

Despite widely publicized internal problems within Mercosur, both Brazil and Argentina consider Mercosur's political and economic achievements to be substantial, and their recently elected presidents have renewed their commitments to strengthening it. There are several challenges to full economic integration, including the Argentine recovery, and Mercosur continues to experience difficulties in restructuring itself into an organization that will be able to take on commitments and implement them as a bloc. Uruguay remains concerned because commitments to free trade and the reduction of trade barriers within the bloc have not been fully implemented. On the other hand, Brazil's improved country risk and fairly stable exchange rate in 2003 could contribute to a more stable bloc and support its negotiating positions. In mid-2003, Brazil proposed an initiative to set concrete deadlines for converting Mercosur from an imperfect customs union to a common market.

Mercosur is engaged in an expansive external trade agenda that includes negotiating closer ties with other developing countries such as China, Egypt, India and South Africa. Brazilian President Lula da Silva's priorities since he assumed office in January 2003 have been to strengthen Mercosur as a political and economic bloc and then to further its ties within South America. The Caribbean Community (CARICOM) has also requested that Brazil consider a market access/tariff negotiation. Since its inception, Mercosur has negotiated and entered into free trade agreements with Chile, Bolivia and Peru and a limited sectoral market access agreement with Mexico.

Canadian exports to Mercosur countries totalled \$974 million in 2003, a 17% increase from the previous year. Canada's main exports to Mercosur are paper products, potash, wheat, telecommunications equipment and information technology, aircraft parts, petroleum products, machinery, malt, minerals, plastics, rolling stock and pharmaceuticals. Canadian imports from Mercosur members totalled \$2.5 billion in 2003, for an increase of 10% from the previous year.

Canadian foreign direct investment is concentrated in the aluminum, oil and gas, mining, power generation, telecommunications equipment and services sectors and has increased significantly in recent years.

## **Trade and Investment Cooperation Arrangement**

Signed in June 1998, the Canada–Mercosur Trade and Investment Cooperation Arrangement (TICA) laid the foundation for enhanced bilateral trade and investment and established a framework for collaboration in the FTAA, the WTO and the Cairns Group. The first Consultative Group meeting called for under the TICA took place during the FTAA meeting in Toronto in November 1999. At that meeting, a proposal was made to form two committees: one to study customs and technical cooperation, and a second to study best practices in trade development and promotion.

In addition, it was agreed that the Business Advisory Council established by the TICA would provide a mechanism for business representatives to provide input directly into the Canada–Mercosur trade and investment relationship. Canada has held meetings with business representatives to seek input on the most beneficial activities that might be engaged in under the TICA.

On November 21, 2001, the TICA Consultative Group, consisting of senior trade officials, met in Montevideo, Uruguay, to determine the next steps of a Canada–Mercosur action plan under the TICA. The group agreed on a work plan covering issues related to trade development, agriculture (sanitary and phytosanitary and regulatory measures), connectivity and ways of strengthening customs procedures. Although work exchanges have continued on connectivity, and preparatory work is being done on customs cooperation, the next meeting has not yet been scheduled. With respect to agriculture, work is currently done mainly at the bilateral level.

Canada continues to work with Mercosur on improving our trade and investment relationship through the FTAA process.

## **BRAZIL**

### **Overview**

Canadian exports to Brazil totalled \$881 million in 2003, an increase of 15% over the previous year. Major exports included fertilizer, mineral fuel, machinery and paper. Canadian imports from Brazil