



Measuring the impact of the EU-Mercosur Trade deal

on land use, forests, and the people
who depend on them

As Europeans' awareness of their role in the destruction of the Amazon and the Cerrado has grown, so has the political pressure to end it.

The destruction of these precious biomes is primarily driven by agricultural expansion, as forests and savannahs are cleared to produce soy and beef – which Europe imports in enormous quantities from Brazil.¹

In June 2019 the European Union (EU) settled on terms for a Free Trade Agreement (FTA) with the Mercosur bloc (Brazil, Paraguay, Argentina and Uruguay), which will only intensify the calamity unfolding in Brazil.

Research on the impact of trade agreements across 189 countries over 10 years found that the most deforestation linked directly to trade liberalisation takes place in the immediate aftermath (within the first three years) of an agreement entering force. This large and statistically significant increase in deforestation coincides with an increase in agricultural land conversion.²

Some argue that any additional deforestation and environmental pressure created by the FTA, will be mitigated by the terms of the deal's chapter on trade and sustainable development (TSD). But the evidence is clear – the current TSD chapter is insufficient to mitigate the risk, and will still be insufficient if robust environmental protections are not in place *before* the FTA enters force.

There are already several impact estimates for the EU-Mercosur FTA

Under the deal 99,000 additional tonnes of beef can be imported into the EU from Mercosur countries under reduced tariffs – likely fuelling a surge in cattle ranching. Tariffs will be slashed on sugar and ethanol, which are also so-called 'forest-risk' commodities.³ The EU doesn't apply tariffs on most soy imports but export taxes on Argentinian soybeans will be eliminated under the agreement. In addition, soy imports to the EU are likely to increase to feed our dairy and pig-meat industries, as these will also benefit from tariffs reductions/elimination.⁴



¹ The EU is Brazil's second biggest trading partner, the second biggest market for Brazilian soy, and a major importer of Brazilian beef. Forests in Brazil – as well as in other Mercosur countries – have been destroyed on an epic scale to make way for cattle. In 2017, 74 per cent of beef imports into the EU came from Mercosur nations; and Brazil, where there are more cattle than people, was the single biggest supplier, accounting for 42 per cent of EU beef imports.

² Ryan Abman, Clark Lundberg, "Does Free Trade Increase Deforestation? The Effects of Regional Trade Agreements", Journal of the Association of Environmental and Resource Economists, 2020

³ For more about the tariff changes of the deal, see Fern's briefing *The EU-Mercosur trade agreement: what is it and what could it mean for forests and human rights?*

⁴ <https://trade.ec.europa.eu/doclib/html/157964.htm>

Two studies, one conducted by the London School of Economics (LSE)⁵ for the European Commission, released in July, and one by France,⁶ published in September, reached different conclusions about the likely impact of the trade deal.

While the estimates vary across the studies, it is clear that the severity of the environmental impact in Brazil will balloon without an effective approach to environmental and human rights protections in the country. The LSE impact assessment, which projects the deal will have a ‘negligible’ deforestation impact, assumes strong compliance with the terms of the deal’s TSD chapter and overall strong environmental governance in Brazil. Yet the Brazilian government has withdrawn its support to the adoption and effective enforcement of appropriate environmental policy measures, and deforestation rates are soaring.

Territories at risk

A new study commissioned by the Brazilian research institute Imazon comes to a similar conclusion: poor governance increased the deforestation risk. The study also identifies the regions of Brazil most at risk from deforestation. Since it is impossible to separate the impact this trade deal will have in Brazil from the laws, policies, environmental standards and governance approach there, the study also weighs up the impact of the deal under different governance scenarios.

Ultimately, the impacts of FTAs reverberate in local communities: in the individual lives of men, women and children, and in the destruction of the unique areas of forest and habitats which surround them. Knowing the regions more likely to be deforested and what might happen under different scenarios, helps prevent this.



⁵ An analysis conducted LSE mandated by the European Commission, released in July 2020, maintains that the deforestation will be negligible, and the overall impact on the environment and Indigenous Peoples’ rights will also be slight. The study lacks a thorough assessment of the drivers of land use change and deforestation, as well as the related role of EU imports of commodities associated with deforestation. For example, it does not consider the land that would be necessary to feed the beef and poultry that will be exported to the EU under the terms of the Agreement.

⁶ See for instance, Au-delà de la politique de Bolsonaro, c’est le contenu même de l’accord UE-Mercosur qui promet une catastrophe environnementale

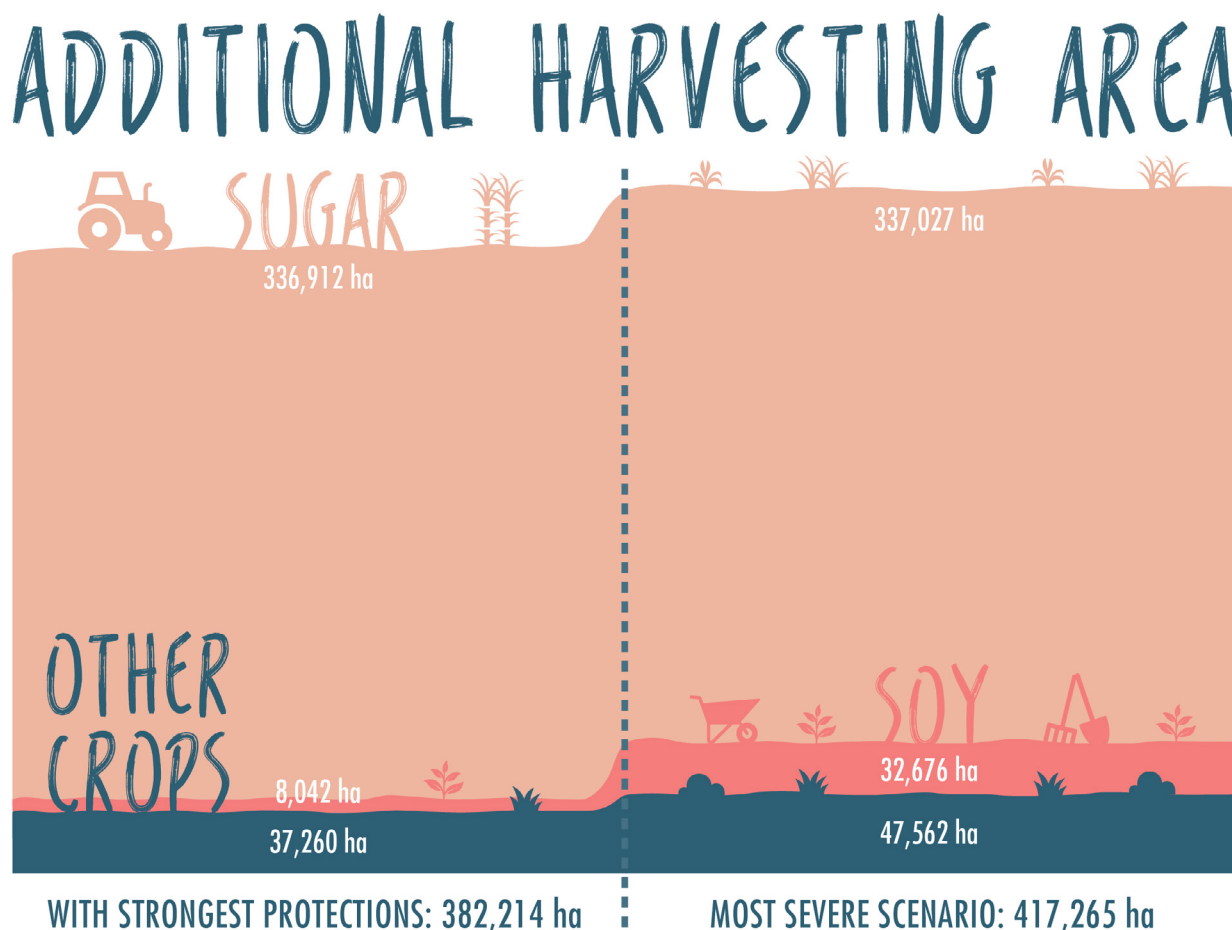
How will the EU-Mercosur FTA affect land use in Brazil?

Imazon pulled together a team of academics to analyse how the tariff and quota changes in the EU-Mercosur FTA will affect the way land is used across Brazil – both how much, and where.⁷

The research used the tariff rate and quota change agreed in the FTA as a baseline, and then projected land-use changes if the deal was fully implemented, based on different levels of governance (whether strong environmental protections are in place or not), and trade elasticity (how much the tariff changes affect buying habits). They focused on tariff changes to soy, ethanol, pork, poultry, sugar, beef and dairy products.⁸

1. The deal could cause Brazil's total harvested area to grow by over 400,000 hectares

The analysis projects that the Mercosur deal could cause the total harvested area in Brazil to grow by 417,000 hectares (about the size of Switzerland,)⁹ with the majority of that connected to sugar crop expansion, driven by the slashed sugar and ethanol tariffs.¹⁰



⁷ The study's model uses the changes to tariff rates and quotas for different agricultural commodities that are outlined in official documents related to the deal. From these, it projects trade flows in forest-risk commodities between the EU and Brazil. Then the study projects the impact that these new trade flows will have on land use in Brazil. It does so in two different scenarios: where there are strong protections against land grabbing and deforestation, and where there aren't. The study also considers the impact of a big behaviour change from buyers as a result of the change in tariffs, or where there is a smaller behaviour change from buyers. Finally, the model pinpoints specific areas in the Amazon and Cerrado that are most at direct risk of deforestation from the Agreement.

⁸ Based on the tariffs schedule published by Argentina last October 2019.

⁹ <https://data.worldbank.org/indicator/AG.LND.TOTL.K2?locations=CH>

¹⁰ Taheripour, F & Aguiar A. H. (2020) "The impact of the EU-Mercosur trade agreement on land cover change in the Mercosur region" in. *Is the EU-Mercosur trade agreement deforestation proof?*, edited by Imazon.

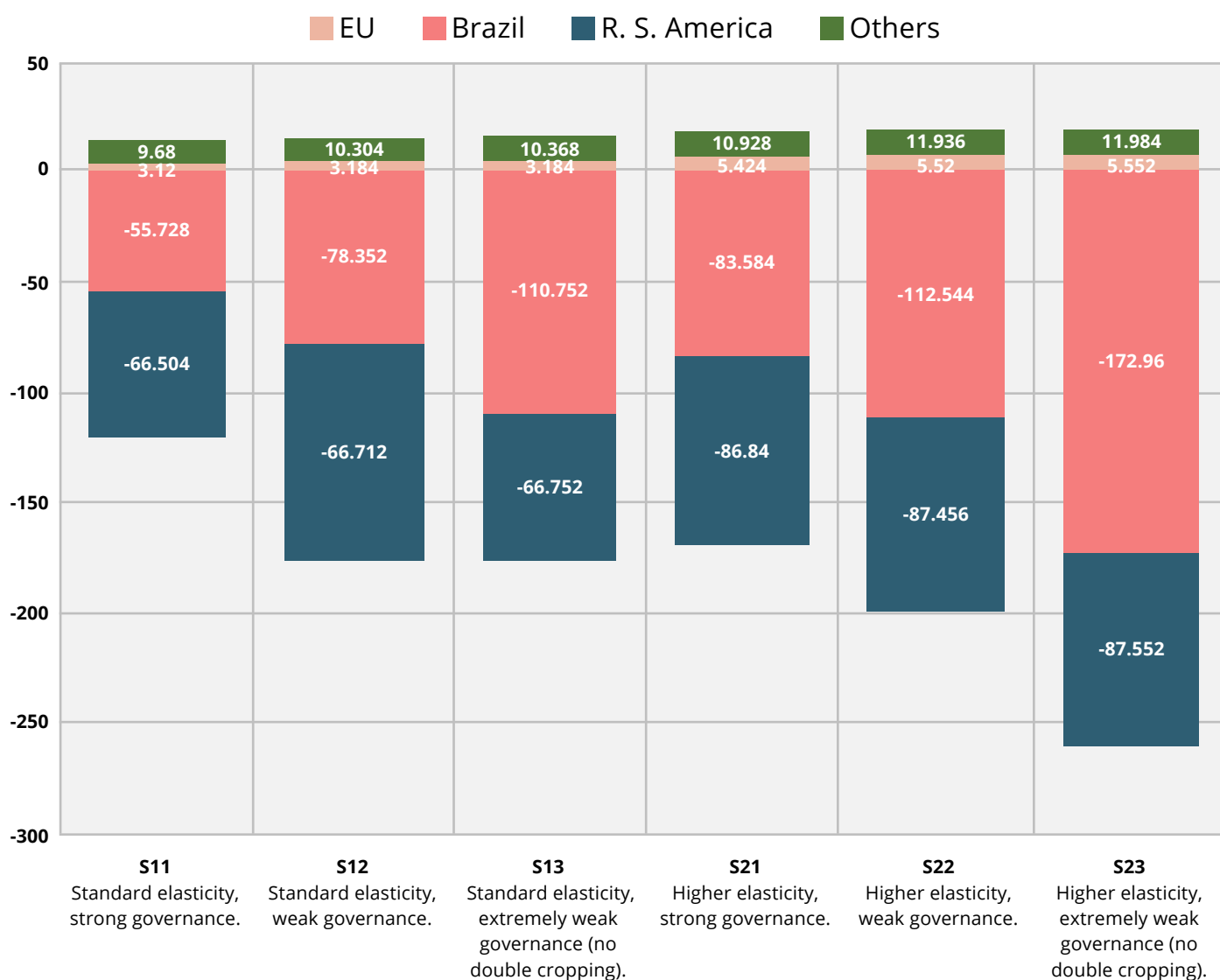
2. The deal will cause additional deforestation in Brazil and the rest of Mercosur

Researchers found that the FTA will **increase deforestation in South America, under all circumstances**.¹¹

Deforestation could increase by between 122,000 and 260,000 hectares in Mercosur countries, according to the six scenarios examined.

Additional deforestation could be as much as 173,000 hectares in Brazil alone (S23 in graph below),¹² more than the EU's annual deforestation footprint.¹³ Most of this additional deforestation will be linked to cattle, displaced from land taken over by agricultural expansion.¹⁴

Change in forest area according to different governance, technology and trade elasticity scenarios



¹¹ Taheripour, F & Aguiar A. H. (2020) "The impact of the EU-Mercosur trade agreement on land cover change in the Mercosur region" in. *Is the EU-Mercosur trade agreement deforestation proof?*, edited by Imazon.

¹² The first scenario of the first set (S11) characterises an effective land governance environment in Brazil, with deforestation rates based on the rates experienced between 2003 and 2013. The second simulation of the first set (S12) repeats the first scenario, but represents the time period prior to 2003 for Brazil, when the rate of deforestation was high. In the first set, the last scenario (S13) repeats the second scenario but assumes no multiple cropping in Brazil. Finally, the second set of cases (S21, S22, and S23) repeat their corresponding cases of the first set with higher trade elasticities.

¹³ 2020, L Kehoe et al, Inclusion, Transparency, and Enforcement: How the EU-Mercosur Trade Agreement Fails the Sustainability Test [https://www.cell.com/one-earth/pdfExtended/S2590-3322\(20\)30422-X](https://www.cell.com/one-earth/pdfExtended/S2590-3322(20)30422-X)

¹⁴ This estimation is lower than the one suggested by the Ambec study, commissioned by the French government, which takes a higher risk approach, assuming all new beef production will occur on deforested land. The Imazon study uses figures based on the land governance environment with deforestation rates already experienced in Brazil. See footnote 12 for further explanation of the methodology.

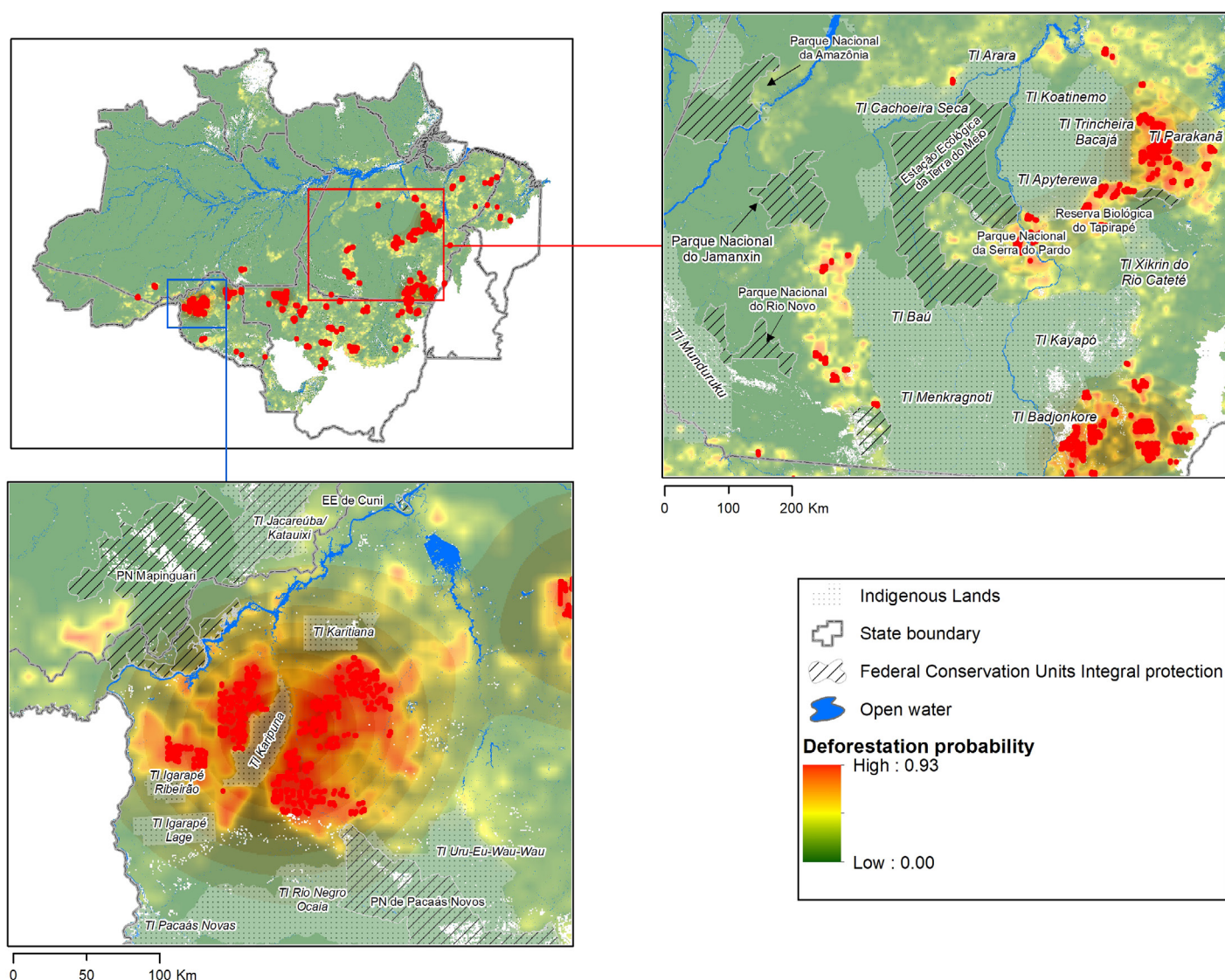
3. Pressure will increase on Indigenous territories in the Amazon and Cerrado¹⁵

Many of the areas at greatest risk of FTA-driven deforestation border Indigenous territories. Brazil's government is actively working to dismantle protections for these territories, which will make it harder for communities to resist invasion and deforestation on their land.

Box 1

The additional risk of deforestation is greatest in areas where recent deforestation has been high, along the eastern and southern portions of the Brazilian Amazon biome in the States of Pará, Mato Grosso and Rondônia. The risk of deforestation would increase alongside the border of several Indigenous lands, especially in Pará and Rondônia States (Figure 1).

Fig. 1 Deforestation pressure in the Amazon



¹⁵ Arima, E. & Barreto, P. (2020) "Where is deforestation associated with the EU-Mercosur trade agreement more likely within Brazil?" in *Is the EU-Mercosur trade agreement deforestation proof?*, edited by Imazon.

The scale and intensity of this threat is exacerbated because of the way the current government is dismantling Indigenous rights protection frameworks across the board.¹⁶ Key governmental agencies including the indigenous affairs agency FUNAI and the environment agency IBAMA have been restructured and defunded. When, under international pressure, the government established an Amazon Council to tackle the 2020 forest fires, FUNAI and IBAMA were excluded, but 19 military personnel were included. The government has proposed laws to facilitate commercial mining on Indigenous territories and to legitimise land-grabbers.^{17,18}

“Imazon had an important and fundamental role showcasing on maps the potential attacks the Brazilian biomes could suffer regarding fires, deforestation and illegal loggers invasions. We have to make it clear, when the forests burn, Indigenous lives are lost. The [Mercosur] deal increases the threats to our lives, to our culture, and way of living. This deal will bring fire, destruction, and more illegal loggers to our territories.” - Kretã Kaingang, Articulation of Indigenous Peoples of Brazil (APIB).



¹⁶ For more details see [Bolsonaro's Brazil: a pariah state?](#)

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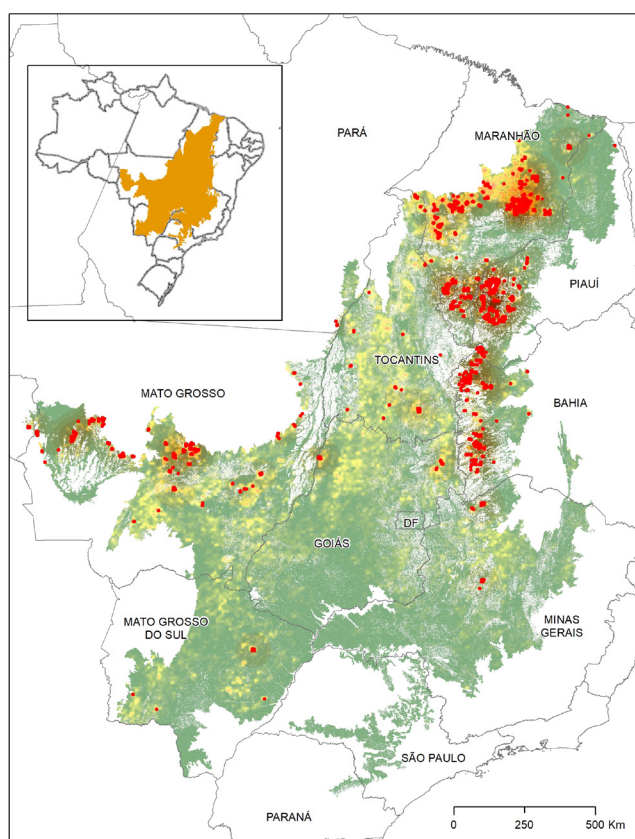
¹⁸ For more information about the links between forest fires and disease, see for instance <https://www.hrw.org/report/2020/08/26/air-unbearable/health-impacts-deforestation-related-fires-brazilian-amazon>

Box 2

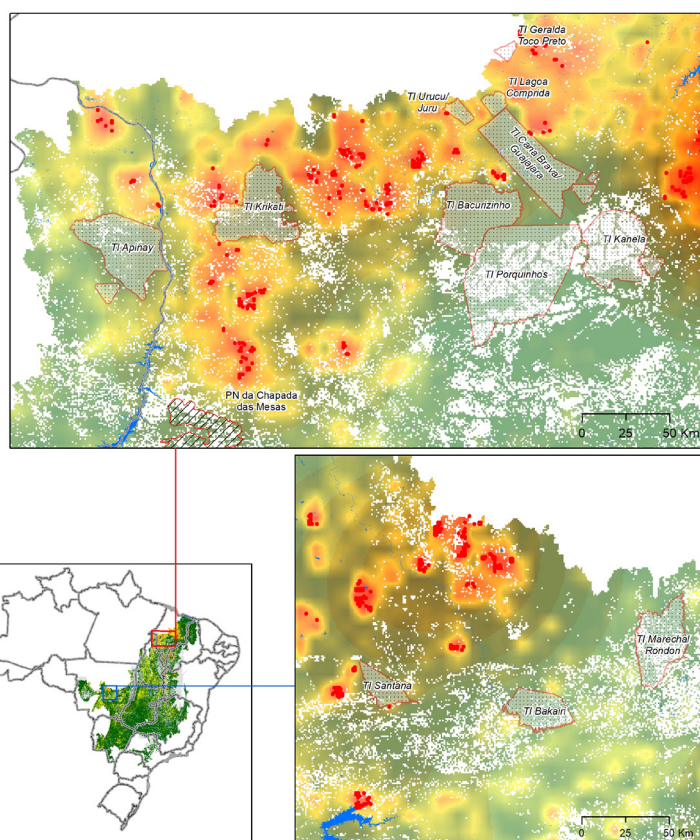
In the Cerrado, the model predicts that most of the deforestation will be concentrated in the MATOPIBA region (acronym for the states of Maranhão, Tocantins, Piauí, and Bahia). Maranhão is predicted to house 31.6% of the total deforestation, followed by Piauí (21.3%), and Bahia (20.4%). The Cerrados of Mato Grosso are predicted to be the destination of 16.4% of the total deforestation, followed by Tocantins with 5.2%. The states Pará, Rondônia, Minas Gerais, Mato Grosso do Sul, and Goiás are predicted to get the residual deforestation.

Similarly to the Amazon, the deforestation risk would increase along the borders of several Indigenous lands in the Cerrado – mostly in the northern Maranhão and central Mato Grosso States (Figure 2).

Fig. 2 Hotspots of predicted deforestation (2,430 km²)



Protected areas and Indigenous lands under pressure in the Cerrado



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4. Environmental and social commitments are inadequate and will not prompt change

There is no reason to believe that the FTA's language committing countries to implement the Paris Agreement and tackle deforestation will have any effect on the current crisis in Brazil. On the contrary, since the June 2019 'in principle' agreement on the FTA, many important and successful environmental protections have been dismantled in Brazil. For instance:

- Trying to open indigenous lands to mining and agribusiness
- Civil society and experts banished from government and environmental forums
- Transparency of deforestation data and fire alerts is at risk
- \$1.2 billion in the Amazon Fund frozen
- Official measures allowing land grabbing inside Indigenous areas
- The timber export control system has been weakened
- Government's environmental bills system has been stopped
- There has been a reduction of field operations against deforestation and environmental crimes
- Surveillance agencies are in jeopardy
- There is a proposal to legalise land that has been grabbed

In addition, deforestation alerts in the Amazon reached 13,674 km², invasions on Indigenous lands have increased and forest fires have been rampant.

Box 3

Sustainable trade is an EU commitment – the EU-Mercosur FTA is a missed opportunity

The EU's commitment to ensuring that its trade doesn't undermine human rights, or fuel environmental crimes, is underlined in various treaties and extraterritorial obligations.¹

- The Treaties of the European Union, a set of international treaties between Member States setting out the EU's constitutional basis, contains similar assurances.
- Article 11 of the Treaty of the Functioning of the European Union (TFEU) states: "environmental protection requirements must be integrated into the definition and implementation of the Union's policies and activities, in particular with a view to promoting sustainable development."
- Based on Article 21 of the Treaty on European Union (TEU) – an FTA negotiated by the EU shouldn't just list commitments to comply with environmental or social obligations, it should outline concrete steps to implement them.

The EU-Mercosur FTA is a missed opportunity to regulate the trade between the EU and Mercosur countries to protect people and the planet.

Recommendations

What needs to change in EU trade policy in order to ensure the EU delivers on the European Green Deal, and its commitments to stop deforestation and respect human rights?

The EU must stop supporting the trade in commodities which have a high risk of driving deforestation and human rights violations. EU and Mercosur countries' trading relationship should be revised to follow this principle.

That means:

1. The EU should only grant market access if international treaties on human rights, labour, the Paris Agreement and multilateral environmental agreements, are respected.

- Quota allocations and tariff rates should be tied to compliance with social and environmental criteria agreed by the parties bilaterally, in meaningful consultation with civil society organisations, and respecting the above-mentioned treaties.
- Social and environmental criteria must apply to all ecosystems and forest risk commodities.
- EU trade agreements should include the option to suspend trade preferences if provisions to ensure they are in line with international treaties on labour and human rights, the Paris Agreement and multilateral environmental agreements, are breached.

2. Trade negotiations and their implementation must be more transparent and inclusive.

- Civil society organisations, in particular local NGOs working with forest communities and, where possible, community representatives, should take part in trade negotiations.
- Participants should be truly representative and have the capacity to participate, all information should be made accessible to those participating, in the correct format and language, and there should be enough time to participate.
- The Commission should establish clear reporting and complaint mechanisms through which non-state actors, including civil society, can trigger investigations or seek redress, with a requirement for time-bound responses from the Commission.
- The Chief Trade Enforcement Officer should play a key role in administering the mechanism.



3. Supporting good forest governance in Brazil.

To ensure international trade does not damage forests and people, solid forest governance frameworks must be in place. Most additional deforestation triggered by FTAs happens within three years of an agreement entering into force, so those frameworks must be in place and functioning before the agreement is implemented.

The current crisis of democracy in Brazil¹⁹ means that the EU should leverage its trade policy (and its market of 450 million consumers) to ensure international human rights are respected (see Box 4) and exert immediate pressure to open political space open for Brazilian civil society to defend forests and Indigenous rights.

Box 4: Brazilian civil society's demands

The Amazon is in crisis. Civil society in Brazil is clear about the changes that are needed to protect it, and to protect the communities that live in it. APIB, Brazil's largest Indigenous Peoples network, and Observatorio do Clima, Brazil's largest climate NGO network, have identified seven steps towards ending the current catastrophe.

1. A five-year moratorium on deforestation in the Amazon.
2. Increased penalties for environmental crimes and deforestation, including freezing the assets of the 100 worst criminals.
3. Immediate resumption of the Action Plan for Prevention and Control of Deforestation in the Legal Amazon (PPCDAm), shelved by the Bolsonaro government.
4. Demarcation of Indigenous and Quilombola lands and creation, regularisation and protection of Conservation Units.
5. Restructuring of federal agencies responsible for protecting the environment and Indigenous rights (Ibama, ICMBio and Funai).
6. Imposition of the Forest Code (mainly the 2018 amendment to penalise illegal land production).
7. Construction of a legal framework for Supply Chain Traceability, an end to transparency and penalisation of international and national commercial actors.

These seven emergency measures offer a clear path towards both demonstrating political will and achieving a real reduction in deforestation in Brazil. None of these steps are new; they have been implemented in the past.

Many in Brazil's private sector are also concerned about the deforestation rate in the country. The Brazilian coalition on climate, forests and agriculture, which comprises 255 organisations including international banks and agribusiness companies, has [published a call for the Brazilian government to take concrete measures](#) to tackle deforestation, which broadly aligns with the seven points above.

4. Adopting additional measures.

- Establish a due diligence regulation that makes it mandatory for European companies to ensure they are not placing commodities on the EU market that have driven deforestation, ecosystem degradation or human rights abuses.

¹⁹ Space for civil society in Brazil is shrinking, with leaders facing intimidation from government actors (one recent example are [the threats of prosecution levied against Marcio Astrini](#), executive director of the Climate Observatory). The University of Wurzburg rated Brazil in 2019 as a 'deficient democracy'. See <https://www.democracymatrix.com/ranking>

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