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The time has come to look at Brazil
The EU's shift from interregional negotiations
with MERCOSUR to a bilateral Strategic
Partnership with Brazil

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Abstract

In 2007, the EU launched a Strategic Partnership with Brazil despite the EU's commitment to multilateralism and despite the long-lasting interregional relationship between the EU and MERCOSUR since 1995. By singling out Brazil, the EU shifted from the EU-MERCOSUR interregional negotiations on an Association Agreement (1999-2004) to a bilateral track. In view of the EU's inconsistency in multilateral, interregional, and bilateral approaches towards South America, the paper will analyze why the EU shifted to a Strategic Partnership, and it will compare the interregional negotiations (1999-2004) with the bilateral talks with Brazil (since 2007). The comparative analysis will rely on original data from 29 semi-structured elite interviews conducted in Brussels, Belgium, and Montevideo, Uruguay, and on grey literature and the news portal Mercopress. The paper argues that the EU switched from interregional to bilateral talks because it feared losing Brazil to its competitors, the U.S. and China. In its endeavor to prevent this loss, when interregional negotiations seemed fruitless because of MERCOSUR's increasing fragmentation, the EU privileged Brazil as a strategic partner. Although the EU has committed itself to supporting regional integration in South America, material interests have sidelined this commitment. This paper looks at these – to date little studied – material interests that have rendered the EU's foreign policy towards developing regions vulnerable to international factors.

Keywords

Interregionalism; MERCOSUR; Brazil; EU foreign trade policy; Strategic Partnership

“The time has come to look at Brazil”¹
The EU’s shift from interregional negotiations with MERCOSUR
to a bilateral Strategic Partnership with Brazil²

The EU has a dense network of diverse trade relations across the globe. It has engaged in the Doha Round negotiations of the World Trade Organization (WTO); it has negotiated free trade agreements (FTA), Association Agreements, and Economic Partnership Agreements (EPA). The EU has also recently established a diverse set of Strategic Partnerships (SP) with important economic powers. The design of these relations have varied in scope from multi-, and plurilateral, interregional, to bilateral.³ The EU has neither developed a coherent strategy nor has it treated its partners consistently. On the contrary, in the South African case the EU has shifted from a bilateral to an interregional framework;⁴ in the Southeast Asian case it has switched to reverse order;⁵ in other cases it has maintained interregional relations.⁶ In the South American case, the EU has engaged in three overlapping venues of trade relations: the South American countries and the EU were part of the Doha Round negotiations (multilateralism); the EU negotiated an Association Agreement with the Mercado Común del Sur (MERCOSUR) (interregionalism); and it launched an SP with MERCOSUR’s most important member Brazil in 2007 (bilateralism).

Why has the EU maintained such an incoherent foreign trade policy (FTP), and why has the design of its negotiations varied over time, across regions, and even towards one particular region? To unravel this puzzle, the analysis will compare the interregional negotiations between the EU and MERCOSUR (1999-2004) and the EU-Brazil SP (since 2007). The focus on the EU’s relations with Brazil serves as a least likely case study to test a new theoretical model. It is a least likely case because, first, the EU has already negotiated trade issues with Brazil in the multilateral Doha Round and the Association Agreement talks.⁷ Second, before the launch of the SP, the EU committed itself to interregional relations by signing the Interregional Framework Cooperation Agreement. Further to this commitment, the mandate for the Association Agreement negotiations forbade any bilateral move towards South America. Third, the MERCOSUR customs union (CU) has forced its members to region-by-region talks on rules of market access and services. Yet, the EU approached Brazil bilaterally in 2007 by launching an SP.

The literature on EU-South America relations has highlighted the EU’s endogenous motivation. So far, scholars have focused on interregionalism, and they have stressed the EU’s affection towards regional integration. Börzel and Risse (2009), for instance, have argued that the “promotion of regional integration has become part of the governance package the EU seeks to export [...]. And

¹ “Communication from the Commission to the Council and the European Parliament: Towards an EU-Brazil Strategic Partnership”. Brussels, May 30, 2007. Com(2007)281.

² This paper was originally prepared for presentation at the workshop “The EU in International Negotiations” at the European University Institute, Florence, Italy, within the Global Governance Programme of the RSCAS, on June 23-24, 2014. I am indebted to the participants of the workshop, to Jennifer Welsh, and to Andreas Duer for comments on earlier versions of this paper. Furthermore, I thank Adrienne Héritier, Magnus Schoeller, and the Institute for European Studies in Brussels, Belgium, for their support.

³ Bilateral relations mean the EU’s relationship with one selected member of a region; interregionalism defines the EU’s relations with the exact number of members of a region; plurilateralism defines the EU’s relations with at least two members of a region; and multilateral relations characterize the EU’s interaction with more countries than the members of a region.

⁴ The EU has a trade, development and co-operation agreement with South Africa, and later negotiated an EPA with the Southern African Development Community.

⁵ The EU switched from interregional negotiations with the Association of the Southeast Asian Nations to bilateral negotiations with Singapore and other member states.

⁶ Since 1991 the EU has conducted interregional negotiations with the Gulf Cooperation Council.

⁷ The EU first negotiated an Association Agreement with MERCOSUR from 1999 to 2004. The talks stagnated in 2004, but were resumed in 2010, and are currently ongoing.

Inter-regionalism as a way to promote socio-economic development, democracy and good governance [...] has developed into one of the foundations of its foreign policy". The EU's increasing use of bilateralism since 2006, in contrast, was conceived of as an endogenous change of the EU's preferences based on the Global Europe strategy paper⁸ (for instance, Furby 2012). In fact, the Global Europe paper, which the EU released in 2006, makes the pragmatic nature of FTP explicit, but does not contain much information about the EU's preferred design of negotiations. As opposed to emphasizing bilateralism, the Global Europe paper highlights *MERCOSUR* and other *regions* as a priority.⁹ An alleged endogenous shift of preferences cannot explain why the EU varied the design of FTP before 2006, and why it returned to interregional relations with some partners after 2006.

In order to investigate this gap in the literature of why the EU switched from interregionalism to bilateralism and why the EU has varied the FTP's design over time, and across and within regions, this paper's theoretical part will develop an alternative explanation. This theoretical model emphasizes extra-regional factors as opposed to endogenous preferences, and material interests as opposed to an affection for certain norms – i. e. the EU's affection towards regional integration. The EU feared losing South America's most influential country, Brazil, to its competitors, the U.S. and China. In its endeavor to counterbalance US and Chinese initiatives, the EU singled Brazil out when interregionalism began to seem fruitless. The EU's commitment to support regional integration has begun to waver in the face of MERCOSUR's increasing fragmentation and competition over privileged relations with Brazil. Material interests have, thus, preempted the EU's affection for regional integration in South America.

By explaining the theoretical argument and by demonstrating its empirical validity, the sections will introduce the reader to the dependent variable, first, to the explanatory factor, second, and to the causal mechanism between the two, third. The paper will begin with the theoretical model, proceed with the EU-MERCOSUR negotiations, and continue with the EU-Brazil SP. The conclusion will summarize the results and reflect on the theory's external validity. The analysis relies on new, self-generated data from 29 interviews¹⁰ and 165 newspaper articles of Mercopress.

Theoretical model

Two strands of research inform the theoretical model: the literature on interregionalism, and the literature on foreign trade policy-making. The theory links these two strands of research by conceiving of interregionalism and bilateralism as one variation in the design of foreign trade policy-making (Aggarwal and Fogarty 2004; Elsig 2007). Interregionalism and bilateralism as possible venues of the EU's FTP are the outcomes which the theoretical model seeks to explain. The research design is therefore outcome-, or Y-centered (Gschwend and Schimmelfennig 2007: 21), so that the structure will begin by explaining the dependent variable, and then move on to the independent variable, and the causal mechanism between the two.

Dependent variable

Interregionalism and bilateralism are foreign policy tools which states or state-like entities choose over other instruments (Aggarwal and Fogarty 2005). Among other features, the selection of these tools characterize the FTP's regime design. Interregionalism and bilateralism are two possible designs (Thompson and Verdier 2014) in addition to multilateralism or plurilateralism. If we treat the EU as a

⁸ "Global Europe: Competing in the world. A contribution to the EU's Growth and Jobs Strategy". European Commission. URL: http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130376.pdf. Access: March 02, 2015.

⁹ Ibidem, page 11.

¹⁰ The interviewer assured complete anonymity to the interviewees, so that the paper will refer to the interviews by indicating the institutional affiliation, the date, and place of the interview.

unitary actor on the international stage, the definition of these designs rests on the counterpart region. Interregionalism describes relations between the EU and all members of a regional organization. Bilateralism describes relations between the EU and one single member state of a regional organization. Multilateralism describes relations between the EU and the members of a regional organization plus at least one third country, and plurilateralism describes relations between the EU and at least two member states of a regional organization.

By offering this definition of interregionalism, the theoretical model considers the micro level and actors' interests, which alternative descriptions of this concept lack. Roloff (2006: 18), for instance, has defined interregionalism as a "process of widening and deepening political, economic, and societal interactions between international regions". Similarly, Söderbaum et al. (2005) have understood interregionalism as a process or an outcome. Although these definitions are not wrong, they tell us little about the actors' interests, and they offer little help in contrasting the concept to other FTP's regime designs such as bilateralism. This theoretical model, however, requires a definition of interregionalism which leaves room for its alternatives – e. g. bilateralism – and which leaves room to consider states' preferences for an interregional versus a bilateral design.¹¹

Independent variable

Features of the counterpart region as exogenous, explanatory factors have been neglected by the relevant literature on interregionalism and on foreign trade policy-making, but they may explain the EU's variation between bilateral and interregional regime designs. Although, interestingly, the literature has not considered features of the counterpart region, its cohesion seems to be intuitively important to the EU's FTP. Cohesion is *the process or fact of sticking together and remaining united in satisfying members' interests*. The member states are united when they agree on the goal of representing the entire group to the international environment. The more divergent their interests are, the more difficult it is to represent the group to the external environment; consequently, the less cohesion there is. Cohesion presents a low degree of diverging interests, whereas a divergence of interests is, concisely, non-cohesion (Conceição-Heldt and Meunier 2014). The concept comes close to *team spirit*, which Conceição-Heldt and Meunier (2014: 964) describe as follows:

The concept [...] captures the intuition [...] [to] (added by author) be more effective on the international scene by being united internally. It is a measure of the resistance of the members to leave the group, their willingness to co-ordinate their efforts, and their overall level of 'team spirit'. When it comes to displaying cohesiveness to the rest of the world, it is the degree to which the group comes up with a single message and manages to present that message with a single voice, without members of the group breaking away and undermining the collective message.

Cohesion is a fuzzy concept and it may cover a range of aspects such as disputes, institutions, and material interests. Given its fuzzy character, the concept describes a continuum rather than a dichotomy. We shall therefore distinguish cohesion into five dimensions: political, institutional, external, material, and commercial. Each dimension is ascribed three indicators (see annex I), leading to an index of cohesion with fifteen indicators. The higher the number of indicators in which the region is cohesive, the higher the overall degree of cohesion is.

Causal mechanism

Because the EU fears losing important regions or regional actors to its competitors such as the U.S. or China, it counterbalances their initiatives towards these regions. The EU's underlying aim is to secure its position as a powerful actor on the international stage. One facet of power is economic, and one

¹¹ The paper analyzes the design of negotiations, but it does not examine the EU's initiative for the talks, and neither the bargaining, or ratification process. It focuses on the EU's negotiation mandate.

way to achieve economic competitiveness is to arrange trade relations with foreign markets (Zimmermann 2007: 816 ff.). Such trade arrangements, which offer the advantage of being exclusive by targeting a specific partner and of being comprehensive by encompassing several issues, are FTAs or SPs. The EU tries to set up these types of trade relations in such a way that they establish, maintain, or strengthen the EU's economic power (Grieco 1990; Gilpin 1987; Gilpin 2001; Hirschmann 1969; Zimmermann 2007). If the EU's competitors engage in such activities with a certain region, the EU will launch counter-initiatives.¹²

Where there are competing activities between the EU and its competitors, this may turn out to the partner region's advantage. Simultaneous trade relations or trade negotiations increase the region's or state's bargaining power because it can play competing actors off against each other. By playing them off or by prolonging simultaneous negotiations, the regions or the states can insist on more favorable outcomes and on concessions. The more actors, thus, negotiate simultaneously with a state or a group of states, the higher the bargaining power of the respective state or group is.

Given this presence of competing actors for one region or a state, developing countries can improve their bargaining power by three means. First, when countries coordinate their trade preferences and enter negotiations as a block, they build a coalition. Coalition building gives developing countries more leverage because they can thereby balance the asymmetric, economic power of industrialized states. Second, developing countries can commit themselves to a regional format by building a CU and setting up a common external tariff (Fernández 1998: 22; Langhammer and Hiemenz 1990: 9). If states belong to a CU they would have to exit the entire organization if they wanted to negotiate on a bilateral basis. Third, if there is a regional power among the developing countries, it is able to provide leadership and to push collaboration (Mattli 1999; Nolte 2010; Schirm 2010). The existence of a regional power may sometimes be crucial to keep a group of countries together.

Decisive for whether a region appears as a group of states or as individual states and for whether they make use of the three above-mentioned means is their degree of regional cohesion. The higher the degree of regional cohesion, the more likely it is that the region will appear as a group on the international stage. In contrast, if a region is diverse, it will be difficult for it to appear as a group. The region's *team spirit* decides whether states try to increase their bargaining power by collective appearance.

Where there are competing actors, the region's cohesion will influence the European FTP's regime design as to whether it is interregional or bilateral. In cases where there are competing actors and the region is cohesive, the EU will feel pressured into counter-initiatives. In such situations, the EU adjusts its FTP's design to features of the counterpart region, so that it will choose an interregional design to increase the likelihood of an FTA. Where there are competing actors and the region is non-cohesive, the EU will choose a bilateral design in such a way that it increases the likelihood of an agreement. *The higher the degree of cohesion within the counterpart region, the more likely the EU is to use an interregional design. Whereas in reverse, the lower the degree of cohesion within the partner region, the more likely the EU is to switch to a bilateral design.*

The next two sections test this hypothesis in a least likely case study, which comprises the EU's interregional negotiations with MERCOSUR and the EU's SP with Brazil. The analysis seeks to explain the outcome – interregional versus bilateral design – and the research design is therefore *backward-looking* (Scharpf 1997: 24 ff.). This is why the sections start by describing the policy outcome; second, explain the degree of cohesion; and, third, explain the causal mechanism between South America's cohesion and the policy outcome.

¹² The paper does not neglect that other factors can trigger and explain the initiative, design, bargaining process, or ratification of negotiations. These variables may be interest groups or institutional struggles within the EU. However, the paper focuses on extra-regional factors due to space requirements.

Phase I: EU-MERCOSUR negotiations (1999-2004)

In 1994, Brazil, Argentina, Uruguay, and Paraguay formalized the (imperfect) MERCOSUR CU. The CU was a Brazilian project and its top foreign policy priority (Malamud 2005: 425; Bandeira 2006: 25; De Lima and Hirst 2006: 29). It helped to prevent bilateral negotiations by Brazil’s smaller neighbors with the U.S. or the EU (Duina and Buxbaum 2008), and was played out by Brazil as a means for increasing leverage in international negotiations (Carranza 2004). In 2000, the EU and MERCOSUR were ready to start negotiating an Association Agreement, which covered political issues, cooperation, and an FTA. The EU’s mandate laid out the content of the Association Agreement, which went far beyond a traditional FTA by including also services, investments, and non-tariff trade barriers. The negotiation directive forbade any bilateral talks between the EU and MERCOSUR, but was interregional in substance (Interview #38).

Independent variable: high cohesion

MERCOSUR’s degree of cohesion was high between 1997 and 2003. The index of cohesion reached twelve out of fifteen indicators (figure 1). In the 1990s, MERCOSUR as a regional organization became very successful. MERCOSUR’s success can be seen in the settlement of disputes, in establishing institutions, and in the group’s economic and external dimension.

Figure 1: MERCOSUR’s degree of cohesion, 1997-2003

Index Cohesion	
Indicator	Fulfilled demands
Trade disputes	XXX
Supranational institutions	XXX
Unity	XXX
Trade and commerce	XXX
Sum	12

Reference: Own illustration

MERCOSUR’s success and high degree of cohesion is reflected in trade disputes and their settlement. MERCOSUR started out with a relatively high number of trade disputes (127) in 1995, but this number gradually decreased, reaching the modest amount of 33 in 1998 (IDATD 2011). These low-scale conflicts could be resolved within the structure of MERCOSUR. Its member states brought only one dispute to a third dispute settlement mechanism outside of MERCOSUR. One year after bringing the conflict to an international body, MERCOSUR’s members settled it voluntarily based on a mutual agreement. In the same spirit, most of MERCOSUR’s trade disputes were low-scale. Only two conflicts occurred that were more serious: the automobile sector crisis (1995), and the footwear industry dispute (1999). Both disputes were, however, settled rapidly and easily by using the regional dispute settlement mechanism.

MERCOSUR’s cooperation was high, too, in establishing new institutions. The permanent dispute settlement mechanism was MERCOSUR’s first *supranational* institution, established by the Protocol of Olivos in 2002 (Arnold and Rittberger 2011). One year later, the member states announced the second *supranational* institution, which was the MERCOSUR parliament Parlasur. Besides setting up new institutions, MERCOSUR’s members deepened its institutions by signing nine protocols or agreements. The member states agreed on the Protocol of the Harmonization of Intellectual Property Norms (1995), the Protocol for the Defense of Competition (1996), the Legal Framework on the Regulations Regarding Dumping on Imports from non-MERCOSUR Countries (1997), and the

Protocol of Montevideo on Trade in Services (1997). Two International Commercial Arbitration Agreements (1998), and the Agreement for the Regulation of the Protocol of Competition Policy, the Protocol of Olivos for the Solution of Controversies, and the Agreement for International Freight Contracts Jurisdiction between MERCOSUR countries (2002) followed. Further to setting up new institutions and deepening existing institutions, MERCOSUR paved the way for enlargement. Venezuela's and the Andean countries' accession was prepared when Chavez participated at a presidential summit (2001) (Mercopress 2001a), and when MERCOSUR's members agreed on Peru's anticipated accession (2003) (Mercopress 2003c).

On the international level, too, MERCOSUR appeared united and reached important achievements. Brazil was particularly successful when it initiated the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) (2000). IIRSA attempted to integrate South America in commerce, energy, and infrastructure (Small 2005). In international institutions, too, Brazil appeared as a leader when it led the group of developing countries in the WTO's Doha Round negotiations. Therein, Brazil mobilized the G20 to pressure the U.S. and the EU into significant reforms in agriculture (Hopewell 2013). Within MERCOSUR, Brazil was also very active, when it pushed the *regional* format of South America's negotiations. To ensure this regional format, Brazil assisted its fellow members materially and institutionally. In this endeavour, Brazil provided safeguard measures and special rules for financing transactions to Argentina, which had entered a recession (Genna and Hiroi 2007). Brazil also voluntarily restricted exports (Bear, Cavalcanti and Silvia 2002), and agreed to macroeconomic coordination. These were significant steps, which injected energy into MERCOSUR's integration based on the organization's *inter-presidential* character (Malamud 2005).

The two most important states – Brazil and Argentina – had converging positions on MERCOSUR's foreign trade agenda, too. They agreed to strengthen MERCOSUR's negotiation capacity, and they emphasized the content of negotiations with the U.S. and the EU over their timetable (Mercopress 2000a). Brazil and Argentina preferred an agreement with the EU over an agreement with the U.S., which demonstrates that MERCOSUR's members had similar preferences over the negotiation partner. Over negotiation issues, too, MERCOSUR's member had similar preferences by wanting a single undertaking – i. e. an agreement, which includes all negotiation issues at once. Trade data resemble MERCOSUR's cohesion in its external trade agenda. Trade with European countries increased for all MERCOSUR's member states (DataIntl 2012). Although there does not appear to be any systematic data on investment numbers, the above-mentioned indicators allow for MERCOSUR to be ascribed a high degree of cohesion between 1997 and 2003. MERCOSUR's cohesion proved to influence the EU's FTP towards South America.

Causal mechanism

In 1999, when the EU and MERCOSUR started the Association Agreement negotiations, the EU launched a counter-initiative to the U.S.'s Free Trade Area of the Americas (FTAA). The FTAA targeted the entire Latin American continent, attempting to integrate the continent peacefully into the US sphere of influence (Carranza 2004: 320). Scholars have widely interpreted the EU's initiative as a reaction to the US approach (Grugel 2004), and perceived the EU and the U.S. as rivals for influence over the continent of South America (Faust 2002). Interviewees from the EU and MERCOSUR, too, confirmed that there was always a sense of competition between the EU's and U.S.'s approaches towards Latin America (Interview #20 and #21; Interview #23; Interview #39). The European Association Agreement and the American FTAA talks became so interlinked that failure on one side was replicated on the other (Doctor 2007), because the EU wanted “at all costs avoid an upsurge of US influence in the continent” (Mercosur Report 1999: 34).

MERCOSUR's members, using the competition between the EU and the U.S. over South America to their advantage, promoted a regional format of negotiations. Brazil and Argentina admitted that they negotiate on multiple fronts to pressure their partners into concessions and to reach the best result

(Bulmer-Thomas 2000). Brazil was also open about the fact that it would discuss in a *regional* format only (Mercopress 2002c). Brazil's former president declared that the country needs MERCOSUR "to tackle the complex challenges of the Americas Free Trade Association discussions, relations with the European Union and other world blocks" (as cited by Mercopress 2002d). Prior to the negotiations with the EU and the U.S., Brazil successfully insisted on an interregional format and a single undertaking of the negotiations, so that "negotiating as a group has been retained" (Mercosur Report 1999: 33 f.) for the EU-MERCOSUR discussions.

In the EU-MERCOSUR talks, the EU was, from the beginning, mainly interested in concluding an agreement with Brazil, whether it was with or without MERCOSUR (Interview #6; Interview #20 and #21). The EU understood, however, that Brazil would have never opted for a bilateral track because MERCOSUR means a geopolitical vision for Brazil (Christensen 2013: 274). The country openly favored negotiations with a "strong Mercosur block" (Mercopress 2000b) and not on a region-to-country basis, because a regional format gives the group bargaining power (Mercopress 2001c). In fact, when Argentina and Uruguay voiced the idea of bilateral talks with external actors, Brazil insisted on the regional format, and made it clear that bilateralism is not compatible with membership in the CU (Interview #20 and #21).

If the EU wanted to conclude a deal with Brazil, it thus needed to go the interregional way. Although the Commission has a somewhat natural inclination towards region-to-region talks, the format of negotiations is a case-by-case decision rather than a general preference. Following Brazil's insistence on MERCOSUR's CU, there was little leeway for the EU in deciding about the negotiation format (Interview #4). The same happened in 2010, when the Commission re-launched the Association Agreement negotiations. Given MERCOSUR's CU, the EU chose an interregional format. If, however, MERCOSUR had reconfigured and if Brazil had been open for bilateral negotiations, the Commission would have tried to reshape its negotiation mandate in favor of bilateralism (Interview #10). In fact, when the Commission re-launched the Association Agreement negotiations, the bilateral option was discussed internally, but it was not aired because Brazil wanted to retain the CU at any cost (Interview #23).

Given Brazil's geopolitical vision for MERCOSUR, the EU had little flexibility in deciding about the venue for negotiations whether it should be bilateral or interregional (Interview #38). MERCOSUR and *interregional* relations are Brazil's foreign policy tools, and therefore Brazil insisted on the regional format. In the same vein, Brazil forbade its neighbors to negotiate bilaterally with third actors (Interview #39), and it preferred MERCOSUR's enlargement over its deepening (Christensen 2013). Brazil "hijacked MERCOSUR as its child" (Interview #36 and #37), and it created MERCOSUR as a political brand. Brazil's insistence on MERCOSUR as a political block coupled with the EU's fear of losing political and economic presence in South America (Interview #39) explains why the Association Agreement negotiations were so important to the EU. The fact that relations with South America do not only have an economic but also a political dimension to the EU also explains why the EU chose an Association Agreement instead of a pure FTA. Pascal Lamy declared in 2006 that "indeed the EU's profound motivation in this agreement has always been geopolitical; it is not just a trade agreement" (Mercosur Report 2006: 86).

Phase II: bilateral Strategic Partnership

In 2004, however, the Association Agreement negotiations between the EU and MERCOSUR stagnated, and the EU showed no further interest in the talks. This stagnation was triggered by the breakdown of the FTAA negotiations by the U.S., so that the EU needed to search for alternatives. In fact, in 2005 the EU discussed internally the possibility of bilateral relations with Brazil, which led to the SP in 2007 (Carlos 2010: 128). The SP was a result of the EU's new perspective on South America after it had realized that the region was not as homogeneous as the EU had perceived it (Carlos 2010: 128).

The SP served the EU as a means to deepen economic ties with Brazil and to eventually lead to an agreement. Although the possibility of an EU-Brazil FTA has never officially been on the table, the European Commission would not hesitate to follow this path if Brazil were ready or willing to consider it (Interview #9; Interview #23). Because a bilateral FTA outside of MERCOSUR's CU has been unacceptable to Brazil, the EU had to focus on issues other than market access rules. The SP covers political dialogues, economic matters, environment and sustainable development, bi-regional cooperation, science and technology, cultural matters, and transnational relations (EU 2011). Furthermore, the SP serves to discuss investment and non-tariff trade barrier issues to eventually smooth an either regional or a bilateral FTA (Interview #6).

Independent variable: low cohesion

What had changed during the interregional negotiations between 2000 and 2004 was the degree of cohesion within MERCOSUR. Brazil's smaller neighbors started to feel disappointed about the CU and the progress of the FTA negotiations. The rising tensions and increasing divergence manifested in the external agenda, but also in the resolution of trade disputes, or the institutional dimension. On the index of cohesion, MERCOSUR reached only three indicators out of fifteen in the time between 2003 and 2007, which means a low degree of team spirit (figure 2).

Figure 2: MERCOSUR's degree of cohesion 2003 to 2007

Index Cohesion	
Indicator	Fulfilled demands
Trade disputes	X
Supranational institutions	-
Unity	-
Trade and commerce	XX
Sum	3

Reference: Own illustration

Before the EU and Brazil launched the SP, between 2004 and 2006, the number of trade disputes in MERCOSUR increased from eleven to fifteen. Only two of them were solved through MERCOSUR's dispute settlement mechanism, whereas the members brought two other conflicts to international bodies. Brazil brought one dispute on anti-dumping duties to the WTO. The other conflict concerned a pulp mill, which Argentina brought to the International Court of Justice (ICJ) although Uruguay took it to the MERCOSUR dispute settlement mechanism. Argentina even rejected the competence of MERCOSUR on this issue (Luchi 2011: 16; Di Martino 2010: 6). Although the pulp mill dispute was considered one of the most serious conflicts in South America, Brazil decided not to intervene, but perceived the dispute as a purely bilateral issue (Malamud 2011: 13). Meanwhile, Brazil had its own ongoing disputes with its neighbors. One of them was a conflict in 2006 with Paraguay over the Itaipu dam (Mercopress 2006a). As a consequence of this conflict, Paraguay leaned closer to the U.S. in commercial and military issues.

Institutionally, MERCOSUR's integration has stagnated since 2003. Between 2003 and 2007, the members did not set up further supranational institutions. Although the MERCOSUR parliament started working in 2007, it was only three years later that citizens could vote its members directly, despite this having been scheduled for the same year (Caballero 2011: 163 f.). Neither did MERCOSUR deepen integration between 2003 and 2007. It signed only two agreements, one on rules

of origin, and the other on the accession of Venezuela to MERCOSUR. The members took no steps to further enlarge the regional organization.

The low degree of cohesion becomes most obvious in MERCOSUR's external agenda. The members had divergent positions in international institutions. First, in 2005, Brazil bid for a permanent seat in the United Nations Security Council, receiving no support from its MERCOSUR partners; Argentina even opposed Brazil's bid (Malamud 2011; Christensen 2013: 277). Second, in 2005, Brazil submitted its candidature for director-general of the WTO, but was rejected after the first round. The second of four applications came from Uruguay, whose representative made it to the last round (Malamud 2011: 9). Third, in 2005, Brazil and Colombia both applied for a leadership position in the Inter-American Development Bank. MERCOSUR's members supported the Colombian candidate but not the Brazilian one (Malamud 2011: 10). Fourth, in 2008, Argentina's president bid for the chair of UNASUR. Although he was the only promising candidate he failed because Uruguay decided not to support him (Mercopress 2008a).

The members of MERCOSUR also started to have divergent preferences on the substance of the external trade agenda. In the Doha Round, for instance, Brazil and Argentina allocated themselves to opposing working groups because Argentina could not accept Brazil's pro-liberalization agenda on manufactured goods (Christensen 2013: 276 f.; Mercopress 2008b). At several presidential summits, the members aimed at reforming the double tariff system, but they were not able to find a compromise (Mercopress 2007a). This led observers to conclude that MERCOSUR had nothing to show other than an unfinished agenda (Mercopress 2007a). Anecdotally, the former Brazilian finance minister and the former Brazilian president judged that MERCOSUR was in a devastating state by being extremely divided and by lacking a true regional leader (Mercopress 2007c; Mercopress 2007d).

Brazil's neighbors started to feel disillusioned about MERCOSUR and its external agenda. In 2003, Argentina and Uruguay aired the possibility of degrading the CU to a free trade area. This would allow the members to negotiate FTAs on a bilateral basis. Although this did not materialize, Uruguay and the U.S. agreed bilaterally on an investment treaty (Mercopress 2006c) and a free trade understanding (Mercopress 2006b). In terms of substance, the countries no longer had a common preference over the negotiation partner. While in the beginning, the members agreed that an FTA with the EU would be most favorable, Argentina, Uruguay, and Paraguay became dissatisfied with the lack of progress in negotiations. Argentina, Uruguay, and Paraguay wanted to move forward with the EU and the U.S., whereas Brazil favored a wait and see approach. Moreover, the members perceived each other increasingly as competitors in agriculture, and they had diverging positions on manufactured goods. In brief, the members had increasingly "diverging interests within the trade area" (Christensen 2013: 275).

However, in numbers, trade with European countries had actually risen for every MERCOSUR member between 2003 and 2007. The same is true for trade between MERCOSUR's members and the U.S. and China. The only country that had not seen constantly rising trade numbers was Paraguay. Trade in agriculture and trade in manufactured goods had increased, too, between 2003 and 2007. Brazil, Argentina, and Uruguay could boost their trade by commodities, and only Paraguay witnessed some minor ups and downs in numbers of trade. Systematic reliable investment data were unfortunately not available.

Causal mechanism

After the FTAA negotiations started to stagnate, the U.S. made it clear that it was no longer interested in MERCOSUR, but that it wanted to focus on Brazil. The US trade representative Peter Allgeier revealed that the regional format "is something which does not interest the US" (as cited by Mercopress 2005). The U.S. concentrated its efforts on facilitating trade with Brazil, but no longer discussed market access rules.

Thus, in 2006, the U.S. and Brazil signed a letter of intent in order to boost trade, investments, and business exchanges. Further, the agreement included ethanol, which was important to the US' aviation industry (Mercopress 2006d). In 2007, the U.S. and Brazil signed a strategic bio-fuels promotion agreement, which was followed by further memorandums of understanding on different issues (BrazilCouncil 2014).

When the FTAA talks stagnated, the EU lost interest in its own FTA negotiations (Interview #20 and #21). Instead, it searched for alternatives, and started discussing the possibility of an SP as early as 2005 (Carlos Lessa 2010). The SP served the EU as a possibility to keep economic and political ties with Brazil outside the framework of the CU (Interview #39). For the EU, Brazil is a "strong ally" (Interview #10) in the sense that they have common cultural heritage and common goals, so that it did not want to lose Brazil to the U.S. Every initiative on the US side was followed by a counter-initiative on the EU's side (Interview #38). The SP, in brief, was a clear political message to Brazil (Interview #20 and #21), with which it demonstrated how important Brazil is to the EU.

Why did, first, the U.S. and then the EU switch to a bilateral approach after having invested five years of negotiating with MERCOSUR? As of 2003, it became clear that MERCOSUR was facing problems and internal tensions. Uruguay and Argentina were dissatisfied with the CU and voiced the idea of degrading it to a free trade area. While initially Brazil had tried to keep the group together, this had changed over time. In a situation of growing tensions and severe problems with regional integration, Brazil was basically absent (Mercopress 2006e). In 2007, the former Brazilian president Cardoso summed up the situation as follows: "Latinamerica has never been so divided, Mercosur is but an illusion of integration [sic!] and Brazil has lost its leadership and convergence capacity" (Mercopress 2007d). Brazil was no longer willing to lead, and in 2007 the former Brazilian Foreign Finance minister admitted that "Mercosur has become irrelevant and too complicated" (as cited by Mercopress 2007c).

The decision to launch the SP with Brazil was a result of the EU's earlier perspective on MERCOSUR as a united block, which had not matched reality (Carlos Lessa 2010: 209). Thus, one interviewee contested that if the negotiations on an Association Agreement had been finished there would have been no need for an SP between the EU and Brazil (Interview #9). The EU singled out Brazil as a strategic partner because of its political and economic weight in the region (Interview #8). In other words, the difficulties within MERCOSUR led the EU to consider alternatives to strengthen ties with Brazil bilaterally (Interview #8).

The suggestion of launching an SP with Brazil came therefore from the EU side, and although it does not include market access issues, the SP manifests the worry that the EU and Brazil could move forward with an FTA bilaterally (Interview #38). So far, however, this option has never been on the table. An anecdotal fact, which demonstrates how divided MERCOSUR was in 2007, is that Brazil's partners heard about the SP from the press. Brazil did nothing to inform its neighbors about the SP, and they asked for information from EU diplomats (and not Brazilian diplomats) when they learned about it (Mercopress 2007e).

Conclusion

The paper explained why the EU launched an SP with Brazil although it has conducted interregional relations and negotiations with MERCOSUR since 1995. In 1999, the EU started negotiations on an Association Agreement with MERCOSUR, the mandate for which talks explicitly forbade any bilateral moves between the regions. Brazil insisted on region-to-region talks also because it had earlier established the MERCOSUR CU. Simultaneously, the EU engaged in the multilateral Doha Round negotiations, which included the MERCOSUR members, too. Yet, in 2007, the EU launched an SP with Brazil.

In studying this question, the paper suggested a theoretical model and tested it against the EU's shift from interregional to bilateral talks with Brazil as a least likely case. The theoretical model speaks to three strands of literature. Firstly, it took into account extra-regional factors of EU foreign trade policy-making, which the literature had not done before. Secondly, the paper spoke to the literature on interregionalism, which conceived of the EU's interregional negotiations as a normative support for regional integration. The paper argued that, on the contrary, interregionalism is a foreign policy tool to foster material interests. Thirdly, the model highlights exogenous factors as opposed to an endogenous change of preferences of the EU, what some scholars (Furby 2012) understood as the explanatory factor for the EU's shift to bilateralism.

The results of the analysis show that the EU shifted from interregionalism with MERCOSUR to bilateralism with Brazil due to external pressures. Because the EU wanted to secure its economic and regulatory power in South America and because it did not want to lose Brazil to its main competitor the U.S., the Commission adjusted its design of FTP to Brazil. When the interregional strategy clashed with rising tensions and increasing divergence within MERCOSUR, the EU shifted to a bilateral approach. This was informed by a perceived urgency to find an agreement with Brazil given the US' activities on the subcontinent. These results demonstrate that the EU departed from its normative commitment to support regional integration in other parts of the world, once this approach was at odds with its own material interests.

The theoretical model developed in the paper can be applied to other cases like the EU's switch from interregional to bilateral negotiations with Southeast Asia, or the EU's reverse shift with South Africa. If the theoretical model holds therein, too, this would corroborate the argument that the EU's commitment to support regional integration holds only as long as it is not in conflict with its own material interests

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Annex I

↑	15	
	14	
Very high cohesion	13	
↑	12	
	11	
↑	10	
High cohesion	9	
↑	8	
	7	
↑	6	
Medium cohesion	5	
↑	4	
	3	
↑	2	
Low cohesion	1	
(a) Number of trade disputes (b) Intensity of trade disputes (c) Settlement of trade disputes (d) Supranational institutions (e) Deepening of institutions (f) Enlargement of institutions (g) Unity in international institutions (h) Unity in non-regulated areas (i) Unity in presidential summits (j) Priority of negotiation partner (k) Priority of negotiation issue (l) Trade by negotiation partner (m) Investment by negotiation partner (n) Type of trade (o) Type of investment		

Reference: Own illustration

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