

EU & Mercosur Trade Agreement: Opportunities and Challenges for Brazilian Agribusiness

Analytical Report

Open Access Document

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Agribusiness



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Executive Summary

WHAT IS THE EU & MERCOSUR AGREEMENT?

Objective

Project to facilitate trade and relations between the EU & Mercosur, which has been an ongoing discussion for +20 years.

Coverage

Tariffs and regulatory issues, including services, government procurement, trade facilitation and intellectual property.

Outcome

Same conditions for competition with other EU free trade agreement partners.

RELEVANT ISSUES TO THE BRAZILIAN AGRICULTURE



Fare Access of Goods

Increase exports of several crops (e.g., coffee, meat, sugarcane) that will demand strategies from associations, companies, and farmers.



Intellectual Property

Rules for geographical indication will impact national manufacturers and will demand innovation from agricultural sectors.



Sustainable Development

Sustainable practices will need to be improved; however, some companies will create a strategic competitive advantage.



Sanitary and Phytosanitary

The need to comply with EU conditions will demand several actions and investments from the Brazilian Government.

UNDERLYING ISSUES AROUND THE AGREEMENT

European Union

EU is facing internal challenges that put its future into question.

Mercosur

Political instability and divergences damage trade bloc sustainability.

Conflict of Interests

Some EU countries are against the agreement due to several reasons.

Ideological Positions

Positions from some governments may damage the advances in the relationship between the trade blocs.

Mercosur and the European Union are among the top 5 largest global economies

Key facts about Mercosur and European Union (EU)



The agreement will create better commercial conditions for international trade between both parties

Mercosur

EU is 2nd biggest trading partner and largest investor



Potential benefits for agri-food chains from Mercosur (specially Brazil's)



EU & MERCOSUR AGREEMENT

Coverage

Tariffs and regulatory issues, including services, government procurement, trade facilitation and intellectual property

Meaning

Same conditions for competition with other EU free trade agreement partners

Other Benefits

Recognition of products such as "Cachaça", cheese, wine and coffee, that are distinctive from Brazil



European Union

MERCOSUR is 8th largest non-regional trading partner

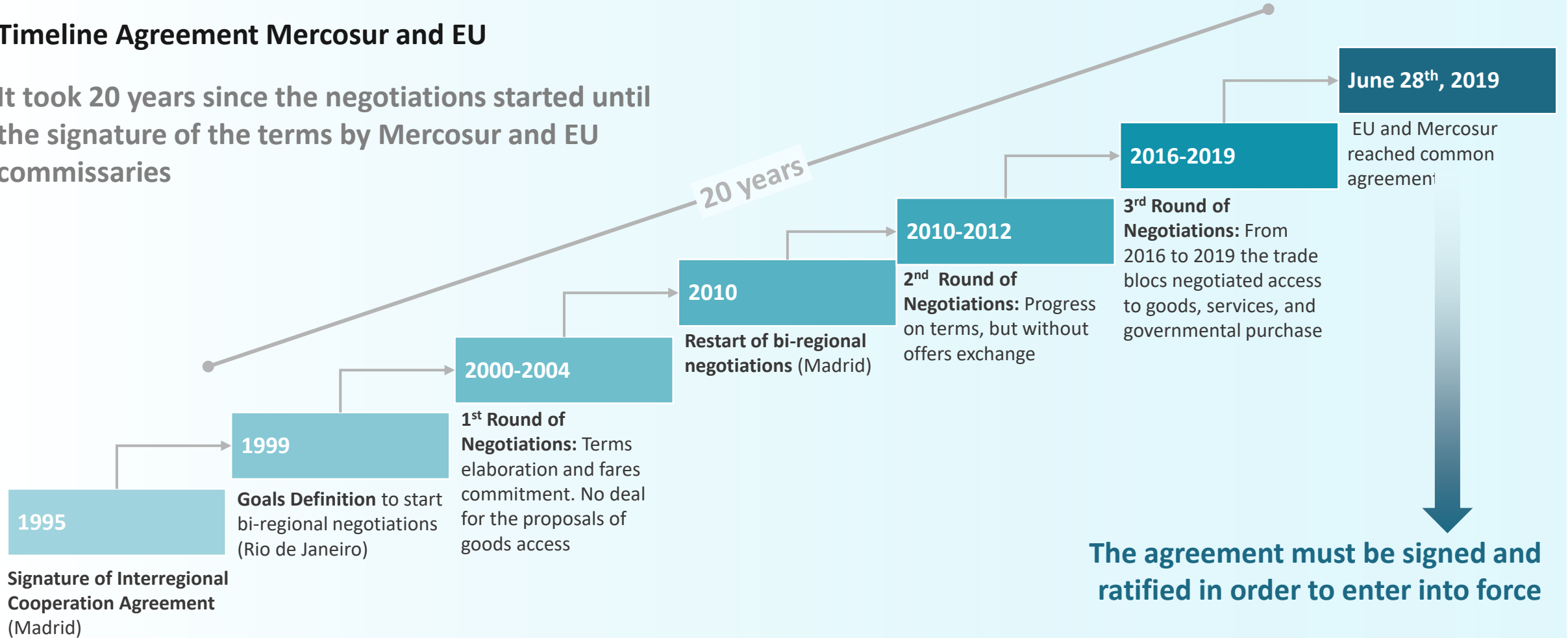


Potential benefits for industrialized products from EU

The negotiations to reach a common ground took several years, however, some decisions still need to be made

Timeline Agreement Mercosur and EU

It took 20 years since the negotiations started until the signature of the terms by Mercosur and EU commissaries



The agreement regulates different issues, some of them directly linked with agri-food markets

Major themes in the agreement

Most relevant themes to Brazilian agriculture are highlighted



 Fair Access of Goods	 Sanitary and Phytosanitary	 Commercial Protection	 Bilateral Safeguards	 Trade in Services and Establishment
 Intellectual Property (GIs¹)	 Small & Medium-Sized Enterprises	 Transparency	 Concurrency Defense	 Institutional and Legal Themes
 Rules of Origin	 Technical barriers to trade	 Trade in Wine and Spirits	 Customs and Trade Facilitation	 Governmental Purchases
 Regional Integration	 State-owned Companies	 Subsidies and Dialogues	 Sustainable Development	 Controversy Solutions

Most relevant themes to Brazilian agriculture



Fair Access of Goods

The agreement removes or reduces some tariffs and increases the quota for agricultural products imports, giving more competitive advantages to some agri-food chains



Intellectual Property

The agreement establishes that countries must implement mechanisms to protect the misuse of GIs, that is, products whose quality is related to the geographical origin



Sustainable Development

The agreement considers Paris Climate Agreement and International Labor Organization standards as rules to be followed by countries in order to keep the partnership solid and lasting



Sanitary and Phytosanitary

The agreement determines the equivalence of World Trade Organization Sanitary and Phytosanitary (SPS agreement) for all countries, eliminating unjustified barriers to trade between the parties

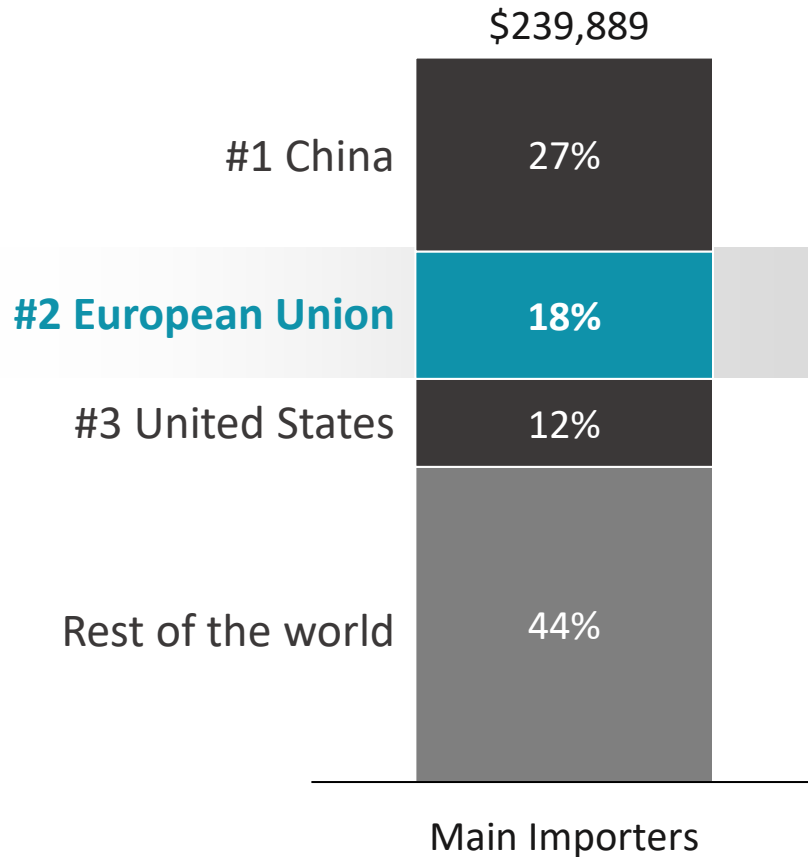


Fair Access of Goods

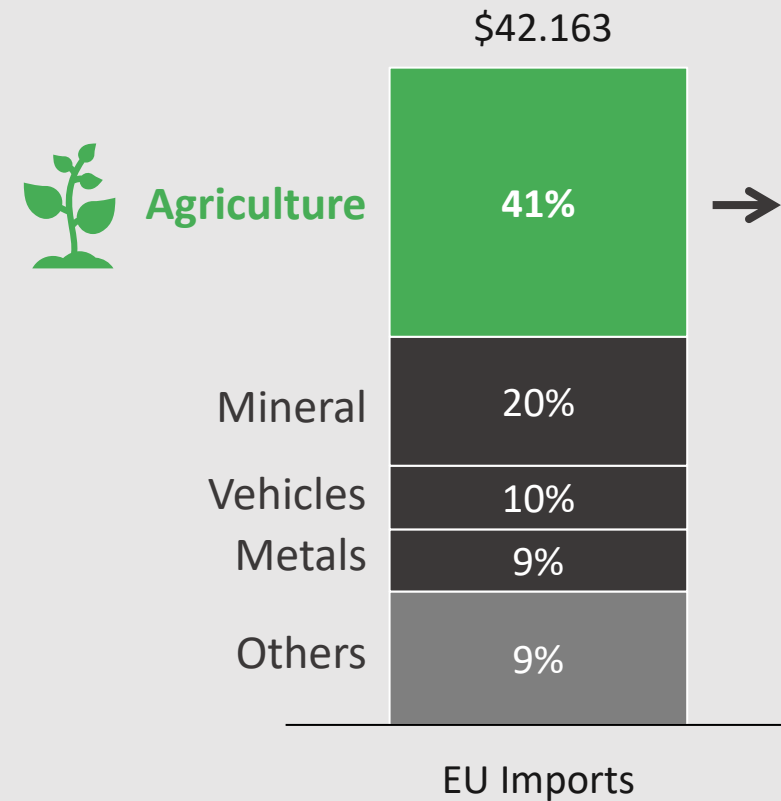
The agreement removes or reduces some tariffs and increases the quota for agricultural products imports, giving more competitiveness for some agri-food chains

The ag-products on the agreement cover a significant portion of the agriculture EU imports from Brazil

Brazil international trade in 2018
US\$ million, % of total value



Main product sectors from EU imports in 2018
US\$ million, % of total value



→ $\sim \frac{1}{4}$
comes from the products that are covered in the European Union–Mercosur agreement

The agreement establishes three categories of changes in import tariffs and quotas, that will be gradually implemented

Types of review

FREE TRADE

Products that had their import tariffs eliminated at the beginning of the agreement or gradually over 4 to 10 years.



LARGER ACCESS

Products that had their access increased by reviewing import quotas and tariffs, at the beginning of the agreement or gradually over 4 to 10 years.

MIXED TREATMENT

Products that their access will depend on conditions, such as price or type of products.

Brazil has 7 strategic products contemplated in the agreement that will be reviewed

Products considered in the EU-Mercosur agreement

Only products that Brazil is among the top three global producers








Commodity products	Category of agreement	Rank in production
Coffee	Free trade	1 st
Tobacco unmanufactured	Free trade	1 st
Orange juice	Mixed treatment	1 st
Poultry	Quota	1 st
Beef	Quota	3 rd
Sugar	Quota	1 st
Ethanol	Quota	2 nd

Other products from the agreement not covered in this report:

- *Free trade:* Tobacco Manufactured; Vegetable Oils and Others; Avocados; Watermelons; Melons; Lemos and Limes; Fish, Crustaceans and Others; Apples; and Grapes
- *Mixed treatment:* Cachaça
- *Quotas:* Sweet Corn; Eggs; Derivate from Eggs Meat of Swine; Honey; and Rice



Being the biggest partner to EU, Brazil tends to capture the major part of benefits from the agreement in key products (more data in the appendix)

Commodity products	What changed?	Key Facts to Brazilian Agriculture ¹
 Coffee	0% tariff in 4 years	Brazil is the top exporter globally and export 25% of EU demand. Other Mercosur countries together export only 10% of EU demand.
 Tobacco unmanufactured	0% tariff in 7 years	Brazil is the top exporter globally and export 23% of EU demand. Other Mercosur countries together export only 4% of EU demand.
 Orange juice	0% tariff in 7-10 years for prices greater than €30/100kg; conditions are different for prices below €30/100kg ²	Brazil is the top exporter globally and export 89% of EU demand. Other Mercosur countries together export less than 1% of EU demand.
 Poultry	0% tariff and additional quota of 180 thousand tons CWE (50% boneless; 50% bone in) phased-in over five years	Brazil is the top exporter globally and export 40% of EU demand. Other Mercosur countries together export 15% of EU demand.
 Beef	7.5% tariff and additional quota 99 thousand tons CWE (55% fresh; 45% frozen) phased-in over five years; and 0% tariff and additional quota of 10 thousand tons CWE from Hilton Quota immediately	Brazil is the one of the top 3 global exporters and export 25% of EU demand. Other top exporters to EU are Argentina (26%) and Uruguay (18%).
 Sugar	0% tariff and additional quota of 180 thousand tons immediately	Brazil is the top exporter globally and export 16% of EU demand. Other Mercosur countries together export 13% of EU demand.
 Ethanol	0% tariff and additional quota of 450 thousand tons of industrial ethanol immediately; and 1/3 of the tariff (€6.4 or €3.4) for ethanol for other uses in 5 years	Brazil is the one of the top explorers globally and export 12% of EU demand. Other Mercosur countries together export 13% of EU demand

Strategic implications for the key products (1/2)

Strategic issues to Brazil



Coffee

- Coffee chain (associations and cooperatives) need to increase the aggregated value of the coffee (e.g., brand – similar case with Colombian coffee).
- The coffee chain should improve market access strategies (e.g., direct access, digital channels, and relationship with key buyers), invest to develop National brands, and invest in innovative product presentations (e.g., packages).
- Brazilian coffee image is already strong overseas, being an opportunity to improve the National brand when exporting either raw and roasted coffee.



Tobacco Unmfd¹

- Positioning of Mercosur tobacco production as a high social impact activity: focus on small farmers, source of additional income, associative/cooperatives involvement, and regional impacts.
- European industries pay premium prices for tobacco; therefore the agreement is an opportunity for capturing value by exporters.



Orange Juice

- Need to share a positive image of the chain, even considering the concentration of players and the Brazilian production dominance.
- Industry needs to focus on positioning and benefits of orange juice in order to promote consumption.
- With the reduction on the final cost, orange juice can be a more interesting option as an input for other beverages that traditionally use other inputs.
- Establish partnerships with importers in order to improve packaging design and attractiveness.

Strategic implications for the key products (2/2)

Strategic issues to Brazil



Poultry

- Improve chain organization to consolidate Brazil as a reliable supplier: quality, volumes, product diversification, standards, environmental and social issues.
- Invest in more value-added products and branding, to access high-value markets and differentiate Brazilian products.
- Communicate valuable attributes of the chain, invest in local campaigns, and participate in fairs and events.



Beef

- Meat industry will need to comply with key sustainable practices to compete in the European Market.
- Hilton quota presents as key opportunity for some producers, if they meet the required levels of quality.
- Invest on more value-added products and branding, to access high value markets and differentiate Brazilian products.
- Communicate valuable attributes of the chain, invest on local campaigns, and participate on fairs and events.



Sugar

- RenovaBio* creates incentives related to the European environment policies and companies can take advantage of some benefits (e.g., carbon credit).
- Tariffs reductions tend to make sugar cane more competitive, possibly substituting beet sugar.
- The sugarcane chain must have better communication with EU society, emphasizing economical, social, and environmental relevance of the chain.



Ethanol

- RenovaBio* creates incentives related to the European environment policies and companies can take advantage of some benefits (e.g., carbon credit, biofuels).
- Explore niche markets of ethanol use (e.g., beverages, cleaning, and cosmetics), considering the replacement of European car fleet to electric cars (potential reduction of fuel consumption in the future).
- Invest in R&D for ethanol as a possible alternative of input for hydrogen charging cells.



Intellectual Property

The agreement establishes that countries must implement mechanisms to protect the misuse of GIs, that is, products whose quality is related to the geographical origin

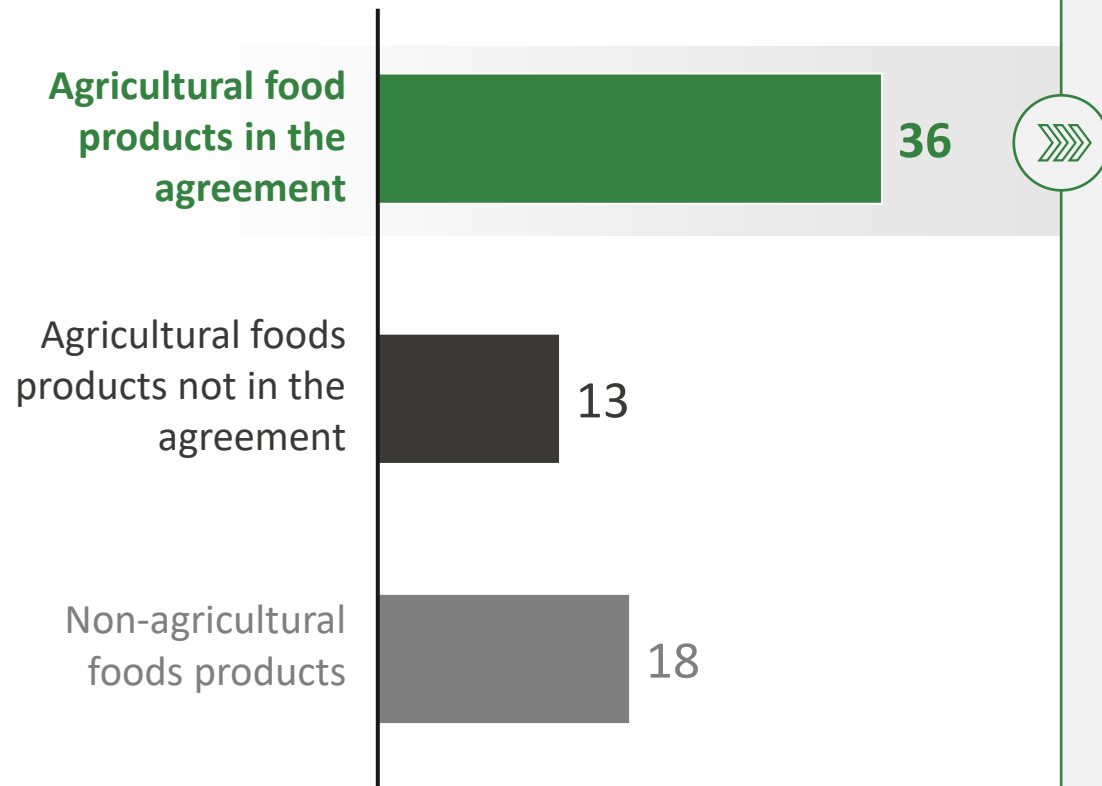
Brazil has some products that are already registered as geographical indications...

Intellectual Property – Geographical Indications (GI)



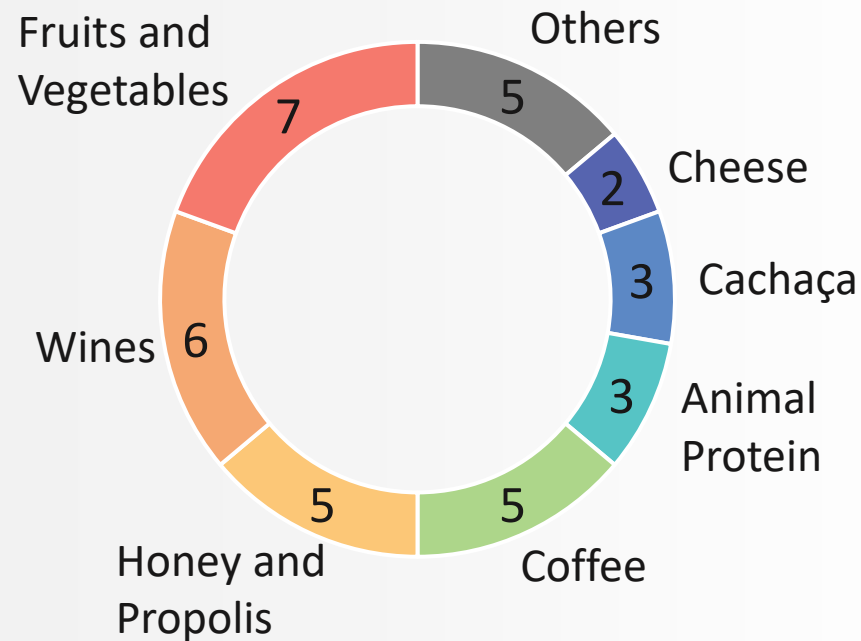
Brazilian GI products in 2020

types of products



Main GI products in the agreement

types of products



Some brand terms that originated in European countries will have an adjustment period. However, in the future, these terms will be **completely forbidden for products not manufactured on the state of origin.**

Known examples include Roquefort, Gorgonzola, Champagne, and Cognac.

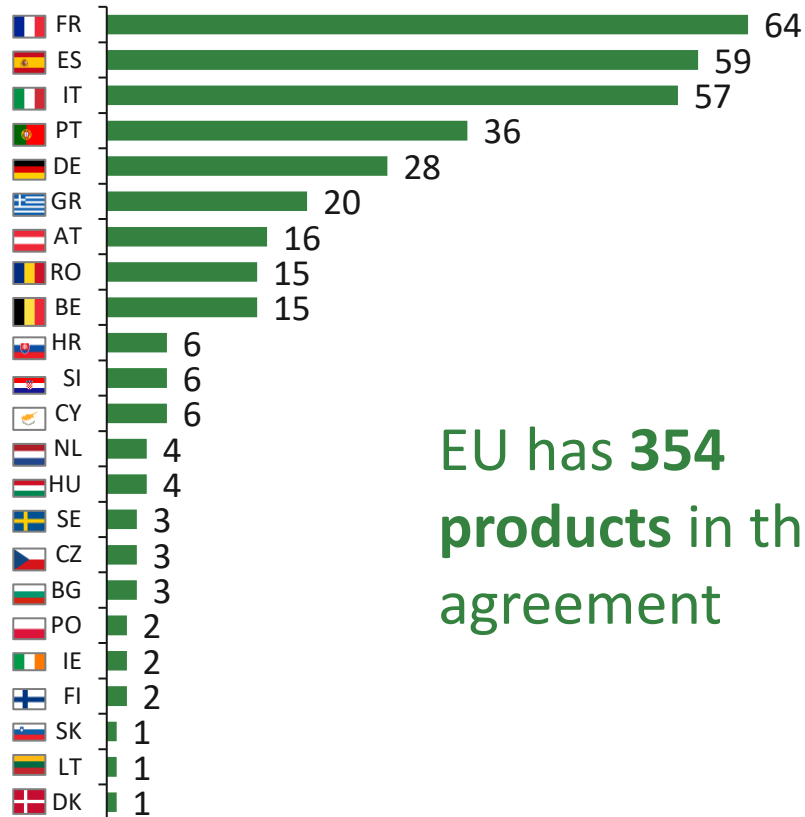
... however, EU has far more products that will restrict the usual name of products employed by the Brazilian industries

Intellectual Property – Geographical Indications (GI)



EU GI products in 2020

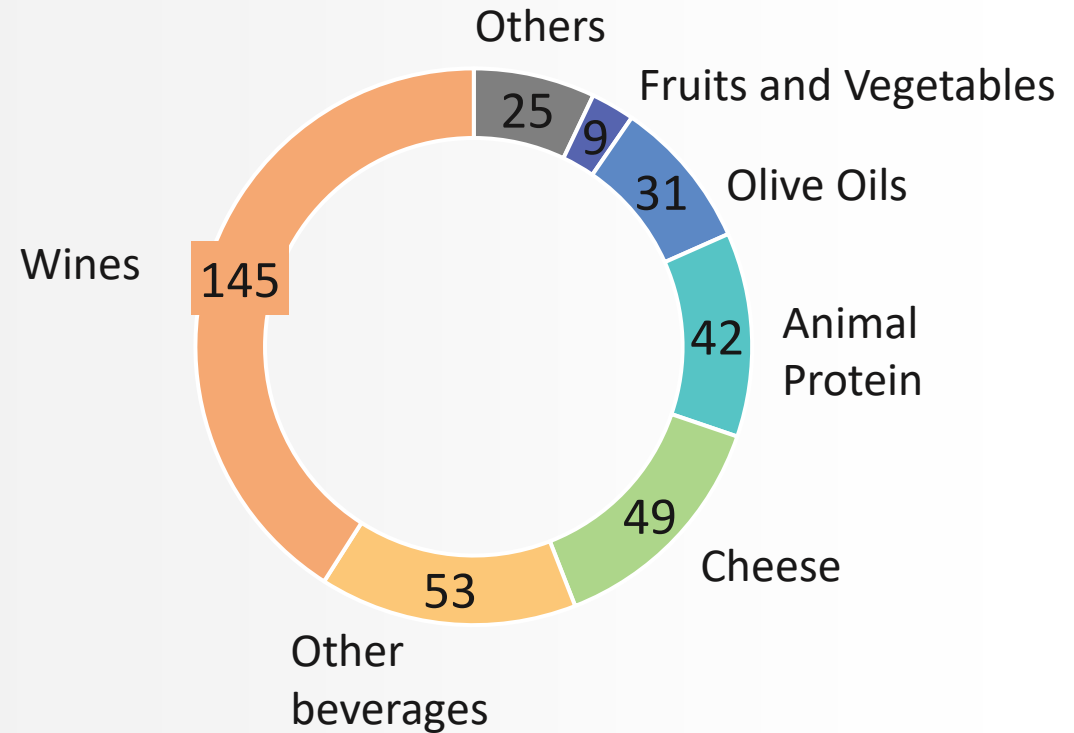
types of products



EU has **354** products in the agreement

Main GI products in the agreement

types of products



Agreement benefits products in which Brazil is already recognized as producer, while regulation will be necessary for foreign products

Strategic issues to Brazil

Increase Regulation

The country will need to create a public mechanism of enforcement in order to protect European GIs, considering this is a private process, supported by producers' associations.

Challenges vs. Opportunities

Companies and producers will need to adapt in order to overcome the prohibition of using the terms that are already inserted in Brazilian culture, like “Roquefort cheese”. The protection of the terms can be an opportunity of a new market for less known Brazilian products, like “Canastra cheese” and Brazilian wines.

Limited Benefits

Animal proteins, cheese and wines chains may be less benefited by the agreement, considering the tradition of European countries on these products.

Recognized Products

Coffee, Cachaça, and Fruits & Vegetables chains may be benefited by the agreement, considering Brazil is already recognized by the quality of these products and the low level of competition with European producers.

Premium Prices & Brands

Brazilian GIs chains tend to be benefited by the capture of premium prices with the selling of a product in Europe, considering the GI concept is already mature in European countries, mainly the more developed ones.





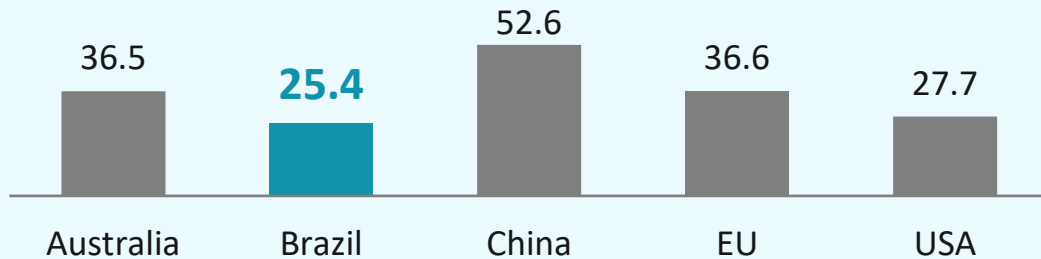
Sustainable Development

The agreement considers Paris Climate Agreement and International Labor Organization standards as rules to be followed by countries in order to keep the partnership solid and lasting

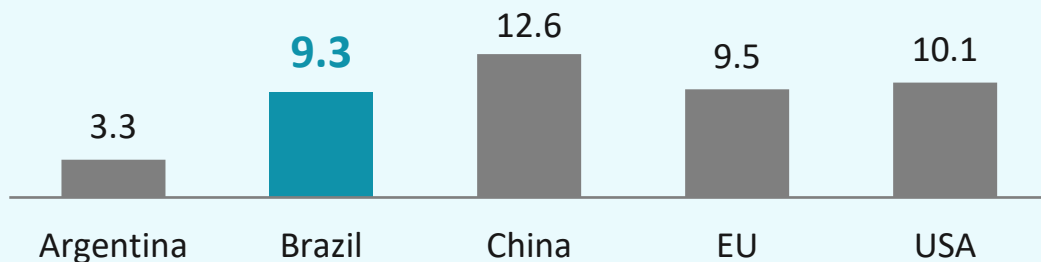
Brazil has been achieving a significant position in key indicators of sustainable development

Brazilian agriculture, in relative unit, produce less harmful emissions, compared to other countries...

Gas Emissions in 2017 - Enteric Fermentation per Cattle Head Gigagram/head

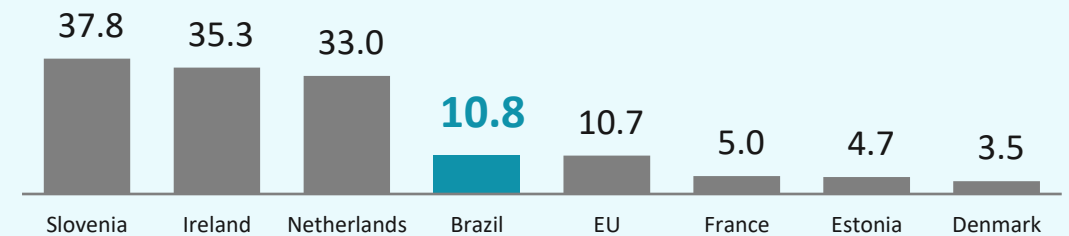


Gas Emissions in 2017 - Synthetic Fertilizers per Harvested Area Gigagram/hectare

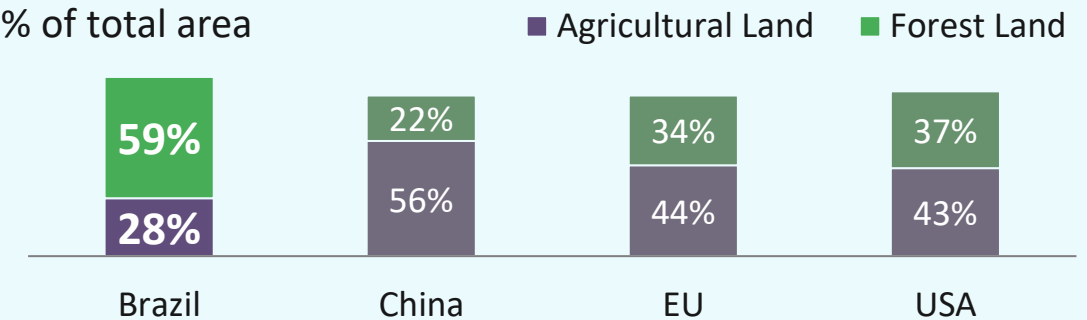


... and has good indicators in terms of agriculture labor and percentage of forest land

Agricultural Labor in 2017 Employees/100 hectares



Land Usage in 2017 % of total area



Sustainable issues include labor conditions and environmental protection, with focus on gas emissions and deforestation reduction

Strategic issues to Brazil

Improvement in Practices

Sustainable practices are already mandatory for some suppliers when exporting to the EU. To become more competitive these suppliers will need to invest further in sustainable practices.

Image of Brazilian Ag

Part of the strategy that must be adopted by government and associations consists of communicating good practices and sustainable achievements already developed by farmers and chains, in order to reduce the wrong image that is constantly spread about Brazilian agribusiness.

Improvements can be made

Some sustainability aspects still need to be addressed, especially those related to the increase of illegal deforestation and the bad conditions of some labor on agricultural and livestock production.

Advantage for Companies

Small and medium companies that comply with the agreement standards can create a competitive advantage over large companies.

Technologies Improvement

Brazil has developed agricultural and livestock technologies in order to pursue the achievement of environmental goals, especially concerning the topics included in the Paris Agreement and International Labor Organization standards. In some areas, Brazilian agribusiness indicators are more positive than most developed countries.





Sanitary and Phytosanitary Measures

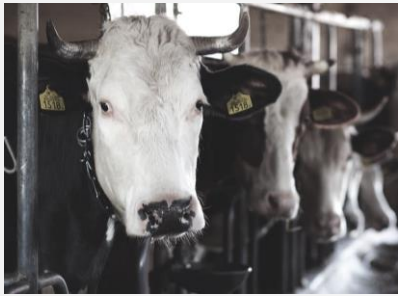
The agreement determines the equivalence of World Trade Organization Sanitary and Phytosanitary (SPS Agreement) for all countries, eliminating unjustified barriers to trade between the parties

Brazil has invested in key areas to improve sanitary and phytosanitary conditions of Brazilian agriculture...

What is Brazil doing?

NON-EXHAUSTIVE

Examples

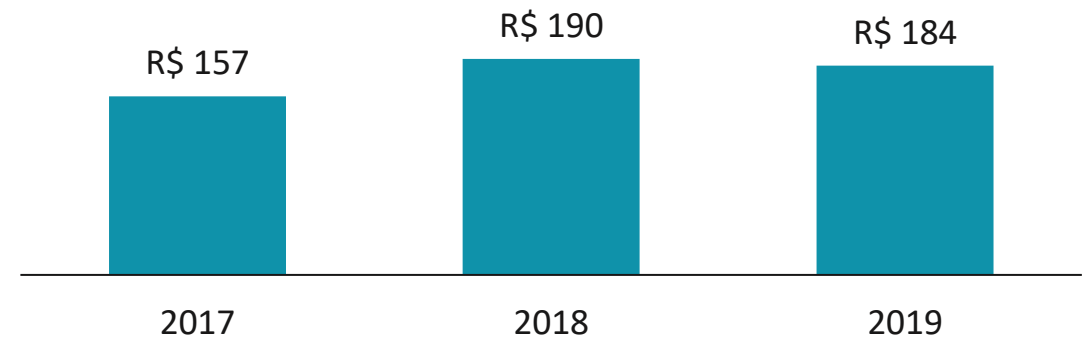


Since 2018 Brazil is considered a **foot-and-mouth disease-free area** by animal vaccination, while Santa Catarina state is considered **free without vaccination**.



Since 1995, Brazil has a **specific governmental agency to inspect agri-food products** and grant the seal that authorizes exportation to other countries.

Expenditures agricultural defense secretary R\$ million



~2,700 active inspectors working in the areas of auditing and inspection, from the manufacture of inputs (e.g., vaccines, feed, seeds, fertilizers, pesticides) to the final product (e.g., juices, soft drinks, alcoholic beverages, vegetable products, dairy products, eggs, honey, and meats).

... however, the country still needs to review some indicators and keep investing in strategic areas

Strategic issues to Brazil

Inspection

The number of inspectors is not sufficient for the number of establishments and situations that need to be audited, the lack of government investments in this area can increase the risk of non-complying practices and significantly damage Brazilian agriculture image internationally (e.g., operation “Carne Fraca”).

Regulations and Bureaucracy

Review relevant processes and normatives to guarantee sanitary measures with speed and corrective actions, also updating and proposing practices and benchmarks. Care about transaction costs and excess of paperwork by digitalizing possible requirements, and activities, for example.

Incentives and Insertion

The government should invest in communication and organization of agents to train small growers in order to support them in reaching international standards. This will increase their access to the opportunities brought by the agreement.



Despite of the benefits of the agreement for both trade blocs there are risks that can derail the agreement

Potential risks...

... coming from EU

EU has been facing relational conflicts between members since its creation. The last ten years exposed the fragility of fiscal control of some countries (e.g., Greece), antagonistic concepts about migration, and the Brexit. While some countries try to strengthen the bloc, others are showing a significant emergence of anti-integration parties and leaders.

... coming from Mercosur

Mercosur faces problems of internal conflicts between members. Ideological dilemmas and political instability of the members present risks for maintaining the trade bloc and jeopardize the interest of some countries in strengthening the partnership (e.g., Argentina exiting trade talks with Mercosur).

... of conflicting Interests

The EU – Mercosur agreement clearly privileges Mercosur agri-food and EU industrialized sectors. However, agribusiness is also a relevant sector for some European countries (e.g., France and the Netherlands), which have presented several arguments against the agreement in order to protect their local farmers.

... from divergent ideological positions

In the last few governments, Brazil has shown inconsistent international policies and some heads of states have assumed questionable positions that can harm the interest of the EU Parliament in moving forward with the agreement.



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About Markestrat Agribusiness



Specialists on agribusiness solutions



Deep knowledge on international agribusiness



Work in specific areas of agribusiness through several initiatives

Markestrat in numbers...



15
partners



+20
associates



+30
consultants



+1.000 projects
consulting, market strategies
and training



+160 distributors
have been trained or received
Markestrat's advisory



+7.000 people
trained in corporate
education programs



+1.200 lectures
given to companies or
universities



+70 books
published nationally or
internationally



+500 articles
published in professional and
academic magazines



7 cases studies in Harvard
were published by our partners



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Appendix

Brazilian coffee chain will capture a significant part of the benefits from the agreement



Coffee Roasted and Instant
Free trade

Tariffs phase-out

Previous

Future



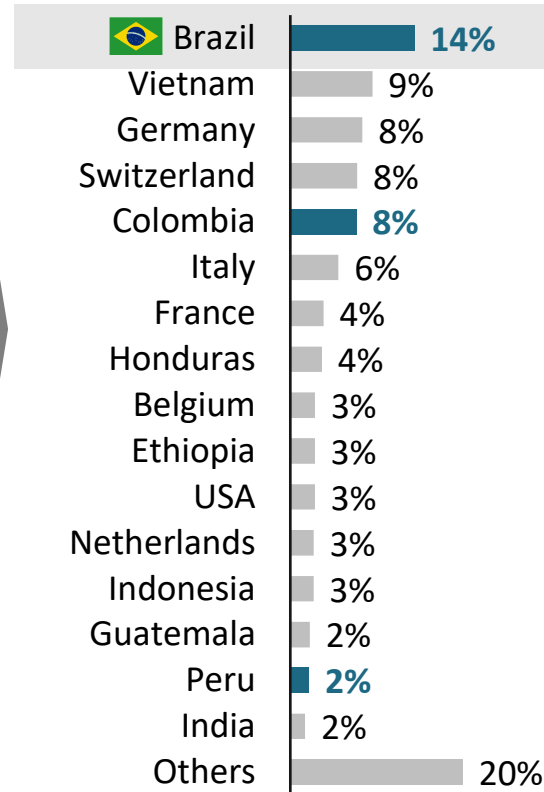
Impacts to Brazil

Brazil is the main partner in coffee exports to EU. Since other Mercosur countries have relatively smaller participation, Brazil tends to capture the major part of benefits from the agreement.

Trade flow between partners in 2018 % of total

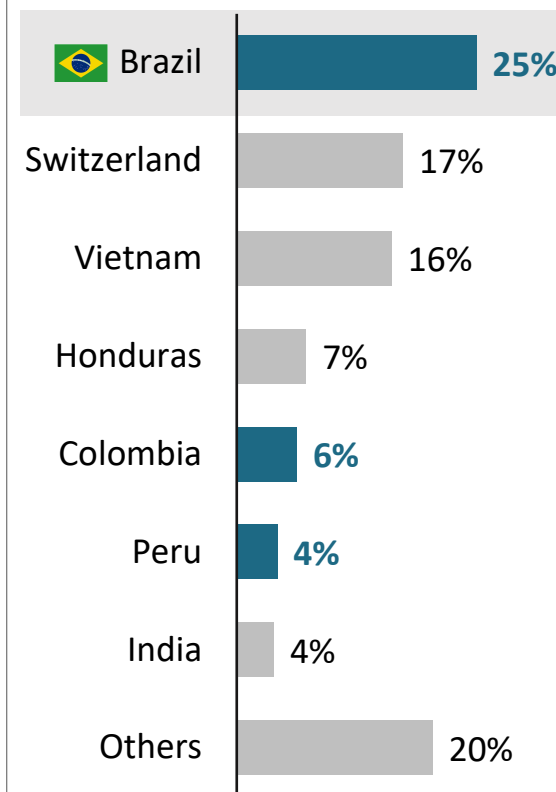
■ Mercosur members ■ EU members

Main exporters globally



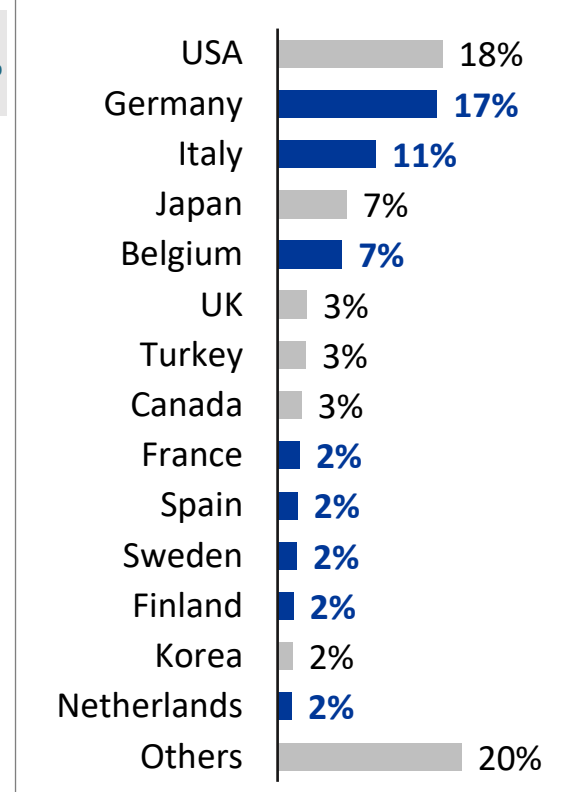
TOTAL MECOSUR = 24%

Main exporters to EU



TOTAL MECOSUR = 35%

Main countries Brazil export



TOTAL EU = 53%

Brazilian tobacco producers will capture a significant part of the benefits from the agreement



Tobacco unmanufactured
Free trade

Tariffs phase-out

Previous

Future



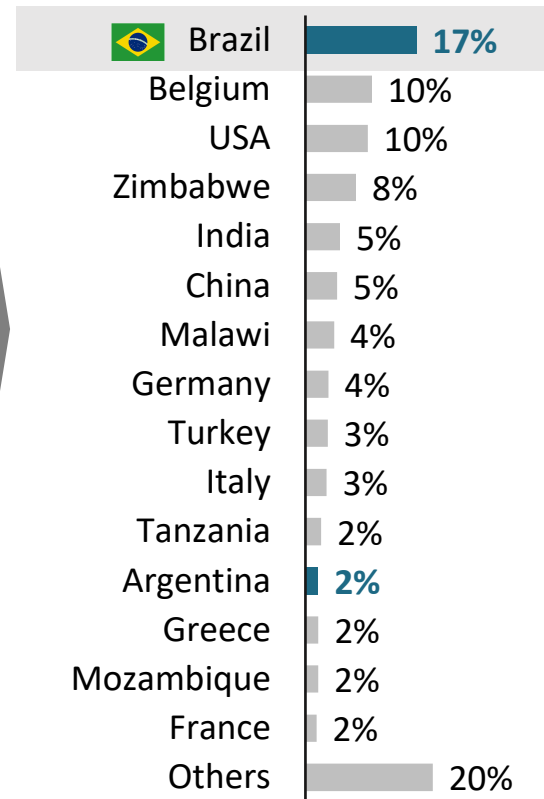
Impacts to Brazil

Brazil is the main partner in tobacco exports to EU. Since other Mercosur countries have relatively smaller participation, Brazil tends to capture the major part of benefits from the agreement.

Trade flow between partners in 2018 % of total

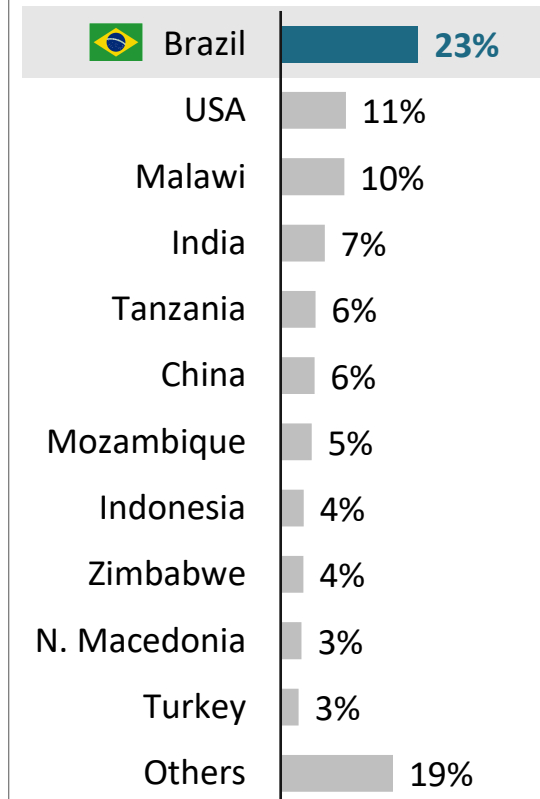
■ Mercosur members ■ EU members

Main exporters globally



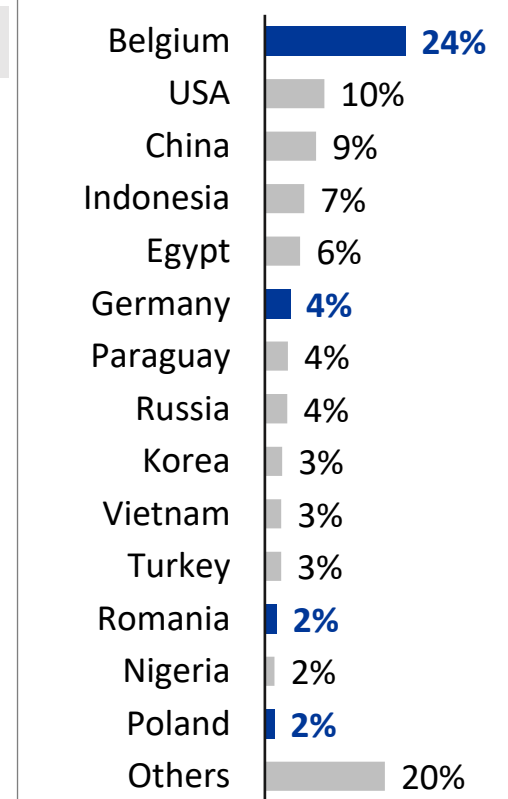
TOTAL MECOSUR = 25%

Main exporters to EU



TOTAL MECOSUR = 27%

Main countries Brazil export



TOTAL EU = 38%

Brazilian orange chain will capture a significant part of the benefits from the agreement



Orange Juice

Mixed treatment

Tariffs phase-out

Will depend on the price of the 100kg of juice. Tariffs will be reduced to zero in 7 to 10 years; however, other conditions may apply.

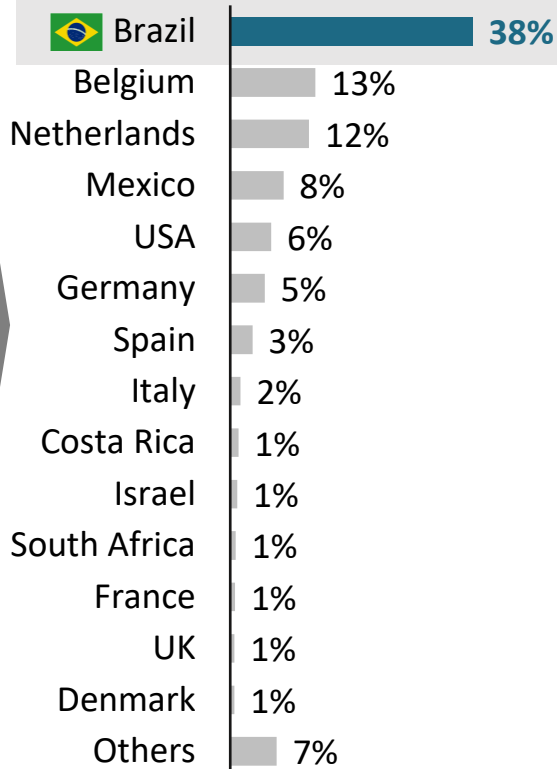


Impacts to Brazil

Brazil is the main partner in orange juice exports to EU. Since other Mercosur countries have relatively smaller participation, Brazil tends to capture the major part of benefits from the agreement.

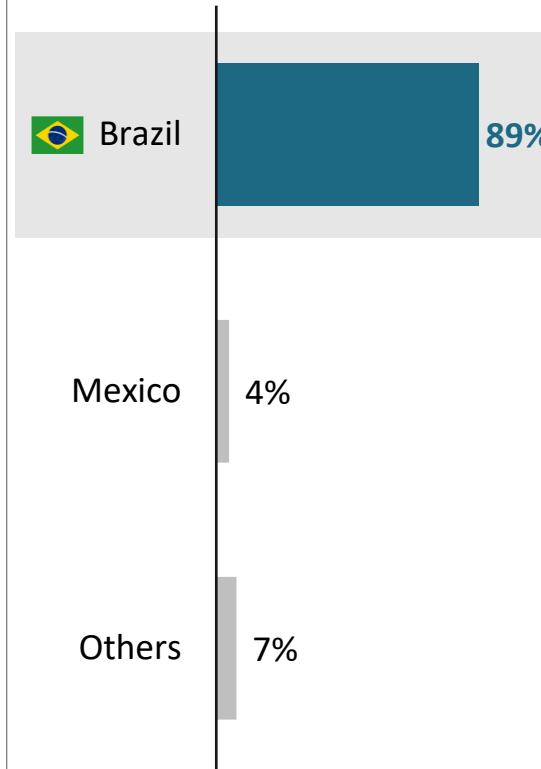
Trade flow between partners in 2018 % of total

Main exporters globally



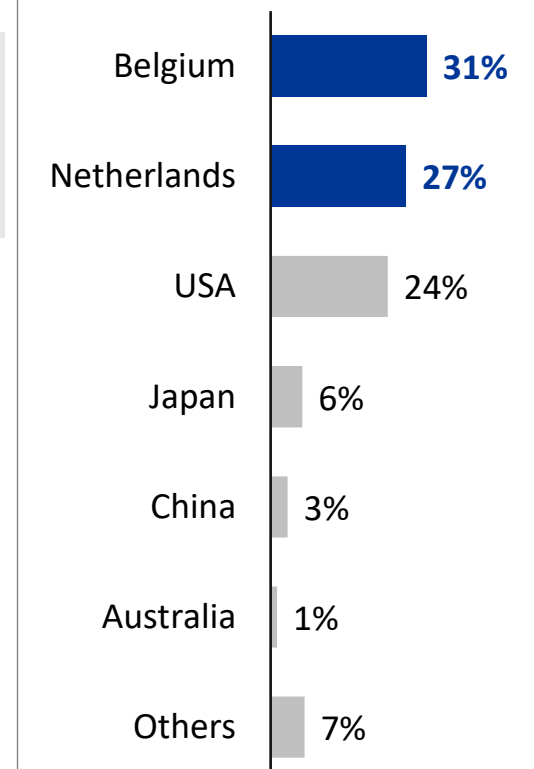
TOTAL MECOSUR = 38%

Main exporters to EU



TOTAL MECOSUR = 90%

Main countries Brazil export



TOTAL EU = 60%

■ Mercosur members ■ EU members

Brazilian poultry chain will capture a significant part of the benefits from the agreement



Poultry Quota

Increased access

0% tariff for 180 thousand tons CWE (50% boneless; 50% bone in) phased-in over five years



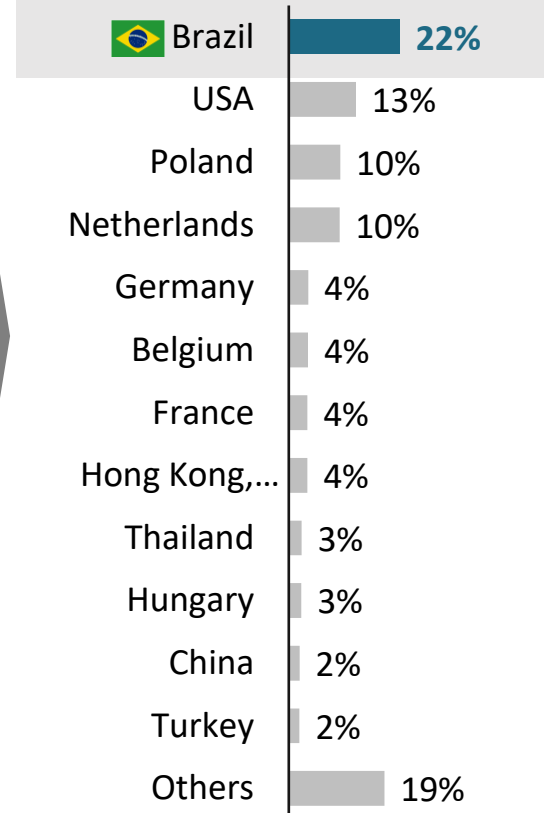
Impacts to Brazil

Brazil is the main partner in Poultry exports to EU. Since other Mercosur countries have relatively smaller participation, Brazil tends to capture the major part of benefits from the agreement.

Trade flow between partners in 2018 % of total

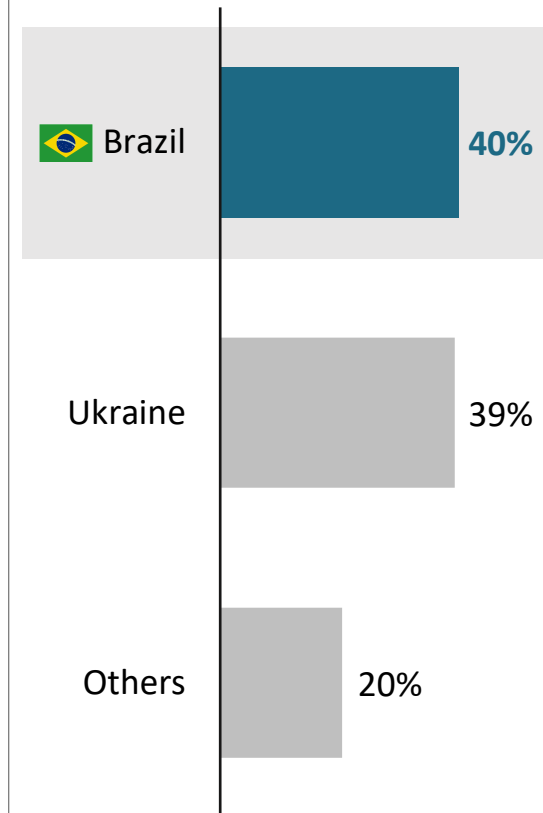
■ Mercosur members ■ EU members

Main exporters globally



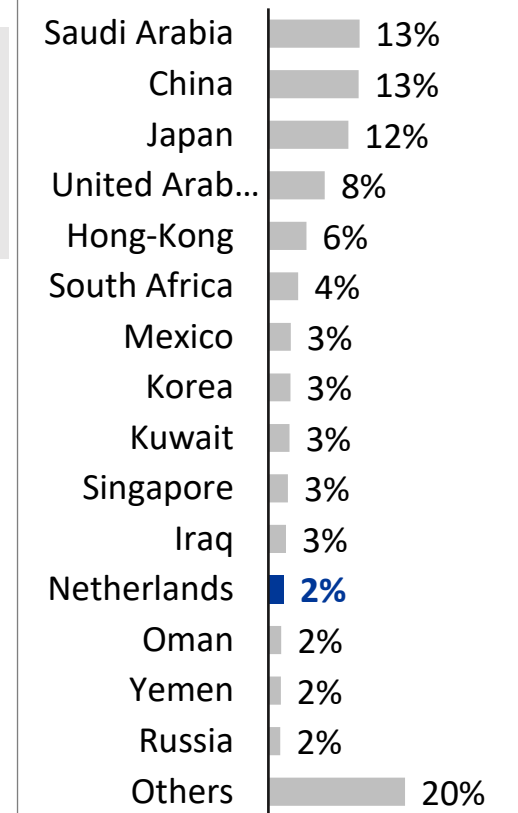
TOTAL MECOSUR = 25%

Main exporters to EU



TOTAL MECOSUR = 55%

Main countries Brazil export



TOTAL EU = 4%

Brazilian bovine meat chain will capture value, however, will need to share the benefits with other Mercosur's countries



Beefs Quota

Increased access

7.5% tariff for 99 thousand tons CWE (55% fresh; 45% frozen) phased-in over five years

0% tariff for 10 thousand tons CWE from Hilton Quota immediately



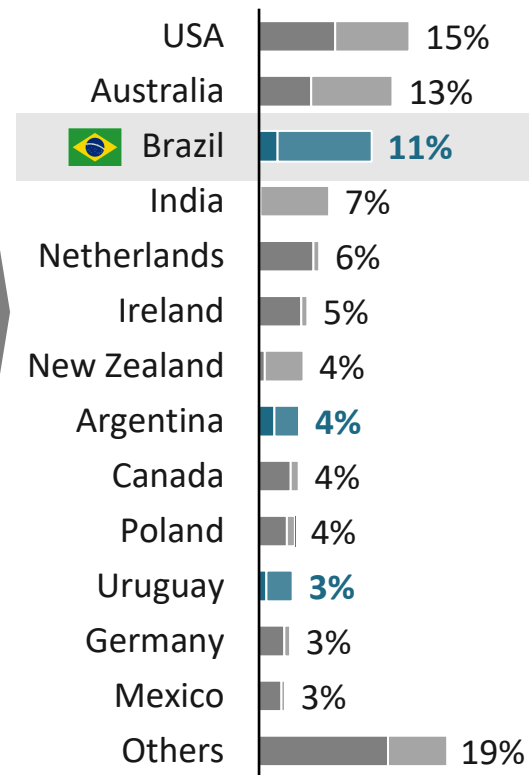
Impacts to Brazil

Brazil is the one of the main partner in Beef exports to EU. However, it will share the benefits with the agreement with other Mercosur countries.

Trade flow between partners in 2018 % of total

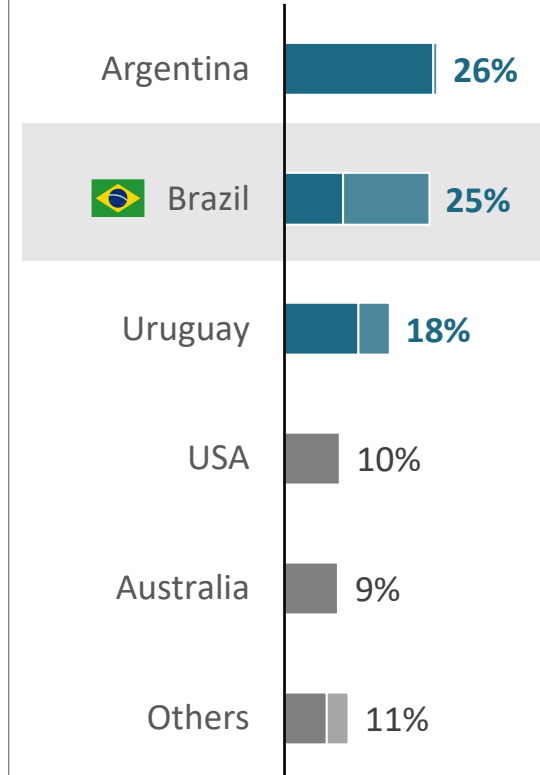
■ Mercosur members ■ EU members
■ Fresh or chilled ■ Frozen

Main exporters globally



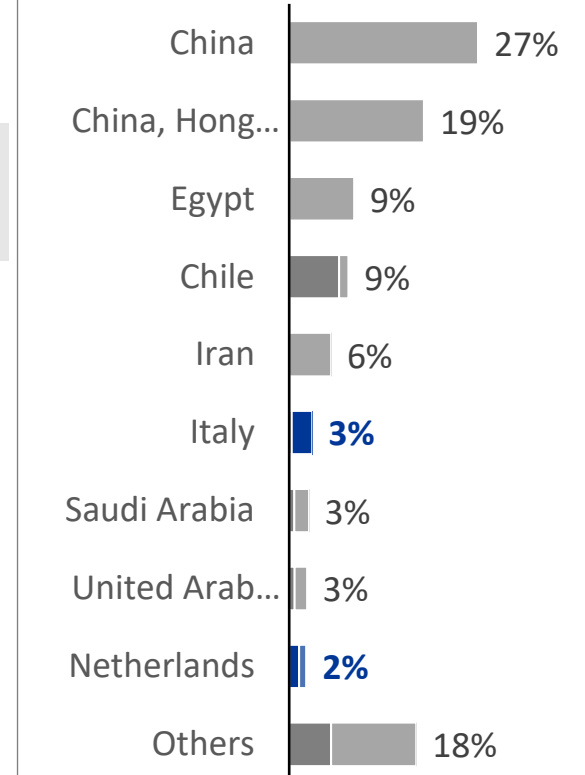
TOTAL MECOSUR = 21%

Main exporters to EU



TOTAL MECOSUR = 72%

Main countries Brazil export



TOTAL EU = 8%

Brazilian sugarcane chain (considering sugar products) will capture a significant part of the benefits from the agreement



Sugar Quota

Increased access

0% tariff for 180 thousand tons immediately



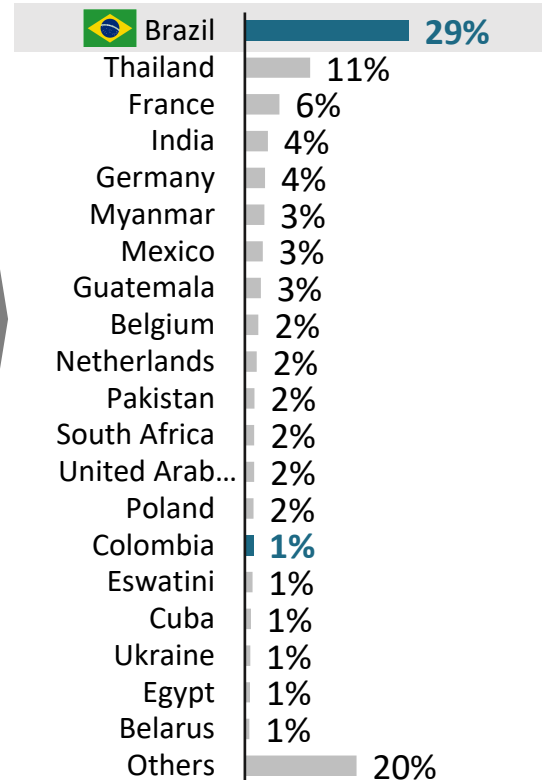
Impacts to Brazil

Brazil is the main partner in sugar exports to EU. Since other Mercosur countries have relatively smaller participation, Brazil tends to capture the major part of benefits from the agreement.

Trade flow between partners in 2018 % of total

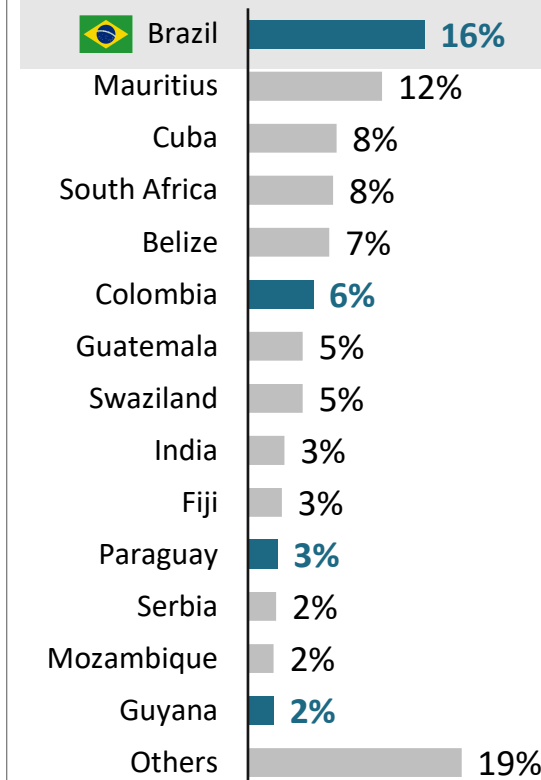
■ Mercosur members ■ EU members

Main exporters globally



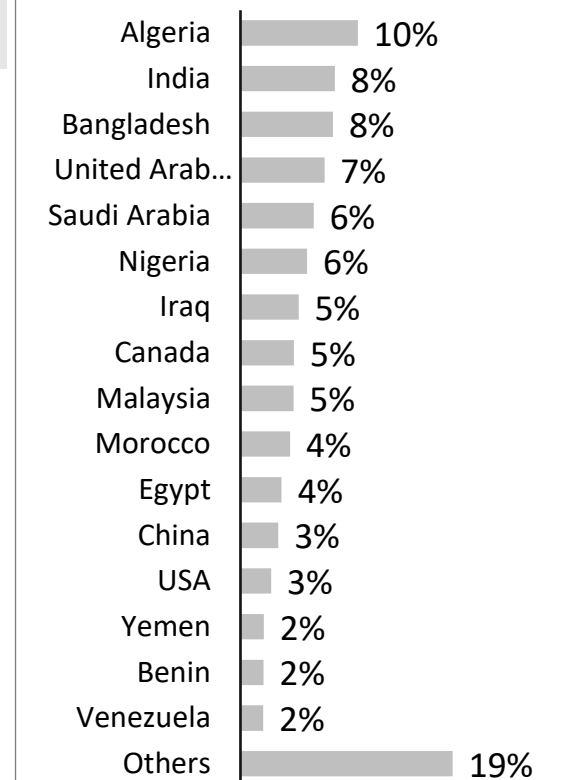
TOTAL MECOSUR = 31%

Main exporters to EU



TOTAL MECOSUR = 29%

Main countries Brazil export



TOTAL EU = 2%

Brazilian sugarcane chain (considering ethanol products) will capture a significant part of the benefits from the agreement



Ethanol Quota

Increased access

0% tariff for 450 thousand tons of industrial ethanol immediately

1/3 of the tariff (€6.4 or €3.4) for ethanol for other uses in five years



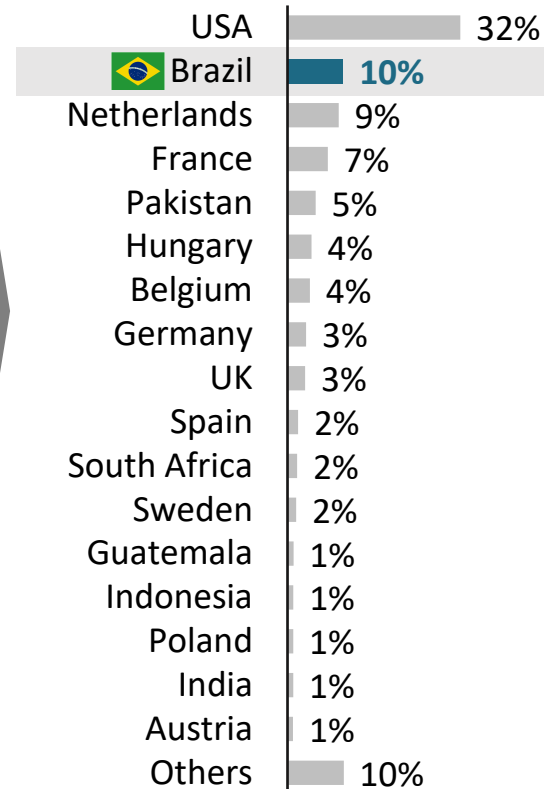
Impacts to Brazil

Brazil can increase its participation in exports of ethanol to EU, gaining share over top exporters.

Trade flow between partners in 2018 % of total

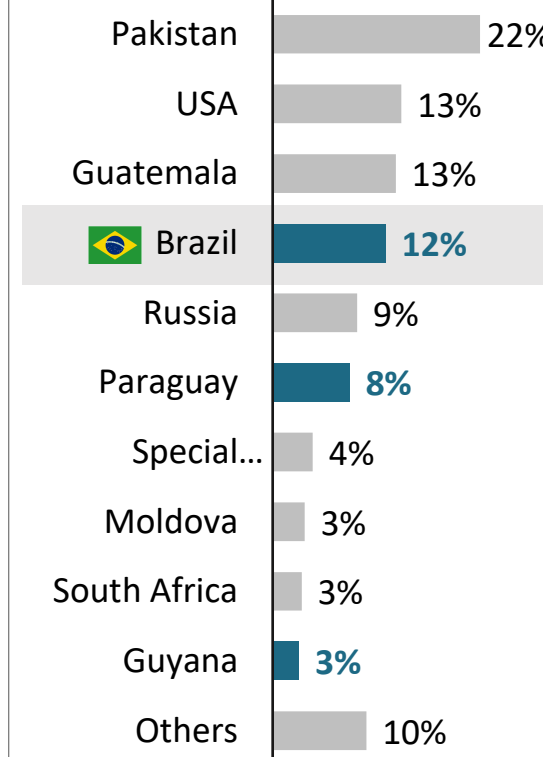
■ Mercosur members ■ EU members

Main exporters globally



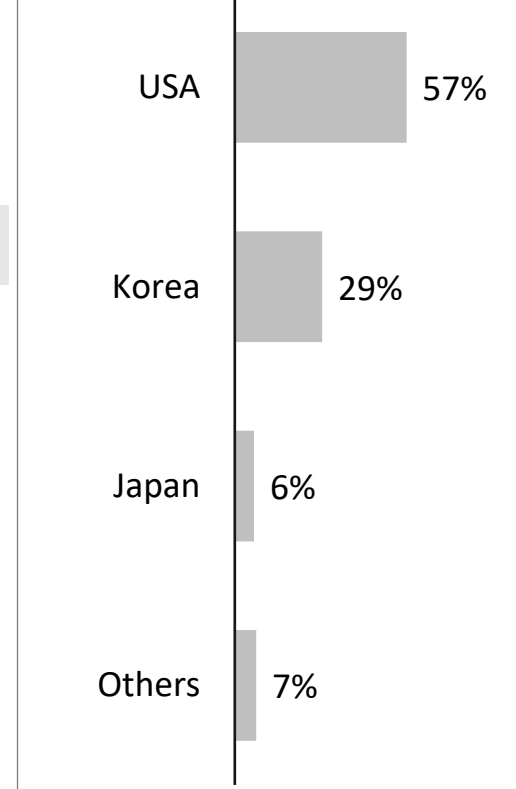
TOTAL MECOSUR = 12%

Main exporters to EU



TOTAL MECOSUR = 25%

Main countries Brazil export



TOTAL EU = 3%



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