

## Sustainability Impact Assessment in Support of the Association Agreement Negotiations between the EU and Mercosur– Draft interim report of 3/10/2019

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29/10/2019*

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### General remarks

First of all, according to the interim report (p. 23), the objective of this evaluation is limited to “*policy recommendation or flanking measures to promote sustainability and to prevent or try to mitigate negative impacts of the potential agreement*”. This narrow objective limits the interest of the SIA as we understand that **it is no longer possible at this stage to consider proposals to amend the content of the agreement**, in accordance with the results of the SIA. It is equally **regrettable that the interim report does not include recommendations**, giving the opportunity to stakeholders to react on the proposed recommendations before the SIA is finalized.

Secondly, the interim report often relies on data that is 5 years old or older (e.g. figures 2, 3, 4, 5, 14, table 22, etc.). But, **failure to take account of more recent data or events may bias the results**. As an illustration, disregarding Brazil’s recent policy towards Amazon and environmental regulation may lead to minimise the impact of the increase in agricultural production in Mercosur on deforestation, indigenous populations’ rights and greenhouse gas emissions (GHG).

Thirdly, **the assessment of the economic and social impacts of the agreement relies on the CGE model which has been widely criticised**<sup>1</sup> for its inherent limitations (eg. the simulations are sensitive on large numbers of assumptions and on the choices of some variables) and its tendency to overestimate the benefits of trade agreements. Yet, the interim report **only mentions the limitations of the CGE model when the results of the model are particularly worrying** i.e., when they show an increase in beef imports from Mercosur by 54% to 78% (see p. 111). Only in this section, does the interim report acknowledge that the “*results need to be qualified based on the limitations of the CGE analysis*” (p. 112). More generally, the interim report seems to **minimize the potential negative impacts of the agreement** – fiscal loss for States, deforestation, infringements of the rights of indigenous populations, GHG emissions, etc. - **while overly insisting on the hypothetical economic and social gains**.

Finally, the structure of the interim report makes it difficult to identify all the expected impacts of the agreement. The report devotes long developments on baselines/sector overviews and include long sectorial tables while being **overly brief on the actual analysis of the impact of the agreement**. As an illustration the “Environmental Analysis” devotes 17 pages on detailing the methodology/baseline and **only 2 pages on the analysis**. In addition, some expected impacts of the agreement are only mentioned in the “sectoral analysis” and not in the social, environmental and human rights analysis sections, which makes it difficult to have a full picture of the impacts of the agreement.

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<sup>1</sup> Eg. : [https://www.veblen-institute.org/IMG/pdf/note\\_veblen\\_evaluation\\_accords\\_de\\_commerce\\_sept\\_2017.pdf](https://www.veblen-institute.org/IMG/pdf/note_veblen_evaluation_accords_de_commerce_sept_2017.pdf) ; [https://rodrrik.typepad.com/dani\\_rodriks\\_weblog/2015/05/the-war-of-trade-models.html](https://rodrrik.typepad.com/dani_rodriks_weblog/2015/05/the-war-of-trade-models.html); [https://mpr.aub.uni-muenchen.de/81394/1/MPRA\\_paper\\_81394.pdf](https://mpr.aub.uni-muenchen.de/81394/1/MPRA_paper_81394.pdf)

## Detailed questions and remarks

1. **Policy Scenario** (2.2 p. 18): the interim report explains that modelling is based on two scenarios (conservative and ambitious). Now that the main terms of the agreement reached on 28 June 2019 between the EU and Mercosur have been unveiled, it would be **more relevant to replace those scenarios by the actual terms of the agreement** when there are already known.
2. **Overall trade effects** (2.2.1 p. 19): *“The FTA will have an immediate fiscal effect associated with the loss of tariff revenue from the bilateral trade between the partners. However, it could be offset by increases in revenue from other sources (i.e. VAT)”*. **The immediate loss of fiscal revenues could have a significant impact especially on Mercosur States’ capacity to continue to implement policies to fight poverty and child labour** the importance of which is acknowledged by the interim report (e.g. Bolsa Familia in Brazil, p. 45-46). In this regard, the previous SIA on the UE-Mercosur agreement (the “2009 SIA”<sup>2</sup>) indicates :

*“Cross country evidence indicates that trade liberalisation has typically been associated with a marked decline in trade tax revenue. **The direct fiscal impact of the removal of tariff barriers to imports of industrial goods as part of the EU Mercosur liberalisation would be to reduce government revenue, if this is not mitigated by levying the same amount of income by other means. About three quarters of the total can be expected to come from industrial liberalisation. A reduction in social expenditure could then occur. Depending on the types of alternative taxes that are chosen, further social impacts would occur, if the incidence of their effects differed from those of the import tax which they replace. The short term impact of industrial trade liberalisation on expenditure in health and education might also be negative. [...]”** (p. 53)*

Therefore, **the statement in the interim report regarding fiscal loss is much too brief** in view of the significant social impact that such loss might have. The SIA ought to be much more precise in particular on the following:

- The SIA should clearly **disclose the estimate of the immediate fiscal loss for the UE and for each Mercosur country** (including the loss due to the removal of export duties). Indeed, as acknowledged by the interim report, **this loss is “immediate” and certain while potential gains in GDP/welfare are remote and uncertain** (based on several assumptions and a widely criticised economic model)
- **The basis of the statement according to which the loss of tariff revenue could be offset by increases in revenue from other sources should be explained.** The SIA should be clear on whether (i) this is the economic result of the modelling, in which case such results should be explained in greater details; or (ii) this is just an assumption, in which case the report should explain the basis for this assumption. In the estimate of the potential *“increases in revenue from other sources (i.e. VAT)”*, the SIA should take into account that multinational companies have been increasingly prone to avoid tax.<sup>3</sup>
- The SIA should assess the impacts of immediate loss of tax revenue for Mercosur in particular in their capacity to pursue social policies to fight poverty and child labour.

<sup>2</sup> [http://trade.ec.europa.eu/doclib/docs/2009/april/tradoc\\_142921.pdf](http://trade.ec.europa.eu/doclib/docs/2009/april/tradoc_142921.pdf)

<sup>3</sup> See for instance: see for example [Multinationals pay lower taxes than a decade ago, FT 2019, How multinationals continue to avoid paying hundreds of billions of dollars in tax – new research, October 2019.](#)

### 3. Consumer Impacts (2.5.2, p. 22):

- In measuring the impact of the agreement on consumers, the interim report does not seem to consider **the risk of a reduction in standards** that protect consumers in the EU as a result of the removal of non-tariff barriers. However, the Committee of Experts mandated by the French Government on the health and environmental impacts of the CETA confirmed the existence of such risks<sup>4</sup>. As EU/Mercosur agreement contains similar provisions to the CETA (e.g. TBT, SPS and “Dialogues” Chapters), the risks as to the lowering in consumer protection standards should therefore be similar.
- The interim report indicates: *“In addition, consumers derive utility based on the quality of the products. This includes direct elements such as the safety as well as indirect elements such as the ethical considerations in production including animal welfare or the labour conditions in the production. **Products that address these issues, present among European consumers and increasingly in consumers in Mercosur, are considered as higher quality and of higher value.**”* However, the whole assessment seems to focus on prices and not to include any *“ethical considerations”*.

### 4. Literature review (3.1, p.24-25):

- The interim report refers to the 2010 Commission’s paper following the 2009 SIA as if it was a proper assessment of the agreement: *“The follow up position paper assesses the economic impact of FTA to be positive both for the EU and for Mercosur countries (EC, 2010)”*. However, the Commission’s 2010 position papers does not carry out an assessment as such: it just summarizes the conclusions of the 2009 SIA and provides the Commission’s comments thereon.
- As for the 2009 SIA, the interim report states: *“The 2007 SIA also suggests that the expansion of agriculture in Mercosur in response to full liberalisation could cause social problems to the “traditional agriculture” and result in loss of livelihood for indigenous people.”* It should also be added that the 2009 SIA recommends that *“**Timing of reductions in tariffs and quota restrictions for environmentally/biodiversity sensitive products to be conditional on compliance with a set of sustainability criteria**”*

### 5. Results (3.2, pp. 28 to 39):

- In general, for transparency and accuracy purposes, **a disclosure should be included as to the limitations of the CGE analysis** and the fact that the results are based on various assumptions and choices of variables. A sensibility analysis and a time dimension should also be included to reflect more accurately the results of the modelling.
- Tables 4 to 6: it might be misleading to express changes in welfare and “GDP” in 2011 US\$ in billions whereas all other numbers are expressed in % changes relative to baseline.

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[https://www.gouvernement.fr/sites/default/files/document/document/2017/09/rapport\\_de\\_la\\_commission\\_devaluation\\_du\\_ceta\\_-\\_08.09.2017.pdf](https://www.gouvernement.fr/sites/default/files/document/document/2017/09/rapport_de_la_commission_devaluation_du_ceta_-_08.09.2017.pdf), p. 45

- Tables 6 to 15: those tables would benefit from being clearer. The product categories are not legible and seem to mix different products (e.g. beverages and tobacco). To understand more precisely the results of the application of the CGE model, **those results should be detailed for certain sensitive products such as soybeans and poultry meat.**
  - Conclusion of the economic analysis (p. 39): **a reference to the fact that in some scenarios, the Agreement would lead to a stagnation or even decrease in welfare/ GDP for Uruguay and Paraguay** should be included (see tables 4 and 5).
- 6. Social analysis – Methodology** (p. 4.1, p. 39): the interim report states that *“This SIA also assesses how the potential agreement could contribute to the uptake of internationally agreed principles and guidelines on corporate social responsibility (CSR)/ responsible business conduct (RBC)”*. However **such assessment on corporate social responsibility is unfortunately not yet part of the report.**
- 7. Social impact - Wages, income inequality and employment effects** (4.3.1 p. 56):
- Here again, for transparency and accuracy purposes, **a disclosure should be included on the limitations of the CGE analysis** and on the fact that the results are based on assumptions and choices of variables. A **time dimension** and **sensibility analysis** should also be included.
  - This section **should include an analysis of the impact of the agreement on poverty** which is one of the main focuses of the baseline.
  - The conclusion according to which the agreement *“can have a positive social effects in the EU and in Mercosur countries”* does not seem consistent with the fact that at least for Uruguay and Paraguay, the welfare effect is modelled to be neutral or even negative in some scenario (Table 16).
- 8. Expected scope of Mercosur-EU FTA and potential impact on core labour standards** (4.3.2 p. 60):
- As regards the efficiency of the **Trade and Sustainable Development (“TSD”) Chapter**: The interim report states: *“The Commission proposal for the Trade and Sustainable Development Chapter [...] means that unlike in U.S. and Canadian RTAs, failure to enforce labour provisions would not result in trade sanctions (ILO 2016) [...] Depending on the political will of EU and Mercosur countries, as well as the assistance provided by civil society stakeholders (e.g. unions, non-profit organisations, SMEs, business associations) and external experts (e.g. ILO), these institutional mechanisms could very well encourage trading partners to build upon the social progress achieved in the Mercosur region. Yet, at the same, the persistence of labour rights violations and the limited evidence on the effectiveness of labour provisions in trade agreement means that the protection of workers’ rights will require sustained commitment both in the EU and Mercosur.”*

The SIA should mention that **the lack of sanction of violation of the TSD clause has been criticised by unions and non-profit organisations** which have highlighted the limited efficiency of the existing mechanisms. The scarce resources of non-profit organisations, and thus their lack of capacity to properly monitor all the trade agreements and to attend all the stakeholders meetings for each bilateral agreement



should also be mentioned. For instance, less than two years after the beginning of the provisional application of CETA, the Commission had to find new members for the sub-group “NGO/Other organisations” of the EU civil society domestic advisory group for CETA, after the withdrawal of several members<sup>5</sup>.

- The interim report does not mention that, compared with the current situation, **the agreement will remove the EU’s capacity to strive Paraguay to respect labour standards**. Indeed, as of today, the EU as granted Paraguay a “GSP+ status” which, according to the interim report, is conditioned on “*the ratification and application of the ILO’s eight fundamental conventions on labour rights*”. Therefore, the Commission carries out regular assessments of Paraguay’s compliance with GSP+ obligations (including the application of the ILO fundamental conventions)<sup>6</sup> which may lead to sanctions such as depriving Paraguay of its “GSP+ status” if it seriously fails to comply with its obligations. The agreement will remove such possibility.

9. **Potential impact on core labour standards** (4.3.3, p. 65): On the impact of the agreement on informal employment, the interim report states: “*In the light of this conflicting evidence and the more confined regional scope of tariff liberalisation, the effects of the EU-Mercosur AA on informality remain uncertain.*” Such conclusion seems misleading as most of the **important studies quoted in the interim report tend to show at least a risk that the agreement may lead to higher informal employment**. A particular importance should be given to the “joint report by the WTO and ILO dedicated to globalisation and informal employment in developing countries” which according to the interim report “*showed that tariff cuts tended to be associated with higher informal employment*”.

10. **Environmental Analysis - Baseline** (5.2, pp. 65-82): The interim report **does not take account of latest trends and data of significant importance, which can lead to inaccurate conclusions**:

- **GHG regulation** (5.2.3, p. 73) “*With regard to the countries’ commitment to reduce CO2 emissions, Brazil is one of the few developing countries that have put forward absolute emission reduction targets in their INDC and one of the very few to have indicated an absolute target of 37% and 43% reduction below 2005 levels by 2025 and 2030 (Government of Brazil, 2015).*” p 73. **Brazil’s former commitments as regard GHG emissions decrease do not seem relevant anymore**. Indeed, Brazil’s current President expressed his willingness to withdraw from the Paris Agreement during his political campaign and, even if he finally backed off once elected, **the environmental regulation has been dramatically weakened or removed**. Brazil is not delivering anymore on the quite “ambitious” target that it committed to reach and experts believe that this target is unlikely to be met<sup>7</sup>. Therefore, in order to estimate the environmental impact of the agreement, **the current context has to be taken into account otherwise the results might be distorted** by relying on erroneous assumptions.

5 Call for expression of interest to replace two members of the EU Domestic Advisory Group for CETA, 5 June 2019, <http://trade.ec.europa.eu/doclib/html/157913.htm>

6 [https://trade.ec.europa.eu/doclib/docs/2018/january/tradoc\\_156545.pdf](https://trade.ec.europa.eu/doclib/docs/2018/january/tradoc_156545.pdf)

7 For instance, see: <https://news.mongabay.com/2019/09/bolsonaros-brazil-unlikely-to-achieve-paris-agreement-goals-experts/>; <https://www.washingtonpost.com/world/2019/08/23/bolsonaro-trump-nationalists-ignoring-climate-disaster/>.

- **Forests** (end of 5.21 and 5.2.6):
  - “deforestation remains a concern in Mercosur countries, with the exception of Uruguay, although the situation has improved during the last decade” (p 66). This might not be true anymore.
  - “Mercosur countries perform particularly poorly in the forestry sub index, with the exception of Brazil” and table 17 (p 72). Data provided are from 2016 while data from 2018 are available. And since then, the situation as regard forests in Brazil might have worsened.
  - p. 78: “Brazil has adopted significant policy and market-based initiatives to reduce deforestation since 2003, which have helped to reduce deforestation to an annual average of 0.20% in the period 2010-15 as recorded in FAO statistics. FAO data is only available up to 2015. Other sources such as Global Forest Watch<sup>50</sup> show a spike in 2016-17, before returning almost to trend in 2018. The two data sets are not directly comparable. **It will only be possible to assess whether this post-2015 trend is reflected in FAO data once the FAO’s 2020 Global Forest Resources Assessment (FRA) report has been published. According to the Global Fire Emissions Database, which compiles data from the NASA earth observatory, August 2019 recorded higher fire count and intensity than in previous years. It will not be able to provide a full comparison with other years until the end of the 2019 fire season.**”.

When assessing the **impact of the agreement on deforestation, it is not relevant to base the analysis on 2015 figures which are no longer accurate and are contradicted by recent developments.** Even if the FAO’s 2020 Global Forest Resources Assessment report has not yet been published, **other relevant data are available and should be included**, such as data from the INPE according to which:

- between January and September 2019, 7853 km<sup>2</sup> were deforested, compared to 4075 km<sup>2</sup> over the same period in 2018, a 93% increase
- between January and August 2019, the total area burned in the Brazilian Amazon reached more that 4.4 million hectares which is 70% above the average for the last 10 years.
- On **wood exports** (p. 79), **illegal logging** should be mentioned but also the potential impacts related to the production and exports of wood pulp<sup>8</sup>.

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<sup>8</sup> See for instance : BASIC, Un livre français Évolutions et impacts de l’édition en France, 2017, [https://lebasic.com/wp-content/uploads/2017/08/Rapport-Edition\\_20170912.pdf](https://lebasic.com/wp-content/uploads/2017/08/Rapport-Edition_20170912.pdf)

- **“Agriculture and the environment”** (5.2.10, pp 81-82):
  - It may seem odd that this section **focuses only on the use of pesticides and fertilizers** and does not mention the link between agriculture and deforestation and loss of biodiversity,
  - Figures 26 and 27 on Pesticide use and fertilizer use rely on outdated data (2013-2014). The SIA should provide more up to date data on pesticides that could reflect new trends for instance in Brazil which recently approved hundreds of new pesticides<sup>9</sup>.

**11. “Analysis”** [of the environmental impact of the agreement] (5.3, pp. 83-85):

- **Half of what is supposed to be the analysis of the environmental impact of the agreement is devoted to developments that are not comprehensible.** This section contains the following paragraphs: *“The first part of the analysis examines the impact of the AA on CO2 emissions, land intensity and energy demand in the EU and Mercosur countries. This analysis mainly refers to the sectors most affected by the AA. Table 24 shows the sectors that are expected to benefit most from the AA according to the most ambitious scenario, and the respective impacts.”*: This paragraph and the following table are unclear: what is the analysis on the impact of the agreement on *“CO2 emissions, land intensity and energy demand in the EU and Mercosur countries”*? To what “benefit” does the quoted paragraph refer? What is Table 24 supposed to measure?
- **Impact on CO2 emissions** (5.3.1. pp. 83-84):
  - First, the SIA should aggregate the impact on emissions of all GHG and not only CO2 emissions to provide a **full picture of the impact of the agreement on overall GHG emissions**.
  - The interim report states that *“overall, the AA is expected to have a negligible impact on CO2 emissions”* which seems to be based on seriously incomplete data:
    - the **interim report does not seem to take into account the impact of the agreement on land use, land-use change and forestry (“LULUCF”)** while acknowledging that *“In both Brazil and Paraguay, land use, land-use change and forestry has been key contributor to CO2 emissions”* (p. 75). As such, according to the interim report, between 2005 and 2010, LULUCF accounted for 55% of Brazil’s emissions and 70% of Paraguay’s. Thus, **a failure to take account of the “key contributor” to CO2 emissions in Mercosur may only lead to seriously erroneous conclusions**. More generally, LULUCF is a phenomenon that the model used in the interim report has great difficulty in measuring. This should be made much clearer in the presentation of the overall results on the impact of the agreement on GHG emissions.
    - the interim report does not seem to take into account the **emissions linked to the increase of international transport**.

<sup>9</sup> <https://www.theguardian.com/environment/2019/jun/12/hundreds-new-pesticides-approved-brazil-under-bolsonaro>

- **“Further analysis”** (5.3.2. p. 85): the interim report states that *“The report will analyse the impact on other GHGs and will lay a particular focus on the impact on deforestation, pesticides use, fisheries for Argentina and Uruguay and water resources, mostly for Paraguay and Uruguay. [...] We will also analyse the scope of the TSD chapter and the potential impact of the AA on MEAs, with an emphasis on nature and biodiversity, climate change and ozone depletion, waste and chemicals [...]”*.
  - Whereas the environmental impact of the agreement is one of the main areas of concern in relation to the agreement, **this is one of the only areas that the interim report barely covers by referring to the final report for the full analysis**. It is **highly regrettable that those crucial issues are not already included in the interim report**, such as the much debated potential impact of the agreement on MEAs, in particular the Paris agreement. It is problematic that these elements will only be included at the very last moment in the final version, without allowing stakeholders to give their comments and contributions beforehand.
  - In addition, some environmental impacts which are already identified in the sectoral sections of the report (eg. as regards ethanol) are not even mentioned in the “environmental analysis” section, which impede to have a full picture of the overall environmental impact of the agreement.

**12. Rights of Indigenous Peoples** (6.3.2., pp. 103-104): overall, the interim report is overly brief in the analysis of the impact of the agreement on indigenous populations’ rights, whereas it is an area of major concern. **The report tends to minimize the potential impact on indigenous populations:**

- by referring to a questionable assumption that **increased agricultural production in Mercosur may not entail “new land use rather than intensifying use of currently farmed land”** whereas such assumption is contradicted by facts (recent surge in deforestation in the Amazon region). Such assumption also radically differs from the 2009 SIA.
- by **balancing the potential impacts of the agreement on indigenous populations with alleged benefits** which would supposedly derive from *“foreign investment in rural areas”*, with the *“potential to provide important benefits to rural indigenous populations, such as employment, capacity building, and physical infrastructure including roads, schools, and increased access to water supplies”* and an *“increased bargaining power for indigenous communities vis-à-vis multinational corporations, and thus greater capacity to implement the demand side of human rights”*.

Such statement is **purely theoretical**, does not rely on any thorough analysis nor data (a sole study dated 2011 is mentioned but is not even listed in the bibliography). It also seems to **take for granted that development shall necessarily be a desirable path for indigenous populations** whereas they have been recognised the right *“to maintain and strengthen their own institutions, cultures and traditions and to pursue their development in keeping with their own needs and aspirations”*<sup>10</sup>.

<sup>10</sup> See <https://www.un.org/esa/socdev/unpfii/documents/FAQsindigenousdeclaration.pdf>, listed in the interim report’s bibliography.



**The SIA ought to analyse more recent studies which are listed in the interim report's bibliography** (p. 244)<sup>11</sup> and which show that the increase economic exploitation of lands often leads to the displacement of indigenous populations, their extreme poverty and marginalization. The SIA should also take due account of the current **rise of abuses and murders against the indigenous populations in Mercosur in relation to land-use dispute** (notably in Brazil). Such trend is clearly exposed in a report listed in the interim report bibliography, which states, as regards the situation in Brazil:

*“Non compliance with the Constitution of 1988 has caused great uncertainty for the future of the indigenous population. [...]. A lack of information coupled with deceptive data pave the way for the agro-business, mining, hydroelectric, and timber sectors to distort the concept of free, prior, and informed consultation. This creates deep conflicts among the peoples, companies, and the civilian population, which is characterized by being very poorly informed. Conflicts are intensifying, leaving few avenues for negotiation. The Report on Violence against Indigenous Populations published in 2017 records 56 homicides during 2016.”*<sup>12</sup>.

### 13. Beef (7.1.1., pp. 105 to 118)

- **Sanitary status** (p. 111): the interim report only refers to the “Foot and Mouth Disease”. However it would also be interesting to make a focus on the differences of sanitary standards existing between Mercosur and the EU as far a beef is concerned (use of antibiotics...). Indeed, such a context may be relevant to assess the impact of the agreement on health. An analysis of the audit carried out by members of the EU Parliament in Brazil in 2017 following the “Carne Fraca” would also be interesting<sup>13</sup>.
- **Economic impact** (p. 111): the interim report indicates that “*it does not model TRQs and only focusses on tariff protection*” (p 111). However, now that the negotiations are finalized and tariff rate quotas (“TRQ”) on beef have been unveiled, it would be more relevant to base the calculations on the real TRQ envisaged by the agreement
- The interim report states “***It is possible, except in Uruguay where it has already occupying 83% of the total land that the agricultural land may expand further in Mercosur. In Mercosur, only 40% of the land is used by agricultural activities. This suggests that there is a large room for expansion of the agricultural frontier. It may be possible that domestic consumption may fall, maintaining the stock unchanged. Moreover, even in the case that cattle stock increases, there may be an increase in the density of animals per hectare rather than an increase in the use of land***” “*Consequently, although it may be possible a limited expansion of the agricultural frontier in Mercosur associated with an increase in the cattle stocks; it is also possible that exports to the EU may be generated without increasing stocks, by increasing the animal density and/or by substituting land with other animal uses*” (p. 113). Here, the interim report merely sets out various “possible scenarios” without assessing their actual probability of occurrence and **fails to**

<sup>11</sup> Notess, Laura and Veit Peter, 2018. As Indigenous Groups Wait Decades for Land Titles, Companies Are Acquiring Their Territories. World Resources Institute. Available at: <https://www.wri.org/blog/2018/07/indigenous-groups-wait-decades-land-titles-companies-are-acquiring-their-territories>; Notess, Laura, Veit, Peter, Iliana Monterroso, Andiko, Emmanuel Sulle, Anne M. Larson, AnneSophie Gindroz, Julia Quaedvlieg and Andrew Williams, 2018. The Scramble for Land Rights. World Resources Institute, Available at: <https://www.wri.org/publication/scramble-for-landrights>; Notess, Laura, 2018. For Indigenous Peoples, Losing Land Can Mean Losing Lives. World Resources Institute. Available at: <https://www.wri.org/blog/2018/05/indigenous-peopleslosing-land-can-mean-losing-lives>.

<sup>12</sup> <https://www.iwgia.org/images/documents/indigenous-world/indigenous-world-2018.pdf>, p. 193.

<sup>13</sup> [http://ec.europa.eu/food/audits-analysis/audit\\_reports/details.cfm?rep\\_id=3874](http://ec.europa.eu/food/audits-analysis/audit_reports/details.cfm?rep_id=3874)

**carry out any thorough analysis.** This makes this section very weak **whereas this is an area of major concern.** In particular, in assessing the probability of these various scenarios, the current political will in Brazil, encouraging the continuous expansion of the agricultural frontier should be taken into account.

- **Animal welfare** (p. 114): “*Should there is an impact, this will be quite limited. However, it may be easier for EU consumers to impact in the animal welfare outcomes and, consequently, reduce and even improve the animal welfare situation in Mercosur.*”: these statements are very basic and **contain no analysis.** In particular they fail to analyse whether the agreement provides possibility for EU consumers to “*improve the animal welfare situation in Mercosur*”. The interim report also fails to analyse the scope of the dialogue on animal welfare and whether similar clauses in other trade agreements has had an impact on animal welfare.
- **Social impact** (pp. 114 - 115): “*Although beef imports from Mercosur could increase substantially, considering that they will remain a small share of the volumes consumed by the EU, the effect in total production and consequently on employment tend to be limited.*”: Here again, such conclusions are not based on any thorough analysis. There is **no reference to any hard data including the increase of beef imports from Mercosur to the EU** which is however estimated (between 54% to 78% - see p. 111), the potential impact of such increase in beef imports on prices in the EU, nor an estimate of the loss for EU farmers. The possibility of “*reconversion of farms*” in the EU is mentioned but not detailed at all whereas nothing indicates that this could be a credible option.

It has to be noted that the interim report reached **different conclusions from those of the impact assessment carried out in 2011** by the European Commission’s Joint Research Centre which concluded that: “*EU agricultural producers lose income in all scenarios and their losses increase progressively from scenario to scenario. The total loss for the scenario corresponding to Mercosur’s request post-Doha is €7.75 billion, or 3.21%, relative to the reference scenario*”<sup>14</sup>.

- **Impact on Consumers** (p. 116): the SIA should assess the sanitary risks for EU consumers linked to the significant increase in beef imports from Mercosur and the restrictions on customs controls (in application of the Customs and Trade Facilitation chapter<sup>15</sup> of the agreement), in a context of repeated sanitary scandals in Brazil (notably the “Carne Fraca” scandal). Potential risks of pressure on EU norms as regards animal production should also be looked at.

- 14. Dairy** (7.1.2., pp. 118 to 129): “*An increase in demand for milk associated with an increase in the production of dairy products for export to Mercosur will lead to an increase in price that will be translated into an increase in household income.*” (p 127) This statement does not seem consistent with the level of production found in Table 47 (p 126). How to explain such a discrepancy?

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<sup>14</sup> <https://op.europa.eu/en/publication-detail/-/publication/4e69d937-d9b9-47cb-9bf9-e79cbbce9e32/language-en>, p. 10.  
<sup>15</sup> Customs and trade facilitation, art. 10

## 15. Sugar and Ethanol (7.1.3.):

- The interim report models several scenarios of cuts in custom duties for sugar and ethanol (p. 137). As the actual level of the TRQ has now been unveiled, the modelling should be carried out on the corrected TRQ.
- The analysis of the environmental impact of the increase of sugar production (p. 138) should also be mentioned in the “environmental analysis” section of the report.
- The interim report states: *“In the case of EU, rising ethanol from Mercosur can reduce pollution in the EU by beneficially impacting its greenhouse gas emissions. European and Brazilian biofuels have different energy balances and emit different greenhouse gases. Mercosur’s ethanol production uses sugar cane, resulting in ethanol with the best energy balance as compared to ethanol from any other crop. Sugarcane ethanol from Mercosur also produces less GHG emissions (by a factor of almost 2) and helps in improving bio-diversity (EC, 2010)”* (p. 138): **such statement which seems to be partly based on the 2009 SIA is incomplete and misleading as it does not take into account land use changes** as a result of increased production of ethanol in Mercosur. The 2009 SIA indicated in this regard: *“However, land use changes for the production of biofuel feedstock must also be taken into account. If these were allowed to result directly or indirectly in increased deforestation, which is a major contributor to climate change, net impact of liberalisation could be adverse.”*(pp. 27-28). The 2009 SIA also highlighted *“potentially significant adverse impact on forests and biodiversity as increased production of biofuels leads to deforestation”* (p. 97).

## 16. Beverages (7.1.4 pp.- 140-155)

- Whereas the baseline is very detailed, the analysis section of the interim report does not indicate the precise results of the modelling on import/ export/ output/ consumption for each beverage products.
- The interim report states: *“On the Mercosur side, exposure to increased competition from European exporters may necessitate positive changes among beverage producers that improve environmental compliance and sustainability. Likewise, beverage exporters based in Mercosur will face greater incentives to comply with European regulations and legislation in order to capitalise on better opportunities in European markets.”* It is **unclear how the liberalization of beverage trade is supposed to increase incentives on Mercosur beverage producers “to improve environmental compliance and sustainability”**. This ought to be further explained in the SIA.
- The interim report states *“Consumers in both the EU and the four Mercosur countries are likely to benefit from enhanced EU-Mercosur trade in beverages. [...] The modelling exercise undertaken for this study shows that private consumption in the beverages sector will increase for all countries, with especially strong effects in the EU bloc and in Paraguay”* (p. 153). The SIA should mention the **risk for health associated with an increased consumption of sweet and alcoholic beverages**.

## 17. Chemicals and Pharmaceuticals (7.2.2, pp. 167-177): Why is the environmental impact of increased trade in chemicals not addressed (p. 171)?

**18. Motor vehicles** (7.2.4. Motor Vehicle Sector, pp. 178-190):

- the analysis of impact contained in this section seems to be limited to the following “*It could be expected that the agreement will promote the adoption of cleaner mobility options in the Mercosur region with a positive impact on environment. However, the extent of the impact will depend on how far this sector develops in the two regions.*” However this statement is **not based on a thorough analysis to explain how the liberalisation would lead to the “adoption of cleaner mobility option in the Mercosur region”**. The interim report just describes the different regulations in the EU and Mercosur but does not explain how EU regulation is supposed to “contaminate” Mercosur regulation. For instance, there is no development on the efficiency performance requirements of exported vehicles nor on the potential impacts on Mercosur of a petrol and diesel vehicles ban in some EU countries, which is mentioned in p 190.
- The SIA should include an analysis of the expected impacts of liberalisation on the **types of vehicles exported from the EU to Mercosur** which should take into account the fact (i) that hybrid and electric vehicles already benefit from reduced tariffs in Argentina and Brazil and (ii) that EU car producers have increasingly switched their production to SUV vehicles.
- To assess the environmental impact of motor vehicle liberalisation, it is essential that the SIA estimate **the expected change on vehicle use in Mercosur and thus on GHG emissions of the transport sector**. In this regard, the 2009 SIA concluded: “*The environmental impacts will be related to the changes in production levels, changes in vehicle use, changes in trade, and changes in technology that result from trade liberalisation. Environmental quality can be expected to decline with increased production and vehicle use increasing air pollution.* (p. ix). As such, **the 2009 SIA recommended that the TSD chapter include a clause on “EU Mercosur cooperation on the development of measures to reduce particulates and CO2 emissions from automobiles, focusing particularly on technology development and transfer opportunities between Mercosur and EU in the areas of biofuels, engine design and emission control technology”** (p. 99). The SIA should thus take into account that such cooperation has not been included in the TSD clause of the agreement.

**19. Sectoral analysis on services** (pp.191 to 234):

- Overall this section seems **disproportionately long and detailed in certain aspects** compared to the rest of the interim report.
- **Tables 82 and 83** (p. 204 and 205) are not understandable as the first line is missing. In addition, the figures do not seem consistent with the statements “*The long-term impact of business services liberalisation on the development of skilled labour is relatively low, but largely positive. The decline of skilled labour in Argentina (-0.14% under the ambitious scenario) is below the perception threshold*”.