

## **“FTAA Lite” Is Too Light for Some**

### *TNC Meeting in Puebla Stalls*

The FTAA Trade Negotiating Committee (TNC), composed of the vice ministers of trade from the 34 participating countries, met in Puebla, Mexico on February 2-6. The purpose of the meeting was to work out the new framework, procedures and guidelines for continuing the negotiations after the change in strategy agreed to at the Miami Ministerial in October 2003. The Puebla meeting was not a success. It showcased the divide between the MERCOSUR countries, led by Brazil, and most of the rest of the countries of the hemisphere, led by the United States. CARICOM mostly favors the Brazilian approach, but the small Caribbean countries qualify for special treatment in any case.

This session of the FTAA negotiations was trying to meet the TNC’s mandate “to carry out the instructions of the Miami Ministerial to develop guidance to the FTAA negotiating groups for developing a common and balanced set of rights and obligations to be applicable to all countries and to develop procedures for plurilateral negotiations.” In other words, the negotiation is to proceed on a two-tiered basis.

Faced with the impasse in the negotiations, the TNC decided to take a recess for 3 to 4 weeks and to meet again in Puebla in early March.

### *Who Is to Blame?*

A US trade official (believed to be Deputy USTR Peter Algeier) held a background briefing for trade publications during which he explained the two-tier approach. One tier, he explained, would include a balanced and common set of rights and obligations for all countries. These would be less ambitious. The second tier would incorporate plurilateral negotiations (among groups of countries) that seek a more ambitious agreement. The sum of these two--the ‘common’ and the ‘plurilateral’--would make up the FTAA.

The United States consulted with Canada, Mexico, Chile and Costa Rica prior to the TNC meeting to develop a less ambitious set of common objectives. The US agreed to reduce its goals in intellectual property, services and investment in exchange for reductions in other countries’ demands for market access for agricultural and industrial goods. According to the US trade official, the US found that many countries were willing to approach the negotiations this way and go on to pursue more ambitious objectives in the plurilateral negotiations.

But some countries, mainly those in MERCOSUR, were not ready for this approach. Brazil wanted to reduce objectives in areas of interest to the US but would not correspond by reducing its demands in market access. MERCOSUR wants a commitment for all tariffs on agriculture and industrial goods to go to zero over time. The paper it prepared also seeks to eliminate export subsidies and disciplines on the use of export credits, food aid and export trading companies, as well as a mechanism to eliminate the trade-distorting effects of domestic support programs.

An alternative paper backed by 14 countries\* seeks the elimination of export subsidies in the region but does not mention domestic support programs. The US is advocating the inclusion of a special agricultural

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\* Fourteen countries agreed to approach the negotiation of the common objectives and then proceed to a more ambitious negotiation in a plurilateral context. These countries are: the USA, Canada, Mexico, Chile, Costa Rica, Colombia, Ecuador, Peru, Dominican Republic, Guatemala, Honduras, Nicaragua, El Salvador and Panama.

safeguard to protect a country when it is troubled by low-priced imports. The paper supports the elimination of tariffs over time but links it to countries reaping the benefits of their commitments (i.e., progress in the plurilateral negotiation). The paper calls for transparency and procedural provisions for investment and government procurement. In services, it seeks national treatment and market access provisions based on a positive list approach. This is something MERCOSUR has sought as well.

The impasse, especially over agriculture, could make it impossible to meet the September deadline for completing market access negotiations. The TNC decided to continue consultations among countries and internally during a period of 3 or 4 weeks. Then it will meet again to see if agreement can be reached on the framework for common objectives to allow the negotiations to go ahead.

#### *MERCOSUR Press Reaction*

In Brazil, the moderate newspaper *O Estado de São Paulo* ran an interview (Feb. 7) with Maria Cristina Mattioli of the London School of Economics. In response to the MERCOSUR insistence on including agricultural subsidies in the FTAA, she noted that the US is threatening to conclude separate FTAs with other countries. These agreements, she pointed out, can make other parties stronger and have a negative effect on Brazilian exports.

On Feb. 10, the same newspaper printed an article based on the background interview with the US trade official. In addition to repeating the US complaints, it commented that the differences that emerged in Puebla would be difficult to overcome in 30 days, noting that the FTAA is running up against the end of its timetable of January 2005. The trade negotiating authority granted by the US Congress runs out in mid 2005 and is not likely to be renewed. Itamaraty (the Brazilian Foreign Ministry) organized a press conference at which MERCOSUR spokesman Martin Redrado of Argentina tried to remove any blame from MERCOSUR for the stalled talks. He cited little receptivity for the elimination of all tariffs over 15 years and the elimination of subsidies on agricultural exports. It is time for other countries to make concessions, he added.

An editorial several days later criticized the negotiating strategy of Itamaraty and the presidency, charging them with underestimating the actions of the governments that signed agreements with the US. These countries are not going to accept giving MERCOSUR guaranteed access to the US on more favorable terms, the paper argued. The message was made clear at the Miami Ministerial: those who want limited commitments on the second level must accept limited commitments on the basic level. Insightfully, the editorial pointed out that Brazilian exports are diversified and not just agricultural. Finally, it opined that the Brazilian government underestimated the possibilities of the FTAA and US concessions. Brazilian exports, now growing, are likely to grow less than they could because of this attitude, the newspaper charged.

Press coverage in Argentina appeared to be more muted. *Clarín* reported (Feb. 7) the failure of the talks and quoted Martín Redrado as saying that “the success or failure of the Puebla meeting depends on the negotiating will of the US delegation,” and that “MERCOSUR will not move from its position.”

#### *Observations*

The Miami Ministerial agreed to a new general approach to the FTAA negotiations, but in doing so papered over differences that the negotiators hoped would be worked out later. Brazil obviously thought it could get most of what it wanted without giving in to US demands for concessions on important issues. Apparently, it overestimated its clout. Brazil will not gain access to the US market without giving in on services and investment. Failure was avoided in Miami but as the recessed meeting in Puebla shows, the gap separating the two sides is difficult to bridge in the short time remaining. Perhaps in the end the parties will agree on a basic agreement that commits to some principles and a few concessions while agreeing to continued negotiations over the coming years.