Final Sustainability Impact Assessment (SIA)
of the EU-Mercosur Free Trade Agreement

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This final Sustainability Impact Assessment (SIA) of the EU-Mercosur Free Trade Agreement (FTA)[1] has three major flaws: its timing, its impacts on the EU and Mercosur, and its impacts on developing countries, particularly Sub-Saharan Africa (SSA).

I - The SIA timetable scandal

This final Sustainability Impact Assessment (SIA) of the EU-Mercosur Free Trade Agreement (FTA) has the first major flaw that it was published on 7 July 2020, one year after the agreement in principle was reached on 28 June 2019, when it should have informed the decision of the EU and Mercosur before being agreed! A summary of the Agreement is available in French[2], Spanish and Portuguese.

This led the EU Ombudsman to immediately open an inquiry on 8 July 2020: "*The Ombudsman has opened an inquiry into why the European Commission did not finalise an updated Sustainability Impact Assessment (SIA) before the conclusion of the Mercosur-EU trade agreement in June 2019. The complainants - five civil society organisations - argue that by not taking this step the Commission disregarded its own guidelines on SIAs and breached the EU Treaty, which contains sustainability goals for all EU trade. The complainants also raised concerns about the fact that the interim impact assessment was not published when public consultations on the trade negotiations were ongoing and that when it was published it did not contain the latest information. The Ombudsman decided to use the inquiry to put further questions to the Commission, including how it intends to use the final report and whether the standard procedure for SIAs was followed. The Ombudsman has asked the Commission to respond within three months*"[3].

II - The impact of the FTA on the EU and Mercosur

For lack of time before the CSO civil dialogue meeting with the European Commission (EC) of 22 July we limit ourselves to the economic impact on EU and SSA agriculture, according to the statements of DG Trade and with limited comments, particularly table 2 on EU subsidies.

2.1 - The EU higher agricultural exports

According to the European Commission (EC) "*Duties will be gradually eliminated on 93% of tariff lines concerning EU agri-food exports. These lines correspond to 95% of the export value of EU agricultural products. The EU will liberalise 82% of agricultural imports, with the remaining imports subject to partial liberalisation commitments including tariff-rate quotas for more sensitive products with a very small number of products excluded*"[1]. "*While almost all of the EU's key export interests are subject to full liberalisation, for a small number of important products, zero duty quotas will be opened by Mercosur*"[4]. Of course the EU did not allude to the large subsidies reinforcing the competitiveness of its agricultural exports to the detriment of Mercosur small famers. Table 1 presents some of the following EU beneficiary exports.

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[1] https://trade.ec.europa.eu/doclib/docs/2020/july/tradoc_158889.pdf
[2] https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_158251.pdf
[3] https://www.ombudsman.europa.eu/fr/case/en/57236
[4] https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_158059.pdf EU-MERCOSUR

Table 1 - Liberalised exports and with tariff quotas under the Agreement in Principle

Product	Liberalised exports	Current customs duty
Olive oil	Euros 300 million	10%
Malt	Euros 50 million	14%
Wine	Euros 160 million	27%
Spirits	Euros 180 million	20-35%
Chocolate	Euros 65 million	20%
Preserved peaches	Euros 3 to 5 million	55%
With tariff rate quotas (TRQ)		
Cheese	30,000 tonnes	28%
Milk powder	10,000 tonnes	28%
Infant preparations	5,000 tonnes	18%

Table 2 – The EU subsidies to its agricultural exports to Mercosur from 2016 to 2019

Tonnes and € 1,000	2016	2017	2018	2019	Average
Olive oil (t)	48671	53644	66130	81117	62391
" € 1,000	218801	271929	305110	315074	277729
" subsidy € 1,000[5]	87520	108772	122044	126030	111092
Malt (t)	124049	86732	124441	157532	123188
" € 1,000	45463	31698	46415	71511	48772
" subsidy € 1,000[6]	9642	6741	9672	12244	9575
Wine (t)	33556	55747	46290	49003	46149
" € 1,000	112440	173061	161163	163335	152500
" subsidy € 1,000[7]	2010	3349	3148	2534	2740
Spirits (t)	44485	44800	49137	50129	47138
" € 1,000	166087	170731	168418	172385	169405
" subvention 1000 €[8]	3267	3290	3609	3681	3462
Cheese (t)	3365	5126	4187	3973	4163
" 1000 €	18911	28235	26517	23598	24315
" subsidy € 1,000[9]	1821	2775	2266	2150	2253
Milk powder (t)	90,2	1301,2	1158,4	1020	892,5
Milk powder € 1,000	249	3040	2369	2301	1990
" subsidy € 1,000[10]	66	926	837	726	639
Infant preparations (t)	927	2409	2677	2104	2029
" 1000 €	5909	12284	16643	14992	12457
" subsidy € 1,000[11]	49	126	140	110	106
Total subsidies to 7 products	104375	125979	141716	147475	129867

[5] https://www.oliveoiltimes.com/olive-oil-business/europe/olive-regions-joint-strategy-eu-subsidies/25672; https://www.sol-asso.fr/wp-content/uploads/2019/01/The-European-Commission-has-crossed-the-Rubicon-on-Spanish-table-olives-19-February-2019.pdf

[6] 1 t of malt equals 1.2 t of raw barley having received 61.2 €/t of subsidies (https://www.sol-asso.fr/wp-content/uploads/2019/01/Les-subventions-de-lUE28-%C3%A0-ses-exportations-de-produits-c%C3%A9r%C3%A9aliers-SOL-16-mai-2019-docx.pdf).

[7] Sources: wine production according to Eurostat until 2018 and DG Agri's Wine dashboard for 2018-19; specific wine aid from the EU annual budget until 2018 and https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019DC0367 for 2018-19.

[8] We limit ourselves to spirits of cereal origin (whisky, gin & juniper, vodka) which accounted for 99.6% of spirits exports to Mercosur in volume terms from 2016 to 219 and 98.6% in value terms. 1000 litres of whisky (vodka) at 40% alcohol weighs 940.41 kg. One tonne of whisky at 40% alcohol requires 1.2 tonnes of grain.

[9] One t of cheese requires 7.96 t of milk receiving 68 €/t of subsidies (https://www.sol-asso.fr/wp-content/uploads/2019/01/Les-subventions-de-lUE-%C3%A0-ses-exportations-de-produits-laitiers-en-Afrique-de-1988-%C3%A0-2018.pdf)

[10] One t of powdered milk exported to Mercosur from 2016 to 2016 required 10.52 t of milk because exports of skimmed milk powder (SMP, requiring 10.72 t of milk per t) were 14 times higher than those of fat powder (FMP, requiring 7.81 t of milk per t of FMP), with each t of milk receiving €68 in subsidies.

[11] Subsidies to infant foods - a mixture of milk powder, cereals, sugar, chocolate, etc. - are restricted for 50% to milk powder and 30% to cereals.

So that the subsidies for the seven products alone are quite considerable: €130 million on average, of which €147.5 million in 2019 but of course these subsidies are totally ignored by the Mercosur's stakeholders, particularly the small farmers who have hardly been consulted. This has not prevented the hypocritical specific annex on subsidies: "*The Parties agree that subsidies can be granted by a Party when they are necessary to achieve a public policy objective. The Parties recognize the need to work jointly and cooperate, both at multilateral and regional level, in order to: (a) seek effective ways to coordinate positions and proposals regarding subsidies in the framework of the WTO negotiations; (b) explore ways to improve transparency regarding subsidies; (c) provide advice and recommendations to the Association Council on ways to further enhance their understanding of the impact of subsidization on trade; and d) exchange of information on the functioning of subsidy control systems. Details of such cooperation may be set out in an Administrative Agreement. The Parties shall review their cooperation no later than three years after the entry into force of this Agreement and at regular intervals thereafter. The Parties shall consult on ways to improve their cooperation in the light of the experience gained and the development of any initiative relating to WTO subsidy rules*".

2.2 – The EU higher agricultural imports

"*The EU currently imports around 200,000 tonnes of beef cuts every year from Mercosur. Under the agreement, the EU will allow 99,000 tonnes of beef (55% of which is for "fresh", high quality beef, and the remaining 45% for "frozen" beef) to enter its market with a 7.5% duty. It will take 5 years until this amount is reached.*

Currently the EU imports 800,000 tonnes of poultry every year, of which over half comes from Mercosur. Under the agreement, the EU will allow a quota of 180,000 tonnes to be imported duty-free. This amount will be phased-in over five years.

With the agreement, 180,000 tonnes of sugar for refining will be allowed into the EU duty-free under this existing quota. No new sugar quota will be created for Brazil. A new duty-free quota of 10,000 tonnes was agreed only for Paraguay.

A duty-free quota of 450,000 tonnes will be opened for ethanol to be used by the chemical industry. A further quota of 200,000 tonnes with an in-quota rate of 1/3 of the current high duty (up to €19/hectolitre) will be opened for all other uses. Both amounts will be phased in gradually over 5 years.

The EU has increasingly had to rely on foreign honey to meet demand and now imports around 45% of what it consumes. Current EU imports from Mercosur amount to around 35,000 tonnes. The agreement will open a honey quota of 45,000 tonnes, to be imported duty-free after a gradual duty reduction over a 5-year period. This quota is expected to include the current imports.

Existing rice imports from Mercosur amount to around 100,000 tonnes a year on average. The volume of the rice quota in the agreement will be 60,000 tonnes, duty-free, with a gradual tariff reduction over 5 years. The new quota is expected to include the current imports".

Clearly all these increased imports will be very harmful to the EU farmers and global environment. As if the European Commission was aware of the detrimental impacts on EU farmers it stated to be "*also ready to help farmers to make the necessary adjustments, with financial assistance of up to €1 billion in the event of market disruption. This will reinforce the* *support provided to farmers by the Common Agricultural Policy and will provide an important safety net for farmers and essential income support, if needed*". A financial support to be added to the huge subsidies benefiting agricultural exports.

III – The impact of the FTA on the preference erosion of Sub-Saharan Africa's farmers

We will limit ourselves to completing Kirk Kohnert's critical analysis published in August 2019 on "*The impact of the EU-MERCOSUR agreement on Africa in a period of resurgent protectionism*"[12].

It is scandalous to note that the SIA impact study has deliberately chosen to ignore the impact on non-LDC countries exporting to the EU, not only beef – Botswana and Namibia in the SADC region exported 11,889 t duty free to the EU28 in 2019 for €66 M and 12,868 t on average from 2010 to 2019 for €65 M – but also coffee, bananas (Côte d'Ivoire, Ghana and Cameroon in West and Central Africa), sugar and processed cocoa (the same countries), which will suffer significant preference erosion.

For coffee, while the bulk of EU imports is unroasted non-decaffeinated coffee, which is imported at zero duty regardless of origin, imports from SSA, which averaged 355,820 t from 2016 to 2019, and accounted for 39% of those imported from Mercosur, could lose competitiveness since the CIF import price was 5% lower than that of Mercosur.

For bananas, only EU banana producers of the French and Spanish overseas regions (APEB) were consulted, who said: "*The Association of European Banana and Plantain Producers warned that while Brazil is the only Mercosur country to export bananas to the EU market and its current export quantities are low, Brazilian banana production has great agronomic potential. As one of the main exporters of fresh fruit and vegetables to the EU market, it has the infrastructure and experience to increase its banana exports if a market opportunity arises. The reduction of the Association Agreement could lead to an increase in Brazilian banana imports into the EU, which would further accentuate the current oversupply of the EU banana market, whose total volume increased between 2012 and 2018 from 5.1 million tonnes to 6.5 million tonnes. This in turn increases the risk of prices falling to unsustainable levels for EU banana producers*".

A fortiori producers of Côte d'Ivoire, Ghana and Cameroon will see a further erosion of their tariff preferences as Jobst von Kirchmann, the EU representative in Côte d'Ivoire, stated on 19 September 2019: "*The stabilisation mechanism will only be applicable until 31 December 2019, and its extension beyond 2019 is not possible because non-continuation is part of the free trade agreements between the European Union and Latin American countries*"[13]. This was in anticipation of a negative response to the Abidjan Appeal launched on 24 September by Joseph Owana Kono, President of the pan-African association Afruibana "*calling on the European Union to set up a new mechanism to regulate the European market and a programme to support producers. An appeal launched at a time when European aid is due to end in a few months' time*"[14]. However, African banana producers are already suffering from the gradual decline in the duty of bananas imported from the three Andean countries (Ecuador, Colombia, Peru) and

[12] https://www.researchgate.net/publication/335228472_The_impact_of_the_EU-MERCOSUR_deal_on_Africa_in_times_of_resurging_protectionism
[13] https://la1ere.francetvinfo.fr/afriquebanane-appui-ue-ne-sera-pas-reconduit-apres-2019-751079.html
[14] http://www.commodafrica.com/24-09-2019-joseph-owana-kono-afruibana-nous-avons-aussi-tenu-rappeler-leurope-que-la-banane-est-un

the six non-ACP Central American countries with which the EU has signed FTAs since 2012 (2017 for Ecuador), this duty having fallen to 75 €/t since January 2020 while the EU's MFN duty is 117 €/t. And it seems to be a given that it is also this duty of 75 €/t that will be open to Mercosur exports. Kirk Kohnert said: "*African producers are no match to these giants: the Ivory Coast's banana exports into the EU amounted to merely 315,000 metric tons in 2017, Cameroon's to 270,000 tons and Ghana's to 70,000 tons (Livingstone, 2019). In case, the African banana industry could no longer compete in the expected cut-throat contest, about 80,000 Africans would be unemployed according to expert's forecasts* (Livingstone, 2019)".

For sugar, SSA will suffer a further erosion of its tariff preferences because, although exporting at zero duty to the EU under EBA (Everything But Arms) for LDCs and EPAs for non-LDCs, the Agreement-in-Principle with Mercosur will remove the duty of 98 €/t on the 180,000 t of Brazil's existing tariff rate quota (TRQ) and create a zero TRQ of 10,000 t for Uruguay. In addition to this, the EU-Vietnam FTA has a TRQ of 20,000 t at zero duty, the EU-Mexico FTA has a TQ of 30,000 t at a duty of 49 €/t and the ongoing negotiations for an EU-Australia FTA should also include a TRQ on sugar. These new TRQs are in addition to those recently concluded at zero duty with other FTAs: 260,000 t for the FTAs with the three Andean countries and the six Central American countries, 20,000 t to Ukraine and 150,000 t to South Africa. All this when the normal EU MFN duty for refined sugar is 419 €/t and 339 €/t for unrefined sugar.

All this without mentioning the SSA loss of access to the EU market after Brexit, from 2021, since it is not known to what extent the UK will maintain the same tariff preferences with SSA, which would probably affect non-English speaking countries more.