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## Mercosur's Disappointment Over Canada's Mixed Messages

**Uncertainty over a federal election, future of hemispheric trade and questions about Canadian beef blamed for slow down of Argentina, Brazil, Paraguay and Uruguay trade agreement**

By Sarah McGregor

The minority Liberals' election vigilance and the unsettled future of a hemispheric free trade zone at least partly explain Canada's decision to back away from a robust economic pact with South American nations.

A source says Canada expressed to "high-level" officials this summer that the federal Cabinet was giving a green light to build a comprehensive tariff-reduction agreement with Mercosur, consisting of Argentina, Brazil, Paraguay and Uruguay. But in recent weeks, the Martin government unexpectedly abandoned the promise, meaning that discussions in Ottawa last week during the third round of "exploratory" negotiations were stalled on basic issues, says the source, a member of the Mercosur team.

"It was very disappointing because the message has been coming from a very high level and we had been planning for that," says the official. "And then the backtracking occurred."

Last November, Prime Minister Paul Martin and Brazilian President Luiz Inacio Lula da Silva signed a joint declaration to hammer out "enhanced market access in the areas of goods, services and investment in the context of the creation of the future Free Trade Agreement of the Americas (FTAA)."

The FTAA has been languishing amidst 34 states since Feb. 2004, but the possibility of its revival is on the horizon at the Summit of the Americas next month in Argentina. The future of the free trade zone is itemized on a draft outcome document available on the Summit's website, but so far only a blank space appears under its heading. Canada needs a specific Cabinet mandate to negotiate bilaterally with Mercosur. But International Trade Canada ruled out that possibility this week, saying there are no plans yet to initiate domestic consultations with special interest groups a prerequisite to present to Ministers before they assess a fresh mandate.

At present, the Canada-Mercosur declaration is highly ambiguous in how it will achieve what is being called "enhanced market access," typically a reduction in tariffs. By comparison, free trade agreements, like NAFTA, are much more rule-oriented with chapters on everything from government procurement to intellectual property rights and dispute settlement.

"One thing that we have told Mercosur is that we are not even looking at a bilateral free trade agreement with Mercosur," says André Lemay, a spokesperson for International Trade Canada. "The Brazilians are well aware of this because their president was involved."

Mr. Lemay says Canada is still hopeful of a break in the FTAA stalemate, and in a letter to its American and Brazilian co-chairs last month Canada's Chief negotiator Elaine Feldman, called the draft pact "a vital instrument for promoting, inter alia, economic growth and job creation." Mr. Lemay adds: "At this point we don't consider it dead."

Meanwhile, Florencia Jubany, senior analyst at FOCAL, a research group in Ottawa centred on the Americas, says the "political constraints" of a minority government are well understood by all Mercosur parties, and the decision to hold off on comprehensive trade talks should have come as no surprise.

"I don't really think Canada backtracked. It was just unable to go ahead given the political reality for the Martin government. It's an important distinction," she says. "A few weeks' before [September's meeting] it was confirmed there was no mandate. Yet all parties decided to move anyway to show good political will."

In Ottawa last week, Ambassador Carlos Amorin, Director General of Regional Integration and Mercosur for Uruguay's Ministry of External Relations suggests that delegations from the south were disappointed.

"We probably would have expected a [quicker] definition so that we could have more specific negotiations," says Mr. Amorin. "It's difficult to move. Once they go, they can gain speed rapidly though."

When asked to speculate on the reluctance on Canada's part, he says, "Obviously the election period is difficult with any country." He also adds another factor: the all-consuming task to create new rules at the World Trade Organization in time for the 148-state Ministerial in Hong Kong this December.

Pressure from Canada's agriculture sector is also another issue that is likely to weigh heavily on the mind of government.

Ted Haney, president of the Canada Beef Export Federation, says until all four Mercosur nations re-open their borders to Canadian live cattle and beef products, freeing up trade of other products shouldn't be an option. A single case of mad cow disease found in a Canadian cow in 2003 has blocked trade of some meat products.

"It would be inappropriate for Canada to proceed very far with negotiations if there is discrimination against Canada," he says. "Quite clearly our position is that this outstanding trade dispute should be solved before they go any further. They have to demonstrate that they are ready to trade on good science."

John Masswohl, director of international relations for the Canadian Cattlemen's Association, says the Mercosur agreement made passing mention at the last week's first meeting of the Cattle and Beef Trade Advisory Committee to the Minister of Agriculture, Andy Mitchell. Yet agriculture groups haven't yet been formally notified of advancing negotiations or upcoming public consultations on the pact, he says.

A new date hasn't been set for Canada and Mercosur to sit down again, but Mr. Amarin says that it will be no earlier than February. "I am confident that we can do it," he says.

A federal election is possible as early as this fall but, if not, the prime minister has promised to announce one early next year after the release of a report by the Gomery inquiry into Canada's corruption scandal.

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