

## ► Project *brief*

Thünen Institute of Market Analysis

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# EU-Mercosur Agreement: Consequences for the agricultural and food sector

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- **The trade agreement between the EU and the Mercosur countries is causing a growth of the gross domestic product on both sides of the Atlantic - albeit only slightly.**
- **The EU achieves an increase in production in the industrial sector while Mercosur countries achieve an increase in the agricultural and food sector.**
- **"Sensitive" EU agricultural products such as beef, poultry and sugar will continue to be protected after full implementation of the agreement, and there will be only slight declines in production.**

### Background and objectives

In June 2019, the EU and the South American trade bloc (Mercosur) agreed on a comprehensive trade agreement. One part of this agreement covers the liberalisation of trade between the EU and the four Mercosur countries Argentina, Brazil, Paraguay and Uruguay. While the industry associations welcome the opening of markets in the EU, there is criticism from the agricultural sector. Due to the competitiveness of the Mercosur states in the agricultural sector, there are fears of a "flooding" of European markets with South American imports. Closely related to this is the accusation that an increase in production in the Mercosur countries could threaten tropical rainforests and, thus, contribute to climate change.

In our study, we take up this criticism and analyse the effects of the agreement on production and trade on both sides of the Atlantic. The focus is on sensitive agricultural products, such as beef and poultry meat as well as bioethanol in the EU and dairy products in the Mercosur countries. The agreement schedules tariff quotas for these products. With these quotas, only a limited quantity can be imported at a low tariff. For quantities in excess of the quota a higher duty is levied, which also applies to all other members of the World Trade Organization (WTO).

In our analysis, we show to what extent the negotiated tariff quotas protect European agricultural markets. The central question is how the market access negotiated between the EU and the Mercosur countries affects trade flows and production in the EU. The protective effect of tariff quotas is calculated with an innovative approach and, thus, complements the existing literature on the effects of the EU-Mercosur agreement. Non-tariff trade measures such as standardisation

or recognition of geographical indications are not included in this analysis.

### Method

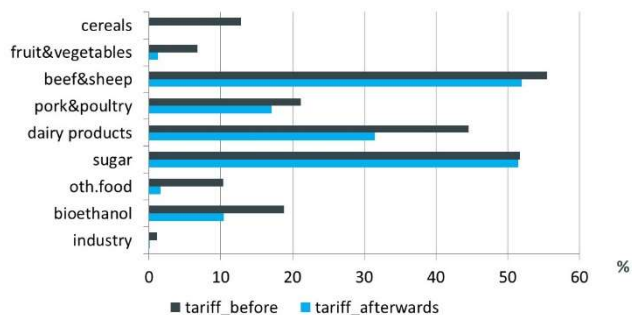
To answer this question, we use detailed tariff data and implement the reduction obligations in accordance with the agreement. In addition, we calculate how much the quotas will be used in the future. We have developed a MCP (Mixed Complementary Problem) model for this step. A description of this model approach can be found in Döbeling and Pelikan (2020). For the present analysis, the approach was extended to endogenize quota allocation. The results of the MCP model are read into a tariff analysis tool (TASTE) and aggregated to the level of product groups (e.g. dairy products). Afterwards, the General Equilibrium Model MAGNET is applied. The MAGNET version used covers bilateral trade flows of 140 countries and 66 sectors in the industrial and agricultural sectors. The advantage of MAGNET is that we can take into account interactions with other sectors and determine trade diversion from other regions of the world. The analysis builds upon a baseline that projects macroeconomic and trade policy developments into the year 2027 (Offermann et al., 2017). This baseline also includes other trade agreements already concluded by the EU, so that by 2027 EU markets will already be more open than today. For the Mercosur agreement, we assume that it will be fully implemented in 2027, although it also includes product groups for which transition periods of up to 15 years have been agreed.

### Results

Our calculations show that the trade agreement with the Mercosur countries reduces the EU's external protection.

However, free trade is far from being a reality. Especially in the agricultural and food sector, a high level of protection remains for many product groups. Figure 1 shows the level of tariffs before the agreement and how high they will be after its full implementation. Using the MCP model, we have calculated tariff equivalents that include the quotas.

**Figure 1: EU tariff equivalents before and after implementation of the EU-Mercosur trade agreement**



Source: Own calculations. Aggregation via trade-weighted reference groups. Basis: Customs tables Trade Part of the Association Agreement, EU Commission, 28 June 2019.

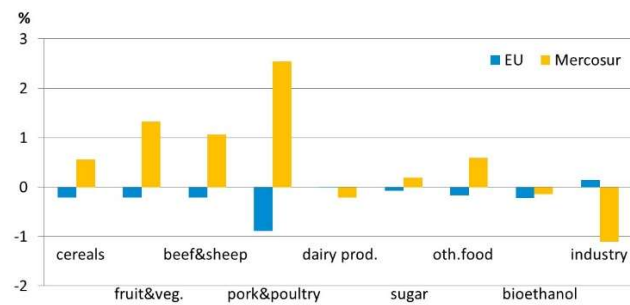
Before the EU-Mercosur trade agreement, for example, the EU levied an aggregate tariff of 55% on beef and sheep meat (tariff\_before). The agreement allows the Mercosur countries to import 99,000 tonnes of beef at a tariff of 7.5%. In addition, the Mercosur countries have access to global quotas. According to our assumptions, these quotas will be completely filled, resulting in an aggregated duty of 51% (tariff\_afterwards) after the implementation of the agreement. In addition, the Mercosur states also export a part of their production outside the quotas.

Overall, the expansion of market access leads to an increase of the gross domestic product (GDP) in the EU as well as in the Mercosur countries. In the EU, GDP may grow by up to 1.7 billion euros as a result of the tariff cuts, and by 0.7 billion euros in the Mercosur countries. In the EU, the increase in GDP is achieved by expanding production in the industrial sector, while in the Mercosur countries agricultural production is growing. Figure 2 shows the production changes in selected sectors of the two trade partners. It is clear that production in the EU does not fall by more than 1% in any sector. On the other hand, production growth in the industrial sector is also below 1%. The agreement has the greatest effect on the product group "pork and poultry meat".

It is also interesting to see how the agreement affects international agricultural trade. While trade with third countries hardly changes for most agricultural products, the agreement leads to a trade diversion for cereals: Mercosur

countries export less to Asia and Africa and more to the EU. Due to the EU-Mercosur trade agreement, the EU imports less fruit and vegetables from Central America and the Andean regions. In addition, beef from Mercosur countries displaces imports worth 38 million euros from Chile. Other food products (oth. food) are now imported more from Mercosur countries and less from the US, China and some African countries.

**Figure 2: Changes in production in 2027 due to the EU-Mercosur trade agreement**



Source: Own calculations. Combination of MCP model and MAGNET model. dairy prod. = dairy products, oth.food = other food, fruit&veg. = fruit & vegetables.

In conclusion, the EU-Mercosur trade agreement will not lead to a "flooding" of agricultural and food markets in the EU. By way of comparison, in a previous study we were able to show that quota-free market access would have led to production declines of over 40% in the EU for beef and sheep meat. Such effects are not to be expected from the current agreement. Sensitive agricultural products remain protected. There are tariff quotas for them, within the framework of which additional imports are expected. However, these quotas are very low in relation to consumption and production in the EU.

## Further Information

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### Duration

since 2001 (permanent task)

### Project-ID

1068

### Publication

**Offermann et al. (2017)**  
 Thünen-Baseline 2017 – 2027: Ag-rarökonomische Projektionen für Deutschland, Thünen Report 56,  
[https://literatur.thuenen.de/digbib\\_extern/dn059667.pdf](https://literatur.thuenen.de/digbib_extern/dn059667.pdf)

**Döbeling T, Pelikan J (2020)**  
 Searching for an appropriate ad val-orem equivalent for TRQs: The case of CETA. Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues 55: 213-224.  
<https://ageconsearch.umn.edu/record/292302/>