The EU-Mercosur Free Trade Agreement, its impacts on Agriculture

Institut de l'Elevage

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FOREWORD

When trade is treated as an end in itself, trade agreements lock our societies into an unsustainable economic model. The EU-Mercosur deal is a case in point. The EU will import more meat and other agricultural products. With them, we will import emissions, deforestation, soil contamination and human rights abuses— while endangering local farmers' livelihoods in the Mercosur region and in the European Union.

The EU-Mercosur trade agreement is expected to further stimulate an unsustainable agri-business model in the EU and the Mercosur countries, leading to increased pressure on smaller and more sustainable producers. Farmers all over Europe fear that concluding a free trade agreement with countries that are major exporters of agricultural products will lead to the crowding out of domestic products on the EU market in favour of imports produced under less stringent climate, social and environmental standards. With the conclusion of the EU-Mercosur agreement, more than 99,000 tons[1] of beef will be imported into the European market at low prices. Furthermore, the deal will encourage the intensification of the animal production sector in both regions, ignoring the reality of overproduction in the EU and Mercosur countries.

This study underlines the distortion of competition in agriculture that would prevail between the EU and the Mercosur region should the EU-Mercosur Trade Agreement as it stands be ratified. The EU, as a major economic player, prides itself on having strong climate, social and environmental objectives that also apply to its agriculture sector. Policy coherence to prevent any negative impacts of the deal is pivotal.

After 20 years of negotiations, the Mercosur trade agreement is a *dinosaur agreement* and a bad compromise which comes at the wrong time. Right now, there is an increasing demand for sustainable development and urgent climate action. If we want to phase out pesticides, ban unhealthy growth promoters, decrease deforestation, ensure animal welfare and promote strong workers' and human rights, the deal needs to be rethought completely.

This study calls for the EU to put its money where its mouth is and make sure that its trade policy is in line with its environmental, climate and social objectives. Standards that apply in the EU shouldn't be threatened by the EU itself opening up the EU market. The agriculture sector in the EU cannot be collateral damage to a trade deal that is not fit for purpose.

One thing is clear: the EU-Mercosur agreement is not up to the task.

Yannick Jadot,

Member of the European Parliament for the Greens/EFA Group

1 As per: https://eu.boell.org/en/2021/09/07/mercosur-trading-away-environment

EXECUTIVE SUMMARY AND RECOMMENDATIONS

EXECUTIVE SUMMARY

Mercosur (*or Mercosul in Portuguese*) is the Southern America Common Market. Despite being a common market, it remains much less integrated than the EU. Mercosur common external tariffs are generally high for industrial goods and services, comparatively much higher than EU tariffs. This is not the case for agricultural and food goods. There are still many internal barriers (taxes and regulations) impeding trade to Mercosur, and Mercosur has signed very few bilateral trade agreements with other partners around the world. In this context, large European industrial sectors such as cars, pharmaceuticals, cosmetics, alcohols, luxury goods and services have expressed their interest in this Agreement. On the Mercosur side, it is the agribusiness sectors that have expressed most interest in the Agreement.

According to Business Europe and the Brazilian National Confederation of Industry (CNI): "*The Agreement's opportunities go beyond greater access to markets for our companies, supporting sustainable growth with the implementation and monitoring of environmental and social policies both in the EU and Mercosur countries" (2021/04/30)*[1]. This study presents several arguments that call into question such a statement.

The EU-Mercosur Agreement will further deepen Mercosur's specialization in the primary sector, especially agribusiness. This specialization has, however, been linked to **increasing social inequalities and growing environmental problems for several decades**[2]**.**

For the EU, this will primarily affect the agricultural sectors, with the exception of wine, alcohol, and some dairy. For example, we estimate that EU beef imports from Mercosur will increase (in case of full implementation of the FTA) from +23% to +52% by 2030, according to the two hypotheses postulated.

This study focuses on agricultural and food goods, and the likely impacts of the Agreement's implementation on social aspects, human health, animal welfare and the environment.

The EU-Mercosur Agreement covers tariffs but also issues such as rules of origin, technical barriers to trade, sanitary and phytosanitary measures, services, government procurement, intellectual property, sustainable development, and small- and medium-sized enterprises. Other **topics such as the environment, biodiversity (as "sustainable development"), climate change (to comply with the commitments of the Paris Agreement – Treaty**

1 https://www.businesseurope.eu/publications/european-union-mercosur-trade-agreement-cornerstone-foster-sustainable-development-and

2 Viande bovine: le Mercosur privilégie toujours plus d'export ; Dossier Economie de l'Elevage n° 533. (October 2022): https://idele.fr/detail-article/viande-bovine-le-mercosur-privilegie-toujours-plus-dexport

on Climate Change), animal welfare, biotechnologies and antibiotics resistance are only reflected in non-enforceable dialogue-based chapters, with no compulsion, and could even potentially be damaging to the EU regulations on these matters. For example, there will be particularly high pressure from the Mercosur parties in these "Dialogue groups" to deregulate GMOs in the EU and weaken the precautionary principle, which they consider illegitimate barriers to trade.

This study underlines the **distortion of competition in agriculture** ("level playing field") **between the EU27 and Mercosur**. Regulations all along the agricultural production chains in Mercosur remain weak overall compared to EU regulations:

- Such is the case for **pesticide** use. Some active ingredients authorized in Mercosur are banned in the EU (although the EU does produce and export such products). In Brazil, year after year, the registration, sale, and use of pesticides increases. Pesticide use in Mercosur has direct consequences on the local population's health. Considering **maximum residue limits** (MRL), the study underlines the huge gaps in levels of pesticide residues permitted in food and water on both sides of the Atlantic. Definitions of MRL for substances that are banned in the EU are also prone to technically-difficult risk evaluations. This creates a serious risk for the population of Mercosur, and for Mercosur agrifood exports. There are questions as to the effectiveness of European safety control at its borders, both with regard to the definition of these MRL and also the frequency of controls on imported food goods. With increasing imports from Mercosur following implementation of the trade Agreement, this could lead to new sanitary scandals and seriously affect European consumers' trust in food security!

- The problem is the same for antibiotics. In some parts of Mercosur**, antibiotics remain intensively used as growth promoters**[3]. Such is the case in Brazil for a number of active ingredients authorized for animal production that are banned in the EU (i.e. bacitracin, flavomycin, monensin…).

- The study shows a global **lack of traceability** in cattle production (there are still loopholes in the deforestation control system: non-compliant animals can be marketed even by slaughterers and distributors committed to "zero deforestation"), except in Uruguay. It is also the case for **animal welfare regulations,** which are poorly developed in Mercosur, with the exception of Uruguay. **Sanitary regulations,** as well as **workers' rights and regulation,** remain limited in Mercosur slaughterhouses.

While the EU-Mercosur Agreement aims to intensify trade flows between the two blocs, it is a missed opportunity to bring production standards closer between the two zones, even though it was concluded to intensify trade.

After **FTA implementation**, Mercosur will remove tariffs on 91% of the goods imported from the EU and the EU27 will exempt duties on 95% of goods imported from Mercosur, along with 83% of agricultural imports.

3 Antimicrobial use, resistance and economic benefits and costs to livestock producers in Brazil, OECD. (July 2019): https://www.oecd-ilibrary.org/agriculture-and-food/antimicrobial-use-resistance-and-economic-benefits-and-costs-to-livestock-producers-in-brazil_27137b1e-en

Within the EU, eight products have been classified as "**sensitive products**" for specific custom codes (not all tariff lines for each product). Tariffs will remain the same on the relevant lines of these products but new tariff rate quotas (TRQs) will be open.

After EUM-FTA implementation, trade in the main sensitive products will increase:

- **Cattle**: exports will increase from Brazil, Argentina, Uruguay and Paraguay, which are already the main suppliers of the European market. The share of Mercosur full "loin and rump" on the EU market will, in particular, dramatically increase from 13% in 2019 to 21%/26% in 2030, according to the two hypotheses that have been postulated[4]. As these cuts are very much cheaper in Mercosur and are equal to one-third of the value of adult cattle in the EU, this represents a major threat to EU cattle producers' revenues, and thus to the permanence of European permanent grasslands.

- **Dairy**: exports from the EU to Brazil are likely to increase for cheese and infant formula. Exports from Uruguay and Argentina to the EU could also increase slightly for milk powders and butter. Small and medium dairy farmers in Brazil could be particularly affected by this Agreement. They account for 80% of Brazilian dairy farmers and 60% of national dairy production but they are often excluded from internationalized industry chains. These family farmers are likely to be the most penalized by increasing imports of European cheeses.

- **Poultry**: exports are expected to rise from Brazil with the high competitiveness of Brazilian products, to at least 180,000 tonnes of frozen cuts.

- **Sugar and Ethanol**: exports from Brazil and Paraguay to the EU should increase due to new TRQ (Paraguay) and a decrease in tariff (Brazil). This will be a strong incentive for sugar cane crop expansion, and will lead to increased competition for land, putting even more pressure on the colonization of new agricultural lands at the expense of natural biomes (sugar cane will expand mainly on permanent grasslands, and cattle farmers will look for new land to clear).

Even for sensitive products, some tariff lines will be liberalized. As an example, in the beef sector, the tariffs for **live cattle imports into the EU** will be eliminated after 10 years of implementation. If there are no new rules on animal welfare during transportation, this could pave the way for massive imports of weanlings across the Atlantic, given the current EU suckler herd decapitalization and the strong demand among European fatteners for these, notably in Italy or Spain. Brazil is currently the number one supplier of live cattle on the world market, notably to the southern and eastern Mediterranean countries.

Soy product (beans and cakes) imports from Mercosur into the EU are already massive and duty free. South American soybean production presents many proven negative externalities, however, notably as regards deforestation. The recent EU Regulation on "imported deforestation" will only prevent imports from very recently deforested areas (since 2021), and only refers to Amazonia (not to savannahs such as the Cerrado or Chaco, despite being very rich in biodiversity). Moreover, the **abolition of export taxes** (which are

4 See Appendix V

intensively practised in Argentina for soy beans and cakes) included in the Agreement will further stimulate soybean production in Argentina, notably in the Chaco. And EU legislation on due diligence for forest-risk commodities remains weak. This regulation on deforestation concerns only a part of the forests and the Cerrado in Brazil will not be covered by the ban (see later).

The other **main driver of deforestation in Mercosur is the expansion of beef production** in natural biomes such as Amazonia, the Cerrado, Chaco or Pantanal. The experience of the last decade is particularly enlightening. A voluntary agreement was signed in 2009 by the main Brazilian meatpackers under pressure from Greenpeace to prohibit supply from farmers who deforest Amazonia or are convicted of slave labour. It has, however, demonstrated several weaknesses. Only the direct supplies to the packers of the finishing farms could be accurately controlled. Because of a lack of cattle traceability and willingness on the part of the actors in the beef industry chain (meatpackers, farmers' organizations and public authorities), indirect suppliers of live cattle to finishers are not controlled. Furthermore, only Amazonia is concerned, and not the other biomes such as the Cerrado or Pantanal in Brazil, or the Chaco in Paraguay and Argentina. According to our study, the estimated **additional deforestation as a consequence of the EU-Mercosur Agreement and increased beef exports covers a wide range, from a minimum of 620,000 ha up to 1.35 million ha in the worst case scenario over five years.**

In a nutshell, **the EU-Mercosur Agreement will result in increased trade but is expected to negatively affect both the environment and health**: there will be losses of very high biodiversity-rich biomes, carbon release and impacts on climate change, increased risks of local pollution in Mercosur, and the impact of increasing antibiotic and pesticide use on both Mercosur citizens' and European consumers' health.

RECOMMENDATIONS

This report's recommendations are as follows:

1. **Tariff conditionality:** The liberalization of trade should be conditional on all sustainability provisions being enforced and adhered to. For example, tariff reductions should be contingent upon Brazil reducing its deforestation in accordance with the country's previous National Climate Change Policy target: 3,900 km^2/year. In addition, the impact of trade liberalization on GHG emissions should be constantly monitored ex-post during the implementation of the agreements. If it is found that emissions have increased because of the expansion in trade, the agreements could be suspended. Alternatively, corrective measures in the form of duties could be introduced, particularly on the most GHG-intensive products[5]. An alternative to linking tariff preferences to certified sustainable

5 Harrison, J., Paulini, S., Ankersmit, L., van Asselt, H., Barros-Platiau, A. F., Eslava, L., Harstad, B., Marzano, K., Raza, W., Rittl Filho, C. E., & Zengerling, C. (2021). Academic Statement: Proposals on the EU-Mercosur Association Agreement and the Environment (8 February 2021). Coventry: School of Law, University of Warwick. https://warwick.ac.uk/fac/soc/law/research/centres/chrp/governance/eumercosuraa

products could be import restrictions, such as an import ban on non-sustainable products[6].

2. **Hierarchy clause:** a new clause should be added stipulating that, in the event of inconsistency between the deal and a multilateral environmental agreement, obligations from the latter shall prevail. This will reduce litigation risks when creating environmental policies or implementing multilaterally negotiated environmental policies[7]. No provision in the Agreement should restrict the policy space for genuine environmental and climate policies nor create 'regulatory chill' due to risks of litigation.

3. **Inclusion of a mandatory and sanctionable commitment towards implementation of the Paris Agreement:** In the Trade and Sustainable Development (TSD) chapter, the Parties commit to effectively implementing the Paris Agreement. However, two additional conditions must be fulfilled: firstly, such implementation needs to be a mandatory commitment and not just a best endeavour effort. Secondly, a breach of said implementation should be a sanctionable offence.

4. **Make the Paris Agreement the core of the Agreement in order to achieve the 1.5°C goal:** Making the Paris Agreement an essential element of the EU-Mercosur Agreement is a necessary (albeit insufficient) condition. Despite being the only directly trade-related commitment made in the Commission's European Green Deal strategy, the Paris Agreement does not form an essential element of the EU-Mercosur Agreement. The Paris Agreement and the 2030 Agenda for Sustainable Development must become the reference points for all of the EU's trade agreements. This would mean that the application of specific provisions in trade agreements that contradict these two Treaties could be suspended by the trade partners unless the Dispute Settlement under the trade agreement rules to the contrary. This will require substantive provisions to be included in the Dispute Settlement Chapter.

5. **The Agreement should not weaken European border controls and food checks.** The agreement already includes mechanisms to suspend imports from specific regions or farms that have been proven to disrespect sanitary and phytosanitary standards, yet at the same time it weakens border controls, food checks and the ability to identify and withdraw contaminated animal foodstuffs from the market when they enter the EU market. In Brazil alone, over 500 pesticides are permitted, 150 of which are prohibited in the EU.

6. **The precautionary principle should be protected throughout the Agreement and therefore included in the SPS chapter.** One of the consequences of omitting the precautionary principle from the SPS chapter is that the parties cannot rely on the precautionary principle to preventively block imports of critical products, such as

6 Fritz T. EU-Mercosur Agreement: Risks to Climate Protection and Human Rights. Greenpeace, CIDSE, Misereor (2020). https://www.google.com/url?sa=i&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=0CAMQw7AJahcKEwj4xqfyv_v9AhUAAAAAHQAAAAAQAg&url=https%3A%2F%2Fwww.misereor.org%2Ffileadmin%2Fuser_upload_misereororg%2Fpublication%2Fen%2Fshaping_economic_processes%2FStudy-EU-Mercosur-Agreement-Risks-to-Climate-Protection-and-Human-Rights....pdf&psig=AOvVaw11YEThiJAhl-sMoJWFXshq&ust=1679985483733865

7 Lawrence, Jessica C. and Ankersmit, Laurens, Making EU FTAs 'Paris Safe' Three Studies with Concrete Proposals (March 8, 2019). https://ssrn.com/abstract=3407949

agricultural goods, suspected of being contaminated with pathogens or containing prohibited pesticide residues.

7. **The EU-Mercosur FTA should not relocate EU environmental problems to our partners.** In addition, clearly, the EU should prohibit EU exports of pesticides banned for domestic use. On the glyphosate ban, the SPS chapter does not provide sufficient protection from trade disputes in the event of an end to the EU's current glyphosate approval or a reduction in residue levels. Article 11 of the SPS chapter states that either international standards or scientific evidence should be provided to justify such measures. Glyphosate is approved in the EU until 15 December 2022 but it is extensively used in Mercosur countries, in particular on soy fields. The EU-Mercosur Agreement should not be used to contest the possible expiry of this approval (i.e., through the TBT, SPS or regulatory cooperation provisions).

8. **Review the SPS chapter's trade facilitation and equivalence provisions:** they weaken oversight of imported food products and potentially increase risks to consumers, therefore the provisions should be reviewed or removed, namely:

    a. measures to rapidly pre-approve establishments for meat exports;

    b. provisions reducing the frequency and effectiveness of food safety checks by the importing country; and

    c. limitations on the authority of governments to preventively block imports when food safety violations are suspected. Such provisions should instead allow for enhanced controls.

9. **Effective mirror clauses should be included to ensure that the regulatory requirements that the EU producers must adhere to are also applied and enforced on EU imports.** Imported foods must comply with the same sustainability standards that are applicable in the EU, particularly on the environment, animal welfare, antibiotics, and pesticide issues. The EU-Mercosur deal may encourage an increase in the animal production sector, especially in Mercosur.

Our demands:

10. **Standards equivalent to EU animal welfare standards for imported animal products:** Equivalent animal welfare standards need to exist and be implemented in Mercosur countries of origin, even if EU regulations subsequently change. Mercosur countries should have to respect future EU standards[8]. Intensification and overproduction of animal production in both regions need to be addressed in the Agreement.

11. **More and better audits:** the way animals are raised and transported in the Mercosur region should fall under the EU audit and certification procedure, and there should be a higher number of independent audits in Mercosur countries. The SPS chapter needs to

8 New Commission proposal on animal welfare package including transport is expected in the third quarter of 2023: https://www.euractiv.com/section/agriculture-food/news/meps-question-commissions-timeline-to-adopt-new-animal-welfare-rules/

be revised to guarantee this. Audits should furthermore systematically address tracing of the origin of cattle to address potential "cattle origin laundering".

12. **The TBT chapter should not restrict the scope of acceptable mandatory labelling schemes:** the chapter should allow for mandatory labelling schemes that would have an information-only purpose and should be reviewed to avoid any barrier to the future imposition of a method of production but also food nutritional content information labels on imported products.

13. **The market access offer should be reviewed to further limit the volume of TRQs granted for animal-based products**, especially for bovine and chicken meat and to make access to such TRQs conditional upon respect for the EU's relevant animal welfare standards, following the model that the Agreement applies for shell eggs. Overall, TRQs should be reviewed to adjust to the UK's withdrawal from the EU. While it has been done for GATT and WTO TRQs such as Hilton beef TRQs, it has not been done for bilateral TRQs (CETA TRQs, for example).

EU autonomous measures:

As a major economic player, the EU has a responsibility to ensure that its trade is consistent with its environmental, climate and social objectives. Policy coherence is crucial if there is to be any chance that the negative impacts of EU-Mercosur deal can be prevented. Prior to ratification, the EU should introduce:

1. **Effective EU legislation on due diligence for forest-risk commodities.** In November 2021, the Commission tabled a proposal to tackle deforestation and forest degradation linked to specific commodities and products placed on the EU markets. Nevertheless, a lack of control remains. This regulation on deforestation concerns only a part of the forests. "Other wooded lands", including the Cerrado in Brazil, will not be covered by the ban (at least for now). Moreover, meat companies (JBS, Marfrig, Minerva) that will be required to monitor compliance with the mirror clause on behalf of the EU ("due diligence") are not in a position to be able to do so due to the lack of traceability and control (see chapter 6 on beef production). The mirror clause on deforestation should cover every species of native vegetation (such as the Cerrado, Pantanal, Chaco…). It should concern areas deforested since 2016 (the start of the increase in deforestation in Brazil).

2. **Effective EU legislation on veterinary medicine**. This mirror clause is dependent upon article 118 of the EU Regulation on veterinary medicinal products (EU Regulation No. 2019/6 of 11 December 2018). After several months' delay, the European Commission notified the WTO of a draft of the delegated act on the implementation of this mirror measure on the use of antibiotics in livestock farming in early December 2022. This delegated act on the prohibition of meat from animals that have used antibiotics as a growth promoter remains weak. Just as for deforestation, the meat companies (such as JBS, Marfrig, Minerva) that will be required to monitor compliance with the mirror clause on behalf of the EU are not in a position to trace this completely. In Mercosur, lack of traceability and medicine regulations remains high, with the exception of Uruguay. The

mirror clause on veterinary medicine needs to be more detailed. It should provide real checks on the effectiveness of the regulation and be effective as soon as possible.

3. **EU legislation on supply chain due diligence on human rights and environment for all economic sectors and products**.

4. **An EU ban on the export of pesticides currently prohibited in EU**, in line with the "do-no-harm principle", the European Green Deal, and as outlined for consideration in the European Commission's Chemicals Strategy.

5. **An EU agreement on taxing emissions from maritime transport and aviation** to ensure that emissions controls are all-encompassing.

In addition, the EU must strengthen its border controls[9], and introduce better labelling of origin and production methods[10] of soybeans cultivated in Brazil and Argentina.

9 It must be ensured that all Member States allocate sufficient resources to food controls, in particular that EU Member States are conducting proper controls for the presence of unauthorized GMOs engineered with new GM techniques such as 'gene editing'.

10 This includes an extension of EU mandatory rules of origin, in particular to all fresh, frozen and processed meat, seafood and aquaculture products offered to consumers in every condition, including in restaurants and canteens, and indicating the place where the animal was born, raised and slaughtered, or caught and slaughtered. For more information: https://www.greens-efa.eu/files/assets/docs/cap_for_the_future.pdf

CONTENT OF THE STUDY AND PROPOSED METHOD

This study on the impacts of the EU-Mercosur Free Trade Agreement (EUM-FTA) on agriculture was conducted by *Idele-Institut de l'Elevage* (French Livestock Institute), as commissioned by the Greens/EFA in the European Parliament. Funding was provided by the Greens/EFA in the European Parliament. This chapter presents the outline of the report and the methods used to assess some of the effects of the EUM-FTA on agriculture and, particularly, on some sensitive sectors.

Study Plan: we propose an analysis in four steps:

1. The current situation of agriculture in Mercosur. This focuses on Mercosur's trade in agricultural products and the share and evolution of trade between the EU and Mercosur.

2.

    a. an analysis of the EU-Mercosur FTA (EUM-FTA): Tariffs and quotas (TRQs), sanitary and phytosanitary (SPS) issues, animal standards…,

    b. a critical analysis and synthesis of existing studies, in particular impact assessments *ex ante* for public authorities in different countries, NGOs reports…

3. A focus on the most sensitive agricultural sectors that could be affected both in the EU and in Mercosur, especially the beef and dairy sectors (differentials in competitiveness, current and potential linkages between Brazilian, Paraguayan and Argentinian cattle industries and deforestation, potential effects on family farms in the EU (beef) and in Mercosur (dairy)). Brief analyses of poultry, pork, sugar and ethanol are also provided.

4. Consequences and recommendations with regard to EUM-FTA implementation. This focuses on potential mirror clauses (animal welfare, antimicrobial resistance, use of pesticides), sustainability standards to be implemented…

Method: The *Institut de l'Elevage* used a combination of methods to produce this report:

- 18 interviews were conducted with stakeholders from NGOs (economy, environment, animal welfare…), universities, research institutes or networks, farmers' organizations.
- Existing studies and data were analysed and described.
- An analysis of different databases was conducted to produce maps and graphs:

Issue	Databases used
Production	IBGE (BR), SIDRA (BR), CONAB (BR), ABIEC (BR), Athenago (BR), Agroconsult data (BR), IPCVA (AR), SENASA (AR), INAC (UY), MGAP-DICOSE (UY), SENACSA (PY), FAO (INT),
Trade	Trade Map (International), TDM (INT), MDIC (BR), INDEC and MAGyP (AR), Direcciòn Nacional de Aduanas (UY), Eurostat (EU)
Prices, competitiveness	Agribenchmark (INT), INTERPIG (INT), USDA (INT), World Bank (INT), International Monetary Fund (INT), Instituto de Economia Agricola (BR), AMI (EU), European Central Bank (EU), INALE (UY), CEPEA (BR),
Deforestation, environment	TRASE (INT), IBAMA/PRODES (BR), MAPA (BR), IBAMA (BR), Chain Reaction Research (INT), Redap (AR), FAUBA (AR), LART (AR), INTA (AR), CIAM (BR), Global Forest Watch (INT)
Health	OECD (INT), WOAH (INT), MAPA (BR), SINDAN/ Ministério da Saúde (BR),
Workers' rights	Ministério do Trabalho e Previdência (BR)

INT: International, EU: European Union, AR: Argentina, BR: Brazil, PY: Paraguay, UY: Uruguay

Details about the methods to assess the impact on beef and deforestation are specified in Appendix III.

1. MERCOSUR: A STILL QUITE PROTECTED MARKET AND A GIANT OF AGRIBUSINESS

Mercosur (*or Mercosul in Portuguese*) is a common market for five South American countries, but one (Venezuela, member of Mercosur as of July 2012) has been "suspended" since 2016 by the original members (Argentina, Brazil, Paraguay, Uruguay). Negotiations between the EU and Mercosur, launched in 1999, thus only concern the four initial members. This report only looks at these four countries.

In all for the four current member states, Mercosur comprises 270 million inhabitants (60% of the EU-27 population) living on 11.8 M km^2 (three times larger than the area of the EU).[11] Its global Gross Domestic Product (2.194 billion USD) was only 1/7th of the EU-27's in 2021, however.

These countries have much in common but still experience many differences, in terms of populations (from 3.5 million inhabitants in Uruguay to 213 million in Brazil), area, economic weight and per capita revenue (ranging from USD 5,207 in Paraguay in 2021 to USD 16,756 in Uruguay).

1.1. WHY A TRADE AGREEMENT COULD BE PROFITABLE TO THE EU'S INDUSTRY AND SERVICES

The Mercosur common market remains much less integrated than the EU, even though internal customs duties were lowered at the end of 2021 by Bolsonaro's government. In Brazil, there are also internal duties for inter-state trade (ICMS). Regulations (non-tariff barriers) are often decided neither at the Mercosur nor at the federal level but sometimes by each State (Brazil) or Province (Argentina).

For external trade on industrial goods, Mercosur implements relatively high tariffs compared to the EU. For example, EU duties are: 7.4% for cars (SH code 87), 3.5% for organic chemicals (code 29) and 0.1% for medicines (code 30). As a comparison, until the beginning of 2022 they were as follows: 24.4% (code 87), 5.7% (code 29) and 9.6% (code 30) respectively in the Mercosur common tariff. More recently, as a counter measure to recover from the post-pandemic slump, Mercosur decided to lower its tariffs by 10% in July 2022 for 87% of customs codes dealing with industrial goods[12].

11 https://www.donneesmondiales.com/accords-commerciaux/mercosur.php

12 « Dispositions et effets potentiels de la partie commerciale de l'Accord d'Association entre l'Union européenne et le Mercosur en matière de développement durable », Rapport pour le 1er Ministre français, Ambec et al. (April 2020). Appendix. https://www.gouvernement.fr/sites/default/files/document/document/2020/09/rapport_de_la_commission_devaluation_du_projet_daccord_ue_mercosur.pdf

Since Mercosur has signed few bilateral trade agreements with other parts of the world[13], the EU could benefit from a "first mover" advantage compared to its three main competitors (USA, China, Japan etc.). However, the reverse is true for most agricultural products, with the exception of coffee, cocoa, oilseeds, and grains: EU customs duties are notably high for meats, sugar, dairy products, and honey, much higher than Mercosur's.

1.2. MERCOSUR, AN ECONOMY IN A "RE-PRIMARIZATION" PROCESS WITH SIGNIFICANT INEQUALITIES

From the 1930s to the 1970s, successive Argentinian and Brazilian governments (including dictatorial ones) focused on diversifying their economies, while keeping their specialization of supplying mainly agricultural products, a trait dating from the European colonization of the previous centuries. To protect their own industries, duties were and remain quite high for industrial goods (and services).

However, after several deep economic crises from the 1980s onwards, the choice (more or less publicly assumed) was made, concomitantly with the Marrakech Agreement and the founding of the WTO in 1994, to concentrate efforts and public investments on the agribusiness sector in Argentina and Brazil. Neither of the smaller countries (Paraguay and Uruguay) had many alternatives anyway.

As a result, after four decades of economic liberalization and "structural adjustment", the share of industrial goods in export values has dropped from 60% in 1990 to 25% in 2021 for Brazil, and from 35% in 1996 to 13% in 2021 for Argentina[14].

The share and value of agricultural and mineral exports have increased dramatically at the same time.

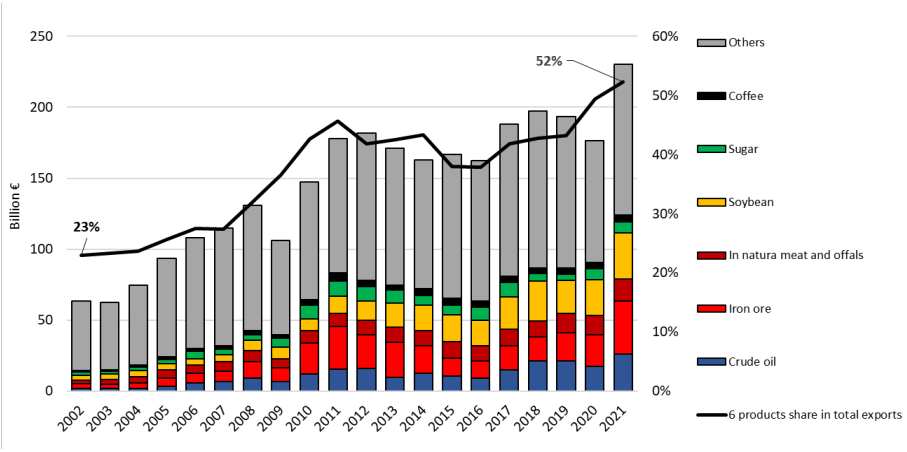
For **Brazil**, the first six categories of products exported are iron ore, soy complex products (beans, oil and cake), crude oil, beef, sugar and coffee. Their total export value was five times higher in 2021 than 20 years ago, and these six categories now represent 52% of global Brazilian exports.

13 At this stage: Mercosur has signed cooperation agreements with the Andean Community (2005), Israel (2007), Egypt (2010), Palestine (2011), Lebanon (2014), Singapore (2022).

14 Viande bovine: le Mercosur privilégie toujours plus d'export ; Dossier Economie de l'Elevage n° 533. (October 2022): https://idele.fr/detail-article/viande-bovine-le-mercosur-privilegie-toujours-plus-dexport

Figure 1. Annual value (billion €) of exports from Brazil

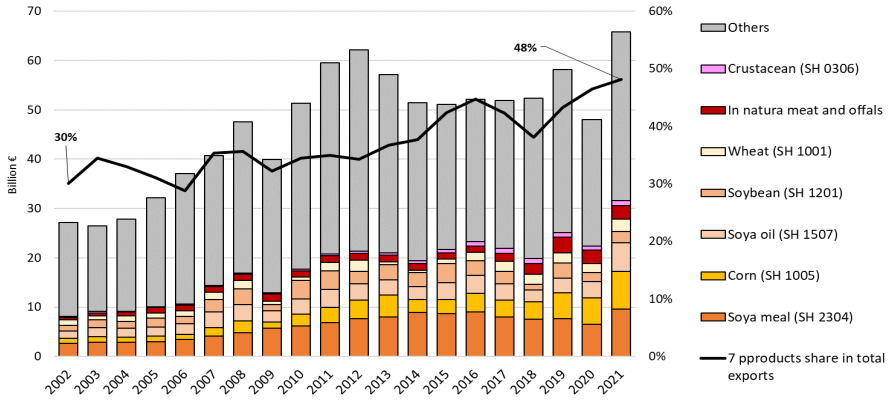
Source: Idele-GEB according to Trade Map



For **Argentina**, agricultural and food exports now represent 65% of global export value, with soy complex products being number one, followed by maize, wheat and beef.

Figure 2. Annual value (billion €) of exports from Argentina

Source: Idele-GEB according to Trade Map



The strong surge in China's demand was another driver explaining this re-specialization of Mercosur economies in primary goods exports, mainly agrifood products.

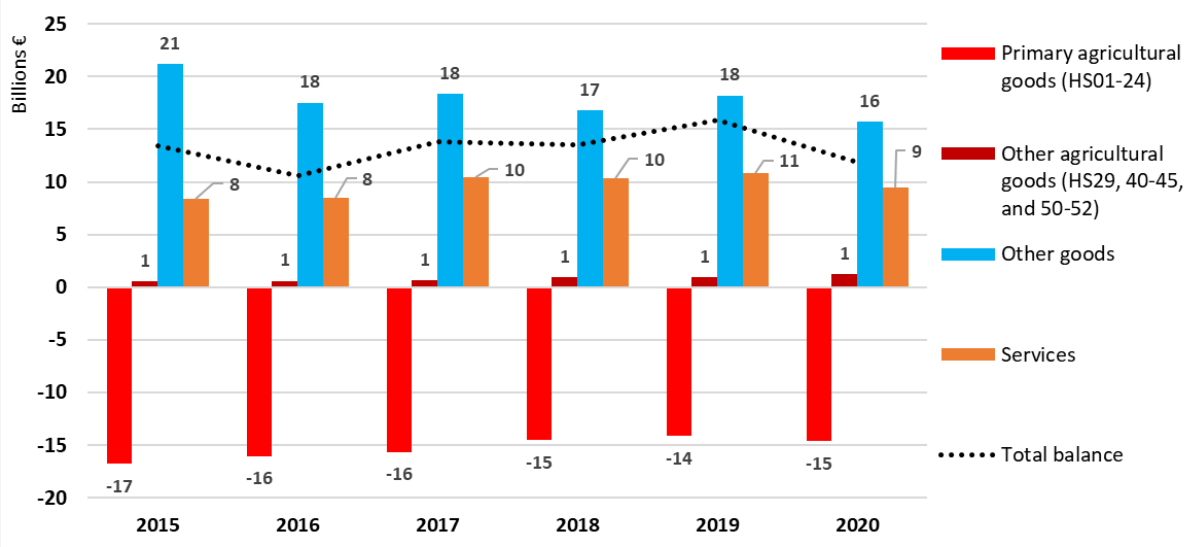
On the global market in 2021, according to FAO[15], the four countries of Mercosur together had a very high share in the supply of many agricultural & food products. For example: 51% for soya cakes and 36% for soybeans; 43% for sugar; 35% for maize and 33% for beef.

This specialization is also very marked in the **trade balance between Mercosur and the EU**. As the figure below shows, the balance is overall in favour of the EU, with a very strong contrast between a constant deficit for agriculture and food products, a growing surplus for services and an eroding surplus for industrial goods.

15 Food Outlook – Biannual Report on Global Food Market. (Nov. 2022): https://www.fao.org/3/cc2864en/cc2864en.pdf

Figure 3. Share of goods (agricultural and industrial) and services in trade between the EU and Mercosur

Source: GEB-Idele according to Eurostat



This specialization goes hand in hand with **persistent social inequalities**, at the expense of the middle classes, the urban poor, the small peasantry, and the Indigenous populations. The small group of peasant farmers is affected by social inequalities stemming from the specialization of agriculture. In recent years, peasant family farmers have particularly suffered from Brazil's foreign policy. According to the Paraiba Federal University and the University of Oxford[16], between 2016 and 2022, "*Ministerial reforms and other institutional changes [were] clear signs of the vertical and horizontal closing-up for the peasant agriculture sector in Brazilian foreign policy*". "*Still, the repositioning of agribusiness in the post-PT era triggered efforts to exclude from national politics the possibility of an alternative productive and social model, embodied in peasant agriculture*".

A synthetic index measures these inequalities, i.e. the GINI index. The higher it is (between 0 and 1), the higher inequalities are. According to the World Inequality Database[17], **calculated for revenues before taxes**, the **GINI index** in **2019** was: 0.69 for Brazil (one of the highest indices recorded for emerging countries, just after South Africa); 0.64 for Paraguay; 0.59 for Argentina and 0.53 for Uruguay. This latter country is the only one to have recorded a marked improvement over the past 10 years (from 0.58 to 0.53). The improvement was marginal both in Brazil (from 0.68 to 0.67) and Paraguay (from 0.66 to 0.64) and the situation worsened in Argentina. Unfortunately, the situation significantly worsened during the Covid pandemic. For example, the share of urban population below the poverty threshold reached 36% in Argentina[18] during the first half of 2022. In 2021 in Brazil, 62.5 million people lived below the poverty line (30% of the total population)[19].

16 "One Single Agriculture": Dismantling Policies and Silencing Peasant Family Farmers in Brazilian Foreign Policy (2016-2022). Thiago Lima and al. (Oct 22). https://www.scielo.br/j/rbpi/a/hRRwXrPKVWXsydnKrr9hWfn/

17 https://wid.world/data/%20consulted%20on%20the%2012/12/2022

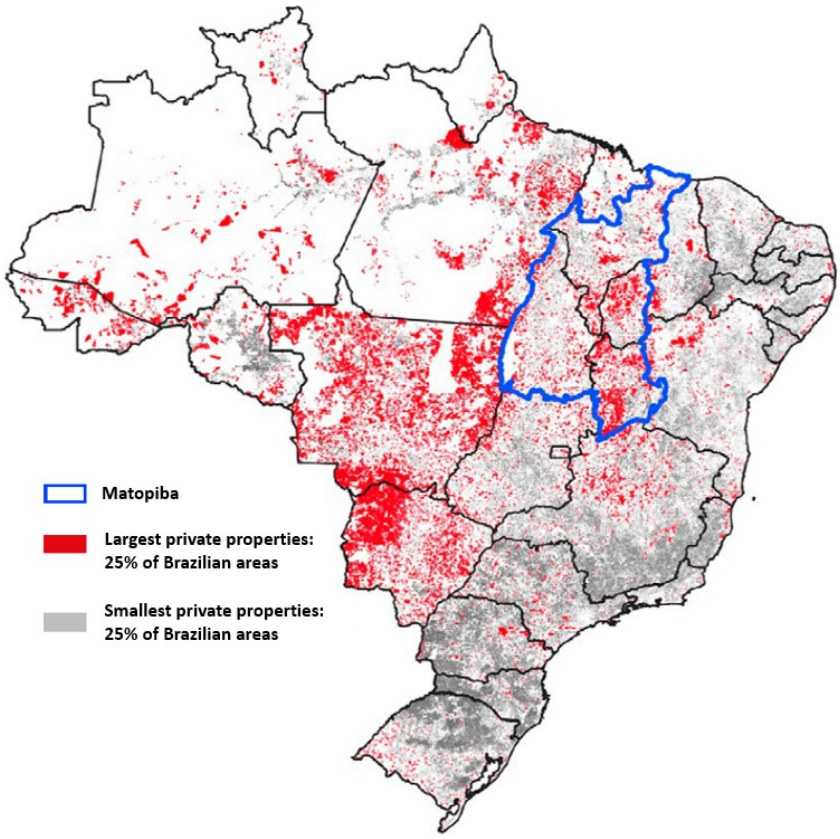
18 Instituto Nacional de Estadística y Censos (INDEC): https://www.indec.gob.ar/indec/web/Nivel3-Tema-4-46

19 Mapa da nova probeza. FGV social. (2022): https://cps.fgv.br/MapaNovaPobreza

Land distribution is also an important inequality measurement indicator and one of the main cores of economic development analysis[20]. The inequality in the distribution of land in Brazil is one of the most significant in the world, being associated with historical processes of land grabbing, social conflicts and environmental impacts. And the recent revision of land regulations may exacerbate this situation. According to an Imaflora study[21] and the last IBGE Census data (2017), a quarter (25%) of all agricultural land in Brazil is occupied by the 15,686 largest properties in the country (0.3% of total properties), which are concentrated mainly in Mato Grosso, Mato Grosso do Sul and Matopiba[22]. A total of 3,847,937 smaller ones (77% of the total properties) account for another 25%, with the largest presence of these small properties in the South, Southeast and Northeast regions. The **GINI index of the distribution of land ownership** in Brazil was 0.73, **confirming this high inequality.**

Figure 4. Geographical distribution of the largest and smallest properties occupying 25% of the total area in Brazil

Source: Imaflora according to IBGE



Access to **land ownership** remains difficult in Brazil. Becoming a national movement in 1984, the MST (*Movimento dos Trabalhadores Rurais Sem Terra* - Brazil's Landless Workers Movement) has led more than 2,500 land occupations, involving some 370,000 families - families that are today settled on 7.5 million hectares of land that they won as a result

20 Evolution of land distribution in the context of development theories. Hossein Azadi and al. (Sept 22): https://www.sciencedirect.com/science/article/abs/pii/S0264837719324044

21 Quem sao os poucos donos das terras agricolas no Brasil – o mapa da desigualdade. Imaflora. (Apr 2022): https://www.imaflora.org/public/media/biblioteca/1588006460-sustentabilidade_terras_agricolas.pdf

22 Matopiba is an acronym denominating the region that extends through the territories of four states of Brazil, formed with the first syllables of the names of these federative units: Maranhão, Tocantins, Piauí and Bahia.

of the occupations. There are currently approximately 900 settlements home to 150,000 landless families in Brazil. **Landless peasants** remain numerous, however, with difficulties in accessing school[23], health care and even clean water[24].

In Brazil, the Constitution of 1988 recognizes the **Indigenous peoples** as the first and natural owners of the land and guarantees them their right to land. But Indigenous peoples' rights have been weakened, especially under Bolsonaro's government. In facts, the administration of President Bolsonaro has weakened some government agencies, such as IBAMA (the Brazilian Institute of the Environment and Renewable Natural Resources) and ICMBio (the Institute for the Conservation of Biodiversity), undermining the protection of Indigenous territories, and halting the recognition of their traditional lands[25]. The Brazilian government also issued regulations harmful to Indigenous people, and some Indigenous groups continue to face persecution in various forms. **The expansion of the Trans-Amazonian highway and other development projects are creating a range of problems that Indigenous people are having great difficulties dealing with**[26]. According to research from IMAZON[27], roads in Legal Amazonia point to criminal activities such as illegal logging, mining, and land grabbing. The study also shows that **5% of the road network is within conservation units, and 3% within Indigenous territories, running a total of 280,000 km inside these protected areas**.

"Re-primarization" of the economy and trade with China has a major impact on this land pressure[28]. Numerous studies have documented and confirmed that global trade, in its existing form, causes land pressure, deforestation and other associated environmental damage, with 80% of deforestation occurring due to trade and agriculture[29]. **Free trade agreements, such as EU-Mercosur FTA, could put more pressure on Mercosur's different biomes.**

23 Occupying Schools, Occupying Land: How the Landless Workers Movement Transformed Brazilian Education. Stanford University. https://lemanncenter.stanford.edu/paper/occupying-schools-occupying-land-how-landless-workers-movement-transformed-brazilian-education

24 The right to water: Impact on the quality of life of rural workers in a settlement of the Landless Workers Movement, Brazil. Priscila Neves-Silva and al. (July 2020): https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0236281

25 Human Rights Watch: https://www.hrw.org/news/2022/08/09/brazil-indigenous-rights-under-serious-threat

26 wwf: https://wwf.panda.org/discover/knowledge_hub/where_we_work/amazon/about_the_amazon/people_amazon/indigenous_brazil/

27 Mapping Roads in the Brazilian Amazon with Artificial Intelligence and Sentinel-2. IMAZON. (July 2022): https://news.mongabay.com/2022/09/road-network-spreads-arteries-of-destruction-across-41-of-brazilian-amazon/

28 China's Influence on Deforestation in Brazilian Amazonia: a growing force in the state of Mato Grosso. Boston University. (2015): https://www.bu.edu/pardeeschool/files/2014/12/Brazil1.pdf

29 Agricultural and forestry trade drives large share of tropical deforestation emissions. Pendrill and al. (2019): https://www.sciencedirect.com/science/article/pii/S0959378018314365

2. EU FOOD IMPORTS FROM MERCOSUR: IN AND OUT TARIFF RATE QUOTAS

With a few exceptions, notably oilseeds, grains, and cakes, EU tariffs rates are quite high for food. In this section, we focus on the few products that seem to be the most sensitive in the context of the Free Trade Agreement: beef, poultry, dairy products and sugar.

Oilseeds and cakes imports into the EU are free of duty since the Dillon Round of the GATT (1962)[30], **so they are not directly affected by the EU-Mercosur Agreement**. Nevertheless, the negative impacts that the dramatic expansion of soy cultivation for export in Brazil, Argentina and Paraguay has on deforestation, pollution, soil erosion, losses of biodiversity, and human health have been widely documented[31]. These impacts have not, at this stage, been directly considered by the Agreement, despite the chapter entitled "Trade & Sustainable Development". The Ambec report for the French Prime Minister underlined that: "*We conclude from this analysis that, with the Agreement, the EU missed an opportunity to use its negotiating power to obtain sound guarantees that meet the environmental, health and more generally societal expectations of its citizens.*"[32]

The impact of a voluntary moratorium on deforestation-related soy, signed by some of the main Brazilian companies in 2012, has declined substantial after some years, leading to an EU Regulation on "zero imported deforestation". Nevertheless, this new regulation will concern some but not all forest areas (mainly Amazonia in Mercosur region but excluding the Cerrado and Chaco for example)[33], and only land deforested after 31 December 2020. While soy cultivation has been identified as a major cause of deforestation in the Mercosur region, its main area of expansion has been in the Brazilian Cerrado and Paraguayan Chaco.

In the EU-Mercosur Agreement, there is a clause regarding the end of export duties (Annex 2 to the Chapter "Trade in Goods"). It concerns firstly **Argentinian "*retenciones*".** These export taxes are very important for the Argentinian budget, with high rates particularly on soy (33% since March 2022) and also grains (12% on wheat, maize and sorghum; 7% on sunflower). According to Info Campo[34], export duties contributed USD 9.7 billion to the Argentinian budget in 2022, of which 87% came from duties on "soy complex" exports. Annex 2 specifies that export duties on soy complex will be capped at 18% five years after entry into force of the Agreement and abolished after 10 years. No doubt such a measure will intensify soy cultivation expansion on new areas in Argentina even more, including the

30 Cf for example: Solanet. G. & al, GRET & CFSI, "L'impact des importations européennes de soja sur le développement des pays producteurs du Sud », 96 p., (February 2011): https://www.cfsi.asso.fr/wp-content/uploads/2021/01/29-pac-solidaireaveclesud-rapport-impact-importations.pdf

31 Vasconcelos A. & al, TRASE ISSUE BRIEF 4, "Illegal deforestation and Brazilian soy exports: the case of Mato Grosso", (June 2020): https://www.icv.org.br/website/wp-content/uploads/2020/06/traseissuebrief4-en.pdf

32 Dispositions et effets potentiels de la partie commerciale de l'Accord d'Association entre l'Union européenne et le Mercosur en matière de développement durable, Rapport pour le 1er Ministre français, Ambec et al., (April 2020): https://www.gouvernement.fr/sites/default/files/document/document/2020/09/rapport_de_la_commission_devaluation_du_projet_daccord_ue_mercosur.pdf

33 "Proposed EU regulation on deforestation & forest degradation". The Greens/EFA and Trase, (2022):

34 https://www.infocampo.com.ar/retenciones-us-1-millon-por-hora-el-aporte-de-las-cadenas-agricolas-en-2022/

Chaco. Moreover, it will lower the resources of the Argentinian government, to the benefit of the export agribusiness.

Regarding **beef**, "standard"[35] duties (see Appendix I) are 12.8 % + 3.3041 €/kg for frozen deboned "*in natura*" beef, 16.6% for processed beef 10.25% + 0.0931 €/kg for live cattle (except breeding cattle) and Mercosur beef suppliers can have access to existing tariff quotas, either specific to each country or non-specific (accessible to all WTO members, called *erga omnes*) (see Appendix I). In the first category, the major quote is the so-called "**Hilton beef quota**". It has existed since the 1970s and the preferential duty is 20%, much lower than the MFN duty. It is open to "*in natura*" deboned beef, either frozen or chilled, but with specification of the system of production specific to each supply country. The global volume available under this quota for the four Mercosur countries is currently 44,936 t of deboned beef, with the largest share for Argentina.

There are other quotas for beef, a "**High Quality Beef**" one, at 0 duty, created in settlement of the dispute over "hormone beef" at the WTO and reserved to the plaintiffs (USA, Argentina, Uruguay, Australia & New Zealand, and previously Canada until the CETA). Nevertheless, the US share is increasing year on year (according to the Memorandum of Understanding signed between the EU and the US[36]), so the remaining volume for the others will decrease to 10,000 t in 2026.

The **GATT quotas** are *erga omnes* and concern frozen beef, either "*in natura*" or for further processing. Year on year, Brazil is by far the leading (but not the only) supplier of those quotas, for which the preferential duty is 20%.

All these tariff rate quotas are not necessarily filled each year. Either because of production hazards in any given year, or more structurally depending on the specifications and on the level of the intra-quota duty[37]. The filling rate was quite low in 2020/21, mainly due to Covid barriers. For example, the allocated "**Hilton beef quota"** was completely used by Uruguay, almost fully used by Argentina (91%), but only very partially used by Brazil (29%). The situation for the "**frozen beef GATT" quota** is always different. The requested volumes for GATT-1 (frozen beef "*in natura*") appears to be three times more than the allocated volume, and almost exclusively supplied by Brazilian companies. But the GATT-2a and GATT-2b quotas (frozen beef for further processing) have very little success. Nevertheless, in addition to all these tariff quotas, Mercosur countries are so competitive that they can export beef at full duty without complying with any specifications, except the standard EU ones (i.e., no hormone use).

For **poultry meats** and **sugar**, the "standard duties" are only specifics, with no *ad valorem* component (see glossary). Currently, only Brazil has access to tariff rate quotas for these products. For **sugar**, the filling rate of the CXL quota (see glossary) with the lower duty (0.011 €/kg) was 100% in 2020/21 but the other CXL quota with a higher duty (0.098 €/kg) was

35 In this report, "standard duty" means under the regime of the Most Favoured Nations as defined by the WTO (see glossary).

36 https://ustr.gov/sites/default/files/asset_upload_file254_15654.pdf

37 Some existing quotas are not duty free. For example, the Hilton beef quota has an intra-quota duty of 20%, which remains under the MFN duty (12.8% + 3.034 €/kg). See Appendix I for more details.

neglected, even if the intra-quota duty remains three times lower than the MFN one. For **poultry meats**, the filling rate was high for salted poultry (84%), for cooked prepared chicken (86%) and for boneless frozen chicken cuts (93%) but much lower for uncooked prepared chicken (4%) and prepared turkey (4%). This is significant because of the specialization of the poultry industry in Brazil, and the demand of various customers, not only the EU (see poultry chapter).

3. THE 2019 EU-MERCOSUR AGREEMENT

The negotiations for this Free Trade Agreement were launched in 1999. The negotiations suffered from many political and economic setbacks but a new international configuration enabled their revival in 2017. In the meantime, the EU prides itself on now (since 2011) negotiating so-called "New Generation Agreements", no longer aimed solely at reducing customs barriers.

The scope of the EU-Mercosur Agreement is therefore quite broad. It covers tariffs and other topics such as "rules of origin", "technical barriers to trade", and "sanitary and phytosanitary measures". It concerns not only goods but also services, government procurement, intellectual property, and sustainable development and it looks specifically at small and medium-sized enterprises.

Nevertheless, a large number of issues relating to sustainable development, human and animal health, standards and regulations are reflected only in non-enforceable dialogue-based chapters, with no compulsion[38]. This could even potentially lead to a reduction in current European rules in the name of trade facilitation.

As this Agreement deals with subjects that do not fall exclusively within the competence of the EU, it is considered "mixed" as it stands and will therefore also need to be ratified by each Member State.

As far as tariffs are concerned, the ambition of this Agreement goes further for the EU than for Mercosur. The latter will gradually cancel its duties on 91% of tariff lines for goods imported from the EU, notably cars, machinery, chemicals and clothes. At the same time, the EU will remove its duties on 95% of tariffs lines for Mercosur imports. Only a few agricultural products, considered as "sensitive", will be subject to special treatment. As such, the partial opening up of the EU market would be granted by the creation of new tariff quotas. The eight agricultural products in question in this regard are: beef, poultry meat, pork, dairy products, rice, honey, sweetcorn, sugar and ethanol[39].

Nevertheless, even for these products, not all the tariff lines are considered sensitive. For example, for cooked beef (as corned beef) and live cattle, EU imports from Mercosur will be totally duty free four and 10 years respectively after ratification of the Agreement. Some dairy products such as lactose, lactalbumin, liquid milk will be treated similarly (on both parts, EU and Mercosur).

38 The Commission and Mercosur countries are currently negotiating an additional declaration on some sustainability elements but this will not (is not expected to) modify the provisions of the Agreement in substance.

39 An import-sensitive product is a product that is particularly sensitive to competition from imports from other country suppliers. There is no definitive list of import-sensitive agricultural products in the European Union. It depends on EU partners' production. In the case of Mercosur, products such as beef, poultry meat, pork, dairy products, sugar and ethanol, among others, have been identified as import sensitive (due to the high competitiveness of Mercosur production and the weakness of EU production). Import-sensitive products generally obtain longer phase-in periods for tariff reduction or elimination in trade agreements.

With regard to tariff quotas, Appendix II gives all the details. For example, for **beef**, two new tariff quotas will be gradually implemented six years after implementation: one of 54,450 tonnes cwe[40] of "refrigerated cuts" ("chilled beef") and another of 44,550 tonnes cwe of frozen beef. For these two new quotas, the duty will be 7.5%. In addition, the intra-duty for the existing Hilton beef quota for the four countries of the Mercosur (currently 20%) will be immediately removed on entry into force.

For **poultry** meat, three new tariff quotas will gradually be implemented over the six years following ratification, one of 90,000 tonnes cwe for fresh meat, a second of 90,000 tonnes cwe for frozen meat (these two at 0 duty), and a third of 25,000 tonnes cwe (with a 83 €/ tonne cwe duty).

For **dairy products**, three new tariffs will be implemented 10 years after entry into force: one of 10,000 tonnes of milk powder (excluding whey), the second of 30,000 tonnes of cheese (excluding mozzarella) and a third of 5,000 tonnes of infant formula. These quotas are 0 duty and will be open on both sides (both for the EU and for Mercosur).

40 cwe: carcass weight equivalent. For example, for beef, 1 ton of boneless cuts is equivalent to 1.3 ton cwe. See glossary.

4. WEAKNESSES OF AGRIFOOD REGULATIONS IN MERCOSUR

Mercosur regulations all along the production chain are globally weak in comparison to EU regulations. This is the case for pesticide use, antibiotic use, animal welfare and traceability. Agricultural products from Mercosur are consequently already more competitive than EU products and this distortion will be further increased with the EU-Mercosur FTA.

4.1. MANY PESTICIDES BANNED IN THE EU REMAIN USED BY FARMERS IN MERCOSUR

In terms of sanitary and phytosanitary (SPS) issues, Mercosur member states have a very different strategy from the EU. In Mercosur, the approach is based on factual data and risk-based decision-making[41], while the EU regulations remain based on the "precautionary principle" and control of health risks (for example, the "hygiene package[42]" applied since 1 July 2006). This difference in terms of SPS issues management has a direct effect on production and use and on the authorization of different chemical substances in agricultural production (phytosanitary products and antibiotics).

INCREASED PESTICIDE USE IN MERCOSUR, ESPECIALLY BRAZIL

According to geographer Larissa Bombardi's study (Geography of Asymmetry, 2021), many pesticides banned in the EU are authorized by the Mercosur authorities and used by farmers. For example, 27% of the active ingredients used in Brazil in 2020 were banned in the EU. This includes herbicides such as Amicarbazone (never authorized in the EU), fungicides such as Chlorothalonil (banned in the EU since 2019) and insecticides such as Novaluron (banned in 2012).

41 In contrast to the precautionary principle, risk-based decision-making requires some degree of evidence of risk before management strategies are implemented. In risk-based decision-making, the level of effort expended in risk management is proportional to the level of risk demonstrated.

42 The rules in place since 2006 innovate by making a single, transparent hygiene policy applicable to all food and all food operators right through the food chain ("from farm to fork"), together with effective instruments to manage food safety and any future food crises throughout the food chain: https://food.ec.europa.eu/safety/biological-safety/food-hygiene_en

Figure 5. Pesticides approved in Brazil in 2019/2020 and banned in the EU

Source: Larissa M. Bombardi (Geography of Asymmetry, 2021)

Pesticide	Year of ban	Class of use	Toxicity		
			Acute	Chronic	Environmental
Acephate	2003	Insecticide and acaricide		X	
Ametryn	2002	Herbicide	X		X
Amicarbazone*	-	Herbicide			
Atrazine 2004 Herbicide	2004	Herbicide			X
Bifenthrin	2009	Insecticide, formicide and acaricide	X	X	X
Carbendazim 2014 Fungicide	2014	Fungicide			X
Chloransulam-methyl* - Herbicide	-	Herbicide			X
Chlorfenapyr	2001	Insecticide and acaricide	X	X	X
Cartap Hydrochloride	2002	Insecticide and fungicide	X	X	X
Chlorimurom-ethyl* Herbicide	-	Herbicide	X	X	X
Chlorothalonil	2019	Fungicide	X	X	X
Chlorpyrifos	2020	Insecticide, formicide and acaricide	X		
Diafenthiuron	2002	Acaricide and insecticide			X
Diquat	2019	Herbicide	X	X	X
Dinotefuran*	-	Insecticide	X	X	X
Fipronil	2017	Insecticide, formicide and cupinicide	X	X	X
Fomesafen	2002	Herbicide			X
Glufosinate	2018	Herbicide and growth regulator	X		
Hexazinone	2002	Herbicide	X	X	X
Imazapic*	-	Herbicide	X		X
Imazapyr	2002	Herbicide	X		
Imazethapyr	2004	Herbicide	X		X
Indaziam*	-	Herbicide	X		X
Lactofen	2007	Herbicide	X	X	X
Lufenuron	2019	Insecticide and acaricide			X
Methomyl	2019	Insecticide and acaricide	X		X
Novaluron	2012	Insecticide			X
Permethrin	2000	Insecticide and formicide		X	
Picoxystrobin	2016	Fungicide			X
Profenofos	2002	Insecticide and acaricide	X	X	X
Propanil	2011	Herbicide	X		
Propiconazole	2019	Fungicide		X	
Simazine	2004	Herbicide	X		X
Sulfentrazone*	-	Herbicide	X		X
Tebuthiuron	2002	Herbicide	X		X
Thiamethoxam	2019	Insecticide	X		X
Thiodicarb	2007	Insecticide	X	X	X

The EU's ban on the use of some active ingredients on its own territory does not, however, mean that those products are not produced in the EU for export, especially to the four Mercosur member states. According to the University of Sao Paulo[43], between 2018 and 2019, the EU exported 7,000 tonnes of pesticides prohibited for use in the EU to Mercosur. In November 2020, a number of members of the European Parliament called on the European Commission to prohibit the export of those pesticides and to ban imports of foods produced outside the EU using these chemicals. That same year, the European Commission presented its Chemicals Strategy for Sustainability[44], in which it promised to "*ensure that hazardous chemicals banned in the European Union are not produced for export, including by amending relevant legislation if and as needed*". And yet, in October 2022, the European Commission shared its Work Programme[45] (CWP) for 2023 and this still does not include any measure to stop these exports.

43 Geography of Asymmetry: the vicious cycle of pesticides and colonialism in the commercial relationship between Mercosur and the European Union, Bombardi and al. (2021): https://ocaa.org.br/en/publicacao/geography-of-asymmetrythe-vicious-cycle-of-pesticides-and-colonialism-in-the-commercial-relationship-between-mercosur-and-the-european-union/

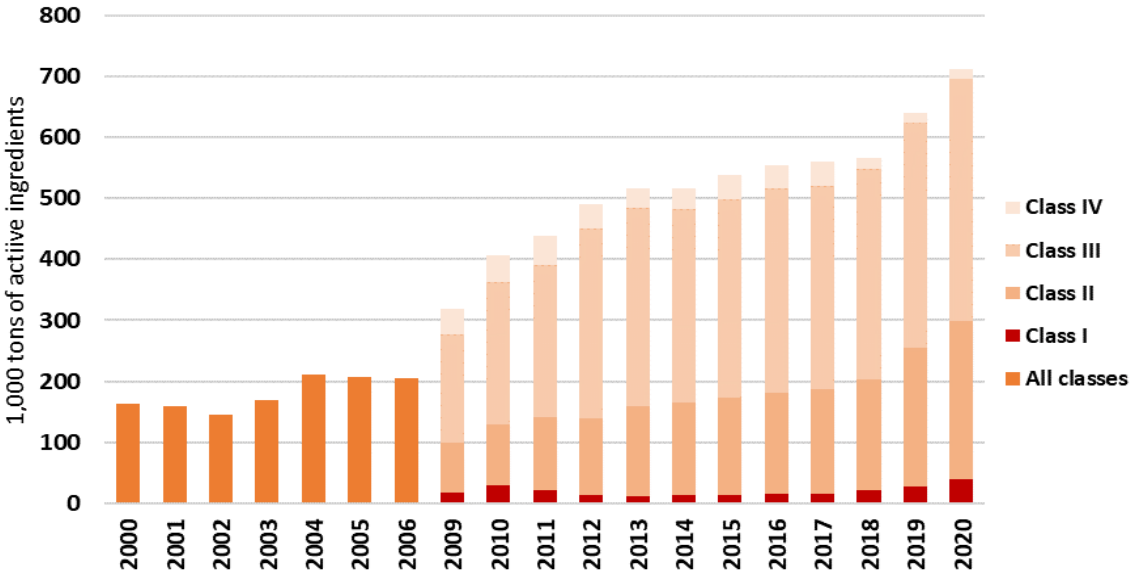
44 https://echa.europa.eu/hot-topics/chemicals-strategy-for-sustainability

45 https://commission.europa.eu/publications/2023-commission-work-programme-key-documents_en

In Mercosur, the increase in cropped area (soy, corn, sugar cane, etc.) has led to a significant increase in the use of pesticides. In Brazil, the large-scale use of this kind of pesticide is linked to the expansion of monocultures such as soy. Throughout the 2010s, the volume of pesticides sold increased by +35% and multiplied by four between 2000 and 2020.

Figure 6. Sales of pesticides in Brazil between 2000 and 2020

Source: Idele-GEB according to IBAMA



Class I: extremely toxic / Class II: highly toxic / Class III: toxic / Class IV: slightly toxic

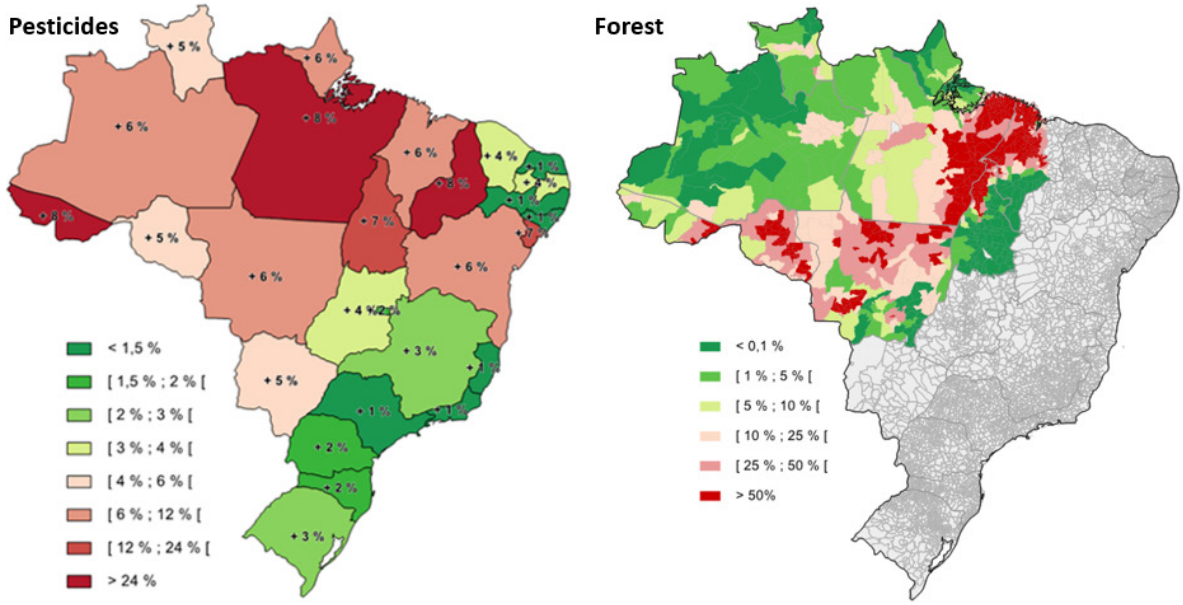
In Argentina, the increase in soybean cropping areas had the same effect (x2 for quantities used between 2009 and 2018, according to data from the Argentinian pesticides reduction plan[46]).

In Brazil, pesticides are mainly sold in agricultural regions in the south and south-east of the country but also in Mato Grosso (Centre-West). Sales are also progressing in the north-west, close to the pioneering deforestation fronts in the Amazon and the Cerrado.

46 https://reduas.com.ar/plan-nacional-de-reduccion-de-uso-de-agrotoxicos/

Figure 7. Change in volume of pesticides traded between 2000 and 2020 / Area deforested in Legal Amazonia between 2000 and 2020

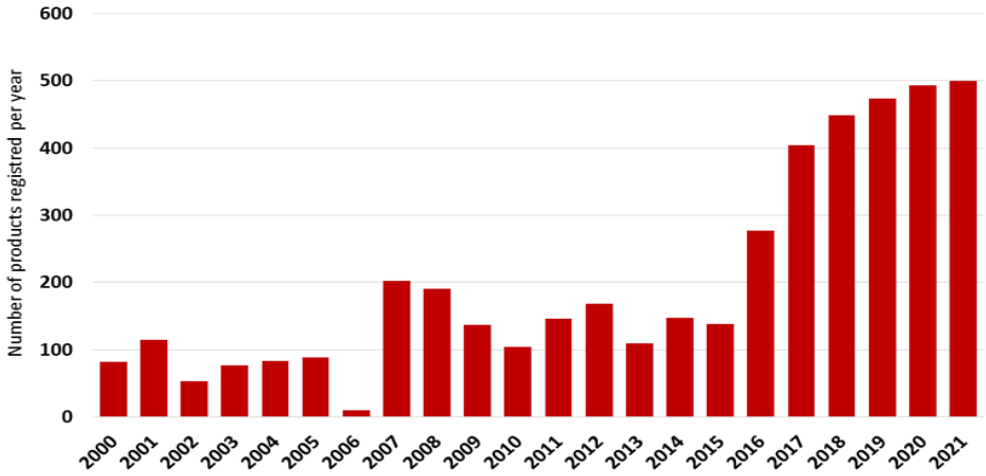
Source: Idele-GEB according to Ministério da Agricultura, Pecuaria e Abastacimento, PRODES/IBAMA



The Bolsonaro government's policy (2018-2022) had a huge impact on the use of pesticides in Brazil. The partial abolition of the Environmental Police Division (IBAMA) had an impact on an already weak control policy. Between 2018 and 2021, annual pesticide authorizations in Brazil increased sharply. In 2021, 500 pesticides (a record) were registered by the public authorities.

Figure 8. Annual Brazilian pesticide registration process, by number

Source: Idele-GEB according to Ministério da Agricultura, Pecuaria e Abastacimento

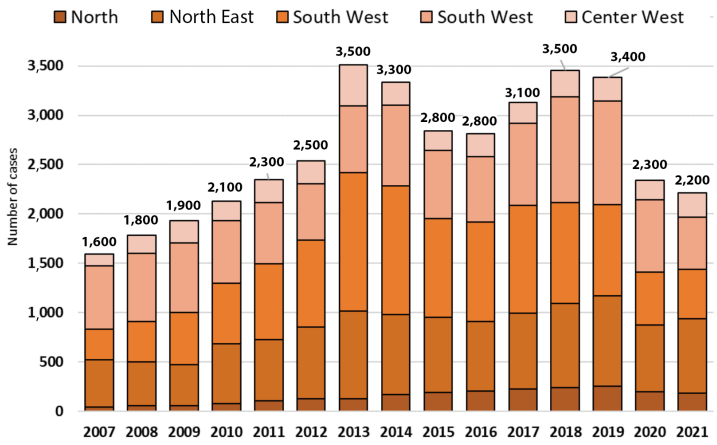


This weakening of Brazil's environmental policy was largely due to President Bolsonaro's policy, supported by representatives of "agribusiness". Another example was progress in the process of adopting the "*Pacote do Veneno*" ("Poison Package", Bill PL 6299/2002). After few debates or public consultations, the House of Representatives adopted this bill, which could make the use of pesticides easier in Brazil. It would give more power to the Ministry of Agriculture and Livestock (MAPA) and less power to the health and environmental authorities. For the moment, the Brazilian Senate has not yet approved the bill and Brazilian civil society remains mobilized. The bill could be voted on at any time since the new legislative year started on 1 February in Brazil. The future of this bill will be a real test of the new President Lula's environmental policy while his opponents remain strong in Parliament.

PESTICIDE USE HAS DIRECT CONSEQUENCES ON LOCAL POPULATION'S HEALTH

Even if this "poison package" does not enter into force, the situation is already worrying in Brazil. Between 2010 and 2019, more than 1,800 people died, poisoned by pesticides used on Brazilian farms. This is equivalent to one death from pesticide poisoning every two days, according to data from the Ministry of Health reported by geographer Larissa Bombardi from the University of Sao Paulo. Between 2011 and 2021, nearly 32,000 cases of pesticide poisoning were recorded. The situation is not only worrying in Brazil: indeed, 1,330 cases of poisoning have been recorded in Paraguay (2016), 171 cases in Argentina (2019) and 766 cases in Uruguay (2012, 2015, 2017).

Figure 9. Confirmed cases of human poisoning by agricultural pesticides in Brazil
Source: Idele-GEB according to SINAN/Ministério da Saúde



Data can be found here: http://tabnet.datasus.gov.br/cgi/tabcgi.exe?sinannet/cnv/Intoxbr.def

In Mercosur, the maximum residue limits (MRLs) in agricultural products and water are very high compared to those limits set by European regulations: ranging from x10 for glyphosate in coffee to x400 for malathion in beans.

Figure 10. Examples of maximum residue limits in EU and Mercosur

Source: Idele-GEB according to Larissa Bombardi and Agência Nacional de Vigilância Sanitária (ANVISA[47]) and European Commission[48]

Pesticide	Product	Maximum residue limits – MRL (mg/kg except *g/l)				
		EU	Brazil	Argentina	Uruguay	Paraguay
Glyphosate	Coffee	0.1	1 (x10)	-	-	-
Glyphosate	Sugar cane	0.1	1 (x10)	-	-	-
Glyphosate	Drinking water*	0.1	500 (x5,000)	-	-	-
Chlorothalonil	Soya	0.01	0,5 (x50)	0.2 (x20)	1 (x100)	1 (x100)
Carbaryl	Apple	0.01	2 (x200)	2 (x200)	-	-
2-4 D	Rice	0.1	0.2 (x2)	-	-	-
Atrazine	Corn	0.05	0.25 (x5)	-	-	-
Acephate	Lemon	0.01	0.2 (x20)	-	-	-
Malathion	Bean	0.02	8 (x400)	-	-	-

Brazil has very different rules regulating the sale and use of pesticides from those in the EU (risk-based decision-making vs precautionary principle) and controls remain weak in Mercosur. Brazil[49] has two programmes that monitor pesticide residues in foods of plant origin, the Programme for the Analysis of Pesticide Residues in Food (PARA), linked to the National Health Surveillance Agency (ANVISA), and the National Programme for Control of Waste and Contaminants (PNCRC Vegetal), linked to the Ministry of Agriculture (MAPA). The number of samples analysed in Brazil remains low. Over the 2001-2018 period, PARA analysed just 36,069 samples, representing little more than a third of the total number of samples analysed in the European Union in 2020 alone (88,141 samples analysed)[50]. The most recent PNCRC Vegetal report, which presents the results of the analyses carried out in 2019 and 2020, shows that pesticide residues were present in 61.88% of the samples analysed. A considerable percentage of samples analysed (23% in all) were categorized as unsatisfactory since they had pesticides detected above the maximum limit (5.4%) or had residues of not permitted (20.4%) or banned pesticides (20.4%).

In the EU, two key regulations deal with pesticides:

- Regulation 1107/2009 sets out the framework for placing active substances and plant protection products (PPPs) on the EU market.
- Regulation 396/2005 sets out the framework for setting Maximum Residues Levels (MRLs) in food and feed.

MRLs for imports may be different from the limits set for European production. According to article 3.2(g) of Regulation 396/2005 "*import tolerance means an MRL set for imported products to meet the needs of international trade where:*

47 https://www.gov.br/anvisa/pt-br/assuntos/snvs
48 https://ec.europa.eu/food/plant/pesticides/eu-pesticides-database/start/screen/mrls
49 Consumption of fruits and vegetables contaminated with pesticide residues in Brazil: A systematic review with health risk assessment. Chemosphere. (May 2023): https://www.sciencedirect.com/science/article/abs/pii/S0045653523005118
50 The 2020 European Union report on pesticide residues in food, EFSA. (February 2022): https://efsa.onlinelibrary.wiley.com/doi/epdf/10.2903/j.efsa.2022.7215

- *the use of the active substance in a plant protection product on a given product is not authorised in the Community for reasons other than public health reasons for the specific product and specific use; or*

- *a different level is appropriate because the existing Community MRL was set for reasons other than public health reasons for the specific product and specific use*."

An import tolerance is required when food or feed commodities imported into the EU contain residues of an active substance for which an MRL has not been set or is not set at the right level. In the setting of import tolerances for international trade, it is only the provisions of Regulation 396/2005 (the Residues Regulation) that apply. Regulation 1107/2009 is not relevant for the setting of import tolerances.

Questions have been raised as to the potential impact on the setting of import tolerances for substances that will no longer be approved in Europe. Some analyses[51] suggest that the SPS provisions of the Agreement could potentially restrict the EU's ability to set stricter levels of import tolerances for substances that will no longer be approved in Europe in the future.

Residues from prohibited pesticides have already been found in imported crops[52] and control of products exported to the EU remains weak in Mercosur countries and even in Europe. The EU-Mercosur TA's SPS provisions will not tighten control procedures.

4.2. GROWTH-PROMOTING ANTIBIOTICS STILL AUTHORIZED

Estimated net sales of animal health products in Brazil[53] increased to reach 9.1 billion reais in 2021 (x2.3 /2013). Half of those net sales were intended for ruminants. The share of antibiotics represented 14% of the value.

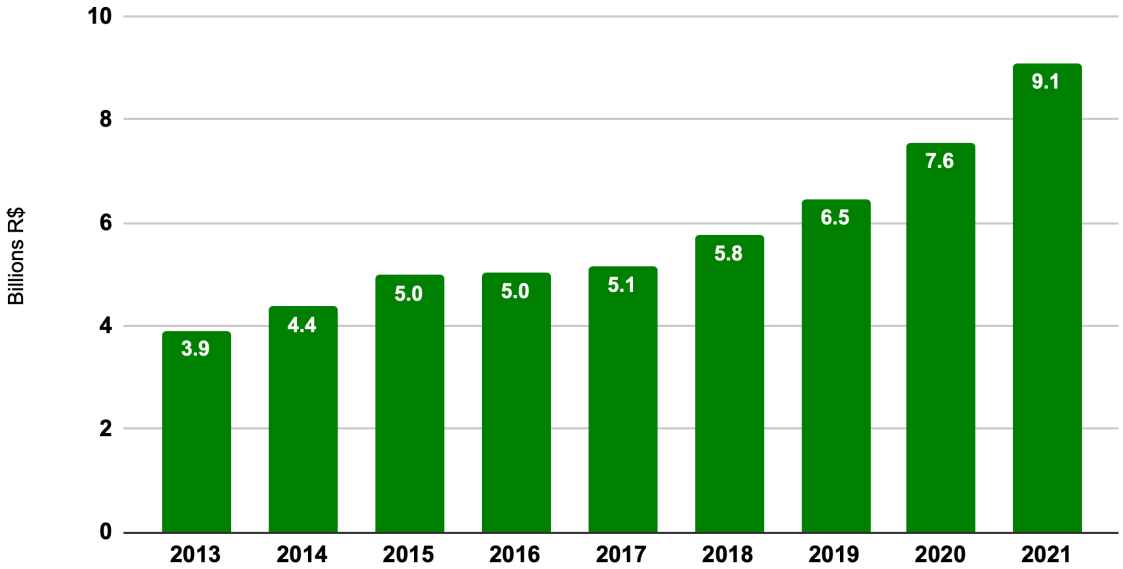
51 Import tolerances in the European Union. Can Import Tolerances be set for active substances impacted by the EU hazard-based criteria? European Crop Protection. (May 2017): https://corporateeurope.org/sites/default/files/2020-02/REV%20doc%20nr%203c_28446_ECPA_input_for_SCOPAFF_meeting_October_2017_FINAL_Redacted.pdf

52 Toxic residues through the back door. Corporate Europe Observatory. (February 2020): https://corporateeurope.org/en/2020/02/toxic-residuesthrough-back-door

53 https://sindan.org.br/mercado/

Figure 11. Estimated net sales of animal health products industry in Brazil

Source: Idele-GEB according to SINDAN



Growth hormones for cattle breeding are prohibited in the four Mercosur member states as well as in the EU but this is not the case for some antibiotics used as growth promoters, which have been banned in the EU since 2006 under EU Regulation 1831/2003/EC on additives for use in animal nutrition[54]. Here we note that Mercosur member states have different policies.

BRAZIL HAS NOT BEEN INACTIVE ON THE USE OF CRITICAL ANTIBIOTICS BUT MANY MOLECULES ARE STILL USED

In Brazil, the use of antibiotics for therapeutic, prophylactic and metaphylactic purposes is authorized although many active molecules are now banned from use in animal production. Over the last 20 years, in a context of a global progression in antibiotic resistance, the Brazilian authorities have gradually legislated to reduce the use of some critical antibiotics used as growth activators (avoparcin, tetracyclines, colistin, etc.). The last ban was in 2020 for tylosin, lincomycin and tiamulin.

54 https://ec.europa.eu/commission/presscorner/detail/en/IP_05_1687

Figure 12. Change in antibiotics regulations in Brazil

Source: Idele-GEB according to SINDAN, MAPA and OECD[55]

Year	Regulation on ban of antibiotics	Normative instruction
1998	**Avoparcin** use as additive in **animal feed**	Circular letter 047/1998
2003	**Chloramphenicol and nitrofurans** banned for manufacturing, processing, commercialization, import and use of active ingredients.	IN 09 from 27 June 2003
2004	**Olaquindox** was banned for manufacturing, import, sale and **use as a growth-promoting** additive in food-producing animals.	IN 11 from 24 November 2004
2005	**Carbadox** prohibited for manufacture, import, sale and use in products for **animal feed**.	IN 35 from 14 November 2005
2009	**Amphenicols, tetracyclines, β-lactams (penicillins, benzylpenicillins and cephalosporins), quinolones and systemic sulphonamides** prohibited **as performance-improving zootechnical additives or as pet food preservatives**.	IN 26 from 9 July 2009
2012	**Spiramycin and erythromycin** prohibited for import, manufacture and use as **additives to improve animal performance feed**.	IN 14 from 17 May 2012
2016	**Colistin** prohibited for import and manufacture as a **performance-enhancing additive in animal feed.**	IN 45 from 22 November 2016
2020	**Tylosin, lincomycin and tiamulin** prohibited for import, manufacture, sale and use as **performance-enhancing additives for animals**.	IN 1 from 13 January 2020

Several antibiotics are still not included on the prohibited molecules list. Some are still used in animal production, mainly as a growth stimulator. Widespread in pig and poultry farms, the use of antibiotics as growth promoters remains common in beef cattle farming, for example bacitracin, flavomycin, lasolacide, monensin, narasin, salinomycin and virginiamycin.

Figure 13. Antimicrobials permitted in Brazil as growth promoters

Source: Idele-GEB according to SINDAN, MAPA and OECD[56]

Antibiotic	Animal species
Avilamycin	Poultry, swine
Bacitracin	Poultry, swine, cattle
Enramycin	Poultry, swine
Flavomycin	Poultry, swine, cattle
Halquinol	Poultry, swine
Lasalocid	Cattle
Monensin	Cattle, ovine
Narasin	Swine, cattle
Salinomycin	Swine, cattle
Virginiamycin	Poultry, swine, cattle

The representatives of the European Commission underlined this difference in use during their last audit in 2018 (DG(SANTE) report 2018-6349[57]), specifying that "*there are some substances authorised in cattle which cannot be used in food-producing animals in the EU and which preclude certification requirements being met at present".* And the current veterinary medicine system does not guarantee that veterinary medicinal products are used in line with their label indications.

55 Antimicrobial use, resistance and economic benefits and costs to livestock producers in Brazil, OECD. (July 2019): https://www.oecd-ilibrary.org/agriculture-and-food/antimicrobial-use-resistance-and-economic-benefits-and-costs-to-livestock-producers-in-brazil_27137b1e-en

56 Antimicrobial use, resistance and economic benefits and costs to livestock producers in Brazil, OECD. (July 2019): https://www.oecd-ilibrary.org/agriculture-and-food/antimicrobial-use-resistance-and-economic-benefits-and-costs-to-livestock-producers-in-brazil_27137b1e-en

57 brazil: residues and contaminants in live animals and animal products. DGSANTE 2018-6349. (December 2018): https://ec.europa.eu/food/audits-analysis/audit-report/details/4053

ANTIBIOTICS REGULATIONS IN OTHER MERCOSUR COUNTRIES

In **Argentina**, Senasa (Servicio Nacional de Sanidad y Calidad Agroalimentaria) has cancelled a number of registrations and certifications for the use and commercialization of feed with antibiotics, with some exceptions, such as monensin. According to Resolution 594/2015, feeds containing active antiparasitic elements (benzimidazoles, imidazothiazoles, tetrahydropyrimidines, cestodicides and/or trematocides) are not registered any more. The ban on enrofloxacin and some cephalosporins for use as growth promoters has not yet been implemented and remains uncertain.

In **Uruguay**, antibiotics are still authorized as growth promoters in pigs and poultry farms but their use is prohibited in cattle, sheep, and goats. However, some molecules are still used in cattle breeding, such as monensin, classified as a therapeutic anticoccidial to tackle intestinal parasites.

The regulations evolved in **Paraguay** during the 2010s. In 2012, Resolution 1863 established that active substances for animal feed had to be registered as veterinary products under control for sale, production, and import. Regarding growth promoters, these are registered as pharmaceutical products and there is a primary list permitted under prescription for ruminants and pigs. In 2019, Resolution 1150 banned the manufacture, distribution, import and use of any veterinary product with the active ingredient colistin and its derivatives but other molecules which are banned in the EU remain authorized and prescribed.

4.3. A HUGE GAP IN TERMS OF TRACEABILITY

The management of cattle traceability is very different among Mercosur member states. While individual cattle traceability has been developed in Uruguay, bringing the country closer to European standards, it remains very partial in the rest of the area, especially in Brazil. A large proportion of Mercosur cattle is affected by a limited level of traceability.

A HIGH LEVEL OF TRACEABILITY IN URUGUAY

Since 1974, Uruguay has developed a group cattle traceability system. In 2001, however, the foot and mouth disease that affected Uruguay led to the gradual implementation of an individual cattle traceability system, which was compulsory to export beef. After a transitional period initiated in 2004, individual traceability became mandatory in 2010. Today, all farmers must register their farm in the SNIG (Sistema Nacional de Información Ganadera) database and provide information on all the animals. In 2022[58], the SNIG database covered 50,700 registered farms with around 11,500,000 cattle and 6,100,000 sheep listed. The SEIIC (Sistema Electrónico de Información de la Industria Cárnica), or electronic information system for the meat industry, ensures the continuation of traceability in/throughout the slaughterhouse.

58 https://www.gub.uy/ministerio-ganaderia-agricultura-pesca/datos-y-estadisticas/datos/datos-preliminares-basados-declaracion-jurada-existencias-dicose-snig-2022

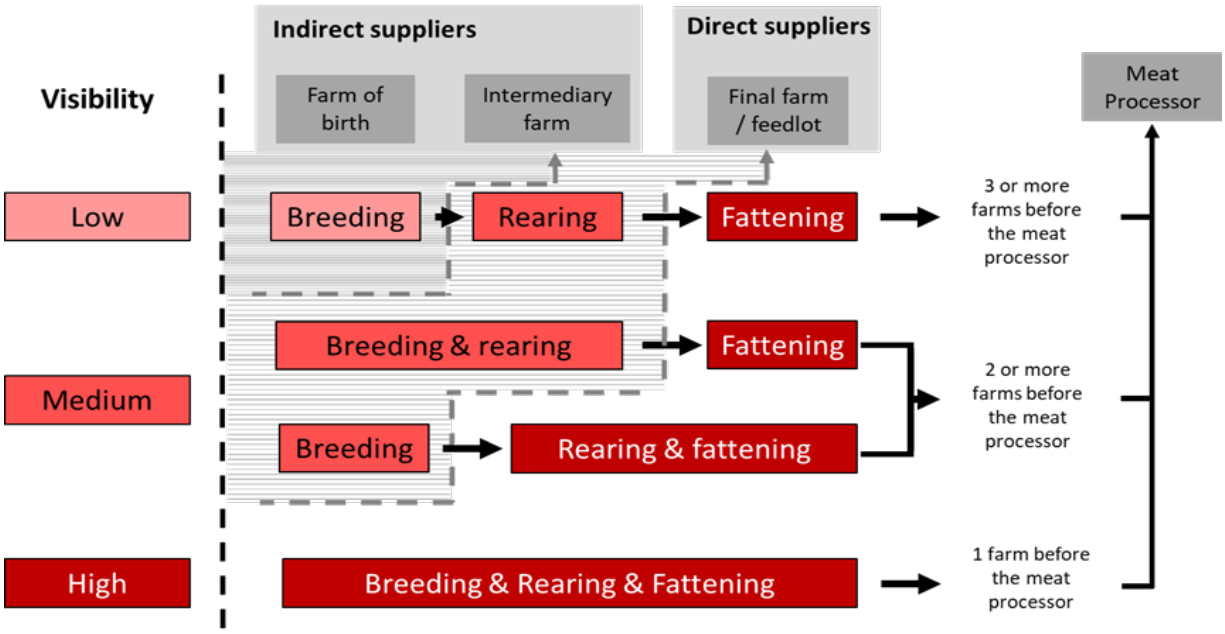
LESS DEVELOPED TRACEABILITY IN OTHER MERCOSUR COUNTRIES

In Brazil, cattle traceability is only mandatory in the small state of Santa Catarina, located in the south of the country. The Brazilian System of Identification and Certification of Origin of Cattle and Buffalo (SISBOV) was created in 2001 to meet the demands of the international market. Originally intended to be mandatory, participation in the system remains on a voluntary basis. SISBOV requires traceability of the animal for only 40 days prior to slaughter. It does not consider previous movements between farms (in Brazil, few farms keep animals from birth to slaughter).

In Brazil, compliance with the Forest Code is based on the implementation of several tools. The Rural Environmental Cadastre (CAR – *Cadastro Ambiental Rural*), first initiated in Legal Amazonia, is decisive in creating a blacklist of farms practising illegal deforestation. However, while almost all rural areas are now registered in the cadastre, there is a lack of information in the management system of this cadastre (SiCAR). This lack of individual traceability remains an obstacle to effective controls because cattle generally transit between a number of farms during their breeding:

Figure 14. Control of direct and indirect suppliers by meatpackers

Source: Idele-GEB according to various

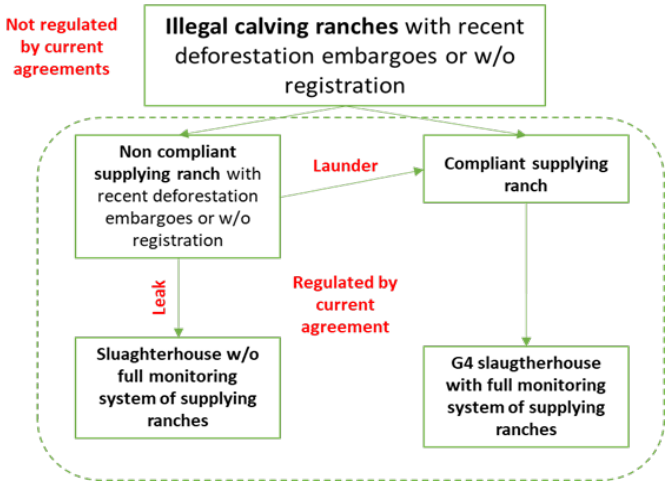


Birth and rearing farms are still difficult for meatpackers to control despite the implementation of the CAR system. These farms are smaller (and more numerous) and have no direct relationship with slaughterhouses. Meatpackers focus mainly on the fattening phase. Furthermore, controls do not often include birth and post-weaning, which is often done on other farms, a real “grey area”.

There are therefore still loopholes[59] in the deforestation control system. Non-compliant animals can be commercialized by slaughterers and distributors committed to "zero deforestation" (see chapter 6.4 Beef cattle farming in Mercosur has a major impact on deforestation).

Figure 15. Leak and launder of cattle linked to deforestation

Source: Gibbs and al., 2015



The European Commission shows that none of the approved farms are located in the northern states. Indeed, nearly 70% of the approved farms are located in the three states of the Centre-West (Mato Grosso, South Mato Grosso and Goiás). However, those three states include portions of the Amazon biome, the Cerrado biome and the Pantanal plain, a very fragile ecosystem. This lack of traceability has a direct link to deforestation (see *deforestation chapter*). This raises some concerns as to the implementation of EU mirror clauses (see *recommendations chapter*).

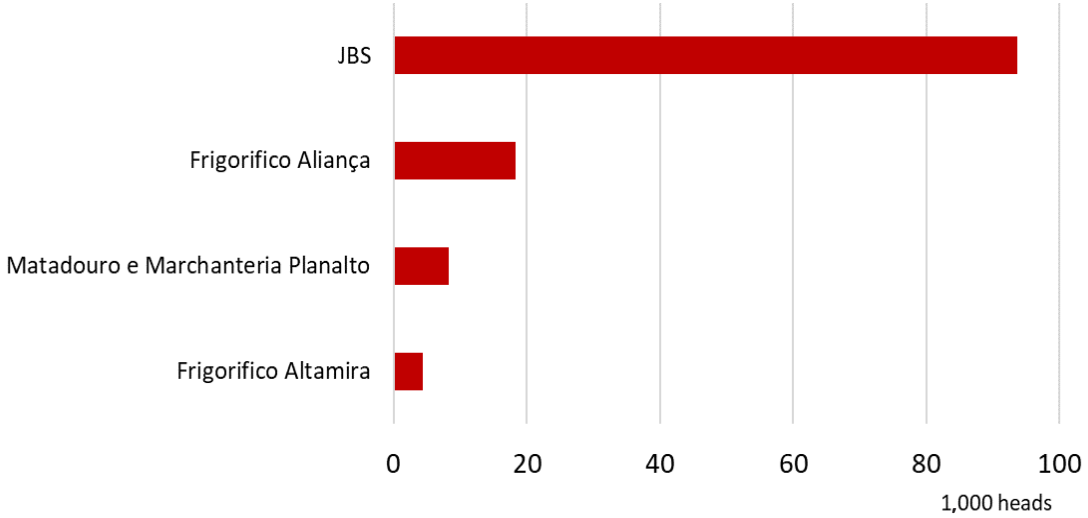
There is still a lack of control and the main beef exporters remain linked to deforestation. For example, in December 2022 in Brazil, an audit by the Federal Public Ministry found that 17% of cattle bought by JBS came from "irregular" farms (especially in Pará State). The audit, which examined cattle purchases between July 2019 and June 2020, said that the world's largest meatpacker had allegedly bought some 93,734 head from irregular ranchers. JBS was responsible for around 69% of the total acquisitions made by more than 15 companies operating in the region.

59 Did Ranchers and Slaughterhouses Respond to Zero-Deforestation Agreements in the Brazilian Amazon?, Holly K. Gibbs and al. (April 2015): https://conbio.onlinelibrary.wiley.com/doi/10.1111/conl.12175

Figure 16.

TACs signatories with the highest rates of non-compliance in the Pará state

between July 2019 and June 2020 - Source: Idele-GEB according to Federal Public Ministry



The new EU Regulation on "deforestation-free imports" may have limited impact. The regulation will apply only to land deforested after 2020 and only to land defined as "forest" by the FAO. This means that it will not apply to large areas of unprotected lands because they are considered "tree savannahs" and not "forests", including in the Cerrado, Pantanal, Chaco and the Pampas (see executive summary and recommendations). The Greens/EFA have already asked Trase "*to assess the impact of extending the draft regulation's coverage beyond the FAO's definition of forest to include 'other wooded land', an existing FAO category under its forest definition. The research finds that this would significantly improve coverage, reducing the unprotected area in the Cerrado from 74% to 18%. It would also reduce the unprotected area in the Chaco from 33% to 24%. However, this would leave large areas of grassland unprotected, including in the Cerrado, Pantanal, Chaco and the Pampas. In terms of how much natural vegetation remains, the Pantanal and the Pampas represent some of the most threatened biomes in South America.*"[60]

MANY OTHER REGULATIONS REMAIN WEAKER IN MERCOSUR

In the Mercosur agricultural sector, there are other examples of weaker or even non-existent regulations. Regulation of the transport of live cattle remains non-existent even though Brazil and Uruguay export animals to Southeast Asia and the Arabian Peninsula but not to the EU. If the EU-Mercosur FTA is implemented, all tariff lines for live cattle (13) will be reduced in 10 years from currently dissuasive duties (10.3% + 0.931 €/kg net weight) to zero. The decline in the European herd of suckler cows and the end of tariffs could lead to a potential increase in exports of live cattle from Mercosur to the EU although it remains difficult to quantify the threat: it will depend on the evolution of EU live cattle transport regulations.

Water management regulation also remains weak. In Brazil, raw effluents from feedlots continue to be released into rivers using the conventional method of dilution. This contributes

60 EU urged to widen deforestation law. TRASE. (June 2022): https://insights.trase.earth/insights/eu-urged-to-widen-deforestation-law-as-ecosystems-left-at-risk/

to the eutrophication of rivers, streams, lakes, and ponds. While advice and measures are taken to avoid pollution, there is, however, no mandatory regulation. Working conditions throughout the agriculture sector are less regulated in Mercosur. In Brazil, a 2021 report by *Reporter Brasil*[61] showed that the main meat companies still source their supplies from cattle farms where working conditions remain socially unacceptable. Impunity is still one of the main bottlenecks in the fight against slave labour[62] in Brazil. While civil sanctions have been enforced, criminal sentences are still rare.

In slaughterhouses, working conditions are also harder than in the EU. In Brazil, the Ministry of Health listed, between 2019 and 2021, an average of 22,000 accidents per year. The regulatory gap between the EU and Mercosur remains significant.

Figure 17. Number of accidents at work in Brazil, 2018-2020, according to the National Classification of Economic Activities (CNAE). Code 10.1: Slaughter and manufacture of meat products

Source: Idele-GEB according to Ministério do Trabalho e Previdência

	2018	2019	2020
10.1 - Slaughter and manufacture of meat products	23,000	23,000	21,000

And meatpackers have already been involved in different corruptions scandals. Faced with the start of a financial scandal, JBS has been under investigation since 2015. In March 2017, the Brazilian authorities accused JBS of various illegal actions. IBAMA, the Brazilian environmental police, accused JBS of buying cattle raised on land illegally deforested in Amazonia and the Brazilian police accused JBS of bribing federal inspectors (SIF) responsible for health control (a scandal known as "*carne fraca*" or Weak Meat).

4.4. MERCOSUR: A LACK OF REGULATION, A STRONG COMPETITIVENESS

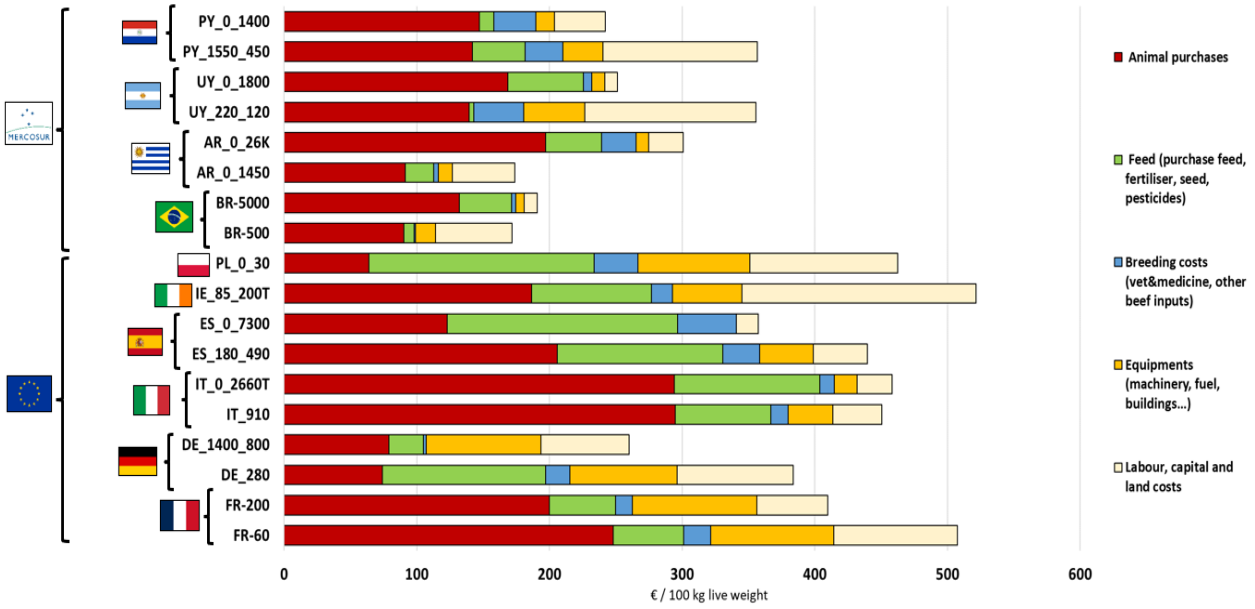
Given the important differences in terms of regulations between the EU and Mercosur, production costs are often lower in many agricultural segments in Mercosur. For example, data between 2018 and 2020 from the *Agribenchmark* network show that the production costs of beef cattle farms in Mercosur were lower than in the EU: by 40% (on average) and even nearly 60% for Brazilian farms.

61 Slave labour in Brazil's meat industry. Reporter Brasil. (2021): https://reporterbrasil.org.br/wp-content/uploads/2021/01/Monitor-8-Slave-labor-in-Brazils-meat-industry.pdf

62 Slave labour cannot be seen merely as a violation of labour laws. It is defined as a crime against human dignity under Article 149 of the Brazilian Penal Code (Código Penal Brasileiro, CPB). According to that article – which provides for a sentence of two to eight years in prison in addition to a fine for perpetrators – any of the following four elements is enough to characterize exploitation of labour "in conditions analogous to slavery":
- Forced labour: people forced to work under threats of physical or psychological violence or geographical isolation.
- Exhaustive working hours: workdays that go well beyond overtime and endanger workers' physical wellness.
- Degrading conditions: unhealthy accommodation, no access to personal protective equipment (PPE), decent food and drinking water at workplaces.
- Debt bondage: workers tied to their jobs of illegal debts related to transportation, food, accommodation, and other expenses.

Figure 18. Production cost in beef fattening units (average 2018-2020)

Source: Idele-GEB according to Agribenchmark



The same kind of conclusion can be drawn for pork and chicken, for example, and competitiveness does not end at the farm gate. Distortion of competition remains important all along the production chains, including processing, packing or transportation.

BOX: Critical analysis and synthesis of existing studies

The main institutional conclusions and recommendations of existing impact assessment studies have been analysed (European Commission, European Parliament (INTA committee), France, Netherlands, Ireland and Austria). Many other studies (from NGOs…) have also been considered (see Appendix III). We focus here on the main issues:

- **Effects of the EUM-FTA on GDP**. GDP growth remains limited in all EUM-FTA impact assessments. Growth might be higher in main Mercosur member states but high margins of error related to the methodologies used still exist. Growth in GDP remains limited and uncertain related to the methodologies used and margin of errors.

- **Effects on trade flows**. According to all impact assessment analysis, trade between the two blocs should increase. For example, the European Commission study (LSE/SIA) shows that the EU import value from Mercosur is likely to increase by 23%.

- **Effects on agricultural sectors**. All the studies analysed predict negative impacts on EU sensitive products and on EU farmers' income in the main sensitive sectors, especially the beef sector. For example, the Wageningen study (Netherlands) predicts a decrease of -700 €/labour unit in 2035 in the beef sector.

- **Effects of the environment, health and human rights**. Even though the EU study (LSE/SIA) concludes that the FTA will have negligeable impacts on global GHG emissions, deforestation or water quality, studies show a global lack of analysis of its environmental effects.

In our analysis, we have highlighted:

- **A lack of information in terms of methodology and data**. Simulation results for bilateral trade flows are not fully described.

- **A lack of analysis on environmental effects**. Some studies analysed (Austria, Netherlands) do not focus on the environment. In the EU study (LSE/SIA), we have noticed a weakness in the arguments in terms of GHG emissions, water pollution and deforestation. For example, according to the study, "*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 [agreement] on total GHG emissions*."[63] This is not demonstrated, however. For water pollution, the study concluded that the expected expansion of agricultural and animal sectors poses only moderate concerns regarding the increased use and contamination of water resources even though appropriate management practices are not in place in Mercosur. The same study shows moderate concerns in terms of the impact of the FTA on deforestation, even in Brazil. Nevertheless, the report points to the decline in rates of deforestation that was achieved between 2004 and 2012 while beef production was still increasing. This is not true any more. And this conclusion is contingent on respect for the Forest Code, the

63 See Sustainability Impact Assessment in Support of the Association Agreement Negotiations between the European Union and Mercosur. London School of Economics. Table 24 p89: https://www.lse.ac.uk/business/consulting/reports/sia-in-support-of-the-association-agreement-negotiations-between-the-eu-and-mercosur

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, which does not work properly (see chapter 6).

The EU's official impact assessment study (LSE/SIA) was published on 7 July 2020, one year after the agreement in principle[64]. And there is no evaluation of the FTA's impacts on developing countries (such as Sub-Saharan Africa) given the gradual decline in the Mercosur duties for several products, such as coffee, banana or sugar.

A synthesis of the main recommendations of these studies can be found in Appendix IV.

64 https://www.ombudsman.europa.eu/en/press-release/en/139425

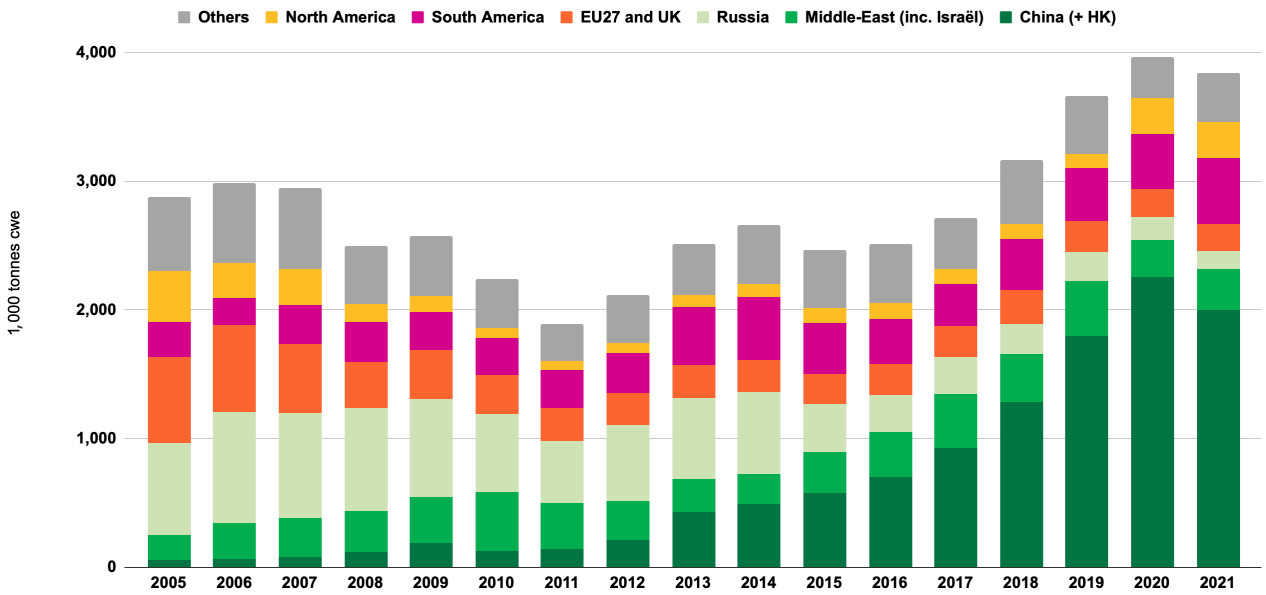
5. FOCUS ON SENSITIVE AGRICULTURAL SECTORS: BEEF

The implementation of the EU-Mercosur free trade (EUM-FTA) Agreement threatens several sensitive European sectors. The European beef sector is particularly sensitive in terms of competitiveness. Cattle production in Mercosur is increasing, and domestic regulations remain weak (see regulation chapter). This puts high pressure on the environment and especially on the remarkable ecosystems of the Mercosur countries. Although China remains the main destination for Mercosur's beef, the EUM-FTA will contribute to deforestation of the Amazon Forest and to the destruction of Chaco, Pantanal and Cerrado ecosystems.

5.1. MERCOSUR: FOUR COUNTRIES IN THE WORLD "TOP TEN" OF BEEF EXPORTERS

With a quarter of world production (12.6 million tonnes cwe in 2021) and a third of the world's beef trade (3.8 million tonnes cwe in 2021), the four Mercosur member states are in the "top 10" global beef exporters. Brazil remains number one (2.2 million tonnes cwe exported in 2021). An increasing share of the beef produced in Mercosur is exported. China remains the first and main destination (half of total exports in 2021).

Figure 19. Annual exports of beef meat from Mercosur by destination[65]
Source: Idele-GEB according to MDIC, INDEC, MAGyP, TradeMap

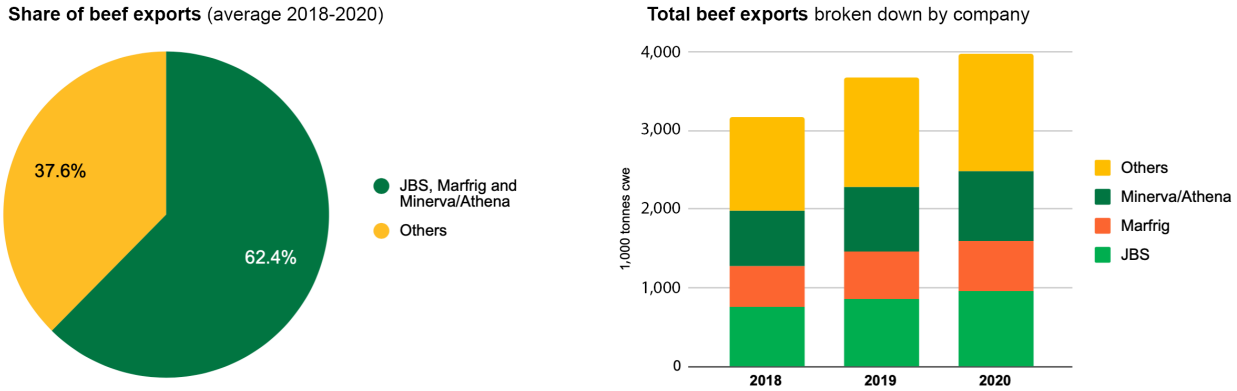


65 Fresh beef (HS0201), frozen beef (HS0202) and Bovine meat and meat offal prepared or preserved (HS160250)

The Brazilian beef industry in Mercosur is concentrated. Today, the three main Brazilian meatpackers export around two-thirds of the beef exported from Mercosur: **JBS**, which is the biggest meatpacker in the world, **Marfrig** (number 6) and **Minerva** (not far from the world top ten). According to our own estimates, JBS, Marfrig and Minerva exported around 2.2 million tonnes cwe per year between 2018 and 2020.

Figure 20. JBS, Marfrig and Minerva/Athena's share of beef exports from Mercosur (2018-2020)

Source: Idele-GEB according to Trase, JBS, Marfrig, Minerva/Athena and own estimates

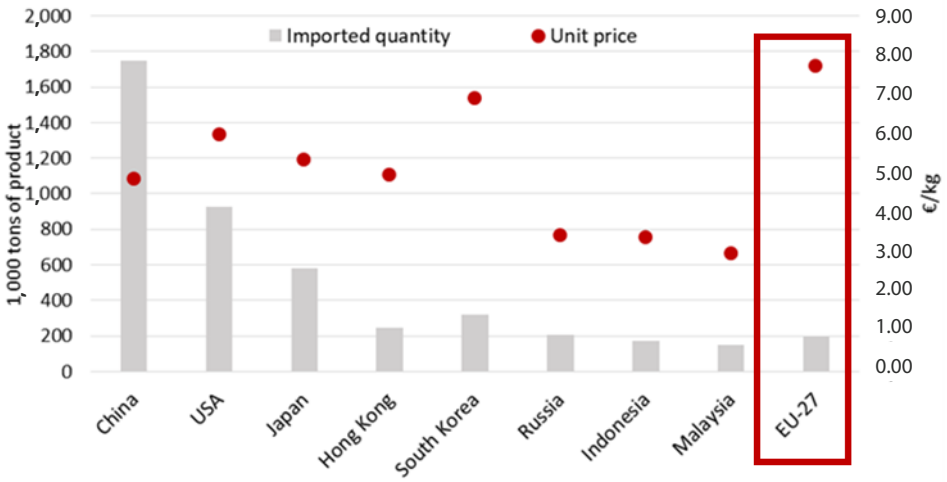


5.2. EU27: A LIMITED VOLUME IMPORTED BUT AT A HIGH PRICE!

Although the EU27 imports a limited volume of beef (358,000 tonnes cwe per year between 2018 and 2021), this market has strong value for primes cuts and especially for beef full loin and rump[66].

Figure 21. Quantity and unit price of deboned beef in 2021 broken down by importers (CIF value)

Source: Idele-GEB according to TradeMap and Eurostat

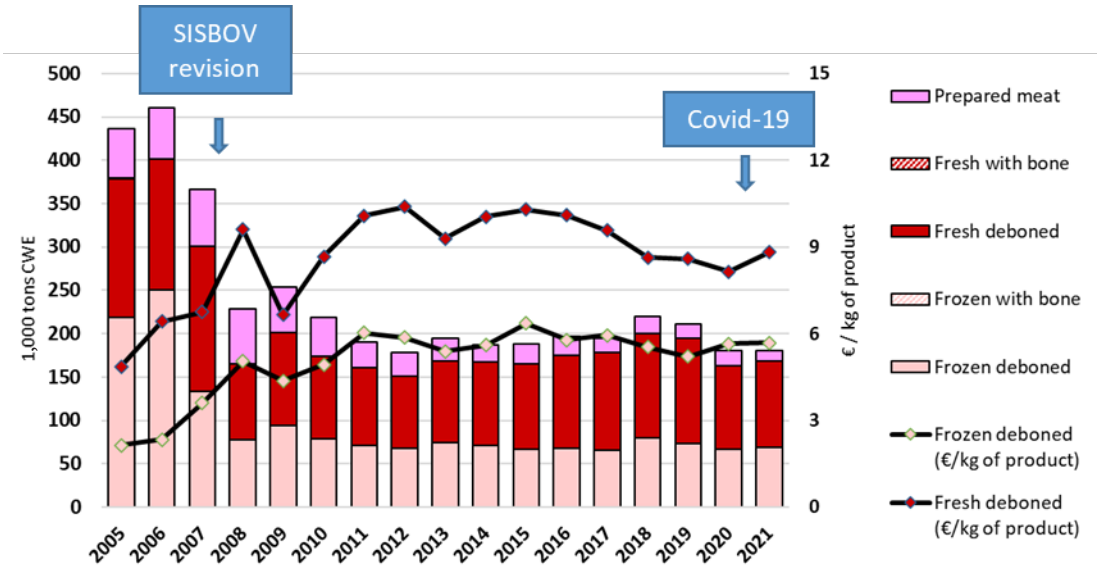


66 Full loin and rump: the half-carcass of an adult bovine including the ilium, sacral vertebrae, six lumbar vertebrae and three dorsal vertebrae (called three rib loin) or eight dorsal vertebrae (eight-rib loin) on which is found the tenderloin, the striploin, some of the eye, the rump and the loin skirt. The full loin and rump bring together the finest butchery pieces of a bovine carcass for European and Brazilian consumers (picanha). For example, this cut provides T-bone steaks.

The EU market remains important for Mercosur beef exporters if they are to have a better return. The four member states of Mercosur are the main EU beef suppliers (55% of EU27 imports between 2018 and 2021). MFN tariffs remain generally high enough to limit out-of-quota imports but not high enough to prevent them, especially from Mercosur. In particular, EU imports of beef at full duty (MFN) from Mercosur were especially high from 2002 to 2007, under the effect of particularly low prices in Brazil at that time.*

Figure 22. EU27 annual imports and prices of beef from Argentina, Brazil, Paraguay and Uruguay

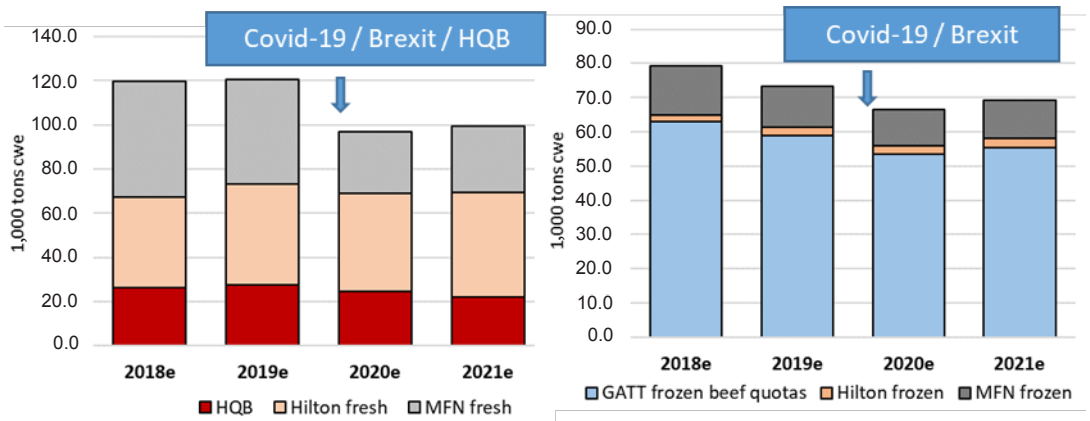
Source: Idele-GEB according to Eurostat



Beef imported from Mercosur between 2018 and 2021 was mainly fresh deboned (55%), frozen deboned (36%) and prepared beef (corned beef… 8%). 36% of the fresh beef and 17% of the frozen beef from Mercosur were imported by the EU at MFN tariffs between 2018 and 2021. Actually, Mercosur beef has access to Hilton quotas, High quality beef TRQ and GATT TRQs for frozen beef.

Figure 23. Total EU27 imports of beef cuts from Mercosur, fresh and frozen, broken down by tariff regime

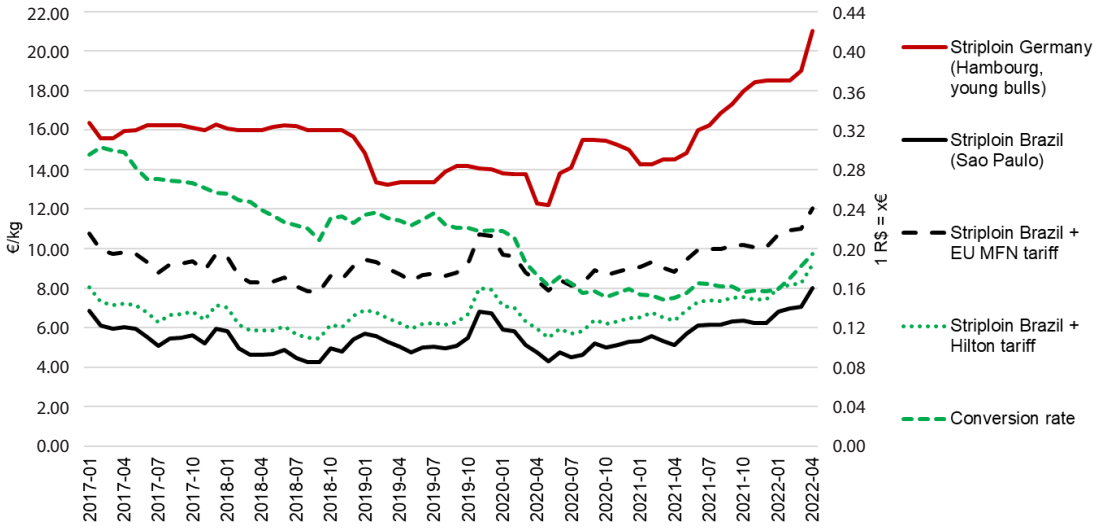
Source: Idele-GEB according to European Commission and own estimates



Beef from Mercosur is price-competitive in farms and all along the food chain (see *regulation chapter*). It can be seen that prices for beef from Mercosur remain lower than in the EU at all stages: from farm gate to wholesale market and even at border. By comparing the representative wholesale prices of striploin in the EU (Hamburg) with the CIF prices of European imports of chilled meat from Mercosur with tariffs (20% for Hilton beef and around 4.30 €/kg for MFN duty), the price of striploin from Mercosur is lower (-18% to -32%). The gap is even bigger when directly comparing prices at the wholesale stage. The example of the price of striploin on the Hamburg and Sao Paulo markets illustrates this well. Between 2017 and 2021, prices in Brazil were lower (average: -65%). Even with MFN duty, the difference remained strong (-40%). The continuous devaluation of the Brazilian real over the period also increased the competitiveness of Brazilian products. The increase in preferential tariffs for the Mercosur exporters could therefore have a high impact.

Figure 24. Prices of striploin from beef on wholesale markets in Brazil (Sao Paulo) and Germany (Hamburg)

Source: Idele-GEB according to Instituto de Economia Agricola (IEA) and AMI



Striploin MFN tariff = 12.8% + 3.034 €/kg
Striploin Hilton Tariff = 20%

5.3. THE EUM-FTA WILL AFFECT THE EUROPEAN MARKET

The EUM-FTA includes many new possibilities for the **Mercosur beef sector**.

A gift for Brazilian meatpackers

According to our own estimates based on the beef flows from Mercosur to the EU27 between 2018 and 2021, the decrease in EU tariffs for beef provided by the new FTA will be equivalent to 347 million euros per year (see Appendix I). JBS, Marfrig and Minerva (which account for at least 62% of exports from Mercosur) will benefit from at least 215 million euros in tariff

reductions. This means less for the EU budget and more profits for some global firms but not for Mercosur farmers nor EU consumers and taxpayers.

Potential impacts of EUM-FTA on beef trade flows

Even without implementation of the EUM-FTA, beef flows from Mercosur to the EU27 are expected to increase. According to the European Commission and OECD-FAO Outlook[67], exports from Brazil, Argentina and Paraguay will increase by 20% (2030) and production will decrease in the EU (-6%).

	2030 /2021 (ktons cwe)	2030 /2021 (%)
EU27 Production*	**-423**	**-6%**
EU27 Imports*	**+50**	**+16%**
Mercosur 3 Production**	**+762**	**+6%**
Mercosur 3 Exports**	**+674**	**+20%**

In this study, we have tried to analyse the effects of the EUM-FTA on beef trade flows. Two hypotheses have been analysed (see methodology chapter):

- Substitution of MFN by new TRQs (Hypothesis 1). In this case, 100% of former MFN tariff import volumes will be incorporated into the new TRQ. The rest of the TRQ have been considered as new beef imports from Mercosur.

- Full TRQs + Maintaining MFN Imports (Hypothesis 2). In this case, MFN imports remain the same. Additional new TRQ have been considered as new beef imports from Mercosur.

With the full liberalization of tariff lines for prepared beef, we estimate that EU beef imports will increase, by 2030 (in case of full implementation of the FTA), from +46.2 kt cwe (+23%) to +103.1 kt cwe (+52%). While the increase in imports of beef from Mercosur could be considered small in comparison to EU-27 global consumption (6.473 million tonnes cwe in 2021), it is important in terms of the EU high value cuts production. As most imports of chilled and frozen beef from Mercosur are and will be high value cuts (Rump & Loin mainly), **the share of imports from Mercosur on this specific product in 2030 will be equivalent to around 21% to 26% of EU27 production (instead of 13% between 2018 and 2021)**. These "noble cuts" (rump & loin) represent around 18% of the carcass weight of adult cattle but provide European farmers with nearly a third of the value of such a carcass. Those "noble cuts" remain the main driver of the beef market price in the EU. With a distortion of competition in favour of Mercosur and a strong difference of prices in these high value cuts between the EU and Mercosur, the EUM-FTA is likely to have effects on the EU market and on EU cattle farmers' revenues.

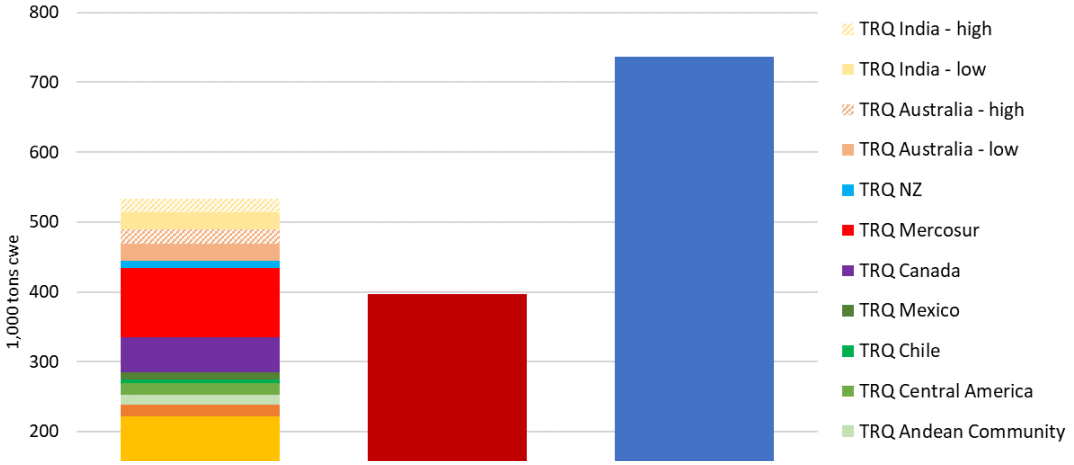
And the EUM-FTA is not the only FTA signed by the EU. EU-27 rump & loin imports represent around 20% of total EU-27 rump & loin production. With all the TRQs that could be open in

67 OECD-FAO Agricultural Outlook 2021-2030 : https://www.oecd-ilibrary.org/agriculture-and-food/oecd-fao-agricultural-outlook-2021-2030_19428846-en

the next few years, imports of rump & loin could account for up to 47% of total EU-27 rump & loin production and more than 1.3 times the EU-27 rump & loin production of the beef herd.

Figure 25. EU rump & loin production and potential cumulative effects of EU FTAs

Source: Idele-GEB own estimates



Hypothesis: Rump & loin represents 18% of a carcass. Rump & loin represents around 75% of actual EU-27 beef imports. 100% of conceded TRQs are represented in this figure. For Australia and India, two hypotheses have been made (low and high).

Potential impacts of EUM-FTA on live cattle

All tariff lines for live cattle (13) will evolve from currently dissuasive duties (10.3% + 0.931 €/kg net weight) to zero in 10 years. The decrease in the European suckler cow herd (medium term) and the liberalization of tariffs could lead to a potential increase in exports of live cattle from Mercosur to the EU27 in the absence of specific regulatory barriers. Indeed, it will depend on the evolution in EU regulations on live cattle transport. In its Conclusions on the Farm to Fork Strategy, the Council called on the Commission to review and update Regulation (EC) No 1/2005 of 22/12/2004, which created the legal framework for animal welfare in road, air, and sea transport. A group of member states (French, Greek, Irish, Latvian, Lithuanian, Portuguese, Romanian and Spanish delegations) has joined forces to push for a watering down of the upcoming animal transport review[68], stressing that there should not be a complete ban on the practice given its importance to the agrifood sector. But some countries want to ban such exports. Germany has already demanded a ban on live animal transport to non-EU countries. In November 2022, the country took measures to restrict live animal transport to third countries at national level and announced the withdrawal of veterinary certificates for cattle, sheep and goats by mid-2023. The Commission's proposal is expected in the second half of 2023.

68 Revision of animal transport legislation - an essential part of the food production. Information from the Portuguese delegation. January 2023: https://data.consilium.europa.eu/doc/document/ST-5346-2023-INIT/en/pdf

5.4. BEEF CATTLE FARMING IN MERCOSUR HAS A MAJOR IMPACT ON DEFORESTATION

Mercosur is at a crossroad of ecosystems of huge biodiversity, and not only in the Amazon Forest. The South American continent has the biomes with the greatest biodiversity on earth: Amazonia, Cerrado, Chaco, Pampa, Atlantic Forest... According to the United Nations Environment Programme (UNEP), Latin America is home to some 60% of terrestrial life worldwide. And forests, which occupy approx. 22% of this area, represent around 27% of the world's forest cover according to the International Union for Conservation of Nature (IUCN).

The growth in global demand for agricultural commodities (crops, meat) is contributing greatly to the increase in areas turned over to agriculture. Pressure on ecosystems in Mercosur is not new but the growth in exports (to China in particular) and the acceleration of climate change have highlighted the dramatic effects of deforestation. Many biomes are under pressure: the Amazonian Forest, the Cerrado, the Pantanal and the Chaco in Argentina and Paraguay (see Appendix VI). And despite their commitments, the major beef companies remain involved in deforestation.

Of course, regulations and laws exist to protect forests and ecosystems in Mercosur but some deforestation remains legally authorized everywhere, even in the Amazon Forest. We have noticed a lack of regulation in some biomes. Under pressure of a 2009 *Greenpeace* report[69], Brazilian meatpackers became involved in agreements to prohibit illegal and legal deforestation in Legal Amazonia (G4 Cattle and TAC Agreements). Those agreements were signed in 2009 by Brazil's four largest beef processors: Bertin (subsequently bought by JBS), JBS, Marfrig and Minerva. These require them to ensure, as a minimum: proof of zero deforestation, proof of freedom from land invasion, proof of freedom from slave labour, proof by suppliers of legal land title and credible tracking systems.

The implementation of the G4 and TAC agreements by the companies still shows significant gaps and delays and indirect suppliers' control is delayed year after year because of a lack of traceability (see traceability chapter). Moreover, TACs do not prohibit legal deforestation in the Cerrado. JBS, Marfrig and Minerva remain involved in deforestation in Amazonia and the Cerrado[70]. And deforestation rates remain high in Brazil, but also in Argentina and Paraguay.

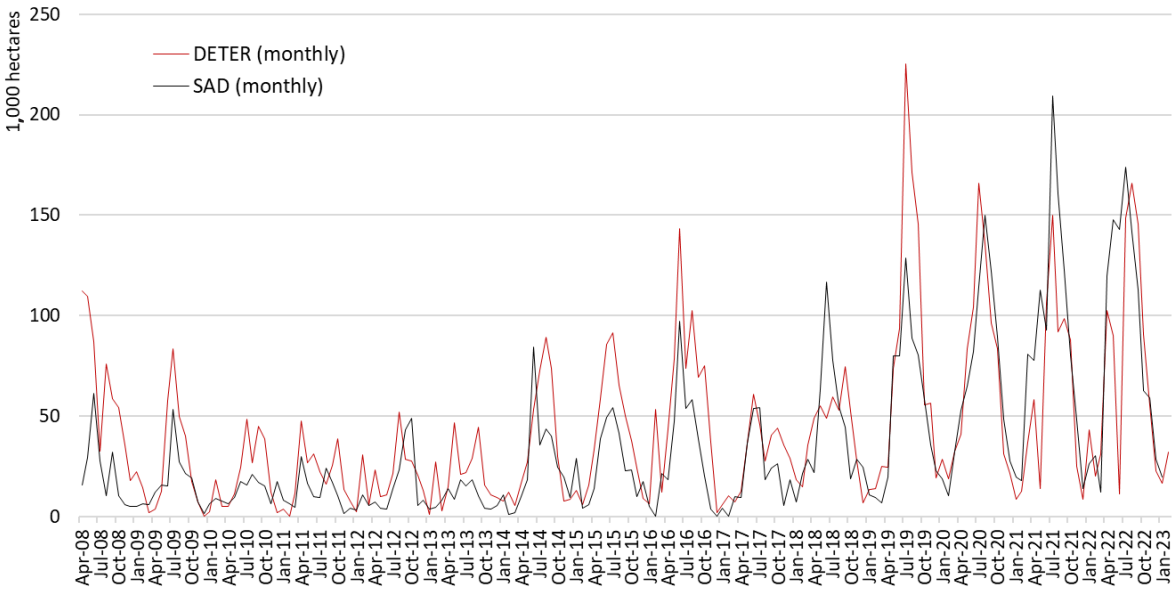
According to INPE's deforestation alert system, DETER, and Imazon's SAD system (Imazon is a Brazilian NGO that tracks deforestation independently of the Brazilian government), monthly deforestation has been high under Bolsonaro's government.

69 Slaughtering the Amazon, Greenpeace. (2009): https://www.greenpeace.org/usa/wp-content/uploads/legacy/Global/usa/planet3/PDFs/slaughtering-the-amazon-part-1.pdf

70 JBS, Marfrig, and Minerva: Material Financial Risk from Deforestation in Beef Supply Chains, Chain Reaction Research. December 2020: https://chainreactionresearch.com/report/jbs-marfrig-and-minerva-material-financial-risk-from-deforestation-in-beef-supply-chains/

Figure 26. Monthly deforestation rates in the Amazon according to DETER and SAD systems

Source: Idele-GEB according to IBAMA/PRODES and IMAZON



And some beef that is produced by the main Brazilian meatpackers and exported to the EU remains involved in deforestation (legal / illegal) in Legal Amazonia and in the Cerrado or in the Argentinian and Paraguayan Chaco[71].

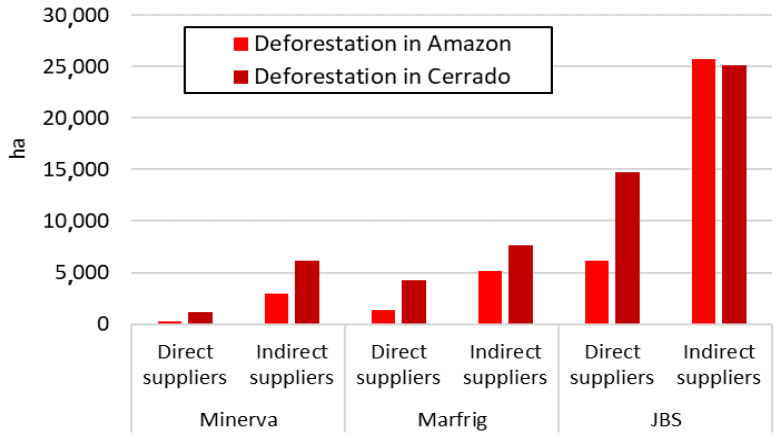
An analysis[72] of 1,545 direct suppliers and 3,164 indirect suppliers based on data from the Animal Transport Guide and the Rural Cadastre in the Cerrado and Amazon biomes shows the inefficiency of meatpackers in managing "zero deforestation". The exposure of the three "global players" to deforestation is logically higher through their indirect suppliers than their direct ones. Between 2008 and 2009, for example, 1,874 of JBS's indirect suppliers deforested nearly 51,000 ha while 983 of their direct suppliers deforested 20,300 ha. As a comparison, JBS has a total of 50,000 direct suppliers and an unknown number of indirect suppliers. This data therefore represents only a small sample of all JBS, Marfrig and Minerva suppliers. Despite all the tools available, it seems difficult to guarantee a "zero deforestation" process for Mercosur beef production.

71 High deforestation risk for beef from the Paraguayan Chaco, TRASE. (December 2021): https://insights.trase.earth/insights/high-deforestation-risk-for-beef-from-the-paraguayan-chaco/

72 EU urged to widen deforestation law. TRASE. (June 2022): https://insights.trase.earth/insights/eu-urged-to-widen-deforestation-law-as-ecosystems-left-at-risk/

Figure 27. Deforestation at a sample of suppliers to Minerva, Marfrig and JBS' slaughterhouses, 2008-2019, per biome

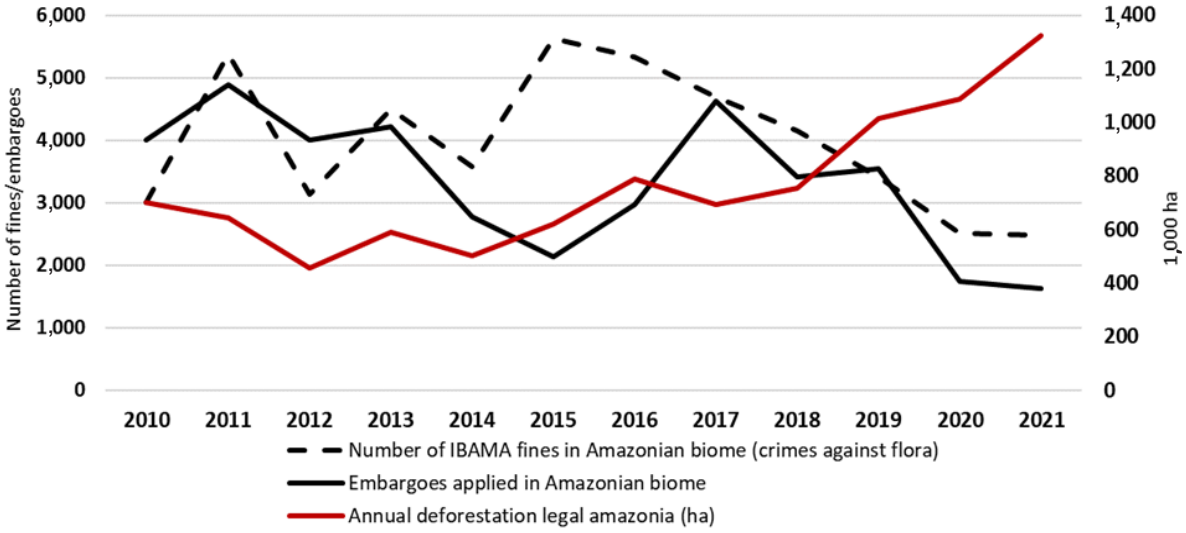
Source: Idele-GEB according to Chain Reaction Research



Deforestation rates in Brazil have increased since the mid-2010s, especially under Temer's and Bolsonaro's governments, which limited the Environmental Police Division's power.

Figure 28. Annual deforestation rate in Legal Amazonia and embargoes and number of fines for crimes against flora by IBAMA in Amazonian biome

Source: Idele-GEB according to PRODES/IBAMA



Even though the rate of deforestation in Uruguay (which is a country of pasture) remains low, it is already high elsewhere. Between 2017 and 2021, around 2.2 million hectares were deforested each year in Brazil, Argentina and Uruguay.

Figure 29.

Deforestation in some biomes of Mercosur (in ha)

Source: Idele-GEB according to PRODES/IBAMA, CIAM, Global Forest Watch, Redap, FAUBA, LART and INTA.

	2017	2018	2019	2020	2021	4 or 5 years an. average
Amazon (BR)	694,700	753,600	1,012,900	1,085,100	1,323,500	974,000
Cerrado (BR)	711,500	706,200	631,500	759,300	834,000	728,500
Total forest (PY)	360,000	259,000	314,000	243,000	277,000	290,600
Chaco Seco (AR)	125,900	141,350	102,000	135,500	-	126,200
Other forest (AR)	46,700	45,500	37,500	197,800	-	81,900
Total forest (UY)	21,900	19,500	14,500	12,700	17,000	17,100

5.5. EFFECTS OF THE EUM-FTA ON BIODIVERSITY AND DEFORESTATION FOR BEEF PRODUCTION

By 2030, Mercosur beef production will increase (+762,000 tonnes cwe or +6% /2021). By opening new TRQs to beef produced in Mercosur, the European Union will be participating in deforestation. With an estimated increase in EU imports from Mercosur by 2030 of between +43.5 kt cwe and +94.9 kt cwe (without prepared meat) and assuming that the additional exports to the EU are only a part of the incentive for additional beef production (the other destinations for 80.5% of the carcass weight also playing a role), after full implementation of the FTA, the EUM-FTA could contribute to deforestation of between 620,600 and 1,354,000 hectares (more than half the area of Wales), according to our own estimates (see Appendix V). These areas allocated to an increase in Mercosur beef production in order to export full loin and rump to the EU represent a growth in the average annual deforestation rate (2017-2021) of between +28% and +61%. Over an implementation period of six years, this would mean an acceleration in annual deforestation trends of between +5% (hypothesis 1) and +10% (hypothesis 2).

Figure 30.

Potential impacts of the EUM-FTA on beef in natura imports and deforestation

Source: Idele-GEB, own estimates according to Ambec report methodology

Hypothesis	Additional volume exported to the EU (kt cwe)	Carcass weight equivalent (kt cwe)	Total potential deforested area* (ha)	EUM-FTA estimated contribution to deforestation** (ha)
100% full loin&rump Substitution of MFN by TRQs	43.5	223.1	**3,182,700**	**620,600**
100% full loin&rump Addition: Full TRQs + MFN	94,9	486,7	**6 943 500**	**1 354 000**

** assuming the only driver for additional beef production comes from the EU export incentive.*

*** total potential deforested area x 19.5% - to take into account only the Rump & Loin exported to the EU & not the full carcasses. NO ACCOUNT taken of additional area to produce cattle feed to complement pasture!*

6. FOCUS ON SENSITIVE AGRICULTURAL SECTORS: DAIRY PRODUCTS

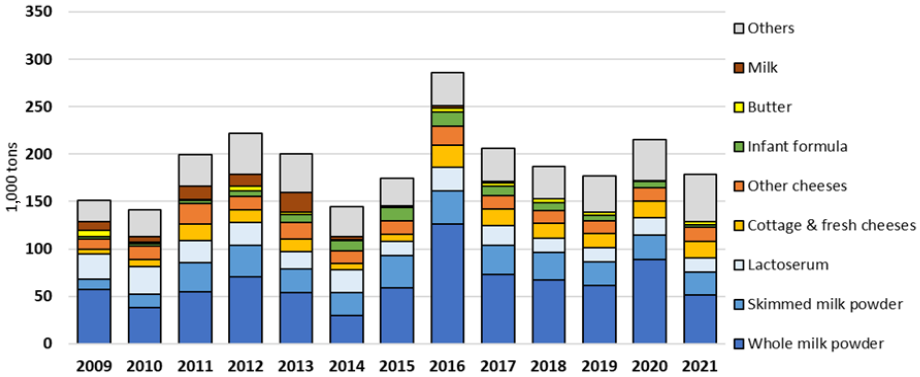
In 2021, the EU27 was the world's largest exporter of dairy products, with high exports of cheese, infant formulas, liquid milk... Argentina was the 6th largest exporter and Uruguay the 8th with high rates of exports of milk powders. Quality standards from those two countries are close to the EU's. While Uruguay, Argentina and the EU27 are globally self-sufficient and exporters, Brazil and Paraguay are net importers. The dairy sector is not a key driver of deforestation in Mercosur like cattle raised for meat. In the EU-Mercosur Free Trade Agreement (EUM-FTA), dairy sectors from both sides are considered sensitive products.

6.1. DAIRY TRADE FLOWS

Brazil is dependent on imports, especially from Argentina and Uruguay. It remains one of the main destinations of Argentinian and Uruguayan exports. In 2021, Brazil imported around 76 000 tonnes of skimmed milk powder (SMP) and whole milk powder (WMP), 32 000 tonnes of cheese, 3 000 tonnes of infant formulas and some other quantities of several dairy products. Some Brazilian imports such as cheese or infant formulas came partially from the EU.

Figure 31. Brazil's annual imports of dairy products in quantity, broken down by product

Source: Idele-GEB according to TradeMap



6.2. THE DAIRY SECTOR IN THE EUM-FTA

Before EUM-FTA implementation, both sides remain protected by high tariffs (from 15% in Paraguay to 35.9% in the EU27). As tariff protections are higher in the EU than in Mercosur, the duties reduction will be asymmetrical.

Three new duty-free TRQs will be implemented (phasing-in: 10 years) symmetrically in

Mercosur and in the EU27 (powders, cheese and infant formula). For other dairy tariff lines, a reduced tariff will apply as soon as the FTA comes into force: butter (-30%) and yoghurt (-50%). In its communication, the European Commission explained that the European dairy sector is one of the "winners" of this agreement.

Figure 32.

Main tariffs for dairy products between EU27 and Mercosur

Source: Idele-GEB according to European Commission and WTO

	MFN tariff applied		
	Average (%)	Duty-free (% tariff line)	Maximum (%)
Argentina	17.6	0	28
Brazil	18.3	0	28
Paraguay	15	0	16
Uruguay	17.9	0	28
UE27	35,9	0	189

Bilateral concessions on dairy products in the EUM-FTA

Source: Idele-GEB according to European Commission

Product	New TRQ	Intra quota duty change	Implementation period	Comment
Powders	10,000	0%	10 years	Linear phasing in for volume and tariff
Cheese	30,000	0%		
Infant Formula	5,000	0%		

While some organizations agree with the Commission's analysis, others remain sceptical, particularly because, in the European Union, as for beef, farm-gate milk prices and CAP payments do not cover the costs of milk production. According to the organization of 14 European milk producers[73], "*non-equivalent imports from the Mercosur countries exert an additional price pressure on Europe's family farms. This trade policy and these unequal production, environmental and social standards that favour the agroindustry are simply speeding up the disappearance of small-scale farms on either side of the Atlantic*".

6.3. MAIN EFFECTS OF THE EUM-FTA ON DAIRY TRADE

According to the OECD/FAO Outlook for dairy products[74], Mercosur (Brazil, Argentina, Paraguay) will remain a net importer of dairy products despite the increase in production. The EUM-FTA is likely to have limited effects on fresh dairy products flows such as butter and yoghurts between the EU and Mercosur. In fact, transport costs are especially high for this kind of product. For other products such as powders, cheeses and infant formulas, free on board (FOB) prices remain higher in the EU27 than in Uruguay or Argentina, except for SMP.

Figure 33. Free on board (FOB) prices of powders, butter and cheeses from Argentina, Uruguay and UE

Source: Idele-GEB according to Trade Map, INALE and INDEC

FOB prices (average 2018-2021) without duty (US$/t)	Butter	Cheese	Skimmed milk powder	Whole milk powder	Infant formula*
Argentina	4,370	4,020	2,540	3,130	4,350
Uruguay	4,300	4,140	2,520	3,140	-
EU27	5,200	4,780	2,530	3,960	7,760

**decrease of export of infant formula from Argentina, nothing from Uruguay*

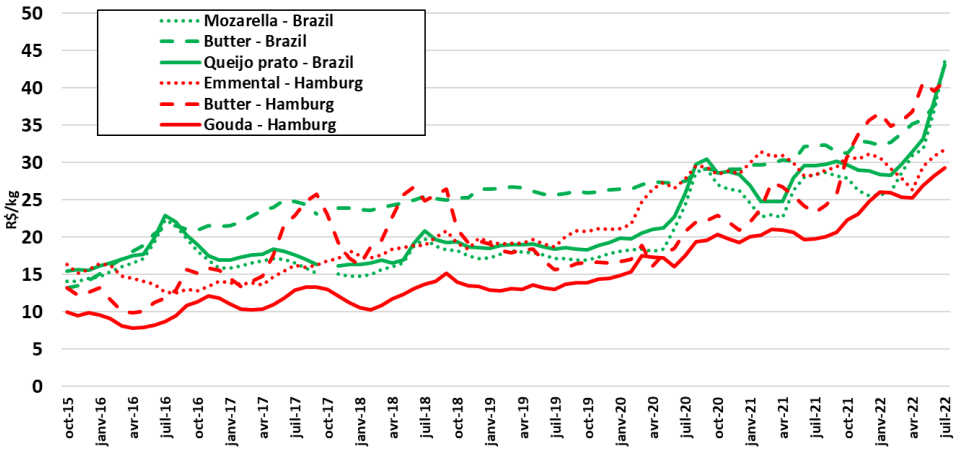
73 https://www.europeanmilkboard.org/fileadmin/Dokumente/Press_Release/2020_09_Mercosur/EN_declaration_Mercosur.pdf

74 OECD-FAO Agricultural Outlook 2021-2030: https://www.oecd-ilibrary.org/agriculture-and-food/oecd-fao-agricultural-outlook-2021-2030_19428846-en

These average prices conceal huge discrepancies, however. There is a huge diversity of prices for cheeses in the EU27 and elsewhere, from industrial cheese to ripened cheese. For example, in Argentina, Hard cheese FOB price was USD 6,160/tonne in 2021 while half-hard cheese price was USD 3,590/tonne. Considering the wholesale market level alone, the EU27 can currently be competitive with Brazil.

Figure 34. Prices of butter and different cheeses on wholesale markets in Brazil (average) and Germany (Hamburg)

Source: Idele-GEB according to CEPEA and AMI/ZMP



The future TRQ for cheese that will be open to EU exports is equivalent to the current volume of cheese imported by Brazil but represents only 3% of the Brazilian cheese market. This new TRQ raises some concerns about small family farms in Brazil and no information has been provided to farmers (in fact, it seems that no official communication about the FTA is available in Portuguese). EU27 exports of cheeses and infant formulas may increase (health guarantee, trademarks and GIs) especially because leading European dairy companies are already established in Brazil (Lactalis, Savencia and Danone).

Figure 35. Annual turnover of main dairy groups in Mercosur and the EU27 (2020, billions €)

Source: Idele-GEB according to CNIEL

Mercosur-4 (top 3)		
Country	Dairy group	2020 turnover (billions €)
Brazil	Lactalis	1.7
Argentina	Mastellone Hermanos	1.0
Uruguay	Conaprole*	0.7

EU27 (top 10)		
Country	Dairy group	2020 turnover (billions €)
France	Lactalis	21.1
France	Danone **	12.8
Netherlands	Friesland Campina	11.1
Denmark	Arla Foods	10.6
Germany	DMK	5.6
France	Savencia	5.2
France	Sodiaal	4.8
Germany	Müller***	4.5
Ireland	Glanbia plc	3.8
France	Fromageries Bel	3.5

** year finishing in July*

*** infant formula included, vegetal milk included*

**** estimate*

The liberalization of the cheese market may thus have an impact on the sale of dairy products from Argentina and Uruguay to Brazil. In the case of Argentina, Brazil is the leading buyer of its dairy products (around 40% of dairy production goes to that country). These products include milk powder and milk whey, followed by skimmed milk powder, hard cheese, semi-hard cheese, and mozzarella. Currently, European cheeses pay a 28% Mercosur entry duty. The liberalization could affect the dairy sector in both countries. According to an IMAZON and University of Texas study[75], "*the reduction in Mercosur tariffs on processed dairy [will] cause an increase in European exports to the Mercosur region*".

Price competitiveness for some dairy commodities is favourable to the Mercosur countries (Argentina and Uruguay). At the same time, some non-price competitiveness factors are favourable to the EU (diversity of ranges of cheeses and infant formulas, health guarantees, brands, and geographical indications). These various factors may favour an increase in European exports of cheese and infant formula to Mercosur after the Agreement comes into force. And leading European dairy players are already established in Brazil, for example Lactalis (leading dairy company in Brazil after the takeover of the Itambé cooperative), Savencia (with its Brazilian company Polenghi) or Danone and Arla Foods (which have bought Afisa in Argentina to produce whey powder). These foreign investment strategies are to produce locally in order to supply local markets using their technologies, their investment capacities and their brands. With the Agreement, these groups will probably increase their imports of manufactured dairy products from the EU in order to complete their offer of cheese (for example, soft cheeses and blue-veined cheeses) and healthier infant formulas. The new tariff quotas for cheeses and infant formulas to Mercosur should thus be full.

The major dairy companies already present in Brazil (Lactalis, Danone, Savencia) work first with farms capable of complying with health standards, mainly to produce fresh products, cheeses or infant formulas. The other dairy farms (including small family farms) mainly provide cooperatives or private processors of regional size, in order to produce powders, UHT milk, other dairy drinks, and cheeses. These farms will not be favoured by the Agreement but will face more competition.

Some flows could, however, also increase from Mercosur (Argentina and Uruguay) to the EU, notably for commodities such as powders, or some cheese ingredients. It will nevertheless remain weak (absolute value / relative value) compared to the EU27 production and consumption. As for powders, the opportunity for the EU27 is weak with limited price competitiveness (see FOB prices table) compared to Mercosur production.

75 Dynamic Amazonia: The EU–Mercosur Trade Agreement and Deforestation. Arima et al. (July 2021): https://www.mdpi.com/2073-445X/10/11/1243

6.4. FOCUS ON POTENTIAL EFFECTS OF THE EUM-FTA FOR BRAZILIAN DAIRY PRODUCERS

Dairy producers' organizations in Brazil are extremely concerned. For example, the Brazilian Association of Milk Producers (Abraleite[76]) explained that while the Agreement may be fair for other Brazilian agricultural products, it is not clear whether it will cause damage to the whole milk production chain. In case of implementation, the Brazilian government has announced that it plans to compensate milk producers and help them to modernize production with equipment imported from Europe and with a tax exemption of up to 35%.

On 1 July 2019, the European Association of Dairy Trade explained that the European dairy sector expected to gain market share in Brazil. Brazil is nevertheless likely to remain a net importer for some dairy products over the next 10 years (according to the FAO/OECD Outlook). Brazil will increase its deficit for butter and for some cheeses. With competitive prices for industrial cheese, EU dairy products may disturb Brazilian markets and affect Brazilian prices, especially for small producers. This could result in increased volatility and create some risk for Brazilian dairy farmers' income as well as in terms of debt, the very existence and future of these farms and, therefore, rural jobs. Up until now, Brazil's dairy dynamic has remained driven more by family farms than by large "agribusiness". These family farms represent around 80% of dairy farms and two-thirds of dairy cows and account for 60% of national milk production[77].

76 Abraleite is the main Brazilian association of dairy producers. It represents mainly medium and large dairy farms. https://www.abraleite.org.br/

77 Dispositions et effets potentiels de la partie commerciale de l'Accord d'Association entre l'Union européenne et le Mercosur en matière de développement durable. Ambec et al. (2020): https://www.gouvernement.fr/rapport/11746-rapport-de-la-commission-d-evaluation-du-projet-d-accord-ue-mercosur

7. FOCUS ON SENSITIVE AGRICULTURAL SECTORS: PORK AND POULTRY

7.1. THE EU IS THE FIRST GLOBAL EXPORTER IN A PORK MARKET ORIENTED TOWARDS ASIA

The EU27 is the largest exporter of pork products, with 5.8 million tonnes of products exported in 2021. The EU27 produced 23.6 million tonnes cwe of pork in 2021 (21% of global production) of which 4.8 million tonnes cwe were exported (20%)[78]. The EU27 self-sufficiency rate was 125% in 2021 and it imports very little pork, only 97,000 tonnes cwe in 2021. At present, EU MFN tariff rates on imported fresh and frozen pork meats vary between 467 and 869 €/tonne depending on the product while rates on processed pork products can reach up to 1 568 €/tonne or 16.6% for a limited number of products, the rates for which are expressed *ad valorem*[79].

In recent years, the global pork market has been totally oriented towards the meeting the demand of Asian markets. China and Hong Kong absorbed 45% of EU exports in 2021, and four other Asian countries (Philippines, Japan, South Korea and Vietnam) imported 18% of the EU volume. Asian demand has been strong since 2015 and has been strengthened by the ASF epidemic that spread to several Asian countries since 2019, drastically reducing local production in many parts of Asia (-36% in China between 2018 and 2020, the largest global pig producer).

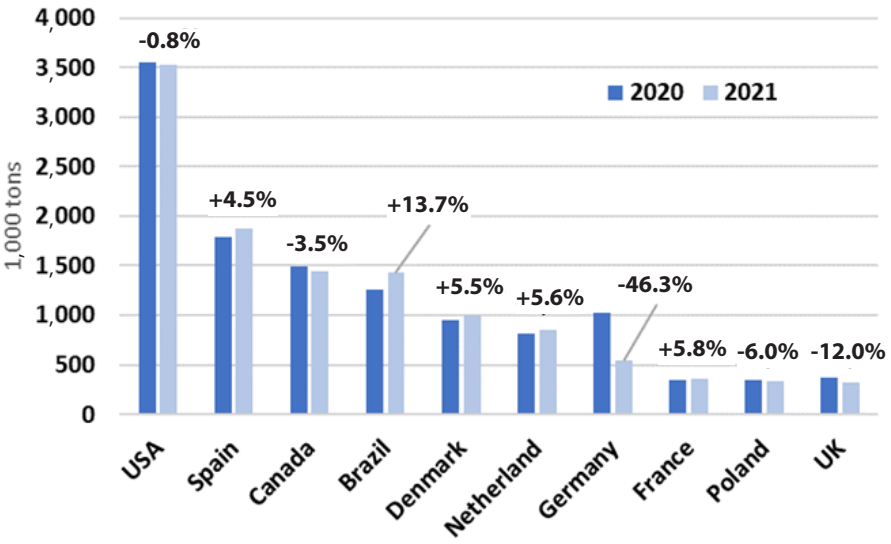
78 IFIP, Le Porc par les Chiffres 2022-2023
79 https://ahdb.org.uk/eu-and-uk-import-tariff-rates-for-selected-pig-meat-products

7.2. BRAZIL IS COST-COMPETITIVE AND SEEKING TO DIVERSIFY ITS PORK EXPORT MARKETS

Within Mercosur, Brazil is at present the only country exporting significantly to foreign markets.

Figure 36. Main world exporters of pig meat and by-products (fat, offal and processed products) in 2020 and 2021

Source: ABCIS according to Trade Data Monitor



In 2020, Brazil produced 4.4 million tonnes of exports, 23% of the Brazilian pork production. Brazilian pork exports have, however, been historically limited by difficult access to foreign markets, mainly due to sanitary reasons. It was only in May 2021 that Parana and Rio Grande do Sul were recognized by the WOAH (World Organisation for Animal Health- OIE) as free from Foot and Mouth Disease (FMD) without vaccination, joining Santa Catarina State in the south. This recognition helped the main pork producing and exporting region gain access to new markets in Asia. The widespread use of ractopamine in pig finishing, an anabolic substance prohibited in the EU as well as in most Asian countries, and low recognition of the traceability system have furthermore been preventing Brazil from exporting to most Asian countries for a long time. Brazil was mostly exporting to Russia and Ukraine prior to 2014 and then started to export to Hong Kong after the political embargo. Thanks to the development of ractopamine-free schemes and increasing exports to several Asian countries, exports of Brazilian pork products doubled between 2018 and 2021 to reach 1.4 million tonnes of products in 2021, 48% of which were destined for China and Hong Kong. Exports of Brazilian pork to the EU are not significant for the moment[80]. Brazilian exporters do not favour Europe over Asia, because of the European tariffs and the demanding European sanitary and traceability requirements.

80 Brazilian customs report that some 100,000 tonnes of pork offal were exported to the Netherlands in 2021 but Dutch customs do not evidence this. This content is very likely re-exported to third countries thereby not entering the EU food chain.

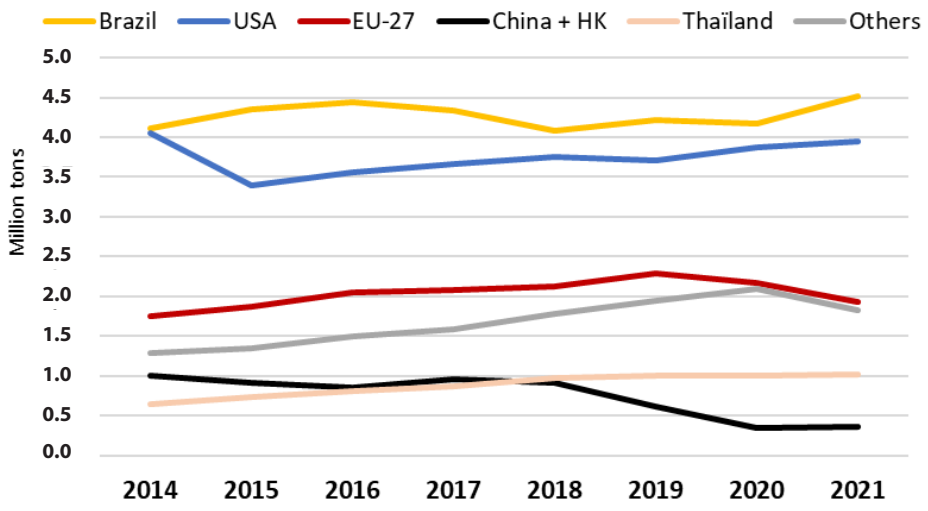
The very high price competitiveness of Brazilian pork is at the origin of this country strong export development. In China, average CIF price of Brazilian pork products was 2.10 €/kg in 2021 while EU pork was priced at 2.13 €/kg. Just as for beef, this price competitiveness relies on low costs at every stage of the value chain. In 2020, according to InterPig, average farm production costs were between 0.99 €/kg (Centre-West) and 1.05 €/kg (South) in Brazil while they reached 1.59 €/kg in Germany. Industrial and commercial competition is in the meantime enhanced with massive investment from global players such as **BRF**, the leader both in pork and poultry processing in Brazil.

In the short run, international pork flows may not favour European imports over Asian imports. Nevertheless, in the medium term, Asian markets may reach a higher level of self-sufficiency, while the European pig production may be prone to a significant decrease due to the costs of compliance with new enforced regulations, especially regarding animal welfare and the environment (nitrogen, GHG). Brazil's progress in the accuracy of its traceability and sanitary systems and ongoing expansion may also favour its access to European markets. The EUM-FTA, with its 25,000 tonnes of pork at a reduced duty of 83 €/tonne, might then favour imports of Brazilian pork in Europe. This quantity is still not very large compared to the international flows of trade in pork but adds up when considered with other quotas negotiated within other FTA such as CETA, for instance.

7.3. BRAZIL IS THE WORLD LEADER IN POULTRY MEAT EXPORTS

Just as with pork, Brazil is by far the main poultry producer and exporter in Mercosur. Many producing and processing companies, such as **BRF** or **Seara,** are active in both sectors and can rely on their industrial competitiveness and large trade portfolio to increase their exports.

Figure 37. Main world exporters of poultry meat
Source: ITAVI according to Trade Data Monitor

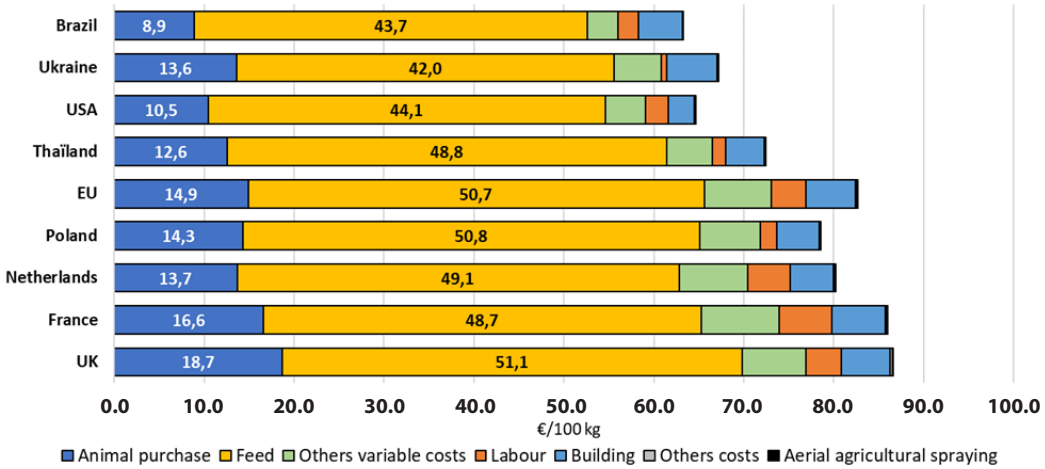


In 2020, Brazil produced 13.8 million tonnes of chicken, of which 31% was exported. Considering all poultry species together, of which chicken and turkey predominate, Brazil is the number one global exporter with 4.5 million tonnes exported in 2021, just above the USA (4.0 Mt) and well above the EU27 (2.0 Mt). While the EU27 poultry meat self-sufficiency rate was 112% in 2021, EU imports reached 800,000 tonnes in 2021, Brazil being the main supplier with around 270,000 tonnes, above the UK, Thailand, and Ukraine.

As with pork, Brazilian exports of poultry rely on a high cost competitiveness. Chicken production costs at the farm gate were as low as 65 €/100kg live weight in Brazil in 2020, compared to 87 €/100 kg live weight in France. Cheaper labour, buildings and feed are major competitiveness factors. The use of antimicrobials banned in the EU has an impact on growth rates and lower costs.

Figure 38. Structure of production cost in 2020 – main poultry producers

Source: ABCIS according to ITAVI



7.4. THE FTA IS A THREAT TO THE EU POULTRY MARKET

Existing quotas give Brazilian poultry meat access to the EU market at lower duty rates for 379,530 tonnes. Most of these quantities are made up of salted poultry (170,807 tonnes), prepared chicken (158,477 tonnes) and prepared turkey (92,300 tonnes). Frozen chicken and turkey cuts only account for 21,608 tonnes. Lower duty rates apply to these low volume frozen cuts compared to the high volumes of prepared meats (see Appendix I). These volumes are still limited due to higher sanitary requirements, especially regarding salmonella, compared to prepared meats, while existing duties on these frozen cuts are regarded by Brazilian exporters as an impediment to reaching the EU market. The FTA does, however, provide an extra duty-free quota of 180,000 tonnes of these frozen cuts, of which 50% is bone-in meat and the other half is boneless meat (see Appendix II). It is therefore highly likely that Brazil will fill this zero-duty quota progressively over the six years of its linear implementation.

8. FOCUS ON SENSITIVE AGRICULTURAL SECTORS: SUGAR AND ETHANOL

8.1. BRAZIL IS ALREADY A SIGNIFICANT SUPPLIER ON THE EU SUGAR MARKET

EU sugar imports reached nearly 1.7 million tonnes in 2020-2021, of which one-quarter was made up of raw sugar for refining, one-third raw sugar for direct consumption and around 40% refined sugar. In 2020/2021, of the 1.33 million tonnes imported without inward processing arrangements, 35% of the volumes were within existing FTA quotas, 36% within ACP/LDC countries agreement and 16% under WTO quotas. Brazil's quotas fall within this last category. Brazil's existing quotas to the EU are made up of one quota of 72,307 tonnes at 11€/tonne (which is generally filled) and another quota of 308,518 tonnes at 98 €/tonne (which is not used) (see Appendix I).

The EUM-FTA will change the configuration of Brazil's quotas (see Appendix II). The 98 €/t duty quota will be reduced to 200,255 tonnes, while a new 180,000 tonne quota will be created at 0 duty as well as a 54,028 tonnes new quota at a duty of 54 €/tonne. Another new quota will also be set up only for Paraguay, 10,000 tonnes at 0 duty. Once the Agreement is ratified, we expect at least 108,000 additional tonnes to be exported from Brazil to the EU in addition to the 10,000 tonnes from Paraguay.

Figure 39. Impacts of the EUM-FTA on EU27 imports of sugar

Quota	Volume (tons)	Tariff	Imports	Country
CXL	308,518	98 €/t	-	Brazil
CXL	72,037	11 €/t	72,037	Brazil

EUMFTA full implementation

Quota	Volume (tons)	Tariff	Country
CXL	200,555*	98 €/t	Brazil
CXL	180,000	0	Brazil
CXL	54,028*	54 €/t	Brazil
New	10,000	0	Paraguay

*according to French Beet Growers Association (CGB)

From around 72,000 t at €11/t
To 180,000 +10,000 t duty-free

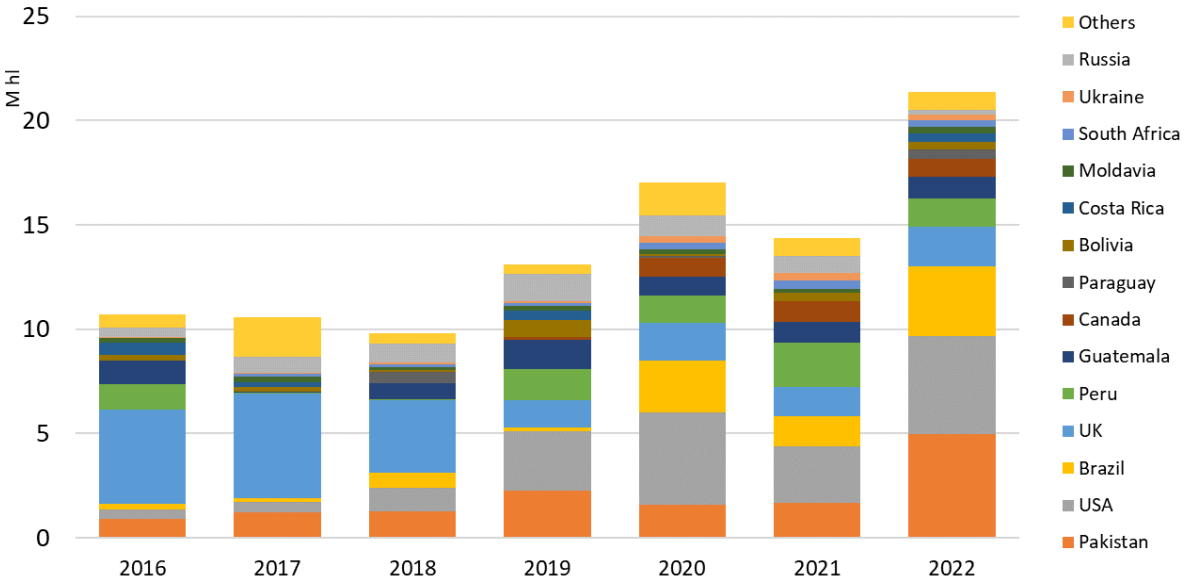
At least : +118,000 t (x2.6) and probably more

8.2. BRAZILIAN ETHANOL EXPORTS TO THE EU BENEFIT FROM BOTH INCREASED EU DEMAND AND DEFICIT

The EU balance of ethanol is in a deficit position, especially since 2019 when higher consumption increased the deficit. Imports reached approx. 21.4 M hl in 2022 whereas exports accounted for 5.1 M hl. Brazil represented around 16% of EU imports of ethanol in 2022 (Pakistan and the USA being the main suppliers with 23% and 22% respectively), while these imports were very low during the 2010s (see Appendix I).

Figure 40. Annual imports of ethanol into the EU27

Source: ARTB according to Eurostat

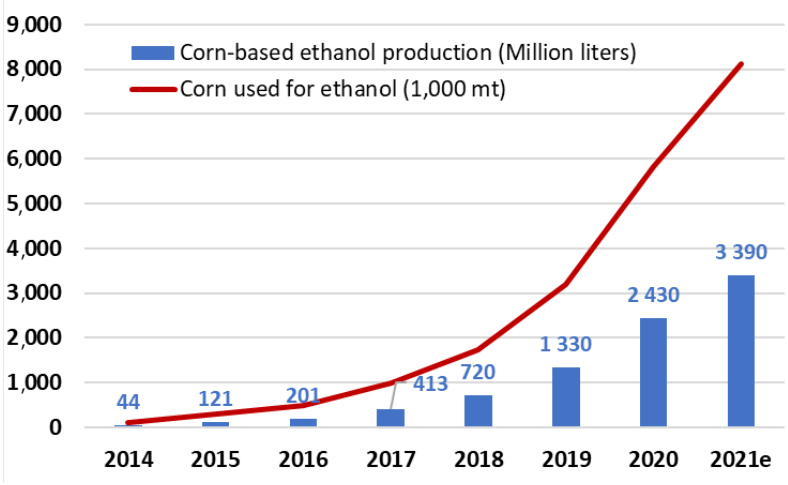


The EUM-FTA will introduce two new quotas for ethanol, one of 450,000 M hl (0 duty) for chemical use only and one of 200,000 M hl for all purposes at one-third of the MFN duty rate (see Appendix II).

Sugar cane (90%) and corn (10%) are the two main crops used for ethanol production in Brazil. Over the last decade, some 45 to 55% of the sugar cane crop has been diverted into ethanol. As for corn, it is expected that, by 2030, 20% of Brazilian ethanol will be provided by corn.

Figure 41. Corn-based production of ethanol in Brazil

Source: FAS Brazil according to UNEM and UNICA



8.3. SUGAR CANE AND CORN EXPANSION PUT PRESSURE ON THE LAND USE

Both corn and sugar cane crops benefit from weaker regulations in Brazil, notably regarding pesticide use or GMO development[81]. For example, glyphosate is used as a chemical ripener to accelerate sucrose accumulation in the cane stalks during harvesting. In 2022, the Centro de Tecnologia Canavieira (CTC) estimated that new cane varieties resistant to stem-boring insects would cover 70,000 ha in the 2022/23 crop cycle[82], up from 37,000 ha last year in Brazil (out of 8.2 million ha in the last harvest).

Between 2010 and 2020, the sugar cane cropping area increased by 22% while the corn cropping area increased by 24%. Brazilian domestic demand for ethanol will probably increase in the years to come, following the National Biofuel Policy aimed at reducing the carbon footprint of Brazil's transport system. Brazilian ethanol could also meet the EU criteria regarding the reduction of carbon emissions in the transport sector. Crop expansion is likely to occur on long-established pasturelands in the South and Centre-West of Brazil (see Appendix VI). Crop expansion also intensifies competition for land with other commodities such as soy and beef, thus leading to more pressure on sensitive biomes. It also has some other consequences. For example, land-use change has major climate impacts: deforestation but also change from pasture to arable land. According to the Joint Research Center and Federal University of Minas Gerais[83], the EU-Mercosur trade agreement will increase demand for ethanol and sugarcane. "*Sugarcane expansion would occur at the expense of pasturelands in the Southeast and Midwest regions*" and "*Converting pasture to sugarcane and achieving commercially viable yields require a substantial application of lime and fertilizers, which represents about 50% of GHG emission from sugarcane cultivation*".

81 De Almeida Silva M. et al. Glyphosate applied at a hormetic dose improves ripening without impairing sugarcane productivity and ratoon sprouting. (2021): https://www.sciencedirect.com/science/article/abs/pii/S0048969721055807

82 https://www.reuters.com/article/brazil-ctc-cane-idUKL1N3421XX

83 Marco Follador et al. Brazil's sugarcane embitters the EU-Mercosur trade talks (2021): https://www.nature.com/articles/s41598-021-93349-8

GLOSSARY

***Ad valorem duty**: duty levied as a percentage of the value of the services or goods being imported, rather than their weight or the number of units*

***CIF prices**: cost, insurance, freight price. The CIF price is the price of a good delivered at the border of the importing country, or the price of a service delivered to a resident, before the payment of any import duties or other taxes on imports or trade and transport margins within the country.*

***Cwe**: carcass weight equivalent. The weight of meat cuts and meat products converted to an equivalent weight of a dressed carcass.*

***CXL quota**: or CXL Concessions Sugar is the application of Regulation (EC) No 891/2009 under Schedule CXL (European Communities).*

***Erga omnes**: in general law, an act, decision or judgement that affects all parties, not just those directly concerned.*

***FMD:** Foot and Mouth Disease*

***FOB price**: free on board price. The FOB value of exports and imports of goods is the value of the goods at the exporter's customs border. Foreign transport and insurance services between the exporter's and importer's borders are not included in the value (but are recorded under services).*

***HQB**: High quality beef.*

***In natura**: in natura (Latin for "in Nature") is a phrase to describe conditions present in a non-laboratory environment, to differentiate it from in vivo (experiments on live organisms in a lab) and ex vivo (experiments on cultivated cells isolated from multicellular organisms) conditions. For beef: unprocessed beef.*

***MFN (most-favoured-nation) tariff**: Normal non-discriminatory tariff charged on imports (excludes preferential tariffs under free trade agreements and other schemes or tariffs charged inside quotas).*

***SMP:** skimmed milk powder*

***Specific duty**: tariff levied on imports, defined in terms of a specific amount per unit, such as cents per kilogram. By contrast, an ad valorem duty is a charge levied on imports defined in terms of a fixed percentage of value.*

***WMP:** whole milk powder*

APPENDIX I: SPECIFIC AND NON-SPECIFIC EXISTING TARIFF QUOTAS AND CURRENT EXPORTS IN AND OUTSIDE EXISTING QUOTAS

Specific existing tariff quotas

Sector	Name	TRQ order number	CN codes (8 digits)	Annual quantity available[1,2]	Standard duty (MFN)	Preferential duty	Origin
Beef	Hilton buffalo	09.4004	0201 30 00 (20) + 0202 30 90 (65)	200	12.8% + 3.034 €/kg (0201) 12.8% + 3.041 €/kg (0202)	20%	Argentina
	Hilton beef	09.4450	0201 30 00 (10*) + 0206 10 95 (10)	29,389	12.8% + 3.034 €/kg	20%	Argentina
		09.4452	0201 30 00 + 0206 10 95	5,606	12.8% + 3.034 €/kg	20%	Uruguay
		09.4453	0201 30 00 + 0202 30 90 + 0206 10 95 + 0206 29 91	8,941	12.8% + 3.034 €/kg (0201, 0206 10 95) 12.8% + 3.041 €/kg (0202, 0206 29 91)	20%	Brazil
		09.4455	0201 30 00 + 0202 30 90	1,000	12.8% + 3.034 €/kg (0201) 12.8% + 3.041 €/kg (0202)	20%	Paraguay
	High quality beef	09.2202	0201 (XX XX) + 0202 (XX XX) + 0206 10 95 + 0206 29 91	20,800[3]	12.8% + 3.034 €/kg (0201, 0206 10 95) 12.8% + 3.041 €/kg (0202, 0206 29 91)	0%	Argentina, Uruguay (and others[4])
	Thin skirt	09.4460	0206 29 91	700	12.8% + 3.041 €/kg	4%	Argentina
Poultry	Chicken boneless cuts (frozen)	09.4410	0207 14 10 + 0207 14 50 + 0207 14 70	16,698	1.024 €/kg (0207 14 10) 0.602 €/kg (0207 14 50) 1.008 €/kg (0207 14 70)	0	Brazil
	Turkey cuts (frozen)	09.4420	0207 27 10 + 0207 27 20 + 0207 27 80	4,910	0.851 €/kg	0	Brazil
	Salted poultry	09.4211	0210 99 39	170,807	1.024 €/kg	15.4%	Brazil
	Prepared chicken (cooked)	09.4214	1602 32 19	79,477	2.765 €/kg	8%	Brazil
	Prepared chicken (uncooked)	09.4251	1602 32 11	15,800	2.765 €/kg	0.63 €/kg	Brazil
	Prepared chicken	09.4252	1602 32 30	62,905	2.765 €/kg	10.9%	Brazil
	Prepared chicken	09.4253	1602 32 90	295	2.765 €/kg	10.9%	Brazil
	Prepared turkey	09.4217	1602 31 11	92,300	1.024 €/kg	8.5%	Brazil
Sugar	Sugar CXL Brazil	09.4318	1701 13 10 + 1701 14 10	308,518	0.339 €/kg	0.098 €/kg	Brazil
	Sugar CXL Brazil	09.4329	1701 13 10 + 1701 14 10	72,037	0.339 €/kg	0.011 €/kg	Brazil
Fruit & vegetables	Garlic	09.4104	0703 20 00	13,403	9.6% + 1.2 €/kg	9.6%	Argentina
	Garlic	09.4099	0703 20 00	5,744	9.6% + 1.2 €/kg	9.6%	Argentina

[1] For 2020/2021 (marketing year). Some TRQs quantities have been revised since 2021 (Brexit)

[2] Beef and poultry TRQs are expressed in weight in tonnes of products (and not in carcass weight equivalent)

[3] Available quantity will decrease each year to 10,000 tonnes in 2026/2027

[4] Australia and New Zealand

Current exports in and outside existing quotas

Sector	Name	TRQ order number	Annual quantity available[1,2]	In quota exports[1]	Exporting country
Beef	Hilton buffalo	09.4004	200	4	Argentina
	Hilton beef	09.4450	29,389	26,670	Argentina
		09.4452	5,606	5,815	Uruguay
		09.4453	8,941	2,617	Brazil
		09.4455	1,000	638	Paraguay
	High quality beef	09.2202	22,525	5,591 (Argentina) 11,250 (Uruguay) 5,049 (others)	Argentina, Uruguay (and others)
	Thin skirt	09.4460	700	5	Argentina
Poultry	Chicken boneless cuts (frozen)	09.4410	16,698	15,592	Brazil
	Turkey cuts (frozen)	09.4420	4,910	3,214	Brazil
	Salted poultry	09.4211	170,807	143,343	Brazil
	Prepared chicken (cooked)	09.4214	79,477	68,171	Brazil
	Prepared chicken (uncooked)	09.4251	15,800	800	Brazil
	Prepared chicken	09.4252	62,905	5,421	Brazil
	Prepared chicken	09.4253	295	0	Brazil
	Prepared turkey	09.4217	92,300	3,260	Brazil
Sugar	Sugar CXL Brazil	09.4318	308,518	0	Brazil
	Sugar CXL Brazil	09.4329	72,037	72,037	Brazil
Fruit & vegetables	Garlic	09.4104	13,403	2,077	Argentina
	Garlic	09.4099	5,744	4,740	Argentina

[1] For 2020/2021 (marketing year)

[2] Beef and poultry TRQs are expressed in weight of boneless meat in tonnes

[3,4] A part of those volumes are eligible to TRQs 09.4450 and 09.4452

Non-specific existing quotas used by Mercosur before the FTA (example of beef)

Sector	Name	TRQ order number	CN codes (8 digits)	Preferential rate	Annual quantity available[1,2]	Requested (all origins)[1,2]	Allocation coefficient [3]	Access
Beef	GATT 1 - Frozen	09.4003	0202 + 0206 29 91	20%	54,875 tons	166,581 tons	32.94%	*erga omnes*
	GATT 2a – Frozen for processing	09.4057	0202 20 30 0202 30 10 0202 30 50 0202 30 90 0206 29 91	20%	50,000 tons	360 tons	100%	*erga omnes*
	GATT 2b – Frozen for processing	09.4058	0202 20 30 0202 30 10 0202 30 50 0202 30 90 0206 29 91	20% + … : 9.945 €/kg (0202 20 30) 1.5543 €/kg (0202 30 10) 1.5543 €/kg (0202 30 50) 2.1384 €/kg (0202 30 90) 2.1384 €/kg (0206 29 91)	13,703 tons	0	-	*erga omnes*

[1]For 2020/2021 (marketing year).

[2] Beef TRQs are expressed in weight of boneless meat in tonnes

[3] Allocation coefficient to apply to import licence applications

APPENDIX II: EU27 CONCESSIONS ON SENSITIVE PRODUCTS

Product	Current specific TRQ[1]	New TRQ[1]	Intra quota duty change	Implementation period	Comment
Beef	62,450 (Hilton beef and buffalo)	62,425[2]	**20% to 0%**	Immediately	-
		54,450 (fresh)	7.5%	6 years[3]	Linear phasing in for volume
		44,550 (frozen)			
Poultry	379,530	90,000 (fresh)	0%	6 years[3]	Linear phasing in for volume
		90,000 (frozen)	0%		
Swine	0	25,000	83 €/t	6 years[3]	Linear phasing in for volume
Dairy[4]	0	10,000 (Milk powders)	0%	10 years	Linear phasing in for volume and tariff
		30,000 (cheese)			
		5,000 (Infant formula)			
Sugar	308,518	180,000[2]	0%	Immediately	-
	78,000	10,000 (Paraguay only)	0%	Immediately	-
Ethanol	0	450,000 (chemical use)	0%	6 years[3]	Linear phasing in for volume
		200,000 (all purpose)	1/3 MFN rate	6 years[3]	Linear phasing in for volume
Rice	0	65,000	0%	6 years[3]	Linear phasing in for volume and tariff
Honey		45,000	0%	6 years[3]	Linear phasing in for volume and tariff
Sweetcorn		1,000	0%	6 years[3]	Linear phasing in for volume

[1] Beef, poultry and pork TRQs are expressed in tonnes of carcass weight. All other products are expressed in tonnes of product.
Beef coefficient rate from boneless to bone-in = 1.3 / Poultry coefficients between 0.35 and 1.4 depending on CN codes / Pork Coefficient = 1.2
[2] Hilton TRQs and sugar TRQ for Brazil (Brazil's existing WTO TRQ of sugar for refining) are not new. But duty will be reduced to 0% immediately after the implementation of the Agreement.
[3] 6 years = 5 steps.
[4] Those TRQs will be open for both partners (Mercosur and EU27).

APPENDIX III: MAIN INSTITUTIONAL IMPACT ASSESSMENT STUDIES ANALYSED

Origin of the study	Study, authors, publication date
European Commission	**Sustainability Impact Assessment (SIA)** London School of Economics and Political Science (LSE) July 2020
European Parliament (INTA committee)	**Trade aspects of the EU-Mercosur Association Agreement** Jan Hagemejer (CASE Center for Social and Economic Research and University of Warsaw), Andreas Maurer (University of Innsbruck), Bettina Ruldoff (German Institute for International and Security Affairs (SWP)), Peter-Tobias Stoll (University of Göttingen), Stephen Woolcock (London School of Economics), Andréia Costa Vieira (ACV International Law Institute, Brazil), Kristina Mensah (freelance consultant) and Katarzyna Sidlo (CASE Center for Social and Economic Research) November 2021
Netherlands	**Impacts of the EU-Mercosur trade agreement on the Dutch economy** Wageningen Economic Research and Ecorys Rotterdam September 2020
France	**Rapport au Premier ministre: Dispositions et effets potentiels de la partie commerciale de l'Accord d'Association entre l'Union européenne et le Mercosur en matière de développement durable** M. Stefan Ambec (Toulouse School of Economics & INRAE), President. Jean-Luc Angot (Conseil général de l'Alimentation, de l'Agriculture et des Espaces ruraux), Philippe Chotteau (Institut de l'Elevage), Olivier Dabène (Sciences Po), Hervé Guyomard (INRAE), Sébastien Jean (Centre d'études prospectives et d'informations internationales & INRAE), Yann Laurans (Institut du Développement Durable et des Relations Internationales), Yves Nouvel (Université Panthéon-Assas), Mme Hélène Ollivier (Paris School of Economics & CNRS). April 2020
Austria	**Implications of the EU-Mercosur Association Agreement for Austria - A Preliminary Assessment** Authors: Franz Sinabell (WIFO), Julia Grübler and Oliver Reiter (wiiw) for Digital and Economic Affairs Ministry of Austria August 2020
Ireland	**Economic and sustainability impact assessment for Ireland of the EU-Mercosur Trade Agreement** Department of Enterprise, Trade and Employment (Ireland) June 2021

APPENDIX IV: SYNTHESIS OF THE MAIN RECOMMENDATIONS OF THESE STUDIES

Institutional studies provide recommendations on major issues such as the economy, the environment, health, society or human rights, for example. We have identified the main issues (especially those that appeared more than once) and grouped them under common themes. Reports from the Netherlands, Ireland and Austria provided no recommendations.

Issue	**Content**
Economy	Take better account of sustainable development in impact assessments and strengthen the economic analysis. Strengthening rules on all measures that limit food exports, including export taxes and bilaterally agreed options, would be beneficial. Introduce safeguard measures for sensitive products such as those implemented in other EU trade treaties (Japan…). Mercosur -> maintain their support for anti-poverty and redistributive programmes / strengthen re-training and upskilling programmes / improve the enforcement of labour laws / introduce re-training policies to smooth the transition of workers between sectors / fight to eliminate all forms of child labour, EU -> clarify the "precautionary principle"[84].
Environment	Mercosur -> convert existing degraded pasturelands into land destined for sustainable agriculture / improve and harmonize anti-deforestation policies and law enforcement activities / close the gaps in agricultural productivity that can be observed across regions / engage in a comprehensive reassessment of fertilisers and pesticides and encourage a more efficient use of water and preserve natural resources and biodiversity. Mercosur and the EU (French study) -> Compliance with the Paris Agreement / enforce sustainability development chapters in trade agreements / new due diligence and deforestation schemes and traceability… / Introduce new environmental disciplines with commercial scope = reduce tariff for environmental label, for example. The FTA should be placed in the scope of carbon tax at the border.

84 In the Ambec report (p9): *"The precautionary principle should be described more explicitly by including not only environmental protection and occupational safety, but also food safety and more generally public health. For the effective application of the precautionary principle, it should be stated in the part of the treaty which can be used in the context of the settlement of trade disputes."*

Issue		Content
Health, Society, Human rights		Mercosur and EU governments should monitor: adequate standards of living, health, Indigenous people and gender equality New type of Indigenous or cultural GI ('GI+') should be considered
Governance		Strengthen the role of parliaments and civil society organizations. Monitor the evolution of sensitive agricultural product markets. Improve health cooperation and controls.
Sectoral recommendations	Beef	Mercosur countries -> increase productivity to limit the effects of additional production (land use). Both parties -> effective implementation of commitments under the Paris Agreement on forests and GHG emissions. Both parties -> make use of the frameworks for dialogue and cooperation on the area of animal welfare. EU should cooperate and support the design of adequate animal welfare legislation.
	Dairy	Mercosur -> secure support to affected farmers (FTA effects). Mercosur -> improve quality and system of denomination of origin and GIs.
	Sugar & Ethanol	Mercosur countries -> implement policies to manage social impacts and to increase environmental efficiency. Mercosur countries should manage the environmental consequences of trade liberalization through the FTA. EU should provide technical assistance -> newer and cleaner technologies.

In the light of these studies, and with our own expertise, we propose a raft of recommendations within the context of this report (see executive summary).

APPENDIX V: FOCUS ON METHODS TO ASSESS THE EUM-FTA IMPACTS ON BEEF AND DEFORESTATION

Several issues required specific analysis:

- Comparison of prices and competitiveness at wholesale market stage and at border (cost, insurance and freight price or CIF price).
- EUM-FTA impacts on beef trade and effects on deforestation rates (see chapter on "Beef").

CIF AND WHOLESALE MARKET PRICES COMPARISON METHODOLOGY

In this chapter, we focused on full loin & rump from beef. The EU27 market imports a limited volume compared to the rest of the world (China for example) but it allows a strong value for prime cuts, and especially for beef full loin and rumps. There is a high interest in Mercosur beef exporters exporting those prime cuts to the EU. It is important for carcass balance and its valorization.

According to the outcome of a study by the *Institut de l'Elevage* (CARCABOV), full loin & rump represents 18.3% of trimmed and deboned meat from a Charolais young bull with 420 kg cwe, and 19.5% of that from an Angus young bull with a 240 kg carcass. The Charolais young bull is quite typical of young bulls produced in the EU and the Angus young bull is representative of bullocks produced in Argentina, Uruguay and southern Brazil.

We used an EU-representative wholesale market price (Hamburg) as published by the German market monitoring organization AMI. Wholesale prices are available for three chilled boneless cuts from young bulls: tenderloin, striploin and rump steak. We calculated a price for the EU wholesale market prices for deboned full loin & rump according to the weight of the different muscles over the last four years available (2018-2021). We compared those prices to Cost, insurance and freight (CIF) prices of deboned fresh beef + MFN tariffs. Mercosur prices remain competitive.

Cost, insurance and freight (CIF) prices of beef from Mercosur and EU representative wholesale market prices of full loin and rump

Source: Idele-GEB according to Eurostat, Carcabov, and AMI

CIF prices (average 2018-2021) + MFN Tariff*	Deboned fresh meat
Argentina	13.40
Brazil	11.09
Uruguay	12.74

EU wholesale market price for deboned full rump&loin**	Deboned fresh meat
Hamburg	15.45 – 16.25

**12,8% + 3,034 €/kg*

***representative EU wholesale price (Hamburg). Average price, according to the respective weight of the different muscles.*

We also compared prices at the wholesale market stage. One cut was analysed: the striploin which is a cut of beef steaks from a beef short loin (part of the full loin and rump). Representative prices on the Sao Paulo market (from Instituto de Economia Agricola (IEA)) and in Hamburg (from AMI) were compared. We also added tariffs (Hilton and MFN) to the Brazilian price. In both cases, Mercosur prices remain competitive even though transport costs or margins are not included in this analysis.

EUM-FTA EFFECTS ON THE BEEF SECTOR

EFFECTS OF NEW QUOTA AND TARIFF CHANGE ON THE BEEF SECTOR FOR THE EUROPEAN TAXPAYER

We calculated the economic effects of three concessions in the Agreement: on the Hilton beef quota (tariff from 20% to 0); the creation of a new quota of 99,000 tonnes cwe and the liberalization of tariff lines for prepared meat.

- For the **Hilton beef quota**: 95% of Hilton beef from Mercosur is fresh and 5% is frozen. The average CIF price over the last four years (2018-2021) on arrival in European ports is 95%*8.55 €/kg of products + 5%*5.51 €/kg = 8.40 €/kg of product or 6,463 €/tonne cwe. The theoretical customs duty collected each year by European authorities: 20%*6,463 €/tonne cwe*58,054 tonnes cwe= €75 million. It will be 0 after the FTA implementation.

- A similar analysis can be done for the **new quota of 99,000 tonnes cwe** (phasing in over six years). For this quota, a tariff of 7.5% will replace the MFN tariff for fresh and frozen beef:

    - **Fresh/chilled beef (54,450 tonnes cwe)**: assuming that this quota will be filled and that it replaces meat which otherwise would have been imported at MFN duty, the difference in duties collected by the European authorities will change. For the chilled sub-quota (CIF import price=8.55 €/kg of products or 6,579 €/tonnes cwe): the new duty will represent 7.5%*6,579 €/tonnes cwe*54,450 tonnes cwe= 26.87 million € after six years of implementation of the FTA. If these volumes had been imported at MFN duties (12.8% + 3,034 €/tonnes of product), it would have generated: (12.8*6,579 €/tonnes cwe*54,450 tonnes cwe) + (3,034 €/tonnes of product*(54,450 tonnes cwe/1.3))=172.9 million €. The difference between the two levels of duty represents: 172.93-26,87=146.1 million € for this sub-quota.

    - **Frozen beef (44,550 tonnes cwe)**: the same calculation can be done for this sub-quota (CIF import price=5.51 €/kg of product or 4,240 €/tonnes cwe). New duty: 7.5%*4,240 €/tonnes cwe*44,550 tonnes cwe= 14.17 million € after six years of implementation. If these volumes had been imported at MFN duties: (12.8%*4,240 €/tonnes cwe*44,550 tonnes cwe)+(4,240 €/tonnes cwe*(44,550 tonnes cwe/1.3))=128.39 million €. The difference between the two levels of duty represents: 128.39-14.17=114.23 million € for this sub-quota.

- For **prepared meat**, duties will disappear in 10 years. Assuming that imported volumes are not modified, the tariff reduction will be equivalent to 16.6%*16,433 tonnes cwe *4,243 €/tonnes cwe = 11.6 million €.

Global EU tariff reductions for beef will reach 347 million €/year. At least 62% of this reduction will benefit JBS, Marfrig and Minerva.

BEEF TRADE FLOWS BETWEEN THE EU AND MERCOSUR

We analysed the **EUM-FTA effects on beef trade flows** between the EU and Mercosur. **Two hypotheses** were made to assess those effects, as in the impact assessment study for the French Prime Minister:

- **Hypothesis 1**: Substitution of MFN by new TRQs. In this case, MFN tariffs on imports have been replaced by part of the new TRQ. The rest of the TRQ have been considered as new beef imports from Mercosur. In-quota exports will increase and replace current MFN exports (particularly because the conditions for Hilton quota access were not interesting enough and because the various Mercosur countries have a greater interest in filling the new tariff quota instead of exporting under the MFN regime).

- **Hypothesis 2**: Full TRQs + Maintaining MFN Imports. In this case, MFN imports remain the same. New TRQ have been considered as new beef imports from Mercosur. Medium-term outlooks estimate strong growth in Mercosur beef exports (essentially at MFN duties) to the EU even if EUM-FTA is not implemented. This growth cannot be attributed to the EUM-FTA. It means that the Mercosur countries may fill 100% of the new tariff quota while maintaining at least a part of their MFN exports.

According to those two hypotheses, EU beef imports will increase from +46.2 kt cwe (+23%) to +103.1 kt cwe (+52%) by 2030.

EFFECTS OF THE EUROPEAN CONCESSIONS FOR BEEF ON DEFORESTATION

To estimate the possible impact of the estimated additional volumes on deforestation, it is therefore necessary to consider:

- The area needed to produce the additional number of animals based on the current productivity. This area is calculated by considering the number of animals per hectare, and the carcass weight per animal.

- We have considered a potential increase in productivity: increase in production does not entirely result in an increase in the areas required (total carcass weight produced per hectare is likely to increase due to densification of herds (existing and future), increase in the weight of slaughtered animals, development of intensive finishing in feedlots, etc).

- The pressure on native vegetation. Rates are estimated according to actual pressure on native vegetation by cattle.

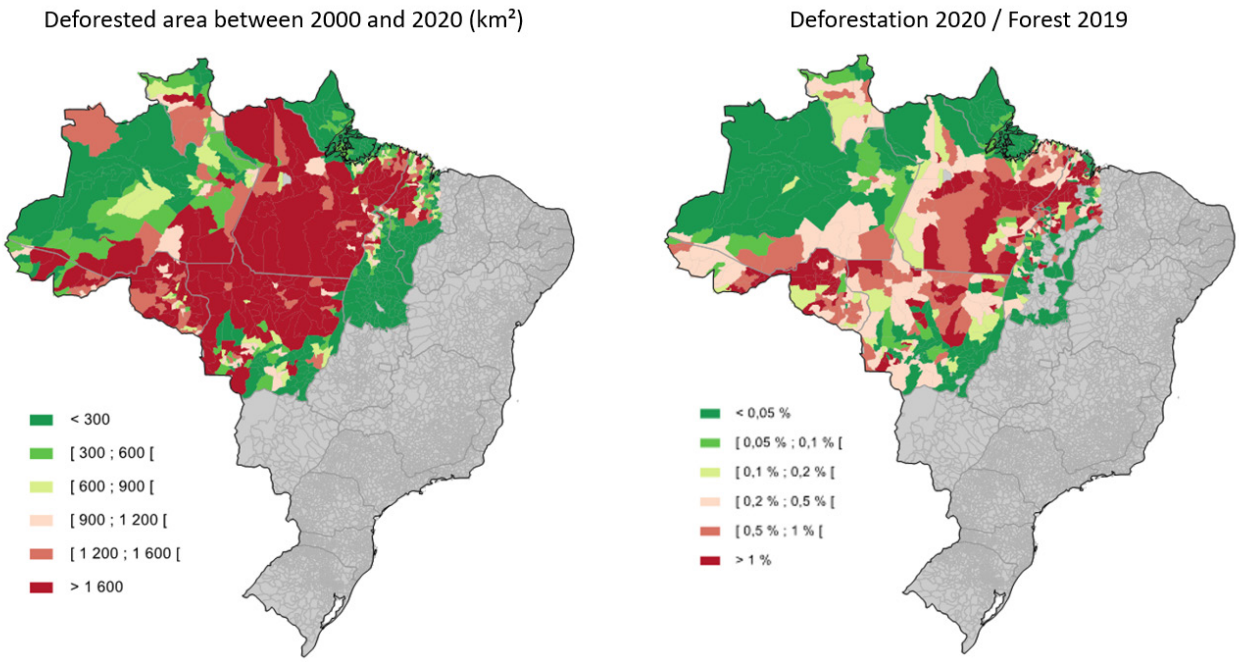
Two rates of deforested areas have been calculated. A total potential deforested area, assuming the only driver of additional beef production comes from the EU export incentive. It considers the additional volume imported (see previously), the estimated full loin and rump productivity per ha, the pressure on native vegetation rate and the rate of TRQ filling. It does not consider the potential additional area needed to produce cattle feed to complement pasture. The additional deforested area is estimated at between 3.18 and 6.49 million hectares, depending on the beef flow hypothesis. The **EUM-FTA's estimated contribution to deforestation** is calculated considering the share of full loin and rump in a carcass that will be exported under the Agreement (=total potential deforested area x 19.5%). The EUM-FTA's contribution to deforestation is estimated at between 0.62 and 1.35 million hectares.

All the results are described in the Beef chapter.

APPENDIX VI: MAPS

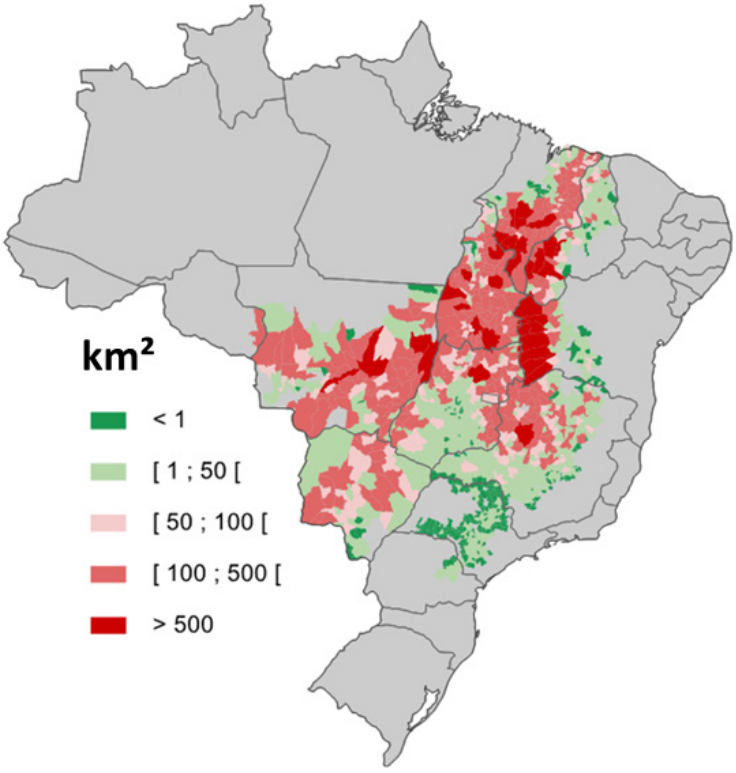
Area of Legal Amazonia deforested between 2000 and 2020 (km²) and latest rate (%)

Source: Idele-GEB according to PRODES/IBAMA



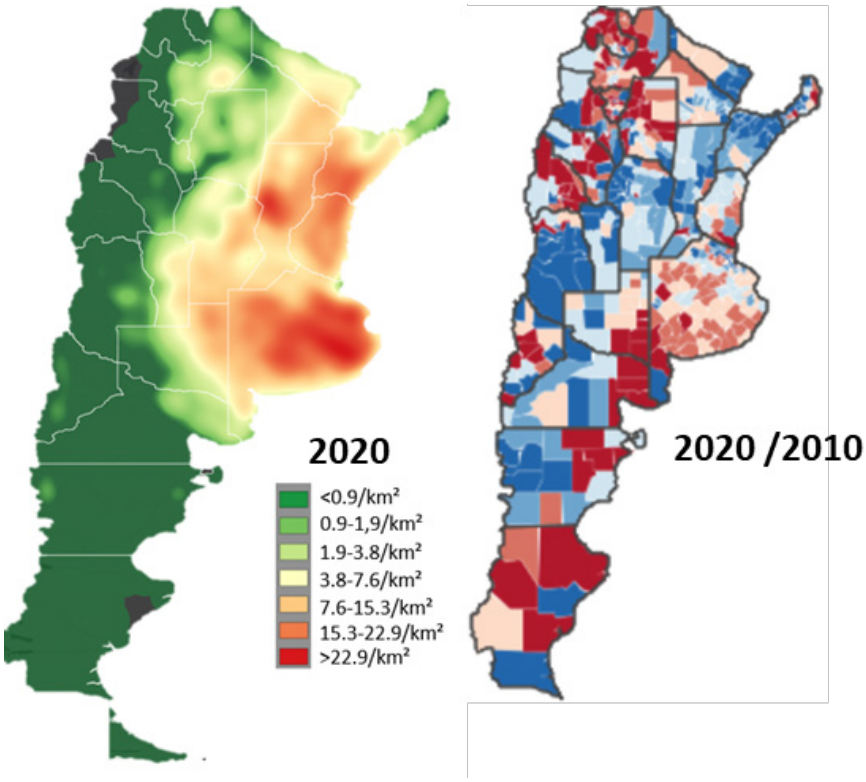
Area deforested in the Cerrado between 2010 and 2021

Source: Idele-GEB according to PRODES/IBAMA



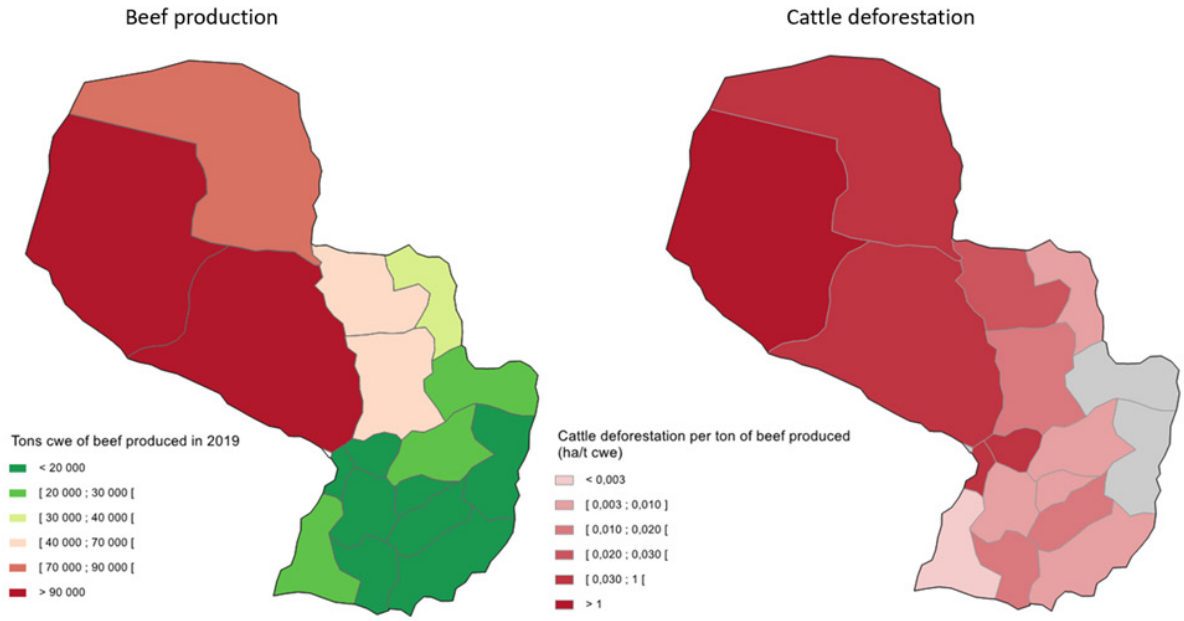
Cattle density in Argentina in 2020 and evolution

Source : Idele-GEB according to SENASA



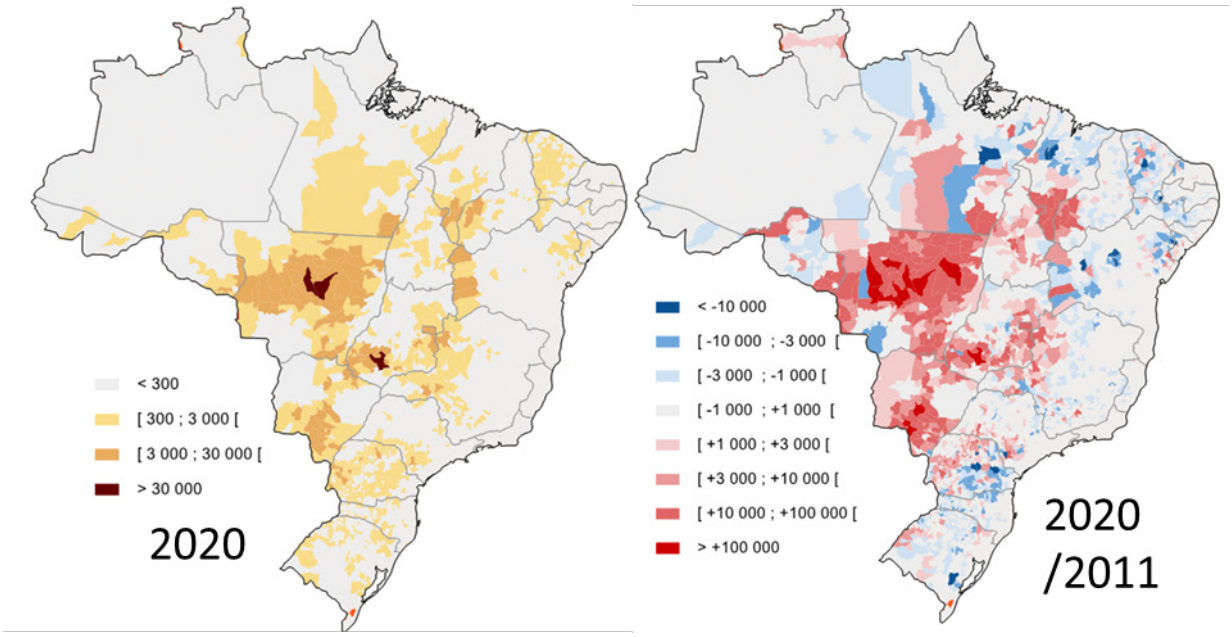
Beef production in Paraguay and cattle deforestation per tonne of beef produced in Gran Chaco (2019)

Source: Idele-GEB according to Trase



Density of corn production per municipality (2020) and evolution (2011-2020)

Source: Idele-GEB according to IBGE



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