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European Union (EU) – MERCOSUR Trade Agreement: Implications for U.S. Exports and Market Shares

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Abstract

On June 28, 2019, the European Union (EU) and the South American trading bloc composed of Brazil, Argentina, Paraguay, and Uruguay known as the MERCOSUR finalized negotiations for a trade agreement. This trade agreement encompasses 22 percent of the world's Gross Domestic Product (GDP) in 2021, close to 25 percent of global trade, and includes over 780 million people. The agreement will eliminate 93 percent of tariffs for MERCOSUR exports to the EU, while offering preferential treatment for the remaining 7 percent. The agreement creates tariff-rate quotas (TRQs) for selected EU agricultural exports to MERCOSUR. The agreement also includes stricter production standards related to climate change that will require commitments—from Brazil in particular—to enforce environmental protections of the Amazonia. This paper will assess the impact of the EU-MERCOSUR trade agreement on global agricultural trade and the competitiveness of U.S. agricultural exports going forward. The United States exports over \$15 billion annually in agricultural products to the EU and competes with MERCOSUR in the EU market. This paper will also assess the impact of the tariff reductions under the EU-MERCOSUR trade deal on U.S exports of soybeans, feeds, beef and beef products, ethanol, and tobacco.

Keywords: European Union, MERCOSUR, Brazil, Argentina, Paraguay, Uruguay, United States, trade agreement, exports, imports, commodities.

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European Union (EU) – MERCOSUR Trade Agreement: Implications for U.S. Exports and Market Shares

On June 28, 2019, the European Union (EU) and the South American trading bloc composed of Brazil, Argentina, Paraguay, and Uruguay known as the MERCOSUR finalized negotiations for a trade agreement. The trade agreement eliminates 93 percent of tariffs for MERCOSUR exports to the EU and removes tariffs or creates tariff-rate quotas (TRQ) for key EU agricultural exports to MERCOSUR.

This study investigates the evolving trade trends in the EU, MERCOSUR, and the United States and discusses the impact of the trade agreement on the increase in competition for global exports and how this agreement may influence agricultural markets and trade competitiveness, and affect future global agricultural trade during implementation of the EU-MERCOSUR trade agreement.

The United States exports over \$15 billion annually in agricultural products to the EU and competes with MERCOSUR in the EU market. The tariff reductions under the new EU-MERCOSUR trade deal could impact about \$4 billion of U.S. annual exports. In particular, increased exports of soybean and soybean products from Brazil and Argentina could lead to further reductions in the U.S. share of global soybean trade. Other U.S. products that could be negatively impacted by the EU-MERCOSUR trade agreement include feeds, beef and beef products, ethanol, and tobacco.

This study describes the key trade policy measures affecting agricultural markets under the EU-MERCOSUR trade agreement; changes in production, prices, and trade across agricultural commodities; and changes in market share for U.S. agricultural products in global markets. While the EU-MERCOSUR trade deal goes beyond tariffs, tackling domestic issues such as labor, key regulatory issues governing food safety standards, climate and the environment, these issues are not part of this analysis. However, indirect impacts from the EU-MERCOSUR trade agreement could impact MERCOSUR gains in the EU market, derived from the stricter production standards related to climate change that will require commitments from Brazil to enforce environmental protections of the Amazonia.

Simulation Results

The standard GTAP computable general equilibrium model (Hertel, 1997 and Corong et al., 2017) is employed to simulate the trade scenarios under the EU-MERCOSUR trade agreement. The GTAP model data used in this work are for the year 2017 and they were obtained from the GTAP Database Version 11 (Aguiar et al., 2019).

Table 1 presents the value of MERCOSUR exports to the EU27, before and after the trade deal. (MERCOSUR beef and sugar exports to the EU27 have been constrained to mimic the current TRQs in place).

Table 1. Mercosur exports to EU27 before and after the simulation of the trade agreement

	Before	After	Change
----- million \$ -----			
Paddy rice	0.41	1.34	0.92
Wheat	1.68	8.49	6.81
Cereal grains nec	703.49	689.27	-14.21
Vegetables, fruit, nuts	1,190.85	1,426.10	235.25
Oil seeds	2,430.80	2,476.87	46.07
Sugar cane, sugar beet	0.04	0.04	0.00
Plant-based fibers	36.08	34.63	-1.44
Crops nec	2,528.96	2,312.29	-216.67
Bovine cattle, sheep and goats, horses	5.16	5.96	0.80
Animal products nec	118.01	155.49	37.48
Raw milk	1.42	1.28	-0.14
Wool, silk-worm cocoons	192.11	209.84	17.72
Bovine meat products	1,229.65	1,679.27	449.62
Meat products nec	685.12	703.94	18.82
Vegetable oils and fats	5,509.31	5,376.67	-132.65
Dairy products	15.00	37.09	22.09
Processed rice	35.34	49.61	14.27
Sugar	274.98	281.13	6.15
Food products nec	2,470.27	4,328.25	1,857.98
Beverages and tobacco products	776.78	864.10	87.32
Total	18,205.46	20,641.66	2,436.20

Table 2. Simulated trade impacts of EU-Mercosur agreement, percent change in volume and change in dollar value (at original prices)

	Mercosur food and agricultural exports to EU27, by Mercosur country							
	Argentina		Brazil		Paraguay		Uruguay	
	%	mil. \$	%	mil. \$	%	mil. \$	%	mil. \$
Paddy rice	233.7	0.92	-1.4	0.00	-8.7	0.00	231.1	0.00
Wheat	707.0	6.87	-16.4	-0.11	-5.1	0.00	-4.0	0.00
Cereal grains nec		1.2	0.34	-4.5	-30.33	-0.7	0.00	24.5
Vegetables, fruit, nuts	24.9	103.93	12.2	88.88	-0.8	-0.01	37.4	17.19
Oil seeds	8.4	23.50	-1.2	-18.11	0.7	3.49	1.7	2.20
Sugar cane, sugar beet	-2.1	0.00	-10.4	0.00	-0.5	0.00	-1.6	0.00
Plant-based fibers	0.6	0.01	-6.0	-2.11	-0.2	0.00	-1.9	0.00
Crops nec	4.8	0.90	-10.7	-266.85	-0.2	-0.01	0.6	0.02
Bovine cattle, sheep and goats, horses	17.1	0.75	-7.4	-0.02	-1.4	0.00	7.1	0.03
Animal products nec	40.3	26.13	12.1	4.15	-0.4	-0.01	34.2	5.65
Raw milk	-3.1	-0.01	-16.3	-0.15	-1.3	0.00	-4.4	0.00
Wool, silk-worm cocoons	12.0	13.62	-22.0	-3.16	-0.1	0.00	9.0	5.74
Bovine meat products	34.9	160.87	34.5	146.60	33.5	13.54	34.9	105.58
Meat products nec	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Vegetable oils and fats	2.3	65.02	-11.1	-261.07	0.6	1.76	5.5	2.32
Dairy products	0.2	0.01	305.1	20.51	0.5	0.00	36.2	0.78
Processed rice	50.3	1.97	34.9	1.52	48.2	1.41	36.9	8.90
Sugar	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Food products nec	36.1	376.19	99.1	1,394.62	17.0	1.23	80.0	10.24
Beverages and tobacco products	12.6	30.37	7.6	40.03	2.5	0.06	18.4	1.12
Mercosur food and agricultural imports from EU27, by Mercosur country								
	Argentina		Brazil		Paraguay		Uruguay	
	%	mil. \$	%	mil. \$	%	mil. \$	%	mil. \$
Paddy rice	77.7	0.03	14.4	0.00	6.1	0.00	5.2	0.00
Wheat	2.1	0.01	125.0	4.10	3.7	0.00	4.9	0.00
Cereal grains nec	1.4	0.01	25.0	0.37	2.7	0.00	15.4	0.01
Vegetables, fruit, nuts	22.6	6.26	35.1	86.76	9.2	0.03	27.2	2.01
Oil seeds	34.2	0.58	18.5	1.80	18.0	0.04	97.5	0.12
Sugar cane, sugar beet	1.1	0.00	1.6	0.00	0.0	0.00	0.0	0.00
Plant-based fibers	93.0	0.41	53.2	1.70	3.3	0.00	57.2	0.07
Crops nec	44.4	7.54	51.7	19.82	69.5	1.54	42.9	4.73
Bovine cattle, sheep and goats, horses	3.2	0.08	9.8	0.30	3.2	0.00	9.4	0.03
Animal products nec	7.2	0.19	5.9	0.79	8.9	0.00	11.3	0.06
Raw milk	0.9	0.00	0.6	0.01	0.6	0.00	-1.7	0.00
Wool, silk-worm cocoons	452.9	5.90	1,233.9	6.77	428.0	0.08	316.1	2.86
Bovine meat products	43.0	4.69	66.6	22.20	96.2	0.54	62.2	0.69
Meat products nec	45.9	9.70	40.2	13.54	33.5	0.13	57.8	6.29
Vegetable oils and fats	147.9	13.58	75.4	232.71	86.2	1.66	49.4	24.85
Dairy products	196.9	13.92	278.7	137.06	162.0	0.76	194.0	13.46
Processed rice	38.3	0.12	80.3	5.74	45.9	0.01	57.2	0.05
Sugar	97.5	3.66	108.1	10.76	107.3	0.18	128.5	1.03
Food products nec	64.1	100.38	56.4	461.95	66.3	12.16	56.6	31.81
Beverages and tobacco products	51.4	24.77	48.7	140.74	44.5	14.39	42.5	11.47

Table 3 Simulated impacts of EU27-Mercosur agreement on exports of bovine meat products (CMT) from Mercosur to EU27, percent change in volume and change in dollar value (at original prices)

	Argentina	Brazil	Uruguay	Paraguay	Argentina	Brazil	Uruguay	Paraguay	
	----- percent change -----					----- change in dollar value -----			
Belgium	35.0	35.0	35.0	-2.7	9.46	4.72	2.62	0.00	
Cyprus	-3.3	-19.6	35.0	-1.2	0.00	-0.01	0.15	0.00	
Czech Rep.	-2.4	-18.9	-7.6	-0.3	0.00	-0.01	0.00	0.00	
Denmark	-3.4	35.0	35.0	-1.3	0.00	2.39	2.41	0.00	
Estonia	-2.7	35.0	-7.8	-0.5	0.00	0.03	0.00	0.00	
Finland	35.0	35.0	35.0	-1.3	0.07	0.83	0.92	0.00	
France	35.0	35.0	35.0	35.0	2.02	1.76	5.43	0.71	
Germany	35.0	35.0	35.0	35.0	94.86	22.45	28.40	3.29	
Greece	35.0	35.0	-7.6	-0.3	0.43	0.05	0.00	0.00	
Hungary	-2.2	-18.5	-7.4	-0.1	0.00	-0.02	0.00	0.00	
Ireland	-3.2	-19.5	-8.3	-1.1	-0.01	-0.05	-0.01	0.00	
Italy	35.0	35.0	35.0	35.0	22.20	56.48	15.31	4.11	
Latvia	-2.7	35.0	-7.9	-0.6	0.00	0.04	0.00	0.00	
Lithuania	35.0	-18.8	35.0	-0.5	0.07	-0.20	0.11	0.00	
Luxembourg	35.0	-19.0	-7.8	-0.5	0.05	-0.02	0.00	0.00	
Malta	35.0	-19.1	-7.9	35.0	0.06	0.00	0.00	0.03	
Netherlands	35.0	35.0	35.0	35.0	27.27	25.52	30.23	2.05	
Poland	-2.6	-18.7	-7.6	-0.4	0.00	-0.28	-0.03	0.00	
Portugal	35.0	35.0	35.0	35.0	0.58	2.74	2.54	1.16	
Slovakia	-2.3	-18.7	-7.4	-0.1	0.00	0.00	0.00	0.00	
Slovenia	-1.8	-17.9	-7.0	0.3	0.00	-0.02	0.00	0.00	
Spain	35.0	35.0	35.0	35.0	3.84	20.04	15.70	2.20	
Sweden	-4.1	35.0	35.0	-1.9	-0.01	10.32	1.81	0.00	
Bulgaria	-2.3	-18.6	-7.5	-0.2	0.00	-0.01	0.00	0.00	
Croatia	-2.7	-19.0	-7.8	-0.5	0.00	0.00	0.00	0.00	
Romania	-2.3	-18.5	-7.5	-0.2	0.00	-0.05	0.00	0.00	

Table 4. Simulated impacts of EU27-Mercosur agreement on U.S. food and agricultural production, exports, and imports, percent change in volume and change in dollar value (at original prices)

	Production		Exports		Imports	
	percent	mill. \$	percent	mill. \$	percent	mill. \$
Paddy rice	0.12	3.43	0.51	2.34	0.77	0.14
Wheat	0.03	3.18	0.05	2.82	0.18	1.36
Cereal grains nec	0.10	55.59	0.43	48.28	-0.08	-0.90
Vegetables, fruit, nuts	-0.04	-30.01	-0.13	-21.70	0.05	13.35
Oil seeds	1.33	499.52	1.96	470.44	0.44	5.36
Sugar cane, sugar beet	0.17	4.66	-0.18	-0.02	0.44	0.10
Plant-based fibers	0.26	20.73	0.35	20.33	-0.13	-0.22
Crops nec	0.14	18.76	0.11	3.45	-0.15	-17.17
Bovine cattle, sheep and goats, horses	0.04	29.33	0.23	1.75	0.00	-0.02
Animal products nec	0.11	83.66	0.10	3.13	-0.27	-6.14
Raw milk	-0.02	-10.78	0.28	0.04	-0.11	-0.05
Wool, silk-worm cocoons	0.10	0.13	0.31	0.19	0.01	0.04
Bovine meat products	0.03	50.91	0.60	43.52	-0.22	-15.17
Meat products nec	0.20	231.28	1.72	209.23	-1.39	-43.38
Vegetable oils and fats	0.16	47.58	0.51	36.85	-0.02	-1.65
Dairy products	-0.01	-13.70	0.13	5.43	-0.50	-11.52
Processed rice	0.24	9.33	0.55	7.36	-0.18	-1.66
Sugar	0.18	40.05	1.26	19.88	-0.06	-1.62
Food products nec	0.02	100.19	0.11	37.73	-0.17	-100.52
Beverages and tobacco products	0.01	20.19	0.17	14.83	-0.16	-39.50

Table 5. Simulated effects of agreement on U.S. food and agricultural exports, by destination and product, million \$

	Oceania	China, Hong Kong	Japan	Korea	Rest of Asia	Canada	Mexico	Mercosur	Rest of Americas	EU27	UK	Rest of World	Total
Paddy rice	0.00	0.00	0.00	0.00	0.00	0.00	-0.28	0.00	2.99	-0.01	0.00	-0.08	2.62
Wheat	0.00	-2.70	-1.07	1.32	-1.70	-0.02	-1.07	6.33	2.98	0.47	-0.01	1.36	5.90
Cereal grains nec	0.00	-1.16	17.46	6.71	8.31	0.16	7.19	0.64	8.29	0.91	0.03	4.27	52.83
Vegetables, fruit, nuts	-0.10	-3.79	-2.16	0.41	-2.97	3.73	-0.48	-1.61	-0.13	-9.79	1.19	0.38	-15.34
Oil seeds	0.01	446.06	4.68	6.25	47.08	0.61	4.82	0.04	1.33	5.42	0.46	8.72	525.48
Sugar cane, sugar beet	0.00	0.00	0.00	0.00	0.00	-0.01	0.00	0.00	0.00	0.00	0.00	0.00	-0.01
Plant-based fibers	0.00	2.81	0.02	3.44	16.41	0.00	-0.38	-0.32	-0.13	0.12	0.00	1.70	23.65
Crops nec	0.23	-3.30	1.04	2.08	-0.31	2.96	0.03	0.87	1.18	1.74	0.12	0.50	7.14
Bovine cattle, sheep and goats	0.06	-0.05	-0.03	-0.01	0.01	0.18	-0.18	1.27	0.05	-0.08	0.07	0.56	1.86
Animal products nec	0.03	-0.57	0.12	0.02	0.37	0.52	-0.57	1.14	0.75	0.31	0.06	0.20	2.37
Raw milk	0.00	-0.01	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.03	0.00	0.01	0.04
Wool, silk-worm cocoons	0.00	-0.02	0.00	0.00	-0.03	-0.02	0.19	0.00	0.09	0.00	0.00	-0.01	0.20
Bovine meat products	0.07	25.85	-3.22	0.57	3.01	2.41	-2.47	1.41	8.45	-6.04	0.06	9.44	39.54
Meat products nec	1.35	30.18	29.78	7.96	18.21	11.52	16.27	0.51	31.58	1.06	0.60	51.72	200.75
Vegetable oils and fats	0.11	0.00	0.73	7.95	13.22	-0.23	1.94	-1.34	8.28	4.71	0.39	2.98	38.76
Dairy products	0.35	-1.93	-0.12	0.49	0.83	1.00	-0.98	-0.51	1.33	0.95	0.12	1.12	2.65
Processed rice	0.03	-0.01	-0.34	-0.05	0.06	0.16	0.76	0.02	4.53	0.04	0.08	1.02	6.29
Sugar	0.15	0.50	-0.14	0.02	5.92	8.65	0.75	-0.49	0.87	0.46	0.11	2.33	19.14
Food products nec	0.70	-4.87	-2.39	-0.15	2.80	16.42	-0.59	-5.09	9.22	-17.99	2.54	7.39	7.99
Beverages and tobacco prods	0.03	-0.23	0.01	0.31	0.33	3.25	-0.29	-3.89	-0.06	4.56	1.08	1.37	6.48
Total	3.01	486.77	44.37	37.33	111.56	51.29	24.67	-1.01	81.62	-13.13	6.91	94.96	928.34

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