

**EUROPEAN COMMISSION SERVICES' POSITION PAPER ON THE SUSTAINABILITY IMPACT  
ASSESSMENT IN SUPPORT OF NEGOTIATIONS FOR THE TRADE PART OF THE  
EUROPEAN UNION-MERCOSUR ASSOCIATION AGREEMENT**

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## 1. INTRODUCTION

Sustainability Impact Assessments (SIAs) are trade-specific assessments carried out by external consultants to support major trade negotiations. They examine how the trade and trade-related provisions of the agreement under negotiation could affect economic, social, human rights, and environmental issues in the European Union (EU) and in the partner country, as well as in other relevant countries (notably, developing countries); and they propose measures to maximise the likely benefits of the agreement or to mitigate possible negative impacts. SIAs are also an important tool for consultation and communication with stakeholders, providing civil society and stakeholders with extensive possibilities to be informed, to comment and to provide input and thus contributing to the transparency of trade negotiations. The present SIA drew on the methodological framework set out in the Commission's [Handbook for Sustainability Impact Assessment](#). The final report is publicly available on the [Commission's website](#).

The EU-Mercosur negotiations started in 2000 and over the years experienced different phases. In May 2016, the EU and Mercosur relaunched the negotiation process, exchanged new market access offers and intensified the pace of negotiations by holding negotiation rounds and meetings at regular intervals. On 28 June 2019, the EU and Mercosur reached a political agreement for the trade pillar of the EU-Mercosur Association Agreement (AA).

This is the second SIA carried out on the EU-Mercosur AA. It was commissioned by the European Commission's Directorate-General for Trade in 2017 and was carried out by an independent consultancy company, London School of Economics (LSE) Enterprise. It was completed in December 2020. The analysis, as with all SIAs, looks at hypothetical scenarios, both a conservative one and an ambitious one. While neither scenario is identical to the negotiated outcome, they do represent a fair reflection of the outcome in some key areas. For example, in the areas of sensitive agricultural products, what was agreed with Mercosur is very close to the conservative scenario.

In line with the methodology guidelines for SIAs, the study involved public meetings with stakeholders, targeted roundtables and bilateral contacts with experts and on-line consultations. In March 2018, LSE organised four roundtables in Brussels and two events in Brazil and Argentina, covering the selected sectors - namely agricultural goods, manufactures, services and environmental & human rights issues - and a range of sustainability issues. The SIA therefore took into account views from a broad base of stakeholders from different sectors, in the EU and in Mercosur and also helped to raise awareness about the negotiations.

Besides enabling dialogue with civil society and stakeholders, the SIA also provided the Commission services with a series of findings on potential economic, social and environmental impacts of the Agreement. Ideally, the SIA would be finalised before the end of the negotiations, this was unfortunately not possible in case of this second SIA, due to the unpredictable character of the EU-Mercosur negotiations. The dynamics and pace of an SIA, consisting of extensive work by the consultant, analysis and consultations within the Commission, with civil society and stakeholders cannot be made dependent on the negotiation process.

Although the final report of the second SIA was not available at the time of the conclusion of the negotiations, the Commission services consider that the SIA process, as well as more broadly the transparent negotiation process followed by the Commission, offered a solid platform for engaging with civil society and has duly and extensively informed the negotiators. The analysis in the SIA lays the basis for designing flanking and mitigating measures, a number of which are proposed throughout the study.

Furthermore, and especially given that it contains recommendations on flanking measures, the SIA will also be useful in ensuring an informed societal debate during the ratification process and the following work between the EU and Mercosur on the implementation of the Agreement.

This document sets out the European Commission services' position on the SIA on the trade part of the EU – Mercosur Agreement and constitutes the Commission's response to the SIA's findings and recommendations.

## **2. OVERVIEW OF THE CONSULTANT'S FINDINGS**

The SIA consists of a modelling exercise and a qualitative analysis of the potential economic, social, environmental, human rights and sectoral impacts of the AA. The summary by the contractor sets out the modelling scenarios and the key results with reference notably to sensitive agricultural products.

### **2.1. Economic impacts**

The study modelled two scenarios, one considered conservative and the other more ambitious, with respect to the outcome of the negotiations in terms of tariff and non-tariff measures reductions by both parties. The EU is treated as a single region in the model, which includes the UK as the modelling was undertaken before 1 February 2020. As regards industrial goods, 90% tariff eliminations by Mercosur is modelled in the conservative scenario and 100% in the ambitious scenario. For the EU, 100% liberalisation of industrial goods is modelled in both scenarios. As regards agricultural goods, for Mercosur, full liberalisation for 80% of tariff lines takes place under the conservative scenario and 100% under the ambitious scenario. For the EU, certain products (meats, rice, sugar, dairy and beverages) are subject to a 15% tariff cut in the conservative scenario. In the ambitious scenario, meats, sugar and rice are subject to a 30% tariff cut, while dairy and beverages are fully liberalised. All other agricultural products are fully liberalised. The impact of disciplines on non-tariff barriers (NTBs) is modelled in the form of a shift in import-augmenting technological change.

According to the modelling, in the conservative scenario, the EU's GDP would be €10.9 billion higher by 2032, compared to the baseline without the AA, and €15 billion higher in the ambitious scenario. Mercosur GDP €7.4 billion higher in the conservative scenario by 2032, and by €11.5 billion in the ambitious scenario.

### **2.2. Social impacts**

The Computable General Equilibrium (CGE) modelling predicts that the EU-Mercosur AA will have significant positive welfare effects on the EU, Brazil and Argentina, and neutral welfare effects for Uruguay and Paraguay.

The model yields a slight increase in real wages for both skilled and unskilled workers in the EU, Argentina, Paraguay and Uruguay, while they remain the same in Brazil. The increase in real wages for unskilled workers' income suggests a positive impact in terms of poverty reduction, although its effect is small in the conservative scenario and only marginally larger in the ambitious scenario.

Employment reduction in certain manufacturing sectors in Mercosur (metal products, motor vehicles and transport equipment and machinery sectors) are offset by increases in the share of the agriculture and food production sectors. The impact on the EU sectoral employment patterns is much less significant.

The EU-Mercosur AA is expected to have limited direct effects on labour standards. Still, the report suggests that the Trade and Sustainable Development (TSD) chapter of the Agreement brings an opportunity to engage and cooperate between both parties to help to lock in or renew the recent social achievements attained in the Mercosur region. The SIA includes a discussion of the added value of EU policies on trade and labour and their effectiveness.

### **2.3. [Human rights impacts](#)**

The chapter focusses on four human rights areas that were selected for in depth analysis of impact, on the basis of the screening phase: the Right to an Adequate Standard of Living, the Right to the Enjoyment of the Highest Attainable Standard of Physical and Mental Health, the Rights of Indigenous Peoples and Gender Equality. Of these rights, particular attention is given to indigenous issues.

The analysis points out that indigenous communities have a number of rights that are guaranteed by the Mercosur countries' constitutions and by their international commitments, notably land rights and rights to the preservation of culture and traditional ways of life. A number of mechanisms are in place to ensure that these rights are protected. However, it is argued that there is a disconnect between theory and practice in the protection of indigenous rights and access to justice. Consultation mechanisms, known as prior, free and informed consent (PFIC), are in place for major investment projects, but are often highly flawed and risk becoming box-ticking exercises. Indigenous peoples tend to lack the means of redress. While there have been improvements in Argentina and Paraguay in the last decade, the situation in Brazil has regressed since 2014. After a phase of extensive land demarcation in the previous decade, the extension of indigenous reserves has ceased in recent years. The enforcement Agency for Indigenous Rights (FUNAI) has seen serious budget cuts in recent years. Given these shortcomings, agricultural expansion and large-scale investments can pose a risk to indigenous persons' right to land and to their traditional ways of life. However, the potential impacts are small as the AA only slightly increases output of agricultural products such as beef across the three countries in the CGE modelling. Since this issue largely overlaps with that of deforestation, the decline in deforestation rates between 2004 and 2012 (see Section 2.4 below) points to the possibility that agricultural production can continue to increase in a way that does not compromise indigenous rights. However, there are serious concerns regarding the strength of enforcement of existing protections.

The findings from this Chapter also suggest that the AA could impact on the Right to an Adequate Standard of Living but this is largely dependent on the strength of accountability mechanisms across Mercosur. The chapter notes that with proper accountability mechanisms, as well as adequate

flanking measures, the AA has the potential to provide important benefits to the participating countries.

Concerning the Right to Health, the analysis suggests that the AA presents significant opportunities from trade in services and the potential to increase health care services in rural Brazil and Paraguay. Opportunities also exist via procurement, and transfer of know-how through the movement of persons. However, risks exist in terms of possible brain drain impacts and consumer trust as regards Phytosanitary measures.

In relation to gender issues, women are expected to benefit from the AA. However, as women are underrepresented in tradeable sectors, and increases in agricultural and industrial exports may result in technical upgrading, women are expected to benefit from employment and income gains less so than men.

## **2.4. Environmental impacts**

The environmental chapter covers climate change (Greenhouse Gas - GHG - emissions); energy use; land use; forestry; air pollution; waste generation; ecosystems and biodiversity; and trade in environmental goods and services. In terms of the potential impact of the AA, the two most important environmental issues are greenhouse gas emissions and deforestation.

The SIA concludes that the impact of the AA on global GHG emissions would be negligible. The overall moderate increase in GHG emissions in Mercosur countries is compensated by a decrease in emissions in the EU and the rest of the world leading to a negligible global effect of the AA on total GHG emissions. There would be a small decrease in global CO<sub>2</sub> emissions which would be offset by a small increase in emissions of other greenhouse gases. The AA is assessed to be carbon efficient: in the modelled scenarios, the emissions intensity of economic activity decreases marginally for the world economy as a whole, i.e. the world economy produces less greenhouse gas emissions for a given amount of GDP, with a small increase in emissions intensity in Mercosur offset by a small decrease in the EU.

It also highlights that the expected expansion of the agricultural and animal sectors poses some moderate concerns regarding the increased use and contamination of water resources, if appropriate management practices are not in place, given the observed rise in the use of pesticides and the absence of adequate price incentives to encourage efficient use of pesticides, fertilisers and water in agriculture.

As regards deforestation, the model predicts a small increase in production of various land-use related products. Moderate concerns in terms of the impact of the AA on deforestation is envisaged, in particular in Brazil, if the policy environment that allowed past reductions in deforestation is not maintained and any expansion of the agriculture and animal sectors are met by an increase in forest clearing instead of by increases in productivity and the conversion of existing low-efficiency meadows and pasturelands. In this context, the report points to the sharp decline in rates of deforestation that was achieved between 2004 and 2012 while still increasing production of various agricultural products, notably beef. This decoupling of production from deforestation was achieved through a number of important policy reforms, which are reviewed in the report. These include the adoption of the forest code, the creation of an enforcement agency, the expansion of indigenous reserves, and the highly effective soy moratorium as well as the only partially effective beef

moratorium. In light of this historical experience in Brazil, the SIA concludes that the Agreement does not threaten higher deforestation. However, the rollback of some of the most beneficial policies in recent years has weakened the protections that allowed production and deforestation to be decoupled and resulted in a significant increase in the rates of deforestation and forest degradation, as well as wildfires. The impact of the AA therefore is highly dependent on the existing policy framework and its enforcement, thereby requiring a reinforcement of these policies. In this regard, the undertakings in the TSD chapter, where Mercosur countries commit to effective implementation of the Paris Agreement, are considered important. More specifically, the SIA concludes that positive impacts are contingent upon Brazil in particular respecting the detailed pledges on illegal deforestation and forest restoration contained in its November 2016 Nationally Determined Contribution (NDC) submitted under the Agreement. It has to be noted though that in Brazil's updated ("new first") NDC of December 2020 these specific forest-related commitments do no longer appear.

The AA is also expected to positively contribute to increasing trade in environmental goods and services, stimulate international cooperation for the development of green technology and the protection of natural resources, e.g. fisheries. The AA is expected to have limited effect on the countries' Multilateral Environmental Agreements (MEA) compliance. The abilities to meet their environmental obligations will be contingent upon countries' commitment to environmental regulation as well as the impact of TSD provisions and the efforts undertaken by the parties to enforce them.

## **2.5. Sectoral Analysis**

In addition to covering several crosscutting themes - namely, Small and Medium Enterprises (SMEs), consumers, government procurement, Least Developed Countries (LDCs) and Outermost Regions (OMRs) – the study analyses the specific impact of the AA on 10 sectors.

**Beef:** As a proxy for modelling changes in tariff rate quotas, tariff cuts of 15%/30% for beef were introduced in the conservative/ambitious scenario. This leads to modelled increases in EU imports from Mercosur of 30%/64% respectively. On the basis of historic imports of just under 200 000 t carcass weight equivalent (cwe – a measure expressing quantities with bone-in), this would roughly correspond to increases in imports of 60 000 t cwe (46 154 t in meat cuts) and 128 000 t cwe (98 461 t in meat cuts) respectively. The analysis notes two important specificities of EU trade with Mercosur. First, Mercosur exports higher quality cuts, whose price is above that of the average cut marketed in the EU. Second, and pushing in the opposite direction, the EU imports a significant volume of beef from Mercosur out-of-quota, paying the full MFN tariff. What is foreseen in the negotiated outcome is that the EU will allow 99,000 cwe tonnes (corresponding to 76 154 tonnes of meat cuts) 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. According to the analysis, the increase in imports from Mercosur, as compared with current trade, will likely be significantly less than the volume of the new quota, given the high level of existing out-of-quota trade, much of which will likely be channelled through the new quota. The outcome of the Agreement therefore is closer to the conservative scenario.<sup>1</sup> The report recognises that beef production may have important effects

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<sup>1</sup> For further information on the agriculture impact please see the "[Cumulative economic impact of trade agreements on EU agriculture – 2021 update](#)"; the "EANO - Economic Assessment of the Negotiated Outcome of the EU-Mercosur Agreement" to be published shortly includes an ex post evaluation of the negotiated agreement.

on land use and the environment, in particular on natural ecosystems, water and production of certain GHGs. Acknowledging these risks, the SIA points out, however, that increase in efficiency of agricultural production and adoption of adequate policies could prevent shifting to unsustainable forms of mass production and associated environmental risks.

**Dairy:** This section highlights the EU's stronger competitive position based on trade data. The modelling results show mostly stable EU dairy output, despite a strong increase of exports to Mercosur. This is of course due to reallocation of resources in the economic model rather than direct effects. The negative impact on output in Uruguay is noted (1.5% in the conservative scenario, 2.4% in the ambitious scenario). The impact of Geographical Indications (GI) protection is discussed, but it is not modelled in the quantitative analysis.

**Sugar and ethanol:** The chapter highlights Mercosur's competitiveness on the basis of production, trade and revealed comparative advantage statistics. EU production decreases in the modelling results by 0.7% in the conservative scenario and 1.0% in the ambitious scenario. The negotiated outcome of the Agreement is considerably below the conservative scenario, as no new quotas have been negotiated except 10 000 tonnes of sugar for refining for Paraguay. The text notes that an increase in Brazilian production may lead to additional pesticide pollution. It also points to long-standing concerns regarding the treatment of workers, while noting that the sector has been heavily mechanised. Ethanol is not specifically captured by the model, so the impact is examined using tariff, trade and comparative advantage data. In the case of the EU, rising ethanol from Mercosur can reduce pollution in the EU by beneficially impacting its greenhouse gas emissions. Higher ethanol production in Mercosur is associated with increasing use of irrigation, water consumption, overflow of fertilisers and pesticides, degradation of soil and pollution. The report notes that environmental implications could be reduced should Mercosur countries increase investment in more modern facilities that use cleaner technologies.

**Beverages:** The section examines historic trade patterns and the far higher prevailing tariffs in Mercosur, notably on alcoholic beverages, which point to larger opportunities in the AA for the EU. Concerns are raised about the impact on rum production in the EU's outermost regions while noting that this impact will be limited given that the EU MFN tariff is already low and in most rum lines zero. The report notes that the liberalisation of EU-Mercosur trade in beverages would likely result in an increase in agricultural production (to provide inputs for beverage producers) and downstream beverage manufacturing, potentially placing greater pressure on both land and water resources. Nevertheless, the overall environmental impacts in Mercosur and the EU are unlikely to be significant.

**Industrial goods (textiles and garments, chemicals and pharma, machinery, vehicles and parts):** The text notes the potential for increased competitive pressure on the vehicles and parts sector in Mercosur, in line with the modelling results. It also notes that Mercosur sectors will likely become more specialised, competitive and globally integrated. Positive impacts on EU output and exports are noted for all these sectors. Although the textile and garment sector value chain has considerable environmental impacts, consumption is expected to increase only marginally according to the modelling, therefore the impact of the AA in this sector is expected to be minimal. For machinery, the potential harmonisation of technical norms, many of which related environmental standards, may imply the agreement to have a positive impact on the environment in the long term. Similarly,



for vehicles it could be expected that the agreement will promote the adoption of cleaner mobility options in the Mercosur region with a positive impact on the environment.

**Services:** This section reviews services trade relations between the EU and Mercosur and contains a more detailed analysis of relevant CGE modelling results and existing policy barriers for financial and insurance services trade between the EU and individual Mercosur countries. According to the modelling results, the agreement generates small changes in the trade of business and professional services with EU imports from Mercosur growing by 6.5% in the conservative scenario (by 9.2% in the ambitious one) and exports decreasing by 3.4% in the conservative scenario (and increasing by 1.4% in the ambitious scenario). This is the result of relatively lower barriers to investment and trade in the sector (in both parties). Nevertheless, in both scenarios, the agreement generates increases in output in Mercosur which are associated with the supply of services to other sectors that may see their output expanded by the agreement. The Mercosur financial sector also experiences modest increases in exports to the EU in both scenarios and in output. In the EU, financial services output contracts marginally in both scenarios. EU financial services exports to Mercosur decrease slightly in the conservative scenario and increase slightly in the ambitious.

### **3. COMMISSION SERVICES' VIEWS ON THE FINDINGS AND RECOMMENDATIONS**

Commission services closely followed the SIA process, which ran in parallel to the negotiations, and studied the findings as they became available. Therefore, the negotiated outcome concluded in June 2019 already takes into account the analysis made by the consultant.

Recommendations for policy or flanking measures have been developed to promote sustainability and to mitigate negative impacts. They derive from the analyses of the different economic, social, environmental and human rights as well as sectoral elements of the SIA and also draw on relevant recommendations put forward by stakeholders during the consultations. Those can be grouped as follows:

**Economic impacts:** recommendations address the issues of gradual reduction of tariff protection in order to allow sufficient time for adaptation, particularly in economic sectors that are more vulnerable to negative economic impacts (for instance vehicles and machinery).

**Social impacts:** recommendations are geared towards the mitigation of the possible negative externalities of trade and towards strengthening the enforcement of labour law and increased involvement of civil society in the implementation of the AA. Measures to protect workers together with redistributive programmes, should be considered to mitigate social impacts and drive benefit from the AA.

**Environmental impacts:** recommendations highlight the need to adopt and enforce measures to decrease deforestation, biodiversity loss and contamination of water resources in Mercosur countries, convert existing degraded pasturelands into land destined to sustainable agriculture as well as fulfilling the Paris Agreement commitments. Mercosur and the EU are also invited to prioritise circular economy and adequate waste management as well as to adopt a multi-faceted approach to the enforcement of TSD provisions.

**Human rights impact:** recommendations point to the need for Mercosur countries to strengthen their institutional frameworks for accountability measures for the protection of human rights, with a



special emphasis on changes in labour conditions, use of land that affects indigenous peoples, access to health and development of medicine, and gender equality issues.

**Sectoral impacts (agriculture, manufacturing and services):** recommendations suggest actions to increase positive impacts and mitigate risks across the sectors which have been analysed. Retraining and upskilling programmes are suggested to support the transition of workers between sectors. On the EU side, the use of quotas and partial liberalisation measures should be considered for sensitive agricultural products.

### **3.1. Economic impacts**

#### **3.1.1. Consultant's recommendations**

*The consultant considers that Mercosur should implement a gradual introduction of the related tariff changes to give the involved actors enough time to accommodate and mitigate the negative effects in the output of vehicles and machinery. In this vein, to allow farmers and producers to reduce their exposure and limit the impact of the agreement, the consultant invites the EU to consider the use of quotas and partial liberalisation to minimise the impact in sectors such as beef, poultry and sugar. At the same time, Mercosur members should introduce re-training policies to smooth the transition of workers between sectors.*

#### **3.1.2. Commission services' reaction**

The Commission services take a positive view on this set of recommendations as they highlight a very important element for Mercosur countries to minimise a possible negative impact. Indeed, the tariff reduction or dismantlement that have been negotiated will take place gradually over a number of years. Tariff lines on sensitive products, such as passenger cars, will be liberalised by Mercosur over 15 years and car parts tariff lines mostly within 10 years, while in most sensitive cases liberalisation takes 15 years or there is even exclusion from preferential trade. 93% of EU machinery exports will be fully liberalised, mostly within 10 years, but in most sensitive cases for Mercosur over 15 years. For the remaining industrial goods tariff lines, cuts by Mercosur are linear and usually staggered over a transitional period to reach full liberalisation in between 4 and 10 years (a small number of products are excluded or subject to 15 years of transition period). For imports of sensitive products (beef, sugar, ethanol, chicken, pork), the EU has reconciled the need to make meaningful concessions to our partners with the need to safeguard the interests of European farmers, by using tariff rate quotas (TRQs). These TRQs will allow imports at preferential tariff rates up to a limited volume, which will only represent a very limited share of the EU market. TRQ volumes in EU FTAs are always carefully calibrated to take account of conditions in the relevant agricultural market as well as existing trade flows. This agreement is no exception. Furthermore, it is also important to keep in mind that the agreement provides for general bilateral safeguards that are applicable to all products, including agricultural ones, and are applicable to products subject to TRQs. These safeguards are available for a very long transition period. The safeguard may be imposed in the case of a "serious injury" or a "threat of serious injury", i.e. if injury did not yet occur but it is imminent. Specific safeguards are also foreseen for protecting the market in the EU outermost regions. Finally, as former Agriculture Commissioner Philip Hogan announced at the moment of the political conclusion of the negotiations, publicly reconfirmed at the European Parliament and in other fora and spelled out in the Commission's communication material, the European Commission is ready to make available support for the agriculture sector in the unlikely case that the implementation of the deal would result in market disturbances.

## **3.2. Social impacts**

### **3.2.1. Consultant's recommendations**

*The consultant suggests that Mercosur countries, particularly Brazil, should maintain their support for anti-poverty and redistributive programs with a view to reducing inequality and mitigating the potential losses incurring from increased competition in the manufacturing sector. At the same time, they are encouraged to design effective adjustment programs and strengthen retraining and upskilling programmes to facilitate labour mobility. The consultant also invites Mercosur countries to strengthen the enforcement of labour laws to protect freedom of association and the right to collective bargaining and reinforce labour inspection programs eliminate all forms of child labour. Mercosur countries are also invited to consolidate labour formalisation policies that have proved successful in the region and replicate best practices.*

*Conversely, the consultant invites the EU to develop monitoring and enforcement programs to tackle child labour with the collaboration of Mercosur government(s) and local society groups. The EU is also invited to adopt EU-wide due diligence measures and promote Responsible Business Conducts/Corporate Social Responsibility to strengthen labour rights. The consultant also calls on the EU to maximise the positive effects of the EU-Mercosur AA's TSD chapter in line with the new Commission's commitment to the enforcement of labour provisions in trade agreement. To achieve this the consultant urges the EU to adopt a more assertive use of dispute settlement e.g. in response to concerns over violations of freedom of association, more open public accountability mechanisms that feed into dispute resolution and targeted and effective ex-post monitoring processes, that are essential to the implementation of the TSD chapter and the protection of core labour standards.*

### **3.2.2. Commission services' reaction**

The Commission services by and large support the above set of recommendations. In relation to the recommendations addressed to Mercosur countries, the Commission services share the consultant's views on the importance for Mercosur countries to keep up their anti-poverty programs with a view to reducing inequality and mitigating the potential losses incurring from increased competition in the manufacturing sector. Adequate programs should be designed to facilitate labour mobility, skills transfer and retraining of personnel to smooth the unavoidable transformative changes that will result from trade liberalisation. Furthermore, the Commission is of the view that well targeted flanking measures supporting the competitiveness of those industries exposed to further competition can offset and even create new opportunities in the vastly growing Mercosur market with an expanding middle class. By making good use of the long transition periods up to 15 years for the most sensitive sectors, the negative impact on employment can be minimised as the growth potential for competitive sectors in Mercosur is significant. Equally important is for Mercosur countries to strengthen the enforcement of labour law and reinforce labour inspection programs to eliminate all forms of child labour. The Commission services stand ready to accompany Mercosur's efforts through capacity building programs and sharing of best practices. This can be indeed part of future activities to be supported under the next 2021-2027 development cooperation financing cycle.

Regarding the recommendations addressed to the EU to monitor and enforce programs to tackle child labour with the collaboration of Mercosur government and local society groups, the Commission services agree that it is indeed important to ensure that the fight against child labour is pursued in Mercosur countries. For that reason the Commission services have developed several

programs aimed at supporting Human Rights, including the fight against child labour, under the European Instrument for Democracy and Human Rights (EIDHR). This will continue to be a priority of the EU's development cooperation.

In relation to the suggestion to pursue due diligence measures and promote EU wide Responsible Business Conducts/Corporate Social Responsibility to strengthen labour rights, the Commission recalls that the Mercosur agreement commits the parties to support the dissemination and use of international principles on labour rights, including as expressed in the International Labour Organization (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. As for the introduction of a mandatory EU wide due diligence obligation, this is subject to analysis as part of the preparations of the Sustainable Corporate Governance initiative, planned for adoption by the Commission in Q2 2021.

The consultant also calls on the EU to maximise the positive effects of the EU-Mercosur AA's TSD chapter in line with the new Commission's commitment to the enforcement of labour provisions in trade agreements. The Commission services agree with this recommendation and intends to fully tap the potential of the TSD chapter that has been negotiated. This chapter lives up to the highest standards for chapters in other modern agreements such as those with Mexico or Japan. Here, the Parties agree that they should not lower labour or environmental standards in order to attract trade and investment. They also agree that the trade agreement should not constrain their right to regulate on environmental or labour matters, including in situations where scientific information is not conclusive.

In relation to the suggestion that the EU should adopt a more assertive use of dispute settlement, the Commission is committed to exploit the full potential of all the provisions included in the AA. The TSD chapter is no exception. The more intensive monitoring and assertive enforcement of TSD commitments undertaken in EU trade agreements has been a priority of the Commission services since the publication of the 15-Point TSD Action Plan in February 2018. This includes resorting to the TSD dispute settlement mechanism in case of non-compliance. The Commission services are currently resorting to this tool under the EU-South Korea FTA. The recently established Chief Trade Enforcement Officer and Single Entry Point will strengthen enforcement and implementation of TSD commitments. In its new trade strategy document<sup>2</sup>, the Commission committed to further reinforce the sustainability dimension of existing and future agreements in the implementation of all sustainable development chapters in trade agreements.

### **3.3. Environmental impacts**

#### **3.3.1. Consultant's recommendations**

*The consultant makes a number of recommendations concerning the prevention of possible negative environmental impacts of the expected increase in agricultural production resulting from the AA. In particular, Mercosur countries are invited to convert existing degraded pasturelands into land destined to sustainable agriculture to prevent the clearing and degradation of forest land to achieve the expected expansion of agricultural production. A related recommendation addressed to Mercosur*

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<sup>2</sup> Trade Policy Review - An Open, Sustainable and Assertive Trade Policy, 18/02/21, available at the following link: [https://trade.ec.europa.eu/doclib/docs/2021/february/tradoc\\_159438.pdf](https://trade.ec.europa.eu/doclib/docs/2021/february/tradoc_159438.pdf).

*is to close up the gaps in agricultural productivity by increasing efficiency in sustainable agricultural production, while ensuring the enforcement of environmental and animal welfare regulation.*

*Deforestation is a very important focus of the consultant's recommendations addressed to Mercosur countries, in particular to Brazil. Brazil is urged to improve anti-deforestation policies and law enforcement activities to detect illegal logging and expand monitoring along the supply chain. Furthermore, Brazil is encouraged to renew the policy that allowed the decrease in deforestation observed in the years 2004-2012. It is argued that Brazil should encourage private sector operators to extend the Soy Moratorium to the Cerrado and to improve the effectiveness of the Beef Moratorium by, for example, expanding monitoring to all properties in the supply chain. At the same time, the Brazilian government is urged to reinvest in the Brazilian Institute of Environment and Renewable Natural Resources (IBAMA) to enable effective enforcement. The Brazilian government should also make use of the available information on illegal logging, regularly collected using satellite imagery, to target law enforcement activities. Argentina should aim at an effective implementation of the proposed National Action Plan on Forests and Climate Change to decrease deforestation and forest degradation, while Paraguay should maintain the commitment to sustainable forest management by e.g. increasing the enforcement of the Zero Deforestation Law across all regions. All Mercosur countries are invited to achieve greater harmonisation of deforestation regulations and monitoring across regions to prevent shifting deforestation towards more weakly regulated and monitored areas.*

*The consultant urges Mercosur and the EU to fulfil their Paris Agreement commitments and achieve their GHG emissions targets as detailed by their NDCs. Mercosur countries are also invited to implement National Biodiversity Strategies and Action Plans under the Convention of Biological Diversity (CBD) and protect land rights especially among indigenous communities to make local stakeholders an integral part of biodiversity protection. The consultant argues that Mercosur countries should engage in a comprehensive reassessment of fertilisers and pesticides to limit possible harmful effects on human and animal health and the local ecosystem from agriculture, and establish a monitoring programme for pesticide residues in waterways and air. They should also design smart and democratic pricing systems to encourage a more efficient use of water in agriculture and preserve natural resources and biodiversity. All parties are asked to promote cooperation in the development and transfer of green technology. The EU, Brazil and Argentina should continue engaging in the All Atlantic Ocean Research Community to promote the sustainable management of the Atlantic Ocean. Uruguay should also join this international research community. Mercosur countries should consider prioritising circular economy and waste management, including adequate waste disposal in a way that is safe for human health and the environment. Finally, Mercosur and the EU should adopt a multi-faceted approach to the enforcement of TSD provisions by complementing the benefits of dialogue with an assertive use of dispute settlement, more open public accountability mechanisms, as well as targeted and effective ex-post monitoring processes that capitalise on the expertise and experience of local stakeholders, governments and multilateral bodies. Civil society mechanisms should be reinforced to build trust in TSD enforcement and facilitate each party's compliance with MEAs.*

### 3.3.2. Commission services' reaction

The Commission services have taken note of the above set of recommendations. The bulk of the recommendations are addressed to Mercosur countries in relation to the need to adopt active policies to prevent deforestation and forest degradation. The Commission services fully concur with the need for Brazil to improve and have in place robust anti-deforestation policies and law enforcement and to strengthen the institutions responsible for law enforcement and monitoring, in particular the Brazilian Institute of Environment and Renewable Natural Resources (IBAMA). The Commission services also recognise and share the deep concerns expressed by numerous stakeholders, including EU Member States, Members of European Parliament, and civil society organisations about deforestation and sustainability issues in Mercosur countries. These concerns have also emerged clearly from the consultation events organised in the context of the SIA process. European Commission Executive Vice-President (EVP) Valdis Dombrovskis publicly stated<sup>3</sup> that *“we will need meaningful results, meaningful engagement from Mercosur countries before we can proceed with ratification”*, referring to concerns regarding deforestation in the Amazon and the need for parties to honour their binding commitment in the EU-Mercosur agreement to effectively implementing the Paris Agreement.

The consultant rightly points out that a reduction in deforestation was observed between 2004 and 2012 in Brazil, which was achieved alongside increase in beef production. The decrease in deforestation rates can largely be attributed to the adoption of appropriate policy initiatives (such as those under the 2004 Action Plan for the Protection and Control of Deforestation in the Amazon<sup>4</sup>), voluntary arrangements and market-based initiatives (such as the soy and the beef moratorium) that aimed at decreasing the demand for new deforestation and increasing the risks to those engaged in deforestation. This indicates the importance of effective monitoring and assertive enforcement policy in preventing deforestation and demonstrates that policies and enforcement actions can lead to the decoupling of beef production from deforestation. The Commission services attach great importance to these recommendations that are consistent with the spirit and the letter of the commitments included in the TSD Chapter.

The Commission services are ready to further support Mercosur's efforts and initiatives to fight against deforestation and forest degradation in the Amazon and other biomes and deliver on the pledges committed under the CBD. The Commission services share the recommendation addressed to Mercosur countries to implement National Biodiversity Strategies and Action Plans (NBSAP) under the CBD and protect land rights especially among indigenous communities to make local stakeholders an integral part of biodiversity protection. They also agree on the call to better protect and effectively managed protected areas, and accelerate the demarcation of indigenous reserves. It will be of great importance that Mercosur countries adopt ambitious NBSAPs, in line with the post 2020 Global Biodiversity Framework to be adopted at CBD CoP15 in Kunming in 2021. This would be consistent with the spirit and content of the TSD Chapter.

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<sup>3</sup> This position was expressed on the occasion of the Public Hearing before the International Trade committee as part of his confirmation process to take over the trade portfolio on 02/10/20.

<sup>4</sup> The Action Plan included a diverse set of policy interventions with three broad lines of action: land tenure regularization and the creation of new reserves; increased land use monitoring and enforcement; and the promotion of more sustainable agricultural production systems. These government efforts to curb deforestation, particularly through command-and-control measures, are widely recognized as having played a key role in reducing deforestation.

The Commission services believe that further cooperation to reinforce the countries' efforts could be done by a new initiative to be developed jointly with Mercosur which could include higher level political engagement; intensified dialogue and cooperation activities – including cooperation measures to address deforestation and related issues, as well as developing sustainable business models; and private sector actions and Green Investment to mobilise public and/or private financial institutions, with a possible pledge linked to signature of the agreement. In the case of Brazil, discussions on such initiative would also need to address the detailed pledges that the country made with respect to illegal deforestation and forest restoration in its November 2016 NDCs, but that were removed from Brazil's updated ("new first") NDCs of December 2020. Moreover, the Commission services are working to address the EU-driven impact on deforestation and forest degradation and related issues by unilateral EU measures: in particular, the planned EU legislation on reducing the risks of placing on the EU market of products associated with deforestation and forest degradation, on corporate due diligence obligations covering human rights and environmental damage as well as the review of existing rules on timber trade and fight against illegal logging. Ongoing Joint Research Center (JRC) projects on tropical forests monitoring and global wildfire monitoring are also of relevance. Moreover, the EU Biodiversity Strategy for 2030 highlights the EU's objective to step up protection of ecosystems and its biodiversity and to achieve a high level of ambition for the post-2020 Global Biodiversity Framework.

In the same vein, Commission services agree that it is important for Argentina to effectively implement the National Action Plan on Forests and Climate Change, and for Paraguay to maintain the commitment to sustainable forest management.

Indeed the Commission services are of the view that the EU-Mercosur agreement offers additional guarantees, incentives and leverage for Mercosur countries to comply with their international commitments on climate. Under the agreement, the EU and Mercosur commit to effectively implement the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement on climate change. Importantly, the chapter is subject to a specific dispute settlement procedure. The chapter lives up to the highest standards compared to other modern agreements (like Mexico or Japan). The parties also commit to promoting trade's positive contribution to the fight against climate change. The possibility for the Parties to base legislation and adopt measures on the basis of the precautionary principle is explicitly recognised.

Regarding the recommendation to the EU and Mercosur to fulfil their Paris Agreement commitments and achieve their GHG emissions targets as detailed by their NDCs, the Commission services agree about its importance and share the consultant's recommendation. It is a fact that the TSD Chapter contains strong commitments. Each Party commits individually to effectively implement the Paris Climate Agreement, including with respect to the need to submit (and subsequently update and review) NDCs. This means that a withdrawal from the Paris Agreement or a breach of its commitments would be also in breach of the EU-Mercosur agreement. In their NDCs Mercosur countries have committed to significant GHG reduction targets. There are also commitments for further decarbonisation of the economy path in course in Mercosur countries, including Brazil, with concrete and sizeable targets of reducing greenhouse gases emissions, further building on a high renewables energy matrix of energy production in Mercosur. From its part, the EU is fighting climate change through ambitious policies at home and in close cooperation with international partners. It is already on track to meet its greenhouse gas emissions reduction target for 2020, and has put



forward a plan to further cut emissions by at least 55% by 2030. By 2050, Europe aims to become the world's first climate-neutral continent. In addition, climate action is at the heart of the European Green Deal – an ambitious package of measures ranging from ambitiously cutting greenhouse gas emissions, to investing in cutting-edge research and innovation, to preserving Europe's natural environment.

The Commission services welcome the invitation by the consultant to all parties to promote cooperation in the development, transfer and deployment of green technology. The agreement is an opportunity to accelerate the uptake of green technologies, substituting fossil-based resources with bio-based ones, leading to more bio-based products, renewable energy and better energy efficiency.

The Commission services are fully supportive of the invitation addressed to Mercosur countries to prioritise circular economy and waste management, in particular waste disposal in a way that ensures efficient use of resources and is safe for human health and the environment. The EU has advanced policies and considerable experience on waste management legislation, including waste treatment and disposal. In March 2020, the Commission has also adopted a new Circular Economy Action Plan which inter alia puts emphasis on global outreach. On 22 February 2021, the EU and its Member States, together with UNEP, UNIDO and ten other countries, launched the Global Alliance on Circular Economy and Resource Efficiency (GACERE) to support global initiatives in this area. A regional coalition on Circular Economy was launched by the Latin American and Caribbean Forum of Environmental Ministers and this provides the opportunity for Mercosur countries to also engage on the subject also on a regional level. The Commission services stand ready to deepen cooperation with Mercosur on waste management and circular economy, building on the extensive circular economy outreach already carried in the region and on available programmes and initiatives.

### **3.4. Human rights' impacts**

#### **3.4.1. Consultant's recommendations**

*Some general recommendations addressed to Mercosur and EU governments urge the parties to continuously monitor the enjoyment of all the four rights examined in detail in the impact assessment, and to use the instruments available under the Agreement to flag changes in the human rights situation. The report notes that with the development of proper accountability mechanisms, as well as adequate flanking measures, the AA has the potential to provide important benefits to the participating countries. Furthermore, Mercosur and EU governments should ensure adequate access to relevant and recent data for the continuous monitoring of outcome indicators. Mercosur should focus on increasing data collection and availability efforts to monitor indigenous rights as well as women's rights and health indicators. The EU should continue data collection efforts, and where possible, provide assistance to Mercosur partner countries.*

*In relation to the Right to an Adequate Standard of Living, the consultant urges Mercosur and EU governments to require businesses to present a plan on the provision of adequate living and working conditions for employees prior to the approval of investment projects that are expected to require a large labour force in an underdeveloped area. In relation to Paraguay, it urged the country to implement land reforms to enhance resource access for smallholder farms and distribute trade benefits.*



*Concerning the Right to Health the consultant encourages all parties to take steps in reducing risks of increasing obesity, make sure that physician exchange programs under mode 4 ensure balanced female participation and cooperate on matters related to incentivising research and development of new medicines. All Mercosur countries, particularly Argentina and Brazil, should establish physician exchange programs to place EU professionals in rural areas and increase healthcare services. Mercosur countries, with the support of the EU, should implement programs to retain their domestic health workforce and mitigate “brain drain” concerns. The consultant also relates concerns expressed by European stakeholders over food safety/Sanitary and Phytosanitary (SPS) issues deriving from Mercosur exports to the EU, and the lack of trust in the ability of partner countries to enforce EU standards.*

*As far as the Rights of Indigenous peoples are concerned, the consultant invites the governments of Argentina, Brazil, and Paraguay to strengthen their institutional frameworks for the protection of indigenous peoples. In particular, Argentina should provide necessary resources for the National Institute of Indigenous Affairs (IBAMA) to expedite activities for the completion of the Territorial Survey of Indigenous Communities. Brazil should retract its proposed bill to open indigenous lands for natural resources and re-prioritise the demarcation of indigenous lands as well as providing the National Indian Foundation (FUNAI) with adequate resources to protect lands. All three countries should prioritise mechanisms to implement the right to prior, free, and informed consent, particularly among municipal governments in states with large indigenous populations. The EU is invited to encourage European businesses to engage in consultations with indigenous communities before investing and to consider human rights impacts alongside cost-benefit analyses prior to approval of large-scale investments.*

*On Gender Equality Mercosur countries are urged to invest in rural development programs in support of female-headed farms to tackle the traditional skewness towards male-owned land, and to invest in capacity building and training programmes specifically targeting women across agricultural and manufacturing sectors. Finally, Argentina and Brazil are invited to provide further resources for campaigns fighting domestic violence.*

#### **3.4.2. Commission services’ reaction**

The Commission services agree as to the need to continuously monitor the enjoyment of all the four rights subjected to in-depth analysis in the SIA and to use the instruments available under the Agreement to flag changes in the human rights situation. Moreover, to that end full use should be made of the dedicated UN tools and instruments which are in place for that purpose, including the UN regular reporting mechanisms and the system of Special Rapporteurs.

Regarding the recommendation on the right to an Adequate Standard of Living according to which the consultant urges “Mercosur and EU governments to require businesses to present a plan on the provision of adequate living and working conditions for employees prior to the approval of investment projects”, Commission services note that this is outside of the EU’s field of competence.

In relation to the Right to Health and the concerns expressed about weak SPS controls in Mercosur and the risk that the agreement would undermine the EU’s stringent SPS standards and the safety of European consumers, the Commission services are of the view that these fears are groundless. All imports entering the EU market have to comply with the EU’s strict sanitary (food safety and animal health) standards and maximum residues levels. This already applies to current imports from

Mercosur countries and will apply likewise to products imported under any FTA. The terms of the Agreement will not change the EU sanitary import requirements. The SPS chapter will create mechanisms to improve and facilitate trade, while preserving the safety of EU consumers. The chapter also puts in place clear timeframes for administrative procedures that are necessary to allow predictable trade to flow. Provisions on 'regionalisation' will ensure that in the event of outbreaks of plant pests or animal diseases in the EU or Mercosur, trade restrictions will be limited only to the specific areas suffering from the outbreak. The Parties will also cooperate bilaterally and on multilateral fora on animal welfare issues and on fighting antimicrobial resistance, they will also cooperate on biotechnology and on food safety science.

Of significant importance are the recommendations related to the Rights of Indigenous People: the Commission services concur with the view that Mercosur countries should strengthen their institutional frameworks for the protection of indigenous peoples and prioritise mechanisms to implement the right to prior, free, and informed consent. Of particular importance is the need for Brazil to give the right priority for the demarcation and the protection of indigenous lands. In this respect, the Commission services stress the importance of effective national frameworks on rights of access to environmental information, public participation in the environmental decision-making process and access to justice in environmental matters is in place. They take note that all Mercosur countries have signed the Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean (Escazú agreement) and encourage Mercosur countries who have not yet done so to complete the ratification process. In this context, it is relevant to recall that the Agreement includes provisions promoting the role of indigenous communities in sustainable supply chains of forestry products. On the invitation to the EU *"to encourage European businesses to engage in consultations with indigenous communities before investing and to consider human rights impacts alongside cost-benefit analyses prior to approval of large-scale investments"*, Commission services take note of this recommendation.

The Commission services have taken note and support the recommendations related to Gender Equality.

### **3.5. Sectoral impacts**

#### **3.5.1. Consultant's recommendations**

**Agriculture.** *The consultant suggests that Mercosur countries should aim to increase productivity for beef production to limit the effects that additional production may have on land use climate, water, air and soil pollution and that both parties should pursue effective implementation of their commitments under the Paris Agreement. Regarding animal welfare, the consultant suggests that both parties should make use of the frameworks for dialogue and cooperation created by the agreement and encourage the EU to cooperate and support the design of adequate animal welfare legislation.*

*Concerning the dairy sector, the consultant suggests that Mercosur countries should work in improving quality and strengthening its system of denomination of Protected Designation of Origin (PDO) and Geographical Indications (GIs).*

*For sugar and ethanol, the consultant argues that Mercosur countries should implement policies to manage social impacts and to increase environmental efficiency in order to mitigate the potential adverse effect of the expansion of sugar production and maximise the economics gains from the FTA. Mercosur countries will also need to address challenges related to the proper enforcement of adjustment policies. Mercosur countries should manage the environmental consequences of trade liberalisation through cleaner technology, and invest in development of biodiversity and climate change to counter potential soil and water degradation. The consultant argues that the EU should provide assistance and support research programmes in these areas.*

*Finally, for beverages both parties are invited to consider introducing measures to promote responsible consumption of certain beverages, especially alcoholic and sugary drinks. All parties should ensure legal protection for both EU and Mercosur products requiring PDO and GIs and ensure that different varieties are treated like different products. Mercosur members are invited to put in place appropriate welfare measures to counter the potential negative social effects.*

**Manufacture.** *For the Textile and Garments (T&G) sector, all parties are encouraged to minimise the negative environmental implication of increased trade in T&G products and to implement measures to protect informal workers in the textile and garment sector. Both parties should improve their understanding of the role of SMEs and establish monitoring strategies to ensure timely support measures. Finally, parties are invited to monitor closely the impact on SMEs and if necessary intervene with mitigation measures for the negative impact.*

*In the area of Chemicals and Pharmaceuticals, Machinery and Motor Vehicles the consultant encourages Mercosur countries to gradually introduce changes in the tariff schedule to adjust to the new competition by increasing their productivity and competitiveness of the respective industries. Mercosur countries are also invited to support the re-training of workers with the aim of facilitating transition to other sectors. For the Machinery sector in particular, the consultant also suggests that Mercosur countries should facilitate the adoption, compliance and certification of EU technical standards and work to increase the number of local accredited labs and testing facilities in Mercosur to certify EU standards.*

**Services sector.** *In relation to Services, the consultant recommends to all parties to liberalise all modes of supply, address visa restrictions that prevent professional and business services and align their service industry standards to benefit from greater levels of regulatory cooperation between trading partners. The consultant also recommends to aim for greater levels of regulatory harmonisation of sector-specific regulations and/or seek for greater use of mutual recognition of standards. Licensing requirements should not discriminate against other parties' operators and preferably be eliminated. Finally, both parties should maintain high levels of consumer protection.*

### **3.5.2. Commission services' reaction**

The Commission services largely agree with the above set of recommendations.

In relation to **Agriculture**, the Commission services fully concur with the view that Mercosur countries should aim to increase productivity for current beef production to limit the effects that any additional production may have on land use, climate and the environment. The Commission also notes that quotas negotiated in the agreement have been carefully calibrated to take account of

conditions in the EU market and only represent a small fraction of EU consumption. Likewise, it is key for both the EU and Mercosur to pursue effective implementation of the commitments under the Paris Agreement, and in particular their commitments on forests and reduction of GHG emissions. As outlined earlier in this paper, historical evidence shows that it is possible with the right policies and through adequate and effective law enforcement to increase agriculture output without negatively impacting on land use and deforestation. However, the condition is that the efforts to increase productivity are accompanied by an assertive and robust policy by the authorities to effectively control and monitor deforestation, as well as water and soil pollution.

The Commission services confirm that the agreement contains a Dialogue chapter which should allow to better tackle common challenges. The agreement will establish a structured dialogue and exchange of information between the EU and Mercosur on animal welfare going in the direction suggested in the recommendation above.

The Commission services fully concur with the recommendations for sugar and ethanol, namely that Mercosur countries should implement policies to manage social impacts and to increase environmental efficiency in order to mitigate the potential adverse effect of the expansion of sugar production, concentrated in the Southern and North-eastern Atlantic areas of Brazil. The agreement negotiated will offer better access to green technologies, notably by a reduction of tariffs on imports of green technology and by enhanced access to the international Procurement market of EU companies. It contributes to Green Deal objectives in many ways besides the TSD chapter. Many Green goods will be liberalised. It will be easier to provide environmental services. In this way the agreement will help lower the carbon footprint of production in Mercosur. The agreement will encourage green Public Procurement and sustainable procurement practices. Strong Intellectual Property Rights (IPR) rules and improved enforcement frameworks will facilitate a more extended use of environmental and green technology transfer.

As far as beverages and the need to promote responsible consumption of certain beverages, especially alcoholic and sugary drinks, both parties are invited to consider introducing appropriate measures. The Commission services recognise that alcohol related harm is a major public health concern in the EU accountable for over 7% of all ill health and early deaths. The main responsibility for national alcohol policy and implementation belongs to EU Member States, and tax measures aiming at moderating consumption take the form of non-protectionist excise duties, which have as basis the actual alcoholic content and not the economic value of the product or the place of production.

The Commission services fully share the recommendation addressed to all parties to ensure legal protection for both EU and Mercosur PDOs or GIs. This applies also to the dairy sector where the consultant suggests that Mercosur countries should work in improving quality and strengthening their system of PDOs and GIs, something on which the Commission services fully agree with. The protection of GIs provides producers with a premium price for their product and allows them to strengthen their position in the market. The ambitious outcome on protection of GIs will significantly improve the situation in Mercosur for EU producers of distinctive food and drink GI products. Over 350 EU GI names of food, wine and spirit products will be protected in Mercosur at a level comparable to that of the EU (i.e. the highest level of protection). On its side, the EU will protect 220 GIs from Mercosur unlocking new opportunities for Mercosur's exports. The bulk of EU GIs will enjoy

the highest level of protection upon entry into force. This is one of the deals providing the highest level of protection to GIs ever within a trade agreement.

Looking at the consultant's recommendations regarding the **Manufacturing** sector, the Commission services agree with the need to minimise the negative environmental implication of increased trade in T & G products and to implement measures to protect informal workers in the textile and garment sector. The Commission services are of the view that SMEs play a very important role and concurs with the consultant's assessment that it is very important to establish mechanisms to enhance SMEs effective participation in the implementation of the agreement. Actually, a dedicated Chapter in the agreement is devoted to SMEs containing significant commitments on both sides. There are provisions on 'Information sharing' addressing transparency regarding market access. Each Party must provide a specific website with information relevant to SMEs seeking to access its market. The Parties must also provide an electronically searchable database by tariff code that contains product-specific market access information such as customs duties and other fees, rules of origin and other relevant product-specific import requirements. Parties will need to set up a specialized online database for SMEs and appoint SME Coordinators to take into account SME specificities in all chapters during the implementation phase of the agreement.

In the area of Chemicals and Pharmaceuticals, Machinery and Motor Vehicles, the consultant argues that Mercosur countries should gradually introduce changes in the tariff schedule to adjust to the new competition by increasing their productivity and competitiveness of the respective industries. Indeed, it is important to highlight that the negotiated outcome foresees a gradual tariff elimination and reduction. This period of up to 15 years should allow Mercosur countries to introduce the necessary adjustments and increase the productivity and competitiveness to be able to face the competition resulting from the market opening. For some, most-sensitive products for Mercosur, lack of actual liberalisation commitments also mitigates a potential negative impact. The long transition periods should also allow necessary time to support the re-training of workers with the aim of facilitating transition to other sectors. The agreement will eliminate very high customs duties in key sectors, including those with a large volume of trade, namely cars and parts (current tariff: 35%); machinery (14-20%); chemicals (18%); pharmaceuticals (14%) and Textiles and footwear (35%). But this will not happen overnight. Mercosur agreed to liberalise over 90% of its imports over a long transition period. Tariff lines on passenger cars will be fully liberalised by Mercosur over 15 years and car parts tariff lines mostly within 10 years. 93% of EU machinery exports will be fully liberalised, mostly within 10 years, but in most sensitive cases for Mercosur over 15 years. For the remaining industrial goods tariff lines, cuts by Mercosur are equally staggered over long transition periods, with some full exclusions for most sensitive products. The Commission supports the recommendation related to the need for Mercosur countries to facilitate the adoption, compliance and certification of EU technical standards and notes that in the negotiated outcome Mercosur committed to accept EU certificates or test reports.

Regarding the **Services sector**, what was achieved in the negotiated outcome is in line with the ambition of the consultant's recommendations in so far as the agreement extends to all modes of supply. It also covers investment liberalisation ('establishment'), both in the services and non-services sectors. The agreement will open significant new opportunities for firms to provide services and to establish footholds on both sides of the Atlantic, even in sectors closed until now, such as maritime services. It will lower prices for consumers and allow EU firms to access rapidly expanding

and dynamic markets in services in Mercosur countries, building upon the existing €20 billion of EU exports in services to the bloc. The agreement will remove unnecessary discriminatory obstacles and provide new opportunities to invest through establishment in both services and manufacturing sectors. It will ensure a level-playing field between EU services providers and their competitors in Mercosur. At the same time, the agreement strongly protects the Parties' 'right to regulate'. In no way does it limit the opportunity for EU Member States or for Mercosur to provide public services. In line with recent FTAs, the agreement contains provisions on the movement of professionals for business purposes, something that - for example - will allow EU companies to post managers or specialists in their subsidiaries in Mercosur countries.

In relation to the consultant's recommendation to aim for greater levels of regulatory harmonisation of sector-specific regulations, the agreement includes disciplines relating to the regulation of a number of important services sectors. On postal and courier services, there are provisions on universal service obligations, licenses and the independence of the regulators, and on preventing anti-competitive practices. The agreement will ensure a level playing field between EU suppliers of postal and courier services and their Mercosur competitors. On telecommunications, the provisions focus on establishing a level playing field for telecommunications service providers, namely through dispositions dealing with the regulation of the sector (such as licensing, management of scarce resources or universal service obligations) as well as dispositions precluding anti-competitive practices. There is also a set of consumer-oriented provisions, such as those pertaining to mobile roaming or confidentiality of communications. On financial services, the agreement contains specific definitions, exceptions and disciplines on new financial services, recognition, self-regulatory organisations, payment and clearing systems and transparency. On e-commerce, the rules aim to remove unjustified barriers to e-commerce, offer companies legal certainty, and ensure a secure online environment for consumers. The chapter applies to all sectors and includes binding rules prohibiting the imposition of customs duties on electronic transmissions. Parties agreed on provisions aiming to ban excessive authorisation procedures, to guarantee the legal validity and effect of electronic contracts and to preclude spreading 'spam'. On maritime services, the agreement covers international maritime services (transport and related services) for the first time in Mercosur. The relevant definitions and principles are all included in the Parties' schedule of commitments – providing significant market access for EU providers in a hitherto closed market.

#### **4. CONCLUSION**

The findings of the SIA confirm that the agreement will have a positive impact on the economies of both the EU and the Mercosur countries, raising wages and contributing to a reduction in inequalities. However, the significance of this agreement goes beyond merely trade and economic considerations, as it will consolidate a very important partnership between the two blocs based on common values.

The SIA study highlights concerns in relation to the agreement's potential impact on environment, in particular on deforestation, human rights and indigenous people and makes recommendations aimed to minimise the possible negative impacts. The Commission services fully agree that these areas of concern need to be monitored closely. They were very much at the heart of the EU's approach in negotiating this agreement. The Commission services consider that the robust TSD



Chapter provides an adequate legal framework and the proper tools to address these concerns. The civil society consultation mechanisms on both sides (the Domestic Advisory Groups) as well as a Civil Society Forum have an important role in monitoring and advising the governments on the implementation of the agreement, including its climate and environment related provisions. Through the TSD Chapter, the EU and Mercosur have set out common objectives to build a more open and fair trading relationship, marrying the values of sustainable development with the economic engine of trade.

The Commission services are ready to support Mercosur's efforts and initiatives relating to protection of the environment, notably the fight against deforestation and biodiversity loss. This could be done by an initiative to be developed jointly with Mercosur, and in particular Brazil, which could include higher-level political engagement; intensified dialogue and cooperation – including cooperation measures to address deforestation and related issues, as well as developing sustainable business models; and private sector actions and Green Investment to mobilise public and/or private financial institutions, with a possible pledge linked to signature of the agreement.

During the negotiations, both sides had the possibility in the course of the negotiations to identify some sensitive products for which forms of market protection could apply, in line with WTO requirements and with the negotiating modalities that were agreed beforehand. The final agreed outcome does reflect that exercise, as most sensitive sectors are either subject to partial liberalisation commitments, or even exclusions, or to longer transition periods. The SIA process and analysis has indeed contributed to allow the two parties to identify these sensitivities feeding at least into part of the negotiations. For example, the consultant recommends that market opening for Mercosur competitive agriculture exports - such as beef, sugar, poultry and ethanol - should be limited to allow EU farmers and producers to reduce their exposure and limit the impact of the agreement. In addition, it argues that tariff reduction/dismantlement in Mercosur should be gradual and allow sufficient time to Mercosur economies to adapt to the new competition. Indeed in line with the consultant's recommendation, this corresponds to a large degree to the negotiated outcome: market opening in Mercosur for sensitive products will be gradual and take place over a period of up to 15 years, with some exclusions from any liberalisation remaining. Conversely, the use of limited tariff rate quotas was the instrument that was retained by the negotiators in order to minimise the impact on sensitive sectors in the EU.

The goal of the new EU-Mercosur trade deal is to increase bilateral trade and investment, and lower tariff and non-tariff trade barriers, notably for small and medium sized enterprises. It aims to create more stable and predictable rules for trade and investment through better and stronger rules, e.g. in the area of intellectual property rights (including geographical indications), food safety standards, competition and good regulatory practices. The agreement will also promote joint values such as sustainable development, by strengthening worker's rights, protection of climate and environment, encourage companies to act responsibly, and uphold high food safety standards. The agreement represents a win-win for both the EU and Mercosur, creating opportunities for growth, jobs and sustainable development on both sides.

The agreement fully safeguards the right to regulate and reaffirms the precautionary principle as a basis for legislation. The two sides agreed to pursue their trade relationship in a way that contributes to sustainable development and builds on their multilateral commitments in the



fields of labour and environment. Importantly, in the agreement, civil society will play an important role in ensuring that these commitments are upheld.

The agreement provides a progressive and substantial market opening for both the EU and Mercosur but can be considered as a balanced outcome as it takes into account the respective sensitivities. It provides producers, farmers and exporters from both side with many new export opportunities. This goes beyond tariff liberalisation, since ambitious market opening and disciplines have been agreed in a broad spectrum of trade areas, such as Government Procurement, Services, Intellectual Property Rights, Custom and Trade Facilitation, Technical Barriers to Trade. Importantly, the agreement will also progressively remove Non-Tariff Barriers that restrict considerably trade between the parties.

The EU-Mercosur is a strategic and high-value agreement in both economic and geo-political terms. It will create a unique political and economic partnership between two major blocks with shared societal values. It sends a strong statement in support of rules based international trade and against protectionism in times when trade relations with other major partners are far from certain.

From the Mercosur countries perspective it is an extremely important agreement as this is the first agreement of the kind Mercosur has ever concluded with a global partner. In addition, for the EU it can be considered as highly valuable as it provides EU companies the first mover advantage. Once ratified it will also allow the EU to complete the dense network of trade agreements it has negotiated with the Latin American continent.