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The SAIIA Trade Policy Briefing Series is intended to elicit debate on critical issues relating to South Africa's overall trade strategy. The broad focus of the series is on the political economy of the international trading system and South Africa's strategic responses to it. This covers the full spectrum of our trade strategy, from the multilateral trading system, to strategic regional and bilateral partnerships, and particular issues within the trade agenda.

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Brazil's position in the Free Trade Agreement of the Americas Negotiation Process

by Alexandre Zourabishvili

Introduction

The Free Trade Agreement of the Americas (FTAA) project is an ambitious undertaking. Initiated in 1994, it aims to liberalize trade between 34 countries with a total population of 800 million, a combined Gross Domestic Product (GDP) of US\$11,500 billion and 30% of the world's trade flows. However, the risks and opportunities are not evenly spread. A majority of countries, made up of small economies, were and still are looking at increasing their predominantly low value-added exports to the US market. Brazil and Argentina offer more diversified products to the US market but they worry about opening up their own markets to US competition.

The FTAA negotiation process, which commenced in reality in February 2003 when the first tariff offers were traded, has been dominated by conflicting approaches on most of the important issues between the two principle players: the US and Brazil. Brazil has been insisting on getting investment, intellectual property and services out of the agenda mainly as a response to the US refusal to negotiate agricultural subsidies and antidumping measures. As a result, the architecture of the FTAA project has been gradually shifting — throughout the recent negotiations in Port-of-Spain, Miami and Puebla — towards a flexible FTAA with only a light 'built-in' agenda.

This situation is not entirely comfortable for Brazil as the US is concurrently developing a policy of signing separate bilateral trade agreements with a number of

Latin American countries, threatening Brazil with isolation in the FTAA negotiations. What will Brazil's position in the future FTAA talks be?

Access to the US market

For Latin-American countries, access to the US market is the biggest issue at stake in the FTAA negotiations. Some of these countries already enjoy preferential access: Mexico through NAFTA,¹ the Andean Community through the Andean Trade Promotion and Drug Eradication Act (ATPDEA) and Caribbean countries through the Caribbean Basin Trade Partnership Act. Some other countries such as Chile or members of the Central American Common Market have bilateral agreements or are involved in direct bilateral talks with the US.

In this context, the economic impacts of the FTAA should be greater for those countries which are not part of any agreement and do not enjoy any preferential access to the US. This is the case for Brazil and Argentina. In 2001, the US represented 25% and 10.8% of Brazil and Argentina's exports respectively (see Table 1). Brazil, unlike most Latin American countries, has a diversified export structure which stands to benefit from an FTAA, whilst Argentina's export opportunities are predominantly in the agricultural sector.

However, the FTAA could jeopardise the preferential regimes in place in Mercosur. The principle fear is increased (US) competition from outside the bloc reduc-

Table 1: Share of exports to the US in country's total exports (2001)

COUNTRY	%
ARGENTINA	10.8
BOLIVIA	13.9
BRAZIL	24.9
CHILE	18.5
COLOMBIA	42.5
COSTA RICA	49.7
EQUADOR	37.6
MEXICO	88.6
PARAGUAY	3.0
PERU	24.6
URUGUAY	8.3
VENEZUELA	48.8
Source: Latin American Association for Integration (ALADI)	

ing intra-regional trade. Argentina would likely face more competition against its agricultural products while Brazil's sensitive industrial sectors could be affected.²

Tariff barriers

From February 2003 to the last FTAA negotiations committee meeting in February 2004 in Puebla (Mexico), not much progress has been made on tariffs. This is mainly due to disagreements between the US and Brazil on two issues: special and differential treatment for small countries and protection for sensitive products.

Special and differential treatment

Special and differential treatment for the region's small economies has been high on the FTAA agenda owing to the existence of big GDP differences among the countries. The US economy constitutes 79.4% of FTAA GDP; Canada 5.3%; Brazil 4.8%; Mexico 3.9%; and Argentina 2.5%. The remaining 4.1% is shared between the other 28 countries.³

The US has implicitly pursued a special and differential approach on tariffs since they presented, in February 2003, differential offers. One of these offers was most beneficial to Caribbean countries (regrouped in CARICOM): they would enjoy a zero-tariff rate on 91% of industrial goods and 85% of agro-food

products exported to the US market. The offer made to Mercosur was less advantageous: free access for Mercosur goods would only cover 58% of industrial goods and 50% of agro-food products. Brazil, Argentina and their Mercosur partners (Uruguay and Paraguay) did not react well to this offer.

Unlike many small LA countries, which support the US approach, Brazil has taken an opposite stance favouring implementation of the Most Favoured Nation (MFN) principle throughout the region.⁴

Protection of sensitive products

The priority for Brazil and other LA countries has been to get the US to remove tariff peaks⁵ on sensitive products (such as orange juice and sugar) and specific fees on alcohol and tobacco. The US has resisted quick liberalisation of protection on these products, arguing for a 10 year phase-in period from the implementation of the FTAA.

However, Mercosur countries have resisted broad tariff liberalisation. Their last offer covered only 36% of their trade with other FTAA countries. They also asked for some guarantees in the FTAA aimed at protecting their domestic market, specifically:

- provision for infant industries which would permit tariff protection on a limited number of goods; and
- permission to use safeguards in order to maintain trade balance in the event of balance of payments crisis.

Apart from the tariffs issue (which is always a difficult one in any trade negotiations process), the US and Brazil (together with other Mercosur members) have been diverging consistently on non-tariffs barriers and the 'Singapore issues'.

Non-tariff barriers

LA countries, not just Brazil, do not want the FTAA negotiations agenda to be limited to tariff issues as non-tariff barriers are sometimes greater obstacles in accessing the US market. These barriers range from quotas, to sanitary and phytosanitary restrictions, and safeguards and

antidumping measures. However, the US wants these issues to be dealt with at the WTO level only.

The 'Singapore issues'

The so-called 'Singapore issues' comprise the issues which only recently (in the 1990s) came to be part of multilateral (WTO) and regional negotiations on trade liberalisation: services, investment, intellectual property, public markets (government procurement) and competition policy. Almost all the bilateral agreements the US has signed or is discussing contain these issues.

Brazil has resisted including the Singapore issues in the FTAA project, particularly investment and intellectual property, primarily because it fears US competition against some of its industries. For example, FTAA legislation on intellectual property could threaten its nascent generic pharmaceutical drugs and software sectors, whilst legislation on investment could jeopardise the government's industrial policy.

Brazil's strategic position in the FTAA negotiation process

While battling with Brazil over tariffs, non tariff barriers and the Singapore issues, the US has been developing a concurrent strategy of multiplying regional agreements in the region. This strategy has gathered pace since the failed WTO ministerial meeting at Cancun, and the persistent lack of progress in the Port-of-Spain, Miami and Puebla meetings.

Brazil's strategy has been less clear and coherent:

□ On the one hand, Brazil proposed to the US (in May 2003) the '4+1' (Mercosur-US) scheme for discussions on market access issues within the overall FTAA negotiations process. This was a response to the US option of making differential offers to the regional blocs in Latin America and was also an attempt to limit the scope of the negotiations to market access for goods whilst sidelining the Singapore issues.

? On the other hand, Brazil has been trying to develop regional agreements, be they bilateral or regional, through Mercosur. Chile, Bolivia and, more recently, Peru, have become associate members of

Mercosur. This gives them the right to participate in the organization's meetings. The most substantial agreement, signed in December 2003, covered free trade between Mercosur and the Andean Community of Nations (CAN).⁶

The post-Cancun environment, and the subsequent Port-of-Spain FTAA meeting, made Brazil look isolated in the region. Yet Brazil's position paid off in the subsequent Miami (November 2003), Monterrey (January 2004) and Puebla (February 2004) meetings as the FTAA framework was redefined and moved toward a more flexible FTAA with only a light 'built-in' agenda.

Is this situation really of benefit to Brazil?

What happened in Cancun?

The Cancun summit ended without agreement on either of the main issues of concern to Brazil and other developing countries. The summit was meant to take stock of the Doha Round and boost negotiations so as to meet the timetable agreed upon.⁷ Agriculture was high on the agenda, with three issues dividing the US and the European Union on the one side and (mainly developing) countries regrouped in the G20+⁸ and the Cairns Group on the other side: market access (tariff barriers), internal subsidies and export subsidies. For the G20+ (particularly its Latin American members) and the Cairns Group, agriculture is a substantial source of export earnings (see Table 2). Agricultural goods make up 31.7% and 45.8% of Brazil and Argentina's total exports respectively.

The G20+ countries set up a united front to try and get the US and the European Union to compromise on these issues, particularly to remove export subsidies. They did not succeed but considered the fact that they themselves did not compromise on their joint position and got the support of many developing countries a victory. They may also have succeeded in bringing about a review of the Doha round timetable in the future.

The joint US-EU position was indeed defeated as it was deemed too shy on tariff reduction targets and proposed an end to export subsidies on only a few products. The US and the EU were also defeated in their intention to give equal importance to the 'Singapore issues'.

Repercussions of Cancun on free trade talks in Latin America

As far as Latin America is concerned, the failure to reach an agreement in Cancun has encouraged the US to boost FTA talks with a range of countries. Costa-Rica, El Salvador, Guatemala, Honduras and Nicaragua have already concluded the Central America Free Trade Agreement (CAFTA) with the US. Colombia, Panama and Peru are also in advanced talks with the US. These countries look at the possibility of greater access to US markets for the primary products in which they have a comparative advantage. In return, they do not mind these trade agreements including, as US multinationals want, the Singapore issues because they do not have substantial business interests to protect in the areas of investment, services and intellectual property. They are therefore open to US investments at almost any cost.⁹ Furthermore, the bilateral trade agreement signed in June 2003 between the US and Chile contains all these issues.

Brazil's Stance in Recent FTAA Meetings

Against such a background, could Brazil and Argentina find themselves isolated in their FTAA stance? At the 15th FTAA Trade Negotiations Meeting in Port-of-Spain (Trinidad and Tobago), the two small Mercosur members, Uruguay and Paraguay, distanced themselves from Brazil and Argentina with respect to the desired scope of the FTAA. Uruguay went so far as to present a separate proposal in favour of a broad scope FTAA, quite close to the US approach.

In the same meeting, Brazil again proposed the inclusion of agricultural subsidies and antidumping measures in the agenda (the US said they would only discuss these at the WTO level) and no agreement was reached on the Singapore issues. This situation seemed to repeat itself during the February 2004 meeting in Puebla¹⁰ as Brazil refused approval of a special safeguard provision for some agricultural products, and the inclusion of these products in a larger category of products on which tariffs were set to be liberalised only over a more than 10-year period. On the other hand, the US, together with a group of 13 countries, tried to get Brazil and Mercosur to soften their stance on

Table 2: Share of agro-products in G20+ countries' total exports (2001)

COUNTRY	%
ARGENTINA	45.8
BOLIVIA	33.3
BRAZIL	31.7
CHILE	39.9
CHINA	6.2
COLOMBIA	23.5
COSTA RICA	33.3
EGYPT	15.4
EQUADOR	49.4
GUATEMALA	54.2
INDIA	15.1
INDONESIA	12.5
MEXICO	5.7
PAKISTAN	12.5
PARAGUAY	83.5
PERU	26.5
PHILLIPINES	6.1
SOUTH AFRICA	10
THAILAND	18.5
Source: WTO	

investment and services.

Developments in Brazil's stance

Brazil appears to be in a better position now than it was after the WTO Cancun meeting, (despite the G20+ performance) and the subsequent FTAA meeting in Port-of-Spain. The G20+ group kept silent at the Port-of-Spain meeting and actually suffered pressure from the US as the Americans made separate offers to its members. Colombia and Ecuador left the group in October. Though this did not necessarily mean the end of the G20+ Group as a whole, it showed that its existence was probably limited to defending an agricultural agenda at the multilateral WTO level.

The Miami meeting's final declaration introducing flexibility into the FTAA framework was a positive move for Brazil: apart from a built-in agenda including common rules for every one, the FTAA would comprise several 'plurilateral' agreements which countries would adhere to on an voluntary

basis. The sensitive issues would be sorted out only at WTO level. The Miami declaration spoke of finding a balance of rights and duties based on reasonable trade-offs involving all countries.

However, this 'ALCA-lite' scenario is not necessarily all good for Brazil. Apart from 'traditional' disagreements with the US, Brazil could face opposition from countries like Canada and Mexico which fear Brazil could increase her share in the US market without giving up on strategic issues the way Mexico and Canada had to. Therefore, a group of 14 countries led by the US began to pressure Brazil in the Puebla talks. This pressure could increase in future FTAA talks.

Should Brazil Fear Isolation In Latin America?

The Brazilian government, and civil society, appears to be divided on the FTAA issue. Parts of it are opposed to any kind of FTAA. The Foreign Ministry's (Itamaraty) Secretary-General, Samuel Guimarães (appointed by President Lula) is widely regarded as an FTAA opponent. The Agriculture Minister and the two main organizations representing industry – the National Confederation of Industry (CIN) and São Paulo's Federation of Industry (FIESP) – have complained about Itamaraty's rigid stance at the Port-of-Spain talks. And the Finance Ministry has announced it will watch Itamaraty's behaviour in future talks more closely.

All these reactions can be easily explained. Brazil has been battling over the last 15 years with internal and external debt burdens. Today, the internal debt amounts to US\$ 297 billion (58 % of GDP) with 28 % of the debt payable in

US dollars) and the external debt to US\$ 239 billion (48.7 % of GDP).¹¹ The current government is continuing its predecessors' austere fiscal and monetary policy and is following an export-focused strategy in an attempt to maintain a high trade surplus and reduce the country's debt burden. In this regard, agriculture is the most important sector. In 2002, agriculture generated a record 41 % of total exports, contributed 27 % to total GDP and provided 37 % of total jobs. It is, in fact, the main source of economic growth: a 6 % agricultural growth rate is expected for 2003 against an expected all-sector GDP growth rate of 1.3%.¹²

In the absence of a clear and consistent position from President Lula on the country's strategy for the FTAA, the agribusiness sector together with the Agriculture Ministry look more than ever mobilized to get Itamaraty's representatives to make concessions on issues such as investments, services and government procurement in exchange for US concessions on agriculture.

Final remarks

Brazil's position on the FTAA is not an easy one. Many of its commercial partners in the LA region (The Andes, Central America, and the Caribbean) see preferential access to the US market as their primary interest. After Cancun the US is playing the card of permanent bilateral agreements with these countries more openly. Diplomats and business circles in Brazil are divided over the stance Brazil should take in future FTAA talks.

On the one side, some people think that Brazil risks isolation through the FTAA and that this could cost the country (and

Mercosur) loss of market share throughout the region and in the US. In this regard, even the proposed '4+1' framework to conduct FTAA talks would look risky. The challenge for Brazil and its Mercosur partners would therefore be to develop alliances in the region which would be based on some minimal ground for a common FTAA agenda. Since it came to power, President Lula has been making clear his intention of prioritising the strengthening of Mercosur and the creation of regional alliances in South America.¹³ This could help build up a minimal FTAA agenda.

On the other hand, proponents of the '4+1' approach argue that the fear of isolation is exaggerated as an FTAA would not be of much interest to US multinationals if it did not include the Brazilian market.¹⁴ Brazil was the tenth largest destination overall for US exports in 2002.¹⁵ Furthermore, in this '4+1' approach Brazil would be in a better position to:

- bargain the concessions it will have to make; and
- negotiate safeguards and extended deadlines aimed at protecting Brazil and Argentina's sensitive sectors.

Whichever option Brazil and the US choose it is possible that the final agreement will not be signed by the end of 2004, as the presidents of the two co-presiding countries committed, and that the final text will be what we described as an 'ALCA lite' compromise around a 'built-in agenda'. Parallel negotiations on 'plurilateral' agreements should run concurrently. Many people see these 'parallel' negotiations together with the bilateral free trade negotiations with the US as a way for the US to put pressure on Brazil and Mercosur.

ENDNOTES

¹ North American Free Trade Agreement.

² Capital goods, electronic goods, chemicals and petrochemicals, generic pharmaceutical drugs, plastics, ceramics, software and wood.

³ French Economics and Finance Ministry, 2003.

⁴ This principle would extend to every 'contracting party' the privileges enjoyed by a few countries.

⁵ Tariffs above 15%.

⁶ The CAN, comprising Bolivia, Colombia, Ecuador, Peru and Venezuela, has a total population of 120 million. It has been a free-

trade area (excluding Peru) since 1993. In 2001, 42.4% of CAN exports went to the US and 3.6% to Mercosur (source: CAN General-Secretariat).

⁷ The round of negotiations is due to end in December 2004.

⁸ A group created before Cancun, led by Brazil, India and China.

⁹ 'Interests to protect' can mean, in some of these countries, the ruling elite's interests, which do not necessarily coincide with national sovereignty and civil society's interests.

¹⁰ At the time of writing the Puebla meeting

had not finished.

¹¹ DREE-French Economics and Finance Ministry, Sept. 2003.

¹² DREE-French Economics and Finance Ministry, Sept. 2003.

¹³ The project of Free Trade Agreement between CAN and Mercosur and the negotiation of a preferential tariff agreement with Mexico are part of this policy.

¹⁴ Brazil is the world's second largest market for cellphones users, helicopters and private jets flights; third largest for Coca-cola products; fifth largest for CDs, etc.

¹⁵ Qualilog Consulting São Paulo 2003