



### PFP Position on EU-Mercosur Trade Negotiations

*PFP (Primary Food Processors) would like to register their concern regarding the relaunch of the EU-Mercosur trade negotiations. A trade agreement with the Mercosur bloc could have a significant negative impact on the competitiveness and sustainability of PFP in Europe, and lead to adverse social consequences for the sectors' employees.*

#### PFP main activities

Primary Food Processors is composed of six trade associations, representing manufacturers of sugar, starch, flour, vegetable proteins, cocoa, and vegetable oil and proteinmeal products respectively.<sup>1</sup> The principal activity of PFP members is to process agricultural raw materials into a range of commodities or ingredients that are purchased by secondary processors for food, feed and non-food uses. The position of PFP in the food supply chain means that we enjoy strong links with farmers. The sector directly employs over 120,000 people in the EU and provides one million indirect jobs.

Securing a ready and sustainable supply of raw materials in sufficient quantities and of proper quality is the main concern of PFP members. Currently, our industries are mainly supplied with European agricultural raw materials and many rely on the local availability of the agricultural raw materials they process. However, the EU is not self-sufficient in oilseeds and high-quality wheat, and is wholly import-dependent in cocoa, which means that for these sectors access to imports remains important.

Four points deserve consideration.

#### 1. The scale of Mercosur's agri-food trade with the EU

Mercosur is a global leader in terms of agricultural commodities production and exports, with Brazil alone accounting for almost half of world sugar exports. And Mercosur has for years been the dominant agri-food exporter to the EU; Brazil and Argentina are the EU's first and third biggest sources of agriculture imports respectively, accounting for 16.7 per cent of EU agri-food imports between March 2015 and February 2016.<sup>2</sup> These numbers alone illustrate the threat that further market opening poses for EU primary food processors.

<sup>1</sup> These are: the European Committee of Sugar Producers (CEFS); the European Starch Industry Association (StarchEurope); the European Flour milling association (The European flour millers); the European Vegetable Protein Federation (EUVEPRO); the European Cocoa Association (ECA); the European Vegetable Oil and Proteinmeal Industry (FEDIOL). For more information see <http://www.pfp-eu.org/>.

<sup>2</sup> European Commission. February 2016. "Monitoring EU Agri-Food Trade: Development until February 2016."

### 2. Domestic support and the role of the WTO

It is important to stress that the competitiveness of the Mercosur countries is not only due to natural cost advantages, but also due to significant government support. Levelling the playing field between the EU and Mercosur is therefore crucial.

It is through the World Trade Organisation that PFP would like to see domestic support addressed. Indeed, the Ministerial Decision on Export Competition that was agreed at Nairobi in December 2015 demonstrates that the WTO can still tackle subsidies. The WTO is also the appropriate forum in which to tackle systemic issues such as Differential Export Taxes (DETs).

As a result of high levels of domestic support, many of the Mercosur countries have shown themselves reluctant to open their markets to subsidised imports from their neighbours. A trade agreement should be based on an equal level of circulation of goods within the partners' respective markets. Where free circulation within Mercosur is not a reality, the EU should not make market access concessions on such goods.

### 3. The risks of market opening

Where domestic support cannot be tackled through the WTO or bilaterally, PFP urges the European Commission to respect the sensitivity of certain sectors, such as sugar, starch and wheat flour. Further opening of the EU market to imports from Mercosur would have damaging economic and social consequences for such sectors. In particular:

- Sugar, sugar products, wheat flour and some Annex 1 and Non-Annex 1 starch products should be excluded from the negotiations.
- Market opening for the livestock sector should be minimised. Feed is a major outlet for EU primary food processors, and a significant opening of the European livestock market would seriously threaten the economic viability of the entire supply chain.
- No concessions should be made on soybean oil and soy methyl ester, as long as the DET issue remains unresolved.

Where market access is conceded, effective and strict rules of origin must be applied and an effective safeguard clause for the European agriculture sector should be included in the agreement.

For cocoa and high-quality wheat Mercosur offers import opportunities for EU primary processors.

### 4. The need for policy coherence

Finally, ensuring coherence between the objectives of the various EU policies is crucial. This is particularly relevant for the relationship between the EU's trade, environment and development policies.

For one, while many PFP companies are covered by the Emission Trading Scheme Directive, the Mercosur-5 are not. As such, market opening will increase the risk of carbon leakage.

Second, in opening its market to imports from Mercosur, the EU would undermine the preferential access of the ACP and LDC countries to the EU market. Sugar, for example, is a crucial export product for over a dozen ACP and LDC countries, which are increasingly forced to compete with low cost and often subsidised imports from the EU's trading partners.

