ECONOMY AND ECOLOGY 16.12.2024 | Dörte Wollrad & Viviana Barreto

A deal for the times

After 25 years of negotiations, the EU-Mercosur agreement is finally here. The timing is no coincidence, as geopolitical stakes are higher than ever

In 1999, negotiations began on a bi-regional association agreement between the EU and the Mercosur states. It was based on three pillars: political dialogue, cooperation and trade. The agreement that was finally signed 20 years later as a 'political' agreement, however, concerned trade almost exclusively. In return for opening up their markets, the Mercosur countries obtained only guaranteed import quotas. Resistance in Europe, however, based primarily on agricultural and climate policy concerns, led to renegotiations.

Global conditions changed considerably in the course of the six negotiating rounds. In a period of globalisation, the EU found itself increasingly entangled in dependencies of various kinds, especially with regard to energy (Russia), security (United States) and technology (China). In the face of these challenges, the EU is now seeking to boost its autonomy and trying to reposition itself as a middle power in an increasingly polarised geopolitical world. In this context, Latin America once again came into focus, as a subcontinent rich in raw materials and site of the bulk of the world's lithium projects for battery production. It has much to offer, from rare earth metals to renewable energy for the production of green hydrogen. Even cultural roots were rediscovered in pursuit of skilled workers because integration is a lot easier when values and religion chime.

It isn't difficult to see why Latin America was receiving such unaccustomed attention, not only from the EU, but also from China and the United States. A new self-confidence was evident, with Brazil, at the centre of all cooperation efforts, clearly setting the tone since the return to office of President Lula da Silva. He has now managed to conclude the longest negotiated agreement in the world, thereby underlining his global and regional leadership role. Furthermore, the agreement can be seen as a means of ensuring the cohesion of the regional bloc, especially in the face of the withdrawal threats of Argentinian President Javier Milei. Finally, claims that Mercosur was incapable of successfully concluding the

negotiations, undermining its credibility, were knocked back.

What's new?

Parts of the agreement, which was signed just in time for St Nicholas' Day, remain opaque, however. Demands for more transparency and participation have apparently not been met. According to the Brazilian government, the contents of all chapters have been fully negotiated and agreed. The text of the treaty is currently being legally revised and translated and will then be ratified.

What is known is that the European Union's offer to open up trade for goods remains essentially unchanged from the 2019 agreement. Market access for key Mercosur export goods has not been increased. Products such as meat, rice, sugar, honey, ethanol and orange juice are still subject to import quotas. This cannot therefore have been the decisive reason for agreement, which came out of the blue. It is more likely that agreements on what the Lula government calls the 'Brasilia package' were the key. In this context, three key new features should be emphasised.

First of all, the trade chapter 'Trade and sustainable development' was amended. The environmental protection requirements in the EU's additional protocol, put forward in 2023, were deleted and limited to the requirement to comply with existing international obligations, such as the Paris Agreement and the Convention on Biological Diversity. The notion of joint, but differentiated responsibility was introduced, as well as the requirement that environmental policy measures must not create unnecessary trade barriers. But what worries environmentalists was regarded as a victory on points by Brazil.

Mercosur is laying down a marker that they don't want to be merely a raw materials exporter, but also demand the right to development, employment and (re-)industrialisation.

The fact is that many of the import restrictions in the additional protocol have been criticised as tantamount to 'green protectionism'. For example, those exporting glyphosate should not have absolute sway over environmental certification. At present, the Mercosur countries make their own decisions on production certification, in compliance with a common set of environmental regulations.

The agreement on 'sustainable value chains for the energy transition' also breaks new ground. It envisages the possibility of restricting the export of critical minerals for the energy transition with a view to boosting local value creation. With this, Mercosur is laying down a marker that they don't want to be merely a raw materials exporter, but also demand the

right to development, employment and (re-)industrialisation.

Second, protection of Mercosur's automobile sector was enhanced in comparison with the provisions negotiated in 2019. The deadlines for trade liberalisation are to be extended from 15 to 18 to 30 years, depending on the level of innovation in the relevant vehicles. Furthermore, a new clause allows duty-free imports to be suspended for up to five years without compensation if they affect the sales of the local automobile industry. The priority here is to protect jobs. Furthermore, an entirely new chapter was added that provides for regulations on compensation for granting concessions. This affects cases in which, for example, subsidies disrupt competition and reduce the profits of a contracting party. Arbitration proceedings would determine the extent of the impairment and suitable measures to remedy it.

Third, another key novelty concerns the relaxation of requirements governing public procurement. In particular in the case of Brazil, this brings into being the option of using government contracts for the purpose of boosting national industry, SMEs, smallholder agriculture and technological innovation. In addition, health sector public procurement receives particular protection.

Lack of information makes it difficult to assess these developments. For example, Mercosur's original offer with regard to market access is unknown and presumably will never be revealed. On the other hand, the EU kept a tight grip on what it was prepared to offer in terms of market access, not yielding a millimetre. At the same time, it has been willing to ease up on environmental demands and allow the Mercosur states some leeway with regard to industrial policy in the automobile sector and in public procurement.

The agreement can be regarded as a first important step in the direction of a genuine partnership with a region that shares the EU's values of democracy and multilateralism.

It remains unclear what these benefits will mean for Mercosur. In these long drawn out negotiations, Mercosur has always acted on the basis of the sum of national interests. If this agreement really marks a turning point, it may be in the direction of stronger regional policymaking. This could form the basis for making the most of the benefits of the agreement and joint management of its manifold effects.

On the other hand, if no agreement can be reached within Mercosur a different scenario threatens. Because there is no supranational decision-making structure within the bloc, if the agreement comes into force

prematurely – for example, between the EU and individual Mercosur states that ratify it separately – it could split the regional market. This risk underlines the importance of a cohesive and coordinated approach within Mercosur.

Why was the EU willing to make concessions? The geopolitical framework is leaving less and less room to manoeuvre. China has established itself as the leading trade partner in the region, as well as the main lender and investor. Beijing, like Russia, supplied Covid-19 vaccines when Europe failed to step up and is building its 'New Silk Road' in the form of ports and railway lines. At the same time, the possible consequences of Donald Trump's second term have cast a shadow, not least a looming trade war. In light of such developments it is high time that Europe sent a strong signal, also in the face of nationalist opposition within the EU itself.

The agreement provides the EU access to a market of 260 million people. The fact that Bolivia, which has over 21 per cent of global lithium deposits, joined Mercosur as a full member this year must have been another incentive. The agreement can thus be regarded as a first important step in the direction of a genuine partnership with a region that shares the EU's values of democracy and multilateralism. It could mark the beginning of a reorientation, away from a purely trade-focused approach towards a more far-reaching association, built on dialogue, cooperation and equal partnership. At least we've made a start.



Dörte Wollrad
Montevideo

Dörte Wollrad heads the office of the Friedrich-Ebert-Stiftung in Uruguay. Previously, she led the foundation's offices in Argentina and Paraguay.



Viviana Barreto

Viviana Barreto is a project manager at the Friedrich Ebert Foundation in Uruguay. She conducts research on regional integration and MERCOSUR.