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ON THE JOINT ASSESSMENT OF ANDEAN INTEGRATION IN EU-CAN RELATIONS[1]

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1. Introduction

Following the EU-Latin America and Caribbean Summit of Heads of States and Government, held in Guadalajara in May 2004, it was agreed that the start of negotiations on an Association Agreement between the EU and CAN would be preceded by a Joint Assessment of Andean Integration. In this article we present the context, the outcome, the characteristics and an evaluation of this Joint Assessment. We will first place the Assessment against the background of Andean integration (section 2) and EU-CAN relations (section 3). Section 4 presents the Joint Assessment, which is then compared in section 5 with similar exercises undertaken in the context of the relations between the EU and Latin America and other regions, including the Caribbean. Section 6 concludes.

2. Andean Community of Nations: background

As one of the oldest Regional Trade Agreements (RTA) in the Americas, the Andean Group (AG) was founded in 1969 with the signing of the Cartagena Agreement. It was a step forward in the regional integration process, from the previously established pure free trade agreement, the Latin American Free Trade Agreement (LAFTA, or ALALC in Spanish), which was signed in 1967 and included besides the Andean countries, Argentina, Brazil, Paraguay and Uruguay. The AG's founding member countries were Bolivia, Chile, Colombia, Ecuador and Peru. In 1973 Venezuela joined the Group and Chile, due to the adoption of its new and more liberal economic policies, left in 1976. The long run goal of the AG was the creation of a sub-regional Andean Customs Union with the elimination of all barriers to trade among member countries, as well as the adoption of a Common External Tariff (CET). An ambitious plan of sectoral industrial programming was also set on the agenda.

The creation of the Group was linked to the fact that the Andean countries' stronger economies, such as Colombia and Venezuela, were on the verge of abandoning their import-substitution model of industrialization which they had been following since the fifties, because of market saturation and other economic and political inefficiencies. This highly protected industrialization process, had brought about the development of national industries, highly dependent on foreign inputs and characterized by oligopolistic (Little I.M.D.) structures[5] and the discrimination of the agricultural sector (Bejarano, 1998[6]) mainly due to artificially high relative prices of industrial goods with respect to the prices of agricultural goods.

The seventies saw the formalization of the AG, with the creation of institutional bodies, such as the Commission, the Permanent Secretariat, the Court of Justice (1979) and the achievement of agreements that tended to solidify the Andean free trade area, especially related to overall tariff reductions and the phasing out periods. The eighties are seen as a period of stagnation of the group, following a decade of recession in most of Latin America, although by the end of the decade, many reforms were launched in the direction of trade liberalization.

Trade liberalisation, deregulation and privatisation in Latin America continued in the 1990s. This trend was reflected within the AG as well. In several summit meetings during and after that period, the Andean countries' heads of states, had agreed to significantly moving ahead by making substantial changes towards a more solid integration process. In 1991, the presidents approved the open skies policy. The Andean Free Trade zone became fully operational in February 1993, after Bolivia, Colombia, Ecuador and Venezuela had completed the customs tariff elimination, and hence, mutually opened their market, while maintaining their own individual tariffs *vis à vis* third parties.[7] In 1994, the Common External Tariff was approved, although its application would take more than ten years. In 1996, the Cartagena Agreement Commission approved the regulatory context for the establishment, operation, and exploitation of the "Simón Bolívar" Satellite System. Peru became part of the free trade zone in July 1997 and, since then has been gradually deregulating its trade with its Andean partners.

[5] Little I.M.D. quoted in Lloyd Reynolds: Agriculture and Development Economics, Yale University Press 1977
[6] J.A.Bejarano: Economia de la Agricultura, (U.N.,I.I.C.A.,FONADE, TM Editores, 1998, pgs.172,173)
[7] Peru temporarily suspended its obligations under the liberalization programmes in 1992.

In 2003 in Trujillo, Peru, during the heads of state gathering, the Andean Group has become the Andean Community of Nations (or CAN, in Spanish). The development of CAN in the last decade, showed signs of willingness from its members to enter a new phase of integration, advancing from solely free trade integration towards a broader regionalism that includes agreements from economic, political and social resorts. In other economic issues, there had been approval on the harmonization of norms related to the application of value added and other taxes applied upon selective consumer goods. In so far as non-trade issues are concerned, agreements had been reached in the field of interregional coordination on foreign and common defence policies, as well as on social policy issue. This latest had been the result of the approval of the Integrated Andean Social Development Plan in 2004. By the same token, an Andean Peace Zone agreement had been signed, whose aim is to achieve a goal to converting the Andean sub-region, into a peaceful place, without the presence of Arms of Mass Destruction.

On the interregional level, in 1998, the Framework Agreement for the creation of a Free Trade Area between the Andean Community and the MERCOSUR was signed in Buenos Aires. In 2000, Meeting of the South American Presidents, at which the Andean Community Heads of State and MERCOSUR decide to launch negotiations for establishing a free trade area between the two blocs as rapidly as possible and by January 2002, at the latest. In August 2003, the Andean Community and MERCOSUR Foreign Ministers, during a meeting in Montevideo at which the CAN delivered a working proposal containing guidelines for the negotiation, reaffirmed their governments' political determination to move ahead with the negotiation of a free trade agreement between the two blocs. In October 2004, a free trade agreement between the CAN and MERCOSUR, has been signed, binding both sides to phase out all import duties over the next 15 years and which will eventually create an immense free trade zone in the southern hemisphere.

In the last two years, some important events have taken place inside the CAN that might have crucial repercussions on the future path of the Andean Integration. At the

MERCOSUR presidential summit in Montevideo in December 2005, Venezuela has been admitted as a member state. To benefit from all the membership rights, it will have to wait until the completion of technical negotiations that will include the phasing out of all import duties and the establishment of a Customs Union, the agreement on the a Common External Tariff as well as on the free movement of goods and services within the members countries' boundaries. After the completion of the technical negotiations, the legal procedures of treaty's ratification and enforcement have to follow. The second - but not less important event - is the ongoing free trade negotiations between the CAN's members Colombia, Ecuador and Peru with the United States. These negotiations started in 2004 and Peru was the first country to complete them in December 2005.

To the two events described above we should add the new political landscape in Bolivia since the presidential elections in January 2006 that brought Evo Morales and his political movement M.A.S. [8] to power. The new political reality is about to change the course of events in the country and will determine its future relations with the CAN as well. Soon after the new President took office, Bolivia, which to date is an associate member, has been offered by MERCOSUR to join as a full member.

Although the Venezuelan adhesion to MERCOSUR doesn't take anyone by surprise, since there had been indication to that direction from the time when President Chavez took office in 1999, it certainly raises concern among other members countries because it could eventually affect the CAN legal framework. By the same token, Venezuela has expressed the same own concerns with regard to the FTA of some CAN Member States with the USA. According to what has been published on a regional publication[9], there has been indication that the three Andean countries negotiations with the USA cover a range of commitments whose depth and extension are much greater than those attained with their associates within the Andean Community. It is further affirmed that, in the years to come, unless the CAN adopts swift reforms, by

[8] M.A.S.: Movimiento al socialismo (in English The Movement towards Socialism) is formed by different left wing parties and organizations supporting Mr.Morales's political programs.
[9] CEPAL, United Nations Economic Commission for Latin America, "Panorama de la Inserción Internacional, de America Latina y el Caribe, Tendencias 2005", pg.107.

updating its norms related to the movements of goods, services, investment and commercial discipline, there could exist a two levels of integrations and the CAN, would be in the slower lane.

3. Relations between the European Union and the Andean Community

The relations between CAN and EU started more than two decades ago when the first cooperation agreement between the then Andean Group and the EEC, was signed in 1983. The agreement fitted in the framework of the Cartagena agreement regarding the deepening of the integration processes through the building of the free trade area. Besides, numerous specific cooperation projects in industry and agriculture were developed since that period. Following the creation of the Rio Group in 1986, a meeting between the EU Commission and the Presidency pro tempore of the Rio Group took place in Rome in 1990 where the Rome Declaration was issued, aiming to establish a political dialogue between the parties. This document served as the basic instrument towards the further relations between the EU and the Andean Community. After this initial stage, a summit meeting between the EU and the Rio Group was held in Rio de Janeiro in 2000 which became the first summit of its kind ever held between Latin American countries, the Caribbean and the European Union. During that summit an agreement between the EU and the CAN was reached in the sense that both sides would initiate the phase of Political Dialogue before entering into a stage of Cooperation agreement.

The Madrid Declaration signed in May 2002 at the second summit meeting between the EU, Latin America and the Caribbean formalized the process of political dialogue. Within the framework of the Madrid Summit, a meeting at foreign ministers' level was held between the EU and the CAN, to discuss about their future relations. In that meeting a consensus was reached, albeit less far-reaching than what the CAN would have expected. The CAN had been hopeful that the start of the negotiations on an Association Agreement with the EU was somewhere close. In addressing the Andean expectation, the EU had been emphatic on the issue concerning social cohesion and exclusion in the Andean region as well as the state of the art of its integration processes. The Europeans recommended their counterparts to address primarily those issues before negotiations towards reaching an association agreement were to be considered. In so far as the free trade agreement issues are concerned, the EU will be dealing with it only after WTO's Doha round is completed. It was a subtle message, in the sense that the Union was not considering to start any time very soon the negotiation which would lead to an eventual association agreement with the Andean countries. The CAN-EU consensus reached in Madrid ministerial meeting refers only to the possibility of an eventual negotiation on political and economic cooperation, and on very specific projects during the following four years. The agreement was far below the CAN's expectations.

Following the Madrid consensus, an agreement on Political Dialogue and Cooperation between the two regions was signed in Rome, on 16th December 2003. This agreement aimed to further strengthening and institutionalising those relations especially in the aspects of cooperation. It's worth noting that the scope of the agreement was more extensive, not only because it covered the aspects of democracy, poverty and that of trade cooperation between the two regions, but also because drugs and terrorism were included. The latest EU-Latin America and Caribbean (LAC) summit of Heads of States and Government was held in Guadalajara, Mexico in May 2004. It was the first summit after the EU enlargement in which participated the new 10 member states. The social cohesion issues received mayor attention during the summit. On the one hand, the participants recognised "the importance of integrating the social cohesion dimension into national strategies and development processes" (art. 44), and on the other hand they will "promote exchanges of experiences between countries and regions with the support of international institutions, regarding the formulation and implementation of social cohesion policies" (art. 48). The summit considered social cohesion as one of the principle elements of the bi-regional strategic partnership between the two regions and committed themselves to eradicate poverty, inequality, and social exclusion. To reach that goal they asked the contribution of the regional and multilateral institutions such as EU Commission, EIB, CEPAL, IDB, IMF and UNDP. With regard to a plausible Association Agreements with the CAN and other regions, namely MERCOSUR and Central America, the summit considered that such association agreements remain the strategic objective, in the bi-regional relations. In so far as the process towards reaching such agreements, it would start with a joint assessment phase of the integration processes of Central America and CAN.

The recent Communication of the Commission to the Council and the European Parliament[10] stated a series of strategies to give a new dynamism in the Association between the European Union and Latin America. The European strategy towards Latin America for 2007-2013 is based on four core points: the intensification and canalisation of political dialogue; the creation of an appropriate environment for trade and investment; the continuous support to the endeavour of those countries in that region that are struggling to attain stability and prosperity and some proposals for a better cooperation to improve the mutual understanding. Based upon the experience of the previous decade, the EU confirms his vision of Latin America as a close ally that shares the same cultural values and has the same commitment to defend human right, democracy and multilateralism.

The new strategy aims to deepen the relations that have been consolidating since the first summit with the Rio Group in 2000. In terms of bi-regional political dialogue, the EU strategy could be translated into direct involvement in major world issue such as the UN reform. As far as the trade and investment are concerned, the EU reaffirms its intention to establish an association agreement with Latin America based upon the already established region-to-region approach within the framework of multilateralism. Moreover, the GSP+ scheme mechanism will continue to operate in the trade of goods, guaranteeing the preference treatment of Latin American goods until the entry into force of the association agreement. Concerning European investments in Latin America, the EU objective is to establish the necessary legal framework to guarantee the predictability and security of investments.

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[10] European Commission: The Communication of the Commission to the Council and the European Parliament, 'A Strengthened Association between the European Union and Latin America': a detailed presentation, Brussels, December 2005.

On the social policy issue, after the Guadalajara summit social cohesion was declared as a common objective and as the main axis of EU relations with Latin America. In the new strategy, the social cohesion represents also a priority of the EU cooperation policy.

The Strategy 2007-2013 reaffirms the European interest and active presence in Latin America. With the institutionalisation of the regional summits, the EU has started to engage in regional issues and through the joint assessment process with Central American and the CAN members countries, the EC has learned a lot more about the reality of the region. The technical proposals for the modifications of the rules governing regional integration in the two sub regions represent an opportunity for the EU to exert its influence in the integration process and its future development and for the CAN members a chance to reform and deepen their commitments. Generally speaking, the European vision towards the Latin America shows certain continuity. It appears though that new events and recent developments might have a role to play in the future integration process. The Free Trade Agreement between Colombia, Ecuador and Peru and the United States which is about to become reality, as well as the adhesion of the oil-rich Venezuela into MERCOSUR, will certainly create new scenarios that are likely to have a strong impact on trade and investment flows.

4. EU-CAN Joint Assessment of Andean Integration

The prospects for an Association Agreement, including FTAs, rests thus on two preconditions: (i) completion of the Doha Development Agenda and (ii) achievement of a sufficient degree of Regional Integration (art. 53). An agreement on the Joint Assessment was reached during the EU-LAC Summit in Guadalajara in May 2004 and was formalized in January 2005 during the EU-CAN mixed commission. Under the joint exercise, officials from both sides meet regularly in ad hoc Joint Working Groups to review the state of integration and assess whether the progress achieved permits to start the negotiations. The first meeting was held in April 2005 in Lima. The Ad-Hoc Joint Working Group deals with the technical aspects of the joint assessment exercise.

This Working Groups report their conclusions and recommendations to the Joint Committee and meet three times per year (usually in April, June/July and October) alternating locations between both regions.

The assessment process consists of a technical evaluation of the state of play of the Andean integration process. The areas under evaluation are the institutional framework of economic integration; the trade regulatory framework, customs union aspects; the trade regulatory framework and non-tariff barrier to intra-regional trade. This evaluation phase should lead, in due course, to the initiation of the negotiation itself. At the moment of writing this article, the final conclusions of the Joint Agreement have not been made public as they will be released only after the EU-CAN Joint Commission meeting.

5. EU Monitoring of Regional Integration in Latin America and the Caribbean

As a way of assessing the Joint Evaluation, we will compare its characteristics with other monitoring initiatives taken by the European Union.

5.1 The EU-Central America Joint Evaluation

The EU-Central America Joint Evaluation of the regional integration process in Central America is an exercise conducted in parallel but independently with CAN. Also in the case of the EU-CA JE Technical Working Groups have been set up to discuss, among the others, the following issues:

1) Institutional Framework;
2) Trade regulatory framework and Non Tariff Barriers to Trade, especially Sanitary and Phytosanitary (SPS)regulations; agriculture and services;
3) Customs Union issues and in particular the establishment of a Common External Tariff. (Grupo de Trabajo Conjunto CA-UE, 2005a,b,c).

As the methodology followed is the same as in the EU-CAN Joint Evaluation most – if not all – the observations in paragraph 6 seem to be appropriate also for the EU Central America monitoring exercise.

5.2 EU-MERCOSUR Joint Photography

The Joint Photography (JP) of the status of trade relations between the EU and MERCOSUR and trade-related issues and rules is an initiative taken in the context of the inter-regional Framework Co-operation Agreement signed by the EU and MERCOSUR in Madrid in 1995. This agreement led to the creation of three Technical Working Groups (on Goods, on Services and on Trade Norms and Discipline). The Technical Working Groups met for the first time in Brussels in March 1997, and for the second time in Punta del Este, Uruguay, in November 1997. In accordance with the agreed calendar, the Technical Working Groups finalized their work in April 1998. The assessment served as a background document for the negotiation of the interregional association agreement between the European Community and MERCOSUR. In order to prepare each part of this photography, the EC and the MERCOSUR delegations to the Working Groups conducted a number of comparative analyses of various aspects and areas of EC-MERCOSUR trade relations covering the period from 1990 to 1996. They also exchanged complete data bases and information on facts and legislation directly relevant to these analyses.

The Joint Photography established the final agreed description of the situation at that point in time with specific reference to:

- trade in goods and in services;
- trade standards and disciplines (regulations, technical norms and conformity assessment, commercial defense instruments, competition rules, public procurement, rules of origin and veterinary and phytosanitary rules) (European Commission, 1998).

In the comparison of public policies, the JP put particular emphasis on common policies within both the EC and MERCOSUR frameworks. However it took into consideration the different stages of the two RIOs' integration processes at the time of the assessment: while the EC had developed its economic integration process during forty years and consequently had tested and consolidated a great number of common policies and trade-related institutional developments, MERCOSUR countries, seven years after signing the Treaty of Asunción, were still in the early stage of implementation, with rapidly changing relations between common and national policies.

5.3. EU-ACP Reviews: the case of CARIFORUM

Cooperation between Caribbean countries and the European Community for the period 2003-2007 is guided by the Regional Strategy Papers (RSP) and Regional Indicative Programmes (RIP). Within the ACP regional framework[11], Caribbean countries are represented by the Caribbean Forum of States (CARIFORUM), created in 1992 for the purpose of coordinating and monitoring European Development Fund (EDF) resources.[12] CARIFORUM includes the Caribbean ACP countries (Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago) and Cuba, since 2001, although the latter cannot benefit from EDF support.

The monitoring (or reviewing - as defined by the Commission) exercise foreseen for all the Caribbean finds its institutional basis in the EU-ACP Cotonou Agreement. Although regional cooperation and integration already received importance in the IV Lomé Convention (art. 7)[13], the particular emphasis on regional integration in the ACP-EC Partnership Agreement signed in Cotonou on 23 June 2000, marks a clear

[11] For the EC programming exercise, the African Caribbean and Pacific (ACP) countries are divided into seven sub-regional organizations: the Caribbean Forum of ACP States (CARIFORUM), Central Africa; Eastern and Southern Africa (ESA) and Indian Ocean; the Southern Africa Development Community (SADC); West Africa and the Pacific Island Forum of States.
[12] See Annex 7 of CARIFORUM-EC (2003).
[13] See e.g. CARIFORUM-EC (1997).

difference with the previous Agreements. Not only regional integration is considered as a very important tool for the European development policy but the signing of Economic Partnership Agreements (EPAs) is foreseen with different ACP subgroups, including CARIFORUM.

In the Cotonou Agreement, several articles refer to regional integration: art. 22 (macroeconomic and structural reforms and policies), art. 28 (general approach), art. 29 (regional economic integration), art. 30 (regional cooperation). In Annex IV (implementation and management procedures) regional integration is referred to in art. 6 (participation), art. 7 (regional programmes), art. 8 (regional programming), art. 9 (resource allocation), art. 10 (regional indicative programme), art. 11 (review process), art. 12 (intra-ACP cooperation), art. 13 (requests for financing), art. 14 (procedures for implementation) (see annex 1). Furthermore, Annex IV article 9 sets out some principles for regional resource allocation and states "that the indicative resources allocation shall be based on an estimate of the need and the *progress and prospects in the process of regional cooperation and integration*".

The Cotonou Agreement also stresses the principle of *flexibility of financial cooperation* in order to ensure that the exercise is kept constantly in line with the objectives of the Agreement. According to this principle, the Mid Term Reviews (MTRs):

1. Should provide an update of the regional strategy paper (RSP) analysis, i.e., update on the political, economic and social situation, priorities and objectives of the region concerned, highlighting any changes occurred since the RSP programming.
2. Should not lead to a change in the RSP but should assess the implementation of the regional indicative programme (RIP), ensure its correct implementation and, where appropriate, lead to the formulation of concrete proposals to adapt the RIP to evolving circumstances.
3. May lead to a revision of the region's allocation by the Community in the light of current needs and performance.

In addition to the principles above and following the EU Council conclusions of March 2003:

4. "MTRs should take into account and operationalise, as appropriate, EC/EU policy initiatives and commitments taken at the international level, while respecting the principles of subsidiarity, ownership and concentration of aid".

From an operational point of view, the review exercise should be based on reports prepared by the geographical services of the Directorate General for Development (DG DEV) with the support of the Delegations with a regional responsibility. These reports should be discussed by the Commission services in the framework of regional teams meetings and should be formalised during the regional review meetings with the participation of regional authorising officers (RAOs), national authorising officers (NAOs), Heads of Delegation (HoDs), Member States and non-State actors. In methodological terms, the exercise should distinguish different types of policies. In a working document of 2002, DG DEV proposed the following categories:

- regional economic integration
- functional regional cooperation
- governance and financial issues
- implementation of EDF projects and programme (European Commission, 2002).

Moreover, the indicators proposed should be able to measure the efforts or inputs into the integration process (they do no attempt to measure results and outputs) and are grouped under the following categories (EC 2005b):

- regional trade liberalisation and facilitation,
- other regional integration policies (including EDF implementation),
- institutional structure and governance issues.

The 2003 operational reviews have concentrated on a limited number of priorities:

- 9^{th} EDF programming and the use of old EDF resources;
- performance indicators in the intervention framework (9^{th} EDF) to measure results in focal sectors;
- preparation of the Economic Partnership Agreements (EPAs);
- preparation of Mid Term Reviews (MTRs).

According to the Commission itself, however, the exercise had some weaknesses. The main one has been the lack of involvement of the RAOs in the preparation of the operational reviews and the difficulty of ensuring the participation of the RAOs, NAOs, HoDs, Member states and non-state actors (NSAs). In the absence of representatives of the region's member countries, it was not always possible to properly assess the economic integration process and the major constraints of its implementation at national level. In some cases there was no region team meeting but the 2003 draft annual report was only shared with the relevant services in Headquarters and Delegations. Therefore, the annual reports cannot always been considered as real joint reports.

Furthermore, despite the recognition of the difference between institutionalisation (reaching agreements and adopting required legislation) and effective implementation is openly stressed in the reviews' guidelines, the indicators proposed by the European Commission do not seem to be adequate to make such a distinction.

5.4 The European Central Bank monitoring exercise

The main goal of the European Central Bank (ECB)'s contribution is "to test the hypothesis that institutional integration interacts with economic integration at the regional level" (Dorrucci et al., 2002:6). The authors seek to draw lessons from the European integration experience for MERCOSUR.

To evaluate institutional integration, the ECB developed an institutional index of regional integration based on Balassa's (1961) conceptual framework. The authors consider five stages of regional integration: (ia) free trade area (FTA); (ib) customs union (CU); (ii) common market (CM); (iii) economic union (EUN); and (iv) total economic integration (TEI) (table 1). The index measures at a specific instance the level of integration attained by a particular regional arrangement. “Institutional integration can be defined as the outcome of joint policy decisions designed to affect the depth and breadth of regional integration over time” (Dorrucci et al., 2002:6). Interesting here is that they apply the Balassa model in a flexible way in order to account for different time patterns, instead of sticking to a strict sequencing. Economic integration is evaluated using a set of variables partly based on the Optimum Currency Area theory.

The authors assign scores from 0 to 25 to the degree of regional integration achieved over time. FTA and CU are thereby combined into one stage. They use monthly data and implementation rather than decision taking or institutionalization as the criterion for registering. They also allow for parallel developments in the different stages of integration and do not consider reaching particular stages as pre-conditions for reaching other stages. The total score for a particular region is equal to the sum of the scores obtained for each of the four stages individually [0.25], and lies therefore in the range [0.100], the maximum score of 100 meaning full economic integration, including monetary and financial integration. The results for EU and MERCOSUR are shown in annexes 2 and 3.

Economic integration is measured in seven subcategories: (i) synchronisation of the business cycle, (ii) convergence of inflation rates, (iii) exchange rate variability, (iv) trade openness and integration, (v) financial market integration, (vi) convergence of interest rates, (vii) income convergence. Results for the EU and MERCOSUR are shown in tables 2 and 3.

Table 1: ECB's Conceptual Framework

Five stages of regional integration	Definition	Examples
1. Free Trade Area (FTA)	An area where tariffs and quotas are abolished for imports from area members, which, however, retain national tariffs and quotas against third countries	In 1992 ASEAN countries launched the ASEAN Free Trade Area (AFTA) plan. On 1 January 2002 six out of ten ASEAN countries reduced internal tariffs on most goods (so-called "Inclusion List") to levels ranging between zero and five per cent. The whole ASEAN area is scheduled to become a fully-fledged free trade area in the coming years. The USA, Canada and Mexico are in the process of completing a North-American FTA (NAFTA): many tariffs were eliminated already in 1994, with others being phased out over periods of 5 to 15 years
2. Customs Union (CU)	A FTA setting up common tariffs and quotas (if any) for trade with non-members	European Economic Community since 1968 The MERCOSUR aims at becoming a fully-fledged CU by 2006
3. Common Market (CM)	A CU abolishing non-tariff barriers to trade (product and services markets integration) as well as restrictions on factor movement (factor market integration)	European Community since 1993 (establishment of the European Single Market). The CM was already set up as an objective under the Treaty of Rome The Andean Community aims at becoming a common market by 2005
4. Economic Union (EUN)	A CM with a significant degree of co-ordination of national economic policies and/or harmonisation of relevant domestic laws	European Union nowadays
5. Total Economic Integration (TEI)	An EUN with all relevant economic policies conducted at the supranational level, possibly in compliance with the principle of subsidiarity. To this aim, both supranational authorities and supranational laws need to be in place	The euro area (i.e., 12 out of 15 countries of the European Union) can be currently classified somewhere between an EUN and a TEI. Supranational authorities and rule making were established already with the Treaty of Rome in 1957, and subsequently enhanced

Source: Dorrucci et al. (2002)

Table 2: ECB's Measurement of Economic Integration in Europe

	EU15	Core EMU 6[1]	Other EMU 6[2]	Non-EMU Cluster[3]
Total economic integration[4]				
1957-70	4.85	3.65	6.12	5.68
1971-78	5.12	3.85	6.45	6.00
1979-87	5.15	3.90	6.00	6.64
1988-92	4.67	3.23	5.49	6.26
1993-98	4.34	2.56	4.91	6.48
1999-2001	4.02	2.64	4.04	6.40
Real economic integration[5]				
1957-70	3.08	2.25	3.63	4.00
1971-78	2.95	2.48	3.43	3.56
1979-87	2.74	1.78	3.46	3.47
1988-92	2.88	2.00	3.51	3.69
1993-98	3.02	1.83	3.71	4.09
1999-2001	2.80	1.86	3.11	4.05
Nominal economic integration[6]				
1957-70	3.84	3.05	5.07	4.04
1971-78	4.23	2.95	5.60	4.85
1979-87	4.32	3.35	4.95	5.58
1988-92	3.63	2.33	4.35	4.93
1993-98	3.33	1.93	3.71	5.10
1999-2001	2.62	1.38	2.57	4.59

Notes: Integration is measured as the average of the normalised Euclidean distance of the variables. Therefore, a smaller number indicates less dissimilarity and hence higher integration.

1 Core EMU6: Belgium/Luxemburg, France Germany, Italy, Netherlands

2 Other EMU6: Austria, Finland, Greece, Ireland, Italy, Portugal, Spain

3 Non-EMU cluster: Denmark, Sweden UK

4 includes 7 variables: business cycle convergence, inflation difference, real interest rate convergence, real exchange rate volatility, trade integration, financial market integration, real per capita GDP convergence

5 includes 3 variables: business cycle convergence, trade integration, real per capita GDP convergence

6 includes 4 variables: inflation difference, real interest rate convergence, real exchange rate volatility, financial market integration

Source: Dorrucci et al. (2002)

Table 3: ECB's Measurement of Economic Integration in Latin America

	Latin America 11 countries[1]	MERCOSUR Countries[2]
Total economic integration[3]		
1980-86	2.44	2.13
1987-93	2.29	2.11
1994-2000	1.87	1.64
Real economic integration[4]		
1980-86	1.19	0.98
1987-93	1.21	1.10
1994-2000	1.12	0.95
Nominal economic integration[5]		
1980-86	1.86	1.63
1987-93	1.86	1.66
1994-2000	1.28	0.98

Notes: Integration is measured as the average of the normalised Euclidean distance of the variables. Therefore, a smaller number indicates less dissimilarity and hence higher integration.

1 Latin America 11: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela

2 Mercosur: Argentina, Brazil, Paraguay, Uruguay

3 includes 6 variables: business cycle convergence, inflation convergence real interest rate convergence, real exchange rate volatility, trade integration, financial market integration

4 includes 2 variables: business cycle convergence, trade integration

5 includes 4 variables: inflation difference, real interest rate convergence, real exchange rate volatility, financial market integration

Source: Dorrucci et al. (2002)

6. Comparative Analysis and Conclusions

Comparing the Joint Assessment with the other monitoring exercises, the following conclusions can be drawn:

First, the Joint Assessment is a lowly formalized monitoring exercise, based on a limited number of mainly trade-related variables (table 4).

Second, the assessment is principally qualitative, although during the process quantitative indicators have been produced. The Joint Assessment contrasts with e.g. the approach followed by the ECB, which is more comprehensive and formalized (table 4).

Third, its methodology has not been completely specified ex ante, but was rather developed during the process, following an agenda set by the European Commission.

Fourth, the process is not very transparent and follows the dynamics of a negotiation process in the sphere of economic diplomacy. No attempt has been made to open the process and adopt a broader perspective on regional integration.

Fifth, the process is not without tensions. This has to do with the strategic use that has been made of the Joint Assessment by the Commission (although understandable in view of the uncertainties surrounding the future of Andean integration), and the relatively limited value added that can be expected from it.

Sixth, positive aspects of the Joint Assessment include the interactive nature of the process and the emphasis on implementation issues. According to a recent attempt to classify variables in regional integration indicator systems, almost two thirds of the variables inform us about implementation (table 5). These figures are even more remarkable if compared to indicator systems other than those in which the EU is involved (De Lombaerde, Pietrangeli and Weeratunge, 2006).

Table 4: Number and Type of Variables Included in Indicator Systems

Indicator System	**Number of Variables**	**Type**				
		Quantitative Measures	**Scores**	**Ranks**	**Binary System**	**Other qualitative measures**
EU-MERCOSUR Joint Photography	52					**x**
ECB-MERCOSUR-INST ECB-MERCOSUR-ECO	11 12	 **X**	**x**			**x**
ECB-MERCOSUR	23	**X**	**x**			**x**
EU-CAN Joint Assessment	21					**x**
EU-Central America Joint Assessment	21					**x**
EU-ACP Regional Cooperation Reviews	35					**x**

Source: De Lombaerde, Pietrangeli and Weeratunge (2006).

Table 5: Classification of variables across categories

Indicator System	Actors	Structural Factors	Institutionalisation and policies	Implementation	Effects	Interdependence	Other
EU-MERCOSUR	**0**	**0**	**3.8%**	**94.2%**	**0**	**1.9%**	**0**
ECB-MERCOSUR	**0**	**0**	**8.7%**	**39.1%**	**0**	**52.1%**	**0**
EU-CAN	**9.5%**	**0**	**14.3%**	**61.9%**	**9.5%**	**4.8%**	**0**
EU-CA	**9.5%**	**0**	**14.3%**	**61.9%**	**9.5%**	**4.8%**	**0**
EU-ACP	**14.3%**	**0**	**37.1%**	**34.3%**	**0**	**5.7%**	**8.7%**

Source: De Lombaerde, Pietrangeli and Weeratunge (2006).

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Annex 1: Cotonou Agreement, selected articles

ARTICLE 22

Macroeconomic and structural reforms and policies

1. Cooperation shall support ACP efforts to implement:
   (a) structural policies designed to reinforce the role of the different actors, especially the private sector and improve the environment for increases in business, investment and employment, as well as:
      (i) liberalise trade and foreign exchange regimes and current account convertibility, having regard to the particular circumstances of each country
      (ii) encourage regional cooperation and progressive integration of macroeconomic and monetary policies

SECTION 3

Regional cooperation and integration

ARTICLE 28

General approach

Cooperation shall provide effective assistance to achieve the objectives and priorities which the ACP States have set themselves in the context of regional and sub-regional cooperation and integration, including inter-regional and intra-ACP cooperation. Regional Cooperation can also involve Overseas Countries and Territories (OCTs) and outermost regions. In this context, cooperation support shall aim to:

(a) foster the gradual integration of the ACP States into the world economy;
(b) accelerate economic cooperation and development both within and between the regions of the ACP States;
(c) promote the free movement of persons, goods, services, capital, labour and technology among ACP countries;
(d) accelerate diversification of the economies of the ACP States; and coordination and harmonisation of regional and sub-regional cooperation policies; and
(e) promote and expand inter and intra-ACP trade and with third countries.

ARTICLE 29

Regional economic integration

Cooperation shall, in the area of regional economic integration, support:

(a) developing and strengthening the capacities of:
   (i) regional integration institutions and organisations set up by the ACP States to promote regional cooperation and integration, and
   (ii) national governments and parliaments in matters of regional integration;
(b) fostering participation of Least Developed Countries (LDC) ACP States in the establishment of regional markets and sharing the benefits therefrom;
(c) implementation of sectoral reform policies at regional level;
(d) liberalisation of trade and payments;
(e) promoting cross-border investments both foreign and domestic, and other regional or sub-regional economic integration initiatives; and
(f) taking account of the effects of net transitional costs of regional integration on budget revenue and balance of payments

ARTICLE 30

Regional Cooperation

1. Cooperation shall, in the area of regional cooperation, support a wide variety of functional and thematic fields which specifically address common problems and take advantage of scale of economies, including:

   (a) infrastructure particularly transport and communications and safety thereof and services, including the development of regional opportunities in the area of Information and Communication Technologies (ICT);

   (b) the environment; water resource management and energy;

   (c) health, education and training;

   (d) research and technological development;

   (e) regional initiatives for disaster preparedness and mitigation; and

   (f) other areas, including arms control, action against drugs, organised crimes, money laundering, bribery and corruption.

2. Cooperation shall also support inter and intra-ACP cooperation schemes and initiatives.

3. Cooperation shall help promote and develop a regional political dialogue in areas of conflict prevention and resolution; human rights and democratisation; exchange, networking, and promotion of mobility between the different actors of development, in particular in civil society.

CHAPTER 2

Programming and preparation (regional)

ARTICLE 6

Participation

1. Regional cooperation shall cover operations benefiting and involving:

   (a) two or more or all ACP States; and/or

   (b) a regional body of which at least two ACP States are members.

2. Regional cooperation can also involve Overseas Countries and Territories and outermost regions. The funding to enable participation of these territories shall be additional to funds allocated to the ACP States under the Agreement.

ARTICLE 7

Regional programmes

The ACP States concerned shall decide on the definition of geographical regions. To the maximum extent possible, regional integration programmes should correspond to programmes of existing regional organisations with a mandate for economic integration. In principle, in case the membership of several relevant regional organisations overlaps, the regional integration programme should correspond to the combined membership of these organisations. In this context, the Community will provide specific support from regional programmes to groups of ACP States who are committed to negotiate economic partnership agreements with the EU.

ARTICLE 8

Regional programming

1. Programming shall take place at the level of each region. The programming shall be a result of an exchange of views between the Commission and the duly mandated regional organisation(s) concerned, and in the absence of such

a mandate, the National Authorising Officers of the countries in that region. Where appropriate, programming may include a consultation with eligible non-State actors.

2. Programming for this purpose shall mean:
   (a) preparation and development of a Regional Support Strategy (RSS) based on the region's own medium-term development objectives and strategies;
   (b) a clear indication from the Community of the indicative resource allocation from which the region may benefit during the five-year period as well as any other relevant information;
   (c) preparation and adoption of a Regional Indicative Programme (RIP) for implementing the RSS; and
   (d) a review process covering the RSS, the RIP and the volume of resources allocated to each region.

3. The RSS shall be prepared by the Commission and the duly mandated regional organisation(s) in collaboration with the ACP States in the region concerned. The RSS will be an instrument to prioritise activities and to build local ownership of supported programmes. The RSS shall include the following standard elements:
   (a) an analysis of the political, economic and social context of the region;
   (b) an assessment of the process and prospects of regional economic integration and integration into the world economy;
   (c) an outline of the regional strategies and priorities pursued and the expected financing requirements;
   (d) an outline of relevant activities of other external partners in regional cooperation; and
   (e) an outline of the specific EU contribution towards achievement of the goals for regional cooperation and integration, complementary insofar as possible to operations financed by the ACP States themselves and by other external partners, particularly the EU Member States.

ARTICLE 9
Resource allocation

At the beginning of the period covered by the Financial Protocol, each region shall receive from the Community an indication of the volume of resources from which it may benefit during a five-year period. The indicative resource allocation shall be based on an estimate of need and the progress and prospects in the process of regional cooperation and integration. In order to achieve an adequate scale and to increase efficiency, regional and national funds may be mixed for financing regional operations with a distinct national component.

ARTICLE 10
Regional indicative programme

1. On the basis of the resource allocation indicated above, the duly mandated regional organisation(s), and in the absence of such a mandate, the National Authorising Officers of the countries in the region shall draw up a draft Regional Indicative Programme. In particular, the draft programme shall specify:
   (a) the focal sectors and themes of Community aid;
   (b) the most appropriate measures and operations to achieve the objectives set for those sectors and themes; and
   (c) the projects and programmes enabling those objectives to be attained, insofar as they have been clearly identified as well as an indication of the resources to be deployed for each of these elements and a timetable for their implementation.
2. The Regional Indicative Programmes shall be adopted by common agreement between the Community and the ACP States concerned.

ARTICLE 11
Review process

Financial cooperation between each ACP region and the Community shall be sufficiently flexible to ensure that operations are kept constantly in line with the objectives of this Agreement and to take account of any changes occurring in the economic situation, priorities and objectives of the region concerned. A mid-term and end-of-term review of the regional indicative programmes shall be undertaken to adapt the indicative programme to evolving circumstances and to ensure that they are correctly implemented. Following the completion of mid-term and end-of-term reviews, the Community may revise the resource allocation in the light of current needs and performance.

ARTICLE 12
Intra-ACP cooperation

At the beginning of the period covered by the Financial Protocol, the Community shall indicate to the ACP Council of Ministers the part of the funds earmarked for regional operations that shall be set aside for operations that benefit many or all ACP States. Such operations may transcend the concept of geographic location.

ARTICLE 13
Requests for financing

1. Requests for financing of regional programmes shall be submitted by:
   (a) a duly mandated regional body or organisation; or

(b) a duly mandated sub-regional body, organisation or an ACP State in the region concerned at the programming stage, provided that the operation has been identified in the RIP.

2. Requests for intra-ACP programmes shall be submitted by:

(a) at least 3 mandated regional bodies or organisations belonging to different geographic regions, or the National Authorising Officers of such regions; or

(b) the ACP Council of Ministers, or, by specific delegation, the ACP Committee of Ambassadors; or

(c) international organisations carrying out operations that contribute to the objectives of regional cooperation and integration, subject to prior approval by the ACP Committee of Ambassadors.

ARTICLE 14
Procedures for implementation

1. Regional programmes shall be implemented by the requesting body or any other duly authorised institution or body.

2. Intra-ACP programmes shall be implemented by the requesting body or their duly authorised agent. In the absence of a duly authorised implementing body, and without prejudice to ad how projects and programmes managed by the ACP Secretariat, the Commission shall be responsible for the implementation of intra-ACP operations.

3. Account being taken of the objectives and inherent characteristics of regional cooperation, operations undertaken in this sphere shall be governed by the procedures established for development finance cooperation where applicable.

Annex 2: Index of Regional Integration for EU-6 Countries: scores given to each event

Stages in the process of regional integration, and events selected	Scores for each intermediate step	Maximum score possible
Free trade area (FTA) and customs union (CU) (considered jointly)		**25** (given by the sum of the scores below)
a) FTA:		**15**
each additional reduction of tariffs by (at least) 20% implies one additional point. However, the final step towards a FTA is weighed differently (see *(iii)*)	4=1*4	
quota abolition (possible intermediate stages are not considered)	4	
the completion of the FTA (brings as many points as is the difference between 15 and the score achieved prior to completion (6 points, in the case of EU-6)).	6	
the start of the CAP in 1962 (see this Appendix, main text for an explanation)	1	
b) CU		**10**
each additional reduction by (at least) 20% in the difference between average external tariffs in individual countries and the Common External Tariffs (CETs) implies one additional point. However, the final step towards a CU is weighed differently (see *(ii)*)	4=1*4	
the completion of the CU (brings as many points as is the difference between 9 and the score achieved prior to completion (6 points, in the case of EU-6))	6	
Common market (CM)		**25** (given by the sum of the scores below)
a) Progress in abolishing non-tariff barriers:		**9**
"Dassonville" ruling of the Court of Justice (1974)	1	
Cassis de Dijon ruling of the Court of Justice (1979)	1	
European Single Act (1986; entered in force in 1987)	2	
official launch of the European Single Market (January 1993)	5	
b) Steps in the liberalisation of the movement of capital:		**8**
restoration of currency convertibility in 1958 to allow the settlement of current account transactions	1	
directive of 11 May 1960, which promotes the liberalisation of certain capital flows and prevents member countries from introducing new restrictions	1	
directive of 18 December 1962, which widens the scope for liberalisation	1	
directive of 21 March 1972, which goes in the opposite direction by allowing countries to re-introduce restrictions in order to tackle the turmoil associated with the collapse of the Bretton Woods system	-2	
directive of 17 November 1986, which, coupled with a less important directive of 1985, gives new impetus to the liberalisation process	2	
directive of 24 June 1988, which for the first time requires the full liberalisation of capital movements within the EU by 1 July 1990 (in 1990 the implementation of the directive is completed in the two EU-6 countries (FR, IT) which maintained residual restrictions)	5	

c) Measures taken to liberalise the movement of workers:		**8**
entitlement of workers to accept job offers within the internal market and abolition of any discrimination based on nationality between workers;	1	
directive of 1989 on mutual recognition of higher education diplomas;	1	
following the Action Plan elaborated by the Commission in 1997, policies in the area of labour mobility have gained momentum;	1	
full implementation in the EU-6 area, since 1998, of the Schengen convention of 1990 on free circulation of people;	1	
other possible future measures (N.B.: not yet implemented. This implies that the actual total score obtained by item (c) at the end of the period is 4 instead of 8).	*4*	
Economic union (EUN)		**25**
a) The degree of co-ordination of national macroeconomic policies:		**13**
establishment of 1958 of the Monetary Committee;	1	
establishment in 1964 of the Committee of Governors;	1	
launch of the "snake" in 1972;	1	
crisis of the snake since 1973;	-1	
launch of the EMS in 1979;	4	
strengthening of the EMS in 1987, with the Basle-Nyborg agreements;	1	
convergence criteria laid down in the Maastricht Treaty[3];	3	
adoption of the Stability and Growth Pact in 1997 (+3).	3	
b) The implementation, at the regional level alongside the national level, of those **microeconomic policies which are most likely to affect the need for regional exchange rate stability**		**12**
<u>competition policy</u>: attribution in 1962 of strong powers to the Commission for competition policy;	3	
<u>transport policy</u>: Commission's Action Programme on Transport Policy, published in 1962 in order to remove obstacles on trade;	3	
<u>harmonisation of VAT on trade of goods and services</u>: the adoption of the VAT on trade of goods and services in April 1967 (First Council Directive No. 67/227/EEC on the harmonisation of legislation of Member States concerning turnover taxes/VAT on trade of goods and services), which starts the process of harmonisation;	3	
<u>harmonisation of other national structural (in particular, labour market) policies</u> in order to increase price (in particular, labour cost) flexibility within the region: start of the process of monitoring of structural reforms, agreed by the European Council in Cardiff in June 1998. *(N.B.: While each of the events from (i) to (iii) brings about an actual increase in the score by three points, the last event brings only one additional point. As a result, the total score obtained since 1998 (10) is lower than the highest possible for an EUN as far as microeconomic policies are concerned (12). This indicates that, although in the EU the degree of regional integration in terms of policy harmonisation and co-ordination is very high, some room for improvement is still left especially in the area of structural policies harmonisation.)*	*3*=1 (i.e., Cardiff process) *+2 (i.e., other future measures)*	
economic integration (TEI)		**25**
a) The set-up of **supranational institutions and decision-making processes,** as well as the **structuring of the process of regional integration through laws issued and enforced at the supranational level:**		**9**
basic supranational framework already available with the Treaty of Rome (1957;	4	

entered in force in 1958);		
establishment in 1974 of the European Council as a permanent forum providing political impulse;	1	
involvement of citizens in the election of the European Parliament in 1979;	1	
Treaty of Amsterdam, which entered into force in 1999 and introduced, among other things, an extension of qualified majority voting.	1	
Other possible future measures (N.B. The actual score assigned at the end of the period considered is 7. The highest possible score is, however, 9, in order to signal that – apart from any discussion on political union, which falls outside the scope of the paper – even in the EU there is a clear case for strengthening the institutional supranational aspects of the process of regional economic integration).	*2*	
b) The concrete steps towards, and the conduction of, **macroeconomic policies at the supranational level:**		**9**
Achievement of a single monetary and exchange rate policy in 1999, with the establishment of the Eurosystem and the European Central Bank;	5	
Event (i) was prepared in the course of the 1990s with a process sanctioned by the Maastricht Treaty. The most important step in this process was the so-called Stage II, which started in 1994	1	
other possible future measures (N.B.: the actual score assigned at the end of the period considered is 6. The highest possible score is, however, 9, in order to signal that fiscal policies are already conducted at the national level, although within the context of the Stability and Growth Pact).	*3*	
c) Those **microeconomic policies which are conducted *only or mostly* at a supranational level and are most likely to affect the need for regional exchange rate stability**		**7**
the start of the **CAP** in 1962	1	
and		
the strengthening of CAP in 1964 (see above for an explanation);	2	
use of the EU general budget to strengthen the process of catching up in member countries (EU structural funds): structural fund expenditure in the EU budget was doubled and reformed in 1988;	1	
Other possible future measures (N.B. The highest possible score for c) is 7, while the actual score at the end of the period is 4. This signals that a TEI would involve further unification of microeconomic policies).	*3*	

(N.B.: Scores envisaged by the methodology but not actually assigned to EU-6 are highlighted in italics)

[3] The 1992-93 crisis as such does not add or subtract any points to the index of regional integration. The rationale for that is that exchange rate stability in the EU was mainly pursued via foreign exchange intervention, mutual financial assistance and so-called "credibility" of central banks prior to the crisis; and

through enhanced efforts to achieve converging fundamentals following the crisis. Differently from the snake crisis, the process of regional integration is not discontinued in 1992-93. It is not by chance that a major adjustment of the Italian budget in September 1992 was approved a week after, and not a week before, the lira started its fluctuation outside the ERM. This explains why the ratification of the Maastricht Treaty in 1993 and the related approval of legally binding convergence criteria imply an higher score for that year (+3) despite the enlargement of the ERM fluctuation band to +/-15%.

Annex 3: Index of regional integration for MERCOSUR countries (1991-2001)

	TRADE	INTEGRATION OF SERVICES AND FACTOR MARKETS					INDEX OF REGIONAL INTEGRATION (score at the end of each year)					
	1) Tariffs, quotas and non-tariff barriers	2) Non-tariff barriers	3) Capital movement	4) Labour mobility	5) Policy co-ordination	6) Institutional developments	FTA	CU	CM	EU	TEI	TOTAL
1991	FTA: Trade Liberalisation Programme based on two guidelines: (1) semiannual, progressive, linear and automatic tariff reductions; (2) lists of products temporarily excluded from such reductions, to be reduced by the end of each year; (3) progressive elimination of non-tariff restrictions or equivalent measures. As regards (1), a 47% tariff reduction is completed in June 1991, and 7% decreases are planned every six months in order to obtain 100% by January 1995.	With the establishment of the intergovernmental Common Market Group – the main executive body of MERCOSUR – a number of working groups are established to study issues related to the establishment of a common market. These groups can only make recommendations to the Common Market Group for consideration and/or implementation.				The Treaty of Asunción enters into force in November. The Treaty sets forth the main final objectives of integration: 1) the progressive establishment of a FTA, CU and, as a final objective, a CM; 2) co-ordination of macroeconomic policies and microeconomic sectoral policies. The initial institutional structure is set up.	2	0	1	0	1	**4**
1994	The MERCOSUR Trade Commission is established by the Protocol of Ouro Preto (December). The Trade Commission administrates trading relations between the members and acts as a forum of first instance for the settlement of trade disputes.					The Treaty of Asunción is formally amended in the so-called "Protocol of Ouro Preto", signed in December 1994. The Protocol concerns institutional issues such as the definitive Common Market institutional framework and dispute settlement. It also confers on MERCOSUR a distinct international legal personality.	3	0	1	0	2	**6**
1995	FTA: An "imperfect" FTA is established in January 1995 between Argentina, Brazil, Paraguay and Uruguay. The FTA does not cover the entire tariff universe. For the remaining products, the so-called "Regime for	Under Resolution No. 90/95, a new structure is established for working groups under the Common Market Group. These working groups deal with issues such as communication, financial matters, transport and infrastructure, environment, industry, agriculture, energy, and labour and social security. This framework, however,					10	5	2	0	2	**19**

	Final Adjustment to the Customs Union" starts for Brazil and Argentina. A list is defined for which intra-regional import tariffs must be subject to annual, linear and automatic reductions until reaching 0% by January 1, 1999. The stages of this process respond to the following tariff reduction timetable: 1996 25%; 1997 50%; 1998 75%; 1999 100%. CU: The Common External Tariff (CET) on imports from third countries is set at 11 different levels ranging from 0 to 20%, with exception lists for each MERCOSUR member (up to 300 tariff items for Argentina, Brazil and Uruguay until 2001, and 399 items for Paraguay until 2006). For all these exceptions a converging process towards the CET is envisaged.	remains based on an intergovernmental structure.								
1996	The "Regime for Final Adjustment to the Customs Union" (see under "1995") starts in Paraguay and Uruguay. It has to be completed by January 1, 2000.				10	6	2	0	2	**20**
1997	In December Brazil imposes a system of discretionary licenses for some imports, such as dairy products, fuel, fruits, certain chemical products and machinery	In December Member States sign the Protocol of Montevideo, which stipulates the phasing out of barriers on trade in services within ten years.			9	6	2	0	2	**19**
1998	The Brazilian restrictions started in December 1997 are further tightened. Resistance to the measure from the	Following the Protocol of Montevideo			10	6	3	0	2	**21**

	MERCOSUR partners leads to the creation of a tribunal to settle the dispute. The tribunal rules that the regime must be dismantled no later than the end of 1999. This is the first time that the MERCOSUR countries use their dispute-settlement mechanism since the approval of the Protocol of Brasilia in 1994.	(see under “1997”), formal negotiations start in the second half of 1998.								
1999	FTA: Some sensitive goods, which were excluded from the FTA and gradually incorporated (see under “1995”), become in December part of the FTA for Argentina and Brazil. Exceptions are still allowed for Paraguay and Uruguay. However, special regimes remain for sectors such as the automotive and sugar industries, with a longer period of transition towards free trade. Moreover, the devaluation of the Brazilian currency in January of 1999 brings about serious economic problems for MERCOSUR member countries, which originate temporary trade restrictions. CU: in 1999 the CET does not yet cover capital goods, computers and software, and telecommunication equipment. As a result, each MERCOSUR country applies its own level of tariff to those goods. Tariffs on capital goods are planned to converge at 14 per cent by January 2001 in the cases of Argentina and Brazil and by January 2006 for Paraguay and Uruguay. For computers and software and telecommunication equipment, the tariffs are planned to converge at 16 per cent in 2006.		One working group is created in June 1999, called Macroeconomic Co-ordination Committee. The Committee: a) is responsible for examining the economic policies of MERCOSUR member countries and for drafting new macroeconomic co-ordination proposals, including an action programme for greater macroeconomic convergence; b) explores mechanisms both for the harmonisation of statistical data and to identify methodological criteria used by some member countries to prepare their economic indicators. Moreover, in the same year the MERCOSUR Heads of		11	7	3	1	2	**24**

			State endorse the idea of elaborating a "mini-Maastricht Agreement" for securing fiscal balance within the group as a first step towards the possible creation of a monetary union.							
2000	<u>FTA</u>: Some sensitive goods, which were excluded from the FTA and gradually incorporated (see "1996"), become in December part of the FTA also for Paraguay and Uruguay				12	7	3	1	2	**25**
2001	Argentina partly abandons the MERCOSUR CET system by eliminating tariffs on Argentine imports of capital goods and raising tariffs on consumption goods to 35%. The temporary shift of Argentina to a dual currency board for current account transactions impinges on trade with MERCOSUR partners.				11	6	3	1	2	**23**