Implications of European Union Enlargement for Euro-Mercosur relations

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Within the general context of the EU's relations with Latin America (see in general Ayuso Pozo, 2001a: 361 et seq and 635 et seq; European Commission, "Relations between the European Union and Latin America: The results so far"), Mercosur is the object of preferential attention by the EU because of the existence of outstanding contacts deriving from their great historical, cultural and social common patrimony (see Aldecoa Luzarraga, 1995: 761-792; Gillespie, Rodrigo and Story, 1995: 189-209), as well as for their evident common interests.

This is particularly the case in the economic and social field, since Mercosur is a promising partner for the EU, because it represents its main market quota at the commercial[1] and investments level[2]. At the same time Mercosur constitutes an exceptional opportunity for European companies to penetrate the Latin American continent. On the other hand, Europe is a priority for Mercosur in the economic and political field because it paves the way for a strong market. Mercosur also relies on the international co-operation aid given by the EU to promote and strengthen the development of Argentina, Brazil, Paraguay and Uruguay[3].

Furthermore the Cono Sur meets one of the EU's sensitive requirements for negotiating international agreements, such as having a democratic system and respecting human rights. In more than one sense the relationship between both blocks constitutes a natural strategic association.

It is therefore no mere coincidence that on 29 April 1991, practically one month after the signature of the Asunción Treaty (dated 26 March 1991), by which Mercosur was founded, and before it entered into force (on 29 November 1991), the contacts between Mercosur and the EU began. Concretely, a meeting among the four Mercosur Foreign Affairs Ministers and some members of the European Commission took place in Brussels, with the specific goal of assessing the possibility of setting up relations between the EU and Mercosur. The significance of such relations has been confirmed on several occasions since then, as in the Commission Reports on the relations between the EU and Latin America dated 23 October 1995 and 9 March 1999 and in the IFCA between the EU and Mercosur, signed on 15 December 1995, as well as in the joint declarations made after the Rio de Janeiro Summit in June 1999 by Europe, Latin America and the Caribbean. Both texts are discussed below because of their interest. More recently this significance has also been underlined in the goals of the programme of the wrongly called *Spanish Presidency of the EU* during the first semester of 2002 and in the conclusions of the EU Council in respect of Mercosur, on 28 January 2002. In fact it means that since 1996 both interlocutors are making a great effort in order to define a new framework of privileged relations both because of its intensity and its greater effectiveness. It was understood as an initial sequence in order to create a reciprocal economic and political association[4].

Nevertheless, the bridge that Mercosur and the EU have to cross is strewn with difficulties, because of the sacrifice involved in to carrying out the aim of commercial liberalisation, particularly in the agricultural and industrial fields. In this context we must also consider what consequences might be Europe's current enlargement process, because the financial resources are increasingly scarce to attend to growing necessities and to a great extent they will have to be focused on the future member states, in view of their lower economic and social development. We have to bear in mind that most of the candidate countries are potentially competitors of the Mercosur countries, particularly at the agricultural level. Nor should it be forgotten that the CAP is very protective of European production, and with the enlargement new states are to be incorporated, in which agriculture is a significant field. This means that the enlargement may finally entail new obstacles and barriers for the access of the Mercosur farm produce to the European agricultural market, especially live cattle, some meats and vegetables and fruits, which are also exported from the CEECs to the EU. This fact may significantly influence the negotiations that the EU and Mercosur are carrying out to consolidate and strengthen their relations. On the other hand, the enlargement can open new business possibilities for the Mercosur companies since we are talking about virgin markets in many aspects, a fact which should be borne in mind in the course of the negotiations.

All the above mentioned questions will be examined successively in this chapter.

The implementation of the interregional framework co-operation agreement (IFCA) between the European Community, the Southern Common Market and their respective member states.

The IFCA was signed in Madrid on the 15 December 1995 between the European Community and its member states and Mercosur and its party states, with the express goal of systematising the different joint relations that both interlocutors tend to maintain, as well as to reinforce them in the future by means of the constitution of a strategic biregional association[5]. This will mean the creation of the second highest world free trade area, with a GDP exceeding €9 billion (in the European sense of a billion) and a population of about 700 million inhabitants (European Commission 2002, Unión Europea – Mercosur. Una asociación para el futuro). It is therefore the cornerstone on which the relationship between both groups has to evolve. Acceptance of such a phenomenon within the international scene also means that the interregional relations have already been institutionalised. Indeed, the term *superregionalism* has been assigned to describe such initiatives because they imply "a hemispheric or transoceanic dimension to the agreements of regional integration which grow at a planetary scale since the beginning of the eighties" (Grandi and Schutt, 98-1999: 40-41).

This explains why both interlocutors initiated very early their provisional application of the IFCA with reference to the commercial co-operation -title II- and the institutional framework -title VIII- (Decision 96/205/CE of the Council, on 20 November 1995). Once constituted the foreseen bodies, they have carried out a follow-up of the reciprocally contributed information[6]. In other cases some agreements have been reached, such as the Financing Agreement on the Statistical Co-operation, signed between the European Community and the Mercosur party states in Montevideo on 15 December 1997[7].

Its willingness to go forward as suggested by the IFCA was also felt at the I Biregional Summit between Europe, Latin America and the Caribbean, which was held in Rio de Janeiro on the 28 and 29 June 1999 (see Guadamillas, 1999: 225-231; Sotillo, 1999: 47-63). The result of the Summit was the *Rio Statement*. In its 69 points it assured the will to strengthen the economic and commercial links, as well as those of a political, cultural and social nature, between the EU, Latin America and the Caribbean. The *Rio Statement* was approved by consensus to avoid making public the discrepancies shown at the beginning of the meeting. The *Priorities of Action* document was also adopted, which determines the 55 measures of a political, cultural and economic nature that will constitute the future joint actions to be implemented in fields such as drug addiction, terrorism, environment, technology and science (texts in *Bull. EU*, no. 6, 1999, pages 159 et seq). In order to follow up the accomplishment of these priorities the setting up of a Biregional Group was envisaged. At its first meeting, held in Tuusula (Finland) on 5 November 1999, 11 key priorities were chosen as to focus narrowly the global process. However, three years after the Rio de Janeiro Summit, not many initiatives have been put into practice; nor has there been significant progress concerning the introduction of the co-ordination mechanisms[8].

The development of the negotiation rounds

The accomplishment of the priorities agreed at the Rio de Janeiro Summit has to set up a free trade area grouping first the EU and the Mercosur countries, together with Chile and Mexico, since they are the Latin American countries with which the EU has the closest negotiations. It will be gradually extended to the remaining countries of the zone at the same time as the contacts with the EU are intensified and enlarged. There were, however, strong differences within the core of the EU regarding the inclusion of an agricultural chapter in the agenda of negotiations. This led to the negotiation directive not being given to the European Commission until the 13 September 1999 and limited the beginning of the formal negotiations for tariff matters until the 1 of July 2001. For matters not regarding the tariff, the negotiation directive set up the 24

November 1999 to start the negotiations, but the preliminary process started before, even though an unofficial round of talks took place in Brussels during on 12 and 13 October, 1999.

At the opening meeting of the EU-Mercosur Co-operation Council, held in Brussels on 24 November 1999, the proposals put forward by the parties were taken into consideration and the structure, the methodology and the schedule of negotiation were defined. At an institutional level it was agreed to establish a centralised structure that would involve the Biregional Negotiation Committee, composed by representatives of the EU and Mercosur, in charge of leading the general negotiating process. Directly responsible to it, a Co-operation Subcommittee was set up in order to drive the negotiations on interregional co-operation. Two secretary's office of administrative co-ordination and of certain work teams to carry out specific tasks were also set up. Concerning the methodology of the negotiations, the *single undertaking principle* or sole commitment should be emphasised, since the negotiations will be able to be carried out in an autonomous way within the Committee and the Subcommittee and their work teams. The outcome will have to be gathered in a single, indivisible document, so in fact there is no agreement until agreement is reached on all aspects. Finally, with regard to the meeting schedules, the Committee will meet three times a year alternatively in one of the Mercosur countries and in Brussels, unless otherwise expressed. The work teams will meet in parallel, as the Committee does, and they can maintain informal contacts between the Committees' meetings. There are no specific schedule of meetings for the Co-operation Subcommittee.

Since the Biregional Negotiation Committee came into force, it has held 7 negotiation rounds between its first meeting in Buenos Aires on 6 and 7 April 2000 and the most recent one in Buenos Aires on 8 - 11 April, 2002. As there is still no final agreement because of a number of problems in several fields, it is interesting to focus the attention on the present situation of the negotiations (see a detailed exposition of each of the rounds in the document *The EU & Mercosur* of the European Commission).

The current situation of the negotiations

In order to understand what is at stake, we will try to summarise the composition of the commercial exchanges of goods and services between Mercosur and the EU. We will outline the most sensitive points in view of the European tariff offer on 5 July 2001 and the Mercosur counter-offer on 29 October 2001. We will also mention the direct foreign investment in Mercosur[9].

Goods trading

The imports from Mercosur represent 2.4% of the total EU purchases, while EU exports to Mercosur represent 2.8% of the EU's total sales; in both cases the figures refer to the extra European exchanges. 51% of EU imports are agricultural goods, while these products account for only 4.5% of the EU exports to Mercosur. On the other hand, 49% of the EU purchases are industrial goods, while 95.5% of the EU sales are industrial goods. In view of the fact that 61% of the EU total imports from Mercosur arrives free of customs duties within Europe (59% concerns industrial products and 63% agricultural products), the complete exemption by the EU of all taxes on imports from Mercosur would affect 1% of the total imports from the EU.

The global value of sensitive products for Europe (basically agricultural and some industrial) varies between 13.39% and 15.57% of the total EU imports coming from Mercosur (between 8.32% and 10.5% concerns agricultural products, without taking into consideration fishery products; 1.54% in the case of fishery and 3.53% in the case of industrial products). Its global significance amounts to €2,060 million. Another 0.47% is considered as potentially sensitive[10].

The EU imports agricultural products from Mercosur to the value of €8,900 million. €5,800 million already land in the EU free of charges. Of the remaining €3,100 million, a total of €2,200 million are covered by the European tariff offer at different terms, according to the products in question. That means that 80.9% of the trade in agricultural products would enter the EU free of customs duties. The remainder (€1,100 million, which represents 19.1% of the agricultural trade) relates to the more sensitive agricultural products reaching the EU. That is why these products are liable to *ad valorem* and specific customs duties.

The full liberalisation of the agricultural products would cost the EU between €5,300 million and €14,300 million per year in compensation to the European farmers due to the losses incurred as a result of the competition from Mercosur companies. This means between a fifth and a third of the EU agricultural budget; the actions taken by the European farmers and some states like France and Spain are therefore understandable. The Mercosur states are not in a position to give way because all of them are great exporters of this type of products and, thanks to the high quality of their products, they can compete well with European farming products. Access to the European market is therefore vital for them[11]. In practice, the establishment of a free change status could affect groups of countries under preferential treatment (CEECs, ACP and MEDA countries) in some of the products arriving in the EU in better conditions than those from Mercosur. This aspect should be emphasised because the agricultural chapter is one of the most arduous in the negotiations towards EU enlargement and also represents the main obstruction to an agreement of interest to Mercosur being reached [12].

The EU imports industrial products to the value of €8,800 million of which 4,700 million (53%) reach Europe with no duty tax and the remaining €4,100 million (47%) are subject to customs duties. The EU offer covers the total elimination of duties taxes for industrial products during a period of ten years divided into four stages, although most of them are considered free within the first seven years. This is, of course, subject to strict reciprocity in the textile and footwear sector, as well as an effective access to the Mercosur market, especially in the non-tariff field. The problem concerns the two sectors mentioned by the EU (textile and footwear) since both are troublesome, even within Mercosur itself and that is a burden to reach an agreement. It should be noted in another sense that the deficit concerning the industrial exchanges between Mercosur and the EU is extremely high (US $11,100 million in 1999). This is untenable in the long-term.

Finally, the EU imports products from the Mercosur fishery industry to the value of €500 million, of which only 1% reaches Europe without paying duty tax. The EU proposes a full liberalisation of customs duties on all the fishery products within 10 years. This proposal is subject to EU access to the territorial waters of the Mercosur member states.

The Mercosur offer of 29 October 2001 implies, in terms of trade, a 33% tax reduction on the present tariff rates applied to European imports during the period 1998-2000, which amounts to US $7,500 million per year. This liberalisation affects 30% of the tariff products (that is 3,129 products from the 9,410 comprising the common Mercosur nomenclature). It would come in to force with the association agreement and it would have to be carried out in a period no longer than 10 years. This liberalisation particularly benefits all the EU industrial fields which historically have held significant trade flows with the Latin American block. Among them we can single out machines and electrical materials (the preferences offered to European imports reach over US $3,400 million), chemical and pharmaceutical products (it is proposed to liberalise an amount approaching US $2,000 million), transport material (amounting to US $738 million) and tools and optical equipment (to the value of US $533 million). In the agricultural sector Mercosur proposes to liberalise in this first stage almost 40% of the average imports from the EU in the 1998-2000 triennium. And finally, for all the remaining products Mercosur envisages that during the negotiating period the terms and conditions of the tax reduction is to be defined.

In summary, the offers from both parties can be characterised by their *modesty and caution* with regard to the trade liberalisation of their sensitive areas, the EU in relation to agricultural products and Mercosur in relation to industrial goods (Bouzas and Motta Veiga: 3).

Offsetting these costs and difficulties, it must be pointed out that the European Commission has estimated the additional real income profit from an agreement without restrictions in the trade of goods, including the costs of suppression or significant reduction of the industrial and agricultural barriers. This would amount to about US $6,200 million per year for Europe and US $5,100 million per year for Mercosur[13].

Trade of services and direct foreign investments

Regarding these two aspects the difficulties are less formidable because of the big business opportunities for European services companies in countries such as Argentina and Brazil, which are major importers of services. The direct investment opportunities opened to European operators in a liberalised market have also been taken into consideration[14]. In fact, outstanding advances have been achieved in the exchangeable services negotiations (those financed through the balance of payments) and those not exchangeable such as transport, distribution, insurance, banking, building, real estate and so on, which are supported by direct foreign investments.

Nevertheless there are still some details pending because the commitments undertaken by the four countries of Mercosur at the GATS level of the WTO cannot be compared to the average commitments undertaken by the EU in its foreign relations, and even less to intracommunity liberalisation. At the internal Mercosur level we will have to wait until 2007 for the national treatment principle to come into force in every member country, as stated in the Montevideo Protocol signed in 1997 on the trade of services.

Both interlocutors have great interest in the development of the services sector because more than two thirds of European direct investment has been carried out in this sector. It embraces the sectors of banking, insurance, telecommunications, sea and air freight, energy, engineering and consulting. Furthermore, European direct investment has increased in Argentina and Brazil (Paraguay and Uruguay have not attracted significant direct investment due to the small size of their market and the scarce opening of their key sectors) and that has allowed better financing of their economic growth.

Co-operation

This is the field in which the negotiations are most advanced. In good measure because the EU will grant relatively substantial subsidies: the EU allowance expected during the period 2002-2006 for Mercosur is €48 million and a further €200 million are earmarked for the Mercosur states during that period. In fact several specific co-operation programmes are already being applied, others have just been approved and there are some programmes in an advanced study stage. For example, the projects for institutional backing of the Mercosur bodies (Mercosur Administrative Secretary: €900,000; Parliamentary Joint Committee: €917,175; Social and Economic Council Forum: €950,000); hygiene and plant rules (€11,200,000); statistical harmonisation (€4,135,000); and duty tax harmonisation –II stage- (€5,000,000); support for Mercosur single market (€4,600,000); macroeconomic co-ordination (€2,500,000); and technical and standards rules (€3,950,000)[15].

Nevertheless, some problems still remain to be solved. For example, in the co-operation programme to set up and reinforce competition policies in the Mercosur countries, the main obstacle lies in the non-existence of competition conditions for market access to the Cono Sur due to national treatment rules, licenses, standards, prices control, discrimination in distribution access and so on.

Expected difficulties of the IFCA implementation, with especial reference to European enlargement process

It is not possible to analyse all the endogenous and exogenous facts influencing the negotiations for a strategic association in a study such as this. We will therefore focus on the difficulties related more with the enlargement process currently under way in the EU and which are essentially of an economic nature[16].

First of all we have to bear in mind the enormous strength and sacrifice involved in carrying out the intended commercial liberalisation, both because of the very short terms allowed for such strict adjustment (it is generally thought in a period of 10 years), and because of the wide scope and the additional costs, especially if it ultimately embraces (at least partially) the most sensitive products such as agricultural and industrial products.

We must also take into account the regional and world fluctuation of national economic circumstances. In the case of Mercosur, one should not forget the serious tensions generated by the strong asymmetries of the economies of their member states (see Lavagna, 1998: 226-240), which have caused a serious economic problem in Brazil, including a strong devaluation of the real, and a more serious economic recession, including bankruptcy, in Argentina (see Feldstein, 2002: 110-116 and Murillo, 2002: 98-109). At the European level, we also have to bear in mind significant events such as the reactions and difficulties arising from the third stage of the economic and monetary union, in particular after the physical circulation of the euro, which began in 2002 (see Trein, 1999); the starting up in 1999 of the structural and cohesion funds reform (see Landáburu, 1999: 63-72); the difficulties being experienced by some European countries to put into force the stability and growth pact (see Bonete Perales, 1998: 29-36), as well as the employment pact (see Schintgen, 1999: 551-576); and finally the fact that financing resources are proving increasingly inadequate to bear the growth of the EU expenses (see Olesti Rayo, 2000: 137-168).

Special mention is deserved by the fact that since February 2000 the EU has been engaged in difficult negotiations concerning the adhesion of the 12 new states (this number will increase to 13 when the formal negotiation start with Turkey), particularly those belonging to Central and Eastern Europe, whose economic situation is well under the EU average (see in general Chaverri Miguel, 2001; Senior Nello and Smith): not all the candidate countries are in the same economic situation and even political, but taken as a whole the GPD is not over the 45% of the European average[17].

It should also be taken into consideration that, as a whole, enlargement will mean an increase of 28% as per the EU population and an increase of 33%% of its surface and 10% of its GDP. Furthermore, the membership implies first class reforms at the political and social levels in the candidate states, which is not easy to achieve in countries which are still undergoing a transition process [18].

Integrating these states into the EU will not be an easy task, as it is proved that to date, none of the candidates is meeting all the three criteria (political, economic and technical) set up in 1993 by the European Council in Copenhagen. In particular, the negotiations about the *adquis communautaire* (and within it specially the agriculture, financial and budgetary chapters) are proving to be particularly tough, as is shown by the successive European Commission Reports about the situation of the membership negotiations. And this is the case in spite of the progress made in the framework of the so called *Accession Partnership*[19].

We should also bear in mind that the accession of these states will unavoidably involve some financial adjustments within the EU, and in the case of Spain it would mean the loss of the cohesion funds and a large reduction in the amounts received as structural funds (see European Commission (2001), *Direction towards cohesion. Regional development in Spain*; and "The first evaluating report on social and economic cohesion", dated 30 January 2002). Unless, of course, the EU is favoured with new financial resources from these member states, which does not seem feasible because financing is one of the main difficulties at present in the EU, to such an extent that the funds initially expected for the candidate countries at the Berlin European Council held in March 1999 have recently been decreased[20], despite objections from the candidate countries.

It is obvious that the future enlargement will have some influence on the implementation of the IFAC, and especially with the accession of the CEECs, since it will presumably introduce some positive and negative changes in the European economic flows *ad intra* and *ad extra* and which will have to be duly taken into due consideration[21].

Among the negative effects, a certain diversion within the trade between the EU and Mercosur is expected, especially in the primary sector (agriculture, cattle-raising, fishery and forestry) because the CAP is extraordinarily protective of the European production. And for the future new member states agriculture is a significant sector –well over the EU average and with lower production cost- and the average salary is significantly lower there than in the present EU. It is necessary to take into account that with the new membership the EU agricultural surface will be increased by about 60 million hectares (40% more than the current EU surface). The farming chapter is the main objection in the EU and Mercosur negotiations rounds (as it shown above) and is at the same time one of the most politically sensitive subjects in the current negotiations for enlargement, mainly due to the higher financial cost but also because the common farming policy is involved in a transition stage –slow and still not defined in detail-, as will be shown below (see European Commission 2002, *Enlargement and Agriculture: Successfully Integrating New Member States into the CAP*).

It will not be easy to find a balanced point within the current EU circumstances and that means that new objections and barriers will arise from the enlargement, especially with regard to certain farming products coming basically from Brazil and Argentina, which are equally bound to Europe by the CEECs nowadays, such as live cattle, tea, meat from cows and sheep, ready made meat, and some vegetables and fruits (mainly grapes and apples). In these circumstances, enlargement would worsen the current conflicts which are present in the economic agenda between both regional blocks. The Mercosur countries would not be likely to remove their own barriers to European exports in sectors such as steel and textile without a compensation equal to their agricultural exports. Whatever the final outcome agreed[22], the Mercosur demands of higher European liberalisation of their sensitive product exports would result in a more complicated negotiation of the enlargement agricultural chapter.

The consequences of enlargement, however, need not have a very negative effect on Mercosur's agricultural sector. In this sense, it has been emphasised that the land quality which the new states will contribute is lower than the European and Mercosur average; the production techniques are frequently obsolete and their infrastructure shows significant defects when it comes to competing in international markets –in particular due to old-fashioned transport and storage systems-. Even under the worst scenario the Mercosur production would still be fairly competitive (Galperín and García, 2001: 5 et seq).

We should not be excessively pessimistic since enlargement can equally yield positive aspects for Mercosur if, as may well happen, it gives a final thrust to the CAP reform process which started in the nineties because of the WTO demands, as well as the impossibility of retaining the present *statu quo*. Certainly the accession of the CEECs may cause a negative impact for the Mercosur exports, since it will enhance the negotiating power of the European countries which defend farming protectionism. But the effect may be positive, because the only means of extending to the new member states the current supported measures (direct payments to farmers, export subsidies and structural measures and support for production) is to increase the agricultural budget by around 25%, *i.e.* some €11,000 million per year (see <http://www.euractive.com/cgi-bin/cgint.exe/488467-214?714&1015=en_agricultura>) and that does not seem likely to happen since it would involve a clear discrepancy with the limits agreed by the Berlin European Council concerning the agricultural budget allocation for the period 2000-2006[23]. Moreover, the WTO demands greater liberalisation of the farming trade, and both the European Community and its member states are part of the Marrakech agreement. In spite of France and Spain, just to mention the two European countries most opposed to such a measure, the EU will have to carry out a reform of the CAP to lower subsidies and other measures to aid the productivity and farmers, as several member states are demanding (see <http://www.euractive.com/cgi-bin/cgint.exe/488467-214?714&1015=en0202211a>). According to this hypothesis, the competitiveness of the Mercosur agricultural products would finally be reinforced. It has therefore been asserted that Mercosur is not inimical to the CAP but rather to the new rules of international trade, such as the development of the productivity globalisation and the competitiveness imperative (Graça Lima, 1999: 12-21).

Finally, it should be noted that much of the impact of future enlargement has already been absorbed since the many limitations suffered by the CEECs to gain access to the European market disappeared several years ago on account of the preferential association agreements concluded with the EU after disintegration of the USSR, to such a point that the increase in commercial exchanges has been spectacular[24]. In the agricultural field, the former agreements have been accompanied during 2000 –before the enlargement took place- by "specific liberalisation agreements of the farming trade" in force between July 2000 and January 2001. On the basis of these agreements a partial liberalisation of the farming trade is carried out progressively in order to increase the global trade volume of the agricultural products not affecting the CAP ("neutrality principle"). As a whole the new concessions amount to 42% of the European imports coming from the CEECs and 18% of the European exports bound to them[25].

In summary, the enlargement to the CEECs can be considered as the logical extension of the association agreements in force because the EU is a natural trade partner of the CEECs due to its geographical proximity, lower transport costs, their historical and cultural ties and the more direct and fluid economic relations between both (see Jones and Leetman, 1997: 24-27). It is an unavoidable reality which Mercosur has to bear in mind. It will also occur in the future with the membership of other European countries (the more westernised former Soviet republics such as Ukraine; some Caucasoid republics such as Georgia; certain Mediterranean countries -other than those which are now involved in enlargement: Malta and Cyprus- such as the Balkans; and so on) with which the EU already has relations of preferential nature in exchange for greater security in its different aspects, such as immigration control, environment risks and military aspects (see Feliu and Salomon, 2000: 191-218; Serra, 2000: 159-189). The *frontier effect* of the enlargement process in course is well known[26]. Moreover, the negative impact that the enlargement may have on third countries if their exports to the CEECs are reduced (because the new members would have to take up the protectionist measures demanded by the CAP) could be offset by the concessions that the EU will have to offer them according to the WTO and other international trade rules.

More acute will probably be the shift in the European investments, since the geographical closeness of the new states and the growing possibilities to do business in attractive virgin markets will be greater in many aspects in an enlarged Europe than beyond the European borders, in the Southern Cone, where, moreover, sluggishness and even an initial withdrawal of economic profitability is being observed[27]. In fact, it is logical to expect that the new members will strengthen their efforts to attract direct foreign investment towards their territory and thus have extra economic resources allowing them to carry out some inevitable internal reforms to improve their productivity and competitiveness ratios, and therefore to increase their trade flows with other EU countries and third states.

It does not seem likely, trade however, that enlargement will affect the relations of Mercosur with the applicant countries since the reciprocal investment and commercial figures are not at present very significant.

Finally, we have to accept that, with enlargement, the EU co-operation policies will be focused more towards Eastern European countries –Russia in particular and also the ex Soviet Republics- which will be our new neighbours, in order to reinforce their economies and prevent conflicts. That will happen be to the detriment of the co-operation relations between the EU and the southern hemisphere and other areas (Sotillo, 2001: 5). This will not mean a significant cost for Mercosur since Latin America is only the third zone of interest for the EU –after the ACP countries and the CEEC applicants themselves- and the amount of European aid assigned to Mercosur is limited, in spite of having grown in the last years, as shown in Section I.

Despite the foregoing remarks, we think that the future relations between Mercosur and the EU depend less on EU enlargement than other facts such as the following. First of all, the consolidation of Mercosur as an international subject, and that implies, among other things, surmounting the economic crisis of its countries and promoting its international projection[28]. Secondly, the settling of internal difficulties within the EU, such as those relating to institutional and budgetary matters[29]. And, finally, the role that both areas were able or in a position to play on the international stage; in particular, in the framework of the future multilateral trade rounds, such as the Development Round opened after the IV WTO Ministerial Conference held in Doha –Qatar- in November, 2001)[30].

It will therefore be necessary to observe carefully in the coming years the international economic situation and the will of the politicians. Whatever the case, the intensification of all types of relations between the EU and Mercosur can generate profits for both regional blocks because Europe and the Southern Cone constitute two markets which -in view of their respective composition- are complementary in many aspects. The level of overlap of their productions and imports is relatively low, with the exception of certain sensitive products where there is a head-on collision. This will also be the case after European enlargement: there will be a new market comprising 100 million consumers –equivalent to 30% of the current EU population- which is likely to be very attractive to Mercosur exports, since the new member states will have progressively to reduce their trade protection level in order to match the EU average and transactions will be safer because of their EU membership[31]. On the contrary, the new states will discover the potential of the Mercosur economies, to which they will have better access once they are members of the EU, as the cases of Germany and France are showing: these two countries are steadily increasing their trade and investment quota in the Mercosur market. In short, an enlarged Europe can be profitable for both parties and that will depend on the preferences finally agreed between them when the current negotiations are concluded.

Apart from that, strengthening links could generate considerable synergies in an increasingly globalised and interdependent world. It should finally be emphasised that European enlargement can be fruitful for the development of Mercosur's own integration process, since it provides a valuable point of reference and observation in anticipation of the future membership of other Latin American countries in it.

All these circumstances must be carefully measured in order to the establish a strategic association between both regional blocks and also to define the contents of such a bond. The following section will give an overview of the potential positive effects.

Potential advantages of the future strategic association agreement between the EU and Mercosur

We will conclude this study by highlighting the economic profits which are expected from the future association agreement[32]. The EU hopes that the liberalisation of the exchange of goods with Mercosur will result in: a) a consolidation and strengthening of the situation of European companies in the more dynamic and promising Latin American markets. The removal of trade barriers and the harmonisation of standards will be particularly advantageous for the exports of a good number of consumer and cash goods on which there is still a high tariff protection; b) the necessary updating of plants and improvement in the infrastructure in South America, by means of which new European industrial exports opportunities will be created; this tendency will logically also benefit the services sector; c) the encouragement of the European companies to set up in the Cono Sur countries and that will foster investment flows; d) the reduction of the production costs of the already established European companies, since they will be able to import their inputs from their European origin free of customs duties. For the Mercosur countries, the association would entail a easier access to the European market of agricultural and fish products (we have to bear in mind that the latter account more than 50% of EU imports) and a encouragement of economic growth based on export.

At the same time, Mercosur considers that the two regions offer supplementary comparative advantages because the EU countries have an advantage in the production of high value added goods and the Southern Cone countries are more effective in the production of intensive goods made with natural resources and in basic manufactured goods. Consequently, the setting up of a free exchange area between both regions would allow more efficient international expertise and additionally it would yield greater prosperity in both blocks. Although some European farmers and some Mercosur entrepreneurs would suffer the negative effects of the competition in their respective imports, it should be borne that they are only successful nowadays thanks to the trade protection they still enjoy, and because the products from both regions would benefit from a better allocation of the productive resources and the reciprocal opening of markets. Besides that, consumers would benefit from the non productive income related to protectionism.

Some reports and internal studies by the European Commission have estimated that EU imports from Mercosur would vary between +0.023% and +0.027% of all the EU imports; and EU exports to Mercosur would vary between +1.317% and +1.457% of the total of the Mercosur imports. As shown above, the reciprocal trade flows growth would bring some US $6,200 million per year in profits for Europe and US $5,100 million per year for Mercosur.

At the same time, analyses carried out concerning the services sector agree that a biregional agreement would open up great business opportunities for European companies due to: a) the reduction of the numerous barriers existing at entry; b) allowing them to take advantage of the trade exchanges resulting from the agreement, since certain infrastructures (communications, port terminus, roads, bank services and so on) are directly dependent on the import and export volumes; c) because of services in Mercosur do not represent as high a percentage of GDP as in EU countries (55% as opposed to 66%, respectively) and that means a big potential growth, as is now the case in the telecommunications and financial sectors (despite the current serious economic situation in the Mercosur countries): d) Argentina and Brazil are net importers of services, while Uruguay and Paraguay are net exporters (tourism).

The same situation ultimately occur in relation with direct foreign investment due to the correlation between trade and investment (foreign investments and exports develop mutually and both play a key role in a global integration process). In fact, experience shows that the tariff and non tariff barriers reduction have meant an increase in the direct foreign investment bound to exports. Therefore, the export companies directly connected with the exchange of goods and services would benefit from an increase in the trade flows arising from the opening or borders.

We should not forget, on the other hand, that stronger ties with the EU would pave the way for Mercosur to diversify its economic and political external relations and take on an international role more in accordance with its significance as the fourth world economic block. Consequently of, the Mercosur countries would be in a better negotiating position in respect of the US towards the FTAA establishment after having undertaken or concluded the process of trade liberalisation with Europe. Independently of the final outcome in the FTAA negotiations, they would benefit from the opportunity to exert a counterweight to US influence in American hemisphere. Objectively, the European pattern offers Mercosur a number of comparative advantages over the US pattern, at least in terms of the persistent lack of definition in US integration initiative (for a comparison between the EU and US initiatives, see Bodemer and Nolte, 1998: 12-15; Sberro and Bacaria Colom, 2002: 52-66).

Similarly, the EU might be more ready to offer concessions to Mercosur if it observed that the Interamerican negotiations involved a loss in its trade quota in the Southern Common Market. Its presence would be assured in one of the regions with the highest potential growth in the world, as well as in a quite attractive investment centre. The association agreement would also be useful to prove the potential of the EU Common Foreign and Security Policy and that the enlargement process under way has not diminished its ability to take on commitments of all types outside Europe. The association therefore provides a means to increase its international influence with reasonable chances of success.

Lastly, the association would give Mercosur countries a better hand in facing certain challenges in the international community, such as the consolidation of democracy and the protection of human rights, globalisation, the exploitation of non-renewable resources, and the protection of environment, peace and international security, just to mention some examples from the long list of priorities agreed in the 1999 Rio de Janeiro Summit. And it would promote the launching of new forms of co-operation in the fields of science and technology, as well as in the media, that are so much in demand in the Mercosur countries. These positive effects could be seen beyond the biregional relations at a multilateral negotiation level, within the WTO, since the enlarged EU together with Mercosur could counteract the US known reluctant position in matters such as cultural patrimony, environmental protection, and so on.

To sum up, first grade economic and political effects are expected on the signing of the association agreement between Mercosur and the EU. All of that has to be taken into account without forgetting the importance that the incentives of the relations would provide in strengthening the undeniable historical, cultural and social ties linking both sides of the Atlantic.

The II Biregional summit between Europe, Latin America and the Caribbean (Madrid, 17 and 18 may 2002)

Hence the great significance that the II Biregional Summit between Europe, Latin America and the Caribbean had in promoting the negotiations between the EU and the Southern Common Market held in Madrid on 17 and 18 May 2002 at the highest level (48 government presidents and state leaders were present), although unfortunately they were not duly attended. Evaluations are necessarily provisional given that the Summit took place so recently, but we can assert that the agreement reached between the EU and Mercosur does not ensure –at least for the time being- the development of reciprocal preferential relations, since the situation of both blocks has forced a compulsory time lag showing the standstill of the negotiations rounds.

The Political Statement (*Madrid Commitment* dated 17 May 2002) reflects this reality. Firstly, it highlights that the "political, institutional and co-operation chapters are virtually concluded" and welcomes "with satisfaction the progress carried out up to now in the exchange and commercial chapters and the adoption of a set of measures related to ease the trade". But immediately after it stresses the trust in the fact that "both parties will carry on making substantial progress towards the conclusion of a successful negotiation process at the soonest possible opportunity". The fact that there is no deadline to conclude the association agreement means a step backward in respect of the 1999 Rio de Janeiro Summit, in which it was fully understood -implied, but very clearly- that the negotiations should end at the same time as the FTAA negotiations, which meant –at that time- presumably before the end of 2005. During the Madrid Summit the Southern Cone countries tried to draw this commitment from the EU, but 2005 is no longer the reference date. This postponement *de facto* is partially mitigated by the agreement about the start of new negotiations in Brazil during the summer of 2002, in a country which is firmly in favour of Mercosur and which is decisively contributing to withstand the serious economic situation in the Southern Cone.

A meeting took place in Rio de Janeiro on 23 July, at Ministerial level (EU Trade Commissioner Pascal Lamy and External Relations Commissioner Chris Patten with their Mercosur Counterparts, the Foreign Ministers of Argentina, Brazil, Uruguay and Paraguay). Both Parties agreed on a work-programme phasing in the negotiations on all issues, under a comprehensive agenda on a calendar of negotiation rounds to take place in 2002 and 2003. Both Parties renewed their support for a comprehensive agreement covering market access on goods, services, government procurement and investments, as well as rules and disciplines in these areas and others such as sanitary and phytosanitary measures, agreements on wines and spirits, competition and intellectual property rights.

A priori, the adopted programme must be assessed positively because it provides the negotiators on both sides with a clear and predictable timetable of the work ahead, and –if there is political will- it will allow substantial progress in the market access, as well as the preparation of a first draft of the future agreement[33]. However, *a posteriori* it is necessary to wait for the results of the future meetings, since the progress in the negotiations between the EU and Mercosur was bound to the *Madrid Commitment* for the clarification, improvement and reinforcement of the multilateral rules applicable to international trade liberalisation. That means the accomplishment of the Work Programme agreed at the IV WTO Ministerial Conference, which took place in November 2001 ("Doha Declaration"). In practice, it means to leave European agricultural protectionism subject to what happens at the meetings which will take place within the V WTO Ministerial Conference in Mexico in 2003.

In other aspects the advances have not really been significant, either with Mercosur or other Latin American countries[34], in view of which several of their presidents have expressed their disappointment[35]. If there is political goodwill the III Biregional Summit between Europe, Latin America and the Caribbean, which will take place in Mexico in 2004, could be useful to review in depth the strategic alliance process between Europe, Latin America and the Caribbean, and more particularly between the EU and Mercosur, because there is no doubt that it is necessary to promote and deepen the co-operation in all sectors and strengthen the biregional political dialogue at the highest possible level. It seems futile to continue holding these Summits if they conclude with essential pragmatic statements[36], even though some might emphasise that "the political meaning of such meetings should also be sought at a more important symbolic level"[37]. Furthermore, Spain has special powerful reasons to wish that the next Summit is a success because of "its dual condition of being a European and a Latin American country", as King Juan Carlos I reminded us in his speech at the Rio de Janeiro Summit.

Conclusions

Mercosur is a promising partnership for the EU and at the same time it constitutes a privileged gateway for European companies to enter the rest of Latin America. Europe also represents for Mercosur an economic and political priority with a view to gaining access to its emerging market and obtaining the support needed for its development. Hence the importance of the signature in Madrid, on 15 December 1995, of the Interregional Framework Co-operation Agreement between the EU and the Southern Common Market and their respective member states, in force from the 1 July 1999. This agreement aims to systematise the different joint relations that both interlocutors tend to maintain, as well as to reinforce them in the future, by means of the constitution of a strategic biregional association, which implies, among other things, the establishment of a free trade zone between both shores of the Atlantic and the development of a political dialogue at all levels.

However, the IFCA implementation is currently slowed down for a number of reasons, such as the EU and Mercosur maintaining of their positions in respect of their respective agriculturally and industrially sensitive products. We should also bear in mind the present recession in Argentina and the serious economic problems in Brazil. At the same time, account needs to be taken of the repercussions that the present European enlargement process may cause in the negotiations, since financial resources becoming more scarce to satisfy the growing needs and to a large extent they will have to be focused on the future member states, in view of the latter's lower economic and social development. It should not be forgotten that CAP is very protective of European production, and in the new states incorporated as a result of enlargement, agriculture is a significant field. This means that enlargement may ultimately mean new obstacles and barriers to the access of Mercosur farm products to the European agricultural market, especially live cattle and some meats, vegetables and fruits, which are nowadays also exported to the EU from the CEECs.

The economic profits expected from the future EU and Mercosur agreement would largely compensate the efforts involved in its implementation. Several Studies made by European Commission and the Brazilian Getulio Vargas Foundation have estimated that the future strategic association would imply the growth of reciprocal trade flows, which would yield an annual US $6,200 million for Europe and US $5,100 for Mercosur.

At the social and political levels, the potential advantages are not insignificant either, although some reinforced ties between the EU and Mercosur would put them in a better situation to face jointly some present challenges of the international community, such as the consolidation of democracy, the protection of human rights and globalisation. Moreover, the encouragement of the relations would strengthen the historical, cultural and social ties between both Atlantic shores. Finally, European enlargement can provide a good pattern to be followed for future Mercosur adhesions.

For all these reasons, it is worrying that the II Biregional Summit between Europe, Latin America and the Caribbean, held in Madrid last May, has not succeeded in launching new trade negotiations between the EU and Mercosur. The so called Madrid

Commitment shows a stagnation in its commercial chapter, in so far as it has not been able to include a final term for the conclusion of the association agreement. The present impasse may be overcome with the reinitiated EU and Mercosur negotiations in Brazil during the summer of 2002. However we are afraid that we will have to wait until the future III Biregional Summit between Europe, Latin America and the Caribbean, which will take place in Mexico in 2004, because the *Madrid Commitment* leaves pending the European agricultural subject –which, we emphasise, is probably the most sensitive item within the present negotiations- of what will happen in the V WTO Ministerial Conference, to be held in Mexico in 2003.

Notes

[1] The EU is the Mercosur's main export market and the first destination of European sales in Latin America. Its flow exceeds €40,000 million on average between both regions since 1997, and in the year 2001 it has reached €24,000 million in European exports to Mercosur (especially in machines, equipment, transport material and chemical products) and €23,600 million in imports from Mercosur (almost exclusively in agricultural products). These figures mean that during this period Europe received 24% of the Mercosur exports and of the total European exports to Latin America (around €50,000 million) nearly 50% was bound to the Mercosur countries. European exports are second only to the intra-Mercosur trade (this absorbs 25% of the export transactions to these countries) and equal to the Mercosur exports to NAFTA. Regarding the imports from Mercosur, the EU was the first exporter (25%), while NAFTA was the second (24%, with the US absorbing between 20-22%). See Cuadros Ramos, 1999: 47-56: Ocampo y Parra, 2001: 37-48. In relation to the figures and percentages shown, see Eurostat <http://www.europa.eu.int./eurostat> and the database of the Delegación Catalana del Instituto de Comercio Exterior <http://www.mcx.es./barcelona> and of the Centro de Comercio Exterior Internacional del Ministerio de Economía Argentino <http://www.cei.mec.ar>

[2] Europe is the main investor in the Cono Sur: between 1998 and 2000, European investments accounted for approximately 58% of the whole invested capital in Mercosur and Chili, against 38% from the US and 4% from Japan. Shown in figures, direct investment in Mercosur during the year 2000 amounted to €24,600 million. Argentina and Brazil were, together with Mexico, the main receivers of the investments, particularly in manufacturing industry. Spain is still the first European investor in that area. For more details, see CEPAL 2000; Casanova, 2002: 67-85.

[3] It goes without saying that the Mercosur countries are some of the main beneficiaries of the EU, particularly regarding economic cooperation, as it is with the ALFA, ALURE, URB-AL and AL-INVEST programs. Furthermore the EU is the first aid donor to Mercosur and its members: for the 2002-2006 period, European funds amount to approximately € 250 million,

of which €48 million will directly earmarked to Mercosur. However, when it concerns financial and technical cooperation or humanitarian help, most of the European funds is bound to Central America and the Andean area. Even if the whole amount is not very high compared with other beneficiary regions such as the ACP countries, it has gradually been increased over the last ten years. In this respect see the European Commission Report regarding the European Community Development Plan", on 26 April 2000 and "2002-2006 Document of the regional strategy. Indicative regional Program 2002-2006", available at <http://europea.eu.int/comm/external_relations/la/rsp/index.htm.> See also Ayuso Pozo, 2001b: 85-112: Sanahuja, 2002a: 36-51.

[4] Most of the normative texts, documents and news mentioned in this chapter may readily be obtained visiting the EU web page <http://www.europa.eu.int> and the fast server <http://europa.eu.int/rapid>. In order not to lengthen unnecessarily this chapter, there will be only one complete mention of those shown in the exposition or those with are more difficult access.

[5] Since the literature has thoroughly discussed the history, the most salient features and the structure of this pioneer agreement, our attention will be focused on the difficulties arising from such implementation. See in general about the subject, Cebada Romero, 1999: 99-110; Kinoshita, 2000; Lebullenger, 1999: 179-203; Sanches Bajo, 1999: 927-941; Uriondo de Martinoli, 1998: 477-498.

[6] For example, the Grupo Mercado Común Decision number 16/97, approving that the conclusions of the Work Teams dependent on the Mercosur-EU Joint Commission ought to be distributed between the different technical forums of Mercosur in order to undertake a preliminary report and deliver it to the Mercosur-EU External Relationship *Ad Hoc* Group.

[7] Its goal is a methodological approach within the statistical field in order to use the statistical data concerning the exchange of goods and services and in a general sense all those matters which are the subject of statistical treatment. The European Community provided a subsidy of €4,135,000 for the 1997-2000 period.

[8] As recognised by the European Commission Report concerning the follow up of the First Summit held between Europe, Latin America and the Caribbean, on 31 October 2000. See also a critical point of view in Sanahuja 2002b: 28-35.

[9] In writing this paragraph I have carefully taken into consideration the reports published on the Internet by the European Commission (especially the quoted paper "The EU & Mercosur"), the information kindly given to me by Milagros Varela (Spanish Instituto de Comercio Exterior, branch in Catalonia) and Tomás Abadía Vicente and María Manuel Branco (*Mercosur and Chili Unit* of the External Relations Directorate General of the European Commission); the unpublished papers written by María Dolores Loureda (general deputy director general of the Commercial Secretary Co-ordination and Evaluation pertaining to the Foreign Trade General Secretary of the Spanish Ministry of Commerce) and Roberto Bouzas and Gustavo Svarzman; and finally, the Memo Report from the Catalan Observatorio de la Globalización drawn by Bouzas and Motta Veiga.

[10] Regarding the imports in the Cono Sur of European products there is no exact information of the percentage corresponding the sensitive products. A rough estimate puts them at over 10%.

[11] For more details about the significance of the agricultural subject, see Alvarez Ramos, 1998: 21-27; Gadbin, 1999 : 131-152. From the Spanish point of view, see Segrelles, 1999.

[12] Ayllón Pino (2000: 32-33) adds that for "Brazil it is fundamental that the agreement with the EU should look at the agricultural and cattle sector and not be regarded as an exclusion from these sectors".

[13] Even if certain tariff barriers were kept for certain sensitive products, it is thought that the setting up of a free trade zone between the EU and Mercosur could possibly yield profits of almost US $3,500 million.

[14] To give some examples, in Brazil 80% of the electrical production and 20% of its distribution is in the public domain; there are still two banks owned by the federal authorities and numerous banks owned by the Confederate states. Moreover, the Post and Telegraph Office and the airports management have still not been privatised. In Paraguay there are still public monopolies in the energy sector, in the telecommunications sector and water sector; in Uruguay there continue to be monopolies in the petrol and natural gas sectors, in basic telephony, in electric energy distribution, and so on.

[15] See Regional Indicative Program for Mercosur for the period 2002-2006 and New Cooperation Strategies for the Mercosur countries, available at <http://www.europa.eu.int/comm/externalrelations/mercosur/intro /ip02_1189.htm> and <http://www.europa.eu.int/comm/external_relations/mercosur/rsp/index.htm>

[16] A great number of these facts have been analysed in some detail in successive IRELA Reports, in particular, 1998 and 2000. With regard to the doctrine, see specially Bizzozero 2001: 373-390; Bulmer-Thomas 2000: 1-22; Sanahuja 2000. See, finally, the European Commission Communication 1999.

[17] According to the European Commission Annual Report on Enlargement, dated 13 November 2001, the gap at an individual level between the candidate countries is huge. From the Bulgarian 24% and Romania's 27%, which are the only countries that the Commission suggests should delay their accession, and the European Council agreed to it in October 2002. But there are others which are no better, such as Letonia and Lithuania with 29%, and especially Poland, which is around 39%, although without this last country the enlargement seems unthinkable. The best ones are Slovenia with 72% (similar to Andalusia) and Cyprus with 83% (a little over than Spain, which is around 82%). See also the web page of the European Commission regarding the enlargement at <http://www.europa.eu.int/comm/enlargement/index.htm>.

[18] Calduch Cervera 2001: 50 et seq gives as examples "the functional and organic deficiencies of the public administration, the high level of corruption in some public bodies, the impoverishment of the life social conditions for a larger population stages, and so on".

[19] The Accession Partnership is the essential axis of the reinforced strategy for pre-membership used by the EU to make more feasible the accomplishment by the candidate states of all the formalities to become members. Introduced in the *2000 Agenda*, it was accepted by the Luxembourg European Council in December 1997 and it came into force from 1998 for each candidate country with a dual goal. On the one hand, to set up priorities in the short and long-term concerning democracy, macroeconomic stability, nuclear safety and the embodiment of the *adquis communautaire*. To facilitate it, a national programme is approved, giving details of how to accomplish the priorities set up by the Accession Partnership, the accomplishment term and the tools to be used. On the other hand, to co-ordinate all kind of aid offered by the EU to the candidates in order to prepare for membership, such as association agreements, Phare, Ispa and Sapard programmes, loans from the European Investment Bank and European Bank for Reconstruction and Development and so on. To fulfil the Accession Partnership, in the Luxembourg European Council it was decided to create the European Conference as a multilateral consulting forum to debate all those questions of general interest among the candidate states and the EU member states. See for further details the *Agenda 2000. For a Stronger and Wider Union* and the above mentioned web page.

[20] In fact, in a report opening the negotiation chapters about the agriculture policy and structural funds ("Common Financial Framework 2004-2006 for the Accession Negotiations", dated 30 January 2002), the European Commission intends to allot some €40,160 million between 2004 and 2006 to the candidate countries becoming members of the EU for such period. That is below the €57,000 million that the Berlin European Council had kept aside for the new states during the period 2000-2006. Furthermore, the new figure represents, per capita, a subsidy amounting to €137, which is lower than the figure currently perceived in the present member states (€231). The European Commission additionally suggests a transitional regime for the common agricultural policy and for the regional policy, which in practice means postponing the complete enforcement regime of the direct subsidies to agriculture during 10 years (the help among the current members states and the new member states would be equal from 2013) and of regional subsidies during 3 years (it would be equal from 2007).

[21] The significance of the EU enlargement process in respect of Europe - Latin America relations has been recently highlighted by the Commissioner Chris Patten in the web page of the European Commission previous to the II biregional Summit held in Madrid <http://www.europa.eu.int/comm/world/lac/index>. Mercosur's concerns over enlargement have also arisen on several occasions such as at negotiating offer proposed in October 2001, where there was an emphasis on the need pacts on specific rules preserving Mercosur's interests in view of the accession of EU new members.

[22] The EU intends to impose the logic of a progressive and reciprocal liberalisation of commercial exchanges which would not exclude any sector but would be carried out in two or three stages sufficiently long to calmly digest liberalisation's economic impact on sensitive products, as has been done with the ACP countries and within the Mediterranean context. That would allow the formal objections foreseen by the WTO rules to be negotiate, and in particular the chapter XXIV of the GATS'94.

[23] We should also take into account the fact that in the debate about the future of Europe, certain countries –with Germany at the head- are defending a renationalisation of CAP and the structural policies in order to reduce their contributions to the EU budget, which they consider to be excessive (see especially the German SPD proposal under the title "Responsibility for Europe" dated 30 April 2001, available at <http://www.psc.es/ambit/europa/noticies>.

[24] According to Eurostat data, the exports from the EU to the candidate countries have increased from €70,000 million in 1995 to just over €150,000 million in 2000. At the same time, the EU imports from the candidate countries have risen from €54,000 million in 1995 to more than €115,000 million in 2000. That means, for example, that the relations with the EU account for more than 60% of the trade exchanges to countries such as Czech Republic, Poland, Hungary, Slovenia and Estonia and around 50% in other cases.

[25] It should be emphasised that there has not been an homogenous treatment for all the farming products: we have to sort out products of high preference, low preference and without preference from the point of view of the duty tax and the quota. Thus, main preferences have been given to sheep, pork, cow and poultry meat, cheese, fruits and fruit juices, wheat and wheat bran, soya and olive oil, and so on. Under low preference we have powdered milk, eggs, honey, barley, wheat flour and tobacco. Fundamental CAP products such as corn, sunflower oil and sugar are excluded from preferential treatment. Nor is homogeneous the treatment for all the countries: according to the degree of significance of the country considered as real or potential supplier, some products receive a different treatment. For more details about the subject, see the press report of the European Commission entitled "Fisscher welcomes agricultural trade liberalisation with applicant countries", *IP/00/682*, dated 29 June 2000.

[26] Calduch Cervara 2001: 63 defines the frontier effect as "the compulsory revision of foreign relations with the candidate's neighbouring countries, opening the prospect of future enlargement and therefore mortgaging their own strategy in the medium and long-term".

[27] After every enlargement, the flow of capital received by the new member state has been significantly increased. For example, after the Spain's entry in the European Communities in 1986, this country went from receiving Ecus 2,600 million in 1985-1986 to receiving Ecus 11,800 million in 1989-1990, of which Ecus 7,300 million came from other EU member states (OECD 1996).

[28] I. Lirola Delgado 2000: 176 has stated, in this context, that "it cannot be ignored that the IFCA depend in good measure on the way in which the questions relating to the external relations of Mercosur are sorted out".

[29] In an analogous position, Bizzorrero, 1999: 76-90 argues that the enlargement of the EU would not have a relevant impact on EU-Mercosur relations at the level of trade and direct foreign investments, even though it could modify the internal European balances at an institutional level or financial resources distribution.

[30] In this sense, it has been mentioned that the future economic relations between the EU and Latin America will be subject to the sustained reform of Latin American economic policy and the EU role in the multilateral commercial negotiations (Nunnenkamp, 1998: 111-127).

[31] There are not so many Mercosur products that would clash with the goods that the CEECs currently export to the EU under the previously mentioned preferential agreements, nor is their economic significance so great as to prevent an agreement. In this connection, see Galperín and García, 2001: 10-11 and 15.

[32] See the interesting comments on the probable beneficial effects deriving from the signing of the association agreement in Benecke, 1999: 7-17: Grabendorff, 1999: 105-107. See additionally the above mentioned IRELA Reports and bibliography Section 3.

[33] This is why, at the conclusion of the Meeting, the European commissioners said that "the Agreement reached today fulfils the mandate given to us at the Madrid Summit to intensify the negotiating process. It clearly reflects the importance that both parties attach to the process of regional integration between the EU and Mercosur. This is also an occasion for us to show the continued EU support for this region"
<http://europe.eu.int/comm/external_relations/mercosur/intro/ip02_1147.htm>

[34] The Madrid Commitment represents few advances in economic-commercial relations, excessive generic commitments within the political field and some concrete agreements at the cooperation level. See the text in *SN* 1658/6/02 REV 6, available through http://www.ue2002.es/presidencia> and <http://europa.eu.int/comm/world/lac/premadrid_fr.htm>. To have a first assessment of the Summit Outcomes, see Sanahuja, 2002c. Concerning the expectations raised by the Summit before its celebration, see also Antón Cartés, 2001: 23-36; Carnero, 2001: pp. 11-22; Valls, 2002: pp. 17-23.

[35] For example, the former Brazilian President Fernando Enrique Cardoso emphasised in his opening speech that these Summits must have specific results in they are to remain useful in the future. He revealed his doubts about the sincerity of the developed countries on the commitments of free trade, because of the protectionist policies (farming subsidies, industrial surtaxes, unfair customs duties, and so on) being applied. And the Mexican President Vicente Fox reminded delegates that if the European countries "do not suppress this protection (farming), if they do not open their markets, the development of the Latin American countries has no chance".

[36] The Evaluating Report approved at the Madrid Summit on 17 May 2002 has finally recognised this need when, after emphasising on several occassions the progress made since the Rio de Janeiro Summit, it concludes by stating that "16. The common values linking both regions, as well as the existing strong cultural and political ties, ought to allow progress towards a stronger strategic association between Europe, Latin America and the Caribbean (...) 18. The biregional strategic association should be able to establish a schedule allowing the development of dialogue between both regions within in areas of common interest. See the text in *SN* 2346/46/02 REV 4, available at <http://europa.eu.int/comm/world/lac>.

[37] Salafranca Sánchez Neyra, 2002: 5 continues "the Summit meetings are the ritual scenario of an underlying political will and contribute to generate the political energy needed in order for the machine to work".

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