

## Twenty-five years later, white smoke for the EU-MERCOSUR Agreement

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### Theme

What was agreed between the EU and MERCOSUR? What lies ahead in the ratification process? What will be its economic impact?

### Summary

The EU-MERCOSUR Association Agreement, negotiated over 25 years, is a historic opportunity for economic and political integration between the EU and Latin America. The agreement, structured on three pillars –trade, political dialogue and cooperation–eliminates more than 90% of bilateral tariffs, reduces non-tariff barriers and harmonises regulations in key areas such as technical requirements, sanitary and phytosanitary measures, and public procurement. It also protects more than 350 European and 220 MERCOSUR geographical indications, consolidating trade in high-quality, origin-controlled products.

In terms of sustainability, the agreement is one of the most ambitious to date, with explicit commitments to combat climate change and deforestation, the implementation of the Paris Agreement and respect for labour rights under ILO standards. The EU has also earmarked €1.8 billion to support the green and digital transition in MERCOSUR as part of the Global Gateway initiative.

The EU-MERCOSUR agreement is one of the few trade deals still left with great trade-creation potential. A recent study estimates a 37% increase in bilateral trade flows with only a minor impact on trade with other geographic areas.

However, the ratification process poses significant challenges. In the EU, the trade agreement must be ratified by the European institutions (European Council and European Parliament), while the political dialogue and cooperation components will require the approval of all 27 member states' national parliaments. In MERCOSUR, the ratification of the trade agreement will be more flexible, allowing it to enter into force bilaterally after individual approval by each the Parliament or Congress of a member country.

From a geopolitical perspective, the agreement reinforces shared values such as democracy, respect for human rights and rules-based trade, positioning the EU as Latin America's main strategic partner and MERCOSUR as a key player in sustainable, high value-added supply chains.

## Analysis

'This agreement is not only an economic opportunity, but also a political necessity' is how Ursula von der Leyen, President of the European Commission, summed it up with precision when she announced the [EU-MERCOSUR Association Agreement](#) in Montevideo on Friday 6 December. This historic agreement between two of the world's most important trading blocs, the largest ever concluded by the EU and the only one that MERCOSUR –which includes Brazil, Argentina, Uruguay and Paraguay– has with a major trading bloc, will create an integrated market of almost 800 million consumers.

After a quarter of a century of discussion –[negotiations between the EU and MERCOSUR](#) began in 1999–<sup>1</sup> there seems to be light at the end of the tunnel for the EU-MERCOSUR Association Agreement to be finally ratified –not without first going through a long and complex process– and to enter into force.

Three elements have given new impetus to the agreement. First, the rise of protectionism, particularly considering Donald Trump's re-election in the US, pushed the EU and MERCOSUR to act. Both blocs see the treaty as a way to reaffirm their commitment to rules-based international trade. Secondly, there were important strategic considerations for the EU, concerned about the rapid expansion of Chinese trade and investment in Latin America and its loss of prominence in the region. The new European Commission, which took office on 1 December, wanted to start its mandate by showing quick and concrete results. Thirdly, both Lula da Silva in Brazil and Javier Milei in Argentina have strongly supported the agreement (Uruguay was always in favour as a small exporting economy), in addition to the strong support from EU countries such as Spain, Portugal and Germany.

A recent report published by the Elcano Royal Institute titled [Why does Latin America Matter](#), indicates that, if ratified, the impact of the EU-MERCOSUR trade agreement on bilateral trade flows (resulting from the elimination of both tariff and non-tariff barriers) will be very significant. In the long term, trade flows (calculated as the average of exports and imports) between MERCOSUR and the EU are expected to increase by 37% with a limited negative impact on EU and MERCOSUR trade with other geographic regions.<sup>2</sup>

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<sup>1</sup> The agreement stalled for years due to opposition from France and other EU countries (such as Austria, the Netherlands and now Poland), which demanded environmental guarantees from Brazil and expressed concern about possible harm to European farmers. Simultaneously, the protectionist governments of Brazil and Argentina, concerned about their manufacturing industries, especially the automobile industry, did not prioritise ratification.

<sup>2</sup> Other studies have estimated the impact of the agreement on GDP. One by several professors at the London School of Economics put the increase in GDP at €10.9 billion for the EU (0.1% of GDP) and €7.4 billion for MERCOSUR (0.3% of GDP) by 2032. In the case of Spain, the impact analysis of the Secretary of State for Trade estimates that Spanish GDP could grow by up to 0.23% thanks to the agreement, once all its gains have materialised.

But what exactly was agreed and how will this saga unfold in the coming months and years?

### 1. What has been agreed?

The EU-MERCOSUR Association Agreement is structured in three main pillars:

- (a) Trade: this pillar covers chapters related to trade in goods and services, such as tariffs, customs procedures, technical barriers to trade, and sanitary and phytosanitary measures.
- (b) Political dialogue: this pillar deals with political cooperation, on issues such as human rights, democracy and international governance.
- (c) Cooperation: this pillar focuses on areas such as environmental protection, education and technological cooperation.

Given the comprehensive nature of the agreement, which includes both trade and political and cooperation elements, it is classified as a mixed agreement in EU political jargon, which will lead to a complex ratification process (explained below).

### 2. Tariff reductions

The agreement eliminates or reduces tariffs and import duties to facilitate market access and promote bilateral trade. It also establishes the rules of origin, ie, the criteria for determining the origin of products, which is essential for applying a preferential tariff treatment under the agreement.

The agreement eliminates tariffs on more than 90% of bilateral trade. In a world of already very low tariffs, MERCOSUR's starting tariff levels are considerable: up to 35% on automobiles, 18% on components, 20% on machinery, 18% on chemicals, 14% on pharmaceuticals and 35% on clothing and footwear; in agriculture, up to 28% on dairy products, 25% on beverages and soft drinks, 27% on wines and 20% on confectionery. EU tariffs are also very high, especially on agri-food products (eg, up to 35% on wines, 20% on alcoholic beverages, and compound tariffs equivalent to an ad valorem rate of up to 62% on out-of-quota meat).

The agreement, which will in any case require that agri-food products meet strict European food safety standards, also guarantees the protection of more than 350 European and 220 MERCOSUR geographical indications, so that only products genuinely originating and produced in a particular region, following specific standards, can use that name (such as Rioja wine, Champagne, Parmigiano Regianno, Mendoza wine from Argentina and Queso Colonia from Uruguay).

### 3. Elimination of other barriers to trade

Other barriers to trade would also be eliminated:

- (a) Non-tariff barriers. The agreement also includes provisions on non-tariff barriers to promote trade and investment, such as the simplification of customs procedures, the reduction and harmonisation of technical requirements, and the harmonisation of sanitary and phytosanitary measures, in accordance with international standards.
- (b) Elimination of the discriminatory tax treatment of imported goods. The agreement ensures that imported goods receive a non-discriminatory tax treatment, promoting equality between local and imported products.
- (c) Facilitation of trade in services. The agreement promotes the provision of cross-border services between the EU and MERCOSUR, facilitating trade in business services, financial services, telecommunications, maritime transport, and postal and courier services, among others. It also recognises the right of establishment for service companies, which facilitates their operation in both markets.
- (d) Opening of the markets to public procurement. Companies from both blocks will be able to participate in public tenders on equal terms with local companies, while establishing simpler, more transparent and less discriminatory procedures for awarding contracts.
- (e) Support for small and medium-sized enterprises (SMEs). The agreement includes a chapter dedicated to SMEs, designed to address the specific challenges they face in trade and investment activities. This is an especially important sector: currently, more than 30,000 European SMEs export to MERCOSUR, and the figure could increase with the agreement by simplifying market access.
- (f) Improved access to essential raw materials (especially important for the EU) for which the reduction or elimination of export taxes, the elimination of export restrictions and export monopolies are envisaged.

#### 4. Protection of labour rights and the environment

The EU-MERCOSUR Agreement includes a series of commitments to ensure that trade and investment do not take place at the expense of either the environment or workers' rights.

Thus, both parties agree to respect and promote labour rights without reducing or weakening existing International Labour Organisation (ILO) standards: non-discrimination at work, elimination of child labour and forced labour, freedom of association and the right to collective bargaining, and commitments to labour inspection and occupational health and safety.

The treaty also makes explicit commitments to combat climate change and deforestation, through the effective implementation of the Paris Agreement, the sustainable management of fisheries and forest resources, and the promotion of products that help preserve the environment, thus creating opportunities for environmentally responsible supply chains to thrive in both regions.

The new agreement between the EU and MERCOSUR is, in fact, one of the most ambitious in terms of sustainability: it reflects the EU's highest standards in Trade and Sustainable Development and goes even further than some of the most recent agreements, such as the EU-Chile agreement or the Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada.

In parallel, a €1.8 billion fund of EU support will facilitate mutually beneficial actions for a green and digital transition in MERCOSUR countries, as part of the [European Global Gateway initiative](#). The fund will promote the development of high value-added local industries and has the potential to transform MERCOSUR into a major supplier of minerals, energy and food to the EU.

These commitments, for which an active monitoring role for civil society is also envisaged, ensure that the agreement not only promotes trade, but also consolidates a sustainable development model for both regions.

## 5. Political dialogue and cooperation

The EU-MERCOSUR agreement also aims to intensify political dialogue and increase bilateral cooperation in a variety of strategic areas, including:

- Migration: the joint management of migration flows in an effective and humane manner.
- Digital economy: the promotion of technological innovation and digitalisation in both regions.
- Research and education: promoting academic and scientific cooperation projects.
- Human rights: including a special focus on the protection of the rights of indigenous peoples.
- Corporate and social responsibility: promoting responsible and sustainable business practices.
- Environmental protection: joint actions to mitigate climate change and conserve ecosystems.
- Ocean governance: cooperation to ensure the sustainable use of the oceans.
- Combating terrorism, money laundering and cybercrime: coordination in international security and combating global threats.
- Strengthening bi-regional relations based on shared values such as democracy, the rule of law and respect for human rights.

## 6. What are the next steps?

As former EU High Representative Josep Borrell explains, all elements, both trade and political dialogue and cooperation, are included in the overall agreement. However, to simplify ratification, the agreement is presented in the form of two treaties. Why two treaties? Because the trade provisions of the agreement require ratification only by the EU institutions (European Council and European Parliament), while those on political dialogue and cooperation, which are included in the overall agreement, also require the approval of the national parliaments of all EU member countries. When the global treaty is ratified, the trade agreement will be integrated into it.

Even so, the ratification process poses significant challenges, especially on the European side.

In MERCOSUR, the agreement must be approved by each of the national parliaments. However, unanimous approval is not required for the agreement to enter into force. It will do so bilaterally once each country's parliament or congress approves it.

In the EU, however, the process is more complex. Once the legal review and translation into all member states' languages has been completed (a process that can take several months), the trade agreement will be submitted for ratification by the European Council where EU countries are represented by their Trade Ministers. A minimum of four states representing at least 35% of the EU population could block the agreement. France, Austria and Poland have stated that they oppose the deal but would need another large country to reach the critical threshold. Italy could join, but it is also possible that in the coming months the guarantees and transition deadlines offered to farmers by the European Commission will be enough to convince the more sceptical countries. The trade agreement will also have to be ratified by the European Parliament, where it should in principle have at least the support of the European People's Party, the European Social Democrats and the Renew group of liberals (excluding the French MEPs).

Therefore, even if the European ratification process goes smoothly, the trade agreement will take more than a year to enter into force, and the overall agreement could take several years as it requires the approval of all the national parliaments of the EU countries.

## Conclusions

The EU-MERCOSUR agreement is one of the few trade agreements left with great trade-creation potential. First, because MERCOSUR tariffs remain high in many sectors (manufacturing, chemicals, pharmaceuticals and agriculture) and the same is true for certain EU sectors (especially agriculture). Secondly, because they are complementary economic blocks: MERCOSUR has the potential to become a major supplier to the EU in critical minerals, renewable energies and agricultural products. The EU has the capital, technology and know-how that MERCOSUR needs to move towards a productive matrix of higher value-added and sophistication.

If ratified, the EU would have free trade agreements with **94% of Latin America's GDP**, compared with **44% for the US** and **only 14% for China**, thus becoming Latin America's main strategic partner and a leading player in the region.

MERCOSUR, for its part, will consolidate and strengthen its trade and investment relations with the EU, its second-largest trading partner after China, but **a very important buyer of high value-added products**, essential for the creation of value chains and for productive development.

**The impact of the EU-MERCOSUR trade agreement** on bilateral trade flows between the EU and MERCOSUR countries (resulting from the elimination of both tariff and non-tariff barriers) will be very significant. In the long term, trade flows (calculated as the average of exports and imports) are expected to increase by 37% with a limited negative impact on EU and MERCOSUR trade with other geographic regions.

Last but not least, the geopolitical relevance of the agreement cannot be underestimated. There are few regions in the world with such similar values: a shared cultural heritage, an adherence to democracy, the rule of law and respect for human rights, and a commitment to a rules-based international order.