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Observations on the Impact of the EU-Mercosur Agreement¹

General overview

The Agreement between Mercosur and the European Union (MS-EU Agreement), which had been negotiated since 1999 between the two blocs, entered a new phase on 6 December 2024, when Mercosur leaders and the President of the European Commission officially announced the conclusion of negotiations and marked the start of the legal review and translation phase of the agreement. This conclusion referred only to one part of the Association Agreement (the trade agreement), which includes two other pillars in addition to trade: cooperation and political dialogue. These other parts address issues of interest to civil society in both blocs, such as environmental issues and scientific cooperation. Most progress has been made on trade-related issues.²

The agreement was met with protests from farmers in France, who believe that it consolidates *unfair* competition from Mercosur producers due to differences in quality requirements and regulatory demands of environmental legislation on the two continents. Following this reasoning,

production in South America would not have to comply with European criteria; as a result, it would face lower costs and, given the exemption from trade tariffs proposed by the agreement, would reach the EU market at a much lower price than European products and become more competitive. The unease expressed by farmers in France, Europe's leading agricultural producer, is shared in other countries such as Poland, Austria, the Netherlands and even Spain.

There is no consensus within Mercosur with regard to the effects of the agreement. While a more optimistic view emphasises the benefits of a possible increase in agricultural exports, there is a perception among civil society that, beyond the environmental and social impacts of strengthening agribusiness, the agreement reinforces a perverse specialisation in the economies of the Southern Cone and reduces the possibilities for productive development due to the detrimental effects on industry, part of the services sector and even on some segments of agriculture, such as family farming.

¹ The opinions expressed herein are those of the authors of this article. Version of 11 March 2025.

² The announcement referred to the conclusion of negotiations; however, the agreement is still far from being implemented. In addition to translation and legal review, the text must be approved by the European Parliament and, depending on the legal format chosen, will have to be ratified, totally or in part, by all EU member States. The need for comprehensive approval by all States creates a high degree of uncertainty with regard to its entry into force.

As a matter of fact, increasing access for (agricultural) exports to European markets would be one of the main “advantages” of the agreement. However, the trade-off for this benefit would be an extended access for European companies to the industrial goods and services market in the countries of the Southern Cone, which would deepen the asymmetry that already exists in terms of competitiveness and scale between companies of both blocs.

EU-Mercosur Agreement, version 2.4

The trade agreement signed in early December 2024 coincides, to a large extent, with the one already agreed upon in 2019 by the presidents of Argentina and Brazil at the time, especially with regard to tariff relief. Some modifications of specific points, which will be discussed below, were introduced in response to additional demands from the EU and Brazil, after Lula took office as president of that country.

In addition to tariff relief, the text of the agreement also addresses quotas applied to a number of agricultural products, the elimination of tariffs on exported products, and other trade facilitation measures.

In the agricultural sector, the European Union will have to liberalise 82% of imports. However, the adoption of quotas and other possible measures could limit liberalisations for agricultural products from Mercosur. As part of their evaluation of the agreement proposals in 2019, Nonnemberg and Ribeiro analyse the expansion of access to Mercosur by comparing the quantities exported and the tariffs in force at that time with those proposed in the agreement. Given the complex protection that the EU grants to agricultural products in its import market, liberalisation for Mercosur products will be achieved mainly through broader import quotas, which will be accompanied by the reduction or elimination of intra-quota tariffs. The authors argue that, in addition to maintaining quantitative restrictions, in some cases there is no expansion of quantities within quotas or that the tariff reduction is not substantial. There was no relevant change in the 2024 offer (only for two products exported by Paraguay: pork and biodiesel).

With regard to industrial goods, the agreement provides for Mercosur to eliminate 91% of the tariffs applied to its imports over a period of ten years, even in sensitive sectors such as vehicles and car parts, machinery, chemicals and medicines, while allowing for some exceptions. The reduction in protection on entry into Mercosur is much more significant than on entry into the EU, given the higher level of protection provided by the Common External Tariff (CET-MS), above all with regard to industrial goods. In other words, the margin of preference that European industrial exports will benefit from is considerably greater than that which Mercosur exports, including agricultural products, will have when entering the European market.

Two recent additions seek to limit the negative impacts of the agreement on the Mercosur automotive industry. The first consists of a safeguard mechanism for cars produced in the Mercosur area, according to which it will be possible to suspend the tariff liberalisation schedule or even restore the current rate (35%), if there is proof that an increase in imports of European cars has a negative impact on the national automotive industry. The use of this mechanism generates some uncertainty, given the subjectivity of the criteria for assessing such impacts, which, as established in the agreement itself, may not “provide decisive guidance” for the adoption of the safeguard. The second point relating to the automotive industry concerns the extension of the deadline for the liberalisation of imports of electric cars and other innovative technologies by Mercosur countries, which aims to protect incipient regional production. The previously negotiated conditions established a maximum tax relief period of 25 years. In the case of electric vehicles, the tariff reduction will be implemented over a period of 18 years; for hydrogen-powered vehicles, 25 years (with a 6-year grace period); and for new technologies, 30 years (with a 6-year grace period).

Leaving aside the automotive sector, the agreement tends to reinforce competitive asymmetries with Europe for the entire Brazilian industry. According to the analysis by Sarti and Castilho (2021), there is a large and growing gap between Brazil (and the other Mercosur countries) and the European Union, both in terms of scale and productive competitiveness. In 2019, for example, the EU's manufacturing value added was eight times higher than that of Mercosur. Furthermore, in 2017, the ten leading industries in the European Union had higher competitiveness and industrial performance indices than those observed in Mercosur countries.

The agreement also addresses the expansion of trade liberalisation in services, public procurement and intellectual property rights. These areas are particularly important for the adoption of policies aimed at a country's productive development, especially for the reindustrialisation or neo-industrialisation objectives announced by the current Brazilian government. In the case of public procurement, for example, Sarti and Castilho (2021) point out that, although the agreement theoretically opens up an important market for both Mercosur and European Union companies, differences in competitiveness between companies in the two regions may lead to asymmetries in access to contracts. This concern is particularly relevant in the construction and infrastructure sectors, where Brazilian companies that previously had a substantial presence, are currently facing a serious crisis.

In the case of intellectual property, the final agreement retained wording that refers to the rules of the TRIPS agreement, with exceptions for medicines, among others. The European Commission insisted on this point and has emphasised the benefits associated with the recognition of European geographical indications. This consolidates European brands and designations, which is a demand from EU producers to maintain the advantages linked to their

brands. This point is of some concern to Mercosur insofar as it could limit the use of certain nomenclatures used in the region by a population of mainly European origin, which brought with it consumption habits that gave rise to the local production of goods now protected by European geographical indications.

At Europe's request—partly as a result of arguments from farmers, who maintain that Mercosur exports owe their competitiveness to less stringent environmental standards, i.e., a kind of environmental dumping by the Southern Cone—greater importance was given to environmental issues within the agreement's trade chapter. While it is true that there are differences in the degree of regulatory requirements, the competitiveness gap cannot be explained by regulatory asymmetries regarding the environment alone.

In agreement with the Brazilian government, a number of social provisions were also strengthened.

An annexe was added to the chapter on Trade and Sustainable Development, which includes provisions on multilateral environmental and labour regimes, the relationship between trade, investment and sustainable development, trade and women's empowerment, and cooperation. It explicitly mentions cooperation mechanisms that will be provided to Mercosur to support the implementation of the following multilateral agreements: the United Nations Framework Convention on Climate Change (UNFCCC), the Paris Agreement, the Convention on Biological Diversity (CBD) and the Conventions of the International Labour Organisation (ILO). Violation of the Paris Agreement may result in the suspension of the agreement, and Mercosur countries commit to halting deforestation by 2030, representing the first legally binding commitment of its kind – a goal that seems quite ambitious on Brazil's part. This chapter also reinforces, through various provisions, actions targeting small producers, cooperatives, women, indigenous peoples and local communities. Finally, a section is dedicated to promoting sustainable value chains for the energy transition. While the push towards sustainable practices is a positive development, the motivations for their implementation may not be exclusively environmental.

The changes incorporated into the 2024 version of the trade agreement affect various areas. In some cases, they mitigate the negative effects that had been anticipated in the commitments signed in 2019, but in others the outcome is uncertain or, as in the case of the introduction of restrictions on the application of charges on exports, represents a step backwards.

Another recent innovation is the inclusion of “rebalancing mechanisms” or agreement review mechanisms, whereby countries could request the suspension or revision of clauses if they consider that they have been harmed by the agreement. However, the criteria and forms of application of these mechanisms have yet to be defined, and their effectiveness obviously remains to be seen.



The chapter on public procurement was renegotiated at the request of the Brazilian government, with the aim of ensuring the use of this instrument as a public policy tool, particularly in industrial policy. The adjustments introduced brought the content of the agreement closer to current legislation in Brazil, as they preserved the use of offset mechanisms and preference margins for domestic products and services. Explicit references to micro and small enterprises and family farming are also included, and purchases by the Unified Health System (SUS, by the Portuguese acronym) are exempted.

Finally, restrictions on the taxation of mineral exports were introduced into the text, a point of particular interest to the EU, which seeks to secure the supply of raw materials in the context of the energy transition of its industry. As analysed by the Joint Research Center (JRC, 2011), the European Union's concern about mineral supply is part of the context of goals, which have been set to build a low-carbon economy, with an emphasis on increasing energy security, promoting renewable sources and improving energy efficiency. In this regard, the availability of certain critical metals, which are essential for the manufacture of low-carbon technologies, is considered strategic, especially given the EU's heavy dependence on imports to meet this demand. Therefore, from a European perspective, ensuring cheaper, more predictable and preferential access to these minerals becomes a fundamental condition for making its energy transition viable.

From a Mercosur perspective, we do not consider the balance regarding this issue very favourable. There is certainly increased scope for trade policies following the latest negotiations, which resulted in a less restrictive wording of the agreement than the prohibition contained in the 2019 version. However, despite the exceptions for certain products, a limit on their taxation (25%) and a guarantee of preferential treatment for European countries have been

established. This constitutes an unprecedented limitation on the formulation of domestic policies, undermining the ability of Brazil and its neighbours to promote strategies for national or regional processing of critical minerals or to use this instrument for other purposes if they so wish (fiscal objectives, price stabilisation, among others).

An assessment of the agreement's effects points to greater commercial benefits for the EU as a result of trade liberalisation, as well as strengthening, in the longer term, the roles of countries in the Global North and South in the international division of labour. In this division, Mercosur deepens its specialisation in raw materials and commodities with little processing and low added value, while Europe supplies industrialised products with higher technological content and more sophisticated services.

Benefits in terms of GDP growth and even trade flows for Brazil and its Mercosur partners are generally reduced. Martínez (2023) shows how small the impacts of the trade agreement on Brazilian GDP are, as estimated in various general equilibrium models: the most optimistic result points to a GDP growth of 0.45% after fifteen years of the agreement being in force. Martínez draws attention to the fact that these estimates do not consider the long-term negative effects of trade liberalisation on the process of structural change in the Brazilian economy, particularly on its capacity to innovate and the adjustment costs in the labour market.

Another study illustrating the asymmetries in benefits between the two blocs is the impact study of the agreement for the European Commission (Mendes-Parra et al, 2020), which estimates, among other things, that the growth in European exports of cars and car parts to Mercosur exceeds that of Mercosur exports to the EU by two or three. As a result, despite the changes introduced in the latest version of the agreement, it is to be expected that the growth in trade will result in an increase in car production in the EU and a reduction in their production in the Mercosur area.

Various studies present quantitative simulations of the agreement's results and generally come to the conclusion that the commercial benefits for the EU would exceed those for Mercosur as a result of the aforementioned asymmetries in openness and competitiveness. However, in general these studies do not incorporate the changes made in 2024, which, as in the case of the automotive industry, may reduce negative impacts in the medium term – given the extension of the tariff reduction schedule – and the fact that Brazil negotiated special conditions that protect domestic production in

the case of electric cars, hybrids and new technologies (which is important from a forward-looking perspective).

Risks of the Agreement for Brazil and Mercosur

There are different types of risks that the MS-EU Agreement poses to the socio-economic development of Brazil and its neighbours.

As the Mercosur-EU Agreement liberalises trade and establishes rules for other areas, which guarantee similar treatment for European and Mercosur companies, it creates more business opportunities for European countries than for the Southern Cone. In addition, it reduces the margin of action of the Mercosur countries to develop strategies with a focus on strengthening their national production capacities—as does the EU.³ For example, the priorities of the European Union include the use of public procurement and the definition of national production goals, which play a strategic role in stimulating the development of domestic production.

In this way the agreement tends to reinforce the region's regressive specialisation, with effects derived from trade liberalisation, in the short term, and from the limits imposed on the adoption of policies that aim at developing more sophisticated industrial and service sectors, in the long term.

Apart from the fact that the EU's expected commercial benefits will be greater, the agreement may interfere with regional trade in South America. In the case of intra-Mercosur trade the automotive sector, which accounts for a significant part of intra-regional trade, could encounter difficulties due to the competition of the European automotive industry. As far as trade relations between Mercosur and its Latin American neighbours are concerned, they could also be weakened by the agreement, as access licenses will be granted to European companies that are more competitive than companies from South America and the margins of preferences in accordance with ALALC agreements between Latin American countries decrease. As a result, the possibilities to move towards strengthening regional production chains that would be compatible with the tendencies and strategies observed in the most important economic centres of the world (China, USA and Western Europe) will be even more compromised. Various sectors could be affected, from the automotive industry to, for example, wine exports from Argentina and Uruguay, which will suffer the impact of the competition of European products on the Brazilian market.

³ The EU makes clear its willingness to prioritise "national" productive development by announcing, based on the Draghi Report, that the pillars of a path to "inclusive growth" in Europe are: the pursuit of sustainable competitiveness, economic security in the context of "open strategic autonomy" and the guarantee of fair competition (European Commission, 2024). OECD reports show that European countries make fairly active use of public procurement, especially in the area of health (which intensified during the pandemic, when, in addition to regular health expenditures, "orders" were placed for vaccines and other substances or equipment), as well as in sectors linked to sustainability, public order and "economic affairs", which include infrastructure, transport, communication, energy and R&D. With regard to sustainability – or green public procurement – the OECD (2023) highlights that most member states (88%) explicitly state the use of public procurement as a mechanism to meet their environmental commitments. In another vein, Sarter (2020) analyses the implementation of gender equality strategies in public procurement in Germany. Although the initiative exists and social aspects have been incorporated into the design of public policies in Europe – including in the case of government procurement – the author considers that its implementation and effectiveness remain very limited.

With regard to employment, consequences are uncertain in terms of quantity, but tend to be negative in terms of quality, as the profile of regressive commercial specialisation will be reflected by the jobs associated to international trade flows. In the case of Brazil the jobs that will be created due to exports to the European Union concentrate in more informal sectors with lower wages per hour, while the jobs “at risk”⁴ due to imports from that bloc concentrate in sectors with “good-quality” jobs characterised by increasing levels of formality, better wages and a higher proportion of leadership and management positions. Even within the industrial sector, favoured activities include those which concentrate the worst-quality jobs.⁵ Furthermore, seen from a gender perspective the current trade structure between MS and EU deepens the inequalities that had been observed on the labour market (Ferreira y Castilho, 2023, 2024).

Given that the agreement is set to intensify the current regressive trade specialisation of the Mercosur countries, it may be expected that, at an aggregate level, the quality of the jobs created in the context of growing exports will be below that of jobs, which are threatened by an eventual increase in imports.

Another issue that has hardly been explored so far, is the environmental aspect. The agreement’s encouragement of agricultural exports and, in general terms, the pattern of regressive trade specialisation in Brazil will contribute to an increase in greenhouse gas emissions.⁶ Numerous other negative impacts on the environment are to be expected due to the production mode of Brazil’s agribusiness sector (monoculture plantations and intensive use of agrochemicals, among others). At the request of various sectors of European society, the 2024 version incorporated the environmental aspect of the trade agreement to make it clear that producers from Mercosur will not be able to apply less stringent environmental standards to increase competitiveness (particularly in agriculture) and make sure that these issues will be taken into account, even in the case of a fragmented signature of the agreement. Regardless of the environmental effects, which result from strengthening the regressive specialisation of the Southern Cone, a number of studies conducted by European environment specialists are hesitant about the results of the agreement in terms of sustainability, either because of its structure or due to its inability to anticipate the agreement’s results.⁷

Ultimately, in our view the supposed “benefits” and “gains”, which some actors or media outlets frequently emphasise are uncertain, while the “risks” and “costs” associated with the agreement cannot be ignored.

⁴ They are considered to be at risk in the sense that jobs associated with the production of certain goods or services cease to be necessary, if those products or services are imported.

⁵ Sectors characterised by low-quality jobs like those related to agricultural products, food production, production of leather articles and similar activities will probably witness an increase in exports. In contrast, sectors with a higher-quality job profile – such as, for example, the production of motor vehicles, pharmaceutical and pharmaceutical products – might be threatened by an increase of imports. Cf. Ferreira and Castilho (2023)

⁶ Ghiotto and Echaide (2020) point out the risk of increasing CO2 emissions and deforestation as a consequence of the MS-EU Agreement.

⁷ Cf. for example, Harrison and Paulini (2024), or Verheyen and Winter (2024).

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