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STRATEGY PAPER

ARGENTINA



Descriptive sheet



POLITICS

Official name : Republic of Argentina

Population : 36.027.000 (census 2001)

Area : 2.767.000 km²

President : Eduardo Duhalde (since 2 Jan 2002)

Minister of Foreign Affairs (and International Trade) : Carlos Ruckauf

Minister for the Economy : Jorge Remes Lenicov

Minister of Production : José Ignacio de Mendiguren

ECONOMY

	1997	1998	1999	2000	2001	2002
GDP (billion US\$)	323	298	286,3	285,1	271,4	
Growth p.a. (% GDP)	8,6	3,9	0,1	-0,5	-4,9	
Inflation (%) *	0,5	0,9	-1,0	1,4	0,6	4,0*
Public deficit (billion US\$)**	-4,4	-3,1	-6,9	-6,6	-16,5	

* inflation in January 2002 alone : 2,3 %

** up to 2000 : Federal deficit ; from 2001 : deficit Federal + Provinces

Unemployment : 23 % (January 2002)

Currency : Peso

Exchange rate : US\$ 1 = 1.4 Peso (January 2002) ; floating from January 2002

Central Government public debt : 145 billion US\$ (2002)

TRADE

Argentina with the world (million €)	1980	1990	2000
Imports	7.751	3.203	27.548
Exports	5.764	9.700	28.921
Balance of trade	-1807	6.498	1.373

Goods -EU with Argentina (million €)	1980	1990	2000
Imports	2.089	3.558	5.401
Exports	2.680	1.307	6.138
Balance of trade	591	-2.251	737

Goods -EU with Argentina (million €) in 2000	Imports	Exports	Balance
Agricultural products	4.054	234	-3.820
Energy	19	58	39
Machines	11	1.861	1.750
Transport equipment	323	1.134	811
Chemical products	158	1.147	989
Textiles and clothing	10	117	107

Services - EU with Argentina (million €)	1998	1999	2000
Imports	1.055	1.058	1.201
Exports	1.561	1.601	1.747
Balance of trade	506	543	546

Direct Investment- EU with Argentina (millions €)	1998	1999	2000
Flows entering EU	42	31	144
Stocks entering EU	414	848	992
Flows leaving EU	3.554	16.762	5.467
Stocks leaving EU	16.478	38.069	43.536

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0. EXECUTIVE SUMMARY

Argentina is the third biggest Latin America economy after Brazil and Mexico. It is also a country which has attracted regular migratory flows, especially from Europe. 90% of its population is concentrated in cities and is largely of European origin, the indigenous population accounting for slightly less than 3% of the total. Agriculture and livestock farming, the rentier economy which was the pride of the country in the past, still accounts for a significant share of its exports. For this country is endowed with abundant natural wealth, in particular energy, and with a skilled and dynamic labour force.

The signing of the economic and trade framework agreement which binds the EU and Argentina goes back to 1990. EU-Argentina relations have continued to be strengthened since then: at bilateral and regional level (Mercosur) and horizontally. Several bilateral sectoral partnerships have been concluded: sea fisheries, peaceful use of nuclear energy, scientific and technical assistance. A Memorandum signed in June 2001 laid down the guidelines for a €65.7 million cooperation programme over the period 2000-2006. These guidelines are founded on three main principles: strengthening of the provincial state, fight against poverty, economic cooperation in the mutual interest.

Integration of Mercosur has, since its creation in 1995, been a priority for the EU which sees the emergence of a regional entity as being comparable to its own experience.

In the 1990s, Argentina was able to curb hyperinflation by applying a monetary convertibility policy of 1 USD = 1 peso. It also opened up its economy to regional and multilateral trade. Brazil became its principal trading partner, followed by the EU. It privatised several public services and attracted substantial foreign capital, in particular American, Spanish and Italian. Its educational and social assistance systems were regarded as being among the most developed in Latin America.

However, the robust economic growth of the beginning of the 1990s was not maintained beyond 1997. The rise in value of the United States dollar in relation to the currencies of Argentina's main trading partners harmed its competitiveness. A recession started in 1998. Instead of reacting to the circumstances, the country's leaders opted for inadequate monetary and tax policies and did not start the necessary reforms: collection of taxes, customs, justice, restructuring of the provincial and federal administration. The recession worsened and with it unemployment, poverty, declining investment, flight of capital, debt and above all else, a lack of confidence. In December 2001, the economic crisis was compounded by serious social disorders and political chaos. The Peronist Eduardo Duhalde emerged the victor on 2 January 2002 and initiated a programme which, beyond providing emergency social aid and tackling the recession, intends to restore confidence among Argentines and the international community.

The EU, as well as this international community, is willing "to help Argentina to help itself". In particular, several Member States have announced their intention to support a new package of international financial assistance once an agreement has been found with the IMF on a sustainable economic programme. The EU is also examining requests of commercial nature, within the limits of its room for manoeuvre. Finally, it is ready to actively support the process of Mercosur integration and the interregional ties between the two blocs. Indeed, among its many national and international consequences, the crisis in Argentina awakened renewed interest in Mercosur and boosted the credibility of the regional bloc.

1. OBJECTIVES OF RELATIONS BETWEEN THE EU AND ARGENTINA

Article 177 of the Treaty establishing the European Community envisages three broad objectives for development cooperation. Community policy in this field has to support:

- sustainable economic and social development
- gradual and smooth integration of third countries into the world economy
- the fight against poverty.

Cooperation between the EC and Argentina is covered by **Regulation (EC) 443/92 on financial and technical aid and economic cooperation with the developing countries of Latin America and Asia** and by **Commission** communications on cooperation between the EU and Latin America.

- Regulation 443/92 stresses the importance that the Community attaches to promoting human rights, supporting the process of democratisation, good governance, increased protection of the environment, liberalisation of trade and enhancement of the cultural dimension by means of an enhanced dialogue on political, economic and social issues.
- The joint statement by the Council and the Commission, adopted on 10 November 2000¹, refocuses the Commission's development policy on six priority fields, considered particularly significant in tackling poverty:
 - the link between trade and development
 - regional integration and cooperation
 - support for macroeconomic policies and promotion of equitable access to social services
 - transport
 - food security and sustainable rural development
 - strengthening of institutional capacities.

The first and sixth fields above are reflected in the conference of the WTO held in Doha at the end of 2001 and in the DDA (Doha Development agenda) which resulted from it.

- The Commission communication on the prospects for the strengthening the partnership between the European Union and Latin America 1996-2000² proposes three priority areas for cooperation, namely:
 - institutional support and consolidation of the democratic processes, in order to guarantee their irreversibility (consolidation of institutions, support for reform of the State, support for framing sectoral policies...)
 - the fight against poverty and social exclusion, with a view to incorporating into the economy marginalised sections of the population (possible interventions in the field of health, education, housing)
 - support for economic reforms and improved competitiveness (support for the development of the private sector, the information society, mutual economic cooperation, industrial, scientific and technological cooperation, strengthening of industrial promotion and investment, promotion of foreign trade).

¹ Based on communication COM (2000) 212.

² COM (95) 495.

The cross-cutting topics such as support for regional cooperation and integration, education and training and management of the North-South interdependencies (environment, energy, drugs) will have to be taken into account in implementing these priorities.

- The Commission communication on a new partnership between the European Union and Latin America on the eve of the 21st century³ states the need to continue along the road mapped out, with cooperation needing nevertheless to take account of new challenges such as the need to bolster democratic systems, better distribute wealth, encourage harmonious integration into the world economy and strengthen the regional integration processes.
- In the wake of the Rio Summit in 1999, the Commission in its communication to the Council and Parliament⁴ proposed setting up its action in three priority fields, namely promotion and protection of human rights, promotion of the information society and reduction of social imbalances.

Secondly, the joint will to strengthen regional cooperation led in 1995 to the signing of an **interregional framework cooperation agreement**⁵ between the EU and Mercosur, with the objective in the long term of creating an interregional association. To make this objective feasible, the agreement envisages the strengthening of trade and economic cooperation and cooperation with a view to integration.

Finally, at the bilateral level, cooperation between the EC and Argentina was formalised in a **framework trade and economic cooperation agreement**⁶ ratified in 1990. Article 1 thereof states that the strengthening of democracy and regional integration is the fundamental principle of cooperation and that the means of guaranteeing implementation of the agreement is the promotion of economic and social development by means of cooperation in the commercial, economic, agricultural, industrial and technological fields.

Within the framework of the intensification of the EC's political and economic cooperation with Argentina, **sectoral agreements have been** ratified aiming to increase **reciprocal cooperation** in individual fields such as sea fisheries⁷, the peaceful use of nuclear energy⁸, the scientific and technical field⁹.

2. POLITICAL AGENDA OF THE ARGENTINEAN GOVERNMENT

The fourth consecutive year of economic recession spelt doom to the government of President Fernando de la Rúa, without it being able to carry out a substantial part of its programme of (a) reform of the State and fiscal equilibrium; (b) sustainable economic growth and improvement of competitiveness; (c) reduction of poverty.

Eduardo Duhalde assumed the Presidency on 2 January 2002, in theory to December 2003. In view of the emergency, his programme focuses on three short-term objectives:

- restoring political and institutional authority
- guaranteeing social peace
- laying the foundations of change for the socio-economic model.

³ COM (99) 105

⁴ COM (2000) 670

⁵ Council Decision 96/205/EC

⁶ Council Decision at its meeting on 8 October 1990 –90/530/EEC

⁷ Regulation (EEC) No 3447/93 of 23 September 1993

⁸ OJ L296 of 30 October 1997

⁹ Proposal for a Council Decision COM/99/292

The measures taken since he came to power include:

- the end of the convertibility plan and – in two stages – the floating of the peso in relation to the US dollar, with intervention by the Central Bank when the inflationary risk is judged too high
- a substantial programme of emergency aid and assistance to the most deprived, including unemployed heads of household
- prudent and progressive easing of the restrictions imposed on the banking system (*corralito*)
- agreement in principle obtained with the governors of the provinces on a more balanced tax responsibility (co-participation) between the Nation and the provinces
- development and adoption by Parliament of a budget for 2002
- renewed interest on the part of the new Argentinean leaders (and their counterparts in Brazil, Paraguay, Uruguay, Bolivia and Chile) in the process of regional integration within Mercosur.

3. ANALYSIS OF THE COUNTRY

3.1. Political analysis

- *Current political situation*

The coalition composed of the UCR (Unión Cívica Radical – Centre party) and the FREPASO (Centre-Left), which had carried to Fernando de la Rúa to power at the end of 1999, weakened gradually, undermined by internal dissension. Without a majority in the Senate (nor in the Chamber of Deputies since October 2001), the President had great difficulty in controlling a country which had been sinking into economic recession since 1998.

At the beginning of December 2001, the Ministry for Economic Affairs unveiled a package of financial measures (the *corralito*), intended to safeguard the country's banking system by drastically limiting cash withdrawals. These measures were felt by the population as a confiscation of its savings. In under three weeks a flood of protests, sometimes violent and bloody, triggered the resignation of the Minister for the Economy. After having attempted in vain to form a government of national unity with the opposition, the President in turn was obliged to resign.

Thanks to its majority in the legislative assembly, the Peronist Party returned to power with Rodolfo Rodríguez Saá. During his short stay at the *Casa Rosada*, he decreed that the country had suspended its international payments. Following several questionable decisions he himself was swept from power by popular discontent and the loss of the party's support.

The legislative assembly finally appointed Eduardo Duhalde to supreme office, under particularly delicate conditions. For although the deep roots of the crisis are economic (4 years of recession, 20% unemployment), at the end of 2001 it took on the dimensions of a serious social and political crisis. At the beginning of 2002, Argentineans no longer trusted anything nor anyone. The task of the new government was therefore particularly difficult. It needed a new loan from the IMF in order to lift all the *corralito* restrictions without endangering the banking system. However IMF negotiators, seething at the unkept promises of the recent past, were particularly severe regarding the Government's economic plan and its will to implement it. It had notably to regain sufficient confidence among the population which continued counting in US dollars seeking as best it could to recover its savings confiscated by the *corralito*.

If the Duhalde government fails, it is likely to leave a void fraught with uncertainties.

- *The internal political system*

Argentina is constitutional democracy made up of three independent powers: an executive led by a popularly elected President, a bicameral legislature and a judiciary. The Argentinean political system is presidential with a federal structure with the 24 provinces reflecting the central model. The provinces have relative independence while being responsible for some tax collection, security, education and justice.

The public administration is perceived on the whole as slow and not very effective. The creation of an Anti-Corruption Office^{10 11} testifies to the desire to increase the transparency of the public sector. But the problem remains particularly acute at the level of the administration of justice. At the commercial level, an unstable and not very reliable legal framework does not encourage foreign investment.

In 2000 support for democracy remained relatively high in Argentina, since approximately 60% of the population felt that democracy was preferable to any other form of government, but this figure has declined by 15% in six years.

- *Human rights*

Since the end of the military regime (1976-83), human rights have been generally respected in Argentina and the Constitution guarantees basic rights. As regards women's rights, the Convention on the elimination of all forms of discrimination against women has been incorporated in national law. Mention should be made here of the application of the law on quotas¹² in 22 provinces.

With regard to the violations of human rights by soldiers during the last dictatorship (1976-1983), it is important to stress that in March 2001 a federal judge annulled the "*Obediencia Debida*" and "*Punto Final*" laws which exempted middle ranking soldiers from responsibility for the abuses committed during this period. However the principle of territoriality, which requires crimes to be judged in the country where they were committed, was invoked by the Argentinean Chancellery to reject the application for extradition of Captain Astiz, accused of having kidnapped and tortured French and Italian citizens under the military regime.

Certain cases of non-observance of human rights were established in an Amnesty International report (2001). The cases of violence, torture and abuses are mostly attributable to State security forces (Federal police, provincial police, gendarmerie). The same report also stresses the difficult conditions of detention in Argentinean prisons, connected in particular with overcrowding due to the slowness of the legal system.

- *Regional and international context*

Mercosur is a regional entity comprising Argentina, Brazil, Paraguay and Uruguay. It came into being officially with the Treaty of Asunción signed in 1995. Subsequently, Chile and Bolivia wished to take part in its political, but not economic, role. After initial encouraging steps,

¹⁰ The index of perception of corruption for Argentina, published by Transparency International in 2001, is 3.5 out of 10, with 10 being the index of the least corrupted country.

¹¹ The Office for example uncovered the irregularities of the administration as regards award of public contracts.

¹² The 1991 law on quotas establishes that: "the lists for the national elections should include a minimum of 30% of women".

Mercosur had to cope with an internal crisis stemming among other factors from the intergovernmental structure of the region and the lack of macroeconomic convergence between Brazil (which substantially devaluated its currency) and Argentina (whose peso remained firmly tied to the US dollar despite the latter's appreciation in relation to the Real and the Euro, for instance). The crisis of December 2001 could paradoxically breathe new life into the regional integration process. The abandonment of Argentinean peso - US dollar convertibility is likely to promote better macroeconomic convergence and, more generally, a second lease of life for macroeconomic integration within Mercosur. The Foreign Ministers of the four Member States, and of the associate countries Chile and Bolivia, moreover judged it useful to meet in Buenos Aires from 11 January 2002 to express their support for Argentina and their support for the observance and a detailed examination of their intra-regional agreements. The prospect of a common currency has been raised for now only in the long term. On the other hand, Mercosur envisages the creation of a common institution for settling trade disputes. It is an important step in the direction of the institutionalisation of the region, given that Brazil had been firmly opposed up to now to any initiative designed to promote any supranational authority.

Before 1989, Argentina had experienced a century of conflictual bilateral relations with the United States, but they underwent a radical change during the Menem presidency. Since that period (1989-1999), Argentina has adopted a more predictable foreign policy, founded on deliberate alignment with the United States, by abandoning its previous international isolation and participating in the non-aligned movement. Argentina plays an active part in international forums (where the country generally votes like the United States) and supports multilateral solutions.

The peaceful recovery of the Falklands (known to Argentina as the Malvinas) remains a recurring priority of foreign policy.

3.2. Economic and trade analysis

- *The current economic situation*

In 1997, Argentina's economic growth was among the highest in the world. High investment levels (8.6%) and regular growth in industrial production served as a basis while the convertibility plan preserved monetary stability with low inflation.

At the end of 2001 the economic collapse of the country resulted in particular in a suspension of payments. A combination of monetary and tax policies is at the root of this collapse.

In 1990 Argentina decided to link its peso to the American dollar ("currency board"). This mechanism was remarkably effective in suppressing the hyperinflation which prevailed at the time, but it was not a growth factor. The dollar appreciated in the 1990s, pulling the peso in its wake and compromising the competitiveness of the Argentinean economy, notably in the export markets of the EU and Brazil. Prices and wages remained high, contributing to an increase in unemployment and a fall in production and income. Inflation had been brought under control but growth and employment had been neglected.

Before 2001, the current deficit and the exodus of capital were offset by foreign investment and rising debt. Between 1991 and 2000, Argentina's foreign debt, the greatest part of which is generated by public sector borrowing, rose from \$57 billion to \$141 billion. The ratio of the foreign debt to GDP went up to 55%. This debt corresponds to several years of export earnings and debt servicing alone to 20% of annual export income.

At the same time, the State privatised several public services (telecommunications, energy, transport), but without managing to reduce the public deficit in a durable way.

Moreover, a significant share of expenditure (60%) goes traditionally to the public sector, the provinces and the universities. However this type of expenditure tended to increase owing to the lack of fiscal discipline, the chronic deficit of certain provinces, in certain cases estimated at around \$18 billion and more generally owing to the poor performance of the public sector, which lacks control and audit authorities.

In recent years, desirous of balancing the State budget, the Government opted for a tax policy which stimulated neither investment nor consumption: increase in import tariffs, new taxes on expected incomes and financial interest. In 2000-2001 the country got caught up in a vicious circle: rise in risks and interest rates – restrictions in access to credit – fall in production – decline in tax revenues – rise in the deficit. At the beginning of 2001 the Government imposed on itself the law of "zero deficit" meaning that it spent only its revenue. However the context was one of an economy in recession and two-digit unemployment. It contented itself with reducing its expenditure.

In mid-2001, mistrust had taken root. Foreign investment fell and the exodus of capital accelerated. At the end of the year, at the first rumours of a devaluation of the peso, savers hastened to the banks to withdraw the bulk of their deposits. Stability of the banking system became endangered, whence the cash withdrawal restrictions ("*corralito*") of 1 December 2001 and their dramatic consequences.

At the beginning of 2002 President Duhalde's government urgently took a series of measures (some of which lacked orthodoxy, notably towards the foreign companies active in Argentina and others were later described as unconstitutional). It outlined its plan of economic recovery in several stages, in a climate of mistrust unprecedented in Argentina and with measured support from the international community.

- *A productive environment in the process of modernisation*

Argentina is a country rich in natural resources and for a long time the economic strength of the country was founded on agricultural production. With the opening-up of international markets and the increase in competition, the share of agriculture in the economy decreased, accounting for about 6% of GNP. Agriculture is still important in Argentinean exports, however; the country is among the world's main soya,¹³ wine, maize and bovine animal exporters. The productivity of the cereals sector has risen in recent years but getting agricultural products to the sea ports suffers from inadequate infrastructure. Cattle and sheep farming are no longer the principal agricultural resource and this sector went through a crisis lately owing to an epidemic of foot-and-mouth disease.

In the energy field, Argentina has significant gas reserves and production is rising. In addition, the country is self-sufficient as regards oil production, which makes it less vulnerable to price fluctuations and exports part of that production. In the mining field, Argentina is rich in gold, money, copper, tin, iron, uranium, etc., and resources are still relatively little exploited as only 20% of the geological potential of the country has been probed.

Argentinean manufacturing industry experienced strong annual growth (slightly less than 5%) from 1990 to 1998, since halted by the successive financial crises. In terms of volume, the sectors experiencing strongest growth are metal manufacturing, motor vehicles and transport

¹³Almost 71% of Argentinean soya production is genetically modified.

equipment. Over the same period, the indices for occupation and hours worked recorded a fall of about 2.4% a year. There was therefore an increase in productivity, directly linked to the opening-up of the Argentinean economy and the privatisation of public-sector companies. Indeed, with the increase in foreign capital investment, the national component in certain production lines was reduced and new production techniques were integrated. Thus, competition on the national market increased, leading to a process of restructuring and reorganisation of the Argentinean industrial complex and the progressive elimination of jobs with low productivity.

Argentina's productive sector consists in the main of small businesses, SMEs. These are to be found mainly in the manufacturing, commercial and services sectors and play a key role in employment¹⁴. 90% of the production of the SMEs is intended for the domestic market, the external market being considered too demanding in terms of quality/price ratio. In recent years, the recession in the domestic market, the fall in prices of commodities, the rise in interest rates and the loss of competitiveness of Argentinean products on foreign markets hit SMEs hard, forcing many companies to operate illegally.

- *Trade*

From the beginning of the 1990s, the Argentinean economy opened up to the outside world; Argentina increased its trade with its neighbours, in particular Brazil, which is now its principal trading partner, and it has stimulated foreign investment by deregulating the economy and privatising public services.

Argentina also increased its trade with the EU. The EU market is the second largest export destination after Brazil. 61% of Argentinean exports to the EU consist of foodstuffs and live animals. And the first source of imports for Argentina is the EU, followed by Brazil. Argentina imports mainly machines, chemicals and transport equipment from the EU. The significant share of agricultural products in trade with the EU is why Argentina focuses on this sector as regards access to the European market. Within the WTO, Argentina is very active in the Cairns Group, which aims to free up agricultural markets.

With regard to foreign investment, Argentina is regarded as a relatively open country, despite a sometimes uncertain legal framework. In the 1990s, investment was concentrated on foodstuffs and beverages, car manufacture and car components, communications, mining and petroleum products, energy, natural gas and electricity, financial services and retail sales. Industry attracted 30% of overall direct investment worth \$ 186 billion, of which \$ 127 billion is foreign investment. During this period, the largest investors (in billion \$) were United States (47), Spain (32), Chile (8) and Italy (6). FDI should develop particularly in extractive activities, but the level of foreign investment fluctuates with the international economic situation. Argentina remains very dependent on foreign investment for its economic growth.

3.3. Social situation

- *Rise in poverty, disparities and discontent*

According to figures from the 1991 census, the percentage of households with unsatisfied basic needs amounted to 16.5%, in 2001, for Buenos Aires and parts of its conurbation¹⁵, 23.7% of households were below the poverty line and 7.4% of them were living in poverty. On a national scale, the World Bank puts poverty at 29% of the population, or even 50% in the poorest regions of the North-East and the North-West.

¹⁴ The number of employees of SMEs is estimated at 5.8 million.

¹⁵ Official figures from the INDEC. There are no figures at national level or for the rural population.

The poorest section of the population is characterised by larger and younger families, a high unemployment rate and a low education level. The result is that children are more exposed to poverty than the adults.

The disparity in incomes has increased lately, accompanied by an increase in social exclusion for millions of city residents, with the lower middle class becoming poor. Income per capita of the 10% poorest fell from 42.6 pesos (or 1.7% of total income) in 1990 to 39.2 pesos (1.3%) in 1998, while the share of the 10% richest rose from 839.4 pesos (or 34.3% of the total) in 1990 to 1144.1 pesos (37,6%)¹⁶.

This increase in disparities can be put down to various factors:

- the persistent economic recession closed many companies, or reduced their activities, and put a considerable number of their employees on the street (unemployment went up to 23% in January 2002)
- in the 1990s, Argentina restructured its industry root and branch, the demand for skilled manpower (secondary and university level), and therefore wages, increased. At the same time, with the rationalisation and privatisation of firms, unemployment rose and unskilled workers' wages fell
- the increase in unemployment, the rise in the relative cost of employment¹⁷ and the slowing down in the economy affecting key sectors, employment for unskilled workers (e.g. in construction), prompted a significant sector of the unskilled population to turn to the informal sector, thus depriving themselves of social security cover
- "targeted social expenditure" amounts to approximately 15% of the Government's social expenditure¹⁸. However, only 10% of the social programmes are actually intended for vulnerable groups and a substantial percentage of the poor are excluded from the social aid circuits.

It should be noted that women were particularly affected by the economic and social changes in recent years; unemployment¹⁹, under-employment, precariousness and undeclared work are even higher among women. Women's pay is estimated at 75% of male remuneration.

Social discontent, in sharp increase since 1998, culminated in December 2001 in mass demonstrations in the large cities despite the state of emergency issued by President De la Rúa, the saucepan-banging demonstrations ("cacerolazos"), shop and supermarket looting, bloody riots (35 dead, more than 1 000 injured). In January 2002 it took on a less violent form when the banks were the preferred targets, seen as "accomplices of the corralito".

- *The social services*

Argentina had a social expenditure level per capita among the highest in Latin America. The country has a developed health system which devotes approximately 5% of GDP to health. Cover and access are relatively high but heterogeneous and fragmented. The medical care system is structurally able to provide a sufficient response to the needs of the population. However, there are major inequalities in health conditions from region to region given the unequal geographical distribution of wealth. Moreover, a whole section of the population, which is not covered socially, such as independent workers, for the most part with average or

¹⁶ Source: World Bank report on "poor people in a rich country – a poverty report for Argentina".

¹⁷ In a period of high inflation, firms could reduce real wages by not adapting the money wages to inflation. With the stability of the peso, companies no longer have this possibility.

¹⁸ This is the consolidated public expenditure which includes the Federal expenditure, provincial government spending and municipalities' expenditure, since social security for health is decentralised.

¹⁹ The unemployment rate is nearly three points higher for women (Source: permanent survey of households, 1998).

low incomes, independent undeclared workers, the unemployed and those not exercising an economic activity receive much less medical treatment and with lesser priority than those covered.

The public social security (social assistance) and prepaid medicine (private) system make up the health services. To deregulate social assistance, which is in the hands of the trade unions, with obligatory affiliation, the Government submitted a bill to the Congress which ensures free competition in health benefits.

In the educational field, too, Argentina has the one of the most developed systems on the continent; its social indicators as regards education are close to those of the OECD countries, except for attendance rate, which is lower than the OECD average. Early abandonment of education – often for economic reasons – repeating classes, leaving school without a certificate and high student age in both primary and secondary classes are recurring problems.

Over the last five years Argentina has been reforming its education system. This involves delegating decisions on its application to the provinces. This reform is consequently subject to the financial possibilities of the provinces and this has a serious impact on the modernisation of the system.

Although the standard of teaching is high, the education system as a whole deteriorated gradually in the absence of sufficient Government funds. Education is the sector where OSC (*Organizaciones de la Sociedad Civil*) are the most present, with health, culture and social services lagging far behind. However, the OSC are becoming increasingly dynamic and to a certain extent this tends to fill the vacuum left by the State.

After the dramatic events of December 2001, President Duhalde issued a food state of emergency for one year throughout the country. The draft 2002 budget envisages rationalising social security programmes, with 350 million pesos to help unemployed heads of household and 350 million pesos to provide food aid to the most deprived.

3.4. The environment

A major environmental problem in Argentina is pollution, mainly water pollution in urban areas - owing to harmful disposal practices – and in rural areas where rivers are being polluted by increasing use of pesticides and fertilizers. 20% of urban residents and 83% of people living in the countryside do not have access to running water. Argentina is also increasingly prone to air pollution, particularly in Buenos Aires and other big cities.

Moreover, the reduction in a very rich biodiversity, the overexploitation of the country's vast potential in mineral resources, erosion problems due to the inadequacy of flood control and inappropriate practices in use of the land, the deterioration of irrigated areas and desertification create serious threats to the environment.

Awareness-raising on environment issues has increased since the 1980s and the legal framework improved. But despite the political initiatives and the various programmes launched by the Government to reduce pollution, the tight budgetary context limits room for manoeuvre in the field of the environment.

3.5. Sustainability and prospects

At the beginning of 2002 Argentina came to a turning point in its history. President Duhalde's government has to cope with an economic, social and political crisis and especially a crisis of confidence without precedent. For the duration of its mandate – 2 years – it has marked up three short-term priorities (see above "political agenda of the Argentinean government"). They appear ambitious but are in fact dictated by the crisis. Success or failure will largely depend on the reserve of confidence among Argentines and the international community that this government will be able to build up in a short time.

4. GENERAL FRAMEWORK OF COOPERATION WITH ARGENTINA

4.1. Cooperation with the European institutions

- *The Commission*

An overall balance sheet of cooperation from 1990 to 2000 makes it possible to identify some significant trends in EC/Argentina cooperation. Over the last 10 years, Argentina benefited from slightly more than €8 million on average per annum, regional and horizontal cooperation excluded. Cooperation was particularly intense from 1993 to 1995, stabilising at around 7 million a year in recent years.

Slightly less than a third of Community funds committed over this period were on financial and technical cooperation, with the stress on projects with a social dimension. Economic cooperation, in particular to the benefit of SMEs or economic sectors, also played an important role and represents approximately a quarter of the funds committed. More than 15% of cooperation funds were allocated to NGOs (budget heading B7-6000). The latter intervened mainly in the social field, in particular to help children, women and indigenous Argentines, but also in the field of vocational and health training. The same financial volume was reserved for scientific cooperation. Finally, the remainder of the total funds earmarked for cooperation was distributed among projects in the field of human rights, the environment, energy cooperation and the fight against drugs. Institutional support or support for the process of reform of the State has grown in recent years but remains marginal.

On a qualitative level, no overall evaluation of cooperation was carried out over the period although the majority of projects were the subject of individual evaluations. Nevertheless, some lessons can be drawn from the experience of Commission departments:

- cooperation with Argentina drew on several budget headings, managed by various Directorates-General; thus, in addition to the appropriations connected with economic and financial and technical cooperation, Argentina benefited from appropriations under cooperation in the energy field (B4-104), scientific and technological cooperation (B6-62), cooperation in the fisheries sector (B7-8000), cooperation with NGOs (B7-6000), etc. The diversity of the players involved in cooperation at the level of the Commission led to an increase in intervention sectors and the splitting of the Community effort among several fields; in future, it appears necessary to limit the fields of intervention so as to concentrate on those fields identified as priority and to maximise the impact of cooperation
- the use of appropriations under the B7-6000 heading until 1996 shows a tendency to increase the number of specific and small-scale projects in fields sometimes covered by other budget headings; at the level of project selection, it is advisable therefore to continue the approach adopted since 1997, i.e. to choose bigger and better targeted projects, and to strengthen coordination between the various players in order to avoid duplication of effort

- an important challenge concerns procedural bottlenecks which exist currently; to develop a genuine partnership, the rigidities and difficulties due to administrative and legal complications have to be reduced significantly; it is crucial for the EU and Argentina to agree as quickly as possible on a framework financing agreement governing all aspects of cooperation, and to make a serious joint effort to rationalise the mechanisms of implementation; so far the Argentinean government has been reluctant to sign such an accord
- hitherto, the Argentinean government has co-financed projects up to 50%, but in the current context, the release of significant amounts by the public authorities is likely to be problematic; one possibility, and that applies especially to economic cooperation, would be to rely more on semi-public or even private players; in the field of financial and technical cooperation, which deals more with the strengthening of institutions and with social aid, the strategy could be to support projects and complement the Government's effort in fields targeted through technical assistance
- Argentina is certainly a bilateral cooperation partner, but also a regional cooperation partner for Mercosur, a key political priority of the EU (see Mercosur strategy paper for more details), and horizontal cooperation with Latin America as a whole (see strategic paper for Latin America).
- *The European Investment Bank (see Annex II)*

Since the launching of its activities in Argentina in 1994, the EIB has set up 10 loans for a total of €468.7 million, i.e. 15% of the commitments carried out under successive ALA mandates.

Only one loan was granted to the Argentinean Republic (€51.5 million outstanding) accounting for 13% of the current outstanding amount of €403.9 million.

All the other aid benefited the private sector, namely - in accordance with the philosophy of the ALA mandate - borrowers who are local companies having a significant European portfolio. Concerning the latter, very often this involved European groups who within the framework of their international development have been prompted to invest in Argentina. Up to 1998, Argentina experienced strong economic growth, carried out one of the most ambitious privatisation programmes and thus attracted between 1992 and 2001 almost 66 billion US dollars in foreign direct investment, of which almost 47% came from the EU (against 36% from USA).

Thanks to EIB loans, these companies had access for the financing of their investment plans to long-term funds not available in the country and with a mechanism covering the political risk²⁰ under EU support for cooperation with the ALA countries.

The Bank's operations were not spared by recent events in the country. The debt servicing of the loans granted to the private sector has been delayed as the Central Bank temporarily suspended treatment of such operations. Paradoxically, Argentina has honoured its financial commitments with respect to the EIB.

²⁰ Ensured by the Community budget and covering risks of expropriation, war and civil disorder, non-convertibility and non-transfer.

4.2. Cooperation with the Member States, other donor countries and the international institutions (see Annex III)

Since 1995, gross ODA - official development aid - (grants and loans) allocated to Argentina has decreased. The total from Member States of the EU fell from \$ 148 million in 1995 to \$ 45 million in 1999²¹. For the record, the foreign debt of Argentina is estimated at 145 billion \$ in 2002.

- *Member States*

On the basis of 1999 ODA commitments, the Member States as a whole reserved 59% of their financial resources for the **social field** (infrastructure and services), and more particularly for the social services²² and for programmes for post-secondary education. 20% of the appropriations were allocated to the supply of productive services, mainly in agriculture (10%) but also in the industrial and commercial field.

Germany is the principal donor (68% of Community ODA) and intervenes primarily in the social field (54% of the funds), in particular through support for the social services (20%) and for post-secondary education²³. Germany also intervenes in the agricultural field (11%), and, to a lesser extent, the industrial and commercial field. 22% of the total appropriation is reserved for multi-sector or cross-cutting ("horizontal") projects²⁴.

Italy is the second largest donor, responsible for 14% of ODA. Italy intervenes mainly at the level of education (43%) and productive services (42%), in particular commercial (21%), agricultural and industrial services. The remainder is shared among the social services (7%) and multi-sector or cross-cutting projects.

Spain is the 3rd biggest donor (8%) and devotes three-quarters of its ODA to the social field; 42% of the resources going to post-secondary education and 16% to health. The remainder of aid is reserved for the productive sector (18%), mainly agriculture and industry.

France is the 4th largest donor and allocates almost 90% of its aid to the social field. Inside this field, 40% is reserved for education (mainly post-secondary), approximately 30% for the social services and the remainder for institutional aid and civil society. The rest is allocated to economic infrastructure, the services and "horizontal" projects.

It should be noted that **Belgium** and **Austria** also intervene in the field of post-secondary education.

Several other Member States give indirect aid to Argentina by means of NGO financing.

- *Donor countries outside the EU*

Other countries provide assistance to Argentina in the form of ODA, in particular and in descending order of the overall budget: Japan (agriculture); Canada (trade and social services); the United States (transport and the environment).

²¹ OECD data (DAC).

²² Several fields are covered under "social services": strengthening of institutional capacities, social security and other social plans, targeted social programmes, services of the central administration, population settlement, aid for rebuilding, culture and leisure, fight against drug trafficking, reinforcement of statistical capacities, scientific and research institutes.

²³ Post-secondary education involves higher education and higher technical management training.

²⁴ See environmental protection, women and development, other multi-sector fields.

- *International organisations*

The actions of international organisations like the World Bank, the Inter-American Development Bank and the IMF were crucial to the transformation of Argentina in the last decade. The strategies of the principal international organisations will continue to support the Government in the implementation of its reforms.

World Bank : Currently the loan portfolio in implementation is estimated at \$ 9 billion. The bank also provides grants. The Bank's strategy for the period 2000-2004 in Argentina proposed, up to December 2001, approximately \$ 3 billion in financing focusing on three main areas:

- improvement of social development, including relief of poverty and development of human resources,
- improvement of the action of the State, particularly at provincial level,
- consolidation of structural reforms.

The strategy of the Bank has been supported and strengthened by the consultation process carried out overall with civil society and this culminated in a "national forum" held in Buenos Aires. The Bank also envisages additional financing for the reforms (supplement of \$500 million) in the event of progress in sectors like health sector reform, simplification of social programmes, additional reforms of the pensions system.

IDB: For the loans in implementation, the volume of funds is estimated at \$ 6 billion and is supplemented with technical assistance operations for \$ 56 million (a significant portion of which has a regional character). In order to support the Government's measures and policies, the IDB's strategy comprised, up to December 2001, approximately \$ 3.7 billion in financing for the period 2001-2003:

- sustainable growth of productive sectors and increase in productivity via the financing of activities which contribute to the maintenance of a framework conducive to investment and competitiveness and which improve the capacity of the Government to promote production and infrastructure projects (38% of the total appropriation)
- reduction of poverty and raising of the quality of life; through support for projects which develop job opportunities and access to employment, and the quality of basic services such as education, health, sanitation and environment services (41%)
- reform of the State and fiscal balance for the consolidation of measures started by the Argentinean Government, strengthening of the decentralisation mechanisms, transparency of the public service and strengthening of the institutions (20%)
- greater regional integration through the planning of investment in infrastructure, conflict resolution mechanisms, etc.

IMF: the executive board approved in September 2001 an increase in current credit to \$ 22 billion. Agreements included the strengthening of fiscal adjustment by the rigorous application of the zero deficit law, the reform of the system of co-participation in taxes, the strengthening of the tax administration, several measures to reform the State and the public banks. Since December 2001 and the suspension of payments endorsed by President Rodriguez Saá, the IMF has been reserving its position with respect to Argentina.

UNICEF: in 1997, this body was invited by the Government to collaborate in the implementation of the Convention on the Rights of the Child. To this end a programme of

cooperation for the period 1997-2001 was formulated, which centers on three fundamental programmes which place the child at the centre of social policies.

UNESCO: This body promotes socio-cultural integration among the Latin American countries. Some of its programmes devote special attention to Mercosur, such as the communication programme to promote the socio-cultural integration process in the region.

UNDP: This body is no longer a donor, but offers and manages consultancy in projects co-financed by international organisations (IDB, World bank, FAO, etc.) and the Government (through its national or provincial budgets). To that end, the UNDP establishes an important institutional framework for the development of cooperation projects (grants and loans) run by the international organisations, in addition to institutional support to the Argentinean Government. Since 2000 it has no longer been providing direct grants.

5. RESPONSE STRATEGY OF THE EC FOR THE FUTURE

Generally speaking, apart from a protectionist reflex caused by the events of December 2001 and the persistence of the difficulties in overcoming the crisis, Argentina's foreign policy is to integrate fully into the world trade and economic system and take part in discussions of the international bodies, to ensure its sustainable development and, in the long term, to integrate into the group of developed countries.

5.1 Sectoral agreements

The conclusion of sectoral agreements can be only beneficial for the two sides. As far as possible, the EU gives preference to the negotiation of interregional agreements with Mercosur. These permit appreciable economies of scale and enable the EU to exploit as much as possible the comparative advantage which results from its own regional entity experience.

At the **trade level**, the EU's objective with respect to Argentina is to strengthen economic links and improve trade conditions for European operators. As with the other Member States of Mercosur, the EU seeks to promote in Argentina the liberalisation of trade in goods and services and the consolidation of investment conditions, while endeavouring to conclude the negotiations for an all-encompassing interregional association agreement. Both at Mercosur level and in the bilateral relations with Argentina, the EU wishes to continue facilitating trade by appropriate measures and activities, inter alia cooperation. With that in mind,

- the Council and the Commission adopted on 10 November 2000 a joint statement on the development policy of the European Community, in which "trade and development" on the one hand, and "strengthening of capacities" on the other were two of the six priorities identified for the Community's development policy
- under the WTO, the Doha ministerial statement (adopted on 14 November 2001) stressed the role of international trade in the promotion of economic development and the relief of poverty, as well as the role of technical assistance and the strengthening of capacities in the development of multilateral trade.

As far as agreements on wines and spirits are concerned, the EU and Mercosur have agreed to pursue negotiations on these matters between the EC and the Mercosur Member States, it being understood that an agreement on wines and spirits resulting from these bilateral negotiations would be part of the single undertaking of the future bi-regional association agreement.

With regard to the **internal market**, and in relation to the above, the objective of the EU is to contribute to the consolidation of the Mercosur common market and promote the best European practices in the most relevant sectors. At the present stage (see Mercosur strategic paper), the cooperation planned for the Mercosur internal market is devoted to support for local SMEs, reducing bottlenecks at intra-Mercosur borders, improvement of standards in health and plant health, the facilitation of trade, harmonisation of technical regulations, in particular in agricultural and veterinary matters.

The **policy of health and consumer protection** corresponds to the high quality requirements of European consumers. From March 2001 to February 2002, the EU stopped imports of fresh bovine meat owing to the epidemic of foot-and-mouth in Argentina. With regard to the negotiation of an EU-Argentina health and plant health agreement, first exploratory discussions took place in 2001. However, bilateral agreements with Mercosur Member States should be sought within the framework of the interregional negotiation process between the EU and Mercosur.

In the **fisheries** sector, Argentina is also a key partner for the EU. A cooperation agreement has been signed, envisaging on the one hand a scientific and technical cooperation component (€28 million) and on the other hand support for the creation of mixed companies and temporary associations with the aim of exploiting Argentinean fishery resources. Following unilateral measures that Argentina justifies by the reduction of certain stocks, and which affected the balance of the agreement, the EU suspended payment of the last tranche of the cooperation component. At the last meeting of the Joint EU-Argentina Committee in 2000, the European Union proposed fresh negotiations for the normalisation of the existing agreement, the negotiation of a new agreement taking account of the reduction in resources, discussion of an article of the "general law on fisheries", multilateral cooperation in the South-West Atlantic. Since then, there has been little progress.

In the **scientific** field, Community policy also has a significant impact on Argentina. From 1995 to 1997 that country took part in 32 projects of the INCO-DC programme in the sectors of health, agriculture and management of natural resources. Argentina also plays an active part in the INCO-DEV programme, inter alia in projects connected with the policy of sustainable development. In 1999 the EC signed a specific bilateral (going beyond the standard agreement) scientific and technical assistance agreement with Argentina, in order to open up reciprocal possibilities of taking part in programmes and activities implemented by each side on R&D. This agreement is targeted on the sectors of activity of the 5th Framework Programme, where Argentinean participation has so far been very limited. The first meeting of the steering committee established by the bilateral agreement is expected in 2002.

A standard bilateral agreement was also concluded between Euratom and the Argentinean government on the **peaceful use of nuclear energy**. Signed on 11 June 1996, it entered into force on 27 October 1997. Its objective is to develop joint research in fields such as: nuclear safety; the management of radioactive waste; radiation protection; nuclear applications in agriculture, industry, medicine; interactions between nuclear energy and the environment.

As regards **competition**, Argentina has a law "Ley de Defensa de la Competencia 25.156 (Boletín del 20.9.1999)", which was fleshed out by later regulations. This law improved considerably the field of application compared with the previous law which dated back to 1980. The current supervisory authority, the "Comisión Nacional de Defensa de la Competencia" , will evolve institutionally towards the "Secretaria de Defensa de la Competencia y del Consumidor " and the creation of a "Tribunal Nacional de Defensa de la Competencia " . In this new regulatory departure Argentina was inspired to a certain extent by the Community rules. There is great interest in the transfer of know-how and a major need for training of the

specialised services. The development of national competition policy can only contribute to the consolidation of competition policy at Mercosur level, to which Argentina is committed.

Lastly, most other Community policies have a more indirect impact on Argentina, but deserve to be mentioned insofar as they can influence the EU's cooperation strategy.

In the **environmental field**, the EU identified four principal fields of action, among which climate change and the impoverishment of biodiversity. The EU is committed more specifically to arresting deforestation and the deterioration of forests. Indeed, with almost 2,800,000 km², which stretch from latitude 22° to 56° South, the territory of Argentina covers a wide variety of climates, landscapes, flora and fauna. It is among the 25 countries most diversified in terms of species. Its various types of forest explain this biodiversity. Nevertheless, the forests are disappearing at an alarming rate. At the beginning of the 20th century, the country had more than 100 million hectares of forests. This area fell to less than 20 million hectares, half of which is rapidly deteriorating. The latest FAO report on the world's forests, in 2001, identifies Argentina among the 10 countries where deforestation is the most rapid : 0.8% of the forests disappear each year. Conversion into arable land, the exploitation of timber by foreign and domestic companies, infrastructure projects and, more recently, the transformation of natural forest into single-crop farming land to produce paper pulp and absorb carbon dioxide constituted the principal causes of the loss of forest biodiversity. Support for the conservation of forests and sustainable management of forestry resources should consequently become a key topic of EU cooperation with Argentina.

The development of the **information society** is a key horizontal objective for the EU, as it has a positive impact on essential development areas.

In the field of **transport**, the priorities of the EU are on the opening of markets and the safety of maritime and air transport.

In the field of **energy**, the aim is guaranteeing the security of supplies of energy resources, among other things via an appropriate infrastructure network. Accordingly, the multiannual programme aiming to promote international cooperation in the energy sector enabled financing of cooperation projects with Argentina to help it to formulate and implement its energy policy in fields of mutual interest and to promote industrial cooperation. Similar projects could be eligible for the cooperation under the future energy programme ("Intelligent Energy for Europe").

5.2. Cooperation

As a preliminary remark, it should be recalled that formal cooperation guidelines were laid down under two previous documents: the multiannual strategic guidelines for Argentina, which date back to June 1998, and the memorandum of understanding ratified by the Argentinean authorities in June 2001.

The strategic guidelines stressed the importance of the principle of mutual interest in bilateral EU-Argentina relations, a principle justifying an intensification of the institutional and economic cooperation which made it possible to open up business opportunities for European economic operators, while helping to solve strategic problems for Argentina. The guidelines also recommended the progressive reduction of cooperation - and especially financial aid - in the social field. Finally, the document recommended (a) greater local participation in the financing of projects, (b) better coordination between bilateral, regional and horizontal projects, (c) an increase in project size, (d) greater coordination between Community activities and those

of the Member States and (e) concentration on economic cooperation of mutual interest, especially in the field of SMEs.

The memorandum of understanding highlighted four principal areas of intervention, illustrated by several project ideas, for EC-Argentina cooperation over the period 2000-2006 (see annex I) and for an indicative amount of €65.7 million. *A priori* the risk of dispersal is high and it is desirable to reduce the number of projects initially envisaged. The selection of the definitive projects and their amount are subject to detailed identification and evaluation before they can be started by the Commission and their amount depends on availability of funds under the appropriate Commission budget headings.

The 2000-2006 cooperation strategy has to be in keeping with the objectives of Community cooperation. For Argentina, these are:

- to support the democratic institutions in their desire to modernise and reform the State,
- to fight against poverty and social exclusion
- to encourage economic development, notably in fields such as fisheries, the peaceful use of nuclear energy, science and technology, in the mutual interest of firms on both sides of the Atlantic
- to support the country (directly and through Mercosur) in its efforts to improve the framework of trade and investment and to maximise profits; inter alia the aim is to strengthen the legislative, legal and institutional framework and apply the WTO commitments in health and plant health agreements, the protection of intellectual property, customs duties, etc.
- to strengthen the integration of Argentina into Mercosur.

Cooperation has to take into account cross-cutting ("horizontal") topics like the promotion of equal opportunities between men and women, environmental protection, the development of the information society²⁵.

Before launching a new project, arbitration will be possibly necessary to determine if the optimum framework is at the bilateral, regional (Mercosur) or horizontal (Latin America) level. For example, as regards trade or promotion of investment, the degree of advancement of EU-Mercosur negotiations could, at the proper time, lead to regional cooperation projects with Mercosur rather than bilateral projects with Argentina.

The strategy has also to take account the lessons of the past. In cooperation with Argentina, it will be advisable to focus the financial effort on some fields, to strengthen coordination between the various Directorates-General in order to avoid duplication of effort and to increase complementarity in the fields deemed to be priority, to diversify the local sources of cofinancing while relying more on semi-public players and to align Community aid on the major priorities of the Government.

The EC's strategy has also to be complementary to that of the Member States and the other institutional donors. It should be stressed here that the Delegation has established a database of the projects of the Member States for which it could obtain information. The analysis of the Member States' cooperation sectors shows a heavy representation of those in the social field, notably in education and training. Any action in this field should therefore be selected carefully, taking into account the actions of the Member States.

²⁵Argentina also benefits from appropriations under horizontal cooperation (ECIP, AI-invest, ALURE, Urb-al, ALFA, @LIS).

First, however, the strategy has to respond to the country's main problems. Until the crisis of December 2001 those were economic recession, the public deficit, administrative deficiencies, the rise of poverty. So the guidelines of cooperation are as follows:

- *Support for the reform of the State*

The state (at a Federal and/or provincial level) has a major need for reforms with a view to improving its effectiveness and to reduce its sometimes chronic deficit. Consequently, the anticipated result is an **improvement in practices reflected in a more positive perception by the public (transparency) and a more favourable cost-benefit ratio**, by making use of the European experience, in fields to be determined including:

- the award of **public contracts**; possible budget heading: B7-310 ("financial and technical cooperation with the developing countries of Latin America")
- reform of **customs administration** (this reform takes on special importance for entrepreneurs as an increase in the effectiveness of the customs administration should make it possible to ease the flow of trade between the EU and Argentina); possible budget heading: B7-310
- reform of **legal administration** (relying on the experience of local NGOs already active, or on the commercial sector, which has a direct interest in the development of an effective legal administration); possible budget headings: B7-310, B7-703 ("promotion of the respect of human rights and of democratisation, in support of conflict prevention and the restoration of civil peace"), B7-6000 ("Community participation in actions for developing countries carried out by non-governmental organisations")
- reform of **the prison authorities**; possible budget headings: B7-310, B7-703
- reform of **the police administration** (the Memorandum of understanding already envisages a project in this field); possible budget headings: B7-310, B7-703.

- *Fight against poverty*

Despite the intrinsic wealth of the country, a significant part of the population has sunk back into poverty in the recent crisis. EC cooperation in this field cannot easily be brought under a vast programme of food aid, supply of medicines or assistance to the unemployed. It would be better to export a European model for improving **vocational training**: improvement and diversification of the competitiveness of the workforce, for example by encouraging exchanges between higher education establishments and firms; access to the training where it is distributed inequitably, where information is lacking: possible budget headings: B7-622 ("integration of gender issues in the developing countries"), B7-6000.

This should, in the long run, give rise to better social conditions in the targeted area and to an **improvement (quantitative and qualitative) in the supply of manpower** by the education system to the productive sector.

- *Economic cooperation in the mutual interest*

The objective of economic cooperation is twofold: to increase the competitiveness of Argentinean companies - SMEs in a number of targeted sectors - and their capacity to integrate

into international markets, and stimulate firms' trade and investment (Trade-Related Technical Assistance – Capacity Building").

In order to strengthen the **competitiveness of the Argentinean economy**, several fields of intervention can be envisaged:

- to orient their production towards international markets, it is necessary that the Argentinean companies, notably SMEs, familiarise themselves with the conditions prevailing on the markets, in particular in terms of **quality, certification and standards** ; possible budget heading: B7-311 ("economic cooperation with the developing countries of Latin America")
- the strengthening of local firms' competitiveness also requires increased access to **know-how, innovation and research & development**; possible budget headings: B7-311, B6-551 ("appropriations coming from the participation of third parties, outside the European Economic Area, in research and technological development"), B6-621 ("affirmation of the international role of Community research")
- finally, Argentinean companies could increase their competitiveness, and the country could boost its wealth, through **more effective and rational use of energy resources** and a **more developed transport network**; possible budget headings: B7-311, B4-104 (cooperation and monitoring of the markets in the energy sector"), EIB loans.

The anticipated result is an **increase in the number of SMEs exporting** goods and services.

In order to stimulate investment and trade, it is necessary initially to develop an environment conducive to trade between companies. Within the framework of cooperation with Argentina (or with Mercosur), the desire to establish a bilateral coordination mechanism in the commercial field to solve commercial disputes before they develop could be considered. The EU could stimulate investment by intensifying cooperation between the principal European and Argentinean economic players, by increased support for consular and professional bodies (Chambers of Commerce, professional federations, etc.) in order to enhance the scope for investment on both sides. Such cooperation already exists through the horizontal programme ATLAS. These schemes could take the form of support and financing for infrastructure projects concerning trade (telecommunications, ports, airports, roads) and support and financing for SMEs. Co-financing, cross-shareholding and "joint ventures" will be encouraged.

The Commission will assist Argentina in its efforts to increase its institutional, legal and regulatory capacities in the sectors connected with trade, to implement and apply its commitments to the WTO and within the framework of the EU-Mercosur negotiations: TBT/FMS, intellectual property rights connected with trade (TRIPS), customs valuation. Technical assistance could be provided in fields such as: facilitation of trade (simplification, harmonisation and automation of procedures for imports, exports and goods in transit); the improvement of competition policy at national level; the analysis of tariff and non-tariff needs and priorities; the development of the arrangements applied to foreign direct investment in Argentina (by increasing the capacity to attract it and turn it to good account). Possible budget headings: B7-311, B7-310. The expected result is progress in the **implementation of WTO rules and the outcome of the EU-Mercosur negotiations** by Argentina.

A summary of the National Indicative Programme is given below.

Summary of NIP

<i>AREAS/possible projects</i>	Duration	% BUDGET	EST. BUDGET (million €)	BUDGET HEADING
AREA I –Support for the reform of the State		40%	26.280	
• <i>Support for the reform of the State (in particular in sensitive fields such as police force, justice, penitentiary system...)</i> *	2003-2006		9.430	310, 703
<i>Support for the reform of the provincial state (police force in Salta and Santa Fé)</i>	2000-2006		3.710	310
• <i>Improved customs effectiveness</i> *	2004-2006		6.570	310
• <i>Award of public contracts</i>	2005-2006		6.570	310
AREA II –Fight against poverty		10%	6.570	
• <i>Support for vocational training</i>	2004-2006		6.570	622, 6000
AREA III –economic cooperation in the mutual interest		50%	32.850	
• <i>Improved competitiveness of SMEs in the industrial forestry sector</i> *	2003-2006		9.855	311
• <i>Support for the technology centre network</i> *	2006-2006		?	311
• <i>Promotion of consumers' rights and quality</i> *	2006-2006		6.940	311
• <i>Improvement in effectiveness and the competitiveness of the economy</i>	2000-2006		6.200	311
• <i>Promotion of industrial design</i> *	2005-2006		?	311
• <i>Stimulation of investment and trade (TRTA-CB)</i>	2003-2006		9.855	310, 311
TOTAL (base: indicative amount of Memorandum **)		100%	65.700	

* Project listed in the Memorandum of Understanding.

** This indicative amount has been running since 2000 and therefore includes the amounts already committed at this time (3.710 + 6,200). It is likely to be affected by actions that cannot be foreseen such as assistance to displaced people or victims of natural disasters in Latin America.

ANNEXES

**ANNEXE I – Memorandum of Understanding between the European
Community and the Argentinean Republic**

Memorandum of Understanding

between

the European Community

and

the Argentine Republic

**concerning the multiannual guidelines for the implementation
of Community cooperation**

The European Community, hereinafter referred to as "the Community", represented by the Commission of the European Communities, hereinafter referred to as "the Commission", and the Government of the Argentine Republic, represented by the Ministry of Foreign Relations, International Trade and Worship;

WHEREAS:

(1) The Framework Agreement for trade and commercial and economic cooperation between the European Community and the Argentine Republic signed on 2 April 1990 provides for the development of various lines of cooperation.

(2) Council Regulation (EC) No 443/92 of 25 February 1992 lays down the basic principles for financial and technical assistance and economic cooperation with developing countries in Latin America, and Article 9 thereof recommends that multiannual indicative programming should be established by country, wherever possible.

(3) Both parties attach great importance to cooperation as a means of promoting economic and social development and reinforcing reciprocal links,

HAVE AGREED AS FOLLOWS:

ARTICLE 1

Objective and context

1. OBJECTIVE

The objective of this Memorandum of Understanding is to define multiannual guidelines for implementing cooperation between the Argentine Republic and the European Community for the period 2000-2006.

2. CONTEXT

The range of activities covered by this Memorandum for the period indicated covers financial and technical cooperation and economic cooperation, for which management rules and allocation methods are laid down in Council Regulation (EC) No 443/92 of 25 February 1992.

In addition to the cooperation activities included in this Memorandum, other Community-financed cooperation activities of a regional or national nature (e.g. projects carried out by NGOs) or decentralised nature (AL-INVEST, URB-AL, ALFA, ALURE, ARIEL, SYNERGY programmes etc.) may be carried out.

The provisions of this Memorandum shall not affect cooperation activities arising from sectoral agreements in force between the Parties.

Priority sectors for cooperation shall take as their basis the European Commission paper on multiannual indicative guidelines for Argentina approved in October 1998, and shall be in line with the policy guidelines of the Argentine government.

ARTICLE 2

Basic principles

The principles used to determine which sectors and subsectors focused on in the period 2000-2006 shall be as follows:

- All the sectors and subsectors selected will be in line with the priorities laid down by the Argentine government, and they must fall within the framework of government sectoral policies which can rely on suitable national funding. Community action will back up Argentina's own work on defining and implementing those policies.
- The Parties undertake to provide the resources, including financial resources, needed to implement the operations covered by this Memorandum. They will also ensure that the internal procedural steps needed for the projects to be translated into action are completed in time.
- Special attention will be devoted to ensuring that the Community cooperation activities in Argentina are consistent with those being implemented in the country by the European Union Member States and multilateral donor institutions of which the Community is a member.
- The Argentine government will use intersectoral arrangements to bring about suitable coordination between the various public-sector bodies and non-governmental organisations involved.
- The Argentine government is making the Ministry of Foreign Relations, International Trade and Worship responsible for coordinating the operations covered by this Memorandum.

ARTICLE 3

Sectors of cooperation

In accordance with the Framework Agreement for trade and commercial and economic cooperation between the European Community and the Argentine Republic signed on 2 April 1990, with the priorities set out in the indicative multiannual guidelines (IMG/OPIN) for Argentina, and on the basis of the principles described above, cooperation between the European Community and Argentina over the period 2000-2006 will focus on the sectors and subsectors listed below:

1. INSTITUTIONAL REFORM

Indicative Community contribution: EUR 8 400 000 (financial and technical cooperation)
The aim of the Community contribution will be to back the Argentine government's own efforts to modernise and reform the administration at provincial level, to bolster the education system and to improve education nationally to promote the country's economic and social development.

Objectives:

- Modernising the administration (particularly organising and reforming public-order bodies at provincial level).

- Improving and restructuring the national education system, particularly higher education: the government's aim is to provide wider and fairer access to education, and improve education levels.

1.1 Measures:

1.1.1 Pilot programme to support reform of provincial administrations

2000-2002

This is a programme for institutional consolidation covering the operation of public-order and civil security in the provinces of Santa Fe and Salta in accordance with the standards of the rule of law and full democracy.

The programme focuses on Santa Fe, but significant activities are also planned for Salta and other provinces.

The activities refer to programs at different levels (including training of instructors), specific action on gender issues, pilot security awareness-raising projects (especially in poorer neighbourhoods) and the use of advanced technologies tailored to the aims set. Special attention will be devoted to involving civil society: the private sector, universities and NGOs.

2001-2002

1.1.2. Institutional support programme for the province of Buenos Aires.

The activities planned focus on reinforcing the provincial authorities' administrative and managerial capabilities through training and technical assistance, with particular emphasis on social development, on preventing and controlling addiction and on environmental policy.

2003-2006

1.1.3. Support for higher-education policy

The activity under consideration should provide for measures to complement the government's own efforts in higher education, to tackle improving the quality of teaching, implementing the principle of social fairness in education, promoting innovation in education and transparent use of funds.

2. PROMOTING TRADE AND THE ECONOMY

Indicative Community contribution:

EUR 23 300 000 (economic cooperation)

This sector includes the most important component of EC-Argentine cooperation: promoting economic cooperation of mutual interest, improving trade flows and investment between the Parties and approximating and connecting markets in a way which encourages a continuing modernisation of Argentinean industry.

Objectives:

- Helping the Argentine economy to open up and adapt to the international climate, with special attention being paid to SMEs.
- Bolstering the most dynamic production sectors.
- Encouraging EU-Argentine trade.

2.1 Measures:

2000-2004

2.1.1 Improving the Argentine economy's competitiveness and efficiency

Improving the Argentine economy's competitiveness and efficiency (nationally and internationally) in a number of specific sectors: mining, food (honey and cheeses), wood and information technology. The project will be conducted in four stages: aligning Argentine legislation and standards with international legislation governing certification, standardisation and quality control; technical assistance and supply of equipment; trials and promotion/awareness-raising activities for SMEs regarding production processes and quality of goods and services.

2000-2004

2.1.2 Improving the competitiveness of SMEs in the forestry industry.

The project's specific aim is to improve the competitiveness and viability of three particular industrial wood-producing districts - Misiones/Corrientes, Chaco and Patagonia - with widely varying development and structures. The activities planned will be implemented through transfers of technological know-how, information, strengthening of institutions, the legal framework and services.

2001-2004

2.1.3 Support for the network of technology centres

This project is intended to help consolidate and expand an interactive EU-Argentina network of technology centres, as determined by the requests and specific needs of businesses. Based on Europe's accumulated experience in this field, the goal is to encourage pooling of a number of services - particularly vocational training, technical assistance, legal and standardisation issues, availability of technology, market studies, etc. The overall aim is to achieve better productivity at national level and permanent coordination with European industry.

2001-2004

2.1.4 Promoting industrial design.

The aim of this operation is to back the Buenos Aires city government's policy to improve the competitiveness of SMEs active in the design sector. This is a vital source of employment which is of relevance to many parts of Argentina's economy (footwear, textiles, packaging, furniture, printing, household utensils, graphic art, software and metalworking/engineering). The aim is to develop a climate of collaboration between the authorities, the private sector and training centres. The operation provides for the involvement of other provinces, by means including "virtual" activities.

3. SUPPORT FOR THE DEVELOPMENT OF THE INFORMATION SOCIETY

Indicative Community contribution: EUR 18 000 000 (economic cooperation).

Developing the information society, a concept which includes information technology, science, technology and research, is a vital contributor to growth and development in Argentina, which is the world's fourth largest producer of material in Spanish. This process is being driven by a more active government policy in terms of financial commitment and formulation of programmes, contributing to a policy focused on this priority field.

Objectives:

- Support for establishing and defining a national sectoral policy.
- Promoting EU-Argentine exchanges in this sector.

3.1 Measures:

2002-2005

3.1.1. Programme for the development of the information society

The programme will contribute to developing the information society in Argentina through activities connected with regulation, access to services and establishing rules on data security and, among other questions, transparency on public procurement. The proposed operation will be country-wide, but will use several regions as pilots for a number of specific aspects. Special attention will be devoted to developing a strategy focusing on improving productivity in the sector.

4. PROMOTING INVESTMENT, IMPROVING ADMINISTRATIVE STRUCTURES AND CONSUMER POLICY.

Indicative Community contribution: EUR 16 000 000 (economic cooperation).

The activities proposed in this sector are intended to help the government's strategy of establishing structures and a clear and stable regulatory framework to modernise the country's administration and produce a climate which is as suited as possible to promoting investment.

Objectives:

- Support for establishing a framework of standards and legislation for the sector.
- Promoting investment.

- Modernising the country's administrative structure in key areas, to facilitate investment.

4.1 Measures:

2003-2006

4.1.1 Promoting investment

The activities to be carried out must draw maximum involvement on the part of businesses, chambers of commerce and industry, representatives of society and businesses' legal administrators. The project must routinely seek to work with the country's administration at local, provincial and municipal level, taking account the division between the executive, legislative and judicial powers.

2004-2007

4.1.2 Promoting consumer rights and quality.

The aim here is to develop a culture of protecting consumer rights at all levels in Argentina. The technical know-how accumulated by the EU could be taken into account to that end. The following deserve particular attention: bolstering consumer associations, regulatory and legal matters, increasing the awareness and involvement of businesses, the concept of quality, exchanges of experience with European associations, launching appropriate publications containing consumer investigations and advice (products providing consumer information, tax and legal aspects, etc.).

2005-2008

4.1.3 Improving the efficiency of customs

The aim of this project is to exploit the EU's experience in the organisation of customs activities, preventing harm to the state and to economic operators, reducing costs to businesses, improving consumer safety and speeding up administrative procedures. It will be able to make a contribution in this specific field to implementing the EU-Mercosur Association Agreement, involving other Mercosur Party- State in activities as and when they are determined.

ARTICLE 4 Indicative financial allocation

The Community financing provided for all the activities covered by this Memorandum amounts to a total of EUR 65.7 million for the period 2000-2006, within budget headings B7-310-financial and technical cooperation (EUR 8 400 000) and B7-311-economic cooperation (EUR 57 300 000). These amounts are purely indicative, as they may vary in the light of the Community's actual budget availability and the recipient's level of implementation of expenditure.

ARTICLE 5 Consultation procedures

The Parties will hold an ongoing dialogue, through their respective representatives, on the follow-up to the provisions of this Memorandum. They will report on implementation of the Memorandum to meetings of the Joint Committee provided for in the Framework Agreement for trade and commercial and economic cooperation between the European Community and Argentina signed on 2 April 1990.

ARTICLE 6
Mid-term review

Within the framework of the dialogue provided for in Article 5, this Memorandum will undergo a joint review three years after its entry into force, in order to determine any measures and changes required for it to be properly implemented.

ARTICLE 7
Entry into force and final provisions (future developments clause)

This Memorandum shall enter into force on the date on which it is signed.
Its provisions may be amended, altered or supplemented at the request of either of the Parties, by agreement between the latter.

ANNEXE II – List of EIB fundings in Argentina

Accord Financier	Nom du Projet	Ann Sign	Secteur d'Activité	Montant Signé (€)	Description
ALA I - 750M	GAS NATURAL BAN	1994	ENERGIE	46.000.000,00	Modernisation et extension du réseau de distribution de gaz naturel dans le nord de la province de Buenos Aires
ALA I - 750M	AGUAS ARGENTINAS	1995	EAU, ASSAINISSEMENT	70.000.000,00	Installation de collecte et de traitement des eaux usées dans la partie nord de Buenos Aires
ALA I - 750M	REGIONAL ROAD TRANSPORT CORRIDORS	1996	TRANSPORTS	45.000.000,00	Réhabilitation de routes du réseau MERCOSUR reliant le sud du Paraguay au Brésil à l'Uruguay et à Buenos Aires
ALA II - 900M	AGUAS CORDOBESAS	1998	EAU, ASSAINISSEMENT	36.830.000,00	Modernisation et extension des services d'adduction d'eau de la ville de Cordoba
ALA III - 2/2000-7/2007	AGUAS DE MISIONES	2000	EAU, ASSAINISSEMENT	20.364.295,00	Extension des réseaux d'alimentation en eau et d'assainissement de Posadas et Garupá, dans la province de Misiones à l'est de l'Argentine
ALA II - 900M	METROGAS	2000	ENERGIE	51.658.531,49	Construction d'un gazoduc ; remplacement partiel et extension du réseau de distribution dans la province de Buenos Aires
ALA III - 2/2000-7/2007	RAYEN CURA	2000	INDUSTRIE	17.083.877,00	Construction d'une chaîne de production de récipients en verre à Mendoza
ALA III - 2/2000-7/2007	CENTRAL DOCK SUD	2001	ENERGIE	77.330.976,58	Construction d'une centrale électrique alimentée au gaz dans la zone métropolitaine de Buenos Aires
ALA III - 2/2000-7/2007	PLUSPETROL	2001	ENERGIE	57.803.468,00	Agrandissement et transformation d'une centrale électrique alimentée au gaz en centrale à cycle combiné à Tucumán, au nord
ALA III - 2/2000-7/2007	VOLKSWAGEN ARGENTINA	2001	INDUSTRIE	46.614.614,00	Fabrication de boîtes de vitesse pour voitures particulières à Córdoba
			TOTAL ARGENTINE	468.685.762,07	

ANNEXE III – Matrix of the donors

year	1999
recipient	Argentina

Sum of USD_million	donor													
Sector	ALL Donors -Total	O	B	Canada	DAC Countries -Total	EU Members -Total	FL	FR	G7 -Total	DE	Italy	Japan	Multilateral -Total	
I.1 Education	8,69	0,13	0,45	0	8,69	8,69	0	0,79	6,87	4,07	2,01	0	0	0
I.11 Education - Level Unspecified	1,82	0	0,1	0	1,82	1,82	0	0,18	1,62	0,03	1,42	0	0	0
I.12 Basic Education	0,34	0	0	0	0,34	0,34	0	0	0,34	0,34	0	0	0	0
I.13 Secondary Education	2,12	0	0,35	0	2,12	2,12	0	0	1,77	1,22	0,55	0	0	0
I.14 Post-Secondary Education	4,41	0,13	0	0	4,41	4,41	0	0,61	3,14	2,48	0,05	0	0	0
I.2 Health - Total	0,64	0	0,02	0,11	0,64	0,52	0	0,05	0,18	0	0,01	0	0	0
I.21 Health - General	0,52	0	0,02	0,11	0,52	0,41	0	0,05	0,18	0	0,01	0	0	0
I.22 Basic Health	0,12	0	0	0	0,12	0,12	0	0	0	0	0	0	0	0
I.3 Population Programmes	0,06	0	0	0	0	0	0	0	0	0	0	0	0	0,06
I.4 Water Supply & Sanitation	1,88	0	0	0	1,88	1,88	0	0	1,86	1,86	0	0	0	0
I.5 Government & Civil Society	2,06	0	0,02	0,26	1,6	1,34	0	0,31	1,47	0,91	0	0	0	0,46
I.6 Other Social Infrastructure & Services	6,73	0	0,25	0	6,61	6,61	0	0,65	6,07	5,08	0,33	0	0	0,11
I.61 Employment	0,35	0	0,16	0	0,28	0,28	0	0	0,01	0,01	0	0	0	0,07
I.62 Housing	0,76	0	0	0	0,73	0,73	0	0	0,72	0,72	0	0	0	0,03
I.63 Other Social Services	5,62	0	0,09	0	5,61	5,61	0	0,65	5,34	4,35	0,33	0	0	0,01
I.SOCIAL INFRASTRUCTURE & SERVICES - Total	20,05	0,13	0,74	0,37	19,43	19,05	0	1,8	16,44	11,92	2,35	0	0	0,63
II.1 Transport & Storage	0,51	0	0	0	0,5	0,02	0	0	0,49	0	0	0	0	0
II.2 Communications	0,18	0	0	0,06	0,18	0,12	0	0,12	0,18	0	0	0	0	0
II.3 Energy	0,03	0	0	0	0,03	0,03	0	0	0,02	0,02	0	0	0	0
II.5 Business & Other Services	0,98	0	0	0	0,95	0,95	0	0	0,93	0,93	0	0	0	0,03
II.ECONOMIC INFRASTRUCTURE & SERVICES - Total	1,7	0	0	0,06	1,67	1,12	0	0,12	1,61	0,95	0	0	0	0,03
III.1 Agriculture - Forestry - Fishing	5,53	0	0,03	0	5,33	3,22	0	0	5,01	2,36	0,54	2,11	0	0,2
III.11 Agriculture	5,32	0	0,03	0	5,32	3,21	0	0	4,99	2,34	0,54	2,11	0	0
III.12 Forestry	0,01	0	0	0	0,01	0,01	0	0	0,01	0,01	0	0	0	0
III.13 Fishing	0,2	0	0	0	0	0	0	0	0	0	0	0	0	0,2
III.2 Industry - Mining - Construction	2,24	0	0	0,09	2,24	2,07	0	0,03	2,1	1,46	0,44	0	0	0
III.21 Industry	2,24	0	0	0,09	2,24	2,07	0	0,03	2,1	1,46	0,44	0	0	0
III.3 Trade & Tourism	2,03	0	0	0,36	2,03	1,67	0	0	1,97	0,65	0,96	0	0	0
III.31 Trade	1,99	0	0	0,36	1,99	1,63	0	0	1,97	0,65	0,96	0	0	0
III.32 Tourism	0,04	0	0	0	0,04	0,04	0	0	0	0	0	0	0	0
III.PRODUCTION SERVICES - Total	9,81	0	0,03	0,45	9,6	6,97	0	0,03	9,07	4,47	1,93	2,11	0	0,21
IV.1 General Environment Protection	0,32	0	0	0,02	0,3	0,04	0	0	0,3	0,04	0	0	0	0,02
IV.2 Women In Development	0	0	0	0	0	0	0	0	0	0	0	0	0	0
IV.3 Other Multisector	5,22	0	0	0	5,22	5,22	0,01	0,07	5,13	4,8	0,27	0	0	0
IV.MULTISECTOR / CROSSCUTTING	5,55	0	0	0,02	5,53	5,26	0,01	0,07	5,44	4,84	0,27	0	0	0,02
V.TOTAL SECTOR ALLOCABLE	37,11	0,13	0,78	0,89	36,22	32,39	0,01	2,02	32,57	22,18	4,55	2,11	0	0,89
VI.2 ACTION RELATING TO DEBT	0,11	0	0	0	0	0	0	0	0	0	0	0	0	0,11
VI.3 EMERGENCY ASSISTANCE	0,14	0	0	0	0,06	0,06	0	0	0	0	0	0	0	0,08
VI.32 Non-Food Emergency and Distress Relief	0,14	0	0	0	0,06	0,06	0	0	0	0	0	0	0	0,08
VI.4 ADMINISTRATIVE COSTS OF DONORS	0,06	0	0,01	0	0,06	0,06	0	0	0,05	0	0,05	0	0	0
VI.6 UNALLOCATED/UNSPECIFIED	0,19	0	0	0	0,03	0,03	0	0	0,03	0	0,03	0	0	0,16
VII. TOTAL - all sectors	37,61	0,13	0,78	0,89	36,38	32,55	0,01	2,02	32,65	22,18	4,63	2,11	0	1,23