

PITTSBURGH PAPERS ON THE EUROPEAN UNION

The Shaping of EU-Mercosur Relations

From Altruism to Pragmatism and Liberalism to Illiberalism

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Abstract

Deeply-embedded norms of liberalism and protectionism alongside EU policies focusing on promoting development and regional integration have shaped EU-Mercosur relations. These stand in stark contrast to the policies of the US, the historic hegemon in the region. This paper utilizes historical institutionalism to understand how the liberal tenets of EU competition policy and the protectionism of Common Agricultural Policy (CAP) have affected EU-Mercosur relations. Particular foci include Spain's role in spearheading efforts to promote EU-Latin American relations and the way EU competition policies directed against monopolies in Europe spurred increased investment in Latin America, especially the Southern Cone. The latter prompted the EU to forge closer ties with Mercosur, encouraged cooperation and development programs and spurred regional integration and liberal trade regimes in Latin America.

Keywords: *European Union and Latin America; Mercosur; EU foreign relations*

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ISSN: 2161-6590 | 10.5195/PPEU.2012.3



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The Shaping of EU-Mercosur Relations

From Altruism to Pragmatism and Liberalism to Illiberalism

Carolyn Marie Dudek¹

Introduction

Since the Monroe Doctrine of 1823, which warned Europe to stay out of affairs in Latin America, the U.S. has played a central role in the region. However, in the last two decades, there has been a real increase in Europe's influence in Latin America, especially in the Southern Cone. The EU now outspends the U.S. in foreign aid to the region, European foreign direct investment has surpassed that of the U.S., and Europe has also become an important trading partner (see appendix).² The EU's approach toward the Southern Cone and more specifically Mercosur is quite distinct from that of the U.S. While the U.S. has focused on a growth-oriented strategy under the policy ideals of the Washington Consensus, the EU has taken a seemingly more altruistic approach more concerned with the economic, social, and political well-being of Southern Cone countries. This approach has included promoting cooperation, development, and regional integration as cornerstones of EU-Mercosur relations.³ Why has the EU taken the foreign policy approach it has with Mercosur, diverging from the U.S.'s approach? Why, if EU-Mercosur relations are so strong, have the regional blocks been incapable of concluding a bi-regional trade agreement?

In the 1990s, there emerged a wave of "new regionalism," exemplified by the signing of the Maastricht Treaty, deepening European integration, and the signing of the Treaty of Asuncion that created Mercosur.⁴ "New regionalism's" region-to-region negotiations have begun to shape global governance as well as promote economic liberalization, exemplified by free trade area agreements.⁵ Liberalism, in large part, shaped the EU's strategy in its attempts to finalize a free

¹ I am grateful for the generous support from the Fulbright Scholar Program, Hofstra University, and Harris Manchester College, Oxford, which made this research possible. I greatly appreciate the time, experience, and knowledge interviewees shared with me, and I would especially like to thank Dr. Jose Eduardo Corbetta for facilitating my research in Buenos Aires. I would also like to thank managing editor Allyson Delnore, series editor Alberta Sbragia, and the reviewers for their very helpful comments.

² "New vision for EU-Latin America relations – briefing," EUBusiness, <http://www.eubusiness.com/topics/trade/eu-latin-america.02/> (last modified September 30, 2009) [[VIEW ITEM](#)]; "Congressional Budget Justification Foreign Assistance Summary Tables, Fiscal Year 1999, 2000, 2001....," U.S. Agency for International Development (USAID), <http://transition.usaid.gov/policy/budget/cbj2010> (accessed May 2008) [[VIEW ITEM](#)]; Peter Nunnenkamp, "Foreign Direct Investment in Mercosur: The Strategies of European Investors," in *An Integrated Approach to the European Union-Mercosur Association*, ed. Paolo Giordano (Paris: Chaire Mercosur de Sciences Po, 2002), 227–244.

³ Jean Grugel, "New Regionalism and Modes of Governance—Comparing US and EU Strategies in Latin America," *European Journal of International Relations* 10, no. 4 (2004): 603–626. [[CrossRef](#)] See also Martin Holland and Mathew Doidge, *Development Policy of the European Union* (New York: Palgrave, 2012).

⁴ Sebastian Santander, "The European Partnership with Mercosur: a Relationship Based on Strategic and Neo-liberal Principles," *Journal of European Integration* 27, no. 3 (2005): 285–306. [[CrossRef](#)]

⁵ *Ibid.*; Alfredo Robles, "EU FTA Negotiations with SADC and Mercosur: Integration into the World Economy or Market Access for EU Firms?" *Third World Quarterly* 29, no. 1 (2008): 181–197. [[CrossRef](#)]

trade agreement with Mercosur. Moreover, liberalism inspired EU competition policy, which had an unintended result of promoting significant European investment in Latin America.⁶ Simultaneously, Mercosur members adopted liberalization, which meant increasing privatization and investment opportunities for European firms.⁷ Rising European investment shaped EU-Mercosur policy to be pragmatic and protect such investments.

Although liberalism has shaped most EU policies, it is the illiberal and protectionist Common Agricultural Policy (CAP) that has thus far prevented the completion of an EU-Mercosur agreement. Some scholars argue that an agreement has not emerged due to the institutional weakness of Mercosur.⁸ However, as some EU practitioners point out, continued negotiations with the EU have helped strengthen Mercosur's institutions, and the EU has at times negotiated with the individual members of Mercosur in order to forge an agreement, as it has done in the case of agricultural sanitary issues.⁹ If the EU could forge a trade agreement with Central America in 2010 during the EU-Latin American and Caribbean summit, despite the region's lack of a strong institutional structure as a regional block, it seems that negotiating with Mercosur should not be so different.

To understand better this seeming contradiction within EU policy, which supports both liberal and protectionist policies simultaneously, I shall utilize historical institutionalism to examine the three main issues that have shaped EU-Mercosur relations: 1) Spanish membership in the European Community and Spain's role in shaping EU-Latin American policy; 2) the emphasis of liberalism as an economic model on both sides of the Atlantic, which inspired regionalism in Latin America as well as the creation of EU competition policy; and 3) EU CAP and the tension between protecting European farmers and allaying discontent of Mercosur farmers.

⁶ Samuel Pulido, interview by author, Buenos Aires, September 11, 2006; Edgardo Gennaro, interview by author, Buenos Aires, November 15, 2006; Diego Molano, interview by author, Madrid, June 29, 2008; Mark Aspinwall and Gerald Schneider, "Same Menu, Separate Tables: The Institutional Turn in Political Science and the Study of European Integration," *European Journal of Political Research* 38, no. 1 (2000): 1-36; Kenneth Hamner, "The Globalization of Law: International Merger Control and Competition Law in the United States, the European Union, Latin America and China," *Journal of Transnational Law & Policy* 11, no. 2 (Spring 2002): 385-387; Julian Izquierdo Zamarrigo, interview by author, Madrid, June 27, 2008. Thirty formal interviews for this project were conducted from September-December 2006 in Buenos Aires, Argentina and May-June 2008 in Madrid, Spain. Interviewees included: members of the EU Delegation in Argentina; the President of La Rural (the major agricultural organization in Argentina); members of a political consulting group in Buenos Aires working on EU-Mercosur relations; Secretary of the Argentine Ministry of Agriculture; Director of Foreign Commerce and Database Center of the Cámara Española de Comercio de la República Argentina, Agriculture section of the Spanish embassy in Argentina; Felix Peña, academic and founder of EU-Mercosur business group; U.S. embassy economics attaché; Diego Guelar, former Argentine ambassador to the U.S. and the EU; Telefonica's Latin-American division head; member of Economics Ministry in Argentina; members of an NGO promoting development in Argentina utilizing EU funds; engineers from Repsol; Spanish Foreign Ministry director of commercial relations with Latin America; and Argentine Senator Roberto Fabián Ríos. [[CrossRef](#)]

⁷ Izquierdo Zamarrigo, interview by author; Pulido, interview by author.

⁸ Amalia Stuhldreher, "Mercosur and the Challenges of its Joint Trade Policy: Achievements and Shortcomings of a Process of Incomplete Communitarization," *Integration and Trade* 33 (2011): 69-76.

⁹ René Mally, interview by author, Buenos Aires, September 11, 2006; Pulido, interview by author; Roxanna Blasetti and Martín Piñeiro, with Maximiliano Moreno and Rafael López Saubidet, "Sanitary and Phytosanitary Measures and Other Obstacles to Trade," in *Agriculture and Agribusiness in the EU-Mercosur Negotiations: Negotiating Issues II*, ed. Alfredo Valladão and Sheila Page (Paris: Working Group on EU-Mercosur Negotiations, Chaire Mercosur de Sciences Po, 2003), 77-111.

EU-African Caribbean and Pacific Group of States (ACP) relations have served as a model for EU relations with lesser-developed regions and date back to the very beginning of EU integration.¹⁰ France strongly shaped EU-ACP relations, similar to how Spain has played a key role in shaping EU-Latin American relations, highlighting the important role some member states play in EU foreign relations.¹¹ It seems that many of the ideas that have shaped EU-ACP relations have likewise shaped EU-Mercosur interactions.¹² Thus, the following will in part utilize a theoretical framework that has been applied to EU-ACP relations as a way to inform an understanding of EU-Mercosur relations. Moreover, I shall explore the unintended global impact of EU competition policy. Competition policy is usually framed within a European domestic context and its wider implications abroad often go unexamined.¹³

Neo-institutionalism is a useful theoretical perspective to understand better Spain's role in shaping EU-Mercosur policy, the similarity between EU-ACP and EU-Mercosur relations, the impact of EU competition policy on the actions of private corporations to invest overseas, and the illiberal nature of EU agricultural policy. Institutions in this context refer to both formal and informal institutions, including norms, routines, conventions, legal arrangements, and procedures.¹⁴ Scharpf (1988) was one of the first EU scholars to utilize a neo-institutionalist approach with his seminal article on the joint-decision trap, which called into question traditional approaches of international relations theory, such as neo-functionalism and intergovernmentalism.¹⁵ Moreover, Scharpf and others have characterized the European Community as more like "a single polity" than merely a group of independent states vying for influence within the Community.¹⁶ By contrast, the intergovernmentalist perspective asserts that member states are the main actors in the EU, and it is the negotiations of member states that create EU policy.¹⁷ However, in examining EU-Mercosur relations and specifically the issues shaping

¹⁰ Imtiaz Hussain, "E.U.'s Association Agreements & Central America: No Milk until the Cows Come Home," (paper presented at the Council for European Studies International Conference, Boston, Massachusetts, March 22-24, 2012).

¹¹ Anne-Sophie Claeys, "'Sense and Sensibility': the Role of France and French Interests in European Development Policy since 1957," in *EU Development Cooperation: from Model to Symbol*, ed. Karin Arts and Anna Dickson (Manchester: Manchester University Press, 2009), 113-132.

¹² Hussain, "E.U.'s Association Agreements & Central America."

¹³ Michelle Cini and Lee McGowan, *Competition Policy in the European Union* (UK: Palgrave Macmillan, 2009).

¹⁴ Aspinwall and Schneider, "Same Menu, Separate Tables," 3, 39; James March and Johan Olsen, *Rediscovering Institutions: the Organizational Basis of Politics* (New York: The Free Press, 1989); B. Guy Peters, *Theory in Political Science: The 'New Institutionalism'* (New York: Ashford, 2005), 47-70.

¹⁵ Fritz Scharpf, "The Joint-Decision Trap: Lessons from German Federalism and European Integration," *Public Administration* 66 (1988): 239-278; Aspinwall and Schneider, "Same Menu, Separate Tables," 2. [[CrossRef](#)]

¹⁶ Scharpf, "The Joint-Decision Trap," 239-278; Paul Pierson, "The Path to European Integration: A Historical Institutional Analysis," *Comparative Political Studies* 29 (1996): 123-163 [[CrossRef](#)]; Renaud Dehousse, "Community Competences: Are There Limits to Growth?" in *Europe after Maastricht: An Ever Closer Union*, ed. Renaud Dehousse (Munich: Beck, 1994), 103-125; Giandomenico Majone, "Regulatory Federalism in the European Community," *Environment and Planning C: Government and Policy* 10 (1992): 299-316. [[CrossRef](#)]

¹⁷ Andrew Moravcsik, "Preferences and Power in the European Community: a Liberal Intergovernmentalist Approach," *Journal of Common Market Studies* 31 (1993) [[CrossRef](#)]; Geoffrey Garrett, "International Cooperation and Institutional Choice: The European Community's Internal Market," *International Organizations* 46 (1992).

free trade negotiations, it would be overly simplistic to state that Spain in its negotiations with EU members is the only determining factor shaping EU-Mercosur relations. One has to take into account the norms shaping various policy sectors within the EU as well as the actions of member states whose actions are constrained by such norms and formal institutional structures.

Historical institutionalism, a specific type of neo-institutionalism, is a useful lens for examining what has shaped EU-Mercosur relations. As Pierson explains, “prior decisions form a basis upon which new decisions are made.”¹⁸ Ideas help shape policies which become norms that end up shaping other policy decisions. For instance, liberalism inspired competition policy. Protection of agriculture and the EU’s policies toward ACP countries may have started as the outcome of intergovernmental bargains, but they have also evolved to shape EU formal and informal institutions. As Dolowitz and March explain, “policy transfer as a process in which knowledge about policies, administrative arrangements, institutions and ideas in one political setting is used in the development of policies, administrative arrangements, institutions and ideas in another political setting.”¹⁹ The EU similarly has developed policies that have influenced other policy areas.

For instance, liberalism emerged within the EU as a driving ideological perspective that permeated several policy areas. It is beyond the scope of this paper to explicate how liberalism was infused into the EU, but liberalism did profoundly influence the EU treaties and over time has become embedded in many but not all policy areas. For example, competition policy, inspired by liberalism, has become a supranational policy that the Commission has taken the lead in shaping; it has become a “flagship for the EU.”²⁰ As Pierson points out, political development, norms, formal and informal institutions, and policy structures are formed over time and become embedded within such institutions.²¹ Liberalism is a norm that has become a significant driving force shaping EU formal and informal institutions and has subsequently shaped policy.

Although intergovernmentalists may argue that Spain’s assertiveness in forging EU relations with Mercosur demonstrates the central role of member states and interstate bargaining, the EU’s liberalism and protectionist agricultural policies have constrained and shaped Spain’s actions within the EU toward Latin America. For instance, Spain has supported a free trade agreement between Mercosur and the EU, yet it is only through the Commission that such negotiations occur. Moreover, it seems that the EU is applying a policy design to Mercosur that is very similar to the policies of liberalism and cooperation and development programs that were previously instituted as central to EU-ACP relations. Spain does not necessarily have to promote regionalism in Latin America or an EU free trade agreement with Mercosur, yet it seems that the institutional structure and norms of the EU promote such ideals. Thus, Spain as a rational actor has sought to pursue its interests within the confines of what EU formal and informal institutions will allow. Historical institutionalism takes into account the long-term effect of how liberalism

¹⁸ Pierson, “The Path to European Integration,” 133.

¹⁹ Claudio Radaelli, “Policy Transfer in the European Union: Institutional Isomorphism as a Source of Legitimacy,” *Governance* 13, no. 1 (2000): 26. [[CrossRef](#)]

²⁰ Cini and McGowan, *Competition Policy in the European Union*, 1.

²¹ Pierson, “The Path to European Integration,” 128.

and agricultural protectionism have shaped the institutions of the EU as well as recognizes that while states act rationally to achieve an optimal outcome, institutions constrain those decisions.

Rational institutionalism, on the other hand, purports that rational actors seek to maximize their condition but are also constrained and shaped by institutions, which are “systems of rules and inducements.”²² Rational institutionalism overcomes the pitfalls of strict rational choice, such as reductionism. March and Olsen assert the problematic nature of assuming that group behavior is simply the aggregation of individual activities, arguing that “the concepts suggesting autonomous behavior at the aggregate level are certainly superfluous and probably deleterious.”²³ Reductionism disaggregates collective behavior into its smallest parts, thus excluding the impact of the larger structures within society.²⁴

Moreover, neo-institutionalism helps make sense of the constraints and influences upon actors and the interaction of actors, but it leaves out actor agency. Even within the confines of institutional structures, there is room for choice. Rational choice theory takes into account the calculation of actors but fails to account for the structures that can constrain decision-making actions as well as the historic progression that shapes those institutions. Thus, historical institutionalism can provide a more useful lens with which to examine the impact of the EU’s institutional structures and norms on Spain’s rational pragmatism with respect to EU-Mercosur relations as well as the impact of liberalism and agricultural protectionism on the EU’s policies toward Latin America. As liberalism informed EU competition policy and shaped the institutional structures and constraints on member state policies, corporations had to adapt and at the same time seek profit maximization.²⁵ As more European firms invested in Latin America and Spanish interests increased, EU-Mercosur relations gained greater attention within the EU. Moreover, EU-ACP relations had shaped the institutional structures that defined the policy initiatives and goals more generally of EU relations with lesser-developed countries. The norms of EU-ACP relations and the liberalism of EU competition policy shaped the policy design of EU-Mercosur relations.²⁶

Yet protectionism, which was the basis of CAP, had been institutionalized within the EU, and strong agricultural countries, like France, continued to try to protect their agricultural sector from external competition. The dynamics of the EU’s norms and institutions, particularly the Commission’s actions in its negotiations for a free trade area with Mercosur, created a framework which shaped the actions of EU members and the EU. The purpose of this paper is to give a more comprehensive and detailed discussion of EU-Mercosur relations in order to elucidate the complexity and challenges behind concluding an Association Agreement.

²² Peters, *Theory in Political Science*, 19; Barry Weingast, “Rational-Choice Institutionalism,” in *Political Science: State of the Discipline*, ed. Ira Katznelson and Helen V. Milner (New York: W. W. Norton, 2002), 660-692.

²³ March and Olsen, *Rediscovering Institutions*, 4.

²⁴ Peters, *Theory in Political Science*, 47-70.

²⁵ Aspinwall and Schneider, “Same Menu, Separate Tables,” 16; Molano, interview by author; Hamner, “The Globalization of Law,” 385-387.

²⁶ Arts and Dickson, *EU Development Cooperation*; Izquierdo Zamarrigo, interview by author; Pulido, interview by author.

Historical background: the 1990s and Spain's EU membership

Spanish membership in the European Community in 1986 helped make Latin America a new priority for common foreign policy as well as a new location for European investment and trade into the 1990s. Simultaneously, the 1990s were a period for the adoption of neo-liberal policies both in Europe and Latin America. As Europe deepened its integration with the signing of the Maastricht Treaty, Latin America was coming off a wave of democratization and saw Spain as an exemplar of democratization and the EU as a model of regional integration.²⁷ Thus, Latin America tried to emulate that seemingly positive move toward both democratization and integration, most notably with the creation of regional blocks such as Mercosur.²⁸

These significant changes within the EU and Latin America also began to shape the relationship between these two regions. Much as it had in its much older relationship with ACP countries, the EU focused on cooperation and development with Latin America and emphasized the construction of bi-regional relations in order to promote regional integration in Latin America.²⁹ The EU viewed regional integration as a way to advance development and secure democratization within both Latin American and ACP countries.³⁰

Some argue Latin America became a priority for Europe because it was an easy venue in which to improve the EU's Common Foreign and Security Policy (CFSP), particularly after the debacle in the former Yugoslavia.³¹ Since most EU members did not have direct national interests at stake in Latin America, it was a somewhat less controversial world region where the EU could establish policy coherence and demonstrate the promise and possibilities of CFSP.³²

Much of the EU's support for regional integration in Latin America emerged from its "bottom-up" approach to building democracy and addressing socio-economic concerns in the region.³³ The EU's attitude toward Latin America is based on the premise that the region's instability emerged due to the inability or unwillingness of governments to respond to demands for

²⁷ Vicente Palacio, "Spain's Contribution to a European Vision for the Americas: A Review," in *Spain in the European Union: The First Twenty-Five Years (1986-2011)*, ed. Joaquín Roy and María Lorca-Susino (Miami: Miami-Florida European Union Center/Jean Monnet Chair, 2011), 270-279.

²⁸ Louise L'Estrange Fawcett and Andrew Hurrell, *Regionalism in World Politics* (Oxford: Oxford University Press, 1995); Luk Van Langenhove, *Building Regions: Regionalization of the World Order* (Burlington: Ashgate Publishing Company, 2011).

²⁹ Grugel, "New Regionalism," 603-626; Victor Bulmer-Thomas, "The European Union and MERCOSUR: Prospects for a Free Trade Agreement," *Journal of Interamerican Studies and World Affairs* 42 no. 1 (2000): 1-22.

³⁰ Anna Dickson, "The Unimportance of Trade Preferences," in *EU Development Cooperation: from Model to Symbol*, ed. Karin Arts and Anna Dickson (Manchester: Manchester University Press, 2009), 42-59; Marjorie Lister, *The European Union and the South* (London: Routledge, 1997); Grugel, "New Regionalism," 603-626; European Commission, *Latin America Regional Strategy Document: 2002-2006 Programming*, April 2002.

³¹ Andrew Crawley, "Toward a Biregional Agenda for the Twenty-First Century," *Journal of Interamerican Studies and World Affairs* 42, no. 2 (2000): 9-34.

³² *Ibid.*

³³ Richard Youngs, "The European Union and Democracy in Latin America," *Latin American Politics and Society* 44, no. 3 (2002): 111-139.

reform.³⁴ Thus, the EU has sought to address the root causes of the problem and has created initiatives allocating funds specifically toward building civil society and supporting non-governmental organizations (NGOs) and grass roots programs.³⁵ Since political and economic development are closely linked, the EU has also sought policies to alleviate poverty and income inequality.³⁶ As the EU began to construct a foreign policy based on development, cooperation, and regional integration in Latin America, the EU also engaged in increased economic activity between the two regions.

Conditions in the 1990s in both the EU and Latin America led to greater European investment in Latin America. In Europe, EU competition regulations, based on neo-liberal ideals, caused European corporations to break apart their monopolies. As a result, many European companies looked elsewhere to maintain or improve their profit margins.³⁷ Many firms, especially from Spain, France, and Germany, invested in Latin America, particularly in the Southern Cone. For example, in Argentina, a key member of Mercosur, European firms found investment opportunities due to the favorable peso-dollar exchange rate and privatization programs under Carlos Menem's administration. As a result, European foreign direct investment (FDI) in Argentina began to increase significantly from the previous decade.³⁸ In fact, in the 1990s, EU investors "out-invested" the U.S. in Argentina and Brazil.³⁹ By 1999, with the Spanish company Repsol's purchase of privatized oil industries, the EU reached a record high direct investment amounting to 19.8 billion USD and accounting for 78.9 percent of all FDI in Argentina.⁴⁰ According to the Argentine Ministry of Economics, European FDI focused mostly within the tertiary sectors or on the purchase of Argentine enterprises.⁴¹ Spain became one of the most noteworthy European investors in Argentina, accounting for 60 percent of all EU FDI between 1992 and 1999.⁴²

Increased European investment in Latin America also laid part of the groundwork for a new and greater European presence in Latin America, which impacted the U.S.'s previously more dominant role in the region. Although relations in Latin America are not a zero-sum game—that is, a greater European presence does not exclude a strong U.S. presence—nonetheless, increased European investment has prompted stronger European activity in the Western Hemisphere.

³⁴ Crawley, "Toward a Biregional Agenda for the Twenty-First Century," 9-34.

³⁵ Jean Grugel, "Romancing Civil Society: European NGOs in Latin America," *Journal of Interamerican Studies and World Affairs* 42, no. 2 (Summer 2000): 87-107. [[CrossRef](#)]

³⁶ Crawley, "Toward a Biregional Agenda for the Twenty-First Century," 9-34.

³⁷ Pulido, interview by author; Hamner, "The Globalization of Law," 385-387; Molano, interview by author; Gennaro, interview by author.

³⁸ Pulido, interview by author; Narodowski, Patricio, interview by author, Buenos Aires, November 10, 2006.

³⁹ Nunnenkamp, "Foreign Direct Investment in Mercosur," 227-244.

⁴⁰ "La Inversión Extranjera Directa en Argentina 1992-2002," Ministerio de Economía, http://www.mecon.gov.ar/cuentas/internacionales/otros_trabajos_inversion.htm, 18-19 (accessed May 2008). [[VIEW ITEM](#)]

⁴¹ Ministerio de Economía, cited in Nunnenkamp, "Foreign Direct Investment in Mercosur," 227-244.

⁴² Nunnenkamp, "Foreign Direct Investment in Mercosur," 227-244.

Neo-liberal policies adopted on both sides of the Atlantic underlie the EU's new role in Latin America and particularly its increased investment in the larger Mercosur countries. Competition and deregulation policies have become significant competencies of the EU, and neo-liberalism has inspired such policy initiatives in Europe and abroad. Likewise, the International Monetary Fund (IMF) and World Bank also utilized the neo-liberal inspired ideals of the Washington Consensus and influenced economic policy in Latin America.⁴³ Although throughout the 1990s such neo-liberal policies seemed to work, the Brazilian economic downturn of 1999 and the Argentine economic crisis of 2001 suggest otherwise. During these crises in Mercosur countries, the EU's foreign policy strategy was to continue its focus on development and retool some of its initiatives as well as further promote the regional integration of Mercosur as a vehicle of development. Considering the massive European investment in Argentina throughout the 1990s, it seems that the change in EU policies was not simply altruistic, to promote development in the region for development's sake, but also to protect European interests. Much of European investment that now exists in Mercosur countries was an outgrowth of neo-liberal policies on both sides of the Atlantic as well as a response to pressure from international organizations such as the World Trade Organization (WTO) and IMF.

While the events of the 1990s fashioned a stronger relationship between the EU and Latin America, Spanish membership to the EU initiated and further shaped EU policy toward Latin America. Much as France has played a central role in shaping EU-ACP relations, especially regarding the EU and Africa, Spain has taken the lead establishing and developing EU-Latin American relations.⁴⁴ The strong link between Europe and Latin America was reforged following Spanish and Portuguese membership to the European Community in 1986. Most importantly, Spain made its membership contingent upon the Community's development of stronger relations with Latin America, and as a result, Latin America was firmly placed on the EU's agenda. The four Spanish Presidencies of the European Union in 1989, 1995, 2002, and 2010 all made Latin America an important foreign initiative.

As Vicente Palacio points out, Spain "invented Latin America as a political and economic regional partner."⁴⁵ It was Spain that took the lead to forge a bi-regional approach toward Latin America. Spain began with an Ibero-American initiative in 1990 with King Juan Carlos and Queen Sofia meeting then Mexican President Carlos Salinas de Gortari. The result of their meeting was a proposal to hold regular annual meetings with all Latin American countries. Since then twenty meetings have been held as of 2010.⁴⁶

Spain was in a unique position since it had gone through a regime transition in the late 1970s, and Latin American countries were likewise experiencing democratic regime transition or consolidation during the 1990s. The obvious historical, cultural, and linguistic ties made building

⁴³ Joseph Stiglitz, *Globalization and its Discontents* (New York: W.W. Norton and Company, 2002).

⁴⁴ Claeys, "Sense and Sensibility," 113-132.

⁴⁵ Vicente Palacio, "Spain's Contribution to a European Vision for the Americas: A Review," in *Spain in the European Union*, eds. Roy and Lorca-Susino, 279.

⁴⁶ *Ibid.*, 278.

political, economic, and social linkages between Spain and Latin America a natural fit.⁴⁷ Spain not only sought to improve Iberian-American relations but also used its membership within the EU to further strengthen EU-Latin American relations. For instance, following the Spanish EU Presidency in 1989, the EU institutionalized annual meetings with the Rio Group. The Rio Group, created in 1986, originally consisted of six Latin American countries and now represents all Latin American countries as well as some Caribbean countries. In 1999, for the first time, EU and Latin American heads of state met under the auspices of an EU-Rio Group summit in Rio de Janeiro. The purpose of this meeting was to “strengthen the economic, political and cultural understanding between the regions to encourage the development of a strategic partnership.”⁴⁸

Spain’s commitment to EU-Mercosur relations was exemplified by the decisive action taken following the Argentine economic crisis in 2001. In 2002, as the crisis sent Argentina’s economy into a tailspin, the second EU-Rio Group summit was held in Madrid under the Spanish EU Presidency. While the summit was being prepared, there were worries that Argentina would disengage from Mercosur or become more protectionist.⁴⁹ As the host of the summit, Spain took the lead, and the Commission decided that accelerating EU-Mercosur negotiations would be a good way to aid Argentina.⁵⁰ Argentina’s crisis prompted the EU to change its development programs in Argentina, called “cooperation programs,” and refocus its activities to promote Mercosur as a way to aid in Argentina’s recovery. Most notably, emphasis in cooperation programs was re-allocated, putting greater weight on social cooperation and less on economic cooperation. In the past, two-thirds of EU cooperation funds were allocated toward economic cooperation and one third toward social cooperation. Following the Argentine crisis, the EU flipped the proportion of cooperation and allocated two-thirds of the total funds toward social development.⁵¹

In 2004, the EU and Rio Group met again in Mexico, and the Declaration of Guadalajara established the goals and concerns between the EU and Latin America. Some of the issues covered in the Declaration included: a commitment to a bi-regional strategic partnership; the need to address human rights, democracy, inequality, social exclusion, terrorism, and drug trafficking; the Kyoto Agreement and global warming; and Latin American migration to Europe.⁵² The EU-Rio Group summits have helped establish regular talks between the EU and Latin America and have helped facilitate relations between the two regions.

⁴⁷ Molano, interview by author; Izquierdo Zamarriego, interview by author.

⁴⁸ “Commission Sets Objectives for the Next EU-Latin America and Caribbean Summit,” European Commission, External Relations, Brussels, April 2004.

⁴⁹ Clara Mira Salama, “Madrid and Valencia: Latin America and the Mediterranean in the Spanish Presidency. The Latin American and Mediterranean Agendas Compared,” *Documento del Trabajo del Real Instituto Elcano*, November 8, 2002.

⁵⁰ *Ibid.*, 1.

⁵¹ Pulido, interview by author.

⁵² Following the 2001 economic crisis in Argentina, much foreign capital fled the country, but a significant amount of European capital remained. As a precautionary measure to avoid capital flight, the administration under Nestor Kirchner enacted regulations that required foreign firms to remain in Argentina for at least one full year.

The 1990s saw Spain take the lead in forging closer relations between the EU and Latin America; however, Spanish involvement in Latin America also came with a backdrop of greater Spanish investment in the region. As Palacio calls them “the new conquistadors,”⁵³ large-scale Spanish corporations in the fields of telecommunications, utilities, energy, and banking, to name a few, began significant investment in Latin America, particularly in the Southern Cone. To put the rise in Spanish FDI into perspective, from the 1960s through the early 1970s, total Spanish FDI was 247 million USD.⁵⁴ Once Spain joined the EU in 1986, total Spanish FDI rose to 2 billion USD by 1990. Approximately 10 percent of that FDI went to Latin America (20 percent of that money went to Argentina and Chile, the largest recipients of Spanish FDI), and over 50 percent went to other EU countries.⁵⁵ From 1991-1993, the EU was still the largest destination for Spanish FDI, accounting for approximately 60 percent; Spanish FDI to Latin American made up only 12 percent of total flows.⁵⁶ From 1994-1996, however, there was a significant change in Spanish FDI. Total Spanish FDI increased 63 percent between 1994-1996 as compared to 1991-1993 and had increased by 148 percent as compared to 1986-1990.⁵⁷ Moreover, Spanish FDI to EU members, which had been at 60 percent following Spanish entry to the EU in 1986, dropped to 33 percent in 1994-1996, and Spanish FDI to Latin America increased from 12 percent to 40 percent.⁵⁸

These FDI figures demonstrate that Spain had a very important vested interest in Latin America, particularly Southern Cone countries such as Chile and Argentina. Spanish desire to facilitate EU-Latin American relations was due not only to Spanish historic ties with the region but also to quite practical reasons. Neo-liberal pressures from abroad such as the WTO and from within the EU itself created both challenges and opportunities for Spanish investment, which also shaped Spain’s influence on EU policy toward Latin America.

Liberalism and EU competition policy

Since its inception, the EU has sought liberal economic goals such as opening trade and creating a fair competitive environment within Europe. As a result, competition policy and particularly the dissolution of monopolies in the 1990s had a profound impact on several industries throughout Europe. The EU has promoted economic liberalism not only at home but also in its foreign relations as a means for advancing development.⁵⁹ That said, some scholars point out that a major inconsistency in EU foreign policy and the promotion of liberalism is CAP’s

⁵³ Palacio, “Spain’s Contribution to a European Vision,” 265-267.

⁵⁴ Alfredo Arahuetes, “Spain,” in *FDI in Latin America: Perspectives of the Major Investors* (Madrid: Inter-American Development Bank and IRELA, 1998), 105-128.

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ Lister, *The European Union and the South*; European Commission, *Latin America Regional Strategy Document*, April 2002.

illiberal protectionism of EU farmers and agriculture.⁶⁰ I will further explore this seeming tension, but overall, liberalism remains a major component of EU policies at home and abroad.

In its foreign relations, the EU has made a conscious effort to promote liberalism within underdeveloped world regions such as ACP and Latin America and in particular to promote regional integration.⁶¹ EU policy toward Latin America, including Mercosur, has focused on development and cooperation, as well as on maintaining bi-regional relations rather than bi-lateral ones.⁶² Bi-regional relations refer to the EU acting as a block negotiating with other regional blocks rather than negotiating with individual countries. The U.S. has chosen a very different strategy and even attempted to sign a trade agreement with Uruguay, even though it would mean Uruguay would have to abrogate the Asuncion Agreement, which founded Mercosur, to do so.⁶³

EU negotiations to create an Association Agreement with Mercosur began in 1999 but have still not resulted in an agreement. In October 2004, the negotiations were suspended, but hope for concluding an agreement re-emerged in 2006 with the WTO Doha Round, which subsequently failed. The EU Delegation had high expectations that EU-Mercosur negotiations would be concluded as an alternative to a WTO agreement.⁶⁴ It should also be noted that EU officials believe that the negotiations with Mercosur also are a way to help build the institutional structure and deepen the integration of Mercosur.⁶⁵ From 2004 until 2010, negotiations remained at a standstill, and the EU's policy of bi-regional negotiations seemed to be failing.⁶⁶ During this time, the EU was only able to conclude Association Agreements with Mexico and Chile and still could not conclude agreements with the Andean Community or Mercosur. The EU ended up signing free trade agreements with Mexico and Chile that were put into force in 2000 and 2003 respectively. The EU also moved to create a free trade agreement with the Andean Community, but when the Andean Community fell apart, the EU concluded free trade agreements with individual countries Peru and Colombia in 2010.

These bi-lateral agreements seemed to occur in the face of the EU's attempt to encourage regional integration in Latin America and to promote bi-regional negotiations. The EU's inability to finalize an agreement with Mercosur or the Andean Community suggested that the EU had given up on the policy and had taken the approach of seeking whatever trade agreements it could

⁶⁰ Dickson, "The Unimportance of Trade Preferences," 42-47; Alfredo Valladão and Sheila Page, eds., *Agriculture and Agribusiness in the EU-Mercosur Negotiations: Negotiating Issues II* (Paris: Working Group on EU-Mercosur Negotiations, Chaire Mercosur de Sciences Po, 2003).

⁶¹ Lister, *The European Union and the South*; Grugel, "New Regionalism," 603-626; Karin Arts and Anna Dickson, eds., *EU Development Cooperation: from Model to Symbol* (Manchester: Manchester University Press, 2009).

⁶² Lister, *The European Union and the South*; Grugel, "New Regionalism," 603-626; European Commission, *Latin America Regional Strategy Document*, April 2002.

⁶³ The U.S. agreement with Uruguay did not come to fruition, but the U.S. became Uruguay's largest trading partner nonetheless.

⁶⁴ Gustavo Prada Martín (speech given at Inter-Developmental Bank (IDB) conference, October 15, 2006).

⁶⁵ Pulido, interview by author; Mally, interview by author.

⁶⁶ Lorena Ruano, "La relación bioregional y la desintegración en América Latina," in *España, la Unión Europea y la integración latinoamericana*, ed. Joaquín Roy and Roberto Domínguez (Miami: Miami-Florida European Union Center/Jean Monnet Chair, 2010), 161-167; Palacio, "Spain's Contribution to a European Vision," 269.

even if the agreements were not bi-regional. The EU especially sought agreements with countries that had signed free trade agreements with the U.S., such as Mexico and Chile.

The EU-Latin American and Caribbean Summit (EU-LAC) in May 2010 signaled a rebirth of EU bi-regional relations. The EU-LAC summit finalized negotiations for an Association Agreement between the EU and six Central American countries and also reinvigorated dialogue about concluding an agreement with Mercosur. Interestingly enough, at the time of this article's writing, the U.S. had still not ratified proposed free trade agreements with Colombia or Panama, whereas the EU had done so as part of the EU-Central American agreement. As the European Commission, Directorate General for Trade memo states, "The Agreement (with Central America) is also meant to reinforce regional economic integration in Central America and the EU hopes for it to have a positive spillover effect on the overall political integration process and contribute to the stability of the region."⁶⁷ The May 2010 Summit suggested that the EU had renewed its desire to promote regional integration in Latin America and to finalize an agreement with Mercosur. Why did it take until 2010 to renew discussion on an EU-Mercosur trade agreement? One argument is that by 2010 Europe had become engulfed in its own economic debt crisis and found that European FDI in Mercosur made up for economic losses in Europe.⁶⁸ With Spain holding the EU presidency, despite resistance from ten EU member states led by France who do not want to resume negotiations due to agricultural interests, negotiations have been re-opened but are still not completed as of the writing of this article.⁶⁹

Liberalism has remained a cornerstone of the EU's policy toward Latin America with regard to both promoting regionalism and forging free trade agreements. Liberalism has likewise become important for EU-ACP relations, which were forged well before EU-Mercosur relations. EU relations with ACP countries and specifically the tone of the Cotonou Agreement may shed some light on the EU's strategy toward Latin America, particularly the new emphasis on liberal trade without trade preferences. In the past, the EU's dealings with both ACP countries and Latin America promoted cooperation and development; however, more recently there has been a shift in the underlying policy style of how to achieve that goal. The EU has moved away from trade preferences and now focuses more on principles of neo-liberalism to promote cooperation and development.⁷⁰ The Cotonou agreement with ACP countries suggests that, in order to incorporate lesser-developed countries into the global economy, trade preferences should be abandoned and liberal trade should be embraced.⁷¹ The ACP agreements of the past seemed to be unique and focused on cooperation, development, and preferential trade agreements, while Cotonou seems to be less unique and to adopt neo-liberal policies much like other international organizations, such

⁶⁷ European Commission, Directorate General for Trade, "Highlights of the Trade Pillar of the Association Agreement between Central America and the European Union," Brussels, June 2011.

⁶⁸ Inter-American Developmental Bank, "MercosurReport N°15," Buenos Aires, March 2011, 128.

⁶⁹ Ibid.

⁷⁰ Dickson, "The Unimportance of Trade Preferences," 42-53.

⁷¹ Ibid., 46-53.

as the World Bank and WTO.⁷² As Toye explains, in the 1980s there emerged a counter-revolution in development that advocated for lesser-developed countries to liberalize.⁷³ Dependency theory inspired state-led development policies and special concessions to poorer countries, which seemed to yield little results.⁷⁴ Dependency theory suggested that the international system had disadvantaged lesser-developed countries and therefore the state needed to step in to solve development woes. Neo-liberalism argued that countries should receive no special treatment and the state should not play a greater role and was actually to blame for implementing inadequate policies that exacerbated underdevelopment.⁷⁵ As newly industrializing countries were on the rise, the development community began to accept the notion that market liberalism was the key to development.⁷⁶ So if the Cotonou Agreement asserted that ACP countries should no longer receive special treatment, then neither should Latin American countries.

The goal of the EU is to promote trade between the EU and Latin America, and it seems that when bi-regional negotiations are not possible, the EU will work to finalize a trade agreement with individual countries. However, it seems that in the case of Mercosur the EU has made a concerted effort to promote the integration of Mercosur and to finalize an agreement between the EU and Mercosur rather than negotiate with individual countries. In fact, members of the EU delegations have asserted that negotiations themselves have promoted the continued integration of Mercosur.⁷⁷ Although Mercosur is one of the oldest and most institutionalized attempts at regional integration in Latin America, many barriers to deepening the integration of Mercosur still exist. Such road blocks include economic disequilibrium among its members, differences in what each member wants out of integration, and governments' unwillingness to give up sovereignty.⁷⁸ In the past, there was a failed attempt to implement EU cooperation programs at the Mercosur level across member states; thus, it was decided to have individual member states of Mercosur along with individual EU delegations within Mercosur members states distribute, monitor, and implement EU development programs.⁷⁹ Thus, it seems that both pragmatism and economic liberalism have informed the EU's policies toward Latin America and particularly Mercosur.

The knock-on effect of EU competition policy

One of the EU's main policy responsibilities is in the area of market regulation, which includes the EU competition policy's "deregulation and liberalization of domestic markets and

⁷² William Brown, "From Uniqueness to Uniformity? An Assessment of EU Development Aid Policies," in *EU Development Cooperation: From Model to Symbol*, ed. Karin Arts and Anna Dickson (Manchester: Manchester University Press 2009), 17-41.

⁷³ *Ibid.*, 45.

⁷⁴ *Ibid.*

⁷⁵ *Ibid.*

⁷⁶ International Monetary Fund, *Annual Report*, Washington, D.C., 1996.

⁷⁷ Pulido, interview by author; Mally, interview by author.

⁷⁸ Narodowski, interview by author.

⁷⁹ *Ibid.*

privatization of national monopolies.”⁸⁰ Europeanization literature suggests that EU policies can impact national policymaking and domestic structures and create pressures for national adaptation.⁸¹ While much of the Europeanization literature examines how the EU has shaped regional and national governments as well as citizens and organizations within member states and their interactions with the EU, it does not address how the EU has impacted private organizations and specifically corporations and their behavior outside of Europe, especially state-owned monopolies that would have to comply with new EU legislation.⁸² From a theoretical perspective, Europeanization literature does not help us to understand the empirical reality that EU competition policies’ break-up of state monopolies created an environment that led many of these companies to seek new market opportunities overseas.⁸³

Historical institutionalism, however, helps make sense of why corporations acted as they did. Just as national governments adapted their policies due to policy pressures that built up over time from the EU, businesses that were once state monopolies also had to adapt to a new environment. Competition policy in the EU in the 1990s put pressure on large corporations to break up monopolies in public utilities, telecommunications, and energy.⁸⁴ As a result, many corporations began to look overseas to accommodate changes in their structure and market size.⁸⁵ The move toward deregulation in the U.S. and the UK in the 1980s set the stage for the rest of Europe to adopt similar types of legislation. The EU’s adoption of liberalization policies likewise influenced the policies adopted within member states.

When Spain joined the EU in 1986, it had to fundamentally transform its economic policy to address the accession criteria of a liberal economy. Spain had functioned under an autarkic economic system under Francisco Franco’s dictatorship. The transition to democracy in the 1980s was accompanied by far-reaching economic policies to open Spain’s economy to the outside and to bring the country more in line with the liberal policies promoted by the European Commission and already adopted by other member states.⁸⁶ As Spanish markets began to liberalize in the 1990s, there was both increased direct investment flowing into Spain and an

⁸⁰ Klaus Goetz and Simon Hix, *Europeanized Politics? European Integration and National Political Systems* (London: Frank Cass, 2001), 4.

⁸¹ Goetz and Hix, *Europeanized Politics?*, 4-6; Robert Harmsen and Thomas Wilson, “Introduction: Approaches to Europeanization,” in *Yearbook of European Studies* 14 (2000), 13-26; Maria Green Cowles, James Caparoso, and Thomas Risse, eds., *Transforming Europe: Europeanisation and Domestic Change* (Ithaca and London: Cornell University Press, 2001), 1-20; Kevin Featherstone and Claudio Radaelli, *The Politics of Europeanization* (Oxford: Oxford University Press, 2003). [[CrossRef](#)]

⁸² Cowles, Caparoso, and Risse, eds., *Transforming Europe*, 1-20; Featherstone and Radaelli, *The Politics of Europeanization*.

⁸³ Molano, interview by author; Pulido, interview by author; Hamner, “The Globalization of Law,” 385-387; Izquierdo Zamarrigo, interview by author; Gennaro, interview by author; Aspinwall and Schneider, “Same Menu, Separate Tables,” 21.

⁸⁴ Competition policy, however, does not explain the massive FDI of Spain’s banking sector in Latin America, which happened simply because of growing opportunities in the region.

⁸⁵ Pulido, interview by author; Molano, interview by author.

⁸⁶ Keith Salmon, “Spain: From Protectionism to Advocacy of Liberalization” (paper presented at the Conference on the Spanish Presidency of the European Union, University of Liverpool, October 12, 2002).

increase in the number of Spanish companies traveling abroad and especially to Latin America, which was then implementing privatization programs.⁸⁷ Latin America was also a natural place for Spanish companies to invest due to the relative lack of language and cultural barriers.

Although liberalization policies in Spain were begun under the Partido Socialista Obrero Español (PSOE) administration due to pressures from the EU, the conservative party Partido Popular (PP) took control of the government following the election of 1996, and Spain moved decisively toward the goal of privatizing all state-owned industries. Privatization took place between 1996 and 2002; some of the most notable companies related to this discussion include Repsol, privatized in 1997, and Telefonica, privatized from 1997-2000.

Repsol is an example of the new Spanish corporate diversification and investment overseas. Investing in Argentina was of particular interest to Repsol as a way to augment its upstream production, which previously was very limited.⁸⁸ With the acquisition of oil rights in Argentina, Repsol became not only the largest oil and gas company in Spain but also in Argentina. In 1999, Repsol merged with Argentina's Yacimientos Petroliferos Fiscales (YPF), a formerly state-owned Argentine oil company. As a result, Repsol-YPF became one of the ten largest private oil companies in the world, the largest corporation in Argentina, and the largest private energy company in Latin America in terms of assets.⁸⁹ Regarding natural gas, in 1989 Argentina began deregulating the industry as part of the privatization of YPF; as a result, Repsol-YPF owns a dominant portion of the market in both natural gas and crude oil. Thus, Repsol-YPF has become Spain's largest firm in terms of revenue, and 40 percent of Repsol's profits now come from Argentina.⁹⁰

In 2000, Argentina became Latin America's largest natural gas producer, surpassing Mexico. As a result of its availability and government incentives, natural gas has become Argentina's dominant energy source, making up 45 percent of primary energy consumption in 2002.⁹¹ Gas production, like many other industries, suffered during the economic crisis of 2001, and that decline has continued. In conjunction with a decrease in production, the Argentine government began to place caps on prices to keep consumer costs down; however, this sparked increased consumption, which resulted in an energy crisis in 2004. This energy crisis is still an issue today. The main multinational corporation that distributes natural gas in Latin America is Gas Natural, and Repsol-YPF owns 31 percent of this corporation.⁹² Repsol-YPF also has significant natural gas holdings in Bolivia, which have experienced de-investment from Repsol due to the Bolivian government's Law of Hydrocarbons, which has increased taxes and royalties

⁸⁷ Keith Salmon, "Spanish Foreign Direct Investment, Transnationals and the Redefinition of the Spanish Business Realm," *International Journal of Iberian Studies* 14, no. 2 (2001): 95-109.

⁸⁸ Upstream refers to crude oil retrieval, whereas downstream refers to the refining process.

⁸⁹ Repsol corporate website, http://www.repsol.com/es_en/corporacion/conocer-repsol/quienes-somos/ (accessed March 15, 2012). [VIEW ITEM]

⁹⁰ Felix Martín and Pablo Toral, *Latin America's Quest for Globalization: the Role of Spanish Firms* (Burlington: Ashgate Publishers, 2005).

⁹¹ "Argentina Energy," *World News Network*, <http://archive.wn.com> (last modified January 2005). [VIEW ITEM]

⁹² Martín and Toral, *Latin America's Quest for Globalization*.

on oil production.⁹³ Since the Argentine and Bolivian branches of Repsol-YPF are interconnected, the impact of Bolivia's populist government has had reverberations in Argentina. Moreover, Argentina has made agreements with Venezuela to help alleviate the ongoing energy crisis.

In addition to problems with natural gas supplies, oil production also declined since its peak in 1998 because oil producers have not "brought enough new capacity online to replace declining production from mature fields; however, the rate of decline in production has eased in recent years."⁹⁴ It is hard to say whether production would have been better under different private firms or under state ownership. However, during the 2001 economic crisis in Argentina, there was resentment against foreign capital and especially Repsol. Repsol executives told employees not to disclose whom they worked for and not to pick up taxis in front of the large Repsol headquarters in Buenos Aires for safety reasons.⁹⁵ However, Repsol-YPF has continued its industry in Argentina and remains a significant European investor. It is also clear that EU development aid to Mercosur as well as aid from individual member states, especially Spain, was not simply for altruistic reasons but to protect such significant European investment as that of Repsol-YPF. In addition, the EU's attempt to further Mercosur's integration was done specifically to bolster the economies and stability of Mercosur's members, particularly Argentina.

Recently, Argentine President Cristina Fernandez's administration purchased shares of Repsol-YPF in order for Argentina to gain a majority of shares in the company. This infuriated Spain, and the EU is backing Spain in the dispute, which could be a new hurdle to completing an EU-Mercosur Association Agreement. There is no parallel occurrence in EU-ACP relations, and only time will tell if this will create a break in the historical institutionalist paradigm that informed relations before Repsol's nationalization. Argentina's current illiberal policy is at odds with the neo-liberal practice that guided EU competition policy and enticed European investment in Latin America as Argentina has attempted to re-nationalize and gain control of Repsol.

Another industry that EU competition policy profoundly impacted was telecommunications. With liberalization and technological convergence, Telefonica, the largest telecommunications company in Spain, began following the model of other major international conglomerates like U.S.-based AOL-Time Warner, Japanese-based Sony Corporation, and French Vivendi.⁹⁶ Between 1997 and 2002, Telefonica became a much more assertive private telecommunications corporation and began to expand into Latin America. The European Commission and the World Trade Organization pushed for greater liberalization in the telecommunications sector, and Telefonica had to follow suit.

The EU sought to de-regulate the telecommunications sector in order to: "defend the competitive position of the European telecommunications industry; the co-ordination/harmon-

⁹³ "Repsol YPF's Tank Is Running on Empty," Wharton Universia, <http://www.wharton.universia.net> (last modified February 22, 2006). [[VIEW ITEM](#)]

⁹⁴ "Energy Information Administration: Country Analysis Brief: Argentina," U.S. Department of Energy, <http://www.eia.doe.gov> (accessed January 7, 2007). [[VIEW ITEM](#)]

⁹⁵ Repsol employees, interview by author, Buenos Aires, November 15, 2006.

⁹⁶ Salmon, "Spain: From Protectionism to Advocacy of Liberalization."

ization of services and products across member-state telecommunications systems and the liberalization of market access and market functions.”⁹⁷ As Adriene Hérítier points out, there were both internal and external pressures promoting competition and de-regulation of telecommunications.⁹⁸ The external factor was the need for technological innovation, which the Japanese and Americans were achieving due to their de-regulated markets. Internally, telecommunications users were pushing for more affordable and effective services. As such pressures were placed on EU policymakers, these pressures were transferred to member states.⁹⁹ The EU’s adoption of telecommunications liberalization policies created a coercive force that caused telecommunications companies throughout Europe to adjust in similar ways, including by investing overseas.

Telefonica today operates in fifteen Latin American countries and is one of the largest fixed and mobile line providers in Latin America. One of the advantages that Telefonica had in the 1990s, beside the obvious language facility, was its demonstrated ability to modernize telecommunications in a short amount of time.¹⁰⁰ In the late 1980s, more and more Spaniards were demanding phones in their homes, and Telefonica had to very quickly modernize their system to accommodate the changing nature and demand for telecommunications in Spain. Telefonica demonstrated their exceptional ability in Spain to modernize quickly, and this helped show Latin American consumers that they were a capable company.¹⁰¹

Telecommunications infrastructure is essential in today’s globalized and high tech economy. Public officials, private businesses, and Telefonica itself stressed the benefit of having telecommunications networks not only to provide affordable communications for Latin Americans but also to entice more foreign capital.¹⁰² Telefonica uses the same technology in Latin America that it uses in Europe and has been able to expand the telecommunications market in Latin America at an affordable price for consumers.¹⁰³ Basically, the company’s strategy was to seek a greater volume of customers and a lower cost per customer, since average income in Latin America is much less than in Europe.

When the economic crisis of 2001 happened in Argentina, Telefonica did not leave, whereas America Bell South, a U.S. firm, ended up selling its share of the market to Telefonica.

⁹⁷ Adrienne Hérítier, *Policy-Making and Diversity in Europe: Escape from Deadlock* (Cambridge: Cambridge University Press, 1999), 38. [[CrossRef](#)]

⁹⁸ *Ibid.*, 36-42.

⁹⁹ “Deregulation, started in 1987, but moved slowly until the passage of new EC Directives in the mid-1990s (notably the 1996 Directive on the implementation of full competition in EU telecommunications markets). These spurred the full privatisation of the national monopoly telecommunications company Telefónica (except for a government held ‘golden share’) and were transposed into Spanish law in legislation in 1997 (Ley 31/1997) and the General Telecommunications Law of 1998 (Ley 11/98).” Salmon, “Spain: From Protectionism to Advocacy of Liberalization,” 3.

¹⁰⁰ Martín and Toral, *Latin America’s Quest for Globalization*.

¹⁰¹ Izquierdo Zamarriego, interview by author.

¹⁰² Molano, interview by author; Eduardo Ablin, interview by author, Buenos Aires, November 6, 2006; Izquierdo Zamarriego, interview by author.

¹⁰³ Molano, interview by author.

According to Telefonica management, Telefonica sees its investment in Latin America as long-term.¹⁰⁴ Dr. Julian Izquierdo Zamarrigo, Spanish Foreign Ministry's General Sub-director of Commercial Affairs with Latin America and North America, highlighted that Telefonica did not leave due to the strong historic, cultural, and linguistic ties between Spain and Latin America.¹⁰⁵ Another possible reason that Telefonica did not leave Argentina was that it had too many fixed assets and too much invested to "cut and run" like many other foreign companies did.

Another critical issue concerning European and particularly Spanish investment in Argentina was the freezing of tariffs following the economic crisis. Utilities and telecommunications normally charge usage fees to customers, but with the economic crisis, the Argentine government froze fees, leaving them in pesos and not allowing companies to increase them. The government's reasoning for freezing usage fees was to help citizens with the abrupt change in the economic condition due to de-pesofication. The Argentine peso had been pegged to the U.S. dollar, but this was unsustainable. When de-pesofication occurred, the value of the Argentine peso was reduced by two-thirds. What companies were collecting for services from customers was likewise in real terms reduced by two-thirds overnight. The frozen fees issue is slowly being resolved as several companies have sought international arbitration at the World Bank's International Center for the Settlement of Investment Disputes (ICSID). Telefonica was one of the companies adversely impacted by the pricing freeze. However, Telefonica was in a unique situation since it had experienced price-freezing in Spain and thus was better able to cope.¹⁰⁶

Telefonica's involvement in Latin America became a win-win situation for both investors and consumers by increasing telecommunications networks in Latin America that helped businesses and by providing inexpensive cell phones, Internet access, and fixed landlines to middle and lower income people.¹⁰⁷ Therefore, Latin America and particularly Mercosur countries have been better able to keep up with technological advancements found in more developed countries.

Telefonica, a European company, invested in Latin America as a result of coercive pressures from EU competition policy and the push to liberalize the telecommunications system in Europe. Likewise, international pressures from the IMF and World Bank promoted similar policy adoption in Latin America.¹⁰⁸ The company's large investment in Latin America facilitated a technology transfer that gave vital communication infrastructure to promote FDI and improve business conditions in the region. It also provided an opportunity for citizens to become more connected, thereby promoting economic and social development. With such large European and particularly Spanish investments it is not surprising that Spain has pushed to create stronger EU-

¹⁰⁴ Ibid.

¹⁰⁵ Izquierdo Zamarrigo, interview by author.

¹⁰⁶ Ibid.

¹⁰⁷ Martín and Toral, *Latin America's Quest for Globalization*; Molano, interview by author.

¹⁰⁸ Kathryn Sikkink, "Development Ideas in Latin America: Paradigm Shift and the Economic Commission for Latin America," in *International Development and the Social Sciences*, ed. Frederick Cooper and Randall Packard (Berkeley: University of California Press, 1997), 228-258.

Latin American relations and to finalize an Association Agreement between the EU and Mercosur.

Since many European firms have significant overseas investment and the EU is the institutional structure to conclude trade relations and larger scale development and cooperation programs overseas, it is not surprising that Spain has taken the lead in advocating a free trade agreement between the EU and Mercosur, along with the support of other countries that also have significant investment particularly in Mercosur. As historical institutionalism suggests, there are institutional constraints upon what countries can do to protect their overseas investments. Since the EU has placed development, cooperation, and bi-regional negotiations as cornerstones of its policies with other lesser-developed regions such as the ACP countries, it is not surprising that the EU would take a similar approach with Mercosur.¹⁰⁹

Impact of European investment

Increased European investment in Latin America, specifically by Spain, has opened up markets for both sides of the Atlantic and has moved Europe into a much more important position in the southern portion of the Western Hemisphere. As a result of greater European investment, the EU has also taken a greater role in Latin American affairs. With greater globalization, including the forging of regional trading blocks, Europe has found itself in an interesting new global position, considering the U.S.'s historically strong presence in Latin America. Since issuing the Monroe Doctrine, the U.S. has played a prominent role shaping Latin American internal politics and has earned a reputation as a "big brother" to the region, for better or worse. However, more recently, U.S. foreign policy emphasis has shifted to the Middle East, and Latin America has become less of a foreign relations priority.¹¹⁰ Both changes in U.S. and EU foreign policies have created new opportunities for Europe in Latin America even beyond the FDI spurred on by both EU and Latin American policies based on the liberalization of markets. With such liberalization and globalization on political, economic, and social levels, there has been much discussion about how these global changes have affected how various regions of the world relate with one another.

Along these lines, Peter Katzenstein's book *A World of Region* focuses on the unipolar nature of world politics and the significant and central position the U.S. now plays.¹¹¹ His basic argument is that the U.S. has created porous regions allowing the U.S. to penetrate globally and construct its imperium. However, examining changes in Latin America, I would argue that since the U.S. has not focused equally across its "imperium," it has presented porousness or opportunities for other foreign entities like European countries and the EU. In that same vein, commercial, economic, or political interests in a region are not necessarily a zero sum game. For instance, both Chile and Mexico have free trade agreements with the U.S. and with the EU. The U.S. negotiation of NAFTA may have sparked greater EU interest in Mexico, but member states also had their own commercial and economic interests to protect as well. Moreover, Bulmer-

¹⁰⁹ Grugel, "New Regionalism," 603-626; Lister, *The European Union and the South*.

¹¹⁰ Larry Birns and Carol Ciriaco, "Clinton's Failed Attempt to Mend Relations with Latin America," Council on Hemispheric Affairs, <http://www.coha.org/clinton-plays-hostess-in-a-failed-attempt-to-mend-u-s-latin-america-relations/> (last modified May 26, 2011). [VIEW ITEM]

¹¹¹ Peter Katzenstein, *A World of Region* (Cornell: Cornell University Press, 2005).

Thomas points out that Brazil used EU-Mercosur free trade agreement negotiations as a way to get concessions from the U.S.¹¹² Therefore, EU interest in Latin America was not just to compete with the U.S. but also to protect European investments. Even in talking to both embassies, one finds that there is not a climate of competition, even though such competition may exist for private industries.¹¹³

While neo-liberalism has informed both U.S. and EU policies toward Latin America, it has shaped the structure of the actual policies in very different ways. The U.S. Washington Consensus policies promoted economic growth and liberalization of markets. On the other hand, the EU sought regional integration and the promotion of democracy, human rights, and social development, much like its policies toward ACP countries.¹¹⁴ Moreover, the unintended knock-on effect of EU competition policy promoting investment in Latin America was to create an environment that promoted EU-Mercosur relations and protected European investments. The promotion of political, social, and economic development in the region has been central to EU policy toward Mercosur. Although support for development goals may seem altruistic, EU policy also demonstrates pragmatism in seeking to create stability by focusing on what the EU sees as the root of instability in the region in order to protect European investments. As much as economic liberalism on both sides of the Atlantic has promoted trade and European FDI in Latin America, liberal policies have not been adopted in all economic sectors. Agriculture still remains one of the sectors in both the U.S. and EU that follows illiberal policies and has seriously impeded the creation of an EU-Mercosur free trade agreement.

Agricultural policy: the juggernaut

Agriculture stands out as one of the major policy areas of conflict between the EU and Mercosur. Some have even called it the “agricultural knot” and the main stumbling block to finalizing an Association Agreement. The EU imports a significant proportion of Mercosur agricultural goods, but the EU exports little agriculture to Mercosur countries. In 2000, agriculture comprised approximately 60 percent of Mercosur exports to the EU, whereas EU agricultural exports to Mercosur were quite limited.¹¹⁵ Pork to Argentina and Brazil and olive oil, wines, and champagne to Brazil were the largest EU agricultural exports.¹¹⁶ As Valladão and Paige point out, because EU agricultural exports to Latin America were so limited, Latin American market access was not a major issue from the perspective of Europe.¹¹⁷ More recent agricultural trade figures show a similar picture (see appendix). The significant volume of Mercosur agricultural goods exported to Europe, along with differences in agricultural policy on both sides of the Atlantic, helps explain why agriculture remains a sticking point in negotiations. Negotiations concerning

¹¹² Bulmer-Thomas, “The European Union and MERCOSUR,” 1-22.

¹¹³ Bryan Jenson, interview by author, Buenos Aires, October 7, 2006; Pulido, interview by author; Mally, interview by author.

¹¹⁴ Grugel, “New Regionalism,” 603-626.

¹¹⁵ Valladão and Page, *Agriculture and Agribusiness in the EU-Mercosur Negotiations*, 15-30.

¹¹⁶ *Ibid.*

¹¹⁷ *Ibid.*

the agricultural sector are very complex and central to the conclusion of an Association Agreement. It is impossible within the context of this discussion to cover the breadth and depth of the disagreement on both sides regarding agricultural trade; however, I shall highlight some important aspects of the “agricultural knot” to elucidate how agriculture has shaped and even halted negotiations.

According to the Working Group on EU-Mercosur relations, the agriculture and agribusiness “juggernaut” can be divided into three areas: market access, sanitary and phytosanitary measures, and multifunctionality/non-trade concerns.¹¹⁸ Regarding market access, EU restrictions on imports have created tension between the EU and Mercosur. Mercosur countries seek access to larger markets for their agricultural goods in wealthier regions such as Europe. However, the EU has structured its agricultural policy in a very protectionist way. Imports are restricted, and high tariffs are placed on agricultural goods to ensure that European goods are better priced in European markets. Moreover, the EU subsidizes European agricultural products on the international market to push European goods’ prices below market value, thus making them very competitive in international markets. Although the EU has partially reformed its CAP, such reforms have not been far-reaching enough to assuage discontent among agricultural exporters from Mercosur countries.

Both the WTO and the Organisation for Economic Co-operation and Development (OECD) have regarded EU agricultural policies as protectionist.¹¹⁹ The Doha Round of the WTO and its failure to come to an acceptable conclusion was due to the EU and U.S.’s protectionist agricultural practices and their unwillingness to yield to pressure from lesser-developed countries, which are more dependent on agriculture. The main point of contention between Mercosur and the EU and the U.S. is that Mercosur has maintained high tariffs on manufactured goods. Mercosur argues that it maintains those tariffs just as the EU and the U.S. continue to maintain high tariffs and subsidies on agricultural products. The EU contends that it has done more to open agricultural markets in Europe to Mercosur than the U.S. has.¹²⁰ With all of the finger-pointing, the Doha Round of discussions collapsed due to the inability or unwillingness of the EU and U.S. to liberalize agricultural trade and of lesser-developed countries, such as those represented by Mercosur, to liberalize industrial trade. The Doha Round was seen as an opportunity to be seized in order to complete an EU-Mercosur free trade agreement.¹²¹ Yet, after the collapse of the Round, agriculture remains one of the central stumbling blocks to concluding an agreement.

CAP was one of the original common policies of the EU and was seen as a way to ensure food security and sustainability. The three main principles that guided CAP were market unity, Community preference, and financial solidarity.¹²² These three principles have driven CAP and

¹¹⁸ Ibid.

¹¹⁹ Ibid.; World Trade Organization, “Market Access: An Unfinished Business-Post Uruguay Round Inventory?” *WTO Special Studies* 6 (2001): 45-64.

¹²⁰ Pulido, interview by author; Mally, interview by author.

¹²¹ Martín (speech given at IDB conference); Pulido, interview by author; Mally, interview by author.

¹²² Eve Fouilleux, “The Common Agricultural Policy,” in *European Politics: Third Edition*, ed. Michelle Cini and Nieves Pérez-Solórzano Borrágán (Oxford: Oxford University Press, 2010), 340-357.

have created a protectionist policy that does not promote liberal global trade of agriculture. That being said, CAP has remained a fundamental basis of European integration.¹²³

France, as the largest agricultural producer in Europe, has been a strong opponent of reforming CAP. Although France was unable to stave off the CAP 2003 “Mid-term Review,” which introduced significant reforms that de-coupled support from production, France has been otherwise successful in its staunch opposition to the liberalization of CAP in relation to EU-Mercosur negotiations.¹²⁴ As Dieter Konold points out, France maintained its strong stance on the protection of agriculture due to its budgetary interests and skeptical political culture towards liberalism.¹²⁵ The institutional norm of agricultural protection was set even prior to the formation of the European Community and has continued to the present, with France leading the charge against reforms. With such pressure within the EU to maintain protectionist policies regarding agriculture, it is not surprising that market access for Mercosur agricultural goods has been difficult to negotiate.

For all Mercosur countries, EU market access is important, but for a country that has been struggling economically, like Argentina, it is imperative for economic recovery. The second most important destination for Argentine exports in 2010 was the EU (17.2 percent of all Argentine exports), only surpassed by Brazil (22.6 percent); ranked fifth was the U.S. (5.7 percent).¹²⁶ Argentina’s agricultural trade to the EU makes up approximately 65.1 percent of all Argentine exports to the EU.¹²⁷ During the severe economic crisis in 2001, Argentine export markets did quite well since the cost of products was reduced considerably with the devaluing of the peso. Argentina’s main export markets have been in agriculture, and during the crisis, the agricultural sector was seen as a way to improve the economic condition of Argentina.¹²⁸ Foodstuff prices were reduced instantly by two-thirds and thus became more competitive on world markets. In order for the Argentine government to take advantage of the success of the export agricultural sector, the government adopted a contentious policy following the 2001 economic crisis: the reinstatement of exports taxes, otherwise known as retentions.

Retentions refer to federal taxes on Argentine exported agricultural goods. Under Nestor Kirchner’s administration, retentions were re-instated for the first time since their removal under Carlos Menem’s liberalization policies of the 1990s. Retentions are a way for the government to tax export producers and collect more revenue to recover from debt. Retentions are significant, accounting, for example, for 23 percent of soy and 20 percent of corn exports.¹²⁹ Some argue that these retentions only affect the oligarchy, which is very well-off anyway; therefore, it is not a real

¹²³ Valladao and Page, *Agriculture and Agribusiness in the EU-Mercosur Negotiations*, 15-30.

¹²⁴ Dieter Konold, “Farm Interests as Bargaining Chips: France in the EU-Mercosur Free Trade Negotiations,” *Journal of Public Policy* 30, no. 3 (2010): 321-323. [[CrossRef](#)]

¹²⁵ *Ibid.*

¹²⁶ European Commission, Directorate General for Trade, *EU Bilateral Trade and Trade with the World*, Brussels, January 18, 2011.

¹²⁷ *Ibid.*

¹²⁸ Osvaldo Alberto Simiele, interview by author, Buenos Aires, November 8, 2006.

¹²⁹ *Ibid.*

hardship on producers. However, several smaller producers sell products—such as cattle for mating purposes—to larger producers, and as a result, these retentions end up hurting smaller producers as well since they are paid less to compensate for the loss exporters will have with retentions. Under the administration of Cristina Fernandez, soy retentions were increased to 35 percent, and in response, riots ensued for weeks and caused food shortages in Argentina.

Mercosur countries and other countries are adversely affected by these retentions as well. For instance, in a hypothetical case, say that the retentions placed on Argentine wheat are 20 percent. Thus, an Argentine wheat grower will have to calculate whether to sell domestically or overseas to a milling plant. Argentine millers will be able to buy Argentine wheat 20 percent lower than their Brazilian counterparts due to the retentions on exported agricultural goods, and therefore Argentine millers can sell the flour at a more competitive price since the raw materials are less expensive. As the Argentines cry foul at Europe for subsidizing its agricultural goods by falsely lowering prices on the international market, the Argentines are falsely inflating their prices. Yet, retentions aside, there is a strong push in Argentina for Europe to liberalize trade and provide more market access for their agricultural goods.

As part of European protectionist policies, quotas have been established on agricultural imports. One of the most well-known and often discussed quotas on Argentine goods is the Hilton Quota. The quota was first established increased under the General Agreement on Tariffs and Trade's (GATT) Tokyo Round in the late 1970s when the Hilton chain of restaurants wanted a larger supply of high quality cuts of beef in Europe. To this day, the Hilton Quota still restricts the export of high quality beef to Europe. Many Argentine beef producers have demanded increases in the quota size but have been met with little European cooperation.

In the past, the EU facilitated market access of agricultural goods for ACP countries through a tariff and quota system that gave them preferential treatment. However, the WTO and the banana trade wars from 1993-1999, along with the prior adoption of trade liberalization, have prompted an abandonment of preferential trade status for ACP countries. In the case of the banana dispute, the EU gave preferential treatment to bananas from Caribbean countries as a way to compensate for their disadvantaged landscape and smaller scale farming as compared to U.S.-owned Latin American production, which is done on larger plantations and can be produced at a cheaper cost. Three U.S.-based transnational companies control most of Latin American banana production, which is about 83 percent of all bananas in the world market.¹³⁰ The U.S. was strongly opposed to the EU's preferential system toward ACP bananas since it is considered protectionist and against trade liberalization. As a result, the U.S. brought the case to the WTO.

The WTO ruled in favor of the U.S. and allowed the U.S. to impose sanctions, which negatively impacted European luxury goods. The final solution to the “banana wars” was the adoption of the Banana Protocol, which challenged the preferential trade status established in the Lomé Convention. The Protocol called for a gradual shift to a tariff-only system by 2006, which means that ACP countries would have to compete equally with Latin American bananas unless they qualify for the Everything but Arms Initiative. As Dickson points out, the Lomé Convention “was a litmus test of the EU's will to defend the interests of the ACP against those of the USA and

¹³⁰ Dickson, “The Unimportance of Trade Preferences,” 53.

Latin American banana producers.”¹³¹ The “banana wars” concerned pressure not only from the U.S. and Latin America but also from the WTO for the EU to reform its agricultural policy.¹³²

If the EU would apply liberalism to ACP countries’ banana trade, why would the EU treat Mercosur countries any differently regarding other agricultural goods? The Cotonou Agreement with ACP countries, which followed the Lomé Convention, moved away from preferential treatment and advocated liberalism as a way for development to occur.¹³³ Neo-liberalism suggests that the special concessions that were once given to lesser-developed countries did not work, and it was the practice of government intervention that caused the problems.¹³⁴ Thus, under the guise of neo-liberalism, the EU advocated regionalism and liberalization as a way to bring about ACP development. This same idea was applied to Mercosur, yet the illiberal policies of quotas on products from Mercosur still remain. For as much as liberalism inspired EU competition and trade policy, the underlying goal of protecting European farmers and European production still rules when it comes to agriculture, and preferential treatment once given to ACP countries that had the longest standing agreements with the EU has now been left behind. Thus, it is not surprising that in the negotiations for an EU-Mercosur free trade agreement the issue of market access has not yet been resolved. Moreover, Argentina has adopted a policy that is just the opposite of that of Europe. Rather than protecting its agricultural exporters and allowing them greater ability to compete in the global market, the government has taken advantage of the sector’s success and charged retentions on their goods, thereby hurting both large and small producers and disadvantaging their Mercosur counterparts. It seems that liberalism for agricultural market access is not put into practice on either side of the Atlantic.

In 2001, there was an attempt to deal with market access issues with a Commission proposal called the “single pocket principle.” While the Commission does not have the “authority to liberalize agricultural products from South America,” the “single pocket principle” was the notion of liberalizing 50 percent of export quotas and making the other 50 percent dependent on the outcome of the Doha trade talks.¹³⁵ With the failure of the Doha Round, however, the “single pocket principle” was untenable.

Sanitary and phytosanitary issues have also impacted market access. Both regions have extensive sanitary and phytosanitary regulations found in multilateral agreements; in particular, the WTO Agreement on the Application of Sanitary and Phytosanitary Measures and the Agreement on Technical Barriers to Trade serve as a regulatory framework for both regions.¹³⁶ However, EU standards are higher than these international standards.¹³⁷ Thus, there has been agreement between the EU and Mercosur countries to negotiate with each individual member of

¹³¹ *Ibid.*, 56.

¹³² *Ibid.*, 53-57.

¹³³ *Ibid.*, 42-53.

¹³⁴ *Ibid.*, 42-47.

¹³⁵ Santander, “The European Partnership,” 285-306.

¹³⁶ Blasetti et al., “Sanitary and Phytosanitary Measures,” 78.

¹³⁷ *Ibid.*, 79.

Mercosur regarding sanitary and phytosanitary issues. Since Mercosur does not have a singular regulatory framework regarding sanitary and phytosanitary regulations, the EU must negotiate with each Mercosur member state.

Several sanitary issues—such as pestilence among apples, pears, and pigs for pork production and too many antibiotics in honey, just to name a few—have caused the EU to stop importation of certain Mercosur products.¹³⁸ Each of these issues has since been resolved; however, officials argue that these were merely excuses to not import competitive products.¹³⁹ There is a great deal of complexity to the negotiations of sanitary and phytosanitary concerns since the EU has higher standards and must negotiate individually with each Mercosur country. Yet, mistrust still exists among Mercosur countries regarding how the EU applies sanitary concerns as an excuse to not import the former's products.¹⁴⁰

Related to sanitary issues are concerns about animal welfare and traceability. Animal welfare deals with “agricultural exploitation, transportation and slaughter.”¹⁴¹ Traceability refers to the “identity, history and source of a product.”¹⁴² Traceability is necessary to ensure certain standards and to enable officials to trace a product to its origins should there be a problem with a product. Both animal welfare and traceability pose problems in the negotiations between the EU and Mercosur. Although Mercosur countries do not practice intensive or confined animal production, Mercosur countries reject the inclusion of animal welfare in the negotiations. The EU has been insistent on its inclusion and disagree with Mercosur concerning some aspects to animal welfare; such disagreements will have to be resolved.¹⁴³ Regarding traceability, Mercosur does not have a common regulation for the practice. There are variations among Mercosur members regarding traceability standards, and creating identification procedures and databases to fulfill traceability regulations could be quite expensive. Traceability was left out of the EU-Chilean free trade agreement, but Chile is not a large agricultural producer, whereas the Mercosur countries are. Thus, the disparity in sanitary regulations and related regulations of animal welfare and traceability will be very difficult to remedy and will remain a difficult area to negotiate.

At the 1992 Earth Summit held in Rio de Janeiro, multifunctionality was introduced as a new concept on the international stage, and due to differing opinions about its trade implications, it emerged as a point of contention during the review of the GATT Agreement on Agriculture in 1999. Multifunctionality refers to issues such as food security, socio-economic concerns of rural communities, food quality, and safety and the environment.¹⁴⁴ The basic idea behind

¹³⁸ Simiele, interview by author; Jorge Iturriza, interview by author, Buenos Aires, November 29, 2006.

¹³⁹ *Ibid.*

¹⁴⁰ Simiele, interview by author; Iturriza, interview by author.

¹⁴¹ Blasetti et al., “Sanitary and Phytosanitary Measures,” 93.

¹⁴² *Ibid.*, 94.

¹⁴³ *Ibid.*, 95-96.

¹⁴⁴ Bénédicte Hermelin and Karine Tavernier, “Multifunctionality of Agriculture in the EU-Mercosur Negotiations,” in *Agriculture and Agribusiness in the EU-Mercosur Negotiations: Negotiating Issues II*, ed. Alfredo Valladão and Sheila Page (Paris: Working Group on EU-Mercosur Negotiations, Chaire Mercosur de Sciences Po, 2003), 179; Brad DeVries,

multifunctionalism is that agriculture is not just about food “but also [about] sustaining rural landscapes, protecting biodiversity, generating employment, and contributing to the viability of rural areas.”¹⁴⁵ The EU has played an important role developing multifunctionality and remains one of its most active proponents.¹⁴⁶ Multifunctionality was formalized within Agenda 2000 with an emphasis on agro-environmental concerns and the inexorable link between agriculture and rural development.¹⁴⁷

Although multifunctionality is proposed as a “Green Box” support, or one that does not impact trade or constitute price supports, many countries of the Cairns Group, of which all Mercosur countries are members, have viewed multifunctionality with great suspicion.¹⁴⁸ In particular, the Cairns Group asserts that although multifunctionality is considered a non-trade concern, in practice it does impact trade. EU subsidies on exports and the past practice of production supports that led to overproduction in agriculture and environmental degradation as a result of CAP have lessened the credibility of the EU’s claims to support multifunctionality. If the EU desires the preservation of rural communities and small farmers, then EU supports for exports seem to run counter to EU beliefs, as these supports severely harm the well-being of rural agricultural communities in non-European countries. As Potter and Burney point out, multifunctionality regarding environmental issues is not trade-distorting in and of itself; however, the design of the policy for subsidies can have trade-distorting effects.¹⁴⁹

One of the most controversial issues related to multifunctionality is the export of GMOs to the EU. From an EU perspective, GMOs fit under multifunctionality since within Europe there are certain health and environmental concerns related to their cultivation and consumption. The EU has taken a highly precautionary approach to regulating GMOs, and as a result, a twelve year de facto moratorium on the cultivation and importation of GMOs was put into effect.¹⁵⁰ In response to the EU’s ban of GMOs, Argentina and the U.S. brought a case before the WTO. In 2006, the WTO ruled that the EU’s moratorium on GMOs was illegal. Often the EU is criticized for its refusal to import GMOs since its decision is perceived as not based on science but rather irrational fear.¹⁵¹ While GMOs were a multifunctionality stumbling block in the earlier

“Multifunctionality Agriculture in the International Context: A Review,” *The Land Steward Project*, <http://www.landstewardshipproject.org/mba/MFARreview.pdf> (accessed October 2000). [VIEW ITEM]

¹⁴⁵ Clive Potter and Jonathan Burney, “Agricultural Multifunctionality in the WTO—Legitimate Non-trade Concern or Disguised Protectionism,” *Journal of Rural Studies* 18 (2002): 35. [CrossRef]

¹⁴⁶ DeVries, “Multifunctionality Agriculture,” 1-15.

¹⁴⁷ Hermelin and Tavernier, “Multifunctionality of Agriculture,” 180-181; Doriane Givord, “Defending the European Rural and Agricultural Model at the WTO,” *LEADER Magazine* 25 (Winter 2000/2001), <http://ec.europa.eu/agriculture/rur/leader2/rural-en/biblio/model/art02.htm>. [VIEW ITEM]

¹⁴⁸ Hermelin and Tavernier, “Multifunctionality of Agriculture,” 180-181; DeVries, “Multifunctionality Agriculture,” 1-15; Potter and Burney, “Agricultural Multifunctionality,” 35-37.

¹⁴⁹ Ibid.

¹⁵⁰ Lee Ann Patterson and Tim Josling, “Regulating Biotechnology: Comparing EU and US Approaches,” *European Policy Papers* #8 [Policy Paper], last modified February 15, 2011. [VIEW ITEM]

¹⁵¹ “WTO Panel Rules EU GMO Moratorium Illegal,” EurActiv, <http://www.euractiv.com/en/trade/wto-panel-rules-eu-gmo-moratorium-illegal/article-152341> (last modified February 8, 2006). [VIEW ITEM]

negotiations for a free trade agreement between the EU and Mercosur, it seems that the WTO's 2006 ruling as well as some current changes to EU regulatory policy of GMOs has mostly lifted this particular barrier to negotiating a free trade agreement. However, Mercosur countries as members of the Cairns Group still perceive the EU's allegiance to multifunctionality regarding agriculture as simply a ruse to continue to introduce illiberal policies under the guise of what the EU claims to be a non-trade concern.

In negotiating a compromise on agriculture that would be acceptable to both the EU and Mercosur, other issues of contention have emerged regarding not only agricultural issues but also industrial trade. On the issue of agricultural trade, the EU has also taken issue with denomination of origin trademark names, such as champagne and other wines, Parmesan cheese, and other agricultural products that are named after the European locations from which they originated. Regarding non-agricultural industries, there has been some discussion regarding a change in EU agricultural policies in return for a change in Mercosur's high tariffs on manufactured products. The Doha Round collapse and a free trade area between the EU and Mercosur is still on hold due to the reluctance of the EU to drop subsidies to European farmers and tariffs on imported products and of Mercosur countries to decrease tariffs on manufactured goods.

Conclusion

The inability to of the EU and Mercosur to conclude a free trade agreement begs two questions: why do the EU and Mercosur even want an agreement, and what are the barriers to achieving an agreement? An historical institutionalist perspective makes it possible to better analyze and answer both of these questions. Liberalism has inspired many EU and Mercosur policies, along with their member states' policies. Of course, the degree of the application of liberal policies varies from country to country and between the two regional blocks. Over time, however, as historical institutionalism purports, liberalism has shaped the formal and informal institutions of the regional blocks, which set the parameters within which state and non-state actors can operate. In the context of the EU, competition policy became an integral supranational policy that constrained monopolies in Europe. In response to this institutional reality shaped by liberalism, by the 1990s many monopolies and state-run industries were privatized and forced to decrease their market share. In response to the change in the "rules of the game," companies had to adjust and seek new markets. As the EU and U.S. adopted greater liberalism and with pressure from the World Bank, IMF, and WTO, other parts of the globe, such as Latin America, adopted similar neo-liberal strategies. Thus, as European companies were looking for new markets, market opportunities emerged in Latin America with the latter region's similar adoption of privatization.

Historical institutionalism does take into account the role of actors and, in the case of the EU, the role of member states and their desire to act in their own best interest.¹⁵² Member state actions, however, are shaped and constrained by formal and informal EU institutions that have

¹⁵² Pierson, "The Path to European Integration," 128.

been constructed over time. Spain has played a central role shaping EU-Mercosur relations, not only due to its historic links to the region but also because of its significant investment in the region. EU competition policy, inspired by liberalism, constrained state-run monopolies in Europe, and as a result, these companies looked elsewhere and invested in places that had stable and open economies. Latin America's regime transitions and economic liberalization made it a prime location for European and particularly Spanish investment. As the cases of Telefonica and Repsol's significant investments in Latin America suggest, the EU's competition policy framework prompted these companies to seek investment opportunities outside of Europe.

As European investment in Latin America and particularly Mercosur countries increased, so too did EU interest in forging closer relations with Mercosur. This was manifested in part by the EU's promotion of seemingly altruistic goals such as development, cooperation, and regional integration in Latin America for the betterment of the region, but one could also argue that a pragmatic impulse to protect European investment in the region also underlies the EU's policy. The norms underpinning the EU's policy toward Mercosur are very similar to those that inspired EU-ACP relations—grounded in development, cooperation, and the promotion of regional integration. As EU-ACP relations under Cotonou involved seeking liberalization as a way to promote development, so too have EU-Mercosur relations taken a similar path by seeking the pragmatic goal of development in order to provide security for European FDI in the region.

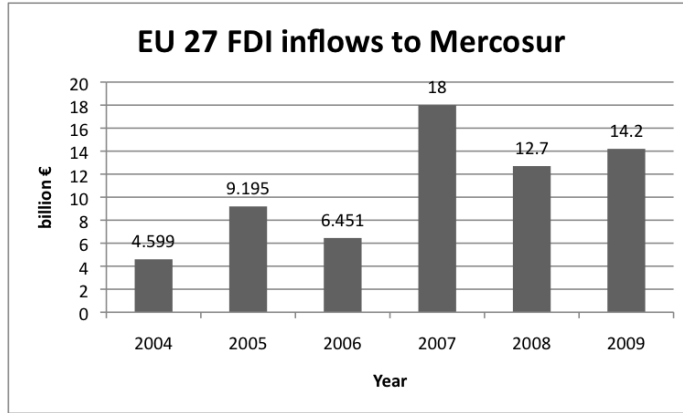
Liberalism, however, does not inform EU agricultural policy. CAP was based upon protectionist ideals, and from the EU's perspective, agriculture is not just about food production but also includes multifunctionality and safety concerns. As a result, the illiberal norms and ideals that have shaped CAP have also shaped the EU's position regarding agricultural trade with Mercosur. Mercosur exports to Europe are predominantly in the agricultural sector, and the EU's illiberal practices have created an "agricultural knot" in EU-Mercosur relations, which has been a major stumbling block to finalizing negotiations for an Association Agreement.

During the 1990s and beyond, it is clear that the EU, its member states, and its private industries have taken a greater interest in Latin America, which historically has been under the hegemony of the U.S. As the U.S. has shifted its policies to focus on other world regions and is often seen negatively as an imperial power, many Latin American countries are looking to Europe as a new, more benevolent large investor in the region. Along with economic development, the EU's sizable developmental aid and focus on human rights and democratization has made the region "porous," much in the same way that Katzenstein asserts the U.S. has done with many regions.¹⁵³ However, as the EU becomes a more important player in Latin America, it will also have to watch the impact its policies have on these countries, the goals that the EU has set forth to promote regionalism in Latin America, and ultimately the successful negotiation of an Association Agreement between the two trade blocks. Moreover, current policies in Mercosur countries, namely Argentina's attempt to nationalize Repsol, could create a further obstacle to finalizing an agreement between Mercosur and the EU.

¹⁵³ Katzenstein, *A World of Region*.

Appendix

Graph 1: EU FDI in Mercosur



Sources:

European Commission, DG Trade. “EU Bilateral Trade and Trade with the World,” Brussels, January 18, 2011. Eurostat, European Commission. “European Union Foreign Direct Investment Yearbook 2008: Data 2001-2006,” Brussels, 2008.

Table 1: EU Agricultural Imports from Mercosur as a percentage of total Mercosur exports

Year	Percentage
2006	50.1
2008	52.4
2010	51.3

Source: European Commission, DG Trade. “Mercosur EU Bilateral Trade and Trade with the World,” Brussels, June 8, 2011.

Table 2: EU Agricultural Exports to Mercosur as a percentage of total EU exports

Year	Percentage
2006	3.7
2008	3.6
2010	4.0

Source: European Commission, DG Trade. “Mercosur EU Bilateral Trade and Trade with the World,” Brussels, June 8, 2011.

Table 3: Mercosur’s Trade with Main Partners (2010)

Mercosur Major Import Partners

Rank	Partner	Mio euro	Percent
1	EU 27	41,471.6	20.0
2	USA	30,910.4	14.9
3	China	28,895.7	13.9

Mercosur’s Major Export Partners

Rank	Partner	Mio euro	Percent
1	EU 27	43,044.5	20.6
2	China	29,017.7	13.9
3	USA	17,697.0	8.5

Source: European Commission, DG Trade. “Mercosur EU Bilateral Trade and Trade with the World,” Brussels, June 8, 2011.