The trade pillar of the EU-Mercosur Association Agreement

OVERVIEW
On 28 June 2019, the European Union (EU) and the four founding members of Mercosur (the ‘Southern Common Market’) – Argentina, Brazil, Paraguay and Uruguay – reached an ‘agreement in principle’ on a free trade agreement (FTA) as part of a wider association agreement (AA). However, spurred by massive destruction of the Brazilian Amazon through large-scale forest fires, EU policy-makers and international environmental groups alike have since become increasingly vocal in expressing concerns about the deal’s potential environmental and climate change implications. EU farmers’ associations with defensive interests have fiercely criticised what they have referred to as a ‘cars for cows’ deal.

On the other hand, the deal has been warmly welcomed by EU industry associations and several sub-sectors of EU agriculture with offensive interests. If tariff and non-tariff barriers are eliminated or substantially lowered, the potential for growth in bi-regional trade in goods, services and investment is significant. In addition, the FTA would be a strong signal in favour of the rules-based multilateral trading system and against power politics in trade.

After the agreement’s legal review and translation, it will be presented to the Council for signature. It will then be submitted to the European Parliament for consent. Once the Council has adopted the decision concluding the agreement, it will be presented to EU Member State parliaments for ratification.

Committee responsible: International Trade (INTA)
Rapporteur: Jordi Cañas (Renew Europe Group, Spain)
Introduction

On 28 June 2019, precisely 20 years after the Heads of State or Government of the EU and the four founding members of Mercosur (the ‘Southern Common Market’) – Argentina (AR), Brazil (BR), Paraguay (PY) and Uruguay (UY) – agreed to launch negotiations for an association agreement (AA), the parties reached an ‘agreement in principle’ on its trade pillar. The latter consists of a free trade agreement (FTA) with a comprehensive scope. It is aimed inter alia at the gradual liberalisation of trade in goods and services and the opening up of the parties' government procurement markets. The FTA is part of a broader AA encompassing a political dialogue pillar and a cooperation pillar which were agreed upon in June 2018.¹

The AA would be a major achievement for the long-standing EU policy of seeking to enter into ambitious bi-regional AAs with Latin American regional organisations like Mercosur.² As Latin America’s largest trading bloc with a combined GDP of US$2.4 trillion in 2018,³ a population of over 260 million and solid investment ties with the EU, Mercosur has been at the very heart of this policy.

Mercosur was founded in 1991 to promote regional economic and political integration by drawing inspiration from the integration model of the then European Economic Community, albeit not copying its supranational elements but retaining full intergovernmentalism. Since 2005, it has a parliamentary dimension in the shape of Parlasur. The four Mercosur countries have sought to create a customs union with a common external tariff (CET) and ultimately a common market. The integration project has also included a strong political commitment by the then four young democracies to the promotion of democracy and human rights and a regional cohesion dimension. However, over time Mercosur has experienced setbacks due to economic crises, intra-bloc trade disputes, and political changes, which have weakened the initially strong integration dynamics. Exceptions from the CET have been widely used to shield national industries from external competition and the car and sugar industries have not been integrated. Despite efforts at policy coordination, many national rules in policy areas such as government procurement and trade in services have not been aligned.

The FTA provides an opportunity for Mercosur to re-vitalise its internal convergence, to integrate its economies into global value chains and join the EU in supporting a rules-based multilateral trading system in times of rising economic nationalism and power-driven unilateralism. But, the controversy about the deal's potential impact on the environment, climate change, the rights of indigenous people, the future of EU farmers, and EU food safety, creates significant challenges for its ratification.

Existing situation

Bi-regional trade in goods and services

According to Eurostat data, in 2018 total EU-Mercosur trade in goods amounted to €87.6 billion. EU exports to Mercosur stood at €45.0 billion and EU imports from Mercosur at €42.5 billion. As for the geographical breakdown, Brazil accounted for €65 billion, Argentina for €18 billion, Paraguay for €1.4 billion, and Uruguay for €3.1 billion. Total EU-Mercosur trade in goods in 2018 was up from

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€81.7 billion in 2008, but down from a 2012 peak of €100.5 billion. The volatility of global commodity prices explains to some extent the fluctuation in the trade value of Mercosur exports which has been stronger for Mercosur exports to the world (expressed in US$) than to the EU (Figure 2). Mercosur is a large exporter of commodities. Its biggest exports to the EU in 2018 were agricultural products (AR), (BR), (PY), (UY), such as foodstuffs, beverages and tobacco (20.5 %), vegetable products including soya and coffee (16.3 %) and meats and other animal products (6.1 %), and minerals (17.6 %). EU exports to Mercosur consisted of machinery (28.6 %), chemicals and pharmaceuticals (23.6 %), and transport equipment (13.3 %). Sluggish demand from Mercosur for EU goods due to Brazil’s severe recession from 2014 to 2016, trade diversion to new competitors, as well as high tariff and non-tariff barriers, were major reasons for a lack of growth in EU exports to Mercosur. In 2017, the EU lost its long-standing position as Mercosur’s first trading partner to China. In 2018, the latter accounted for 24.1 % of the bloc’s external trade, ahead of the EU with 20.1 % and the US with 14.4 %. Whereas in the 1990s, the EU’s strategy for Latin America was also aimed at counterbalancing the US, China has meanwhile emerged as a major competitor, including in machinery and transport equipment.

According to Eurostat data, in 2017, EU service exports to Mercosur amounted to €23 billion, while EU service imports from Mercosur totalled €11 billion. Figure 3 shows that EU-Mercosur trade in services has witnessed less fluctuations than Mercosur trade in services with the world. Transport, travel and other business services taken together accounted for the lion’s share both of EU exports to Mercosur and imports from it. Owing to the current level of restrictions in Mercosur as measured by the World Bank service trade restrictiveness index, telecommunication, financial and insurance services had a much lower share and offer a huge potential.

Tariff barriers to trade

Currently, EU-Mercosur trade relations are based on most favoured nation (MFN) tariffs, as neither the 1995 Interregional Framework Cooperation Agreement, which entered into force in 1999, nor the bilateral agreements the EU concluded with individual Mercosur countries (Argentina, Brazil, Paraguay and Uruguay) in the 1990s provide for preferential treatment. As of 1 January 2019, the four countries are no longer eligible for unilateral preferential access to the EU market under the EU’s Generalised Scheme of Preferences (GSP) or GSP+. Paraguay was the last Mercosur country to lose its beneficial status at the end of 2018 after graduating to an upper-middle income country. The loss of this preferential status and decreasing demand from China have increased Mercosur’s interest in entering into an FTA with the EU. According to the World Tariff Profiles 2017 report, in 2016 Mercosur simple average MFN tariffs applied at 13.6 % were significantly higher than those of the EU at 5.2 %. Peak tariffs (higher than 15 %) averaged 33.6 % compared to just 4.6 % for the EU. Adding high EU import duties for sensitive agricultural products to Mercosur’s high import tariffs constitutes great potential for trade liberalisation.
According to the Commission’s Sustainability Impact Assessment 2018 inception report (top 20 EU exports to Mercosur 2014-2016), the potential for EU companies to expand exports to Mercosur through cuts of high tariffs on EU industrial exports is most evident for cars and car parts, chemicals, machinery and pharmaceuticals. As far as the top 20 EU imports are concerned, it appears that Mercosur’s export potential to the EU could be unlocked by eliminating or reducing high EU tariffs on agricultural imports such as orange juice, fresh chilled and frozen bovine meat, frozen shrimps, meat and edible offal.

This means that the elimination of high tariffs on EU agricultural exports to Mercosur (for instance dairy and vegetable products) and on EU exports of industrial goods to Mercosur could contribute significantly to the gains from the FTA for EU firms, estimated by the European Commission at €4 billion. The removal of significant non-tariff barriers to trade would create further trade dynamics.

Non-tariff barriers (NTBs) to trade
MercoSR countries have weak scores on the World Economic Forum’s 2016 Enabling Trade Index which ranked 136 countries: AR: 94, BR: 110, PY: 107, and UR: 66. These results compare with EU Member States’ scores ranging from NL: 2 and DE: 9 at one end to EL: 52 and BG: 53 at the other.

The European Commission’s market access database reveals that, as of August 2019, the six NTBs registered for Argentina concern export duties, national content requirements for car parts and cars, preference for national goods in public procurement, lack of adequate protection of geographical indications (GIs), non-automatic import licences, and delays in granting patents and lack of intellectual property protection.

The database registers 18 NTBs for Brazil that can be divided into restrictions in service sectors (telecommunication, maritime transport, engineering, and insurance services), administrative delays (backlog of market access applications), and technical barriers and sanitary and phytosanitary (SPS) issues (labelling for wines and spirits, technical regulation on food additives and technology authorised for wine, quality requirements for wines, regulation on allergenic ingredients labelling in foodstuff products, plants and plant products subject to pest risk analysis), fiscal measures (tax exemption for domestic cars, discriminatory taxation of some spirits, problems related to corporate taxation and other discriminatory taxes, indirect taxation issues) and other issues, such as government procurement and intellectual property rights (IPR).

The four NTBs for Paraguay chiefly concern IPR issues and government procurement, while the six NTBs for Uruguay are related to SPS and IPR issues, including GIs, and import restrictions.

Trade frictions with Mercosur countries
While trade frictions between the EU and Mercosur countries have been less numerous than those with countries such as China, and focus on specific sectors, the FTA’s dispute settlement mechanism and chapter on trade remedies could help settle trade irritants and prevent WTO cases arising.

Use of trade remedies by the EU and Mercosur countries
A comparison of the use of trade remedies under WTO rules by the EU and Mercosur countries shows that Argentina and Brazil currently make more frequent use of anti-dumping and anti-subsidy/counterveiling measures against the EU than the EU does against them. As of August 2019, the EU had imposed definitive anti-subsidy duties against exporters of biodiesel from Argentina (soyoil is a key export item) in one case, and definitive anti-dumping duties against exporters of aluminium foil and hot-rolled flat products from Brazil in two cases. By contrast, Argentina was conducting three anti-dumping investigations against the EU and had imposed definitive anti-dumping duties on EU exporters in five cases for a range of products. Of the 18 anti-dumping cases registered for Brazil, 17 had led to definitive anti-dumping duties against EU firms, mostly on steel products and chemicals, and one investigation was ongoing. No cases were recorded for Paraguay and Uruguay.
Defensive and offensive WTO cases: numbers and issues

All four Mercosur countries have been members of the WTO since its creation in 1995. By August 2019, Paraguay, Uruguay and the EU had lodged no complaints against each other over the 24 years’ time-span. With regard to EU defensive WTO cases, Argentina brought six cases against the EU, four of which had not moved beyond consultations (DS263, DS349, DS443, and DS459). However, the EU’s de facto moratorium on approvals of imports of biotech products from Argentina (DS293), and the methodology for calculating dumping margins for imports of biodiesel from Argentina (DS473), were found to be inconsistent with WTO law. Brazil initiated seven cases against the EU, three of which did not move beyond consultations (DS154, DS209, and DS409). The EU’s tariff rate quotas (TRQs) and import licences for certain poultry products (DS69), anti-dumping duties levied on iron products from Brazil (DS219), export subsidies on sugar (DS266), and customs classification of certain poultry products (DS269), were found to violate WTO law.

As for EU offensive WTO cases, the EU lodged eight WTO complaints against Argentina, with half of them ending without a panel report (DS77, DS145, DS157, and DS330). Argentina’s safeguard measures (DS121), export controls and less favorable treatment of imports (DS155), dumping margin determinations (DS189), and quantitative import restrictions and less favourable treatment of imports from the EU (DS438) were found to violate WTO law. The EU brought five cases against Brazil, three of which concerning various import restrictions did not move beyond consultations (DS81, DS116, and DS183). However, Brazil’s import ban against retreaded tyres from the EU (DS332) and its taxation and charges in the automotive sector, the electronics and technology industry and tax advantages for exporters (DS472), were found to be inconsistent with WTO law.

Comparative elements

The three-pronged structure of the EU-Mercosur AA is shared with the EU-Mexico and the EU-Chile AAs. It is thus interesting to see how their FTAs compare in terms of the coverage of traditional and more innovative policy issues. As appears from Table 1, the EU-Mercosur FTA has a narrower scope than the other FTAs. This is mainly due to the EU-Mercosur AA’s negotiating mandate dating back to 1999. It has been broadly interpreted by the European Commission, but it has not been updated by the Council in line with the EU competence for foreign direct investment (FDI) under the Lisbon Treaty as interpreted by the Court of Justice of the EU in its 2017 Opinion 2/17. As for Mexico and Chile, the existing FTAs, which have been in operation since the early 2000s, are currently being modernised. Based on more recent negotiating mandates, they are to have a broader scope. Hence, the EU-Mercosur FTA does not have a separate chapter on investment including investment protection standards or an investor state dispute settlement mechanism, but covers some market access provisions in the services and establishment chapter. General rules on e-commerce can also be found there. There is a chapter on trade and sustainable development (TSD), but none on anti-corruption or trade and gender equality.

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Source: EPRS, EU-Mexico ‘agreement in principle’ and EU text proposals for the EU-Chile FTA; n.a. = text not available.
EU negotiation objectives

The EU’s main negotiation objectives have been to promote bi-regional and intra-regional integration, gradually liberalise market access for goods, including for sensitive agricultural goods and services, and benefit from a first mover position in Mercosur, eliminating or reducing NTBs and opening up Mercosur’s public procurement markets. The EU’s offensive interests have been to ensure a high level of IPR protection and acceptance by Mercosur of state-of-the-art SPS provisions, to foster sustainable development, the effective implementation of labour rights and environmental standards and climate change goals, and to shape global trade rules in line with shared values of democracy, human rights and the rule of law. Against the backdrop of a return to power politics in trade, unilateralism and protectionism, the EU has sought to send a powerful signal to the world that both parties support the rules-based multilateral trading system and to reinforce strategic cooperation, including on global governance in international fora such as the WTO and G20.

Counterpart’s position

Mercosur’s offensive interests have been to increase export opportunities to the EU market by removing or significantly lowering EU import tariffs and adding new or expanding current TRQs for agricultural products in which it has a strong comparative advantage. The latter include notably beef, poultry, ethanol, rice and orange juice. Mercosur’s defensive interests have been to negotiate long phase-in periods for tariff cuts for EU industrial goods such as cars and car parts and to gradually increase the exposure of its highly protected industries to EU competition. The AA has also been seen as a strategic instrument to revitalise Mercosur’s internal convergence and to foster its integration into global value chains through ambitious preferential trade deals, including with other advanced economies.

Parliament’s position

In its 2006 resolution on economic and trade relations with Mercosur Parliament acknowledged that the conclusion of an AA was a priority strategic objective for the EU’s external relations, as it would establish the world’s largest interregional FTA. Notwithstanding that, in its 2011 resolution on EU agriculture and international trade, Parliament stressed the competitive advantage of farm businesses in Mercosur countries over their EU counterparts due to ‘much lower production costs, including land, labour and other capital costs’, and given ‘that Mercosur producers do not have to meet the same standards as EU producers, with regard to the environment, animal welfare, food safety and phytosanitary measures’. It raised concerns over the ‘failure of Brazilian beef to meet EU producer and consumer standards on food safety, animal identification and traceability, animal health and disease controls’. It also called on the Commission to carry out an impact assessment on the consequences of such an agreement for the agricultural sector.

In its 2013 resolution on trade negotiations between the EU and Mercosur, Parliament regretted the slow pace of negotiations, deplored the protectionist measures on trade and investment taken by some Mercosur countries and reiterated its call for the inclusion of respect for democratic principles, fundamental and human rights and the rule of law, as well as environmental and social standards, in the agreement. In its 2017 resolution on EU political relations with Latin America, the European Parliament considered it crucial ‘to speed up EU-Mercosur negotiations in order to get a comprehensive, balanced and mutually beneficial association agreement … so as to make it possible to complete the network of agreements in force between the EU and Latin America’.

During the eighth legislative term (2014-2019), Members of the European Parliament submitted 134 questions to the Commission and the Council on issues concerning Mercosur, with food safety and the competitive pressure related to imports of highly sensitive agricultural goods being the most prominent topics. 15 questions were already posed in July 2019 at the start of the new term.
Advisory Committees

In its opinion of 23 May 2018 entitled ‘Towards a Mercosur Association Agreement’ the European Economic and Social Committee (EESC) called upon the negotiating parties ‘to consider the high political and economic cost of not reaching an agreement or an agreement that is not well-balanced for both parties’. The EESC insisted that the AA ‘should have a fully comprehensive social, labour and environmental dimension’. It stressed that this ‘dimension should ensure that economic relations are in line with the social and environmental objectives and the ILO conventions which govern sustainable development.’ It called for a civil society Joint Monitoring Committee (JMC) to be set up and made up of the EESC and Mercosur’s Economic and Social Consultative Forum (FCES). This committee would have an advisory status and a voice on all areas covered by the AA.

Preparation of the agreement

The European Commission and Mercosur signed a first interregional cooperation agreement in 1992. In 1994, the EU adopted a two-phased strategy which sought to enter into an interregional framework cooperation agreement with Mercosur as a first step to lay the foundations for the conclusion of a broader interregional AA. These strategic moves could have preserved the EU’s foothold in Mercosur, if the negotiations of the free trade area of the Americas (FTAA), which started in 1994, had been successful by 2005. In 1995, an Interregional Framework Cooperation Agreement was concluded which entered into force in 1999. In 1998, the Commission adopted recommendations for the Council to authorise it to negotiate an interregional AA.

Negotiation process and outcome

On 17 September 1999, the Council adopted negotiating directives for the European Commission for the conclusion of an interregional association agreement between the EU and Mercosur. The AA was intended to be based on respect for democratic principles and fundamental human rights and to consist of three pillars: a partnership in political and security matters, economic and institutional co-operation and the gradual creation of a free trade area for goods and services that takes account of the sensitive nature of some products. The directives also sought to open the parties’ public procurement markets, liberalise the movement of capital and payments and adopt disciplines in areas such as competition and intellectual property rights.

Formal negotiations began in April 2000 against the backdrop of high EU expectations for an agreement on new multilateral rules in the WTO Doha Round negotiations which would no doubt have impacted on EU-Mercosur talks. However, the main reason for the suspension of EU-Mercosur talks in 2004 is considered to have been a mismatch of the level of ambition for the liberalisation of trade in agriculture.

In 2006, the European Commission published an inception sustainability impact assessment (SIA) and studies for agriculture, the automobile and the forest sectors in 2007. In 2009, a final SIA of the AA’s potential economic, social and environmental implications was published. It did not take into account the latest trade flows and changes in Mercosur countries’ GSP status and did not provide a human rights analysis. In 2010, the Commission issued a position paper on the SIA report.

In 2010, after a long hiatus, talks were re-launched with a significantly enlarged EU against the backdrop of a stalled Doha Round and gridlocked FTAA talks. However, negotiations came to a standstill again in 2012 when Paraguay was suspended from Mercosur, Venezuela joined the bloc and center-left governments in Argentina and Brazil were pursuing other priorities under a south-south cooperation agenda supported by the huge gains from the commodities boom cycle.

In 2016, the EU published a study on the cumulative effect of recent FTAs on the EU’s agricultural sector. It modelled tariff cuts for beef of 25 % and 50 % without a volume limit and identified the EU’s most sensitive and promising agricultural sectors. It shaped the Commission’s negotiating position of offering preferences to Mercosur up to a limited volume through well-calibrated TRQs.
The shift to centre-right pro-business governments in Argentina in 2015 and in Brazil in 2016 opened new prospects for the deadlocked talks. After an exchange of new market access offers in 2016, negotiations gained traction, with the EU implementing its value-based trade agenda of the 2015 Trade for All trade strategy. Agriculture remained the biggest bone of contention, with some EU Member States repeatedly drawing attention to their defensive interests in agriculture.

By late 2018, little progress had been achieved with regard to major EU offensive interests: market access for cars and car parts, dairy products, maritime services, and protection of GIs. However, serious challenges posed to the multilateral trading system by rising unilateralism and protectionism under the America First strategy pursued by the US Administration since 2017, the uncertainties of the impact of the US-China trade war on global trade, the looming departure of the UK from the EU, as well as election dynamics both in the EU and in Mercosur countries in 2019, opened a window of opportunity which the parties seized on 28 June 2019 to strike a deal. If ratified, the EU-Mercosur FTA would create the largest free trade zone in terms of population covered. It would allow European companies to make four times higher savings in terms of tariff cuts than under the FTA with Japan, creating a market that represents nearly a quarter of the world’s GDP.

Since the 2009 SIA is outdated, a new one is being conducted, with the inception report of January 2018 providing insights into new developments in EU-Mercosur trade relations. The final report is expected in autumn 2019. To increase transparency during the negotiating process, the European Commission published reports on the negotiating rounds and several text proposals. It also held a series of (sometimes webstreamed) meetings with civil society.

The changes the agreement would bring

Trade in goods: Mercosur would remove import duties on 91% of imports from the EU over a period of up to 10 years for most products. More sensitive products would have a longer liberalisation phase-in period of 15 years. This would be particularly beneficial for EU industrial exports such as cars (current tariff: 35%), car parts (14-18%), machinery (14-20%), chemicals (up to 18%), clothing (up to 35%), pharmaceicales (up to 14%), leather shoes and textiles (up to 35%). High import duties for EU agricultural exports of food and drink to Mercosur, such as wines (27%), chocolate (20%), whisky and other spirits (20 to 35%), biscuits (16-18%), canned peaches (55%) and soft drinks (20-35%), would progressively be eliminated.
For some EU dairy products, zero-duty quotas would be opened over 10 equal annual phases: for cheese (current tariff: 28 %) 30 000 tonnes, for milk powder (28 %) 10 000 tonnes and for infant formula (18 %) 5 000 tonnes. This would increase the competitiveness of these EU products in Mercosur countries and, given current low export levels, open new export opportunities.

The EU would gradually remove import duties on 92 % of imports from Mercosur over a period of up to 10 years. Most sensitive agricultural goods would be partially liberalised through TRQs, in most cases implemented in six equal annual stages. In the event of a sudden increase of imports that cause serious market disturbances for EU producers, the FTA provides for safeguard measures which could also be applied to TRQs. For the EU’s outermost regions specific safeguards would apply. In addition, in the event of trade-related market disturbances, a financial support package of up to €1 billion is foreseen to assist farmers to make adjustments. This would add up to the support available to farmers through the common agricultural policy.

**Beef:** Mercosur countries would be allowed to export 99 000 tonnes of beef to the EU (55 % of which is for ‘fresh’ beef and 45 % for ‘frozen’ beef) – to be divided among them – with a 7.5 % duty and to be phased-in in six equal stages. Although this is the biggest TRQ to be offered in any EU trade agreement, to put this quantity into context, after five years of phasing-in it would represent 1.2 % of the overall EU beef consumption of 8 million tonnes per year. This import quota would be in addition to the 200 000 tonnes of high value beef cuts that are currently imported every year from Mercosur. About a quarter of this high value beef – about 45 000 tonnes of ‘fresh’ and 10 000 tonnes of ‘frozen’ – is currently subject to import duties of 40-45 %.

In addition, the EU’s high quality beef ‘Hilton’ quota (of 67 000 tonnes) currently allows Mercosur beef imports at an in-quota tariff of 20 %. The in-quota tariff would be eliminated for Mercosur, whereas imports from other countries that have access to this TRQ (Australia, the US, and New Zealand) would continue to be subject to the 20 % tariff. However, the recent EU-US hormone-free beef meat deal, which grants the US exclusive access to 18 500 tonnes of a zero-tariff EU 481 grain-fed beef quota for 45 000 tonnes, and raises its access to 35 000 tonnes phased over seven years, reduces the quota shared among Argentina, Australia, Canada, New Zealand, Uruguay and the US.

**Poultry:** The FTA would grant Mercosur countries a duty-free import quota of 180 000 tonnes to be phased-in over five years. The volume at stake represents 1.2 % of current consumption, with the EU average consumption growth currently standing at more than 230 000 tonnes per year.

**Sugar:** Brazil would benefit from changes to the tariff quota used so far under the EU’s WTO schedule. A quantity of 180 000 tonnes of sugar for refining would be allowed into the EU duty-free under this existing quota, rather than under the in-quota duty of €98 per tonne. Only Paraguay would be granted a new duty-free quota of 10 000 tonnes. The sugar volume subject to the FTA would correspond to 1 % of the EU’s sugar consumption.

**Ethanol:** Mercosur countries would be granted two different TRQs of a total of 650 000 tonnes of ethanol to be phased-in over five years. The first is a duty-free quota of 450 000 tonnes of ethanol for use by the chemical industry, including the bioplastics and biochemical industries. The second is a more sensitive quota of 200 000 tonnes of ethanol for all other uses, such as for the fuel segment of the market, with a two-thirds cut in the current in-quota tariff rate.
Honey: The FTA would open a quota of **45 000 tonnes** which would be imported duty-free after a gradual duty reduction over a five-year period. The Commission expects this quota to include the current imports of honey from Mercosur of about 35 000 tonnes.

Rice: Mercosur countries would be allocated a duty-free import quota of **60 000 tonnes** for rice, which would be achieved after a gradual tariff reduction over five years. The Commission expects this quota to include the current imports of rice from Mercosur of around 100 000 tonnes a year on average. The quota amounts to 2.2 % of EU consumption of 2.7 million tonnes.

Export duties on raw materials: The FTA would reduce or eliminate export taxes for raw materials such as soybean products (feed for EU livestock) and prohibit import and export price requirements as well as import and export monopolies.

Intellectual Property Rights: The FTA would protect from imitation in Mercosur countries some 350 GIs, i.e. distinctive high-quality EU regional wines, spirits, beers and food products, such as Prosciutto di Parma (Italy), Münchener Bier (Germany), and Tiroler Speck (Austria). This is the largest number of EU GIs ever covered by a trade agreement. Mercosur would continue to be able to use the names 'Cognac' and 'Prosecco' for a transitional period, with 'grandfathering' rules applying to Mercosur 'parmesan' and 'gorgonzola' cheese producers that have used these names prior to 2017. The EU would protect some 220 GIs from Mercosur countries in the EU, including Argentinian wine names such as Mendoza and La Rioja Argentina. The FTA would not require additional patent protection for drugs beyond the provisions enshrined in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Government procurement: The FTA provides for the reciprocal opening of public procurement markets at central level, while opening the door to future liberalisation at the sub-federal level.

Small and medium-sized enterprises (SMEs): The SME chapter provides for the position of an SME coordinator. In addition, both sides would set up an online platform providing easy access to information on import requirements and preferential trading arrangements benefiting SMEs.

Sanitary and phytosanitary measures (SPS): The SPS chapter contains provisions to ensure food safety, animal and plant health, including a procedure for the recognition of pest and disease-free zones or compartments which allows for safe trade from these zones and the implementation of the 'regionalisation principle'. It spells out, among other things: i) a procedure for the approval (or disapproval) of establishments in the exporting country for the import of animal products ('pre-listing'), lists of approved establishments to be made public and the verification of the official control system of the exporting country by the importing country; ii) SPS import checks and the notifications resulting from cases of non-compliance; and iii) future-oriented steps to simplify import and approval procedures, including efforts to harmonise import requirements, certificates and import checks on the Mercosur side. It also provides for steps to establish a procedure for the recognition of equivalence regarding specific SPS measures. Insights into the current state of play can be obtained from European Commission audits performed in Argentina (animal health), Brazil (beef, poultry), Paraguay (beef), and Uruguay (food of animal origin).

As for animal welfare, biotechnology, food safety and the fight against antimicrobial resistance (AMR), bilateral and international cooperation is envisaged in the framework of dialogues.

Trade and sustainable development (TSD): The TSD chapter contains the parties' commitments to their climate change goals, multilateral labour standards and environmental agreements, provisions on the right to regulate, the chapter-specific dispute resolution mechanism devoid of sanctions, and a review clause. As usual for EU FTAs, the precautionary principle is not included in the SPS chapter, but in the TSD chapter, which is not subject to the FTA-wide state-to-state dispute settlement mechanism. As the Brazilian government stresses in its summary of the deal, the wording of the principle in the EU-Mercosur TSD chapter is distinct from the one in similar EU agreements.
Table 2 – Comparison of the precautionary principle clause in different FTAs

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<th>Precautionary principle</th>
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<th>EU-Mexico (prior to legal scrubbing)</th>
<th>EU-Chile (text proposal)</th>
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<td>In cases when scientific evidence or information is insufficient or inconclusive and there is a risk of serious environmental degradation or to occupational health and safety in its territory, a Party may adopt measures based on the precautionary principle. Such measures shall be based upon available pertinent information and subject to periodic review. The Party adopting the measure shall seek to obtain new or additional scientific information necessary for a more conclusive assessment and shall review the measure as appropriate.</td>
<td>Where there is a lack of full scientific certainty and there are threats of serious or irreversible damage to the environment or to occupational safety and health, a Party may adopt cost-effective measures based on the precautionary principle.</td>
<td>Where there is a lack of full scientific certainty and there are threats of serious or irreversible damage to the environment or to occupational safety and health, a Party may adopt measures based on the precautionary principle.</td>
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</tbody>
</table>

Source: EU-Mercosur and EU-Mexico ‘agreements in principle’ and EU-Chile text proposal as published.

Stakeholders’ views

Environmental and human rights groups have voiced concerns, arguing that the FTA would accelerate the expansion of agricultural land through large-scale deforestation, which would be at odds with the parties’ climate change commitments and jeopardise the rights of indigenous people. These concerns have gained more traction and visibility – including at the recent G7 Summit in Biarritz – following media coverage of the large-scale rainforest destruction in the Brazilian Amazon.

Agricultural associations in Mercosur have been worried about the scope of the precautionary principle, and the wine industry has been concerned about an ‘asymmetric’ deal and the potentially negative impact of Brexit. The Mercosur trade union confederation CCSCS is opposed to the FTA on the grounds of insufficient transparency and the absence of an assessment of the deal’s employment effects on Mercosur. The European farmers’ association, Copa Cogeca, has raised concerns about the implementation in Mercosur countries of the pre-listing and regionalisation concepts promoted by the EU, given the lack of traceability of cattle and the use of hormones, growth promoters and pesticides in these countries, which are illegal in the EU.

While stakeholders of EU agricultural sub-sectors (beef, ethanol, sugar, and poultry) with defensive interests have been outspoken in their opposition, referring to the agreement as a ‘car for cows’ deal, representatives of several EU agricultural sub-sectors, such as wine and dairy associations, are strong advocates of the deal. EU industries with offensive export interests, such as the European Automobile Manufacturers’ Association, the European Association of Automotive Suppliers and the European Confederation of the Footwear Industry, as well as BusinessEurope, have also warmly welcomed the FTA, but their voice has been much less heard.

Signature and ratification process

After its legal review and translation into all official languages the agreement in principle will be presented to the Council for signature. In May 2018, the Council decided that depending on their content, association agreements should be mixed’ and that the ‘ones that are currently being negotiated, such as with Mexico, Mercosur and Chile, will remain mixed agreements’. The EU-Mercosur agreement will thus not only require the European Parliament’s consent prior to its conclusion by the Council, but also ratification by the parliaments of all EU Member States.
EP SUPPORTING ANALYSIS


OTHER SOURCES


Assessment of Barriers to Trade and Investment between the EU and Mercosur, Economic Impact Assessment, European Commission, 2011.


Mercosur-EU Free Trade Agreement: Impact analysis of TRIPS-plus measures proposed by the EU on public purchases and domestic production of HIV and Hepatitis C medicines in Brazil, Oswaldo Cruz Foundation/Fiocruz, 2017.


ENDNOTES

1 The negotiated chapters of the AA’s political dialogue and cooperation pillars are not in the public domain and are not dealt with in this briefing.

2 For further information, see the European Commission’s Regional Strategy Papers for Mercosur 2002-2006 and 2007-2013.


4 This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the agreement. Additional information can be found in related publications listed under ‘EP supporting analysis’ and ‘other sources’.

5 For more recent information, see the respective entry in the EPRS legislative train schedule, which is updated on a monthly basis.

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First edition. The ‘International Agreements in Progress’ briefings are updated at key stages throughout the process, from initial discussions through to ratification.