

# FREE TRADE AGREEMENT BETWEEN **MERCOSUR - SINGAPORE**



INFORMATIVE SUMMARY

July 2022

# I. Introduction

MERCOSUR and Singapore announced the conclusion in Asunción, Paraguay, on the 20th of July, 2022, of the negotiations of the free trade agreement between the bloc and that Asian country. Negotiations were launched in July 2018, began in April 2019, and reached conclusion after six rounds.

The MERCOSUR-Singapore Free Trade Agreement reflects the Brazilian interest in deepening economic-trade ties with strategic partners in Asia, the most dynamic international trade region today.

The agreement with Singapore will benefit Brazil in many areas. It will bring renewed opportunities for Brazilian exports, for the attraction of Singaporean investments, and for cooperation in areas such as trade facilitation and customs cooperation.

The agreement with Singapore will ensure the stability of rules for access to an important export market, improving the competitiveness of MERCOSUR's exports. In addition, it will facilitate access to technologically advanced inputs, machines, and equipment for the Brazilian productive sector at competitive prices, contributing to the increase in productivity of companies in various sectors. It will also help to reduce general prices for society as a whole.

## Singapore

With a population of 5.8 million people and a GDP of US\$397 billion in 2021, Singapore is one of the most open-to-trade countries in the world. The share of trade in goods and services in GDP is 320% and the country ranked 10th and 12th in world exports and imports in 2020.

Singapore is also on the list of the largest investors and recipients of investments in the world, in addition to being one of the world's largest providers of maritime transport services.

The country has a network of 27 free trade agreements – including some of the world's most comprehensive agreements, such as the Regional Comprehensive Economic Partnership (RCEP, which came into force in 2022 and brings together 15 Asian countries) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, which brings together 11 countries from Asia, Oceania and Latin America and has been in force since 2018). RCEP and CPTPP together represent around 35% of the world's GDP.

Currently, most of Singapore's trade is regional. In 2020, around 73% of its exports were destined for Asia and Oceania. Its main trading partners are China, Malaysia, Hong Kong, the United States, and Indonesia. In 2020, less than 1% of Singapore's exports were directed to Brazil.

## **MERCOSUR**

MERCOSUR (Southern Common Market) was created by the Treaty of Asunción in 1991. The four MERCOSUR countries - Argentina, Brazil, Paraguay and Uruguay - account for 67% of South America's territory (11.9 million km<sup>2</sup>), 62% of the South American population (265 million inhabitants) and 69% of the region's GDP in 2019 (US\$ 2.38 trillion, 8th largest world GDP in 2019).

Exchanges within the bloc have multiplied sevenfold since its creation, rising from US\$4.5 billion in 1991 to US\$40.6 billion in 2021. The average trade between the bloc countries in the last ten years is around US\$ 39 billion. MERCOSUR's trade with the world in 2021 was US\$ 598 billion (of which US\$ 338 billion in exports). The main destinations for MERCOSUR's exports were China, the United States and the Netherlands.

MERCOSUR is the primary recipient of foreign investment in the region. According to UNCTAD's latest data, in 2021, MERCOSUR received 44% of foreign direct investment in Latin America and the Caribbean and 67% of FDI in South America. The bloc is part of a network of agreements in South America that involves 10 countries and constitutes, in concrete terms, a free trade area in almost the entire continent. It also has agreements with Mexico and Cuba. In addition to the agreements concluded in principle with the European Union and EFTA in 2019, MERCOSUR has FTAs in force with Egypt and Israel and preferential trade agreements with India and SACU.

### **Bilateral Trade Relations**

According to data from the Secretariat of Foreign Trade (SECEX) of the Brazilian Ministry of Economy, the flow of trade in goods between Brazil and Singapore was US\$ 6.7 billion in 2021, with Brazilian exports of US\$ 5.8 billion and imports of US\$ 843 million, generating a trade surplus of US\$ 5.0 billion. In 2021, Singapore was the sixth main destination for Brazilian exports of goods and Brazil's 43rd origin of imports. In the first half of 2022, Singapore was the 15th largest Brazilian trading partner. The export basket from Brazil to Singapore mainly comprises products from the Manufacturing Industry (82%), followed by goods from the Extractive Industry (18%). Brazilian imports from Singapore are made up entirely of products from the manufacturing industry.

Trade in services between Brazil and Singapore totaled US\$ 659 million in 2019. The main services traded between Brazil and Singapore are "Other business services", "Transport" and "Travel", both in terms of exports and imports.

In 2019, Singapore ranked as the 24th primary origin of the stock of foreign direct investment in Brazil. The country presented a positive net result in investment stock during the

entire period 2015-2019, both in terms of Singaporean investments in the Brazilian economy and of Brazilian investments in Singapore.

### **Expected Results**

An impact Study published by SECEX estimated that a free trade agreement between MERCOSUR and Singapore would bring positive results for Brazilian GDP, exports and imports and investments, as well as a decrease in prices. The results indicate that the agreement may represent an increase, compared to a scenario without the agreement, of R\$ 28.1 billion in Brazilian GDP, considering the values accumulated between 2022 and 2041. For the same period, there would be an estimated increase of R\$11.1 billion in investments, R\$21.2 billion in Brazilian exports and R\$27.9 billion in imports, totaling an increase of R\$49.1 billion in trade between Brazil and Singapore.

Also according to the SECEX study, it is expected an increase in the value-added indexes of Agriculture by 0.03% and that of Extractive Industry by 0.02%. Exports would also increase by 4.41% in the Transformation Industry, by 4.85% in the Services sector, and by 2.47% in the Agricultural sector.

The study also identified sectoral effects resulting from the agreement. In the vast majority of cases, the sectors followed the trend of the Brazilian economy and presented positive results for the level of product and exports: 55 of the 65 sectors showed growth in the sectoral product.

An agreement between MERCOSUR and Singapore would also represent an opportunity to increase foreign investment in Brazil. UNCTAD estimates that Singapore's stock of foreign investment amounts to US\$625 billion, but according to the Embassy of Brazil in Singapore, the Singaporean sovereign funds GIC and Temasek, both present in Brazil, currently direct only 3% to 4% of their portfolio of US\$ 800 billion to the Latin American and African markets.

## II. Structure of the Agreement

The MERCOSUR-Singapore Agreement will consist of chapters and annexes in the following areas:

- **National Treatment and Market Access for Goods**
  - Annexes with Tariff Schedules
- **Rules of Origin**
  - Annex with Product-specific Rules
- **Investments**
  - Annexes with Additional Investment Provisions between Brazil, Paraguay and Uruguay and Singapore
- **Services**
  - Annex on Financial Services
  - Annex on Postal Services
  - Annex on Professional Services
  - Annex with Schedules of Specific Commitments and Schedules of Non-Conforming Measures in accordance with article 6
- **E-commerce**
- **Movement of Natural Persons**
  - Annex with Specific Commitments on the Movement of Natural Persons
- **Customs Procedures and Trade Facilitation**
- **Government Procurement**
  - Annex with Specific Commitments by each MERCOSUR Member State and Singapore
- **Trade Remedies and Bilateral Safeguards**
- **Competition**
- **Intellectual Property Rights**
  - Annex on Geographical Indications
- **Technical Barriers to Trade (TBT)**
- **Sanitary and Phytosanitary Measures (SPS)**
- **Dispute Settlement**
- **Transparency**
- **Micro, Small and Medium Enterprises**

## III. Summary of the Agreement

### Trade in Goods

The chapter on national treatment and market access for goods contains disciplines aimed at eliminating import tariffs between the Parties and ensuring national treatment given to imported goods in accordance with the provisions of the General Agreement on Tariffs and Trade (GATT 1994). It also contains disciplines on the temporary admission of goods, import and export licensing, goods re-entered after repair, among others.

The MERCOSUR-Singapore Free Trade Agreement will consolidate the liberalization of import tariffs for all goods exported by MERCOSUR to Singapore immediately after the Agreement enters into force.

MERCOSUR, in turn, will grant liberalization of import tariffs to 95.8% of the tariff universe, corresponding to 90.8% of the total value currently imported from Singapore. Of this total, 25.6% of tariff lines (TLs) will immediately have free trade status after the Agreement enters into force. The other tariff lines will be gradually liberalized according to the tariff reduction schedule distributed in baskets of 4 years (12.5% of TLs), 8 years (40.9%), 10 years (15.1%) and 15 years (1, 7%).

### Rules of Origin

The main purpose of the rules of origin is to define access to the agreement's tariff concessions. Product-specific Rules (PSR) were negotiated for all products, in line with modern free trade agreements. The agreement provides for Rules of Origin and PSRs to facilitate trade between MERCOSUR and Singapore, in line with the rules agreed upon between MERCOSUR and the European Union.

The agreement provides for a hybrid certification system, with the possibility of self-certification through a declaration of origin or a traditional Certificate of Origin, giving MERCOSUR governments and commercial operators freedom of choice. Singapore will only adopt self-certification, as the country no longer uses the Certificate as a means of proof of Origin. It is noteworthy that self-certification of origin is based on a declaration by the exporter or the producer, which reduces costs and brings about less red tape. The parties also agreed on a simplified and, at the same time, rigorous system of verification of origin, through which the importing country can request additional documents from the competent authority or the commercial operator and carry out on-site visits in order to confirm the origin of the product.

## **Services and Investments**

The disciplines on trade in services and their providers have specific chapters and annexes, following the practice of modern free trade agreements.

The chapter on trade in services, in addition to reaffirming the disciplines agreed within the WTO, establishes an advanced regulatory framework, particularly for Brazil and Singapore, to provide greater transparency and predictability to the conditions of market access and the treatment offered to service providers. Regulatory disciplines were also agreed upon to prevent disguised restrictions on trade from licensing and qualification requirements, in line with what was agreed at the WTO in December 2021.

The services chapter also includes sectoral disciplines on financial services, professional services and postal services. The Parties also recognize the mutual interest in negotiating future disciplines on telecommunications services.

The financial services annex contains provisions that aim to ensure an open, safe, transparent and innovation-friendly market for financial service providers while preserving the prerogatives of monetary authorities and market regulators to adopt prudential measures and ensure the protection of information as appropriate.

The professional services annex establishes a normative framework to guide the approach between autonomous entities and professional councils of the Parties. The postal services annex ensures that the regulatory framework favors competitive market practices, preserving the provision of universal services and the prerogatives of designated operators and postal regulatory authorities.

The movement of natural persons chapter aims to promote the access of businesspeople, service providers and MERCOSUR investors in the Singaporean market through provisions that ensure timely and transparent migration procedures. The chapter covers the entry and temporary stay of people as a means of facilitating trade and investment.

In the agreement with Singapore, MERCOSUR follows the model of its latest agreements and the global trend of including specific treatment on investments. Provisions in line with the Brazilian Investment Facilitation Agreement model were included in the Agreement. The chapter includes articles that establish a governance structure aimed at cooperation between the Parties through a joint subcommittee and through Focal Points or Ombudspersons, whose purposes are to stimulate the attraction and maintenance of investment flows while, at the same time, guaranteeing support to foreign investors with doubts about legislation and administrative procedures related to investments.

The chapter also recognizes the right of States Parties to regulate to achieve legitimate public policy goals; sets out principles on dispute prevention; and adopts an annex with additional investment protection commitments assumed by MERCOSUR States Parties and by Singapore.

MERCOSUR countries presented national lists of market access commitments for services and investments, establishing the covered sectors and activities, as well the market access conditions for companies, investors, and service providers. Singapore presented its own list, granting MERCOSUR access conditions like those agreed upon under the CPTPP and RCEP negotiations. Brazil presented a market access list in services and investments that consolidates the current situation of its domestic regulatory frameworks, with a view to providing greater transparency and predictability to the business environment in the country, which is essential for encouraging trade in services and attracting investments.

Brazil safeguarded some sectoral sensitivities, such as the education and health sectors, for which no commitments were made, as well as the development of certain activities whose access is legally restricted for foreign companies.

Brazil and Singapore took additional steps towards opening their services and investment markets, by presenting commitments in a negative list format (i.e, listing only the excluded sectors) and agreeing on a “ratchet” mechanism that grants autonomous liberalization of specific sectors. The mechanism will be activated if the corresponding regulatory frameworks undergo future liberalizing reforms.

## **E-commerce**

The e-commerce chapter establishes the most comprehensive framework for this modality of commerce ever agreed by MERCOSUR with an extra-regional partner. It aims to establish basic principles that can support the development of electronic commerce in a free and efficient way, with greater accessibility, transparency and security for users and companies involved in transactions by electronic means. MERCOSUR and Singapore made commitments on personal data protection, electronic authentication, online consumer protection, unsolicited commercial communications (“spam”), cross-border transfer of information by electronic means, paperless commerce, prohibition of server location requirements and electronic invoicing, as well as the prohibition of collecting customs duties on electronic transmissions. The chapter also stimulates cooperation between the parties, including on cybersecurity matters.



## **Government Procurement**

In order to ensure greater openness to public procurement markets, the regulatory framework of the chapter establishes disciplines in terms of non-discrimination of foreign suppliers and transparency (obligations in terms of publication, deadlines and procedures) to be observed during the Parties' bidding processes. Such disciplines apply to the covered bidding entities (at the central and sub-central levels of government), goods, services, accordingly to the agreed thresholds. Exceptions were also negotiated, through which the Parties were able to protect their sensitivities, guaranteeing space for the use of government purchases as a tool for the development of strategic sectors or for the implementation of public policies aimed at Micro and Small Enterprises, technological development, public health, among others.

The chapter's normative text is consistent with the WTO Government Procurement Agreement (GPA). The coverage defined by Brazil in the MERCOSUR-Singapore agreement follows the ambitious results that have been achieved so far in the negotiation of Brazil's accession to the GPA, including the provision of coverage for sub-central entities, for the first time in bilateral agreements. Singapore, in turn, aligned its coverage with recently negotiated agreements such as RCEP and CPTPP.

The public administration will benefit from contracting various professional services, such as architecture, engineering, urban planning, among others. The agreed commitments will guarantee Brazilian companies access to the Singapore public procurement market. The agreement brings potential gains for Brazilian companies in goods, machinery and equipment, and electronics sectors, as well as in services, architecture, engineering, advertising, construction and financial services sectors. Singapore also offered access to its public works concessions, subject the agreed thresholds, in addition to purchases of goods and services and public works from its state-owned companies.

## **Customs Procedures and Trade Facilitation**

The commitments set by the agreement are based on the principles of transparency, efficiency and simplification import, export and transit procedures, which will be translated into shorter deadlines and lower costs for operators. The chapter provides for the adoption of international standards and intensive use of information technology to speed up and simplify bureaucratic procedures. There are important commitments related to perishable goods, enabling faster dispatch and providing gains for Brazilian exporters.

The text allows the possibility of negotiating mutual recognition agreements for Authorized Economic Operator programs, which, when implemented, will make it possible to increase the competitiveness of certified companies. The agreement provides for a broad scope of

cooperation, which include the exchange of best practices on various topics related to trade facilitation, such as cooperation between border agencies, implementation of one-stop foreign trade windows and supply chain security.

### **Trade Remedies**

The trade remedies chapter follows modern international practices on the subject. The agreement guarantees the right of MERCOSUR and Singapore to adopt the trade remedies measures provided by the WTO (anti-dumping measures, countervailing measures and global safeguards), but has also some provisions that go beyond WTO.

The text also provides for the use of bilateral safeguards, which guarantee that MERCOSUR can protect itself from import surges resulting from the bilateral liberalization process that cause or threaten to cause serious harm to domestic industries. Such a mechanism is exceptional and can be used for industrialized and agricultural products during the transition period agreed to in the chapter.

Any bilateral safeguards applied may be in force for up to two years, renewable once, through a review procedure. In the case of safeguards lasting longer than one year, progressive liberalization will occur at regular intervals during the application period. The chapter provides compensation to exporters of goods subject to these safeguards and prohibits the simultaneous application of bilateral and global safeguards to the same product.

There is no unique safeguard mechanism for agricultural products. The same criteria are applied for the adoption of bilateral safeguards for agricultural and industrialized products.

### **Competition**

The competition chapter contains provisions to ensure the benefits of trade liberalization by combating possible anti-competitive conduct.

MERCOSUR and Singapore reaffirm their commitment to combating anti-competitive practices, such as the formation of cartels, always respecting the due legal process. The chapter also establishes mechanisms to promote transparency and cooperation between the authorities of both parties, which will contribute to strengthening institutions dedicated to the defense of competition.

## **Intellectual Property Rights**

The commitments on Intellectual Property Rights (IPR) reaffirm and consolidate international standards that already guide the domestic legislation of both parties, in line with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and with the Paris Convention for the Protection of Industrial Property. The chapter covers subjects such as copyright, patents, trademarks, industrial designs, geographical indications and protection of undisclosed information.

The agreement also incorporates the protection of genetic resources and traditional knowledge into the IPR chapter, a topic of particular interest to Brazil as a megadiverse country. The parties have also included provisions that encourage technology transfer in an annex to the IPR chapter.

## **Technical Barriers to Trade (TBT)**

The agreement establishes disciplines beyond WTO provisions and seeks to consolidate the implementation of good regulatory practices in Brazil, aiming at the country's accession to the OECD and the standardization with other MERCOSUR countries. The agreement consolidates the commitment to adapt to existing relevant international standards in the regulated matters, in addition to encouraging the performance of regulatory impact analyses, including the consideration of potential impacts on Micro, Small and Medium-sized companies, and public consultations prior to the adoption of regulations.

The institutionalization of procedures for negotiating trade facilitation initiatives is an innovative discipline that is also present in the agreements with the European Union and EFTA. It is a flexible and dynamic mechanism, with a case-by-case approach, which can be used while the agreement is in force. Through this mechanism, it will be possible to seek harmonization with relevant international standards and recognize results of conformity assessment procedures.

There are provisions for technical cooperation in a wide range of regulatory aspects and for increasing institutional capacity, as well as for a technical consultation mechanism, with a period of 60 days for replies on measures that may impose difficulties on bilateral trade. The agreement also establishes provisions on labeling to bring greater predictability and avoid undue delays in approval, registration and certification. It also contains provisions on the exchange of information of private standards.

## **Sanitary and Phytosanitary Measures (SPS)**

The chapter establishes commitments to guarantee greater predictability, readiness and mutual knowledge between sanitary systems, which aims at facilitating better communication between public authorities.

One of the highlights of the chapter is the recognition by Singapore of the principle of pre-listing, a modality of authorization in which the sanitary authorities of one country accept the direct indication of the producing establishments of the other through a faster process, reinforcing confidence in the sanitary system of MERCOSUR countries.

The SPS chapter ensures that members strengthen mutual trade facilitation while maintaining firm commitments to protecting human, animal and plant health in their territories. In this regard, members have signed commitments that ensure that sanitary and phytosanitary measures cannot be used as unjustified barriers to trade.

The agreement also provides for strengthening the adoption of standards, guidelines and recommendations from the World Organization for Animal Health (WOAH), the International Plant Protection Convention (IPPC) and the Codex Alimentarius (FAO/WHO). An example of this commitment effort and an international standard is the provision in the agreement that establishes that the parties must quickly and without undue delay recognize disease-free zones recognized by the WOAH.

The SPS chapter also establishes commitments that facilitate the exchange of information and the conclusion of processes between the Parties' sanitary authorities on topics such as analysis of equivalence of sanitary measures, regionalization, risk analysis and audits. The provisions of the chapter also aims at strengthening cooperation to quickly solve any differences in sanitary or phytosanitary matters between the respective authorities.

## **Dispute Settlement**

The dispute settlement chapter expands the mechanisms available to Brazil for resolving trade disputes, with possible recourse to the WTO or an ad-hoc arbitration panel, in the event of non-compliance with the clauses of the MERCOSUR-Singapore FTA. It offers flexible mechanisms for negotiated resolution so that the Parties can amicably resolve any differences. In this sense, the chapter reinforces the legal certainty of the Agreement, guaranteeing the effective application of the obligations and rights arising from the negotiation with Singapore.

## **Transparency**

The transparency chapter reinforces, at the international level, the Brazilian ambition to contribute to efficient mechanisms of notification and information supply, in addition to reinforcing guarantees about the due legal process for the Parties to the Agreement.

## **Micro, Small and Medium Enterprises**

The chapter on Micro, Small and Medium Enterprises (MSMEs) establishes a framework for information sharing about the Agreement and its potential to promote an environment that facilitates and supports the development, growth and competitiveness of MSMEs. Recognizing the importance of MSMEs in domestic and international markets and their contribution to achieving inclusive economic growth, sustainable development and increased productivity, the chapter establishes, in addition to the exchange of information, focal points and a periodic mechanism for identifying cooperation initiatives and to review progress.

Among the priority areas for cooperation, the following can be highlighted: internationalization of MSMEs; development of entrepreneurship culture; cluster optimization in strategic sectors for competitiveness; digital transformation; promoting access to finance and warranties; use of regulatory frameworks and information and communication technology instruments to facilitate access to international markets; and promoting women's participation and entrepreneurship.

## IV. Review and Signature

After the conclusion of the negotiation, the Agreement will undergo a formal and legal review process before its signature on a date to be agreed by the Parties.

Once signed, the procedures for ratification will begin in each member country. As in other MERCOSUR agreements, the instrument will enter into force on a bilateral basis, that is, once it is ratified and notified by each of the MERCOSUR countries and by Singapore.

## V. Timeline

**2017**

Based on a decision of the XLIX extraordinary meeting of the MERCOSUR's Common Market Group - GMC (**Brasilia, 12/19/2017**), the then Brazilian pro tempore presidency (PPTB) of MERCOSUR sent Singapore a proposal to launch an exploratory dialogue.

**2018**

The exploratory dialogue meeting was held on **05/28/2018** at Singapore's Embassy in Seoul.

On **07/23/2018**, in a parallel event to the 13th Summit of the Pacific Alliance, in Puerto Vallarta, MERCOSUR and Singapore announced the launching of negotiations.

**2019**

In **April 2019**, the I Round of negotiations took place in Buenos Aires.

**2020**

Due to travel restrictions during the pandemic, negotiations continued through virtual meetings for three years.

**2022**

During **the first half of 2022**, efforts were redoubled, with the completion of the last four rounds of negotiations.

Face-to-face work resumed at the IV Round in Asunción, in **April** this year, while continuing to use videoconferences and other virtual means.

On **July 20th, 2022**, at the end of the VI Round in Asunción, MERCOSUR and Singapore announced the conclusion of negotiations.