EU-MERCOSUR*
TRADE AGREEMENT

CREATING OPPORTUNITIES
WHILE RESPECTING THE INTERESTS OF EUROPEAN FARMERS

*Argentina, Brazil, Paraguay and Uruguay

BETTER EXPORT OPPORTUNITIES FOR EUROPEAN FARMERS AND FOOD PRODUCERS

The agreement presents a balanced outcome that creates new opportunities for European farmers and food producers, while at the same time mitigates possible market pressure. European farmers and food businesses will gain unprecedented access to the countries of Mercosur, which represent a large market of 260 million people. This will be achieved by:

- removing high tariffs for main EU export products
- preventing imitation of EU traditional foodstuffs
- making food safety procedures clearer, more predictable and less cumbersome for EU exporters

Removing tariffs

Many European agri-food products face high tariffs that make them less competitive or prevent them altogether from exporting to Mercosur countries. The agreement will eliminate **high import duties on many products. For many of these products** existing trade is high and in some cases is well below potential due to prohibitive duties.

Product	Existing trade	Current tariff
Olive oil	€300 million	10%
Malt	€50 million	14%
Wine	€160 million	27%
Canned peaches	€3-5 million	55%
Spirits	€180 million	20%-35%
Chocolates	€65 million	20%

While almost all of the EU's key export interests are subject to full liberalisation, for a small number of important products, zero duty quotas will be opened by Mercosur:

Product	Volume	Current tariff
Cheese	30 000 tonnes	28%
Milk powder	10 000 tonnes	28%
Infant formula	5 000 tonnes	18%

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Preventing imitation of EU's finest food and drink products

The EU is a major producer of high-quality regional food and drink products. In the EU, such products are protected under the 'Geographical Indications' (GI) system, a guarantee to consumers that such produce is genuinely made in their specific region of origin using ancestral know-how and techniques. The GI system provides EU producers with a premium price for their product and allows them to strengthen their position in the market. .

Thanks to the EU-Mercosur Agreement, some 350 European GIs, such as Tiroler Speck (Austria), Fromage de Herve (Belgium), Münchener Bier (Germany), Comté (France), Prosciutto di Parma (Italy), Polska Wódka (Poland), Queijo S. Jorge (Portugal), Tokaji (Hungary), and Jabugo (Spain), will now also be protected from imitations in the four Mercosur countries. This is the largest deal ever made on Geographical Indications within a trade agreement

Faster, simpler and more predictable export procedures

EU agri-food exporters will benefit from:

The **same Mercosur requirements for all EU Member States**

Simpler procedures for exports from the EU to the Mercosur countries, and clear and transparent audit rules for European agri-food exporters

The **application of the principle of 'regionalisation'**, whereby exports can continue from **non-disease or pest affected zones**, even when such a disease is present elsewhere in the EU

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Careful opening of markets

The agreement takes European farmers' sensitivities fully into account and respects their interests. As in other trade agreements, the EU will **not** fully open its market for imports of agri-food products. For sensitive products, **access to the EU market** will be granted in a **limited and strictly controlled** way, taking into account concerns of European farmers and consumer preferences. This will be achieved through carefully calibrated quotas, to be gradually implemented, in most cases in six equal annual stages.

In certain conditions, including in case of a sudden increase of imports causing serious market disturbance for EU producers, the agreement makes it possible to apply **safeguard measures** to protect EU farmers. This mechanism will apply to all products, including the sensitive ones, for which limited quotas are proposed. Other specific safeguards exist for the EU's outermost regions.

The Commission also stands ready to assist farmers to make any necessary adjustments, with **a financial support package of up to €1 billion in the event of market disturbance**. This will reinforce the support available to farmers through the Common Agricultural Policy, and will provide an important safety net for farmers and an essential income support, if needed.

Beef

EU beef production and prices have shown stable patterns in the last 5 years. Thanks to an increase in exports to existing partners, coupled with the opening of new key markets, overall beef exports are projected to increase by 15% in 2019, consolidating the EU's position as a net exporter of beef.

These patterns have coexisted with stable annual imports from Mercosur and the gradual phasing in of a significant quota for high quality fresh beef since 2009, agreed to settle a World Trade Organization dispute with the United States.

The EU currently imports around 200,000 tonnes of beef cuts every year from Mercosur countries. These imports cater mostly for the high value market segment, dominated by European production and facing increasing consumers' demand. This is why more than a quarter of this amount (around 45 000 tonnes of "fresh" beef and a further 10,000 tonnes of frozen beef) enters the EU market despite being subject to a 40%-45% duty.

Under the agreement, the EU will allow 99,000 tonnes of beef (55% of which is for "fresh", high quality beef, and the remaining 45% for "frozen" beef) to enter its market with a 7.5% duty. This represents **1.2% of the total European beef consumption (8 million tonnes every year)**. It will take 5 years until this amount is reached. This gradual phasing in period will provide the necessary time for European beef producers to adjust to the new market reality.

It is expected that, rather than creating an equivalent increase in imports, one of the effects of the new quota for "fresh" beef will be to replace some of the imports that are already taking place.

In addition, the agreed amounts will **not** lead to a significant increase in production on the Mercosur side. Brazil alone already produces 11 million tonnes of beef every year and the agreed quota of 99,000 tonnes will still be split among the four countries.

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Poultry

EU poultry consumption grew steadily from 11 million tonnes in 2005 to more than 14 million tonnes in 2018. That is **average consumption growth of over 230,000 tonnes per year**.

Currently the EU imports 800,000 tonnes of poultry every year, of which over half comes from Mercosur. In parallel, EU exports are at 1.6 million tonnes, giving the EU a **stable trade surplus of 800,000 tonnes.**

Under the agreement, the EU will allow a quota of 180,000 tonnes to be imported duty-free. This amount will be phased-in over five years after the entry into force of the agreement. This volume amounts to far less than one year of observed average long-term consumption growth and corresponds to 1.2% of current consumption.

In addition, there is a pronounced **complementarity** between imports and domestic production, since EU consumers have a strong preference for breast meat, whereas consumers in other markets prefer thighs for both cultural and economic reasons. Over the years the EU poultry sector has demonstrated its ability to adjust to new market circumstances and enhanced competition by boosting efficiency gains and innovation.

Sugar

The **EU was in 2018 a large net exporter of sugar with exports of 2.1 million tonnes**.

For its sugar exports to the EU, Brazil has until now been using a tariff quota allocated under the EU's WTO schedule with an in-quota duty. With the agreement, 180,000 tonnes of sugar for refining will be allowed into the EU duty-free under this existing quota. **No new sugar quota will be created for Brazil**. A new duty-free quota of 10,000 tonnes was agreed only for Paraguay. Specialty sugars are excluded from the agreement.

The agreed amounts cover a volume accounting for **1% of EU sugar consumption**, which is around 19 million tonnes and remains stable.

Ethanol

A duty-free quota of 450,000 tonnes will be opened for ethanol to be used by the chemical industry. A further quota of 200,000 tonnes with an in-quota rate of 1/3 of the current high duty (up to €19/hectolitre) will be opened for all other uses. Both amounts will be phased in gradually over 5 years.

The smaller quota can be used for the fuel segment of the market, which represents by far the biggest chunk of the EU ethanol consumption: out of the 6 million tonnes of ethanol consumed every year in Europe, 4 million are used in fuel.

As for the sub-quota for chemical uses, the European bioplastics and biochemical industry is currently struggling to expand because of lack of access to bioethanol, the main input for production, at a competitive price, in part because of the focus of EU production on fuel uses. **The larger sub-quota, which is reserved for the less sensitive chemical uses segment, is therefore expected to have a positive job creation impact in the EU.**

The decisions concerning ethanol must also be seen in the context of Brazil's status as one of the world's two major producers and exporters of bioethanol, along with the United States. Together, the two countries account for 85% of world production.

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Honey

For some years, the market has been characterised by strong growth in consumption and steadily increasing prices. While domestic production has substantially grown, the **EU has increasingly had to rely on foreign honey to meet demand** and now imports around 45% of what it consumes.

Current EU imports from Mercosur amount to around 35,000 tonnes.

The agreement will open a honey quota of 45,000 tonnes, to be imported duty-free after a gradual duty reduction over a 5-year period. This quota is expected to include the current imports.

Rice

Existing rice imports from Mercosur amount to around 100,000 tonnes a year on average. The agreed quota is therefore much less than the amount which the EU already imports and amounts to 2.2% of EU consumption of 2.7 million tonnes, almost half of which needs to be imported.

Moreover, Mercosur produces ***indica* rice and therefore does not compete on the more sensitive *japonica* segment of the EU rice market**, which constitutes the bulk of EU production (around 75%). **80% of *indica* rice consumed in European comes from imports**. The quota under EU-Mercosur agreement will therefore maintain the already existing supplies from Mercosur.

The volume of the rice quota in the agreement will be 60,000 tonnes, duty-free, with a gradual tariff reduction over 5 years. The new quota is expected to include the current imports.

Stringent food safety requirements for imports

EU food safety, animal and plants health standards are non-negotiable. All imported agri-food product must comply with the EU's stringent food safety standards. This means that no hormone beef or non-authorised GMO products will enter the EU market. The agreement will not change anything in this respect. The **EU's food safety and health standards shall apply to all products sold and consumed in the EU** whether produced domestically or imported. The EU-Mercosur trade agreement fully upholds this principle.

The agreement also **includes the precautionary principle** and the right of parties to adopt or maintain precautionary measures to protect human, animal and plant health, even in cases where the relevant scientific evidence is insufficient.