Institut Jacques Delors

Thinking Europe
Penser l'Europe
Europa denken

Notre Europe

The EU-Mercosur trade agreement at a time of trade diversification

1999-2024 : 25 years to get an agrement

1999

The Council gives a mandate to the Commission to negotiate with Mercosur

Argentina
Brazil
Paraguay
Uruguay

MERCOSUR

10th trading partner of the EU for goods.

2024

Agreement signed after 5 years of active negotiation, while China has invested heavily in Latin America in recent years and has become Brazil's 1st trading partner

1st

The place that Europe does not take is taken by China

In 25 years, EU-Mercosur trade has declined:

Mercosur's share in total EU trade for goods:

1999	2024
2.5%	2.1%

EU share of Mercosur's total trade in goods over 20 years:

35%

16.8%

Whereas with the agreements trade agreements with Mexico (2000) and Chile (2003), the EU has been able to maintain its market share in both countries.

Strategic issues

The agreement facilitates access for European exports to a market of

270 million consumers

+

Gives a comparative advantage over exporters from the United States and China, which do not have trade agreements with Mercosur.

MERCOSUR

A highly tense geopolitical context calls for rapid diversification of trade (export markets and supplies, including critical minerals such as lithium, manganese and graphite) in order to:

- compensate for a decline in market share in the United States and China.
- prevent strong dependencies on the Chinese and American markets from being targeted by coercive measures.
- ensure the stability of supplies of raw materials needed for the green and digital transition.

Example:

BRAZIL

Rich in natural resources

For nickel, copper, aluminium, steel and titanium: undertakes not to impose export duties on exports to the EU.

For other critical raw materials, the duties that could apply to exports to the EU would be less than half those applied to other countries (maximum 25%).

The agreement covers many other issues besides trade in goods, with a view to better regulating trade

- services
- investment protection
- intellectual property protection
- support for SME exports
- opening up of public procurement
- etc, ...

It brings greater stability to European businesses by promoting trade based on:

- rules that protect the environment more than if there were no agreement (e.g. commitment, legally constraigning, to halt deforestation by 2030).
- commitments to sustainable development, biodiversity protection biodiversity, working conditions.
- the Paris Agreement, respect for human rights and the non-proliferation of weapons of mass destruction as essential clauses (unilateral suspension of part or all of the agreement if they are not respected).

2027

In addition, the EU's "zero deforestation" regulation will ban the import of agricultural goods derived from deforestation (particularly soy and beef).

Access to the European market is regulated

MERCOSUR

2025

Gradual elimination of customs duties on 91% of imports from Mercosur, whereas until now the bloc has maintained high customs duties.

27-55%
Agricultural products

35%
New cars

14-18%
Medical equipment, chemicals, etc.

ON 10 YEARS

Gradual elimination of customs duties

ON 10 YEARS

0% on 92%
of imports

For sensitive agricultural products for the EU (beef, poultry, pork, sugar, and rice), specific quotas limit imports at reduced customs duties.

E.g.:

7.5%
Gradually over 5 years to 7.5% for 99,000 tonnes of beef.

0%
Immediately for the existing quota of Hilton meat (high quality).

All imported agricultural products must comply with European health and phytosanitary standards:

- Ban on imports of beef raised with hormones (since 1981) or with antibiotics used as growth promoters (since 2022).
- Maximum pesticide residue levels set by the EU so as not to harm the health of European consumers.

1st power world exporter of agricultural products.

2014–2024: +59% for trade agricultural trade.

+58% exports / imports +60,2%

Three precautions taken for sensitive agricultural products: belt, braces and safety net

A belt

Very limited quotas for:

- beef = 1.5% of annual consumption in the EU
- poultry = 1.3% of annual consumption in the EU
- sugar = 1.4% of annual consumption in the EU
- ethanol and rice

Above this percentage, the current highly dissuasive customs duties apply.

Quota concessions for beef, poultry and sugar are limited by the commitment of the Commission's Directorate-General for Trade

The total of tariffs quotas granted to countries with which the EU has signed a trade agreemnt after 2008, is capped :

4% of European beef consumption per year.

- this corresponds to the figure that the EU was prepared to accept in the Doha multilateral negotiations Round (which failed in 2008).
- was approved by the Council at a qualified majority under the French Presidency of the Council of the EU.

To prevent Mercosur exporters from saturating only the fresh produce market

→ more commercially attractive

The negotiators divided the 7.5% tariff quota (ad valorem, i.e. calculated on the value of the goods) into two equal parts:

fresh | frozen

The same precautions apply to poultry:

whole | cut

Braces

Strengthened safeguard clauses, at France's request, in the event of 'serious prejudice': suspension of quotas with reduced customs duties if...

- **+ 10%** increase in **imports from Mercosur**
- **- 10%** 10% reduction in the **price of products imported from Mercosur** compared to the price in one or more EU Member States.

A safety net

€6.3 billion

Emergency fund for farmers who would be affected by market disruptions related to imports from Mercosur.

Strengthened controls

Member States are responsible for random border controls, and the Commission will strengthen its audit of third countries' agricultural production control systems.

2025

Announcement of the creation

- a European customs authority
  - → to assist and coordinate national customs authorities.
- an EU customs data centre
  - → to strengthen control and traceability, ...

No economic miracle...

The macroeconomic impact of a trade agreement on GDP must be put into perspective:

by 2032

- + 0.1% growth for the EU
- + 0.3% growth for the Mercosur

But many sectors urgently need to compensate for their losses in the Chinese and American markets.

- certain agricultural sectors (wines and spirits, dairy products and cheeses, etc.).
- e.g.: subcontractors in the automotive industry.

Example: **The French dairy industry**

- → Exports 40% of its annual production
- → Is highly exposed to geopolitical upheavals

more than 13%

French dairy exports (cream and cheese) are threatened by

- → the increase in US customs duties
- → the increase in Chinese production

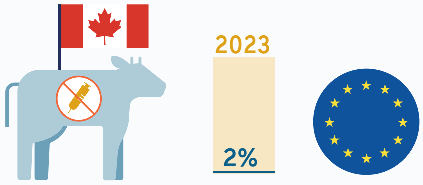
which reduces demand and even creates overcapacity.

… nor threat of massive imports

2017

Provisional entry into force of CETA

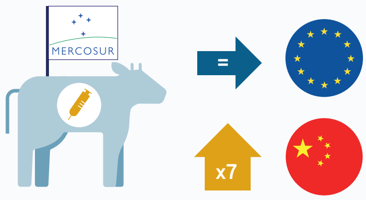
→ In 2023 Canadian beef exporters (hormone-free!) imported into the EU at preferential tariffs only 1,450 tonnes (carcass equivalent) out of an authorised quota of 65,000 tonnes: i.e. 2%.



2011–2019

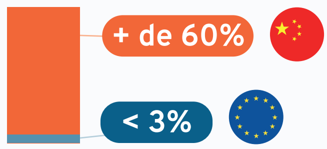
→ Mercosur beef exports to the EU (i.e. hormone-free) have virtually stagnated.

→ have increased sevenfold to China, which has become a strategic market for Brazilian producers of hormone-treated beef.



2024

Brazilian beef exports



… or regulatory freeze

As in all EU trade agreements, regulatory freedom remains intact.

A mechanism has been added to the Mercosur agreement that protects trade preferences granted with an arbitration panel that can impose tariff rebalancing measures (partial reduction of tariff preferences) if new regulations impact the terms of the agreement.

↳ replica of a mechanism that exists at the World Trade Organisation and is included in most trade agreements of all countries.

However, this cannot apply to existing regulations or those planned at the time of signing (e.g. carbon border adjustment mechanism, anti-deforestation regulation).

For France

The agreement benefits the industrial goods and services sectors, as well as the agricultural sectors.

dairy products | wine | spirits | cereal products

→ Sectors in which France is particularly competitive.

Protection of 357 European geographical indications (GIs), including 63 French ones

to protect EU culinary specialities (Champagne, Cognac, Parmesan, Parma ham, etc.).

Benefits

2024

€81 billion

France has had a trade deficit since 2004, despite a reduction since the peak in 2022.

Mercosur is one of the few trading partners with which France has a significant trade surplus (goods and services).

€4.5 billion

Irritants?

The challenge of mirror clauses

France would like to
- ensure greater fairness in production conditions, while European farmers are committed to reducing their carbon footprint.
- go beyond the mirror clauses negotiated by the Commission (welfare of laying hens, combating antibiotic resistance).

However, these clauses are negotiated bilaterally (unlike mirror measures, which are adopted unilaterally, such as anti-deforestation regulations). The EU does not provide sufficient access to its market (approximately 1% of its consumption) to achieve alignment with EU production methods for beef, poultry, sugar, etc.

CO_2

Full mirror clauses would imply complete liberalisation with the abolition of direct income support for European farmers paid by the EU through the Common Agricultural Policy (CAP).

€40 billion / year

Aid received each year by European farmers to cover the difference between production costs in the EU and in third countries

€7.2 billion / year

France: 1st beneficiary of the CAP (18% of the total CAP aid)

In recent years, France, the leading producer of beef in the EU, has been exposed to a decline in European consumption and increased competition from its European neighbours (Germany, Spain, Ireland, etc.).

since 2000

France's trade balance for agri-food products is growing with third countries and gradually declining within the European Union.

In particular:
- fewer economies of scale due to the choice of smaller French farms,
- additional costs associated with social, health and environmental standards that are stricter than those of other European neighbours,
- delays in the payment of CAP subsidies by the French administration, ...

Ratification of the EU-Mercosur Agreement

It requires a qualified majority vote in the Council and a simple majority in the European Parliament.

2017 Opinion of the Court of Justice of the EU on the EU-Singapore Agreement: ratification by national parliaments is necessary when mixed competences are involved (portfolio investments or investor-state dispute settlement mechanism).

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