

Annex 3

Agreed Modalities for negotiation

In order to implement the Framework Agreement signed between MERCOSUR and Egypt in 2004, MERCOSUR and Egypt agree to start negotiations aimed at establishing a Free Trade Area.

The negotiation of a Free Trade Agreement (FTA) should be undertaken on the following basis:

- i. The Agreement will have the following chapters, all based on WTO instruments: trade in goods, rules of origin, preferential safeguards TBT, SPS, dispute settlement and customs cooperation, as well as two annexes with the lists of concessions of MERCOSUR and Egypt, respectively.
- ii. The chapter on TBT will include provisions on international standards, mutual recognition agreements, international cooperation and transparency.
- iii. The chapter on SPS will include provisions on multilateral obligations, transparency, regionalism and consultations on specific trade concerns.
- iv. The chapter on Dispute Settlement will include the following provisions concerning trade disputes that arise from the Agreement: consultations, intervention of the Joint Committee (which may submit the matter to a group of experts) and establishment of an ad hoc arbitration tribunal.
- v. The chapter on custom cooperation will include provisions on the conditions for the exchange of information, the protection of the confidentiality as well as the procedures for the request of information to be exchanged between the parties.
- vi. To discuss preferential safeguards measures.
- vii. To start negotiations, each side should present at a date to be settled electronic files of applied tariffs, bound tariffs, import and export data, and relevant foreign trade regulations.
- viii. Trade in Goods
 - a) Compatibility with GATT Article XXIV
 - b) Offers should cover actual and potential exports
 - c) Coverage flexibility reflecting sensitive products of each side
 - d) To discuss basic tariff-elimination.

ix. Treatment of free zones.

x. In order to enjoy the preferences established on the tariff-elimination schedule, in the case the products to be traded is not wholly obtained in the signatory parties:

- a) the production process should result in a tariff change of the non originating materials from a four-digit heading of the Harmonized Coding System into another four digit heading, or
- b) the CIF value of all non-originated material used in its manufacture should not exceed 40% of the FOB price.
- c) without prejudice to a) and b), the signatory parties may establish specific rules of origin.
- d) mechanism of custom control

xi. Special and differential treatment for Paraguay.