



EUROPEAN COMMISSION
EXTERNAL RELATIONS DIRECTORATE GENERAL

DIRECTORATE Latin America
Mercosur, Chile Unit
Mercosur Desk

**MERCOSUR – EUROPEAN COMMUNITY
REGIONAL STRATEGY PAPER
2002-2006**

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A. EXECUTIVE SUMMARY

Mercosur represents an on going process of regional integration with Argentina, Brazil, Paraguay and Uruguay as full members, and with Bolivia and Chile as associate members. Mercosur covers a wide variety of policy areas ranging from the creation of a regional common market and a full macro-economic co-ordination, to a harmonisation of social policies, joint political initiatives, military co-operation and regional guarantees for the preservation of democracy and respect of human rights. Mercosur also represents the 4th largest economic group in the world after the EU, NAFTA and Japan and has a total GDP of US\$ 1,100 billion and a population of 210 million.

However, Mercosur is also a process that is still struggling to complete its integration and to establish or reinforce the joint bodies and institutions that it needs to further its integration. But while the Mercosur process is as diverse as its members are, it is the issue of special interests and concerns about sovereignty that often get in the way of advancing in the areas of integration and institutionalisation. In turn these two issues weaken Mercosur's common position on the regional and international scene. To solve its problems Mercosur needs to continue and complete its integration process. This implies facing up to three main challenges:

- 1) **Completion of the Internal Market (internal dimension)**
- 2) **Stronger institutionalisation (supports both the internal and external dimensions)**
- 3) **Integration of Mercosur into the regional/international context (external dimension)**

The EC has had one common response to Mercosur since 1991: we support the Mercosur integration process. This has by now resulted in a process of association and free trade negotiations, which already today provides strong proof of the EC's and EU's long term commitment to Mercosur. Eventually, after the negotiations have been concluded, the EU and the Mercosur will become close companions in a **strategic inter-regional partnership**. In the shorter term, while building upon the EC's co-operation objectives, looking at past EC co-operation with Mercosur, taking into account co-operation provided by other international donors, as well as trying to ensure the coherence of EC policies towards Mercosur, the following paper analyses the EC's response strategy to Mercosur's challenges in the next few years. This analysis concludes on **three main areas** where EC relation with Mercosur should concentrate, being:

- 1) **support to the completion of the Internal Market**
- 2) **support to enhancing the institutionalisation of Mercosur**
- 3) **support to the opening up of Mercosur**

At present the EU has a privileged relationship with Mercosur. Mercosur is an essential partner for the EU and its integration process is largely inspired by the European experience during the past 50 years. Future developments in Mercosur integration should

enhance its relationship with the EU and should guarantee the success of the future association agreement. **At present, however, Mercosur needs to confront the three above-mentioned challenges and in doing so the EC wishes to be at its side with a supportive co-operation strategy.**

The EC co-operation will focus on a Regional Indicative Program which will be focus on three priority areas with an amount of 48 million Euros. The priority areas for the EU will be:

- 1) to provide support to the implementation of the Mercosur Internal Market;**
- 2) support to Mercosur institutionalisation and**
- 3) support for civil society in Mercosur.**

The Regional Indicative Program propose actions in favour of this sectors. Furthermore, the Regional Indicative Program is consistent with the Madrid Summit of 17th May in which they agreed to accelerate the implementation of the Memorandum of Understanding and a substantial co-operation package in sectors of common interest.

B. REGIONAL STRATEGY PAPER

1. EC CO-OPERATION OBJECTIVES

General Objectives

According to article 177 of the EC Treaty, Community policy in the sphere of development co-operation, shall foster:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- The smooth and gradual integration of the developing countries into the world economy;
- The campaign against poverty in the developing countries.

Article 130u of the Maastricht Treaty specifies that policy in the sphere of development co-operation shall foster “the smooth and gradual integration of the developing countries into the world economy”. The simultaneous support to regional co-operation and integration is a cornerstone of EU development policy. In these efforts, the EU can rely on the fact that its own successful model of integration has led to the establishment of a single internal market and common policies, which respect the diversity of its Member States. In their “Declaration on the Development Policy of the European Community” of 10 December 2000, the Council of the European Union and the European Commission decided to concentrate the activities of the Community in a limited number of areas, chosen in function of their contribution to the fight against poverty, and in which the activities of the Community may offer an added value.

Objectives concerning Latin America

With regard to the countries of Latin America said objectives have been confirmed and reinforced through various general and specific documents⁽¹⁾, in which in particular the human dimension of development has been underlined and where the European Community has stressed the great importance it attaches to:

- human rights;
- processes of democratization;
- good management of public resources;
- protection of the environment;
- trade liberalization;
- and a strengthening of the cultural dimension.

In addition to this, for the countries of Latin America, an important guideline was the first ever Summit meeting of June 1999 between the Heads of State and Government of the Latin American and Caribbean region and of the European Union, which focused on the strengthening of the strategic bi-regional partnership in its political, economic, social, environmental, educational, cultural, technical and scientific dimensions. The declaration issued by the Heads of State and Government and the follow-up given to the summit conclusions since then are also to be taken into account. Communication COM (1999) 105 final on a new EU–Latin American partnership spells out the priorities for the EU in the region based on a differentiated approach reflecting the specific nature and needs of each sub-region and puts emphasis on the importance of regional integration as a means to foster growth, stability and development.

The II Summit meeting of the Heads of State and Government of the European Union and of the Latin American and Caribbean region held in Madrid on 17th May 2002, has provided a political impetus to the bi-regional relations. It was agreed a Ministerial meeting to give a new impetus to the trade negotiations under the Interregional Association Agreement. The meeting took place on 23 July in Rio de Janeiro with encouraging results. A Work Programme was adopted until the second half of 2003.

Objectives concerning Mercosur

At the sub-regional level, the EU and Mercosur signed an Interregional Framework **Co-operation Agreement** in December 1995, which fully entered into force in July 1999 (provisional application already 1996). This Framework Agreement consists of three main elements: political dialogue, co-operation and trade issues. This agreement is expected to be replaced by a more comprehensive bi-regional **Association Agreement** in the future, for which negotiations have been on-going since November 1999. Both parties recently signed a Memorandum of Understanding (on June 26, 2001), which lays down agreed co-operation priorities by sector over the period 2000-2006. The total indicative amount provided for such co-operation is 48 million Euro.

¹ See COM (95) 495 final “The EU and Latin America. The present situation and prospects for closer partnership 1996-2000” , COM (1999) 105 final “A new EU-Latin America partnership on the eve of the 21st century”, COM (2000) 670 “Following up to the Rio Summit of 1999”, and Regulation (EC) 443/92 concerning financial and technical aid and economic co-operation with the developing countries of Latin America and Asia.

2. MERCOSUR'S POLICY AGENDA

Since the signing of the Treaty of Asuncion in 1991, the countries of Mercosur have been undergoing a rapid process of integration, the primary objective of which has been intra-regional trade liberalisation through the establishment of a customs union. However, the countries have also been pursuing regional integration efforts in a number of other fields, which aim to promote deeper and wider integration. In essence, the Treaty of Asunción defined the implementation of automatic tariff reductions among the member countries, beginning as of the date of its signing. As its name implies (Southern Common Market), Mercosur's ultimate aim is a common market where the free movement of goods, services, capital and people is complemented by a common external tariff and increasingly close policy co-operation among its member countries. In short, Mercosur's regional integration agenda can be divided into two parts: on the one hand, one *short-term* referring to the establishment of a complete and effective customs union and at the other end, a set of *medium-term* policy objectives including the establishment of a common market and common policies in certain sectors. On January 1, 1995 the Common External Tariff (CET) entered into force but the customs union should be fully implemented by 2005. In 1995, a Mercosur Action Programme up to the year 2000 was approved, called the Agenda 2000 (Mercosur Common Market Council decision 9/95), which aimed at consolidating and improving the customs union.

Progress in effectively achieving the objectives set out has been mixed. The momentum of integration efforts and commitment to the process by Mercosur member states has varied according to political and economic developments in the region. Following initial good progress in establishing intra-regional free trade for most products as of January 1995, progress on other fronts have been stalled. As part of a strategy to provide a new impetus to the process of integration, Mercosur countries agreed during the Summit of Buenos Aires on June 29, 2000 to re-launch the process of integration in order to strengthen the bloc internally as well as externally. This is known as the Re-launching Agenda of Mercosur (CMC decisions 22/00 to 32/00). This strategy consists of the identification of the Mercosur main problems in order to provide proposals to solve these issues. These measures were redefined and their deadlines changed during 2001. Even though an institutional reform adopted of the Administrative Secretariat (SAM) was approved, other implementation measures are still in the pipeline. Indeed, the Re-launch Agenda of Mercosur is still the last official agenda of the bloc. Given the political-economic and institutional crisis of the Mercosur, the last Common Market Council meeting held in Asuncion in June 2001, emphasised the need to make progress in the following key areas:

- a) Reformulation of the system of dispute settlements (decided in 18 February 2002);
- b) Identification and elimination of intra-regional barriers to trade (internal);

- c) Elaboration of common trade disciplines to prevent the imposition of trade distorting measures (internal);
- d) Creation of a Free Trade Area of the Americas (external)
- e) Creation of an Inter-regional Association Agreement with the EU (external).

After the meeting of Mercosur Foreign Affairs Ministry on 11 January 2002, Mercosur agreed on an agenda very much focused on the need of strengthening the macro-economic co-ordination and the dispute settlement mechanism. The II EU-Mercosur Summit held in Madrid on 17th May provided an important message to the bi-regional relations and a Ministerial meeting took place on 23rd July in Rio de Janeiro with a view to address future trade negotiations. This meeting provided renewed impetus to the EU-Mercosur relations by agreeing on an ambitious programme for the trade negotiations until the second half of 2003.

At the extraordinary meeting of the Mercosur Common Council on 18 February 2002 (“Protocolo de Olivos”) the constitution of a **Permanent Legal Tribunal (in Asuncion)** was decided, as well as to give the Group of Institutional Affairs a mandate to examine the **technical strength** (not yet administrative one) **of the Administrative Secretariat of Mercosur** (Montevideo). These decisions, as well as other ones, may create co-operation requests to the European Union. Furthermore, the eventual creation of a **Mercosur Monetary Institute** with the perspective of a future single currency.

3. ANALYSIS OF THE MERCOSUR SITUATION

3.1. Regional integration process within Mercosur

Based on the rapprochement that took place in the latter half of 1980s between South America’s two bigger countries, Brazil and Argentina, following the installation of elected civilian regimes, the future contours of a deeper regional integration effort in the Southern Cone gradually took shape. In 1990, the presidents of Brazil and Argentina signed the Act of Buenos Aires, which anticipated that the common market would come into effect in 1995. It contemplated the gradual elimination of all tariff barriers and the harmonization of the macroeconomic policies of both nations. The attraction of such a scheme prompted the two smaller countries in the region, Uruguay and Paraguay, both with deep ties to both Argentina and Brazil, to join. Finally, all four countries signed a new treaty on March 26, 1991 in Asunción, Paraguay (**The Treaty of Asunción**), providing for the creation of a common market among the four participants to be known as the Southern Common Market (Mercosur). The Treaty established the goals to be accomplished in creating the common market, eventually allowing for the free movement of goods, capital, labour, and services among the four countries. The formation of a common market was provided for in the Treaty, which was to go into force on January 1, 1995. **The agreement envisioned no central institutions in its initial stages.**

While the Treaty of Asuncion was the springboard for the launch of the gradual establishment of the customs union, the **Treaty of Ouro Preto** of 1994 established an institutional structure for Mercosur inspired by the EU example. These changes modified the structure established in the Asunción Treaty and created the basis for the launching of

the customs union. Once the protocol was ratified, the new institutional structure created an international legal personality for Mercosur.

As a bloc, Mercosur represents the fourth largest economy in the world after NAFTA, EU and Japan with a total GDP of US\$ 1,100 bn, and a population of 210 million. Brazil accounts for the largest share of the group's total GDP, at around 75%, and as much as 80% of the population. The average GDP per capita stands at US\$ 7,685 on PPP basis (World Development Indicators, WB, 2000). Income distribution also varies significantly, with Uruguay having the most equitable level of income distribution, Gini coefficient of 0,43 compared to Brazil where wide differences exist (Gini coefficient of 0.67). According to the UN's Human Development Index ranking for 2001, Argentina and Uruguay have among the highest rankings for Latin American countries, at number 34 and 37 respectively while Brazil and Paraguay perform relatively poorly, with ranking of number 69, and 80 respectively. Literacy rates are generally high, above 90% for all countries except Brazil where the rate is 85%. Population growth is around 1,1% on average with wide differences between individual countries. Paraguay has yearly growth rate of as high as 2,5% while Uruguay's population growth is only 0,6%. The urban share of population is generally high, above 80% for Argentina, Brazil and Uruguay, while Paraguay has an urban population of 55,3%.

Economic situation

Recent economic developments in the Mercosur region have been characterised by macroeconomic instability, and exchange rate volatility, especially following the devaluation of the Brazilian real in 1999 and the abandonment of the Argentinean currency board arrangement and subsequent sharp depreciation of the Argentinean peso. The economic recession that has hit the region (1999-2002) is one of the deepest since the creation of Mercosur and the first to affect the four member countries simultaneously. In particular, the adverse recent macroeconomic developments in the two largest economies, Argentina and Brazil, are having a significant impact on the whole region, especially on the smaller countries, Paraguay and Uruguay. The use of unilateral tariff and non-tariff trade barriers has created tensions between members and brought market access issues to the forefront. In general, the economic situation has suffered from lack of progress in implementation of key structural reforms necessary to ensure fiscal and monetary stability, and to secure a path of sustained economic growth. The recent Argentinean crisis has even created more difficulties. In August 2002 the crisis also impacted in Uruguay with huge destabilisation of the financial situation and the beginning of an important social turmoil. Brazil is also suffering a financial crisis due to the uncertainty of next Presidential elections on 6 October 2002.

The common market process

The integration process followed by Mercosur to date has been inspired by the EU experience (particularly in opting for a common market and a common external tariff). Mercosur faced several difficult problems since late 1998, including the devaluation of the Brazilian real, a lack of effective macroeconomic co-ordination, a lack of effective dispute settlement mechanisms (until the recent decision of the Mercosur Common Council on February 2002) and a lack of supranational institutions. In addition, the

imposition of protectionist measures in Argentina, the failure to reduce the common external tariff (CET) and recent unilateral changes in the CET by some member countries has contributed to a difficult external trade climate.

To achieve a free trade area in goods, the first step on the way to a common market, Mercosur's founding treaty established a programme of automatic and across-the-board elimination of import duties between 1991-1994. Most tariffs have been dismantled within the agreed timetable, with the majority of intra-regional trade facing zero duties. The Mercosur CET entered into force in 1995 on the basis of the Treaty of Asunción and the Protocol of Ouro Preto. In November 1997 the CET was temporarily increased by 3% (maximum 23% instead of 20%) until December 31, 2000. In December 25, 2000 the temporary increase deadline was extended to December 31 2002, and the 3% increase modified to 2.5%. On April 7, 2001 the Mercosur Common Market Council (CMC) approved as exceptional and temporary (until December 31, 2002) Argentina's unilateral measures with regard to extra-Mercosur tariffs (increasing tariffs of some consumption goods up to 30% and eliminating tariffs of capital goods). On June 22, 2001 the Mercosur Common Market Council changed the CET for the period January 1, 2002 – December 31, 2002: the temporary increase will be 1.5% instead of 2.5%. Unilateral measures in 2001 slowed the progress towards completing the CET and towards Mercosur's customs union (in contravention to agreed commitments), and created a difficult environment for advancing discussions in specific sectoral matters.

Although the overriding priority for Mercosur in the short term remains the completion and perfection of the customs union, the bloc also aspires to creating a true common market, similar to the European Union, and in which the flow of goods, services, capital and labour between the countries can be assured free movement. In December 1997, Mercosur countries signed the Montevideo Protocol on Trade in Services. It requires members to give service providers from one country a treatment no less favourable than what they give to similar service providers from other members or from third countries. The accord foresees the phasing out of restrictions on trade in services over a ten-year period, with the possibility of earlier liberalization for specific sectors such as financial services, air transport, satellite communications, insurance and professional services. The Protocol includes an agreement to hold periodic follow-up meetings to achieve the liberalization of trade in services within the group before 2007. However, limited progress has been achieved to date in the effective harmonisation of rules as national restrictions and non-tariff barriers continue to hamper growth in intra-regional trade.

Co-ordination of macro-economic policies

EU experience has shown that macroeconomic stability is a prerequisite for deeper integration. Although the harmonization of macroeconomic policy goes beyond the objectives of a common market project such as Mercosur, the outlook for convergence toward a macro-economically stable climate could be strengthened by means of effective policy co-ordination, or in its absence, by means of systematic consultations and exchange of information. Recent economic developments have made clear to members of Mercosur that economic stability is essential for ensuring the joint success of the trade pact and, thus, the economic and institutional development of the group. It has

highlighted the need for policy co-ordination in the sub-region, and a more formal regional approach to problem solving. Mercosur has created a Macroeconomic Monitoring Group (MMG) made up of high officials from the ministries of finance and central banks, to monitor macroeconomic developments in its member countries and put forward proposals aimed at strengthening macroeconomic co-ordination. In September 2000, the Mercosur countries started publishing harmonised indicators for the fiscal deficit, the public debt and inflation and, at the summit of Florianópolis of December 2000, the presidents of Mercosur, Chile and Bolivia agreed on a set of common targets for the government deficits, the public debt and inflation. Chile and Bolivia, as associate members of Mercosur, also participate in the discussions on macroeconomic policy co-ordination.

Social and labour issues

As far as labour mobility is concerned, Mercosur is also in the process of preparing changes to facilitate workforce mobility between its member countries; a possible Mercosur passport is being evaluated in this regard. During the XV meeting of the Common Market Council in December 1998, member states signed the Declaration of Workers Right. The declaration calls for protection of workers' individual and collective rights throughout the Mercosur territory, without, however, containing any reference to free labour movement within the bloc. The most important issue concerns the free movement of professionals within Mercosur and ensuring their rights. To this end, steps to create a regional work permit are under discussion but without any concrete results so far. In this context, it is also worth noting that a "Memorandum of Understanding" concerning mutual recognition of university diplomas was signed in 1998. It calls for legal recognition by all countries of diplomas obtained from any university located in the Southern Cone (including free-trade partners Bolivia and Chile). Full implementation of this agreement would allow all university graduates in the region to work in any of the six Southern Cone countries.

Harmonisation of laws

The treaty of Asuncion lays down the need to harmonise different national laws in order to foster the regional integration efforts. To date, limited progress has been made in key areas of importance for a distortion free common market to be realised. In 1996, the CMC approved the Protection of Competition Protocol, which covers issues such as restrictive behaviour and practices, abuse of dominant position, the sanctions regime, and the bodies and procedures for the application of sanctions. Brazil and Paraguay have approved the protocol. The protocol can enter into force because two countries have ratified it. As far as public procurement is concerned, the practice of discrimination in favour of national suppliers in the Mercosur countries persists in contradiction to the objectives of the integration process. To address this problem, an ad-hoc group was established in December 1997 to work out a common approach to public procurement policies under which companies from member countries will have preferential access. The Public Procurement Agreement should lay down provisions for the scope, national treatment, rules and procedures to foster transparency. As regards the transposition of common norms into national legislation, results have so far been mixed. According to the

Mercosur's Administrative Secretariat 1,024 regulations have been approved at the sub-regional level. However, according to estimates by the Uruguayan government, only 50% of these Mercosur norms have actually been transposed.

Investments

Two agreements concerning investment have been signed. The Protocol of Colonia del Sacramento, Uruguay, for the Promotion and Mutual Protection of investments in Mercosur (December 1993) ensured national treatment for investment in the region. In addition, performance requirements on investments were prohibited, and rules were laid down regarding compensation in the event of expropriation. The Protocol on Promotion of Investments from non-member States of Mercosur (August 1994) addressed third-country investments. It guarantees the right of each member country to promote and admit external investment, pursuant to its national legislation. It also lays down provisions for fair treatment of foreign capital. However, these agreements have yet to be ratified by respective national parliaments to become effective.

Physical integration

Since its inception, Mercosur has fostered physical integration in the Southern Cone. The growing economic interdependence among Mercosur's full and associate member countries (Bolivia and Chile) is transforming national energy and transport infrastructure into an increasingly complex regional network. Starting in the 1990s, economic transformation and reform has been accompanied by the restructuring of basic infrastructure sectors in South American countries. The new opportunities and urgent demands for development of regional infrastructure received important political expression in the meeting of South American Heads of State in Brasilia, in September 2000. During the meeting, government leaders reviewed a Plan of Action proposed by the Inter-American Development Bank (IDB) for the development of South America's regional infrastructure, and called on their Ministers with portfolios in transport, energy and telecommunications to implement initiatives to this effect. At the meeting of the EU-Mercosur Business Forum, held on 6-7 December 2001 in Buenos Aires, this issue was discussed and it was reported the weakness of the Mercosur physical integration. Mercosur welcomes a higher presence of the EIB in Mercosur.

The energy sector has been a pioneer in terms of the development of large projects with a strong integration impact. In this context, recent years have witnessed the implementation of some very important projects, and the energy sector has doubtless become one of the engines for economic integration in the Southern Cone. In recent years there have been significant advances, such as the conclusion of a Memorandum of Understanding on electricity and natural gas integration signed within the framework of Mercosur. However, strong structural asymmetries still remain and must be overcome. The telecommunications sector is the sector that has probably responded most rapidly and aggressively to the changes introduced by the restructuring and deregulation processes in the Mercosur region. This sector, together with the energy sector, has captured a large amount of private capital, and its growth in the region presents enormous prospects.

Political and Security co-operation

Beyond trade and economics, Mercosur has also been a factor for strengthening democracy and political co-operation in the sub-region.² The political stability brought about and consolidated thanks to the process of deeper regional integration has constituted a major achievement and has certainly also contributed to increasing the region's attractiveness as a destination of productive investment and business ventures. Important initiatives have been set out to strengthen the political dimension of Mercosur. Two decisions came at the 1996 San Luis presidential summit: First, a democratic clause was added to the Mercosur process, whereby member states agreed to sanction governments that failed to maintain a democratic order; second, a mechanism was agreed upon for political co-ordination between Argentina and Brazil. The following year Argentina and Brazil signed the Rio Declaration, which defined the status reached by bilateral relations as a "strategic alliance", an accord that commits them to joint military consultations and creation of a broad agenda to preclude regional military adventurism. Moreover, a small-scale operational scheme called Permanent Commission for Co-ordination was created in April 1997 to address mutual defence matters. In August 1998 in Ushuaia, Argentina, Mercosur Heads of State produced a final declaration supporting democracy, human rights and peace.³ The declaration of a "peace zone", free of weapons of mass destruction covers the whole Mercosur area, including its associate members Bolivia and Chile. Joint manoeuvres among Argentine, Brazilian, Chilean and Uruguayan armed forces have become a routine event in the last three years. In April 1998, the ministers of the interior and justice of the four countries, plus Chile and Bolivia, established a Security Agreement for the triple border (Argentina, Brazil, Paraguay). The objective of the agreement is to co-ordinate government efforts in the areas of terrorism prevention, illicit drugs and arms trafficking, and contraband interdiction.⁴ This objective is even more important after the terrorist attacks of 11 September in the US and has also become an important element for future political co-operation with the European Union. At the Madrid Summit it was decided to deep and widening our political dialogue with Mercosur on matters of mutual interest on the international agenda, in particular human rights, sustainable development, peace, terrorism, drug trafficking. In the future, nothing prejudice the view that both Mercosur and the EU could carry out an analysis of different issues of common interest, such as migrations.

The Environment

The integration and trade liberalization processes in Mercosur have potentially important implications – both negative and positive - for the quality of the region's environment and the sustainable use of resources. Mercosur countries recognise that environmental protection is a prerequisite for the acceleration of economic development with social

² The advent of Mercosur allowed an agreement between Argentina and Brazil banning the development of nuclear weapons. Border disputes were negotiated in a peaceful way between Argentina and Chile, the last border dispute between the two countries, "Hielos Continentales".

³ The effective intervention of the Mercosur heads of state prevented a coup d'état in Paraguay in 1996, and ever since, the principle of democracy has had a strong presence in the integration process.

⁴ The planned actions include the creation of an information and coordination system among the police and security forces of the six countries. A commission of representatives of the six countries was established to monitor implementation of the objectives outlined in the agreement.

justice. A wide array of issues is on the agenda including pollution, environmental standards, consumer health, sharing of natural resources (water in particular) etc. The countries have begun a strategy to formulate an environmental program for Mercosur, through which concrete results are expected with respect to regional problems. The Working Group 6 on the environment has adopted a work plan aimed, inter alia, at the harmonization of environmental legislation and technical standards. Future activities will focus on joint actions on common ecosystems, co-ordination of international agreements on environmental protection and on the environmental costs of industrial production processes among others. Governments should be encouraged to work together in order to find joint solutions to environmental problems with a regional impact. The real challenge for Mercosur consists of translating such co-ordination at the regional level into concrete actions hereby ensuring sustainable regional growth.

3.2. Institutions and bodies steering the Mercosur process

The Treaty of Ouro Preto established an institutional structure for Mercosur, which was inspired by the example of the EU. Mercosur functions on the basis of a 100% intergovernmental structure, notwithstanding the fact that it aims to achieve objectives very similar to the European ideal, i.e. the creation of a common market and possibly later on in the future an economic and monetary union. The institutions of Mercosur consist of a Common Market Council (ministers), a Common Market Group (ambassadors), a Commercial Commission and a large number of Technical Committees, Working Groups and Ad Hoc Groups, which all deal with specific areas of policy such as industry, competition, the environment, co-operation, agriculture or customs. These entities consist of representatives (diplomats and other civil servants) of the four member countries. They take decisions on the basis of consensus. Their meetings and calendar are organized through a six-monthly rotating presidency. Other Mercosur institutions are the Joint Parliamentary Committee (16 members from each national parliament, a joint parliament in embryonic form), the Economic and Social Consultative Forum (similar to the EU's Economic and Social Committee) and the Administrative Secretariat of Mercosur (like the General-Secretariat of the EU Council of Ministers). All these institutions are still at an intergovernmental level of development, but Mercosur is trying to make an effort on institutionalisation.

3.3. Regional and international context of Mercosur

Trade and investment flows

Trade has without doubt constituted the most dynamic and fastest growing element of the Mercosur integration process. Trade by the Mercosur region grew by 9,2% on average per year between 1990 and 1999, to be compared with a world average of 6,6% during the same period. In the 1990s, following liberalisation of trade, Mercosur has started facing growing external trade deficits. A surplus in the overall trade balance in 1990 of US\$ 17,2 bn was transformed into trade deficit reaching a peak in 1997, amounting to US\$ 16 bn. This trend has however been reversed and in 2000 the bloc is estimated to have recorded a slight surplus of US\$ 138 million (imports decreased by 12 bn and

exports only increased by 4.1 bn). This development has certainly been driven by the export stimulus provided by the real devaluation in 1999, and as Brazil accounts for the major share of the blocs' total exports. However, the current economic recession in the region has adversely affected the performance of intra-regional trade. This is the case for the 2001 year, in which the Argentinean crisis has impacted so much on Mercosur intraregional trade.

Foreign Investment into the Mercosur has grown rapidly over the last decade⁵ from a modest level of US\$ 6,5 bn in 1994; FDI inflows peaked in 1999 at US\$ 55,8 bn, representing an almost nine-fold increase. This represented around 50% of all investment going into the Latin American region, or 24,7% of total investments channelled into developing countries. On average, FDI flows into the Mercosur region grew by an impressive rate of 50% during the period 1994-1999. In the same period, Mercosur's share of total investments going into the Latin American region grew from 21% to 50,7%. The opening of the economies and the implementation of market economic reforms including restructuring of public enterprises and major privatisation schemes have mainly driven this development. In 2000, however, FDI slowed and decreased by 20% to US\$ 44,8 bn, as the region recorded a general slow down in economic activity. The bulk of the investment in 2000 went to the two largest economies of the region, Argentina and Brazil, who received, US\$ 11,1 bn and US\$ 33,4 bn respectively, or 99% of the total FDI inflows. In these two countries in particular, major privatisation projects, notably involving public utilities, have played an instrumental role in attracting overseas investment.

Mercosur's hemispheric negotiations

In recent years Mercosur has endeavoured in various negotiations. One of the most important negotiations is undeniably the negotiation for the establishment of the Free Trade Area of the Americas. At the Summit of the Americas held in Miami in December 1994, the Presidents and Chiefs of state of thirty-four countries of the Western Hemisphere agreed to negotiate a region wide free trade area by the year 2005. This ambition was reaffirmed at the Quebec summit, held on April 20-22, 2001, at which Foreign Ministers of the region agreed that work on methods for tariff negotiations should begin on April 1, 2002 and that market access negotiations should begin on May 15, 2002. All Mercosur members broadly share the commitment to implement a hemispheric free trade zone by the year 2005, but enthusiasm has varied widely. While the smaller countries have strong interests in securing such a deeper trading arrangement, the commitment by the larger countries, Brazil in particular, has been mixed. Mercosur members firmly support an agreement based on the principle of the "single undertaking", which presumes that agreements are signed only after solutions have been arrived at in all the areas being negotiated. Another major obstacle includes reaching a balanced agreement as the economies of the Western Hemisphere are characterised by large disparities in size, structure, and level of development.

Negotiations with Mexico for a free trade agreement were initiated in 1996. Mercosur and Mexico leaders signed on 5 July 2002 in Buenos Aires an Economic

⁵ INTAL, Mercosur Report, 2000-2001.

Complementation Agreement to progressively work towards an FTA, though there was no due date mentioned. Mercosur countries also announced their objective of pursuing bilateral negotiations with South Africa, Canada and the US based on the agreed 4+1 format (*Rose Garden Agreement*, 1991).

During the recent Mercosur Summit in Buenos Aires, on 4-5 July 2002, with the participation of Mexico, it was decided to conclude a free trade agreement with Mexico.

EU-Mercosur relations

In parallel with the above-mentioned hemispheric negotiations, Mercosur is also pursuing various other bilateral negotiations and the most important is with the European Union. Mercosur is an important trading partner for the EU. It represents 2.3% of EU imports and 2.5% of EU exports of goods, 1.7% of imports and 2.2% of exports of services and is recipient of 7.2% of total accumulated stock of FDI. Trade in goods between EU and Mercosur has risen considerably in recent years, with the total value of trade flows between the two blocks rising from EUR 19 billion in 1990 to EUR 47,2 billion in 2000, an increase of almost 148% or an average annual growth of 15%. In particular, EU exports to the region quadrupled during the same period while imports from Mercosur rose by 67%. This development has led to a reversal in the trade balance in favour of the EU. Although the share of Mercosur exports destined to the EU has declined, from 31,8% in 1990, to 23,4% in 2000, the European Union has maintained its position as the top trading partner of the Mercosur both in terms of exports and imports followed by the US as the second most important trading partner. Trade in services account for roughly one quarter of all bilateral trade between the EU and Mercosur. One of the most striking features is the very similar composition of exports and imports on both sides: transport and travel account for 60% of all trade, while financial services, construction and communication account for only 10%. Given the dynamism and growth of the service sector, the scope for potential growth is substantial. FDI flows from the EU to Mercosur have risen very strongly since the early 1990s. In fact, they have multiplied by four since 1997. Mercosur now receives about three fourths of all the EU's FDI into Latin America. The EU has thus replaced the USA as Mercosur's main foreign direct partner. Services have represented between one-third and two-thirds of all EC investment in Mercosur, focusing on key sectors such as banking, insurance, telecommunications, transport and engineering.

The main instrument of EU policy towards the Mercosur countries is to complete the negotiation of the Interregional Association Agreement between the EU and Mercosur. The negotiations have so far comprised seven rounds of discussions between the two parties. Trade negotiations have advanced well with the unilateral tariff offer presented by the EU at the fifth round of negotiations, which took place in Montevideo, in July 2001. In reciprocity, Mercosur presented its tariff offer at the 6th Round held in Brussels on 29-31 October 2001. A key component of these negotiations is trade aiming at bilateral, gradual and reciprocal trade liberalisation, without excluding any sector, and in accordance with WTO rules. The negotiations take place at EU-Mercosur level and cover the full range of trade relations: trade in goods (including customs matters, rules of origin, disciplines in the non-tariff area and trade defence instruments); Veterinary and Phytosanitary Agreement; Wine Agreement; trade in services; Capital movement and investment: the encouragement of an open and non-discriminatory investment climate;

opening-up of government procurement markets for goods, services and public works; Intellectual and industrial property rights; Competition policies and co-operation in the field of competition; Dispute settlement mechanism. A key EU objective is that an EU-Mercosur agreement should assure an equivalent level of circulation of goods, services and capital within the respective markets. As Mercosur's customs union is still unfinished (to be completed by end 2005) and its common market at an initial stage, the circulation of goods and services continue to suffer from intra-Mercosur barriers, such as different standards, customs duties and charges of equivalent effect. Mercosur integration is hence a pre-requisite to a successful conclusion of these negotiations and for both partners to be able to fully reap the potential benefits stemming from such an agreement. The ultimate objective will be to build up a Political and Economic Association Agreement between the EU and Mercosur. To that end, the negotiations on the political and co-operation chapter are of high importance as they are defining the nature of the future Association Agreement. With respect to the Political Dialogue, at the seventh round of negotiations held in Buenos Aires on 8-11 April 2002 a definitive progress is made and we have agreed a democracy and human right clause, the reaffirmation of the political principle of good governance and a renewed political mechanism is conceived, including new areas such as foreign policy, security and terrorism. Also the creation of an institutionalised inter-parliamentary dialogue and the permanent dialogue with civil society. With respect to the co-operation chapter, an agreement has been reached on the whole text which includes co-operation in several sectors, including standards, services, investment, energy, transport, science and technology, information society, customs, competition, agriculture and fisheries, social and cultural co-operation.

With respect to trade negotiations, the Ministerial meeting held in Rio de Janeiro on 23 July 2002 has provided a new impetus to the trade negotiations by agreeing on an ambitious program until the second half of 2003.

3.4. Sustainability of current policies

At present, Mercosur is confronting a serious crisis at various levels. The present crisis is of economic, institutional, and political nature, and in essence reflects the shortcomings of a young integration scheme such as Mercosur. Furthermore, the recent political and financial crisis of Argentine is creating further uncertainties. In spite of this, the new Argentinean Government continues to support Mercosur and macro-economic co-ordination would be made easier by the adoption of similar economic policies in Mercosur countries. Uruguay is also suffering a financial crisis and a social turmoil. It is clear that Mercosur could receive a boost from the present situation, which may facilitate future negotiations with the EU. The Mercosur Foreign Affairs meeting held in Buenos Aires on 11 January 2002 presented a united Mercosur political front to the rest of the world. At the EU-Mercosur Ministerial meeting on 23 July in Rio de Janeiro, Mercosur showed that it is clearly interested in the negotiations with the EU.

At the economic level, the difficulties currently faced by Mercosur countries are partly a result of shifts in intra-regional competitiveness due to exchange rate adjustments, in particular the steep depreciation of the Brazilian real and the abandonment of the Argentinean currency board arrangement and subsequent sharp depreciation of the Argentinean peso, and partly of macro-economic imbalances. The shifts in intra-regional competitiveness has reduced lately in view of the recent flotation of the Uruguayan peso

and the depreciation of the Paraguayan guarani. At the regional level, the lack of real macro-economic convergence, differing monetary arrangements and lack of co-ordination of sectoral policies have blocked progress towards deeper economic integration.

At the institutional level, the effective implementation of the customs union has been retarded. The use of unilateral tariff and non-tariff trade barriers has raised tensions between members and brought market access issues to the forefront. These developments have slowed the integration process in an important way. More generally, the lack of appropriate supranational institutions has impeded progress towards deeper integration. The absence of a strong technical body vested with the power to propose and implement laws at the Mercosur level has been a major obstacle to moving forward with the integration process. This has contributed to a weak integration scheme, an imperfect customs union, which cannot be deepened without the full commitment of all member countries.

At the political level, the present crisis is mainly a result of the lack of a shared vision between the member countries. In particular, given the economic and political weight of the two larger countries, Argentina and Brazil, the process of integration is shaped by their respective national agendas. The strategic choices in their external policy determine the direction and momentum of Mercosur integration. The fact that their positions at times tend to diverge in important ways raises obstacles to closer integration, let alone the fact that Mercosur is not the only vehicle to promote their national interests. While both Brazil and Argentina are keen to guard their sovereignty by adhering to the principle of inter-governmentalism, the smaller countries, Uruguay and Paraguay, are relatively more interested to see Mercosur develop its regional character based on independent supranational institutions.

Brazil for its part, aspiring at the role of a global player does not wish to lock itself into an arrangement which may be perceived too narrow to promote its foreign policy objectives. It wishes to keep all options open and forge strategic alliances to promote its integration into the world economy. At the regional level, it wishes to play a leadership role and maintain independence in its external policy while keeping the costs of integration at a minimum. Argentina, on its side, may have underestimated its potential regional role and has been hesitant about the merits of regional integration.

Nevertheless, in spite of all these difficulties the sustainability of Mercosur is maintained by the fundamental fact, that any alternative to Mercosur would be worse: like the European Community, Mercosur was created out of necessity.

At the XXII Presidential Summit Meeting in Buenos Aires, on 4 and 5 July 2002, Mercosur leaders reaffirmed their commitment to advance the realisation of the Mercosur's objectives as a strategic alliance, despite of the difficult economic situation.

3.5. Medium-term challenges

In order to take full advantage of the opportunities and potential offered by the Mercosur integration process, it is clear that its members must make progress in a variety of important areas in the coming years. Indeed, Mercosur faces a threefold set of challenges:

- 1) **completion of the Internal Market (internal dimension)**
- 2) **stronger institutionalization of Mercosur (support both the internal and external dimensions)**
- 3) **integration of Mercosur into the regional/international context (external dimension)**

As such these three challenges encompass a whole range of interlinked issues and problems that need a common solution.

Completing the Internal Market implies perfecting the **customs union**, including the removal of NTBs. Although, significant progress has been made in the construction of the customs union, there are a large number of areas that require further work if the customs union is to function effectively. Customs in Mercosur must be governed by a common **customs code**. At present, customs do not have harmonized procedures and the rules to be applied are insufficient. Very recently, on 6th December 2001, the Committee PVD-ALA approved a project on Co-operation in Customs, which will improve the Mercosur process of integration in the customs field. Furthermore, there is no co-ordination between the four countries with respect to the collection and redistribution of the revenue generated by the CET, which is necessary for the proper functioning of the customs union. At another level, the free flow of goods is restricted by a number of differing rules at the national level due to lack of harmonisation. It is obvious that the existing **situation of NTBs** does not contribute positively to the integration process and trade facilitation among the members of Mercosur.. Therefore, Mercosur countries must, in order to reap the full benefits of their integration process, deepen their efforts at instituting and enforcing common rules and standards and remove any remaining non-tariff barriers which continue to impede trade.

Completing the integration process also implies enhanced efforts at effective policy co-ordination. Although important progress has been made in advancing with the establishment of the customs union, complementary efforts are needed in this stage of Mercosur's consolidation. The working agenda must aim to attain greater **convergence of regulatory policies** including **trade, macroeconomic** and industrial policies foremost. Harmonization of these policies is vital in order to successfully fulfil the aims of the integration process under way. There won't be any internal market without enterprises permeating it. In order to vitalise markets, a spirit of supply is necessary. As the experience of the European Union shows, a taskforce or something similar for Small and Medium sized Enterprises (SMEs) would be needed to allow the SMEs to benefit from new opportunities in an expanded market and to create furthermore employment, income and welfare. **This European experience may be of interest to Mercosur and an exchange of views could take place in the future.**

Completing the regional integration process also includes a deepening the regional physical integration efforts. Adequate **infrastructure** is a prerequisite for the successful development of a regional market, largely because effective physical linkage facilitates the exploitation of the natural advantages of geographic proximity and reduces transport costs between neighboring countries, thus generating trade and investment opportunities. The growing economic links between the countries have revealed that in practice natural regional market does not cover only Mercosur, but also the other neighbors in the Southern Cone, namely, Bolivia, Chile, and Peru. Given this reality, the need to interconnect the national transport, energy and telecommunications systems of the countries of the Southern Cone in networks that will cover the entire region is becoming increasingly evident with the large increase in goods trade and other economic linkages.

To reach its ultimate goal of forming a common market, Mercosur must proceed in areas as yet uncovered by integration of the group. It must progress in the integration of the services markets, including banking, insurance, transport, trade, and consultancies and studies, among others. Labor and capital markets should also be integrated in order to permit a substantial degree of mobility of labor as well as the capital resources necessary to finance productive undertakings. Labor mobility is important not only from a physical perspective but also from the social and cultural perspectives allowing for deeper exchange of contacts between the countries. Harmonization and adoption of key laws including in the fields of competition, intellectual and industrial property rights, public procurement, trade in services and investments should further foster the integration of Mercosur countries into a single market. Furthermore, key laws, standards and regulations need to be harmonized in order to remove any restricting barriers to trade.

Stronger institutionalization will mean strengthening the capacity and competence of common institutions. The organizational structure of Mercosur is characterized by advisory and decision making intergovernmental bodies. While this institutional set up may have served the process of integration well during the initial period of consolidation, now that the free trade regime and the CET are being applied, it remains to be seen whether the flexibility of the current institutional structure will be adequate for the continued development of a customs union and, eventually, for a common market. The lack or weakness of such common bodies seriously acts as a barrier for the effective functioning of the regional integration scheme. A good example is given by the arbitration mechanism in Mercosur (Protocol of Brasilia, 1994) based on an Ad hoc Arbitration Court, which does not lead to an easily binding mechanism for solving disputes, at times even necessitating the intervention of the Presidents of the four countries to solve (trade) disputes of a technical character. However, the decision to establish a new arbitration mechanism and to create a Permanent Arbitration Court was taken during the recent meeting of the Mercosur Common Council (18 February 2002). It should be noted that the integration process is taking place in a context, in which the member countries seek, in varying degrees, to consolidate their plans for stabilization and state reform. Nonetheless, if a deepening of the integration process is sought, common mechanisms for co-ordinating key policy areas such as macroeconomic policy must be created, as must common regulatory entities for administering the rules that govern Mercosur. The key challenge consists of creating adequate organizations that will impose

discipline and direct the integration process. Furthermore, because one of the objectives of Mercosur is to strengthen the region's international negotiating position, the perception exists that Mercosur's institutional mechanisms must be deepened to guarantee the group's visibility in the international arena.

The integration of Mercosur into the regional/international context implies defining a Common Trade Policy. Its policy of openness toward the rest of the world is one of the distinctive features of Mercosur. The ensuing strategy comprises three levels of trade liberalization: unilateral opening, multilateral liberalization in the framework of the WTO, and liberalization through integration schemes. These actions are mutually reinforcing, and should be further encouraged in a framework of a common trade policy. Mercosur's agreement with Chile and Bolivia and active negotiations with the European Union and Andean Community countries, as well as the unified participation of the group in the negotiations for the construction of the FTAA, are evident signs of the objective of multiplying trade linkages with other areas on the basis of reciprocal agreements. This positive element of the regional integration process should be reinforced as it strengthens the bloc's bargaining position as well as visibility on the international scene.

However, this also implies creating a dynamic regional investment climate. Productive investment on a regional scale, i.e. investment whose feasibility depends on unrestricted access of its products to the entire Mercosur market, requires the guarantee of access to national markets that can only be provided by a clear system of rules that is fully in effect. The massive inflow of foreign investment into the Mercosur and its neighbours bears witness to the attractiveness of the region in terms of growth potential. However, in order to further enhance the investment environment and encourage investments based on a regional strategy, there is need for the countries to move ahead with the establishment of a single investment space based on uniform, transparent and predictable rules.

4. PAST AND CURRENT EC SUPPORT

4.1 Past EC support

There are four EC co-operation projects running in Mercosur: a project of Statistics (4.135.000 Euro), a project of Technical Standards (3.950.000 Euro), a project of support to the Secretaria Administrativa de Mercosur (SAM) and of support to the Comision Parlamentaria (CPC). Both the SAM and CPC projects have finalised the tender procedures and the PMU will start operating in September 2002. The Customs co-operation project (5.300.000 €) approved in December 2001 was initialled in May 2002. In Annex V, a brief "comparative" overview between the current EC/Mercosur co-operation projects and the future areas of intervention established in the Memorandum of Understanding 2000-2006 signed in June 2001 (MoU 2001) is attached. The areas of intervention in the past fit relatively well with the future areas of the MoU 2001. Projects under the item "Civil Society" have not been developed in the past.

4.2 The Memorandum of Understanding 2000-2006

The objective of Memorandum of Understanding between the European Community and the Mercosur is to define multiannual guidelines for implementing co-operation for the **period 2000-2006**. The range of activities covers financial and technical co-operation and economic co-operation.

The Common Market Group (CMG) of Mercosur has the ability to approve international co-operation programmes to support Mercosur. The CMG proposed in 1992 the creation of a Mercosur Technical Co-operation Committee.

According to the Memorandum, Community co-operation will focus on three sectors:

1. Institutional matters: Stronger institutions for Mercosur (EUR 12.500.000).
2. Internal market: Making Mercosur's economic and trade structures more dynamic and integrated (EUR 21.000.000).
3. Civil society: Support for civil society in Mercosur (EUR 14.500.000).

Total indicative Community contribution: EUR 48 millions. Financial and technical co-operation EUR 31 millions, economic co-operation EUR 16 millions, and 1 million not specified.

The priorities of Mercosur, as established in the Re-launch Agenda (June 2000), focus on the "Institutional" areas of MoU 2001 (1.1 and 1.2) and on the "Internal Market" areas of the MoU 2001.

4.3 National and regional EC co-operation

According to the comparison of the Memorandum of Understanding of Mercosur (2001) with each of the Mercosur's member states MoU, overlaps appear to be limited. National MoU intervention areas focus on domestic institutional, social and economic issues, and not to strengthen Mercosur integration (cfr. Annex VI).

4.4. Lessons and Experiences

There is a partial evaluation on some EC projects in Mercosur, where the Commission made global comments of certain projects, inter alia, Custom co-operation and Standards. The observations on this projects were positive. To put on the record that EU co-operation with Mercosur is very recent and does not allow to have practical lessons yet.

It is important to say, that some projects have had strong delays in the implementation. It has not been always easy to get an agreement of Mercosur countries for the implementation of some projects due to their internal difficulties. This is the case for the Mercosur project on agricultural and veterinary aspects, which had difficulties to start, although the final results are very encouraging and Mercosur feels very happy with them.

To put also on the record, the delays in the opening of the Technical European Assistance with respect to the project in favour of the Administrative Secretariat in Mercosur and in favour of the Joint Parliamentary Commission. The Commission services are conscious of their problems and in the future an improvement will take place for the implementation of the Mercosur projects. **The Commission is implementing the reform process of external aid which will contribute to the speed up of future co-operation. In the framework of on-going negotiations for the Co-operation Chapter it is intended to improve the mechanism of co-operation, taking into account the experience of the past.**

5. THE EU RESPONSE STRATEGY

5.1 General objective and principles

The main objective of the EU response strategy for Mercosur is to address the three main challenges:

- I Support to complete the Internal Market**
- II Support to Mercosur institutionalisation**
- III Support to the integration of Mercosur into the regional/international context**

First, the EU strategy must be in line with the EC general co-operation objectives, which are in general to consolidate democracy in Mercosur, to enhance economic development and reduce poverty. Co-operation funds should be used whenever possible as an instrument to implement or support the implementation of specific issues foreseen in the Political and Economic Association Agreement negotiated with Mercosur. To put on the record, after the 7th Round of Negotiations, the Co-operation chapter is practically finalised.

Secondly, the EU strategy should be coherent with the 'Memorandum of Understanding' for pluriannual co-operation EU-Mercosur, which was signed in Luxembourg in June 2001 and foresees an indicative financial envelope of € 48 millions. The priorities identified within the MoU remain valid.

Finally, the strategy should build on the present situation of Mercosur which needs a strong support from the European Union, as well as the new Joint Declaration of Mercosur of 11 January 2002 in which macro-economic co-ordination, economic and financial stability, Institution building, infrastructure, insertion in the international and political and social co-ordination are real priorities for Mercosur. Also the strategy takes into account the results of the Madrid Summit in which it was agreed to implement as soon as possible a substantial co-operation package in sectors of common interest and in particular in the fields of customs, internal markets, macroeconomic co-ordination policy, social dimension of Mercosur, standards, agriculture and sanitary and phytosanitary matters. During the Summit, the EU and Mercosur also agreed on starting negotiations

for future veterinary and phytosanitary agreements as well as wine and spirits agreements. Therefore, a synergy is needed between the co-operation instruments and the political objectives agreed at the Madrid Summit. At the Ministerial meeting between the Commission and Mercosur on 23 July, a Work Programme was established for future trade negotiations.

5.2. Policy Mix and coherence with EU Policy

Respect for democratic principles, the rule of law and good governance constitute the cornerstone of the relations between the EU and Mercosur to be implemented through the CFSP and political dialogue at the various levels (Heads of State and Government, Ministers, ad hoc group of high officials).

Very recently the EU has adopted the Action Plan for Political Co-operation with Mercosur, Chili and Bolivia and the areas covered are peace and confidence building measures, promotion of human rights, sustainable development, terrorism, fight against drugs, strengthening co-operation at the United Nations framework. **This Action Plan has been endorsed by the Madrid Summit.** Since the terrorist attacks on 11 September, future co-operation on confidence building measures as well as fight against terrorism will become more important. As regards **trade aspects**, the long-term objective with Mercosur is to conclude the Association Agreement and implement a full liberalisation of trade and investments, services, public procurement and industrial and intellectual property rights. To that end the co-operation instrument may help the negotiating process through the implementation of projects in the field of customs, standards, statistics and other areas which will be of reciprocal interest.

In the area of the **single market policy** the EU's strategy is the reinforcement of the economic integration process with a liberalisation of markets and the development of a legislative framework compatible with this objective, which ensures an adequate and effective protection of intellectual and industrial property rights, prevents money laundering, protects personal data and guarantees minimum standards for public procurement without being trade restrictive. Such a legislative framework would be economically beneficial to the EU and Mercosur, facilitating trade, the investment and the establishment of companies on both sides.

In doing so, our co-operation can reinforce Mercosur's institutional, administrative and judicial capacity. The current negotiations with Mercosur should ensure that these countries provide an adequate and effective protection of intellectual and industrial property rights; furthermore, they should include a public procurement chapter which foresees a set of rules ensuring transparent and non-discriminatory public procurement procedures. The EU is by far the most important importer of agricultural products from the Mercosur countries, absorbing 39% of the agricultural exports of Mercosur. More than 60% of the agricultural imports from Mercosur enter the EU at a 0% customs rate. In addition, certain products benefit from a preferential access in the framework of tariff contingents. However, the Mercosur countries, which are major producers in the

agricultural field, reject the EU's Common Agricultural Policy (CAP) and are striving for a total liberalisation of trade in this area, in particular through the Cairns Group. However, it has to be mentioned that the CAP has significantly changed during the past years, with social and environmental measures being strengthened, while institutional prices have been lowered, leading to gradual approximation of community agricultural prices to the level of world prices.

As to the area of **science**, it has to be emphasised that a Scientific and Technological Agreement with Mercosur must not be limited to creating access for their scientists to participate in the Union's RTD programmes: it should open the door to a reciprocal participation of EU scientists in future Mercosur S&T programmes and activities. At present, Mercosur does not have a science and Technology structure, but the Agreement should include a commitment to effectively develop one in the near future. The EU should actively encourage the emergence of such a regional programme, through the co-funding of an initial programme addressing regionally shared issues (e.g. poverty, health, economic and institutional modernisation) or transboundary thematic priority (e.g. pollution, ecosystem Management, food safety).

This initial five-year programme, underscored by a healthy bi-regional dialogue, would address a restricted number of these specific thematic priorities, beyond those that will integrate the 6th RTD Framework Programme. Specific attention would be given to the convergence of S&T policies in the two regions, including the potential mobilisation of complementary financial resources through the two regional banks concerned, namely EIB and IDB.

Concerning the cultural and audio-visual fields, the strengthening of cultural exchanges within Mercosur will have a positive impact on the integration process, the development of civil society, and the economic reinforcement of industries concerned. Co-operation with the EU will facilitate the development of the cultural dimension of Mercosur, as well as the consolidation on a bi-regional basis of stronger and mutually beneficial links between the agents concerned at all levels.

In the area of **competition** the EU is stimulating Mercosur to adopt legislation on competition which basically is inspired by the EU competition policy. Mercosur will create the Competition Authority and in our negotiation for the Association Agreement a co-operation will be established between the two authorities. A technical assistance could be provided to Mercosur.

In the field of **Environment**, the EU has funded certain projects for the protection of the environment in Brazil, Argentina, Uruguay and Paraguay. The most important is PPG7 in Brazil. The most important challenge will be how to address an Association Agreement, that will increase trade in full respect of environment, and linked to the need of Mercosur of having better physical integration. Crosscutting issues such as gender equality will be taken into account.

As regards **Information society** technologies, the @LIS (Alliance for the Information Society) co-operation programme, which the Commission launched at the EU-LAC Ministerial Meeting on Information Society held in April in Seville, must have participation at the Mercosur level. The main objectives for our co-operation will be the promotion of the development of an inclusive information society in Mercosur countries and fighting the digital divide within and between Mercosur. Moreover, the Mercosur regional integration process and the promotion of European industrial interests in Mercosur by creating a favourable environment for the EU Information Society stakeholders in Mercosur should be reconfirmed.

In the area of SME's, the AL-INVEST Programme can play an important role of supporting economic development and establish closer links between the EU and Mercosur companies.

From the angle of the economic and financial developments in Mercosur and particularly in Argentina, there is a reciprocal interest in launching a regular macro-economic dialogue with Mercosur in the context of our future association agreement and replying at short term at the Mercosur's request for technical assistance for the macroeconomic policy co-ordination initiative. It is likely to make good progress on a three-year co-operation proposal that would allow the EU to share the experience with Mercosur on macroeconomic policy co-ordination based on a sound and integrated statistical system.

With respect to the EU Trade Policy it is essential to underline two points:

1. The Council and the Commission adopted on 10 November 2000 a Joint Statement on the European Community's Development Policy, in which Trade and Development and Capacity Building were mentioned as two out of six priorities identified for the Community's Development Policy.
2. The full membership of the WTO, including developed and developing countries, agreed in the Doha Ministerial Declaration, adopted on 14 November 2001, that "international trade can play a major role in the promotion of economic development and the alleviation of poverty", and that members "seek to place the needs and interests of developing countries at the heart of the Work Programme adopted in this declaration". The WTO members also "confirm that technical co-operation and capacity building are core elements of the development dimension of the multilateral trading system".

5.3. Intervention Priorities

EC Co-operation at Mercosur level should be steered towards dealing with challenges faced at the regional level and where regional solutions appear more adequate and efficient given the integration objectives of Mercosur. EC co-operation projects should thus act as a tool in contributing to the process of deeper integration and support efforts at strengthening Mercosur institutionalisation process.

It is crystal-clear that the negotiation of an EU-Mercosur Association Agreement for a strategic, political, economic and co-operation partnership will be the unquestionable priority. This Agreement will be the strategic response to the third challenge of Mercosur (international integration).

Therefore, the EU co-operation must focus on three priority areas:

- 1. Support to the implementation of the Mercosur Internal Market**
- 2. Support to Mercosur Institutionalisation**
- 3. Support for civil society in Mercosur**

1. Support to the implementation of the Mercosur Internal Market

This priority will include EU specific actions in the following areas:

- Improvement of the Mercosur Internal Market
- Improvement of the Mercosur foreign trade statistics (intra Mercosur and extra Mercosur)
- Support to the Mercosur SMEs
- Support to the cross-border aspects
- Improvement of the Veterinary and Phytosanitary Standards
- Harmonisation of Technical Regulations.
- Support to Science and Technology

2. Support to Mercosur institutionalisation

- to support the Administrative Secretariat of Mercosur
- to support the Mercosur Parliamentary Committee
- to support the Mercosur Custom Union
- to support the eventual creation of a Mercosur Monetary Institute
- to support the Mercosur macroeconomic co-ordination policy
- to support the 'Mercociudades'
- to support the implementation of an arbitration system
- to support for harmonizing Mercosur sectoral policies
- to support the implementation of a Mercosur Statistical co-ordination body and the construction of an integrated and sustainable regional statistical system.
- to support the Common Market Group's SGT 6 on the environment.

As regards this second priority, three considerations have to be made:

- Although Mercosur is inspired by the EU, the progress and the modalities of the institutional architecture are a **sovereign right** of the states participating in Mercosur. For this very reason, our co-operation in this area has to be particularly sensitive, respectful and always at request of Mercosur.

- Mercosur is a vivid, dynamic process and, therefore, institutional renewals up till 2006 are foreseeable. At the recent summit of Buenos Aires, for example, the constitution of a **Permanent Legal Tribunal (in Asuncion)** was decided, as well as to give the Group of Institutional Affairs a mandate to examine the **technical strength** (not yet administrative one) **of the Administrative Secretariat of Mercosur** (Montevideo). Furthermore, the eventual creation of a **Mercosur Monetary Institute** with the perspective of a future single currency has been discussed, although at the present stage for obvious reasons this step has to be considered as premature. These decisions, as well as other ones, may create co-operation requests to the European Union.
- In order to deepen its political and social contents, Mercosur asked the EU for co-operation on parliamentary subjects, social partnership and civil society.

In accordance with these premises support to the institutionalisation will either be deepened along lines already commenced, or develop along other lines, which are already identified or may come up in the future.

3. Support for civil society

- to support the role of the civil society, particularly through education, culture, audio-visual sector and the information society.
- to support the social dimension of Mercosur (Foro Consultivo Economico y Social del Mercosur-FCES),

6. REGIONAL INDICATIVE PROGRAMME 2002-2006

The Mercosur Regional Indicative Programme has a financial provision of €48 millions, of which €32 millions correspond to the financial and technical co-operation (B7-310 Budget line) and €16 millions to the economic co-operation (B7-311 Budget line).

Final project selection and amount will be subject to a detailed identification and appraisal to be undertaken by the Commission. The scheduled work programme will be subject to the availability of respective budget funds in the overall EC budget.

The Regional Indicative Program is also consistent with the conclusions of the EU-Mercosur Summit held in Madrid on 17th May. The idea will be to accelerate the implementation of the MOU through a substantial co-operation package in sectors of common interest and in particular in the field of customs, internal markets, macro-economic co-ordination policy, social dimension of Mercosur, standards, sanitary aspects. To serve a number of these sectors of interest, reliable, harmonised and accurate statistical information is needed, especially to implement and evaluate the main policies in particular in the fields of macro-economic co-ordination policy or internal market consolidation. The Regional Indicative Program will therefore reply to the present moment of the Mercosur regional integration process, the synergy with on-going

negotiations for the Association Agreement and the high expectations of civil society in both regions. The Regional Indicative Program will have the following components:

6.1. Support to the completion of the Internal Market

Framework:

The idea is to provide strong support to the completion of the Mercosur Internal Market. **It will be an integral action in which Mercosur governments, SME's will be closely involved for providing an impetus to the consolidation of the Mercosur internal market.**

Objectives:

Special attention will be given to the following actions:

- a) Support to the borders' economies
There are bottlenecks in the frontiers and it will target the improvement of infrastructure and the implementation of an integral action in several fields, trade, industry, customs, and sanitary and veterinary aspects of the integration.
- b) Support of SME's which should help to consolidate the internal market
The role of the Mercosur small and medium sized companies is essential for the implementation of the Mercosur Single market. The programme should complement horizontal programs such as AL-INVEST.
- c) Improvement of the Veterinary and Agricultural Standards
- g) Support to the free circulation of goods (including actions on the statistical measurement of trade flows).
- h) Improvement of a Common Policy on Science and Technology

Expected results:

- Improvement of the Mercosur internal market (including the setting up of a reliable statistical system on trade (intra/extra).
- better economic infrastructure at the borders
- control of diseases, which could impact on Mercosur intraregional trade and on trade with third countries
- Implementation of economic projects consistent with our negotiations for an Association Agreement
- Dismantlement of Non-Tariff Barriers at the Mercosur level
- Measures simplifying external trade and frontier procedures
- An adequate and effective protection of the intellectual and industrial property rights

Implementation:

These projects will consist mostly of European Technical Assistance, which will develop methodologies, which will be accepted at the Mercosur level. Activities will be mostly workshops, working groups, courses and implementation of projects and training and capacity building. This kind of projects will have a duration of three years.

Indicators:

- Mercosur's new policy on SMEs
- Mercosur's new policy on the Single Market
- Improved capacity building of Mercosur countries in areas as customs, health, veterinary, industry.
- Reliable statistics on the trading of goods in the Mercosur Internal Market
- Better circulation of goods in Mercosur internal market.
- Implementation of new Mercosur sectoral policies in the field of Science and Technology.

Conditions:

The most important obstacle is the difficult economic and financial situation in the Mercosur countries.

6.2. Support to Mercosur institutionalisation

Framework:

For the moment, Mercosur is weak and further progress needs to be done at the level of institutions and common sectoral policies. The recent Presidential Mercosur Summit of 18 February has decided on policies in favour of deepening and widening Mercosur in the field of macroeconomic co-ordination and dispute settlement mechanism. The EU intervention will take into account the results of the EU-Mercosur Summit held in Madrid (17th May).

Objectives:

Our specific objectives are to make our co-operation consistent with the ultimate objective of a political and economic Association between the European Community and Mercosur. This delicate moment for Mercosur is precisely the time, when the European Union has to strongly support the Mercosur regional process. In doing so, the co-operation instrument should reply to the strengthening of our political dialogue, the advanced process of trade liberalisation and the specific sensitivity reflected in the co-operation chapter already in negotiation. The European Union should encompass the Mercosur initiatives of further integration of Mercosur, particularly in the field of sectoral policies on trade, agriculture, industry, culture and audio-visual, fiscal, monetary, exchange rate, transport and communication issues, environment, as well as in other fields to be agreed in the future. The European Union should also seek to consolidate the results of the Mercosur statistical co-operation programme 1998-2001 to support the above-mentioned needs for integrated policy making on the defined priority sectors.

Mercosur is still far away of common policies in this fields and support to institutional building in those areas will contribute to future Mercosur institutionalisation. To this end, the final objective will be the possible creation of Mercosur regulatory bodies.

Expected results:

- Improvement of a Mercosur macro-economic policy.
- Implementation of a regular macro-economic dialogue EU-Mercosur and better macro-economic co-ordination of Mercosur including the field of statistics.
- Improvement of the Mercosur arbitration.
- Implementation of the Trade Facilitation Measures (Action Plan agreed at the Madrid Summit)
- Implementation of co-operation agreements between the Mercosur Standards Association AMN and the European Standards Institute.
- Support to Mercosur common policies on Technical Standards. Support for the Mercosur bodies on standards
- Improvement of common policy in favour of Physical Regional Integration of Mercosur
- Support for harmonizing Mercosur sectoral policies, inter alia, intellectual and industrial property rights, environment, competition, culture, audio-visual etc.
- Support to the Permanent Legal Tribunal in Asuncion;
- Support to the future Mercosur Monetary Institute

Implementation:

This co-operation activities will be carried out mainly through European Technical Assistance training officials of the Mercosur institutions, through workshops, courses, working groups, studies, subprojects.

Indicators:

- creation of a databank at the Mercosur Administrative Secretariat and also upgrading of the Administrative Secretariat
- Agreements EU-Mercosur in standards. Implementation of the Action Plan on Trade Facilitation Measures.
- Strengthening of Mercosur's ongoing macroeconomic convergence initiative
- Creation of a Mercosur statistical co-ordination body and an integrated Mercosur statistical system.
- yearly meetings between senior officials of Mercosur and the EU
- Improvement of the Parliamentary dialogue between the EU and Mercosur

Conditions:

Taking into account the difficult financial and economic situation of the Mercosur countries, that will be the most difficult element.

6.3. Actions in favour of the Mercosur Civil Society

Framework:

The present negotiations for an Association Agreement with Mercosur recognize the important role of the representatives of the civil society of the two regions, in particular, the academic community, the social and economic partners and the NGO's. The Commission considers this element as very important and a first Conference with the

Civil Society was organized on 12 October 2000 and the second Conference took place on 12 February 2002. A third Conference is foreseen in 2003.

Objectives:

The idea is to provide a Community contribution for co-operation in this fields of information society, social dimension of Mercosur, education, culture and audio-visual. Under this item it is also foreseen to finance projects which are related to the need of providing further information on the EU-Mercosur negotiations as well as the impact of this negotiations in both regions.

The amount foreseen is € 14.500.000 for the following sectors:

a) **Information society**

The Information and Communications Technology revolution is changing economic, social and political relations inside and between countries and regions, and provides a substantial opportunity for a significant reshaping of our relations with Mercosur. Of course, it has to be aimed at fighting the digital divide, reinforcing the Mercosur regional process, reinforcing technological co-operation in the field of Information society and promoting European interests in Mercosur.

b) **Social Dimension of Mercosur**

This dimension is likely to be upgraded in the future. The European Economic and Social Committee has developed very good ideas to help Mercosur in this area. Furthermore, the present state of negotiations for an Association Agreement with Mercosur also foresees a Joint Consultative Committee with the task of assisting the Association Council with a view to promoting dialogue and co-operation between the various economic and social components of organised civil society in the European Community and those in Mercosur. This dimension is also covering dialogue and co-operation between NGO's active in the field of environmental protection and enhancement with a view to sustainable development in the EU and Mercosur countries.

c) **Education, Culture and Audio-visual**

This dimension is also of high importance and the EU could contribute to harmonised legislation and common policy in Mercosur, as well as support to education programs in favour of vulnerable sectors and in the field of environment.

The development of a cultural and audio-visual dimension within Mercosur will favour the integration process, the development of civil society, and the reinforcement of industries concerned. EU co-operation will facilitate the development of this dimension, and the consolidation on a bi-regional basis of stronger and mutually beneficial links between the actors involved at all levels.

Expected Results:

- the creation of a new Mercosur policy on social aspects
- to harmonize Mercosur policy and to reinforce EU/Mercosur technological co-operation in the Information Society field.
- to provide information on the EU-Mercosur negotiations
- improvement of Mercosur common policies in the field of education.
- strengthening of the cultural dimension of Mercosur.

Implementation:

The implementation will be mainly through European Technical Assistance in fields of European experience. The prospects will include advice on policy and legislative measures, training, workshops, dialogue/exchanges of expertise amongst relevant agents on both regions, and development of specific Mercosur measures.

ANNEX I Mercosur institutions

The Treaty of Asunción

The Treaty of Asuncion, which provides the legal basis for the Mercosur, was signed in 1991 between Brazil, Argentina, Paraguay, and Uruguay. The Treaty established the goals to be accomplished in creating the common market, eventually allowing for the free movement of goods, capital, labour, and services among the four countries. The formation of a common market was provided for in the Treaty, which was to go into force on January 1, 1995. The agreement envisioned no central institutions in its initial stages.

The main provisions of the Treaty of Asunción of March 26, 1991, may be summarised as follows.

First, the treaty listed four instruments for forming the common market: the trade liberalization program, the common external tariff, the co-ordination of macroeconomic policy, and the adoption of sectoral agreements.

Second, the institutional structure during the transition period, which was to run until December 31, 1994, was spelled out. During the transition period intergovernmental organs were established, with decisions made by consensus.

Third, the Treaty contained four annexes that further delineated Mercosur practices. Annex 1 specified the program for tariff reduction in intra-regional trade, with quantitative goals to be met in each six-month period until full free trade was attained; the date set for full free trade was December 31, 1994, for Argentina and Brazil, and one year later for Paraguay and Uruguay.⁶ The other annexes addressed rules of origin, dispute settlement, and the formation of the working subgroups of the GMC.⁷

The Treaty of Ouro Preto

While the Treaty of Asuncion was the springboard for the launch of the gradual establishment of the customs union, the Treaty of Ouro Preto of 1994 established an institutional structure for Mercosur inspired by the EU example. However, it was established along the principles of 100% inter-governmentalism hereby rejecting any notion of supra-nationality.

⁶ The different timetables for the member countries accommodated a list of exceptions allowed in recognition that the smaller economies would require more time in the adjustment process for goods deemed sensitive.

⁷ The Treaty of Asunción originally established ten subgroups: trade, customs, technical standards, trade-related fiscal and monetary policy, overland transportation, maritime transportation, industrial and technology policy, agricultural policy, energy policy, and coordination of macroeconomic policies. A subgroup on labor, employment, and social security was formed later. The working subgroups under the GMC are now communications, mining, technical regulations, financial matters, transportation and infrastructure, industry, agriculture, energy, labor relations, employment, and social security.

These changes modified the structure established in the Asunción Treaty and created the basis for the launching of the customs union. Once the protocol was ratified, the new institutional structure acquired internationally recognized legal status.

The Mercosur Council. This council is composed of the Foreign and Economic Ministers. Its primary functions are the formulation of policies and the negotiation of agreements with third countries and international organizations. The Mercosur Council already existed during the transition phase, however not as a legal body. During that time, the presidents of the four countries were the titular heads of meetings held each semester.

The Common Market Group. Since the signing of the Treaty in 1991, the Common Market Group has served as the executive body of Mercosur and is comprised of four representatives from the member countries (Ambassadors). The Group's principal functions are to issue resolutions, adopt the necessary measures for achieving active resolutions, negotiate and sign agreements as delegated by the Mercosur Council and organize the meetings of the Council.

These institutions take decisions on the basis of consensus. Their meetings and calendar are organised through a six-monthly rotating presidency, which in the first half of 2001 was held by Paraguay and at present by Uruguay.

The Mercosur Trade Commission. The institution was created and entrusted with implementing and monitoring the instruments for common trade policy. It is in charge of administering matters related to trade and proposing new norms to the Mercosur Council and passing judgement on specific issues that arise in relation to the application of such norms and procedures.

The Joint Mercosur Parliamentary Commission. This commission with 16 members from each national parliament was created to represent the national parliaments. Its functions consist of promoting national legislative procedures for the prompt entrance into force of norms approved at the sub-regional level.

The Economic and Social Consultative Forum. Representative body of businessmen, workers and consumers which can formulate recommendations for the Common Market Group. Neither of these last two bodies has decision-making power, but each is responsible for monitoring and making recommendations concerning the integration process.

The Administrative Secretary of Mercosur (similar to General Secretariat of the EU Council), is located in Montevideo. This unit continues to support operations and is responsible for providing services to the principle commissions and groups, including maintaining archives of their resolutions and additional documents emanating from their work.

Another institutional element of Mercosur, following Ouro Preto, is the inclusion of a **dispute settlement regime**. In the Protocol, the members ratified the layout of the

Protocol of Brasilia of 1992 for the resolution of disputes. Three instances are foreseen: direct negotiations; if these should fail, the dispute is taken to the Common Market Group which has thirty days to make a recommendation. Finally, if an agreement is still not reached, the case is submitted to arbitration procedures whose penalty may not be appealed. If a country does not comply with the penalty, the rest of the parties in the controversy may adopt temporary compensatory measures

ANNEX II Mercosur common external tariff (CET)

- January 1, 1995 The Mercosur Common External Tariff (CET) entered into force⁸ applied by the four Mercosur countries, Argentina, Brazil, Paraguay and Uruguay:
- The CET contained eleven tariff levels which ranged from 0% to 20% (applied to about 75% of tariff lines), but
 - The CET had exceptions:
 - ✓ Up to 300 tariff items in the case of Argentina, Brazil, and Uruguay, valid until the year 2001 and 399 items for Paraguay valid until the year 2006. Two sectors were excluded: sugar and automobiles.
 - ✓ Tariff exceptions on Capital Goods, that will linear and automatically converge to a 14% CET by the year 2001 for Argentina and Brazil and the year 2006 for Paraguay and Uruguay.
 - ✓ Tariff exceptions on IT products and Telecommunications: a maximum 16% CET by the year 2006.
 - Customs union should be fully implemented by 2005.
- November 14, 1997 The CET was "temporary" increased of 3% until December 31, 2000 (maximum 23% instead of 20%). Some exceptions continue to have 0% tariff (CMC decision 15/97).
- December 25, 2000 Extension of the deadline of the “temporary” increase of the CET until December 31 2002, with some changes: “temporary” 2.5% increase instead of the previous 3% increase (maximum 22.5%). Some exceptions continue to have 0% tariff. (CMC decision 67/00).
- March 28, 2001 Argentina implemented unilateral measures in order to modify extra-Mercosur tariffs defining a 0% tariff in capital goods and 35% tariff in some consumption goods (resolution 8/01 of the Argentinean Ministry of Economy).
- April 4, 2001 Argentina modified the extra-Mercosur tariff of some consumption goods from 35% to 30% (resolution 27/01 of the Argentinean Ministry of Economy).

⁸ On the basis of the Asunción Treaty (articles 1, 5, and 10) and CMC decisions 7/94, and 22/94.

- April 7, 2001 The Mercosur Common Market Council (Decision 1/01) approved as exceptional and temporary (until December 31, 2002) the Argentina's unilateral measures about extra-Mercosur tariffs (resolutions 8/01 and 27/01 of the Argentinean Ministry of Economy).
- May 11, 2001 Argentina modified again the lists of goods with special extra-Mercosur tariffs (resolution 101/01 of the Argentinean Ministry of Economy).
- June 18, 2001 Argentina modified the extra-Mercosur tariff of some consumption goods to 28% (resolution 221/01 of the Argentinean Ministry of Economy).
- June 22, 2001 Decision of the Mercosur Common Market Council (CMC 6/01) changing the CET during the period January 1, 2002 - December 31, 2002: the "temporary" increase was modified from 2.5% to 1.5% (maximum CET of 21.5% instead of 22.5%). Some exceptions continue to have 0% tariff.
- July 17, 2001 Uruguay unilaterally reduced tariffs in capital goods from 8% to 0% (Decree 279/001).
- July 20, 2001 Argentina modified the lists of goods with special extra-Mercosur tariffs removing exceptions (resolution 300/01 of the Argentinean Ministry of Economy).
- September 12, 2001 Argentina modified the lists of goods with special extra-Mercosur tariffs removing exceptions (resolution 456/01 of the Argentinean Ministry of Economy).
- September 26, 2001 Argentina modified the lists of goods with special extra-Mercosur tariffs removing exceptions (resolution 513/01 of the Argentinean Ministry of Economy).

ANNEX III Mercosur regional agreements

In recent years, Mercosur's broadening objectives have progressed prudently, within the restricted guidelines established at the time of its founding, along three fronts:

First is the association of South American countries, as expressed concretely through the free trade agreements undertaken with Chile and Bolivia and in a first preferential agreement with the Andean Community.

The second front that has seen progress concerns the plan of action for establishing a hemispheric free trade area, which was agreed upon at the Miami Summit.

The third front concerns the development of transatlantic relations with the European Union.

The ability of each Mercosur member to establish bilateral trade agreements with countries outside the group has also been under negotiation. In this respect, it has been established that after June 30, 2001, no Mercosur member may sign agreements or have tariff preferences within ALADI that have not been negotiated by Mercosur as a group.

Mercosur-Chile

In June 1996, after two years of negotiations, Mercosur signed its first free trade agreement (FTA) with Chile. The Chile-Mercosur FTA includes a commitment to gradually and automatically eliminate all tariffs. The Chile-Mercosur agreement prohibits the implementation of new trade restrictions and commits the parties to identify and dismantle non-tariff barriers (NTBs). The agreement includes a rules-of-origin regime drafted after Mercosur's and establishes a dispute-settlement mechanism. Goods subject to special import regimes (excluding those shipped from free trade zones) will enjoy the benefits of the agreement for a maximum of five years. The Chile-Mercosur FTA was accompanied by a parallel protocol on physical integration, which confirms Argentine and Chilean commitments to make co-ordinated investments in road infrastructure.

Negotiations for Chile to become a full member of Mercosur intensified in 1999, but some serious difficulties arose with regard to developing the calendar for its accession. Further complications ensued in December 2000, when Chile announced its plan to initiate free trade talks with the United States. It is not clear how this will affect Mercosur's enlargement plans.

The Bolivia-Mercosur Free Trade Agreement

In December 1996, one year after the plurilateralisation of pre-existing bilateral preferences, Bolivia and Mercosur also entered into an FTA. The Andean Community (AC) gave Bolivia a special waiver to engage in bilateral negotiations with Mercosur. As in the Chile-Mercosur agreement, the FTA with Bolivia included several schedules for tariff elimination. About 95 percent of the total tariff schedule –representing an estimated 80 percent of total effective trade— will reach free trade in a period of ten years. The

remainder will enjoy 100 percent preferences for a maximum of fifteen years. Bolivia was granted a list of nearly twenty “especially sensitive” products (mainly sugar and oilseeds), which will reach free trade only after eighteen years. The Bolivia-Mercosur FTA also included agreements on normative issues such as NTBs, rules of origin, safeguards, and dispute-resolution mechanisms. A protocol on physical integration was also signed.

Mercosur - Andean Community negotiations

Mercosur countries have agreed to negotiate as a bloc with the Andean Community⁹ (Colombia, Ecuador, Peru and Venezuela) while at the same time pursuing bilateral agreements with Andean countries as a precursor to future group-to-group free trade talks. As from June 30, 2001, these negotiations have taken the format of 4+4. Government leaders from both integration groups have announced their plan to conclude such talks by end-2001. In June 2001, the MERCOSUR presented a tariff offer proposing the progressive liberalisation of trade over a period of ten years for most products while sensitive products would be subject to transition period of 15 years.

However, the trade discussions have faced obstacles. The debate on “temporary exemptions” (so-called encapsulated products) and on the length of the list of especially sensitive products touches the wider issue of preferential treatment to less-developed countries. Negotiations have also stalled on issues such as rules of origin; export processing zones, and treatment of the agricultural sector.

In June 2001, Venezuela has announced its interest for closer ties with MERCOSUR, and the possibility of obtaining an associated member status.

⁹ Bolivia is not part of these negotiations as the country already has concluded an association agreement with the MERCOSUR.

ANNEX IV

MEMORANDUM OF UNDERSTANDING

BETWEEN

THE EUROPEAN COMMUNITY

AND

THE SOUTHERN COMMON MARKET (MERCOSUR)

**concerning the multiannual guidelines for the implementation
of Community cooperation**

CHAPTER 1

MEMORANDUM OF UNDERSTANDING BETWEEN THE EUROPEAN COMMUNITY AND MERCOSUR CONCERNING THE MULTIANNUAL GUIDELINES FOR THE IMPLEMENTATION OF COMMUNITY COOPERATION

The European Community, hereinafter referred to as "the Community", represented by the Commission of the European Communities, hereinafter referred to as "the Commission", and the Southern Common Market, hereinafter referred to as "Mercosur", represented by, jointly referred to as the "Parties";

WHEREAS the 1995 Interregional Framework Cooperation Agreement between the European Community and its Member States, of the one part, and the Southern Common Market and its Party States, of the other part, provides for the development of various lines of cooperation to fulfil the objectives laid down in the Agreement;

WHEREAS Council Regulation (EC) No 443/92 of 25 February 1992 lays down the basic principles for financial and technical assistance and economic cooperation with developing countries in Latin America, and Article 9 thereof recommends that multiannual indicative programming should be established by country, wherever possible;

WHEREAS Common Market Council Decision 10/91 gave the Common Market Group the ability to approve international cooperation programmes to support the Southern Common Market (Mercosur), Common Market Group Resolution 26/92 proposed the creation of the Mercosur Technical Cooperation Committee (CCT/GMC), and Common Market Group Resolution 77/97 laid down the duties, competencies and procedures of the Mercosur Technical Cooperation Committee;

WHEREAS both parties attach great importance to regional integration processes as tools of economic and social development which help to make their economies part of the international fabric and have an undisputed ability to bring peoples closer together and promote greater international stability,

HAVE AGREED AS FOLLOWS:

ARTICLE 1

Objective and context

1. OBJECTIVE

The objective of this Memorandum of Understanding is to define multiannual guidelines for implementing cooperation between Mercosur and the European Community for the period 2000-2006.

2. CONTEXT

The range of activities covered by this Memorandum for the period indicated covers financial and technical cooperation and economic cooperation, for which management rules and allocation methods are laid down in Council Regulation (EC) No 443/92 of 25 February 1992.

In addition to the cooperation activities included in this Memorandum, other Community-financed cooperation activities of a regional or decentralised nature (AL-INVEST, URB-AL, ALFA, ALURE, SYNERGY programmes etc.) may be carried out.

In establishing the sectors for cooperation, account has been taken of Mercosur's own regional integration policies and their foreseeable future course, and of the priorities for cooperation for the period 2000-2003 drawn up by agreement at the third meeting of the European Union-Mercosur Joint Committee held on 5 April 2000 in Buenos Aires. Priorities had been set out for three fields: institutional matters, trade matters and civil society. The same three fields were retained for 2000-2006.

ARTICLE 2

Basic principles

The principles used to determine which sectors and subsectors are to be focused on in the period 2000-2006 shall be as follows:

- Cooperation will be developed jointly by the parties, in accordance with their own internal procedures and with the aim of securing mutual advantage. The parties undertake to provide all the resources, including financial resources, needed to implement the operations covered by this Memorandum.

- For the sake of maximum impact and efficiency, Community cooperation will concentrate on a limited number of fields given priority status by the parties. The focuses will include European technical assistance to back up Mercosur's efforts in regional integration, harmonisation of the four Mercosur countries' government policies and

refining of the customs union. Cooperation programmes and projects will be drawn up by agreement, taking as a basis the policy priorities of EU-Mercosur relations.

- Mercosur undertakes to set up intrasectoral coordination arrangements, via the Common Market Group's sectoral subgroups and the Technical Cooperation Committee.
- Particular attention will be devoted in the context of this Memorandum to gender, environmental and human-rights issues.

The Mercosur governments are making the Common Market Group (with the opinion of the Technical Cooperation Committee, a Mercosur body) responsible for coordinating the operations covered by this Memorandum. The Common Market Group may itself decide which subgroups are to be responsible for the specific content of projects falling within their remit.

This Memorandum was drawn up in consultation with the embassies of the Mercosur Party States and with the Technical Cooperation Committee. The Common Market Group formally approved the text.

ARTICLE 3 **Sectors of cooperation**

In accordance with the EU-Mercosur Interregional Framework Cooperation Agreement of 15 December 1995 and the priorities for cooperation for the period 2000-2003 discussed at the third meeting of the European Union-Mercosur Joint Committee held on 5 April 2000 in Buenos Aires, Community cooperation will focus on the sectors listed below:

1. STRONGER INSTITUTIONS FOR MERCOSUR

Indicative Community contribution: EUR 12 500 000.

Mercosur was set up in 1991, and has since been seeking to consolidate itself and acquire stronger institutions. The Community's 30 years of experience will be drawn on to help Mercosur achieve this by providing technical assistance. The EU and Mercosur are currently negotiating an Association Agreement leading to the establishment of a free trade area covering the two regions. With the aim of consolidating Mercosur as a region, our cooperation will encompass the following subsectors:

1.1 - Support for harmonising Mercosur sectoral policies : one of Mercosur's main aims is to harmonise policies to consolidate its customs union and internal market.

Measures :

1.1.1.) - Macro-economic coordination – European technical assistance in line with the definition of common macro-economic coordination policies for the four Mercosur countries. The programme will take account of ongoing Mercosur operations such as those within the high-level group for macro-economic policy coordination. European technical assistance will be given the task of defining common policies for the four Mercosur countries in fields such as tax policy, public debt, payments policy, price stability and so on.

1.1.2.) - Statistics – There is already an EU-Mercosur cooperation project to harmonise systems in order to produce statistics based on criteria common to the four Mercosur countries. Following evaluation, a second phase will be considered, with a link to the macro-economic coordination project (since the two issues are and should be closely connected).

1.1.3.) - Technical standards – Harmonisation of technical standards is an ambitious aim that has already been addressed in a project due to end in 2001. Additional steps in the same direction will be taken during a second stage of that project. Full harmonisation of technical standards within Mercosur, and recognition of standards between the EU and Mercosur, will be needed if we are to reach the goal of concluding an Association Agreement and liberalising trade between the EU and Mercosur. As a result, the second phase of the project in question will seek to complement the first phase by pursuing harmonisation of standards, certification, accreditation, conformity criteria and establishment of a standards committee, among other issues.

1.2 - Support for bodies which Mercosur may set up to bolster its institutional structure (e.g. a court of arbitration).

Mercosur is currently debating the need for bolstering the group's institutions by setting up new bodies or restructuring existing bodies. Community technical assistance could help set up and consolidate any such bodies.

1.3 - Support for physical regional integration of Mercosur – Community aid targeted at reinforcing Mercosur's institutions could focus on feasibility studies for improving the region's infrastructure. In that connection, importance should be attached to the *Hidrovia Paraguay-Paraná* project.

2 Making Mercosur's economic and trade structures more dynamic

Indicative Community contribution: EUR 21 000 000

Mercosur's efforts as a region to adapt to an ever-more globalised world environment need to continue. In some cases, traditional production structures (particularly those of SMEs) which are the backbone of the social and industrial fabric, will have to be converted. The Mercosur countries' SMEs should help to consolidate the internal market. Particular attention will be focused on exploiting the results of better cooperation in science and technology for technological innovation, chiefly in improving the production system.

2.1 – Assistance in science and technology – Backing Mercosur involvement in the activities of the Commission's fifth Framework Programme (Paraguay is not currently a recipient) and examining how know-how in science and technology can be transferred to profit both regions' trade sectors. Arrangements could be developed for exchanges between European scientists from centres of excellence in the fields chosen and Mercosur scientists.

2.2 – Support for traders operating across borders – Establishing a single market will involve changes at the border posts between the Mercosur countries; this is an area in which the EU has considerable experience by virtue of its own internal market. Action will centre on the following: trade, industrial conversion, customs cooperation and health. Special attention will be paid to the prospective follow-up to the animal- and plant-health programme which has been running since 1993; it may give way to further activities.

2.3 – Support for SMEs - Establishing a single market needs active SMEs, as its success would be promoted by ensuring that as many businesses as possible (and especially SMEs) were dynamic, communicated with each other and were covered by a cohesive trade policy. Mercosur's SMEs need to cope with the challenges of globalisation, they need to communicate, and to increase intra-Mercosur trade. One of the aims of cooperation in this field will be to establish a relationship between SMEs in the various regions of the EU and Mercosur. The programme should complement horizontal programmes such as AL-INVEST.

3 Support for civil society in Mercosur.

Indicative Community contribution: EUR 14 500 000

3.1 – Information society – Support for Mercosur initiatives to promote understanding and dissemination of information on Mercosur's regional integration in civil society. It would be useful to make use of advanced technology in this field, and to draw on the Commission's expertise to do so. The Commission would be prepared to provide technical assistance for that purpose.

3.2 - Education – Support for education in Mercosur to make its population a more integral part of its physical region, via recognition of diplomas, language courses,

exchanges involving students entering Mercosur universities, etc. A programme similar to the Erasmus Programme will be set up within Mercosur.

3.3 – Social dimension of Mercosur – The Mercosur single market cannot come about if it is restricted to economic issues and neglects the social dimension. Special attention should be devoted to the labour market in this connection. There is also provision for assisting the Common Market Group's SGT (technical subgroup) 10 (in charge of developing activities for Mercosur's social dimension) and Mercosur's "Foro de concertación económico y social".

ARTICLE 4

Indicative financial allocation

The Community financing provided for all the activities covered by this Memorandum would amount to a total of EUR 48 million for the period 2000-2006, within budget headings B7-310-financial and technical cooperation (EUR 31 000 000) and B7-311-economic cooperation (EUR 16 000 000). These amounts are purely indicative, as they may vary in the light of the Community's actual budget availability and the recipient's level of implementation of expenditure.

ARTICLE 5

Consultation procedures

The Parties will hold an ongoing dialogue, through their respective representatives, on the follow-up to the provisions of this Memorandum.

ARTICLE 6

Mid-term review

Within the framework of the dialogue provided for in Article 5, this Memorandum will undergo a joint mid-term review, in order to determine any measures and changes required for it to be properly implemented.

ARTICLE 7

Final provisions (future developments clause)

This Memorandum's provisions may be amended, altered or supplemented at the request of either of the Parties, by agreement between the latter.

For the Commission of the European Communities

For Mercosur

Date

Date

Name of signatory

Signatories

ANNEX V – Overview EU-Mercosur co-operation

Projects under ICA and IFCA	Country	Stage	EU contribution	MoU MERCOSUR (2001)
			Euro	
Macro-economic Policy Co-ordination	Argentina ?	Draft	2,500,000	1. Institutions 1.1 Harmonisation of sectoral policies 1.1.1 Customs co-operation
Statistics	Argentina *	In Execution	4,135,000	1.1.2 Statistics
Standards	Brazil *	In Execution	3,950,000	1.1.3 Technical Standards
SAM (I)	Uruguay *	Finished	900,000	1.2 Mercosur's bodies
SAM (II)	Uruguay	In Preparation	900,000	
Joint Parliamentary Commission	Uruguay	In Preparation	917,175	
-----	-----	-----	-----	1.3 Physical Regional Integration
-----	-----	-----	-----	2. Support to completion of the internal market 2.1 Assistance in science and technology 2.2 Support to single market and macro-economic co-ordination
Customs (I)	Uruguay	Finished *	700,000	
Customs (II)	Uruguay	Approved	5,300,000	
Support to the Single Market (in 2.3 too)	?	In Preparation	4,600,000	2.3 Agriculture and

				sanitary projects
				3. Civil society
-----	-----	-----	-----	3.1 Information to society
-----	-----	-----	-----	3.2 Education, culture and audio-visual
Labour and Social Dimension (in 1.2?)	Uruguay	In Preparation	950,000	3.3 Social Dimension of Mercosur
MERCOSUR agricola	Paraguay *	Finished	11,200,000	4. Others

ICA: Inter-institutional Co-operation Agreement, 1992.

IFCA: Interregional Framework Co-operation Agreement, 1995

*** This projects are not included in the Regional Indicative Programme 2000-2006**

**ANNEX VI Bilateral Co-operation with Mercosur countries and
Mercosur MoU**

2000-2006

MoU MERCOSUR 48.000.000 Euro	MoU Argentina 65.700.000 Euro	MoU Brazil 64.000.000 Euro	MoU Paraguay 51.700.000 Euro	MoU Uruguay 18.600.000 Euro
1. Institutions				
1.1 Harmonisation of sectoral policies				
1.1.1 Macro-economic co-ordination	No	No	No	No
1.1.2 Statistics	No	No	No	No
1.1.3 Technical Standards	No	No	3. Technology & Standardisation Institute	1.1.1. Diversification of production
1.2 Mercosur's bodies	No	No	No	3.1.1 Sectoral Commission for MERCOSUR
1.3 Physical Regional Integration	No	No	No	No
2. Economic and Trade Structures				
2.1 Assistance in science and technology	2.1.3 Technological Networks	4.1 Technological Networks	3. Technology & Standardisation Institute	1.1.1. Diversification of production
2.2 Support for trades across borders	4.1.3 Customs	No	No	No
2.3 Support for SMEs	2.1.2 SMEs competitiveness (forestry)	No	3. SMEs	No
3. Civil society				
3.1 Information to society	yes	yes	3. Technology & Standardisation Institute	
3.2 Education	1.1.3	1.3 Public School	2. Education,	

3.3 Social Dimension of Mercosur	Educational Policy	of Finance	social reforms and marginals	
	No	2.3 Secretariat of employment and labour 3. Social development	2. Education, social reforms and marginals	4.1.1 Labour market (young people)

MoU Argentina: Summary	MoU Brazil: Summary	MoU Paraguay: Summary	MoU Uruguay: Summary
1. Institutional Reforms 1.1.1 "Provincias" administration 1.1.2 Provincia of Buenos Aires 1.1.3 Educational Policy	1. Public Administration 1.1 Secretariat of Human Rights 1.2 State Modernization 1.3 Public School of Finance	1. Modernisation of the State Development Plan Tourism Entities active at international level 2. Education, social reforms and marginals	1. Production and Services 1.1.1. Diversification of production 1.1.2 Uru - UE business 2. Modernization of State
2. Trade and Economy 2.1.1 Competitiveness and efficacy 2.1.2 SMEs competitiveness (forestry) 2.1.3 Technological Networks 2.1.4 Industrial design	2. Economy and trade 2.1 Information society EU/Brazil 2.2 Euro chambers 2.3 Secretariat of employment and labour 2.4 Sanitary aspects	Artisanal sector Rural organizations Housing Rural development	2.1.1 Parliament 2.1.2 Civil and Public Services 2.1.3 Social security system 2.1.4 Decentralization 3. Regional Integration 3.1.1 Sectoral Commission for MERCOSUR
3. Information society 3.1.1 Information	3. Social development 3.1 Artisanal	3. Production and integration Technology &	4. Social sector

society	sector	Standardisation Institute	
4. Investments and others	3.2 Communities in the Rio Favelas	SMEs	4.1.1 Labour market (young people)
4.1.1 Investments	3.3 Social Development	PROPARAGUA	
4.1.2 Consumer's rights	4. Research and technology	Y	
4.1.3 Customs	4.1 Technological Networks	4. Environment	
		Ypacarai Lake	

ANNEX VII comparison between Mercosur's Re-launch Agenda and MoU 2001 areas of intervention

MoU MERCOSUR (2001)	MERCOSUR's Relaunching (2000)
1. Institutions	
1.1 Harmonisation of sectoral policies	
1.1.1 Macro-economic co-ordination	Decision 30/00 - Macroeconomic Co-ordination
1.1.2 Statistics	Decision 30/00 - Macroeconomic Co-ordination
1.1.3 Technical Standards	No
1.2 Mercosur's bodies	Decisions 24/00 (SAM), 25/00 (Dispute Settlement), 26/00 (CMG and CMC)
1.3 Physical Regional Integration	South American Summit in Brasilia and co-ordination with IDB.
2. Economic and Trade Structures	
2.1 Assistance in science and technology	Mercosur countries have expressed interests in concluding sectoral agreements with the EU.
2.2 Support for trades across borders	Decision 22/00 (Market Access), 27/00 (CET), and 28/00 29/00 (Competition), 31/00 (Facilities)
2.3 Support for SMEs	It is essential that SME's will be involved in the consolidation of the internal market.
3. Civil society	
3.1 Information to society	Mercosur countries are promoting public policies in this field.
3.2 Education	Mercosur MOU signed in 1998 concerning mutual recognition of university diplomas.
3.3 Social Dimension of Mercosur	Declaration of Workers Right.
4. Others	Decision 32/00 (External Relations and negotiations) Decision 23/00 (harmonisation of legislation)

ANNEX VIII - Mercosur Data

Population:	2000	214	Mio					
Area:	1000qkm	11.863			External DEBT 1999 (Mio euro) :	356.642		
Gross Domestic Product	2000	982,8	Bn euro		Exports to GDP ratio:	9,5 %		
GDP Per Capita	2000	4.602	euro					
					1997	1998	1999	2000
Real GDP (% growth)					4,4	1,2	-0,3	3,1
Inflation rate (%)					5,1	3,4	3,6	na
Current Account Balance (% of GDP)					-4,1	-4,4	-4,5	-3,8
<u>MERCOSUR TRADE WITH THE WORLD (Mio ecu/euro)</u>								
	1980	1990	2000		1980	1990	2000	
Imports	26.960	24.729	100.403		Exports	20.931	36.169	93.008
world* share (%)	2,7	1,3	1,9	0	world* share (%)	2,3	2,0	1,8
Trade balance	-6.028	11.441	-7.396					
<u>EU TRADE WITH MERCOSUR (Mio ecu/euro)</u>								
Rank IMPORTS	1980	1990	2001**		Rank EXPORTS	1980	1990	2001**
9	7.728	14.083	24.320		9	5.944	5.715	24.177
Share of EU Total	2,8	3,2	2,4		Share of EU Total	2,8	1,4	2,5

Trade balance	-1.784	-8.368	-111				
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MAIN PRODUCTS IN 2000 (Mio euro and %)

<u>EU Imports</u>		<u>MERCOSUR share</u>		<u>EU Exports</u>		<u>MERCOSUR share</u>	<u>Balance</u>
<u>Products</u>	<u>Value</u>	<i>by prod.</i>		<u>Products</u>	<u>Value</u>	<i>by prod.</i>	
Agricultural products	13.088	16,0		Agricultural products	842	1,4	-12.245
Energy	281	0,2		Energy	181	0,8	-100
Machinery	1.004	0,38		Machinery	8.166	2,8	7.161
Transport. Material	2.153	1,97		Transport. Material	4.987	3,1	2.834
Chemical products	847	1,11		Chemical products	4.350	3,1	3.502
Textiles and clothings	198	0,3		Textiles and clothings	350	0,8	152

EU TRADE IN SERVICES WITH MERCOSUR (million ecu/euro)

	1998	1999	2000		1998	1999	2000
<u>Imports</u>	4.070	3.775	4.970	<u>Exports</u>	5.079	4.859	5.428
Share of EU Total (%)	1,8	1,6	1,7	Share of EU Total (%)	2,2	2,0	1,9
Trade balance:	1.009	1.084	458				

EU FOREIGN DIRECT INVESTMENT WITH MERCOSUR (million ecu/euro)

	1998	1999	2000		1998	1999	2000
<u>Inflows</u>	-66	276	544	<u>Outflows</u>	21.920	28.659	24.662
Share of EU Total (%)	-0,1	0,2	0,3	Share of EU Total (%)	9,9	9,2	6,8
<u>Inward Stocks</u>	1.855	2.925	3.469	<u>Outward Stocks</u>	53.168	87.207	111.869
Share of EU Total (%)	0,3	0,4	0,4	Share of EU Total (%)	6,4	7,3	7,2

**2001: Greek data missing for nov, dec. 2001; lux data missing for dec.2001

Annex IX - Matrix Donors Mercosur

Commitments 1996-2001(€)

	European Union	BID	World Bank	Spain	Germany	Japan	Total Euros
310 Financial and technical co-operation	4.996.000	0	0	0	0	0	4.996.000
311 Economic co-operation	4.978.009	0	0	0	0	0	4.978.009
703 Democratisation and Human Rights	115.000	0	0	0	0	0	115.000
Total Euros	10.089.009	0	0	0	0	0	10.089.009

Annex X MERCOSUR REGIONAL INDICATIVE PROGRAMME

SUMMARY OF AREAS And COOPERATION PROGRAMMES

Cooperation sector	Areas of Cooperation	Timetable						Amount of Cooperation
		2001	2002	2003	2004	2005	2006	
Total MOU 2000-2006: 48.000.000 €								
Support to Mercosur institutionalisation Total: 12.500.000 €	Support for harmonising Mercosur sectoral policies:							
	1. Statistics			+			2.000.000 €)	
	2. Technical Standards			+			4.000.000 €)	
	3. Customs Co-operation	+					5.300.000 €)	
	4. Arbitration		+				310.000 €)	
	5. Support for physical regional integration of Mercosur					+	(2.840.000 €)	
Support to the Completion of the Internal Market Total: 21.000.000 €	1. Assistance in science and technology				+		(6.000.000 €)	
	2. support to single market and macro-economic co-ordination		+				(7.100.000 €)	
	3. Agriculture and sanitary projects			+			(6.000.000 €)	
Support for civil society Total: 14.500.000 €	1. Information Society					+	(11.000.000 €)	
	2. Education, culture and audio-visual					+	(2.500.000 €)	
	3. Social dimension of Mercosur			+			(950.000 €)	
Total amount of Co-operation 2000-2006								48.000.000
Total amount of Co-operation 2002-2006								42.700.000

Note: The total amounts of the programmes respect the indicative figure assigned in the Memorandum of Understanding. However, it would be

suitable keep a certain flexibility to review the figures on the basis of specific identification mission results