Department of Political Science *Chair of Global Trade*

THE EU-MERCOSUR INTERREGIONAL AGREEMENT: AN ANALYSIS OF TRADE POTENTIAL RESULTING FROM THE REDUCTION IN TRADE BARRIERS

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INTRODUCTION

Nowadays, the global scenario is dominated by the ongoing and exponential strengthening of political and economic relations between countries and regions. Such cooperation models increasingly represent an extremely important source due to the development potential and the opportunities that they offer. In this framework, the European Union and the Mercosur bloc, which includes Argentina, Brazil, Paraguay and Uruguay, have attempted to build a free trade area to facilitate and improve political cooperation and trade relations. Such a project, which has its origins in the 1960s, experienced significant developments over the last few decades and, especially, in June 2019 when the member countries of both blocs signed the EU-Mercosur political agreement.

Due to the critiques which have accompanied the negotiation process, the partnership is still in progress, since it requires the ratification by the different countries in order to enter into force. However, the agreement represents a huge step forward in the history of international relations and, particularly, in the history of the European Union. As a matter of fact, the establishment of such a partnership can be considered as the greatest goal achieved both by the European Community – according to European estimates it exceeds four times the importance of recent agreement with Japan (2019) and eight times the one with Canada (2017) – and by Mercosur, since the EU is the first important partner with which it concludes such an ambitious agreement. The new cooperation zone, involving approximately 780 million individuals, is expected to enhance the already established political, economic and social relations between the two regions. At first, on the political level, the alliance represents a convergence of two worlds that are apparently distant but share several similarities. Secondly, on the economic level, the planned trade barriers reduction will result in a high intensification of trade flows between the two markets, which have already partially proved their potential in recent years. Finally, on the social level, this agreement is expected to lead to the creation of key new jobs, especially at European level.

Hence, the aim of the dissertation is to analyse both the political and, especially, the economic dimensions of the EU-Mercosur agreement in order to underline the great opportunities in terms of cooperation and trade flows which will result therefrom. The work is divided into three macro-chapters by macro-arguments, concerning relations between the two economic areas.

At first, *Chapter I* deals with the development of political and economic relations between the European Union and the Common Market of South America from the 1990s until 28th June 2019, when the agreement in principles was concluded by the parties. Furthermore, a brief focus on the EU-Brazil relationship is reported in relation to the empirical analysis developed in *Chapter III*. Finally, the main advantages and disadvantages, as well as the main concerns and criticisms on several levels that this partnership entails are presented.

Secondly, *Chapter II* provides a detailed analysis of the economic scenarios of the four Mercosur member countries and their ties with the rest of the world and, notably, with the European Union. Moreover, it provides for an evaluation of data concerning trade flows in goods, services and investments, marking the respective economies over the last two decades.

Thirdly, *Chapter III* addresses the trade barriers currently existing between the two trade blocs, focusing on import tariffs and quotas which under the FTA will be significantly reduced and increased. On the basis of the main categories, the current trade barriers and the changes that will occur as a result of the ratification of the Agreement are listed. Furthermore, an empirical simulation follows. It has been developed through the SMART tool available under the World Integrated Trade Solution (WITS). Such a research considers as a case study the import tariff reduction on wine of fresh grapes that is listed in the HS Combined Nomenclature under code 2204.21. The importing country concerned is Brazil, which is the leading member of Mercosur, while the exporters examined are the EU27 countries. Data will be analysed with regard to the main beneficiaries, i.e. Portugal, Italy and France, and the major losers, including Argentina and Chile, which are currently the main exporters of wine to Brazil.

Lastly, considering the results of the empirical research, a final project deals with a business plan to be developed in the event an Italian or European company intends to export wine to Brazil. Assuming that the import tariff cut on wine has already occurred, the different stages to be implemented according to the requests of the Brazilian Ministry of Agriculture (MAPA)[1], are briefly described. The conclusions will discuss the results gathered from both the empirical analysis and the business plan, in order to highlight the main effects on exports, employment as well as winery production and turnover.

[1] MAPA is the body responsible for defining import procedures in Brazil.

CHAPTER I

AN HISTORICAL INTRODUCTION

The Establishment of Relations between Mercosur and the EU

Since the 1960s, the then-European Economic Community has been involved in the establishment of ties with Latin American countries, in order to create a long-lasting political, cultural and economic integration. Due to the importance and the benefits of such integration, the negotiation process and relations between the two areas have considerably developed over the years. The significance of such link can be demonstrated by the fact that in 2005 the European Union reached the position of Latin America's second largest trading partner preceded only by the USA and was considered as the “leading donor in the region, and an important foreign investor and partner in trade”[2].

It this context, it is important to consider that Latin America is characterized by three main blocs, namely the Mercosur[3], the Central American Common Market and the Andean Community without considering Mexico and Chile that are not full members of any group. Among the three main sub-regional groupings in which Latin America is divided, Mercosur represents the most important one in terms of economic and political partnership with the European Community. Indeed, relations between the EU and Mercosur rely on the sharing of a great cultural, historical, political, strategic and, last but not least, economic background. Hence, the need to open a dialogue that would lead to common benefits for both blocs.

The efforts for the establishment of an interregional free trade area began in 1992, when an Interinstitutional Cooperation Agreement was signed in order to provide the basis for a future treaty. In the same year, an informal meeting was organized, primarily in Guimarães (Portugal) and, subsequently, in Copenhagen, São Paulo, Paris and New York, involving the attendance of the

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[2] Source: https://www.intereconomics.eu/pdf-download/year/2008/number/2/article/the-relations-between-the-european-union-and-latin-america-and-the-caribbean-current-state-and-persp.html.

[3] Spanish acronym for Mercado Común del Sur (in Portuguese Mercado Comum do Sul, MERCOSUL). It is an international Organization established by Argentina, Brazil, Paraguay and Uruguay with the Treaty of Asunción of March 1991, which was integrated by the Protocol of Ouro Preto of December 1994. Subsequently, Chile and Bolivia (1996), Peru (2003), Colombia and Ecuador (2004) joined as economic partners.

Source: http://www.treccani.it/enciclopedia/mercosur/.

foreign ministers of both organizations. The result of such a dialogue emerged in 1994, when the European Commission presented the three main purposes of a potential EU's policy towards Mercosur. According to the European Commission MEMO/95/168, those three main points were to promote the Mercosur integration process; to encourage Mercosur's competitive integration in the world economy; to consolidate the European presence in the region. In order to achieve those aims, the proposal of the Commission was based on the pursuit of both a short and a long-term strategy (EC, 1995).

At first, the two organisations were supposed to conclude an interregional cooperation agreement, considering the main principles of the European Community – namely the reciprocity and shared interests principles – in order to achieve the long-term objective. Indeed, the purpose of the long-lasting strategy was the creation of a EU-Mercosur political and economic interregional partnership. When a solemn declaration was signed in December 1994, the parties committed themselves to follow the above mentioned strategies in order to conclude the negotiations for the Interregional Framework Cooperation Agreement. As a matter of fact, it was precisely in 1995 that an agreement for policy coordination, economic association and cooperation between the European Union and Mercosur (Interregional Cooperation Agreement) was signed. The document, consisting of 37 articles, had the objective of opening the dialogue for the creation of a free trade area in goods and services under WTO rules.

In July 1998, the negotiations between the two areas led the European Commission to present to European Union members a proposal for a bargaining mandate. As a consequence, in June 1999 in Rio de Janeiro the negotiations between the Mercosur and the European Union began, when the scenario was dominated by the parallel dialogue between Latin America and Caribbean on the one hand and United States on the other aimed at creating the Free Trade Area of the Americas (FTAA). Several years later, in 2005, the Luxembourg Ministerial Declaration reaffirmed the need to reach an economic, political and strategic partnership, as well as an interregional integration as a basis for the construction of a free trade area not merely across the Americas but even between the EU and Latin America.

After the 2006 Vienna summit, the issue seemed to be settled having concluded that an agreement with Mercosur was necessary, albeit ambitious. Indeed, this was supposed to embody "the only way to create a safe, stable, fair environment for this mutual activity to be on going over an unlimited period" (Cimpeanu, M., Pirju, S., 2010)[4]. However, due to the failure of the Doha Round in 2004, the definitive rejection of entry into a FTAA the following year and the disagreements between the two blocks with regard to the primary sector – especially the agricultural field – the dialogue cooled until 2010. Indeed, the main obstacle to the creation of the free trade area arose from the opposition of some European countries, including France, Ireland, Romania and Poland, which for fear of the competition with South American primary products refused to sign the agreement, thus leading to the suspension of negotiations.

[4] Cimpeanu, M. and Pirju, S., *The Economical Partnership European Union-Mercosur*, 2010 (p. 247).

A Focus on 2007 Brazil-EU Strategic Partnership

Among the member countries of Mercosur, Brazil represents the main trading partner of the European Union. Since 1960s, the leader of the Mercosur bloc and the EU have improved their relations, leading to the conclusion of a strategic alliance in July 2007 in Lisbon. In the attempt to achieve an increasingly high degree of interregional cooperation – which for many years has been sought through negotiations between the EU and Mercosur – the two partners have focused on the conclusion of a realist bilateral agreement.

However, the achievement of the bilateral partnership between Brasilia and Brussels has not been unhindered. Indeed, during the presidency of Luiz Inácio Lula da Silva, as well as under Dilma Rousseff, the Brazilian government began to detach itself from the foreign policy of alliance with the West, that had always been pursued since the 1960s. Albeit to different degrees, the two leaders stressed the importance of adopting an independent foreign policy and emphasized the new role that the Country was supposed to play at both the international and national level, namely "the leading voice of the global South" (Gratius, 2018).

It was only after the impeachment procedure adopted against President D. Rousseff in 2016 and the rise of President M. Temer that the foreign policy of alignment with the West and, consequently, with the European Union was restored. The restoration of the traditional approach led to the pursuit of a more liberal realist foreign policy that differed from the previous one based on a merely realist nature. The new balance sought by President M. Temer was based on a combination of national interests (trade, development and capital investment attraction), international interests (the need to emerge as a regional and global power) and universal values (human rights and the pursuit of peace) that were peculiar to Western economic liberalism. Hence, a gradual shift from protectionism to a deregulation strategy was carried out. Evidence of such a new approach was provided by the application for entry into the OECD requested by the Brazilian Federal Republic in the same year, which was previously rejected by Lula government.

The need to open negotiations at bilateral level – within a liberal realist context[5] – arose for two main reasons. Firstly, the period of stagnation in the negotiations between Mercosur and the European Union and, secondly, the greater ease with which the interests of two parties – highly similar to each other – could be related and aligned. Indeed, Brazil and the EU share much more than what can be expected and precisely for this reason both have begun to focus their external agenda on a new form of partnership between Brazil and the EU, that can be defined as a sort of hybrid-bilateralism.

The main factors that led to the awareness that a bilateral dialogue would have been advantageous for both sides have been the common position of economic power at a global level, the multilateral vocation, and the defence of the same principles including human rights, peace, democracy, integration. Moreover, despite the profound crises at national level, both have achieved important statuses at international level over the years. Indeed, even after the 2007 Strategic Partnership between Brazil and the EU, they both experienced huge internal economic crises. For instance, 2016 OECD data concerning Brazil show an economy in recession with a percentage of -3.4%, the inflation rate reached 8%, unemployment rate increased to around 11.8%, and poverty rate as well as the corruption rate grew, leading the country to a loss of both external and internal credibility. Furthermore, even the situation that has characterised the EU in recent decades is not the most favourable, due to the internal fragmentation caused by the numerous terrorist attacks, the Brexit, migration issues, the advance of right-wing parties and, currently, the spread of the so-called coronavirus disease (COVID-19) , which has paralyses the global economy.

However, it is important not to underestimate the achievements that both the leader of Mercosur bloc and the EU have reached at international level. Those are highlighted by the fact that, on the one hand, Brazil has been increasingly considered a halfway between a middle power and a global power and, on the other hand, by the fact that the EU has progressively emerged for its mix of supranational and national foreign policies.[6] In such a scenario, Brazil-EU Strategic Partnership has offered a real opportunity to promote cooperation between South America and the Union, particularly during the stagnation faced by the EU-Mercosur interregional agreement.

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[5] "Realist Liberalism" or "Liberal Realism" concerning international relations field is defined as a combination between self-interests, security and power on the one hand, and liberal principles and values, on the other hand. Source: http://www.scielo.br/scielo.php?script=sci_arttext&pid=S0034-73292018000100203.

[6] Source: http://www.scielo.br/scielo.php?script=sci_arttext&pid=S0034-73292018000100203.

Within the UN and the WTO, Brazil has increasingly emerged as a leading figure among developing countries in terms of both demographic size and economic development. This has led the country to become a key ally for the Union, especially for the success of the EU-Mercosur negotiations, which was a strategic priority at that time. Hence, the aim of the alliance established in 2007 was to further support Brazil in exercising its global and regional leadership and engaging in a strategic and open international dialogue with the Union.

The End of Stagnation: towards the FTA

In 2008, in Lima, the Fifth Summit between the EU and the Latin America and Caribbean (LAC) was carried out in order to express the willingness to continue negotiations. As a matter of fact, two years later, the resumption of talks occurred in the Argentine capital, Buenos Aires, with a bi-regional technical meeting. In that circumstance, the Mercosur member countries declared their intention to launch the liberalisation of about 90% of their resources, including those in the motor vehicle sector which represented a crucial area of interest for the Union. On the EU side, the determination to resume negotiations intensified. Indeed, this was evident from the speech of the President of the EC, Jose M. Barroso, who argued that the conclusion of the negotiations would have brought considerable opportunities in terms of labour and economic development for the two blocs. Furthermore, he stated in his speech that appropriate measures would have been taken to avoid negative impacts on some sectors, such as agriculture. Thus, in order to achieve the conclusion of negotiations for an Association Agreement, the VI EU-LAC Summit was held in Madrid in spring 2010. The interregional dialogue resumed and other foundations were laid for the reformulation of the main points of the deal, particularly to avoid further phases of stagnation due to opposition from the most hostile countries.

Negotiations for the conclusion of the free trade interregional agreement achieved further significant progress in 2016 with the rise of Mauricio Macri to the Argentinian presidency. Hence, in part due to the support of the Brazilian president Michel Temer, further efforts were made in order to achieve a EU-Mercosur free trade agreement. With regard to Temer's office, it also made progress on other bilateral agreements, such as Mercosur-Canada, Mercosur-Singapore, Mercosur-South Korea and Mercosur-EFTA (Norway, Iceland, Switzerland and Liechtenstein) and the abovementioned Brazil-EU Strategic Partnership.

Eventually, in summer 2019, the talks achieved their hoped-for outcome. Indeed, on 28th June 2019 the Association Agreement in principles between the EU and Mercosur was signed. From a political point of view, Jair Bolsonaro, who took over the presidency of Brazil on 1st January 2019, presented such an achievement as one of his successes in order to stimulate the growth of the Brazilian economy in recession for years.

The agreement between Mercosur and European Union – whose final text is still in progress, pending for the ratification by parties – would apply significant reductions in trade barriers on several Mercosur and EU products, whose flows in goods are currently rather expensive.

On the European side, Spain was the first country attempting to achieve the treaty. Subsequently, the support of Portugal, Germany, the Netherlands, Sweden, the Czech Republic and Latvia was added due to the signature of a letter to the President of the European Commission, Jean-Claude Juncker, demanding a definitive stimulus. This impulse was crucial to unblock the negotiations, considering the abovementioned reluctance of some countries such as France, Ireland, Poland and Belgium, which were very concerned about the impact on their agricultural sector and, especially, on livestock.

With regard to the content, the agreement provides for the removal of tariffs on 91% of the goods that EU companies export to Mercosur and 92% of the goods that Mercosur exports to the EU, as well as preferential access quotas for other products; the protection of 350 European Geographical Indications – including *Fromage de Herve* (Belgium), *Münchener Bier* (Germany), *Comté* (France), *Prosciutto di Parma* (Italy), *Queijo S. Jorge* (Portugal) and *Jabugo* (Spain) – and 220 IG for Mercosur; the simplification of border controls and reduction of bureaucratic formalities; a mutual commitment to respect the Paris agreement on climate change; and, finally, a special attention to small and medium-sized enterprises on both sides. Indeed, the agricultural sector will not be completely liberalised since it will be subjected to tariff quotas at reduced rates.

Finally, the last step to be addressed by the parties is the legal revision of the text in principles to reach a comprehensive version of the Association Agreement which includes all its political and trade features. Meanwhile, work on the final text and estimates of the potential impacts of the Association Agreement continues, resulting in the publication by the EC on 8th July 2020 of the London School of Economics' draft Sustainability Impact Assessment concerning EU-Mercosur trade. It provides data relating to the possible effects on economic, climate, environmental and social spheres which could arise from the entry into force of the trade agreement.

However, when the final agreement will be reached, the European Commission will provide translations into all the official languages of the EU and will submit the Association Agreement to the EU and Mercosur member states and the European Parliament for their approval. Finally, it will require the ratification by the parties, i.e. the Council and the European Parliament, Mercosur and the national parliaments of both areas, in order to effectively enter into force.

The Importance of the Agreement

Advantages

The agreement between the EU and Mercosur represents a significant step towards liberalisation and opening to international trade, through the progressive deregulation of market entry for a significant volume of products and the reduction or removal of many non-tariff barriers. Moreover, since it is not merely a trade agreement, it will provide benefits both in terms of economic growth and in terms of addressing the current issues of the global agenda, including the climate change, environment and workers' rights. Furthermore, for the European Union, such an agreement is the greatest that has ever been concluded and it is of enormous importance for European and Mercosur farmers, producers and exporters.

Notably, there are three main reasons why this agreement can represent a real turning point for the two blocks. First of all, with regard to the economic sector, some of the main benefits include the increased ease, cost-effectiveness, fairness and transparency in doing business in and with Mercosur; the global priority the EU has achieved in concluding an agreement with Mercosur; the improvement in competitiveness through the abolition of tariff and non-tariff barriers on most products and services; the protection of the European farmers' interests, by providing for compliance with EU health standards, support for SMEs and the promotion of sustainable development.

Firstly, for Mercosur countries and particularly for its two main leaders, namely Brazil and Argentina – which together account for about 90% of the organization's total GDP – the Interregional Free Trade Agreement would symbolize the awareness and acceptance of the international market reality, including its vast scale, challenges and risks, but also advantages and benefits it can provide. Indeed, dealing with liberalisation and the abandonment of protectionist policies can lead to a significant increase in exports for the four South American countries, as the FTA agreements provide for the removal or considerable reduction of European import tariffs and an increase in import quotas for a category of products highly protected by the Union, i.e. agricultural products, where it has a high comparative advantage. Furthermore, it would mark a step forward in the development of the technological sector, through the exchange of know-how with the Union, and the productive sector, primarily the agricultural field.

The Free Trade Agreement is even significant for the terms that Mercosur countries have to comply with. Indeed, the ratification of such a FTA would represent a turning point compared to the actual situation, where non-tariff barriers prevent intra-regional trade and where Mercosur countries impose high external tariffs on a wide range of products.

Secondly, the Union will benefit from the tariff cuts that Mercosur will gradually apply to many industrial products, hitherto highly safeguarded for European competition. Furthermore, the EU has the opportunity to reiterate its opposition to protectionist approach, which is particularly prevalent in the United States under the Trump presidency. Moreover, the Community has the opportunity to strengthen its position at international level, as the first major trading partner capable of concluding an Agreement with Mercosur.

Besides including several trade opportunities, the partnership will also lead to significant advantages in climate and environmental protection, food safety, as well as in the safeguard of consumers, labour rights and working conditions – those are still unquantifiable as the text of the final agreement is still pending ratification. Concerning the environmental field, the FTA will lead to the renewal of the commitments undertaken in the Paris Agreement on Climate Change. Notably, Brazil will have to comply with the targets established for carbon emissions, implement measures for reforestation and avoid further deforestation in the Amazon rainforest. Furthermore, the protection of workers' rights that might be jeopardised will be ensured as well as the creation of new jobs. According to the European Commission, Mercosur firms established in the EU have led to the creation of jobs for approximately 30,000 European citizens. Moreover, among the exports of about 60,000 European companies to the region, those to Brazil have provided jobs for 850,000 European citizens[7]. As a consequence of the potential trade and investment facilitation resulting from the agreement, such figures could assume even higher values. Finally, the deal would also benefit consumers in both blocs. Indeed, the latter will be able to choose from a broader and diversified range of products at a lower cost but of high quality, since standards to be met are set on the European model, including those for food safety. As provided for in the Mercosur-EU Agreement, those measures will be monitored by a special group, including members of civil society (European Commission, 2020).

[7] European Commission, 2020. Source: https://ec.europa.eu/trade/policy/in-focus/eu-mercosur-association-agreement/agreement-explained/.

Disadvantages

Despite all the above-mentioned potential benefits, the production sectors on both sides have expressed significant concerns about the FTA. Particularly the European livestock sector, the Argentinean and Brazilian automotive sector and, finally, environmentalists are the most exposed. The former has raised worries about the expected increase in imports of beef from South America, as although cheaper, it is not subject to the same sanitary standards as in Europe. As a response to this issue, the agreement includes a reduction in the flows of meat to the quota of 99,000 tonnes per year, without neglecting the cooperation requested and awaited by the EU in the sanitary and phytosanitary field from Mercosur countries. The automotive sector has also expressed fears regarding European competition, as the Agreement would make it cheaper due to the high prices of South American vehicles, in particular Argentinian and Brazilian vehicles.

Yet, strong criticism has been expressed by environmentalists in defence of the Amazonia. They argue that the new Agreement would lead to further deforestation and the transformation of burnt areas into camps for cattle breeding, thus increasing the export of beef. However, as previously mentioned, the agreement provides for a strict commitment by Mercosur countries, and especially Brazil, to comply with the terms of the Paris Agreement, which includes measures against deforestation. Moreover, according to the recent estimate of the effects of the trade agreement between the EU and Mercosur – the draft of the Sustainability Impact Assessment relaunched on 8th July 2020 by the EC[8] – the deal will not have negative effects on global-warming emitted gases or on the Amazon rainforest, but rather will provide measures to protect it and its indigenous people.

Finally, from a strategic point of view the agreement represents a ay to promote the integration of Mercosur countries in the context of global value chains, which could lead them to conclude preferential trade agreements with other developed economies. Indeed, by merging the two economies into global value chain, it would increase the industrial competitiveness of both parties on the international arena and promote a regulated multilateral trade system. The latter can even represent a model for countering the nationalist and protectionist waves of recent times as well as fostering economic cooperation.

[8] LSE Consulting (2020). Sustainability Impact Assessment in Support of the Association Agreement Negotiations between the European Union and Mercosur. https://trade.ec.europa.eu/doclib/docs/2020/july/tradoc_158889.pdf.

A Brief Overlook at the Responses from Third Countries

The agreement between Mercosur and the European Union has undoubtedly aroused reactions from other countries around the world. First of all, as a free trade treaty between two internationally dominant blocs, it represents a direct threat to the protectionist and nationalist wave that is spreading throughout the world. The main exponent of this trend is President Trump, but also Prime Minister Boris Johnson, namely the promoter of Brexit. Indeed, the reduction in trade barriers and the promotion of the free trade area proves that at the international level there is a certain resilience to the protectionist policies that the two leaders are implementing. Moreover, since the deal was concluded about 20 years after the beginning of negotiations, it underlines the obstacles that the United Kingdom will have to face in concluding trade agreements after Brexit (Raphael, 2019). However, the response to trade wars and protectionism does not exhaust the discourse on promoting cooperation. Indeed, it seems important to mention what such an interregional agreement means for a continent that is rarely considered, namely Africa. The treaty would certainly have negative repercussions on trade between the European Union and Africa, but those negative impacts can at the same time lead to benefits and developments in relations between the two blocs. The increased openness of trade between the EU and Mercosur will have negative consequences, first and foremost, for African smallholders. Since the reduction in trade barriers will improve even the profitability of capital investment by large European producers and multinationals in Mercosur countries, many small African landowners will find themselves unemployed. Among the small African producers who will be most affected by this agreement are the coffee and sugar exporters who will compete with the four South American countries. These are just some of the repercussions that the agreement could have. Nevertheless, since it has still not been ratified, the text will be brought to the attention of African governments in order to examine it and draw appropriate conclusions. Hence, the treaty could provide a further incentive for cooperation and the suspension of tariffs in the so called Economic Partnership Agreements (EPAs) between Africa and the European Union.

In conclusion, the agreement between the EU and Mercosur including the trade section appears on the international scenario as a model of economic cooperation, especially due to the removal of trade barriers which have the capacity to bring mutual benefits for the parties concerned.

CHAPTER II

A FOCUS ON TRADE DATA BETWEEN THE EU AND MERCOSUR

The Determinants of Mercosur-European Union Trade in Goods

As mentioned above, the trade agreement between the European Union and Mercosur represents a huge opportunity for both the blocs. Indeed, as shown by the data that are described below, trade flows between the two economies have already reached record levels in recent years. Therefore, a reduction in trade barriers and the construction of a free trade area would lead to a further increase in commercial exchanges, hence enhancing the cost-benefit ratio.

Examining data concerning the traded goods that are provided by the European Commission, it emerges from *Figure 1* that from 2007 to 2019 the Mercosur area exponentially increased trade flows to the world. Indeed, in 2007 imports and exports amounted to USD 141,987 billion and USD 191,788 billion respectively, resulting in a balance sheet of USD 49,800 billion and a total trade of USD 333,766 billion. After the 2008 financial crisis, Mercosur's trade flow figures continued to rise. Notably, exports reached 286,045 billion dollars and imports 286,756 billion dollars, leading the trade balance to zero. Looking at the most recent data, it can be observed that after a decrease in trade flows recorded in the two-year period 2015-2016, the data on total trade of the Mercosur area have risen from 2017 and have remained almost stable until 2019, with a value of exports equal to USD 272,576 billion and imports equal to 205,931 billion dollars.

Analysing the extent to which these trade flows in goods (in percentage terms) relate to trade with the European Union, it can be observed from *Figure 2* that in 2007 Mercosur exports towards the EU amounted to USD 51,778 billion, while Mercosur’s imports of goods from the Union amounted to USD 34,732 billion. Comparing these values with the ones on total trade, it emerges that they represented about a quarter of Mercosur total imports and exports. However, after the 2008 crisis, the peak in the value of Mercosur's exports of goods to the EU was reached in 2011, with an export value of USD 69,900 billion and imports of USD 59,615 billion. As regards the peak in imports, the highest figure of 66,037 billion dollars was recorded in 2013, combined with a lower value in exports compared to 2011 (60,125 billion dollars). From 2013 onwards, it can be observed

that the data in trade flows between the Mercosur area and the European Union have gradually decreased. The lowest data can be observed in 2016 with an export value of USD 44,055 billion and Mercosur's imports equal to USD 43,162 billion, for a total trade of 87,217 billion dollars.
The volume of trade increased the following year, reaching a total of 91,255 billion dollars, USD 45,644 billion of which were exports and about USD 45,611 billion were imports. Moreover, European Commission 2018 data shows that 21.3% of total Mercosur imports came from the EU28 (the United Kingdom was still a member state in 2018), while 19% of Mercosur exports to the rest of the world went to EU countries. Expressed in billions of US dollars, those percentages correspond to 48,025 for imports and 52,955 for exports, resulting in a total trade of 100,980 billion USD. According to these data, trade flows between the two economies are almost balanced. Finally, in 2019 a further decrease is observed both in exports (USD 45,583 billion) and imports (USD 43,698 billion). These percentages, as shown in the *Table 1*, correspond to 19.1% of total Mercosur imports and 15.4% of total exports respectively.

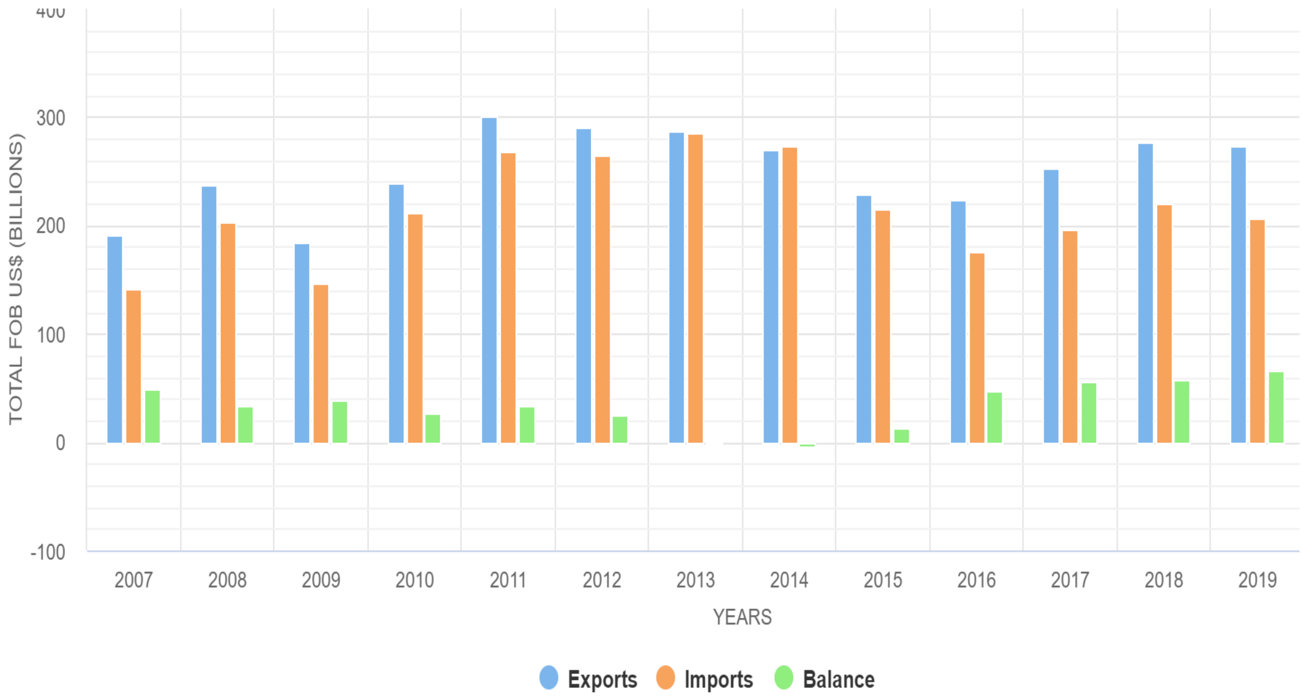
Notwithstanding the reduction in trade flows between the two economic blocs, it is significant to note from *Table 1* that the EU27 is ranked second in Mercosur's list of 2019 top trading partners for both imports and exports, preceded only by China and followed by the United States. As a result, it is evident that trade with the European Union is crucial for Mercosur countries and that the values described above can assume even higher values especially in the light of the potential trade agreement with the EU.

Looking at the 2018 data on trade with European Union countries, it is evident from the *Table 2* that in terms of imports from the EU (blue) the highest percentages are represented by Germany (30%), Italy (13%) and France (11%). With regard to the products most imported by the four South American countries from the European Union in 2018, *Figure 3* shows that they included machinery for 28.6%, transport equipment for 13.3%, chemicals and pharmaceuticals products for 23.6% (European Commission, 2018). Indeed, according to the FTA agreement Mercosur will apply several tariff cuts on machinery and transport equipment, chemical and pharmaceutical products imported from the EU. The aim is to improve the automotive and chemical industry of the leading European exporters of these products, primarily Germany, Italy and France.

Furthermore, as can be noted from *Table 2*, in terms of exports from the EU the highest percentages are represented by the Netherlands (29%), Spain (13%) and Germany (12%). In that year, the most exported products were agricultural products, including food, beverages and tobacco, accounting for 20.5% of total exports. In second place there are vegetable products such as soya and coffee for 16.3% and meat for 6.1%. As well as European products imported into the Mercosur area, these will be subject to extensive tariff cuts in order to increase the competitiveness of South American agri-food markets compared to European ones.

Finally, a more detailed analysis of the determinants concerning trade flows of goods between the leading Mercosur members and their major trading partners will be discussed below. For each of the four countries, 2007 and 2018 data on the main trading partners and on the main imported and exported products will be reported.

***Figure 1*. Mercosur Trade Flows in Goods from 2007 to 2019**



Source: MERCOSUR. https://estadisticas.mercosur.int/.

Figure 2. **Mercosur Trade Flows in Goods to the EU from 2007 to 2019**

Source : MERCOSUR. https://estadisticas.mercosur.int/.

Table 1. **Top Trading Partners 2019**

	Imports				Exports				Total trade		
	Partner	Value Mio €	% World		Partner	Value Mio €	% World		Partner	Value Mio €	% World
	World	201,033	100.0		World	240,314	100.0		World	441,347	100.0
1	China	46,669	23.2	1	China	63,469	26.4	1	China	110,138	25.0
2	EU27	38,360	19.1	2	EU27	37,005	15.4	2	EU27	75,364	17.1
3	USA	36,056	17.9	3	USA	30,545	12.7	3	USA	66,600	15.1
4	Mexico	5,301	2.6	4	Chile	7,775	3.2	4	Chile	11,580	2.6
5	South Korea	5,186	2.6	5	Japan	5,242	2.2	5	Mexico	10,353	2.3
6	India	5,069	2.5	6	Mexico	5,053	2.1	6	Japan	10,226	2.3
7	Japan	4,983	2.5	7	India	4,495	1.9	7	India	9,564	2.2
8	Russia	3,870	1.9	8	Vietnam	4,397	1.8	8	South Korea	9,041	2.0
9	Chile	3,805	1.9	9	South Korea	3,855	1.6	9	Vietnam	7,485	1.7
10	Vietnam	3,088	1.5	10	Peru	3,640	1.5	10	Russia	6,475	1.5

World trade: excluding intra-region trade.
Top partners: excluding region member states.
% Growth: relative variation between current and previous period.
Source: European Commission 2019

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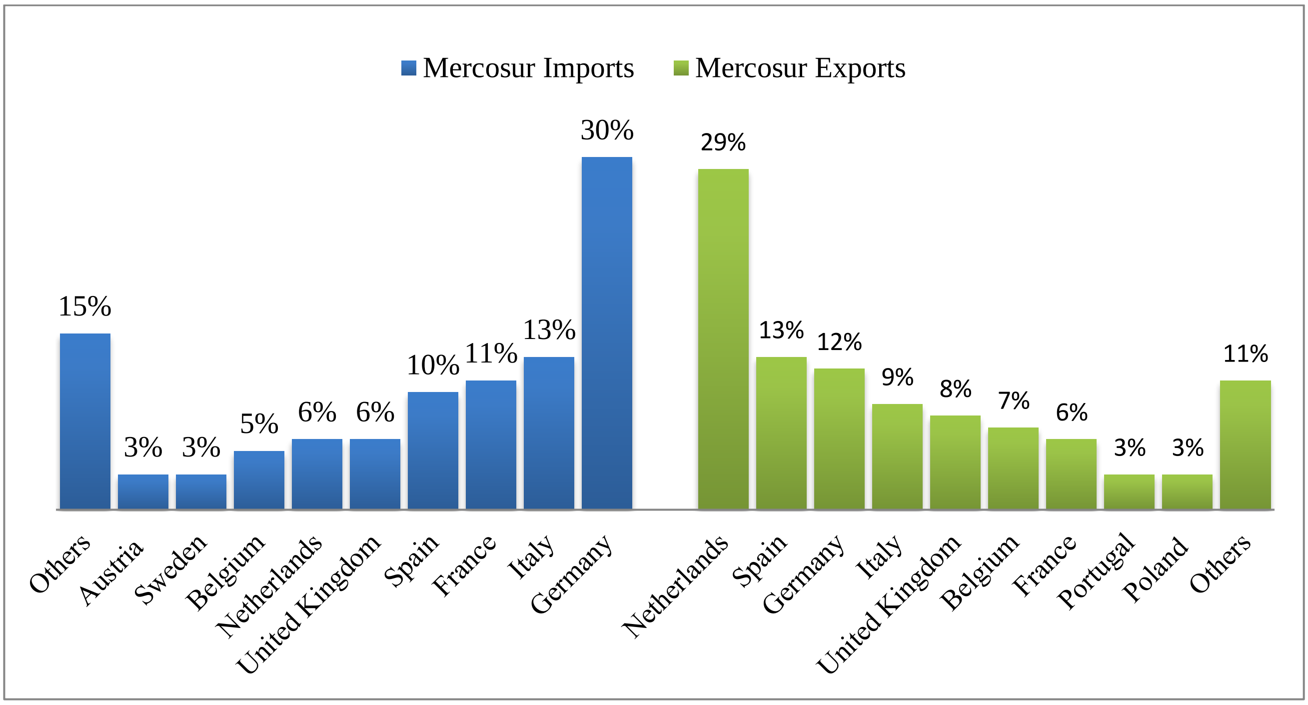
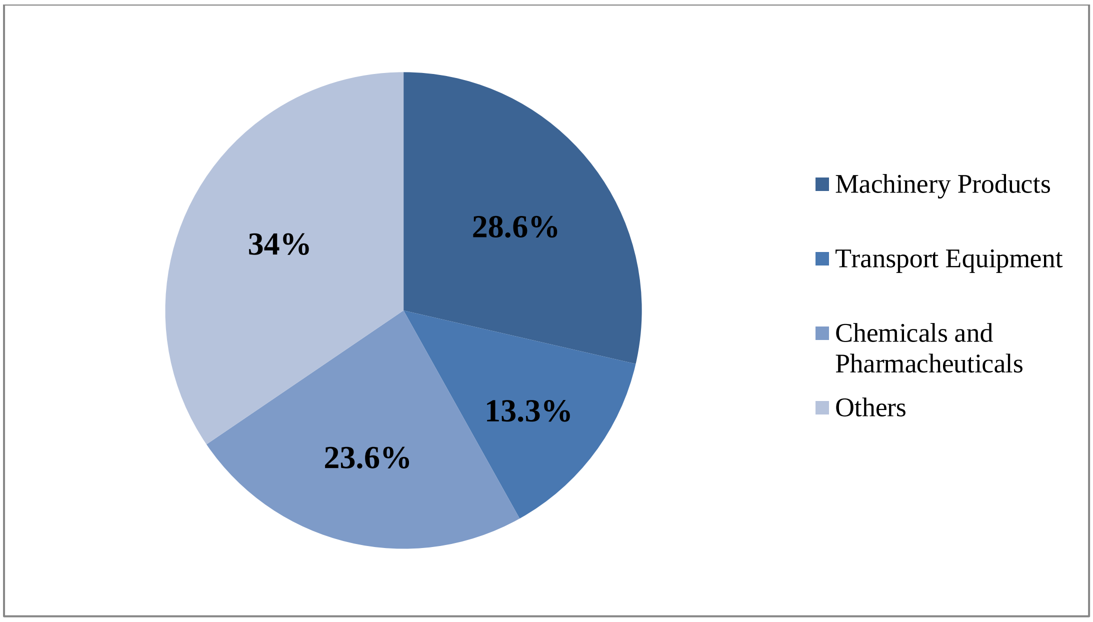
***Table 2.* Mercosur Trade Flows with the EU by Origin/Destination Country (2018)**



Source: MERCOSUR.

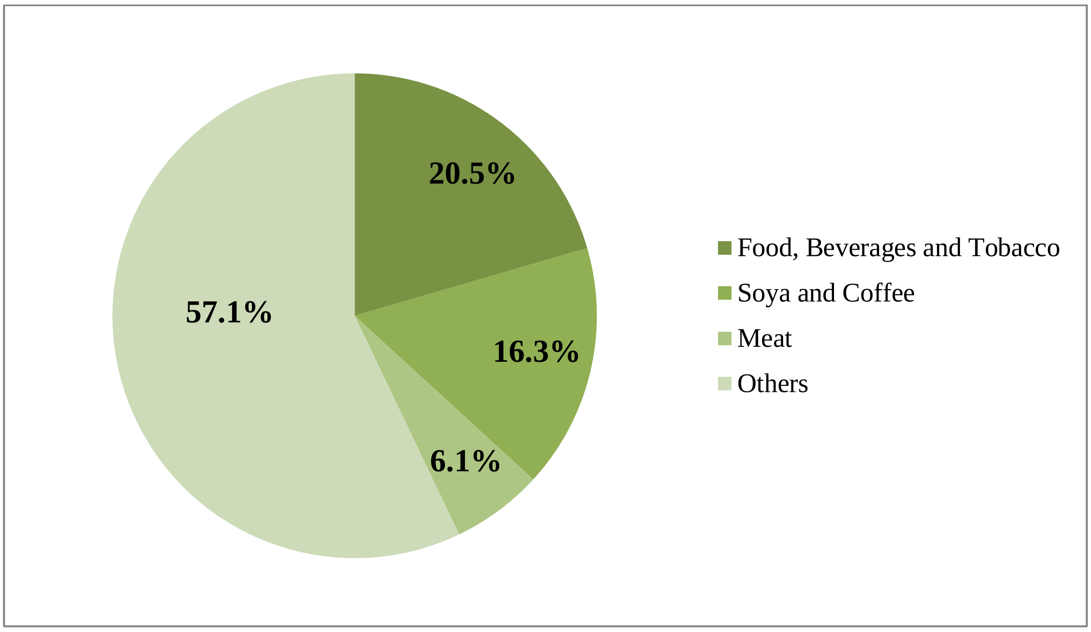
file:///C:/Users/asus/Desktop/informescomercio.pdf.

***Figure 3.* Mercosur Imports from EU in % of Total Trade (2018)**



Source: European Commission, 2018.

***Figure 4.* Mercosur Exports to EU in % of Total Trade (2018)**



Source: European Commission, 2018.
https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_mercosur-4_en.pdf.

Argentina

Argentina represents one of the most powerful economies in South America. In 2007 the Country recorded a GDP of USD 287,531 billion prior to the outbreak of the financial crisis in 2008, a trade balance of USD 12,595 billion equivalent to 4.38% of the country's GDP, trade in terms of GDP of 40.95% and trade in services in terms of GDP of 7.33% (Development Indicators 2007, WITS). In 2007, the ten main countries from which Argentina imported products were Brazil, United States, China, Germany, Mexico, Japan, Italy, France and Paraguay (see *Table 3*). With Brazil, Argentina recorded an import value of USD 14,660 million, equal to a 32.79% share of the Brazil's total imports of goods from the world in 2007 (Import Partner Share). With the United States, the value of imports was USD 5,342 million, equal to 11.95% Import Partner Share. Furthermore, with China the figures recorded an import volume of USD 5,092 million, namely 11.39% in terms of Import Partner Share. It should be noted that many European countries are listed among the major importers, including Germany (USD 2,131 million) and Italy (USD 1,071 million).

Table 3. **Argentina Top Importers 2007**

Partner Name	Import (USD Thousands)	Import Partner Share (%)
Brazil	14,660,265.61	32.79
United States	5,342,303.58	11.95
China	5,092,953.61	11.39
Unspecified	2,247,612.87	5.03
Germany	2,131,320.76	4.77
Mexico	1,335,578.62	2.99
Japan	1,200,112.75	2.68
Italy	1,071,382.25	2.40
France	1,061,116.92	2.37
Paraguay	1,056,419.95	2.36

Import: Total Import Value in thousands of US Dollars current value.
Import Partner Share: the share of total merchandise (import) trade accounted for by the partner in a given year. The total world value is 100.
Source: WITS – UNSD Comtrade.

As shown in *Table 4*, in 2007 the main products imported were machinery and transport equipment for a value of USD 21,225 million, that is 13.57% of Argentinean GDP; chemicals for a total of USD 8,165 million, that is 3.79% of GDP; fuels for a total of USD 2,731 million; food for a total of USD 1,653 million; ores and metals for a value of USD 1,450 million; textiles for a total of USD 1,402 million; and, finally, agricultural and raw materials for a value of USD 556 million.

***Table 4.* Main Products Imported in 2007 from Argentina**

Product Group	Import (USD Thousand)	Import Product Share (%)
Machinery and Transport Equipment	21,225,971.31	47.48
Chemicals	8,165,388.63	18.26
Fuel	2,731,079.46	6.11
Food	1,653,464.42	3.70
Ores and Metals	1,450,907.16	3.25
Textiles	1,402,984.64	3.14
Agricultural Raw Materials	556,515.03	1.24

Import: Total Import/Export Value in thousands of US Dollars current value.
Import Product Share: the share of total merchandise trade (import) accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

As regards exports, the 10 main trading partners in 2007 were Brazil (USD 10,486 million), China (USD 5,166 million), United States (USD 4,344 million), Chile (USD 4,176 million), Spain (USD 2,060 million), Holland (USD 1,796 million), Mexico (USD 1,433 million), Italy (USD 1,386 million), Germany (USD 1,221 million) and Uruguay (USD 1,204 million).

The main products exported in 2007 included foodstuffs with a value of USD 28,107 million, that is 50.39% of the total export product share. The latter represents the highest percentage. Indeed, products included in machinery and transport equipment represented a low percentage in terms of export product share, amounting to 15.9%, that is USD 8,471 million. Finally, the third main category is represented by fuels for a total of USD 6,113 million.

Table 5. **Argentina Top Exporters 2007**

Partner Name	Export (USD Thousands)	Export Partner Share (%)
Brazil	10,486,056.02	18.80
China	5,166,608.75	9.26
United States	4,344,407.42	7.29
Chile	4,176,200.61	7.49
Spain	2.060.903.01	3.69
Netherlands	1,796,550.03	3.22
Mexico	1,433,738.97	2.57
Italy	1,386,903.85	2.49
Germany	1,221,234.77	2.19
Uruguay	1,204,876.09	2.16

Export: Total Export Value in thousands of US Dollars current value.
Export Partner Share: the share of total merchandise (export) trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

In 2018 the country recorded a of USD 519,872 billion in 2018, a trade balance as percentage of GDP equal to -2.14% (in current USD was -11,122.00 billion), trade of 30.70% as percentage of GDP and trade in services of 7.45% in terms of GDP percentage (Development Indicators 2018, WITS). These rather negative data have been mainly caused by the challenges Argentina experienced in the last three years. As a matter of fact, besides the problems related to the contraction of demand and the blockage of productive activities, since 2018 the Argentinean economic system had to cope with a significant economic recession and a sharp devaluation of the national currency, caused by the collapse of the price of exported raw materials and the rush of Argentines towards strong currencies and shelter goods, and the fall in the value of oil. According to OECD data, in 2019 GDP decreased by 3% compared to 2018 and a further 4% decrease is expected for 2020, especially due to the COVID-19 emergency which has added new challenges to this volatile economic scenario. The currency depreciated by USD 0.01 between 2019 and 2020, from USD 0.027 to USD 0.017 per Argentine peso. Furthermore, according to data from the *Instituto Nacional de Estadística y Censos* (National Institute of Statistics and Censorship), inflation reached approximately 54% in 2019.

Table 6. **Main Products Exported in 2007 from Argentina**

Product Group	Export (USD Thousand)	Export Product Share (%)
Food	28,107,809.95	50.39
Machinery and Transport Equipment	8,471,666.33	15.19
Fuel	6,113,347.12	10.96
Chemicals	4,083,339.88	7.32
Ores and Metals	2,128,329.76	3.83
Textiles	596,622.08	1.07
Agricultural Raw Materials	559,589.96	1.00

Export: Total Export Value in thousands of US Dollars current value.
Export Product Share: the share of total merchandise trade (export) accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

From *Table 7*, it can be noted how in 2018 the list of the main countries from which Argentine imported products changed compared to 2007. Brazil is still in first place in 2018, as a country geographically close to Argentina and co-member of the Mercosur bloc, with a volume of imports amounting to USD 15,573 million in growth compared to 2007 but equivalent to reduced percentages of Import Partner Share (from 32.79% in 2007 to 23.80% in 2018). In second place, China outperforms the United States with almost doubling the value in thousands of US dollars. Moreover, Germany rises to fourth place with an import volume of USD 3,349 million, higher than in 2007. Italy falls in the ranking, although the value of imports has increased from USD 1,071 million to USD 1,558 million. Finally, from the Top 10 of 2018, it is important to note that France's ninth place was replaced by Spain.

***Table 7.* Argentina Top Importers 2018**

Partner Name	Import (USD Thousands)	Import Partner Share (%)
Brazil	15,573,234.57	23.80
China	12,072,489.74	18.45
United States	7,696,585.43	11.76
Germany	3,349,800,26	5.12
Paraguay	2,175,395,76	3.32
Mexico	1,877,039.76	2.87
Italy	1,558,091.55	2.38
Bolivia	1,441,531.69	2.20
Spain	1,430,719.44	2.19

Thailand	1,328,345.03	2.03

Import: Total Import/Export Value in thousands of US Dollars current value.
Import Partner Share: the share of total merchandise trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

Furthermore, the most imported products in 2018 (see *Table 8*) remained the same as in 2007. Although import quotas in millions of dollars increased in 2018, they decreased in terms of import products shares. For instance, machinery and transport equipment products increased from an import value of USD 21,225 million in 2007 to USD 29,323 million in 2018, but in percentage of import product share there was a reduction from 47.48% in 2007 to 44.81% in 2018. The same applies to chemical products which reached an import value of USD 10,902 million in 2018 compared to USD 8,165 million in 2007, but in terms of import product share there was a decrease of about 1.6%.

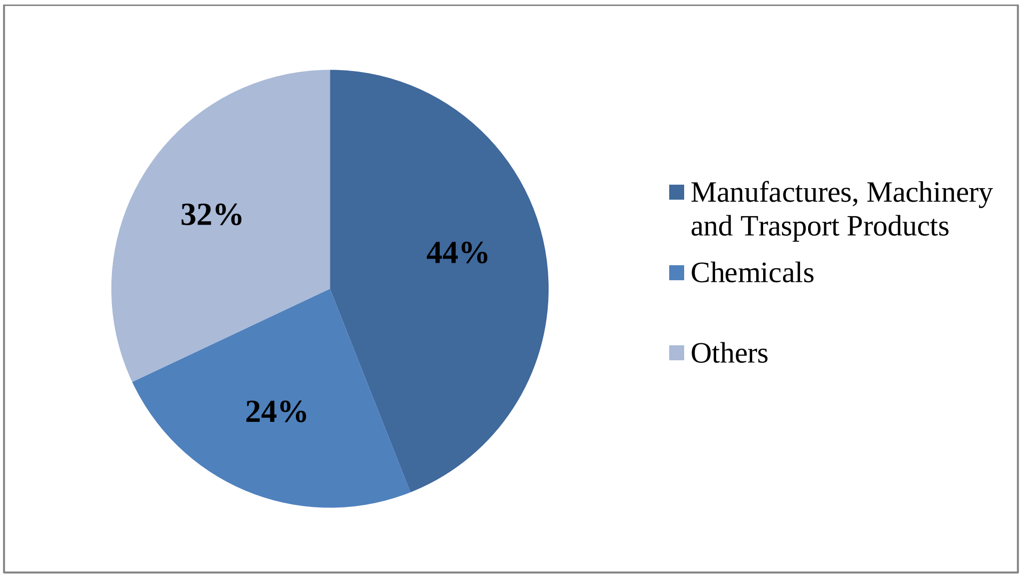
Table 8. **Main Products Imported in Argentina from in 2018**

Product Group	Import (USD Thousand)	Import Product Share (%)
Machinery and Transport Equipment	29,323,334.05	44.81
Chemicals	10,902,477.51	16.66
Fuel	6,309,369.41	9.64
Food	4,503,791.42	6.88
Ores and Metals	1,977,652.45	3.02
Textiles	1,697,841.64	2.59
Agricultural Raw Materials	457,956.16	0.70

Import: Total Import Value in thousands of US Dollars current value.
Import Product Share: the share of total merchandise trade (import) accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

According to the European Commission data for 2019, Argentina's imports from the European Union mainly consisted of manufactures, including machinery and transport equipment products, for 44% of country's total imports, and chemicals for 24% (see *Figure 5*).

***Figure 5*. Argentina Imports from the EU in % (2019)**



Source: European Commission, 2019.
https://ec.europa.eu/trade/policy/countries-and-regions/countries/argentina/.

Finally, in terms of exports, the list of Argentina's main partners has also changed compared to 2007. As for import data, the first place is still occupied by Brazil, while the second place is occupied by the United States (USD 4,277,904.70), which overtake China (USD 4,210,929.519) with respect to 2007. The amounts of exports in thousands of dollars were not significantly higher compared to 2007, in contrast to imports. Finally, among the countries of the European Union, although in lower positions, there are still the Netherlands and Spain, in seventh and ninth place respectively.

***Table 9*. Argentina Top Exporters 2018**

Partner Name	Export (USD Thousands)	Export Partner Share (%)

Brazil	11,291,357.44	18.34
United States	4,277,904.70	6.95
China	4,210,929.51	6.84
Chile	3,036,518.13	4.93
Vietnam	2,100,964.42	3.41
Algeria	1,723,461.03	2.80
Netherlands	1,701,976.82	2.78
India	1,600,405.10	2.60
Spain	1,588,483.14	2.58
Canada	1,293,941.49	2.10

Export: Total Export Value in thousands of US Dollars current value.
Export Partner Share: the share of total merchandise (export) trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

The 2018 list for the main products exported from Argentina remained almost the same as the 2007 list, with a few exceptions. The first, second and third place remained food group (exports rose from USD 28,107 million in 2007 to USD 33,497 million in 2018); machinery and transport equipment (with a reduction of about two million dollars compared to 2007); and, finally, chemical products with a relatively low increase, from USD 4,083 million in 2007 to USD 4,386 million in 2018. The latter replaced the fuel group which fell to the fourth position, following a sharp decrease in exports from USD 6,113 million in 2007 to USD 2,542 million in 2018 (see *Table 10*).

***Table 10.* Main Products Exported from Argentina 2018**

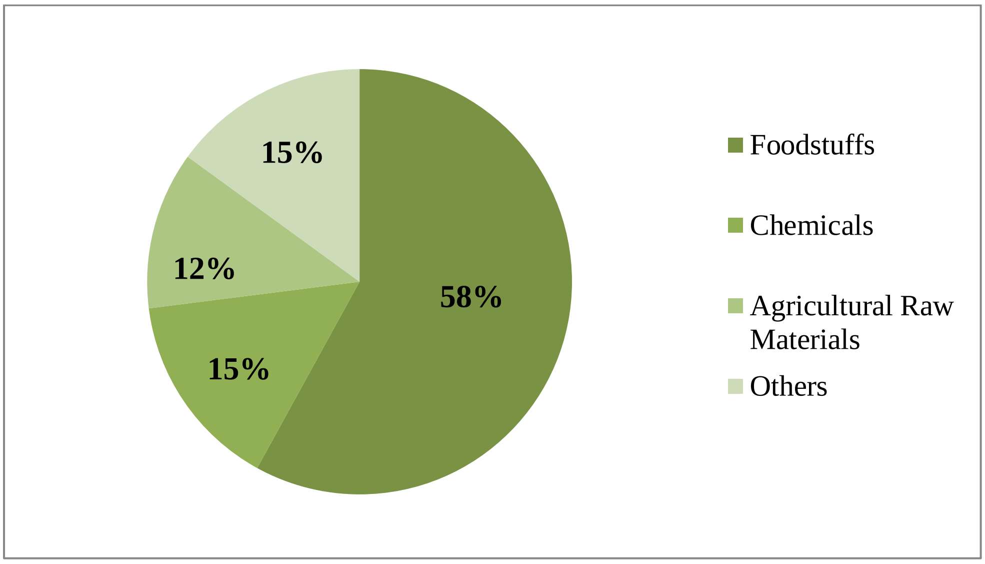
Product Group	Export (USD Thousand)	Export Product Share (%)
Food	33,497,581.65	54.42
Machinery and Transport Equipment	5,949,678.81	9.67
Chemicals	4,386,968.92	7.13
Fuel	2,542,356.69	4.13
Textiles	521,436.12	0.85
Agricultural Raw Materials	413,888.77	0.67
Ores and Metals	291,629.19	0.47

Export: Total Export Value in thousands of US Dollars current value.
Export Product Share: the share of total merchandise trade (export) accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

Regarding exports to the EU, European Commission's data for 2019 illustrated in *Figure 6* show that the main products were foodstuffs, chemicals and agricultural raw materials, respectively equivalent to 58%, 15%, 12% of Argentinian exports (European Commission, 2019)[9].

[9] European Commission, 2019. https://ec.europa.eu/trade/policy/countries-and-regions/countries/argentina/.

***Figure 6.* Argentina Exports to EU in % (2019)**



Source: European Commission, 2019

Finally, as can be observed from *Table 11*, the most recent data from the European Commission for 2019 show that the EU is in third place in the list of Argentina's main trading partners.

***Table 11.* Total Goods: Argentina's Top Trading Partners 2019**

	Imports				Exports				Total trade		
	Partner	Value Mio €	% World		Partner	Value Mio €	% World		Partner	Value Mio €	% World
	World	43,843	100.0		World	57,586	100.0		World	101,429	100.0
1	Brazil	9,075	20.7	1	Brazil	9,265	16.1	1	Brazil	18,340	18.1
2	China	8,270	18.9	2	EU27	6,846	11.9	2	China	14,357	14.2
3	EU27	7,471	17.0	3	China	6,087	10.6	3	EU27	14,317	14.1
4	USA	5,553	12.7	4	USA	3,597	6.2	4	USA	9,150	9.0
5	Paraguay	1,471	3.4	5	Chile	2,728	4.7	5	Chile	3,207	3.2
6	Bolivia	1,223	2.8	6	Vietnam	2,506	4.4	6	Vietnam	3,095	3.1
7	Thailand	1,058	2.4	7	India	1,927	3.3	7	India	2,650	2.6
8	Mexico	1,005	2.3	8	Switzerland	1,509	2.6	8	Paraguay	2,379	2.3
9	Japan	800	1.8	9	Indonesia	1,449	2.5	9	Switzerland	1,871	1.8
10	India	723	1.6	10	Peru	1,417	2.5	10	Bolivia	1,773	1.7
3	EU27	7,471	17.0	2	EU27	6,846	11.9	3	EU27	14,317	14.1

World trade: excluding intra-region trade. Top partners: excluding region member states.
% Growth: relative variation between current and previous period.
Source: European Commission 2019.

Brazil

Brazil is the largest economy in Latin America and one of the world's leading economies. After the stagnation of the 1990s, the country has experienced a sharp growth due to the expansion of the regulated sectors, the workforce and exports, especially of raw materials.

In 2007 the country recorded a GDP of USD 1,397 trillion, a trade balance as % of GDP of 1.36 (in current USD was 19,039.00 billion), trade as percentage of GDP of 25.29 and trade in services in terms of GDP percentage of 4.38 (Development Indicators 2007, WITS).

As can be observed from *Table 12*, in 2007 the ten main countries from which Brazil imported goods were in order the United States, China, Argentina, Germany, Nigeria, Japan, France, Chile, Republic of Korea and Italy. With the United States, Brazil recorded an import value of USD 18,890 million equal to 15.66% of total United States' imports from the world in 2007. Secondly, with China the value of imports was USD 12,621 million, equivalent to 10.46% import partner share. Furthermore, concerning trade with Argentina data recorded an import value of USD 10,404 million, that is 8.63% in terms of Partner Import Share. In fourth place was Germany with an import value equal to USD 8,669 million and an import share with Brazil equal to 7.19%. Besides Germany, France (USD 3,531 million) and Italy (USD 3,347 million) can also be mentioned among the members of the top ten importers, in seventh and tenth place respectively.

Table 12. **Brazil Top Importers 2007.**

Partner Name	Import (USD Thousands)	Import Partner Share (%)
United States	18,890,854.51	15.66
China	12,621,267.04	10.46
Argentina	10,404,245.93	8.63
Germany	8,669,060.18	7.19

Nigeria	5,281,064.36	4.38
Japan	4,609,178.99	3.82
France	3,531,792.09	2.93
Chile	3,462,087.76	2.87
Korea, Rep.	3,391,409.13	2.81
Italy	3,347,985,02	2.78

Import: Total Import/Export Value in thousands of US Dollars current value.
Import Partner Share: the share of total merchandise trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

As for Argentina, *Table 13* shows that the most imported products to Brazil in 2007 were machinery and transport equipment products with a value of USD 36,561 million, that is 30.31% share of total imports accounted for in 2007. Moreover, chemicals and fuels were the second and the third groups of products most imported in 2007, amounting to USD 22,678 million (18.80% of the total import product share) and USD 22,411 million (18.58%) respectively. Thus, it is clear that these two groups reached very similar values.

***Table 13.* Main Products Imported to Brazil 2007**

Product Group	Import (USD Thousand)	Import Product Share (%)
Machinery and Transport Equipment	36,561,504.63	30.31
Chemicals	22,678,234.53	18.80
Fuel	22,411,829.36	18.58
Ores and Metals	5,809,119.79	4.82
Food	5,551,903.66	4.60

Textiles	3,073,588.63	2.55
Agricultural Raw Materials	1,709,290.33	1.42

Import: Total Import Value in thousands of US Dollars current value.
Import Product Share: the share of total merchandise (import) trade accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

Moreover, regarding the main destinations of Brazilian products in 2007 they included the United States, Argentina and China followed by some European Union countries, namely the Netherlands, Germany and, not including Venezuela, Italy (see *Table 14*). Hence, it is clear that the European countries represent a key part of Brazilian economy, as well as the Argentinean one.

***Table 14.* Brazil Top 10 Exporters 2007**

Partner Name	Export (USD Thousands)	Export Partner Share (%)
United States	25,335,516.49	15.77
Argentina	14,416,945.99	8.97
China	10,780,813.79	6.69
Netherlands	8,840,872.50	5.50
Germany	7,211,324.93	4.49
Venezuela	4,723,939.99	2.94
Italy	4,463,647.52	2.78
Japan	4,321,335.07	2.69
Chile	4,264,400.29	2.65

Mexico	4,260,440.72	2.65

Export: Total Export Value in thousands of US Dollars current value.
Export Partner Share: the share of total merchandise (export) trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

Finally, as regards 2007 Brazilian exported products, food products were the most traded with an amount of USD 42,120 million, representing 26.22% in terms of total merchandise trade accounted for by those goods in 2007. Machinery and transport equipment products ranked second with a value in dollars equal to USD 36,345 million and a percentage of export product share equal to 22.62, followed by ores and metals with a value of USD 18,886 million (see *Table 15*).

Table 15. **Main Products Exported from Brazil 2007**

Product Group	Export (USD Thousand)	Export Product Share (%)
Food	42,120,950.92	26.22
Machinery and Transport Equipment	36,345,308.37	22.62
Ores and Metals	18,886,136.74	11.76
Fuel	13,303,371.49	8.28
Chemicals	10,596,059.52	6.60
Agricultural Raw Materials	6,147,878.11	3.83
Textiles	2,405,428.81	1.50

Export: Total Export Value in thousands of US Dollars current value.
Export Product Share: the share of total merchandise trade (export) accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

Despite such economic growth, which lasted from the 1990s until the first decade of the 2000s, since 2012 the previous structural deficits of the Brazilian economy began to re-emerge. At first, the country experienced a decrease in production, a stagnation in development, a heavy burden of social spending and an increase in the public deficit primarily due to insufficient ties at international level. Due to the political crisis of 2014, which erupted when the previous president Dilma Rousseff was dismissed for manipulating the public budget, the Brazilian economy suffered a further deep recession that lasted until 2016. The recovery, although slight, has been achieved in recent years with GDP growth of slightly higher than 1% per year.

The 2018 data recorded a GDP of USD 1,868 trillion, a trade balance as a percentage of GDP of 0.53% (USD 9,878 billion), trade and trade in services as a percentage of GDP of 29.08% and 5.71% respectively. In that year the main countries of origin for products imported to Brazil have been China, the United States and Argentina. Despite the period of stagnation, the 2018 figures for imports recorded, overall, fairly high increases[10]. Indeed, China replaced the United States with a growth of USD 22,109 million (from USD 12,621 million in 2007 to USD 34,730 million in 2018). Yet, the United States, despite the loss of the leading position, registered an increase in exports of USD 10,460 million (from USD 18,890 million in 2007 to USD 29,350 million), i.e. approximately half the Chinese value. Due to the South American crisis, Argentina experienced only a slight growth in its exports to Brazil, from USD 10,404 million in 2007 to USD 11,051 million in 2018. Finally, *Table 16* shows that there was a significant presence of European countries, including Germany (USD 10,557 million), Italy (USD 4,513 million) and France (USD 3,947 million). However, as Argentina, Germany and Italy also experienced modest increases in exports.

[10] See *Table 16.*

***Table 16.* Brazil Top 10 Importers 2018**

Partner Name	Import (USD Thousands)	Import Partner Share (%)
China	34,730,024.91	19.16
United States	29,350,120.84	16.19
Argentina	11,051,062.74	6.10
Germany	10,557,304.64	5.73
Korea, Rep.	5,380,880.39	2.97
Mexico	4,909,339.54	2.71
Italy	4,513,271.91	2.49
Japan	4,355,617.85	2.40
France	3,947,522.30	2.18
India	3,662,823.57	2.02

Import: Total Import/Export Value in thousands of US Dollars current value.
Import Partner Share: the share of total merchandise trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

With regard to 2018 Brazil’s main imports, they consisted in machinery and equipment products amounting to USD 67,339 million, which in terms of import product share were equal to 37.16%. Another important percentage was represented by chemical products which recorded 23.48 (USD 42,553 million).

Finally, the third most imported group of products was represented by fuels, amounting to USD 26,305 million, that is 14.52% of the total import share. Comparing 2007 data with 2018 data[11], it is clear that the most imported products have not changed in terms of categories.

***Table 17.* Main Products Imported to Brazil 2018**

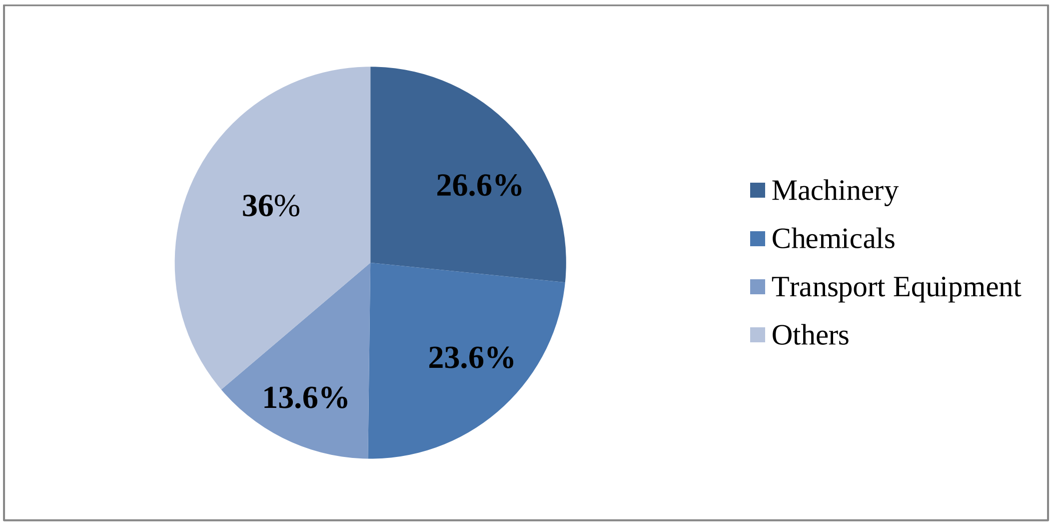
Product Group	Import (USD Thousand)	Import Product Share (%)
Machinery and Transport Equipment	67,339,748.78	37.16
Chemicals	42,553,292.38	23.48
Fuel	26,305,871.87	14.52
Food	9,802,640.62	5.41
Ores and Metals	6,324,474.22	3.49
Textiles	6,036,034.23	3.33
Agricultural Raw Materials	1,499,801.72	0.83

Import: Total Import Value in thousands of US Dollars current value.
Import Product Share: the share of total merchandise trade (import) accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

These were also the Brazilian products most imported from the EU countries, both in 2018 and 2019 as shown in *Figure 7*. Indeed, Brazil's imports from the European Union mainly included machinery, chemicals and transport equipment, which in percentage terms represent 26.6%, 23.6% and 13.6% respectively. From the observed data, it is also clear that Argentinian and Brazilian imports from the EU are represented by the same categories of products.

[11] See *Table 13* and *Table 17.*

***Figure 7.* Brazil Imports from the EU in % (2019)**



Source: European Commission, 2019.
https://ec.europa.eu/trade/policy/countries-and-regions/countries/brazil/.

Analysing 2018 exports (see *Table 18*), it can be noted that, as for Argentina, the first two positions in the list of the main partners are occupied by China and the United States. The third place was occupied by Argentina, namely its major partner in Mercosur area. Comparing 2007 (*Table 14*) and 2018 (*Table 18*), it can be seen that inflows to China significantly exceeded those to the USA, reaching exorbitant levels. The former, indeed, rose from just USD 10,780 million in 2007 to USD 64,205 million. Conversely, exports to the United States recorded a relatively low increase from USD 25,335 million to USD 29,169 million in 2018. Finally, besides replacing the United States, China also overtook Argentina, whose imports from Brazil remained almost constant due to its period of economic recession.

***Table 18.* Brazil Top 10 Exporters 2018**

Partner Name	Export (USD Thousands)	Export Partner Share (%)
China	64,205,647.06	26.76
United States	29,169,923.27	12.16

Argentina	14,951,216.91	6.23
Netherlands	13,068,031.04	5.45
Chile	6,389,093.37	2.66
Germany	5,214,589.69	2.17
Spain	5,150,783.61	2.15
Mexico	4,505,139.70	1.88
Japan	4,334,337.06	1.81
India	3,909,881.52	1.63

Export: Total Export Value in thousands of US Dollars current value.
Export Partner Share: the share of total merchandise (export) trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

Furthermore, in 2018 the most exported products from Brazil to the world were food products for a value of USD 80,745 million, machinery and transport equipment products for a value of USD 41,226 million and, finally, fuels for a value of USD 29,682 million. The latter replaced ores and metals which represented the third group in 2007, while the first two groups remained the same as in 2007. Regarding 2018 Brazil's exports to the EU, they mainly include agro-food stuffs, beverages and tobacco with a 16.3% share of EU imports from Brazil. In addition, there vegetable and mineral products for percentages of EU imports of 17.8% and 21.8% respectively (European Commission, 2019)[12]. Finally, as shown in *Table 20*, in 2019 the European Union continued to hold a key position in Brazil's list of main trading partners and ranked second after China, with a percentage of total trade equal to 17.5.

[12] European Commission 2019. https://ec.europa.eu/trade/policy/countries-and-regions/countries/brazil/.

Table 19. **Main Products Exported from Brazil 2018**

Product Group	Export (USD Thousand)	Export Product Share (%)
Food	80,745,005.00	33.66
Machinery and Transport Equipment	41,226,114.07	17.19
Fuel	29,682,560.14	12.37
Ores and Metals	29,287,388.22	12.21
Agricultural Raw Materials	12,043,833.04	5.02
Chemicals	11,950,624.68	4.98
Textiles	2,643,440.18	1.10

Export: Total Export Value in thousands of US Dollars current value.
Export Product Share: the share of total merchandise trade (export) accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

Such overall growth experienced by Brazil since 2018 lasted until the beginning of 2020, when the global pandemic began to show its negative effects due to both negative trends in the global economy and social distancing measures. The spread of COVID-19 has and is still exacerbating countries around the world, including Brazil whose GDP is expected to decrease of -5.3% at the end of 2020 (International Monetary Fund, 2020).

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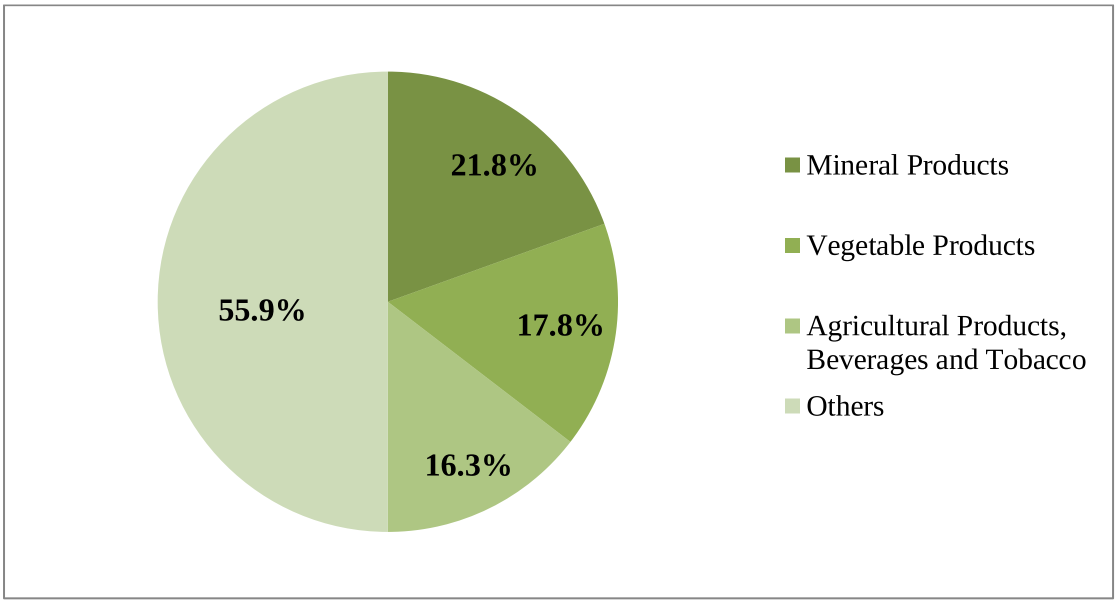
***Figure 8*. Brazil Exports to the EU in % (2018)**



Source: European Commission, 2019.

***Table 20*. Brazil Top Trading Partners 2019**

	Imports				Exports				Total trade		
	Partner	Value Mio €	% World		Partner	Value Mio €	% World		Partner	Value Mio €	% World
	World	167,909	100.0		World	198,481	100.0		World	366,390	100.0
1	China	33,395	19.9	1	China	55,619	28.0	1	China	89,015	24.3
2	EU27	29,378	17.5	2	EU27	29,121	14.7	2	EU27	58,498	16.0
3	USA	28,793	17.1	3	USA	26,386	13.3	3	USA	55,180	15.1
4	Argentina	9,991	6.0	4	Argentina	8,528	4.3	4	Argentina	18,519	5.1
5	South Korea	4,453	2.7	5	Japan	4,777	2.4	5	Japan	8,652	2.4
6	India	4,030	2.4	6	Chile	4,452	2.2	6	Mexico	8,283	2.3
7	Mexico	3,973	2.4	7	Mexico	4,309	2.2	7	South Korea	7,479	2.0
8	Japan	3,876	2.3	8	South Korea	3,027	1.5	8	Chile	7,460	2.0
9	Russia	3,485	2.1	9	Canada	2,902	1.5	9	India	6,466	1.8
10	Chile	3,008	1.8	10	Colombia	2,750	1.4	10	Canada	5,046	1.4
2	EU27	29,378	17.5	2	EU27	29,121	14.7	2	EU27	58,498	16.0

World trade: excluding intra-region trade. Top partners: excluding region member states.
% Growth: relative variation between current and previous period.
Source: European Commission 2019.
https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_brazil_en.pdf.

Paraguay

In recent years, Paraguay has continued to experience an economic phase of growth and positive development perspectives. Several factors have contributed to improving the market, such as a low taxation (10% income tax, 10% VAT and tax exemption for exports); effective legislation to encourage foreign investment; low-cost labour supply, with the percentage of young people under 30 being approximately 74%; availability of raw materials, including fertile land for agriculture, fresh water, oil and rare metals; participation in Mercosur with all its potential consumers and especially trade with the EU, as Paraguay already enjoyed the Generalised System of Preferences (GSP) before the trade agreements.

With regard to trade relations with the European Union, indeed, during the period 2015-2017 Paraguay's exports to the Community increased slightly from USD 1,185 billion to USD 1,359 billion. Moreover, Paraguay's imports from the EU also increased between 2015 and 2017, from USD 719 million to USD 803 million. Due to the intensification of relations between the two economies, in 2017 the European Union reached third place in the ranking of the most important trading partners, preceded exclusively by Brazil and Argentina and with a total trade percentage equal to 10 (USD 2,119 billion). In 2007 the country recorded a of 17,856 billion, a trade balance as percentage of GDP of 7.75% (USD 1,384 billion), trade as percentage of GDP of 79% and trade in services as percentage of GDP of 5.42% (Development Indicators 2007, WITS).

Compared to Argentina and Brazil, the figures for Paraguay's economy do not show a strong participation of European countries, at least in 2007. Indeed, the first places are occupied by the neighbouring Brazil, as well as China and Argentina. Yet, the United States occupied only the fourth place. Finally, the only EU country that appears among the top ten trading partners is Germany[13]. As far as the most important products imported into Paraguay are concerned, machinery and transport equipment (USD 2,641 million), chemical products (USD 917 thousand) and fuels (USD 773 thousand) can be enumerated[14].

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[13] See *Table 21*.

[14] See *Table 22*.

Table 21. **Paraguay Top 10 Importers 2007**

Partner Name	Import (USD Thousands)	Import Partner Share (%)
Brazil	1,696,852.64	28.96
China	1,623,471.91	27.71
Argentina	839,196.50	14.32
United States	296,805.41	5.07
Japan	258,546.90	4.41
Venezuela	152,196.12	2.60
Germany	107,435.32	1.83
Uruguay	75,208.22	1.28
Chile	75,090.84	1.28
Korea, Rep.	69,179.42	1.18

Import: Total Import Value in thousands of US Dollars current value.
Import Partner Share: the share of total merchandise trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

Table 22. **Main Products Imported to Paraguay 2007**

Product Group	Import (USD Thousand)	Import Product Share (%)
Machinery and Transport Equipment	2,641,193.56	45.08
Chemicals	917,080.61	15.65

Fuel	773,394.01	13.20
Food	412,936.23	7.05
Textiles	150,090.33	2.56
Ores and Metals	41,133.80	0.70
Agricultural Raw Materials	28,695.12	0.49

Import: Total Import Value in thousands of US Dollars current value.
Import Product Share: the share of total merchandise (import) trade accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

To conclude the 2007 scenario, in terms of exports Paraguay's main trading partners in 2007 were Brazil, Argentina and Chile, all countries belonging to the South American bloc and, thus, geographically closer. Moreover, in contrast to import data, they also include EU countries such as Germany, Spain and Italy. Finally, the most exported products to these and other countries were food, fuels and agricultural raw materials.

Table 23. **Paraguay Top 10 Exporters 2007**

Partner Name	Export (USD Thousands)	Export Partner Share (%)
Brazil	2,072,326.13	43.87
Argentina	876,510.41	18.56
Chile	202,953.38	4.30
Germany	169,560.84	3.59
Russian Federation	141,500.47	3.00
Peru	106,087.70	2.25

Spain	105,321.30	2.23
Italy	98,528.79	2.09
Venezuela	93,356.35	1.98
Uruguay	73,352.92	1.55

Export: Total Export Value in thousands of US Dollars current value.
Export Partner Share: the share of total merchandise (export) trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

Table 24. **Main Products Exported from Paraguay 2007**

Product Group	Export (USD Thousand)	Export Product Share (%)
Food	2,279,541.63	48.26
Fuel	1,906,620.43	40.36
Agricultural Raw Materials	146,737.11	3.11
Textiles	113,647.71	2.41
Chemicals	72,362.87	1.53
Machinery and Transport Equipment	23,635.65	0.50
Ores and Metals	22,671.44	0.48

Export: Total Export Value in thousands of US Dollars current value.
Export Product Share: the share of total merchandise trade (export) accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

With regard to the economic outlook for Paraguay in 2018, according to data from the World Integrated Trade Solution, the country registered a GDP of USD 40,497 billion, a trade balance of USD 649 million (1.60% in terms of GDP), trade as percentage of GDP of 70.42 and trade in services as percentage of GDP of 6.06% (Development Indicators 2018, WITS). Despite its positive economic data, Paraguayan GDP decreased from 5.4% in 2007 to 3.7% in 2018.

Comparing 2007 and 2018 figures[15], it can be observed that China took Brazil's place in the ranking of the main importing countries of Paraguayan products with an import value of USD 3,374 million. Argentina, on the other hand, maintained the third position after Brazil, with a value of import equal to USD 1,330 million. Finally, while in 2007 only Germany was among the main European importers, in 2018 the Netherlands also appeared.

Table 25. **Paraguay Top 10 Importers 2018**

Partner Name	Import (USD Thousands)	Import Partner Share (%)
China	3,764,176.65	28.23
Brazil	2,978,400.11	22.33
Argentina	1,330,975.22	9.98
United States	1,088,789.03	8.16
Netherlands	462,357.54	3.47
Japan	372,922.62	2.80
Germany	286,571.30	2.15
Mexico	240,811.96	1.81

[15] See *Table 21* and *Table 25*.

Korea, Rep.	237,880.43	1.78
India	207,381.73	1.55

Import: Total Import Value in thousands of US Dollars current value.
Import Partner Share: the share of total merchandise trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

Concerning the main product groups imported into Paraguay, *Table 26* shows that in 2018 they remained the same as in 2007, namely machinery and means of transport (USD 5,183 million), chemicals (USD 2,227 million) and fuels (USD 1,843 million), albeit with significantly higher amounts.

Table 26. **Main Products Imported to Paraguay 2018**

Product Group	Import (USD Thousand)	Import Product Share (%)
Machinery and Transport Equipment	5,183,827.48	38.87
Chemicals	2,227,057.56	16.70
Fuel	1,843,144.74	13.82
Food	1,137,160.33	8.53
Textiles	420,300.71	3.15
Agricultural Raw Materials	95,359.82	0.72
Ores and Metals	80,729.85	0.61

Import: Total Import Value in thousands of US Dollars current value.
Import Product Share: the share of total merchandise (import) trade accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

Regarding exports, Paraguay's main trading partners in 2018 were Brazil, Argentina and Russian Federation, instead of Chile. Moreover, contrary to 2007 when the main destinations were Germany, Spain and Italy as EU member states, in 2018 the Netherlands and Italy were included in the list (see *Table 27*). Finally, the most exported products to these and other countries were food, fuels, machinery and transport equipment products. As shown in *Table 28*, the first two groups remained the same as in 2007, while the third one replaced agricultural raw materials which fell to sixth position.

Table 27. **Paraguay Top 10 Exporters 2018**

Partner Name	Export (USD Thousands)	Export Partner Share (%)
Brazil	2,808,903.56	31.06
Argentina	2,188,459.82	24.20
Russian Federation	783,762.38	8.67
Chile	624,621.30	6.91
India	247,329.42	2.74
Netherlands	156,663.05	1.73
Poland	155,933.83	1.72
Italy	152,066.59	1.68
Uruguay	145,273.86	1.61
United States	122,234.72	1.35

Export: Total Export Value in thousands of US Dollars current value.
Export Partner Share: the share of total merchandise (export) trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

Table 28. **Main Products Exported from Paraguay 2018**

Product Group	Export (USD Thousand)	Export Product Share (%)
Food	5,658,849.15	62.58
Fuel	2,108,774.58	23.32
Machinery and Transport Equipment	328,270.12	3.63
Chemicals	221,621.23	2.45
Textiles	192,679.42	2.13
Agricultural Raw Materials	133,541.99	1.48
Ores and Metals	281,819.91	0.90

Export: Total Export Value in thousands of US Dollars current value.
Export Product Share: the share of total merchandise trade (export) accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

In conclusion, contrary to Argentina and Brazil, the European Union has not reached one of the first three positions in Paraguay's Top 10 Trading Partners of 2019. However, it ranked fourth with a total trading percentage of 6.1 (see *Table 29*).

***Table 29.* Paraguay's Top Trading Partners 2019**

	Imports				Exports				Total trade		
	Partner	Value Mio €	% World		Partner	Value Mio €	% World		Partner	Value Mio €	% World
	World	10,897	100.0		World	6,961	100.0		World	17,858	100.0
1	China	3,675	33.7	1	Brazil	2,395	34.4	1	Brazil	4,737	26.5
2	Brazil	2,342	21.5	2	Argentina	1,741	25.0	2	Argentina	2,703	15.1
3	USA	1,016	9.3	3	Chile	528	7.6	3	USA	1,172	6.6
4	Argentina	962	8.8	4	Russia	480	6.9	4	EU27	1,090	6.1
5	EU27	664	6.1	5	EU27	426	6.1	5	Chile	646	3.6
6	Singapore	362	3.3	6	Uruguay	192	2.8	6	Russia	607	3.4
7	Japan	250	2.3	7	Israel	179	2.6	7	Singapore	363	2.0
8	India	213	2.0	8	USA	157	2.2	8	India	337	1.9
9	South Korea	189	1.7	9	India	123	1.8	9	Uruguay	313	1.8
10	Mexico	131	1.2	10	Peru	97	1.4	10	Japan	287	1.6
5	EU27	664	6.1	5	EU27	426	6.1	4	EU27	1,090	6.1

World trade: excluding intra-region trade. Top partners: excluding region member states.
% Growth: relative variation between current and previous period
Source European Commission, 2019.
. https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_paraguay_en.pdf.

Uruguay

The Uruguayan economy has experienced almost uninterrupted GDP growth over the last fifteen years. As a matter of fact, from 2003 to 2018 the average annual growth rate was 4.1%, especially due to a gradual and significant increase in private consumption and the revival of exports. In 2007, shortly before the financial crisis, the country recorded a GDP of USD 23,411 billion, trade as percentage of GDP of 59.21% and trade in services in GDP percentage of 12.66%. Despite the period of sustained growth, in that year the country recorded a trade deficit of USD 241 million, that is -1.03% in terms of GDP (Development Indicators 2007, WITS).

The main partners in terms of imports in 2007 were Brazil (USD 1,314 million), Argentina (1,254 million) and Venezuela (USD 637 thousand). Germany, Italy and France appear as the most important European countries from which Uruguay imported products.

***Table 30*. Uruguay Top 10 Importers 2007**

Partner Name	Import (USD Thousands)	Import Partner Share (%)
Brazil	1,314,536.84	23.36
Argentina	1,254,847.66	22.30
Venezuela	637,563.44	11.33
China	540,158.27	9.60
United States	415,860.60	7.39
Russian Federation	415,860.60	3.48
Germany	111,986.52	1.99
Italy	93,964.97	1.67

Mexico	83,757.28	1.49
France	83,749.79	1.49

Import: Total Import Value in thousands of US Dollars current value.
Import Partner Share: the share of total merchandise trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

Moreover, machinery and transport equipment, fuels and chemical products were the most imported products in that year, with values of USD 1,416 million, USD 1,281 million and USD 1,106 million respectively[16].

Table 31. **Main Products Imported to Paraguay 2007**

Product Group	Import (USD Thousand)	Import Product Share (%)
Machinery and Transport Equipment	1,416,235.56	25.17
Fuel	1,281,083.01	22.76
Chemicals	1,106,641.26	19.66
Food	487,350.40	8.66
Textiles	244,244.83	4.34
Agricultural Raw Materials	151,107.77	2.69
Ores and Metals	77,553.82	1.38

Import: Total Import Value in thousands of US Dollars current value.
Import Product Share: the share of total merchandise (import) trade accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

[16] See *Table 30* and *Table 31* for imports.

Among the main countries to which Uruguay exported products in 2007, besides Brazil and Argentina which also appeared as main import partners, the United States can be mentioned. Finally, the most exported groups of products were food, textiles and chemicals[17].

Table 32. **Uruguay Top 10 Exporters 2007**

Partner Name	Export (USD Thousands)	Export Partner Share (%)
Brazil	731,550.81	16.19
United States	505,231,58	11.18
Argentina	445,720.48	9.87
Free Zones	276,900.47	6.13
Mexico	207,204.99	4.59
Germany	505,231.58	4.55
China	163,430.33	3.62
Spain	147,495.16	3.26
United Kingdom	120,470.61	2.67
Russian Federation	112,851.84	2.50

Export: Total Export Value in thousands of US Dollars current value.
Export Partner Share: the share of total merchandise (export) trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

[17] See *Table 32* and *Table 33* for Exports.

Table 33. **Main Products Exported from Uruguay 2007**

Product Group	Export (USD Thousand)	Export Product Share (%)
Food	2,397,828.58	53.08
Textiles	327,561.33	7.25
Chemicals	297,020.86	6.57
Fuel	193,674.68	4.29
Machinery and Transport Equipment	38,320.67	3.73
Ores and Metals	281,819.91	0.85

Export: Total Export Value in thousands of US Dollars current value.
Export Product Share: the share of total merchandise (export) trade accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

The opening to international markets and, thus, exports have played a key role in the development of domestic production. The intensification of the process of economic liberalisation has led to an increase in the relative weight of international trade on GDP, which in 2018 was worth USD 59,597 billion. Compared to 2007, the trade balance showed a surplus of USD 1,202 billion (2.02% in terms of GDP). Finally, trade as a percentage of GDP was 39.99, that is USD 1,202.00 billion, and trade in services in percentage of GDP was 14.89 (Development Indicators 2018, WITS).

With an import value of USD 1,678 million, China ranked first in the list of the main countries from which Uruguay has imported products in 2018, followed by Brazil and Argentina (see *Table 34*). As shown in *Table 35*, the most imported products were machinery and transport equipment, chemicals, as well as food. Furthermore, China and Brazil occupied the first two positions in the top list concerning 2018 exports, amounting to USD 1,500 million and USD 1,133 million. Finally, food, agricultural raw materials and chemical products were the most exported products from Uruguay in that year.

***Table 34.* Uruguay Top 10 Importers 2018**

Partner Name	Import (USD Thousands)	Import Partner Share (%)
China	1,678,296.63	18.87
Brazil	1,640,664.15	18.45
Argentina	1,102,437.50	12.40
United States	707,924.55	7.96
Nigeria	365,394.87	4.11
Angola	363,283.05	4.08
Germany	225,505.16	2.54
Mexico	220,263.12	2.48
India	203,092.88	2.28
Spain	159,640.65	1.80

Import: Total Import Value in thousands of US Dollars current value.
Import Partner Share: the share of total merchandise (import) trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

***Table 35.* Main Products Imported to Uruguay 2018**

Product Group	Import (USD Thousand)	Import Product Share (%)
Machinery and Transport Equipment	2,424,168.00	27.26
Chemicals	1,588,014.24	17.86

Food	1,298,945.25	14.61
Fuel	1,258,632.84	14.15
Textiles	500,772.77	5.63
Agricultural Raw Materials	136,421.24	1.53
Ores and Metals	84,555.29	0.95

Import: Total Import Value in thousands of US Dollars current value.
Import Product Share: the share of total merchandise (import) trade accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

Table 36. **Uruguay Top 10 Exporters 2018**

Partner Name	Export (USD Thousands)	Export Partner Share (%)
China	1,500,441.92	20.01
Brazil	1,133,29.42	15.11
Free Zones	951,199.05	12.69
United States	457,360.94	6.10
Argentina	409,255.06	5.46
Turkey	277,790.51	3.70
Algeria	214,263.67	2.86
Netherlands	208,570.02	2.78
Mexico	196,787.10	2.62

Russian Federation	167,521.10	2.23

Export: Total Export Value in thousands of US Dollars current value.
Export Partner Share: the share of total merchandise (export) trade accounted for by the partner in a given year.
Source: WITS – UNSD Comtrade.

***Table 37.* Main Products Exported from Paraguay 2018**

Product Group	Export (USD Thousand)	Export Product Share (%)
Food	4,474,491.04	59.68
Agricultural Raw Materials	1,195,385.35	15.94
Chemicals	469,576.34	6.26
Textiles	278,463.51	3.71
Machinery and Transport Equipment	276,925.21	3.69
Fuel	89,934.48	1.20
Ores and Metals	26,910.76	0.36

Export: Total Export Value in thousands of US Dollars current value.
Export Product Share: the share of total merchandise (export) trade accounted for by the product in a given year.
Source: WITS – UNSD Comtrade.

***Table 38.* Uruguay Top Trading Partners 2019**

	Imports				Exports				Total trade		
	Partner	Value Mio €	% World		Partner	Value Mio €	% World		Partner	Value Mio €	% World
	World	7,519	100.0		World	7,140	100.0		World	14,659	100.0
1	Brazil	1,517	20.2	1	China	1,763	24.7	1	China	3,091	21.1
2	China	1,329	17.7	2	Brazil	1,001	14.0	2	Brazil	2,518	17.2
3	Argentina	884	11.8	3	EU27	612	8.6	3	EU27	1,459	10.0
4	EU27	847	11.3	4	USA	405	5.7	4	Argentina	1,218	8.3
5	USA	693	9.2	5	Argentina	334	4.7	5	USA	1,098	7.5
6	Angola	453	6.0	6	Turkey	165	2.3	6	Angola	455	3.1
7	Chile	199	2.7	7	Algeria	163	2.3	7	Mexico	325	2.2
8	Mexico	191	2.5	8	Russia	145	2.0	8	Chile	267	1.8
9	Nigeria	165	2.2	9	Mexico	134	1.9	9	Turkey	217	1.5
10	India	103	1.4	10	Paraguay	110	1.5	10	Paraguay	204	1.4
4	EU27	847	11.3	3	EU27	612	8.6	3	EU27	1,459	10.0

World trade: excluding intra-region trade. Top partners: excluding region member states.
% Growth: relative variation between current and previous period.
Source: European Commission 2019.
https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_uruguay_en.pdf.

Trends in Service Flows between Mercosur and the European Union

With regard to trade flows in services, it can be observed from *Figure 9* that since 2012 trends have been fluctuating. Indeed, exports have gradually decreased from 2012 to 2016, from USD 58,867 billion to USD 51,763 billion. A relative regrowth was recorded in 2017 (USD 55,937 billion) and 2018 (USD 56,316 billion), before falling again in 2019 to USD 53,614 billion. Total imports in services developed almost similarly to exports from 2012 to 2019. A significant growth was recorded between 2012 (USD 102,103 billion) and 2014 (USD 112,207 billion).

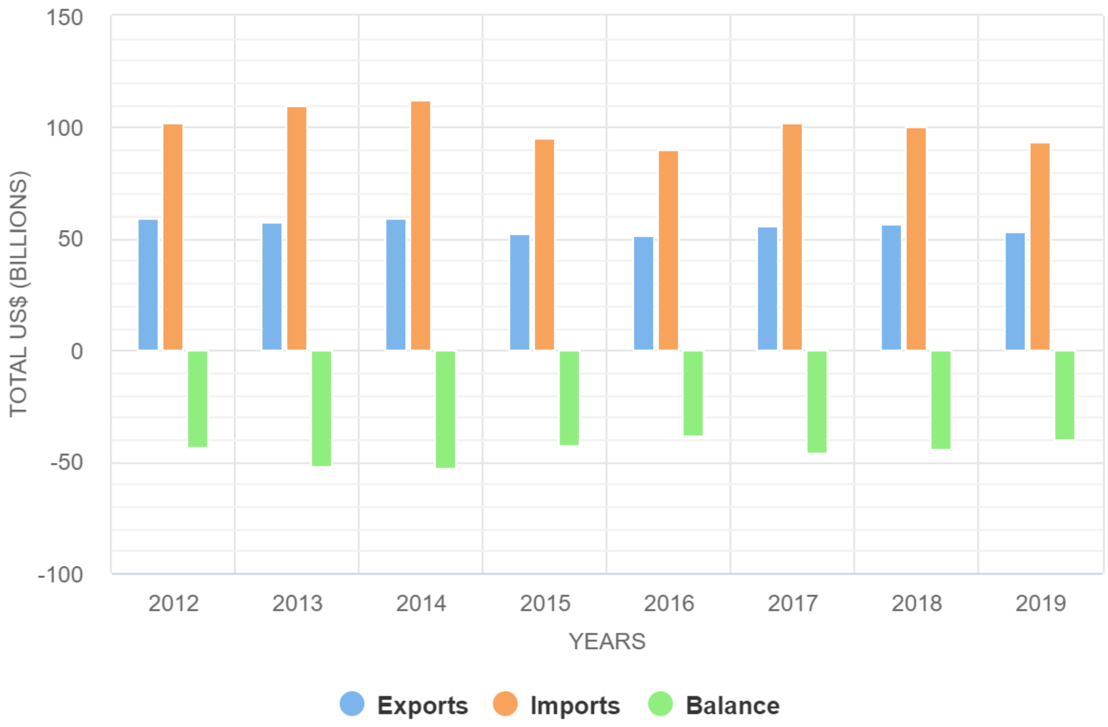
In the following two years, as can be noted from the graph, there was a decrease of approximately 2%, leading to a value of USD 90,063 billion in 2016. In 2017 there was a slight recovery (USD 102,351 billion), but a further decrease was recorded in the following two years, reaching in 2019 a value in billions of dollars of 93,837. In percentage terms, the scenario has remained more or less steady considering 2012 and 2019. Indeed, both total exports and imports fell by only 0.2%. Despite the relative stability of the extreme values, however, it should be noted that the numbers had increased by up to 2 percentage points over the years but reached very low values in 2019 compared to that period.

Concerning data on the flows in services between Mercosur and the European Union, the most recent data refer to the year 2017 and 2018. In 2017, services exported to Mercosur by the EU reached a value of USD 25,809 billion. On the other hand, the EU imported USD 12,962 billion. As a result, total trade in services with the EU totalled approximately USD 38,771 billion dollars in 2017, that is around 38% of Mercosur's total trade in services. Comparing 2017 and 2018 export data, there is a general increase in the values of all four Mercosur countries. Specifically, total exports increased by approximately USD 1,379 billion, rising to USD 27,188 billion.

With regard to imports, however, different results can be observed. The EU, on the one hand, increased imports of services from Paraguay and Uruguay, but on the other reduced those from Argentina and Brazil. Imports from Paraguay and Uruguay grew by USD 93,900 million and USD 245,800 million respectively. On the contrary, those from Argentina decreased slightly by USD 29,600 million and those from Brazil by USD 35,800 million.

Finally, it is significant to state that, according to European Commission data, the main services exchanged between the EU and Mercosur currently concern telecommunications, finance, business and transport (European Commission, 2019)[18].

***Figure 9.* Mercosur Trade Flows in Services (2012-2019)**



Source: MERCOSUR https://www.mercosur.int/en/.

***Figure 10*. EU-Mercosur Net Trade in Services 2017-2018 (USD millions)**

Partner	2017	2018
Argentina	3.641	3.995
Brazil	8.692	9.590
Paraguay	131	55
Uruguay	383	312

Source: OECD.Stat, 2020. https://stats.oecd.org/Index.aspx?DataSetCode=TISP_EBOPS2010#.

[18] European Commission (2019). EU-Mercosur Trade Agreement, Key Facts. https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157954.pdf.

Argentina

From 2016 to 2018, trade in services between Argentina and the European Union remained relatively steady. In 2016, Argentina exported USD 2,7 billion of services to the EU, which increased to USD 2,8 billion in 2017. In 2018, there was a slight decrease of USD 3 billion compared to the previous two years, which reduced Argentina's exports in services to USD 2,5 billion. Furthermore, in 2016, the European Union exported USD 5 billion of services to Argentina, which grew sharply in the following two years and reached USD 6,4 billion in 2017 and USD 6,2 billion. From data on the trade balance in services, it can be observed that from 2016 to 2018 the gap between exports and imports increased, since the share of services exported from the EU to Argentina grew considerably faster than Argentina's exports to the Union.

According to OECD data, the main services traded between the EU and Argentina in 2017 were transport, travel and charges for the use of intellectual property services. Out of the net total of USD 3,641 billion, transport services registered a value of USD 1,098 billion, travel services a value of USD 918 million and, finally, charges for the use of intellectual property a value of USD 754 million. Regarding 2018, out of a total of traded services of USD 3,995 billion - an increase of USD 354 million compared to 2017 - the most traded services remained the same, but with different amounts. Indeed, transport services rose to USD 1,303 billion, with an increase of USD 205 million compared to the previous year. Furthermore, services related to travel increased to USD 1,119 billion, with a growth of USD 201 million. In conclusion, charges for the use of intellectual property remained among the three most widely traded categories of services but decreased by USD 153 million compared to 2017 (OECD, 2020).

Table 39. **Argentina-European Union Trade in Services 2016-2018 (USD billions)**

Year	Argentina's Exports	Argentina's Imports	Balance
2016	2,7	5,0	-2,7
2017	2,8	6,1	-3,8
2018	2,5	6,2	-4,3

Source: personal revision of the 2019 European Commission data.

[*https://ec.europa.eu/trade/policy/countries-and-regions/countries/argentina/*](https://ec.europa.eu/trade/policy/countries-and-regions/countries/argentina/).

Figure 11. **Argentina-EU Trade in Services (USD billions)**

Source: personal revision of the 2019 European Commission data.
[*https://ec.europa.eu/trade/policy/countries-and-regions/countries/argentina/*](https://ec.europa.eu/trade/policy/countries-and-regions/countries/argentina/).

Brazil

Data on trade in services between Brazil and the European Union show trends which are similar to Argentina. Indeed, the value of EU exports to Brazil is increasingly higher than Brazil's exports to the EU. However, Brazil and Argentina differ considerably in terms of imports value expressed in billions of dollars. In 2016, Brazil already exported 8,1 billion services to EU countries, which rose to 8,9 billion in 2017, before falling slightly in 2018 to 8,5 billion. On the other hand, the EU exported 15,1 billion services to Brazil in 2016. In the following two years, the value grew significantly and steadily, reaching USD 17,1 billion in 2017 and USD 17,2 billion in 2018. Hence, it is clear that EU exports to Brazil doubled those of Brazil to the EU over the three-year period.

According to OECD data, the main traded services between the EU and Brazil in 2017 were transport, travel and technical, trade-related and other business services. Out of the net total of USD 8,692 billion, transport services were worth USD 2,876 billion, travel services were worth USD 2,511 billion and, finally, technical, trade and other business services were worth USD 1,494 billion. As regards 2018, the most traded services out of a total of USD 9,590 billion - USD 898 million more than in 2017 - were the same, but with increased amounts. As a matter of fact, transport services rose to USD 3,718 billion, with a high increase of USD 842 million compared to the previous year; travel services rose to USD 2,519 billion, with a slight increase of 8 million; finally, technical services, trade-related and other business services increased by USD 107 million compared to 2017, reaching USD 1,601 billion.

***Table 40.* Brazil-European Union Trade in Services 2016-2018 (USD billions)**

Year	Brazil's Exports	Brazil's Imports	Balance
2016	8,1	15,1	-7,0
2017	8,9	17,1	-8,2
2018	8,5	17,2	-8,7

Source: personal revision of the 2019 European Commission data.

***Figure 12.* Brazil-EU Trade in Services (USD billions)**

Source: personal revision of the 2019 European Commission data.
https://ec.europa.eu/trade/policy/countries-and-regions/countries/brazil/.

Paraguay

According to European Commission data, Paraguay's imports of services from the EU fell from USD 353 million to USD 235 million between 2014 and 2016. However, from 2016 to 2018 the value of imports remained steady. Concerning exports to the EU, they decreased from USD 235 million to USD 117 million from 2016 to 2017. The balance in 2016 was zero, whereas in the following two years there was a deficit of USD 117 million, since Paraguay's imports were higher than exports.

Table 41. **Paraguay-European Union Trade in Services 2016-2018 (USD millions)**

Year	Paraguay's Exports	Paraguay's Imports	Balance
2016	235	235	-0
2017	117	235	-118
2018	117	235	-118

Source: personal revision of the 2019 European Commission data.
https://ec.europa.eu/trade/policy/countries-and-regions/countries/paraguay/ .

Figure 13. **Paraguay-European Union Trade in Services 2016-2018 (USD millions)**

Source: personal revision of the 2019 European Commission data.
https://ec.europa.eu/trade/policy/countries-and-regions/countries/paraguay/ .

Uruguay

In 2016, Uruguay exported USD 600 million worth of services to the EU. This value remained constant the following year but increased in 2018 when it reached a value of USD 700 million. On the other hand, the EU exported services amounting to USD 1 billion in 2016, which after a slight decrease in 2017 (USD 900 million), recovered in 2018 to the previous value. To conclude, the deficit in the balance has decreased since 2017, as a result of the decrease in EU exports to Uruguay before (2017) and the increase in Paraguay's exports and imports (2018).

Based on OECD data, the main services traded between the EU and Paraguay in 2017 were transport, financial and charges for the use of intellectual property services. Out of the net total of USD 382 million, transport services amounted to USD 134.6 million, financial services to USD 79 million and charges for the use of intellective property services to USD 61.6 million. In 2018, net traded services decreased by USD 71 million compared to 2017, with a value of USD 311 million. The most traded services remained the same, but values changed. Specifically, transport services rose to USD 171.7 million, representing a slight increase of USD 40.1 million compared to the previous year. Financial services grew to USD 83.2 million, with a minimum increase of USD 4.2 million. Lastly, charges for the use of intellectual property services decreased by USD 10.4 million compared to 2017, falling to USD 58.2 million.

It is clear from these figures that Uruguay, as well as Paraguay, recorded significantly lower values with respect to Argentina and Brazil, due, obviously, to their lower international and economic importance. However, the conclusion of the agreement with the EU could lead to an improvement in trade in services for these two small countries through the trade facilitation measures it will provide.

***Table 42.* Uruguay-European Union Trade in Services 2016-2018 (USD billions)**

Year	Uruguay's Exports	Uruguay's Imports	Balance
2016	0.6	1.0	-0.4
2017	0.6	0.9	-0.3
2018	0.7	1.0	-0.3

Source: personal revision of the 2019 European Commission data.

https://ec.europa.eu/trade/policy/countries-and-regions/countries/uruguay/.

***Figure 14.* Uruguay-European Union Trade in Services 2016-2018 (USD billions)**

Source: personal revision of the 2019 European Commission data.

https://ec.europa.eu/trade/policy/countries-and-regions/countries/uruguay/.

Foreign Direct Investments between Mercosur and the EU

The European Union has an important role in relations with Mercosur countries even with regard to foreign direct investment. According to data from the European Commission, indeed, besides being Mercosur's second largest partner in the goods market, it is also its second largest investor. The stock of investments in that area increased sharply between 2000 and 2017, from USD 140,267 billion to USD 412,170 billion. On the other hand, Mercosur has also gained a key role in the European investment market, ranking in the list of major investors with a stock of USD 56,148 billion[19].

Argentina

Argentinian Foreign Direct Investment inflows have been very volatile in recent years, due to the economic contractions recorded in 2009, 2012, 2014 and 2016. According to the Santander Bank, in 2017 FDI flow inward recorded a value of 11,517 billion USD which remained almost stable in 2018. However, between 2018 and 2019, FDI dropped by almost 50% from USD 11,873 billion to USD 6,244 billion (see *Table 43*).

Moreover, FDI stocks also decreased between 2017 and 2018, from USD 80,700 billion (about 12.5% of GDP) to USD 72,573 billion (about 14% of GDP) and even between 2018 and 2019, falling to USD 69,170 billion. The main reason was the uncertainty faced by various investors including Amazon, General Motors and Nike, which has been further exacerbated in the current year due to the COVID-19 pandemic, making it increasingly difficult to cope with Argentina's public debt.

According to the data for 2016 provided by the Santander bank (see *Table 44*), in that year the major investors in Argentina were the United States with a 23% share of total FDI inflows, Spain (18%) and the Netherlands with 12%. It is clear that the European participation in the Argentine investment market was significant, considering that the second and third place in the list of major investors were occupied by two members of the EU.

With regard to the main investment sectors, in 2016 they were manufacturing with the highest percentage of 35%, followed by oil and mining (22.3%) and, finally, retail and wholesale (10.9%).

[19] European Commission: https://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur/.

Moreover, the main investment companies were European and American, including Peugeot, General Motors, Telefonica, Wal-Mart and Sony.

Concerning FDI inflows into Argentina from the European Union, it can be observed from the *Table 45* that these have also changed in recent years. Between 2015 and 2017, FDI flow inward in Argentina fell sharply from 7,197 billion (1.2% of GDP) to 4,359 billion USD (0.7% of GDP). Finally, a further decrease was recorded in 2018, which brought FDI to the value of 4,131 billion USD (0.8% of GDP) .

Table 43. **Argentina Foreign Direct Investment (USD million)**

Foreign Direct Investment	2017	2018	2019
FDI Inward Flows	11,517	11,873	6,244
FDI Stocks	80,700	72,573	69,170

Source: Santander Trade Markets. *https://santandertrade.com/en/portal/establish-overseas/argentina/foreign-investment?&actualiser_id_banque=oui&id_banque=0&memoriser_choix=memoriser*.

Table 44. **Main Investing Countries and Main Invested Sectors in Argentina 2016 (%)**

Main Investing Countries	2016	Main Invested Sectors	2016
USA	23.0	**Manufacturing**	35.0
Spain	18.0	**Mine and Oil Extraction**	22.3
The Netherlands	12.0	**Retail and Wholesale**	10.9
Brazil	6.0	**Other Financial Entities**	9.1
Chile	5.0	**Banking**	6.0

Switzerland	5.0	**Information and Communication**	5.0
Uruguay	5.0	**Agriculture**	2.4
France	4.0		
Germany	3.0		
Canada	3.0		

Source: Santander Trade Markets.

Table 45. **Argentina Foreign Direct Investment with the European Union (USD billions)**

Foreign Direct Investment	**2015**	**2016**	**2017**	**2018**
Inward Flows	7,197	-	4,359	4,131
Outward Flows	- 0,117	-	- 0,117	- 0,235
Inward Stocks	82,297	48,659	57,967	50,662
Outward Stocks	2,120	2,592	2,828	3,652

Source: personal revision of European Commission data.

https://webgate.ec.europa.eu/isdb_results/factsheets/country/overview_argentina_en.pdf.

Brazil

Brazil represents one of the most attractive countries in terms of investment, due to its extensive natural resources, the diversified economy and the position of the territory that acts as an intermediary with other Latin American countries.

Nevertheless, there are also unfavourable factors affecting the Brazilian financial market, including high financial charges, slow administration and complex regulation of the labour market. Through the 2019 relaunch program, which was introduced with the entry of Jair M. Bolsonaro as president, measures have been taken to address these issues and improve the attractiveness of the financial market, such as the introduction of the electronic certificate of origin and the reduction of the estimated time needed to create companies.

According to data reported by the Santander Bank (see *Table 46*), FDI inflows to Brazil recorded an increase between 2009 and 2011 before freezing in the following years due to the economic and political crisis. After a recovery in 2016 (USD 66,585 billion, that is 3.7% of GDP) they dropped to USD 59,802 billion in 2018 (3.2% of GDP). However, a regrowth was recorded between 2018-2019, which brought FDI inflows to the value of USD 71,989 billion (Santander Trade Markets, 2019). Furthermore, the stock of FDI did not change significantly between 2017 and 2019. However, there were slight fluctuations. Indeed, it increased from USD 623,021 billion (30.3% of GDP) in 2017 to USD 568,741 billion (30.4% of GDP) in 2018 and, finally, to USD 640,731 billion in 2019. The main reason behind such an increase in investment was the economic recovery program launched in July 2019, which provided monetary easing and fiscal reforms as well as the deregulation of several sectors to cope with the recession that occurred in the years 2015-2016. However, due to the COVID-19 pandemic, which marked 2020 and added to a still open economic and financial crisis, expectations of improvement and growth were disappointed.

However, among the 2018 main investors in the area many EU countries can be mentioned, including the Netherlands, Germany, Spain, Luxembourg and France. As shown in *Table 47*, along with other countries, the latter have mainly focused their investments in the oil and gas sector, as well as in the automotive, electric, financial, commercial sectors. To conclude, the major investment companies have been the French Renault, Peugeot and Carrefour, the Spanish Zara, as well as American ones such as Mc Donald's and General Motors. (Santander Trade Markets, 2019).

With regard to financial relations between the European Union and Brazil, it is clear from the *Table 48* that they are significantly tighter that those with the other Mercosur members. Indeed, in 2015 the EU ranked as the main investor in the area in several economic sectors, with a percentage share of 48.5% equal to USD 30,621 billion. In 2016, European investment in the country almost doubled to USD 60 billion (3.3% of GDP) and plummeted in the following two years, when data showed an inflow of investments amounting to only USD 5 billion (0.2% of GDP) in 2017 and approximately USD 2 billion (0.1% of GDP) in 2018. The stock, on the other hand, did not fluctuate significantly and remained stable between 2015 and 2018, recording an almost constant value of USD 371 billion – about 20% of Brazilian GDP (European Commission, 2019).

***Table 46.* Brazil Foreign Direct Investment (USD millions)**

Foreign Direct Investment	2017	2018	2019
FDI Inward Flows	66,585	59,802	71,989
FDI Stocks	623,021	568,741	640,731

Source: Santander Trade Markets.

https://santandertrade.com/en/portal/establish-overseas/brazil/foreign-investment.

***Table 47.* Main Investing Countries and Main Invested Sectors in Brazil 2018 (%)**

Main Investing Countries	2018	Main Invested Sectors	2018
Netherlands	20.0	**Oil and Gas Extraction**	11.4
United States	16.0	**Motor Vehicles**	9.8
Germany	8.2	**Financial and Auxiliary Services**	7.6
Spain	7.4	**Commerce**	6.8
The Bahamas	5.7	**Electricity and Gas**	5.4

Luxembourg	5.2	**Chemicals**	5.1
Cayman Islands	3.8	**Pulp, Paper and Paper Products**	4.3
British Virgin Islands	3.1	**Information Technology Services**	4.1
Canada	2.8	**Storage and Transportation Auxiliary Activities**	3.5
France	2.8	**Foodstuffs**	3.5
Switzerland	2.6	**Mining Support Service Activities**	3.3
		Other Services	2.8

Source: Santander Trade Markets.

Table 48. **Brazil Foreign Direct Investment with the European Union (USD billions)**

Foreign Direct Investment	2015	2016	2017	2018
Inward Flows	30,837	61,199	5,000	1,666
Outward Flows	-0,238	1,666	2,024	-11,073
Inward Stocks	371,601	432,681	399,343	371,482
Outward Stocks	63,818	-	-	20,121

Source: personal revision of European Commission data.
https://webgate.ec.europa.eu/isdb_results/factsheets/country/overview_brazil_en.pdf.

Paraguay

Since Paraguay is a landlocked country with a limited territory[20] and population, it is not as attractive as the Mercosur countries discussed above. Nevertheless, financial market growth after the pre-crisis period (2008) showed a shift from an average of USD 111 million in the period 2005-2007 to USD 252 million (UNCTAD, 2017)[21]. As a result of the impeachment of President F. Lugo in 2012 and due to the subsequent political and economic crisis that lasted during 2013 under the presidency of H. Cartes, however, the financial market failed to attract significant investments. Indeed, according to UNCTAD data, between 2012 and 2013 there were no considerable changes in investment inflows, which remained stable at USD 252 million (0.65% of GDP). Despite the persistent protests and discontent against the new presidency, they recovered from 2014, reaching the value of USD 382 million (about 1% of GDP). Following a further decrease in investments in the next two years (on average USD 267 million), there was a considerable recovery from 2017 with an inflow of investments of USD 526 million (1.3% of GDP). Finally, between 2018 and 2019, the value decreased slightly but remained almost constant – USD 481 million in 2018 and USD 478 million in 2019, that is on average 1.2% of GDP.

Concerning the Paraguayan FDI stock, it increased considerably between 2013 and 2017, from approximately USD 5 billion (13% of GDP) to USD 6 billion (15% of GDP) and further between 2017 and 2019, from USD 6 billion to USD 7 billion (about 18% of GDP) (Santander, 2020)[22]. According to data from the Santander bank, the largest investors are the United States, Brazil and Spain. Moreover, the most attractive sectors for investment inflows are represented by agricultural, automotive and manufacturing ones, which have been made increasingly attractive due to tax reductions implemented by the government in recent years with the amendment of Law 60/90 in 2003 (Law 60/90)[23].

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[20] The territory of Paraguay registers an area of 406,757 km² compared to 2,780,000 km² of Argentina and 8,516,000 km² of Brazil. Demographically, Paraguay recorded a value of 6.956 million in 2018, significantly lower than Argentina (44.49 million in 2018) and Brazil (209.5 million in 2018) (*Enciclopedia Treccani*).

[21] UNCTAD World Investment Report 2017. https://unctad.org/Sections/dite_dir/docs/WIR2017/wir17_fs_py_en.pdf.

[22] https://santandertrade.com/en/portal/establish-overseas/paraguay/investing-3.

[23] L.60/90 granted new facilitations to foreign capital, including total exemption from customs taxes, reduction in domestic taxes on imports of capital goods, raw materials and VAT for machinery and imported capital, etc. (InfoMercatiEsteri, 2020).

Despite its geographical and demographic size, in terms of investment Paraguay represents an attractive market for the EU. While investment inflows remained steady between 2016 and 2017, *Table 50* shows significant figures for the stock of FDI held by the EU in Paraguay. In 2017 and 2018, indeed, recorded data amounted to USD 1,428 billion (3.6% of GDP) and USD 1,309 billion (3.23% of GDP) respectively, which were considerably higher than in 2014 (USD 1,207 billion).

Table 49. **Paraguay Foreign Direct Investment (USD millions)**

Foreign Direct Investment	2005-2007	2013	2014	2015	2016	2017	2018	2019
FDI Inward Flows	111	252	382	260	274	526	481	478
FDI Stocks	-	4,916	5,439	4,411	4,685	6,171	6,735	7,213

Source: Santander Trade Markets and UNCTAD World Investment Report 2017.
https://santandertrade.com/en/portal/establish-overseas/paraguay/investing-3,
https://unctad.org/Sections/dite_dir/docs/WIR2017/wir17_fs_py_en.pdf.

Table 50. **Paraguay Foreign Direct Investment with the European Union (USD billions)**

Foreign Direct Investment	2014	2015	2016	2017	2018
Inward Flows	-	-	0,119	0,119	-0
Outward Flows	-	0	0	0	-0
Inward Stocks	1,207	-	-	1,428	1,309
Outward Stocks	-	0,119	0,119	0,119	0,119

Source: personal revision of European Commission data.
https://webgate.ec.europa.eu/isdb_results/factsheets/country/overview_paraguay_en.pdf.

Uruguay

Uruguay experienced a period of sharp decline in investment between 2017 and 2018, when values were -837 and -487 million USD (-1.48% and -0.8% of GDP respectively)[24]. However, there was a recovery in 2019, which brought investment inflows to USD 189 million. Regarding the stock of foreign direct investments, the latter fell slightly in recent years, reaching USD 30,413 billion in 2017, USD 29,047 billion in 2018 and, finally, USD 28,273 billion in 2019. The reason why the financial market recovered is due to the measures implemented by the government to increase its attractiveness for foreign investors. These reforms include the liberalisation and deregulation of foreign direct investment and the extension of tax incentives for domestic investors also to foreign investors. Moreover, contrary to the strong uncertainty that, combined with corruption and drug trafficking, discourages investment in Paraguay, Uruguay is a safe haven in terms of stability and attractiveness. Finally, the main investors of the country are the leading countries of Mercosur, i.e. Argentina and Brazil, as well as some European countries such as Spain and the Netherlands, which direct their investments mainly towards manufacturing, building, paper production and agricultural industries.

The European Union, as for the other Mercosur member countries, also plays an important role in Uruguay's financial market. European FDI inflows into Uruguay already reached 2 billion in 2015. This figure fell slightly in 2018, albeit at a high level of 1,7 billion.

***Table 51.* Uruguay Foreign Direct Investment (USD millions)**

Foreign Direct Investment	2017	2018	2019
FDI Inward Flows	-837	-487	189
FDI Stocks	30,413	29,047	28,273

Source: Santander Trade Markets.

https://santandertrade.com/en/portal/establish-overseas/uruguay/investing.

[24] The reason for these negative values is that in those years the disinvested capital exceeded the capital invested by foreign countries in the Uruguayan economy.

Table 52. **Uruguay Foreign Direct Investment with the European Union (USD billions)**

Foreign Direct Investment	2015	2016	2017	2018
Inward Flows	2,381	-	-	2,024
Outward Flows	-1,190	0,119	2,262	5,119
Inward Stocks	15,121	14,406	11,073	14,644
Outward Stocks	7,977	6,191	9,406	13,454

Source: personal revision of European Commission data. https://webgate.ec.europa.eu/isdb_results/factsheets/country/overview_uruguay_en.pdf.

Conclusion

To conclude, such a recent increase in trade between the two blocs appears even more significant in the framework of the agreement for the creation of the Free Trade Area between Mercosur countries and the European Union. Concerning service and investment flows, they will be greatly facilitated by the deal through the establishment of both local and transnational businesses. According to the EC, the sectors that will benefit most will be commerce, finance, telecommunications, maritime transport and even postal services[25]. However, as mentioned above, it also provides for a reduction of trade barriers, particularly import tariffs on products. Hence, the following section aims to demonstrate whether these tariff cuts effectively have a positive impact on trade flows between Mercosur and the EU, boosting them.

[25] European Commission, 2020. https://ec.europa.eu/trade/policy/in-focus/eu-mercosur-association-agreement/agreement-explained/.

CHAPTER III

THE IMPACT OF THE EU-MERCOSUR AGREEMENT ON TRADE BARRIERS

What are Trade Barriers?

The imposition of trade barriers has characterised economic ties between Mercosur and the European Union since the beginning of their commercial relations. Trade barriers are defined as obstacles interposed by states to the free entry of goods from other countries. Since to some extent they reflect the amount of protection of countries, those restrictions are known to reduce the opportunities provided by international trade. It is possible to divide them into *tariff barriers*, including import tariffs; *non-tariff barriers*, including Quantitative Restrictions and Voluntary Export Restrictions, and, finally, *para-tariff barriers*.

The former are defined as tariffs on goods coming into a country from abroad, often used by governments as a way of reducing imports and protecting local industries. Moreover, for the least developed countries they are also a source of revenues, since income taxation is neither well developed nor possible in many cases.

They can be specific, which means a fixed charge per unit, or ad valorem, namely a fraction of the value of the imported good. As all taxes, tariffs on imports affect costs – including freight costs – in both importing and exporting countries. Furthermore, they also have an impact on prices and quantities. Indeed, due to the impact on costs, the importing countries tend to increase prices and decreases quantities, while exporters tend to reduce price and increase quantity. The overall impact depends on how world prices are affected by tariffs.

Tariffs are regulated by the WTO (World Trade Organization) whose member countries have to comply with the rule known as Most Favoured Nation (MFN) Clause. According to this principle, the tariff applied to the most favoured third country should apply to all WTO countries. Since almost all countries in the world are members of the WTO, in fact, the MFN tariff is the tax that each country applies on imported goods. Furthermore, it is important to mention that derogations are associated with this clause, the most important of which concerns the possibility of establishing regional free trade areas between countries that have signed a Free Trade Agreement

(FTA). As in the case of the agreement which should be ratified by Mercosur and EU countries, FTAs aim to further integrate the economies of the partners by establishing, among other matters, a preferential tariff treatment. The latter generally consists of tariff cancellation, thus making the countries involved in the agreement no longer subject to the MFN clause.

Generally, the import tariffs are calculated on the basis of a customs classification code of imported products. At international level, the customs tariff nomenclature is defined on the basis of the so-called Harmonised System (HS). Essentially, this classification consists of the association of a code composed of six digits each corresponding to a specific product (5,000 products). In addition, each state can then decide to further subdivide the goods by adding more digits to these six basic ones. For instance, at European level the Community Customs Code, Regulation 2913/92, which introduced the TARIC (Community Customs Tariff), applies. TARIC codes consist of 10 digits (13,000 products) and are based on the nomenclature of the Harmonised System (HS). Conversely, in the case of Mercosur tariffs are calculated on the basis of the Mercosur Common Nomenclature Code (NCM), which was adopted by the member states in 1995. This code consists of eight digits (about 9,500 products), of which the first six represent the International Classification Method (HS), as mentioned above, while the other two represent Mercosur specifications. Thus, it is clear how relevant the Harmonised System is, since it allows a certain product to be identified globally, in an unambiguous and unequivocal way, regardless of the country of origin and destination.

The second significant category of trade barriers is represented by non-tariff barriers, which can be defined as trade barriers that restrict imports or exports of goods or services through mechanisms other than the simple imposition of tariffs. Based on the work of UNCTAD, these are listed in 16 chapters in alphabetical order and are divided into technical and non-technical. *Table 53* shows the various NTMs classified by chapter.

The majority of these assume the form of quantitative restrictions[26], i.e. measures of quantitative discrimination of international trade fixed by states through the direct determination of the quantities of goods that can be imported or exported. The quantity that can be imported or exported is called quota. Import quotas are normally applied by issuing import licences to domestic importers or foreign governments. The quota guarantees the state that imports of a given good will

[26] They are included in Chapter E, namely Non-Automatic Licensing, Quotas, Prohibitions And Quantity-Control Measures Other Than For SPS Or TBT Reasons (see *Table 53*).

not exceed the set level. The effects of the duty, on the other hand, depend on how consumers respond to the price increase, namely, whether or not they would pay a higher price for the goods from abroad. Import quotas lead to an increase in the domestic price of the good compared to the international price, due to its limited availability in the country. Therefore, in terms of prices, duty and quota have the same consequences. However, the duty always results in revenue for the State, while the price increase in the case of quotas benefits importers, unless the State, by selling licences, manages to collect an amount equal to that obtained through the duty.

Moreover, it is important to mention another kind of non-tariff barrier, namely the voluntary export restrictions[27]. Such a barrier is imposed by governments in order to limit the quantity of specific categories of goods that can be exported to a specified country during a specified period of time. Typically, VERs are applied when national industries which seek protection from competing imports of other countries. The most interesting aspect is that they tend to be preferred to tariffs.

Other non-tariff barriers include government procurement; technical production standards; export subsidies; sanitary and phytosanitary measures to protect health and the environment which are applied primarily to food products (those at European level are very strict); customs formalities; and, finally, labelling rules, including those for the indication of the country of origin.

Finally, there are the so-called para-tariff barriers, the main ones of which are anti-dumping and safeguard measures. Such barriers can be applied by the states in exceptional cases under the World Trade Organization Agreements. At first, anti-dumping measures are defined as duties implemented by a state in order to counteract "dumping" activity, i.e. when companies sell products abroad at prices below those of the domestic market, creating de facto unfair competition. Those duties consist of charging extra import taxes on the specific product from the particular exporting country in order to bring its price closer to the normal value or to remove the injury to domestic industries in the importing countries. Secondly, there are the safeguard measures, which can be applied in the event of serious injuries or threats to local businesses as a result of substantial increase in imports. Anti-dumping measures are not discussed below but it is important to say that recently they have been increasingly used by Brazil and Argentina against the EU and vice versa.

[27] They are included in Chapter E.

Having defined the main categories of trade barriers, the most important concerning trade relations between Mercosur and the EU and the changes to which they would be subject after ratification of the FTA are to be analysed in detail.

***Table 53.* Non-Tariff Barriers by Chapter (A-P)**

Imports	**Technical measures**	**A**	Sanitary And Phytosanitary Measures
		B	Technical Barriers To Trade
		C	Pre-Shipment Inspection And Other Formalities
	Non-technical measures	**D**	Contingent Trade-Protective Measures
		E	Non-Automatic Licensing, Quotas, Prohibitions And Quantity-Control Measures Other Than For SPS Or TBT Reasons
		F	Price-Control Measures, Including Additional Taxes And Charges
		G	Finance Measures
		H	Measures Affecting Competition
		I	Trade-Related Investment Measures
		J	Distribution Restrictions
		K	Restrictions On Post-Sales Services
		L	Subsidies (Excluding Export Subsidies Under P7)
		M	Government Procurement Restrictions
		N	Intellectual Property
		O	Rules Of Origin
	Exports	**P**	Export-Related Measures

Source: UNCTAD, 2012. https://www.tradebarriers.org/docs/UNCTAD%20-%20NTM%20classification%202012%20revised%20Version.pdf

Trade Barriers before the EU-Mercosur Agreement

Pending the ratification of the final text of the EU-Mercosur agreement, trade relations between the two regions continue to be based on the Most Favoured Nation tariff, which according to the World Integrate Trade Solutions Glossary is defined as a “normal and non-discriminatory tariff charged on imports of a good” and allows certain exporting countries to obtain some advantages, including low tariffs or high import quotas (WITS, 2020). However, on a practical level, some states can decide for political or other reasons to restrict such advantages for specific countries seeking to export products to their territory.

In order to determine the simple average MFN tariffs applied by the Mercosur countries and the EU until 1st January 2019, it has been used the WTO database. Through these values it is possible to understand the behaviour of these states with respect to the MFN principle. As can be seen from *Table 54*, where the most recent data of the simple average MFN are reported, simple average MFN tariffs applied by Mercosur countries appear considerably higher than those applied by the European Union. Indeed, while the simple average MFN tariff of the four South American countries is 11.83%, the average MFN tariff applied by the EU is less than half, i.e. 5.20%. *Figure 15* shows more clearly the percentage difference between the simple average MFN tariff applied by Mercosur and the EU compared to the world level. Specifically, the percentage deviation of the MFN simple average applied by the EU from the world average is less than 4.6%, while that of Mercosur is about 2% higher than the world average. Thus, it is clear that the protection of Mercosur member states’ economies is far greater than that of the European Community.

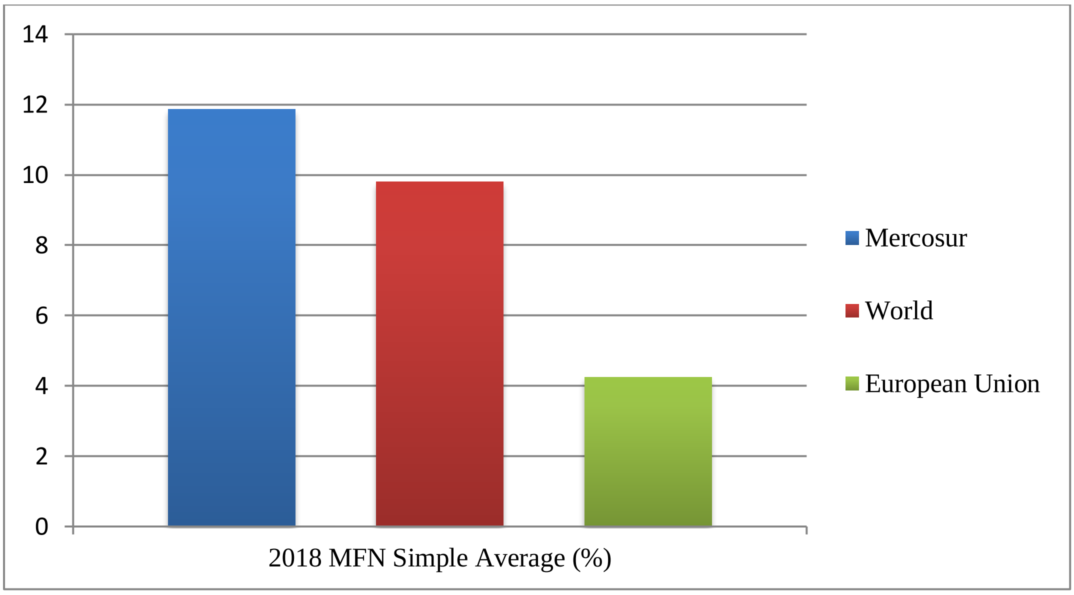
The highest tariffs applied by Mercosur countries to EU exports mainly concern industrial products such as cars, automotive components, chemicals, machinery and pharmaceuticals. As regards EU imports from Mercosur, the highest tariffs and low quotas are applied mainly to agricultural and foodstuffs, including fresh refrigerated and frozen beef, bovine, pork, wine, spirits and so forth. Precisely to exploit the potential of trade flows between the two blocs, among the main aims of the FTA there are the reduction in tariffs and increases in import quotas on industrial and agricultural products from Mercosur and the EU respectively. As a consequence, the partnership would significantly increase the gains for Mercosur companies and, especially, EU ones which according to the EC estimates should increase total European revenues by around USD 4 billion.

***Table 54*. MFN Simple Average (%) of Brazil, Argentina, Paraguay, Uruguay and European Union, 2018**

Argentina	Brazil	Paraguay	Uruguay	European Union	World
13.34%	13.58%	9.94%	10.46%	5.20%	9.80%

Source: World Integrated Trade Solution (WITS) and WTO data.

***Figure 15.* Mercosur, World, European Union MFN Simple Average (%), 2018**



Source: World Integrated Trade Solution (WITS) and WTO data.

The Changes in Trade Barriers

Since 1st January 2019 the European Union can no longer apply such a preferential position to Mercosur members. As a consequence of both the loss of this status with the EU and the decline in exports towards China, the four Mercosur members have increasingly pushed for the conclusion of the Free Trade Agreement. Indeed, such a strategic association involves the integration of a market of 773 million inhabitants, that is almost a quarter of the world's gross domestic product (GDP), and more than USD 100 billion in bilateral trade, including goods and services.

The removal of many of the barriers applied to European products will allowed more than 90% of each bloc's exports to obtain those tariff benefits within ten years. Indeed, Mercosur would proceed with the removal of trade barriers for 91% of products within 10 years, with the result that European companies will be able to save about 4,3 billion USD in import tariffs. Other products should be liberalised over a longer period of time of approximately 15 years. The main categories of products that will be subject to tariff cuts will be analysed below.

Industrial Sector

At first, concerning Mercosur, the goods that will be subject to import tariff cuts will be mainly industrial goods. Indeed, the Agreement signed in July 2019 provides for the liberalisation of 91% of products by the four South American countries. These include goods from industries of considerable importance to the bloc, such as the automotive, chemical and pharmaceutical sectors. As regards the first category, which has so far also been the most protected, Argentina, Brazil, Paraguay and Uruguay will be committed to the gradual removal of tariffs applied to imports of cars and car parts within 10-15 years. A tariff elimination will be implemented for 60% of products in the first decade, whereas the remaining 30% of import duties will be eliminated in the following five years.

On the one hand, such a progressive abolition of tariffs in sectors which are highly protected and significant for Mercosur member countries' industries demonstrates the commitment they intend to employ in the construction of the free trade area with the European Union. On the other hand, due to these tariff removals, the European Community will achieve significant entrepreneurial benefits.

Thus, industrial sectors such as the automotive, pharmaceutical and chemical industries would finally be able to compete fairly with those of Mercosur, as products will no longer be subject to very high import costs and tariffs.

In such a context, it is significant to list the import tariffs hitherto applied by Mercosur to the industrial goods mentioned above. At can be observed from *Table 55*, the automotive industry whose products are currently subject to a tariff equal to 35% (Old Simple Duty Rate). Moreover, car components, machinery, chemicals and pharmaceuticals are currently charged 14-18%, 14-20%, 18% and 14%, respectively. Finally, other tariff abolitions will be applied to products such as clothing and footwear, which are currently subject to 35% tariff, knitted fabrics (26%).

As stated above, at European level the liberalization of those goods will allow exporters to save around 4,3 billion USD. Such an amount is significantly higher than the savings achieved by the Union through the FTA with Japan and the Comprehensive Economic and Trade Agreement with Canada, which entered into force in February 2019 and September 2017 respectively, although the latter on a provisional form.

On the other hand, the abolition of tariffs on the import of industrial and, especially, automotive products will have a different effect on the South American bloc. First of all, the greatest consequences will be encountered in Brazil and Argentina, where the sector is more developed. Furthermore, due to the high level of competition with European products, which will become cheaper with the agreement, it will be difficult for these countries to face the opening-up of the market without a restructuring of the industrial sector.

***Table 55.* Mercosur Tariff Cuts on Industrial Products Imported from the EU (SITC Rev 4[28])**

Total Trade	**Old Simple Duty Rate**	**New Simple Duty Rate**
0 -- Food and Live Animals		
1 -- Beverages and Tobacco		
3 -- Mineral Fuels, Lubrificants and Related Materials		
4 -- Animal and Vegetable Oils, Fats and Waxes		
5 -- Chemicals and Related Products		
51 -- Organic Chemicals	18%	0
52 -- Inorganic Chemicals	18%	0
54 -- Medicinal and Pharmaceutical Products	14%	0
6 -- Manufactured Goods Classified Chiefly by Material		
665 -- Knitted or Crocheted Fabrics	26%	0
7 -- Machinery and Transport Equipment		
73 -- Metalworking machinery		
74 -- General industrial machinery and equipment, n.e.s., and machine parts, n.e.s.	14-20%	0
75 -- Office machines and automatic data-processing machines		

[28] In order to list the major tariff changes, the Fourth Revision nomenclature of the Standard International Trade Classification (SITC Rev 4) has been used, instead of the HS Combined Nomenclature. It is a classification adopted by the United Nations for international trade flows analysis.

76 -- Telecommunications and sound-recording and reproducing apparatus and equipment		
77 -- Electrical machinery, apparatus and appliances		
78 -- Road vehicles	35%	0
79 -- Other transport equipment	14-20%	0
8 -- Miscellaneous Manufactured Articles		
84 -- Articles of apparel and Clothing accessories	35%	0
85 -- Footwear	35%	0
9 -- Commodities and Transactions Not Classified Elsewhere		

Source: European Commission data based on Standard International Trade Classification, Revision 4 (SITC Rev 4).

Agri-food Sector

Concerning the agri-food sector, there will be advantages and disadvantages for both sides. On the one hand, the four Mercosur countries are committed to eliminate import tariffs for about 93% of goods. On the other hand, the European Union will open up the free trade for about 82% of foodstuffs. The remaining percentages of products will be deregulated to a limited extent in order to protect the domestic market. Indeed, as regards specific Mercosur products such as beef, bovine, poultry and pork meat, as well as ethanol, sugar and rice, their exports are currently subject to different import quotas to enter the European market.

As mentioned above, import quotas are considered non-tariff barriers. According to 2019 European Commission data concerning market access, it emerges that NTBs applied by Mercosur countries are higher than those applied by the EU. As a matter of fact, since 2020 Argentina adopted six different types of non-tariff measures, namely export duties; government procurement[29] concerning the preference for national goods; lack or insufficient intellectual property rights protection, except for geographical indications; lack or insufficient enforcement of Intellectual Property Rights; non-automatic import licencing; performance requirements for automotive products, which allows producers to obtain a tariff incentive if a precise percentage of national goods are used in the production.

Moreover, data shows that Brazilian non-tariff barriers are about fifteen, among which the main ones are low import quotas, services restrictions, insufficient enforcement of intellectual property rights, technical barriers, sanitary and phytosanitary measures, especially concerning wines, spirits, foodstuffs and plants; government procurement. Concerning Paraguay and Uruguay, the most significant non-tariff barriers are related to import restrictions, government procurement, lack or insufficient enforcement of intellectual property rights, sanitary and phytosanitary requirements.

By contrast, with regard to the European Union the main NTMs applied are import requirements and licenses, particularly for agricultural, prior surveillance for aluminium, iron and steel imports who exceed a specific quota and, finally, though not in the least, high sanitary and phytosanitary requirements.

Concerning to Mercosur, non-tariff barriers are mainly applied to European exports related

[29] A government procurement or public procurement measures are defined as the buying of goods and services by government organizations. Source: https://dictionary.cambridge.org/it/dizionario/inglese/government-procurement.

to the automotive sector, including cars and car parts. On the other hand, the EU imposes non-tariff barriers mainly on Mercosur meat exports, especially in the form of import quotas and sanitary and phytosanitary measures. Precisely for the agri-food sector, the Free Trade Agreement will provide increases in import quotas or the creation of new ones, as well as bilateral safeguards in order to protect both European and Mercosur producers from imitations of high-quality goods – namely the protection of intellectual property rights on geographical indications, other commitments including government procurements and sanitary and phytosanitary measures.

As regards increases in import quotas combined with tariff cuts in the agri-food sector, *Table 56* shows the major changes envisaged in the agreement. The changes in exports of beef, bovine, poultry, pork meat, sugar, ethanol, rice, honey, sweet corn from Mercosur to the EU are described as follows. At first, for a volume of fresh beef exports between 20,000 and 25,000 tonnes without the Agreement there are no tariffs, while for volumes of around 47,000 tonnes the MFN tariff applied is 20%. However, with the ratification of the Agreement, most of these goods will be partially liberalised through quota increases or tariff reductions. As can be noted in *Table 56*, the Agreement includes a new quota of 54,450 tonnes subject to a 7.5% tariff, in addition to the elimination of the 20% import tariff for the volumes of 46,800 tonnes and the increase in the quota from 20-25,000 tonnes to 30-35,000 (Ghiotto and Echaide, 2020). Finally, it is important to say that these changes in trade barriers will leave import tariffs unchanged for other international markets, such as the Australian, the USA and New Zealand markets.

From *Table 56*, it can be observed that bovine meat will enter the EU market without import tariff. In addition to the previous quotas, the Agreement provides for a new quota amounting to 99,000 tonnes, which includes 55,000 tonnes of fresh meat and (44,000 tonnes) of frozen meat and will be subject to a 7.5% tariff in 5 years. Moreover, to the original quota on poultry meat of 330,000 tonnes, a quota of 180,000 tonnes will be added (including 50% with bones and 50% without bones) and subject to 0% tariff. Yet, there will be a new quota of 25,000 for pork meat.

Concerning sugar, with the Agreement Brazil will be allowed to export 180,000 tons with free access to the EU market (the previous tax was approximately USD 106 per tonne). On the other hand, Paraguayan sugar exports will have free access to EU market for a volume of 10,000 tonnes. Without the ratification of the Agreement, Brazil is the only country which can export sugar to the EU countries.

Furthermore, ethanol is another significant product. Although it is a chemical product, it is included in the agricultural category due to its natural origin from sugar cane. At first, according to the Agreement, Mercosur's exports of ethanol – especially Brazilian export – will be covered by two new types of quotas to be applied within five annual stages. Notably, the previous MFN tariff of 21% applied to volumes equal to 650,000 will be eliminated. Indeed, for volumes equal to 450,000 tons destined for chemical use a tariff of 0% will be applied, while for volumes equal to 200,000 tons destined for common use the tariff-rate quota will be reduced by about 33.3%.

Finally, rice quota will significantly increase from 0 to 60,000 tonnes and with a zero rate. Similarly, the new quotas on honey and sweet corn will be duty-free but with different amounts, equal to 45,000 tonnes and 1,000 respectively (Ghiotto and Echaide, 2020). Such changes are supposed to be implemented by the EU in about six years with regard to meat quotas and five years with regard to the other products.

Referring to agricultural goods and beverages which are characterized by a higher level of competition between the two economies and will benefit from the gradual and total removal of tariffs by Mercosur countries, the most notable are: wines which currently account an import tariff of 27%, spirits (35%), alcoholic drinks (20-35%), non-alcoholic drinks (20-35%), olive oil, chocolates and confectionery (20%), cookies (16-18%) and, finally, EU dairy products whose tariffs will be reduced from 28% to zero within 10 years (see *Table 57*).

Table 56. EU Import Quotas to Mercosur Exports of Agricultural Products (before and after the Agreement)

Product	Existing Quotas (in tonnes, per year)	New quotas with the Agreement (in tonnes, per year)	New Conditions with the Agreement
Beef	46,800 tonnes (20% tariff) 20,000 - 25,000 tonnes-duty free	46,800 tonnes - duty free 30,000 - 35,000 tonnes - duty free	54,450 tonnes will enter with a tariff of 7.5%
Bovine meat (fresh and frozen)	Fresh meat: Exclusive quota: 46,000 Erga omnes quota: 45,000 Frozen meat: 110,000 (20% tariff)	99,000	55% fresh meat (55,000 tonnes), 45% frozen meat (44,000 tonnes). Will enter with a tariff of 7.5% in 5 years.
Poultry meat	330,000 tonnes (used by Brazil)	180,000	0% Tariff; 50% With bones; 50% Boneless.
Pork meat	0	25,000	In quota rate of 83 euros/tonne. Six annual instalments.
Sugar	412,000 tonnes for Brazil (€98/tonne for a quota of 334,000 tonnes, and €11/tonne for a quota of 78,000 tonnes)	10,000	Tariff elimination over 180,000 tonnes for refined sugar from Brazil; Duty-free is extended to 10,000 tonnes for Paraguay; Special sugars are excluded.
Ethanol	Imports subject to 21% of MFN tariff	650,000	450,000 tonnes for chemical use duty-free; 200,000 tonnes for any use (included as fuel), with a third of the tariff of MFN.
Rice	0	60,000 duty-free	
Honey	0	45,000 duty-free	
Sweet Corn	0	1,000 duty-free	

Source: Ghiotto, L. and Echaide, J., 2019.

Table 57. **Tariff Cuts on EU Agricultural Products Imported from Mercosur**

Products	Old Simple Duty Rate	New Simple Duty Rate
Wine	27%	0
Spirits	35%	0
Other Alcoholic Beverages	20-35%	0
Non-Alcoholic Beverages	20-35%	0
Chocolates and Confectionery	20%	0
Olive Oil	20%	0
Dairy Products	28%	0 (within 10 years)

Source: European Commission, 2019.
https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157954.pdf.

An Empirical Analysis

Brazilian Wine Imports from the EU before and after Tariff Elimination

In order to further understand the extent to which such agreement will affect trade flows between the two blocks and the rest of the world, a case study will be analysed below. Notably, through the use of the SMART model (simulation tool included in the World Integrated Trade Solution) it will be simulated the reduction of the import tariff on wine exported from European Union countries to Brazil. The choice of wine arises because wine represents one of the products subject to the highest import tariff applied by the four Mercosur countries. Moreover, being a commodity which is also produced in high volumes in Latin American countries, such as Argentina and Chile, its export from EU to Mercosur countries is almost limited. However, the tariff cuts resulting from the ratification of the free trade agreement between Mercosur and the EU would lead to a reduction of the tariff on wine imported into Mercosur countries from 27% to 0. Thereafter, it will be shown how such cuts will benefit wine exports from EU member countries, especially Portugal, Italy and France, to one of Mercosur's member countries, Brazil.

Under the EU-Mercosur Agreement, wine sector represents an interesting market which will provide several advantages to EU exports. Notably, Brazil has always exerted a strict protection on this product, especially in the State of Rio Grande do Sul, where most of the country's wineries are located. Since even at European level the wine sector is particularly subsidised and much more attractive than in South American countries, the Agreement would lead to a competitive imbalance between the partners.

Due to the competitiveness that will be generated with the Brazilian domestic market, the EU-Mercosur agreement provides for some protective measures, including the creation of a fund in order to safeguard and improve the Brazilian wine sector. Such measures are based on the Regulation 1308, which has already been implemented at EU level since 2013 and is aimed at protecting local producers in the Mercosur countries through certain minimum requirements to be complied with, as already occurs for European producers[30].

With regard to the analysis of trade flows resulting from the implementation of tariff cuts, the SMART simulation tool – which is provided by the World Integrated Trade Solution (WITS) software – was adopted. The SMART model is a widely used tool to simulate the effects of

[30] EUR-Lex. Source: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013R1308&from=EN.

preferential trade agreements, such as the one between the EU and Mercosur. Besides reporting the total effect of trade agreements on imports, it also divides the result into two components, namely trade creation and trade diversion. The former represents the increase in imports resulting from the tariff cuts previously applied to the product by a given country. Since the tariff reduction is preferential, i.e. it is not applied to other countries outside the EU, imports of this product from that country will increase further. Such an increase will be the result of the replacement of imports of this good from other countries, since they will become more expensive. The latter is defined as the diversion effect.

As can be observed from *Table 58*, the total effect on wine imports to Brazil resulting from the tariff cut is overall positive for all EU members which export wine. The creation effect is positive as a result of the reduction in the import tariff on wine (from 27% to 0) which leads to a direct increase in imports. The reason is that a good of domestic production (Brazil), that was previously less expensive, has now become more expensive than the same good imported from EU countries, which now benefit from the tariff cuts. As a result, Brazil will a negative effect due to the reduction in tariff revenue, that is USD -35,359 million (see *Table 60*). Such a reduction in tariff revenue represents the net gap between the pre and post tariff cut and it is negative because revenue gain from increased imports does not exceed revenue loss due to tariff reduction.

Moreover, the diversion effect is positive for the EU Member States as the creation effect. The reason behind this further increase is that Brazilian imports of wine from third countries, which used to be cheaper, are now replaced by imports from EU partner countries, which are favoured by preferential tariff facilitation. Among these third countries that are currently disadvantaged Mercosur countries, such as Argentina and Uruguay, as well as Chile can be enumerated.

It is significant to mention the losses of Argentina and Chile, as they are currently the main exporters of wine to Brazil (see *Table 59*). By cutting import tariffs, these will be the two countries that will suffer the greatest drop due to the diversion effect, namely the replacement of their exports by those from EU countries. Contrary to European Union members, such a reduction will merely result from a negative diversion effect. Indeed, the creation effect will be null since it does not concern third countries but only the importing country concerned, namely Brazil. *Table 61* shows the effect of tariff cuts both on new partners and non-partners exports, as well as the value of exports before the reduction, after the tariff reduction and the net change in exports revenue. As can be observed below, in terms of exports Chile should experience a decrease of USD -20,400 million in the amount of wine exports to Brazil, dropping from USD 144,415 million before the tariff cut to USD 124,014 million after the tariff cut. The reduction in exports of wine of fresh grapes is equal to a decrease of 14.1%, resulting from:

$$\frac{\Delta\, Export\ of\ Wine\ of\ fresh\ grapes}{Total\ Export\ of\ Wine\ of\ fresh\ grapes\ (before\ the\ cut)} \times 100.$$

The reduction as a percentage of total Chilean wine exports to the world – currently the value is USD 1,9 billion – corresponds to a decrease of 1.1%, resulting from:

$$\frac{\Delta\, Export\ of\ Wine\ of\ fresh\ grapes}{Total\ Wine\ Export} \times 100.$$

Given that in 2018 Chilean GDP was USD 298,2 billion, the reduction in wine export in percentage of GDP is equivalent to about 0.01%, resulting from:

$$\Delta GDP = \frac{\Delta\, Export\ of\ Wine\ of\ fresh\ grapes}{GDP\ 2018} \times 100$$

Furthermore, Argentina should experience a decrease of approximately USD -6,860 million, from USD 52,817 million to USD 45,956 million. It is estimated a percentage reduction in the export of wine of fresh grapes of about 13% and a decrease in total Argentinian wine exports – currently the value is USD 797,6 million – equal to around 1%. Finally, given a GDP in 2018 equal to USD 519,9 billion, there will be a reduction of 0.001% of GDP.

These two countries will experience a further decrease in employment rate as a result of the reduction in exports. Based on my hypothesis that production does not change in the short term (2-4 years) and that employment is directly proportional to production and knowing that the number of workers in the wine sector is about 600 thousand in Chile and 385 thousand in Argentina, it is estimated that employment would decrease by about 85 and 50 thousand employees respectively (about 7% in the total of each of the two markets).

Such a reduction of employment in Argentina and Chile should be compensated by a sectoral reallocation of temporarily unemployed workers. The term "sectoral reallocation" refers to an enforced career change due to the loss of jobs in the original industry, in this case the wine industry. It is a natural process to restore the labour market equilibrium[31] which, however, requires time for the research itself as well as for the acquisition of the necessary skills. Therefore, any benefits are only visible in the long term, while in the short term it is expensive both in terms of time and resources available. In this respect, for instance, in Argentina, job seekers will move towards those sectors of production, whose goods will be subject to the reduction in EU trade barriers due to the partnership, such as meat, ethanol, sugar etc. Indeed, whereas on the one hand there will be an increase in EU wine exports and production, on the other hand Mercosur countries would experience a corresponding increase in exports of another product. However, returning to sectoral reallocation in Argentina and Chile, the slow natural transfer can be accelerated through economic policy measures with the aim to faster reduce the unemployment rate. Two interventions which can be carried out by governments are providing further information on labour market – that is, facilitating the achievement of the balance between labour supply and demand – or providing training programmes to adapt labour supply to the new market requirements, i.e. to the increase in labour supply in other sectors of production (Rogerson, R., 1987).

Through the ratification of the agreement, the new beneficiaries of wine exports will become EU member countries, especially Portugal, France and Italy. As a matter of fact, *Table 58* shows that these countries will experience a total trade effect of respectively USD 19,834 million (Portugal), USD 13,314 million (Italy), USD 8,729 million (France). Notably, wine exports from these countries to Brazil will experience a double positive effect, i.e. a creation effect equal to USD 8,134 million (Portugal), USD 5,417 million (Italy) and USD 3,534 million (France) and a diversion effect equal to USD 11,699 million (Portugal), USD 7,896 million (Italy) and USD 5,195 million (France). According to these data, it is clear that the increase due to the diversion effect for all three countries considered is higher than the increase resulting from the creation effect.

Regarding Portugal, the country will experience a 38% growth in the export of wine of fresh grapes. In terms of GDP – considering the GDP of 2018 equal to USD 240,7 billion – an increase of 0.01% will be registered. In addition, Italy registers a 38.3% growth in wine of fresh grapes exports, which is higher than that of Portugal. In terms of GDP – considering the GDP of 2018 equal to USD 2,084 thousand billion – an increase of 0.001% will be recorded. Finally, France will register a

[31] The labour market equilibrium is achieved when labour supply and demand are equal.

38.5% growth in wine of fresh grapes exports, that is higher than in Portugal and Italy. In terms of GDP – considering the GDP of 2018 equal to USD 2,778 thousand billion – a percentage of +0.0001% will be registered[32].

A further significant figure of the Market Trade Report (see *Table 60*) is the so-called Brazilian welfare effect. Brazilian consumers will see a positive value of around USD 1,157 million. It represent the benefits that local consumers will gain both from lower domestic prices and from the greater variety and quantity of products they will have access to. Such a positive welfare effect will have important impacts in terms of employment as well. Indeed, the increase in exports, generally, generates the creation of new jobs. As regards the data on the current job positions that are mutually created by the European Union and Mercosur, there are no reliable data. Nevertheless, it has been recorded that European exports to Brazil currently generate about 436 thousand positions in the latter and, in addition, about 855 thousand positions at EU level (European Commission, 2019). It is clear that the increases in these numbers will result from the increase in exports, thus from the trade agreement. However, it is important to say that these values should be taken with caution or in other words as upper limits, since the other variables such as prices or profit margins are considered fixed. If this is not the case, indeed, Chile and Argentina could adopt measures to maintain the current level of competitiveness, for instance by reducing profit margins or lowering external prices.

To conclude, therefore, the main beneficiaries of the agreement will be the EU member states and especially Portugal, Italy and France as major European exporters of wine. Furthermore, Brazilian consumers will also benefit from the tariff cut, since this will lead to lower wine prices at domestic level. On the other hand, those who will suffer the greatest losses in terms of export, GDP growth and employment will be the current largest exporters of wine to Brazil, namely Chile and Argentina, as they will no longer be preferential markets to import from. Eventually, the Brazilian government will also suffer a loss in terms of tariff revenues, as well as local wine producers who will be in competition with European producers. However, this decrease in tariff revenues will be matched by increased exports of other products to the EU subject to reduced trade barriers.
Yet, Brazilian producers will be safeguarded through the package of protective measures provided for in the EU-Mercosur Agreement.

[32] The data presented are the result of personal calculations carried out using WITS figures.

Table 58. **Brazil Imports of Wine[33] given the Tariff Reduction**

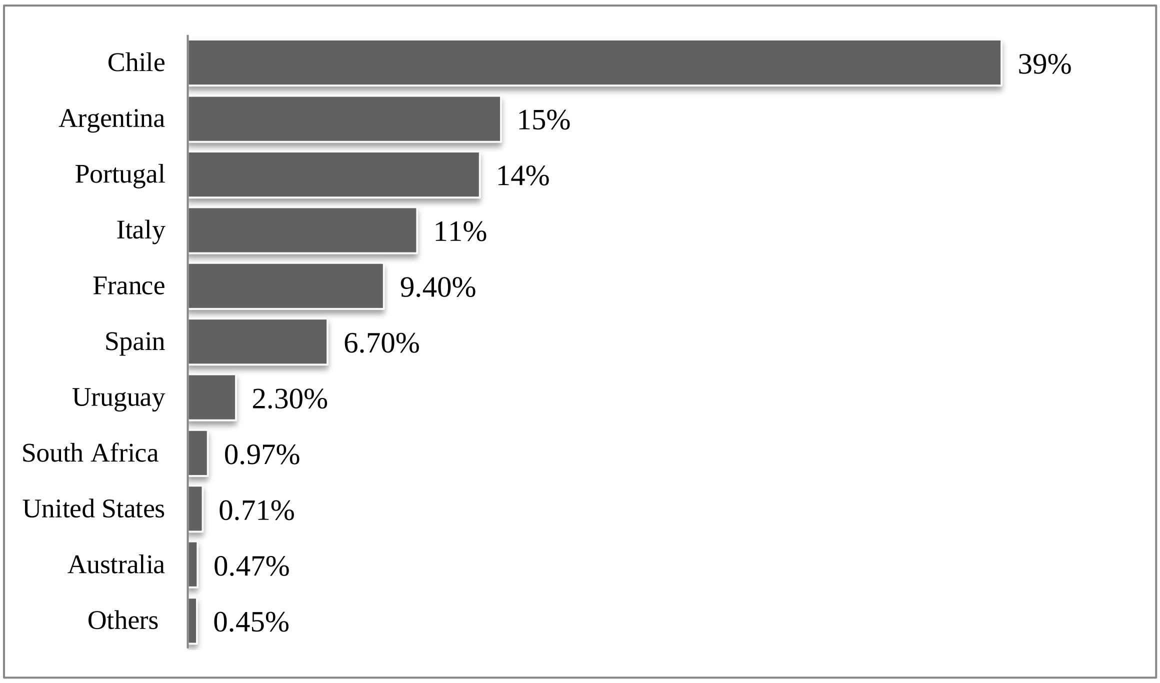
Importer	**Exporter**	**Trade Total Effect in 1000 USD**	**Trade Creation Effect in 1000 USD**	**Trade Diversion Effect in 1000 USD**	**Old Simple Duty Rate**	**New Simple Duty Rate**
Brazil	World	20,252.688	20,252.686	0.001	10.87	0.57
Brazil	Argentina	-6,860.931	0.000	-6,860.931	0.00	0.00
Brazil	Australia	-198.685	0.000	-198.685	27.00	27.00
Brazil	Austria	8.418	3.379	5.039	27.00	0.00
Brazil	Belgium	0.467	0.187	0.279	27.00	0.00
Brazil	Brazil	-15.410	0.000	-15.410	27.00	27.00
Brazil	Bulgaria	6.819	2.737	4.082	27.00	0.00
Brazil	Canada	-2.203	0.000	-2.203	27.00	27.00
Brazil	Chile	-20,400.992	0.000	-20,400.992	0.00	0.00
Brazil	China	-0.060	0.000	-0.060	27.00	27.00
Brazil	Dominican Republic	-0.002	0.000	-0.002	27.00	27.00
Brazil	France	8,729.609	3,534.437	5,195.173	27.00	0.00
Brazil	Georgia	-2.582	0.000	-2.582	27.00	27.00
Brazil	Germany	200.837	80.632	120.204	27.00	0.00
Brazil	Greece	52.227	20.965	31.262	27.00	0.00
Brazil	Hungary	44.062	17.688	26.375	27.00	0.00
Brazil	Indonesia	-0.027	0.000	-0.027	27.00	27.00
Brazil	Ireland	0.371	0.149	0.222	27.00	0.00
Brazil	Israel	-23.025	0.000	-23.025	0.00	0.00
Brazil	Italy	13,314.226	5,417.789	7,896.437	27.00	0.00
Brazil	Lebanon	-18.983	0.000	-18.983	27.00	27.00

[33] According to the HS combined nomenclature, the TARIC and the MCN, the code of the type of wine considered is 2204.21, namely 'wine of fresh grapes, including fortified wines in containers holding 2 litres or less'.

Brazil	Luxembourg	0.016	0.007	0.010	27.00	0.00
Brazil	Mexico	-0.102	0.000	-0.102	21.60	21.60
Brazil	Netherlands	3.388	1.360	2.028	27.00	0.00
Brazil	New Zealand	-86.868	0.000	-86.868	27.00	27.00
Brazil	Peru	-0.083	0.000	-0.083	0.00	0.00
Brazil	Portugal	19,834.551	8,134.665	11,699.886	27.00	0.00
Brazil	Romania	3.767	1.512	2.255	27.00	0.00
Brazil	Russian Federation	-8.369	0.000	-8.369	27.00	27.00
Brazil	Saudi Arabia	-0.411	0.000	-0.411	27.00	27.00
Brazil	Slovak Republic	6.970	2.798	4.172	27.00	0.00
Brazil	Slovenia	26.624	10.687	15.936	27.00	0.00
Brazil	South Africa	-449.362	0.000	-449.362	27.00	27.00
Brazil	Spain	7,458.373	3,015.734	4,442.639	27.00	0.00
Brazil	Switzerland	-0.967	0.000	-0.967	27.00	27.00
Brazil	Turkey	-0.157	0.000	-0.157	27.00	27.00
Brazil	United Kingdom*	19.829	7.960	11.869	27.00	0.00
Brazil	United States	-328.026	0.000	-328.026	27.00	27.00
Brazil	Uruguay	-1,060.622	0.000	-1,060.622	0.00	0.00

**Although tariffs on wine imports refer to 2018, when the UK was still an EU member, it is not considered in the empirical analysis since it will not join the FTA.*
Source: World Integrated Trade Solution – SMART.

***Table 59.* Distribution of Wine Imports in Brazil in 2018, by Country of Origin**



Source: STATISTA, 2018.

***Table 60.* Market View Report on Brazil Imports**

Importer	Imports Before in 1000 USD	Import Change	Tariff Old Revenue in 1000 USD	Tariff New Revenue in 1000 USD	Tariff Change In Revenue in 1000 USD	Consumer Surplus in 1000 USD
Brazil	344,386.406	20,252.688	37,426.350	2,066.474	-35,359.876	1,157.873

The Market View report returns all three types of effects affecting the market, namely trade value, tariff revenue and welfare change by individual product code and for all products as one aggregate.
Source: World Integrated Trade Solution – SMART.

Table 61. **Exporter View Report**

Importer	**Partner Name**	**Exports Before in 1000 USD**	**Exports After in 1000 USD**	**Export Change In Revenue in 1000 USD**
Brazil	Argentina	52,817.641	45,956.711	-6,860.931
Brazil	Australia	1,567.787	1,369.102	-198.685
Brazil	Austria	21.664	30.082	8.418
Brazil	Belgium	1.201	1.668	0.467
Brazil	Brazil	121.806	106.396	-15.410
Brazil	Bulgaria	17.550	24.369	6.819
Brazil	Canada	17.418	15.215	-2.203
Brazil	Chile	144,415.016	124,014.023	-20,400.992
Brazil	China	0.472	0.412	-0.060
Brazil	Dominican Republic	0.013	0.011	-0.002
Brazil	France	22,661.080	31,390.689	8,729.609
Brazil	Georgia	20.416	17.834	-2.582
Brazil	Germany	516.975	717.812	200.837
Brazil	Greece	134.420	186.647	52.227
Brazil	Hungary	113.405	157.467	44.062
Brazil	Indonesia	0.210	0.183	-0.027
Brazil	Ireland	0.954	1.325	0.371
Brazil	Israel	182.017	158.992	-23.025

Brazil	Italy	34,736.215	48,050.441	13,314.226
Brazil	Lebanon	150.044	131.061	-18.983
Brazil	Luxembourg	0.042	0.058	0.016
Brazil	Mexico	0.804	0.702	-0.102
Brazil	Netherlands	8.719	12.107	3.388
Brazil	New Zealand	686.193	599.325	-86.868
Brazil	Peru	0.653	0.570	-0.083
Brazil	Portugal	52,155.496	71,990.047	19,834.551
Brazil	Romania	9.695	13.462	3.767
Brazil	Russian Federation	66.160	57.791	-8.369
Brazil	Saudi Arabia	3.249	2.838	-0.411
Brazil	Slovak Republic	17.938	24.908	6.970
Brazil	Slovenia	68.521	95.145	26.624
Brazil	South Africa	3,537.315	3,087.953	-449.362
Brazil	Spain	19,335.412	26,793.785	7,458.373
Brazil	Switzerland	7.647	6.680	-0.967
Brazil	United Kingdom	51.034	70.863	19.829
Brazil	United States	2,585.185	2,257.159	-328.026
Brazil	Uruguay	8,354.805	7,294.183	-1,060.622

Source: World Integrated Trade Solution – SMART.

A Potential Business Plan for Italian Wine Exports to Brazil

Introduction

In order to further develop the topic, the following in-depth study simulates a potential business plan for the export of Italian wine to Brazil. The decision to consider Italy has been made for three main reasons. At first, the country is supposed to become the second largest beneficiary in terms of wine exports, following Portugal that is already a major exporter of wine to Brazil. Secondly, Italy represents a market with a huge expansive potential, especially due to the significant increase in economic relations with Brazil after the 2007 Brazil-EU Strategic Partnership. Lastly, Italian wine sector is a very competitive industry in terms of quality and costs compared to the Brazilian one and could grow significantly in the next few years through the elimination of tariffs.

As evidenced in the previous chapters, currently economic relations between Italy and Brazil are experiencing a very positive phase. Precisely due to the opportunities offered by wine sector, it is assumed that a Piedmont winery called *Cantina sociale di Vinchio e Vaglio Serra* decides to launch a trading plan for exporting wine in Brazil, in order to promote and increase the exports of Italian wines towards Latin America. With a turnover of EUR 8.67 million in 2018 and a production of approximately 1.2 million bottles per year, the company counts 185 winegrowers, both owners and tenants of around 420 hectares of vineyards, which are dedicated to the production of wine for domestic and export consumption[34]. Due to the success and awards obtained in recent years for the high quality of the wine produced, its associates have increasingly focused their attention on foreign markets. In this respect, emerging markets such as Brazil or the other Mercosur members represent a source of attraction for the launch of new business projects.

Despite the tariff cut that will occur with the ratification of the FTA, the issue of import licenses in Brazil is not automatic, though it is requested before the commercial plan is launched. The federal body responsible for granting such licenses is the MAPA[35], which provides for a set of documents and procedures to comply with, in order to export beverages to Brazil.

[34] The winery is located in Asti (Piedmont). In 2018 the company recorded a turnover of EUR 8,67 million and a profit of EUR 9.31 thousand. Source https://www.reportaziende.it/cantina_sociale_di_vinchiovaglio_serra_e_zone_limitrofe_s_coop_agrrre_.

[35] Brazilian beverages imports refer to a federal body, namely the *Ministério Agricultura, Pecuária e Abastecimento* (MAPA).

The main documents required by the MAPA for imports are, at first, a copy of the CNPJ (the equivalent of the Italian VAT number), a declaration by the importer of suitable storage conditions for the product and a copy of the company's articles of association. All beverages must comply with their Identity and Quality Standards (IQSs), which are regulated by certain legislation. The IQSs define each category of food product conceived by the Brazilian Ministry of Agriculture and determine its specific quality and labelling criteria. Moreover, the study of the product formulation is required to analyze the complete composition of the product and their respective quantities, in order to determine whether it complies with the respective IQS, as well as to verify whether all ingredients and additives are authorized in Brazil.

Furthermore, the MAPA requires both the certificate of analysis and certificate of origin. Finally, the kind of wine that the winery aims to export has the code 220421[36] under the Mercosur Common Nomenclature (MCN). Such a code is extremely necessary since, if the product had not been included in the customs code for South American Markets (MCN), it would not have entered the market. However, according to the empirical research previously developed, I assume that the import tariff on this type of wine will be eliminated as a result of the ratification of the EU-Mercosur Agreement.

Concerning the procedure to be followed, the main steps are described hereafter. The first phase is to choose the method of payment, which in this case is the letter of credit. Indeed, it has the main advantage of the maximum payment guarantee, due to the irrevocable commitment that the issuing bank assumes, including in the eventuality of a buyer's insolvency. In other words, the foreign bank is obliged to pay the money even if our debtor goes bankrupt.

Moreover, the second step is to decide the method of transport and distribution. Due to the considerable quantity of wine that the winery wants to export towards Brazil, maritime transport will be adopted. As a matter of fact, the sea freight transport is the most common method of shipping today, mainly due to its competitive cost and high loading capacity. Particularly, it is recommended to use LCL-type maritime transport (Less than Container Load). The acronym is used in the field of freight and logistics to define the type of shipment of less than one container, which means that the loads of different customers are grouped in a standard maritime container.

[36] The code refers to wines in recipients not exceeding 2 litres capacity. This is the kind of wine currently covered by an import tariff of 27% and analysed in the previous empirical study (see *Chapter III*).

The use of an LCL solution offers to the buyer and seller the opportunity to reduce transport costs, compared to a Full Container Load (FCL) or air transport.

Concerning the distribution method that is supposed to be used, the winery selects the network of restaurants and retail shops which counts 30% of total Brazilian wine imports. The reason is that it requires a more refined range of products contrary to the cheaper ones required by large retailers and the wines produced by the *Cantina sociale* are labelled as “premium”, i.e. medium-high quality wines.

Furthermore, it is highly important to insure goods to cover the risks that can arise during the transportation, as well as to conclude a Incoterm F group contract, that is exclusive for maritime transport. Finally, the seller will have to apply for financing, that is needed to help SMEs to export abroad. The Italian agency SACE-SIMEST – under the *Cassa Depositi e Prestiti* – will provide *Cantina sociale di Vinchio e Vaglio Serra* with the amount required for the commercial project.

Method of Payment

Once the trade area between the Italian seller and the Brazilian supplier is established, the import procedure starts. At first, it is necessary to write up a Proforma Invoice, that is a standard certificate used in global trade where there are written all the details for the operation including product data, form of payment and method of transport. For the exporter, namely *Cantina sociale di Vinchio e Vaglio Serra,* it could be useful to use a method of payment which prevents him/her from losing money but that at the same time guarantees the buyer from possible damages to the received products – due to the long trip from Genoa to Santos and to the fragility of wine bottles. Hence, a feasible way of payment that does not imply excessive risks for either of them could be the Letter of Credit.

With regard to both import and export, the letter of credit is the most widely used international payment method, especially if the buyer comes from a country with high or medium ‘country risk’ or ‘currency exchange risk’, as in the case of Brazil. The letter of credit can be identified as a safe and advanced form of payment for international trade, as it reduces the issues of insolvency by shifting the obligation of receipt from the buyer to a bank, which is the guarantor of all stages of the transaction.

Method of Transport and Distribution

In order to transport the cargo of wine from the port of Genoa[37] (Italy) to the port of Santos (Brazil)[38], the most appropriate methods of transport are the air freight or the maritime freight. The former is recommended for particularly prestigious wine due to the faster delivery, minimum risk of damage of goods and lower insurance. Nevertheless, due to the sensitivity of wine to changes in temperature, exposure to sunlight and the large quantity that has to be shipped, air transport could cost a lot. Consequently, it is recommended to opt for maritime shipping.

The cost of Less than Container Load (LCL refers to the shared container) for international shipments applies per cubic metre or per tonne according to the ratio: 1 cubic metre = 1 tonne, expressed in the formula W/M. In other words, the tariff is multiplied by volume (M) if in absolute terms the value in cubic metres is greater than the value in tonnes and vice versa by weight (W) if the value expressed in tonnes is greater than the value expressed in cubic metres.

Since the shipment is LCL maritime, it is essential to protect the wine impeccably. There are several solutions on the market that can be considered to provide the proper preservation, such as protective films or integrated protective inflatable bags. Afterwards, the wine bottles can be placed in resistant boxes with thermal blanket in order to minimize any risk of damage due to the oscillations of the ship and prevent the wine bottles from suffering excessive and unwanted temperature changes. Considering that a shipping container contains about 11 pallets (100x120x140 cm), the container is shared and the bottles must be well protected, a total of approximately 700 bottles can be transported.

The cargo will be handled in the port of Genoa by the exporting company Ocean Sped, since it is one of the most important maritime transport companies for wine in Italy. The cargo will arrive at the port of Santos after 9,451.11 km. The company will provide assistance from the negotiation with the importer to the control of bank documents, up to the customs clearance and delivery.

[37] It is the closest harbour to the winery (about 100 km away).

[38] The Port of Santos is situated in the city of Santos, Brazil and is the largest port in Brazil and South America. It is located at a distance of about 9,450.65 km from the port of Genoa.

Concerning distribution method, due to the pandemic the greatest growth in wine imports into Brazil was driven by the increase in demand from large-scale retailers, followed by imported wines for e-commerce and teleshopping. Nevertheless, the reopening of businesses is expected to result in a further increase in imports by restaurants and retail shops.

In 2019 Brazilian wine consumption reached 321 million litres (+2.5% compared to the previous year), of which 41.5% was accounted for by imports. Out of this share, the percentage of the Italian market was 4%, that is 12 million litres. With regard to volumes, about 80% of the market concerns still red wines, 8% sparkling wines and 9% fortified wines. The off-trade network, that includes large-scale retail and retail, imports 75% of the total including 35% requested by large-scale retail chains and about 30% by retail shops and restaurants (MAECI, 2020).

According to the information provided by the *Cantina sociale*, the wines produced are considered wines of medium-high quality with low quantities (1.5-2 kg of grapes per vine) and high sugar levels. Indeed, most of the production (277 hectares out of 451) is destined for Barbera d'Asti, a still red wine that is included among the preferences of Brazilian importers. Moreover, considering that the average price per bottle is between USD 12.00 and USD 14.99, they are labelled as premium, i.e. a quality wine. Consequently, the winery decides to focus on the network of restaurants and retail shops which counts 30% of total Brazilian wine imports, since it requires a more refined range of products contrary to the cheaper ones required by large retailers.

Insurance

In the commercial field it is important to insure goods in transit due to the many risks that can arise during the transportation, especially of wine bottles. Indeed, the insurance certificate is one of the documents required by the Federal Revenue. The standard insurance value for wine is:

$$(Value\ of\ goods + Transport\ costs) \text{ x } 1.10$$

that is, 10% in addition to the value and transportation costs[39].

Concerning the above mentioned trading plan, Marine and Cargo insurance can be the most suitable choice. As a matter of fact, it covers products which are internationally transferred from one place to another – in this case from Genoa to Santos. Policies will insure the movements of goods by sea against loss or damage from the risks involved in the transportation of the wines. Furthermore, it is necessary to consider not only the risks incurring during the transport but also

[39] Data gathered from the Foreign Trade Practices course attended at FAAP University (Sao Paulo, Brazil).

those concerning politics, economy and exchange rate fluctuations. Indeed, due to the unstable Brazilian environment which is affected by political crises, riots, strikes, high inflation and, currently, the dramatic situation due to the COVID-19, it is necessary to conclude a set of adequate insurances.

Therefore, a Marine Cargo Insurance can be adopted for preventing possible damages during the transportation; Political Risk Insurance can be designed to cope the losses in income or commercial properties resulting from a considerable political circumstance, including political violence, expropriation, currency inconvertibility, insolvency and contract frustration; Riot and Strike Insurance to cover damages related to riots, strikes and civil commotion in recent months; and, finally, a Forward Exchange Contract for the losses on the exchange rate’s fluctuations.

Considering the use of maritime transport and the fragility of the bottles of wine, even if well packaged, it will be necessary to proceed to the conclusion of incoterms[40] type F, in which the seller who wants to start trading with Brazil holds greater risks and transport costs. The more appropriate F-Incoterms are the Free Alongside Ship/Franco under board (FAS) and the Free On Board / Free on board (FOB). The latter is reserved for maritime transport, and means that the seller bears the costs and responsibility for the transport until the delivery of the goods "at the dock" in the port of shipment. The former, compared to the previous clause, assigns costs and risks – in addition to the customs operation for export – to the seller until the delivery of the goods on board the ship.

Financing

The last measure which is to be considered is financing. In Italy, the financing project is provided by SACE-SIMEST – i.e. a public limited company of the Italian group *Cassa Depositi e Prestiti* – for all SMEs with a legal seat in Italy (beneficiaries). These funds are important in order to encourage and help Italian enterprises to export goods in foreign markets through the increase in competitiveness that they bring.

According to SACE-SIMEST, for the inclusion of SMEs in extra-EU markets the maximum amount that can be financed can reach 100% of the budgeted total and cannot exceed 25% of the average turnover of the last two years, i.e. it can range from a minimum of 50 thousand euros up to

[40] Incoterms represent a universal codification that identifies the duties and risks for the seller and the buyer. Consequently, they provide common rules for the interpretation of commercial terms to be included in contracts of sale (Italian Association of Foreign Trade, 2020).

4 million euros[41]. The term of the financing is 6 years, including 2 years of pre-amortisation. The main benefit of this export financing project is the reduced refund rate, that is 10% of the EU reference rate, in the event of an improvement or maintenance of the level of capital strength.
It is important to say that a reference level of capital stability is defined ("threshold level") and consists of the ratio between shareholders' equity and net fixed assets. Being a manufacturing activity, the threshold level for such a winery is set at 0.65. This level is calculated on the basis of the last balance report approved by the company, prior to the examination financing application. I assume that these requirements have been met by *Cantina sociale di Vinchio e Vaglio Serra* within the last three years, thus the winery can apply for financing.

At first, the application process requires that the company submits the financing request to SIMEST through the new Financing Portal. The outcome presented by the SIMEST will contain the special conditions that must be signed after the resolution and sent through the SIMEST Portal. The company applying for the subsidised loan must provide SIMEST with any clarifications and/or additional documentation within fifteen days of receipt of SIMEST's written request. After this deadline, in the event of incomplete receipt, the application for funding is considered submitted and expires. By contrast, from the complete receipt of the necessary documentation, the preliminary investigation is submitted by SIMEST, to the Facilitation Committee that decides on the application for funding. The total amount of the loan is provided in a single tranche, within thirty days from the end of all procedures required by SACE.

Finally, the second phase involving repayment can be implemented. There are two hypotheses. If at the end of the first phase the company has improved its entry level until reaching or exceeding the threshold level, then the repayment is made over four years at a reduced rate of 10% of the reference rate. From 1st to 30th September 2020 the subsidised rate applied by SACE-SIMEST is 0.083%, i.e. 10% of the EU reference rate recorded (0.83%). By contrast, if the enterprise has not reached the threshold level or registered a decrease, it will have access to a deferred refund at the reference rate.

[41] SACE-SIMEST Agency. Source: https://www.simest.it/programmi-di-inserimento-sui-mercati-extra-ue?_ga=2.40193185.204290908.1600098501-1921781932.1600098501.

Conclusion

The trade project implemented by the *Cantina sociale di Vinchio e Vaglio Serra* evidences that the increase in wine exports from Italy to Brazil is an excellent indicator of how relations between the two countries are improving over time. Nowadays, Italy is among the top 10 investors in Brazil and after a drop that occurred for three years, in 2017 trade between the two nations has begun to rise again.

Notably, Italian wine market represents a fertile ground, still to be developed and promoted abroad. As a consequence, it seems necessary to benefit from the opening of the Brazilian market as well as the South American one, since it marks the "end" of their protectionism.

Referring to data from the previous empirical simulation, it is estimated that the increase in wine exports of fresh grapes to Brazil will benefit Italy with an annual increase of approximately 0.2% in total wine exports. Such a growth is a result of:

$$\frac{\Delta\, Italian\ Export\ of\ Wine\ of\ fresh\ grapes}{Total\ Italian\ Export\ of\ Wine} \times 100 = \frac{13{,}314{,}226}{7{,}324{,}000{,}000} \times 100 = 0.2\%$$

As mentioned above, this increase is estimated per year. Therefore, in the long term it is expected to have significant effects on total Italian wine exports, especially considering that in this case only flows to Brazil are discussed.

With regard to the wine company considered in the business plan, as mentioned above, it produces about 1.2 million bottles per year. Out of this quota, those destined for export are about 500 thousand. However, the overall increase in Italian exports due to the tariff elimination will result in a parallel growth of the company's exports and turnover by approximately:

$$\Delta\, Italian\ Export\ of\ Wine\ of\ fresh\ grapes\ (\%) \times 2018\ Winery\ Turnover =$$
$$= 0.2\% \times 8{,}670{,}000 = 17{,}340$$

Based on the assumption that the average gross revenue per bottle results from the ratio between turnover and the total number of bottles produced per year, the value is approximately EUR 7.50. Consequently, gross export revenues are equal to EUR 3,750 thousand, i.e. the product between the average revenue per bottle and the number of bottles devoted to export. Finally, the total gross turnover of the winery will be equal to about EUR 8,688 million, compared to the initial figure of EUR 8.670 million. Although such increase is not high, it becomes significant considering it as a growth in the long term. Hence, the business plan proves to be advantageous since through its implementation the winery should register approximately EUR 18 thousand more per year in its export flows.

It is clear that the project also represents an excellent opportunity in terms of cost effectiveness for Brazil, as well as a way to enhance its presence in the global and, especially, European arena. Indeed, although the tariff reduction leads to a decrease in government revenue, the importing country will experience an increase in consumer welfare, as well as a corresponding reduction in EU import tariffs on other products such as meat, sugar and ethanol (see *Table 56*).

Concerning the grater attractiveness of the Brazilian market, one of the reasons can be found in the government of Jair M. Bolsonaro. Indeed, with its rise to power a liberalist political-economic programme has been carried out aimed at recovering the competitiveness of the Brazilian market.

To conclude, the EU-Mercosur FTA agreement will provide a further incentive, since it represents a win-win strategy as proved above. Indeed, it manage to create opportunities for growth and stability for both the sides; remove barriers; help EU firms to export more, by protecting the quality of EU products from imitations – especially, the higher quality and diversification of Italian wines compared to those of other competitors, such as Chile and Argentina.

CONCLUSIONS

In a global context which is increasingly focused on political and economic cooperation, the approach between the two macro-areas, namely the European Union and Mercosur, represents a considerable interesting area, especially in the light of the evolution and achievements of their relations over the last two decades. The peak reached with the conclusion of the agreement in principles on 28 June 2019 has proved, against the hopes and concerns, that this partnership represents a turning point in the history of international relations and, notably, in the establishment of alliances on which a large part of EU policy focuses. Hence, this study sought to demonstrate the importance and economic benefits that the Association Agreement between the European Union and Mercosur can provide to the member countries of both blocs, especially in view of the ratification of the final text in progress.

As presented in the first chapter, the agreement in principles concluded in June 2019 highlights the main aspects on which this partnership will be grounded. However, the greatest contributions were provided by the recent work on the final text and estimates of sustainable economic effects. These have aroused strong interest in the analysis of the main expected changes in the economic flows between these two regions. Although the criticisms and concerns that this agreement has raised and continues to raise, especially in NGOs or producer associations, it has been shown that the benefits can actually outweigh the losses. Contrary to their claims, according to recent SIA estimates, the Amazon rainforest, climate change and, yet, producers in both areas are not expected to be adversely affected by the establishment of such a free trade area. Rather, it could lead to a significant improvement and increase in trade flows between the EU and Mercosur.

As demonstrated in the second chapter through the economic analysis of flows of goods, services and foreign direct investment, it has been noted that relations between the two blocs have consolidated and, indeed, improved over the last decade. The European Union ranks second among the main trading partners of the South American area, immediately after China and before the USA, thus the conclusion of this deal can simply increase trade and foster cooperation. Indeed, the analysis of the potential liberalisation of trade in goods involving the reduction of high tariff and non-tariff barriers highlighted the advantages that trade will gain. To this extent, the agreement also represents a stimulus for the Mercosur countries to abandon the recently widespread protectionist policies and to further open up to the outside world in a perspective of inclusion in the global value chain. Finally, a partnership with the European Union also implies a greater commitment to the protection and preservation of the environment, as well as the democratic values and rights underlying Western culture. As a matter of fact, the agreement will provide for the mutual and, especially, Brazilian engagement in the implementation of the principles of the Paris Agreement on climate change. Furthermore, the approach to the European Union will allow Mercosur members to get closer to those Western values that prioritise the individual and his/her protection in an ever-changing global context. This is significant considering that the democracy of these countries requires further progress and greater inclusiveness in order to overcome and combat corruption, discrimination and exclusion from political representation of certain strata of society – suffice it to mention the Brazilian favelas and their severe marginalisation from the well-off part of society.

Despite the importance of the above-mentioned issues, this work mainly addresses the economic dimension of the partnership. Indeed, the empirical simulation presented in the third chapter examines in detail the extent to which the agreement will benefit EU wine exports once it will be ratified by the parties. The analysis shows significant results. Whereas on the one hand it has been observed that countries such as Chile and Argentina – notably the main countries of origin of wine imported from Brazil - will suffer losses both in terms of exports and employment, on the other hand it has emerged as exports and employment of EU countries including Portugal, Italy and France will benefit from tariff reductions. It is important to state that Chile and Argentina will not merely loose as the corresponding increase in exports of other products as well as the long-term sectoral reallocation of new job seekers are to be considered. Moreover, bearing in mind that wine represents merely one of the wide range of products that will be subject to liberalisation, it is clear that trade flows of goods will experience significant improvements in the medium to long term.

The final business plan aims to further develop the previous topic. Considering that Italian wine industry represents a fertile ground to be developed and promoted abroad, it seemed interesting to observe at a concrete level how the data obtained from the empirical simulation would affect the exports of an Italian winery. The analysis of the several procedures to follow and the conclusions reached through the use of the empirical simulation data revealed interesting results in terms of both Italian and winery export growth. As a matter of fact, results show that the increase in Italian wine flows to Brazil will positively affect the export of the winery *Cantina sociale di Vinchio e Vaglio Serra*, thus leading to the increase in its turnover in the medium-long term. Finally, the business plan represents a great opportunity even for Brazil in terms of both consumer welfare and benefits for local producers, since the increase in wine imports from Italy will be accompanied by an increase in exports of other goods subject to EU import tariff cuts.

In conclusion, such an agreement between the EU and Mercosur will lead to considerable benefits, some of which have been analysed in the course of this study. Pending the final text and its ratification, it is essential to further emphasise the opportunities and advantages it will bring, as well as continue to introduce changes that will improve the deal and allay concerns and criticism.

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SUMMARY

Nowadays, the global scenario is dominated by the continuous and exponential increase in international political and economic, as well as social and cultural relations between countries and geographical areas. Such developments in global cooperation models increasingly represent a priceless source of value when the resulting benefits and opportunities for progress are observed. Among international agreements and alliances and besides multilateral and bilateral models, interregional agreements have been highly successful in recent years. Within this framework, the commitment that since the 1960s the European Union has dedicated to the establishment of lasting ties with Latin American countries appears extremely important as a way to promote political and economic, as well as cultural and social integration. Due to the significance and benefits of such integration, the negotiation processes and relations between the two areas have developed considerably over the years.

In terms of economic and political partnership with European Community, among the three main Latin American blocs, which are Mercosur, the Central American Common Market and the Andean Community, the former represents the most important partner. Indeed, despite the geographical distance, the ties between the EU and Mercosur – Argentina, Brazil, Paraguay and Uruguay – rely on a broad cultural, historical, political, strategic and economic common heritage. Hence, the need to develop a dialogue which leads to common benefits and brings these two worlds closer to each other. In this context arises the Association Agreement in principles between the European Union and Mercosur signed on 28 June 2019 – whose analysis seems to be relevant pending the ratification by the parties.

Thus, the aim of this thesis is to examine the political and the economic dimensions of the deal with the aim of highlighting its advantages and opportunities in terms of political cooperation and economic and social development. The thesis is divided into three macro chapters, which are in turn subdivided by topics relating to relations between the European Union and Mercosur and to the Free Trade Agreement currently in progress.

At first, *Chapter I* introduces the historical development of relations between the then-European Community and the countries of the unborn Mercosur from the 1960s onwards. Especially, the first paragraph observes that relations and negotiations between the two blocs increasingly intensified during the 1990s, namely since the creation of Mercosur (26th March 1991, Asunción, PY) and the European Union (7th February 1992, Maastricht, NLD). The opening of the dialogue reached its first stage in 1994, when the European Commission presented the three main points concerning its aims towards Mercosur. These purposes included supporting and promoting the construction of a long-term partnership; fostering a more competitive integration of the Mercosur area at international level; and consolidating the European influence in the region. As a consequence, the European Union and Mercosur concluded an agreement for political coordination, economic association and cooperation in 1995 and therefore an Interregional Cooperation Agreement. The latter would have laid the groundwork for the establishment of a potential free trade area between the two blocs.

Despite the initial fervour surrounding these negotiations, due to the events which occurred afterwards – including the failure of the Doha Round in 2004, the definitive refusal to join an FTA area the following year, as well as the rise in disagreements between the two blocs over the primary sector, especially agriculture – the dialogue came to a standstill which was not relaunched in 2008.

As is has been pointed out in the second paragraph, 2007 proved to be a significant year, especially regarding the conclusion of a strategic partnership between Brazil, that is the leading Mercosur member, and the European Union. The necessity to open negotiations at bilateral level arose for two main reasons: firstly, the period of stagnation in the negotiations between Mercosur and the European Union and, secondly, the greater ease with which the interests of two parties could be related and aligned, in contrast to the interests of two macro-regions. Such focus on Brazil-EU ties is useful for the empirical simulation which is developed at the end of Chapter III, concerning the tariff reductions provided for by the EU-Mercosur agreement.

The third paragraph deals with the end of the stagnation which regards the EU-Mercosur negotiation. Indeed, the VI EU-LAC Summit was held in Madrid in order to reopen the negotiations for an association agreement. Thus, the interregional dialogue resumed in 2010. The groundwork was laid for the reformulation of the main points of the deal, particularly to avoid further phases of stagnation due to opposition from the most hostile countries. Eventually, in summer 2019, the talks achieved their hoped-for outcome. Indeed, on 28th June 2019 the agreement in principles between the EU and Mercosur on the FTA was signed. However, the final text is currently under revision and will require ratification by the parties in order to enter into force. Finally, the last paragraph presents the main advantages and opportunities of the agreement, as well as the main criticisms and concerns that have been raised.

Secondly, *Chapter II* provides a deep analysis of the economies of the four Mercosur countries and their trade relations with the rest of the world and, particularly, with the European Union as one of its main partners.

The first paragraph provides data on trade flows of goods in 2007, 2018 and 2019, as well as on the products most traded by these countries. Observing the European Commission data which concern traded goods, it emerges that from 2007 to 2019 the Mercosur area exponentially increased trade flows to the world. Indeed, imports and exports amounted to USD 141,987 billion and USD 191,788 billion respectively, resulting in a trade of USD 333,766 billion in 2007. The analysis of the extent to which these trade flows in goods (in percentage terms) relate to trade with the European Union, the analysis shows that in 2007 Mercosur exports towards the EU amounted to USD 51,778 billion, while Mercosur's imports of goods from the Union amounted to USD 34,732 billion. Both these values represented about a quarter of Mercosur total imports and exports. After the 2008 financial crisis, Mercosur's trade flows continued to rise, reaching USD 286,045 billion in exports and USD 286,756 billion in imports. From the comparison of these figures with the most recent data, it emerges that after a decrease in trade flows recorded in the two-year period 2015-2016, the data on total trade of the Mercosur area have risen since 2017 and remained almost stable until 2019, with a value of exports equal to USD 272,576 billion and imports equal to 205,931 billion dollars. Notwithstanding the subsequent reduction in trade flows between the two economic blocs in 2019, the EU27 reached the second position in Mercosur's list of 2019 top trading partners for both imports and exports, preceded only by China and followed by the United States. As a result, trade in goods with the European Union is crucial for Mercosur countries, especially in the light of a potential free trade agreement.

The second paragraph focuses on service flows in the last decade. It will be highlighted that in percentage terms, the overall scenario remained more or less steady considering 2012 and 2019. With regard to trade with the European Union, according to the most recent data, it emerged that in 2017 Mercosur reached a value of trade in services equal to approximately USD 36,675 billion dollars, including telecommunications, finance, business and transport services.

This figure represented almost a third of Mercosur's total trade in services (USD 102,351 billion), thus a further important amount considering the potential future agreement.

The third paragraph deals with foreign direct investment to Argentina, Brazil, Paraguay and Uruguay from the rest of the world and the Union, and vice versa. As will be highlighted in this thesis, the European Union has an important role in relations with Mercosur countries even with regard to FDI. Indeed, the EU is not only being Mercosur's second largest partner in the goods market, it also represents its second largest investor, with a stock of investments increased from USD 140,267 billion in 2000 to USD 412,170 billion in 2017. On the other hand, Mercosur has also gained a key role in the European investment market, ranking in the list of major investors with a stock of USD 56,148 billion. Finally, the chapter will also provide more detailed data on each Mercosur countries.

Furthermore, *Chapter III* concerns the trade barriers which currently exist between the two economies. Once defined what is generally meant by trade barriers, there will be a deep focus on existing tariffs and import quotas between the EU and Mercosur, that will be subject to several cuts and increases in the event that the final Free Trade Area agreement is ratified.

Pending the ratification of the final text of the EU-Mercosur agreement, trade relations between the two regions continue to be based on the Most Favoured Nation tariff, which allows certain exporting countries to obtain some advantages, including low tariffs or high import quotas (WITS, 2020). However, on a practical level, some states can decide for political or other reasons.

The highest tariffs applied by Mercosur countries to EU exports mainly concern industrial products such as cars, automotive components, chemicals, machinery and pharmaceuticals. As regards EU imports from Mercosur, the highest tariffs are applied mainly to agricultural and foodstuffs, such as orange juice, fresh refrigerated and frozen beef, frozen shrimps, meat and entrails. Precisely with the aim of exploiting the potential of trade flows between the two blocs, one of the main aims of the FTA is to remove or reduce tariffs on industrial and agricultural products from Mercosur and the EU respectively. Indeed, this would significantly increase the FTA gains for companies in Mercosur countries and, especially, the EU. According to the European Commission's estimates, the latter should increase its revenues by approximately USD 4 billion.

Firstly, concerning the Mercosur, the goods that will be subject to import tariff cuts will be mainly industrial goods. Indeed, the Agreement signed in July 2019 provides for the liberalisation of 91% of products by the four South American countries. These include goods from industries of considerable importance to the bloc, such as the automotive, chemical and pharmaceutical sectors.

Concerning the agri-food sector, there will be advantages and disadvantages for both sides. On one hand, the four Mercosur countries are committed to eliminate import tariffs for about 93% of goods. On the other hand, European Union will open up the free trade for about 82% of foodstuffs. The remaining percentages of products will be deregulated to a limited extent to protect the domestic market. Indeed, as regards specific Mercosur products such as beef, bovine, poultry and pork meat, as well as ethanol, sugar and rice, their exports are currently subject to different import tariffs and quotas to enter the European market. Through the agreement, the amounts of import quotas will increase while import tariffs will be reduced.

Furthermore, a case study will be analysed to further understand the extent to which such agreement will affect trade flows between the two blocks and the rest of the world. Especially, it will be simulated the reduction of the import tariff on wine exported from European Union countries to Brazil through the use of the SMART model (simulation tool included in the World Integrated Trade Solution). The choice of wine arises because wine represents one of the products subject to highest import tariffs applied by the four Mercosur countries. Moreover, being a commodity, which is also produced in high volumes in Latin American countries, such as Argentina and Chile, its export from EU to Mercosur countries is almost limited. However, the tariff cuts resulting from the ratification of the Free Trade Agreements between Mercosur and the EU would lead to a reduction of the tariff on wine imported into Mercosur countries from 27% to 0. Thereafter, it will be shown how such cuts will benefit wine exports from EU member countries, especially Portugal, Italy and France to Brazil and how they will disadvantage wine exports from the current major exporters of wine, i.e. Chile and Argentina.

On the one hand, Chile and Argentina will suffer losses in fresh grapes wine exports of USD 20,400 million and USD 6,860 million respectively, which in percentage of GDP will amount to -0.01% and -0.001%. Furthermore, both countries are supposed to suffer a decrease in the number of employees in the wine sector. The estimate is 85 thousand fewer workers out of a total of 600 thousand for Chile and 50 thousand fewer workers out of a total of 385 thousand for Argentina. Such values consider exports as inversely proportional to unemployment, i.e. the reduction in exports corresponds to an increase in unemployment. Moreover, these numbers have to be considered as upper limits, since other variables such as price or profit margin are assumed to be fixed. On the other hand, Portugal, Italy and France will be the main beneficiaries of tariff elimination. It has been estimated that they will experience an increase in exports to Brazil of USD 19,834 million, USD 13,314 million and USD 8,729 million. Although not highly significant in the short term, these figures as percentages of GDP will increasingly benefit exports in the long term.

Finally, concerning Brazil, consumer welfare will improve due to the lower prices, while government should suffer a decrease in import revenues due to the tariff cut. Nevertheless, this decrease in tariff revenues will be matched by increased exports of other products to the EU which are subject to reduced trade barriers. Moreover, the EU-Mercosur agreement provides for some protective measures, including the creation of a fund to safeguard Brazilian producers and improve its wine sector. Such measures are based on the Regulation 1308, which has already been implemented at EU level since 2013 and is aimed at protecting local producers in the Mercosur countries through certain minimum requirements to be complied with, as already occurs for European producers.

Considering the outcomes of the empirical research, the last paragraph presents a business plan for an Italian winery which intends to export wine to Brazil. Based on my assumption that the FTA has been ratified and import tariff cut has already been applied, the different steps to be implemented are described, according to the requirements of the Brazilian Ministry of Agriculture[42] (MAPA) – that is, the body responsible for defining the rules and procedures for importing wine into Brazil. The decision to consider Italy has been made for three main reasons.

Firstly, the empirical analysis demonstrates that the country will become the second largest beneficiary in terms of wine exports, following Portugal which is already a major exporter of wine to Brazil. Secondly, Italy represents a market with a huge expansive potential, especially due to the significant increase in economic relations with Brazil after the 2007 Brazil-EU Strategic Partnership. Lastly, Italian wine sector is a very competitive industry in terms of quality and costs compared to the Brazilian one and could grow significantly in the next few years through the elimination of tariffs.

[42] Brazilian beverages imports refer to a federal body, namely the *Ministério Agricultura, Pecuária e Abastecimento*.

Precisely due to the opportunities which wine industry offers, it is assumed that a Piedmont winery called *Cantina sociale di Vinchio e Vaglio Serra* decides to create a trading plan for exporting wine in Brazil, in order to promote and increase the exports of Italian wine towards Latin America. With a turnover of EUR 8.67 million in 2018 and a production of approximately 1.2 million bottles per year, the company counts 185 winegrowers, both owners and tenants of around 420 hectares of vineyards, which are dedicated to the production of wine for domestic and export consumption[43]. Due to the success and awards obtained in recent years for the high quality of the wine produced, its associates have increasingly focused their attention on foreign markets. In this respect, emerging markets such as Brazil represent a source of attraction for the launch of new business projects.

With regard to the issue of import licenses in Brazil, it needs to be requested before the launch of the commercial plan. As mentioned above, the federal body responsible for granting such licenses is the MAPA, which provides for a set of documents and procedures to comply with, in order to export beverages to Brazil.

Concerning the procedure to be implemented, the main steps are listed hereafter. The first phase is to choose the method of payment, which in this case is the letter of credit due to its maximum payment guarantee. Moreover, the second step is to decide the method of transport and distribution. Due to the considerable quantity of wine that the winery choices to export towards Brazil, maritime transport will be adopted. As a matter of fact, currently the sea freight is the most common and the cheapest method of shipping. Particularly, it is recommended to use LCL-type maritime transport (Less than Container Load). The acronym means that the loads of different customers are grouped in a standard maritime container.

The use of an LCL solution offers to the buyer and seller the opportunity to reduce transport costs – since they are shared by several wine producers – compared to Full Container Load (FCL) or air transport. Concerning the distribution method that is supposed to be used, the winery selects the network of restaurants and retail shops which counts 30% of total Brazilian wine imports.

[43] The winery is located in Asti (Piedmont). In 2018 the company recorded a turnover of EUR 8,67 million and a profit of EUR 9.31 thousand. Source https://www.reportaziende.it/cantina_sociale_di_vinchiovaglio_serra_e_zone_limitrofe_s_coop_agrrre_.

The reason is that it requires a more refined range of products contrary to the cheaper ones required by large retailers and the wines produced by the *Cantina sociale* are labelled as "premium", i.e. medium-high quality wines.

Furthermore, it is highly important to insure goods to cover potential transport risks, as well as to conclude an Incoterm F group contract, that is exclusive for maritime transport. Finally, the seller will have to apply for financing, that is necessary to support SMEs exporting abroad. The Italian agency SACE-SIMEST – under the *Cassa Depositi e Prestiti* – will provide the *Cantina sociale di Vinchio e Vallo* with the required amount for the commercial project to be refunded at a subsidized rate (currently it is 0.083%).

The trade project implemented by the *Cantina sociale di Vinchio e Vaglio Serra* evidences that the increase in wine exports from Italy to Brazil is an excellent indicator of how relations between the two countries are improving over time. Notably, Italian wine market represents a fertile ground which, still needs to be developed and promoted abroad. As a consequence, it seems necessary to benefit from the opening of the Brazilian market as well as the South American one, since it marks the "end" of their protectionism. Referring to data from the empirical simulation, it is estimated that the increase in wine exports of fresh grapes to Brazil will benefit Italy with an annual increase of approximately 0.2% in total wine exports. As mentioned above, this increase is estimated per year. Therefore, in the long term it is expected to have significant effects on total Italian wine exports, especially considering that in this case only flows to Brazil are discussed.

With regard to the wine company which is examined in the business plan, its turnover will increase by approximately EUR 17,340, thus the total gross turnover of the winery will be equal to about EUR 8,688 million. Although such value is not high, the business plan proves to be advantageous because the increase is considered as a growth in the long term.

It is clear that the project also represents an excellent opportunity in terms of cost effectiveness for Brazil, as well as a way to enhance its presence in the global and, especially, European arena. Indeed, although the tariff reduction leads to a decrease in government revenue, the importing country will experience an increase in consumer welfare, as well as a corresponding reduction in EU import tariffs on other products such as meat, sugar and ethanol.

Concerning the grater attractiveness of the Brazilian market, one of the reasons can be found in the government of Jair M. Bolsonaro. Indeed, with its rise to power a liberalist political-economic programme has been carried out aimed at recovering the competitiveness of the Brazilian market.

Finally, the EU-Mercosur FTA agreement will provide a further incentive, since it represents a win-win strategy as proved above. Indeed, it manage to create opportunities for growth and stability for both the sides; remove barriers; help EU firms to export more, by protecting the quality of EU products from imitations – especially, the higher quality and diversification of Italian wines compared to those of other competitors, such as Chile and Argentina.

In conclusion, the study proved that such an agreement between the EU and Mercosur will lead to considerable benefits. Pending the final text and its ratification, it is essential to further emphasise the opportunities and advantages it will bring, as well as continue to introduce changes that will improve the deal and allay concerns and criticism.