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Indirect Tax Alert

News from Americas Tax Center

Mercosur-EU new free trade agreement would eliminate import duties for more than 90% of traded products

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A free trade agreement (FTA) between MERCOSUR (Argentina, Brazil, Paraguay and Uruguay) and the European Union (EU) would eliminate import duties on more than 90% of the products traded between the blocs and establish preferential import quotas with reduced rates for products that would be subject to tariffs.

Background

After 20 years of negotiations, MERCOSUR and the EU have agreed to an FTA that would reduce the import duties on a list of goods that includes agricultural and industrialized products.

This FTA is a milestone in the relationship between the two economic blocs, which together represent about 25% of the world's gross domestic product and a market of 780 million people.

Free trade agreement

In addition to eliminating import duties for more than 90% of the products traded between the two blocs and establishing preferential import quotas with reduced rates for products subject to tariffs, the FTA would eliminate tariffs on MERCOSUR exports of industrial products; those exports would receive the

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same treatment as exports from other countries that trade with the EU under FTAs. MERCOSUR exporters also would be able to export meat, sugar, ethanol and other products under the quotas established in the FTA.

The tariff elimination process varies according to each product and would take up to 15 years from the entry into force of the FTA. The list of products for which tariffs would be eliminated includes fruits (e.g., limes, lemons, apples, melons, grapes, avocados), instant coffee, fish and vegetable oils.

Additionally, the FTA would bring greater legal certainty and transparency. Through the FTA, MERCOSUR would have greater access to global chains, which would generate more investment, jobs and income. For companies certified as authorized economic operators (AEOs), the FTA would facilitate trading through the recognition as low-risk operators (i.e., in compliance with local legal requirements, such as safety, customs and tax) in both economic blocs.

The FTA between MERCOSUR and the EU is not in force yet. It must be enacted by, and go through the internal procedures of, the Member States. As such, the FTA will have to be approved by the parliaments and national governments of the 31 countries involved. According to the FTA, when it enters in force, trade between MERCOSUR and the EU will be more competitive and less bureaucratic.

Implications

The FTA would reduce the tax burden on imports, ensure access to markets and establish more agile mechanisms for resolving disputes.

To prepare for the FTA's entry into force, multinationals should reassess their indirect tax costs embedded in their supply chains and consider alternatives to leverage their presence in the MERCOSUR and EU countries. For example, importing from a manufacturer in MERCOSUR or the EU, instead of from another country without an FTA, could make the supply chain more effective.

Companies also should consider becoming certified as AEOs, which will make the trading between country members easier and faster.

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