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Michael Krakowski\*

# The Relations between the European Union and Latin America and the Caribbean

## Current State and Perspectives

*The EU is the second-largest trading partner (after the USA) of the Latin American and Caribbean countries (LAC). The European Commission is presently in the process of negotiating association agreements with three Latin American regional trading associations, a result of the fact that the EU has traditionally preferred multilateral treaties to bilateral ones as a means of its international trade policy. These negotiations have proved to be very complex and progress is difficult. Will the two-yearly meeting of the Heads of State and Government of the EU and the LAC in Peru in May 2008 take place under the sign of a return to a policy with more emphasis on bilateral agreements? The recent agreement with Brazil seems to point in this direction.*

Comprising 58 sovereign states, over one billion people and over a quarter of the world's GDP (gross domestic product), the strategic partnership of the European Union with Latin America and the Caribbean (LAC) is a very important and ambitious one in the European Union's external relations.

Building on long-existing cultural and economic relations between European countries and Latin America, the European Union has established links with Latin America since the 1960s. The relationship between the two regions has substantially evolved over the past decades. Today's partnership reflects the increasing importance and growing potential of the Latin American region. The EU is an important economic and political partner for Latin America; it is the leading donor in the region, and an important foreign investor and partner in trade.

In 2005, the European Commission adopted the policy paper "Stronger Partnership between the European Union and Latin America". The aim is to give new impetus to this strategic partnership by strengthening dialogue and cooperation between the two regions and to review strategies and policies to better address new global challenges together. The EU's relations with Latin American countries have developed at the bi-regional level (European Union - Latin America), and a number of specialised dialogues within this broader relationship are ongoing with specific sub-regions (MERCOSUR, the Andean Community and Central

America), and between the EU and specific countries (Mexico and Chile).

Every two years, a high level meeting (summit) of Heads of State and Government of the EU and the LAC takes place. The first Summit was held in Rio de Janeiro in 1999, the second in Madrid 2002 and the third took place in Guadalajara (Mexico) in 2004. The fourth EU-LAC Summit in Vienna (Austria) on 12-13 May 2006 reiterated the commitment of both regions to strengthening the bi-regional strategic association. The Heads of State decided in particular to launch negotiations for an Association Agreement between the EU and Central America (Central American Common Market, CACM<sup>1</sup>) and paved the way for the launch of negotiations on an association agreement between the EU and the Andean Community (CAN<sup>2</sup>), while the negotiations between Europe and MERCOSUR<sup>3</sup> with respect to a Political and Economic Association Agreement were to continue. The next Summit will take place in Lima, Peru, in May 2008.

### The Trade Dimension

The EU is Latin America and the Caribbean's second-largest trading partner (after the USA). In 2005, EU imports from Latin America and the Caribbean totalled €67.4 billion, and exports to the region

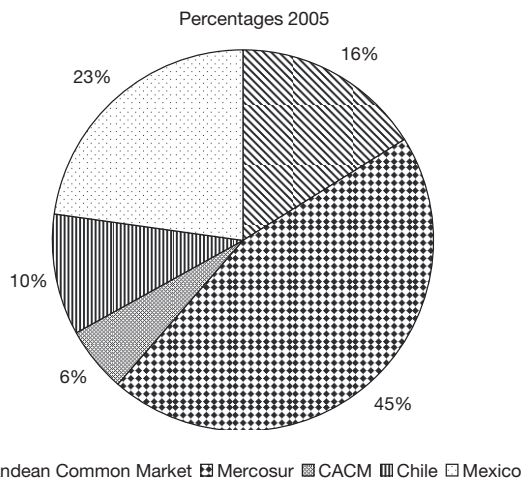
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<sup>1</sup> The CACM comprises Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

<sup>2</sup> The CAN comprises Bolivia, Colombia, Ecuador, Peru and, until 2006, Venezuela.

<sup>3</sup> Mercosur comprises Argentina, Brazil, Paraguay, Uruguay and, since 2006, Venezuela.

**Figure 1**  
Exports plus Imports of the European Union (EU25)  
to/from Latin American countries and regions



Source of data: Comtrade.

amounted to €58.2 billion. Latin America may be divided into four regional groupings in which integration processes have taken place and two countries that are not full members of any of these groupings. The four regional groupings are the above-mentioned regional trade agreements CACM, CAN and MERCOSUR as well as CARICOM, the regional association in the Caribbean. The two countries that are not full members of any of these groupings are Chile and Mexico. Mexico is member of the North American Free Trade Area (NAFTA, with the USA and Canada). Chile is an associated member of CAN and MERCOSUR, Mexico is currently negotiating this status with both regions. From the point of view of relations with the EU, CARICOM is a special case because most of its members are members of the Cotonou agreement with the European Union, thus providing a special framework for its relations with the EU. This article will thus focus on the other three regions and the two countries. Figure 1 depicts the relative importance of these five entities with respect to European foreign trade. MERCOSUR is the most important trading partner followed by Mexico and the Andean Community.

Closer examination reveals that EU imports from Latin America and the Caribbean grew faster than EU exports to the region over the last five years. In 2005 LAC countries had a trade surplus with the EU of €9 billion. Table 1 shows the net position of EU15 trade with Latin American regions or countries. All the regions but Mexico examined here reveal a trade surplus with the European Union. The Mexican case is rather

**Table 1**  
EU15: Growth of Trade with LA Regions, Index 2005  
(1995=100)

	Imports	Exports
CAN	183.78	126.36
Mercosur	189.61	114.09
CACM	225.48	186.82
Chile	237.42	153.29
Mexico	287.99	352.29
World	188.74	178.57

Source of data: Comtrade.

special because of the strong links with the USA. Mexico serves as a platform for exporting to the USA for many European producers.

The main exports from these countries to the EU are agricultural products (SITC<sup>4</sup> 0), crude materials (SITC 2) and energy (SITC 3), where the EU has a trade deficit with the LAC countries. EU exports to the LAC countries are more varied, the main sectors being transport equipment (SITC 7) and chemical products (SITC 5) (cf. Table 2).

In recent years the EU has been the second most important source of foreign direct investment in the region after the United States. European foreign direct investment inflows peaked in 2000 and have since been in decline.<sup>5</sup>

Growth of trade between Europe and Latin American regions has been particularly dynamic in the case of Mexico; exports as well as imports to and from Mexico revealed the most important growth in foreign trade with Latin America and also surpassed growth of total European foreign trade. The creation of the NAFTA (North American Free Trade Agreement) between Canada, the USA and Mexico did not lead to much trade diversion. The association agreement between Mexico and Europe certainly facilitated the participation of Europe in the generation of trade, which in part was triggered by NAFTA. Import growth from the Andean region and from Mercosur was more or less in line with general import growth for Europe, whereas imports from CACM and Chile grew faster. Growth of exports to Latin American Countries or regions in general was lower than overall European export growth.

<sup>4</sup> Throughout this article the Standard Industrial Trade Classification (SITC) revised version 2 at the one-digit level will be used for classification of trade. All trade data are from Comtrade, the United Nations database on trade.

<sup>5</sup> Cf. Economic Commission for Latin America and the Caribbean: La inversión extranjera en América Latina y el Caribe 2005, Santiago 2006, p. 27.

**Table 2**  
**Trade Position by Sector of EU15 with CAN, MERCOSUR and CACM, 2005**

(+ EU surplus, – EU deficit)

SITC	US\$ million
0 Food and live animals	-15 986
1 Beverages and tobacco	-521
2 Crude materials, inedible, except fuels	-8 529
3 Mineral fuels, lubricants and related materials	-3 128
4 Animal and vegetable oils, fats and waxes	-618
5 Chemicals and related products, n.e.s.	6 768
6 Manufactured goods classified chiefly by material	-1 575
7 Machinery and transport equipment	10 084
8 Miscellaneous manufactured articles	-1 493
9 Commodities and transactions not classified elsewhere in the SITC	-114
Total	-15 112

Source of data: Comtrade.

Only exports to Mexico and the Central American region fared better.

#### Negotiation of RTAs for the EU

After the beginning of the Doha round in 2001 the European Union had decided to wait for the outcome of this round of multilateral trade negotiations before starting new negotiations on bilateral or regional free trade agreements (RTAs). This reflects the general European opinion that only multilateral agreements could avoid the distortions produced by bilateral or regional agreements. This priority changed after the ministerial meeting in Cancun, where the difficulty of substantial and rapid advance in multilateral negotiations became apparent and the USA announced its intention to intensify its efforts in bilateral negotiations.

On the international scale, some recent trends in RTAs may be noted:<sup>6</sup>

“First, for most countries RTAs have become the centrepiece of their commercial policy implying in many cases a shift of resources from multilateral trade objectives to the pursuance of preferential agreements.

Second, RTAs show an increasing level of sophistication ...

Third, the geopolitics of RTAs indicate an increase in North-South RTAs and their gradual replacement of long established non-reciprocal systems of prefer-

ences; while this shift is in some cases driven by compatibility requirements with WTO rules, in others it is the developing countries themselves that are opting to forego unilateral preferences in favour of more secure reciprocal arrangements ...

The fourth trend that has been identified points to a process of expansion and consolidation of regional integration schemes characterised by the consolidation of an increasing number of intra-regional RTAs into continent-wide regional trading blocks.”<sup>7</sup>

#### The Situation in Latin America

The Mercosur (Mercado del Sur), the CACM (Central American Common Market) and the Andean Community (CAN) represent the three main regional integration grouping in the Latin American region. The dialogue between the EU and these partners reflects the importance attached by the EU to regional integration. Mexico and Chile are not members of any of these regional organisations and the EU has developed a specific bilateral dialogue with each of them. Due to the change in the European trade strategy after the WTO meeting in Cancun, the European Commission started to prepare negotiations with the three aforementioned organisations. With Mexico and Chile association agreements were already concluded in 1999 and 2002 respectively.<sup>8</sup>

The agreements with the three organisations are negotiated on a “region-to-region” basis in order to provide further impetus to the regional integration process, “as this is considered a key to foster stability, progress and economic and sustainable development in the region to the benefit of all its citizens. It will also help to insert this region in the world economy by developing larger and more stable economies able to attract investment”.<sup>9</sup> Nevertheless negotiations on a “region-to-region” basis also improve the negotiating position of the European Union, because it possesses strong regional institutions, which is not the case in the Latin American regional associations. In order to start negotiations between regions it must be ensured that advances in the integration processes have reached a certain threshold, for example a tariff union. It does not

<sup>7</sup> Such as the creation in South America of the the “Unión de Naciones Suramericanas” (UNASUR), until 2007 called the Comunidad Sudamericana de Naciones.

<sup>8</sup> Some authors point to competition with the USA in order to explain the rapid conclusion of negotiations with Mexico and Chile; see, for example, Secretaría general de la Comunidad Andina: Una vision inicial de la union aduanera europea, SG/dt 340, 17 April 2006, p. 13.

<sup>9</sup> European Commission: Press release IP/07/981, Brussels, 29 June 2007, <http://www.europa.eu/rapid/pressReleasesAction.do?reference=IP/07/981&format=HTML&aged=0&language=EN&guiLanguage=en>.

<sup>6</sup> Cf. Roberto V. Fiorentino, Luis Verdeja, Christelle Toqueboeuf: The Changing Landscape of Regional Trade Agreements, 2006 Update, WTO Discussion Paper No. 12, 2007, WTO, p. 2.

make sense to negotiate tariffs on a regional basis if they are not identical in the region. The objective of the European side consists of identical treatment of its exports to a region at all borders and free circulation within the region. Therefore in Central America as in the Andean Region a process of evaluation of the integration process by a mixed commission with members from Europe and the respective LAC region was organised in order to assess whether the integration process had achieved this threshold. As is common in international negotiations with important political implications, the definition of the threshold varied in time, i.e. it was lowered during the process of evaluation. Nevertheless the evaluation process in itself had fostered regional integration because of the interest of the regions in an association agreement (or economic partnership agreement) with the European Union. During the evaluation process the countries agreed on various measures, which probably would not have been adopted without this process. Nevertheless not all measures considered necessary in order to start with negotiations were introduced during the preparation period of the negotiations. The European side accepted that some elements of integration would be adopted only later.

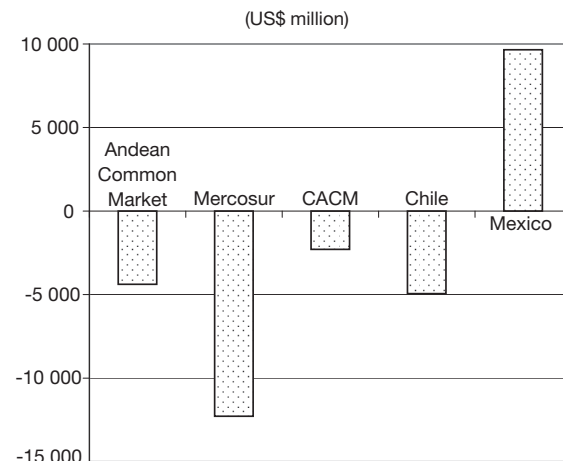
Due to the higher level of economic integration in the CACM the process of the creation of a customs union is probably more advanced than in the Andean Community, and in the Andean Community legal instruments of integration are more advanced than in Central America; for example, the competencies of the Andean Court of Justice are considerable. Therefore in the Andean region the conclusions of the evaluation process focus on economic aspects whereas in the CACM legal aspects are included. In order to advance with the negotiation process the European side accepted that some of the crucial advances in regional integration will be realised only at the end of the negotiation process and not at the beginning, as initially stipulated.

#### Andean Community

The negotiations between the EU and the Andean Community for a comprehensive Association Agreement between both regions were officially launched in Tarija (Bolivia) at the 17th meeting of the Presidents of the Andean Community on 14 June 2007. The Association Agreement is envisaged as a comprehensive agreement, embracing the whole array of the multifaceted relations of the EU with the Andean Community. Its objective is to enhance the political dialogue between both regions, to intensify and

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**Figure 2**  
**Trade Surplus (+) or Deficit (-) of the European Union (EU15) with Latin American Countries and Regions 2005**



Source of data: Comtrade.

improve their cooperation in a vast variety of areas and to enhance and facilitate bi-regional trade and investments. The European Commission will negotiate the agreement on behalf of the EU.

With respect to the areas where further progress was required in order to start negotiations, the following was agreed:

- A common *starting-point for tariff reduction* was achieved for only 79.8% of imports to the CAN from Europe, the remaining 20% obviously being the most disputed ones. This reflects the diverging economic interests of CAN members. For example, Peru has a low level of tariff protection whereas Colombia relies more heavily on protection of its industry. This already paves the way for the country-specific negotiation results mentioned below.
- With respect to *customs procedures* some progress was made, for example common rules for valuation have been approved. Nevertheless the draft of a common customs code has not yet been approved, thus limiting the free movement of European goods in the region.
- With respect to the difficult topic of *intra-CAN transport by land*, the official document simply stated "the strong will" of CAN to improve the situation. Nowadays in many locations merchandise must be reloaded onto other lorries, thus again limiting the free movement of goods for imports from Europe.



- As regards *trade in services*, substantial progress has been indeed achieved.<sup>10</sup>

The beginning of negotiations has been postponed several times because of differences between members of CAN. The exit of Venezuela had also slowed the process. Bolivia in the end sustained the existence of two economic models in the CAN. This position was reflected in Decision 667 of the Andean Community which states the existence of asymmetries between the EU and the CAN and inside the CAN. The decision includes the possibility that some negotiation results will apply only to some members of the CAN and not necessarily to them all. Within the Andean Common Market, Bolivia and Ecuador receive some special treatment because of their smaller size and lesser degree of development.<sup>11</sup>

### Central America

The negotiations between the EU and Central America for a comprehensive Association Agreement started in June 2007 in Brussels on the occasion of a high level meeting between the European Commission and Central America. As in the case of EU – CAN, the Association Agreement is envisaged as a comprehensive agreement. It will be negotiated with Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. As soon as Panama takes the decision to join the economic integration process SIECA in Central America, it will be fully involved in the negotiations.

With respect to the initial conditions for starting negotiations with Central America, the European side accepted:<sup>12</sup>

- that CACM would establish a process for the entry into force of the Framework Agreement on customs union and, at all events, the essential elements that guarantee the working of the Association Agreement, before the conclusion of the negotiations;
- that at the beginning of the negotiations Central America would elaborate a proposal for all tariff lines;
- that CACM would make its best efforts to adopt the Central American Treaty on Investment and Trade in Services.

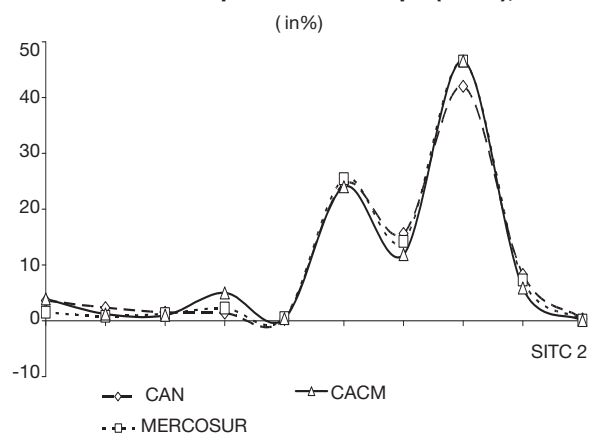
<sup>10</sup> Cf. Acta de la reunión de la comisión mixta comunidad andina – unión europea, La Paz, 29 - 30 Mai 2007; [http://ec.europa.eu/external\\_relations/andean/doc/acta\\_final\\_eucan\\_jtcommittee\\_la\\_paz0507\\_es.pdf](http://ec.europa.eu/external_relations/andean/doc/acta_final_eucan_jtcommittee_la_paz0507_es.pdf).

<sup>11</sup> The first round of negotiations at last took place from 17 to 20 of September 2007 in Bogotá.

<sup>12</sup> Cf. "Acta XV Comisión Mixta Centroamérica – Unión Europea, 23 April, 2007.

Figure 3

Distribution of Imports from Europe (EU15), 2005

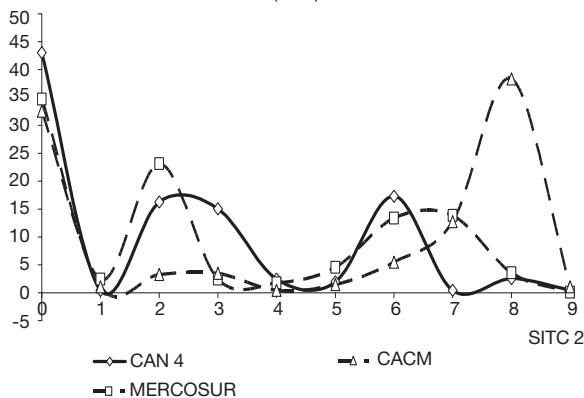


### MERCOSUR

The main objective of the 1995 Framework Agreement between Mercosur and the EU was the preparation of negotiations for an Interregional Association Agreement between the EU and Mercosur. After three years of preparatory work between the Commission and the Mercosur governments the Commission was able to put forward in July 1998 to the EU member states a proposal for a negotiating mandate. On 28 June 1999 in Rio de Janeiro negotiations on a future Interregional Association Agreement were formally launched. The negotiating directives were formally approved by the European Council on 13 September 1999. This compromise instructed the Commission to start negotiations on non-tariff elements immediately, to begin negotiations on tariffs and services on 1 July 2001, and in the meantime to hold a "dialogue" with Mercosur about tariffs, services, agriculture etc. in the light of the WTO round. Negotiations would only be concluded after the end of the WTO round.<sup>13</sup> This compromise obviously created significant restraints on its negotiating position. Since May 2004, negotiations have been carried out on the basis of informal technical meetings between MERCOSUR and the EU. But the two sides failed to agree on each other's final offers. Among other things, MERCOSUR was not satisfied with the EU's agricultural market access provisions and the EU found MERCOSUR's proposals to open their telecommunications sector and upgrade protection of European geographical indications lack-

<sup>13</sup> "... we won't be seeing 'significant advances' in these discussions until we know for sure how the Doha Round evolves", Peter Mandelson on discussions with MERCOSUR, MercoPress, 7 December 2006.

**Figure 4**  
Distribution of Exports to Europe (EU15), 2005  
(in %)



**Table 3**  
Exports to EU15 as per cent of Total Exports 2005  
by Sector

SITC	CAN	MERCOSUR	CACM
0	33.29	31.14	44.91
1	27.52	33.51	31.30
2	18.41	31.47	32.07
3	4.28	5.90	68.20
4	36.23	11.90	14.62
5	7.76	13.76	8.27
6	16.67	16.60	26.43
7	2.91	12.79	34.64
8	5.44	20.00	83.41
9	1.52	2.54	74.37
Total	9.12	20.29	46.03

Source: Comtrade.

ing. Commentators more broadly blamed the failed talks on political weaknesses on both sides. Discussions resumed in 2005.

#### Who Will Be First?

One reason to engage in negotiations on trade with a specific bloc is probably the relative importance of a region as trading partner for the EU. In this respect, Mercosur is by far the most important entity in Latin America. This probably is one of the reasons why the European Union started negotiations with Mercosur as an economic bloc quite early. However, the importance of Mercosur as an international player in trade negotiations also led to a strong interlinking between the interregional dialogue and the multilateral negotiations within the World Trade Organisation (WTO). This made negotiation advances quite difficult: when the multilateral negotiations became stalled, advances in the interregional negotiations became nearly impossible.

However, the volume of trade is only one aspect of economic relations. Within international economic relations quite often volume is not the most important factor, but the structure of trade. For example, trade in agricultural products is a much more difficult topic for the EU than trade in industrial products. Thus, in the following the structure of trade between the European Union and three Latin American economic blocs will be analysed. Trade will again be classified by sector, using the classification SITC revision 2 at the one-digit level. This gives a rather general classification which allows the basic distinction between agricultural products, manufactured products and mineral goods. If the three subregional blocs show diverging structures of

trade with the European Union, diverging approaches to the negotiations may be expected. Figures 3 and 4 show the structures of imports from and exports to the European Union. The distribution of imports from the EU is quite similar in the three regions, at least at the one-digit level used here, and reveals a traditional pattern of north-south trade. The Latin American sub-regions import mainly machinery and transport equipment, and chemicals.

Exports to Europe show a less homogenous picture (Figure 4).<sup>14</sup> Whereas all three regions export high percentages of food and live animals, only MERCOSUR and the Andean Community also show high percentages of crude materials and basic manufactures. Both regions are quite rich in minerals. In Central America the high percentage of manufactured goods is surprising. More detailed analysis reveals that these exports stem nearly exclusively from one foreign investment project, the important Intel plant in Costa Rica.

As Table 3 shows the European Union is an important destination for all types of exports from the Latin American regions under scrutiny. For exports of food and live animals (SITC 0) and of crude materials (SITC 2) Europe is especially important, reflecting the traditional division of labour between north and south. With respect to its overall importance, Europe is very important as a destination for exports in the case of Central America, followed by MERCOSUR, whereas CAN exports go mainly to the USA. China

<sup>14</sup> As Venezuela left the Andean Community in 1996, and the analysis here is used to explain the ongoing negotiations, Andean Community export figures do not include Venezuela, which as an important oil producer exports mainly crude oil, also to Europe.

**Table 4**  
**Geographical Distribution of Exports 2005**  
(in %)

	CAN	MERCOSUR	CACM
EU-15	9.12	20.29	46.03
USA	40.72	17.46	12.48
China	2.19	6.31	1.99
Other	47.97	55.94	39.49

Source: Comtrade.

is already an important destination for some types of goods and some regions, for example for crude materials from MERCOSUR (cf. Table 4).

#### **The Experience from the First Round of Association Agreements**

The first round of association agreements between Latin American countries and the European Union concerned Mexico and Chile. Negotiations between the European Union and Mexico started officially in November 1998 and were finalised one year later. This rapid progress may be attributed to two factors. First, agricultural products are not a very important part of Mexican exports, and second, Mexico agreed to exclude the most sensitive agricultural products from the negotiations. Zabludovsky and Gómez<sup>15</sup> point out that besides tariffs and agricultural products, the most important discussions concerned rules of origin and services. With respect to tariffs, Europe tried to reach the same treatment as Mexico's North American partners in NAFTA.

The association agreement between the European Union and Chile was preceded by the "Framework agreement on cooperation" of 1996. Negotiations on the association agreement started in April 2000 and were concluded two years later. The agreement was signed in November 2002. As in the case of Mexico rules of geographical origin have been an important topic for negotiation. Both agreements include some of the "Singapore" issues such as, for example, competition rules. This is an interesting point, because these were rejected at the Cancun meeting in the multilateral context. An arbitration mechanism is included in both agreements, as well as elements of political and economic cooperation.

An analysis of the negotiation process reveals that for the European side meat, milk and milk products,

<sup>15</sup> Jaime Zabludovsky, Sergio Gómez Lora: La ventana europea: Retos de la negociación del tratado de libre Comercio de México con la Unión Europea, Documento de Trabajo- IECI-09, November 2004, BID-INTAL.

**Table 5**  
**Comparison between Third and Fourth Generation Trade Agreements of the European Union**

	Third Generation	Fourth Generation
Political Dialogue	Low legal status	High legal status
Cooperation	Limited scope	Access to European programmes
Market Access	Limited preferences	Asymmetric treatment
Agriculture	Exclusion of sensitive products	Asymmetric treatment
Investment	No	Yes
Services	No	Yes
Public Sector Buying	No	Yes
Subsidies	No	Yes
Antidumping	No	Yes
Competition Policy	No	Yes
Dispute Settlement	No	Yes
Trade Facilitation	No	Yes
Sanitation	No	Yes
Standards and Norms	No	Yes
Customs	No	Yes
Electronic Commerce	No	Yes

Source: Luis Xavier Grisanti: El nuevo interregionalismo transatlántico: la asociación estratégica Unión Europea - América Latina, Intal - ITD 2004, p. 135.

fruits and cereals, sugar and wine are sensitive products. An interesting point is also the special treatment of the Mexican automobile sector, which may serve as an example for the treatment of sensitive developing country sectors in the future.<sup>16</sup>

Agreements of a similar quality in other regions are the agreements between the European Union and South Africa as well as the Mediterranean agreements. Together with the aforementioned agreements with Mexico and Chile these are the association agreements – also known as fourth generation trade agreements – which have been signed by the European Union up to now. Generally speaking, the Mediterranean agreements are less detailed than the other agreements and the South African agreement reflects

<sup>16</sup> María Teresa Nunes Briceño: Eventual inicio de negociaciones de un Acuerdo de Asociación que incluya un Tratado de Libre Comercio entre la Unión Europea y la Comunidad Andina, Análisis comparativo de los Capítulos relativos a la Eliminación de Derechos de Aduana y a las Excepciones contenidas en los Acuerdos de Asociación suscritos por la Unión Europea con México y Chile, SG/di 726, 12 April 2005, 0.8.2.



a pronounced policy of support for the transition from an apartheid regime to democracy.

It is interesting to point out that various negotiation processes between RTAs and the EU have been underway. Thus far, none has been concluded. This suggests that agreements between two blocs are quite complex to negotiate. If this is true in general, it is especially troubling where strong regional institutions in at least one of the two blocs are missing. This is clearly the case in the negotiations between the EU and Latin American RTAs, as Latin American regional institutions are still quite weak. The EU has never, up to now, signed an association agreement with a grouping which finds itself in the process of economic integration. This points to a high complexity of negotiations between two RTAs, particularly in the case of the quite ambitious fourth generation agreements. Table 5 shows the main topics of fourth generation agreements and stresses the advance with respect to third generation agreements, thus emphasising the complexity of the newer association agreements for example with Mexico and Chile. An association agreement with a Latin American regional grouping would therefore be a new experience for Europe. Outside the Latin American region the EC is negotiating regional agreements with the Cooperation Council for the Arab States of the Gulf (GCC) and is preparing negotiations with the Association of South East Asian Nations (ASEAN).

#### The Future of FTAs between Regions

If the countries taking part in free trade agreements with the EU do not have a strong bureaucracy, and a well-organised private sector and civil society, they risk losing in the negotiation process. The same applies to groupings without strong regional institutions. The above-mentioned evaluations of the degree of integration achieved in CAN and CACM point to important deficiencies in this respect.<sup>17</sup>

In addition to a weakness of institutions there is a weakness of the integration process itself. If a regional bloc announces that some results may apply only to some member countries and not to all, it obviously reveals a limited bargaining position. Due to the limited scope of integration in the two regions just mentioned, the results of the negotiations may be less ambitious than would be the case in bilateral negotiations with specific countries. It was already pointed out that no agreement between two RTAs has been signed so far.

<sup>17</sup> In this context the history of late payments to CAN institutions by the governments and the financial crisis of these institutions provoked by Venezuela's leaving may be mentioned.

This may be an indicator of the complexity of the task. The European position of a preference for agreements with regional integration processes is therefore risky and not necessarily sustainable. If the negotiations do not lead to satisfactory results in an acceptable time-frame, this approach could be reconsidered. The alternatives are bilateral or multilateral approaches. As the multilateral approach may not always be feasible – and at present seems extremely difficult – a practical alternative would be bilateral negotiations with the most important trading partners. China, India and Brazil, for example, have been identified as “potential new poles”<sup>18</sup> of the world trading system. In South America the dominant economy is Brazil.<sup>19</sup> It is thus not surprising that the EU is also trying to strengthen bilateral relations with Brazil. In July 2007, the EU and Brazil decided to establish a comprehensive strategic partnership.<sup>20</sup>

#### Conclusions

At present, the European Commission is in the process of negotiating association agreements with three Latin American RTAs. This reflects on the one hand the tradition of RTAs in Latin America that imitate the EU to some degree, and on the other hand the decision of the EU to focus on agreements with trading blocs, since multilateral negotiations have stalled. This strategy strengthens the integration processes in Latin America and reflects the conviction of the EC that regional integration is good for sustainable development and the creation of larger markets which allow the realisation of economies of scale and thus attract foreign and especially European investment. The outcome of negotiations on trade matters depends in part on the quality of the organisation of the negotiation process on both sides. This includes the bureaucracy, the private sector and civil society. In negotiations between RTAs regional institutions are as important, or even more so, than the national ones. The best regional in-

<sup>18</sup> Cf. Simon J. Everett: EU commercial policy in a multipolar trading system, in: *INTERECONOMICS*, Vol 42, No. 3, 2007, pp. 143–154,

<sup>19</sup> Brazil and Mexico are the two most important economies in Latin America. Whereas Brazil has the more numerous population, the Mexican gross national income (GNI) is higher than Brazil's (2005). Brazil is therefore the most important South American, but not Latin American, economy.

<sup>20</sup> It must nevertheless be acknowledged that the agreement stressed that, “The EU and Brazil concur that the best way to deal with global issues is through effective multilateralism, placing the UN system at its centre. The EU and Brazil attach high importance to strengthening EU – MERCOSUR relations and repeat their commitment to concluding the EU – MERCOSUR Association Agreement, in order to further deepen region-to-region economic relations as well as enhance the political dialogue and cooperation initiatives”. (Cf. EU-Brazil Summit, Lisbon, 4 July 2007, Joint Statement.) Nevertheless the agreement may serve as a kind of insurance for the case that the interregional process does not advance.

stitutions by far exist in Europe – thus a certain European advantage in this kind of negotiations is to be expected.<sup>21</sup>

The new (fourth) generation of agreements on trade matters is very complex and includes the Singapore issues, for example competition policy, dispute settlement, trade facilitation, standards and norms, and customs procedures. In negotiations between regional blocs the degree of complexity is higher than in bilateral agreements. Furthermore, the quality of the integration already achieved in these matters becomes apparent. Where the true harmonisation of national positions has

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<sup>21</sup> It must be acknowledged nevertheless that the European Commission fosters the regional institutions in Latin America for example via technical assistance programmes that include the strengthening of their capacity for international negotiations on trade matters.

not been achieved but, instead, weak compromises exist, it will obviously be difficult to reach a common position for negotiation. Examples from the three Latin American organisations are manifold.

These complexities are responsible for a sizeable risk of failure in the negotiations. Or even if there is no outright failure – perhaps for political reasons – the negotiation results may not fulfil expectations. If this is the case, Europe may reconsider its current approach to trade negotiations with Latin America; if multilateral negotiations are not a feasible alternative, perhaps bilateral negotiations between the EU and individual countries will become more attractive. The recent agreement with the most important South American economy, Brazil, may point in this direction.