



To the point!

Cross-Asset- and Strategy-Research

The EU is shooting itself in the foot, again

The Mercosur trade agreement needs to be adopted at last

The European economy is highly export-dependent. About half of its value added is not intended for the nation in which it was produced. And of these exports, one-third goes to countries outside the EU. This is particularly true for Germany, the former "export world champion". Therefore, not only the companies producing here should be interested in free market access. Political actors should be as well: an open global economy is the source of our prosperity. The era of major global free trade rounds under the auspices of the World Trade Organization has definitely come to its end. The so-called Doha Round, launched in 2001 has been languishing for many years. There is virtually no pulse left.

Since there is no longer any progress in global agreements, regional trade agreements have become even more important, even if they are only second-best solutions. However, not much is happening there either. The transatlantic free trade agreement with the USA (TTIP) failed in 2019. Not only, but also because of the infamous chlorinated chicken. Now the next fiasco looms.

The EU has been negotiating with the Mercosur (Argentina, Brazil, Uruguay and Paraguay) for twenty years to initiate a trade agreement. A conclusion would create a free trade zone of more than 700 million people!

After such long negotiations, you should be pretty close to the goal, right? Far from it! Last month, French President Emmanuel Macron dropped the bombshell: he wants to completely renegotiate the agreement. Why? According to Macron, the agreements reached so far are inadequate to ensure climate and biodiversity

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Europe needs open markets

Fig. 1: Value Added in Agriculture (in USD of 2015)



Source: [FAO](#), LBBW Research

protection. Mercosur should commit more strongly to climate objectives, especially since the Amazon, the much-vaunted green lung of the planet, is part of it.

The role of the agricultural lobby

This sounds like a pretext to me. I think it is clear that Macron is afraid of the anger of French farmers, which has been harassing the government for months. The chart on the first page makes it clear: with Mercosur, major agricultural players would increase the competitive pressure on European (meaning French) farmers. And Macron can't afford that right now. Right-wing populist Marine Le Pen currently has the upper hand in the polls for the presidential election (2027).

Europe shouldn't try to portray itself as a haven for green agriculture anyway, as [more than 80%](#) of EU agricultural subsidies go towards promoting emission-intensive animal products.

The Mercosur agreement is now on hold until the European elections. And it gets even worse: the French Senate has overwhelmingly rejected the ratification of the free trade agreement with Canada (CETA), which has been provisionally applied since 2017. Now it has to go back to the National Assembly, where a majority is no longer certain.

Europe can no longer dictate the terms

Europe needs to learn that the world no longer dances to its tune. The European Union accounts for only 17% of global GDP (see chart on the right). And the share is declining. If we hesitate, China will step in. Xi is already smiling. This would be detrimental to both our economy and the environment in South America. A classic own goal. Europe cannot afford many more of these if it wants to maintain its prosperity.

Free trade as a victim of internal affairs

Fig. 2: EU share in World GDP



Source: IMF WEO, LBBW Research
Shaded area are forecasts

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