

# **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)

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

# 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**



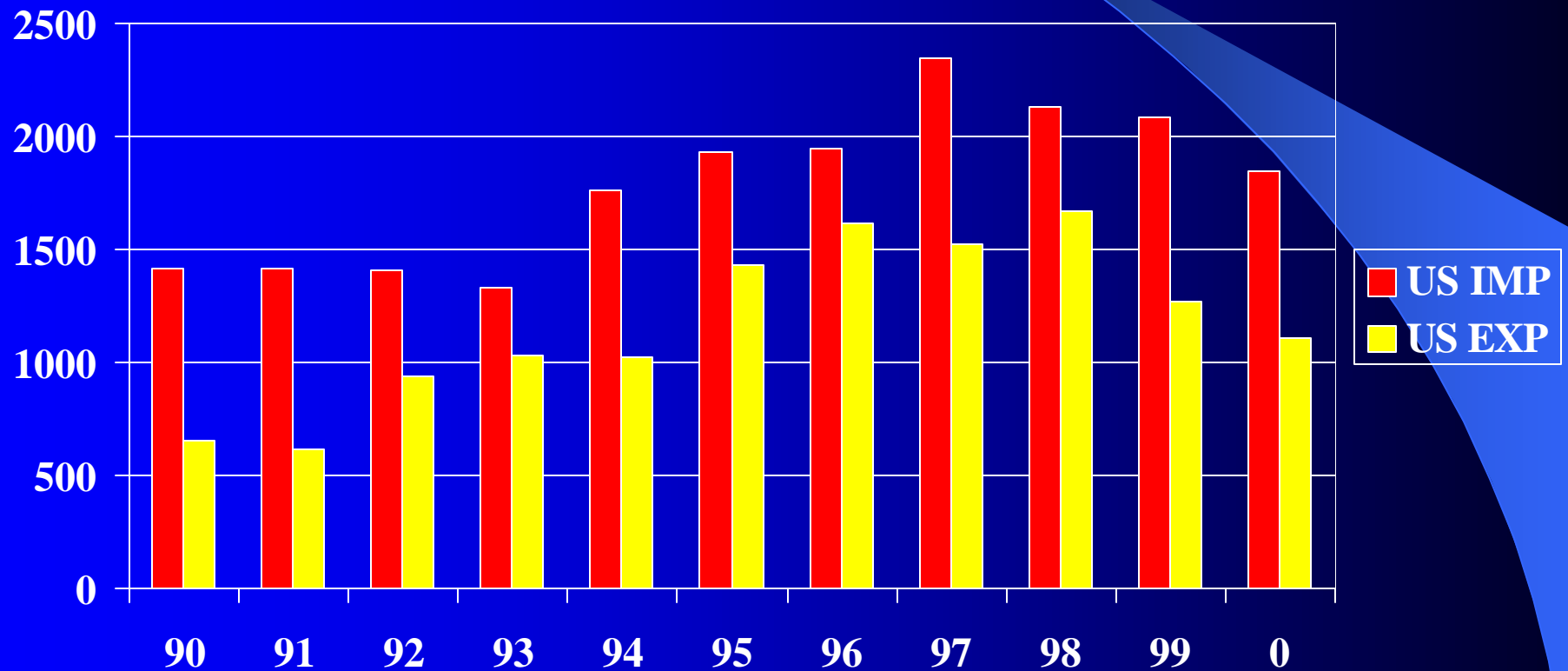
# Mercosur 2003

- **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**

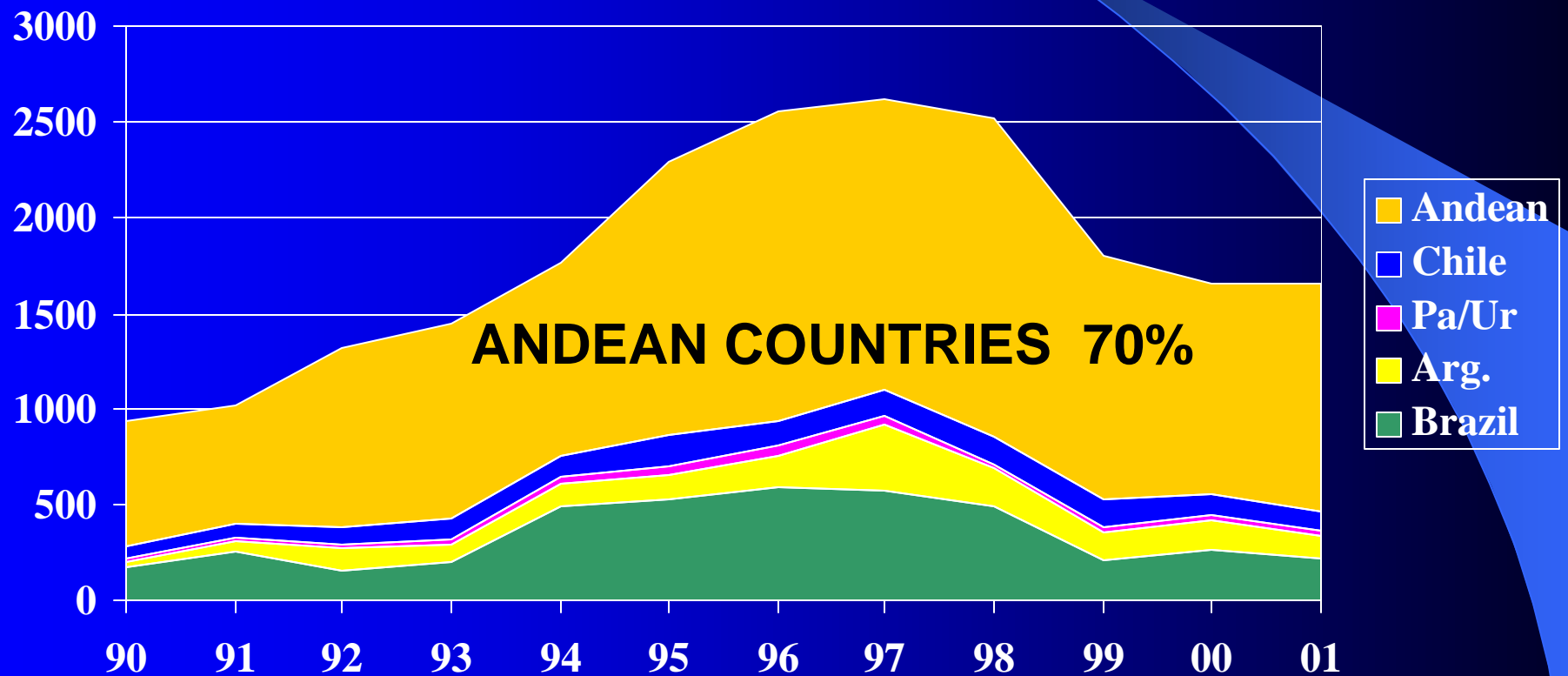
# Mercosur-Andean 2003

- 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