Negotiating Market Access between the European Union and MERCOSUR: Issues and Prospects

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C O N T E N T S

NEGOTIATING MARKET ACCESS BETWEEN THE EUROPEAN UNION AND MERCOSUR: ISSUES AND PROSPECTS

Antoni Estevadeordal and Ekaterina Krivonos *

I. INTRODUCTION

The European Union (EU) and MERCOSUR are the largest and most influential regions, both by population and in terms of size of the economy, of their respective continents. The renewed priority given to biregional cooperation launched by the Inter-Regional Framework Agreement signed in 1995 is based on deep historical, political, economic and cultural links between the two regions. The potential advantages of an agreement that will foster a process of dynamic cooperation are enormous, ranging from political influence to economic returns, including the gains from comparative advantage, expanding markets, improved environment for investments, and positive spillovers on human and social capital, democracy, and justice. A free trade agreement between the two regions should also be evaluated in the context of the new regionalism initiatives taking place around the world, in particular the Free Trade Area of the Americas (FTAA) negotiations and the process of enlargement and deepening of the two regional blocs.

The objective of this paper is to offer an X-ray of the current status of existing market access provisions both in MERCOSUR and the EU. This is an important and necessary first step to identify the key issues facing market access negotiators from the very outset of the negotiations. As has already been agreed during the first meeting of the European Union - Mercosur Biregional Negotiations Committee, one of the first tasks of the Technical Group charged with market access issues will be the exchange of information in the areas of tariff and non-tariff measures. This initial exchange of information among negotiating parties usually plays a key role in the overall formulation of each party's negotiating strategy. This paper attempts, using mostly secondary sources and data compiled by international agencies, to take a seat at the negotiating table and provide the best snapshot possible of the situation. In this regard, it is important to stress that the information used and analyzed in this paper should not be taken in any way as the official picture of the market access profiles of each region.

The paper is organized in five additional sections. Section II provides a short background of the status of the negotiations. Next, Section III reviews some key stylized facts on the trade relations between Europe and MERCOSUR. The following two sections are devoted to analyzing in some detail the structure and levels of protection in the two regions. Section VI concludes with some key policy issues regarding the negotiating process towards an inter-regional Free Trade Agreement between MERCOSUR and the EU.

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II. SOME BACKGROUND NOTES ON MERCOSUR-EU RELATIONS

A few years ago the EU took over the position of the United States as MERCOSUR's largest trading partner. Moreover, the EU is also the main source of foreign capital for the Southern Cone countries. Similarly, MERCOSUR, being the largest economic area in Latin America, is the EU's most important partner in the region. Therefore, it is natural that both the EU and MERCOSUR could clearly benefit from removing barriers to trade. The climate for the beginning of the negotiations is favorable, taking into account current growth in both regions (which is expected to continue in the coming decade) and the continuing process of deepening and expanding both integration schemes. Despite the well-known potential costs associated with the creation of an FTA, the elimination of barriers between the two will have a positive impact on output growth in both regions. The European Commission has assessed that the increased annual profit of removing tariffs on 90 percent of trade will amount to $6.5 billion for the EU and $5.1 for MERCOSUR. [1]

Furthermore, a partnership will give more weight to both parties in the global economy. Both regions will achieve greater bargaining power *vis-à-vis* other international players through increased competitiveness and strategic alliances. Association with the EU provides obvious advantages for MERCOSUR, including improved market access, steady capital inflow and conditions for greater macroeconomic stability. The possibility of free access to the EU market will attract European, US, and Japanese companies to the Southern Cone, boosting output and employment. Expected growth of the MERCOSUR members means increased demand for inputs. Tariff-free imports of inputs from the EU, the main source of imports, will have a big positive effect on the overall competitiveness of MERCOSUR's companies. Access to a large, open European market will give MERCOSUR the opportunity to reduce its trade deficit with Europe (provided that "sensitive" and "highly sensitive" products will be included in the agreement). For MERCOSUR, the main advantage of an FTA with the EU would be gaining access to markets for agricultural products and food. It is not clear however, to what extent Europe can be expected to open up in these particular sectors.

The EU will also benefit from an FTA. Gaining access to the largest market in Latin America would allow Europeans to expand exports of consumer and capital goods as well as services. These sectors experienced a real export boom in the 1990s, and MERCOSUR applies high external tariffs on these very sectors. European companies already located in the Southern Cone will enjoy tariff-free imports of their inputs and tariff-free exports of their final goods back into the European market. Intensified relations between MERCOSUR and its associate members, Bolivia and Chile, in recent years offer the prospect of a future market for EU products. Furthermore, Bolivia's membership in the Andean Community and Chile's membership in the Asia Pacific Economic Cooperation forum (APEC) creates additional business opportunities for the EU. Moreover, Europe is also interested in strengthening its strategic position in Latin America in order to counteract the FTAA initiative, fearing a large US-dominated bloc in Latin America and the potential of some trade diversion effects on the EU.

The official launching of the current cooperation between the two regions goes back to November 1995 when the Inter-Regional Framework Cooperation Agreement was signed. The Agreement covers trade and economic matters, cooperation regarding integration and other fields of mutual

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[1] IRELA Special Report [1999] and European Commission [1998].

interest.[2] The negotiations, which were aimed at bilateral, gradual, and reciprocal trade liberalization covering all sectors and in accordance with WTO rules, were formally launched in Rio de Janeiro in June 1999, during the Summit of Heads of State and Government of the EU, Latin America, and Caribbean. The first EU-MERCOSUR Cooperation Council meeting was held in November 1999 in Brussels. At this meeting a Biregional Negotiations Committee (BNC) was established "in order to provide general oversight and management of the negotiations on trade matters and cooperation". The parties also agreed on the structure, methodology, and calendar for the negotiations. At the same time a joint meeting with Chile took place. In February 2000, the future of the political dialogue between the parties was discussed during the Ministerial meeting of the EU, MERCOSUR, Chile, and Bolivia in Vilamoura, Portugal.

The first round of actual negotiations between the EU and MERCOSUR took place during the first meeting of the BNC in April 2000 in Buenos Aires. The parties agreed on objectives, principles, methodology, structure and an initial work program on the following topics: (a) negotiations on political dialogue; (b) negotiations on cooperation; and (c) negotiations on trade issues. The scope and procedures under which market access negotiations would be conducted were clearly established and would be based on the following principles: (a) comprehensive negotiations and balanced results; (b) no sector to be excluded, whilst taking into account the sensitivities of certain products and service sectors, in conformity with WTO provisions; and (c) the results of the negotiations should constitute a single undertaking to be implemented by the Parties as an indivisible whole. [3]

The main objectives are bilateral and reciprocal liberalization, opening access to government procurement, improving the investment climate, ensuring protection of intellectual property rights, fostering adequate and effective competition policies, and setting up trade defense instruments and dispute settlement mechanisms.

The institutional architecture of the negotiations agreed upon encompasses the creation of three technical groups, which will be responsible for negotiations of: (a) trade in goods; (b) trade in services, intellectual property rights and measures to improve the investment climate; and (c) government procurement, competition and dispute settlement, respectively. The work plan of the technical groups from June 2000 until mid-2001 will consist of exchanging information and preparing working texts, as well as discussing specific objectives and modalities on how to address issues regarding non-tariff measures. In July 2001 the Parties will begin to negotiate the tariff elimination schedule for goods and the liberalization of trade in services. The negotiating process will continue until 2005. By the end of this period, the negotiations are expected to end and liberalization should commence. The outcome of the negotiations will be closely linked to and influenced by the results of parallel multilateral negotiations in the WTO as well as the FTAA negotiations, scheduled to finish in 2005 as well. On the other hand, by 2005 the EU is expected to have completed the second round of the CAP reforms and be under the enlargement negotiations. Without reforming Common Agricultural Policy (CAP) it is unlikely that MERCOSUR will gain full market access for agricultural products by 2005. Even after substantial unilateral liberalization by the EU the barriers for the most sensitive products may still remain in force until 2015.

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[2] Council Decision 96/205/EC, Official Journal of the EC, L 69 volume 39, March 1996.

[3] According to this principle nothing can enter into force until everything has been agreed.

III. SOME STYLIZED FACTS ON TRADE BETWEEN MERCOSUR AND THE EU

Trade flows between the two regions have grown steadily during the last decade. In 1998 the EU's exports to MERCOSUR reached US$ 27.2 billion, whereas imports were US$ 21.3 billion. MERCOSUR's exports to the EU constitute a little more than a quarter of total MERCOSUR exports. A similar ratio applies to MERCOSUR's imports. Compared to the EU's total trade, trade with MERCOSUR represents just over 1 percent. However MERCOSUR is the EU's seventh largest trading partner and its share has been growing in recent years. Since 1990, the EU's exports to MERCOSUR were growing more than the EU's exports to Mexico or Chile, and more than total EU exports. From 1995 to 1998 the EU's exports to the Southern Cone increased by 22.5 percent. The EU's imports from the region, on the other hand, grew by only 6.6 percent. There is an obvious asymmetry in trade between the regions; in fact, since 1994 MERCOSUR has had trade deficits with the EU every year, reaching US$ 5.9 billion in 1998.

EU imports from MERCOSUR are mostly concentrated in food, agricultural, and fishery products, amounting to 52.7 percent of total imports in 1998. In contrast, over 60 percent of the EU's exports to the region fell within the machinery and equipment sector, followed by chemicals, which represents a 19 percent share. Accordingly, MERCOSUR has trade surpluses in primary products, such as agriculture, fishing, forestry, mining, food, beverages, and tobacco, as well as in textiles, wood, and iron and steel. On the other hand, MERCOSUR has large trade deficits in machinery and equipment and chemicals. The main products within the agriculture and food sectors, exported from MERCOSUR to the EU are: coffee, soybeans, oil cake from extraction of soybean oil, fruit juices, non-manufactured tobacco and meat (See Table 1). The largest export group by the EU is machinery, excluding electrical, radio and TV, and motor vehicles (mainly automobiles).

Market access liberalization between the two regions is expected to boost trade in those sectors where the respective parties have had traditionally global comparative advantages. Table 2 reports a traditional indicator of Revealed Comparative Advantage (RCA) [4] at the 3-digit ISIC sector level for both regions. The index clearly shows that the EU has comparative advantage in sectors such as chemicals, plastic products, machinery and transport equipment. In contrast, in the case of MERCOSUR, the most competitive sectors are agricultural and fishery products, foods, leather products and mining, as well as in tobacco (Brazil and Uruguay), wood (Brazil and Paraguay), rubber products (Brazil and Uruguay) and iron and steel (Brazil). Given this pattern of the RCA indicators, the composition of trade is unlikely to change drastically after implementation of an FTA. However, in the longer run MERCOSUR could become more competitive in some manufactured and capital goods, such as automobiles, automotive parts, steel products, and airplanes, due to some of the dynamic effects of the FTA. Nevertheless, agricultural products will continue to account for the largest share of MERCOSUR's exports to the EU. Since market liberalization for agricultural products will probably lag 5-10 years behind the market opening for manufacturing and services, Europe will keep running a trade surplus, especially in such sectors as automotive, capital goods, energy, information technology, infrastructure, and telecommunications.

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[4] RCA equals the share of a country's exports of a particular product in the world's total exports of that product divided by the share of the country's total exports in world trade.

IV. THE STRUCTURE OF PROTECTION IN MERCOSUR

The Common External Tariff (CET) is the main instrument of the common trade policy in MERCOSUR and has been in effect since January 1, 1995. The CET covers about 85 percent of imports. Full convergence is expected in 2001 for Argentina and Brazil and in 2006 for Paraguay and Uruguay. In 2001 the CET will include twelve tariff levels between 0 and 23 percent.

Some basic tariff protection indicators are shown in Table 3 and Figures 1 and 2. The data are largely self-explanatory. The unweighted average tariff across all sectors is 15.4 percent. The highest average tariffs apply to food, textiles, wood, machinery and equipment, and other manufactured goods. The highest tariff, 23 percent, applies to 12 percent of all product lines. [5] Sectors with very high average tariffs, above 20 percent, are beverages, tobacco, wearing apparel, footwear, furniture and fixtures, plastic products, and other industrial products. Tariffs below 3 percent, which could be considered nuisance tariffs -i.e., a tariff that either yields little revenue or has mild protectionist effects- applies to 1.7 percent of all agricultural products and 5.1 percent of all industrial products. Only 1.2 percent of all products are completely exempted from tariffs. Peak rates or rates above 15 percent are important in the cases of textiles and other manufacturing sectors. The distribution of tariff rates across sectors (averages and dispersion rates) is represented in the box-plots of Figure 2.

Due to the methodological difficulties in obtaining reliable data on non-tariff measures (NTMs) the following analysis of the data should be taken with caution. MERCOSUR has not yet completed a full harmonization of non-tariff measures among its members. As of today, non-tariff measures applied by member countries differ substantially. Using data collected under a joint UNCTAD/IDB project (TRAINS for the Americas), it is feasible to characterize some of the key features of the NTMs applied by Argentina and Brazil to third parties. For comparative purposes, the analysis excludes technical measures and concentrates only on traditional core NTMs (price control measures, automatic licensing measures and quantity control measures) that countries are required to report to the WTO under the Schedule of Commitments.

Table 4 reports a NTM incidence measure [6] for Argentina and Brazil, based on the percentage of tariff items that are affected by one or more type of NTMs. About 27 percent of items exported to Argentina and 17 percent in the case of Brazil, are covered by some type of core NTMs. On average, almost one quarter of all exports (by value) entering MERCOSUR are subject to NTMs. The most heavily protected sectors are agriculture, forestry, fishing, wood, chemicals and machinery. Several NTMs may apply to the same product line. A closer look at the particular measures reveals that in most cases, the NTMs applied are quantity control measures, which, by and large, consist of prior authorization and prohibition for sensitive product categories. No automatic licensing measures apply and the use of price control measures is insignificant. In general, Argentina uses NTMs more than Brazil, even though Brazil is stricter on imports of chemicals, metal ore and petroleum and gas.

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[5] MERCOSUR's Common External Tariff is defined for products at the 8-digit level of the HS, while the EU uses 10-digit product lines. Trade data used for weighting is available at the 6-digit level of disaggregation. For analytical purposes, therefore, average tariff rates at the 6-digt level are used.

[6] The NTM incidence measure indicates to what extent the national tariff lines within an HS 6-digit subheading are affected by NTM measures. For each tariff line, the NTM incidence is taken as 0 percent if no NTM applies to this line; 50 percent if an NTM applies to a part of the products specified under the national tariff line; 100 percent if an NTM applies to all products under the national tariff line, or if two or more NTMs apply to the same tariff line.

V. THE STRUCTURE OF PROTECTION IN THE EU

Argentina, Brazil, Paraguay and Uruguay are currently beneficiaries under the Generalized System of Tariff Preferences (GSP) of the EU. [7] To determine the preferential rate a **modulation mechanism** is used. This means that all products covered by the GSP scheme are divided into four groups depending on the level of sensitivity. The preferential rates are calculated as follows: (a) for very sensitive products the GSP rate is 85 percent of the MFN duty; (b) for sensitive products the GSP rate is 70 percent of the MFN duty; (c) for semi-sensitive products the GSP rate is 35 percent of the MFN duty; (d) customs duties are entirely suspended for non-sensitive products.

However, for some countries not all products are entitled to preferential treatment. A **graduation mechanism** determines which countries and sectors are to be excluded. The criteria for exclusion are based on a development index and an index of export specialization. The development index represents each country's overall level of industrial development compared with that of the EU. [8] The specialization index is derived as the ratio of the beneficiary country's share of total EU imports in a given sector to its share in total EU imports in all sectors. The combination of the two indices determines which sectors will be excluded for each particular country. Moreover, if a country's exports to the EU of GSP-covered products in a given sector exceed 25 percent of all GSP beneficiary countries' exports to the EU, the country automatically is exempted from GSP treatment for that sector.

In the case of MERCOSUR the graduation mechanism leaves the following chapters of the Harmonized System out of the GSP preferential treatment. In Argentina, Chapters 1, 2, 4, 16 to 23 except for codes 1604, 1605 and 1902 20 10 and 41. In the case of Brazil, Chapters 1, 2, 9, 13, 16 to 23 except for codes 1604, 1605 and 1902 20 10, 24, 41, 47 to 49, 64 to 67, 86, 88, 89 and some specific products. [9]

Accordingly, 78 percent of all products imported by the EU from Argentina enjoy preferential rates. For Brazil this figure is 72 percent, and for Uruguay and Paraguay it is 83 percent.

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[7] The EU's GSP regime is regulated under European Council Regulation N° 2820/98 (December 21, 1998), in force for the period from July 1, 1999, to December 31, 2001.

It should be noted that the countries where per capita GNP exceeded US$ 8,210 in 1995 should be removed from the list of beneficiary countries. According to IDB/STA data Argentina's GDP *per capita* was US$ 8,214 in 1997. It is therefore plausible that Argentina will be excluded from the beneficiary list by the time of a new GSP regulation.

[8] The following formula is used for the development index:

$$\frac{\log \frac{Y_i/POP_i}{Y_{eu}/POP_{eu}} + \log \frac{X_i}{X_{eu}}}{2}$$

where Y = beneficiary country's income
Y_{eu} = EU's income
POP_i = the beneficiary country's population
POP_{eu} = the population of the EU
X_i = the value of the beneficiary country's manufactured exports
X_{eu} = the value of EU's manufactured exports

Using this formula, an index of 0 means the beneficiary's level of industrial development is equal to that of the EU.

[9] See Part 1 of Annex II of the Regulation N° 2820/98 (December 21, 1998).

It is important to note that most of the agricultural and food imports into the Community are covered by specific rates, usually expressed in Euro per unit of quantity (kg., liters, etc.). In many cases, a mixed tariff is applied -that is, a tariff which consists of both an *ad-valorem* rate and a specific rate-. [10] In this study, for analytical purposes all specific rates were converted into *ad-valorem* equivalents.

External tariffs of the EU, as in the case of MERCOSUR, have been decreasing in recent years as the result of WTO/GATT multilateral negotiations. Today the average MFN tariff is 4.8 percent. The distribution of tariffs is shown in Table 3 and Figures 1 and 2. About 44 percent of all product lines are free of duty, 21.4 percent have tariffs below 2 percent, and these shares are declining for higher tariff levels. However, high tariffs still apply to sensitive sectors such as food products, in addition to beverages and tobacco, agricultural and fishing products and textiles. According to Table 2, there is a correlation between sectors where MERCOSUR has comparative advantages and the sectors relatively more protected by the EU. The highest rates apply to specific food products: rates over 100 percent *ad-valorem* tariff equivalent are applied to eggs, grape juice, wine, etc. while 50 percent rates or higher are further imposed on some meat products, pharmaceutical products, alcohol, and tobacco products. About one third of all foodstuffs, including beverages and tobacco, have peak tariff rates (above 15 percent). Products with nuisance tariffs (below 3 percent) are quite widespread in the EU, especially within the paper, pottery and glass, iron and steel, machinery and other manufacturing sectors.

It should be noted that the EU uses tariff quota duties on a wide range of products. In these cases, two different rates are applied to imported products: the in-quota rate for imports under a certain quota and the out-of-quota rate for imports exceeding this limit. Around 14 percent of all products are affected by this regime, most of them being agricultural products, foodstuffs and textiles. In three out of four cases the in-quota rate is zero.

Based on the UNCTAD/TRAINS database it is possible to identify the presence of core NTMs (excluding technical measures) in the EU trade regime applied on an MFN basis (See Table 4). Once again, it is important to note that this information is not directly comparable with the data collected for Argentina and Brazil, since sources and methods vary widely among reporting countries. Between 4.9 and 9.0 percent of products entering the EU market from the Southern Cone are subject to some type of NTMs. In terms of import coverage this figure is somewhat

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[10] The most straightforward methodology is to use unit prices for each tariff line to recalculate each specific tariff. The following official conversion rates have been used to obtain *ad-valorem* equivalents:

For specific tariffs: $ave_1 = \dfrac{100 \cdot t_s}{e \cdot u \cdot v}$

For mixed tariffs: $ave_2 = ave_1 + t\%$

Where ave = *ad-valorem* equivalent
t_s = specific tariff
t% = *ad-valorem* tariff
e = exchange rate
u = units
v = import unit value.

higher, about 10 percent of the value of total imports from MERCOSUR is subject to NTMs. Automatic licensing measures apply to over a quarter of all food products and to almost 10 percent of all agricultural products. Quantity control measures (usually prior authorization and quotas) apply to a large share of items within textiles and wood products. Argentinean and Brazilian exports of textiles have to fit within country-specific quotas. In general, Brazil faces quantitative limitations for more product lines than Argentina. In the case of Brazil, for instance, quotas apply to 25 percent of all product lines within the textile sector (almost all cotton yarn, cotton fabrics, and man-made fibers are covered by quotas; products such as blankets, linen, curtains, sacks and bags, sails, and tents are covered by quotas in 50 percent of the cases).

VI. NEGOTIATING MARKET ACCESS BETWEEN MERCOSUR AND THE EU

This section briefly summarizes some key policy issues that countries will have to take into consideration when negotiating a Free Trade Agreement between their respective trade blocs.

Traditional Tariff Bargaining Issues

In a world of regional and multilateral negotiations, where agreements go beyond traditional market access disciplines, and taking into account that progress in multilateral rounds has been very important, there is a tendency to underestimate the importance of tariff negotiations in modern FTAs, focusing attention on new issues. However, tariff negotiations are alive and well, and the EU-MERCOSUR negotiations will be a vivid example of this. As the analysis in previous sections has shown, the tariff profiles of both blocs are quite asymmetric (Figures 1 and 2) leaving a lot of room for tariff bargaining. Moreover tariff differentials are also very significant when comparing sector by sector (Figure 3).

Bilateral tariff negotiations under FTA negotiations between the EU and MERCOSUR will share some of the features of a multilateral tariff negotiation between developed and developing countries. For instance, because tariffs are substantially higher in MERCOSUR than in the EU, it may seem that the former will have to make more concessions than it will receive, making the overall tariff bargain uneven. However, since the EU market is substantially larger than the MERCOSUR market, a 1 percent tariff reduction by the former, especially in products of interest to MERCOSUR countries, is worth more than a similar reduction by the latter. Even if the extent of additional liberalization by the EU is smaller, the gains to MERCOSUR may be larger. In this sense, the EU-MERCOSUR tariff negotiation constitutes a clear example of a classical North-South bargain, from which large benefits may accrue from giving access in industrial products in return for market access in agricultural goods. However, there are other characteristics that make a bilateral FTA negotiation different from a multilateral negotiation. Because of the specificity of a bilateral relation, it is much easier for each party to identify the other party's bargaining position compared to what happens in a multilateral strategic environment. Each party knows what the other player's strategic position consists of. These considerations may explain why both parties may agree to an interim agreement that consists mostly of tariff concessions on goods, as in the case of the agreements with Mexico and South Africa.

In this type of tariff negotiation, there is a technical but not irrelevant issue regarding the tariff nomenclature. Both MERCOSUR and the EU are HS96 compliant, and tariff negotiations will most likely be conducted using this nomenclature (or some revised version), which is harmonized up to the 6-digit level. MERCOSUR's tariff schedule is disaggregated up to an 8-digit level while the EU schedule goes up to a 10-digit level. A free trade area does not necessarily require harmonization beyond the 6-digit level, as is the case when negotiating a custom union. However, the existence of important differences on a number of tariff lines makes the process of exchanging tariff concessions between parties, under a principle of reciprocity, much more difficult. The biggest differences are in the way both regions categorize agricultural and fishing, food, chemicals, and machinery and equipment products. It is not by coincidence that those same sectors are the ones subject to higher-than-average protection rates and also contain the most extreme tariff rates.

Considering only market access negotiations, some steps could be taken to ensure full liberalization. First, the parties could agree on eliminating most of the nuisance tariffs. For the EU this will represent 18.7 percent of tariff lines in agriculture and 25.3 percent in industrial products, for MERCOSUR these percentages will be 1.8 and 5.1 percent, respectively (Table 5). Second, the parties could pledge to seek deep tariff reductions where they are higher than a certain level, for example 15 percent, focusing in particular on the high tariff protection sectors. For the EU this will represent 5.3 percent of tariff lines in agriculture and 4.3 percent in industrial products; for MERCOSUR these percentages will be 2.0 percent and 53.6 percent respectively (Table 5). Third, as an early-harvest negotiating move, both parties could agree on liberalizing sectors in which zero-for-zero bargains can be struck. However, as Table 5 indicates, there are barely 1 percent of tariff lines in which both parties have non-zero tariff rates below 5 percent.

In negotiating a bilateral FTA one of the main issues is the definition of the modality of tariff elimination, as well as the definition of stages under which full tariff liberalization will occur. The modality issue is an important one in this context because both parties have used different models in recent agreements with other partners. The EU-Mexico agreement, for example, has a phase-out scheme based on equal annual cuts applied to an initial negotiated base rate (similar to the NAFTA tariff elimination program). In the case of the agreements signed by MERCOSUR with Chile and Bolivia, the tariff elimination program is based on margins of preference applied to the MFN rates in force in every period. In this case the goal is to keep constant the margins of preference negotiated at the beginning of the agreement, independent of the MFN tariff policy undertaken by one or both parties. In the EU-Mexico agreement, or for that matter NAFTA, the margins of preference originally negotiated can be eroded over time as a result of unilateral or multilateral MFN reductions.

If the EU-Mexico model is chosen, then negotiations will start with the choice of an initial base period for tariff negotiations. This base rate could be linked to rates negotiated under future WTO negotiations, the MFN rates applied at the beginning or at the end of negotiations, or some combination of both criteria. It is also important to agree on a base period for the trade data for purposes of evaluating the degree of preferential trade affected by the tariff elimination process. Also, based on this trade benchmark each party could provide a list of products representing a minimum percentage of its bilateral imports that will be included in an immediate tariff liberalization schedule upon entry into force of the agreement.

Finally, and most importantly, both parties will have to agree on different staging categories that will apply to different products. Staging categories have taken different modalities in recent agreements (for instance those of NAFTA, MERCOSUR bilateral agreements with Chile and Bolivia, or the EU recent bilateral agreements with Mexico and South Africa). Although some general patterns emerge from these recent FTAs there is substantial room for designing phase-out periods based on linear or non-linear cuts, transitional periods, elimination programs with accelerating speed of liberalization, product-specific phase-out schedules, etc. In this context, it is interesting to analyze the most recent extra-regional agreements of the EU. Figure 4 compares the structure of the EU liberalization to Mexico and South Africa respectively, in terms of the annual tariff cuts as well as the percentage of items and trade being liberalized each year. The key structural issue is the different treatment of agriculture *vis-à-vis* industrial products. Both cases show a very similar treatment by the EU, with a deeper liberalization in the case of Mexico. Liberalization is relatively fast in industrial products, similar to the agreements signed by the EU with eastern and central European countries -known as "European Agreements"-. An additional reference to understand the EU strategy is the high correlation between the GSP categories of products, based on the degree of sensitivity, and the speed of liberalization in bilateral agreements such as the EU with Mexico (see Table 6).

Consistency with MERCOSUR and EU Common Internal Policies

The market access provisions of the agreement will have to be consistent with EU internal policies and with the ongoing implementation of common policies in MERCOSUR. On the EU side these constraints will be related mostly to issues of agriculture, fisheries, competition, state aid, etc. and much less to negotiations involving industrial products where the Community does not have a structured common policy. The EU has recently launched "Agenda 2000" as an action program aimed at strengthening the EU's common policies, part of which include the creation of a new financial framework for the period 2000-2006. The main priority areas for the Agenda include reform of the agricultural sector, improving effectiveness of the Structural Fund and the Cohesion Fund, strengthening pre-accession strategy for the applicant countries, and insuring budgetary sustainability in the coming years while enlarging the Union. However, the EU's Common agricultural policy is by far the most sensitive issue related to trade negotiations. In the presence of high domestic prices, uneven distribution of support from EU funds, commitments to liberalize under the WTO, and built-in reciprocity of bilateral and regional trade concessions, the EU seems to be on a steady path towards comprehensive agricultural reforms. While the need for reform is obvious, the pace and scope of liberalization remains a controversial issue among the member countries. The trends in the reform process can be drawn as follows:

- Lowering agricultural prices and introducing direct aid payments to sustain income level.
- New division of functions between the Commission and the Member States decentralizing responsibilities concerning compensation payment and rural development programs.
- Simplification of rules, in particular the one on arable crops. The aim is to make regulations more clear, transparent and easier to access.
- Priority to consistent rural development policy.

On the MERCOSUR side, the key areas of concern will focus mostly on industrial matters where there is a more active policy in specific sectors such as the automotive sector. This was also the case in the EU-South Africa Agreement where negotiations took place alongside a major industry-restructuring program, the Motor Industry Development Program (MIDP).

WTO Compatibility

Article XXIV requires that FTAs should cover "substantially all trade" and avoid the exclusion of any significant sector. The conventional target is to liberalize at least 90 percent of the bilateral trade during a transitional period of no more than 10 years. This multilateral requirement explains why, for the first time, agriculture was part of the trade objectives in the Mexico and South Africa agreements. It also explains the liberalization structure based for the first time on negative rather than positive product-lists.

Consistency with other Extra-Regional Preferential Agreements

Trade negotiations do not take place in a vacuum. Previous agreements signed by one of the parties, or agreements under negotiation, have an important effect on a particular negotiation. Both parties will have to ensure that the agreement does not undermine the relations already established with other partners under previous agreements, nor does it complicate other ongoing negotiations where preferential market access negotiations are an important component.

In the case of the MERCOSUR-EU agreement several agreements will play a key role. In particular, from the viewpoint of the EU the "Europe Agreements" and the ACP Lomé partners are clearly a starting point, but the recent extra-regional agreements with South Africa (1999) and Mexico (2000) will probably be more important references for the negotiations. In addition, it is worth mentioning the EU's ongoing trade talks with Egypt, Jordan, and Tunisia. From MERCOSUR's viewpoint, the association agreements with Chile (1996) and Bolivia (1997) are relevant precedents, especially if any of these countries contemplates full accession to MERCOSUR. However, simultaneous negotiations on other fronts, in particular the FTAA, will also constitute a key strategic component of the negotiation.

TABLE 1
COMPOSITION OF INTER-REGIONAL TRADE
Trade by 3-digit ISIC sectors in 1998

European Union's Export to MERCOSUR

ISIC3	Sector	% of Exports
311-2	Food Products	2.80
313	Beverages	1.38
321	Textiles	1.34
341	Paper and Products	2.31
342	Printing & Publishing	1.15
351	Industrial Chemicals	8.77
352	Other Chemicals	6.43
353	Petroleum Refineries	1.50
356	Plastic Products	1.33
371	Iron & Steel	1.78
372	Non-Ferrous metals	1.14
381	Metal Products	3.19
382	Machinery exc. electrical	24.67
	Hereunder:	
	Metal and wood working machinery	3.3
	Special industrial machinery and equipment exc. metal and wood working	8.1
	Office, computing and accounting machinery	1.1
	Machinery exc. electrical n.e.s.	10.7
383	Electrical Machinery	11.62
	Hereunder:	
	Electrical industrial machinery and apparatus	4.1
	Radio, TV and communication equipment	5.6
	Electrical machinery n.e.s.	1.5
384	Transport Equipment	19.89
	Hereunder:	
	Motor vehicles	16.3
	Aircraft	2.9
385	Professional Equipment	3.64
390	Other Industries	1.65

MERCOSUR's Export to the European Union

ISIC3	Sector	% of Exports
111	Agr. and Livestock	25.54
	Hereunder:	
	Citrus fruit	1.1
	Apples, pears and quinces	1.0
	Coffee	6.3
	Soybeans	9.2
	Unmanufactured tobacco	2.5
130	Fishing	2.4
230	Metal Ore	8.4
290	Other Mining	1.5
311-2	Food Products	24.4
	Hereunder:	
	Meat of bovine animals, fresh or chilled	1.5
	Meat of bovine animals, frozen	1.2
	Prepared meat other than sausage	1.4
	Fruit juices	5.1
	Oilcake from extraction of soybean oil	10.6
321	Textiles	1.18
323	Leather and Products	3.32
331	Wood and Products	2.31
341	Paper and Products	3.35
351	Industrial Chemicals	2.79
371	Iron & Steel	3.47
372	Non-Ferrous metals	3.26
382	Machinery exc. Electrical	3.70
383	Electrical Machinery	1.06
384	Transport Equipment	6.63

Source: Authors' calculations based on official UNCTAD data.

TABLE 2
REVEALED COMPARATIVE ADVANTAGE (RCA) AND TARIFF PROTECTION

		European Union		Argentina		Brazil		Uruguay		Paraguay	
	Sector (ISIC 3 digit)	RCA	MERCOSUR Tariff	RCA	EU-GSP Tariff	RCA	EU-GSP Tariff	RCA	EU-GSP Tariff	RCA	EU-GSP Tariff
111	Agriculture and Livestock	0.4	9.6	7.6	4.0	4.2	4.3	3.1	3.9	20.1	3.9
113	Agriculture Services	1.5	10	0.7	0.3	0.6	0.3	5.2	0.2	0.2	0.2
121	Forestry	1.0	9.2	1.2	0.8	1.1	1.4	0.1	0.8	1.8	0.8
122	Logging	0.4	5	0.8	0	1.6	0	7.4	0	0.1	0
130	Fishing	0.3	12	4.8	7.0	0.3	7.0	6.2	7.0	0.01	7.0
210	Coal	0	0	0.0	0	0	0	0	0	0	0
220	Petroleum and Gas	0.1	0	2.3	0	0	0	0	0	0	0
230	Metal Ore	0.1	5.3	4.3	0	17.7	0	0	0	0	0
290	Other Mining	0.8	6.5	0.5	0.05	1.4	0.04	0.7	0.05	0.2	0.05
311-12	Food Products	0.9	14.6	5.7	9.1	3.2	9.1	7.1	8.1	5.0	8.1
313	Beverages	2.0	21.7	1.4	6.3	0.2	6.1	3.0	5.1	0.1	5.1
314	Tobacco	0.9	21.3	0.3	32.8	3.7	50.0	6.0	32.8	0.1	32.8
321	Textiles	1.1	19.6	0.4	6.5	0.6	6.6	3.2	6.5	0.7	6.5
322	Wearing Apparel	0.7	22.9	0.1	9.5	0.1	9.5	1.6	9.5	0.4	9.5
323	Leather and Products	1.6	17.7	5.7	2.5	2.6	2.5	12.1	2.1	6.3	2.1
324	Footwear	1.2	23	0.3	6.5	4.6	9.4	0.9	6.5	0.1	6.5
331	Wood and Products	0.6	12.5	0.1	1.3	1.4	1.3	0.3	1.3	4.9	1.3
332	Furniture and Fixtures	1.2	21	0.4	0.6	0.7	0.7	0.6	0.6	0.1	0.6
341	Paper and Products	1.0	14.3	0.5	0.3	1.8	3.6	0.9	0.3	0.1	0.3
342	Printing & Publishing	1.5	12.3	0.9	0.7	0.2	2.7	0.7	0.7	0.2	0.7
351	Industrial Chemicals	0.9	11.1	0.6	1.9	0.8	2.0	0.5	1.9	0.1	1.9
352	Other Chemicals	1.8	12.9	0.7	0.1	0.5	0.1	0.6	0.1	0.3	0.1
353	Petroleum Refineries	1.1	4.1	1.5	0	0.5	0	0.3	0	0.01	0
354	Petroleum & Coal Products	1.1	8	0.3	0	0.3	0	0.001	0	0	0
355	Rubber Products	0.8	17.1	0.7	1.7	1.5	1.7	1.7	1.7	0.1	1.7
356	Plastic Products	1.1	20.3	0.3	2.5	0.4	3.5	0.5	2.5	0.2	2.5
361	Pottery, China, etc.	1.5	19.4	0.1	2.9	0.5	2.9	0.9	2.9	0.0	2.9
362	Glass & Products	1.1	15.4	0.2	2.2	0.5	2.2	0.1	2.2	0.0	2.2
369	Other Non-metallic Products	1.8	12.1	0.4	0.3	1.7	0.4	1.5	0.3	0.1	0.3
371	Iron & Steel	0.7	14.7	0.6	0.3	2.1	1.4	0.2	0.3	0.1	0.3
372	Non-Ferrous metals	0.6	11.1	0.4	1.9	1.3	1.8	0.5	1.9	0.1	1.9
381	Metal Products	1.2	18.4	0.2	1.2	0.5	1.2	0.1	1.2	0.1	1.2
382	Machinery exc. Electrical	1.2	16.3	0.2	0.4	0.5	0.5	0.1	0.4	0.0	0.4
383	Electrical Machinery	0.7	17.3	0.1	1.0	0.2	1.0	0.1	1.0	0.1	1.0
384	Transport Equipment	1.1	17.2	0.8	2.1	0.9	2.7	0.4	2.1	0.0	2.1
385	Professional Equipment	1.2	17.8	0.1	0.6	0.2	0.6	0.1	0.6	0.0	0.6
390	Other Industries	1.3	20.3	0.1	0.7	0.2	1.1	0.0	0.7	0.1	0.7

Note: RCA equals the share of a country's exports of a particular products in the world's total exports of that product divided by the share of the country's total exports in world trade.

Source: Authors' calculations based on official UNCTAD data.

TABLE 3
EUROPEAN UNION AND MERCOSUR TARIFF PROTECTION

	MFN Tariffs							EU GSP rates to MERCOSUR members							
	EU			MERCOSUR				Argentina		Brazil		Uruguay & Paraguay		MERCOSUR (Avg.)	
Sector (ISIC 2 digit)	Simple Avg	Max	StdDev	Simple Avg	Max	StdDev	Import Weighted Avg	Simple Avg	Max	Simple Avg	Max	Simple Avg	Max	Simple Avg	Import Weighted Avg
Agriculture and Hunting	4.8	282.4	7.5	9.6	19.0	4.3	8.6	3.9	282.4	4.1	282.4	3.8	240.0	3.9	2.3
Forestry	0.9	20.8	3.0	7.6	17.0	3.0	9.5	0.5	20.8	0.8	20.8	0.5	14.6	0.6	0.3
Fishing	9.0	23.0	4.2	12.0	13.0	2.9	8.2	7.0	23.0	7.0	23.0	7.0	23.0	7.0	7.4
Coal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum and Gas	0.2	8.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Metal Ore	0.0	0.0	0.0	5.3	7.0	0.8	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Mining	0.1	6.5	0.4	6.5	13.0	1.9	7.6	0.0	4.6	0.0	4.6	0.0	4.6	0.0	0.001
Food, Beverages and Tobacco	10.3	464.2	14.5	15.1	23.0	4.2	18.0	9.3	464.2	9.5	464.2	8.3	464.2	9.1	9.8
Textile	8.6	17.0	3.6	20.5	23.0	3.2	20.7	7.1	17.0	7.3	17.0	7.1	11.9	7.2	4.2
Wood	2.6	10.0	2.8	15.1	21.0	4.8	18.7	1.1	7.0	1.1	7.0	1.1	7.0	1.1	0.9
Paper	3.6	8.0	2.5	14.0	19.0	5.0	11.4	0.4	8.0	3.5	8.0	0.4	4.9	1.4	0.3
Chemicals	4.7	84.8	4.4	12.1	23.0	5.4	12.1	1.5	84.8	1.6	84.8	1.5	72.1	1.5	1.5
Pottery and Glass	3.3	12.0	2.7	14.1	23.0	4.5	14.6	1.3	8.4	1.4	8.4	1.3	8.4	1.3	2.1
Iron and Steel	2.7	10.0	1.9	13.2	21.0	4.2	13.7	1.0	7.0	1.6	7.0	1.0	7.0	1.2	2.9
Machinery and Equipment	2.4	22.0	2.2	17.2	23.0	4.7	16.2	0.9	15.4	0.9	15.4	0.9	15.4	0.9	2.8
Other Manufactures	2.9	7.7	1.4	20.3	23.0	3.1	21.0	0.7	5.2	1.1	5.2	0.7	3.3	0.8	0.2
All sectors	4.8	464.2	5.9	15.4	23.0	5.7	15.3	3.0	464.2	3.2	464.2	2.9	464.2	3.0	4.1

Note: To calculate average tariffs, standard deviation and trade weighted tariffs are first aggregated using available data at 6 digit HS level. However, to obtain maximum values the most disaggregated data available is used, which is at 10 digit level for the EU and on 8 digit level for Mexico and MERCOSUR. Each country's or region's tariffs are weighted with the imports from the respective trading partner in 1998.

Source: The authors' calculations based on official UNCTAD data and the information in the EU Regulations.

TABLE 4
EUROPEAN UNION AND MERCOSUR NON-TARIFF MEASURES
NTM INCIDENCE BY SECTOR

EUROPEAN UNION'S NTMS APPLIED TO ARGENTINA, BRAZIL, URUGUAY AND PARAGUAY

	Percentage of Items				Percentage of Imports			
Sector	**All NTMs**	**Price Control**	**Automatic Licensing**	**Quantity Control**	**All NTMs**	**Price Control**	**Automatic Licensing**	**Quantity Control**
Agriculture and Hunting	14.3		9.9	4.7	4.5		4.3	0.3
Forestry	6.5		1.6	4.8	0.1			0.1
Fishing	5.4		1.2	4.3	4.1		0.1	4.0
Coal								
Petroleum and Gas								
Metal Ore								
Other Mining								
Food, Beverages and Tobacco	32.1		26.8	6.6	25.6		23.4	4.8
Textile	(16.3, 26.2, 2.5)			(16.3, 26.2, 2.5)	35.0			35.0
Wood	12.7			12.7	18.1			18.1
Paper								
Chemicals	(2.9, 3.0, 2.9)	(0, 0.05, 0)	1.8	1.1	2.4	0.4	1.6	0.5
Pottery and Glass								
Iron and Steel	(0.3, 0.6, 0.3)	(0, 0.4, 0)	0.3		0.2	0.1	0.01	
Machinery and Equipment	0.2			0.2				
Other Manufactures	7.4			7.4	0.5			0.5
All sectors	(7.3, 9.0, 4.9)	(0, 0.04, 0)	3.0	(4.4, 6.1, 2.0)	10.2	0.03	6.9	3.9

Note: Different NTMs applied to each of the MERCOSUR countries are shown in brackets. The rates for Argentina, Brazil, Uruguay and Paraguay respectively.

ARGENTINA AND BRAZIL NTMS APPLIED TO THE EU

	Percentage of Items			Percentage of Imports		
Sector	**All NTMs**	**Price Control**	**Quantity Control**	**All NTMs**	**Price Control**	**Quantity Control**
Agriculture and Hunting	(58.1, 27.4)	(0, 0.5)	(58.1, 27.3)	40.3	6.4	37.2
Forestry	(69.7, 16.6)		(69.7, 16.6)	22.4		22.4
Fishing	(49.8, 44.9)		(49.8, 44.9)	31.5		31.5
Coal	(8.3, 0)		(8.3, 0)			
Petroleum and Gas	(0, 56.9)		(0, 56.9)	10.0		10.0
Metal Ore	(6.2, 10.5)		(6.2, 10.5)	2.1		2.1
Other Mining	(10.4, 3.4)		(10.4, 3.4)	12.6		12.6
Food, Beverages and Tobacco	(26.2, 13.5)	(1.2, 0.1)	(25.4, 13.5)	11.4	2.9	8.9
Textile	(28.9, 5.2)	(0.1, 0)	(28.8, 5.2)	17.1		17.1
Wood	(47.2, 4.0)	(4.9, 0)	(47.2, 4.0)	21.6	0.1	21.6
Paper	(18.1, 1.4)	(0.4, 0)	(17.7, 1.4)	10.7	1.7	9.0
Chemicals	(30.1, 48.6)	(0.1, 0.2)	(30.0, 48.4)		0.5	44.4
Pottery and Glass	(6.1, 2.6)	(1.6, 0.3)	(4.5, 2.3)	5.4	2.0	3.4
Iron and Steel	(6.3, 4.6)	(1.5, 0)	(4.7, 4.6)	2.9	0.4	2.6
Machinery and Equipment	(25.0, 7.6)	(0.7, 0.1)	(24.6, 7.5)	21.3	0.1	21.2
Other Manufactures	(20.4, 7.6)	(0.3, 0.3)	(20.1, 7.3)	7.4	0.3	7.1
All sectors	(26.7, 16.9)	(0.6, 0.1)	(26.3, 16.8)	24.0	0.5	23.7

Note: Argentina's and Brazil's NTM incidence are shown in brackets respectively.

Source: Authors' calculations based on UNCTAD data.

TABLE 5
TARIFF BARGAINING ISSUES

	Agricultural Products and Natural Resources		Industrial Goods	
	EU	MERCOSUR	EU	MERCOSUR
Percentage of items with zero tariff	37.8	15.7	41.6	0.5
Percentage of items with nuisance tariffs				
Less than 1 percentage	4.2	0.0	11.7	0.0
Less than 2 percentage	8.9	0.0	20.4	0.0
3 percentage or less	18.7	1.8	25.3	5.1
Percentage of items where EU and Mercosur tariffs are in the same interval				
Zero Tariff	2.8-4.6		0.3	
Less than 1 percentage	0.0		0.0	
Less than 2 percentage	0.0		0.0	
3 percentage or less	0.1-0.2		0.2	
5 Percentage pct. 5 percentage or less	0.4-0.6		0.9	
Percentage of items with peak tariffs (>15%)	5.3	2.0	4.3	53.6

Source: Authors' calculations based on UNCTAD data.

TABLE 6
EUROPEAN UNION GENERALIZED SYSTEM OF PREFERENCES (GSP) CATEGORIES AND TARIFF LIBERALIZATION IN THE EU-MEXICO FTA

AGRICULTURAL PRODUCTS AND NATURAL RESOURCES

Product Group as defined under the EU GSP scheme	Share	Years to liberalization						Avg Years
		0	3	8	9	10	Not negotiated	
	pct of all items	*pct of items within a group*						
Not GSP eligible	53.9	22.4	6.3	2.8	7.4	11.1	50.0	4.4
Very sensitive	14.6	5.7	5.7	18.8	0.0	40.5	29.3	8.1
Sensitive	14.9	20.3	39.3	4.5	0.5	5.3	29.9	3.0
Semi-sensitive	9.4	9.3	74.3	7.2	0.4	4.6	4.2	3.4
Non-sensitive	7.2	89.5	3.9	0.0	0.0	0.0	0.0	0.1

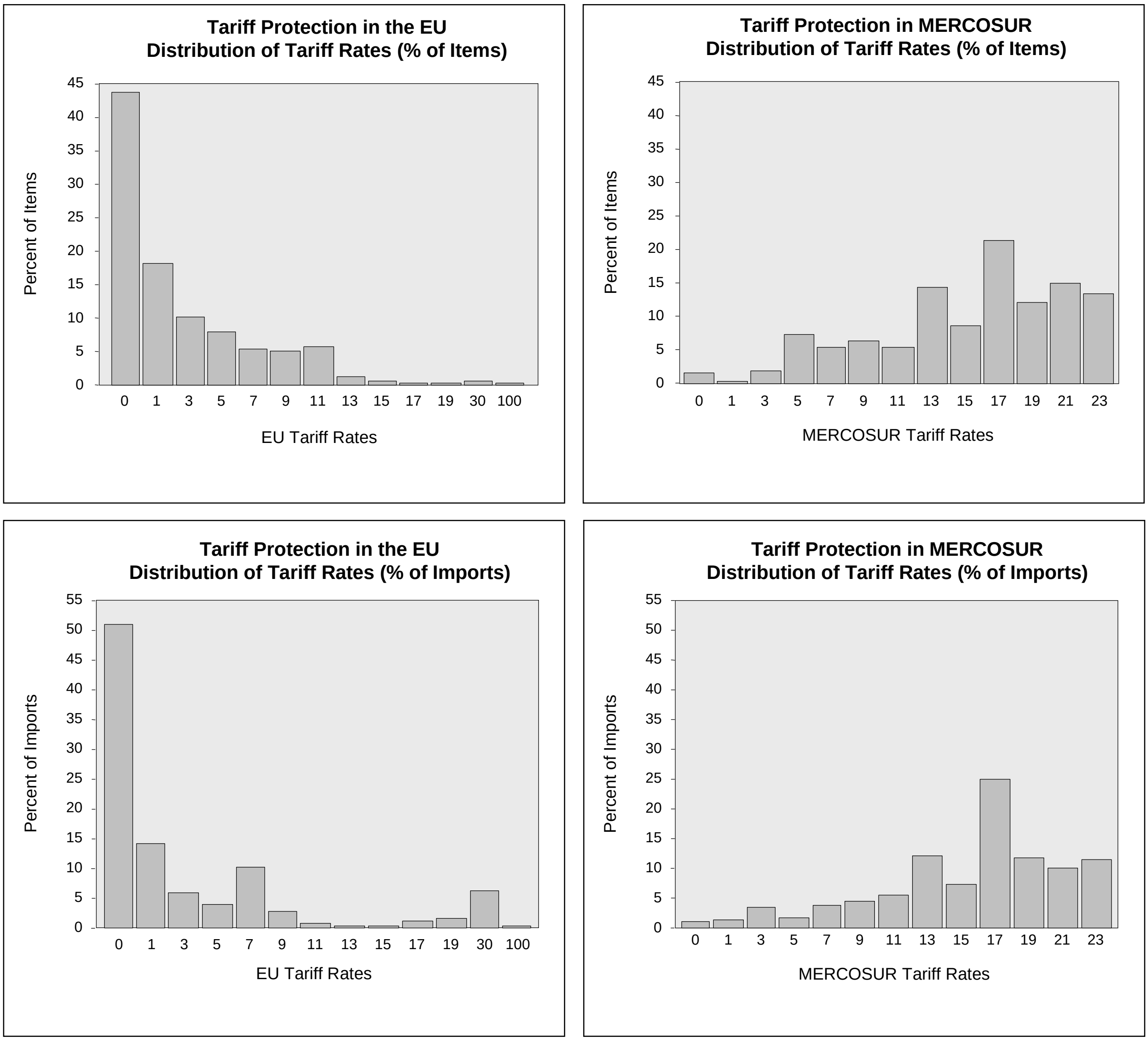
INDUSTRIAL GOODS

Product Group as defined under the EU GSP scheme	Share	Years to liberalization		Avg Years
		0	3	
	pct of all items	*pct of items within a group*		
Not GSP eligible	16.8	72.2	27.8	0.8
Very sensitive	15.3	3.8	96.2	2.9
Sensitive	14.0	22.7	77.3	2.3
Semi-sensitive	13.3	99.3	0.7	0.0
Non-sensitive	40.6	94.2	5.8	0.2

Note: The tariffs of the EU are first averaged on 8 digit HS level.

Source: Authors' calculations based on official UNCTAD data and the information in the Council Decisions of the EU Commission.

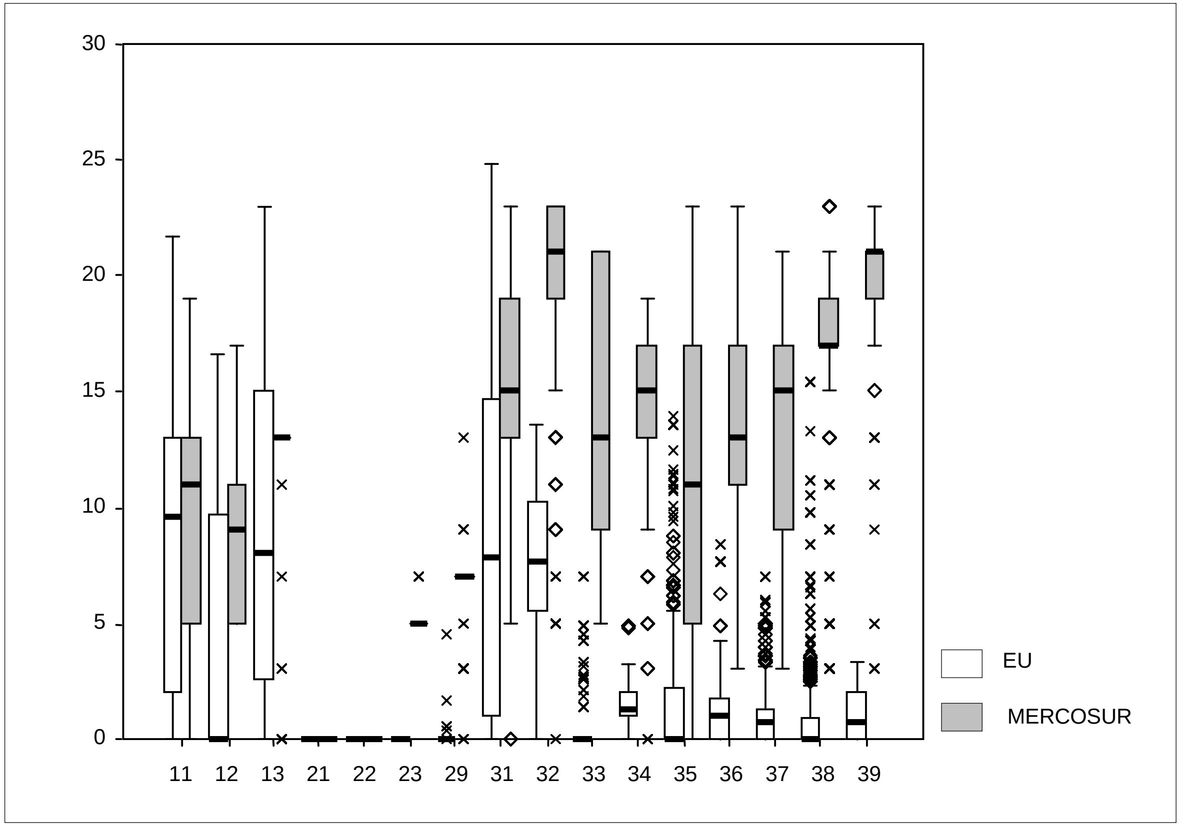
FIGURE 1
EUROPEAN UNION AND MERCOSUR TARIFF DISTRIBUTION



Note: Tariff Protection in the EU uses average GSP rates for Argentina, Brazil, Uruguay and Paraguay.

Source: Authors' calculations based on official UNCTAD data.

FIGURE 2
TARIFF PROFILES IN THE EU AND MERCOSUR



SECTORS:

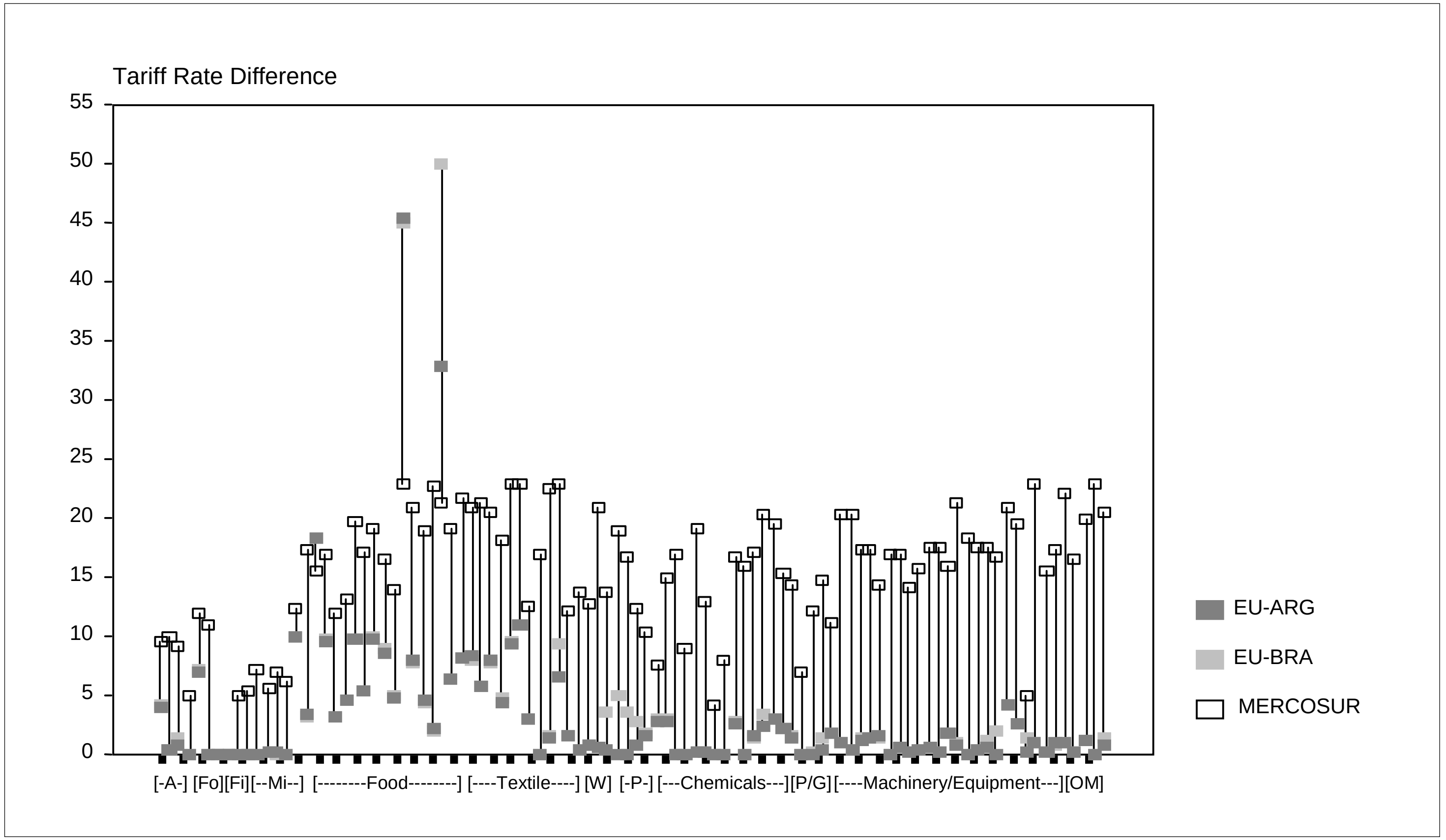
11- Agr. and Hunting *
12 - Forestry
13 - Fishing
21 - Coal
22 - Petroleum and Gas
23 - Metal Ore
29 - Other Mining
31 - Food / Beverages / Tobacco *
32 - Textile
33 - Wood
34 - Paper
35 - Chemicals
36 - Pottery / Glas
37 - Iron / Steel
38 - Machinery / Equip.
39 - Other MFG

* These sectors contain outliers above 25 percentage (in the case of the EU)

Note: As a measure of relative dispersion boxplots are used to represent the interquartile ranges. The line in the middle of the box represents the median or 50th percentile of the data. The box extends from the 25th (x[25]) percentile to the 75th (x[75]) percentile, the so-called interquartile range (IQR). The lines emerging from the box are called the whiskers and they extend to the upper and lower adjacent values. The upper adjacent value is defined as the largest data point less than or equal to x[75] + 1.5 IQR. The lower adjacent value is defined as the smallest data point greater than or equal to x[25] + 1.5 IQR. Observed points more extreme than the adjacent values are individually plotted (outliers and extreme values are marked using "X" and "O" symbols).

Source: Authors' calculations based on official UNCTAD data.

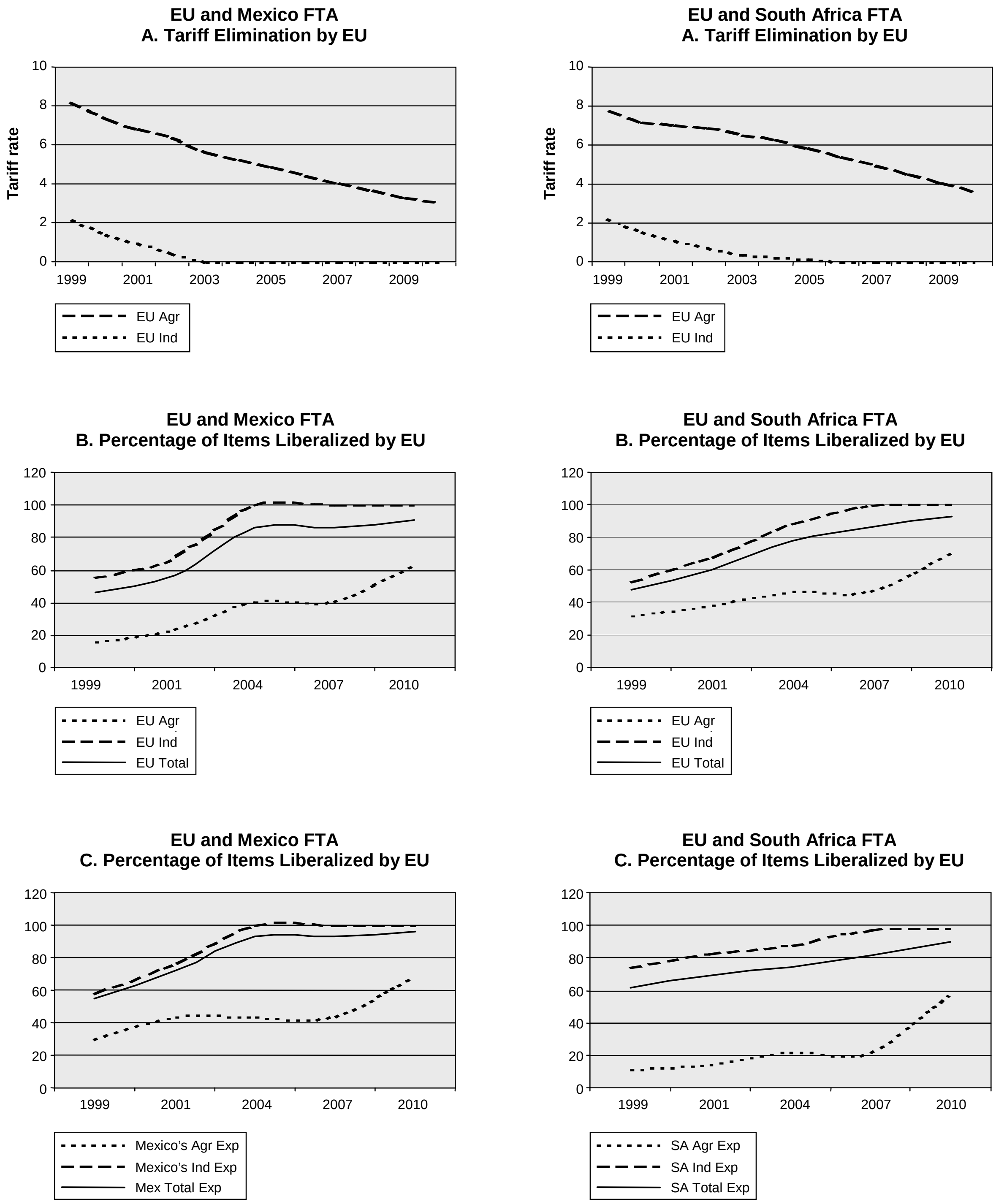
FIGURE 3
EUROPEAN UNION AND MERCOSUR TARIFF DIFFERENTIAL



Note: <u>Abreviations used:</u> A- Agriculture, Fo- Forestry, Fi- Fishery, Mi- Mining, W- Wood, P- Paper, P/G- Pottery/Glass, I/S- Iron/Steel, OM- Other manufactured goods

Source: Authors' calculations based on official UNCTAD data.

FIGURE 4
EUROPEAN UNION'S TARIFF ELIMINATION TO MEXICO AND SOUTH AFRICA



Note: Agricultural sector includes agricultural products as defined by the WTO (Chapter 1 to 24 of the Harmonized System with addition of any other product listed in Annex 1 of the WTO Agreement of Agriculture) as well as fish and fisheries products. All other items are considered industrial products.

Source: Authors'calculations based on EU-Mexico and EU-South Africa Free Trade Agreements.

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