## POLICY BRIEF

# The European Union-Mercosur Trade Agreement: a solution for trade-related habitat loss in Brazil?



INTERNATIONAL INSTITUTE FOR SUSTAINABILITY TRADE, DEVELOPMENT & THE ENVIRONMENT HUB

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# key messages

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Brazil is the largest agricultural exporter to the European Union (EU). Since habitat conversion is linked to agricultural production in Brazil, European demand has been associated with habitat loss. The EU-Mercosur Trade Agreement (EMTA) is expected to improve Brazil's agrifood market access into the EU. However, while Brazilian exports of sugar and ethanol may increase, the growth of beef exports may be low, and no major changes are expected on soybean imports by the EU.

The agreement may potentially lead to further habitat conversion to accommodate the expansion of pasturelands and agricultural areas in Brazil, resulting in biodiversity loss and affecting the provision of ecosystem services. The EMTA's environmental risks can be minimised by efficient land use planning and integrated landscape management. Land sparing and intensification of agricultural production on current agricultural lands may help to decouple trade from habitat loss and free up areas for ecosystem restoration.

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The identification of priority areas for ecosystem restoration, nature conservation and land use conversion are crucial to optimise land use planning and improve the cost-benefit ratio.



Combined public and private instruments in the international and domestic arenas are required to avoid habitat loss in Brazil caused by food production and trade.

Although the EMTA will not address all trade related habitat conversion risks, it can contribute to strengthen the multilevel institutional and policy framework necessary to restrain biodiversity loss and promote sustainable land use, alongside the following recommendations: 1: Transition to greener trade agreements



3: Transparency and accountability in supply chains

2: Robust integrated landscape management



4: Stronger multi-stakeholder engagement

# EU and Brazil: partners in trade and deforestation

Growing public awareness about the link between European agri-food consumption and habitat loss embodied in trade has sparked concerns regarding the potential environmental impacts of the European Union<sup>1</sup>-Mercosur<sup>2</sup> Trade Agreement (EMTA)<sup>3</sup> in Brazil.

The EU is Brazil's second-largest trade partner (European Commission, 2021a) and Brazil is the single largest exporter of agricultural products to the EU (European Commission, 2021b). In 2020, Brazilian agri-food exports to the EU reached US\$15 billion and the top five exported products were: i) soybean complex (36.9%); ii) coffee (17.1%); iii) forest products (12.4%); iv) juices (6.6%); and v) meat (5.5%) (Brasil, 2021a).

At the same time, official deforestation rates<sup>4</sup> have been on an upward trend, worsening in the last two years (National Institute for Space Research (INPE), 2021). Deforestation in the Brazilian Amazon between August 2019 and July 2020 was 10,851 km<sup>2</sup>, and in 2021 increased to 13,235 km<sup>2</sup> – the highest rate since 2006 (Brasil, 2021b). Brazil has clearly failed to meet the target set for 2020 on its National Policy on Climate Change<sup>5</sup>. The country had committed to reducing in 80% the annual deforestation rate in the Amazon in relation to the average rate observed between the years 1996 and 2005.

The rise in deforestation has been catalysed by environmental setbacks, such as the weakening of forest protections and the sidelining of climate change related commitments, in addition to legislations that may regularise illegally grabbed public lands (Silva Junior *et al.*, 2021).

A significant share of forest loss in Brazil and other tropical and subtropical countries can be attributed to the expansion of commercial croplands, pastures and tree plantations, partly to supply the rising international demand for beef, oil crops (such as palm oil and soybean), wood products, coffee and cocoa. Between 2005 and 2017 the EU accumulated

<sup>&</sup>lt;sup>1</sup>The European Union (EU) is an economic and political union of 27 countries. It operates an internal market which allows free movement of goods, capital, services and people between member states. The EU countries are: Austria, Belgium, Bulgaria, Craatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovenia, Slovenia, Spainsh initials) is a regional integration process, established by Argentina, Brazil, Paraguay and Uruguay, Venezuela is suspended to its status as a State Party and Bolivia is in the process of accession. Further information is available at: https://pulse.amercosur.int/ <sup>3</sup> The Agreement in Principle and its Texts. Available at https://policy.trade.ec.europa.eu/eu-traderelationships-country-and-region/countries-and-regions/mercosur/eu-mercosur-agreement/agreement-principle\_en <sup>4</sup> Official deforestation rates for the Brazilian Amazon are taken from Brazilian Amazon Deforestation Monitoring Program (PRODES) of National Institute for Space Research (INPE). Further information is available at: http://terrabrasilis.dpi.inpe.br <sup>s</sup> The National Policy on Climate Change (Federal Decree 9:578/2018) is available at: http://www.planalto.gov.br/ccivil\_03/\_Ato2015-2018/2018/Decreto/D9578.htm

3.5 million hectares of deforestation embodied in its imports, accounting for 21% of the total deforestation associated with international trade of commodities (Pendrill *et al.*, 2020; WWF, 2021). Over this period, imports from Brazil had the largest share of tropical deforestation embodied in EU imports, accounting for 30% (87,000 hectares per year) of the total.

Brazil is under national and international pressure to regain control over illegal deforestation. At the international level, the EU – mainly in the context of the EMTA negotiations – has expressed concerns with the surge in deforestation in the region.

#### So... what could change after the EMTA?

It is expected that the EMTA will increase the volume of Brazilian agricultural exports to the EU due to better access to its markets.

In the agricultural trade, Mercosur will liberalise 96% of the trade volume and 94% of tariff lines<sup>6</sup> for imports from the EU. On the other hand, the EU will liberalise 82% of the trade volume and 77% of tariff lines for imports of agri-food products from Mercosur (Brasil, 2019). Market access for Brazilian agricultural products in the EU will fall within one of the three following categories, depending on the concessions agreed for each product in the EMTA:

No change in market access	Free trade is already ongoing or the trade protection is maintained, thus the same trade flows would be expected (i.e., soybean);
Improvement in market access	The reduction in import tariffs may increase trade flows (i.e., avocados, lemons, grapes, soluble coffee, fish);
Controlled improvement in market access	Certain products will continue to face tariff rate quotas. The expansion in the volume within the quotas and reduction of in-quota tariffs will cause a limited increase in EU imports (i.e., beef, poultry, swine meat, sugar, ethanol, rice, sweetcorn).

<sup>6</sup>A product as defined in lists of tariff rates. Products can be subdivided, the level of detail reflected in the number of digits in the Harmonized System (HS) code used to identify the product.

#### Economic and environmental potential impacts of the EMTA in Brazil

The results of the Sustainability Impact Assessment (SIA) of the EMTA, commissioned by the European Commission to the London School of Economics Consulting (LSE Consulting, 2020), show a small increase in Gross Domestic Product (GDP), even under the most ambitious scenario. According to the projections, by 2032 the European and Brazilian GDP would expand by 0.1% and by 0.3% respectively, as compared to the scenario without the agreement (baseline scenario).

Soybean and beef are the most commonly cited forest-risk commodities. The EMTA would not increase Brazilian soybean trade as it already enters the EU with a zero-import tariff<sup>7</sup>. Soybean exports from Brazil may even decrease once Argentina's export taxes are withdrawn after the EMTA (Arima *et al.*, 2021).

Beef trade is highly regulated by the EU through a scheme of high import tariffs (around 40-45%) and limited tariff-rate quotas, in addition to a suite of non-tariff measures, including sanitary and technical requirements. Should the EMTA be implemented, the EU will maintain existing beef import tariff rate quotas (gradually reducing the in-quota tariffs to zero), and high out-of-quota tariffs measures (40-45%). The EU also committed to a new quota with a 7,5% in quota-tariff (European Commission, 2021c). Therefore, the estimated increase in Mercosur's annual beef exports to the EU is low, representing around only 0.2% of the total production in Brazil (Hovmand, B.; Thelle, M. and Sunesen, E., 2021).

The EMTA would also increase trade of other products. The EU's reduction in tariff rate quotas may cause Brazilian exports of ethanol and sugar (included in the beverage and sugar sector) to increase (Arima *et al.*, 2021).

A potential deforestation of 56 to 173 thousand hectares (depending on different scenarios) has been estimated in order to accommodate cropland expansion. Sugarcane can be the most important driver of land use change in Brazil under the high trade elasticity scenarios (Arima *et al.*, 2021). Additional deforestation would be greater in three states of the Brazilian Amazon: Pará (39.9%), Rondônia (32.6%), and Mato Grosso (25.2%). In the Cerrado, deforestation would be more likely to occur in its northeastern region, known as MATOPIBA<sup>8</sup>, while deforestation would occur most probably in the states of Maranhão (31.6%), Piauí (21.3%), and Bahia (20.4%) (Arima *et al.* 2021). Deforestation probabilities in the Amazon and Cerrado ecosystems correlated with biophysical factors, infrastructure and policy decisions.

<sup>7</sup>Tariff schedules are available in the Trade Part of the EU-Mercosur Association Agreement text: Appendix on Tariff Elimination Schedule for the European Union. Annex 2-A. Available at https://tradee.ceuropa.eu/doclib/docs/2021/july/tradoe\_J597291%20EU%20goods%20shedule.pdf <sup>®</sup> Matopiba is a region that comprises the Cerrado biome in the states of MAranhão, TOcantins, Plauí, and BAhia, to which Brazilian agriculture has expanded since the late 1980s. Its production ranges from tubers to fruit, which stands out in the cultivation of grains and fiber, especially soybeans, corn and cotton, besides livestock. Further information is available at https://www.embrapa.br/en/tema-matopiba/sobre-o-tema. Finally, an assessment commissioned by the French government (France, Commission Indépendante Devaluación, 2020), outlined the risks of land use change in Mercosur associated with potential increases in beef production and exports resulting from the EMTA. The assessment forecasts a 2% to 4% increase in volume of beef production in Mercosur countries per year. Although it is considered that the demand could be met by increasing productivity in current pasturelands, EMTA's provisions do not completely rule out the risk of deforestation associated with additional beef exports to the EU. The French assessment projects an "equivalent in additional grazing areas" that would theoretically be necessary to meet the estimated increase in beef production, considering future productivity improvements are assumed to be equal to the average productivity gains over the past ten years. As a result, it is estimated a potential 5% annual increase in deforestation of tariff reductions provided in the EMTA, as compared to the average deforestation in the previous five years (2015-2019).

#### Next steps: decoupling agricultural production and trade from habitat loss

Sustainable crop yield optimization has been suggested as a key solution to the land competition between agriculture and nature conservation (Strassburg *et al.*, 2014). It is possible to reconcile agricultural production alongside substantial increases in the area and quality of natural ecosystems (Strassburg, 2021).

Brazilian agriculture has already introduced sustainable techniques and practices, such as the no-till system of soil management, multi-cropping, and integrated production systems, but it is still possible to increase soybean production by converting existing degraded pasturelands into crop fields (Gazzoni, Cattelan and Nogueira, 2019).

It is estimated that current productivity of Brazilian cultivated pasturelands is 32–34% of its potential and that increasing productivity to 49–52% of the potential would suffice to meet demands for meat, crops, wood products and biofuels until at least 2040, without further conversion of natural ecosystems (Strassburg *et al.* 2014). In addition, the land sparing approach – which combines high-yield farming with protecting natural habitats – offers a realistic potential for people to meet escalating food demand with the least harm to other species (Phalan *et al.* 2011).

The science and practice of ecological restoration, tailored to local conditions, has been improved by tapping into nature's ability to heal itself through natural regeneration, thus reducing the recovery costs (Strassburg, 2021). In addition to supporting climate change mitigation and protecting threatened species, restoration can bring multiple social and cultural benefits.

Decision support platforms – such as PLANGEA<sup>9</sup> – can be used to make land use planning more efficient and generate a cost benefit of up to 13 times greater (Strassburg *et al.*, 2020). It generates maps of priority areas for ecosystem restoration, reducing the habitat loss and land use conversion, in addition to quantifying the impacts for multiple criteria in all biogeographical regions and biomes.

Changes in food production and consumption combined with intelligent territorial planning could reduce biodiversity loss and help to regenerate the planet (Leclére *et al.*, 2020). In addition to sustainable trade, reducing food waste and adopting more plant-based human diets are central to an effective food system transformation. Only ambitious efforts to deal with the drivers of land use change could become positive for the biodiversity trends post-2020 (Leclère *et al.*, 2020; Diáz *et al.*, 2020).

The proposed post-2020 Global Biodiversity Framework (GBD) aims to galvanise urgent and transformative action to achieve the outcomes it sets out in biodiversity related multilateral agreements, processes and instruments. To ensure fulfilling its goals of "living in harmony with nature" by 2050, it has 21 action-oriented targets for urgent action over the decade to 2030 (CBD, 2021)<sup>10</sup>. Among the targets proposed, Target 10 points out that all areas under agriculture, aquaculture and forestry should be managed sustainably. The conservation and sustainable use of biodiversity will increase the productivity and resilience of these production systems.



Priority areas for restoration focused on biodiversity, climate change mitigation and minimizing costs. All converted lands are ranked from highest priority (top 5%, dark red) to lowest (85–100%, blue). Spatial patterns for individual criteria vary considerably, highlighting the role of joint optimisations to capture synergies (Strassburg *et al.*, 2020).

<sup>o</sup>Further information on PLANGEA is available at https://www.iis-rio.org/en/projects/plangea/ <sup>o</sup> Further information on the CBD is available at https://www.cbd.int/ The European Union-Mercosur Trade Aareement: a solution for trade-related habitat loss in Brazil? Effective policies and enforcement actions could lead to the decoupling of agrifood production from deforestation in Brazil (Nepstadt *et al.*, 2014; Tacconi *et al.*, 2019). Previous efforts to cope with illegal deforestation and promote sustainable development in Brazil were effective in reducing forest loss between 2004 and 2012. This success was largely attributed to the adoption of appropriate policies and regulations, voluntary arrangements and market-based initiatives that aimed at decreasing deforestation. Some examples include: stricter enforcement and monitoring; implementation of the Soy<sup>11</sup> and the Beef<sup>12</sup> Moratorium; creation of indigenous reserves and other various government initiatives, particularly the Action Plan for Prevention and Control of Deforestation in the Legal Amazon (PPCDAm)<sup>13</sup> (LSE Consulting, 2020; Silva Junior *et al.*, 2021).

In addition, the Native Vegetation Protection Law (LPVN)<sup>14</sup> established innovative instruments of control and incentives to foster greater law compliance, enabling property owners to make commitments to reduce environmental liabilities. Examples of such instruments are the Rural Environmental Registry (CAR), the Environmental Compliance Program (PRA), the Project for Recovery of Degraded and Altered Land (PRADA) and the Environmental Reserve Quotas (CRA). To be effective, these commitments would need to be monitored periodically with remote sensing systems (Brancalion *et al.*, 2016).

Successful actions that restrained deforestation in the past should be resumed, bringing Brazil back to its former position as a global leader in sustainable development (Silva Junior *et al.*, 2021). These actions may be combined with new initiatives, encompassing enforcement and compliance of the LPVN and an urgent deforestation moratorium, based on the expansion of the Soy Moratorium to Brazil's Cerrado (Soterroni *et al.*, 2019). The implementation of these initiatives has the potential to become a new paradigm of integrated landscape management. As a regional example, the Brazilian state of Mato Grosso developed the Produce, Conserve and Include Strategy (PCI)<sup>15</sup> and has recently conducted an economic and financial analysis<sup>16</sup> of goals and targets implementation and investment opportunities, calling for innovative models for fundraising.

Trade agreements could become drivers of positive change, in which its environmental impacts are minimised. Sustainable actions, such as traceability and transparency in production chains, enforcement of companies sustainability commitments and voluntary incentives towards carbon markets, are important to biodiversity safeguard and climate mitigation in Brazil (Kehoe *et al.*, 2021).

"Further information on the Soy Moratorium is available at https://abiove.org.br/sustentabilidade/ "Further information on the Beef Moratorium is available at https://alor.globo.com/opiniaa/columa/por-uma-moratoria-da-carne-na-amazonia.ghtml "The PPCDAm is available at: https://antigo.mma.gov.br/ component/k2/item/616.html?Itemid=1155#.-:text=0%20Plano%20de%20A%C3%A7%C3%A30%20para,desenvolvimento%20sustent%C3%A1vel%20na%20 Amaz%C3%B4nia%20Legal. "The LPVN (Federal Law 12651/2012) is available at http://www.planalto.gov.br/ccivil\_03/\_ato2011-2014/2012/lei/112651.htm "The PCI Strategy is available at http://pcimt.gov.br/ "This analysis is available at https://www.iis-rio.org/wp-content/uploads/2021/11/ PCIPolicyBriefinvestimentospt.pdf

#### EMTA: neither villain nor solution

The EMTA, however, is not fully effective to address trade related habitat conversion risks. It has limitations common to other EU Free Trade Agreements (FTAs) regarding mechanisms of implementation and enforcement of its objectives and commitments. Although the EMTA includes a dispute settlement system involving government-to-government consultations and a panel of experts, it does not foresee sanctions for non-compliant practices. In addition, other core areas of the agreement could be reformulated in order to put "environment first".

Decoupling trade from habitat loss requires a multi-level framework. A single policy or initiative will not be enough to address all environmental problems and risks involved in Brazil's agricultural production and trade. Concerted public and private actions, in the international and domestic arenas are necessary to reduce the risk of deforestation linked to food and feed production.

The EMTA can contribute to the strengthening of an institutional and regulatory framework necessary to decouple trade from habitat loss between the EU and Brazil. In the agreement, member countries commit to not lowering labour and environmental standards for the purpose of improving trade or attracting investments.



EMTA's Trade and Sustainable Development Chapter<sup>17</sup> includes provisions that recognise linkages between trade and climate change, sustainable land use and biodiversity conservation, sustainable forest management, ecosystem restoration and responsible supply chains. Furthermore, the Chapter tackles other related issues, such as the implementation of multilateral environmental instruments (i.e., the Convention on Biological Diversity (CBD), Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)<sup>18</sup> and the Paris Agreement<sup>19</sup>).

In addition, compared to the current status of the Brazil-EU trade relationship, the EMTA would provide an improved venue for enhanced dialogue and cooperation, particularly in the following issues that are outlined in article 17 of the Chapter: i) private and public initiatives aimed at cutting off deforestation and promoting integrated landscape management, including actions linking production and consumption through supply chains; ii) sustainable production and consumption, including circular economy and other sustainable economic models; and iii) corporate social responsibility, responsible business conduct, responsible management of global supply chains and accountability regarding implementation of relevant international instruments.

<sup>17</sup> The EMTA's Trade and Sustainable Development Chapter is available at https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc\_158166.%20Trade%20and%20 Sustainable%20Development.pdf <sup>18</sup> Further information on the CITES is available at https://cites.org/ <sup>19</sup> The Paris Agreement is available at https://unfccc.int/ sites/default/files/english\_paris\_agreement.pdf

# Multilevel framework to reduce or avoid habitat loss

The following recommendations can help to strengthen the institutional and regulatory policy framework towards sustainable production and trade.

## **O1**

## transition to greener trade agreements

A review of trade agreements through sustainable development lenses is recommended to properly balance their potential environmental risks and benefits. Greener trade agreements require embedding cross-cutting sustainable development and environmental objectives. In addition, the inclusion of provisions aligned with the transition to integrated landscape management, a circular economy, climate change action and sustainable food systems, encouraging financial flows to mobilise and secure the resources needed to support the transition to a low-carbon economy.

### robust integrated landscape management

The efficient enforcement of the LPVN could/would leverage actions that prevent pressures for habitat conversion. Relevant initiatives, such as the PPCDAm and the National Plan for Native Vegetation Recovery (Planaveg)<sup>20</sup>, could reduce deforestation rates continuously and bring a transition towards sustainable development. In parallel, the National Plan for Low Carbon Emission in Agriculture (ABC Plan)<sup>21</sup> facilitates access to financial resources to implement sustainable practices and technologies, such as recovery of degraded pasturelands, crop-livestock-forest integration and agroforestry systems. Robust land governance and sustainable intensification of agricultural areas would encourage Brazilian farmers to expand agricultural production to degraded or abandoned areas and generate multiple environmental and economic benefits.

## 03

# transparency and accountability in supply chains

Publicly available information on the main agribusiness products is crucial to identify commodities that have a high risk of environmental or social impacts across their supply chain. The inclusion of provisions in trade agreements aimed at increasing transparency in supply chains and requiring greater accountability from stakeholders is key to creating the basis for a better governance of production and trade. This effort can be more efficient when combined with the establishment of domestic regulations that require corporate due diligence and traceability mechanisms to prevent the trade of products linked to habitat conversion or environmental degradation.

<sup>20</sup> The Planaveg is available at: https://www.gov.br/mma/pt-br/assuntos/ecossistemas-1/conservacao-1/politica-nacional-derecuperacao- da-vegetacao-nativa/planaveg\_plano\_nacional\_recuperacao\_vegetacao\_nativa.pdf <sup>21</sup> The ABC Plan is available at: https://www.gov.br/agricultura/pt-br/assuntos/sustentabilidade/plano-abc 04

### strong multi-stakeholder engagement

Multi-stakeholder initiatives, such as the Beef and Soy Moratorium, the Brazilian Coalition on Climate, Forests and Agriculture<sup>22</sup>, and the Tropical Forest Alliance<sup>23</sup>, create synergies between nature conservation, sustainable forest management, agriculture, livestock and adaptation to climate change agendas. In addition, the Alliance for Restoration in the Amazon<sup>24</sup> established a cooperation platform between non-governmental organisations, industry, academia, government, and civil society to expand restoration. Additional tools to decouple agriculture from habitat loss are the "sustainability roundtables" (i.e., Round Table on Responsible Soy Association – RTRS<sup>25</sup>, Forest Stewardship Council – FSC<sup>26</sup>), certification mechanisms, and voluntary sustainability standards.

# Upcoming

These recommendations and other aspects of EMTA's potential impacts on land use in Brazil, and hence on biodiversity and ecosystem services, will be analysed in more detail in an upcoming journal article. The paper will discuss the complexities of transitioning to a green trade policy paradigm in the era of climate emergency.



For more information, please contact us by email (trade.hub@iis-rio.org) or access our website: https://www.iis-rio.org/en/projects/ukri-gcrf-trade -development-and-environment-hub/

<sup>22</sup> Further information on the Coalition is available at https://www.coalizaobr.com.br/home/index.php/en/ <sup>23</sup> Further information on the Tropical Forest Alliance is available at https://www.tropicalforestalliance.org/ <sup>24</sup> Further information on the Alliance for Restoration in the Amazon is available at https://aliancaamazonia.org. br/ <sup>25</sup> Further information on the RTRS is available at https://responsiblesoy.org/?lang=en <sup>26</sup> Further information on the FSC is available at https://fsc.org/en

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