Peterson Institute for International Economics

The EU-Mercosur trade agreement is finally happening

May 13, 2026

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[00:00:22.17] - Cecilia Malmström

Good morning, good afternoon, good evening. Welcome to this episode of Trade Winds. My name is Cecilia Malmström. I'm a non-resident senior fellow at the Peterson Institute for International Economics in Washington. Today we're going to talk about the trade agreement between the European Union and Mercosur. We have talked about that before, but now things are different. It has finally entered into force as from the 1st of May this year. And that was about time. It's been in the making for 25 years, but of course there has been long breaks. We have not been negotiating for 25 years. It was paused and then resumed and then slightly amended, and now it is into force provisionally. This is a free trade area that includes more than 700 million people where tariffs are eliminated or dramatically reduced, and it provides for facilitation when it comes to investment, public procurement, customs procedures, standards, etc. It is not only a trade agreement, but it's also embedded in a wider partnership where it allows for cooperation in several areas such as climate, environment, security, research, critical minerals, and rare earth. It has been hard to push through, but now we are there, and we will talk about what's in it, what are the biggest advantages, how will it change in Latin America and in Europe, What will be the consequences for intra-Latin America trade?

[00:02:00.20]

And what geopolitical signals does it send to the rest of the world? To discuss this, I have a stellar panel. We have Nicolás Albertoni, who is the former vice minister of foreign affairs in Uruguay, and in that capacity he was very much involved in negotiating the deal. He is now a visiting fellow at Georgetown University at the Americas Institute. A fellow at World Trade Institute, and a professor at the Universidad Católica de Uruguay. We also have my colleagues from Peterson, Monica de Bol, who is a senior fellow at Peterson. She writes about Latin America economy, Brazil, she's the host of the podcast Policy for the Planet, and last year she came out with a very interesting book called The New Economic Nationalism. And we have Rupert Schlegelmilch, who is the former Director General of Trade at the European Commission in Brussels. He was the EU chief negotiator for the deal, and he's now a visiting professor at

College of Europe in Bruges. So you're all very welcome. So we are here, uh, finally. Why did it take so long to come here? Why don't you start, Rupert?

[00:03:23.07] - Rupert Schlegelmilch

Thank you, Cecilia, and thank you to my fellow panelists for making this what I think would be a very interesting conversation. Well, why did it take so long? It took so long because for most of the time the two sides were pretty far apart and there was no chance to close the deal as long as, on the one hand, in particular the expectations for agriculture market access on the side of Mercosur were larger than the EU could swallow. And on the other hand, the demands from the EU side for not only dismantling tariffs— that was expected, I guess— but also for a number of commitments on sustainable development was a really hard nut to crack for the Mercosur countries. So we never actually got into the landing zone on these issues. For many, many years. It took time forever to take an offer after a break, to come back with an offer. It also took a lot of time within the EU to formulate this offer, to get it right. And the same, I think, if I can speak for the Mercosur countries, it wasn't easy to also get a tariff offer out. So only when things changed in the context and both sides reassessed, they looked at their cards again and said, hmm, how important is this for me and what is actually happening around me.

[00:04:40.12]

These issues were able to find a landing zone, and this is when we closed the agreement.

[00:04:47.22] - Cecilia Malmström

What's your view, Nico? As you were also very much involved in the negotiations, especially the last years.

[00:04:52.23] - Nicolás Albertoni

Yes, well, thank you, Cecilia, for the invitation. I'm glad to be in this conversation with Fupe, with Monika, and with you. Now, in the other side of the story, as you mentioned, you know, with agreement that, you know, it's a reality. So I'm happy that we are in the other side of the story now. And not debating, you know, how far we are to concluding the agreement that was sort of the narrative in the last 10 or more years. So, and first of all, I think we have to put in context, you know, the dimension of the agreement. And Rupert mentioned some of that point, but from a macro perspective, you know, we're talking about almost 25% of the global economy between the two blocs. And, you know, and beyond the debate if this is the biggest agreement in the world or not, because, you know, EU and India in terms of population, I think is much bigger than this.

[00:05:38.23] - Cecilia Malmström

Slightly bigger.

[00:05:39.29] - Nicolás Albertoni

The main complexity here is that we are talking about 31 countries, 27 plus 4. The diversification of policy incentives in trade negotiation has not been studied enough, I think, in the literature, you know, because when we have country A and B, you know, that's the logic of the negotiation and is It's sort of simple, you know, because we have two economies or even a block of economies as it is the EU and one country on the other side. But having four countries on my side, you know, which one of them is a global player, the other is a constant policy and economic roller coaster, I would say, to not use another adjective, no. And two small economies which are very different, you know, one is an export and trade-oriented and the other is a Mediterranean country as it is Paraguay with another logic, of negotiation and complexity. So putting all this together, I would not say that makes sense to take 25 years, but it was not easy. And considering that it was not 25 full years of negotiation, as you mentioned, there were many, many pauses in the way. And it would make sense now with the whole story altogether and how complex was to be in in that negotiation.

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Once again, because we are not talking about a logic that we are used to negotiate one country with another one. Here are two blocks and with very many complexities inside both blocks.

[00:07:14.28] - Cecilia Malmström

Yeah, that's important to keep in mind. Monica, you have been following this from slightly outside, not being involved in the negotiations. Brazil is of course the biggest country in Mercosur and it has been difficult. Brazil has also been part of the problem to a certain extent, and we'll come back to this because of the, the forest the forest politics and Amazonas and so on. How do you see this from an outside perspective?

[00:07:40.03] - Monica de Bolle

So picking up on some of the comments that Nicholas— and first of all, thank you very much for this. I'm very happy to be here with you all to discuss this. So picking up on some of the things that Nicholas was saying about the region and about the specific countries that make up Mercosur, you know, it is a rather unique customs union, if we can put it that way. And for Brazil itself, I mean, as a Brazilian, and looking at this whole thing also from, from that perspective, Brazil is a country that's been on the roller coaster like everybody else in South America, really, for a very long time. And so part of the reason also for why it's taken so long is that in Brazil, there's been a lot of back and forth politically on what different administrations wanted to do. So if we go all the way back, you know, to the the first Lula administration, when, you know, at first EU-Mercosur started to be negotiated, or around there, you know, the late '90s to the 2000s, you know, that was a significant shift in Brazilian economics, Brazilian politics, and all of that.

[00:08:48.19]

And a host of issues took precedence over EU-Mercosur. And that's been kind of the story as you move along, you know, through time. So from between Lula 1 and Lula 2, you know, the two administrations, There was a corruption scandal, which of course also complicated things. And then after that, Dilma Rousseff came along and she was in office for a while, but then she was impeached. And then there was a big corruption scandal again. And it was right after that, in fact, it was in 2016 when Dilma Rousseff was impeached that the EU-Mercosur deal actually had an advance. And it seemed like it was going to be approved then. But then again, a host of issues came back and just moving forward with Brazilian politics. At some point we elected Jair Bolsonaro in 2018, who then decided to basically scrap all of Brazil's environmental laws and do whatever he wanted with the Amazon. And that became a major issue, the one that you're mentioning, Cecilia. So, you know, from the perspective of just one country individually, so just from the perspective of Brazil, it's just been, you know, there's been So many issues that have gotten in the way of getting this agreement through.

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And I think what's happened is that finally we reached a point, A, where things were mature enough for the agreement to come into effect. But apart from that, world conditions, global conditions, and the things that we're seeing happen in the world right now made this deal possible. It just set the groundwork for this to finally come to light.

[00:10:29.17] - Cecilia Malmström

Yes, I think that's important to keep in mind. We'll come back to the geopolitical implications, but of course, push to walk that extra mile. And thank you for reminding us of the roller coaster in Brazilian politics, which is important. But then, as you said, Nico, there are 31 countries and there's always an election somewhere, there's always a change in some policies, and that plays in, of course, because there are two blocs negotiating, but within those blocs, there are quite a lot of diversity. But now it has entered into force. It's of course far too early to talk about, you know, the effects of it yet. But what's in it? What are the main advantages for Europe and for the Mercosur countries? What would you say, if you would, an elevator pitch, what are the main advantages?

[00:11:22.13] - Rupert Schlegelmilch

Yeah, well, thanks. First of all, I mean, let me just comment one second on what my two Mercosur partners have actually been said about volatility. You know, there's also Bolsonaro, forest fires, Fernandes, and so on. Sometimes we didn't know whether anybody wanted the agreement. I think on the inside we were a bit more consistent. We were pretty stubborn with our demands until the moment at the end of the Bolsonaro regime when— or administration— when suddenly the Amazon issue got really France and other really uncomfortable. Also, actually, most of the member states were worried about having a deal with this administration in Brazil. Before, it was basically we were holding on to agriculture and insisting on sustainable development, but after that, it also became quite tumultuous. We had to wait for French elections, we had to wait for this and that. So the sort of disruption in the political, you know, we want this, it was sometimes more important because of the prize to be had. Then there was TTIP and other things which distracted our attention. But I guess the kind of volatility that we've seen in politics were less on the EU side. Now, what's in it?

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I think the logic of the deal has somewhat changed over time, starting as a classical, you know, we have two big markets, we're strong in different things, so we're complementary. Agriculture is something where we have hypercompetitive markets or countries, industry and services is maybe some, to some extent, more strength of the Europeans, and that would make sense to open our markets and play these strengths. That changed over time, that didn't disappear, but it changed with the new sort of discussion about resilience, supply chain security, economic security. So the access to raw materials became a major issue for the Europeans. And I think it also changed, and I'll stand to be corrected, on the side of the Mercosur countries who were really trying to see whether this agreement wouldn't help them reform and modernize industries by having a very attractive investment climate in Mercosur where stable trade regime with, for inputs and sort of the things that investors bring, but also long-term perspective of cooperation, given the fact that the industry in Brazil in particular, but also Argentina, maybe not so much in the other two, suffered quite heavily over the last two decades. So there was a real need to do something, and the Europeans seem to be a trusted partner to modernize industries.

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They have been there for a very long time. Investment of the EU industries is— has sometimes 100-year history, as some of them seem, an example, for example. And of course, the competition has always been China for this kind of thing, and there was also a choice to be made, I guess, to, you know, who is the trusted partner that you really want to allow into the market, not only with goods and services but also with the long-term economic route sort of that investment brings.

[00:14:35.26] - Cecilia Malmström

And from the Brazilian-Uruguayan side, what would you say are the biggest advantages with this agreement? Do you agree with Rupert that it also helps internal reforms? Nico, you want to start?

[00:14:49.12] - Nicolás Albertoni

Yes, you know, absolutely. You know, in terms of incentives to conduct reforms, I think it's the main gain, you know, overall, if we go beyond tariff and beyond trade. And even from a Uruguayan perspective, you know, that normally in Mercosur we are sometimes the a good player in terms of reforms and, you know, in terms of many, many things that we know that Europe is interested, you know, when we are talking about good standards. But beyond that, you know, is predictability. As Monica said, you know, we are a complex customs union. Indeed, we are not in fact a customs union. That's part of the complexity of Mercosur because we said we are something that we're not. In reality, we know it, you know, from the French is that we are not a customs union. But one of the main points that we don't have a good number of trade agreements nowadays. It's a very small number of trade agreements as Mercosur. That's the reason why countries like Uruguay and sometimes Paraguay start to be proactive in having more bilateral conversation with some countries, and even Argentina is in that way. But having predictability in this context, that's And we need at least something to be connected in this global value chain dynamics, you know, from Mercosur and having an agreement, you know, that we can talk with Europe in a framework that we know that we are agreed.

[00:16:11.16]

I think it's a lot. I know that from the European side, this is something that you are kind of used to having this agreement and, you know, the notion of good standards and what's your— how you envision the world in terms of standards. But from South America, that's not that And that's normal, you know, because even inside Mercosur, we have that conflict of what is the standards of Mercosur and what we are looking for in terms of a regional standard. So this baseline from the Mercosur side is a lot in this context. And beyond that, and this is the last point on that, is that fresh air to Mercosur. We really need from our side something to show that we could conclude, you know, is because we have the example of Singapore, we have other cases But at the end, you know, we're small example, interesting economies, proactive economies, again, as it was the case of Singapore and now the conversation with Canada. But this was fresh air, you know, all together saying we can conclude something. It's complex, it was complex, but, you know, seeing each other and see, you know, we could conclude that was a lot, you know, psychologically, I would say.

[00:17:15.23] - Cecilia Malmström

And Monica, coming from the biggest economy in all this, Is it seen as more of a political advantage or also concrete economic advantages, jobs, investment?

[00:17:28.13] - Monica de Bolle

Definitely both, Cecilia, and I agree completely with everything that Nicolas has said with respect to how it's viewed, you know, and Brazil views it the same way, and it's the same sort of perspective. I wanted to pick up on a point that Rupert mentioned, you know, the fact that this agreement has, because it's been in negotiations for so long, it has also evolved over time and the nature of it has changed somewhat. So, in essence, I mean, from the Brazilian perspective these days, at one point in time, yeah, Brazil was very concerned about its own manufacturing, you know, industries and the fact that the country seemed to be deindustrializing and therefore something like the EU-Mercosur agreement could provide a basis upon which to rebuild or to reindustrialize the country and things like that. There was a lot of that kind of talk. But now that's kind of changed. Brazil has moved into this space where it now fully recognizes the sort of potential leverage that it might have with the natural resources that it possesses. And in particular, in the critical minerals/rare earths discussion, And this is an area where, you know, the EU-MERCOSUR agreement has actually provided not just Brazil, but Uruguay and also Argentina and Paraguay, which also have, you know, a lot of these natural resources.

[00:18:51.28]

It has provided these countries with a legal basis or a legal framework upon which, you know, maybe at last we will be able to attract investments, not just to export raw commodities, so not just to export, you know, raw mineral ore and things like that, but perhaps to actually finally get into the, the meatier and the more value-added enhancing activities like, you know, critical mineral refinancing, refining, critical mineral processing, critical mineral separation, rare earth separation. This is certainly something that Brazil is looking to, and this is something that the EU-Mercosur agreement with its investment provisions and dispute settlement mechanisms and everything else provides. Yeah, to be seen whether countries can capitalize on that or not, but it, it certainly opens up an avenue for the insertion of Mercosur countries into value chains for critical minerals and other things in a way that hasn't been there in the past.

[00:20:00.06] - Cecilia Malmström

Can you elaborate a little bit about on that, Rupert? Because this is an element that has become increasingly important the last years— critical minerals Rare earth, it's the new currency of the world, and the EU, like everybody else, is trying to reduce its dependence on China. So of course, with such a mineral-rich continent as Latin America, this has become more and more important. How is this viewed from European Union side, and what precisely does the agreement say about this?

[00:20:32.01] - Rupert Schlegelmilch

Yeah, I think we are pretty conscious of what Monica just said. That's correct. I think the underlying objective that we discovered more or less during the negotiation over the years is that if we really want to diversify and reduce some of the dependencies we have on some of these materials, we have to help other source countries to do this and not just getting lithium or whatever it is. And that is not only the Mercosur agreement, there is also quite some language on this in the Chile agreement, but also being very clear that we don't necessarily want to only have raw materials. That is in our interest also because it makes economic sense to have countries develop the capacities that Monika mentioned on extraction, refining, separation, and so on. First of all, you know, we are pretty interested in getting the kind of environment where we can then sell machinery services one of the things that we are good at for this kind of production. Second of all, because it's not so easy to do this in Europe with limited space. There's always an environmental concern. You need a lot of room and also precautions if you go into refining.

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And thirdly, because we also want to be an industrial player with the products which come from that line. And the agreement actually caters for that. It caters for access, but also allows space for for Mercosur countries to keep some of the preferences for themselves. We have a very elaborate export tax regime for raw materials in the agreement because also the Brazilian partner said, look, we want to be able to, you know, have more value added from this chain and keep some of the material. So we might want to tax it if it leaves the country. So all of that came into play. And the other pillar is obviously that we are trying to have the Global Gateway and other programs where we try to incentivize European investment to look at these value chains as well. And this is tedious because we're not command and control as in China where we just tell companies, "You go invest and you do it." So we have to convince the business case, the feasibility and so on of these things. But that's exactly what the colleagues in the Commission who work on these projects are trying to do.

[00:22:50.05] - Cecilia Malmström

Any comments on this, Nicolas?

[00:22:52.18] - Nicolás Albertoni

Not that much, you know, in terms of the complementarity, you know, it's clear that, you know, from Latin America, and indeed it was difficult from our side why we didn't get to that conclusion given the level of complementarity, you know, but again, I totally agree on what was said already.

[00:23:12.16] - Cecilia Malmström

One issue that was very, and still is, a cause for a lot of conflicts in Europe is the agricultural sector. We have seen many farmers demonstrating on the streets, and people were afraid of the competition from mainly beef, but also other agricultural products from Latin America. And actually, the agreement is only provisionally into force, and some countries have been resisting. What— how can you— have you seen demonstrations like this also in Uruguay or Brazil? Afraid of European competition, or is this only a European issue?

[00:23:52.01] - Nicolás Albertoni

No, so, but you know, in the case of Uruguay, we are, we have strong agriculture sector, you know, in terms of dairy, meat, as you know very well. No, and always was seen as an opportunity. But on the other side, let's say, you know, from the industrial side, that given the dynamics of the agreement, could be the, the sector that could be, you know, with some challenges, the semi and more industrialized sectors, you know, in our economy since the beginning. I remember, you know, working with them and they were very proactive to and very positive to the agreement. That was, and again, when we will study, you know, in the future, the history of this agreement, and it's interesting that from our side since the beginning, we have a few voices, I think in Brazil, and Monica could say more about that, but in, I think, the small economies, Paraguay and Uruguay, In terms of the traditional sector dynamic and expressing, you know, themselves about an agreement, it was always positive and proactive. And Argentina is difficult sometimes to understand in overall sectorally and politically, but from both sides, the one that has to face some challenges, and even the agriculture side, was seen as an opportunity.

[00:25:01.26] - Monica de Bolle

Yeah, I would say more or less the same for Brazil, Cecilia. I mean, the big agricultural producers in Brazil, which are Many of them are very extremely competitive in global markets on a range of different products. They've been broadly supportive of the agreement. There really hasn't been any kind of backlash. The population at large, I think the bits of the population at least that actually know what the EU-Mercosur agreement is, and that's a small part of the population, yeah. But there hasn't really been any kind of pushback or anything like that. So you don't really see that that much from the agricultural side. Now, that being said, you know, we know that at the moment, at least, there are other tensions that are mounting in the, in the agribusiness across, you know, across Europe, across the world, really. But it has recently hit the South American countries through the problem with fertilizers and the relationship of that with the, with the war in Iran. So in Brazil specifically, There have been a lot of problems recently for farmers and for agricultural producers because fertilizer prices are shooting through the roof, and Brazil is very heavily reliant on imports of fertilizers, as are other Mercosur countries as well.

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So potentially, you know, the kinds of tensions that we're still seeing on agriculture with the EU may be amplified by that issue, which has nothing to do with EU-Mercosur relationships but naturally affects it.

[00:26:41.19] - Cecilia Malmström

Yeah, yeah, this is going to affect lots of countries in the world.

[00:26:46.18] - Nicolás Albertoni

Yes, no, one more point, if I may, Cecilia, on the agriculture sector. Something that's interesting from, let's say, from a Uruguayan side is that— and to go back to my argument on the complexity, you know, where two regional blocs negotiating is that some of the, at least negative voices we listen in the last, you know, years, and is that we will lost market in Brazil. You know, this is this triangular dimension that the challenge here is not the traditional dynamic of a euro-wide sector competing with the EU, something that will happen, but we also have to consider that we will lost market in Brazil. Competing with European products. So this triangular dimension from the agriculture side, agriculture side in Uruguay, and it's not something that they just realize at the end of the process, but when you put all together, you know, this is a triangular dynamic that when you have this type of negotiation, it means a lot of complexity because again, it's not a traditional competition that you are competing in a market that you know very well, that you export between 15 and 20% in the last decades.. And now you will be competing with products of Europe.

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And this is something, you know, interesting, you know, from my side to see these new windows of challenges, you know, that we see from a traditional sector that, you know, is very strong as the agricultural sector in my case in Uruguay. But we will face this, you know, and difficult challenges of competing in a market that we know very well as it is Brazil.

[00:28:19.23] - Cecilia Malmström

You are smiling a bit, Rupert. I think you've spent hundreds and hundreds of hours trying to explain and interact with angry farmers and farmers' organizations. I remember back in my time this was a very hot topic and it has not calmed down. Well, now it is into force. How can you calm the European farmers today? Can they be safe? Well, they still have to worry.

[00:28:49.10] - Rupert Schlegelmilch

Yeah, maybe let me just—

[00:28:51.08] - Cecilia Malmström

some other things to worry about, of course, apart from Mercosur for July and the situation concerning energy and so on, but from the Mercosur agreement.

[00:29:02.01] - Rupert Schlegelmilch

Yeah, Cecilia, if I may, I just wanted to clarify one point with Monica because I think that was something that I was very concerned about at some stage, and that was the position of the unions in Brazil. Particularly the metal worker unions, because you already had a sector which was in big difficulty, the car sector, and on top of that we had this liberalization commitments in Mercosur. And at some stage there was quite some heated debate which then disappeared again in, in Mercosur. So what our farmers were very loud about all of this, at some stage there was also some skepticism in the unions because of the opening of the industrial sector. And that didn't in the end materialize. I think politics did not sort of make things impossible, but there was a real concern when it happened 2 or 3 years ago before we closed. But I'm going to finish now, of course, on agriculture. A lot has been said and written about this, and I think the bottom line is agriculture is a bit the scapegoat. Makassar is a bit the scapegoat of all the agricultural worries that farmers have, who are also suffering from a lot of external shocks, not only prices, input prices for fertilizers, etc., but also the Ukraine situation, the Russian aggression, which suddenly redirected a lot of exports from Ukraine into the EU, which, which were going before that to the Mediterranean or Middle East or elsewhere.

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So that was compounding the fears because that was a real sort of market effect, much more than any Microsoft agreement will ever have. And the general idea that the farmers are always paying in trade because this is, of course, what people want. We have a very protected market. Only 5% of our market overall has opened up via the free trade agreements. Few people know that. And the Mercosur agreement is even less, it's 1 to 1.5% of the market that we have. So there are all kinds of studies which show that it's not going to rock the boat, but that was a rational argument that didn't cut much ice at the end because the fears overall with all these other effects led the farmers to think that this is maybe something they can really influence by sinking the agreement. Reforming the Common Agricultural Policy is much more difficult, let's put it like this. But it was a scapegoat in the end, and we have a lot of studies, and I think we saw that with other agreements that we— where we opened up a little bit of agriculture, the— there are much more important effects than this little market opening.

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Um, having said this, what is always forgotten is that we also need supplies or inputs from Mercosur countries. In particular, if you look at the price of soy, which has been influenced by Argentinean export duties for many, many years. Farmers also sometimes need to hear that they actually consume a lot of things, animal feed in particular, for the macros of countries. And this agreement gives supply security for these inputs. So it's not a one-way street either in this regard, that there is no dependency the other way. And this has to be said again and again in the public debate. It's win-win. And of course, the last argument, many of the basic materials that we produce actually end up in exports of agri-food products. Hams, sausages, and so on, cheeses are huge. There's a huge export market there for the EU, which we are exploiting very well. We are by far the biggest agri-food exporter with value-added products, and that benefits our farmers as well. Because in the end their products very often end up in exports, which are now easier to make with some countries.

[00:32:48.28] - Cecilia Malmström

Yeah, important to be said, a sensitive issue that would certainly not disappear. So this might—agriculture has been very difficult in the European Union. And the other issue, and we touched upon it in the beginning, was of course the more climate-oriented policy or related to forestry and to the Amazon. As well. And this is basically a whole new chapter that was added the last years on this with some support for healthy forestry policies and so on from the European Union. Can you tell us a little bit about that, Rupert?

[00:33:27.12] - Rupert Schlegelmilch

Yes, I mean, the last big disruption in the negotiations obviously came 2019. Everything was Done.

[00:33:35.18] - Cecilia Malmström

Done. Yeah.

[00:33:36.25] - Rupert Schlegelmilch

And then we had some people who know exactly how it went. And then we suddenly had the Amazon fires and Bolsonaro basically dismantling enforcement of forest laws, etc. And that led to an outcry across the board in Europe. Nobody wanted to be seen to be endorsing an agreement which rightly or wrongly some claimed would actually add the pressure on deforestation because of exports going up, and then more, more forest land would be converted into agriculture, pasture, and so on, which is a dubious claim, but it's very difficult to kill. And so we had to come up with a solution to find that, and this is why we added this extra protocol on sustainable development. Which in the beginning focused very much on issues like deforestation, getting commitments into this agreement which are out there in the other COP documents of the Paris Agreement, but then morphed into something which was much more two-way street where also the Microsoft countries, uh, try to put a brake on our environmental legislation by having this notification rules and also trying to to ease the implementation of the deforestation regulation, helping indigenous communities, looking at products from these regions which could get preference and technical assistance.

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So in the end, I think we have a sustainability package much more than just deforestation. It's 10 pages long. In the meantime, cooperation and all kinds of things. So we really made an effort to, if you wish, to improve the sustainability credentials of the agreement. And that, together with the renewed efforts of the Lula administration when Lula came back to power, actually put this debate to rest. I think right now very few people have been protesting on sustainability points.

It's all about agriculture that's the last couple of months or the last couple of years, because there was a decisive also push on the Brazilian side to do something about the problem, plus this additional commitments.

[00:35:51.16] - Cecilia Malmström

Monica, how sustainable is the sustainable chapter? You have elections coming up end of the year, there might be the son of Bolsonaro coming back. I haven't heard his policy on forestry and on the Amazon, but is this a bait and switch, are we done with that? This would be part of the implementation, nobody will question it.

[00:36:17.13] - Monica de Bolle

I'm not sure, Cecilia. I wish I could say that we are done with that, but I'm, I'm not confident that we are. Um, so Brazil is going to have elections, general elections, at the end of this year for president, for Congress. Um, and the— at the moment, the election is pitting Lula, who's up for reelection, um, against both one of Bolsonaro's sons Flávio Bolsonaro. Flávio Bolsonaro hasn't said anything about any policy whatsoever. He has been, however, trying to basically position himself as more moderate than his father. I'm not quite sure what that means for environmental policy. I'm actually not quite sure what that means at all in a lot of other ways. But I think there is within Brazil a much greater recognition following what happened in 2019. And Rupert, I think it was great that he underscored that particular year because not only was that year when the Amazon issue really came to the foreground, but you know, everything that was being dismantled just became very visible. Yeah, it was visible to Brazilians, but it hadn't been visible to the world. And then all of a sudden it was. And I think for, for the agricultural producers in Brazil, as well as other sectors which are, you know, tuned into exports and who care about what the rest of the world thinks about what Brazil is doing on climate, on, on forest management, and on a bunch of other issues, it became very evident that, that that way of doing things was very bad for business.

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And so I think now in Brazil at least, there is a little bit more awareness of how we can potentially hurt ourselves if we follow the same kinds of policies that we followed in the past. And if we neglect the environmental and climate aspects, which we cannot neglect given who we are, what we do, and how natural resources are so important for our economy. And so I think in the broader political discourse amongst the broader political class, there is more recognition of this. Now, whether or not that is going to work against or be a substantial pushback against those who think, oh no, there are all these natural resources in the Amazon and all of these environmental things and environmental legislations and whatnot. Are really hampering our ability to actually get to those natural resources in the Amazon. And there are people of that mindset in Brazil. Whether or not, you know, the current context around this not being a good way to approach things is going to override that, I'm not sure. So I think this is, this is an issue that can very well come back to haunt us in some respects. Depending on what happens with the elections at the end of the year.

[00:39:31.09] - Cecilia Malmström

Nicholas, this was also a debate within the Mercosur group as well at the end of the negotiations, and you were very much part of that, right?

[00:39:40.09] - Nicolás Albertoni

Yes, yes, indeed. For a country like Uruguay, you know, that was not a big issue. We were always open, you know, to this conversation on sustainability and environmental issues. And indeed, it was weird from our side because when we talk about standards, European standards on that, And considering that a country like Uruguay has 98%, was the last number, of renewable energies, you know, of part of our energy system.

[00:40:06.15] - Cecilia Malmström

That's impressive.

[00:40:08.03] - Nicolás Albertoni

Only, I think, a few countries in Europe, you know, could have that number. So again, we were always open, and Rupert knows very well, to that conversation, indeed proactive to have that conversation and real promoter of, you know, of of new debates on that. But again, luckily, you know, it's— I think it's concluded. We never know what could happen in the big countries. And this is how sensitive is the professionality, you know, context in where we are. Because what we have right now is a ratification of ITA, as you know, that now we can talk more about the trade— that is the trade side of the agreement. But the EMPA, that is a big umbrella, and you know, that is together and when we can put the seal, you know, finally of at least from the Mercosur side. And that was not a reality. So given that we have a big election in October, as Monica just said, in Brazil, we have— I think Europe has also had to consider how sensitive is to have this agreement, this provisionality dimension. I'm confident that, you know, in terms of trade, this could be a little bit positive to show with some time.

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And that this agreement is not the end of the world for Europe, and indeed is a huge opportunity to have more opportunities in Latin America. But in all these more sensitive issues and political issues, the provisionality dimensions is something that we have to take care and we have to follow, you know, closely politically.

[00:41:35.24] - Cecilia Malmström

Yes, I think it has to be mentioned that it is provisionally applied and it's still a court case pending at the European Parliament has taken it to court and will question it. We don't know how long that will take, could be up to a year. And we also have some important elections coming in Europe in the coming year. So yes, it has of course a political dimension. Want to comment on this, Rupert?

[00:42:04.01] - Rupert Schlegelmilch

Yeah, I mean, the whole issue of provisional application obviously shows that the discussion is not over. I think it is very important that in the period now there are some tangible and visible benefits that we can actually point at, plus a clear sort of record of the agriculture sector not suffering from this very gradual opening. It's very often forgotten that this 1.5% of the beef market is actually sliced up in 0.2 or 0.3 bits every year, so it's even less visible. And I think we can tell a good story by basically pointing out in a year or so that no catastrophe happened, and other factors might be much more important in looking at the effects, while at the same time I think the issue, the exports and the opportunities and the investment that we hope to have start to look, start to flow. We don't know what the court will do. I mean, most people think the court is actually asking, is being asked a question they already answered, so it shouldn't be too complicated. But as you know, you never know if you go to court, and that's, that's true. So I think right now nobody is in a hurry, right, to be honest, because the longer the provisional application lasts, I think the easier it will be to show that it's a good agreement and the temperature will have turned, hopefully will have gone down a little bit, and the further discussions will be hopefully easier.

[00:43:39.20]

I don't know, but that's at least my expectation. We have seen the debate over CETA, the Canada agreement, die down completely after a couple of months actually, and certainly after 2 or 3 years there was hardly anybody remembering that there was a huge campaign against CETA in some member states. So let's hope it goes the same way.

[00:43:59.18] - Cecilia Malmström

Some of us remember. But you're right. And also it is, I mean, beyond the agriculture and the climate part and the sort of pure trade issues, there's a lot of other elements in it as well. Monica, you wrote very recently an article about Mercosur cooperation with EU and AI. Which is an angle that maybe when we started negotiating this many years ago wasn't at all on the agenda. Can you tell us a little bit about that?

[00:44:27.19] - Monica de Bolle

Yeah, so I wrote this piece recently because Brazil has been— well, other countries too, but Brazil has these very ambitious plans, actually somewhat too ambitious in a way, for establishing an AI industrial sector within the country. And there are some really interesting issues here because when it comes to, first of all, when it comes to the EU-Mercosur agreement itself, I mean, given the length of time, as we've all highlighted here before, that it's taken for the agreement to be negotiated and the fact that, you know, throughout this time period, the world has changed so much and suddenly we have this new thing, AI, which is not accounted for in a very direct way within the EU-Mercosur agreement, there's no specific chapter on digital trade. There's nothing on cross-border data flows or anything like that. Um, you know, that, that is both an opportunity and a challenge, I think, ongoing with this, this provisional implementation in the agreement and the fact that there are still things open to discuss. I think that is certainly an area where, where we're, we're probably going to see much more evolution of the discussions going in that direction. And it's necessary because in the case of Brazil, for example, with all of its AI ambitions, one of the things that Brazil has been doing is that it's been aligning, aligning its data protection policies or data protection legislation, as well as its broader sort of legal and regulatory framework for AI.

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Brazil is modeling all of that on the EU, on the EU's model. So on the GDPR, on the EU AI Act, and so on, which is good because it's, you know, it's, it's the EU has done so much on these fronts that it serves as sort of a baseline from which other countries can do certain things. And of course, having regulatory alignment between the EU and Brazil on this particular issue could be very helpful. For the development of AI in a country like Brazil. But on the other hand, you know, because EU regulations are very strict on certain aspects of things, this could put Brazilian companies, especially startup companies in the, in the tech/ai sector, at a relative disadvantage because of course, you know, European companies are much more used to these kinds of regulations and have learned to deal with, to deal with them and live with them than any potential Brazilian AI firm that is kind of just starting at a very incipient stage of development. It would be very hard for these firms to compete. So I think there are issues here that, that need to be further looked at, given that there, you know, these issues have so far been left out of EU Marcosur.

[00:47:22.11] - Cecilia Malmström

But this points to the general point that the trade agreement is so much more than just pure trade, and that it also leads to new kind of cooperation and modeling, and people are meeting and getting inspired from each other and so on. And it also leads to, as we talked about in the beginning, that this shows that Markus Söder can do an agreement. What, what What effects will this have for the general Latin America trade integration? I mean, we have CELAC, we have a few trade agreements, but there's also a lot of heterogeneity within the continent. Can this inspire other neighboring countries in Latin America to follow some of the reforms and the structural changes and further facilitate trade integration, Nicolas?

[00:48:11.02] - Nicolás Albertoni

Hopefully, yes. You know, I think one of the main challenges of the region to set a true regional integration and the dichotomy. If we have the last number I saw is 33 regional projects, you know, and if we consider all of them, CELAC, ALADI, Mercosur, 33 regional projects. And at the same time, we are the region with less intra-trade, you know, if we compare with all the regions in even Africa. So this dynamic of having by far the most integrated region in terms of number of institutions, but at the same time the region, you know, with less intra-trade, that as you know very well, is not the main data, but at least a proxy of how proactive could be a regional integration, this intra-trade in numbers. It shows that we have to work on that, you know, and in the last years, I would say decades, you know, the The original project became so political. Mercosur, that since the beginning was in the name is a common market. I would say that since 2010, all the decisions related to trade was to have exceptions of the common external tariff. And you know, that was the— when we talk about trade is to have an exception of the common market, you know, whatever we can say, talk about common market or customs union in that case..

[00:49:31.09]

But in all of them were political, the Venezuela's political crisis. So we invest so much time, which at the end, you know, it's important to have at least one regional and political bloc as it is the LAC or would be another one. But when we take these trade agreements, you know, as political tools, we are in a risk. And again, if this is a motivation, and from Marcos' side, I can confirm there was a motivation to reinforce, you know, the regional dimension of the agreement. We know that the context has a huge, you know, effect, the global context, in concluding the agreement. I would like to highlight, you know, and maybe it's uncomfortable but realistic lesson, that in this chaotic economic context we live, for this agreement it was an opportunity, you know, because I don't think the negotiation itself— I'm sorry guys, because it's I'm not putting, you know, all what would work in this agreement, and it was a lot. But, you know, the context has the final, you know, message on concluding the agreement rather than the negotiations itself. So all that to say that hopefully it's a motivation to continue bolstering, you know, the regional blocs.

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But again, not from a political side, but more from a trade and economic side. That is something we need in Latin America.

[00:50:50.03] - Cecilia Malmström

But that's the silver lining of this chaotic political situations with trade wars and tariffs popping up and down and changing acts, but there's still tariffs, that there seems to be a sort of global counter-reaction saying that, well, actually, we countries, we believe in trade in the traditional way, you know, transparent, rule-based, where there are mechanism to handle conflicts. And the desire to show, to broaden the networks from China and from the US has also led to the European Union concluding a whole lot of trade agreements lately. Some of them were in the making, but some of them were definitely a consequence, I would say, as of the current context. For instance, India has also been discussed for 25 years, and then finally the extra mile was walked by the two partners there and several others as well. And this is spreading in the world, we see it in Asia as well, we see increased efforts integrating the African continent, as you mentioned. So is this, you know, a geopolitical sort of counter-reaction? Is this the revenge of the middle powers, as has been discussed sometimes. What do you think, Rupert? And the others as well.

[00:52:14.05] - Rupert Schlegelmilch

Yes, yes, thank you, Cecilia. No, I think you're right. First of all, I think we can see that despite some very bad examples out there, and I have to point at the Trump administration here, most of the world did not fall into the trap of trying to copy these policies. To the contrary, I think it has given an extra premium for rules-based approaches. And I think you're right, neither the EU-Mercosur nor the EU-India agreement would have been concluded, in my view, unless— if that pressure hadn't existed. And this pressure not only worked on the EU to show that we still have partners we can work with, I think it was also on the Mercosur side being hit by the American tariffs and trying to figure out what to do with the big neighbor in the north. And I think the same is probably true for India. We made some huge concessions in— made some concessions also in Mercosur, but even bigger concessions to conclude the India agreement. Brazil in particular has been very flexible in the end on their ideological point of not messing up trade agreements with environmental commitments. By agreeing to the Paris Agreement as an essential element and by deforestation, which was for them very difficult because their sovereignty idea about how trade agreements have their world and how environmental agreements have their own world and never the two should meet.

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They walked over that. We were able to walk over French resistance. For the first time ever, we did vote on a trade agreement with majority, qualified majority voting. We tried to avoid because we had consensus. So these pressures, external pressures, change of context led to a whole set of resets, if you want, also on positions domestically, but also with the partner, which certainly would have been much more difficult. I wouldn't say impossible, but much more difficult if the context had stayed the same, if we hadn't had the crisis, all the crises, COVID, Russia, Trump for the EU, and most of that also for the rest of the world.

[00:54:24.17] - Monica de Bolle

I think what I find interesting, Cecilia, about all of this is that, you know, within Mercosur there are two countries, Brazil and Argentina, that have been historically extremely protectionist. And I think one of the interesting things that we see coming out of all of these geopolitical and economic changes in the world, most of them spurred by the US under this administration, is that we have seen a bit of a turnaround both in Brazil and in Argentina with respect to, in respect to their positions towards trade. So I wouldn't go so far as to say that the countries have in essence become less protectionist ideologically speaking, but in practice they have. They have seen that pragmatically protectionism doesn't really serve them very well. At this stage. And I think this is something that, you know, the EU-Mercosur agreement highlights to a very large extent, and it's just fascinating to see. And it is driving, you know, all of these countries to sort of look for— look to trade as an opportunity out of the kind of challenges that they're currently facing, in particular from their neighbor from the north.

[00:55:44.13] - Cecilia Malmström

You agree, Nicolas?

[00:55:45.28] - Nicolás Albertoni

Yes, absolutely. You know, and, you know, it could sound commonplace, but the answer to uncertainty, you know, is not isolation, you know. And for, I think, in the first, I think in Trump 1, you know, the logic of isolation was for some countries, even in the region, in Latin America, was at least starting to be considered. But, you know, now with almost a decade, you know, after that sort sort of new narrative of anti-trade perspectives. We have now more evidence of it. It's what was the outcome of that, you know, let's say 5 or 10 years, you know, after that political debate. And the result is that cooperation— and again, it sounds commonplace, you know, an obvious phrase— but trade cooperation and rule cooperation and working together to get better standards And at least it's getting you closer to development than in the other way. So it's weird that for, again, for people like us, you know, that we study trade and the fact of trade, that we are sort of revisiting that debate. But anyway, if it was necessary, okay, welcome. Well, we have the new evidence even in this new context. And once again, considering that in this global value chain, you know, dynamics, 70% of global trade is intermediate goods, you know.

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So it's obvious that we are all interconnected, and it's sort of, it's difficult even for policymakers of why they could be considered that could be positive for a country to be beyond or isolated, you know, of this sort of global value chains and now with the umbrella that we have. So again, given the new context, given the new evidence, I think this is an agreement to highlight once again that cooperation and trade cooperation in general is better than trade protectionism.

[00:57:38.07] - Cecilia Malmström

Well, I think this is great, we end on a positive note. If you're a trade nerd, that most of us are watching this or contributing, it's been quite depressing the last month and there's a lot of worries and concerns about the world in general, and I don't want to diminish those concerns, but it's also nice to see that there are positive side effects of this, and there are new friendships and new coalitions and new possibilities that could emerge from this. So it's nice to end on a positive note. Monica de Bol, Nicolas Albrettoni, Rupert Schlegelmilch, thank you so much for joining, and to those of you who've been watching, thank you for joining us as well. And I think we will, when some time has passed when the agreement is fully in place and we have seen some of the effects coming out of this, we could come back to this and further discuss the evaluation and the concrete effects. But thank you so much.

[00:58:34.26] - Monica de Bolle

Thank you. Thank you.

[00:58:36.26] - Rupert Schlegelmilch

Thank you very much. Bye-bye.