

**EU TRADE POLICY
JUNE–AUGUST 2023**

QUARTERLY TRADE DIGEST





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AGRINFO summary of progress in EU trade negotiations with low- and middle-income countries, and key developments in trade policy

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AGRINFO prepares quarterly briefings on the latest developments in EU trade policy and trade negotiations that concern low- and middle-income countries. These are designed to highlight the topics of current interest, in particular for policymakers and public authorities. Links are given to resources where more detailed information can be found, including the official EU website on trade [Negotiations and agreements](#).

KEY POINTS

EU negotiations with low- and middle-income countries

Indonesia: Both sides hope to reach agreement on a trade deal before the Indonesian elections in 2024, but tensions around deforestation may complicate talks.

India: Initial plans to complete negotiations in 2023 now seem unlikely. Frictions have arisen around the new Carbon Border Adjustment Mechanism and digital policy.

Kenya: The EU and Kenya reached agreement in June for a trade deal that will remove tariffs on trade to the EU, and establish zero tariffs on 82% of the EU's trade to Kenya. The texts will be checked by lawyers and then signed by the Council of the EU.

Mercosur: Since provisional agreement was reached in 2019, the EU has asked Mercosur countries for additional guarantees that they will stop deforestation and protect labour rights. This proposal has met with resistance, and a finalisation of talks this year looks unlikely.

Mexico: The EU and Mexico hope to finalise talks this year on a new modernised agreement to replace the existing one signed in 2000.



KEY POINTS

Trade policy

Generalised Scheme of Preferences: The existing rules that provide some developing countries with reduced tariffs are due to expire on 31 December 2023. Talks in the EU about new rules have not progressed quickly. The Commission proposes to extend the existing rules until 2027.

Ukraine: Ukraine's exports to the EU will continue to benefit from zero-duty import tariffs until June 2024.

Forced labour: The EU wants to introduce rules banning from the EU market products made using forced labour. Discussions on the Commission's 2022 proposal will continue through the autumn.

Deforestation: The Commission published a Regulation in June setting rules for cattle, cocoa, coffee, palm oil and soya value chains, to prevent products from deforested land entering the EU. It has also published FAQs providing further explanations of the rules.



EU NEGOTIATIONS WITH LOW- AND MIDDLE-INCOME COUNTRIES

Indonesia

In July 2023, the EU and Indonesia held their 15th round of trade negotiations since talks were launched in 2016. Negotiations are making progress, although they are reported to be complicated by Indonesia's concerns about the new [EU Deforestation Regulation](#) (Suroyo et al. 2023). Talks have intensified in 2023, as both sides want to complete negotiations ahead of the Indonesian elections in 2024.

India

Initially intended to be completed before the end of 2023, talks on trade, investment protection and geographical indications (GIs) between the EU and India were relaunched in 2022 after a 10-year pause. India's concerns about the EU's new [Carbon Border Adjustment Mechanism](#) (CBAM) are reported to have complicated talks (Scott and Moens 2023). EU demands on data protection and digital information flows are another source of friction (Clasen 2023). The latest round of negotiations was scheduled for the end of August, in conjunction with the G20 Trade and Investment Ministerial Meeting at Jaipur on 24–25 August.

Kenya

In June the EU agreed an Economic Partnership Agreement (EPA) with Kenya (European Commission 2023). The EPA is a follow-up to EU negotiations with the broader East African Community (EAC). Although agreement on a regional EPA was reached in 2014, the other members of the EAC – all of them “Everything But Arms” (EBA) countries that already benefit from zero duties – did not agree to ratify the agreement. These other EAC members allowed Kenya to continue its own negotiations with the EU, on condition that they are permitted to sign up to the EPA in the future.

The EPA ensures zero-duty import tariffs on all Kenyan products, including agricultural products exported to the EU market. Kenya will first liberalise the equivalent of 64% of existing trade, rising to 82% after 7 years. It will retain import tariffs (25% duty) on a wide variety of agricultural produce considered to be “sensitive products” (products that are particularly sensitive to competition from imports from other country suppliers).

The [text of the agreement](#) now needs to be verified before being sent to the Council of the EU for signature and to the European Parliament for consent.

Mercosur

At a summit in July, the EU and Brazil continued to seek a conclusion of talks on a trade agreement between the Mercosur countries (Argentina, Brazil, Paraguay and Uruguay) and the EU. Talks were intended to have completed by the end of 2023. An [agreement between the two blocs](#) was provisionally reached in 2019. But since then, EU concerns about deforestation have led to a request that Mercosur should sign up to [additional commitments](#) on stopping deforestation and protecting labour rights. EU Member States and the European Parliament will approve the deal only with such guarantees.

A further possible obstacle to a final deal emerged during the July talks when Brazilian president Lula da Silva demanded a change to the previously agreed rules that oblige Mercosur countries to open up tenders for government contracts to competition from EU companies (Reuters 2023a). Finalisation of talks this year now looks unlikely.



Mexico

The EU–Mexico Economic Partnership, Political Coordination and Cooperation Agreement was signed in 2000. In April 2018, the EU reached an “agreement in principle” on a new trade deal, and talks to finalise the deal have continued since then. The [draft agreement](#) eliminates tariffs on a range of agricultural exports, including orange juice, tuna, asparagus, honey, egg white albumin, and some meat products. The Commission proposes separating the trade and investment parts of the text (as was done in negotiations with Chile). While a trade deal can be approved by the European Parliament, new investment protection rules must be ratified by EU Member State national governments. Splitting the texts into two agreements would avoid delays such as those faced by the EU–Canada Comprehensive Economic and Trade Agreement (signed in 2016 but not yet ratified by all Member States).

In July 2023, European Commission President Ursula von der Leyen expressed confidence that talks could be completed within months ([Reuters 2023b](#)). Once finalised, the legal text of the agreement will be sent to the Council of the EU and the European Parliament for adoption.

See the EU webpage [Negotiations and agreements](#): scroll down to download Overviews and a Map summarising the state of play of EU trade agreements.

EU TRADE POLICY

Extension of current GSP rules

The existing Generalised Scheme of Preferences (GSP) that provides certain low- and middle-income countries with preferential access to the EU is due to expire on 31 December 2023. The European Commission’s proposal for a renewed GSP intends to create a system that is aligned to EU sustainability goals and is more responsive to the needs of developing countries. The Council and European Parliament are currently negotiating this proposal, but discussions have been complicated on certain issues, notably the introduction of a link between GSP status and the willingness of countries to accept the return of nationals when deported from the EU ([European Parliament 2023](#)). To provide sufficient time for the new GSP to be agreed, the Commission has proposed to extend the existing [GSP rules](#) until 2027.

Continued trade benefits for Ukraine

In June 2023, the EU extended for another year the autonomous trade measures that suspend import duties, quotas and trade defence measures on Ukrainian exports. [Temporary measures](#), which were adopted in May 2023 to manage logistical bottlenecks relating to increased imports of wheat, maize, rape seed and sunflower seed from Ukraine, are due to be phased out by 15 September.

Forced labour proposal

In September 2022, the Commission proposed to [prohibit products associated with forced labour](#). This proposal gives new powers to EU Member States to investigate potential labour abuses on the basis of risk analysis. It requires EU businesses to perform due diligence to ensure products they sell are not produced using forced labour. The Commission’s proposal is currently being negotiated by the Council of the EU and the European Parliament. The Parliament’s International Trade Committee, responsible for examining the Commission proposal, has focused on whether SMEs should be excluded from the legislation; and on whether EU Member States would have sufficient resources to enforce the legislation or a centralised European



enforcement body would be needed. There is also debate about whether businesses or authorities should bear the burden of proving the use of forced labour, and whether the Regulation should include provisions for compensating victims of abusive labour practices. The International Trade Committee is due to vote on its negotiating position in September 2023, which will then be put to the Parliament for adoption. EU Member States have also considered the proposal in the Council of the EU, but have not yet reached a common position. Their work will continue in September.

Deforestation Regulation and FAQs

On 9 June 2023, the European Commission published the Regulation on deforestation and forest degradation that was agreed by EU institutions in December 2022. The new rules have significant implications for operators in the cattle, cocoa, coffee, palm oil and soya value chains in low- and middle-income countries (see [EU Deforestation Regulation](#)). In response to questions from various stakeholders about the Regulation, the Commission has issued a [Frequently Asked Questions](#) document to support operators and traders, in particular SMEs.

The new rules respond to the alarming rate of deforestation resulting from the expansion of agricultural land to produce certain commodities. As European consumption of these commodities and related products contributes indirectly to deforestation, the EU aims to curb this practice to reduce the associated greenhouse gas emissions and biodiversity loss.

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