

The European Union and the Mercosul: A New Relationship?

75. The European Union already has a defined agenda for its relations with the Mercosul. It has agreed to the creation of an interregional association based on an advanced political cooperation on biregional and international issues. The present Framework Agreement includes a commitment to free trade, economic cooperation, particularly to promote investment, technical exchange, the promotion of deeper regional integration, as well as greater contact between the civil societies of both partners, particularly among the business sectors.

76. The European Commission has already sought a mandate from the Council for the negotiation of a draft proposal for a future association. This process should be well underway by the time the European Union-Latin American-Caribbean Summit is convened, where a joint declaration could be made to announce progress in the creation of a new interregional relationship.

77. The dynamism of EU-Mercosul relations depends to a great extent on the direction that internal reforms take within the European Union and the hierarchy of priorities it adopts for its external relations, and the place of the Mercosul within that hierarchy. Enlargement and the current attention devoted to the Mediterranean partnership need not imply the neglect of Latin America. Despite differences of emphasis among EU member states in their relations with Latin America and the absence of a clear consensus regarding preferential trade partners in the region, it is possible to identify the Mercosul as a partner of primary strategic, political and economic importance.

78. The reform of the common agricultural policy is also a delicate but an essential issue. For many in Europe, the end of the CAP would mean getting rid of what was once the heart of the European project. Yet maintaining CAP as it is today means failing to comply with WTO rules. The reform of CAP is unavoidable. It is part of the proposals of Agenda 2000, and it is likely to occur not only because of enlargement to the East, but also because of relations with the Mediterranean partners and the upcoming WTO Millennium Round.

79. EU-Mercosul relations will also be conditioned by the evolution of the euro and by the attitude of EMU authorities towards the Mercosul. At present, macroeconomic stability in the Southern Cone is largely based on a solid linkage with the dollar as a nominal anchor. However, the euro offers opportunities for closer ties between the two. Not only is the single currency experiment a valuable

source of learning for Mercosul in terms of how to harmonise and regulate its still scarcely integrated financial systems, but the sub-region will have a new financial market to tap into. The diversification of reserves is in its interests given its trade distribution and overwhelming reliance on the dollar. It will increase opportunities for investment diversification and facilitate borrowing by the Mercosul countries and companies. Furthermore, transaction costs in EU-Mercosul trade will decline. The benefits of shifting to the "euro zone" would increase if would-be peggers feel that the EMU authorities will bail out economies in crisis and will be willing to act as lenders of last resort as the United States does with its close trade partners.

80. It is the strategic dimension of the relationship that could be most beneficial for both partners. For the European Union, the Mercosul represents the best opportunity for fortifying links with a "sister" project. The European Union does not wish to see the Mercosul "diluted" by the FTAA, but hopes to see the integration process deepened. Several European leaders have advocated a strategic approach towards EU-Mercosul relations based on the importance of cultural, historical links. The development of an effective CFSP and a successful euro will also be beneficial to the Mercosul, insofar as it creates a stronger global actor with which it can relate in the international system to reinforce multilateralism. Yet the European Union has to offer something more concrete to the Mercosul.

81. The European Union is a useful counterbalance to the United States. It can contribute to a balance between the achievements of the Mercosul and the pull towards the FTAA. The relative importance of the European Union as a partner will depend, however, on how fast it is able to respond to the needs of the Mercosul, particularly if the United States is prepared to move forward with increasing flexibility and on a basis of reciprocity.

The Impact of EU-Mercosul Relations on EU-US Links

82. How much potential is there for a conflict between the United States and the European Union over European policy towards the Americas and towards the Mercosul in particular? There is a sense of entitlement that shapes US attitudes to the presence of the European Union in the Southern Cone. In short, the United States feels that as the prime mover behind the influential "Washington Consensus" for liberalisation and stabilisation in the region, it should be the first to reap the rewards of those processes. Indeed, one of the key driving forces behind the launching of the FTAA is the desire of the United States to counter any European attempts to rob it of its "natural" Latin American markets.

83. The strategic vision of EU-Mercosul relations proposed by some European leaders, which highlights the potential for the biregional relationship to contribute to the reorganisation of the post-Cold War international system, may have raised hackles in the United States. The European Union-Latin American Summit proposal has been widened to include the Caribbean. Tensions may arise not only from what may be perceived as Europe's attempt to play a "leading" role in the region, but also over the inclusion of Cuba.

84. It is highly unlikely, however, that any serious conflicts will arise between the United States and the European Union over Latin America. Both the European Union and Latin America are central to the foreign policy of the United States. The Organisation of American States and nato are the oldest and most stable multilateral political and security institutions to which the United States is linked and a key to its policy to reorganise the world system. The relationship with both is also central to a policy of US-led open regionalism and the United States sees the European Union as a partner for ensuring its global aims. Furthermore, while the European Union and the Mercosul may adopt joint positions within the WTO contrary to US interests, because the decision-making process within the organisation does not operate on the basis of "automatic alliances", this need not lead to tension between the three.

85. It should also be noted that EMU should bring both partners closer together. It is possible that a situation of benign mutual neglect could predominate, if both sides concentrate on developing links with their respective "monetary areas", the European Union with the countries of Central and Eastern Europe and the Mediterranean and the United States with Latin America. Nonetheless, there are strong incentives for cooperation. A stable euro-dollar exchange rate will increase transatlantic economic relations and boost the creation of a Transatlantic Marketplace, an outcome favoured by transnational corporations and other private business actors within the Transatlantic Business Dialogue.

86. In addition, the European Union remains reliant upon the United States for ensuring security in Europe and it cannot do without the United States as a strategic military partner, and the Mercosul does not want a conflict with the United States for similar economic, political and strategic-military reasons. Indeed, neither the European Union nor the Mercosul wish to create an alliance in opposition or in competition with the United States, although this does not mean that the relationship between them is not based on a qualitatively different agenda. A strong relationship between the European Union, the Mercosul and the United States can boost multilateralism and help the United States to remain coherent with the values it claims to defend.