

Sustainability Impact Assessment of EU-Mercosur Trade Negotiations

Comments and Responses on Mid-term Reports (Civil Society)

Overall SIA

Comment	Response
Public meeting, Brussels, 19 December 2006	
The representative from Friends of the Earth Europe (FoEE) requested that other options be analysed as well as full liberalisation.	The revised MTR assesses the potential impact of a less ambitious 'further liberalisation' scenario
Non-tariff barriers should be examined more fully (FoEE).	NTBs are given more attention in the revised report.
Mitigation and enhancement measures should be assessed (FoEE).	The revised report includes a preliminary assessment of flanking measures. The Final Report will include a detailed assessment of flanking measures
Potential impacts on indigenous peoples should be given more emphasis (FoEE).	This aspect has now been included in the assessment
Effects on artisanal mining should be integrated into the analysis (FoEE).	This will be considered in the final report
The nature of the market should be examined more fully, including the involvement of international corporations (FoEE).	The role of FDI is not discussed in revised report
The effects on tariff revenues should be examined both with and without compensation from other revenue sources (ODI).	The potential to raise tax revenue from new forms of taxation is discussed in the revised report.
The sensitivity of modelling results to the specification of the scenarios should be discussed (ODI)	The assumption of the modelling are discussed. Results with and without trade facilitation are reported. The SIA analysis uses a 'further liberalisation' scenario.
The representative from CEPIL suggested that it would be useful to examine the impacts of tariff rate quotas in the actual negotiation proposals, including the different revenue effects. Also, suggested that Venezuela be excluded from modelling results.	This has been considered in broad terms, but specific analysis is beyond the scope of the assessment Venezuela is not included in the analysis
The report should be made available in Spanish and Portuguese (Oxfam).	The Executive Summaries will be made available in Spanish and Portuguese
German Calfat, University of Antwerp	
I was very much surprised of the use of CG Models (with only 22 sector) to assess the likely impact of the UA-Mercosur trade association. It is not that I am against the use of CGE's (I have worked with them (also in applications to Mercosur-UE likely effects, and in an application we developed for a UE founded project to analysed the likely impacts of the association EU-Mexico) extensively). It is just that I am very skeptical of the use of this tool for the	The revised report includes the results of other modelling and partial equilibrium studies which are used in the causal chain analysis.

<p>purpose of this particular project. To be constructive, I believe that for the purpose of this specific project a partial equilibrium technique to analyse the likely impact is more appropriate. The reason is simple: you can have a much more detailed list of sectors affected by the trade agreement. Producing this list would be then a first step towards a more refined analysis at the subsectoral level on the likely impact of the changes in structure/characteristics.</p>	
<p>I am attaching to this mail a recent published article I have prepared together with a Brazilian colleague, Renato Flôres. In this article we use a very simple methodology to produce a list of sectors with opportunities at both sides of the ocean. Simple as it is, the applied methodology produces results that fits very well within the expectations of sectoral actors and can be used as a valuable information for negotiators. The level of aggregation of the CGE used but the Copenhagen group allows to have a very general idea of impact for "14 aggregated sectors" (I am not considering the impact on services because the methodology used renders meaningless the interpretation and use of the results for the services sectors) .</p>	<p>These results are reported in the revised report.</p>
<p>Another topic which is treated in a rather cavalier way in the report is the likely impact on poverty. I agree with you that the relation of trade liberalisation and poverty is a complicated issue, however, the literature is full of less or more refined attempts to deal with the issue. Guido Porto , at the World Bank now, has written a lot on this issue, and has a paper quantifying the likely impact of Mercosur and other preferential liberalisation scenarios on poverty, using household data -as it is customary-. As a simple example (I am not claiming that this is an extraordinary contribution) I am enclosing a paper -accepted for publication and forthcoming in the Journal of Development Studies-, which I have written with Ariel Barraud. In this paper we find positive poor households' welfare effects in Argentina, channeled through changes in manufactured good prices in services activities. This shows that the relation is a bit more complex than the rather speculative way in which the effect is presented in the report.</p>	<p>Noted in the revised report</p>
<p>Friends of the Earth Europe</p>	
<p>We would like to have a translation of the final reports in Spanish and Portuguese, since many of our members and partners in the MERCOSUR region do not speak English.</p>	<p>The Executive summaries of the mid term reports will be available in Spanish and Portuguese.</p>
<p>To conclude, we would like to invite you to read the civil society statement on EU Trade SIAs, published in October 2006. This statement was addressed to European policy-makers and can be viewed here: http://www.foeeurope.org/publications/2006/siastatement_eucivilsociety_oct2006.pdf</p>	<p>Noted</p>
<p>ALOP 12 Jan 2007</p>	
<p>The Final Report should bear in mind the active role that the EU must play to mitigate the negative impacts on the Social Sector in MERCOSUR countries as a consequence of the liberalization of the commerce. Specifically, the role that ODA (Official Development Assistance) must play in mitigating possible decrease in expenditure on Health and Education Programs as a result of the reduction in government revenue due to the removal of tariff barriers to imports.</p>	<p>This will be included in the assessment of flanking measures in the Final Report</p>
<p>Considering that the SIA has not included Venezuela in the research, the Final Report should have a section explaining to what extent it will affect the results of the Report.</p>	<p>Noted</p>
<p>The Final Report should consider the active participation that EU must have in the implementation of "Regulatory Regimes" on environmental issues in MERCOSUR countries. The Final Report should take into account the</p>	<p>This will be discussed in the Final Report as part of the analysis of flanking</p>

<p>“environmental conditionality” that both blocks might agree on, in order to mitigate the environmental impacts.</p>	<p>measures.</p>
<p>The Commission should implement a monitoring system to supervise to what extent the recommendations of the SIA are taken into account by the negotiators of the agreement EU-MERCOSUR.</p>	<p>This will be considered in the Final Report discussion of flanking measures.</p>
<p>The consultation process with stakeholders should be clarified. The Final Report should specify how and in what points the stakeholders considerations have been taken into account.</p>	<p>Consideration is being given to strengthening consultation process with stakeholders, particularly in Mercosur.</p>
<p>In order to promote a wider participation, the whole Final Report (not only the Executive Summary) should be translated in Spanish and Portuguese.</p>	<p>Noted</p>

Agriculture SIA

Comment	Response
Public meeting, Brussels, 19 December 2006	
Impacts on the aquifer systems should be examined more fully, including the effects of soya production changes (FoEE).	The discussion of water resource impacts and changes in soya production has been expanded
Effects on amenity value of agriculture should be explained more fully (page 65) (ODI)	Expanded
The representative of the European Confederation of Food and Drink Industries (CIAA) argued that the report is unbalanced, with insufficient emphasis on impacts in the EU and on the tariff and non tariff measures affecting EU trade with Mercosur.	The assessment of EU impacts has been expanded
Figure 4.4. on page 10 needs fuller explanation in relation to other parts of the report (CIAA). Inconsistencies in the definition of products should be corrected.	This has been clarified
Tables 4.2 and 5.2 mix 4 digit and 6 digit levels. The treatment should be consistent (CIAA).	These tables (which use EC and other recognised data) are intended to give an overall indication of key tariffs
The treatment of tariffs is inconsistent. Bound tariffs are given for the EU and applied tariffs for Mercosur (CIAA).	This has been clarified where appropriate.
The forest SIA considers Venezuela, but the agriculture SIA does not (CIAA).	This has been clarified
The reference to “economic and social crisis” (page 20) should be explained more fully, and should take account of the accession of Romania and Bulgaria (CIAA).	The reference has been removed
The written contribution of the European Confederation of Food and Drink Industries (CIAA) has not been acknowledged.	We apologise for this
The Oxfam representative requested a fuller analysis of the effects of biofuel production on food production and land conversion, with more detail of regional effects and impacts on particular social groups.	This has been expanded
The representative of the European Council of Young Farmers (CEJA) asked for a fuller analysis of the impacts on farming communities in Europe. Other EU studies have indicated large impacts.	This has been expanded
The ongoing CAP reforms (eg on fruit and vegetables) are not fully reflected in the study (CEJA).	The effects of CAP reforms have been discussed more fully
The differential impacts (including employment) for products of different quality should be examined, e.g. low quality beef in Brazil, high quality beef in Argentina (CEPII). The point was reinforced by the representative of the Irish Farmers Association (IFA) in relation to different beef cuts.	The difference is now discussed more fully in the case study
The IFA representative asked that account be taken of farm level standards in Mercosur and EU, e.g. the use of hormones, environmental controls.	This will be taken into account in the final stage of the SIA
The representative of Agricultural Organisations and Cooperatives (COPA-COGECA) asked that statement on page 1 about EU tariffs and subsidies be reconsidered.	This has been revised
The study should take fuller account of EU agriculture as a public good, including high EU standards as a public good (COPA-COGECA).	Discussion of SPS expanded

The representative of Eurogroup for Animal Welfare reinforced the points made by COPA-COGECA, and requested that effects on animal welfare of egg and poultry production standards be examined. Written reports on this have been submitted.	A discussion of this issue has been added.
German Calfat (University of Antwerp) pointed out that the economic analysis should take full account of downward pressures on skilled wages and on poverty. The role of transport and distance should be acknowledged in the modelling.	These effects are not included in the model, but have been discussed in the wider analysis
The analysis of wage effects should take account of the informal sector (German Calfat).	This has been included
Food security issues should be examined (IFA).	This has been incorporated in relation to competition between exports and domestic consumption in Mercosur
The representative of the European Food and Drink Association (CIAA) asked that study should examine potential impacts on plant health from transfer of diseases.	This will be considered in the final stage of the study
The representative of the EU Poultry Association (AVEC) said that specific assessment for poultry meat would be welcomed (page 26), e.g. for Brazilian poultry production and potential exports to EU.	The assessment of poultry meat has been expanded
The representative of the European Committee of Sugar Manufacturers (CEFS) said that the analysis of the sugar sector is over-simplified. Developments in the international sugar market, ethanol quotas and and sugar quotas should be assessed more fully.	The assessment has been expanded
German Calfat, University of Antwerp	
The study confirms the likely expansion of food production in Mercosur. There is a crucial issue in this topic that is completely ignored in the report. I presume (I do not need any sophisticated method for this) that much of the gains will accrue to the very strong and well developed agro-business sector (by the way , in many cases the same agro-business group has common interests at both sides of the ocean). But what about the impact of the agreement for medium and small agriculture producers?. I believe this deserves further investigation.	This has been assessed more fully
Friends of the Earth Europe	
1) Mitigation and Enhancement Measures	
We deeply regret the lack of any mitigation and enhancement measure in the mid-term report. We think that this chapter should deserve special attention in the final report. All recommendations made below should also be reflected on the chapter on mitigation. We also hope that the proposed recom-mendations will address the responsibility of the European Union, and not only the responsibility of the MERCOSUR authorities (local, regional or national).	Discussion of potential mitigation and enhancement measures has been added in the impact assessment sections, and further work will be done on this in the final stage of the study
2) Water	
We regrets that the SIA makes only little mention of water as far as the environmental impacts of trade liberalisation are concerned, considering that 27% of the world's freshwater is in Latin America and that countries like Paraguay and Brazil have massive aquifer systems. We therefore propose that the assessment covers water usage, especially for monocultures such as soy.	The discussion of water impacts has been expanded
3) Plant fuels	
We would like to suggest a semantic change for the term 'biofuel'. Since this	We have decided to retain

term can lead to a con-fusion with the term 'organic', thereby giving it an inappropriate 'green' flavour, we suggest changing it 'plant fuel', which is linguistically more accurate.	the more widely accepted term
Besides, we would like the assessment to be more nuanced on the potential benefits of plant fuels with regard to climate change. For instance, we know that Brazil will reduce its vehicle emissions substantially thanks to ethanol from sugar cane and soy but that, in fact, 80% of the country's greenhouse gases come from deforestation. Besides, the energy balance of first generation plant fuels should be properly assessed, by internalising energy inputs like transport and other negative impacts on the environment and global food security. The assessment should also consider the risks of crop losses from climate change due to increasing droughts, diseases and floods (and their impacts on food supply).	This part of the assessment has been expanded, and will be considered further in the final stage of the study
The SIA should also address issues such as competition between food and plant fuel production, water consumption, expansion of monocultures and biodiversity, expansion of genetically modified crops, industrialisation and corporate concentration (vs. small-scale or family farming).	These issues have been addressed more fully
In the chapter on mitigation measures, the SIA should explore the possibility of implementing policy instruments designed to ensure that no plant fuel from unsustainable sources are being exported to the EU, while looking at the possible effect of trade liberalisation on the regulatory capacities to implement such measures.	This will be considered in the final stage of the SIA
4) Beef meat	
Disappointingly, we find the section on beef meat rather weak. The issues of this sector should be better analysed. Cattle ranching plays an important role in many MERCOSUR countries. Although a lot of trade in meat has been national and regional until now, countries like Paraguay and Brazil have major ambitions to target the European market and this could, notably, have a tremendous impact on forests. These impacts should be properly assessed.	The case study has been expanded significantly
In this respect, large-scale agro-industrial monocultures should also be taken into account. They tend to both cause direct forest conversion and replace cattle ranching, causing the latter to encroach further into the forest.	The discussion of these issues has been expanded
Confederation of Food and Drink Industries of the EU (CIAA)	
The mid-term report of the EU-Mercosur Sustainable Impact Assessment (SIA) was presented at the last Civil Society Dialogue held on 19 December 2006. CIAA, the confederation of the EU food and drink industries, has closely followed the sector study on agriculture and already provided comments and highlighted serious problem areas in the inception report.	The written comments are appreciated
We consider that the mid-term report still shows major shortcomings in particular in the first part, which analyses the current situation. The focus remains on market access in the EU, explaining in detail the EU tariff system, however, it gives only very limited insight in market access in Mercosur countries for EU products. This imbalance in the central part of the impact assessment poses serious problems of consistency and accuracy and leads only to a partial view for European negotiators.	The discussion of Mercosur access has been expanded
We regret a certain partiality and lack of rigour in the selection and assessment of data. The terms agricultural products, food products and manufactured goods are not clearly defined and seem to be used in an inconsistent way. The consultants have already noted these shortcomings in July 2006, but no changes have been incorporated.	These have been specified more clearly
CIAA commented extensively on the SIA inception report on 28 July 2006 in writing. A follow up on our input has also taken place with the consultants, but our comments are not taken up on the website of the University of	We apologise for this

Manchester, which we understand forms an important part of the SIA dissemination of information.	
Bilateral trade with Mercosur countries has become increasingly important in recent years and an impact assessment on bilateral trade relations would certainly be very valuable to support ongoing negotiations. We hope that our comments will be taken up in the further process of the impact assessment and remain at your disposal for any information you may need.	The assistance is much appreciated
EUCOFEL 19.01.07	
We are concerned especially on the phytosanitary situation in Brazil. Furthermore, please find enclosed the EUCOFEL's comments concerning the citrus originating in Brazil and exported to the European Union. If you have any question, do not hesitate to contact us.	The concerns have been noted in the report, and will be considered for closer examination in the final stage of the study.
EUCOFEL 5.02.07	
We insist on the need to establish the mechanisms adapted at European level that allow the guarantee of phytosanitary protection of European fruits and vegetables productions forehead to the real threat of the entrance of injurious organisms from EMFTA countries. For this we call for: - To establish controls "in situ" in the country of origin; - To assure rigorous and homogenous inspection in the ports entrance; - To reduce the number of entrance ports; - To demand post-harvests phytosanitary treatments established by the UE regulations; - To demand to the countries to start official plans of eradication of the existing diseases of group of forty.	These concerns have been noted and will be considered in the final stage of the study.
Victor Enciso, National University of Asuncion, Paraguay.	
I have a quick question regarding the GTAP data base used in the The EU Mercosur CGE Model for the intermediate report (agriculture sector)and it is, " what is included in "crops" and "grains". For instance, is soybean included in the former or the later?	The report has been amended to clarify the product aggregation used in the model.

Automobiles SIA

Comment	Response
Public meeting, Brussels, 19 December 2006	
The representative of the European Association of Automobile Manufacturers (ACEA) suggested that the model results are unrealistic, e.g. in predicting that output will decline dramatically (executive summary).	The Executive Summary has been rewritten.
Account should be taken of the different models of car marketed in the two regions (ACEA).	Noted in the revised report
EU manufacturers have invested heavily in manufacturing in Mercosur. Exchange rate changes are an important influence on EU investment decisions. This should be taken into account (ACEA).	The role of European investment in the automobile sector in Mercosur is discussed in detail in the revised report. The influence of exchange rate instability on investment decisions is Acknowledged.
The assessment of effects on vehicle pollution should take account of	This is acknowledged in the

increasing use of gas fuelled vehicles, and the improved environmental performance of EU cars (ACEA).	revised report.
The assessment of threats to biodiversity from biofuel production should take account of recent studies of second generation biofuels (ACEA).	Noted in the revised report.
Michel BRICOUT, ACEA, 19.12.06	
The modelling does not reflect the situation of past negotiations on automobiles: no one suggests that Mercosur import duties on automobiles should be dismantled in one step	The SIA now uses a 'further liberalisation' scenario which allows for a phased reduction in tariff and NTBs over a period of up to ten years.
The modelling is static and assumes full elasticity of offer and demand which is unrealistic	These assumptions of the CGE model are explained
ACEA recognise the workload of the consultant but regrets that it has not been consulted prior to the release of the mid-term report	Noted
ACEA stresses that the report is theoretic, far from reality and cannot be used for negotiation purposes; it can be misused and jeopardize EU interests, which has been underlined by other participants in the meeting	These concerns have been taken into account in revising the MTR.
ACEA regrets the lack of time given to respond	Noted
The conclusions play without any light and shade on the economic, social and environmental impacts in Mercosur of liberalisation of trade	The revised report gives a more balanced discussion of the potential economic, social and environmental impacts.
The report ignores that EU models are quite different from Mercosur models, in particular in Brazil	This has been allowed for in the revised report.
The report understates the investments and the market share of EU manufacturers in Mercosur	The share of EU manufacturers is acknowledged in the revised report.
The report ignores the instability of Mercosur foreign exchange rates and the impact on the strategy of long-term investors	This point is discussed in the revised report.
The report does not recognise the positive impact on environment of the energy policies in Brazil (biofuels) and Argentina (CNG), as well as EU low level of vehicle emissions	Noted in the revised report
The report does not stress the efforts and plans of the Brazilian government to protect biodiversity	This will be included in the discussion of flanking measures in the Final Report.

Forest SIA

Comment	Response
Public meeting, Brussels, 19 December 2006	
The representative of the Confederation of European Paper Industries (CEPI) said that the study should assess the effects of different Mercosur and EU levels of protection of forest products on EU companies and jobs.	This request is noted
Interactions between biofuel production and paper production should be examined (CEPI).	This comment will be taken forward
Friends of the Earth Europe	
As a whole, we find the assessment of a good quality, detailed and well referenced. However, we feel a few aspects of the analysis and methodology should be improved:	These comments are much appreciated. Further refinements will be made.
1) Mitigation and Enhancement Measures	
We deeply regret the lack of any mitigation and enhancement measure in the mid-term report. We think that this chapter should deserve special attention in the final report. All recommendations made below should also be reflected on the chapter on mitigation. We also hope that the proposed recommendations will address the responsibility of the European Union, and not only the responsibility of the MERCOSUR authorities (local, regional or national).	It is agreed that mitigation should receive high priority in the final report. Recommendations will be even-handed.
2) Stakeholders views and consultation	
The views and arguments of the stakeholders are sometimes reflected in the assessment but this is not done sufficiently. We would like this effort to be intensified. Also, we would like to have more clarity about the process of stakeholder consultation in the MERCOSUR region. We think that this consultation should be made in a way that is a) proactive (researchers should reach out to stakeholders in the region) and b) politically balanced (balance between representatives of government, academia, NGOs, representatives of indigenous people and other forest-dependent people, trade unions and industry/business).	This objective will be followed up in consultations on the revised Mid term report.
3) Trade liberalisation scenario	
The full liberalisation scenario is a methodological assumption for the whole SIA. We understand that this scenario allows the reader to catch the general tendency of trade liberalisation. However we believe that this scenario should be refined by a) considering only a partial liberalisation of the sector (which is more realistic as far as the current negotiations are concerned) and b) considering the various non-tariff measures affecting trade in forestry products (e.g. export restrictions) which would equally be eroded by trade liberalisation.	The absence of tariffs on primary forest products makes it unrealistic to adopt a 'partial liberalisation' although the implications of phased removal for pulp and paper will be considered in the final report. Non-tariff measures affecting trade in forestry products will receive further attention.
4) Cross-sectoral sustainability impacts	
Agriculture	
As analyzed in previous EU Trade SIAs, the sustainability impacts of agricultural trade liberalisation are possibly much larger than those of forest product trade liberalisation because the protection rates and subsidies in agriculture are much higher than in forestry. Agricultural production can be increased by clearing forest. Worldwide, 80% of deforestation is caused by agriculture, not logging; and this percentage is higher in the MERCOSUR. In	The importance of these linkages is fully understood and the final report will include additional information on the relationships between

<p>Brazil, a forecast increase in soybean production is likely to cause an expansion of land farmed on the margins of the Amazon and increase pressure on areas with high biodiversity. Therefore, the link between deforestation and plant fuel production should be further explored.</p>	<p>agricultural production and deforestation.</p>
<p>The link between deforestation and expansion of beef exports should also be assessed (see below comments on the Agriculture Sector study).</p>	<p>This link will form part of the analysis in the final report</p>
<p>Extractive industries</p>	
<p>We would like to have an assessment of the impact of oil, gas & mining liberalisation on primary for-ests and on indigenous people and their land rights, which have proved to be major issues in the Chaco and Amazonian regions particularly.</p>	<p>Reference will be made to other competing primary land uses in the final report</p>
<p>5) Tree plantations</p>	
<p>We welcome the emphasis on industrial tree plantations, whose impact on sustainability is great. From the experience of the Friends of the Earth groups in the region, large-scale tree monocultures are both a direct cause of deforestation and a major factor in shifting the agricultural frontier, as they require large amounts of land while providing little employment, thus replacing small farmers who often have nowhere else to go than to the forest frontier. Plantations like eucalyptus also contribute to 'sterilise' the soil and dry out the land and rivers, posing a great threat to biodiversity. As many of these planta-tions are used for producing coal, the indirect impact on biodiversity and deforestation of increased coal use due to liberalisation should be assessed.</p>	<p>Support for the analysis of industrial plantations is appreciated. References to use of plantations for producing 'coal' are understood to refer to 'charcoal'. Research to date has not suggested that charcoal production is significant in Mercosur countries</p>
<p>6) Reality of the market</p>	
<p>Reliable macro-economic data are important but, on top of them, we would like to see more emphasis on the 'reality of the market' in the sector, i.e. the relative importance of the European corporations, their market share and the impacts these would have on the sector once liberalised (e.g.: their impact on newcomers and small companies in developing countries).</p>	<p>This issue is addressed in the Mid Term Report but further consideration will be given to the subject.</p>

