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The agricultural impact of an EU-Mercosur agreement

The European Union and Mercosur first opened bilateral negotiations in 1999. The EU-Mercosur agreement signed in Madrid in 2010 breathed new life into the possible political agreement. However, the economic situation of the agricultural sectors in these two regions have changed a great deal since the negotiations first started.

Within Mercosur, Brazil has become an indisputable force on the global market for agricultural produce with a clear will to maintain its position as a net exporter. Agriculture in Argentina is heavily weighted towards the plant sector which has developed a great deal while the beefmeat sector has reduced in size and now focuses on the domestic market. However, one factor which is common to all Mercosur countries is their low level of economic integration.

In the European Union, we are now no longer in a time of guaranteed food security. In order to feed its population, the EU currently cultivates 35 million hectares of land outside its territory.

1 - How to characterise agricultural trade relations between the EU and Mercosur?

- Agricultural trade relations between the EU and Mercosur are already very well developed. With more than €60 billion worth of trade they are well ahead of relations between Mercosur and North America (€30 billion).
- The EU's trade balance has fallen. Mercosur's exports to the EU have gone from €32 billion to more than €43 billion while the EU's exports to Mercosur have fallen from €36 billion to €32 billion.

With a possible agreement, trade in agricultural products between the EU and Mercosur would have a value higher than trade between the EU and its main neighbours.

Will an EU-Mercosur agreement improve food security in the EU?

- Mercosur is already the EU's primary supplier of foodstuffs (representing almost 20% of the total value).
- Almost 80% of beefmeat imported by the EU comes from Mercosur.
- More than 67% of commodities for animal feed imported by the EU come from Mercosur (of which two-thirds are from Brazil alone).

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Brazil supports its agriculture sector, just like Europe

In 2010, the European Union had an agricultural budget of €56 billion for supporting agricultural activity. This support enabled it to in part compensate for the high production standards relating to hygiene, the environment and animal welfare (€39 billion). €4 billion was dedicated to market management measures. Support for rural development came to €14 billion.

For the year 2009/2010, Brazil had an agricultural budget of €47 billion, of which almost €7 billion went to family farming. Almost €3 billion was used to maintain a system of minimum prices for various products. The remainder was used to support investment in irrigation, farm buildings for livestock, recovery of agricultural land and insurance against climate hazards (more than 8 million hectares).

Brazil spends €234 per citizen on the development of its agricultural industry and exports whereas the EU spends €107 per citizen. Brazil is investing aggressively public fund to increase its production in comparison to EU.

Despite this pro-active agricultural policy, the difference in the available on-farm structures does not work in Europe's advantage. 50% of farms in Brazil have less than 10 hectares of land, this figure is 85% in the EU.

Therefore, an EU-Mercosur agreement:

- ***will make European consumers more dependent on political decisions or climatic events in Mercosur countries.***
- ***would not diversify sources of supply for European consumers and would, therefore, not be a guarantee against volatility in commodity prices.***

2- What impact would an agreement have on European agriculture?

For maize:

- According to data from the Ministries of Agriculture in Argentina and Brazil, the amount of maize available for export will be between 23 and 26 million tonnes by 2020.
- Production costs in the cereals sector in Mercosur are less than €80/tonne, but close to €120/tonne in the EU.
- Due to substitution, liberalising trade for cereals would have a direct impact of almost €2 billion. Indirect costs would also be incurred, such as a fall in cereals prices due to strong competition between maize and wheat in animal feed. The effect of indirect costs would be particularly felt during periods of high levels of production in South America with the difference in price possibly reaching €10-30/tonne. The indirect impact of this would be an additional €1-3 billion.

The costs: **€2 billion in direct costs**
€1 billion - €3 billion in indirect costs

For the beefmeat sector:

- Studies of trade at different entry points (Germany, UK and Italy) show that products from Mercosur countries are still more competitive than European products.
- Analyses of the extent to which quotas are filled show that the nobles cuts of meat (filet, entrecote and rump steak) are the first to be exported, followed by other hindquarter cuts such as topside and silverside.
- Production prospects in Mercosur show that its export volume for noble cuts would reach more than 1 million tonnes of high-quality cuts (such as Hilton beef) which would be worth €16 billion.

- In addition to this direct loss, there would also be an indirect effect on the price of beefmeat produced in Europe. This would mean a 30% average reduction with an additional cost of €9 billion.
- Regardless of what possible scenario we consider, European products are not competitive. The only possible variation here could be competition between Mercosur countries for filling quotas of fresh or frozen products.

The costs: €16 billion in direct costs
€9 billion in indirect costs

If the European Union offered 300 000 tonnes at zero duty, this would mean €3 billion in direct costs and €6 billion in indirect costs (due to the consequent fall in the internal price). The total costs would be €9 billion.

For the poultry meat sector:

- Within Mercosur, Brazil is the main exporter of poultry meat to the EU (96% of Mercosur's exports).
- The situation in the poultry sector is more complex as the substitution effect has been felt in recent years between the tariff line for fresh products and products in brine.
- Brazil's export potential for the period 2019-2020 is set to be 6.1 million tonnes (76% more than its current level).
- Price differentials for European prices on the various tariff lines:
  - Slightly negative for frozen products (€0.50/kg) for lines 0201410 and 02072710.
  - Negative for products in brine (around €1/kg) for tariff line 02109939.
  - Very negative for poultry meat preparations and fresh poultry meat: between €1-2/kg for tariff lines 1602 and 02071310.
- Liberalising trade in the poultry sector would most certainly have an impact on fresh products which make up 30% of Brazil's net exportable value. The direct costs would be €2.8 billion. The indirect costs would be €3.1 billion.

The costs: €2.8 billion in direct costs
€3.1 billion in indirect costs

If the European Union offered 250 000 tonnes of poultry meat at zero duty, the cost would be €750 million in direct costs and €1.4 billion in indirect costs.

3 - Other non-tariff issues remain unresolved:

3.1 PRE-LISTING AND REGIONALISATION

Brazil can profit from the so-called "EU system of pre-listing of establishments" when exporting to the EU. However, Brazil does not apply it to EU Member States, increasing the trade imbalance in favour of Brazil. Concerning regionalisation, the Commission has been asking for reciprocity, the more so because the EU has applied regionalisation to Brazil on more than one occasion and for major animal diseases such as foot and mouth disease.

The failure of Mercosur countries such as Brazil to operate an effective traceability system undermines the credibility of any animal disease regionalisation policy and the certification process for beef exports to the EU. With ongoing outbreaks of FMD in South America and no effective traceability and movement controls, the disease risk associated with beef imports from Mercosur countries is unacceptable and unnecessary for the European Union.

3.2 TRACEABILITY

The majority of Mercosur countries do not have a tagging, traceability or movement control system in place for livestock and, as a result, cannot guarantee origin. Most Mercosur countries work with branding as the main means of identification.

In Mercosur countries or states where tagging is attempted, FVO reports have consistently highlighted issues such as the illegal removal or cutting out of tags and the illegal movement of animals.

Where tags are applied, they are usually inserted just prior to slaughter rendering traceability useless.

3.3 USE OF DRUGS

Many drugs, such as hormones and growth promoters, which are illegal in the EU, are used in some Mercosur countries. Other drugs, such as some antibiotics and insecticides, which are banned in the EU, are cleared for legal use in some Mercosur countries with no controls on purchases.

In general, there is no system of recording the use of drugs or monitoring withdrawal period on farms.

As regards pigmeat production, the FVO report shows that Brazilian legislation does not contain rules on pig identification and that control and sampling procedures for the production of ractopamine-free pigmeat destined for EU exports do not cover the entire production chain. While Brazil cannot currently export pigmeat to the EU for food safety reasons, the impact of higher levels of imports of other meats will be extremely detrimental to the pigmeat sector.

3.4 The impact of an EU-Mercosur agreement would make it more difficult to achieve the EU's CO_2 emissions reduction objectives.

According to the results of a JRC study on CO_2 equivalent emissions from beefmeat and poultry meat production, a free trade agreement would represent a total volume of 88 million tonnes of CO_2 equivalent for imports of beefmeat and poultry meat from Brazil including land use change.

If this production of beefmeat and poultry meat took place in the EU, the volume of CO_2 equivalent would be 45.4 million tonnes. Half as much.

Working on the basis of Brazil's request from 2006, the volume of CO_2 equivalent would be 25 million tonnes as compared to 12 million tonnes for the same production in Europe.

Bearing in mind that 85% of CO_2 emissions from European agriculture come from livestock, the EU-Mercosur agreement would give European agriculture even less flexibility for finding a solution to reducing greenhouse gas emissions.

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