



Portugal chases EU-Mercosur deal

by Andrew Thompson

Canning House Associate Fellow

What happened?

Portuguese foreign minister Augusto Santos Silva said on 2 March that “clarifying” the environmental and climate change policies of the Mercosur countries (Argentina, Brazil, Paraguay and Uruguay) could enable ratification of the EU-Mercosur Free Trade Agreement (FTA).

The details

Trade agreements take time. In fact, it took over 20 years to finalise the FTA between Mercosur and the 27 EU countries, something that was finally achieved last year. Economists argue that its programme of phased tariff cuts over 15 years offers the Mercosur countries better access to European markets and a reasonable pathway to increase their economic competitiveness. But no sooner had agreement been reached than controversy over fires and deforestation in the Amazon suggested some EU countries might withhold treaty ratification. Brazil’s climate change sceptic president, Jair Bolsonaro, and France’s Emmanuel Macron disagreed very publicly, with Macron insisting he would not ratify the deal without the Mercosur countries making additional environmental commitments.



KEY FACTS



A region of over **260 million** consumers



The 5th largest economy outside the EU with an **annual GDP of €2.2 trillion**



Closed markets with high tariff and non-tariff barriers



A destination for EU goods worth **€45 billion** (in 2018) and EU services worth **€23 billion** (2017)

A market for **60,500 EU companies**



A major destination for EU investments, with **€381 billion in investment stocks in 2017**

The job of saving the FTA currently rests at least partially with Portugal, which holds the six-monthly rotating EU presidency. Santos Silva said the necessary “clarifications” are feasible and would make up for the current draft treaty’s scant environmental protections. He is looking for a link to the Paris Climate Agreements and some kind of declaration on combatting deforestation. The Mercosur countries have been relatively quiet on the subject. Much will depend on the position taken by the two largest Mercosur members, Argentina and Brazil. At the crudest level, it may be down to whether Brazil and France can resolve their differences on climate issues.

As the politics of the four Mercosur countries has swung back and forth between left and right, protectionism and open markets, the 30-year-old institution has risked becoming bogged down in bureaucracy. Nowadays it is not doing much to promote dynamically increased trade either between its members or with the rest of the world. Perhaps unsurprisingly its two smallest members, Paraguay and Uruguay, have been making the case for it to become more flexible. One suggestion is that individual member countries should be able to strike their own FTAs, and not be subject to a veto by the other members, as at present. The two presidents, Mario Abdo Benítez of Paraguay and Luis Lacalle Pou of Uruguay, recently suggested Mercosur should become “more of a trampoline to the rest of the world and less of a corset”. Brazilian foreign minister Ernesto Araujo has also supported the idea of rescinding Decision 32/2000 which requires an unanimous vote on all new Mercosur FTAs. This is partly because Brazil thinks it might be able to move faster to sign an agreement with the US.

What does it mean?

In the last decade Mercosur has lost relevance and impact. Finally pinning down an FTA with the EU would be a first step on the road to renewal, but other reforms will be needed as well.

About the Author

Andrew Thompson

La Rambla Research Ltd.

As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC’s Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.



These stories are also available on Andrew’s blog site, [La Rambla Research](#).