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Case study

Trade in support of circular economy

Opportunities between the EU and Mercosur



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List of abbreviations

AA	Association Agreement
CEAP	Circular Economy Action Plan
EDB	Environmental Database
EPR	Extended Producer Responsibility
ESPR	Ecodesign for Sustainable Products Regulation
EU	European Union
FTA	Free Trade Agreement
GACERE	Global Alliance on Circular Economy and Resource Efficiency
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GI	Geographical Indicator
HS	Harmonised System
ILO	International Labour Organisation
ISO	International Organisation for Standardisation
NGO	Non-governmental organisation
OECD	The Organisation for Economic Co-operation and Development
PACE	Platform for Accelerating the Circular Economy
SDG	Sustainable Development Goals
SIA	Sustainability Impact Assessment
SPS	Sanitary and Phytosanitary
TESSD	Trade and Environmental Sustainability Structured Discussions
TBT	Technical Barriers to Trade
TFA	Trade Facilitation Agreement
TSD	Trade and Sustainable Development
WTO	World Trade Organisation

EXECUTIVE SUMMARY

The EU is moving ahead on its ambition to develop and promote a European circular economy, as demonstrated with the publishing of the Circular Economy Action Plan (CEAP) and its subsequent proposed regulations. Yet, its objective to foster circularity globally is intertwined with its trading system. Undoubtedly, the circular economy is an essential concept to develop future-proof, sustainable and resilient supply chains, as well as to tackle global challenges like climate change, biodiversity loss, waste, and pollution.

This policy report looks specifically at the trade relations between the Mercosur Region and the EU and puts forward some recommendations on how their Free Trade Agreement (FTA) could support the transition to and uptake of the circular economy in both regions.

Mercosur countries and the EU have implemented policies to encourage circular practices, albeit some more far-reaching than others. The EU Green Deal deploys various initiatives for sustainable principles for the European economy (e.g., agriculture, industry, mobility, investment) in addition to the comprehensive CEAP which targets select sectors and product groups. This package of policies designed at the European level allow for a comprehensive approach to guide the European economy towards the green transition. Within the Mercosur region though most policies tend to focus on Extended Producer Responsibility (EPR) and there is a general lack of integrated national (or regional strategies) except in Uruguay.

Furthermore, in its current state, the EU-Mercosur FTA does not contain any provisions to support the development of the circular economy, but instead is left to a set of general principles based on the will of the parties. Although a full renegotiation of the painfully negotiated agreement seems today highly likely, it is also difficult to imagine the European Parliament coming back on its previous decision to not ratify the deal as it stands. Therefore, it is reasonable to assume that discussions will happen on some form of amendments on the agreement which could bring opportunities to include elements of cooperation to promote trade that is conducive to the circular economy transition in both regions.

These opportunities could take the form of a better identification and assessment of the sustainability of products that are traded between the regions through the inclusion of a product passport as foreseen in the recently published Sustainable Product Initiative. Moreover, the deployment of technical cooperation mechanisms under new, dedicated provisions in the complemented EU-Mercosur FTA

to enable the EU and Mercosur member states to work together on mutually recognised product passports to improve transparency in supply chains.

Depending on the development of circular economy policies or, for example, work on national circular economy roadmaps in the Mercosur countries, cooperation in the context of the trade agreement's Trade and Sustainable Development (TSD) Chapter could focus on dialogue and capacity-building where such policy development is supported in the Mercosur countries. However, with time and as the concept of circular economy matures through, inter alia, the development of new standards, these can/should be brought into the realm of the trade agreement through technical working committees under the Technical Barriers to Trade (TBT) or Sanitary and Phytosanitary (SPS) chapters.

Green Procurements Processes in both regions also have the potential to be a driver of circular economy yet progresses are necessary regarding the introduction of clear and concrete criteria in public tender processes to support that objective.

From a multilateral perspective, the roll out of circular economy processes and regulations suffers from the lack of mutually recognised definitions, classifications, standards and regulations for circular economic goods or services. Efforts to establish what circular economy standards could be, would support dedicated trade measures and eventually promoting trade in product with right kind of circularity including from a profitability perspective.

Several international initiatives are worth being mentioned in that regards and are detailed in the report such as the Platform for Accelerating the Circular Economy (PACE), the WTO Environmental Database (EDB) and Trade Facilitation Agreement (TFA) or the latest steps taken by the International Organisation for Standardisation (ISO) to create a common understanding of circularity in the trading system.

These initiatives seek to address the ever-present tensions between the objective of the EU to further regulate the access to its market through more stringent circular economy related standards, and the challenges that such higher barriers create for exporters, and in particular the most vulnerable stakeholders in low and middle-income countries.

The objective of this case study is to shed further light on these tensions to eventually maximise the opportunities for the transition to a circular economy through the trade relations between the EU and Mercosur.

1. INTRODUCTION

The circular economy seeks to alter the present economic paradigm by addressing our current, ever-increasing resource extraction from the Earth's finite resources. Accordingly, resource efficiency alleviates the excessive extraction of resources, but also contributes to decarbonisation, as a considerable amount of our carbon emissions are related to how goods are produced and consumed. A global scale-up of the circular economy will therefore not only advance global decarbonisation efforts but also unlock greater benefits to resource efficiency.

1.1 Circular economy and the EU

In March 2020, the EU took a substantial step forward towards the transition to a European circular economy by adopting the EU Circular Economy Action Plan¹ (CEAP) under the EU Green Deal. The Action Plan paves a pathway to European circularity by outlining a Sustainable Product Policy framework and plans to target key value chains with great potential for circularity including electronics and ICT, batteries and vehicles, packaging, plastics, textiles, construction and buildings, and food, water, and nutrients.

Moreover, the CEAP proposes the establishment of a Global Circular Economy Alliance, a more integrated partnership with Africa and the inclusion of new circular economy objectives in its future free trade agreements (FTAs), thereby acknowledging the need to scale up towards a global circular economy. Cooperation on a multilateral level is key to unlocking the benefits of scale tied to a global circular economy but, also, to mitigate unwanted consequences to sustainable development caused by a shift in trade flows caused by an altered demand from primary to secondary resources in the medium to long term.

Indeed, an inherent element of the CEAP is that the effects of its new domestic policies are undoubtedly bound to spill over, affecting trade flows, and consequently, socio-economic development at a global scale. Production and consumption, materials, goods, services, and data are linked through global trade. As key supply chains are targeted by new sustainability standards under the CEAP, the EU must seek partnerships and lead the charge by envisaging a trade policy framework for businesses to innovate and trade with new circular markets across the world while accounting for negative effects to global sustainable development. The EU indeed has the opportunity to inspire, lead and leverage access to its market to reach for improved standardisation with its trading partners.

¹ European Commission. (2020). Circular Economy Action Plan. [Link](#).

One example of shifting trade streams is waste exports. Prior to the publication of the CEAP, EU circular economy policies targeting domestic waste recycling partially relied on exporting waste to be recycled abroad. Although it allowed EU to achieve its own recycling rate targets, once waste is shipped abroad – usually to developing countries – the EU cannot guarantee the quality of the recycling process.

Since 2017, many of EU's waste recipients closed their ports for plastic waste shipments, including China, India, Thailand, Vietnam, and Malaysia. In need of a new approach to dealing with its waste, the EU's CEAP focuses on preventing waste creation in the first place and taking charge of reverse value chains. Moreover, in January 2021, the EU placed a ban on exporting hazardous and hard to recycle plastic waste to non-OECD countries in addition to tightening the rules on clean, non-hazardous waste exports to these same countries². Lastly, the European Commission published on 17 November 2021 its proposal for a new regulation on waste shipments³. Under this new proposal, EU waste exports to non-OECD countries will be further restricted and only allowed if third countries are willing to receive certain wastes and are able to manage them sustainably.

The Commission published the Sustainable Product Initiative⁴ in March 2022 which puts forward new sustainability requirements for goods sold on the EU. This would involve the legislation of delegated acts aimed at revising and expanding the Ecodesign Directive to target more than energy-related products and impose new performance and information requirements, as well as a ban on the destruction of unsold consumer goods. These requirements seek to improve products' durability, reliability, reusability, upgradability, reparability, ease of maintenance, refurbishment, and recyclability, as well as regulate the presence of substances of concern (toxic chemicals), energy use or energy efficiency, percentage of recycled content, possibility of remanufacturing, recycling and recovery of materials, and the expected generation of waste.

Other milestones in terms of EU domestic measures are the CEAP's Ecodesign for Sustainable Products Regulation⁵ (ESPR), the Proposal for a regulation on deforestation-free products⁶, or the Proposal for a Directive on corporate sustainability

² European Commission. (2020). Plastic waste shipments: new rules on importing and exporting plastic waste. [Link](#).

³ European Commission. (2021). Proposal for a new legislation on waste shipments. [Link](#).

⁴ European Commission. (2022). Sustainable Products Initiative. [Link](#).

⁵ European Commission. (2022). Proposal for Ecodesign for Sustainable Products Regulation. [Link](#).

⁶ European Commission. (2021). Proposal for a regulation on deforestation-free products. [Link](#).

due diligence⁷. These initiatives have all been published since November 2021 raising concerns about potential negative socio-economic effects in the Mercosur Region as they will create additional obligations for potentially vulnerable stakeholders.

The CEAP impacts EU trade flows with regards to the introduction of new measures on production and the reduction of barriers to trade for secondary resources. The former intends to empower consumers and increase product sustainability by increasing opportunities for product repairability, reusability and durability by introducing new standards and criteria for products sold on the EU market. The latter aims to incentivise the market for secondary raw materials by pushing for better harmonisation of rules applied to waste and spent goods.

Another concern is the fact key sector that the CEAP does not seem to adequately address is circular bioeconomy which is of particular significance in the Mercosur region. The CEAP does recognise that “the circular economy can significantly reduce the negative impacts of resource extraction and use on the environment and contribute to restoring biodiversity and natural capital in Europe” yet it seems to focus on the implementation of the Bioeconomy Strategy and Action Plan⁸ rather than promoting the application of a circular lens in the bioeconomy.

The main initiatives through which the CEAP aims to make food and water production, consumption, and waste more circular include:

- Tackling food waste reduction under the EU Farm-to-Fork Strategy.
- Addressing sustainability of food distribution and consumption through the replacement of single-use packaging, tableware, and cutlery in food services under the sustainable products initiative.
- Encouraging circular approaches to water reuse in agriculture through a new Water Reuse Regulation.
- Developing an Integrated Nutrient Management Plan to ensure more sustainable application of nutrients and stimulate the markets for recovered nutrients.

⁷ European Commission. (2022). Proposal for a Directive on corporate sustainability due diligence and annex. [Link](#).

⁸ COM(2018)673: A sustainable Bioeconomy for Europe: Strengthening the connection between economy, society and the environment. [Link](#).

The EU would benefit from an overall strategy to address circular bioeconomy issues, integrating the notions of regenerative agriculture and food design (including issues such as proteins consumption) along with initiatives on food waste and loss⁹.

When it comes to the EU's FTAs, only one FTA in force references the circular economy in their Trade and Sustainable Development (TSD) Chapters, i.e., the EU-UK Trade and Cooperation Agreement. Moreover, four other draft agreements still under negotiation mention the circular economy. These are the FTAs with Australia, Chile, Mexico, and New Zealand, in addition to the still to be ratified EU-Mercosur trade agreement.

Although other agreements in force acknowledge the need for sustainable production and consumption of goods, as of yet, the concept of circular economy is far from being a regular feature in FTAs. Although the EU's 2021 Trade Policy Review¹⁰ reaffirms the need to seek commitments from its trade partners to further global efforts towards the circular economy transition – the EU must begin to deeply integrate circular economy principles in its trade policy and its implementation.

1.2 EU Mercosur case study: Aim and approach

Ensuring the global expansion of the circular economy calls for not only a higher demand for secondary resources but also a higher supply of these resources to establish a secure global market for recycled and reusable raw materials. In turn, establishing a market for reliable secondary materials requires attention to detail regarding resource and product definitions and standards. Variation in definitions, regulations, and standards across geographical areas for trade in secondary resources forms a technical burden, hindering efficient material circularity and disproportionately disadvantaging MSMEs, both within the EU and between EU and third countries. Since circular economy standards are only at the planning stage or early stage of development, the time to act is now.

With the CEAP's Sustainable Product Policy initiative putting forward new sustainability standards for goods, the EU can leverage access to its market to reach for improved standardisation with its trading partners.

⁹ For additional recommendations on EU circular bioeconomy strategies, cf Sitra report "Tackling root causes – Halting biodiversity loss through the circular economy (2022). [Link](#).

¹⁰ European Commission. (2021). Trade Policy Review - An Open, Sustainable and Assertive Trade Policy. [Link](#).

The following case study assesses EU's anticipated trade relationship with the Mercosur trade partners – Argentina, Brazil, Paraguay, and Uruguay – exploring where there could be opportunities for cooperation on facilitating trade on circular economy and where such cooperation could be particularly beneficial. While the political agreement on the EU-Mercosur FTA was reached in June 2019 there is still a lot to settle before the agreement comes into force, not least navigating the political pushback from several EU Member States and the European Parliament for ratifying the agreement due to its environmental implications¹¹.

A look at how circular economy could be integrated into the EU-Mercosur deal, to facilitate sustainable trade and/or provide safeguards for sustainability, can provide an interesting avenue for future discussions on how to 'green' the agreement. The bulk of the trade under the agreement is anticipated to consist of imports of agricultural products from Mercosur countries to the EU. Exploring the role of circular economy in the agricultural sector has, however, received limited attention so far, including under the implementation of the EU CEAP. Consequently, investigating these aspects are of particular interest when looking at the role of trade in supporting sustainable biomass production in the Mercosur countries and globally.

¹¹ Bauer-Babef, C. (4 March 2021). Political commitments not enough to ratify EU-Mercosur deal, says French minister. EURACTIV. [Link](#).

2. EU-MERCOSUR TRADE RELATIONSHIP

This section looks at the current trade framework which governs EU-Mercosur bilateral trade in goods and services and assesses the level of integration of circular economy-relevant initiatives and practices. Then this section presents an overview of EU-Mercosur trade in goods and services over recent years.

2.1 What is the trade framework

The current trade relations between the EU and Mercosur are defined by an inter-regional Framework Cooperation Agreement¹², dating back to 1999. The EU and individual Mercosur countries also have bilateral framework cooperation agreements, which also deal with trade-related matters however these are also not very detailed and include major trade barriers. To remedy this situation, the EU and Mercosur entered into negotiation in 2000 toward a wider encompassing agreement.

The following sections delve into the history and current state of play of the draft EU-Mercosur FTA, as well as an assessment on the circular economy-relevant contents of the agreement's TSD Chapter.

2.1.1 The EU-Mercosur FTA

In June 2018, the EU and the four founding members of the Common Market of the South (Mercosur) – Argentina, Brazil, Paraguay, and Uruguay (Venezuela was suspended indefinitely in 2016) – agreed upon a whole encompassing Association Agreement (AA) including political dialogue and cooperation. Later, on 28 June 2019, an “agreement in principle” was reached between the parties on the trade pillar of the agreement, The EU-Mercosur FTA.

The FTA must now be approved by the European Parliament and national Parliaments of the four Mercosur countries, as well as ratified by EU Member States, before starting the implementation process. However, progress has been on hold for over two years. The European Parliament and several EU member states are reluctant to move forward, due to opposition from European farmers, who fear unfair competition, and a coalition of NGOs and other stakeholders, concerned with the environmental risk carried by the agreement, and notably higher deforestation of the Amazon.

¹² EUR-Lex. (1999). Interregional Framework Cooperation Agreement between the European Community and Mercosur. [Link](#).

The EU-Mercosur FTA would be the EU's largest bilateral trade deal, with the creation of an integrated market of 780 million consumers. Taken as a group, Mercosur is the fifth-largest world economy, with a population of 295 million and an annual GDP of EUR 1.7 trillion in 2020. The EU is Mercosur's second most important trading partner, after China, representing 20% of trade in goods.

The FTA aims to eliminate customs duties on 91% of EU goods exports to Mercosur, with a particular focus on EU industrial products such as cars, car parts, machinery, chemicals, clothing, pharmaceuticals, leather shoes, and textiles. Other sectors such as EU food and drink exports would also see their import duties in Mercosur being eliminated progressively. The FTA also caters for the protection of about 350 of the EU's geographical indications (GIs) on the Mercosur market, as well as a certain degree of openness of Mercosur government procurement markets to EU companies.

In parallel, the EU would remove import duties on 92% of Mercosur goods exported to the EU. The FTA also contains a chapter on sanitary and phytosanitary measures, bilateral safeguards, e-commerce, small and medium-sized enterprises, dispute settlement, as well as a TSD Chapter, reviewed in more detail below.

The most salient issue between the parties during the 20 years negotiations has been the level and pace of liberalisation of trade in agricultural goods. Mercosur is a major producer of agricultural products such as beef and soybeans that already now make up a large part of Mercosur's exports to the EU. There are strong concerns among EU farmers on the effect of further agri-related trade liberalisation with a competitor, and this fuelled the lack of appetite from the EU side to ratify the agreement at this stage, beyond environmental concerns.

According to a 2016 impact assessment, EU agricultural sectors would be affected to different degrees by the further opening of the EU market for Mercosur agricultural imports. Some EU offensive agricultural goods would benefit from increased market liberalisation, such as cereals as well as wine and spirits. By contrast, sensitive products for the EU such as beef, rice, poultry, and sugar would come under pressure. For sensitive agricultural goods, the FTA caters for limited tariff rate quotas, in-quota duties, long staging periods and a safeguard instrument.

2.1.2 Current state of play

The "agreement in principle" is the result of compromises and hence it presents benefits and challenges. While it has been highly welcomed by many EU Members States, such as Germany initially EU industrial associations and agricultural associations of the Mercosur countries, it has also prompted significant criticism.

Some EU agricultural associations have been outspoken in their negative assessment of the FTA. Civil society groups have expressed their strong opposition to the FTA arguing that it would foster large-scale deforestation and an expansion of agricultural land in the Mercosur countries, which would be incompatible with the climate change goals under the Paris Agreement and would also have serious implications for indigenous people.

The case in support of the agreement

The agreement will eliminate customs duties in key sectors, including those with a large volume of trade such as cars and parts, machinery, chemicals, or pharmaceuticals, which are currently protected by high tariff levels. There is therefore an obvious direct gain for European industries and exporters for the opening of the Mercosur market, which remains comparatively extremely closed compared to other similar trade partners.

The agreement also covers sectors where trade has been kept to low levels by high tariffs such as textiles where exports to Mercosur are far lower than comparable and neighbouring markets, due to tariffs of 35% on clothing products and shoes and 26% on knitted fabrics for instance.

Last but not least, there are no trade agreements between Mercosur and other major world trading actors at the moment. Mercosur signed economic cooperation agreements with Bolivia, Chile, Israel, and Peru, and its most recent FTA with Egypt, took effect in 2017. It also signed in 2004 a preferential trade agreement with India. However, trade deals with other main actors have not concretised. The discussions with the US are currently on hold, while negotiations with Canada and South Korea remain underway but without significant breakthrough on the horizon. Defenders of the EU-Mercosur FTA argues that this situation provides the EU with a first mover advantage.

Main criticism

From the outset of the negotiations, a variety of serious concerns have been raised about environmental and human rights issues in connection with the EU-Mercosur FTA. These include increases in deforestation and carbon emissions, erosion of biodiversity, challenges for the protection of the rights of local communities and Indigenous Peoples.

To mitigate these negative spill-over effects, EU trade negotiations are supposed to be supported by Sustainability Impact Assessment (SIAs), to ensure the European Commission's policy choices are based on evidence and that the resulting agreements respect human rights and high economic, social, and environmental standards.

However, at the time of the conclusion of the EU-Mercosur negotiations in June 2019, only the first phase (out of three) of the related sustainability impact assessment had been completed. In response, five NGOs submitted a complaint to the European Ombudsman in June 2020, criticising that the external sustainability impact assessment for the trade pillar negotiations was finalised only after the "agreement in principle" was reached and that it does not contain up-to-date environmental data, notably on deforestation.

In a decision of 19 March 2021, the European Ombudsman found that the Commission's failure to complete a timely assessment of the social and environmental impact of the trade deal between the EU and the Mercosur bloc of South American countries, constituted maladministration¹³.

To try and resolve the deadlock, the EU and Mercosur are currently discussing on the best way to amend the EU-Mercosur FTA with the negotiation and conclusion of an annex document, a side letter, destined to "clear environmental hurdles this year"¹⁴ i.e., by the end of 2022, although the legal force of such a document remains unclear.

2.1.3 EU-Mercosur Trade and Sustainable Development Chapter

One of the three goals of the EU-Mercosur FTA is to "promote joint values such as sustainable development, by strengthening worker's rights, fight climate change, increase environmental protection, encourage companies to act responsibly, and uphold high food safety standards"¹⁵.

The TSD Chapter is in line with recent EU FTAs, the so-called EU "new generation agreements", which are promoted as including more stringent provisions related to the impact of the FTA on environmental, social and human rights issues. However, the agreement is not immune from the same criticism that accompany all new generation EU FTAs in terms of their ability to enforce such actions.

The TSD Chapter recognises the right of each Party to determine its sustainable development policies and priorities and to establish the levels of domestic environmental and labour protection it deems appropriate. All obligations related to environmental, social, or human rights issues therefore are only considered

¹³ European Ombudsman. (2021). Decision in case 1026/2020/MAS concerning the failure by the European Commission to finalise an updated 'sustainability impact assessment' before concluding the EU-Mercosur trade negotiations. [Link](#).

¹⁴ Spring, J. (2 May 2022). EU-Mercosur trade deal to clear environmental hurdles, this year, EU commissioner says. Reuters. [Link](#).

¹⁵ European Commission. (2021). EU-Mercosur Trade Agreement. [Link](#).

through the ratification of multilateral agreements such as the core International Labour Organisation (ILO) conventions, Paris Agreement, Convention on Biodiversity (CBD) etc. These are agreements to which all countries are already signatories, so critics question any positive effect brought forth by the FTA.

This is reinforced by the fact that the TSD Chapter mainly provides for a system of working groups and panels as a guaranteed mechanism to monitor the enforcement of such multilateral agreements, with little force or capacity for sanctions. The implementation of the Chapter relies almost solely on the will of the parties, which makes it significantly less stringent than the chapters focusing on trade in goods and services, investment, and intellectual property.

Incidentally it is in the TSD Chapter that the only mention of circular economy in the whole agreement is found. It appears in Article 13 “Working together on trade and sustainable development”, where “The Parties recognise the importance of working together in order to achieve the objectives of this Chapter. They may work together on inter alia (...) sustainable consumption and production initiatives consistent with Sustainable Development Goal (SDG) 12, including, but not limited to, **circular economy** and other sustainable economic models aimed at increasing resource efficiency and reducing waste generation”.

In its current state, the FTA between the EU and Mercosur therefore does not contain any provisions to support the development of the circular economy, but instead is left to a set of general principles based on the will of the parties. Depending on the development of circular economy policies or, for example, work on national circular economy roadmaps in the Mercosur countries, cooperation could focus on dialogue and capacity-building where such policy development is supported in the Mercosur countries. This could be carried out in the context of the TSD chapter cooperation. However, with time and as the concept of circular economy matures through, inter alia, the development of new standards, these can/should be brought into the realm of the trade agreement through technical working committees under the Technical Barriers to Trade (TBT) or Sanitary and Phytosanitary (SPS) chapters.

The publication on 22 June 2022 by the EC of its [new Trade and Sustainable Development Action Plan](#)¹⁶ confirms a newfound approach by the EU to improve the capacity of FTAs to foster sustainability globally¹⁷. Although the timing seems extremely tight, the consideration of this new approach in the negotiations on an

¹⁶ COM (JUNE 2022). [Link](#).

¹⁷ For further details on the new approach by the EC toward TSD Chapters and how it may foster sustainability globally, see IEEP’s assessment of the communication. [Link](#).

addendum document to the EU-MERCOSUR FTA could also support the inclusion of sustainability relevant new mechanisms in the agreement.

2.2 What is traded?

The EU is Mercosur's number one trade and investment partner, and the second biggest trade in goods partner after China, accounting for 16.2% of the bloc's total trade in 2021. Meanwhile Mercosur is the eleventh partner in trade in goods for the EU. In 2021, the EU's exports to the four Mercosur countries totalled €44.5 billion while Mercosur's exports to the EU were €43.5 billion.

Mercosur's biggest exports of goods to the EU in 2021 were primary products under SITC sections (€33.5 billion; 77% of Mercosur exports), including mostly food products and live animals (43.5% of total exports) and fuels and mining products (23.7% of total exports). As expanded upon in section 3, Mercosur exports carry significant potentials for circular economy development in the region which is not necessarily the case for the EU exports.

The EU's exports of goods to Mercosur are mainly manufactured goods (€36.9 billion; 83% of total exports), out of which machinery and transport equipment (38.4%) and chemicals, including pharmaceutical products (28.8%). These carry more limited circular economy potentials. That being said, the EU remains the biggest foreign investor in the region, with an accumulated stock of investment that has gone up from €130 billion in 2000 to €365 billion in 2017.

The EU-Mercosur FTA as it stands is expected to increase the export of high-impact agricultural commodities, in particular animal products and biofuels.

Under the terms of the draft agreement, exports from Mercosur countries to the EU are expected to see increases across several products. Exports of beef, for example, are expected to increase by 50% from the current volume of 194,000 tonnes per year. The beef quota, which is currently 200,000 tonnes, will increase to 299,000 tonnes per year. Exports of ethanol are expected to increase by 540 per cent. The EU currently imports 102,000 tonnes of ethanol per year; a new 650,000 tonne per year quota will allow massive expansion in ethanol trade.

In return, the EU is expected to increase its cheese exports to Mercosur by 710 per cent (Mercosur currently imports 3,700 tonnes per year, whereas the new quota is 30,000 tonnes per year), while imports of skimmed milk powder from the EU to the four Mercosur member states will increase by as much as 1,200 per cent. (Mercosur currently imports 771 tonnes per year: the new quota has been set at 10,000 tonnes per year).

The EU-Mercosur FTA will be a powerful driver for the industrial food systems in both regions however, this leads to widespread concerns around its possible environmental impacts. As a result of the envisaged growth in trade of these agricultural commodities, associated greenhouse gas emissions are expected to increase by about one-third, from 25.5 million tonnes of CO₂ equivalent per year, to 34.2 million tonnes per year¹⁸. Serious concerns are also raised on deforestation, notably in Brazil, due to the increased demand for agricultural commodities leading to the expansion of the land area used for agricultural production and the loss of natural forest.

2.3 EU external spillovers through trade

A nation or a region's material footprint¹⁹ depends directly on its trade model and relations and the EU's trade policy now puts a great emphasis on trade for supporting sustainable development internally but also globally.

However, the existing evidence demonstrates that a net positive contribution of the EU trade to sustainable development in third countries – going beyond the economic and addressing also the environmental and social aspects – is questionable at best.

The latest issue of the European Sustainable Development Report 2021 signals that “major SDG challenges remain in all European countries and further effort is needed to align Europe's domestic transformations with its external relationships and cooperative endeavours” while suggesting that “European countries generate sizeable negative spill overs outside the region – with serious environmental and socio-economic consequences for the rest of the world”²⁰. This is in direct contradiction with the objectives stated above and calls for the EU to address its negative international spill overs.

The Spillover Index, see Figure 1, was developed as part of the ESDR 2021, and measures transboundary impacts generated by one country that affect the ability of other countries to achieve the SDGs. It incorporates environmental and social impacts embodied in the EU's consumption of foreign goods and services and consumption (negative spillovers include CO₂ emissions, biodiversity threats, and accidents at work), financial spillovers (such as financial secrecy and profit

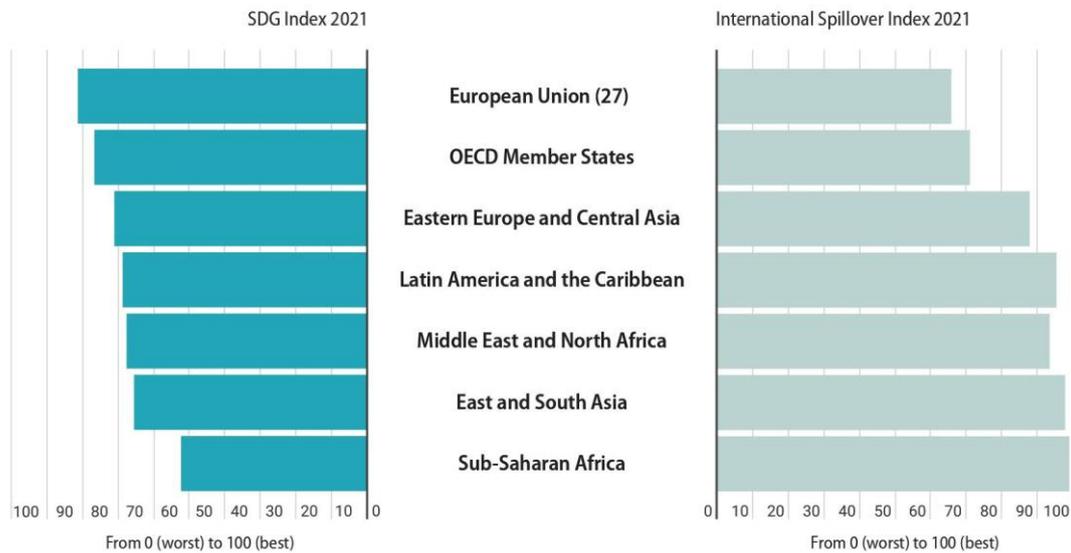
¹⁸ GRAIN. (2019). EU-Mercosur trade deal will intensify the climate crisis from agriculture. [Link](#).

¹⁹ Here understood as the footprint associated with the extraction and domestic processing of resources, minus those embedded in exports, plus those embedded in imports.

²⁰ SDSN & IEEP. (2021). Europe Sustainable Development Report 2021. [Link](#).

shifting), and security/development cooperation spillovers (ODA and weapons exports).

Figure 1: The Spillover Index



Note: Scores should be interpreted as ranging from 0 (worst performance/significant negative spillovers) to 100 (best possible performance/no significant negative spillovers). To allow for international comparisons, most spillover indicators are expressed on a per capita basis

Source: European Sustainable Development Report 2021

The EU's low scoring on the Spillover Index indicates its contribution, notably through trade, to negative externalities abroad, limiting the achievement of SDGs by other countries. Issues such as deforestation, biodiversity loss and environmental impacts, or tolerance for poor labour standards in international supply chains have a detrimental impact on the poorest population, and particularly women in developing countries.

The ESDR 2021 also shows that there is no sign of decoupling between economic growth and environmental spill overs embodied into EU consumption. While domestic CO₂ emissions have decreased (on average) in the EU since 2015, CO₂ emissions emitted abroad to satisfy EU consumption increased by around 3.5% in 2018, a faster rate than the EU's GDP growth. Furthermore, developed countries like the EU (and other OECD members) are relatively small net resource importers in terms of trade volume. However, the picture changes when taking into account

the goods' embodied resources (i.e., the resources needed to produce the traded goods) where their impact vastly increase in terms of material imports²¹.

In other words, the EU (along with other developed, industrialised countries) tends to address its level of internal greenhouse gas (GHG) emissions by increasing their imports from countries with less stringent environmental standards and higher materials intensity. Indeed, in 2017, 37% of the Latin American region production footprint was associated with its exports, a total larger than that of China (29%) or the United States (19%)²².

Implementing circular economy policies in the region while improving the local environmental and social standards applicable to raw material extraction is therefore crucial.

²¹ CEPAL. (2021). [International Trade Outlook for Latin America and the Caribbean 2021: Pursuing a resilient and sustainable recovery](#). [Link](#).

²² Mulder, N., Albaladejo, M., Mo, M., Olmos, X., Dante, P. & Mirazo, P. (2021) International Trade and the Circular Economy in Latin America and the Caribbean. Department of Policy, Research and Statistics, Working Paper 3/2021. UNIDO, ECLAC & KAS. [Link](#).

3. CIRCULAR ECONOMY IN MERCOSUR

This section looks at the wider context and opportunities of circular economy in the Mercosur countries, and the state of supporting policies. It further describes the challenges in a shift to a circular economy.

3.1 Environmental context and policy landscape

The economies of the Mercosur countries are dependent on natural resource export, which shows itself in the material footprint of 14 tons per capita in the region of South America. This footprint is only superior to Africa (3 tons) but significantly lower than Europe (22 tons) or the United States (32 tons). In terms of trends, the region's material footprint increased by 26% between 2000 and 2015, which is higher than in Africa (19%) or Europe (16%) but still much lower than China (159% growth over the period)²³.

Particularly extensive mining and extractive operations for metals and crude oil have harmful environmental and social impacts, with little profit being transferred to the population. A vast amount of land is being cleared for these operations, and health implications are inflicted on workers from the poor conditions and contact with hazardous substances²⁴.

The production of consumer goods sold in the region mostly takes place in industrialised economies, in particular North America and Asia. After use and consumption, these goods end up in local waste streams, and are mostly landfilled or illegally dumped as an estimation of inadequately disposed solid waste reaches from 35% in Argentina to 86% in Uruguay²⁵. This cycle leads to the contamination of land and waterways, with implications for the environment and health, particularly for marginalised communities. One example is the mismanagement of PET bottles, of which 17% are dumped or burned in Brazil alone, rather than recovered and reused²⁶.

²³ CEPAL. (2021). International Trade Outlook for Latin America and the Caribbean 2021: Pursuing a resilient and sustainable recovery. [Link](#).

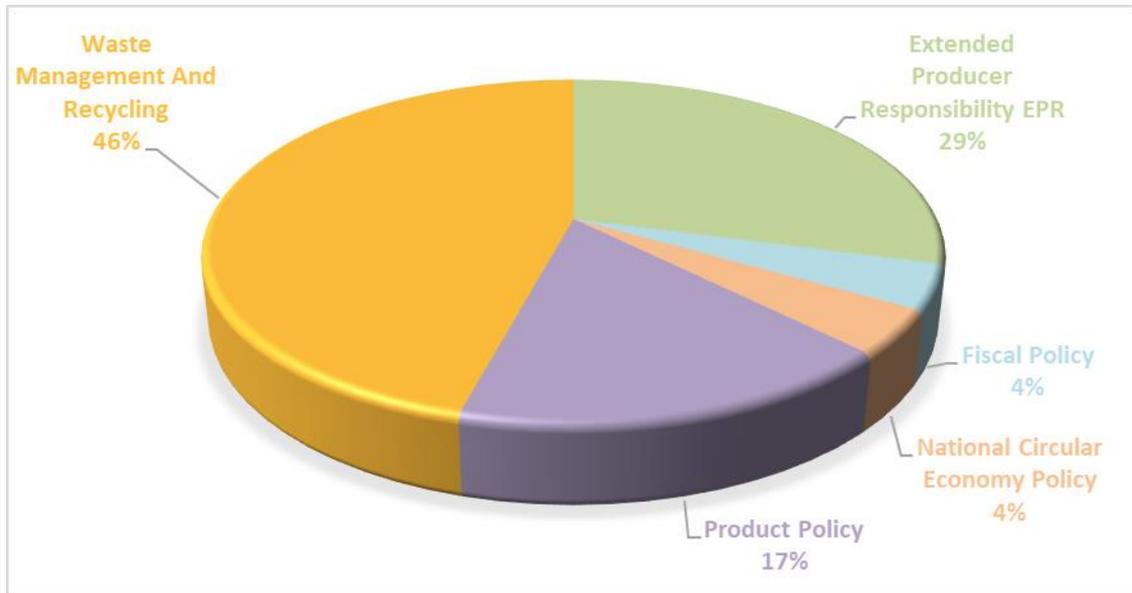
²⁴ P. Schröder, M. Albaladejo, P.A. Ribas, M. MacEwen & J. Tilkanen. (2020). The circular economy in Latin America and the Caribbean. Chatham House. [Link](#).

²⁵ Grau, J., Terraza, H., Rodríguez Velosa, D. M., Rihm, A. & Sturzenegger, G. (2015). Solid Waste Management in Latin America and the Caribbean. IDB & IADB. [Link](#).

²⁶ Mulder, N., Albaladejo, M., Mo, M., Olmos, X., Dante, P. & Mirazo, P. (2021) International Trade and the Circular Economy in Latin America and the Caribbean. Department of Policy, Research and Statistics, Working Paper 3/2021. UNIDO, ECLAC & KAS. [Link](#).

The policy landscape for advancing a circular economy in Mercosur countries shows how all countries have started to engage with the principle, with a focus so far on waste management policies.

Figure 2: Circular economy policies in the Mercosur region



Source: Figure by authors with data from <https://circulareconomy.earth>

Solid and comprehensive waste strategies and policies are in place in Brazil, Argentina, Paraguay, and Venezuela, including:

- Uruguay: its National Plan for Productive Transformation and Competitiveness for innovative and productive economic development (2017-2019) lead to a circular Economy National Action Plan (2019); national strategy for bioeconomy; extended producer responsibility; tax exemption for operations related to recovery and recycling.
- Brazil: Law No 12.305 National Policy on Solid Waste Management (2010).
- Argentina: National Strategy for the Comprehensive Management of Urban Solid Waste 2005–25 (2005).
- Paraguay: Law No. 3956.09 on Solid Waste Management (2017).
- Venezuela: Comprehensive Waste Management Law (2010).

However, the progress of implementation of such initiatives remains slow²⁷. Furthermore, these policies are focused on the national level and would need to be harmonized and expanded to the regional level to allow for the consolidation of waste in large enough quantities to supply the necessary input for recovery facilities.

Extended Producer Responsibility (EPR) schemes, whereby the responsibility at the end-of-life stage of a product is transferred to the producer or importer, are also largely implemented in Brazil and Uruguay, and further countries in Latin America. Social innovation programmes, such as in Argentina, are also supporting the approach to an inclusive circular economy.

Out of the Mercosur countries, Uruguay is so far the only one which is working on developing a Circular Economy National Action Plan as part of its national strategy, a national strategy for bioeconomy as well as a roadmap for forestry²⁸. In 2021, the Ministries of the Environment and of Industry, Energy and Mining presented its ambitions for the former, which would be a combined effort with ministries for agriculture, economy, labour, R&I and the national development agency²⁹. The roadmap would highlight the opportunities for contribution from small enterprises to large firms in the country.

3.2 Leading sectors

The sectors that will be able to lead the transformation to the circular economy partly represent the most polluting industries in the region. As described above, the important potential areas for circular economy development lie with the mining and extractive sectors, waste management and bioeconomy. In these sectors and the strategies to work towards a circular economy, making changes in a post-COVID era for a sustainable recovery plays an integral role.

The extraction and processing of materials, fuels, and food amount for half of the total global greenhouse gas emissions and for over 90% of biodiversity loss³⁰. Moreover, global material demand is projected to strongly increase in the coming

²⁷ Mulder, N., Albaladejo, M., Mo, M., Olmos, X., Dante, P. & Mirazo, P. (2021) International Trade and the Circular Economy in Latin America and the Caribbean. Department of Policy, Research and Statistics, Working Paper 3/2021. UNIDO, ECLAC & KAS. [Link](#).

²⁸ P. Schröder, M. Albaladejo, P.A. Ribas, M. MacEwen & J. Tilkanen. (2020). The circular economy in Latin America and the Caribbean. Chatham House. [Link](#).

²⁹ Uruguay Presidency. (2021). Uruguay will implement a national circular economy policy. [Link](#).

³⁰ UN. (n.d.). Facts & Figures. [Link](#).

decades (material use is expected to double between now and 2060³¹). It is therefore crucial for the extractive sectors to decrease their environmental and social impact if global use of resources is to remain within planet boundaries.

Yet material use does not grow as fast as GDP which mean a decline in the materials intensity of the global economy. This is due to several factors including the growing share of services in the economy (as the sector is less materials intensive than agriculture or industry), or technological developments which result in less need for material inputs in production processes. A shift toward circular economy processes would accentuate this decoupling by supporting resource efficiency at the extraction and production phase combined with an expansion of the market for secondary raw materials, thus limiting the impact of increased material use on the environment in general.

This shift would also not necessarily impair the extraction sector competitiveness. Secondary products associated to minerals and metals retain most of their original market value while the transformation processes could be facilitated through the existing primary extractions infrastructures. The co-existence of both processes would accompany the expected expansion of the secondary material market while limiting the costs of the transition and still answering to the expected growing demand of materials in the coming decades. Indeed, according to the OECD, this increase in demand for materials implies that both primary and secondary materials use increase at roughly the same speed³².

A circular model for waste management and recycling practices are expected to be most beneficial with a focus on municipalities, in reducing the amount of waste going to landfills or being burned. Here one must acknowledge that the informal sector plays an integral role in waste sorting and recycling in many municipalities, who often organise themselves in cooperatives, and reduce the amount of waste going to landfills. The numbers of *catadores* (waste pickers) is estimated between 400.000 and 1 million in Brazil alone³³. Socially inclusive circular economy business models could support a formalisation of the recycling groups, without marginalising the workers.

³¹ OECD. (2019). Global Materials Resources Outlook to 2060: Economic Drivers and Environmental Consequences, OECD Publishing, Paris. [Link](#).

³² OECD. (2019). Global Materials Resources Outlook to 2060: Economic Drivers and Environmental Consequences, OECD Publishing, Paris. [Link](#).

³³ Miranda, I., Fidelis, R., Fidelis, D., Pilatt, L. & Picinin, C. (2020). The Integration of Recycling Cooperatives in the Formal Management of Municipal Solid Waste as a Strategy for the Circular Economy – The Case of Londrina, Brazil. *Sustainability* 12(24). [Link](#).

As noted above, the circular economy offers opportunities to increase the valorisation of waste at the national level. In the case of e-waste, currently the region is focused on dismantling while sending the valuable fraction to Europe, the US and China for recovery of precious and rare metals including gold, lithium, and cobalt. To do this domestically requires investment in new facilities and programmes for safe recovery of e-waste³⁴. To enable more circularity of materials in trade agreements and reduce pressure on local waste management systems, there is a strong case for including EPR policies in existing and new FTAs. However, the EU-Mercosur FTA did not include specific clauses regarding EPR for local waste streams associated with imported goods.

Last but not least, Argentina and Uruguay have both developed bioeconomy strategies³⁵. The bioeconomy can offer opportunities to build sustainable food systems and agriculture, as well as sustainable forestry management practices in the region, which can help avoid trade-offs between economic, social, and environmental objectives. The use of bio-based processes should not increase biodiversity loss, and diminish land used for food production. Building up the bioeconomy would require adjusted legal frameworks, focused governance of ecosystem services and better protection of indigenous rights³⁶. In terms of international cooperation on circular economy, the International Organisation for Standardisation's (ISO) Technical Committee 323 seeks to uniform activities and frameworks, of which Brazil, Uruguay and Argentina are a part of.

What can be observed is that both a lack of private sector involvement and low R&I investments (0.66% of GDP in LAC) are hampering pathways to a circular economy. For the former, circular economy most often does not appear to be profitable. As mentioned above, particularly investment in social innovation is what can truly drive a transformation.

³⁴ Torrente-Velásquez, J., Ripa, M., Chifari, R., Bukkens, S. & Giampietro, M. (2020). A waste lexicon to negotiate extended producer responsibility in free trade agreements. *Resources, Conservation and Recycling*, 156, 104711. [Link](#).

³⁵ Mulder, N., Albaladejo, M., Mo, M., Olmos, X., Dante, P. & Mirazo, P. (2021) International Trade and the Circular Economy in Latin America and the Caribbean. Department of Policy, Research and Statistics, Working Paper 3/2021. UNIDO, ECLAC & KAS. [Link](#).

³⁶ CEPAL. (2021). [International Trade Outlook for Latin America and the Caribbean 2021: Pursuing a resilient and sustainable recovery](#). [Link](#).

4. TRADE IN SUPPORT OF CIRCULAR ECONOMY

This section analyses how international trade can advance the transition towards circular economies in the Mercosur region. Trade provides many opportunities in that regard such as the access to potentially circular products or the generation of new business models and market potentials in circular economy relevant sectors. It also facilitates through economies of scale and transformation processes the reuse of waste in resources for new production cycles.

4.1 Defining circular economy relevant products

A recurring difficulty in obtaining reliable data and statistics on circular economy trade flows concerns the disaggregated or non-existence of definitions and standards. Any reused, recycled, or recyclable product for instance can potentially be considered as “circular” which makes reaching a common understanding on what constitute circular goods or services very challenging.

As an example, the Harmonised System (HS), which is a 6-digit level code used across the globe, does not always distinguish between primary and secondary material or between used, recycled or new products. In parallel, countries or trade blocs around the world tend to have their own way of monitoring trade flows of circular goods and services. The EU for instance has developed its own “Circular material use” rate which measures the share of material recovered and fed back into the economy in overall material use³⁷.

Recently, progress is being made, for example, the seventh amendment to the HS codes, that entered into force in January 2022 and integrated some new product classifications related to “Waste from electrical and electronic equipment (WEEE)”³⁸ thus facilitating the monitoring of e-waste flows. Other innovations in HS 2022 can be found in chapter 44, with the new differentiation between sawdust (440141) from wood waste and scrap (440149) or the inclusion in Chapter 15 of “microbial” oils, based on organic waste. The new codes could and should be retained at the national level border operations, while efforts must continue to expand the HS system toward circular economy-relevant product and services classifications.

Table 1 presents a selection of products and waste that can be considered circular, or associated with the circular economy, taking into account the constraints noted

³⁷ Eurostat. (2018). Circular material use rate calculation method. [Link](#).

³⁸ HS 2022 includes a new heading in chapter 85 for electrical and electronic waste and scrap: 8549. This contains 11 six-digit codes classifying different types of waste.

above. Going forward, this report will use this classification and refer to these products in the next section as “circular economy relevant products”.

Table 1: Examples of circular and potentially circular products in international trade

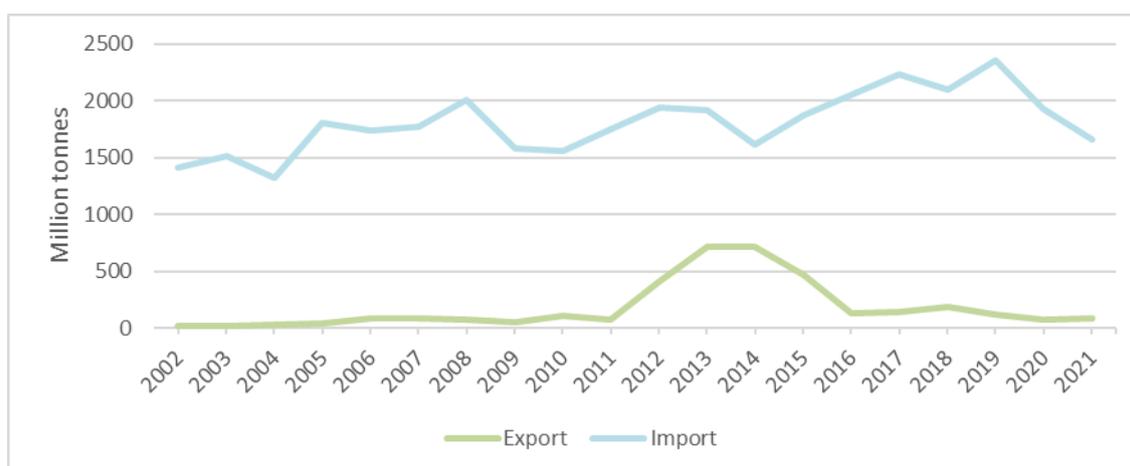
Category of goods	For recycling (<i>non-organic</i>)	Recycled	Used	Repaired, refurbished, or remanufactured	To be usefully recovered or valorized (<i>organic</i>)
Products and sectors	Residues from glass, minerals, metals and articles thereof, and from textiles and leather, paper and paperboard, and plastics	Pulp, paper and cardboard	Clothing and textiles, tyres, automobiles, capital goods and miscellaneous manufactures	Retreaded tyres and miscellaneous manufactures	Wastes and co-products from crop and livestock farming, fishing and aquaculture, livestock, processed food and timber
Circularity potential	Potentially circular	Circulars	Potentially circular	Circulars	Potentially circular
	Secondary raw material (if recycled)		If they are reused, repaired, refurbished or remanufactured		Secondary raw material (if the products go through valorization or revalorization processes)

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

4.2 EU Mercosur circular economy relevant trade relations

Trade in circular economy relevant products accounted for only 2.4% by volume and 0.9% by value of global merchandise trade in 2019³⁹. Looking specifically at the trade relations between the EU and Mercosur, the EU imports of circular products have been significantly increasing overall since 2002 despite several breaks such as 2008-2009, when world trade contracted sharply, or 2020-2021 due to the pandemic. Exports have been much more stagnant.

Figure 3: EU-Mercosur trade of circular economy relevant products, by volume (million tonnes) annual averages, 2009-2021



Source: ECLAC, based on the UN Comtrade [Database](#).

³⁹ CEPAL. (2021). [International Trade Outlook for Latin America and the Caribbean 2021: Pursuing a resilient and sustainable recovery](#). [Link](#).

Figure 4: EU-Mercosur trade of circular economy relevant products, by value (million USD) annual averages, 2009-2021



Source: ECLAC, based on the UN Comtrade [Database](#).

Figure 3 and Figure 4 demonstrate that since 2009, EU exports and imports of circular economy related products in general have been sharply increasing but in a balanced way. This is most likely due to the uptake of circular economy related policies in the EU, especially since 2014 and the first Circular Economy Action Plan. This uptake covers imports of raw materials from specific supply regions of the world (e.g., Canada⁴⁰) and exports of waste (to China until 2018 and Turkey afterwards). This import/export balance is clearly not present in the case of its trade relations with Mercosur as the EU imports almost 20 times more (in volume) than it exports to the region.

This trade imbalance in terms of volumes and values of circular economy relevant products between the regions is also present in the sectors covered, with the bulk of the circular trade between the two trade blocks consisting of exports of secondary agri-food and metal products from Mercosur to the EU, while the EU exports secondary machineries to the region (**Error! Reference source not found.** Table 3 below).

⁴⁰ Blot, E. (2022). 'Trade in support of circular economy – Opportunities between Canada and the EU, case study. Institute for European Environmental Policy, Brussels / London.

Table 2: CE relevant products exported from Mercosur to the EU

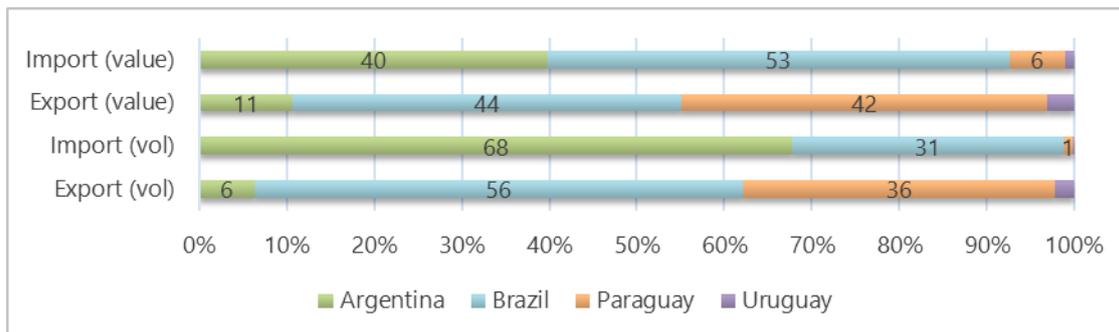
NC8	Description 8D alternative	Value m€	share /total
71129200	Waste and scrap of platinum, incl. metal clad with platinum, and other waste and scrap containing platinum or platinum compounds	155.0	22%
23080090	Maize stalks, maize leaves, fruit peel & other vegetable materials, waste, residues and by-products for animal feeding	143.0	20%
23063000	Oilcake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of sunflower seeds	130.8	19%
71129900	Waste and scrap of silver, incl. metal clad with silver, and other waste and scrap containing silver or silver compounds	75.7	11%
74040010	Waste and scrap of refined copper	46.6	7%
TOTAL		551.2	79%

Table 3: CE relevant products imported by Mercosur from the EU

NC8	Description	Value m€	share /total
87012090	Road tractors for semi-trailers, used	23.6	26%
87042299	Motor vehicles for the transport of goods, with compression-ignition internal combustion piston engine "diesel or semi-diesel engine" of a gross vehicle weight > 5 t but <= 20 t	8.8	10%
72042900	Waste and scrap of alloy steel (excl. stainless steel, and waste and scrap, radioactive, or waste and scrap from batteries and electric accumulators)	6.9	8%
87042399	Motor vehicles for the transport of goods, with compression-ignition internal combustion piston engine "diesel or semi-diesel engine" of a gross vehicle weight > 20 t	5.4	6%
05100000	Ambergris, castoreum, civet and musk; cantharides; bile, whether or not dried; glands and other animal products used in the preparation of pharmaceutical products	5.3	6%
TOTAL		50.0	54%

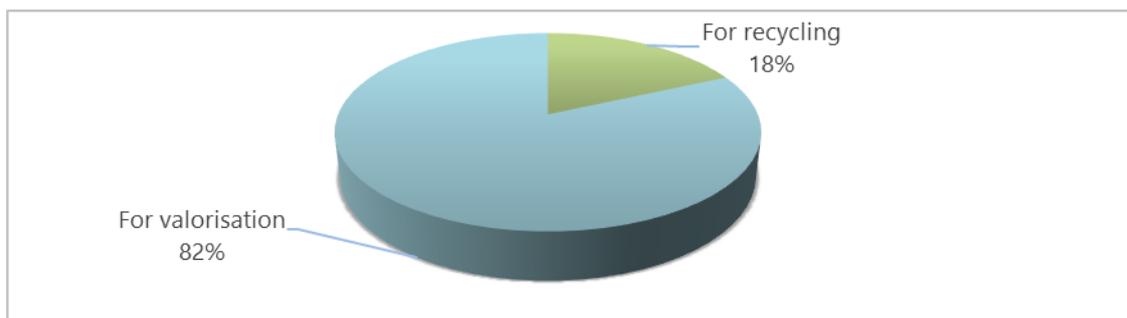
Source: ECLAC, based on the UN Comtrade [Database](#).

At the national level within the Mercosur region, Argentina and Brazil are the primary actors in the trade relations with the EU, as presented in **Error! Reference source not found.** Paraguay has a large share of the region's export of circular economy related product with 36% in volume and 42% in value thus rivalling with Brazil, yet as shown in Figure 3, the overall exports of the region to the EU is extremely low compared to their imports hence the conclusion that Brazil and Argentina remain the main circular economy related trade actors in the region.

Figure 5: EU trade in CE related products with Mercosur countries

Source: ECLAC, based on the UN Comtrade [Database](#).

Taking a more detailed look into the type of circular economy goods imported by the EU from Mercosur, the largest category consists of goods to be valorised, see Figure 6.

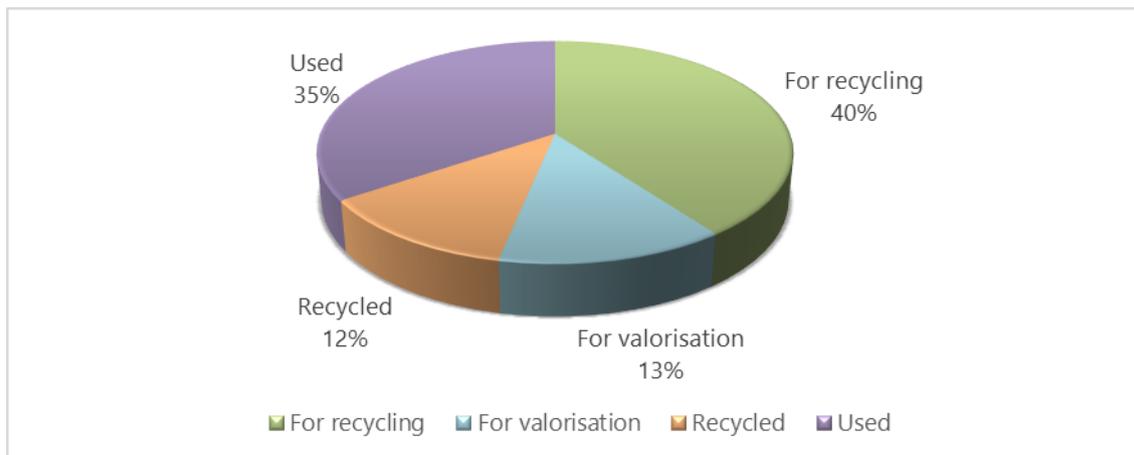
Figure 6: EU imports of circular economy related products from Mercosur

Source: ECLAC, based on the UN Comtrade [Database](#).

This large share is mainly explained by trade in residues from the extraction of soybean oil, which remains a leading food chain for the region. The Mercosur region is the world's leading producer and exporter of soybeans, the demand for which has grown in recent years to be used as animal feed but also as meat and milk substitutes⁴¹.

The EU exports to the region are much more balanced, as presented in Figure 7. However, the EU's overall export figures are quite low hence the difficulty to interpreting these results meaningfully.

⁴¹ OECD & FAO. (2021). Agricultural Outlook 2021-2030. [Link](#).

Figure 7: EU exports of CE related products to Mercosur in volume

EU-Mercosur trade in circular economy relevant products is thus vastly dominated by Argentina and Brazil export flows. These include notably raw materials and bioeconomy value chains which both represents significant opportunities for the circular economy transition in the region.

4.3 EU-Mercosur trade in secondary raw materials

The circular economy promotes the substitution of virgin raw materials with secondary raw materials, through notably precious metals recovery and reuse as well as the substitution of primary raw materials by secondary materials, or the smelting of both. Advances in these secondary material production processes in China, the United States, and the EU, combined with an expected surge in clean energy technologies are expected to lead to major shifts in European demand for primary raw materials. Renewable energy, as a key piece of current policy efforts toward a low-carbon economy, need more materials than fossil-fuel-based electricity generation technologies for their production and use. This tends toward an increase of the demand for these specific materials⁴².

This shift is relevant to the Mercosur region as mining product makes up a significant share of its exports including to the EU which are sizeable, as presented in Figure 3. Therefore, it is in the region's interest to ensure the continued

⁴² Hund, K., La Porta, D., Fabregas, T., Laing, T. & Drexhage, J. (2020). Minerals for Climate Action: The Mineral Intensity of the Clean Energy Transition. World Bank Group. [Link](#).

implementation of sustainable mining practices⁴³ and the development of circular economy policies in the mining sector, and its related supply chains.

Minerals and metals value chains bring great potential for circularity as their transformation for reuse as a primary input remains relatively easy (i.e., cheap) while the associated secondary products retain a good part of its original value thus making it a potentially profitable market for secondary raw materials. Mineral and metal waste accounts for almost 80% of the value of the global waste trade, which grew by an average of almost 12% per year between 2002 and 2019^{44,45}. Waste has therefore the potential to be an important resource for the sector. This conclusion is also applicable to other types of value chains, such as bioeconomy.

4.4 Trade and circular bioeconomy

Bioeconomy involves primary producers of both agricultural and forest products, processors, retailers, and consumers of bio-based products ranging from food and feed to fuels and a variety of raw materials.

The bioeconomy encompasses different “cycles”. Biomass is a functionally renewable resource in that it can be regrown after use, assuming land, water and nutrients are available to do so. Therefore, biomass production and use are also connected to key environmental cycles including the carbon cycle (through the sequestration and emission of carbon), nutrient cycles including the nitrogen cycle and the hydrological cycle. Therefore, land management choices linked to biomass production also interact with the delivery of associated ecosystem services including biodiversity and soil protection and the emission and sequestration of greenhouse gases.

Consequently, the ‘circular bioeconomy’ must encompass two parallel concepts of circularity. Firstly, it must reference the key concepts of the mainstream circular economy including resource efficiency, an emphasis on waste minimisation, reuse, and recycling. However, the tendency here is to focus on the processing stages of biomass use as a raw material. In the second conceptual circle, the raw material use needs to be integrated with the wider biomass cycles, implying different system boundaries that incorporate biomass production, use and regrowth

⁴³ For more information on sustainable mining strategies as it relates to circular economy models, see Blot, E. (2022). ‘Trade in support of circular economy – Opportunities between Canada and the EU, case study. Institute for European Environmental Policy, Brussels / London.

⁴⁴ Mulder, N., Albaladejo, M., Mo, M., Olmos, X., Dante, P. & Mirazo, P. (2021) International Trade and the Circular Economy in Latin America and the Caribbean. Department of Policy, Research and Statistics, Working Paper 3/2021. UNIDO, ECLAC & KAS. [Link](#).

⁴⁵ J. Korinec & I. Ramdoo. (2017). Local content policies in mineral-exporting countries. OECD. [Link](#).

and the associated use of land. This also implies that any step change in demand for biomass must consider the consequences for land use and land management associated with the scaling up of production and use of biomass. Biomass is functionally renewable but only environmentally sustainable at certain levels of production and use given that land and associated soil and water resources are finite, or functionally renewable within set timeframes.

In the existing thinking on circularity in the bioeconomy some have conceived the concept in a relatively constrained way, including focusing primarily on the downstream aspects of circularity involving primarily resource efficient processing of biomass-based residues and wastes, introduction of principles of cascading use⁴⁶, and re-circulation of organic material and nutrients to land. Others perceive a circular, sustainable bioeconomy more broadly and with focus also on the upstream production; complementing the emphasis on resource efficiency and biomass utilisation with actions to promote environmentally and socially responsible biomass production. Recent work by the Ellen MacArthur Foundation has focused more on emphasising 'regenerative agriculture' in the context of a circular bioeconomy⁴⁷, i.e., perceiving a circular bioeconomy as about producing food (in the context of their work, but this could apply equally to other biomass) in a healthy way that protects water, soil, biodiversity, ecosystem services etc.

When developing the thinking and defining concrete standards for sustainable circular bioeconomy, both aspects of circularity identified above need to be taken into consideration. A limited definition of the circular bioeconomy, focusing on waste minimisation, reuse, and recycling only, limits the opportunities to recognise the importance of land and sustainable land use in determining a sustainable basis for the bioeconomy and limits the opportunities for promoting opportunities for rural actors, rural development globally and ultimately SDG delivery.

The integration of these two parallel concepts requires an increase in the extent to which biomass production and the role of the biomass producers (i.e., farmers or foresters) are emphasised within the bioeconomy.

However, bioeconomy policies in the region (and elsewhere) tend to be approached through 'biotechnology' and 'bioresource' concepts by stakeholders like the OECD and the European Union which includes strong advocacy on the

⁴⁶ Cascading refers to maximising resource effectiveness by using biomass in products that create the most economic value over multiple lifetimes. The concept is often associated with the forestry sector. See [WBCSD](#) (2018).

⁴⁷ Ellen MacArthur Foundation. (n.d.) Regenerative agriculture. [Link](#).

potential of digitalisation on natural resources production and extraction⁴⁸. Yet, this current focus on industrial and biotechnology solutions can have negative effect on biodiversity levels in the Mercosur region by putting too much emphasis on intensive production processes such as monocultures. It is likely insufficient to address the multiple socio-ecological challenges of the region, such as high social inequalities, while succeeding in limiting deforestation trends⁴⁹.

Some progresses are being made with for instance the recent 'forest-product-based bioeconomy' approach involving wood and non-wood forest products emerging in the Brazilian amazon⁵⁰. While a high number of potentially overlapping private and public initiatives related to bioeconomy approaches are blooming in the region such as the Inter-American Development Bank 600 million USD Amazon Fund⁵¹.

The current figures for deforestation and biodiversity loss in the region still commend that more efforts be done. Local stakeholders such as the Instituto de Pesquisa Ambiental da Amazônia⁵² (i.e., the Amazon Environmental Research Institute) advocate for all sectors involved with the bioeconomy in the region should commit, at least, to four guiding principles for an Amazon bioeconomy⁵³:

- Commit to zero deforestation, including 'legal deforestation'.
- Diversification of production methods.
- Strengthening the local practices and initiatives.
- Equitable benefit sharing.

Though ambitious, commitments such as these could support the right links being made between trade in biomass that supports an emerging circular bioeconomy and sustainable rural development, appropriate rural land use and delivery of environmental standards in the Mercosur Region.

⁴⁸ Dieken, S., Dallendorfer, M., Henseleit, M., Siekmann, F. & Venghaus, S. (2021). The multitudes of bioeconomies: A systematic review of stakeholders' bioeconomy perceptions. *Sustainable Production and Consumption*, 27, 1703–1717. [Link](#).

⁴⁹ El-Chichakli, B., von Braun, J., Lang, C., Barben, D. & Philp, J. (2016). Policy: Five cornerstones of a global bioeconomy. *Nature* 535(7611), 221–223. [Link](#).

⁵⁰ Teitelbaum, L., Boldt, C. & Patermann, C. (2020). Global Bioeconomy Policy Report (IV): A Decade of Bioeconomy Policy Development Around the World. [Link](#).

⁵¹ Hincapié Salazar, D. (8 October 2021). GCF Approves the Establishment of Amazon Bioeconomy Fund to Partner with IDB Initiative. IDB. [Link](#).

⁵² See IPAM Amazônia webpage for more info. [Link](#).

⁵³ Bergamo, D., Zerbini, O., Pinho, P., & Moutinho, P. (2022). The Amazon bioeconomy: Beyond the use of forest products. *Ecological Economics*, 199. [Link](#).

5. CONCLUSIONS AND RECOMMENDATIONS

This case study concludes that there are several avenues for the EU and the Mercosur region to collaborate to accelerate the uptake of the circular economy, through bilaterally and multilaterally approaches.

Mercosur countries and the EU have implemented policies to encourage circular practices, albeit some more far-reaching than others. The EU Green Deal deploys various initiatives for sustainable principles for the European economy (e.g., agriculture, industry, mobility, investment) in addition to the comprehensive CEAP which targets select sectors and product groups. This package of policies designed at the European level allow for a comprehensive approach to guide the European economy towards the green transition. Within the Mercosur region though most policies tend to focus on EPR and there is a general lack of integrated national (or regional strategies) except in Uruguay.

From a bilateral perspective, the EU-Mercosur FTA aims to become a powerful driver for the industrial food systems in both regions. As a result of the envisaged growth in trade of these commodities, associated greenhouse gas emissions would increase by about one-third, from 25.5 million tonnes of CO₂ equivalent per year, to 34.2 million tonnes per year⁵⁴.

In its current state, the EU-Mercosur FTA does not contain any provisions to support the development of the circular economy, but instead is left to a set of general principles based on the will of the parties. Depending on the development of circular economy policies or, for example, work on national circular economy roadmaps in the Mercosur countries, cooperation could focus on dialogue and capacity-building where such policy development is supported in the Mercosur countries. This could be carried out in the context of the TSD chapter cooperation. However, with time and as the concept of circular economy matures through, inter alia, the development of new standards, these can/should be brought into the realm of the trade agreement through technical working committees under the TBT or SPS chapters.

Another aspect of the EU-Mercosur FTA which could be mobilised for sustainability purposes is the **Government Procurement Chapter**. Its overall objective is to provides EU and Mercosur based entities with access to public procurement processes in both regions. When it comes to its implementation, the provisions are aligned with usual EU standards on the matter, such as;

⁵⁴ GRAIN. (2019). EU-Mercosur trade deal will intensify the climate crisis from agriculture. [Link](#).

- Parties may exclude a supplier solely on economic, capacity and/or malversation grounds such as bankruptcy or failure to pay taxes. (Article 14: Conditions for Participation)
- Parties have the liberty to adopt or maintain procurement measures necessary to protect human, animal, or plant life or health, including environmental measures, providing that the measure does not discriminate between the parties or constitutes a disguised restriction of trade (Article 5: General Exceptions).
- When setting the technical specifications of the tender, Parties must (i) set out the technical specifications in terms of performance and functional requirements, **rather than design or descriptive characteristics**; and (ii) **base the technical specifications on international standards, where these exist**; otherwise, on national technical regulations, recognized national standards or building codes (Article 16: Technical Specifications). The article specifically mentions though that parties are not precluded from applying technical specifications to “protect the environment”.

Based on these general principles, the agreement caters to the introduction of some degree of sustainability in public procurement processes in the regions (Articles 5 and 16). Yet, sustainability in general and circular economy does not feature as a criterion, neither for participation nor in the technical specifications of the tender process. Furthermore, it is specified that product characteristics should when possible be based on international standards and which remains a particularly challenging point for the global circular economy.

In conclusion **Green Procurements Processes** in both regions have the potential to be a driver of circular economy yet progresses are necessary regarding the introduction of clear and concrete criteria in the tender processes to support that objective.

Although a full renegotiation of the current contentious agreement seems highly unlikely, it is also difficult to imagine the European Parliament coming back on its previous decision to not ratify the deal as it stands. Therefore, a reasonable assumption is that discussions will occur on some form of **amendments on the agreement which could bring opportunities** to include elements of cooperation to promote trade that is conducive to the circular economy transition in both regions.

One example could be to integrate some form of the **new product passports** which has been introduced by the recent Proposal for Ecodesign for Sustainable

Products Regulation⁵⁵ by the European Commission. The passport aims to electronically register, process, and share product-related information amongst supply chain businesses, authorities, and consumers. This is expected to increase transparency, both for supply chain businesses and for the general public, as well as facilitate and streamline the monitoring of products covered and enforcement of the regulation. Moreover, the deployment of **technical cooperation mechanisms** under new, dedicated provisions in the complemented EU-Mercosur FTA to enable the EU and Mercosur member states to work together on mutually recognised product passports to improve transparency in supply chains. EPR provisions to regulate trade of waste, and tariff reductions on secondary materials and remanufactured goods to support circular business models, could also be included.

From a **multilateral perspective**, a key priority would be to address the **lack of mutually recognised definitions, classifications, standards and regulations** for circular economic goods or services such as remanufactured goods which often result in secondary goods facing more stringent trade barriers such as higher import tariffs, or even import restrictions than primary (considered higher value) goods⁵⁶.

As an example, the HS, a six-digit level code used across the globe, usually does not distinguish between primary and secondary material or between used, recycled or new products. This is notably due to its approach based on a products' physical characteristics rather than their production methods or intended use.

Progress on defining waste categories continues, such as the seventh amendment to the HS, that entered into force in January 2022. The amendment integrates new product classifications related to e-waste, wood waste and scrap (440149) or oils based on organic waste. Similar innovations must begin to be transcribed in relevant legislations while maintaining in relevant international or multilateral fora to further develop the HS toward circular economy-relevant goods and service (although that point remains extremely challenging, as explained below), as well as to identify practical solutions on how to better capture circular economy relevant aspects of goods at the borders in a HS compatible way.

Efforts to establish what circular bioeconomy standards would be in particular, would support dedicated trade measures and eventually promoting trade in product with right kind of circularity including from a profitability perspective.

⁵⁵ European Commission. (2022). Proposal for Ecodesign for Sustainable Products Regulation. [Link](#).

⁵⁶ Kojima, M. (2017). Remanufacturing and Trade Regulation. *Procedia CIRP*, pp. 641-644. [Link](#).

Other international initiatives are worth being mentioned such as the Platform for Accelerating the Circular Economy⁵⁷ (PACE) launched in 2018 to propose a more collaborative approach among public and private actors toward the circular economy transition. Mercosur countries are not yet a part of this platform, but exchanges could be promoted nonetheless on best practices and existing relevant initiatives.

The WTO should not be remiss with its **Environmental Database (EDB)** aiming to list all environment-related notifications submitted by WTO members as well as environmental measures and policies mentioned in the Trade Policy Reviews of WTO members⁵⁸. This tool provides most welcome clarity and transparency as to the existing circular economy relevant policies throughout the world. Full use should also be made of the WTO **Trade Facilitation Agreement**⁵⁹ (TFA) which aims to simplify, modernise, and harmonise trade rules and procedures, facilitating international trade, while also providing technical assistance and capacity building for developing countries in this area⁶⁰. Already established and having undergone a first review⁶¹, the TFA can be operationalised to support the global implementation, monitoring, and clearance of goods subject to new standards on circularity.

On a more technical level, the **International Organisation for Standardisation (ISO)** is taking steps to create a common understanding of circularity in the trading system. The ISO launched a dedicated technical committee for circular economy (ISO/TC323)⁶² in 2018 aimed at standardising the circular economy to maximise contribution to sustainable development. This involves developing frameworks, guidance, supporting tools and requirements for implementation of activities. The TC323 to date has published 3 standards, with 3 more under development. The Technical Committee collaborates with other ISO technical committees covering aspects related to the circular economy and counts 72 participating countries and 18 observing member countries⁶³.

Standardisation efforts alongside defining a common understanding of circular practices are necessary to support a market for secondary and circular goods and services. However, new standards risk elevating barriers to trade and

⁵⁷ For more information, visit PACE webpage. [Link](#).

⁵⁸ WTO & EDB. (n.d.). WTO's Environmental Database. [Link](#).

⁵⁹ WTO. (2022). Trade facilitation. [Link](#).

⁶⁰ Global Alliance for Trade Facilitation. (n.d.). The Trade Facilitation Agreement, A simple guide. [Link](#).

⁶¹ WTO. (2022). Members reinvigorates TFA monitoring following last year's review. [Link](#).

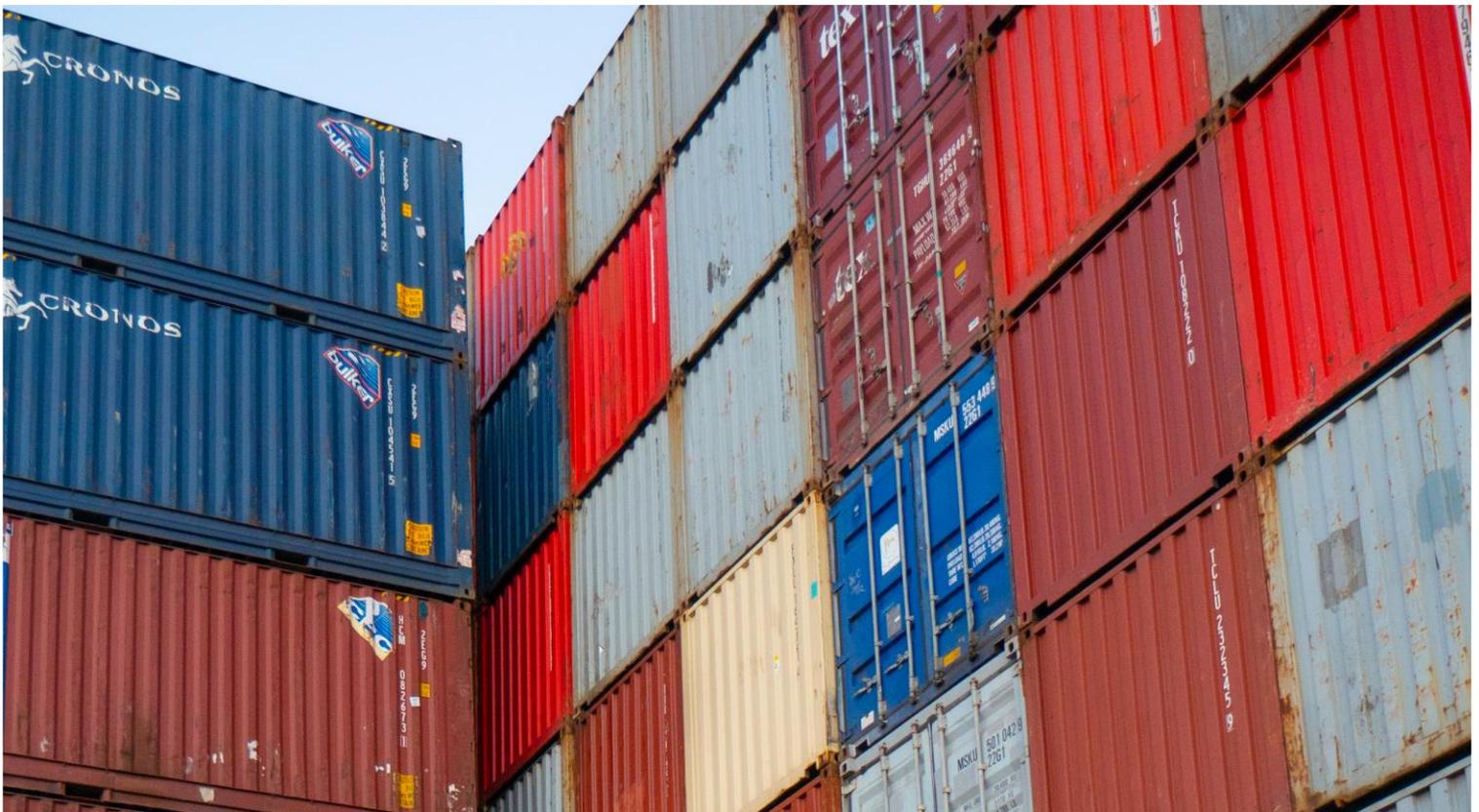
⁶² ISO. (n.d.). ISO/TC 323 – Circular economy. [Link](#).

⁶³ ISO. (n.d.). ISO/TC 323 – Circular economy. [Link](#).

disproportionately hindering developing countries with less technical capacity to overcome these barriers.

These ever-present tensions between the objective of stakeholders such as the EU to further regulate the access to their market through notably more stringent circular economy related standards pose an important challenge for the roll-out of circular economy related policies. Many concerns exist on the difficulties that higher barriers to trade may create for exporters, disproportionately affecting the most vulnerable, small stakeholders in low and middle-income countries.

Further work must be done to identify and map circular economy relevant processes and business models developed in the region, especially at the smallholder level, and how these would be impacted under the current versions of the relevant EU legislations such as the ESPR, deforestation-free or Due Diligence proposals. This would engage stakeholders such as private exporters in a positive agenda for change and support the efforts in the region to promote a socially just transition to circular economy.



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