

8.3 The Common External Tariff

The hurdle that is most frequently raised by trade policy specialists with regard to possible Argentine accession to the NAFTA is the issue of breaching the MERCOSUR common external tariff (CET). In discussions of the prospects for wider hemispheric free trade arrangements involving the MERCOSUR countries, including NAFTA accession, the CET is often raised as an almost insurmountable barrier. The CET, as the *sine qua non* of a common market, is assumed to be inviolable. However, this issue is less daunting than it might first seem.

It should be recognized that the CET is, in fact, already breached to a significant extent. The MERCOSUR common tariff has fairly extensive exceptions which will not be completely phased out until 2006. The Inter-American Development Bank estimates that exceptions to the CET comprise 12 percent of the tariff schedule (i.e., tariff lines or items) and 23 percent of the value of total imports of the MERCOSUR countries.⁸⁴ In 1994, 22% of Argentine exports to and 17% of Argentine imports from the other MERCOSUR countries were not covered by any trade agreements within the ALADI framework.⁸⁵ The MERCOSUR agreement is, of course, one of the most important agreements which has flowed from the 1980 Treaty of Montevideo. The Association of Brazilian Companies Interested In MERCOSUL (ADEBIM) has estimated that 23% of Brazilian imports by value were exempted from the common external tariff using 1994 trade data.⁸⁶ Much of this trade is subject to administrative procedures applying rules of origin to determine which tariff rate should be applied on trade within MERCOSUR.

The fact is that rules of origin are already applied on a regular basis to a substantial part of Argentina's trade with its MERCOSUR partners. Moreover, rules of origin are imposed because of a fear of trade circumvention through the partner with the lowest tariff on non-Member imports (in this case, Argentina with its zero duty on North American goods following NAFTA accession). Industries in the Member retaining a higher tariff on third party imports (in this case, Brazil through the application of the CET on North American products) that feel threatened by such

⁸⁴ Organization of American States/Trade Unit, *Toward Free Trade in the Americas*, Report to the Special Committee on Trade, (Washington D.C. 1995), p. 40. The IDB used 1993 import statistics and the initial list of exceptions to the CET.

⁸⁵ Based on Table A.5.4 of *Economic Report No. 12, The Argentine Economy in 1994*, by the Argentine Ministry of the Economy and Public Works on the Ministry's World Wide Web homepage.

⁸⁶ US\$ 7.5 billion out of total Brazilian imports 1993 US\$33.2 billion