

Guest Editorial

MERCOSUR and the European Union: Prospects for an Inter-Regional Association

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The idea of establishing an Inter-Regional Association between MERCOSUR and the European Union has been the focus of increasing attention during the last two or three months. Such an idea, however, far from being a novelty, was first floated in May 1994. In the following December, the governments of MERCOSUR and the EU, in a 'Joint Solemn Declaration', expressed their intention to build a political and economic association including 'the progressive and reciprocal liberalization of all trade, taking into account the sensitivity of certain products and in accordance with the norms of the WTO' (which is the GATT/WTO definition of a free trade zone), together with 'the promotion of investment and a deeper cooperation'.

This same concept – in virtually the same wording – became the cornerstone of MERCOSUR–EU framework Agreement, signed in December 1995, whose objective is to prepare the conditions for the start of negotiations aimed at creating the future Association. In this context, an in-depth study of the economic relations between MERCOSUR and the EU was jointly conducted by both parties. The so-called 'photography', completed last May, clearly demonstrates the present density and the large potential for increasing trade in goods and services as well as investments between the two regions.

Each side is now evaluating the various aspects involved in the launching of negotiations for the Inter-Regional Association. In the case of the EU, the Commission submitted to the Council last July a proposal for 'negotiating directives'.

As reflected in the Press coverage, the prevailing view of EU governments is strongly favourable to such an Association with MERCOSUR. Nevertheless, some representatives of European agricultural

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interests have voiced their doubts about the possible impact of the expected liberalization on the Common Agricultural Policy.

On the MERCOSUR side there already exists a clear perception of the mutual benefits to be derived from an early start of the negotiations, because only then will it be possible to fully identify and tackle the concrete problems raised by the sectors or products that are 'sensitive' for each side. To try to cope with such a complex matter beforehand would only raise unrealistic fears and expectations in the private sectors of both parties.

Moreover, it is perfectly feasible to define a negotiating time-frame well adapted to the internal and external agendas of MERCOSUR and the EU. For most sectors, the implementation of a free trade area could be achieved over a transitional period of ten years from 2005 onwards, and of fifteen years in the case of 'sensitive' products. Such a time-frame, fully compatible with the relevant WTO rules, would allow MERCOSUR to deepen its own integration process, to develop new association schemes in South America beyond the ones it now has with Chile and Bolivia, and to pursue the aims of the projected Free Trade Area of the Americas (FTAA). Similarly, the EU would have sufficient time to digest the requirements of the Common Agricultural Policy reform (Agenda 2000), the enlargement process and – together with MERCOSUR and everyone else – the coming WTO Millennium Round.

Most observers agree that there is a strong case for a MERCOSUR–EU agreement, as long as the timing is right. Indeed, MERCOSUR accounts for 60 per cent of EU trade with Latin America. Total EU–MERCOSUR trade increased from US\$ 23 billion in 1990 to US\$45 billion in 1997 – with EU exports increasing 342 per cent and MERCOSUR's 24 per cent – and there still exists a large potential for expanding those flows. Investments have also surged, not only as a result of Brazilian and Argentine privatizations of public utilities, but also as a reflection of the EU multinational companies' desire to participate in a market with an annual GNP of US\$1 trillion and 200 million consumers. In this context, the Association Agreement will aim at improving the operating conditions for trade-related investment, in addition to the removal of tariffs and non-tariff obstacles to trade in goods and services.

In a more 'defensive' perspective, it is understood that the possibility of the Free Trade Area of the Americas entering into force would directly impinge on EU commercial interests in the MERCOSUR area, as happened in Mexico after that country joined the North American Free Trade Association. As for MERCOSUR, the need to enhance its links with Europe is quite obvious. The trade flows between MERCO-

SUR and the rest of the world are reasonably well distributed among the group's several partners: the EU accounts for 31 per cent of MERCOSUR exports, the US for 20 per cent, other Latin American countries for 14 per cent, Japan for 6 per cent and the rest of the world for 29 per cent. It is clearly in the interests of MERCOSUR to avoid a greater dependency upon any single market. Therefore, MERCOSUR will do its best to preserve a balance between its two main economic partners.

The Summit Meeting of all Latin-American, Caribbean and EU countries, to take place in June 1999 in Rio de Janeiro, is seen as an excellent opportunity for MERCOSUR and the European Union to announce, at the highest level, the opening of negotiations. Such a decision would also convey to the business community a reassuring message, which may be most welcome in the present unstable global environment.