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LADB Staff

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EU and Mercosur Unlikely to Meet Deadline

by LADB Staff
Category/Department: Latin America
Published: 2004-10-15

The possibility of the Southern Cone Common Market (MERCOSUR) and the European Union (EU) coming to a trade agreement by an Oct. 31 deadline seems lost, according to negotiators and high-level officials watching talks.

Four years of negotiations may not result in a trans-Atlantic EU-MERCOSUR Interregional Association Agreement, as the two sides had hoped. As proposals and counterproposals between EU and MERCOSUR representatives met repeated rejections, the likelihood of an agreement being signed by November became more and more distant.

The main stumbling block to negotiations has been the South American insistence that the EU stop subsidizing its agricultural sector. The EU, for its part, wants markets for governmental services and purchases opened to European operators.

Oct. 20 Lisbon meeting set

An Oct. 20 meeting in Lisbon, Portugal, may be the last chance for the two sides to salvage an agreement before the end-of-the-month deadline passes, but leading voices in and outside the talks say there is small hope of a settlement coming out of it. The foreign ministers of MERCOSUR will meet with Europe's commissioner of trade, Pascal Lamy, in Portugal. The aim of the meeting will be to inventory the difficulties and obstacles that have blocked the process. Portugal and Spain are the two EU countries that have most actively campaigned for a conclusion to treaty talks.

The current European commission for the talks will conclude its term Nov. 1 and both sides would like to sign an agreement before then, but Portuguese Prime Minister Jose Manuel Durao Barroso says negotiations will continue with a new set of commissioners.

The spokesperson for the Portuguese Ministry of Foreign Affairs said the situation is now more clear, and only "minor bilateral questions" that could be resolved with efforts by both parties are at issue.

Brazilian Foreign Minister Celso Amorim said he was "cautiously optimistic" after MERCOSUR rejected an EU counterproposal earlier this month. But few observers think this is more than token optimism and do not anticipate an end to disagreements. Business leaders from the two market blocs expressed disappointment with the holdup on the association agreement and said that businesspeople from both sides would lose valuable opportunities if the Oct. 31 deadline passed without an accord.

MERCOSUR is composed of Argentina, Brazil, Paraguay, and Uruguay and has Bolivia, Chile, Mexico, Peru, and Venezuela as associate members. Associate members have access to preferential
trade, but not the tariff benefits that full members have. Brazil has been leading negotiations with the EU for MERCOSUR as it currently holds the six-month rotating presidency of the bloc.

The demand that developed countries end subsidies to agribusiness (see NotiSur, 2003-12-05, NotiCen, 2004-06-03) has also stopped negotiations within the World Trade Organization (WTO) and the currently moribund Free Trade Area of the Americas (FTAA). The EU-MERCOSUR pact has been in formal discussion since April 2000, when the end of October 2004 was set as the final date to conclude negotiations.

Late September proposals fail

Negotiations faltered as a round of new concessions failed to go far enough in late September, when negotiators from both sides found their counterparts' offers unacceptable. The new European proposal fell short of the offers made officially in May and unofficially in early September, according to the Brazilian Foreign Ministry. The quotas for farm products, for example, remained the same, but "new conditions" were introduced.

Any increase in quotas would now be conditioned on the results of the WTO's Doha Round of talks on agricultural trade liberalization. In the case of beef, for example, Brazil would have been given an export quota of 2,400 tons for the first year, a mere fraction of the 95,000 tons it now sells annually to the European market, with tariffs of up to 176%.

MERCOSUR made a major effort to improve its package of proposals, offering to lift or reduce tariffs on 90% of goods imported from the EU and to open its markets to Europe in the areas of investment, services, and government procurements, the Brazilian Foreign Ministry said.

Nevertheless, some European governments viewed the concessions made by MERCOSUR as insufficient. This latest round of negotiations revealed certain conflicts of interest among MERCOSUR member nations and between different sectors within each country, which have thrown up further obstacles to reaching an agreement. The agricultural sector, which has the greatest interest in a free-trade accord with the EU, criticized the resistance put up by the industrial and service sectors.

Antonio Donizeti Beraldo, the foreign trade director of the Brazilian Confederacao Nacional da Agricultura (CAN), said that MERCOSUR had proved "incapable" of drawing up a proposal attractive enough to lead to an agreement. Brazil put special emphasis, for example, on the "emerging industry" clause, which allows for an increase in tariff protection for products that a country is just beginning to manufacture on its own. The provision is aimed at keeping the door open for the expansion of industrialization in the future, but it is also a hurdle for reaching an agreement.

Meanwhile, Argentina's demands limited the concessions made by MERCOSUR with regard to the automotive and textile industries. Brazil was prepared to offer the EU a quota of at least 100,000 motor vehicles and the gradual removal of all tariffs in the sector over the course of 10
years. The offer finally put forward by MERCOSUR, however, was far more restrictive, as a result of Argentina's hopes of rebuilding its own automotive industry, which has been hit hard by the economic crisis of the past few years. Internal disagreements have likewise kept the EU from substantially opening its heavily protected agricultural market, as MERCOSUR has consistently demanded.

**Lack of understanding, political will**

Eduardo Sigal, undersecretary of American and MERCOSUR Integration for the Argentine Foreign Ministry, said there was lack of understanding on the part of the Europeans during October negotiations in Rio de Janeiro. "They lost sight of the fact they were there to create the world's largest free-trade area. Also, they didn't see that they, as the more developed countries, would have to make an effort to increase their concessions to MERCOSUR."

Freeing up trade is "a complex process that implies short-term losses" and therefore demands "a strong political will" that is evidently lacking on both sides, said Pedro Camargo Neto, an active private-sector participant in the trade talks as director of international relations for the Sociedade Rural Brasileira, which represents large-scale farmers. The failure of the current round of talks "was foreseeable," because there have long been signs of insufficient will and internal disputes both within the two blocs and within member countries. These factors would obviously limit the concessions made by both sides, Camargo said.

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