

What's next after Cancun?

The EU – Mercosur Negotiations

by

Dr. Hans – Friedrich Beseler

Brussels¹

What is the EU aiming for in these negotiations? Its goal is to improve trade with and stability in the region.

With regard to trade, the EU wants more than the simple elimination of tariffs. Its experience has shown that the positive impact of regional integration is particularly strong in cases where regional agreements provide for “deep integration” in the sense of initiatives going beyond the normal WTO elimination of import and export tariffs, establishing common regulatory frameworks between regional partners.

In other words the EU considers that regional trade integration should be “WTO plus” and that WTO plus, deep integration (Mercosur) should have precedence of other, less ambitious initiatives.

In its Mercosur negotiations² the EU is aiming for such deep integration: trade in goods and services, public procurement, investment and competition, IPR, trade defence, sanitary and phytosanitary rules, wines and spirits etc.

In addition to these commercial considerations, the EU, through direct negotiations with Mercosur, not with its individual member states, seeks to strengthen and consolidate regional integration in Latin America and thus to contribute to the stability of this region.

This could simplify discussions, compared to the light core agreement and the multitude of additional negotiations the US are now facing after Miami.

On the other side, one has to recognize that negotiations are complicated by

- The internal economic and political problems Mercosur's Member States face
- and the fact that Mercosur itself is still unachieved: no common external tariff, no common SPS or government procurement system and difficulties in identifying common negotiating positions between Mercosur member states.

¹ The opinions expressed here are those of the author, not necessarily those of the EU Commission.

² of an Association Agreement, **initiated** in June 2000

- Also, the negotiations under the DDA, are blocked at Cancun
- and there is the US FTAA initiative.

Good Progress was made in recent months on:

- The Institutional Framework,
- Political Dialogue
- Economic cooperation,
- Tariffs, NTBs and Trade Facilitation.

Further progress was reached in the recent EU Mercosur Ministerial Meeting of 12. 11. 2003 in Brussels: a work programme has been established for the final stage of the negotiations, designed to wrap up the negotiations by October 2004. Five rounds of discussions within the Bi-regional Negotiating Committee and two ministerial meetings are foreseen, between Dec. 2003 and October 2004, alternatively in Brussels and Buenos Aires.

The first meetings of the Biregional Negotiating Committee shall concentrate on:

- market access in goods, including exchange of views on agro modalities
- common texts in all other areas, such as Business Facilitation, Sustainable Development, Services, Government Procurement, Investment, Wines and Spirits, SPS...

Improved offers on Services, Government Procurement, Investment and Goods, including Agriculture, shall be exchanged in April 2004.

This will be the crucial moment of concessions for both sides and should pave the way for an effective conclusion of the agreement in October 2004.

Mercosur negotiators have made it clear that they shall concentrate on agriculture where they argue their countries have most comparative advantage.

In fact:

- If Mercosur's overall exports to the EU have nearly doubled in recent years³,
- If the EU's overall trade deficit with Mercosur was at 6 bio € in 2002, our imports from Mercosur exceeding our exports by 25%.
- Figures are even more striking in the agri sector:
 - where the EU imports 20 times as much agri products as it exports to Mercosur,
 - where more than 50% of Mercosur's agri exports go to the EU,
 - and where the EU has an agri trade deficit of 12,6 bio € with Mercosur countries.

³ From 14,2 bio € in 1990 to 24,1 bio € in 2002

The EU has submitted a first agri offer to Mercosur negotiators.

Additional export possibilities shall result for Mercosur from:

- The EU's internal reform of its agri policy with progressive decoupling of support from production and limitation of support;
- The adoption of its proposals submitted for the DDA negotiations, in particular the Aug 2003 EU / US framework proposals
 - Foreseeing: on export competition: an elimination of export subsidies on products of particular interest for DC⁴s.
 - on domestic support: a substantial reduction of the amber box and of de minimis subsidies and a cap on the less trade distorting blue box subsidies

Pascal Lamy has already indicated that the EU is ready to submit to its Mercosur partners a more generous agri offer, going beyond its WTO offer, provided however that such "WTO plus" offer to Mercosur would not result in the EU paying twice.

A technical formula has now to be found to ensure this.

Not an easy task, depending, as so many things, on progress reached in WTO!

Nevertheless it would be wise if Mercosur negotiators would not put everything on one single card: agriculture.

Mercosur could diversify its shipments in other sectors:

- Mercosur's textile exports to the EU are minimal, compared to what China has now achieved. Expansion is possible, so more as the MFA is going to expire.
- Similar considerations apply for shoes, light manufacturing and transport equipment
- And for services the EU has submitted a very substantial initial offer, going beyond its April 2003 GATS offer which is one of the most ambitious offers made in the WTO.

Also, even if asymmetry of concessions is now an element common to many negotiations with DCs, it should never be forgotten that trade negotiations require a certain degree of reciprocity; they are no donor conferences.

Further concessions on agriculture can only be sold in the EU, which has trimmed down agriculture considerably over the years and which now faces a new enlargement by a number of countries with a considerable agricultural population, if there is a minimum of counter concessions.

⁴ The US agreed to impose disciplines on export credits. Also: New discipline for food aid programmes in order to avoid misuse.

The margin of manoeuvre for Mercosur countries in this respect is still considerable:

The UNDP 2003 Human Development Report has recently established that poor countries tariffs are generally higher than rich countries' ones.

Mercosur countries are no exception to this general rule. For agri imports, Bob Zoellick recalled, immediately after Cancun, that average duties applied by Bresil amount to 37%.and Argentinian tariffs bindings also exceed 30%⁵.

Also, NTBs are frequent in Mercosur⁶.

More importantly, rules on investment and competition, government procurement, IPR, and the supply of services, agreed in common, on a fair and equitable basis, are important requests of the EU which wants a WTO plus agreement.

The EU shall be realistic in this respect. It is well aware of Mercosur countries' desire to maintain sovereignty.

Excessively ambitious ideas, such as sweeping definitions of investment, including speculative short term investment, investor to state dispute settlement, top down approaches, have already been abandoned in the EU's WTO position papers.

Nevertheless, the EU's flexibility on agriculture shall depend on Mercosur's flexibility in the rules area.

Thus there is still a large margin of maoeuve on both sides, but negotiators were optimistic after the last Ministerial meeting in Brussels.

After all, the EU, for economical as well as for geopolitical reasons has always strongly supported the negotiations with Mercosur.

⁵ They exceed an average 100% in India and Tunesia, are higher than 80% in Colombia, Bangladesh and Romania and more than 30% in Argentina and Brazil, who are very competitive in agro trade

⁶ According to recent CEPII study of growing importance in the agri sector: almost 40% of LDCs' agro exports affected.

EU by far not the main user: % of agro imports affected on average:

- Latin America: 90%
- Japan: 80%
- Austr and NZ: 70%
- USA: 60%
- Can 50%
- EU 25%.

A successful conclusion of its negotiations with the EU would be in Mercosur's interest too:

- in order to counterbalance the FTAA negotiations ongoing with the USA
- because the EU is Mercosur's most important trading partner, importing from Mercosur five times as much as the USA and
- because, as recent independent studies show, the cost of opting out would be higher for Mercosur than those of concluding⁷.

Even Brazil (Furlan) now recognizes that there is real political will on both sides.

⁷ Chaire Mercosur de Sciences Po: The cost of opting out, edited by Alfredo G.A. Valladao, 2003.