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EU-Mercosur: An Opportunity for a Fair Partnership?

Article by Raluca Besliu
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As the European elections draw nearer, the chances of ratifying the EU-Mercosur trade agreement are dwindling. The deal faces strong opposition from within the EU on deforestation and unfair competition. Meanwhile, Brazil has criticised the EU's handling of negotiations and accused it of protectionism. Instead of throwing the baby out with the bathwater, argues Raluca Besliu, the agreement should be renegotiated to create a truly reciprocal partnership able to tackle critical global issues fairly.

Agreed in principle in 2019 after almost two decades of negotiations, the trade agreement between the EU and the Mercosur group – the full members of which are Argentina, Brazil, Paraguay, and Uruguay – seeks to establish one of the world's largest free trade areas, encompassing nearly 750 million people and about one fifth of the global economy. Almost five years on, however, the agreement remains unratified, with the most recent meeting between EU and Mercosur trade negotiators, organised to expedite the process, delivering only "limited progress."

A major obstacle to the ratification of the deal on the EU side is concern surrounding its potential environmental and climate impacts. Chief among these is the likelihood of increased deforestation in the Amazon driven by a projected 30- to 64-per cent rise in EU demand for beef from Mercosur countries if the deal is signed. The Amazon rainforest, a vital carbon sink and bulwark against climate change, stands precariously close to a tipping point, at which it could begin to transition from tropical forest to dry savannah. This would not only spell significant biodiversity loss but would have serious climate impacts.

Another source of opposition to the trade deal is the expected disruption that increased agricultural imports from South America could cause to European farmers, who are already struggling to make ends meet.

The EU's concern about the destruction of the Amazon rainforest and the pressure on Europe's agricultural sector is justified. But scrapping the deal entirely would be a misguided response, squandering two decades of painstaking negotiations. Ongoing discussions, despite persistent challenges, underscore Mercosur countries' commitment to finding solutions.

At the same time, an overly Eurocentric approach to the trade deal, where Europe dictates the terms, also risks backfiring, fuelling Brazilian President Luiz Inácio Lula da Silva's criticism of the EU's "green neocolonialism".

"Nature needs money"

In 2023, the first year of Lula's third presidential term, deforestation in the Brazilian Amazon decreased by 50 per cent compared to the previous year. This was only possible because he reestablished the Amazon Fund (frozen during the rule of Jair Bolsonaro) on his first day in office and signed executive orders to rebuild the country's environmental policy. He also introduced a new Amazon Security and Sovereignty Plan to combat land grabbing and illegal mining.

Despite such progress, Lula is still far from achieving key electoral promises, such as reducingAmazon deforestation to zero and safeguarding Indigenous rights. The Belém Declaration, signed at the 2023 Amazon Summit by eight leaders of Amazon nations, faced criticism from environmentalists and Indigenous communities for lacking zero-deforestation targets and failing to oppose fossil fuel exploration. And in a controversial move, Lula approved oil exploration permits for Brazil's Petrobras in an offshore field near the mouth of the Amazon in September 2023.

Nevertheless, Lula's accomplishment of reducing deforestation by 50 per cent is still remarkable – particularly considering the low level of financial support received from the EU and other partners. The EU currently contributes only 260 million euros of an estimated minimum of 4.5 billion euros needed annually to protect the Amazon. The rest falls, to a large extent, on Brazil itself – an unfair proposition for a developing country that is still striving to meet its population's basic needs, including transport, water, and energy infrastructures.

Lula has emphasised the importance of historical responsibility, stating that developed countries need to "pay their part so we can revive part of what was ruined. Nature needs money." If the EU were truly concerned about the deforestation of the Amazon, it would provide Brazil with these much-needed funds.

Instead, it is aiming to offload the costs of upholding its own norms onto others and using clumsy diplomacy to ensure compliance. When, in early 2023, the EU sent the Mercosur countries a series of pre-ratification requirements to comply with the Paris Agreement, protect biodiversity, and uphold labour standards, Lula criticised the EU for adopting a stance unbecoming of a partnership of equals. "Two strategic partners do not discuss threats. We discuss proposals," he stated.

Selective approach

A further criticism levelled at the EU by the Brazilian president is that its environmental concerns might be a smokescreen for protectionist measures. This critique, voiced during the 2023 Amazon Summit, was in response to France's opposition to the trade agreement on the grounds that it could inundate the EU market with cheaper South American products.

EU leaders' concern for the interests of European farmers arises from the recognition that agricultural workers, though a relatively small constituency, are very vocal and wield significant influence. They have played a pivotal role in recent elections, including in the Netherlands in 2023, and may well have a significant impact on the results of the upcoming European Parliament elections. Over the years, farmers in multiple EU countries, including France and Ireland, have protested the Mercosur deal, decrying the negative impact it would have on their livelihoods. In response to the ongoing wave of farmers' protests, France's Macron promised that he would oppose the deal in its current form.

Lula's stance on European environmental concerns is bolstered by the latter's seemingly selective approach. As the Union aims for climate neutrality by 2050, meeting its goals will require around ten times the current supply of rare earths. The Amazon, home to a sizeable portion of global rare earth reserves including niobium, faces the threat of large-scale mining operations. Mining for niobium in the Rio Negro River basin, for example, where significant reserves have been found, would cause large-scale deforestation, threaten fragile ecosystems, and impact the lives and territories of 23 Indigenous groups. Yet compared to the risks of increased beef production, the implications of scaling-up resource exploitation in the Amazon has received rather less attention within the EU.

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While mining-related deforestation clearly needs to be moved up the agenda, it can only be effectively addressed by recalibrating European demand for primary raw materials. A shift in this direction is already taking place at the EU level, where there is a growing emphasis on the exploration of alternatives to traditional economic growth. In May 2023, the European Parliament hosted a "Beyond Growth" conference to discuss policies that "combine social well-being and viable economic development with the respect of planetary boundaries". The conference was attended by top EU officials, including Commission president Ursula von der Leyen and European Parliament president Roberta Metsola, signalling growing awareness within the EU of the need for a post-growth future.

China on the horizon

While the EU and the Mercosur countries wrangle over the ratification of their agreement, China is not standing idly by. Already a strong presence in South America as a primary destination for Mercosur exports and having committed a substantial 250 billion euros to the region (significantly surpassing the amount pledged by the EU through the Global Gateway strategy), Beijing is actively promoting free trade deals with both Mercosur as a bloc and its individual member nations.

Trade relations between Brazil and China are already close. China has been Brazil's largest trading partner since 2009, and Brazil is also one of the leading recipients of Chinese foreign investments and loans. A notable development occurred in March 2023, when the two nations signed an agreement enabling mutual trade and investment in local currencies, sidestepping the US dollar as an intermediary. With regard to free trade with China, Brazilian president Lula recently spoke out in support of a Mercosur-China agreement, favouring this option over bilateral deals that he fears could undermine Mercosur. Similarly, Uruguay's president Luis Lacalle Pou, expressing scepticism about the EU deal, has emphasised his eagerness to explore a broader Mercosur-China agreement. Unlike Lula, he is also keen to negotiate a bilateral free trade agreement with China.

Argentina, once aligned with China and engaged in a significant currency swap agreement, underwent a shift when Javier Milei assumed the presidency in late 2023. Milei, a far-right populist, campaigned on breaking ties with China and reorientating the country towards the West. Following Milei's ascent to power, China froze the currency swap. Despite Milei's pro-Western inclinations, his presidency raises concerns for the EU-Mercosur deal, as he has threatened to leave the bloc and dismissed climate change as a "socialist hoax". Given Milei's unpredictable approach, future reconciliation with China should not be ruled out.

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The environmental and climate implications of a Mercosur-China free trade agreement would be far greater than those of an EU deal with the bloc. If the EU withdraws, the Amazon's depletion won't stop; with China in the mix, it only stands to significantly intensify. When it comes to deforesting the Amazon for beef production, for instance, the EU's consumption is undoubtedly an important contributor. Yet it is China's colossal appetite for beef that looms as a greater threat.

While the EU currently receives 27 per cent of Brazil's total exports, constituting 80 per cent of the EU's total beef imports, China claims 50 per cent of the total volume exported. And its beef imports are predicted to increase further – by 6 per cent each year until 2029. China has remained the largest beef importer in the world since 2019, importing 43 per cent more than the next biggest importer, Japan. China has already shown no scruples about Amazon deforestation in relation to beef production. Of the 22 new Brazilian slaughterhouses it has licensed for export since 2019, 14 of them are in the Amazon region.

Rethinking the EU-Mercosur deal

While the EU-Mercosur trade deal currently leaves much to be desired, rejecting it out of hand would run the risk of opening the door even wider for China, with its less stringent environmental and labour standards. Exiting the negotiations also risks creating a rift with Mercosur that could prevent the EU from having any influence on critical issues in the region that relate to its own climate objectives, such as the deforestation of the Amazon and mining policies.

The fate of the Mercosur trade deal will not only shape the contours of EU-South America relations but will also set the tone for a series of other trade agreements that the EU is negotiating with emerging global players, such as India. Trade deal negotiations with New Delhi were relaunched in 2022 after stalling for ten years.

Failure to finalise an agreement with Mercosur after two decades of negotiation would send important signals to these potential trade partners. It risks portraying the EU as a demanding, unreliable, and rigid trading partner, potentially driving these countries to form alliances elsewhere. Such an outcome could severely tarnish the EU's reputation and influence in the global arena.

Recognising an imperfect deal as a starting point, the EU should remain engaged in discussions and be open to compromise with Mercosur countries. The EU must consider the members of the bloc as equal and respected partners with their own valid concerns, demands, and aspirations.

Climate diplomacy, including financial support, could complement the trade relations foreseen in the agreement. It already plays a crucial role in the EU's relations with Mercosur and Latin American countries more broadly. The EU's climate policy in the region is focused on several areas, including the green transition and reaching net zero emissions by 2050, enhancing climate resilience, and addressing deforestation.

For a truly reciprocal partnership with Mercosur, the deal must also transcend the exploitative mentality of a one-way exchange of primary goods from Mercosur for finished products from the EU, such as cars and electrical machinery, and prevent dependency on the EU market. By facilitating the transfer of green and digital technologies and encouraging technology production within these partner nations, the EU can contribute to a more balanced and sustainable economic relationship. This recalibration would also send a powerful message to other countries negotiating agreements with the EU.

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