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Environmental regulation strategies as a basis for the agricultural trade agreement between the European Union and Mercosur

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Abstract: The context of global climate change has led to changes in trade strategies between different economic blocs, as can be seen in the proposed trade agreement between the European Union (EU) and Mercosur, based on the inclusion of environmental provisions. Although structured differently, environmental clauses open new possibilities for regulatory changes between the countries involved. In view of this, this text, based on a bibliographic review and documentary research, aims to reflect on how environmental regulatory provisions adopted by the European Union, with the purpose of protecting ecosystems, fit into international trade negotiations. With emphasis on trade in agricultural products and their possible consequences for Brazil. The results indicate that, despite distinct economic and social structures, environmental provisions open the possibility for the inclusion of new actors in the negotiations, as well as for the enhancement of existing environmental monitoring devices for protected areas in Brazil.

Keywords: commodities; agriculture; protected areas; environment; climate change.

Introduction

The global climate change scenario has led to the development of different strategies to contain the increase in average global temperatures and its consequences. In addition to greenhouse gas emissions resulting from the use of fossil fuels, deforestation for the expansion of agricultural

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areas has proven to be a major contributor (Coelho *et al.,* 2024). Due to the environmental impacts resulting from agricultural production processes, new commercial demands have emerged on the global scene that seek to protect and conserve natural ecosystems (Lima; Matias, 2023).

Given that international trade is essential for the economic and social development of many countries, new trade agreements seek to include clauses that guarantee the traceability of agricultural production and, thus, prevent the commercialization of products originating from deforested areas. The essential purpose of trade agreements is to reduce customs barriers, although labor, the environment, energy, technology, human rights and climate change aspects are also considered (Thorstensen et al., 2014). In this context, the proposal for a free trade agreement between the European Union (EU) and Mercosur (ME) blocs is noteworthy. The negotiations for this agreement began in the 1990s and were only completed in 2024, but to date there is no forecast for its entry into force (Brasil, 2024).

The trade volume between the two blocs is already robust, given that in 2023, exports from Mercosur to Europe reached US$ 66.792 billion. Brazil alone accounts for around 81% of these transactions, with agricultural commodities being the main items, while the remainder of the trade is conducted by the bloc's other active members; Argentina, Uruguay and Paraguay (ECLAC, 2024). Among the various importers of Brazilian products, the EU was the destination of approximately 13% of all goods exported by the national agribusiness in 2023. Hence, the EU consolidated its position as the second biggest destination for Brazilian agricultural products, after China. Belgium alone accounted for 31% of Brazil's orange juice exports, Germany for 13% of its coffee and Spain 10% of national fruits (Cepea, 2024).

As noted, inter-bloc trade is considerable and will likely increase after ratification of the agreement. It is therefore important to anticipate its likely impacts, which may be ample and generate unwanted or unforeseen consequences. The adoption of specific environmental regulations with protective effects can be effective and in the interest of society, because

they prevent ecosystems from being degraded under the justification of serving the new open consumer market (Lima; Matias, 2023).

In this sense, the EU has been approving innovative environmental legislation in recent years, with the purpose of contributing to the preservation of nature and improving the population's quality of life. This can be seen in regulations aimed at generating extraterritorial effects and that can serve as a model and inspiration for other countries (Moura et al., 2023). Likewise, Brazil is also seeking to move to create regulations with the aim of promoting sustainable development and meeting external demands.

As such, the objective of this text is to reflect on the impacts of environmental regulatory devices adopted by the EU, which are part of international trade negotiations. The emphasis is on trade in agricultural products covered by the EU-Mercosur agreement and its possible implications for Brazil.

Methodology

The study's methodological design consists of a literature review and documentary research, based on a compilation of data on the characteristics of international trade. The focus is on the EU's environmental legislation aimed at agricultural trade and its implications on the protection of strategic areas in the global south. To this end, the authors have employed the exploratory method (Gil, 2022), looking to identify the mechanisms of environmental regulation, their implications and potential for the protection of sensitive ecosystems. First, the relevant legislation is identified, then compared with the design of the EU-Mercosur agreement, and realigned with the possibilities of environmental protection provided by the Brazilian Forest Code.

For Sousa *et al.* (2021), bibliographic research provides a possibility to study and learn from preexisting texts by other authors on a given topic. A critical analysis of these publications makes it possible to find new interpretations and impressions on the subject under study, considering

its most relevant and current aspects. As such, the literature review allows for a synthesis of different texts and ideas, with a clear focus on the particularities raised by the reviewers.

Results and Discussion

Inclusion of Brazilian agribusiness in the Mercosur-European Union Agreement

The Brazilian agricultural market stands out on the international scene due to its high level of productive efficiency and technological sophistication. The modernization of Brazil's agriculture occurred mainly in the second half of the 20th century. It not only significantly increased agricultural production each year, but has changed the national agrarian space, consolidating large properties as the standard production model, with access to credit, technology and technical assistance. This enabled the country to become an important global player in food production (Monteiro Neto *et al.,* 2017), albeit at a significant socio-environmental cost.

The importance of Brazilian agriculture is even more evident when we consider that Brazil is the world's third largest food producer, in addition to being the leader in exports of the following agricultural products: coffee, beef, orange juice, sugar, and ethanol (Embrapa, 2023). In 2023, Brazil's agribusiness accounted for 48.6% of all exports, an essential part of the national trade balance. At the same time, it represented 6.8% of all imports (Ferreira; Souza Júnior, 2024).

In the 1990s, against the background of changing global geopolitics and the possibility of expanding consumer markets and new trade agreements, the possibility of creating a preferential trade agreement between Mercosur and the European Union arose (Nonnenberg; Ribeiro, 2019). It is important to note that an agreement between the two blocs implies the integration of a market with around 700 million inhabitants

and almost 25% of global GDP, and with more than US$ 90 billion in bilateral trade in goods and services (Brazil, 2019).

Debates regarding this trade agreement are complex, as they involve two very different blocs. While Mercosur is made up of four active full members, the EU consists of 27 countries. The fact that each country has its own national interests makes it difficult to finalize the agreement, given that approval and ratification by all member states of both blocs is a precondition (Abreu; Florêncio, 2015; Costa, 2017).

According to Silva et al. (2019), during the more than 20 years of negotiations the agricultural sector occupied a central space. The talks were complex, and over time Mercosur made several concessions, notably a reduction of import tariffs on European industrialized products, with the intention of obtaining reciprocity for South American agricultural produce. However, resistance from EU representatives persists. Their opposition to the import of agricultural products from Mercosur reveals concerns about the competitiveness and survival of European producers, especially small and medium-sized producers in countries with strong economies like France.

In an effort to protect their respective agricultural markets, the two blocs foresee the implementation of import quotas within the agreement's framework, meaning that the flow will not be fully liberalized. This can be observed for items like pork, which is set to have a quota of 25 thousand tons, with a specific tariff of €83/ton for entry into the EU, whereas in 2023 the tariff was €536/ton. In the case of Mercosur, 30,000 tons of cheese will be allowed to enter with a progressive tariff reduction, with differentiated tarriffs above mentioned quota. It is worth noting that these quotas are to be divided between member states (Nonnenberg; Ribeiro, 2019).

Since Brazil is the member with the greatest economic and territorial expression within Mercosur, the effects of the agreement will be most noticeable in that country. Especially with the increase in its exports based on the primary sector, which could show a significant growth of 76%. Therefore, if it comes into force, the agreement will have the capacity to change the Brazilian economic structure, with the further strengthening of part of the agricultural sector (Megiato *et al.*, 2016).

European and Brazilian legislation aimed at environmental preservation.

To access new markets and consolidate those already accessible, Brazil must present the best sustainable production standards, in addition to providing products with good sanitary quality. Offering consumer markets grains, vegetables, fruits and proteins whose production process respects the health of the planet and of society as a whole is increasingly important. Consequently, complying with the regulatory framework of export destinations is essential, as these rules can affect the trade flows between different countries (Domene *et al.*, 2023; Moura, 2023).

According to Lima and Matias (2023), the application of laws that aim to protect ecosystems is a challenge. In this sense, the European Union is a pioneer, since it has adopted a legal framework capable of interfering not only in its own jurisdiction but, based on the extent of its foreign trade, is also able to foster environmental recovery and conservation in third countries. Therefore, the agreement with Mercosur involved several environmental dimensions (Brasil, 2024).

Thorstensen *et al.* (2022) consider that the EU's ability to establish and lead the international debate on trade and the environment is due to its leadership and its public commitments. The anti-deforestation law 2023/1115 is a good example of this, in which the EU established standards and requirements for the import of some products, such as soybeans, beef, timber and coffee, which, in order to enter the European market, must come from areas with zero deforestation. This legislation also prevents the entry of products from places where deforestation is authorized by the domestic legislation of the exporting countries. This measure stems from the perception that some countries have low production transparency and modest engagement with environmental protection, thus imposing the use of more restrictive rules (Nonnemberg *et al.*, 2024).

Being subject to the consequences of climate change itself, the EU's actions follow local and global interests to foster international cooperation in reducing and mitigating its effects. It is within this scope that the Anti-

Deforestation Regulation 2023/1115, which strengthens environmental protection and encourages sustainable production, came into being. That being said, such legislation is the target of several objections and could undergo amendments. Even more so in the context of international trade, which seeks to reconcile the various interests involved, and relies on means of retaliation and protectionism that can generate more instability and increases in international prices (Moura *et al.,* 2023).

Regulation 2024/1991, which deals with nature restoration, is another regulation that reinforces the European Union's environmental concern. It was approved in 2024 for the territories under its jurisdiction and aims to restore 20% of all land and sea areas by 2030. By 2050, the goal is for all degraded ecosystems to have undergone restoration processes. This will be done by planting trees, regenerating rivers, and increasing pollinating insects, among others. In a context in which 80% of European habitats are in a state of degradation, it is estimated that for every euro invested, 38 euros are returned in ecosystem benefits, such as improvements in soil, water and air quality (European Commission, 2024).

In the case of the Nature Restoration Act, its direct impact on non-EU countries is limited, but it can serve as an example and a path for several other nations. According to Thorstensen *et al.* (2022), this type of regulation may be able to reposition the entire bloc in international trade, given that it requires international partners to adopt similar conservation measures. Finally, environmental issues are raised across the board, being present in all projects undertaken by the European Union.

In the Brazilian case, a comparative reflection would be the active performance of the Rural Environmental Registry (CAR), derived from the Forest Code, Law No. 12,651 of May 25, 2012. Through the monitoring of areas and data registered in the CAR, various agricultural supply chains will be able to certify the origin of their goods and ensure that their production processes are in accordance with the demands of importing markets. Thus, with periodic updates, the CAR could become a strategic tool for effective commercial exchanges, acting as a guarantor of environmental conservation, the traceability of goods, in addition to adding value to national agricultural output (Weid; Amorim, 2023).

The Brazilian forestry code has other mechanisms for the conservation of national ecosystems. The legal reserve (RL), for example, consists of allocating a percentage of the area of rural properties, varying between 20% and 80% depending on the biome, to the conservation of native vegetation and sustainable economic use. In addition, another legal provision concerns permanent preservation areas (APPs), the purpose of which is to guarantee protection for specific regions, such as riverbanks, springs, mangroves, and others. It is clear that Brazil, like the EU, has sought to implement regulatory measures with a view to protecting its natural biomes (Brazil, 2012).

Additionally, the creation of consistent environmental recovery programs based on tactical actions, such as the promotion of conservation strategies in biomes like the Amazon and the Cerrado, with the reduction of agrarian conflicts in Protected Lands and the remediation of degraded pasture areas, may be interesting for strengthening environmental measures linked to trade exchanges (Coelho *et al.,* 2024). However, for such sustainability to materialize, non-hegemonic actors in trade negotiations like Traditional Peoples and Communities and Family Farming should be included. Although this would result in longer negotiation times, it has the potential to yield qualitative climate gains for nation states (Middeldorp, 2021). Even more so when considering that the territories under the management of such communities have larger areas of protected vegetation than more settled regions.

Conclusions

It is important to keep in mind that international trade agreements are strategies for reserving market share between the parties. They can, on the one hand, boost the local economy whilst, on the other, create barriers to development or exacerbate social exclusion. Furthermore, factors like food security and the protection of traditional means of production in each country also have to be taken into consideration, which is why the Brazilian agricultural sector is prominently present in these types of negotiations.

On the international stage, the EU has been consolidating its position as a leader in environmental issues by enacting innovative legislation, such as regulations 2023/1115 and 2024/1991. These regulatory frameworks are capable of inducing changes outside the EU jurisdiction proper. By including environmental requirements in the international trade sphere the EU exercises soft power, which helps other nations find their own alternatives and solutions to issues regarding environmental protection. Thus, with the entry into force of the Mercosur-EU agreement, environmental concerns are likely to come to the forefront, either due to the volume of the trade flows or their aggregate value.

The Mercosur-European Union agreement could open up several opportunities for trade. Despite this, preventing the increase in deforestation to meet new business opportunities is essential. Furthermore, the agreement could favor and cover strategic areas of activity beyond the production of agricultural commodities, such as speeding up the regularization of protected territories in compliance with ILO 169. Therefore, by looking at the EU's normative acts, following its regulatory and monitoring mechanisms, as well as its operational developments, it is possible to stimulate the adoption of environmental innovations in production systems, with a focus on energy efficiency, water resource management, genetic improvements, and environmental protection of strategic territories.

In a scenario of acute climate change, the coming years will be challenging for international trade between the two blocs. There is an urgency to adapt to new international requirements, search for sustainable production practices and to open a dialogue with other segments of society.

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