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**Brussels, 14 September 2016**

## **Orgalime comments on the EU-Mercosur free trade agreement negotiations – let's move forward!**

### **EXECUTIVE SUMMARY**

Orgalime welcomes the new momentum in the EU-Mercosur free trade agreement negotiations. The adoption of a free trade agreement with Mercosur and the creation of a more integrated economic area within Mercosur would be extremely beneficial for our industries. The existing non-tariff and tariff barriers to trade, which represent a major trade-restricting hurdle, must be overcome thanks to the Free Trade Agreement. A stable and uniform framework within the Mercosur countries, including on customs and tax legislation, would be highly welcomed.

### **INTRODUCTION**

Orgalime welcomes the new momentum in the EU-Mercosur negotiations, which were launched in 1999 and officially re-launched in 2010. Thanks to recent political changes in Argentina, there is a new opportunity to resume talks within the two areas. Mercosur is a very important market for the European engineering industries, with trade between the EU and Mercosur countries totalling some 18 billion euros per year.

Our industries are currently facing some issues when exporting our products into the Mercosur area: not only are tariffs for industrial engineering products very high, but technical import requirements are very onerous and very often vary from one country to another. We understand that Venezuela is not part of the current negotiations: we would like to see them also joining the talks.

*Orgalime, the European Engineering Industries Association, speaks for 41 trade federations representing the mechanical, electrical, electronic, metalworking & metal articles industries of 24 European countries. The industry employs some 10.9 million people in the EU and in 2015 accounted for more than €1,900 billion of annual output. The industry accounts for over a quarter of manufacturing output and a third of the manufactured exports of the European Union.*

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## 1. TARIFF BARRIERS

The common external tariff (TEC) of Mercosur accounts for 14% of tariffs for our products, with some reaching a peak of 20% and a few products benefitting from a lower tariff rate between 0% and 12%. These are comparatively extremely high tariffs on a global scale for the products of our industry. In addition, in Brazil customs duties are included in the taxation base of the value of imported goods: the Brazilian system of duty suspension and the additional high domestic taxes lead to huge asymmetries in market access. For this reason, the FTA negotiations must aim at achieving the complete dismantling of all tariffs, without any exceptions. However, the dismantling does not have to take place immediately, which would obviously be the preferred outcome: a gradual dismantling over a period of three to five years could be negotiated for certain products.

## 2. NON-TARIFF BARRIERS

Mercosur countries have a wide range of non-tariff barriers, which seriously hamper trade. Orgalime would like to see these barriers overcome thanks to the Free Trade Agreement.

Technical regulations in Brazil hamper market access. For instance, the '*Norma Reguladora 12*' regulation on machinery safety, as reformed in 2010, has significantly worsened the situation due to its complexity. The current "*Norma Reguladora 12<sup>1</sup>*" is not fully clear and, due to its structure, has introduced additional difficulties regarding safety requirements, particularly on safety of machinery and on *state-of-the-art* technology transfer. In addition, in Brazil, the process of getting a product approved according to local standards is very burdensome. There are also very high duties on materials and foreign companies are discriminated against since local companies are subject to lower local taxes, making it very difficult to compete against them.

In Argentina the technical regulations, such as the one for electrical equipment, are mandatory for individual categories of engineering products where European and local companies directly compete. Moreover, there is a recent trend of deploying technical provisions for market foreclosure.

Until 2015, Argentina applied rules on import licences that were WTO non-compliant. After a WTO ruling, this licencing system was abolished for 87% of the products by the Argentinian government, which took office in 2015. However, recent developments are worrying: the number of products that are considered "sensitive" and require an individual import licence is on the rise. In particular, it is

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<sup>1</sup> Available in English here: <http://www.braziliannr.com/brazilian-regulatory-standards/nr12-machinery-and-work-equipment-safety/>

very alarming that a broad range of engineering products and components are on the list of “sensitive” products.

### 3. RULES OF ORIGIN

Rules of Origin are extremely important for the engineering industries. We would like to see consistency in the Rules of Origin for Mercosur with those in other already existing Free Trade Agreements. We suggest using the 50% value-added threshold with, as an alternative, a change of tariff heading.

### 4. CUSTOMS PROCEDURES

In Argentina, companies have to keep track of the specific parts that are sold to a specific customer - this is very burdensome, especially for SMEs, as they need to keep track of this manually.

Paraguay also has some burdensome regulation, which hampers imports. For instance, all import-related invoices need to be stamped and approved by the relevant public authority. After this, the invoice has to be sent to the nearest Paraguayan consulate where it has to be stamped.

### 5. PUBLIC PROCUREMENT

Public procurement procedures urgently need to be modernised to improve transparency and to allow European companies to participate in tenders in the Mercosur countries on an equal footing with local ones. This is particularly true in Brazil, where European companies are heavily discriminated against. The priority for our industries is to reduce the local-content provisions, on which the invitation-to-tender system has been based upon until today.

### CONCLUSION

**Trade between the European Union and Mercosur countries is very important for the European engineering industries. The ongoing negotiations are an opportunity to overcome both tariff and non-tariff barriers and to have better access to public procurement.**

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