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CAN SOUTH AMERICA BECOME NEGLECTED IN EU DIPLOMACY?

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SUMMARY

The signing of the free trade agreement with the Common Market of the South (MERCOSUR) in 2019 seemed to have revived the relationship between South America and Europe, which had been dormant in the past few years. However, controversy has surrounded its ratification, especially because of the lack of environment protection policies adopted by the president of Brazil, Jair Bolsonaro. Some countries have threatened to boycott the approval of the agreement in national parliaments, which will be the next step in the procedure requirements of the document.

The intention for a free trade agreement was set in the late 1990s, and the negotiations were characterized by periods of long pauses and unsuccessful returns. Usually, the stalemate in the negotiations were caused by divergences on the quotas regarding agricultural and industrialized products.

The MERCOSUR-EU trade deal was finalized with a concomitant wave of right-wing presidencies in the bloc, namely Argentina, Brazil, and Paraguay. Right-wing parties tend more towards trade liberalization. However, the current political divergence in South America could lead towards scepticism of the benefits of the agreement.

INTRODUCTION

The negotiations of a free trade agreement between MERCOSUR and the EU is a long path of stalemates and small progresses, with twenty in the making. The relations amid both regional blocs were established in 1999 by the Framework Cooperation Agreement.



The EU maintains a Strategic Partnership with Brazil since 2007, and efforts on that front should remain solid

Negotiations for the free trade agreement were launched in 2000, and the new millennium started with different backdrops for both regional projects. The EU had recently celebrated the Treaty of Amsterdam coming into force, in 1999, which gave more power to the European Parliament and created the Common Foreign and Security Policy (CFSP). In MERCOSUR, Brazil and Argentina were recovering from economic crises, either related to currency devaluation or to the downward performance of the Growth Domestic Product, respectively.

Therefore, it can be argued that the MERCOSUR-EU free trade agreement was created in a background of economic instability in South America, and a framework of institutional development in Europe. Despite asymmetries, both regional institutions were on an evolutionary path. The EU was not as institutionally developed as it would eventually become, and MERCOSUL was still establishing its first steps towards the economic integration.

As an agreement was not reached at that period, negotiations reconvened in 2010. The situation was somehow reversed when compared with the previous ten years. Europe was facing a difficult time of either adjustments to the Treaty of Lisbon, which came to power

in 2009, or of recovery from the Eurocrisis that started in 2008. South America, on the other hand, was sailing in calm waters. The turmoil of the economic crisis had passed, and Brazil was experiencing the best economic indicators in years, so it could function as a reliable trade partner in the area. Argentina was also left more or less unscathed by the global economic crisis of 2008.

Figure 1 - Overview on MERCOSUR



Source: European Commission, MERCOSUR factsheets. Available at https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157954.pdf, accessed on January 14th, 2020.

With no sign of reaching a consensus, the negotiations for a MERCOSUR-EU were reinitiated in 2016. Back then, the situation in Argentina was problematic. The Argentinian president did not even attend one of the high summits of MERCOSUR because of the grim state of affairs in the country. At the beginning of his term, president Mauricio Macri benefited from strong approval ratings, which dropped significantly in 2018 due to the economic crisis. This led to an agreement with the International Monetary Fund (IMF) for an emergency fund, a political manoeuvre that is reminiscent from the 1990s.

Brazil was facing a much more difficult scenario than in previous years. In 2014, the president Dilma Rousseff was impeached and the vice-president, Michel Temer, took place. He put forward a liberalizing agenda (which was not consistent with the ticket that won the presidency) that proposed reforms in the labour and pension legislations. Also, the freezing of the budget for education and health was approved. Sluggish economic growth and high rates of unemployment contributed to the difficult time faced by the country.

In 2018, Jair Bolsonaro won the presidential elections with a far-right agenda, that proposed the liberalization of the economy, the privatization of industries in key-sectors, and a conservative approach to social issues. The negotiations for the MERCOSUR-UE trade agreement were underway, and the newly-elected president demonstrated to be in favour of its successful conclusion.

It is important to note that, at the time, the member-states of MERCOSUR were under right-wing presidencies, except for Uruguay. Besides Brazil with Bolsonaro and Argentina with Macri, Paraguay also had a conservative president, Mario Abdo Benítez. The membership of Venezuela was suspended given the situation with president Nicolás Maduro. Generally, right-wing parties are more in favour of establishing free trade agreements, for they value the overall liberalization of the economy (including trade). Left-wing presidencies are more cautious on this matter, as they prefer to safeguard the national companies against foreign competition as a way to develop the internal market. Parties at the left of the political spectrum are more sceptic of the real gains obtained by liberalization and its social costs.

KEY FINDINGS

Finally, the MERCOSUR-EU trade agreement was effectively signed by both parties in June of 2019. It establishes the reduction of custom duties and tariffs on European products in the areas of cars, machinery, chemicals, pharmaceuticals, clothing, footwear, and knitted fabrics. Progressively, the same will be applied to agricultural products such as chocolates, wines, spirits, soft drinks, and dairy. In contrast, goods originated from MERCOSUR will encounter reduced tariffs, such as beef, poultry, sugar, rice, and ethanol.

The negotiations were met with resistance in some European countries, notably Ireland and France, who have strong agricultural production. Other EU member-states, such as Austria, threatened to obstruct the agreement in the national parliament due to the lack of environment commitment from president Bolsonaro. The fires in the Amazon rainforest last year demonstrated the lack of commitment from the president with environment protection. The MERCOSUR-EU trade deal, however, has a clause that assures the implementation of the Paris Climate Agreement, including the reduction of deforestation – although there are no guarantees that this will actually be observed.

In 2019, the political landscape in the member-states of MERCOSUR changed significantly. Argentina elected a new left-wing president, Alberto Fernández, and Uruguay elected a right-wing one, Luis Alberto Lacalle Pou. From the four full-members, three are currently under conservative presidencies. This could potentially lead to the isolation of Argentina, as Bolsonaro has declared that

Brazil will not collaborate with a “leftist” Argentina. In more than one occasion, he has also classified MERCOSUR as “ideological”.

The relations between Brazil and Argentina are the backbone of MERCOSUR. If they fail, MERCOSUR fails. What the EU diplomacy needs now is a strong MERCOSUR, capable of putting forward what has been agreed by the trade deal.

Figure 2 - Some areas contemplated by the trade agreement

Cutting tariffs

The agreement will eliminate high customs duties in **key EU export sectors**:



Source: European Commission, MERCOSUR factsheets. Available at https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157954.pdf, accessed on January 14th, 2020

As the document still needs to be approved by national parliaments – which could still take a very long time –, the trade deal has not been finalized and it could leave room for setbacks and divergences. The Argentinian president Fernández has stated that his government is in favour

of the agreement, as long as the country’s industries are protected. For the other member-states, there seems to be no objections. However, certain EU members have been vocal against the deal, as previously explained.

For now, the political landscape appears to be positive for the implementation of the MERCOSUR-EU trade agreement. In this way, it is not likely that MERCOSUR will be neglected by the EU diplomacy, despite the lack of consensus among leaders of the South American bloc. Still, the relations amongst the two regional institutions must continue to be cultivated by the European External Action Service and should become a priority.

The MERCOSUR-EU trade agreement has been signed mostly because the members of MERCOSUR were willing to favour economic liberalization. In two years, the political landscape in MERCOSUR could change again, for the general elections in Brazil will take place in 2022. A different president and a change in Congress could alter how the largest member of MERCOSUR understands the trade agreement – potentially risking the finalization of the trade deal.

POLICY RECOMMENDATIONS

- The EU should continue to cultivate strong relations either with MERCOSUR as a whole or bilaterally with each member-state. The EU maintains a Strategic Partnership with Brazil since 2007, and efforts in that front should remain solid. In doing so, the EU will keep the topic of the trade agreement in the agenda and avoid losing ground to other more urgent or necessary matters.
- The EU should secure that countries which have been opposed to the trade deal, such as Austria, France, and Ireland, will not obstruct the future steps of implementation of the agreement.
- The EU should not lose focus of the aspects of the agreement that do not pertain to the field of trade, especially the clauses regarding environment protection. As much as it is difficult to enforce accountability measures, the pressure from the European side should be at least on a rhetorical level – always pointing out the necessity of environment protection in its official speeches and documents with MERCOSUR.

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