

MERCOSUR-EU STRATEGIC PARTNERSHIP AGREEMENT

Monthly report by Instituto de Estudios Birregionales (IEB) of Fundación Nuevas Generaciones (Argentina) carried out in international collaboration with the Fondation pour l'Innovation Politique (France)

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The EU debates its trade policy, Argentina's President meets with European leaders and the Irish government publishes its impact assessment of the bi-regional agreement.



INTRODUCTION

The EU Ministers responsible for trade failed to agree on the bloc's new trade policy, partly due to their different opinions about the agreement with Mercosur. On the other hand, Argentina's President, Alberto Fernández, expressed his position regarding the bi-regional partnership during several meetings with European leaders. Finally, the Irish government presented an impact study that is favorable to the UE-Mercosur agreement.

THE RATIFICATION PROCESS

In order to carry out the Mercosur-EU Agreement, a series of steps must first be followed. Since July 2019, Mercosur and the EU have focused on the legal scrubbing process, in order to unify the terminologies in the text and harmonize its content. Once this task is completed, the next step will be to translate the text into the different EU languages and, afterwards, both blocs will effectuate their own decision-making processes.

On the one hand, the European Commission will have to present the agreement to the European Council. The partnership between Mercosur and the EU consists of three pillars: political dialogue, cooperation and trade. If the European Commission puts to vote the entire agreement, shared competencies between the EU and the member countries will be involved; therefore, the approval of every state will be needed, existing the possibility of objecting by veto. Nevertheless, there is a feasibility of splitting the agreement; in this case, a qualified majority would be sufficient in order to approve the trade pillar (55% of the Member States, covering at least 65% of the EU's population), because that section includes issues in which the EU has exclusive competence.

If this stage is successful, the partnership will be signed and taken to the European Parliament, where a simple majority of votes will be required for its approval (the three pillars can be voted at the same time or separately). Afterwards, the process will continue in the national parliaments, although, the EU Council can decide to provisionally start applying matters that are under EU's authority.

Things are simpler on the other bloc. Once the European Union's Council gives his approval, the institution that will stamp the signature on the agreement on behalf of Mercosur is the *Consejo del Mercado Común* (CMC). Subsequently, the ratification of each national legislature will be sought. When a Mercosur member ratifies the Agreement in its own Parliament or National Congress, it will enter into force bilaterally between such country and the European Union, without having to wait for the accession of the remaining members.

THE EU DEBATES ITS TRADE POLICY

On May 20, the European Ministers in charge of trade met in Brussels to examine the bloc's new trade strategy, whose first draft was published months ago by the European Commission and is known as "open strategic autonomy". According to the Portuguese Minister of Foreign Affairs, Augusto Santos Silva, there were three reasons that prevented a consensus from being reached.



Augusto Santos Silva, Minister of Foreign Affairs of Portugal (European Union).

First of all, there are contrasting views on the exact meaning of "openness", which is one of the three pillars of the trade policy designed by the European Commission, together with "sustainability" and "assertiveness". This disagreement reflects the different paths proposed to ensure stability in supply chains: while some governments prefer to increase the degree of self-sufficiency in certain key items, others are in favor of greater diversification of supply sources.

Secondly, consensus remains elusive on when the environmental clauses (that will be part of this new trade strategy, which are intended to increase the degree of bindingness of the ecological commitments agreed with third parties), should begin to be applied. Indeed, some propose that these new provisions ought to be included in ongoing trade negotiations, and not only those that will be started in the future.

Finally, the third source of disagreement is the partnership with Mercosur. As Minister Silvia stressed, "there is still work to do in order to define what could be the additional document that we are looking for to have further guarantees in terms of sustainability and combat against deforestation". In this sense, Franck Riester, the French Minister Delegate for Foreign Trade, reaffirmed his position that the additional guarantees should be clear, quantifiable and verifiable. Nevertheless, the European Commissioner for Trade, Valdis Dombrovskis, stated that during the meeting of ministers it was agreed that "the EU should remain strongly committed to the agreement because of its major strategic, geopolitical and economic value."

THE PRESIDENT OF ARGENTINA MEETS WITH EUROPEAN LEADERS

Argentina's President, Alberto Fernández, undertook an official visit to Europe in May, which included meetings with the heads of government of Portugal, Spain, Italy and France. Although the Argentine delegation's main goal was to gather support for the negotiations with the International Monetary Fund (IMF) and the Paris Club, there were also some declarations regarding the obstacles to ratify the Mercosur-EU agreement.



Alberto Fernández, President of Argentina, together with Antonio Costa, Prime Minister of Portugal.

Accompanied by the Portuguese Prime Minister António Costa, President Fernández pointed out that there are difficulties in both blocs, but agreeing on an additional document on environmental matters should not represent a great challenge, "we can advance on issues on which we have no contradictions or points of disagreement, such as those related to climate change, care for the environment and deforestation". In Paris, the Argentine President told his French counterpart, Emmanuel Macron, that there is a shared concern about the Amazon and "taking care of it deserves the effort of all of us".



Alberto Fernández, President of Argentina, together with Pedro Sanchez, President of Spain (Juan Mabromata).

The following month, during an official visit to Buenos Aires by the Spanish President Pedro Sanchez, Fernandez repeated his willingness to conclude the agreement with the EU, but he expressed that "resolving the existing asymmetries is the secret to achieve it". It is worth noting that it is the opposite concern that has been guiding Mercosur's approach towards an additional document on environmental issues. In fact, the main concern of Mercosur is that this additional document, which has not yet been formally proposed by the European Commission, might include clauses that alter the trade equilibrium reached in the negotiations finalized in July 2019.

IRELAND PUBLISHES ITS IMPACT ASSESSMENT OF THE EU-MERCOSUR AGREEMENT

When the current ruling coalition in Ireland was formed in mid-2020 (comprising Fine Gael, Fianna Fáil and the Greens), the Danish firm Implement Consulting Group was commissioned to prepare an impact study on the agreement with Mercosur, whose results were made public on July 21. In general terms, the conclusions are in line with the report previously published by the London School of Economics (LSE), but they are focused on Ireland.

To begin with, it is estimated that the agreement would increase Ireland's total exports by €1.1 billion in 2035 (a growth of 0.2%), mainly due to the elimination of non-tariff barriers applied to industrial products. Likewise, the national GDP would increase by 0.13% in the same time frame, which would represent €547 million. The most benefited sectors would be electronics and chemical products.

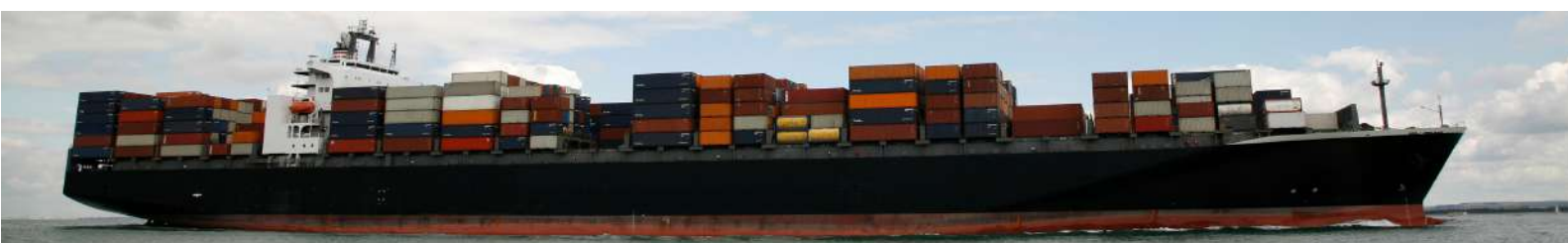
One of the main contributions of the report refers to the possible impact of beef imports from Mercosur, which is one of the main criticisms of the agreement made by environmentalists and Irish producers. The Implement Consulting Group's assessment is that there would indeed be an increase in shipments, but they would be limited and gradual: 53,000 tons (mainly high quality cuts), which is 0.7% of total European production and which would materialize after the first six years of the agreement. This would cause Irish beef production to fall by 0.08%, reducing Irish producers' profits by 2%. On the other hand, further deforestation in the Amazon should not be expected either, since the growth in Brazilian beef exports to the EU would be only 20,000 tons, which represents 0.2% of Brazil's total production.



Leo Varadkar, Deputy Prime Minister of Ireland and leader of Fianna Fáil (Leon Farrell/Photocall Ireland/PA Wire).

Regarding the chapter on Trade and Sustainable Development (TSD) of the agreement, which is criticized for not including a more vigorous dispute settlement mechanism, the report states that "there is no evidence that taking a more punitive approach results in more positive environmental outcomes". On the contrary, it stressed that "the TSD chapter provides, for the first time, an explicit mechanism whereby the EU can raise concerns about environmental and labour conditions on a bilateral basis with the Mercosur countries". While this is not to say that it cannot be improved, "failure to ratify the agreement would leave the EU without any means of policy leverage [...] resulting in Brazil becoming more dependent on other markets where interest in linking trade with sustainability issues may be lower than in the EU".

However, the report has not changed the Irish stance on the partnership. Indeed, Leo Varadkar, Tánaiste (Deputy Prime Minister of Ireland) and leader of Fianna Fáil, maintained that "our support is contingent on new and enforceable climate and deforestation commitments".



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