

BULLETIN

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EU-Mercosur Negotiations: Towards an Association Agreement?

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In mid-March, the fourth round of resumed EU-Mercosur negotiations on the Association Agreement took place. If they succeed, supporters of the arrangement expect it not only to bring long-term economic benefits for both regions, but also to be a viable alternative to the traditionally dominant position of the U.S. and the increasing commercial role of China to Latin America. However, the process is being undermined by growing fears of the potential negative outcome of bi-regional trade liberalization. Conflicting interests in the field of agriculture remain the main obstacle to promptly reaching an ambitious agreement.

Negotiation Process. The European Union-Mercosur negotiations on the Association Agreement (AA) began formally in 2000 with three main elements: political dialogue, cooperation and free trade. Fifteen meetings of the Bi-regional Negotiation Committee led both regions to a commitment to conclude AA talks in October 2004. However, this was not met mainly because of a growing dissatisfaction about the scope of mutual market-access concessions and expectations of greater benefits from the ongoing trade liberalization talks under the WTO Doha Round. Several subsequent attempts to resume negotiations have failed. The restart of the talks took place in May 2010 and was motivated by a desire to boost commercial ties with Mercosur and strengthen the EU status as a global actor. These ambitions have been mostly endorsed by the Trade Directorate-General in the European Commission (EC).

The ongoing negotiations are aimed at updating and building on the commitments achieved in 2004. Eleven working groups discuss specific issues, including crucial negotiation chapters on market access and trade barriers. The EU would like Mercosur not only to open its markets to manufactured goods and services but also to comply with European standards in such areas as rules of origin, intellectual property, public procurement and competition policy. Mercosur's foremost demand is for full market access for its agricultural products and for the EU to reduce farm subsidies. Both partners are willing to achieve an agreement that should transcend WTO obligations, have a broad scope (goods, services and investment) and take into account the regions' sensitivities. Detailed market-access offers have not been presented yet.

Economic Relations. Mercosur is the eighth-ranked trading partner of the EU with a 3% share in its external trade (half of the total Latin American and Caribbean trade with the EU). The EU's share in the South American bloc's trade is around 20%. The value of bi-regional merchandise trade was EUR 84 billion in 2010. Agricultural products made up 49% (EUR 21.6 billion) of the EU imports from Mercosur. EU agricultural exports to the bloc were worth fifteen times less. With a 47% share (EUR 19 billion), machinery and transport equipment was the main category of EU exports. Mercosur is an attractive market with 270 million consumers and 7% GDP growth in 2010. Brazil vastly overshadows the other three partners, generating 75% of Mercosur's trade with the EU and 2.2% of the total EU trade (ranking 10th).

According to the trade sustainability impact assessment (SIA) conducted before 2009 for the EC, a potential bi-regional AA would benefit both parties. Real economic income would be greater for Mercosur, especially in the agriculture and food sectors. In the EU, manufacturing and services sectors would profit the most with the significant cost on agriculture. However, detailed numbers

provided in the SIA only were a rough estimation and didn't take into account the global financial crisis.

Challenges. The main obstacle in the current negotiations is a growing anxiety about the possible impact of trade liberalization and a lack of consensus inside both regions. The deal is supported by the EC (which holds the negotiating mandate), some business organizations and countries traditionally involved in Latin America (such as Germany, the Netherlands and Spain). A group of Member States led by France, however, sees potential trade liberalization as a threat for the EU agricultural sector. The most active opponents have been lobbying groups that represent the interests of EU farmers. In early March, an influential organization, Copa-Cogeca, warned that opening the market to Mercosur exports could damage and bring about a huge loss for beef producers in the EU. These calls have been endorsed by the EP, which was given the prerogative under the Lisbon Treaty to accept EU treaties. The EP called on the EC not to complete negotiations until the post-2013 shape of the Common Agricultural Policy (CAP) is agreed and the Doha Round is concluded. For most of the new EU members, Mercosur countries are not only natural competitors in agriculture and food markets but also are rather marginal economic partners.

Mercosur has not agreed yet to any free trade agreement (FTA) with the EU's biggest competitors (the U.S. and China). The prospects of opening the European market particularly boost expectations in the agricultural sector in Mercosur countries. The industry sectors, however, are rather concerned about the negative impact of an influx of EU manufactured products. A significant challenge for Mercosur is maintaining its credibility and unity as a partner of the EU. The South American bloc has been weighed by the slow pace of institutional consolidation and implementation of common rules. Frequently, its future and *raison d'être* have been questioned, for example, by the invitation to Venezuela in 2006 to join the bloc (pending ratification by the Paraguayan Parliament). Brazil has long treated Mercosur as a key instrument to carry out its global ambitions and has shifted efforts towards strengthening integration in South America, with the deliberate exclusion of the U.S. The Brazilian government was instrumental in blocking the U.S.-promoted Free Trade Area of the Americas initiative in 2005 and developing the project of the Union of the South American Nations (Unasur) in 2008. The latter initiative contributed to diminishing the relative importance of Mercosur. Last but not least, the EU-Brazil strategic partnership established in 2007 has contributed to mistrust among Mercosur's members. Argentina, in particular, was dissatisfied that the EU virtually recognized Brazil as a regional power.

Perspectives. Presently only two Latin American countries enjoy an AA with the EU: Mexico (signed in 1997) and Chile (2002). On 22 March 2011, the EU-Central America AA was initialled, and immediately after that the final text of the EU-Colombia-Peru FTA was accepted. Politically and economically, however, Mercosur is a far more significant Latin American partner for the EU even though an ambitious AA between both regions will be hard to achieve. The main problem lies in the extent to which mutual market access is offered and common standards are harmonised. Any commitment to the removal of tariff and non-tariff barriers will need to address specific sensitive areas and include transition periods and asymmetrical concessions.

The European Commission has indicated that a new proposal in agricultural trade cannot shift significantly from the 2004 offer because of growing pressure from the agricultural lobby and negative voices in the EP. Mercosur is willing to broaden its 2004 offer but is struggling for a separate discussion about EU agricultural subsidies. For the EU, the ongoing debate about the future shape of the CAP needs to be concluded before a new detailed offer for the agriculture sector is put on the table.

Even if negotiators find a solution for the most divisive issues, it may be hard to find consensus among all the EU Member States regarding the agreement. France, Ireland and other Member States with a considerable agricultural sectors surely will be opposing any deal that would negatively affect their farmers. Apparently, the biggest advocate of those countries may be the EP. It considers as insufficient the pre-2009 SIA in the EU-Mercosur trade and is pressing the EC to provide further details about the benefits and costs of the EU-Mercosur liberalization of the agricultural sector. The growing fears of negative outcomes if the EU market opens to Mercosur will lead to a further delay in the negotiating process.