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**Mercosur Seen from the EU Perspective:  
A Valued Partner or a Missed Opportunity?**

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## **Annotation**

The European Union entered into close contact with Mercosur shortly after Mercosur's founding in 1991. Since then, the two blocs have established economic and political relations and they are now on the path towards concluding a considerably ambitious Association Agreement, the first one of its kind ever concluded by two groupings of integrated countries. However, the negotiation process has continued for the last decade without leading to any result. The main aim of this thesis is to analyze the relation which the European Union currently has with Mercosur, examining whether its potential has been utilized sufficiently. Background framework is formed by the theory of (new) regionalism. Then, besides providing an insight into the various spheres of cooperation between the blocs, the thesis places the EU-Mercosur relation into a wider context of the global trade network and evaluates the effect brought by such interaction. Within the evaluation, the role of each of the two regional blocs is assessed and suggestions are made regarding the prospects of future EU-Mercosur cooperation.

## **Anotace**

Evropská Unie vstoupila do úzkého kontaktu s uskupením Mercosur brzy po jeho založení v roce 1991. Od té doby pokračují tyto dva aktéři ve vzájemné ekonomické i politické spolupráci a nyní jsou na cestě k uzavření pokrokové asociační dohody, která by byla první svého druhu mezi dvěma regionálními integračními uskupeními. Proces jejího vyjednávání však po dobu uplynulých deseti let nepřinesl kýžený výsledek. Cílem této diplomové práce je zanalyzovat vztah, který v současné době pojí Evropskou Unii a Mercosur a přitom zjistit, zda potenciál, který tento vztah přináší, byl dostatečně využit. Teoretický rámec je vytvořen použitím teorie (nového) regionalismu. Práce následně poskytuje detailní pohled na jednotlivé oblasti spolupráce mezi EU a Mercosurem a sleduje tuto spolupráci v širším kontextu relevantních obchodních vztahů fungujících ve světě. Zároveň je vyhodnocena role obou zmíněných regionálních uskupení během uplynulého vyjednávání a jsou nastíněny možnosti dalšího rozvoje jejich spolupráce v blízké budoucnosti.

## **Keywords**

European Union external relations, international trade, Mercosur, integration, regionalism

## **Klíčová slova**

Vnější vztahy Evropské Unie, mezinárodní obchod, Mercosur, integrace, regionalismus

## **Declaration**

1. I hereby declare that I have elaborated this thesis independently, using only the presented sources and literature.
2. I agree that the thesis be made available to the public for the purpose of research.

## **Prohlášení**

1. Prohlašuji, že jsem předkládanou práci zpracoval/a samostatně a použil/a jen uvedené prameny a literaturu.
2. Souhlasím s tím, aby práce byla zpřístupněna veřejnosti pro účely výzkumu a studia.

In Prague / V Praze dne 22. 5. 2009

Zuzana Dudová

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# Introduction

The global economic environment has been changing rapidly in the recent years. Neo-liberal trends in trade and the growing interdependence of individual economic actors have been the main forces which cause countries to abandon their traditional protectionist attitude and rather turn to closer mutual cooperation. As a result, integration projects have been emerging in various regions of the world, with the most significant success reached by the European Union. Following the early 1990s which are generally considered to be the most fruitful era so far in regard to economic integration, the newly emerged regional actors naturally began establishing contacts with their neighbors, entering into relations as new, more or less unitary actors.

There are many processes connected to the unprecedented changes which have been occurring in the last two decades. Cross-border links have become increasingly important. Multilateral trade negotiations have become more common, as the movement of goods, services and capital evolves to be more globalized. In addition, gaining an advantageous position in trade often means acquiring substantial power in realist terms. “The topic dealt with here is of great relevance and high sensitivity because it touches upon the construction and the design of a [notional] world government, its actors, its instruments and policies.”<sup>1</sup>

The primary goal of this thesis is to analyze the single relationship between the European Union and Mercosur - supposedly the two currently most advanced integration projects, and demonstrably two of the four largest trading blocs today. At first sight, such a task does not show to be exceptionally challenging; the trade flows between the two actors are well tracked and the legal basis of their cooperation is evident. However, after a closer observation, it becomes clear that the position and actions of the two actors alone cannot be examined without taking into consideration the complex conditions displayed above.

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<sup>1</sup> Lincoln Bizzozero Revelez, *Negociaciones Mercosur-Unión Europea, articulación del espacio Euro-Latinoamericano/Caribeño y gobernanza mundial*. Cuadernos de Integración Europea no.5 – Junio 2006. 6. Author’s own translation.

The central subject to analysis will be the European Union and the extent to which it is involved in cooperation with Mercosur. The mutual links between Europe and Latin America have their origin in history and are strengthened by the cultural similarity of the two regions. As regards integration, the EU was a witness to the creation of Mercosur and immediately expressed its support to the progressive vision of Mercosur's development. A framework cooperation agreement was signed soon, expressing the will of the parties concerned to develop their relations and extend the limits of interregional cooperation. Yet, no replacement of the original 1995 agreement has come into being until now. Biregional negotiations have been continuing for a number of years, until they finally came to a practical halt with the direct conditioning of a prospective agreement by the results of the current WTO talks.

Viewing the development so far from more than one point of view, this thesis intends to determine if the current situation is the natural outcome of the past and patience is the best treatment of unfulfilled expectations – or if protectionism and deficient flexibility have prevented the EU and Mercosur from progressing in their cooperation.

“In fact there is today no alternative, closure no longer being an option.”<sup>2</sup> On the pages to follow, the arguments and descriptions will be based on the assumption that in the world economic order of today, it is difficult, if not impossible for states to overemphasize protectionist approaches in respect to their counterparts. Applied to the case of the European Union, the assumption develops into the claim that there is space for maneuver left within its relationship with Mercosur and that the EU is not fully making use of the tools available to modify the current situation and convert the invariant status quo into a win-win game.

## **Structure**

The first chapter of the thesis mentions the essential theoretical framework: the phenomenon of regionalism is described and an explanation is provided of its meaning in relation to the EU-Mercosur links. A hypothesis is then presented which provides a foundation for the thesis as a whole and is reflected later in the text. Following the short

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<sup>2</sup> Bjorn Hettne, *The New Regionalism Revisited*. In *Theories of New Regionalism: A Palgrave Reader*, edited by Timothy M. Shaw and Fredrik Söderbaum. Basingstoke: Palgrave Macmillan, 2004, 23.

theoretical section, the next chapter is focused on Mercosur as an individual actor; its history is described, its institutional structure is viewed and parallels are made to the structure, values and various functions of the European Union. A basic overview of the development of internal trade and the economic integration processes is also included. These facts help create a better understanding of the strength of Mercosur as an integration project and a unitary player on the international scene.

The subsequent section is dedicated to the multi-level cooperation which the European Union and Mercosur have established with each other. The existing treaties and arrangements are described, while both the gains and fallbacks of the arrangements are assessed. The mutual trade is also analyzed, in order to demonstrate the respective importance of one actor to the other in terms of trade and their possible interdependence.

The concluding chapter then places the EU-Mercosur 'axis' into a wider context. It presents the complex set of bilateral and multilateral relations which each of the actors is involved in and examines the role and meaning of the present EU-Mercosur relation. The position of each of the blocs within the global trade network is depicted. Following such illustrations, the chapter makes it possible to assess the general meaning and importance of the present links between the EU and Mercosur, as well as the role played by the two blocs, the appropriateness of their behavior and prospects for the future under the current or predictable circumstances.

The methodology applied within the elaboration of the thesis is mainly based on the analysis of primary legal documents and available trade statistics. The descriptive method used more frequently in the initial sections of the text is combined with an independent analytical approach. Comparison is also repeatedly utilized for the purpose of evaluation of the various treaties concluded by the actors at stake.

## **Sources**

The sources related to the topic of this thesis follow several different thematic streams. As regards published works, there exist hardly any monographs dedicated to the Mercosur phenomenon or its relations to the European Union. The only issue sufficiently

covered is the theory of regionalism, dealt with by a number of authors: among others Doctor, Hettne, Tussie or Söderbaum and van Langenhove.<sup>3</sup> These authors have been cited in the first chapter of this thesis which provides the theoretical background for the presented research. In spite of the lack of monographs dedicated to the topic of Mercosur, a relatively lively academic debate has developed in the recent years in specialized journals. To name the most important ones, they are the *Journal of Interamerican Studies and World Affairs*, *Review of International Political Economy*, *International Affairs*, *Third World Quarterly*. The articles published cover some details of the negotiation process between the European Union and Mercosur, the history of the integration efforts of both actors and analyses of their economic situation. In particular, the works of Carranza, Kaltenthaler and Mora or Malamud<sup>4</sup> have proved to be very convenient.

However, it is essential to point out that as regards the necessity to reflect recent trends and analyzing recent development, the existing literature does not result as sufficient. And given that this thesis is to a large extent aimed at the development in the recent months and years, information and statistics provided in online sources became crucial for the completion of the analysis presented in the thesis. Such sources are numerous. The ones most often used in research for this thesis are *Eurostat*, *ECLAC/CEPAL* (the UN Economic Committee for Latin America and the Caribbean), the *Inter-American Development Bank*, the *ALOP (Asociación Latinoamericana de Organizaciones de Promoción)*, and generally the websites of all organizations involved: Mercosur, the European Union and its institutions, the World Trade Organization, the Organization of American States and the Andean Community of Nations. Most of the relevant legal documents were also downloaded from these websites.

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<sup>3</sup> Hettne mentioned above; Mahrukh Doctor, "Why Bother With Inter-Regionalism? Negotiations for a European Union-Mercosur Agreement." *Journal of Common Market Studies* 45, no. 2 (2007): 281-314; Diana Tussie, "Regionalism: Providing a Substance to Multilateralism?" In *Theories of New Regionalism: A Palgrave Reader*, edited by Timothy M. Shaw and Fredrik Söderbaum. Basingstoke: Palgrave Macmillan, 2004; Söderbaum, Fredrik, and Luk Van Langenhove. "The EU as a Global Actor and the Dynamics of Interregionalism: a Comparative Analysis." In *The EU as a Global Player. The Politics of Interregionalism*. New York: Routledge, 2006.

<sup>4</sup> Mario E. Carranza, "Clinging Together: Mercosur's Ambitious External Agenda, Its Internal Crisis, and the Future of Regional Economic Integration in South America." *Review of International Political Economy* 13, no. 5 (December 2006): 802-829; Karl Kaltenthaler and Frank O. Mora, "Explaining Latin American Economic Integration: The Case of Mercosur." *Review of International Political Economy* 9, no. 1 (March 2002): 72-97; Malamud mentioned above.

When suggesting the contribution of the presented thesis to the existing literature, it should be noted that first of all, updated analyses of the EU-Mercosur relations are very rare. Second, extremely few works on the topic have been published in the Czech Republic. Third, the potential concealed in the relation of the two blocs, the importance which Mercosur may represent to the EU and the consequences of the EU action have only been marginal in the literature published so far. Hence, there exists space for research and areas which need to be more profoundly covered. This fact has been the key stimulus for the elaboration of this thesis.

# 1. Regionalism, Ever-Present and Ever-Changing

When assessing theoretically the mutual economic convergence of particular countries, the concept of regionalism is encountered almost immediately. Regionalism is widely used today in the field of IR research and an extensive amount of literature has been published on it. It reflects the mode and conditions of the ongoing process of the alliance of various national states. Regionalism is not explicitly understood as an individual theory; rather, it brings together and evaluates both the clearly acknowledged and the less obvious variables leading to the image of the current world map shown through the lens of - not only - political economy.

The term of regionalism began appearing in literature in the second half of the 20<sup>th</sup> century, as the first advanced projects of international integration came into being after World War II. However, as the approaches to integration became more complex over time, and each group of states established a distinct system of cooperation, the theory of regionalism, too, has been acquiring a slightly altered approach with each example it has intended to explain. The convenience of the use of this concept in the case of this thesis turns clear due to the fact that “Western Europe and the Americas stand out as the areas where institutionalized regionalism has made the most impressive advances.”<sup>5</sup>

Generally, regionalism describes the functioning of cooperation among states which are joined not only by geographic proximity, but also by a certain level of interdependence. Immediately after World War II, security issues were also among the primary concerns of integrating states. Having opted for creating a converging unit, nation states then often find links in various additional spheres over time and create a somewhat unique entity which defines itself against its neighbors and acquires certain specific features, though neither holding too close together nor dissolved in the international system. “Regional dynamism appears to have two interrelated dimensions, namely, the processes of intraregional change and the definition of the region's outer boundaries. [...] The process of regionalization fills the region with substance such as economic

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<sup>5</sup> Louise Fawcett, “Regionalism in Historical Perspective” in *Regionalism in world politics: regional organization and international order*, edited by Louise L'Estrange Fawcett and Andrew Hurrell. Oxford: Oxford University Press, 1995, 9.

interdependence, institutional ties, political trust and cultural belonging.”<sup>6</sup> Once cooperating, it is obviously more accessible for member states to widen the areas of integration; however, such a process cannot be taken as automatic and does not occur in every case.

The first regionalist attempts were rather rare and (with the exception of the European Union) did not reach a very high level of integration. What became a crucial factor connected to the phenomenon of regionalism in the recent two or three decades were the neo-liberal trends in global trade. The economies of individual countries became interrelated to such an extent that protectionism ceased to be an effective reaction. For this reason, the new form of regionalism is often regarded as ‘open’ regionalism.

### **1.1. New Regionalism and Its Variations**

There is no particular consensus on the exact point in time marking the appearance of new regionalism: some argue that the first changes occurred already in the late 1980s,<sup>7</sup> but most authors see them as a result of the post-Cold War reality. However, regardless of the precise time, it was the unprecedented mechanisms appearing in world economy that became the essential turning point. Globalization brought with it the opening up of national borders and the need of states to reconsider their position in the new order. It became more profitable for many of them to align with their neighbors than to act on their own behalf and compete in a multilateral global trading system, described as extroverted and liberalizing<sup>8</sup>.

For a comprehensive and parsimonious comparison of the old and new versions of regionalism, it is convenient to turn to the list provided by Hettne, stating among other facts that:

- “Whereas the old was formed in a bipolar Cold War context, the new was taking shape in a multipolar world order, and in a context of globalization. The new regionalism and multipolarity were, from a world order perspective, two sides of the same coin, while unipolarity [...] would contradict both multipolarity and regionalism.

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<sup>6</sup> Raimo Väyrynen, “Regionalism: Old and New.” *International Studies Review* 5, 1 (March 2003), 39.

<sup>7</sup> Ethier, W.J. *The International Commercial System*. Essays in International Finance, no. 210, September 1998, 11. [http://www.princeton.edu/~ies/IES\\_Essays/E210.pdf](http://www.princeton.edu/~ies/IES_Essays/E210.pdf)

<sup>8</sup> Doctor, 283.

- Whereas the old was created ‘from above’, the new was a more voluntary process from within the emerging regions, where the constituent states and other actors experienced the imperative of cooperation, an ‘urge to merge’, or the pooling of sovereignty in order to tackle new global challenges.
- Whereas, in economic terms, the old was inward-oriented and protectionist, the new was often described as ‘open’, and thus compatible with an interdependent world economy. In fact there is today no alternative, closure no longer being an option.
- Whereas the old was specific with regard to its objectives (some organizations being primarily security-motivated, others more economically oriented), the new was resulting from a more comprehensive and multidimensional societal process.
- Whereas the old was concerned with relations between a group of neighboring nation-states, the new formed part of a global structural transformation, or globalization, in which also a variety of non-state actors were operating at several levels of the global system.”<sup>9</sup>

In the newly existent conditions, governments were forced to react, to invent a new manner of promoting their interests while the economic dimension was growing stronger than the political one: regionalization was primarily market-led and even reorganizing the dominant form of state<sup>10</sup>. Another important fact for the case of Latin America is that “the new regionalism bridges the traditional division between industrialized and developing countries that had marked the GATT [...] The new brand of regional free trade agreements tends not to make a distinction between types of countries or levels of development.”<sup>11</sup> The economic pressure simply had the same effect on virtually all states of the international community. Theories emphasizing the necessity of developing countries to stay isolated in order to boost the growth of their economies had long been regarded as implausible. With some amplification it can be stated that most of the states were standing on a similarly defined starting line, forced to open up their economies and make use of the growing international links.

Regional initiatives of the kind described above necessarily enter into interaction with multilateralism prevailing on the international scene. However, this does not have to lead to a clash. If the WTO rounds of negotiation are taken as insufficient, regionalism

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<sup>9</sup> Hettne, 23.

<sup>10</sup> Nicola Phillips, “The Rise and Fall of Open Regionalism? Comparative Reflections on Regional Governance in the Southern Cone of Latin America.” *Third World Quarterly* 24, no. 2 (2003), 228.

<sup>11</sup> Tussie, 113.

still serves more as a “complement, rather than an alternative, to the global regime”.<sup>12</sup> More countries are now welcoming the opportunity to gain a stronger voice on the regional level, but they are nevertheless maintaining trade relations with partners outside their respective regional blocs. Variety has proven to be far more beneficial than isolation:

“Regionalism and multilateralism now inhabit a constantly revolving interaction. No regional unit seems to be fully inward-looking. Indeed, no regional unit can afford to be so, nor to grow apart from others. Markets are so deeply intertwined that no unit can afford to sacrifice intra-regional trade at the expense of inter-regional trade. No state has an interest in substituting regional for global trade. Regionalism rather reflects that countries are choosing to forge ahead faster or further than the multilateral track affords.”<sup>13</sup>

It can be observed recently that as the number of integration projects grows in various parts of the world, either more or less developed, regionalism is acquiring an increasing role to play on the global scale. Integrating groups of countries are now full-fledged actors in the field of international negotiation, as a number of these entities have acquired legal personality. Some opinions can now even be heard that regional groupings may turn into the ones standing in the center of the decisions taken. As Söderbaum and Van Langenhove put it, “we are now in the early stages of the development of third-generation regionalism, characterised [sic] by a much stronger external orientation of regions, in which regions begin to play a more important role world-wide and in extra-regional affairs”.<sup>14</sup> Such visions are inspiring, yet they do not need to be discussed in detail. They can only be proven or overcome in the future years in practice.

## **1.2. Hypothesis**

The concept of regionalism and its various dimensions raise much debate and many engaging questions. But for the purpose of this thesis, the provided illustration should be sufficient. The ideas promoted in the regionalist debate, the conditions demonstrated in the global trade arena and the roles suggested for regional groupings in the present all lead to the formulation of a central assumption.

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<sup>12</sup> Tussie, 115.

<sup>13</sup> Ibid, 114.

<sup>14</sup> Söderbaum and Van Langenhove, 8.

Based on the arguments stated above, and using empirical evidence reflecting the economic conditions which affect the external position of both Mercosur and the European Union, this thesis seeks to argue that the potential existing in the mutual cooperation of the two regions has not been exerted to the maximum extent. It remains unquestioned that the cooperation between the European Union and Mercosur is by far the most developed of its kind. Still, it comprises considerable potential. As the process of globalization proceeds, closer cooperation is expected to be fruitful, if not inevitable.

Following what has been stated in the introduction, the aim of this thesis is not to judge and condemn the action taken so far and consider it insufficient. Rather, with the help of the analysis of current trade conditions and the application of the theoretical assumptions, the particular details should be found which demonstrate the extent to which there still exists space for maneuvering. The achievements so far will be compared to the possibilities which may lead to growth of the gains of both parties concerned.

## **2. Mercosur: An Overview and Main Ideas in Integration**

Despite its relatively short time of existence, Mercosur has a history which has been quite rich in institutional development and positive accomplishments in integration. In order to proceed to the details of the levels of cooperation with the European Union, it is fundamental to provide information on how Mercosur has evolved so far, what were its original visions and expectations in relation to the integration project, what the factors are which hinder the project, and what the position of Mercosur is in the regional context.

### **2.1. *The Historical Turning Points***

Looking back to the original motivations of the member countries to unite, Mercosur is by far not the first project of integration found in the region. Latin American countries are often considered part of the Third World, but their intention to cooperate dates back to a long time ago. It is the common cultural background, language and geographical proximity that keep the countries in a close relationship and helps resolve occasional conflicts.

#### **2.1.1. The Founding and the Preceding Steps**

It is not doubted that the gradual process of convergence has its origins in the links between Argentina and Brazil. These two countries had to overcome years of mutual rivalry and their relationship can somehow be compared to that of France and Germany in the starting phase of integration efforts in Europe. “Diplomatic relations began to improve in the late 1970s with the signing of several agreements on such important issues as energy supply, nuclear energy, the arms industry and a tripartite agreement between Argentina, Brazil and Paraguay that made it possible to solve a dispute regarding the use of border water resources.”<sup>15</sup> The military administrations in Argentina and Brazil intended to strengthen their mutual economic relations in the late 1970s and early 1980s, but were not very successful due to domestic political and economic crises. It was in the 1980s when the two countries established democratic regimes again and conditions appeared for them to begin developing closer cooperation.

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<sup>15</sup> Kaltenthaler and Mora, 74.

At that time, a crucial project of regional integration had already been put into place, which played an unquestioned role in the process of convergence of the integrating states. It was the ALADI,<sup>16</sup> the Latin American Integration Association. It was established by the Treaty of Montevideo in 1980<sup>17</sup> by reorganizing the LAFTA, or Latin American Free Trade Association, which was existent since 1960. The ALADI, based on cooperation on the level of foreign affairs ministers, is still existent and marks another example of the efforts of the Latin American countries to reach closer economic cooperation: although it has only proceeded slowly, its long-term objective is to establish a Latin American common market<sup>18</sup>. Acknowledging the importance of integration in the whole region of Latin America, Mercosur demonstrates the respect to the ALADI objectives in its founding treaty<sup>19</sup>.

In 1986, Argentina and Brazil signed a formal program concerning economic and political cooperation. This was the Program for Integration and Economic Cooperation (PICE). It was “structured around negotiation of sectoral agreements covering such areas as capital goods, food, technological cooperation and the iron, steel, nuclear and auto industries”.<sup>20</sup> In 1988, the Treaty on Integration, Cooperation and Development was signed, with the intention to form a common market within ten years; and another two years later, Uruguay joined PICE.<sup>21</sup> Soon after, in July 1990, Argentina and Brazil signed the Buenos Aires Act, aiming to establish a common market by the year 1994 and “pursuing integration within the context of programmes [sic] for unilateral trade liberalization and structural adjustment.”<sup>22</sup> Paraguay and Uruguay soon expressed their interest in being incorporated into the integration; therefore, on March 26, 1991, the Treaty of Asuncion was signed, founding the Southern Common Market, Mercosur.<sup>23</sup>

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<sup>16</sup> The acronym originates from the Spanish title Asociación Latinoamericana de Integración.

<sup>17</sup> The Treaty of Montevideo also led to the accession of new members: the founding Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay were joined by Bolivia, Colombia, Ecuador and Venezuela.

<sup>18</sup> *Treaty of Montevideo*, Article 1. [http://www.sice.oas.org/trade/Montev\\_tr/indexe.asp](http://www.sice.oas.org/trade/Montev_tr/indexe.asp)

<sup>19</sup> *Treaty of Asunción*, Preamble and Article 8.

[http://www.sice.oas.org/trade/mrcsr/TreatyAsun\\_e.ASP#CHAPTER\\_I](http://www.sice.oas.org/trade/mrcsr/TreatyAsun_e.ASP#CHAPTER_I)

<sup>20</sup> Kaltenthaler and Mora, 74.

<sup>21</sup> *Ibid.*

<sup>22</sup> *Ibid.*, 75.

<sup>23</sup> The abbreviation originates from the Spanish title, Mercado Común del Sur.

### 2.1.2. Motivations

Generally, there exist three broad concepts possible to be used when analyzing the reasons for the member countries to begin the process of integration. And although Mercosur was from the beginning proclaimed to be a strictly economic grouping, it cannot be fully denied that each of the actors did consider additional costs and benefits of integration, apart from those in the economic sphere. The concepts to be assessed are realism, considering power and geopolitical balance; domestic politics, observing the role of players on lower levels of governance; and obviously, political economy.

First of all, attention can be turned to the idea of the security alliance theory, arguing that “states will integrate their economies, an important constraining on their part, when they face a common security threat”.<sup>24</sup> In this place it needs to be added that in the context of the creation of Mercosur, a ‘security threat’ should not be understood as a clearly defined enemy or possibility of open conflict. Instead, it is convenient to note that after the end of the Cold War, there was as certain feeling of uncertainty in the global community, amplified in smaller states with less ability to influence the world order. In addition, throughout history, the United States had acted as a hegemon in the region, maintaining contact with its southern neighbors, but nevertheless promoting its own interests in the first place. Finding the opportunity, the countries of the Southern Cone chose to become active and to form a grouping capable of answering to the US superiority. This argument is supported by a number of authors<sup>25</sup> and there generally is little doubt that the member states were reacting to the predominant position of the United States. Hurrell goes as far as to state that groupings like Mercosur “cannot be understood except against the background of their respective regional balances of power and the policies of the regionally dominant power.”<sup>26</sup> Applying this statement to the example of the Mercosur founding countries, it becomes logical that partly Argentina, but even more so Brazil, aiming to reach the position of a sub-regional leading power, had the wider political context in mind and most likely turned the United States into the significant ‘other’.

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<sup>24</sup> Kaltenthaler and Mora, 77.

<sup>25</sup> Doctor, 290.

<sup>26</sup> Andrew Hurrell, “Regionalism in Theoretical Perspective.” In *Regionalism in world politics: regional organization and international order*, edited by Louise L'Estrange Fawcett and Andrew Hurrell. Oxford: Oxford University Press, 1995, 50.

Subsequently, to a limited extent, such an approach was necessarily projected into the identity built for the new Mercosur project. In addition, it cannot be forgotten that Mercosur emerged in the moment of the end of the Cold War, where a new global political system forced national actors to define a new role on the international level. Considering security a primary goal of integration would be exaggerating. Yet, it remains unquestioned that regionalism could well serve to reduce the *insecurity* which was one of the countries concerns at that time.<sup>27</sup> Applying the idea to the local conditions, very similar motivations led Argentina and Brazil to establish bilateral cooperation in the first place: they wished to end the state of mutual rivalry.<sup>28</sup>

The domestic political goal perspective can also be clearly demonstrated on the example of Mercosur. Here, the regional dimension is directly linked to the processes proceeding within the borders of the countries, and thus “[p]articipants in the recent economic integration process have emphasized the important role played by democratization in the creation of Mercosur”.<sup>29</sup> The countries involved had just freed themselves from authoritarian regimes and deeper cooperation seemed to offer the possibility to establish a strong democratic tradition in the region, preventing any radicalization on each the domestic political scenes. Shortly after the foundation of Mercosur, in 1992, the member states issued a Presidential Declaration in Las Peñas, proclaiming that “fully functioning democratic institutions are an indispensable condition for the existence and development of Mercosur”.<sup>30</sup> Even though not part of the primary law, the recognition of democracy as a basic principle of integration adds an important dimension to the Mercosur project.

Finally, referring to the first chapter on regionalism, it is not surprising that the economic conditions on the world market at the end of the eighties and beginning of the nineties forced the integrating countries to overcome any possible restraints and proceed faster in the process. Not only were they facing insecurity, but they also needed to find the means to resist economic competition from abroad. Latin American countries in general most likely felt the relatively intensive threat of being left behind the three major

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<sup>27</sup> Zuzana Dudová, *The European Union and Mercosur: The Dynamics of Interregionalism*. Budapest: Central European University. Department of International Relations and European Studies, 2008, 25.

<sup>28</sup> Kaltenthaler and Mora, 81.

<sup>29</sup> Ibid, 85.

<sup>30</sup> *Ushuaia Protocol*, Preamble. [http://untreaty.un.org/unts/144078\\_158780/20/3/9923.pdf](http://untreaty.un.org/unts/144078_158780/20/3/9923.pdf)

‘economic poles’, meaning the United States, Western Europe and the Asia-Pacific area: this context explains their turn to regionalism in order to increase their negotiating power and decrease the risk of being marginalized. In the founding Treaty of Asunción itself, the member states acknowledge “bearing in mind international trends, particularly the integration of large economic areas, and the importance of securing their countries a proper place in the international economy [while] believing that this integration process is an appropriate response to such trends”.<sup>31</sup>

To stress the central role of economic motivations, sufficient illustration is found directly in the founding treaty of Mercosur. The only goal the treaty elaborates on is the establishment of a common market<sup>32</sup>. All the following measures, such as harmonization of legislation or the setting of common institutions, revolve around this central goal.

Officially, according to its primary law, the ultimate aim when founding Mercosur was to react to the trends and circumstances on the global market and to bring about deeper economic cooperation among the member states. However, the situation in the Southern Cone then and the regionally specific context cannot be neglected and have been argued to bear virtually the same amount of significance, even though they remain unpronounced and only partially evident. What is clear – and will be demonstrated later in this thesis – is that the integration reality of Mercosur evolved over time, staying within the limited scope of intergovernmentalism, but nevertheless expanding gradually to numerous additional spheres.

### **2.1.3. Conditions for the Common Market**

It has to be noted that from the beginning, the Treaty of Asunción was not understood as the final document setting the complete conditions for the common market. Instead, a transition period was decided upon which was supposed to last until the end of 1994, when a new protocol was expected to establish the institutional structure and set the detailed conditions for further cooperation<sup>33</sup>.

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<sup>31</sup> *Treaty of Asunción*, Preamble.

<sup>32</sup> *Ibid.*, Article 1.

<sup>33</sup> *Ibid.*, Article 3.

The common market was defined to introduce “[t]he free movement of goods, services and factors of production, ...the establishment of a common external tariff and the adoption of a common trade policy in relation to third States or groups of States..., co-ordination of macroeconomic and sectoral policies between the States Parties [and] the commitment by States Parties to harmonize their legislation in the relevant areas”.<sup>34</sup> Additional acts to be taken were above all general rules of origin and a trade liberalization program.<sup>35</sup>

The visions presented were quite ambitious. It is true that the member states had already been tied in some economic cooperation before, yet the planned common market created a challenge for them. Besides the coordination of macroeconomic policies and a common external tariff, they pledged to arrive “at a zero tariff and no non-tariff restrictions for the entire tariff area by 31 December 1994”<sup>36</sup>. To compare, reaching such an accomplishment took over three decades in the case of the European Union. Hence, although there were strong incentives within all Mercosur member states to deeply engage in building a common market, the fulfillment of these goals could not have been expected be reached in time.

Two institutions were created: the Council of the Common Market as the highest organ, responsible for political leadership and all decision-making, with foreign affairs and economy ministers participating in it; and the executive Common Market Group, seating together representatives of the above mentioned ministries and those of the central banks.<sup>37</sup> An interesting parallel to the European Union was created, namely a rotating six-month Council presidency.<sup>38</sup>

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<sup>34</sup> *Treaty of Asunción*, Article 1.

<sup>35</sup> *Ibid.*, Articles 3 and 5. Although the Rome Treaty establishing the European Economic Community goes further and states more far-reaching goals for the European integration project, it is interesting to realize the extent to which both of the groupings are coinciding with each other in terms of goals and tools of cooperation.

<sup>36</sup> *Treaty of Asunción*, Article 5.

<sup>37</sup> *Ibid.*, Articles 9, 10, 11, 13, 14.

<sup>38</sup> *Ibid.*, Article 12.

#### **2.1.4. Institutionalization: The Protocol of Ouro Preto**

The deadline for establishing a common market in Mercosur was neither postponed nor mentioned in the Ouro Preto Protocol, signed in December 1994. The key accomplishments were the establishment of international legal personality for Mercosur<sup>39</sup> and the final institutional structure of the organization. The Trade Commission assists the Common Market Group and monitors the application of the common trade policy; the Joint Parliamentary Commission assures the prompt entry into force of any common decisions and issues recommendations to the Council and Common Market Group.<sup>40</sup> The Economic-Social Consultative Forum only issues recommendations to the Common Market Group, and the Administrative Secretariat, as the only permanent institution, providing operational support and administering all documentation.<sup>41</sup>

A legal framework similar to the one of the European Union was determined. Besides the Treaty of Asuncion and its protocols, the primary legal sources are additional agreements taken within the framework of the Treaty, whereas the secondary sources are the Decisions of the Council of the Common Market, the Resolutions of the Common Market Group and the Directives of the Mercosur Trade Commission.<sup>42</sup> Unanimity is set as the decision procedure for all legal acts.<sup>43</sup> A common budget was also introduced, funded by equal contributions of the members and covering operating expenses of the Administrative Secretariat, as well as expenses authorized by the Common Market Group.<sup>44</sup>

#### **2.1.5. The Evolution until Today**

Intensive contact with neighboring countries was initiated in 1996, when association agreements were signed with Chile and Bolivia. At the same time, the political dimension of cooperation was strengthened by the Presidential Declaration concerning Democratic Commitments, and two years later, the democratization efforts were formalized in the Ushuaia Protocol on Democratic Commitment in the Southern Common

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<sup>39</sup> *The Protocol of Ouro Preto*, Article 34. [http://www.sice.oas.org/trade/mrcsr/ourop/ourop\\_e.asp](http://www.sice.oas.org/trade/mrcsr/ourop/ourop_e.asp)

<sup>40</sup> *Ibid.*, Articles 16, 25, 26.

<sup>41</sup> *Ibid.*, Articles 29, 31, 32.

<sup>42</sup> *Ibid.*, Article 41.

<sup>43</sup> *Ibid.*, Article 37.

<sup>44</sup> *Ibid.*, Article 45.

Market, signed also by the two associated countries. The Protocol introduced measures to be taken against a state party, in the case of a breakdown of its democratic regime.<sup>45</sup> The so-called *political Mercosur* was thereby established, respecting further goals than those of the common market and proclaiming the area of the signing countries an area of peace.<sup>46</sup>

The Olivos Protocol of 2002 set up a system of dispute settlement in Mercosur, creating a legal basis for Ad Hoc Arbitration Tribunals and a Permanent Review Tribunal. It completed a long-term process initiated shortly after the founding of Mercosur.

Finally, several crucial protocols were introduced at the summit of Montevideo in 2005. Namely, it was the Human Rights Protocol, making it possible to suspend a member state as a reaction to its acts of violence, and the creation of the Parliament of Mercosur.<sup>47</sup> In fact, the Parlasur, as it is abbreviated, brings about a new element into the Mercosur concept of integration. Until the Montevideo Summit, Mercosur insisted on strictly following the principle of intergovernmentalism and the institutional structure – despite resembling the one of the EU to a limited extent – was kept notably limited. In contrast, the Parlasur carries the potential of becoming a considerably influential institution, as its members are to be directly elected in the near future. That would provide it with legitimacy both from the bottom up, being directly linked to the citizens, and also in the opposite direction, creating a slight but still exceptional amount of supranationality. The Parliament now only has a consultative role to play, but its existence increases the possibility of modification of the Mercosur institutional structure.

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<sup>45</sup> *Ushuaia Protocol*, Article 5.

<sup>46</sup> [www.mercosur.int](http://www.mercosur.int)

<sup>47</sup> European Commission: *Mercosur: Regional Strategy Paper 2007 – 2013 (RSP)*, 15.  
[http://ec.europa.eu/external\\_relations/mercotur/rsp/07\\_13\\_en.pdf](http://ec.europa.eu/external_relations/mercotur/rsp/07_13_en.pdf)

**Table 1: Mercosur primary law<sup>48</sup> - institutional structure and values**

<b>Treaty / Protocol</b>	<b>Institutions<sup>49</sup></b>	<b>Goals, values, accomplishments</b>
Asuncion, 1991	Council of the Common Market Common Market Group	Common market starting 1994
Brasilia, 1991		System of dispute settlement
Ouro Preto, 1994	Trade Commission Joint Parliamentary Commission Economic-Social Consultative Forum Administrative Secretariat (since 2002: Technical Secretariat)	International legal personality
Ushuaia, 1998		Democratic Commitment – “Political Mercosur”
Olivos, 2002	Ad Hoc Arbitration Tribunals Permanent Review Tribunal	
Montevideo Summit Protocols, 2005	Parlasur – The Parliament of Mercosur	Human Rights Protocol
Accession of Venezuela, 2006		Full membership by 2013

## **2.2. Addressing Criticism**

As foreshadowed in the previous section, “a common feature of Latin American integration to date has been the predominance of the traditional concept of sovereignty and the rejection of supranational institutions in decision-making processes.”<sup>50</sup> This fact is widely judged to hinder further integration, be it either in the manner of deepening or widening. The process is also slowed down by the necessity to ratify all proposed legal norms on the domestic level. Regarding the common market, there is not only lack of common legally binding norms, but due to the rule of unanimity, the decision-making processes are not very effective.<sup>51</sup>

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<sup>48</sup> For the purpose of this thesis, the terminology is inspired by that of the European Union. Hence, the term *primary law* encompasses the founding treaty and its subsequent protocols, whereas *secondary law* in the case of Mercosur covers any pieces of additional legislation issued by the Mercosur institutions.

<sup>49</sup> The Commission of Permanent Representatives is not listed in the table. It was established in June 2003 by Decision 11/03 of the Common Market Council; its founding was therefore not based on primary law, however its functioning within the institutional framework of Mercosur is indispensable.

<sup>50</sup> Sanahuja, 191.

<sup>51</sup> Ibid.

On the one hand, leaders of Mercosur countries proclaim to be building a basis for the integration of the whole Latin American region, time being the only obstacle. On the other hand, some movements are still present in Mercosur which oppose liberalism and call for a specific approach towards economic convergence. Consensus and progress are therefore difficult to reach. Yet, as demonstrated below, the member economies have become increasingly intertwined. It is also crucial to note that the Mercosur project was not abandoned during economic hardship, such as those in the late nineties or crises in Brazil and Argentina at the turn of the century.

A certain imbalance in power also often raises criticism. Brazil surpasses the rest of the members in all aspects. A historical and geographic hegemon, Brazil has the highest ambitions in terms of global politics, including the demand for a permanent seat in the United Nations Security Council. Already at the moment of foundation, it was responsible for 65,23% of the total trade volume within Mercosur, compared to 32,04% in the case of Argentina, 1,69% for Uruguay and 1,05 for Uruguay<sup>52</sup>; the share remaining comparably similar until today. Without any doubt, this distribution characterizes Mercosur itself and will do so in the future. However, this does not collide with the fact that mutual opening of economic borders brings potential gains to all participants. Asymmetry is discussed on political level and treated with the help of the Fund for Structural Convergence (FOCEM), established in 2004 and amounting to 100 million USD per year.<sup>53</sup>

In addition, there persist several internal disputes among the member states, namely on the borders, which do not stand completely in the way of integration, but they certainly make mutual agreement more complicated to reach. Examples of such cases are planned constructions of paper mills on the Uruguay River, on the border with Argentina or the already functioning Itaipú power plant on the border of Paraguay and Brazil, where Paraguay argues not receiving a fair share of revenues. Also, Brazil has announced a project of building a dam in the Amazon area, affecting the environment across its borders. Such efforts are intensively debated in the common forums, but one of the main actors, Brazilian president Lula da Silva comments optimistically in the following way: “I do not agree that MERCOSUR is undergoing a crisis. In [the past] there was talk about

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<sup>52</sup> INTAL, Mercosur Report no. 1, p. 1.

[http://www.iadb.org/intal/aplicaciones/uploads/publicaciones/i-MERCOSUR\\_Report\\_1.pdf](http://www.iadb.org/intal/aplicaciones/uploads/publicaciones/i-MERCOSUR_Report_1.pdf)

<sup>53</sup> EC RSP, 15.

dissolution and I insisted that there was no crisis in the bloc, but rather in the countries that constituted it. Our central objectives remain more valid than ever.”<sup>54</sup>

It is the scope of analysis which matters most when assessing the success of Mercosur integration efforts. In comparison to the speed of integration in Europe, Mercosur would probably not be regarded as a progressive project. However, it remains relatively unquestioned that the accomplishments in various other spheres so far are meaningful. As Malamud argues,

“The political attainments are essentially national and regional: the project has fostered domestic democratic stability and lasting peace among its members. In a region historically characterised [sic] by authoritarianism and military rule, this accomplishment alone justifies integration efforts. In the economic field, the achievements are visible too, albeit less notable: the creation of Mercosur has helped its members to lock in domestic reforms, and contributed to tripling intra-regional trade in less than a decade. Internationally, the regional association has given its members a degree of visibility that they would not have gained otherwise.”<sup>55</sup>

In the perspective of cooperation with the EU, the ability to sustain a more stable political and economic situation should not be underestimated. When considering a possible association agreement, the EU requires its partner to have a strong institutional basis and transparency. Therefore, even though not seen statistically in the first place, closer non-economic cooperation helps open the door to the negotiating table with the EU.

### **2.3. The Evolution of Intra-regional Trade Relations**

Whereas any political analysis can be contradicted, trade figures constitute an incomparably clearer illustration of the extent to which the economies of Mercosur member states have been converging. As the data in the Table 2 demonstrate, mutual economic flows began increasing immediately after the founding of Mercosur.<sup>56</sup> There have been periods when obvious complications appeared, being one of the reasons for the

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<sup>54</sup> COHA Report: *MERCOSUR Presidential Summit Concludes with High Hopes*. <http://www.coha.org/2006/07/coha-report-mercosur-presidential-summit-concludes-with-high-hopes/>

<sup>55</sup> Andres Malamud, “Mercosur Turns 15. Between Rising Rhetoric and Declining Achievement.” *Cambridge Review of International Affairs*, Volume 18, Number 3, October 2005, 426.

<sup>56</sup> See Annex for more economic statistics.

appearance of a later ‘Mercosur crisis’. However, there has not appeared any threat so far of dissolving the group – which suggests that the benefits of integration most likely outweigh the costs, even in times of economic decline.

**Table 2: Exports to Mercosur as the percentage of total exports**

	1991	1993	1995	1998	1999	2000	2002	2005	2006	2007
<b>Argentina</b>	16,51	28,1	32,29	35,6	30,3	31,8	22,3	19,1	21,3	22,1
<b>Brazil</b>	7,30	15,4	13,23	17,4	15,5	15,4	5,5	9,9	10,1	10,8
<b>Paraguay</b>	35,19	39,6	56,79	52,3	41,4	63,5	58,1	54,0	48,1	49,3
<b>Uruguay</b>	35,42	43,5	47,03	55,3	45,0	44,5	32,6	22,9	23,6	27,7

Source: INTAL; Observatory of Globalisation

Especially in the first years following the Treaty of Asunción, the export volume increased significantly within Mercosur. Between the years 1991 and 1995, Brazil and Argentina witnessed an impressive average annual growth rate in intra-Mercosur exports: it reached 81,26% in Brazil and 95,64% in Argentina. With the rate being 61,38% in Paraguay and 32,77 in Uruguay, the total Mercosur average showed to be 83,84%.<sup>57</sup> The position of each member within the Mercosur economy can also be easily observed from the above table. Brazil, the largest country and an emerging actor on the global scale, has the most trade links outside of Mercosur and therefore is not so dependent on the Mercosur market. Paraguay and Uruguay, on the contrary, are traditionally closely tied to their neighbors. Argentina and Brazil are logically their main trade partners – this fact is shown by the high numbers regarding their intra-Mercosur export volume. Still, the integration process has had the potential of facilitating the flow of export from Paraguay and Uruguay to the neighboring countries, with the volume of trade rising most of the time.

<sup>57</sup> All taken from INTAL, Mercosur Report no. 1, p. 9.

A significant fall in the volume of internal trade follows the years 1999 and 2001, when first the Brazilian, and later the Argentine economy faced a serious crisis. The events had a substantial effect on the functioning of Mercosur itself, as all the involved countries immediately took individual measures to deal with the urgent situation. In this respect, the role of Brazil also becomes evident: over a period of several years after 1999, Brazil oriented its trade activities towards world markets<sup>58</sup>, which became “the main factor behind the relatively modest intra-Mercosur trade levels”.<sup>59</sup> The impact of the critical moments can still be seen from the figures today. It is true that in comparison, in 2007, the share of exports to the EU of its member states was 68,1 percent, a level hardly imagined in the case of Mercosur<sup>60</sup>. Nevertheless, the long-term trend allows at least for moderate optimism: it took a considerable amount of time before the countries reached stability, but the share of total exports to Mercosur seems to be growing gradually again in the several recent years.

Shortly after the accession of Venezuela, its trade volume with Mercosur is 1,7%, which is almost negligible in comparison with that of the other members. In fact, for example in 1998, the rate was 4,8%<sup>61</sup> - Venezuela's exports to Mercosur countries has therefore decreased over the last decade. However, two facts have to be taken into account in relation to this. First of all, the oil prices were increasing at that time, which had an impact on Venezuela's exports in general, but not so much to Mercosur itself, since oil is not very relevant in this case. Also, Venezuela only became member of Mercosur in 2006, adopting a long-term timetable of tariff reduction. An increase in its export to Mercosur can therefore only be expected at a somewhat later stage.

The Common External Tariff (CET), forming the basis of the Mercosur customs union, was adopted as planned in the year 1994 by the Decision 22/94 of the Council of the Common Market.<sup>62</sup> Eleven tariff levels were defined, ranging from a 0% to a 20% rate. The CET was at first applied to approximately 75% of tariff lines, but with hundreds

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<sup>58</sup> Trade with other Mercosur members represented 9, 4% of its trade in 2002-2005. EC RSP, 11.

<sup>59</sup> Ibid.

<sup>60</sup> Eurostat: Share of Trade with the EU-27.

[http://epp.eurostat.ec.europa.eu/portal/page/portal/external\\_trade/data/main\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/external_trade/data/main_tables)

<sup>61</sup> Ibid., 57.

<sup>62</sup> Mercosur: *Arancel Externo Común*. [www.mercosur.int](http://www.mercosur.int)

of exceptions<sup>63</sup> and the sugar and automotive sectors totally excluded.<sup>64</sup> The specific numbers have been then intensively modified over time, according to the respective situation. The progress towards effective trade harmonization has been progressing considerably slowly, however. Although the tariff now covers over 85 percent of relevant goods<sup>65</sup>, exceptions are still often applied and still existent non-tariff barriers prevent Mercosur from becoming a common market. The lack of a coherent common external trade policy and no completely free circulation of imported products make even the customs union incomplete.<sup>66</sup> Most legal norms need to be transposed or incorporated into the members' national legislation, and according to the estimation of the European Commission, the process has only been successful in 48% of the rules issued so far.<sup>67</sup> Lamentably, it is also true that the above mentioned "weak institutional structure has encouraged member states to often flout subregional rules".<sup>68</sup> The effect of the crises in 1999 and 2001 should also be considered a crucial factor. The full implementation of the customs union was planned for the year 2005, but due to the stagnation following the year 2001, such a goal is unfortunately still out of reach at the moment.

A persistently problematic issue in the sphere of Mercosur trade is formed by the traditionally sensitive products which up to now are treated as exceptions from the tariff schemes and customs union freedoms. Each member state lists a different combination of products which it intends to exempt from the common tariff, which makes liberalization more difficult to reach. Examples of sensitive products are automobiles, sugar, machinery, textile products and footwear, automobiles or certain agricultural goods, such as fruit, rice or wine.

### **2.3.1. Determinants of the Mercosur Crisis**

"The Mercosur crisis can largely be accounted for by the fact that the financial opening up of its economies to world markets occurred significantly more quickly than did

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<sup>63</sup> The exceptions accounted for "up to 300 tariff items in the case of Argentina, Brazil, and Uruguay, valid until the year 2001 and 399 items for Paraguay valid until the year 2006". European Commission. *Mercosur – European Community Regional Strategy Paper 2002-2006*, 36.

<sup>64</sup> Ibid.

<sup>65</sup> Carranza, 803.

<sup>66</sup> EC RSP, 16.

<sup>67</sup> Ibid.

<sup>68</sup> Carranza, 808.

trade liberalization [sic].<sup>69</sup> The assumption of the European Parliament seems to be reflecting reality, saying that the Latin American countries became particularly vulnerable to fluctuations in the supply of capital due to rapid liberalization in the financial sector.<sup>70</sup> The exchange-rate and fiscal policies of the affected countries showed not to be flexible enough to react to flight of capital and the efforts of the countries to liberalize mutual trade were damaged by the fluctuations in the supply of finance. The attempts to raise interest rates led to an increase in public debt and an eventual financial crisis. Again, since Brazil and Argentina did not – and perhaps could not - seek coherence and took individual steps to tackle the crisis of each economy, it was the Mercosur rules which were first broken in the struggle against breakdown. As mentioned earlier, since the Mercosur rules and structures were not very deeply rooted in the functioning of interactions among the member states, it became more convenient for Argentina to react to Brazil's currency devaluation by imposing restrictions on imports.<sup>71</sup> Not to go much into detail, it is obvious that certain harmonization of macroeconomic policies is necessary for integrating countries in order to reach coherence and face sudden changes from the outside. It has been taking Mercosur almost a decade to reach the level of market integration which had been reached before 1999.

To call the crisis a current one is now slightly exaggerated; it seems that the member states take account of the experience and are reaching for further convergence. However, such a process may be a long-term one. Although the bloc is beginning to thrive again and seeks to play a greater role internationally, the level of Mercosur institutionalization has not increased much over the recent years – and significant political will is essential for any steps forward in this direction. Therefore, only time will show if enough common force is now present to face any possible upcoming financial turbulences. It will show whether the mutual ties of the member countries, facing an economic hazard, become the advantage of Mercosur or a cause for its instability.

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<sup>69</sup>The European Parliament Report: *Trade-Integration Processes in Europe and Latin America*, 3. [http://www.europarl.europa.eu/delegations/noneurope/latin\\_america/parlatino/foxley\\_en.pdf](http://www.europarl.europa.eu/delegations/noneurope/latin_america/parlatino/foxley_en.pdf)

<sup>70</sup> The European Parliament Report: *Trade-Integration Processes in Europe and Latin America*, 3.

<sup>71</sup> Ibid, 4.

## **2.4. The Wider Neighborhood**

In general theoretical terms, “[t]he impact of the new regionalism on countries lying outside some regions has been very harsh. For example, countries bordering the EU have found regionally organized trading regimes presenting a series of closed doors to them.”<sup>72</sup> Indeed, the ‘fortress Europe’, as the EU is called at times, does apply strict rules in relation to non-members. This assumption, however, cannot exactly be applied to the case of Mercosur. It was clearly expressed in 1991 that the Treaty of Asuncion “must be viewed as a further step in efforts gradually to bring about Latin American integration”.<sup>73</sup>

The ambitious rhetoric is of course moderated by real conditions. Still, very soon, Mercosur concluded association agreements with most of its neighbors on the South American continent. In 1996, agreements were signed with Chile and Bolivia,<sup>74</sup> while countries of the rest of the Andean Community of Nations (Colombia, Ecuador, Peru and at that time Venezuela) joined soon after that. In some cases, there are not even very strong trade links between Mercosur and the associated countries – it may be argued however that the traditional political and cultural links push the states closer together. Venezuela has made biggest accomplishments in this respect and is now nearly a full member of Mercosur.

### **2.4.1. Association Agreements**

Although Mercosur pays much attention to the arrangements of its internal market, the particular conditions of the association agreements are not explicitly clear.<sup>75</sup> Technically, being an associated member of Mercosur requires the creation of a free trade zone between Mercosur and the country concerned.<sup>76</sup> Moreover, associated members adopt all existing democratic commitments of the Mercosur and should perform the maximum possible effort to meet the conditions in other adopted instruments, such as protocols on integration in education, culture, judicial assistance etc.<sup>77</sup> They take part in the meetings of the Mercosur organs and institutions in the role of observers, based on a

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<sup>72</sup> Tussie, 112.

<sup>73</sup> *Treaty of Asunción*, Preamble.

<sup>74</sup> European Commission: *The EU's External Relations with Mercosur*.  
[http://ec.europa.eu/external\\_relations/mercosur/index\\_en.htm](http://ec.europa.eu/external_relations/mercosur/index_en.htm)

<sup>75</sup> Malamud, 428.

<sup>76</sup> EC RSP, 7.

<sup>77</sup> *Decision 18/04 of the Council of the Common Market*, Article 9.

respective invitation.<sup>78</sup> In such a case, two sessions take place, one of them meant exclusively for the Mercosur member states.<sup>79</sup>

The precedent case was set by the agreement with Chile, signed in July 1996 and in December of the same year, it was followed by Bolivia.<sup>80</sup> Peru became an associate member in 2003 and the last to join were Colombia, Ecuador and Venezuela (now a full member), at the end of the year 2004.<sup>81</sup> This fact goes alongside the process of rapprochement with the Andean Community of Nations (CAN).<sup>82</sup> Being in contact since Mercosur's founding, the two blocs signed a Framework Agreement for the creation of a Free Trade Area in 1998, launching negotiations on economic cooperation. The association of the CAN members to Mercosur is based on their Economic Complementarity Agreements, signed in 2003 and 2004.<sup>83</sup>

#### **2.4.2. Venezuela**

The Entry Protocol of Venezuela was concluded on July 4, 2006; Venezuela adhered to the Treaties and Protocols in force, while a time schedule was to be set for the step-by-step adoption of Mercosur legislation, the Customs Code and the Common External Tariff within the following four years.<sup>84</sup> Deadlines were set up to the year 2014, when the last step of trade liberalization is supposed to occur, namely in the case of sensitive products.<sup>85</sup> Theoretically, Venezuela entered Mercosur by the date of the entry into force of the protocol of accession. However, similarly to all Mercosur legislation, the protocol needed to be ratified by all of the member states. Argentina and Uruguay have already approved, but the process is still pending in the case of Brazil and Paraguay, without a clear expectation of success in the near future.<sup>86</sup> Venezuela now finds itself in a certain transition period and for the time being, it is not always regarded as a full member

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<sup>78</sup> Ibid, Article 5.

<sup>79</sup> Ibid., Article 6.

<sup>80</sup> EC RSP, 7.

<sup>81</sup> Ibid.

<sup>82</sup> The Andean Community of Nations (founded in 1969 as the Andean Pact; renamed in 1996) currently joins Bolivia, Colombia, Ecuador and Peru. Chile was a founding member, but withdrew in 1976. Venezuela entered in 1973, but left the group in 2006.

<sup>83</sup> Andean Community: CAN – Mercosur <http://www.comunidadandina.org/ingles/Exterior/mercosur.htm>

<sup>84</sup> *Protocolo de Adhesion de la República Bolivariana de Venezuela al Mercosur*, Articles 3-4

<sup>85</sup> Ibid., Article 5.

<sup>86</sup> Senado de Paraguay no aprueba ingreso de Venezuela al Mercosur. El Universal, March 4, 2009. [http://www.eluniversal.com/2009/03/04/eco\\_ava\\_senado-de-paraguay-n\\_04A2242243.shtml](http://www.eluniversal.com/2009/03/04/eco_ava_senado-de-paraguay-n_04A2242243.shtml)

of Mercosur. Sometimes the term ‘classical Mercosur’ is used to refer to the group of four founding countries, without Venezuela.<sup>87</sup>

### **2.4.3. New Membership: Integration and Democratization**

The question arises how much Mercosur becomes attractive to the outsiders, who are partly involved, but still standing independent. Indeed, the preamble of the Treaty of Asunción mentions that the Treaty “must be viewed as a further step in efforts gradually to bring about Latin American integration”.<sup>88</sup> However, the development of regional integration in Latin America today does not seriously indicate any direction towards a unitary project which would include all countries of the region. In political terms, the countries have lately established a common forum of consultation, the Unasur, which will be mentioned later in this thesis.<sup>89</sup> However, in terms of economic integration, the countries seem to have established a stable system of preferential trade agreements which is accepted by all parties concerned. The currently most ambitious projects, namely Mercosur and the Andean Community of Nations, are at the moment still tackling their internal obstacles to free trade. Unless they accept new members at the price of increased difficulties in the trade liberalization and legislative harmonization processes, enlargement is arguably not among their priorities.

Comparing the forces leading to enlargement to those in Europe, the idea of democratization should necessarily be approached. In the case of the 2004 and 2007 rounds of enlargement, one of the key accomplishments was a certain re-unification of Europe, when countries of the former Communist bloc joined Western Europe. The integration of the new members led to their stabilization: they established functioning market economies and underwent a process of creation of legal harmonization, building a transparent judicial system and tackling corruption, among other issues. To some extent, Latin American countries are in a similar position; however, it has to be highlighted that they were never divided into ideologically divergent blocs. The transition is taking place separately in each country. Hence, in the case of Mercosur, the dimension of democratization needs to be evaluated in a somewhat different manner.

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<sup>87</sup> ALOP. *¿Hacia dónde van las relaciones entre América Latina y la Unión Europea?* 58.

<sup>88</sup> *The Treaty of Asunción*, Preamble.

<sup>89</sup> The Union of South American Nations (Unión de Naciones Suramericanas) - see Chapter 4 of this thesis for the description of the development and the current role of Unasur.

Truly enough, in the 1990s, the integrating countries were bearing a history of dictatorship regimes which they intended to leave behind. It can be said that the Mercosur project made it possible for them to share the effort, while providing a forum for communication. “The creation of a more benign environment in the Southern Cone meant that international affairs were less likely to intrude upon the process of democratization... [T]he civilian authorities could find support from each other in their efforts to fully subordinate the armed forces in their respective countries.”<sup>90</sup> But today, even though there might still be some steps missing to the completion of legally consistent states, the risk of violent regime change has fallen to an incomparably lower level, at least in countries geographically close to Mercosur, where possible membership is considered in the first place. Moreover, due to the above mentioned regional cooperation which is already in place, and the mutual openness of the countries concerned, the costs of non-membership in Mercosur itself are not extremely high. The cultural and economic interconnectedness of the countries has to be kept in mind. To paraphrase an expression sometimes relating to Europe, there is no such thing as ‘fortress Mercosur’.

## **2.5. The Position Today**

Despite some the facts listed above, which do not show much optimism, Mercosur is a regional actor which plays an indispensable role. Mercosur now accounts for approximately 75% of all economic activity in South America<sup>91</sup> and definitely possesses a strong voice to use in bargaining with the rest of the continent, as well as on the global level. Through a series of economic agreements with neighboring countries and participating in various different regional groupings,<sup>92</sup> the Mercosur member states have managed to build up a reasonable balance in the region. They have also been successful in sustaining democratic political systems, which is a considerable accomplishment, given the political development in the region in the 20<sup>th</sup> century.

The process of Mercosur economic integration is still far from being perfect at the moment. The main obstacle to possibly bringing the project deeper seems to be the

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<sup>90</sup> Martin Mullins, *In the shadow of the generals: foreign policy making in Argentina, Brazil and Chile*. Aldershot: Ashgate Publishing, Ltd., 2006, 127.

<sup>91</sup> COHA Report: Mercosur Presidential Summit...

<sup>92</sup> Such as the OAS, ALADI, the Rio Group or Unasur, to mention some of the most important ones.

institutional structure. The European experience has demonstrated that no substantial progress can be made without involving the factor of supranationality. If the member states do not choose to give up at least a fraction of national sovereignty for the benefit of a central institution, the process of legislative harmonization is very likely to become lengthy and complicated. The completion of a common market could therefore be even more unlikely. The still existing high number of non-tariff barriers in Mercosur and the legislative norms which have not been approved on national level serve as a factor in support of this statement. Nevertheless, a certain internal deficit does not prevent Mercosur from the intention of acting as a unitary actor on the international level.

The relative strength of Mercosur in relation to the outside world serves as a basis for the following chapter, which depicts Mercosur as a partner of the European Union, assessing the relationship between the two blocs, its effectiveness and pointing out a wider context.

### **3. Mercosur and the European Union: Accomplishments, Negotiation Efforts and Obstacles to Further Progress**

Even though Mercosur was only founded less than a decade ago, the contacts it has had with the European Union have been numerous and considerably intensive. They include various different levels of interaction and refer to cooperation not only in trade and investment, but also in institutionalization and involve political talks and consultations. Both actors show a significantly strong political will to advance in the depth of their mutual relations; however, there is an overwhelming amount of factors which play a role in the process and create restraints in the ongoing negotiations. Those are namely the varying trade preferences and different levels in economic development of the two blocs, and, perhaps more importantly, the urgent interconnection with negotiations at the World Trade Organization. The following chapter analyzes the steps taken so far and the present situation, while suggesting the possibilities of the actors under the current conditions.

The purpose of this overview is to focus on the past and ongoing negotiations, rather than to provide detailed statistical data. Yet, for the understanding of the importance of mutual trade cooperation, it should be highlighted that in some sectors, there exists significant dependency on Mercosur products from the side of the European Union. Mercosur is currently one of the most important importers of food and beverages to the EU and in some cases its role in agricultural imports becomes crucial: for example, 60% of beef imported to the EU originates in Mercosur.<sup>93</sup> The two decades of cooperation, despite a temporary crisis, have led to a stable mutual flow of goods. The efforts taken in direction to a more ambitious agreement between the two partners are not only meant to facilitate new links, but are also very important to upkeep the mutual goods exchange which has already been established. This exchange is not likely to decrease if no further agreement is reached in the area of trade, but it will certainly be limited, which is unnecessary, considering the growth potential lying in the future development of the EU-Mercosur links.

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<sup>93</sup> Roberto Bouzas and Gustavo Svarzman, "Estructura del comercio y de la protección arancelaria en las relaciones entre el MERCOSUR y la Unión Europea. In *Boletín Informativo Techint* 304, Octubre – Diciembre 2000. 60.

The European Union has been quite strongly in favor of the Mercosur integration project already since the beginning. One year after the founding of Mercosur, in 1992, the European Commission and the Mercosur Council signed an Inter-Institutional Cooperation Agreement which had as its aim to provide technical and institutional support to Mercosur.<sup>94</sup> Once a relationship was established, mutual meetings were organized. In the first years, the EC set up a program of technical cooperation, based on three pillars: institutional issues, trade-related issues, and economic integration and intraregional cooperation.<sup>95</sup> Although over the first decade, financial commitments from the European side only amounted to €49,3 million (out of which 44% was allocated to trade, 39% to integration and 17% to institutional issues), there have been results and the EU was then present and provided substantial support to the emerging new market.<sup>96</sup>

In December 1994, a Solemn Joint Declaration was signed in Brussels by the Mercosur member states, the European Council and the European Commission. The document affirmed the political links between the actors and prepared the background for consensus in further spheres. It immediately preceded the signing of the Framework Cooperation Agreement.

Summits of Mercosur and the EU Troika take place within the wider summits of the European Union with Latin American states. These are namely the EU-LAC (Latin America and the Caribbean) Summit, introduced in 1999,<sup>97</sup> and the EU-Rio Group Summit, taking place since 1990.<sup>98</sup> Each of them is held biannually, therefore providing an opportunity for ministers and heads of state to meet every year. Meetings on technical level occur with greater frequency.

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<sup>94</sup> EC, *The EU's relations with Mercosur*. [http://ec.europa.eu/external\\_relations/mercosur/index\\_en.htm](http://ec.europa.eu/external_relations/mercosur/index_en.htm)

<sup>95</sup> EC RSP, 18.

<sup>96</sup> Ibid.

<sup>97</sup> The Summits so far were organized in 1999 (Rio de Janeiro), 2002 (Madrid), 2004 (Guadalajara), 2006 (Vienna) and 2008 (Lima).

<sup>98</sup> The EU-Rio Group Summits in the recent decade took place in 2001 (Santiago de Chile), 2003 (Vouliagmeni), 2005 (Luxembourg), 2007 (Santo Domingo) and 2009 (Prague). The Rio Group, founded in 1986 as a body for political consultation, comprises 23 countries: all Latin American countries plus the Dominican Republic, Jamaica, Belize, Guyana, Haiti and Cuba. The difference is then in the role of the rest of the Caribbean countries, which are in this case represented by one of the full members. European Commission, [http://ec.europa.eu/external\\_relations/la/riogroup\\_en.htm](http://ec.europa.eu/external_relations/la/riogroup_en.htm)

### **3.1. The Interregional Framework Cooperation Agreement**

This document can be considered to constitute the most essential document which has been issued so far within the EU-Mercosur<sup>99</sup> framework of cooperation. It basically regulates the relationship of the two blocs until now. Signed on December 15, 1995, it contains several main titles, mentioning clearly the key areas of interest, which are again trade, economic cooperation, encouraging integration and interinstitutional cooperation. Whereas consultations on various state levels were to be commenced, in addition, a Cooperation Council was established to assure proper implementation and eventually make proposals to the parties of the Agreement.<sup>100</sup>

It is also convenient to point out the values listed in the Agreement. Several years before the Ushuaia Protocol, it is stated that the “[r]espect for the democratic principles and fundamental human rights established by the Universal Declaration of Human Rights inspires the domestic and external policies of the Parties”.<sup>101</sup> This suggests the possible effect the European Union had on the establishment of the first identity traits of Mercosur and its approximation to the values of the EU.

#### **3.1.1. Trade**

The objectives highlighted in this section are logically mutual trade liberalization, with the increase and diversification of trade, conformity with GATT/WTO rules and identifying certain sensitive goods.<sup>102</sup> Lastly, cooperation in the area of services is also promoted, which already at that time indicated the ambitious plans of cooperation in the future, exceeding the limits of simple exchange of goods.

More specifically, cooperation in several crucial areas was defined. Reflecting the problematic issues and those which were basic for more intensive trade flows, the areas are agri-food and industrial standards and certification, custom matters, statistical matters

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<sup>99</sup> Although the agreements mentioned in this thesis are described here and in other literature as concluded by the EU, it is technically the European Community (which, in contrast to the EU, has legal personality) which is a signing party of the agreements.

<sup>100</sup> *Interregional Framework Cooperation Agreement*, Article 25.

<sup>101</sup> *Ibid.*, Article 1.

<sup>102</sup> *Ibid.*, Articles 4 and 5.

and intellectual property. Negotiation on mutual recognition was to be started and rules were made for the exchange of information, personnel and procedure simplification.

### **3.1.2. Economic Cooperation**

Generally, the anticipated Association Agreement which is now still in the process of negotiation, is considered very innovative and broad-reaching. However, the Framework Cooperation Agreement itself contained clauses on very close cooperation. Admittedly, the parties were not expected to proceed fast in all areas, but the existence of the clauses did open wide possibilities of building close mutual links. The agreement announces that “[e]conomic cooperation between the Parties shall have as wide a basis as possible. *No sector shall be excluded from the outset.*”<sup>103</sup> It has to be kept in mind that Mercosur had only been in place for four years at that time, and in a certain way consisted of not too stable developing countries, albeit with noticeable growth potential. Therefore, such visions show very high ambitions of the contracting parties. In the title on economic cooperation, they express their intention to:

“promote economic cooperation in such a way as to help to expand their economies, increase their international competitiveness, foster technical and scientific development, improve their standards of living, establish conditions conducive to job creation and job quality and diversify and strengthen economic links between them.”<sup>104</sup>

Following the statement, the areas where cooperation was namely promoted are business, investment, energy, transport, science, telecommunications and information technology, and environmental protection.

### **3.1.3. Encouraging Integration; Interinstitutional Cooperation**

As a complement to the two areas listed above, the titles regarding encouraging integration and interinstitutional cooperation are generally promoting information exchange and communication. Also, upon the request of Mercosur, the European Union is

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<sup>103</sup> *Interregional Framework Cooperation Agreement*, Article 10. Emphasis added.

<sup>104</sup> *Ibid.*, Article 10.

to provide support in the Mercosur integration process, including training and joint projects.<sup>105</sup>

### **3.2. Results in Trade**

The mutual trade between the two blocs has undergone various dramatic changes during the almost twenty years of cooperation. The closer links were projected in much greater volume of goods exchange after the conclusion of the first mutual agreements, while a decade after that, the relation suffered from the internal crisis of Mercosur described in the previous chapter. Nowadays, the trend seems to be positive again as the trade figures reach their historical maximum. The tables and graph provided on the following pages present an illustrative outline of the development so far.

#### **3.2.1. Optimism: The Mutual Trade Flows in the First Decade**

Within the first years of cooperation, the volume of mutual trade between the two regions increased significantly. In the case of EU export, Mercosur even became the most dynamic emerging market, marking a cumulative increase of more than 400% over the decade. It has to be added that the increase was even more striking in the opposite direction and the EU began importing more goods from Mercosur, even though it did not liberalize the access to its market for Mercosur to much extent. Within a short time, the European Union became a key trading partner for Mercosur, competing with the United States in some areas and being the primary one in others.

**Table 3: Outline of EU trade with Mercosur countries - first decade of cooperation (mil. ECU/EUR)**

	<b>1990</b>	<b>1995</b>	<b>1998</b>	<b>2000</b>	<b>2001</b>
<b>Exports</b>	5 479	16 589	24 083	24 215	24 628
<b>Imports</b>	13 783	14 868	17 836	24 567	25 772
<b>Trade balance</b>	-8 304	1 721	6 247	-352	-1 144

Source: Eurostat; Doctor, M.

<sup>105</sup> *Interregional Framework Cooperation Agreement*, Article 19.

The growth of EU-Mercosur trade volume was impressive in the period following the establishment of mutual relations of the two blocs. Table 3 demonstrates that especially in the beginning, the change was very rapid. With the imports to the EU first exceeding the exports, the trade balance eventually improved and the goods exchange reached a stable level.

The global measures still need to be kept in mind, as well as the importance of the relation to each of the blocs. Whereas the EU, as the world's largest integrated market, immediately became crucial for Mercosur's export, Mercosur was not regarded in an equal manner in Europe (at least not in economic terms, convenient to know). In Eurostat statistics, Mercosur is very rarely listed as an individual actor, appearing only the late 1990s. Instead, Brazil is presented as the more important trade partner for the EU. Indeed, statistics demonstrate that Mercosur only accounts for an approximately 3 percent share of total imports and exports to and from the European Union. Yet, the effort was made from the side of the EU to reach a more advanced trade agreement and increase the importance of Mercosur on the European market.

### **3.2.2. Reacting to the Crisis: The Mutual Trade Flows in the Second Decade**

After the economic collapse experienced in Brazil and Argentina, trade was growing in a much slower pace compared to the first years of cooperation. Nevertheless, progress can still be observed in the statistics below and recent development suggests possible long-term improvement.

**Table 4: Outline of EU trade with Mercosur - second decade of cooperation (mil. ECU/EUR)**

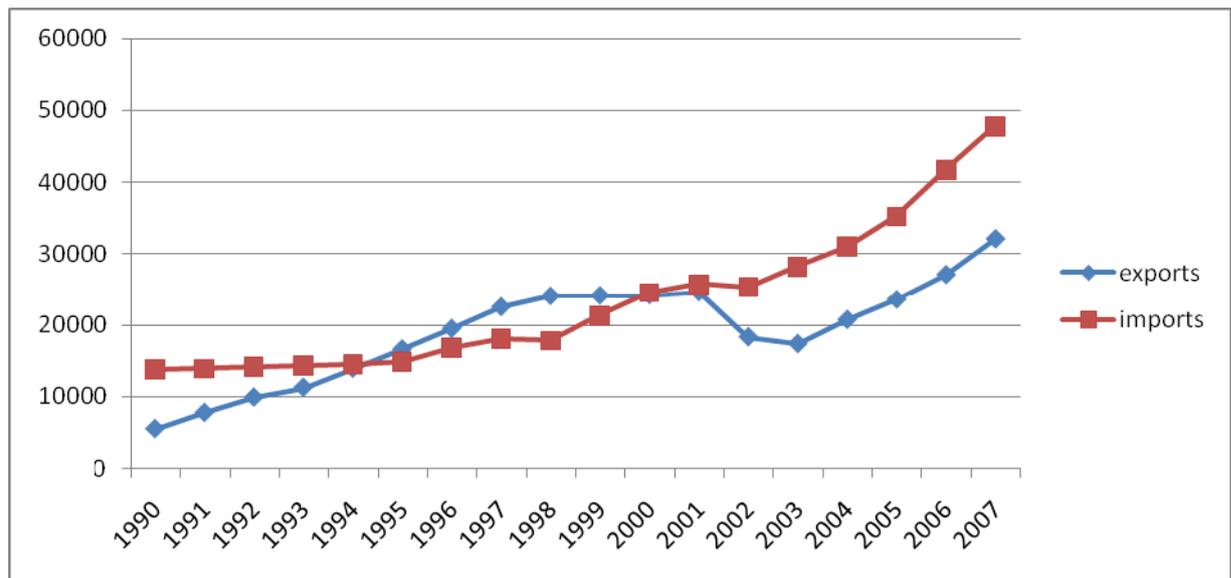
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Exports</b>	18 300	17 351	20 725	23 589	27 114	32 121
<b>Imports</b>	25 400	28 281	31 039	35 255	41 725	47 841
<b>Trade balance</b>	-7 100	-10 930	-10 314	-11 666	-14 611	-15 719

Source: Eurostat, European Commission

<sup>106</sup> Figures rounded by Eurostat.

As the Mercosur economy weakened, the ability of the member states to maintain the flow of goods from the European Union decreased. However, the statistics show that the export from Mercosur was not as affected. After a period of stagnation and an insignificant fall in 2002, it began to grow again at a steady pace.

**Graph 1: European Union trade with Mercosur countries (mil. ECU/EUR)**



Sources of data: Eurostat, European Commission, Doctor, M.

It becomes even more evident from the graph that what was perceived as a severe crisis of Mercosur integration did not lead to a serious deadlock in economic links to the European Union. Whereas imports from Mercosur to the European Union were only marginally affected, it took approximately four years for the exports to return to the pre-crisis level and start to grow again. After that, in fact, the volume of EU-Mercosur mutual trade has even been growing comparably faster than at the end of the 1990s.

The question arises to what extent a global financial downturn, which has been expanding lately to most countries, would be reflected in the exchange of goods and services between the European Union and Mercosur. However, predictions or speculation are not among the intentions for this thesis to show. The EU and Mercosur now possess an experience of overcoming the weakening of one of the partners and a subsequent drawback in trade. If further cooperation proves to remain similarly profitable as until

now, it is likely for them to face any challenges and maintain their relations, even at the present settings, without an association agreement.

### **3.3. Documents Issued by the European Union**

Whereas Mercosur does not take any unilateral action regarding its relation with the European Union, the European Commission has started to publish regular strategy papers in order to specify the scope of its support to Mercosur, and also outline the planned projects. “The main aim of EC-Mercosur cooperation is to reinforce the process of institutional and market integration within the region.”<sup>107</sup> It should therefore be noted that the EC Regional Strategy Papers are not meant to replace any bilateral arrangements between the two blocs. Rather, they provide a supportive supplement. Through the tool of the Strategy Papers, the EC offers the experience of European integration. Mercosur then gets the chance of developing faster and with less complication, while the EC may gain a stronger partner for future negotiation, since the institutionalization of Mercosur is one of the crucial points the EU is calling for when it comes to weak points in its mutual cooperation with Mercosur.

It should be noted that already before the European Commission issued its first Regional Strategy Paper for Mercosur, several projects had already been put into reality to support the development of Mercosur administrative structures and the enhancement of mutual cooperation on technical level. Of the concerned projects, the more crucial ones were: a project of Statistics (into which approximately €4,1 million were invested), a project of Technical Standards (with an investment of €3,9 million), a project of support to the Administrative Secretariat of Mercosur and one for the support for the Parliamentary Commission (€1,8 million and €0,9 million). Shortly before the publication of the Regional Strategy Paper, the Customs cooperation project was put into place, with a budget of €5,3 million.<sup>108</sup> Also, a project of support to the adequate functioning of the Mercosur agricultural sector was completed by that time, the Mercosur Agricola (financed by €11,3). With the exception of the last mentioned one, these projects were then gradually incorporated into the actions established by the first Regional Strategy Paper, mentioned below.

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<sup>107</sup> European Commission RSP 2007-2013, 17.

<sup>108</sup> European Commission: *Mercosur – European Community Regional Strategy Paper 2002-2006*, 20.

Indeed, the principle is being stressed by the European Union on various occasions that the European experience with integration can be very useful to Mercosur. Although specific arrangements need to be put into place according to the distinct conditions in the region, the process leading to deeper economic interconnection has certain features which apply to virtually every case in practice. Therefore, institutionalization and the application of some rules in removing barriers to trade were seen from the beginning by the EU as not only necessary for a functioning interregional partnership, but also as the most convenient area to utilize the European accomplishments in the Mercosur context, with the possibility to come to visible results within reasonable time.

### **3.3.1. 2002 – 2006**

Already in the first Mercosur Regional Strategy Paper, the European Commission claimed Mercosur to be an essential partner for the EU, having a privileged relationship with it.<sup>109</sup> It was highlighted that the EU had been supporting the Mercosur countries in their integration efforts since the beginning and that their mutual relationship should be enhanced in the future, the EU helping Mercosur to overcome three main challenges, identified as the completion of the internal market, stronger institutionalization and integration of Mercosur into the regional/international context.<sup>110</sup> For that reason, three priority areas were set for the action of the EU. These were namely to provide:

- 1) Support to the implementation of the Mercosur Internal Market
- 2) Support to Mercosur institutionalization
- 3) Support for civil society in Mercosur.<sup>111</sup>

A Regional Indicative Program was established to implement the above listed priorities, with the budget of €48 million. Out of that, €21 million was granted to the building of the internal market, €12,5 million to institutionalization and €14,5 million to

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<sup>109</sup> European Commission: *Mercosur – European Community Regional Strategy Paper 2002-2006*, 3.

<sup>110</sup> *Ibid.*

<sup>111</sup> *Ibid.*, 4.

the newly introduced area of civil society support.<sup>112</sup> The goals and visions were widely described in the Regional Strategy Paper, and connected to the values of sustainable development, democracy and others. However, it can be pointed out as an insufficiency that an outline of the details of the implementation was not clearly provided. General objectives defined each of the priority areas, but particular action within the Regional Indicative Program was not much described, although the cooperation was said by the European Commission to be mainly project based.

Basically, the main projects in force were those initiated before the Strategy Paper was issued (support for the Mercosur Secretariat/Parliamentary Committee, Statistics, Standards etc.), while a number of others were added to the existing scheme (Veterinary and phytosanitary standards, Support for the Social dimension of Mercosur, Biotechnology). Apart from that, the EC adds that Mercosur member countries are active beneficiaries of horizontal programs for all Latin America.<sup>113</sup>

### **3.3.2. 2007 – 2013**

The second Regional Strategy Paper is elaborated in much detail and contains not only the description of the current situation and the planned projects, but also an evaluation of the accomplishments in the previous period. Particular details were not described, but evaluation of the effect of the first Regional Strategy Paper is provided. Mainly, the list of accomplishments includes that “EC assistance strengthened and facilitated trade within Mercosur and with the EU, EC assistance for economic integration indirectly favoured [sic] Mercosur companies in providing new business opportunities, growth and market expansion [and] projects that took into account Mercosur asymmetries... achieved better results”.<sup>114</sup> The key challenges to be faced by the EC in the following period were also recognized. These are the imbalance between the volume of resources and the ambitiousness of some objectives, and administrative delays.

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<sup>112</sup> Ibid., 21

<sup>113</sup> EC RSP 2007-20013, 20. These programs were mostly launched in 1995 and include in the first place ALBAN (scholarships), AL-INVEST (support of small and medium enterprises), URB-AL (networks between local authorities), ALURE (energy; now concluded), ALFA (cooperation between higher education institutions). In 2001, @LIS was launched (promotion of the information society) and in 2006, Euro-Solar (poverty reduction) and Eurosocioal (social cohesion) were introduced.

<sup>114</sup> Ibid., 19.

One of the essential differences of the approach of the second Regional Strategy Paper, as opposed to the previous one, is that it is result-based, not strictly tied to the ongoing programs. In connection to each of the three priorities, the EC elaborates on both general and special objectives, expected results, examples of activities performed and success indicators. A mid-term review is expected to be done, permitting the adjustment of actions to the actual results, and ‘ownership’ of the regional projects is supposed to be improved, to involve Mercosur institutions into the process.<sup>115</sup>

While the second Regional Strategy paper does not lack significant ambitions in improving the integration level in Mercosur, the priorities have not changed significantly and continue in following the goals set in the previous document. In particular, the priorities are:

- 1) Support for Mercosur institutionalization
- 2) Support the deepening of Mercosur and implementation of the future EU-Mercosur Association Agreement
- 3) Efforts to strengthen civil society participation, knowledge of the regional integration process, mutual understanding and mutual visibility.<sup>116</sup>

In the case of this document, only 10% of the funds were earmarked for the support for Mercosur institutionalization; a 70% majority will be invested in the effort to deepen the common market and 20% will be used for the implementation of the third mentioned priority.

As regards the financial commitments of the EC in connection to the support of Mercosur, the sums constituting the budget have varied over time. The total commitments for the period of 1992-2002 were €49,3 million.<sup>117</sup> In comparison to that, the €48 million earmarked for the five years of the duration of the first Regional Strategy Paper meant a significant increase. However, since then, the investments of the EC have been the same, or in real terms even somewhat lower. The second Regional Strategy Paper was already designed in coherence with the budget cycle of the European Union. However, for the

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<sup>115</sup> EC RSP 2007-2013, 27.

<sup>116</sup> *Ibid.*, 5.

<sup>117</sup> *Ibid.*, 18.

seven years of 2007-2013, €50 million were set for the financing of the EU projects supporting development in Mercosur. It can be admitted that comparably more emphasis has been put on efficiency in the new strategy, but on the other hand, this facts also suggests that the EU does not have much intention to deepen its commitment in this area. Its cooperation with the countries themselves is gradually becoming more intensive, and so are the trade links. The actions involved in the Regional Indicative Program then seem to start a process of positive development and bring stimulation for the Mercosur structures to ensure the continuation of such a process.

### ***3.4. The Path to an Association Agreement***

“It is crystal clear that the negotiation of an EU-Mercosur Association Agreement for a strategic, political, economic and co-operation partnership will be the unquestionable priority”.<sup>118</sup> Although the European Commission made this statement already in the year 2001, and the importance of such an objective has often been repeated in the following years, the two partners still have not come to the point of applying the accomplishments of the negotiations into practice and finalizing the agreement.

Based on the description of the cooperation and the ambitious views presented in the Framework Cooperation Agreement, it can be said that the prospect for a far-reaching association agreement was not necessarily utopia. Technically, the obstacles to a well-functioning interregional relationship were extensive; however, on political level, sufficient consensus was found for the negotiation to proceed. The document was to be very innovative and far-reaching, leading to the most advanced cooperation between two integration blocs and “going well beyond a simple free trade area in goods and services”.<sup>119</sup> The visions of the contents were the following:

- “A political chapter aimed at enhancing political dialogue through new institutional mechanisms. A substantial cooperation chapter, to assist in i) strengthening institutional capacity to support democracy; ii) promoting sustainable development (social and economic development while protecting the environment) as well as cooperation in the area of freedom, security and justice, and iii) creating new trade and investment opportunities while promoting competitiveness and innovation

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<sup>118</sup> EC Mercosur RSP 2002-2006, 26.

<sup>119</sup> EC RSP 2007-2013, 21.

- A trade chapter, which includes not only an FTA (Free Trade Agreement) in goods and services but also covers, among other things, market access and rules on government procurement, investment, intellectual property rights, competition policies, sanitary and phyto-sanitary issues, technical barriers to trade, protection of geographical indications, business facilitation, trade defence [sic] instruments, a dispute settlement mechanism, etc.”<sup>120</sup>

Table 5 provides a list of the steps taken within the negotiation process, the accomplishments and the main topics discussed during each of the rounds.

**Table 5: Rounds of EU-Mercosur negotiation regarding the Association Agreement**

	<b>Time</b>	<b>Place</b>	<b>Topics</b>
1	Apr 2000	Buenos Aires	Political dialogue, co-operation, trade
2	Jun 2000	Brussels	Identified obstacles and objectives
3	Nov 2000	Brasilia	Exchange of technical data
4	Mar 2001	Brussels	Cooperation and non-tariff issues
5	Jul 2001	Montevideo	EU first tariff offer
6	Oct 2001	Brussels	Mercosur first tariff offer
7	Apr 2002	Buenos Aires	Political and cooperation chapters, trade facilitation measures package
8	Nov 2002	Brasilia	Trade and investment rules (technical issues)
9	Mar 2003	Brussels	Substantive tariff offers; government procurement, investment
10	Jun 2003	Asunción	Government procurement, investment, services
11	Dec 2003	Brussels	Agricultural modalities
12	Feb 2004	Buenos Aires	Competition, customs, tariffs
13	May 2004	Brussels	Exchange views on upcoming tariff offers
14	Jun 2004	Buenos Aires	Attempt to finalize negotiation
15	Jul 2004	Brussels	Attempt to finalize negotiation
16	Sep 2005	Brussels	Attempt to finalize negotiation

Source: European Commission; Doctor, M.

<sup>120</sup> EC RSP 2007-2013, 21.

As stated in the Regional Strategy Paper 2007-2013, the negotiations have covered the full range of trade relations: trade in goods (including customs matters, rules of origin, disciplines in the non-tariff area and trade defense instruments); a veterinary and phytosanitary agreement; a wine agreement; trade in services; capital movement and investment: the encouragement of an open and non-discriminatory investment climate; opening-up of government procurement markets for goods, services and public works; Intellectual and industrial property rights; competition policies and co-operation in the field of competition and a dispute settlement mechanism.<sup>121</sup>

If a summarizing comment was to be made on the slow progress of the negotiation, it can be stated that there was a general unwillingness to overcome “mercantilist attitudes on both sides”.<sup>122</sup> Indeed, the long list of arguments of one side and counterarguments of the other lead to the conclusion that protectionist measures insisted upon by each of the blocs could not and did not converge to create common ground for the Association Agreement.

The reasons are quite evident. While Mercosur produces agricultural goods in the first place and demands greater access to the EU agricultural market, the Common Agricultural Policy of the EU becomes a factor eliminating the possibility of free trade in this area. Tariffs for import to the EU are set to an extremely high level (exceeding 200% in some exceptional cases) and there is little chance of their decreasing. Besides that, the EU still maintains numerous non-tariff barriers such as phytosanitary and antidumping measures. In the opposite direction, the EU intends to export industrial products to Mercosur. Considering that automobiles and certain other equipment form a tariff exception even within the Mercosur internal market, it becomes difficult for Mercosur countries to allow for more of such products to flow to its markets. Europeans also call for liberalization in capital flows and in procedures for government procurement, areas in which Mercosur is again reluctant to give in.

There are strong lobbies inside both the European Union and Mercosur in favor of a free trade agreement, as market access and better conditions for investment are seen as clear advantages especially by the private sector. Still, a missing agreement on tariffs

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<sup>121</sup> EC RSP 2007-2013, 15-16.

<sup>122</sup> Doctor, 286.

constitutes a crucial barrier which leaves the current state without changes, despite regular political consultations taking place between the two blocs.

The European Commission is acting on behalf of the EU as a supranational actor with a finalized common market and therefore ensures a unitary voice. In contrast, in the case of Mercosur, divergent opinions of its single members formed an additional difficulty in the negotiation process. “During the talks with the EU, divisions among member states weakened Mercosur’s position over the degree to which they were prepared to open their incipient single economic space to EU exports.... Paraguay and Uruguay (and to a lesser extent, Argentina) prefer a lower level of protection for extra-regional imports of capital goods than Brazil who is afraid of fully opening this sector to external competition. Brazil also wants to secure reciprocity in the area of agricultural goods, for products in which Brazil is competitive.”<sup>123</sup>

Again, the position of Mercosur’s leading member has to be taken as the decisive one. Considering the fact that the incomplete common market leads to distinct conditions in various regions of Mercosur, an agreement with the same effect on all member countries would in any case collide with the local efforts. As regards the negotiations up until 2004, both of the actors seem to share approximately the same share of responsibility for the absence of any substantial results.

### ***3.5. Recent Development***

Proclaiming the dependence on the WTO Doha Round, neither of the two sides seems to be very active in attempting to break the relative stagnation which appeared recently in the trade relations. On the other hand, their meetings take place as scheduled, and the representatives do agree on having a constant political dialogue as a basis for successful cooperation. The question is if the political dialogue and cooperation on different levels, such as technical assistance, development or social issues, can continue freely and reach any significant goals if at the same time no advancement is sought in the area of trade. It can be assumed that having formally friendly relations, the two blocs of countries would be able to proceed in areas which are not so sensitive.

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<sup>123</sup> Carranza, 811.

However, the risk is still present that if trade issues remain unresolved between them, this would cause uncertainty, perhaps also a certain decrease in mutual trust. In addition, in areas other than trade, the roles of the two actors would become even more unequal, with the European Union able to offer its experience and support in the institutional, social and to some extent industrial growth, but only unilaterally. Mercosur would undoubtedly benefit from such a relation, but with lack of mutual exchange, the Mercosur countries might come to the conclusion that they have bigger potential than staying in the role of pure recipients. In reaction, they may choose to turn to other regions, where despite possibly less to gain; they would have the opportunity to promote their own goals, becoming a comparably stronger actor.

### 3.5.1. Real Effects

There is no doubt that the European Union has had a relatively strong influence on the development of Mercosur integration. Since stronger institutions and deeper cooperation in trade policies are what the EU calls for the most, the accomplishments in this sphere can partly be accounted to its pressure on Mercosur authorities. If there is ever any integration model mentioned for Mercosur, it is definitely the European one. Mercosur limits its integration to firm intergovernmentalism – as Malamud argues, they “have been regularly and consciously reluctant to set up any kind of institutional arrangement that could restrain national sovereignty. And they have certainly succeeded in this respect.”<sup>124</sup> On the other hand, many European experiences have proven to be supportive. For example, technical norms building up the common market were to a large extent copied from the European *acquis*.<sup>125</sup> Also, the cooperation between certain institutions makes development more possible and the existence of a joint parliamentary committee and other consultative bodies contribute to the progress in the functioning of Mercosur institutions.

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<sup>124</sup> Malamud, *Presidentialism...* 62.

<sup>125</sup> Claudia Sanchez Bajo, “The European Union and Mercosur: A Case of Inter-regionalism.” *Third World Quarterly* 20, no. 5 (1999): 935.

### 3.5.2. Political Level

When the Troika of the European Union met with Mercosur in 2008 on the level of heads of state or government, in their declaration they suggested that political cooperation will still be possible in the near future, but gave no signs of its particular extent. They expressed their commitment to continue in negotiations for an association agreement, for which conditions will be found only after the termination of the Doha Round.<sup>126</sup> Apart from that, “[b]oth sides agreed on the importance of extending biregional cooperation to the fields of infrastructure, renewable energy sources, and science and technology, in order to continue to engage in projects of mutual interest, using all available sources and instruments”.<sup>127</sup> The actors expressed a very similar view in their declaration following their summit in May 2009: they reaffirmed the importance of their political dialogue, covering a number of issues including human rights, migration and climate change.<sup>128</sup> In regard to trade issues, they rejected protectionism in all its forms and committed themselves to “give renewed focus and political attention to [the] critical issue...[of] the conclusion to the Doha Development Round, which is urgently needed.”<sup>129</sup>

The relatively positive approach can be regarded as a basis for the continuance in the processes started so far; however, at the same time, the lack of any particular action or goals may lead to the stagnation of the process and the gradual diminishing of any efforts to overcome the present obstacles and deepen mutual cooperation.

The European Parliament, on the other hand, seems to have a more favorable approach. In October 2006, a voting took place regarding a free trade agreement with Mercosur, resulting with an overwhelming majority of 489 votes in favor and only 75 against.<sup>130</sup> This fact again shows that the political will is present. The challenge now is to invent a way of implementing the incentives in practice.

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<sup>126</sup> Council of the European Union. *Mercosur-European Union Troika Summit, Lima, Peru, May 17, 2008 – Joint Declaration*. 9541/1/08 REV 1 (Presse 132)

<sup>127</sup> Ibid.

<sup>128</sup> *Mercosur – European Union Troika Ministerial Meeting; Prague, 14 May; Joint Communiqué*. <http://www.eu2009.cz/en/news-and-documents/press-releases/mercosur-eu-troika-ministerial-meeting:-joint-communicue--23105/>

<sup>129</sup> Ibid.

<sup>130</sup> COHA Report: The EU and Mercosur - *Can the EU Get its Foot in the Door of Mercosur* <http://www.coha.org/2007/04/coha-report-the-eu-and-mercosur-can-the-eu-get-its-foot-in-the-door-of-mercosur-latin-america's-most-dominant-market/>

It has become more than evident that “Mercosur runs a real danger of becoming irrelevant if it remains suspended in its present ‘transition’ phase, without taking significant steps to implement its internal agenda by completing the customs union and moving toward a common market.”<sup>131</sup> Incoherence in the external policies of the member states causes a decreased ability to build the image of Mercosur as a unitary actor. However, the tiring bureaucratic procedures in the European Union, as well as a rigid agricultural policy, create an obstacle to further progress which is equally serious. In the mutual relationship which is here analyzed as isolated from the outside intervening factors, both the EU and Mercosur will first need to revise their own capacities and weaknesses. Under such conditions, their consensus will be feasible.

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<sup>131</sup>Carranza, 805.

## 4. The Wider Context and Evaluation

For a complex understanding of the background of the cooperation between the European Union and Mercosur, as well as the prospects and possibilities in the near future, it is essential to see the current situation from a broader view. Not only is the Association Agreement negotiation process extremely closely linked to the GATT/WTO negotiation rounds, but both Mercosur and the EU have also established – or were considering establishing – relations with other actors. Such factors then have a strong influence on both partners' perception of their mutual relation and their willingness or effort to proceed in building stronger mutual links.

This chapter lists the relevant trade links of both partners outside the scope of this relation. The reason of such an overview is to help evaluate the intensity of the suggested outward links, their ability to substitute a closer EU-Mercosur agreement and the costs or disadvantages of the persisting status quo. Again, any activities performed by the EU or Mercosur individually are not meant to create competing projects to that of their association agreement. They only project the fact that the two blocs do not wish to limit all their attention to the interregional association, even if the document, if completed, would most presumably bring the two partners comparably more benefits than other treaties currently in force or in the phase of negotiation. Nevertheless, these other activities demonstrate the strength of not only the European Union, but also of Mercosur as a strong international actor with a growing bargaining capacity and active links reaching to various directions and areas.

The process of WTO negotiation is also mentioned, namely its close connection to the EU-Mercosur negotiations and the slightly distinct meaning it adds to the relation of the two blocs. The chapter then concludes with a general evaluation of the EU-Mercosur partnership in a global context, the effect of the outside links and it addresses the chances of deeper cooperation based on the examined facts. Namely, it is discussed if an interregional association agreement has the potential or not to outweigh the existing alternatives of external cooperation of the two blocs.

## **4.1. The EU's Bilateral Relations with Individual Latin American Countries**

The ongoing negotiations with Mercosur did not prevent the European Union from approaching each of the member states individually and arranging additional agreements with them. The key one with regards to Mercosur is of course Brazil, but there are others which maintain close ties with the EU and show that the presence of the European Union in Latin America is stable in the long-term perspective.

### **4.1.1. The Federative Republic of Brazil**

The existence of an individual approach from the side of the European Union does not come as an explicit surprise in the case of Brazil, which in the long term occupies number 9 in the ranking of the largest importers to the European Union.<sup>132</sup> The EU concluded a Framework Cooperation Agreement with Brazil as soon as 1992, adding an Agreement on scientific and technological cooperation in 2004 and proposing in 2007 to build up a strategic partnership.<sup>133</sup> The European approach is now based on the Brazil Country Strategy Paper 2007-2013, the second for Brazil. All these documents are naturally in compliance with the Framework Cooperation Agreement and Regional Strategy Paper concluded in regard to Mercosur.

Since Brazil was not a newly emerged actor and had been a partner to the EU member states before, the Framework Cooperation Agreement concluded in 1992 could contain clauses suggesting considerably close cooperation. The necessity of respect for democracy and human rights is emphasized in the very beginning, while the key aim of the Agreement is to strengthen mutual cooperation, namely in the areas of trade, investment, finance and technology.<sup>134</sup> Besides general improvement of trade and investment flows, support was planned even in regard to issues such as technology transfer, job-creation, the environment, intellectual property, services, telecommunications

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<sup>132</sup> Eurostat. The ranking is similar in terms of the export from the EU. Brazil covers a share of approximately 2% of the European Union's total external trade volume.

<sup>133</sup> European Commission: *Relations with the Federative Republic of Brazil*.  
[http://ec.europa.eu/external\\_relations/brazil/index\\_en.htm](http://ec.europa.eu/external_relations/brazil/index_en.htm)

<sup>134</sup> *Framework Agreement for Cooperation between the European Economic Community and the Federative Republic of Brazil*, Preamble; Articles 1 and 2.

etc.<sup>135</sup> A Joint Committee was established for the purpose of cooperation of activities. It is worth mentioning that the contracting parties prevented the overlapping or contradiction of any other agreements not only with Mercosur: Article 23 of the Agreement, states that the cooperation “may extend to action undertaken within the context of cooperation or integration agreements with other countries in the same region”.<sup>136</sup>

The attitude and approach of the European Union is demonstrated in the Brazil Country Strategy Paper 2007-2013. The Strategy Paper puts forward two priorities: the first one is “to stimulate exchanges, contacts and transfer of know-how”, while the second one is “to promote the environmental dimension of sustainable development in Brazil”.<sup>137</sup> A total amount of €61 million was earmarked for the implementation in practice, where 70% is to be invested in the first priority, and 30% to the second one.<sup>138</sup> A crucial feature in the approach of the EU in this case is the recognition that the country is not in immediate need of support in the field of economic development.

Brazil, although a developing country is considered by the European Commission to be a growing economic power; the Commission states at the same time that the traditional cooperation model of development projects is limited in such a country full of contrast.<sup>139</sup> Therefore it has chosen to focus on two of the major problems in Brazil, which are social inequality and environmental protection. Certainly, the economic dimension of cooperation is maintained – mainly via meetings with Mercosur as a whole, via EU-Brazil Summits or thanks to development investments of other European actors, such as the EU member states<sup>140</sup> or the European Investment Bank. In this context, the Commission intends to “build on existing sectoral dialogues, and support small-scale initiatives or ‘soft’ measures that could have a positive multiplier effect”.<sup>141</sup>

Two EU-Brazil Summits have taken place so far. During the first one in July 2007 in Lisbon, the European Commission, highlighting “the increasing role Brazil plays on the

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<sup>135</sup> *Framework Agreement – Brazil...*, Article 3.

<sup>136</sup> *Ibid.*, Article 23.

<sup>137</sup> European Commission, *Brazil Country Strategy Paper 2007-2013*, 3.

<sup>138</sup> *Ibid.* To compare, for Mercosur, the amount invested in the same time period is € 50 million.

<sup>139</sup> *Ibid.*

<sup>140</sup> Brazil’s biggest development aid donor today is Germany.

<sup>141</sup> EC *Brazil Country Strategy Paper*, 21.

international stage”,<sup>142</sup> proposed to establish a Strategic Partnership between the two partners. It was to cover “a wide spectrum of sectors and activities”, but has not yet been agreed upon. The second EU-Brazil Summit took place in December 2008 and the conclusions of the summit are comparably more comprehensive than those published in the previous year. Besides a joint statement, the two sides agreed upon a joint action plan to specify the activities taken in the following three years. Among the main issues discussed during the summit were the strengthening of the international multilateral system, mainly the structures of the United Nations; the stabilization possible within the global financial crisis, including the role of the G-20 and WTO; climate change and energy issues, or the fight against poverty.<sup>143</sup> The main aims agreed upon and elaborated in the Joint Action Plan are:

- “Promoting peace and comprehensive security through an effective multilateral system;
- Enhancing the Economic, Social and Environmental Partnership to promote sustainable development;
- Promoting regional cooperation;
- Promoting science, technology and innovation;
- Promoting people-to-people exchanges.”<sup>144</sup>

Logically, Brazil, as the fifth largest country in the world, is regarded by the EU as a strong and strategic partner. The goals mentioned above suggest the will to cooperate in development and to link Brazil to the EU as a partner country, without interfering with the sensitive area of trade, which is handled by negotiations on the biregional and multilateral level.

#### **4.1.2. Other Countries**

While Brazil stands as the most important trade partner of the European Union, the EU has established considerably close relations with other countries which are significant within the Latin American region.

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<sup>142</sup> *EU-Brazil: Commission proposes Strategic Partnership.*

[http://ec.europa.eu/external\\_relations/brazil/index\\_en.htm](http://ec.europa.eu/external_relations/brazil/index_en.htm)

<sup>143</sup> Council of the European Union. *2nd Brazil – European Union Summit, Rio de Janeiro, 22 December 2008.* 17602/08 (Presse 386). 3-5.

<sup>144</sup> *Ibid.*, 9.

It is crucial to mention shortly the relations the EU has with **Argentina**, the second largest member country of Mercosur and the third largest economy of Latin America.<sup>145</sup> Argentina was the first Latin American country to conclude a third-generation<sup>146</sup> economic cooperation agreement with the European Union: the Framework Trade and Economic Cooperation Agreement was signed in 1990 and already entered into force in the same year.<sup>147</sup> Besides the respect for democracy and human rights, the parties have agreed to grant each other most-favored nation treatment in accordance to the GATT provisions, eliminating barriers to trade and cooperating in the areas of industry, economic development and others.<sup>148</sup> A Joint Commission meets periodically to discuss issues in cooperation. The EU also publishes regular Country Strategy Papers for Argentina. The 2007-2013 Country Strategy Paper reflects the needs of Argentina to overcome the remaining difficulties resulting from its internal political and economic crisis in 2001.<sup>149</sup> The priorities set by the Strategy Paper are therefore:

- The strengthening of Argentina's education and training system
- The improvement of the country's economic competitiveness
- The strengthening of bilateral relations and mutual understanding between the EC and Argentina.<sup>150</sup>

The current budget for the involvement of the EU in Argentina is €65 million, an amount which is relatively equally distributed between the three listed priorities.

Even though Argentina is comparably a less important trade partner to the European Union, the current settings of its cooperation with the EU are built on a similar basis as those of Brazil - provided the Strategic Partnership with Brazil is not yet

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<sup>145</sup> After Brazil and Mexico.

<sup>146</sup> Trade agreements of the EU with external partners are distinguished according to the extent of the cooperation. The first generation covers *ad hoc* agreements. Second generation agreements are still focused on economic relations, while creating a certain institutional framework. In agreements of the third generation, political cooperation and development aid are also mentioned; they also need to include the condition of respect for human rights and democracy, and allow for further deepening of cooperation of the partners in the future. Fourth generation agreements are even more complex, they include a wide spectrum of fields of cooperation and fully comply with WTO rules.

<sup>147</sup> *European Commission: Relations with the Republic of Argentina.*

[http://ec.europa.eu/external\\_relations/argentina/index\\_en.htm](http://ec.europa.eu/external_relations/argentina/index_en.htm)

<sup>148</sup> The areas included are also agroindustry, agriculture, mining, fisheries, infrastructure, transport and communications, telecommunications, health, education and training, tourism and other services, as well as energy and environmental protection. *Framework Agreement for Trade and Economic Cooperation between the European Economic Community and the Argentine Republic.* <http://eur-lex.europa.eu>. Articles 1-4.

<sup>149</sup> European Commission. *Argentina Country Strategy Paper 2007 – 2013.*

[http://ec.europa.eu/external\\_relations/argentina/csp/07\\_13\\_en.pdf](http://ec.europa.eu/external_relations/argentina/csp/07_13_en.pdf). 3.

<sup>150</sup> *Ibid.*

established. Trade issues are dealt with on a bilateral basis, therefore the question may arise if a potential agreement with Mercosur as a whole would in reality bring a visible difference. However, it needs to be kept in mind that negotiation on a bilateral basis is increasingly limited with the growing intensity of links between the Mercosur countries themselves and with the advancement of Mercosur integration. Eventually forming a relatively unitary economic bloc with common trade legislative rules and an external tariff, the step of concluding a biregional agreement becomes more logical. Separate contracts with relevant countries in the region will then simply not have the capacity to bring the benefits of an agreement with Mercosur *en bloc*.

**Paraguay** and **Uruguay** signed their framework cooperation agreements with the European Union in 1992. The Country Strategy Papers published by the EC in respect to these countries count on a budget of €117 million and €31 million, respectively.<sup>151</sup> This difference is due to the fact that Paraguay is still fighting with the imbalance among Mercosur members and as a post-dictatorship country is developing at a slower pace. It fulfills the EU's development aid conditions and a vast majority of the EC investment into the country (€95 million) is directed to improve education. Uruguay, on the other hand, is considered to be one of the most developed countries in Latin America, ranking 43rd in the UN Human Development Index.<sup>152</sup>

To mention one more important actor, **Mexico**, on its behalf, was the first and so far the only one of all the Latin American countries to ever sign a partnership agreement, meaning an agreement of the 'fourth generation', with the European Union. In 1997, the two partners signed an Economic Partnership, Political Coordination and Cooperation Agreement which entered into force in the year 2000.<sup>153</sup> Within the framework of relevant WTO rules, the EU and Mexico established a free trade area, including liberalization of the trade in services and the movement of capital.<sup>154</sup> Besides that, a joint cooperation

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<sup>151</sup> <http://ec.europa.eu>

<sup>152</sup> According to statistics from the year 2006. In comparison, Argentina was number 36, Brazil 69 and Paraguay 91. European Commission. Uruguay Country Strategy Paper 2007-2013. 4.

<sup>153</sup> European Commission: *Relations with Mexico*.  
[http://ec.europa.eu/external\\_relations/mexico/index\\_en.htm](http://ec.europa.eu/external_relations/mexico/index_en.htm)

<sup>154</sup> *Economic Partnership, Political Coordination and Cooperation Agreement between the European Community and its Member States, of the one part, and the United Mexican States, of the other part.*  
<http://eur-lex.europa.eu/> Articles 6 and 8.

committee was established to overarch cooperation in a vast number of various areas, from industry, trade or transport to culture, education or health.<sup>155</sup>

To sum up, the European Union is currently cooperating with all countries of the Latin American region. Besides bilateral agreements with individual actors, bloc consultations are held on a regular basis with not only Mercosur, but also with the Community of Andean Nations, countries of Central America and the Caribbean. Still, the current level of cooperation is incomparable to the project of an EU-Mercosur Association agreement, establishing the first free trade area between integrated groups of states, as well as an advanced network of cooperation on various levels, from inter-governmental to the regional or private one. In effect, the intensified presence of the European Union in the Southern American continent might bring the possibility of closer relations with other actors in the region, removing material, legal and cultural barriers to cooperation and better use of the potential which the Latin American countries offer.

#### **4.2. Relevant External Activities of Mercosur**

The various external links that Mercosur has been building are not often analyzed much in the existing literature. It is not very obvious that during its relatively short time of existence, Mercosur has already concluded over 20 agreements with external trade partners. Some of them are still in the process of ratification, but their quantity and aspirations suggest the gradually growing importance of Mercosur as an actor on the international scene.

To begin with the case of general integration within the Latin American region, the current conditions are not seen as very favorable. The Inter-American Development Bank states that in the past years, the “other South American countries deepened their option for integration with the international economy, and sought partnerships through fixed trade agreements with countries outside the region.”<sup>156</sup> The IDB goes as far as to say that the “growing differences in trade policies and national investment regimes have led to a virtual paralysis of integration and trade liberalization initiatives in the region in recent

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<sup>155</sup> *Economic Partnership...* Articles 9-25.

<sup>156</sup> INTAL. *Mercosur report no. 13*. 131.

years.”<sup>157</sup> Indeed, the process of convergence of the separate Latin American economies has been strikingly slow. However, it is essential to emphasize that slow progress in liberalization does not directly mean that trade flows would be of low intensity in the region. Quite the contrary: both trade and intraregional investments have been gaining importance: “economic relations are expanding beyond traditional trade and incorporating trade in services and direct investment”.<sup>158</sup> The reaction of the countries in the form of certain institutionalization can only be expected slowly, but the initial steps have already been taken. As an overarching project, the UNASUR (analyzed below in this chapter) has recently been supporting the establishment of closer relations in the area.

A recently launched partnership with aspirations for intensification in the future is the one that Mercosur has with the Southern African Customs Union (SACU)<sup>159</sup>. Its relevance is emphasized by the fact that it is an example of South-South cooperation, considered to be one of the alternatives of unequal agreements of developing countries with the most developed global economic actors. The negotiations between Mercosur and SACU were initiated in the year 2000 and were finalized in June 2008. The final agreement is to cover 80% of the blocs’ mutual trade, but has yet to be approved by the Congresses of all countries concerned.<sup>160,161</sup>

As a key actor in today's global trade affairs in general, China cannot be omitted from the list of important partners for Mercosur. The two actors have experienced significant increase in trade flows especially in the recent years; however, as of now, they have not yet concluded any advanced agreement.

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<sup>157</sup> INTAL. *Mercosur report no. 13*, 131.

<sup>158</sup> Ibid.

<sup>159</sup> The current members of SACU are South Africa, Namibia, Botswana, Lesotho and Swaziland. Ibid., 143.

<sup>160</sup> Ibid.

<sup>161</sup> A project which raises interest and follows the reached consensus is a trilateral free trade area, based on the talks between the recognized leaders of the developing world, namely India, Brazil and South Africa, also known as the IBSA countries. However, such a project is now only regarded in theoretical terms.

### 4.2.1. Free Trade Agreements

As stated earlier, Mercosur is engaged in more or less stable relations with the vast majority of its neighbors on the South American continent, accepting them as associate members<sup>162</sup> and therefore establishing free trade regimes with them, albeit imperfect ones.

Similarly, in 2006, an Economic Complementation Agreement was signed with Mexico in 2002, establishing a legal framework for trade relations and setting the basis for negotiations for a free trade agreement.<sup>163</sup> So far, Mexico has concluded a free trade agreement with Uruguay and is in the process of negotiation with the rest of the Mercosur members. Mexico has also been promised to gain status of an associate member once its free trade area with Mercosur as a whole is complete.<sup>164</sup>

In extra-regional relations, Mercosur has advanced the most in negotiation with Israel. The two partners signed a free trade agreement in 2007, covering access to the goods market and foreseeing the possibility of future incorporation of the area of services and direct investment.<sup>165</sup> The agreement has not yet entered into force, but has no obstacles in being implemented in the foreseeable future and indicates a great success for Mercosur.

On theoretical level, the agreement with Israel may open the door for Mercosur to continue in strengthening the links with other extra-regional partners, making its external trade network more diverse and perhaps decreasing the dependence on the European Union as the destination of its exports. However, such a process would be extremely lengthy and cannot be calculated with in the upcoming years. Hence, although Mercosur has experienced its first success in extra-regional trade negotiations, its external agenda in general will have to be re-evaluated. Unless the member countries form a more unitary group and find the ability to make concessions in areas that are attractive to their potential partners.<sup>166</sup> Flexibility in a common trade policy, but also setting certain priorities will have to be the next steps taken.

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<sup>162</sup> To repeat, this counts for Chile and the four members of the Andean Community of Nations, Bolivia, Colombia, Ecuador and Peru.

<sup>163</sup> SICE: *Foreign Trade Information System: MERCOSUR-Mexico*.  
[http://www.sice.oas.org/TPD/MER\\_MEX/MER\\_MEX54\\_e.ASP](http://www.sice.oas.org/TPD/MER_MEX/MER_MEX54_e.ASP)

<sup>164</sup> *Ibid.*

<sup>165</sup> INTAL. *Mercosur report no. 13*, 139.

<sup>166</sup> *Ibid.*, 145.

#### 4.2.2. The Proposed Free Trade Area of the Americas

The Free Trade Area of the Americas (FTAA)<sup>167</sup> was a project which from the point of view of Mercosur directly competed with the potential association agreement offered by the European Union. Its origin can be traced to the Summit of the Americas, held in Miami, USA, in December 1994, where representatives of 34 participating countries agreed to eliminate progressively the barriers to trade and investment among themselves.<sup>168</sup> Negotiations were officially launched after a preparatory phase, four years later. Ministerial meetings took place in the meantime, and in 1999, the negotiating groups appointed previously by all countries involved were instructed to prepare the first draft text of the FTAA Agreement. The document was presented at the Sixth Ministerial Meeting in Buenos Aires in April 2001. At the same time, new committees were appointed in order to not only accelerate the process of creating a final document, but also to improve the participation of civil society in the negotiation process.<sup>169</sup>

When the Mercosur countries, previously weakened by an internal crisis, took part in the Third Summit of the Americas still in April 2001, their positions regarding the FTAA differed to a great extent.<sup>170</sup> However, they eventually did come to an agreement and they reached a “unified position on market access, converging on Brazil’s opinion that the FTAA is only acceptable for Mercosur if it is to obtain substantial access to those sectors of the US market, such as the footwear industry, that are highly protected by US antidumping legislation.”<sup>171</sup> Agricultural subsidies were also a very sensitive topic in the FTAA negotiations and one of the major causes of the lack of the collapse of the project.

At the following occasions, the Mercosur members held firmly together, not giving in to backdoor offers from the side of the United States.<sup>172</sup> At the Ministerial Meeting in Miami, in November 2003, there occurred one of the last attempts to save the FTAA project. A ‘two-speed’ FTAA was to be launched, acknowledging the difference in development of the countries taking part and allowing for assistance and transitional

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<sup>167</sup> In Spanish, Área de Libre Comercio de las Américas, ALCA.

<sup>168</sup> Antecedents of the FTAA Process. [http://www.ftaa-alca.org/View\\_e.asp](http://www.ftaa-alca.org/View_e.asp)

<sup>169</sup> Progress of the Negotiations. [http://www.ftaa-alca.org/View\\_e.asp](http://www.ftaa-alca.org/View_e.asp).

<sup>170</sup> Carranza, 811.

<sup>171</sup> Ibid., citing Barbosa, R. (2001) ‘A View from Brazil’, *Washington Quarterly*, 24(2). 153.

<sup>172</sup> Ibid.

measures to smaller economies in particular.<sup>173</sup> A draft of a future agreement, the third one since the beginning of the negotiation process, was issued one year later. However, the relatively positive advancement ended very soon after that. The declaration from Miami, with its goal of concluding negotiations by January 2005, was never implemented and the talks have not been renewed until now.

The role of Mercosur, or more importantly Brazil, is generally considered to be decisive for the final failure of the FTAA negotiations. Brazil stood as the leader of the opposition to the United States' offers which were not sufficiently favoring the less developed countries of the South. Besides that, in 2001, the negotiation process towards the Interregional Association Agreement with the European Union was also at its highest point. Mercosur countries were facing a situation where they were forced to choose one of the competing ambitious free trade projects, as the option of accepting both of them was technically unthinkable. This however placed Mercosur into a very advantageous position, having the opportunity to compare the potential benefits of each of the agreements, and act accordingly during the negotiation rounds. "As the leader of Mercosur, Brazil has managed to play one major external trading partner (the EU) against the other (the US) in order to reduce dependence on either one, using the threat of an EU-Mercosur free trade area as a bargaining chip in the in the FTAA negotiations."<sup>174</sup> In the other direction, Mercosur was complaining about the insufficient activity of the European Commission in suggesting new solutions and expressed instead certain preferences for the FTAA.

Such behavior at its time provided the possibility for Mercosur to reach its goals and enforce its visions at the negotiating table, yet it was not regarded as unwanted from the other actors. As the Ambassador of the European Commission in Argentina has pointed out, "Brussels does not see the relationship with Latin America as any competition with Washington".<sup>175</sup> That leaves the Latin American countries themselves free to decide which partner they want to align with. But despite the advantages which Mercosur had during the short time after the year 2001, neither of the negotiation processes advanced towards visible results; the situation has not changed fundamentally since then. After the

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<sup>173</sup> *Free Trade Area of the Americas Eighth Ministerial Meeting, Miami USA, November 20, 2003, Ministerial Declaration. Article 14.*

Available from [http://www.ftaa-alca.org/ministerials/miami/Miami\\_e.asp](http://www.ftaa-alca.org/ministerials/miami/Miami_e.asp).

<sup>174</sup> Carranza, 804.

<sup>175</sup> *Buscan relanzar en Lima las negociaciones para un acuerdo Unión Europea-Mercosur.* March 27, 2008. <http://noticias123.com.ar>

collapse of the ambitions connected to the FTAA, which is currently not expected to be revived, the attention has turned again to the possible closer links of Mercosur with the European Union.

#### **4.2.3. Trade and Overall Relations of Mercosur with the USA**

In overall terms, the United States of America still remains the main trading partner of Mercosur. Even though the European Union is gradually gaining more importance on the Mercosur market, trade with the United States has traditionally been the most voluminous. In 2007, trade with the USA accounted for 20,4% (€83 029) of all Mercosur external trade, while trade with the EU resulted as the second most important partner, with a volume of 19,3% (€78 540).<sup>176</sup> Exports to the USA in the same year reached the amount of 20,7% (€48 858), whereas it was 18,3% (€43 244) in the case of the European Union.<sup>177</sup> Compared to that, imports were the only area where the European Union lately became more important: 20,7% of goods (valued €35 297) imported to Mercosur in 2007 had their origin in the EU, while the USA was responsible for 20% of the imports to Mercosur (valued €34 172).<sup>178</sup>

The traditional link between the USA and Latin America in general cannot be doubted. Their geographical proximity leads to substantially close links between their economies and is not expected to decrease, even if Latin America, or namely Mercosur, chooses to intensify its relation with the European Union. However, already today, when the EU-Mercosur partnership is recovering from the past crises, there is not a huge gap between the relevance of the European Union and the USA on the market of Mercosur. The argument of some critics pointing out that the EU lacks the ability to replace the USA in its role is not valid to the full extent. First of all, there is no intention from the European side to push the USA out of the Mercosur market. Instead, each of the actors chooses a different strategy and is focused on different areas in trade, so any clash of interest still allows for possible solutions.

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<sup>176</sup> European Commission, DG Trade. *Mercosur: EU Bilateral Trade and Trade with the World*. September 10, 2008. p. 4. Available from [http://ec.europa.eu/trade/issues/bilateral/regions/mercosur/index\\_en.htm](http://ec.europa.eu/trade/issues/bilateral/regions/mercosur/index_en.htm).

<sup>177</sup> Ibid.

<sup>178</sup> Ibid.

In addition to that, perceived from the political angle, the United States is still associated sometimes with the position of the regional hegemon, intending to control to a certain extent the situation in Latin America. The role the USA was playing during the Cold War can logically not be compared to the one it has gained now. Nevertheless, in the past, its approach towards Latin American countries has contained a factor of power. In contrast to that, the goals and visions of the European Union are quite distinct; and it is this distinction which attracts the confidence of Mercosur member countries. The partnership offered by the EU in the social and political spheres leads to new possibilities which the Mercosur countries are willing to utilize.

#### **4.2.4. UNASUR**

The South American Community of Nations, or UNASUR (La Unión de Naciones Suramericanas) is the most recent – and most ambitious – project of integration in the South American continent. It was created at The Third Summit of South American Presidents, held in Cusco in December 2004 and it is declared to be a “great political project combined with a program of decentralized development”.<sup>179</sup> It covers the whole South American continent, shaped by the planned convergence of Mercosur, the Andean Community and Guyana and Suriname. The Constitutive Treaty of the UNASUR was signed in Brasilia in May 2008. Its objectives are the following:

“The objective of the South American Union of Nations is to build, in a participatory and consensual manner, an integration and union among its peoples in the cultural, social, economic and political fields, prioritizing political dialogue, social policies, education, energy, infrastructure, financing and the environment, among others, with a view to eliminating socioeconomic inequality, in order to achieve social inclusion and participation of civil society, to strengthen democracy and reduce asymmetries within the framework of strengthening the sovereignty and independence of the States.”<sup>180</sup>

As regards the institutional structure, besides the Secretariat General as the only permanent body, the UNASUR members count on creating the Council of Heads of State and Government, the Council of Ministers of Foreign Affairs and the Council of

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<sup>179</sup> Comunidad Andina: *UNASUR*. <http://www.comunidadandina.org/ingles/sudamerican.htm>.

<sup>180</sup> *South American Union of Nations Constitutive Treaty*. Available from <http://www.comunidadandina.org/ingles/csn/treaty.htm>

Delegates.<sup>181</sup> In the future, based on a subsequent protocol to the treaty, a common parliament should also be established.<sup>182</sup>

On the other hand, even though economic cooperation is mentioned in the treaty as one of the objectives, no particular goal is set in terms of market integration or reduction of trade barriers. Instead, UNASUR seems to be focused more on promoting equality and support of economic development of its respective members. In this respect, then, neither can financial integration mentioned in Article 3 of the Treaty be implemented in a way similar to the one known in the case of the European Union.

In the regional political rhetoric, statements have been made about UNASUR shaping a “dream bigger than the one of Bolívar”<sup>183</sup>, a popular 19<sup>th</sup>-century leader in the Latin American struggles for independence. Indeed, high hopes have been raised for the possible advancements in integration through this joint project which does not exclude any country of the South American continent. However, such statements need to be approached with a reserved attitude. Considering the notable obstacles to further cooperation among the already existing integration blocs, there is no prerequisite in the case of UNASUR, allowing it to develop at a higher speed. The ideas presented in the constitutive treaty certainly deserve appreciation, but so far, the contacts between the representatives of the member states have been taking place almost exclusively on intergovernmental level, having the form of consultations, rather than negotiations resulting in binding norms.

Therefore, if the UNASUR project is to succeed, it is currently impossible to set a particular time limit for such an accomplishment. The UNASUR constitutes an asset in the terms of general cooperation within the Latin American region, but is not at the moment connected to market integration and does not create an alternative neither to the EU-Mercosur Interregional Association Agreement nor to Mercosur's network of external trade partners.

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<sup>181</sup> *South American Union of Nations Constitutive Treaty*, Article 4.

<sup>182</sup> *Ibid.*, Article 17.

<sup>183</sup> Luiz Inácio Lula da Silva: *Unasul cria sonho maior que o de Bolívar*. Speech held at the occasion of the creation of UNASUR on May 23, 2008. Available from <http://www.integracionsur.com/sudamerica/UnasurLulaBolivar.htm>. Author's own translation.

### **4.3. The Significance of the WTO Negotiation**

As a rule, the European Union and Mercosur would not have to rely so strongly on the results of the Doha Round of negotiation, had the project of their association agreement not been as ambitious. Article XXIV of the GATT explicitly allows free trade areas and customs unions that substantially abolish all internal trade barriers and, on average, do not raise external barriers. However, first of all, the article applies to regional, not *inter*-regional integration projects. The second and perhaps even more crucial factor is the fact that potential arrangements embodied in the association agreement aim to cross the limits set so far for international trade. In addition, fourth-generation agreements of the European Union with any external trade partners have to be with complete compliance with the rules set by the WTO.

The WTO negotiations are currently touching upon topics closely related to those dealt by the EU and Mercosur: agricultural subsidies of the most developed actors on one side and access to the markets of developing countries on the other. As the EU and Brazil figure among the strongest negotiators in the WTO debate, there is in any case very little probability of the two reaching consensus in a separate manner.

#### **4.3.1. The Background of the Negotiation Process**

The Doha Development Round was launched by the declaration of the Fourth Ministerial Conference in Doha, Qatar, in November 2001 which provided the official mandate for negotiations. The Declaration contains 21 subjects related to the multilateral trading system, with the focus and aim to “maintain the process of reform and liberalization of trade policies, thus ensuring that the system plays its full part in promoting recovery, growth and development.”<sup>184</sup>

The main turning points in the negotiation since then were the meetings at Cancun in 2003, Geneva in 2004 and Hong Kong in 2005, where the original mandate was refined.<sup>185</sup> However, despite the shared objectives, the meetings had one result in

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<sup>184</sup> 2001 Doha WTO Ministerial Declaration. Article 1.

[http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm)

<sup>185</sup> <http://www.wto.org>

common: the involved countries did not find sufficient means to reach consensus on agricultural issues. The declaration issued in Hong Kong did include a certain arrangement on a number of issues, narrowing down the differences of the members;<sup>186</sup> a new timetable was created for the planned conclusion of the talks. Nevertheless, additional steps towards a positive result were not taken and the talks were suspended in 2006.

Until today, several additional meetings have taken place, but they were either halted at an early stage, or did not bring any promising changes. The will to re-launch the trade talks is generally present; world leaders today call for the termination of Doha, regardless of the level to which the originally high ambitions are met. Nonetheless, the stances of the WTO member states are at the moment overly divergent as to allow for success in the trade talks.

#### **4.3.2. Expected Results**

Unrelated to the time which elapses until its finalization, there are generally four possible outcomes of the Doha negotiation round. Each of them would then have a specific impact on the future agreement between the EU and Mercosur. First of all, with each multilateral meeting, the Doha Round is expected to be brought to a successful conclusion. Then, the level of coherence reached by the negotiators will be the crucial factor. If, as Da Motta Veiga and Rios suggest, the agreement is connected to the guidelines of the documents presented by presidents of negotiating groups in July 2007, the success itself may “limit the likelihood of additional concession in bi-regional negotiations being considered politically acceptable”.<sup>187</sup> The reason for that is that the already ambitious multilateral agreement would need political support in order to be passed on domestic level; especially due to the EU’s limitedness by its agricultural policy, a potential interregional agreement would have too little added value to remain attractive. New effort would probably not be invested into the negotiations.

There might appear the scenario where negotiators at the WTO simply agree on minimal requirements in order to reach any agreement at all. In this case, an agreement

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<sup>186</sup> <http://www.wto.org>

<sup>187</sup> Pedro Da Motta Veiga and Sandra P. Rios, *The Mercosur – European Union Negotiations Three Years After the Impasse: What to Expect?* OBREAL/EULARO policy brief; contribution to the V. Plenary Session of the Mercosur – European Union Business Forum, Lisbon, October 8, 2007. 4.

between the EU and Mercosur would still be desired, as closer links between the two blocs would bring them a visible advantage. As Da Motta Veiga and Rios put it, “the frustrated offensive interests on both sides would pressure for complementary concessions in a biregional agreement, which could be satisfied by the margin for maneuver saved by the two blocs in the multilateral agreement.”<sup>188</sup>

In the case where no consensus is found on the stage of the WTO, there are virtually no prospects for an advanced agreement between the EU and Mercosur. It has been stressed earlier that EU-Mercosur negotiations are directly dependent on the results at the WTO level. Due to the long uncertainty, this scenario seems to be the least acceptable one. Until the Doha Round is finalized in any possible way, meetings of the two blocs’ representatives can be expected to take place similarly to those organized now: focusing on technical issues and political cooperation, but with no concessions in the area of trade. A biregional agreement may be concluded in the case of total suspension of the WTO negotiations; however, such an agreement would only reflect a minimum common denominator, without effectively satisfying either of the sides.

**Table 6: The impact of possible outcomes of the WTO negotiations**

<b>Scenarios of the Doha Round</b>	<b>Impacts on the EU-Mercosur agreement</b>
<b>1. Conclusion of the Round</b>	
Ambitious agreement	Failure of the biregional negotiations
Minimalist agreement	Conclusion of a biregional agreement complementary to the multilateral agreement
<b>2. Failure of negotiations</b>	
Ongoing negotiations	Non-definition in the biregional negotiations
Suspension of negotiations	Conclusion of a minimalist biregional agreement

Source: da Motta Veiga and Rios

<sup>188</sup> Da Motta Veiga, Rios, 4.

The relation between the variables of EU versus WTO negotiations is clear. As commented by the Inter-American Development Bank, “European negotiators introduced the concept of an EU ‘single pocket’ in biregional agreements, from which come all agricultural offers for the multilateral and the biregional negotiating fronts. Therefore, the higher the offer they make in the multilateral sphere, the lower the capacity to offer concessions in the biregional sphere.”<sup>189</sup> As neither the EU nor Mercosur are about to actively propose a separate solution, the ‘Doha variable’ can still be expected to play a major role in the future development.

The key issue blocking any advancement in the Doha Development Round is to a great extent parallel to the one seen in the case of EU-Mercosur negotiations. One negotiating side is represented by the USA, the European Union and Japan, who protect their agricultural markets, but wish to export industrial goods. The side of the developing countries is principally led by India, Brazil, China and South Africa, whose main export items are agricultural products, but who fear to open their markets to goods from the global ‘North’. Since any possible balance established in this area will be very fragile if existent at all, the vicious circle of unsuccessful negotiations is still waiting to be broken in the future.

#### **4.4. Evaluation**

The facts presented in this chapter put the EU – Mercosur relations into view from a different perspective; needless to say that they add much more complexity to the image constructed in the preceding chapters. The set of relations and treaties concluded individually both by the European Union and Mercosur can be seen as a certain matrix, capable of being deconstructed and analyzed, but only valid when all of its numerous components are taken into account.

The chapter has listed the most relevant external relations which have the hypothetical capacity to substitute an association agreement between the EU and Mercosur, creating opportunities which would be comparable to those of the proposed EU-Mercosur partnership. Yet, it has already been evident from the provided descriptions

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<sup>189</sup> *Mercosur report no. 13*, 141.

that each of these relations contains some degree of insufficiency, or a certain gap preventing it from fulfilling (at least under the present conditions) its original function completely.

The European Union had already established trade links with individual Mercosur members before the negotiation towards a biregional association agreement reached its advanced phase. The trade flows between the partners have been relatively stable. However, as the integration within Mercosur gradually proceeds and the countries build a more coherent common external tariff, separate trade arrangements concluded with each member will cease in being beneficial to the European Union. From this angle, as Mercosur countries converge economically, the EU will most probably be forced to react.

In contrast to that, Mercosur finds itself in a more uncertain situation. Whereas the European Union has the choice of turning its attention to other relevant trade partners (at the high cost of not using the potential of its traditional links to Latin America), Mercosur is at the moment still an emerging player on the international scene and lacks the freedom to easily build up new alliances. It has been demonstrated that its ambitions are high, but the factor of time makes its actions more difficult. A fairly strong basis has been built in the context of the Latin American region as a whole; with the leadership of Brazil, Mercosur is on a successful way of becoming a decisive actor. Nonetheless, especially with the absence of closer links to the USA, the European Union continues constituting the key materialization of Mercosur's aspirations in respect to the outside world.

In relation to the negotiations on the global level, among the vast number of reasons, there are two main ones which explain the insufficient progress in the EU-Mercosur free trade talks. To some extent, it should be admitted that the strategy of the European Union towards Mercosur was connected in the past to the ambitious proposals from the side of the United States; certain anxiety was present in the EU about losing its influence in the South American region.<sup>190</sup> As a result, the first main reason for the recently slow progress is that "as the prospects for a Free Trade Area of the Americas (FTAA) fade in the horizon the EU countries are less afraid of losing their dominant position in the South American market in favor of the United States, and can wait until the

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<sup>190</sup> Santander, 50.

controversial issues, such as trade in services and agricultural subsidies, are settled in the Doha Round of global trade talks. Second, the Mercosur countries were unable to agree on an attractive offer of market access for imports from the EU, and ended up proposing a minimum common denominator that was unacceptable for the EU.”<sup>191</sup>

The question of relevance and responsibility should also be taken into account. The EU and Mercosur were described in the previous chapter as more or less equal players – finding themselves at differing levels of integration, but still at least bearing the same or similar amount of responsibility for the failure of mutual talks on an association agreement. However, if this image is supplemented by the background network of related activities of the two blocs, their balance and roles seem to be modified. Admittedly, the EU and Mercosur are strong players to the extent desired (the EU having influence on global affairs, Mercosur having gained regional hegemony). They act independently and conclude innovative agreements with their trading partners.

But in contrast to this, the main reason for no advances in the biregional trade negotiations is more often suggested to be the Doha Round. To apply this fact to the EU-Mercosur relative balance, in the field of WTO negotiation, Mercosur countries represent the disadvantaged minority, while the European Union becomes a crucial actor, dictating conditions and being among those who block further progress by conserving the barriers to trade. Namely, such barriers to trade are represented by agricultural subsidies, creating a trade environment which is not competitive for exports of agricultural goods from developing countries.

If regarded as the stronger player, the EU could supposedly be required to take more responsibility and invest comparably more into the improvement and strengthening of its links with Mercosur. This can be done even if the area of trade is ignored and left as an issue purely related to the WTO talks. The remaining areas still remain relevant and if combined, they can support the process of the EU-Mercosur rapprochement.

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<sup>191</sup> Carranza, 810.

The Doha agenda, incomplete and far from being implemented, does in reality create a grave hindrance and there is no doubt that without results in the arena of the WTO, the association agreement between the European Union and Mercosur will only remain on paper. Yet, if a path is searched in a slightly different direction, certain development is still possible. The strength of the EU-Mercosur relation and its durability, as well as the potential to transform political will into material accomplishments, will be demonstrated in the events and projects of the upcoming years.

## Conclusion

The conducted research has resulted in several highly interesting results. In the first place, the matrix of external relations of the EU and Mercosur has indeed shown to be considerably complex, definitely playing a role in the evolution of mutual relations between the two blocs. The tested hypothesis has resulted as plausible to a great extent, even though the results of the research point to conclusions slightly different from those expected in the beginning. Generally, the EU as the stronger and more developed of the two actors at stake, and possessing more negotiating power, has not demonstrated extensive effort in searching for alternatives to the suspended process of the association agreement. The inclination towards protectionist attitudes could be observed equally both in the case of the EU and of Mercosur. However, the EU does not necessarily rely on the possible agreement with Mercosur to bring about a significant change in its structure of external trade. Therefore, the EU can experience more autonomy in finding a method of overcoming the current impasse in negotiations.

The less expected outcome is the extent to which Mercosur countries themselves also share the responsibility for no advancement in the mutual relations with the EU lately. Admittedly, they experience more fear of negative effects of the potential opening up of their markets. But on the other hand, negotiations with the EU now constitute the most promising process leading to intensification in Mercosur exports and therefore also domestic economic progress. As opposed to the case of the European Union, Mercosur has not yet established external trade links which would promise the same level of advancement. Its volume of mutual trade flows with the USA is at the moment still somewhat larger than the volume of trade with the EU. However, after the collapse of the FTAA project, the relationship with the USA cannot be expected to reach more intensity.

It is true that Mercosur countries do not possess much freedom in action towards any significant change of the current situation. Yet an area through which they could unilaterally improve the present conditions is the Mercosur institutionalization. The member countries are well aware of the fact that an incomplete or poorly functioning institutional structure decreases the credibility of any commitments of Mercosur as a whole. It should be said that the traditional presidential political system of the countries arguably leads to the refusal of supranational dimension of integration. Nevertheless, this

issue will not easily be left aside by the European Union, which hints that Mercosur countries, too, are aware of space for modifying their attitude to a more open one.

A surprising number of similarities could be found between the negotiation of the EU-Mercosur association agreement on the one hand, and the FTAA or WTO negotiation on the other. All of the cases involve an analogous combination of opposed actors: the most developed countries represented by the EU or the USA have faced the less developed countries, with Brazil always standing out. The unwillingness of the former to reduce their agricultural subsidies and other non-tariff barriers was encountered by the restraints of the latter to liberalize capital flow, public procurement procedures or trade in services and industrial goods.

Despite the possibility to identify the major obstacles to further progress, the method of avoiding them is by no means clear. The attractiveness of possible advancements in the economic sphere is still too significant for the negotiators to turn their attention to a different direction. Doctor emphasizes that the “negotiators cannot afford to lose sight of the most significant potential economic outcomes of signing a bi-regional agreement. These include: (i) increased access for Mercosur products in the EU market and EU goods and services in Mercosur markets; (ii) clearer and predictable rules facilitating EU investment in Mercosur; (iii) better incentives to integrate Mercosur products into global production chains; and (iv) greater impetus for Mercosur to consolidate its regional integration.”<sup>192</sup> It can be argued that already under the present setting, Mercosur has the possibility to deepen its economic integration through cooperating with the EU. Still, in general, the points made by Doctor reflect the reality well and suggest that Mercosur, on its behalf, also has solid reasons for insisting on the preference of trade among other issues.

Nevertheless, although trade still clearly constitutes the major issue at stake in the negotiation process between the EU and Mercosur, the remaining areas based on political cooperation should not automatically be ignored. The European Union bears an extensive amount of experiences which could bring their profit in the relation with Mercosur. Intensive technical consultations regarding the construction of a common market would

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<sup>192</sup> Doctor, 310.

undoubtedly be able to push Mercosur forward in its integration struggles, and therefore transform it into a stronger and more reliable actor, a vision mostly favored by the European Union. Besides that, the EU and Mercosur agree on having many common opinions. Building upon these positive prerequisites would certainly bring the actors closer together. The joint declarations regularly made by the blocs at meetings on ministerial level assure the public of the commitment of both to democratic principles, development and coordination of action. However, there still exist areas even within the limited scope of political cooperation which deserve more focus.

The question arises if the proposed association agreement was not exceedingly ambitious. Submitting the proposal, the partner regions most presumably believed that they both bore the capacity to make concessions sufficient to reach a balanced association project. But since this has obviously not been the case until now, there still remains the possibility of utilizing the provisions of the agreement presently in force and deepening mutual understanding by taking smaller steps forward and examining areas most convenient for common intervention. Taking certain inspiration in the structure of the EU Regional Strategy Papers, a plausible assumption would be that more concrete projects lead to more concrete results. Again, the areas available for such intentions are innumerable. Namely, the most visible ones are energy, climate change, support for civil society, education, culture or telecommunication.

Logically, any predictions become impossible with the unquestioned relevance of the Doha Round, which cannot be expected to advance significantly in the near future. Nonetheless, the research presented in this thesis has pointed out the roles the European Union and Mercosur are playing both in relation to each other and to the outside world. Their current relationship has been depicted in the global context, thanks to which it is possible to find the main reasons leading to the situation today, as well as the space still left for the actors to move forward. A better understanding has been made possible of the background, summing up, evaluating the details of the EU-Mercosur relationship today and providing a convenient basis for future research in the field.

## Resumé

Výzkum spojený s touto diplomovou prací přinesl mnohé relevantní výsledky. Co se týče prvotních cílů práce, byla do velké míry potvrzena hypotéza, že Evropská Unie jako aktér silnější než Mercosur nevyužívá v dostatečné míře možnosti, které se jí naskýtají v rámci současného vztahu s Mercosurem. Nutno přiznat, že sklony k protekcionismu při jednáních o asociační dohodě byly pozorovány do určité míry u obou aktérů. Avšak jak bylo popsáno v poslední kapitole, EU figuruje v nesrovnatelně větším množství alternativních obchodních dohod, byť ne tolik ambiciózních. Proto pro ni vyjednávání s Mercosurem není natolik zásadní a může si za určitých podmínek dovolit hledat méně standardní postupy v řešení současné patové situace.

Na druhou stranu země Mercosuru také nesou určitý díl zodpovědnosti za skutečnost, že neúspěch v oblasti obchodních jednání vedl k pozastavení či přinejmenším zpomalení jednání o jiných tématech. Jednou z klíčových podmínek EU pro prohloubení vzájemných vztahů je totiž upevnění institucionální struktury Mercosuru, což by upevnilo pozici tohoto seskupení jako jednotného aktéra a poskytlo mu větší věrohodnost v mezinárodní sféře. Avšak neochota členských zemí Mercosuru delegovat zlomek pravomocí ve prospěch společných institucí stále přetrvává, což příliš nenapomáhá usnadnění vzájemné komunikace s Evropskou Unií.

Analýza vnějších vztahů obou integračních uskupení poukázala na provázanost světové ekonomiky a praktickou nemožnost analyzovat vztah EU-Mercosur v izolaci od dění v jejich okolí. Paralely nalezené mezi jednáním EU-Mercosur a jednáními na poli Světové obchodní organizace či dříve plánované Celoamerické zóny volného obchodu poukázaly na zásadní překážku v jednání o tržní liberalizaci. Tou je na jedné straně neochota vyspělých zemí v čele s EU a USA k odstranění či alespoň omezení překážek v přístupu na jejich trh se zemědělskými produkty. Na straně druhé tvoří opozici rozvojové země (v americkém kontextu především Brazílie), které se obávají liberalizace v oblasti přímých investic, služeb či obchodu s průmyslovými výrobky.

Evropská Unie i Mercosur v současné době chápou slibovanou dohodu v oblasti obchodu za klíčovou, a proto jen obtížně hledají alternativy v politické spolupráci. Přesto tato práce navrhuje několik oblastí, ve kterých existuje reálná možnost konstruktivního postupu směrem k bližší spolupráci a konkrétním výsledkům. Společný respekt k hodnotám demokracie a lidských práv je obecně známý z poněkud vágních společných ministerských deklarací zemí EU a Mercosuru. Avšak jak je nastíněno v již existující rámcové dohodě i v dokumentech plánujících a doprovázejících aktivity EU v Latinské Americe, obě strany mají možnost angažovat se v projektech, které by měly konkrétnější zaměření, omezenější rozsah, ale také by přinesly viditelné výsledky. Mezi oblasti možné spolupráce patří především technické konzultace v oblasti budování společného vnitřního trhu zemí Mercosuru. Dále je to energetika, otázka ochrany životního prostředí, rozvoj občanské společnosti, kultury či oblasti telekomunikace.

Celkový přínos práce spočívá v podrobné analýze dosavadního vývoje vztahů mezi EU a Mercosurem, ve zhodnocení role a potenciálu každého z aktérů v rámci těchto vztahů a jejich zasazení do širšího kontextu světového jednání o tržní liberalizaci. Práce umožňuje hlubší porozumění procesům souvisejícím s jednáním EU-Mercosur a tvoří vhodný podklad pro další výzkum v oboru.

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<http://www.comunidadandina.org>

COHA, The Council on Hemispheric Affairs  
<http://www.coha.org>

Commission of the European Union  
<http://ec.europa.eu>

Eurostat  
<http://epp.eurostat.ec.europa.eu>

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<http://www.iadb.org/intal/>

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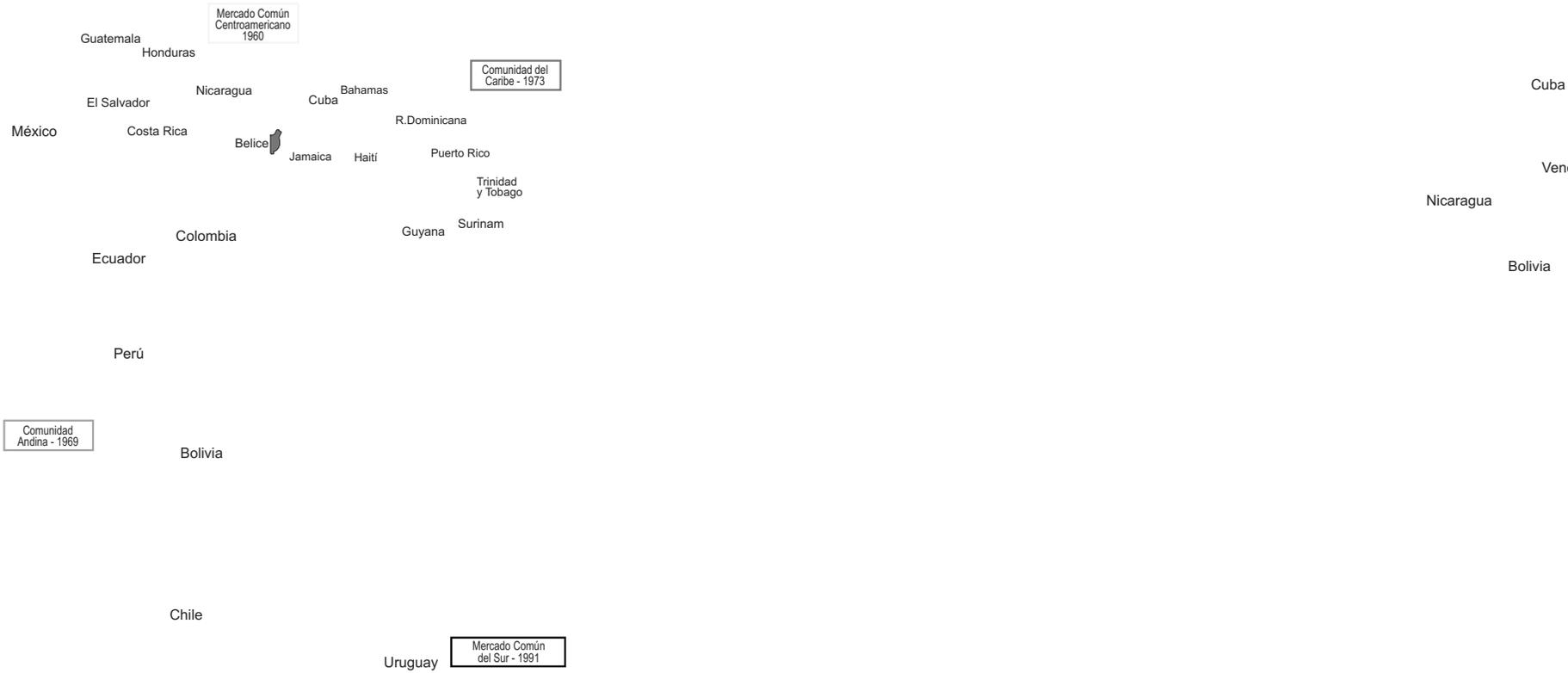
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# Annexes

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- 2. Mercosur. EU Bilateral Trade and Trade with the World**  
(available from <http://ec.europa.eu/trade/>)
- 3. “Searching for the path”: An overview of Latin American integration efforts**  
(available from <http://www.uniondenacionessuramericanas.com/>)





Cuba  
Venezuela  
Nicaragua  
Bolivia

Alternativa Bolivariana para las Américas - 2001



Comunidad Sudamericana de Naciones - 2004

Unión de Naciones Suramericanas - 2007

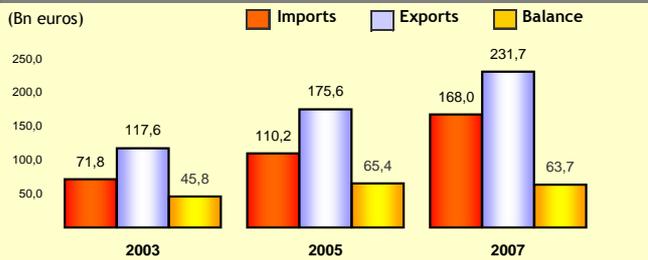
Tratados de Libre Comercio con EEUU

**Breve historia de los principales esquemas de integración**  
Se indica la fecha de lanzamiento

# MERCOSUR

Area		11.863 (1000qkm)							
Gross domestic product	2007	1.222 Bn euros		Exports-to-GDP ratio:	19,0				
(IMF, World Economic Outlook)						2004	2005	2006	2007
Real GDP (% growth)						14,0	8,3	8,6	5,7
Current account balance (% of GDP)						3,2	3,5	3,0	1,6

## MERCOSUR MERCHANDISE TRADE WITH THE WORLD



Source: IMF (Direction of Trade Statistics) \* excl intra EU Trade

## EU27 MERCHANDISE TRADE WITH MERCOSUR

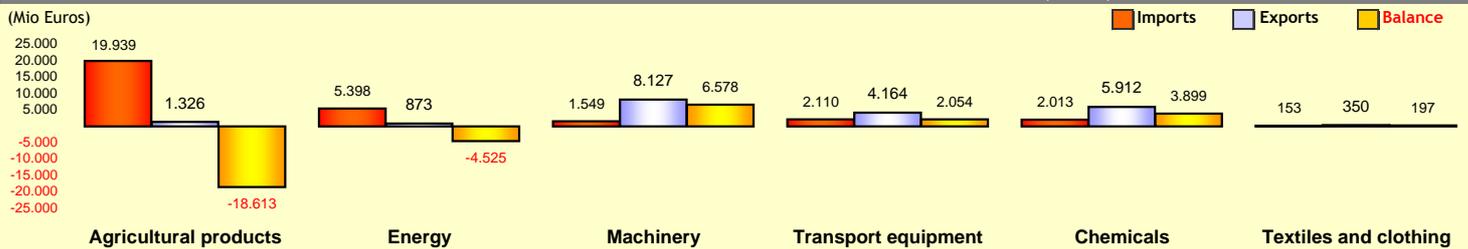


Source: Eurostat, statistical regime 4

% OF THE WORLD *	2003	2005	2007
Imports	1,40	1,67	2,15
Exports	2,46	2,83	3,09

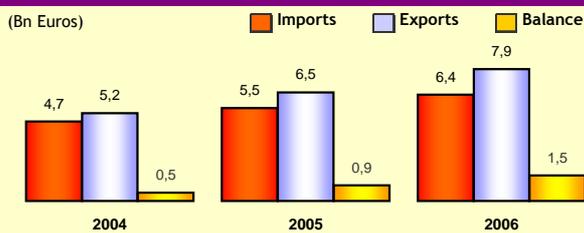
% OF EU TOTAL	2003	2005	2007
Imports	3,02	2,99	3,35
Exports	2,00	2,24	2,59

## EU27 MERCHANDISE TRADE WITH MERCOSUR BY PRODUCT (2007)



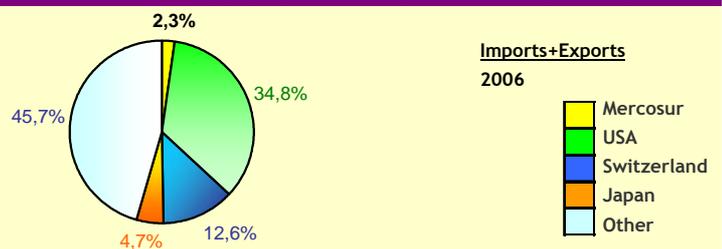
Source: Eurostat, statistical regime 4

## EU27 TRADE IN SERVICES WITH MERCOSUR

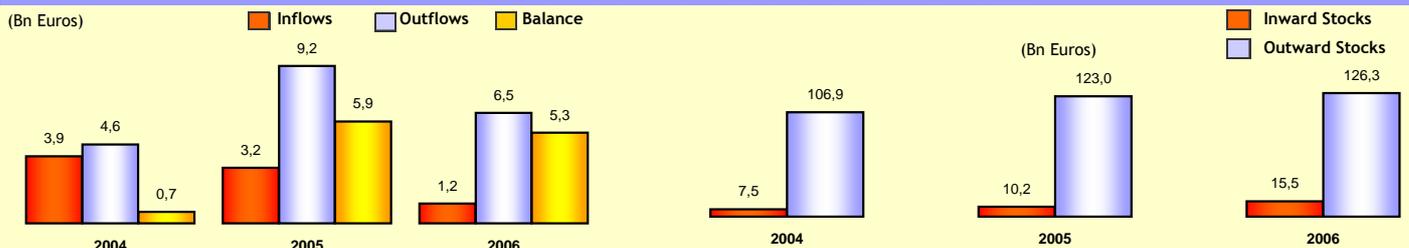


Source: Eurostat (excluding government services)

## MERCOSUR SHARE OF EU25 TRADE IN SERVICES



## EU27 FOREIGN DIRECT INVESTMENT WITH MERCOSUR



Source: Eurostat

2006, estimated FDI stock = stock 2005 + flows 2006



**MERCOSUR**

## EU BILATERAL TRADE AND TRADE WITH THE WO



10-sept-08

DG TRADE

(EU: 27 members, recalculated series since 2003)

Argentina, Brazil, Paraguay, Uruguay, Venezuela

### TOTAL MERCHANDISE TRADE, 2003-2007

1. Evolution of the EU's Trade Balance with Mercosur
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### GEOGRAPHIC BREAKDOWN OF TRADE, 2007

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9. EU Trade with the World and EU Trade with Mercosur (2007)

## EVOLUTION OF THE EU'S TRADE BALANCE WITH MERCOSUR

(Mio euro)

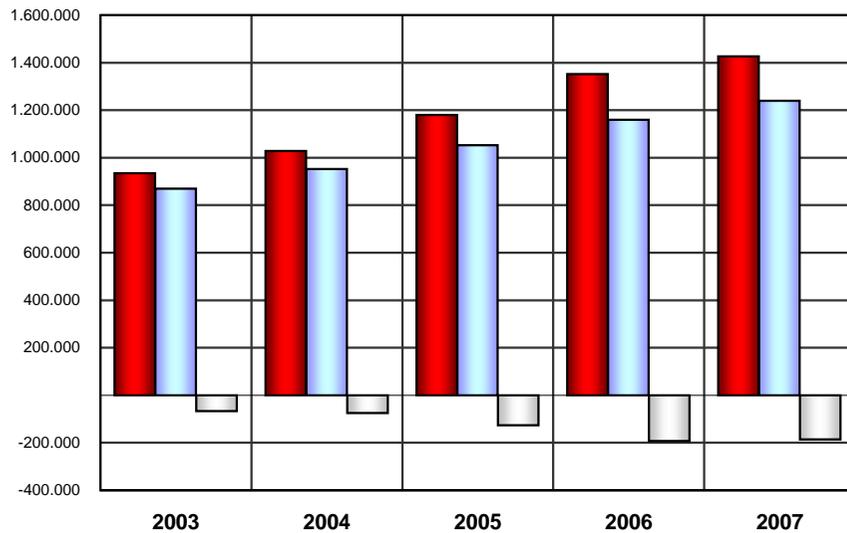
European Union, Trade with the World

Year	Imports	Yearly % change	Exports	Yearly % change	Balance	Imports + Exports
2003	935.270		869.236		-66.034	1.804.506
2004	1.027.522	9,9	952.954	9,6	-74.568	1.980.477
2005	1.179.569	14,8	1.052.720	10,5	-126.849	2.232.289
2006	1.351.745	14,6	1.159.276	10,1	-192.468	2.511.021
2007	1.426.008	5,5	1.239.919	7,0	-186.089	2.665.926
6m 2007	692.642		601.010		-91.632	1.293.652
6m 2008	767.495	10,8	647.429	7,7	-120.065	1.414.924
Average annual growth		11,1		9,3		10,2

European Union, Trade with ... Mercosur

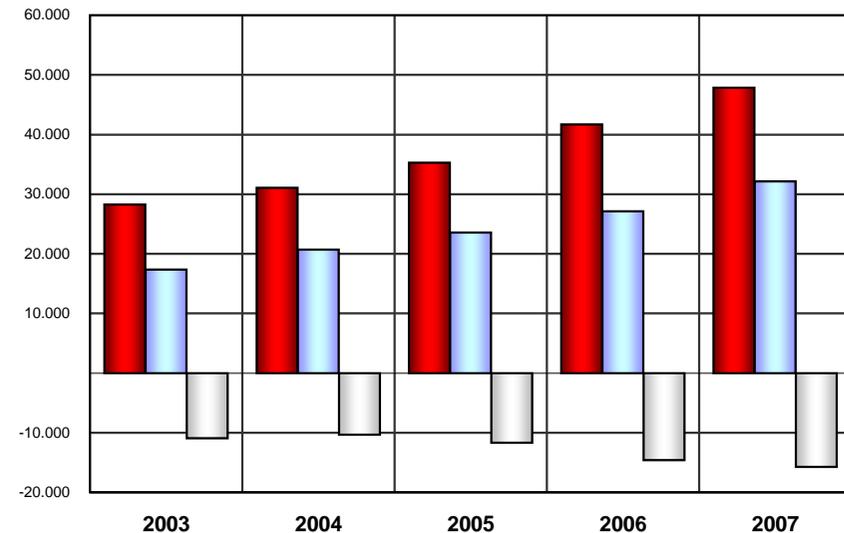
Year	Imports	Yearly % change	Share of total EU imports	Exports	Yearly % change	Share of total EU exports	Balance	Imports + Exports
2003	28.281		3,02	17.351		2,00	-10.930	45.632
2004	31.039	9,8	3,02	20.725	19,4	2,17	-10.314	51.764
2005	35.255	13,6	2,99	23.589	13,8	2,24	-11.666	58.844
2006	41.725	18,4	3,09	27.114	14,9	2,34	-14.611	68.839
2007	47.841	14,7	3,35	32.121	18,5	2,59	-15.719	79.962
6m 2007	22.517		3,25	14.815		2,47	-7.702	37.332
6m 2008	26.188	16,3	3,41	17.161	15,8	2,65	-9.027	43.349
Average annual growth		14,0			16,6			15,1

European Union, Trade with the World



■ Imports    ■ Exports    ■ Balance

European Union, Trade with ... Mercosur



■ Imports    ■ Exports    ■ Balance

World excluding Intra-EU trade and European Union: 27 members.

Mercosur:  
Argentina, Brazil,  
Paraguay,  
Uruguay,  
Venezuela

Source: EUROSTAT (Comext, Statistical regime 4)

## EVOLUTION OF THE MERCOSUR'S TRADE BALANCE

(Mio euro)

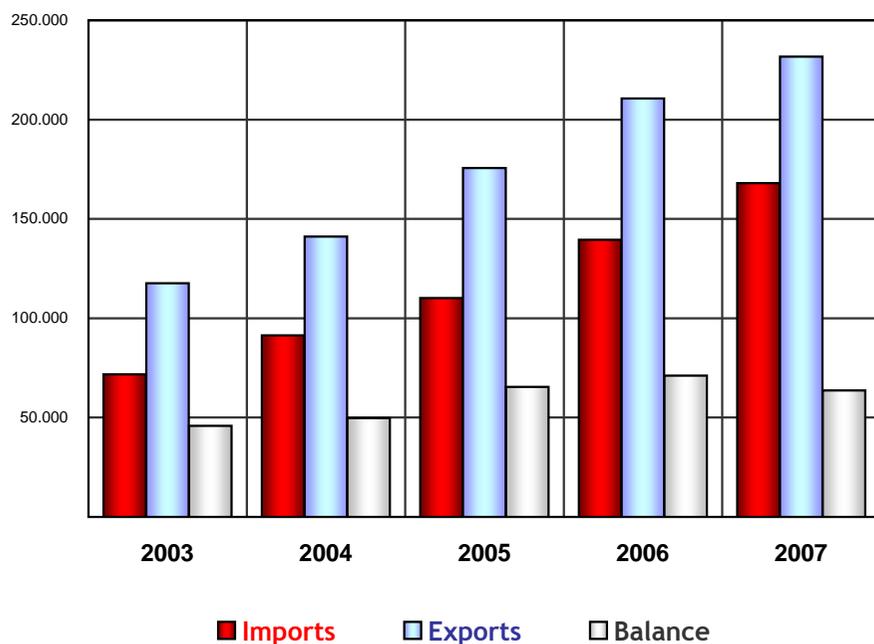
### Mercosur, Trade with the World

Year	Imports	Yearly % change	Exports	Yearly % change	Balance	Imports + Exports
2003	71.772		117.584		45.811	189.356
2004	91.338	27,3	141.124	20,0	49.786	232.462
2005	110.229	20,7	175.617	24,4	65.388	285.846
2006	139.479	26,5	210.647	19,9	71.168	350.126
2007	168.028	20,5	231.735	10,0	63.707	399.763
Average annual growth		23,7		18,5		20,5

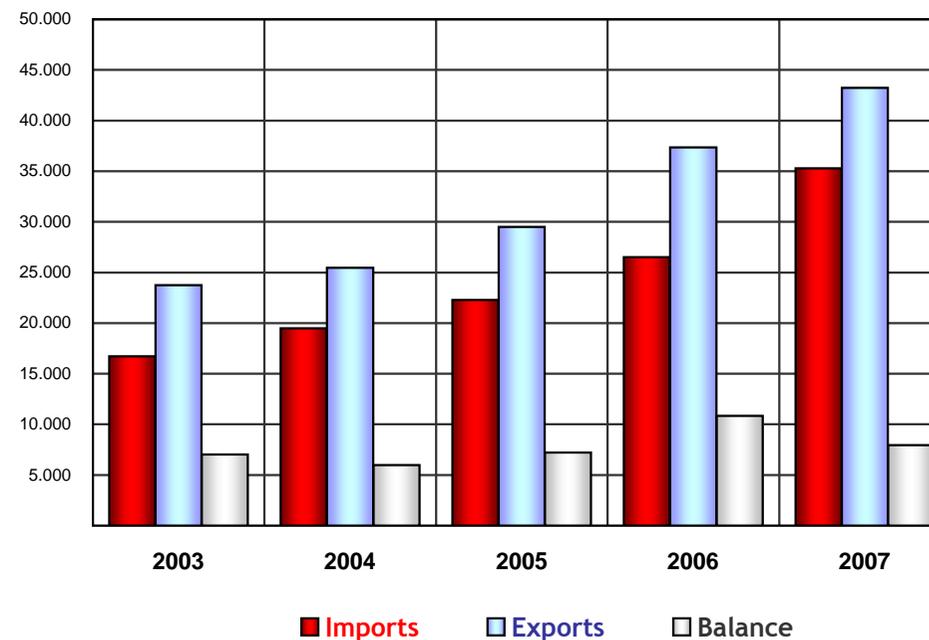
### Mercosur, Trade with the European Union

Year	Imports	Yearly % change	EU Share of total imports	Exports	Yearly % change	EU Share of total exports	Balance	Imports + Exports
2003	16.711		23,28	23.745		20,19	7.034	40.456
2004	19.472	16,5	21,32	25.457	7,2	18,04	5.985	44.929
2005	22.294	14,5	20,22	29.501	15,9	16,80	7.207	51.795
2006	26.508	18,9	19,01	37.349	26,6	17,73	10.841	63.857
2007	35.297	33,2	21,01	43.244	15,8	18,66	7.947	78.540
Average annual growth		20,6			16,2			18,0

### Mercosur, Trade with the World



### Mercosur, Trade with the European Union



European Union: 27 members.

Mercosur: Argentine, Brazil, Paraguay, Uruguay, Venezuela

**EU TRADE WITH MAIN PARTNERS**

(2007)

**The major imports partners**

**The major export partners**

**The major trade partners**

Partners	Mio euro	%
<b>World</b>	<b>1.426.008</b>	<b>100,0</b>
1 China	231.516	16,2
2 USA	181.104	12,7
3 Russia	143.880	10,1
4 Japan	78.104	5,5
5 Norway	76.841	5,4
6 Switzerland	76.700	5,4
7 Turkey	46.867	3,3
8 Korea	39.611	2,8
9 Brazil	32.661	2,3
10 Libya	27.323	1,9
11 India	26.262	1,8
12 Taiwan	26.007	1,8
13 Canada	23.285	1,6
14 Algeria	21.173	1,5
15 South Africa	20.868	1,5
16 Singapore	18.323	1,3
17 Saudi Arabia	18.236	1,3
18 Malaysia	18.014	1,3
19 Thailand	16.600	1,2
20 WA_AO	15.832	1,1
<b>Mercosur</b>	<b>47.841</b>	<b>3,4</b>

Partners	Mio euro	%
<b>World</b>	<b>1.239.919</b>	<b>100,0</b>
1 USA	261.463	21,1
2 Switzerland	92.787	7,5
3 Russia	89.100	7,2
4 China	71.757	5,8
5 Turkey	52.641	4,2
6 Japan	43.757	3,5
7 Norway	43.207	3,5
8 India	29.481	2,4
9 United Arab Emir.	26.878	2,2
10 Canada	25.893	2,1
11 Korea	24.785	2,0
12 Australia	22.709	1,8
13 Ukraine	22.368	1,8
14 Brazil	21.279	1,7
15 Mexico	20.927	1,7
16 Hong Kong	20.886	1,7
17 Singapore	20.647	1,7
18 South Africa	20.511	1,7
19 Saudi Arabia	20.086	1,6
20 WA_AO	18.423	1,5
<b>Mercosur</b>	<b>32.121</b>	<b>2,6</b>

Partners	Mio euro	%
<b>World</b>	<b>2.665.926</b>	<b>100,0</b>
1 USA	442.567	16,6
2 China	303.273	11,4
3 Russia	232.980	8,7
4 Switzerland	169.487	6,4
5 Japan	121.861	4,6
6 Norway	120.048	4,5
7 Turkey	99.509	3,7
8 Korea	64.396	2,4
9 India	55.743	2,1
10 Brazil	53.940	2,0
11 Canada	49.178	1,8
12 South Africa	41.378	1,6
13 Taiwan	39.331	1,5
14 Singapore	38.969	1,5
15 Saudi Arabia	38.321	1,4
16 Ukraine	34.760	1,3
17 Australia	34.478	1,3
18 WA_AO	34.255	1,3
19 Mexico	32.855	1,2
20 United Arab Emir.	32.562	1,2
<b>Mercosur</b>	<b>79.962</b>	<b>3,0</b>

**EU Imports from ...**

**EU Exports to ...**

**Imports + Exports**

Partner regions	Mio euro	%
<b>World</b>	<b>1.426.008</b>	<b>100,0</b>
<b>NAFTA</b>	<b>216.318</b>	<b>15,2</b>
<b>Latin America</b>	<b>88.810</b>	<b>6,2</b>
<b>EU Candidates</b>	<b>53.708</b>	<b>3,8</b>
<b>EFTA</b>	<b>157.286</b>	<b>11,0</b>
<b>Medit.Countries<sup>†</sup></b>	<b>60.286</b>	<b>4,2</b>
<b>ASEAN</b>	<b>80.364</b>	<b>5,6</b>

Partner regions	Mio euro	%
<b>World</b>	<b>1.239.919</b>	<b>100,0</b>
<b>NAFTA</b>	<b>308.282</b>	<b>24,9</b>
<b>Latin America</b>	<b>71.398</b>	<b>5,8</b>
<b>EU Candidates</b>	<b>67.987</b>	<b>5,5</b>
<b>EFTA</b>	<b>140.426</b>	<b>11,3</b>
<b>Medit.Countries<sup>†</sup></b>	<b>66.964</b>	<b>5,4</b>
<b>ASEAN</b>	<b>54.560</b>	<b>4,4</b>

Partner regions	Mio euro	%
<b>World</b>	<b>2.665.926</b>	<b>100,0</b>
<b>NAFTA</b>	<b>524.600</b>	<b>19,7</b>
<b>Latin America</b>	<b>160.207</b>	<b>6,0</b>
<b>EU Candidates</b>	<b>121.695</b>	<b>4,6</b>
<b>EFTA</b>	<b>297.712</b>	<b>11,2</b>
<b>Medit.Countries<sup>†</sup></b>	<b>127.250</b>	<b>4,8</b>
<b>ASEAN</b>	<b>134.925</b>	<b>5,1</b>

NAFTA: Canada, Mexico, USA.

Latin America: 20 countries.

EU Candidates: , Croatie, Turkey

EFTA: Iceland, Norway, Switzerland.

Mediterranean countries <sup>†</sup>excluding Turkey: Algeria, Cisjordanie Gaza , Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia.

ASEAN: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.

World excluding Intra-EU trade and European Union: 27 members.

MERCOSUR'S TRADE BALANCE WITH MAIN PARTNERS

(2007)

The major import partners

Partners	Mio euro	%
World	170.673	100,0
1 EU	35.297	20,7
2 USA	34.172	20,0
3 Brazil	15.718	9,2
4 China	14.833	8,7
5 Argentina	10.733	6,3
6 Japan	5.062	3,0
7 Chile	4.229	2,5
8 Mexico	4.132	2,4
9 Nigeria	4.073	2,4
10 Korea	3.630	2,1
11 Colombia	3.258	1,9
12 Switzerland	1.969	1,2
13 India	1.936	1,1
14 Algeria	1.928	1,1
15 Canada	1.911	1,1
16 Bolivia	1.789	1,0
17 Hong Kong	1.586	0,9
18 Saudi Arabia	1.573	0,9
19 Panama	1.406	0,8
20 Peru	1.322	0,8

The major export partners

Partners	Mio euro	%
World	235.877	100,0
1 USA	48.857	20,7
2 EU	43.244	18,3
3 China	17.831	7,6
4 Argentina	11.038	4,7
5 Brazil	8.744	3,7
6 Mexico	6.504	2,8
7 Chile	6.159	2,6
8 Japan	4.929	2,1
9 Caribbean	4.618	2,0
10 Russia	4.383	1,9
11 Venezuela	4.133	1,8
12 Canada	3.693	1,6
13 Colombia	3.661	1,6
14 Peru	2.519	1,1
15 Uruguay	2.377	1,0
16 Cuba	2.331	1,0
17 Korea	2.242	1,0
18 South Africa	2.238	0,9
19 Paraguay	1.854	0,8
20 Saudi Arabia	1.762	0,7

The major trade partners

Partners	Mio euro	%
World	406.550	100,0
1 USA	83.029	20,4
2 EU	78.540	19,3
3 China	32.665	8,0
4 Brazil	24.462	6,0
5 Argentina	21.771	5,4
6 Mexico	10.636	2,6
7 Chile	10.388	2,6
8 Japan	9.991	2,5
9 Colombia	6.920	1,7
10 Korea	5.873	1,4
11 Russia	5.613	1,4
12 Canada	5.604	1,4
13 Nigeria	5.555	1,4
14 Venezuela	5.134	1,3
15 Caribbean	5.069	1,2
16 Peru	3.841	0,9
17 India	3.638	0,9
18 Saudi Arabia	3.335	0,8
19 Uruguay	3.332	0,8
20 Switzerland	3.168	0,8

Imports from ...

Partner regions	Mio euro	%
World	170.673	100,0
NAFTA	40.214	23,6
Latin America	46.389	27,2
EU Candidates	290	0,2
EFTA	2.393	1,4
Medit.Countries*	3.280	1,9
ASEAN	4.462	2,6

Exports to ...

Partner regions	Mio euro	%
World	235.877	100,0
NAFTA	59.054	25,0
Latin America	55.912	23,7
EU Candidates	1.362	0,6
EFTA	1.838	0,8
Medit.Countries*	4.406	1,9
ASEAN	4.675	2,0

Imports + Exports

Partner regions	Mio euro	%
World	406.550	100,0
NAFTA	99.268	24,4
Latin America	102.301	25,2
EU Candidates	1.652	0,4
EFTA	4.231	1,0
Medit.Countries*	7.686	1,9
ASEAN	9.137	2,2

NAFTA: Canada, Mexico, USA.

Latin America: 20 countries.

EU Candidates: , Croatie, Turkey

EFTA: Iceland, Norway, Switzerland.

Mediterranean countries \*excluding Turkey: Algeria, Cisjordanie Gaza , Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia.

ASEAN: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.

European Union: 25 members.

Mercosur: Argentine, Brazil, Paraguay, Uruguay, Venezuela

**EUROPEAN UNION, TRADE WITH THE WORLD AND MERCOSUR, BY SITC SECTION**

(2007)

**European Union, Imports from the World**

Products (Sitc Sections) by order of importance	Mio euro	%
<b>TOTAL</b>	<b>1.426.008</b>	<b>100,0</b>
Mineral fuels, lubricants and rel. Materials	332.601	23,3
Machinery and transport equipment	269.579	18,9
Manuf goods classif. chiefly by material	181.363	12,7
Miscell. manuf. Articles	175.487	12,3
Chemicals and related prod., n.e.s.	113.274	7,9
Food and live animals	63.542	4,5
Crude materials inedible, except fuels	60.864	4,3
Commodit. and transactions n.e.c.	31.480	2,2
Beverages and tobacco	6.632	0,5
Animal and vegetable oils, fats and waxes	5.968	0,4

**European Union, Imports from ... Mercosur**

Products (Sitc Sections) by order of importance	Mio euro	%	Share of total EU imports
<b>TOTAL</b>	<b>47.841</b>	<b>100,0</b>	<b>3,4</b>
Food and live animals	14.709	30,7	23,1
Crude materials inedible, except fuels	10.839	22,7	17,8
Manuf goods classif. chiefly by material	6.020	12,6	3,3
Mineral fuels, lubricants and rel. Materials	5.398	11,3	1,6
Machinery and transport equipment	3.659	7,6	1,4
Chemicals and related prod., n.e.s.	2.013	4,2	1,8
Miscell. manuf. Articles	1.167	2,4	0,7
Beverages and tobacco	725	1,5	10,9
Animal and vegetable oils, fats and waxes	658	1,4	11,0
Commodit. and transactions n.e.c.	453	0,9	1,4

**European Union, Exports to the World**

Products (Sitc Sections) by order of importance	Mio euro	%
<b>TOTAL</b>	<b>1.239.919</b>	<b>100,0</b>
Machinery and transport equipment	432.279	34,9
Chemicals and related prod., n.e.s.	188.979	15,2
Manuf goods classif. chiefly by material	165.008	13,3
Miscell. manuf. Articles	122.325	9,9
Mineral fuels, lubricants and rel. Materials	62.499	5,0
Food and live animals	41.854	3,4
Commodit. and transactions n.e.c.	34.316	2,8
Crude materials inedible, except fuels	26.642	2,1
Beverages and tobacco	19.463	1,6
Animal and vegetable oils, fats and waxes	2.559	0,2

**European Union, Exports to ... Mercosur**

Products (Sitc Sections) by order of importance	Mio euro	%	Share of total EU exports
<b>TOTAL</b>	<b>32.121</b>	<b>100,0</b>	<b>2,6</b>
Machinery and transport equipment	12.374	38,5	2,9
Chemicals and related prod., n.e.s.	5.912	18,4	3,1
Manuf goods classif. chiefly by material	3.789	11,8	2,3
Miscell. manuf. Articles	1.924	6,0	1,6
Mineral fuels, lubricants and rel. Materials	873	2,7	1,4
Food and live animals	648	2,0	1,5
Beverages and tobacco	417	1,3	2,1
Commodit. and transactions n.e.c.	409	1,3	1,2
Crude materials inedible, except fuels	293	0,9	1,1
Animal and vegetable oils, fats and waxes	142	0,4	5,6

World excluding Intra-EU trade and European Union: 27 members.

## EUROPEAN UNION IMPORTS, BY PRODUCT GROUPING

(Mio euro)

### European Union, Imports from the World

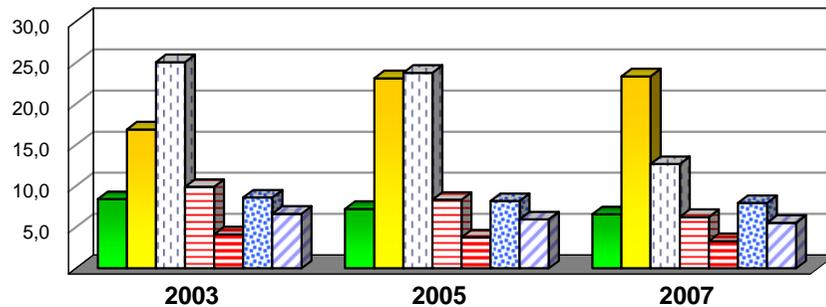
SITC Rev.3 Product Groups	2003	%	2005	%	2007	%
<b>TOTAL</b>	<b>935.270</b>	<b>100,0</b>	<b>1.179.569</b>	<b>100,0</b>	<b>1.426.008</b>	<b>100,0</b>
<b>Primary Products</b>	<b>276.684</b>	<b>29,6</b>	<b>413.413</b>	<b>35,0</b>	<b>516.773</b>	<b>36,2</b>
of which:						
Agricultural prod.	78.666	8,4	85.085	7,2	93.725	6,6
Energy	157.870	16,9	272.576	23,1	332.601	23,3
<b>Manuf. Products</b>	<b>627.382</b>	<b>67,1</b>	<b>740.326</b>	<b>62,8</b>	<b>692.537</b>	<b>48,6</b>
of which:						
Machinery	234.253	25,0	280.420	23,8	180.697	12,7
Transport equipm	92.515	9,9	98.289	8,3	88.882	6,2
of which:						
Automotive prod.	38.552	4,1	44.304	3,8	47.108	3,3
Chemicals	80.506	8,6	96.443	8,2	113.274	7,9
Textiles and cloth.	62.067	6,6	70.107	5,9	79.042	5,5

### European Union, Imports from ... Mercosur

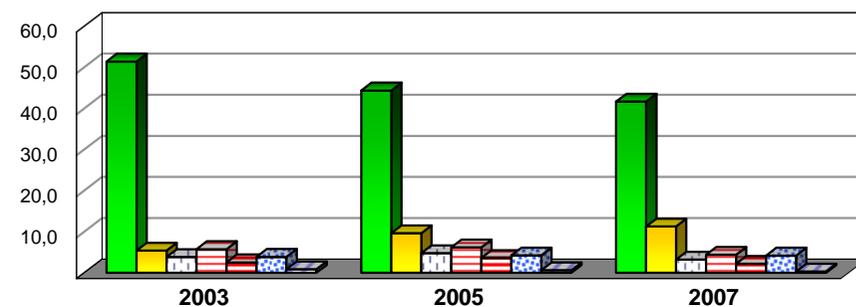
SITC Rev.3 Product Groups	2003	%	2005	%	2007	%	Share of total EU imports
<b>TOTAL</b>	<b>28.281</b>	<b>100,0</b>	<b>35.255</b>	<b>100,0</b>	<b>47.841</b>	<b>100,0</b>	<b>3,35</b>
<b>Primary Products</b>	<b>20.013</b>	<b>70,8</b>	<b>24.705</b>	<b>70,1</b>	<b>33.997</b>	<b>71,1</b>	<b>6,58</b>
of which:							
Agricultural prod.	14.544	51,4	15.643	44,4	19.939	41,7	21,27
Energy	1.535	5,4	3.399	9,6	5.398	11,3	1,62
<b>Manuf. Products</b>	<b>7.887</b>	<b>27,9</b>	<b>10.136</b>	<b>28,8</b>	<b>11.191</b>	<b>23,4</b>	<b>1,62</b>
of which:							
Machinery	1.087	3,8	1.678	4,8	1.549	3,2	0,86
Transport equipm	1.630	5,8	2.177	6,2	2.110	4,4	2,37
of which:							
Automotive prod.	721	2,5	1.282	3,6	1.066	2,2	2,26
Chemicals	1.098	3,9	1.487	4,2	2.013	4,2	1,78
Textiles and cloth.	242	0,9	230	0,7	153	0,3	0,19

### Structure of Imports (%)

#### from the World



#### from ... Mercosur



World excluding Intra-EU trade and European Union: 27 members.

Source : EUROSTAT (Comext, Statistical regime 4)

## EUROPEAN UNION EXPORTS, BY PRODUCT GROUPING

(Mio euro)

### European Union, Exports to the World

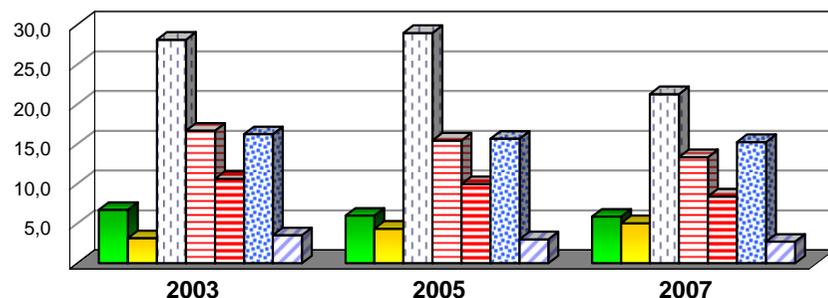
SITC Rev.3 Product Groups	2003	%	2005	%	2007	%
<b>TOTAL</b>	<b>869.236</b>	<b>100,0</b>	<b>1.052.720</b>	<b>100,0</b>	<b>1.239.919</b>	<b>100,0</b>
<b>Primary Products</b>	<b>103.421</b>	<b>11,9</b>	<b>135.180</b>	<b>12,8</b>	<b>172.882</b>	<b>13,9</b>
<i>of which:</i>						
Agricultural prod.	58.451	6,7	63.080	6,0	72.713	5,9
Energy	27.410	3,2	45.871	4,4	62.499	5,0
<b>Manuf. Products</b>	<b>747.333</b>	<b>86,0</b>	<b>887.509</b>	<b>84,3</b>	<b>888.727</b>	<b>71,7</b>
<i>of which:</i>						
Machinery	244.423	28,1	304.982	29,0	263.651	21,3
Transport equipm	144.932	16,7	162.617	15,4	165.509	13,3
<i>of which:</i>						
Automotive prod.	92.375	10,6	104.860	10,0	104.220	8,4
Chemicals	141.103	16,2	164.852	15,7	188.979	15,2
Textiles and cloth.	30.579	3,5	31.838	3,0	33.703	2,7

### European Union, Exports to ... Mercosur

SITC Rev.3 Product Groups	2003	%	2005	%	2007	%	Share of total EU exports
<b>TOTAL</b>	<b>17.351</b>	<b>100,0</b>	<b>23.589</b>	<b>100,0</b>	<b>32.121</b>	<b>100,0</b>	<b>2,59</b>
<b>Primary Products</b>	<b>1.445</b>	<b>8,3</b>	<b>1.797</b>	<b>7,6</b>	<b>2.926</b>	<b>9,1</b>	<b>1,69</b>
<i>of which:</i>							
Agricultural prod.	876	5,0	962	4,1	1.326	4,1	1,82
Energy	216	1,2	338	1,4	873	2,7	1,40
<b>Manuf. Products</b>	<b>15.228</b>	<b>87,8</b>	<b>20.986</b>	<b>89,0</b>	<b>23.445</b>	<b>73,0</b>	<b>2,64</b>
<i>of which:</i>							
Machinery	5.016	28,9	7.747	32,8	8.127	25,3	3,08
Transport equipm	3.147	18,1	4.111	17,4	4.164	13,0	2,52
<i>of which:</i>							
Automotive prod.	2.061	11,9	2.713	11,5	1.708	5,3	1,64
Chemicals	4.025	23,2	4.807	20,4	5.912	18,4	3,13
Textiles and cloth.	223	1,3	294	1,2	350	1,1	1,04

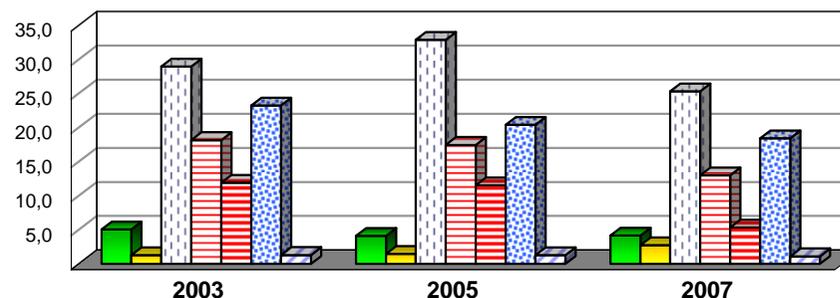
### Structure of Exports (%)

#### to the World



■ Agricultural prod.    ■ Energy      Machinery  
  Transport equipm      Automotive prod.      Chemicals  
  Textiles and cloth.

#### to ... Mercosur



■ Agricultural prod.    ■ Energy      Machinery  
  Transport equipm      Automotive prod.      Chemicals  
  Textiles and cloth.

World excluding Intra-EU trade and European Union: 27 members.

Source: EUROSTAT (Comext, Statistical regime 4)

## RANK OF MERCOSUR IN EUROPEAN UNION TRADE

(2007)

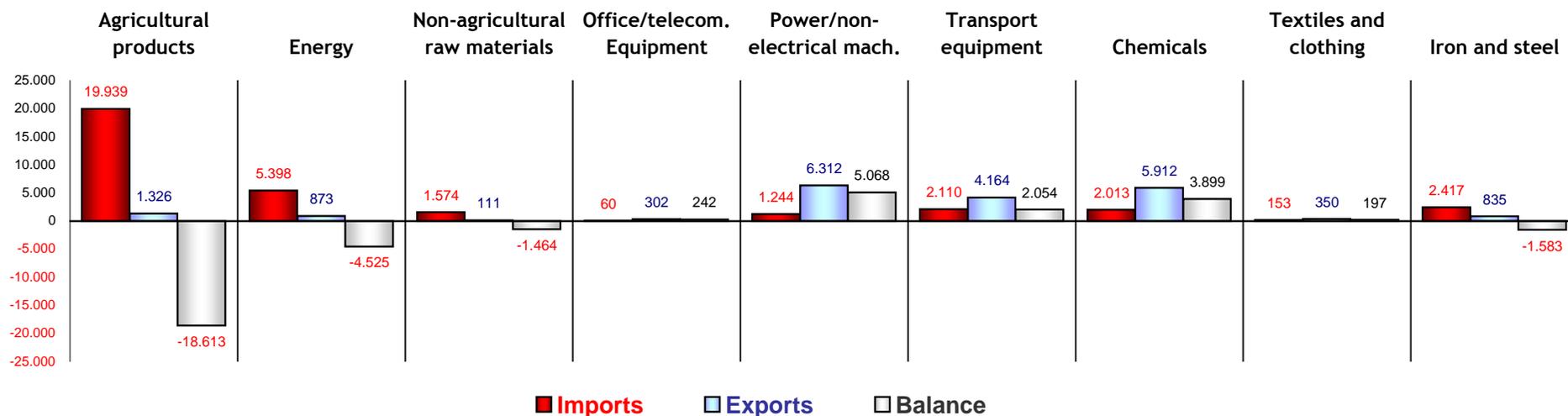
### European Union, Imports from ... Mercosur

### European Union, Exports to ... Mercosur

SITC Rev.3 Product Groups	Mio euro	Share of total EU imports	%		Mio euro	Share of total EU exports	%		Balance
<b>TOTAL</b>	<b>47.841</b>	<b>3,35</b>	<b>100,0</b>		<b>32.121</b>	<b>2,59</b>	<b>100,0</b>		<b>-15.719</b>
Agricultural products	19.939	21,27	41,7		1.326	1,82	4,1		-18.613
Energy	5.398	1,62	11,3		873	1,40	2,7		-4.525
Non-agricultural raw materials	1.574	2,04	3,3		111	1,50	0,3		-1.464
Office/telecom. Equipment	60	0,11	0,1		302	1,31	0,9		242
Power/non-electrical mach.	1.244	1,56	2,6		6.312	3,39	19,7		5.068
Transport equipment	2.110	2,37	4,4		4.164	2,52	13,0		2.054
Chemicals	2.013	1,78	4,2		5.912	3,13	18,4		3.899
Textiles and clothing	153	0,19	0,3		350	1,04	1,1		197
Iron and steel	2.417	5,93	5,1		835	2,41	2,6		-1.583

*Share by products in EU 27 Total Trade excluding Intra-EU trade.*

### EU Trade with ... Mercosur



## EU TRADE WITH THE WORLD AND EU TRADE WITH MERCOSUR (2007)

(Ranking by Trade Flows in 2007)

EU Imports from ...					EU Exports to ...					EU Balance with ...		
Harmonized System	World	Mercosur			Harmonized System	World	Mercosur			Harmonized System	World	Mercosur
		Mio euro	%	Share of total EU imports			Mio euro	%	Share of total EU exports			
Sections:					Sections:							
<b>TOTAL</b>	<b>1.426.008</b>	<b>47.841</b>	<b>100,0</b>	<b>3,35</b>	<b>TOTAL</b>	<b>1.239.919</b>	<b>32.121</b>	<b>100,0</b>	<b>2,59</b>	<b>TOTAL</b>	<b>-186.089</b>	<b>-15.719</b>
TDC V	359.334	10.677	22,3	2,97	TDC XVI	374.206	10.775	33,5	2,88	TDC XVI	45.743	8.320
TDC IV	30.500	7.904	16,5	25,91	TDC XVII	177.180	5.498	17,1	3,10	TDC VI	67.938	3.947
TDC II	34.692	7.862	16,4	22,66	TDC VI	174.512	5.463	17,0	3,13	TDC XVII	79.395	3.399
TDC XV	119.260	4.549	9,5	3,81	TDC XV	94.197	2.207	6,9	2,34	TDC XVIII	8.220	1.168
TDC I	19.371	3.254	6,8	16,80	TDC VII	48.347	1.639	5,1	3,39	TDC VII	9.627	926
TDC XVI	328.463	2.456	5,1	0,75	TDC XVIII	54.248	1.314	4,1	2,42	TDC XIII	6.257	134
TDC XVII	97.785	2.099	4,4	2,15	TDC V	66.708	927	2,9	1,39	TDC XI	-43.755	86
TDC X	15.684	1.780	3,7	11,35	TDC X	27.044	718	2,2	2,65	TDC XIV	-4.161	51
TDC VI	106.574	1.516	3,2	1,42	TDC IV	41.627	687	2,1	1,65	TDC XIX	890	3
TDC IX	13.959	1.304	2,7	9,34	TDC XI	36.482	409	1,3	1,12	TDC XXI	953	1
TDC VIII	11.915	952	2,0	7,99	TDC XIII	17.079	364	1,1	2,13	TDC XX	-15.640	-99
TDC VII	38.720	712	1,5	1,84	TDC II	13.839	326	1,0	2,36	TDC XII	-8.572	-445
TDC III	5.671	646	1,4	11,39	TDC XX	21.714	261	0,8	1,20	TDC III	-3.036	-488
TDC XII	14.713	471	1,0	3,20	TDC XIV	31.536	223	0,7	0,71	TDC VIII	-2.352	-884
TDC XX	37.354	360	0,8	0,96	TDC I	13.669	161	0,5	1,18	TDC X	11.359	-1.063
TDC XI	80.237	323	0,7	0,40	TDC III	2.635	158	0,5	5,98	TDC IX	-4.017	-1.231
TDC XIII	10.822	230	0,5	2,13	TDC IX	9.942	73	0,2	0,74	TDC XV	-25.063	-2.343
TDC XIV	35.697	172	0,4	0,48	TDC VIII	9.563	68	0,2	0,71	TDC I	-5.703	-3.093
TDC XVIII	46.028	146	0,3	0,32	TDC XII	6.142	26	0,1	0,42	TDC IV	11.127	-7.217
TDC XXI	3.652	12		0,32	TDC XIX	1.767	15		0,84	TDC II	-20.853	-7.536
TDC XIX	877	12		1,33	TDC XXI	4.605	13		0,28	TDC V	-292.626	-9.750

### Labels of TDC sections:

TDC I	Ch.01-05	Live animals; animal products	TDC XI	Ch.50-63	Textiles and textile articles
TDC II	Ch.06-14	Vegetable products	TDC XII	Ch. 64-67	Footwear, headgear, umbrellas, sun umbrellas, walking-sticks
TDC III	Ch.15	Animal or vegetable fats and oils and their cleavage products	TDC XIII	Ch.68-70	Articles of stone, plaster, cement, asbestos, mica or similar
TDC IV	Ch.16-24	Prepared foodstuffs; beverages, spirits and vinegar; tobacco ...	TDC XIV	Ch.71	Natural or cultured pearls, precious or semi-precious stones...
TDC V	Ch.25-27	Mineral Products	TDC XV	Ch.72-83	Base metals and articles of base metal
TDC VI	Ch.28-38	Products of the chemical or allied industries	TDC XVI	Ch.84-85	Machinery and mechanical appliances; electrical equipment; parts
TDC VII	Ch.39-40	Plastics and articles thereof of animal gut (other than silkworm gut)	TDC XVII	Ch.86-89	Vehicles, aircraft, vessels and associated transport equipment
TDC VIII	Ch.41-43	Raw hides and skins, leathe materials; basketware and wickerwork	TDC XVIII	Ch.90-92	Optical, photo, cinema, measuring, checking, precision instrum...
TDC IX	Ch.44-46	Wood and articles of wood; wood charcoal; cork and articles of	TDC XIX	Ch. 93	Arms and ammunition; parts and accessories thereof
TDC X	Ch.47-49	Pulp of wood or of other fibrous cellulosic material; paper or paperboard	TDC XX	Ch.94-96	Miscellaneous manufactured articles
			TDC XXI	Ch.97	Works of art, collectors' pieces and antiques excl.chapter 99 other products

World excluding Intra-EU trade and European Union: 27 members.

**DONNEES GRAPHIQUES SUR LES SERVICES**

	2006	Graph non affiché pour ces régions:	
#REF!	14231		World
USA	214728		EFTA
Switzerland	77635		NAFTA
Japan	29080		APEC
Other			A. ASEM





















