

Stopping the mobility revolution

The EU-Mercosur Agreement and the automotive industry



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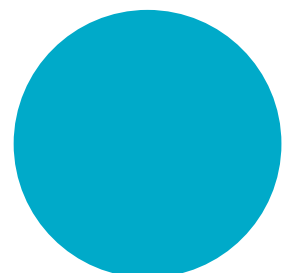
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the automotive industry**



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Executive summary

Published sections of the text from the planned association agreement between the EU and Mercosur contain numerous provisions that offer significant advantages to the European automotive industry, the industry's resource-intensive production model and its supply chains. The deal also lacks effective provisions to mitigate the risks to the environment and human rights posed by the car industry. To the contrary, the parties to the agreement have entered into numerous arrangements aimed at boosting trade even further with risk-prone raw materials, components and finished products from the automotive sector. Lobbying by the EU car industry has certainly borne fruit. But the losers are human beings and the environment on both sides of the Atlantic.

The findings in detail:

- Lobbying for the automotive industry is undertaken not just by the companies themselves, but to a large degree also by the ministerial bureaucracy itself. Staff from the German Federal Ministry of Economic Affairs and the EU Commission approached carmakers to determine their wishlist and to feed the results back into the negotiations with Mercosur.
- This lobbying has resulted in numerous elements of the agreement that advantage the EU automotive industry. These include provisions to eliminate tariffs on vehicles, vehicle parts, mineral resources and biodiesel. There will also be an EU import quota for bioethanol. The Mercosur countries will also drop various export taxes, recognise weak EU tests and certificates and accept flexible rules of origin that will increase competitive pressure on their markets. Ultimately, the car industry will benefit from the weak protections in the agreement that will do little to mitigate harms to the environment and human rights.
- The EU automotive industry has numerous manufacturing plants in Mercosur countries and dominates trade between the two regions. For many years, it has generated a healthy trade surplus for the EU in the bloc's trade with Mercosur. The trade in motor vehicle parts is far more significant than the vehicle trade itself. The lion's share of EU car exports to Mercosur is still made up of petrol-based vehicles. Compared to other European countries, German manufacturers still dominate EU-Mercosur trade by a significant margin.
- European companies currently sell only very small numbers of electric vehicles in Mercosur countries. Electric vehicles remain uncommon in the region and to date have received only limited government support. Furthermore, in Brazil there is strong competition from 'flex fuel' vehicles that are powered by varying proportions of petrol and bioethanol. The vast majority of bioethanol is produced in Brazil from sugar cane.
- The agreed tariff reductions will help to secure and lower the cost of raw materials for the automotive industry. This is particularly true for iron, steel, copper, lithium and for various processed raw materials. But the mining activities are causing numerous conflicts with local communities and indigenous groups, especially in Argentina and Brazil. Triggers include both the damage to the environment caused by the mining of raw materials and severe human rights violations.
- In Argentina's arid north, for example, local communities are protesting against lithium production in the region. Their criticism centres on the high levels of water use and the hazardous waste left behind from mining. In Brazil, on the other hand, iron ore became a symbol for mining disasters after a dam in a retention reservoir in the municipality of Brumadinho burst in January 2019, costing 272 people their lives. Just before this, a Brazilian subsidiary of Germany's TÜV Süd had certified the stability of the dam.

- Provisions in the agreement relating to biofuels will also increase risks to the environment and human rights. The EU's bioethanol quota will promote the expansion of Brazilian sugar cane plantations that are associated with environmental degradation and land disputes. Similarly, Argentina's pledge to reduce export taxes on soy and biodiesel will encourage the expansion of soy crops and further deforestation.
- The agreement will also boost demand for cowhide, which the European automotive industry uses to make leather seats. Under the agreement, the EU will remove import tariffs on cowhide, while the Mercosur countries will eliminate export taxes on it. However, cow herds in Brazil, Argentina and Paraguay are major drivers of deforestation. Due to a lack of traceability systems, European car manufacturers cannot guarantee that their leather does not come from illegal slash-and-burn agriculture in areas such as the Amazon region. The manufacturers are also unable to rule out severe human rights violations at the origins of their supply chains, such as attacks on indigenous people and farm workers.
- The rapid reduction of tariffs on vehicles and vehicle parts, on top of rules of origin, will increase the competitive pressure, particularly on Mercosur's automotive industry. As a result of the more flexible rules of origin, cheap input materials from third countries that are found in EU exports will also benefit from Mercosur's relaxed tariff rules. The resulting heightened competition will endanger jobs in Mercosur and will accelerate a trend towards more precarious employment relationships.
- The agreement will undermine efforts to reduce emissions from the vehicle fleet. In the agreement's motor vehicle annex, Mercosur countries agree as a general principle to recognise tests and certificates for vehicle approval processes that were undertaken on the basis of UNECE or EU regulations. But the weak testing and approval procedures in the EU not only made it easier for carmakers to manipulate their exhaust figures, they also facilitated the massaging of their emissions levels. This is a process that continues even today.
- Additionally, the automotive industry benefits from the lack of teeth in components of the agreement that are focused on limiting environmental, social and human rights risks. To this end, particular problem areas include the sustainability chapter that lacks enforcement provisions, the lack of implementation of the Paris climate change agreement and the omission of effective rules for corporate duty of care obligations and deforestation-free supply chains. Last but not least, it is feared that the agreement will include a human rights clause that is far too weak. These shortcomings mean that significant damage to the environment and severe human rights violations can continue to be expected across the automotive industry's transatlantic supply chains.
- The agreement's weak risk prevention components will make it difficult to impose social or environmental regulations on the automotive industry – irrespective of whether the industry is based on fossil fuels or electric propulsion. The special treatment for the car industry will also prevent the mobility revolution we need from happening. These shifts include measures to reduce traffic and to lower individual vehicle use in favour of public transport.



1. Introduction

The automotive industry plays a key role in the drafting of EU trade policy. The fingerprints of carmakers, their suppliers and associated producers of raw materials are hard to ignore when it comes to the EU's trade agreements. But the close alignment of EU trade policy with the interests of the European automotive industry is increasingly colliding with important social policy goals such as climate change action and upholding human rights – objectives that the European Union is also obliged to fulfil.

This publication investigates the strong influence of the European automotive sector on the EU-Mercosur trade agreement. Mercosur countries and the EU announced at the end of June 2019 that they had reached an agreement in principle for a trade agreement. Since then, large sections of the trade agreement have been published.¹ The agreement is to become part of a more comprehensive association agreement. Negotiations on the remaining parts of the association agreement were concluded on 18 June 2020.² However, the text of this agreement has thus far remained unpublished.³

Despite the agreement in principle, which essentially marks the end of the negotiations, some disputed points continue to be discussed between the parties. To date, the EU-Mercosur association agreement has neither been signed, nor ratified. This means a possibility remains that the deal will fail. The agreement has met with major reservations not just in civil society, but also amongst the governments of several EU member states. The Argentinian and Brazilian governments have also expressed concerns in the early months of this year that the agreement could contribute to the deindustrialisation of their countries. In a joint statement, Argentinian President Alberto Ángel Fernández and Brazilian President Luiz Inácio Lula da Silva declared their goal as *“ensuring a balance in the negotiations that reflects the heavy asymmetries between the blocs and thereby supports the economic and social development of all participating countries.”*⁴



Cars waiting to be shipped in Bremerhaven. The EU exported €3.7 billion worth of cars to Mercosur in 2020.
Photo: Ra Boe, Wikimedia

This publication examines the close cooperation between the European Commission and automotive industry associations during the EU-Mercosur negotiations and during the EU-Mercosur negotiations and analyses the provisions in the agreement text that particularly favour the European car industry. The report also sheds light on the specific environmental, social and human rights risks that are facilitated by these arrangements. It becomes clear that the EU-Mercosur deal has the potential to significantly expand the car industry's trade in problematic raw materials, components and finished products. At the same time, the agreement as it stands lacks effective protections to combat the dangers to the environment and human rights that are posed by the automotive industry. By favouring this sector, the agreement will ultimately also serve as a brake on the mobility transformation that we need to reduce traffic and drive down individual motor vehicle usage.



2. Lobbying: Cooperation between governments and associations

The German Association of the Automotive Industry (VDA) makes no secret of the high level of importance that it attributes to the EU's trade agreement with the bloc in South America. *"The agreement with Mercosur is a high priority for the German and European car industry because Mercosur countries are major future markets."*⁵ As a result of close coordination with Germany's Federal Government and the EU Commission, the automotive industry was able to push through a large number of its requests, as seen in the sections of the agreement text that have been available since mid-2019.

Accordingly, the VDA was generous with its praise when the EU Commission announced its political agreement with Mercosur at the end of June 2019: *"This agreement is a great success for Europe and the Commission"*, declared the VDA's then president, Bernhard Mattes. The removal of tariffs and technical barriers to trade would benefit both car manufacturers and their suppliers, he said. Mattes also pointed to major German investments in Mercosur, such as in Brazil: *"German manufacturers and suppliers have over 120 production sites there. There are also more than 20 sites in Argentina"*.⁶

Documents relating to the Mercosur negotiations from the German Federal Government and the EU Commission, released under freedom of information requests,⁷ show that lobbying for the car industry has come not just from the companies, but to a large extent has been undertaken by the ministerial bureaucracy itself. Staff from the German Federal Ministry of Economic Affairs and the EU Commission proactively approached carmakers to determine their wishlist and to feed the results back into the negotiations with Mercosur.

For example, on 29 May 2017 an employee from the Federal Ministry for Economic Affairs and Energy (BWMi) sent an e-mail to the VDA with the subject line *"EU-Mercosur negotiations"*. In particular, the ministry wanted to find out what transitional periods should apply to Mercosur tariffs that the VDA was seeking to have removed: The e-mail reads: *"For this reason, I ask you to find out from your member companies what transitional periods seem appropriate."* As a follow-up question, the staff member asked whether a distinction should be made in the transition periods *"between tariffs for intermediary products and finished goods"*. She added: *"We would then bring this position into the negotiations through the EU Commission."*⁸

In his e-mail response,⁹ the VDA sent a copy of a letter to the BWMi that had been written by the VDA's two European umbrella associations, ACEA and CLEPA, to the then trade commissioner, Cecilia Malmström. In their letter, the two associations requested the complete abolition of all Mercosur tariffs on EU exports of cars and car parts. In their view, tariffs on cars and vans should expire within ten years, while tariffs on car parts should end after a transitional period of two to five years. The associations also asked for a specific annex to the agreement that was dedicated to the removal of non-tariff trade barriers for vehicles and vehicle parts, especially the recognition of European tests, certification and approval procedures. In addition, the associations wanted the agreement to ensure there were simple and consistent rules of origin. These rules determine how large the minimum value-added share generated in the country of origin needs to be for an export product, in order to be eligible for the tariff preferences of the trade agreement.¹⁰

ACEA (Association des Constructeurs Européens d'Automobiles) represents 15 European car manufacturers, including VW, Daimler and BMW, while CLEPA (Comité de liaison européen des fabricants d'équipements et de pièces automobiles) is the association for European automotive suppliers. Members of this association include the German companies Bosch, Continental, ZF Friedrichshafen, Mahle, Schaeffler and Thyssenkrupp, as well as the Austrian supplier Magna.

The EU Commission also provided intensive support to the automotive industry. After resuming the negotiations with Mercosur in 2016, following a long pause, in July 2016 the Commission began consultation using a detailed questionnaire that was aimed exclusively at EU industry. Participants included associations from the automotive sector. However, the responses remained unpublished.¹¹

In addition, EU Commission representatives – including trade commissioners Cecilia Malmström and Phil Hogan – held various meetings between May 2016 and January 2020 with the ACEA and individual car manufacturers in which the Mercosur Agreement was raised. A number of documents from these meetings, often extensively redacted, have been made public following a freedom of information request by the Forum on Environment & Development through the civil society portal “AsktheEU”.¹²

One of these documents contains an EU Commission report about a meeting between the ACEA and Sandra Gallina from the EU Commission’s Directorate General for Trade in March 2017. According to the report, the Commission representative stated that “a strong result” for the vehicle and vehicle parts sector was a “*sine qua non*” – an absolute requirement – for the EU-Mercosur Agreement.¹³ On 1 June 2017, EU Commissioner Malmström gave a speech at a lunch meeting with the ACEA in which she committed to working with the automotive industry to remove barriers to trade. Mercosur import tariffs on vehicles and vehicle parts alone were costing EU companies a billion euros, according to Malmström.¹⁴ In her response to the joint letter from the ACEA and CLEPA, the EU Commissioner gave an assurance in July 2017 that “the cars and parts sectors remain a priority for both tariff and non-tariff aspects of the negotiation”. She agreed to the requests from the two associations, adding: “I can inform you that these various issues and proposals are being discussed with Mercosur”.¹⁵

Further Commission meetings with the automotive industry followed in February, March and June 2018 and in May 2019, shortly before the political agreement between the EU and Mercosur. However the broad criticism that the agreement received, including because of the increasing destruction of forests in the Amazon, was also reflected in the discussions with lobbyists. For example, Cristina Rueda-Catry, a member in trade commissioner Phil Hogan’s Cabinet, met with representatives of ACEA, Daimler and Volvo in December 2019 and called on them “to support actively the ratification of the Mercosur deal, to counterbalance the negative messages which are getting more media coverage.”¹⁶ In January 2020, Rueda-Catry’s then boss, trade commissioner Phil Hogan, met with an ACEA delegation that welcomed the conclusion of the Mercosur negotiations.¹⁷

Overall, analysis of the contacts between the German Federal Ministry of Economic Affairs and the EU Commission with the automotive industry provides proof of the close coordination between public administration and corporate lobbies in trade policy. The proactive approach taken by the Ministry and the Commission in the case of the EU-Mercosur Agreement is another example for what has long been referred to as “reverse lobbying”. This turns channels of influence on their head and sees public agencies lobbying companies, encouraging them to lobby the agencies themselves.¹⁸ In the end, the reverse lobbying increases suspicion that ministries and public agencies such as the EU Commission are giving a privileged position to powerful interest groups such as the automotive lobby, compared to the status held by other societal groups.



3. Elements of the agreement that benefit the automotive industry



Competitive advantages for its automotive industry are more important to the EU than human rights and the protection of the environment. Photo: Lenny Kuhne, Unsplash

The success of the automotive industry's lobbying becomes evident from a quick look at the most important elements of the agreement related to the sector. The European manufacturer associations were able to push through the majority of their demands. The agreement text also includes even more elements that the automotive industry did not explicitly call for, but from which it still benefits (see Box 1).

A key aspect are the import tariffs on vehicles and vehicle parts that Mercosur and the EU must have fully removed within 15 years of the agreement coming into force. The removal of tariffs will begin after a seven-year transitional period. Additional benefits for the car industry relate to the phased removal of tariffs on important mineral resources such as iron, steel, copper, lead and lithium. In addition, the EU will also liberalise the importation of fuels from Mercosur, in two ways: by removing tariffs on biodiesel and by introducing an import quota for bioethanol.

Other gains for the automotive industry: Mercosur countries will largely forego the option to impose export taxes on important raw materials and will allow generous rules of origin. These will allow EU carmakers to import products on preferential terms into Mercosur that may include significant quantities of materials from third countries. These materials are often produced under low-wage conditions. Moreover, the Mercosur countries will also recognise tests and certificates from European auto manufacturers that are based on weak UN or EU regulations. The automotive industry will also be one of the main beneficiaries from the lack of social, environmental and human rights protections under the Agreement.

Box 1: EU-Mercosur Agreement: Rules from which the automotive industry benefits

The agreement contains various arrangements that favour the automotive industry and related economic sectors. The following summary provides a brief overview of these provisions. Their impact is explained in more detail in the individual sections of this publication.

Tariffs on vehicles: EU and Mercosur will begin to lower tariffs seven years after the Agreement comes into force. After 15 years, the tariffs are to be completely removed (previous tariff rates in Mercosur: 35 per cent in Argentina/Brazil, 23 per cent in Uruguay, 20 per cent in Paraguay; tariff rates in the EU: Lorries up to 22 per cent, passenger cars: 10 per cent). The consequence: Vehicle imports become cheaper, which can stimulate sales.

Tariffs on vehicle parts: After a ten-year period, 80 per cent of these tariffs will be gone, with most remaining tariffs being removed after 15 years (current tariffs in Mercosur are between 14 to 18 per cent, while they are between 3-4.5 per cent in the EU). The consequence: Imports of car parts in both regions will also become cheaper.

Tariffs on raw materials: The parties to the agreement agreed to a phased removal of tariffs over the 10 years after the deal comes into force (for Mercosur, after 15 years in specific cases) for products made of iron, steel, aluminium, copper, lithium, lead and zinc (current EU tariffs are between 1.7 and 10 per cent, Mercosur tariffs are between 2 and 16 per cent). Within 10 years, the EU will also remove its standard tariff rate on biodiesel. The consequence: The import of various essential raw materials for the automotive industry will become cheaper in the EU and in Mercosur.

Bioethanol quota: The EU will grant Mercosur a quota of 650,000 tonnes for bioethanol produced from sugarcane, including 200,000 tonnes for use as fuel, at a third of the current tariff rate. The consequence: EU imports of bioethanol, which is added to petrol produced from fossil fuels, will also become cheaper.

Prohibition of export taxes: The agreement contains a general ban on the introduction and continuation of any taxes or duties on exports after three years of the agreement coming into force. Only Argentina and Uruguay have taken advantage of options for exceptions to this rule, and then only to a very limited extent. In addition, Argentina is committing to lower export taxes on soy and biodiesel. The consequence: A potential cost factor for the European automotive industry in terms of accessing raw materials from Mercosur will be removed or lowered in the future.

Rules of origin: Mercosur will accept a lower local content component for EU exports of vehicles and vehicle parts (55 or 50 per cent, instead of 60 per cent as currently). In addition, Mercosur will accept self-certification by exporters as proof of origin for their products. The consequence: A larger share of cheap input materials from non-EU countries that the EU car industry uses in its export goods will benefit from Mercosur's tariff concessions in future.

Motor vehicle annex: Mercosur countries will recognise tests and certificates for the approval of vehicles on the basis of UN or EU regulations that are often too weak. The consequence: Vehicles that are deemed unsatisfactory in testing, e.g. because they produce higher levels of emissions than stated, will gain approval more easily in Mercosur.

Weak protections: The agreement contains various provisions that are supposed to reduce risks under the deal, but they are inadequate. The provisions include the lack of sanctions for the sustainability chapter, the failure to operationalise the Paris climate change agreement, the absence of rules for duty of care obligations and deforestation-free supply chains and a potentially weak human rights clause. The consequence: The automotive industry will be relieved of some potential costs for risk minimisation.



4. Unequal exchange: Trade between the EU and Mercosur

The coronavirus crisis has also left an impact on bilateral trade between the EU and Mercosur. The disruptions to global trade caused by lockdowns and supply chain bottlenecks also resulted in reduced goods flows between the two blocs.

In 2020, EU imports from Mercosur fell by 8.4 per cent compared with the previous year, while EU exports to Mercosur declined by almost 14 per cent, from 41.3 to 35.5 billion euros. Although the EU's exports fell more sharply than its imports, the bloc – as in the eight years before this – once again achieved a trade surplus with Mercosur. This amounted to 2.3 billion euros in 2020 (2019: €5 billion).¹⁹ In addition, the extremely unequal export mix between the two regions remained. Over 80 per cent of the EU's exports to Mercosur were industrial goods, with around half of these being machinery and vehicle parts (see Figure 1).

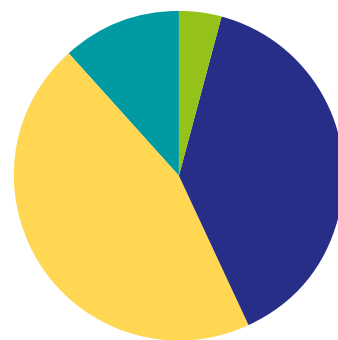
In value terms, the exports of parts and components for the automotive industry are far more significant than the exports of vehicles themselves. Over three quarters of car exports to Mercosur are made up of various input materials, including engines, gearboxes, headlights and tyres. In recent years, around 15 per cent of EU exports to Mercosur were made up of these kinds of vehicle parts.²⁰

By contrast, three quarters of Mercosur exports to the EU related to agriculture and mining. Machinery and vehicle parts made up just a little more than a six per cent share (see Figure 2).

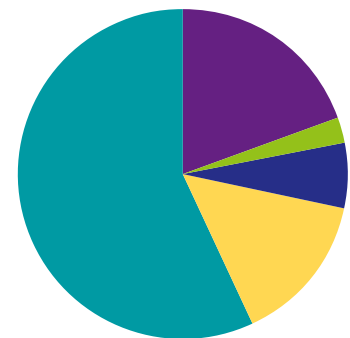
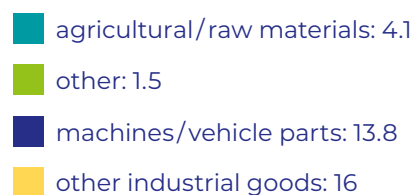
However, the mining products from Mercosur are of great significance to the European automotive industry, whether iron ore and copper from Brazil, or silver and lithium from Argentina. Various agricultural products from South America are also used in the automotive industry. They include cowhides for seats, cotton for floor coverings, cellulose for paneling, rubber for tyres and bioethanol to mix with petrol.

EU-27: Exports to and imports from Mercosur, 2020

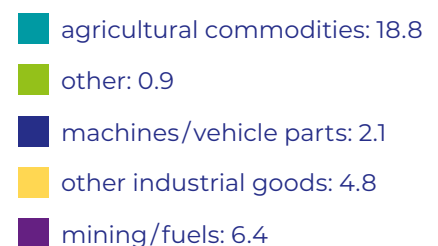
Figure 1 and 2: billions of euros, source: European Commission, 20 May 2021



exports:



imports:





5. Focus on the automotive trade: Mercosur as a market

A look at European car exports to Mercosur over the past five years offers some insights into their specific composition. From 2016 to 2020, automotive exports from EU countries with vehicle production to Mercosur totalled around 15.7 billion euros. The lion's share, €12 billion, came from the export of vehicle parts, with only €3.7 billion derived from vehicles (see Figure 3).

The high significance of these exports of parts and components comes from the numerous manufacturing plants in Mercosur countries that process these raw materials further and use them to assemble finished products. The large car manufacturers have a particularly strong presence in Argentina and Brazil. VW, Renault and Stellantis have passenger car factories in both countries. BMW operates a plant in Brazil. European companies also manufacture commercial vehicles in Mercosur. Daimler and Iveco have plants in Argentina, while Daimler and the VW subsidiaries MAN and Scania operate in Brazil.²¹ In addition, there are also Mercosur subsidiaries of various European suppliers including Bosch, ZF, Mahle, Schaeffler, Continental and Magna.

A large number of vehicles exported to Mercosur are passenger cars, while only a small fraction are commercial vehicles such as vans. In terms of propulsion, petrol-based vehicles still dominate EU exports to Mercosur, with only a small number being diesel, hybrid or electric-powered vehicles (see Figure 4).

EU motor vehicle exports to Mercosur, 2016–2020

Source: Oliver Worm/Greenpeace 2021

Figure 3: Euro

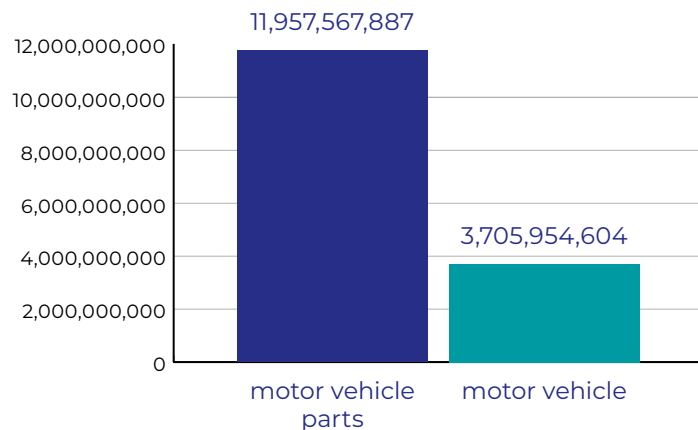
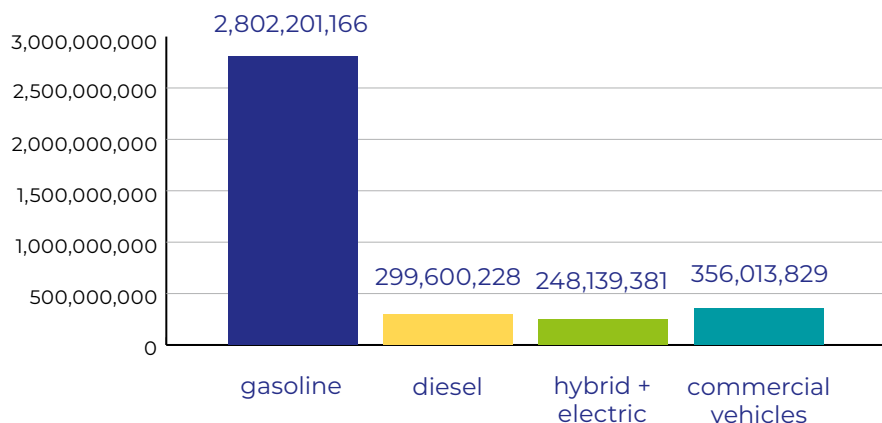
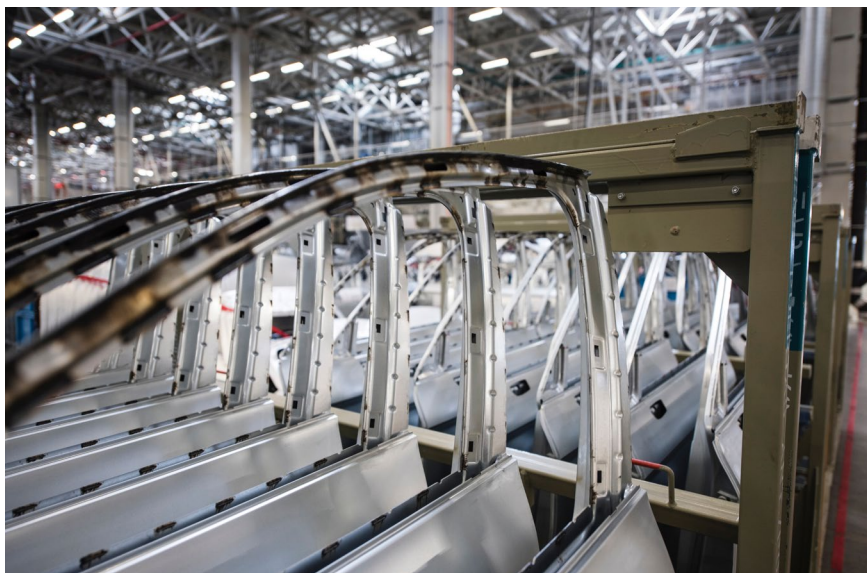


Figure 4: Euro, models



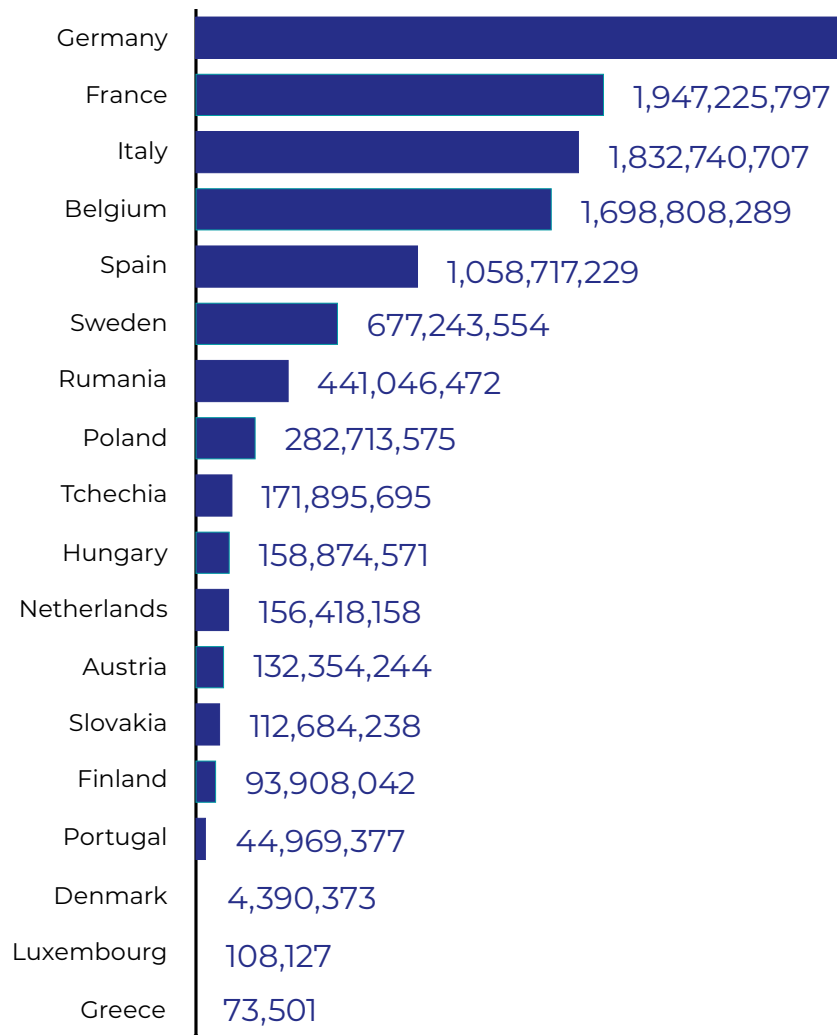


The EU mainly exports vehicle parts to Mercosur, which are then assembled in the plants owned by European car manufacturers. Photo: carlos aranda, Unsplash

One reason for the low numbers of diesel passenger vehicle exports is that in Brazil, by far the biggest market in Mercosur, diesel-powered passenger cars have been banned since the 1970s. The reason was the global oil shock and Brazil's high dependence on expensive crude oil imports that were affecting the country's balance of trade. The fuel shortage prompted the Brazilian government to introduce economy measures: for example, in 1975 it mandated the addition of bioethanol to petrol (see box 2, p. 26) and in 1976 it limited the use of diesel to commercial transport purposes, i.e. for lorries, buses and tractors. In 1994, the government modified the diesel regulations. Since then, the use of diesel has been banned for all vehicles with a load capacity of under 1,000 kilograms. Except for lorries, buses and tractors, diesel propulsion is only permitted to be installed in heavier pickup vehicles and in four-wheel-drive SUVs.²²

Meanwhile, foreign carmakers have also attempted to topple the Brazilian diesel ban for passenger vehicles in recent decades. For this purpose, some multinational automotive suppliers with Brazilian subsidiaries, including Germany's Bosch and Mahle, co-founded the lobby group Aprove Diesel some years ago.²³ But so far the initiatives to abolish the diesel ban have been fruitless, even if they have occasionally been picked up by individual congress members, most recently in summer 2021.²⁴

German car manufacturers and suppliers dominate trade between the EU and Mercosur. Of the vehicles and vehicle parts valued at €15.7 billion euros that the EU manufacturers exported to Mercosur between 2016 and 2020, 44 per cent came from German companies (see Figure 5).

EU: Automobile exports to Mercosur 2016–2020**Figure 5:** Euro, cars and car parts, source: Oliver Worm/Greenpeace 2021

For petrol-based cars exported into Mercosur, the German dominance is even greater: 63 per cent of EU exports of petrol-powered vehicles are from German carmakers. Compared to other EU manufacturers, German companies also deliver a disproportionate number of large petrol-based vehicles with a capacity of 1.5 to 3+ litres.²⁵

Austria's automotive industry, including companies such as Magna, Miba and AVL also benefit from Mercosur's market. While the companies sell only a small proportion of their products directly in Mercosur countries, they sell a larger share of parts, components and cars to European brands such as VW, Daimler, BMW and Stellantis that sell their vehicles in regions that include Mercosur. The integration is particularly strong with Germany, to which Austria's industry exports around half of its vehicle parts.²⁶

6,849,350,542

European car manufacturers have a strong position in both of Mercosur's main markets – Argentina and Brazil. In the rankings of manufacturers with the most passenger vehicles sold in Brazil, VW was on average in second place over the past five years, behind the US company General Motors. In third place are brands from the Dutch holding company Stellantis that was formed in January 2021. Stellantis is a merger of Fiat-Chrysler (FCA) and Peugeot (PSA). Fourth place is held by Renault-Nissan (see Figure 6).

In Argentina, Stellantis Group vehicle brands are the market leader, followed by Volkswagen in second place and Renault-Nissan in fourth position (see Figure 7).

Market shares of passenger car manufacturers 2016–2020

Source: Oliver Worm/Greenpeace 2021

Figure 6: Brazil, mean value in percent

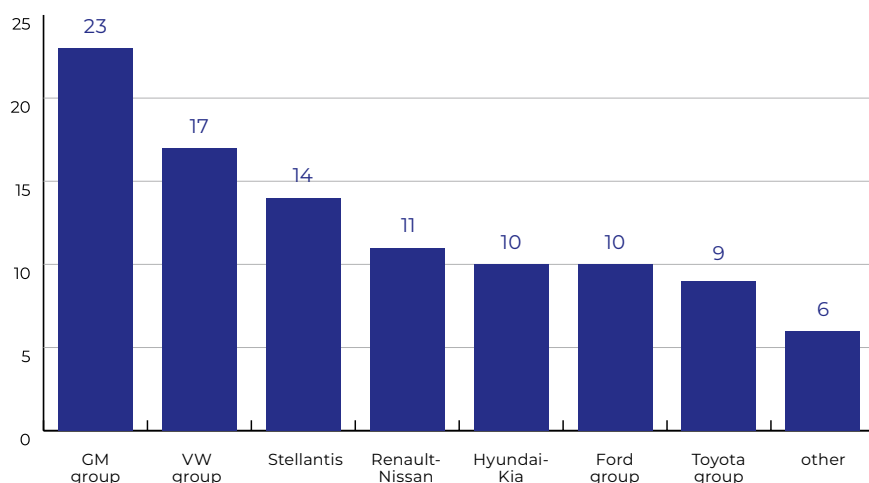
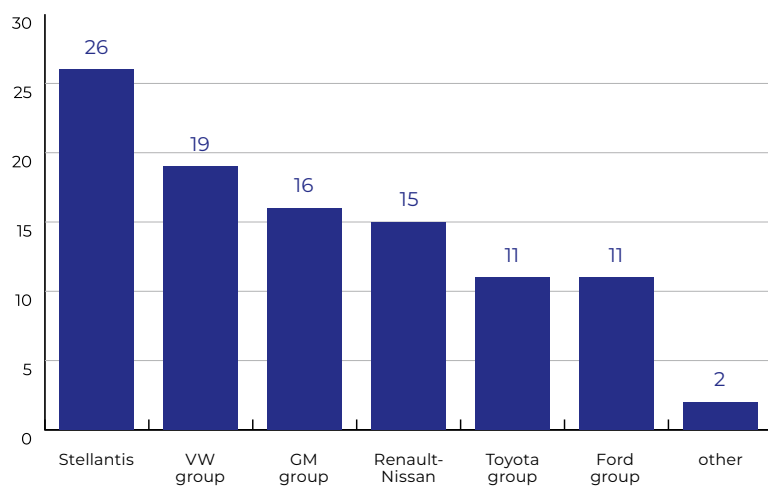


Figure 7: Argentina, mean value in percent





6. Electric vehicles for Europe, fossil fuel cars for Mercosur

While some carmakers have announced end dates for cars powered by internal combustion engines and are switching to the production of electric vehicles, in Mercosur they are pursuing a different strategy. The companies want to continue using the damaging internal combustion technology there for far longer than in the European market. The current inadequate charging infrastructure in the Mercosur countries serves as a pretext for doing so. In addition, carmakers continue to promote the use of biofuels, particularly in Brazil, with which the environmental impact of their internal combustion engines can supposedly be improved.

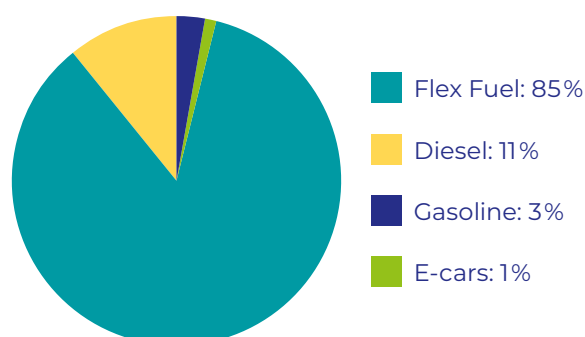
For Mercosur, however, this strategy has major disadvantages. Firstly, the production of biofuels causes significant harm to the environment and results in numerous conflicts over land. Secondly, it also causes the switchover to electromobility to be delayed even further. But this will lead to higher transport-related greenhouse gas emissions in Mercosur countries and will also see them being left behind when it comes to technology. While the global shift away from internal combustion engines to electricity continues at pace, they will remain reliant on outdated internal combustion technology. By contrast, European carmakers will secure a long-term market in South America for their environmentally hazardous internal combustion vehicles that they are unable to sell elsewhere.

The Mercosur countries themselves are pursuing various options when it comes to propulsion methods. The Argentinian government proposed comprehensive legislation in October 2021 that also includes the development of electromobility (Ley de Movilidad Sustentable). The government sees Argentina's large lithium reserves as an advantage that it would like to harness to establish a national battery manufacturing industry.²⁷ By contrast, Brazil is largely backing what are called 'flex-fuel' vehicles that can run on varying quantities of bioethanol and petrol. The idea of adding bioethanol to petrol began in the 1970s and received intensive support from the Brazilian government with its Proálcool programme (see Box 2).

The strong rivalry posed by the flex-fuel technology to other propulsion systems can be seen in Brazilian vehicle registrations. While 85 per cent of new registrations of passenger cars and light commercial vehicles were of the flex-fuel type in 2020, only one per cent were electric vehicles (see Figure 8).

Brazil: New registrations of passenger cars and light commercial vehicles 2020

Figure 8: in percent, source: Anfavea 2021



The Brazilian government is relying primarily on biofuels such as bioethanol and biodiesel for decarbonisation of the transport sector in the future. The government points to better outcomes in terms of pollutants and climate impact, compared with fossil fuels alone. The government is supported particularly by the country's powerful farming industry that provides the most important raw materials for this purpose: sugarcane for bioethanol and soy for biodiesel.²⁸

Box 2: Proálcool Programme: Save crude oil, support sugarcane, buy VWs

Brazilian gained its first experience with bioethanol during World War I and World War II, when it was used to combat the fuel shortage at the time. The mass use of ethanol produced from sugarcane began during the oil crisis of the 1970s as a way to save on expensive imports of crude oil. At the time, the Brazilian sugarcane industry was also suffering from overcapacity after declines in markets in the US and Europe. In the US, soft drink manufacturers such as Coca-Cola began to experiment with replacing sugar with corn syrup, while the EU signed the Lomé Agreement with its former colonies in Africa, the Caribbean and the Pacific (referred to as ACP countries) that granted them a tariff-free import quota for sugar.

In the pursuit of saving crude oil and supporting the sugarcane industry at the same time, the Brazilian government launched the Proálcool Programme in 1975. This initially involved mixing a small quantity of hydrogenated bioethanol with petrol. From 1979, cars with pure ethanol engines that could be filled up solely with hydrogenated bioethanol came on to the market. In 2003, the flex-fuel vehicles followed. These could be filled with varying proportions of bioethanol and petrol. In the US, various flex-fuel models were already available at the time. However, the first car to come on to the Brazilian market on a commercial basis was the Volkswagen Gol 1,6 Total Flex.²⁹

When it comes to alternative propulsion sources, Brazil is also pursuing projects that rely on the use of bioethanol, such as flex-fuel hybrids. These models combine an electric engine with a internal combustion engine that can be operated with petrol and bioethanol. Further hopes rest on hydrogen fuel cell vehicles that use bioethanol as a fuel. By contrast, support for greater distribution of purely battery-powered electric vehicles is not a priority.³⁰



The supposedly sustainable ethanol fuel is produced from sugarcane in factories such as this one in Costa Pinto.

Photo: Mariordo, Wikimedia

The auto industry supports Brazil's special path that is focused on biofuels. Volkswagen is an example. VW CEO Ralf Brandstätter said in March 2021 that VW's targeted date for phasing-out petrol-based cars in Europe – between 2033 and 2035 – would not be achievable in developing countries. He said ethanol represented “*an effective bridging technology*” on the path towards decarbonisation. According to Brandstätter, for this reason VW would build a research and development centre especially for developing countries that was dedicated to new technologies based on ethanol and other agrofuels.³¹ However, the motivation for supporting the biofuels path is obvious: The auto industry can draw on its existing investments in internal combustion engines for an even longer period, without having to modernise.

But the positive impact on the climate of Brazil's decarbonisation approach in transport is extremely doubtful, according to a study by two academics at the Wuppertal Institute. The study compared two alternative scenarios with a business-as-usual situation, under which the current energy mix will continue to sustain the Brazilian car fleet until 2050. The alternative scenarios model a gradual transition by Brazil to either the sole use of biofuels or electricity to power passenger vehicles and buses.³²

The result: the electrification of the passenger vehicle and bus fleet by 2050 could provide a significant CO₂ reduction of between 65 to 89 per cent. By switching to biofuels, by contrast, carbon dioxide would still be emitted in similar or even larger quantities than under the business-as-usual scenario. A significant reason for the worse performance of the bio-fuel route, according to the academics, comes from the high emissions that arise from the changes in land use when growing plants for energy, e.g. in the conversion of forests and meadows into arable land, or during the regular harvesting cycles for sugarcane and soy.³³

The biodiesel produced from soy oil has been proven to be particularly harmful to the climate, according to a study conducted on behalf of the European Commission. The study found that the greenhouse gas emissions that occur during the production of soy diesel are around twice as high as those from fossil fuel diesel, mainly because of changes to land use.³⁴ Against this backdrop, the Mercosur countries should not give in to a strategy from the European automotive industry that will see the region remain dependent on internal combustion engines and biofuels. Rather, Mercosur should force the car industry to commit to expanding charging infrastructure and to speeding up the electrification of the vehicle fleet in Mercosur.

However, in Mercosur countries too, it is not enough simply to electrify the growing number of individual passenger vehicles. This because no matter whether they are powered by fossil fuels, biofuels or electricity, individual vehicles are associated with the unsustainable consumption of resources that are harmful to the climate and which create human rights conflicts. As is the case elsewhere, a change in propulsion method on its own in Mercosur is not a substitute for a more comprehensive mobility transformation. Instead, the vehicle fleet needs to be reduced and more support needs to be given to expanding public transport methods, such as buses and trains. Where cars are necessary, however, they should be as small as possible and run on electricity.

As even electric cars consume large quantities of raw materials, they need to be small, durable and have recyclable components. For this reason, Argentina, which is planning to build its own manufacturing facilities for batteries, should place an obligation on manufacturers to ensure the batteries can be recycled. By introducing these kinds of regulations, the country would not just be making technological progress, it would also be taking a step forward in terms of environmental policy. This is because if their recycling potential is maximised, the material use from the batteries accounts for only a tiny fraction of the fuel used by combustion engines.³⁵



By switching to electric, a 65-89 per cent saving of CO₂ could be achieved over flex fuels. However, the total number of vehicles needs to fall in order to prevent over-consumption of raw materials and electricity. Photo: Ivan Radic, Flickr



7. Trade in raw materials: Mining and mining disasters

In 2010, the European Automobile Manufacturers' Association (ACEA) complained about the high iron ore prices in the global market and called on the EU to develop a raw materials strategy and to secure the supply of raw material from third countries at competitive conditions.³⁶ In a position paper, the ACEA expressed its concerns even more strongly in 2012, urging the EU to use the "leverage" of the trade negotiations to ensure access to raw materials. In particular, the ACEA believed that trade deals should limit export restrictions imposed by countries that were rich in raw materials.³⁷

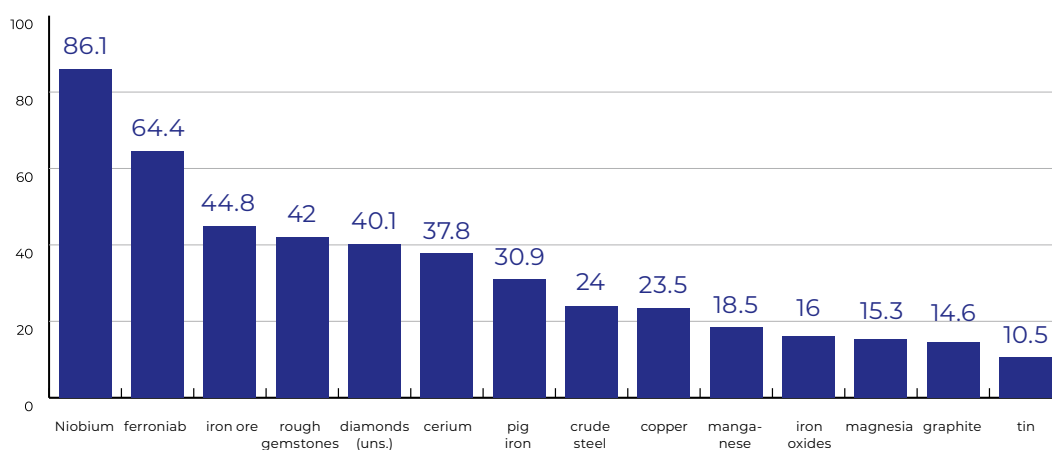
The EU Commission is also implementing these industry requests in its agreement with Mercosur. Several stipulations in the current text of the agreement are aimed at ensuring access to essential resources in the most cost-efficient manner. Among the most important raw materials for vehicle manufacturing are iron and steel, aluminium, copper, lead, zinc and lithium (a substance which is becoming increasingly important for electric vehicles). But the agreement does not just contain specific provisions for these raw materials. The deal also affects trade in fuels, whether these are produced from crude oil – as in the case of petrol and diesel – or come from sustainable resources such as bioethanol and bio-diesel (see chapters 8 and 9).

The Mercosur countries, especially Brazil and to a lesser degree Argentina, are major suppliers of raw materials to the EU and Germany. Many mined products from Brazil and Argentina are absolutely essential to the automotive industry. In terms of volume, iron ore imported from Brazil is one of the most important materials. Iron ore is used to manufacture steel, which is used in large quantities in vehicle manufacturing.

Germany is particularly dependent on raw materials from Brazil. According to an investigation by Germany's Federal Institute for Geosciences and Natural Resources (BGR), 44.8 per cent of iron ore imported into Germany comes from Brazil (see Figure 9). Germany also imports around 31 per cent of its pig iron and 24 per cent of its crude steel from Brazil. Germany also imports large quantities of copper from Brazil. Copper is the third most-common metal in carmaking, after steel and aluminium. The greatest dependence is with the rare heavy metal niobium, which is normally used to manufacture a particularly robust form of specialist steel that is also used in the automotive industry.³⁸ The EU lists niobium as one of its critical resources due to its high level of dependence on Brazilian supplies.³⁹

Germany: Raw material imports from Brazil 2019

Figure 9: Shares of total imports, percent, source: BGR, Nov. 2020



Argentina is also a major supplier of raw materials to the EU and Germany, particularly for silver, copper, lead and lithium – essential materials for the car industry. A full 26 per cent of German silver imports come from the South American country, according to the BGR.⁴⁰ Large quantities of silver are also used in car electronics.

Argentinian lithium is also used in European vehicles, especially in lithium-ion batteries for electric and hybrid vehicles. According to data from the United States Geological Survey, Argentinian lithium resources are the second-largest in the world, after Bolivian supplies.⁴¹ Lithium is currently mined for export in two plants in Argentina, with numerous others to follow. Livent, a US company, owns one of the two plants where lithium is being produced. The company announced the signing of a multi-year supply agreement with BMW in the spring of 2021. BMW is planning to use the lithium in its battery cell production in Germany and elsewhere.⁴²

According to the published sections of the text, the EU-Mercosur Agreement is likely not just to secure the supply of raw materials to the automotive industry, but to make them cheaper. It is true that EU import tariffs for some major raw materials are already nil, including for crude oil, iron ore, unwrought copper and silver. However, this is not the case for other resources that are essential to the car industry, such as aluminium and many iron, steel and copper products, in addition to numerous processed materials.

For example, Mercosur products made from iron and steel can attract tariffs of between 1.7 and 5.7 per cent in the EU. On copper goods, the tariff rates are between 3 and 5.2 per cent. The rates on aluminium run from 5 to 10 per cent, while on lithium they stand at between 5.2 and 5.5 per cent. On lead and zinc, the tariffs are between 2.5 and 5 per cent.⁴³ In addition, there are anti-dumping tariffs that the EU has imposed on Brazilian steel producers since October 2017 for exports of flat steel (at rates of between €53 and €63 per tonne).⁴⁴

The tariffs that Argentina and Brazil impose on the import of raw materials are equally important for the European carmakers and suppliers that have sites in the Mercosur countries. For example, a 2 per cent tariff needs to be paid on lithium, while the rates on aluminium products are between 2 and 16 per cent. On copper goods, the rates are between 6 and 16 per cent, while the tariffs on lead and zinc products run between 2 and 16 per cent.⁴⁵

In the market access lists for the association agreement, the EU and Mercosur have undertaken to remove the majority of these tariffs in several steps within ten years of the agreement entering into force. The EU will generally undertake to implement these tariff removals a little earlier within this timeframe; for Mercosur, it will tend to be in the latter part of the window. In specific cases, Mercosur plans to let the tariffs expire only after 15 years.⁴⁶

Another important condition: the agreement generally prohibits any taxes and duties on exports. Export taxes are an important tool in development and industrial policy that governments can use both to generate revenue and to ensure the domestic availability of scarce resources that can be anything from food to mining products. For example, export taxes can be used to ensure that affordable raw materials are available to build up the exporting country's own industrial sectors. But Article 8 of the chapter on the trade of goods says that none of the parties to the agreement is permitted to introduce or continue export duties after three years of the agreement coming into force. However, the agreement does give Mercosur countries the option to register exceptions from this rule in specific lists of commitments.⁴⁷

These lists of commitments can be found in the annex on export duties.⁴⁸ However, currently only Argentina and Uruguay have taken advantage of the option to register exceptions from the general prohibition on export duties in dedicated lists. While Argentina reserves the right to impose export taxes for a small list of products, only one group of goods (various leather products) appears in Uruguay's list (see Chapter 10)

In addition, Argentina undertakes in its list to freeze or lower export taxes for various products, such as soy and biodiesel (see Chapter 9). By contrast, other major raw materials are completely absent, even though export taxes are currently imposed on them in Argentina. These include gold, silver, copper and lithium. Under the standards currently in force for mining, Argentina imposes export taxes on gold and silver of up to 8 per cent. For other metals, the tariffs go up to 4.5 per cent.⁴⁹

The failure to allow for future export taxes in the trade agreement certainly seems short sighted, especially as the Argentinian government is planning for more intensive development of resources such as lithium to take place domestically, including by establishing the country's own battery cell industry.⁵⁰ Making sovereign decision-making for export taxes a pillar of foreign policy would also strengthen the government when it comes to disputes with foreign investors that exploit the resources. For example, Livent – BMW's new lithium supplier – sued the Argentinian government for a refund of export taxes.⁵¹

In Brazil, too, a debate often flares up about reintroducing the export taxes on mineral and agricultural resources that were abolished in 1986. Particularly the federal states that produced these raw materials suffered from a loss of income as a result. In 2020, the Congress debated two bills on the reintroduction of export taxes on raw materials, a move which provoked sharp criticism from industry groups.⁵² In order to stave off the calls, the central government ultimately agreed to make compensatory payments to the federal states in January 2021.⁵³ Despite this move, the rejuvenation of this debate – perhaps under a new government – cannot be ruled out. However, the reintroduction of export taxes could constitute a potential breach of the EU-Mercosur Agreement.

In both Mercosur countries, mining activities are associated with numerous conflicts with local communities and indigenous groups. These are caused not just by the environmental damage arising from the plundering of natural resources, but often by severe human rights violations. In Argentina's arid north, for example, local and indigenous groups are protesting against lithium production in the region. The groups are critical of the high level of water consumption used in the evaporation of the salt water containing the lithium (lithium brine) and of the toxic residue left behind by the mining process.⁵⁴

In addition, the mines are also frequently an underestimated contributor towards deforestation. Environmental scientists have calculated that around 10 per cent of logging in the Amazon is caused by mining. The Carajás mine in the federal state of Pará is a major contributor to the problem. Carajás, operated by the Brazilian company Vale, is the biggest iron ore mine in the world.⁵⁵



An illegal iron ore mine on land owned by the indigenous Yanomami community in Brazil. Photo: © Chico Batata / Greenpeace



Just before the Brumadinho disaster, the German company TÜV Süd had judged the dam holding back the ferrous water to be safe.

Photo: Ibama, Flickr

Another mine owned by Vale, Córrego do Feijão in the municipality of Brumadinho, is also a symbol for one of the country's biggest mining disasters. In January 2019, the dam in a retention reservoir burst at the mine, causing a toxic wave of waste material to spill over the area that claimed 272 lives. Just four months prior to the disaster, a Brazilian subsidiary of Germany's TÜV Süd had certified the stability of the dam – despite significant safety shortcomings. For this reason, MISEREOR and the human rights organisation ECCHR, along with five family members of victims, lodged a criminal complaint against TÜV Süd and one of its employees in October 2019. The plaintiffs allege that the company violated its oversight obligations and that the staff member is guilty of crimes including manslaughter through negligence. The Munich Public Prosecution Office has now commenced an investigation.⁵⁶

Vale also supplies its iron ore to the EU, where it is processed into steel for the automotive industry to use. Around half of the iron ore imported into Germany comes from Brazil. The biggest German steel producers are ThyssenKrupp, Arcelor Mittal and Salzgitter AG. ThyssenKrupp purchased more than 40 million tonnes of iron ore from Vale between 2016 and 2018 and raised no issues with Vale in two audits that were conducted. But following the Brumadinho disaster, it needs to be asked how reliable these types of audits actually are when it comes to ensuring duty of care obligations across supply chains.⁵⁷



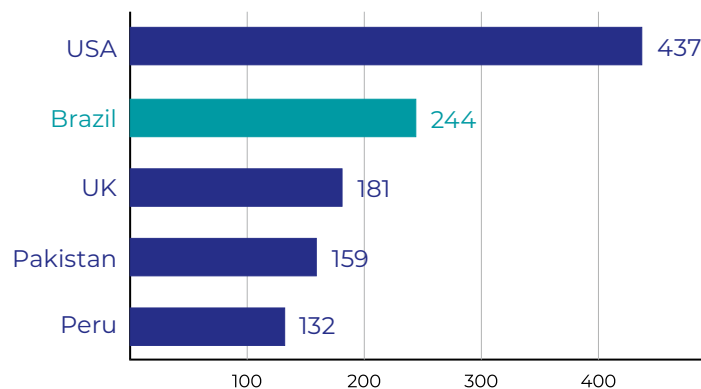
8. Bioethanol: Conflicts over sugarcane cultivation

The bioethanol quota that the EU grants to Mercosur is increasing the pressure to change land use and is boosting other greenhouse gas emissions in Mercosur, especially in Brazil. The incentives offered by the EU for the bioethanol that is mainly produced from sugarcane in Brazil involve a tariff-free quota of 450,000 tonnes for use in the chemical industry and a quota at a preferential rate for 200,000 tonnes for use as biofuel. This means that the current import tariff of up to €19 per hectolitre of bioethanol will fall to a third of the current value.⁵⁸

As a result of the growing biofuel consumption in the EU transport sector, Brazil has already been able to drastically increase its bioethanol exports into the EU over the past two years. From 2019 to 2020, EU bioethanol imports from Brazil rose from 17 to 244 million litres.⁵⁹ The South American country is now the second-biggest supplier (after the US) to the EU (see Figure 10). In the EU, bioethanol is added to petrol in varying proportions – normally 5 or 10 per cent – and is marketed as an E5 or E10 fuel.

EU: Top 5 bioethanol suppliers 2020

Figure 10: Million liters, source: Eurostat/ePURE 2021



The bioethanol quota in the EU-Mercosur Agreement could lead to Brazilian sugarcane cultivation being expanded further. According to estimates from Brazil's agriculture ministry, the cultivation area for sugarcane is expected to increase from 9 to 10-11 million hectares between 2020 and 2030.⁶⁰ However, scientists from the European Commission's Joint Research Centre assume an even greater expansion of the cultivation area to 14.8 million hectares will be needed to meet the total demand for sugar and ethanol. Under their scenario, a third of Brazil's ethanol exports could go to the EU by 2030, with the quota of 650,000 tonnes being significantly exceeded.⁶¹

While the centre of sugarcane cultivation is in the south of Brazil (especially in the state of São Paulo), the heaviest expansion is taking place in the west and north-east, mainly in the Cerrado dry forest region. It was therefore a shock for the Brazilian and global environmental movement when President Jair Bolsonaro annulled a decree on agri-environmental zoning for sugarcane in November 2019. The decree had been issued in 2009 by Brazil's former president, Lula da Silva, to limit the cultivation of sugarcane in the Amazon and Cerrado regions, as well as in the Pantanal wetlands and in indigenous territories.⁶²

Those harmed by the lifting of the zoning decree include Brazil's indigenous people, whose traditional territories have been lost to sugarcane cultivation and other plantations. For example, bioethanol manufacturer Raizen – a joint venture from Shell and Cosan – obtained sugarcane that had been illegally cultivated on territory belonging to the Guarani-Kaiowá

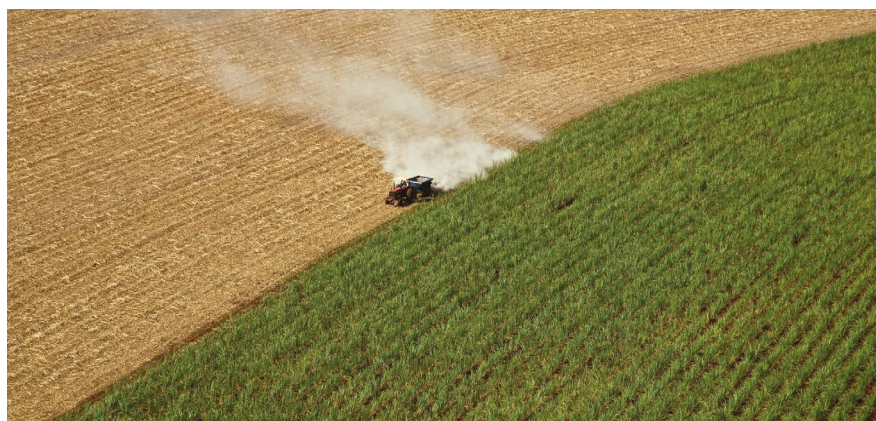
in the state of Mato Grosso do Sul.⁶³ A complicating factor has been the lack of demarcation of indigenous areas, a process that has come to a complete standstill under President Bolsonaro.⁶⁴

Brazil's House of Representatives and Supreme Court are also currently debating a bill (PL 490/2007) that – in breach of international law – will introduce a deadline for the recognition of indigenous land rights.⁶⁵ Under the legislation, indigenous communities would only be able to assert land rights and request demarcation if they had already been living in the affected territory or had officially made legal claims to it on October 5th, 1988 – the date on which the Brazilian constitution came into force. The Articulation of Indigenous Peoples of Brazil (APIB) sees the law as one of the biggest threats to its members.⁶⁶ The association's fears have been strengthened by threats from the Bolsonaro government to withdraw from the ILO's Indigenous and Tribal Peoples Convention. This convention from the International Labour Organization (ILO) establishes the substantive right of indigenous peoples to the free, advance and informed consent about any use of their territories.⁶⁷

In addition, substantial environmental damage is occurring as a result of the intensive cultivation of sugarcane plantations. The impacts include soil erosion, a high level of water consumption and toxic residue due to pesticide use.⁶⁸ In addition, highly toxic active pesticide substances are used that are not approved or are banned in the EU. These include Imidacloprid, sold by Bayer in Brazil, and Fipronil, manufactured by BASF. Both substances are suspected of causing bee mortality.⁶⁹

Scientists from the EU's Joint Research Centre also note that sugarcane in Brazil competes for land with cattle farming and soybean cultivation. They point out that sugarcane has mainly taken over former pasture areas that were created in Cerrado and the Amazon through deforestation. The total amount of arable land in Brazil for soy, sugarcane and other crops could grow to an enormous 14 million hectares by 2030 – the equivalent of around 40 per cent of Germany (35.7 million hectares). 91 per cent of the new arable land will be created by converting meadows, while the remainder will be generated from the deforestation of forests and savannahs.⁷⁰

If this scenario eventuates, the scientists warn that Brazil will fail to meet its targets under the Paris agreement by a considerable margin. Instead of a reduction of CO₂ emissions by 113 million tonnes by 2030 as a result of changes to land use, the scientist says we should expect additional emissions of a billion tonnes. If environmental protections are weakened further, as is the case under Bolsonaro, the scientists believe that the additional emissions could increase even further to 1.7 billion tonnes. Accordingly, trade policy should not confine itself to looking at the environmental impacts of specific raw materials in isolation, but needs to systematically integrate the indirect changes to land use. The scientists believe that the EU should therefore be negotiating trade agreements that include enforceable environmental standards for all major tradeable raw materials and take account of their impacts.⁷¹



Falling tariffs, rising demand and the resulting sugarcane monocultures are threats to the environment, biodiversity and climate.
Photo: Sweet Alternative, Flickr



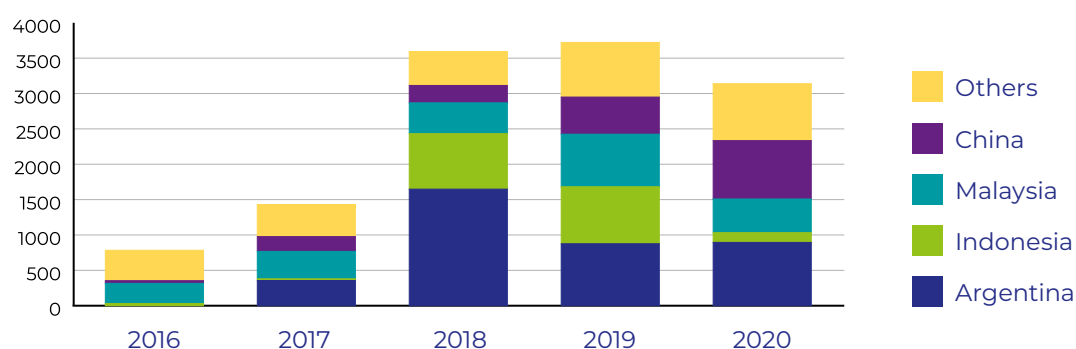
9. Biodiesel: soy on the rise

The EU-Mercosur Agreement may also incentivise EU imports of biodiesel from Mercosur. In the EU, biodiesel is added to fossil-fuel diesel in ratios of up to seven per cent. Brazil and Argentina are – along with the EU, the US and Indonesia – among the biggest biodiesel producers in the world. Both countries use soy oil as a major raw material in manufacturing the biodiesel.

The largest share of the biodiesel imports to the EU currently comes from Argentina. Between 2013 and 2017, the EU imposed anti-dumping tariffs on Argentina, but the country successfully fought these with a complaint to the WTO.⁷² Since the EU again lowered its tariffs in September 2017, the biodiesel imports from Argentina have risen massively (see Figure 11).

EU: Biodiesel imports 2016–2020

Figure 11: Countries of origin, in 1000 tonnes, source: Eurostat/OFI 2021



Soybeans imported from Mercosur can also be processed into soy oil and biodiesel in the EU. However, the importation of soy is already tariff-free in the EU. At the same time, the EU-Mercosur Agreement could also further incentivise imports of soy and biodiesel from South America. This is because the agreement includes the removal of the EU standard rate of duty on biodiesel of 6.5 per cent over a ten-period after the deal comes into force.⁷³ Moreover, Argentina will undertake to significantly lower its export taxes on soy and biodiesel. Currently, export taxes on soy beans are 33 per cent of the value of the goods, while they are 31 per cent on soy oil and 29 per cent on biodiesel.⁷⁴ However, under the annex on export duties, the country is now committing to reduce export taxes on soy beans, soy oil and biodiesel to a maximum of 18 per cent within five years of the agreement coming into force and to 14 per cent within ten years.⁷⁵ If these tax cuts are implemented, imports of soy and biodiesel from Argentina could become significantly cheaper.

However, this would also lead to further pressure to expand soy plantations in Argentina. These have already spread over the past ten years from the central Pampa areas to the dryer north-eastern part of the country, where soy – along with pastoral farming – has been responsible for a significant share of deforestation in the region. In the north-east – in the Argentinian part of the Chaco region – conflicts with indigenous groups whose habitats are shrinking are on the rise. Even after investigations by Greenpeace, Argentina is allowing this dynamic to continue unchecked. For example, the five northern provinces of Santiago del Estero, Jujuy, Salta, Formosa and Chaco lost around 115,000 hectares of virgin forest in 2020 alone. The emissions resulting from this amount to 20 million tonnes of CO₂. Between 1998 and 2018 alone, at least 5.8 million hectares of forest were cleared.⁷⁶



10. Leather seats for passenger vehicles: destruction of forests in the Amazon

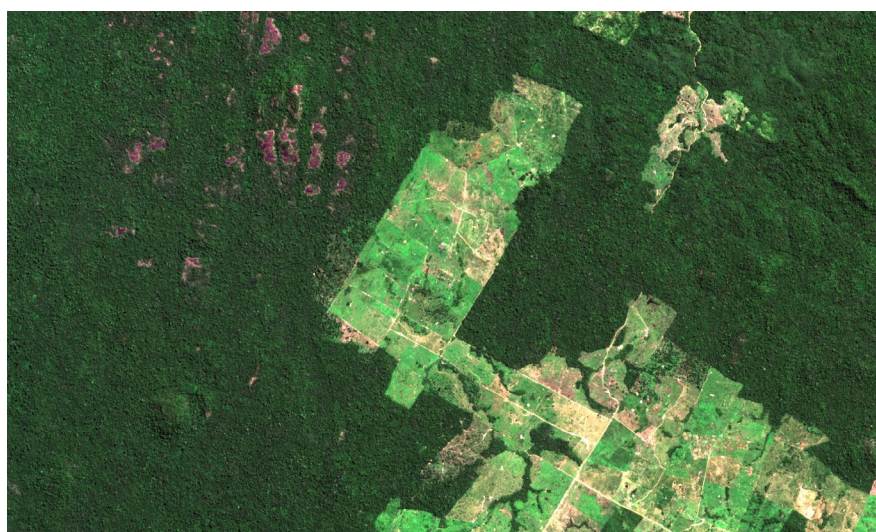
The European automotive industry is among the buyers of a product that is one of the most important drivers of deforestation in South America: cowhide leather. All four Mercosur countries export cowhide that European suppliers turn into car seats and interior linings that are fitted in models from major manufacturers. In Argentina, Paraguay and Brazil – the world's biggest cowhide exporter – cattle herds are major contributors to deforestation. They often graze on pasture that was created by the illegal clearance of forests, such as in Paraguay's Chaco region or in Brazil's Amazon.

One study published by the German environmental organisation Deutsche Umwelthilfe and the Rainforest Foundation Norway found a complex supply chain that stretches from Brazilian cattle farms through to European carmakers. As tracking systems are absent or inadequate, none of the tanneries, leather manufacturers, car seat factories or vehicle brands themselves can reliably prove the origin of the cowhide. For this reason, the study could not rule out the possibility that the major European manufacturers of VW, Daimler, BMW, Renault and PSA are using leather components originating from illegal slash-and-burn farming in the Amazon. Severe human rights violations at the origin of the manufacturers' supply chains were also unable to be ruled out. For example, various cattle farming operations that supply abattoirs in the Amazon face allegations of land theft, falsifying land titles, committing violent attacks and facilitating slave-like employment.⁷⁷

Around half of Brazilian cattle are bred in the Amazon, where most abattoirs are also based. The cattle are skinned in the abattoirs, where their skins are salted to preserve them. Tanneries then process the salted skins into 'wet-blue' semi-finished leather, which is subsequently processed further into finished leather. Specialised companies turn the finished leather into vehicle leather that they then on-sell to car seat manufacturers. Among the biggest companies based in the EU that manufacture car seats are Adient, Lear, Faurecia, Toyota Boshoku and Magna. The biggest manufacturers and exporters of car seats in the EU are the Czech Republic and Germany.

In Brazil, most tanneries manufacture wet-blue leather, but some also make finished leather. The country exports both wet-blue and finished leather, as well as smaller quantities of salted skins. Measured in terms of product weight, 86 per cent of Brazilian exports are wet-blue leather, 11 per cent are finished leather and the remainder are salted skins. When measured by the value of the goods, however, 58 per cent of exports are finished leather, with 42 per cent being wet-blue leather. The salted skins are insignificant. This means that the Brazilian exporters earn far more with the processed finished leather than with the wet-blue leather that dominates in quantity terms. When measured by value, around half of Brazilian export leather is processed for the automotive industry.⁷⁸

In the EU, Italy is the main buyer of Brazilian finished and semi-finished leather. Specialised tanneries in Italy prepare the leather for the automotive industry and subsequently supply it to car seat manufacturers in countries such as Germany, Austria and the Czech Republic. However, Germany also sources finished leather directly from Brazil. For example, in 2019 around 42 per cent of finished leather that was imported to Germany came from Italy, with 17 per cent coming from Brazil.⁷⁹



In order to produce the coveted leather for car seating, grazing areas are needed. The result is even more pressure on forests and indigenous areas. Photo: Sentinel Hub, Flickr



Clouds of dust instead of rainforests are the price for the growing demand for leather.

Photo: A C Moraes, Flickr

The EU-Mercosur Agreement could see South American cowhide exports to Europe growing even further, given that tariffs and export taxes are to be lowered. In the EU, the importation of wet-blue leather is already tariff-free, but tariffs of 6.5 per cent need to be paid on dried finished or full-grain leather. The EU plans to remove these tariffs within four years of the agreement coming into force.⁸⁰

Under the annex on export duties, Argentina will also undertake to removing the standard rate of export taxes on wet-blue and finished leather of 10 per cent within five years of the agreement coming into force. Uruguay is also committing to reducing the standard rate of export taxes on wet-blue leather to zero within a five-year period, from the current rate of five percent. The annex to the agreement currently does not contain any lists of commitments from Brazil or Paraguay.⁸¹ If this remains the case, both countries would effectively be backing themselves into a corner, because they would not be allowed to impose or reintroduce any export duties.

For example, Brazil has imposed an export tax of nine per cent on wet-blue leather and salted skins since 2000. In September 2018, meanwhile, the conservative government led by Michel Temer decided to give in to long-voiced demands from the Brazilian agricultural lobby and tanneries and remove the export tax.⁸² A future reintroduction of the tax, perhaps under a new government, would be a breach of the EU-Mercosur Agreement under the current wording of the text.



11. Employees: Fear of predatory competition and job losses



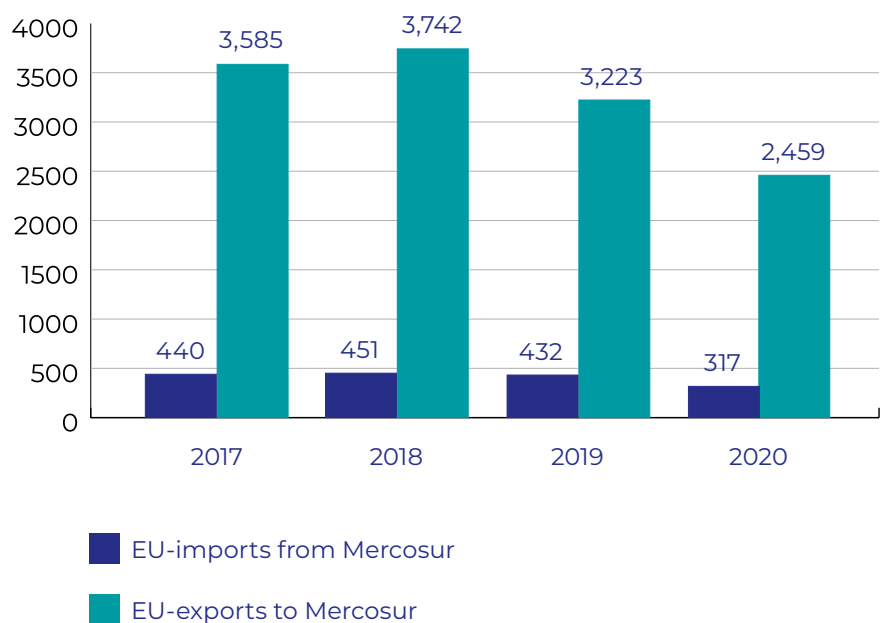
For workers in steel processing plants in Mercosur, wage dumping and predatory competition could increase under the trade agreement.

Photo: Luci Sallum/PMC, Flickr

The EU-Mercosur Agreement also creates particular issues for employees in the automotive industry, especially on the Mercosur side. They can expect stronger competition from EU-sourced vehicles and, in particular, vehicle parts. Even now, Mercosur has a major trade deficit with the EU in the automotive sector. In the years before the coronavirus crisis, the deficit already stood at €3 billion for the crucial vehicle part sector alone (see Figure 12).

EU-Mercosur: trade with car parts

Figure 12: Million Euro, source: European Commission, 20.5.2021



As the agreement does not contain any measures for improving the competitiveness of the auto industry in Mercosur, the structural advantage of the EU industry will remain in place with the agreed tariff reductions. The agreement requires Mercosur to completely remove tariffs on vehicles within 15 years of the agreement coming into force. Currently, Brazil and Argentina impose tariffs on vehicles of 35 per cent. Uruguay imposes a 23 per cent tariff, while Paraguay has a 20 per cent tariff. The gradual dismantling of tariffs is planned to begin after a transitional period of seven years from the time that the agreement comes into force. During this period, however, Mercosur will already provide a quota of 50,000 passenger vehicles that are allowed to be imported at half the usual tariff rate. Import tariffs on vehicle parts in Mercosur are at a somewhat lower level, usually between 14 and 18 per cent. Under the agreement, 80 per cent of these tariffs are to be removed within ten years, with an additional tranche being removed within 15 years.⁸³

The origin rules under the agreement are another cause for concern amongst employees in Mercosur. These are set down in a separate protocol and product-specific annex. CLEPA, the European automotive suppliers' association, voiced criticism in a 2017 position paper about the local content component that carmakers need to create in their countries of origin to be allowed to export cars and parts to Mercosur. In Argentina and Brazil, these local content components stand at 60 per cent.⁸⁴

However, the annex on rules of origin prescribes a lower local content ratio of 55 per cent for EU exports of vehicles and 50 per cent for vehicle parts.⁸⁵ Additionally, in the future Mercosur will accept an option for exporters to provide proof of origin for their products and components using self certification.⁸⁶ However, the self-certification process will open up major opportunities for exporters to disguise the origin of parts and raw materials from third countries outside the EU.

CLEPA is certainly pleased about the results of the negotiations. With the lower "*local content*" requirement, CLEPA says Mercosur is moving closer to EU origin rules for the vehicle sector.⁸⁷ But trade unions in Mercosur see precisely this point as a major risk. This is because EU manufacturers can now use even higher proportions of raw materials from outside the EU in their vehicles and vehicle parts that they can then export into Mercosur. By doing so, however, suppliers based in Mercosur will be subject to even greater competitive pressures and are likely to lose market share in their own region.

In a joint statement, trade union confederations in Mercosur are critical of the provisions agreed upon in the agreement with the EU. The unions say the tariff reductions are too much and the pace is too rapid for local industry to be able to adapt to the tougher competition. Moreover, the relaxation of origin rules runs the risk that precursor products from third countries enjoy Mercosur's tariff preferences, despite being manufactured under ultra low-wage conditions and in ways that violate labour standards. The unions argue that the more intense competition will put jobs at risk and will increase the precarious nature of employment relationships in Mercosur countries. Signing up to the agreement is "*a death sentence for our industries*", the unions say.⁸⁸

A study by the "*Universidad Metropolitana*" (UMET) in Buenos Aires calculated the number of jobs that could be put at risk in various sectors of the Argentinian economy as a result of the EU-Mercosur Agreement. According to the study, a total of 186,000 jobs could be lost as a result of the liberalisation of the market. In the metal industry, 48,000 jobs are at stake, while 32,500 jobs are at risk in the manufacture of vehicle parts and 9,500 in vehicle production. This means around half of the potential job losses would be in the vehicle and metal industry.⁸⁹



12. Motor vehicle annex: Recognition of substandard approvals and tests

The competitive pressures in Mercosur may also increase as a result of the rules of the motor vehicle annex that is to become part of the trade agreement. The annex is dedicated to removing and simplifying “*technical barriers to bilateral trade*” resulting from state regulation and conformity assessments for recognising foreign tests and certificates.⁹⁰

To this end, the annex points to the UNECE agreement from 1958 on standardised technical regulations and the mutual recognition of approvals in the vehicle sector. Around 60 European and some non-European countries have signed this agreement from the United Nations Economic Commission for Europe (UNECE). However, some countries such as the US, China, India and the Mercosur members are missing – a fact lamented by the ACEA and CLEPA automotive industry associations in their submissions to the EU Commission. Around 160 technical regulations for vehicle approval have been recognised under the UNECE agreement to date, with recognition for corresponding approvals granted that the signatories have largely adopted in their national law.

In the automotive annex, the Mercosur countries do not commit to ratification of the UNECE agreement, but they do recognise it as a “*useful reference*” for their own approval procedures. Moreover, the Mercosur members are also undertaking to compile lists of test reports and certificates that are issued in the EU on the basis of UNECE or EU regulations and are recognised by Mercosur countries. These lists are to be added to the automotive annex, making them a binding part of the EU-Mercosur Agreement, but still remain unpublished.⁹¹

However, the recognition of certificates and tests that were undertaken on the basis of UNECE or EU regulations carries risks, as these regulations have in the past often proven to be too weak to meet major targets such as emissions reductions in the vehicle fleet. But the weak testing and approval procedures in the EU not only made it easier for carmakers to manipulate their exhaust figures by using defeat devices in lab tests,⁹² they also allowed for the massaging of their emissions levels.

To this day, various loopholes in the EU Regulation that was passed in 2009 and amended in 2019 on CO₂ fleet targets allow EU levels of average carbon emissions for all new vehicles (currently 95 grams of CO₂ per kilometre) to be exceeded by a significant margin. According to a Greenpeace investigation, the actual carbon emissions of new vehicles from VW, Daimler and BMW exceeded the 95-gram target for the EU vehicle fleet by 65 to 85 per cent in 2020.⁹³

Against this backdrop, it seems inadvisable for Mercosur countries to recognise EU type approval certificates without further investigation. Instead, there should be much stricter testing and approval procedures that make up for the inadequacies of EU regulation. In Brazil, for example, the recognition of European certificates could potentially weaken current approval procedures. IBAMA, the Brazilian environmental authority, currently only accepts tests for monitoring the environmental impact of vehicle types if they were conducted in the presence of IBAMA employees – a process that could potentially be dropped in the future.⁹⁴



13. Insufficient: Clauses on risk prevention

The automotive industry ultimately benefits from the completely inadequate rules in the EU-Mercosur Agreement that are supposed to combat the environmental, social and human rights risks the deal poses. These shortcomings mean that significant damage to the environment and severe human rights violations can continue to be expected across the automotive industry's supply chains.

For example, if the leather bought for car seats comes from Brazilian cattle farms that use slave-like employment conditions, the ability to impose sanctions for such violations of labour rights needs to be available even under the association agreement. If these operations have obtained pasture through slash-and-burn farming, illegal land seizures or the expulsion of indigenous peoples, these violations also need to be investigated. The same applies if sugarcane for bioethanol production or soy for biodiesel manufacture comes from arable land that had been previously illegally cleared. Penalties also need to be possible if companies commit gross breaches of their duty of care, such as in the case of the burst dam at the iron ore mine in Brumadinho.

However, one of the key chapters containing provisions on international labour and environmental standards is excluded from the dispute settlement process of the EU-Mercosur Agreement. Trade sanctions are therefore generally unable to be imposed for breaches of the provisions of this sustainability chapter.⁹⁵ The implementation of the chapter's requirements is for this reason almost impossible.

For example, violations of core labour standards and other conventions from the International Labour Organisation (ILO) that refer to the sustainability chapter cannot be effectively processed. Another issue is that Brazil has still not ratified one of the fundamental ILO labour standards, Convention No. 87 on the Freedom of Association and Protection of the Right to Organise.⁹⁶ The Mercosur Agreement fails to make the ratification of this convention a requirement for the deal to come into force.

In the sustainability chapter, the EU and Mercosur also commit to the “*effective implementation*” of multilateral environmental agreements, including the Paris climate change agreement.⁹⁷ But the chapter lacks specific steps to guarantee the implementation of national climate protection measures which EU and Mercosur countries have signed up to in the Paris agreement.

Concrete commitments on the implementation of deforestation-free supply chains, as are currently being discussed in the EU on the basis of a related proposed regulation, are also a gap in the sustainability chapter (see chapter 14 of this report).⁹⁸ In this respect, it is an obvious contradiction that the EU is seeking to recognise the necessity of deforestation-free supply chains and to guarantee this through regulation, but is failing to include matching assurances in a trade agreement that has yet to be signed.

The sustainability chapter also offers no relief when it comes to avoiding rampant territorial conflicts in the Mercosur countries. For example, Article 8 of the chapter includes only a commitment from the parties to the agreement to support the integration of local communities and indigenous peoples in the supply chains of forestry products. The affected parties are supposed to provide their “*prior informed consent*” for such integration.⁹⁹ However, this wording lags far behind the more demanding UN concept of free, prior and informed consent that requires the consent of indigenous peoples for any use of their territories.

Although there have been major breaches of duty of care by corporations in Brumadinho and other mining disasters, the sustainability chapter contains no mandatory provisions on corporate responsibility. While Article 11 mentions the “*responsible management of supply chains*”, the parties to the agreement are obliged only to “*circulate*” non-binding guidelines from international organisations (UN, OECD, ILO), providing they have signed these.¹⁰⁰

Ultimately, it remains questionable whether the association agreement will include a human rights clause that will remove the known weaknesses of the deal. The EU does not normally integrate such clauses into its trade agreements. In the sections of the Mercosur Agreement that have been published to date, such a human rights clause is still missing.¹⁰¹ In general, this clause would suspend trade preferences in the event of human rights violations. But as the hurdles for a human rights clause to be activated are incredibly high, it is rare for one to be used. Specific monitoring and complaints mechanisms are also lacking. For these reasons, the mere acceptance of a human rights clause would not guarantee the better use of such a tool.¹⁰²

Overall, the weak provisions on risk mitigation strengthen the already privileged position of the European automotive industry and related industries. Completely inadequate environmental, social and human rights clauses stand in contrast to the numerous benefits for vehicle manufacturers and suppliers. In this manner, the agreement entrenches the supply chains in the automotive industry that are harmful to people and the environment, without taking sufficient steps towards a social and environmental transformation of the vehicle sector.

By favouring the automotive industry, the EU-Mercosur Agreement will also prevent the mobility revolution we need. By being strengthened in terms of trade policy, the influence of this sector will grow further, making it easier for the industry to defeat measures aimed at combating traffic and reducing individual motorised transport. At the same time, the agreement will promote environmentally harmful agrofuels made from sugarcane and soy diesel, such as bioethanol – false climate solutions that convey a green seal of approval on consumption-heavy combustion engines, the aim of which is to drag out the necessary phasing-out of internal combustion technology. In this sense, the agreement puts on hold the social and ecological transformation of the automotive industry and a more comprehensive transport shift that replaces environmentally harmful personal transport methods with collective, public transport options.

14. Conclusions and recommendations

The considerable influence that the automotive industry and related economic sectors have been able to exert on the EU-Mercosur Agreement underlines the urgent need for a comprehensive reform of EU trade policy. There should not be ratification for an agreement that carries the fingerprints of the automotive industry, entrenches its supply chains that are damaging to people and the environment and places obstacles in the way of the much-needed mobility revolution. The agreement would increase global inequality, lead to deindustrialisation of the Mercosur countries and increase their dependence on problematic exports of raw materials. The deal does nothing to address the pressing global challenges of climate change, species decline and human rights violations.

Rather than an EU-Mercosur Agreement that puts further barriers in the way of overcoming these global challenges, the EU needs a legal framework that shapes its external trade relationships in a way that is environmentally-friendly, humane and sustainable. The retention of livelihoods, respect for our planet's limits and the just access to goods and services must be the cornerstone of sustainable trade relationships.

Accordingly, trade agreements need to be embedded in the social and ecological transformation of our economies and lifestyles and support this shift. Trade agreements should make a measurable contribution to maintaining livelihoods and to ensuring a more equal distribution of goods and services, while respecting earth's limits. By contrast, trade agreements that – as is currently the case – privilege corporate interests over the protection of the environment and human rights, causing significant harm in the process, should be a thing of the past.

Along with a fundamental reform of trade agreements, we need additional components that ensure companies respect and implement human and labour rights obligations and environmental and climate protection measures across their entire supply chains. In this regard, the EU Commission took a – still insufficient – step forward in November 2021 with its proposed regulation for deforestation-free supply chains under the regulation, companies would in future have to prove that relevant agricultural and forestry products that they plan to launch in the EU market have not contributed to deforestation and forest degradation.¹⁰³

The regulation also captures particular at-risk products that are used by the automotive and fuel industries in large volumes, such as leather, palm and soy oil. But some important resources for the tyre industry, such as rubber, are missing from the list. Mineral resources, the production of which is often associated with major forest destruction, are also not included. These include iron ore, copper and gold. The draft regulation also excludes other ecosystems from its scope, such as wetland areas and savannahs that are currently under major threat from the cultivation of agricultural commodities. The regulation also fails to embed international human rights norms, even though land grabs and forced evictions often occur during the production process of the raw materials in question.¹⁰⁴ With its regulation for deforestation-free supply chains, the EU is pursuing a product-based approach, as it also does for some other EU regulations on issues such as conflict minerals, fishery products and the illegal timber trade. A product-based approach is also behind the carbon border adjustment mechanism. In theory, carbon border adjustments place a surcharge on the importation of certain industrial products that breach specific thresholds for greenhouse gas emissions. The affected products include iron, steel and aluminium – important raw materials for the automotive industry that uses them in large quantities.¹⁰⁵

However, gaps in the proposed regulations and directives show that it is not just additional product-specific legal regulations that are needed. A framework is also urgently required to compel companies from across all sectors to act with due care with respect to the environment and human rights. On 23 February 2022 – after numerous delays – the European Commission published its proposal for EU supply chain legislation. This is the Corporate Sustainability Due Diligence Directive (CSDDD).¹⁰⁶ One positive aspect is that the proposal includes environmental and climate-related duty of care requirements, as well as human rights obligations. Another major step forward: In addition to official penalties, the Commission is also proposing civil liability for companies that cause harm by breaching their duty of care obligations.

However, the draft contains several loopholes that would severely restrict the effectiveness of the EU supply chain legislation. For example, the duty of care obligations apply in principle to the entire value chain, but only in relation to what are referred to as “*established business relationships*” of a permanent nature. Short-term transactions that can also harm people and the environment would be excluded under these terms. In addition, the loophole is almost an invitation to companies to change business partners more frequently, particularly in at-risk areas.

Another shortcoming: If wrongdoings are committed by indirect business partners, companies can evade liability by including human rights clauses in their business contracts and transferring scrutiny to third parties. But the horrendous bursting of the dam in the Brazilian town of Brumadinho and several devastating fires in the textile sector have already demonstrated that superficial audits and certifications can endanger people’s lives. The fact that companies are required to publish climate plans that are compatible with the 1.5 degree target but are not explicitly obliged to implement them is also unsatisfactory. The proposal would have to be improved in relation to these and other matters if effective progress is to be made on the EU supply chain legislation to protect human rights, the environment and the climate.

This type of legislative framework that combines cross-sector EU supply chain legislation with detailed, product-based regulations, could help to strengthen human rights and environmental protection in the EU’s external economic relations. However: The structural problems resulting from deficient trade agreements such as the one with Mercosur would still not be resolved even if this were implemented.

But as the EU has now made a start on reversing some of the environmental and human rights deficits in its external economic relations, it would not be acceptable to implement the agreement with Mercosur in its current form. Rather, the EU should recognise the significant risks of this agreement, suspend the planned ratification and seek to renegotiate the deal. This would send a strong signal about the urgent need for a social and environmental transformation of its trading relationships.

Future negotiations should aspire to agreements that meet the following minimum standards:

- **Participatory and effective impact assessments:** Fundamental reforms need to be made to the current four-level system used by the EU Commission for assessments (including Impact Assessments (IAs), Sustainability Impact Assessments (SIAs), economic assessments of the negotiated outcome, ex-post evaluations). In particular, fundamental changes need to be made to the Sustainability Impact Assessment (SIA) conducted during the negotiations. Various econometric models need to be used as part of the methodology. When conducting the impact assessment, there needs to be as much transparency as possible and civil society needs to be involved at all levels. Another important aspect is this: The SIA needs to be concluded before the negotiations are completed and should serve as a basis for the granting to the EU Commission of a mandate to negotiate. SIAs need to be repeated before signing and following a particular implementation phase of an agreement.¹⁰⁷
- **Respect for the planet's limits:** Trade agreements need to be structured in such a way that they respect the earth's limitations and ensure a just, sustainable and responsible use of natural resources. They should follow the 'polluter pays' principle and prevent society from being burdened with the costs for remedying environmental damage caused by trade.
- **Democratic control of the negotiating process:** To prevent powerful groups such as the car industry from gaining a strong influence, all phases in the process – from preliminary talks to the negotiations about final agreements – need to take place in a transparent manner. During the negotiations, the European Parliament, parliaments in the member states and the public need to have full access to the mandates, negotiation proposals and complete texts. Above and beyond the right to be informed, members of the European Parliament and national parliaments also need to be able to bring in mandatory targets and new proposals into ongoing negotiations. The debates related to these need to be public and involve civil society. In order to stop individual lobby groups from gaining improper influence, trade agreements also need to come with a "*legislative footprint*" that makes the origin of individual clauses in the agreement transparent.
- **Climate and species protection as significant components:** On top of human rights, climate and species protection rules also need to be made "*essential elements*" of future trade agreements. Action needs to be taken against breaches of these essential elements. This means: In the event of wrongdoing, an agreement – following a participatory consultation process – can be suspended in full or in part.
- **Implementation of international agreements on human rights, labour standards and the environment:** Obligatory sustainability chapters that are enforceable by sanctions in trade agreements need to compel all parties to the agreement to effectively implement international environmental and human rights agreements and core ILO labour standards. This needs to include statutory provisions that require companies to ensure appropriate duty of care obligations are upheld, as well as guaranteeing the availability of legal remedies for affected parties. The duty of care obligations must apply to all sectors captured by the agreement, including at-risk sectors such as the automotive industry and mining. Parties to the agreement must provide resources for the implementation of these obligations and ensure that legal remedies are easy to use and are readily accessible for affected citizens and civil society actors. A general exceptions clause also needs to ensure that trade and investment rules do not hinder

measures needed to implement human rights, labour rights, environmental standards and climate action. Mandatory sustainability criteria enforceable by sanctions should not just be included in the relevant sustainability chapter, but should be found in all chapters of an agreement. There need to be provisions for a tiered system of penalties – the most severe being the suspension of trade preferences – that can be imposed for repeated breaches of the sustainability criteria.

- **Monitoring and complaint mechanisms:** Additionally, monitoring entities and complaints mechanisms need to be established for trade agreements. To ensure monitoring, there need to be sufficient resources that also allow civil society groups in the partner countries to carry out necessary control functions. Complaints mechanisms also need to be established that allow affected parties in the partner countries to report breaches of environmental and human rights clauses in a trade agreement. If infringements of the agreement do not cease, complaints from civil society groups must also be able to bring about tiered sanctions. The complaints mechanism that was recently established by the EU Commission with the Single Entry Point is insufficient for this purpose and has also been shown to be inadequate.¹⁰⁸ For example, between November 2020 and October 2021, only complaints by companies were submitted and these sought to remove trade barriers in non-EU countries. Meanwhile, complaints about breaches of sustainability obligations were completely absent. Moreover, the mechanism is only available to EU citizens and organisations if they are seeking to lodge complaints about breaches in third countries.¹⁰⁹
- **Time limitation on the validity of agreements and the introduction of a revision clause:** Trade agreements should run for a limited time period (e.g. 10 years), with extensions requiring the active approval of parliaments in the member states. Finally, there needs to be a revision clause that allows for changes to be made to a trade agreement if the agreement's provisions prove to be inadequate for the social-ecological transformation of supply chains and for the implementation of human rights.

We need to see a significant improvement in trade agreements to be able to meet upcoming challenges in society, whether these relate to climate and species protection or to the mobility and agricultural transformation. But we also need a social and environmental transformation in the areas of manufacturing and consumption that precede and follow trade. This transformation needs to be connected with the reforms for trade relations that have been outlined here.

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