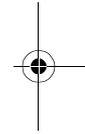
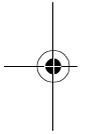


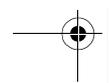
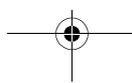
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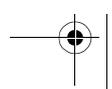
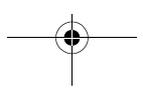
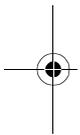
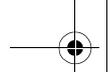
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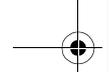
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Lisbon – October 8, 2007

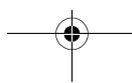
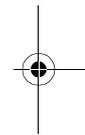
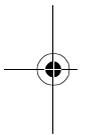


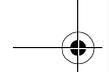




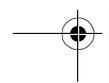
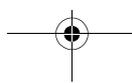
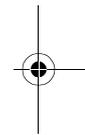
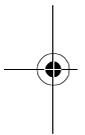
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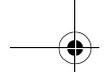
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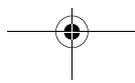
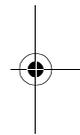
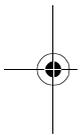


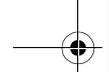


## FOREWORD

The EU-Mercosur bi-regional trade negotiations have been practically suspended since October 2004, but are due to be restarted before the end of 2007. The chances that these talks will move forward are closely linked to the multilateral Doha Round and its uncertain results. The business community on both sides of the Atlantic, is paying a high cost, in terms of lost opportunities and competitiveness, for the bi-regional negotiations' present standstill. For European and Mercosurian business sectors alike, the biggest challenge today is to reach a consensus on a set of measures likely to promote the trade flows between the two regions that could also be implemented before the conclusion of a formal bi-regional agreement. This consensus would certainly generate positive incentives for the negotiations process.

Since 1999, the Chaire Mercosur de Sciences Po – through its Working Group on EU-Mercosur Negotiations (WG) – has been serving as an interface between business, negotiators and civil society. Our goal is to make a contribution to the preparations and monitoring of the EU-Mercosur negotiations, and to the discussion of the two region's positions in the WTO process and other trade negotiations with third parties. In 2007, in order to contribute to the unlocking of the stalled bi-regional talks, the Mercosur-European Union Business Forum (MEBF) commissioned the Chaire Mercosur de Sciences Po to launch a research program on some of the key issues affecting both the negotiations and the relationship between the two regions. Funds for the program were provided by the Inter-American Development Bank (IDB), and by companies





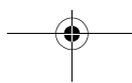
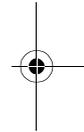
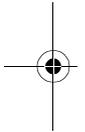
and organizations of the EU, Brazil and Argentina. The objective was to produce some new ideas and insights that could help the business community, on both sides, to develop common positions and an action plan for strengthening and deepening the bi-regional economic relationship, as well as having an impact in the negotiators' agenda.

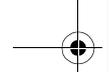
These "Briefing Notes" present – in a short policy-oriented manner – the main findings, conclusions and recommendations of our research program. The four main research themes – the present and actual state of the bi-regional talks, the question of EU market access to Mercosur's industrial exports, the neglected high importance of Services and the crucial issue of Business and Trade Facilitation – were presented and discussed in two workshops, held in Buenos Aires (September 11, 2007), and São Paulo (September 14, 2007). These *résumés* of the results of the two workshops were conceived as references for the debates of the MEBF's VII Plenary Conference (Lisbon, October 8, 2007).

Certainly, the most important finding of this research work was that there is no chance of a brake-through in the negotiations without a much more active involvement of business offensive interests in both sides. Many technical, regulatory and cooperation measures could be pushed and implemented without waiting for the signing of the bi-regional Association Agreement. On the other hand, only a well informed, organized and determined drive by the business interests that are in favor of an agreement can give a sense of urgency and more elbow-room to the governmental negotiators.

As the main bi-regional business forum, the MEBF will have to decide if it is willing or not to face the challenge of developing a more institutionalized and permanent presence. That means building the capabilities to actually define an action plan on the issues cited above and monitor its implementation, as well as to maintain a permanent dialogue with the negotiators and a capacity of "rapid response" in the public debate. After nearly a decade of unfruitful negotiations, to settle just for "business as usual", would probably lead the MEBF to outright irrelevance.

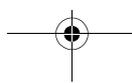
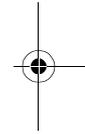
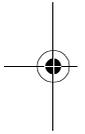
The Chaire Mercosur is grateful for the valuable contributions of the experts, business and government representatives, negotiators and public officials from Europe and Mercosur who participated in our two workshops. It extends its warm thanks to Jorge Enrico and Fernando Almeida, co-coordinators of the MEBF, as well as Paolo

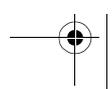
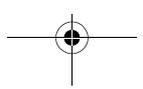
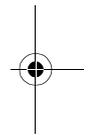
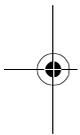
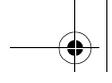


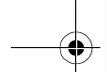


Giordano from the IDB, who supported this research program since the beginning. It is also very thankful to the MEBF-Argentina, to Soraya Rosar from the CNI and to Mário Marconini from the Fecomercio for their hospitality, and financial support and for ensuring that our workshops in Buenos Aires and São Paulo could take place in such pleasant and impressive settings.

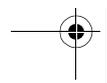
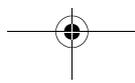
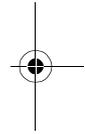
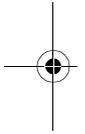
Alfredo G. A. Valladão  
Director of the Chaire Mercosur de Sciences Po  
Coordinator of the Working Group on EU-Mercosur Negotiations

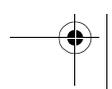
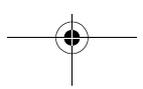
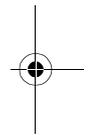
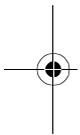
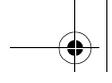


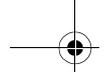




# EU-MERCOSUR TRADE TALKS Beyond the Standoff







## THE FUTURE OF AN ELUSIVE PARTNERSHIP

### *What role could the business sector play in deepening the Mercosur-EU relations?*

Félix Peña (Argentina)

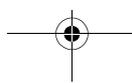
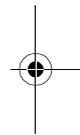
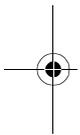
#### **Introduction**

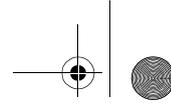
The strategic association between Mercosur and the European Union (EU) seems to be an elusive idea. After missing the October 2004 target, the negotiations of a bi-regional agreement are, in practical terms, almost paralyzed.

At the official level, however, both parts consider that the negotiations could be concluded in a relatively short term. Recently, both the President of the European Commission and President of Uruguay – acting Pro-Tempore President of Mercosur – have expressed their will to conclude the negotiations. Most probably, this will continue to be the official position of both sides, at least on the immediate future. Still, many observers and analysts maintain some doubts about the possibility of concluding an agreement within the next months. At least, if it intends to be an agreement that includes an ambitious free trade component.

Those doubts reflect the prevailing mood on the fate of the Doha Round. It is known that both, the bi-regional and the multilateral trade negotiations are *de-facto* related by a common element: the possibility of articulating a reasonable trade-off between what Mercosur could obtain in agriculture and the EU in access for industrial goods and services. It involves also the scope of exceptions that each part needs to include, as a result of their main sensitive sectors and products.

For that reason, it is difficult – but not impossible – to imagine that an ambitious bi-regional agreement could be signed before the conclu-





sion of the Doha Round. And the possibility of success, does not depend only on an eventual agreement between the two regions. Other protagonists are crucial and the United States above all.

Three related questions require some analysis. They are:

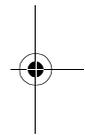
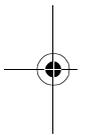
- *Concerning the present situation:* Why a negotiation process that was launched with such enthusiasm, raising great expectations, became almost paralyzed in the last three years?
- *Concerning the future:* Which are the most possible outcomes of the bi-regional negotiations within a foreseeable future?
- *Concerning the role of the business sector:* Could the MEBF play an active role in promoting the idea of a more intense cooperation among the two regions?

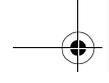
### ***Which is the actual situation of the bi-regional negotiations?***

The negotiations of a Mercosur-EU bi-regional strategic association were launched at the first LAC-EU Summit, at Rio de Janeiro in 1999. Previously, a framework co-operation agreement was signed at Madrid in 1995. It is still in force. Eventually, it could be a useful framework for a more intense bi-regional Mercosur-EU partnership that does not include trade preferences.

Formal negotiations began in 2000. According to the original concept that still prevails, they should be conclude by a bi-regional strategic association with three related pillars: political dialogue, economic cooperation, and free trade commitments consistent with WTO rules. After almost eight years, what is missing to finalize the negotiations is mainly the third pillar. No agreement was achieved in October 2004. Since then the negotiation is, in practical terms, in a stalemate. However, low transparency make it very difficult to evaluate the real progress obtained in any of the areas of the negotiations, including those apparently concluded – political dialogue and economic cooperation. Draft texts and substantial information are not included in the official Web page of any of the two parts. In some way, the negotiations have had a flavor of old fashion secret diplomacy.

As mentioned before, difficulties for the conclusion of Doha Round appear as the most common explanation for the actual situation of the bi-regional negotiations. However, other factors have had also an influence in the lack of results or in the difficulties to explore alternatives.



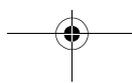
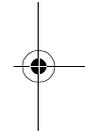
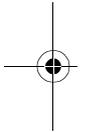


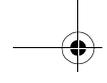
Those other factors could explain what appears to be an insufficiency of incentives, on both parts, to afford some of the main costs of concluding the negotiations (sensitivities in the agriculture sector in the case of the EU, and in the industrial sector in the case of Mercosur countries).

Among them, three factors could be mentioned as being apparently more relevant:

- **Deep changes in the international landscape since the original idea of a bi-regional strategic cooperation was launched.** Not only those changes have been dramatic at the global level (recalling only some of them: the emergence of new relevant protagonists on the economic competition field and, increasingly, on international trade negotiations; the new strategic relevance of energy and bio-energy; the environment agenda due, mainly, to the increasing evidence of weather changes). But also important developments could be observed at each of the two regions. Some of them are the result of the impact of global changes in their external priorities. Others are the result of the fact that nor the EU not even Mercosur, are the same they were in the nineties. The EU is larger, but also Mercosur has entered in a process of enlargement with the inclusion of Venezuela, not yet completely formalized.

- **The erosion of the initial enthusiasm for a strategic partnership.** On the European side, that enthusiasm had something to do with the earliest day idea that Mercosur was following the European model of regional integration. Together they could strengthen a multipolar multilateral global system. Gradually this image of Mercosur and its potential has been replaced by an increasing perplexity about its goals and its capacity to deliver what was promised, particularly in terms of an effective customs union. The recent incorporation of Venezuela, in some way has contributed to the European perception of what is even considered to be the failure of Mercosur. What is really Mercosur in terms of real economic integration? This is one frequent question raised by Europeans businessmen and economic integration specialists. Mercosur seems to have in Europe a strong identity and credibility problem. And on the Mercosur side, the original enthusiasm had a lot to do with the fact the EU was expected to promote a new model of relations involving a highly developed region and a group of developing countries. This enthusiasm diminished in view of what was considered to be a highly mercantilist approach on the European negotiating proposals, that were not perceived as taking in consideration the huge asymmetries of economic dimension and





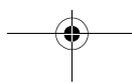
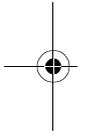
of degree of development among both sides. This approach didn't appear to be compensated with a more substantial effort of economic and financial cooperation.

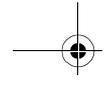
- **The fact that the idea of a Free Trade Area of the America's (FTAA) has failed.** In some way, the initial interest of the EU and its firms in a strategic association with Mercosur, had something to do with the possibility that a preferential treatment for American firms, would eventually affect their relative competitive positions within the markets of Brazil and Argentina. What is clear is that the virtual paralysis of the bi-regional negotiations since 2004, coincide with the collapse of the hemispheric negotiations.

### *Which are possible scenarios for the future development of the bi-regional Mercosur-EU association?*

At least three scenarios are foreseeable for the future of the bi-regional association. They are:

- **A successful or relatively successful scenario:** It would imply a conclusion of the bi-regional negotiations, before the next May LAC-EU Lima Summit or during 2008 as a result of a substantial political impulse eventually received at Lima. It would require, previously, the untying of the main agriculture knots that have paralyzed, until now, both the Doha and the bi-regional negotiations. Or it could require the acceptance of the idea of a two step negotiation at the bi-regional level, with step one including the strategic association agreement and a first stock of WTO consistent trade preferences, and then a "Doha-plus" second step, that could result from the conclusion of the present WTO trade negotiations.
- **A stalemate or "quasi-failure" scenario:** It would imply a "sine die" postponement of the actual bi-regional trade negotiations. The formal argument would be, in this case, that the negotiations should wait for the final conclusion of the Doha Round. Assuming that the DDA could eventually be concluded in 2009 or 2010, this would imply a similar delay for the bi-regional negotiations. Meanwhile the EU will concentrate its action toward Mercosur, in some economic cooperation programs, in their bilateral relations with each member State and, particularly, in the development of the strategic partnership with Brazil. An eventual bilateral preferential negotiation between the EU and Brazil has been excluded until now by both parts. But obviously, it is a hypothesis that should not





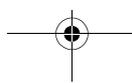
be completely excluded in the future, depending on the evolution of Mercosur within the next years, particularly on the development of its customs union and on the degree of flexibility that could finally prevail concerning trade negotiations of its member states with third countries.

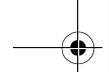
• **A pragmatic scenario:** It would imply a development of the main elements that characterizes a strategic association, temporarily excluding trade preferences and the signing of a new agreement. In this case, pending the conclusion of the present negotiations, strong action would be concentrated in the development of various elements that were included in the 1995 Madrid Framework Agreement. In most cases the full potential of the Agreement was not developed due to the high concentration of efforts since 1999 – both at the official and at the business sector level – in the bi-regional trade negotiation. Through the use of all the potential of the Madrid Agreement, a large part of the non-preferential elements of the Mercosur-EU relation could be covered. It would be even possible to introduce further developments taking advantage of its evolution clause. A political decision to take advantage of all the potential of the Madrid Agreement, could be complemented by an invitation extended by Brazil to its Mercosur partners, to participate in its bilateral strategic partnership with the EU.

In any of those scenarios – specially the first and the third one – and due to the asymmetries in the economic dimensions and the levels of development of both sides of the bi-regional relation, economic and financial cooperation should be considered the central pillar of a strategic association concept and program. It would have the effect of strengthening the functional interaction among the three pillars of the relation. The cooperation pillar would also facilitate the transition toward a more integrated economic space between the two regions. Within this idea of strengthening the cooperation pillar as a central element of the association strategy, the instrument of trade and business facilitation should be included as a central element.

### ***What could be the role of the business sector in deepening Mercosur-EU relations?***

The business sector through the institutional framework of the MEBF could play a leading role in the development of more intensive relations between the two regions, even if the negotiations do not



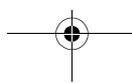
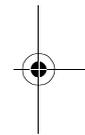
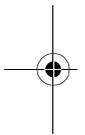


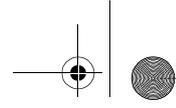
conclude in the 2007-2008 period. The role of the business sector as driving force of other special relations of the EU – for example, the Transatlantic Business Dialogue with the US or the ASEM Business Forum – should be taken in consideration.

It's contributions should be identified in a way that it could be implemented in any of the above mentioned scenarios. They should cover a very few high priority fields of action with a great potential of synergies among them. Energy and trade facilitation should be some of them. The main objective would be to introduce a new dynamic in the bi-regional process and, at the same time, to draw some lessons from other experiences, including those of the EU with Asia (ASEM). The selected priorities should also contribute to generate synergies with other business sector initiatives undertaken as a result of association agreements of the EU with other LAC countries – including those under negotiation with Central America and the Andean countries.

In any case, it seems convenient for the MEBF not to be limited to the trade negotiations agenda. Instead, it should be perceived by key businessmen of relevant countries of both regions and by the business associations, as the forum where to meet and to really talk about common concerns with high level officials of the Commission and governments – including the Ministers of Economy as in the case of ASEM. Obviously, issues related with the trade negotiations and the implementation of eventual agreements should be included. But particularly, it should be the forum to discuss substantive issues related with the long term agenda of economic competition and cooperation of the two regions, i.e. within the scope of the Madrid Framework Agreement, including the issues originated in their relations with China, India and other emergent economies.

How could be strengthen the capacity to work together in the energy field? Is an instrument similar to the Energy Chart Treaty useful to attract European investments to South America? Which is the real potential for bi-regional cooperation in the field of food production and of bio-energy? Should competitiveness and innovation be a main focus of the common agenda of firms and governments of the two regions? How firms of both regions could cooperate to take advantage of what China and India means as a source of opportunities in the new global economic competition landscape? Is it possible to have in the new regional political situation a real friendly environment for investments? How to strengthen cooperation in the field of trade facilitation and infrastructure development (for example within the IIRSA framework)? How to develop trilateral cooperation with least developed





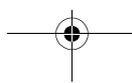
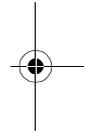
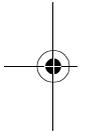
countries, for example through the participation of the EU in FOCEM?

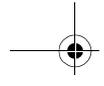
Those are only examples of the kind of issues that could be discussed within the framework of MEBF. In this broader agenda, MEBF could also take advantage of the technical analyses of relevant issues by several academic bi-regional networks. The role of MEBF in that case would be also to raise to the academic community some action-oriented questions related with substantive long term issues, as those mentioned before.

MEBF could eventually play a significant role in deepening the bi-regional relationship. But that role will largely depend on the dynamic interaction – between the EU Commission, the governments, the business sector and the academic institutions or social networks – that could be stimulated by a long term vision of the bi-regional association.

Perhaps that long term vision is what is missing in this moment, eventually explaining the relative anomy of the bi-regional strategic association process.

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## THE MERCOSUR – EUROPEAN UNION NEGOTIATIONS THREE YEARS AFTER THE IMPASSE: WHAT TO EXPECT?

Pedro da Motta Veiga & Sandra P. Rios (Brazil)

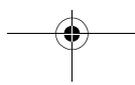
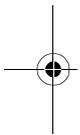
The negotiations to reach a bi-regional Association Agreement between the European Union and Mercosur have been at a standstill for almost three years. The impasse reflects the strength of defensive interests on both sides, but also the diffuse perception that concluding the bi-regional negotiations would depend on a clearer definition of what would occur in the multilateral sphere within the Doha Round.

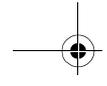
Between 2001 and 2004, the negotiations were marked by difficulties and small impasses that expressed strong resistance from both sides against putting on the table offers with real economic content, that is, offers capable of generating expectations of new flows of trade and investment between the regions.

In such a situation, the scenario of an impasse was always considered plausible by analysts and negotiators, and its chances of becoming concrete grew throughout the negotiations, reducing the probability of the alternative scenario, one characterized by an un-ambitious trade agreement.

Several factors seem to have concurred for the impasse scenario to prevail.

- First of all, the advance of the Doha negotiations increased the incentives for negotiators of the bi-regional agreement to place their bets on a wait-and-see strategy.
- Secondly, the perception spread within the Mercosur that if the agreement were signed on the basis of the offers made in May 2004, it would be heavily unbalanced against the countries of the bloc. This view was accompanied by concern in the Mercosur's





industrial sector with regard to the lack of definition in the area of trade rules, such as the drawback regime and rules of origin.

- Thirdly, European interest in the agreement also seems to have declined due to the European Commission's frustration with Mercosur's offers in different areas, as well as the realization that the bi-regional negotiations failed to contribute to pushing Mercosur towards a unified customs territory.
- Finally, the costs of internal coordination of Mercosur's negotiating positions grew significantly throughout as Argentina evolved in the direction of defensive positions in the industrial and services areas.

Three years after the impasse, the core question with regard to the prospects of the bi-regional process concerns whether and how the changes in the atmosphere of the negotiations over the last three years have had an impact on the structure of incentives that the negotiators were confronted with in 2004.

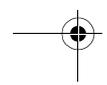
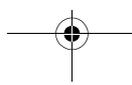
What changes occurred over the last three years in the environment in which the negotiations take place and how can they possibly impact the structure of incentives to negotiate on the bi-regional level?

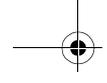
As for the political environment in which trade negotiations – and not only the bi-regional ones – occurs, the liberal agenda of the 90s has been replaced by an agenda to manage globalization and its negative impacts, both in developed and developing countries. The last three years have seen the consolidation of such an environment, in developed as well as developing countries.

Even though resumption of negotiations take place in a political environment dominated by domestic agendas reactive to new liberalization movements, there have been movements that point to these negotiations lending more priority to relevant actors on both sides.

Some of the factors that could stimulate new understandings are:

- Internal changes in Mercosur, as expressed by stronger demands of the small members for negotiations with the developed countries and by less resistance from Brazilian industry to an agreement with the European Union;
- The emergence of China as a relevant economic actor and powerful competitor for the industrialized goods from Europe and Mercosur in the markets of the two blocs;
- The new European “offensive” trade policy that targets Mercosur as one of its priorities in terms of trade negotiations, now all the





stronger with the launching of the initiative of strategic partnership with Brazil.

On the other hand some evolutions hamper these understandings moving towards a bi-regional agreement:

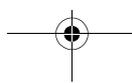
- The problems of internal coordination within Mercosur, where Argentina has become more and more reactive against any liberalization movement that might be seen as a threat to its industry;
- The eventual accession of Venezuela to Mercosur, producing new difficulties of internal coordination inside the bloc and increasing Europe's resistance to the agreement;
- The dissonance between the offensive trade agenda of the European Commission and the defensive national agendas of the European States, which try to strengthen their influence on the definition of European trade strategies.

The net output of these evolutions point to the fact that there are now stronger incentives to shift market access negotiations (for goods as well as services) from bi-regional to the bilateral track. The bi-regional association agreement includes many trade and non-trade issues and all of them, except the tariff liberalization schedules, would be negotiated bi-regionally. The differences among the bilaterally negotiated schedules for tariff elimination would be in force only during the transition period to the free trade situation (as in the Mercosur-CAN agreement).

On the other side, the "Doha variable" remains extremely relevant as a factor able to influence the prospects of the bi-regional negotiations. Two basic scenarios can be drawn for the evolution of the Round: in the first, the Round would be concluded in 2008, whereas in the second, attempts to reach an understanding regarding methods and modalities in agriculture and NAMA end in failure and the agreement is postponed.

Each of these scenarios opens up a pair of possibilities. The first scenario can materialize based on an agreement with varying degrees of ambition:

- **Ambitious agreement:** the agreement would be reached around the guidelines of the documents of the presidents of negotiating groups on agriculture and NAMA, as presented in July 2007. In this case, the efforts of the negotiators on both sides to "sell" domestically the concessions made at Doha will limit the likelihood of additional concessions in bi-regional negotiations being considered politically acceptable. The capacity of the European Union to make



additional offers (in agriculture) to Mercosur will be seriously limited by the political stress to approve domestically what was negotiated at Doha.

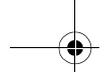
- **Minimalist agreement:** the result of Doha would clearly fall short of the agreement that would emerge from the proposals presented by the papers of the presidents of the negotiation groups. In this case, the frustrated offensive interests on both sides would pressure for complementary concessions in a bi-regional agreement, which could be satisfied by the margin for maneuver saved by the two blocs in the multilateral agreement.

The scenario where the Round does not reach a conclusion next year also opens up two possibilities:

- *Fuite en avant:* the principal players fail to reach an agreement as to methods and modalities, but negotiations are not formally suspended. This is the worst scenario for the bi-regional negotiations: the uncertainty associated with the eventual need to make concessions on the multilateral level would continue to limit the margin for maneuvers of the negotiators of both blocs in bi-regional negotiations, thereby preventing the Mercosur-EU agreement from reaching an outcome.

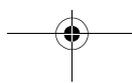
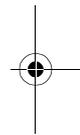
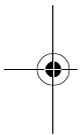
Scenarios for the Doha Round	Impacts on the MS-EU agreement
<b>1. Conclusion of the Round in 2008</b>	
• Ambitious agreement	• Failure of the bi-regional negotiations
• Minimalist agreement	• Conclusion of a biregional agreement complementary to the multilateral agreement
<b>2. Failure of negotiations</b>	
• <i>Fuite en avant</i>	• Non-definition in the bi-regional negotiations
• Suspension of negotiations	• Conclusion of a minimalist bi-regional agreement

- **Suspension of negotiations:** explicit suspension of negotiations will encourage preferential negotiations all around the world and this trend will be felt in bi-regional negotiations. The offensive interests will be frustrated by the results of the Round and will invest in the bi-regional negotiation. However, given the strength demonstrated by the defensive interests of the two sides at Doha (which led to the failure of the Round), it is not plausible to think about an ambitious bi-regional agreement. In this scenario, the



agreement will be un-ambitious and “customized” to meet the defensive concerns of the two blocs, while at the same time “saving the face” of the negotiators by providing some improvement in the conditions of market access to make the agreement “better than nothing” in the eyes of the offensive interests of both sides.

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## THREE YEARS AFTER THE “IMPASSE”: EU EXPECTATIONS OF NEGOTIATIONS WITH MERCOSUR

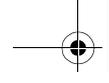
Susanne Gratius (Germany)  
& Manuel Cienfuegos Mateo (Spain)

### *State of Play*

An EU-Mercosur association agreement would create the largest free trade area of the world and the only one between two customs unions. The Chaire Mercosur de Sciences Po calculated the costs of non-integration at between €3.7 billion and €5 billion per annum. Even though, after 16 rounds, political negotiations between the EU and Mercosur were paralysed at the end of 2004, when both partners presented their full proposals. The stalemate did not mean the end of the process, but its follow-up at a technical and WTO level.

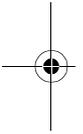
In these eight years of negotiations, both partners reached partial results: the two chapters on institutional and political dialogue and economic and development cooperation are defined. Nonetheless, the trade chapter is far from being concluded. The EU offered trade liberalization for 94% of products, Mercosur for 77%. Trade negotiations entered into the dynamics of a zero-sum game, where the main benefit of one side (liberalization of agriculture for Mercosur, industrial goods and services for the EU) were considered the main loss for the other.

For the EU, the main problem of the negotiations is agriculture: the sector accounts for nearly half of Mercosur exports; Brazil is its second and Argentina its third most important provider of agricultural products. To protect its farmers from competitive Mercosur beef, sugar, vegetables and fruits, the EU excluded sensitive agricultural products and the dismantling of non-tariff barriers such as domestic farm subsidies.



For the EU, the political costs of an agreement with Mercosur are high. Unilateral concessions on agriculture (the reduction of domestic subsidies) would create a conflict with European farmers, certain member states such as Ireland, France, Italy, Poland and Spain, as well as with third EU partners. Compared to this risk, economic gains are relatively low, given that the bloc represents 2% of the EU's trade and that even Brazil is only its 11<sup>th</sup> most import market. Nonetheless, with half of trade exchanges and more than one-third of investment flows, Mercosur is the EU's first economic partner in Latin America and the only market where European interests prevail over US assets.

A "free trade plus" agreement with Mercosur would create a safer market for Europeans, open new export and investment opportunities for European companies and guarantee privileged market access to Mercosur countries compared to their main competitors, China and the United States. A further side-effect would be the recognition and promotion of EU trade norms and rules including environmental and social concerns different to those of the US. On the political front, an agreement would underline the credibility of the EU's "inter-regional foreign policy doctrine" and further promote the European integration model in Latin America, taking into account that Mercosur is still the most promising platform in the region.

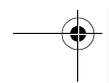
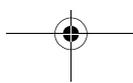


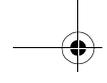
### ***Veto-players and driving forces***

The EU is a multiple actor with different interests and competing agendas. The power constellation with regards to an agreement with Mercosur is rather balanced:

- The European Commission's interests are divided between the DG Trade focused on the WTO Doha round, the DG Relex dealing with cooperation and political dialogue (the two chapters already concluded) and the DG Agriculture, defending European farmers' domestic interests. According to the Commissioner for Agriculture, Fischer Boel, "The EU will never be able to offer anything at the bilateral level of the order we were prepared to offer in multilateral negotiations".<sup>1</sup>
- EU member states are divided, along the CAP-reform line and their respective degree of interests in Latin America. While at the

1. Commissioner Fischer Boel: The Potsdam G-4 Meeting: a Wasted Opportunity. Brussels, 22 June 2007.

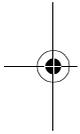




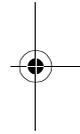
beginning of negotiations, the Brazil-Germany tandem was a strong incentive for the process, EU enlargement has increased the agriculture lobby and added new veto-players such as Poland to the anti-Mercosur-agreement group.

- The European Parliament, which is supporting and lobbying for an agreement, is the main political driving force for the reactivation and successful conclusion of negotiations. In the resolution approved in October 2006, the EP “calls for a stronger political impetus and commitment at the highest level” and suggests decoupling negotiations from the WTO Doha round.
- EU companies’ interests in Mercosur are limited but, apart from the agro-industry, European businesses are strongly in favor of an agreement. Particularly the MEBF has become an important pressure group and motor for ongoing technical negotiations.

Consequently, the EP and the MEBF are the main driving forces for an EU-Mercosur agreement, while the main veto-players are the agriculture lobby, parts of the European Commission and an important group of member states.

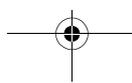


### *Constraints and incentives for an agreement*



While security and development interests are limited, the promotion of integration and commercial interests are the main European motivations for negotiating with Mercosur. While agreements with Chile and Mexico have been a “defence strategy” against trade diversion effects of bilateral FTAs with the United States, in the case of EU-Mercosur, China is the main external incentive. The context of negotiations is completely different from 2004, when EU-Mercosur negotiations stalled:

- **The WTO Doha Round** is both an incentive and a constraint. EU-Mercosur negotiations “continued” at the global WTO-level following the Lamy-doctrine: no regional or bilateral agreement with Doha. In multilateral negotiations, the EU offered to cut its farm tariffs by more than half, to reduce its domestic farm subsidies by 70% and to eliminate export subsidies until 2013. High expectations diminished after the failed G4 meeting in June 2007 in Potsdam. Due to domestic reasons, the United States is vetoing any compromise on domestic farm subsidies, while developing countries are reluctant to make major concessions in the industrial and service sector. The failure of the Doha Round or its successful



conclusion could either reactivate or paralyse EU negotiations with Mercosur.

- **US Trade Policy** was the main incentive for the EU-Mercosur process until 2004 and is now a further constraint on negotiations. The Trade Promotion Authority (TPA) ended and, although it would be an incentive, its short-term approval is highly unlikely. Moreover, the deadlock of FTAA-negotiations in 2005 is a disincentive for EU-Mercosur negotiations. In this new context, EU-Mercosur negotiations no longer represent a trade defence strategy against US interests.

- **China** is a new incentive for negotiations. The fourth largest economic power and WTO member has become a major player in the EU (its second trade partner) and Mercosur (its third largest export market). China could replace the United States as the main competitor of the EU in Mercosur and justify a new trade-defence strategy. The EP considers an agreement with Mercosur as a “top-priority objective in a context marked by the appearance of new trading interests, especially in Asia”.

- **EU internal dynamics** imply constraints and incentives. EU enlargement from 15 to 27 states reduced the weight of traditional Mercosur partners such as Germany and Spain, while new members, whose interests in Mercosur are limited, tend to oppose an agreement. A substantial reform of the CAP is still pending. According to its results and timetables, it could be an incentive or a constraint for negotiations. Major changes are rather unlikely until 2013, when the CAP budgetary lines (43% of total EU funds) expire. The current EC trade negotiations team and a possible WTO-stalemate could lift the “Lamy-doctrine” and reactivate EU’s negotiations with Mercosur.

- **Mercosur’s internal dynamics** are more an obstacle than an incentive for negotiations. Intra-bloc trade fell from 25% in 2005 to 13% in 2006. Mercosur was transformed from an economic to a political and social project. The bloc’s credibility diminished due to low respect for common norms and rules, the absence of a concerted policy in key European interests (services, investment, government procurement), trade disputes, an divergence of interests between Argentina and Brazil and a decreasing commitment on the parts of Paraguay and Uruguay. Furthermore, Brazil initiated new South-South relations with China, South Africa and India. These dynamics reduced European enthusiasm on Mercosur and increased its trade deficit with Mercosur.

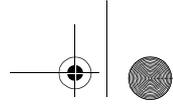
- **Venezuela and energy:** Venezuela's leadership ambitions in South America and its request for full membership led to a politization of Mercosur and challenges Brazil. Venezuela is both an incentive and constraint for negotiations. While uncertainties on Venezuela's possible ideologization of Mercosur constitutes an obstacle for negotiations, its membership would also offer new business opportunities for Europe, particularly in energy (oil and gas), but also in services and industrial goods.

- **Strategic partnership EU-Brazil:** From an EU perspective, Brazil is the cornerstone and major driving force for the future of EU-Mercosur relations. The bilateral strategic partnership defined in July 2007 is a response to Brazil's size and active role in global politics. Given that Brazil is a key negotiator in Mercosur and the WTO, the new quality of bilateral relations will contribute to new inter-regional dynamics. From a European viewpoint, the strategic partnership is an incentive, given that any trade concession or agreement with Brazil could be extended to the rest of Mercosur member states.

### *Scenarios*

According to the EU, multilateralism is the best, inter-regionalism the second best and bilateralism the third best option. Nonetheless, in practice, WTO negotiations did not reach substantial progress and although the EU proposed "FTA-plus agreements" to different regional entities (CAN, Central America, Mercosur, Gulf Cooperation Council, ACP), the EU exclusively signed bilateral agreements (Chile and Mexico in the Americas). With regards to Mercosur, three possible scenarios can be identified:

- **Negotiations EU-Brazil:** Following the example of other strategic partners of the EU such as South Africa, the definition of a strategic partnership with Brazil makes the scenario of a bilateral association agreement between the EU and Brazil more likely. A possible option would be the signature of a bilateral deal and the later extension of the agreement to the rest of Mercosur members following bilateral negotiations.
- **EU-Mercosur agreement.** A full agreement, including all products in trade liberalisation is rather unlikely and depends mainly on the results of the WTO Doha Round. The EU would probably exclude domestic farm subsidies in an agreement with Mercosur



and offer large periods of trade liberalization for sensitive products, while Mercosur would temporarily protect several industrial goods and extend the deadlines for services up to ten years allowed by the WTO.

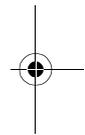
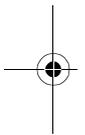
• **No EU-Mercosur agreement.** A stand-off or end of negotiations would be the worst-case-scenario. A failure of the WTO Doha Round, a spill back of integration in Mercosur and of the CAP reform in the EU could lead to the definite stalemate of negotiations. The economic and political costs of a non-agreement would be high and confirm the hypothesis that, at least in trade issues, the EU had abandoned its inter-regional policy doctrine.

### *Recommendations*

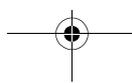
– Create a strategic alliance and lobby group between the main driving forces of an agreement: the MEBF, the EP and certain member states;

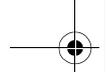
– Promote a CAP reform underlining its comparative advantages for EU member states and civil societies;

– Explore the new window of opportunities offered by the strategic partnership between the EU and Brazil to reach further progress on trade beneficial for EU-Mercosur relations.



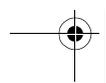
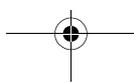
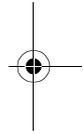
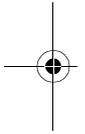
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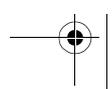
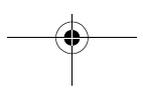
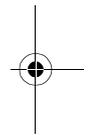
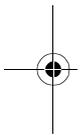
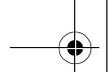




# MERCOSUR INDUSTRIAL EXPORTS TO THE EU

## Real or Imaginary Barriers?





## EXPORTS OF MANUFACTURED GOODS FROM MERCOSUR TO THE EUROPEAN UNION

### *The Viewpoint of the Business Sector*

**Sandra Polônia Rios (Brazil)**

There is a widespread perception in Mercosur that the negotiation of a free trade agreement with the European Union interests mainly the agricultural and agro-industrial sectors, whereas the industrial sector has the US market as its main target. This hypothesis is based on the marked difference observed in the composition of Mercosur's exports to its main trade partners – the United States and the European Union.

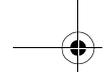
This study discusses the extent in which this perception is supported by the recent evolution of trade flows between the two blocs and intends to identify some offensive interests of Mercosur industrial sector in the bi-regional trade.

The study selected sectors in which exports to the US market performed better than to the EU market, based on a detailed analysis of the exports composition of each Mercosur country and of US and EU imports.

Besides the statistical analysis, interviews with companies and business associations from the selected sectors were conducted in an effort to identify the factors that could explain the differences observed in the export performance in the two markets and to draw policy recommendations geared at increasing the exports of the selected products and sectors to the European market.

The analysis of the trade data does not support the idea that there is a relevant problem in the composition of Mercosur's exports to the European Union. The following results deserve attention:

- There is actually an important difference between the composition of the exports of Mercosur countries to the United States and

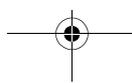


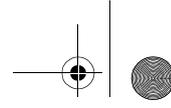
to the EU. Manufactured goods have a larger share in the exports to the US than in the sales to the EU. Uruguay is the exception in relation to this feature: manufactured goods have a larger share in Uruguayan sales to the EU than to the US;

- The larger relative share of basic goods in the exports to the European Union can be explained by the fact that Europe is a major importer of Mercosur agricultural goods, which reflects the comparative advantages between Mercosur and that bloc;
- Exports of manufactured goods from Brazil and Uruguay to the European Union have shown significant rates of growth and increased their share in the exports to this market over the last ten years. This was not the case as for Argentina and Paraguay;
- There is a relevant difference in terms of the value of manufactured products exported by Mercosur to the European Union and to the United States. Nevertheless, this difference can largely be attributed to the differences in the absolute sizes of the two importing markets. In 2005, the total imports of manufactured goods in the United States were US\$ 330 billion higher than the EU imports of similar goods;
- To eliminate the market size bias, the analysis focused on the market-share of Mercosur countries in the US and EU imports of manufactured goods. The share of Argentina in the US imports of manufactured goods is three times its participation in the EU market (0.14% and 0.05%, respectively). In the case of Brazil, the difference in the country's market-share in the two markets is small and has been diminishing in the last years. In 2005, the share of Brazilian exports in the imports of manufactured goods in the US was 1.28% against 1.14% in the EU;
- Even in the case of Brazil, where there is no expressive difference, for the total of manufactured goods, between the performance of exports (as measured by market-share indicators) in the US and the EU markets, there are some relevant differences in the export performance of some specific sectors and products;

Based on the market-share and export composition analysis, some products from the sectors listed below were selected according to differences in their performance in the EU and the US markets:

- Argentina: processed wood, leather manufactures, leather auto-parts and steel products.
- Brazil: chemical products, textile clothing, marble and granites, ceramic products, steel goods, machines and equipments and aircrafts.





- Paraguay: processed wood, leather manufactures, insecticides, cotton yarns, sugar and cigarettes.

- Uruguay: wool clothing and wood manufactures.

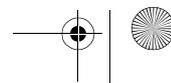
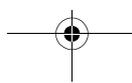
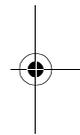
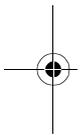
- The level of protection in the European market for the selected products is of little relevance, albeit slightly higher than the one prevailing in the United States. Goods in the textile sector are the most protected in both cases, but for most products the level of protection faced by Mercosur goods is similar in both markets;
- The United States offers unilateral preferences for Mercosur countries in the GSP for about one third of the goods selected, whereas the European Union GSP offers complete exemption of tariffs for nearly half of these goods, in addition to tariff reduction for some others;
- Among Mercosur countries major competitors in the European bloc for the goods selected are members of the EU, the United States, China, Switzerland, Turkey and India. It bears noting that among the main “extra-bloc” competitors, two countries have free access to the European market: Turkey and Switzerland have free-trade agreements with the European Union.

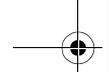
The information culled from the interviews held with companies and business organizations, together with the statistical analyses, shows that the difference in the performances of the selected goods in the two markets is in most cases explained by sectorial specificities associated with characteristics of the goods and markets, strategies of Mercosur companies, and insufficient diffusion of the quality and trademarks of Mercosur goods. For some sectors, the difference in market access conditions to the European market for Mercosur producers and for competitors from countries that have free-trade agreements with the European Union can jeopardize the competitiveness of Mercosur products.

The analysis of the trade data and the sectorial information enable some preliminary conclusions to be drawn:

### ***Market access***

Most of the goods selected in this study are not confronted by high tariffs in the European Union, and many of them enjoy the unilateral preferences of the European GSP. It seems that there is a correlation between the technological intensity of the goods exported and the kind of barriers that they face: manufactures based on natural resources or low technology goods tend to face tariff and sanitary barriers, whereas





goods which are intensive in technology are more frequently subject to obstacles related to technical standards and regulations.

Some goods are not benefited by the GSP and face tariffs that, although moderate, are high enough to make it difficult for Mercosur countries goods to compete with suppliers from countries that already have free-trade agreements with the European bloc. *For these products, negotiating a trade agreement that eliminates import tariffs can make a difference.*

Although the bulk of technical standards and regulations required by the EU do not constitute non-tariff barriers, companies mentioned the costs of complying with European standards and directives in the areas of technical and environmental norms. *Hence, it is desirable to strengthen cooperation between Mercosur and the European Union in the area of technical and environmental standards.*

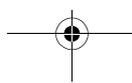
### ***Strategies of multinational companies***

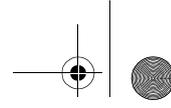
There is a perception in Mercosur countries that the head offices of European multinational companies tend to segment the exports of their branches by geographical area and incentive their Mercosur branches to exploit the Western Hemisphere markets, while restraining the exports of these branches to the European market.

The answers of the interviewees concerning this tendency are not unanimous, which indicates that even though these strategies may be adopted by some corporations, this cannot explain differences in sectorial performance. In some cases, exports segmentation is related to the fact that goods produced in the Mercosur countries fit quite well the preferences and requirements of the US market or that the exports of the Mercosur branches benefit from the US GSP, giving it a price-related advantage over the EU exports.

### ***Compatibility between Mercosur offer and the European demand***

Some of the selected products find a smaller demand in the EU than in the United States market, due to customer preferences: the EU demand for sophisticated and differentiated products or specific requirements (from the EU side) to participate in productive chains based on high quality inputs and products.

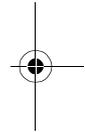
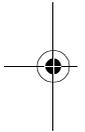




For many of the sectors selected, European producers are or were strong competitors for Mercosur countries' goods (this is the case of marble and granite, ceramic goods, aircraft, steel and textiles products). In other words, the European Union market is (or was) supplied mostly by companies of member countries. Mercosur countries exports to the European bloc in these sectors tend to face very severe competition, and – as a consequence of this – in some cases they concentrate exports on goods which are in the initial stages of the productive chain, thereby discouraging sales efforts to this market.

### ***Strategies of Mercosur companies***

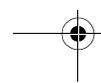
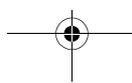
United States total imports of goods from the selected sectors are very high and Mercosur companies have been exporting some of these products to this market for several decades. This effort to “focus” on a demanding and competitive market such as the United States stimulated the companies in these sectors to invest in initiatives to make their trade-marks known, adapt products to the demands of consumers, engage in agreements with large distributing networks and wholesale chains and set their own distribution centers. These efforts have been yielding results. In general, initiatives concerning geographical diversification in these sectors are geared to markets other than Europe. Nonetheless, for some of these sectors, efforts as to geographical diversification of exports to the European market seem to have become more intensive in the last few years.

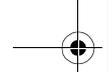


### ***Information barriers***

Two types of barriers to sales on the European market mentioned by the companies interviewed are related to information problems. The first one results from the broad cultural diversity among the various countries that make up the European market. This feature demands from the exporters deeper familiarity with the preferences and ways of developing business in such different markets. This type of barrier is more relevant for medium-size and small firms, and can be alleviated by *initiatives on the part of Mercosur countries trade-promoting agencies to spread information to domestic exporters.*

The second type of information barrier is related to lack of credibility with regard to the quality of the products exported by Mercosur



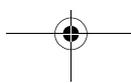
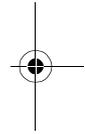
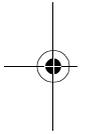


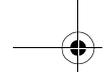
countries. In most cases this constitutes a barrier to entry, and once the companies have overcome it, they have no problems concerning the technical standards and demands of European consumers. Overcoming this barrier calls for *joint actions on the part of trade-promoting agencies, sectorial business organizations and companies campaigning to publicize the trade-marks and quality of Mercosur goods.*

### ***Agenda for domestic competitiveness***

*The issues related to the agenda of domestic reforms to foster competitiveness were mentioned by the large majority of companies interviewed as the main obstacle to spurring exports.* These reforms include the reduction of port and freight costs and the tax burden over investments, exports and production, among others. This is a question that does not affect specifically exports to the European Union, but it becomes particularly relevant in markets in which competition with local or geographically better located suppliers is intense. This is the case of the European Union for many of the sectors selected.

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## PARAGUAY: EXPORT PATTERN TO THE UNITED STATES AND THE EUROPEAN UNION

Fernando Masi & Francisco Ruiz Díaz (Paraguay)

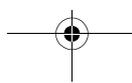
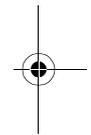
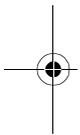
The purpose of this study is to reveal and estimate the degree of asymmetries in exporting manufactured and semi-manufactured products from Paraguay toward different markets, namely the United States of America (USA) and the European Union (EU). This exercise will attempt to explain, in part, the potential of manufacturing export growth in Paraguay to different markets in the world.

Two different approaches will be used to assess the subject. The first one regards manufacturing export competitiveness as related to the different sizes of the importing markets (Markwald y Machado, 1998)<sup>1</sup>. The second one measures competitiveness as the capacity of an export product to get in and remain in a foreign market, competing with local manufacturing and from the rest of the world (Market Share)<sup>2</sup>. In the first case, the export pattern of Paraguay to the USA and EU markets is classified for comparison in selected products for the 1990-2006 period. In the second case products are classified in terms of competitiveness differential in both markets for 2002 and 2005.

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1. These authors have found that a significant difference in Brazil export patterns toward the USA and the EU owed to the different sizes of the importing markets.

2. It measures the relative participation of an export product within total imports of a destination market.



### **General Trends**

Agriculture participation in Paraguay's GDP is relatively high (27%) and about two thirds of its exports has consisted of basic agricultural products during the 1990-2006 period. However, and with the exception of 2005/6, commodities exports have experienced a relative diminishing trend to provide space to manufactured (14%) and semi-manufactured (13%) export goods.

Manufactured and semi-manufactured products represented about 18% of total exports at the beginning of the 90s, increasing this participation to 27% of the total by the end of the period. Participation of manufactured products alone has doubled during the same period, and has proved to be more dynamic than semi-manufactured products.

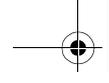
**Table 1**  
**Paraguay: Export Patterns**

Years	Average ( in million of US\$)				Participation (%)			
	Basic Products	Semi-Manufactured	Manufactured	Total	Basic Products	Semi-Manufactured	Manufactured	Total
1990/1	696	85	66	847	82	10	8	100
1995/6	650	142	187	979	66	15	19	100
2000/1	634	121	175	930	69	14	16	100
2005/6	1308	230	259	1797	73	13	14	100

Source: Elaborated with data of the Central Bank of Paraguay (BCP)

### **Export to the USA and EU markets**

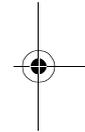
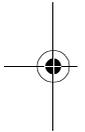
Historically, Paraguay's exports to the European markets have been concentrated in commodities or basic products. Over the last two years (2005/6) Paraguay exported, on average, US\$ 305 million in basic products to Europe, while US\$ 23 million were exported as semi-manufactured products and US\$ 26 million of manufactured ones. On the contrary, exports to the United States markets have concentrated in manufactured products representing more than two thirds of total exports to that market in the 1990-2006 period.



However, taking into account only manufactured products, the USA and the EU markets have absorbed 14% of total manufacturing exports of Paraguay, each one. In turn, participation of the USA and EU markets in total manufacturing exports is only half of all manufacturing exports to Mercosur. Actually Mercosur and the Rest of the World markets have been the principal recipients of Paraguay manufacturing exports in the whole period studied.

Manufacturing exports to the EU market during 2005/6 have mainly consisted of wood and leather manufacturing, textiles, cigarettes, essential oils, animal products and beverages (fruit juices). In the case of the USA market, the manufacturing export structure is similar to the EU market. Two thirds of manufacturing exports to the USA market has concentrated in 15 tariff items of the Harmonized System (HA). On the other hand semi-manufactured products exported to the EU and the USA markets, are concentrated on leather, timber, refined sugar, and vegetable oils

### *Analysis of the export pattern*

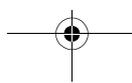


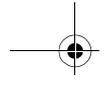
In order to determine the degree of symmetry in the export pattern of Paraguayan manufacturing products to the USA and EU markets, the Markwald-Machado methodology is applied, introducing certain corrections, so to adapt it to the international trade pattern for Paraguay as a small country. Particularly, adjustments were introduced to the selection criteria of competitive manufacturing products exported to USA and the EU. Products selected were those whose export figures have been greater than US\$ 100.000, on average, on the 2004-2006 period<sup>1</sup>.

Following the adjustment of the Makrwald-Machado criteria, 21 products ( 18 manufactured and 3 semi-manufactured), have been selected, equivalent to 67% of all industrial products exported to the US market and only 12% of all industrial goods exported to the European market. As a first observation the competitiveness gap is larger in the case of semi-manufactured products than in the case of manufactured products when both destination markets are compared.

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1. The proposed methodology is base on the following: if a product is exported to the US market with all international requirements in terms of technical, quality and sanitary standards, this product is considered as competitive. For the same reason, the same product could also be considered competitive for other markets like the European Union.





Manufactured exports products to the US market is 19 times greater than in the case of the EU market, while semi-manufacturing exports to the US market is 456 times greater than to the EU market. This first comparison indicates certain specialization asymmetries in terms of industrial products exported by Paraguay to both markets.

In terms of the differential rates of competitiveness of products between both markets, semi-manufactured products (sugar, vegetable oils and timber) show a specialization pattern for the US market rather than in the EU market. In the specific case of sugar (mainly organic sugar) the US market participation is 534 times greater than the participation of the EU market. Likewise, manufactured products from Paraguay are preferred by the US market much more than the European market: out of 18 manufacturing products, 14 of them show a specialization pattern in the US market.

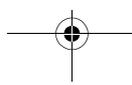
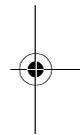
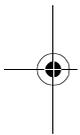
### ***Market share as determinant of competitiveness***

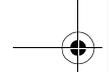
In order to use the market share methodology to select export products of Paraguay to US and EU markets the threshold for market share competitiveness has been fixed for those products that are equivalent or superior than 0,1% of all imports from the United States and from Europe. Thus, selected products represented 83% of total industrial products imported by the US market from Paraguay, and 38% from the EU. Competitiveness gap between the US and EU markets has been observed for 15 industrial products, from which only one product correspond to the semi-manufactured category.

In terms of the manufacturing group, US imports from Paraguay amounted to US\$ 36 million on average for 2002 and 2005, respectively, in comparison to only US\$ 11 million imported by the EU market. Asymmetries in the pattern of export competitiveness are clearly observed in goods such as cigarettes and sugar. Moreover, out of 14 manufacturing products, 6 of them are not registered as imported by the EU market, representing the major export competitiveness asymmetries for both markets. They are timber products, leather products, insecticides and cotton threads.

### ***Conclusion***

Paraguay's exports are based on agriculture commodities and on manufacturing based in natural resources. Manufacturing products are

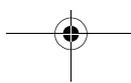
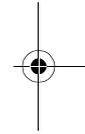
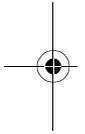




not much diversified and they have, on average, low levels of competitiveness. However, exports of manufacturing products to developed countries have provided signals of potentially increasing supply exports and of competitiveness. In the case of the US and EU markets, there is a paradox in terms on industrial exports. The US market represent only about 5% of total exports of Paraguay, yet near 90% of all goods exported to that market are manufactured or semi-manufactured, mainly based on natural resources. On the contrary, Paraguay's exports to the EU represent about 20% of the total exports, but only 38% of those exports are based on manufactured and semi-manufactured goods. However, exports of manufacturing products from Paraguay have steadily increased to both markets in the same proportion. In the case of US market, exports of semi manufactured products have also experienced growth. Finally, and as indicated by two different methods of analysis, manufacturing and semi manufacturing products have demonstrated greater competitiveness in the US market than in the EU market.

There are several causes that explain the competitiveness gap between both markets for exporting industrial products. One of them has to do with tariff differentials in some products based on natural resources. A second reason is related to different market requirements and facilities offered by both markets. A third one is also related to the industrial capacity of the exporting country in terms of both markets and on exporting culture of Paraguay. In other words, Europe has historically been recipient of commodities exports from Paraguay and this trend has been slowly changing over the last years, which is not the case of the US market.

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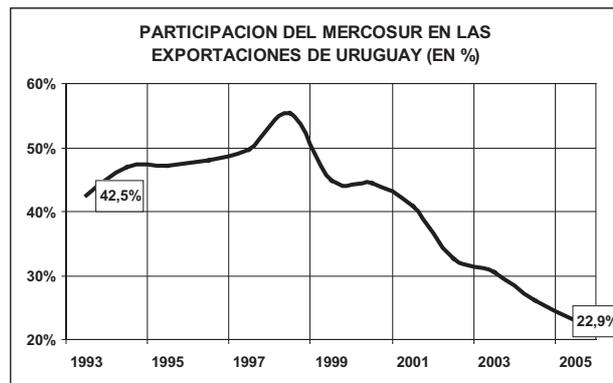


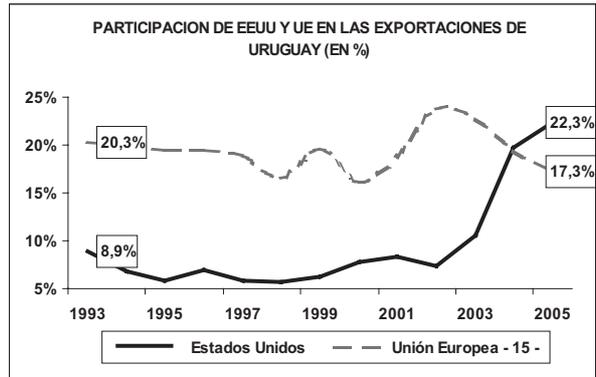
## THE PATTERN OF MERCOSUR MANUFACTURED PRODUCTS EXPORTS TO THE EU

*An Approximation to Business Strategies Analysis:  
the Case of Uruguay*

**Ricardo Rozemberg & Gustavo Svarzman (Argentina)**

Uruguayan exports have shown an important dynamism in the last few years. Sales to the rest of the world went from an annual average of US\$2.177 million in 2000-2001 to one totaling US\$3.704 million in 2005-2006 (a 70% increase). Being a small economy, Uruguay is a natural trading partner of bordering countries (the Southern Cone), and, to a lesser extent, of large world economic powers (the E.U. and the U.S.). In spite of this, however, and as a result of the region's complex productive restructuring processes (in particular the process of import substitution in the Brazilian food complex), the importance of the regional market has fallen considerably over the last decade





Source: own elaboration based on COMTRADE

At the same time, it is interesting to highlight some changes observed in the absolute and relative trading importance of world trade powers on Uruguay's foreign trade map. Thus, while the E.U. held its stance as partner on the order of just under 20%, the U.S. went from representing percentages considerably below 10% of Uruguay's total sales in the 1990s to over twice that sum as from 2003-2004. If five years ago the importance of the European market doubled that of the U.S. market, the U.S. today exceeds the E.U. as a destination by more than 20%. This phenomenon, having taken place independently of macroeconomic factors and without the signing of any trade agreement with the U.S., is bound to hold important implications for Mercosur's internal and external relations strategy<sup>1</sup>.

### ***On exports of manufactured products***

Manufactured products currently represent nearly 40% of Uruguay's total export supply to the world. These types of products, nonetheless, only account for 15% of Uruguay's sales to the E.U. and 12% of those destined for the U.S.<sup>2</sup>

1. For more details on this data, please see INTAL, Mercosur Report, Number 11.

2. Despite this, even though Uruguay's presence in the US's and EU's total purchases is marginal, the share of Uruguayan manufacturing products in the whole of US imports is double their share in EU imports (0.008% vs 0.004%).

**Exports Uruguay**

	2000-2001		2004-2005	
	EU	USA	EU	USA
BASIC GOODS	222.628.622	52.803.819	309.290.118	443.325.710
MANUFACTURED	50.171.601	57.533.395	83.323.141	83.366.436
SEMI-MANUFACTURED	106.052.209	73.210.999	96.519.198	14.163.001
Overall total	378.852.209	184.210.999	553.123.045	688.527.205

Source: own elaboration based on COMTRADE

For their part, Uruguayan manufacturing exports to the U.S. are strongly distorted by the influence of fuel sales during the 2004-2005 biennium. These shipments do not constitute regular sales on Uruguay’s part, but rather are exclusively accounted for by the existence of “once and for all” surpluses.<sup>1</sup> Not only is the share of manufactured products greater in Uruguay’s exporting pattern to the E.U., compared to the U.S., but also this trend is even more pronounced if we exclude fuel sales.

Likewise, the last five years have seen a sharp decline in the relative share of manufactures in the structure of Uruguay’s sales to the U.S., falling practically by 50% in relative terms. This phenomenon has nothing to do with an absolute contraction in the sales of these products<sup>2</sup> to the US market, but instead to the nearly tenfold increase in the sales of basic products. This is mainly explained by the considerable growth of frozen beef exports, which in 2004-2005 exceeded US\$ 440 million (versus the US\$ 25-30 million they represented at the beginning of this decade).

**Uruguayan exports to the U.S.**

Concept	2000-2001	2004-2005
BASIC	28.8%	82.0%
MANUFACTURED	31.3%	15.4%
SEMI-MANUFACTURED	39.9%	2.6
Overall total	100.0%	100.0%

Source: own elaboration based on COMTRADE

1. We add here that Uruguay is a strong net oil importer.  
 2. Which, on the contrary, went from US\$ 57 million in 2000-2001 to US\$ 83 million in said period.

In short, the basic hypothesis that Mercosur countries are able to sell industrial manufactures to the U.S. in better conditions than they can to the E.U. does not appear to hold true in the case of Uruguay. However, in a “closer” review of the trade data existing between Uruguay and mature economies one can observe some products in which the aforementioned condition is satisfactorily met. These are, namely, wool-based clothing products (their manufacture has been a traditional activity in Uruguay for at least the last three decades), conifer wood (a relatively new activity, derived from promotional programs put in place in the 1990s), some types of auto-parts, magnetic tape and certain chemicals.

**Uruguayan exports 2004-2005**

**In dollars**

		<b>World</b>	<b>EU</b>	<b>US</b>
440710	Sawn or polished conifer wood	8,205,497	141,005	4,760,703
611011	Wool or fine-hair sweaters	5,318,550	441,150	3,326,171
681310	Brake linings and pads	5,559,397	240,569	3,081,163
620331	Jackets of wool	3,450,101	0	2,861,625
511211	Combed-wool knits	23,238,783	614,983	2,438,859
852453	Magnetic tapes, discs, tapes	2,005,456	0	1,757,769
291470	Halogenated nitrates	3,267,300	629,412	1,596,521
760429	Aluminum bars and profiles	3,432,432	34,873	1,323,797
440799	Sawn or polished wood	12,199,204	1,666,054	8,186,979

Source: own elaboration based on COMTRADE

***Better understanding the process***

Once those products seen to have an export profile closer linked to the U.S. market as compared with the European one are selected, the sample was reduced to five products grouped under two activities: clothing and woods. On a first analysis of the selected products, taking into account trade flows, tariff and non-tariff trade barriers, and conversations with some representatives of chambers and firms, the following preliminary reflections arise<sup>1</sup>:

1. The study finds itself at the initial stages, as a result of which the summarized hypotheses must be considered very preliminary, able to be later confirmed or ratified in the final report.

• **Access to markets:** from the analysis of the tariff and non-tariff barriers faced by the selected products in the European market, it is noted that textile manufactures must pay medium average tariffs, which could play a certain role, fundamentally with respect to competition with producers from Eastern Europe and other regions which enjoy special preferences in the EU<sup>1</sup>. Despite this, and given the products' characteristics as being based on design, brand and specialty, these restrictions do not appear to greatly complicate their entry into the European market. Shown on the following chart are prevailing tariffs for the products analyzed, as well as mention as to whether they are subject to sanitary and phytosanitary measures<sup>2</sup> or other technical obstacles to trade<sup>3</sup>.

**Tariff and non-tariff barriers in the European market**

SA	Product	Tariff barriers		Non-tariff barriers
		Third-country tariff	General System of Preferences	
440710	Sawn wood	0.0%		MSF
440799	Other sawn woods	0.0%		MSF
511211	Wool knits	8.0%	6.4%	OTC
611011	Wool sweaters	0%		OTC
620331	Wool jackets	12.4%	9.6%	OTC

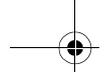
Source : own elaboration based on Taric

• **Restrictions on supply and development of new markets:** given the characteristics of the firms operating in the country, of their scale of production and export and of their (relatively) incipient appearance on the world scene, it is reasonable to think that these types of activities still find themselves at a commercial development stage, in search of inter industry linkages, compliance with technical norms, development of logistics and/or of identification of their respective demand niches or commercialization chains.

1. An additional benefit to the advantage of transportation cost over smaller distances from these regions to the EU.

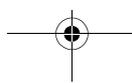
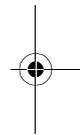
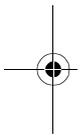
2. Among SPS measures are: product characteristics requirements; inspection, trial and quarantine requirements or other technical requirements.

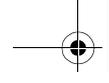
3. There are different types of TBT: product characteristics, packaging, and labeling requirements, as well as ones on product information, inspection or trials, or others.



In any event, we are always referring to business scales and volumes that are not greatly significant in terms of European or U.S. demand, with which it is quite possible that a good part of these results are caused by specific business decisions and that, up to now, one has not been able to determine a generalized pattern of behavior on the part of particular activity sectors.

\* \* \*





## THE PATTERN OF MERCOSUR MANUFACTURED PRODUCTS EXPORTS TO THE EU

### *An Approximation to Business Strategies Analysis: The case of Argentina*

**Ricardo Rozemberg & Gustavo Svarzman (Argentina)**

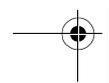
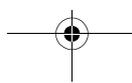
During the period 2000-2006 Argentine exports witnessed a strong global increase. At a 10% average annual growth rate, the amount of shipments sent abroad went from US\$ 25.7 billion to US\$ 45.5 billion<sup>1</sup>. A total of 44% of Argentina's sales abroad are manufactured products<sup>2</sup>, while 13% of exports entail semi-manufactured goods. Lastly, the remaining 43% are products defined as basic. Within the total of manufactured goods, 47% are based on natural resources, medium technology represents 39%, and the remainder are attributable to high and low technology.

The composition of clients throughout the world for Argentine products is quite diversified. The main destinations for exports are Brazil, the EU, Chile and the United States, which together represent 60% of all exports abroad. Between 2000 and 2006, Argentine exports to the EU rose at a 9% accumulated annual rate. However, the relative share of exports to the EU market dropped slightly, from 17.9% in 2000-2001 to 16.9% in 2004-2006. The make up of sales to the EU differs sharply from the overall Argentine export basket, with basic goods predominating in shipments to the Old World (representing 71% of total exports). On the other hand, manufactures represent just 19% of sales to the EU, with the remaining 10% of sales being of products defined as semi-manufactures.

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1. It is estimated that exports will reach US\$52 billion in 2007.

2. This classification, carried out by UNCTAD (1965) breaks down the products with respect to the degree of processing or added value of the merchandise.



**Chart 1. Argentine exports according to Degree of Processing (2004/6)**

Headings	EU		USA		World	
	US\$ Millions	in %	US\$ Millions	in %	US\$ Millions	in %
Basic	4.741	70.9%	1.025	25.3%	16.336	41.4%
Manufactured	1.286	19.2%	2.605	<b>64.3%</b>	17.993	<b>45.6%</b>
Semi-manufactured	657	9.8%	425	10.5%	5.170	13.1%
<b>TOTAL</b>	<b>6.684</b>	<b>100.0%</b>	<b>4.055</b>	<b>100.0%</b>	<b>39.500</b>	<b>100.0%</b>

Source: own elaboration based on Indec

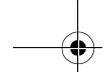
This basket not only differs from the average make-up of Argentine exports, but also from the structure of sales to other markets of developed countries, such as the US. In this regard, it is interesting to note that sales to the US witness, as well, a greater relative share of manufactures in relation to the global export pattern. Thus, while the US represents 14.5% of total Argentine manufactures exports, the EU only accounts for 7% of same. For its part, even though Argentina's presence in the US's and EU's purchase of manufactures is marginal, its share in total US imports is 50% greater than in those of the EU (0.21% vs. 0.14%).

**Chart 2: The relative importance of the EU and the US in total exports by heading**

Headings	Average 2000-2001			Average 2004-2006		
	EU	USA	World	EU	USA	World
Basic	28.0%	7.0%	100.0%	29.0%	6.3%	100.0%
Manufactured	8.7%	15.2%	100.0%	7.1%	14.5%	100.0%
Semi-manufactured	13.1%	14.4%	100.0%	12.7%	8.2%	100.0%
<b>TOTAL</b>	<b>17.9%</b>	<b>11.4%</b>	<b>100.0%</b>	<b>16.9%</b>	<b>10.3%</b>	<b>100.0%</b>

Source: own elaboration based on Indec

The aim of this paper is, therefore, to attempt to understand and explain some of the characteristics of this lesser manufacturing export bias in Argentine sales to the EU with respect to the US, obtaining a more complete description of the phenomenon as from business perceptions, for the purpose of extracting possible readings that can contribute to a greater export insertion of Argentine manufactures in the EU.

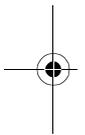


### ***Better understanding the process***

For the purposes of identifying some products in particular that observe these characteristics and thus be able to deepen the investigation of the phenomenon, a pre-selection exercise was carried out, considering manufacturing exports<sup>1</sup> in terms of Harmonized Tariff System (HTS) 6-digit level, whose average amount of sales to the U.S. in the last three years has exceeded US\$ 10 million and which at least quintupled the value of sales to the E.U. From this exercise, 14 products were identified, a sample which was later reduced to eight, with the aim of identifying business perceptions (Chart 3).

This set of products is elaborated by companies of different types and relative size. Thus, for example, goods derived from the basic iron and steel industries are elaborated by two large firms: Acindar and Siderar. Acindar is currently part of a transnational company of Indian origin, and Siderar is a branch of one of Argentina's most important groups: Ternium/Techint.

In the sector of first transformation woods, medium-sized national firms coexist with a transnational company of Chilean origin and another of Italian origin. On the other hand, leather semi-manufactures are represented by globalized Argentine companies, with a strong export tradition. Some of these firms have their own production plants in different countries around the world. In leather manufactures, only one company, funded by Argentine capital, has been identified.



### ***Some preliminary hypotheses***

On a first analysis of the selected products, taking into account trade flows, tariff and non-tariff trade barriers, and conversations and exchanges of opinion with some representatives of chambers and firms under study, the following preliminary reflections arise<sup>2</sup>:

- **Access to markets:** from the analysis of the tariff and non-tariff barriers faced by the selected products in the European market, it would appear, at first glance, that tariff-type restrictions are not determinant, although they might play a certain role, fundamen-

1. Excluding food products.

2. The study finds itself at the initial stages, as a result of which the summarized hypotheses must be considered very preliminary, able to be later confirmed or ratified in the final report.

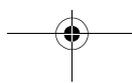


Chart 3: Selection of products and companies \*

sector	SA	PRODUCTO	NOMBRE	Estados Unidos			Total EEUU	UE			Total UE	Suma EEUU + UE
				2004	2005	2006		2004	2005	2006		
maderas	440710	Madera aserrada de coníferas	ALTO PARANA SOCIEDAD ANCONIÑA	19.984.252	20.720.787	16.848.050	57.554.090	127.163	45.456	355.469	528.089	58.082.179
			ESTABLECIMIENTO LAS MARIAS SACIFA, LA PALMIÑA S.A.	2.417.360	2.068.650	3.295.731	7.781.741	84.389	43.344	100.090	227.833	8.009.574
			ENRIQUE R ZENI Y CIA. S.A.C.I.A.F.I.	2.240.008	1.467.151	1.374.873	5.082.032	157.987	98.248	51.265	307.499	5.389.531
manuf. de cuero	440910	Madera perfilada longitudinalmente	ALTO PARANA SOCIEDAD ANCONIÑA	15.009.134	8.115.921	14.034.233	37.159.348	0	15	0	15	37.159.363
			IMASISA ARGENTINA SA.	4.952.805	8.424.247	16.431.547	29.808.600	0	0	0	0	29.808.600
semi-manufacturas de cuero	441129	Tableros de fibra de madera	MAGALCUER SA.	16.370.278	13.621.215	16.913.706	46.905.199	0	0	0	0	46.905.199
			BY DYMS S.R.L.	13.469.945	13.631.195	11.093.071	38.194.212	131.531	710.181	991.007	1.832.719	40.026.931
			CUEREX S.A.C.I. IL SELLAIO S.A.	27.711	24.175	6.655	58.541	0	0	0	85.265	85.265
acero y sus manufacturas	420330	Cintos, cinturones y bandoleras	DOITO SA.	19.740.318	19.157.857	16.663.512	55.561.688	0	145	0	145	55.561.833
			SADESA S.A.	12.516.657	6.761.651	4.039.109	23.319.416	0	71.968	567.476	639.444	23.958.860
			ANTONIO ESPOSITO S.A.	10.390.810	6.095.366	5.863.511	22.349.686	33.600	1.065	0	34.665	22.384.351
			EAGLE OTTAWA FONSECA SA.	16.761.139	2.423.006	3.188.552	16.761.139	0	0	0	0	16.761.139
			TRADARSA SA.	7.015.648	4.703.868	2.881.1614	12.627.206	0	0	0	0	12.627.206
acero y sus manufacturas	721391	Alambón de hierro o acero sin aliar	ACINDAR INDUSTRIA ARGENTINA DE ACEROS SA.	4.470.908	4.703.868	2.881.1614	12.056.390	75.946	203.390	240.114	519.451	12.575.841
			ACINDAR INDUSTRIA ARGENTINA DE ACEROS SA.	37.153.206	25.080.459	14.472.472	77.706.197	2.143.311	62.579	10.101	2.215.991	79.922.188
			ACINDAR INDUSTRIA ARGENTINA DE ACEROS SA.	16.809.734	11.502.968	5.215.388	33.528.089	255.781	2.105.680	640.592	3.002.052	36.530.142
manufacturas	720712	Otros productos de acero de fácil mecanización	ACEROS SA.	31.507.526	26.915.342		58.422.868	0	0	220.546	220.546	58.643.413
			SIDERAR S.A.I. Y C.									

Source: own elaboration based on Indec and Customs\* Export amounts expressed in dollars

tally with respect to competition with producers from Eastern Europe and other regions whose products are admitted into the EU with better preferences than are those of Mercosur<sup>1</sup>.

Shown on Chart 4 are the prevailing tariffs for the products analyzed, as well as mention as to whether they are subject to sanitary and phytosanitary measures (SPS measures)<sup>2</sup> or other technical barriers to trade (TBT)<sup>3</sup>. Manufactures based on natural resources or being of low technology are more closely linked to sanitary-type barriers, while medium technology manufactures confront technical obstacles.

**Chart 4: Tariff and non-tariff barriers in the European market**

Technological Intensity	SA	Product	Tariff barriers		Non-tariff barriers
			Third-country tariff	General System of Preferences	
Based on natural resources	440710	Wood sawn of coniferous	0.0%		SPS
	440910	Wood continuously shaped of coniferous	0.0%		SPS
	441129	Other fiberboard of wood or other ligneous materials	7.0%	3.50%	SPS
Low technology	420330	Belts and bandoliers	5.0%		TBT
	940190	Parts of seats	1.7%		TBT
Medium technology	721391	Other circular cross section bars and rods	0.0%		TBT
	720712	Other semi-finished products of iron or non-alloy steel	0.0%		TBT
	721430	Other bars and rods of free-cutting steel	0.0%		TBT

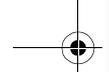
Source: own elaboration based on Taric

**• Market segmentation on the part of Transnational Companies:**  
in those segments in which foreign companies are present, business

1. An additional benefit to the advantage of transportation costs over smaller distances from these regions to the EU.

2. Among SPS measures are: product characteristics requirements; inspection, trial and quarantine requirements or other technical requirements.

3. There are different types of TBT: product characteristics, packaging, and labeling requirements, as well as ones on product information, inspection or trials, or others.

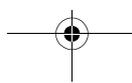
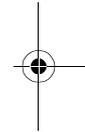
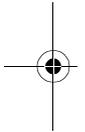


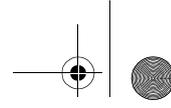
strategies from their headquarters could be influencing segmentation, with respect to assigning to their branches in Argentina, the hemispheric market as a target.

- **Market segmentation on the part of Argentine companies:** some of Argentina's main economic groups, although strongly internationalized, have a more active strategic presence, in terms of distribution channels and production plants, in the US than in Europe. Likewise, some national companies concentrate their sales in the US market as a result of being global suppliers for firms in that country.

- **Compatibility of the domestic supply and the European demand:** some of the products analyzed face a lower demand in Europe due to differences in taste, a more "sophisticated" or differentiated demand, and/or due to demands for higher quality – in the case of raw materials – or for design-related reasons, in the case of final goods.

\* \* \*





## EXPORTS OF MANUFACTURED GOODS FROM BRAZIL TO THE EUROPEAN UNION

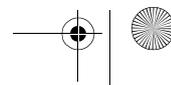
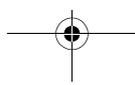
### *The Viewpoint of the Business Sector*

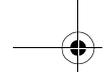
Pedro da Motta Veiga (Brazil)

The starting point of the study was the fairly accepted hypothesis that there is a significant difference in the composition of Brazil's exports to its two leading commercial partners, the European Union and the United States.

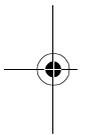
The analysis of the trade data does not support the idea that there is a relevant problem in the composition of Brazil's exports to the European Union. The following results deserve attention:

- The larger relative share of basic goods in the exports to the European Union can be explained by the fact that Europe is a major importer of Brazilian agricultural goods, which reflects the comparative advantages between Brazil and that bloc.
- Exports of manufactured goods to the European Union have shown significant rates of growth and increased their share in the exports to this market over the last ten years.
- There is a relevant difference in terms of the value of manufactured products exported by Brazil to the European Union and to the United States. Nevertheless, this difference, which totaled US\$ 5.6 billion in 2005, can largely be attributed to the differences in the absolute sizes of the two importing markets.
- The difference in Brazil's market share in the total imports of these two markets is of little significance and has decreased over the last few years: in the United States, Brazil's participation in imported manufactured goods was 1.28% in 2005, while in the European Union its market-share was 1.14%.



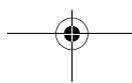


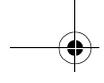
- For the 102 products selected according to the methodology used in the study, a very positive tendency can be detected in European imports: for the total of manufactured goods, the imports by the EU between 2002 and 2005 grew 57%, while the imports of the selected goods increased 71%, pointing to good perspectives for increasing sales of these products to the European market.
- Among the goods selected, special mention goes to chemicals, textile clothing, marble and granite products, ceramic products, steel products, machines and equipments and aircrafts, both for the importance of the importing market of the United States and because of the difference in the performances of Brazil's exports of these products in the two markets.
- The level of protection in the European market for the selected products is of little relevance, albeit slightly higher than the one prevailing in the United States. Goods in the textile sector are the most protected in both cases, but for most products the level of protection faced by Brazilian goods is similar in both markets.
- The United States offers unilateral preferences for Brazil in the GSP for about one third of the goods selected, whereas the European Union GSP offers complete exemption of tariffs for nearly half of these goods, in addition to tariff reduction for some others.
- Among Brazil's major competitors in the European bloc for the goods selected are the United States, China, Switzerland, Turkey and India. It bears noting that among the main competitors, two countries have free access to the European market: Turkey and Switzerland have free-trade agreements with the European Union.



The information culled from the interviews held with companies and business organizations, together with the statistical analyses, shows that the difference in the performances of the selected goods in the two markets is in most cases explained by sectorial specificities associated with characteristics of the goods and markets, strategies of the Brazilian companies, and insufficient diffusion of the quality and trademarks of Brazilian goods. For some sectors, the difference in market access conditions to the European market for Brazilian producers and for competitors from countries that have free-trade agreements with the European Union can jeopardize the competitiveness of Brazilian products.

The analysis of the trade data and the sectorial information enable some preliminary conclusions to be drawn:

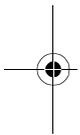




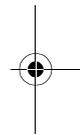
### ***Market access***

Most of the goods selected in this study are not confronted by high tariffs in the European Union, and many of them enjoy the unilateral preferences of the European GSP. Notwithstanding, some goods are not benefited by the GSP and pay moderate tariffs that are high enough to make it difficult for Brazilian goods to compete with suppliers from countries that already have free-trade agreements with the European bloc. For these products, negotiating a trade agreement that eliminates import tariffs can make a difference.

There are no non-tariff barriers in the European Union that affect significantly Brazil's exports of manufactured goods. On the other hand, companies mentioned the costs of complying with European standards and directives in the areas of technical and environmental norms. Even if such standards and directives do not constitute barriers to trade, it is desirable to strengthen cooperation between Mercosur and the European Union in the area of technical and environmental norms.



### ***Strategies of multinational companies***

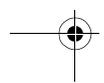
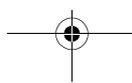


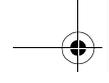
There is a widespread view in Brazil that the head offices of European multinational companies tend to segment the exports of their branches by geographical area and impose restraints on their Brazilian branches exporting to the European market. In contrast, North-American companies are supposed to stimulate competition among their overseas branches, without segmenting markets.

The answers concerning this tendency are not unanimous, which indicates that even though these strategies may be adopted by some corporations, this cannot explain differences in sectorial performance.

### ***Characteristics and strategies of Brazilian companies***

For many of the sectors selected, European producers are or were strong competitors for Brazil's goods (this is the case of marble and granite, ceramic goods, aircraft, steel and textiles products). In other words, the European Union market is (or was) supplied mostly by companies of member countries. Brazil's exports to the European bloc





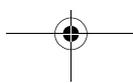
in these sectors tend to face very severe competition, and - as a consequence of this - in some cases they concentrate exports on goods which are in the initial stages of the productive chain, thereby discouraging sales efforts to this market.

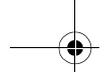
At the same time, the United States imports of goods from these sectors are very high, and in some of them, Brazilian companies have been exporting to this market for several decades. This effort to “focus” on a demanding and competitive market such as the United States stimulated the companies in these sectors to invest in initiatives to make their trade-marks known, adapt products to the demands of consumers, engage in agreements with large distributing networks and wholesale chains and set their own distribution centers. These efforts have been yielding results. In general, initiatives concerning geographical diversification in these sectors are geared to markets other than Europe. For some of these sectors, efforts as to geographical diversification of exports to the European market seem to have become more intensive in the last few years.

### ***Information barriers***

Two types of barriers to Brazilian sales on the European market mentioned by the companies interviewed are related to information problems. The first one results from the broad cultural diversity among the various countries that make up the European market. This feature demands from the Brazilian exporter deeper familiarity with the preferences and ways of developing business in such different markets. This type of barrier is more relevant for medium-size and small firms, and can be alleviated by initiatives on the part of Brazilian trade-promoting agencies to spread information to domestic exporters.

The second type of information barrier is related to lack of credibility with regard to the quality of the products exported by Brazil. In most cases this constitutes a barrier to entry, and once the companies have overcome it, they have no problems concerning the technical standards and demands of European consumers. Overcoming this barrier calls for joint actions on the part of trade-promoting agencies, sectorial business organizations and companies campaigning to publicize the trade-marks and quality of Brazilian goods.

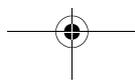
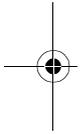


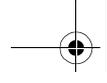


### *Agenda for domestic competitiveness*

Port and freight costs were mentioned by most of the interviewed companies as being the main difficulty in spurring Brazilian exports. This is a question that does not affect specifically exports to the European Union, but it becomes particularly relevant in markets in which competition with local or geographically better located suppliers is intense. This is the case of the European Union for many of the sectors selected.

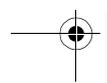
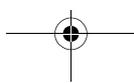
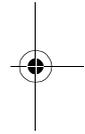
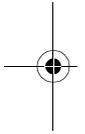
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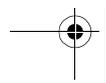
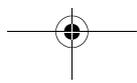
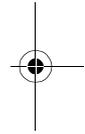
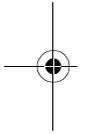
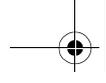


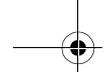


## SERVICES

# A Promising New Perspective for EU-Mercosur Relations







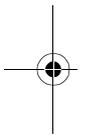
## BI-REGIONAL STRATEGIES IN SERVICES

### *A Way Forward*

Mário Marconini (Brazil)

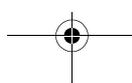
#### ***Introduction***

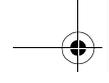
Although services account for more than half of the Gross Domestic Product (GDP) of a great portion of the world, the treatment of services trade in trade and investment negotiations seems far from adequate. Mercosur and the European Union have already had their try at incorporating it under a broad association agreement but have, so far, failed. In many parts of the world, agreements have come to include services although to varying degrees and with different approaches to liberalization and regulation. In addition, the world is changing more rapidly than ever and with it new approaches to domestic and international regulation in services. It is not clear whether the WTO or the emerging free trade agreements constitute a good means to reflect and contribute to the new complexities of the emerging services regime. For Mercosur and the European Union, it is high time for innovative approaches in this important segment of the world economy.



#### ***Second-rate trade issue***

Since the advent of the General Agreement on Trade in Services (GATS) at the WTO, services trade has often been treated as a secondary issue compared to agriculture and industry. The current Doha Development Agenda (DDA) has consistently attested to a low



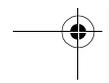
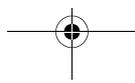
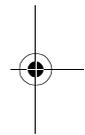
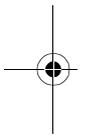


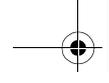
level of ambition in the services negotiations, culminating with the Director-General's characterization of the solution to the round as a "services-less" triangle: agricultural domestic subsidies in the US, agricultural tariff reductions in the EU and industrial tariff reductions in the G20. There are no services-related issues that could currently spoil an agreeable solution to "Lamy's Triangle". Unfortunately, there are so far no foreseeable agreeable solutions at all that could be spoiled by services either.

Since being introduced to the international trade regime, services have gone through much havoc and despair in many a nation's capital. In many OECD countries, erstwhile the *demandeurs* in services negotiations, NGOs and other interests have come forward to combat significant Washington Consensus tenets such as the deregulation or privatization of public services, putting great pressure on governments to "watch their step" when committing in international pacts. Paradoxically, developing countries have opened up their services markets a great deal since the mid-90s, thus taking away some of the trade-related urgency free trade agreements are supposed to impart. Finally, services as a trade matter suffer from the lack of nicely defined formulas (linear or non-linear) or quantitative parameters. How does one cut 20% of, say, a Presidential Decree for the entry of foreign banks into a national market?

This state of affairs could not be more contradictory. While the "foreign front" hardly appreciates the importance of services and services trade, national governments, markets and consumers battle everyday for cheaper, higher quality, competitive services. It is an understatement to affirm that services are crucial, strategic and systemic for both the national and international economies. It borders on a cliché to recognize that banking, infrastructure and energy services are the blood that runs in the veins of any economy and that without them, there is no economy to speak of at all.

Mercosur and the European Union have fared a little better in recognizing the importance of the services sectors. The negotiations that came very close to a happy ending on October 2004 were buttressed by significant offers in services while negotiators bargained as hard on services as they did on agriculture and industry. Yet, even at that, agricultural market access alongside an understanding on the automotive sector constituted the ultimate elements of a lasting solution that never came then or ever since.



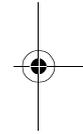
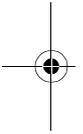


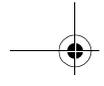
### ***Constructive asymmetries***

Mercosur already suffers from an excessive focus on the need to end asymmetries or at least attenuate them. Not that asymmetries do not exist: they clearly do. In fact, asymmetries constitute the most reliable source of opportunity in capitalist economies – the place where demand seeks and often finds supply (if markets are sufficiently “perfect”, of course). The issue here is how to address asymmetries: as a drag or as a boost. Premise here is that asymmetries constitute a boost towards greater trade and investment flows – i.e., towards greater economic development. In services, perhaps more than in any other segment of the economy, this is as true as bread.

If we take as a proxy the total services trade of both regions, the asymmetries manifest themselves with great vigor. While Mercosur (4) accounts for 1% of world service exports and 1% of world service imports, the European Union is responsible for 45% of either total world service exports or imports. The situation, by the way, is not very different than trade numbers for goods: once again, Mercosur accounts for little over 1% of world exports or imports while the EU responds for roughly 38% of them. Another measure of the asymmetries refers to the internal regulatory processes in each region. While within Mercosur, the Montevideo Protocol on Trade in Services – a GATS-like agreement foreseeing a 10-year intra-zone services liberalization – has only entered into force at the end of 2005, the European Union has skinned the services cat in various ways for the last fifty years, culminating with its own services-exclusive Bolkestein Directive at the end of 2006. Although not even in the EU services constitute a common market, the normative distance between the two blocks is immense and there is much to be learned from the European experience in the matter.

Albeit asymmetrical, therefore, the fact is that in services much of the interest is “common” across the Atlantic. It is neither feasible nor desirable that the treatment of infrastructure services, for example, be guided by mercantilist views or approaches. While one “side” wants quality investment (quality here denoting an optimal mix of funding and know-how), the other “side” is capable of providing that depending on the “premium” involved in the transaction. Governments can help here. The negotiation of market access and national treatment, as *per* the GATS-approach chapter that has been followed so far in the negotiations, is not necessarily the best way to achieve such a commonality of interests. More innovative approaches may be in order in this context, including with the support and active participation of the private sector.



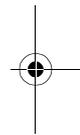
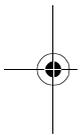


### ***A doable agreement***

Although the negotiations did not come to a happy ending in October 2004, substantial offers were made in services. Three years later, much has changed and a mutually acceptable outcome should be feasible on the basis of a few “adjustments” to both sides’ positions. The *demandeur* in the negotiations has been the European Union but there are issues where Mercosur has an offensive interest given market and regulatory realities.

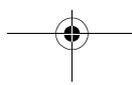
Demands from the EU regarding banking, insurance and reinsurance, alongside maritime transport services may be accommodated by Mercosur as imminent changes take place in the sub-regional market – for example, the end of the reinsurance monopoly in Brazil or the possibility of feeder services along the Mercosur coast. Cross-border telecommunications and related information technology aspects have also been on the roster of demands and should not pose unsolvable problems for the negotiations.

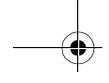
Demands from Mercosur have centered on mode 4-related items such as the movement and stay of independent professionals on the basis of contractual relationships. Specific quotas for Mercosur professionals are also a feasible approach. This focus on natural persons is “predictable” but sectors such as construction and engineering, audiovisual or even banking may also be willing to pose a few demands as matters evolve. For Mercosur, the fact that the EU can be much more regulated in some sectors is an incentive for seeking a level playing field – even if the capacity to exploit it commercially remains a few years away.



### ***The sky is the limit***

There are many possibilities for innovative bi-regional strategies in services. With or without formal trade negotiations, some of the key aspects of services trade can be addressed between Mercosur and the EU. In formal talks between the two regions, services should be evoked not only in the context of the association agreement but also under the other two *volets* of the negotiations: political dialogue and cooperation. Since much of sector does not render itself to a mere access and/or treatment bargain (given the difficulty in ascertaining the value of a regulation or its elimination), ways to deal with it should be informed by the need to seek the best regulation on both sides of a services transaction.

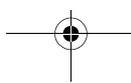


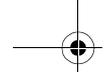


Here are a few suggestions as to how to move forward *beyond* trade negotiations towards a broader strategic approach for services:

- **Movement of persons.** Solutions ranging from regularization of Mercosur persons already present in EU markets to specific temporary working visas could be envisaged as a stand-alone agreement. The EU has a number of directives and measures applied for EU persons. Consideration should be given as to how to extend some of those benefits to Mercosur persons.
- **Mutual recognition.** Mutual recognition has been crucial for the deepening of EU intrazone integration since the 60s when the Commission opted for it as opposed to harmonization to what was primarily goods trade at the time. Mutual recognition can, nevertheless, be just as crucial in services as in goods. The most common approach in this context refers to agreements applying to professional services whereby a country recognizes another's diplomas, certificates and professional experience. This is a limited view, however. Mutual recognition should be seen as a broad approach to all sorts of regulatory situations, including highly-regulated sectors such as banking and/or insurance. In fact, in financial services, mutual recognition agreements can do much to signal transparency, predictability and consistency in regulation – all of which can crucially influence financial transactions between Mercosur and the EU.
- **Regulatory cooperation.** The EU's experience with regulation – whether domestic or international – is unequalled in the world. Mercosur should take advantage of that and seek cooperation programs that deepen the sub-region's understanding of the EU's way of doing things in services. In sectors where regulation reflects national or regional policy objectives such as audiovisual services or education, both regions could compare notes and cooperate on the search for a consistent regulatory regime across the Atlantic;
- **Public-private dialogue.** The unlocking of investment possibilities in strategic sectors such as infrastructure and/or energy services requires engagement from both governments and entrepreneurs. Not only are governments incapable of banking necessary projects alone in these areas but expertise and managerial know-how from economic agents tend to be crucial ingredients in moving things forward. Additionally, doing-business issues require the input from those that do business while it is up to governments to act and facilitate transactions.

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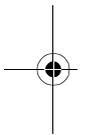


## IS THE EU-MERCOSUR BANKING INTEGRATION OUTLOOK PROMISING?

Jorge Caumont (Uruguay)

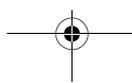
### *Objective and definitions*

This brief note addresses the possibilities of banking integration between MERCOSUR and the European Union (EU). Banking integration implies that all potential market participants are subject to a single set of rules when they decide to deal with banking instruments or services, that they have equal access to this set of banking instruments or services and that they are treated equally when they operate in the market. The banking instruments and services considered when analyzing banking integration are the usual ones (intermediation in the money and foreign exchange markets; intermediation in the market of credit and capital; intermediation in foreign trade and the like) and they are present in both the EU and MERCOSUR.



### *Fundamental factors for banking integration and differences in EU and Mercosur*

There are different kinds of factors that are necessary conditions for banking integration. Among them, some are functional for the integration. Others refer to the similarities that must exist in the banking regulatory and supervision systems, institutions and legislation.



### ***Free capital mobility and of current payments***

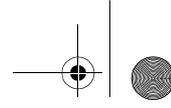
Without the freedom of cross border movements for both current payments related to the current account of the balance of payments and for capital movements, the integration is practically impossible. In Mercosur the situation has improved in the last five years as banks may do cross border transfers of merchandise trade-related payments within the framework of the *Convenio de Pagos Reciprocos* (Agreement on Reciprocal Settlements) of LAIA (1982) or through cross border bank transfers. However, there still remain obstacles to capital movements, which despite now diminishing exchange controls and controls on interest rates, are still obstacles to capital transfers.

In the EU, the involvement of its Member States in the Single Euro Payments Area (SEPA) will soon subject them to a set of interbank practical and standardized rules for cross border payments. Citizens and enterprises belonging to SEPA will be able to transfer euros as if they were in their own domestic markets. Differences between domestic and cross border payments will disappear. Capital movements are channeled through the Large Value Payments System (LVPS) and the single currency, the Euro, has simplified the traffic of payments through TARGET and EURO1 - the private system of settlements.

### ***Macroeconomic stability and common macroeconomic policies***

Stability of basic macroeconomic equilibria is also a necessary condition for banking integration within an economic block or between it and others. Stability contributes to minimize sovereign risk as well as market and price risks. Together with macro stability there should also be a commitment to maintain common macroeconomic policies to avoid volatility of trade and capital flows which are adverse for banking local and cross border transactions.

In the EU, stability and common policies are fundamental factors which have allowed for the adoption of a single currency with full efficacy as a unit of account, means of payment and deposit of value while reducing the cost of trade and capital payments. In Mercosur, the situation is quite different. Recurrent crises of macroeconomic instability of its members, and the lack of common macroeconomic policies among them, have contributed to preclude banking integration despite the progress made in merchandise trade liberalization.

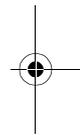
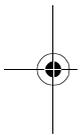


### ***Access and supervision***

Non-discriminatory access of banks to domestic markets is also a necessary condition for integration. Each country must grant banks of other nations the access with the same limitations and conditions it has for its own banks. Similarly, an important factor is the adoption of relatively similar regulatory and supervisory rules in each country, broadly in line with the rules of the Basle Committee.

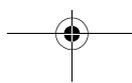
In the EU, the rules of access for banks into one of the Member States automatically give a “passport” for access to any other of the Member States. Other factors such as the authorization of banking activities which are decided by the country of origin, and the regulatory and supervisory framework applying to banking activities which also follow the country of origin principle (consolidated global supervision), are simplifications not found in Mercosur. With respect to the regulatory and supervisory principles, the EU is already in the stage of incorporating the suggestions of Basle II to reinforce the present common aspects of their individual supervision and regulatory schemes.

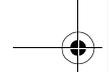
In Mercosur, there are notable differences in the policies of bank access to the market. Basic elements are not shared by the Member States, nor some principles of regulation and supervision. The grant of authorizations differs among the Member States as in some cases access is closed while in others it is limited to numerical quotas per year. With respect to the adoption of the Basle principles, the commitment is not homogeneous across Member States as different prudential regulation regimes are still in effect despite the overall aim to converge towards common principles. The adoption of consolidated global supervision has been under analysis for a long time, in the absence of any final decision.



### ***Other factors***

Other factors that demonstrate the difficulties for an integration of the banking systems of the EU and Mercosur are the large differences between the systems of the two regions with respect to elements such as the per capita income of each region, the degree of banking activity by economic and financial agents, the financial depth of the domestic systems, the initial stage of the banking systems, and the like

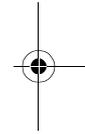
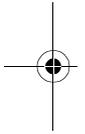




## ***Conclusion***

The banking system of the EU is practically integrated. In Mercosur, the situation is different because there still exists macroeconomic instability, lack of common macroeconomic and other policies, insufficient coordination in regulation and supervision, obstacles for access to the market, lack of complete freedom of capital movements, etc. Therefore, there are heavy obstacles to a process of smooth and fast integration of the two banking systems. Banking integration even within Mercosur, is still pending.

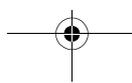
It should be noted however, that negotiations between Mercosur and the EU around market access and non discriminatory treatment of banking institutions in the two blocks have been contributing guidelines and securing commitments between the parties. Despite the advances achieved in this matter, further negotiations between the two economic blocks on the liberalization of financial services and on other relevant issues, such as regulation and consolidated global supervision, would do much to enhance banking services integration and deepen trade relations among the members of the two blocks. The successful banking integration in the EU provides a very good framework to be followed by Mercosur. Regular meetings and discussions on the topic could be a crucial mechanism to reach further progress in that respect.

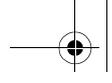


## ***Recommended actions***

It would be fruitful to promote the creation of a group formed by private banks' executives of every country of Mercosur to come up with suggestions for an effective financial integration within the block and to take such suggestions to Central Bank authorities for implementation. In order to determine the degree of banking integration in Mercosur, the group should create a set of indicators to compare with those of the EU. Those indicators would objectively show the differences of the two blocks at the initial stages of a possible integration strategy. The group would also elaborate a program for the adoption of common regulatory and supervisory criteria in line with the Basle principles and insist on the adoption of a consolidated global supervision. With the same goal, it would

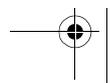
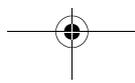
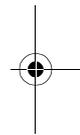
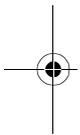
- complete the design of a common pattern for bank access to domestic markets in line with the EU mechanism and with the commitments already assumed;

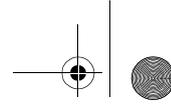




- elaborate the lines of a payments system that could favor a relatively greater efficiency for both current and capital transfers among the members and in line with those of the EU;
- insist on the need to establish a relatively more coordinated set of macroeconomic policies among the members of Mercosur and on the phasing out of obstacles to capital movements.

\* \* \*





## ICT SERVICES FROM THE EU-MERCOSUR BUSINESS PERSPECTIVE

Emilio Ontiveros Baeza, Ignacio Rodríguez Teubal  
& Álvaro Martín Enríquez (Spain)

### *Introduction*

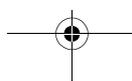
It is widely accepted that innovation, as a means of improving knowledge and resource management, is one of the most important drivers of business competitiveness. The role of Information and Communication Technologies (ICT) in business innovation goes beyond technological advance, since it has an impact on almost every business process, and on many aspects of everyday life.

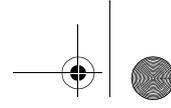
In the long run, an efficient combination of investment, production and use of ICT-enabled goods and services fosters economic growth and social welfare; hence the importance of promoting ICT adoption as a strategic line in policies aiming at economic convergence with the leading countries.

### *An overview of the Information Society in Mercosur*

The Information Society (IS) is a state of social and economic development defined by an intensive flow of knowledge through the adoption of ICT products and services. As mentioned before, this has a positive impact on economic growth and business performance, and is generally linked to high wealth indices.

Mercosur is an outstanding region in Latin America, with a high penetration of mobile telephone services and a fast-growing number of broadband accesses. Nonetheless, Mercosur still lags behind USA and





EU in ICT infrastructure and, especially, in ICT-enabled services (e-commerce, e-Administration ...).

The countries in Mercosur have launched some joint initiatives towards the harmonisation of ICT services through the *Comisión Temática de Sociedad de la Información*, part of the *Reunión Especializada de Ciencia y Tecnología* (RECYT). However, several programs are being supported by the EU (e.g. @lis) and other international organizations.

### ***Policies to foster the implementation of IS in Mercosur***

The countries that have succeeded implementing the Information Society within their economies show a common pattern in achieving such success:

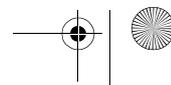
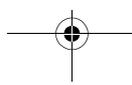
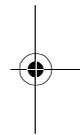
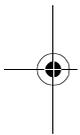
- A strong correlation between the Information society and economic and social prosperity. Two technological aspects have led the way: broadband expansion and telecom liberalisation.
- Government leadership (national and/or regional), financing and investing in areas of the Information Society where the private sector should participate and keep investing.
- Good business environment. Human capital and education, skills and flexibility within business organisations, or entrepreneurship are key issues that were well handled by the successful.

There is large consensus among economists about the positive role of ICT in economic growth. What empirical evidence has shown in the past ten years is that ICT investment and ICT use have significantly contributed to productivity growth in developed economies. ICT production has also had a positive contribution to growth, although it has not been strong enough to explain the productivity differences observed among developed countries in the past years.

Mercosur-EU joint initiatives targeting ICT-using sectors could benefit both regions in the mid-term. For example, we see a great potential in sectors focused on technological convergence.

### ***EU-Mercosur relationship in ICT & IS development***

The connection between ICT and Foreign Direct Investment (FDI) is important for the EU-Mercosur commercial relations. FDI is gener-



ally based on different business strategies including the search for market efficiency. However, there has not been a FDI strategy to invest in Mercosur based on the search for efficiency. Only the search for markets and/or natural resources has been a key element fostering FDI in Mercosur.

Size is no longer an advantage for Mercosur since countries like China or India are becoming much bigger markets to enter. It would also be difficult for Mercosur to become an attractive market for FDI that targets efficient markets based on labour costs. Therefore, it is only ICT investment and ICT use that could support FDI on the search for market efficiency but from the perspective of productivity.

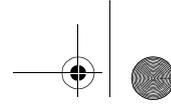
Policies promoting ICT investment in sectors that are intensive in ICT use, would mean a rise in productivity growth in those sectors and also a rise in total factor productivity growth in the rest of the economy due to spill over effects of ICT use. This productivity growth is going to foster FDI in search of market efficiency in ICT-using sectors, as well as in the other sectors that have benefited from a productivity increase. Finally, FDI would draw another bust of ICT investment that would start the virtuous cycle all over again.

Another important role of ICT in promoting commercial relations between the EU and Mercosur is the consideration of ICT enabled services, which are services that are strongly dependent on the use of ICT. These types of services are a key to outsourcing, allowing multinationals to embrace off-shoring and to create international centres of production far way from the company's headquarters. All this can be achieved only if there is an appropriate ICT development in the country chosen as a destination of the off-shored activity.

### ***Cooperation in regulation and IS development***

The regulatory harmonisation of ICT favours interoperability, economies of scale and strong competition (lowering entry barriers). European National Regulation Authorities (NRA) have developed significant expertise in liberalizing the telecoms market and they now cooperate through the Independents Regulators Group (IRG) and the European Regulators Group (ERG) in order to give advice to the European Commission.

These groups work together with the *Foro Latinoamericano de Entes Reguladores de Telecomunicaciones* (Regulatel) with the aim of improving telecoms regulation in Latin America. Moreover, some of



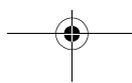
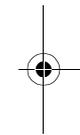
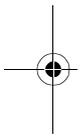
the countries in Mercosur collaborate on a bilateral basis with European NRA by means of the signature of Memoranda of Understanding (MoU).

The European Union also collaborates with Mercosur on the promotion of the Information Society. The main joint program is @lis, which includes several projects particularly focused on social inclusion (connectivity, education, e-health, e-Administration...). However, there are other initiatives that cover areas such as Digital Terrestrial Television or ICT R&D.

### ***Conclusions and recommendations***

- ICT investment and ICT use foster economic growth.
- However, there is no urgency to build an ICT production hub in Mercosur, although there is a considerable potential in some areas.
- Regulatory harmonisation within Mercosur would help to create larger and more efficient markets.
- Public leadership, together with private support, is the key to success.
- Pervasiveness in the use of ICT-enabled products and services is an important instrument to attract FDI based on efficiency.
- FDI and ICT could be linked in a virtuous cycle that must be realized to foster economic growth in Mercosur.

\* \* \*



## CONSTRUCTION AND ENGINEERING SERVICES

Orlando Arnaud (Brazil)

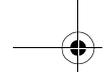
### ***Participation of European firms in Mercosur Member States and of Mercosur firms in Member States of the European Union***

Market data on the basis of the Brazilian case, indicate that there is a significant number of European firms operating regularly in Brazil, including those from Germany, Italy, Spain, France, Holland, Portugal and Finland. The reverse is not a reality for Mercosur, one of the few exceptions being the case of Brazilian firms in Portugal. This imbalance is hardly consistent with the sort of reciprocity that should inform international agreements. In fact, trade liberalization necessarily must favor both sides of a particular trade while entrepreneurs and negotiators must aim to share benefits as equitably as possible.

It should be noted that there are competitive exporting firms in the area of construction and engineering both in Brazil and Argentina. Such firms operate in Latin America, Africa, Asia and the Middle-East.

### ***Level of openness committed to in commercial presence (mode 3) by Mercosur countries***

With respect to construction services, Brazil, Argentina and Uruguay have made commitments at the WTO that guarantee full



access in commercial presence (mode 3). In the area of project engineering and architecture, access is also liberalized in these three countries, conditioned in the case of Brazil only to the establishment of a consortium with a Brazilian firm. Trade barriers can be avoided in practice – what explains the number of foreign firms established in the country. Paraguay did not make any commitment under commercial presence for construction or for engineering and architecture services (unbound).

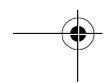
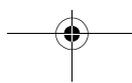
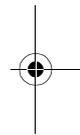
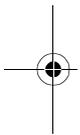
One can conclude therefore that access to the Brazilian, Argentinean and Uruguayan markets is free for construction and engineering firms, with nothing additional remaining to be negotiated – whether at the WTO or elsewhere.

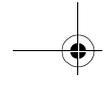
#### ***Other modes of supply, government procurement and investment agreements***

Modes 1 and 4 of the GATS are, of course, also included under the scope of negotiations – i.e., the cross-border supply of services and the supply via the movement of natural persons (although mode 4 is also covered by horizontal commitments). It is important to note that international transactions in services are highly affected by all types of restrictions and, in particular, by restrictions in mode 4. Barriers in this context found at the European Union are far superior to those found in Mercosur countries.

It is widely known that exportable engineering services tend to be those related to infrastructure works and projects and that most of the exports in these areas are to governments as opposed to private clients. Therefore, construction and engineering service exports are normally undertaken via direct and indirect public administrations, in the context of regulatory frameworks applying to procurement and bidding procedures. Mercosur countries have not yet joined the WTO's Government Procurement Agreement, however. Thus, the theme may be highly appropriate for future negotiations between the two regions (Mercosur and the EU) but only if and when they result in an effective presence and participation of both regions' firms in both regional markets.

Finally, investment agreements have not progressed much and Mercosur countries have not made related commitments anywhere. This is an area that should be considered since a great deal of barriers in the construction and engineering services sector do indeed relate to





investment. In addition, commercial presence is often necessary for the supply of services, what in turn gives rise to the need to undertake investments in other countries – at least toward the establishment of branches or subsidiaries. Also, investments toward a commercial presence in other countries can compensate for the lack of cross-border access to markets, particularly in the case of countries whose economies lack the scale necessary to spur the development of exporting engineering firms.

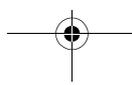
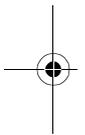
The reference to all the different areas that will somehow be touched by international negotiations is important given the need to provide for an efficient and pro-active negotiating process that adequately reflects the various relevant aspects of the sector.

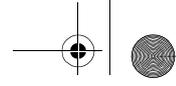
### ***Competitiveness***

Only competitive firms can effectively take advantage of the opportunities presented by international markets. Competitiveness does not hinge exclusively on what firms do or not do themselves, but also on surrounding conditions, geographical situation, cultural and political aspects and the ultimate policy orientation as reflected in actions undertaken by the State itself.

In reality, even the most well prepared firms from developing countries remain at a disadvantage in relation to the greater facilities of the big international “players”, particularly with respect to access to financing or investors and the offering of distinct forms of guarantees. Also, export policies of developed countries tend to be better articulated, thus generating additional benefits to their firms (as attested by organisms such as the Spanish FEV or the German GTZ).

These distinctions must be considered when negotiating a Mercosur-EU or any other international agreement so that the greater market advantages of some firms do not translate into lesser competition in the market. Mercosur countries, signatories of international agreements, must be able to adopt legitimate measures aimed at increasing the competitiveness of their firms and to formulate technological development policies and incentives that lead to greater productivity levels in sectors laden with more competitive firms. At times, these strategies may require the application of safeguards with a view to allowing the national industry to gain competitiveness by means of adjustments and the temporary restriction of imports.





### ***Defensive and offensive barriers and strategies***

Barriers are not always undesirable. On the contrary, they are often the result of strategic action on the part of countries that address the competitiveness of their firms and products, alongside other aspects – such as the need to attract investments or to pursue policies of a macro or microeconomic nature.

Additionally, existing norms and standards are often difficult to modify, thus conditioning the strategies to be established. In any case, positions in international negotiations must result from a mix of defensive and offensive strategies, whenever possible taking into account the profile of the partner(s). On the other hand, reciprocity conditions underlying international negotiations effectively create a two-way dynamic. To each right demanded of a partner corresponds an identical concession on the part of the *demandeur*.

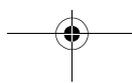
Defensive strategies are normally justified in areas where the national construction and engineering sector has a shot at becoming competitive – whether due to its own efforts or to the action of the State. Offensive strategies, in turn, refer to the possibility of gaining market shares in segments where the national construction and engineering sector is more developed and prepared to compete in international markets.

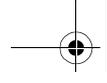
The conclusion of international agreements cannot evolve in the absence of pre-established strategies. Thus, given that the globalization process can only be justified if it results in a harmonious development of countries and in benefits for their citizens, concessions on market access or national treatment must necessarily be made on the basis of a previous analysis of their impact.

### ***Proposals***

As final proposals, the following are suggested:

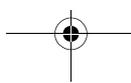
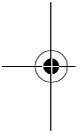
- International organizations, particularly institutions that devote themselves to themes relating to Mercosur and the European Union, should contribute to the undertaking of studies and to the disclosure of information regarding the impact of liberalization in economic sectors and society in general, with a view to ensuring the best models of agreements and to improving the quality of the decision making process in the countries involved.

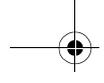




- An evaluation should be made regarding the possibility of organizing a Mercosur Services Forum, similarly to the existing European Services Forum (ESF), with the participation of various representative entities of services sectors, including existing coalitions such as the Brazilian “Services Dialogue”, and the main service exporters. The Forum could count with the permanent advice and guidance of qualified international negotiators from participating countries.
- The difficulties found in negotiating processes in general and the Mercosur-European Union in particular, refer to problems that are difficult to resolve in meetings that are infrequent and that gather together executives, experts and negotiators from highly dissimilar countries. The establishment of permanent executive secretariats, comprised of competent professionals with financial autonomy and the capacity to manage projects and information, seems to be a prerequisite for greater efficiency in this respect and justify efforts moving forward in this direction.

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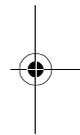
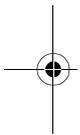


## EU-MERCOSUR RELATIONSHIPS IN THE INSURANCE SECTOR

John Cooke (United Kingdom)

### *Introductory*

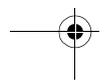
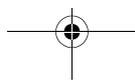
The aim of this short study is to analyse the current commercial relationships between the EU and Mercosur in the insurance area, with a view to: identifying strategies for maximising closer partnerships between insurance businesses in the EU and Mercosur; suggesting ways of strengthening these partnerships both at the commercial level and via greater cooperation between regulators (e.g. through common approaches to principles-based regulation and/or recognition of regulatory regimes); and drawing conclusions capable of being used by the authorities of both regions and all the countries concerned within a short and practicable timescale, in the framework of a strategic dialogue between all partners with an interest.



### *Analysis*

- **Market Structure (Comparative Insurance Densities and Penetration)**

European Union and Mercosur insurance markets are very different, the EU market being some 33 times larger in 2006 than the Mercosur market (total premium volume, US\$). While their combined insurance market represents over 38% of the of the total world market in 2006, Mercosur alone is just over 1%, placing the entire Mercosur insurance market at the level of one

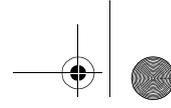


of the EU's smaller member-states (e.g. Ireland or Belgium) as shown in the following table:

2006	Life Premiums \$ m	Non-Life Premiums \$ m	Total Premiums \$ m	% share of world market	Insurance Density (Life) (\$ per cap)	Insurance Density (Non-Life) (\$ per cap)	Insurance Penetratn. (Prem. as %of GDP)
EU (27)	900,489	487,035	1,387,523	37.30	1,758.0	909.0	8.9
EU (15)	887,928	469,400	1,357,328	36.45	2,197.8	1,107.4	9.3
UK	311,691	106,676	418,366	11.24	5,136.6	1,327.1	16.5
Germany	94,911	109,633	204,544	5.49	1,136.1	1,300.7	6.7
France	177,902	73,262	251,164	6.75	2,922.5	1,152.9	11.0
Italy	89,576	49,103	138,679	3.72	1,492.8	809.5	7.2
<b>Mercosur</b>	<b>15,637</b>	<b>25,676</b>	<b>41,313</b>	<b>1.11</b>	<b>59.2</b>	<b>97.1</b>	<b>2.7</b>
Argentina	1,713	3,918	5,632	0.15	43.8	100.1	2.6
Brazil	13,699	16,691	30,390	0.82	72.5	88.4	2.8
Paraguay	5	65	70	0.0	0.9	11.5	1.0
Uruguay	58	278	336	0.01	16.6	79.8	1.7
Venezuela	162	4,724	4,886	0.13	6.0	173.6	2.7
<b>World</b>	<b>2,209,317</b>	<b>1,514,094</b>	<b>3,723,412</b>	<b>100.00</b>	<b>330.6</b>	<b>224.2</b>	<b>7.5</b>

To balance the picture, in terms of geographical area (12,781,179 sq. km.), Mercosur is nearly three times as large as the EU (4,422,773 sq. km.); and Mercosur's population (some 264 million) is over half that of the EU (some 494 million). Even so, Mercosur's GDP (\$ 1,489 billion) is only some 11% of that of the EU (\$ 13,881 billion).

In both regions, certain country insurance markets are dominant. In the EU, four member-states (the UK, France, Germany and Italy) dominate the EU market, accounting (2006) for three-quarters of EU premium income. In Mercosur, this is even more marked, with one member (Brazil) accounting nearly the same proportion. Certain other comparisons are worth noting. In the continent of Europe as a whole, the growth rate in insurance premium volume from 2005 to 2006 averaged 7.47%, about treble the real growth in GDP (averaging 3.2%). However, Latin America was the only developing region in the world in which insurance growth (2005) was greater than GDP growth.

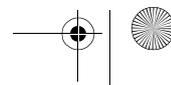
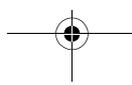
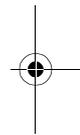
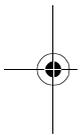


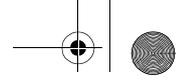
Both markets are changing, in some similar ways. Like other insurance markets, the EU market has traditionally been fragmented, with a low degree of market concentration compared with many other sectors, including commercial banking. This resulted from various influences, including the pattern of national insurance regulation (national, in the EU), local distribution systems, origins and ownership characteristics. Since the 1980s, the EU market have changed significantly, with deregulation (more marked in the EU than many other markets such as the US), an increased level of merger and acquisition activity, and new types of distribution channels, such as direct and telemarketing. In general the Mercosur insurance industry is undergoing some similar structural changes, reflecting global trends. The Mercosur market is dominated by the large international insurers like AIG, Mapfre, Ace, Mitsui Sumitomo, Liberty, and Generali. This is largely because of economic volatility in the region and a series of financial crises that have made it difficult for local insurers with limited access to capital to survive.

• **The Regulatory Framework in the EU and Mercosur**

The EU internal market for insurance services is based, like the Single Market as a whole, on the principle of the “four freedoms” (freedom of movement of goods, services, capital and people) unfettered by internal barriers. To give effect to this, authorised insurers and intermediaries in one member-state are permitted by EU Directives to do business in the other 26 member-states as a matter of right of establishment and freedom to provide services. The EU system thus assigns separate roles and responsibilities to the EU institutions and to the member-states. Over recent decades the development of the EU regulatory system has led to huge changes in the EU insurance market. Where previously product- and price-controls were the norm in several of the EU’s most important markets, there is now freer rein for competition. Yet prudential co-operation in the insurance sector has been criticised as significantly lagging behind the banking and securities sectors.

Mercosur does not have any similar integrated regional regulatory framework. Such a framework was envisaged in the Treaty of Asunción (1991), which contemplated free trade in services without providing for the means of achieving it. In December 1997, the Montevideo Protocol on Services Trade committed Mercosur members to full liberalisation of services trade within





a decade; but this has yet to be implemented. At the time being, the five (very different) Mercosur insurance markets remain subject to some shared economic crises, to which all supervisory authorities are responding – at unequal speeds – by introducing supervisory changes that will, in the medium to long run, impose far stronger prudential disciplines and tests of soundness on insurers in these markets. The likely effect of such new disciplines may well be to create a temporary competitive advantage for foreign firms operating in the region, because local firms may face steep costs in satisfying new requirements.

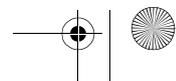
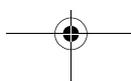
• **Current Factors Favouring or Inimical to Further Integration: Overview**

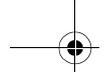
In general, there is a strong constellation of factors favouring further insurance integration within EU markets. Much of this springs from the comprehensive nature of EU insurance legislation, even though recently this has slightly slackened pace. But it is questionable how far this integrationist legislation has - yet - been followed by an increase in transactions between those markets or a tendency for prices to converge in common currency terms. Partly this is because retail (as against wholesale) insurance markets in the EU have tended to remain obstinately national, with relatively few cross-border transactions. This tendency is now beginning to change. Wholesale insurance markets in the EU have long been a different matter.

It is difficult to establish an equally accurate picture of the Mercosur situation: data are lacking. But it seems clear that there has been less integration of the direct insurance markets in Mercosur member-countries. The lack of regulatory harmonisation, coupled with the localised financial crises affecting different currencies, are all forces militating towards keeping insurance markets national. As in the EU, the wholesale insurance market is a different matter, with greater recourse to cross-border business.

***Current Degree of Interaction between EU and Mercosur Insurance Markets***

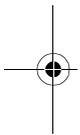
The commercial drivers favouring increased interaction between the EU and Mercosur insurance markets are those common to the integration of the global insurance market as a whole. Taking account of





current trends, there are pointers towards complementarity/synergies between the EU and Mercosur insurance markets. One is the growth of international insurance groups within the EU: the result of much of the mergers and acquisition activity and consolidation of insurers over the past decade in OECD economies has been the marked concentration among relatively few major multinationals in direct insurance, reinsurance and broking. Although there are reasonably comprehensive data on trade and investment flows between OECD insurance markets (which account for the bulk of such flows) the statistics for Mercosur markets are less reliable.

There are various restrictions on EU insurers' market access into Mercosur markets, and far fewer restrictions on Mercosur insurers' market access into the EU. The restrictions on access to Mercosur markets have been analysed on a GATS Mode-by-Mode basis by the Financial Leaders Working Group (FLWG) using the FLWG's Model Schedule for Insurance Commitments. This analysis highlights restrictions that would need to be removed both for Mercosur to function as a single insurance market and to increase EU participation in it.



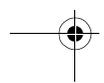
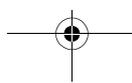
### ***Regulatory Cooperation***

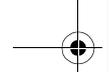


There does not appear to be much specific EU cooperation with Mercosur countries on a multilateral region-to-region basis using the IAIS framework (probably because EU member-states regulatory authorities participate in the Conferences on Insurance Regulation and Supervision in Latin America which since 1999 have been organized on a yearly basis by the OECD together with ASSAL and the IAIS). Bilateral cooperation may take place either through EU cooperation with individual Mercosur countries, or through country-to-country cooperation between a Mercosur member and an EU member-state. But there is fairly little sign that these have yet been much exploited by either side.

### ***Further Practical Issues***

A number of further practical issues (to be further studied) may provide scope for cooperation in particular policies and strategies. These include the extent to which, in Joan Robinson's terms, the supply of financial services is demand-led, and therefore whether





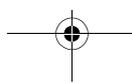
demand in Mercosur countries may be stimulated by “top-down” strategies (in areas such as financial education, financial inclusion and consumer protection), or localised “bottom-up” approaches (aimed at learning more about local needs for particular types of insurance cover, for instance through case studies of insurance-use by large businesses, small & medium enterprises (SMEs) and self-employed entrepreneurs).

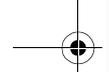
### ***Building on Existing Synergies***

There will be increasing complementarities between the EU and Mercosur insurance markets. Whether these are tantamount to synergies will partly depend on whether the future sees convergences or divergences between the two markets: there is clearly scope for convergence. Moreover, globalisation will have an ongoing effect on both markets, in terms of the likelihood of global insurance companies gaining an increasing share in both, sometimes by new market entry but mainly through mergers and acquisitions. This means that, over the medium to long term, the EU and Mercosur insurance markets are both likely to be supplied by the same group of leading world insurers and reinsurers.

It will be important to identify and exploit synergies between major EU and Mercosur insurers if the Mercosur insurance market is to expand, whether within the framework of an EU-Mercosur regional agreement or otherwise. A key synergy between the major insurers in the two markets must centre on reinsurance, given the relative scale and degree of specialisation between the Mercosur and EU insurance markets. Exploiting reinsurance synergies between the two markets could yield beneficial outcomes including a deeper and better capitalised Mercosur market (particularly taking account of the effects of ending of the IRB monopoly in Brazil); better scope for catastrophe insurance in Mercosur; and the development of terrorism insurance in Mercosur markets, on lines already practised in various EU markets. The other area of important synergies must relate to greater cooperation among large insurers in the EU and Mercosur in promoting the case for best practice in regulation and supervision, whether against the background of a successfully concluded EU-Mercosur Agreement or otherwise.

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## INFRASTRUCTURE AND REGIONAL INTEGRATION

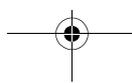
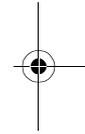
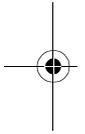
### *EU-Mercosur Negotiations Reconsidered*

Marcela Cristini (Argentina)

Infrastructure is a *key ingredient for growth* and one of the most rewarding investments for society along with investment in technology and human capital. Unfortunately, since the late 80s, Latin American countries' (LAC) performance in infrastructure investment has turned out to be highly unsatisfactory when compared to other middle-income economies such as the East Asian ones. This has been particularly so in the Mercosur case even when infrastructure policy in Mercosur countries underwent extensive reforms during the 90s aimed at modernizing its organization and increasing the quantity and quality of infrastructure services.

Recent estimates have shown that achieving a level of infrastructure services similar to that of the Republic of Korea would improve significantly the Mercosur situation, adding between 2.6% and 4.4% to the annual growth rate (Fay and Morrison, 2007). It has also been shown that differences in infrastructure investment between LAC and East Asian countries account for up to 30% of the differences in levels of development between the two regions (Calderón y Servén, 2004).

Another important contribution by the infrastructure services sector refers to *competitiveness*, which constitutes a crucial aspect for open developing economies. It has been estimated that logistic costs in Mercosur countries are more than double those of developed economies. Storage costs are also higher, due to uncertainty of supply in a region characterized by a low degree of paved road development and geographic integration. According to recent business surveys, infrastructure development is one of the most important reasons of concern for companies in Mercosur. A brief assessment of the situation shows



that investment in telecommunications and ports have improved at a good pace while roads have stagnated and railways have fallen behind.

In comparison, *social infrastructure* services such as sanitation, water and power and natural gas domiciliary distribution have improved since the 90s due to an extensive process of privatization and concessions that attracted private capital to provide public services. However, distribution of these public services has been highly uneven, especially favoring urban populations in large cities. It should be noted that this kind of infrastructure investment may become a powerful instrument to close the gap in unequal income distribution in Mercosur, a region characterized by large social disparities.

While private investment took place in the 90s, mainly in social infrastructure, public investment in basic infrastructure declined sharply over the same period, provoking an uneven development that negatively affected policy reform outcomes. (See table below)

Initiatives like IIRSA (Initiative for the Integration of Regional Infrastructure in South America) were put in place in early 2000s to overcome the existing poor situation of LAC infrastructure. Funded by the Inter-American Development Bank (IADB), the Andean Development Corporation (CAF) and the Financial Fund for the Development of the River Plate (FONPLATA), it is an ambitious policy undertaking based on a portfolio of projects that encourage private participation and innovative financing schemes. The sheer amount of resources involved in this initiative calls for the widening of financial sources and partners. Similarly, Brazil's "Accelerated Growth Program," which seeks to generate \$237 billion in public and private investment over the next four years, exemplifies the importance given to infrastructure and recognizes the need for strategic partners to obtain adequate financing.

This brief balance of the infrastructure situation in Mercosur shows clearly the need to improve investment in this chapter and the difficulties to attract enough funding. In the 90s, Foreign Direct Investment (FDI) was a very important source of financing for infrastructure. Under different modalities by country and by type of infrastructure, an important share of FDI chose infrastructure as the core business in the region. At the time, the EU became the most important FDI source for Mercosur. In Latin America as a whole, Brazil was the most important host country (43%) for EU investment followed by Argentina (16%) and Mexico (10%). Spain accounted for 65% of FDI flows, the United Kingdom (15%); France (7%); Germany (5%) and Portugal (4%).

However, in retrospect, the then emerging scenario of private participation in public infrastructure turned out to be a very complex one.

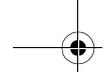
## Investment in Infrastructure in Latin America, 1980-2001 (% as GDP)

Country	Period	Total Infrastructure (1)		
		Total	Public	Private
Argentina	1980-85	2,96%	2,96%	0%
	1996-01	1,45%	0,22%	1,24%
	Change	-1,51%	-2,74%	1,24%
Brazil	1980-85	5,17%	3,64%	1,53%
	1996-01	2,39%	1,02%	1,37%
	Change	-2,78%	-2,62%	-0,16%
Chile	1980-85	3,24%	3,24%	0%
	1996-01	5,58%	1,72%	3,86%
	Change	2,34%	-1,52%	3,86%
Bolivia	1980-85	5,79%	5,04%	0,76%
	1996-01	7,28%	2,93%	4,35%
	Change	1,49%	-2,11%	3,59%
<b>Weighted Average</b>	<b>1980-85</b>	<b>3,71%</b>	<b>3,10%</b>	<b>0,61%</b>
	<b>1996-01</b>	<b>2,24%</b>	<b>0,83%</b>	<b>1,41%</b>
	<b>Change</b>	<b>-1,47%</b>	<b>-2,27%</b>	<b>0,80%</b>

Source: Fay and Morrison (2007) based on Calderón and Servén (2004).

(1)- Includes investment in roads and railways, telecom, energy and water. In Argentina, it also includes natural gas sector.

Lack of experience, unrealistic low bids by concessionaires, weak governance and weak regulators resulted in contract renegotiations. Serious cases of breach of contract also occurred. It is difficult to judge the extent to which government “opportunism” was behind some of those cases. It is also true that in some cases private investors were eager to put an end to their contracts due to poor results as compared to their business plans. As a matter of fact, the consolidation of a contractual regime for infrastructure services did not in fact take place until after the renegotiation process, once the limits on contract flexibility and enforcement arrangements had been tested. Unfortunately, the



economic and political crisis that assailed Argentina in the early 2000s was a source of deep concern about regulation and enforcement of infrastructure contracts. This was undoubtedly the most serious case of contractual instability in the region in a long time and it remains still unresolved.

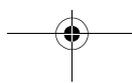
Summarizing, while on the one hand Mercosur has a clear need for infrastructure improvement, the EU, on the other, has become a close partner in this chapter during the 90s and there clearly is a potential for renewed initiatives benefiting both sides at the moment - despite recent obstacles.

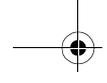
This situation of potential mutual gains stands in stark contrast to the unsatisfactory progress of on going negotiations - as recognized by the "Mercosur Regional Strategic Paper 2007-2013" prepared by the European Commission. According to this document, cooperation between parties over 2007-2013 will no longer be based on a conventional list of projects but on an action plan modeled along Mercosur's integration work program. The action plan will primarily target the completion of Mercosur's Common Market, with the focus on those areas that will facilitate the implementation of the future EU-Mercosur Association Agreement.

From this perspective, infrastructure investment should be viewed as a potentially great contribution towards both Mercosur's improved integration as well as an EU-Mercosur Association Agreement. In fact, it could provide a different approach in the overcoming of the long standstill in the negotiations between the two blocks by "moving away from a strategy that has so far been almost exclusively based on formal trade agreements to a strategy that reflects more accurately the importance of the obstacles that lie, literally, on the ground" (Mesquita Moreira, 2007).

In view of the previous considerations, the following proposals could be suggested:

- The creation of a special fund for investment in transport infrastructure aimed at achieving the geographic integration of Mercosur. The widening of financing sources would help to improve Mercosur competitiveness while stimulating an increased participation of EU companies in infrastructure investment in the sub-region.
- The organization of special financing facilities to develop social infrastructure in poor urban areas and rural areas with the aim of





improving social cohesion and civil society participation in Mercosur.

- The establishment of a Consultative Group that could evolve in the future into an Arbitration Authority (with the completion of the Association Agreement) for the enforcement of infrastructure contracts and the solution of disputes in public service concession contracts. This mechanism would help restore credibility of the regulatory system in Mercosur countries, increase legitimacy by ensuring consumers that their rights would be protected and achieve transparency by keeping custody of the terms of the deals.

A useful precedent to build up these kinds of commitments between Mercosur and the EU is the Association Agreement signed between Chile and EU in 2002 that included cooperation initiatives in infrastructure (transport and energy) and a comprehensive agreement on trade in services applying to public procurement markets as well as to the liberalization of investment.

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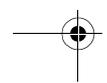
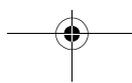
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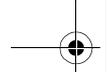
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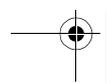
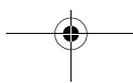
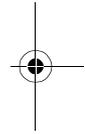
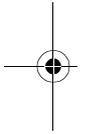
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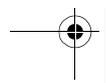
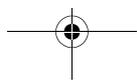
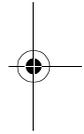
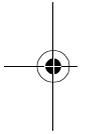
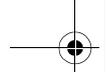
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# **EU-Mercosur Cooperation in Trade Facilitation Priorities and Action Plan**



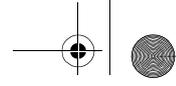


## TRADE FACILITATION AND COOPERATION

### *Mercosur-EU experience and proposals for a 2008-2009 MEBF Action Plan*

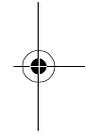
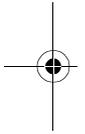
Félix Peña (Argentina)

1. The “*Buenos Aires Statement on Business Facilitation*” (MEBF, 2001) proposed a very complete and ambitious set of concrete measures oriented to facilitate Mercosur-EU business and particularly reducing trade related costs (it includes customs and customs procedures; standards, technical regulations and conformity assessment procedures and electronic commerce). In that opportunity, MEBF explicitly expressed that most of those measures were conceived to be implemented by governments “without interfering in the negotiations of an Interregional Agreement between Mercosur and the European Union”. Even some of them were suppose to be implemented by the business sector itself.
2. Most of those recommend measures were included in the “*Action Plan for Business Facilitation*”, adopted by the EU-Mercosur 2002 Madrid Summit. The MEBF 2006 Plenary reiterated the economic importance of trade facilitation and proposed a short list of priorities measures.
3. No public information is available about the implementation of the Madrid Action Plan. Trade facilitation has been included in the agenda’s of the EU-Mercosur Bi-regional Negotiations Committee (BNC). But the records of the meetings, at least those available to the public, do not include concrete information of which has been the results of the negotiations in this area. Also, no progress report has been elaborated and published by MEBF about the implementation of measures proposed in the 2001 Buenos Aires Statement. Some very concrete institutional



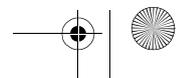
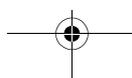
recommendations have not been yet implemented, as for example the idea of a EU/Mercosur Joint Customs Cooperation Committee (1.6.1). It could have played a key role in the implementation of trade facilitation measures at least in the customs area. Also, some of those measures were supposed to be adopted with strong participation of the private sector or directly by MEBF <sup>1</sup>No comprehensive record is available about the eventual implementation of those measures by the private sector or by MEBF.

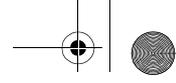
4. According to the experience accumulated since 2001 and 2002, *a first concrete recommendation would be for MEBF to develop a mechanism of follow-up of its own proposals and also to promote the periodic publication of progress reports on the implementation of the trade facilitation recommended measures, both by the public and the private sector.* The Asia-Europe Meeting (ASEM) –with the participation of the ASEM Business Forum- has made concrete progress in the public dissemination of the implementation and evaluation of its periodic Trade Facilitation Action Plans. The interaction among public and private actors appears to be crucial for the results they have obtained in reducing the costs of trade. The Asia-Pacific Economic Co-operation (APEC) –with the participation of the APEC Business Advisory Council- has also a large experience at this respect. Based in those experiences, MEBF should stimulate EU-Mercosur to increase the transparency of actions adopted to implement the recommended measures. But it should also introduce the same transparency criteria in its own Web page, transforming it in a powerful instrument for the follow up of Mercosur-EU trade facilitation measures, including those proposed by MEBF.
5. Economic studies, particularly based in the experience of both ASEM and APEC, among others, indicates that trade facilitation measures – through well implemented action plans –could have a strong impact in the development of international trade and investments. Some of the most recent studies demonstrate the positive impact that those measures could have in reducing costs for firms operating at the world markets, contributing to the devel-



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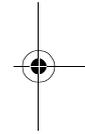
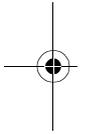
1. For example, those identified by the following codes: 1.5; 2.2.1: S31; S32; 2.2.3: S.36; S.37; 2.2.5: S.42; 3.3.2: E.51; E52; 3.2.3: E.54; 3.3.2: E.59; 3.3.3: E.60; 3.3.4: E.61, and 3.3.5: E.62.





opment of competitive global value chains. Even, in some cases, they could have a similar or even greater economic impact that further elimination of tariffs<sup>1</sup>.

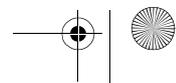
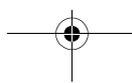
6. Several international agencies have been very active in the analyses and dissemination of technical information concerning trade facilitation. *A second concrete recommendation would be for MEBF to take advantage in its future activities in this field, of the expertise accumulated by those agencies.* Among the most active of those agencies it is possible to mention the United Nations Economic Commission for Europe (UNECE), the World Customs Organization (WCO), the United Nations Conference for Trade and Development (UNCTAD), the World Trade Organization (WTO), the Organization for Economic Cooperation (OECD), the International Chamber of Commerce (ICC), the International Civil Aviation Organization (ICAO) and the International Maritime Organization (IMO). Some technical reports could be particularly useful for further action of MEBF in the field of trade facilitation<sup>2</sup>.
7. Of the most recent economic literature and of the experience of ASEM and APEC, among others, it is possible to observe a growing consensus concerning the criteria, scope and methodology of trade facilitation. *A third concrete recommendation would be for MEBF to take into account this emerging consensus in its promotion of trade facilitation.* Some of the key elements of this consensus could be summarized in the following way: trade facilitation, in its broader concept, implies a voluntary, incremental and dynamic process with a high density of information technologies,

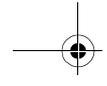


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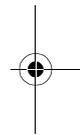
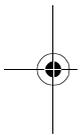
1. See for example, the “*SIA of Mercosur Negotiations*”, Final Report, Consultation Draft, 15<sup>th</sup> June 2007, pages 69-71 and 131-136, at [www.sia-trade.org/Mercosur](http://www.sia-trade.org/Mercosur); and the recent report “*Transparency and Trade Facilitation in the Asia-Pacific: Estimating the Gains from Reform*”, by the Asia-Economic Cooperation and The World Bank Development Research Group, September 2007, at [http://econ.worldbank.org/projects/trade\\_costs](http://econ.worldbank.org/projects/trade_costs) and at [www.dfat.gov.au](http://www.dfat.gov.au).

2. To mention only some of them: UNECE, “*A Road Map Towards Paperless Trade*”, New York and Geneva, 2006; those of Simplifying International Trade (SIT-PRO); BIAC-OECD, “*Proposal for a BIAC-OECD Initiative to Facilitate SME Access to International Markets*”, Paris, November 2006; the *Technical Notes* of UNCTAD Trust Fund for Trade Facilitation Negotiations, and the UNECE-UNCTAD “*Compendium of Trade Facilitation Recommendations*”, compiled by the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT), New York and Geneva, 2002.

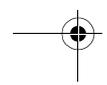
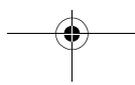


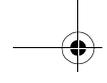


developed through public-private sector synergies, procuring the reduction of time and related costs in all the international trade process, and aiming to improve the competitiveness of national economies and firms operating at the global or regional markets. Countries or group of countries move in the direction of developing trade facilitation measures, because they perceive its benefits for them and their firms, and not necessarily as a result of mandatory international agreements. Its efficacy requires strong political will of governments and full participation of the private sector, specially helping to identify measures that have a stronger negative impact in their trans-border operations. Transparency, predictability and simplification of the processes related with international trade, should be a main result of actions in the field of trade facilitation. To help to include them in an Action Plan, that could be periodically evaluated and to measure the progress achieved through it, is one of the more practical contributions that could be expected from the business sector. In fact, the private sector could be a driving force toward greater trade facilitation, helping also to develop awareness about its importance and to promote a debate about politically feasible and technically sound concrete measures. Conceived in this way, trade facilitation is a complement of trade negotiations, but it could produce positive results even without the results of those negotiations.

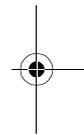
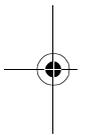


8. International cooperation could help countries to identify and apply measures of trade facilitation. It could also contribute through the dissemination of expertise and best practices, originated in countries that have had success in the implementation of their trade facilitation strategies. It includes the financing of the more expensive components of a trade facilitation action plan, particularly those related with the requirements of physical infrastructure and information technologies. But also, it could contribute through the development of administrative and technical capacities of the several national bodies related with the implementation of trade facilitation measures (particularly in the case of customs and standards). In the case of smaller and least developed countries, this cooperation could be developed together with the relatively more developed countries of a region such as Mercosur, through trilateral cooperation programmes. The EU has accumulated experience in trilateral cooperation in the Asian region. In the field of cooperation, should be mentioned as a positive contribution of the EU to Mercosur countries, some of the

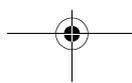




recent cooperation programmes, such as the UE-Mercosur Customs Cooperation Programme (PADUEM), developed between September 2004 and September 2007 (see all the information about PADUEM at [www.paduem.org](http://www.paduem.org)). According to the reports of the two experts that prepared the national reports for the Chaire Mercosur-IADB-MEBF project, some of the concrete progress that could be observed in the development of the MEBF 2001 and 2006 trade facilitation proposals in the customs area, even if they do not imply yet the complete achievement of the most ambitious goals (as for example the “single window”), were facilitated by PADUEM. *A fourth concrete recommendation would be for MEBF to strongly support the development of new EU technical cooperation programmes in the field of trade facilitation.* Also MEBF should fully support the concept of visibility in those technical cooperation programmes that allows business, experts and the civil society in general, to be completely informed of their scope, methodologies and results. This has been the case of PADUEM. But at the same time MEBF should recommend a strong participation of the business sector in those programmes. That's has not been the case of PADUEM. In its four areas, PADUEM has been basically concentrated in the public sector and more concretely in the Customs Services.

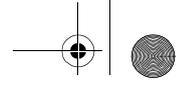


9. Both the EU and the IADB are strongly committed to support trade facilitation through different programmes. They are related with the concept of “aid for trade”, aiming to contribute to strengthening trade capacities in developing countries. It is a concept that has been promoted strongly by the WTO. This appears very clearly in the reports of the European Commission to the WTO trade facilitation meetings. In one of this reports (to the WTO Trade Facilitation Workshop, Geneva 10-11 May 2001) the Commission says that “technical assistance and capacity building in the field of trade facilitation is one to which we attach priority, one to which we have developed considerable resources, and one which we think is key in any development policy or strategy, because increasing trade is key”. And then the report stresses the importance of working together with the private sector “since is both a beneficiary of measures and is directly at the interface with governments”. Same approach was observed in the September 13-14<sup>th</sup> 2007 Lima Meeting in Mobilizing Aid for Trade in LAC, organized jointly by IADB and WTO. The strong participation of the private sector, together with governments, in



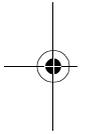
aid for trade – including trade facilitation – activities was emphasized by international agencies – including the IFC, ECLAC and CAF – governmental officials, experts and business sector representatives. *A fifth concrete recommendation would be for MEBF to propose both the EU and the IADB, to deliver their expertise and assistance for actions developed by the business sector aiming to analyse and to promote concrete measures in the field of EU-Mercosur trade facilitation.* The technical assistance of the EU and the IADB could be eventually developed within the framework of their Memorandum of Understanding. A first technical assistance project could be related to the 2008-2009 MEBF Trade Facilitation Action Plan on the lines presented in the three following and last paragraphs.

10. *A six and last concrete recommendation would be for MEBF to develop a 2008-2009 Trade Facilitation Action Plan.* This action plan should have as a main goal to promote the technical analysis and, as result, to present feasible and realistic proposals to the EU and Mercosur related with the principal priority measures identified at the 2006 MEBF plenary. Both national experts and the participants at the Chaire Mercosur-IADB-MEBF project Workshop on Technical Facilitation and Cooperation, that took place in Buenos Aires, September 11<sup>th</sup> 2007, concluded in the need of concentrating action on those priority measures, without including for the moment other measures. The technical assistance of the EU, eventually in joint operation with the IADB, should facilitate both the public sector participation (when it could be necessary) in the different technical workshops and, particularly, the access to the stock of expertise accumulated by the several technical agencies above mentioned, and also to the experience of ASEM and APEC. All the technical information and the results of the analysis done at the workshops, should be presented to the consideration of governments and disseminated through the MEBF web page according to the visibility criteria. The Action Plan should include a concrete calendar for the 2008-2009 period and the mechanism and criteria for the evaluation of the results. It is recommended that at the end of the first year of its implementation, an evaluation of its results could eventually imply the inclusion of other priority measures for the second year.
11. According to the report of the national experts, the recommended MEBF 2008-2009 Action Plan should take in consideration the following criteria in the discussion at technical multi-stakeholders workshops:



### ***Development of Metrics***

- Change and modernize processes instead of norms: there is not a systems approach with a view to process improvement. The approach is predominantly normative. One of the reasons is that there are very few metrics on which to base and document proposals for change. Without information there is a lot of shifting the fault to the other components of the logistics chain.
- Develop project to design a system to supply metrics – time measurements – of each stage in the process in exports and imports to show the opportunities for improvement in processes and to highlight the strangle points in flow of goods and documentation. This should be done at a major port and be taken to the major ports of the other countries, then to the other ports. A similar process should be implemented at the major airport, then taken to the major airports of the other countries and then to the other airports. The major road ports should also be measured.
- Develop a system that shows variation in time. It can start off as indicative, using inputs from companies in the private sector, and then evolve to being diagnostic with input from public sector systems. It can be used to identify and promote best practices within the region. If similar information exists for European entry points it could be used to establish parameters for “reciprocity”. Reciprocity is a strong mobilizing force in public policy.

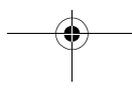


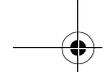
### ***Getting to know and sharing best practices***

- Promote and fund family of mechanisms (seminars, forums, site, publications, press-relations) to show best practices from around the world. Not just of strictly customs practices, but of all practices affecting trade flows. The metrics developed in the previous suggestion would provide input and enrich the second suggestion.

### ***Providing sustainability for private/public sector partnerships***

- Work closely with the private sector to develop solutions and improve processes, as per the United Nations and the World Customs Organization have both suggested. There are sporadic

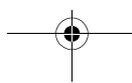


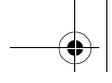


examples of where this has been attempted in our region, many of them with success. Usually the examples are of little and very formal interchange, very rarely of hands-on joint efforts. One of the reasons is the difficulty of providing sustainability for the private sector endeavor. The results of this type of work are usually long term and beyond the semester return horizon of most companies. Even SITPRO, the pioneer and prime example of joint cooperation is publicly funded (though privately managed). One possible area of cooperation by the IADB, would be to help fund private sector organizations to work with government during their start-up years.

12. Following the recommendations of the reports presented by the two national experts to the Chaire Mercosur-IADB-MEBF project, including the criteria mentioned in paragraph 11, the recommended Action Plan should include the organization of technical multi-stakeholders workshops related to the principal 2006 priority measures. A more detailed program for the consideration of the EU and eventually of IADB, should include the specific agenda of each workshop and, particularly, the concrete list of public agencies that should be represented, taking in consideration their involvement in the implementation of each measure. In the customs area the recommended priorities are related with the “reliable operator” concept and the “single window” process. In the standards, technical rules and SPS area, the following activities are recommended:

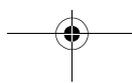
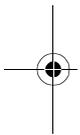
- “EC” marking process: A training and inspection program done by European experts in order to obtain recognition from European authorities of Mercosur certifying entities and qualified laboratories;
- Workshops on technical barriers to trade (especially in the next review of the WTO TBT Agreement), present and future situation of EU documents about “New Approach” and Global Approach”, positive and negative experiences in the implementation of EU directives in standards, technical regulations, and conformity assessment procedures;
- Common agenda between AMN – CEN – CENELEC for the following purposes: selection of EU-Mercosur issues of common interest related to standards and conformity assessments procedures; regular information interchange about present and future programs (i.e. European plan to save energy); participation as observers in the standards committees related to issues of common interest;





- Workshops for possible sectorial agreements (i.e. in the cases of equipment, low electric tension equipment, toys, agriculture machinery); publication of documents about labeling procedures; informative meetings about especial forums like GHTF or/and UN/ECE WP 29 with Mercosur members;
- In the case of SPS standards, a cooperative program between CEN – AMN to help, through the recommendations of specialists, to define SPS regulations congruent with the principles and obligations contained in the WTO SPS agreement.

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## TRADE FACILITATION AND COOPERATION

### *A Brazilian Private Sector Perspective*

**John Mein (Brazil)**

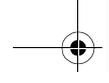
***Progress has been made, but not at a rhythm to keep up with the World Class competitors.***

In the last few years the Brazilian Aduana has participated actively in the World Customs Organization and taken a lead in International forums where customs modernization is discussed. Consequently the leadership of the Aduana has a modernizing discourse and a desire to implement new systems and processes which will increase trade facilitation. There are, however, enormous challenges to be overcome to reach the desired level of efficiency.

Modern customs processes are intensely dependent on IT. Historically the Aduana has limited the development and operations of systems to the Brazilian government monopoly: SERPRO. Modernizing customs systems has not been a priority for SERPRO, so some of the systems specified by Aduana have been under development for several years, with time overruns of three years. The existing system – SISCOMEX – which was extremely advanced when it was implemented in the nineties, is operating on an outdated platform with very limited flexibility and enormous difficulties to change.

To get around the dependency on the systems monopoly the Aduana is working under a special contract with a couple of universities (ITA and UNICAMP) with whom they are developing the framework of a new artificial intelligence system, named Harpia (Brazil's eagle).

An example of the opportunities which exist if there were better solutions for IT, is the Express Industry. The Express Industry operates



within very tight value boundaries, with a single import tax, among other restrictions, because there is no customs system to control the flow of goods. Siscomex is not adaptable to supply this need. Aduana is in the process of developing a special module within the Harpia system to supply the need for IT control systems for the flow of goods of the Express Industry.

Siscomex Carga, the new system to control maritime imports which will be rolled out sometime in the next few weeks is not integrated into the existing port management system developed for the administration of the port of Santos.

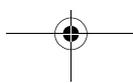
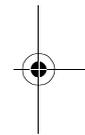
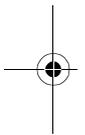
Customs processes are controlled by several governmental departments or agencies. When the issue of Trade Facilitation is discussed and specified in negotiating documents customs is treated as if it were a monolithic institution. In reality the customs process is managed by a multitude of governmental organizations, some of which have little sensitivity to the issue of time and cost as elements of international competitiveness. These authorities rarely work as a team (notable exceptions are at the very local level in a few entry points). Several of them are developing their own IT control system with little concern for integration and interoperability.

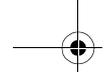
As a result, although Brazil can point to significant progress in developing special mechanisms for reliable and trusted companies, such as the “Blue Line”, few companies (only nine) have adhered to this regime because it does not preclude post arrival inspection by the agriculture, health or any of the other twelve authorities (depending on the goods). Many companies feel that there is little return for the investment necessary to be certified as a “Blue Line” company if goods are delayed by the other authorities.

Trade facilitation and the implementation of concepts such as “Single Window” and of a “Border Agent” (the State having one professional which implements the policy of the different public policy agencies) will be difficult to implement because of the highly atomized institutional and policy framework.

There is a possibility to help bring about change if funds and technical assistance from IADB and/or the European Community are made available to plan, design and implement a government-wide IT system for customs processes involving all the governmental agencies.

There are several signs of increased private sector/ governmental cooperation in the area of customs modernization. Those who oppose change have begun to question whether such a mechanism is legal.





Security (as opposed to Safety) is not a public concern or policy in Brazil. One of the challenges which was not mentioned explicitly in the MEBF documentation is how the Security requirements of countries which do have Security as a priority will affect processes in countries like Brazil and how the authorities will deal with these requirements and what added level of bureaucracy will be imposed to respond to this new demand.

### ***Recommendations and opportunities for cooperation***

#### **• Development of Metrics**

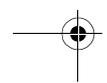
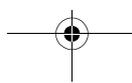
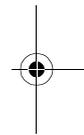
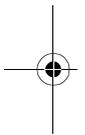
- Change and modernize processes instead of norms: there is not a systems approach with a view to process improvement. The approach is predominantly normative. One of the reasons is that there are very few metrics on which to base and document proposals for change. Without information there is a lot of shifting the fault to the other components of the logistics chain.

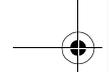
- Develop project to design a system to supply metrics – time measurements – of each stage in the process in exports and imports to show the opportunities for improvement in processes and to highlight the strangle points in flow of goods and documentation. This should be done at a major port and be taken to the major ports of the other countries, then to the other ports. A similar process should be implemented at the major airport, then taken to the major airports of the other countries and then to the other airports. The major road ports should also be measured.

- Develop a system that shows variation in time. It can start off as indicative, using inputs from companies in the private sector, and then evolve to being diagnostic with input from public sector systems. It can be used to identify and promote best practices within the region. If similar information exists for European entry points it could be used to establish parameters for “reciprocity”. Reciprocity is a strong mobilizing force in public policy.

#### **• Getting to know and sharing best practices**

- Promote and fund family of mechanisms (seminars, forums, site, publications, press-relations) to show best practices from around the world. Not just of strictly customs practices, but of



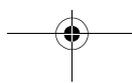
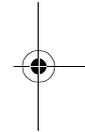
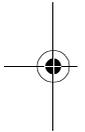


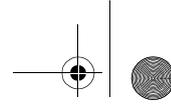
all practices affecting trade flows. The metrics developed in the previous suggestion would provide input and enrich the second suggestion.

• **Providing sustainability for private/public sector partnerships**

- Work closely with the private sector to develop solutions and improve processes, as the United Nations and the World Customs Organization have both suggested. There are sporadic examples of where this has been attempted in our region, many of them with success. Usually the examples are of little and very formal interchange, very rarely of hands-on joint efforts. One of the reasons is the difficulty of providing sustainability for the private sector endeavor. The results of this type of work are usually long term and beyond the semester return horizon of most companies. Even SITPRO, the pioneer and prime example of joint cooperation is publicly funded (though privately managed). One possible area of cooperation by the IADB, would be to help fund private sector organizations to work with government during their start-up years.

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## TRADE FACILITATION & COOPERATION

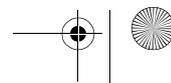
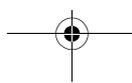
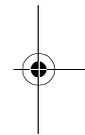
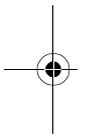
### *An Argentinean Perspective*

**Raúl Ochoa (Argentina)**

#### ***Introduction***

In the last few years, Mercosur's Common Market Council has established, through many rules, the goal of a Customs integration of the four member countries. Many steps have been made on the field of information exchanges with the use of the INDIRA system, the approval of the Agreement on Customs Value and of a single common document for this purpose, the work towards an electronic single document for exports/imports, the possibility of an electronic Certificate of Origin for the four countries that is advancing in ALADI framework, the SINTIA-MIC/DTA system that would provide traceability of the transport on transit through our territories and, last but not the least, the slow building up for the approval of the Mercosur Customs Code. All these advances are significant assets.

But other issues remain as liabilities for the Mercosur customs integration, representing additional costs to the companies that operate between Mercosur countries. Many of the bi-regional border crossings don't have real customs integration and the government agencies that are present at these crossings do not coordinate their work, either inside one country or with its neighbor – specifically, in the case of border crossings between Brazil and Argentina where the first has improved the infrastructure to attend trucks, while the second remains lagging behind. Fortunately there is an example of a border crossing that can be taken as benchmark for all the other crossings: the São Borja – Santo Tomé that functions as a real integrated custom with excellent infrastructure in both sides.



In the case of Argentina, Customs authorities are well aware of the need of improving trade facilitation in the new scenario which began after the September 11 attacks where Security – as established by the WCO rules – relies on trusted companies accepted in a non discriminatory basis. A first step towards this goal has been made with the “SOC” – Reliable Operators System – for exporters, but many steps are still due to fulfill this objective.

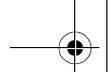
WCO rules are based on two pillars. The first one – Custom/Custom – means cooperation by IT systems to detect risk products before their arrival. **The second one – Custom/Companies – means partnership with the private sector aiming at securing the logistics chain** beginning with the exporter, then the logistic agency, the port, the transport firm and, last, the importer. For this secured logistic chain, Custom must assure trade facilitation procedures – eliminating red tape and burdensome paper documents, and lesser controls. This is one of the selected MEBF priorities.

A second MEBF important priority is the so called “**Single window procedure**”. **That means a sole government agency who represents all governments agencies involved in exports/imports and transit operations where companies, through IT systems, can send and receive electronic documents, pay their taxes and other charges.**

In Argentina, AFIP (the Customs administration) has made some advances in the case of import approvals (LAPI), authorizations in beef trade, and is working with other government agencies. A real step forward needs not only a political enforcement put also an up-date of the different IT systems in use and an important private sector follow up.

Some words about MEBF priorities on standards, technical and SPS rules. There is a general agreement coming from the answers received, about the need of cooperation in these fields, with the purpose of a better knowledge of the “EC” marking process, the possibility for Mercosur institutions and laboratories to be certified by the EU, and a real up to date of present and future EU rules. Seminars could be held on these issues. Some of them must have a comprehensive general approach, but there is also a need for meetings on technical standards that would be referred to specific industrial sectors. The goal in these cases are the possibility of obtaining industrial mutual recognizing sectorial agreements.

A proposal is also made to strengthen the links between AMN-CEN-CENELEC institutions, about Norms and Conformity procedures taking into account trade volume and public and private commitments.



About SPS regulations, the main goal must be that procedures that are established must follow WTO SPS agreement principles and definitions.

### ***Trade Facilitation and cooperation***

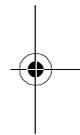
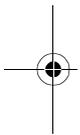
- **Priorities: Reliable operators and “single window” process**

The selection of two of the priorities indicated by MEBF in November 2006 as possibilities for cooperation in Customs procedures requires some more explanation.

First of all, those excluded are also important, but some of them have been contemplated in the PADUEM 2002-07 cooperation framework – and today, Mercosur authorities have the responsibility of ending this program in a satisfactory manner. This is the case, for example, with CAM (Mercosur Customs Code) or Mercosur electronic single document for exports and imports. In the case of Mercosur trade border crossings, where in many cases there are not real integrated customs, the authorities know perfectly what has to be done. It is useful to remember that the IIRSA project – with IDB and CAF funds – has prepared a thoroughly study of each crossing and what must be done to achieve real integration. There is also the São Borja-Santo Tomé crossing that can be used as a benchmark.<sup>1</sup>

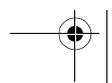
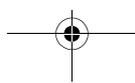
Concerning the two priorities selected by the MEBF, reliable operators and single window represent what must be the present and future role of Customs. In the first case **reliable operators and risk analysis of trade operations** means the necessary link between security and trade facilitation in a clear partnership Customs/Companies. The second priority – **single window procedures** - means the feasibility of using IT to produce the linkages between all the governments agencies which have something to do with foreign trade (pre-shipment exports o pre-clearance of imports approvals) and the companies and operators connected with them through an only administrative agency.

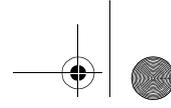
This task is not simple, as we can see through SITPRO, and also in the web page of Chile’s Customs Service. The USA, for example has about a hundred of government needed approvals



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1. - See : IIRSA – [www.iirsa.org](http://www.iirsa.org)





and, in our countries, there may be no less than twenty or more agencies with something to say about international trade. This trend of many agencies involved with exports/imports and transits will increase not decrease in the near future, and so the “single window process” would be more and more necessary if facilitation of trade remains as a target.

Looking at ASEM Trade Facilitation meetings and recommendations, we can notice that reliable operators are in the front page as a consequence of emerging new ways of trade fraud: growing illicit drugs and weapons traffic, powerful counterfeiting practices, leaving alone IPR falsifications. The second issue mentioned is of course “single windows procedures” were the countries that have established innovative procedures in this issue are helping the others in their first steps.

Cooperation between Mercosur countries is necessary for Trade Facilitation to go ahead in the present and future scenarios in which our Customs are working.

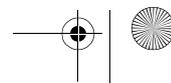
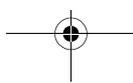
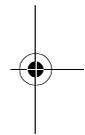
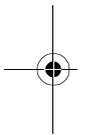
Taking into account the Argentine Customs administration’s recent experience with SOC (Sistema de Operadores Confiables - Reliable Operators System), and the necessary partnership with the private sector, cooperation is needed for the WCO pillar CUSTOM/COMPANIES to acquire knowledge about best practices in other parts of the world linked to some aspects like SME exporters access to the system, reliable importers, mutual recognitions agreements, costs implied and rewards obtained by reliable operators, etc.

In this case cooperation means:

- Information and training for small exporters companies on the “know-how” to become a reliable operator;
- Seminars given by experts about best practices in secured logistic chains, costs involved and benefits.
- Self-evaluation programs for the different industrial sectors through risk analysis for product, ports and importers.

“Single window” procedures need cooperation to help the creation of a “Business Board for Single Window Trade Facilitation” that in the case of Argentina means the following:

- Listing all kind of control actions implemented by government institutions and agencies, with the help of operators: exporters, importers, logistic and transport companies, etc, and the docu-



mentation, times related to the approval, charges paid and service received.

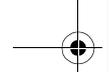
- Listing of government controls that affect volume of trade and number of operations ordered in decreasing figures.
- Knowledge of IT systems used by government agencies of the List point 2). This would be obtained from JGM – Cabinet of Ministers Officer – SGP – Public Management Secretary
- Software integration and interoperability to AFIP customs system in the cases needed
- Follow-up of the advances with AFIP – Customs Administration and JGM-SGP

The two priorities selected are complex issues and need time and efforts to mature. In both cases cooperation from the IADB thru funds and technical assistance would help companies and Customs administration to fulfill their goals in these issues that as was said before, represents Customs present and future role towards competitiveness and secure goals.

• **Standards, Technical rules and SPS measures**

Cooperation would embrace the following activities:

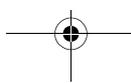
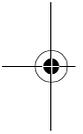
- “EC” marking process: This would be a training and inspection program done by European experts in order to obtain recognition from European authorities of Mercosur certifying entities and qualified laboratories.
- Seminars on technical barriers to trade (especially in the next review of the WTO TBT Agreement), present and future situation of EC documents about “New Approach” and Global Approach”, positive and negative experiences in the application of EC directives in standards, technical regulations, and conformity assessment procedures.
- Common agenda between AMN – CEN – CENELEC for the following purposes: Selection of EC-Mercosur issues of common interest related to standards and conformity assessments procedures; regular information interchange about present and future programs (i.e. European plan to save energy); participation as observers in the standards committees related to issues of common interest.
- Seminars for possible sectorial agreements (i.e. in the cases of equipment, low electric tension equipment, toys, agriculture machinery); publishing of documents about labeling proce-

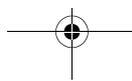
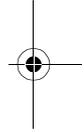
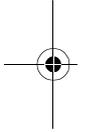
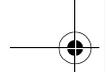


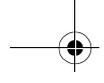
dures; informative meetings about especial forums like GHTF or/and UN/ECE WP 29 with Mercosur members.

- In the case of SPS standards there could be a cooperative program between CEN – AMN to help, through the recommendations of specialists, to define SPS regulations congruent with the principles and obligations contained in the WTO SPS agreement.

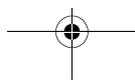
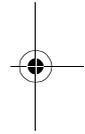
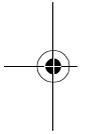
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# Workshops' programs





INTER-AMERICAN DEVELOPMENT BANK  
INTEGRATION AND TRADE SECTOR



**CHAIRE MERCOSUR DE SCIENCES PO**  
**Grupo de Seguimento das Negociações UE-Mercosul**

com o apoio / with the support of:  
BANCO INTERAMERICANO DE DESARROLLO  
Sector de Integración y Comercio  
MERCOSUR-EUROPEAN UNION BUSINESS FORUM (MEBF)  
FEDERAÇÃO DO COMÉRCIO DO ESTADO  
DE SÃO PAULO (FECOMERCIO)  
CONFEDERAÇÃO NACIONAL DA INDÚSTRIA (CNI)

**Seminário / Workshop**  
**Reviving the EU-Mercosur Trade Talks:**  
**a Business Perspective**  
**Retomando as Negociações Comerciais UE-Mercosul:**  
**uma Perspectiva Empresarial**

14 de Setembro, 2007 – September 14, 2007

FECOMERCIO –  
Rua Doutor Plínio Barreto 285 – Bela Vista - São Paulo

**SEXTA-FEIRA / FRIDAY, 14 DE SETEMBRO / SEPTEMBER 14**

08:30 – 09:00 **CAFÉ E REGISTRO / COFFEE AND REGISTRATION**

09:00 – 09:30 **ABERTURA / OPENING SESSION**

Mário Marconini - President of the International Relations  
Council – FECOMERCIO

Jorge Enrico – Coordinator Mercosur MEBF – Argentina  
Alfredo Valladão – Director of the Chaire Mercosur de Sciences Po

09:30 – 11:00 **PANEL I: EU-MERCOSUR: BEYOND THE STANDOFF / UE-MERCOSUR:  
ALÉM DO IMPASSE**

*Moderador:* Alfredo Valladão – Professor – Chaire Mercosur  
de Sciences Po – France

*Apresentação/Presentation:* Pedro da Motta Veiga – CINDES- Brazil  
Susanne Gratius – FRIDE – Spain  
Raúl Ochoa – Universidad Tres de Febrero - Argentina

*Comentário / Discussant:* Márcia Donner – Ministry of Foreign  
Relations - Brazil  
Fabian Delcros – Trade Affairs - EU Delegation in Brazil

Debate

11:00 – 11:30 **CAFÉ / COFFEE BREAK**

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11:00 – 13:00 **PANEL II: MERCOSUR'S INDUSTRIAL EXPORTS TO THE EU:  
REAL OR IMAGINARY BARRIERS? / EXPORTAÇÕES INDUSTRIAIS  
DO MERCOSUL PARA A UE: BARREIRAS REAIS OU IMAGINÁRIAS?**

*Moderador:* Alfredo Valladão – Professor – Chaire Mercosur de  
Sciences Po – France

*Apresentação/Presentation:* Sandra Rios – CINDES – Brazil  
Ricardo Rozemberg – UBA – Argentina  
Francisco Ruiz Dias – CADEP – Paraguay

*Comentário / Discussant:* Carlos Mariani – CNI & Coordinator  
Market Access MEBF – Brazil  
Beate Kuntz da Silva – Siemens AG – Germany

Debate

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13:00 – 15:00 **ALMOÇO / LUNCH**

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15:00 – 17:00 **PANEL III: SERVICES: A PROMISING NEW PERSPECTIVE FOR THE  
EU-MERCOSUR RELATIONS / SERVIÇOS: UMA NOVA PERSPECTIVA  
PROMETEDORA PARA AS RELAÇÕES UE-MERCOSUL**

*Moderador:* Alfredo Valladão – Professor – Chaire Mercosur de  
Sciences Po – France

*Apresentação/Presentation:* Mário Marconini – FECOMERCIO &  
Coordinator Services MEBF – Brazil  
Jorge Caumont – Caumont & Associado – Uruguay  
(banking)

Ignacio Rodríguez Teubal – AFI – Spain (ICT)  
Orlando Arnaud – APEOP – Brazil (construction &  
engineering)

John Cooke – IFSL – United Kingdom (insurance)  
Marcela Cristini – FIEL – Argentina (infrastructure)

*Comentário / Discussant:* Carlos Rodríguez – Telefónica &  
Coordinator Services MEBF – Spain

Debate

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17:00 – 17:30 **CONCLUSÃO / CLOSING SESSION**

Alfredo Valladão – Director of the Chaire Mercosur de Sciences Po

Fernando Almeida – Coordinator Europe MEBF

Mário Marconini - President of the International Relations  
Council - FECOMERCIO

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Admission is restricted to registered participants only.  
Registration forms must be sent to : [smsrinco@fecomercio.com.br](mailto:smsrinco@fecomercio.com.br)



INTER-AMERICAN DEVELOPMENT BANK  
INTEGRATION AND TRADE SECTOR



**CHAIRE MERCOSUR DE SCIENCES PO**  
**Grupo de Seguimiento de las Negociaciones UE-Mercosul**

Con el apoyo / with the support of:  
BANCO INTERAMERICANO DE DESARROLLO  
Sector de Integración y Comercio  
MERCOSUR-EUROPEAN UNION BUSINESS FORUM (MEBF)

**Grupo de Trabajo / Workshop**  
**EU-Mercosur Cooperation in Trade Facilitation:**  
**Priorities and Action Plan**

11 de Septiembre, 2007 – September 11, 2007  
Sede del MEBF –  
Sección argentina – Uruguay 1037, 1<sup>er</sup> Piso – Buenos Aires

**MARTES / TUESDAY, 11 DE SEPTIEMBRE / SEPTEMBER 11**

08:45 - 09:00 **CAFÉ Y REGISTRO / COFFEE AND REGISTRATION**

09:00 – 09:15 **APERTURA / OPENING SESSION**

Jorge Enrico – Coordinator of the MEBF-Mercosur

Alfredo Valladão - Director of the Chaire Mercosur de Sciences Po

09:30 – 09:45 **MAIN IDEAS FOR THE REPORT TO BE PRESENTED AT THE LISBON MEBF MEETING**

*Presentation:* Félix Peña – Universidad Tres de Febrero - Argentina

09:45 - 10.45 **PRELIMINARY NATIONAL REPORTS**

*Presentation:* John Mein – experto del Brazil

Raúl Ochoa – experto de Argentina

**THE EXPERIENCE OF URUGUAY**

*Presentation:* Galdós Ugarte – experto del Uruguay

**EU COOPERATION WITH MERCOSUR**

*Presentation:* Galdós Ugarte – experto del Uruguay

10.45 – 11:00 **PAUSA CAFÉ / COFFEE BREAK**

11:00 – 12:10 **COMENTARIOS / DISCUSSANTS**

*Moderator:* Félix Peña – Universidad Tres de Febrero - Argentina

*Discussants:* Silvio Kamogari – PSA Peugeot Citroen Brazil, standing for Coordinator MEBF

Business Facilitation – EU

Roberto Pons – Coordinator MEBF Business

Facilitation – Mercosur

Debate

12:10 – 12:30 **CONCLUSIONES / CONCLUSIONS**

Félix Peña – Universidad Tres de Febrero – Argentina