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Potential Agricultural Trade Implications of the EU-MERCOSUR FTA

Report Categories:

Agricultural Situation

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Report Highlights:

The EU-Mercosur Free Trade Agreement (FTA) is currently being negotiated between the four Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay –Venezuela was recently suspended) and the European Union (EU). Negotiations for the EU-Mercosur FTA began in 1999; however, failing to agree with each other's final offers in 2004 the negotiations were on hiatus until May 2010. Ten rounds of negotiations took place between 2010 and 2012 until negotiations were again suspended. May 2016 was the first time that both blocs exchanged offers since the re-launch, but these offers are still being negotiated with the next round to be held in September of 2017. Despite, market access for agricultural products and food safety concerns remaining as outstanding issues between both blocs, there is a political commitment between the parties to reach an agreement by early 2018. If an agreement is reached, U.S. agricultural exporters could face further competition in Brazil.

General Information:

Mercosur

The Mercosur bloc is considered an agricultural powerhouse that protects its market with high tariff and non-tariff barriers to imports. The bloc is a major producer of agricultural products, such as soybeans and beef. For Mercosur, the EU remains its largest trade partner with its top exports to the EU being agricultural products. Currently, Mercosur has FTAs with Bolivia, Chile, Peru, and Israel, framework agreements with Mexico and Morocco, and preferential trade agreements with India, Mexico (auto sector), the Southern African Customs Union (SACU), Colombia, Ecuador and, Venezuela. Mercosur is also negotiating a free trade agreement with the European Free Trade Association, whose members consist of Iceland, Liechtenstein, Norway and Switzerland. In 2016, EFTA exported about 92 million euros of animal products to Mercosur, the majority of this was fish and crustaceans which if granted market access at a reduced tariff will directly compete with the United States seafood exporters. Brazil specifically is negotiating a bilateral agreement with Mexico and has four trade agreements already in place.

The European Union

The EU is the world's largest trading bloc and largest export market for around 80 countries. Together, the EU's members account for about 16% of the world's trade and more than 70% of EU imports enter the bloc at zero or reduced tariffs. The EU negotiates three main types of agreements: customs unions, free trade or economic partnership agreements, and partnership and cooperation agreements. Currently the EU has 45 trade agreements and 13 agreements being negotiated.

Still under negotiation:

Market Access

Mercosur is specifically interested in opening market access to the EU for agricultural commodities such as meat, soy, sugar, and ethanol. This will most likely mean that market access for agricultural imports from Europe, such as cheese, chocolates and coffee must also be opened. Market access to the dairy industry is a major concern, specifically for Mercosur dairy farmers because currently imported dairy products face up to a 28% import tariff when they enter Mercosur. Mercosur is a highly protected market that is coupled with all four of its member countries having WTO Developing Country status. This status allows the bloc to demand special and differential treatment, which in turn allows for longer phase-in times for tariffs of sensitive products.

Table 1: Mercosur Exports to the EU in 2016

Product	Value (USD)	Argentina	Brazil	Uruguay	Paraguay
Sugar Products	EU	22,180,073	278,775,573	1,920	22,315,722
	TOTAL	236,202,146	10,435,843,921	93,475	76,506,801
Beef	EU	433,255,367	681,765,971	374,376,624	35,945,200
	TOTAL	1,093,859,814	4,940,535,256	1,476,675,669	1,100,658,629
Soybean Products	EU	20,663,301	1,981,865,979	58,141,894	471,979,145
	TOTAL	3,233,302,535	19,331,323,260	845,445,364	1,819,081,530
Dairy Products	EU	0	313,629	0	50,000
	TOTAL	686,388,917	144,681,875	563,875,968	6,061,185
Coffee	EU	0	2,595,840,962	491	3,675
	TOTAL	1,193,229	4,855,884,334	491	3,675

Source: USDA (GTA)

European agricultural exporters are also concerned about opening up sensitive markets, such as beef and poultry, as Mercosur is already a major exporter of agricultural commodities to the EU. Lowering or removing tariffs on these products will not only further hurt producers in the EU but would also increase competition to U.S. exporters to the EU.

Sanitary and Phytosanitary Concerns

The EU is concerned about food safety aspects of meat production in all Mercosur countries. Traceability, antibiotics, and hormones used as growth promoters, which are illegal to use in the EU, are the main concerns for EU farmers and consumers. Furthermore, the recent U.S. ban on Brazilian beef coupled with various on-going scandals in Brazil, such as Operation “Carne Fraca,” have increased the EU’s concerns about the safety of Brazil’s meat exports.

According to the press, Brazil’s Ministry of Agriculture, Livestock and Supply (MAPA) has granted the European Union health authorization that will allow the entry of various animal products into the Brazilian market. Under this proposal, requirements for market access are much more flexible. If one plant in a country has been issued a permit to export to Brazil, other plants of the same sector automatically gain the right to enter the Brazilian market without Brazilian inspectors auditing their plant. These authorizations cover market access into meat and meat products, gelatin and collagen, milk and dairy products, honey and bee products, and eggs.

Potential impact on U.S. agricultural exports:

The United States is the top trading partner for just over 20 countries, including those within the EU and Mercosur. In 2016, the United States exported US\$1.38 billion worth of agricultural and related products to Brazil, a 45 percent increase from 2015. However, an FTA between Mercosur and the EU could have a major impact on the amount of U.S. agricultural exports destined to Brazil.

The United States and the EU have similar trade profiles with respect to Brazil, which has already created market constraints for U.S. exporters (shown in Tables 2 and 3) as U.S. food and beverages directly compete with European products in the market place. Furthermore, most imported foods, whether from the United States or Europe, are not priced competitively compared to locally produced products. Generally, a product imported from the United States or Europe reaches 3-5 times the FOB price at retail unlike products from Mercosur countries that benefit from duty-free status. Thus, an FTA between the EU and Mercosur will put European products at a much higher advantage in Brazil, similar to those products from Mercosur countries, which could place U.S. exporters at a much stronger disadvantage in the Brazilian market.

Table 2 shows the value of exports for nine major U.S. agricultural exports to Brazil and the tariff that each product faces. Allowing the European Union access to these markets with reduced or zero tariffs will most likely increase imports. This could in turn reduce the amount of U.S. exports accepted by Brazil.

Table 2: U.S. Exports by Commodity to Brazil

Product	United States Dollars			Current tariff
	2014	2015	2016	
Ethanol	263,269,824	238,192,719	471,494,814	0%*
Wheat	744,725,356	107,653,416	316,052,699	10%
Consumer Oriented	301,687,393	243,260,067	230,983,615	N/A
Dairy Products	57,727,435	49,172,137	46,974,091	12%-28%
Bovine Semen	17,568,147	17,559,536	14,487,474	0%
Spirits	9,066,639	12,241,482	10,178,953	14%
Fish and Seafood	4,288,426	2,833,442	3,292,287	10%
Wine and Beer	8,304,590	12,584,381	4,257,323	20%
Beef	457,796	757,800	766,959	10-16%
Total Agricultural & Related Products	1,721,343,114	952,824,501	1,382,570,435	N/A

*Brazil is currently discussing a 20% tariff on ethanol imports

Source: USDA (GATS)

Table 2: E.U. Exports by Commodity to Brazil

Product	United States Dollars			Current tariff
	2014	2015	2016	
Ethanol	7,895,915	7,370,116	569,644	0%*
Wheat	0	416	332,437	10%
Consumer Oriented	1,264,773,693	1,139,165,315	1,036,782,722	N/A
Dairy Products	82,479,224	60,409,770	51,825,645	12%-28%
Spirits	139,218,372	123,712,750	91,823,446	14%
Fish and Seafood	122,203,176	82,959,065	74,101,084	10%
Wine and Beer	176,025,385	149,706,796	115,082,193	20%
Beef	0	0	21,475	10-16%
Bovine Semen	3,549,006	1,625,410	1,046,739	0%
Total Agricultural Products	2,243,768,744	1,912,276,927	1,792,570,105	N/A

*Brazil is currently discussing a 20% tariff on ethanol imports

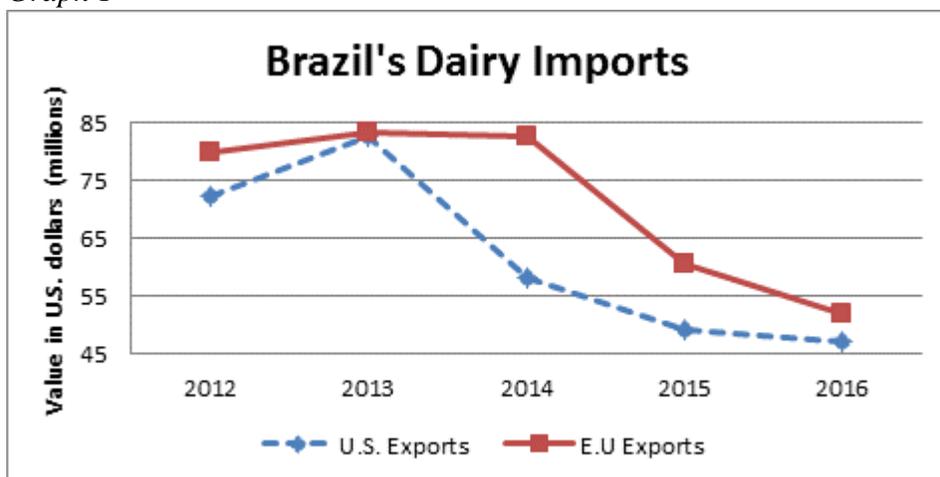
Source: USDA (GTA)

Issues of Particular Importance to the United States

Dairy

The dairy sector will be one of the most impacted should a trade agreement be reached by both blocs. Over the last five years, the United States trailed the EU in dairy exports to Brazil (shown in Graph 1), with both countries facing a 28 percent import tariff and an economic recession in Brazil that started in 2014. However, if the FTA opens market access to Brazil's dairy market, it will most likely result in the phase-in of a zero percent tariff on all EU dairy products imported into the Mercosur bloc. In 2016, the United States exported over US\$50 million in dairy products to Mercosur countries, with US\$47 million in dairy products going to Brazil alone. Currently, U.S. dairy exports to Brazil face between a 12 and 28 percent import tariff. Therefore, U.S. dairy exporters will find it even more difficult to compete with European dairy exporters in Brazil if access is granted at a zero percent tariff.

Graph 1



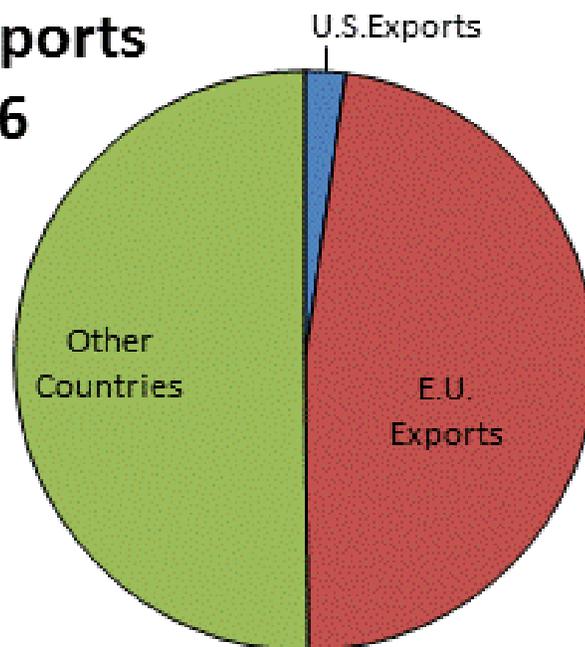
Wine and Beer

The United States exported only US\$4.2 million worth of wine and beer to Brazil in 2016, which is

down from the US\$12.5 million exported in 2015 due to Brazil's economic recession. U.S. wine and beer exports not only face a tariff of 20% when they reach Brazil, but they also face a very competitive market and a cascading tax regime. In 2016, the EU exported US\$115 million of wine and beer to Brazil; this is 27 times as much as the United States. Along with the EU, the United States also faces competition from Argentina and Chile who together exported over US\$1.5 billion to Brazil last year with a zero percent import tariff. Whereas, the United States and the EU are both facing a 20% import tariff. Therefore, market access to Brazil at a reduced or zero percent tariff for EU wine and beer will increase the competition even more for U.S. exporters.

Graph 2

Brazil's Wine and Beer Imports 2016



High quality genetics are important to the livestock industry. Since 1997, Brazil has imported high quality genetics from around the world to improve its livestock herds. Currently, Brazil ranks 3rd behind the United States and China in bovine semen imports worldwide, with approximately half of its imports coming from the United States over the past five years. The EU exported just over US\$1 million in bovine semen in 2016, whereas the United States exported roughly US\$14.4 million in bovine semen. A zero tariff already applies to semen imports into Brazil, however, FTA's tend to strengthen relationships between the countries involved which in turn may increase the volume traded, especially in areas such as semen that have room for growth. Like in dairy, wine and beer, and other agricultural commodities, U.S. exporters are expected to face increased competition in this sector.

Graph 3

Brazil's Bovine Semen Imports

