



**INSTITUTO DE ESTUDOS DO COMÉRCIO E NEGOCIAÇÕES INTERNACIONAIS  
INSTITUTE FOR INTERNATIONAL TRADE NEGOTIATIONS**

***EU-Mercosur Negotiations on Agriculture:  
Challenges and Perspectives<sup>1</sup>***

**MARCOS SAWAYA JANK (Coordinator)**

President of the Institute for International Trade Negotiations - ICONE

**GÉRALDINE KUTAS**

Ph.D. Candidate at the *Institut d'Études Politiques de Paris, SciencesPo*

**ANTONIO JOSINO MEIRELLES NETO**

Researcher, ICONE

**ANDRÉ MELONI NASSAR**

Researcher, ICONE

**JOAQUIM HENRIQUE DA CUNHA FILHO**

Researcher, ICONE

**São Paulo  
September 10<sup>th</sup>, 2004**

---

<sup>1</sup>. Working Paper prepared for the International Conference Latin America, Brazil and the EU Extended, which took place on September 13<sup>th</sup>, 2004 in Rio de Janeiro. The draft has an extract of the paper prepared for the "Working Group on EU-Mercosur Negotiations" of the Mercosur Chair of Sciences Po, Paris, which was presented on March 29<sup>th</sup>, 2004 in a workshop held at the Faculty of Law of the University of Barcelona, Spain. Comments are welcome and can be sent to [msjank@iconebrasil.org.br](mailto:msjank@iconebrasil.org.br).



**Instituto de Estudos do Comércio e Negociações Internacionais  
Institute for International Trade Negotiations**

**Mission**

ICONE is an independent non-profit organization that aims to develop studies and applied research in order to support international trade negotiations and contribute to a broader integration of Brazil into the world economy.

**Team**

President	Marcos Jank
Executive Director	André Nassar
Public Affairs Director	Maria Helena Tachinardi
Senior Researchers	Mário Jales & Zuleika Arashiro
Junior Researchers	Antonio Meirelles, Joaquim Cunha Filho & Leandro Araújo
Administrative Coordinator	Telma Pereira
Interns	Alejandro Chacoff, Cynthia Marin & Gustavo Sugahara

**Contact Information**

Avenida General Furtado do Nascimento, 740, cj. 81  
São Paulo, SP 05465-070 Brazil

Telephone / Fax: 55-11-3021-0403

[www.iconebrasil.org.br](http://www.iconebrasil.org.br)

[icone@iconebrasil.org.br](mailto:icone@iconebrasil.org.br)

Material in this publication may be reproduced, provided the source is properly acknowledged.

## **TABLE OF CONTENTS**

<b>Introduction .....</b>	<b>4</b>
<b>I. Agricultural Sensitive Products in the EU-Mercosur Negotiations .....</b>	<b>6</b>
<b>2.1 Bovine Meat.....</b>	<b>9</b>
<b>2.2 Chicken Meat.....</b>	<b>13</b>
<b>2.3 Pork meat.....</b>	<b>15</b>
<b>2.4 Sugar &amp; Ethyl Alcohol .....</b>	<b>16</b>
<b>2.5 Fruits.....</b>	<b>19</b>
<b>2.6 Orange Juice .....</b>	<b>20</b>
<b>2.7 Dairy products.....</b>	<b>20</b>
<b>2.8 Cereals .....</b>	<b>23</b>
<b>2.9 EU Offensive Interests in the Agricultural Sector .....</b>	<b>24</b>
<b>II. Impact on Trade of EU Enlargement. ....</b>	<b>26</b>
<b>III. Latest Developments of EU-Mercosur Negotiations.....</b>	<b>28</b>
<b><i>Abbreviations and Acronyms .....</i></b>	<b>30</b>
<b><i>Bibliography .....</i></b>	<b>31</b>

## ***EU-Mercosur Negotiations on Agriculture: Challenges and Perspectives***

*Marcos Sawaya Jank (Coordinator)<sup>2</sup>*

*Géraldine Kutas<sup>3</sup>*

*Antonio Josino Meirelles Neto<sup>4</sup>*

*André Meloni Nassar<sup>5</sup>*

*Joaquim Henrique da Cunha Filho<sup>5</sup>*

### **Introduction**

Negotiations between Mercosur and the European Union (EU) began in April 2000, in the EU-Mercosur Bi-regional Negotiations Committee (BNC). Created by the end of 1999, this committee has been entrusted with conducting bi-regional talks aimed at the conclusion of an Interregional Association Agreement. Negotiations should conclude by October 2004.

Market access for agricultural goods is one of the main issues of the current EU-Mercosur Free Trade Agreement (FTA) negotiations. On the one hand, the EU is a net importer of agricultural products from Mercosur, which has clear comparative advantages in exporting high quality and low priced agricultural products to the Community's market. Table 1 shows that agricultural exports to the EU account for 35% of all Mercosur agricultural exports to the world. Agricultural products represent around 48% of Mercosur total exports to the EU. On the other hand, EU exports of agricultural products to Mercosur are not significant. In 2002, around 700 millions euros were exported from the EU to Mercosur, which represent only 3% of total EU exports to this bloc. Main exports consist in wines, spirits, malt and olive oil.

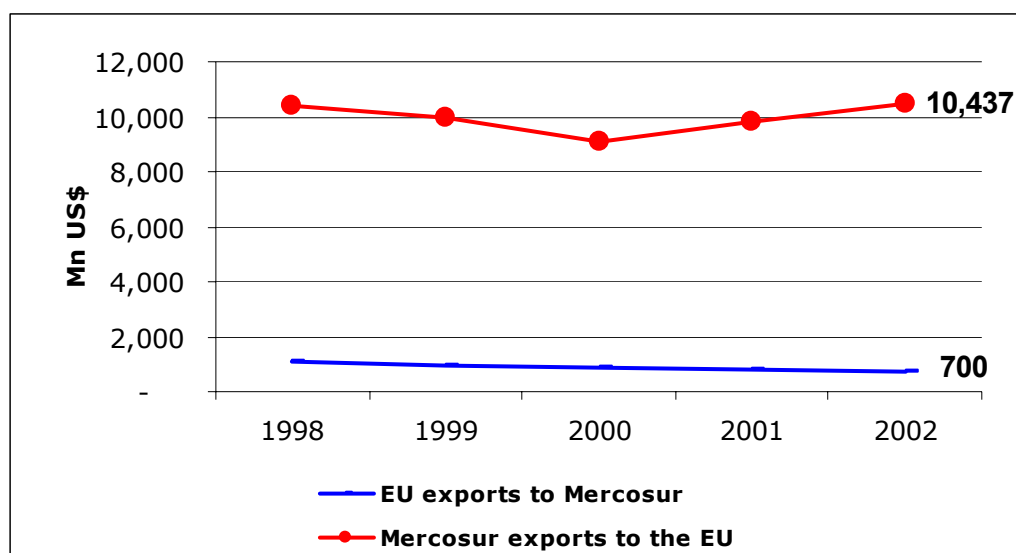
---

<sup>2</sup> President of the Institute for International Trade Negotiations – ICONE

<sup>3</sup> Ph.D. Candidate at the Institut d'Études Politiques de Paris, SciencesPo

<sup>4</sup> Researchers at the Institute for International Trade Negotiations - ICONE

**Figure 1**  
**Evolution of EU-Mercosur agricultural trade flows**



Source: DataIntal, IDB.

Mercosur's strong interest in market access for agricultural products pushes, therefore, the EU to negotiate an ambitious package of market access for agricultural goods. As a result, bi-regional negotiations have been complicated in this area.

**Table 1**  
**Exports of Mercosur agricultural products – 2002**

Mio US\$	Total exports	Agricultural exports to the EU	%
Argentina	11,245	3,422	30.4 %
Brazil	16,910	6,773	40.1 %
Paraguay	770	35	4.5 %
Uruguay	853	208	24.4 %
<b>Mercosur</b>	<b>29,778</b>	<b>10,437</b>	<b>35.0 %</b>

Sources: DataIntal/Brazilian Ministry of Industry, Development and Foreign Trade

In fact, the most competitive agricultural export products originating from Mercosur face substantial barriers to enter the EU market whilst a large number of preferences is offered to several third countries, which are, sometimes, less competitive. These restrictions are usually a consequence of EU domestic policies, such as domestic support to producers. However, high tariffs, restrictive tariff rate quotas (TRQs), minimum entry price, special safeguards and sanitary measures are also applied on Mercosur's competitive agricultural exports.

The Uruguay Round Agreement on Agriculture (URAA) has been a first step towards a reduction of trade barriers and elimination of discriminatory treatment of trade in agricultural products. However, tariffs remain high in the

EU like in many countries. The average level of tariffs is only one aspect of the problem. Many tariff peaks remain and tariff dispersion is still very pronounced.

**Table 2**  
**Average *ad-valorem* equivalent tariffs for agricultural products in the EU and Mercosur**

Tariff Profile	Mercosur	EU
Mean	9.9 %	29.3 %
Median	10.0 %	14.4 %
Standard deviation	5.0 %	40.3 %
Maximum	20.0 %	277.2 %
Minimum	0.0 %	0.0 %
Coefficient of variation	0.51	1.37

Notes:

1. *Ad-valorem* tariffs are calculated as a percentage of the value of goods, which is normally the cost, insurance and freight (CIF).

2. The arithmetic mean is what is commonly called the average and is the sum of all the scores divided by the number of scores. Dispersion is measured through standard deviation, which measures the degree to which a value varies from the distribution means. The median is the midpoint of a tariff schedule's distribution in ascending order of value: half the scores are above the median and half are below the median.

Sources: European Commission and Brazilian Ministry of Industry, Development and Trade.

Subsidies have also received special attention on the EU-Mercosur talks. Despite Mercosur's interest to discuss export subsidies and domestic support in the bi-regional negotiation, the EU wants to push these issues to the multilateral negotiations, at the World Trade Organization (WTO), and stresses that provisions concerning national treatment should not prevent the practice of subsidizing domestic producers, exclusively. According to Mercosur's position, export subsidies should not be applied on bi-regional exports and should be eliminated as soon as the FTA enters into force. Besides, Mercosur wants to discuss mechanisms, such as safeguards, to compensate trade distorting effects caused by the EU domestic subsidies.

In this regard, the failure of the WTO ministerial conference in Cancun in September 2003 postponed any effort to tackle such issues in bilateral negotiations between the two blocs. In addition, the fact that the Free Trade Area of the Americas (FTAA) negotiation is proceeding somewhat timidly weakens the incentives to negotiate an ambitious preferential trade agreement between Mercosur and the EU.

### **I. Agricultural Sensitive Products in the EU-Mercosur Negotiations**

Among all products under negotiation between the EU and Mercosur, some of them ought to be analyzed separately. These products have been classified as "sensitive" because of their importance in EU-Mercosur trade flows as well as of the level of restrictions they face.

This study has identified the 11 products that can be classified as “sensitive” for Mercosur. These products are: meat (bovine, pork and poultry), sugar, ethanol, tobacco, powder milk, corn, wheat, orange juice and fruits.

**Table 3**  
**EU production, consumption and EU-Mercosur trade flows in 2002**

1000 T	Mercosur exports to the world	EU imports from the world	EU imports from Mercosur	EU production	EU consumption
<b>Bovine meat</b>	1,613.0	519.0	397.0	7,408.0	7,552.5
<b>Pork meat</b>	590.0	65.0	0.0	17,825.0	16,666.0
<b>Poultry meat</b>	1,595.0	395.5	230.7	6,850.0	6,410.0
<b>Sugar</b>	13,609.1	2,025.0	57.4	16,153.0	14,088.0
<b>Fuel ethanol*</b>	218.3	86.7	86.7	174.6	261.3
<b>Tobacco</b>	559.0	491.7	128.7	n.a.	n.a.
<b>Powder milk</b>	141.0	87.0	0.0	1,070.0	838.0
<b>Corn</b>	12,544.9	2,715.4	1,799.1	39,450.0	40,800.0
<b>Wheat</b>	9,130.6	12,921.0	51.3	103,894.0	97,100.0
<b>Orange juice</b>	1,055.0	895.5	686.6	n.a.	n.a.

Notes:

1. Ethanol volumes are expressed in million liters. EU imports from the world represent Brazilian exports to the EU according to 2003 statistics.
2. Corn trade flows data refers to corn in grains, but not for seeding.
3. Wheat trade flows do not include *durum* wheat.
4. Brazilian exports of orange juice represent 99% of total Mercosur exports for this product.

\*Volumes in mio liters. Numbers of 2003.

Sources: COMEXT, DataIntal and FAS/USDA

Agricultural products represent around 29 billion dollars of Mercosur exports, of which 35% are exported to the EU. However, Table 3 shows that some of the selected products exported by Mercosur have a very small access to the EU domestic market. Sugar imports from Mercosur lead the ranking: while Mercosur is the first sugar exporter in the world, its exports to the EU represent only 0.4% of total EU sugar consumption.

Even though Mercosur countries – mainly Brazil and Argentina - are net exporters of bovine and poultry meat, imports from these countries represent only 5% and 4% of EU consumption, respectively. These numbers can be explained, in part, by the high import duties charged by the EU for these products, as shown in Table 4. TRQs available to Mercosur products have a very limited capacity, compared to the potential exports from this bloc to the EU. Thus, a significant proportion of Mercosur exports are entering the EU out-of-quota, and face, therefore, very high tariffs. Over-quota tariffs can reach prohibitive levels in the case of sugar and restrictive levels in the case of meat and cereals.

**Table 4**  
**EU tariffs, TRQs and SSGs on sensitive agricultural products**

	MFN tariffs		In-quota tariffs		TRQs	SSGs
	From	To	From	To	Existence of TRQs	Application of Special Safeguards
<b>Bovine meat</b>	98.2 %	176.7 %	20.0 %	135.2 %	x	x
<b>Pork meat</b>	0.0 %	40.4 %	0.0 %	20.2 %	x	x
<b>Poultry meat</b>	93.1 %	94.5 %	0.0 %	73.4 %	x	x
<b>Sugar</b>	138.3 %	198.8 %	0.0 %	46.5 %	x	x
<b>Ethanol</b>	18.2 %	46.7 %	-	-	-	
<b>Tobacco</b>	26.5 %	108.6 %	-	-	-	
<b>Powder milk</b>	62.9 %	91.8 %	-	-	-	x
<b>Corn</b>	84.9 %	84.9 %	45.2 %	45.2 %	x	x
<b>Wheat</b>	71.2 %	71.2 %	0.0 %	0.0 %	x	
<b>Orange juice</b>	12.2 %	15.2 %	-	-		
<b>Fruits</b>	2.4 %	210.9 %	0.0 %	23.3 %	X	

Notes:

1. MFN tariffs are duties applied for products exported over-quota. In-quota tariffs are duties applied on products imported under the quota regime.

2. Table contains only the main tariff lines exported from Mercosur to the EU.

Sources: CAP Monitor, European Commission and Institute for International Trade Negotiations - ICONTE

For the purpose of the negotiation, the EU and Mercosur have presented different proposals for tariff elimination. Mercosur opted for a "less than full reciprocity" approach. According to this proposal, Mercosur imports from the EU would be subject to the following categories of tariff reduction: A- 0 years, B-8 years and C, D, E – 10 years, knowing that mentioned categories would be subject to different levels of reduction. However, Mercosur proposed a different schedule for EU imports from Mercosur, which would have four categories for tariff reduction: A-0 years, B-4 years, C-7years and D-10 years.

On the other hand, the EU has distributed its tariff lines in five categories (from A to E), which should determine tariff reduction periods for both imports from Mercosur and from the EU: A- 0 years, B- 4 years, C- 7 years, D- 10 years and E- not defined. For the EU, the category "E" is a special schedule for a large range of agricultural and processed products, for which tariffs elimination applies only to ad-valorem duties.

The main export products from Mercosur, including meat (bovine, poultry and pork) and sugar were firstly allocated in the list "E". After the Bi-regional Negotiations Committee (BNC) meeting in May, the EU changed its offer and proposed TRQs for such products.

However, an important component of the EU position regarding these TRQs is the proposal of a "two-step approach". This approach means that the EU would offer preferential access to Mercosur sensitive agricultural products through the concession of additional TRQs in two phases. This means that in a "first step" the EU would grant to Mercosur the right to export an additional but limited quantity of product "X" in the framework of the EU-Mercosur agreement. Then, Mercosur would receive in a second step an exclusive percentage of the global offer to be made by the EU to third countries for product "X" in the multilateral round of Doha.

TRQs administration became, therefore, an issue to be negotiated. Since some quotas are controlled by importers, it will be important to observe which are the pros and cons of quotas administration methods for each analyzed products in order to see how this can affect trade flows between the EU and Mercosur.

Because negotiations are usually deadlocked in particular sectors, which are very competitive for Mercosur exports and, thus, very protected by the EU import regime, a broader analysis should be based on a product by product investigation. Some of the selected products are mostly protected through high tariffs and limited TRQs, so a product by product analysis should be carried out concentrating on strategic products that will probably shape the results of EU-Mercosur negotiations.

## **2.1 Bovine Meat**

EU domestic consumption of bovine meat has grown 10% in the year 2001/2002, recovering from the BSE<sup>5</sup> crisis which caused a significant reduction in the bovine meat production and consumption numbers in the EU. In 2002, 5,481 thousand tons were consumed in the EU, representing an additional 3% compared to 2000 pre-BSE crisis level.

Imports from third countries remained stable after the establishment of the URAA. Currently they represent around 6.9% of the EU domestic consumption of which 5% are originated from Mercosur countries, mainly Brazil and Argentina.

Mercosur is a net exporter of bovine meat. However, access to the EU market is provided by a complex system of import quotas, which is the result of different agreements: GATT, Lomé and Cotonou and association agreements with Eastern European countries.

Some quotas with special tariff rates of 20% *ad valorem* are offered for bovine meat imported from Mercosur countries. However, in-quota tariff rates for frozen bovine meat have additional specific duties due to applied administration methods, as shown in Table 5.

---

<sup>5</sup>. Bovine Spongiform Encephalopathy.

**Table 5**  
**Tariffs and TRQs for bovine meat exports from Mercosur (2002/03)**

1000 tons	Country	Total quota volume available	In-quota exports	Over-quota exports	Other <sup>3</sup>	In-quota tariffs	Over-quota tariffs
<b>Frozen</b>	Brazil	53 (GATT) + 38.5 (Reg. A and B) <sup>1</sup>	73.1	5.4	2.2	20 % + 2,000 €/ton for licensing (GATT) 20 % + 2,138.4 €/ton (ITQ-Regime B) 20 % (ITQ – Regime A)	12.8% + 3,041€/ton or 176.7 % (AVE)
	Argentina		11.7	3.6	1.1		
	Uruguay		7.2	3.7	1.1		
	Paraguay		0.0	0.5	0.0		
	Mercosur		92.0	13.2	4.4		
<b>Fresh or chilled</b>	Brazil	65.6 (Hilton beef) <sup>2</sup>	5.0	41.2	-	20 %	12.8% + 3,034€/ton or 98.2 % (AVE)
	Argentina		38.0	5.7	-		
	Uruguay		6.3	1.5	-		
	Paraguay		0.0	0.0	-		
	Mercosur		49.3	48.4	-		

Notes:

1. Frozen Beef quotas are distributed through historical allocation and are, therefore, currently and totally covered by Mercosur countries.
2. Hilton quota was established in 69,100 tons for the agricultural year 2003/2004.

Notes (continued)

3. A volume of 4,400 tons of frozen bovine meat imports originating in Mercosur is exported under the frozen meat quota regime. A major part of these imports are aimed at supplying foreign diplomatic missions in the EU member countries. Under this scheme, Brazil exports 2,200 tons, Argentina 1,100 tons and Uruguay 1,100 tons.
- Sources: COMEXT, WTO, TARIC, Brazilian Ministry of Industry, Development and Foreign Trade

Quotas available for Mercosur bovine meat exports are quite limited compared to the bovine meat export potential of the bloc. Besides, the existing quotas are not available to the Mercosur as whole, which means that these preferences are distributed individually to each country. It is possible to classify at least three import quota regimes, established under the WTO Agreement, which are available to Mercosur countries<sup>6</sup>:

- 53,000 tons (GATT Quota) of frozen bovine meat being imported under a 20% *ad valorem* duty. This quota is mostly covered by Brazil (44,000 tons), Argentina (6,000 tons) and Uruguay (3,000 tons) and is distributed among importers based on the historical allocation method.
- 38,500 tons (Individual Tariff Quota - ITQ) are offered to frozen beef imports intended for processing in the EU and are totally covered by Mercosur exports. This quota is divided into two different regimes (A and B), depending on the final product (A-products or B-products) that will result from this import. Thus a different tariff is applied for each regime: imports under regime A

<sup>6</sup>. All volume measures are shown in Carcasse Weight Equivalent (CWE).

must pay a 20% ad-valorem duty while imports under regime B are supposed to pay the same 20% duty plus a specific rate of €2,138.4 per ton. Of the total volume of this quota, Brazil exports around 28,100 tons, Argentina 6,000 tons and Uruguay 4,400 tons.

- 69,100 tons (Hilton Quota)<sup>7</sup> are offered for high quality meat imports (Hilton beef). This is the only beef quota which is distributed among exporters who are responsible for its fulfillment. License certificates are conceded to importers on a "license on demand" basis. This quota is divided among 10 meat export countries, of which 5,000 tons are offered to Brazil, 38,000 to Argentina, 6,300 to Uruguay and 1,000 tons to Paraguay. Under Hilton quota, Mercosur countries export 49,300 tons together since Paraguay does not use its 1,000 tons quota. The other 19,800 tons are offered to the US and Canada (11,500 tons), Australia (7,000 tons) and New Zealand (300 tons). It is important to remark that the quota offered to meat originating from the US and Canada is not fulfilled due to the high level of hormones incorporated in the meat.

Table 5 shows that considerable improvements can be carried out regarding market access for bovine meat. An over-quota tariff of 176.7% (calculated in % AVE)<sup>8</sup> is currently blocking Mercosur access to the EU frozen beef market. It is also important to take into account that even in-quota exports that face lower tariffs of 20%, suffer from additional specific charges imposed regarding the quota license (€2,000/MT for GATT quota). The quota license payment occurs under an existing "quota market" among importers who can sell their quotas if they are not going to use them. However, the charge is paid by exporters.

Concerning high quality bovine meat, Table 5 shows that, current quotas available for each Mercosur country are very small for Brazil while Paraguay, for instance, does not use its quota due to the country's Foot and Mouth disease problems. Brazil receives only a 5,000 tons quota while exporting 46,200 tons of high quality meat to the EU. On the other hand, Paraguay receives a 1,000 tons quota that is not used. Argentina and Uruguay are filling their quotas and exporting 5,700 tons and 1,500 tons over-quota, respectively.

### ***Other EU Preferences to Third Countries***

Preferences given to third countries, besides Mercosur's, are another concern that should be taken into consideration. Bovine meat quotas with

---

<sup>7</sup> Since 2003, this Hilton quota was increased to 69,100 tons. Before this period, an amount of 65,600 tons was available under Hilton quota.

<sup>8</sup> *Ad Valorem* Equivalent (AVE) tariffs have been calculated as follow: first, an international reference price was adopted based on COMTRADE data, then the value of the tariff was converted into US dollars considering FED's exchange rates for 2002. Finally, tariff value was divided by the reference price adopted. The maximum possible protection was considered.

preferential tariff rates are offered to ACP countries and to Associated Eastern European countries, but they are not filled.

**Table 6**  
**Main preferences for EU**  
**imports of bovine meat in 2002**

<b>Tons</b>	<b>Total Beef exports to the EU</b>	<b>Total quotas offered</b>	<b>Annual increase</b>	<b>In-quota Tariffs</b>
ACP Countries	18,955	52,100	0	92 % less than MFN tariffs
EU applicant countries	18,776	47,070	3	80 % less than MFN tariffs

Sources: CAP Monitor 2003/2004 and FAS/USDA

ACP countries receive a total quota of 52,100 tons, under which they can export bovine meat to the EU paying a tariff 92% lower than the MNF tariff applied. This quota is distributed to Botswana (18,916 tons), Kenya (142 tons), Madagascar (7,579 tons), Namibia (13,000 tons), Swaziland (3,363 tons) and Zimbabwe (9,100 tons). Most exports from these countries are originated in Namibia, Botswana and Zimbabwe. However, according to 2002 statistics<sup>9</sup>, exports to the EU did not exceed 7,000 tons in any of these countries, and represented less than 1,000 tons in the other ACP benefited countries.

Regarding the EU ten Candidate Members from Eastern Europe, an Association Agreement gives them a total quota of 47,070 tons, which is distributed between Hungary (15,020 tons), Poland (19,200 tons), the Czech Republic (3,500 tons), Slovakia (3,500 tons), Romania (4,000 tons) and Bulgaria (250 tons). The mentioned quotas allow imports from Eastern European countries under tariff rates 80% lower than MNF tariffs. Likewise in the ACP countries case, these quotas are not fulfilled. Poland is the major exporter filling 86% of its quota. Hungary comes in second, exporting 3,770 tons, which represent only 25% of its quota. A special mention has to be made regarding the preferences granted to the Candidate Members: an annual increase of 1,365 and 1,600 tons is provided for Hungary and Poland respectively from the year 2003 on.

Besides ACP and Candidate Members' schemes, a 10,500 tons quota is offered to Slovenia. A 3,775 tons quota with an annual increase of 625 tons is also granted to the Baltic States.

<sup>9</sup>. United States Department of Agriculture, USDA.

## **Enlargement**

According to the European Commission previsions, opportunities in the bovine meat market are projected to grow with enlargement. With the accession of 10 new members, it is expected that bovine meat demand will increase in the EU-25. Even though the European Commission calculates that consumption of bovine meat in newly acceded members will decrease by 2% until 2009, production numbers are expected to have a greater reduction of 20%. This scenario is caused mostly by the recent intensification of collective farms privatization, the private farms lack of capital and the intensification of milk production. Therefore, new market shares will be available to fulfill this production deficit. The European Commission calculates that 214,000 tons will be needed to supply new members<sup>10</sup>.

### **2.2 Chicken Meat**

Poultry is another strategic product for the EU-Mercosur trade negotiations. From the URAA on, poultry imports into the EU grew considerably. Mercosur together with Thailand and the ten EU Candidate Members are the main suppliers of the EU domestic market. Imports from Mercosur represent 58% of total extra-EU imports. In fact, Brazil is the main supplier, accounting for 99% of Mercosur's total exports to the EU.

**Table 7**  
**Mercosur chicken meat exports to the EU - 2002**

Tons	Exports to the EU	Available quota volume	In-quota exports	Over-quota exports	% of over-quotas exports from total
Brazil	278,355	7,100	7,100	254,300	91 %
Argentina	3,054	0	0	3,054	100 %
Paraguay	0	0	0	0	-
Uruguay	0	0	0	0	-
<b>Mercosur</b>	<b>281,409</b>	<b>7,100</b>	<b>7,100</b>	<b>257,354</b>	<b>91.4 %</b>

Sources: Brazilian Association of Poultry Exporters (ABEF), COMEXT and the Brazilian Ministry of Industry Development and Foreign Trade.

Table 7 presents the volume of poultry exported from Mercosur to the EU. The 2002 numbers show that 91% of all poultry exports are entering the EU market through out-of-quota regime, which implies high tariffs rates applied on 257,354 tons of chicken meat exported by Mercosur.

Table 7 explains the current regimes for poultry imports in the EU. After the Uruguay Round, four TRQs were created for poultry imports:

<sup>10</sup>. CHATELLIER, Vincent, GUYOMARD, Hervé, LE BRIS, Katell. *Production Bovine: entre économie de marché et politique de territoire*. Déméter 2004. Armand Colin, Paris, 2003. (p67-179).

- 15,500 tons of frozen chicken cuts to compensate the Soybeans Panel. This quota is mostly covered by Brazil (7,100 tons) and Thailand (5,100 tons).
- 6,200 tons of frozen or fresh whole chicken.
- 4,000 tons of frozen or fresh chicken cuts.
- 700 tons of boneless chicken cuts.

From the in-quota preferential scheme, only 7,100 tons are covered by Mercosur (compensation to Brazil regarding the soybeans Panel) and the other imports are being subject to out-of-quota rates, as shown in Table 7. Since Mercosur exports of whole chicken represent only 6% of total chicken exports, the major part of imports from Mercosur have access to the EU market through the payment of a 94.5% (AVE) tariff rate. In 1998/1999, Brazil started to export salted chicken cuts, which were subject to lower tariffs of 15.4%. However, after the publication of the European Commission regulation 1223/2002, salted chicken imports were incorporated into the 0207.14.10 tariff line, which is subject to an out-of-quota tariff of 94.5% (AVE).

TRQs offered for chicken meat are distributed under the "license on demand" method. Nevertheless an additional "past trading performance" requirement may act as a barrier to exports from Mercosur. Likewise for bovine meat, "past trading performance" requirements limit the scope of companies that are allowed to import into the EU.

**Table 8**  
**Current tariffs applied on chicken meat imports in the EU**

	Specific tariffs		Ad-valorem equivalent (%)	
	In-quota	Over-quota	In-quota	Over-quota
<b>Whole chicken</b>	131 €/ton to 162 €/ton	325 €/ton	8.6 % to 16.5 %	33.1 %
<b>Chicken cuts fresh or frozen</b>	93 €/ton to 512 €/ton	187 €/ton to 1,024 €/ton	5.1 % to 27.9 %	94.5 %
<b>Chicken cuts (Soybean Panel)</b>	0	1,024 €/ton	0	94,5 %
<b>Chicken cuts frozen and boneless</b>	795 €/ton	1,024 €/ton	73.4 %	94.5 %

Note: until the publication of EU Commission regulation 1223/2002, Brazilian exports of salted chicken were subject to a 15.4% tariff rate. From the regulation publication on, this product is subject to the 0207.14.10 tariff line code, which is €1,024 /T.

Source: EU Commission

### ***Special Safeguard Measures (SSG)***

The EU applies safeguard measures to some chicken meat exporters, including Brazil. These measures represent an additional duty of around 0.06 euros per kilo on Mercosur exports.

### ***Larger Preferences for Bilateral Agreements***

It is important to note that a majority of preferences given for imported chicken meat in the EU are established in bilateral agreements. Besides the 26,400 tons that the EU offers to chicken meat exporters, around 200,000<sup>11</sup> tons are offered to Eastern European countries (Association Agreement), ACP countries, Baltic States and Slovenia. Actually 94% of these quotas are offered to the Eastern European Countries that will join the EU-15. Nevertheless, these countries do not fill the available TRQs. In 2002, their fill rate remained at 58.7%.

In-quota imports from this countries enter the EU duty-free, except for Slovenia imports, for which chicken meat are supposed to pay tariffs ranging from 0 to 20%.

## **2.3 Pork meat**

The EU swine meat production supplies internal demand and is also exported to extra-EU countries. In 2002, EU domestic production reached 17,825 thousand tons while domestic consumption was calculated in 16,666 thousand tons. As a result, 1,194 tons are exported to third countries and only 65 thousand tons are imported from non-EU members to the EU-15<sup>12</sup>. Thus, total imports from extra-EU countries represent an insignificant part of the EU consumption for this product.

The main suppliers of EU pork meat are East European countries. Likewise for bovine and poultry meat, the EU established a preferential agreement with large import quotas, through which the imports of swine meat take place duty-free. The Candidate Members are, therefore, the EU main trade partners for this sector.

Table 9 shows how large are the quotas offered to Eastern European countries compared to the small quantities available for pork meat imports from the rest of the world.

---

<sup>11</sup>. Source: OFIVAL. It includes chicken meat preparations and whole chickens.

<sup>12</sup>. Source: FAS-USDA.

**Table 9**  
**Main tariffs and TRQs for pork meat in the EU<sup>1</sup>**

	Quota volume (1000MT) <sup>2</sup>	Specific tariffs		Ad valorem Equivalent	
		In-quota	Over-quota	In-quota	Over-quota
<b>Carcasses</b>	15.0	268 €/ton	536 €/ton	17.1 %	34.3 %
<b>Cuts of swine, fresh or chilled</b>	5.5	233 €/ton to 434 €/ton	778 €/ton to 869 €/ton	22.5 % to 30.8 %	45.1 % to 61.7 %
<b>Loins and cuts</b>	7.0	0 %	467 €/ton to 869 €/ton	0 %	27.9 % to 40.4 %
<b>Boneless loins and hams</b>	34.0	250 €/ton	869 €/ton	10.8 %	40.4 %
<b>Carcasses and cuts of swine, chilled or frozen (CEECs and Baltic States)<sup>3</sup></b>	133.1	0	Same tariffs	0 %	Same tariffs

Notes:

1. Volumes established for the agricultural year (from July to June).
2. Does not include TRQs for processed products which totalize 9.100 tons.
3. Only Romania is subject to an in-quota tariff rate of 20%.

Source: CAP Monitor

Trade flows of swine meat between the EU and Mercosur countries are not expressive. Small amounts of 70 thousand tons of processed meat were imported by Argentina in 2002, but nothing was imported by the other Mercosur members since Mercosur's small pork meat production supplies the domestic market in the region.

### ***SPS Requirements***

Since Mercosur is considered a risk zone for pork diseases, such as Classical Swine Fever, exports of pork meat into the EU are currently restricted. Even if some Mercosur regions are already considered as free of risk of Classical Swine Fever, imports from these regions would not be allowed since the EU adopts stricter sanitary standards than those established by the International Office of Epizootics (IOE). Therefore, in order to assess the compliance with SPS standards, the EU could apply a region by region method, to be developed as part of the FTA between EU and Mercosur.

Another problem concerning SPS standards for pork meat is the fact that Mercosur does not have an integrated region of pork meat production, which makes traceability requirements a very difficult task to be carried out.

## **2.4 Sugar & Ethyl Alcohol**

Sugar and ethanol fuel are two important products to this negotiation because Brazil is Mercosur's traditional producer and exporter of both sugar

cane and derived products. Brazil alone produced around 22.5 million tons of sugar in 2002 and exported almost 13.3 million tons in the same period<sup>13</sup>.

In 2002, the EU produced 18.6 million tons of sugar and consumed 14.3 million tons. 5.6 million tons were exported to third countries while extra-EU imports amounted to 2.1 million tons, of which only 57,148 tons were imported from Mercosur<sup>14</sup>.

Production and exports of sugar in the EU are heavily subsidized.. These domestic policies cause important trade distortions in the international market, affecting prices and artificially competing with more efficient producers, such as Mercosur ones. Besides, some preferences benefit less competitive sugar imports coming from ACP countries. These import preferences are benefiting mostly the large sugar producers in the EU and in ACP countries.

Current sugar exports to the EU take place through a quota regime as shown in Table 10. The majority of sugar imports are originating in ACP countries and India. Mercosur has, through Brazil, the right to export 28% of the "Finland quota" for raw sugar. Table 11 shows, however, that even in-quota small volumes exported from Mercosur through Finland quota are subject to a 98€/Ton tariff rate.

**Table 10**  
**Sugar imports by the EU - 2003/03 (1000T)**

<b>Quotas<sup>1</sup></b>	<b>Volumes (1000 tons)</b>
ACP and India	1,304.7
Finland (for refine) <sup>2</sup>	82.0
Special Preferential Sugar <sup>3</sup>	229.0
"Everything But Arms" (EBA) <sup>4</sup>	74.185 (2001/2002)
	197.335 (2008/2009)

Notes:

1. Does not include imported volumes from the Balkans since this quota is suspended.
2. Brazil has 28% of the Finland quota volume which is distributed only to producers from the northeast region.
3. The volume of SPS quota is calculated each year by the European Commission. This quota is allocated in ACP countries and India and is currently duty free.
4. From 2006/07 on tariffs over-quota will be reduced gradually to 0% by 2009/2010.

Sources: CAP Monitor; European Commission.

For raw sugar, over-quota tariffs reach the "prohibitive" level of 170% (AVE), which makes exports impossible. White sugar import tariffs stand at €419T or 140% (AVE), which can be also classified as "prohibitive". Therefore, considering that sugar is a very competitive export product for Mercosur and that sugar industry is one of the main sectors of the Brazilian agriculture, a plausible scenario for the EU-Mercosur trade negotiations should include significant modifications to the EU sugar import regime.

<sup>13</sup>. Source: São Paulo Sugar Cane Agro-industry Union.

<sup>14</sup>. Sources: COMEXT; FAS/USDA.

**Table 11**  
**Tariffs, entry prices and guaranteed prices for sugar in the EU**

	<b>Tariffs</b>	<b>Guaranteed price</b>	<b>Entry price<sup>1</sup></b>
<b>Raw sugar</b>	Intra-TRQ : 0 % for ACP, Special Preferential Sugar and EBA. 98 €/ton. For Finland sugar quota	523.7 €/ton	Not applied
	Extra-TRQ : 339 €/ton (170 %)		
<b>White sugar</b>	419 €/ton (140 %)	631.9 €/ton	531.0 €/ton
<b>Ethanol</b>	192 €/m <sup>3</sup> (64 %) (denaturated) 102 €/m <sup>3</sup> (undenaturated)	Not applied	Not applied

Note:

1. Special Safeguard measures are applied if CIF import prices fall under entry prices.

Source: European Commission

### ***Ethanol Fuel***

It is also important to consider ethanol fuel as a trade-off in the current negotiations. Fuel ethanol is a popular technology mainly used in the Brazilian and US automotive sector as well as in selected European countries. Production of this fuel in Brazil increased to 14 billion liters in 2002. Producers are thus prepared to supply possible demands from the international market. Still very small, the EU's current demand for ethanol fuel is fulfilled by its internal production, mainly in France and Spain, and small quantities imported by Sweden.

However with the adoption of the recent Directive 2003/30/EC, bio-fuels such as ethanol fuel may be required in the EU since Member States are supposed to comply with a target of adding at least 5.75% of bio-fuels in traditional fuels in the market by the year 2010.

**Table 12**  
**Ethanol fuel production and consumption in the EU**

<b>Mio liters</b>	<b>2003</b>	<b>2012</b>
Production <sup>1</sup>	174.6	5,100
Consumption <sup>2</sup>	254.6	6,000
Imports Extra-EU <sup>3</sup>	80.0	900

Notes:

1. Production in 2012 is projected to represent 85% of consumption in the same period.
  2. Consumption in 2003 is the result of production plus imports in the same period. In 2012, the scenario predicted expects that EU will fulfill 50% of Biofuel Directive objectives with ethanol fuel.
  3. EU imports in 2003 represent Brazilian exports to Sweden. In 2012, consumption is calculated by the difference between production and consumption.
- Sources: European Commission; Brazilian Ministry of Industry Development and Foreign Trade; ICONE.

Thus, as shown in Table 12, some projections present positive figures for the expansion of the ethanol fuel market. Nowadays, Mercosur ethanol exports would have difficult access to the EU market since a high tariff of 102€/m<sup>3</sup> is charged turning the product less attractive than traditional fuels.

## **2.5 Fruits**

Access to the fruits market could be considerably improved in the EU-Mercosur negotiation. EU imports from Mercosur represent 11% of total EU imports from third countries<sup>15</sup>. Despite the market access difficulties for the main Mercosur's exportable fruits in the EU, Table 13 shows that elimination of customs duties is seriously considered in the EU-Mercosur talks. Bananas and oranges, however, seem to be the more sensitive products of this sector. Special attention should be paid to bananas since exporters face a prohibitive tariff of 210% (AVE).

---

<sup>15</sup> Source: COMEXT. This includes bananas, oranges, lemons, grapes, apples, pears and apricots.

**Table 13**  
**Tariffs, TRQs and offers for main Mercosur export fruits**

<b>Products</b>	<b>Tariffs</b>	<b>Quotas</b>	<b>EU offer<sup>2</sup></b>
<b>Apples<sup>1</sup></b>	11.2 % + 23.8 €/ton	600 tons	A
<b>Pears<sup>1</sup></b>	10.4 % + 23.8 €/ton	1,000 tons (5 % less than MFN tariff)	B
<b>Bananas</b>	680 €/ton 210 % (AVE)	2,200,000 tons 75 €/ton	E
<b>Oranges<sup>1</sup></b>	6.4 % + 256 €/ton 34.1 % (AVE)	20,000 tons (10 %)	D
<b>Grapes<sup>1</sup></b>	27.6 %	1,500 tons	C

Note:

1. Entry prices

2. EU offer as of May 2004.

Source: European Commission

### ***SPS Requirements***

Both parties should take into consideration the current SPS treatment given to fruit exports from Mercosur. Very strict limits regarding the presence of pesticides and other residues on the peel of exported fruits have been established by the EU. However, some fruits, such as bananas, oranges and papayas, should not be restricted by these rules since the eatable part of the fruit is protected by its peel. Therefore, talks between both parties should include proposals on the facilitation of fruits trade by revising some SPS rules, which are sometimes not necessary.

### **2.6 Orange Juice**

Orange juice is not a product that may threaten or deadlock the results of the EU-Mercosur negotiations. However, it can be considered as a sensitive product if Mercosur's orange juice export potential and the current EU offer for tariff reduction.

Almost the totality (99%) of orange juice imports of orange juice from Mercosur come from Brazil and represent 75% of EU orange juice imports from third countries<sup>16</sup>. Mercosur exported orange juice tariff lines (concentrated juice with Brix value >20 <67), are charged with duties of 15.2% and 12.2% are charged<sup>17</sup>.

### **2.7 Dairy products**

Even though 15% of Mercosur total exports of dairy products to the world are sold in the EU market, Mercosur exports of dairy products to the EU

<sup>16</sup> Source: COMEXT

<sup>17</sup> Source: European Commission.

are very limited, accounting for less than 1% of total agricultural exports from the bloc to the EU. Milk and milk-products account only for 0.70% of Mercosur dairy exports to the EU.

**TABLE 14**  
**Mercosur selected dairy exports – 2002**

	<b>Share in total dairies exports to the world</b>	<b>Share in total dairies exports to the EU</b>
<b>Milk powder</b>	49%	0.15%
<b>Cheese</b>	14.6%	0.5%
<b>Butter</b>	4%	0%

Source : DataIntal

As shown in Table 14, the difference between Mercosur dairy products export performance to the world and to the EU is particularly striking for cheese and milk powder and it illustrates Mercosur interests in securing a more favorable access to the EU market for these products. These trade figures can be partly explained by the level of protection imposed by the EU according to the products. For instance, the EU tariff duty milk powder and cheese oscillate between 71% and 74% and between 24% and 47% respectively. Tariffs applied to these products can reach 91%.

Besides the imposition of high tariffs, many milk products are also subject to TRQs when imported in the EU. Mercosur receives no country-specific quota, it only benefits from the GATT quota granted to third countries. Table 15 shows that in-quota tariffs for Mercosur products are much higher than those applied to CEECs or to ACP countries. Edam is the main cheese exported by Mercosur countries to the EU. No specific volume of import has been allocated to this product; Edam imports take place through a TRQ of 19,100 tons opened to 36 cheese tariff lines. An over-quota of 47.5% AVE is currently imposed on over-quota imports of Edam. In the framework of bilateral trade agreements, the EU has also granted preferential TRQs to selected partners, such as Switzerland and Norway.

The quotas administration method for dairy products is license on demand. However, operators must be approved before they ask for import licenses; this implies the existence of past trading performance. Licenses are transferable once to avoid the accumulation of unused licenses which are not redistributed.

EU imports of dairy products are also subject to numerous and stringent SPS requirements that are often difficult to meet for third countries. Because national standards may be more demanding than international standards (if it is scientifically justified), in many cases the EU sets standards that are higher than, or are not considered in international provisions. This is the case for animal welfare and traceability process for instance. As regards, milk and milk products, SPS measures range from the maximum level of contaminants

authorized in milk products to specific packaging requirements to plants approval by EU authorities.

**TABLE 15**  
**Tariffs and TRQs for selected milk products to the EU**

		<b>Tariffs</b>	<b>Quotas (tons)<sup>1</sup></b>
<b>Skimmed milk powder</b>		<b>In-quota</b>	
	<b>Third countries</b>	47.5€/100kg	68,000
	<b>CEECs</b>	0% <sup>2</sup>	51,015
	<b>ACPs</b>	65% less than MFN tariffs	1,000
	<b>ALL countries</b>	Over-quota 118.8€/100kg	
<b>Butter</b>		<b>In-quota</b>	
	<b>Third countries</b>	94.8€/100kg	10,000
	<b>CEECs</b>	0%	21,615
	<b>ACPs</b>	86.88€/100kg	76,667
	<b>ALL countries</b>	Over-quota 189.6€/100kg to 231.3€/100kg	
<b>Cheese</b>		<b>In-quota<sup>3</sup></b>	
	<b>Third countries</b>	13€/100kg to 106.4€/100kg	83,400
	<b>CEECs</b>	0%	51,165
	<b>ACPs</b>	65% less than MFN tariffs	1,000
	<b>ALL countries</b>	Over-quota 139.1€/100kg to 221.2€/100kg	

Notes:

1. Quotas may be divided in sub-categories of the product.

2. Imports from Slovenia are subject to a 20% tariff.

3. Some of the cheese products imports are not subject to TRQs. The MFN tariff rates they face vary between 6.58€/100kg and 221.2€/100kg

Source: European Commission

Export subsidies are another trade policy instrument that affects international trade of milk and milk-products. Dairy is the EU agricultural category that receives the highest level of export refunds, reaching 1,156.9 millions of euros in 2002 (33.7% of total EU agricultural export refunds). Even though the reduction of EU export refunds for dairies is scheduled, if Mercosur countries liberalize trade in milk products they could face a surge in some EU dairies imports.

## 2.8 Cereals

### ***Maize***

Mercosur is a major maize supplier of the EU with exports accounting for 66% of total extra-EU maize imports<sup>18</sup>.

Two quotas are offered for maize imports into the EU: 2,000,000 tons and 500,000 tons. The first one is available for exports to Spain and will be reduced by any quantity of grain substitutes imported into Spain in the same year. The second one is available for imports into Portugal. Quotas administration is made through "license and demand" criteria, but a requirement of "past trading performance" is also applied, which benefits the importer<sup>19</sup>.

In quota tariffs applied are of 45.2 % (AVE) and over-quota duties are calculated in 84.9% (AVE), representing important restriction to imports.

### ***Wheat***

The EU wheat production is superior to domestic consumption. However, because the EU does not produce in sufficient quantities all the types of wheat demanded by its internal market, the region also imports wheat from third countries. These imports reached 12.9 million tons in 2002. Although Mercosur exports 9.1 million tons of wheat<sup>20</sup> to the world, its share in the extra-EU imports is minor (0,4%).

For extra-EU high quality wheat imports, a very small quota of 300,000 tons is offered at zero import duty. However, over-quota tariffs may reach 75.1% (AVE). Besides "past trading performance" is also required for wheat imports. As regards medium and low quality wheat a maximum annual TRQ of 2,981,600 tons is open. A country-specific quota of 572,000 tons is earmarked for imports originating in the US and 38,000 tons for those originating in Canada. The remainder is split into four equal segments of 592,000 tons each on a quarterly basis, open to other third countries on a first come first served basis. The duty inside the quota is set at 12 €/ton, while over-quota imports are subject to a tariff of €95/ton.

---

<sup>18</sup> Source: COMEXT

<sup>19</sup> Source: European Commission

<sup>20</sup> Source: European Commission

## 2.9 EU Offensive Interests in the Agricultural Sector

### *Wines, Whiskeys and Other Alcoholic Beverages*

Although EU exports of agricultural products to Mercosur are not significant, the EU has some offensive interests in opening market access for transformed products for which external demand stands in the European tradition and "*savoir faire*". Spirituous beverages have an important role in the EU trade balance since they are responsible for 5.5 billion euros of EU's exports to third countries, featuring a positive trade balance of 45 billion euros for this block. Moreover, production of spirits drink involves more than 1.6 billion liters of wine, 2 million tons of cereals and 2.5 million tons of sugar beet and 300,000 tons of fruits<sup>21</sup>.

With exports to Mercosur amounting to approximately 139 million euros in 2002, the wines and spirits trade balance is clearly positive for the EU and this sector represents 20% of EU agricultural exports to Mercosur. Despite being a very important sector in the EU trade with third countries, wine and spirit industries are undergoing through an economic crisis. Thus, the establishment of a FTA with significant improvement in market access for this sector is of great interest of the EU. Mercosur is currently imposing a 20% *ad valorem* tariff on these products<sup>22</sup> and did not classify this product in any tariff reduction category concerning the bi-regional negotiation. EU imports compete with Mercosur domestic production, besides lower priced imports coming from Mercosur associated countries, such as Chile.

Both parties are currently negotiating an agreement on wines and spirits that will address issues such as geographical indications and oenological practices. The EU insistence on geographical indications reflects longstanding grievances among European agricultural producers, who complain that competitors in other countries have effectively stolen many of names and applied them to their own products. The wine trade is especially rife with this practice, with European names such as Bordeaux, Burgundy, Chablis, Champagne and Porto used freely by producers in other countries to promote the sale of wines produced thousands of miles away from the regions that their appellation designate.

Geographical indications are protected at the multilateral level in the WTO TRIPS<sup>23</sup> agreement. All products are covered by Article 22 of this agreement, which defines a standard level of protection. This says geographical indications have to be protected in order to avoid misleading the public and to prevent unfair competition. Article 23 provides a higher or enhanced level of protection for geographical indications for wines and spirits (subject to a number of exceptions, they have to be protected even if misuse

---

<sup>21</sup> Source: European Confederation of Spirits Producers.

<sup>22</sup> Table wines are an exception of Mercosur Common External Tariff. In Brazil, they are subject to a 27% import tariff.

<sup>23</sup> TRIPS: trade-related aspects of intellectual property rights.

would not cause the public to be misled). Among the exceptions that the agreement allows are: when a name has become a common (or "generic") term and when a term has already been registered as a trademark.

In the framework of the EU-Mercosur negotiations, the EU proposes a greater protection for geographical indications than the provisions provided by the TRIPS agreement. The EU proposal suggests eliminating the exceptions (generic, semi-generic, homonyms and trademarks) made by the TRIPS agreement on wines and spirits. However, this agreement has been incorporated into the legislation of the four Mercosur countries. The exceptions constitute therefore a property right granted by law. The cancellation of trademarks will create a legal problem in Mercosur because trademark holders have a private right. They could claim for economic compensation if this right is cancelled and the State would have to bear the cost of such compensation. As a result, Mercosur countries are opposed to any provisions that go beyond WTO TRIPS obligations.

### ***Olive Oil***

Olive oil is one of the main agricultural products of the EU. Actually, this block is the leading world producer, accounting for 80% of the world's olive oil production and consuming 70% of it. Production of olive oil uses around 4% of the EU utilisable areas and approximately one third of the EU farmers are involved in the production of olive oil<sup>24</sup>.

In 2002, the EU exported 34 million euros of olive oil to Mercosur countries, which represent only 6% of the total extra-EU exports for this product. However, the EU is already positioned as Mercosur's main olive oil supplier, representing 79% of total Mercosur imports.

Despite the mentioned importance of olive oil for the EU-Mercosur bi-regional trade flows, few import restrictions to olive oil tariff lines are found in Mercosur. A 10% *ad valorem* common external tariff is charged on imports made by Mercosur members. So far, the block has not allocated olive oil in the established categories for tariff reduction, which shows that an instant liberalization is not probable.

On the other hand, the possibility of trading-off accession for European olive oil exports with accession for other Mercosur's agricultural export products becomes a difficult way to conduct negotiations, since the level of reduction on import restrictions would not be proportional for both parties. However, given the importance of this product for the EU agricultural exports, the allocation of the EU olive oil in a feasible tariff reduction category may become an important point on the overall discussions on agriculture.

---

<sup>24</sup> European Commission. DG Agriculture.

## **Malt**

The EU malt industry is currently expanding in the direction of new markets. The increase of beer consumption in the CEEC has motivated the sector to explore new markets. Currently, malt is one of EU's most competitive export product imported by Mercosur. Due to the growing demand of Brazilian beer industries, the total amount of malt exported to Mercosur represents 11% of total EU malt exports. In 2002, Mercosur imported 215,700 tons of malt from the 4,6 million tons of malt produced in the EU<sup>25</sup>.

Mercosur applies a common external tariff of 14% *ad-valorem* on imported malt. This block also allocated this product on list "D", which implies a period of 10 years for tariff reduction, according to Mercosur's liberalization schedule proposal.

However, efforts to liberalize malt trade between the EU and Mercosur are quite timid from the point of view of EU offensive interests. Since Argentina is an important cereals exporter, the EU stands reticent to the full liberalization of malt flows, despite the fact that this product is one of the few examples of a positive trade balance for the EU in their trade relations with Mercosur. From this perspective, Mercosur's position may progress in the direction of a more liberalize-oriented proposal than EU's.

Furthermore, despite EU interests in the Mercosur malt market, it is possible to find very conservative positions among EU members concerning this product liberalization. France, for instance, clearly pushes to the exclusion of malt – as well as other cereals – from the current negotiations.

## **II. Impact on Trade of EU Enlargement**

Enlargement is another issue that may influence the outcome of the current EU-Mercosur agricultural negotiation. As a result of accession to the single market of the EU, there are likely to be significant implications for trade regimes and trade flows for the majority of the new members. Recent trade developments between the EU-15 and the new Member States show the growing share of the EU in the trade flows with those markets, which already limits or reduces the third countries market shares in Europe. Upon accession to the EU - in 2004 or later -, the applicant countries will apply the EU trade regime towards third countries, starting with conversion of their current import tariff rates to those of the EU.

Changes in European agriculture and trade patterns are expected with EU Enlargement. A number of analyses have been conducted on the impact of enlargement on agricultural markets in the EU. The most recent of these (European Commission, 2003) estimates that cereals and beef exports of the EU (including the 10 CEECs) would increase, with a growing share of these

---

<sup>25</sup> Source: European Commission.

exports coming from the new members. Oilseed imports to the enlarged EU would rise slightly as all import tariffs go to zero. Butter and cheese exports are expected to increase, with both old and new members contributing. Poultry production and exports shift from the EU-15 to the CEEC-10 and the opposite is projected to happen for pig meat, with both slightly declining in exports as a result of enlargement. Most of these likely changes are not too surprising, given the changes in border protection and in market support measures. In addition, most of the Candidate Members have population densities below the EU average and likely a comparative advantage in more extensive production activities. The poultry result is not so intuitive, given that poultry is currently relatively more highly protected and not as technically advanced in most Candidate Members.

As regards tariff changes, various analyses indicate that for most commodities tariff rates will increase when new Member States will adopt EU border protection measures. The share of CEEC imports that come from the South American bloc can indicate the potential impact of these adjustments on Mercosur agricultural exports. For the ten countries expected to join the EU single market in 2004 or later, current agricultural imports from Mercosur countries are still relatively limited. However, imports from Brazil or Argentina have grown up on the very last years. For the Brazilian sugar, beef meat and pig meat sectors some CEECs are already significant export markets. Moreover, one must not underestimate the potential growth of CEECs imports in the future.

To assess the impact of the EU enlargement on third countries exports, some studies have considered current applied tariff rates in the applicant countries to see how far they will have to adjust upon joining the EU. These comparisons are done by looking at the relatively more sensitive and usually often traded commodities. The tariff rate evaluation is made from the main traded items (such as frozen carcasses in the case of meat). Admittedly, these studies overlook some exported commodities important for Mercosur (such as fresh and processed fruits) but nonetheless they permit an evaluation of the enlargement main issues for the South-American Customs Union. They show that most applicant countries (except Poland) will have substantial increases in tariff rates when full members of the EU, for example in the cereals sector. For oilseeds and oil-meals, two applicant countries (Poland and the Czech Republic) that have non-zero tariffs will see rates fall to zero. For white sugar, tariffs in Slovenia and Romania are low relative to the rest of the CEECs and the EU. For beef products, tariff rates in the EU are generally higher than tariffs in the CEECs. In this sector too, most countries will have substantial increases in tariff rates when EU members. In most CEECs there is no difference between tariff rates on carcasses and semi-processed products like boneless beef. For pork carcasses, most countries are relatively close to EU rates, but Poland and Hungary will have substantial reductions. All Candidate Countries, except Slovenia, will experience substantial reductions in poultry tariff rates.

In the cases where import tariffs will rise with respect to third countries, imports from the world markets will probably be replaced by imports from the enlarged single European market. In fact, these trade diversion impact already began, in part with the preferential trade arrangements within the framework of Europe Agreements each Candidate Country have with the EU, including the double-zero lists. But those were relatively limited in scope. One way to view the potential magnitude of this trade diversion is to consider the potential of growth of consumption in applicant countries.

### **III. Latest Developments of EU-Mercosur Negotiations**

Negotiations on the EU-Mercosur FTA reached 2004 with great enthusiasm among the parties. The deadlocks in the multilateral talks together with the timid progress in the FTAA negotiations left few possibilities to Mercosur regarding negotiations of market access for agricultural products. An agreement with the EU became one of the priorities of Mercosur members' foreign policy.

In general, regional agreements have become a good option for countries to pursue market access without undergoing the slow process of multilateral discussions. In the case of EU-Mercosur negotiations, the agreement received special attention as the EU is already a net importer of Mercosur's agricultural exports and the possibilities to increase these flows are substantial. Structural changes are now happening in the EU market, deriving from the accession of ten new members. In addition, the impressive growth of agricultural exports in Mercosur – particularly from Brazil – stresses the relevance to conclude this FTA before 2005.

If a deal is not concluded by the October deadline, negotiations may become more difficult with the constraints of the new members and the complexity of the EU decision making process. Also, the appointment of new Commissioners may lead to a change of orientation concerning the EU's future strategies in trade negotiations.

Indeed, the last meeting of the EU-Mercosur Bi-regional Negotiations Committee (BNC) indicated that it is unlikely that an agreement will be reached in the agreed deadline, despite negotiators efforts. The deadlock is clear: while Mercosur demand an improvement in the EU offer on market access for agricultural products, the EU insists on a better offer on government procurement, investments, services and industrial goods.

In the BNC meetings held in March and April, the environment was still positive, despite EU's poor offer on market access for agricultural products. This situation started to change when the EU signaled its intention to pursue a "two-step approach" proposal for TRQs, linking the bi-regional agreement with the results of the Doha Round. This offer came directly in the opposite direction of Mercosur's interests on a broader opening in agriculture. In addition, the TRQs amounts offered were significantly far from those

demanded by Mercosur and their administration would remain subject to the EU legislation.

Such offer led to the suspension of negotiations in the BNC meeting held in July. The official proposal stated that TRQs would be divided and conceded in parts over the next ten years. Mercosur delegations were frustrated with this offer, pointing out that EU had not improved its proposal on market access for agricultural products. On the other hand, Mercosur was also reluctant to present a better offer on government procurement, considered by the EU as a key trade-off area.

During the BNC meeting in August, negotiations were suspended again, under the threat of a stalemate that could negatively affect all the work accomplished so far. In that occasion, each bloc brought its most ambitious demands to the negotiating table.

EU's demands are mostly concentrated in telecommunications services, maritime services, investment, government procurement, geographical indications, tariffs for non agricultural goods, selected agricultural goods and processed agricultural products (PAPs). Mercosur's ambitions are concentrated on the agricultural products covered in the EU offer through TRQs, non-acceptance of future steps in TRQ concessions, elimination of intra-quota tariffs and tariff preferences for over-quota exports, granting of the administration of the TRQs to Mercosur, and inclusion of certain products in the PAPs list.

Discussions were nevertheless suspended due to a disagreement on the methodology of negotiation, with the EU insisting on an issue-by-issue strategy. Based on such strategy, Mercosur should bring its main demands to the table and only then the EU would propose a specific trade-off.

The recent suspension of negotiations shows that the EU continues to sustain ambitious demands while Mercosur is not open to provide further concessions in the areas of most relevance to the EU. It has to be underlined that Mercosur's acceptance to remove export subsidies and domestic support from the negotiations, as well as to negotiate market access through TRQs, are *per se* a significant concession and should be properly considered in the global trade-off.

The main interests of each bloc as evidenced in the last BNC meeting are not only ambitious but also divergent. This makes harder the construction of a common basis for consensus. The sequence of two suspended meetings has affected the political willingness of both parties, and the negotiating environment does not look very promising for an agreement to be achieved by late October. Therefore, the results of negotiations will depend on the level of commitment of each bloc concerning each of the most important areas under negotiation.

### ***Abbreviations and Acronyms***

ACP	Africa, Caribbean and Pacific countries (71 members)
AVE	<i>Ad Valorem</i> Equivalent
BNC	Bi-regional Negotiations Committee
BSE	Bovine Spongiform Encephalopathy
CAP	Common Agricultural Policy
CEEC	Central and Eastern European Countries
EBA	Everything But Arms Initiative
EU	European Union
FAPRI	Food and Agricultural Policy Research Institute
FTA	Free Trade Area
FTAA	Free Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
GI	Geographical Indication
LDC	Least Developed Countries
MERCOSUR	Common Market of the Southern Cone
MFN	Most-Favored-Nation status
OFIVAL	Office National Interprofessionnel des Viandes, de l'Élevage et de l'Aviculture
PTA	Preferential Trade Agreement
SPS	Agreement on Sanitary and Phytosanitary Measures
SSG	Special Safeguard Measures
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TRQ	Tariff Rate Quota
URAA	Uruguay Round Agreement on Agriculture
US	United States
USDA	United States Department of Agriculture
WTO	World Trade Organization

## **Bibliography**

- Abbott, P., 2001. *Tariff Rate Quotas: Failed Market Access Instruments?* Paper read to the 77<sup>th</sup> EAAE Seminar/NJF Seminar No. 325, August 17-18, Helsinki.
- AMAD, Agricultural Market Access Database. Available on-line at <http://www.amad.org/>.
- Bureau, J.-C., and Tangermann, S., 1999. *Tariff Rate Quotas in the EU*. Agriculture and Resource Economics Review, 29.
- Carfantan, J.-C., 2002, *La Mondialisation déloyale, pour un nouvel ordre agricole et alimentaire*, éditions Fayard, Paris.
- Chatellier, V., Guyomard, H., and LeBris, K. *Production bovine: entre économie de marché et politique de territoire*. Déméter 2004. Armand Colin. Paris, 2003.
- Directorate-General for Agriculture. *The olive oil sector in the EU*. European Commission, 2003.
- European Commission (1999), *CAP reform – A policy for the future*, (<http://europa.eu.int/comm/dg06/publi/fact/policy/en.pdf>). (Accessed November 2001).
- European Commission (2000), *EU Trade Concession to Least Developed Countries, Everything But Arms Proposal, Possible Impacts on the Agricultural Sector*, ([http://europa.eu.int/comm/trade/pdf/eba\\_ins.pdf](http://europa.eu.int/comm/trade/pdf/eba_ins.pdf)). (Accessed February 2004).
- European Commission (2001), *Agenda 2000*, (<http://www.europa.eu.int/scadplus/leg/en/s60000.htm>). (Accessed February 2001).
- European Commission (2002). *Analysis of the Impact on Agricultural markets and Incomes of EU Enlargement to the CEECs*. Directorate General for Agriculture, March.
- European Commission (2003). *Regulation (EC) 1789/2003 of September 11<sup>th</sup> 2003*.
- FAPRI (2003). *FAPRI Analysis of the Commission's Mid-Term Review Proposals*. Published in "Mid Term Review of the Common Agricultural Policy. Impact Analysis", European Commission, Directorate-General for Agriculture.
- FAPRI-Ireland (2003). *An Analysis of the Effects of Decoupling Direct Payments from Production in the Beef, Sheep and Cereal Sectors*. Special report prepared from the Department of Agriculture and Food. FAPRI-Ireland Partnership.
- Gallezot, Jacques. *Real access to the EU's agriculture market*. INRA. Paris, 2003.
- Jank, M. (Coord.). *A reforma da Política Agrícola Comum da União Européia*. Institute for International Trade Negotiations (ICONE), DT 001/2003. São Paulo, 2003.

- Kazlauskiene, N. and W. H. Meyers. 2001. "CEEC Interests and Options in the WTO 2000 Negotiations". Chapter 6 in *Agricultural Trade Liberalization in a New Trade Round: Perspectives of Developing Countries and Transition Economies*, ed. M. Ingco and L. A. Winters. World Bank Discussion Paper No. 418. Washington, D.C. The World Bank.
- Matthews, A. and Laroche Duprazi, C., 2001, *Agricultural tariff rate quotas as a development instrument*, *Economie Internationale* 87, CEPII, Paris.
- Ofival (1991-2003). *Le marché des produits carnés et avicoles (1990-2003)*. Rapports annuels de l'OFIVAL, Paris.
- Ofival. *Les accords du GATT dans les secteurs des viandes et des oeufs : le bilan de l'Union Européenne*. Paris, 2003.
- Working group from the International Agricultural Trade Research Consortium (IATRC). *Issues in reforming tariff-rate import quotas in the Agreement on Agriculture in the WTO*. IATRC, 2000.
- WTO (2000) *Trade Policy Review: European Communities*, 2 volumes, Geneva, World Trade Organization.
- WTO (2000), *Tariff Quota Administration Methods and Tariff Quota Fill*, G/AG/NG/S8. (<http://www.wto.org/WTO/ddf/ep/public.htm>). (Accessed December 2000).
- WTO (2001), *UR: Market access for agricultural goods*, ([http://www.wto.org/english/thewto\\_e/eol/e/wto01/wto1\\_45.htm](http://www.wto.org/english/thewto_e/eol/e/wto01/wto1_45.htm)). (Accessed April 2001).
- WTO (2003). Notification G/AG/N/EEC/42 from the European Communities for marketing year 2001/2002.
- WTO (2003). Notification G/AG/N/EEC/45 from the European Communities for the calendar year 2002.