

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(94) 428 final

Brussels, 19.10.1994

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL
AND THE EUROPEAN PARLIAMENT

**THE EUROPEAN COMMUNITY AND MERCOSUR: AN
ENHANCED POLICY**

THE EUROPEAN COMMUNITY AND MERCOSUR: AN ENHANCED POLICY

In its conclusions, the Corfu European Council of 24 and 25 June this year reaffirmed the importance it attached to its relations with Latin American countries and their regional groupings. It expressed its satisfaction with the progress achieved in the areas of democracy and respect for human rights, peace and disarmament, economic reforms and regional integration.

The European Council welcomed the accession of Mexico to the OECD and expressed its wish to strengthen its political and economic relations with this country. It also confirmed the intention of the European Union to strengthen its relations with Mercosur. It invites the Council and the Commission to pursue these questions further.¹

These conclusions were foreshadowed by a statement issued by the Council at its general affairs meeting of 13 and 14 June, in which it expressed its willingness to strengthen relations between the European Union and that important Latin American regional grouping. The Council had also taken note, on this occasion, of the progress of the Commission's work on the matter and said that it would examine a Commission communication in the autumn.

Several months earlier the foreign ministers of the European Union, at a meeting with their Mercosur counterparts in São Paulo, had agreed to strengthen cooperation in pursuit of more ambitious goals. To that end, the Commission had been instructed to present a report to the Council soon.

This communication from the Commission to the Council and Parliament is in response to the requests of the European Council and the Council of Ministers. Its key components are:

- the strategic aspects of EC-Mercosur relations;
- the assessment of Mercosur's development and a review of its current relations with the Community;
- a proposal for a long-term strategy;

¹ The Commission will shortly transmit to the Council a discussion paper on the future of relations between the European Community and Mercosur.

- a recommendation as to the short-term approach needed to establish a framework for relations conducive to the achievement of the long-term objective.

I. THE STRATEGIC INTEREST OF EC-MERCOSUR RELATIONS

(a) Progress towards regional integration

The international scene at the end of the twentieth century is dominated by two major trends: the end of the Cold War and increasing internationalization of economic and financial flows. The liberalization of international trade and the assertion of the rules of the market, as embodied by the Uruguay Round Final Act, reduce the margin for manoeuvre of individual countries.

There is therefore a risk that closed regional blocs may emerge in reaction to this process. It is in the Community's interest to ensure that moves towards integration and regionalization are outward-looking.

The increasing internationalization of economic and financial flows is coupled with a trend towards the regionalization of trade. The Community is, by virtue of its degree of integration, the oldest and most advanced example of this trend. The most recent is NAFTA, which is now attracting the interest of some Latin American countries. At the same time another regional group is asserting itself, namely Mercosur.

The decision to establish the Mercosur customs union from 1 January 1995 marks a qualitative leap forward of fundamental importance to the future development of the Southern Cone. Mercosur is already proving a magnet for other Latin American countries. Chile and Bolivia have already announced their intention to join Mercosur in the near future.

When conceived in a spirit of openness, regional integration - as European experience attests - is accompanied by growth in international trade (this is indeed a necessary condition for a regional trade arrangement to be authorized under Article XXIV of the GATT). It is also a way of bringing peoples closer together: the drawing-up of flanking policies, the spread of "regionalism" to such fields as standards and economic legislation, but also competition law, taxation and monetary matters, effectively creates solidarity. Last but not least, regional integration is an opportunity to rationalize external relations and international cooperation.

(b) Mercosur's place in relations between the Community and Latin America

The Community's relations with Latin America as whole have unfolded at three levels:

- * at regional level, the Community has been conducting a formal political dialogue with the Rio Group since 1990;
- * at subregional level, the San José dialogue with the Central American countries has been under way since 1984;
- * at bilateral level, the Community has concluded "third generation" cooperation agreements with the different countries and groups of countries (the Andean Pact and Central America).

When dealing with a rapidly changing Latin America that offers new opportunities and challenges, the Community cannot limit itself to strengthening its relations with Latin America as a whole, but must also take account of regional or national specificities in its relations.

Needless to say, a Union strategy aimed at strengthening relations with Mercosur, Mexico and other Latin American regions cannot be seen as an alternative to the dialogue with the Rio Group. It should instead be considered a means of deepening and extending that dialogue, within which the Community's interests demand that it recognize and take account of regional specificities. This means that the Community's proposed new strategy towards Mercosur must not be developed in isolation, but as part of a broader Community strategy towards all the Latin American countries, and in particular the Rio Group.

(c) Mercosur's specific nature

The strengthening of relations between the Union and Mercosur is in the interests of both.

The Union's interests in stronger relations are both political and economic. Politically, it has an interest in the consolidation of democratic systems, shared values and the desire of these countries to maintain a balance in their relations with the United States and Europe.

Embodying the radical changes that have occurred in the region in recent years, Mercosur - which is characterized by a desire to associate its development with that of the wider world - has set its sights higher than the liberalization of trade, aiming to become a key player on the international political stage.

The Community has recognized this, and has from the outset encouraged the four signatories to the Treaty of Asunción in their economic and political integration efforts.

These efforts are all the more justified in economic terms. The countries concerned have 200 million inhabitants and Mercosur, with a GDP in excess of USD 600 billion, figures fourth in the league of major economic groupings:

**List of economic powers in order of GDP
(USD million, 1992)**

NAFTA	6 765
EC	6 744
Japan	3 507
Mercosur	642
Russia	397
ASEAN (minus Brunei)	375
Mexico	294
Maghreb	90

Source: World Bank

These countries are, moreover, market economies with great potential for economic growth (an emerging area of affluence), considerable natural resources and a growing demand for consumer products and capital.

Mercosur's interests are also political and economic: firstly, the four countries are hoping that the Community will give them support for democratization and the integration of their economies, and serve to counterbalance US influence in the area. In economic terms, the Community is an attractive market for Mercosur's products, offering relatively easy access (unlike other partners) and a source of capital, modern technology and cooperation.

Although much remains to be done, the consolidation of Mercosur is a crucial factor in the medium- and long-term progress of its members and the region as a whole. This consolidation does, however, depend on two conditions: the irreversibility of the undertakings given and uncontested international recognition.

Both these conditions make the Community an obvious partner: firstly, because its integration offers the proponents of regional integration a model; secondly, because it can back them up with know-how; and lastly, and above all, because, notwithstanding the geographical distance, the members of the Community and Mercosur are bound by history and culture.

II. MERCOSUR'S DEVELOPMENT

Mercosur, the Southern Cone Common Market, came into being on 26 March 1991, when Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asunción. This move marked both a culmination and a new determination. It effectively enshrined the rapprochement under way between Argentina and Brazil since 1986 (the PICAB programme) and its ambitious goals reflect an increased will to build the future in a context of regional integration.

Mercosur's function is clearly to enhance its members' competitiveness in the face of increasing internationalization of economic and trade flows and its current priority is the introduction of a customs union on 1 January 1995.

Yet its remit is actually much broader, since the programme adopted by the Mercosur Council (which consists of the member countries' ministers for foreign and economic affairs) at its Las Leñas summit of 27 June 1992 included, for example, fiscal and monetary policies, industrial and technology policy, agricultural policy and the coordination of macroeconomic policies.

Despite some initial scepticism, the organization has achieved a lot in the past three years, even though its legal status will not be finalized for several months. The key decisions adopted in Buenos Aires on 5 August, at the Presidents' most recent summit, bear witness to this:

- a common customs tariff ranging for the most part from 0-20% (a top rate of 14% for capital goods with a uniform rate by 2001; a 16% top rate for computer products with a uniform rate by 2006; a list of exceptions etc.);

- origin rules for products not covered by the common customs tariff;
- the drawing-up of conditions for the operation of free zones;
- the setting-up of a trade commission to monitor the provisions adopted and negotiate trade agreements with third parties.

It was at that Buenos Aires summit that Chile and Bolivia expressed their wish to join Mercosur. The governments of these two countries took part in the summit and laid the foundations for the negotiation of "economic complementarity agreements" with a view to creating a free-trade area encompassing tariff and non-tariff matters, physical integration, investment protection and services, and ensuring their participation as observers in subsequent Mercosur meetings.

The deadline of 1 January 1995 is an ambitious step and one that will mark a turning-point in Mercosur's history. Institutions able to represent Mercosur internationally and manage its integration process will also have to be set up.

III. EC-MERCOSUR RELATIONS: BACKGROUND AND PROSPECTS

a) Trade flows

TOTAL MERCOSUR TRADE
(exports + imports)

	1985	1986	1987	1988	1989	1990	1991	1992
NORTH AMERICA	13089	13003	14654	16795	16429	16284	16624	17985
EEC	12678	13772	15844	17289	18386	20414	21037	22478
LATIN AMERICA	6648	7926	7853	9260	11707	11445	14553	18116
JAPAN	2756	3338	3294	4239	4422	4617	4919	4746
S.E. ASIA	1383	1590	1873	2840	3570	3829	4653	4857
REST OF WORLD	15239	11378	13015	14084	14377	14798	13470	15551
TOTAL	51793	51007	56533	64507	68891	71387	75256	83733

Source : Chelem-CEPII

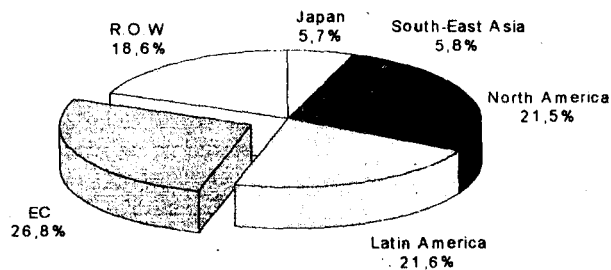
Million USD

The European Community has traditionally been Mercosur's largest trading partner with 26% of all trade in the period 1985-1992. This special relationship is also reflected in trade with individual Mercosur countries.

It is noteworthy that enlargement would increase the Community's market share by two percentage points, from 26% to 28% (1992 figures).

Although the balance of trade is very much in Mercosur's favour (a surplus of USD 46 billion for the period 1985-92), the Community's exports to Mercosur have increased dramatically (by more than 40% in the period 1992-93, for instance), making it by far the fastest growing market for European exporters.

MARKET SHARE IN 1992 (Exports + Imports)



In terms of the size of its internal market, Mercosur already possesses a considerable number of high-income consumers. Coupled with its demographic potential, Mercosur's current economic dynamism prefigures the development in the medium term of a regional market of worldwide significance. In addition to demand for consumer goods, there is a demand for the intermediate and capital goods needed to develop industries to supply both local and export markets.

Mercosur's foreign trade has been growing by more than 10% a year since 1988; this exceptional rate far outstrips that of GDP growth. It is also a consequence of the priority accorded by Mercosur to opening up its economy.

This is illustrated by very high growth in trade within Mercosur (100% in the period 1990-93) as well as rapid growth in flows to the rest of Latin America (almost 20% a year since 1990).

As an exporter to highly industrialized regions, Mercosur continues to specialize basically in products of first-stage processing, save in the agro-industrial sector. Its exports to the rest of Latin America nevertheless contain an increasing proportion of value added, making it a supply hub for the entire subcontinent.

The implementation of the agricultural provisions of the Uruguay Round Final Act will bring improved access to Europe's market for some of the Mercosur countries' agricultural exports. Certain agricultural trade disputes have been resolved in the course of the Uruguay Round.

As an importer, Mercosur is diversifying its purchases and capitalizing on competition between Europe, North America and Asia. Its main imports from the Community are capital goods (machine tools, machinery, aerospace equipment etc.) and chemicals.

(b) Investment

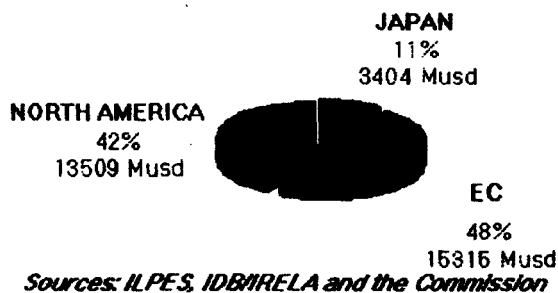
The European Community is the leading foreign investor in Mercosur, which accounts for 70% of European direct investment in Latin America. Not only is European capital to be found in all four Mercosur countries, but in recent years the Community has been alone in increasing investment in Paraguay and Uruguay. The bulk (70%) of this investment has been in the industrial sector, though there has recently been an upturn in flows towards services and local financial markets. The financial markets in Buenos Aires, São Paulo and Rio de Janeiro have exercised a considerable attraction for some years now.

The privatization policies under way in Mercosur since 1988 have met with a favourable response from international investors, particularly in Europe, and they have made significant investments. For example, Europe has been the largest foreign investor in Argentina's privatization programme, accounting for almost a quarter of the incoming capital.

The trade in services is limited at the moment, since these activities are often conducted at a local level. This is undoubtedly a sector with considerable potential in the near

future. Cooperation could, for example, involve major infrastructure, commercial distribution networks, transport, telecommunications and culture.

DIRECT INVESTMENT IN MERCOSUR IN 1990



(c) EC-Mercosur cooperation

The Community was the first player on the international stage to engage in an informal political dialogue at ministerial level with Mercosur.²

In 1992 the Commission and representatives of Mercosur concluded an interinstitutional arrangement aimed at ensuring effective relations and, via two-way institutional support, pooling experience.

As part of its development policy, the Community has committed ECU 17 million for the transfer of integration experience in such key areas as agriculture, the harmonization of technical standards and customs legislation.

The Community is also helping finance the Hidrovia project, and particularly aspects relating to port infrastructure and administration, drawing on earlier European cooperation experiments concerning the administration of the Rhine and the Danube.

These regional programmes are buttressed by bilateral cooperation, which for some countries involves assistance for integration into Mercosur.

The Community also provides support for cultural links with the Mercosur countries, in particular through study programmes and programmes to train craftsmen working to conserve the cultural heritage. It also provides backing for schemes to promote Latin

² The four Mercosur countries are linked bilaterally to the Community by "third generation" agreements.

American writers in Europe. In a similar vein, an academic cooperation programme (ALFA) has recently been set up to encourage links between universities in the two regions.

It is worth underlining that Mercosur has been chosen as one of the main beneficiaries of the European Investment Bank's first ventures into Latin America.

In view of their importance to the regional integration process under way, the EIB will be helping to finance the Brazil-Northern Argentina-Buenos Aires and Uruguay-Buenos Aires roads.

In 1992 the aid granted by the Community and its Member States to the Mercosur countries totalled about USD 270 million, accounting for about 42% of all the official development aid received by those countries. In 1993 aid administered by the Commission exceeded ECU 60 million. This year that amount is set to rise to ECU 75 million.

(d) Political dialogue

The political dialogue, particularly at meetings with the Rio Group and in the UN General Assembly, has already borne fruit, underpinning the process of strategic integration and highlighting the mutual interest of strengthening relations between the two partners as emphasized by the foreign ministers at their meetings in Guimarães, Copenhagen and São Paulo.

The São Paulo meeting, in particular, was a milestone, with the Union's ministers and their Mercosur counterparts asking the Commission to draw up as soon as possible, in the light of what had already been achieved, a strategy for strengthening relations.

At their respective summit meetings (in Corfu in June and Buenos Aires in August), the heads of state and of government of both groupings echoed this desire to strengthen ties in pursuit of more ambitious objectives.

However, this dialogue, which originally focused on bilateral aspects of relations, is about to outgrow this framework. There are many synergies between the interests and viewpoints of Mercosur and the European Union; there are a great many multilateral issues which would lend themselves to closer consultation and, in particular, culminate in the coordination of positions in some multilateral organizations.

IV. TOWARDS STRONGER RELATIONS BETWEEN THE COMMUNITY AND MERCOSUR

(a) Two scenarios for the run-up to 2000

In the light of the views expounded above and in order to illustrate the advantages, both quantitative and qualitative, of liberalizing international trade between Mercosur and the European Community, two scenarios have been constructed for the period up to 2000 on the basis of trends observed over the last five years.

The first assumes no change in the trends, while the second takes account of the establishment of a free-trade area between the Community and Mercosur.

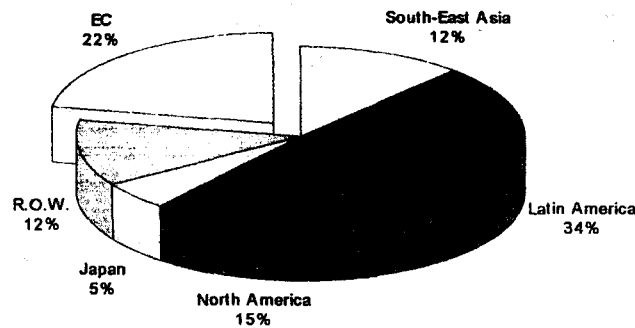
The main conclusions of these studies can be summed up as follows:

Scenario No 1: No change in current trends

In this scenario, Mercosur's export and import trade with its main partners continues at the average rates observed in the period 1988-92. This scenario involves:

- very high average growth of 11.5% a year in Mercosur's exports;
- considerable growth in the proportion accounted for by Latin America;
- a growth in the Community's trade deficit
- a doubling of Asia's market share.

MARKET SHARE - SUSTAINED TRENDS (EXPORTS and IMPORTS)



Source: scenario based on Chelem-CEPII data

This scenario would see the Community losing a considerable part of its market share.

Scenario No 2: Liberalization of trade between the Community and Mercosur

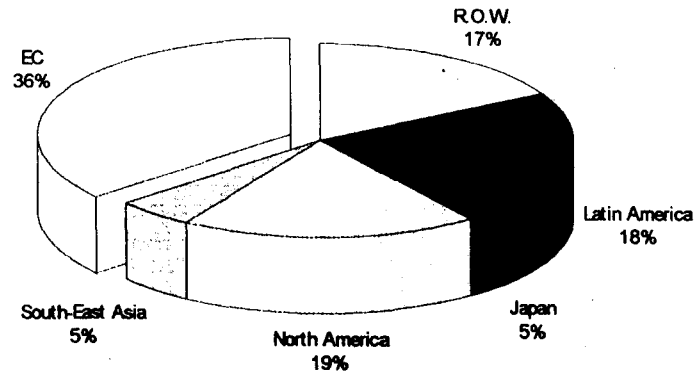
This scenario assumes the establishment of a free-trade area with Mercosur. The key results are:

- an increase in the Community's market share;
- growth of 11.5% in trade with Europe, compared with 7% for other regions;
- faster growth in European exports than in the first scenario.

In terms of product substitution, the scenarios show the considerable risks of high-value-added European exports gradually being marginalized.

Conversely, an agreement with Mercosur will potentially involve the Community transferring its custom for certain types of imports from other partners. The liberalization of trade would in fact create new opportunities, particularly in the aerospace, electronics, computer, electrical goods and automobile markets.

FREE TRADE WITH EC - MARKET SHARE (Exports+ Imports)



Source: scenario based on Chelem-CEPII data

Main conclusions

The Community currently enjoys a special position in Mercosur in terms of investment and trade. This state of affairs is also reflected in the existence of a shared technological and economic culture potentially favourable to outward expansion.

European economic operators warmly welcome the modernization and liberalization process launched by Mercosur and are playing an active part in it.

At the time of writing, Mercosur is already a significant consumer market and shows considerable potential for growth in this area and in the field of intermediate products.

Mercosur seems to be a new growth centre of worldwide importance and one of strategic importance to Europe.

The simulation exercises illustrate the adverse consequences of "going with the flow" for trade with Mercosur, since current trends, coupled with any extension of NAFTA, would lead, economically, to a loss of potential business and a continuation of the payments deficit.

(b) An inadequate cooperation instrument

As has already been pointed out, the present interinstitutional cooperation Agreement enabled Mercosur to be helped in its infancy, providing it with European experience in the area of integration.

Notwithstanding the achievements it has made possible, this Agreement is now too limited in scope, covering only administrative cooperation between the Commission and Mercosur. It would certainly not be a suitable framework for the development of cooperation in other fields, nor would it be able to adapt to the needs of European operators.

In view of the advantages and opportunities and of the shortcomings of existing cooperation instruments, relations between the Community and Mercosur have to be strengthened.

Moreover, as agreements and contacts with the Community's various partners multiply, agreements must be made more effective and the structural framework for relations and ministerial contacts improved.

The development of a regional framework for relations with Mercosur's member countries, replacing the present fragmented framework in the medium term, would help rationalize the Union's external relations system and improve its efficiency. This regional framework could become a blueprint for rationalizing relations with other groups of partners of a comparable nature.

The Commission is therefore proposing a dynamic two-stage strategy, the pace of which will be geared to Mercosur's development.

The ultimate goal is an EC-Mercosur interregional association founded on a balanced political, economic and trading partnership conducted in a spirit of solidarity, notably through the gradual establishment of a free-trade area for industrial products and services together with reciprocal and gradual liberalization of trade in agricultural products, taking account of the sensitivity of some products. Cooperation, including in the political sphere, could be deepened at the same time.

In the short term, there is a need to identify the best approach: one which, taking account of the progress of the integration process, lays down from the start the political and economic ground rules for enhanced cooperation culminating in interregional association.

The first step is to render existing cooperation instruments more operational and efficient, the object being to reduce to a minimum the gap between the present and the future by making the most of the Community's economic and industrial cooperation strategy.

(c) Interregional association

Objectives

- to foster interregional flows to the advantage of both partners and within the bounds of the Uruguay Round Final Act
- to promote strategic investment by firms
- to strengthen political cooperation at international level, in particular by seeking to reach joint positions in international forums on issues of mutual interest, including world peace and security
- to improve the efficiency of the Union's external activities by establishing a new framework for relations with partners of a similar nature.

Though it is too early to state in detail the components of such an association, the main lines would be:

- the gradual establishment of a free-trade area for industrial products and services, reciprocal and gradual liberalization of agricultural trade, taking account of the sensitivity of certain products,
- cooperation and dialogue on trade issues
- the liberalization of trade in services and capital
- joint financing instruments for regional projects
- cooperation on environmental issues and transport
- cooperation on research, science and technology
- cooperation on information, communications and culture
- interinstitutional cooperation
- political cooperation and coordination in international forums
- industrial cooperation
- cooperation regarding the information society, information technologies and telecommunications

The timetable for the implementation of the various components of interregional association would have to be agreed with Mercosur.

(d) Options

An intermediate stage, preceding interregional association, is warranted by Mercosur's newness and the fact that its structures are still incomplete. No such association would be possible until Mercosur has a full customs union and working institutions.

The response to the urgency and constraints may lie in a flexible and gradual short-term operation.

The following three options have been examined to this end:

- the conclusion of a trade cooperation agreement,

- the immediate establishment, without an intermediate stage, of an interregional association.

The ultimate objective of all three options is the establishment of an interregional association between the Community and Mercosur as soon as Mercosur has consolidated its position as a regional process and comprehensive partnership is possible. The options differ in their instruments and timetables.

Option No 1: A trade cooperation agreement

This option would give priority to the trade cooperation aspect.

While continuing the work begun under the existing interinstitutional cooperation Agreement, priority would be given to measures that will help strengthen Mercosur's structural capacity to manage effectively the trade-related aspects of its integration and the trade element of its cooperation with the Community in preparation for the liberalization of trade.

This option reflects the need to deepen trade links, with the political and structural side of relations taking second place.

Option No 2: A interregional framework agreement on trade and economic cooperation

This option would give relations in the short term a balanced approach simultaneously combining trade, substantial aid and greater consultation, including in the political sphere.

It therefore involves:

- preparations for the liberalization of trade between the Community and Mercosur,
- the extension of cooperation to all areas covered by Mercosur's integration process,
- reinforced political cooperation.

Compared with the previous option, this one offers the advantage of being a more active response to Mercosur, demonstrating the Community's express desire to contribute to Mercosur's consolidation process. This approach is genuinely political, and not simply economic.

Option No 3: An interregional association agreement

Set against the other options, this one preempts Mercosur's consolidation by proposing the immediate negotiation of an interregional association between the Community and Mercosur.

This agreement would include the provisions needed to bring about, according to a fixed timetable, a free-trade area of the type outlined above.

Cooperation under such an agreement would cover the same areas as the preceding option, but would be reinforced by the introduction of joint financial instruments through the raising of substantial funds by both parties.

Compared with the other options, this would be a proactive approach on the part of the Community aimed at accelerating the regional integration process by acting upstream even of initiatives by Mercosur and its members.

V. PROPOSAL AND PRACTICAL CONCLUSIONS

(a) Proposed option: the conclusion of an interregional framework agreement on trade and economic cooperation

The Commission believes that only the conclusion of an agreement of this type would be able to take account of the comparative advantage currently enjoyed by the European Community in the region and pave the way, in step notably with Mercosur's progress towards integration, for interregional association.

This agreement would, in particular, cover the following aspects:³

1. In terms of the liberalization of trade, its purpose would be to pave the way for the liberalization of trade along the lines set out in the above-mentioned interregional association agreement. In its proposals, the Commission will take care to reconcile the dictates of the CAP with the Community's international commitments, including those relating to the WTO.

2. In order to support integration, the Community would commit itself to substantial cooperation in three main areas:

2.1 Firstly, cooperation would have to focus on areas that would help Mercosur manage its own internal trade integration process as well as its foreign trade.

A special effort would have to be made in such fields as: trade policy instruments (anti-dumping rules, safeguard measures etc.), harmonization of nomenclatures, rules for the administration of foreign trade, information system, origin controls, agreements on cumulative origin rules and agreements on quality recognition.

The Community and Mercosur will also have to step up efforts to establish cooperation between the relevant authorities on competition; this cooperation must enhance understanding of restrictive practices affecting trade between the two areas, with, in particular, a view to avoiding friction in their trade.

2.2 Secondly, Mercosur would have to be given integration support in areas other than trade. This broader cooperation would include support for regional administrative and decision-making authorities, increased technical assistance for the establishment of an internal market (harmonization of industrial, monetary and budget policies, harmonization of competition rules, investment protection, protection of intellectual property,

³ The negotiating directives for the future agreement would obviously have to be specially geared to the bilateral "third generation" agreements currently in force.

macroeconomic coordination, regional balance, planning laws, environmental protection and cooperation regarding the information society) and Mercosur's participation in, for example, European R&D, information systems and telecommunications projects.

The resources devoted to European technical assistance to Mercosur as a regional integration process are currently modest. Enhanced cooperation in the above areas will, however, inevitably require increased funding from the Community and a practical commitment from the Community institutions, especially the Commission. It is inherent in cooperation of this type that technical assistance cannot always be contracted out. The Commission's departments possess the know-how needed for this type of technical assistance and provision should therefore be made for this agreement in Part A of the Community budget.⁴

2.3 The third area would consist of the establishment of several major regional projects (concerning, for example, transport, energy, the environment, telecommunications, information systems, town planning or other sectors of industry) which would be launched jointly, with technical, industrial and financial support from the Community (via the EIB, for instance).⁵

Such initiatives will help legitimize Mercosur and demonstrate to members of both groups the institutions' determination to obtain practical strategic results over and above trade in the traditional sense.

3. Broader consultation

In addition to the political dialogue already conducted offstage at the Union's meetings with the Rio Group, the dialogue between the Union and Mercosur should be stepped up. This could be done by making it more specific and deeper, both in terms of frequency and the choice of specific topics. This dialogue, conducted at ministerial level by the Mercosur countries and the various institutions of the Union, among them the Commission, could also take place at ad-hoc meetings.

In addition to subjects of common interest, the agenda could also include such issues as industrial cooperation, energy, the nuclear industry, security, environmental issues or drugs.

⁴ The financial impact on Part A of the Community budget will be dealt with when the time comes to prepare the negotiating directives. It consists of mission expenses for staff from Community institutions sent to develop certain aspects of the technical assistance provided for. Provisional estimates suggest that this would amount to about ECU 200 000 per annum.

The financial impact on Part B of the Community budget will be studied when new guidelines are prepared for cooperation with the Asian and Latin American developing countries.

⁵ Regional projects, such as Hidrovía, would serve as a good example of the opportunities that would open up for European investors.

(b) Practical conclusions

In the light of the above and in accordance with the conclusions of the Corfu European Council, the Commission calls on the Essen European Council to approve the proposed strategy, which is aimed, in the long term, at establishing an interregional association between the Community and Mercosur and, in the short term, at concluding an interregional framework agreement between the European Community and Mercosur on trade and economic cooperation.

To that end, the Commission will, in the first half of next year, be presenting to the Council draft negotiating directives for this new agreement.

The progress made in implementing this new long-term strategy will be regularly reviewed by the Council at its meetings on general affairs.