

# Indirect Tax Alert

News from Americas Tax

## MERCOSUR-EFTA new free trade agreement would eliminate import duties for raw materials and basic products

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MERCOSUR (in Spanish) (Argentina, Brazil, Paraguay and Uruguay) and the European Free Trade Association (EFTA) (Switzerland, Norway, Iceland and Liechtenstein) have entered into a Free Trade Agreement (FTA) that would eliminate import duties on raw materials and basic products (e.g., shoes, clothes, ceramics and wood products) traded between them.

In addition to eliminating import duties, the FTA would facilitate trade and include sustainable development rules. The FTA also would include origin rules (i.e., rules on where goods originate).

The tariff elimination would begin from the entry into force of the FTA. Unlike the FTA between MERCOSUR and the European Union (EU), waivers would not be required for the import duty reduction. For more information on the MERCOSUR and EU FTA, see EY Global Tax Alert, [Mercosur-EU new free trade agreement would eliminate import duties for more than 90% of traded products](#), dated 13 August 2019.

The FTA between MERCOSUR and the EFTA 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 countries involved. The FTA is expected to enter into force within one year.

## 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 determine if their products would be included in the FTA's provisions and whether the company meets the agreement's requirements.

Multinationals also should reassess their indirect tax costs embedded in their supply chains and consider alternatives to leverage their presence in the MERCOSUR and EFTA countries. For example, instead of importing from a manufacturer in a country without an FTA, importing from a manufacturer in MERCOSUR or the EFTA, for further production or resale in a jurisdiction that is part of those blocs, could make the supply chain more effective.

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