



## PFP Position on EU-Mercosur Trade Negotiations

16.7.2010

The European Commission decided to reactivate the free trade negotiations with Mercosur (which comprehends Argentina, Brazil, Paraguay and Uruguay) suspended since 2004, during the 6<sup>th</sup> EU-Latin America Madrid Summit in May 2010. PFP (Primary Food Processors) would like to share their views on this resumption of negotiations of a free trade agreement.

### ➤ PFP main activities

**Primary Food Processors**<sup>1</sup> is composed of five trade associations (AAF, CEFS, FEDIOL, European Flour Millers, EUVEPRO) representing manufacturers of flour, starch, sugar, vegetable protein, vegetable oil and proteinmeal products.

- The principal activity of PFP members is to purchase agricultural raw materials to process into a wide range of products or ingredients for food, feed and non food uses, to be used by “secondary manufacturers”. PFP members form a primary processing industry in the food supply chain with close and strong links to the EU farming sector. PFP members process approximately 220 Mio tons of raw materials (cereals, sugar beets, rapeseeds, soybeans, sunflower seeds, crude vegetable oil, starch potatoes...), employing over 120 000 people in the European Union.
- Sustainable raw materials availability and supply is the main concern of PFP members, who must secure constant and regular access to quality and safe raw materials in sufficient quantities. High-quality and safe raw materials are essential for achieving high-quality end products and European primary food processors are keen to use EU raw materials whenever possible.
- 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, over time and after substantial EU agricultural reforms initiated in the 90's, the EU has increased its imports of raw material from third countries and is no longer self-sufficient for a range of commodities (sugar, oilseeds for example). Whereas the EU sugar and flour milling sectors supply approximately 80% of EU food needs with domestic production, in the EU Oilseed sector the figure amounts to 63% and depends on non EU countries for 37% of its supply. In case of shortages of agriculture raw materials (maize for example), access to imports is vital for certain EU areas, regions or countries.

**Our industries see with very much concern the EU decision of resuming these negotiations** which represent a major challenge and could have important harmful consequences on the competitiveness and sustainability of PFP sectors and on employment. The following main considerations must be underlined:

### **1. General principles to follow**

Ensuring consistency between the objectives of the various EU policies, in particular regarding internal market and external relations, is crucial. This is particularly relevant for the relationship between the CAP and the EU's agendas on trade, development, the environment and climate change.

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<sup>1</sup> [www.pfp-eu.org](http://www.pfp-eu.org)

The implementation of a true level playing field and the eradication of distortive trade practices taken by Mercosur countries is crucial.

Moreover, PFP members have concerns about the lack of integration of the Mercosur countries. A trade agreement should be based on an equal level of circulation of goods within respective markets. In absence of free circulation of goods inside the Mercosur market the conditions to grant concessions to Mercosur countries do not appear to be met.

Clarifications are needed on the re-starting point of the negotiations. The offer presented by the EU in 2004 to Mercosur countries had already considerable concessions directly or indirectly on different products.

A standstill on the implementation of trade distorting measures should be established while negotiations are ongoing, i.e. for example the recent introduction of measures on food imports into Argentina.

## **2. Mercosur region and EU**

Mercosur has an enormous market potential in terms of agricultural commodities production and exports; this is a key issue and threat for PFP industry and EU agriculture. However, it offers opportunities for access to raw materials as regards namely oilseeds.

Some raw materials are available in Mercosur countries at much lower prices in comparison to European market prices which create a competitive disadvantage for EU industry.

Moreover generally speaking, the EU is already a net importer of agricultural products from Mercosur: 50% of MERCOSUR exports to the EU are agricultural products (source: Trade SIA EU-MERCOSUR Final Report, revised March 2009). The EU is Mercosur's first market for its agricultural exports, accounting for 19.8% of total EU agricultural imports in 2009 (source: European Commission).

Countries such as Brazil are main world exporters of commodities (for example on sugar Brazil alone represents 50% of world exports)

## **3. WTO and the regional negotiations**

PFP members think that the multilateral agreement in the WTO as it is currently on the table could better address many trade issues and should be given priority over bilateral agreements.

Already important concessions have been given to our multilateral partners and some countries of the region will largely benefit from this. Issues such as Differential Export Taxes are a systemic problem and should ideally be dealt with in the framework of multilateral trade negotiations. In the absence of an agreement at WTO level however, it is essential that the EU, which has repeatedly voiced its opposition to Differential Export Taxes, works to eliminate this practice on a bilateral level.

Moreover we understand that in accordance with the mandate given to the European Commission in 1999, negotiations for an EU-Mercosur agreement cannot under any circumstances be concluded before the completion of the Doha Round.

In this respect, Primary Food Processors supports the Commission's "single pocket approach" avoiding that products (such as sugar, starch and starch derivatives) are paying twice: once in the FTA and a second time as WTO commitments.

## **4. Tariffs negotiations**

Given all the above, the sensitivity of certain sectors such as EU livestock, sugar sector and the starch sector should be respected. Granting concession on these products will bring damaging consequence for the industry, with relevant social consequences. In particular:

- Sugar, sugar products, both Annex 1 and Non Annex 1 starch products should be excluded from the negotiations.
- The EU-Mercosur free trade negotiations represent a major threat to the EU livestock and ultimately the feed industry as well as its suppliers. Indeed, feed is a major outlet for the EU primary food processors; a significant opening of the European livestock market would seriously threaten the economic viability of the entire supply chain.
- In the absence of a long term resolution of the DET issue, any concession on the import duties on soybean oil would be could not be accepted

## **5. Non-Tariff issues**

- Effective and strict Rules of Origin must be applied
- Effective safeguard clauses for the agriculture sector should be introduced in the agreement
- A detailed impact assessment is necessary and must be made available to concerned stakeholders before any exchange of offers takes place. The EU Commission should provide a detailed analysis of the social, economic and environmental impacts on the anticipated outcome of these negotiations.
- Generally speaking, environmental constraints are not as stringent in the Mercosur countries. For example many PFP companies are covered by the Emission Trading Scheme Directive and will incur significant costs in paying for greenhouse emissions from 2013 onwards creating a real risk of carbon leakage. Ultimately, this will affect the primary food processing industry and also impact on the development of rural areas since many PFP companies - even entire sectors, such as the sugar beet processing sector and the starch industry- have established their processing units in rural areas, near the agricultural raw material. While saving transport fuel emissions and contributing to the economic development of rural areas, those factories often face the typical infrastructure shortcomings of those areas.

As ever, we would be extremely willing to offer our experience and knowledge of the primary food markets in those countries with which the EU intends to negotiate in order to facilitate the Commission's preparation of its work. We thank you in advance for your attention to this matter and look forward to further discussions with the relevant members of your staff.

The Primary Food Processors of the EU (PFP) is composed by:

**European Starch Industry Association (AAF)**  
**European Committee of sugar manufacturers (CEFS)**  
**European Flour milling association (The European flour millers)**  
**European Vegetable Protein Federation (EUVEPRO)**  
**European Oil and Proteinmeal Industry (FEDIOL)**

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