Mercosul and its institutional projects

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1. Reasons for economic and political integration in South America

As it is common to point out when speaking about blocks of economic-political integration, the international economy is currently geared toward commercial trading that is not only between nations, but also involving groups of nations.

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This was an act which became necessary for nations that had previously been isolated, for numerous reasons, and the case of South America was no different.

First, we can point out that block-negotiation (by a group of States) allows the then-joined states to resist the influence of other blocks or powerful states (European Union or the US). Affirming one’s interests in the international circuit through a collective and organized effort tends to increase the bargaining leverage of joined States.

Forming economic blocks also helps optimize the respective economies of each of the involved States. In this case, upon entering into association with a broader entity, States have a guarantee that their own industries will experience a boost in the market, which allows for an absolute increase in earnings and brings about an increase in size, something less accessible to smaller consumer-groups.

This isn’t the only effect produced. Competition leads to the establishment of specialized products and the favoring of more profitable technological solutions, eliminating waste. Seeking out technological advances becomes the norm.
On the other hand, the integration process requires that certain measures be adopted which may be regarded as infrastructure, since the material and legal circulation of goods, persons and capital (in addition to free market and free competition) depends on physically and legally unhindered pathways. The implementation of both physical infrastructure (ports, airports, highways, railroads, etc.) and legal infrastructure (legislative standardization, establishment of supranational courts, etc.) produces an undeniable synergistic effect toward development.

Additionally, growth in the amount of commerce is a condition for generating wealth which ends up being redistributed, since the respective States adopt policies along these lines. Obviously, if there is nothing to be distributed, nothing will be distributed, and the State won’t have much to work with for bringing about justice and social development.

Supranational authority is sometimes a consequence of the model of integration adopted, and its adoption in Mercosul has never been rescinded; it could help with overcoming local difficulties. Often times an isolated State resists formalizing protective measures concerning the environment, or insist on developing domestic policies
that deter the larger population, or certain segments of the population, from attaining better living conditions. This is often due to archaic social infrastructures or persistent prejudices. Standardizing treatment requires consolidation of the minimum standards to be implemented in each country, in diverse areas. Hence, any State with substandard conditions must grow toward the adoption of new, higher standards of operation or of basic provisions.

To be sure, processes of integration can become indispensable tools in the promotion of peace, domestically and internationally; they demand coexistence and dialogue in settling disputes and in decision making.

Obviously, so far we have only looked at the positive effects of integration. There is a series of negative consequences as well, from cultural disintegration and the risk of failed investments, to aggressive centralization and the emergence of democratic deficit in the decision making system.

In any case, with or without pitfalls or problems, economic and political integration turned into an inevitable and intense process; nothing more could be done except to slow it down or to make adjustments along the way that should be made.
Mercosul (Mercado Comum do Sul, or “the Common Market of the South”, joining Brazil, Argentina, Uruguay, and Paraguay together) emerged from this climate of economic block formation. It seems that integration between countries is still based on parallels between regional price-ranges, and other similarities that result from physical proximity.

Coming from a market of little more than five billion dollars in 1991, Mercosul came to clear twenty billion between its members in 1998. The foreseen entry of Venezuela is now contingent on parliamentary approval by some of its members. If approved, it would mean Mercosul’s first expansion in its fifteen years of existence. The block now consists of 250 million habitants, a GDP of over 1 trillion dollars, and a global market of over 320 billion dollars.

2. Mercosul in its current phase

Though there are different views held on the issue, integration between countries happens in different stages, it is not always successive. And there are different types of integration, that are also not necessarily successive, since economic integration cannot always be to be the first to happen, even though its occurrence always
consequently produces the necessity of a broader legal and political integration.

In terms of stages and types of integration, Latin America seems to follow the paradigm set by the example of European economic integration because of its precedence and advanced progress, though this is not to say that imitation of such a paradigm is necessarily required.

The first generally adopted step consists of the determination of Tariff Preferences, wherein countries come to enjoy trade capabilities derived from reduced tariffs. Reciprocity, the basis for this level of integration, generates the reduction of product and service costs, motivating the States’ economy to allow for expansion of the market and for increased consumption. As a rule, Preferential tariffs are established in relation to services or goods where there is a full and free complementary relationship among the States involved, or where it is clear that competition is unable to cause severe inequality for any party.

A preferential tariff area is established among the party-States in agreement toward this goal. This situation is different from that of the Customs Union (União Aduaneira), in which the sharing of
interests works toward the goal of uniting efforts when it comes to securing tariffs for third-party countries. In this case, rather, tariffs for third-party countries are common for all States who have signed the Treaty constituting the union, which affords greater bargaining power on the international level when it comes to third-party countries. A common trade policy arises, as well as common external tariffs in relation to the third-party countries.

The more advanced level of economic integration involves the Free Trade Association (Zona de Livre Comércio), where full and free commercial liberalization applies to all goods, services, and capital, and that this kind of circulation naturally follows from free enterprise and free competition, to the extent that the parties find it pertinent.

However, expanding the practice of these five liberties within the Free Trade Association can produce severe inequalities and imbalances; productive sectors of a particular country involved, or many, can be seriously affected due to the impossibility of competing with the sectors of more highly developed countries. For the Association to achieve full success as a free environment, social and economic risks make it necessary to coordinate macro-economic policies and for the States to intervene in their economies: productive
forces have to be organized to preclude the sheer force of “the market’s invisible hand” from driving the actions, and defining the results of integration. Suffice to mention the efforts needed to advance the so-called intra-bloc economic investments, involving the closing and opening of factories, personnel training, laborer-transfers etc, all of which would be unfeasible apart from the large social cost and the efficacy of Public Powers. This sets the stage for a Common Market, which can achieve the necessary coordination through supranational organizations (as is the case with the EU), or through merely intergovernmental ones, contingent on the consent of the States involved (as is the case with Mercosul).

The extent of economic integration generally (but not necessarily) achieved by a Common Market at this stage gravitates naturally toward the adoption of a unified currency, insofar as there is a need for greater ease in trade, and if commercial and financial channels have reached a certain level of synchronization. This is the current phase in Europe with its Monetary Union.

The recent (and frustrating) attempt to approve the European Constitution seems to represent the final stage of integration, that is, Political Union.
Without any doubt, the European Constitution has sought to reinforce the Common Supranational Authority. Though there is no pretence to completely nullify the international character of each member-State, a good portion of their sovereignty would be ceded to a central entity. There was talk of unconditional blocs of constitutionality (present in national constitutions), that would therefore be protected from the incursion of differing and communitarian interests. After the initial shock, however, there was receptivity to the line of thinking that considered the conditions to be premature for the adoption of political integration of a higher level. The positive and negative impacts were evaluated, revealing that many “community” actions resulted in serious damages for many sectors in several States-parties, still unduly taken into account. The cost of integration is high, and unemployment rates and recessions within some areas of Europe prevent, for the time being, unification from being considered the preferential solution to be adopted.

Mercosul’s rate of integration is visibly slower than that of Europe.

It was anticipated that Mercosul would involve a Trade Liberalization program (with progressive tariff reduction, both linear
and automatic, together with the removal of non-tariff restrictions or measures of a similar effect). In addition, a Common Foreign Tariff would be instituted, as well as the synchronization of macro and micro-economic policy, wherever appropriate. In reality, the time-table for tariff exemption has been repeatedly postponed. Exemption lists were never fully eliminated. There is talk of Mercosul constituting an incomplete Tariff Union, an imperfect Free Trade Association and a quasi-Common Market. This stems from a realistic/pragmatic view held by certain Mercosul countries, notably Brazil, who acts with a certain prudence in diplomacy, so that integration in the southern cone does not degenerate into impassioned hastiness.

3. Mercosul’s institutional model: between inter-statism and supranationalism

As it was anticipated, since the beginning, Mercosul has operated with a fairly rash model of integration. Instead of following a supranational model (like the current European Union, for example), it opted to follow an inter-statist one. The Treaty of Assuncion, Paraguay (1991), specifies that the establishment of Mercosul would follow a transition period to outline its definitive structure. At the end
of this period, the Ouro Preto Protocol was not made in order to break with the inter-statist model. This last treaty reiterated that “the decisions of Mercosul organs must be adopted with the consent and presence of all member-states.”

Adopting decisions follows the following steps, in accordance with Article 40 of the Ouro Preto Protocol:

a) once the rule is approved, States-parties must adopt the measures necessary for its implementation into the domestic legal system (through constitutional amendments, laws, decrees etc);

b) adopted measures are then communicated to the Mercosul Administrative Secretary (MAS);

c) after the Secretary has received the statement concerning the measures which were adopted by the States-parties, another statement is issued communicating this fact to all members;

d) Thirty days after this last statement (by the MAS), the rule comes into effect simultaneously for all States-parties, who still have the duty to domestically disclose the beginning of the rule’s effectiveness.

The Brazilian government has emphasized the fact that Mercosul’s undertaking follows principles of pragmatism, realism, and
gradualism; with this in mind, the adoption of a supranational model has been avoided.

There are numerous motives for this, in particular: asymmetries existing between the States-parties, since there are undeniable differences regarding the rate and extent of free trade; discrepancies in domestic policy; and the agility afforded by intergovernmental model. However, we should also not disregard the fact that there may be adoption of supra-nationalism at a later time, with an appropriate level of collaboration having been established.

What this means for the Brazilian government is that it must act with prudence in order to ensure (with the necessary consensus) that the Brazilian position is never subjected to the exclusive will of other members. Within the whole process, the Brazilian position to a certain extent has a guarantee relative to its economic and political leverage in the region. Brazil’s position could become uncomfortable because of majority-rules decision making. Not counting Venezuela, Brazil counts for 82% of Mercosul’s GDP and 79% of its population. And, at certain moments, many Brazilian diplomats bring up the fact that the European Union (EU) itself had no interest in risking too much in terms of an institutional model (upon initially adopting the BENELUX
model) remarking (in reference to a popular folk proverb) “don’t put the cart before the horse.”

These arguments are invariably subject to fierce criticisms by all those who would prefer to see the immediate adoption of a supranational model for all Mercosul institutions.

With respect to these asymmetries, it should be remembered that they can only be corrected through intervention by a central organ, which exercises certain powers derived from segments of sovereignty transferred by the States-parties.

Domestic policy discrepancies could eventually cause a veritable paralysis in the necessary process since power-holders would lack unity. This would consequently negate any notion of flexibility and success in the integrative process. Thus, the inter-statist model would only be advancing an impasse to the formation of a Common Market.

As many point out, a veiled contentiousness is more and more prevalent, since the development of commercial trade, and the circulation of people (and the progress which comes to occur), generates all sorts of disputes. Moreover, existing institutions do not offer a favorable environment for quick and secure resolution of these
disputes, with free and easy access to the interested parties. Oftentimes, solutions depend on goodwill and diplomatic protection of the State-party.

Before discussing the future of Mercosul faced with these circumstances, we will approach Mercosul’s origins and its current institutional framework.

4. The history of Mercosul and its institutional framework

There should be no doubt as to Mercosul having origins in the relations between Brazil and Argentina, who have been planning to create a Customs Union since 1940.

This history of bilateral relations between Brazil and Argentina was punctuated by the activity of the Latin American Economic Commission (CEPAL), founded in 1948 by the UN, as part of an endeavor for economic cooperation toward development, with the declared objective of obtaining improvements for the State through an upsurge in the market.

Some years later (1960), through the initiative of the same countries in the region, ALALC (Latin American Free Trade Association) was created by the Montevideo Treaty. In fact, ALALC
was a CEPAL project with a strategy endorsing multilateralism. This strategy effectively resulted in the 100% increase in commercial trading between 1962-1967, with the intention of creating a regional Common Market in twelve years, and immediately disseminating a system of trade preferences.

However, the years between 1960 and 1980 saw the disastrous policy of “exportation substitution”, with a return to protectionism. ALCALC’s lists of goods in common were paralyzed, and there was a step backwards from commercial trading within the association. Multilateralism required a price and a set of conditions that States were not ready to pay or satisfy because of the heterogeneity and economic pressure they faced. Thus, commercial imbalance was further aggravated. Regardless of the gloomy forecast, countries met in 1967 at the Punta del Este Conference, where the idea of a Common Latin American Market was deferred to 1985.

Before this, realism and pragmatism brought about the abandonment of lofty goals set by ALALC, favoring its replacement by ALADI (Latin-American Development and Integration Association), in 1980. ALADI was critical of such rigid goals, and substituted a multilateral strategy (requiring a certain amount of synchronization,
which was in fact improbable, or even non-existent) with a bilateral one. Preferential Tariff Areas were drawn up, revising the limits set by the exportation-substitution strategy, and anticipating strong State intervention.

Bilateral strategy was very fruitful in the South American cone since bilateral endeavors can be more extensive and successful than those that demand agreement from a greater number of countries.

Then, in 1985, the Argentinean-Uruguayan Foreign Commerce Convention (CAUCE) was formed. In 1988, the Foreign Trade Protocol (PCE) was signed by Brazil and Argentina, and the notion of a Common Market was only seen as possible within the next ten years if it were between these two States. This idea was reinforced in 1990, with Brazil and Argentina signing Trade Exportation Agreement (ACE). A Common Market was anticipated to arise within four years. Uruguay and Paraguay (countries whose economies were greatly dependent on those of Brazil and Argentina) made haste to participate in the process, the result of which was the signature of the Treaty of Asunción in 1991, which provided for the creation of a Common Market by 12/31/94. However, from 1991 to 1994, there was a transition period consisting of provisional institutions, to be
later substituted and reformulated with the implementation of a definitive institutional structure in 1994.

The transition period was set up with a Commercial Liberalization Program (PLC) involving progressive tariff reductions (linear/constant and automatic) and the elimination of non-tariff barriers (with a successive timeline deferring to 1996, 1998, 2002, 2007, etc). A Common Foreign Tariff (TEC) was also implemented, involving the adoption of a common foreign policy with respect to third-party states, coordination of member-States economic and commercial policies to secure the proper material conditions for competition, sectorial agreements, and common macro-economic policies.

The following agencies were created for the transition period:

a) The Common Market Counsel (CMC), a policy management body, comprised of Foreign Relations and Economic Ministers, that is supposed to meet with the Presidents of the member-States annually, at least. The presidency of this body rotates every semester;

b) The Common Market Group (GMC), with four full members and four substitute members per country. The GMC can have taskforces and sub-taskforces.
c) The Joint Parliamentary Commission (CPC), currently comprised of 64 parliamentary seats, nominated by the representatives of each country (there being 16 for each country), respectively, for a period of two years;

d) An Administrative Secretary, with bureaucratic duties.

Because the Assunción Treaty was proposing a very precarious and transitory way of resolving areas of disagreement, the Brasilia Protocol was adopted in 1991, later replaced by the Las Leñas Protocol in July of 1992.

During the meeting of January, 1992 (Cúpula de Colônia, Uruguay), it was clear that there were difficulties regarding the implementation of Mercosul.

Between January of 1994 (Cúpula de Colônia) and December 31st, 1994 (with the Ouro Preto Protocol and the beginning of the tariff agreement), there was a new phase characterized by high expectations. Initial difficulties in moving forward with economic integration came about during this time, since productive sectors that felt threatened began to pressure (for a short time) their governments to slow down negotiation, as well as the tariff-diminishing program and commercial liberalization.
However, the Ouro Preto Cupula reflected deep frustrations for all those who had imagined that Mercosul, in the moment, would have been able to adopt a bolder institutional structure, above all with the adoption of supranational decision-making means.

In that moment, advances were very limited, and the agencies created were maintained.

However, the Trade Commission was formed with the task of assisting the GMC in its application of the main common-trade policies. The Economic and Social Consulting Forum was also established, in a consulting capacity, as was the Macro-economic Cooperation Council (a non-formal body). Starting in 1994, Mercosul became indisputably invested in international law personality.

There was a fourth phase between 01/01/95 (The Tariff Agreement) and February of 2002, (with the signature of the Olivos Protocol) when a Permanent Review Court was created (institated in August of 2004), which can also be accessed directly.

The Mercosul Administrative Court was also created, in light of the growing administrative activities of the organization and of the Mercosul Municipal and Provincial Consulting Forum.
From there, a fifth phase can be identified, beginning in February of 2002 (Olivos Protocol) up until the adoption of the 2004-2006 Labor Plan.

In summary, today Mercosul is composed of the following agencies:

a) The Common Market Counsel (CMC), joining together the Ministerial Meetings (14 areas), Labour and ad hoc High-level Groups (7 areas), the Forum for Consulting and Policy Rectification, the Mercosul Permanent Representatives Commission, the Mercosul High Authority on Human Rights Meeting, and the Mercosul Municipal and Provincial Consulting Forum;

b) The Common Market Group (GMC), which links together working sub-groups (in 15 areas), specialized meetings (14 areas), ad hoc groups (9 areas), groups (for Improvement of the Solutions and Controversy System, for Services, for Public Contracts and Budgetary Issues), Committees (for Technical Cooperation, for Tariff Directors, for Animal and Vegetable Sanitation, and Automotive Standards of Cleanliness), the Technical Meeting for the Incorporation of Mercosul Norms and the Mercosul Socio-labor Commission;
c) The Mercosul Trade Commission (CCM), which includes Technical Committies (in 7 areas);

d) The Joint Parliamentary Commission (CPC);

e) Economic-Social Consultative Forum;

f) The Mercosul Administrative Court;

g) The Permanent Tribunal of Review;

h) The Mercosul Rule of Law Promotion Center;

i) Administrative Secretariat

5. The Invisible Mercosul

Today Mercosul is considered to be an imperfect tariff agreement, a free trade area that has yet to be totally instated, or a common market still in the planning stages. For anyone dedicated to analyzing the functioning and the reality of this economic bloc, there is obviously a commendable and lofty goal foreseen by it, since it has been executed differently than it was imagined. Those who optimistically hoped to see the goal achieved one day co-exist with the skepticism or pessimism of those who are only frustrated by seeing reality overcoming what had been imagined.
Thus, the effort to build Mercosul divides everyone into skeptics and optimists.

However, some advances have been undeniable.

A zero-tariff agreement applies to 95% of intra-regional trading, and Common External Tariff covers 85% of activities.

But, beyond that, little was accomplished.

Legislative synchronization evolved very little, entirely dependent on the individual effort of each member-State. The fact that Mercosul’s institutionalization only occurred on the intergovernmental (and not the supranational) level makes it a merely diplomatic entity. Direct political control (Mercosul representative elected directly) does not exist, completely lacking the participation of civil society in the process. The State is the only interlocutor, and the importance of the unconditional sovereignty of each party is constantly remembered.

The intergovernmental way of making decisions means that Mercosul has no presence in the day-to-day life of its inhabitants. Certain measures taken by the Common Market Council are sometimes seen as “national” measures, not community ones, since they must be introduced by the Legislative and/or Executive branches
of each country. The alteration of the Consumer Defense Code of Argentina, for example, tends to be seen as a legislative alteration decided by the Argentinean Parliament, seeking to update standardization within this juridic area, and not as an effort toward legislative synchronization initiated by a CMC resolution, seeking to make Argentinean consumer rights more like those of Brazil, who updated consumer rights a few years earlier.

The absence of supranational entities impedes, for example, consumer standards from resulting directly from Mercosul’s Parliament or Executive Powers. It is an indirect action, and Mercosul becomes invisible to everyone, which increases the impressions of inaction and inexistence to the inhabitants of member countries. Even if the CMC’s actions are exhaustive and end up with the successful adoption of domestic measures for each country, this very fact of only seeing the adoption of national measures (almost always without any reference to the origin and initiative of the changes) fuels the fire for skeptics. Mercosul continues to be invisible, though active.

The Mercosul Judiciary does not exist as a supranational body, except in arbitration, which is much more accessible for States than it is for individuals and companies, due to costs and functioning.
One hindrance to the effective formalization of integration is the existence of a great number safeguard mechanisms (Competitive Adaptation Mechanisms), wherein a branch of an industry puts forward a formal complaint, and a Bilateral Commission listens to private sectors executing an investigation, refuting the application of the community-rule.

6. Mercosul and AFTA

Currently there is a severe gap between Brazil and the US when it comes to the pace of implementing the Free Trade Area of the Americas (AFTA or FTAA), where the Brazilian position, contrary to that of the US, consists of a strategy to negotiate as a bloc (involving the four Mercosul States, aware of the comparatively greater advantage by negotiating in bloc), and in single undertaking, which slows down negotiations.

Today, the common external tariff varies from 0% to 20% with average levels of 14%, well below levels undertaken previously.

What are the reasons for Brazil’s strategy?

Above all, Brazil sees AFTA as a free trade zone that is swayed by either the market’s “invisible hand” or by the commercial interests
of countries whose economies are more competitive in the region (which could be said for the US). For Brazil, AFTA wouldn’t carry any pretence of a Common Market with planned trading and provisions for the cession of the involved State’s sovereignty.

Thus, Brazil sees certain risks in the immediate creation of AFTA, since many Brazilian firms are still operating with inadequate production vectors and are not ready to cope with reduced levels of protection. And institutional factors prevent the reduction of transaction costs in Brazil. However, certain opportunities cannot be denied, since hemispheric integration creates pressure to speed up the restructuring of industrial firms located in Brazil, thus improving their working conditions.

As far as other risks, it could be observed that, among AFTA members, interests in creating a unified market are asymmetrical and only four countries of the region have diversified export portfolios. As for opportunities, a rise in scientific and technological investments has not been shown to be inconvenient, nor has the creation of conditions that will encourage the private sector to fulfill its functions.

As far as risks to monetary stability, it could be noted that several Latin American countries use exchange anchors to combat
inflation, and the dollar is not a suitable anchor for a possible Monetary System of the Americas (MSA). But if Argentina, Brazil, Canada and Mexico synchronize their exchange rate policies, their currencies could serve as an initial anchor for creating an MSA, and for moving toward the convergence of macroeconomic policy in the hemisphere.

The current AFTA agenda has three major gaps: the monetary issue, state aid, and S&T. While these gaps persist, asymmetries in the hemisphere will not be properly addressed. Yet there is no doubt that the FTAA negotiations stimulate transparency and coherence in domestic policies, and the negotiation of issues relating to domestic market regulation opens new opportunities for hemispheric cooperation.

The FTAA initiative presupposes that Brazil has stable rules governing foreign trade: a balanced exchange rate and a stable import regime.

Many other risks could be noted, such as diminished labor rights (highly developed in Brazil, with a level of protection for workers considered higher than in the US), the destruction of cultural traditions (by mass commercialization) and of family agriculture (with
the implementation of large-scale production). There is talk of damaging everything from Public Health to Biodiversity, from the destruction of small and medium businesses, to a crisis of national responsibility. Many says that the weak will become weaker, and the strong will become stronger, or that the costs of adjustment and economic investment will fall to the less developed or less competitive countries, as will the costs of new investments. In the discussion of AFTA, there is a lack of mention of aid or regulatory funds, and there is little concrete discussion concerning non-tariff barriers, which could be imposed by certain countries.

On the other hand, AFTA could mean the abandoning of Mercosul's integrational project; Mercosul would at the very least be affected by it, causing its member countries to lose their competitive advantages.

But there are some advantages to AFTA, and there are few who don’t envision the commercial incentives, cost reduction, access to goods and services, the growth of real income, and the development of those countries involved, all of which would result from it.
Yet within Mercosul membership there is a clear awareness that economic integration (by whatever means) cannot neglect social development in favor of absolute (and inadequately shared) economic gains. “Grow now, share later” was an economic policy which today is now looked down upon, since experience has shown that the concentration of income only foments the perpetuation of poverty and creates self-defense mechanisms in favor of that concentration. In Mercosul-America there is a consensus concerning the need to connect economic development and social justice, rejecting the oppression prompted by “the law of the strongest.” Durable and balanced development should be sought, with full participation in society.

There was only a few years ago a public poll in Brazil concerning AFTA. With 10,149,542 people polled, and promoted by approximately 60 institutions in 4000 counties, the poll offered the discouraging result of 98% against and only 1% in favor of the creation of such a commercial zone.

The risks associated with AFTA cannot be, as it has been so far suggested, a merely national problem. In fact, for many countries, integration through AFTA clashes with solidarity. Hence, as a
safeguard, Brazil insists on proceeding with the negotiation through Mercosul and on bringing a discussion about all areas (subsidies, dumping, in a single undertaking), and not just about dates, within the known strategy of Hub and Spokes, or Bilateralism.

7. Mercosul and the European Union

Since it’s creation in 1991, Mercosul has had the involvement and institutional help of the European Union, who has always seen Mercosul as a capable way of avoiding the expansion of the US within the American continent.

Thus, in 1992 the Bilateral Institutional Cooperation Agreement was signed, as was the Two Phase EU-Mercosul Plan to reinforce commercial trading in 1994. In 1995 (12/15) it was time for the Inter-regional Cooperation Framework agreement, the first of this kind of tariff union, and the creation of an inter-regional association was proposed. In 2006 the “European Union project of support for the installation of the Mercosul Parliament” was signed.

However, the attention paid to Mercosul by the EU was not solely motivated by the latter’s interest in seeing the influence of it’s economic rival (the US) not spread any further.
There are numerous reasons which justify the relationship now apparent between the two blocs.

Above all else, two members of the EU (Spain and Portugal) identify with the values and cultural character of Mercosul countries, and hence have an interest in maintaining close bonds.

The respective economies hold an undeniable complementarity (the temperate northern hemisphere and the tropical southern), whether because of the climatic differences, or because of the diverse degrees of their economies.

The EU represents a significant destination of exports and imports from Mercosul, who receives an enormous number of European investments. Mercosul is the fourth largest world market, after NAFTA, the EU and Japan, with a GDP of US$1.1 billion.

Securing Mercosul’s existence could conceivably counter not only the US, but also the idea of AFTA (Free Trade Area of the Americas – FTAA), a free trade zone lacking any intention of supranationality and synchronization or coordination of macro-economic policies, whose main result would likely be the opening of the market for the US.
According to concluded studies, lining up with Mercosul would allow member countries to experience a growth in GDP, with commercial liberalization greater than it would be with AFTA: Brazil’s increase would be 0.76% greater than it would be with AFTA, Argentina’s would be 4% more.

Obviously, Mercosul-EU actions follow an organized and defined strategy which can be summarized in three points:

a) political cooperation;

b) gradual and reciprocal trade liberalization, in all sectors;

c) reinforced mutual cooperation.

The above mentioned agreements took care of the establishment of an institutional structure consisting of the Cooperative Counsel (ministerial level), the Mixed Cooperation Commission and the Trade Subcommission.

There have been Regular Meetings of these agencies since 1996, and in 2000, during the CMC meeting in Buenos Aires, it was decided that negotiation would be carried out by three groups.

Group 1 pertains to policy discourse, proposing regular meetings between the heads of states and EU authorities, annual meetings between chancellors, ministerial meetings and top-level
staff meetings. A definitive date has yet to be set for beginning of the interregional association.

Group 2 pertains to cooperation (with institutional support) between sectoral and macro-economic policy, material integration, commercial structures, and ties with civil society.

Group 3 pertains to commercial topics, with three sub-groups: GT1—market commerce, tariffs, standardization, dumping, and origin and customs systems. GT2 - Services, Intellectual Property and Investments; and GT3- Governmental Spending, Competition, and Solutions to Controversies.

However, this approach shouldn’t be seen as a definitive solution to a set of serious problems.

It should be remembered that in 1998, the European Commission adopted a recommendation from the European Counsel to obtain authorization to negotiate an interregional association with Mercosul. But, France took a contrary position, and the issue of agricultural competition was brought up. Considering that nearly 50% of trade involved agricultural or agro-industrial products, a two-phase negotiation became necessary, involving the World Trade
Organization (WTO) and the revision of PAC (Common Agricultural Policy).

It should not be forgotten that in the area of international commerce, no state will at any time totally reject protectionist policy. In a 1995 issue, “Revue Europe” boldly (by diplomatic standards) made the following reprimand: “Political courage means telling your South American friends, as well other producers across the globe, that Europe must maintain its policies, and must not open its borders to the essential food products of other continents, neither grains nor meats, dairy, fruits and vegetables, because these goods should be produced in Europe”.

Counteracting protectionism, and in order to side-step it when it arises during negotiations, Mercosul’s strategy consists in treating international commerce topics according to the “Single Undertaking” principle: unless all items of a treaty are considered as a whole package, there can be no negotiation whatsoever for any single item separate from the whole. This position has obviously and inevitably incited a substantial obstacle to international trade negotiation and to EU-Mercosul trade negotiations.
And, in addition to this obstacle, another reactive position came into play, coming from the EU and directed at Central and Eastern Europe, as well as the Mediterranean.

The situation remains in a similar state for Mercosul as well, and their efforts aren’t only directed at ties with Europe. Mercosul also actively propagates a reactive course of action within its immediate surroundings, notably with Chile, Bolivia, Venezuela, the Andean Pact (already resulting in Venezuela’s acceptance as a member). Mercosulian and Brazilian diplomacies have come to propose the South American Free Trade Area (SAFTA), in clear opposition to the American Free Trade Area (AFTA), free of the obstacles and asymmetries which could be part of such a relationship (free trade) with the US, wherein Brazil would not have greater leverage in its decision making.

However, there is hope for these countries to maintain relationships in favor of development for the States involved, and for the spirit of cooperation to prevail over exclusive gains, guaranteeing (through dialogue and understanding) the adoption of measures that can preserve the interests of the populations involved.
8. The Future of Mercosul

In the world of economics and trade, there is talk of solving and correcting problems with tariffs and the Common Foreign Tariff - as well as the Special Area Tariff (Manaus, Terra do Fogo), with Competition Tariff and with productive sector integration (following the example of furniture and wood), with costs of cooperation with Paraguay, alliance with companies, with the creation of structural funds, to joint promotion of exports (using the example of Mexico and RSA), carrying out joint trade missions, with the adoption of technical norms, incentive review, and tribute synchronization. There is an effort to develop and strengthen the Macro-economic Monitoring Group (GMM), create a Regional Market for a Stock Market, foment an agricultural policy, create an ad hoc biotechnology group, stimulate the creation of companies, and instate a Mercosul Public Procurement Protocol. Recently, important works have been made surrounding the implementation of the first stage of eliminating the double-charging of the common foreign tax, as well as the definition of lines of the Tariff Code and of the tariffs related to the distribution channels of customs revenue.
On the social level, the goals include widening participation within civil society, discussing social themes, promoting culture and sports within Mercosul, and the implementation of a Forum for Consulting and Policy Rectification. There is an effort to increase judicial cooperation, consolidation of standards for the circulation of employees, evaluation of the application of Mercosul standards for workers, diffusion of Portuguese and Spanish languages, and fomenting the activities of the *ad hoc* Group toward the promotion of human rights.

On the institutional level, there is a notion to create and to operate with a Mercosul Parliament, to implement the Olivos Protocol (resolution of controversies), to implement the Mercosul Center for the Promotion of the State of Law, to effect true participation of the private sector within the system for resolving controversies, to immediately implement Mercosul standards (without needing pre-approval from Parliament), to reinforce the role of a specialized Agency for science and technology, a South American Regional Infrastructure Agency, to provide access to other States in the region (such as Bolivia) as full members, to increase the power of the
consultant bodies, and to institutionalize the Merco-city Network and the specialized Meeting of Municipalities.

It is said that integration must be simultaneously positive and negative. Negative, because it is necessary to weaken barriers. Positive, because it is necessary to adopt a set of common policies to establish a balance.