



European Commission

EU-MERCOSUR ASSOCIATION AGREEMENT

A VAST ECONOMIC POTENTIAL, BUILDING BRIDGES FOR OPEN TRADE AND SUSTAINABLE DEVELOPMENT



The future agreement involves the four founding members of Mercosur: Argentina, Brazil, Paraguay and Uruguay.

KEY FACTS ON MERCOSUR



A region of **260 million** consumers



The world's 7th largest economy and 5th largest market outside the EU with an **annual GDP of €2.2 trillion**



Closed markets with high tariff and non-tariff barriers



A destination for EU goods worth **€42 billion** (in 2016) and EU services worth **€22 billion** (2015)



A market for **60,500 EU companies**



A major destination for EU investments, with **€378 billion in investment stocks in 2015**

Trade is essential to growth and job creation in the EU. Every billion euros of exports **supports 14,000** jobs in the EU.

KEY BENEFITS FOR EU COMPANIES

1. Tariff elimination

→ The agreement will eliminate **very high customs duties in key sectors**, including those with a large volume of trade:

- ▶ Cars and parts;
- ▶ Machinery;
- ▶ Chemicals;
- ▶ Pharmaceuticals.



At present, tariffs in such sectors are high. For instance, tariffs of 35% apply to cars, 20-35% to key machinery products and up to 14% to pharmaceutical products.

- The tariff elimination also applies to sectors where trade has been kept to low levels by **prohibitive tariffs**. This includes textiles, a sector where exports to Mercosur are far lower than comparable and neighbouring markets, due to tariffs such as 35% on clothing products and shoes and 26% on knitted fabrics.
- Thanks to the Agreement, Mercosur will give EU companies much better access to its market than it gives to businesses from outside the EU. The EU will be the first trade partner to conclude a trade agreement with the Mercosur bloc, which gives the EU a **first mover advantage**.
- With the elimination of tariffs, the many **European companies already established in the Mercosur** countries would be able to import parts and intermediate goods more easily, improving their competitiveness.

2. Addressing non-tariff barriers to trade

The two sides will simplify their customs procedures and work together more closely on technical regulations and standards, so that any differences that may exist do not stop EU companies from exporting to Mercosur.



3. Services and establishment

Mercosur has only opened up its services market to a limited extent to other WTO members. The agreement would address the many significant barriers for European companies that provide services to Mercosur countries. EU services companies are already involved in business worth €21.5 billion in Mercosur, mostly in information technology, telecommunications, business services, financial services and transport.



The agreement would open up the services markets in Mercosur countries and offer greater legal certainty to EU suppliers.

4. Public procurement

Mercosur is not a member of the plurilateral Government Procurement Agreement. That means its valuable public (government) procurement market remains mostly closed to EU companies. The EU-Mercosur trade agreement aims to allow EU firms to bid for such contracts, just as Mercosur companies can already bid for EU contracts today.



5. Small and medium-sized companies provisions

The agreement aims to benefit EU companies, whatever their size, and in particular small and medium-sized companies. These companies are often deterred from entering new export markets due to things like red tape at customs, costly testing and certification requirements and sometimes a real lack of knowledge of regulatory requirements and processes to place their products on the export market. Thanks to the agreement, both sides will set up an online platform providing easy access to information on import requirements and preferential trading arrangements that will benefit small and medium-sized companies.



AGRICULTURE: CREATING OPPORTUNITIES FOR EU FARMERS AND FOOD PRODUCERS...

Since the launch of negotiations with Mercosur in 1999, the EU agricultural sector has become much more competitive. The EU is the leading exporter of agricultural products. Mercosur's market for agri-food products has high tariffs in some areas. An agreement would therefore offer real gains to the EU agri-food sector:



Products subject to high tariffs include:



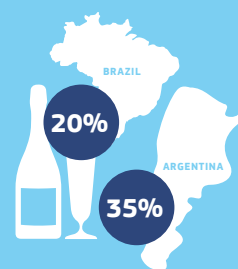
→ Dairy products



→ Chocolates and confectionery



→ Spirits



→ Champagne



→ Other wines



Mercosur is a **major market** for EU exports of olive oil, frozen potatoes, malt, pasta, chocolates, fruit and vegetables (including notably pears, plums, kiwis, apples), wines and spirits, such as vodka and whiskey. Exporters of these mostly high-value added exports could benefit significantly from the removal of tariffs.



For products such as **dairy**, exports to Mercosur are low in comparison to those to neighbouring and comparable markets, due to prohibitive tariffs on some key products.



The agreement will also address **access to raw materials**, notably the **export taxes** imposed by Mercosur countries on certain products such as soya. The aim in doing so will be to provide greater security of supply and competitiveness to the EU livestock sector, which relies on Mercosur protein crops.



The chapter on **geographical indications** or GIs – distinctive food and drink products from specific regions in the EU – is an important interest for EU producers of traditional agricultural products, such as wines and cheeses, which currently enjoy only limited protection in these markets. Due to the historic ties between Mercosur and EU countries, Mercosur is the region where traditional European products are copied most often.



The Agreement includes a chapter on food safety and animal and plant health, known as **sanitary and phyto-sanitary (SPS)** issues. Among other things, this will facilitate the listing of establishments allowed to export and ensure that audits are carried out in a timely and transparent manner.



...WHILE PROTECTING SENSITIVE PRODUCTS...

For some agricultural products, Mercosur and EU production are complementary, since northern and southern hemisphere countries produce at different times of the year. Other products, such as beef, ethanol, sugar and poultry are sensitive for the EU. To conclude this agreement, it is necessary to provide some market access for Mercosur on these products, which are among their key export interests. Partial liberalisation mechanisms such as tariff rate quotas (TRQs) allow the EU to provide limited market access on these products for Mercosur countries, while also safeguarding the interests of EU farmers. Under TRQs, Mercosur countries would be allowed to export at a reduced tariff up to a pre-agreed volume.



...UPHOLDING THE EU'S RIGOROUS FOOD SAFETY STANDARDS...

EU food safety standards will remain unchanged. No trade agreement will curtail the EU's ability to act decisively in case of public health risks. Mercosur is already a major supplier of beef and poultry to the EU. All imports have to comply with the EU's rigorous food safety standards. The same will apply to any imports that benefit from a future agreement.

Furthermore, the inclusion in the agreement of a chapter on food safety and animal and plant health will reinforce cooperation with the authorities of the partner countries and speed up the flow of information about any potential risks through a more direct and efficient information and notification system.

...AND CONTRIBUTING TO SUSTAINABLE PRODUCTION



- ▶ Both the EU and Mercosur are **committed to implementing the Paris Agreement** on Climate Change. Brazil's commitments under the Paris Agreement on Climate Change include actions to tackle deforestation.

The agreement will:



▶ **Include a trade and sustainable development chapter.** This will ensure we strengthen investment and trade relations whilst also fully respecting the environment. It will cover issues such as sustainable management and conservation of forests, wildlife trade and respect for labour rights.



▶ Provide a **new forum** in which to discuss how to make our trade flows more sustainable.



▶ Enable the two sides to **work closely together** on a more sustainable approach to agriculture, for example by promoting animal welfare or tackling antimicrobial resistance.



▶ Ensure that access to **affordable medicines** continues for those who need it.



▶ Fully uphold governments' **right to regulate**.



▶ Address, as part of the political dialogue part of the Association Agreement, the **rights of indigenous communities**.



▶ Include **provisions for civil society** to have a say regarding the implementation of the agreement, including any environmental concerns.



▶ The agreement will include provisions on responsible business conduct. In this regard there are a number of relevant initiatives including the soy moratorium and EU private sector initiatives on zero deforestation supply chains.