

THE EU-MERCOSUR TRADE AGREEMENT, WILL IT EVER REACH A GREEN END?

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Content

Introduction 3

Brazil, the “natural spearhead” in the Mercosur 5

Towards a potential EU-Mercosur sustainable agreement?..... 6

The EU-Mercosur agreement in contrast with the EU Green-deal 8

China’s interest in the Amazon Forest, and the potential rivalry with the EU 10

Conclusion 11

Recommendations 14

Introduction

The current geopolitical scenario due to the war in Ukraine has marked a strong division between West and East, by overturning the equilibrium of the global supply chains, specifically related to basic raw materials, such as grain, and fundamental energy sources. The interruption of imports of energy resources from Russia, and the reduction of trade in foodstuff from Ukraine constitute for most of the EU countries, in particular for Germany and Italy, a harmful threat to their energy and food supply, which force them to reconsider new partnerships for the diversification of their supply chains. According to Eurostat, the EU before the war imported 90% of its total sunflower oil from Ukraine, 39% of its maize demand, and 10% of wood, a bit lower comparing to its 25% wood trade with Russia.¹

Moreover, due to their geographic proximity, pipeline connections and commodities, Russia but also Ukraine were for the EU two of its most important and strategic trade partners. However, the gas embargo, together with the various sanction packages approved by the Commission towards Russia, and the difficulties of trading with Ukraine caused by the war, other international partners started to become essential for satisfying the European consumers demand and guaranteeing a high level of food security in Europe. The role of third countries for the supply of their natural resources turned to be essential for most of the member state.

One of them is undoubtedly Brazil, which is part of the economic alliance and customs union of Mercosur, and whose territory is characterized by one of the

¹ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Ukraine-EU-_international_trade_of_main_product_groups#Latest_Developments

most important biodiversity ecosystems in the entire planet, the Amazon Rainforest.

Amazonia extends over seven Brazilian states and covers the majority of its north-western national territory. The Amazon Forest is essential for the worldwide oxygen production and for its intake of CO₂, produced by its 40,000 species of plants and trees, which, together with 2.5million species of insects and at least 2,000 species of mammals and birds, constitute the most important biodiversity system on the planet.² The quantity and quality of the natural resources coming from the Amazon is enormous. Nonetheless, in the last century it has become the main target of international and national companies which contribute to its deforestation and to the depletion of its resources. Most of its territories were destroyed and occupied by different types of food crops and exotic trees, groves, and cattle farms. Nonetheless, also illegal gold mining is widely practiced, which through the use of mercury pollutes not only the soil, but also the rivers which cross the forest, and are considered as an important water supply for the local indigenous communities.³ The Amazon rainforest exploitation reached its peak in 2019 when Brazil lost, since 1985, 47 Million hectares of its vegetation in Amazonia.⁴

Moreover, it's important to mention that the Amazon represents for Brazil its most important economic resources, since the majority of the Brazilian commodities exported worldwide, such as sugarcane, soybean, coffee, beef and maize come from the Forest. Therefore, the latter constitutes the driving force for both private and public stakeholders, which intensively develop their own businesses, and promote their own interests in the region. As previously mentioned, the disruption

² European Parliament in depth analysis on Brazil and the Amazon Rainforest: [Brazil and the Amazon Rainforest - European Parliament](https://www.europarl.europa.eu/etudes/IDAN/Brazil_and_the_Amazon_Rainforest)<https://www.europarl.europa.eu/etudes/IDAN>

³ <https://www.nature.com/articles/d41586-021-02644-x>

⁴ [Brazil and the Amazon Rainforest - European Parliament](https://www.europarl.europa.eu/etudes/IDAN/Brazil_and_the_Amazon_Rainforest)<https://www.europarl.europa.eu/etudes/IDAN>

of the food and energy supply chain caused by the war in Ukraine forced the EU to change direction, by reconsidering and strengthening its international trade partnerships. Therefore, since 2022 the European Union has intensified its trade with Brazil in order to provide some of the most essential raw materials previously imported by Russia and Ukraine. Thus, it is very important to apply a sustainable trade mechanism with third countries, and especially with Brazil since most of the raw materials might be sourced by illegal or harmful activity in the Amazon Forest.

Brazil, the “natural spearhead” in the Mercosur

Brazil, with its 8.516.00 KM², it's the largest country and economy of Latin America, and its trade with the European Union constituted more than a quarter of the total trade

with South America in the last years, which makes it the eleventh biggest commercial partner of the EU.⁵ On the other hand, for Brazil the EU represents only the second most important trading partner, after China, whose economic relationship was strengthened in 2010 thanks to the BRICS agreement, which formally allowed Beijing to have a privileged channel for the import of raw materials from the Amazon to the Mainland.

Nonetheless, also European countries import products from Brazil, such as mineral products, which make up the 20% of the annual total trade from Brazil, followed by soy, tobacco, and vegetable products.⁶ In sum, it makes Brazil the most important exporter of agricultural goods for the EU.

⁵ https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/brazil_en

⁶ Trade data taken from the European Commission official website: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/brazil_en

The intense trade relationship brought the EU and Mercosur, the Common Market group in Latin America, created by Brazil, Argentina, Paraguay, and Uruguay, to bargain a new free trade agreement which however still needs to be concluded. The talks, indeed, started in 1999, but a final deal was never reached due to different internal opponents in both blocks, such as the EU beef producers and the small European companies and farmers, whose agreement would expose them to a higher level of competition with the South American companies.

Towards a potential EU-Mercosur sustainable agreement?

In 2019, after more than 20 years of negotiations, the EU and Mercosur countries reached the first step for concluding their mutual trade deal, by signing the first agreement in principle. According to the Commission,⁷ the deal will be beneficial for both economies because it will:

- Remove trade barriers in order to facilitate the sale of goods in both of the regions.
- Create a momentum for shaping a new global trend of trade rules, which reflects the EU standards.
- Support both European and Latin American industries in their developments, to remain competitive on the international market.
- Promote important values through new trade policy which will increase the level of environmental and labor sustainability.

Therefore, it will not only increase and facilitate the imports of Latin American goods to the EU, but it will also reduce the export costs for European industry on those foreign markets, and the European goods will not be subjected to long

⁷https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/mercosur/eu-mercosur-agreement_en

internal standard controls. However, despite the economic advantages that both actors might reach through the EU-Mercosur deal, several concerns were raised on the potential human rights violations of the indigenous communities, and environmental damages, considering that it does not include any article related to either of these issues.

However, in 2019, when the agreement in principle was signed between the two parties at the G20 in Osaka, only one out of the three impact assessments that the Commission had to present was fulfilled.⁸

It's important to clarify that at European level, trade policy and agreements have to be decided and analyzed under the Sustainable Impact Assessments (SIA), a trade-specific tool used by the Commission to examine the possible consequences that a regulation might have at sustainable level, and to preserve fundamental rights and high eco-friendly standards, by ensuring transparency and participation of the competent stakeholders.⁹ Although the last SIA on the potential economic, social, environmental and human rights consequences was published only one year after the agreement in principle, it did not alleviate concerns on deforestation and the land exploitation of its indigenous inhabitants due to the production and farming of the exported products.

A study ordered by the French prime minister in 2019¹⁰ highlighted these weaknesses, and the controversy of the EU-Mercosur agreement did not abate as it laid bare the huge consequences that these latter will have on climate and deforestation in Amazonia. The French study mostly underlined how the text of the deal officially declares its engagement to the Paris Agreement, but at the same

⁸<https://www.clientearth.org/media/s2dh2elt/clientearth-eu-mercoshur-agreement-governance-issues-in-eu-s-trade-decision-making.pdf>

⁹https://policy.trade.ec.europa.eu/analysis-and-assessment/sustainability-impact-assessments_en

¹⁰ https://www.tse-fr.eu/sites/default/files/TSE/documents/rapport_complet.pdf

time it does not specify any concrete measure for implementing the climate obligations inside the trade clauses.

Moreover, even with the signing of a principle agreement, the EU-Mercosur trade deal will still have to wait some time before its approval, considering that it will need to be ratified by the national parliaments of the 27 member states and the 4 four countries of Mercosur.

Nonetheless, also inside the European Parliament some political groups expressed their concern and disapproval towards the Agreement. The Greens/EFA, for instance, published a report¹¹ which analyzes the various weaknesses inside the trade agreement, such as the lack of democratic control during the negotiation process, by including only officially European and Latin American trade unions, but without ever really considering them. The report also shows the negative impact that the deal will have on the Mercosur countries, not only for the textile, mechanic, car, and chemical industries, but also for small businesses, which will have to compete with advanced EU multinationals. The deal will be also responsible for affecting the equilibrium of the regional value chains between the Mercosur countries. Moreover, the homogenization of the EU to the Mercosur standards will decrease European level controls also related to working conditions, and increase deforestation, due to the lack of concrete environmental measures.

The EU-Mercosur agreement in contrast with the EU Green-deal

The von der Leyen administration in 2019 presented the EU Green Deal, a set of guidelines fundamental to transform the European Union into a sustainable and circular economy, by becoming the first climate-neutral continent worldwide by

¹¹<https://www.annacavazzini.eu/wp-content/uploads/2020/01/Study-on-the-EU-Mercosur-agreement-09.01.2020-1.pdf>

2050. Among the policy areas of the EU green deal there's the new 2030 Biodiversity Strategy¹², whose aim is to preserve nature and combat the degradation of its ecosystem, by creating EU-wide systems to protect the various natural environments. The EU has the objective to act as a guarantor for the safeguard of global biodiversity, by complying with the Kunming-Montreal Global Biodiversity Framework, a set of international policies and targets launched at COP15, with the objective of preserving and restoring the 30% of the marine and terrestrial ecosystems and environments around the world. Another important proposal made by the Commission inside the EU Green Deal is the regulation to curb EU-driven deforestation and forest degradation.¹³ Therefore, considering the high demand of EU consumers for several goods, such as meat, soy, cocoa, coffee, whose supply chain is connected with deforestation, the Commission has the aim to decrease the risk of negative environmental impact in third countries due to the import of raw materials to Europe. In particular, the proposal includes¹⁴ a set of trade controls, which will assure the sustainability of the product, and a forest partnership with foreign countries, with the objective of guaranteeing a sustainable forest management, while respecting fundamental human rights principles. On December 2022, the European Parliament finally approved the EU regulation on free deforestation supply chain, with a new package of diligence rules for companies that import to the EU specific products such as palm oil, cattle, soy, coffee, cocoa, and timber, which will have to prove the sustainability of their products, by providing specific information regarding their geographical origins.

¹² https://environment.ec.europa.eu/strategy/biodiversity-strategy-2030_en

¹³ https://environment.ec.europa.eu/publications/proposal-regulation-deforestation-free-products_en

¹⁴ https://environment.ec.europa.eu/system/files/2021-11/COM_2021_706_1_EN_ACT_part1_v6.pdf

Thus, the ambitions of the EU to become the first international leader to tackle climate change and preserve the biodiversity of the planet, thanks to its environmental policies, seem to be in contrast with the EU-Mercosur principle agreement signed in 2019, the same year when also the Commission presented the EU Green Deal. In practice, the trade agreement was controversial and disconnected from the values and principles that the von der Leyen Commission pledged to respect and represent.

China's interest in the Amazon Forest, and the potential rivalry with the EU

The exponential growth of China's economic presence in Latin America in the last decade, notably in the Amazon rainforest region of Brazil, drew the attention of several international actors, such as the EU, which started to question the role of Beijing and its possible implications in the region. Due to several foreign direct investments (FDI), which Chinese multinationals have allocated in South America, nowadays Beijing represents the biggest trading partner for all the Latin American countries by displacing Europe at the second place behind the United States. China, indeed, is one of the first political and economic partners of Brazil, and their close relationship was formalized thanks to the BRICS agreement signed in 2009, which also included India, and South Africa. China, similar to the EU, imports from the Amazon raw materials such as soybeans, coffee, cocoa, ore, iron, beef, and timber¹⁵. Therefore, since both actors import to their countries the same commodities from the Amazon, there's a high probability that they are competing for the same commodities supply. Nevertheless, the massive Chinese presence in the Forest can be perceived also through its logistical investments in roads and railways, such as the BR-163, one of the longest Brazilian highways which crosses

¹⁵ [Uruguay, China and South America's Most Talked-About ...https://www.wilsoncenter.org/ur...](https://www.wilsoncenter.org/ur...)

the Amazon by connecting the state of Rio Grande do Sol with Pará. These huge logistical projects were made to transport the raw materials from the Amazon to the Mainland more rapidly, and at a lower cost.

However, the massive presence of Beijing in Amazonia is a clear indicator of Beijing's interest in projecting its power over Latin America. Another important strategic move made by China in the region was to start the negotiations of a free trade agreement with Uruguay, one of the members of Mercosur. China represents Uruguay's most important commercial partner since the majority of the commodities produced in the country are exported to the Mainland. This individual approach adopted by Uruguay provoked dissent and turmoil inside the heterogeneous customs union of Mercosur, which, according to its charter, decides and negotiates unanimously trade agreements with third parties. However, the president of Uruguay, Lacalle Pou, through an explicit declaration of intention to pursue an FTA with Beijing, expressed the need for his country to open its market, and China is undoubtedly the most strategic economic partner for Montevideo.

Nevertheless, Beijing's ambition has always been to negotiate an FTA with the entire Mercosur bloc, which instead was consistently blocked by some of its members, such as Argentina and Paraguay, one of the few Latin American countries to recognize and have diplomatic relations with Taiwan. Therefore, it's clear how both China and the EU have very similar economic interests in the region, and they have the power to decide if their relationship in the region will turn into a cooperation or a rivalry for the access of the raw materials.

Conclusion

The sudden change of the international geopolitical order, due to the war in Ukraine, led most of the EU countries to diversify their supply chain by creating and strengthening new partnerships with third parties. This strategic move was

essential to substitute the raw materials coming from Russia and Ukraine, such as oil and grain, which, due to the war and the naval blockade imposed by the Kremlin, became difficult to export worldwide.

To maintain high levels of food and energy security the EU is now focusing on other prosperous countries, such as Brazil, Argentina, Paraguay and Uruguay, that jointly formed the regional customs union of Mercosur. Although the Commission has been negotiating for more than twenty years the biggest free trade agreement in history with Mercosur, in 2019 the two parties finally reached a potential agreement, which was sharply criticized for the lack of safe environment and human rights measures to tackle deforestation, protect the indigenous lands in the Amazon rainforest, and preserve the small businesses from the market expansion with the EU. After more than four years, other proposals to reinforce the agreement were presented, but the two parties still need to find a final agreement which will satisfy both, by preserving at the same time their economies, their consumers, and the environment.

However, the European Union had to react not only to the criticism from different stakeholders due that the sustainable impact assessment was not presented by the Commission before the signing of the agreement in principle, but also to the rise of the Chinese presence in the region. The intensification of Chinese companies and infrastructure projects were also supported by the former president Bolsonaro, who during his administration incentivized anti-environmental policies against the Amazonia territories for the creation of new plantations, farms, roads, and dams¹⁶.

16 <https://www.science.org/doi/full/10.1126/science.abb6327>

However, the victory of the left-wing president Luiz Inácio Lula da Silva in the last presidential elections run in 2022 was seen as a good signal by the EU, which considered Lula a close and strategic ally, capable of accelerating the end of the negotiations for the FDA between EU and Mercosur.

From the beginning Lula set his political agenda oriented to combat global warming, by preserving the Amazon forests, and the rights of its indigenous inhabitants. His presence at the COP27 was the confirmation of his engagement in fighting pollution and climate change. Therefore, the lack of concrete policies for environmental and human rights protection inside the EU-Mercosur trade agreement must be implemented if the EU wants to convince Brazil to sign the agreement, considering Lula's duties and clear engagement towards his electors to fight against deforestation and the destruction of the Brazilian indigenous lands.

Moreover, another challenge that the EU must deal with in Latin America, is the intensive presence of Beijing, which through FDA and construction projects is also contributing to the deforestation of Amazonia. Moreover, China seems to have the same interests and needs as the EU inside the region; indeed, Beijing fulfills its own domestic demands thanks to the raw materials coming from the Amazon rainforest.

Nonetheless, although Lula expressed his intentions to conclude as soon as possible the EU-Mercosur trade agreement, at the same he is also open to start negotiating a new possible FTA with China, as he said during his visit to Uruguay in January 2023.¹⁷

¹⁷ <https://www.reuters.com/world/americas/brazils-lula-eyes-trade-deal-between-mercotur-china-2023-01-25/>

Hence, if the EU intends to adopt a fair and sustainable conduct for the use of the raw materials in Latin America, especially in the Amazon Forest, it needs to normalize its relationship with other superpowers present in the region, such as China, to ensure the correct usage of the natural resources, and prevent their depletion. However, the question is if the two actors will be able to put aside their rivalries to safeguard Amazonia and their food security.

Recommendations

- New environmental and human rights protection measures, such as the new regulation on the free deforestation supply chain, must be implemented in the agreement, to guarantee a fair deal for both parties.
- The EU-Mercosur agreement must include concrete hard law acts to ensure the respect of environmental clauses in accordance with the Paris climate agreements.
- The bilateral negotiations with each Mercosur country must be intensified, without the intention of signing separate bilateral agreements, but with the aim of accelerating the bargaining for reaching a joint agreement with all the blocs.
- The EU must start to normalize its relationship with China in the Amazon forest, to prevent deforestation and depletion of its raw materials, which are essential to ensure high food security in both countries.

The next Spanish presidency to the Council of the EU must be used as a momentum for finalizing the agreement, considering the close historical and cultural ties between most of the Mercosur countries.