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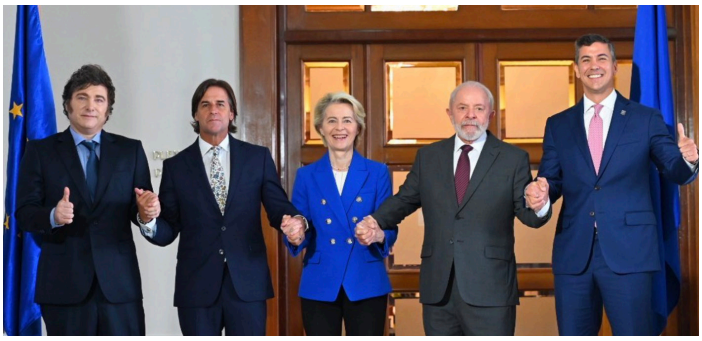
FEATURED Q&A

Can the E.U. and Mercosur Finalize Their Trade Deal?



Mercosur and the European Union agreed in principle on a long-debated free trade agreement in early December. The deal still must be approved by individual Mercosur and E.U. member countries in order to take effect. // Photo: @vonderleyen via X.

Q The European Union, along with Argentina, Brazil, Paraguay and Uruguay, the four founding members of South America's Mercosur bloc, reached an agreement in principle on Dec. 6 on a new free trade agreement that includes nearly 25 percent of the world's economic output. The deal is the largest agreement ever signed by either the European Union or Mercosur. What are the most important details of the new deal and what would its ratification entail for the European and South American countries involved? How likely is it to be ratified by both Mercosur and E.U. members?

A Bartłomiej Znojek, Latin America analyst at the Polish Institute of International Affairs: "The Dec. 6 announcement is the second time the E.U. and four Mercosur countries have confirmed the conclusion of their longstanding talks on the Association Agreement, which comprises trade, political and cooperation pillars. The text of the trade part they finalized in June 2019 did not hold up, mainly because of the E.U.'s mounting demands related to the obligations in sustainable development. Broader references to that sphere are an essential component of the new version of the deal. Other amendments result from new requirements. For example, Brazil won exceptions in the E.U.'s access to its public procurement. The parties also included a revision clause, which will allow for periodical changes to the treaty. While the two blocs tried to depict the Dec. 6 decision as a great success and a robust signal against trade protectionism—an apparent reference to the policies expected from the forthcoming Donald Trump

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Puerto Rico Power Grid Collapses on New Year's Eve

A faulty transmission line caused a major blackout that affected nearly 90 percent of utility customers in Puerto Rico on Tuesday, according to the island's private utility provider.

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Major Regional Economies Slump Out of 2024

The Brazilian real finished the year down 21 percent against the dollar as inflation and trade tensions mount. Mexico's peso fell 23 percent against the dollar last year.

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POLITICAL

Former U.S. President Jimmy Carter Dies at 100

Former U.S. President Jimmy Carter died on Dec. 29 at the age of 100. As president, Carter advocated for human rights in Latin America, applying pressure on the region's military dictatorships.

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Carter // File Photo: U.S. Government.

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POLITICAL NEWS

Puerto Rico Power Grid Collapses on New Year's Eve

Around 1.3 million utility customers in Puerto Rico lost power on Tuesday after a faulty transmission line caused a system-wide blackout, Reuters reported. The outage began on Tuesday morning, affecting 90 percent of Puerto Rico's 1.4 million individual electricity customers. The malfunctioning transmission line forced a grid-wide reset, which took 48 hours to implement, The New York Times reported. Luma Energy, the private utility firm that has operated Puerto Rico's electrical grid since 2021, said that regular service had been restored to 99 percent of customers as of 10 a.m. on Thursday, according to the company's disaster response dashboard. 52 percent of electrical customers in Puerto Rico remained without power by midnight on Tuesday, which dampened New Year's Eve celebrations across the island, The New York Times reported. Luma must "keep the people duly informed about the measures they are taking to restore service throughout the island," Puerto Rico Governor Pedro Pierluisi said Tuesday in a post to Facebook. Puerto Rico has experienced relatively frequent power blackouts since Hurricane Maria made impact and damaged power infrastructure in September of 2017, the newspaper reported. The New Year's Eve blackout was Puerto Rico's most severe outage of 2024, following blackouts in June and August that left roughly 350,000 and 700,000 customers without power, respectively, according to The New York Times. The island's energy grid is highly dependent on fossil fuels—oil- and gas-fired plants accounted for 93 percent of electricity generation in 2022, according to data from the U.S. Energy Information Administration—yielding a centralized power system that is vulnerable to a single interruption. Puerto Rico's legislature has mandated that the island reach 100 percent renewable power generation by 2050, a target that it plans to reach primarily with utility-scale and community solar energy projects, according to the U.S. Department of Energy.

Around 90 percent of the 1.4 million utility customers in Puerto Rico lost power on Tuesday.

Trinidad and Tobago Declares Emergency Over Gang Activity

Trinidad and Tobago's government on Monday announced a national state of emergency to combat a spike in gang violence, the Associated Press reported. National Security Minister Fitzgerald Hinds said in a press conference that the emergency declaration will allow state security forces to launch a sweeping anti-gang crackdown, enabling military and municipal police to conduct searches without warrants, Reuters reported. Authorities were alarmed when a local gang leader ordered the murder of five men on Sunday after a failed attempt on his life the day prior, the wire service reported. Trinidadian police did not name the gang leader in question, according to Reuters. Organized criminal groups "are likely to immediately increase their brazen acts of violence in reprisal shootings on a scale so extensive that it threatens persons and will endanger public safety," acting Attorney General Stuart Young said at the press conference. Trinidad and Tobago witnessed its highest ever recorded number of homicides in 2024, Reuters reported. Hinds said that of the 623 officially reported homicides in 2024, 263—or 42 percent—were directly attributable to gang-related activities, the AP reported. "There is no doubt in my mind that we are dealing with an epidemic," said Hinds. The new state of emergency allows courts to hold suspected criminals for up to 48 hours without bail. That period could then be extended by an additional seven days after court approval, the wire service reported.

NEWS BRIEFS

Jimmy Carter Dies at 100, Longest Lifespan of Any U.S. President

Former U.S. President Jimmy Carter passed away on Dec. 29 at his home in Plains, Georgia, The New York Times reported. The former president was 100. Carter, who served a single term from 1977 to 1981, led a reorientation of diplomatic efforts in Latin America during a period of authoritarian revival; Carter's administration imposed conditions on U.S. military aid to governments that allegedly violated human rights. Carter was awarded the Nobel Peace Prize in 2002 for his post-presidency efforts to support global human and political development.

Venezuelan Economy Grew Nine Percent in 2024: Maduro

Venezuelan President Nicolás Maduro said in an interview on state television Wednesday that his nation's gross domestic product grew by more than 9 percent in 2024, relative to the year before, after posting 5.5 percent growth in 2023, Reuters reported. Maduro said that rising hydrocarbon revenues and individual consumption drove Venezuela's economy in 2024. The increasingly isolated state saw its monthly oil export totals nearly double from the end of 2023 to the end of 2024, the wire service reported last month.

El Salvador's 2024 Homicide Rate Lowest in Latin America: Bukele

El Salvador recorded 114 homicides in 2024, a 47 percent decrease from 2023, President Nayib Bukele said Wednesday in a post on social media site X. The figure of 1.9 homicides per 100,000 in population would place El Salvador behind all countries in the Western Hemisphere when compared to 2023 totals, the Associated Press reported.

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ECONOMIC NEWS

Mexican, Brazilian Currencies End 2024 on Rocky Footing

Latin America's two largest economies—Brazil and Mexico—each finished 2024 with their currencies down by more than 20 percent relative to the U.S. dollar compared to their values at the end of 2023. The Brazilian real lost 21 percent of its value relative to the dollar over the course of 2024, marking the worst performance of the 31 major currencies tracked by Bloomberg News, an index which includes Argentina's peso. The real's decline accelerated in November after a fiscal reform package failed to soothe investors' fears over runaway inflation and fiscal expenditures, Bloomberg News reported. The Mexican peso, meanwhile, lost 23 percent of its value relative to the dollar during 2024, Reuters reported. As of Dec. 31, the peso was trading at 20.8 per dollar, a roughly 25 percent change from the currency's high water mark of 16.3 reached in April. Mexico's principal stock index lost around 14 percent of its value last year, according to Reuters. The specter of incoming U.S. President-elect Donald Trump imposing tariffs, which could substantially alter Mexico's trade relationship with its northern neighbor, has affected investor sentiment in Mexico, the wire service reported. Trump, who takes office on Jan. 20, has also pledged to deport millions of unauthorized migrants living in the United States. Mexico and Brazil's currencies relative to the United States' performed worse than any major economy located outside of the Western Hemisphere, according to data from Bloomberg News, highlighting Latin America's unique vulnerability to inflationary economic—and coercionary diplomatic—pressures, the news service reported. The Canadian dollar lost 8 percent of its value relative to the U.S. dollar in 2024, according to Bloomberg News' data; the Japanese Yen lost 11 percent and the Euro lost 6 percent of its relative value last year. [Editor's note: See related **Q&A** in the Nov. 22 issue of the Advisor.]

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administration—the road to approval remains lengthy and uncertain. Legal revision and translation to official languages are now required to prepare the final text, whose formal signature will trigger the ratification process. In the E.U., the European Commission will want to single out the trade part, so that only approvals from the Council of the E.U. and the European Parliament are required. France, backed by other E.U. countries with strong agricultural sectors (including the Netherlands and Poland), will likely attempt to form a blocking minority in the Council to veto the deal, unless the Commission finds ways to convince some of them to switch positions."

Amanda Mattingly, former U.S. diplomat and founder of ACM Global Intelligence: "The free trade deal signed between the European Union and Mercosur is a huge deal and one in the making for decades. The deal would solidify an E.U.-South America alliance which would bring benefits to both sides of the Atlantic. If ratified, the E.U. would increase exports of autos, chemicals and pharmaceutical products to Argentina, Brazil, Paraguay and Uruguay, while the four Mercosur countries would increase exports of raw minerals like copper and lithium as well as agriculture products like beef and soybeans. Last year, the E.U. and Mercosur exchanged goods worth nearly $60 billion going in both directions. That would increase substantially under this agreement, which would eliminate more than 90 percent of tariffs. The deal would also solidify climate standards in accordance with the Paris Climate Agreement and could strengthen the European-South American political ties. Sounds good? Well, not to European farmers, who do not want to be pushed out by cheap agricultural products coming from South America. Their opposition is strong and could scuttle the deal. Just four states representing at least 35 percent of the E.U. population could block the agreement, with France, Poland, Austria and possibly Italy lining up in opposition. In this moment of trade tensions and U.S. retrenchment from globalization, the E.U.-Mercosur deal would be a strong counterpoint to such protectionism and isolationism if ratified. But that is a big 'if' because proponents of protectionism and isolationism are strong in Europe, too, as the farmers in France will tell you."

Josemar Pessoa, coordinator in international trade at BMJ Consultores Asociados: "After 25 years of negotiations, Mercosur and the European Union concluded an Association Agreement. Among the key advancements of the recently concluded Additional Commitments Charter are the Trade Concessions Rebalancing Mechanism, which allows adjustments through arbitration if unilateral measures harm trade; linking Mercosur members' data to evaluate sustainability and environmental protection goals; periodic revisions of the text; safeguards for the automotive sector; protection of strategic sectors in the public procurement market; and prior consultations on trade and sustainable development-related legislation. These changes to the 2019 text facilitated the agreement's conclusion. Mercosur plans to liberalize tariffs on 91 percent of goods, with phase-out periods ranging from four to 15 years and up to 30 years for vehicles. The E.U. proposes liberalizing 95 percent of goods, with periods from four to 12 years, and quotas for agricultural products, affecting 3 percent to 9 percent of goods. If ratified, the agreement will connect economies representing 25 percent of global GDP. For the E.U., it will expand markets and strengthen its leadership in sustainable trade. For Mercosur, it will provide access to one of the largest economic blocs, boosting the agricultural sector and reducing costs for capital goods. The signing and ratification process will face challenges. In the E.U., France, Poland, Austria, Ireland and the Netherlands lead the opposition. Also, Italy

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has expressed agricultural concerns. These countries could form a blocking minority to the signing if they represent 35 percent of the bloc's population. European agricultural sectors are lobbying against the agreement, fearing the competitiveness of South American products. In Mercosur, legislative sluggishness is a significant hurdle. Political differences and conflicting interests could delay or prevent implementation, even after a formal conclusion."

Cecília Godoy, analyst for Latin America and the Caribbean at the Economist Intelligence Unit: "The conclusion of the free trade agreement marks a pivotal moment for both blocs. The deal is the largest agreement ever concluded by the European Union and is Mercosur's first FTA with another trading bloc. The trade pact seeks to reduce tariffs on E.U.-manufactured goods in Mercosur while liberalizing agricultural trade in the E.U.—a sector long protected by European policies. If ratified, it will create a market of nearly 800 million citizens and generate economic gains for both parties, albeit to varying degrees. The FTA will likely be more consequential for Mercosur, with Brazil emerging as the biggest beneficiary, as the bloc will benefit from higher agricultural and critical mineral exports to the E.U. However, the ratification process will be fraught with challenges, particularly on the European side. In order to take effect, the FTA must be ratified by at least one Mercosur member, as well as the E.U. Council and Parliament. While all Mercosur countries are all but certain to ratify the deal, the approval process in Europe will be more contentious. A minimum of four E.U. states representing at least 35 percent of the E.U. population could block the agreement. France—alongside Poland and Austria, to a lesser extent—has been a vocal opponent, with its farmers seeking protection from Mercosur's agricultural imports. Italy remains a key player to watch, as it has signaled wavering commitment and could align with these dissenters, preventing the deal from being sanctioned. Nonetheless, the signing of the deal underscores a strong commitment to trade liberalization amidst growing threats to economic cooperation and rising protectionism."

Gregory Ross, associate for Brazil and the Southern Cone at McLarty Associates: "With protectionism on the rise globally, the E.U.-Mercosur agreement is a timely bet against the current, cutting more than 90 percent of tariffs to create a free trade zone of more than 700 million people. If ratified, the deal would reduce or eliminate duties on South American commodities, European manufactured products and a range of goods and services crossing the Atlantic. Ratification is expected by Mercosur's four founding members. In Brazil, President Lula sees the deal as a legacy item for its potential to expand agricultural export markets and diversify away from its dependence on China. Brazil secured some important concessions for its auto industry through an extended 18-year timeline to phase out duties on EV imports. Although President Milei has criticized Mercosur, his support reflects his bid to boost Argentine exports. Expanded market access will benefit Argentine commodities and critical minerals, notably lithium and copper. Meanwhile, the smaller markets of Paraguay and Uruguay value the deal as a platform to boost soy and beef exports, despite producers' skepticism of E.U. environmental protections. In Europe, France leads a group aiming to derail the deal, as E.U. farmers argue it will open markets to commodities that skirt stringent environmental standards, undercutting domestic supply. However, even as Poland and select smaller states join French opposition, a potential European Commission strategy to split the agreement between trade and investment-related provisions would require states representing at least 65 percent of the bloc's population to approve the core trade deal. For now, the opposition falls short, with Italy the likeliest swing vote."

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