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FEATURED Q&A

How Revolutionary is the E.U.-Mercosur Trade Agreement?



Representatives of the European Union and member countries of the South American Mercosur trade bloc announced they had reached a deal after two decades of negotiations. // Photo: European Commission.

Q After 20 years of on-and-off again talks, the Mercosur trade bloc, consisting of Brazil, Argentina, Uruguay and Paraguay, and the European Union have reached an agreement to strengthen commercial ties. The deal would form one of the world's largest free trade areas and includes the elimination of nearly 90 percent of tariffs on both sides. How significant is the Mercosur-E.U. trade deal, and what are its most important provisions? Which sectors in the South American countries stand to gain or lose the most from the agreement? What challenges will the deal face before its final approval, and to what extent could presidential results in Argentina and Uruguay in October affect its implementation?

A Shunko Rojas, partner at Quipu and former undersecretary of international trade at the Argentine Ministry of Production: "The Mercosur-E.U. Agreement (MEUA) constitutes the first modern and comprehensive agreement concluded by Mercosur countries, and their most important decision on integration into the global economy in the last 25 years. The European Union, in turn, becomes the first economy to achieve preferential trade agreements with all Latin American countries, a goal that the United States was not able to accomplish with the Free Trade Area of the Americas (FTAA). This agreement now sets the base of a minimum common denominator for a deeper integration in the region. Moreover, the successful conclusion of the agreement reinvigorates the external agenda of Mercosur, boosting current negotiations with European Free Trade Association (EFTA), Canada, Korea and Singapore, as well as the convergence with the Pacific

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ECONOMIC

Ecuador Likely to Join Pacific Alliance: Vizcarra

Ecuador is likely to join the Pacific Alliance trade bloc next year, according to Peruvian President Martín Vizcarra.

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BUSINESS

Mexican Judge Issues Warrants for Ex-Pemex CEO, Relatives

A Mexican judge has issued arrest warrants for former Pemex CEO Emilio Lozoya and several members of his family in connection with a corruption case involving Brazil's Odebrecht.

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POLITICAL

Venezuelan Gov't, Opposition to Resume Talks

The government of Venezuelan President Nicolás Maduro and the opposition are to resume talks today in Barbados, both sides announced. Norway, which hosted talks in May, is to mediate the new round of discussion.

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Maduro // File Photo: Venezuelan Government.

POLITICAL NEWS

Venezuelan Gov't, Opposition to Resume Talks

The government of Venezuelan President Nicolás Maduro and the opposition will resume talks today in Barbados on finding a way out of the country's political crisis, CNN reported, citing statements from both sides. Norway, which hosted talks between the government and the opposition in May, will mediate the discussions. Opposition leader Juan Guaidó, who has been recognized by the United States and dozens of other countries as Venezuela's legitimate acting president, is calling for new elections to end what he and other Maduro opponents call a dictatorship. "It is clear that in Venezuela there is a dictatorship," Guaidó told CNN on Friday. "I think there is no new euphemism that holds. This is to say what happens when there is torture, when there is persecution, when territory is voluntarily given to terrorist organizations in Venezuela." Maduro's communications minister, Jorge Rodríguez, said Sunday that the government will seek "a constitutional solution for the country" in the talks. Maduro has accused the United States and other opponents of trying to overthrow him in a coup. Any talks between the government and the opposition must lead to a sustained solution to Venezuela's crisis and must not be used solely to buy time for Maduro's Socialist Party, said Guaidó, Reuters reported. Venezuela's political divisions were on display Friday in rival rallies to mark the country's independence day. Maduro presided over a military parade in one part of Caracas, while Guaidó led a rally in another part of the capital, CNN reported. For years, Maduro and his predecessor, the late Hugo Chávez, have been accused of mismanaging Venezuela through their hardline socialist policies, leading to the country's struggles with shortages of food, medicine and other basic goods, as well as hyperinflation. The government has also been accused of cracking down on dissent through imprisoning political opponents and by engaging in torture and ex-

trajudicial killings. A report last week from the United Nations human rights office reiterated many of those accusations and said that men and women detained in the South American country have been subjected to "cruel, inhuman or degrading treatment" including "electric shocks, suffocation with plastic bags, water boardings, beatings, sexual violence, water and food deprivation, stress positions and exposure to extreme temperatures," CNN reported. Maduro's government has strongly denied the accusations in the U.N. report, which he called "biased" and a "selective and openly partial vision on the real situation."

ECONOMIC NEWS

Ecuador Likely to Join Pacific Alliance: Peruvian President

Ecuador will likely become the fifth member of the Pacific Alliance trade bloc next year, Peruvian President Martín Vizcarra said Saturday, El Comercio reported. Peru, Mexico, Colombia and Chile created the Pacific Alliance in 2012 to promote free trade and strengthen ties in the Asia-Pacific region, in contrast to other Latin American blocs such as ALBA and CELAC, which were led by the region's leftist presidents. Former Ecuadorean President Rafael Correa, who was in office from 2007 to 2017, had said the Andean country would not join the market-friendly group as long as he was president. But his successor, Lenín Moreno, last year submitted a request for Ecuador to join the Pacific Alliance, one in a series of moves he has taken to reverse Correa's policies. "We welcome Ecuador and have committed to accelerating procedures for its incorporation as a full member, hoping that in the course of 2019 Ecuador will be a member of the Pacific Alliance," Vizcarra told reporters at the Pacific Alliance summit in Lima, Reuters reported. Chilean President Sebastián Piñera welcomed Moreno as a special guest at the summit, saying Ecuador "should have always been part of the Alliance."

NEWS BRIEFS

IMF Completes Review of Argentina Deal, Set to Disburse \$5.4 Billion

The International Monetary Fund has completed its fourth review of Argentina under its standby loan and is set to disburse \$5.4 billion to the government, subject to IMF board approval, the lender said in a statement Friday, Reuters reported. IMF Acting Managing Director David Lipton commended Argentine authorities on their "continued efforts and steadfast implementation of their economic policy program," adding that they met all their expenditure targets. Argentina's government expects inflation to end this year at 40.3 percent, down from an annual rate of 57 percent in May.

Brazilian Malls Firm Iguatemi Sees Lower Revenue Growth

Brazilian upscale malls firm Iguatemi is seeing lower revenue growth amid sluggish economic growth, Chief Financial Officer Cristina Betts said, Reuters reported Friday. The country's slow recovery has made it more difficult for the company to raise prices, causing a delay in the removal of discounts it gave to retailers during a recession and making 2019 growth targets harder to reach, Betts said. Iguatemi expects a revenue growth of at least 5 percent this year, she added.

Peru's Intercorp Files for U.S. Initial Public Offering

Peruvian financial services firm Intercorp has filed for an initial public offering in the United States, where it hopes to raise as much as \$423 million, Renaissance Capital said Friday. The firm, which is controlled by Intercorp Peru, currently trades on the Lima Stock Exchange. It plans to offer nine million shares at a price range of between \$44 and \$50 per share.

BUSINESS NEWS

Arrest Warrants Issued for Ex-Pemex CEO, Relatives

A Mexican judge has issued arrest warrants for the former chief executive of state oil company Pemex, Emilio Lozoya, three of his family members and one other person in connection with a corruption case involving Brazilian construction conglomerate Odebrecht, Mexico's attorney general's office said Friday, Reuters reported. The Finance Ministry said in May that it had presented the attorney general's office with three charges against Lozoya for "acts of



Lozoya // File Photo: Notimex.

corruption" when he was the head of Pemex from 2012 to 2016. The case was opened in 2017, but it's not until today that "we have obtained the arrest warrants that will now likely bring those involved to justice," the attorney general's office said in a statement, Reuters reported. The arrest warrants are for Lozoya, his wife, Marielle Eckes, his sister, Gilda Lozoya, his mother, Gilda Austin, and Nelly Aguilera, a real estate tycoon, the wire service reported, citing an unnamed government source. The office added that Interpol had issued a red notice for all five people, which indicates a request to law enforcement around the world to locate and provisionally arrest a person pending extradition or surrender. Lozoya and his sister are facing separate charges for alleged involvement in another bribery scheme with links to Pemex. He has denied wrongdoing, saying in an open letter last month that he was a victim of "political persecution" and a "media campaign," Notimex reported.

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Alliance, and also opens up a unique window of opportunity for eventually advancing an agreement with both the United Kingdom and the United States. The MEUA takes Argentina and Brazil closer to the OECD, and the institutional anchoring provided by the agreement will not only make it more difficult and unlikely for future governments to adopt arbitrary restrictive measures but will also act as a catalyzer for reforms resulting in a substantial improvement in the business environment for trade and investment. The agreement now has to be ratified by the European Parliament (no need for individual members' ratification) and the Mercosur countries' congresses. Ratification is expected by 2021. Regardless of the winning candidates in the October presidential elections in Argentina and Uruguay, the prospects for passing the agreement in both congresses is good. In the case of Argentine, were President Macri re-elected, ratification will be a priority. If Fernández is elected instead, although the process will be more cumbersome, the deal will probably pass. This is either because there is enough genuine support among provincial governors or because not passing the agreement may mean a huge economic setback for Argentina. If Brazil ratifies the agreement but Argentina does not follow suit, Argentina faces the enormous risk of trade diversion and losing the Brazilian market, its largest export destination. In turn, for Uruguay, the ratification process is not expected to face major challenges."

A **Joe Healy, president of the Irish Farmers' Association (IFA):** "It's a bad deal for farmers, it's bad for the environment, and it's bad for standards. We see this as a sell-out of Irish and European farmers because Brazil in particular does not meet our standards on food production. It's hypocritical of the E.U. Commission to talk about climate action and then encourage more exports from the Amazon rainforest, where the size of a football

pitch is cut down every minute. The Joint Research Centre has shown that our beef production is four times more efficient than beef produced in Brazil. With the increasing threat of Brexit and the potential loss of our largest beef export market to the United

“It's a bad deal for farmers, it's bad for the environment, and it's bad for standards.”

— Joe Healy

Kingdom for 290,000 tons of beef exports, it is illogical for the E.U. Commission to do this deal with Mercosur. The E.U. beef market is already oversupplied, due to existing substandard South American imports, and it is 102 percent self-sufficient. With the United Kingdom out, this self-sufficiency would increase to 116 percent. We want our government to join forces with other member states and oppose this deal as it is bad for agriculture and rural economies."

A **Ignacio Bartesaghi, dean of the business studies department at the Catholic University of Uruguay:** "For Mercosur, the Strategic Association Agreement with the European Union represents a substantial improvement in access for agricultural products, either through the elimination of tariffs or the increase of quotas. The most benefited products would be beef, pork, poultry, rice, dairy products, honey, sugar and ethanol. Moreover, there are gains in other goods due to lower tariffs, as is the case for fruits, wool and hides, as well as other prepared foods. The South American industrial sector could be affected, in the case of the automotive industry, plastics, chemicals, medicines, machines and electrical products. The agreement includes provisions for services and incorporates some of the most modern disciplines of international trade, such

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as provisions on the environment, labor, geographical indications, e-commerce and cumulation of origin. The inclusion of these topics is a qualitative leap for the Mercosur agenda and its potential relationship with other actors at a global level. In any case, for a better use of the deal, all Mercosur countries must undertake the pending internal reforms that still affect competitiveness. As for the debates on the deal, in addition to those already initiated in France and which will surely occur in the European Parliament, they are expected in Argentina, especially if there is a change of government. Part of the Argentine industrial sector and trade unions there have shown their discontent with some of the concessions granted, alleging lack of consultation and little transparency in what the Macri government agreed to. Although a less intense debate is expected in Uruguay, since historically all political parties and the private sector have supported the closure of the negotiations, recent union declarations indicate that there will be a strong internal discussion prior to implementation."

A Welber Barral, senior consultant at BMJ Consultores Asociados and former Brazilian foreign trade secretary: "This is a relevant agreement for Mercosur, since it is the largest and most ambitious trade agreement signed by the bloc. Moreover, it will propel other agreements currently under negotiation (with the European Free Trade Association, Canada and Korea). The agreement also indicates a commitment from Mercosur to more trade opening and more compliance with international trade rules. On the other side, it will imply a greater market access for Mercosur products, especially in the highly

protected European agricultural market. The agreement will eliminate import tariffs for more than 90 percent of the products between the two blocs. Most products that will not have the tariffs eliminated will have import quotas without the incidence or

“It is necessary to be realistic about the concrete effects of the agreement.”

— Welber Barral

reduction of tariffs. Even so, the elimination of tariffs will be different for each product, ranging from zero to 15 years. Competition with European companies may boost the competitiveness of certain sectors in Mercosur and at the same time raise pressure on the local governments to improve the business environment and offer solutions to those sectors most affected. It is necessary to be realistic about the concrete effects of the agreement, which will only begin after it has been approved by the respective national parliaments. Brazil, for example, takes an average of four and a half years between the signing of an agreement and its entry into force. In the European Union, the average time to approve trade agreements is three to four years. President Macri had an important role in the latter phase of negotiations, and the final result is positive for his electoral campaign (although not sufficient per se to guarantee a favorable electoral result)."

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