

SAFTA: FTAA Southern Exposure

South American Perspective of Agricultural Free Trade

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Overview

- **South American Anxieties about Free Trade**
- **Status of Andean Community and Mercosur**
- **US-Andean Countries-Mercosur Ag. Trade**
- **Possible Scenarios for 2005: SAFTA?**



Background

- FTAA Negotiations–Slow progress
- **2002 Bush's TPA granted**
- 2002/03 Mexico protests against NAFTA
- **Chile Free Trade Agreement with NAFTA and EU**
- Brazil and Argentina under new presidents
- Slow pace of WTO negotiations
- **Andean Community – Mercosur negotiations revived in 2003**

Relative Indicators of South American Blocks (2001-02 est)

| | CAN (Andean) | MERCOSUR | MEXICO |
|--|-------------------------------|-----------------|---------------|
| POPULATION | 115 | 240 | 103 |
| GDP \$ BILLIONS (PPP) | 600 | 1950 | 915 |
| TRADE (X+M) 2001* US \$ | 100' | 210' | 330' |
| TRADE/GDP (WB -2000) | 45% | 20 % | 80% |

The Andean Community (CAN)

- **Created 1970**
- **Free Trade Area: Completed in 1993**
- **Customs Union: Partially in 1995 (except Peru) – Expected Completion: Dec 2003**
- **Common Market: Target year : 2005**
- **Bilateral Trade Agreements with Chile and Mexico**
- **Free Trade Agreements under negotiation with Mercosur, EU.**

The Andean Community

- **0 Intra-region tariff since 1993 (except Peru)**
- **Intra-region exports grew 47 TIMES (1970-2000) while exports to ROW grew 10 times.**
- **Common External Tariffs under negotiation: four levels expected: 0, 5, 10 and 20 %**
- **System of “Price Bands” applied to 13 agricultural commodities (since 1995)**
- **Limitations: Divergent Macroeconomic Policies and Political Instability.**

Mercosur Status

- **Initiated 1991**
- **Free Trade Area: 1999**
- **Imperfect Customs Union 2000**
- **Common Market expected 2006**
- **Slow down since 1997-98 with Brazil and Argentina's crisis**
- **Renewed interest: July 2003 Presidential meeting**

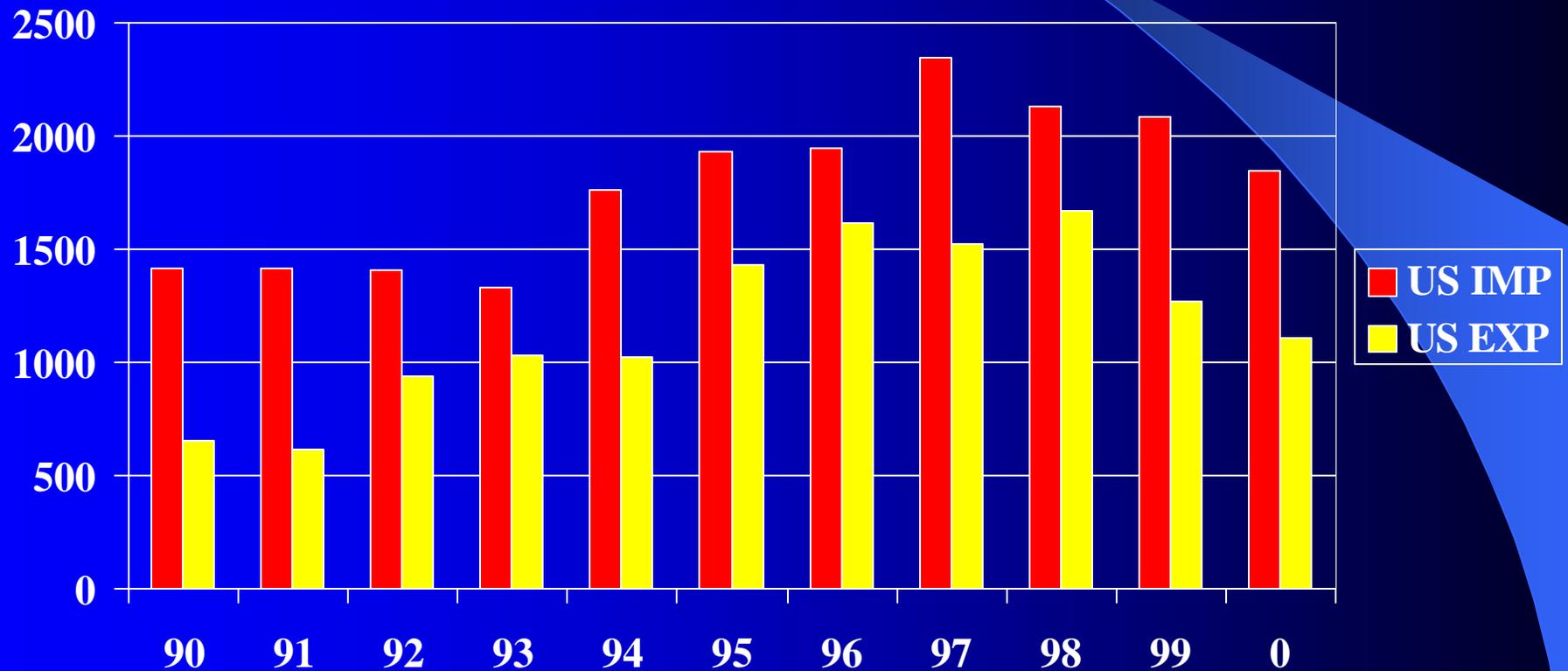
Mercosur 2003

- **Presidential Meeting: July 03**
- **Renewed Commitment for a Common Market in 2006.**
- **Conditioning FTAA to negotiations on “domestic subsidies”**
- **Commitment to finish negotiations with CAN (Andean Community) by Dec 2003.**
- **Continue Trade negotiations with EU**

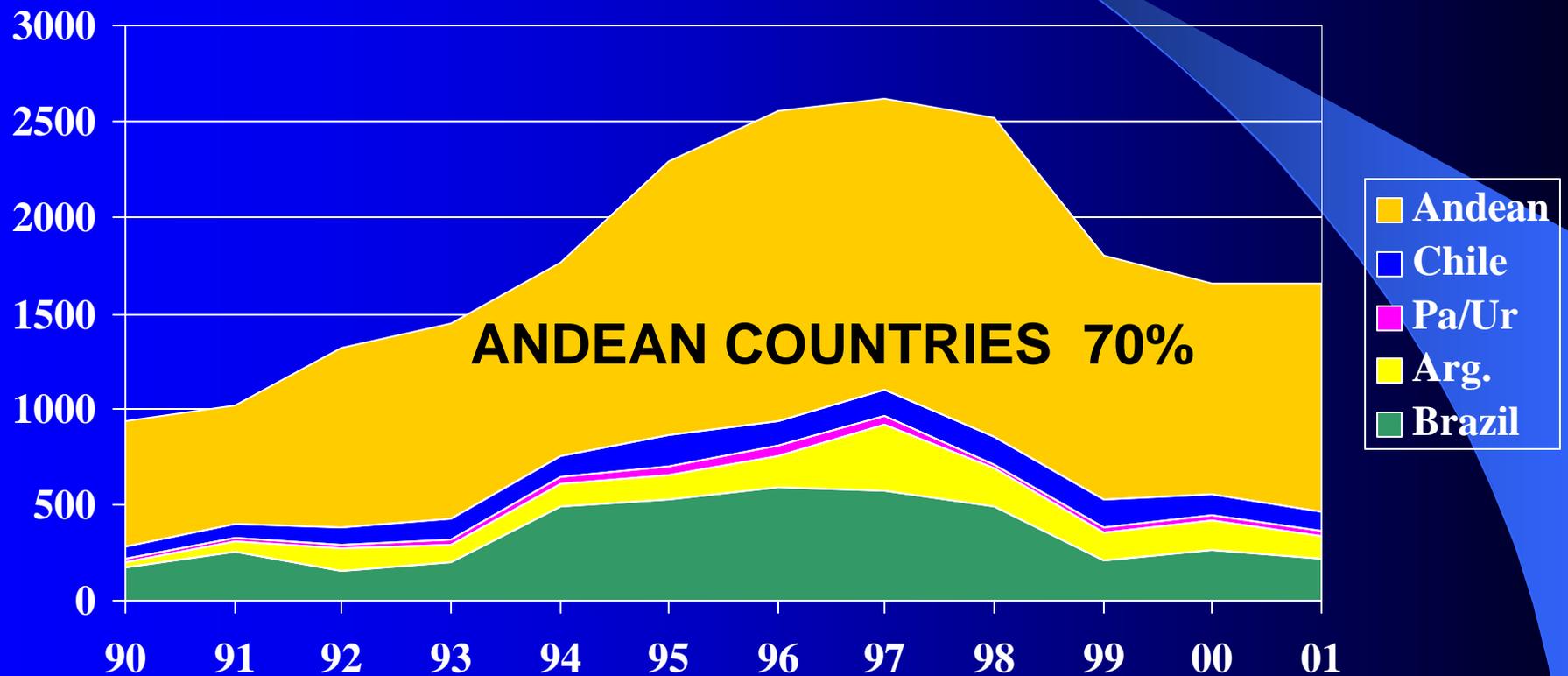
Mercosur-Andean 2003

- Serious negotiations 2002 (South America FTA)
- Separate preferential agreements (Brazil Argentina)
- Target date for ending negotiations: December 2003.
- MERCOSUR Presidential (June 03) and CAN Presidential (July 03) confirmed commitments.
- Brazil's President attends the CAN Presidential
- Both blocks agree to meet before next FTAA ministerial to negotiate as a block

US- AC Ag.Trade Balance 90-00



US Ag. Exports to South America 1990-2001



Andean Countries Import High % of US Ag. Exports to South America (2000)

| | |
|----------------|------|
| ● SOYBEANS | 100% |
| ● SOYBEAN OIL | 100% |
| ● CORN | 90% |
| ● WHEAT | 89% |
| ● RICE | 86% |
| ● FRUITS | 82% |
| ● SOYBEAN MEAL | 62% |
| ● COTTON | 55% |

Largest LA markets for the top US exports (Mexico excluded) 1990-2001

- **WHEAT**

- **1 Venezuela**
- **2 Colombia**
- **3 Peru**
- **4 Ecuador**
- **5 Dominican Rep.**

- **CORN**

- **1. Colombia**
- **2. Venezuela**
- **3. Dominican Rep.**
- **4. Peru**
- **5. Chile**

Mercosur Export Commodities

- Soybeans
 - Wheat
 - Corn
 - Rice
 - Beef
- Soybean oil/meal
 - Fruits

Is SAFTA a Possibility?

- Complementarity between the two blocks
- Ongoing negotiations with a commitment to end Dec 2003
- No serious ag. domestic policy issues
- Mercosur difficult position within FTAA
- **Macroeconomic divergences**
- **Political instability**
- **CAN price bands for some commodities**
- **Trauma from Argentina's crisis**

Possible Trade Scenarios for 2005 and Beyond in South American Trade

- **FTAA Implementation ?**
 - Mercosur “Agricultural Subsidies” position
 - Brazil’s demand for market access: Sugar, OJ, Steel
 - Andean “Price Bands” policy
- **Andean Community and Mercosur Independently Common Markets**
- **NAFTA – Andean Community FTA**
- **SAFTA? South American Free Trade Area**
 - Macroeconomic divergences
 - Political instability