Aberdeenshire COUNCIL Infrastructure Services

NORTH EAST SCOTLAND AGRICULTURE ADVISORY GROUP BULLETIN – 25 SEPTEMBER 2019

EU: MERCOSUR TRADE AGREEMENT

1 Recommendation

1.1 **It is recommended that the Group notes this report**

2 Discussion

2.1 The Mercosur trading block was established in 1991 and currently comprises Argentina, Brazil, Paraguay, Uruguay. Venezuela joined in July 2012 but its membership was suspended in 2017. Bolivia has been waiting since December 2012 for its membership to be formally ratifed. Although bilateral Partnership and Cooperation agreements have existed for around 20 years between the EU and Argentina, Brazil, Paraguay and Uruguay the recently concluded bi-regional Association Agreement between Mercosur and the EU the parties has raised concern, particularly in the UK and Irish beef industry and in environmental circles.

2.2 EU: Mercosur negotiations were initiated in 2000 and stalled on several occasions. However progress since 2016 has been relatively swift and continuous, resulting in the agreement being concluded on 28 June 2019. The deal is the largest ever struck by the EU in tariff reduction terms, with some reports estimating a reduction in EU export duty to Mercosur of around €4bn per annum – for example for cars and car parts, chemicals, machinery, textiles and enhanced market access for wine and cheese. The EU also anticipates the creation of a substantially more receptive market for its exports. Mercosur generally sets high tariffs and trade barriers and EU companies are gearing up to exploit a huge competitive advantage over non-EU suppliers. The deal is also the biggest and most comprehensive agreement negotiated by Mercosur and it is estimated in some quarters that tariffs will be eliminated on over 90% of Mercosur exports to the EU. The agreement also covers public procurement contracts, protected geographic indicators of food (PGI) and service provision.

2.3 Agricultural produce was identified as a key component of the proposed deal when negotiations began around 20 years ago, and access on competitive terms to EU markets for beef, poultry, sugar, coffee, fruit, orange juice and ethanol has been eagerly anticipated by Mercosur producers. Beef farmers in the UK and Ireland have however expressed serious concerns on the implications for market stability for their produce within the EU and there are fears financial margins - already fragile - could deteriorate significantly, a view echoed by Copa Cogeca, a group representing EU farmers. Meanwhile environmentalists worldwide fear the deal could accelerate the conversion of rainforest to pasture for livestock.

2.4 With market prices already at a very low point, the timing of the deal could not have come at a worse time for the beef sector in Scotland. The most recent (September) analysis of the beef sector by Stuart Ashworth, Director of Economic Services at Quality Meat Scotland attributes current low returns to a slight increase in supply at a time when demand is falling. There have also been suggestions that meat prices are still being depressed as stocks unwind from stockpiling in advance of the UK's expected departure from the EU on 29 March. QMS also notes that low beef prices are an issue for European farmers as well as Scottish farmers and that continuing Brexit uncertainty is a destabilising factor. Clearly international market forces will continue to play a huge part in the fortunes of the Scottish meat sector regardless of Brexit. A more detailed assessment of the implications of the EU: Mercosur deal will be examined at a forthcoming meeting of NESAAG.

3 Scheme of Governance

NESAAG is able to consider this item in terms of its remit to provide a NE Scotland focus to enable issues and concerns across the agricultural and related sectors to be addressed. This includes strengthening economic development links across the wider land-based sector and food industry, contributing to regional and local priorities, improving links between industry, the environment and biodiversity and contributing to policy development and consultations.

4 Implications and Risk

4.1 There are no equality impact implications arising from this report

4.2 There are no staffing and financial implications for the council arising from this report.

4.3 No risks arising from this report have been identified for the council at Corporate Level

4.4 No issues have been identified in relation to the Town Centre First Principle

Stephen Archer
Director, Infrastructure Services

Report prepared by Derek McDonald, industry Support Executive (Rural & Maritime)
18 September 2019