The whole of Mercosur in exchange for a plate of beef

Briefing paper | by Mary Louise Malig

After 20 years of negotiations, the EU-Mercosur Free Trade Agreement (FTA) is entering a crucial stage. But will the deal be sealed, or will the talks collapse and be abandoned once and for all? Mercosur's sovereignty is at stake, as are the ecosystems and communities that will be affected by a further boost to the destructive livestock and feedstock industries in South America.

Free trade agreements are not only about commodity trade, if you look at the different groups of negotiations of the EU-Mercosur FTA, you can see that only some deal with market access. Others deal with services, intellectual property, government procurement, [1] sanitary and phytosanitary measures, [2] sustainable development, small- and medium-sized enterprises and other issues. These influence the ability of country states to regulate, for example, access to and prices of medicines, who provides key services, which sectors receive support to develop, who can compete in purchasing in the public sector, what the requirements are for foreign investments, and so on.

Therefore, an agreement has to be seen not only in terms of how exports and imports are going to increase between partners, but also the extent to which control over a countries own economy, public sector and environment will be given away after the deal is closed. And, importantly, it will be expected that whatever concessions are made to the EU, similar concessions will also have to be made to other major trading partners, countries like the US, Japan, China, and Russia. At least the same treatment will be expected when trade agreements with these other partners are renegotiated.

Let's start this story with the end. Let's begin by what Mercosur wants to get out of this FTA. News coverage of the recent rounds of negotiations said: **"At its heart, any agreement will depend on beef and ethanol—but mainly the beef. If Europe agrees to buy enough prime Latin American beef at low tariff levels, Mercosur will drop tariffs on leading EU exports such as cars and machinery."** [3] Mercosur wants to export prime beef to the EU. This, along with exporting ethanol, is one of its biggest ambitions. Hearing this, you would think that the entire Mercosur economy relies on meat exports, and that it is crucial for the future of Mercosur and its people. Let's take a deeper look in to this issue, beginning with the bigger picture.

A brief introduction to the EU-Mercosur Agreement negotiations

Why is a deal that has been negotiated on and off for almost twenty years suddenly making a comeback with a race to seal the deal some time in 2018? Why the sudden revival of it? And, more importantly, what are both sides aiming to get out of it?

Firstly, what is Mercosur? It is a South American trading bloc that was established by the Treaty of Asunción in 1991, and the Protocol of Ouro Preto in 1994. Its full members are Argentina, Brazil, Paraguay and Uruguay. Venezuela is also a full member but has been suspended since December 2016. Associate countries are Bolivia, Chile, Peru, Colombia, and Ecuador.

The current negotiations are between the European Union, a 28 nation bloc, and the four founding, full members of Mercosur.

The early negotiations did not really highlight any common ground between the two blocs. The EU considered Mercosur as being too developed and therefore not qualifying for Special and Differential Treatment, usually afforded to developing and least developed countries in trade negotiations. Quotas in agricultural products were a point of contention and on the other side of the table, the EU was dissatisfied with the offers being made to the automotive sector. This stalemate continued on from 2004 to 2009. The negotiations were briefly revived in 2010, only to be put on hold again in 2012.

French farmers block streets with their tractors. **Sherwood/Flickr**

During this latter period, Irish and French farmers had been raising the alarm on the deal, cautioning on how a flood of imports of beef from Mercosur would negatively impact small farmers in the EU. In September 2017 the chairperson of the Irish and Sheep Farmers' Association (ICSA) said: **"The ICSA is extremely concerned at this. If such an offer [85,000 tonnes of beef imports to the EU from Mercosur] is tabled it would have a very severe impact on European beef markets and would hit Irish beef exports particularly hard."** [4]

More recently on 21 February 2018, French farmers held protests using their tractors to take their demands to French President Macron, amidst fears that the trade deal would boost Mercosur beef imports. [5]

An uneven relationship

The EU is a bloc of 28 nations and Mercosur is currently made up of Argentina, Brazil, Paraguay and Uruguay.

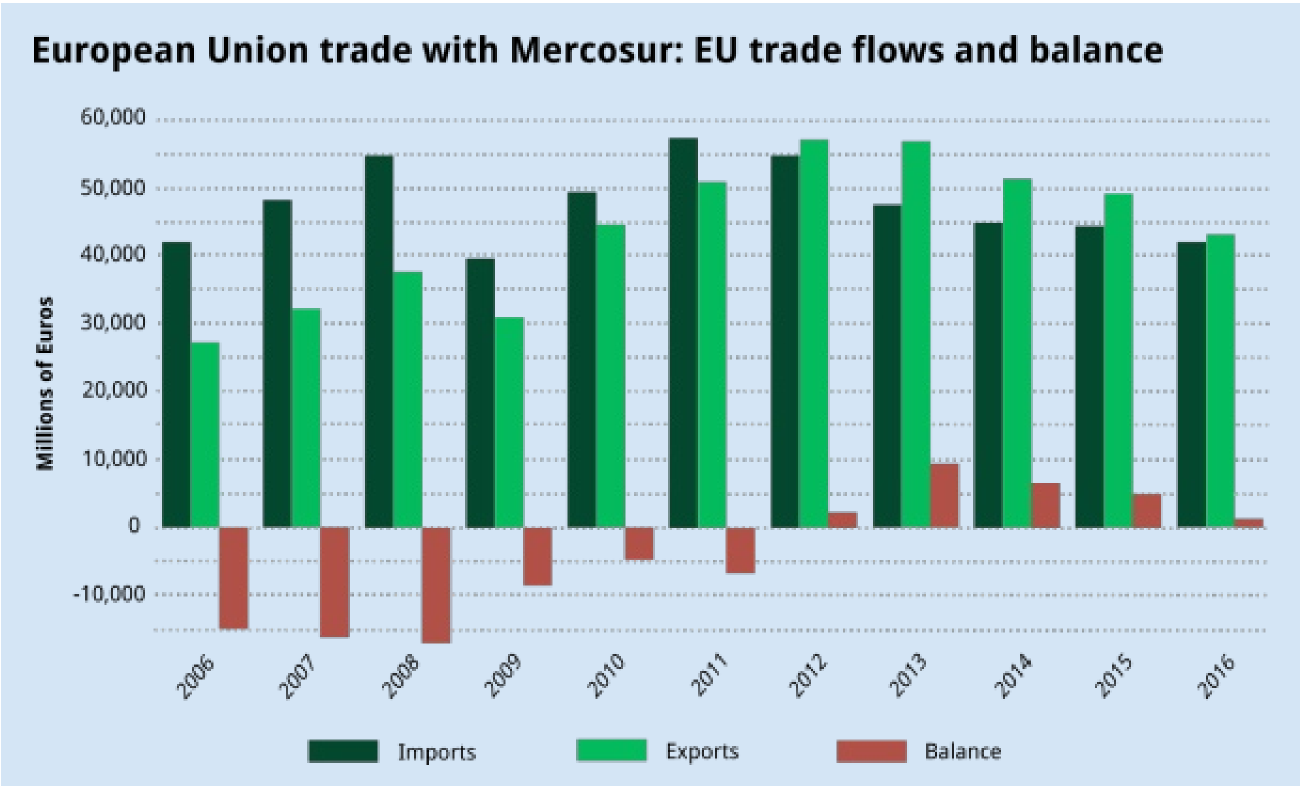
The graph below shows how the balance of trade in goods between the EU and Mercosur was skewed in favor of Mercosur until 2011, but since then has shifted in the EU's favor.

Exports from the EU to Mercosur ammounted to €43,1 billion in 2016 while exports from Mercosur to the EU was almost identical for the same year. For Mercosur, the EU is the destination of 21,8% of the value of its exports, whereas for the EU, only 2,7% of its exports go to Mercosur countries. In other words, the economic power relationship between these two blocks is uneven, despite levels of trade being relatively even between the two.

Looking specifically at the trade in services, the picture is different. In 2014 the EU exported services worth €21.5 billion to Mercosur, whereas in the same year Mercosur exported roughly half of this value, €11.7 billion, to the EU. [6] This means that Mercosur has a trade deficit in this area, one that will be covered by the new agreement.

When it comes to investments, in 2015 the EU had €378 billion in investment stocks in Mercosur. By comparison, Mercosur had €115 billion in investments in the EU in 2014, [7] and much of it involved daughter companies of European transnationals, established in Mercosur, which raises the question of whether profits from the investments stay in Mercosur countries, or go straight back to the EU.

In summary, despite Mercosur being a relatively large trading bloc, is still not big enough to be on even footing with the EU. There is a substantial imbalance in the trade and investment relationship between them.



Source: Eurostat Comext

How important are beef exports?

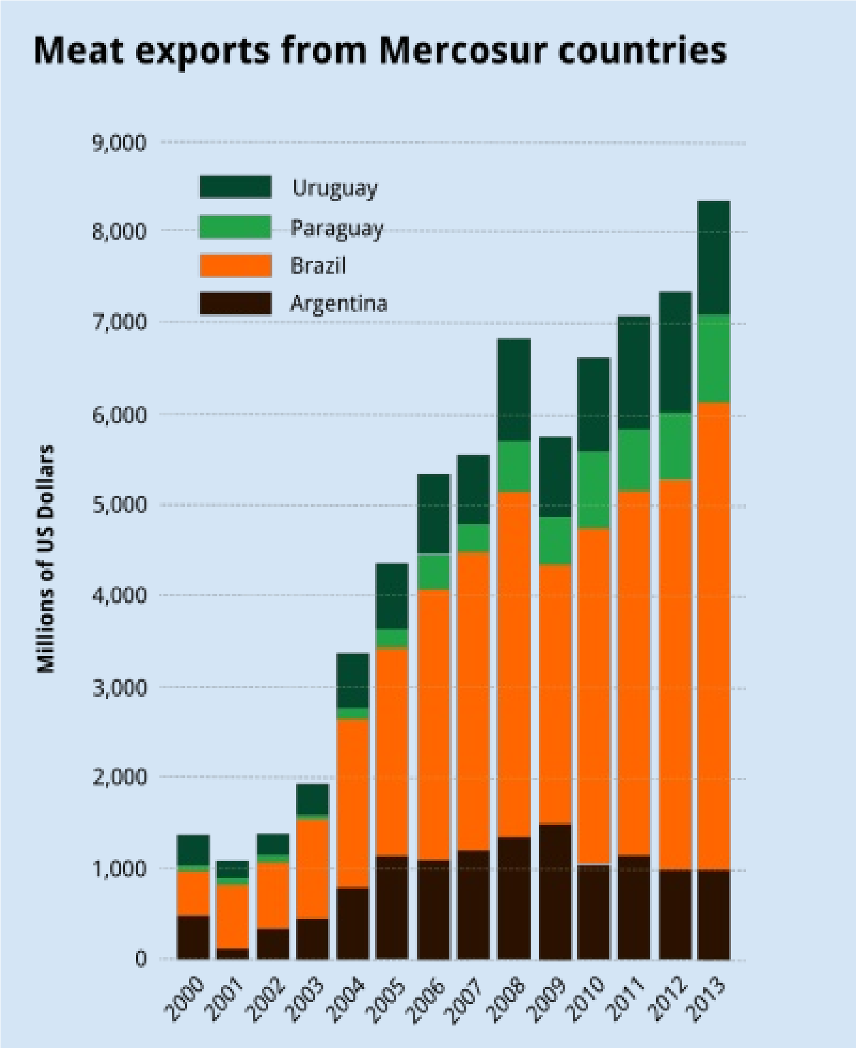
Taken together, Mercosur's four main members export more beef than any other country in the world. Their combined exports have jumped significantly since 2004. In 2017 they exported 2 million tons of fresh beef to the international market, accounting for around 9 billion USD at an average price of 4,538 USD per ton.

Of this 2 million tons of meat, around 246,000 tons were exported from Mercosur to the EU, accounting for 12% of total meat exports world-wide. In terms of value, this was worth around 937 million USD, which represents only 0,5% of total Mercosur exports, and 2,3% of total Mercosur exports to the EU.

To put this in context, total Mercosur exports to the world are worth 221 billion USD, and exports of meat are worth 9 billion USD. Mercosur exports to the EU are worth 42 billion USD in total, with meat exports accounting for 1 billion USD of this. This shows how important meat exports are to Mercosur countries.

China and Russia are the main markets for Mercosur's beef exports, but the EU is more of a destination for prime beef.

However, the specifics of the current trade negotiations indicate that the most likely maximum quota for Mercosur beef exports to the EU will be 100,000 tonnes. Considering the value and quantity of meat exports already being reached, this doesn't seem like a significant win for anyone. Mercosur's meat corporations, however, stand to gain significantly from this deal, but surely not significantly enough to justify what Mercosur will be giving away in exchange.



Source: COMTRADE

Is it really just cars for beef? Or everything for a plate of beef?

Since the 2016 relaunch, the trade deal between the EU and Mercosur will cover: [8]

- tariffs
- rules of origin
- technical barriers to trade
- sanitary and phytosanitary measures
- services
- government procurement
- intellectual property
- sustainable development
- small- and medium-sized enterprises.

This list shows that the agreement is so much more than just about cars and beef. In fact, trade unions, civil society and environmental groups in various countries have called for a rejection of the deal, citing the unacceptable cost to economies, people, health, animals and forests. These are far too steep a price to pay in exchange for premium beef. [9,10]

As well as the impacts of a rapidly growing meat industry in South America, these are some of the most serious consequences of the deal:

1) As Mercosur agrees to open its economy to foreign service providers, this will severely impact local and national providers who will not be able to compete with the better financed transnational corporations. These corporations will be given "National Treatment", an equal footing to local companies. The Argentinian coalition following these negotiations has estimated the following job losses in Argentina: “186,000 industrial jobs... 11 out of every 100 jobs in the manufacturing industry. It [the deal] will hit national enterprises as the increase of imports displace local production, especially in “sensitive” manufacturing activities, such as textiles, footwear, toys, leather goods, furniture. In this last sector, 47,000 jobs will be lost while the auto parts sector will see decreases of 32,500 positions and the chemical sector would fall back by 19,000.” [11]

2) Intellectual property will also be a part of the deal. This includes a list of items from geographical indications [12] to wines, agricultural products, and certain policies that may impact negatively on generic medicines. Activists warn: “Regarding seeds, the leaked text indicates that “each Party shall protect plant variety rights, in accordance with the International Convention for the Protection of New Varieties of Plants, adopted in Paris in 1961, and last revised in Geneva in 1991 (UPOV 1991)”. This means that "Monsanto Laws" will be imposed in all our countries.” [13]

3) In addition to cars, industrial goods, chemical products and construction materials, the EU will be able to come in and sell high value items at premium prices. And with access to government procurement, EU companies will be able to win contracts to build key infrastructure projects such as roads and airports, that would have otherwise directed profits and jobs to local industries.

4) The sanitary and phytosanitary measures are seen as a failsafe that the EU has included, in order to be able to limit the entry of agricultural products from Mercosur countries.

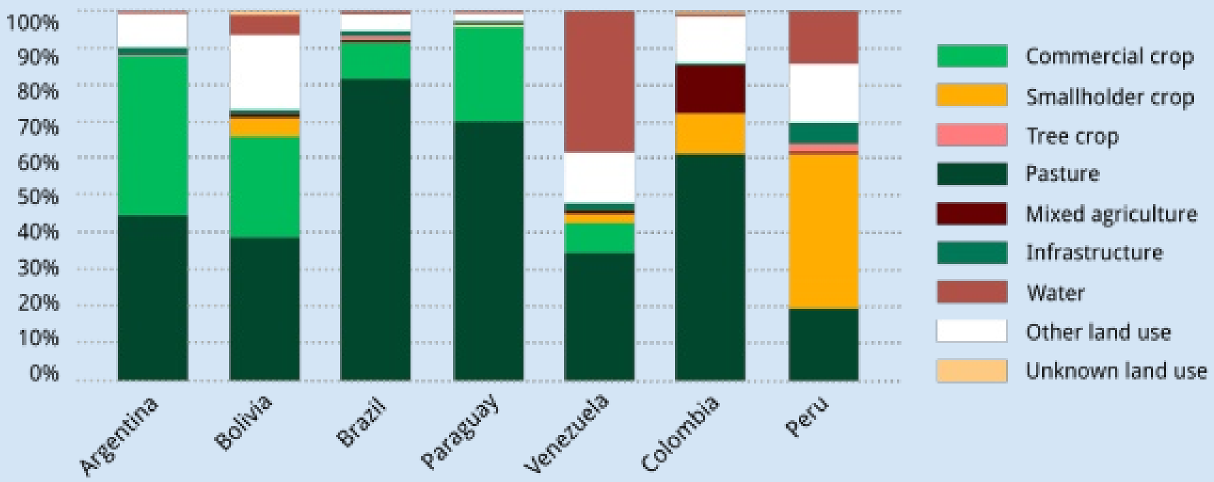
What will happen to forests and communities?

The continued drive to increase meat production by Mercosur governments strikes fear into the hearts of those who have witnessed the large-scale destruction of forests, biodiversity, ecosystems, communities, health and animals already caused by unsustainable, industrial livestock and feedstock farming in Mercosur countries, and in neighboring states. Many studies have already highlighted the massive impacts of deforestation, as land and communities are cleared to make way for monoculture soy plantations and cattle ranches. There is already widespread displacement of peoples for these industries, with communities, forest dependent peoples and Indigenous Peoples being dispossessed of their lands and heritage. [14]

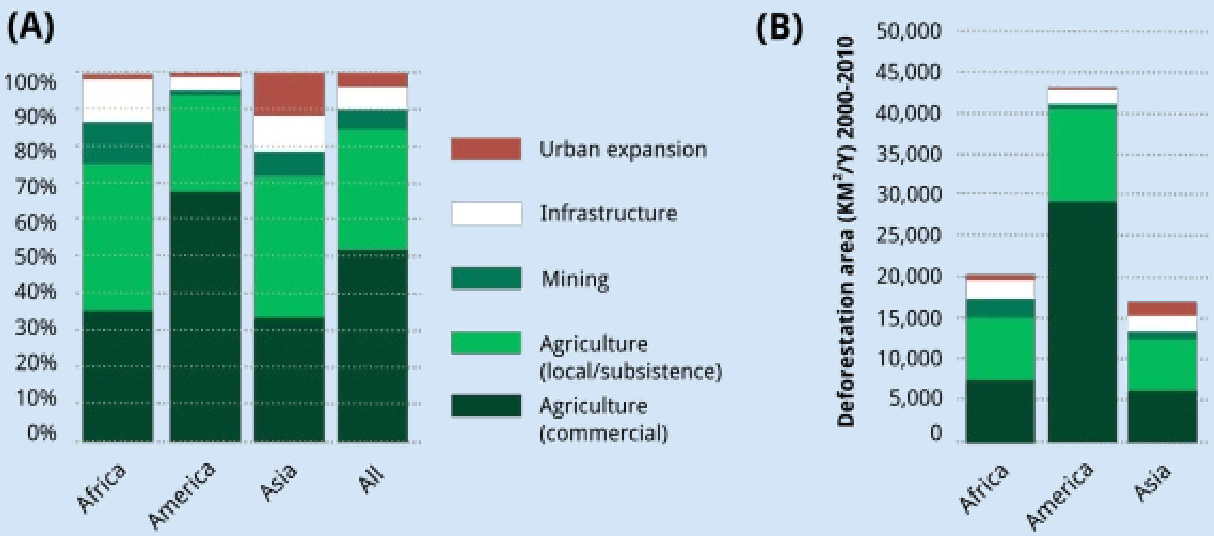
The graphs opposite make it visually clear that meat production is a significant driver of forest and biodiversity loss, especially in South America, where much of the world's deforestation takes place. Clearing land for cattle pasture and for growing animal feed are the most significant causes of deforestation in Mercosur countries. The 2016 State of the World's Forests report refers to an analysis in seven South American countries which found that 71% of deforestation between 1990 and 2005 was driven by increased demand for land, while in Brazil the figure was even higher at 80%.

A peasant farmer in Paraguay looks out over endless fields of monoculture soy. **Viki Hird/GFC**

Proportion of deforestation attributed to various drivers in seven South American countries, 1990-2005



Estimate of (A) proportion of total area of land-use change associated with various proximate drivers of deforestation, and (B) absolute net forest area with change associated with proximate drivers of deforestation by region, 2000-2010



Source: FAO State of the World's Forests 2016

Conclusions and Recommendations

The last sustainability impact assessment commissioned by the EU on the possible impacts of an EU-Mercosur deal was done in November 2007, and the latest one, still in its inception phase as of September 2017, will probably only be published after the deal is concluded. A number of round table meetings with stakeholders are being organized in Brussels, Buenos Aires and São Paulo but again, the impacts of these on the negotiations are unclear, as the negotiations are steaming ahead. The recently concluded round of talks in Asunción didn't end with a high-level deal being agreed, but reports from inside suggested that a deal was near. This is most likely due to upcoming elections in key Mercosur countries, where the consequences of a change in leadership and what that will mean for the negotiations are feared. Brazil and Argentina's current right-wing, neoliberal leadership are in a mad dash to seal the EU-Mercosur deal before any possible political shifts occur for their governments. For Brazil, it is clear that its meat industry “winners” have a lot to gain, while Argentina seems to see it more as an opportunity send the message that foreign investors will be once more welcomed with open arms.

Protesters target the WTO in Buenos Aires, Argentina. **FueraOMC**

At closer inspection, the EU-Mercosur deal is much more than simply a trade deal. It is a bargain (for the EU) where Mercosur’s sovereignty will be traded away, from its intellectual property rights, its services, its government procurement and so much more, in exchange for selling premium beef. The further intensification of livestock and feedstock production that will result from it will lead to even more deforestation and loss of ecosystems, harm to communities and Indigenous Peoples, and animal suffering.

Therefore, the EU-Mercosur deal must be stopped. We must amplify the voices of the people that stand to lose out, and take action to pressure decision-makers and governments into rejecting this disastrous deal.

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[1] Government Procurement (or public procurement) is the purchase of goods, public works or services by a public authority, such as a government. As it involves government funds and is usually highly regulated. However, with the EU-Mercosur deal, it is possible that public procurement will be deregulated in Mercosur countries, and opened up to favour transnational corporations.
[2] Sanitary and phytosanitary measures (SPS) are regulations protecting humans, animals, and plants from diseases, pests, or contaminants, through agreed international scientific standards in trade agreements (sanitary relating to animals; phytosanitary relating to plants)
[3] https://www.politico.eu/article/mercosur-eu-deal-faces-race-against-the-clock/
[4] http://en.mercopress.com/2017/09/19/irish-and-french-farmers-warn-about-mercosur-eu-beef-negotiations
[5] https://af.reuters.com/article/africaTech/idAFL8N1QB4P6
[6] http://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur/
[7] http://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur/
[8] European Commission Directorate-General for Trade http://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur/
[9] https://mejorsintlcorg.files.wordpress.com/2018/02/declaration-no-to-fta-with-eu-feb-2018-english.pdf
[10] https://www.bilaterals.org/?12-reasons-why-we-say-no-to-the
[11] https://mejorsintlcorg.files.wordpress.com/2018/02/declaration-no-to-fta-with-eu-feb-2018-english.pdf
[12] The World Trade Organization defines geographical indicators as: “indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin.” This is significant in trade in commodities as the WTO intellectual property rights agreement has strict regulations and punitive measures to protect the value of the geographical indicators of products.
[13] https://www.bilaterals.org/?12-reasons-why-we-say-no-to-the
[14] Case studies from Brasil, Bolivia, India, Paraguay and Russia can be seen in our report “What's at Steak” http://globalforestcoalition.org/whats-steak-real-cost-meat/