

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(86) 720 final

Brussels, 2 December 1986

THE EUROPEAN COMMUNITY AND LATIN AMERICA

(Communication from the Commission to the Council)

COM(86) 720 final

Com 710 p.

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THE EUROPEAN COMMUNITY AND LATIN AMERICA

I. INTRODUCTION

In proposing that the Council discuss the strengthening of links between Latin America¹ and the Community, the Commission is seeking to consolidate and intensify the recent rapprochement between the two regions, which follows a long period of relatively cool relations. This communication, which is thus in line with the objectives set out in the Declaration annexed to the Treaty of Accession of Spain and Portugal, is in answer to the invitation of the European Council meeting in the Hague on 27 June.

In spite of the close historical and cultural ties between Western Europe (the Mediterranean in particular) and Latin America, the two regions drifted apart following a break in relations during the Second World War.

This was partly a result of internal developments in the Latin American countries: the way they gradually fell behind first the industrialized countries and then, more recently, developing countries in Asia, their growing dependence on North America and the fate of democracy under the military regimes which at one time seized power in several states all served to widen the gap between Latin America and Europe.

For its part, the Community applied itself fully to the work of post-war reconstruction and subsequently to internal unification, and was unable to prevent the gap from widening or to enable Latin America to benefit from its own development effort or from its new position as the world's leading trading power.

However, the gradual assertion of the European identity on the international scene, in particular with regard to Central America, the return to democracy in both Latin America and southern Europe, and the enlargement of the Community to include Spain and Portugal have recently given rise to a renewal of mutual interest and a new political awareness. We are beginning once again to realize that Europe and Latin America have certain values and interests in common and that these justify a substantial strengthening of links between the two worlds. We have the same conception

¹ Latin America is here taken to mean all independent non-ACP countries on the mainland south of the United States plus Haiti and the Dominican Republic (see list in Annex 1).

of society and of human rights, similar visions of the political and economic world order and, in particular, the same interest in promoting the emergence of strong regional entities which make a fundamental contribution to the independence of each member country, political stability and economic progress. Both regions accept the need to alter economic strategies and both profess the same interest in creating an international environment which generates non-inflationary growth, without which Latin America's problems arising from indebtedness and Europe's problems resulting from structural unemployment cannot be solved.

The marked fragility of many Latin American democracies on account of the need to implement rigorous economic adjustment policies in a context of slow world economic growth should be seen as a challenge to the European Community in particular to intensify and organize its cooperation with Latin America.

To what extent and in what ways can a substantial strengthening of this cooperation - which requires long-term effort and action - be accomplished? This communication will try to answer that question by analysing the current economic situation of Latin America and the current state of relations between the two regions. Particular reference will of course be made to Community activities, but these should be seen in the context of overall relations between our Member States, Western Europe and the Latin American countries. This sort of exercise is political and must therefore be based on a correct understanding of each partner's capacities, constraints and limitations, for we must avoid arousing unrealistic hopes.

II. ANALYSIS

A. THE CURRENT ECONOMIC SITUATION OF LATIN AMERICA

Almost universal recession coexists with great potential for development.

The recession concerns:

growth: per capita income fell by 10% between 1981 and 1983, and the

subsequent rise was weak and accounted for entirely by Brazil's performance (up 3%) between 1984 and 1986;

investment: expressed as a percentage of GNP, gross fixed capital formation fell by five percentage points between 1978-81 (23-24%) and 1982-86 (17-18%);

terms of trade: these have deteriorated by 25% since 1981 (by 12.5% in 1986 alone) on account of recent oil price movements and the fall in the price of other commodities exported by the region since 1981 (3/4 of export earnings come from primary products);

debt: the debt of some US \$400 000 million (3/4 of which is owed to banks) represents more than three times the annual earnings from exports of goods and services; servicing the interest absorbs 30% of export earnings, against an average of 13-14% for all developing countries;

balance of payments: an average annual trade surplus of US\$ 30 000 million between 1983 and 1986 was needed to cover a net transfer of financial resources to the outside world of more than US\$ 20 000 million each year. The size of the debt, coupled with a massive flight of capital and a drastic reduction in bank lending, explains why the payment of debt interest (approx. US \$160 000 million between 1983 and 1986) has far exceeded the net flow of capital from outside (approx. US\$ 70 000 million over the same period).

The causes of this situation can be traced back to the international environment (recession in the industrialized countries between 1980 and 1983, extremely high real interest rates, etc.), to banks and exporters in the industrialized world (which have encouraged recourse to credit) and to internal policies: a less efficient allocation of resources (including a strong propensity to flight of capital) was the result of fairly widespread exchange rate overvaluation, a high level of protectionism, discouragement of internal saving and the excessive weight of the State and public corporations.

In spite of the current difficulties and despite the fact that the situation in Latin America has deteriorated over a longer period than in European or Asian countries, the region still has great capacity for growth on account of:

- (i) the size of the potential market (more than 350 million inhabitants for an overall GNP of more than US\$ 600 000 million) and brighter prospects for regional integration;

- (ii) the quite high level of economic and social infrastructure, education and entrepreneurial activity;
- (iii) flexibility of the economy, as demonstrated by the dynamism of the underground economy in the highly regulated countries and the considerable expansion in exports over the last few years (up 20% in volume terms between 1981 and 1984, when world trade grew by only 10%);
- (iv) the adjustments which certain countries have already made to their economic policies (adoption of more realistic exchange rates; privatization; large-scale monetary reforms in Brazil and Argentina, etc.).

Over the next ten years Latin America must - and can - face up to the challenges of structural adjustment and an acceleration of the industrialization process, based on greater openness to the outside world and increased economic competitiveness. The debt burden and prolonged adjustment efforts nevertheless represent a substantial risk for fragile democracies whose peoples have already made considerable sacrifices and must be offered the prospect of at least some improvement in their standard of living. It is all the more important that the people of these countries and their governments should be assured that the international community is still very much aware of their problems and is doing all it can to back up and further their efforts.

B. THE STATE OF EEC-LATIN AMERICA RELATIONS

We shall describe Community relations with Latin America and contrast them with US and Japanese relations with the region in terms of trade, major financial flows and industrial cooperation. Three preliminary remarks should be made:

- (i) The various forms of relations are interconnected. This is particularly clear in the case of tied aid and export credits which give rise to trade flows. However, direct investment also stimulates the country of origin's sales: it is striking to note that the United States, which holds 60% of investment stock in Latin America, accounts for between 50% and 60% of exports to the region. For Europe these two percentages fluctuate around the 20% mark.
- (ii) Figures are either unavailable (in the case of bank flows and portfolios, which will not be dealt with for this reason) or incomplete (in the case of investments).
- (iii) When considering the strictly economic aspects we should not forget the political and institutional aspects.

1. INSTITUTIONAL ASPECTS

Agreements have been concluded with two regions undergoing or hoping to undergo economic integration, viz. the Andean Pact and Central America,

and with Brazil, Mexico and Uruguay. These agreements, concluded with two groups of countries and with three individual countries, are non-preferential "framework cooperation agreements"; they do not have financial protocols. The financial resources allocated to cooperation activities with certain countries are entered in the Community budget under headings corresponding to specific forms of assistance. At institutional level relations with Central America differ from the others (for obvious reasons) by providing for regular political consultations, in which the four Contadora countries have been keen to join.

2. TRADE

(a) Trends

TABLE I

TRADE BETWEEN MAJOR COUNTRIES OR REGIONS AND LATIN AMERICA

(US\$ million)

	1970	1980	1985	85/70	85/80
Exports from:					
EEC (12)	3.9	19.1	11.8	+203%	-38%
USA	5.6	35.4	26.5	+373%	-25%
Japan	1.0	8.1	7.2	+620%	-11%
Imports from:					
EEC (12)	5.0	23.2	23.3	+366%	0%
USA	4.8	31.2	45.5	+848%	+46%
Japan	1.3	5.5	6.0	+362%	+9%
Balance of trade of:					
EEC (12)	-1.1	-4.1	-11.5		
USA	0.8	4.2	-19.0		
Japan	-0.3	2.6	1.2		

Source: Eurostat

The above Table shows that:

- (i) as a trading partner for Latin America, the Community ranks between Japan and the United States: 13% of the region's imports come from the Community (30% from the USA; 5% from Japan) and 17% of its exports are to the Community (38% to the USA; 5% to Japan);
- (ii) the Community regularly runs a trade deficit with Latin America; at present it is shouldering more than its "fair share" of the deficit of the "rest of the world", the necessary counterpart to the overall surplus which the region has to make in order to service its debt (contrast the continuing Japanese surplus);
- (iii) the absolute level of EEC (12) exports (US\$ 11 800 million in 1985) is low; Latin America is tending to become a marginal market (4% of extra-Community exports - and 10% of exports to developing countries - as against 7% in the 1970s); this is explained by a number of factors, including in particular the debt crisis, but is unfortunate for the Community economy, given the region's potential for growth;
- (iv) Community exports fell by 38% between 1980 and 1985, compared with 25% for the USA and 11% for Japan. Besides the fall in demand in the region, Europe faces the problem of competitiveness (especially when it is considered that the dollar's rise against the ECU during that period should have benefited European products at the expense of American products).

Latin American exports to Europe consist largely of food products (45%), petroleum products (23% compared with 4% in 1977) and other primary products, industrial products accounting for no more than 10.5% in 1985 (against 4.4% in 1975). One third of exports to the United States, on the other hand, are of industrial products, and the USA absorbs 75% of Latin America's sales of manufactured products to industrialized countries (the EEC absorbs 14% and Japan 3%).

(b) Generalized System of Preferences

Although exports from the Latin American countries do not enjoy preferential contractual arrangements such as apply to the ACP States and non-member countries in the Mediterranean region, they are covered by the Community GSP. Unlike the systems of other donor countries such as the USA, the Community system covers all industrial products. In the agricultural sector, although the number of products covered has increased over the years, some products are still not covered, on account of the workings of the CAP and the need to preserve the preferential treatment accorded to the ACP and Mediterranean countries; in this sector, owing to the range of products they export, the Asian countries are better placed for benefit from the GSP than the Latin American countries.

TABLE II
IMPORTS FROM LATIN AMERICA 1984/1983
AND COMPARISON WITH GSP TRADE

('000 ECU)

EEC imports 1984					EEC imports 1983							
(1) Total	(2) Exempt under CCT	3 = (1-2)	Covered	Bene- fited	total	GSP		Imports benefiting from the GSP by sector				
			(4)	(5)		Covered	Bene- fited	Agricul- ture	Textiles	Indus- try	of which oil industry	
24 071 910	13 004 716	11 067 200	5 236 029	3 038 507	20 592 647	4 798 582	2 342 786	655 180	55 088	1 632 518	685 085	

Table II(a) (in Annex 2) reveals the following trends:

- (i) Brazil still benefits most from the system; this is explained by Brazil's degree of industrialization, its very extensive range of agricultural products and the effectiveness of its efforts to promote exports; this situation has every chance of continuing, and neither preference limits nor selective exclusions seem likely to hamper the move towards increasing use of the system by Brazil;
- (ii) countries such as Argentina and Mexico and possibly also Venezuela, Colombia and Chile are potentially significant users, since they have started to industrialize but have not yet really benefited from the GSP (Venezuela's results are not directly comparable with the others since 95% of Community imports from Venezuela under the GSP concern petroleum products);
- (iii) the other countries produce primary products - which are generally exempt from customs duties under the most favoured nation clause - or agricultural products which are excluded from the GSP either because they pose problems for the common agricultural policy or because they are the subject of preferential arrangements under Lomé or the Mediterranean agreements.

Between 1983 and 1984 Latin America's exports to the Community under the GSP increased from 2 342 million ECU to 3 050 million ECU (an increase of 707 million ECU). However, this result is entirely due to the performance of Brazil (up 320 million ECU) and Venezuela (up 455 million ECU, almost exclusively petroleum products). The other countries recorded an overall fall of 68 million ECU; Colombia was particularly badly hit, but Chile, Argentina and Peru were also affected.

TABLE III

OFFICIAL DEVELOPMENT ASSISTANCE TO CERTAIN COUNTRIES AND REGIONS

(Net payments - 82-84 average, in US\$ million)

	TOTAL DAC	EEC + Member States	EEC	Member States	USA	JAPAN
India	1 605,3	446.2	87.8	358.4	45.7	64
ASEAN	1 829,5	383.7	17.9	375.7	204,3	748.1
ACP	7 664,4	3 576.1	643.2	2 932.9	879	294.6
Latin America	2 164.6	554.7	36.4	518.2	703	18.9
TOTAL (bilateral)	20100	9280	1215	8064	5627	2406,0
Central America	891.6	101	19.8	83.2	483.3	18.9

TABLE IV

COMMUNITY AID TO LATIN AMERICA

(commitments, in million ECU)

	1979	1981	1984	of which Central America	1985	of which Central America
Financial and technical assistance	23.10	20.61	57.15	20	77.09	48
Food aid	21.13	37.21	49.92	17.4	41.19	21.2
Aid via NGOs	2.99	3.13	6.08	1.75	12.52	6.3
Total aid (including other forms of aid)	49.85	66.14	112,6		147,2 ¹	

¹ Unlike the figures for the other years, the 1985 total also includes energy cooperation and aid for scientific research, 2.17 and 1.27 million ECU respectively.

3. OFFICIAL DEVELOPMENT ASSISTANCE

Table III² shows that:

- (i) the Community and its Member States are Latin America's second largest source of aid and South America's largest (the USA concentrates its aid on Central America);
- (ii) Latin America received more aid than India, although India has a bigger population.

Community aid proper to Latin America is restricted to countries with low per capita incomes, and covers 114 million of Latin America's total population of 388 million. It has almost trebled since 1979 (see Table IV), with commitments increasing from about 50 million ECU in 1979 to nearly 150 million ECU in 1985, which in real terms represents an increase of about two thirds. The most important headings were financial and technical assistance, food aid and financial aid via NGOs. The Community also provided aid for trade promotion, training, regional integration and displaced persons and emergency aid. To these should be added cooperation on energy matters and scientific research, and industrial cooperation.

It is true that Asia benefits more from the Community budgetary resources allocated to financial and technical assistance. However, this is because of differences in objective criteria (population and per capita GDP). Latin America's share of Community official development assistance therefore seems equitable.

4. EXPORT CREDITS

The figures for total debt outstanding at 31 December 1985 show that the Member States use this export financing and promotion instrument much more than the USA or Japan: they hold US \$25 300 million in claims of this kind against Latin America, compared with US \$5 200 million held by the USA and US \$3 600 million held by Japan.

Latin America received nearly US \$6 000 million in export credits in 1980, but these dried up completely in 1985.

²Annex 3 gives additional data on aid.

The most recent figures available (from OECD) cover the second half of 1985 and show that during that period the Member States granted net credits of US \$250 million (US \$1 500 million in new credits minus US \$1 250 million in repayments) and the United States granted US \$70 million (US \$1 110 million minus US \$1 040 million). Japan, on the other hand, granted only some US \$110 million in loans and received nearly US \$500 million in repayments.

5. DIRECT INVESTMENT

The stock of direct foreign investment in Latin America is estimated (at end 1983) at US \$90 to 100 000 million, including 20% held by the Community (Germany: 7%, United Kingdom: 5-6%, France: 3%). For its part Japan holds some US \$15 000 million and the USA US \$54 000 million. About one half of direct Community investment in developing countries is in Latin America.

During the last two years (1984 and 1985) the Member States have invested US \$1 200 million in South America, Japan has invested US \$250 million there and the USA has disinvested (down US \$170 million). The figures for investment in Central America are US \$1 600 million for the Community, US \$2 200 million for Japan³ and US \$1 200 million for the USA.

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Latin America, a continent with problems but also with great potential, is faced with the major challenges of industrialization and increasing competitiveness. Europe is not unrepresented in the region, to which it is linked by significant trade and financial flows. It can contribute to the success of the structural adjustment process under way in Latin America by seeking to intensify and improve economic relations between the two regions and by helping to bring about a better international economic environment.

³ Almost all in Panama (banks).

III. COURSES OF ACTION

A. GENERAL PROBLEM

In seeking to strengthen its links with Latin America, the Community must first of all take into account the complexity of the continent: there is, on the one hand, the heterogeneity of economic circumstances (differences in levels of development, demographic pressure, size of the national market, availability of natural and human resources, debt-linked constraints) and, on the other, the existence of a desire for integration as evidenced by the effective attempts to form regional groups, as in the case of Central America, the Andean Pact and, more recently, the agreement between Brazil, Argentina and Uruguay.

Secondly, the Community must come up with a response geared to the considerable adjustments which Latin America will have to make in view of the structural changes required: economies dominated by the production and export of raw materials must give way to economies with diversified production and outlets.

The Community cannot act alone as its resources are too limited. The Member States do a lot, but, considered separately, their own individual resources amount to only a fraction of the contribution from the United States or Japan, and, as they themselves admit, are sorely inadequate given the stakes involved and the work to be done. The stepping up of Community action and concentration of national resources must therefore go hand in hand to ensure that Europe's response measures up to the Latin American challenge.

What we are concerned with here is mainly the Community's own action: it is for governments to say to what extent they wish to associate their national efforts with it.

- (i) In the case of the "relatively less developed countries", to use the Latin American countries' own term, the Community must concentrate on stepping up official development assistance and on improving the trade preferences earmarked for the poorest countries or accorded through the GSP.
- (ii) In the case of areas in the process of integration the Community can give them the benefit of its unique expertise in this sphere, and also open

its market to products manufactured, in stages, in a number of countries in the region (rules on cumulative origin).

(iii) In the case of countries which have the potential to develop mainly through market forces, because they already have a large domestic market, or a dynamic entrepreneurial class, or are technologically advanced, cooperation between businessmen in the Community and in those countries - or groups of countries - should be encouraged by concerted action on the part of the member States and the Community.

The Community's responsibilities vis-à-vis Latin America are by no means confined to direct cooperation, since its bilateral contribution is restricted by budgetary constraints, the multilateral nature of the common commercial policy and the time required to adapt the common agricultural policy to the new economic and technological circumstances.

The Community's role in the world, however, means that it has a major responsibility to improve the international environment. Such improvement is crucial to the success of the efforts that must be made to bring about adjustments and re-establish growth in Latin America, particularly in the indebted countries.

In this respect the Community is playing its role to the full in the sphere of trade: at Punta del Este it played a successful part in having guidelines adopted which suited industrialized and developing countries alike, particularly the Latin American developing countries.

It has not yet, however, found the way to bring its considerable economic weight fully to bear in the coordination of macro-economic policies, particularly monetary policies, between the industrialized countries. It is only very indirectly that it helps to step up the flows of public funds to the indebted countries of Latin America which are suffering from a net transfer of resources to other countries.

The Community must therefore examine how, in monetary and financial terms, it can make a contribution which measures up to its economic importance, in order to boost the industrialized countries' growth and enable the Latin American countries to receive sufficient financing.

B. PROPOSALS

The proposals concerning the following subjects will be dealt with in order: direct cooperation, political consultation, international cooperation and multilateral arrangements.

1. DIRECT COOPERATION BETWEEN THE COMMUNITY AND LATIN AMERICA

It is necessary, as part of the multiannual programming of available resources,

- (a) to continue and step up aid to the relatively less developed countries, mainly for rural development and drug control;
- (b) to back up regional integration;
- (c) to intensify trade cooperation;
- (d) to encourage cooperation between businessmen on the two sides, the time having come for such action; and lastly
- (e) to step up cooperation on information, communication and culture;
- (f) to examine the problem of export credits.

(a) Official development assistance

Financial and technical assistance and food aid must be continued and improved in the case of countries where the economic situation so warrants. This applies above all to Central America, the island of Hispaniola and three Andean countries (Bolivia, Ecuador and Peru). Operations under the heading of financial and technical assistance must be focused, as in the past, on rural development, in order to give priority to the poorest sections of the population and help, in many instances via food strategies, to tailor agricultural production to the population's needs. The counterpart funds from food aid must continue to be used to finance development projects, in particular those aimed at ensuring food security.

In order to be more effective, Community aid must be coordinated as far as possible with other financing sources (mainly the Member States, but also other donors, multilateral or regional financial institutions and governments of the subcontinent). Coordination will in many cases pave the way for cofinancing.

In line with its general policy towards the Third World, the Community will seek to expand the number of operations undertaken by non-governmental

organizations. The latter are particularly suited to in-depth work in the impoverished regions of the least-developed countries and in some cases of the more developed countries. The flexibility, diversity and human face of this form of aid make it particularly worthwhile. Greater coordination with the other donors should be sought in this sphere, too.

Lastly, a programme of cooperation with certain Latin American countries concerning the drug problem should be worked out and undertaken, in particular with the Andean Group. It could comprise the following:

- (i) research and studies as a preliminary to development cooperation schemes;
- (ii) development microprojects (via NGOs) to help prevent the production of drugs;
- (iii) seminars and meetings of experts on the various aspects of drug control.

(b) Regional integration

Here too, avenues already marked out must be followed; others must be opened up. The desire for regional integration which has been widely affirmed has been, and is still, thwarted by political and economic difficulties. Only two integration areas (Andean Pact and the Central American Common Market - CACM) have been defined. The inspiration nevertheless remains and an agreement was recently announced between Brazil and Argentina, with the probable participation of Uruguay.

The Community tends, by its very nature, to support integration movements. With the Andean Pact and the Central American countries it has concluded economic cooperation agreements which provide an institutional framework for region-to-region cooperation and make the following possible:

(i) Aid to integration at institutional level

The Community has unique experience in carrying out common policies and setting up regional bodies or institutions (e.g. the establishment of the Central American Parliament).

(ii) Aid for regional projects and programmes

Such aid must be intensified within the framework of the two existing regional agreements; it extends the scope of Community action beyond rural development and permits the financing of projects which are enhanced by a regional dimension.

(iii) Other action encouraging regional integration

Standardization is a process which helps the creation of large-scale markets if it is undertaken jointly by neighbouring countries. Industrial standards therefore become a major factor affecting the direction taken by trade and investment flows in both parties' mutual interest. The adoption of Community standards is a keystone in the construction of the big Community internal market for 1992. The Community can therefore make a useful contribution to the integration efforts made in this sphere.

The Commission has already given the Andean Pact financial and technical assistance with the development of a harmonized system of standards at regional level. Such assistance could profitably be extended to other Latin American countries in the sphere of industrial standards and quality control.

The telecommunications sector is a strategic one given its own development potential and its impact on the economy as a whole and on advanced technology in particular. It is a sector which is the setting for major technological developments. Owing to the volume of resources that need to be mobilized, the development of telecommunications requires medium- and long-term planning and action in a continental context. Within the Community, therefore, a Community-level approach has been adopted for strategic planning, standardization and research and development.

Latin America is faced with the same imperatives but its resources are fewer and its needs vast. The Community and Latin America need to pool their efforts in order to respond to these challenges and cooperate, region to region, in particular in the sphere of satellites and low cost systems, at public authority level and between firms which either produce or use telecommunications equipment.

The Commission considers that cumulative origin rules should be devised for Latin America's regional groups. This would mean that where manufactured products exported from a country belonging to a group contained components originating in another country in the same group, those manufactured products would, on importation into the Community market, and under certain conditions, be considered as originating in the exporting country.

Rules of this kind are already used for the application of the Community GSP to the Andean Pact and the Central American Common Market countries.

(c) Trade cooperation

The expansion of Latin America's exports is a vital element in the handling of the debt problem. The cooperation offered by the Community for promoting these exports is therefore essential. As things stand, however, given the structure of Latin American exports and the situation within the Community, it is difficult to envisage any substantial improvements in the trade arrangements applicable to these exports. The action to be taken must therefore combine a search for possible improvements with systematic encouragement of diversification of the products and services exported.

The arrangements governing imports of industrial products can further such diversification. The generalized system of preferences already allows manufactures free access to the Community market. Certain restrictions do nevertheless remain and the countries of Latin America come nowhere near making full use of the benefits they could derive from the system.

The Community must seek ways of making application of the system progressively more flexible and less restrictive, in particular for countries which have so far made little use of it. The 1986 proposals, for instance provide for the opening of a preference for exports of raw coffee and cut flowers from Latin America.

On the industrial side certain more developed countries (Brazil, Mexico, Argentina) are having difficulty in expanding their exports of textiles and steel products. Bilateral agreements have been concluded, under the MFA or under arrangements for imports of steel (Brazil only) and these have enabled existing export flows to be maintained or even expanded. As the situation in the two sectors improves, the Community must once again apply more open

import arrangements: major steps have been taken in this direction for textiles;⁴ the situation in the Community's steel sector is such, however, that it is obliged to maintain provisionally the external aspect of its steel policy.

(d) Industrial cooperation between firms and between public bodies⁵

The Commission has recommended that more emphasis be placed than in the past on an approach aimed at strengthening the links between businessmen in the Community and businessmen in the partner countries. This obviously applies to the Latin American countries, where a large-scale scheme was recently conducted in the sphere of industrial cooperation involving an ECSC loan of US \$ 600 million for the Carajás project in Brazil (working of iron ore mines and related transport infrastructure). It is the approach already adopted by the United States and Japan and, at multilateral level, by the International Finance Corporation, an offshoot of the World Bank, and by other organizations. It is also the approach advocated by regional institutions like SELA or ECLAC⁶ and by the governments of the Latin American countries.

The cooperation agreements between the Community and other countries or groups of countries provide an appropriate context for new forms of industrial cooperation. Community action will be combined with that of the Member States (bilateral agreements on investment protection, of which there are still only a few - a dozen or so, concluded by three Member States at the end of 1982 - investment guarantees, etc.).

There are, it is true, factors which at present discourage investment in Latin America, such as the problem of adequate compensation. Under our

⁴The bilateral agreements recently initialled between the Community and Latin American exporting countries for a period of five years (1987-91) provide for a very distinct improvement on the existing arrangements. Quantitative restrictions are applied to only three countries now, and they have been greatly reduced in number (from 14 to 9 for Brazil, from 4 to 2 for Peru, and 3 for Argentina). In the negotiation of these limits, the basic levels, growth rates and flexibility percentages were considerably increased.

⁵See in this connection the Commission Communication to the Council on "Industrial cooperation with certain developing countries in Latin America, Asia, the Gulf and the Mediterranean" (COM(86)603).

⁶SELA: Latin American Economic System
ECLAC: Economic Commission for Latin America and the Caribbean

cooperation agreements with the Latin American countries, it would be advisable to examine the problems connected with the protection of intellectual property and the opening-up of certain sectors to foreign investment.

Nevertheless the region has major potential in the medium term. Profitable footholds can be found even where the economy is at a standstill. If investors in the Community neglect these markets they will not be able, when the time comes, to benefit from the region's economic recovery. The Commission therefore recommends that efforts to encourage businessmen in the Community and Latin America to set up joint ventures should be a major item in our cooperation. It must cover all those aspects of economic activity which are of common interest, ranging from research to marketing and including feasibility studies and production, and also all the relevant sectors, from industry to services.

Priority should be given in this respect to ensuring that firms particularly small and medium-sized businesses, in the Community and Latin America are kept fully informed of the opportunities on the two sides. The United States and Japan provide their firms with a very efficient service, through the Overseas Private Investment Corporation (OPIC) in the case of the US and the MITI and Export Import Bank in the case of Japan.

On the Community side, a traditional feature of relations with firms in Latin America is the fragmentary, haphazard nature of the action taken by governments, chambers of commerce and other organizations. The results obtained have therefore been very uneven. The existing arrangements should therefore be better structured and coordinated, and:

- (i) in each Latin American country, cooperation between chambers of commerce and relevant bodies of the Member States should be encouraged;
- (ii) technical assistance should be provided to establish or improve data banks in the Community and Latin America in order to identify partners on both sides for all kinds of joint ventures;
- (iii) in the main Latin American business centres, joint investment committees made up of local and Community businessmen and officials should be set up in order to monitor problems encountered by investors;

- (iv) consultants could be called in to recommend ways of promoting joint ventures;
- (v) plenty of training courses, study trips, and exchanges of young executives should be arranged in order to help train the largest possible number of young people in preparation for such joint ventures, mainly through in-service training.

Development of human resources; scientific and technical cooperation

Cooperation in these spheres makes it possible to disseminate European scientific and technical know-how and paves the way for industrial cooperation. The Community must therefore step up its efforts to publicize Europe's scientific and technological achievements, which in many cases are little known. The United States devotes considerable efforts to such matters with the avowed aim of underpinning its foreign policy and familiarizing the peoples concerned with the American way of life. While the amount of US aid channelled into the education sector has tripled since 1980, there has been an increase for Central America and a decrease for South America, a clear reflection of the political priorities. Japan is equally selective, concentrating its training and scientific and technical cooperation on countries with which it has close trade and financial relations (Brazil, Mexico, Peru, Venezuela).

Fresh initiatives by the Community in the sphere of training and scientific and technical cooperation would be welcomed in Latin America. The Community's scientific and technical cooperation activities are at present conducted under the "Science and Technology for Development" programme (agriculture, health, medicine, nutrition). A budget heading would make it possible to support, under agreements with non-member countries, cooperation schemes in the main scientific disciplines. These schemes must be continued and intensified, and joint research in spheres of mutual interest, such as crop and livestock production, medicine, the environment, and natural resources, should be encouraged. The implementation of a biotechnology research programme, for instance, is a possible example of cooperation which could help the Latin American countries to reap the benefits of their natural resources and so reduce their external dependence. A number of other disciplines such as chemistry, pharmacology and computer science could also be major fields for cooperation. The training - preferably on the spot - of Latin American experts must be integrated into scientific and technical cooperation.

Energy cooperation

Energy is a vital sector in the community and Latin America alike. Cooperation in this sphere is therefore of mutual interest.

This cooperation has been developed with the Community at regional and bilateral levels (OLADE and Andean Pact in the first case, and Argentina, Ecuador, Mexico and Brazil in the second). It comprises various activities: strengthening of energy planning strategies, cooperation with energy institutes, seminars, conferences and training of managerial-level staff.

The development of this cooperation will enable the benefit of Community experience in energy efficiency and new and renewable energy sources (research and demonstration) to be passed on.

Such cooperation is also an essential factor in the strengthening of these countries' regional integration.

(e) Cooperation on information, communication and culture

The accession to the Community of Spain and Portugal has given a new dimension to relations between the Community and Latin America in the sphere of information, communication and culture; what has already been done in the past must therefore be built on and extended. The Cooperation Agreement between the Community and the Andean Pact countries (Cartagena Agreement of 1983) already refers in its preamble to the common will of the contracting parties to support, among other objectives, cultural development.

The Commission intends to give substance to this agreement, and extend its scope to other Latin American countries.

(f) Export credits

The flow of export credits to Latin America has almost dried up (see above). It is nevertheless necessary to ensure, through coordination at Community level, that such facilities contribute to Latin America's economic recovery. Firms in the Community countries stand to benefit, as would the recipient countries. It would be advisable to encourage cofinancing between national export credit agencies and the World Bank and this would provide some guarantee that these credits are used properly.

2. POLITICAL CONSULTATION

The return to democracy in Latin America, the advanced stage of political and economic development already reached by certain countries or groups of countries, and the affirmation of shared values between Europe and Latin America provide grounds for giving our relations a new dimension, with provision for political consultation on the major problems at world and regional level.

It has already been agreed that an institutionalized political dialogue should be established between the Member States of the Community on the one hand and the Central American countries, with the full association of the Contadora Group, on the other. This type of relations between two regions has no precedent; it testifies to the mutual political interests of Europe and Latin America. Further, equally worthwhile opportunities will arise in the future with major Latin American countries or groups of countries. They must be grasped at the right time.

The structure of these consultations will have to be determined in each individual case: high-level meetings at regular intervals or ad hoc meetings on specific issues. The meetings will usually be held on an informal basis. The Community-ASEAN ministerial conferences set an interesting precedent in this respect.

3. INTERNATIONAL COOPERATION

The Community and its Member States have a direct interest in the improvement of the international economic environment; the Latin American countries' economic recovery is therefore of direct concern to them.

(a) The international economic environment

The growth rate of the world economy will not become more sustained and less fickle than in the past unless governments take more account of the international implications of their economic policies.

In the annual economic reports for 1985 and 1986, the Commission has presented proposals for a cooperative growth strategy. The aim of this strategy is to bring about a lasting improvement in the Community's economic growth rate, thus contributing to the adjustment process at world level.

A lasting increase in the growth rate of world economic activity would have a favourable effect on international trade. An upturn in world growth would in itself be insufficient, however, to avert the risk of renewed protectionism unless the big balance of payments disequilibria are reduced. That is why the consolidation of the multilateral trading system is now a major objective. The Punta del Este agreement would not have been possible without the moderating role of the Community and certain Latin American countries, for example as regards services. This is therefore a matter which can be the subject of consultations between the two regions.

At Punta del Este it was agreed that "there is an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions including those linked to structural surpluses ...". The Community is embarking on the process of reforming the common agricultural policy, and this will result in very painful adjustments for the rural communities but will ultimately be of benefit to Europe and Latin America. On the sidelines of the new round, the Community should continue to hold thoroughgoing discussions on agricultural problems with its industrialized partners (primarily the United States) and its Latin American partners.

Consolidating the multilateral trading system requires the operation of the international monetary system to be improved at the same time. The great variability of exchange rates has been aggravated by excessive medium-term fluctuations, with the result that these rates have become permanently distanced from fundamental economic circumstances.

Substantial progress has been obtained through international consultations since the Group of 5 agreement in September 1985. The return to a more realistic structure for exchange rates was accompanied by a drop in interest rates. There is now a more distinct prospect of a reduction in the major imbalances in international payments, even though it is taking longer than expected. This is because the readjustment of exchange rates has not yet been accompanied by sufficiently decisive measures to adjust domestic demand and reduce budget deficits in the main countries concerned.

The proposals at present under discussion for the improvement of multilateral surveillance, in particular the introduction of a system of economic indicators, are aiming in the direction of greater compatibility between the major industrialized countries' economic policies, and consequently more sustained and regular world growth.

A solid and flexible international financial system is essential to a dynamic world economy and a multilateral free trading system. The progressive solving of debt problems continues to be a priority. All the participants have a role to play in the difficult and of necessity long-term task of restructuring debt-burdened economies. The extent of the difficulties encountered by the debtor countries - and there are major debtor countries in the other continents - and the scale of the efforts made must be analysed to determine the implications for settlement of the debt problems.

The whole gamut of economic problems should therefore be examined regularly by the Community and Latin America at informal meetings held on a consultation basis; the Commission tried this with the Cartagena Group and it proved to be of interest to our Latin American partners. The exercise will, however, have no real impact unless it involved the Member States themselves along with the Community and the relevant Latin American groups.

The Community and its Member States must be able to undertake an open and constructive dialogue on these matters, notably in order to create the conditions required for improved cooperation within the relevant international institutions.

(b) The Latin American countries' short-term prospects

Consideration of the world economy's medium-term prospects does not dispense with the need for reflection on the immediate problems faced by the Latin American countries. If adjustment policies were not backed up by appropriate external financing, the maintenance of production capacities and the safeguarding of a minimum standard of living would be jeopardized. The prospects for resumption of economic growth in these countries continue to be uncertain because the outlook for the world economy is not bright.

Greater cooperation between the Community and Latin America could focus on two aspects:

- i. help in keeping markets open for Latin American exports; protectionist pressures would have to be resisted and it would be necessary to participate, and encourage other countries to do likewise, in the "rollback" of existing protectionist measures which is called for by the Punta del Este agreement;
- ii. help for the Latin American countries' economic restructuring efforts, by encouraging appropriate external financial support, particularly for

those Latin American countries whose income has fallen considerably over the last few years, and also by making a consistent, realistic attempt to achieve a coordinated solution to macro-economic problems, in particular that of debt.

IV. CONCLUSIONS

The Commission invites the Council and Parliament to approve the guidelines described above in order to step up, for both political and economic reasons, cooperation between the Community and Latin America over the next few years and agree on the methods and scope of such cooperation.

The main guidelines for the Community, and for the Member States where they are involved, are as follows:

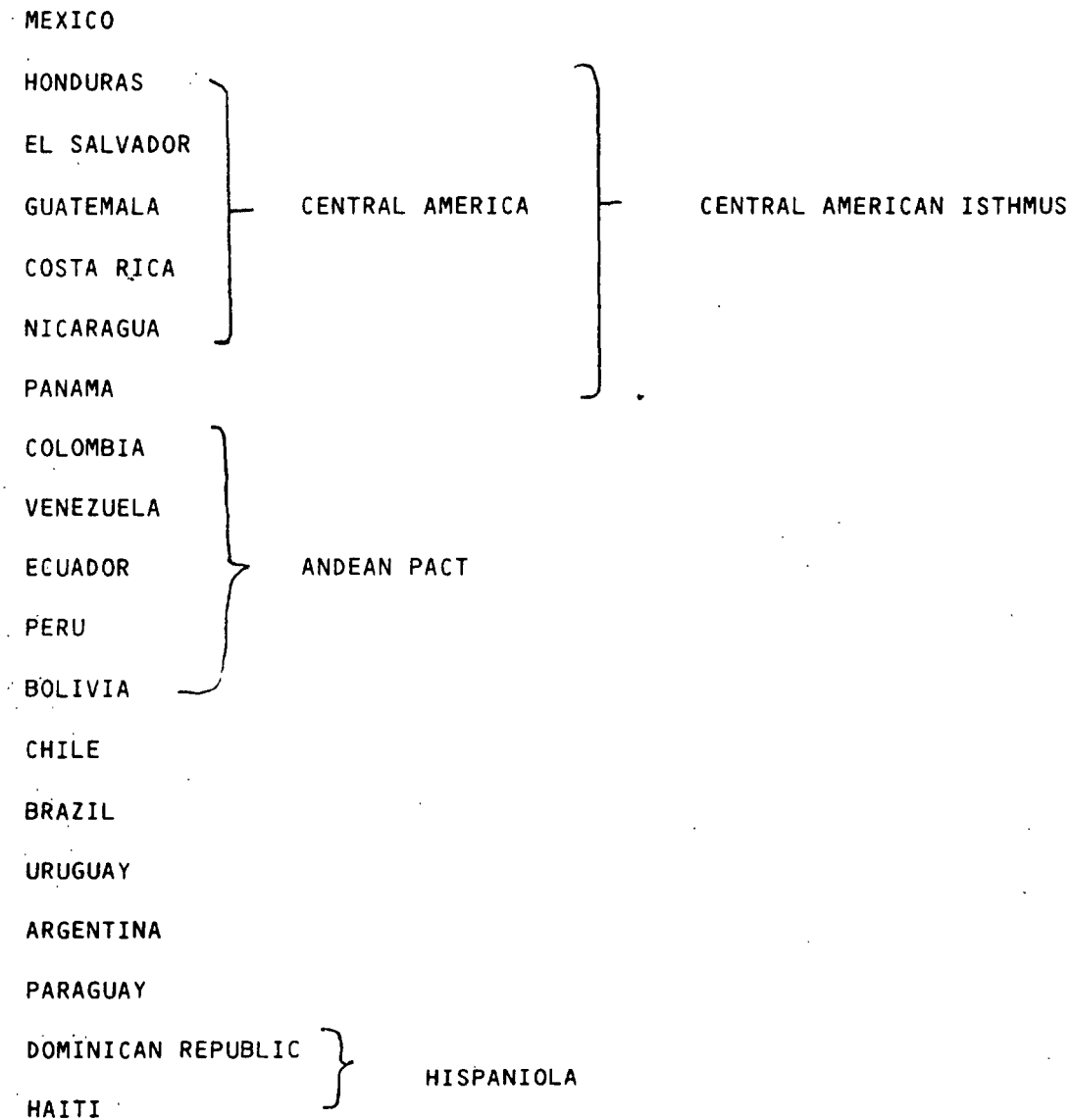
- i. continue - and improve the effectiveness of - official development assistance to the relatively less developed countries by coordinating it as far as possible with other sources of financing, in particular aid from the Member States;
- ii. support regional integration and cooperation;
- iii. intensify trade cooperation by seeking to improve the trade arrangements wherever possible, notably through the GSP, by encouraging the diversification of exported goods and services and stepping up trade promotion efforts;
- iv. intensify cooperation between firms - cooperation which will also cover research and services - by encouraging businessmen to set up joint ventures (information, training, etc.);
- v. step up energy cooperation; continue and extend cooperation on scientific and technical research, by broadening the scope of joint research and providing more training for scientists;
- vi. reintroduce export credits for countries which have adopted reasonable adjustment policies;
- vii. provide for political consultation with Latin American countries or regions, on either an occasional or a systematic basis;
- viii. work towards the improvement of the macroeconomic, trade, monetary and financial environment at world level;
- ix. to this end, strengthen the dialogue with Latin America on the big international economic problems, through informal consultations between the Community and groups of interested Latin American countries, and closer ties with the relevant Latin American institutions.

Lastly, the Commission wishes to point out also that this intensification of cooperation with the Latin American countries must, in accordance with the lines set out in this communication, comprise:

- i. an increase in budget resources in order to enable trade promotion to be improved and greater support given to training, information activities and the encouragement of cooperation between businessmen;
- ii. increased representation of the Commission in Latin America, this being an essential prerequisite for effective implementation of the various courses of action proposed.

Appropriate proposals will be made as part of budgetary procedures.

ANNEX 1

LIST OF LATIN AMERICAN COUNTRIES

ANNEX 2

24.10.1986

Latin American imports 1984/1983 and comparison with GSP trade

('000 ECU)

	Imports 1984					Imports 1983							
	(1) Total	(2) Exempt under CCT	(3) (1-2)	GSP imports		Total	GSP		Imports benefiting under the GSP by sector				
				covered (4)	benefit- ed (5)		covered	benefited	Agricul- ture	Textiles	Industry	of which oil industry	
Argentina	2.763.719	1.670.623	1.093.096	368.497	100.559	2.039.441	421.030	192.257	56.263	6	133.988	32.365	
Bolivia	181.670	173.619	8.051	4.451	1.552	193.648	8.113	1.725	-	453	1.272	-	
Brazil	8.605.418	3.691.364	4.994.054	2.649.538	1.252.338	6.789.493	2.115.249	951.826	227.930	23.565	680.331	69.276	
Chile	1.397.322	1.088.476	308.846	192.832	156.383	1.375.477	244.186	191.807	184.247	6	7.554	-	
Colombia	1.472.457	69.076	1.403.381	208.412	138.169	1.304.884	239.160	199.262	9.936	10.037	179.239	172.482	
Costa Rica	274.319	3.126	271.193	20.212	14.173	241.890	15.343	7.789	6.058	-	1.731	-	
Cuba	239.409	105.625	133.714	76.108	49.137	257.820	95.984	59.093	42.664	7	16.422	14.124	
El Salvador	206.726	6.415	200.311	5.947	3.097	226.847	5.572	2.633	2.594	-	39	-	
Ecuador	172.012	14.154	157.858	33.853	15.998	143.554	23.162	7.058	4.959	233	1.916	-	
Guatemala	180.136	38.945	141.211	18.810	12.008	182.881	14.113	3.495	4.490	795	210	-	
Haiti	76.849	5.186	71.663	70.996	38.442	85.097	83.324	37.488	32.434	1.801	3.253	-	
Honduras	159.186	23.186	136.000	17.357	9.197	123.954	9.149	6.276	4.302	-	1.974	-	
Mexico	3.528.544	2.846.977	681.567	394.202	225.107	2.808.606	342.268	181.251	33.239	4.366	141.646	12.585	
Nicaragua	130.146	50.184	79.962	1.838	277	111.028	1.149	363	111	-	232	-	
Panama	327.835	125.278	202.557	35.556	8.944	297.616	105.564	6.264	1.702	-	5.062	-	
Paraguay	178.353	149.057	29.296	24.001	10.988	237.997	26.851	12.156	5.856	-	6.300	-	
Peru	831.492	626.666	204.826	149.028	75.485	660.164	99.822	47.332	29.360	11.461	6.516	-	
Dominican Rep.	78.239	27.178	51.061	64.822	34.365	68.065	36.756	30.795	2.803	-	27.952	-	
Uruguay	263.022	55.368	207.654	88.601	50.436	245.713	90.930	45.998	3.982	2.380	39.628	-	
Venezuela	3.125.042	2.233.263	891.099	831.748	781.660	3.196.672	818.717	375.473	270	-	375.203	364.233	
	24.071.910	13.004.716	11.067.200	5.236.029	3.038.507	20.592.647	4.798.582	2.342.786	653.100	55.088	1.632.518	685.085	

ANNEX 3

ADDITIONAL DATA ON ODA
(1982-84 averages; net payments)

1. Origin of aid received by Latin America (% of total DAC aid)

EEC + Member States	25.6%
of which: EEC	1.7%
Member States	23.9%
United States	32.4%
Japan	0.9%

2. Distribution of aid (% of total bilateral aid)

	Total DAC	EEC + Member States	EEC	Member States	USA	Japan
India	8.0	4.8	7.2	4.4	0.9	2.7
ASEAN	9.1	4.2	1.5	4.7	3.6	31.1
ACP	38.1	38.7	52.9	36.4	15.6	12.3
Latin America	10.8	6.0	3.2	6.4	12.5	0.8

3. Aid received (82/83) in relation to other indicators

	Percentage of DAC bilateral aid	Percentage of EEC + Member States bilateral aid	Share of total developing country population	per capita GDP (US\$)
India	3.8	4.8	20.9	250
Sub-Saharan Africa	29.6	38.7	11.1	510
Latin America	10	6	10.9	1 680