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EU-Mercosur agreement: Is the EU trade policy entering a new phase?

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The support for the association agreement between the EU and the Mercosur trade bloc (Brazil, Argentina, Paraguay and Uruguay), announced in June 2019 by the Juncker Commission just before the termination of its mandate, by European national Parliaments, heads of State and the European Parliament has dwindled over the last six months. [A new IDDRI study](#) explores the shift in the European mindset vis-à-vis EU free trade agreements (FTAs) and provides some reflections on whether this means there is a political momentum to make EU FTAs more focused on sustainable development in the future.

After 20 years of negotiations, the EU and the Mercosur countries reached an “agreement in principle” on June 28, 2019.¹ Germany initially fully supported the EU-Mercosur deal and made the conclusion of this file a priority during its Presidency of the Council of the EU (July 1-December 31, 2020). The German position, however, changed in the summer of 2020, as other European States showed reluctance to ratify the agreement following the roaring fires in the Amazon and the rather aggressive position taken by the Brazilian head of State in response to the questioning of his pro-deforestation policy.

The recent changes in European political balances are key explanatory factors of European positions hostile to the EU-Mercosur agreement “as it stands”. Environmental issues were key determinants in the European Parliament elections of May 2019 as well as in some national elections. The election outcome gave centrist parties a “greener” colour and resulted in new sustainable development commitments by the European Commission through the European Green Deal, making it difficult for the European Commission to sign a FTA, which would not explicitly improve signatory countries’ climate and environmental performance.

In addition, the gap that the United Kingdom leaving the EU has created in terms of EU trade policy positions has led to a new alliance between the Netherlands, traditionally one of the EU’s most pro-free trade countries,² and France, which consistently reminds other countries that there are limits to the market-based approach. This Franco-Dutch trade alliance submitted a joint proposal (non-paper) to the European Commission,³ which was widely supported by other EU countries and suggests a shift in EU trade policy. The agreement has also brought together hitherto uncommon political interest groups, namely those 1) traditionally sensitive to agricultural problems, 2) those that are sensitive to environmental issues and 3) those that are concerned about the environmental consequences of FTAs.

In this context, it is interesting to note that there is a strong asymmetry in the expression of interests with a strong emphasis in the media on the negative or “defensive” aspects in environmental and economic terms whereas the “offensive” aspects do not receive symmetrical support from their spokespersons. This is visible through 1) the agricultural and agri-food industry representatives who are hardly expressing any interest in public, leaving the field to their colleagues in the livestock sector, 2) the absence of a public counter-narrative on the role this agreement can play for the European position in global markets (especially considering strong competition from China in the Mercosur context) by countries supporting the agreement including Germany, Spain and Portugal and 3) the lack of public support by economic interest groups and representatives of industry and services for the agreement. This “sound of silence” adds a difficulty in finding a pragmatic and efficient way out of the impasse.

As the German Presidency abandoned the file, it is questionable whether the Portuguese Presidency⁴ that started in January 2021 will be able to get all EU Member States on the same page to ensure the rapid ratification and implementation of the EU-Mercosur agreement. Three options can be identified to move forward with the negotiations. The first option would be for both parties to sign a political declaration, interpretative or including overarching principles, expressing commitments to pay attention to the environmental, health and social issues raised and to cooperate in finding them. At the other extreme, negotiators could use the EU’s trade diplomacy as a tool for the protection of the environment by making the halt to Brazil’s deforestation policy a condition for the agreement to pass. Between these solutions, there is the option to include a number of “technical” guarantees, such as ensuring the complete traceability of the beef industry and introducing some labelling rules to address the concerns of European consumers.

There is a strong possibility that agreements that have a focus on agricultural products will face the same resistance from EU Member States when negotiating with countries that do not have an outstanding reputation on the environment. The case of Malaysia is emblematic of this: one of the reasons why the negotiations with the EU are “on pause” is Malaysia’s challenge at the World Trade Organization to the EU’s treatment of its palm oil exports. This

shows that the EU has to be careful that in its ambitions to use trade policy as a diplomatic instrument at the service of environmental policy, seeking to “export” certain trade standards in future EU FTAs, it does not dry up the willingness of third countries to seek agreement.

There are significant lessons to learn from the European response on the EU-Mercosur agreement “as it stands” as it could possibly evolve into a blueprint for upcoming EU FTAs. There is a subtle balance to strike between the guarantees it should include to meet European concerns, and the risk it raises to spark accusation of unfair protectionist practices under the guise of climate or forest protection. The EU convincingly and timely set up a Green Deal to respond to its internal constituencies. However, the external dimension of the Green Deal, and its possible effects on third countries, have been overlooked so far. In that sense, the EU-Mercosur agreement could crystallise the frustrations and misunderstandings of non-EU countries.

Potential “third generation” EU FTAs could address this dilemma by, for example, introducing environmental clauses in the agreements themselves rather than by reference to multilateral environmental agreements, allowing for progressive implementation of agreements over time with performance and policy indicators, designing investment agreements to promote sustainable development and adopting internal European regulations to exclude, without discrimination, agricultural products resulting from the degradation of land and remarkable ecosystems.

¹ <https://www.europarl.europa.eu/legislative-train/theme-a-balanced-and-progressive-trade-policy-to-harness-globalisation/file-eu-mercotur-association-agreement>

² Before Brexit, The Netherlands was mostly hiding behind the British laissez-faire shoulder.

³ <https://nl.ambafrance.org/Non-paper-from-the-Netherlands-and-France-on-trade-social-economic-effects-and>

⁴ The Portuguese presidency included the EU-Mercosur agreement file as one of its key priorities: <https://www.europarl.europa.eu/news/en/press-room/20210122IPR96228/portuguese-presidency-outlines-priorities-to-ep-committees>

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