



The EU-Mercosur Free Trade Agreement

The Implications for Trade in Agriculture

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The ongoing negotiations between the EU and Mercosur countries to conclude a free trade agreement (FTA) have been overshadowed by the parallel WTO negotiations on the Doha Development Agenda (DDA). Potentially, this agreement could have considerable impact on European agricultural markets. Aside from the outcome of the WTO talks, any change of doctrine within the EU in the direction of placing increased emphasis on bilateral agreements would probably mean that an EU–Mercosur FTA should be concluded before too long.

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Over the last few years much attention has been directed towards the ongoing WTO negotiations of the WTO's Doha Development Agenda (DDA). Yet given the current slow progress towards a multilateral trading system, once again regional trade agreements are starting to become the preferred forum in which to accelerate and deepen trade relations.

In fact the EU was an early promoter of both regionalism and region-to-region trade, but more recently the 'Lamy doctrine' has halted the instigation of any new regional trade negotiations while the Doha Round of WTO negotiations are underway. Nevertheless, the US has lately tended to accelerate its programme of negotiations on regional trade agreements and has rapidly concluded a number of bilateral deals (e.g. US-Jordan, US-Korea, US-Saudi Arabia and US-Morocco) along with regional ones (e.g. the Central America Free Trade Agreement (CAFTA) and possibly the Free Trade Area of the Americas (FTAA)).

Recent evidence suggests that under EU Trade Commissioner Peter Mandelson, the EU now looks likely to re-engage in the regional trade process.

Presently there is talk of EU-India, EU-Korea and even EU-Russia trade agreements – to add to those already planned or in existence such as EU-Chile, EU-Med, EU-South Africa and EU-GCC (Gulf Corporation Council).

The Mercosur Negotiations

One negotiation process that has been ongoing for some time is that with the Mercosur countries (comprising Brazil, Argentina, Paraguay and Uruguay). Potentially, this agreement could have considerable impact on European agricultural markets. Yet given the high degree of competitiveness of the Mercosur countries in major agricultural products, surprisingly little attention has been paid to the talks.

Concrete negotiations between the EU and Mercosur began in June 2000, with an initial objective of reducing non-tariff trade barriers, followed by several rounds of talks to cover issues of trade facilitation and the tabling of proposals on tariff reductions. The ultimate aim of the negotiations is to achieve a greater level of political and economic cooperation and integration within the Mercosur group itself as well as with the

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EU. In doing so they seek to promote mutual trade in agricultural products and increase the compatibility of legislation to prevent the formation of trade barriers. From the EU's point of view, the agreement therefore looks to support the development and strengthening of common institutions among the member states of Mercosur, and to liberalise all trade in goods and services between itself and Mercosur within a framework laid down by the WTO.

In the context of its free trade agreement (FTA) negotiations, the EU has been much more likely to include elements of environmental and health protection through the *acquis*, most probably for reasons of commercial reciprocity (e.g. to ensure developmental parity, equity and sustainability).

Hence, the Mercosur negotiations also look to implement certain environmental measures in order to promote an agricultural model that is truly multifunctional. With consumer protection and food safety high on the EU's agenda, it is of great importance to align sanitary and phytosanitary measures in the Mercosur states with those of the EU. To this end, an agreement between the EU and the Mercosur group would look to establish and develop mutual information systems for dangerous products and rapid alert systems, and to organise training schemes and technical assistance for their implementation.

Agriculture Trade

For agricultural products, there is considerable imbalance in the trade flows between the two regional blocs. From an EU perspective, there is a negative trade balance with Mercosur for agricultural products of roughly €7.8 billion. It currently provides a market for 1.7% of EU agricultural exports, while 16% of EU agricultural imports stem from the Mercosur group. Mercosur's exports to the EU are principally concentrated on a small range of products, in particular soya and its derivatives, oilseeds, coffee, orange juice, tobacco, meat, fruit, citrus/melon peel and nuts. Three groups of products account for half of the EU's agricultural exports to Mercosur, comprising alcoholic beverages, dairy and other edible animal products, and cocoa derivatives. Of the total value of the EU's agricultural exports, only 0.96% were exports to the Mercosur countries. Agricultural trade is especially dominated by the three politically-sensitive product groups – beef, sugar and cereals.

All three sensitive product groups are subject to tariff rate quotas (TRQs) and it is expected that trade liberalisation would entail an expansion of existing TRQs for sensitive products. Sugar has so far not been included in the offer, but it seems unlikely that the Mercosur countries would accept a deal that excludes it. Such a deal would provide Mercosur countries with additional export opportunities or welfare gains from quota rents and the inclusion of sugar would be an additional benefit to them. From the EU's standpoint, some concessions can be quite safely made without creating uncontrolled pressure on the prices of beef, sugar or cereals in the EU.

Yet despite the considerable progress that has been made, a number of questions remain. In particular, much discussion has yet to occur in relation to tariffs and non-tariff issues. One specific example is the case of wines and spirits, where the EU is seeking a framework agreement; other pending issues concern beef and animal livestock.

To that end the EU is seeking to address agricultural trade issues in a way that accounts for rural policy, animal welfare and environmental needs. Standards organisations in Europe and the four Mercosur countries are entering a new era of collaboration that will raise the visibility of the system applied in the EU and promote EU standards in that part of the world. The high levels of animal welfare standards applied to producers in the EU (as demanded by EU consumers) are being extended to producers in importing countries. While these measures are often seen as protectionist non-tariff barriers, it is argued that they are precautionary steps to avoid further food scares. To overcome this problem, however, there are now a number of major projects underway (financed in part by the EU) to bring the Mercosur countries in line with EU standards.

The impact of possible trade liberalisation with Mercosur, judged by the trade preferences currently available to the Mercosur countries and their utilisation, depends on the degree of liberalisation that is realised. Undoubtedly, Mercosur countries are very competitive producers of agricultural products (especially sugar), but the EU can hold its own on cereals. As for beef, a quota expansion is of limited interest to Mercosur countries, as they can already compete on EU markets – even at the high most-favoured nation rate. The increasing costs of food safety and animal welfare compliance may also constrain the benefits to the Mercosur group.

WTO vs Bilateral Agreements

The negotiations of the EU-Mercosur FTA came close to a conclusion in late 2004. But the focus shifted to the parallel talks of the DDA, as it was thought that a successful conclusion of a comprehensive WTO round of DDA negotiations would result in the lowering of Mercosur's considerable trade barriers, and in turn create a more stable environment for trading activities.

The failure to reach agreement at the WTO negotiations in Hong Kong in 2005 has done nothing to reinvigorate the Mercosur talks. The abeyance is partly owing to the continued optimism of concluding the DDA by early 2007 (given that modalities can be agreed late this summer at the Geneva summit), but also the realisation that any multilateral agreement would assist the EU–Mercosur talks.

Aside from the outcome of the WTO talks, any change of doctrine within the EU in the direction of placing increased emphasis on bilateral agreements would probably mean that an EU–Mercosur FTA should be concluded before too long. Moreover, the level of ambition inherent in concluding a regional deal in the Americas should not be underestimated.

When the US administration announced its intention of reviving the moribund FTAA at the Fourth Summit of the Americas in Mar del Plata last year, the countries of the Southern Common Market closed ranks to prevent it. The diplomatic melee that followed reflected not so much divisions within Latin America as a growing resistance throughout the developing world to the current free trade model. In essence, the nations of Mercosur took a stand against renewing FTAA talks to declare their opposition to free trade agreements along the NAFTA model, which do not take into account the full needs of developing countries while locking in competitive advantages for developed nations.

It is now reasonably well understood that EU regional trade agreements *tend* to be somewhat more balanced than those of the US in certain respects, particularly by the inclusion of elements of regulatory convergence, and social and environmental provisions designed to assist the broad spectrum of social interests. Yet in the current political climate surrounding the WTO, it remains to be seen whether the EU's *deep trade* efforts in this regard will be appreciated as such by the beneficiaries – or whether greater pure trade access to EU markets would be welcomed even more.

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