Analysis of the Draft Interim Report - Sustainable Impact Assessment (SIA) of the trade agreement between the EU and Mercosur - 04 October 2019

A draft version of the EU-Mercosur Sustainable Impact assessment was published today by LSE consulting. The 250 pages report offers a valuable attempt at quantifying the impacts of the proposed agreement. The following analysis is based on a preliminary reading.

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General remarks:

- The political agreement between the EU and Mercosur countries was reached before the publication of the SIA. It means that no results of the impact assessment guided negotiations or informed positions taken by the EU. This is a grave failing.
- While they are valuable tools, the European Commission has a strong impact on official sustainable impact assessments. DG trade drafts the terms of references and reviews the study before publication. Today's publication was delayed several times while researches waited for the commission's green light.
- As controversies about the TTIP impact assessments have showed, findings in official impact assessments have to be thoroughly reviewed by other researchers, and their methodology must be as transparent as possible.
- The comments from academics and NGOs on these preliminary findings will therefore be of crucial importance.

Economic analysis:

The draft report is based on **a Computable General Equilibrium** model, which has been highly criticised by researchers and civil society during previous trade negotiations (TTIP and CETA most notoriously). Results from this model are more positive than results using other internationally recognised models.

While this limitation should be kept in mind, the CGE model used for Mercosur predicts modest economic gains :

- in an ambitious scenario, by 2032 the EU GDP will be higher by 0,1%, compared to a base line without agreement. In Mercosur countries, the estimates range from +0.1% in Paraguay in the conservative scenario to +0.5% in Argentina in the ambitious scenario.
- for the EU, a large part of GDP gains comes from increased consumption from cheaper imports, while a smaller part may come from exports expansion and investment,
- the EU may experience a small decline in output of up to 0.7% in agricultural, food, energy, services and some light manufacturing sectors, but they may gain in other manufacturing sectors.

The reports gives elements per sector both in its economic and sectoral parts:

- for **beef**, in the ambitious scenario, the report predicts an increase of 63,7% of EU beef imports from Mercosur by 2032 (compared to a situation without agreement), and an increase of 14,5% of EU exports of beef to Mercosur countries.
- for **other meats**, a 78,8% increase of EU imports from Mercosur and a 50% increase of EU exports to Mercosur,
- for **dairy**, a 165,3% increase of EU imports from Mercosur and a 120,9% increase of EU exports to Mercosur,
- for **cereals**, a 46,5% increase of EU imports from Mercosur and a 5.1% increase of EU exports to Mercosur,
- for **gas**, a 34,5% increase of EU imports from Mercosur and a 302.8% increase of EU exports to Mercosur,
- for **machinery**, a 24% increase of EU imports from Mercosur and a 100.5% increase of EU exports to Mercosur.

Environment and human rights:

The report attempts to describe the impacts on the **environment and on human rights** of the agreement. While their inclusion in the scope is a positive step, results presented are preliminary at best and hardly represent the concerns raised by NGOs and affected communities about expected impacts. For example:

- The report **does not take into account the 2019 increase in deforestation rates** in the Amazon region and the weakening of controls, specifically in Brazil. Numbers are based on the pre-Bolonaro era.
- The impacts on deforestation of an intensification of beef production are for example expected to be limited, due to anti-deforestation policies from previous governments that have been dismantled by the current Brazilian administration.

The report attempts to quantify **the impact of the agreement on Green House Gases**. However, the methodology used is not sufficiently detailed. It resembles a methodology that has been strongly criticised in 2019 by French researchers, in relation to the CETA agreement. In their 2019 paper, they concluded that this model grossly underestimated GHG emissions linked to increases in trade flows.

While they should be taken with caution, the numbers presented in the Mercosur SIA are:

- an increase of emissions “in the long term” in Europe by 0.03%,
- an increase in CO_2 emissions by 0.69% for Argentina,
- both Uruguay and Paraguay are expected to experience a small decline in CO_2 emissions,
- surprisingly, numbers for Brazil are not mentioned in the study.

The study is not taking into account changes to land use (especially the conversion of forest land into agriculture land) in its emission modelling. This element is however one of the main risks associated with the EU Mercosur agreement.

An increase of emissions would be catastrophic, as both the EU and the Mercosur region are required by the Paris agreement to **strongly cut their emissions** in the years to come.

The part of the study focusing **on human rights impacts** rightfully considers the impacts on the Right to an Adequate Standard of Living, on the rights of Indigenous Peoples and on Gender equality. While its inclusion is welcome, is does not yet represent the concerns raised by Indigenous groups and women organisations on the ground. It does not yet take into account the recent dramatic increase in land related conflicts in Brazil, since the election of Jair Bolsonaro.

The team in charge of the SIA is planning workshops with NGOs and communities to improve the current draft. We are looking forward to reading the final report.