



MEBF LISBON DECLARATION

Lisbon, 8th October 2007

1. Introduction

The VII Plenary Conference of the Mercosur-European Union Business Forum (MEBF) took place on October 8 2007 in Lisbon, Portugal. MEBF is a joint grouping of business representatives from Mercosur and European Union member countries with the aim of promoting trade and investment and the bi-regional economic relations in general, including the conclusion of the ongoing negotiations for an EU-Mercosur Association Agreement in order to create a Mercosur-EU free trade area.

This year's Plenary Conference takes place against a positive economic backdrop. In both regions rates of economic growth are at similar levels, casting an upbeat perspective on outlooks for job creation and company expansion. Furthermore trade and investment between the two regions continue to grow consistently. Exports from Mercosur to the EU reached €34.6 billion in 2006 with exports from the EU to Mercosur at €23.4 billion. EU investment stocks in Mercosur countries were worth over €100 billion in 2005 with Mercosur investment in the EU now reaching over €1 billion.

The free trade agreement negotiations, however, provide a stark contrast to the interregional economic dynamism, making very little progress since the last round of discussions in October 2004. MEBF has made numerous statements on the need to move to conclude the agreement and is disappointed that this has not yet been achieved.

In response, MEBF has established the theme of its VII Plenary Conference as *'Towards the EU-Mercosur Free Trade Agreement: a business contribution'*. In addition to discussing the state of play of the negotiating process, MEBF has today been presented with a series of studies on the key elements of the negotiations: a strategic overview, the negotiations on market access, the negotiations on services & investment; and business facilitation measures. These studies, commissioned by MEBF to the Chaire Mercosur de Sciences Po, with the financial support of the Inter-American Development Bank, inform this declaration. They will contribute to finding new ways to approach the bi-regional economic relations and the negotiations so as to bring our economies closer together to ensure their growth.

MEBF wishes to express its recognition to the Inter-American Development Bank for its important contribution, as well as to the companies and organisations both in Mercosur and the EU whose support made the study possible.



2. Conclusion of the Doha Round

MEBF is keenly aware that the benefits of trade liberalisation can best be realised through the multilateral system and calls on negotiators from both blocs to redouble their efforts to seek an ambitious conclusion of the Round by early 2008.

A successful Doha Round negotiation will create new opportunities for EU and Mercosur companies to trade across the world by providing new business opportunities for companies in the areas of industrial goods, services and agriculture in more than 150 countries. This represents an enormous opportunity for developing *and* developed countries to use increased trade to enhance growth in their economies.

A successful Round also will establish new and better rules for the operation of international trade, particularly in the area of trade facilitation. These rules will help to make the conduct of international trade a smoother, more transparent process and have the potential to reduce unnecessary costs, with the obvious benefits that can bring to small and medium sized exporters in developing countries in particular.

A good DDA outcome will strengthen the WTO system as a whole, enhancing its role as guarantor of a stable international trade legal order. The WTO's Dispute Settlement Understanding provides the most advanced system of tackling international disputes that exists today. Its value will only increase as the process of global economic integration intensifies.

MEBF also notes that a Doha Round agreement would improve the conditions for the conclusion of the bi-regional negotiations between the EU and Mercosur as a WTO deal would resolve some of the major obstacles in the way. However, the DDA and the bi-regional negotiations are by no means inextricably linked and the progress of the multilateral negotiations should not impede work on the region-to-region level. A regional trade agreement is not a valid substitute for a multilateral deal but will create new trade opportunities and enhance companies' competitiveness.

3. Creation of a free trade area between the EU and Mercosur

The negotiations for an Association Agreement between the European Union and Mercosur have progressed successfully under the political and cooperation headings. To conclude the process, what remains is to agree on the creation of Mercosur-EU free trade area.

It is the firm view of MEBF, which represents the majority of companies doing business between the two blocs that a free trade area would bring real benefits to our economies. The failure to reach this agreement is an obstacle to reaping these benefits.

An MEBF-commissioned study of 2004 under the assumption of total liberalisation, produced by the Chaire Mercosur de Sciences Po, has estimated the lost business as a result of a failed negotiation at somewhere in the region of US\$3.7 billion per year, alone in trade of goods. Taking into account services and investment, the value of lost business would increase up to more than US\$5 billion as a result of the removal of barriers to trade in goods and services and investment flows.



The creation of a single trading space would, furthermore, increase the competitive pressures on companies, creating strong incentive for greater efficiency and putting them on a better footing in the global market. The agreement would also tackle a number of issues such as enforcement of intellectual property rights, domestic regulation in services and standards, in accordance with the text of the MEBF Madrid Declaration. An EU-Mercosur FTA would also achieve these results while taking into account the differing levels of development of the participating countries.

The negotiating process, nonetheless, faces difficult hurdles created by the strong interests of both parties. There are outstanding issues regarding the scope and coverage of tariff liberalisation in the industrial goods negotiations as well as on the definition of rules of origin and the use of the drawback regime in the bi-lateral trade, the elimination of export taxes and asymmetrical phasing out of tariffs.

In agriculture there is a variety of uncertainties relating to market access, such as tariff quotas – volumes, year on year increases and quota administration – as well as questions on treatment of subsidised products, geographical indications and sanitary and phytosanitary measures.

Services negotiations must resolve demands from both blocs for both improved legal certainty and new market access in vital sectors, both in terms of their economic value and their importance as the infrastructure for wider economic growth and development.

MEBF recognises these challenges but believes that solutions can be found through creative approaches and willingness to compromise on the part of our negotiators. A genuine new push to conclude the process would receive the full support of the business community.

Though the negotiations continue to remain at a standstill this year has produced developments that may have an impact on their outcome. MEBF recognizes that the newly created strategic partnership between the EU and Brazil could be positively used to improve bi-regional relations and negotiations. MEBF also notes the recent process of enlargement of Mercosur, which may create a new context for the FTA talks. MEBF believes in an orderly process of regional enlargement based on full acceptance of the Mercosur *acquis*. Only on this basis can the achievements to date be guaranteed and enhanced.

4. MEBF - Chaire Mercosur Studies on the EU-Mercosur negotiations

To contribute to this process of seeking creative solutions MEBF has commissioned, with the financial support of the Inter-American Development Bank, four studies from the Chaire Mercosur de Sciences Po. The studies will also propose measures to enhance economic ties between the two regions outside the context of the negotiations.

The first study is a strategic overview of the EU-Mercosur talks taking into consideration the results of the WTO process and seeking to provide an evaluation of the different technical and political difficulties which are hampering the bi-regional talks in this context and the possibilities of making some progress in the short and medium term.



Under the heading of Market Access, the second study examines the reasons for relatively low exports of value added industrial goods from Mercosur to the European Union relative to exports of the same category of goods to North America. A greater understanding of this process may provide new areas that, if addressed in the negotiations, could contribute to unblocking them.

The third study comprises both an analysis of the importance of the services for the bi-regional trade negotiations and for the competitiveness of the business sectors of both regions and six sub-sector studies in areas of interest for the Mercosur as well as for the EU. The purpose of the sub-sector studies is to establish, for each one, a diagnosis about the state of the market, the regulatory framework and government policy, in order to estimate the different concrete barriers that service firms have to face in both regional markets and to access the possibilities of implementing some positive measures in parallel to the negotiating process.

Finally the business facilitation module reviews the MEBF's "*Buenos Aires Statement on Business Facilitation*" of December 2001, further prioritized in the "*Buenos Aires Declaration*" of 2006, with a view to assessing their implementation and presenting new priorities where necessary. The business facilitation measures analysed can be implemented outside the scope of the Association Agreement.

The VII Plenary Conference has provided an opportunity to assess the outcome of these studies and MEBF believes that the lessons learned should be put to use by negotiators in the coming weeks and months as they seek to draw the process to a close.

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ANNEX TO THE LISBON DECLARATION

1. Market Access

Trade in goods between the European Union and the Mercosur have risen considerably in the last decade. The European Union has maintained its position as the top trading partner of the Mercosur and vice versa the Mercosur is one of the top trading partners of Europe.

Given those stable fundament of strong and continuously rising economic relationships, the completion of the Interregional Association Agreement between both Regions remains a top priority. It is a prerequisite to boost also in the future further trading activities through opening up markets and therefore benefit competitiveness and growth in both Regions.

Barriers to mutual market access do in many ways impede the intensification of the biregional business relations. The MEBF has addressed over the last few years a number of market access recommendations issued in the declarations of the MEBF in Brasilia, Madrid and Buenos Aires. These recommendations remain valid.

In addition the MEBF has initiated a study to enlighten market access issues for manufactured goods from a Mercosur perspective. One main result of the study is that there is a clear correlation between the technological intensity of the goods exported and the kind of barriers that they face: manufactures based on natural resources or low technology goods tend to face tariff and sanitary barriers, whereas goods which are intensive in technology are more frequently subject to obstacles related to technical standards and regulations.

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

Although the bulk of technical standards and regulations required by the EU do not constitute non-tariff barriers, the costs of complying with European standards and directives in the areas of technical and environmental norms were identified as barriers. Hence a stronger cooperation between Mercosur and the European Union in the area of technical and environmental standards is desirable.

The Market Access Working Group stimulates the resumption of the bi-regional trade negotiations and urges the authorities of both blocs to take into consideration these and other recommendations presented in the previous MEBF final declarations.

Furthermore, considering the results of the study mentioned above, the group has decided to introduce new issues in its working agenda that are business oriented and that can be developed in parallel to the trade negotiations.



2. Services and Investment

Introduction

Dramatic changes in the international context since the beginning of the EU-Mercosur negotiations back in 1999 highlight the importance of a renewed approach on services and investment to reach a successful conclusion of the Interregional Association Agreement and thus to reflect the full amplitude of the economic relations between the two blocks. The mercantilist approach so far adopted in the services and investment negotiations may need to be revisited in that respect as both Mercosur and EU services industries increasingly internationalise and restructure. The studies on services produced under the overall coordination of the Mercosur Chair of Science Po did much to show that there are substantial benefits to be gained from various approaches to bi-regional trade – both in relation to increased market access as well as enhanced regulatory predictability.

We have often in the past assumed that existing asymmetries between the two regions in services and investment necessarily should turn the negotiations into a mere zero-sum game. The fact is that, despite asymmetries, much of the interest in services is “common” across the Atlantic. Mercosur welcomes European investment and world-class services while the EU seeks to secure adequate conditions for such investment and services to flow into Mercosur markets. The issue here cannot therefore be reduced to a simple offensive-defensive dichotomy. In addition, Mercosur also has exporting interests that it wants addressed in the negotiations - not only in respect to mode 4 services trade, such as the movement and stay of independent professionals, but also in sectors such as construction and engineering, audiovisual and some others – to varying degrees.

These new realities should be considered by EU-Mercosur negotiators as they do in fact offer promising perspectives for the unblocking of the negotiations.

The importance of a trade agreement

Fatigue after almost a decade of unfruitful negotiations gives rise to legitimate scepticism on the way forward in services and investment. Yet, the studies commissioned from the Chair Mercosur have shown a number of innovative approaches towards liberalization and regulation worth considering. In fact, the studies did not limit themselves to dealing with the negotiations but looked also at how to move forward outside the context of an Association Agreement.

It is important to note that autonomous liberalisation undertaken by both Mercosur and the EU can give some leeway for negotiators to resort to in meeting demands on sectors such as banking, insurance and reinsurance, maritime transport services – or even, mode 4-related services. Binding specific commitments in a trade agreement can lock in place important changes in regulatory regimes and thus contribute to increase the legal certainty in the provision of services.



The MEBF understands that the benefits of increased services trade hinge not only on liberalization *per se* but also on appropriate, proportionate and predictable regulatory frameworks. The EU-Mercosur Interregional Association Agreement can be a formidable tool in the promotion of the necessary regulatory transparency and predictability for service providers.

The Chair Mercosur studies demonstrated that an Association Agreement dealing solely with trade liberalization can only go some way in that direction, however. In sectors like banking or insurance, for example, much can be done in regards to prudential regulation where international norms exist but countries vary in how they apply them. Work that aimed to make existing approaches converge across the Atlantic could do much to enhance banking or insurance services integration and deepen trade relations among the members of the two blocks. Ultimately, both blocks could be aiming to reach a consolidated global supervision of banking or insurance activities - even if that may at present seem too distant from existing conditions.

Increasing trade in services flows and FDI

The MEBF is a strong believer in the positive spill-over effects of increased trade in services for both the EU and Mercosur. It is generally assumed that services liberalisation can contribute significantly to improve the level and quality of infrastructure, raising private sector productivity and increasing overall competitiveness. For instance, liberalising ICT-intensive services sectors (such as banking, insurance, professional services) in Mercosur will naturally spur the development of the national ICT sector by forcing it to increase productivity levels and its overall competitiveness – which, in turn could in the short to medium-term become a major source of services exports towards the EU through, for example, outsourcing and off-shoring. It is also generally understood that liberalisation *per se* may not be sufficient and that the sequencing of liberalisation measures is also crucial alongside a consistent revamping of the domestic regulatory regime - particularly in the legal framework applying to competition.

The MEBF continues to be sensitive to the close relation between services and foreign direct investment. In this respect, it is interesting to note that FDI has been progressively moving away from the mere exploitation of natural resources or the access to local markets towards the search for efficiency aimed at the establishment of export platforms and, more recently, towards the search for opportunities for the capture of technology-based assets. Thus, a great deal of opportunities is now at hand for both the EU and Mercosur in a wide range of areas ranging from infrastructure development to R&D. Needless to say, ICT use and ICT-enabled services may play a crucial role in the attraction of such FDI. .



Conclusions

The following are the main recommendations to negotiators regarding services and investment in the Mercosur-EU negotiations:

- A higher volume of trade in services can bring substantial and mutual benefits for the EU and Mercosur, increasing their competitiveness in a global world. In spite of their different stages of development, **both blocs stand to benefit** from an Agreement covering trade in services. A new look at the real interests of services sectors may reveal significant possibilities and help to unblock the EU-Mercosur negotiations.
- EU and Mercosur negotiators should aim to agree upon a broad coverage and substantial level of **services liberalisation** ensuring equal access opportunities to their respective markets under the general principle of reciprocity and **non discrimination**. The EU-Mercosur
- Interregional Association Agreement can be a formidable tool in the promotion of the necessary regulatory **transparency and predictability** for services providers
- Negotiators should look hard into the possibility of including services into other “volets” under negotiation between the two regions; In particular, the **cooperation “volet”** should be considered for dealing with services-related matters as diverse as the financing of infrastructure projects or the exchange of regulatory experiences - both at the national and regional levels - on liberalizing and structuring services markets. New business issues such as corporate social responsibility and sustainable development could also be contemplated in this context. Innovation should be welcomed into the present stage of the negotiations and examples provided by other agreements – such as the Chile-EU – could be especially relevant in this connection;

Addendum: Suggested Future Lines of Work for MEBF on Services and Investment

Along with the above recommendations to negotiators, the MEBF Services and Investment Working Groups presents the following suggestions for possible future lines of action on the part of MEBF itself:

- MEBF should consider creating private sector consultative groups regarding regulatory and market matters in services and investment such as those relating to prudential regulations in banking and/or insurance as well as those dealing with the promotion of infrastructure development. Such groups would be instrumental in evaluating the creation of special funds or financing facilities for certain service sectors as well as the ways and means to ensure greater legal certainty for operators on both sides of the Atlantic – both when trading and investing.
- MEBF should continue to sponsor and to seek funding for the deepening of sectoral studies on services and investment with a view to address the continuing deficit in



information that exists regarding such matters. In particular, more than projecting the future, both regions need

- to understand the impact and effects of past experience – both within the two regions as well as around the rest of the world.
- MEBF should continue to work with world-class partners such as the Chair Mercosur and the Interamerican Development Bank in pursuing a closer economic relationship in services and investment between the EU and Mercosur. Private sector institutional partners in both regions may also be especially welcome to partake in the MEBF work on services and investment.
- MEBF should encourage meetings such as the one hosted and co-sponsored by FECOMERCIO in partnership with the Chair Mercosur of Science Po, the Interamerican Development Bank and the Brazilian National Industrial Confederation (CNI) on 14 September 2007 in Sao Paulo, Brazil. Based on a number of commissioned studies, the meeting permitted an open discussion on all relevant matters to the Mercosur-European Union economic relationship – both in the context of the negotiations as well as outside its domain.



3. Cooperation and Business Facilitation

- MEBF considers a growing consensus exists concerning the criteria, scope and methodology of trade facilitation. Some of the key elements of this consensus could be summarized in the following way: trade facilitation, in its broader concept, implies a voluntary, incremental and dynamic process with a high density of information technologies, developed through public-private sector synergies, procuring the reduction of time and related costs in all the international trade process, and aiming to improve the competitiveness of national economies and firms operating at the global or regional markets. Transparency, predictability and simplification of the processes related with international trade, should be a main result of actions in the field of trade facilitation. To help to include them in an Action Plan, that could be periodically evaluated and to measure the progress achieved through it, is one of the more practical contributions that could be expected from the business sector. In fact, the private sector could be a driving force toward greater trade facilitation, helping also to develop awareness about its importance and to promote a debate about politically feasible and technically sound concrete measures.
- MEBF is prepared to develop a mechanism of follow-up of the measures adopted by Mercosur-EU in the field of trade facilitation and to promote the periodic publication of progress reports on the implementation of those measures included in the 2002 Madrid Action Plan. Also MEBF stimulates EU-Mercosur to disseminate more information about the implementation of the Action Plan and to increase the transparency of actions adopted to implement the recommended measures. In its own Web page MEBF will include all the information concerning the implementation of EU-Mercosur trade facilitation measures.
- MEBF has decided to develop a 2008-2009 Programme to promote the development of EU-Mercosur trade facilitation measures within the priorities recommended in its 2006 Buenos Aires Plenary Meeting and taking in consideration the recommendations of the experts of the Chair Mercosur-IADB-MEBF project. The technical assistance of the EU, eventually in joint operation with the IADB, should facilitate both the public sector participation in the different technical workshops and, particularly, the access to the stock of expertise accumulated by the several technical agencies such as the United Nations Economic Commission for Europe (UNECE), the World Customs Organization, and also the experiences of ASEM and APEC, and more specifically of the ASEM Business Forum and the APEC Business Council.
- The MEBF Trade Facilitation Programme will include the organization of technical multi-stakeholders workshops related to the principal 2006 priority measures. A more detailed program for the consideration of the EU and eventually of IADB will be prepared by the MEBF Business Facilitation and Cooperation Coordinators before 2007 end . It should include the specific agenda of each workshop and, particularly, the concrete list of public agencies and business institutions that should be represented, taking in consideration their involvement in the implementation of each measure. Also it



should include the list of international agencies that should be invited to make their technical contribution to each workshop.

- The priority workshops to be included in the customs area are related with the “reliable operator” concept and the “single window” process. In both cases, the workshops should allow the public and private sector participants to have a well informed technical analysis of the experiences of different countries and regions with greater experience in each measure, and to identify the main factors that could facilitate its implementation. MEBF urges the administrations to implement mutual recognition agreement of the Authorized economic operator status between Mercosur and EU to facilitate trade for security and customs.
- The priority workshops to be included in the area of standards, technical rules and sanitary and phyto-sanitary, are related to:
 - a) “EC” marking process: A training and inspection program done by European experts in order to obtain recognition from European authorities of Mercosur certifying entities and qualified laboratories;
 - b) Workshops on technical barriers to trade (especially in the next review of the WTO TBT Agreement), present and future situation of EU documents about “New Approach” and Global Approach”, positive and negative experiences in the implementation of EU directives in standards, technical regulations, and conformity assessment procedures;
 - c) Common agenda between AMN – CEN – CENELEC for the following purposes: selection of EU-Mercosur issues of common interest related to standards and conformity assessments procedures; regular information interchange about present and future programs (i.e. European plan to save energy); participation as observers in the standards committees related to issues of common interest;
 - d) Workshops for possible sectorial agreements (i.e. in the cases of equipment, low electric tension equipment, toys, agriculture machinery); publication of documents about labeling procedures; informative meetings about especial forums like GHTF or/and UN/ECE WP 29 with Mercosur members;
 - e) In the case of SPS standards, a cooperative program between CEN – AMN to help, through the recommendations of specialists, to define SPS regulations congruent with the principles and obligations contained in the WTO SPS agreement.