

MERCOSUR-EU: A new “window of opportunity” for a complex trade negotiation

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INTRODUCTION:

In 1995, the MERCOSUR-EU Interregional Framework Agreement on Cooperation (AMIC)¹ was signed with the aim of deepening bi-regional relations and with a view to the creation of an Interregional Association Agreement (IAA) between MERCOSUR and the EU². This was the beginning of a greater bi-regional approach and the background for the creation of a bi-regional negotiation committee (CNB) in 1999, responsible for the overall conduct of the negotiations, in order to achieve the IAA.

Also, it can be pointed out that this IAA was initially mainly driven by the EU with the aim of extending its Free Trade Agreements in Latin America, especially as a "preventive" action, in the event that the negotiations of the Free Trade Area of the Americas (FTAA) initiated in 1998, could successfully conclude, and harm the interests of the EU, through the diversion of trade to the benefit of other countries.

Since April 2000 in which the first MERCOSUR-EU CNB took place, more than 17 years passed and 37 CNB meetings have been held in order to reach an Interregional Association Agreement composed of three pillars: the political, cooperation and the commercial. According to several analysts³, the political and cooperation pillar would not be the most difficult issues to be agreed upon by the EU and MERCOSUR.

Regarding the commercial pillar, clearly the main interest of this Agreement by the MERCOSUR countries is the EU agriculture market, while the EU is more interested in the MERCOSUR service, industrial and automotive markets. This point out a type of commercial relationship that could be complementary based on the comparative advantages of both regions.

While it could be considered that this complementarity should facilitate an agreement, in fact the opposite is true. Neither the EU nor MERCOSUR have been willing to open

¹ In this Thesis we will refer to MERCOSUR as Argentina, Brazil, Paraguay and Uruguay.

² <http://eur-lex.europa.eu/legal-content/ES/TXT/?uri=URISERV%3Ar14013>

³ Molle G. (2010). Negociación MERCOSUR-Unión Europea: desmitificar las ofertas para construir un nuevo punto de partida.

their markets through a Free Trade Agreement until now, given the fear of the effects that this competition will generate in the medium term in certain productive sectors, as well as due to the effectiveness of the “lobbies” of these latter sectors.

It is important to note that an Agreement of its kind, between this two trade blocs, it would be the first between two customs unions and the biggest free trade area in the world⁴.

Therefore, in the present work we will refer to the third pillar that is the commercial one, the most relevant area of this bi-regional negotiation, as well as the most difficult one⁵.

In this thesis I have investigated the following questions: “Why after almost 20 years, does the EU and MERCOSUR still want to negotiate an IAA?, Why has this Agreement been so complex and difficult to achieve ?, and Why do certain elements support the idea that this year there is a new window of opportunity to finally reach an agreement?”

Regarding the last main question I would like to clarify that I mention a “window of opportunity” because taking into account the sources consulted, after many years, there are several factors that are in favor of these negotiations, and achieving this Agreement would seem more likely now than it was between 2004 and 2015. However, and taking into account the complexities of this Agreement, this does not imply that these conditions will clearly be considered "sufficient" to assert that by the end of the current year or beginning of 2018, this Agreement will in fact be signed.

In order to answer the three main questions of this thesis, initially this paper will review some of the relevant theory of international trade, on free trade and its

⁴ Østhus K. E. (2013). “*The Trade Negotiations between the EU and Mercosur, 2000–2013*”
https://brage.bibsys.no/xmlui/bitstream/handle/11250/243139/637979_FULLTEXT01.pdf?sequence=1

⁵ This "has been characterized as the most impossible preferential agreement in the world" R. Bouzas
<http://www.udesa.edu.ar/medios/el-mercosur-esta-completamente-estancado-en-su-agenda-interna>

advantages and disadvantages in the short and long term, and on the difficulties or the "problem of collective action", as analyzed by Mancur Olson.

Next a description of the trade and economic relation between the EU and MERCOSUR is presented. Later, a detail of the main (or some of the main) interests of the two parties for this negotiation is described, as well as which interests may be affected, should the IAA target be met. Subsequently, it is analyzed some of the complexities of this bi-regional trade negotiation, particularly related to the chapter of trade in goods.

Then this academic work will pay attention to some of the external factors that have negatively influenced this negotiation over the years, reducing the chances of reaching an agreement.

Later, there is an analysis of why after so many years of failed negotiations and bearing in mind that in 2016 there has been a renewed impetus for this negotiation, mainly by the MERCOSUR countries, and later by the EU, several variables, factors or current events in 2017/2018 support the idea that there is a new "window of opportunity" for these negotiations.

Lastly, the thesis will focus in what has been the reaction during the last year of the various EU institutions, as well as the leaders of the MERCOSUR countries, on this possibility of progressing with these bi-regional negotiations.

In order to elaborate this thesis, only public source were used. From official publications (such as reports from the European Union, the WTO, the World Bank, press releases from the Argentine Chancellery or documents from the Council, the Commission and the European Parliament), position papers from various business associations of MERCOSUR and EU (such as the FIESP of Brazil or "Business Europe" of the EU), studies and research of the last 10 years related to the negotiations MEROCUSUR-UE and web based newspapers (as Politico).

I consider that this thesis, according to the sources consulted and mentioned in the paragraph above, allow answering quite accurately the three main questions mentioned above.

CHAPTER 1: International trade, comparative advantage and the problem of collective action: a theoretical perspective

The theories of international trade, through different theoretical models try to explain the main causes and consequences of trade between different nations. The Ricardian and Heckscher-Ohlin models, explain trade by “comparative advantages”; they point out that trade is motivated by differences between countries in terms of their resources and technologies applied to production. In relation to these models a country will specialize in the production and export of those goods in which it is “relatively” more productive. The principle of comparative advantage holds that all nations can benefit from free trade because of the increased output available for consumers as a result of more efficient production.

The Heckscher-Ohlin theory explains comparative advantage in terms of resource endowment: it holds that a country will tend to export those commodities that are produced by the factor or factors that it has in “relative abundance” and that it will tend to import products whose production requires factors of production which it has in relatively less abundance.⁶

It should be noted that both the Ricardian and Heckscher-Ohlin models are based on several assumptions, such as there are perfect competition with no barriers to trade imposed by governments. However, the theory of comparative advantages can explain the trade that many countries make, since they export those products in which they have relatively higher productivity or are more efficient, and import the goods in which they are relatively less productive.

According to a World Trade Organization (WTO) document⁷, “free trade has long been justified by a strong argument based on economic efficiency. From this premise, there is no need for trade agreements, since governments, whose intention is to promote

⁶ Kirst W (2013). *Globalization and America's Trade Agreement*. Retrieved from: <https://www.wilsoncenter.org/chapter-3-trade-agreements-and-economic-theory>

⁷ World Trade Organization (2009). *WORLD TRADE REPORT 2009*. Retrieved from: https://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report09_e.pdf

national welfare, would consider that any renunciation of free trade would be a doomed option. Despite this well-known argument, it is a fact that unilateral trade policies exist that inefficiently limit trade flows and "Trade Agreements" that seek to limit such unilateral measures."

The objective of reducing trade barriers through the Trade Agreements between different countries or trade blocs, of course, is to increase the level of trade, which is expected to improve economic well-being.

As it is mentioned by William Krist⁸, one country benefits when its trade partners reduce their trade barriers, because its exports will increase, this generates expanded production and employment. Also that country will benefit from reducing its own trade barriers, as consumers gain from reduced costs and producers are forced by international competition to improve efficiency. However, W. Krist notes that import liberalization has an impact on domestic labor and production that needs to be considered.

Taking into account the above mentioned considerations, and the fact that this Thesis refers to the negotiations of an Interregional Association Agreement (IAA) between MERCOSUR and the EU, we can indicate, in general lines, that clearly on the side of the four countries of South America we are faced with the presence of economies whose production is relatively more efficient in the agricultural sector and, on the other hand, in European countries the relatively most efficient sectors are those linked to services and industrial production.

On the other hand, the WTO text referred to in the previous paragraph points out that⁹ "trade agreements allow governments to resist the pressures of the private sector and special interest groups urging the government to move away from a liberal trade policy".

⁸ Krist W (2013). *Globalization and America's Trade Agreement*. Retrieved from: <https://www.wilsoncenter.org/chapter-3-trade-agreements-and-economic-theory>

⁹ World Trade Organization (2009). *WORLD TRADE REPORT 2009*. Retrieved from: https://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report09_e.pdf

The American economist Mancur Olson pointed out that political activity on behalf of a group is a public good; that is, the benefits of such an activity are received by all members of the group, not just the person performing the activity. This characteristic of public good of the policy means that policies that impose large losses in total, but small losses to each person, may not be the object of an effective opposition¹⁰.

Olson highlights the "problem of collective action": although it may be in the interest of the group as a whole to push for the adoption of favorable policies, it may not be in the interest of each individual member of the group to do so, if this individual can derive the same benefits of the public good mentioned above while "free riding" and therefore saving the time and effort that participation in the collective action would cost. This problem of collective action can best be overcome when the group is small, so that each person receives a significant fraction of the benefits of favorable policies and also organized so that group members can mobilize to act favor of their collective interest.

For example, in the MERCOSUR-EU negotiation, we can indicate in the case of the EU the "lobby" of the agricultural sector, or in the case of MERCOSUR, under the pressure of the industrial sectors. These are a relatively small and well-organized lobby, which is well-informed of the non-tariff and tariff protection received by its members; while the rest of society and economic sectors of both economic blocs are a huge population that does not even consider itself as an interest group.

Olson also points out that groups are not only organized, they are persistent coalitions whose existence becomes "a retardation of economic growth" and a condition for the economic and political systems in which they operate because of the social costs

¹⁰ Krugman P y Obstfeld M. (2006). *ECONOMÍA INTERNACIONAL. Teoría y política*. Retrieved from: http://webdelprofesor.ula.ve/economia/oscard/materias/E_E_Mundial/Economia_Internacional_Krugman_Obstfeld.pdf

generated by the achievement of their interests¹¹. This "collective action problem" may explain why, despite all, policies can be adopted that not only seem to produce more costs than benefits, but also seem to hurt many more voters than they help.¹²

As the WTO document above-mentioned states, "the cost of these (trade) restrictions can be considerable in the long term and, therefore, the government would prefer to engage with free trade, but in the short run internal pressures could lead policymakers to impose important restrictions."¹³

¹¹ Alvarez García S. (1996). *Grupos de Interés y Corrupción Política: La búsqueda de rentas en el sector público*. Retrieved from: https://econo.uniovi.es/c/document_library/get_file?uuid=79a361b0-9154-42c2-b173-055a10d7684a&groupId=746637

¹² Krugman P y Obstfeld M. (2006). *ECONOMÍA INTERNACIONAL. Teoría y política*. Retrieved from: http://webdelprofesor.ula.ve/economia/oscaered/materias/E_E_Mundial/Economia_Internacional_Krugman_Obstfeld.pdf

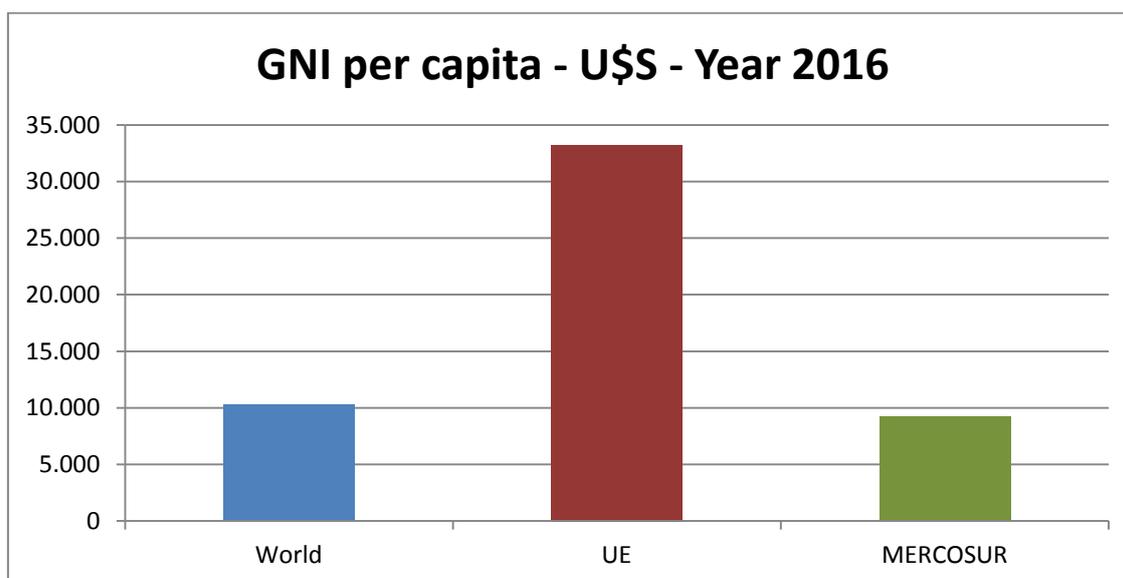
¹³ World Trade Organization (2009). *WORLD TRADE REPORT 2009*. Retrieved from: https://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report09_e.pdf

CHAPTER 2: GDP, trade in goods and services and Foreign Direct Investment

Gross domestic product (GDP)

In 2016¹⁴ the world population was 7.442 billion, the world GDP of U\$S 75.543 billion and the world gross national income (GNI) per capita was of U\$S 10.299.

The same year, the four MERCOSUR countries had a population of 263 million people, a total GDP of U\$S 2.423 billion and a GNI per capita of U\$S 9.213. The total GDP of the MERCOSUR represents around 3,2 % of the world GDP. Also in 2016, the UE had a population of 512 million people, a total GDP of U\$S 16.398 billion and a GNI per capita of U\$S 33.248. The total GDP of the UE represents around 22% of the world GDP.



So as we can see in the graphic, the GNI per capita of the EU is more than three times the one of the MERCOSUR countries. Also, the EU with almost twice the population has a total GDP that is around seven times the GDP of the MERCOSUR countries.

Trade in goods

¹⁴ https://europa.eu/european-union/sites/europa.eu/files/docs/body/population_es.pdf

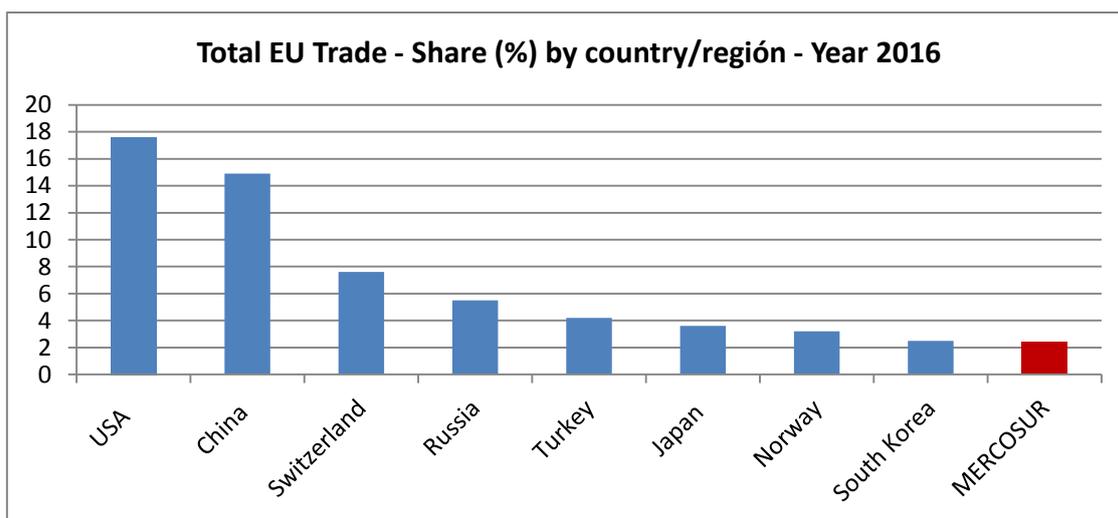
The EU, China and the United States have been the three largest global players in international trade since 2004¹⁵. The EU had the second largest share of global exports and imports of goods in 2015. The EU exports of goods were equivalent to 15.5 % of the world total and in 2014 were surpassed for the first time since the EU was founded, by those of China (16.1 % in 2014, rising to 17.8 % in 2015), but still ahead of the United States (13.4 %). The United States had a larger share of world imports (17.4 %) than either the EU (14.5 %) or China (12.7 %).

EU international trade in goods with the rest of the world (the sum of extra-EU exports and imports) was valued at 3.453 billion euros in 2016. The EU exports to the world are mainly manufactured products: from 2008 to 2016 their share remained 83 % of total EU exports. The majority of EU imports are also manufactured goods, their share in total EU imports increased from 58 % in 2008 to 69 % in 2016.

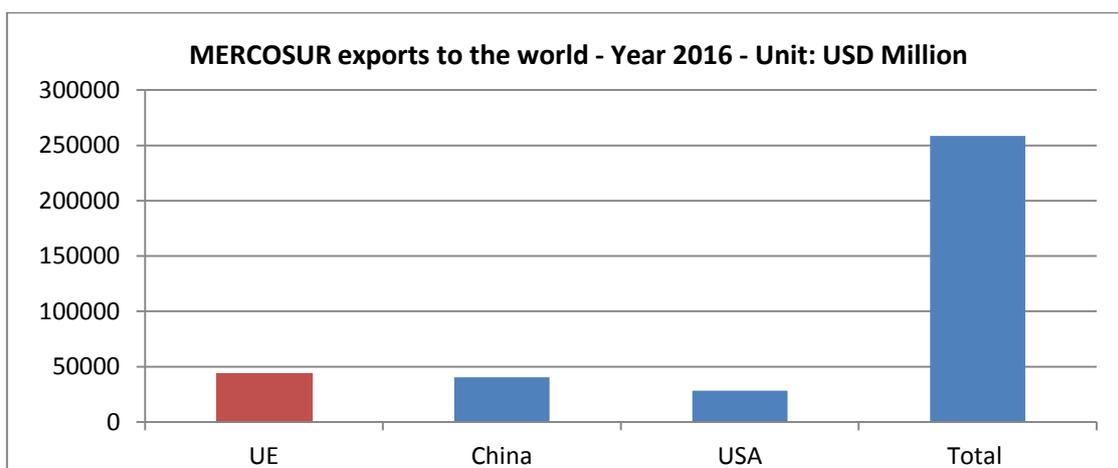
The EU is not only the world's biggest exporter of manufactured goods, but also remains the first exporter worldwide of agro-food products. The annual value of EU agro-food exports in 2016 reached a new record level of 131 billion euros. It should be noted that this occurs even when the Russian Federation, in August 2014, imposed import restrictions (a measure still in force) on a wide range of agricultural products, affecting EU exports in the meat, fisheries, dairy products, vegetables and fruits valued at US\$ 6.7 billion.

On the other hand, the EU is also one of the most important importers of agro-food products and the main origins for these products in 2016 were Brazil, USA, Argentina and China.

¹⁵ http://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods



MERCOSUR international trade in goods with the rest of the world (the sum of extra-MERCOSUR exports and imports) was valued at USD 470 billion in 2016. MERCOSUR exports to the world in that year were worth USD 259 billion¹⁶, representing 1.6% of world exports.



In 2016 the total EU trade with the four countries of MERCOSUR was 82 billion euro which accounts for 2.4% of total EU foreign trade share. The EU is the first trading partner of MERCOSUR¹⁷. In 2015, trade between the EU and MERCOSUR represented 19.6% of MERCOSUR's overall trade.

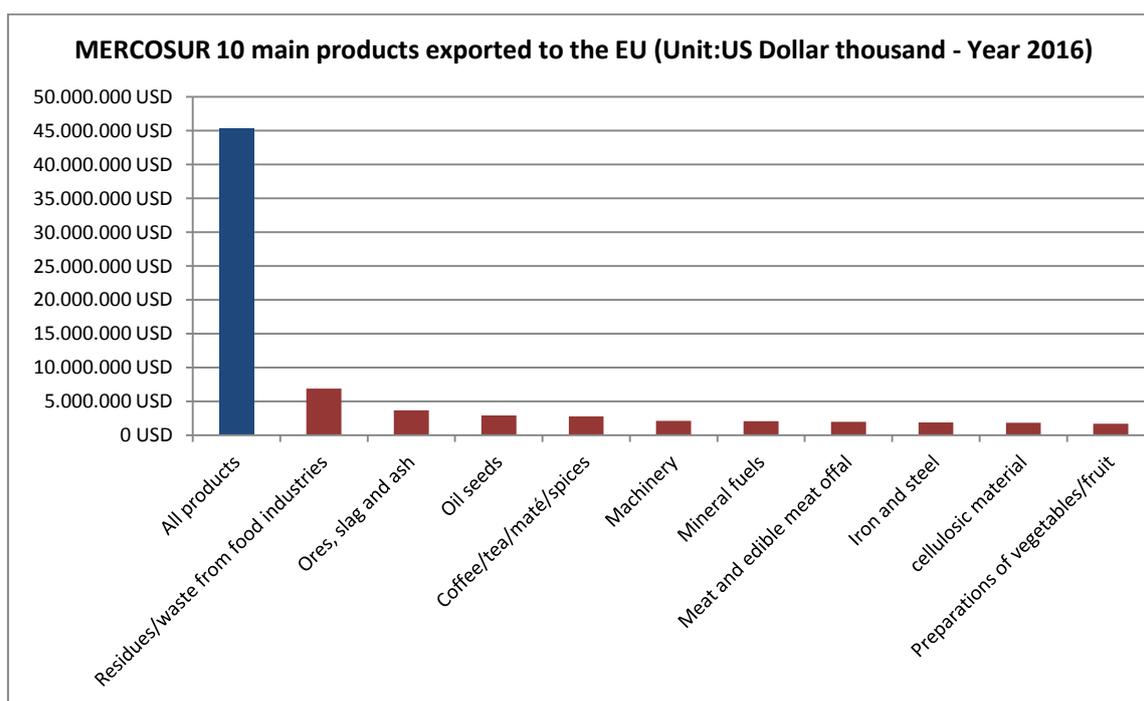
¹⁶ <http://www.intracen.org/itc/market-info-tools/trade-statistics/>

¹⁷ http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113488.pdf
<http://ec.europa.eu/trade/policy/countries-and-regions/regions/MERCOSUR/>
<http://ec.europa.eu/eurostat>

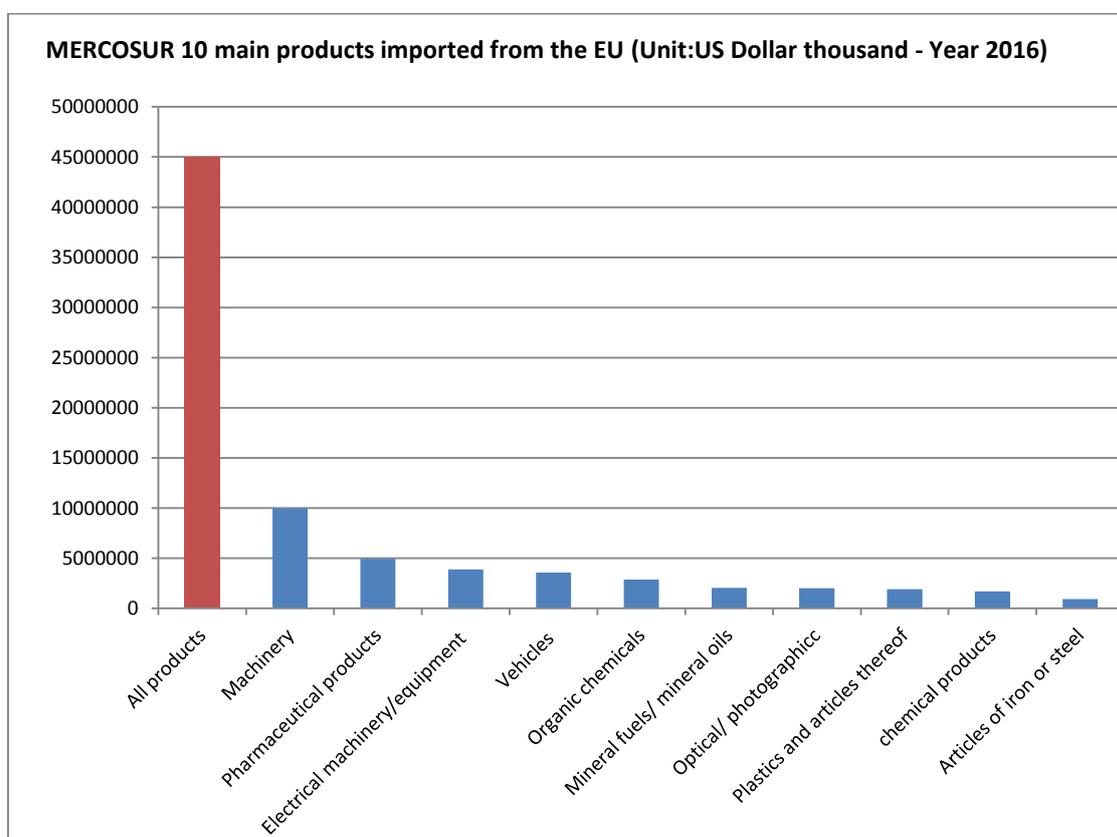
The EU has been losing importance in MERCOSUR trade, since in 1990 it was slightly more than 30% of the total. On the other hand, there are other regions that are gaining importance for MERCOSUR, particularly from Asia, with an increasing demand for raw materials, and increasing sales of industrial products in MERCOSUR. The growing competition of products from those other regions of the world has diminished the leading role of European products in the MERCOSUR countries.

In 2015, MERCOSUR exports to the EU reached 42.074 million euros and imports originating in the EU accounted for 46.172 million euros. Therefore, the trade balance was deficient for MERCOSUR for about 4.000 million euros.

MERCOSUR exports to the EU were concentrated in agricultural products, food, beverages and tobacco, vegetable products such as soy and coffee, mineral products, wood and paper products, meat and other animal products and to a lesser extent machinery. The percentage of manufactures exported by MERCOSUR countries to the EU is very low (Argentina (12.4%), Uruguay (10.5%) and Paraguay (7.6%)), with the exception of Brazil, where it is 28,6%.



Imports of MERCOSUR from the EU are more concentrated in manufactures of industrial origin, including machinery (29%), vehicles and auto parts (17%) and chemicals and pharmaceuticals (24%). Industry in the EU, unlike MERCOSUR, has a modern infrastructure, low financial costs for bank loans and also an increased capacity of the Member States to finance restructuring and support for sectors of the economy. This situation is not that of MERCOSUR now and is hardly likely to become so in the medium term.



As mentioned above, in the MERCOSUR exports, agricultural products predominate and in the imports from the EU the manufactures. Therefore, the exchange in primary products is a surplus for MERCOSUR but very deficient in industrial products.

Services

The EU exports of services to non-member countries increased each and every year over the period studied, from 569 billion euros in 2010 to 832 billion euros in 2015,

whereas EU imports of services from non-member countries during the same period progressed from 461 billion euros to 686 billion euros, resulting in the surplus for trade in services increasing from 108 billion to 146 billion euros.

In 2015, the United States remained, by far, the largest destination for EU exports of services. The next largest destinations were Switzerland (14 %), China (4 %), Japan and Russia (both 3 %), Canada, India and *Brazil* (all 2 %). The main countries of origin for EU imports of services were the same as those with the highest shares of EU exports of services.

In 2015¹⁸, the EU exports of services to the MERCOSUR were 21.5 billion euros, representing 2.5% of total exports of EU services. Those exports were mainly to Brazil (73%), followed by Argentina (22%). That same year¹⁹, the MERCOSUR total export of services to the world was 47 billion euros. The MERCOSUR exports of services to the EU were 11,6 billion euros, representing 25 % of total exports of MERCOSUR services that year.

Foreign Direct Investment (FDI)

In 2015 the EU had FDI stocks outward for 6.900 billion euros²⁰ and inward 5.745 billion euros. The EU is the biggest investor in the MERCOSUR region, rising from 130 billion euros of FDI stocks in 2000 to 378,2 billion euros in 2015 (representing 5,5% of the total FDI stock outward). The EU FDI stocks in 2015 in Argentina were 39.1 billion euros, in Brazil 327.1 billion euros, in Paraguay 0.9 billion euros and in Uruguay 11.1 billion euros.

In the case of MERCOSUR FDI stocks in the EU it was 132,9 billion euros in 2015 representing 2.3% of total FDI stocks in the EU. The MERCOSUR FDI stocks in the EU was divided as follows:²¹ Argentina 1,9 billion euros, Brazil had 127,4 billion euros

¹⁸ <http://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur/>

¹⁹ <http://www.intracen.org/itc/market-info-tools/statistics-export-country-service/>

²⁰ [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Top_10_countries_as_extra_EU-28_partners_for_FDI_stocks,_EU-28,_end_2012%E2%80%932015_\(billion_EUR\)_YB17.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Top_10_countries_as_extra_EU-28_partners_for_FDI_stocks,_EU-28,_end_2012%E2%80%932015_(billion_EUR)_YB17.png)

²¹ <http://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur/>

(held close to 40 % of total EU FDI inward stocks from BRIC countries²²) and Uruguay 3.6 billion euros. Brazil invested in the EU, mainly in the “financial services” sector, accounting for 88 % of its FDI stock in the EU.

As we can see, according to the data above, MERCOSUR-EU negotiation occurs between a regional block that is the EU with a GNI per capita that is more than three times the one of the MERCOSUR countries. Also, the EU with almost the double of the population than MERCOSUR, has a total GDP that is around seven times the GDP of the MERCOSUR countries.

At the same time, the EU is one of the three largest global players for international trade, and is not only the world's biggest exporter of manufactured goods, but also the first exporter worldwide of agro-food products. Likewise, the EU is one of the main exporters of services in the world and has the bigger amount of FDI stocks around the world.

Therefore, we are faced with the presence of a negotiation on trade issues, in which there is a huge difference of economic resources and insertion in the world, by both regional blocs. This means, among other things that in the event of a negative effect of this Agreement in a specific economic sector, for example on the EU, its capacity for reaction, conversion or adaptation to these circumstances, is much greater than in the case of MERCOSUR.

According to the principle of comparative advantage that we mentioned in the Chapter 1, both parties to the Agreement will benefits from free trade, but that requires time and the possibility for the countries to relocate resources to the production of whatever it is they have a comparative advantage in.

²² BRIC is a grouping acronym that refers to the countries of Brazil, Russia, India and China

Also, as we will see below, given the diversity of sectors in which the EU is competitive, in principle the ability of this Agreement to generate positive effects, it seems greater for the EU than for MERCOSUR.

CHAPTER 3: Interests of the European Union and MERCOSUR in these negotiations

European Union

With regard to this bi-regional negotiation, the current Commissioner for Trade of the European Commission, Cecilia Malmström, recently pointed out that "EU exporters pay more than € 4 billion annually on tariffs only, so the potential benefits of an agreement of Free Trade with MERCOSUR are evident"²³.

On the other hand, for the EU the agreement with MERCOSUR would mean getting ahead of potential competitors from other countries or regions of the world, since this is currently the only important negotiating process that MERCOSUR has open and is well advanced²⁴.

In that sense, China's growing presence in the region, especially since the onset of the 2009 international economic and financial crisis, linked to China's growing demand for food, minerals and energy, and growing investments in South America was one of the reasons that would have driven the decision of the European Commission to re-launch the negotiations with the MERCOSUR in 2010. Given this situation, the IAA is also seen by Europe as a way of not giving more ground to this growing presence of China in the Region.

In the second half of 2016, the Directorate-General for Trade (DGTRADE) of the European Commission sent a questionnaire to the most relevant economic actors in the EU, in order to require their position on the negotiation with MERCOSUR²⁵. The aim of that set of questions was to obtain more information from the EU private sector, in order to prioritize decision-making throughout the negotiation process.

²³ <http://www.europarl.europa.eu/sides/getDoc.do?type=CRE&reference=20160510&secondRef=ITEM-013&language=ES&ring=O-2016-000046>

²⁴ http://trade.ec.europa.eu/doclib/docs/2017/july/tradoc_155779.pdf

²⁵ http://trade.ec.europa.eu/consultations/index.cfm?consul_id=213

As a result of the aforementioned, during the last year several business associations representing different economic sectors of the European Union announced, through public documents ("position papers"), their interests or objectives to be reached in these bi-regional trade negotiations.

While it cannot be assumed that what has been expressed through the aforementioned "Position Papers" of these EU economic sectors represents the totality of EU economic and trade interests in the negotiations with the MERCOSUR countries, in my opinion, that it is a relevant sample.

The most relevant interests for some of the representative associations of European industry and agriculture are detailed below for each negotiation topic. In this regard, the following are highlighted:

- The elimination of MERCOSUR tariffs for fresh fruits and vegetables, animal or vegetable fats and oils, dairy products, malt, cocoa and all semi-finished products of cocoa, beer and liqueurs, footwear, auto parts, mechanical, electrical, electronics and European metal products as a whole. According to Graciela Molle²⁶, in 2004 the European Commission would have indicated that in matters of goods it concentrated its ambitions and had high expectations in the automotive sector, demanding the tariff reduction of the auto parts to the putting into force of the Agreement.
- Rules of origin for oils and fats that provide preferential export opportunities for the EU, in particular for specialty fats. The auto parts manufacturers request the accumulation of origin with other countries that have already signed a Free Trade Agreement with the EU. Also, EU engineering industries emphasize that "rules of origin" are extremely important.
- The prohibition of differential export taxes.

²⁶ Molle G. (2008). Negociación MERCOSUR-Unión Europea.

- To reduce costs, procedures and bureaucratic burden on customs issues. Also, eliminate or reduce regulatory obstacles, such as different certification requirements within MERCOSUR.

- Review procedures for the recognition of phytosanitary standards, which would currently act as barriers to trade. Recognition of the European plant protection system as a sufficient standard, without adding additional treatment burden or completing a long-term pest risk analysis. The need for MERCOSUR to act as a single bloc in terms of procedures for access to its markets and phytosanitary conditions. Harmonization of the four systems towards a common system of approval. Also, establish fast-track procedures for priority products from the EU.

- EU products circulate freely among MERCOSUR countries.

- The European chemical industry requests that within MERCOSUR, Member States recognize the conclusions of tests and studies carried out in another Member State and finalize the requirements of duplicate tests or studies.

- The European automotive industry calls for the MERCOSUR countries to join the "World Forum for the Harmonization of Vehicle Regulations (WP.29)" and to become Contracting Parties to the so-called 1958 Agreement with the aim to sign and enforce all UN Regulations, annexed to the 1958 Agreement that the EU has signed and is implementing. In addition, that MERCOSUR countries recognize the EU and United Nations Economic Commission for Europe (UNECE) approvals and trade marks for EU automotive products, without additional requirements (for instance, tests or administrative procedures) covering the acceptance of new technologies.

- The inclusion, recognition and acceptance of "re-manufactured" products²⁷.

²⁷ Remanufactured good means a non-agricultural good that (1) is entirely or partially comprised of parts (i) that have been obtained from the disassembly of used goods; and (ii) that have been processed, cleaned, inspected, or tested to the extent necessary to ensure they are in original working condition; and (2) has a warranty.

- "Services" are one of the main offensive interests of EU companies. In particular, the EU is interested in telecommunications, financial services and maritime transport services. They are also very interested in obtaining concessions in other sectors such as environmental, professional, computer-related services and many business-related services such as agriculture-related services and news agencies.

- Another EU priority is the substantial opening up of new markets through "public procurement" at all levels and in all public entities. In addition, construction services and state-owned enterprises should also be covered by relevant procurement commitments. Also, modernize procurement procedures to improve "transparency" and allow European companies to participate in tenders in MERCOSUR countries.

- In "Intellectual Property (IP)", a greater connection between national regulatory authorities within MERCOSUR. Also, signing and ratifying key international treaties and instruments (including the "Patent Cooperation Treaty (PCT)") for the protection of IP as a priority. Also, reduce the time required for registration procedures for patents and trademarks.

- Also, an important offensive interest of the EU is the protection of the main European "Geographical Indications (GIs)". It should be noted that the protection of the GIs in the case of agricultural products, foodstuffs, wines and spirits is an essential component of the EU's agricultural policies, trade negotiation and trade promotion.

For the European Commission, the protection of the European GIs through Trade Agreements facilitates their penetration in international markets or allows expanding their business to the products already present in the market. In 2010, GI products accounted for 15% of all EU foods and beverages exported to third countries²⁸.

- A specific chapter for Small and medium-sized enterprises (SMEs), which establishes the implementation of a website by MERCOSUR that is able to comprehensively collect

²⁸ http://europa.eu/rapid/press-release_IP-16-2172_es.htm

rules and regulations to help SMEs navigate through the complex regulatory framework.

Industrial products would be the major beneficiaries of the agreement in the EU, followed by service activities. The EU has comparative advantages in most manufacturing sectors, especially pharmaceuticals, chemicals, machinery and equipment, and motor vehicles and transport equipment.

The interest of the European industrial sector in the agreement with MERCOSUR is not only related to its competitiveness vis-à-vis MERCOSUR, but also to the need to reactivate activities that in many cases would not have fully recovered from the world economic and financial crisis that began in 2008/2009, and which also face competition from exports from other emerging economies, particularly China.

The bi-regional agreement is also of interest to European service companies, as trade liberalization with MERCOSUR could provide significant opportunities for the export of environmental, business and professional services and the financial services and telecommunications subsectors, as well as in maritime transport.

Although the overall effect for the EU agricultural sector of an agreement with MERCOSUR will surely be negative, liberalization of MERCOSUR imports would be beneficial for some EU products, such as olive oil, wine and other alcoholic beverages.

MERCOSUR

MERCOSUR has so far not been successful in terms of trade agreements with other countries/Trade blocs outside the Latin American Integration Association (ALADI). MERCOSUR has agreements only with Israel and Mexico, and preferential tariff agreements with Cuba, India and the Southern African Customs Union (SACU).

Therefore, for the MERCOSUR countries to be able to reach a trade agreement with a trade bloc of the size of the EU, would break many years of very few results in its

external agenda. This is also of great importance, especially in view of the stagnation of multilateral trade negotiations, which have been going on for many years, and this is not expected to change, at least in the short term.

In addition, MERCOSUR could then use all the work done and the way forward in this important negotiation with the EU, in order to be able to reach other Free Trade Agreements with different counterparts. For instance, MERCOSUR recently concluded an exploratory dialogue with the aim of negotiating a Trade Agreement with Canada²⁹. As well, negotiations for a Free Trade Agreement with the European Free Trade Association (EFTA) were recently started³⁰.

Likewise, an Agreement with the EU implies equalize MERCOSUR countries with the other countries in the region that already have agreements with the EU, such as Mexico and Chile - which are currently negotiating a "modernization" of their Bilateral Agreements already in force several years ago-, the Central American countries, CARICOM countries, Colombia, Peru and Ecuador.

On the other hand, if an Agreement is reached with the EU on such varied issues as public procurement, sanitary and phytosanitary matters, etc., this will force progress on the subjects within MERCOSUR's internal agenda, which have not yet been agreed upon.

For example, the MERCOSUR Public Procurement Protocol is not yet agreed among the MERCOSUR members themselves.³¹ However, a Public Procurement Agreement is being negotiated with the EU. The fact that MERCOSUR does not yet have a common text, makes negotiation with the EU more difficult and also leads to the need to have such a Protocol in the short term.

²⁹ <https://www.mrecic.gov.ar/mercotur-y-canada-mas-cerca-de-iniciar-negociaciones-para-un-acuerdo-comercial>

³⁰ https://www.mrecic.gov.ar/userfiles/Comunicado%20Conjunto%20EE.PP_ES_%2020.07.doc_.pdf

³¹ http://www2.mre.gov.py/index.php/noticias/se-dio-inicio-la-reunion-del-gmc-en-el-marco-de-la-cumbre-del-mercotur-en-mendoza?ccm_paging_p=112

Therefore, negotiations with the EU and the possible signing of the bi-regional agreement would oblige MERCOSUR to advance and address issues that have been stuck for many years or to "modernize" regulations on new issues. In short, another important goal of MERCOSUR in this important negotiation with the EU could be to strengthen MERCOSUR itself.

In general terms we can say that the MERCOSUR countries are very competitive in agricultural goods. In that sense, it could be pointed out that if MERCOSUR were to achieve an effective improvement of access for agribusiness products, the Agreement may also lead to an improvement in employment, new investments in products with greater added value for the EU market, technological improvement and an exportable supply of goods greater and more diversified. All of this could be very positive for the agro-industrial sector of MERCOSUR.

The opening up of the EU market is also signaled by several analysts as an important factor that will further boost the already important investments of the UE countries, as well as the rest of the world, for the expansion and diversification of the productive structure of MERCOSUR. Also, a bi-regional agreement would have impacts on the overall business climate, setting a different framework for investment plans in the four South American countries.

According to a report from the "Centro de Economía Internacional (CEI)"³², for Argentina, the items with the greatest potential for increasing exports (where there is a high tariff and there is a complementarity between the UE demand and the Argentine supply) are those relating to meat, fruit, fish and cereals. Eventually, they would also allow producing goods with a greater degree of elaboration, which currently enter sporadically into the European market.

³² http://www.sice.oas.org/TPD/MER_EU/Studies/CEIarg_s.pdf

Also, the study by the "Federação das Indústrias do Estado de São Paulo (FIESP)"³³, mentions that the Agreement with the EU has the potential to increase Brazilian exports to that market by up to 12%. In addition, FIESP indicates that the type of Agreement with Europe, due to its thematic scope, would act as a catalyst for technology transfer and technical cooperation for Brazil, either through universities, or through structured initiatives of the private sector with Representatives of the European industry.

MERCOSUR has its most important aspirations in the agricultural and processed agricultural products sector, with access to the market through the reduction or elimination of tariffs, as well as the obtaining significant Tariff Quotas for sectors that the EU only grants a reduction of the customs duty payable for limited quantities of imports, such as beef, poultry, dairy, grains and garlic.

With regard to this point, MERCOSUR believes that being able to benefit from this Agreement, it is necessary to count large quantities for products that the EU offers tariff quotas (which is already a quantitative limitation in itself for access to the EU market), and that the tariff reduction offered by the EU should include the elimination of all components of applied import duties (not just "ad valorem").

On the other hand, Regulation (EU) 978/2012³⁴ established a new scheme of access to the system of Generalized System of Preferences (GSP) of the EU. As a result, the EU eliminated unilateral preferential treatment of all countries which has been classified by the World Bank as a high or an upper middle-income country for three consecutive years. Since 2014, these countries include Argentina, Brazil, and Uruguay .

In 2013, for example, in the case of Argentina as a GSP beneficiary, 25% of its exports entered the EU under this preferential regime. From the point of view of bi-regional negotiation, this announcement of the EU's GSP modification, also acts as an element

³³ <http://www.fiesp.com.br/indices-pesquisas-e-publicacoes/propostas-de-integracao-externa-da-industria>

³⁴ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:303:0001:0082:ES:PDF>

of pressure or encouragement towards MERCOSUR to accelerate the negotiations of this IAA.

CHAPTER 4: Interest that may be seriously harmed by this Agreement

On the side of the European Union

In general terms, it may be noted that in the negotiation with MERCOSUR, as in the negotiations in the WTO and in other trade agreements, the EU's defensive interests are mainly in the agricultural sector and in the subsidies of the Common Agricultural Policy. This last issue is not addressed in bilateral or bi-regional negotiations as they are discussed at the multilateral level.

Position Papers of the different economic sectors of the EU

As previously noted, agricultural production is less competitive in the EU than in MERCOSUR. The situation with regard to the agricultural sector and trade negotiations with other countries became more complex in the EU after the incorporation of Eastern European countries and the deepening of the global economic crisis that began in 2008. In this context, European farmers began to exert increasing pressure on the European Commission not to grant concessions or preferences in this sector of the EU economy.

As noted in the previous chapter, in 2016 the European Commission sent a questionnaire to the most relevant productive actors in the EU, regarding the negotiations with MERCOSUR. Of the "position papers" of some EU economic sectors, the following "EU defensive interests" can be mentioned for these bi-regional negotiations:

- Protection of the EU mill industry, excluding maize and maize products from the tariff liberalization regime. The oilseeds sector calls for a gradual scheme of tariff dismantling. Also, to respect the sensitivity of certain sectors such as starch and wheat flour.

- Sugar, sugar products and ethanol are designated as sensitive products. However, here there are contradictory positions between different sectors of the EU, the

"European Confederation of European Beet Growers (CIBE)" ³⁵ and the "European Renewable Ethanol Association (ePURE)" ³⁶ with defensive or protectionist positions on the one hand, and "The European Chemical Industry Council "(CEPIC) ³⁷, on the other hand, calling for the opening of the EU market.

-The market opening for the livestock sector (beef, pork and poultry) should be kept to a minimum. It is mentioned that feed is an important selling point for EU primary food processors and a major opening of the European livestock market could seriously threaten the economic viability of the entire supply chain.

- Do not make concessions on soybean oil and soy methyl ester, as long as the issue of differential export duties remains unresolved.

- Other sensitive agricultural products: eggs and egg products; cornmeal; semolina brewing and "flaking grits (type of corn flakes)".

- An effective safeguard clause should be included in the agreement for the European agricultural sector.

As can be seen from what is mentioned in this section, there are different productive agricultural sectors in the EU, which could be affected by reaching an agreement with MERCOSUR.

UE Council on Agriculture and Fisheries

In April 2016, a note³⁸ entitled "Negotiation of the Association Agreement between the European Union and MERCOSUR" of 13 EU countries (Austria, Cyprus, Estonia, France, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Poland, Romania and

³⁵[http://www.cibe-europe.eu/img/user/file/069-](http://www.cibe-europe.eu/img/user/file/069-16%20CIBE%20Press%20Release%2019%20May%202016.pdf)

[16%20CIBE%20Press%20Release%2019%20May%202016.pdf](http://www.cibe-europe.eu/img/user/file/069-16%20CIBE%20Press%20Release%2019%20May%202016.pdf)

³⁶<http://epure.org/media/1327/160318-def-epure-position-on-eu-MERCOSUR-fta-negotiations.pdf>

³⁷<http://www.cefic.org/Documents/RESOURCES/Reports-and-Brochure/Chemical-Connections.pdf>

³⁸<http://data.consilium.europa.eu/doc/document/ST-7629-2016-INIT/en/pdf>

Slovenia) and presented at the Council Meeting on Agriculture and Fisheries that month, among other things, it is mentioned that:

- The treatment of sensitive agricultural products must be carried out with the utmost care. The European agricultural sector is currently facing a particularly difficult crisis. In this context, an offer to MERCOSUR containing quotas on sensitive products would probably be seen as a provocation by the European agricultural sector.

- We are opposed, for a number of reasons, to proposals for quotas on sensitive products in the European offer to be passed on to MERCOSUR in the coming months, and we wish the Ministers of Agriculture to examine this important issue before taking any decision on a future tariff offers.

On the other hand, on November 9, 2016, the delegations of Germany, France and Poland submitted a Note to be presented at the meeting of the Council on Agriculture and Fisheries, which states:

“France, Germany and Poland point out that, given the competitiveness of the agricultural sectors of MERCOSUR countries compared to EU agriculture, the exchange of agricultural trade concessions should not be asymmetrical to the detriment of the EU. The general principles of eliminating unjustified barriers, reciprocity of concessions, identical transition periods, respect for EU rules and policies, as well as sanitary and phytosanitary standards should also be observed in the negotiations with MERCOSUR”³⁹.

Finally, a new Meeting of the Council of Agriculture and Fisheries took place last 17 and 18 of July. In the framework of this meeting, the EU Ministers of Agriculture indicated that they have misgivings about the MERCOSUR agreement, highlighting the importance of defending sensitive sectors like beef meat, ethanol and sugar. Reciprocity was also mentioned as one of the principles that should guide negotiations.

³⁹ <http://data.consilium.europa.eu/doc/document/ST-14240-2016-INIT/en/pdf>

Report of the “Joint Research Centre (JRC)” of the European Commission

The JRC report entitled "Potential EU-MERCOSUR Free Trade Agreement: Impact Assessment" of December 2011⁴⁰, presents the simulations made with two different models of two alternative hypothetical versions of a bilateral free trade agreement between the EU and MERCOSUR.

The simulation results show that the economic losses and the adjustment pressures arising from a bilateral Trade Agreement between the EU and the countries of MERCOSUR would, as far as the EU is concerned, fall very heavily on the agricultural sector.

The simulations show that, as far as agriculture is concerned, there are significant losses to EU producers and gains to MERCOSUR producers in all scenarios. Also results show that the gains in the EU manufacturing sector outweigh the losses to the EU agrifood sector, leading to an overall increase in GDP. This increase ranges from €8.9 billion (first scenario) to €66.0 billion (fifth scenario). Non-agrifood production in MERCOSUR, particularly in the manufacturing sector, falls in all scenarios.

On the MERCOSUR side

There is undoubtedly a fear on the part of the MERCOSUR industrial sector, especially in Argentina and Brazil, which are those with a more developed industrial sector and have shown over the years more resistance to this agreement with the EU, since the European industry is certainly not only more competitive, but also a much larger scale of production.

Therefore, manufactures of industrial origin are one of the main products that MERCOSUR seeks to protect from its offer, with longer tariff reduction periods. This will be requested by MERCOSUR, taking into account the principle of "special and

⁴⁰ <http://ipts.jrc.ec.europa.eu/publications/pub.cfm?id=4819>

differential treatment", regarding the large differences in the levels of development of the countries of both blocs, as mentioned in Chapter 1.

In connection with the above, in 2016 the "Coordinator of the Southern Cone Trade Union Coordinating Body (CCSCS)" and the "European Trade Union Confederation (ETUC)" said through a Statement⁴¹ that "in case the negotiations move forward, we consider essential unavoidable to include in the frame of the agreement the following topics: a) The possibility that underdeveloped countries can use instruments of industrial policy, for example, through the use of "rising industries clauses" or "lifeguard mechanisms" that provide the opportunity to develop new production sectors or the protection of production sectors with high level of sensibility."

It is important to note that although these longer tariff reduction periods address the need to adapt the MERCOSUR industry, the EU, for its sensitive agricultural products, only offers "tariff quotas" in many cases, which are by definition, limited (non-free) market access to a certain quantity of products or tones.

One of the sectors in which there is more resistance to competition from the EU industry is the automotive sector⁴², especially in Brazil and Argentina, where intra-MERCOSUR already excludes this industry from free trade, since the trade of vehicles and auto parts within the South American trade bloc is governed by bilateral agreements that allow the importation without tariffs, but maintaining a proportional relation between bilateral exports and imports.

The automotive industry and its auto parts, both in Brazil and in Argentina, are important generators of employment, especially indirect ones. Therefore, it is estimated that the MERCOSUR countries will naturally try to protect, at least for several years, the terminal companies established in their countries.

⁴¹https://www.etuc.org/sites/www.etuc.org/files/document/files/20160606_en_declaracion_ces_ccscs.pdf

⁴² Makuc A., Duhalde G., Rozemberg R. (2015). La Negociación MERCOSUR-Unión Europea a Veinte Años del Acuerdo Marco de Cooperación: Quo Vadis?

In addition, Brazil's FIESP⁴³ notes that several industry associations in that country Brazil detected sensitivities in the case of an agreement with the European Union. This is because, in general, the results of the simulation point to considerable losses, in terms of trade balance, in important manufacturing sectors such as machinery and equipment and chemicals.

FIESP also highlights the concern that the cost of production of vehicles in Eastern Europe is lower than the Brazilian, considering the production in that region of models similar to those in Brazil.

On the other hand, there is the issue of the displacement of Intra-MERCOSUR trade resulting from the opening to the EU. To cite an example, we can mention the one of the dairy sector. EUCOLAIT (representing the interests of European exporters, importers and wholesalers of dairy products) mentions in its “position paper⁴⁴” that MERCOSUR has a mixed situation with regard to dairy products, as it comprises both the main exporters (Argentina and Uruguay) and importers (Brazil and potentially in the future also Venezuela).

As indicated by ECOLAIT, exports of EU dairy products to Brazil cannot be classified as significant and they are limited due to the preferential access to the Brazilian market of Argentine and Uruguayan neighbors. Therefore, if there is a complete elimination of tariffs on dairy products between MERCOSUR and the EU, the countries of the European bloc, they could displace Argentina and Uruguay as suppliers in Brazil. This is an example of intra-MERCOSUR trade displacement, which could result from this Agreement with the EU.

⁴³ <http://www.fiesp.com.br/indices-pesquisas-e-publicacoes/analise-quantitativa-de-negociacoes-internacionais/>

⁴⁴ <http://www.eucolait.eu/userfiles/files/Position%20papers/Eucolait%20position%20on%20MERCOSUR%2027.04.2016.pdf>

CHAPTER 5: The main “issues” of the MERCOSUR-UE negotiations related to the trade in goods

Sectorial interests

In general terms, with regard to trade in goods, and as we mentioned before, we can say that MERCOSUR seeks through an Agreement with the EU, to increase its exports of processed agricultural and agricultural goods, which are the sectors in which they are competitive or can be competitive at the international level, and through this to improve the employment and the quality of life of its citizens.

MERCOSUR also seeks to protect, at least for the longest possible period of time, its manufacturing industry, which is an important generator of employment, but which in many cases may become competitive at the regional level, but not globally.

In the case of the EU, interests are more diverse, as discussed in Chapter 2, as the EU seeks not only to improve business and sales of its industrial sector, but also the services sector, to achieve greater protection of Intellectual property rights and also the recognition of numerous Geographical Indications. On the other hand, the EU is and always has been protectionist in its agricultural sector.

Given that it is not possible to refer to all aspects of this bi-regional negotiation, we will refer here to certain aspects of the negotiation of the chapter of goods, which has possibly been the most complex to find a solution so far.

As we indicated above, we can see that the interests of both blocs are practically opposite in the trade of goods, and from the beginning of negotiations we appreciate that where one of these trade blocs has offensive interests, it seems that the other trade block has defensive interests, which is precisely one of the main difficulties of this trade negotiation.

This is a major challenge for EU and MERCOSUR officials when they sit down at the negotiating table, and in this sense it seems very difficult to reach a Free Trade Agreement between the two regions.

Set parameters for offers of goods

Under the WTO, a customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories so that duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to “substantially all the trade” between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories⁴⁵. Although there is no consensus as to what constitutes “substantially all the trade”, the European Commission points out that it is a question of taking 90% of the value of imports from a certain reference period⁴⁶.

Then the work of both trading blocs has been focused on building their offers taking into account the tariff elimination of products that represent 90% of value of bilateral imports in a given period.

EU Offer

Let’s see the case of the European Union and the arming of its list of goods necessary to reach 90% of the imported goods by the European Union of MERCOSUR in a certain period. According to the European Commission, the average applied tariff for goods imported into the EU is very low, more than 70% of imports enter the EU at zero or reduced tariffs⁴⁷.

First, as we saw above, MERCOSUR exports to the EU are concentrated in sectorial terms and almost two-thirds of trade is based on natural resources, in particular, food and raw materials.

⁴⁵ https://www.wto.org/english/tratop_e/region_e/region_art24_e.htm

⁴⁶ Molle G. (2008). Negociación MERCOSUR-Unión Europea.

⁴⁷ <http://ec.europa.eu/trade/policy/eu-position-in-world-trade/>

Almost half of MERCOSUR's exports to the EU are raw materials with low added value, which enter the European market practically free of tariffs because they are necessary inputs for agricultural and industrial production, such as cakes and other solid waste from the extraction of soya-bean oil (accounting for 39% and 36% of Paraguay's and Argentina's total exports to the EU, respectively), iron ore, coffee beans (accounting for 8% of Brazil's total exports to the EU), hides and skins, peanuts without shell, mineral products, etc. The EU in these sectors is very open, because as mentioned above, it promotes industrial development, above primary production in that continent.

Secondly, as it mentioned by the European Commission, the EU for imports of non-agriculture products, the average tariff is around 4%⁴⁸, which is among the lowest in the world. In the case of the industrial or manufactured products, however, the difficulties of MERCOSUR's, in general, to compete in the European market, is not due to the tariff issue, but because the four countries of the regional block are not competitive globally in these products.

Now let's look at the case of processed agricultural products, whose tariffs are very high. We can mention for example the case of chocolate in which, if we want to export to the EU "cocoa beans, whole or split, raw or roasted" the tariff is 0%. The EU tariffs increase with the level of processing of the cocoa product, which implies a negative impact on the exports of cocoa products by the producing countries. The ad valorem tariffs applied by the European Union are between 0% and 9.6% and the other fractions have compound tariffs consisting of ad valorem and specific tariffs. Similar situation occurs in the case of coffee, in which Brazil is competitive.

Also, we can mention the case of olive oil that has a tariff of 134.60 euros per 100 kg (ad valorem total higher than 45%) or orange juice with a tariff of 33.60% + 20.60 euros per 100 kg (total ad valorem above 80%). In the case of the dairy industry, the EU sets duties, which are on average more than 32% of an ad valorem tariff.

⁴⁸ http://stat.wto.org/TariffProfiles/E28_e.htm

On the other hand, the European Union maintains high tariffs for agricultural products in which the MERCOSUR countries are competitive. It is the universe covered by the WTO Agreement on Agriculture, mainly chapters 1 to 24 of the Harmonized System of Classification of Goods (HS), where protection and distortions in the European Union are concentrated.

To give an example, we now mention the case of beef that is a product in which all MERCOSUR countries are competitive. While most of these countries have preferential access, through "tariff quotas", for example in the case of the so-called "Hilton quota", the preferential tariff is no less than 20%. On the other hand, for the sale of frozen beef outside the quota - called the GATT quota - the tariff is 12.8% plus a specific price of 3,041 euros per ton, equivalent to an ad valorem value of between 80% and 130% according to the selling price.

The same can be said for the case of garlic that has a tariff of 9.6% + 120 euros per 100 kg (total ad valorem more than 90%). In addition, paddy rice has a tariff of more than 60% ad valorem.

Therefore, as we mentioned in Chapter 1, the European agricultural sector is a major producer and exporter at the global level, based mainly not on the abundance of its natural resources (as in the case of MERCOSUR), but among other issues its related to the EU Common Agricultural Policy and a high degree of protection with tariff peaks, specific tariffs, compound tariffs, seasonal tariffs (entry price regime) and tariff quotas.

Thus, for many agricultural and agro industrial products in which countries are or could be competitive, as in the case of MERCOSUR, the EU market is highly protected.

Consequently, these parameters established for the bi-regional negotiation mean for the MERCOSUR countries to leave out a large quantity of products that at present cannot enter the EU by existing barriers. Any proportion of the essential trade that is used as a parameter for MERCOSUR exports to the EU excludes "potential" agricultural

trade (primary products and industries that use agricultural inputs) that cannot enter the EU because of very high tariffs.

In this way, the EU can, without much difficulty, build a list of goods that imply 90% of trade with MERCOSUR, without putting its sensitive products at risk, which are currently outside the trade.

MERCOSUR Offer

Now let's look at MERCOSUR's construction of the list of goods and the need to reach goods that imply 90% of the value of imports coming from the EU in a given period.

As we saw above, there is a great interest of the EU to have preferential access in MERCOSUR, particularly in the industrial sector, a sector that European companies are very competitive. Similarly, MERCOSUR imports from the EU are nowadays, as we saw in Chapter 1, mainly in these manufacturing sectors.

It should be noted here that the maximum value of the MERCOSUR Common External Tariff (CET) is 35%⁴⁹, an important difference from the EU, where total tariffs can reach much higher values, discouraging imports.

Therefore, for MERCOSUR, which seeks to protect its industrial sector, it is very difficult to do so, since it must build its list of products, reaching goods that imply 90% of value of imports from the EU, and there a majority is today already industrial products.

So, on the one hand, we have MERCOSUR that wants to gain access to the EU free of tariffs for its export products and it is very difficult to achieve it with the parameters established for this negotiation. On the other hand, the EU manages to protect its sensitive sectors and, in addition, it can achieve the access it seeks in the MERCOSUR market.

⁴⁹ <http://ucu.edu.uy/sites/default/files/facultad/fce/dnii/informe-isie-n4-v2.pdf>

In this way, the framework of the parameters established for the negotiation of MERCOSUR-EU goods (90% of the essential exchanges), would leave the European Union in a very satisfactory position, and on the other hand, it has the opposite effect in the MERCOSUR. This is one of the reasons why it has so far been very difficult to succeed in this bi-regional negotiation.

The EU can offer a liberalization of 92% of its trade without compromising the protection of its sensitive products of MERCOSUR interest. Thus, if MERCOSUR accedes to the demands of the EU, which do not have a counterpart in better access to its most competitive exports, it would be in principle accepting a rather negative agreement for future bilateral trade, with the addition that the MERCOSUR industry will have to pay the cost.

Tariff reduction periods

While the EU wants a short period of tariff reduction for sensitive products from both sides, MERCOSUR calls, under the "special and differential treatment" principle, and taking into account differences in the levels of development of both regions (as we saw in Chapter 1), for longer tariff relief periods for its industrial sector, in order to protect those sectors that need to be restructured.

This issue may be conflictive and with different points of view on both sides of the continent, but in case of a positive progress in the negotiations in different aspects, and also an agreement is reached with respect to the products of one party that will have preferential access in the other, it is considered that the EU and MERCOSUR may reach a point of agreement on this point.

It is important to remember that if the EU and MERCOSUR had succeeded in reaching an agreement, for example in 2004, all the products that would have been included in that agreement would now enjoy the agreed maximum tariff reduction.

Different types of tariff restrictions:

For the sensitive products that are at stake in this trade negotiation, as we saw before, the levels of tariff protection of the European Union are much higher than those of MERCOSUR. We will now refer to the level of complexity of the type of tariff system that both regions have.

MERCOSUR has a Common External Tariff, in accordance with the provisions of the Treaty of Asuncion, with ad valorem tariffs varying according to the category of products and whose maximum tariff for certain products (automobiles, textiles) is 35%. As we pointed out above, even for MERCOSUR sensitive products, linked to sectors such as automotive, auto parts, toys and textiles, there is a considerable number of imports from third countries.

In addition, MERCOSUR has at the tariff level a single import protection instrument for its sensitive products, which are ad valorem tariffs, which makes MERCOSUR tariff protection, as well as the proposal of tariff preferences in the Bi-regional negotiations, easily quantifiable in terms of market access.

On the European Union side, for its sensitive products, it has a much more complex tariff regime with a system of entry prices, tariff quotas, special safeguards, ad valorem tariffs, specific tariffs, mixed tariffs, compound tariffs and additional specific tariff by sugar/flour content and based on formulas.

Therefore, the difference between the type or system of tariff protection between MERCOSUR and the EU is very clear, which implies that for the preferences of both parties to be common or similar, the EU should introduce or eliminate all tariff restrictions it has in these bi-regional negotiations.

The latter is highly unlikely, since, for example, the EU has its tariff quotas to protect certain sensitive agricultural products and does not plan to stop using such an instrument, as well as the EU can hardly put aside its protection established through

the system of "entry price" for fruits and vegetables. This issue of the difference in the system or types of tariff protection between MERCOSUR and the EU for their corresponding sensitive products is undoubtedly an element that hinders bilateral negotiation.

Market access "free" versus "restricted"

As mentioned above, for many sensitive agricultural products, the European Union, as it has been doing in all trade negotiations, offers tariff quotas, which in some cases have intra-quota tariffs. With a tariff quota quantities inside a quota are charged lower import duty rates, than those outside. In the case of MERCOSUR, for sensitive products, this block does not have tariff quotas and offers a tariff elimination period.

According to the WTO⁵⁰, the EU maintains tariff quotas for three general types of imports: agricultural products, "autonomous" MFN quotas, and imports from certain countries pursuant to preferential agreements. As of October 2016, there were 1,006 categories of tariff quotas applied on a variety of products in the EU. Tariff quotas of the EU cover around 5% of tariff lines⁵¹.

Here there is a substantial difference with respect to the type of preferences for goods that both trading blocks can offer. While, on the one hand, the EU industrial goods (sensitive products of MERCOSUR) should wait a few years (tariff reduction period) to be able to access tariff-free and without quantitative restrictions to MERCOSUR, on the other hand, certain products of interest to MERCOSUR (and sensitive for the EU), may enter the EU preferentially, but only for a limited amount (tariff quota), which may also have a certain type of intra-quota tariff.

This situation is also an element that substantially hinders trade negotiations between the EU and MERCOSUR.

⁵⁰ https://www.wto.org/english/tratop_e/tpr_e/s357_e.pdf

⁵¹ https://www.wto.org/english/tratop_e/tpr_e/s317_e.pdf

"Numerous interests" versus "concentrated interests"

On the EU side on economic and trade issues, as mentioned in Chapter 2, there is an interest in this negotiation with MERCOSUR not only for the preferential access of its exportable goods (especially for the manufacturing sector), but also of getting preferential access, to this market of 263 million people, for European companies that provide services, which as we saw in Chapter 1, are very competitive worldwide.

In addition, the EU has an interest in this bi-regional negotiation in order to gain preferential access to the MERCOSUR government procurement market, to establish better conditions for investments of European origin, to obtain more stringent provisions for the Intellectual Property Rights, and the recognition of a large amount of Geographical Indications of agricultural goods of the EU. In addition, the EU has other interests in this negotiation, such as a "Trade and sustainable development" chapter⁵².

On the MERCOSUR side, despite the fact that certain service sectors (such as computer services in Argentina⁵³) are globally competitive, the interests are more concentrated in obtaining preferential access for its agricultural and agro industrial products.

This situation in which the EU has a wide variety of interests and the MERCOSUR less, is due to the difference of the degree of economic development of both regions and their economic international integration.

This difference of ambition in the Agreement by both parties implies that for MERCOSUR the negotiation is mainly focused on the access to market in goods and for the EU in many more chapters, generating a lack of balance in the negotiation. This would seem that it could only be compensated in some way, if MERCOSUR succeeds in achieving much of its ambition for this Interregional Association Agreement. This issue also hinders the negotiation of this Agreement.

⁵² http://trade.ec.europa.eu/doclib/docs/2010/july/tradoc_146386.pdf

⁵³ <https://www.econstor.eu/bitstream/10419/107675/1/819620912.pdf>

CHAPTER 6: External factors that affected these negotiations during the different periods

In spite of those mentioned in the previous chapter in terms of the complexities of this negotiation, the parties at different times have made important efforts to try to move towards the goal of an Interregional Association Agreement.

In this chapter, we will briefly outline some external factors to this bi-regional negotiation, which explain in some way the decrease in the interest of both MERCOSUR and the EU, in moving towards an Agreement at different times over the years.

End of the negotiations of the Free Trade Area of the Americas (FTAA)

At the Summit of the Americas held in Miami in December 1994, it was agreed to establish the FTAA to generate a continental free trade area by 2005. On the other hand, the North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico, entered into force that same year 1994.

Just a year later, in 1995, when the Interregional Framework Agreement on Cooperation between the EU and MERCOSUR was signed, negotiations began to promote political and economic cooperation and stimulate a closer rapprochement in trade-related issues. This rapprochement between the EU and MERCOSUR is linked to NAFTA, and more to the then ongoing negotiations for an FTAA.

The United States then worked strongly at the multilateral and regional levels with NAFTA and the FTAA as complementary trade strategies. The EU took note of this situation, especially when NAFTA came into force, and then strengthened its policy of preferential negotiations in Latin America.

The first Agreement reached by the EU with a Latin American country was with Mexico, which was signed in 1997, especially amid fears that NAFTA will end up discriminating against exported products from the EU. This negotiation with Mexico for the EU would not be extremely conflicting, since the opening of the European agricultural market for its sensitive products was rather limited⁵⁴.

On the other hand, the Chile-EU Association Agreement was signed in November 2002, achieving a high coverage of the bilateral trade goods. Certainly, the nature of the bilateral trade agenda was very helpful for the implementation of this Agreement, as well as that the negotiations for a Free Trade Agreement between Chile and the United States were very advanced (it was signed a month later in December 2002).

Compared to what was agreed with Mexico and Chile, as mentioned above, the factors that have been present in the EU-MERCOSUR negotiations have been much more complex. The two sides have a very sensitive agenda that is difficult to address and the boundaries of the EU and MERCOSUR appear quickly.

Since 1998 there has been a clear relationship between, on the one hand, negotiations between MERCOSUR and the EU, and on the other hand, the FTAA negotiations. The EU's interest in negotiating with MERCOSUR sought to prevent what a possible hemispheric trade agreement would represent, in terms of trade diversion, to the benefit of other countries and to the detriment of the EU.

Negotiations began with the meeting of the first MERCOSUR-EU Bi-regional Negotiations Committee in 2000 and lasted until May 2004, when the bi-regional dialogue was frozen after 15 meetings of the Negotiations Committee. By then the FTAA had no chance of progress (although this would be confirmed at the Summit of the Americas in Argentina in November 2005) and negatively affected bi-regional negotiations, as the EU should no longer be concerned about the possible loss of a certain portion of the MERCOSUR market and the urgency for Europeans now no longer existed.

⁵⁴ Bouzas R. (2004). Las negociaciones Unión Europea-MERCOSUR. Entre la lentitud y la indefinición.

Doha Round of the World Trade Organization (WTO)

The Doha Round was officially launched at the Fourth WTO Ministerial Conference in Doha (Qatar) in November 2001. The Doha Ministerial Declaration set out the terms of reference for the negotiations, including those on agriculture. The work program covers some 20 areas of trade. The Round is also referred to semi-officially as the "Doha Development Agenda", since one of its key objectives is to improve the trade prospects of developing countries.⁵⁵

Between 2005 and 2008 intense negotiations and discussions take place within the WTO, in order to advance the Doha Round. Finally, negotiations to save the Doha Round failed in July 2008, when former WTO Director-General Pascal Lamy announced that Ministers had failed to reach agreement on agriculture and industrial products (convergence had been achieved with respect to 18 of the 20 negotiating issues).

At the MERCOSUR-EU meetings held since 2005, the commitment to a successful conclusion of the negotiations is well reiterated, at the same time, the best conditions for resuming such negotiations would not have been given, since both the EU and MERCOSUR were very involved and interested in the WTO Doha Round process, where, in some way, the same difficulties that were already present in the negotiation between MERCOSUR and the EU reappear.

Also the European Commission referred to the "single pocket principle"⁵⁶, noting that any concession made in one of the agreements (EU-MERCOSUR or WTO Doha) would reduce the volumes available for preferential access in the other negotiation or would be conditioned to the outcome of the other negotiation. In addition, MERCOSUR had to plan or modify its tariff offer, according to what could result in the Doha Round.

⁵⁵ https://www.wto.org/spanish/tratop_s/dda_s/dda_s.htm

⁵⁶ http://europa.eu/rapid/press-release_MEMO-04-69_en.htm

At that time, it was very difficult to think of an agreement between MERCOSUR and the EU, since what could be agreed would be affected by the tariffs and results of what was foreseen, at that moment, would be agreed at the multilateral level in the WTO. Therefore, for MERCOSUR as well as for the EU, it made more sense to postpone bi-regional negotiations until the multilateral negotiations were concluded.

Enlargement of the EU

The incorporation of ten Central and Eastern European countries⁵⁷ as full members of the EU in May 2004 and then two more in 2007 undoubtedly produced major changes in the EU and strengthened protectionist agricultural positions within the European bloc. The new members of the EU had developing economies with a strong dependence on their agricultural sector. This not only caused problems for the progress of the bi-regional negotiation with MERCOSUR, but also produced tensions within the European Union itself.

This new European Union, at that time had to reorder, and accommodate to this internal challenge and this, in some way, decreased interest in bi-regional negotiation with MERCOSUR. Also, with more countries in the EU, decision-making became more complicated, since the interests of a greater number of actors had to be taken into account.

As for one of the most complex internal issues in the EU, which necessarily took a lot of time and attention from all the countries of this enlarged EU, it was the reform of the Common Agricultural Policy, since, as we mentioned earlier, the new EU member countries had a large agricultural sector.

On the other hand, as these new EU countries were less economically developed than the other EU members, they had to be allocated resources from the EU Structural and Cohesion Funds. All this generated intense internal negotiations in the EU, especially with the countries that until then were the most benefited by the distribution of EU

⁵⁷ República Checa, Estonia, Chipre, Letonia, Lituania, Hungría, Malta, Polonia, Eslovenia, Eslovaquia.

funds. This entire situation did not help, the negotiations with MERCOSUR at that time to have a relevant place in the internal agenda of the EU.

International Economic and Financial Crisis (2008-2009)

The financial crisis began in mid-2007 due to losses resulting from subprime or high-risk mortgages in the United States. The situation worsened with the bankruptcy of the investment Bank "Lehman Brothers" in 2008 and with the bailout of several financial institutions in the United States and Europe. The effects then spread rapidly to other sectors of the economy and the world.

By the end of 2008 there were clear signs of the effect on the global economy of this financial crisis, with the decline in trade flows and falling production, both in developed countries and in countries with developing economies. During 2009 the world gross product fell by 0.5% and in developed countries was much more pronounced, with a decline in growth of their economies of -3.4%.

In terms of the economies of the 28 EU countries in 2009, these contracted by 4.4%, the largest contraction in the history of the European Union. The financial crisis initially focused on developed countries, initially affecting the fall in domestic demand in those countries, and then spread to the entire world. The collapse of the aggregate demand of member countries of the Organization for Economic Cooperation and Development (OECD) generated a global economic recession that reduced the volume of trade in goods by 11% in 2009.

The emergence of the global economic and financial crisis, in which the EU was one of the most affected regions, would motivate the European Commission to try to resume negotiations with MERCOSUR in order to achieve greater access to these markets, especially to Brazil, of interest to European industry. It should be recalled that in 2007 the EU recognized Brazil as one of its main global partners through the formal establishment of the EU-Brazil Strategic Partnership⁵⁸.

⁵⁸ https://eeas.europa.eu/headquarters/headquarters-homepage_en/986/Brazil%20and%20the%20EU

The reactivation of the MERCOSUR-EU negotiations was formally highlighted in the Declaration of the VI EU-LAC Summit held in Madrid in May 2010⁵⁹. However, a year after these negotiations began in May 2011, Ireland backed by other Member States pointed out that "the risks of further opening up of the European market to agricultural products from MERCOSUR countries could harm several agricultural sectors"⁶⁰. Then, the main agricultural and livestock Organizations in Europe came together to reinforce this warning message, made by certain European countries⁶¹.

To understand the reluctance within the European bloc, it is important to remember the great heterogeneity in the speed of recovery of the international economic and financial crisis that began in 2009. In the EU, some countries such as Spain, Greece and Portugal were experiencing a very delicate economic situation with increased unemployment. It should be noted that for the first time in almost a decade, all EU countries are expected to grow positively during 2016-2018.⁶²

⁵⁹ <http://data.consilium.europa.eu/doc/document/ST-9931-2010-REV-2/es/pdf>

⁶⁰ <http://data.consilium.europa.eu/doc/document/ST-8908-2011-INIT/es/pdf>

⁶¹ See Press Release COPA-COGECA (10/11/10) entitled "COPA-COGECA ATTACKS COMMISSION MOVE TO PRIORITISE COMPLETION OF TRADE LIBERALIZATION TALKS WITH MERCOSUR IN TRADE POLICY AGENDA". <http://www.copa-cogeca.be/Main.aspx?page=Archive>

⁶² http://europa.eu/rapid/press-release_IP-17-251_es.htm

CHAPTER 7: Current prospects for reaching an Agreement

In an article earlier this year from the prestigious Bruegel "Think Tank", entitled "Europe in a New World Order"⁶³, it is pointed out that Japan, India and MERCOSUR are the trading partners with which the EU should try to achieve a Trade Agreement. The EU has already reached with Japan, in July of this year, an "agreement in principle" on the Economic Partnership Agreement⁶⁴.

It is extremely difficult to predict the prospects for MERCOSUR and the EU to achieve an Agreement in the short term, particularly after so many years of failed negotiations and also because this depends in large part, how various issues covering very broad and diverse aspects are solved.

In addition, I consider that rather than making a prediction as to the conclusion or otherwise of this Agreement, it may be more useful and realistic at this time to concentrate on whether there is currently a "window of opportunity" or not, for the success of these negotiations.

In order to be able to answer this question, I understand that it is important to take into account different angles that surround and affect the pace and eventual outcome of this negotiation. Next, I will refer to some of these variables, which in my opinion give signals that show that there is currently a "window of opportunity" for the MERCOSUR-EU negotiations:

Economic situation in the EU and MERCOSUR

In February of this year, the European Commission presented the economic projections for the EU for the period 2016-2018 ("European Economic Forecast Winter 2017"⁶⁵). The expected economic growth for the years 2017 and 2018 although it is

⁶³ http://bruegel.org/wp-content/uploads/2017/02/Bruegel_Policy_Brief-2017_02-170217_final.pdf

⁶⁴ <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1686>

⁶⁵ https://ec.europa.eu/info/sites/info/files/ip048_en_3.pdf

low/moderate, for the first time in almost a decade, it is projected that all EU countries will have positive growth throughout the period under review (2016-2018).

In the case of the MERCOSUR economies, according to the Organization for Economic Cooperation and Development (OECD)⁶⁶ reports, for Argentina, economic growth is expected to begin again strongly in 2017 and 2018. In Brazil GDP contracted by 3.8% in 2015 and 3% in 2016. However, it is estimated that the economy is finally emerging from a severe and prolonged recession, although the recovery is expected to be rather weak and slow.

Uruguay, according to the World Bank⁶⁷, has had a very good economic performance, with average annual growth of 4.8% between 2006 and 2015. Likewise, Uruguay's GDP is expected to increase by 1.9% in 2017 and 3% % in 2018⁶⁸. On the other hand, during the last decade, the Paraguayan economy grew at an average of 5%.

Multilateral Trade Negotiations

Following the long stalemate of multilateral negotiations at the WTO, the Agreement on Trade Facilitation, the most important multilateral trade agreement since the WTO's inception in 1995, entered into force on 22 February of this year. However, the main issues of concern to MERCOSUR and the European Union in the area of WTO negotiations are still virtually stagnant.

There are no significant advances or announcements expected during the Eleventh Ministerial Conference of the Organization, which will take place from 10 to 13 December 2017 in Buenos Aires (Argentina), at least in the topics that are dealt with in the IAA negotiations between MERCOSUR and the EU.

⁶⁶ <http://www.oecd.org/eco/outlook/>

⁶⁷ <http://www.bancomundial.org/es/country/uruguay/overview>

⁶⁸ https://www.bbvaesearch.com/wp-content/uploads/2017/06/1S-2017_URUGUAY-Economic-Outlook.pdf

Another important concern of the International Community is the position of the current President of the United States, Donald Trump, in these multilateral negotiations of the WTO, since it will not be possible to make progress in these negotiations, without the support of the United States. The first of March of 2017, the Office of the US Trade Representative (USTR) released the President's National Trade Policy Agenda for 2017⁶⁹, in which there is no strong support from this Administration of the United States in international negotiations within the WTO.

Bilateral Trade Negotiations

As mentioned in Chapter 2, MERCOSUR has so far not been successful in terms of trade agreements with other countries/Trade blocs outside the Latin American Integration Association (ALADI). MERCOSUR has agreements only with Israel and Mexico, and preferential tariff agreements with Cuba, India and the Southern African Customs Union (SACU).

At present, there seems to be a strong willingness on the part of MERCOSUR countries to reach Trade Agreements with other countries and trade blocs. As noted in the “joint communiqué” of the Presidents of the MERCOSUR states last July⁷⁰, they highlighted the progress being made in the current momentum of MERCOSUR's international economic and trade agenda, with the European Union, EFTA, Canada, Australia - New Zealand (CER), Japan and the Republic of Korea.

In the case of the European Union, the situation of the last years is very different since it has a large number of Agreements under negotiation, signed, coming into force and in force, with countries on all continents⁷¹. Some of the current Agreements being negotiated by the EU, which could have some positive effects in the negotiations between MERCOSUR and the EU, are mentioned below.

⁶⁹ <https://ustr.gov/sites/default/files/files/reports/2017/AnnualReport/Chapter%20I%20-%20The%20President%27s%20Trade%20Policy%20Agenda.pdf>

⁷⁰ https://www.mrecic.gov.ar/userfiles/Comunicado%20Conjunto%20EE.PP_ES_%2020.07.doc_.pdf

⁷¹ http://trade.ec.europa.eu/doclib/docs/2012/june/tradoc_149622.pdf

EU-Japan

Within the framework of the 24th EU-Japan Summit, and after four years of negotiations, the parties reported that on 6 July they had reached an “agreement in principle” on the main elements of the EU-Japan Economic Partnership Agreement⁷².

The Commissioner for Agriculture and Rural Development of the European Commission, Phil Hogan, recently pointed out that "this is the most significant and far-reaching Agreement ever reached in agriculture for the EU." Under this Free Trade Agreement, about 85% of EU agro-food products (in tariff lines) will be able to enter Japan without paying tariffs⁷³.

This Agreement, if put into effect, can be an important factor in favor of the progress of the MERCOSUR-EU negotiations, since it will be one of the few in which European agriculture has more to win than to lose. This would leave more room for the European Commission to negotiate agricultural concessions for MERCOSUR.

Australia and New Zealand

Regarding Australia, the leaders of the EU and Australia, on 15 November 2015, agreed to commence work toward the launch of negotiations for a Free Trade Agreement⁷⁴.

In April of 2017 Australia and the EU have successfully concluded a joint scoping exercise on a future Free Trade Agreement between the two economies. Both sides will now work through their domestic processes to secure approval of a negotiating mandate⁷⁵.

As regards New Zealand, the situation is practically identical, since the Commissioner for Trade, Cecilia Malmström, and New Zealand’s Minister of Trade, Todd McClay, on 7

⁷² <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1686>

⁷³ <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1687>

⁷⁴ <http://ec.europa.eu/trade/policy/countries-and-regions/countries/australia/>

⁷⁵ http://trademinister.gov.au/releases/Pages/2017/sc_mr_170407.aspx?w=tb1CaGpkPX%2FIS0K%2Bg9ZKEg%3D%3D

March 2017 announced the end of preparatory talks for potential EU-New Zealand Free Trade Agreement negotiations. As a next step, the European Commission will ask Member States for a negotiating mandate to negotiate on behalf of the EU on the basis of specific objectives⁷⁶.

MERCOSUR should bear in mind that if it cannot move forward and reach an agreement with the EU in 2017-2018, this could surely become a matter of additional concern since, if MERCOSUR's competitors in agricultural exports, such as Australia and New Zealand, achieve an agreement with the EU in the medium term (2018-2019), this could lead to trade diversion in favor of the latter countries, to the detriment of the MERCOSUR countries.

Transatlantic Agreement on Trade and Investment (TTIP)

The TTIP is the proposal for a Free Trade Agreement between the European Union and the United States, whose negotiations began in June 2013. The fact that these two international trading powers sign an agreement such as the TTIP, could somehow create a new configuration of the international trade relations.

The negotiation of the TTIP, as well as the loss of the EU Generalized System of Preferences (GSP) as of January 1, 2014 by three MERCOSUR countries, would have been part of the reason why Brazil, in July 2013 in the Summit of MERCOSUR, would have shown an important interest in advancing trade negotiations with the European Union in order to reach an agreement⁷⁷.

It should be recalled that one of the 10 priorities of the current European Commission of President Jean-Claude Juncker is "a balanced trade agreement between the EU and the United States"⁷⁸.

⁷⁶ <http://ec.europa.eu/trade/policy/countries-and-regions/countries/new-zealand/>

⁷⁷ Makuc A., Duhalde G., Rozemberg R. (2015). La Negociación MERCOSUR-Unión Europea a Veinte Años del Acuerdo Marco de Cooperación: Quo Vadis?

⁷⁸ https://ec.europa.eu/commission/priorities/balanced-eu-us-free-trade-agreement_es

However, a few months ago and after the election in the United States of President Donald Trump, EU Trade Commissioner, Cecilia Malmström, made it clear that the negotiations are now “paused”, while clarity is expected regarding the priorities of the new US administration. This is an important "blow" to the objectives of the present European Commission, which during 2015 and 2016 had focused much of their political will, economic interest and human and material effort on the TTIP.

If progress had been made towards the realization of the TTIP in 2017-2018, this would certainly have been a negative not only for the MERCOSUR-EU negotiation, but also for MERCOSUR's interests in general, as it would have led, among other things, to the loss of markets (in favor of the exports of the agricultural products of the United States), the possible "multilateralization" of what was agreed in the TTIP for rules in different WTO issues, and the loss of negotiating margins of the EU to make agricultural concessions to MERCOSUR, taking into account the aforementioned "single pocket principle" of the EU.

With the possibility of a TTIP disappearing for the time being, this can be considered as positive for the MERCOSUR-EU negotiation, not only since it will not happen as mentioned in the previous paragraph, but also as it will allow the European Commission to give greater attention overall to this Bi-regional negotiation with MERCOSUR, with the aim of showing positive results to the EU Member States, concluding Free Trade Agreements with other countries and regions.

BREXIT

In the referendum held in June 2016, UK citizens voted by a narrow margin in favor of leaving the European Union. Undoubtedly, BREXIT is one of the hardest blows the EU has suffered in its history, since among other things, it "loses" one of its most important economies.

Recently, the first round of negotiations for BREXIT took place, and these focused on issues relating to citizens' rights, financial settlement and the Northern Ireland

border⁷⁹. The future of the UK and EU trade is still not defined and it is estimated that this issue will only be addressed in 2018.

It may be recalled, in relation to a product that is of great interest to the MERCOSUR countries for negotiations with the EU, such as the beef, a few months ago Michael Creed, Ireland's Agriculture Minister said that "Irish agriculture could be one the biggest losers anywhere in Europe. Forty-three percent of Irish agri-food exports go to the U.K. If there is no BREXIT trade deal, and the U.K. relies on World Trade Organization rules, nearly €1 billion in annual dairy exports would be subject to a 40% tariff. Annual beef exports of €1 billion would be hit by 50 percent levies, he said, describing such levels as potentially "calamitous"⁸⁰.

On the other hand, we can say that BREXIT, together with the freezing of the TTIP negotiations, forces the EU to have to redesign its commercial strategy for the medium term. In this sense, the European Commission, as well as the European Council, somehow considers it necessary to show their citizens and organizations that EU trade policy will not weaken. One way to do that is by intensifying ongoing negotiations with other trading partners, including MERCOSUR.

Bearing in mind that the negotiations with MERCOSUR are now well advanced⁸¹ and that the focus of attention on the trade issue of BREXIT has just begun to be addressed from some time in 2018, we can note that for a few more months the European Union is in conditions to continue focusing on closing an Agreement with MERCOSUR.

End of preferential access to the EU market through the GSP

As mentioned in other chapters of this paper, as of January 1, 2014, Argentina, Brazil, and Uruguay have ceased to be eligible to use the preferences granted by the Generalized System of Preferences (GSP) of the EU.

⁷⁹ https://ec.europa.eu/commission/sites/beta-political/files/eu-uk-art-50-terms-reference_agreed_amends_en.pdf

⁸⁰ <http://www.politico.eu/article/irelands-brexit-meltdown/>

⁸¹ http://trade.ec.europa.eu/doclib/docs/2017/july/tradoc_155779.pdf

The GSP scheme grants duty “reductions” for 66% (6,350 products) of all EU tariff lines. The GSP product coverage includes a number of agricultural and fishery products listed in HS (Harmonized Commodity Description and Coding System) chapters 1-24, and almost all processed and semi-processed industrial products, that are listed in HS chapters 25-97, except for chapter 93 (arms and ammunition). The list of products covered and the relevant treatment is contained in annex V of the Regulation 978/2012⁸².

Tariff preferences offered by the current GSP scheme differ according to the sensitivity of the products concerned: non-sensitive products enjoy duty-free access to the EU market, while sensitive products benefit from tariff reductions⁸³. The current GSP rate for sensitive products is calculated by applying one of the following reductions:

- (a) A flat rate reduction of 3.5 percentage points to the most-favored-nation duty (applicable to the ad valorem duties).
- (b) A 30 per cent reduction in the most-favored-nation duty where only specific duties apply;
- (c) A flat rate reduction of 3.5 percentage points applicable to the ad valorem duties only, where duties are composed of both ad valorem and specific duties.

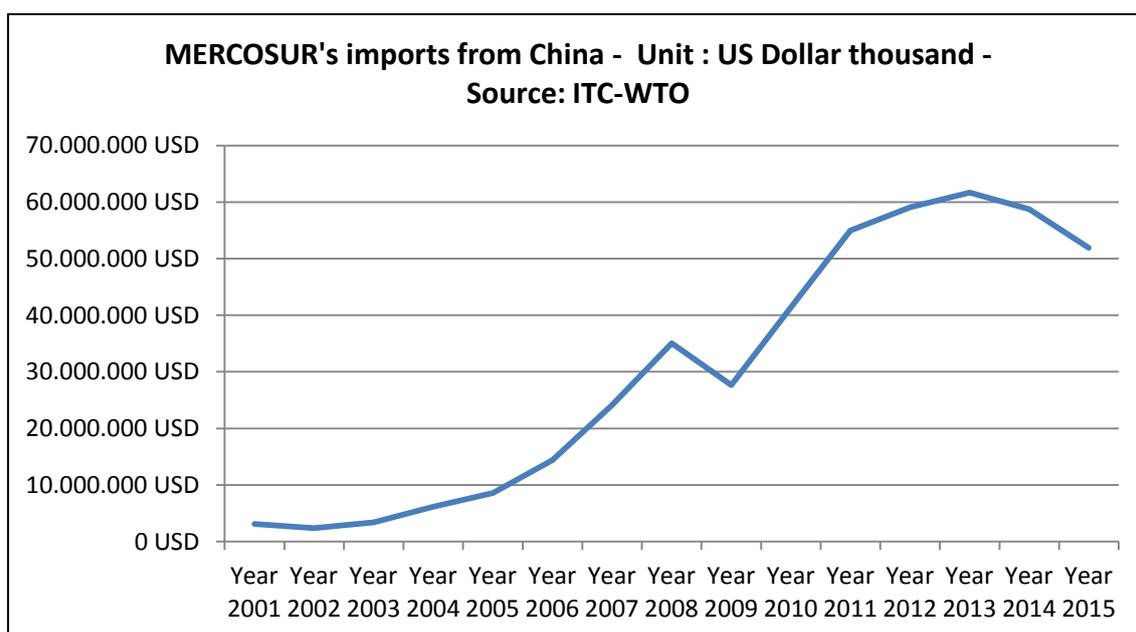
With this change in the EU GSP Regulation, which left these three MERCOSUR countries without these tariff preferences, certain products exported by MERCOSUR to the EU have had to undergo certain increases in tariffs paid to the EU (for example certain fishery products and citrus fruits). This undoubtedly exerts some pressure on the three MERCOSUR countries mentioned above to accelerate negotiations on an Agreement with the EU.

China's growing presence in the countries of MERCOSUR

⁸² <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:303:0001:0082:ES:PDF>

⁸³ http://unctad.org/en/PublicationsLibrary/itcdtsbmisc25rev4_en.pdf

China has gained a strong presence in the world, as well as in particular in MERCOSUR countries, more than a decade ago. The increasing competition of Chinese products is an issue not ignored by the EU, and therefore, in order for European products to continue to maintain their high participation in the MERCOSUR countries, it is important for the EU to improve access to the market of goods, services and government procurement, among other issues, through a Free Trade Agreement.



If we take into account China's MERCOSUR imports in 2015 (Source: ITC-WTO⁸⁴), 46% correspond to machinery and apparatus, electrical equipment and parts thereof, motor vehicles, 7% to transport equipment and 2% to optical, photographic or cinematographic instruments and apparatus.

It should be noted that China has also increased its share as a buyer of MERCOSUR goods, from importing, when MERCOSUR-EU negotiations began in 2001, goods for US\$ 3.872 million to increase its participation in a big way reaching in 2014 imports of US\$ 71 billion.

⁸⁴ <http://www.intracen.org/>

The European industrial sector is aware that the Agreement with MERCOSUR is not only linked to improving its competitiveness vis-à-vis competing producers within the MERCOSUR market, but also being able to compete better with exports from China and other emerging countries.

Absence of national governments of both regions highly opposed to this Agreement

As we mentioned earlier, the EU has suffered with BREXIT one of the hardest blows in its history. Also, the US Trump Administration has subsequently decided to freeze the TTIP negotiations, not to provide strong support for international negotiations within the WTO, withdraw in January of this year from the Trans-Pacific Partnership and to initiate the renegotiation of NAFTA.

In this difficult context, the EU in 2017 faces at least two very important national elections. These elections are those concerning France and Germany, which can influence not only the MERCOSUR-EU negotiations, but also the future of the EU.

In France presidential elections took place on 23 April and 7 May and legislative elections on 11 and 18 June. The presidential elections had a second round in France between the candidate Marine Le Pen of the “Front National (FN)” and Emmanuel Macron of “La République en Marche”.

Marine Le Pen had announced that he planned to organize a referendum⁸⁵ for the departure of France from the European Union in case of winning the elections and also had a strongly protectionist speech. In the case of Macron, contrary to what Le Pen expressed, his speech was more aimed at strengthening the European Union, without opposing the Free Trade Agreements negotiations of the EU.

The election of President Macron in France is very good news for the European Union, and also offers an opportunity to the MERCOSUR-EU Agreement, as surely this would not have been possible if the NF candidate had won.

⁸⁵ <https://www.marine2017.fr/wp-content/uploads/2017/02/projet-presidentiel-marine-le-pen.pdf>

In the case of Germany, the federal elections are scheduled for September 2017. The two main candidates are the current Chancellor Angela Merkel on the part of the "Christian Democratic Union of Germany" and Martin Schulz of the "Social Democratic Party of Germany". In the case of Merkel, she has expressed support for the negotiations between MERCOSUR and the EU⁸⁶. The same did Martin Schulz, who was until a few months ago the President of the European Parliament.

With regard to the current governments of the four MERCOSUR countries, although this has not always been the case, it may be noted that at present, all four countries are aligned with the objective of reaching an Agreement with the European Union.

In the Joint Communiqué issued at the MERCOSUR Presidential Summit⁸⁷, on July 21 of this year and mentioned above, it states, among other issues, that the Presidents of the four countries highlighted as one of the most relevant advances during the first semester, the "promotion of MERCOSUR's international economic and trade external agenda, through four rounds of negotiation that allowed progress in negotiations with the European Union with the objective of reaching the bi-regional Agreement at the end of the year in course".

⁸⁶https://www.bundesregierung.de/Content/EN/Reiseberichte/2017_en/2017-06-06-merkel-argentinien-mexiko_en.html?nn=709674

⁸⁷https://www.mrecic.gov.ar/userfiles/Comunicado%20Conjunto%20EE.PP_ES_%2020.07.doc_.pdf

CHAPTER 8: Position of the main actors involved in this negotiation

In general, and taking into account the factors mentioned in this chapter and in the previous chapter, I would be inclined to say, despite repeated calls by several European countries and Political Groups of the European Parliament to protect certain agricultural products during the last year, that most of the factors mentioned below have elements to support the argument that there is a "window of opportunity" in 2017 and until the middle of 2018 for the conclusion of negotiations between MERCOSUR and the EU.

European Union

The European Commission is negotiating on behalf of the EU, at this stage of trade negotiations with MERCOSUR, in accordance with the instructions of the governments of the Member States in the framework of the meetings of the EU Council. Also, after each negotiating round and at other key negotiating points, the Council and the European Parliament are simultaneously informed by the European Commission on the current state of negotiations.

The European Commission:

Trade Commissioner Cecilia Malmström in January 2016 in response to a joint note from EUROCHAMBRES and BUSINESSEUROPE (two important Associations representing the different EU business sectors), noted that⁸⁸ "the European Commission is fully committed to these negotiations and with the achievement of a balanced and ambitious agreement between MERCOSUR and the EU, which would bring significant economic benefits for both parties."

A debate entitled "EU-MERCOSUR: The Way to be Followed in the Trade Negotiations of the Association Agreement" took place in Strasbourg in May 2016 at the plenary session of the European Parliament. As part of this debate and as it was mentioned in

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https://ec.europa.eu/carol/index-iframe.cfm?fuseaction=download&documentId=090166e5a5637239&title=CM_Letter%20to%20Mr%20Beyrer%20&%20Mr%20Abruzzini.pdf

Chapter 2, the Trade Commissioner said that⁸⁹ "in terms of trade, MERCOSUR countries offer EU exporters and investors a very attractive market that is still subject to significant tariffs and barriers. EU exporters pay more than € 4 billion annually on tariffs alone, so the potential benefits of a free trade agreement are evident."

On the other hand, Malmström pointed out in that same parliamentary debate that "Something has happened that generated a new unique opportunity. The change of government in Argentina with its President saying that it is the priority of his government, has created a new impulse. Now we face the possibility that we can finally carry on these negotiations after so many years, engaging with countries with which we share so much history, culture and friendship. It is important for cultural, political, geopolitical reasons and also for economic reasons."

Finally, on July 18 of the current year at the Press Conference following the meeting of the Agriculture and Fisheries Council, Commissioner Hogan mentioned that: "The September inter-sessional Round between MERCOSUR and the UE, will dictate the progress we are making and will enable negotiators to do a balance of how far we can go from here to the end of the year. I have noticed that there is moderation of expectations in MERCOSUR, in an attempt to reach an agreement with the EU. We have no objection to achieving an agreement with MERCOSUR, but any agreement must comply with the EU mandate on agriculture."

The European Parliament:

The European Parliament is composed of 751 members, elected in the 28 EU Member States for a period of five years (2014-2019). The current MEPs are divided into political groups:

A. European People's Party (PPE) - (216 MEPs):

⁸⁹ <http://www.europarl.europa.eu/sides/getDoc.do?type=CRE&reference=20160510&secondRef=ITEM-013&language=ES&ring=O-2016-000046>

This is the Political Group with the largest number of MEPs, and in an April 2015⁹⁰ document titled "Position paper on international trade" notes with regard to these negotiations that "we call for a rapid advance in the negotiations with MERCOSUR. We believe that a comprehensive and balanced agreement with the MERCOSUR countries with special attention and treatment of tariffs/quotas for the most sensitive sectors of the EU (for example, agriculture) could be an extremely useful stimulus for both regions."

In a recent speech by the President of the European Parliament and member of the EPP, Antonio Tajani, he said that⁹¹: "The recent agreement with Canada is a good example of an economic and trade partnership that creates jobs and helps European SMEs to export. In the coming months, we must continue to work in this direction, particularly with Japan, Mexico, Chile and MERCOSUR. "

On the other hand, in April 2016, nine EPP MEPs (together with 5 MEPs from other political groups) sent a note to the President of the European Commission, Jean-Claude Juncker, expressing concern about the direction and content of the negotiation of a Free Trade Agreement with MERCOSUR, in particular the proposals on sensitive agricultural products⁹². Similar concerns were also expressed by three⁹³ other EPP MEPs through Parliamentary Questions⁹⁴.

B. Progressive Alliance of Socialists and Democrats (S & D) - (189 MEPs):

As for the second largest political group of the European Parliament S&D, the latter issued in May 2016 a statement entitled⁹⁵ "A good trade agreement with MERCOSUR can provide new opportunities for all". MEP David Martin said that these negotiations

⁹⁰ <http://www.eppgroup.eu/our-priority/Fair-international-trade-for-growth%2C-jobs-and-democracy>

⁹¹ <http://www.europarl.europa.eu/the-president/it-es/stampa/discorso-del-presidente-del-parlamento-europeo-antonio-tajani-ante-el-consejo-europeo-de-los-d%C3%ADas-9-y-10-de-marzo-de-2017>

⁹² <http://www.micheldantin.net/wp-content/uploads/2016/04/20160427-Letter-to-Pdt-Jean-Claude-JUNCKER-on-trade-negotiations-with-MERCOSUR.pdf>

⁹³ <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2F%2FEP%2F%2FTEXT%2BWQ%2BP-2017-002061%2B0%2BDOC%2BXML%2BV0%2F%2FEN&language=IT>

⁹⁴ <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+WQ+E-2016-003739+0+DOC+XML+V0//EN>

⁹⁵ <http://www.socialistsanddemocrats.eu/newsroom/good-trade-deal-MERCOSUR-can-provide-new-opportunities-all-say-sds>

could be a huge opportunity for the EU. MEP Nicola Danti (S&D "rapporteur" for MERCOSUR-EU negotiation in the European Parliament's International Trade Committee) said that "we should take advantage of the new political momentum with MERCOSUR and work on a balanced and ambitious agreement."

Also, in an S&D communiqué of December 2016 entitled "S&D promotes an alliance with progressive forces in Latin America to deal with globalization", the President of the European side of the Euro-Latin American Parliamentary Assembly (EUROLAT) and member of the S&D, MEP Ramón Jáuregui⁹⁶ indicated that the future Agreement with MERCOSUR is one of the priority objectives for the EU.

However, 4 S&D MEPs also signed the above-mentioned letter addressed to the President of the European Commission, referring to the EU-MERCOSUR negotiation and concern for sensitive EU agricultural products⁹⁷. In addition, 9 S&D MEPs issued a recent Statement, mentioning that "The EU should systematically exclude any concessions on products considered to be the most sensitive, such as beef and poultry, rice, sugar ... On the basis of respect for these criteria that we will decide when the new Free Trade Agreements reach the table of the European Parliament"⁹⁸

C. Alliance of Liberals and Democrats for Europe (ALDE) - (68 MEPs):

The ALDE is a liberal political group that believes in the advantages and opportunities of free trade and Free Trade Agreements⁹⁹. Specifically, on the EU-MERCOSUR Agreement, MEP Dita Charanzová, on behalf of the ALDE, in the parliamentary debate at the May 2016 plenary mentioned above noted that¹⁰⁰ "it is incredible to me that the EU does not have Trade Agreements with these important economies, like Argentina or Brazil, especially because we have advanced in the negotiations and we have

⁹⁶ <http://www.socialistsanddemocrats.eu/newsroom/sds-promote-alliance-progressive-forces-latin-america-face-globalisation>

⁹⁷ <http://www.micheldantin.net/wp-content/uploads/2016/04/20160427-Letter-to-Pdt-Jean-Claude-JUNCKER-on-trade-negotiations-with-MERCOSUR.pdf>

⁹⁸ <http://www.politico.eu/wp-content/uploads/2017/05/carte-blanche-commerce-EN.pdf>

⁹⁹ <http://alde-cor.eu/wp-content/uploads/2016/02/2628-ALDE-priorities-2015-2019-brochure-final.pdf>

¹⁰⁰

<http://www.europarl.europa.eu/sides/getDoc.do?type=CRE&reference=20160510&secondRef=ITEM-013&language=ES&ring=O-2016-000046>

improved our Trade Agreements with many other countries of the region. She also stressed that the European Commission has the full support of the ALDE to negotiate this agreement with MERCOSUR.

It should also be noted that the ALDE in January of this year has formed a pro-European coalition with the main political group, the EPP¹⁰¹. This will further promote a common stance between the two groups in favor of a MERCOSUR-EU Agreement.

D. European Conservatives and Reformists (ECR) - (74 MEPs):

This political group supports free trade¹⁰², as indicated in the founding principles of the ECR¹⁰³. The ECR has not yet manifested itself with regard to the negotiations between MERCOSUR and the EU. However, in the parliamentary debate at the plenary in May 2016, MEP James Nicholson, on behalf of the ECR, pointed out that "European producers are not anti-trade; we see the value of fair and free trade. The possible conclusion of the MERCOSUR trade agreement is generating a great deal of concern for many in the agricultural community. Commissioner, you cannot expect us to stop and allow our beef, poultry and pig industries to be destroyed by these negotiations."

E. European United Left / Nordic Green Left (GUE / NGL) - (52 MEPs):

In the case of the European United Left/Nordic Green Left (GUE/NGL), a document referring to international trade indicates that "free trade between two partners does not always make them both better. Trade liberalization has caused global social and ecological destruction. We need to control free trade and the free movement of goods. We are opposed to all international trade agreements that are shaped by the interests of big business".¹⁰⁴

¹⁰¹ <http://www.eppgroup.eu/press-release/EPP-and-ALDE-form-pro-European-coalition>

¹⁰² <http://ecrgroup.eu/ecr-policies/ideas-for-reform/>

¹⁰³ <http://ecrgroup.eu/wp-content/uploads/2009/03/Prague-declaration.jpg>

¹⁰⁴ <http://www.guengl.eu/policy/priority/trade-foreign-affairs>

Also recently MEP Helmut Scholz, coordinator of the GUE/NGL in the European Parliament's Committee on International Trade, pointed out that¹⁰⁵: "South American industries and European farmers are right to raise concerns about the fierce competition that is expected to emerge from this new agreement."

F. Greens / European Free Alliance - (51 MEPs):

As for the Group of the Greens/European Free Alliance, they stated in an article in October 2016 that "Green MEPs issued a clear statement that trade agreements such as TTIP, CETA and MERCOSUR represent a significant threat to EU agricultural and employment markets"¹⁰⁶.

G. Europe of Freedom and Direct Democracy (EFDD) - (42 MEPs):

In the case of this Political Group, the only written mention of this negotiation indicates that "The EU's trade agreement with MERCOSUR will mean a disaster for livestock farming."¹⁰⁷

Also in the 2016 parliamentary debate, MEP Tiziana Beghin, on behalf of the EFDD Group, pointed out that¹⁰⁸: "we do not object a priori to this Agreement, on the contrary, we believe that there is much to be gained for European industry and for companies of the EU in accessing the public procurement market in South America, but we do not have to operate for any market access advantage with our agriculture, as unfortunately happens all too often. So "yes" to a mutually beneficial agreement to reduce bureaucracy for small and medium-sized enterprises and facilitate mutual access to markets, but "no" to any agreement that threatens our agriculture."

¹⁰⁵ <http://www.guengl.eu/news/article/negotiations-on-eu-MERCOSUR-trade-agreement-are-rushing-down-same-negative>

¹⁰⁶ <https://www.greens-efa.eu/en/article/news/how-a-fair-eu-agri-food-policy-can-help-create-jobs-in-rural-areas/>

¹⁰⁷ <http://www.efddgroup.eu/medias/videos/MERCOSUR-eu-trade-agreement-will-spell-disaster-for-grass-fed-livestock-farming?highlight=WyJtZXJib3N1ciJd>

¹⁰⁸ <http://www.europarl.europa.eu/sides/getDoc.do?type=CRE&reference=20160510&secondRef=ITEM-013&language=ES&ring=O-2016-000046>

H. Europa de las Naciones y de las Libertades (ENF) - (39 Eurodiputados)

This Political Group is the newest of all (created in June 2015) and is chaired by the French MEP, Marine Le Pen. In the parliamentary debate in 2016, MEP Georg Mayer¹⁰⁹, on behalf of the ENF, said: "We are living in very difficult times in Europe, particularly in small-scale agriculture in Austria, particularly in the area of pork and beef and in the dairy sector. The opinion of agriculture in Europe and especially in Austria on this Agreement with the MERCOSUR countries is fundamental. These are the lives of our producers. The crisis in Europe makes me particularly critical".

The Council of the EU and the European Council:

The meetings of the Council of the EU are attended by representatives of the Ministries of each of the 28 EU Member States. Regarding the MERCOSUR-EU negotiations, in the last year, we can mention the following documents referring to them:

A. Note of April 2016 entitled "Negotiation of the Association Agreement between the European Union and MERCOSUR"¹¹⁰:

This was already mentioned in Chapter 3, in which, through a Note, 13 EU countries stated that: "The treatment of sensitive agricultural products must be carried out with the utmost care. The European agricultural sector is currently facing a particularly difficult crisis. In this context, an offer to MERCOSUR containing quotas on sensitive products would probably be seen as a provocation by the European agricultural sector. We are opposed, for a number of reasons, to proposals for quotas on sensitive products in the European offer to be passed on to MERCOSUR in the coming months, and we wish the Ministers of Agriculture to examine this important issue before taking any decision on a future Tariff offers".

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<http://www.europarl.europa.eu/sides/getDoc.do?type=CRE&reference=20160510&secondRef=ITEM-013&language=ES&ring=O-2016-000046>

¹¹⁰ <http://data.consilium.europa.eu/doc/document/ST-7629-2016-INIT/en/pdf>

B. Document entitled "Report on the Common Foreign and Security Policy (CFSP) - Our priorities in 2016"¹¹¹:

This document was approved by the Council on 17 October 2016. It states that "the EU will give a new impetus to the negotiations of an Association Agreement with MERCOSUR".

C. Conclusions of the European Council meeting of 20 and 21 October 2016:

It should be noted that the members of the European Council are the Heads of State or Government of the 28 EU Member States, the President of the European Council and the President of the European Commission. It states that "The European Council stresses the importance of intensifying the ongoing negotiations with other trading partners determined to ensure a mutually beneficial market opening, including MERCOSUR."¹¹²

D. Note from Germany, France and Poland to the Agriculture and Fisheries Council of November 2016:

This also was already mentioned in the Chapter III. On that occasion, the delegations of Germany, France and Poland submitted a note which states: "France, Germany and Poland note that, given the competitiveness of agricultural sectors in MERCOSUR countries compared to EU agriculture, the exchange of agricultural trade concessions should not be asymmetrical to the detriment of the EU. The general principles of eliminating unjustified barriers, reciprocity of concessions, identical transition periods, respect for EU rules and policies, as well as sanitary and phytosanitary standards should also be observed in the negotiations with MERCOSUR"¹¹³.

E. "Conclusions of the President of the European Council" of 09 March 2017:¹¹⁴

These Conclusions were supported by 27 EU countries. Among other issues, it is mentioned that: "The EU will continue to actively collaborate with international

¹¹¹ <http://data.consilium.europa.eu/doc/document/ST-13026-2016-INIT/es/pdf>

¹¹² <http://data.consilium.europa.eu/doc/document/ST-31-2016-INIT/es/pdf>

¹¹³ <http://data.consilium.europa.eu/doc/document/ST-14240-2016-INIT/en/pdf>

¹¹⁴ <http://www.consilium.europa.eu/en/press/press-releases/2017/03/09-conclusion-pec/>

trading partners. This includes moving resolutely forward in all ongoing negotiations for ambitious and balanced Free Trade Agreements, including MERCOSUR and Mexico".

F. Meeting of the Agriculture and Fisheries Council on 17 and 18 July this year¹¹⁵:

In the framework of this meeting, certain EU Agriculture Ministers expressed "misgivings" about the MERCOSUR Agreement, highlighting the importance of defending sensitive sectors like beef meat, ethanol and sugar. Reciprocity was also mentioned as one of the principles that should guide negotiations. According to different media, the Member States that would have expressed such misgivings would be: Ireland, France, Poland, Belgium and Greece.

MERCOSUR

In the case of MERCOSUR, the negotiating responsibility is carried out directly by the governments of the four countries. Therefore, the will of each of these members is central to the success of the negotiation.

The current administration of Argentina has manifested itself since assuming in December 2015, in favor of greater international insertion, through MERCOSUR Trade Agreements with third countries and trade blocs.

In particular, with regard to the MERCOSUR-EU Agreement, President Macri has always been in favor of the Agreement. For example, President Macri pointed out last Saturday July 8 in a meeting with his French counterpart that "I believe that the European Union sees MERCOSUR as an opportunity as we believe they are an opportunity for us"¹¹⁶.

¹¹⁵ <http://www.consilium.europa.eu/es/meetings/agrifish/2017/07/17-18/>

¹¹⁶ <http://www.casariosada.gob.ar/informacion/eventos-destacados-presi/40017-los-presidentes-macri-y-macron-dialogaron-para-avanzar-en-un-acuerdo-mercosur-ue>

As for Brazil, which is the region's main economic power, it is not only in the midst of a major economic recession, but also has suffered several political blows in the last year. The former President of Brazil, Dilma Rousseff, was suspended from office when the Brazilian Senate voted to dismiss her in May 2016. In August of that year, Michel Temer definitively assumed the functions of President of Brazil after being interim President since May of that same year.

Nevertheless, in the case of Brazil, we can also indicate that there is political will to move forward in these negotiations. In an article in a newspaper last July 21, the current President of Brazil, Michel Temer¹¹⁷, said: "With greater cohesion, we are better positioned in our negotiations with the European Union. After many years, we have the concrete perspective of reaching a balanced and mutually beneficial Agreement with the European side".

It should be recalled that especially Brazil and also Argentina are the two countries with the highest industrial capacity and services installed in their countries, and those in the MERCOSUR who most must "pay the price" for an agreement with the EU.

On the other hand, as it is well known, both Uruguay and Paraguay have been showing in recent years a broad predisposition to prepare the MERCOSUR offers to present in these negotiations with the EU.

Lastly, and as mentioned in the previous chapter, recalls what is mentioned in the Joint Communiqué of July 21 of this year, of the MERCOSUR Presidential Summit, in which the four Presidents highlight the progress of negotiations with the EU with the aim of reaching the Bi-regional Agreement at the end of the current year¹¹⁸.

¹¹⁷ <http://www.lanacion.com.ar/2045738-el-mercosur-mira-el-futuro>

¹¹⁸ https://www.mrecic.gov.ar/userfiles/Comunicado%20Conjunto%20EE.PP_ES_%2020.07.doc_.pdf

In short, the political wills of Argentina, Brazil, Paraguay and Uruguay are now aligned for a positive result of this negotiation with the European Union. MERCOSUR is also working to advance Trade Agreements with other countries.¹¹⁹.

¹¹⁹ <https://www.mrecic.gov.ar/informe-de-la-presidencia-pro-tempore-del-consejo-del-mercado-comun-cmc-cargo-del-ministro-de>

CHAPTER 9: Conclusions

Regarding the first of the main question of this thesis ("Why after almost 20 years, does the EU and MERCOSUR still want to negotiate an IAA?"), according to what we analyze above, it is possible to confirm that there are clear interests in favor of this bi-regional Agreement both by several economic sectors of the EU and by the economic sectors of MERCOSUR.

In connection with the second of the questions (Why has this Agreement been so complex and difficult to achieve?), as we mentioned above, although both parties to the Agreement will benefit from the free trade, in the short run some producers of the EU agriculture sector and some of the producers in the MERCOSUR service, industrial and automotive sector may be harmed by this Agreement.

As noted in the Chapter 1 regarding the "problem of collective action" in the MERCOSUR-EU negotiation, we can indicate in the case of the EU the "lobby" of the agricultural sector, and in the case of MERCOSUR, under the pressure of the industrial sectors; these groups have achieved their goal of preventing these negotiations from being successful.

Although these groups or lobbies are relatively small, they are well-organized. While the rest of society and economic sectors of both economic blocs are a huge population that does not even consider itself as an interest group. At the same time, the groups most likely to suffer are more capable of mobilizing support to protect themselves, than the groups that are likely to benefit.

For instance, as discussed in the previous chapter, the repeated calls by several European countries and Political Groups of the European Parliament to protect certain agricultural products during the last year show the power and pressure that these lobbies of the European agricultural sectors are so far successfully performing today.

This leads me to comment on the last of the main questions of this thesis (Why certain elements support the idea that this year there is a new window of opportunity to finally reach an agreement?).

During this paper, in addition to the importance of the various economic sectors of the EU and MERCOSUR (Chapter 3) interested in these negotiations, in the Chapter 7, it was mentioned some of the factors that support the argument that there is a "window of opportunity" in 2017 and until the middle of 2018 for the conclusion of negotiations between MERCOSUR and the EU.

Regarding that, as is noted in the Introduction, taking into account the sources consulted, after many years, there are several factors that are in favor of these negotiations, and achieving this Agreement now would seem more likely than it was between 2004 and 2015. These many positive signals to advance in these negotiations, have been very well interpreted on both continents, and in that sense, the main EU institutions and the leaders of MERCOSUR have manifested themselves.

Recently, Commissioner Malmström commented on this negotiation that "on the football field there are winners and losers. But in Trade Agreements is not like football. If we work together we can reach a good "balanced" agreement in which we are all winners".¹²⁰

However, and taking into account the complexities of this Agreement, this does not imply that these conditions will clearly be considered "sufficient" to assert that by the end of the current year or beginning of 2018, this Agreement will in fact be signed.

On the other hand, if an Agreement between the two parties is finally reached, what form or ambition will this Agreement have? This is also very difficult to know today.

In this regard, a prominent academic in Argentina recently pointed out that "the situation seems to leave us with three possible scenarios: a continuation of the status

¹²⁰ http://trade.ec.europa.eu/doclib/docs/2017/july/tradoc_155687.pdf

quo, a not very ambitious agreement or a miracle"¹²¹. Undoubtedly, in both continents there are different forces, from the economic sectors as well as civil society or political leaders, which are on the one hand pushing for the status quo, others for a modest agreement and others for a much more ambitious one.

It is not possible at this point to know which of the three forces mentioned above will prevail. However, it seems clear that the political will of both the EU and MERCOSUR, taking into account the positive signals mentioned before, will act in favor of the negotiators, who, in order to achieve a win-win solution, will have the opportunity to finally close this Agreement.

¹²¹<http://www.udesa.edu.ar/noticias/el-mercosur-esta-completamente-estancado-en-su-agenda-interna>

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