EU-Latin America relations

SUMMARY

During the past two decades, EU-Latin America relations have been shaped at bi-regional, sub-regional and country levels, with regular summits of the Heads of State or Government of the two regions as the main driver. Since 1999, the high-level political dialogue on topics of common interest pursued in the framework of the bi-regional strategic partnership has brought about a broad range of thematic dialogues and sectoral cooperation programmes. It has also spurred negotiations on association agreements involving political dialogue, trade and cooperation between the EU on one side and Latin American sub-regional organisations and individual countries on the other. More recently, a parliamentary dimension and a civil society component have been added to this format.

Despite these positive developments, EU-Latin America relations are facing major challenges. As a result of the global economic and financial crisis, China's emergence as a new actor in Latin America, and the attractiveness of the dynamic Asia-Pacific region, both partners have shown more interest in forging trade and investment relations with this region than with each other. Although EU trade with Latin America has increased over time in terms of value, the EU has lost ground in terms of market share. The EU has however remained the region's major investor.

There are deep political and ideological divisions and major economic asymmetries within the EU’s traditional Latin American sub-regional counterparts as well as disagreement with the EU's position on key market-access issues. These have so far prevented the envisaged "network of association agreements", which has been instrumental in the EU regional integration strategy for Latin America, from materialising in full.

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EU-Latin America relations in a changing environment

The European Union (EU) and Latin America and the Caribbean (LAC) are considered "natural allies", as they enjoy strong economic and cultural ties rooted in common history. However, EU-Latin America relations have undergone profound change following the rise of emerging markets. The shift in poles of dynamic economic growth from the Atlantic to the Pacific region has led to the diversification of trading partners on both sides. Like the EU itself, Latin America has benefited from new economic opportunities offered by the burgeoning Asian-Pacific region.

This is evidenced by the participation of Chile, Mexico and Peru in the multilateral negotiations on the Trans-Pacific Partnership (TPP). It is also reflected in the myriad bilateral free trade agreements (FTAs) that have recently been concluded between Latin American and Asian countries. However, the China-Chile and China-Peru FTAs have brought deep disappointment, since they reportedly have not allowed the Latin America’s economies to diversify their exports and to attract investment in non-mining activities, as was expected. In this context, the EU is seen as an actor capable of balancing China's outreach to the region, which, contrary to the EU's privileged regional integration approach, is based on bilateral economic arrangements.

EU-Latin America relations have also been influenced by successive EU enlargements. The 1986 accession of Spain and Portugal to the then European Communities intensified the prevailing perception of Latin America as a natural partner. However, most countries that have joined the EU since 2004 share this view to a much lesser degree and lack significant interests in the region, with the result being an eastward shift in the EU's foreign policy agenda.

EU-Latin America relations have also not escaped the detrimental consequences of the recent economic and financial crisis. The resultant severe austerity measures on the EU side have adversely impacted trade flows, some Member States' official development assistance (ODA) to Latin America, notably ODA from Spain, and remittances from Europe to the region.

Finally, the heterogeneity of the sub-regional integration blocs – the Andean Community of Nations (Comunidad Andina de Naciones) and Mercosur (Mercado Común del Sur) – and the implications of their on-going reconfiguration as well as the emergence of new formations have questioned the EU's traditional cooperation paradigm geared towards inter- and intra-regional integration. While negotiations with Central America were successfully concluded in 2010, deep political and ideological divisions and significant economic asymmetries among the members of the Andean Community and Mercosur, as well as their disagreement with the EU position on market-access issues have been major obstacles to finalising region-to-region agreements.

Against the backdrop of this regional integration stalemate, the regional front-runners Chile, Colombia, Mexico and Peru founded the Pacific Alliance (Alianza del Pacífico) in 2012. This new grouping consists of particularly open and rapidly growing economies which have all concluded FTAs with the US and the EU. It is characterised by a pragmatic "early harvest" approach to trade liberalisation. While its creation is unlikely to spur regional integration within Latin America, it might – together with the on-going EU-US negotiations on a Transatlantic Trade and Investment Partnership (TTIP) – give new momentum to the long-protracted EU-Mercosur negotiations, as inaction bears the risk for Mercosur countries of their being marginalised from global trade.
Bi-regional relations EU-Latin America

Throughout the past two decades, bi-regional relations have been strengthened noticeably in the framework of biannual summits of Heads of State or Government of the two regions. These summits have set the agenda for political dialogue on an ever-broadening range of issues of common interest and global challenges. They have also provided impetus for negotiations between the EU and Latin American sub-regions and individual countries, on association agreements covering political dialogue, trade and cooperation. The latter have been conceived as instruments to boost regional integration and social cohesion, as these two aspects have been constant priorities in EU policy towards Latin America.

EU-LA relations have also featured a strong development aid component, with the EU and its Member States having been the leading donor of ODA to Latin America and a major provider of regional cooperation programmes which include support for "South-South" country relations. Most EU funding for development in Latin America is derived from the geographic and/or thematic pillars of the Instrument for Development Cooperation (DCI), one of the EU’s external action financing instruments. A total of €2.69 billion for 2007-13 was allocated for development cooperation with Latin America. Funding is also available for action on human rights under the European Instrument for Democracy and Human Rights (EIDHR).

High-level summits

Since the 1990 Rome Declaration, the EU has maintained political dialogue at various levels with the Rio Group, a regional political consultation mechanism established in 1986. In 1999 biannual EU-LAC summits were introduced, and are held alternately with the EU-Rio Group meetings. Since the first EU-LAC summit in Rio in 1999, every EU-LAC summit has added thematic dialogues and initiatives such as:

- EU-LAC Coordination and Cooperation Mechanism on Drugs
- EU-LAC Forum on Social Cohesion
- EU-LAC Structured Dialogue on Migration
- Joint Initiative on Research and Innovation.

The two summit formats were merged following the creation of the Community of Latin American and Caribbean States (CELAC) in 2011 in Caracas (Venezuela), as an alternative to the Organisation of American States (OAS) which includes the US and...
Canada. CELAC comprises 33 Latin American and Caribbean countries and became the EU’s new counterpart, at the first EU-CELAC summit in 2013 in Santiago (Chile).

A revised action plan 2013-15 adds two new priority areas – gender and investment – to the six focal areas of the 2010 plan. The summit declaration notes progress in the bi-regional strategic partnership process among others, in:

- the establishment of the EU-LAC Foundation in Hamburg in November 2011, which acts inter alia as a civil society component in the bi-regional strategic partnership, and
- the first CELAC-EU Judicial Summit on international judicial cooperation matters.

On the margins of the high-level political summit, the IV CELAC-EU Business Summit and the I CELAC-EU Academic Summit were held. The next EU-CELAC summit takes place in Brussels in 2015.

**Parliamentary dimension**

In 2006, the Euro-Latin American Parliamentary Assembly EuroLat was created as a parliamentary dimension of the bi-regional strategic partnership. It is a joint multilateral Parliamentary Assembly composed of 150 members, 75 from the European Parliament and 75 from the Latin American component, including:

- **Parlatino** (Latin-American Parliament)
- **Parlandino** (Andean Parliament)
- **Parlacen** (Central American Parliament)
- **Parlasur** (Mercosur Parliament)
- the **Mexican Congress**, and
- the **Chilean Congress**.

Each EuroLat body (plenary, co-presidency, executive bureau, enlarged bureau and parliamentary committees) is made up of an equal number of members from each side. The parliamentary committees and executive bureau meet at least twice a year, with one of the two sessions being organised in parallel with the annual plenary. Since 2009, a working group on EU-LAC migration issues has been in operation. In 2012, it proposed the creation of an EU-LAC Migration Observatory.

In its resolution of 5 May 2010 on the EU strategy for relations with Latin America, the EP reiterated the support given by the EU to regional integration processes and the 'bloc-to-bloc' negotiating approach pursued by the EU through association agreements. It recognised, however, that countries that wish to step up their relations with the EU should not be disadvantaged by internal problems within regional integration processes nor by sovereign decisions by their partners, however legitimate these may be. Furthermore, the EP proposed the creation of a Migration Observatory for the Euro-Latin American area, and Bi-regional Centres for Conflict Prevention and for Disaster Prevention.

EuroLAT submits a message to the EU-LAC (now EU-CELAC) summits as well as resolutions drafted by the four standing committees:

- Foreign Affairs, Security and Human Rights
- Economic, Financial and Commercial Affairs
- Social Affairs, Youth and Children, Human Exchanges, Education and Culture
- Sustainable Development, the Environment, Energy Policy, Research, Innovation and Technology

The motions for resolution and recommendations adopted by a committee are debated by the Parliamentary Assembly and are mostly adopted by simple majority.

For the EU-CELAC summit in 2013 the resolutions concerned **Fighting drug trafficking and organised crime in the EU and Latin America**, **Globalisation and financial crisis** and **Prevention of natural disasters in Europe and Latin America**.
EU relations with Central America, the Andean Community and Mercosur

Central America
The group of Central American countries is composed of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Close relations between the EU and Central America have been developed in the framework of the San José dialogue, with the EU having supported the region’s successful peace process in the 1980s. In 1993 the EU concluded the EU-Central America Framework Cooperation Agreement, followed by the Political Dialogue and Cooperation Agreement signed in 2003.

In 2007, negotiations started on an association agreement. These were concluded in 2010 and the agreement signed in June 2012. The EP gave its consent in December 2012 to the EU’s conclusion of the agreement: the EU’s first region-to-region agreement in Latin America. The trade provisions have been provisionally applied since August 2013 with Honduras, Nicaragua and Panama, since October 2013 with Costa Rica and El Salvador, and since December 2013 with Guatemala. The trade pillar of the association agreement replaces the unilateral preferential access to its market which was granted to Central America under the EU’s Generalised Scheme of Preferences (GSP).

EU-Central America trade flows in goods were worth €14.9 billion in 2012 which corresponds to an EU share of 11.3% in overall Central American trade. Large parts of EU imports from Central America were made up of machinery and transport equipment (59.6%) and agricultural products (30.1%). EU exports to Central America primarily consisted of machinery and transport equipment (47.2%) and chemicals (21.5%).

As for EU-Central America development cooperation, the EC regional strategy paper for 2007-13 earmarked €75 million in funding for three focal areas:
- customs union and related common policies (62.5%)
- institutional framework for regional integration (26.5%)
- regional governance and public safety (11%).

The Andean Community
It was founded in 1969 by the Cartagena Agreement. Currently, it comprises four countries: Bolivia, Colombia, Ecuador, and Peru. Chile originally belonged to the founding members, but withdrew in 1976. Venezuela joined the Andean Community in 1973 but left to become a full member of Mercosur in 2012. In 1993, the EU and the Andean Community concluded a framework agreement on cooperation which was replaced by a political dialogue and cooperation agreement. This was signed in 2003 but has not yet entered into force, despite completion of the ratification process by the Andean Community.

In 2008, negotiations with the EU on an association agreement stalled. A new negotiation format was defined in 2009. Bloc-to-bloc negotiations continued on political dialogue and cooperation, while trade negotiations on a WTO plus format were pursued only with Peru, Columbia and Ecuador. In 2012, an ambitious and comprehensive trade agreement on progressive and reciprocal liberalisation was signed only with Peru and Columbia. The EP adopted an extensive resolution on the trade agreement in June 2012 and gave its consent in December 2012.

Some commentators have expressed deep concern about the social, environmental and human rights impact the agreement might entail. The outcome has been criticised as a major EU policy shift from a sub-regional integration strategy to a bilateral approach. It
has been argued that this approach risks contributing to the Andean Community's disintegration and to impeding the latter's convergence with Mercosur within the Union of South American Nations (Unasur). 

The trade agreement has been provisionally applied with Peru since March 2013, and with Columbia since August 2013. It provides for the total liberalisation of trade in industrial products and fisheries over ten years (with most tariffs eliminated at its entry into force) and increases market access for agricultural products (85% are to be liberalised within 17 years). It also liberalises services and public procurement. It contains provisions on intellectual property rights, human rights and labour and environmental standards. It remains to be seen whether Ecuador, which suspended its participation in 2009, and Bolivia will ultimately accede to it. A first round of talks with Ecuador took place in January 2014. The EU's revised GSP+ will continue to grant Bolivia and Ecuador preferential access to the EU market.

Currently, the EU is the Andean Community's second-largest trading partner after the US. In 2010, the EU accounted for a 14.3% share of the Andean Community’s external trade. The trade flows are complementary, since Andean Community exports to the EU consist mainly of primary products (38% agricultural products and 54% fuels and mining products), while the EU’s exports are mostly manufactured goods (50% machinery and transport equipment and 19% chemical products). Total trade flows in 2012 were worth €29.4 billion.

As far as the EU's development cooperation with the Andean Community is concerned, the EC regional strategy paper 2007-13 earmarked €50 million in funding for three priority areas:

- regional economic integration (40%)
- social and economic cohesion (40%)
- drug control (20%).

### Mercosur

In 1991, Argentina, Brazil, Paraguay and Uruguay founded Mercosur by signing the Treaty of Asunción. Venezuela joined in July 2012, while Paraguay was suspended in June 2012 following President Lugo's impeachment. Bolivia, Chile, Colombia, Ecuador and Peru are associated states. Like Ecuador, Bolivia recently announced its intention to become a full member of Mercosur while maintaining membership in the Andean Community, justifying this move by its development needs. Today, Mercosur is the world's fourth largest economic bloc after the EU, the 1994 North Atlantic Free Trade Area (NAFTA) and the 1967 Association of South-east Asian Nations (ASEAN).

In the 1990s, the then European Economic Community concluded bilateral partnership and cooperation agreements with Argentina, Brazil, Paraguay and Uruguay. In 1995 the EU and Mercosur signed an Inter-regional Framework Cooperation Agreement which entered into force in 1999. In the same year, negotiations on a three-pillar association agreement were opened. They were suspended in 2004 due to disagreement on the trade pillar but resumed in 2010.
As well as trade in goods and services, the future EU-Mercosur association agreement is intended to cover investment, government procurement, intellectual property rights (IPR), including geographical indications, technical barriers to trade and sanitary and phytosanitary aspects. So far, nine rounds of negotiations have taken place. The EU-Brazil summit in February 2014 confirmed that the parties were "on track" to exchange market access offers on goods, services, establishment and public procurement. A change in the negotiation format to one similar to that seen with the Andean Community seems to be ruled out, since internal Mercosur rules stipulate that individual members may not negotiate trade agreements unilaterally. Given that all Mercosur countries except Paraguay are classified as upper middle-income countries, they have no longer benefited from the GSP since 1 January 2014.

With a 20% share of Mercosur’s overall trade, the EU is its first trading partner. In 2012, Mercosur was the EU’s eighth-largest trading partner, accounting for 3% of the EU’s total trade. EU exports were worth €57 billion in 2012 and consisted mainly of manufactured products (45% machinery and transport equipment and 22% chemicals). A large share of Mercosur’s exports to the EU was made up of agricultural products (40%) and raw materials (28%).

As for EU-Mercosur development cooperation, the EC’s 2007-13 regional strategy paper, provided €50 million in funding for three key areas:
• extending Mercosur’s scope and preparing the implementation of the future association agreement with the EU (70%)
• enhancing the role of civil society in Mercosur (20%), and
• supporting Mercosur institutions (10%).

Relations with Mexico and Chile
Since Mexico and Chile are not members of the three trading blocs, the EU has pursued bilateral relations with them.

EU-Mexico relations
In 1997, the EU and Mexico concluded an agreement on economic partnership, political coordination and cooperation (the "Global Agreement") which includes a comprehensive free trade agreement. It entered into force in 2000 for trade in goods and in 2001 for trade in services. It also encompasses chapters on investment, access to public procurement markets, competition, and intellectual property rights.

Currently the EU is Mexico’s second most important export market after the US and the third-largest source of imports after the US and China. In 2010 and 2011 the EU lost its position as Mexico’s second largest trading partner to China but regained it in 2012. The EU's share in Mexico's trade stood at 8.5% in 2012. Mexico is the EU’s 16th trading partner. Total trade in 2012 amounted to €47 billion. In 2012, EU exports to Mexico were worth €28 billion. They were made up of machinery and transport equipment (46.9%), chemicals (16.9%) and manufactured goods (12.9%). Agricultural products only accounted for 3.7 %. EU imports from Mexico amounted to €19.4 billion in 2012. The vast bulk was machinery and transport equipment (37.7%), followed by fuels and...
mining products (26.6%, mainly crude oil) and other manufactures (11%). Agricultural products accounted for just 7.9% of Mexican exports to the EU. Mexico is primarily a supplier of manufactured goods and not a raw materials provider (with the exception of oil), which distinguishes Mexico from most other Latin American economies.

In November 2013, the EU-Mexico Joint Parliamentary Committee (JPC) suggested that the Global Agreement, especially in the fields of services and investment, be autonomously updated, in line with the EU-US TTIP negotiations and the recently agreed EU-Canada FTA.

As for EU-Mexico development cooperation, the EC's 2007-13 country strategy paper earmarked €42 million in funding for three main areas:
- social cohesion (40%)
- sustainable economy and competitiveness (35%), and
- education and culture (25%).

EU-Chile relations

In 2002, the EU and Chile concluded an association agreement which included a comprehensive free trade agreement that entered into force in 2003. The agreement stipulates that both parties shall regularly review the scope for further liberalising trade in the future. The FTA has led to a significant increase in trade in goods and services between the EU and Chile. In 2012, bilateral trade was worth €18.1 billion.

The EU is Chile's second largest source of imports, with the US being Chile's main supplier. The EU is Chile's third largest export market. Key EU imports from Chile include mining products such as ores and non-ferrous metals, primarily copper. The agricultural sector accounts for about 25% of overall EU imports from Chile. The most important EU export items include machinery and electrical equipment, transport equipment, chemical products, and fuel.

As far as development cooperation with Chile is concerned, the EC country strategy paper 2007-13 earmarked €41 million in funding for three focal areas:
- social cohesion (40%)
- innovation and competitiveness (40%)
- education: academic exchanges and grants (20%).

Trade and investment trends

EU-Latin America trade relations

Since the 1980s, the EU’s position as a destination for Latin American exports and as a source of its imports has declined in terms of market share. The EU lost ground to the US in the 1980s and 1990s and subsequently to China. A reversal of this negative trend has since occurred as regards Mexico for imports and exports, Central America for imports and the Andean Community for exports, whereas it has continued for Mercosur. In 2011, the EU was still Latin America’s second-largest trading partner, with about 14% share of the region’s exports (13.7% down from 24.8% in 1990) and imports (14.1% down from 20.2% in 1990).
According to 2013 forecasts by the Economic Commission for Latin America and the Caribbean (ECLAC), the EU could be outpaced by China as the second largest trading partner by the middle of the decade, if China continues to substantially enhance its position as a destination for the region’s exports. EU-Latin America trade relations have remained overall highly asymmetrical, with the EU being a major trading partner of many Latin American countries, while Latin America’s share in total EU trade has remained comparatively small (2.3% in 2010, down from 3% in 1980).

EU-Latin America investment relations
In the period 2006-10, EU FDI flows to Latin America dropped to 2.8% (down from 3.3% in the period 2000-05), while those to Africa (2.3%), Asia (5.4%) and the US (13.3%) increased. Currently, the EU’s FDI stock in Latin America and the Caribbean represents 9% of all EU investments outside the EU. Looking at EU FDI flows from the Latin American perspective, the EU has maintained its leading position as the main FDI source for the region. It accounted for 43% of FDI for 2000-05 and almost 41% for 2006-11. In the same period, the US share decreased from 37.8% to 25.7% and the Asia/Oceania share increased from 2.6% to 7.3%.

There are significant differences between Latin American recipient countries in volumes of FDI flows, with Brazil and Mexico accounting for 42% and 30% respectively between 2000 and 2005, followed by Chile (10%) and Argentina (9%). Between 2006 and 2010, a steep increase in EU FDI for Brazil (53%) was recorded. Mexico absorbed 24%, Argentina 12%, Columbia 5% and Chile 3%. Spain has been the most important source of FDI. However, they declined from 52% in the period 1999-2005, to 45% in the period 2006-10. By contrast, France increased its FDI share (9% to 16%) similarly to Germany (4% to 7%), Italy (3% to 16%) and the United Kingdom (11% to 12).

Stakeholders’ views
Susanne Gratius, of the Foundation for International Relations and Foreign Dialogue (FRIDE), argues that the trend in both regions towards growing internal fragmentation and the EU’s declining relevance for Latin America require the EU’s bi-regional integration model to be replaced by à la carte cooperation including bilateral, minilateral and inter-regional cooperation. Against the backdrop of deep political divisions within Latin America, Maik Zarandi, from the Konrad Adenauer Foundation, calls for the EU to adopt a more differentiated approach towards Latin American integration entities which lack a common position, by striking a better balance than in the past between the promotion of Latin America’s regional integration and more result-driven cooperation. While José Sanahuja, professor of international relations, attributes the EU's limited role as an “external unifier” in Latin American sub-regional entities mainly to their institutional weakness and insufficient EU-style commitment to supra-nationality, Félix Peña, professor of international commercial relations, stresses that the EU’s integration model has lost ground to the competing Asian integration model which is highly successful and features a more flexible approach to economic integration.8

On a more concrete note, BusinessEurope suggests pragmatic bilateral alternatives to enhance trade and investment between the EU and Brazil, if negotiations on an EU-Mercosur FTA fail. Brazil's National Confederation of Industries embraces the idea of Brazil negotiating trade agreements with third countries at different speeds to other Mercosur members, as well as the prior revision of Mercosur's internal rules which currently prohibit this.
Main references

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Endnotes

1 The EU-LAC summit process also involved the Caribbean countries whose relations with the EU are covered by the 2000 Cotonou Agreement. The EU concluded this agreement with 79 African, Caribbean and Pacific countries. Due to space constraints, this briefing focuses on Latin American countries only.

2 China complements its bilateral relations with individual Latin America countries with high-level political dialogue with the Latin American continent in the framework of the China-CELAC Forum modelled on the Forum on China-Africa relations (FOCAC).

3 For the purpose of the association agreement, “Central America” comprises Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. These countries are members of the Central American Integration System (Sistema de la Integración Centroamericana (SICA)) alongside Belize and the Dominican Republic. The two latter SICA members are already covered by the 2008 EU-CARIFORUM Economic Partnership Agreement (EPA).

4 The Pacific Alliance currently has 30 observers, with Costa Rica and Panama having the status of observer candidate states. Economically it is perceived as an antithesis to Mercosur and politically/ideologically to ALBA (Bolivarian Alternative for the Peoples of Our America – Peoples’ Trade Treaty/Alianza Bolivariana para los Pueblos de Nuestra América – Tratado de los Comercios de los Pueblos) which comprises among others Bolivia, Ecuador and Venezuela. It has been argued that the Pacific Alliance adds further friction and leads to a “continental divide”.

5 Changes in development cooperation arise from the EU’s new concept of differentiation in aid allocation to developing countries set out in the EU’s new development strategy – “An Agenda for Change” (2011).

6 In 2013, a feasibility study was commissioned by the EU-LAC Foundation. Recent country data on migration and remittance flows result from a 2012 International Organisation for Migration (IOM) study on migratory routes and dynamics between Latin American and Caribbean (LAC) countries and between LAC and the EU.

7 The change in the negotiating format triggered a major conflict within the Andean Community about decision 667 of 2007, which was interpreted by Bolivia as an obligation for the bloc to negotiate jointly with the EU. It was repealed by the Andean Community by decision 738 in July 2010, after Bolivia had withdrawn a complaint filed with the Court of Justice of the Andean Community. Decision 598 of 2004 is now accepted as governing the Andean Community’s negotiations with third parties. It allows Andean Community members to negotiate bilaterally in those exceptional cases where for whatsoever reason they cannot negotiate collectively.


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