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## SA & Brazil: Towards an FTA

The official visit to South Africa in March by the Brazilian Minister of Foreign Affairs, Luiz Felipe Lampreia, is a clear sign of the increasingly closer and deeper relationship between South Africa and its colossal South Atlantic neighbour. This visit was different from previous ones as its purpose was to discuss establishing a free trade agreement between Brazil and South Africa — and, by extension, the first free trade area (FTA) between two 'South' customs unions: the Common Market of the South (Mercosur) and the Southern African Customs Union (SACU).

### The global context

Both Brazil and South Africa were disillusioned at the inconclusive World Trade Organisation (WTO) Millennium Round meeting in Seattle late last year. Both had hoped Seattle would make significant progress on:

- ending the European Union's (EU) insistence on the exemption of agriculture from the WTO prohibition on trade-distorting subsidies;
- dismantling rules that allow the protection of 'grandfather industries' like steel in industrialised countries; and
- addressing the use of anti-dumping measures for protectionist purposes, particularly by the United States (US).

At the conclusion of the Uruguay Round, the EU had only grudgingly agreed that the 'progressive reduction in agriculture support and tariffs' should be included in a new treaty for which negotiations were scheduled to begin in January 2000. However, in the run-up to Seattle the EU pulled out all the stops to deflect attention from its farm subsidies, including overloading the agenda by insisting on 'comprehensive' talks. With presidential campaigning underway, Washington found it difficult to play a decisive leadership role. In a statement to the WTO plenary, SA's Minister for Trade and Industry, Alec Erwin, said that 'the WTO should not be held hostage to the incoherent response of the US to their own domestic pressures as developing countries view this institution as a platform on which to build a fairer and more equitable trading system.' Both Brazil and SA became disenchanted and impatient with the EU and the US.

When US Trade Representative Charlene Barshefsky closed talks prematurely on 4 December 1999 she insisted that negotiations were simply 'frozen' and would resume 'where they had left off'. This was initially greeted warmly by developing countries as

some progress had been made on issues such as agriculture, market access and labour standards. Almost immediately after the talks' suspension, US and EU officials cast doubt on the status of what had been agreed. EU Trade Commissioner Pascal Lamy and EU Farm Commissioner Franz Fischler declared that any concessions agreed to before the suspension were now null and void. WTO talks work on the principle that 'nothing is agreed to unless everything is agreed to by everyone', implying that negotiators have to start again.

### "any SA deal with Brazil will have to take SADC into account"

This has dismayed Brazil and South Africa who both championed the interests of the less developed countries. Months of preparation and consultation in the corridors of Geneva and Lausanne and some tough negotiations during the Seattle meeting have come to little more

than a vague commitment by the EU and the US to reconvene and re-launch the Millennium Round at a later stage.

When talks will resume is anybody's guess. In the meantime developing countries, are counting the costs. The Brazilian Agriculture Minister, Marcus Vinicius Pratini de Moraes, calculated that since developed countries would not be lowering their protective tariffs, Brazil stood to lose US\$11 billion in increased export revenues over the next three years. If a similar calculation were made for South Africa it would undoubtedly also be a significant amount. South African food production has grown by 21% in the past five years. In 1998, foreign exchange earnings on exported processed foods reached about R10 billion — 16% more than five years ago. The South African agricultural sector thus has potential to expand.

While the multilateral trade negotiations remain in limbo, countries such as South Africa and Brazil have been looking at alternative ways to facilitate their trade interests.



## Post-Seattle strategy

President **Fernando Henrique Cardoso** of Brazil called on his Mercosur partners and associate members to take advantage of this period to strengthen the regional grouping. Cardoso's initiative is part of Brazil's response to the failure of Seattle. His government concluded that Seattle signalled that developed countries were not interested in opening their markets to the products of developing ones. The prospect of advances in negotiations favourable to developing countries with the US on the Free Trade Area of the Americas (FTAA) or the EU on an FTA with Mercosur seem rather slim. The obstacles facing these negotiating agendas are the same ones that have scuttled Seattle: the EU showed that it would not open its agriculture market and the US made it clear that it would continue to protect specific sectors. Therefore, while putting both the EU and the US on the backburner, Lampreira stated at the beginning of the year that Brazil is now focusing its attention on the following instead:

- tying Chile and Bolivia, currently associate members, even closer into Mercosur;
- arriving at a wide-ranging agreement with the Andean Community; and
- establishing an FTA with SA.

Brazil's post-Seattle strategy dovetails well with that of South Africa. In early January, South Africa was caught off-guard when some European countries refused to ratify the EU-SA FTA unless Pretoria reconsidered its stance on its use of the terms *grappa* and *ouzo*.

Erwin told delegates at the World Economic Forum that EU foot dragging over the trade agreement is one of the factors propelling (?) South Africa towards alternative trade deals with countries such as Brazil and India. SA is also pushing the integration process ahead in the Southern African Development Community (SADC). This also fits in well with Erwin's analogy of diversifying South Africa's trade in terms of the trade 'butterfly'; with Europe as the head, Africa as the thorax, and one wing unfolding to Brazil in the west and one to India in the east. Establishing an FTA between Brazil and South Africa — by extension, an FTA between Mercosur and SACU — would be a decisive wing flap. Not only would this represent the first FTA South Africa establishes with a South partner on another continent, but it is also the first FTA between two 'South' customs unions.

Politically, this underlines South African President Thabo Mbeki's efforts to build a G7 of the South including India, Nigeria, Egypt, Malaysia, Saudi Arabia and Brazil. This grouping could focus on formulating and advocating a developing world

perspective and could work towards resuming the Millennium Round.

## What transpired?

Lampreira's meeting with Mbeki and Dlamini-Zuma in March 2000 centred on strengthening mechanisms for bilateral consultation. During Cardoso's state visit to South Africa in 1996 a Memorandum of Understanding was signed. Now avenues for structuring this closer co-operation by means of a bilateral or joint commission were discussed. This meeting also allowed the exchange of views on the current situation in Africa — particularly in Angola and the Great Lakes region — and strategies for joint action on global issues such as nuclear disarmament and non-proliferation, transnational crime and reform of the United Nations.

Furthermore, the meeting led to the signing of Technical Co-operation Agreements in the fields of agriculture, education, energy, industry, environment and natural resources, mining, micro and small enterprises, health, transport and communication, privatisation, shipping and tourism.

Lampreira and Erwin met to focus on the real reason for the visit: to give concrete expression to their commitment to strengthen and deepen economic links, and more particularly, the processes and procedures towards the eventual establishment of an FTA. However, there was no declaration or memorandum of understanding. Erwin gave little detail and no time frame

simply stating that South Africa and Brazil had 'completed preparatory talks on trade co-operation that could lead to an FTA between SACU and Mercosur'.

Despite this rather vague statement — the term 'free trade area' was not used at all — South African and Brazilian officials have described the exploratory discussions as 'positive and exciting'. Officials point to the obvious rapport between Erwin and Lampreira as underscoring the definite political commitment both governments are giving this process. It is seen as an important milestone in the evolution of Brazilian-SA trade relations. It is understood that the two ministers agreed to:

- take these proposals back to their respective domestic constituencies and regional partners for their consideration;
- collate, analyse and exchange information about each other's economies;
- establish a legal basis for the creation of trade liberalisation mechanisms and exchange working groups in this regard; and
- promote the exchange of business and trade missions between South Africa and Brazil.

## "South Africa will most likely be first to reap the benefits"

### What does this mean?

Despite the enthusiasm, the guarded nature of the official statements show that neither South Africa nor Brazil want to raise hopes too high and expect the process to be complex.

South Africa's trade with Brazil has declined in the last three years, from US\$696 million in 1997 to US\$409 million last year. Even though the sharp devaluation of the *real* against the dollar has had a large impact on the value of trade in 1999 (as opposed to the quantity), there is much scope to improve bilateral business relations. Ignorance of these opportunities and particularly misperceptions about the size and nature of the market of each country are the main problems. Governmental dialogue is imperative to kick-start the process.

Admittedly though, the fact that very little sectoral research on actual and potential trade between South Africa and Brazil (and by implication their respective regions) has been conducted thus far, makes it quite difficult to know where to direct these discussions. Moreover, South Africa does not yet have a full understanding of how the EU-SA agreement will impact on the different sectors. Making more concessions in an FTA will need to be carefully considered while also factoring EU obligations into the equation.

Following these preliminary talks South Africa is legally obliged to take the Brazil FTA proposal to its SACU partners — Botswana, Lesotho, Namibia and Swaziland. This may indeed prove to be quite tricky. Already some SACU partners are concerned that the SA-EU FTA agreement will harm their smaller and more vulnerable economies. Cattle farmers in Botswana would certainly face strict competition from their competitive Argentine counterparts.

While South Africa is not legally obliged to do the same with SADC, considering that this grouping is also in the process of establishing an FTA, any deal with Brazil will have to take SADC into account.

Similarly, on the South American side, Brazil has to ensure that its Mercosur partners — Argentina, Paraguay and Uruguay — fully endorse and support the idea. So far this process has been driven exclusively by Brazil (in fact, Brasilia initially also pushed the South Africa-Brazil talks). Brazil's 'informal mandate' from Mercosur to explore closer links with South Africa now

has to evolve into a formal Mercosur initiative. Despite rhetoric to the contrary, this is not unproblematic. The crucial Argentine-Brazilian axis is constantly dogged by complications. The most recent disputes were in the automotive and farming sectors, both of which are regarded as areas of potential synergy in Mercosur-SACU/SADC relations. With General Motors Brazil and Delta Motors South Africa already co-operating in the manufacture of the Opel Corsa, Daimler-Chrysler is close behind also pushing for integrated Brazilian-South African automobile manufacturing.

### Conclusion

Brazil will be assuming the rotating presidency of Mercosur for the second semester of 2000. This will allow Brasilia to assume a directive role within Mercosur.

On both sides the next few months will probably be spent collecting data on the trade potentials, as well as sorting through national legislation and regional obligations. Given the South African government's full endorsement of the proposal a return visit by Erwin towards the middle of the year seems highly likely. A formula for preferential tariffs may be announced by the end of the year to lay the ground for negotiating an FTA in the next year or two. South Africa will most likely be first to reap the benefits given the current trade portfolio. A large number of SA exports to Brazil are subject to varied tariffs, while the equivalent Brazilian exports to South Africa are actually tariff free. Brazil will thus have to be the first to make tariff concessions to start the process.

The biggest benefit from closer Brazilian-South African ties remains in the political sphere. The clear political synergy between SA and Brazil also contributes to a new international landscape where developing countries are becoming more assertive and creative. Brazil and South Africa are united in their efforts to revive and re-launch the Millennium WTO negotiations. Both believe that the provisional progress achieved at Seattle has to be safeguarded and built upon through a speedy restoration of the WTO process. Although the planned multilateral meeting between representatives from the incipient South G-7 did not take place during Lampreira's visit, Erwin has since travelled to Cairo and met with Egyptian and Nigerian officials and made good progress in arriving at a co-ordinated stand towards and within the WTO.