellfish; and certain tanned skins. Each of the contracting parties agreed to bind existing rates on a number of products. Perhaps the most important of these concessions is the one in which Chile agreed to bind the import duty on coffee together with other measures designed to increase its importation of Colombian coffee.

<sup>4/</sup> Diario Oficial, December 27, 1937.

<sup>5/</sup> Ibid.

<sup>6/</sup> Diario Oficial, December 28, 1937.

<sup>7/</sup> Ibid.

<sup>8/</sup> In these agreements, however, there was the usual Colombian exception to most-favored-nation treatment, providing for special advantages to frontier traffic and benefits arising from customs unions.

<sup>9/</sup> Caceta Oficial (Venezuela), March 12, 1941.

Exchange control.

A crisis in foreign exchange occurred in Colombia shortly after the outbreak of hostilities in Europe in 1939. At the beginning of that year there was a substantial surplus of exchange available to importers and others seeking such balances; even as late as September, there was no shortage of United States and Canadian dollars. By December, however, the shortage of foreign exchange became acute. This situation seems to have been caused by the decline in shipments of coffee, considerable quantities of which had previously gone to continental Europe, and the fall of coffee prices, as well as by the marked reduction of capital movements into the country by the petroleum and other industries. Almost immediately, therefore, emergency measures of a temporary nature were taken. In December the Exchange and Export Control Board announced that no further exchange permits would be issued until the second week in January. Other regulations accompanied this announcement. A decree was published which established priority treatment for designated products in the allocation of exchange, the stated objectives of which were to provide exchange for primary necessities and to assist domestic industries. In February 1940, all imports were divided into two classes, preferred and all others.

New exchange preferences.—The above-mentioned measures failed to effect the desired adjustments and in April 1940 the essentials of the present exchange-control plan were promulgated.<sup>1/</sup> Thereafter, all import of articles enumerated in the Colombian tariff were divided into four categories (turnos). The first category was composed of raw materials, necessary industrial machinery, drugs, foodstuffs, and other articles considered to be primary necessities; imports for the Government were usually given the same preference. All other imports were classified, in accordance with their relative importance to the economy, in the other three categories. Exchange was granted first to satisfy the import requirements of commodities in the first category; any surplus available thereafter was released to permit the importation of articles listed in categories 2, 3, and 4, in the order named. When the right to purchase exchange was thus granted, more favorable rates were extended to articles enumerated in the preferred categories. Subsequently the original classification was modified, the most important occasion being in 1941. At that time changes were made affecting 63 tariff items. These changes generally were designed to extend incidental assistance to domestic industry by granting a preferential rate of exchange to raw materials, or by increasing the rate on imports of manufactured products which could be produced in the domestic market.

The Stabilization Fund.—About the same time that the exchange preferences on commodities were inaugurated, another decree<sup>2/</sup> authorized the Stabilization Fund to trade in notes, drafts, bills of exchange, and other debt certificates, and to enter into contracts for the purchase and sale of foreign exchange in accordance with regulations of the Exchange Control Office. Shortly thereafter, the Bank of the Republic, which operates the Stabilization Fund, announced that it would sell exchange for articles in second, third, and fourth categories. The rates on each of these classes were progressively higher than the official rate (1.755 pesos per dollar) applicable to goods in the first category.<sup>3/</sup> Exchange permits for imports of the first category, as well as those from the United States and Canada, are accorded priority; all other imports are marked "compensation." If exchange is not available after provision is made for the preferred permits, the "compensation" permits are satisfied only when compensating exports create the necessary credits.

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<sup>1/</sup> Decree No. 89, April 8, 1940, Diario Oficial, April 11, 1940.

<sup>2/</sup> Decree No. 669, April 5, 1940.

<sup>3/</sup> The rate for second category permits has been 1.795 pesos per dollar; for third category, 1.87; and for fourth, 1.95. Some transactions have occurred on the so-called curb market where the rate of exchange since 1940 has varied up to as much as 10 percent above the official rate.

The present exchange-control system.—Exchange operations remain under the supervision of the Exchange and Export Control Office; licenses are required for all exports and imports. Either directly or indirectly the Bank of the Republic acquires all foreign exchange. Exporters must sell to the Bank, at the official rate, a percentage of the exchange arising from their operations. On August 13, 1942, the Exchange and Export Control Office reduced this percentage from 25 to 15 percent.<sup>1/</sup> The Bank issues certificates of deposit, known as *titulos*, for the remainder of the exchange which it acquires; these certificates may then be sold in the open market.

In order to obtain an import license, the importer must deposit 5 percent of the value of the goods with the Bank of the Republic.<sup>2/</sup> Foreign exchange to cover the imported merchandise cannot be purchased until the goods have been cleared through the customs; the rate of exchange is dependent upon the category to which the goods belong.<sup>3/</sup> The stamp tax of 1 percent, formerly payable when the permit was issued,<sup>4/</sup> may now be paid when the import tax is assessed on the merchandise.<sup>5/</sup>

#### New import quota controls inaugurated.

Colombia has continued during the war to employ import quotas for the protection of domestic industry. The use of this type of control, however, is limited compared with many other countries. In addition to the continuation of the quota for coffee,<sup>6/</sup> global quotas have been established for wheat, rice, and cocoa. Extraordinary powers were conferred upon the Executive shortly after the outbreak of hostilities in 1939<sup>7/</sup> to take measures necessary to deal with conditions caused by the war. Acting under this authority, the Executive listed a group of domestic products, the local production of which was to be stimulated, and, by decree,<sup>8/</sup> limited the authority of the Office of Exchange and Export Control to approve import licenses for these products. To foster domestic production, the importation of the following articles may be restricted: Cotton, wool, wheat, cocoa, rice, sugar, animal fats, vegetable oils, and fresh fruits and vegetables. The stated objective of this program is to assure a greater self-sufficiency of industrial raw materials and food-stuffs; the Control Office is not to grant licenses in excess of the immediate needs of the market.

Pursuant to these decrees, steps were soon taken to control imports of rice and wheat. On July 18, 1940 the Office of Exchange and Export Control was instructed to limit issuance of import licenses on rice to a global quota of 8 million kilograms (1 kilogram - 2.2 lb.) in 1941<sup>9/</sup> and 4 million kilograms each year thereafter. Provision was made for an increase of this quota in the event of a domestic crop failure. On the same day, similar protection was extended to the wheat industry. A global quota for wheat was set at 8 million kilograms (about 300,000 bushels) for 1942, and the Exchange Office was instructed to issue no import permits in 1943 unless the domestic crop should prove inadequate to meet the country's requirements;<sup>10/</sup> the 1943 quota was, however, later fixed at 16 million kilograms.<sup>10/</sup> The decree stipulated, moreover, that the granting of import licenses should be suspended

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<sup>1/</sup> Special treatment is accorded coffee.

<sup>2/</sup> Resolution No. 92, April 25, 1940, issued by the Exchange Control Board, provided for a 10-percent deposit before the issuance of the import license. This was subsequently changed to 5 percent, and by Resolution No. 113, effective June 2, 1942, the deposit was no longer required on Class I commodities.

<sup>3/</sup> Decree No. 92, 1932.

<sup>4/</sup> Decree No. 887, April 1, 1942.

<sup>5/</sup> Resolution No. 1138, *Diario Oficial*, No. 24469, September 20, 1940.

<sup>6/</sup> Law No. 54, *Diario Oficial*, No. 24244, December 16, 1939.

<sup>7/</sup> Decree No. 1157, June 18, 1940, *Diario Oficial*, June 20, 1940.

<sup>8/</sup> Decree No. 1393, July 18, 1940, *Diario Oficial*, July 24, 1940.

<sup>9/</sup> Decree No. 1440, *Diario Oficial*, July 24, 1940.

<sup>10/</sup> Decree No. 116, January 23, 1942, *Diario Oficial*, January 27, 1942; see also Law No. 42, December 18, 1942.

if the price of wheat should fall below a designated level. A similar measure, adopted in 1942, established for cocoa beans an annual quota of 2,800,000 kilograms for 1943, 2,000,000 for 1944, and 1,200,000 for 1945. The purpose of this quota was also to stimulate domestic production; it was stipulated that import licenses were to be suspended whenever the domestic price fell to a specified level, and that imports above the quota were to be permitted in the event of a serious scarcity, undue speculation, or crop failure.

Further assistance to the coffee industry.

Government support and regulation of the coffee industry since 1940 has taken three forms: A temporary bounty on exports, Participation in the Inter-American Coffee Agreement, and continued support of the Government-sponsored National Coffee Federation. The outbreak of the war sharply disturbed the coffee market; the prices of coffee, including Colombian grades, declined steadily until the middle of 1940. Late in December 1939, the President issued a decree placing additional Government funds at the disposal of the Coffee Federation to facilitate its coffee-buying program. Another step, temporary in nature, was a decree of April 26, 1940, establishing a bounty on exports of coffee for a period of 8 months beginning May 1.<sup>1/</sup> In the event that coffee prices should recover sufficiently, the measure provided for the suspension of the bounty upon proper notification by the Government and the National Federation of Coffee Growers. Funds with which to finance this premium to coffee growers were raised by the sale of bonds.<sup>2/</sup>

The Inter-American Coffee Agreement.—In November 1940, Colombia, together with the 13 other major coffee-producing countries of Latin America and the United States, signed the Inter-American Coffee Agreement. The adoption of a program to cope with the problem of coffee surpluses had been recommended by the Foreign Ministers of the American Republics at their meeting at Habana in 1940.<sup>3/</sup> The agreement, in effect, established a quota system involving three types of quotas: (1) An export quota for each producing country signatory to the agreement regulating shipments to the United States, (2) an export quota for each such producing country controlling shipments to all other regions, and (3) an import-quota system controlling the quantity of coffee that might be received in the United States from each producing country in Latin America. United States imports from nonsignatory nations (all being outside Latin America) were also restricted by quotas.

The Coffee Agreement provided for an Inter-American Coffee Board to which was delegated the responsibility of establishing the annual quotas. Except "in case of an emergency,"<sup>4/</sup> increases or decreases may not be made oftener than once in 6 months and no change may exceed 5 percent of the basic quotas at any given time. Each signatory country is represented on the Board; the United States controls 12 of the votes; Brasil, 9; Colombia, 3; and the other 11 countries have 1 vote each.

Colombia's annual quota for exports of coffee to the United States was established at 3,150,000 bags of 60 kilograms in the original 1940 quota; its exports to the rest of the world were limited to 1,079,000 bags. These quotas, together with those for other producing countries, have been adjusted

<sup>1/</sup> Decree No. 831, April 26, 1940, Diario Oficial, April 27, 1940.

<sup>2/</sup> Decree No. 886, Diario Oficial, May 9, 1940; Decree No. 845, Diario Oficial, May 9, 1940; and Decree No. 2240, December 17, 1940.

<sup>3/</sup> Meeting of Foreign Ministers of the American Republics, Habana, 1940, Resolution XXV.

<sup>4/</sup> The United States controls one-third of the votes of the Inter-American Coffee Board. The consumer in the United States is protected from unwarranted price increases by a provision in the agreement that in the event of an "imminent shortage" imports may be increased beyond the established quota by a one-third vote of the Board.

subsequently, but the share allotted to Colombia has approximated 20.4 percent of the total assigned to all countries. During 1941 the Inter-American Coffee Board increased the import quotas for the United States first to 105 percent and then to 125 percent of the basic quotas.<sup>1/</sup> Because of shipping shortages resulting from the war, quotas have been increased still further since 1941 to allow the importation of coffee into the United States in whatever quantities and from such countries as available shipping facilities have permitted.

Implementing the Coffee Agreement.—In order to implement the international quota scheme, it was necessary for Colombia to introduce new controls in the domestic market or to adapt existing regulatory measures to the new objectives. A first step was taken in anticipation of the international agreement. On October 16, 1940, the Exchange and Export Control Office temporarily halted all exports of coffee until the terms of the agreement became known. Immediately after the signing of the agreement, the President issued three decrees<sup>2/</sup> setting up a National Coffee Fund, authorizing a bond issue of 10 million pesos, and prohibiting the exportation of certain grades of coffee and the internal consumption of certain others. Soon thereafter these measures were validated by the Congress which granted extraordinary powers to the Executive to deal with the coffee situation.<sup>3/</sup>

Significantly, the Government chose to function through the National Coffee Federation as an agency of control and stabilization. The former operations of the Federation in the buying and selling of coffee were to be continued, and it was authorized to proceed to purchase all coffee offered at minimum prices which are established currently by decree.

The National Coffee Fund.—The National Coffee Fund (Fondo Nacional de Café) was created for the purpose of supplying the Federation with the capital necessary to finance its purchases. Capital for this fund came from several sources. In addition to the proceeds from Government bonds, the revenues from three taxes were put at the disposal of the fund. These included a coffee-export tax of 5 pesos per 70-kilogram sack, (substantially higher than the export taxes previously in effect) a special exchange tax on coffee receipts when the sales price of coffee exceeds a specified minimum, and a tax of 5 centavos per United States dollar on most drafts for remittances abroad. Late in 1940, 34 million pesos had been contributed to the fund from these taxes. The fund is administered by a commission which may fix the daily buying price at which the Federation will purchase coffee, based on conditions in the foreign markets. It is apparent that the National Federation of Coffee Growers is assuming an increasingly important role in the economic life of the country. Its purchasing program is credited with having avoided a crisis after May 1941 when coffee shipments were suspended because Colombia had filled its allotted quotas.

On November 22, immediately before the signing of the Inter-American Coffee Agreement, the Government initiated a minimum export price control program; official export prices were fixed for all grades of coffee. The National Coffee Federation proceeded to purchase coffee on the domestic market; by the middle of 1941 with the support of the international quotas, it succeeded in raising export prices for leading grades of Colombian coffee by more than 80 percent. On August 11, 1941, as a consequence of this program and similar export price control measures adopted by Brazil, the emergency clause of the Coffee Agreement was invoked, in the interest of consumers in the United States. Quotas for imports into the United States were increased by 20 percent. Since 1941 both the prices and the quantity of coffee imported into the United States have been influenced less by the action of the Inter-American Coffee Board and by controls adopted in the producing countries than by the exigencies and the restrictions resulting from the wartime activities of the United States. Im-

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<sup>1/</sup> On August 11, 1941, the "emergency" feature of the Coffee Agreement was invoked by the United States.

<sup>2/</sup> Decree Nos. 2078, 2079, 2080, Diario Oficial, November 22, 1940.

<sup>3/</sup> Law No. 45, December 10, 1940.

port quotas into the United States have been raised to facilitate the importation of substantially all the coffee which the shipping situation permits and domestic price controls in the United States have had a major influence on prices.

The operations of the Federation and the export quota system appear to have resulted in tangible benefits to the coffee growers; the decline in exports during 1941 was more than compensated by increased prices. Following the signing of the Inter-American Coffee Agreement, the average price for Medellín grades of coffee in New York rose from 9.34 cents (U.S. currency) per pound in November, to 10.25 in December, to 11.16 in January 1941, to 12.52 in February, and to 16.68 in November. The November 1941 price was higher than any annual average quotation for this grade during the previous 6 years.<sup>1/</sup>

#### Extraordinary powers of the Executive.

Shortly after the outbreak of hostilities in Europe, the Colombian Congress granted the Executive extraordinary powers to deal with any economic disruptions which might be created by the war.<sup>2/</sup> These broad powers may have far-reaching effects upon the Colombian economy. The Executive was given extensive authority to regularize the public debt, contract new loans, reform and complete the system of exchange control, develop and protect Colombian industry (particularly the coffee industry), reduce public expenditures, regulate bank credit and modify existing bank legislation, and institute public-works projects. The emergency powers granted to the Executive in 1939 and renewed in 1941 expired on July 20, 1942, but the numerous programs initiated under these powers continue uninterrupted as basic features of the economy.

The grant of these powers to the Executive had a twofold purpose: To mitigate the economic stress which might be caused by emergency war conditions, and to initiate measures designed permanently to strengthen the economic system. Although the temporary objective of coping with the war crisis was important, Colombian leaders have emphasized the long-term objectives,<sup>3/</sup> which were to diversify industry and agriculture, to stabilize finances, to develop transportation facilities, and generally to strengthen the economic system. In order to facilitate this program, several Executive decrees<sup>4/</sup> initiated measures to aid industry and agriculture.

Industrial development.—Two agencies were designated to implement this program of economic development: The Ministry of National Economy and the Industrial Development Institute. The powers and responsibilities of the Ministry of Economy were broadened materially; it was authorized to organize processing plants, establish warehouses, aid producers' cooperatives in agriculture, and establish research laboratories.

The Industrial Development Institute (Instituto de Fomento Industrial) was created at the same time to facilitate the program of industrialization.<sup>5/</sup> The Institute is organized to perform essentially a banking function and is charged with the responsibility of investigating, promoting, and financing new industrial enterprises, public and private; of fostering the development and the reorganization of enterprises already established; and of extending credit to strengthen the industrial patrimony of the State. The Development Institute was capitalized at 4 million pesos, 3 million supplied by the Government and 1 million by the Central Mortgage Bank. Despite its recent organization, the Institute has already advanced several million pesos to develop the sugar, tan-

<sup>1/</sup> Ceiling prices for various grades of coffee in the United States were established by the Office of Price Administration, December 8, 1941.

<sup>2/</sup> Law No. 54, December 15, 1939; also Law No. 128, December 13, 1941, Diario Oficial, December 16, 1941.

<sup>3/</sup> Economic War Measures in Colombia, Commercial Pan America, September 1940, vol. IX, No. 9, pp. 272-276.

<sup>4/</sup> Decrees Nos. 1154-1157, June 18, 1940, Diario Oficial, June 20, 1940.

<sup>5/</sup> Decree No. 1157, June 18, 1940, Diario Oficial, June 20, 1940; and Decree No. 1419, Diario Oficial, July 24, 1940.

ning, milk, chemical, salt, yeast, and steel industries. In addition, it has engaged in extensive explorations of iron-ore reserves.

Another means of encouraging the development of new enterprise has been the granting of tax-exempt status to new industries in the early years of their existence. Thus far, new plants, involving an investment of nearly 10 million pesos in three important industries (cement, sugar, and tanning), have benefited from this aid.

Aids to agriculture.—Agriculture is Colombia's basic industry, and coffee is the chief agricultural crop. In addition to the controls affecting coffee, others designed to benefit agriculture include import quotas and various protective tariffs. Moreover, some of the activities of the Ministry of National Economy deal indirectly with agriculture. Other responsibilities delegated to the Ministry since the beginning of the war include the establishment of experimental farms, the development of canning and other plants for the preservation of agricultural products, and the sale of agricultural machinery at cost. A revolving loan fund known as the National Cooperative Fund (Fondo Cooperativo Nacional) was placed at the disposal of the Ministry in 1940 for the purpose of advancing loans to cooperatives.

Two other national credit agencies have been active in making loans for agricultural purposes: The Agricultural Credit Bank (Caja Crédito Agrario) and the National Livestock Fund. The Agricultural Credit Bank, organized some years ago, has been increasingly active in making loans to farmers. The National Livestock Fund, established under the war powers of the Executive, is authorized to extend long-term loans to farmers and stock raisers.

#### Rationing and control of vital materials.

Since September 1939, the war has disturbed seriously the Colombian economy by interfering with the usual imports of industrial raw materials and machinery. Many industries have suffered shortages of these materials and have been unable to secure essential parts and replacements. Access to many sources of supply was severed by the blockade or was restricted by shipping shortages and rigid export controls of supplying countries. Trade with the Axis Powers, already greatly reduced, suffered a further decline when Colombia broke diplomatic relations in December 1941 shortly after the attack on Pearl Harbor. Shortages of electrical supplies, tires, automobiles, structural steel, hardware, and machinery have been most serious.

Various measures have been taken to ameliorate the stresses which have occurred as a consequence of the impact of the war upon domestic industry. A forerunner to the program later adopted was an Executive decree<sup>1/</sup> which required all persons possessing stocks of structural iron and steel to register the quantity held and the place of storage. They were further required to maintain a continuous registry of all supplies, purchases, and sales. This measure was motivated in part by a desire to check speculation in these commodities which had led to sharp price increases.

Law No. 128.—The present system of rationing and control of essential materials rests largely on Law 128, passed in December 1941.<sup>2/</sup> In addition to granting extraordinary powers to the Executive, the law empowers the Government to acquire and import on its own account, or through credit institutions, supplies of products subject to export control in foreign markets. In this instance the purpose was to aid domestic industry and to maintain as far as possible necessary stocks; in the exercise of this function the Government has operated through the Agricultural Credit Bank. The Bank, with the aid of the Industrial Development Institute, was commissioned to establish

<sup>1/</sup> Decree No. 1460, Diario Oficial, July 26, 1940.

<sup>2/</sup> Decree No. 1732, October 9, 1941.

<sup>3/</sup> December 13, 1941, Diario Oficial, December 16, 1941.



warehouses throughout the country for the purchase of materials essential to Colombian industry. Moreover, the law permits the Government to control the internal distribution of any product subject to foreign export control, as well as to establish quotas for importers, to require the registration of all stocks, and to fix maximum prices.

Following the passage of the act, the Executive issued several decrees utilizing the powers granted. One decree established a system of rationing for tires and tubes; <sup>1/</sup> another required that industrial enterprises possessing foreign raw materials submit monthly reports to the Department of Commerce and Industry furnishing information regarding stocks of foreign raw materials and manufactured products on hand, current consumption, sales, and pending orders. <sup>2/</sup> A third decree prohibited the use of imported stocks of iron and steel except when authorized by the Ministry of Public Works. <sup>3/</sup>

The National Superintendency of Importations.—The most significant step taken under Law 128 has been the establishment of the Superintendency of Importations (Superintendencia de Importaciones) early in 1942. <sup>4/</sup> This agency has been assigned the dual function of rationing imported materials and of regulating their prices. The Superintendency was charged with the responsibility of studying the needs of the country for foreign raw materials and particularly for goods subject to foreign export restrictions; of compiling all information which the Government must furnish in order to secure export quotas from nations thus regulating their exports; of examining all import applications of domestic enterprises in order to assure that the best interests of the national economy are served; of issuing, where appropriate, certificates of necessity to import such commodities; and of promulgating the import quotas, licenses, and distribution regulations necessary to the nation's welfare.

The Superintendency has been quite effective in its program of rationing essential materials. Its first measure was to extend its control over the stocks and the distribution of iron and steel products. Reports indicate that rationing and control of tires and tubes have been effective despite numerous difficulties. <sup>5/</sup> An Executive decree issued when the Superintendency was established <sup>6/</sup> required that all commodities necessary to the development of the national economy and subject to foreign export restrictions, as well as other goods of foreign origin the supply of which is insufficient to satisfy the usual pattern of consumption, must be registered with the Superintendent.

Price control.—The Superintendency of Importations has rather comprehensive power to control domestic prices of imported essentials. This power has had only limited use; inasmuch as the authority does not extend over articles of domestic production, little control has been exercised over the general price level.

Prices and the cost of living in Colombia are likely to create a serious situation if the present trend continues. Only a small change occurred in the wholesale price index in 1941, but a rather sharp rise took place in 1942. The index of the cost of living, on the other hand, rose nearly 10 percent in 1941, and this was followed by an additional increase of 20 to 25 percent in 1942. The threat of inflation and the distress associated with rising living costs have led to considerable unrest among consumers and to some apprehension among Colombian officials. Three factors have contributed primarily to the

<sup>1/</sup> Decree No. 146, January 26, 1942; see also Decree No. 220, January 1, 1942.

<sup>2/</sup> Decree No. 2195, December 19, 1941, *Diario Oficial*, December 23, 1941.

<sup>3/</sup> Decree No. 220, January 20, 1942.

<sup>4/</sup> Decree No. 385, February 13, 1942. See also Decree No. 727, March 30, 1942.

<sup>5/</sup> By a decree of March 4, 1943, control of the sale and distribution of automobiles and tires was transferred to the Ministry of Economy.

<sup>6/</sup> Decree No. 1006, April 17, 1942.

present price situation: First, the existing scarcity of many essential commodities has led to competitive bidding for stocks; second, speculation and wartime profiteering seem to have aggravated the trend; and finally, critics have pointed to the ineffectiveness of price-control measures.

Agitation and appeal for price control began as early as 1939; shortly after the outbreak of the war, efforts were made in the Congress to secure price-control measures. Since that time, there have been frequent demands upon the Government for action.

Before March 1943, however, there had been little attempt at price control, and such measures as were adopted were not particularly effective. The Superintendency of Importations has been active in this field, but its authority is limited to imported commodities. The Superintendency attempted to control prices for only a few articles including drugs, iron and steel, tires, and nails. A separate agency, the Central Board for the Control of Drug Prices, was granted limited authority to establish prices for pharmaceuticals.<sup>1/</sup> Local, decentralized Food Control Boards, under the Ministry of Economy, have exercised some control over the prices of specified food products.<sup>2/</sup> With both the Drug Board and the regional Food Control Boards, however, power to act has been limited to cases where speculation is known to have occurred. In the meantime prices for substantially all commodities, particularly imported commodities have continued to rise, reaching, in many cases, more than 10 times their usual selling price.<sup>3/</sup>

The Office of Price Control.—As the problem became increasingly serious, the Government attempted, through a series of measures early in 1943, to develop a comprehensive system of price control. In February, the Colombian Congress inaugurated what is known as the Economic Defense Plan which provided for: Price control for foods, drugs, and other articles of basic consumption; Government aid to consumers' cooperatives; the creation of a Board of National Economic Defense with power to study domestic economic problems and propose remedial measures; and other general measures for improving the national economy. This law established no direct controls but served primarily as an over-all enabling act, which authorized the adoption by the Executive of measures which might appear to be necessary.<sup>4/</sup> The first step toward price control under this authority was taken April 7, 1943,<sup>5/</sup> when foreign-exchange rates were lowered in order to reduce the cost of imported merchandise and check inflation. In May, the Office of Price Control (Interventoria de Precios) was created to function under the Ministry of National Economy, with broad powers to fix maximum and minimum prices, to ration essential commodities, to purchase and sell articles of prime necessity, to issue export and import licenses, and to prevent monopolies.<sup>6/</sup> An attempt was made in June 1943 to neutralize the effect on prices of the expanding volume of bank currency. Notes in circulation had increased nearly 50 percent between April 1942 and June 1943, reflecting to some extent the heavy export trade balance resulting from an increase of Colombian exports and the general inability to secure imports. To freeze these funds, various classes of corporations and importers were required to invest a designated percentage of their profits or cash receipts in non-negotiable Government certificates of deposit.<sup>7/</sup> At the same time the required legal reserves of banks were doubled.

These measures would appear to have provided all the machinery necessary for an effective system of price control; it is too early, however, to determine how successful the program will be. Throughout most of 1943 the Office of Price Control has been concerned chiefly with collecting the information and statistics essential to the formulation of an over-all price control program.

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<sup>1/</sup> Decree No. 162, January 27, 1942.

<sup>2/</sup> Decree No. 1971, November 3, 1931.

<sup>3/</sup> A more comprehensive treatment of rationing and price control in Colombia may be found in an unpublished manuscript of the U. S. Office of Price Administration, Colombia, Price Control, Cost of Living and Rationing, Washington, 1942.

<sup>4/</sup> Law No. 7, February 25, 1943, approved by the Executive, March 2, 1943.

<sup>5/</sup> Decree No. 736, and Regulation No. 115 (Exchange and Export Control Office), April 7, 1943.

<sup>6/</sup> Decree No. 928, May 11, 1943.

<sup>7/</sup> Executive Decree No. 1148, June 10, 1943.

In July of that year, however, it fixed maximum retail and wholesale prices for certain articles including clothing, textiles, drugs, pharmaceuticals, agricultural machinery and implements, and imported foods.

#### Control of exports of strategic materials.

Colombia was one of the first countries in the Western Hemisphere to initiate restrictive measures regarding the reexport of strategic materials.<sup>1/</sup> On May 24, 1941, an Executive decree prohibited the reexportation of any product subject to export control in countries of the Western Hemisphere. Exceptions were permitted where national interest warranted it, subject to the decision of the Office of Exchange and Export Control. A later decree<sup>2/</sup> strengthened this measure by extending reexport prohibition to all products subject to foreign-export control, regardless of their origin.

In Law 128, the National Congress validated and reaffirmed export control. The Congress, at that time, ruled that "in order to take measures which may be indispensable in international or internal matters for the loyal and complete maintenance of the policy of inter-American solidarity and cooperation" all reexports of articles under export control by foreign powers or exports of similar articles of domestic production shall be prohibited unless authorized by the Minister of National Economy and the Office of Exchange and Export Control.<sup>3/</sup>

#### Rubber and platinum monopoly.

At the meeting of the foreign Ministers at Rio de Janeiro in January 1942, it was recommended that the Republics formulate plans for national mobilization of strategic materials;<sup>4/</sup> this Colombia proceeded to do. Colombia has potential sources of crude rubber, second only to Brazil among the countries of the Western Hemisphere, and is the largest Western Hemisphere producer of platinum (the fourth largest in the world). Contracts were entered into with the Rubber Reserve Co. and the Metals Reserve Co. of the United States to make these materials available for the defense of the Western Hemisphere.

To implement this program the Government placed the purchase, sale, and exportation of all rubber and related products under the direct control of the Agricultural Credit Bank. Soon thereafter, the Credit Bank entered into an exclusive 5-year contract with the Rubber Reserve Co. and the United States Board of Economic Warfare,<sup>5/</sup> under the terms of which the company will purchase all surplus rubber produced in Colombia. Numerous difficulties have confronted this program, including the shortage of transportation facilities, the inadequacy of manpower where rubber resources are found, and the lack of administrative and technical experience in rubber exploitation. As a consequence of these difficulties and because of the recency of the program, actual rubber shipments only lately have attained any considerable volume.

A similar monopoly was created to purchase and export platinum<sup>6/</sup> and a contract was negotiated with the Metals Reserve Co. for the sale of all surpluses to it.

#### Wartime financial controls.

In January 1942 the conference of Ministers<sup>7/</sup> and in June 1942 the Inter-American Conference on Systems of Economic and Financial Controls recommended

<sup>1/</sup> This action was urged at recent meetings of the Foreign Ministers of the American Republics, held at Panama, Habana, and Rio de Janeiro.

<sup>2/</sup> Decree No. 1813, October 24, 1941.

<sup>3/</sup> See also Resolution No. 617, Minister of National Economy, October 5, 1942.

<sup>4/</sup> Resolution II, Meeting of the Foreign Ministers of the American Republics, Rio de Janeiro, January 1942.

<sup>5/</sup> Now the Foreign Economic Administration.

<sup>6/</sup> Decree No. 58, January 16, 1942; and Decree No. 796, March 27, 1942, *Diario Oficial*, April 6, 1942.

<sup>7/</sup> Resolution V, Meeting of Foreign Ministers of the American Republics, Rio de Janeiro, 1942.

~~the Government of Colombia~~ **CHECKED** to block effectively the use, transmission, or transfer of funds, securities, and property within the American Republics held by ~~the Government of Colombia~~ **NO COPY** which have committed acts of aggression against the American Continent, and to prevent any financial transaction by such nationals which involves the exportation of any property. By the time the latter conference was held, Colombia had taken the necessary steps; <sup>1/</sup> all financial interests owned by citizens of the countries signatory to the Tripartite Pact, as well as of conquered territories, were placed under control of the Government.

### Post-War Problems Relating to Controls and Commercial Policy

Although the prosperity of Colombia is materially dependent upon the maintenance of a high level of foreign trade, its present commercial policy is designed to stimulate domestic agriculture and industry and to achieve a higher degree of economic self-sufficiency. The fact that export products such as coffee, petroleum, and bananas are of major importance to the Colombian economy has not prevented the development of a trend, in recent years, toward a more restrictive commercial policy. This trend has developed, however, during a period when the world at large was raising tariff levels and resorting to numerous other devices to restrict and channelize trade. To a very large extent Colombia's resort to exchange and quota control measures, taking place, as it did, in the midst of a general deterioration of international economic relations, was not for purposes of commercial aggression but rather was a defense necessitated by the economic crisis following 1929 and the aggressive trade policies instituted by many other countries.

The economic interests of Colombia stand to gain in marked degree from a general revival and expansion of international trade. A return to a less restrictive policy can best be achieved in cooperation with other nations. That Colombia may be prepared to contribute to such a program is suggested perhaps by the reciprocal trade agreement with the United States in 1935, and by the negotiation since 1940 of several unconditional most-favored-nation agreements.

#### The rubber and platinum industries.

Little or no wild rubber was collected and shipped from Colombia before 1942 despite the fact that its resources are estimated to be second (in Latin America) only to those of Brazil. In the first few months after signing the contract with the Rubber Reserve Co. in 1942, nearly 500 tons were exported. It is anticipated that these shipments may be increased to an annual total of 15,000 before the contract expires. Although the immediate purpose of the program is to facilitate the prosecution of the war, the Government of Colombia is interested in the long-range commercial possibilities of rubber exploitation. When the war is over and the contracts with the Rubber Reserve Co. have expired, major adjustments may be required. The rubber program at its maximum will necessitate the movement of a large amount of labor to the jungle areas and the installation of expensive facilities including roads, communication lines, hospitals, and warehouses. Ultimately, in the post-war world, this industry will have to meet competition with the new synthetic plants and the revived industry of Malaysia. It is too early to predict the outcome of this competition, inasmuch as it will depend in large part upon the cost of production of rubber in Colombia once the industry is established.

A problem of a somewhat similar nature will be experienced with respect to platinum. Since the outbreak of the war, production in this industry has reached an all-time high. By the terms of the contract with the Metals Reserve Co., the United States has become the sole purchaser of platinum exported by Colombia. Some readjustment of the present expanded program may be necessary when hostilities cease. If immediate reduction of output becomes necessary, serious dislocations may be experienced; on the other hand, if the transition can be achieved over a period of time, a more orderly adjust-

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<sup>1/</sup> Decree No. 59, January 17, 1942; and Decree No. 147, January 20, 1942, Diario Oficial, January 27, 1942.

ment to world markets may be possible. It has already been recommended that instead of permitting the termination of purchasing by the Metals Reserve Co. at the close of the contract period, a new agreement be negotiated to guarantee a diminishing market over a 10-year period, after which further purchasing would cease.

### Coffee stabilization.

As has been true in the past, the position of the Colombian coffee industry will be influenced less by controls instituted by the Government than by conditions of the world market including the favorable status which the Colombian product enjoys in relation to coffee produced in other countries and the control schemes initiated either by other countries or by international agreement. The effectiveness of Colombian control measures will be dependent, in large part, upon such outside support. At the close of the war, there may be an accumulation of surplus coffee stocks possibly of unprecedented magnitude, principally in Brazil. Inasmuch as its coffee exports have held up relatively well during the war, it appears that the problem of surplus stocks will concern Colombia primarily through its effects upon the world market. This favorable situation is due both to consumer preference for mild types of coffee and to the fact that Colombia, because of its geographic position, has suffered less severely than Brazil from wartime shipping restrictions.

Any one of a number of conditions may characterize coffee marketing practices after the termination of the war. The Inter-American Coffee Agreement, or some similar arrangement, may be renewed; this control program, largely a wartime measure which has functioned only under wartime conditions, may be adapted to serve the exigencies of the post-war-adjustment period and perhaps to form the basis of a more permanent control plan. Should such an arrangement be continued, its success, in the long run will depend, in part, upon the support of the major coffee-consuming countries and, in part, upon the policies of the Inter-American Coffee Board. One of the basic problems of such a program will be to avoid pitfalls which have confronted other commodity-control schemes resulting in the expansion of production in areas not subject to the agreement, the encouragement of high-cost and inefficient production in the agreement areas, and the resultant general expansion of production with cumulating annual surpluses.

Should it prove impossible, however, to agree upon an international control program acceptable to the chief coffee-producing and -consuming nations, there may be a return to free market or to a regime of independent control measures instituted by the Governments of the separate producing countries. Should all controls be removed, which appears to be unlikely, a period of market distress, depressed prices, and financial difficulties for the producing countries would be inevitable, however beneficial from an economic point of view the long-run consequences of such a regime might be in restoring market equilibrium and eliminating submarginal producers. It is probable, therefore, that should there be no international program of production or marketing control, the individual producing countries would have recourse to programs similar to those employed in the past to mitigate the distresses of the moment and to secure, if possible, some peculiar benefit to the national economy or to domestic producers. Should this be the case, the effectiveness of Colombian control measures would, to a substantial degree, depend upon the program of Brazil, the major producing country.

### Prices and inflation.

A problem which arises not from effective control of prices but from the lack of it is imminent in connection with present trends of prices in Colombia. Attempts thus far to control prices have been few and ineffective. The recently organized Office of Price Control appears to be adequately constituted to develop an effective solution of this problem. Unless, however, a comprehensive control program is soon elaborated and its administration pursued with vigor, further increases in prices and the cost of living may result in serious dislocations of the Colombian economy.

