



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

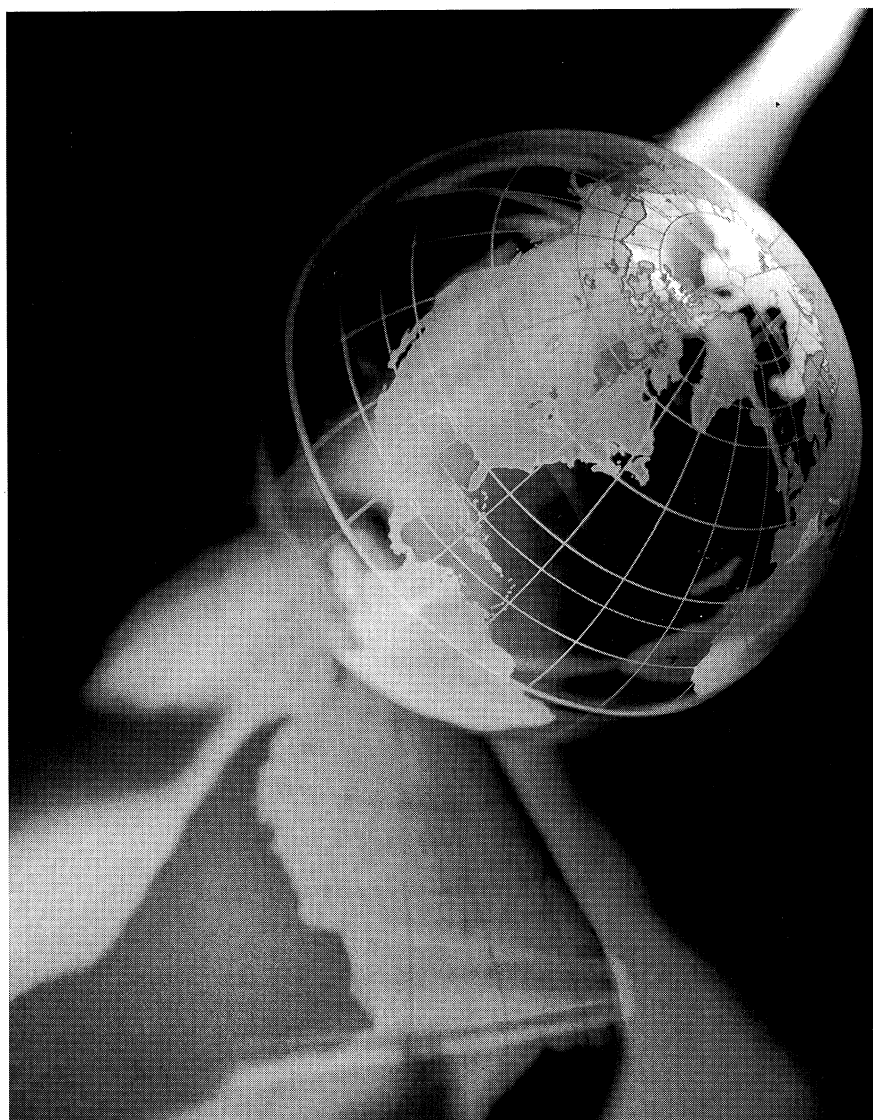
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

# **ECONOMIC INTEGRATION IN THE WESTERN HEMISPHERE**

**Edited by Constanza Valdés and Terry Roe**

**April 1997**



**PROCEEDINGS OF A SYMPOSIUM SPONSORED BY THE  
INTERNATIONAL AGRICULTURAL TRADE RESEARCH CONSORTIUM  
AND THE INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE  
JUNE 7-9, 1995 SAN JOSÉ, COSTA RICA**

## SESSION 6B. LAC TRADE AND INVESTMENT RELATIONS WITH THE U.S. AND CANADA

### **The Andean System of Price Bands** *Yesid Castro, Cartagena Board Agreement, Perú*

#### **What Is A Price Band?**

It is a stabilization mechanism which comprises of fixing a floor price and a ceiling price, between which it is desired that the importing cost is maintained. Stabilization is obtained by increasing the ad valorem tariff when the international price falls below the floor price, and by decreasing the said tariff, down to zero, when the price goes up over the ceiling price. In other words, the price band attempts to convert the tariff into a variable factor which is automatically adjusted in order to counteract the extreme swings of the international price.

#### **Effects Of Price Bands**

Stabilization Effect: The narrower the band, the more stable the importing cost with tariff. The stabilization effect can be measured by comparing the coefficient of variation of the importing cost with and without band.

Protection Effect: The higher the level of the band, regarding the international price, the higher the importing cost. This is because the additional tariffs increase and the tariff reductions decrease. This effect can be measured by comparing the average importing cost with tariff, before and after the band.

Fiscal Effect: This is the effect of the band on the State fiscal revenues. It is equivalent to the protection effect.

#### **Objectives Of The Andean System Of Price Bands**

To stabilize the importing cost of a special group of agricultural and livestock products, characterized by the marked instability of their international prices, or by the serious distortions thereof.

To achieve a stronger connection between the domestic prices of the importable products and the international price trends.

#### **Elements Of The Andean System Of Price Bands**

The products subject to the price band mechanism.

The rules to determine the floor and ceiling prices.

The rules to compute the additional variable duty and the tariff reduction.

A Special Regime for the consideration of transition and exception conditions.

The operational procedures for applying the mechanism.

The rules for tariff concessions to third countries.

The rules for the donations of subject-to-band-products received.  
 The Agricultural and Livestock Council, as a mechanism of coordination, follow-up, and evaluation of the System.

### Products Subject To The ASPB

The System covers 138 NANDINA subitems, of which:

13 marker products.

Products whose international prices serve as the basis for the computation of the bands.

125 derived and substitute products.

Those products connected to the marker products for being substitutes, capital goods or products manufactured therefrom. The System intends to cover only those products whose inclusion is essential in order to avoid deviations in trade or disbalance in the effective protection structure.

### ASPB: Related Products

Band	Number of NANDINA Subitems	Production Lines
White Rice	4	Food Grains 15 Products
Barley	3	
White Corn	2	
Wheat	6	
Yellow Corn	24	Feed and Meat 36 Products
Cuts of Chicken	4	
Pork Meat	8	
Refined Sugar	11	Sugar 13 Products
Raw Sugar	2	
Whole Milk	21	Dairy Products 21 Products
Whole Soy	14	Oleaginous plants and vegetal oils 53 Products
Crude Palm Oil	25	
Crude Soy Oil	14	
<b>TOTAL</b>	<b>138</b>	

*This includes the subitems which correspond to the marker products*

**ASPB: Rules To Determine Floor And Ceiling Prices**

<b>FLOOR PRICE</b>	=	Average of CIF historic prices - A fraction of the standard deviation
<b>CEILING PRICE</b>	=	Floor price + A standard deviation
<b>BAND WIDTH</b>	=	A standard deviation

<b>Computation Of The Cif Historic Price Average</b>	
Number of Observations	60 months until October of the last year.
Observed Quotations	FOB or international Stock Exchange prices
Conversion to current dollars	United States Consumer's Price Index
Conversion at CIF prices	Freight rates of the marker product and 0,5% insurance
CIF historic price average	Arithmetical average of the CIF price series in constant dollars

<b>Standard Deviation Adjustment Factors</b>	
0.5	For the bands of: soy, crude soy oil, crude palm oil, rice, barley, white corn, wheat, cuts of chicken, and pork meat.
0.0	For the bands of refined and raw sugar, and milk.
-0.5	For the band of yellow corn.

## ASPB: Rules For The Computation Of Additional Duties And Tariff Reductions

### Case 1: Marker Products

Reference Price Level (RP)*	Additional Duty (AD) and Tariff Reduction (TR)** Formula
Above the ceiling price (CP)	$TR = (RP - CP) \times (1 + AEC)/RP$
Within the band	Not applicable
Below the floor price (FP)	$AD = (FP - RP) \times (1 + AEC)/RP$

\* Reference Price (RP) = Fortnightly average of the quotations observed in the reference international market.

\*\* The numerator corresponds to the TR and AD expressed in dollars per metric ton. When divided by the RP, they are expressed in ad valorem terms

### Case 2: Related Products

Relation Between the AEC of the Marker Product and the AEC of the Related One	Formula for the Additional Duty of the Related Product (AD <sub>r</sub> )
$AEC_{related} = AEC_{marker}$	$AD_{related} = AD_{marker}$
$AEC_{related} > AEC_{marker}$	$AD_r = \text{Maximum } AD_m \times (AEC_m / AEC_r)$ and $AD_m - (AEC_r - AEC_m)$
$AEC_{related} < AEC_{marker}$	$AD_r = \text{Minimum } AD_m \times (AEC_m / AEC_r)$ and $AD_m - (AEC_r - AEC_m)$

The Tariff Reduction of the related products is equivalent to the tariff reduction of the marker product, and cannot surpass the AEC of the marker or of the related product, the lowest of the two.

**ASPB: Marker Products And Reference Markets**

<b>Rice Band</b>	White Rice	White rice with 10% of split grains. FOB Bangkok, "trader" weekly quotations. Source: Reuter.
<b>Barley Band</b>	USA N°2 Brewer's barley	FOB Portland, based on daily quotations reported by the USDA. Source: Reuter.
<b>Yellow Corn Band</b>	Yellow corn N°2	FOB Gulf, based on the Chicago Stock Exchange. Daily closing quotations, first place. Source: Reuter.
<b>White Corn Band</b>	Yellow corn N°2	FOB Gulf, based on the Chicago Stock Exchange. Daily closing quotations, first place. Source: Reuter. These quotations shall be adjusted by a 1,21 factor, which is annually adjusted.
<b>Soy Band</b>	USA N° 2 Yellow Soy	FOB Gulf, based on the daily closing quotations, first place, Chicago Stock Exchange. Source: Reuter.
<b>Wheat Band</b>	Hard Red Winter N°2 Wheat	FOB Gulf, based on the daily closing quotations, first place, Kansas Stock Exchange. Source: Reuter.
<b>Crude Soy Oil Band</b>	Crude soy oil	FOB Argentina, based on weekly quotations. Source: Oil World.
<b>Crude Palm Oil Band</b>	Crude palm oil	CIF Rotterdam, North West Europe, based on weekly quotations. Source: Oil World.
<b>Refined Sugar Band</b>	Refined sugar	London Stock Exchange Contract N° 5, daily spot quotations, FOB London. Source: Reuter.
<b>Raw Sugar Band</b>	Raw sugar	New York Stock Exchange Contract N° 11, daily closing quotations, first place. Source: Reuter.
<b>Milk Band</b>	Whole powder milk without sugar	Whole powder milk without sugar, FOB monthly average prices New Zealand. Source: Statistics, New Zealand, official figures of monthly exports in volume and value.
<b>Cuts of Chicken Band</b>	Chicken Meat	<i>Historic prices:</i> Trucklot daily prices for Grade A Chicken, 2 to 3.5 pounds. North-east of the United States of America. Quotations reported by Urner Barry Publications Inc., plus internal freight rates of US\$ 87/MT.  <i>I.Reference prices:</i> Trucklot daily prices for leg quarters in the North-east of the United States of America. Quotations reported by Urner Barry Publications Inc., plus internal freight rates of US\$ 87/MT.
<b>Pork Meat Band</b>	Pork meat	Boston Butts, 4-8#, Central US FOB Omaha, Source: USDA, plus internal freight rates of US\$ 110/MT.

## **SPECIAL REGIME**

### **A. EXCEPTION CASES FOR THE APPLICATION OF THE ASPB**

- II. In principle, Bolivia is not obliged to apply the ASPB in view of the high transport costs that it faces due to its geographical location.
- III. The Member Countries shall be able to limit the magnitude of the additional duties to that necessary for the fulfillment of the commitments on access to markets, within the framework of the Ronda de Uruguay of the GATT (GATT Uruguay Round).
- IV. Peru shall be able to limit the application of the ASPB to 20 NANDINA subitems.
- V. Venezuela shall gradually approach the milk band, starting at a lower floor price than that of the System (0,5 adjustment factor).
- VI. Colombia and Ecuador shall gradually approach the milk band, starting at a higher floor price than that of the System (-0,5 adjustment factor).
- VII. Venezuela is not obliged to apply the yellow corn band during the first year of the System being into force, and shall be able to gradually approach the Andean band starting the second year (0,125 factor).
- VIII. Venezuela shall gradually approach the pork meat band, starting at a lower floor price (1,0 factor).

### **B. APPLICATION OF CORRECTIVE DUTIES**

When a product of the System is imported from a Member Country which applies to the said product overall levies lower than those applied by the importer Member Country, it shall be considered that those imports cause distortions in competition and disturbances to the domestic production of the importer Member Country.

In these cases, the importer Member Country shall be able to apply corrective duties to the imports which come from the exporter Member Country, as long as a set of specific conditions are fulfilled.



**ASPB: Parameters In Force During The Second Fortnight Of June 1995**

<b>Marker Products</b>	<b>CIF Floor Price US\$/MTCIF</b>	<b>CIF Ceiling Price US\$/MT</b>	<b>Fortnightly Reference Price</b>	<b>AD (+) and TR (-)</b>
Pork meat	1806	2169	1945	0%
Pork meat(Ven)	1624	1987	1945	0%
Cuts of Chicken	1337	1452	858	67%
Whole milk	2090	2310	2081	1%
Whole milk (Col Ecu)	2200	2420	2081	7%
Whole milk(Ven)	1980	2200	2081	0%
Wheat	164	188	191	-2%
Barley	142	154	159	-4%
Yellow corn	146	156	135	9%
Yellow corn(Ven)	---	---	---	---
White corn	154	166	159	0%
White rice	328	373	278	22%
Whole soy	263	280	244	9%
Crude soy oil	479	523	616	-18%
Crude palm oil	401	444	650	-20%
Raw sugar	282	344	283	0%
Refined sugar	377	462	410	0%

### **ASPB: OPERATIVE ASPECTS**

- IX. The Board of the Cartagena Agreement, technical agency of the Andean Group, announces the floor and ceiling prices of each marking product every year, before December 15.
- X. The floor and ceiling prices have an annual effectiveness counted as from April 1, every year. These prices are updated by adding the last 12 months to the series of historical prices, excluding the first 12 months of the series.
- XI. The additional duties and tariff reductions are specified in the customs schedules made by the Board of the Cartagena Agreement.
- XII. The fortnightly reference prices are computed and reported by the Board to the Member Countries, during the week following the fortnight on which the said prices are based.
- XIII. The secondary information sources of international prices could be amended through a Resolution issued by the Board, due to technical and operative considerations, upon the opinion of the Agricultural and Livestock Council.
- XIV. The elements of the System (marking and connected products, reference markets, rules for the computation of the band parameters, etc.) can only be amended by the Commission of the Cartagena Agreement, highest legislative agency of the Andean Group.

### **JOINT NEGOTIATION OF TARIFF CONCESSIONS TO THIRD COUNTRIES**

- XV. The granting of tariff concessions to third countries, in which products of the System are affected, shall be commonly carried out through the Decision of the Commission of the Cartagena Agreement. The Ministers of Agriculture of the Member Countries shall recommend to the Commission strategy and procedures to make progress in the corresponding negotiations.
- XVI. The tariff concessions granted in favor of third countries prior to the establishment of the System shall be commonly revised so as to harmonize them and avoid price distortions which could countervene the objectives of the System. For this, the Ministers of Agriculture shall make the necessary recommendations to the Commission.
- XVII. Until the Commission approves the aforementioned strategy, the Member Countries shall be able to continue the bilateral negotiations which they are currently holding with third countries, and which cover products of the Andean System of Price Bands. Likewise, the Member Countries shall be able to keep the tariff concessions granted until their harmonization is approved by the Commission.

## **DONATIONS OF FOOD PRODUCTS**

- XVIII. The donations of food products shall be administered by the recipient Member Country, in such a way, that their handling does not distort the sub-regional exchange. These donations shall be monetarized at prices no lower than those of the total import duties of a recent regular import.
- XIX. The aforementioned does not apply to the donations which exclusively and directly aim at helping in catastrophs and similar emergency cases.

## **THE ANDEAN AGRICULTURAL AND LIVESTOCK COUNCIL**

The Agricultural and Livestock Council is formed by the Deputy Ministers or Assistant Secretaries of the Ministries of Agriculture of the Member Countries. Their main function is to advise the Commission and the Cartagena Agreement in aspects connected to agricultural and livestock integration. With regard to the ASPB, it has the following functions:

- XX. To cooperate with the Board in the preparation of decision proposals connected to the Andean System of Price Bands;
- XXI. To carry out a permanent follow-up of the System; to conduct evaluations thereof from time to time; to channel the exchange of essential information among the Member Countries and the Board; and, to inform the agencies of the Agreement about the performance of the System semestrally.
- XXII. To cooperate in the appropriate application of the common provisions regarding the System;
- XXIII. To issue decisions on specific matters connected to the ASPB;
- XXIV. To propose measures to the Commission, whenever an abnormal behavior is observed in the floor levels of the bands.

The representatives of the sub-regional agricultural and livestock or agrobased industrial trade organizations participate in the Council's sessions and have the right to vote.

**ASPB: RICE PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	-55,86%
Protection effect:	-0,28%
% of under floor observations	26,67%
% of on band observations	46,67%
% of over ceiling observations	26,67%

**ASPB: BARLEY PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	-53,99%
Protection effect:	0,02%
% of under floor observations	15,00%
% of on band observations	26,67%
% of over ceiling observations	58,33%

**ASPB: WHITE CORN PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	-59,03%
Protection effect:	0,03%
% of under floor observations	26,67%
% of on band observations	41,67%
% of over ceiling observations	31,67%

**ASPB: WHEAT PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	-53,88%
Protection effect:	-0,89%
% of under floor observations	30,00%
% of on band observations	23,33%
% of over ceiling observations	46,67%

**ASPB: YELLOW CORN PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	-78,98%
Protection effect:	7,97%
% of under floor observations	86,67%
% of on band observations	8,33%
% of over ceiling observations	5,00%

**ASPB: CHICKEN PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	-100,00%
Protection effect:	54,35%
% of under floor observations	100,00%
% of on band observations	0,00%
% of over ceiling observations	0,00%

**ASPB: PORK MEAT PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	-47,91%
Protection effect:	0,17%
% of under floor observations	38,33%
% of on band observations	33,33%
% of over ceiling observations	28,33%

**ASPB: POWDER MILK PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	-60,45%
Protection effect:	2,87%
% of under floor observations	58,33%
% of on band observations	23,33%
% of over ceiling observations	18,33%

**ASPB: REFINED SUGAR PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	-56,93%
Protection effect:	5,51%
% of under floor observations	71,67%
% of on band observations	6,67%
% of over ceiling observations	21,67%

**ASPB: RAW SUGAR PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	-61,43%
Protection effect:	4,96%
% of under floor observations	68,33%
% of on band observations	11,67%
% of over ceiling observations	20,00%

**ASPB: SOY PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	-52,17%
Protection effect:	0,08%
% of under floor observations	35,00%
% of on band observations	31,67%
% of over ceiling observations	33,33%

**ASPB: CRUDE SOY OIL PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	-57,34%
Protection effect:	-0,68%
% of under floor observations	35,00%
% of on band observations	36,67%
% of over ceiling observations	28,33%

**ASPB: CRUDE PALM OIL PRICE BAND**  
(Constant US\$ of June 1994)

<b>ANALYSIS OF THE BASIS PERIOD JULY 1989 - JUNE 1994</b>	
Stabilization effect:	55,93 %
Protection effect:	0,15 %
% of under floor observations	28,33 %
% of on band observations	36,67 %
% of over ceiling observations	35,00 %

**JUSTIFICATION AND BENEFITS OF THE PRICE BANDS**

- XXV. The main function of price bands is to stabilize the import costs of agricultural and livestock products affected by strong swings in their international prices.
- XXVI. The band is justified since extreme swings in international prices have undesirable effects: higher instability of domestic prices, higher uncertainty for the producers, instability in domestic production, higher external food dependency.
- XXVII. Unstable international prices are not an appropriate guide for the allocation of resources in agricultural activities, since they do not reflect changes in the costs of production. Food import at depressed prices discourages the production of the said food products and of many substitute products which may be competitive at normal prices.
- XXVIII. As a result of the agricultural policies in industrialized countries (subsidies to production and exports, or border protection to maintain the prices for the producer or the agricultural revenues), the agricultural supply in these countries is partially isolated from the swings in international prices, in such a way that they have lost their orienting function regarding resource allocation.
- XXIX. As a consequence of the said policies, international prices do not reflect the real production costs in low price trends. For example, the export monthly price of wheat from the United States has fallen to 110 dollars per ton during the last five years. However, the American farmer has obtained a minimum price of approximately 150 dollars, guaranteed by the State, throughout that period. Additionally, when Argentinian wheat is quoted cheaper (it has gone down to 73 dollars), the US government provides its exporters with an additional subsidy so that they can compete with the Argentinians. This policy has frequently caused price-depressive vicious circles, since the Argentinians are obliged to sell at low prices because of the US subsidies, and the United States grants subsidies because the Argentinians sell at low prices. The same kind of vicious circle tends to take place between the United States and the European Union.



XXX. The Agreement on Agriculture of the Uruguay Round represented a step in the right direction. However, this step was too short, considering the existing distortions. The reductions agreed on in tariffs and subsidies are not a significant change in the current situation, since many of the said reductions had already been made.

XXXI. The price band benefits not only the importers, but also the producers and the consumers of the stabilized product. In fact, as a result of the band:

- ◇ The importer benefits, due to the fact that the import cost is less uncertain since a large number of the swings in the international price are counteracted by the automatic adjustments of the tariff. This smaller uncertainty enables the importer to schedule his imports more rationally.
  - ◇ If the imported good is a capital good or an intermediate product, and the importer is a processing company, the band enables it to project its production costs with less uncertainty, as well as to plan the distribution of its purchases between domestic capital goods and foreign capital goods.
  - ◇ The importer and the processor also benefit since the band implies a complete freedom of import, and substitutes the former mechanisms of direct and discretionary control on imports. The freedom of choosing what to buy, from whom, how much, and when represents more benefit opportunities for everybody.
  - ◇ The consumers benefit, since the stabilization of the costs of the importer and the processor is expressed in less unstable sales prices. Also because the freedom of import implied by the band system guarantees a better and more varied supply.
  - ◇ The consumers can also benefit from lower prices, since the monopolistic revenues which characterize the import restriction regimes disappear.
  - ◇ The producers benefit since the floor price prevents products with extremely low prices, non-connected to production costs, entering the country.
  - ◇ Everybody benefits since the band implies a stronger connection between the domestic market and the mid-term trends of international prices and the average level thereof.
- If everybody seems to benefit from the bands, who loses? That depends on the specific parameters of each band.
    - ◇ First, the losers are those who obtained revenues from the former system of import control. In other words, the former beneficiaries of the import quotas and licenses, among them: some importers, the bureaucracy of the importer state firms, and, probably, foreign suppliers.
    - ◇ In a neutral band, from a fiscal point of view (this is, if in the mid-term the revenues from surcharges are compensated by tariff reductions), the government loses, since the higher cost stability for the private sector has to be paid with a higher instability in the

fiscal revenues, regarding the tariffs. This is a minor cost, since tariffs have a decreasing weight in the structure of the State's overall revenues.

- ◇ In a non-neutral band, from a fiscal point of view, for example, if the government's revenues for the mechanism overcome the expenses, the government benefits. Particularly, the Ministry of Agriculture benefits, if it is the entity which manages the revenues obtained from variable surcharges. Of course, the sectors to which the expenditure of these resources is oriented also benefit. The losers in this case will probably be the aforementioned agents, which used to benefit from the former regime.
- ◇ If the bands are biased in their design, there can be many losers.