

MERCOSUR-European Free Trade Association Agreement

Executive Summary

After two years and ten rounds of discussions, MERCOSUR and the European Free Trade Association (EFTA), a trade bloc formed by Iceland, Liechtenstein, Norway and Switzerland, concluded in substance the negotiations on a Free Trade Agreement. This deal complements a trade pact MERCOSUR recently signed with the European Union (EU), enhancing preferential relations with the European continent and promoting strategic integration between the two regions.

The Agreement includes schedules of concessions in the matter of access of goods representing approximately 97% of bi-regional trade, covering services, investment, government procurement, intellectual property rights and safeguarding competition, among other areas. A great number of the points in the MERCOSUR-EFTA agreement follow the standards set out in the MERCOSUR-EU trade pact.

Although a full list of customs duties to be eliminated or reduced has not been announced, the Agreement holds, in principle, a significant potential for the export of several MERCOSUR food products, a highly protected sector by EFTA member states, even more than in the EU.

The Agreement will also open up opportunities for trade in services, a sector in which EFTA ranks tenth as a global importer. In addition, it has the potential to boost the attractiveness of MERCOSUR for foreign direct investment (FDI) by EFTA, the eighth largest global investor, with almost USD 1.5 trillion in investment worldwide. This is the first time that MERCOSUR has included facilitation of investment rules under an extra-regional agreement, featuring procedures for the institutional dialogue between government and the private sector of both parties to the Agreement in an effort to identify business opportunities, set out clear regulatory requirements, and remove red-tape barriers for the establishment and operation of companies.

The Agreement will now be subject to legal review. It will be translated into the official languages of the signatory countries. Once signed by all parties to the Agreement, it will be submitted for approval to each national legislature body. However, the Agreement may come into effect bilaterally after ratification by one EFTA Member State and one MERCOSUR Member State.

MERCOSUR–EFTA Free Trade Agreement

On August 23rd, 2019, after ten rounds of discussions, MERCOSUR and the European Free Trade Association (EFTA) concluded in substance the negotiations on a Free Trade Agreement initiated in January 2017. The blocs had signed a Joint Declaration on Cooperation in 2000, which was followed by an exploratory dialogue in 2015; however, negotiations were formally launched in 2017.



I. What is EFTA?

EFTA is an intergovernmental organization established in 1960. Its current Member States are Switzerland, Norway, Iceland and Liechtenstein.

Despite the fact that they do not form part of the European Union (EU), the EFTA countries have close economic and trade ties with the main European market. In fact, EFTA is the European Union's third largest trading partner in goods, and the second largest in services. On the other hand, the European Economic Area (EEA) entered into force in 1994 as an enlarged internal market between the EU and the EFTA, except for Switzerland, ruling the movement of goods, services, capital and persons, and other cross-cutting areas such as environmental issues, tourism and culture.

This association ranks second among the countries having entered into multiple trade agreements, after the EU and preceding Chile. EFTA has signed 29 free trade agreements with over 40 countries, including eight in Latin America, i.e., Chile, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Panama and Peru.

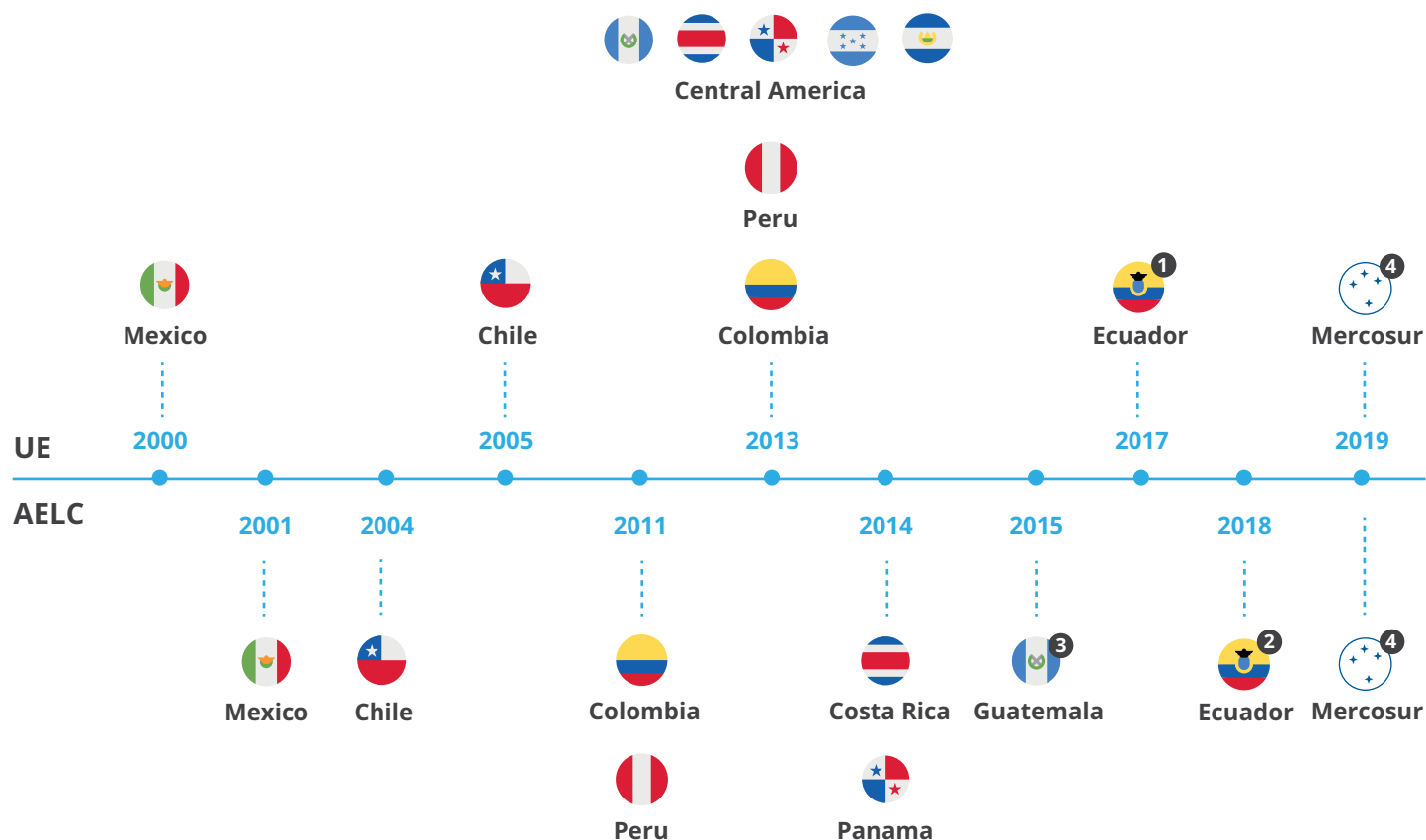
Despite the relatively small size of the EFTA countries in terms of area and population, the total sum of their individual GDPs exceeds USD 1.2 billion (1.4% of the world GDP). These four countries have a major share in global trade, ranking fifth in services and ninth in goods worldwide.

At the same time, EFTA countries make up a high-income market: EFTA's GDP per capita is USD 82,300, substantially higher than the European Union (USD 36,700). Liechtenstein has the second highest income per capita in the world (USD 165,000); Switzerland is sixth (USD 82,800); Norway ranks seventh (USD 81,800); and Iceland comes in the eleventh spot (USD 73,200).

The Free Trade Agreement between MERCOSUR and EFTA comes on the heels of the recent FTA signed between MERCOSUR and the EU. It will bolster preferential relations with the European continent, promoting strategic bi-regional integration.

The figure below shows that EFTA's foreign agenda in Latin America has been similar to that of the EU (Figure 1).

Figure 1. Trade agreements entered into by the EU and the EFTA with Latin American countries, by date of enforcement



(1) The Protocol of Accession of Ecuador to the EU Agreement with Colombia and Peru was provisionally implemented on January 1, 2017.

(2) A Comprehensive Economic Partnership Agreement between EFTA and Ecuador was signed on June 25, 2018, but has not been ratified yet.

(3) Guatemala signed a Protocol of Accession to the FTA between EFTA and Costa Rica and Panama on June 22, 2015, but the parliamentary approval procedure is still ongoing.

(4) Agreements concluded in substance, not yet signed.

Source: INTAL, based on WTO data.

II. MERCOSUR-EFTA Trade

Total trade between the MERCOSUR and EFTA blocs reached close to USD 6.9 billion in 2018, a 6% growth over 2017. EFTA accounts for 1.2% of MERCOSUR's total trade in goods, while the South American bloc represents 0.8% of the European bloc's total trade.

Switzerland is the recipient of 68% of MERCOSUR exports to EFTA, while 80% of imports to MERCOSUR originate in this country. Norway ranks second, receiving 26% of exports from MERCOSUR and is the market of origin of 19% of imports. Iceland and Liechtenstein jointly contribute around 5% of the value exported to the European zone and less than 1% of imports (Tables 1 and 2).

Within MERCOSUR, Brazil is the main exporter and importer to and from EFTA, accounting for 56% of exports and 76% of imports in 2018. Argentina ranks second, as the source of 42% of exports, and recipient of 18% of EFTA's imports to Mercosur. Uruguay and Paraguay, combined, represent 2% of exports and 5% of imports.

Table 1. MERCOSUR exports to EFTA, per origin and destination (2018, in USD millions and percentage)

| | | IMPORTER | | | | |
|------------------|-----------|-------------|--------|---------|---------------|-------|
| | | Switzerland | Norway | Iceland | Liechtenstein | EFTA |
| In USD millions | | | | | | |
| EXPORTER | Argentina | 1,293 | 20 | 4 | 0 | 1,317 |
| | Uruguay | 33 | 12 | 0 | 0 | 45 |
| | Paraguay | 21 | 2 | 0 | 0 | 23 |
| | Brazil | 811 | 801 | 164 | 7 | 1,782 |
| | MERCOSUR | 2,157 | 834 | 168 | 7 | 3,166 |
| % of grand total | | | | | | |
| EXPORTER | Argentina | 41% | 1% | 0% | 0% | 42% |
| | Uruguay | 1% | 0% | 0% | 0% | 1% |
| | Paraguay | 1% | 0% | 0% | 0% | 1% |
| | Brazil | 26% | 25% | 5% | 0% | 56% |
| | MERCOSUR | 68% | 26% | 5% | 0% | 100% |

Source: INTAL, based on INTrade and MacMap data

Table 2. MERCOSUR imports from EFTA, per origin and destination (2018, in USD millions and percentage)

| | | EXPORTER | | | | |
|------------------|-----------|-------------|--------|---------|---------------|-------|
| | | Switzerland | Norway | Iceland | Liechtenstein | EFTA |
| In USD millions | | | | | | |
| IMPORTER | Argentina | 580 | 72 | 3 | 1 | 656 |
| | Uruguay | 42 | 84 | 0 | 0 | 126 |
| | Paraguay | 82 | 3 | 0 | 0 | 85 |
| | Brazil | 2,242 | 537 | 13 | 10 | 2,802 |
| | MERCOSUR | 2,945 | 695 | 17 | 11 | 3,668 |
| % of grand total | | | | | | |
| IMPORTER | Argentina | 16% | 2% | 0% | 0% | 18% |
| | Uruguay | 1% | 2% | 0% | 0% | 3% |
| | Paraguay | 2% | 0% | 0% | 0% | 2% |
| | Brazil | 61% | 15% | 0% | 0% | 76% |
| | MERCOSUR | 80% | 19% | 0% | 0% | 100% |

Source: INTAL, based on INTrade and MacMap data

MERCOSUR exports to EFTA comprise mainly products of mine origin, (PMO, 54%) and products of industrial origin, (PIO, 34%). However, this basket of exports is highly concentrated in non-monetary gold, which accounts for 46% of exports: just three products¹ are enough to reach 74%. A smaller portion consists of primary agricultural products (PAP, mainly soya beans; coffee in grains; boneless meat of bovine animals; frozen cuts and offal of poultry; some mollusks, natural honey, among others) and products of agricultural origin (PAO), i.e., wines; other food preparations; split-grain leather; orange juice, among others.²

If non-monetary gold is excluded, the breakdown of exports changes dramatically: PIOs now account for 63% of exports³, while PMO account for just 14%. Primary agricultural products, in turn, make up 16% of exports, while the share

of primary agricultural products is 6%, two very low percentages taking account of MERCOSUR comparative advantages in these areas (Graph 1).

Imports are more diversified: 67 products account for three-quarters of the total imported value. Imports are mainly represented by PIO (79%), especially pharmaceutical products and other chemicals, and, to a lesser extent, fuels and energy (FAE, 10%), mainly fuel oils and natural gas.⁴

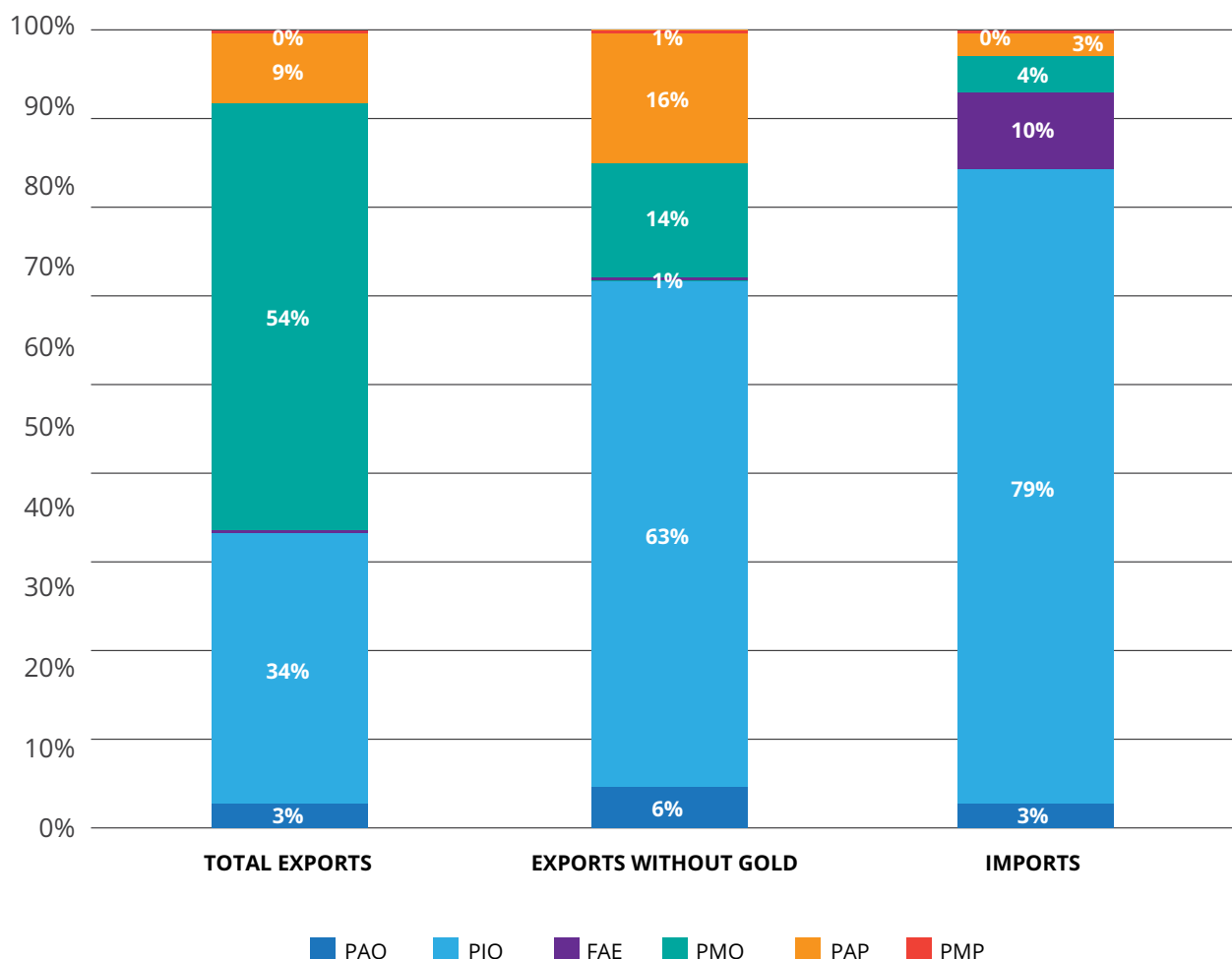
1 Each product is defined by the Harmonized Commodity Description and Coding Systems' six-digit code.

2 For further details, see Annex (Table 5).

3 Among PIO, aluminum oxide, not alloyed and light-vessels, fire-floats and other vessels, together, exported by Brazil, account for almost the full value.

4 For further details, see Annex (Table 6).

Graph 1. . Breakdown of MERCOSUR-EFTA trade by main sectors (2016-2018, percentage)

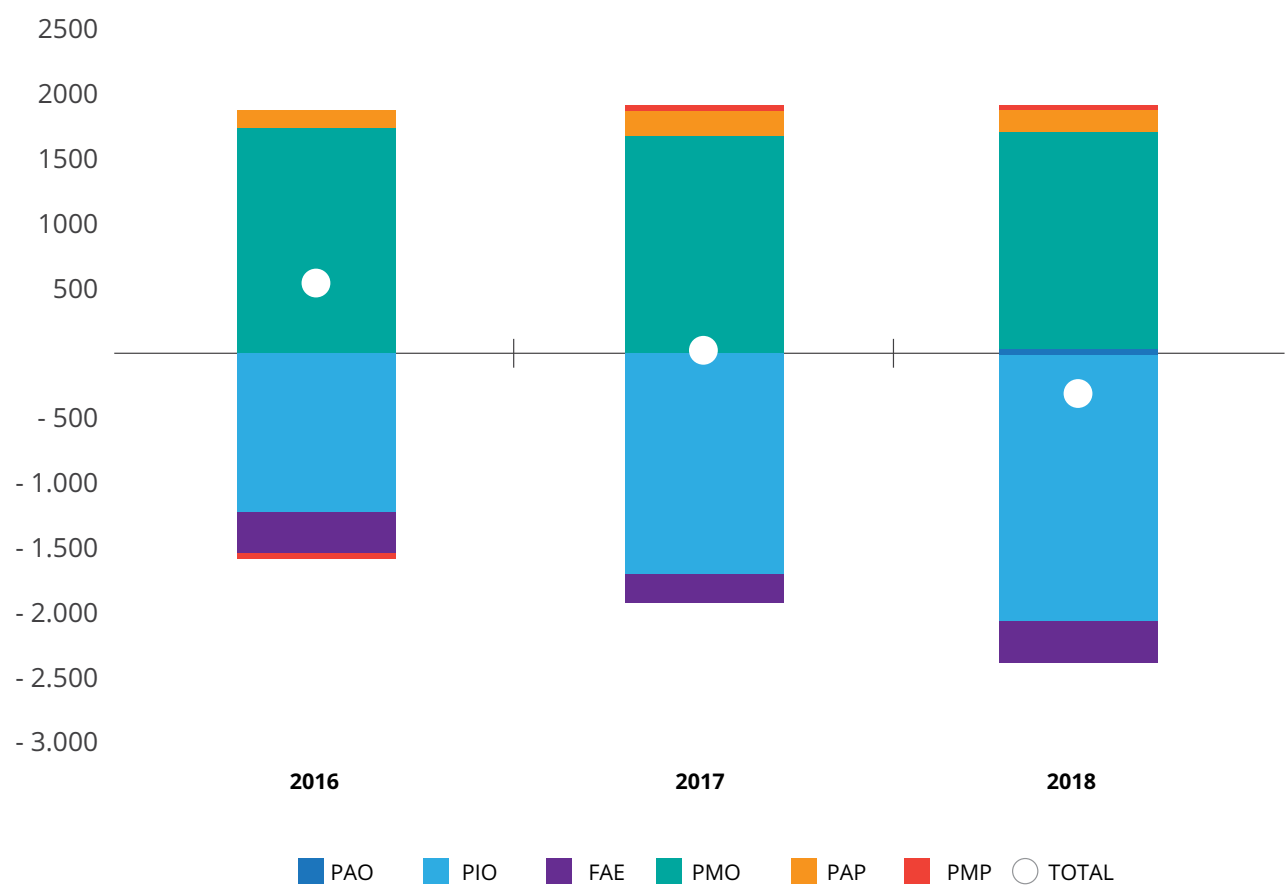


Source: INTAL based on INTrade data. The category “Exports without gold” excludes subheading 710812 (gold, non-monetary, unwrought). PAP: Primary agricultural products; PAO: Products of agricultural origin; PMP: Primary mine products; PMO: Products of mine origin, PIO: Products of industrial origin, FAE: Fuels and energy.

The MERCOSUR-EFTA trade balance was negative in 2018, mainly as a result of the PIO deficit. A large portion of this deficit was offset by a PMO surplus, especially exports of non-monetary gold in unwrought form and, to a lesser extent,

exports of primary agricultural products (Graph 2 and Graph 4).

Graph 2. MERCOSUR-EFTA Trade Balance per sector (2016-2018, in USD millions)



Source: INTAL, based on INTrade data.

III. Content of the Agreement: Main Aspects

The Agreement is structured as a modern trade deal that not only improves access conditions in terms of tariffs for goods, but also includes provisions on services, investment, government procurement, intellectual property rights and safeguarding competition, among other aspects.

The established general rules replicate those of the WTO in several of the abovementioned aspects, such as services, intellectual property rights, government procurement, facilitation of trade, trade defense, sanitary and phytosanitary measures, and technical barriers to trade. It should be noted that some commitments are even stronger, as in the case of trade facilitation.

Many of the points in the Agreement follow the standards set out in the MERCOSUR-EU trade pact, especially in regard to the disciplines governing trade in goods and rules of origin.

In terms of commitments, although the EFTA countries negotiate as a bloc, their proposals in terms of market access for goods, services, investments and government procurement are country-specific, while the general principles and rules are shared.



1. Trade in Goods

In regard to access for goods, the Agreement includes concessions for approximately 97% of the bi-regional trade. Ninety-eight percent of MERCOSUR exports to EFTA will enjoy preferential treatment (over 99% for Norway and Iceland), while around 97% of EFTA's trade with MERCOSUR will benefit from complete or partial trade liberalization, in the form of fixed quotas or preferences.

Whereas all preferences granted by EFTA, whether via complete or partial trade liberalization, will be enforced as soon as the Agreement is implemented, MERCOSUR will have up to 15 years to implement a gradual liberalization of sensitive sectors.

a. Tariffs and Quotas

Agricultural Products

Under the Agreement, the main agricultural products exported by MERCOSUR will enjoy preferential access, whether through the elimination of tariffs or partial concessions. For the first time, EFTA countries will define market access quotas exclusively for MERCOSUR, and eliminate or reduce intra-quota tariffs for the volumes bound under the WTO.

In terms of agricultural products, MERCOSUR's exports to EFTA exceeded 98% of bilateral trade, including tariff quotas for products such as cheese, coffee, chocolate, lamb meat, sweets, energy drinks, wines and other spirits.

Industrial Goods

EFTA will abolish 100% of all customs duties on imports of industrial goods from MERCOSUR with the entry into force of the Agreement. The impact of this measure is relatively minor, as customs duties apply to a fairly limited number of industrial goods with access to EFTA markets.

In the industrial sector, MERCOSUR's exports reached about 96% of trade, with terms of up to 15 years. Duties will be removed either partially or in periods of ten years or more from 35% of industrial exports to MERCOSUR by EFTA (42% in terms of industrial tariff lines).

b. Rules of Origin

These rules aim to facilitate trade flows and the formation of value chains, based on the recently adopted EU model.

Along these lines, the Agreement sets out a list of operations (e.g., handling and/or segregation of goods) which do not entail substantial transformation of the goods and, therefore, do

not confer origin. Specific requirements have been established for agricultural and industrial activities, taking as a basis the availability of regional inputs.

c. Sanitary and Phytosanitary Measures

These provisions are grounded in the WTO Agreement about Sanitary and Phytosanitary Measures (SPS), and incorporate transparency and information exchange requirements to ensure the safety of products. The Agreement further provides for faster, detailed and predictable procedures. This chapter also foresees the possibility of review in the future to extend the treatment granted to the EU.

d. Technical Barriers to Trade

The chapter on technical barriers to trade is also based on the multilateral commitments undertaken by the parties under the Technical Barriers to Trade (TBT) Agreement. The chapter foresees that if new initiatives with the EU are agreed upon, such arrangements should be extended to this Agreement.

e. Trade Defense Measures

Trade defense measures pursuant to the EFTA-MERCOSUR Agreement are those provided for under the WTO agreements, including, in addition, a chapter on bilateral safeguard measures that provides for a mechanism (based on the temporary suspension of preferences) to remedy economic injury caused by increases in imports under the Agreement. MERCOSUR maintained its position refusing special agricultural safeguards.

2. Trade in Services

The general provisions in this chapter follow the agreement by the parties under the WTO General Agreement on Trade in Services (GATS). On the one hand, the text covers market access conditions and national treatment for all four modes of supply of services; on the other, it enables countries to adopt domestic regulations that do not conflict with the commitments stemming from this negotiation. Rights and obligations apply to sectors for which the parties have assumed specific commitments on their national lists (and not to other sectors). Commitments have been undertaken in sectors such as energy, maritime transport, telecommunications, and financial and professional services.

3. Investment

The aim of this chapter is to improve the legal framework for investors. The agreed text recognizes the parties' right to adopt regulations, which means that the parties are allowed to adopt regulations to attain their public policy objectives. Reservations to national treatment have been included for certain sectors owing to national legislation. In terms of companies, the chapter further includes provisions on corporate social responsibility.

No investor-state dispute settlement mechanism has been foreseen. However, this is the first time that under an extra-regional trade agreement, MERCOSUR has adopted rules for investment facilitation, with procedures for the institutional dialogue between government and the private sector of both parties in order to identify business opportunities, set out clear regulatory requirements, and remove red-tape barriers for the establishment and operation of businesses.

Chapters on investments and services contain prudential measures (carve-outs), which means that authorities are entitled to applying financial stability and protection measures that will prevail over the obligations assumed under those chapters.

4. Government Procurement

The chapter structure follows the commitments assumed within the framework of the WTO Government Procurement Agreement (GPA). Under the agreed provisions, MERCOSUR suppliers can access the government procurement market of goods and services in the EFTA countries receiving treatment no less favorable than the treatment EFTA accords its nationals, and vice-versa. However, certain limitations apply, such as contract thresholds and the right to grant national preference to public procurement relative to the percentage of domestic labor employed. No concessions have been made in terms of state-run companies.

Commitments undertaken by MERCOSUR cover solely the central level of government, with the prospect of involving other government levels in the future. EFTA countries, in turn, have granted access to procurement by the central government and will open other government levels to the same degree that MERCOSUR does. In addition, the agreement provides some time for MERCOSUR to adapt and comply with the chapter rules.

Below are some examples of the policy areas safeguarded by each MERCOSUR Member State in connection with public procurement:

| | |
|------------------|--|
| Argentina | Argentina reserves the right to enforce public policies consistent with Argentine legislation, including programs for MSME suppliers intended to promote the development of innovative solutions for the public sector and the application of special countervailing conditions. |
| Brazil | Public policies are safeguarded on technological development, public health, the promotion of micro and small enterprises, and food safety. |
| Paraguay | Paraguay has differentiated thresholds for public procurement, and maintains support programs for national production and employment, including a timeframe for their elimination, although it will further keep the right to not enforce the public procurement chapter under the agreement before eliminating these terms. |
| Uruguay | Uruguay reserves an annual 15% of the total procurement of the previous year for programs that promote a specific sector, based upon public policies. As of year 16 after the Agreement comes into effect, this percentage will be reduced to 5%. |

5. Intellectual Property Rights

The chapter references the obligations adopted by the parties within the framework of the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), and links solely relations between MERCOSUR countries and Switzerland and Liechtenstein. In general terms, this chapter maintains the levels of commitment negotiated with the EU. In particular, the list of geographical indications is still in progress and is expected to be completed by December 2019. In this regard, the parties agreed to a protection scheme and a mechanism for potential recognition. In the negotiation, the EFTA states (like EU countries) have left aside their demand to extend the timeframe for patent rights and the treatment of what is called “test data.”

6. Trade Facilitation

The provisions by both blocs may be considered to be WTO plus: not only do they take into account the multilateral agreement, but they also introduce practices to streamline customs procedures and limit the introduction of new charges. The negotiations between MERCOSUR and EFTA reflect the general principles of the Trade Facilitation Agreement (TFA) and its provisions on transparent decisions about trade transactions, as well as provisions on advance consultations on origin, assessment of merchandise, applicable duties and charges for customs services, temporary admission and formalities relative to a diversity of aspects related to the movement of goods across customs borders between countries.

The text also opens up the possibility for negotiating agreements for the mutual recognition of Authorized Economic Operators (AEO) between the parties.

7. Safeguarding Competition

The aim of this chapter is to ensure that MERCOSUR and EFTA countries adopt or uphold competition rules that restrict anti-competitive business practices and hold authorities accountable for enforcing compliance.

8. Sustainable Development

This section is designed to establish mechanisms to ensure that both parties implement, monitor and comply with regulations on environmental issues, fundamental labor rights, and sustainable development. The objective is to allow each bloc to internalize the relevant applicable rules and monitor compliance. Beyond the traditional

engagement with the three dimensions of sustainable development (economic, social and environmental), this is the first time that an article has been drafted on trade and sustainable agriculture and food systems.

9. Dispute Settlement

The Agreement provides for a two-stage dispute settlement mechanism procedure: the first stage involves consultations between the parties, while the second requires the establishment of an arbitration panel, whose arbitral awards will be binding. Failure to comply with the arbitral ruling will be grounds for the enforcement of compensatory measures.

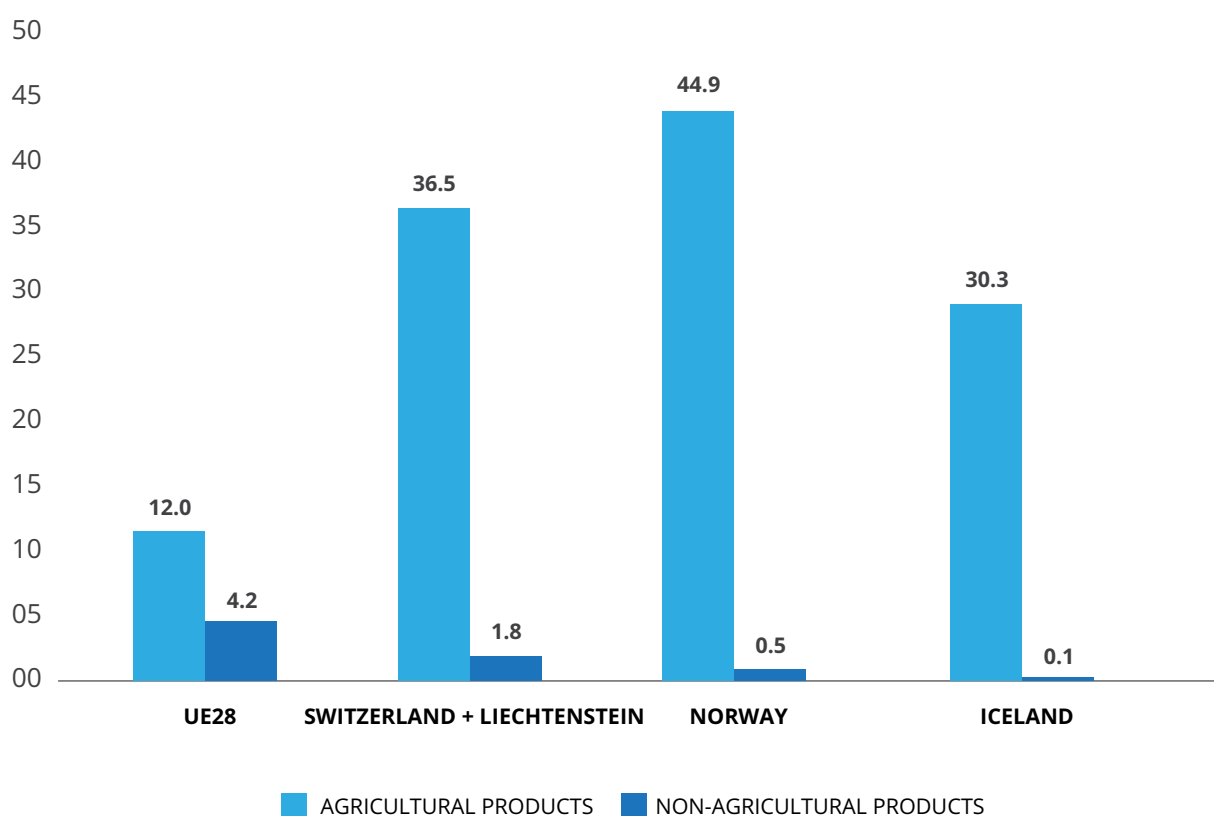


IV. Opportunities Created for MERCOSUR by the Agreement

The liberalization of some key sectors, mainly agriculture, could offer opportunities for trade growth with EFTA. The European bloc accounts for 1.2% of MERCOSUR's total trade in goods, 1% of exports and 1.4% of imports, while MERCOSUR's exports of food and raw agricultural commodities amount to just 0.2%, reflecting its limited access to EFTA markets.

The tariff structure in force in EFTA countries is highly protective of sectors in which the South American trade bloc is more competitive, agricultural products and by-products, even when compared to the European Union (Graph 3).

Graph 3. Tariff implemented in 2018, simple average (%)



Source: INTAL, based on WTO data.

EFTA Member States are high-income countries that enforce the highest tariffs on agricultural products worldwide, along with South Korea. Furthermore, in addition to elevated average tariffs, EFTA countries often implement tariff peaks,

and special quotas and safeguards to restrict the import of agricultural products (Table 3).

In fact, some products currently exported by MERCOSUR to the European trade bloc are subject to very high tariff peaks (see Table 6 in the Annex).

Table 3. Quotas, safeguards and tariff peaks

As % of agricultural tariff lines

| | EU28 | Switzerland + Liechtenstein | Norway | Iceland |
|---------------------------|------|--------------------------------|--------|---------|
| TARIFF QUOTAS | 13.5 | 20.9 | 31.0 | 35.2 |
| SPECIAL SAFEGUARDS | 23.0 | 36.4 | 47.8 | 41.5 |
| MFN TARIFF APPLIED > 100% | 0.8 | 10.4 | 14.3 | 10.5 |

Source: INTAL based on WTO data.

Although the four MERCOSUR countries benefit from preferential tariffs in Switzerland and Norway under the Generalised System of Preferences in both countries, the restrictions in these markets on food exports from MERCOSUR are still extremely elevated.

Along these lines, there is potential in EFTA markets for several products in MERCOSUR's basket of food exports.⁵ Even if values are low, especially for the largest MERCOSUR countries, they translate into large gains in terms of increased access of some agricultural and food products (Table 4).



⁵ The rationale for this potential lies in increasing the share of MERCOSUR imports of these products in EFTA countries on par with their share globally, using the following formula for each product in the six-digit code Harmonized System: Potential = $((X_m/M_g) * M_c) - X_{mc}$, where X_m is total exports from MERCOSUR countries for the period 2016-2018, M_g is global imports for the same period, M_c is imports by EFTA countries and X_{mc} is exports from MERCOSUR countries to EFTA. To calculate the potential, products that are currently exempt from the payment of tariffs to enter EFTA markets are excluded.

Table 4. MERCOSUR products with a potential

| País | Highest-potential products | Potential in USD millions | As a % of 2018 exports |
|------------------|---|---------------------------|------------------------|
| ARGENTINA | Corn; Wheat; Soya bean pellets and by-products; Wine and grapes; Horse Meat; Pears; Bovine Meat; Nuts; Peanut oil; Olive oil; Malt; Barley; Cheese; Animal feed; among others. | 141 | 0.2% |
| BRAZIL | Poultry Meat; Orange juice; Corn; Bovine Meat; Meat, prepared or preserved; Pectic substances; Soya bean pellets and by-products; Grapes and other fruit; Peanut oil; Nuts; Ethyl alcohol; Animal feed; among others. | 208 | 0.1% |
| PARAGUAY | Offal; Bovine Meat; Corn; Wheat; Soya bean pellets and by-products; Rice; Colza oil; among others. | 19 | 0.3% |
| URUGUAY | Soya bean pellets; Malt; Horse Meat; Bovine Meat; Cheese; Rice; Wine; Offal; among others. | 23 | 0.3% |

Source: INTAL. See methodology in note 5.

It is worth noting that for many of these products with high potential, the preferences gained by MERCOSUR have truly and effectively improved market access.

In Switzerland/Liechtenstein: complete liberalization for products such as citrus fruits (oranges, mandarins, grapefruit, lemons), apples, peaches, nectarines, cranberries, melons, plantains, fresh grapes and plums (seasonal), vegetables and legumes, roasted coffee, ethyl alcohol, orange juice, malt, soya beans, walnuts, corned beef, citrus fruit prepared such as marmalades, jams and purées, fruit juices (including citrus fruits, apple and pear), animal feed, fishery products, almonds and cocoa butter, among others.⁶

In Iceland: complete liberalization for products such as vegetables and legumes, juices (including citrus fruits and apples), mineral water, soya-bean milk, animal feed, onions, garlicks, chocolates and confectionery, feeds and soya-bean flour⁷.

In Norway: complete liberalization for animal feed and peanut, among others.⁸

Exclusive bilateral quotas were also negotiated, along with the elimination or reduction of intra-quota tariffs for the WTO bound quotas, which include several of the high-potential products identified for MERCOSUR Member States (Table 5).

6. INTAL, based on official data.

7. INTAL, based on official data.

8. INTAL, based on official data.

Table 5. Quota preferences

| Product | Country | MERCOSUR PREFERENCE | | WTO INTRA-QUOTA PREFERENCE | |
|---|---------------------------|---------------------|------------|----------------------------------|--------------|
| | | Tariff | Quota | Tariff | Quota |
| Bovine Meat | Switzerland/Liechtenstein | 0% | 3,000 tn | 0% | 22,500 tn |
| | Norway | 0% | 665 tn | 0% | 1,084 tn |
| | Iceland | | | (50% of the in-tra-quota tariff) | |
| Swine Meat | Switzerland/Liechtenstein | 0% | 200 tn | 0% | 54,485 tn |
| | Norway | | | 0% | 1,381 tn |
| Lamb meat | Switzerland/Liechtenstein | 0% | 200 tn | 0% | 22,500 tn |
| Poultry Meat | Switzerland/Liechtenstein | 0% | 1000 tn | 0% | 54,482 tn |
| | Norway | 0% | 200 tn | 0% | 221 tn |
| Butter | Switzerland/Liechtenstein | 0% | 100 tn | 0% | 527,000 tn |
| Honey | Switzerland/Liechtenstein | 0% | 2000 tn | | |
| Honey | Norway | 0% | 90 tn | | |
| Vegetable oils | Switzerland/Liechtenstein | 0% | 2,000 tn | | |
| Molasses | Norway | 0% | 9,500 tn | | |
| Juices | Switzerland/Liechtenstein | 0% | 180 tn | | |
| Corn | Switzerland/Liechtenstein | 0% | 7,000 tn | | |
| Corn flour | Norway | 0% | 500 tn | | |
| | Switzerland/Liechtenstein | 0% | 10,000 tn* | | |
| Rice | Norway | 0% | 1,000 tn | | |
| Wheat | Switzerland/Liechtenstein | 0% | 2,000 tn | | |
| | Switzerland/Liechtenstein | | | 0% | 10,000 tn |
| Milk, in powder | Norway | 0% | 150 tn | 0% | 527,000 tn |
| Wine | Switzerland/Liechtenstein | 0% | 35,000 Hl | 0% | 1,620,000 Hl |
| Potatoes | Switzerland/Liechtenstein | 0% | 600 tn | 0% | 22,250 tn |
| Onions | Switzerland/Liechtenstein | 0% | 500 tn | | |
| Cereals and byproducts, except soya beans | Switzerland/Liechtenstein | | | 0% | 70,000 tn |
| Grain, fit for human consumption | Switzerland/Liechtenstein | | | 0% | 70,000 tn |
| Soya-bean flour | Norway | 0% | 5,000 tn | | |

* 10,000 tn to be distributed between maize and maize flour.
Source: INTAL based on official data.

In addition, the Agreement opens up services and investment trade flows. Service imports by EFTA reached USD 157 billion in 2017, EFTA being the world's tenth largest importer of services. Export opportunities in MERCOSUR include software and IT services, as well as clinical trials for patients (Argentina and Brazil have good professionals and ethnic diversity to test drugs on different population groups).

Although exports of corporate services to EFTA is unlikely, as these are provided from Eastern Europe, companies in the European bloc could choose to establish offices in MERCOSUR and provide services to their branches or clients in the Americas. Along these lines, it is critical that the agreement incentivize the landing of direct investment from EFTA.

The Agreement has the potential to boost the attractiveness of MERCOSUR for FDI, as it

connects this trade bloc with the eighth-largest global investor, with a stock of investment of almost USD 1.5 trillion worldwide and the largest investment fund in the world, the Government Pension Fund of Norway, based on oil and gas royalties. Switzerland is the main issuer of foreign direct investment in EFTA under the Agreement, accounting for 10% of the investment stock in Uruguay, 8% in Brazil, 5% in Argentina and 4% in Paraguay. The remaining countries account for less than 1%. Having procedures in place for the institutional dialogue between government and the private sector may be critical to identify opportunities and remove barriers for the establishment and operation of companies.

By the same token, the Agreement grants MERCOSUR companies access to EFTA's public procurement market, which is worth approximately USD 85 billion. The Agreement further includes transient provisions whereby MERCOSUR is allowed to adjust to the thresholds established by EFTA Member States. In regard to goods, Brazil has a remarkable opportunity in the areas of machinery and equipment, and electronics, and also in architecture, engineering, advertising and construction services.

V. Enforcement

Upon the conclusion in substance of the negotiations, a period of legal review will start in order to draft the final version, and have it translated to the official languages of the signatory countries. Upon completion of this process, which may take several months, the Agreement will be ready to be signed by the countries, which is expected to take place at the 55th Summit of Heads of State of MERCOSUR, which will held in Brasilia, in December 2019.

Once signed, the Agreement will be submitted for approval to each national legislature body in MERCOSUR and EFTA. The Agreement may enter into force bilaterally, after being ratified by one EFTA Member State and one MERCOSUR State Party. Free Trade Agreements entered into by EFTA with Latin American countries have come into force within one year on average, except for the agreement negotiated with Colombia, which was implemented three years after being signed.

Annex: Breakdown of MERCOSUR-EFTA trade by products and trade balance per country

Table 6. Share of main products exported by MERCOSUR to EFTA and effective average tariffs (2016-2018, percentages)

| ARGENTINA | SHARE IN EXPORTS | | | | | APPLIED TARIFF (AVE) | | |
|--|------------------|--------|---------|---------------|------|----------------------|--------|---------|
| | Switzerland | Norway | Iceland | Liechtenstein | EFTA | Switzerland | Norway | Iceland |
| Gold, non-monetary, in forms, unwrought | 94% | 0% | 0% | 0% | 92% | 0% | 0% | 0% |
| Silver (including silver plated with gold or platinum), unwrought, exc. in powder form | 3% | 0% | 0% | 0% | 3% | 0% | 0% | 0% |
| Wine of fresh grapes, including fortified wines; grape must with fermentation prevented or arrested by the addition of alcohol | 1% | 15% | 40% | 73% | 1% | 14% | 0% | 1% |
| Molluscs, whether in shell or not, smoked, frozen, dried or in brine | 0% | 40% | 51% | 0% | 1% | 0% | 0% | 5% |
| Meat of bovine animals, boneless, fresh or chilled | 0% | 0% | 0% | 0% | 0% | 179% | 261% | 150% |
| Natural honey | 0% | 1% | 0% | 0% | 0% | 2% | 42% | 0% |
| Apples, fresh | 0% | 15% | 0% | 0% | 0% | 37% | 18% | 0% |
| Ground-nuts "peanuts," prepared or preserved (except preserved by sugar) | 0% | 13% | 0% | 0% | 0% | 7% | 2% | 0% |
| Turbo-jets or turbo-propellers, parts | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Tobacco, partly or wholly stemmed or stripped, not otherwise further worked | 0% | 0% | 0% | 0% | 0% | 4% | 0% | 0% |
| Other | 1% | 16% | 8% | 27% | 1% | | | |

| BRAZIL | SHARE IN EXPORTS | | | | | APPLIED TARIFF (AVE) | | |
|---|------------------|--------|---------|---------------|------|----------------------|--------|---------|
| | Switzerland | Norway | Iceland | Liechtenstein | EFTA | Switzerland | Norway | Iceland |
| Aluminum oxide (except artificial corundum) | 0% | 67% | 99% | 0% | 34% | 0% | 0% | 0% |
| Gold, non-monetary, in forms, unwrought | 34% | 0% | 0% | 0% | 19% | | | |
| Light-vessels, fire-floats, floating cranes, and other vessels the navigability of which is subsidiary to their main function | 25% | 0% | 0% | 0% | 13% | 0% | 0% | 0% |
| Gold, including gold plated with platinum, in semi-manufactured forms, non-monetary | 16% | 0% | 0% | 0% | 9% | 0% | 0% | 0% |
| Soya beans, whether or not broken (excl. seed) | 0% | 14% | 0% | 0% | 5% | 7% | 23% | 0% |
| Coffee, not roasted or decaffeinated | 1% | 5% | 0% | 0% | 2% | 0% | 0% | 0% |
| Aeroplanes and other aircraft with motors for propulsion, of an unladen weight exceeding 15000 kg (except helicopters and dirigibles) | 0% | 4% | 0% | 0% | 2% | 0% | 0% | 0% |
| Cuts and offal, of the species Gallus domesticus, frozen | 3% | 0% | 0% | 0% | 1% | 813% | 123% | 270% |
| Food preparations | 1% | 0% | 0% | 0% | 1% | 6% | 3% | 7% |
| Leather further prepared after tanning or crusting, including parchment-dressed leather, grain splits, whole, of bovine (including buffalo) or equine animals, without hair | 0% | 2% | 0% | 0% | 1% | 0% | 0% | 0% |
| Petroleum oils and oils obtained from bituminous minerals, other than those containing biodiesel, light oils and preparations | 0% | 1% | 0% | 81% | 1% | 0% | 0% | 0% |
| Other | 19% | 8% | 1% | 19% | 13% | | | |

| PARAGUAY | SHARE IN EXPORTS | | | | APPLIED TARIFF (AVE) | | |
|---|------------------|--------|---------|------|----------------------|--------|---------|
| | Switzerland | Norway | Iceland | EFTA | Switzerland | Norway | Iceland |
| Soya beans, whether or not broken (except seed) | 49% | 0% | 0% | 48% | 7% | 18% | 0% |
| Meat of bovine animals, fresh or chilled, boneless | 35% | 0% | 0% | 34% | 179% | 260% | 150% |
| Cane sugar, in solid form (except cane sugar specified as 1701 13), not containing added flavouring or colouring matter | 10% | 2% | 0% | 10% | 0% | 9% | 0% |
| Essential oils of orange, terpeneless or not, including concretes and absolutes (excl. orange-flower oil) | 2% | 0% | 0% | 2% | 0% | 0% | 0% |
| Ferro-silicon, containing by weight > 55% of silicon | 0% | 58% | 0% | 1% | 0% | 0% | 0% |
| Animal products n.e.s.; dead animals of all types, unfit for human consumption (excl. fish, crustaceans, molluscs or other aquatic invertebrates) | 1% | 0% | 0% | 1% | 3% | 0% | 0% |
| Undenatured ethyl alcohol, of an alcoholic strength by volume of >= 80% vol | 1% | 0% | 0% | 1% | 0% | 96% | 0% |
| Essential oils, terpeneless or not, including concretes and absolutes (excl. of citrus fruit, geranium, jasmine, spike lavender, lavandin, mints, vetiver) | 1% | 0% | 0% | 1% | 0% | 0% | 0% |
| Meat of bovine animals, boneless, frozen | 1% | 0% | 0% | 1% | 210% | 237% | 131% |
| Carbides, whether or not chemically defined, of silicon | 0% | 21% | 0% | 0% | 0% | 0% | 0% |
| Oil seeds and oleaginous fruits, whether or not broken (excl. fruits with edible skin, olives, soya beans, ground-nuts, copra, linseed, rape or colza, sunflower-seeds, nuts) | 0% | 13% | 100% | 0% | 500% | 400% | 0% |
| Other | 1% | 7% | 0% | 1% | | | |

| URUGUAY | SHARE IN EXPORTS | | | | APPLIED TARIFF (AVE) | | |
|---|------------------|--------|---------|------|----------------------|--------|---------|
| | Switzerland | Norway | Iceland | EFTA | Switzerland | Norway | Iceland |
| Gold, non-monetary, in forms, unwrought | 64% | 0% | 0% | 53% | 0% | 0% | 0% |
| Meat of bovine animals, boneless, fresh or chilled | 30% | 3% | 0% | 25% | 179% | 261% | 150% |
| Meat of bovine animals, boneless, frozen | 0% | 79% | 0% | 14% | 210% | 237% | 131% |
| Combed wool (excl. "in bulk" ["open tops"]) | 1% | 9% | 0% | 2% | 0% | 0% | 0% |
| Soya beans, whether or not broken (excl. seed) | 2% | 0% | 0% | 2% | 7% | 23% | 0% |
| Meat of horses, asses, mules or hinnies, fresh, chilled or frozen | 1% | 0% | 0% | 1% | 127% | 42% | 76% |
| Oranges, fresh or dried | 0% | 3% | 0% | 1% | 2% | 10% | 0% |
| Vessels for the transport of goods and other vessels for the transport of both persons and goods (excl. refrigerated vessels, tankers, ferry-boats and vessels principally designed for | 0% | 3% | 0% | 1% | 0% | 0% | 0% |
| Meat of sheep, frozen, boneless | 0% | 2% | 0% | 0% | 60% | 68% | 141% |
| Natural honey | 0% | 0% | 0% | 0% | 2% | 42% | 0% |
| Caviar "sturgeon roe" | 0% | 0% | 0% | 0% | 0% | 0% | 10% |
| Fresh eggs in shell of domestic fowls (excluding eggs fertilized for incubation) | 0% | 0% | 100% | 0% | 123% | 109% | 183% |
| Other | 2% | 1% | 0% | 1% | | | |

Source: INTAL, based on INTrade

Table 7. Main products imported from EFTA (2016-2018)

| PRODUCTS IMPORTED BY ARGENTINA | SHARE IN IMPORTS |
|---|------------------|
| Antisera (sera with antibodies), other blood fractions and immunological products, whether or not modified or obtained by means of biotechnological processes | 18.5% |
| Medicaments, other | 16.2% |
| Immunological products, put up in measured doses or in forms or packings for retail sale | 4.1% |
| Wadding, gauze, bandages and similar articles | 3.7% |
| Natural gas | 3.2% |
| Turbo-jets, turbo-propellers and other gas turbines, parts. | 3.1% |
| Organic derivatives of hydrazine or of hydroxylamine | 3.0% |
| Printing ink | 2.5% |
| Cyclic amides (including cyclic carbamates) and their derivatives | 2.2% |
| Other heterocyclic compounds containing an unfused pyrazole/pyridine ring (whether or not hydrogenated) in the structure, not condensed | 2.2% |
| Other | 41.2% |

| PRODUCTS IMPORTED BY BRAZIL | SHARE IN IMPORTS |
|---|------------------|
| Organic derivatives of hydrazine or of hydroxylamine | 8.8% |
| Immunological products, put up in measured doses or in forms or packings for retail sale | 8.1% |
| Medicaments, other | 6.7% |
| Petroleum oils and oils obtained from bituminous minerals (other than crude), and preparations | 5.6% |
| Antisera (sera with antibodies), other blood fractions and immunological products, whether or not modified or obtained by means of biotechnological processes | 4.4% |
| Antisera (sera with antibodies) and other blood fractions | 4.2% |
| Mineral or chemical fertilisers containing the three fertilising elements nitrogen, phosphorus and potassium | 3.9% |
| Other nucleic acids and their salts, whether or not chemically defined; other heterocyclic compounds | 2.9% |
| Natural gas | 2.0% |
| Cyclic amides (including cyclic carbamates) and their derivatives | 1.9% |
| Other | 51.6% |

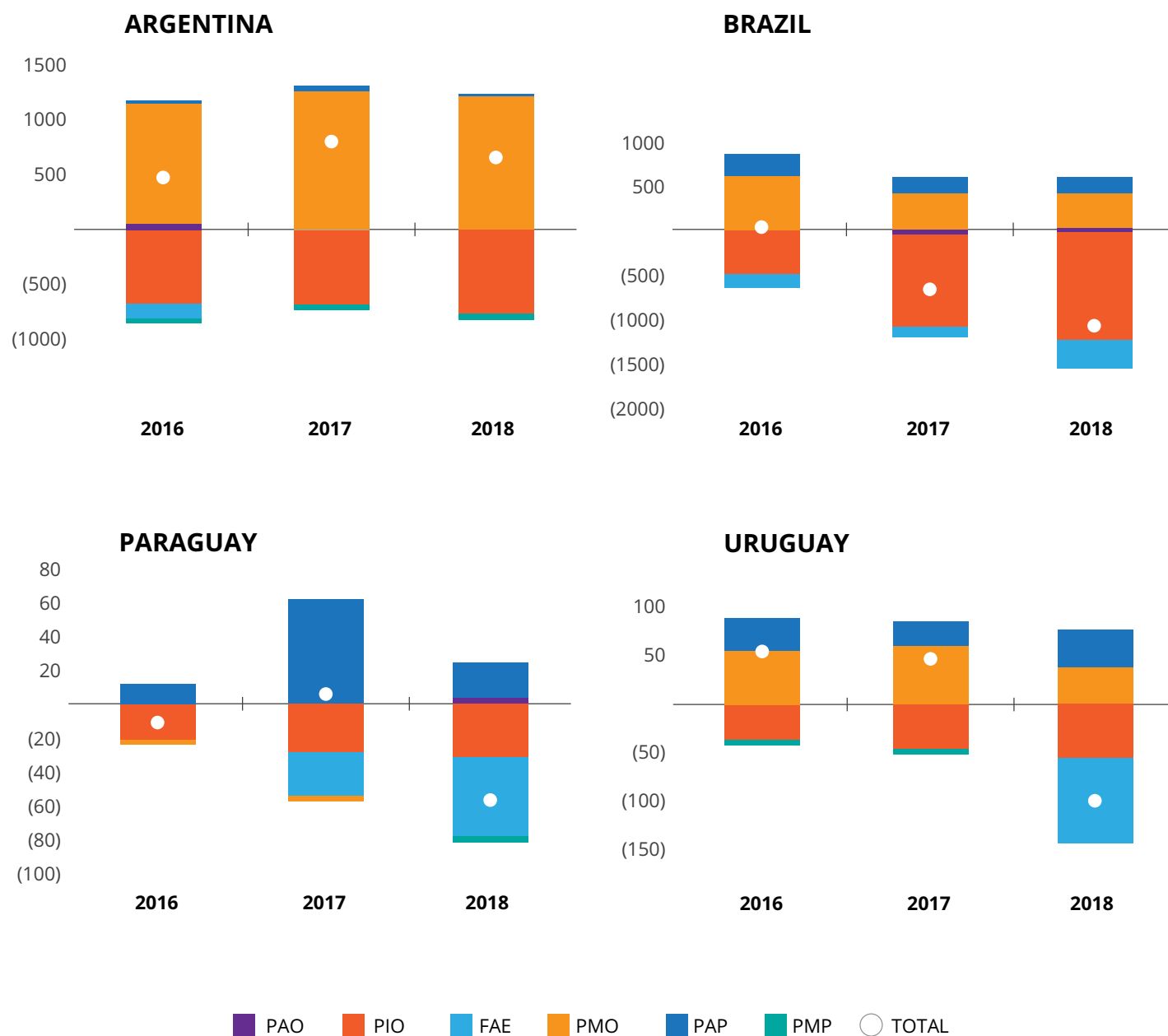
| PRODUCTS IMPORTED BY PARAGUAY | SHARE IN IMPORTS |
|---|------------------|
| Petroleum oils and oils obtained from bituminous minerals (other than crude), and preparations | 40.9% |
| Medicaments, other | 11.6% |
| Petroleum bitumen | 4.8% |
| Smart cards | 3.0% |
| Immunological products, put up in measured doses or in forms or packings for retail sale | 2.6% |
| Printing machinery used for printing by means of plates, cylinders and other printing components, parts and accessories | 1.8% |
| Other food preparations not elsewhere specified or included | 1.6% |
| Naphthas | 1.5% |
| Machines for making cartons, tubes, drums or similar containers, other than by moulding | 1.5% |
| Other wrist-watches, whether or not incorporating a stop-watch facility, automatic | 1.4% |
| Other | 29.3% |

| PRODUCTS IMPORTED BY URUGUAY | SHARE IN IMPORTS |
|---|------------------|
| Petroleum oils and oils obtained from bituminous minerals, crude | 39.3% |
| Medicaments, other | 9.1% |
| Immunological products, put up in measured doses or in forms or packings for retail sale | 5.1% |
| Other mechanical machines and apparatus, having individual functions, not specified or included elsewhere in this Chapter | 4.2% |
| Antisera (sera with antibodies), other blood fractions and immunological products, whether or not modified or obtained by means of biotechnological processes | 2.5% |
| Orthopaedic or fracture appliances | 2.3% |
| Tubes, rigid, of polymers of styrene | 2.2% |
| Meat of swine, frozen | 1.3% |
| Pacemakers for stimulating heart muscles, excluding parts and accessories | 1.1% |
| Wrist-watches, pocket-watches and other watches with mechanical display | 1.1% |
| Other | 31.9% |

Source: INTAL, based on INTrade and MacMap



Graph 4. Trade balance by sectors (2016-2018)



Source: INTAL based on INTrade data. PAP: Primary agricultural products; PAO: Products of agricultural origin; PMP: Primary mine products; PMO: Products of mine origin, PIO: Products of industrial origin, FAE: Fuels and energy.

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