

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.



Trade pillar of the Association Agreement between the European Union and its Member States, of the one part, and Mercosur, of the other part

Committee responsible: International Trade (INTA)

Rapporteur: n.n.

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

Figure 1 – Key data of Mercosur-4 (M4) and the EU



Source: Population: [World Bank](#), GDP: [World Bank](#), FDI: [Eurostat](#). Venezuela is a Mercosur member since 2012, but since 2017 suspended. Bolivia is in the process of acceding the bloc.

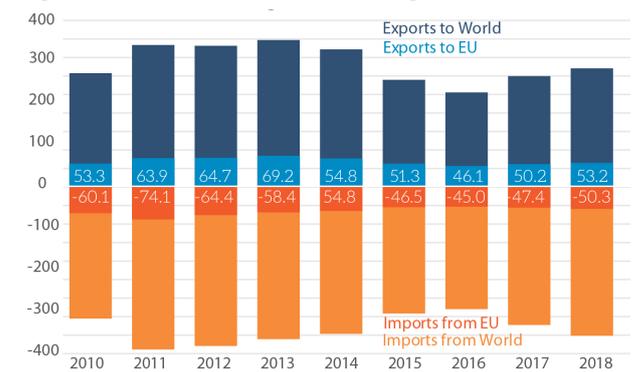
€81.7 billion in 2008, but down from a 2012 peak of €100.5 billion. The volatility of global commodity prices explains to some extent the fluctuation in the trade value of Mercosur exports which has been stronger for Mercosur exports to the world (expressed in US\$) than to the EU (Figure 2). Mercosur 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

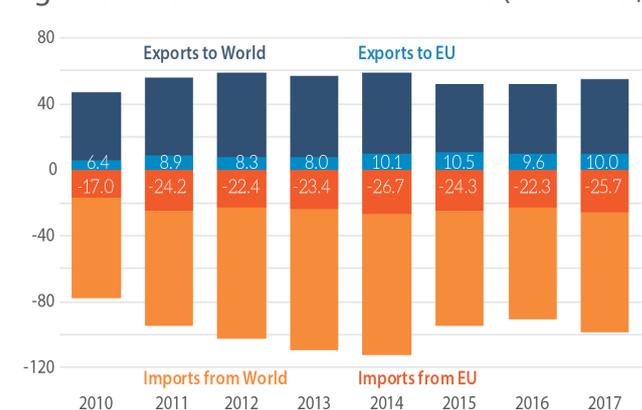
Currently, EU-Mercosur trade relations are based on most favoured nation (MFN) tariffs, as neither the 1995 [Interregional Framework Cooperation Agreement](#), which entered into force in 1999, nor the bilateral agreements the EU concluded with individual Mercosur countries ([Argentina](#), [Brazil](#), [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.

Figure 2 – Mercosur-4 trade in goods (billion US\$)



Source: [Exports: IMF](#), [Imports: IMF](#).

Figure 3 – Mercosur-4 trade in services (billion US\$)



Source: [UNCTAD](#).

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

Mercosur 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/countervailing 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 (soybean 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.

Table 1 – Comparison of the scope of the EU-Mercosur, EU-Mexico and EU-Chile FTAs

	TSD	SPS	IPR	SMEs	Energy and raw materials	Government procurement	E-commerce	Anti-corruption	Trade and gender equality
Mercosur	yes	yes	yes (n.a.)	yes	yes (n.a.)	yes	yes	no	no
Mexico	yes	yes	yes	yes	no				
Chile	yes	yes (n.a.)	yes	yes	yes	yes	yes	yes	yes

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.

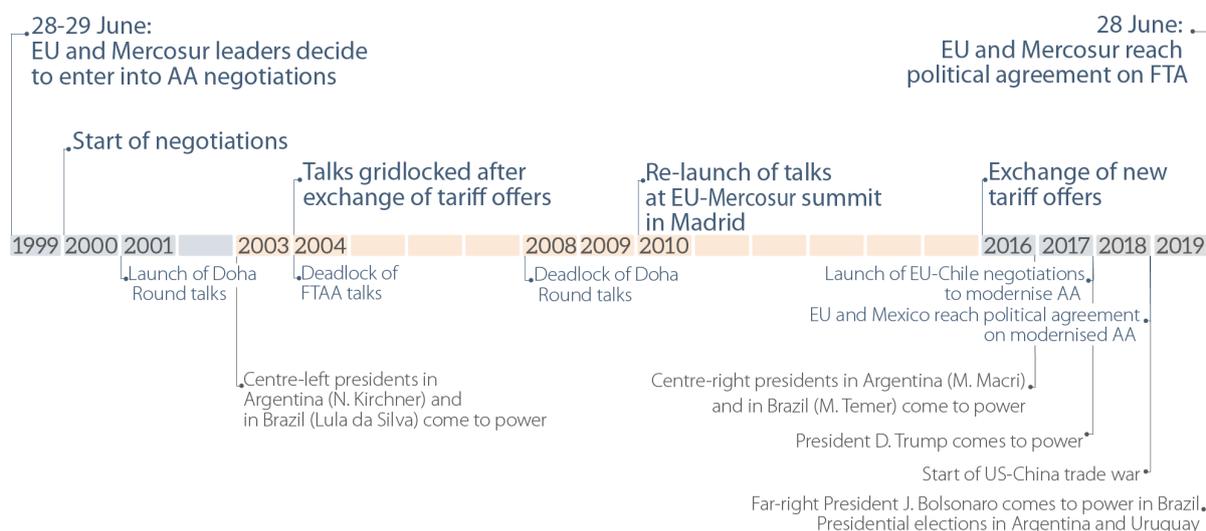
In 2006, the European Commission [published](#) an [inception](#) sustainability impact assessment (SIA) and studies for [agriculture](#), the [automobile](#) and the [forest](#) sectors in 2007. In 2009, a [final SIA](#) of the AA's potential economic, social and environmental implications was published. 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.

Figure 6 – Major stages and context of the negotiating process between the EU and Mercosur



Source: EPRS

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 %), pharmaceuticals (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.

Market access for EU cars, car parts and machinery

Mercosur would fully liberalise imports of **passenger cars** from the EU over 15 years in a non-linear manner. For a seven-year grace period a transitional quota of 50 000 units would be opened that would have an in-quota rate of half the MFN duty (35 %). Afterwards, duties would be phased out more quickly. Tariff lines on **car parts** would be liberalised mostly within 10 years (82 % of tariff lines covering 60 % of EU exports to Mercosur with a further 30 % of additional exports liberalised over 15 years). For EU **machinery**, 93 % of exports would be fully liberalised, mostly within 10 years (67 % of exports to Mercosur).

Source: [European Commission](#), 1 July 2019

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

	EU-Mercosur (text prior to legal scrubbing)	EU-Mexico (prior to legal scrubbing)	EU-Chile (text proposal)
Precautionary principle	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.	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.	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.

Source: EU-Mercosur and EU-Mexico ['agreements in principle'](#) and EU-Chile [text proposal](#) as published.

Stakeholders' views⁴

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.⁵

EP SUPPORTING ANALYSIS

Grieger G. and Harte R., [EU-trade with Latin America and the Caribbean](#), EPRS, European Parliament, September 2018.

OTHER SOURCES

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[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.

Van Berkum S., [Prospects of an EU-Mercosur trade agreement for the Dutch agrifood sector](#), 2015.

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](#).

³ [World Bank gross domestic product database](#) 2018 for the four founding members, accessed in August 2019.

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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