

# THE EU AND MERCOSUR THE OPPORTUNITY FOR A COMPETITIVE ALLIANCE IN THE AGROINDUSTRIAL SECTOR

**Martín Piñeiro. August 2020**

At the end of the World War II, Europe was devastated and the population experienced enormous economic hardships for many years. The lack of sufficient food was one of the manifestations of this situation. This historical experience cemented a culture and a special attitude towards agriculture and food that still persists in an intense way and that has shaped the agricultural policy followed by most of the countries both individually and collectively within the framework of the European Union (EU).

The main feature of the agricultural policy followed by the EU at that time was to increase production and sustain the productive capacity of rural population through various subsidies. This policy finally resulted in exportable surpluses that required specific subsidies to be traded internationally, thus creating unfair competition with other exporting countries with less financial capacity. It was a costly strategy that disrupted the international market and harmed developing countries that depended on their agricultural exports for their economic development.

In the last two decades the EU, with the implementation of the Common Agricultural Policy (the CAP), has slowly but consistently modified its policies of direct internal support aimed at sustaining the internal price of food products and replaced these by direct transfers to producers. This shift towards less distorting policies with less impact on production and more impact on the income of European producers has reduced the need to export and has therefore led to a less aggressive policy and positioning in international markets. At the same time, they have maintained tariff protection, including tariff escalation, and increased restrictions on imports through non-tariff measures related to sanitary issues and technical regulations that are not always grounded on scientific evidence. More recently, potential restrictions related to environmental issues such as carbon balance have been added. In sum, a geopolitical behavior with a defensive commercial positioning, typical of a region that sees itself mainly as an importer, concerned about supplying its population with safe and high-quality food, thus regulating and controlling imports while protecting its national production.

This cultural attitude of looking at food systems with a Europe-centric perspective has been consolidated very recently with the approval of the European Green Deal and even more so with the complementary proposal of the Farm to Fork Strategy in which a high priority is given to the dimensions of environmental sustainability, food safety and nutritional value of food.

As a result of these policies, the EU is the second largest participant in world agricultural trade and the main importer of food with a value of 150 billion dollars, a situation that will change with the implementation of Brexit. The departure of the United Kingdom (UK), a

major food importer, will modify the relationship between EU agricultural exports and imports in favor of the former. Therefore the EU will become the third net food exporter, after MERCOSUR and Australia and New Zealand taken together, with net agri-food exports worth around \$ 35 billion in 2018. The UK and the EU might find a convenient trade deal that would allow the EU to stay as the UK's leading food supplier. In any case, and especially if the agreement that is reached is not very favorable, this situation will modify the geopolitical interests of the EU and increase its needs to implement more offensive policies, both in bilateral trade negotiations and in export promotion policies, to be able to place its exportable food balances in third markets. In a scenario of this type, the EU must adopt a different position and participation in the geopolitics of food and would be forced to have a dual position that integrates both offensive policies in international trade and defensive policies to sustain its own agricultural production. In this new situation of a net food exporter, offensive policies should be aimed at ensuring access to the markets of importing countries and also positioning themselves in the agro-industrial value chains.

In this new scenario, the EU will have global agro-industrial interests more typical of an exporting country. This new repositioning would have three very significant consequences from MERCOSUR's point of view.

**The first** is that the EU will have a new role and new interests in geopolitics of food in two main areas: a) a primary interest in maintaining international trade governed by multilateral rules. Proof of this is the active participation that the EU is having in the negotiations at the WTO, including the formation of a temporary appellate body to immediately resolve the existing crisis, b) a need to achieve bilateral agreements that include the agro-industrial sector.

This new positioning of the EU regarding the agro-industrial sector makes it a natural ally of MERCOSUR and other countries that are food exporters. All of them need to build and strengthen multilateral trade and the organizations that protect it.

**The second consequence** is that agricultural policy will have to give a new consideration to the dimension of productivity and competitiveness in order to compete in the international market. This could put certain limits on the objectives related to environmental sustainability and food safety and quality defined as the main priorities in the Farm to Fork proposal. A more balanced vision from the EU regarding the way in which agri-food systems should be developed, both in each of the countries and at the global level, would allow a greater dialogue and shared construction, by both regions, of global agri-food systems capable of feeding the world with adequate environmental sustainability and globally agreed conditions of safety and nutritional quality.

Finally, **the third consequence** is linked to the implementation of the recently signed EU / MERCOSUR Agreement. In this context, the approval and subsequent implementation of this agreement could encounter additional obstacles to those already faced due to resistance from the EU which, as a consequence of this new availability of exportable goods, will have to make greater efforts and will have a more aggressive attitude to penetrate the MERCOSUR food market, especially in some high-quality processed products such as dairy products and wines.

This new positioning of the EU in geopolitics of food will result in a greater convergence of interests and needs with MERCOSUR and other net food exporting countries. This will open the doors for further cooperation in the field of international trade, rule-setting and sustaining the necessary international architecture. This cooperation must have long-term objectives and avoid the greater direct competition that both blocs will have in agricultural trade.