WORLD TRADE ORGANIZATION

G/L/602
14 January 2003

(03-0168)

Council for Trade in Goods Original: Spanish

REPORT ON THE PROGRESS MADE IN PHASING OUT THE REMAINING TRIM

The following communication, dated 19 December 2002, has been received from the Permanent Mission of Argentina.

By Decision G/L/497 the Council for Trade in Goods extended until 31 December 2003, for the Argentine Republic, the use of the TRIM requested at the appropriate time (G/C/W/295-Argentina. Request for an extension of the transition period for eliminating trade-related investment measures).

Pursuant to paragraph 2 of the above-mentioned Decision, the Argentine Republic is required to submit, no later than 31 December 2002, a report on the progress made in phasing out its remaining TRIM.

Accordingly, it is hereby reported that the Argentine Republic has not only fulfilled the commitments provided for in the above-mentioned request for an extension, but has exceeded them.

First of all, it should be pointed out that Argentina sought to make use, during the extension period, of the local content requirement for the recovery and strengthening of the local auto-parts sector.

The dismantling of the measure, as indicated in the request, would be carried out by means of a gradual increase in the differential tariffs applied to imported auto-parts destined for production, while the requirement would be maintained throughout the period.

At this point in time, the Government of the Argentine Republic is in a position to report that, despite finding itself in a very difficult macroeconomic situation, as is described in the annex, it has made the local content requirement more flexible in terms of both the actual requirement and the tariff benefit.

This means that the local content requirement has been scaled down from two points of view:

(a) The current level of the requirement has been reduced from 30 to 20 per cent and a further gradual reduction is planned, which will be notified in due course;

(b) the range of goods to which the local content requirement applies has been reduced. Previously, it applied to all categories in the automotive sector: cars, light utility vehicles, buses, lorries, chassis, tractors, agricultural machinery, self propelled road-going vehicles and auto-parts for all the vehicles mentioned. Now, however, following introduction of the reform, which is already in force, the requirement applies only to cars, light utility vehicles and the corresponding auto-parts.

At the same time, the timetable for convergence of the preferential tariffs on the import of auto-parts for production purposes has been brought forward by one year. In other words, auto-parts will reach the levels provided for in the Common External Tariff on 31 December 2004, instead of 2005, as previously scheduled.

The new timetable of tariffs on the import of auto-parts from non-Mercosur countries, for production purposes, is as follows:

Year	**Argentina (%)**		
	I	**II**	**III**
2000	7	8	9
2001	8.2	9.3	10.5
2002	9.3	10.7	12.0
2003	10.9	12.5	14.0
2004	12.5	14.3	16.0
2005	14.0	16.0	18.0

As can be seen from the above table, the dismantling of tariffs is proceeding at a more rapid rate than was foreseen in the 2001 notification.

All the above-mentioned changes were embodied in the agreement signed with Brazil on 26 September 2002, which was later registered with the Latin American Integration Association (ALIA) as Additional Protocol XXXI to Economic Compementarity Agreement No. 14. This agreement has been incorporated in Argentine law by means of a decree.

To sum up, the Argentine Republic has already approved the plan for dismantling the measure for which an extension was authorized, going beyond the commitments undertaken by means of a three-pronged dismantling process:

(a) Decrease in the level of the requirement;

(b) reduction of the range of goods to which the requirement applies; and

(c) bringing forward of the timetable for increasing the preferential tariff on the import of auto-parts for production purposes.

ANNEX 1

MACROECONOMIC CONTEXT[1]

The Argentine economy is mired in a deep depression which, although it started in mid-1998, has worsened since June 2001 with average quarterly falls, compared with the preceding period, of 5 per cent of GDP corrected for seasonal movements, over the last two quarters of 2001 and the first quarter of 2002.

This decline in GDP, together with the reduction of tax revenue, the growing public deficit, the declaration of default, the overvalued peso, the financial crisis and the impossibility of obtaining external financing, caused Argentina to leave the convertibility regime, an exercise considered very difficult in the mid-1990s. Major difficulties caused it to take that step in the midst of a crisis of confidence which deepened in the course of 2001 and which was made more severe when it became necessary to impose restrictions on cash withdrawals from bank accounts, a measure taken in order to prevent a systemic crisis which might have caused serious prejudice not only to savers but to the economic system as a whole.

At the beginning of this year, the Government decided to focus its strategy on tax collection, which has fallen by 3.8 per cent on a year-to-year basis, in nominal terms, in contrast to the 16 per cent year-on-year decline of the two previous quarters. This is due to the introduction of export duties, combined with the lower exchange rate, which has caused foreign trade charges to become the main factor responsible for improved tax revenue performance, measured in local currency.

As far as 2002 is concerned, owing to the new macroeconomic environment, there have been steep changes in relative prices:

1. *Change in the relative price of goods and services*: the real depreciation of the peso was accelerated by a persistent decline in the nominal exchange rate, with little knock-on effect on prices;

2. *change in the relative price of production factor services*: the nominal and real depreciation has resulted in a substantial decline in wage costs, which has benefited the producers of tradeable goods.

The real depreciation gave rise to a relative improvement in the prices of the sectors producing tradeable goods compared with non-tradeable goods. The information supplied up to June 2002 by the Monthly Industrial Estimator (MIE) and by data for Greater Buenos Aires from the Permanent Household Survey (EPH) reveal that both industry and the labour market are undergoing radical changes.

____

[1] Produced on the basis of: "La actividad económica y el empleo despues de la depreciación real del peso" (Economic activity and employment since the real depreciation of the peso), report of the National Macro-Economic Coordination Directorate, July 2002. "La economía argentina durante el secundo trimestre de 2002 y evolución reciente" (The Argentine economy during the second quarter of 2002 and recent developments), web page of the Ministry of Economy.