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Mercosur–EU Agreement: Impact on Agriculture, Environment, and Consumers

The International
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and Decent Work

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1 Introduction

The European Union (EU)¹ and the Mercosur (Mercado Comúndel Sur – Common South American Market) as the South American Trade Bloc, agreed on a comprehensive free trade agreement (FTA) in June 2019. The Mercosur states, comprising Argentina, Brazil, Paraguay and Uruguay, and the EU are aiming to create a largely liberalised market of almost 800 million people. More than 90 % of its bilateral trade in goods is to be fully liberalised by gradually reducing tariffs on imported goods. This would, therefore, favour the export-oriented companies in both blocs. The agreement is considered to be a ‘mixed agreement’, which affects the competencies of EU member states. Therefore, the governments and parliaments of all EU member states as well as the European Parliament and the Council of the EU need to ratify it.

For Mercosur, the EU is the second most important trading partner after China and, in 2018, it accounted for just over a fifth of the total trade of the four Mercosur countries: 19% of Mercosur’s exports went to the EU and 21.3% of its imports came from the EU (European Commission- Directorate-General of Trade, 2018). The balance of trade between the two blocs was roughly stabilised, with Mercosur supplying goods and services to the EU worth 42.6 billion euros and receiving imports from the EU worth 45 billion euros. However, Mercosur is much less important for EU’s external trade, representing 2.2% of EU imports and 2.3% of EU exports. This trade has so far been subject to tariffs, quotas and have received the most favoured nation (MFN) treatment.

The agreement is the result of a long negotiation process between the two trading blocs. The negotiations had already begun in 1999. Three recent political and economic developments, among others, have accelerated the relatively sluggish negotiations. First, China has over time become the main trading partner of the Mercosur countries. With this new agreement, the EU hopes to increase its market share with China. The Mercosur countries, on their part, are seeking to increase their exports as Chinese demand for their goods has slowed down. Second, in 2019 all four Mercosur countries were classified by the World Bank as high-income countries. The upgrading of their status has more than just a symbolic meaning, as it excludes them from the EU’s Generalised System of Preferences (GSP), i.e., their exports to the EU are subject to higher tariffs. The third factor that accelerated the negotiations was the change in the political landscape in Latin

¹ If otherwise not mentioned, EU signifies the European Union of 28 members, including the UK, a member at the time text was written

America in recent years. The shift towards the right in Brazilian politics, following the parliamentarian coup against Labour Party President Dilma Rousseff in 2016, and the victory of entrepreneur Mauricio Macri in the presidential elections in Argentina in 2015 led to the suspension of Venezuela’s socialist membership of Mercosur. The new capital/business-friendly governments are committed to reduce the existing high import tariffs and lift the controls on foreign trade.

However, the ratification of the FTA by parliaments is not assured. The recent electoral victory of the more left-wing Peronists in Argentina and the objections of Belgium, France and Ireland in the EU do not hint at rapid ratification, as do the objections of European farmers’ organisations such as the COPA-COGECA Union, which represents millions of farmers in the EU, and the Irish Farmers’ Association.

The structure of trade between the EU and Mercosur countries represents the established international division of labour. Mercosur mainly exports raw materials to the EU and imports manufactured goods from there. Primary goods accounted for more than 70% of Mercosur countries’ total exports in 2018, of which slightly more than half were food and animal products, the rest mineral raw materials (Table 1) (Barrett, Browne, et al., 2001). For the same year, manufacture accounts for 84.1% of EU export. Machinery and transport equipment, and chemicals and related products represent 41.6% and 26% of its export, respectively.

Table 1: EU imports from Mercosur countries, 2018 (Top 5 – SITC sections)

	IMPORT VALUE (MIO €)	SHARE OF TOTAL VALUE
Food and live animals	14,615	34.3 %
Crude materials, inedible, except fuels	12,174	28.6 %
Manufactured goods classified chiefly by material	3,959	9.3 %
Machinery and transport equipment	3,376	7.9 %
Chemicals and related products	3,206	7.5 %

Source: European Commission- Directorate-General of Trade, 2018

This study examines the possible effects of the agreement on the rural areas of the concerned trading blocs, using the agricultural value chain concept for the analysis (Barrientos, Gereffi, & Rossi, 2011; Gereffi, Humphrey, & Sturgeon, 2005; Gereffi & Korzeniewicz, 1994). In the first section of this study we will outline the contours of the agreement and the trade structure, which we have briefly mentioned in the introductory section, with a focus on agricultural products. The second and third sections are devoted to rural areas, identifying the potential winners and losers of the agreement. The final section summarises our results.

2 The Agreement and Agriculture

The EU mainly imports agricultural products and raw materials from Mercosur. Agricultural products from the Mercosur countries account for 14.2% of the total EU imports of agricultural products. As one of the largest consumers of agricultural products, the EU is an important market for Mercosur producers and agri-food operators, although currently less important than China and the US.

The new trade agreement provides that the EU will liberalise 82% agricultural imports, although some so-called ‘sensitive’ agricultural goods, i.e., those whose production in Europe is considered particularly worthy of protection, are only partially subject to liberalisation commitments (Chapter II, Article 8, Annex 2 of Mercosur-EU Agreement). Table 2 shows the existing EU tariffs and quotas for these ‘sensitive’ products. The agreement aims to reduce tariff rates within the quotas and provide some additional quotas for Mercosur agricultural products in return of reduced tariff and non-tariff barriers to trade for EU manufacturing and services.

Table 2: Duties and quotas for ‘sensitive’ products, 2018

PRODUCT	MERCOSUR EXPORT TO EU* (TONNES)	EXISTING QUOTAS EXCLUSIVELY TO MERCOSUR (TONNES)	OUT OF QUOTA TARIFF UNDER MFN	NEW DUTY WITHIN THE QUOTA	EU-MERCOSUR FTA ADDITIONAL QUOTAS (T)
Beef fresh	118,065	46,076	59%	7.5%	55,000
Beef frozen	75,619	0	74%	7.5%	44,000
Poultry meat	391,927	331,084	53%	0%	180,000
Honey	33,926	0	17%	0%	45,000
Sugar	468,914	412,054	83%	0%	10,000
Ethanol	46,467	0	21%	0% & 7%**	650,000
Rice	117,247	0	8%	0%	60,000

* Export data are average from 2016–2018.

** 450,000 tonnes ethanol for the chemical industry duty free; 200,000 tonnes for other uses 7%.

Source: Baltensperger & Dadush, 2019

It is clear that with the exception of ethanol, the additional quotas provided for by the FTA are not very substantial in relation to the existing Mercosur exports to the EU.

In return, Mercosur will also liberalise imports of EU agri-food products (Chapter II, Article 8, Annex 2) including wine, spirits, olive oil, biscuits and soft drinks. In addition, 350 high-quality products are guaranteed protection under ‘Geographical Indicators’, for example, Munich beer or Parmesan cheese (chapter on product-specific rules of origin)². This means that only beer from Munich may be sold in Mercosur under the name ‘Münchner Bier’. This agreement will protect EU producers from international competition. With the deal, EU producers and exporters will be able to secure its growing middle-class consumer base in the urban areas of Mercosur countries.

In addition to all these, the parties will reciprocally open the following markets within tariff quotas (TRQs) after a transitional period of 10 years:

- **Cheese:** 30,000 tonnes cheese will be duty free. The tariff rate for EU cheese is currently 28%. This is a market opportunity for EU agricultural exporters, in particular those who market their products for Brazil. Between 2014–2018, an average of over 3,000 tonnes cheese was exported from the EU to Brazil. Current EU imports from the Mercosur countries are below 40 tonnes. The current EU MFN tariff rate for dairy-based cheese is 40%.
- **Milk powder:** 10,000 tonnes milk powder will be duty free. The tariff rate for EU milk powder is currently 28%; for Mercosur it is 64%.
- **Infant food:** 5,000 tonnes infant food will be duty free. For the EU, the current tariff rate is 18%.

² For a transitional period, Mercosur producers may use the names ‘Cognac’ and ‘Prosecco’ and those producers who marketed products called ‘Parmesan’ and ‘Gorgonzola’ before 2017 may continue to do so (Art X 35.9).

3 Impact on the European Agri-food Value Chain

The liberalisation of agricultural trade through the Mercosur agreement will increase its scope in both directions. As mentioned earlier, some agricultural products are considered ‘sensitive’ because their increased import can threaten the livelihoods of some European farmers. These include in particular beef, poultry meat, sugar and fruit juices. The possible effects of partial liberalisation of cross-border trade in these products will be discussed below. Due to significant increase in the quota for ethanol, this product is also included in the analysis.

It is worthy to note that in the event of an excessive increase in imports that endanger domestic producers, the chapter on ‘Bilateral Safeguard Measures’ allows for temporary suspension of trade privileges, subject to certain rules. In addition, the EU Commission announced its intention to provide financial assistance to affected farms in the event of distortions in the agricultural market by means of an agricultural fund of one billion euros (European Commission, 2019).

Beef

The existing quota of just over 46,000 tonnes carcass weight equivalent (CWE) for fresh beef will be increased by approximately 55,000 tonnes in the new agreement. For frozen beef, a quota of approximately 44,000 tonnes will be introduced for the first time, with a duty of 7.5% on both new quotas. The out-of-quota tariff rate under the WTO MFN clause for fresh and frozen beef is 59% and 74%, respectively (see Table 2). This volume will be divided among the four countries and introduced over a period of six years. The duty of 20% applied within the old quota for fresh meat will be set at zero.

A key reason for the increase in quotas is that in addition to the old quotas mentioned earlier, there is an *erga-omnes* quota for beef open to all countries, originally intended primarily for US exporters, who were long excluded from the EU market due to the hormone dispute. In their place, the Mercosur states and Australia used this quota. However, in June 2019 a new quota of 18,500 tonnes was negotiated with the Trump government, which will be increased to 35,000 tonnes over seven years. As compensation, the EU now offered Mercosur the increased quotas mentioned earlier.³

³ www.beefmagazine.com/exports/us-secures-more-access-eu-beef-market;
https://ec.europa.eu/commission/presscorner/detail/en/IP_19_5010

For Mercosur exporters, the European market is very attractive, as their costs are significantly lower than those of their European competitors. According to a study for the year 2015, the costs including profits per 100 kg of CWE were € 202 in Brazil, € 372 in Argentina, € 417 in Germany and € 424 in France (Hocquette et al., 2018). In the meantime, however, costs in Brazil are said to have risen due to higher input and land prices, as well as the more profitable use of land for soybeans and sugar cane.⁴

According to the EU Commission, this additional quota provided by the Mercosur agreement corresponds to around 1.2% of annual beef consumption in the EU (8,258,000 tonnes in 2018). Contrary to the statements of the Austrian Federal Minister for Sustainability and Tourism, this would not be an ‘*extreme challenge for European agriculture*’ (emphasis added by the authors).^{5 6}

However, even relatively small increases in import volumes can have serious consequences. This is the case for EU producers for at least three reasons. First, there is a situation of overproduction in the beef market, as demand has been falling for a long time. Per capita consumption has decreased from 25 kg in 1985 (Hocquette et al. 2018) to 10.6 kg in 2019 and a further decrease is predicted.⁷ Second, the liberalisation of the dairy industry has increased the supply of beef. This has a particularly negative impact on German beef producers, as they belong to the group of those in the EU whose household income is the lowest (Hocquette et al. 2018). Third, the EU is also negotiating with other major beef-exporting countries, such as Australia and New Zealand, so that in future additional import quotas could be added to the increased quota in favour of Mercosur. In the context of this short study, we have not been able to examine whether Mercosur imports are more important in terms of volume on certain beef niche markets than the average 1.2%, as mentioned before.

4 www.varachaux.com/en/tendances-2/les-grandes-tendances-qui-influent-sur-le-marche-de-la-viande-bovine-europeenne-2/

5 www.parlament.gv.at/PAKT/VHG/XXVI/AB/AB_03944/imfname_765146.pdf

6 The model calculations of LSE Consulting predicted cuts in agricultural incomes of 2% to 3% and cuts in total EU production of 0.7%. However, this calculation is based on the incorrect assumption of a general reduction in customs duties (LSE Consulting 2019b, p. 111). However, as mentioned earlier, only a small increase in quotas was agreed.

7 EU Agricultural Outlook 2019 -2030, p. 46

However, the factors discussed can be taken to claim that the dire situation in German beef producers on farms is not solely due to imports. Trade data shows that the EU exported twice as much beef as it imported in 2018. The degree of self-sufficiency in Germany is 98%⁸. The new trade agreement with Japan promises a new market⁹, as does the lifting of the 20-year import ban in South Korea in 2019¹⁰.

For example, other factors are cited for the problems of the major European beef producers in Ireland, including sharp increases in input prices due to climate change and the pricing policy of fertiliser producers. EU taxpayers' payments are of paramount importance for the household income of agricultural holdings, accounting for 158% of the household income of meat-producing holdings. Brexit is the main threat to Irish farms as they largely supply to the British market (Conefrey, 2019). In 2017, Ireland beef and veal export to the United Kingdom was more than 900 million dollar with the largest EU beef and veal intra-trade (FAOSTAT, 2019)

Since the imported quantity of beef from Mercosur countries already exceeds the planned additional quota, it is expected that the total volume of the additional quotas will be used by exporters. Due to the 'first come, first served' rule, competition among exporters will increase to benefit from the low tariff rates within the quota. However, the question remains open as to which player in the beef value chain will benefit from the agreement. As we expect that due to the relatively low volume, wholesale prices could at most be significantly reduced in niche markets, profit from the reduction in duties will be distributed among producers, exporters and European companies (importers, supermarket chains, etc.). Consequently, the loss of EU tariff revenue is booked as a profit for these companies. Whether European companies or Mercosur producers/exporters get a share of this 'added value' is a question of the negotiating capacity of the actors along the value chain. The highly concentrated retail sector in Europe leads us to conclude that it has more resources and negotiating capacity and is therefore more likely to prevail. As mentioned above, this could also lead to lower prices for European beef products in specific niche markets.

⁸ www.bmel.de/DE/Landwirtschaft/Markt-Handel-Export/_Texte/eu-mercotur-faq.html;jsessionid=95AF4A981C7A133AA81B2A76FAA375D4.1_cid385#doc12919298bodyText5

⁹ EU Agricultural Outlook 2019 -2030, p. 46

¹⁰ https://ec.europa.eu/commission/presscorner/detail/en/IP_19_5914

Poultry meat

Within the previous import quota of 331,084 tonnes CWE, the duty rate is 53%. With the additional quotas under the FTA, the Mercosur countries can export 180,000 tonnes CWE duty-free. The EU already imported 800,000 tonnes CWE poultry products in 2018 (about 5% of EU poultry consumption), half of which came from Mercosur.

At the same time, the EU exported twice the amount of poultry meat, resulting in a trade surplus of 800,000 tonnes CWE in 2018. At first glance, this trade makes no sense, but according to the EU Commission, this trade is the result of different consumer preferences for different parts of poultry. The EU exports poultry legs and imports breast meat (European Commission, 2019).

An increase in poultry exports from the Mercosur countries to the EU can be expected in so far as the sum of the new and old quotas exceeds the current export of Mercosur poultry meat. Whether this will put pressure on EU producers and reduce prices depends on the price elasticity of demand and the share of additional quotas in EU production. In terms of their share, the EU produced 15.2 million tonnes poultry meat in 2018, and the new additional quotas represent 1.2% of EU consumption and should, therefore, reduce wholesale prices significantly only in niche markets at the most. Compared to the agreements on beef, the quota increase is higher in absolute terms, but not in relation to the previous import volume. Moreover, an econometric study convincingly shows that tariff and non-tariff barriers do not have a major influence on the change in imported volumes (Niemi, 2019). This is a result of the 'inelastic nature of the price reactions in EU demand for imported raw materials' (Niemi, 2019, p.6).

The European Poultry Federation and other rural and industrial associations generally point to unfair competition and low standards in the production process in the Mercosur countries (Avec, 2019). In fact, broiler prices in the EU currently stand at € 183.57, while in Brazil they are € 99.39 per 100 kg. The price differences are certainly due to lower unit labour costs in Mercosur countries and different production standards. Although the lower standards are documented by several EU evaluation reports, these do not stop the EU from importing more breast meat (European Commission- Directorate-General for Health and Safety, 2017). Accordingly, the associations complain that their interests have been sacrificed in favour of the export-oriented manufacturing industry.

Sugar

Low quotas and high tariffs protect European sugar producers. The quota is currently limited to 412,000 tonnes, with a duty of € 98 per tonnes. The existing MFN tariff beyond this quota is 83%, which allows European sugar producers to compete within the EU with the rest of the world. But similar to the trade in poultry meat or beef, the EU is the net exporter of sugar. However, sugar producers in Mercosur are more competitive internationally owing to sugar cane, which enables them to export beyond their quotas despite high tariffs. Nevertheless, their share of the European sugar market is less than 2%.

The FTA now allows duty-free import of 180,000 tonnes sugar within the existing quota of 412,000 tonnes. No new additional quotas will be made available, except for Paraguay, for an amount of 10,000 tonnes. The latter is a concession to Paraguay to secure the FTA. Again, wholesale prices are unlikely to be affected as the additional quota, to be phased in over six years, represents less than 0.18% of annual EU consumption and 0.4% of exports. The highly competitive sugar exporter, Brazil, will not be able to significantly increase its market share in the EU due to the unfavourable tariff quota. We expect that Brazilian and other Mercosur companies will continue to export to other countries, especially to the Arab world (FAOSTAT, 2019).

Ethanol

The agreement will provide Mercosur ethanol producers more favourable conditions, as ethanol makes an important contribution to the EU chemical industry, particularly bioplastics and the biochemical industry. The agreement of a duty-free quota of 450,000 tonnes ethanol for the chemical industry will have a significant impact on the value chain. In addition, a further 200,000 tonnes is made available for other uses at a duty rate of only 7%. We assume that Brazilian exporters will replace US competitors as suppliers to the chemical industry. Brazil and the USA produce 85% of global ethanol.

Within the ethanol value chain, the highly concentrated European chemical industry is in a stronger negotiating position vis-à-vis the relatively more numerous ethanol producers. European ethanol producers will be exposed to strong competitive pressure, as the additional quotas for Mercosur producers account for about 12% of the total market.

Mercosur countries currently export around 1.25 million tonnes to the rest of the world and just over 45,000 tonnes to the EU. The quota for Mercosur provided for in the agreement is 10 times higher than the current trade. It can therefore be assumed that ethanol production will increase strongly in rural areas, especially in Argentina and Brazil. Sugar cane and, increasingly, soybeans¹¹ are two central starting materials for ethanol. Their production requires large agricultural areas and a lot of water. We will discuss this topic further.

Non-alcoholic beverages

Fruit juices from Brazil and Argentina account for 23.4% and 1.6%, respectively, of the total EU fruit juice imports. Brazil is the largest producer and exporter of orange juice (concentrated and fresh). Orange juice is one of Brazil's main exports to the EU. The tariff rate for orange juices from Mercosur countries ranges between 12.2% and 24.4%. Despite the current high tariffs, orange juice accounts for 4% of the total Brazilian exports to the EU. Owing to the agreement, customs duties on orange juice (with a price above 30 € per 100 kg) could be reduced to zero.

Further opening of the EU to orange juice from Mercosur countries will lead to fierce competition with Brazilian products, particularly in the juice markets. Spain is the largest producer of citrus juice in the EU and the fall in customs duties could reduce its market share. Therefore, the Spanish citrus producers whose products are used for citrus juices would also be affected. However, no study is available on the possible impact of reducing the duty on citrus juices. The extent to which the reduction in customs duties will affect consumers, producers and other market participants in both countries remains open.

¹¹ <https://link.springer.com/article/10.1007/BF02631987>

4 The Consequences for EU Producers

The consequences for farms within the EU are difficult to assess, as our analysis has focused on imports into the EU and does not take into account the new export opportunities. Certainly not all companies will be able to take advantage of these export opportunities. As our analysis has shown, it cannot be ruled out that the increase in EU quotas and the reduction in customs duties in the ethanol and citrus fruit sectors and in niche markets for beef and poultry will increase the competitive pressure.

Small farms in particular, which do not enjoy economies of scale and operate under tight profit margins, could to some extent come under even greater pressure (LSE Consulting, 2019a, LSE Consulting, 2019b; Nelson & Ryder, 2007). As the Agreement liberalises imports of agricultural products only to a limited extent, losses incurred by small farmers could be easily offset by appropriate state measures. However, the latter is a question of political will.

The global value chain analysis shows us that the agricultural and food processing sector in the EU makes intensive use of primary products from Argentina and Brazil (LSE Consulting, 2019a). As a result, this sector will benefit from more favourable input prices owing to the reduced tariffs and increased quotas. Table 3 shows the value added in EU exports for Argentina and Brazil in the selected sectors.

Table 3: Value added in EU exports, 2011 (in million dollars)

SECTORS AND SUBSECTORS	ARGENTINA	BRAZIL
Agriculture, forestry and fisheries	165.7	467.0
Mining and quarrying	246.8	1,668.9
Total primary sector	412.4	2,135.9
Total of manufacturers	451.9	1,773.3
Total services	654.6	4,053.3

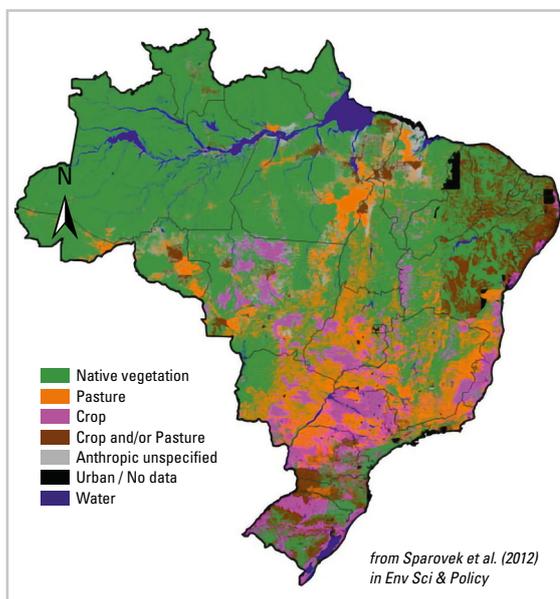
Source: LSE Consulting, 2019a

5 Impact on Mercosur

Brazil

Foreign trade is central to the Brazilian government’s economic policy after the recent right-wing victory. In its understanding, Brazil’s trade openness (the sum of imports and exports in relation to GDP) is still low in comparison to other Latin American countries. The government expects great economic benefits from the Mercosur–EU trade agreement¹². The expansion of foreign trade would increase employment and income and contribute to a rise in government revenue. According to estimates by the Ministry of Finance, 87.5 billion US dollars could be added to the gross domestic product in 15 years, with the possibility of reaching 125 billion US dollars if the dismantling of non-tariff barriers and productivity gains are taken into account (Martello, 2019).

With the implementation of new trade conditions and concomitant tariff reduction, the large producers in the agricultural and food industry would certainly benefit. In debates held in July in the Economic Commission of the Brazilian Senate, the Foreign Trade Sec-



retariat of the Ministry of Finance stressed the advantages of the agreement for the Brazilian agricultural sector. The Brazilian industrial sector, which was directly involved in the negotiations, also supported the agreement at the outset. In 2017, the National Confederation of Industry (CNI) published a position paper on the negotiations between Mercosur and the EU (Confederação Nacional da Indústria, 2017). This paper highlights EU tariffs as barriers to Brazilian exports on the EU market.

Land use in Brazil (Source: Englund et al. 2011: 22)

¹² www.economia.gov.br/area-de-imprensa/notas-a-imprensa/2019/08/conclusao-das-negociacoes-do-acordo-de-livre-comercio-entre-o-mercosul-e-a-efta

Of 1,101 products that Brazil can export to the EU, 68% are subject to import duties. The highest tariffs apply to agricultural and processed agricultural products. Accordingly, the CNI expects that the agreement will enable these sectors in particular to gain greater market share in the EU. Since the Brazilian agricultural industry spends 300 million Reais on (1 Reais ~ 0.18 US Dollar, 25 April 2020) industrial products for every billion Reais of exports, domestic industry would also benefit from the success of agricultural exports. The Federation of Industries of the State of São Paulo (Fiesp), the representative of the industrial sector of Brazil's richest state, and the Center of Industries of the State of São Paulo (Ciesp) also welcomed the trade agreement as a 'historic milestone'.¹³

The agri-food sector in the Mercosur countries is presented as internationally competitive. In fact, its competitiveness is largely due to the pronounced deficit of decent work in rural areas (Apolinário, Filho, Penha, & Amaral, 2018; Penha, Belik, João Matos, & Oliveira, 2018), the use of banned pesticides (Guardian, 12.09,2019), land conversion, etc. (Soterroni et al., 2018). In order to get a more detailed overview of the potential impact of the FTA on Brazil, we will focus on a number of agricultural products that are likely to be increasingly exported to the EU as a result of the agreement.

Beef

According to the Brazilian Meat Exporting Industries Association (ABIEC), Brazil exported 114,900 tonnes beef to the EU in 2018 and the EU is Brazil's fifth largest market by weight, accounting for 6% of the total exports. In terms of sales, the European bloc is even the third largest market for Brazil, accounting for 9% of total export earnings. ABIEC estimates that total beef exports will increase by 10% in 2019, both in volume and financial terms.

The reduction in tariffs and the increase in beef quotas are subject to objections from some EU governments, such as Ireland, Belgium and France, which have a relatively greater comparative advantage in beef production within the EU. They point to the unsustainable nature of beef production in Mercosur. The deforestation of tropical forests and the fires in the Amazon are sometimes linked to the agreement and the expectation of Mercosur producers that they will be able to export more beef to the EU.¹⁴ The friendly ties of the Brazilian extreme right-wing President Bolsonaro to the agri-food industry and the distribution of responsibilities of his new government, which delegated the authorities and responsibilities of the Ministry of the Environment to the Ministry of

¹³ www.fiesp.com.br/noticias/abertura-resultante-de-acordos-comerciais-podera-trazer-mais-competitividade-ao-brasil/

¹⁴ www.fern.org/news-resources/eu-consumption-of-beef-and-deforestation-91/

Agriculture, reinforce these concerns (Weiss, 2019). However, deforestation in Amazonia seems to be more the result of sugar cane cultivation and the desire to appropriate the land privately (without immediate use). The additional export volume to the EU could be produced on existing agricultural land (Harris, Gross Anna, & Keohane, 2019).

Given the small increase in the beef quota of only 99,000 tonnes for Mercosur as a whole (with Brazilian beef production alone at 11 million tonnes), no dramatic increase in beef production in the Mercosur countries is expected as a result of the agreement. It is expected that the increase in exports will take the form of higher quality meat cuts (e.g., loin roast, strip loin steak).

Sugar

Brazil is the world's leading sugar producer and exporter, accounting for 20% of world production and 40% of world exports. About 75% of sugar produced is exported to more than 100 different countries.¹⁵ Brazilian exports to the EU amounted to 349,000 tonnes in 2018. The agreement provides for a sugar refining quota of 180,000 tonnes, with tariffs being eliminated within five years. The Sugar Cane Industry Union (Unica) declared the negotiations as not ambitious enough. The low sugar quotas would limit the ability of Brazilian exporters to meet the demand of the EU market.¹⁶

The trade agreement should particularly benefit the sugar cane mills in the north and north-east, as a Brazilian federal law provides for sales preferences in trade agreements for products from these regions of the country. This will further increase the upward pressure on the deforestation of Amazonia.

¹⁵ <http://abpa-br.com.br/noticia/abpa-comemora-concretizacao-do-acordo-mercosul-uniao-europeia-2821>

¹⁶ <https://canalrural.uol.com.br/noticias/agricultura/cana/unica-acordo-mercosul-ue-importante/>

Ethanol

The drastic increase in the quota for ethanol should lead to a change in land use and water management. Sugar cane and increasingly soya are feedstocks for ethanol, and their production is expected to increase. As a study by a team from Manchester University shows, expansion in the ethanol sector can significantly promote deforestation and biodiversity loss, particularly in the Amazon and Cerrado regions (Nelson & Ryder, 2007).

The EU Commission refers to the chapter 'Trade and Sustainable Development' (TSD) in the Convention on Biological Diversity and the Prevention of Deforestation, particularly in the Amazon region. But there is no clarity on how this chapter will be eventually implemented or by whom will it be enforced (see articles 2,3,7,8,10). Given the limited financial and institutional capacities and the lack of political will against deforestation and biodiversity loss, we tend to accept a pessimistic scenario about the future of forest preservation.

Fruit juice and coffee producers

The trade agreement was celebrated by the National Association of Citric Juices and the National Association of Soluble Coffee. The association of citrus juice producers expects an increase in market shares for Brazilian orange juice in the EU. Current EU import tariffs range from 12.2% to 15%. Brazil exported 646,600 tonnes orange juice to the EU in 2018. The new trading conditions should reduce the customs duties for orange juice to zero with a price above € 30 per 100 kg within seven years. Orange juice below this price will continue to be subjected to a duty. Nevertheless, the major juice producers such as Citrosuco SA Agroindústria will benefit from the agreement.

The Association of Soluble Coffee Producers (Abics) is glad to see the gradual elimination of the current 9% duty on instant coffee in the EU.¹⁷ According to Aguinaldo José de Lima, Director of Institutional Relations for this association, the agreement will allow Brazilian industry to export more processed coffee roasted and ground. It forecasts a 35% increase in instant coffee exports to the EU over the next five years¹⁸.

¹⁷ www.abics.com.br/noticia.php?noticia=163&cafe_soluvel_do_brasil_pode_ampliar_mercado_com_acordo_mercosul_japao

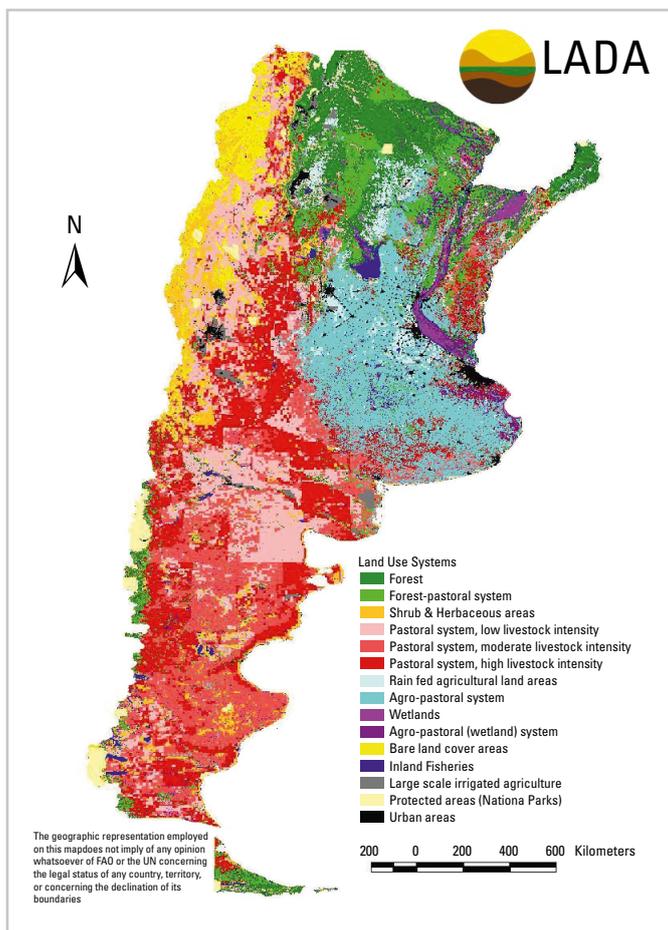
¹⁸ www1.folha.uol.com.br/mercado/2019/06/exportacao-brasileira-de-cafe-soluvel-a-ue-pode-criar-35-com-acordo.shtml

Argentina

The former Argentine government led by Macri also promoted the agreement, arguing that it would boost the region’s economic development. The elimination of import duties, particularly on intermediate and capital goods (which account for 80% of Argentina’s imports from the EU) would improve the competitiveness of Mercosur industries by reducing the price of EU inputs¹⁹. At lower costs, the Argentinian producers would have the same conditions as their European competitors on the international markets.

The agreement provides for certain reductions in export duties, especially for raw materials and agricultural products²⁰. This would not only make imports into the EU cheaper,

but also reduce Argentina’s government revenues, unless the export volume of these products shows higher percentage growth than the percentage reduction in export duties. Moreover, given Argentina’s extremely tight budgetary situation, a shortfall in revenue could have a direct impact on welfare measures.



Beef

Under the new trade agreement, the Argentinian beef industry is entitled to the same annual quota of 99,000 tonnes at a tariff rate of 7.5% as the Brazilian producers. The quota applies to all four Mercosur member countries. However, Argentina could

Land use systems of Argentina

(Source: www.wocat.net/library/media/152/)

¹⁹ www.cancilleria.gob.ar/userfiles/prensa/resumen_acuerdo_mcs-ue_elaborado_por_gobierno_argentino.pdf

²⁰ https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_158187.%20TIG%20-%20Annex%202%20Export%20Duties.pdf

benefit more than its neighbours from the elimination of tariffs from the quota for high quality fresh or frozen beef, which is currently at 20%. Argentina has the highest quantity of the quota for high quality cuts of meat (29,500 tonnes) (Implementing Regulation 593, 2013)

Olives and olive oil

The trade agreement threatens Argentinean olive production by giving European producers from Spain and Greece better access to the Brazilian market, which is the only export market for Argentinean olives. Olive oil production is also at risk in the domestic market. However, it could succeed in establishing itself as a brand of high quality in the European market. Spain, Italy and Greece are the biggest exporters, but also the biggest importers (Table 4). ²¹

Table 4: Brazil’ imports for the selected products, 2017

OLIVE OIL, VIRGIN (T)		OLIVES, PICKLED + FRESH (T)	
Portugal	38,795	Argentina	50,673
Spain	9,705	Spain	8,066
Argentina	6,229	Egypt	8,058
Chile	4,218	Peru	6,323
Italy	3,656	Portugal	656
Tunisia	535	Egypt (fresh)	378
Greece	431	Chile	160

Source: FAOSTAT, 2019

Wine

European wine is subject to a tariff rate of 20% in Argentina and 27% in Brazil, while the tariff rate for Argentinean wines in the EU is only 4% and 5%, respectively. In the wine industry, there are conflicting positions²² owing to the size of the companies. Companies that enjoy economies of scale, such as Bodegas de Argentina, which consists of more than 250 wineries, find the agreement lucrative as it opens up new markets for them²³.

²¹ <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20191108-1>

²² www.reuters.com/article/us-argentina-mercosur-wine/in-argentinas-wine-country-vintners-worry-about-recession-and-trade-deal-idUSKCN1UZ1ML

²³ www.sevi.net/es/3547_Estadisticas/12/13580/Las-ventajas-del-acuerdo-UE-Mercosur-sobre-los-vinos-europeos-tardarán-bastante-tiempo-aún-en-plasmarse.htm

6 **Winners and Losers in Brazil and Argentina**

The trade pattern between these two blocs manifests that Mercosur exports to the EU fall predominantly in the categories of low aggregate value goods, confirming the traditional peripheral role of Mercosur economies as suppliers of primary products to the centre and richer countries. From 2006 to 2011, Mercosur’s trade balance with the EU recorded surplus due to high commodity prices. At the same time, since 2012, with declining commodity prices, the Mercosur states have been recording slight trade deficits. The new FTA could aggravate this situation and increase Mercosur’s external debt, as it is based on the principle of expanding trade within existing structures rather than allowing new trade structures to emerge. This will be reflected in the envisaged reduction of tariffs and non-tariff barriers to existing trade flows. A study published in 2017 on the potential economic impact of the FTA, therefore, concluded that it will ‘deepen Argentina and Brazil’s specialisation in the export of primary goods while favouring the EU’s position as an exporter of medium and high technology goods. This would lead to a further consolidation of the current international trade framework based on comparative advantages’ (Olivera & Villani, 2017)

Brazil—Losses for small-holders, agricultural labourers and indigenous communities

The Mercosur–EU Agreement may have both positive and negative effects on the Brazilian macroeconomic performance with differential effects on various sectors. Overall, agriculture would benefit more. The agricultural (mainly beef and poultry) and biofuels (ethanol) sectors would benefit most from the extension of quotas for the reduction of these products and the elimination of external trade tariffs between the two blocs. Not all actors in agriculture would benefit from the FTA.

Previous research on agricultural value chains shows that large companies in the agricultural industry in particular gain from improved market access. On the one hand, small and medium-sized farms are generally excluded from the global agricultural value chain due to costly and complex procedures (Barrett et al., 2001). Compliance with hygiene standards set by the EU requires administrative and financial capacities that usually only large companies can afford. As long as they do not form cooperatives, small farms are excluded (Jank, 2004). On the other hand, small farmers are in a much weaker negotiating position as suppliers to the large exporters.

The sustainability chapter in the agreement is intended to ensure decent working conditions for the lower ends of the agricultural value chain (Chapter ‘Trade and Sustainable Development’, Article 4). However, the sustainability chapter lacks provisions for its enforcement. Research on agricultural value chains shows a limited influence of end markets on working conditions in agriculture. Since Dilma Rousseff was removed from office in 2016, labour law has been largely fashioned in favour of companies. As intended, the reform of labour law undermines the bargaining power of employees. A deterioration in working conditions, especially for agricultural workers, has already been observed (Karatepe & Scherrer, 2019).

The sustainability chapter reaffirms the need to integrate sustainable development practices into trade relations between the parties. This aspect was celebrated by the EU Commission and often brought to the fore in public discussions. Article 2 of the Chapter states that a party may not exempt itself from the application of labour and environmental legislation for the purpose of promoting trade or investment; therefore, parties cannot escape their responsibility. Article 10.2 goes even further:

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.

Compared to previous FTAs signed by the EU, the precautionary principle has been slightly softened by not mentioning it in the chapter on ‘Sanitary and Phytosanitary Measures’ (SPS) but in the chapter on ‘Trade and Sustainable Development’ (TSD). The latter is not covered by the general dispute settlement mechanism of the agreement (Grieger, 2019). Dispute settlement with regard to sustainability issues provides for a special procedure: If the EU or Mercosur does not abide by the rules, either party may request formal intergovernmental consultations and, if the consultations are unsuccessful, an independent committee of experts may be established. However, no further sanctions are actually planned.

Furthermore, the same Article 2 states that ‘a Party shall not apply environmental and labour laws in a manner that would constitute a disguised restriction on trade or an unjustifiable or arbitrary discrimination’. In other words, there is a risk that safeguard measures may be challenged on the basis of their trade-restrictive effect.

Indigenous communities fight against the agreement. Brazilian indigenous leaders representing 300 communities travelled to Geneva in October 2019 to call on the EU not to ratify the trade agreement with Mercosur²⁴. They fear that the agreement’s concessions to the agro-industry will lead to a greater destruction of the Amazon. According to one of the leaders of the indigenous delegation, Nara Baré, ‘the Brazilian government sees these deals as trophies to open up all of the Amazon forest to agricultural expansion, to the exploitation of minerals in our territories and to the construction of big highways to transport products for exporting’ (own translation). The delegation not only calls for the rejection of the agreement, but also calls for specific legislation on the traceability of Brazilian products, in order to make visible to consumers which companies respect indigenous communities and the environment. ‘Otherwise, they should be sanctioned and punished. To do so, we need to have better control and ensure that products do not come from areas with territorial conflicts or from companies that do not respect human rights of native peoples’ said Nara. Indigenous communities believe that with the current agreement, forest fires could increase not only in the Amazon, but also in the Cerrado and Pantanal regions, which include four states in the mid-west of Brazil—Goiás, Mato Grosso, Mato Grosso do Sul and the Federal District. This area is home to the country’s largest livestock farms and many factories of JBS, the world’s largest meat processing company (Silva & Tognolli, 2017).

Argentina

As in the case of Brazil, large companies in Argentina are likely to be better placed to take advantage of the market opportunities offered by the agreement. The agricultural and fisheries sectors will have the best short-term prospects in light of the increased quotas and reduced tariffs. This applies in particular to those companies which have the capacity to comply with EU rules. The extent to which small farms and wage-earning households can benefit from these growth opportunities is a political question that is determined by several factors, including the attitude of the new Peronist government after Macri, towards small farmers’ organisations and trade unions. The abolition of import duties provided for in the agreement could also add some input factors to make regional agricultural products cheaper.

²⁴ www.efe.com/efe/brasil/mundo/indigenas-brasileiros-pedem-que-ue-e-sui-a-n-o-confirmem-acordos-com-mercosul/50000243-4107111

7 Pesticide use and deforestation in Brazil

Brazil requires special attention as the government's passionate support for agriculture has led to a record increase in deforestation and forest fires in Brazil. The expansion of beef, soya and sugar cane production is mainly at the expense of existing forests. Slash-and-burn agriculture has been and still increasingly is the most common strategy for expanding agricultural land. In the first 15 days of July 2019 alone, more than 1,000 square kilometres of forest were cleared in the Amazon region. This represents an increase of 68% compared to July 2018, according to the preliminary satellite data obtained from the Brazilian National Institute of Space Research (INPE).²⁵

The agreement, as it stands now, does not provide for the possibility of withdrawing trade privileges due to the destruction of nature. Such a suspension of trade preferences could be easily challenged by the countries since they can resort to the dispute settlement mechanism of the World Trade Organisation (WTO) ('Trade and Sustainable Development' chapter).

In accordance with its agro-industrial economic policy, the Bolsonaro government has authorised the use of a large number of pesticides, which were banned in Brazil and are still banned in the EU²⁶. Under the agreement, however, the EU can only act if residues of such pesticides are found in imported goods. The chapter on 'Sanitary and phytosanitary measures' (Art. 10) contains rules on the use of pesticides. Negotiations on a legal instrument that would allow the EU to refuse imports of products that may cause health damage due to agro-toxins met with Brazilian resistance. In the treaty negotiations, the EU insisted on the 'precautionary principle', which allows it to stop the import of goods even if the harmfulness of their consumption is not clearly scientifically proven (for the limitations of the precautionary principle, see above). However, it agreed to adjust the MRL (maximum residue limits) of pesticides on a case-by-case basis if the exporting country requests the so-called import tolerance.

²⁵ www1.folha.uol.com.br/ambiente/2019/08/desmatamento-na-amazonia-em-julho-cresce-278-em-relacao-ao-mesmo-mes-em-2018.shtml

²⁶ <https://br.reuters.com/article/idBRKCN1UX1PS-OBRTPT>
www.pan-europe.info/press-releases/2019/07/pesticide-cocktails-european-food

Angeliki Lysimachou of the Belgian NGO PAN Europe points out that such exemptions are difficult to monitor. A study carried out by PAN Europe already showed that for the time prior to the Brazilian relaxation of pesticide regulations almost 80 % Brazilian products imported into the EU contained some pesticide residues and almost 10 % residues above the maximum residue limit (PAN-Europe, 2019). With the possibility of applying for import tolerance, these issues are finally negotiated at the political level. In addition, the agreement contains a section to simplify and reduce the frequency of sanitary and phytosanitary controls on food imports (Chapter ‘Sanitary and phytosanitary measures’ Article 7 B2). Lysimachou highlights another consequence of the agreement, namely, the increase in the use of pesticide in Brazilian agriculture due to 92 % reduction in import duties on pesticides (PAN-Europe, 2019).

In the event of an outbreak of animal diseases, the agreement does not aim to ban exports from the entire country, but rather to apply the ‘regional principle’, i.e., to exclude exports only from the affected regions of a country. A procedure for the approval (or rejection) of establishments in the exporting country is still to be developed; for the import of animal products (‘pre-list’), lists of approved establishments need to be published and the official control system of the exporting country needs to be reviewed by the importing country (Grieger, 2019, p.10).

8 The Agreement Reinforces the Logic of Industrial Agriculture

In the Mercosur–EU agreement, the EU decreases import quotas and import tariffs for so-called ‘sensitive’ agricultural products. The additional import quotas as per the agreement are marginal in relation to the total EU demand for the product concerned, with a maximum of 2%. Nevertheless, the already existing precarious situation, especially of smallholders in niche markets, may worsen. But as long as EU’s export strategy in the agricultural sector is not fundamentally questioned, it would not be convincing to only criticise the agreed increases in import quotas and reductions in tariffs. The European export surpluses in beef, poultry and sugar should be criticised as well. A credible criticism of market opening must also question EU’s aggressive support for industrial agriculture.

While the increase in import quotas for beef and poultry granted by the EU only accounts for a small proportion of the total Mercosur production and can therefore, be held responsible only to a limited extent for the destruction of forests, yet, this does not apply to ethanol. The drastic increase in the import quota for ethanol will further expand the area under sugar cane cultivation, and thereby endanger forests, water resources and indigenous communities.

Against warning signs of expected ecological damage and human rights violations, the EU Commission emphasises the chapter on ‘Trade and Sustainable Development’ (TSD) in the agreement which commits the contracting parties to the sustainability goals of multilateral environmental agreements, including the Paris Agreement, which contain commitments to reforestation. The Sustainability Impact Assessments commissioned by the EU Commission do indeed discuss in detail the importance of the rules for Mercosur countries to comply with the articles in the TSD chapter (Articles 2, 4, 5). However, this chapter leaves open the way by which it is enforced. The extent to which countries have the will as well as financial and institutional capacity to implement the provisions in the sustainability chapter is not fully addressed by these assessment studies. In the case of Brazil, however, neither the government’s will nor the state’s capacity to implement is evident. For Argentina, we cannot judge the new government in advance, but can safely assume that financial constraints will affect the state’s ability to regulate and enforce its policies.

The agreement is presented as a remedy for the rural areas of Mercosur countries as it tends to increase its productivity. Participating in global agricultural chains is supposed to provide access to better paying end-markets and lead to the adoption of more efficient farming techniques (Lutz & Olthaar, 2017; World Bank, 2007). However, many studies have shown the limited impact of such a strategy. The value capture of the producers in such chains remains at best rather limited, i.e., other more powerful actors capture the gain when the final consumer pays the price (Evers, Opondo, Barrientos, Krishnan, & Amoding, 2014; Willoughby & Gore, 2018).

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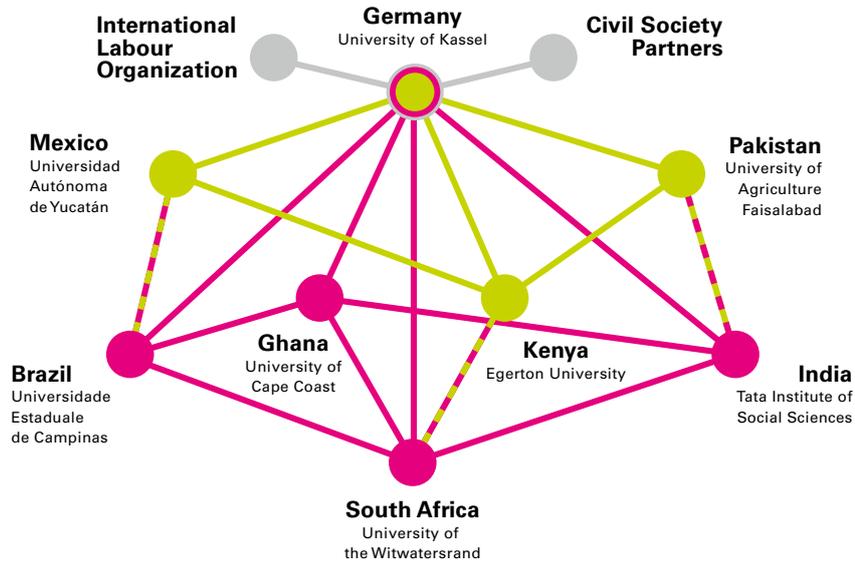
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