

## Free-trade talks fail again

IT WAS supposed to be wrapped up by October 31st: an agreement between the European Union and Mercosur, a four-nation grouping in South America, to create the world's biggest free-trade area. But the deadline will now pass with no agreement except to keep talking next year. Most Europeans will not notice, but after five years of trying, Mercosur is starting to worry.

Both sides are to blame. The Europeans, ever solicitous of their inefficient farmers, offered less liberalisation of agricultural trade than Mercosur hoped for. The Mercosur four—Brazil, Argentina, Uruguay and Paraguay—are fearful of competition and divided among themselves, and have put up their own shields for domestic firms. The result, says Marcos Jank of ICONE, a Sao Paulo think-tank financed by agricultural exporters, was a lowest-common-denominator offer. The European Commission, whose term expires on October 31st, conceded little in return.

For Mercosur the stakes are high. Most of its member governments would rather have an agreement with the EU than sign up to the Free Trade Area of the Americas (FTAA), a hemispheric deal promoted by the United States. For Brazil, access to Europe's vast market is second in importance only to the multilateral Doha talks, which offer hope of cutting agricultural subsidies in the rich world. Mercosur risks losing trade and investment to countries that are more successful in negotiating deals with the two biggest markets.

The setback will force Mercosur to ponder its own failures: protectionism levelled by its members against each other, a weak secretariat, poor co-ordination of policy on everything from trade negotiations to state support for industry. Mercosur leaders will try to sort some of this out at a summit planned for December.

Progress with the EU also depends on what happens in other negotiations. Agricultural talks will go more smoothly if the Doha round deals with subsidies. If the FTAA talks pick up after America's presidential election, so will pressure on the EU to make progress with Mercosur. Mercosur's trade with the United States is 20% smaller than with the EU, but it is growing faster. Fear of losing out to America and its partners was what prompted the EU to start the talks in the first place.