

The Economical Partnership European Union – Mercosur

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Abstract: In 1960 the cooperation process between the South America countries was characterized by national strategies to foster the national industries, safeguarded by the intense exports from the developed countries. This strategy was called by some authors *defensive regionalism*, as opposed to *open regionalism* or the offensive one, promoted by CEPAR (Economic Commission for Latin America and the Caribbeans). The Common Market of the South or Mercosur (in Spanish Mercado Comun del Sur, in Portuguese Mercado Comun do Sul, Mercosul), is a commercial block that has as goals: promotion of free exchange of products, people and capital between the countries members, as well as the development of a better integration and trial between partners and associates. The first members states were: Argentina, Brazil, Uruguay, Paraguay; Venezuela signed the joining in 17 June 2006. Bolivia, Chile, Ecuador, Peru have associate estate. Member States consider on November 30, 1985 (when they signed the Declaration of Foz Iguazu) the moment of Mercosur appearance. EU-MERCOSUR relations have a broad tradition based on history, culture, political affinity, economic interest and strategic considerations. We may say that Latin America is where Europe can recognize on a large extent their own political and cultural values. This common heritage, but primarily economic interests led to the need for mutual dialogue between the two organizations. We are now at 15 years after signing the first agreement between EU and Mercosur and 8 years after initiating negotiations for reaching an inter-regional association agreement to establish a free trade area. Negotiations were not linear, but have had many obstacles, and now, in 2010, it seems to be increasingly fewer opportunities to achieve inter-regional agreement. When MS achieves its own identity (not only the legal personality that it was self assumed through Article 34 of the Protocol of Ouro Preto), it will truly be able to sign an Interregional agreement with the EU under the new requirements of an international market which increasingly tends towards globalization.

Keywords: European Union; Mercosur; dialogue; free trade; perspective; negotiation

1492 - The discovery of the New World by Christopher Columbus- meant for the native civilizations the first contact with the values imposed by the old continent, Europe. The Spanish colonization was impregnated by the constant refusal of the natives to accept the values imposed by the conquerors.

If today the UE is the model for a large number of countries, in the past the economical and spiritual European values, were strongly rejected by those who saw their own traditions threatened. One of the last Aztecs kings – Cuahtemoc, when invited to be baptized in order to enter the Christian Kingdom of Heaven asked what Paradise was. The Spanish royal investigator replied that the Paradise is the place where priests and Christian scholars and all those who follow European laws get to. Then Cuahtemoc replied, "Better kill me because I do not want to get into Paradise" (*Padre yo no quiero ir al Paraiso*).

After 500 years, the mentality has changed in Latin America, the successful model U.E. being the basis of all the Andean regional treaties and agreements; Mercosur becoming the most palmy initiative in the area.

Despite the vanities provided by the policy and national pride, Mercosur has managed to bring together the regional economical powers, Argentina and Brazil who have formed an alliance with Uruguay, Paraguay and Venezuela.

Another goal of this organization is to bring the area through a metamorphosis, from a battleground into a peace territory.

In 1960 the cooperation process between the South America countries was characterized by national strategies to foster the national industries, safeguarded by the intense exports from the developed countries. This strategy was called by some authors *defensive regionalism*, as oposed to *open regionalism* or the offensive one, promoted by CEPAR (Economic Commission for Latin America and the Caribbeans).

The first is characterized by closeness and defensive measures, while the second has promotion of the international relations as the main feature. In addition, the 1990 has brought the reorganization of old alliances (The Andean Pact, which became the Andean Community-CAN) and the emergence of new treaties, like – MERCOSUR. New ideas appeared in the economical policy aimed at the increase of the economical integration, the emergence of new political and economic elites identified with neoliberalism.

This original policy of alliances between Member States and between national and transnational firms, was called *strategic regionalism*.

The disappearance of the Cold War threat led to an opening of North American government to negotiate the foreign debt of Latin American countries. U.S. tried to put 34 countries from South America under his influence, except Cuba, convening the first Summit of the Americas in Miami. Here it was decided to create the first free trade areas in the Americas (ALCA). Integrating these countries into the world economy was, at least theoretically, the goal of these meetings.

National economies, in a full process of globalization, should leave the place in favor of new economical systems which are in direct competition to obtain the worldwide market.

All this prerequisites have been created in order to facilitate the emergence of Mercosur.

Defining Features of Mercosur

The Common Market of the South or Mercosur (in Spanish Mercado Comun del Sur, in Portuguese Mercado Comun do Sul, Mercosul), is a commercial block that has as goals: promotion of free exchange of products, people and capital between the countries members, as well as the development of a better integration and trial between partners and associates.

The first members states were: Argentina, Brazil, Uruguay, Paraguay; Venezuela signed the joining in 17 June 2006. Bolivia, Chile, Ecuador, Peru have associate estate. Member States consider on November 30, 1985 (when they signed the Declaration of Foz Iguazu) the moment of Mercosur appearance.

However name appeared on March 26, 1991 on the Declaration of Asuncion, and legal existence in terms of international law was decided in the Ouro Preto Protocol, signed on December 16, 1994 (but came into force on December 15, 1995).

In a very short time, Mercosur has earned an International reputation because of the economical potential. With an area three times larger than Europe (approximately 13 million square kilometers) and a GDP of 938,000 million euro (U.S. \$ 1000 billion),

Mercosur is the third part of Latin American trade. (*Mellado, N., 2006*). Over 250 million people speak two official languages, Spanish and Portuguese. Mercosur today is one of the major poles of attraction in investments.

Until the emergence of the international economic crisis, Mercosur was one of the major poles of attraction of investments worldwide, because it is, even in these conditions, the fourth economic power after NAFTA, EU and South East Asia.

Andean organization has the largest reserves of natural resources in the world; energy resources, especially mineral and hydroelectric resources, are among the most important on Earth. The networks communications are advanced and undergoing a continuous process of renovation. Over two million km of highways are connecting major cities, and air transport is supported by over 6,000 airports.

Until the economic crisis, we could be said that Mercosur is one of the most important industries and one of the most dynamic economies in the world, being a major participant in global trade. Commercial integration promoted by Mercosur, is proposing to achieve objectives in other areas, such as education, justice, culture, transport, energy, agriculture, environmental protection. Several agreements have been signed in this regard, starting from the recognition of university diplomas and to establish mutual assistance in criminal matters and create a "cultural brand" regional.

Ouro Preto Protocol established a common external tariff, and since 1999 there is a tariff-free zone, except sugar and car sector. Customs Union is in process of realization. Mercosur is also the largest producer of food in the world.

The table below summarizes the structure and main features of the MERCOSUR.

Table 1: Structure of MERCOSUR

Official Name	Mercado Comun del Sur (Spanish) Mercado Comum do Sul (Portuguese)
States	Argentina Brazil Uruguay Paraguay Venezuela
Associate States	Bolivia Chile Colombia Ecuador Peru
State observer	Mexico
Headquarters	Montevideo, Uruguay
Area	13 million km ²
Population (2007)	263.4 million people
GDP Total (2007)	\$ 2, 770,723 million
per capita	\$ 10,535
Formation	Asuncion Treaty
Date	March 26, 1991

Cooperation Agreements between **MERCOSUR and European Union**

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We are now at 15 years after signing the first agreement between EU and Mercosur and 8 years after initiating negotiations for reaching an inter-regional association agreement to establish a free trade area. Negotiations were not linear, but have had many obstacles, and now, in 2010, it seems to be increasingly fewer opportunities to achieve inter-regional agreement.

The first approach EU - Mercosur, held on May 29, 1992 was realised by an Interinstitutional Agreement, which aimed to achieve a technical basis for a future treaty.

On December 15, 1995, this dialogue allowed the signing of an Agreement for Policy coordination, Economic association and Cooperation between the EU and Mercosur (*Acuerdo de Coordinación Política, Asociación Económica y Cooperación entre la UE y el MS*), also known as the *Interregional Cooperation Agreement*. This document, in 37 articles, is valid for an indefinite period of time and the parties are free to set their own conditions for future negotiation. What **some** officials in Brussels and Montevideo would like is a liberalization of trade in goods and services required under OMC rules.

On September 25, 2002, the European Commission adopted the Regional Strategy for Mercosur, which was proposed in supporting the Andean organization in its full.

The EU also offered to assist community development of central institutions, in the harmonization of laws, macroeconomic policy and adoption of technical standards in order to achieve efficient customs. European officials have emphasized from the outset, that they do not seek to impose new models in South America, but claim only the achievement of a constructive bioregionalism. As a *sine qua non* status, Europe believes that Mercosur should become a *unique player* with a well defined profile, with its own personality on the international scene. (Cienfuegos, 2007)

On the 26th of May 2005, Luxembourg Ministerial Declaration, stressed the need to achieve a strategic alliance in economic, political and strategic cooperation. Also, it was mentioned the need to build inter-regional integration that underpin a free trade.

On May 13, 2006, the summit in Vienna concluded that an *ambitious and fair* agreement with Mercosur had to be signed. The said agreement should be balanced in all areas of negotiation, also being wished to represent *the only way to create a safe, stable, fair environment for this mutual activity to be on going over an unlimited period*. With mild irony, is apparent that just as in previous negotiations, was stated that significant progress has been made and that discussions were held in a positive and flexible atmosphere, but nevertheless there are still many things to do. (Cienfuegos, 2007)

EU enlargement process in 2004 and 2007 led naturally to changes in the balance of economic exchanges with Latin America. This expansion led to the interruption, until this year, of negotiations between the two blocs.

Problems showed up in the primary sector (agriculture, livestock, fisheries and forestry), as Community's agricultural policy is protective of European productivity. Allowing new members brought new obstacles and barriers to accepting of Mercosur products, particularly meat and fruit.

On May 7, 2010, after a long enough break, negotiations restarted between Europe and Mercosur, which mainly focused on the same items: establishing a free trade agreement and lowering barriers up to 95% tax for the next 10 years.

It should be noted that there is a strong opposition from the European countries, which believe that once signed, the agreement would affect the primary sector of the European economy due to the unfair competition with South-American products. This was the reason for which negotiations had been suspended earlier.

Currently, there is a group of 10 European countries (France, Ireland, Poland and Romania), which due to high agricultural potential, are against signing of an agreement with the Andean bloc.

French Unions exercised a strong pressure upon Nicholas Sarkozy's government to cease the negotiations. The Argentinian President Cristina Fernandez, whose country now holds the presidency of Mercosur, said she wants a true association agreement, as partners, not a Client.

Economic Highlights EU – Mercosur

EU is the largest buyer of agricultural products from Mercosur, absorbing 39% of its exports. Those exports are particularly soy products, coffee, meat and milk. In turn, the EU exports to MS airplanes, chemicals, petrochemicals, textiles, information services, and telephone communications. For example, major European companies are to be found in MS countries: Repsol-14 000 million, Telefonica- \$ 2,000,000,000, Volkswagen-\$ 1,500 billion \$, Portugal Telecom- 1.4 billion U.S. dollars, Fiat- 1,000,000,000, Daimler-Benz -1,000,000,000, Bilbao Vizcaya Bank - 456 million etc.

It should be noted that the EU is Mercosur's main trading partner. This is less important for the EU as imports from Mercosur reach 3% of EU trade, and exports 12.5%.

This asymmetry clearly shows the differences between an organization developed into a highly industrialized environment and a developing one.

Mercosur is trying to obtain from the EU to reduce its subsidies to European agriculture, the EU demanding instead greater openness to trade its industrial and taxation system.

It should also be noted that all negotiations under the unique compromise package deal - that any agreement can be achieved only when the parties agree 100%.

The EU is also the leading provider of financial aid for MS. Until the emergence of global crisis the financing has reached 250 million Euros. The aid to Argentina has reached 65, 7 million, 64 million to Brazil, Paraguay- 51.7 million and 18.6 million went to Uruguay. EU directed 48 million to the organization dedicated to institutions', domestic market and civil society development.

In **Conclusion**, we can say that the emergence of Mercosur is part of a broader process of open regionalism. Member States saw this integration as the best way to increase economic development in the Andean region and the assessment of international capital market.

European strategy for MS over the next three years, aimed at supporting the organization to achieve a common market and develop its own model of integration. (Mellado, 2006)

No doubt MS has to advance in terms of its community nature (supranational)

When MS achieves its own identity (not only the legal personality that it was self assumed through Article 34 of the Protocol of Ouro Preto), it will truly be able to sign an Interregional agreement with

the EU under the new requirements of an international market which increasingly tends towards globalization.

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