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A last chance at an EU-Mercosur agreement

The EU remains an important player in Latin America but not without competition. The agreement is hence vital for securing Europe's strategic autonomy

As recently as early last year, many observers considered the EU-Mercosur agreement obsolete, a remnant of a bygone era of now-outmoded free trade agreements and a potential climate-wrecker and rainforest-destroyer. Only a handful of optimists still seemed to believe it would be passed. European governments (such as that of France) and several parliaments (including the European Parliament) had declared their opposition to the agreement in its present form. The German government under then-Chancellor Merkel also took an increasingly distanced stance. While the coalition agreement signed by the current German government supports the ratification of the agreement, it makes its approval conditional on additional binding commitments to the protection of environmental, social and human rights, as well as to the conservation of the rainforest.

Yet, all of a sudden, the agreement between the EU and Mercosur is back on the agenda of both German and European policymakers. At the end of January, Chancellor Scholz travelled to Chile, where negotiations on updating the Association and Free Trade Agreement with the EU, which has been in place since 2002, were concluded in December. He then went on to Argentina and Brazil, the two Mercosur heavyweights. The EU-Mercosur agreement is the missing link in a chain of EU free trade and cooperation agreements that now includes almost all Latin American and Caribbean countries.

A renewed commitment to Latin America

It seems that a *Zeitenwende* – a turning point – has also occurred in relations between the EU and Latin America. The EU has recalled that it had already sought to build a ‘strategic partnership’ with Latin America

at the first European-Latin American summit in 1999. In October 2022, the foreign ministers (or their representatives) from the EU and Latin America met in Buenos Aires to prepare a summit meeting of the heads of government of the EU and of the Community of Latin American and Caribbean States (CELAC), which is due to take place in Brussels from 17 to 18 July. After all, the last summit was eight years ago.

Following the meeting of the foreign ministers, Josep Borrell, the EU's foreign affairs representative, called for 2023 to be 'the Year of Latin America in Europe' and 'the Year of Europe in Latin America'. In this sense, the EU-Mercosur agreement also has symbolic significance. It shows that the EU wishes to maintain a presence in Latin America and demonstrates its strategic interest in the region.

Europe cannot expect preferential treatment from Latin America.

There is no doubt that the strategic value of Latin America and the Caribbean to the EU has increased since the Russian invasion of Ukraine. Politically, the votes of the Latin American governments at the United Nations are important. Economically, Latin America has reserves of raw materials, especially natural gas and oil, which used to be supplied to the EU by Russia. Other strategically important raw materials such as lithium (the EU gets 78 per cent of its lithium from Chile) are already being imported from Latin America. In addition to Chile, Bolivia and Argentina also have large lithium reserves. Furthermore, Latin America is one of the regions with the greatest potential for the production and export of green hydrogen at competitive production costs. And Europe is one of the biggest future markets for green hydrogen. But Europe has to act now.

In Latin America, the EU has competition. The US is looking to regain lost ground, China is consolidating its position as the most important trading partner for many countries, and other actors are also showing an increased interest in Latin America as a source of raw materials and as a sales market. In mid-January, for example, the Japanese foreign minister visited Argentina, Brazil, Ecuador and Mexico. China, on the other hand, is seeking a free trade agreement with Uruguay as a stepping stone to an agreement with Mercosur. Brazil's President Lula da Silva, however, in a strategically clever move, has linked future negotiations with China on a free trade agreement with Mercosur to the prior signing and ratification of the agreement with the EU.

This shows that the EU remains an important player in Latin America (especially in the Mercosur countries) as a trading partner – although now overtaken by China – and as an investor (through European companies). And it has a successful model of soft power. However, Europe cannot expect preferential treatment from Latin America. Most governments in the region want their external relations to be as differentiated and balanced as possible.

National interests in a changing world order

The EU has to learn to promote its geopolitical goals in a world where the geo-economic parameters are shifting to its disadvantage. In order to dispel concerns which are in part justified and in part pretexts, the EU-Mercosur Agreement and other agreements with Latin America must be presented to political public opinion in Europe less as free trade agreements and more as agreements made for the purpose of securing Europe's strategic autonomy. Because even without the signing-off of the agreement with the EU, Brazilian meat exports reached record levels in 2022, mainly due to demand from China. And despite the EU-Mercosur agreement not having been signed, fires and deforestation in the Amazon have increased markedly since 2019. For the opponents of the EU-Mercosur agreement, Brazilian President Bolsonaro was a stroke of luck. His anti-environment policies and the fires in the Amazon rainforest mobilised public opinion in Europe and enabled the agricultural lobbyists to hide their protectionist objectives behind an environmentalist mask.

The biggest challenge is to find a balance between the interests of both sides without having to renegotiate the text of the agreement.

With Lula's election victory and his convincing declarations of intent to protect the environment and the Amazon rainforest, and with the appointment of Marina Silva as environment minister, the arguments advanced by opponents of the EU-Mercosur agreement are coming under increasing scrutiny. In practice, however, the Brazilian government's declarations of intent have to prevail against the resistance of a more conservative Congress with a powerful agricultural lobby.

In the EU, the principal task will be to persuade the French government (and a majority in the National Assembly) to change course. But other European governments will also have to rethink their position. Major

actors within the EU have for too long embraced a moralistic protectionism instead of engaging geopolitically with the aim of strengthening Europe's strategic autonomy and building strategic partnerships.

2023 may represent the last chance for the signing of the EU-Mercosur Agreement.

From a European perspective, there seem to be two realistic options for getting the EU-Mercosur agreement over the finish line. A joint declaration by both sides, clarifying some of the commitments in the chapter on trade and sustainable development; or a binding additional protocol, which could introduce – in contrast to the first option – new commitments alongside those already included in the draft EU-Mercosur agreement. It is possible that the Mercosur countries would agree to both, but they will ask for a quid pro quo in the areas of public procurement and protection for certain industrial sectors. In view of past experience relating to agreements with Latin America (such as with Central America or with members of the Andean Community), which have still not been fully ratified on the European side, those parts of the Mercosur Agreement which fall within the exclusive competence of the EU should be provisionally put into force as soon as the European Parliament has ratified the agreement.

The biggest challenge now is to find a balance between the interests of both sides without having to renegotiate the text of the agreement. Renegotiating the agreement would require a new negotiating mandate for the EU Commission and would postpone the signing of the agreement, which has been the subject of negotiations for more than 20 years already, until far into the future. One has to agree with Josep Borrell on this: the tango might say that 20 years is nothing, but in the case of the EU-Mercosur agreement, it is too long. 2023 may represent the last chance for the signing of the EU-Mercosur Agreement. Otherwise, we will soon no longer be discussing why it has still not yet been signed, but why it has become obsolete.



Detlef Nolte
Hamburg

Prof. Dr. Detlef Nolte is Associate Fellow of the German Council on Foreign Relations (DGAP) and the German Institute for Global and Area Studies (GIGA).