

II. TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

(1) OVERVIEW

1. Paraguay's basic governmental and judicial framework remains the same as at the time of its previous Review in 2005. Likewise, the Ministry of Industry and Trade (MIC) still maintains overall responsibility for trade and industrial policy, sharing the tasks jointly with the Economic Cabinet. The main strategy document guiding the orientation of policy-making, including in the areas of trade and investment, is the Government's "Economic and Social Strategic Plan 2008-2013" (PEES). This Plan aims to foster economic growth together with greater social inclusion. These objectives are complemented by the proposals contained in the Social Development Policies (PSD 2020), whose strategic objective is to promote and develop the conditions to permit inclusive, sustained growth.

2. Paraguay is open to foreign investment, which is protected by the Constitution and by an overarching investment law which guarantees equal treatment of foreign and domestic investments. Paraguay also belongs to various international arbitration mechanisms for the settlement of investment-related disputes. In 2005, Paraguay introduced legislation restricting land ownership in border regions for nationals of Brazil, Bolivia and Argentina; otherwise there are no restrictions on land ownership.

3. Paraguay has been relatively well ranked by the World Bank for protecting investors. However, the PEES touches upon the need for further improvements to the business climate in order to attract investment. Disincentives to investment identified by external sources include weaknesses in the judicial sector, difficulties in enforcing contracts, and lengthy bureaucratic procedures, together with restrictive domestic requirements in some areas. A new agency to promote investment and exports called "REDIEX" was established in 2005 and involves closer participation by the private sector.

4. Paraguay has been an active participant in the Doha Development Agenda (DDA) trade negotiations and since 2005 has co-sponsored proposals in the areas of trade facilitation, intellectual property rights, non-agricultural market access and agriculture. Its key interests in the negotiations relate to: agriculture; ensuring a free and non-discriminatory regime for transit of goods by road; special and differential treatment, especially measures to assist small and vulnerable economies (SVEs) and landlocked countries; and Aid for Trade. Paraguay has maintained a solid record of notifications to the WTO over the review period, with only a few outstanding. It has never been involved in WTO dispute settlement either as a complainant or as a respondent; however it has participated frequently as a third party.

5. Paraguay's trade regime is, to a large extent, framed by its participation in the Southern Common Market (MERCOSUR). Paraguay offers tariff preferences to 13 countries through a variety of regimes, some of which overlap. Since 2005, a partial scope agreement between MERCOSUR and India and a free trade agreement with Israel have come into force. Agreements between MERCOSUR and Egypt and MERCOSUR and the Southern Africa Customs Union (SACU) have been signed but have not yet entered into force. MERCOSUR countries have signed framework agreements to formally initiate preferential trade negotiations with various countries outside the region, although in some cases these still have to be ratified. Paraguay has not ratified the MERCOSUR Protocol of Montevideo on Trade in Services.

6. During the period under review, Paraguay received assistance from the WTO and other intergovernmental agencies in areas such as: agriculture; sanitary and phytosanitary measures; technical barriers to trade; import licensing; trade facilitation; intellectual property; services; and

non-agricultural market access. Aid-for-Trade funds committed over the period 2006-2008 represented an annual average of 0.6 per cent of GDP.

(2) INSTITUTIONAL AND POLICY FRAMEWORK

7. There have been no major changes to Paraguay's basic governmental and judicial framework since its previous Review, or to the procedures for passing laws, which are described in Box II.1.

Box II.1

Institutional structure

Constitution: Constitution of 1992. Provides, *inter alia*, for the separation of powers between the Executive, the Legislature and the Judiciary.

Executive: Executive power is exercised by the President of the Republic, who appoints the Council of Ministers, which deliberates on matters of public interest, acting as an advisory body to the President, and reviews legislative proposals. The Economic Cabinet is responsible for advising on and coordinating government economic policy. It is composed of the following Ministers: Finance; Industry and Trade; Agriculture and Livestock; and Public Works and Communications; and also the President of the Central Bank.

Legislature: Congress comprises a Senate Chamber (45 members) and a Chamber of Deputies (80 members).

Judiciary: There are 15 judicial districts in Paraguay, and within each district there are two tiers of courts. At the first tier, there are criminal, civil and commercial, labour, and child and adolescent courts. At the second tier, there are appeals tribunals. The Supreme Court is the highest court in the country and, *inter alia*, is responsible for resolving constitutional questions and petitions for appeal.

Elections: There are simultaneous elections of Senators and Deputies (five-year term, renewable); they coincide with Presidential elections (five-year term, not renewable). The latest general election was in 2008.

Passage of legislation: Draft laws may originate from: members of Congress; the Executive; popular initiative; or the Supreme Court. Draft laws become law after passing both Chambers and on receiving the approval of the Executive. Parliament, through its Chambers, has the power to amend or reject draft laws. The President of the Republic may object to all or part of a draft law, as the case may be.

Hierarchy of legislation: International treaties are signed by the President and must be ratified by Congress. As noted in Paraguay's previous Review, subsequent international agreements take precedence over any existing international agreement.

Source: WTO Secretariat, based on information provided by the authorities.

8. The MIC remains responsible for defining, coordinating, implementing and monitoring trade policy affecting goods and services, as well as industrial policy. Its functions are set out in Law No. 904/63, as amended in 2006.¹ In 2009, a National Technical Committee on Technical Barriers to Trade was created, composed of various ministries and autonomous entities (Chapter III(2)(viii)). In December 2010, a national committee was being set up to handle sanitary

¹ MIC online information. Viewed at: http://www.mic.gov.py/images/ley2961_06_modificala904_63.pdf.

and phytosanitary matters. Matters relating to other aspects of trade are dealt with on an informal basis.

9. Paraguay's trade policy is, to a large extent, framed by its membership of MERCOSUR. In this regard, there is an institutional framework in place for intergovernmental decision-making (Chapter II(2) and (5)). There is also a mechanism for macroeconomic policy coordination by the respective Ministers of Finance and Presidents of Central Banks.²

10. Paraguay's trade strategy is part of its more general development policy. The new administration adopted the PEES to define its economic priorities. The Government's development objectives, including those which have an impact on trade and trade-related policies, are set out in the PEES, whose objective is to foster economic growth together with greater social inclusion. The strategic objectives established by the Plan are: employment generation and income distribution; strengthening of State institutions; diversification of production; increased public spending on poverty alleviation; infrastructure development; strengthening of small and medium-sized enterprises (SMEs), especially small farmers; and coordination of government actions. In the production sector emphasis is placed on the development of agribusiness, particularly by working with small farmers and SMEs and helping them obtain access to credit. Within the PEES, each public institution integrates its policies and sectoral programmes into defined strategic pillars, and fixes an implementation timetable, which is monitored yearly.³

11. In order to strengthen the process of change in the Government's social policies, the Government drew up the Proposal for Public Social Development Policy, 2010-2020 (PSD), which constitutes the guiding framework for managing social investment in all institutions and, together with the PEES, establishes new mechanisms, goals, indicators, and timetables for action in order to achieve results that have a foreseeable impact.⁴

12. The MIC has developed an industrial policy strategy based on a new system of tax incentives to support the integration of family farming businesses and SMES into value chains and industry (Chapter IV(3)).⁵ The authorities also consider it vital to support the development of infrastructure as a means of generating employment, improving Paraguay's international competitiveness, and compensating for Paraguay's disadvantage as a landlocked country. The PEES contains a series of programmes and projects to be carried out by the MIC in order to promote the development of SMEs, including the establishment of an Integral Centre for Support to Medium-Sized and Small Enterprises (CIAMP), set up to coordinate technical and financial assistance and training efforts. A business competitiveness programme has also been established.

(3) INVESTMENT REGIME

13. Paraguay is not only open to, but also encourages, foreign direct investment: equal treatment for foreign and domestic investment is guaranteed by law, the only exception being the ownership of

² For a detailed description of decision-making and cooperation mechanisms in MERCOSUR, see WTO (2005), Chapter II.

³ Economic and Social Strategic Plan 2008-2013. Viewed at <http://www.hacienda.gov.py/web-hacienda/index.php?c=436>.

⁴ *Paraguay para Todos y Todas: Propuesta de Política Pública para Desarrollo Social (2010-20)*. Viewed at: <http://www.presidencia.gov.py/gabinetesocial/wp-content/uploads/2010/02/propuesta-de-politica-publica-para-el-desarrollo-social-paraguay-para-todos-y-todas-web1.pdf>.

⁵ Ministry of Finance online information. Viewed at: <http://www.hacienda.gov.py/web-hacienda/archivo.php?a=28372c2c3ae6f8f6f6fef3f8f6f7f9e63e2c29f4372b2d280c6&x=7f7f01e&y=25250c3>.

land near borders (see below). The only sectors which are not open to private investment (either domestic or foreign) are those reserved for the State (Chapter III(4)(iv)).

14. In spite of Paraguay's relatively low overall ranking in the World Bank's *Doing Business 2011* report (106th place out of 183 countries), Paraguay is rated well in the category of protecting investors (59th place) and performs better than most other countries in South America.⁶ However, certain disincentives to foreign investment have been pinpointed by external sources. These include weaknesses in the judicial system, difficulties in enforcing contracts, lengthy bureaucratic procedures and a lack of transparency and accountability in the enforcement of regulations. More specifically, concerns have been expressed about a requirement that company board members with the right to vote should be legally resident in Paraguay, and also Law No. 194/93 which imposes strong penalties for severing relations with local distributors and agents.⁷

15. Further improving the business climate for investment is one of the key issues highlighted in the PEES. The Report emphasizes the importance of developing private-public partnerships to invest in infrastructure. Areas which have been identified as requiring infrastructure upgrades include: the development of multimodal transport networks; electricity transmission lines; water distribution systems; drainage works; and communications. According to the authorities, some concrete steps have been taken to improve the investment climate in Paraguay. These include: the installation of a new electricity infrastructure to meet demand for energy; the preparation of projects granting concessions for highways, airports and waterways; and the implementation of a master plan to enhance the business climate. In addition, a preliminary draft law on industrial policy and attracting investment to the industrial sector has been prepared.

16. The 2020 PSD gives priority to policies designed to create and promote incentives for agribusiness, as well as to encourage conversion of the model for developing agricultural exports and attracting private-sector investment, with the aim of facilitating the population's participation and inclusion in national policies to promote the production sector, thereby developing opportunities for investment and employment.

17. Private property is guaranteed under the Constitution (Article 109). In addition, Law No. 117/91 on investment provides for equal treatment of foreign and domestic investments. It specifies that there are no prior authorization requirements for private investment and guarantees a free trade regime and a free exchange regime. Investors may freely contract investment insurance within Paraguay or abroad. There have been no changes to this Law over the review period.⁸ Incentives for investors are governed by Laws No. 60/90 and No. 2.421/04, Decree No. 11.771/00 and amendments thereto, which regulate the Special Regime for Imports of Raw Materials (Chapter III(4)(iii)), the Law on the In-Bond Processing (*maquila*) Industry and the Free Zone Law (Chapter III(3)(iv)).

18. In 2005, new legislation was enacted preventing citizens from Brazil, Bolivia and Argentina from owning land within 50 km. of Paraguay's borders.⁹ Otherwise there are no restrictions on land ownership by foreigners. As set out in the Constitution (Article 112), the State owns all deposits of

⁶ World Bank online information. Viewed at: <http://www.doingbusiness.org/reports/doing-business/doing-business-2011>.

⁷ United States Department of State online information. Viewed at: <http://www.state.gov/e/eeb/rls/othr/ics/2009/117242.htm> and <http://www.state.gov/e/eeb/rls/othr/ics/2010/138127.htm>.

⁸ Government of Paraguay online information. Viewed at: http://www.leyes.com.py/todas_disposiciones/1991/leyes/ley_117_91.php.

⁹ Law No. 2.532/05 establishing the border security zone of the Republic of Paraguay. Viewed at: http://www.semillas.org.py/pdf/ley_2532_2005.pdf.

hydrocarbons and solid, liquid or gaseous minerals (except rocky, earthy or calcareous substances) and may grant concessions for their exploitation.¹⁰

19. Paraguay has bilateral investment treaties (BITs) with 27 countries.¹¹ There have been no new BITs signed over the period under review.

20. Paraguay has double taxation agreements with the following countries (coverage and the year of entry into force are in parentheses): Germany (air transport, 1985); Argentina (air, river and road transport, 2000); Belgium (air transport, 1987); Chile (air, river and road transport, 1995, and income and wealth tax, 2008); China (income tax, 2010); and Uruguay (air transport, 1993). An agreement with Uruguay on road transport is pending ratification. An agreement with Brazil on income tax was rejected by the Congress.

21. The authorities have tried to strengthen the judicial system in order to improve the business and investment environment. In this respect, there have been a number of reforms over the period under review. These include the introduction of amendments to the Penal Code (effective mid-2009), with tougher provisions on money laundering, human trafficking, and intellectual property rights. Also, at the level of the Supreme Court, a Directorate of Communication has been created to increase transparency on judicial matters, as well as a Complaints and Claims Office to address complaints against judges, court officials and administrative services, as well as to ensure that the judicial services comply with legislative and administrative deadlines and requirements. A Code of Judicial Ethics has also been adopted.

22. Under Law No. 117/91, investment-related disputes may be submitted to either national courts or international arbitration. At the national level, the Paraguayan Arbitration and Mediation Centre, a private entity, uses methods other than legal proceedings to settle disputes. Paraguay is a member of the International Centre for Settlement of Investment Disputes (ICSID) and is a signatory to a number of conventions that provide investors with other arbitration opportunities. These include ad hoc courts established under the rules of the United Nations Commission on International Trade Law (UNCITRAL) and the Inter-American Commercial Arbitration Commission (for disputes between signatory countries in the Americas). At December 2010, Paraguay had been a party in three cases submitted to international arbitration. The ICSID was the chosen forum for each of these disputes: two are pending and one was concluded in favour of the State.¹²

23. Paraguay is also a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA), which offers foreign investment guarantees for non-commercial risks in developing countries, as well as dispute settlement services for the investments covered.¹³ Paraguay has also

¹⁰ United States Department of State online information. Viewed at: <http://www.state.gov/e/eeb/rls/othr/ics/2010/138127.htm>.

¹¹ Argentina (1969); Austria (1999); Belgium and Luxembourg (2004); Bolivia (2003); Chile (1997); Costa Rica (2001); Cuba (2002); Czech Republic (2000); El Salvador (1998); France (1980); Germany (1994, 1998); Hungary (1995); Italy (not yet entered into force); Korea, Rep. of (1993); Netherlands (1994); Peru (1994); Portugal (2001); Romania (1995); South Africa (1974); Spain (1996); Switzerland (1992); Chinese Taipei (1991); United Kingdom (1990, 1992, 1997); United States of America (1993); Uruguay (1976); and Venezuela (1997). Dates in parentheses are the year of entry into force.

¹² The pending cases are: *SGS Société de Surveillance S.A. v. Republic of Paraguay and Bureau Veritas, Inspection, Valuation, Assessment and Control, BIVAC B.V. v. Republic of Paraguay*. The concluded case was *Eudora A. Olgún v. Republic of Paraguay*. Details of these cases can be viewed at: <http://icsid.worldbank.org/ICSID/index.jsp>. See also: UNCTAD online information: http://www.unctad.org/en/docs/webdiaeia20103_en.pdf.

¹³ MIGA online information. Viewed at: http://www.miga.org/projects/index_sv.cfm. There has been only one MIGA-insured project in Paraguay, which is now inactive.

accepted the terms and conditions of the Overseas Private Investment Corporation of the United States of America, which finances and insures investment projects against risks such as the non-convertibility of currency, expropriation, and political violence, *inter alia*.

24. Investment (and export (Chapter III (3)(v))) promotion activities are carried out by the recently established (2005) Investment and Export Network (REDIEX), which falls under the responsibility of the MIC.¹⁴ In 2006, the previous trade and investment promotion agency, PROPARAGUAY, was taken over by REDIEX in order to avoid overlapping of functions. According to the authorities, contrary to what occurred with PROPARAGUAY, the private sector participates to a large extent in formulating policies and adapting projects within the REDIEX framework.

(4) PARTICIPATION IN THE WTO

25. Paraguay is a founding Member of the WTO. As far as goods are concerned, it grants at least MFN treatment to all its trading partners. Paraguay has been an active participant in the Doha Development Agenda (DDA) negotiations. It has never been involved in WTO dispute settlement either as a complainant or as a respondent, but has been involved as a third party (Box II.2).

Box II.2

Summary profile of Paraguay's WTO participation

Accession: Contracting Party to the GATT (6 January 1994). Domestic ratification of the Uruguay Round through Law No.444 (15 April 1994). Ratification of the Marrakesh Agreement (10 November 1994). Founding Member of the WTO (1 January 1995).

Plurilateral agreements: Paraguay is neither a signatory nor an observer to the plurilateral Agreements on Trade in Civil Aircraft or Government Procurement. It is not a participant in the Information Technology Agreement (ITA).

Services protocols: Paraguay did not take part in the post-Uruguay Round negotiations on telecommunications, the movement of natural persons or financial services.

Dispute settlement: No involvement as complainant or respondent. Third party in 15 cases relating to: cotton; preserved peaches; wheat, wheat flour and edible vegetable oils; poultry; processed orange and grapefruit products; sugar; biotech products; drug arrangements; and retreaded tyres.

DDA negotiations: **Communications submitted to Negotiating Committees since 2001:** Trade and Development (special and differential treatment, and implementation); Trade Facilitation (transit, special and differential treatment, and implementation mechanism); Intellectual Property Rights (notification and registration of geographical indications for wines and spirits, TRIPS and the Convention on Biological Diversity); Agriculture (modalities for market access for SVEs, concerns regarding the "blended formula" approach to market access); Non-agricultural Market Access (NAMA) (modalities, including for SVEs); Rules (experiences and concerns on anti-dumping in the area of textiles and clothing); Dispute Settlement Understanding (improvements to Article 5, *Good Offices, Conciliation and Mediation*).

Services offers: Initial services offer circulated in 2003. No revised offer circulated.

Participation in negotiating groups: MERCOSUR; SVEs - agriculture and market access; Cairns Group; G-20. Paraguay is also a sponsor of document TN/IP/W/10/Rev.2 proposing a voluntary database.

Source: WTO Secretariat.

¹⁴ REDIEX online information. Viewed at: <http://www.rediex.gov.py>.

26. In Ministerial statements to the Ministerial Conferences in Hong Kong, China and Geneva in 2005 and 2009, respectively, Paraguay, *inter alia*, highlighted the importance of the development dimension of the DDA, and more specifically its interests in the negotiations on agriculture, trade facilitation and Aid for Trade.¹⁵

27. Since 2005, Paraguay has submitted 13 communications in the context of the DDA negotiations, in all instances as a co-sponsor together with other countries. Most relate to trade facilitation, with proposals aiming to ensure freedom, non-discrimination and transparency in transit regimes for the transportation of goods by road, as well as to the implementation of DDA commitments and the application of special and differential treatment in this area.¹⁶ Paraguay has also proposed negotiating modalities on market access for SVEs in agriculture and for non-agricultural products.¹⁷

28. In the area of intellectual property rights, Paraguay has co-sponsored a communication which relates to the relationship between the TRIPS Agreement and the Convention on Biological Diversity: it proposes that applicants for patent protection should be required to disclose the origin of biological resources and/or associated traditional knowledge and provide evidence of prior informed consent and fair and equitable benefit sharing.¹⁸

29. Since its previous Review, Paraguay has submitted several notifications (Table AII.1). Notifications are pending in areas such as State-trading enterprises, trade-related investment measures and customs valuation.

(5) PREFERENTIAL TRADE RELATIONS

30. By far the most important of Paraguay's preferential trade agreements is MERCOSUR, which also comprises Argentina, Brazil and Uruguay. MERCOSUR was established in 1991 under the Treaty of Asunción with the objective of creating a common market and ensuring the free movement of goods, services, capital and labour among member countries.¹⁹ Initially an agreement within the Latin American Integration Association (LAIA) framework, MERCOSUR acquired an independent legal personality under international law by virtue of the Additional Protocol to the Treaty of Asunción on the Institutional Structure of MERCOSUR (Protocol of Ouro Preto), signed in December 1994 and in force since 15 December 1995. The Bolivarian Republic of Venezuela signed its Protocol of Accession with the original four MERCOSUR members in July 2006; in December 2010 this Protocol was still in the process of being ratified by Paraguay.

31. MERCOSUR was initially notified to the GATT in 1992 under the Enabling Clause.²⁰ Both the goods and services aspects of MERCOSUR have been examined and discussed in the

¹⁵ WTO documents WT/MIN(05)/ST/48 of 15 December 2005 and WT/MIN(09)/ST/73 of 2 December 2009.

¹⁶ WTO documents TN/TF/W/146/Rev.1/Add.1, TN/TF/W/137, TN/TF/W/133, TN/TF/W/119, TN/TF/W/81, TN/TF/W/79, TN/TF/W/41, TN/TF/W/35/Add.1, TN/TF/W/39, and TN/TF/W/28, of 10 March 2008, 21 July 2006, 10 July 2006, 7 June 2006, 3 April 2006, 15 February 2006, 2 June 2005, 11 May 2005, 2 May 2005, and 22 April 2005, respectively.

¹⁷ WTO documents TN/AG/GEN/11 and TN/MA/W/66 of 11 November 2005.

¹⁸ In WTO document TN/C/W/41/Rev.2/Add.5 of 24 July 2007, Paraguay requested to be a co-sponsor of a proposal originally submitted by a group of WTO Members (WTO document TN/C/W/41/Rev.2 of 5 July 2006).

¹⁹ The provisions of the Treaty of Asunción were incorporated into the LAIA legal framework through Economic Complementarity Agreement No. 18.

²⁰ WTO document WT/L/127 of 7 February 1996.

WTO Committee on Regional Trade Agreements and the Committee on Trade and Development under the provisions of both the GATT 1994 and the Enabling Clause.²¹

32. The institutional structure of MERCOSUR comprises six organs, out of which three are intergovernmental with decision-making powers: the Council of the Common Market (CCM); the Common Market Group (CMG), and the MERCOSUR Trade Commission (MTC). The CCM is responsible for matters relating to the consolidation of regional integration and achievement of the objectives defined by the Treaty of Asunción and adopts Decisions. The CMG is the executive body responsible for monitoring compliance with the Treaty of Asunción, and adopts Resolutions. The function of the MTC is to monitor the application of common trade policy instruments and handle matters relating to common trade policies, intra-MERCOSUR trade, and trade with third countries; it also issues Directives. The rulings of these bodies are binding on all member countries. The organs with no decision-making powers are: the MERCOSUR Parliament, the Economic-Social Consultative Forum, and the MERCOSUR Administrative Secretariat. None of the MERCOSUR organs is supranational; they are all intergovernmental. The MERCOSUR Commission of Permanent Representatives (CRPM) is in charge of assisting the CCM, of making proposals regarding the common market, the integration process and external negotiations, and of strengthening economic, social and parliamentary relations within MERCOSUR.

33. With regard to the dispute settlement system, the Olivos Protocol, signed in 2002 and in effect since January 2004, incorporates a stage for reviewing the arbitral awards made by MERCOSUR's ad hoc arbitration courts, restricted to points of law and legal interpretations. It also includes a clause offering a choice of competent forum (MERCOSUR, WTO, or other preferential schemes). Since 2005, Paraguay has not been involved in any MERCOSUR disputes.

34. The Treaty of Asunción envisages the free movement of goods between the members of MERCOSUR. Since January 2000, all products, with the exception of those of the automotive and sugar sectors, have been free of tariffs for intra-MERCOSUR trade. As of December 2010, the automotive sector was still governed by bilateral agreements; in the case of the sugar sector, MFN tariffs, with a 20 per cent preference, apply to intra-zone trade.

35. MERCOSUR Decision No. 54/04 of 16 December 2004 granted MERCOSUR origin status to products imported from outside MERCOSUR that comply with the common tariff policy. The aim was to achieve the free movement of goods and eliminate the double charging of common external tariff (CET) duties. The first stage in this process, which began in January 2006, concerns goods with a 0 per cent rating in all the member countries or with a tariff preference of 100 per cent within the framework of the agreements concluded by MERCOSUR with third parties. The second stage, which is expected to cover all the goods subject to the CET, has not yet been implemented, although a first step, the entry into force of a MERCOSUR Customs Code, has already been initiated. The full implementation of the process will, however, require the establishment of a mechanism for the distribution of customs revenue and the interconnection of the computerized customs management systems of the various member States. In this connection, in 2010, by Decision CMC 10/10, the CCM approved the Guidelines for Eliminating Double Levying of the CET and for Distribution of Customs Revenue.²²

36. The Protocol of Montevideo on Trade in Services in the MERCOSUR entered into force on 7 December 2005, following ratification by Argentina, Brazil, and Uruguay; Paraguay has yet to

²¹ For a full list of documents relating to the WTO's consideration of MERCOSUR, see the WTO regional trade agreements database. Available at: <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>.

²² MERCOSUR online information. Viewed at: http://www.mercosur.int/innovaportal/file/2365/1/DEC_010-2010_ES_Doble%20Cobro.pdf.

ratify the Protocol, and hence it does not apply in Paraguay. Pursuant to GATS Article V:7, the Protocol of Montevideo on Trade in Services in the MERCOSUR was notified to the Council for Trade in Services (CTS) on 5 December 2006 (S/C/N/388). The Protocol is for an indefinite term and aims to apply the relevant services provisions of the Treaty of Asunción; it establishes a programme for the liberalization of intra-MERCOSUR trade in services within an overall implementation period of ten years from entry into force, i.e. by December 2015 at the latest. The Protocol was reviewed in the WTO Committee on Regional Trade Agreements in September 2008.²³

37. As at the end of 2010, the CET, which came into effect on 1 January 1995, had not yet been fully implemented. Each country maintains a list of CET exceptions, which in Paraguay's case are some 23 per cent of all tariff lines (Chapter III(2)(iv)).²⁴ The aim is to implement the CET by 31 December 2011. For Paraguay, application of the CET would cause rates to increase. Modification of CET rates requires the consent of all MERCOSUR members.

38. Paraguay offers preferential access to a total of 13 countries. These preferences are granted through: its participation in MERCOSUR (see above); MERCOSUR agreements with countries outside the region; and preferences negotiated in the context of Paraguay's membership of the LAIA²⁵, including preferences granted under Regional Tariff Preference Agreement No. 4²⁶, Economic Complementarity Agreements (ECAs) (Table II.1)²⁷, and Regional Scope Agreements (ARAM). According to the authorities, when a country has been given preferences under more than one agreement, the preferential tariff applied is the lowest one, in other words, the tariff that gives the highest level of preference.

39. MERCOSUR, as a group, acceded to the Global System of Trade Preferences (GSTP) among Developing Countries in 2006, but it is not clear whether Paraguay does in practice give these preferences.²⁸

²³ WTO document WT/REG/M/50 of 24 October 2008.

²⁴ Full implementation of the CET should have been achieved by 2001 in the cases of Argentina and Brazil and by 2006 in the cases of Paraguay and Uruguay.

²⁵ The LAIA signatory States are: Argentina; Bolivia; Brazil; Chile; Colombia; Cuba; Ecuador; Mexico; Paraguay; Peru; Uruguay; and Venezuela. A central objective of the LAIA is to develop and consolidate a free trade area among its signatory States. This is being achieved through a gradual process of integration.

²⁶ LAIA members negotiated a Regional Tariff Preference Agreement in 1984. This establishes three categories of LAIA countries: less developed countries; countries at an intermediate stage of development; and other countries. Preferences offered and received by these countries depend on their level of development. Two protocols to the Agreement (the most recent in 1990) have enlarged margins of preference and given additional preference margins to landlocked less developed countries (Bolivia and Paraguay). Each country is permitted to maintain a list of exceptions. LAIA online information. Viewed at: <http://www.aladi.org/nsfaladi/textacos.nsf/vparweb>.

²⁷ ECAs are trade agreements negotiated between pairs or groups of countries. They are defined in the Treaty of Montevideo (Article 11) and Council of Ministers Resolution 2 (Article 7). These texts are reproduced in Annex 1 to WTO document WT/COMTD/59 of 25 January 2007.

²⁸ The GSTP countries are: Algeria, Argentina, Bangladesh, Benin, Bolivia, Brazil, Cameroon, Chile, Colombia, Cuba, Democratic People's Republic of Korea, Ecuador, Egypt, Ghana, Guinea, Guyana, India, Indonesia, Iran, Iraq, Libya, Malaysia, Mexico, Morocco, Mozambique, Myanmar, Nicaragua, Nigeria, Pakistan, Paraguay, Peru, Philippines, Republic of Korea, Sri Lanka, Sudan, Thailand, Tanzania, Trinidad and Tobago, Tunisia, Uruguay, Venezuela, Viet Nam and Zimbabwe. UNCTAD online information. Viewed at http://www.unctadxi.org/Secured/GSTP/Concessions/mercosur_en.pdf.

Table II.1
Non-MERCOSUR countries granted preferential trade access, November 2010

Country	Agreement (date of signature/ entry into force)	Remarks
LAIA members		
Bolivia	MERCOSUR-Bolivia ECA No. 36 (June 1996/October 1996)	Gradual programme comprising several lists of products with their own reduction timetables. Products not included in any of these lists and those in Annexes 1, 2, 3 and 4 were subject to a 10-year timetable for tariff reductions, completed in 2006. For products in Annex 5 and Annex 6, duty-free trade will be achieved in 2011 and 2014, respectively. A special regime applies to products included in Annex 8, subject to a lower rate of tariff reduction (6%-8%). The agreement contains provisions on the tariff and customs regime, customs valuation, rules of origin, export subsidies, safeguards and other contingency measures, dispute settlement, technical regulations, and sanitary and phytosanitary measures. Calls for future negotiations on services liberalization.
	ARAM No.1 Regional Agreements - Opening up of markets	Approves lists of products for which member countries accord, without reciprocity, total elimination of duties and other restrictions, provided that they originate in Bolivia (Article 18 of the Treaty of Montevideo, 1980).
	LAIA Regional Tariff Preference Agreement No. 4	Paraguay grants a tariff preference of 24% to Bolivian imports (exceptions relate to 1,920 tariff lines).
Chile	MERCOSUR-Chile ECA No. 35 (June 1996/October 1996)	Elimination of duties on at least three-quarters of tariff lines before January 2004 and on all tariff lines before 2014. The agreement contains provisions on the tariff and customs regime, customs valuation, rules of origin, export subsidies, safeguards and other contingency measures, dispute settlement, technical regulations, and sanitary and phytosanitary measures. Calls for future negotiations on services liberalization.
	LAIA Regional Tariff Preference Agreement No. 4	Paraguay grants a tariff preference of 12% to Chilean imports (exceptions relate to 1,920 tariff lines).
Colombia	MERCOSUR-Andean Community ECA No. 59 (December 2003/March 2005)	Gradual establishment of a free trade area over a maximum transition period of 15 years. Calls for negotiations on services.
	LAIA Regional Tariff Preference Agreement No. 4	Paraguay grants a tariff preference of 12% to Colombian imports (exceptions relate to 1,920 tariff lines).
Cuba	MERCOSUR-Cuba (July 2006 ^a)	Limited coverage (2,700 tariff headings). Establishment of a free trade area over a maximum period of 5 years for a limited product universe.
	LAIA Regional Tariff Preference Agreement No. 4	Paraguay grants a tariff preference of 12% to Cuban imports (exceptions relate to 1,920 tariff lines).
Ecuador	MERCOSUR-Andean Community ECA No. 59 (December 2003/March 2005)	Gradual establishment of a free trade area over a maximum transition period of 15 years. Calls for negotiations on services.
	ARAM No. 2 Regional Agreements - Opening up of markets	Approves lists of products for which member countries accord, without reciprocity, total elimination of duties and other restrictions, provided that they originate in Bolivia (Article 18 of the Treaty of Montevideo, 1980).
	LAIA Regional Tariff Preference Agreement No. 4	Paraguay grants a tariff preference of 20% to Ecuadorian imports (exceptions relate to 1,920 tariff lines).
Mexico	AAP.R. No. 38 Partial Scope Renegotiation of the Historical Heritage	The purpose of this agreement is to incorporate the concessions granted over the period 1962-1980 into the integration scheme established by the Treaty of Montevideo, 1980.
	LAIA Regional Tariff Preference Agreement No. 4	Paraguay grants a tariff preference of 8% to Mexican imports (exceptions relate to 1,920 tariff lines).
Peru	MERCOSUR-Peru ECA No. 58 (August 2003/November 2005)	Establishment of a free trade area over a maximum transition period of 15 years. The timetable for tariff reductions varies according to the product and country. There are in general 8 reduction timetables (B1, B2, C1, C2, D1, D2, D3 and D4). Products in group B1 are subject to an initial tariff reduction of 30% and subsequent annual reductions until 1 January 2012. Products in group B2 start with a cut of 15%, and reductions until 1 January 2014; implementation of reductions for products in groups C1 and C2 by 1 January 2010 and 1 January 2014, respectively. Products in group D3 will be subject to a phase-out of tariffs by 1 January 2016, and products in groups D2 and D4 by 1 January 2019. The agreement does not cover goods produced in free zones or subject to special customs regimes.
	MERCOSUR-Andean Community ECA No. 59 (December 2003/March 2005)	Gradual establishment of a free trade area over a maximum transition period of 15 years.
	LAIA Regional Tariff Preference Agreement No. 4	Paraguay grants a tariff preference of 12% to Peruvian imports (exceptions relate to 1,920 tariff lines).

Country	Agreement (date of signature/ entry into force)	Remarks
Venezuela	MERCOSUR-Andean Community ECA No. 59 (December 2003/March 2005) LAIA Regional Tariff Preference Agreement No. 4	Gradual establishment of a free trade area over a maximum transition period of 15 years. Paraguay grants a tariff preference of 12% to Venezuelan imports (exceptions relate to 1,920 tariff lines).
Other countries		
India	MERCOSUR-India (January 2004 (agreement) and March 2005 (annexes)/June 2009) ^b	Applies to goods but not services. Covers 902 tariff lines. MERCOSUR's tariff preferences to India cover 452 tariff lines. India's tariff preferences to MERCOSUR cover 450 lines. Concessions still to be finalized with preference margins rising from 10 or 20% to 100% for a limited group of products. Provisions include: preferential safeguard measures; provisional safeguards; and dispute settlement.
Israel	MERCOSUR-Israel (December 2007/March 2010) ^c	Applies to goods but not services. Covers around 9,424 tariff lines for MERCOSUR and 8,000 lines for Israel. There are some exceptions, but with conditions for their inclusion. Four-phase tariff reduction over a 10-year period. Provisions include: bilateral safeguards; global emergency measures; and dispute settlement.

a Not available.

b The MERCOSUR-India FTA has been notified to the WTO. WTO document WT/COMTD/N/31 of 25 February 2010.

c Paraguay ratified the MERCOSUR-Israel FTA on 22 February 2010. The Agreement will apply bilaterally between Paraguay and Israel until all of the MERCOSUR States have ratified it (ratification by Argentina remains pending).

Source: WTO document WT/TPR/S/176/Rev.1 of 23 April 2007; LAIA online information. Viewed at: <http://www.aladi.org/nfaladi/textadcos.nsf/vparweb> and <http://www.aladi.org/nsfaladi/guiasimportacion.nsf/09267198f1324b64032574960062343c/3f590b4bebd19ea403257486007210e4?OpenDocument>; and Government of Paraguay online information. Viewed at: <http://www.mre.gov.py/dependencias/tratados/mercosur/registro%20mercosur/mercosurprincipal.htm>.

40. Free trade agreements have been signed by MERCOSUR member States with Egypt (in 2010) and the Southern Africa Customs Union (SACU), which comprises Botswana, Lesotho, Namibia, South Africa, and Swaziland (in 2008). These, however, have not yet entered into force, pending the required ratification by all of the parties.

41. MERCOSUR countries have also signed framework agreements to formally set in train preferential trade negotiations with several countries: Jordan (2008); Turkey (2008); Pakistan (2006); the Cooperation Council for the Arab States of the Gulf (United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait) (2005); and Morocco (2004).²⁹ Negotiations between MERCOSUR and Jordan on a free trade agreement are at an advanced stage. These framework agreements generally involve the establishment of a negotiating committee, composed of the respective parties, to exchange information and propose measures, *inter alia*.

42. In addition, Memoranda of Understanding on the promotion of trade and investment have been signed by MERCOSUR countries with: the Republic of Korea (2009); Singapore (2007); Russia (2006); Guyana (1999); and Trinidad and Tobago (1999). These cover, *inter alia*: exchange of information; identification of areas of mutual interest; and measures for expanding trade and investment.³⁰

²⁹ These agreements can be viewed at: <http://www.mre.gov.py/dependencias/tratados/mercosur/registro%20mercosur/mercosurprincipal.htm>.

³⁰ See: <http://www.mre.gov.py/dependencias/tratados/mercosur/registro%20mercosur/mercosurprincipal.htm>.

43. Finally, negotiations on an interregional association agreement between the European Union and MERCOSUR were revived during the period under review.³¹

(6) AID FOR TRADE

(i) Overview

44. One of the Government's objectives is to boost diversification of the economy and to achieve this it is paying special attention to economic growth through international trade and development of infrastructure in order to overcome the limitations imposed by its position as a landlocked country. As far as Aid for Trade is concerned, the priorities identified by Paraguay include development of infrastructure, regional integration and promoting competitiveness.

45. Several evaluations, both at the national level and by international development agencies and organizations, indicate that the major constraint on Paraguay's growth remains the inadequate development of its infrastructure, which, *inter alia*, makes Paraguayan exports less competitive.³² In recent years, despite the existence of projects with external financing, public investment in infrastructure was relatively low. This can be attributed to three factors: concentration on stabilizing public finance; the relatively low level of taxation in Paraguay; and problems in carrying out projects with approved financing.

46. The PEES 2008-2013 is the framework for all sectoral programmes and the basis for developing long-term strategies.³³

47. One of the objectives in the PEES is to encourage diversification of exports in order to achieve more stable international integration for Paraguay's economy.³⁴ For this purpose, the PEES seeks to improve the infrastructure in such a way as to enhance competitiveness and lessen the vulnerability caused by concentration of exports on agricultural products with little value added. Several sectoral programmes have been conducted in order to achieve the overall objectives in the PEES, including: the Strategic Framework for Agriculture 2018 (plan for reform of the agricultural sector)³⁵; the *Paraguay Competitivo 2030* programme (programme for the diversification of production, creation of exportable supply and promotion of competitiveness); the Master Plan for National Transport³⁶; and the Strategic Plan for the Energy Sector 2013.³⁷

(ii) Trade-related technical assistance

48. During the period under review, Paraguay received assistance from the WTO and other intergovernmental agencies (Table II.2) in areas such as: agriculture; sanitary and phytosanitary

³¹ European Commission online information. Viewed at: <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/mercosur/#>.

³² See, for example, the analyses in: *Paraguay Competitivo 2030* (<http://www.paraguaycompetitivo.gov.py/>); USAID (2005); and IMF (2010b).

³³ Government of Paraguay (2010), *Paraguay para todos y todas 2010-20*. Viewed at: www.sfp.gov.py/pdfs/Publicaciones/PLAN_DESARROLLO_SOCIAL.pdf.

³⁴ Government of Paraguay (2008), *Plan Estratégico Económico y Social 2008-13*. Viewed at: <http://www.hacienda.gov.py/web-hacienda/index.php?c=436>.

³⁵ For further details, see: Ministry of Agriculture and Livestock, at: <http://www.mag.gov.py/Marco%20estrategico.pdf>.

³⁶ For further details, see Ministry of Public Works and Communication, at: <http://www.mopc.gov.py/mopc/web/index.php?p=uep1822-inicio&m=uep1822>.

³⁷ Under-Secretariat for Mining and Energy. Viewed at: <http://www.ssme.gov.py/VMME/sector%20energetico/PlandeEnerg/pese/00%20INICIO.pdf>.

measures; technical barriers to trade; import licensing; trade facilitation; intellectual property; services; non-agricultural market access, etc. Paraguay also benefited from bilateral trade-related technical assistance given by trading partners such as: Brazil, the United States of America, India, Japan, Malaysia, the Republic of Korea, and Chinese Taipei.

Table II.2
WTO technical assistance activities in which Paraguay participated, 2006-2010

Type of activity	2006		2007		2008		2009		2010*		TOTAL	
	A	P	A	P	A	P	A	P	A	P	A	P
Distance learning	1	11	7	23	8	34	11	35	7	35	37	138
Regional trade policy courses	1	2	1	1	0	0	1	2	1	2	4	7
Courses in Geneva	0	0	1	1	1	1	4	3	1	1	7	6
Internships	1	1	0	0	0	0	0	0	1	1	2	2
Regional seminars **	10	24	5	10	11	48	4	4	4	10	34	96
Regional training activities **	5	12	5	10	3	7	3	13	6	3	22	45

* Partial data from the WTO Secretariat, updated to 28/07/2010.

** Regional seminars deal with specific topics; regional training activities cover several topics.

A Number of activities

P Participants; RTPCs = Regional trade policy courses.

Source: WTO.

49. In the course of this Review, additional Aid for Trade needs were identified in areas such as: compliance with notifications, especially on sanitary and phytosanitary measures; assistance in applying the provisions in the TRIPS Agreement at the border; services; and anti-dumping. The need to create an integrated national economic statistics system was also identified.

(iii) Aid-for-Trade flows

50. During the period 2006-2008, Aid-for-Trade funds committed represented 0.6 per cent of GDP (annual average). This amounted to 42 per cent of the total official development assistance received by Paraguay over this period. A large proportion of these funds (US\$203 million) were for an energy project financed by Japan in 2006. The total amount of Aid for Trade disbursed was much lower than the amount committed during the period 2006-2008, totalling US\$106.4 million or 38.8 per cent of the amount committed over the same period (Table II.3).

51. The energy sector received most of the Aid-for-Trade commitments in 2006-2008 because of the financing committed by Japan in 2006 for the building of a hydro-electric power station.³⁸ The second sector was agriculture, which received commitments exceeding US\$19 million in 2006-2008, although disbursements were higher because of commitments made during years prior to 2006. Financial services was another subsector in which substantial commitments were made, exceeding US\$20 million. For trade regulations and policies, both commitments and disbursements were around US\$13 million during the period 2006-2008.

³⁸ OECD database. Viewed at: http://stats.oecd.org/qwids/microdata.html?q=1:1+2:137+3:100+4:1+5:4+6:2006+7:2+9:85&ds=CRS_SMPL&f=json.

Table II.3
Aid-for-Trade flows by sector, 2006-2008
 (US\$ millions in 2008 constant dollars)

	Commitments			Disbursements		
	2006	2007	2008	2006	2007	2008
Total Aid for Trade	214.2	21.4	38.6	12.7	26.4	67.3
Economic infrastructure and services	207.3	8.8	20.6	3.7	5.2	22.7
Transport and storage	1.7	0.4	0.3	1.7	0.4	17.2
Communications	1.0	3.1	0.8	1.0	2.6	1.5
Energy	203.6	1.3	0.1	0.0	0.9	0.3
Banking and financial services	0.9	2.9	18.5	0.5	0.8	2.8
Business and other services	0.1	1.1	0.9	0.4	0.6	0.9
Production sector	6.9	12.6	18.0	9.0	21.2	44.6
Agriculture, forestry, fishing	4.9	9.8	4.5	6.2	9.5	40.3
Industry, mining, construction	1.5	1.7	1.4	1.6	1.6	1.5
Industry	1.4	1.7	1.4	1.6	1.6	1.5
Construction	0.1	0.0	0.0	0.0	0.0	1.5
Trade policies and regulations	0.4	1.0	11.8	1.1	10.0	2.8
Tourism	0.2	0.1	0.3	0.2	0.1	0.1

Source: OECD - Creditor Reporting System. Viewed at: <http://stats.oecd.org/Index.aspx?DatasetCode=CRSNEW> on 27 July 2010.

52. Paraguay's principal cooperation partner in the three years under consideration (OECD data, Table II.4) was Japan, as regards both commitments and disbursements. It was followed, in order of importance, by Germany, Republic of Korea, Spain and the United States of America.

Table II.4
Aid-for-Trade flows by donor, 2006-2008
 (US\$ millions in 2008 constant dollars)

Donor	Commitments			Disbursements		
	2006	2007	2008	2006	2007	2008
All (I+II)	214.2	21.4	38.6	12.7	26.4	67.3
I. Countries, total	214.2	21.4	17.9	12.1	17.0	65.4
Canada	0.1	0.0	0.4	0.7	0.9	0.5
France	0.0	2.6	0.3	0.0	2.6	0.3
Germany	0.3	2.3	8.9	1.4	1.4	1.3
Italy	0.0	0.0	0.0	0.0	0.0	0.2
Japan	211.6	6.8	5.2	8.1	6.8	56.8
Republic of Korea	0.6	4.1	0.9	0.6	3.1	1.7
Spain	1.1	3.7	0.4	1.1	1.5	2.9
United States	0.5	1.9	1.8	0.1	0.7	1.4
II. Multilateral, total	0.0	0.0	20.7	0.6	9.4	1.9
EU institutions	0.0	0.0	8.7	0.6	9.4	1.9
IDB Fund for Special Operations	0.0	0.0	12.0	0.0	0.0	0.0

Source: OECD - Creditor Reporting System. Viewed at: <http://stats.oecd.org/Index.aspx?DatasetCode=CRSNEW>.

53. Paraguay has also received Aid-for-Trade financing through the FOCEM, under which projects totalling close to US\$116 million have been approved in areas such as rehabilitation and

upgrading of highways, support for microenterprises, construction and upgrading of drinking water and sanitation systems, sealing roads, and development.³⁹

54. In addition, Paraguay has received resources from the LAIA special technical assistance fund, intended primarily for business training.

55. One of the projects financed that had the greatest impact during the period under review was the project for development of Paraguayan export enterprises' competitiveness (FOCOSEP), financed by funds from the European Union. The funds were committed in 2004 for a total of €13 million and for a period up to December 2008. The project had three pillars: reinforcing the national quality scheme, strengthening health inspection and monitoring agencies, and promoting clusters in the private sector.⁴⁰ Its achievements include the construction, equipping and approval of sanitary and phytosanitary inspection laboratories; training for officials in international standards; and the creation of the National Information and Notification System (SNIN) for notifications to the WTO (Chapter III(2)(viii)).

56. Another project that had a significant impact was the development of REDIEEX, administered by the United Nations Development Programme. The project started to be implemented in 2005 and cost US\$10.7 million.⁴¹ As a result of the implementation of REDIEEX, a number of sectoral committees were set up to promote the diversification of exports and to attract investment (Chapter III(3)(v)).

57. A third project, the Single Window for Exports, was financed by the Inter-American Development Bank (Chapter III(3)(i)).⁴²

³⁹ MERCOSUR online information. Viewed at: <http://www.mercosur.int/focem/index.php?id=paraguay1>.

⁴⁰ European Community Delegation in Paraguay. Viewed at: http://ec.europa.eu/delegations/paraguay/documents/press_corner/newsletters/no6_abril_junio_2010_es.pdf

⁴¹ United Nations Development Programme. Viewed at: [http://www.undp.org.py/v3/detalle_pyto2.aspx?suc_id=686&ar_id=Proyectos%20de%20Gesti per centC3 per centB3n](http://www.undp.org.py/v3/detalle_pyto2.aspx?suc_id=686&ar_id=Proyectos%20de%20Gesti%20per%20centC3%20per%20centB3n).

⁴² Single Window for Exports: <http://www.vue.org.py/index1.php>.