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FEATURED Q&A

Can Mercosur and the E.U. Finally Reach a Trade Deal?



Paraguayan President Santiago Peña has issued a December ultimatum for the Mercosur trade bloc and the European Union to reach a free trade agreement. // File Photo: Paraguayan Government.

Q Paraguayan President Santiago Peña said Sept. 25 that the European Union and Mercosur must finalize their trade deal by Dec. 6, the day Paraguay takes over the trade bloc's presidency, or Mercosur will walk away from the deal and seek agreements with Asian countries instead. Negotiations on a trade deal between the European Union and Mercosur have dragged on for more than two decades. What are the main reasons for the slow pace of the negotiations? How likely are the two sides to conclude negotiations by early December, and what has been holding up the agreement's ratification? How united is Mercosur, and how would a failure to reach a deal affect bilateral relations with the European Union?

A Bartłomiej Znojek, Latin America analyst at the Polish Institute of International Affairs: "The European Union and Mercosur concluded negotiations on the trade pillar—part of the Association Agreement, which includes political dialogue and cooperation pillars—in June 2019 thanks to rare favorable political conditions that have quickly gone away. The clash between the European Union and former Brazilian President Jair Bolsonaro over his government's decisions to loosen the protection of the Amazon quickly became the main obstacle to the ratification. The European Union attempted to solve the issue by proposing a protocol with additional environmental guarantees. It didn't withdraw from this requirement even after Luiz Inácio Lula da Silva took over as president of Brazil and committed to restoring protection and tackling deforestation of the Amazon. The E.U. anti-deforestation import measure—in force since June—added to tensions and

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U.S. to Resume Deportations of Venezuelan Migrants

The United States will resume deportations of Venezuelan migrants who entered the country illegally, the Department of Homeland Security announced Thursday.

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IDB Approves \$200 Million Loan for Colombian Small Businesses

The Inter-American Development Bank approved a \$200 million loan micro-, small- and medium-sized businesses in Colombia.

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POLITICAL

Venezuela Seeks Arrest of Former Opposition Leader Juan Guaidó

Venezuelan authorities said Thursday that they are seeking the arrest of former opposition leader Juan Guaidó, who now lives in the United States.

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Guaidó // File Photo: @jguaido via X.

POLITICAL NEWS

U.S. to Resume Deportations of Venezuelan Migrants

The United States will resume deportations of Venezuelan nationals who entered the country illegally, the Department of Homeland Security announced Thursday, *The Wall Street Journal* reported. The measure followed an agreement by the government of Venezuelan President Nicolás Maduro to accept repatriation flights, following high-level talks in Mexico City among representatives of the governments of the United States, Mexico, Colombia and Panama, all of which have seen record numbers of migrants journeying from South America to the United States, the newspaper reported. The number of Venezuelans attempting to reach the United States hit a record high of approximately 50,000 in September, *The Wall Street Journal* reported, citing government data. Speaking in Mexico City, U.S. Homeland Security Secretary Alejandro Mayorkas said the resumption of deportations is among the “strict consequences” that the administration of U.S. President Joe Biden is implementing along with the expansion of legal pathways for migrants seeking asylum, the Associated Press reported. “Our two countries are being challenged by an unprecedented level of migration throughout our hemisphere,” said Mayorkas, referring to Mexico. Repatriation flights are expected to start soon, two unnamed U.S. officials told the AP. The move followed the Biden administration’s granting last month of temporary legal status to hundreds of thousands of Venezuelans who entered the United States as of July 31, making

SUBSCRIBER NOTICE

The Latin America Advisor will not be published on Monday due to the Columbus Day federal holiday in the United States, which is observed in Washington and other locations as Indigenous Peoples’ Day. The Advisor will resume publication on Tuesday.

it easier for them to work in the United States. Addressing the contrast between the granting of Temporary Protected Status to the migrants and the restarting of deportation flights for those who arrived later, Mayorkas said, “we have made a determination it is safe to return Venezuelan nationals who arrived in the United States subsequent to July 31 and do not have a legal basis to remain here,” the AP reported. Secretary of State Antony Blinken, who is leading the U.S. officials’ visit to Mexico, said the United States has “an ironclad commitment to provide protection to those who qualify. That remains paramount in everything we’re doing.” Also during the delegation’s trip to Mexico, Blinken discussed migration flows with Mexican Foreign Affairs Secretary Alicia Bárcena as well as the foreign ministers of Panama and Colombia. Blinken, Mayorkas and U.S. Attorney General Merrick Garland, who is also part of the delegation, also met Thursday with Mexican President Andrés Manuel López Obrador. On Thursday, López Obrador said investment is needed in order to foster development in countries that migrants are leaving. “The people don’t abandon their towns because they want to, but rather out of necessity,” said López Obrador, the AP reported. The Mexican president also criticized the Biden administration’s waiver of 26 federal laws in Texas to build new sections of a border wall along the countries’ shared border. Before meeting with the top U.S. officials, López Obrador called the construction a “step backwards,” Reuters reported.

Venezuela Seeks to Arrest Ex-Opposition Leader Juan Guaidó

Venezuelan authorities said Thursday that they are seeking to arrest former opposition leader Juan Guaidó, who now lives in exile in the United States, *The New York Times* reported. Venezuelan Attorney General Tareck William Saab said Venezuela’s Public Ministry had requested an arrest warrant for Guaidó, whom he accuses of using the resources of state oil company PDVSA for his own benefit, the newspaper reported. Saab alleged that Guaidó’s

NEWS BRIEFS

Thousands in Guatemala Protest Officials Pursuing President-elect’s Party

Thousands of people marched peacefully in Guatemala City on Thursday to demand the resignation of powerful senior prosecutors who are accused of trying to undermine President-elect Bernardo Arévalo’s ability to take office, Reuters reported. The march marked the fourth day of protests in the Central American country, where Attorney General Consuelo Porras has intensified efforts to disqualify Arévalo’s Semilla party since he was elected in a landslide win in August.

Polls Show Close Race Between Noboa, González Ahead of Ecuador Runoff

Polls in Ecuador are predicting a close race in the country’s presidential race ahead of the Oct. 15 runoff, Reuters reported. Daniel Noboa, heir to a business fortune, is leading some polls, while others show a technical tie between him and his rival, Luisa González, a protégé of former President Rafael Correa. Noboa has 41.5 percent support, and González, who was the top vote-getter in the first round in August, has 36.4 percent support, according to polling firm Comunaliza.

IDB Approves \$200 Mn Loan for Colombian Small Businesses

The Inter-American Development Bank on Thursday approved a \$200 million loan for Colombia to support micro-, small- and medium-sized businesses, Reuters reported. The loan is intended to boost credit for financing of investments that focus on innovation and business digitalization as well as on improving environmental sustainability, the IDB said. Colombia has approximately 1.6 million registered companies, 99 percent of which are small businesses, according to the IDB.

actions had cost Venezuela's government \$19 billion. In a post on social media, Guaidó denied the accusations, saying "this is how the dictatorship's machine for promoting lies works." Guaidó became the leader of Venezuela's opposition in 2019 when, as head of the country's legislature, he declared President Nicolás Maduro an illegitimate leader and took the title of interim president in a move backed by the United States and dozens of other countries. Last year, Venezuela's opposition ousted him as its leader for failing to make significant gains against Maduro's government.

BUSINESS NEWS

EDF to Withdraw From Colombia Solar Project

France-based energy company EDF Renewables on Thursday announced its plans to withdraw from a solar energy project in central Colombia, Reuters reported. The company said delays in permits, regulatory and tax changes and an "uncertain outlook" in the country caused it to make this decision, BN Americas reported. "Due to significant delays in environmental permits and licenses by local entities, EDF Renewables and its partners have decided to withdraw from energy development at the Girardot power plant, in Cundinamarca [province]," the company said in a statement, Reuters reported. EDF did not, however, offer details about the project's generation capacity or what investments it has made so far. In 2021, EDF Renewables' Colombia unit secured a long-term energy auction promoted by the government to build two solar farms that would have a combined capacity of 145 megawatts. Colombian President Gustavo Petro is facing a host of setbacks in his effort to wean his country off of fossil fuels and transition into renewable energy. These setbacks are also consequences of the climate phenomenon El Niño, which has caused severe droughts in the South American country, which gets 70 percent of its electricity from hydroelectric plants.

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triggered strong rebuttal from Mercosur. Lula talked about unilateral sanctions and 'environmental neocolonialism.' However, his opposition to opening public procurement means talks would need to be reopened. The Mercosur situation is delicate. Uruguay insists on its bid to negotiate a free trade agreement with China despite the bloc's rules that don't allow such individual negotiations, and it is uncertain how the result of forthcoming elections in Argentina will affect cooperation in Mercosur. For the European Commission, which ends its tenure next year, closing the deal would be a big success. The failure would mean not only lost opportunities to compete more efficiently with China, which surpassed the European Union as Mercosur's top trading partner in 2017. The stakes are the European Union's future strategic position in Latin America and that of a global player."

A **Juan Cruz Diaz, managing director, and Santiago Ott, senior analyst, both at Cefeidas Group:** "The free trade agreement with the European Union has been one of Mercosur's main priorities in recent years. After an arduous 20-year negotiation process, a draft agreement was finally reached in 2019. However, the discussion to finalize and ratify the treaty continues today. The slow pace of negotiations was due to numerous factors, including the very nature of multilateral FTAs, in which the interests of each member state must be reconciled line by line, the geopolitical landscape and domestic pressures of each state. Regarding the ratification, France and other European countries have pushed to include environmental clauses and other regulatory standards, which ultimately delayed signing. This push was particularly strong when Bolsonaro was president of Brazil. Although Lula's arrival, along with the rise in commodity prices due to the Ukraine war, has given the negotiations new momentum, it seems unlikely that a final agreement will

be reached by December. Failure to secure the FTA could lead Mercosur countries to believe trade relations with alternative partners with fewer regulatory requirements could be a better route, as could be the case with the countries mentioned by President Peña –Singapore and the UAE– or China itself, whose commercial influence in South America has significantly increased in comparison to that of Europe. These discussions are taking place at a time of growing tensions within Mercosur, as Paraguay and Uruguay want to make the bloc more flexible in order to have a more open trade policy, in contrast to the more protectionist stance promoted by Argentina and Brazil."

A **Allison Fedirka, director of analysis at Geopolitical Futures:**

"Three major issues contributed to the inability of the European Union and Mercosur to strike a deal. First, there are too many countries involved. It's unrealistic to think that more than 30 countries with competing economic needs will agree on all terms of an FTA. Second, the political and economic environments in Mercosur have had several bouts of volatility - from member suspensions to impeachments to massive economic meltdowns - which discouraged any agreement. Lastly, the geopolitical reality of the world has fundamentally changed since talks began in 2000. What may have worked 23 years ago needs to be reconsidered. (For comparison, NAFTA was updated to the USMCA after 26 years). An agreement by December appears unlikely given that none of these structural obstacles will be resolved. At this point, the major motivation to reach an agreement by December is to save face. The only way to achieve this would be to significantly water down the agreement and, in doing so, enable all parties to sign off on it. The failure to reach an FTA will not negatively affect the trade and investment currently going on between the European Union and Mercosur. The FTA would enhance these ties; the lack

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of it, however, would mean that the status quo remains. As of 2020, the European Union had an investment stock of 330 billion euros in Mercosur. The European Union as a block was also Mercosur's second largest trade partner in 2021; E.U. exports to Mercosur countries totaled 45 euros billion, and Mercosur's exports to the European Union totaled 43 billion euros."

A **Áurea Moltó, director of ElcanoNET at the Elcano Royal Institute:** "The nature of the E.U.-Mercosur agreement has changed from being commercial to being eminently political and geopolitical. The New Agenda for Latin America and the Caribbean, which the European Union presented in June, will have no credibility if the Europeans are

“**The nature of the E.U.-Mercosur agreement has changed from being commercial to being eminently political and geopolitical.**”

— **Áurea Moltó**

not able to culminate an agreement whose negotiations began in 1999 and concluded in 2019. Since then, there has been no progress on either signature or ratification. Blame is on both sides, but the real obstacle lies with some E.U. members (Austria, France and the Netherlands), who are now alleging environmental and labor issues in the agreement with Mercosur. In the current context of new protectionism and economic policies oriented by security and 'sovereign-

ty,' the European Union has lost two of its most powerful tools for international projection: trade agreements and the promotion of regional integration. The Spanish presidency of the Council of the European Union is working intensively to close an agreement that would not only have an enormous effect in boosting trade (both within Latin America and biregionally with Europe), but would also place the European Union as a first-level political partner in the region and with powers such as China and the United States."

A **Thomas Andrew O'Keefe, president of Mercosur Consulting Group:** "If Mercosur is seriously interested in closing a trade agreement with the European Union, then it needs to immediately launch negotiations for a free trade agreement with China. That is the only way the European Union will ever ratify its agreement with Mercosur. Otherwise, the same protectionist agricultural interests found throughout much of Europe, but particularly strong in France and Ireland, will continue to thwart any type of E.U.-Mercosur trade liberalization agreement from ever being implemented. Only the loss of export markets and reduced investment opportunities in South America to China can neutralize those protectionist forces in Europe. Interestingly, for China to begin negotiating with Mercosur, however, it will likely require that Paraguay switch diplomatic recognition from Taipei to Beijing. Should the Paraguayan government balk at doing so, then the European Union can continue to pay lip service to sealing a trade deal with Mercosur."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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