

LATIN AMERICA AND THE EUROPEAN COMMUNITY

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INTRODUCTION

Often regarded as the 'middle class' of the world, Latin America's evolving role as a major world source and exporter of raw materials including energy, its high population growth and urbanization, together with the rapid industrialization of its economy, have called for a diversification of commercial, economic and technological exchanges with the European Community, and for a more structured partnership between the two sides.

The relationship between the European Community and the countries of Latin America is thus today at a turning-point. The historic ties of individual Member States of the Community with the sub-continent require their modern complement in a more structured link between the Community as a whole and the various countries or subregions of Latin America. This link is already partially institutionalized in the form of the ongoing Community/Latin America Dialogue at diplomatic level, of joint meetings of the European and Latin-American Parliaments, of an increasing number of bilateral trade and economic cooperation agreements and of close collaboration with those countries which seek the economic integration of their regions, notably the Andean Group and the Central American Common Market. Cultural, ideological and ethnic links apart, relations between European and Latin-American countries were historically founded on trade, especially on Europe's imports of Latin-American raw materials. Given however, the dynamic economic evolution of today's Latin America, there now opens up a much broader spectrum of cooperation, promising a greater interdependence in which exchanges are both more complex and more substantial. The European Community will continue to need access to Latin America's abundant mineral resources (including 33% of the world's copper, 26% of its bauxite, 20% of its iron, 16% of its tin) and will go on purchasing Latin America's agricultural produce. And European capital investments and technology will for the foreseeable future continue to be in demand by Latin America. But the current transformation of the economies of Latin-American countries is in the context of a changing international division of labour, already having important economic and social repercussions on the industrialized powers, and not least on the Community.

THE ECONOMIC CHALLENGE OF LATIN AMERICA

The story of recent economic development in Latin America has been more than a simple question of increased exploitation and exportation of primary materials. With the highest demographic growth rate in the world, Latin America's present figure of 345 million inhabitants is expected to reach a total of 600 million by the end of the century. In 1977 Latin America's gross national product per head was substantially higher than that of most developing countries in Africa. Several Latin-American countries are on the threshold of development as industrialized States with 'take-off' economies, having fast evolving domestic markets of their own. Collaboration with the Latin-American countries, not only in the field of trade but in the wider economic context of industrial cooperation, investment, the transfer of technology and financial and technical assistance, can only benefit an enlarged European Community which is expected to include those European countries, Spain and Portugal, possessing the closest historic links with the sub-continent.

Trade relations

Commercial relations between the Community and Latin America are characterized by continuous growth in absolute terms and by a trade balance generally favourable to the Latin-American countries.

Latin America's share of the Community market

Since its establishment in 1958, the Community has quadrupled its imports from Latin America, reaching today a total value of some 10 000 million EUA.¹

It is however equally true that during the same period, the Community's overall imports have registered twice that rate of growth, so that by 1978 Latin America's share declined from 11% to 5% of total imports. This relative drop can be explained by the fact that, on a world scale, exports of raw materials (representing 80% of all Latin-American exports) have, with the exception of petroleum, grown at only half the rate of trade in manufactured goods. For this reason, a number of non-oil-exporting developing countries in Africa and Asia have in the same period seen a greater decline in the share of the Community's imports than has Latin America. It is thus understandable that Latin America's share of total

¹ 1 European unit of account = USD 1.39106 (as of 13 September 1979)

Trade between the Community of the Nine and the countries of Latin America has developed as follows between 1968 and 1978

(million USD)

Year	EEC imports	EEC exports	EEC trade balance
1968	3.450	2.711	- 739
1970	4.395	3.360	- 1.035
1972	4.815	4.615	- 200
1974	8.315	8.474	+ 159
1975	7.934	9.041	+ 1.107
1976	9.164	8.240	- 924
1977	11.250	10.136	- 1.114
1978	12.107	11.660	- 447

Source: IMF Direction of Trade and Statistical Office of the European Communities.

Geographic structure of Latin America's trade

(%)

	Latin-American exports				Latin-American imports			
	1961-1966	1971-1977	1976	1977	1961-1966	1971-1977	1976	1977
Developed areas	76.9	72.3	71.2	72.9	81.1	72.0	65.6	69.6
EEC	28.8	22.6	20.1	21.8	26.3	22.0	18.0	19.1
USA	35.6	34.7	36.4	35.9	42.0	33.5	32.2	32.8
Canada	3.3	3.7	3.9	3.7	3.1	2.7	2.4	3.0
Japan	3.3	4.7	4.2	4.4	3.8	7.3	7.0	8.3
Other industrial countries	5.9	6.6	6.6	7.1	5.9	6.5	6.0	6.4
Developing areas	16.6	18.9	20.1	15.9	13.7	14.3	15.7	14.4
Latin America	9.9	14.8	15.8	15.1	12.5	13.5	14.5	13.9
Caribbean countries	6.7	4.1	4.3	0.8	1.2	0.8	1.2	0.5
Middle East, Asia and Africa	1.3	3.6	3.4	5.0	3.4	12.0	17.2	15.0
State-trading countries	2.7	3.8	4.2	4.2	1.4	1.1	1.0	1.0
Other countries	2.5	1.4	1.1	2.0	0.4	0.6	0.5	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Inter-American Development Bank: 1978 Report.

world exchanges should have fallen from 10.1% in 1955 to 4.4% in 1977, that is in the same proportion to its exports to the Nine. On the other hand, certain developing countries in other regions have nevertheless recently increased their share of the Community's imports. The five South-East Asian countries comprising ASEAN, for example, were able to double their exports to the Nine between 1968 and 1977.

Nevertheless in the last 5 years, a more encouraging picture has also emerged for Latin-American exporters to the Community, for in this period no further decline in the importance of Latin America's share of the Community market has been registered. This therefore allows us to conclude that a restructuring of Latin America's exports, with a shift towards exportation of manufactured goods, is well under way.

The Community's share of the Latin American market

At the same time the Community has maintained its share of Latin America's foreign trade. In 1976, as in 1955, 20% of Latin-American exports went to the Community, while, for example, the United States' share had dropped in the meantime from 40% to 35%.

It is notable that the share of Latin America's agricultural exports to the Community, which is by far the world's largest food importer, has shown a more dynamic growth than that of more traditional suppliers in

the Mediterranean area and Eastern Europe, so that in this sector the percentage of Latin-American exports to the Nine has developed, from 15.6% in 1973 to 19% in 1977.

Trade balance

The Community's trade balance with Latin America has over the years generally been in deficit, with the exception of 1974 and 1975 when the Community had an overall surplus of 1 500 million EUA. In the three following years, the Community's trade balance with Latin-American countries again showed an overall deficit of almost 2 000 million EUA.

INSTRUMENTS OF COOPERATION

The European Community has adopted various instruments of cooperation with Latin America, at both bilateral and multilateral level.

Bilateral agreements

The Community has signed bilateral trade agreements with three Latin American countries: *Argentina* (1971),¹ *Brazil*² and *Uruguay* (1973).³

These non-preferential agreements, based on the most-favoured-nation principle, are concluded for a three-year period and are extendable.

In 1975, the Community signed an economic cooperation agreement with *Mexico*.⁴ Also non-preferential, it may be extended after its initial period of validity, which is five years. Similar economic cooperation agreements with *Brazil* and the *Andean Pact*⁵ are envisaged.

Other bilateral agreements have been concluded between the European Community and certain Latin-American countries, but in more specialized spheres:

- Cooperation agreements concerning the peaceful uses of *nuclear energy* have been signed with *Argentina*⁶ and *Brazil*,⁷ and these came into force in 1963 and 1965 respectively;
- In the framework of the Multifibre Arrangement on *Textiles*, the Community has concluded agreements with *Argentina*, *Brazil*, *Colombia*, *Guatemala*, *Mexico*, *Peru* and *Uruguay*. These became applicable *de facto* on 1 January 1978⁸ and are valid for five years.
- Finally, export quotas for certain *handicrafts* have been opened⁹ since 1975 with *Uruguay*, since 1976 with *Bolivia*, *Chile*, *Ecuador*, *Panama* and *Paraguay*, since 1977 with *Honduras* and *Peru* and since 1978 with *El Salvador*. In the case of *Honduras* and *El Salvador*, these quotas also cover silk and cotton fabric woven on handlooms.

The Community's development cooperation policy

Since the early 1970s and in parallel with the Lomé Convention, which associated with it 57 African, Caribbean and Pacific countries, the European Community has created special instruments of cooperation with the developing countries of Latin America and Asia.

These instruments include the Community's generalized system of tariff preferences, aid to export promotion, aid for regional integration, financial and technical assistance, food aid and disaster relief.

Generalized preferences

The Community's generalized system of preferences (GSP), inaugurated in 1971 and expanded and improved year by year makes it possible for a complete range of manufactured and semi-manufactured

¹ See Official Journal (OJ) of the European Communities, L 249, 1971.

² OJ L 102, 1974.

³ OJ L 333, 1973.

⁴ OJ L 247, 1975.

⁵ Comprising *Bolivia*, *Colombia*, *Ecuador*, *Peru* and *Venezuela*.

⁶ OJ L 186, 1963.

⁷ OJ L 79, 1969.

⁸ OJ L 357, 1977.

⁹ OJ L 307, 1977.

industrial goods and a growing number of agricultural products from developing countries to enter the Community market free of tariffs. The object of this system is threefold, namely to stimulate trade flows, help the industrialization of the developing countries and thus diversify their economies.

These preferences are not reciprocal: the beneficiary countries are not required to grant corresponding duty exemption in return.

Industrial products imported under the generalized preferences system enter the European Community duty-free, but may be subject to quantitative limitations (ceilings or quotas). Once the limit is reached, the customs duties laid down in the Community's Common Customs Tariff will again be applied.

The volumes of the ceilings or quotas are calculated annually according to a formula based on past trade. But as the reference years are regularly updated, this formula is inherently dynamic.

A system of tariff quotas is applied to particularly sensitive products, i.e. products in respect of which the Community industry concerned is in a difficult position; once the limits are reached, customs duties are automatically re-introduced. In the case of these products the volume of preferential imports is allocated among the Community Member States in the form of quotas.

Products in less sensitive categories are subject only to Community ceilings not allocated among Member States, and not necessarily subject to automatic re-introduction of the duties when the ceiling is reached.

To prevent the more advanced or more competitive of the GSP beneficiary countries using up the preferences offered by the Community to the exclusion of other beneficiaries, maximum country amounts ('butoirs') are fixed for each beneficiary. They lay down a specific maximum percentage of the quotas or ceilings (normally 50%, in some cases 20% or 30%) which may be used by any single beneficiary.

Since the object of the GSP is to encourage the industrialization of developing countries, a system of rules of origin is applied to ensure that the benefits accrue to products genuinely originating in those countries.

The certificate of origin contains a certified declaration that the product in question has undergone, in the country of origin, the processing required under Community rules. Although this system may appear somewhat complex, it safeguards the interests of the countries covered by the Community's GSP.

Particular care has been taken with the rules of origin to accommodate the member countries of regional economic groups. The extension of the rules of origin is aimed at encouraging regional integration, and the Community has therefore adopted a system accepting cumulation of origin between the five member countries of the Central-American Common Market¹ or of the five countries of the Andean Group.

Since it was brought into force, the Community's GSP has been the subject of continued cooperation with the Latin-American countries. In the framework of the Community/Latin America Dialogue at ambassadorial level, in particular, the technical functioning of the system has been one of the trade problems jointly examined by the two parties during the course of several sessions.

The Latin-American countries have always called for an extension of the Community's offer covering processed agricultural products under its generalized preferences, and so the inclusion in the GSP since 1977 of the offer made by the Community for tropical products in the context of the Tokyo Round has given them some satisfaction, albeit partial, since it covers a category of products which is of interest to a good many of them.

Experience has shown that Latin America has in general been able to take good advantage of the Community GSP, but the GSP is used to particular advantage by those Latin-American countries which are the best equipped from the point of view of production, processing and marketing. In 1977 the principal Latin-American utilizers of the system were Brazil, Venezuela, Argentina and Mexico.

There is however still much to be done by the Community and also by the authorities in the beneficiary countries, to make the businessmen in these countries more aware of the chances which a better use of the GSP will give them. Every year the Commission organizes a series of information seminars on the system in different Latin-American countries (1978, in Ecuador, for the Andean Group and in Guatemala, for the Central-American Common Market; 1979 in Argentina and Mexico), and it publishes annually a Spanish edition of its Practical Guide for using the Community generalized system of preferences.

¹ Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

Export promotion

Increasingly important as an element in the European Community's development cooperation with non-associated countries, various export promotion schemes have, since 1974 been offered to Latin-American countries. This programme is essentially a practical one, and responds to the respective needs of individual countries by compensating for their handicaps in the commercial sphere, caused by their great distance from Europe and the considerable differences in consumer trends on either side of the Atlantic. The development of these activities during a period of international economic tension is indicative of the Community's desire to continue its policy of goodwill and cooperation with Latin America. The programme for 1979 includes the following:

- some 30 appearances by Latin-American exporters in trade fairs and specialized exhibitions in Europe;
- 8 missions to Europe for Latin-American exporters;
- a conference on marketing techniques for the Central-American countries (at Tegucigalpa);
- a seminar on packaging for the Andean Pact countries (at Lima);
- a food marketing seminar (at Panama City);
- a colloquy on wood exportation for Bolivia, Ecuador and Peru (at Lima);
- a food seminar for the Andean Pact countries (at Lima);
- the printing of trade literature for the promotion of Latin-American products.

When they are combined, generalized preferences and export promotion make for a particularly effective instrument, which is well adapted to the requirements of Latin America.

Aid for regional integration

The Community is also pursuing measures aimed at giving aid for regional integration; these measures are mainly directed at Latin America, given the long-standing tradition for regional integration in this region, the large number of organizations involved and the great number of countries affected.

Over a period of more than twenty years, the European Community has gained experience and understanding of integration problems, and this has led it to give favourable consideration to efforts made along these lines by other groups of countries. That experience has shown that a large economic entity has greater trading possibilities and also – particularly lately – is more stable during a crisis period. In so far as it can make available the methods and results of European integration, the Community can contribute to the various attempts at integration which are being undertaken in Latin America.

In recent years, then, the Community has attempted to transfer some of that experience to a number of institutions of regional integration in Latin America, notably:

- LAFTA/ALALC (Latin-American Free Trade Association, with headquarters at Montevideo; in the spheres of regional policy, information, customs union problems (in particular, customs nomenclature) and statistics;
- the Andean Pact (Junta del Acuerdo de Cartagena, with headquarters at Lima); in the spheres of exports, training of specialists and industrial programming (in the metalwork, mechanical, motor vehicles and petrochemical sectors) the development of statistics and computer science, and assistance in the establishment of an Andean Court of Justice;
- the Central-American Common Market (SIECA, with headquarters at Guatemala City); in the spheres of customs nomenclature, customs laboratories, and customs value (in particular, the training of staff);
- INTAL (the Institute for Latin-American Integration at Buenos Aires); in the spheres of legal data processing, the approximation of undertakings, and small- and medium-sized undertakings.

Financial and technical assistance

The Community also maintains an annually improved programme of financial and technical assistance to the non-associated developing countries. This programme reflects the following basic principles:

- the aid is directed to the poorest developing countries, to help improve the living conditions of the neediest sections of their population;
- it is aimed at the development of rural areas, and especially at the improvement of their food situation;
- participation in regional projects is encouraged;
- a limited proportion of the aid is allocated to measures meant to deal with exceptional circumstances, in particular disaster relief and reconstruction projects;

- on-the-spot coordination with the operations of Community Member State aid agencies and of international or regional organizations is sought.

The Community's overall financial and technical aid for non-associated countries has a value in 1979 of 110 million EUA (compared with 45 million in 1977), with 73% of the projects allocated to Asia, 20% to Latin America and 7% to Africa.

Latin-American beneficiaries of projects and disaster relief in 1979 include the following countries:

- Haiti (feeder roads);
- Honduras (water supplies and sanitation);
- Bolivia (agricultural census; irrigation);
- Nicaragua (economic and social rehabilitation);
- Peru (forestry);

and the following institutions:

- Andean Pact (technical assistance);
- Central America, PAHO, Pan-American Health Organization (earthquake preparedness);
- BCIE, Banco Centroamericano de Integración Económica/Central-American Economic Integration Bank (technical assistance)
- CIP, Centro Internacional de la Papa/International Potato Centre (research support);
- CIAT, Centro Internacional de Agricultura Tropical/International Centre for Tropical Agriculture (research support);
- CATIE, Centro Agronómico Tropical de Investigación y Enseñanza/Tropical Agronomy Centre for Research and Teaching (rural development pilot project; research support).

Supplementary projects are already scheduled for Nicaraguan reconstruction in 1979. The Community has provided emergency medical and food aid to Nicaragua and will help future rehabilitation efforts through financial and technical assistance amounting to a total value of USD 9 million since July 1979.

INSTITUTIONAL AND POLITICAL LINKS BETWEEN THE EUROPEAN COMMUNITY AND LATIN AMERICA

The European Community/Latin America Dialogue

Following the Declaration of Buenos Aires in 1970, which enabled the Latin-American countries grouped within CECLA (The Special Commission for Latin-American Coordination) to call for a systematic form of cooperation between Latin America and the European Community, the Community and its Member States recognized in a joint declaration on 18 June 1971, the important place which Latin America deserved in the sphere of the Community's external relations. The two parties proceeded to institute a 'Community/Latin America Dialogue', to be held initially once and now twice annually at ambassadorial level in Brussels, and to provide a forum for examining problems of mutual interest.

Despite the important political gesture which the Community made to its Latin-American partners in establishing such an innovative Dialogue, its practical value has sometimes been questioned, in particular as being too formal and therefore unable always to deal concretely with the content of European/Latin-American relations.

However, following the June 1979 session of the Dialogue, it was agreed that the Commission of the European Community should soon meet with Latin-American Ambassadors in a high-level 'contact-group' in which there would be held a 'brainstorming' meeting to arrive at a consensus on a more flexible framework thus favouring the creation of more effective instruments for promoting wider cooperation between the two regions.

SELA (The Latin-American Economic System)

Since 1977 the European Community has developed its official contacts with the Permanent Secretariat of SELA (the Latin-American Economic System) at Caracas. Grouping as it does all the Latin-American States and a number of Caribbean countries, SELA has been given the task of coordinating Latin America's position with regard to international organizations and third countries. In its Resolution 44 of 1979 this important new institution has indeed provided guidelines for the qualitative change sought in the relations of the two regions. The Commission is in the meantime considering ways and means of cooperating within certain projects of the Action Committees set up by SELA for various sectors.

The Community's institutional links with regional integration bodies in Latin America

The Community's integrationist vocation and experience make it well placed to deal directly with corresponding institutions in Latin America, in particular with the Andean Group and the Central-American Common Market. Reacting to a decision of the Central-American Ministers of Economy in 1978 to examine the possibility of a comprehensive cooperation agreement with the Community, the European Commission, in April 1979, agreed to institute regular meetings with high officials of SIECA (Secretariat of Central-American Economic Integration) and of the Central-American countries, and Panama, in order to give a more systematic character to the dialogue between the Community and Central America as a whole.

Then in July 1979, the Commission received an official visit from the President of Colombia, Mr Julio Cesar Turbay, who had been given a mandate by the other States of the Andean Pact to represent the region in pressing for closer, more institutionalized links with the Community, and for the conclusion of a Community/Andean Group Cooperation Agreement.

Parliamentary and political links

Since 1974 the European Parliament and the Latin-American Parliament ¹ have met four times (at Bogota in 1974, Luxembourg in 1975, Mexico City in 1977, and Rome in February 1979), to debate principal political and economic issues of mutual interest to them, notably economic and commercial cooperation between the two sides, development questions, the state of parliamentary democracy in the two regions, human rights, the Law of the Sea and international terrorism. The European Parliament has, moreover, regularly debated Europe's relations with Latin America and has passed a number of resolutions on political, economic, human rights and parliamentary questions affecting Latin America.

¹ Whose current members are: Brazil, Columbia, Costa Rica, the Dominican Republic, Guatemala, Mexico, the Netherlands Antilles, Nicaragua, Peru, Surinam and Venezuela. Representatives of dissolved Parliaments in Argentina, Chile and Uruguay attend meetings as observers.

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