

UNICE POSITION PAPER ON EU-MERCOSUR RELATIONS

Executive Summary

UNICE fully supports the current negotiations leading to the EU-Mercosur Association Agreement. It is convinced that the Agreement, including a bi-regional free-trade area in conformity with WTO rules, will bring mutual benefits and close cooperation in the political, economic and socio-cultural fields.

The Association Agreement offers a unique opportunity further to exploit EU-Mercosur economic links, by enhancing trade and improving the framework conditions for investment. Moreover, trade liberalisation will make both Mercosur and the EU more competitive globally. These negotiations and a new WTO round would be complementary and mutually reinforcing.

While recognising the work done by both sides, UNICE believes that the negotiations, especially for trade, are not advancing at the desired pace, and calls on EU Institutions and Mercosur governments to reinforce their efforts to accelerate the negotiating process. Regarding trade and investment aspects, it makes specific requests aimed at the negotiating process and each of the groups on trade issues.

UNICE strongly encourages the Mercosur integration process, and considers that Mercosur governments should continue working with determination towards consolidation of its integration, with the gradual abolition of remaining barriers to the movement of goods, services, and capital. The current negotiations have to be seen for Mercosur as an opportunity to coordinate its position and to speak with a single voice.

UNICE believes that business plays an essential role in the development of an environment conducive to trade and investment. For that reason, it supports stronger business involvement in the negotiating process and calls on the EU institutions and Mercosur governments to recognise the key role of business organisations for the development of new, stable and job-creating industrial activities.

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INTRODUCTION

UNICE regards Mercosur as a major partner for the European Union politically, economically, and culturally. Mercosur shares with the EU the values of democracy, a close political and social model, as well as a number of other cultural values derived from common traditions.

The South Common Market (Mercosur)¹ plays an important role in Latin America as the most advanced integration process, which is a reference model for emerging economies. With a GDP of over €1 billion, Mercosur represents the fourth largest economic bloc in the world.

The European Union, and Mercosur are important economic partners. However, UNICE believes that the potential of their economic links can be further exploited, and sees the process of negotiations leading to a EU-Mercosur Association Agreement, in conformity with WTO rules, as a unique opportunity to enhance trade and improve the framework conditions for investment.

EU RELATIONS WITH MERCOSUR

EU relations with Mercosur are based on the 1995 Inter-regional Cooperation Framework Agreement, which is an intermediary agreement to pave the way for the current process on negotiations of the Association Agreement, including creation of a EU-Mercosur free-trade area.

Mercosur is the EU's main trading partner in Latin America. Trade between the EU and Mercosur grew significantly during the 1990s, developing at a much higher rate from that with other regions of the world. However, this is due mainly to the increase of European exports, because Mercosur exports have stagnated. This means that the relative importance of the EU as a market for Mercosur has decreased.

European investors play an important role in Mercosur, particularly in Brazil and Argentina. European companies control 43% of all foreign investment in Mercosur, mainly in strategic sectors such as automotive, petrochemicals, energy, telecommunications and banking. UNICE believes that it is crucial that Mercosur continues its efforts towards the creation of greater transparency, accountability and predictability to attract long-term capital.

¹ Mercosur is formed by Argentina, Brazil, Paraguay, and Uruguay. Bolivia and Chile are associated countries.

Economic trends have underlined the potentiality of the relations. UNICE believes that trade with the European Union and European foreign direct investment (FDI) are of crucial importance to promote growth in Mercosur, and to consolidate their integration in the international economy.

UNICE is convinced that, despite the current difficult economic situation in the region, Mercosur remains a major area with good prospects for economic growth. European companies doing business with Mercosur, normally define their strategies on a long-term rather than short-term perspective.

UNICE encourages Mercosur governments to continue working towards the adoption of strict and coordinated macro-economic policies, with the final objective of reinforcing confidence in their economies and encouraging foreign direct investment and private initiative in the region.

MERCOSUR INTEGRATION

European business strongly supports Mercosur's integration process. While welcoming the progress achieved by Mercosur in a very short period of ten years, UNICE considers that the integration process should continue and Mercosur governments should keep on working with determination towards the gradual abolition of remaining barriers to the movement of goods, services and capital. UNICE believes that Mercosur has to consolidate its integration, especially regarding coordination of macro-economic policies and institutional development, which could be useful instruments to fight economic difficulties in Mercosur countries.

Even accepting the differences between the two processes -Mercosur being inter-governmental- some experiences of EU integration could be useful for Mercosur, such as the establishment of the European Single market, or the macro-economic coordination that led to Economic and Monetary Union.

UNICE believes that the current negotiations with the EU have to be seen for Mercosur as an opportunity to coordinate its position and to speak with one single voice, to ensure real negotiations between two custom unions.

Mercosur integration is also important for fostering sustainable economic development in the region, while contributing actively to the liberalisation of trade and investment. Integration is also one of the main conditions identified by potential investors for long-term commitment to Mercosur. UNICE believes that the recent alterations in its Common External Tariff and the possible trade safeguards agreed between Argentina and Brazil are a step backwards in the integration process, and that they should be of a transitional character.

UNICE considers positive the current negotiations to create a free-trade area between Mercosur and the Andean Community, and the institutionalisation of political dialogue between the two areas plus Chile. Such initiatives should contribute to foster intra-regional integration, consolidating the progress already achieved in each of the integration areas.

COHERENCE WITH WTO NEGOTIATIONS

UNICE believes that multilateral and regional trade liberalisation are complementary and should be pursued simultaneously. Regional agreements, fully compatible with the principles and rules of the multilateral trading system of the WTO, can play an important role in terms of trade and investment liberalisation.

For UNICE, a new WTO round of negotiations and the negotiations of the EU with Mercosur would be mutually reinforcing. The two negotiations should be pursued on their own merits, with their own timeframes and concluded independently.

UNICE strongly believes in the multilateral system. It considers the WTO the international organisation which most directly affects business. To strengthen the WTO and to adapt the world trading system to the 21st century, UNICE actively supports the launch of a new global and comprehensive round of WTO negotiations at the IV WTO Ministerial Conference (Doha, 9-13 November 2001).

UNICE encourages EU Institutions, and the EU and Mercosur governments to work towards increasing cooperation on multilateral trade and investment issues and gathering strong support for the launch of a balanced and comprehensive new round in the Doha Ministerial. The negotiations should aim to last not longer than three years and be concluded by a single undertaking.

For UNICE, the priorities in a new broad-based round are:

- ? development of a framework to govern flows of foreign direct investment (FDI) since all countries seek to attract FDI,
- ? further opening of service markets, which is a powerful factor for development,
- ? simplification and harmonisation of commercial and customs procedures, and
- ? reduction of tariff and non-tariff barriers to trade.

Progress in these areas, and on the other subject on the built-in agenda, agriculture, would release significant economic growth potential, in the general interest.

With a view to reducing the discrimination that characterises some markets and preventing misuse of trade measures for protectionist ends, UNICE also hopes that a new round will result in progress on liberalisation of public procurement, clarification of the links between trade and environment, a lowering of barriers to electronic commerce, implementation of the agreement on intellectual property, improvement of the rules for the dispute settlement mechanism, harmonisation of procedures for implementation of the anti-dumping agreement and transparency in WTO's functioning.²

EU-MERCOSUR NEGOTIATIONS

UNICE welcomes the launch of the negotiations for creation of a EU-Mercosur Association Agreement in November 1999, following the decision of the Rio Summit of Heads of State and Government of the EU, Latin America and the Caribbean (June 1999). The Association Agreement covers political dialogue, bilateral cooperation and creation of a EU-Mercosur free-trade area.

UNICE is convinced that the Agreement will bring mutual benefits and close cooperation in the political, economic and socio-cultural fields. With trade liberalisation, both the EU and the Southern Cone economies will become more competitive globally. Furthermore, the Association Agreement could be seen as a

² Its detailed positions are available on UNICE's Internet site on the WTO <wto.unice.org>

model not only for future relations with Latin America, but as new strategic relations between industrialised and developing countries in a multipolar world. The negotiations with Mercosur are the first ever between two custom unions (even if Mercosur has not completed the process).

The EU-Mercosur negotiating process is being held separately but in parallel with the one with Chile, due to the similar conditions for negotiations and the situation of Chile as an associate country of Mercosur since 1996. However, Chile's specific relationship with the EU justifies negotiations moving at their own speed and advancing independently towards conclusion at the earliest possible date.

UNICE believes that an Association Agreement with the EU will reinforce Mercosur internally, helping to consolidate the project and the model it represents as an integration process, closely linked to European construction.

Six rounds of negotiations have taken place. Advances have been made in the institutional framework of the Agreement, in the field of political dialogue and in the different cooperation chapters, such as economic, financial and technical, and socio-cultural cooperation.

For the negotiations leading to trade liberalisation, after a process of exchange of information and identification of common ground and areas of divergence, negotiators are working on draft joint texts in the different negotiating areas. UNICE welcomes the commitment to the negotiations shown by the European Commission and Mercosur governments, by presenting tariff reduction offers in the fifth and sixth rounds respectively.

UNICE believes that the negotiations, especially for trade, are not advancing at the desirable pace. It recognises the work done by the two sides, but calls on EU Institutions, and Mercosur governments to reinforce their efforts to accelerate the negotiating process.

UNICE is very pleased with the EU proposal for a business facilitation initiative with Mercosur and Chile, launched in response to the demands of the Mercosur-EU Business Forum (MEBF) in March 2001. This initiative has its roots in the need to facilitate trade, and covers cooperation and technical assistance in areas such as customs, SPS, standards, e-commerce and competition.

The negotiations have to be seen in the more general perspective of EU-Latin American relations. The second Summit of EU, Latin America and Caribbean Heads of State and Government will take place in Madrid on 17 and 18 May 2002. With this event in view, the negotiations need to have produced significant progress by that date.

UNICE REQUESTS FOR THE EU-MERCOSUR NEGOTIATIONS

UNICE fully supports the negotiating process underway and is willing to make its own contribution. UNICE participates in the works of the Mercosur-EU Business Forum (MEBF) to address priority business issues for the negotiations. Independently of that process, UNICE would like to draw attention to the following general items to be taken into account for the negotiations on trade issues:

Negotiating process

- Mercosur should be encouraged to accompany the negotiations with further internal integration, eliminating all internal barriers, deepening its harmonisation, and negotiating with a single voice.
- An impact assessment study should be prepared to evaluate the impact of trade liberalisation in the EU and Mercosur.
- Negotiators should establish a negotiating plan on a short- and medium-term perspective, with targets to be met.
- The negotiations should be more transparent. A specific website should be created to provide information on the process and its developments, and to timely contributions of the various stakeholders concerned.

Group 1 of the negotiations (trade in goods)

- All products should be negotiated without any *a priori* exclusions. A broad agreement could facilitate possibilities for reciprocal concessions.
- Free trade in all goods should be achieved through gradual tariff and non-tariff liberalisation, which should take place as rapidly as possible within a timeframe of 10 years.
- Advances should be made towards the removal of Mercosur's tariff peaks.
- Cooperation in the customs field must be seen as a priority for the agreement, with the EU providing technical assistance for the full implementation of Mercosur's Customs Code. In this context, UNICE welcomes the advances made at the fifth round of negotiations, where the creation of an EU-Mercosur Joint Customs Cooperation Committee was agreed.
- Mercosur should be encouraged to harmonise its import regimes, reducing and simplifying licence requirements.
- Mercosur should be urged to harmonise and simplify the system of technical standards and certification which is a major impediment to market access.

Group 2 of the negotiations (services, intellectual property, investment)

- The services negotiations should cover as many services as possible, guaranteeing equal treatment for foreign services providers.
- Mercosur countries should fully implement the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) to facilitate negotiations on intellectual property.
- The EU and Mercosur should call for a WTO agreement on investment to encourage foreign investment flows, enhance market access, national treatment for investments, and full protection of investments.
- The EU and Mercosur should avoid double taxation, and facilitate foreign investment flows by modifying their tax laws.

- The EU must ensure that EU companies can appoint non-residents to work in local subsidiaries in Mercosur countries.

Group 3 of the negotiations (government procurement, competition)

- The EU and Mercosur should increase cooperation in order to ensure coordination of Mercosur's competition policies.
- Mercosur countries are encouraged to sign the WTO plurilateral Government Procurement Agreement to allow national treatment and non-discriminatory access to their procurement markets.

FTAA NEGOTIATIONS

Since 1998, Mercosur countries, together with other 30 American states, have been negotiating the creation of the Free-Trade Area of the Americas (FTAA). The III Summit of the Americas took place in Quebec City on 20 and 22 April 2001, a first draft of the agreement was prepared, and participant states undertook to finish negotiations by January 2005. This process will take place in parallel to the EU-Mercosur and EU-Chile negotiations.

UNICE believes that the negotiations on the Mercosur Association Agreement with the EU, and the FTAA could be held in tandem. However, it firmly believes that the EU proposal represents a more comprehensive model of inter-regional cooperation, which covers also the political, and cooperation dimension, in full respect, and even promotion, of Mercosur integration.

PARTICIPATION OF CIVIL SOCIETY

Active participation of civil society in the EU and Mercosur in the negotiating process is fundamental to ensure that the future Association Agreements are transparent and founded on solid relations between the societies of the two regions, and that civil societies are aware of the decisions taken that can affect them.

UNICE encourages the EU institutions and Mercosur governments to recognise the important role that business organisations play as a key factor for restructuring civil society and developing new, stable, job-creating and environmentally sound industrial activities.

With the objective of reinforcing Latin American-European business cooperation, UNICE, together with its Spanish national member federation CEOE, organised in Madrid on 20 and 21 November 2000, the first EU-Latin America and Caribbean Business Summit. On that occasion, EU-Mercosur relations was discussed and recommendations formulated to facilitate trade and investment between the two regions. The next business summit will take place in March 2002 in Mexico City.

UNICE welcomes the initiative taken by the European Commission to inform civil society representatives on the EU-Mercosur negotiating process. A first meeting took place on 12 October 2000. UNICE is looking for more regular information especially in advance of the negotiating sessions.

The close relations established between the European Economic and Social Committee and Mercosur's Economic and Social Advisory Forum (*Foro Consultivo Económico y Social*), which has led to a common proposal for the constitution of a Joint Consultative Committee in the framework of the EU-Mercosur Association

Agreement is another positive step to improve mutual understanding between the two regions.

MEBF

UNICE supports the Mercosur-EU Business Forum process as a way to reinforce EU-Mercosur business relations, while contributing to the negotiating process underway. With a view to improving the representativeness of the process, active participation of the different national and sectoral interests of EU and Mercosur business should be further strengthened. The third MEBF Plenary Conference will take place on 15 and 16 May 2002 in Madrid.

UNICE welcomes the specific mention made in the 1st EU-Latin America and Caribbean Summit (Rio de Janeiro, 28-29 June 1999) of MEBF.

CONCLUSION

UNICE will continue to follow up closely and support the negotiation process leading to an Association Agreement with Mercosur.

UNICE looks forward to increased co-operation with European institutions and the Mercosur business community on the negotiation process and on the overall EU-Mercosur relations.