

IV. TRADE POLICIES BY SECTOR

(1) OVERVIEW

1. Since the previous Review, there have been important efficiency changes in the structure of production in Argentina, resulting from a new and more competitive trade environment, supply and demand changes and important productivity gains in certain sectors. However, there remain a number of inter-sectoral distortions notably through tariff escalation, non-tariff measures, fiscal treatment and investment incentives. Indeed, the dispersion in protection and production assistance across sectors has intensified since the last Review. While many of these distortions are to be corrected in the next five years, through the implementation of WTO and MERCOSUR commitments, substantial tariff escalation will persist and there are still uncertainties about sectoral programmes in agriculture and automobiles. State involvement in a number of sectors has been substantially reduced under the privatization programme, but there has also been a substantial concentration in ownership of Argentine enterprises, especially in services (Box IV.1).

Box IV.1: Privatization and concentration in the Argentine economy

Structural reforms have led to increasing concentration in the Argentine economy, particularly in the services sector. An increasing share of business is in the hands of fewer, larger firms and conglomerates; in 1995, the activities of the top 14 companies in hydrocarbons, telecoms, motor vehicles, supermarkets, foodstuffs, beverages, tobacco and the lottery contributed about 9% of GDP. Only two state firms appeared among the top 1,000 companies. The concentration process also expanded progressively to rural areas where traditional land-owners were replaced by large diversified firms, such as Benetton and Soros.

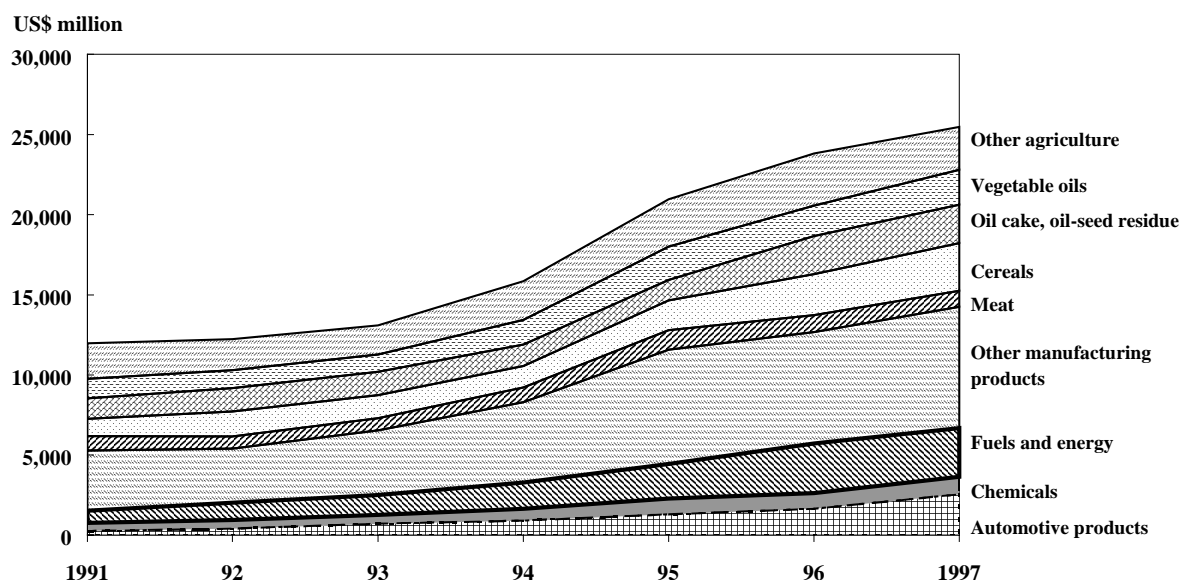
The privatization process has accelerated the concentration: public monopolies were replaced by private monopolies in areas such as gas, electricity, water, telephones and toll roads. Some 66 out of the 200 largest companies resulted from privatizations; the 50 most profitable companies accounted for 60% (or 80% if YPF is included) of all profits generated. This was partly due to the fact that the bidding criteria could only be met by the larger companies, many of which were local associates of foreign firms. Privatized services companies have since increased their sales dramatically while industrial companies have stagnated. This may be related to the improved competitiveness of these companies but the privatization process has also highlighted weaknesses in the regulatory and competition policy framework in the new business environment.

2. The agriculture sector (agriculture, livestock, fisheries) remains of considerable importance to the Argentine economy; although its contribution to GDP has declined slightly in recent years. It still generates, directly or indirectly, the larger part of merchandise export revenues (Chart IV.1).

3. Since 1991, government intervention has supported modernization and crop diversification projects, but it has also been used to shield some crops from import competition. Apart from tariffs, which are generally moderate, there is a variable levy on sugar; in addition a price support mechanism and debt write-off facilities continue to assist tobacco production. Fiscal incentives are used to foster investment, but, overall, domestic support reductions were made in line with WTO commitments in 1997. Cattle breeding in Patagonia as well as projects in certain provinces benefit from subsidized credit. Measures have been adopted to limit deforestation and the depletion of fisheries resources. Successful efforts have been made to meet international health standards for meat, thus enhancing export opportunities for several agricultural items. On the other hand, to assist domestic processing industries, export taxes are still applied to unprocessed oilseeds and raw hides and skins.

Chart IV.1

Evolution of merchandise exports by main product groups, 1991-97



Source: INDEC.

4. Since the previous Review, mining and energy activities have experienced rapid expansion under privatization, franchising and deregulation, as well as the introduction of an attractive framework of investment incentives. Since 1991 Argentina has become an oil and gas exporter, and, by the end of the century, current mining projects may also produce exportable surpluses. There is still substantial State involvement in oilfield exploration, petrochemicals, electricity generation and distribution, and gas distribution.

5. Manufacturing is largely based on the processing of agricultural commodities; however, the automotive sector has been a major component of GDP growth since the early 1990s. Direct assistance, in the form of fiscal incentives and preferential credit, has targeted the promotion of modernization, conversion, specialization, and medium- and small-sized firms. However, tax breaks for the purchase of capital goods and the operation of an Industrial Specialization Regime were suspended in the context of tax reforms in 1996.

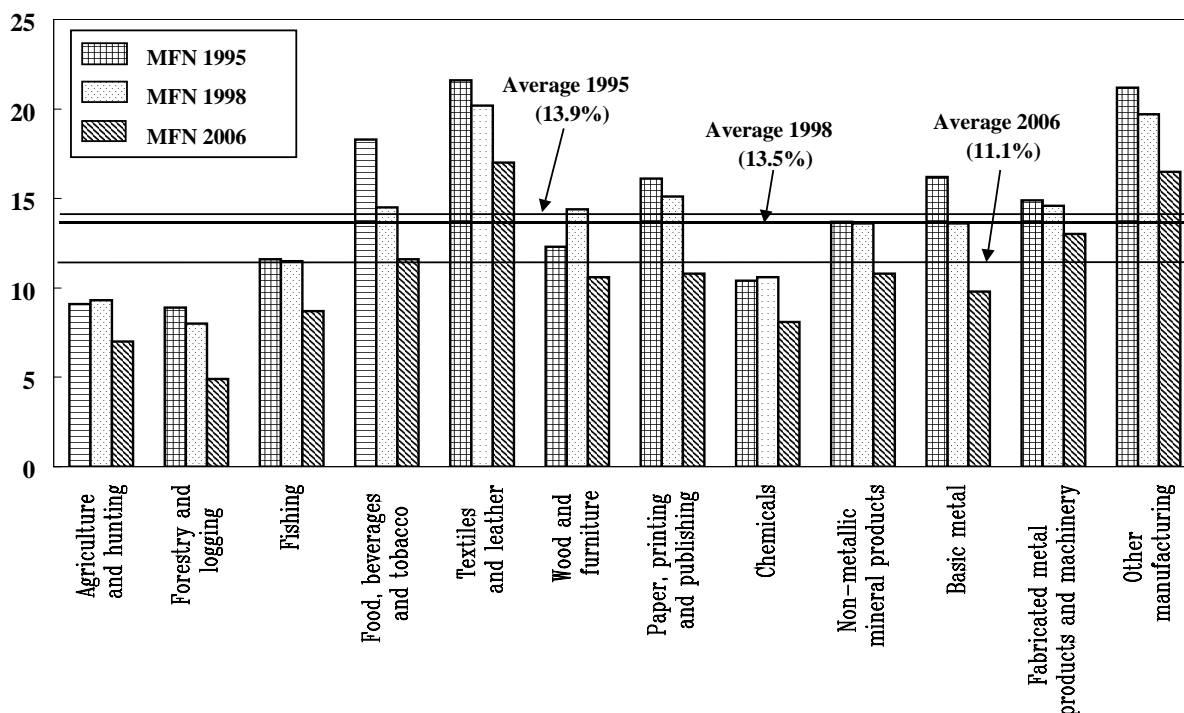
6. There is considerable dispersion of tariff protection in the manufacturing sector, with protection for textiles, wearing apparel and leather, and many other final manufactured goods substantially exceeding the overall average rate in 1998 (Chart IV.2, Tables IV.1 and AIV.1).¹ Minimum specific duties on textiles, clothing and footwear have been in force since 1993; since 1997, footwear has been subject to safeguards and an increase in *ad valorem* duties. Trade in automobiles, which has been governed by the Automobile Industry Regime and bilateral arrangements with Brazil, is subject to high tariffs, quantitative restrictions, balanced trade and local-content requirements; although restraints have started to be relaxed, the regime is to remain in force until the year 2000.

¹ Calculations are based on *ad valorem* duties only.

Chart IV.2

Tariff average by 2-digit ISIC industry, 1995, 1998 and 2006

Per cent



Note: Calculations for 1998 include the 3 percentage points increase of the customs tariff on a number of items as applied by Argentina until the year 2000.

Source: WTO Secretariat calculations based on data provided by the Government of Argentina.

7. Regional competition is expected to further intensify in the Argentine market as tariff protection on imports of sensitive items originating in other MERCOSUR countries is progressively eliminated in the period up to the year 1999 (Chapters II and III). The MERCOSUR integration process, particularly after the elimination of these intra-zone tariff barriers, is expected to entail some structural adjustment (as would any adverse movements in the Argentine-Brazil exchange rate - Chapter I). Between 1992 and 1996, MERCOSUR partners became the main suppliers of a number of items and the main destinations for fuels, pharmaceuticals, paper, textiles and footwear. However, third countries evolved as the principal suppliers of tobacco, iron and steel, and automobiles.²

8. About two thirds of GDP is generated by services, of which the leading activity is commerce (retail trade, etc.). Argentina made wide-ranging commitments under the General Agreement on Trade in Services, which were subsequently expanded in the area of telecommunications. Reforms in the banking sector, intensified in the aftermath of the Mexican crisis, appear to have re-established confidence in the system. In insurance the state monopoly has been terminated while in telecommunications the state monopoly was replaced by private oligopolies, whose exclusive rights on certain services expire in the year 2000. Although airport privatization has been slow, reforms so far have allowed for more efficient and cheaper passenger and cargo transportation; however, bilateral cargo sharing agreements persist in maritime transport. Since 1994, protection for the local

² Comment based on UNSD Comtrade database statistics (SITC Rev.3 classification).

film industry and satellite broadcast transmission has been reinforced by local-content requirements. Fiscal incentives and credit on concessional terms have been made available in support of the construction sector.

Table IV.1
Main features of the Argentinian tariff schedule, 1998 and 2006
(Per cent)

	1998				2006			
	Simple average	Dispersion		Coefficient of variation ^a	Simple average	Dispersion		Coefficient of variation ^a
		Range	Standard deviation ^a			Range	Standard deviation ^a	
All tariff lines	13.5	0-33	6.8	50.6	11.1	0-20	6.2	56.1
By sector ^b :								
Agriculture and fisheries	9.5	0-19	5.0	52.7	7.1	0-16	4.1	58.0
Mining	6.1	0-13	2.4	39.3	3.3	0-10	1.9	57.9
Industry	13.8	0-33	6.8	49.5	11.4	0-20	6.2	54.5
By degree of processing:								
Primary products	8.9	0-23	5.0	55.4	6.4	0-20	4.3	67.7
Semi-processed products	12.0	0-24	6.0	49.7	9.3	0-18	5.7	61.7
Finished goods	15.4	0-33	7.1	46.0	13.1	0-20	6.0	45.7

a The standard deviation measures the absolute dispersion of a distribution; the coefficient of variation is a measure of relative dispersion, defined as the standard deviation divided by the average.

b Based on ISIC classification.

Note: Calculations for 1998 include the 3 percentage points increase of the CET as applied by Argentina on a number of items until the year 2000.

Source: WTO Secretariat.

(2) AGRICULTURE, FISHERIES AND FORESTRY

(i) Agriculture (including livestock) and fisheries

9. Argentina remains self-sufficient in basic foodstuffs and the larger part of production is available for export. The agriculture and fisheries sectors generate directly or indirectly (via agro-industrial goods) the majority of Argentina's exports (56% in 1996). Between 1991 and 1996 agricultural and agro-industrial exports grew by 74%, partly under the benign influence of high world prices for some key exports, but this was still a much slower rate of growth than other merchandise trade.³

10. The direct contribution of the agricultural, livestock and fisheries sector to GDP dropped from 8.3% in 1991 to 6.7% of GDP in 1997 (Table I.2). It should be noted that these GDP figures underestimate the importance of the sector as many processed products are not included in the calculation. Moreover, as mentioned, agriculture and agro-industrial products continue to account for the majority of Argentina's exports.

11. Between 1992 and 1996 there were important changes in the production pattern (value terms) with the share of crops increasing by about 25% against a drop of more than 29% for livestock (Chart IV.3); this seems to have been the outcome of, on the one hand, substantial growth in the output and more favourable prices for grains (cereals, oilseeds), and, on the other, the gradual decline in the value of meat production. The authorities indicated that such changes may also be explained in

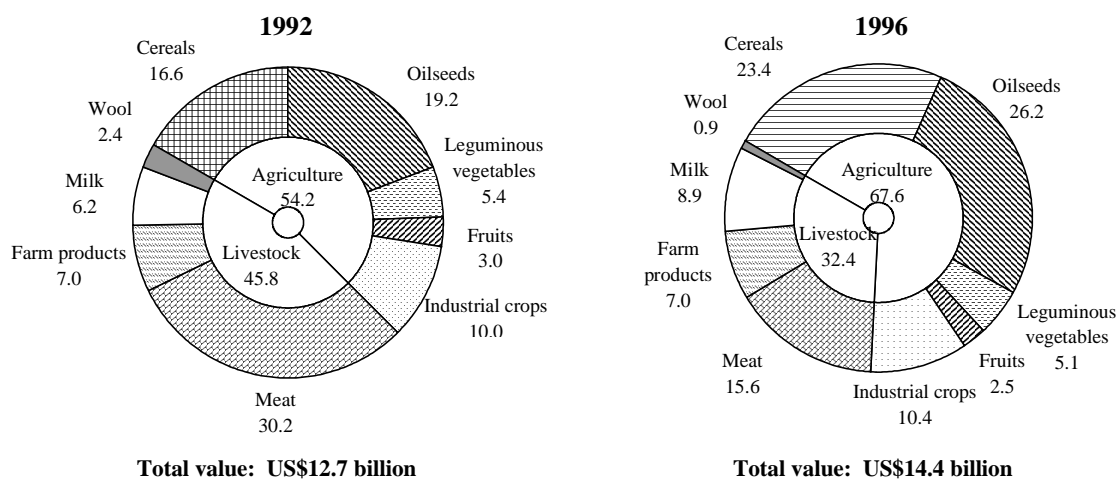
³ Chart IV.2 based on data from UNSD Comtrade database.

part by the reduction of state involvement in production and/or marketing activities, for example, the elimination of the National Grains and Meat Boards. The agriculture sector has also undergone a concentration into larger units with new business organizations and seeding pools; these units have attracted considerable foreign investment and benefit from scale economies, improved technology and management (Box IV.1). Higher agricultural prices in 1995/96 encouraged the increased use of fertilizers and pesticides, purchases of new machinery, the implementation of new cultivation techniques and introduction of irrigation equipment.⁴

Chart IV.3

Agriculture and livestock production, 1992 and 1996

Per cent, based on constant 1993 prices



Source: MEOSP/SAGPA.

12. General policy objectives in the agriculture (crops) and livestock sectors for the period under review included: the substantial increase in gross output, the increase in profitability and investment promotion; the promotion of conversion of small and medium-sized enterprises, and production diversification; the improvement of socio-economic conditions for small producers; the improvement in the quality of foodstuffs; the increase of agro-industrial exports; the promotion of infrastructure investment for production and marketing; the increase in efficiency of public services; and the use of advanced technology in the production process.⁵ Objectives with respect to the forestry and fisheries sectors are found in relevant sections (section (i)(e) and (ii) below). Since of 1996, MEOSP's Secretariat of Agriculture, Livestock, Fisheries and Food (SAGPA), its three under-Secretariats and the specialized agency National Administration of Food Health and Quality (SENASA) have been responsible for the formulation, coordination and implementation of the sectorial policies.

⁴ Nevertheless, fears were expressed that the recent cuts in export drawback rates and the increase in tariffs on capital goods were to affect agricultural producers who, encouraged by the rise in agricultural prices, have been investing in equipment (Chapter III) (EIU (1996a), p. 43; EIU (1996b), p. 21; Latin American Regional Reports-Southern Cone, 12 September 1996).

⁵ MEOSP, SAGPA information provided to WTO Secretariat.

13. Under the reforms of the last decade, there has been a reduction of the negative implicit taxation of the agriculture sector associated with the previous import substitution industrialization (ISI) policies. Thus, industrial protection has been lowered and specific government policies affecting the sector have been overhauled by eliminating certain disincentives, such as export taxes, foreign exchange controls, the national marketing boards on meat and grains, as well as cutting the cost of imported inputs and machinery, and by privatizing key transport networks (section (5)(iv)), grain elevators and port operations.⁶ There was also a shift from price-related transfers towards other net transfers via marketing boards prior to their elimination. Research and extension services are provided by SENASA. In consequence, average Producer Subsidy Equivalent (PSE) rates for exportables turned from negative (-4% in 1991-92) to positive (3.3% in 1993); PSEs ranged from -1.2% (soybeans) to 5.7% (wheat) in 1993.⁷ Today, government intervention in agriculture is modest, mainly consisting of border measures, tax breaks, subsidized credit and debt rescheduling. However, the cross-sectoral effects of (more modest) protection of manufacturing through tariff peaks and escalation must continue to impart some degree of anti-agricultural bias.

Border measures

14. In 1998, average nominal tariff protection for the sector was 9.3%, compared with 13.5% for all goods (Table AIV.1); under the process of convergence to the MERCOSUR CET, tariff protection is scheduled to drop to 7%. Since 1992, variable import levies have been applied to sugar imports (section (c) below). No restrictive non-tariff measures apply to agricultural imports.

15. As discussed earlier, in the Uruguay Round Argentina bound its entire tariff schedule without having recourse to "tariffication", i.e. the conversion of non-tariff measures to customs duties. It has thus forgone the right to use market access limitations in the form of special safeguards or tariff quotas allowed under the WTO Agreement on Agriculture. Furthermore, as no domestic or export subsidies (subject to reductions) are indicated in its Schedule of Concessions, the general rules on domestic support commitments (*de minimis* percentage) and export subsidies (prohibition) of this Agreement apply.⁸ A notification on the price support mechanism on leaf tobacco (section (c) below), was made in November 1997 putting into consideration the adoption of domestic support reduction commitments by Argentina; this notification was being revised by the authorities in mid-1998.⁹

16. Intra-MERCOSUR trade liberalization is expected to boost Argentine exports of grains, meat and dairy produce to the Brazilian market.¹⁰ A 1991 agreement governing intra-MERCOSUR trade and trade with third countries on a number of agricultural products expired in 1994, thus eliminating all forms of differential treatment except for those items exempt from or converging to CET rates. The completion of the adjustment regime is expected by the beginning of 1999 when the remaining duty of 4% on orange juice is to be eliminated. However, sugar will remain constrained until a common sugar regime is adopted in 2001.

⁶ Prior to 1991, the main growth constraint for the agricultural sector was implicit and explicit taxation for fiscal and industrial development purposes; temporary tax breaks never managed to offset this disincentive. Other growth impediments included lack of credit and poor infrastructure (storage and transport from the farmgate to the port terminal) (GATT (1992)).

⁷ World Bank (1996d), Tables A4, A5 and A6.

⁸ More specifically, the general provisions on domestic support commitments allow developing countries to exclude from the calculation of their current total aggregate measurement of support and to exempt from reductions a *de minimis* percentage of 10% of the domestic support to producers (paragraph 4 (b) of Article 6). Notwithstanding Article 9.4 provisions, export subsidies not specified in the Schedule of Concessions are prohibited (paragraph 3 of Article 3).

⁹ WTO documents G/AG/W/24, 18 April 1996; G/AG/ARG/4, 7 November 1997.

¹⁰ EIU (1996a), p. 44.

17. As mentioned in Chapter III, export taxes affecting bovine-derived raw materials and unprocessed oilseeds, are applied, *inter alia*, to ensure supplies to the respective domestic processing industries.

18. Overall, the inclusion of trade in agriculture within WTO/multilateral regulatory disciplines was considered by the Argentine authorities to be a positive outcome of the Uruguay Round: it was expected to reduce the use, intensity, and, thus, the impact of trade distorting measures of other trading partners. However, Argentina has since expressed concern over certain implementation aspects of the agreed disciplines.¹¹ Argentine agricultural exports are subject to non-tariff barriers in a number of developed and developing countries, while subsidized exports of certain WTO Members, in particular, the European Union and the United States, are said to have displaced or reduced the competitiveness of Argentine goods in third markets.¹²

Fiscal measures

19. Fiscal incentives for agriculture are available in the form of deferrals of tax payments and explicit tax breaks. Since 1993, conversion/diversification projects have enjoyed VAT tax breaks (through credit bonds) on raw materials and semi-manufactures and duty-free entry of utility vehicles and equipment. Since 1996, to offset the impact on agricultural and fisheries costs of a tax increase of 46% on diesel oil, introduced in August of the same year, a profit tax break equivalent to the amount of the excise tax paid for the purchase of diesel oil has applied.

20. In the context of regional development, since 1979 agricultural (and tourism) projects have been allowed several types of tax benefits including the deferment of payment of national taxes over a certain period with the corresponding amount invested in agricultural projects; such benefits, initially reserved to one province (La Rioja), have been extended to others.¹³ At present such benefits are extended on an annual basis through the federal Budget, which sets province-specific ceilings for the total amount of the estimated fiscal cost; in 1998 a maximum fiscal cost of US\$922 million (12% less than in 1997) was established for non-industrial projects.¹⁴ The authorities indicated that, by May 1998, 655 projects representing US\$1.7 billion of investment and only US\$250 million of estimated fiscal cost, had benefited from this regime.

21. Since the previous Trade Policy Review farmers have been granted access to credit through government-supported programmes available to other sectors. As a result, the indebtedness of the sector increased to a total of about US\$6.2 billion in 1996, becoming a major burden for some small and medium-sized producers. Debt write-off facilities have been allowed for the tobacco sector (section (c) below).

¹¹ *Comisión Nacional de Comercio Exterior* (1996).

¹² Apart from its direct involvement in GATT/WTO dispute settlement cases (Chapter II), Argentina has repeatedly expressed its concern in various GATT/WTO bodies, about specific trade measures maintained by trading partners in the area of agriculture. These include: restrictions on imports of certain agricultural products (Japan); wheat export subsidies (Canada, the EU and the United States); import licensing regime for apples, orange juice, garlic and other agricultural products (EU); proposed measures on peanut butter and peanut paste (United States); a proposed regulation on special SPS measures to encourage the processing of certain citrus fruits (EU); soybean oil export subsidies (the United States); standards for frozen sausage (Korea); restrictions on imports of tuna (the United States), and regulations concerning the labelling of scallops (France).

¹³ Law 21608, 12 July 1977; Law 22021, 3 May 1979; Law 22702, 19 December 1982; Law 22973, 11 November 1983; Law 24764, 18 December 1996; Law 24938, 18 December 1997; MEOSP/SAGPA (1997), *Alimentos Argentinos*, p. 58.

¹⁴ Article 51 of Law 24938.

22. Subsidized credit is oriented towards regional development objectives. Since 1993 under the Subsidized Assistance and Directed and Monitored Credit scheme, loans at the subsidized interest rate of 10% in 1996 have been made available by the BNA for the upkeep of breeding cattle and investments towards agriculture/livestock/agro-industrial production in Patagonia; this assistance is intended to cut producers' costs, promote investment and raise profitability and productivity, as well as to meet emergency situations such as adverse climatic conditions.¹⁵ The authorities indicated that in 1996 loans under this facility reached US\$286,899, extended to 374 producers. The BNA has also signed agreements with the less-developed provinces of La Rioja, Formosa and Tierra del Fuego under which it will finance loans at subsidized rates ranging from 4% to 6% for irrigation, horticulture and tourism projects.

Other

23. A series of programmes offering financial, social, technical and organizational assistance to rural producers has been launched, *inter alia*, to help reduce this burden through improved performance. These include: the programme for rural change, designed to encourage conversion and diversification of small and medium-sized producers; the social programme, providing technical and financial assistance to small producers; and the programme for Provincial Agricultural Services, aimed at supporting and improving support services at provincial level. The programme for the Promotion of Marketing and Financial Tools for the Modernization of Agricultural Trade, (COMERCIAR) encourages and provides advice on the use of the futures markets, warrants, and export pre-finance. The Integrated Information System of Agriculture, Livestock and Fisheries (SIAP) provides an enlarged sectoral database for decision-makers in both the private and public sectors. Expenditure and other details concerning these measures were last notified to the WTO in November 1997 (Chapter III).¹⁶

(a) Cereals (wheat, maize, rice, sorghum, etc.)

24. Between 1991 and 1997, rice production grew almost four-fold, while that of maize doubled; wheat output expanded, and that of sorghum followed a cyclical trend.¹⁷ Argentina's productivity levels (the yield per unit of land) are similar to those of Australia or Canada, with much less intensive use of fertilizers (one third of Australia's and one tenth of some European countries).¹⁸ From 1991 to 1997 cereals exports grew by 179% to about US\$3 billion (Chart IV.1). In 1996 wheat and maize represented about 83% of total exports of cereals; wheat was largely (71%) exported to MERCOSUR markets.¹⁹ Imports are insignificant.

25. In the past, Argentina maintained a number of bilateral agreements for the supply of grains to other countries at negotiated prices but, following the elimination of the National Grains Board, they have progressively disappeared.²⁰ Until 1994 Brazil maintained a special arrangement with Argentina for the duty-free importation of some 2 million tonnes of wheat a year; however, since January 1995 this limitation was lifted and all trade is now duty free.²¹ Since the accession of Spain and Portugal to the EC in 1987, Argentina has been allowed to participate in EU tenders for the tariff quota allocation of maize (2 million tonnes/Spain) and sorghum (300,000 tonnes/Spain, 500,000 tonnes/Portugal)²²;

¹⁵ *Banco de la Nación Argentina* (1997), pp. 33 and 36.

¹⁶ WTO document G/AG/N/ARG/4, 7 November 1997.

¹⁷ MEOSP (1997a), Table A1.9.

¹⁸ EIU (1996a), p. 24.

¹⁹ UNSD Comtrade database.

²⁰ GATT (1992).

²¹ WTO (1997b).

²² *Comisión Nacional de Comercio Exterior* (1996), p. 105.

the authorities indicated that the timing of the deadline for submitting offers in EU tenders (end of April) has so far constituted the major obstacle to the effective utilization of this export opportunity since the deadline expires just before most Argentine maize and sorghum is available for export, between April and June each year.

(b) Oilseeds (colza, line, sunflower, peanuts, soybeans)

26. Argentina is the world's third largest soybean producer, after United States and Brazil, and the second largest exporter, after Brazil.²³ Since 1991 domestic oilseeds production has varied considerably, except for colza where a declining trend was recorded.²⁴ Overall, between 1992 and 1996, Argentine oilseeds exports grew by 21% to US\$955 million, of which soybeans represented more than 61%; exports were largely destined to non-MERCOSUR markets.²⁵

27. In the past, Argentina had a few bilateral agreements for the supply of oilseeds and vegetable oils to other countries at negotiated prices but, as stated earlier, these are no longer in force.²⁶ In 1992, in the context of GATT Article XXVIII negotiations under paragraph for the modification of the EU's concessions, Argentina requested and obtained recognition of its status as a principal supplier to the EU for certain oilseed exports (six eight-digit HS items including soybeans, colza seeds, sunflower seeds, soybean cake, sunflower-seed cake).

28. In 1997, Argentina expressed concern about U.S. quota allocation procedures (first come, first served, importer's declaration-based origin) affecting the total annual tariff quota of peanuts (36,877 tonnes in 1998) that it negotiated at the Uruguay Round; since its entry in force, Argentina's "directed registered shipments" related to quota utilization has been as low as 18% in 1996, and losses from non-availability of this quota have been estimated at as much as US\$15 million a year.²⁷ Currently Argentina is consulting with the United States under Article XXII of GATT 1994 on the administration of its tariff-rate quota for imports of groundnuts (Chapter II).

29. Argentina is the main olive oil producer in South America. More than half of Argentine olive oil output is exported, mainly to Brazil. Argentina's export performance is to some extent related to production and export conditions (climatic, financial support) in the Mediterranean region which is the major world producer. Imports in the first nine months of 1997 were the equivalent of 47% of national production.²⁸

30. In recent years, fiscal incentives and changes in consumers' habits have led to the expansion of domestic olive production. Fiscal incentives for investment in certain regions comprise a 14-year-period tax payment deferral; after this period expires, taxes are paid without interest. This measure appears to have assisted the sector in introducing improved technologies in crop handling and processing, as well as in attracting investment from other sectors (e.g. supermarkets, non-alcoholic beverages industry). However, raw material shortages prevent the full use of olive-processing capacity.

²³ *Latin American Economy & Business*, April 1997.

²⁴ MEOSP (1997a), Table A1.9.

²⁵ UNSD Comtrade database.

²⁶ GATT (1992).

²⁷ The Bureau of National Affairs (1997).

²⁸ Information supplied by the authorities.

(c) Industrial crops (sugar cane, tobacco)

Sugar cane

31. Since the previous Review, sugar cane production has varied strongly²⁹ but in the same period sugar exports doubled, with 14.5% of domestic production exported in 1996.³⁰ Imports, which are low (17,000 tonnes, equivalent to 1% of domestic output, in 1996) and mainly originate in Brazil, declined by about 13% in the same period.³¹

32. Argentina's sugar cane production and processing has been through a major restructuring process following the deregulation of the sector in 1991. The Government eliminated a number of measures in force at the time of the previous Trade Policy Review, including the National Sugar Directorate, annual sugar production quotas, and a prohibition on the installation of new refineries for a ten-year period.³²

33. Sugar is protected by substantial *ad valorem* duties, the statistical tax (0.5% in 1998), and, since May 1992, variable import levies (US\$ per tonne) which were introduced to shield domestic producers from abrupt fluctuations in world market prices (Chapter III); imports are not affected by quantitative restraints. The level of import duties depends on the origin: in 1998, the *ad valorem* tariff for raw sugar (from sugar cane and sugar beets, HS17.01) stood at 23% (third countries) and 20% (MERCOSUR origin).³³ The statistical tax and variable levies apply regardless of origin. Variable levies on raw sugar may be positive or negative. According to data from the *Centro Azucarero Argentino*, negative rates operate as a compensatory refund of the *ad valorem* duties, and have ranged from US\$-1.42 per tonne (September 1997) to US\$-146.2 per tonne (August 1995); positive rates have ranged from US\$2.99 per tonne (May 1994) to US\$89.32 per tonne (March 1998).³⁴ The authorities indicated that the maximum border protection level resulting from the use of the components discussed in this paragraph has not exceeded the bound level of 35%.

34. Sugar is not yet duty free within MERCOSUR. In 1996 talks started in MERCOSUR's Ad Hoc Group on Sugar for a gradual phase-out of sugar tariffs and the establishment of a common sugar regime for external trade by the year 2001. In May 1998 progress had been limited, mainly because of the extent of adjustment that will be required to the existing, quite different sectoral regimes among members.³⁵ To counter the asymmetry due to the cross-subsidy element available to Brazilian producers of sugar for fuel alcohol, in September 1997 the Argentine Senate passed and ratified a law revoking a decree that was to allow for lower tariff rates on raw sugar imports from Brazil (HS17.01); thus, Brazilian sugar has remained subject to third country duty rates minus the 3 percentage point increase of the CET, a net rate of 20%.³⁶

35. In 1998, the drawback rates for sugar exports were set at 6.75%; a rate of 10% applied to sugar confectionery. The United States is the main export destination. In 1996, 54% of Argentine sugar exports took place under the U.S. tariff quota, which is allocated to sugar mills, sugar cane

²⁹ MEOSP (1997a) Table A1.9.

³⁰ UNSD Comtrade database. According to the authorities, between 1990 and 1996 sugar exports dropped by 53%, while they remained stable from 1992 to 1996.

³¹ MEOSP/SAGPA (1997), p. 50.

³² GATT (1992); Decree 2284/91, 31 October 1991.

³³ Other sugars/molasses (HS17.02, 17.03) and sugar confectionery (HS17.04) from third countries were subject to *ad valorem* rates of 19% and 23%, respectively, while those from MERCOSUR were duty free.

³⁴ Data supplied by the authorities.

³⁵ For a description of the Brazilian sugar regime, see WTO (1997b).

³⁶ Decree 471/97, 22 May 1998; and Law 24822, 3 September 1997.

producers and trading firms in proportion to the volume exported to other destinations³⁷. For the 1996/97 crop, Argentina was allocated 69,774 tonnes or 3% of the entire quota, while for 1998, this amount dropped to 48,101 tonnes or 4% of the total; the shares are based on the country's historical trade with the United States.³⁸

Tobacco

36. Since 1991 tobacco production has been cyclical with an overall rising trend; a record crop (120,000 tonnes) was expected in 1997.³⁹ Between 1992 and 1996 MERCOSUR lost its position as Argentina's main supplier for tobacco; its share of the country's tobacco imports declined from 68% to 43%.⁴⁰

37. The Special Tobacco Fund (FET), established in 1972 and derogated under the 1991 reforms, was restored in 1994⁴¹; it is funded through a 7% emergency tax on cigarette sales, which generates annual revenues of US\$170 million. The FET has financed the operation of five-year plans which include: a price support mechanism for leaf tobacco; support for the debt write-off or re-finance of tobacco producers; and assistance for the strengthening and/or conversion of cooperatives.

38. Domestic support commitments were suggested in 1997 for the reduction of the Aggregate Measure of Support (AMS) for the price support mechanism for leaf tobacco from an adjusted amount of US\$90.6 million in 1996 to US\$79.6 million in the year 2005⁴²; however, the AMS in 1996 stood at US\$122.8 million or 35.5% above the adjusted amount. The authorities stated that AMS reduction commitments were to be fully observed from 1997 onwards⁴³, in other words, a significant decline to US\$84 million in budgetary outlays for the price support mechanism for leaf tobacco was applied for the 1996/97 crop. By May 1998 the authorities indicated that the immediate impact of the drastic cut for the 1996/97 crop was attenuated by the high market prices, reflecting world price trends, and through the utilization of Green Box measures; in the light of specificities of the Argentine tobacco production pattern, the reduction of domestic support could have considerable impact on inefficient and labour-intensive producers in the medium and longer terms. By 1995, the cost of the price support mechanism stood at about US\$98 million and absorbed more than 55% of FET's financial resources while debt-related expenditure represented 22%.

39. At the time of completion of this report Argentina's AMS reduction proposals had been examined in the WTO Committee on Agriculture at its December 1997 and March 1998 meetings.⁴⁴ Replies were given to certain participants (Australia, Canada, the EU, New Zealand) on the original calculations of the AMS, details on the methodology for adjustment of the initial commitment, the process of rectification of the commitment, the operation of the Special Tobacco Fund and other Green Box programmes as well as the functions of some agencies. Regarding Argentina's AMS adjustment, Hungary reserved its position and WTO rights, while Canada, the EU and New Zealand expressed concern over the precedent; as indicated earlier, the authorities undertook the revision of the price conversion methodology.

³⁷ MEOSP Resolution 383/97, 18 June 1997; and MEOSP/SAGPA (1997), p. 50.

³⁸ U.S. Department of Commerce (1996b); and USTR Press Release, 12 May 1998.

³⁹ MEOSP (1997a), Table A1.9.

⁴⁰ Comment based on UNSD Comtrade database statistics (SITC Rev.3 classification).

⁴¹ Law 19800, 23 August 1972.

⁴² The original AMS amount was adjusted subject to WTO Members' approval, on the basis of excessive inflation provisions under Article 18:4 of the Agreement on Agriculture.

⁴³ WTO document G/AG/N/ARG/4 of 7 November 1997.

⁴⁴ WTO documents G/AG/R/13, 19 December 1997 and G/AG/R/14, 30 April 1998.

40. Since 1994, in the context of the five-year plans, the financial support to tobacco producers through debt write-off or rescheduling has been agreed with individual provinces; at present, such support operates only in one province (Tucumán), having ceased in five other provinces (Chaco, Catamarca, Corrientes, Salta and Jujuy) in 1996. Financial resources are allocated through a coefficient based on average producer income or output over the last three crops, and adjusted to climatic conditions or the production pattern prevailing in each province. The authorities indicated that this device has never been linked to prices or future crops. In 1994 and 1995 tobacco cooperatives from seven provinces benefited from financial assistance; such assistance was required for their restructuring with a view to becoming competitive and self-sufficient within a duopsony context.

41. Since 1994 a conversion/diversification programme for tobacco producing areas (PRAT), run by SAGPA, has financed a number of projects to assist small producers in seven provinces in the north of the country. Output diversification towards primary and industrial crops has been encouraged with a view to reducing revenue risks. Under the PRAT, subsidized credit, technical assistance and training was made available to tobacco producers. Details on budgetary outlays were not available.

42. In 1995, under Article XXVIII procedures, Argentina negotiated with the United States an annual tobacco tariff quota, set at 11,000 tonnes in 1998 and at 10,750 tonnes from 1999.⁴⁵ The authorities indicated that the degree of utilization of this quota has been 100% so far.

(d) Livestock

43. Since the early 1990s, livestock production has been adversely affected by low world prices, intense competition in international markets and changes in consumption habits, for example, lower competition of beef; its contribution to GDP dropped from 3.2% in 1991 to 2.7% in 1995. The rise in the price of various crops caused the displacement of cattle breeding in marginal regions while the number of sheep continued to decline as a result of a volcanic eruption in 1991 and harsh winters in 1994 and 1995; pork production suffered from increased foreign competition.⁴⁶ Between 1991 and 1996 the number of cattle declined by 7.2%, sheep by 19% and pork by 8.9%; however, poultry production expanded by more than 46%.⁴⁷ Over the same period, milk production increased by 46%, but egg and wool output declined by 14% and 44%, respectively.

44. Once the world's largest beef exporter, Argentina has slipped to fourth position in 1998, it accounted for 8% of global beef exports. After 1971, the presence of foot-and-mouth disease in part of the country caused Argentine beef to be excluded from many overseas markets. However, between 1992 and 1996 exports of beef expanded by 86%, poultry exports grew by a factor of nine, but sheep-meat exports contracted. Dairy exports grew eight-fold; in contrast to other livestock items, which were destined for world markets, the growth of dairy exports was mainly due to the opening of MERCOSUR markets.⁴⁸ At present, the main destinations of Argentine beef (unprocessed and thermo-processed) are the EU, the United States (until mid-1997 thermo-processed meat only), Chile, and other MERCOSUR partners (mainly Brazil).⁴⁹ Beef exports dropped by 10.6% in volume and

⁴⁵ Schedule XX of the United States; WTO (1996).

⁴⁶ EIU (1996a), p. 43. Pork and derivatives producers complained about subsidized exports from Brazil (*Latin American Weekly Report*, 30 September 1997).

⁴⁷ MEOSP (1997a), Tables A1.4 and A1.9.

⁴⁸ UNSD Comtrade database.

⁴⁹ Data indicated in MEOSP/SAGPA (1997), Tables 7 and 14.

19.6% in value in 1996 partly to reduced overseas demand related to the Bovine Spongiform Encephalopathy (BSE) scare.⁵⁰

45. In recent years Argentina has made major efforts to ensure compliance with export-related sanitary requirements in order to diversify and expand market opportunities. To eliminate foot-and-mouth disease, a seven-year US\$600 million campaign entailing the vaccination of the entire cattle herd, was undertaken, partly funded by the Inter-American Development Bank. Finally, on 29 May 1997, after three years without an outbreak, the International Office of Epizootics (IOE) declared Argentina to be free of foot-and-mouth disease.⁵¹ As a result of the IOE decision, the authorities planned the establishment of a new entity with public and private sector participation to promote beef sales abroad.

46. Argentina's exports to the EU are subject to several tariff quotas, which vary according to the product, and affect two thirds of Argentina's beef exports to this market. The quotas include: Hilton special/high quality cuts (28,000 tonnes a year at a tariff rate of 20%, out of which 11,000 tonnes were obtained as compensation in the oilseeds dispute settlement case); edible frozen bovine meat offals (700 tonnes a year at 4%, compared to an out-of-quota compound rate of 17.6% plus a specific duty)⁵²; the Bilan quota of meat for processing (50,000 tonnes subject to normal *ad valorem* duties only); and, the GATT quota for frozen meat (53,000 tonnes subject to normal *ad valorem* duties).⁵³ The Bilan and GATT quotas are administered by EU importers. All these quotas have been fully utilized so far.

47. Concerning sheep and goat meat exports to the EU, a zero-duty annual tariff quota of 23,000 tonnes from 1996 onwards, negotiated in the Uruguay Round, replaced a voluntary export restraint arrangement in force until 30 June 1995.⁵⁴

48. In the United States market, since 1995 Argentina has been eligible for an annual 20,000 tonne quota of fresh/frozen beef, estimated at 5% of beef exports in 1996, agreed in the Uruguay Round (Chapter III). This quota became effective on 25 August 1997⁵⁵; the in-quota tariff rates of 4%, 10% or US\$4.4/kg., depending on the tariff items, are substantially lower than the out-of-quota duty of 29.5%. In 1997, 5,897 tonnes were exported under this quota. Exports of several types of cheese to this market have also been subject to quantitative limitations; in the Uruguay Round, Argentina's total annual quota was increased by 42% to 6,800 tonnes; since 1994 the degree of utilization has ranged from a low of 35% in 1996 to as much as 93% in 1997.

⁵⁰ For example, the Hilton special cuts quota was entirely placed.

⁵¹ This decision is expected to raise the volume of exports by 20%.

⁵² Out-of-quota applied rate for HS item 02.06.29.91 indicated in the EU Common External Tariff.

⁵³ *Comisión Nacional de Comercio Exterior* (1996), p. 102. The Hilton special/high quality cuts tariff quota was negotiated at the Tokyo Round; in 1997, Argentina was allocated about 50% of the volume (MEOSP/SAGPA (1997), p. 62). Its importance consists of the preferential tariff level and high prices that are obtained. The main destinations of these high quality cuts are Germany and the United Kingdom.

⁵⁴ The authorities indicated that due to climatic conditions, natural disaster, shortage related to fluctuations in wool price, etc. the degree of utilization of this quota dropped to less than 9% in the period 1995-97 but is increasing in 1998.

⁵⁵ The Bureau of National Affairs (1997), *International Trade Reporter*, Vol. 14 No. 16, 16 April, and Vol. 14 No. 27, 2 July; WTO (1996), Appendix Table AIV.4. Since 1927, after an outbreak of foot-and-mouth disease, Argentina has only been allowed to ship cooked (canned, processed) beef products to the United States (*Financial Times*, 27 June and 27 August 1997).

49. Argentina's objective is to double exports to 1 million tonnes by the year 2000.⁵⁶ Indeed, the reduction of EC subsidies, improvements on sanitary status (foot-and-mouth disease, BSE-free) and the opening of the U.S. market, should enhance the prospects for Argentine beef exports. New destinations, which represent the biggest challenge and potential for Argentine meat exports, are the markets of Japan, Korea and Chinese Taipei, which account for one quarter of the world beef market.

(e) Fisheries

50. Argentina's large coastal zone provides abundant fishing resources, and the fishing grounds within easy reach of the Atlantic coast are being increasingly developed. The total fish catch has trebled in the last decade, and between 1991 and 1995 the contribution of fisheries to GDP, although small, doubled from 0.1% to 0.2%.⁵⁷ Between 1990 and 1997 the catch volume grew by an overall 146%⁵⁸; nevertheless, exploitation is uneven, with overfishing of some species, such as squid.

51. Much of the marketable catch is exported, the main markets being Brazil, Spain, Japan and Chinese Taipei. Between 1992 and 1996 exports doubled, with squid as the fastest growing item, overtaking beef exports in importance.⁵⁹ This performance, as well as fiscal incentives, have attracted the attention of foreign investors as well as local groups whose primary operations are unrelated to the sector. However, in the short term export prospects are limited, because of the lack of processing capacity, as well as access restrictions in certain markets (Chinese Taipei, Japan, Korea) and international price trends for certain species.

52. General fisheries policy objectives for the period under review comprised the increase in value added of the catch and market diversification while ensuring preservation of resources.⁶⁰ A new legal framework, adopted in January 1998 with the introduction of the Federal Regime of Fisheries, established a Federal Council on Fisheries in charge of policy formulation and consultation; it also administers a new National Fisheries Fund (FONAPE).⁶¹ The Federal Council on Fisheries sets the catch ceilings on the recommendation of the National Institute of Research and Development of Fisheries (INIDEP). Under the new regime, general registration requirements (Fisheries Register,) were established for all operators of the sector. Catch royalties are partly to be used to fund FONAPE's activities, which include the financing of research, monitoring and training.

53. Resources in the Argentine maritime zone (12 miles around its coastline) may only be exploited by vessels flying the Argentine flag. Under the 1998 legislation, exceptions to this rule are made for recently built foreign ships leased by national companies for a period not exceeding three years, and for arrangements under international (bilateral) agreements; leased ships may catch abundant species that are under-exploited or not exploited at present.⁶² Between 1992 and 1998 the exploitation of Argentine fisheries resources by foreign vessels was operated through a temporary chartering regime run by SAGPA.⁶³ Under this regime, approval was given only to catch squid, in an effort to increase the catch of this species and to compensate for the absence of national vessels fishing for squid. While authorization was granted for 72 foreign vessels, the number of operational

⁵⁶ Statements by the head of the Argentine National Service of Animal Health contained in The Bureau of National Affairs (1997), *International Trade Reporter*, Vol. 14 No. 22, 28 May.

⁵⁷ MEOSP (1997a), Table A1.4.

⁵⁸ Data from the MEOSP Secretariat of Agriculture, Livestock, Fisheries and Food (SAGPA).

⁵⁹ UNSD Comtrade database.

⁶⁰ Information available on Internet by the MEOSP Secretariat of Economic Policy.

⁶¹ Law 24922, published on 12 January 1998, amending Law 17500, 25 October 1967 and its implementing regulations.

⁶² Articles 35 and 36 of Law 24922.

⁶³ Decree 1493/92, 20 August 1992.

vessels is falling: 68 units operated in 1996, 56 in 1997 and only 15 in 1998. The operation of foreign vessels is also subject to prior authorization and registration in the Register for Foreign Ships and Naval Devices, introduced in 1992. Fishing fleets from Russia, Japan, Spain and Korea, among others, have operated in Argentine waters.⁶⁴

54. In November 1992 Argentina signed a Fisheries Agreement with the EU, which entered into force in April 1994.⁶⁵ This Agreement, which is expected to generate annual export revenues of more than US\$120 million, allows EU fleets to fish in the 200-mile reserved zone in exchange for a 50% reduction in the EU import tariff on Argentine fishing products; as mentioned earlier, duty-free entry is allowed for fishing boats and parts under this Agreement. In 1998 three vessels flying EU flags were authorized to operate for a two-year period with the possibility of a one-year extension. The agreement also provides for financial assistance for new investment by EU investors and firms established in Argentina in the fleet and on-shore plants, as well as a US\$32 million (ECU28 million) donation for scientific, technological and infrastructure development in the sector. Fifty projects of technical cooperation, involving authorities from five provincial authorities and INIDEP, were signed. Despite the agreement, the authorities indicated that since 1994 there has been no expansion of Argentine fish exports to the EU.

55. Bilateral discussions on the establishment of possible fisheries agreements are being held with China, Chinese Taipei, Japan and Korea.

56. Until the early 1990s a regulatory framework encouraging the expansion of fishing activity allowed the overfishing of certain species and led to a reduction in the stock of hake, sea bream, pomfret, salmon and prawns. To counter overfishing of hake, since 1991 no new fishing permits have been issued for this species and efforts have been made to foster conservation by establishing catch ceilings of 398,000 tonnes in 1995 and 1996, and 390,000 tonnes in 1997 upon the recommendation of INIDEP. However, it appears that these catch ceilings are being exceeded, mainly as a result of legal loopholes under the previous legislation. In 1997 an agreement for reducing by 20% the catch of hake, the mainstay of Argentina's fishing resources, was reached between the fishing industry and the Secretariat of Agriculture, Fisheries and Food.⁶⁶ In addition, in July 1997, emergency measures were announced, prohibiting fishing in certain areas and increasing penalties for offenders in order to protect coastal waters from over-exploitation. In recent years fishing has also been regulated for other species: catch quotas have been established for squid, the use of selective nets for prawns and weakfish, is regulated, and there is new cooperation at provincial or bilateral levels with Uruguay (Mixed Technical Committee of the Maritime Front). Plans for the use of satellite monitoring of the fishing fleet are under consideration.

57. Fisheries enjoy average tariff protection of some 11.5% in 1998, but this will decline to 8.7% when the CET is fully applied (Table AIV.1).

(ii) Forestry

58. Since the last trade policy Review of Argentina the forestry sector has been through a period of considerable change. In the early 1990s forestry was comparatively neglected, most of the original hardwood forests were cleared and the average deforestation rate stood at 0.2% per year.⁶⁷ In the period from 1992 to 1996, wood exports increased by about 40% to US\$68 million; imports grew at

⁶⁴ World Trade Press (1995).

⁶⁵ Law 24315, 20 April 1994; *Comisión Nacional de Comercio Exterior* (1996), p. 102.

⁶⁶ MEOSP/SAGPA Resolution 379/97, 17 June 1997.

⁶⁷ Europa Publications Limited (1995).

the slower pace of about 8% over the period.⁶⁸ Since 1995, in the context of a reinforced national forestry programme, substantial areas have been re-planted to provide raw material for the paper and cellulose industries.

59. General forestry policy objectives include increasing production and exports, while ensuring the conservation of natural resources as well as the promotion of modernization and technological development.⁶⁹ Since 1992, when fiscal incentives were eliminated, the national and provincial authorities have provided a number of incentives for forestry development with a view to promoting new plantations for commercial and industrial use, raising productivity and quality, and attracting new investment. In November 1995 the federal promotion regime run by SAGPA/MEOSP was amended and extended until the year 2000; changes to the regime have included the expansion of incentives to trimming and the establishment of an annual amount of budgetary outlays of not less than US\$15 million for the period 1997-2000. Under this regime subsidies have been granted to forest-owners or forestation projects; in 1998, rates ranged from pesos 320 to pesos 700 per hectare of forest, and pesos 40 to pesos 50 per hectare of trimmed surface.⁷⁰ Assistance is granted under three modalities depending on the social and economic situation of the applicant as well as the size of the surface under consideration. In 1997 the authorities were considering the appropriate terms for notification of this measure to the WTO.⁷¹

60. The authorities indicated that between 1992 and 1998, project coverage under these schemes grew four-fold to more than 100,000 hectares, while 94,000 hectares were replanted. Foreign investment projects were valued at US\$850 million in 1996.⁷²

61. In June 1998, Congressional Commissions were considering the possibility of introducing a regulatory framework for the forestry sector similar to that applied to mining (Chapter II and section (3)(i) below).

(3) MINING AND ENERGY

62. Mining and quarrying (including oil extraction) represented 2.9% of GDP in 1996 (Table I.2), a modest increase since 1991 in the light of developments and the sector's potential; the sector employs 0.6% of the workforce.⁷³

(i) Mining other than energy

63. Despite considerable potential, mining, other than energy, makes a negligible contribution to GDP (0.2%). However, between 1992 and 1997 value added in mining is estimated to have grown by an average annual rate of 6.9% to reach US\$715 million; this was mainly due to the start-up of two large capital intensive projects (*Bajo Alumbraera*, *Salar del Hombre Muerto*), which were expected to have positive effects in regional development and employment (4,000 new jobs).⁷⁴ Investment grew from US\$4 million in 1991 to US\$73 million in 1995, and production is expected to increase almost six-fold between 1998 and the early years of the next century. The bulk of additional output is

⁶⁸ Calculations cover SITC Rev.3 category 24 (UNSD Comtrade database).

⁶⁹ Information available on Internet by the MEOSP Secretariat of Economic Policy.

⁷⁰ Decree 711/95, 13 November 1995, and numerous implementing regulations, including MEOSP/SAGPA Resolutions 393/96 (4 July 1996), 446/96 (23 July 1996) and 623/97 (28 August 1997); MEOSP/SAGPA Resolution 894/96.

⁷¹ WTO document G/SCM/Q2/ARG/9, 11 February 1997.

⁷² EIU (1996a), p. 44; EIU (1996b), p. 21.

⁷³ MEOSP (1997a), Tables A1.4 and A3.5.

⁷⁴ MEOSP/SICyM (1998).

expected to be exported. Argentina is expected to become one of the world's largest producers of gold and copper by the end of the century.⁷⁵ In contrast to this generally positive trend, iron ore extraction has fallen precipitously because of the closure of high-cost mines.

64. Between 1992 and 1996, exports of non-ferrous metals, ores and other minerals (excluding fuels) increased by 94.3% to about US\$278 million (mainly consisting of non-ferrous metals).⁷⁶ Using a more restricted definition of minerals, the Argentine authorities estimate that minerals exports grew from some \$18 million in 1992 to \$36 million in 1996 (an increase of some 25%), and \$122 million in 1997, an increase of over 60% since 1992. Although exports to MERCOSUR markets have risen, the main destination is third countries.

65. General mining policy objectives for the period under review comprised: increasing exports; reduction of infrastructure costs for small firms; reduction of transport costs; promotion of investment and technological development; and preservation of the environment.⁷⁷ As discussed in Chapter II, since 1993 the regulatory framework governing mining operations has been revised and extended to cover fiscal, investment, operating, institutional and environmental matters as well as issues concerning federal and provincial authorities; a new Mining Code streamlining existing provisions into a single text was passed in 1997.⁷⁸

66. The 1993 investment framework removed restrictions on foreign investors; guaranteed fiscal stability for 30 years and a 3% ceiling on the annual royalty payable on the "minehead value" of extracted minerals to provincial governments; allowed accelerated depreciation of fixed investments; and introduced several tax breaks including zero tariffs on imports of capital goods (Chapter III) and exemption from payment of the assets tax. Since 1994, VAT financing and anticipated refund has been allowed for purchases of new capital goods, mining infrastructure investment, and definitive importation of capital goods originally introduced on a temporary basis; this concession is reserved to export-oriented investment. In 1997, in the light of the increasing number of imports of capital goods entitled to duty-free entry, a 1% verification tax was established.⁷⁹ Furthermore, as is the case for agriculture and fisheries, the tax paid on liquid fuels and natural gas, corresponding to purchases of diesel oil destined to extraction operations, may be deducted from payments of profit tax. A Federal Mining Agreement harmonized rules on procedures, regulated procedures for public bids for large-scale exploration and mines, and updated the Mining Register.

67. In 1997, fiscal assistance to the sector stood at US\$46 million: customs duty concessions for equipment and inputs under this regime were worth US\$34 million (for imports estimated at US\$184 million), while US\$12 million were disbursed (out of US\$180 million authorized through 67 certificates) for anticipated VAT refunds under four large projects.⁸⁰

68. In January 1998, a bilateral Mining Integration Treaty was signed with Chile to promote investment in border areas as well as the rational use of common resources. Such cooperation protocols are intended to foster large-scale infrastructure projects affecting energy and transportation;

⁷⁵ Its extensive mineral deposits, situated primarily along its Andean borders with Chile and Bolivia, have a geological structure similar to that found in those countries, both of which have long mining traditions. Argentina is to become the world's 14th and South America's largest gold producer. World Trade Press (1995).

⁷⁶ The WTO Secretariat calculations cover SITC Rev.3 categories 27, 28 and 68 (UNSD Comtrade database).

⁷⁷ Information available on Internet by the MEOSP Secretariat of Economic Policy.

⁷⁸ Decree 456/97, 21 May 1997; Decree 74/98, 22 January 1998; and AFIP General Resolution 115/98, 3 April 1998.

⁷⁹ MEOSP Resolution 1325/97, 20 November 1997.

⁸⁰ MEOSP/SICyM (1998).

such projects may allow for Argentine copper and gold concentrates to be smelted and shipped (via a tunnel through the Andes) to Chile.⁸¹

(ii) **Energy**

69. Since the last Trade Policy Review the energy sector has benefited from the increased availability of strategic resources of oil and gas, as well as the de-regulation process. Energy policy objectives have included the elimination of state monopolies and central planning, as well as price liberalization, privatization, and the transfer of sectoral risks (commercial, financial) to the private sector. Primary energy output is largely based on oil (53%) and gas (37%), and to a lesser extent on electricity (5%).

(a) **Hydrocarbons and gas**

70. Argentina is self-sufficient in oil (petroleum), and in the early 1990s it was the second-largest gas producer in Latin America. Between 1991 and 1997, crude oil and natural gas production increased by 68.93% and 50.37%, respectively. At present production rates, remaining proven reserves are expected to be depleted in a little more than 20 years; however, proven gas reserves will suffice through the year 2030.⁸²

71. Following the 1989 deregulation, de-monopolization and privatization of the state oil and gas companies *Yacimientos Petrolíferos Fiscales*, (YPF) and *Gas del Estado*, (GdE), oil and gas extraction has gained in importance. The depletion of land-based reserves has led to increased offshore exploration. Between 1989 and 1997, oil processing output (downstream operations) increased by rates of 17.7% for petroleum and 46.1 for liquid gas; however, output of kerosene, fuel oil and diesel oil declined by more than 54%.⁸³ However, oil-refining capacity has not kept up with extraction growth, remaining at the level of the early 1990s; in 1996 about 61% of the crude oil output was processed, the balance being exported as crude.

72. As a result of the reforms, the private sector, excluding the privatized YPF, controls more than half the reserves and production of both natural gas and oil. As indicated earlier (Table III.5), the State is still engaged in the petrochemical industry, as well as oilfield extraction and gas distribution. Since the early 1990s, more than 25 international oil and gas companies have entered Argentina and have introduced competition into the production, refining and distribution of oil products; labour productivity in the sector has doubled in this period.⁸⁴

73. In an important market development, the larger oil importers in the hemisphere (the United States and Brazil) have diversified their sources of supply from the Middle East to more local sources, and, in consequence, Argentina has become an exporting country with as much as 40% of total extraction going to exports (1995).⁸⁵ From 1992 to 1996, fuel exports tripled to some US\$3 billion, while gas exports more than doubled to US\$110 million.⁸⁶ In this period, MERCOSUR's share (excluding Bolivia and Chile) of total Argentine fuel exports almost doubled to 50.2%, and Argentina is also expected to become a major gas supplier to Chile and Brazil, already its main markets. In 1997, MERCOSUR's share in the total volume of Argentine exports recorded a

⁸¹ *Latin American Economy & Business*, February 1997.

⁸² Europa Publications Limited (1995).

⁸³ Data supplied by the Argentine authorities.

⁸⁴ World Bank (1995).

⁸⁵ *Latin American Economy & Business*, October 1996.

⁸⁶ Calculations are based on SITC Rev.3 items 3330 (crude petroleum), 3341 (motor gasoline) and 34 (gas) (UNSD Comtrade database).

further increase, taking 62.8% of petroleum exports, 100% of natural gas and 37.3% of other by-products.⁸⁷ Revenues from these exports helped offset the effects of the Mexican crisis (Chapter I).

74. In the light of these developments in production and trade, since 1989 hydrocarbons and derivatives have turned into a significant source of tax revenue. Between 1991 and 1997, receipts from hydrocarbons-related royalties and excise taxes grew by more than 70% to US\$727.9 million and US\$3.9 billion respectively.⁸⁸

75. The former state company, YPF, which is engaged in natural gas and petroleum exploration activity as well as downstream operations, is the largest Argentine company (1994) with shares traded in Europe, Japan, and the United States. It extracts about 45% of total oil production, while the rest is supplied by private (domestic and foreign) firms. YPF has been expanding its operations in the region, establishing service station networks in Chile and Peru, participating in exploration and extraction activities in Bolivia, Ecuador, Peru and Venezuela, and signing cooperation agreements with *Petrobrás* of Brazil. In late November 1996, an agreement covering the supply of Argentine natural gas to an electricity generation plant in Brazil was signed among four companies including *Petrobrás* and YPF; a new plant and a pipeline are to be built under the agreement.

76. The main aims in the gas sector have been to de-centralize sectoral activities, to introduce market-oriented rules, and to guarantee access to transport networks, as well as to create two regional transport firms and eight regional distributors. Other policy guidelines for the period under review comprised the establishment of federal criteria for the promotion of resource utilization and the increase of gas transportation capacities.⁸⁹ The main part of the legislative framework for the gas sector dates back to 1992.⁹⁰ The National Regulatory Agency for Gas (ENARGAS) of MEOSP's Secretariat of Energy approves gas tariffs applied by the distribution companies; these are set on a five-year basis and adjusted every six months.

77. Efforts are being made to conclude a number of bilateral gas export agreements. In 1997, Argentine gas companies signed supply contracts with Endesa, the main Chilean power generating company, to supply power to the mining industry in northern Chile.⁹¹

78. In June 1998 the Congress was considering a hydrocarbons bill; the text envisages the establishment of a hydrocarbons strategic reserve, and a new Federal Hydrocarbon Authority.⁹²

(b) Electricity

79. The country's rich hydro-electric potential is increasingly being used as a source of energy. At present, power generation is largely based on hydro-electric resources (45%) and steam turbines (28%); other sources include gas-turbines (18%), and nuclear plants (6%). Between 1991 and 1997, demand grew by an annual average rate of 7% while tariffs dropped by 50%.

80. Since 1992 most power-generation (thermal power plants), transmission and distribution operators have been privatized; in 1997, more than 68% of installed nominal output was owned by the private sector, while the rest was the property of the federal (8.8%), bi-national (11.6%) and local

⁸⁷ Data supplied by the Argentine authorities.

⁸⁸ Data supplied by the Argentine authorities.

⁸⁹ Information available on Internet by the MEOSP Secretariat of Economic Policy.

⁹⁰ Law 24076, 9 June 1992, and implementing regulations.

⁹¹ *Latin American Economy & Business*, August 1997.

⁹² EIU (1997b), p. 21.

(11.1%) authorities.⁹³ Although privatization has accelerated since 1995, at the provincial level the process has been uneven (Table III.5). The privatization of remaining power stations (including provincial generators, the nuclear plants and the Argentina-Paraguay *Ente Binacional Yacyretá* (EBY) plant) and distribution systems is still under way. It is planned to reduce distribution systems owned by provincial authorities to 50% by 1998.

81. The Argentine Government owns 50% of the EBY plant, which is to be fully operational by 1998.⁹⁴ In 1996, privatization of the *Ente Binacional Yacyretá* (EBY) plant was paralyzed because of a disagreement over the sale of electricity; by June 1998, the authorities envisaged overcoming these difficulties by granting a 20-year concession rather than privatizing.⁹⁵ Plans exist for a second joint hydro-electric project with Paraguay (the *Corpus Cristi* project), to be financed, built and operated entirely by the private sector.

82. Sectoral policy objectives for the period under review included: enlargement of power generation and transmission systems; power supply to remote locations; and promotion of rational use of electricity.⁹⁶ New regulatory frameworks on electricity and nuclear activities were passed in 1992 and 1997, respectively.⁹⁷ A National Fund for Electric Energy was also created to allocate funds to provincial authorities and to promote electricity development. Between 1993 and 1998 a temporary special regime allowed reduced electricity tariffs for energy-intensive industries.⁹⁸

83. Sectoral policies are set by the Energy Secretariat of MEOSP. Since 1992, a National Regulatory Entity for Electricity (ENRE), an autonomous supervisory and regulatory agency at national level, is responsible for the calculation and approval of tariffs, service control and consumer protection; it also has settlement responsibilities. The Wholesale Electricity Market Management Company (CAMMESA), a joint-stock, non-profit organization, established in August 1992 and composed of representatives of generating, transmission and distribution companies, large users, and the Energy Secretary, determines the technical and economic dispatch of the Argentine Interconnected System, administers or coordinates the supply and demand of the electricity delivered to the market, including the amount of energy supplied by each generating company, and sets the price on a marginal cost basis.

84. In 1997 Argentina signed bilateral agreements on electricity integration with Brazil and Chile.⁹⁹ Their objective is to ensure competitive power-generation conditions, freedom of choice among suppliers and free access to transport/distribution networks. Following the 1998 Caracas Declaration of the Ministers of Energy, action may be taken in the context of the FTAA process (Chapter II) to integrate energy markets by eliminating existing barriers to energy trade, promoting transparency of regulatory frameworks, and exploring possibilities for financing electricity projects in rural areas.¹⁰⁰

⁹³ MEOSP (1998c).

⁹⁴ More information on the EBY plant is found in WTO (1997c).

⁹⁵ EIU (1996b), p. 25; EIU (1997c), p. 26.

⁹⁶ Information available on Internet by the MEOSP Secretariat of Economic Policy.

⁹⁷ Law 24065, published on 16 January 1992; Law 24804, promulgated on 23 April 1997.

⁹⁸ Decree 2443/92, 18 December 1992.

⁹⁹ Additional Protocol to Economic Complementarity Agreement No. 16 on Norms Governing Electric Inter-connection and Supply of Electric Power between Argentina and Chile; Memorandum of Understanding Between Argentina and Brazil on the Development of Electricity Exchange and Future Integration in the Electricity Sector.

¹⁰⁰ Caracas Declaration, 15 and 16 January 1998.

(4) MANUFACTURING

85. The structural reforms and the Convertibility Plan of the early 1990s had a major impact on the manufacturing sector which is now dominated by large domestic conglomerates and multinationals.¹⁰¹ Major manufacturing industries include agro-industries and food processing, petrochemicals, textiles, tanning, chemicals, paper and cellulose (including newsprint for internal consumption), metals (including steel), and trucks and automobiles. Argentina's technological capacity is highly developed because of its long experience with manufacturing, the generally highly qualified workforce, and the existence of a dynamic, demanding and diverse internal market.

86. Growth, driven by a boom in consumer spending linked to the availability of credit under the Convertibility Plan, and huge investments in capital goods, has not been uniform across sectors (Table IV.2). Under the reforms, the automobile and home appliance industries expanded rapidly, while producers of capital and intermediate goods such as textiles, steel, paper and petrochemicals initially had difficulties in competing following trade liberalization which coincided with falling international prices. Since 1994, the situation of intermediate goods producers has improved due to higher world prices and productivity gains from restructuring. In 1995, in the wake of the Mexican financial crisis, export-oriented sectors (intermediate goods and agro-industrial commodities) continued to expand, while demand for inward-oriented consumer durables (mainly automobiles), non-durables, and capital goods contracted sharply as a result of measures taken to counter the effects of the crisis (Chapter I). Between 1991 and 1995, the overall contribution of manufacturing to GDP declined from 25.7% to 24.3%. However, in 1996 and 1997 the share stabilized at 24.5%.¹⁰²

87. The reform programme has contributed to marked growth in labour productivity, which has risen in virtually all industries, with petroleum refining and leather products (excluding footwear) recording the highest level (Table IV.2). The professional and scientific equipment industry was the only activity where both output and productivity fell.

88. In 1996 leather processing (excluding footwear) was the most export-oriented industry (as measured by the share of exports in total output), while food manufacturing was by far the largest exporting activity in absolute terms (Table IV.2). Four industries (machinery, transport equipment, electrical machinery, industrial chemicals) accounted for the larger part of sectoral imports.

89. Manufacturing policy guidelines for the period under review comprised: the promotion of industrial restructuring and specialization as well as technological development; the adoption of new product quality requirements; and the reinforcement of protection of industrial property (e.g. patents, utility models).¹⁰³ Since the previous Trade Policy Review, several border measures and assistance schemes have been adopted, but most of these initiatives have subsequently been suspended as a result of fiscal constraints. The sector-specific Automobile Industry Regime (Chapters II and III, and section (4)(iv) of this Chapter) remains in force.

¹⁰¹ EIU (1996a), pp. 12 and 17.

¹⁰² MEOSP (1997a), Table A1.4.

¹⁰³ Information available on Internet by the MEOSP Secretariat of Economic Policy.

Table IV.2
Manufacturing in Argentina, 1996
(per cent)

Activity (ISIC Rev.2)	Output (Volume change since 1991)	Productivity ^a (Change since 1991)	Employment share in the manufacturing sector	Exports		Imports
				Share in total manufactured exports	Share in value of production	Share in total manufactured imports
311/2 Food manufacturing and prepared animal feeds	19.0	23.7	24.7	44.2	20.8	3.4
313 Beverages industries	16.7	53.2	2.9	1.1	3.5	0.3
314 Tobacco products	14.1	87.7	0.3	0.1	0.6	0.0
321 Manufacture of textiles	-6.9	29.7	6.1	2.4	7.7	2.7
322 Manufacture of wearing apparel except footwear	3.0	50.7	2.4	1.0	3.5	1.0
323 Leather products and fur products except footwear	63.1	130.2	1.3	6.1	42.0	0.3
324 Footwear (excluding rubber and plastic)	-0.2	24.3	1.8	0.3	5.1	0.3
331 Wood and wooden products excluding furniture	-7.6	15.2	2.7	0.4	4.6	0.8
332 Furniture and fixtures (except mainly of metal)	38.1	18.0	1.8	0.5	7.2	0.5
341 Paper and paper products	37.0	48.3	3.3	1.7	6.3	3.5
342 Printing and publishing	29.1	14.9	3.6	0.9	2.9	0.7
351 Industrial chemicals	21.6	47.7	2.3	6.1	19.3	14.7
352 Other chemical products	29.1	23.6	4.8	3.0	4.8	5.0
353 Petroleum refineries	-0.1	210.0	0.4	4.3	7.8	2.2
354 Petroleum and coal products	34.4	72.1	0.2	0.0	0.6	0.2
355 Rubber products	6.7	26.5	1.3	0.8	6.5	1.4
356 Plastic products n.e.s.	48.2	38.4	3.8	0.6	2.1	1.8
36 Non-metal mineral except petroleum and coal products	13.7	31.4	6.9	0.8	2.1	1.3
371 Iron and steel industries	36.6	78.6	2.8	5.3	11.7	2.4
372 Non-ferrous metal basic industries	-3.6	15.6	0.6	1.6	22.9	1.3
382 Machinery except electrical	15.4	39.1	3.8	3.9	17.2	19.8
383 Electrical machinery apparatus	21.3	71.7	2.5	1.2	4.7	12.1
384 Transport equipment	79.5	75.8	9.0	11.9	14.2	16.4
385 Professional and scientific equipment	-47.0	-21.6	0.6	0.3	25.1	2.6

a By working hour.

Source: Centro de Estudios para la Producción and Secretaría de Industria, Comercio y Minería based on data by INDEC, Secretaría de Programación Económica and BCRA; data contained in CEP (1997), Síntesis de la Economía Real. No. 7, September 1997.

Border measures

90. Between 1998 and 2006 the estimated simple average MFN tariff rate for the manufacturing sector is to decline from 13.8% (incorporating the 3 percentage points increase) to 11.4% as Argentina converges fully to MERCOSUR's CET (Table AIV.1). Since 1993 minimum specific duties have been used to protect domestic production of textiles, clothing and footwear; in the footwear subsector, safeguards were adopted in 1997 and *ad valorem* duties were increased. These are further discussed below.

91. Tariff protection for imports of 206 eight-digit HS items from other MERCOSUR countries is to be eliminated gradually by the year 1999 (Chapter II and Chapter III(2)(ii)).¹⁰⁴ These sensitive items, subject to duties of 5% to 6% in 1998, include polyethylene, tyres, lumber, plywood, newsprint, paper and several products thereof, clothing, garments, footwear, ferro-manganese, semi-manufactures and articles of iron and steel, aluminium kitchenware, refrigerators, freezers and electrical insulators, and wooden bedroom furniture.

92. A range of non-tariff measures has afforded temporary or permanent protection to specific industries. These include the automobile industry, where quantitative restrictions, local-content and export-performance requirements are in force, and the paper industry which had origin-specific (MERCOSUR/Brazil, third countries) import quotas between April 1992 and December 1994.¹⁰⁵

Industrial specialization

93. As discussed in Chapter III, an Industrial Specialization Regime (REI), originally scheduled to run from 1992 to 1999, was interrupted in August 1996 and no new contracts have been issued because of fiscal constraints.¹⁰⁶ The authorities indicated that there were no plans to re-introduce the REI. This initiative, which applied to all manufacturing in a neutral manner, was intended to foster industrial restructuring and specialization as well as to improve competitiveness, for example, by inducing firms to reduce the range of manufactured items to those in which they had a comparative advantage.¹⁰⁷ It comprised measures similar to those still applied under the automotive regime (that is, concessional entry and export performance requirements). Under the programme, the share of imports at the REI concessional rate of 2% in total imports grew tenfold to 1.9% between 1993 and 1996, the annual amount of forgone customs revenue was estimated at more than US\$870 million in the same period. As at June 1998, 147 REI contracts remained in force and covered a number of industries (foodstuff, tobacco, iron, aluminium, metals, chemicals, cosmetics, paper, graphic arts, toys, bicycles, mopeds auto parts, electric appliances and equipment, electronics, textiles, leather, footwear and furniture).

Other fiscal incentives

94. A tax reimbursement regime for domestically produced capital goods operated between 11 May 1993 and 31 December 1996.¹⁰⁸ Its objective was to stimulate structural change and raise the competitiveness of the manufacturing sector as well as to balance concessional entry (free of duty and statistical tax) for imported capital goods. It consisted of a tax reimbursement calculated on the sales price to investors in Argentina of domestically produced capital goods; its rate was reduced from 15% to 10% in March 1995 when import duties for such goods were increased (Chapter III). Until 21 November 1994, 63% of domestic producers of capital goods benefited from the regime; by September 1996 they had received reimbursements totalling US\$590 million under this regime.

¹⁰⁴ *Régimen de Adecuación, Cronograma de Convergencia Arancelaria para Mercaderías Intrazona* (Annex IV) annexed to the 1997 Customs tariff provided by the Argentine authorities.

¹⁰⁵ As discussed in Chapter III, such safeguard measures were taken against imports of 23 paper products to allow structural adjustment in the sector; this measure was not notified to the GATT. Annual quotas varied from 400 tonnes to 20,000 tonnes, depending on the product category, and the import restrictive effect (quota share to 1992 imports) ranged from 18% to 73% depending on the product; quota allocation was on a first-in first-served basis (MEOSP Resolution 684/93; and *Comisión Nacional de Comercio*, 1997).

¹⁰⁶ Decree 977, 20 August 1996.

¹⁰⁷ WTO document G/SCM/N/3/ARG/Suppl.1, 28 July 1997; and MEOSP (1995).

¹⁰⁸ Decree 937/93 of 5 May 1993 cited in MEOSP (1995).

95. Since 1998, fiscal incentives have been provided in support of research and development for manufacturing (Chapter III).

96. Sectoral promotion programmes for manufactures, including tax breaks, are applied in four provinces located at more than 1,000km from the main consumption centres (Chapter III). These tax breaks consists of fiscal credits for VAT payments on the purchase of raw materials or semi-manufactures as well as on part of the capital invested in the project.¹⁰⁹

Credit facilities

97. The manufacturing sector benefits from special credit facilities for R&D projects, technology transfer and technical assistance, including those available by the Argentine Technology Fund (FONTAR). Since 1994 under the regime for regional production centres, efforts have been made to coordinate support to regional development mainly through subsidized credit (Chapter III).

98. Between 1993 and 1995 subsidized credit was also made available to small and medium-sized enterprises (Chapter III). Other credit access facilities have been introduced for such enterprises through the establishment of *Sociedades de Garantía Recíproca*, and for small- and micro-firms through the *Programa de Microemprendimientos*, in order to raise productivity and employment. Under the latter programme, largely financed by the Inter-American Development Bank, US\$97 million were allocated between 1993 and 1997 for more than 1,788 loans, mainly to retail trade, services and manufacturing for working capital and acquisition of capital goods¹¹⁰.

Other issues

99. According to the main manufacturers' federation, *Unión Industrial Argentina* (UIA), in recent years manufacturing has been affected by constraints such as smuggling, under-invoicing, the lack of an "active industrial policy", the delayed VAT reimbursement from exports (Chapter III) and the 1996 rise in interest rates for loans (mainly for small and medium-sized enterprises).¹¹¹ In 1996 the number of bankruptcies was up 42%; the situation was gravest in the textiles, metallurgy and services sectors where the largest firms survived because of export-led increases in production.¹¹² In January 1998, following the devaluation of certain Asian currencies, and anticipating a flood of imports from South-east Asia, the UIA requested the adoption of protection measures.¹¹³ The authorities indicated that such requests would be addressed with WTO-consistent measures where appropriate.

(i) Food processing

100. Since the previous Review, the food industry has undergone significant restructuring, stimulated by natural cost advantages, improved access to foreign markets and new investments;

¹⁰⁹ World Bank (1996b), p. 35.

¹¹⁰ MEOSP (1995).

¹¹¹ The UIA claims that smuggled goods have been sold in major trade centres and supermarket chains, and that between 1990 and 1994 smuggling cost 500,000 jobs. Furthermore, the lack of an "active industrial policy" penalized domestic production and risked reducing Argentina into a subordinate position within MERCOSUR; this argument echoed complaints from the car industry and oil producers (who need *Petrobrás* approval to export fuel to Brazil) and the bankers (*Le Monde*, 11 October 1996; *Financial Times*, 31 October 1996; *Latin American Weekly Report*, 7 November 1996). Interest rates for loans differ depending on the size of the firm: in 1996 big companies were charged 8% to 10% interest (mostly on borrowing abroad), most firms had to borrow on the domestic market, paying rates ranging from 15% to 30% (*Latin American Weekly Report*, issues of 5 and 19 December 1996).

¹¹² *Latin American Weekly Report*, 19 December 1996.

¹¹³ *La Nación Line*, 28 January 1998.

traditional firms are adjusting to competition from world leaders, which have entered the Argentine market mainly in the confectionery, biscuit, meat processing and fruit and vegetable processing fields.

101. The food, beverages and tobacco industries employ about 7% of Argentina's labour force (about 28% of the total for the sector) and generate more than 45% of manufactured exports (Table IV.2).¹¹⁴

102. Although the sector has not grown rapidly (except for beer and confectionery), it has great potential related to its access to low-cost natural resources and duty-free entry to the Brazilian market. In recent years, the subsectors that performed best were the export-oriented industries (edible oils, flour, and dairy products); these sectors were able to offset the contraction in domestic demand with higher sales abroad.

103. In 1998, average tariff protection for the industry was 14.5% (including the incorporation of the 3 percentage points increase), a rate close to the overall average; this is to decline to 11.6% when the CET is fully applied (Table AIV.1). Bakery products and beverages (alcoholic and non-alcoholic) enjoy the highest average tariff protection.

(ii) Textiles and clothing

104. Following the elimination of trade barriers and strong consumer preferences, Argentine textile and clothing manufacturers have been faced with fierce competition from low-cost imports from South-east Asia (mainly China) and Brazil, as well as from European out-of-season clearance sales.¹¹⁵ Overall, since 1991, textiles production has declined by about 7% (1996), and since the early 1990s the domestic industry seems to have lost 70% of the local market for shirts and half of its jobs (80,000 out of 160,000).¹¹⁶ Clothing production, which experienced higher than average increases in labour productivity, has grown at a moderate rate of 3%. Textiles and clothing together account for 8.5% of manufacturing employment (Table IV.2).

105. Two vertically integrated textile companies dominate the domestic market for denim, canvas and other thick cotton fabrics, bed linen, towels, and work clothes; one of these companies is also involved in manufacturing sports footwear and sportswear as well as the local representation for sports shoes.¹¹⁷ By contrast, the clothing industry is extremely fragmented, with predominantly small to medium-sized companies, which have had difficulties in modernizing and achieving economies of scale.

106. Exports represented a small part of textiles (7.7%) and clothing (3.5%) output in 1996 (Table IV.2). Recent years have seen an overall increase in intra-industry trade, with an expansion of imports and exports, particularly in textiles. Between 1992 and 1996, textiles and clothing exports increased by more than 141%. Textile imports also grew by 34%, mainly from MERCOSUR and from Asian countries, but those of clothing fell by about 22%. In the same period, MERCOSUR became Argentina's main destination for textiles, increasing its share of Argentine textile exports from 43% to 76%. The MERCOSUR share of Argentine clothing exports rose slightly

¹¹⁴ Data on employment at national level are contained in MEOSP (1997a), Table A3.5.

¹¹⁵ Until 1991, the Argentine clothing market was closed to imports; in 1988, 81% of textiles and clothing tariff items were subject to quantitative restrictions (GATT, 1992).

¹¹⁶ The Bureau of National Affairs (1997).

¹¹⁷ World Trade Press (1995) and U.S. Department of Commerce (1997).

to about 15%, while Argentina has become a significant destination for Brazil's clothing exports since 1990, taking some 9% in 1994.¹¹⁸

107. While general import restrictions were eliminated by 1991, since then average tariff protection has risen slightly from 18.7% to 19.9% for textiles, and from 22% to 23.2% for clothing, with peak rates increased from 22% to 26% in 1998 (Table AIV.1). These averages are expected to drop to 16.8% and 19.9% and the peak rate is to be brought down to 20% when the CET is fully applied. However, convergence will maintain significant tariff escalation in the sector (Table AIII.1).

108. Since July 1993, additional protection measures have been adopted against imports of textiles and clothing (and footwear) of non-MERCOSUR origin (Chapters II and III). A system of minimum specific duties has applied as an alternative to the *ad valorem* tariffs; those affecting textiles and clothing, after several amendments, were to be reduced progressively between June 1997 and April 1998.¹¹⁹ As mentioned in the context of the WTO Dispute Settlement Mechanism, by late 1997 minimum specific duties were found to exceed binding commitments; in June 1998, Argentina communicated to the Dispute Settlement Body its plans for the introduction of a special customs clearance procedure to ensure that the *ad valorem* equivalents of the specific duties do not exceed 35%.¹²⁰ Other requirements included a certificate of origin and labels in Spanish.

109. At present Argentine exports of cotton yarn and woven fabrics of cotton or other fibres to the EU are subject to MFA-related quotas which were not fully utilized by 1996 (Chapter III); in 1996, quota utilization for sheep/lambwool in this market stood at 7%.¹²¹ In addition to annual increases in base levels ranging from 1.7% to 6%, the 1991 quotas were raised in order to take into account the unification of the German Democratic Republic with the Federal Republic of Germany.¹²²

(iii) Footwear

110. Since the last Review there has been a substantial shift in demand and a major restructuring of the Argentine footwear industry. High growth in the sports footwear industry has been driven by a change in consumer preferences as elsewhere in the world in recent years. Concentration is much higher than in the textile or clothing industries, and competition is primarily among the few local licensees of foreign brands.¹²³ In contrast, the leather shoe industry, characterized by small firms, has seen a systematic drop in demand, a surge in imports (nearly 20% of domestic consumption) and the entry of the largest sports shoe companies into their marked segment; many have attempted to convert to sports shoe manufacturing.

111. Between 1991 and 1996 footwear production (excluding rubber and plastic) fell by about 0.2%, despite the increase in productivity. Overall, the footwear industry lost 15,000 jobs (out of

¹¹⁸ WTO (1997b).

¹¹⁹ According to the Argentine Textiles Industry Federation, the specific duty reductions (expressed in *ad valorem* equivalents) were to be as follows: woven goods, from 35% to 23.24%; rugs, from 30% to 28%; ready-to-wear garments, from 32% to 25%; and other garments, from 38% to 30%. In the light of these plans, the Federation requested the adoption of tariff quotas.

¹²⁰ WTO document WT/DS56/14, 7 July 1998.

¹²¹ WTO document G/C/W/99, 18 November 1997.

¹²² GATT document COM.TEX/SB/1650, 18 December 1991; and WTO document G/TMB/N/60, 19 April 1995.

¹²³ World Trade Press (1995).

42,317 in 1991) between 1990 and 1995, and around 1,000 small and medium-sized factories closed down.¹²⁴ The industry accounts for 1.8% of employment in the manufacturing sector (Table IV.2).

112. Despite some apparent competitive advantages in Argentine shoe production (given the availability of low-cost and high-quality leather), the industry is mostly inward-oriented, sheltered by a relatively high tariff; footwear exports are marginal, representing a particularly small part of the local output (Table IV.2). Nevertheless, from 1992 to 1996, footwear exports grew at 41% overall while imports grew at 15%¹²⁵, with MERCOSUR (excluding Bolivia and Chile) becoming Argentina's main export destination, increasing its share of total Argentine footwear exports from 14.4% to 53.5%.¹²⁶ In the same period, the share of MERCOSUR-origin imports in total footwear imports grew from 17% to about 36%.

113. Since 1991 average tariff protection has been raised from 22% to 26.9% (peak rate 30%, incorporating the 3 percentage point tariff increase) in 1998 (Table AIV.1)¹²⁷; this rate, which is around twice the average tariff level, is to drop to 19.4%, still nearly double the average, when the CET is fully in force. *Ad valorem* duties on footwear were raised to 30% in September 1997 when the definitive safeguard measures on footwear were adopted (Chapter III and below); this change represented increases ranging from 11% to 100% depending on the item.¹²⁸ These duty rates are to be reduced to 25% by 1 July 2000, and are to attain their CET level of 20% on 1 January 2001.

114. Between 1993 and February 1997 minimum specific duties were applied to imports of certain footwear under the same system as that affecting textiles and clothing (Chapters II and III, and section (4)(ii) of this Chapter). Immediately after their elimination, a similar system of minimum specific duties was introduced as a provisional safeguard measure in February 1997, and in September of the same year was converted into a definitive measure; this will remain in force until February 2000.¹²⁹ After being discussed at the October 1997 meeting of the Committee on Safeguards, these duties, which were not examined by the panel on measures affecting textiles and clothing, have been subject to consultations and separate panel examination (July 1998) in the context of the WTO Dispute Settlement Mechanism (Chapter II).¹³⁰

115. According to the Argentine International Shoe Producers and Distributors Association (CAPCICA), the average *ad valorem* equivalent of specific duties has been up to 80% and peak rates have reached 270%, which would be in excess of Argentina's WTO binding commitments (Chapters II and III). Since the introduction of the specific duties some foreign shoe makers have to set up factories in partnership with local manufacturers in a bid to compete on equal terms.

116. At MERCOSUR level, an Ad Hoc Leather Group (under Working Group 7 "Industrial Policy") was created to assess the situation in the production of leather and footwear in the sub-region, an issue of particular interest to the Argentine industry. Other objectives include the preparation of a common calculation, implementation, and phase-out basis for export duties in force,

¹²⁴ Blomberg, 21 October 1997; WTO document G/SG/Q2/ARG/2, 21 August 1997.

¹²⁵ World Trade Press (1995).

¹²⁶ SITC Rev.3 classification product category 85 (UNSD Comtrade database).

¹²⁷ GATT (1992).

¹²⁸ MEOSP Resolution 986/97, 10 September 1997.

¹²⁹ MEOSP Resolution 987/97, 10 September 1997.

¹³⁰ WTO document G/SG/M/10, 16 March 1998.

as well as a proposal on the development of trade in leather and footwear within and outside of MERCOSUR.¹³¹

(iv) Motor vehicles¹³²

117. Since 1991 the transport equipment industry has been the leading manufacturing activity in terms of output growth and the second largest employer in the manufacturing sector (9%) (Table IV.2). Motor vehicle production has followed a rising trend, with production reaching 408,777 units in 1994 (Chart IV.4), a historical high, an impressive recovery from the low of 99,639 units in 1990; this increase was mostly due to a surge in domestic demand linked to the renewed availability of credit under the Convertibility Law. However, demand and production fell sharply in 1995 as a consequence of measures taken to cope with the effects of the Mexican financial crisis (Chapter I). By 1996, production of cars, utility and transport vehicles had started to recover and stood at some 300,000 units and in 1997 motor vehicle production was up a further 49% (446,195 units). Production levels have been higher than those of domestic sales; their ratio (domestic production divided by domestic sales) has ranged from 1.01 to 2.17, depending on the vehicle category and year.

118. The Argentine automobile industry is not merely an assembly line for foreign-made parts; the local automotive industry supplies most of the components.¹³³ In 1997, installed production capacity was 769,000 units and was expected to rise to 1 million units in 1998.¹³⁴ Today, models of the latest technology are produced in and exported from Argentina, reflecting the globalization objectives of car manufacturers. Recent increases in foreign investment have been influenced by MERCOSUR's market size and growth prospects, the high population per vehicle ratio and the age of the current stock of vehicles. Plans to produce new models and to develop commercial networks and new credit instruments have also been announced.¹³⁵ At present more than 11 assemblers from Europe, the United States and Japan are operating in Argentina; the main car companies are: the Argentine-owned Sevel SA (Citroen, Peugeot); the Brazilian-Argentine-owned CIADEA (Renault); Fiat; General Motors; and the local affiliates of Ford and Volkswagen. Firms producing trucks, pickup trucks, light transportation and multi-passenger transport vehicles include the local subsidiaries of Mercedes Benz, Scania, Chrysler-Fiat Iveco, General Motors and Toyota.

119. The main weakness of the Argentine automotive industry appears to be the production of a relatively large number of models, so that no given model or firm can achieve full economies of scale; this may be attributed to the Automobile Industry Regime (Chapter III and below), which, although it compels manufacturers to specialize in a few models (thus producing at a level that allows competitive pricing and exports), also allows them to import models whose production has been discontinued under this plan.¹³⁶ In 1994, no model had attained the minimum annual production level (100,000 units) needed to achieve the minimum efficient scale of production (m.e.s.) in assembly operations, and to achieve competitiveness in international markets.¹³⁷

¹³¹ MERCOSUR Resolution 154/96 cited in WT/COMTD/1/Add.4/Rev.1, 11 April 1997.

¹³² More information on the evolution and implementation of trade and trade-related policy instruments affecting this sector may be found in sections of Chapter III dealing with tariffs, tariff bindings, import licensing, import quotas, local-content requirements, countertrade, and export-performance requirements.

¹³³ World Trade Press (1995).

¹³⁴ *La Nación Line*, 1 June 1997.

¹³⁵ EIU (1996b), p. 28; EIU (1997d), p. 24.

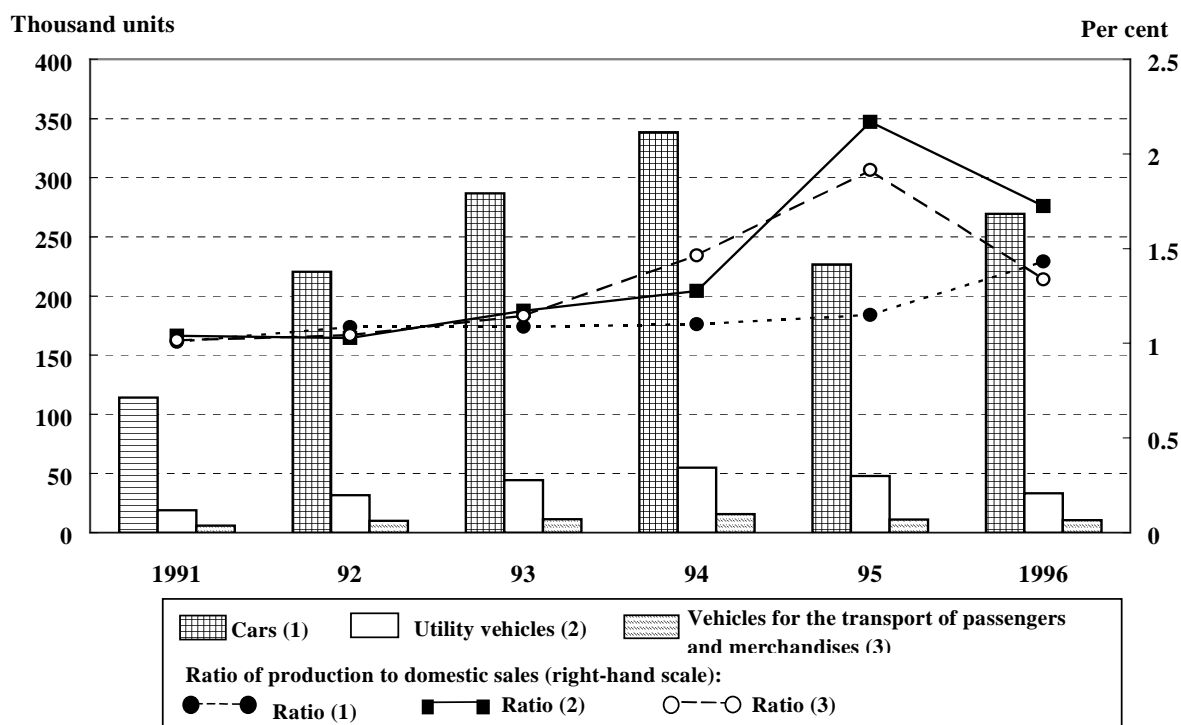
¹³⁶ World Trade Press (1995).

¹³⁷ Other operations, such as body preserving and casting of engines, gearboxes, etc., have much greater m.e.s. than assembly, but some such parts can be shared by different models/manufacturers.

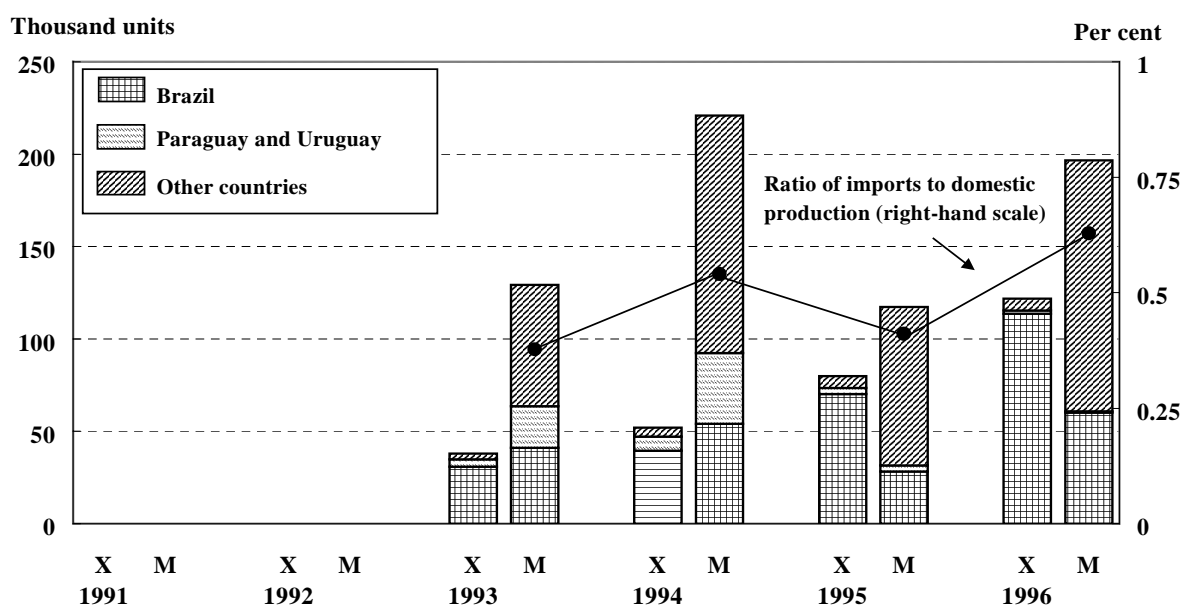
Chart IV.4

Motor vehicle industry developments, 1991-96

(a) Domestic production



(b) Exports and imports of the motor vehicle industry (HS codes 8702, 8703 and 8704)



Source: MEOSP (1997), *Informe Económico Primer Trimestre de 1997, No.21*, July; UNSD, Comtrade database.

120. Until 1994 there was a rapid increase in sales of new cars fostered by economic stabilization and credit availability. Demand was also stimulated by the reduction in car retail prices by an average of 20% between 1992 and 1997.¹³⁸ However, the tightening of credit following the Mexican crisis badly hit domestic sales in 1995 and, to a lesser extent, in 1996. In 1996, domestic motor vehicle sales increased by 14.7% over the 1995 low to 376,109 units, of which imports met about 43% of demand¹³⁹; in 1997, domestic sales rose by another 13.3% (424,435 units), of which 46.4% were imported.

121. In 1997, 47% of domestic output was exported. Between 1993 to 1996 motor vehicle exports expanded by 220% to 121,714 units¹⁴⁰; 95% were destined for Brazil. Car exports for 1997 reached 208,000 units. Between 1993 and 1996 MERCOSUR strengthened its position as the main destination for Argentina's automotive exports, its share of total Argentine motor vehicle exports increasing from 92% to 95% (Chart IV.4).¹⁴¹ Brazil's share increased from 81% to 93%, partly due to the transfer of production of some models from Brazilian to Argentine plants and to the more favourable conditions for Argentina under bilateral arrangements (Box IV.2).

122. Since 1993, motor vehicle imports have grown twice as fast as exports (Chart IV.4).¹⁴² In the period from 1993 to 1996, the import level varied but, as for production, 1994 was a peak year for imports; in 1996 more than 30% of imports originated in Brazil. Overall, the ratio of imports (mainly by the industry itself) to domestic production has risen, standing at 63% in 1996. From 1992 to 1996, Argentina's dependency on MERCOSUR for automotive products was reduced, its share in total automotive imports falling from 54% to about 42%.

123. The automotive sector stands out as having been practically untouched by liberalization efforts since the previous Trade Policy Review, at least on an MFN basis. In addition to tariff protection, the industry benefits from the special Automobile Industry Regime, consisting of concessional entry treatment, quantitative restrictions, local-content requirements, export-performance or balanced-trade requirements, and an agreement with Brazil (Box IV.2). The regime determines that consumer demand will be satisfied primarily from local production.¹⁴³ The utilization of non-tariff measures suggests that effective protection is much higher than nominal protection.¹⁴⁴

124. Average nominal tariff protection, set at 16.4% (rates ranging from 5% to 22%) in 1991¹⁴⁵, was increased to 19.6% (rates ranging from 0% to 33%) in 1998 (Table AIV.1); a drop to 17.4% is intended when the CET is fully applied. Currently, applied rates may be increased by several percentage points pledged at the quota auction (Chapter III); these minimum surcharges, which affect private importers of category A vehicles, ranged from 8% to 16% in 1997 depending on the cylinder capacity of the engine. By June 1998, no such surcharge had been set for imports for the current year. Under the automotive agreement with Brazil (Box IV.2), imports of motor vehicles and parts have been duty free since 1991, and imports from other MERCOSUR sources also benefit from such treatment. Argentina's tariff binding commitment for most motor vehicles, motorcycles, and a

¹³⁸ Automotive Industries Association (ADEFA) estimates cited in La Nación Line, 14 September 1996 and 1 June 1997.

¹³⁹ Latin American Weekly Report, 14 January 1997.

¹⁴⁰ Data from UNSD Comtrade database for HS items 87.02, 87.03 and 87.04. Latin American Regional Reports-Southern Cone, 7 October 1997.

¹⁴¹ Comment based on UNSD Comtrade database statistics (SITC Rev.3 classification).

¹⁴² Data from UNSD Comtrade database for HS items 87.02, 87.03 and 87.04.

¹⁴³ World Trade Press (1995).

¹⁴⁴ In Brazil, under the CET, effective protection from tariffs alone was estimated at some 0.70% in December 1998 (WTO, 1997b).

¹⁴⁵ GATT (1992).

small number of components, is set at a rate of 35%, which will be in force from 1 January 2003; in most other sectors Argentina applied its full Uruguay Round commitments from 1995.

125. Nine tariff headings (including passenger motor vehicles, chassis-built motor vehicles, vehicles for public transportation, heavy goods vehicles) remain subject to an import quota. Since the previous Trade Policy Review, the level of the quota has been gradually increased and was fixed at 10% (Category A vehicles) and 15% (Category B vehicles) of domestic output in 1994 (Chapter III).¹⁴⁶ The quota allocation system has also been modified, and open call bids currently apply to private importers only (as described above); between 1994 and 1996 quota allocations for all importers were operated through a draw. For 1998, quota levels were set at 46,000 units (Category A vehicles) and 3,450 (Category B vehicles).¹⁴⁷

Box IV.2: Developments in the Argentina-Brazil automotive agreement

The build-up of Argentina's automotive industry was greatly assisted by a "balanced trade" agreement with Brazil which was signed in 1991 in the context of the Programme for Economic Integration and Cooperation. It was also assisted by the Brazilian exchange rate policy, designed to control inflation, and which some economists believe has contributed to substantial overvaluation of the real. Under changes introduced in January 1995 to the Argentina-Brazil Agreement vehicles and parts (traded bilaterally) may be imported duty-free as long as the importer balances its foreign purchases with exports (except for replacement parts) to any destination; import compensatory limitations are supposedly to be lifted as from 1 January 2000.

Concerning bilateral trade without any import compensatory requirements, Argentina has obtained more favourable access to the Brazilian market compared to the conditions offered to Brazilian exports. To balance the US\$850 million sectoral deficit, which was accumulated with Brazil between 1992 and 1994, Argentina was allowed duty-free access to the Brazilian market for about 85,000 cars between 1997 and 1999 without any import compensatory requirements. In April 1997, an annual quota of up to 100,000 units manufactured in Argentina by established firms without Brazilian plants was agreed until the year 2000; on the other hand, all Brazilian assembly plants got an extra Argentine total quota of 50,000. In 1998, Argentina lifted quota restraints on car imports from Brazil by manufacturers with plants in Argentina but not in Brazil.

An average, local content of at least 50% for new models and new plants computed over a three-year period was established; Brazil has maintained a 60% local content, which is higher than that of Argentina whose level is also set to increase (Chapter III). Furthermore, signatories recognized the validity of their respective automotive regimes until 31 December 1999; thus Argentina accepted Brazil's 1995 regulatory changes, which subsequently affected investment and production decisions.

Argentina notified its Automobile Industry Regime to the WTO, prior to the entry into force of the TRIMs Agreement, thus allowing it to apply the regime in the transition period, which expires on 31 December 1999.

126. Since 1996 local-content requirements, set at 60% or 58% (depending on the type of vehicle) between 1991 and 1996, have started to be progressively increased to attain a maximum level of 67.5% by 1999. Compliance with these requirements is monitored by an auditing company contracted via UNIDO. Concern about the WTO consistency of this amendment (with Article 5.4 of the TRIMs Agreement), which was notified and discussed at several meetings of the WTO Committee on Trade-Related Investment Measures, has been raised by certain trading partners (Canada, the EU, Japan, the United States).

¹⁴⁶ In the past the mechanism for allocation of quotas was not based on any auctioning system designed to maximize quota rents; it was operated through sealed offers, which were opened in public to ensure transparency in the operation of the system (GATT, 1992).

¹⁴⁷ MEOSP/SICyM Resolution 281/98, 24 April 1998.

127. Since January 1991, imports from Brazil by Argentine manufacturers have been required to match exports.¹⁴⁸ The elements that may be considered as exports were expanded in 1996 (Chapter III). Enterprises that exceed this export-import ratio may opt for tariff reductions on imports that would otherwise still be dutiable, or they may increase the import content, or they may use some combination of the two possibilities. In 1996 Argentine manufacturers without plants in Brazil (Box IV.2) were exempt from this requirement up to a specific number of vehicles; or 1998 and 1999 quotas were allocated to each operator. Since 1995 bilateral motor vehicle trade with Brazil has recorded an increasing surplus in favour of Argentina (41,845 units (1995), 53,636 units (1996)); previous years were marked with deficits (10,292 units (1993), 14,610 (1994)).¹⁴⁹

128. Negotiations for the adoption of a MERCOSUR Common Automotive Regime were initiated in November 1997 and by July 1998 were still in progress.¹⁵⁰ Options being discussed include: the adoption of a 35% CET rate; zero duty or 50% tariff preference for intra-zone trade by manufacturers established in MERCOSUR; extension of the current regime until the year 2005 (exceeding the deadline available under the Agreement on TRIMs); increase of the quota level on imports from third (non-MERCOSUR) countries to 20% or 30% of the local production; and establishment of minimum "national" content in addition to regional content requirements.¹⁵¹ The issue of fiscal incentives, introduced in 1995 (Box IV.2), and subsidies, which are granted by Brazil for the establishment of auto plants in the northern and north-eastern regions of the country, seems to have been settled partly in the light of a bilateral Memorandum of Understanding Concerning Trade Measures in the Automotive Sector that Brazil signed with the United States in March 1998; no applications for such benefits were to be accepted after 30 June 1998 from car manufacturers or after 31 December 1998 from automotive parts producers.¹⁵²

(5) SERVICES

129. Service industries make up the larger part of the Argentine economy, but many subsectors suffer from low productivity.¹⁵³ Since 1991 the share of services (including, construction, electricity, gas and water supply) in GDP has risen by 2.8% to 65.4% (Table I.2); in 1997 the sector employed about 71% of the workforce. As shown in Chart IV.5 commerce (retail trade) is by far the leading activity in Argentina; other important activities are finance and insurance, construction and real estate.

130. Trade in commercial services represented 11.5% of total exports and 18.2% of total imports of goods and services in 1997 (Table I.3). Between 1991 and 1997 exports (credits) of non-factor services rose by about 18.4% to US\$3.3 billion, the equivalent to some 13% of merchandise exports. Travel receipts, the largest single item in 1997, represented 43.3% of services exports (Chart IV.5). In 1997 imports (debit), largely consisting of transportation and travel services (85%), stood at US\$6.3 billion.

¹⁴⁸ GATT (1992).

¹⁴⁹ UNSD, Comtrade Database (Chart IV.4).

¹⁵⁰ MERCOSUR Council Decision 29/94; and Dow Jones Newswires, 27 January 1998.

¹⁵¹ The Bureau of National Affairs (1998); Latin American Economy & Business, April 1998; and Latin America Weekly Report, 19 May 1998.

¹⁵² Inside US Trade, 20 March 1998. Under the influence of these incentives, Fiat apparently redirected investment in van production and Mercedes shifted truck and bus production from Argentina to Brazil.

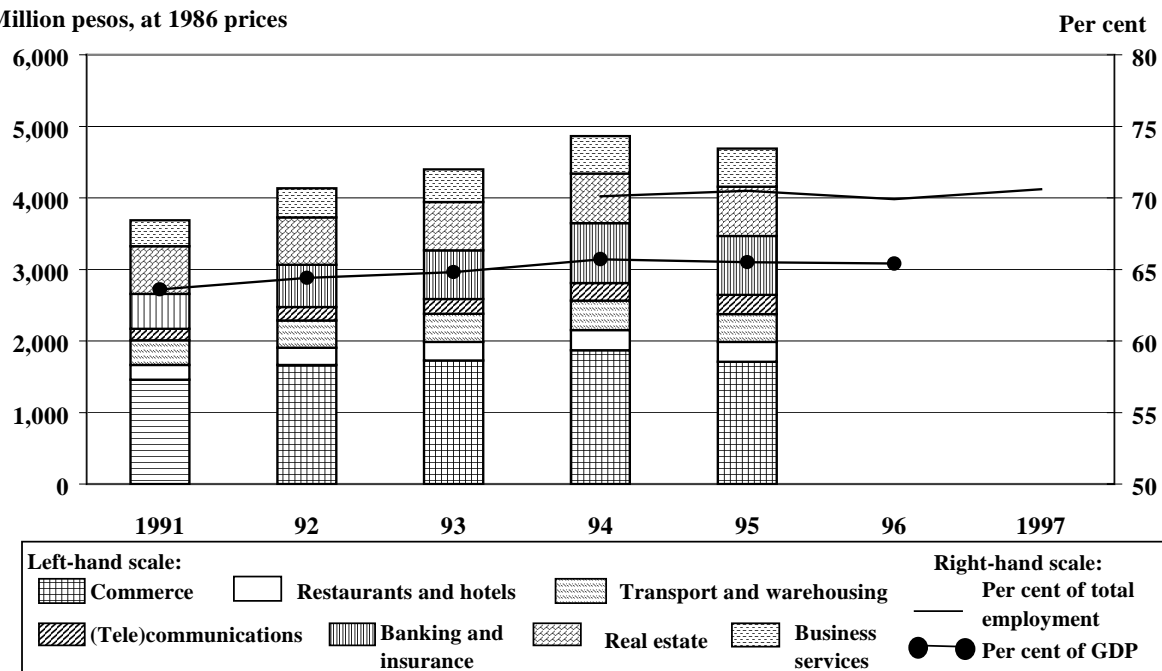
¹⁵³ Price Waterhouse (1995).

Chart IV.5

Value added, employment and trade in services, 1991-97

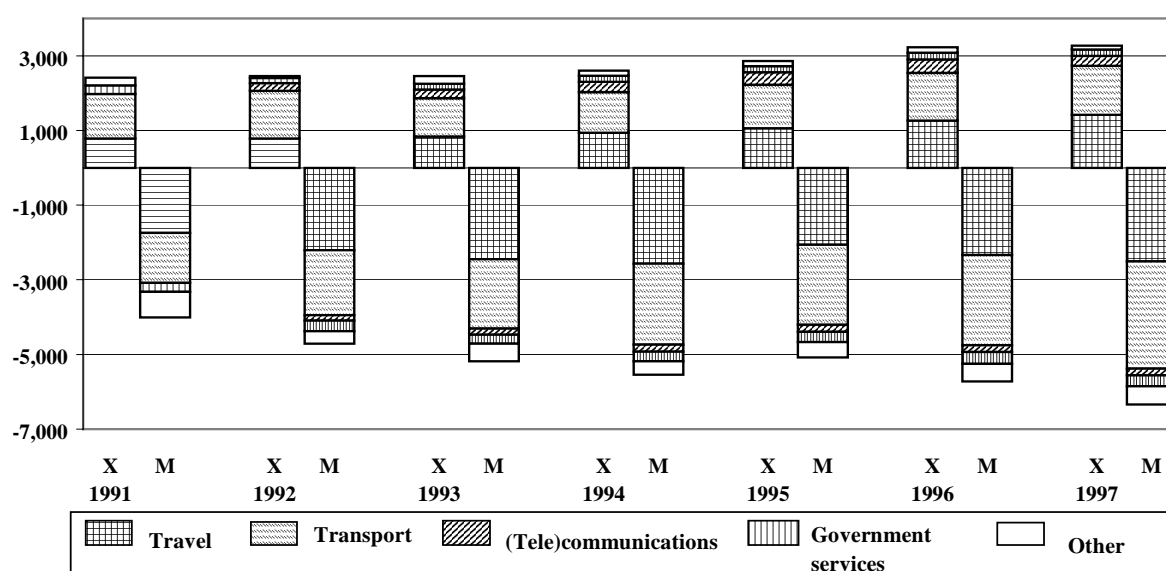
(a) Value added and employment

Million pesos, at 1986 prices



(b) Evolution of non-factor services account

US\$ million



Note: X=exports, M=imports. (Tele)communications are included in the category "Other" in 1991.

Source: MEOSP (1997), *Informe Económico Primer Trimestre de 1997, No. 21 July*; International Monetary Fund for non-factor services data in 1991; Ministerio de Economía y Obras y Servicios Públicos (1998), *Estimaciones Trimestrales del Balance de Pagos y de Activos y Pasivos Externos*.

(i) Overall Commitments under the General Agreement on Trade in Services and MERCOSUR

131. Under the General Agreement on Trade in Services (GATS), Argentina has undertaken commitments in a large number of sectors (Table AIV.2); in 1997 existing obligations on telecommunications were expanded, some applicable upon ratification and others as from the year 2000. Sectors covered now comprise financial (banking, securities, insurance), business, communications, construction and engineering, distribution and tourism services. The commitments cover the presence of foreign managers, executives and specialists providing such services under specific conditions. Under its horizontal GATS commitments, Argentina has not included market access or national treatment limitations for all listed sectors with respect to cross-border supply or consumption abroad. Commercial presence limitations relate only to conditions for acquisitions of land on the coastline and along frontiers.

132. In 1997, Argentina exempted the provision of satellite facilities of geostationary satellites operating fixed satellite services from MFN treatment as envisaged under Article II of the GATS; this is subject to conditions of reciprocity.¹⁵⁴ Nevertheless, Argentina, a participant in regional agreements on audiovisual, and land transport services, grants preferential treatment to other signatories; these countries as well as the EU have included such treatment in their GATS exemption lists.¹⁵⁵ Since Argentina has not exempted its commitments from MFN treatment in the context of these agreements, at present it is required to extend similar treatment to all WTO Members, unless it invokes GATS Article V (see below).

133. Argentina participated in the WTO negotiations in financial, maritime transport and basic telecommunications services (sections (ii), (iii) and (iv) below). There has been no new offer in financial services; thus Argentina was not a signatory to the Second and Fifth Protocols to the GATS.¹⁵⁶ Argentina was among the 16 countries that did not ratify the Fourth Protocol, resulting from the negotiations on Basic Telecommunications, by the initial deadline of 30 November 1997; thus, the entry in force of this Protocol was delayed from the scheduled date of 1 January 1998 to 5 February 1998. Argentina and other participants in a similar situation were given a second deadline of 31 July 1998 for accomplishing the ratification procedures. At the time of completion of this report, the authorities indicated that the ratification procedure was under way (approval by the Senate in February 1998).

134. Argentina communicated to the WTO its replies to the Questionnaires on Government Procurement of Services (Working Party on GATS Rules, Chapter III), on Basic Telecommunications and on Maritime Transport Services (Negotiating Group on Maritime Transport Services), as well as the bilateral and regional agreements, which it signed on diploma recognition (GATS Article VII) and cultural exchange issues.¹⁵⁷

¹⁵⁴ WTO document GATS/EL/4, 11 April 1997.

¹⁵⁵ These agreements, contained in the lists of Brazil, Ecuador, the EU, Panama, Peru, Uruguay and Venezuela, are the Ibero-American Cinematographic Integration Agreement, Latin American Cinematographic Coproduction Agreement, Agreement on the creation of a Latin American Cinematographic Common Market, and the International Land Transport Convention, as well as an agreement with the EU on co-production of audiovisual works, and a maritime cargo sharing agreement with China (GATS/EL/13, 31, 69 and 92, 15 April 1994, GATS/EL/92/Suppl.1, 28 July 1995, GATS/EL/98, 24 April 1996, GATS/EL/124).

¹⁵⁶ WTO documents S/FIN/M/5/Rev.1, 21 July 1995; and S/FIN/M/20, 15 December 1997.

¹⁵⁷ WTO documents S/NGBT/W/3/Add.6, 3 October 1994; S/NGMTS/W/2/Add.22/Rev.1, 12 June 1995; S/C/N/3, 26 February 1996; and S/WPGR/W/Add.19, 2 May 1997.

135. Although the Treaty of Asunción (establishing MERCOSUR) envisaged free movement in goods and services by 1995, intra-zone trade liberalization has mainly benefited merchandise trade (with the exceptions discussed earlier).¹⁵⁸ However, a MERCOSUR framework agreement on services, in the form of a protocol, was finally adopted in December 1997.¹⁵⁹ The MERCOSUR agreement on trade in services, which is based on the GATS, has universal coverage and does not exclude any services sector; it includes the four modes of delivery of services envisaged in the GATS. It proposes a series of rounds of negotiations for the elimination of all forms of barriers in intra-MERCOSUR trade in services within a ten-year-period. The agreement was not expected to raise the overall level of regulatory barriers for third countries that are WTO Members; it provides for national treatment in accordance with the GATS model.

(ii) Financial services

136. Between 1991 and 1996 the contribution of financial services to GDP increased from 4.8% to 7.2%, while the share in total employment declined progressively to 3% in 1997.¹⁶⁰

Banking and finance

137. The banking and financial system is re-establishing credibility and undergoing a significant transformation, following decades of high inflation and mismanagement, highlighted by the Mexican crisis (Box IV.3); domestic financial institutions have difficulties in competing with large international players, which can establish themselves in Argentina or purchase existing institutions.¹⁶¹ Although the number of institutions has fallen by one quarter since 1994, as a result of mergers and acquisitions, Argentina may still be "over banked".¹⁶² By 1997, 141 banks and financial institutions were in operation (Table IV.3); in March 1996, there were 33 private foreign banks. Following the privatization of 17 publicly owned banks, the sector is now largely dominated by privately-owned entities.

Table IV.3
Structure of the banking and finance system, 1997 (May)
(Pesos million or as indicated)

	Public entities (state, provincial or municipal) (change since 1995)	Private entities (change since 1995)	Ratio (Public:Private=100)
Establishments (units)	20 (..)	121 (..)	14.2:85.8
Current accounts	737,178 (3.2 %)	1,298,501 (32.2 %)	36.2:63.8
Savings accounts	2,202,320 (-3.4 %)	4,968,027 (32 %)	30.7:69.3
Loan operations	1,178,914 (6.2 %)	3,543,131 (4.4 %)	25:75
Assets (<i>Capital, Aportes y Reservas</i>)	7,923 (9.1 %)	7,639 (9.3 %)	51:49
Staff (persons)	45,734 (-4.8 %)	60,985 (-1 %)	42.8:57.2

.. Not available.

Source: Superintendencia de Entidades Financieras y Cambiarias (1997), *Información de Entidades Financieras*, May.

¹⁵⁸ WTO document WT/COMTD/1/Add.4/Rev.1, 11 April 1997. Paragraph 3(b) of Article V of the GATS was added in connection with efforts for the establishment of MERCOSUR.

¹⁵⁹ MERCOSUR/CMC/DEC No. 13/97, adopted at the XIIIth meeting of the Common Market Council held on 15 December 1997.

¹⁶⁰ Data from MEOSP (1997a), Tables A1.4 and A3.5 and comments by the authorities.

¹⁶¹ U.S. Department of Commerce (1996); and EIU (1997d), p. 27.

¹⁶² EIU (1996a), p. 31.

Box IV.3: The Mexican crisis and the banking sector restructuring

Prior to the Mexican crisis Argentina's banking sector suffered from a number of long-standing problems such as: scarcity of credit (due to low mobilization of bank deposits and chronic public sector deficits, which crowded out private sector credit needs); dominance of public sector banks; and inefficiency and segmentation of private banks. Poor management of most provincial banks led to the emergence of a large volume of non-performing loans, with undermined confidence and added to the fiscal burden of already financially strapped provinces. By December 1994, troubled loans accounted for 33% of total loans in public banks compared with 10.3% in private banks. Provincial banks accounted for about one fourth of deposits.

Privatization of public banks had lagged behind Argentina's otherwise impressive record of privatization; dealing with provincial banks was one of the more difficult challenges for Argentina's financial policy. Provincial governments traditionally used provincial banks to obtain credit to finance their deficits and to extend credit to borrowers that did not meet private bank creditworthiness criteria. As a result of the deteriorating fiscal situation of most provinces and poor lending and collection policies, most provincial banks became technically bankrupt, although many were maintained by Central Bank re-discounts or state government deposits. As these banks were created by provincial laws, privatization or liquidation required the approval of local legislatures. The Central Bank's Superintendency could not use the threat of liquidation to enforce capital adequacy requirements.

Despite the considerable efforts made since 1991 to strengthen the banking system, the Mexican financial crisis of December 1994 triggered a loss of confidence and capital outflows throughout Latin America, forcing the restructuring of the financial sector. The process involved the privatization of provincial banks, consolidation of private banks, and selective bank liquidations. The change in attitude towards privatization was triggered by the poor performance of the public banks, which required a level of assistance that neither the Federal Government nor the provincial governments were in a position to provide in their deteriorating fiscal and financial situation. In the first nine months of 1995, 34 banks and 6 non-bank institutions closed (through acquisitions, mergers, or liquidations) and US\$8 billion was withdrawn from all banks. However, within a year, deposits had reached their pre-crisis level and domestic confidence had been restored.

The policy response to the crisis was limited to assisting privatization and assuring liquidity. To facilitate long overdue structural reforms, the Government quickly established a Trust Fund for Bank Privatization, financed by up to US\$2 billion of government bonds and a US\$500 million loan from the World Bank. In addition, the Central Bank of Argentina, whose charter was amended in February 1995, created two "safety nets", financed by major banks, to buy the assets of illiquid wholesale banks (in exchange for lower reserve requirements), and transfer funds to the state-owned Banco de la Nación, which made collateralized advances to banks needing liquidity.

By mid-1996, nine of Argentina's twenty-three provinces had completed privatization of their official banks. Most provinces have continued to operate their banks for political reasons, and banking regulators could not force their closure within Argentina's federal structure. With financial help from the World Bank and the IDB, the Government has been able to help forge a political consensus in favour of provincial bank privatization in a critical mass of provinces. Some 15 provinces have taken legislative action and are at various stages of the privatization/closure process. The existence of provincial banks should be more an exception than the rule within a few years.

*Source: Principal source IMF/World Bank (1996). "The Tequila Effect and Argentina's Banking Reform", M. Carrizosa, D. Leipziger, and H. Shah, *Finance & Development*, Vol. 33, No. 1.*

138. Argentine banking regulations are generally considered to be stringent; basic legislation, dating from 1992, has recently undergone several amendments.¹⁶³ Although offshore banking and trust operations are not legislated, banks must submit consolidated balances covering such operations.¹⁶⁴

139. The Central Bank of the Republic of Argentina (BCRA) regulates credit and monetary supply, supervises and controls the proper functioning of the financial market and the application of the Financial Entities Law, acts as the State's financial agent, and represents the country in the international monetary, financial and banking institutions. Between 1991 and 1994, the BCRA adopted prudential requirements, including revised minimum capital requirements, which exceed Basle Core Principles for Effective Banking Supervision in some instances; it also strengthened the enforcement capacity of the Superintendency of Financial and Exchange Entities, which is a decentralized BCRA body that monitors compliance with prudential norms.¹⁶⁵ International observers credit the newly designed and managed Superintendency with outstanding progress in recent years. Basic national requirements on the bank capital adequacy ratio, set at 12%, were largely exceeded in 1995, reaching 18.7%. Argentina had the highest ratio among the world's major financial markets (excluding Europe) that year.¹⁶⁶

140. The main banking policy guidelines affecting state-owned operators such as the *Banco de la Nación Argentina* or the *Banco Hipotecario Nacional* for the period under review consisted of: the expansion of the offer and the improvement of the quality of services; the reduction of operational costs; the consolidation of participation in the loans and deposits market; the improvement of support services to the Government; the promotion of savings; and the channelling of funds for housing loans.¹⁶⁷ Public sector banks, whose main objective is to promote regional development and handle government revenues, enjoy exclusive rights to public sector deposits as well as the right to administer public funds. Since February 1994, the Government has progressively eliminated restrictions on foreign-owned banks in respect of establishment, branching or acquisitions of foreign banks and began issuing new licences without using reciprocity criteria.¹⁶⁸ They are now allowed to operate on the same basis as local private banks and are authorized to open branches. For prudential reasons, lending transactions and other operational limits for foreign bank branches are based on the capital of the local branch, rather than the global capital of the bank; no restrictions on funding activities or the introduction of new financial products apply.

141. The overall effect of the changes has allowed greater competition; foreign owned or controlled credit institutions report that the conditions for operation in Argentina allow administrative and management flexibility and are generally fair and transparent.¹⁶⁹ The Government continues to encourage privatization of provincial banks, but progress has been slow (Box IV.3). The authorities indicated that since 1992 there have been 16 privatizations at provincial level; in 1998 a further five privatizations were under way. Nevertheless, ten provincial banks remain under public ownership.

¹⁶³ Financial Entities Law 21526, 14 February 1977, Law 24.144 published on 22 October 1992; and IMF/World Bank (1996).

¹⁶⁴ Price Waterhouse (1995).

¹⁶⁵ European Commission (1997). Prior to these reforms, the regulation of capital requirements was not linked to the riskiness of assets, while provisioning requirements had little to do with borrowers' repayment capacities. Enforcement was undermined by weak organization and staffing of the supervisory agency (IMF/World Bank, 1996).

¹⁶⁶ WTO (1997d), Box 6 and Table 7.

¹⁶⁷ Information provided by the MEOSP.

¹⁶⁸ Decree 146/94, 31 January 1994.

¹⁶⁹ European Commission (1997).

142. Since November 1994, the state-owned *Banco de la Nación Argentina* has represented Argentina in MERCOSUR's network of four national banks (BANASUR), which since March 1995 has also included Chile's *Banco del Estado de Chile*.¹⁷⁰ BANASUR, the largest banking network in Latin America (5,500 offices throughout the region in 1996) is aimed at promoting intra-regional trade relations by providing credit rating information on exporters and importers within the participating countries. As mentioned earlier (Chapter II), in December 1996 plans were announced for a sub-regional development bank (with the participation of Bolivia and Chile), providing capital for infrastructure projects; the bank was to have a capital structure, credit facilities and rules of operation similar to those of other financial institutions.¹⁷¹

143. Interest rates are not regulated except for higher interest rates sought in the context of minimum capital requirements affecting financial entities. Following a surge in early 1995, interest rates and their spread dropped progressively (Chart IV.6); for February 1998, nominal interest rates stood at 9.78% and 8.04% for pesos and U.S. dollar denominated loans, respectively. Other calculations indicate that by mid-1997 real interest rates for firms had dropped to one third of their 1995 level, standing at 5.7% for pesos and 5.12% for US dollar-denominated loans.¹⁷² In 1996 the elimination of a small tax on interest, which was used to finance union-managed health programmes, and reduction of the VAT on some loans from 21% to 10.5%, helped marginally to moderate lending rates. Credit still seems to be relatively expensive for higher risk, small and medium-sized businesses and for consumers; real interest rates for the latter were 25.4% in July 1997 for personal peso-denominated loans, but this represents a reduction of more than 50% in recent years.

144. Argentina's capital markets are among the most open in the world.¹⁷³ General policy objectives in this area for the period under review included the introduction of more transparency and efficiency in the functioning of the market as well as the expansion of product options. Recent capital market developments, which mostly pre-date the financial crisis, include: elimination of fixed commissions for agents, stamp and transfer taxes, and tax on capital gains; reduction of charges on stockmarket transactions; authorization to issue commercial paper, to access international capital markets, and securitize financial assets; introduction and simplification of existing information and reporting requirements for all markets in the country; and the opening of grains futures and commodities markets. All investment barriers were removed to encourage inflows into domestic capital markets. Entering, trading and leaving the market is straightforward: there are no exchange controls, no registration requirements, and capital gains and dividends are not taxed. Brokers' commissions are fixed competitively and there are no sectoral restrictions on investors. The initial quotation of securities requires prior approval by the National Securities Commission, the federal agency that regulates securities markets offerings, and the particular exchange.

¹⁷⁰ *Banco de la Nación Argentina* (1997), p. 38.

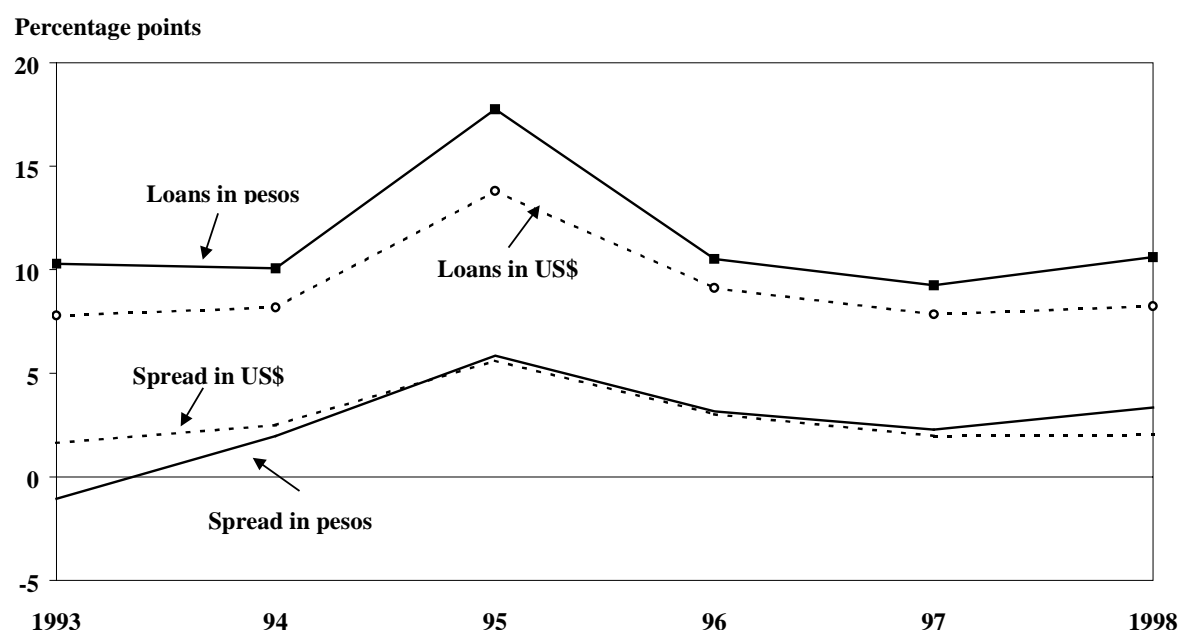
¹⁷¹ *Financial Times*, 18 December 1996.

¹⁷² ADEBA (1998), Tables V and VI.

¹⁷³ EIU (1996a), p. 32.

Chart IV.6

Nominal interest rates and spread, 1993-98 (February)



Note: Data prior to 1993 are not available.

Source: Botetín Estadístico, BCRA.

Insurance

145. From 1989 to 1995 the insurance market grew rapidly as a result of the increase in new car sales (section (4)(iv) above), new regulations on life insurance (allowing the issue of dollar-denominated policies), and the creation of pension funds. The Mexican crisis accelerated concentration in the insurance market; since 1991, 61 firms have closed down and more than 20 have encountered difficulties, while foreign firms have moved into the industry. Between 1993 and 1998 the number of insurance companies grew by about 35% to 263, of which eight were foreign-owned.¹⁷⁴

146. Since 1989, the insurance market has largely been deregulated and the public sector monopoly has been terminated; policy objectives in this area for the period under review included the strengthening of the operators' viability as well as the control of re-insurance contracts.¹⁷⁵ By early 1992, market access to the insurance sector had been liberalized, allowing foreign firms with a local subsidiary to compete on an equal footing with domestically owned companies.¹⁷⁶ Furthermore, since September 1993, foreign firms have been permitted to purchase operating licences from existing domestic companies; the establishment of new operators, suspended since 1977, has been authorized from October 1998, but minimum capital requirements have been raised from US\$550,000 to

¹⁷⁴ Information provided by the authorities.

¹⁷⁵ Information available by the MEOSP; MEOSP Resolution 412, 27 November 1989; and Decree 171/92, 23 January 1992.

¹⁷⁶ USTR (1997) and European Commission (1997).

US\$3 million in a move to promote mergers.¹⁷⁷ In January 1992, the requirement to re-insure 60% of each policy with the state re-insurance firm *Instituto Nacional de Reaseguros Sociedad Anónima* (INDER) and the firm itself were abolished; prices and conditions were allowed to be freely set by contracting parties; and capital requirements for insurance firms were raised.¹⁷⁸ Excise taxes affecting insurance fees (Chapter III) are to be reduced from 8.5% to 1% in four stages from 1 July 1999 to 1 July 2002.¹⁷⁹

GATS commitments

147. Argentina's list of commitments under the GATS in respect of banking, securities and insurance services (Table AIV.2) indicates virtually no restraints on consumption abroad (except for life, accident and health, and non-life insurance) and commercial presence. Nor does the list of commitments bind cross-border supply or restrict the movement of persons. Concerning commitments in "new financial services", Argentina guarantees national treatment for already established suppliers. Auxiliary and intermediation insurance services are excluded from commitments; as stated earlier, a suspension in the establishment of new insurance firms was due to be eliminated on 1 October 1998. No foreign investment limitations were introduced.

(iii) Telecommunications

148. The state monopoly in the telecommunications sector is being gradually phased out under a programme based on similar experiences in Australia, New Zealand, Spain, the United Kingdom and the United States.¹⁸⁰ Following an international tender, in 1990 the state telecommunications firm, ENTEL¹⁸¹, was split into two regional monopolies, and sold to consortia led by European telephone companies. *Telecom Argentina* provides basic telecommunications services in the northern part of the country while *Telefónica de Argentina* provides similar services in the south. *Telefónica* also owns STARTEL, which provides domestic telex, data transmission and maritime mobile radio transmissions. TELINTAR, providing international telephone, fax and data-transmission, automated teller machine (ATM) communications, and electronic mail services, is owned on an equal participation basis by *Telefónica de Argentina* and *Telecom Argentina*. From November 1999, two more operators will be allowed to operate basic telecommunication services (see below).

149. Since 1990 mobile telephone services have been expanding at 70% annually, with growth concentrated in the Buenos Aires metropolitan area. In the area of mobile telephony, the territory is divided into three regions serviced by two different companies operating under two separate bands. More specifically, the market is allocated to: two companies (Movicom since 1988 and Movistar/Miniphone since 1993) for the Greater Buenos Aires area (AMBA); two firms (*Compañía de Teléfonos del Interior Norte*, (CTI Norte since 1993 and *Telecom personal* since 1996) for the northern part of the territory; and another two companies (*Compañía de Teléfonos del Interior Sur* (CTI Sur) and *Unifón/Telefónica de Argentina* since 1996) for the south.¹⁸² Since 1996, CTI, which had previously enjoyed a monopoly in the north and the south, has been subject to direct competition from the new entrants, *Telefónica* and *Telecom*. In 1997 a public tender was launched for licences to operate the first personal communications system (PCS) providing telephone, cellular,

¹⁷⁷ Resolution 25804, 24 April 1998, derogating Resolution 13828, 8 June 1977.

¹⁷⁸ EIU (1996a), p. 33.

¹⁷⁹ Decree 687/98, 11 June 1998.

¹⁸⁰ Decree 264/98, 10 March 1998.

¹⁸¹ Argentina's need for speedy reform made for a rapid "sell as is" strategy in telecommunications. ENTEL's relatively low sale price may be related to the absence of any serious restructuring prior to privatization or to the high country risk perceived by investors at the time (World Bank, 1995).

¹⁸² World Trade Press (1995).

paging, video, and data transmission services; three concessions are to be granted for the Buenos Aires area.¹⁸³

150. Concerning fixed satellite communication geostationary services, market access is subject to reciprocity conditions¹⁸⁴; mobile satellite services (supplied by INMARSAT) are not subject to restrictions. Under the 1993 Adjudication Contract for the Satellite System with NAHUELSAT, Argentina is committed to contributing to the development and the competitiveness of the domestic fixed satellite system.¹⁸⁵

151. At present, all Argentine telecommunications services, both basic and non-basic, are in the hands of private enterprises, while the State's rôle is confined to regulation, control, inspection and supervision of telecommunications. Privatization has allowed for some competition in certain telecom services, although there has been some tariff-related friction with consumers (Chapter III). Heavy investment by the two basic telecoms operators, which are among the largest companies in Argentina, has led to a rapid rise in the number of telephone lines and digitalization, now close to 100%. Price distortions were reduced (although charges for commercial users are still used to subsidize those of residential users); internal efficiency and the quality of service improved; tax revenues increased; and private investors have started to earn an attractive return on investment.¹⁸⁶ In 1997 exclusive rights on basic telecommunications services were extended until 1999 when basic telecoms services are to be opened up to increased competition (tetrapoly)¹⁸⁷; two more operators are to be authorized to provide basic services by November 1999 and, upon authorization of the Secretariat of Communications, all operators will be allowed to extend their services to the entire territory.

152. General policy objectives for the period under review comprised the introduction and development of new technologies (in basic telecoms, satellite services and cellular telephony) as well as the qualitative and quantitative improvement of the telecommunication services.¹⁸⁸ There are no market access limitations other than those on basic telephone, mobile radio communications and certain satellite services. A licence must be obtained in order to supply any telecommunication services. The quantity, quality and price of competitive services are also determined by market conditions. Service standards, technical type-approval standards and any other conditions covered by the licence must be met prior to the introduction of a new service; however, a provisional permit may allow for the commencement of supply of a new telecommunications service on an experimental basis.

¹⁸³ Resolution 2357/97, 7 August 1997.

¹⁸⁴ Resolutions 14/97, 6 January 1997, and 242/97 of 1997 cited in USTR (1997).

¹⁸⁵ Decree 1095/93, 27 May 1993. NAHUELSAT, an Argentine-based joint venture (originally involving Daimler Benz Aerospace/Germany, Aerospatiale/France, Alenia Spazio/Italy and expanded to other international and regional shareholders) established in 1993, operates a satellite covering different parts of Latin America (including Argentina, Brazil, Chile, Uruguay and Paraguay) and southern United States. NAHUELSAT also recently reached an agreement with Mexico's Telecom, which will allow the use of Mexico's *Solidaridad* satellites.

¹⁸⁶ World Bank (1995).

¹⁸⁷ Decree 264/98, 13 March 1998; and WTO document S/NGBT/W/3/Add.6, 3 October 1994. In 1997 *Telefónica* and *Telecom* announced that they would exercise their contractual option for continuing to enjoy exclusive duopoly rights for another three years; they also decided to extend TELINTAR's monopoly rights (*Latin American Weekly Report*, 23 September 1997).

¹⁸⁸ Information available by the MEOSP.

153. Competition safeguards for the sector include: the prohibition of cross-subsidies from exclusive services to competitive services; an obligation to provide inter-connection on an equal footing and without discrimination to all service suppliers; and an obligation to carry out tendering and other competitive selection procedures for suppliers when procurement of equipment or of services exceeds an annual amount of US\$500,000. As noted in Chapter III, provisions for a 10% preference in favour of the purchase of domestically produced telecommunications equipment are in force, but in the light of privatization in the sector these requirements do not apply in practice.

154. Tariffs of basic telecommunications services are controlled (through tariff approval and notification), while free price-setting (subject to prior notification) is allowed for services that are open to competition.¹⁸⁹ On basic telecoms a price-cap system applies; after a transition period (from November 1989 to November 1991) tariffs were reduced in real terms by 2% a year until 1996. As exclusive rights were extended from 1997 to the year 1999, tariffs continue to be reduced in real terms, but by a higher annual rate of 4%. ENTEL's privatization tender specifications established very specific rules for cost-accounting and notification obligations in order to ensure market transparency and enable the establishment of a tariff policy. However, tariffs of basic telecommunications services still retain major distortions and thus do not fully reflect operating costs. The authorities indicated that adjustment of tariffs to costs is proceeding in pace with progress in market liberalization.

155. As a result of these tariff policy changes, local calls became among the cheapest in the world while long-distance calls were among the most expensive, increasing the popularity of call-back services until January 1997, when a re-balancing of telephone rates was decreed. This re-balancing, which seems to have affected call-back services, meant a 57% increase of local call rates and an 83% cut on international call tariffs. The tariff reduction process applied in the context of the price-cap system has proceeded as scheduled without being affected by the re-balancing.

156. Since 1996, a National Commission for Communications (CNC) has ensured regulatory and enforcement authority functions, which also involve dispute settlement. The CNC was formed by merging the National Telecommunications Committee (CNT), established in 1990, with the Federal Radio Broadcasting Committee (COMFER) and the National Commission for Posts and Telegraphs (CNCT).

157. In the WTO negotiations on basic telecommunications, Argentina made commitments (valued at an annual amount of US\$9 billion) consistent with its regulatory framework and privatization projects. Its undertakings consist of phased-in liberalization by 8 November 2000 in the areas of voice-telephony (local, long-distance and international) and provision of other basic telecommunications services supplied on an international basis; full competition in basic services other than voice, for example, data transmission, supplied in the national market and leased circuit services (international and national) without phase-in; full competition in mobile telecommunications services (data transmission, paging and trunking); duopoly in mobile cellular services; and the opening to new entrants (subject to an economic needs test) for the provision of personal communications services. It has also attached to its Schedule of Commitments a Reference Paper on Regulatory Principles.¹⁹⁰ Fixed geostationary satellite services were excluded from any commitments for the period that already operating suppliers (INTELSAT and PANAMSAT) remain in place. To

¹⁸⁹ WTO document S/NGBT/W/3/Add.6, 3 October 1994.

¹⁹⁰ This Annex contains definitions (of users, essential facilities and dominant supplier) and principles (on competitive safeguards, interconnection, universal service, public availability of licensing criteria, independence of the Regulatory Body, allocation and use of scarce resources) on the regulatory framework for basic telecommunications (WTO document GATS/SC/4/Suppl.1/Rev.1, 7 May 1997).

develop the domestic fixed satellite system, an exemption to the MFN clause was introduced with respect to fixed satellite communication services where reciprocity is required (section (i) above).¹⁹¹

(iv) Audio-visual and broadcasting

158. Following legislative reforms aimed at promoting the local film industry, in October 1994 the Argentine Film Law was amended to include: a 10% tax on the rental and sale of home video (Chapter III); a 10% tax on the sales price of all tickets for the screening of films; the obligatory exhibition and remuneration of national short subject films (to be implemented); and an authorization to the Argentina Film Institute to oversee the compulsory local processing, dubbing, and sub-titling of foreign films.¹⁹² Sections of the bill, such as those relating to the authority for the National Film Institute to regulate the release of foreign films and the establishment of a six-month minimum timeframe between the opening of a film in the theatre and its video release, were vetoed by the President. Since 1995, 50% of the tax revenue from film-related activities has been used to subsidize domestic film production.¹⁹³

159. Broadcast advertisement requirements stipulating that 50% of the participants in the production must be Argentine (effectively barring foreign-based advertisements) were eliminated in 1993.¹⁹⁴ By May 1996, 51% of satellite broadcasts transmitted to cable/pay television subscribers via complementary transmission operators established in Argentina had to be generated locally.¹⁹⁵

160. As mentioned earlier (section (i) above), Argentina maintains several audiovisual co-production and promotion agreements, mainly at sub-regional level, intended to develop the domestic film industry and to promote Argentina's cultural heritage. These agreements have a range of provisions including unrestricted access, national treatment or for the distribution and display of works through audiovisual channels to be granted exclusively to nationals, companies or producers from signatories, as the case may be.¹⁹⁶ An agreement with the EU on co-production of audiovisual works confers Argentine national treatment on distribution, and access to funding of audiovisual works.

(v) Transport

161. Argentina has long had the most developed communications system in Latin America, stemming from its earlier economic development and the establishment of a rail network linking all major cities; however, over the years there has been a serious deterioration in the system despite recent efforts to improve the quality of services through privatization (railways, underground network, most of the ports and airlines), deregulation (river and maritime transportation, truck freight transportation, port operations, road passenger transportation, air travel and air cargo) and decentralization (port administration and long-distance railway passenger transportation services).¹⁹⁷ Improved railway services and lower airfares have shifted cargo and passengers away from road transportation.

¹⁹¹ WTO document GATS/EL/4, 11 April 1997.

¹⁹² Law 17741, 14 May 1968 was amended by Law 24377, 28 October 1994.

¹⁹³ Decree 815/95, 14 June 1995.

¹⁹⁴ MEOSP Resolution 1226/93, 20 October 1993.

¹⁹⁵ COMFER Resolution 897/96, 13 May 1996.

¹⁹⁶ Other signatories include Brazil, Ecuador, Panama, Peru and Venezuela.

¹⁹⁷ Europa Publications Limited (1995); and EIU (1996a), p. 26.

Shipping

162. Over 90% (1993) of Argentine foreign trade (volume) is carried by river and maritime transportation.¹⁹⁸ The larger part of international trade is carried by foreign vessels. Between 1991 and 1995, the share of merchandise shipped through vessels flying the Argentine flag dropped by the thirds to 3.1%, while the share of state-owned vessels in the Argentine merchant fleet dropped by three quarters to 9.7% (13 units).¹⁹⁹

163. Following the deregulation process of waterborne transport, shipping restrictions on the use of Argentine cargo ships were lifted.²⁰⁰ At present, there are no market access or capital participation limitations to the shipping market other than those undertaken in the context of bilateral agreements.²⁰¹ Maritime transport to and from Argentina is open to any vessel and there are no restraints on the number of shipping lines that may serve Argentine foreign trade routes. Cabotage transport services are reserved for vessels and marine craft that fly the national flag or are treated as if they do so under bilateral agreements; no other preferential treatment for national waterborne transport enterprises is in force, nor do they benefit from any form of subsidies or preferential rates.

164. Bilateral agreements with Brazil, Cuba, Peru, Romania, the Russian Federation and China provide for the equal cargo-sharing of bilateral trade carried on vessels operated by ship-owners of the signatories.²⁰² Foreign crews can be employed, except on vessels engaged in national cabotage, in which Argentine nationals have priority over foreigners when they are equally qualified.

165. Recent legislative reforms in the port system promoted private capital participation in the operation and administration of ports or, where appropriate, their decentralization through the transfer of their administration to the provinces or municipalities.²⁰³ Port terminals have been, or are being, privatized. No flag-based discrimination or port access restraints are in place.

166. Deregulation and privatization have considerably increased portuary productivity (merchandise volume per worker per day), while reducing by 40% or more the warehousing and inspection costs as well as the waiting time for cargoes and containers.²⁰⁴ The transfer of the five port terminals to private operators in October 1994, increased efficiency and competition: costs, once 70%-80% above those of other South American ports, are now the lowest in the region. The transfer to private operators of the *Paraná-Río de la Plata* corridor, through which 70% of Argentina's agricultural exports are transported (with a commitment to introduce a signalling system to permit 24-hour navigation, and to deepen the channel), is also expected to bring about sharp reductions in transportation costs.

167. Buenos Aires, Argentina's main port, handles 50% of total trade, while Rosario and Bahía Blanca are used for crop shipments.

¹⁹⁸ WTO document S/NGMTS/W/2/Add.22/Rev.1, 12 June 1995; and EIU (1996a), p. 27.

¹⁹⁹ Data supplied by MEOSP.

²⁰⁰ Dun & Bradstreet Information Services (1996).

²⁰¹ WTO document S/NGMTS/W/2/Add.22/Rev.1, 12 June 1995. Argentina is not a party to the Code of Conduct for Liner Conferences.

²⁰² WTO documents S/NGMTS/W/2/Add.20, 3 April 1995; S/NGMTS/W/2/Add.33, 17 July 1995; S/NGMTS/W/2/Add.34, 18 July 1995; S/NGMTS/W/24, 4 June 1996; and WT/ACC/CHN/4, 4 December 1996.

²⁰³ Law 24093, 3 June 1992, cited in WTO document S/NGMTS/W/2/Add.22/Rev.1, 12 June 1995.

²⁰⁴ *Centro de Estudios para la Producción*/MEOSP, (1997), Table 1.

168. As stated earlier, Argentina participated in the WTO negotiations on maritime transport services; it intends to engage in any future negotiations in this area provided that these are part of a global set of trade issues, and that results are to promote the application of the MFN principle. At MERCOSUR level, Argentina's objectives include free navigation of ships in the waters of member countries; in this context, the establishment of a Special Register of Vessels and the negotiation of a Multilateral Agreement on Maritime Transport were proposed.

Air transportation

169. Air transportation is reasonably developed, and the majority of airlines are privately owned with significant foreign, mainly European, participation. In November 1995, the national carrier, *Aerolíneas Argentinas*, lost exclusive rights to the regional market, a preliminary step towards the removal of all special rights by the year 2000. A bilateral aviation agreement with the United States, signed in July 1994, has allowed for increased cargo flights for U.S. carriers, with the number of weekly flights increasing gradually from eight to 12 since December 1996.²⁰⁵ Competition in air transportation has reduced fares by as much as 50% in certain cases and led to a 50% increase in the number of passengers in the period 1990-95; similar results were recorded for cargo services.

170. The privatization of the 59 airports (the whole network as one entity), of which only 15 have sufficient traffic to guarantee their economic viability, has lagged behind partly for legislative and political reasons. In 1997, the privatization of 28 airports by presidential decree was challenged in the courts; a 30-year concession for each airport and a total of US\$2 billion of investments were expected.

Roads

171. Road transportation is the dominant means of domestic passenger travel and freight movement, and it is overwhelmingly privately owned. Since the early 1990s, maintenance, modernization and improvement of the national road network has been transferred to the private sector through toll system concessions. Construction and improvement of certain major highways has taken place, while further such works are under way to improve road links with neighbouring Brazil and Chile. Argentina participates in the sub-regional International Land Transport Convention which sets the legal framework for national treatment on a reciprocal basis among suppliers of international transport of passengers and freight.²⁰⁶

172. A new regulatory body, the National Commission for Transport Regulation was created in November 1996, under the MEOSP, by merging existing commissions on road and railroad transportation; this Commission is entrusted with sectoral policy formulation.²⁰⁷

Railways

173. Privatization through concessions of the Argentine railways has increased efficiency.²⁰⁸ The monolithic state railway company (*Ferrocarriles Argentinos*) was divided into several passenger and freight companies before privatization. As part of this process, the amount of freight moved by rail doubled as prices fell 20%; utilization of suburban rail and Buenos Aires metro increased by 30-40%; 70% of intercity passenger services were shut down and the rest placed under private or provincial

²⁰⁵ Dun & Bradstreet Information Services (1996).

²⁰⁶ Other signatories are Bolivia, Brazil, Chile, Peru, Paraguay and Uruguay (WTO documents: GATS/EL/13, 69 and 91, 15 April 1994; WTO, (1997c); and WTO, (1997b)).

²⁰⁷ Decree 1388/96, 29 November 1996.

²⁰⁸ World Bank (1995).

control; employment in the sector fell from 90,000 in 1990 to fewer than 20,000 in 1994; and labour productivity increased by a factor of seven or eight. The biggest beneficiaries were the taxpayers, as privatization of the railways ended the single biggest drain on government funds. Federal subsidies to the sector fell to half their pre-privatization level (US\$700 million annually, before privatization) and were projected to end altogether in ten years.

(vi) Construction

174. In 1995 construction represented about 5% of GDP and employment.²⁰⁹ Between 1990 and 1994 the construction sector expanded due to the reappearance of mortgage credit, the renewal of petrol station networks, the privatization of public utilities and services with new investment commitments (telecoms, roads). Under the impact of the Mexican crisis, the sector contracted in 1995 because a scarcity of credit and household borrowing fears. To provide some stimulus to the sector, the Government launched a 1995-99 investment programme, but this has not yet been implemented because it contains fiscal and financial constraints. Further measures included fiscal incentives (including a reduced VAT rate levied on new houses), a 1996 credit programme (with securitized mortgages), and credits from the state-owned National Mortgage Bank, (BHN) with longer maturities and lower interest rates, estimated be worth US\$850 million in 1996 and US\$1.1 billion in 1997.²¹⁰ In 1997, a mortgage insurance mechanism was under consideration to enable the finance of 95% of the new house value.

²⁰⁹ Data from MEOSP (1997a) Tables A1.4 and A3.5.

²¹⁰ In October 1996 the BHN, which accounts for just under a third of the mortgage lending market, began to offer home loans at fixed interest rates, repayable over ten years (private banks followed); in 1997, the extension of the repayment term to 15 years was under consideration (Latin American Weekly Report, 25 March 1997).

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