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SOUTHERN COMMON MARKET (MERCOSUR) AGREEMENT

The following communication, dated 5 April 1995, has been received from the Permanent Mission of Paraguay.

In its capacity of Pro-Tempore Chairman of MERCOSUR, the Paraguayan Government, on behalf of the MERCOSUR Member Countries (Argentina, Brazil, Paraguay and Uruguay), and as a follow-up to the communication dated 21 December 1994 (document L/7615), requests that the updated text of the replies to the questionnaire on MERCOSUR be circulated as an official document of the Working Party on MERCOSUR established by the Committee on Trade and Development.

The document includes, at Annex I, the Common External Tariff, the Schedules of Exceptions and the Timetable for Convergence on the Common External Tariff.¹ These texts are for guidance only and are still provisional, since technical corrections are being made to the Common External Tariff and the Members of MERCOSUR have until 30 April 1995 to complete the Schedules of Exceptions (Resolution 47/94 of the Common Market Group). The final texts of the Common External Tariff and Schedules of Exceptions will be circulated as soon as they have been approved by the competent MERCOSUR authority.

¹Interested delegations may collect copies of the documentation involved from Office No. 3006. The Common External Tariff and Tables referred to as Annex I are available on diskettes.

UPDATING OF THE REPLIES TO THE QUESTIONS SUBMITTED TO THE
WORKING PARTY ON THE SOUTHERN COMMON MARKET
(MERCOSUR) AGREEMENT²

**1. ELIMINATION OF DUTIES, CHARGES AND OTHER RESTRICTIONS APPLIED
IN THE STATES PARTIES' RECIPROCAL TRADE (ARTICLE 1, PARAGRAPH 2,
ARTICLE 5(A) AND ANNEX I)**

1.1 We understand that the elimination of duties, charges and other restrictions applied in the States Parties' reciprocal trade is proceeding as scheduled in Annex I on the trade liberalization programme of the MERCOSUR Agreement. We would like Parties to confirm whether there is any plan to change the schedule and, if any, we would like to know about the proposed change.

With respect to most of their reciprocal trade the States Parties to MERCOSUR have met the schedule laid down in the trade liberalization programme. Except for a limited number of headings of the Harmonized System subject to the procedure for adaptation to the trade liberalization programme within a maximum period of four years for Argentina and Brazil and five years for Paraguay and Uruguay, the rest of intra-regional trade has been duty-free since 1 January 1995.

1.2 Have the decisions on tariff reductions and the elimination of non-tariff restrictions as described in Annex I been accomplished as planned? What kind of structural changes are envisaged for each country in connection with these eliminations?

The planned tariff reductions set out in the trade liberalization programme in Annex I to the Treaty have been progressively implemented in accordance with the established timetable, with effect every six months on 1 January and 1 July of each year, with the result that for most reciprocal trade tariff barriers were totally eliminated on 31 December 1994.

With regard to non-tariff barriers or restrictions (Article 10 of Annex I), two criteria have been taken into account for the purpose of eliminating the effects of such measures on trade: on the one hand, elimination of the restrictions mentioned by the States Parties in the Complementary Notes to LAIA Economic Complementarity Agreement No. 18 which implements the Treaty of Asunción (November 1991) within the framework of the Latin American Integration Association; and on the other hand, harmonization of those measures which cannot be eliminated, as in the case of technical standards, animal and plant health provisions, etc.

The structural modifications resulting from implementation of the programme of gradual reduction of customs tariffs among the four States Parties to MERCOSUR were taken into account in the Treaty of Asunción, which provides for the possibility of using a safeguard clause during the transition period which ended on 31 December 1994. This clause could be used in respect of a specific product once only with effect for one year, which could be extended by a further year.

The procedure laid down in Annex IV to the Treaty of Asunción for applying safeguard clauses follows the guidelines laid down in Article XIX of the General Agreement on Tariffs and Trade, adapting them to the institutional functioning of MERCOSUR and the need to protect the situation of certain sectors of domestic industry in some of the States Parties to MERCOSUR.

²The previous version of "Questions and Replies" was distributed as document L/7540 to the contracting parties of GATT 1947.

The safeguard clause provides that in cases of emergency the country concerned may adopt measures to limit imports from one or more of the States Parties provided that it immediately notifies and consults the executive body of MERCOSUR, the Common Market Group.

The State Party concerned must inform the Common Market Group of increases in imports of certain products and the damage or threat of damage which it considers such an increase might cause for domestic production or directly competitive products. The Common Market Group has to take a decision within a period not exceeding 20 days from the start of consultations among the States Parties involved, after the State which considers that it has suffered prejudice has presented its case.

Annex IV states that in no event may the quantitative restrictions decided upon be less than the average volume imported in the preceding three calendar years.

A limited number of products considered sensitive by States Parties, including those which were the subject of action under the safeguard clause during the transition period, have been included in the procedure for adaptation to the liberalization programme starting from 1 January 1995. This calls for a linear tariff reduction in several annual tranches, four for Argentina and Brazil and five for Paraguay and Uruguay.

Their inclusion in the adaptation process is intended to promote the continuity of structural adjustment and help place the sectors involved in a competitive position within the region by the end of the period in question.

With regard to structural adjustment, it is also worth mentioning the negotiations being conducted by the States Parties with a view to harmonizing public policy in various areas and establishing a trade regime that will ensure fair competition.

1.3 Article 5 of the Agreement specifies the main economic and trade policy instruments to be used in establishing MERCOSUR. In relation to the trade liberalization programme, could the parties please advise:

- (a) Whether there have been exceptions to the automatic and linear tariff cuts being implemented according to the timetable in Annex I to the Agreement?;**
- (b) What stage the removal of non-tariff barriers is at? and**
- (c) Whether the annual 20 per cent reduction in the exemptions list for tariff reductions as submitted by each Party is occurring at the rate specified in the Agreement?**

In connection with the trade liberalization programme mentioned in Article 5 of the Treaty of Asunción and in Annex I, the following should be noted:

- a. In Decisions Nos. 5/94 and 23/94, the Council of the Common Market decided to establish the Final MERCOSUR Adaptation Regime applicable to intra-MERCOSUR trade, extending over a period of four years in the case of Argentina and Brazil and five years in the case of Uruguay and Paraguay, with a timetable for a linear and automatic tariff reduction to zero per cent based on the national tariff levels in force on 5 August 1994, less an initial preference percentage for the States Parties. This regime applies to a limited list of products by country, based on an eligibility criterion established for those products which were included in the Schedules of Exceptions in Economic Complementarity Agreement No. 18 or to which safeguard clauses have been applied, as provided for in Annex III of the Treaty of Asunción.

- b. The MERCOSUR countries have made a distinction between non-tariff restrictions which will have to be eliminated and measures of a non-tariff nature which will be subjected to a harmonization process. The latter mainly comprise measures relating to plant and animal health, technical standards, environmental protection, and safety.

The non-tariff restrictions in question have already been eliminated within the MERCOSUR context (or are in process of being eliminated where such elimination requires parliamentary approval).

The process of harmonization of measures of a non-tariff nature is in various stages of implementation, depending on the measures concerned, and is being monitored by the Trade Commission.

Annex II reproduces the Resolution of the Common Market Group establishing the regulatory framework for the elimination of non-tariff restrictions and harmonization of measures of a non-tariff nature (Resolution 123/94)³ which lists the non-tariff restrictions already eliminated or in process of elimination.

- c. The annual 20 per cent reduction in items included in the Schedules of Exceptions to tariff reduction has in fact been made precisely on 31 December in each of the last three years, except as regards the final group of products consisting of all those eligible for inclusion in the Adaptation Regime.

1.4 Has the tariff reduction timetable in Annex I, Article 3, been respected so far by all the States Parties to MERCOSUR?

The tariff reduction timetable has been respected by all the States Parties to MERCOSUR. See the reply to Question 1.3.

1.5 On 31 December 1994, will all customs duties between MERCOSUR countries be eliminated for all reciprocal trade?

See the reply to question 1.3.

1.6 Has the timetable for the reduction of Schedules of Exceptions described in Annex I, Articles 6 and 7, been respected so far by all States Parties to MERCOSUR?

The timetable for the reduction of Schedules of Exceptions described in Articles 6 and 7 of Annex I to the Treaty of Asunción has been respected by all States Parties to MERCOSUR and completed according to plan.

1.7 Article 10 of Annex I provides that all non-tariff restrictions shall be eliminated from the Common Market Area as of 31 December 1994. Is there an agreed plan and schedule for the abolition of such non-tariff restrictions? If so, could a summary be provided?

See the replies to questions 1.2 and 1.3(b).

1.8 Could the States Parties to MERCOSUR indicate what are the measures taken in the situations envisaged in Article 50 of the 1980 Treaty of Montevideo? (Annex I, Article 2(b)).

³Annex II is available for consultation in office No. 3006.

The measures in force in each country adopted in accordance with Article 50 of the 1980 Treaty of Montevideo, and in accordance with Articles XX and XXI of the General Agreement, have so far been maintained. For further clarification, Article 50 of the Treaty of Montevideo reads as follows:

"No provision under the present Treaty shall be interpreted as precluding the adoption and observance of measures regarding:

- (a) Protection of public morality;
- (b) Implementation of security laws and regulations;
- (c) Regulation of imports and exports of arms, munitions, and other war materials and, under exceptional circumstances, all other military equipments;
- (d) Protection of human, animal and plant life and health;
- (e) Imports and exports of gold and silver in bullion form;
- (f) Protection of national treasures of artistic, historical or archaeological value; and
- (g) Exportation, use and consumption of nuclear materials, radioactive products or any other material used for the development and exploitation of nuclear energy."

1.9 Does Argentina currently apply a statistical tax on imports? If so what is the level of the tax?

In its national list at the WTO Argentina has bound a tariff of 35 per cent and a statistical tax of 3 per cent.

1.10 Will trade between the parties be exempt from any fees connected with importation and exportation which are covered by Article VIII of the GATT? If so, how will the cost burden be assessed for third country trading partners?

The duties covered by Article VIII of the General Agreement are fixed as a whole in accordance with the provisions of that Article and the obligations assumed by the States Parties to MERCOSUR in the Uruguay Round.

2. THE COORDINATION OF MACROECONOMIC POLICIES (ARTICLE 1, PARAGRAPH 2, AND ARTICLE 5(B))

2.1 Have the parties come to any agreement on coordination of macroeconomic and sectoral policies as decided in the Treaty?

The coordination of macroeconomic policies within MERCOSUR is seen as a process to be completed gradually and not as an objective to be reached by a particular date. Until now, the process has not taken the form of specific agreements, although frequent contacts at different levels among the economic authorities of the States Parties have allowed the initial outline of macroeconomic coordination to be defined. The underlying idea is to give priority in coordination efforts to those macroeconomic policy mechanisms most directly related to trade.

The coordination of sectoral policies has also been the subject of intensive efforts at the technical level and covers several areas: industry, agriculture, energy, transport and labour. The results of these activities are being incorporated in Decisions or Resolutions adopted by the high-level bodies

of MERCOSUR, leading to greater harmonization of domestic sectoral policies as part of the momentum of the integration process.

The weekly meetings of the Council of the Common Market and the meetings of the Ministers of the Economy and Central Bank Governors of the four States Parties to MERCOSUR constitute the institutional framework within which information concerning the situation with regard to the macroeconomic policies of each of the States Parties is exchanged and analysed.

2.2 What is the progress in relation to the coordination and harmonization of macroeconomic policies being implemented? Can MERCOSUR members provide a brief outline of economic integration achievements to date, together with an outline of what plans have been made for further progress? Can a timetable for future integration plans be provided?

One objective of the economic policy of the MERCOSUR countries is to maintain the key macroeconomic balances - fiscal, monetary and exchange-rate. These not only form the basis of the reforms implemented by each country independently but are also perceived as significant for the regional integration process.

In June 1992, the Council of the Common Market established the timetable of measures for the coordination of macroeconomic, sectoral and institutional policies. The improved coordination and harmonization of macroeconomic policies is reflected in the progress made, which enabled the transitional phase of MERCOSUR to be brought to a satisfactory conclusion on 31 December 1994 as planned (Article 3 of the Treaty of Asunción) and the MERCOSUR Customs Union to be established, as envisaged in the Treaty.

At the last meeting of the Council of the Common Market and the Common Market Group, held at Ouro Preto, Brazil, on 16 and 17 December 1994, the States Parties to MERCOSUR adopted a series of decisions and resolutions which brought the MERCOSUR customs union into operation on the basis of the Common External Tariff (CET), introduced on 1 January 1995, and the common trade policy measures necessary for its implementation. The latter include a common system of rules of origin, regulations concerning unfair practices directed against third countries (in process of being updated on the basis of the results of the Uruguay Round), a common MERCOSUR regime for free zones, export processing zones and special customs areas, a MERCOSUR customs code and a series of operational customs regulations which have been harmonized and applied jointly by the States Parties.

With regard to taxation, comparative studies of the systems operated by the States Parties have been made with a view to determining any differences and thus identifying the areas in which convergence will have to be pursued. In connection with the coordination of macroeconomic policies, studies have been made to identify the key macroeconomic indicators for evaluating the performance of the economies of the States Parties.

The following list of the principal decisions concerning the harmonization of trade and sectoral policies adopted at the meeting in Ouro Preto gives some idea of the progress made to date in this field (the corresponding texts are reproduced in Annex III):

- (a) Decision No. 12/94. Adoption of the principles of consolidated global banking supervision.
- (b) Decision No. 15/94. Agreement on multimodal transport in MERCOSUR.
- (c) Decision No. 16/94. Implementing regulations concerning the customs clearance of goods.

- (d) Decision No. 17/94. Implementing regulations concerning the customs valuation of goods.
- (e) Decision No. 19/94. Regime for the sugar sector.
- (f) Decision No. 22/94. Adoption of the MERCOSUR Common Nomenclature (MCN) and the Common External Tariff (CET).
- (g) Decision No. 23/94. Rules of Origin.
- (h) Decision No. 24/94. Final adaptation regime of the customs union.
- (i) Decision No. 25/94. Adoption of the MERCOSUR customs code.
- (j) Decision No. 29/94. Regime for the automotive sector.

For its part, at its XVIth meeting on 14 and 15 December 1994, the Common Market Group adopted a series of resolutions, most of which related to the harmonization and approval of technical standards for the automotive, food and pharmaceutical industries, including public health matters.

The next steps in the MERCOSUR integration process will involve improving the operation of the customs union both with respect to the consideration and adoption of trade policy instruments and in relation to such aspects as operational harmonization, technical standards, taxation and public sector policies.

2.3 Could differences in macroeconomic policies lead to delays in the liberalization programme or the introduction of a customs union?

Any differences in the macroeconomic policies of the States Parties to MERCOSUR have not led to delays in the trade liberalization programme or in the implementation of the customs union. The trade liberalization programme as such was finally completed by the four States Parties on 31 December 1994.

3. THE ESTABLISHMENT OF A COMMON EXTERNAL TARIFF AND THE ADOPTION OF A COMMON TRADE POLICY IN RELATION TO THIRD STATES OR GROUPS OF STATES (ARTICLE 1, PARAGRAPH 2 AND ARTICLE 5(C))

3.1 Could the parties advise of the progress that has been made on the tariff levels to be applied under the common external tariff (CET) in accordance with Article 5? What is the likelihood that the CET will be in place as scheduled at the end of the transition period in December 1994?

In accordance with the decisions adopted by the States Parties to MERCOSUR (Buenos Aires, August 1994, and Ouro Preto, December 1994), the Common External Tariff (CET) and the MERCOSUR Common Nomenclature (MCN) entered into force on 1 January 1995, when each of the States Parties approved the national decrees and regulations necessary to put the Ouro Preto agreements into practice.

3.2 Paragraph 2 of Article 1 and Article 5(c) relate to the establishment of a common external tariff. We would like to know in detail the coverage of items, the items excluded, the schedule for establishing a common external tariff, the common external tariff rate of each item, and finally, the comparison of the overall level of tariff rates between the common external tariff rates and each State Party's applied tariff rates (on the basis of the trade-weighted average or the applied rates).

The CET tariff levels extend from zero per cent to 20 per cent in steps of two percentage points. Argentina, Brazil and Uruguay may identify up to 300 national exceptions to the CET and Paraguay up to 399 national exceptions, with a maximum initial tariff level of 35 per cent, to converge linearly and automatically on the CET within a maximum of six years (by 1 January 2001). Ascending exceptions, i.e. converging on the CET from a lower national tariff level, are also possible.

In addition to these general exceptions to the CET, the four States Parties have decided that exceptions to the agreed CET in the areas of capital goods, telecommunications and information technology, calculated independently of the other type of exceptions, may be maintained.

In the case of capital goods, the CET is fixed at 14 per cent, and Argentina and Brazil may converge linearly and automatically on that level by 1 January 2001, while Uruguay and Paraguay may converge on it linearly and automatically by 1 January 2006.

As regards information technology and telecommunications equipment, the CET is fixed at 16 per cent, and the four States Parties may converge on that level linearly and automatically by 1 January 2006.

The available information concerning the tariff headings covered by the CET, the levels agreed in each case and the headings which are to be provisionally excluded is set out in Annex I.⁴

3.3 How far has work progressed on a common external tariff and on a coordinated foreign trade policy towards third countries? Do there exist any further agreements on these issues?

See the replies to questions 2.2 and 3.2.

The adoption of a common trade policy is an inseparable complement to the implementation of the CET. In this respect, MERCOSUR has already defined the main instruments of such a common trade policy. Moreover, MERCOSUR as such is in the process of re-negotiating the Economic Complementarity Agreements which each of the States Parties has signed with the other LAIA member countries.

3.4 The States Parties to the "Southern Common Market" have set themselves the goal of establishing a common external tariff and adopting a common trade policy in relation to third States or groups of States. However, document L/7370/Add.1 gives no information about this common external tariff nor a schedule for establishing it. In this case:

- **Will the Southern Common Market be a customs union or a free-trade agreement between the States concerned?**
- **In the first case could the States Parties to MERCOSUR provide information about the establishment of a common external tariff (level of customs duties, programmed for establishing the tariff, etc.) and the adoption of a common trade policy?**

The Southern Common Market, MERCOSUR, has been a customs union since 1 January 1995, by sovereign decision of its four States Parties embodied in the decisions adopted at Ouro Preto, Brazil, in December 1994.

⁴Annex I is available on diskettes in office No. 3006.

The States Parties to MERCOSUR have reached technical and political agreements on the structure and shape of the common external tariff, all completed in accordance with the timetable set out in the Treaty of Asunción and the timetable of measures adopted at Las Leñas in June 1992.

As already noted in the reply to question 3.2, the available information concerning the tariff headings covered by the CET, the levels agreed in each case and the headings which are to be provisionally excluded is set out in Annex I.⁵

3.5 Recent reporting has suggested that the MERCOSUR countries are having some trouble agreeing a common external tariff. Is customs union (as opposed to a free-trade area) a realistic prospect?

See the reply to question 3.4.

3.6 How is it envisaged that the CET be implemented? Although this does not seem to be covered in any detail (Article 5(c) only), our understanding is that the intention is to apply a maximum external tariff of 20 per cent, with 11 applicable tariff points between zero and 20 per cent. Presumably the MERCOSUR countries will seek to harmonize on the lowest existing tariff of the MERCOSUR Members with the minimum of rounding up and will be alert to the dangers of anti-competitive trade diversion if the external tariff is concentrated at the high end of the zero-20 per cent range?

See the reply to question 3.2.

The common external tariff meets the objective of opening up the economies of MERCOSUR. It is a weighted average whose level will be lower than the tariffs applied by the States Parties prior to signature of the Treaty of Asunción.

The structure of the CET is based on the principle of reserving the lower levels of protection for raw materials and products with relatively little processing, the intermediate tariff levels for semi-manufactures and goods used as inputs for other production chains, and the higher levels of protection for consumer goods.

3.7 It has been reported that one of the Parties wishes to pursue a common tariff in certain sectors which may result in an increase in the average incidence of tariffs on third parties. Would the Parties provide an undertaking that implementation of the CET will not adversely affect the trade of third parties by ensuring that the CET is established according to the provisions of Article XXIV:5(a)?

The MERCOSUR Common External Tariff has been fixed entirely in conformity with the provisions of Article XXIV, paragraph 5, of the General Agreement. As mentioned in the reply to the previous question, the rated average does not exceed that applied individually by Member States prior to signature of the Treaty of Asunción. It may be concluded that the entry into force of the CET will not adversely affect trade with third countries but, on the contrary, will promote the growth of such trade.

⁵See Footnote 4.

3.8 Will there be any exceptions to the CET? If yes, would a list be provided indicating the duty that would be charged by each Party? What time-table will be employed in integrating any exceptions into the CET?

See the reply to question 3.2.

It may be added that the four States Parties have defined fewer exceptions to the CET than the 300 or 399 authorized in each particular case. Under Resolution CMG No. 47/94, the States Parties to MERCOSUR have until 30 April 1995 to complete their national schedules of exceptions to the CET.

The exceptions to the CET and the timetables for convergence communicated by each country are given in Annex I.⁶

In due course, through its Pro-Tempore Chairman, MERCOSUR will inform the WTO's Committee on Trade and Development of the final contents of the national schedules of exceptions to the CET.

3.9 If there are exceptions, will the CET cover substantially all the trade between the Parties?

The exceptions to the CET are restricted to a small number of tariff headings of the MCN, and the CET which has been put into effect covers 100 per cent of the tariff headings of the MERCOSUR Common Nomenclature.

3.10 Exactly which are the products for which no timetable has been established for the adoption of common external customs tariffs? (Provide more detail on data processing, telecommunications and others).

Every product has a fixed CET.

The tariff headings included in the schedule of exceptions, with convergence on the CET, have been defined by each of the States Parties.

Argentina: 231 headings (84 upwards and 147 downwards).

Brazil: 175 headings (123 upwards and 52 downwards).

Paraguay: 214 headings (all upwards).

Uruguay: 212 headings (206 upwards and 6 downwards).

The four States Parties reserve the right to speed up irreversibly the process of convergence on the CET. In which case they may communicate their intentions to the other Parties on the first day of the months of January, May and September in each year.

The products included in the adaptation regime are also exceptions to the common external tariff (distinct from the 300 or 399 general exceptions to the CET).

With regard to telecommunications and other sectors, see the reply to question 3.2.

3.11 In the trade liberalization programme outlined in Annex I, there is reference to a different time-frame for products in schedules of exceptions. What are these products? Are these exceptions

⁶See Footnote 4.

part of the reason that a common tariff across the board cannot be implemented by 1 January 1995. We understand that an agreement on 85 per cent of the products to be included in a common tariff from this date should be ready by June 1994, while a deadline of the year 2006 has been set for the rest.

This question confuses the schedules of exceptions to the trade liberalization programme in Annex I to the Treaty of Asunción with the exceptions to the CET.

The agreement on the CET covers 100 per cent of the tariff headings of the MCN, leaving no common external tariff level to be defined by the States Parties.

3.12 When will the CET be available for examination by the contracting parties?

The MERCOSUR Common External Tariff is now in full effect, so that members of the WTO may examine it whenever they wish. The CET, the exceptions to the CET and the tariff headings included in the Adaptation Regime are reproduced at Annex I.7.⁷

3.13 According to Article XXIV:5(c) of the GATT, any interim agreement leading to the formation of a customs union shall include a plan and schedule for the formation of such a customs union within a reasonable length of time. The schedules mentioned in 3.2 and 3.3 above should be included in the MERCOSUR Agreement since we understand that this Agreement is a customs union, in accordance with Article XIV:8(a)(ii) and with paragraph 2 of Article 1 of the MERCOSUR Agreement. However, the said Agreement has only provided the schedule for eliminating duties, charges and other restrictions applied in the States Parties' reciprocal trade, and set no schedule for the introduction of a common external tariff and a common trade policy. We would like to have more information about the consistency of the MERCOSUR Agreement with GATT Article XXIV:5(c).

See the replies to questions 3.12 and 11.

Regarding the consistency of the MERCOSUR Agreement with Article XXIV:5(c) of the General Agreement, it should be noted that MERCOSUR is not an interim agreement but a Treaty with obligations and programmes which the States Parties are implementing.

3.14 Can Parties confirm that the requirements of Article XXIV:6 of the General Agreement will be met?

As stated in the Council and the Committee on Trade and Development, the States Parties confirm that they will respect all obligations under the General Agreement, naturally including those of Article XXIV:6.

3.15 Could the Parties to the Agreement explain the manner in which they intend to determine principal supplier rights under Article XXVIII of the GATT?

Depending on implementation of the customs union, the States Parties will determine principal supplier rights when it becomes necessary to re-negotiate the concessions under Article XXVIII of the General Agreement.

⁷See Footnote 4.

3.16 In October 1991, Argentina raised its general tariff on alumina from zero to 5 per cent. Have tariffs on other items been increased by Argentina or any other Party to the Agreement and, if so, do the Parties consider that such increases conform with the requirements of Article XXIV:5(a) of the General Agreement?

Argentina has made minor modifications to import duties in recent years, in full conformity with its obligations under the General Agreement, including paragraph 5(a) of Article XXIV.

3.17 In the MERCOSUR Agreement there is no specific confirmation that a common trade policy shall be adopted. Is a common trade policy still planned to be introduced? If that is the case, what is the schedule for the introduction of a common trade policy and what is the detail of this common trade policy?

The adoption of an external trade policy is provided for in Article 1 of the Treaty of Asunción.

The common trade policy is a series of measures and regulations, some of which have already been adopted and are in operation. Others, which mainly relate to the updating of the regulations on third-country unfair trading practices and the safeguard regulations to conform with the Final Act of the Uruguay Round, are still pending (see the reply to questions 2.2 and 14).

4. RULES OF ORIGIN (ANNEX II, ARTICLE 3)

4.1 Rules of origin are included in the International Convention on the Simplification and Harmonization of Customs Procedures as well as in the Final Act of the Uruguay Round. To what extent did these rules serve as guidance when the present General Rules for Classification of Origin were established and are there any divergences?

The definition of all trade policy instruments in MERCOSUR, including rules of origin, is based on the relevant provisions of GATT and the World Customs Organization.

It should also be pointed out that the rules currently in effect in MERCOSUR were formulated in the Treaty of Asunción on the basis of those applicable in the Latin American Integration Association (LAIA).

The MERCOSUR Rules of Origin are the subject of Decisions 6/94 and 23/94 which are reproduced in Annex III.⁸

4.2 What treatment will be given to goods manufactured or processed in the free zones and what percentage of value added will give them MERCOSUR origin?

Goods from free zones are considered extra-zonal and are therefore subject to the tariff treatment applicable to such goods.

5. MEASURES AFFECTING IMPORTS FROM THIRD COUNTRIES (ARTICLE 4)

5.1 According to Article 4 of the MERCOSUR Agreement, the States Parties shall apply the domestic legislation to restrict imports whose prices are influenced by subsidies, dumping or any other unfair practice. In this respect, what kind of measures are intended to be taken as such import restrictions?

⁸Annex III is available for consultation in office No. 3006.

The States Parties to MERCOSUR have incorporated the Uruguay Round Agreements in their domestic legislation. Accordingly, they will apply the measures provided for in the agreements concerning unfair practices (subsidies and countervailing measures and anti-dumping) adopted in the Uruguay Round.

Measures to prevent unfair practices will be in conformity with the provisions of the WTO agreements.

5.2 How do the States Parties to MERCOSUR intend to restrict imports whose prices are influenced by subsidies, dumping or any other unfair practice? How is the term "unfair practice" to be defined?

The States Parties to MERCOSUR will only apply domestic legislation to restrict imports resulting from unfair practices within the framework of the provisions of the WTO.

Unfair practices will be defined as those identified as such in those provisions.

It should be noted that the States Parties to MERCOSUR are working on a common set of rules governing unfair practices consistent with the provisions of the WTO.

5.3 Could the Parties advise whether there has been any progress in the drafting of the common rules of trade competition referred to in Article 4 of the Agreement?

In this connection, MERCOSUR has approved three documents:

- (a) Regulations on preventing imports which are the subject of dumping or subsidies by countries not members of MERCOSUR;
- (b) Procedure for complaints and consultation on unfair trade practices;
- (c) Procedure for the exchange of information in connection with investigations on dumping caused by imports from one of the States Parties to MERCOSUR.

The procedures mentioned in subparagraphs (b) and (c) were applied during the transition period, while the regulations mentioned in subparagraph (a) are being revised to adapt them to WTO rules.

The procedure for protection against third-country unfair trading practices and the common safeguards policy (Resolution 108/94) lay down, as general guidelines, that the States Parties shall apply their domestic legislation until the common regulations are adopted, keeping the Mercosur Trade Commission (MTC) informed (see the reply to question 14). The Trade Commission will submit to the Common Market Group the common regulations on unfair practices, adapted to the GATT, together with the safeguards procedure, on the basis of the preliminary work done by Sub-Group 1.

6. NATIONAL TREATMENT (ARTICLE 7)

6.1 According to Article 7 of the MERCOSUR Agreement, in the area of taxes, charges and other internal duties, products originating in the territory of one State Party shall enjoy, in the other States Parties, the same treatment as domestically produced products. What is the exact definition of the said taxes, charges and other internal duties? We would also like to confirm whether imported products from a non-State Party are given the same treatment as products originating in the territory of any State Party.

The distinction between taxes and charges is made because one of them concerns imposition of an exclusively fiscal nature (taxes), while charges represent reimbursement of the approximate cost of a service effectively rendered. Duties include customs duties and other similar costs whether they be fiscal, monetary or exchange costs or costs of any other type which affect foreign trade.

Guidelines and criteria concerning taxation principles are being developed with the aim of facilitating harmonization in this area within MERCOSUR.

The basis of taxation policy is to ensure that there is no discriminatory treatment against imports, whether from States Parties or third countries, in accordance with Article III of GATT.

7. COMMITMENTS UNDER LAIA (ARTICLE 8)

7.1 Could the linkages between MERCOSUR and LAIA be explained?

MERCOSUR is a subregional integration agreement established by the Treaty of Asunción. This Treaty was incorporated in the Latin American Integration Association as a result of the signing of the Economic Complementarity Partial Scope Agreement No. 18 (ECA 18), within the framework of the Third Section of Chapter II - Partial Scope Agreements, Articles 7 to 14 of the 1980 Treaty of Montevideo (establishing LAIA) and Resolution 2 of the LAIA Council of Ministers.

The States Parties to MERCOSUR are member countries of LAIA. The Treaty of Montevideo which created the association allows the conclusion of agreements between two or more countries so as to accelerate the regional integration process without providing that the preferences granted are to be extended to the remaining members which are not parties to such agreements. Article 7 provides that "rights and obligations to be established in partial scope agreements shall exclusively bind the signatory member countries or those adhered thereto".

Within this legal framework, the States Parties to MERCOSUR concluded Economic Complementarity Agreement No. 18 within the framework of LAIA under the terms agreed in Annex I to the Treaty of Asunción.

Economic Complementarity Agreement No. 18 meets the requirements of the Third Section of the Treaty of Montevideo and Resolution 2 of the Council of Ministers, as set out in its preamble. These encompass the following:

- The principles of Article 3 of the Treaty of Montevideo;
- the objective of the Treaty, in accordance with Article 8;
- the general provisions of Article 9, incorporated in Article 14 of Economic Complementarity Agreement No. 18 on convergence and in Article 15 which lays down the terms for ratifying "adhesion".

MERCOSUR therefore complies strictly with the terms of agreements provided for in the 1980 Treaty of Montevideo for countries members of LAIA and is fully consistent with its principles, objectives and instruments.

7.2 What are the differences from the standpoint of trade arrangements between the Latin American Integration Association (LAIA) and the Treaty of Asunción?

In this connection, the following aspects should be taken into account, bearing in mind that the objective of both treaties is to establish a common market:

- (1) LAIA (the 1980 Treaty of Montevideo) is a system for regional integration composed of 11 Latin American countries. The Treaty of Asunción is covered by its articles and is composed of four LAIA Member Countries.
- (2) The Treaty of Montevideo establishes the mechanisms for convergence among subregional agreements. The Treaty of Asunción constitutes one of these subregional agreements and is within the framework of LAIA so as to move towards convergence.
- (3) LAIA gives its members the possibility of concluding different types of instruments: partial scope agreements, whether bilateral or multilateral, and regional scope agreements. These may take the form of trade agreements, economic complementarity agreements, trade promotion agreements and other forms which the member countries wish to adopt. The instrument concluded by the States Parties to MERCOSUR is an economic complementarity agreement of partial scope and is multilateral because it involves four countries.
- (4) The common market envisaged in the LAIA does not have any time-limit for its establishment, unlike MERCOSUR, which became a customs union on 1 January 1995 and which is adhering to definite timetables. In this connection, MERCOSUR constitutes an integration agreement aimed at revitalizing and developing the system of preferences among States Parties in accordance with the provisions and mechanisms provided in the Treaty of Montevideo.

7.3 Reference is made to the 1980 Treaty of Montevideo and partial scope agreements and economic complementarity agreements under its auspices. Could you please explain the legal implications of the Treaty of Montevideo on the MERCOSUR Agreement? More specifically we would appreciate a clarification on Annex I, Articles 2(b) and 12, and Annex II, Articles 1(b) and 1(c), as well as Article 19 (identical to Article 12, Annex I) of the Treaty of Asunción.

The Treaty of Montevideo lays down the overall legal framework and the general guidelines to which MERCOSUR conforms.

Articles 2(b) and 12 of Annex I to the Treaty of Asunción refer to regulations (exceptions) specific to the Treaty of Montevideo or resulting from commitments undertaken within its framework.

Articles 1(b), 1(c) and 19 of Annex II to the Treaty of Asunción adopt the same criterion for rules of origin, i.e., linkage of the Treaty with the Treaty of Montevideo.

7.4 In COM.TD/W/497 (pp. 1-2) it is stated that additional protocols and decisions approved under MERCOSUR are also registered in LAIA, taking direct legal effect in constituent countries. How do the decisions taken in MERCOSUR affect LAIA member countries which are not parties in MERCOSUR? Which agreement sets the overall framework/guidelines?

Some of the decisions adopted within the framework of MERCOSUR have been formalized in LAIA in the legal form of Additional Protocols to Economic Complementarity Agreement No. 18. These concern the integration process and are substantive rather than of form. However, decisions concerning the negotiating process as such, for example, the holding of special meetings, changes to the timetables of the technical sub-groups, etc., have not been formalized.

Decisions in the form of Additional Protocols to Economic Complementarity Agreement No. 18 form part of the Agreement. They only have effect in countries which are parties to the Agreement. Examples are the System of Sanctions for Falsification of Certificates of Origin and the System for the Settlement of Disputes related to the application, interpretation or non-fulfilment of the Agreement.

If a country which is not a member of MERCOSUR wishes to accede to an Additional Protocol, it must do so by acceding to Economic Complementarity Agreement No. 18, following the procedure for all Additional Protocols to partial scope agreements in LAIA.

Decisions can also be formalized in the form of partial scope agreements. These would automatically be open to accession by the other LAIA countries.

As soon as decisions are incorporated in LAIA, they become subject to its rules.

8. ACCESSION (ARTICLE 20)

8.1 Bolivia is an observer in MERCOSUR. What are the perspectives for a Bolivian accession to the Agreement? Do you foresee an extension of this Treaty to additional new members?

The States Parties to MERCOSUR are renegotiating their agreements with other LAIA countries under the various forms of integration provided for in the Treaty of Montevideo and it is expected that this process will be concluded in the course of this year.

As regards Bolivia, it should be pointed out that that country is not an observer in MERCOSUR, at least according to the meaning given to observer in GATT, because there is no provision for observer status in the Treaty of Asunción.

It should be emphasized that Bolivia has received invitations to participate in some of MERCOSUR's technical meetings.

Finally, it should be pointed out that Article 20 of the Treaty of Asunción allows for the accession of other LAIA member countries following negotiations. This possibility is subject to time limitations (five years after the entry into force of the Treaty of Asunción). The requirements for the accession of other LAIA countries comply with the provisions of the 1980 Treaty of Montevideo.

8.2 Will third countries other than those belonging to the Latin American Integration Association (LAIA) be able to become parties to the Treaty of Asunción?

The Treaty of Asunción does not provide for accession by countries which do not belong to LAIA.

9. DISPUTE SETTLEMENT

9.1 How will the disputes settlement provisions (Annex III) of the Agreement operate? Will these be GATT-consistent?

The dispute settlement procedure adopted within the framework of MERCOSUR is fully compatible with the rules of the WTO and its purpose is to resolve disputes among States Parties relating to the Treaty of Asunción.

By incorporating direct negotiations and a reconciliation role for the four countries acting jointly, the general principles prevailing in the WTO in this area are respected.

Likewise, the possibility of recourse to arbitration for questions related to the application, interpretation or non-fulfilment of the Agreement is customary practice at the international level and is consistent with the relevant WTO provisions.

9.2 We have understood that there exists a "Brasilia Protocol" on dispute settlement. Does this differ from Annex III?

The Brasilia Protocol for the Settlement of Disputes was approved by the States Parties on 17 December 1991 in accordance with paragraph 2 of Annex III to the Treaty of Asunción in which the States Parties undertook to adopt a system for the settlement of disputes during the transition period.

The States Parties decided to maintain this Protocol in force from 1 January 1995, in accordance with Article 43 of the Protocol of Ouro Preto.

Strictly speaking, Annex III to the Treaty of Asunción establishes the general principles and timetable for the elaboration of a system for the settlement of disputes, both for the transition period and on a permanent basis, whereas the "Brasilia Protocol" lays down the various stages and procedures for the settlement of disputes in MERCOSUR.

10. TRADE DATA

10.1 Could the Parties provide an update to Appendices I and II to document L/7044, which show each Party's total exports and imports by destination?

These figures have been updated in Annex IV to this document.

10.2 Could some information be provided concerning MERCOSUR trade? For the last three years:

- total trade between MERCOSUR countries and the rest of the world;
- trade with LAIA countries;
- trade among MERCOSUR countries.

See the reply to question 10.1.

10.3 How much preferential trade is there between the MERCOSUR countries and the LAIA countries?

See the reply to question 10.1.

11. TRADE CREATION/TRADE DIVERSION

11.1 Have the Parties to the Agreement undertaken any studies on the trade creating and trade diverting effects of the Agreement? To what extent do the parties expect trade diversion to occur?

So far, no projections have been made concerning the trade-creating or diverting effects of the MERCOSUR customs union in operation since 1 January 1995.

The results of studies of the trade-creating and diverting effects produced by MERCOSUR since it was established in 1991 are presented in Annex V.

These studies are based on aggregate trade data. MERCOSUR will have to carry out studies on a desegregated basis, which will make possible a more thorough assessment of the

trade-creating/diverting effects, using data for the periods both before and after the establishment of a customs union on 1 January 1995.

Considering the objective of maintaining open economies and the fact that the common tariff levels as a whole do not exceed those actually applied by the States Parties prior to signing the Treaty of Asunción, it is obvious that MERCOSUR fulfils the general conditions laid down in GATT 94 for customs unions.

12. MERCOSUR AND INTEGRATION EFFORTS IN THE WESTERN HEMISPHERE

12.1 What is the view of the States Parties to MERCOSUR of this Agreement in relation to other regional integration efforts? The Treaty forms part of the geographically more comprehensive LAIA. MERCOSUR also has an agreement with the United States concerning a Council on Trade and Investment under the auspices of President Bush's "Enterprise for the Americas Initiative". What is the attitude towards NAFTA? Should MERCOSUR be understood as a move towards even wider Latin American integration?

From the outset, the primary objective of the States Parties to the Treaty of Asunción has been to incorporate MERCOSUR in global trade patterns. MERCOSUR is a flexible and open process, the opposite of the idea of a "fortress" reformulating, at quadripartite level, old isolationist concepts.

In this connection, in the preamble to the Treaty of Asunción, the four States Parties declare that they are "aware that this Treaty must be viewed as a further step in efforts gradually to bring about Latin American integration, in keeping with the objectives of the Montevideo Treaty in 1980" (see also the reply to question 12.3).

As far as the American hemisphere is concerned, at the recent Hemisphere Summit meeting it was decided to make an immediate start on negotiations aimed at establishing a "Free-Trade Area of the Americas" in which barriers to trade and investment will be gradually eliminated. It is anticipated that these negotiations will be completed by the year 2005 at the latest.

In this context, an Immediate Action Plan for the achievement of the above-mentioned objective, with specific terms of reference for the area's Ministers of Trade, has been adopted. It is planned to arrange meetings between regional groupings, the various trade and investment councils being the appropriate framework for identifying areas and establishing lines of action.

Accordingly, although the rules and criteria which will allow MERCOSUR to become interrelated with the markets of North America are still in the process of being defined, the objective of setting up a free-trade area within the above-mentioned time-limits has already been established.

12.2 Can other customs unions or free-trade areas grant reciprocal preferential treatment? (NAFTA, which was recently set up, has offered membership to Argentina, which is a member of MERCOSUR).

There are no legal obstacles preventing MERCOSUR from negotiating reciprocal preferential treaties with other countries, integration areas or customs unions.

12.3 How does MERCOSUR fit into the wider Latin American regional integration process - to what extent is this a stepping stone towards a Latin American/Caribbean free-trade area or an Americas free-trade area?

Through the formalization of Economic Complementarity Agreement No. 18 within LAIA, MERCOSUR fulfils the principles and objectives of the 1980 Treaty of Montevideo, in particular,

Article 1 which states that "the long-term objective of the [integration] process shall be the gradual and progressive establishment of a Latin American common market". The setting up of the MERCOSUR customs union will promote and improve preferences among its member countries within the provisions and mechanisms envisaged in the Treaty of Montevideo.

13. SERVICES

13.1 Although the Working Party's terms of reference are only related to the GATT, and especially Article XXIV and the Enabling Clause, it is difficult not to go into other areas as MERCOSUR is styled to become an agreement on economic integration, also covering services. During the last months of the Uruguay Round negotiations, a provision in Article V of the GATS was added, directly connected with the efforts of establishing the MERCOSUR, namely paragraph 3(b) which allows for "more favourable treatment to juridical persons owned or controlled by natural persons of the parties to such an agreement". It would be interesting to hear the views of the countries concerned as to what kind of more favourable treatment they have been thinking of, and what economic reasoning lies behind the wish to discriminate third-country-controlled companies that engage in substantive business operations in the MERCOSUR area. Can such discrimination be beneficial to a country's economy, and can it not become a disincentive for profitable investments?

MERCOSUR countries will strictly observe the provisions of the General Agreement on Trade in Services (GATS).

Regional initiatives aimed at liberalizing trade in services are consistent with Article 5 of the aforementioned agreement. The States Parties to MERCOSUR, in accordance with their domestic policy criteria, are not considering the adoption of any measure that would discourage investment from third countries. On the contrary, the aim of their investment policies is to promote the full participation of third countries in their domestic manufacturing and service activities.

14. OTHER AREAS

14.1 What time horizon is there for the other areas of the Agreement? Could the Working Party be given an exposé of the issues the 11 working groups are working on? We would, for example, want to be assured that the Sub-Group on Maritime Transport is not planning to impose new restrictions, e.g. new cargo preference schemes between the "States Parties".

Since 1 January 1995 MERCOSUR has had a new institutional structure adopted under the Protocol of Ouro Preto, which is subject to ratification by the parliaments of the States Parties. See Annex VI.⁹

The Council of the Common Market established the MERCOSUR Trade Commission to supervise the application of the CET and the common trade policy instruments. In its turn, this Commission set up various technical committees responsible for carrying forward the various tasks assigned by the Council of the Common Market and the Common Market Group.

As regards the operation of the present working groups listed below, the Common Market Group will decide their future activities:

⁹Annex VI is distributed as an Addendum to this document: WT/COMTD/L/1/Add.1.

- Subgroup 1: Trade Issues
- Subgroup 2: Customs Issues
- Subgroup 3: Technical Standards
- Subgroup 4: Fiscal and Monetary Policies Relating to Trade
- Subgroup 5: Inland Transport
- Subgroup 6: Maritime Transport
- Subgroup 7: Industrial and Technological Policy
- Subgroup 8: Agricultural Policy
- Subgroup 9: Energy
- Subgroup 10: Co-ordination of Macroeconomic Policies
- Subgroup 11: Labour Policy

MERCOSUR is not planning to impose new restrictions on maritime cargoes by the States Parties.

15. TRANSPARENCY IN IMPLEMENTING THE AGREEMENT

15.1 Do the States Parties to MERCOSUR undertake to notify the GATT of any changes in the Treaty of Asunción?

Any amendment to the Treaty of Asunción will be notified to the WTO by the States Parties to MERCOSUR.

15.2 Do they undertake regularly to submit reports that will enable the impact and functioning of the Treaty of Asunción to be examined?

The Treaty of Asunción was amended by the Protocol of Ouro Preto which is in the process of being ratified by the States Parties.

ANNEXES

ANNEX I¹⁰ COMMON EXTERNAL TARIFF, TRANSITIONAL EXCEPTIONS AND TIMETABLE FOR CONVERGENCE ON THE CET:

- COMMON EXTERNAL TARIFF
- BASIC CONVERGENCE SCHEDULES FOR THE CAPITAL GOODS SECTOR:
 - ARGENTINA;
 - BRAZIL;
 - PARAGUAY;
 - URUGUAY.
- CONVERGENCE SCHEDULES FOR THE INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS SECTOR:
 - ARGENTINA;
 - BRAZIL;
 - PARAGUAY;
 - URUGUAY.
- BASIC NATIONAL SCHEDULES OF EXCEPTIONS TO THE CET:
 - ARGENTINA;
 - BRAZIL;
 - PARAGUAY;
 - URUGUAY.
- ADAPTATION REGIME:
 - ARGENTINA;
 - BRAZIL;
 - PARAGUAY;
 - URUGUAY.

ANNEX II¹¹ NON-TARIFF RESTRICTIONS (RESOLUTION 123/94)

- IMPORT RESTRICTIONS
- EXPORT RESTRICTIONS

ANNEX III¹² PRINCIPAL DECISIONS ADOPTED AT THE SEVENTH MEETING OF THE COUNCIL OF THE COMMON MARKET (OURO PRETO, DECEMBER 1994):

- DECISION 06/94
- DECISION 12/94

¹⁰See Footnote 1.

¹¹See Footnote 3.

¹²See Footnote 8.

- DECISION 15/94
- DECISION 16/94
- DECISION 17/94
- DECISION 19/94
- DECISION 22/94
- DECISION 23/94
- DECISION 24/94
- DECISION 25/94
- DECISION 29/94

ANNEX IV TRADE DATA

ANNEX V TRADE CREATION/DIVERSION

ANNEX VI PROTOCOL OF OURO PRETO¹³

¹³See Footnote 9.

TRADE DATA

Appendix I: Reply to Question 10.1
Global exports of member countries according to destination, 1990-1993
(f.o.b. value, in millions of dollars)

Exporting country and year	MERCOSUR	Other LAIA	LAIA	Rest of the world	TOTAL
Argentina					
1990	1,833	1,295	3,128	9,225	12,353
1991	1,978	1,391	3,369	8,609	11,978
1992	2,327	1,591	3,918	8,317	12,235
1993	3,662	1,600	5,262	7,828	13,090
Brazil					
1990	1,320	1,874	3,194	28,219	31,413
1991	2,308	2,630	4,938	26,684	31,622
1992	4,098	3,495	7,593	28,383	35,976
1993	5,395	3,750	9,145	29,556	38,701
Paraguay					
1990	380	46	426	533	959
1991	259	68	327	410	737
1992	246	66	312	345	657
1993	287	56	343	382	725
Uruguay					
1990	594	76	670	1,038	1,708
1991	558	76	634	940	1,574
1992	544	128	672	948	1,620
1993	698	152	850	795	1,645
MERCOSUR					
1990	4,127	3,291	7,418	39,015	46,433
1991	5,103	4,165	9,268	36,643	45,911
1992	7,215	5,280	12,495	37,993	50,488
1993	10,042	5,558	15,600	38,561	54,161

Appendix I: Reply to Question 10.1
Global imports of member countries according to origin, 1990-1993
(c.i.f. value, in millions of dollars)

Importing country and year	MERCOSUR	Rest of LAIA	LAIA	Rest of the world	TOTAL
Argentina					
1990	833	513	1,346	2,731	4,077
1991	1,804	944	2,748	5,527	8,275
1992	3,755	1,226	4,981	9,890	14,871
1993	4,214	1,220	5,434	11,352	16,786
Brazil					
1990	2,444	1,342	3,786	18,674	22,460
1991	2,417	1,530	3,947	19,030	22,977
1992	2,374	1,496	3,870	18,476	22,346
1993	3,477	1,425	4,902	22,553	27,455
Paraguay					
1990	404	40	444	906	1,350
1991	437	58	495	965	1,460
1992	526	72	598	824	1,422
1993	632	74	706	983	1,689
Uruguay					
1990	560	129	689	726	1,415
1991	655	96	751	801	1,552
1992	832	101	933	1,077	2,010
1993	1,126	99	1,225	1,099	2,324
MERCOSUR					
1990	4,241	2,024	6,265	23,037	29,302
1991	5,313	2,628	7,941	26,323	34,264
1992	7,487	2,895	10,382	30,267	40,649
1993	9,449	2,818	12,267	35,987	48,254

Appendix II: Reply to Question 10.2

MERCOSUR Trade

(f.o.b. value of exports, in millions of dollars)

1991 of to	Argentina	Brazil	Paraguay	Uruguay	MERCOSUR	Rest of LAIA	LAIA	Rest of the world	TOTAL
Argentina	1,475	1,489	178	311	1,978	1,391	3,369	8,609	11,978
Brazil	45	203	496	337	2,308	2,630	4,938	26,684	31,622
Paraguay	163	384	11	11	259	68	327	410	737
Uruguay	1,683	2,076	685	659	558	76	634	940	1,574
MERCOSUR					5,103	4,165	9,268	36,643	45,911
1992 of to	Argentina	Brazil	Paraguay	Uruguay	MERCOSUR	Rest of LAIA	LAIA	Rest of the world	TOTAL
Argentina	3,041	1,671	272	384	2,327	1,591	3,918	8,317	12,235
Brazil	64	171	543	514	4,098	3,495	7,593	28,383	35,976
Paraguay	250	284	10	11	246	66	312	345	657
Uruguay	3,355	2,126	825	909	544	128	672	948	1,620
MERCOSUR					7,215	5,280	12,495	37,993	50,488
1993 of to	Argentina	Brazil	Paraguay	Uruguay	MERCOSUR	Rest of LAIA	LAIA	Rest of the world	TOTAL
Argentina	3,659	2,791	358	513	3,662	1,600	5,262	7,828	13,090
Brazil	65	215	961	775	5,395	3,750	9,145	29,556	38,701
Paraguay	316	366	16	7	287	52	339	386	725
Uruguay	4,040	3,372	1,335	1,295	698	152	850	795	1,645
MERCOSUR					10,042	5,554	15,596	38,565	54,161

Appendix II: Reply to Question 10.2
MERCOSUR Trade
(c.i.f. value of imports, in millions of dollars)

1991 of to	Argentina	Brazil	Paraguay	Uruguay	MERCOSUR	Rest of L/AIA	LAIA	Rest of the world	TOTAL
Argentina	1,747	1,526	43	235	1,804	944	2,748	5,527	8,275
Brazil			224	446	2,417	1,530	3,947	19,030	22,977
Paraguay	175	251		11	437	58	495	965	1,460
Uruguay	271	373	11		655	96	751	801	1,552
MERCOSUR	2,193	2,150	278	692	5,313	2,628	7,941	26,323	34,264
1992 of to	Argentina	Brazil	Paraguay	Uruguay	MERCOSUR	Rest of L/AIA	LAIA	Rest of the world	TOTAL
Argentina	1,833	3,339	65	351	3,755	1,226	4,981	9,890	14,871
Brazil			191	350	2,374	1,496	3,870	18,476	22,346
Paraguay	231	283		12	526	72	598	824	1,422
Uruguay	346	475	11		832	101	933	1,077	2,010
MERCOSUR	2,410	4,097	267	713	7,487	2,895	10,382	30,267	40,649
1993 of to	Argentina	Brazil	Paraguay	Uruguay	MERCOSUR	Rest of L/AIA	LAIA	Rest of the world	TOTAL
Argentina	2,765	3,570	73	571	4,214	1,220	5,434	11,353	16,786
Brazil			275	437	3,477	1,425	4,902	22,553	27,455
Paraguay	242	369		21	632	74	706	983	1,689
Uruguay	483	636	7		1,126	99	1,225	1,099	2,324
MERCOSUR	3,490	4,575	355	1,029	9,449	2,818	12,267	35,987	48,254

Appendix III: Reply to Question 10.3
MERCOSUR - Rest of LAIA: Total trade and negotiated trade
(c.i.f. value, in millions of dollars)

Importing country and year	Total	Negotiated	Share of negotiated trade in total
Argentina			
1991	944	306	32.4
1992	1,226	559	45.6
1993	1,220	712	58.4
Brazil			
1991	1,530	560	36.6
1992	1,496	565	37.8
1993	1,425	n.a.	n.a.
Paraguay			
1991	58	n.a.	n.a.
1992	72	n.a.	n.a.
1993	74	n.a.	n.a.
Uruguay			
1991	96	31	32.3
1992	101	35	34.7
1993	99	28	28.3
MERCOSUR			
1991	2,628	897	34.1
1992	2,895	1,159	40.0
1993	2,818	740	26.3

ANNEX V

Trade Creation/Diversion

MERCOSUR

Share of and Effects on World Trade 1990-93
(in billions of US dollars and per cent)

Year	Imports World	Imports MERCOSUR	MERCOSUR as % of total
1990	3,549	27.3	0.8
1993	3,690	41.0	1.1

1. Increase in or positive effect on demand as a result of the increase in MERCOSUR's share of world trade.

0.3 percentage points between 1990 and 1993, equivalent to an additional 11.1 billion dollars of annual imports based on the total value of imports for 1993.

2. Decrease in imports from third countries as a result of the increased coverage of regional trade in total MERCOSUR imports.

(a) World trade without the increase due to the growth in MERCOSUR's share of world trade:

$$3690 - 11.1 = 3678.9 \text{ billion dollars.}$$

(b) Imports from third countries if MERCOSUR's 1990 coverage and share had been maintained:

$$3678.9 \times 0.8 (1 - 0.15) = 29.4 - 4.4 = 25.0 \text{ billion dollars.}$$

(c) Actual imports from third countries in 1993:

$$32.3 \text{ billion dollars.}$$

(d) Effect on world demand calculated by comparing situation (c) with situation (b).

$$32.3 - 25 = 7.3 \text{ billion dollars of annual trade creation.}$$

Between 1990 and 1993 trade creation was paralleled by a strong expansion in intra-regional trade which more than doubled, increasing by 111.6 per cent, with the result that the coverage with respect to total trade rose from 15 to 21.2 per cent.