OCTOBER 2023

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EU-MERCOSUR RELATIONS: FROM BENIGN NEGLECT TO CONTESTED VALUES

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After twenty years of intermittent negotiations, a comprehensive free trade agreement between the EU and Mercosur—which began April 2000—was finalized but not signed in June 2019. The ink on the provisional trade pact with the Latin American Mercosur countries had not yet dried before it generated opposition across Europe. Although EU and Mercosur leaders, including parliamentarians, have signaled that they would like to have an agreement signed by the end of 2023, the process has become drawn out due to clashes over agriculture and sustainability that reflect the increasing focus on non-trade values, notably climate-related conditionality provisions and commitments.

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Although the agreement has potential economic benefits as market liberalization is designed to reduce high import duties on a range of products from the EU including machinery, chemicals, and cars, the agreement also includes some additional EU requests that have characterized other trade agreements including recognition of geographic indicators (GI) and access to public procurement markets. But further demands to strengthen sustainability have proved controversial. The European Commission introduced a new approach for trade and sustainable development after publishing a sustainability impact assessment (SIA). European NGOs had complained that the environmental assessment was conducted after the agreement was signed. The European Parliament had also indicated that it could not ratify the agreement 'as it stands.' In response, the European Commission in 2022 added an addendum that would allow for sanctions as a last resort for enforcement of sustainability measures to ensure compliance with the Paris Accords. The extent to which these provisions can be assessed and implemented remains to be seen (Blot, 2023).

What are the remaining roadblocks?

While the European Union has been seeking further reassurances regarding sustainability and deforestation from its trade partners, it poses difficulties for less developed economies. This is not just due to the strengthening of Trade and Sustainable Development provisions in trade agreements but also a result of new European legislation. The EU has recently adopted the carbon border adjustment mechanism, the forced labor regulation, the directive on corporate sustainability due diligence, and the deforestation regulation that apply to imports. These new instruments can raise the costs of compliance for companies in the Mercosur region, as the impact will mean that some products will be banned due to their deforestation effects while others will be required to document sustainability efforts down their supply chain.

Member state pushbacks

Domestic opposition, interest group mobilization, and delayed ratification is a long-established pattern around trade agreements. Though not the first trade agreement to face resistance, the ratification process has encountered pressure from agricultural interests in France who are opposed to market access commitments as the biggest agricultural producer in Europe. Beef, poultry, and sugar producers would come under competitive pressure from imports. Such pushback has not been restricted to France, but also other member states. Ireland, for instance, has also expressed concern about their agricultural products, notably beef. Austria, where almost all the parties had opposed and voted against the initial agreement, remains opposed to what is perceived as a dated agreement which lacks strong sustainability or climate provisions. Dutch objections are reflective of vested agricultural interests coupled with concerns about deforestation. By contrast, Germany and Spain remain strongly committed to the agreement. Though several national parliaments have come out against the deal, the ratification process will take place at the EU level, requiring both a qualified majority vote in the European Council and a vote in the European Parliament. After the ratification hurdles with the EU-CETA agreement, the mixed agreement option with ratification at the national level –requiring national and, in some cases, regional parliamentary approval—simply is not feasible. The European Parliament will need to ratify the agreement even as it faces the end of its tenure before upcoming elections in 2024.

While the free trade agreement has many traditional elements which would eliminate customs duties on 91% of EU goods exported to Mercosur and 92% of Mercosur imports to the EU, there are safeguards for sensitive agricultural goods. And yet, the agreement has rallied climate activists and labor representatives who are concerned that general commitments—on the environment or labor standards—need to be turned into concrete policies and rules that can be enforced. Less visible in these debates is the support from several business associations such as Business Europe and AmCham that wish to see the agreement in place.

Is Mercosur unique?

Progress in trade talks with other partners has been uneven, with a mixture of updated and modernized agreements with Mexico and Chile for example, as well as new agreements with Australia and New Zealand on the agenda. Concern that differences over many issues have dragged on has been heightened by the impending pressures of the upcoming elections to the European Parliament in June 2024. Spain, currently holding the EU Presidency, is anxious to complete the deal during its six-month term, seeing its Latin American connections as a window of opportunity to secure agreement. The need for strategic alliances in terms of diversified supply chains and critical minerals has made the region more attractive for the EU after a period of benign neglect which has enabled China to take advantage of investment opportunities. That said, any changes that the EU is pushing for in free trade agreements have generated a strong reaction from its Latin American counterparts. There is the prospect that the EU will lose some market access benefits in response to its revisions to the agreement, notably in public procurement in key sectors, which will not be well received by the European Commission. Despite recent meetings between European and Latin American parliamentarians and political leaders to address the impasse, the South American trade bloc will push its own counterproposals to the EU addendum on environmental safeguards. But much has changed since the agreement was signed in 2019. The increased geoeconomic environment along with more defensive trade measures as well as domestic opposition to specific comprehensive trade agreements has meant that the EU has shifted towards more sectoral agreements regarding digital, technology, and critical minerals rather than exclusively focus on free trade agreements. While the process of ratification has been slowed by EU efforts to make legal amendments to the 2019 agreement, this is in fact not dissimilar to actions taken in other free trade agreements.

Clash of trade and values

Public debates and official statements in Latin America have pushed back against European efforts to shift from general commitments on environmental and labor standards to more concrete reassurances regarding sustainability and deforestation. Brazilian President Lula De Silva, in his speech at the recent summit, stated that BRICS could not accept "a green neocolonialism that imposes trade barriers and discriminatory measures under the pretext of protecting the environment." Concerned that the European Commission wants to make the sustainability commitments more enforceable and in doing so encroach on domestic sovereignty, the agreement has reignited tensions that the year-end deadline may not be met. Even if there is a resolution to the new additional instrument regarding the environmental provisions that the EU has pushed to include in the Mercosur trade agreement, many of the recent EU laws also affect exports from Mercosur—potentially putting up more barriers.