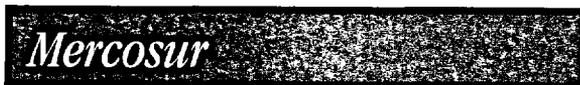


- Obtain consensus among FTAA countries on the establishment of an interim FTAA committee on sanitary and phytosanitary measures (SPS) to facilitate FTAA countries' day-to-day SPS activities.
- Advance the development of an institutional structure for the FTAA.
- Continue to enhance, through active engagement in the FTAA Committee on the Participation of Civil Society, the participation of civil society in the FTAA process.
- Ensure greater transparency of the FTAA process, for example, through enhancing the public's access to information.



Overview

Argentina, Brazil, Paraguay and Uruguay established the Southern Cone Common Market (Mercosur) in 1991 through the Treaty of Asunción. Mercosur provides for the free circulation of goods, services, capital and labour; a common external tariff; and harmonized macroeconomic and sectoral policies by 2006. With 215 million consumers (compared with 400 million in the NAFTA), this customs union is Canada's largest export market in South America. In 2001, reflecting a decrease in trade with Argentina, two-way trade was \$3.1 billion, with Canadian exports totalling \$1.1 billion compared with \$1.29 billion in 1999. Canada's main exports to Mercosur are paper products, potash, wheat, telecommunications equipment and information technology (IT), aircraft parts, petroleum products, machinery, malt, minerals, plastics, rolling stock and pharmaceuticals. Canadian foreign direct investment (FDI) is concentrated in the aluminum, oil and gas, mining, power generation, telecommunications equipment and services sectors and has increased significantly in recent years. In 2000, Canadian FDI was estimated at \$8.7 billion for the Mercosur countries and an additional \$5.5 billion for Chile, an associate member.

Partially harmonized common external tariffs were implemented in 1995, and already about 90% of all internal trade is duty-free. The exceptions to the common external tariff, such as the hundreds of individual tariff lines for each country, are to be eliminated by

2006. In 2000, after months of difficult negotiations, Brazil and Argentina concluded the final text of Mercosur's automotive regime. As trade in automobiles and auto parts comprises at least 30% of intra-Mercosur trade, this is an important agreement. Several irritants in the agricultural sector are yet to be resolved. As well, there has been no progress on the free movement of labour component of the Mercosur agreement.

Mercosur is engaged in an expansive external agenda that includes negotiating closer ties with the Andean Pact, the EU, South Africa and the United States, on the one hand, and a dialogue with Japan, China, the European Free Trade Association (EFTA), Canada and Israel, on the other. Since its inception, Mercosur has negotiated and entered into free trade agreements with Chile and Bolivia. Although Chile and Mercosur were to have deepened their discussions with respect to Chile's full participation in the bloc, the timing is now unclear in light of Chile's bilateral free trade negotiations with the United States. Further integration of Chile into the Mercosur trading bloc is problematic because Chile has a significantly lower import tariff structure — 9% on average compared with Mercosur's 14%.

Mercosur has also reached a framework agreement with the EU and is looking at 2005 for full implementation. Offers have been made on both sides, and these are currently being reviewed. Market access for Mercosur agricultural products remains a key condition for significant progress in these discussions. Mercosur countries have also agreed to launch free trade talks with South Africa, with significant bilateral trade in automotive parts being a key area of convergence. As well, Mercosur and Mexico have had negotiations on the expansion of their current automotive trade regime, which would include progressive tariff liberalization on autos and auto parts and be completed by 2010. Since September 2001, the U.S. and Mercosur have held high-level discussions under a 4+1 bilateral consultation mechanism established in 1991 and now reactivated.

At the August 2000 meeting of 12 South American presidents in Brasilia, initiated by Brazil, presidents agreed to establish a "senior officials and civilian representatives consultative forum." This forum would explore joint actions in the area of trade and investment with a view to consolidating and deepening integration in the region. Presidents also agreed to begin negotiations to establish a free trade area encompassing Mercosur and