



ICT Trade Barriers In Latin America: Where are we headed?

NOKIA

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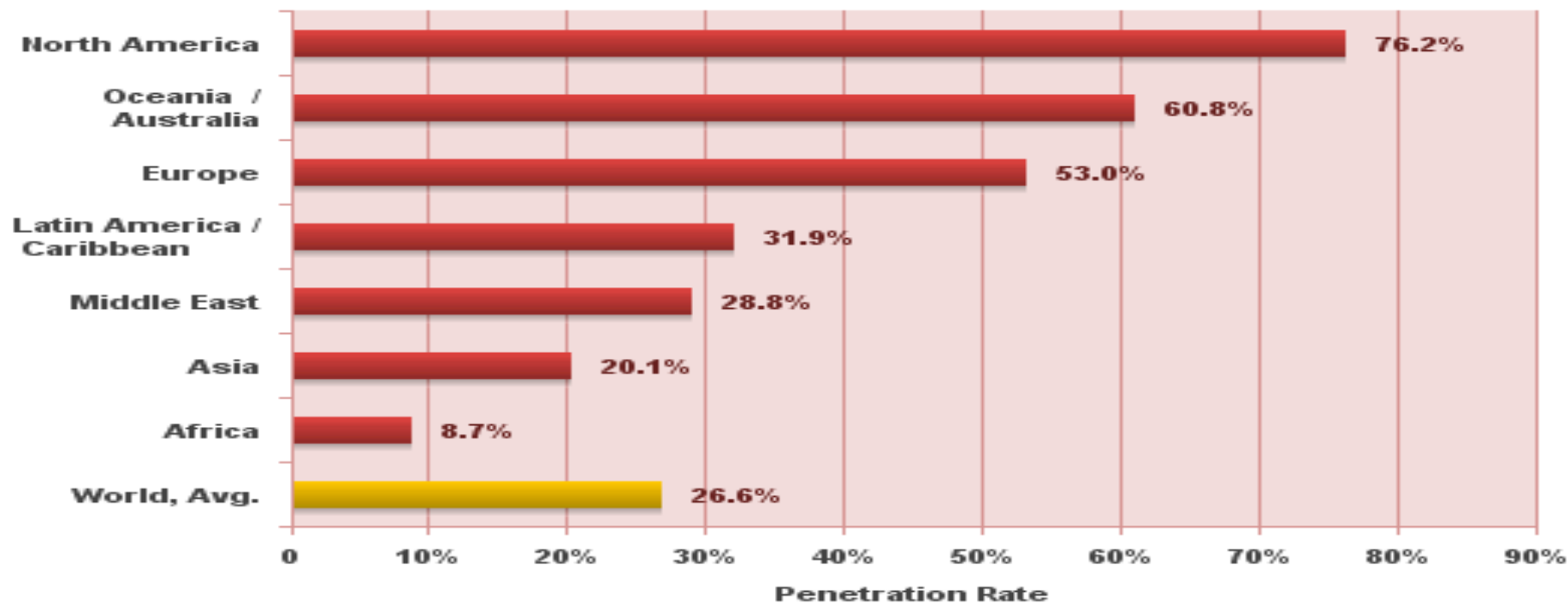
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A variety of policies can be used to achieve trade protectionist goals

1. **Tariffs:** Typically, tariffs (or taxes) are imposed on imported goods. Tariff rates vary according to the type of goods imported. Import tariffs will increase the cost to importers, and increase the price of imported goods in the local markets, thus lowering the quantity of goods imported.
2. **Import quotas:** To reduce the quantity and therefore increase the market price of imported goods. The economic effects of an import quota is similar to that of a tariff, except that the tax revenue gain from a tariff will instead be distributed to those who receive import licenses. Economists often suggest that import licenses be auctioned to the highest bidder, or that import quotas be replaced by an equivalent tariff.
3. **Administrative Barriers:** Countries are sometimes accused of using their various administrative rules (e.g. regarding food safety, environmental standards, electrical safety, etc.) as a way to introduce barriers to imports.
4. **Direct Subsidies:** Government subsidies (in the form of lump-sum payments or cheap loans) are sometimes given to local firms that cannot compete well against foreign imports. These subsidies are purported to "protect" local jobs, and to help local firms adjust to the world markets.
5. **Export Subsidies:** Export subsidies are often used by governments to increase exports. Export subsidies are the opposite of export tariffs, exporters are paid a percentage of the value of their exports. Export subsidies increase the amount of trade, and in a country with floating exchange rates, have effects similar to import subsidies.
6. **Exchange Rate manipulation:** A government may intervene in the foreign exchange market to lower the value of its currency by selling its currency in the foreign exchange market. This will raise the cost of imports and lower the cost of exports, leading to an improvement in trade balance. However, such a policy is only effective in the short run, as it will lead to higher price inflation in the country, which will in turn raise the cost of exports, and reduce the relative price of imports.
7. **Protecting ownership of national strategic sectors**

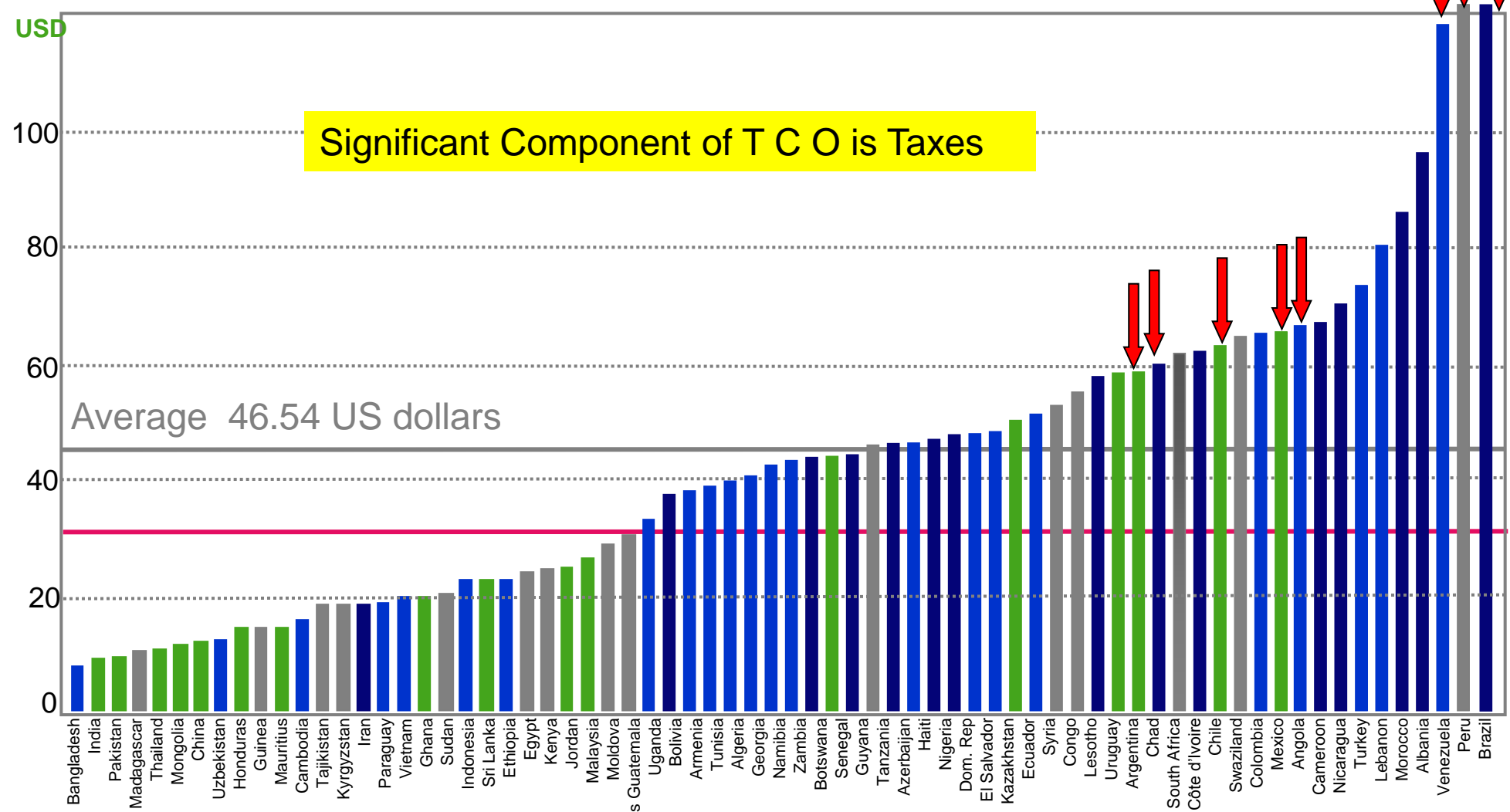
Latin America in Lags Significantly Behind U.S.A and Europe in Internet Penetration

World Internet Penetration Rates by Geographic Regions - 2009



Source: Internet World Stats - www.internetworldststs.com/stats.htm
Penetration Rates are based on a world population of 6,767,805,208 and 1,802,330,457 estimated Internet users for December 31, 2010.
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Yet, According to 2009 Nokia Study, Latam Countries Have Amongst the Highest Cost of Ownership (mobile data)



Source: Nokia, Nokia Siemens Networks, August 2009

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Wallet share (TCO / GDP per capita)

- ≤ 5%
- 5-10%
- >10-20%
-



TARIFF BARRIERS IN LTA FOR CELL PHONES ARE HIGH

- 50+ Countries have adopted the Information Technology Agreement (ITA) which requires zero duties for ICT products.
- In Latin America, none of major markets have adopted the ITA and indeed only few smaller countries have adopted it (With exception of Peru, only Central American countries)
- Duties remain very high in key markets for cell phones for example (up to 16%) plus more than that in “internal taxes” in certain countries.

Recent Actions In LATAM are Not Encouraging From Tariff and Non-Tariff Barrier Perspective

	Tariff	Administrative	C currency
Argentina	2009 internal tax law makes imports in excess of 30% (on top of 15% duty); 1% tax on service to support Olympics.		
Ecuador	Adopted 50% Duty in 2009 (applied to cell phones) (now expired)	Is recommending new homologation rules (local testing)	
Costa Rica		Has adopted new homologation regulations (local testing)	
Mexico	Increased luxury tax on telecom services	Additional in country testing required	
Venezuela		Is considering new homologation rules (local testing)	Access to foreign currency for import of cell phones and other products virtually unavailable

But There is Some Good News and Potential Opportunities for Dealing with These Barriers

- Mexico 2009 Tariff Elimination for Cell Phones.
- Colombia just announced significant reductions in duties for a number of ICT products. Although it is not clear why cell phones not covered in this latest round.
- Mexico and U.S. in negotiations for Mutual Recognition Agreement (MRA)
- EU-Mercosur Negotiations
- EU-Andean Country Negotiations (Ecuador pending)
- Brazil-Mexico F TA negotiations commenced

Closing Thoughts

- **Affordability** remains the biggest barrier to bridging the digital divide.
- We have seen several recent examples of how governments have been having a hard time resisting the temptation to adopt **trade barriers (tariff and non-tariff)** which have a significant impact on affordability.
- A **more favorable regulatory environment** is needed in Latin America in order to make affordability a reality.