

European Union – Mercosur Free Trade Agreement

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Regional integration has become the effect of the permanent evolution of the world economy, mainly due to technical progress, which through innovative solutions in the field of transport and information has contributed to reducing the geographical distance in economic cooperation. Activities towards international integration are aimed at increasing the investment attractiveness of economies by facilitating new markets, production factors and technologies, but also at increasing external security or gaining greater negotiating power on the international stage. The purpose of this article is to characterize the economic relations between the European Union and Mercosur as well as to determine the bilateral benefits and obligations associated with signing the free trade agreement.

Introduction

After a long wait of 20 years, finally, on June 28, 2019, the Mercosur group and the European Union (EU) announced the end of the negotiation process to conclude a free trade agreement, for sure one of the biggest and most significant trade agreement in the world. Despite the uncertainties from the European Parliament related to the trade agreement, yet, this might possibly shape a brand new beginning for trading history between these two blocks of world's economies. For Mercosur, the agreement is an important pro-development impulse, encouraging the modernization of national markets, infrastructure and reviving integration initiatives in the region. At the microeconomic level, the Mercosur countries will benefit most from the contract for producers of fruit, coffee, soybeans, sugar cane, cattle and poultry farmers and biofuel components. Mercosur countries need access to high-tech, high-value-added products and high-quality consultancy services that EU companies offer to create the conditions for expanding economic growth. The free trade area will be beneficial from the perspective of the European consumer because popular food products, e.g. meat, coffee, oranges, bananas and sugar will be cheaper. In the European Union, however, entrepreneurs operating in the manufacturing industry, high technologies and services, especially car and parts

manufacturers, industrial and agricultural machinery, textiles, transport equipment, cosmetics, pharmaceutical products, telecommunications and banking services will benefit.

Creation of Mercosur

Mercosur (in Spanish: Mercado Común del Sur) officially Southern Common Market is an integration grouping currently composed of four countries: Argentina, Brazil, Paraguay and Uruguay and subsequently joined by Venezuela and Bolivia. The origins of Mercosur can be traced in the bilateral relations of the biggest economies in region: Brazil and Argentina. These two countries in the mid-1980s decided to strengthen economic and political relations. The crowning of the agreement was a Treaty for Integration, Cooperation and Development (in Portuguese: Tratado de Cooperação e Desenvolvimento) signed in 1988. The main purpose of the Treaty was a creation of common market over the next ten years. On March 26, 1991, four countries which were mentioned in the beginning Argentina, Brazil, Paraguay and Uruguay signed in Asunción (Paraguay) a Treaty establishing a Common Market - Mercosur. The main goal of Mercosur is „to promote a common space that generates business and investment opportunities through the competitive integration of national economies into the international market”¹. Principles of common market contained in the Treaty are: involving the free movement of goods, services and factors of production between countries through, inter alia, the elimination of customs duties and non-tariff restrictions on the movement of goods, and any other equivalent measures, the establishment of a common external tariff and the adoption of a common trade policy in relation to third States or groups of States, and the co-ordination of positions in regional and international economic and commercial forums, the co-ordination of macroeconomic and sectoral policies between the States Parties in the areas of foreign trade, agriculture, industry, fiscal and monetary matters, foreign exchange and capital, services, customs, transport and communications and any other areas that may be agreed upon, in order to ensure proper competition between the States Parties². Mercosur territory extends over 14,869,775 km² in which diverse ecosystems coexist, both terrestrial and marine. Its population exceeds 295,007,000 inhabitants with a formidable diversity across peoples and cultures³. It is the fifth largest economy in the world⁴.

¹ Official Mercosur Website <https://www.mercosur.int/en/about-mercocor/mercocor-in-brief/>
(Access - 12.05.2020)

² Treaty Establishing a Common Market between the Argentine Republic, the Federal Republic of Brazil, the Republic of Paraguay and the Eastern Republic of Uruguay

³ Official Mercosur Website <https://www.mercosur.int/en/about-mercocor/mercocor-in-brief/>
(Access to the website: 12.05.2020)

⁴ Ibidem

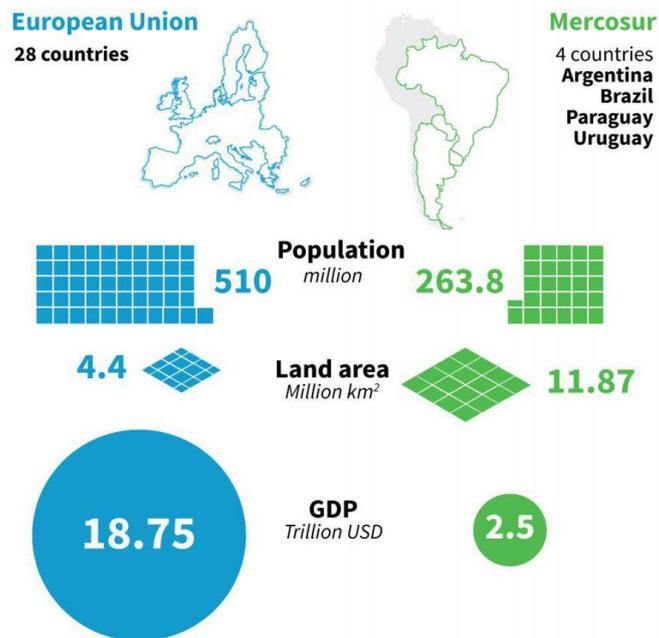
The genesis of the cooperation

Relations between the European Economic Community and later the European Union with the MERCOSUR member countries have been dynamized mainly due to two factors. First of them was the accession of Spain and Portugal to the EEC. Because of the colonial past and what thus, having important political and economic interests in the region, these countries insisted on developing a Community policy towards the region. The second factor was the breakup

dictatorships in these countries, which allowed the development of full-fledged contacts. In May 1993, an agreement was signed to provide European technical assistance, staff training and support for integration processes as part of the creation of Mercosur structures. The basis for future negotiations on the free trade area was the Interregional Framework Agreement signed in Madrid in 1995, creating a platform for discussing trade issues, technical solutions and dumping, competition and licensing regulations⁶.

After the declarations from Madrid the dialogue between the EU and MERCOSUR has revived. As a result of these talks, in June 1998 the European Union decided that will

EU-Mercosur: key figures



Sources: World Bank, IMF

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⁵ Picture copied by website: <https://www.ednh.news/key-facts-about-the-blockbuster-eu-mercotur-trade-deal/>

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https://en.wikipedia.org/wiki/European_Union%E2%80%93Mercosur_relations#CITEREFS%C3%A1nchez_Bajo1999 (Access to website: 10.05.2020)

negotiate with MERCOSUR members to reach a free trade agreement⁷. An important step towards deepening political contacts between the EU and MERCOSUR were, as set out in the framework agreement, the institutionalization of political dialogue by establishing the Cooperation Council - an organ which includes the ministers of both organizations.

Table 1⁸

<i>Timeline of the Mercosur-EU negotiations</i>	
1995	<i>Inter-regional Framework Cooperation Agreement</i>
1999	<i>European Council issues the Directives for negotiations with Mercosur</i>
2000	<i>Official launch of the negotiations</i>
2000-2004	<i>15 meetings of the BNC and three ministerial meetings</i>
2004	<i>Stagnation of the bi-regional dialogue</i>
2004-2008	<i>Political meetings expressing the need to resume dialogue</i>
2010	<i>Negotiations resume within the framework of the VI EU-Latin America Summit</i>
2012	<i>Slow progress of the negotiations</i>
2015	<i>Ministerial Meeting, both parties reaffirm their total commitment to conclude the negotiations</i>
2016	<i>Negotiations are resumed, and the exchange of market access offers occurs</i>
2017	<i>Failure to announce the end of negotiations during the 11th WTO Ministerial Conference in Buenos Aires</i>
2018	<i>June: Announcement of the conclusion of negotiations on the Cooperation and Political Dialogue pillars</i>
2019	<i>June 28: End of negotiations</i>

Exports and Imports

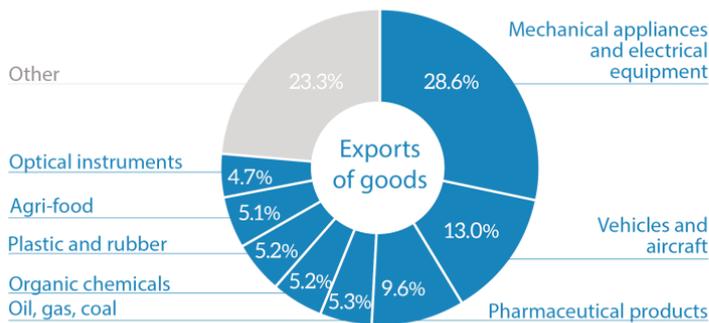
⁷ Ibidem (Access to website: 10.05.2020)

⁸ L. Ghiotto, J. Echaide, *Analysis of the agreement between the European Union and the Mercosur*, Berlin, Buenos Aires, Brussels, December 2019, p. 11

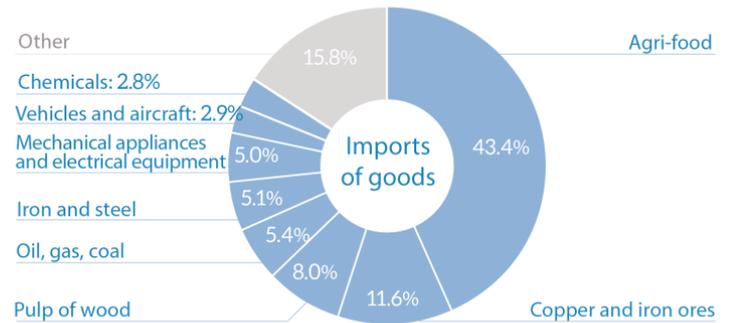
In 2016, the EU was already the organization's largest trading partner, ahead of both the United States and China. In addition, the EU has trade agreements with individual members of Mercosur, such as Argentina, concluded in 1990, Paraguay in 1992, Uruguay in 1994 and Brazil in 1995. In 2019 the EU's exports to the four Mercosur countries totalled €41 billion while Mercosur's exports to the EU were €35.9 billion⁹.

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EU exports of goods to Mercosur (2018)



EU imports of goods from Mercosur (2018)



EPRS | European Parliamentary Research Service

EUI | European University Institute

The European Union for Mercosur is the most important investment partner. The largest investors in South American markets are Spain, Germany and France, which invest capital mainly in the banking, electronic, telecommunications, aviation and water management sectors. capital mainly in the banking, electronic, telecommunications, aviation and water management sectors. Considering that EU and Mercosur have a lot of differences when it comes to their economy and means of production, it is expectable that this is result of their contrast when it comes global chains and "partners".

This differentiations go all the way to the major economic sector of their economies, both on European as well as South American countries. On one hand Europe has industrialised countries (such as Germany or France) which provides them with significant productive structures, on the other hand, Mercosur, which is more focus on the production of raw materials with lower intra-commercial trade.

⁹ European Union Official Website, <https://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur/>, (Access to website: 12.05.2020)

¹⁰ European Parliamentary Research Service Blog, <https://epthinktank.eu/2019/12/11/mercosur-economic-indicators-and-trade-with-eu/> (Access to website: 12.05.2020)

For the most part, Mercosur countries focus more on the production and exportation of agricultural products and commodities to the EU.

12 products exported from the Mercosur to EU (2014-2016)¹¹

Product	Import share in %
Oilcake & residues, resulting from extraction of soya-bean oil	15,5
Soya beans	7.0
Chemical wood pulp, soda or sulphate	5.8
Non-agglomerated iron ores and concentrates	5.8
Coffee	5.7
Copper ores and concentrates	3.7
Petroleum oils and oils obtained from bituminous minerals	2.4
Agglomerated iron ores and concentrates	2.4
Orange juice	2.1
Fresh chilled bovine meat, boneless	2.0
Gold, in semi-manufactured forms	1.8
Aeroplanes	1.8

¹¹ L. Ghiotto, J. Echaide, *Analysis of the agreement between the European Union and the Mercosur*, Berlin, Buenos Aires, Brussels, December 2019, p. 18

Within this group, Brazil is the leading trade partner of the EU. In 2018, the EU accounted for 18% of total exports from Brazil, registering a trade of USD 76 billion, and, consequently, is estimated that mutual exports (Brazil - EU) created roughly 855,000 new jobs in the EU and another 436,000 in Brazil¹². EU imports from Brazil are dominated by primary products, in particular foodstuffs, beverages and tobacco products (16.3% of EU imports from Brazil), followed by vegetable products (17.8%) and mineral products (21.8%)¹³. The EU is also the largest foreign investor in Mercosur countries, and Brazil is the largest destination for Foreign Direct Investment (FDI) from European companies within Mercosur as well as the fourth largest FDI destination of these companies outside the EU.

EU - Brazil: Trade in Goods¹⁴

Year	EU imports	EU exports	Balance
2017	28.4	30.2	1.8
2018	29.2	31.4	2.2
2019	26.8	32.3	5.5

On the other hand, the EU is Argentina's second trading partner after Brazil, while the most significant source of FDI for Argentina is also European companies. Argentina exports to the EU primarily food and live animals (65%) and crude materials except fuel (16%)¹⁵. For the EU meanwhile, the association with Mercosur allows commercial access to the most developed region in South America, which also contains the countries that have received the largest amount of European investment and products in the last few decades. The

¹² L. Ghiotto, J. Echaide, *Analysis of the agreement between the European Union and the Mercosur*, Berlin, Buenos Aires, Brussels, December 2019, p. 24

¹³ Official European Union Website, <https://ec.europa.eu/trade/policy/countries-and-regions/countries/brazil/> (Access to website: 12.05.2020)

¹⁴ Official European Union Website, <https://ec.europa.eu/trade/policy/countries-and-regions/countries/brazil/> (Access to website: 12.05.2020)

¹⁵ Official European Union Website, <https://ec.europa.eu/trade/policy/countries-and-regions/countries/argentina/>, (Access to website: 12.05.2020)

conclusion of this long negotiation also supports the EU's ongoing efforts to be an international advocate of free trade.

EU-Argentina: Trade in Goods¹⁶

Year	EU imports	EU exports	Balance
2017	7.4	9.5	2.1
2018	7.6	8.9	1.3
2019	7.0	7.1	0.0

Duty free access to large market

For Mercosur, it enables some of its products to access the European market with 0% tariff and others via a preferential access quota. Represent a massive market; the region generates around 20% of world GDP, and it is the first global investor with a stock that exceeds 30% of total global investments.

In the EU industrial sectors, the agreement will contribute to increasing exports of products for which high, and sometimes even prohibitive, duty rates were in force. These include cars (35% duty), car parts (14-18%), machinery (14-20%), chemicals (up to 18%), medicinal products (up to 14%), clothing and footwear (35%) or knitwear (26%). The EU agri-food sector will benefit from the abolition of Mercosur's high tariffs on EU products such as chocolate and confectionery (20%), wine (27%), spirits (20-35%) and drinks (20-35 per cent.)¹⁷.

¹⁶ The European Union official website, <https://ec.europa.eu/trade/policy/countries-and-regions/countries/argentina/>, (Access to website: 12.05.2020)

¹⁷ The European Union official website, https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157954.pdf (Access to the website: 12.05.2020)

Mercosur countries will also introduce legal guarantees to protect against counterfeiting of 357 high-quality European food and drink products that have been granted geographical indications (OG), such as: Tiroler Speck (Austria), Fromage de Herve (Belgium), Münchener Bier (Germany), Comté (France), Prosciutto di Parma (Italy), Poland Vodka (Poland), Queijo S. Jorge (Portugal), Tokaji (Hungary) and Jabugo (Spain)¹⁸.

The agreement will create new market opportunities in Mercosur countries for EU companies operating under public procurement, as well as for service providers - including in the information technology, telecommunications and transport sectors. It will simplify border checks, reduce bureaucracy and reduce the use of export duties by Mercosur countries. Smaller businesses will also benefit from the new digital platform that provides easy access to all relevant information¹⁹.

In addition to significant economic benefits, the agreement also promotes high standards. Under it, the EU and Mercosur commit to effectively implementing the Paris Climate Agreement²⁰. A special chapter of the agreement on sustainable development will address issues such as sustainable forest management and protection, respect for labor rights and support for responsible business operations. The agreement also gives civil society organizations the opportunity to play an active role in monitoring the implementation of the agreement, including in terms of human rights, social issues and environmental protection. It will also provide a new forum that will enable close cooperation on a more balanced approach to agriculture and, as part of the political dialogue under the Association Agreement, will allow the issue of indigenous rights to be addressed. The agreement also protects the EU and Mercosur right to regulate in the public interest and retains their right to organize public services in the way they deem appropriate.

Summary

The most important potential benefit of the contract is mutual, duty free access to large outlets. Z perspektywy państw Mercosur jest to szansa na ułatwioną sprzedaż własnych towarów na rynek europejski. For exporters from EU countries, there is a chance to enter the large markets of the Mercosur state, bypassing customs duties and administrative restrictions. The free trade agreement will create a stronger basis for EU economic cooperation not only with Mercosur, but also with other South American countries with economic links with Mercosur Member States. In Mercosur countries, producers of fruit, coffee, soybeans, sugar cane, cattle and poultry farmers and biofuel components will

¹⁸ The European Union official website, <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2039>, (Access to the website: 12.05.2020)

¹⁹ Ibidem

²⁰ Ibidem

benefit the most from the contract. In the European Union, entrepreneurs operating in the manufacturing industry, high technologies and services, especially car and component manufacturers, industrial and agricultural machinery will benefit.



