



MERCOSUR AND THE EU: THE FALSE MIRROR

Detlef Nolte^a

^a*Pesquisador associado do German Institute of Global and Area Studies (GIGA).*

Hamburgo, Alemanha.

E-mail: detlef.nolte@giga-hamburg.de

Orcid: 0000-0003-2014-272X

Clarissa Correa Neto Ribeiro^b

^b*Pós-doutoranda no Programa de Pós Graduação em Relações Internacionais –
San Tiago Dantas (Unesp/ Unicamp/ PUC-SP). São Paulo, SP, Brasil.*

E-mail: clarissa.ribeiro@unesp.br

Orcid: 0000-0002-7653-7635

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Introduction

René Magritte's famous surrealist painting titled *The False Mirror*, on display at the Museum of Modern Art (MoMA) in New York, gives room for many interpretations. Among other things, one can interpret it as a reflection of one's perception limitations and subjectivity, which may produce images that we wish to see. But it also captures the interaction between observer and observed; as the museum's catalogue writes, "it places the viewer on the spot, caught between looking through and being watched by an eye that proves to be empty" (MoMA, 2021). The image of the 'false mirror' captures some aspects that characterized the EU-Mercosur relations since the beginning quite well: optical illusions, misperceptions, wishful thinking, deception, and lack of substance.

Although the European Union (EU) believed this for a period, the Southern Common Market (Mercosur) was not a mirror image of the EU but an optical illusion. Mercosur never wanted to become a copy of the EU. Even so, the history of the interregional partnership shows that the EU conveyed the false impression that negotiations with both parties would proceed more smoothly if Mercosur's institutional structure were to solidify and become more similar to the EU model and if the common South American market became a reality. Nevertheless, one can assume that this would not have affected EU's agricultural protectionism as a main obstacle to a Free Trade Agreement (FTA). Simultaneously, like in a distorting mirror, Mercosur perceived itself to be more important to the EU than it actually was. Whereas the EU spared no efforts to reinforce this misperception,¹ neither was the Mercosur integration process inspired by the European experience (or very superficially at best) nor was Mercosur an essential partner for the EU.

Paraphrasing the famous quote by Linz and Stepan (1996, p. 5) about democracy as the only game in town, one can argue that the FTA negotiation between the EU and Mercosur was never the only trade related negotiation in town in which both sides were involved. And it was seldom the main stage in the theater of trade talks where EU-Mercosur negotiations took place. The overlap with other trade negotiations was at times an advantage and acted to accelerate EU-Mercosur negotiations, as with the simultaneous Free Trade Area of the Americas (FTAA) negotiations. More often, however, they acted as a brake on interregional discussions, as with the World Trade Organization (WTO) negotiations. There, repeatedly existed a deliberate strategy,

¹ For instance, the European Commission's regional strategy paper for relations with the Mercosur in 2002-2006 stated: "Mercosur is an essential partner for the EU and its integration process is largely inspired by the European experience during the past 50 years" (EC, 2002, p. 3).

mostly on the European side, to entangle the EU-Mercosur negotiations with other negotiations, or topics, aiming to obstruct an agreement. For Mercosur, and especially for Brazil, transactions with the EU worked as a bargaining chip in negotiations with the United States about the FTAA.

Importantly, interregional negotiations were always overshadowed by internal problems and challenges in both regions, be it the eastward expansion of the EU or the recurrent economic and even political crises in Mercosur. Often, there was no unified position on either side regarding trade liberalization. As a result, the windows of opportunity to advance negotiations quickly closed again. The EU-Mercosur negotiations also corroborate that it is easier to mobilize the resistance of potential losers than the support of potential winners of trade liberalization. This is particularly evident regarding the European agricultural lobby, which has repeatedly and successfully torpedoed the negotiations. One of the constants in the discussions between the EU and Mercosur, right from the start, was the French government's opposition to trade liberalization in the agricultural sector. This was partly due to pressure from French farmers, but it also served the French government's economic interests as one of the main beneficiaries of the European Common Agricultural Policy (CAP). The alleged pressure was instrumentalized as a "bargaining chip" by the French government to defend a more protectionist EU trade policy and to fend off Mercosur's demands for concessions (Konold, 2010).

Based on the above, this paper gives an overview of the different phases and ups and downs of EU-Mercosur relations from 1990 to 2020. It describes how windows of opportunity opened and closed again; analyzes the factors that have favored negotiations over time as well as the obstacles on the way to a free trade agreement; and evaluates the changing mutual perceptions and misperceptions between

Europe and Mercosur countries. Our analysis is based on the extensive literature on the topic both in Europe and Latin America, with particular emphasis on original documents and statements from those involved in the negotiations.

1990-1999: lopsided interregional negotiations with the handbrake on

Although Smith (1998, p. 160) argues “that EC’s economic policy towards Latin America up until the 1990s was at best confused and often non-existent”, the relations between the European Community (EC) and Mercosur started almost with its creation. This early rapprochement must be understood in the broader context of Europe’s increasing attention towards Latin America since Spain and Portugal joined the EC in 1986 (Arana, 2017; Saraiva, 2004). The Spanish government, and to a lesser extent the Portuguese one, played an important role in putting Latin America on the European agenda, especially during Spanish EU presidencies (1995, 2002, and 2010). In some critical phases, the Spanish government helped negotiations to proceed despite major differences between the EU and Mercosur governments, but its influence should not be overestimated, as Arana (2017) does, for example. The Iberian influence was limited by the power distribution within the EU (Guilhon-Albuquerque and Lohbauer, 2013, p. 23), as Spain alone would be unable to overcome French resistance in the negotiations with Mercosur.

EU’s growing interest in Latin America and the emerging Mercosur was not primarily sparked by the accession of Spain and Portugal, but by major geopolitical and geo-economic changes (Smith, 1998, pp. 166-167) within the context of a “regionalized globalization” (Sanahuja and Rodríguez, 2019, p. 21) that unfolded in the 1990s – a process that the EU pushed forward, but to which it also reacted. Hence, there was nothing special in the negotiations between

Europe and Mercosur during the 1990s, as it was negotiating bilateral agreements all over the world (Torrent, 2013, p. 47). As one of the world's "leading trading powers", the EU had an interest in "drawing up rules for trade multilateralism and globalization in general" (Santander, 2005, p. 288), ensuring that new trading blocs did not seal themselves off to the detriment of European economic interests.² From this perspective, inter-regionalism is closely related to open regionalism or might be even seen as an extension of open regionalism strategies³ "to a wider area so as to manage economic and security challenges from beyond the region" (Doctor, 2007, p. 283).⁴

Consequently, when the Mercosur was established in March 1991, the EU drew close attention to its formation. Barely a month after the bloc's creation, the first meeting among its Foreign Ministers and the EC counterparts took place, on April 29, 1991, with another happening the following year. As a result of these encounters, Mercosur and the EU signed an Interinstitutional Cooperation Agreement on May 25, 1992, aiming to draw from Europe's experience of regional integration, which contributed to Mercosur's consolidation in its critical foundation phase (Santander, 2005,

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² A Communication from October 1994 of the European Commission to the European Council and Parliament concerning future relations with the Mercosur is quite clear in this regard, stating that "the liberalization of international trade and the assertion of the rules of the market... reduce the margin for maneuver of individual countries. There is therefore a risk that closed regional blocs may emerge in reaction to this process. It is in the Community's interest to ensure that moves towards integration and regionalization are outward-looking" (EC, 1994a, p. 3).

³ Inter-regionalism refers to a relation between two formal regional organizations as the result of a state-driven process of bridging regions institutionally (Hoffmann, 2016, p. 601). "Open regionalism", in turn, refers to a comprehensive strategy to make a region more competitive by strengthening regional markets and to enhance its participation in the global economy, which includes trade liberalization.

⁴ In the 1995 Framework Agreement both the EU and Mercosur reaffirm "their desire to uphold and strengthen the tenets of international free trade, in compliance with World Trade Organization (WTO) rules, with a particular emphasis on the importance of open regionalism" (IFCA, 1996, p. 5).

p. 292).⁵ This period of unilateral knowledge transfer laid basis for the popular narrative that “the EU constitutes an external federator for regional groups such as Mercosur” (Santander, 2005, p. 302), since by insisting on “negotiating on a bloc-to-bloc basis, Mercosur would have no option but to further integrate so as to present one voice to the EU” (García, 2015, p. 628). Furthermore, the argument states that the EU, by including new topics in the negotiations, is forcing the Mercosur to broaden the intra-regional agenda and the scope of common policies.

92 Although EC’s first agreement with Mercosur focused on administrative cooperation (Santos, 2018; Ventura, 2005), the underlying motives were economical, since the South American bloc was perceived as “a new growth center of worldwide importance and one of strategic importance to Europe” (EC, 1994a, p. 12). The Commission emphasized that the European Community was and still is the leading foreign direct investor in Mercosur and its largest trading partner, with a 26% participation in the period 1985-1992, highlighting that “the Community’s exports to Mercosur have increased dramatically (by more than 40% in the period 1992-93, for instance), making it by far the fastest-growing market for European exporters” (EC, 1994, p. 7). Invoking the risk of “high-value added to European exports gradually being marginalized” (1994, p. 11), the Commission argued that without a free trade agreement the European Community would lose “a considerable part of its market share” and its trade-deficit with the bloc would grow, while Asia would double its participation in Mercosur’s trade. The Commission’s position can be seen as a corroboration of

⁵ Torrent (2013, p. 47) states that “it is common knowledge that these services [of the EC] put pressure on the governments of Mercosur countries to modify the 1991 Treaty of Asunción in order to grant legal personality to Mercosur and, as a result, to open the possibility of envisaging an interregional agreement ‘from organization to organization’”.

“commercial realism” (Meissner, 2018) in EU trade policy, as the bloc responded to challengers in global and regional markets and reacted to opportunities when governments were interested in differentiating their economic relations.

From the beginning, negotiations related to the framework agreement were very asymmetrical, having the EU as its main driver: the agreement was essentially negotiated between the EU Council and Commission, with Mercosur governments passively signing it.⁶ In fact, although the negotiation took place between Mercosur and the EU, the text was directly ratified by the member states, with no formal approval by Mercosur’s Common Market Council (CMC) as the international legal entity (Torrent, 2013, p. 51).

Although Mercosur used the European bloc as a reference point from the outset, which reflects, for example, the terminology of the Asunción Treaty, such as the goal of a common market, the founders of Mercosur never intended to create an institutional structure comparable to that of the EU (Malamud, 2020, pp. 2-7); rather, they were interested in “creating an international organization without limiting their future room for maneuver” (Malamud, 2020, p. 8). In fact, Mercosur’s early presidential declarations clearly stated the openness of its intentions to “increase participation in international trade flows” through “different forms of associations” (Mercosur, 1994).

For a long time, Europe fell victim to the illusion of seeing its own image in the mirror,⁷ and it took a while

⁶ On the Mercosur side, the Brazilian President was absent from the formal signing of the treaty in 1995 due to a trip to China, suggesting that “the attitude of the Brazilian government was, to say the least, skeptical about expectations for success of the agreement” (Guilhon-Albuquerque and Lohbauer, 2013, p. 23).

⁷ Torrent (2013, p. 49), for example, argues that “the services in the Commission made an extremely naïve reading of Article 38 of the Protocol of Ouro Preto, which gives legal personality to Mercosur. They thought that the going into force of that provision, following the ratification of the protocol, already transformed Mercosur, as an organization, into an entity like the European Community, capable

for Mercosur countries to destroy it. The EC believed that “its integration offers the proponents of regional integration a model” (EC, 1994a, p. 5) and that it could back up such integration projects with its know-how. Thus, from the outset the EU gave the impression that negotiations on a comprehensive agreement, including trade liberalization, with Mercosur would go more smoothly if the emerging bloc’s institutional structure were to become consolidated and more similar to that of the EU.⁸ This line of thinking also forms the basis of the two-stage approach originally proposed by the Commission (EC, 1994a) to reach a comprehensive agreement with Mercosur, of which the framework agreement would be the first step. “An intermediate stage, preceding interregional association, is warranted by Mercosur’s newness and the fact that its structures are still incomplete. No such association would be possible until Mercosur has a full customs union and working institutions” (EC, 1994a, p. 14). Ventura (2005, p. 380) argues that such stance was the first expression “of a constant principle” in the EU-Mercosur relations – that the consolidation of Mercosur was “a *sine qua non* condition for the progress of the negotiations.”

The “bloc to bloc negotiation” argument proved lopsided from the start: to suggest that Mercosur’s adequate institutional structure would almost automatically facilitate an agreement on contentious issues with the EU sounds like a phony argument to blame the other side for the failure of negotiations. Indeed, even before its signing, the framework cooperation agreement became a point of contention, as the European agricultural lobby started opposing a trade agreement with Mercosur and found advocates in the DG

of signing alone, without being accompanied by its member States, an international agreement full of economic content.”

⁸ “Greater integration will also help foster the institutional dialogue on political and trade issues with European Union partners” (EC, 1995).

Agriculture and Rural Development (Bajo, 1999, p. 932),⁹ the European ministers of agriculture, and especially in the French government (Konold, 2010, p. 334; Ventura, 2005, pp. 382-383). We agree with Doctor (2007, p. 295) that “it is difficult to overestimate the role of the agricultural sector in the negotiations,” since EU’s reluctance to open its market for competitive agriculture products from the Mercosur countries would become “the Achilles’ heel” of a free trade agreement between both regional blocs (Tomazini, 2003, p. 12).¹⁰ In its Communication to the European Council and Parliament titled “The European Community and Mercosur: An Enhanced Policy,” the Commission was quite outspoken about the different treatment of the industrial and agricultural sectors, defining the goal of a interregional association founded on a balanced trading partnership as “the gradual establishment of a free-trade area for industrial products and services together with reciprocal and gradual liberalization of trade in agricultural products, taking account of the sensitivity of some products” (EC, 1994a, p. 13).

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Consequently, the Interregional Framework Cooperation Agreement’s (IFCA) trade objective ended up being quite modest. Article 4 reinforces the aim “of encouraging the increase and diversification of trade, preparing for subsequent gradual and reciprocal liberalization of trade and promoting conditions which are conducive to the establishment of the Interregional Association” (IFCA, 1996, article 4). As such, European opponents of further expansion

⁹ In a keynote speech at a preparatory event for the 1995 EU summit in Madrid, where the framework agreement with the Mercosur would be signed, the Spanish EU Commissioner for Agriculture limited the scope for negotiations: “The European Union has a Common Agricultural Policy. Don’t think that the European Union will change its Common Agricultural Policy to make a trade agreement with Mercosur” (Guilhon-Albuquerque and Lohbauer, 2003, p. 23).

¹⁰ Such defensive and protectionist attitude was nothing new. Smith (1998, p. 166) remarks that when the rapprochement between Europe and Latin America began in the early 1990s, the Latin American economies had already experienced forty years of EC/EU protectionism against its exports.

of economic relations with Mercosur “considered that the 1995 agreement would be an end-point for the time being” (Klom, 2003, p. 357).

After the framework agreement had been signed, the efforts of the opponents focused on delaying further negotiations for as long as possible and restricting their scope. The political bargaining within the EU over a negotiating mandate for the European Commission lasted from 1995 until June 21, 1999, a few days before the first-ever EU-Latin America (and EU-MERCOSUR) summit in Rio de Janeiro. Resistance came mostly from the European agricultural lobby (COPA-COGECA) and the French, Irish, and Dutch governments (Santander, 2005, pp. 296-297). It was only in July 2001, six years after signing the framework agreement, that the EU would make its first tariff offer to Mercosur.

96 A number of factors contributed to the goal of trade liberalization negotiations between the EU and Mercosur not being abandoned. The Mercosur became an attractive market for European companies, which saw “the South American market as a new financial horizon, a way of opening up to global competition and staking the EU’s place among competitors” (Santander, 2005, p. 295) and they became the main investors in Mercosur countries, benefiting from privatization processes (especially Spanish companies). EU exports to Mercosur increased on average 25% annually in the 1990s (Rios and Doctor, 2004, p.103), and so MERCOSUR became “the most dynamic emerging market for EU exports” (Doctor, 2007, p. 298). In 1998, EU-Mercosur trade reached a new record high, “with the EU exporting €24 billion to MERCOSUR and importing approximately €18 billion from MERCOSUR” (Doctor, 2007, p. 284). As the EU’s trade with Latin America focused more on the MERCOSUR market, it was not surprising that an important lobby in the EU favored a free trade

agreement (Bulmer-Thomas, 2000, p. 8). But the EU's economic advances were not uncontested.

While the EU feared that the planned FTAA could induce a trade diversions effect in favor of the United States, the option to negotiate with Europe gave Mercosur an "alternative to unilateral trade liberalization or integration in the American economy" (Guilhon-Albuquerque and Lohbauer, 2013, p. 22). Hence, the negotiations have been widely understood as a reaction to the initiative to create a FTAA and to consolidate the US position in Latin America (Briceño-Ruiz, 2001; Bouzas, 2004; Doctor, 2007; Faust, 2006; Grugel, 2004; Santander, 2005).¹¹ The 1998 Summit of the Americas in Santiago de Chile, which launched formal FTAA negotiations, speeded up EU Commission's request for a negotiating mandate after the EU and Mercosur underwent a pre-negotiation phase between November 1996 and May 1998 (Klom, 2003, p. 357). As Doctor (2007, p. 290) notes, "peaks in EU negotiating seriousness tended to coincide with peaks in perceived US influence in the region."

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Even if opponents of the negotiations could not prevent them, they could still limit the envisioned goal. The aim was no longer a formal free trade agreement, but rather a progressive and reciprocal liberalization of trade (Bulmer-Thomas, 2000, p. 2), a formulation that "allowed those opposed to a free trade area to argue to their constituencies that EU–Mercosur negotiations were aimed at something different" (Klom, 2003, p. 360).

¹¹ EU's Economic and Social Committee (EESC, 1996, p. 137) was quite vocal in this regard: "A trade agreement should also be advantageous in terms of longer-term EU trade strategy. Recent initiatives, such as NAFTA and the Miami Summit of 9-11 December 1994, suggest a strengthened US presence in Latin America. The possibility of hemisphere-wide free trade (as envisaged at the Miami Summit) and of continued Mercosur expansion in South America, make an agreement with Mercosur crucial to consolidate the EU's continued presence in Latin America, and sustain its privileged access to one of the world's biggest markets."

1999-2004: not the only negotiation in town

The political and economic cycles in negotiations between Mercosur and the EU were seldom synchronized. When the European Commission finally received a negotiating mandate in 1999, trade between the EU and Mercosur had reached its peak¹², while the Mercosur integration process was facing stagnation after the “double crisis” of 1998 and 2001 in Brazil and Argentina (Sanahuja and Rodríguez, 2019, p. 4). Intra-regional trade started to decrease in Mercosur since 1998, and Brazilian exports to other member states plummeted in 2001 and 2002.¹³ As a result, the negotiations took place “in a much less favorable environment than was envisioned when the framework agreement was signed at the end of 1995” (Bulmer-Thomas, 2000, p. 10). From a European point of view, when negotiations started Mercosur had not lived up to the economic expectations it initially raised, nor had it made any progress towards a full customs union or a common market (Bouzas, 2004, p. 135).

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Shortly after the negotiations begun, Bulmer-Thomas (2000, p. 3) wrote with much foresight: “It is hard to believe that negotiations with MERCOSUR can be completed quickly; and in practice, they are likely to be quite slow, as ‘sensitive’ products will be a big issue. [...] Reaching a free trade agreement [...] is therefore likely to be complicated and lengthy.” But despite his pronounced skepticism, the author probably had not anticipated how long the negotiations would eventually drag on.

¹² EU’s share in Mercosur imports increased from 23.4% in 1990 to 26.2% in 1997 (1994: 27.7%), showing a trade surplus with Mercosur since 1996. While in 1990 the EU exported one-third of all its exports to Latin America to the Mercosur countries, by 1997 the Mercosur’s export share had increased to 50.9% (Bulmer-Thomas, 2000, pp. 7-8).

¹³ “In 2001 of total Brazilian exports, to the rest to the rest of Mercosur dropped to 10.93 per cent, down from 14.04 per cent in 2000 and 17.3 per cent in 1998. During 2002 they fell further to 5.76 per cent.” (Klom, 2003, p. 366).

One explanation for the delay was that the EU Commission's mandate to negotiate with Mercosur included two crucial restrictions: a) they would initially be limited to non-tariff matters, with talks on tariffs and services being postponed until July 2001; and b) negotiations would be conditioned by the results of the WTO Doha Round, which had also begun in 2001, and where the EU was concentrating its efforts (Ventura, 2005).

We agree with Sanahuja and Rodríguez (2019, pp. 9-10) that the explicit link with WTO negotiations is an important factor for explaining the failure of EU-Mercosur negotiations at this stage, since relations with Mercosur were subordinated to WTO negotiations, where the EU and Mercosur often took opposite positions (Doctor, 2007, p. 286). The failure of the WTO Doha Round Ministerial Conference in Cancún in August 2003 brought no relief for the EU-Mercosur talks; rather, it was a prelude to their failure, as the EU and Mercosur formally suspended negotiations in August 2004 after a total of 15 negotiation rounds (Doctor, 2007, p. 285).

From the beginning, the issues of dispute were the comprehensive opening of Mercosur to industrial imports, demanded by the EU, which was particularly rejected by Brazil, and the opening of the EU market for agricultural products from Mercosur, where the EU wanted to offer, at best, limited import quotas for key products. As one commentator succinctly pointed out: "for the EU, the crux of the matter was that MERCOSUR was most competitive in the very sector where EU political actors faced the heaviest pressures to protect producers" (Doctor, 2007, p. 302). A European participant in the negotiations who served as the Brazil Desk Officer of the European Commission remarked that the particular focus of the Mercosur on the liberalization of trade in the agriculture sector may have been "a means to deflect attention from Brazil's industrial

sensitivities and prolong a negotiating process which serves Brazil's geostrategic interests so well" (Klom, 2003, p. 368).

The European side also pressed the argument that a successful conclusion of the negotiations would require an institutional consolidation of Mercosur regarding common rules, regulations and policies. According to a statement by Karl Falkenberg, the official European head of negotiations with Mercosur, the expected ideal would be "a negotiation between similar entities, a customs union Mercosur built on the original lines of the European Community" (EU-MERCOR..., 2002). While the lack of consolidation of Mercosur's internal regulations and norms was certainly an aggravating factor, the argument should not be overstated. Even with an institutionally consolidated Mercosur the serious disagreements regarding trade liberalization in agricultural products would have remained.

100 In the end, the main obstacle turned out to be that the EU-Mercosur negotiations were not the only ones in town. Both the EU and Mercosur were involved in a multidimensional negotiating complex that included the WTO negotiations in the context of the Doha Round and the FTAA negotiations with the United States. In the end, "negotiations became so inter-linked that stagnation in any one arena was replicated elsewhere" (Doctor, 2007, p. 290). Both sides, Mercosur and the EU, feared that concessions in the interregional talks could affect their position in the WTO negotiations (Bulmer-Thomas, 2000, pp. 4-5), as in both negotiations agricultural tariffs and subsidies were a central issue. This led to a negative feedback or delay effect in the EU-Mercosur negotiations, as Mercosur governments (and especially the Brazilian one)¹⁴ expected "that their claims

¹⁴ Commenting on the last offer made by the EU in 2004, Torrent (2013, p. 52) wrote: "The Government of Brazil rejected the envisaged deal (and that of Argentina would also have done so, in all likelihood): in its opinion, it was better to face what could be a decisive point in the WTO Doha Round Negotiations with

of broader liberalization in agriculture will have a greater leverage on the WTO level than on an interregional level” (Faust, 2006, p. 165) and strengthen their own negotiating position vis-à-vis the EU, which made them less willing to compromise (Sanahuja and Rodríguez, 2019, p. 10).

The negotiations between the EU and Mercosur not only overlapped with the WTO Doha round, they also ran parallel to the FTAA negotiations. Sanahuja and Rodríguez (2019, p. 9) see the negotiations with Mercosur as part of a “reactive strategy” by the EU against the planned FTAA and US efforts to strengthen its position in the Western Hemisphere. The EU-Mercosur negotiations mirrored the FTAA in timing, as “the EU initiated bargaining rounds with MERCOSUR just when the FTAA members had their first ministerial meeting in Quebec in 2000; and eventually, the EU-MERCOSUR talks stalled in the early months of 2004 at the exact same time the FTAA talks did” (Meissner, 2018, p. 74).

The Mercosur governments, especially the Brazilian one, saw the parallel negotiations as an opportunity to pit the EU and the US against each other to gain advantages (Bajo, 1999, p. 933; Bulmer-Thomas, 2000; Doctor, 2007, p. 290; Guilhon-Albuquerque and Lohbauer, 2013, p. 24). From the perspective of a former Brazil Desk Officer of the European Commission:

Brazil prefers not to advance too quickly towards free trade with the EU, notwithstanding the positive effects expected for its agricultural sector. Concluding an agreement would also neutralize the positive effects that EU–Mercosur negotiations have on Brazil’s negotiating position in the FTAA. (Klom, 2003, p. 356).

“free hands” and without a previous EU–Mercosur deal.” Therefore, he concludes, “the misappraisal by Brazil of the state of the WTO Doha Round negotiations and the wrong belief that they could have a positive outcome had very negative effects on the possible finalization, in 2004, of the EU-MERCOSUR negotiations” (Torrent, 2013, n. 39, p. 52).

The Mercosur countries, and especially Brazil, who did not expect the EU to be willing to negotiate on agriculture, were then caught off guard when on the 5th round of negotiations in July 2001, the EU presented its first tariff offer, which covered 90% of agricultural trade and 100% of industrial trade. This proposal threatened to accelerate EU-Mercosur negotiations and endanger parallelism with the FTAA process (Klom, 2003, pp. 363-365). In response, Mercosur offered a gradual liberalization over ten years that included 86% of industrial products (excluding the automobile sector) and 100% of agricultural products and excluded the liberalization of services and public procurement (Santander, 2005, p. 299).

The negotiations stalled in August 2004, when it became clear they would not be concluded in the allotted time (October 2014), as neither side was ready to move forward on key issues. Neither was the EU ready to further open up its agricultural market and to reduce subsidies for this sector, nor was Mercosur willing to accommodate the EU on issues of opening up the industrial sector and public procurement.

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2005-2015: low profile negotiations and slow progress

Although the EU-Mercosur relationship did not suffer a complete standstill, as political and economic dialogue continued (Cienfuegos Mateo, 2016, pp. 240-241; Luján, 2011, pp. 349-351), until 2010 no substantial initiatives were made to restart the negotiations (Arana, 2017, p. 179). After the FTAA project was buried in 2005, there was less competitive pressure for the EU and the Chinese take-off in Latin America was still in its early stages. At the same time, the commodities boom fueled by Chinese demand made the Mercosur economies less dependent on the EU and its governments more self-reliant.

In South America, the period was characterized by the so-called “pink tide”, as most of the region’s countries were

governed by presidents from the left. Foreign policies' priorities, and even the role of regionalism changed. Trade liberalization as promoted under open regionalism was downgraded and replaced by a stronger political and social focus on integration projects as part of the so-called post-liberal or post-hegemonic regionalism (Riggirozzi and Tussie, 2012; Serbin, 2011; Veiga and Ríos, 2007). While Mercosur took its political and social turn, economic integration and the negotiation of FTAs did not advance. In parallel, the EU continued its eastward expansion and strengthened its institutions with the Lisbon Treaty. From an institutional and economic-programmatic perspective, the differences between Mercosur and the EU increased in the second half of the 2000s. The EU no longer saw its mirror image in Mercosur, nor did it expect Mercosur to follow its path, but still had an economic interest in the bloc.

In a Communication of the EU Commission (EC, 2006) titled "Global Europe - Competing in the world," Mercosur was still listed as a high priority partner¹⁵ for new FTAs because it combines "high levels of protection with large market potential." But in promoting a strategic partnership with Brazil as the South American regional power in 2007, the EU seemed to follow the logic of focusing on economic centers of gravity and promoting bilateral relations with the strongest member at the expense of relations with the entire Mercosur. As Luciano (2020, p. 106) argues, "although the strategic partnership offers an opportunity to deepen political dialogue between the EU and Brazil, it has also fostered some issues of fragmentation, rivalry and selectivity within MERCOSUR countries."

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¹⁵ "The key economic criteria for new FTA partners should be market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non-tariff barriers). We should also take account of our potential partners' negotiations with EU competitors, the likely impact of this on EU markets and economies [...]" (EC, 2006, p. 9).

In fact, Brazil's partners in Mercosur observed the development of the strategic partnership with suspicion. When Argentina occupied the Mercosur Pro Tempore Presidency in 2010, it saw the relaunch of negotiations with the EU as an opportunity to counterbalance Brazil's strategic partnership and to improve its negative image as the protectionist country responsible for delaying negotiations (Santos, 2018, pp. 47-48).

The relaunch of EU-Mercosur negotiations after the EU-Latin America summit in Madrid in May 2010, took place when a new window of opportunity opened. For a moment, the EU-Mercosur talks did not directly overlap with other negotiations – as the WTO Doha round did not advance – and it was Spain's turn in the EU presidency (from January to June 2010). After the 2008 financial crisis and as a result of the decline in world trade, the EU began looking for new markets. Mercosur became attractive again, since the member countries had weathered the crisis quite well.

But the window of opportunity quickly closed. The commodities boom was coming to an end. Since 2013 negotiations with the US on the Transatlantic Trade and Investment Partnership (TTIP) have taken priority for the EU. Important prerequisites for successful negotiations were also missing from the start. The EU and Mercosur states continued to have different positions on key trade issues: France gave no indications that it would give up its blockade of further opening the European agricultural market; on the European side, no immediate threat to economic interests was perceived in Mercosur. China was only slowly entering the European radar screen.

The new round of negotiations was surrounded by much secrecy; neither the EU nor Mercosur could agree on a common negotiating position (Cienfuegos Mateo, 2016, pp. 241-243). As a result, no substantial progress was made until 2016. Mercosur went through a short crisis when

Paraguay was temporarily suspended after President Lugo's impeachment in 2012 and started an ambivalent enlargement process with the inclusion of Venezuela; which, from a European perspective, did not facilitate EU-Mercosur negotiations (Miraglia, 2016; Santos, 2018).

2016-2020: On the way to a happy ending?

In May 2016, the bargaining process between the two blocs resumed. Three years later, after 39 rounds of negotiations and after overcoming several obstacles, finally, on June 28, 2019, both sides, to the surprise of many observers, reached a negotiating agreement on the content of an FTA. At the end of 2020, when this article was finished, the consolidated text still had to be signed by the governments and ratified by the national parliaments.

The FTA negotiation between the EU and Mercosur was, once again, not the only negotiation in town, but compared to previous rounds the interregional bargain had no direct link to other talks. This was an advantage for this sequence of EU-Mercosur talks, but it does not mean that they were not indirectly influenced by the course of other negotiations. Initially, for example, it was the failure of so-called mega-regional trade agreements such as the Trans-Pacific Partnership (TPP) and especially the TTIP that created space for a less comprehensive interregional agreement between Europe and the Southern Cone countries. The TTIP would have resulted in "a reaffirmation of the North Atlantic axis" and the signing of both agreements would have affected the interests at stake and the potential incentives and costs for both parties in the EU-Mercosur agreement (Sanahuja and Rodríguez, 2019, p. 5). Later, in November 2020, the signing of the Regional Comprehensive Economic Partnership (RCEP) agreement by 15 Asia and Pacific countries (including China and Japan) could have

given new impetus to the stagnating process of finalizing the EU-Mercosur agreement.

The resumption of EU-Mercosur negotiations and their provisional conclusion took place in a very favorable political-economic environment. With the commodities boom over, Mercosur countries looked again to regional markets and trade diversification strategies (Sanahuja and Rodríguez, 2019, p. 5). Moreover, governments with a liberal economic agenda came to power in Argentina and Brazil (Mariano and Mariano, 2020, p. 34). For a brief period, all four Mercosur countries had governments that advocated open economies and free trade agreements. As such, the free trade agreement with the EU can be seen as part of a reorientation of Mercosur under liberal auspices.

106 On the EU side, the Commission wanted to take advantage of the favorable constellation that all Mercosur governments were in favor of the agreement (Brunsden, 2017). After signing the CETA with Canada in October 2016 and in the context of the ongoing FTA negotiations with Japan, the agreement with Mercosur would be another milestone regarding trade liberalization and opening foreign markets for European companies.

In this context, there was again nothing special about the resumption of EU-Mercosur trade negotiations. They were part of EU's broader trade strategy, as set out in an October 2015 document entitled "Trade for all. Towards a more responsible trade and investment policy," stating that "EU companies are highly competitive at the global level. The EU is therefore well placed to benefit from increased international engagement" (EC, 2015, p. 4). But the document also admits that the EU has to compete with China and the United States; thus, the Mercosur agreement is seen as the missing link in the chain of FTAs with Latin America, complementary to the agreements signed with the Andean Community, Central America, Chile, and Mexico.

The EU Commission wanted the negotiations concluded, ideally, before the end of 2017, in order to send a signal against the protectionism of the new US president Donald Trump (González, 2019), but also to defend its position as Mercosur's largest trading partner – position soon to be taken by China, in 2017. US protectionist policies and questioning of multilateral trading system accelerated the conclusion of several EU free trade agreements, such as with Canada (2017), Singapore (2018) and Japan (2018). Just two days after finishing negotiations with Mercosur, the EU would sign another free trade agreement, this time with Vietnam.

Besides US protectionism, China's growing economic presence in Latin America also posed a challenge for Europe. At the first China-Community of Latin American and Caribbean States (CELAC) Forum in January 2015, the Chinese government announced its intention of investing more in Latin America to expand trade and to create new credit lines. During the EU-CELAC summit in Brussels in June 2015, Chancellor Angela Merkel warned: "We saw that China is building very intensive trade relations with Latin American countries. Trade between Europe and Latin America should also be increased" (Europa..., 2015, our translation).¹⁶

Although the EU also defended economic interests in South America, we agree with Sanahuja and Rodríguez (2019, pp. 5-6) that the negotiations since 2016 came with a clear political message to defend open trade and the multilateral system. From this perspective, the "re-politicization" of the EU-Mercosur negotiations "has been a decisive

¹⁶ In an April 2019 joint communication entitled "European Union, Latin America and the Caribbean: Joining Forces for a Common Future," the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy stated: "China is rivalling the EU as the second trading partner of Latin America and, more broadly, has become a partner of growing relevance for the region."

factor in explaining why an understanding was reached in this phase that had not been feasible before” (Sanahuja and Rodríguez, 2019, pp. 5-6, our translation).

For a short period, the EU and Mercosur perceived a congruence of interests when looking into the mirror: both blocs wanted to conclude the negotiations, but for different reasons. Mariano and Mariano (2020) characterize the blocs’ behavior as “opportunistic” in an adverse environment. For the EU, the basic principles of the type of regionalism it aimed to represent and spread internationally had been called into question by Brexit, while its “normative power” had been challenged by the anti-multilateralism of the Trump administration. The agreement, thus, was part of a “soft strategy” (Zelicovich, 2018, p. 704) to reposition itself as a rule maker and central actor to preserve a rule-based global order in the face of the crisis of globalization and against the background of protectionist tendencies in the US. In its “Reflection Paper on Harnessing Globalization,” the European Commission (EC, 2017, p. 14) argued that “as the world’s largest single market, its largest trader and investor and the largest provider of development assistance, Europe can shape the global rulebook.” In a later document explaining the content of the EU-Mercosur agreement, the EU Commission (2019b) clarifies that the agreement is also about setting international standards and disseminating EU norms.¹⁷

For the Brazilian and Argentinian governments, the success of the negotiations was an opportunity to strengthen their domestic position. On the Brazilian side, the agreement

¹⁷ “As with all the EU’s trade agreements, the agreement with Mercosur will not change European standards, including standards for food, agricultural and fishery products. EU standards are not negotiable.” The agreement “will reinforce and strengthen cooperation with Mercosur countries in ensuring that these high standards are respected. Thanks to the agreement, the EU and Mercosur will work more closely with each other, and together in the international standard-setting bodies” (EC, 2019b, p. 12).

had been negotiated by the Temer government after the impeachment of Dilma Rousseff; as President Bolsonaro had just entered office in January 2019 with a liberal economic agenda and a negative international image, he needed to show some positive results to improve his image at home and internationally. In Argentina, President Macri faced declining support and had to run for re-election in October 2019. From his perspective, “the agreement could bring, in addition to commercial benefits, political support from international creditors, easing the country’s economic problems” (Mariano and Mariano, 2020, p. 34, our translation).

Hence for different reasons, European heads of government and their South American counterparts welcomed the news of the successful conclusion of negotiations at the G20 summit in Osaka in June 2019, symbolized in the group photo with Jair Bolsonaro, Mauricio Macri, Angela Merkel, Emmanuel Macron, and the President of the EU Commission Jean-Claude Juncker. In an interview, Juncker emphasized: “This deal is a real message in support of open, fair, sustainable and rule-based trade” (EU’s Juncker..., 2019).

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But once again the EU’s strategic projections were confronted with the harsh reality of national reservations and successful lobbying policies, with the French government revealing itself as the main spoiler once more. President Macron stated that he was in no hurry in the negotiations with the Mercosur and expressed concern that a deal could undermine health and environmental standards – as well as have negative effects on France’s agricultural sector in (Chassany and Brunsden, 2017). For the first time, environmental concerns became a central political issue, claiming that the expansion of cultivated area (by forest clearing) would give South American agriculture an advantage over European farmers and harm the environment. This created a new link between the Mercosur negotiations and another broad and conflicting topic: climate change and sustainable

development. Behind these supposedly noble goals, however, lay strong economic interests and pressures from the European agribusiness lobby, especially the beef and ethanol sector. This explains why, alongside France, Ireland, Poland and, to a lesser extent, Slovakia, Czech Republic, Austria, Hungary, Romania and Bulgaria took a critical stance on the agreement (Brunsden and Beattie, 2017).

During the G-7 summit in Biarritz in August 2019, just a few weeks after the negotiations were concluded, the French President threatened to veto the agreement if Brazil failed to fulfill its environmental obligations (Amazon..., 2019). Finally, on October 7, 2020, as part of a broader resolution on the implementation of the common commercial policy, the European Parliament (2020, paragraph 36) voted for a measure declaring “that the EU-Mercosur agreement cannot be ratified as it stands.” The vote was symbolic and not mandatory, following other critical statements regarding the agreement from several European governments and parliaments¹⁸ in response to President Bolsonaro’s environmental policy and wildfires in the Amazon region. The critical stance is supported by a broad alliance of agricultural lobbyists, anti-globalization groups, and environmentalist groups. Their arguments were also echoed in South America, complemented by the fear (especially in Argentina) that the EU-Mercosur agreement would destroy national industries.

Once again, false images were produced on both sides. The popular slogan ‘cars for cows’ suggested that the agreement will benefit the automotive sector and harm agriculture in Europe; but the threat posed by meat imports from

¹⁸ The vote in the Irish parliament shortly before the summer break (on July 11, 2019), in which a clear majority (84 to 46) called on the government to reject the trade deal and seek allies in Europe, gave a taste of the upcoming disputes over the trade agreement. Two months later, the EU subcommittee of the Austrian parliament voted against the drafted EU-Mercosur free trade agreement. Later, in 2020, both the Walloon and Dutch parliaments also took a stand against the agreement.

Mercosur has been exaggerated.¹⁹ Former EU Commissioner for Agriculture Phil Hogan (2019) pointed out that the beef import quota of 99,000 tons represents only 1.25% of the EU beef consumption of 8 million tons. While the argument that the agreement could lead to further deforestation in the Amazon cannot be rejected,²⁰ the impact of not signing an agreement is overestimated by its critics within the EU. In EU's mirror, the importance of Brazilian meat exports to the EU appears to be greater than it actually is. Even if the new quotas of the EU-Mercosur agreement were exhausted, EU's share of Brazilian beef export would not increase significantly. Not signing the EU-Mercosur agreement will not reduce Brazilian meat exports, but it will deprive the EU of leverage against Brazil to protect the Amazon rainforest. Critics in Mercosur see further deindustrialization and a dismantling of regional value chains as a consequence of the agreement (Ghiotto and Echaide, 2019); but in recent years it was mainly the increase in industrial imports from China and the increase agricultural exports to China that weakened national industries and led to a reprimarization of economies. An FTA with the EU does not preclude an active export promotion and diversification policy, and the EU is not responsible for the stagnation of economic integration in Mercosur. Rather, the agreement could give Mercosur a new impetus.

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While in Europe critical voices gained ground, Mercosur governments continued to support the agreement with

¹⁹ The potential benefits for the European automotive industry may also be exaggerated. It is true that Mercosur protects itself against automobile imports from Europe through high tariffs, but European car companies produce under the protection of these tariffs in Mercosur.

²⁰ A recent study (Rajão et al., 2020) found that roughly 20% of soy exports and at least 17% of meat exports from the Amazon and Cerrado regions to the EU may be contaminated with illegal deforestation. Consequently, the demand for a reduction in soy imports to the EU must also be made. This would, however, harm European agriculture, since soybean meal is an important livestock feed.

the EU and strove to save it. This also applied to the new Argentine president, who had expressed concerns about the agreement during the election campaign. One reason was certainly that the other three Mercosur governments were in favor of the agreement, and Mercosur's continued existence would be compromised in the event of an Argentine rejection.

As the EU-Mercosur agreement was met with increasing resistance in Europe, economic cooperation in Asia received a new boost with the Regional Comprehensive Economic Partnership (RCEP), while China announced its possible interest in joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CP-TPP). From a geo-economic perspective, this could have pushed the European Union to again give higher priority to the agreement with Mercosur (Rosales, 2020), especially since trade between the EU and Mercosur decreased dramatically due to the COVID-19 crisis, but Mercosur's trade with China much less (ECLAC, 2020).

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In the critical phase of finalizing the agreement, it was again the Spanish and Portuguese governments, backed by the Czech Republic, Denmark, Estonia, Finland, Italy, Latvia, and Sweden, who sought to save the agreement and neutralize French resistance. Portugal assumed the pro tempore presidency of the EU Council in the first half of 2021. For Spanish Foreign Minister Arancha González Laya, Latin America is “a test case of the so-called strategic autonomy of the European Union, its ability to build alliances” and boost multilateralism (Vela, 2020). For the Spanish representative in the EU Commission and High Representative of the Union for Foreign Affairs and Security Policy Josep Borrell (2020, p. 4, our translation), the agreement between the EU and Mercosur “has a profound geopolitical significance: it is a tool that allows both regions to better face the growing confrontation between the United States and China, in

which both Latin America and the EU risk being in a position of strategic subordination.” It remains to be seen what will prevail in the end: the EU Commission’s geopolitical and geo-economic vision, or the protectionism of individual member states hidden behind lofty claims.

Conclusions

After 30 years of mutual courtship, the relationship between the EU and Mercosur may yet find a happy ending. Over the years, both sides have formed a false image of the other, projecting expectations that the counterpart could not meet. This led to disappointment and temporary distancing. In this paper, we argue that the construction of these expectations and distorted images started early, even before the blocs signed the IFCA in 1995. As the European Commission (1994a, p. 13) put it, “this regional framework could become a blueprint for rationalizing relations with other groups of partners of a comparable nature.” Although for Mercosur the agreement meant formal recognition as an international entity (Klom, 2003, p. 354), it would not become the blueprint for other EU agreements since the promises contained therein for an interregional association agreement had not been fulfilled by 2020.

For a long time, the EU saw itself as an external federator of Mercosur, based on the idea that “the prospect of concluding an ambitious agreement with the EU increases both the deepening and the international credibility of Mercosur” (Santander, 2005, p. 302). Beyond Mercosur’s founding phase, however, this narrative is unsustainable. In the course of nearly 30 years of mutual negotiations, Mercosur has not become more similar to the EU; important institutional and programmatic developments in Mercosur were not instigated by negotiations with the EU. At best, in some critical phases, negotiations with the EU were one of several factors that kept Mercosur alive, but did not drive

its institutional consolidation (Doctor, 2015). Mercosur did not become a mirror image of the EU; rather, it resembled Alice climbing through the looking glass, where everything seemed to conform to expectations when in reality everything was upside down.

Mercosur never wanted to become a copy of the EU and commit its members to the same level of binding obligations. For the South American bloc, the opportunity of negotiating an agreement with the EU was more of a means of achieving “actorness” in the international system than an incentive for further integration. In this regard, we agree with Doctor (2015, p. 981) that “interregionalism cannot compensate for low intraregional institutionalization or ameliorate the impacts of intergovernmentalism or substitute for weak political willingness to act to deepen regional integration.”

But from the outset, the EU gave the impression that negotiations on a comprehensive agreement with Mercosur would go more smoothly if its institutional structure were to become consolidated and more similar to that of the EU. This argument was lopsided from the start, for it suggested that Mercosur’s adequate institutional structure would almost automatically facilitate an agreement on contentious issues with the EU. It was a phony argument to blame the other side for the failure of negotiations.

Before the formal start of negotiations with Mercosur, the idea of a “strategic partnership” between the EU and Latin America was launched during the First EU-LAC Summit in Rio de Janeiro in June 1999. As for the relationship between Mercosur and the EU, the Joint Communiqué of the Second Meeting of Heads of State and Government (Madrid, 17 May 2002) speaks of establishing “an interregional strategic association”.²¹ Looking back, knowing the

²¹ EU’s regional strategy paper for Mercosur of the same year (EC, 2002, p. 3) foreshadows in flowery words that “eventually, after the negotiations have been

past history and the course of the negotiations, we agree with Cienfuegos Mateo (2010, p. 5, fn. 6, our translation) that “from a strict perspective, mutual association is not really strategic for either the EU or MERCOSUR [...] it is actually more of a desideratum than a reality.” This is probably one of the reasons why negotiations progressed slowly or even stalled.

For both parties, the talks over an Interregional Association Agreement, including reciprocal trade liberalization, were never the only negotiations in town, which caused contradictory results. The overlap with other talks could sometimes complicate their course; at other times it gave new impetus to the EU-Mercosur relationship, as with the FTAA negotiations. For Mercosur, negotiations with the EU represented a bargaining chip vis-à-vis the US, while the EU reacted to a competitor that was courting the South American bloc. But from the EU’s perspective, negotiations with Mercosur never played a central role, as much as they were part of its broader trade strategy.

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The overlap of different kinds of (trade) negotiations and the internal economic and political dynamics in both blocs made concluding the agreement a difficult undertaking. Negotiations between the EU and Mercosur were rarely central enough to persuade reluctant governments to bite the bullet; often they were a sideline to a broader move. A window of opportunity opened only when, from a “commercial realism” perspective (Meissner, 2018), Europe saw important geo-economic interests in South America threatened, and/or South America looked to Europe as a counterweight to other external actors. Negotiating a free trade agreement also required that compatible trade policy ideas

concluded, the EU and the Mercosur will become close companions in a strategic inter-regional partnership.”

prevail on both sides, such as the period when both sides adhered to the idea of “open regionalism.”

The EU and Mercosur negotiations over an Interregional Association Agreement were characterized by political and economic opportunity cycles that almost never synchronized. When economic relations were encouraging, there was often strong political opposition to an agreement; when the political situation was favorable, the economic constellation had often become adverse. International economic cycles and governmental changes through elections could suddenly close windows of opportunity for an FTA. Finally, when this article was finished in December 2020, we could not predict how the post COVID-19, post Brexit and post Trump world would affect the EU-Mercosur agreement.

Detlef Nolte

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Associated fellow of the German Institute for Global and Area Studies (GIGA) and the German Council on Foreign Relations (DGAP); adjunct professor of Political Science University of Hamburg, Germany; honorary member of the Instituto de Iberoamérica of the University of Salamanca, Spain.

Clarissa Correa Neto Ribeiro

Postdoctoral research fellow at the San Tiago Dantas Graduate Program in International Relations (Unesp/Unicamp/PUC-SP), São Paulo, Brazil. Member of the Regionalism Observatory and of the Research Network on Foreign Policy and Regionalism (REPRI).

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MERCOSUR AND THE EU: THE FALSE MIRROR

DETLEF NOLTE

CLARISSA CORREA NETO RIBEIRO

Abstract: The relations with the European Union (EU) began almost with the Mercosur's creation. After signing a first framework agreement in 1995, the EU and Mercosur began negotiating a comprehensive interregional partnership with a free trade agreement since 1999. Negotiations were conducted with ups and downs, suspended, and resumed over a period of more than 20 years, and up to Mercosur's 30th anniversary there is still no free trade agreement ratified with the EU. Based on the broad literature on the relations between the EU and Mercosur (both by European and Latin American authors) and on the analysis of official documents and declarations from the EU and Mercosur, this paper proposes some explanations as to why these negotiations have progressed so slowly and faced so many obstacles.

Keywords: Mercosur; European Union; EU-Mercosur Agreement; Interregionalism.

O MERCOSUL E A UE: O FALSO ESPELHO

Resumo: *As relações com a União Europeia começaram quase com a criação do Mercosul; depois de assinar um primeiro acordo-quadro em 1995, desde 1999 a UE e o Mercosul negociam um acordo inter-regional abrangente que se propõe a concretizar uma área de livre comércio. As negociações foram conduzidas com altos e baixos, suspensas e retomadas em um período de mais de 20 anos, e até o trigésimo aniversário do Mercosul ainda não existe um acordo de livre comércio com a UE ratificado. Neste artigo, pretendemos oferecer algumas explicações do porquê as negociações entre a UE e o Mercosul avançaram tão lentamente e encontraram tantos*

obstáculos. A nossa análise baseia-se na vasta literatura sobre as relações entre a UE e o Mercosul (tanto de autores europeus quanto latino-americanos), e na análise de documentos e declarações oficiais da UE e do Mercosul.

Palavras-chave: *Mercosul; União Europeia; Acordo UE-Mercosul; Interregionalismo.*

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