



# Chapter 2

Mercosur

## 2 MERCOSUR

### 2.1 Background, Objectives and Main Characteristics

Historically, the integration process of Latin American countries began in 1960, with the Treaty of Montevideo, which constituted the Latin American Free Trade Association - ALALC, followed by the Latin American Integration Association - ALADI of 1980, the Program for Integration and Economic Cooperation - PICE of 1986, and the 1988 Integration, Cooperation and Development Treaty.

However, the greatest stimulus to integration occurred on March 26, 1991, with the creation of the Southern Common Market - Mercosur, which was the outcome of a long process of building closer relations between Brazil, Argentina, Paraguay, and Uruguay. Its objective was set out by the "Treaty of Asunción for the Constitution of the Southern Common Market," and reaffirmed in the Protocol of Ouro Preto, of December 17, 1994, which are the main legal instruments of the integration process.

The Treaty of Asunción constitutes a framework agreement, that is, an instrument to be continuously complemented by additional instruments, negotiated by the four member States, as a function of progress in integration. The Treaty fundamentally established the conditions for achieving the Common Market by December 31, 1994. In this regard, the Treaty establishes, among other aspects, the following:

- establishment of a free trade program, comprised of progressive, linear and automatic tariff reductions, accompanied by the elimination of non-tariff barriers;
- coordination of macroeconomic policies;
- establishment of a Common External Tariff - CET;
- establishment of a list of exceptions for the liberalization program for products considered sensitive; and
- creation of a general regime of origin and a dispute resolution system.

With the signing of the Protocol of Ouro Preto, the so-called Mercosur transition period came to an end. The Protocol

gave to the integration process all the elements of a complete Customs Union. Mercosur gained a definitive institutional structure for the negotiation and deepening of the integration towards the desired Common Market.

### 2.2 Institutional Structure

At the Ouro Preto Summit, Mercosur's institutional structure was defined in more detail; in other words, besides the basic structure, the decision-making bodies, the specific attributions of each, and their decision-making system were established. Mercosur's current structure has about fifty negotiating *fora*, some exclusively technical in nature, and others with political or executive functions.

The Protocol of Ouro Preto also established Mercosur's international legal personality, which enables the block to acquire rights and be subject to obligations as an entity distinct from its member countries. In practice, this means that Mercosur can negotiate international agreements as a bloc.

Thus, since the Ouro Preto Summit, Mercosur has had an institutional base that allow for a greater integration among its member States, as well as with third party countries, including other economic blocs, thus making it as an important economic arena.

### 2.3 Mercosur's Basic Indicators

Mercosur is now an economic reality on a continental scale: a total area of more than 11 million square kilometers (more than 58% of Latin America's territory); a market of more than 210 million inhabitants; and a cumulative GDP of more than 1.6 trillion dollars.

The region is one of the main centers for foreign investments in the world, an important reserve of the planet's natural resources, and a considerable source of energy resources. The bloc's agricultural potential is another striking characteristic. Mercosur figures among the largest global producers of wheat, coffee, cocoa, citrus, rice, soy, milk, and meat.

Since its foundation, Mercosur has been consolidating its operations and achieving significant results, contributing towards the creation of a receptive climate for trade expansion.