THE EU-MERCOSUR AGREEMENT: ANALYSIS OF ITS CHARACTERISTICS FROM A SECTORAL PERSPECTIVE

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Abstract

The European Union-Mercosur (Argentina, Brazil, Paraguay and Uruguay) Partnership Agreement (EMPA), reached after more than 25 years of negotiations, aims to create a more commercially integrated market between two regions that together represent over 770 million people. The agreement will progressively eliminate tariffs on over 90% of bilateral trade. However, certain products, particularly agricultural goods in the case of the EU, will remain subject to current tariffs or limited reductions through quotas. Overall, the agreement would lower the trade-weighted average applied tariff, the so-called "effective tariff". For Mercosur, the effective tariff would drop from 11% before the agreement to just 1% after full implementation. For the EU, the effective tariff would fall from 4% to 2%. This reduction reflects the combined impact of tariff liberalisation and agreed sectoral exceptions. In addition, the agreement includes measures to reduce non-tariff barriers, facilitate trade in critical raw materials and uphold environmental standards. According to recent studies, trade between the two regions could increase by around 40% in the long term.

Keywords: European Union, Mercosur, trade agreement, tariffs, non-tariff barriers.

JEL classification: F13, F14, F15.

Resumen

El acuerdo de asociación entre la Unión Europea (UE) y Mercosur (Argentina, Brasil, Paraguay y Uruguay), culminado tras más de 25 años de negociaciones, busca establecer un mercado más integrado comercialmente entre dos regiones que, en conjunto, superan los 770 millones de personas. El acuerdo contempla la eliminación progresiva de los aranceles en más del 90 % del comercio bilateral. No obstante, ciertos productos, especialmente agrícolas en el caso de la UE, seguirán sujetos a los aranceles actuales o a reducciones limitadas mediante cuotas. En su conjunto, el acuerdo reduciría el promedio ponderado de los aranceles aplicados en el comercio entre ambas regiones, conocido como «arancel efectivo». Para Mercosur, el arancel efectivo pasaría del 11 % previo al acuerdo a apenas un 1 % tras su plena implementación. En el caso de la UE, el arancel efectivo se reduciría del 4 % al 2 %. Esta disminución refleja el impacto combinado de la liberalización arancelaria y las excepciones sectoriales acordadas. Además, el acuerdo incluye medidas para reducir las barreras no arancelarias, facilitar el comercio de las materias primas críticas, y garantizar estándares ambientales. Según estudios recientes, se calcula que el comercio entre ambas regiones podría aumentar en torno al 40 % a largo plazo.

Palabras clave: Unión Europea, Mercosur, acuerdo comercial, aranceles, barreras no arancelarias.

Códigos JEL: F13, F14, F15.

Contents

1 Introduction

The European Union (EU) has stepped up its integration with Latin America and the Caribbean in response to recent geopolitical developments and heightened global uncertainty. In the past two years, the EU has updated its existing trade agreements already in effect with Mexico and Chile and reached a new agreement with the Mercosur countries (Argentina, Brazil, Paraguay and Uruguay). These efforts aim to strengthen economic, political and cooperation ties between the EU and the Latin America region, and to diversify its alliances in a context of rapidly evolving global dynamics.

The EU-Mercosur agreement, reached in December 2024 after 25 years of negotiations, is probably one of the most ambitious agreements pursued by the EU. If enacted, the EU-Mercosur agreement would create an economically integrated market of more than 770 million people with a combined gross domestic product (GDP) of €18 trillion (around one-quarter of global GDP).[1] The EU would thus have trade deals with every Latin American country except Bolivia, Cuba and Venezuela, giving it preferential access to markets representing 95% of the region's GDP and significantly expanding its presence relative to that of the leading global players, the United States and China.

From an economic standpoint, the agreement calls for a progressive reduction in tariffs between the two regions over an implementation period of up to 15 years. In certain cases, the agreement envisages maintaining current tariffs and reducing them only for a limited volume of products (through quotas), based on existing trade levels. This applies to various products identified by both sides – in the case of Mercosur exports to the EU, primarily agricultural. In addition, the agreement reduces non-tariff barriers to trade in goods and services, incorporates measures to facilitate trade in critical raw materials and includes environmental protection clauses.

In January 2026, the agreement was approved by the Council of the European Union by a qualified majority and officially signed in Paraguay by both parties. For the entry into force of the trade pillar (the Interim Trade Agreement), only the approval of the European Parliament and of the congresses of the Mercosur countries remains pending.[2]

Various recent studies suggest that the agreement would have a positive effect both on trade and on economic activity in the two regions. Specifically, it is estimated that, over the long run, trade between the EU and Mercosur could increase by approximately

1 In this integrated market, the EU would account for 63% of the population and 86% of GDP, versus 37% and 14% for Mercosur.

2 Although trade-related decisions may be approved by the Council of the European Union and the European Parliament, the treaty also encompasses areas that are the exclusive purview of the Member States, such as fiscal, labour and environmental policy and certain aspects of foreign investment. For this reason, it is essential that each national parliament or congress ratify the agreement. In recent years, the EU has typically chosen to avail itself of two separate legal instruments, a strategy that the European Commission also proposes for the EU-Mercosur agreement. First, it uses an "interim trade agreement", which separates trade from the rest of the treaty, focusing solely on reducing tariffs, eliminating some non-tariff barriers and facilitating investment. This instrument may enter into force provisionally following approval by European institutions, just like the interim agreements with Canada and Chile. For further details, see J.C. Berganza, R.G. Campos and J. Timini (2024 and 2025b).

40%. In the EU, the motor vehicles, machinery and equipment and chemicals sectors stand to benefit the most.

This paper examines the main features of the agreement and its economic implications from a sectoral standpoint. It is structured as follows: Section 2 outlines the main characteristics of the treaty, specifically analysing the tariff reductions agreed between the EU and Mercosur in terms of the various products traded between them. Section 3 summarises the studies and the analyses that have calculated the potential economic effects of the agreement. Lastly, Section 4 sets out the main conclusions of this paper.

2 Content of the agreement

2.1 General features

The EU-Mercosur agreement would phase out tariffs on most trade between two areas with strong commercial ties. The EU is one of Mercosur's main trading partners, accounting for between 15% and 20% of its imports and exports (Chart 1). Although Mercosur accounts for only about 2% of total EU trade (in the case of Spain, the figure rises to nearly 4%), it has considerable importance in strategic sectors, accounting for more than 10% of EU imports of food and raw materials.

For certain products identified by both parties (principally in the agricultural sector, in the case of the EU), the agreement envisages maintaining current tariffs or reducing them only on a limited quota, set close to current trade levels. The agreement also introduces a bilateral safeguard clause making it possible to reverse tariff concessions in the event of a threat of severe injury to European production.

The agreement also reduces non-tariff barriers. Such barriers would be lowered by simplifying customs procedures, ensuring non-discrimination on the provision of services[3] and allowing mutual access to public tenders. This would give unprecedented access to the Mercosur economies, which are not party to the plurilateral Government Procurement Agreement of the World Trade Organization (WTO), and therefore have not, until now, allowed foreign firms to take part in such tenders. Without these concessions, European firms would not be able to participate in public procurement in Mercosur other than through their subsidiaries in these countries.

The agreement does not, however, lower current standards in the EU and Mercosur. Indeed, it maintains sanitary and phytosanitary measures and technical obstacles to trade (i.e. the rules and regulations used by countries to ensure that products meet certain requirements and a given level of quality).[4] The agreement strives to ensure that such rules aim primarily to protect consumers, are based on scientific evidence and are not used to unduly restrict international trade. Hence, it protects more than 350 European and 220 Mercosur geographical indications, especially for foodstuffs whose characteristics are linked to the area of production. In this manner, it aims to strengthen trade in high-quality products of controlled sourcing.

The agreement is one of the most ambitious in the world in terms of environmental sustainability and labour standards. It incorporates express obligations to fight climate change and deforestation, including the Paris Agreement commitments,[5] and ensures

3 The agreement's non-discrimination clauses prohibit subjecting foreign suppliers to more stringent rules and requirements than those applied to domestic suppliers. These provisions focus, in particular, on postal and financial services and telecommunications.

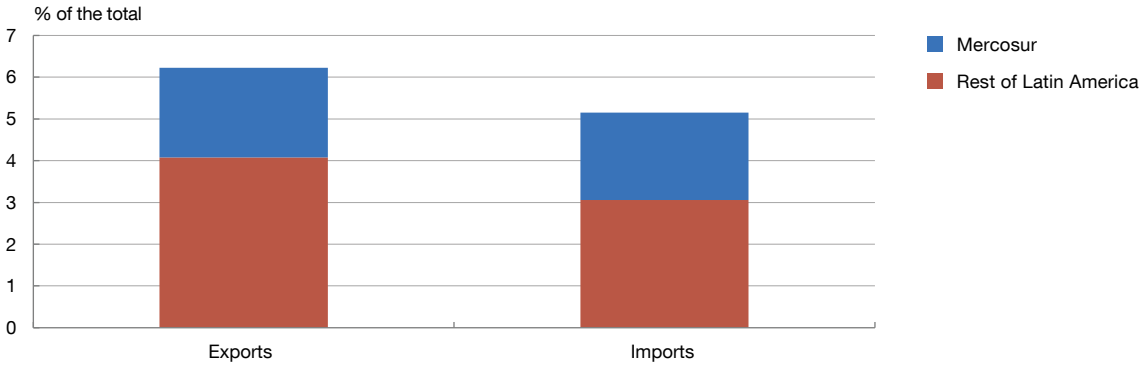
4 World Trade Organization. (2025). *Agreement on Technical Barriers to Trade*. Geneva

5 See Campos, Suárez-Varela and Timini (2022) for further details on the EU-Mercosur trade agreement's potential impact on CO_2 emissions.

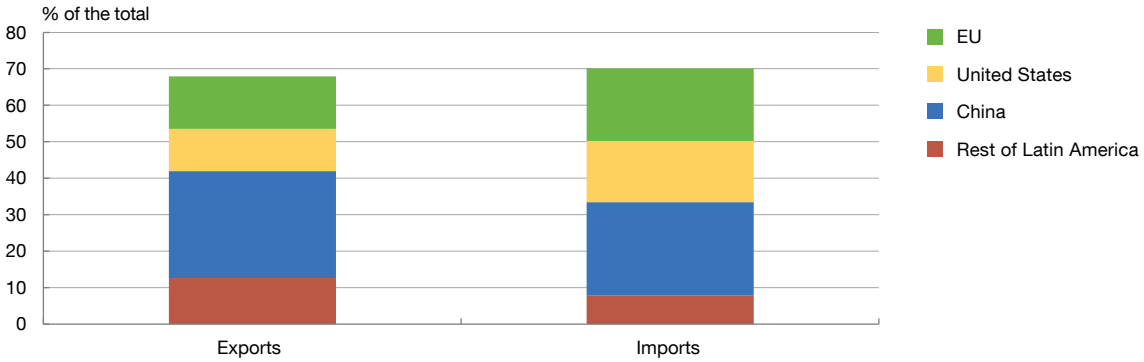
Chart 1

Importance of EU-Mercosur trade

1.a Composition of extra-EU trade, 2023



1.b Composition of extra-Mercosur trade, 2023



SOURCES: United Nations official database (UN COMTRADE) and Banco de España.

respect for labour rights in accordance with the International Labour Organization's recommendations and good practices.

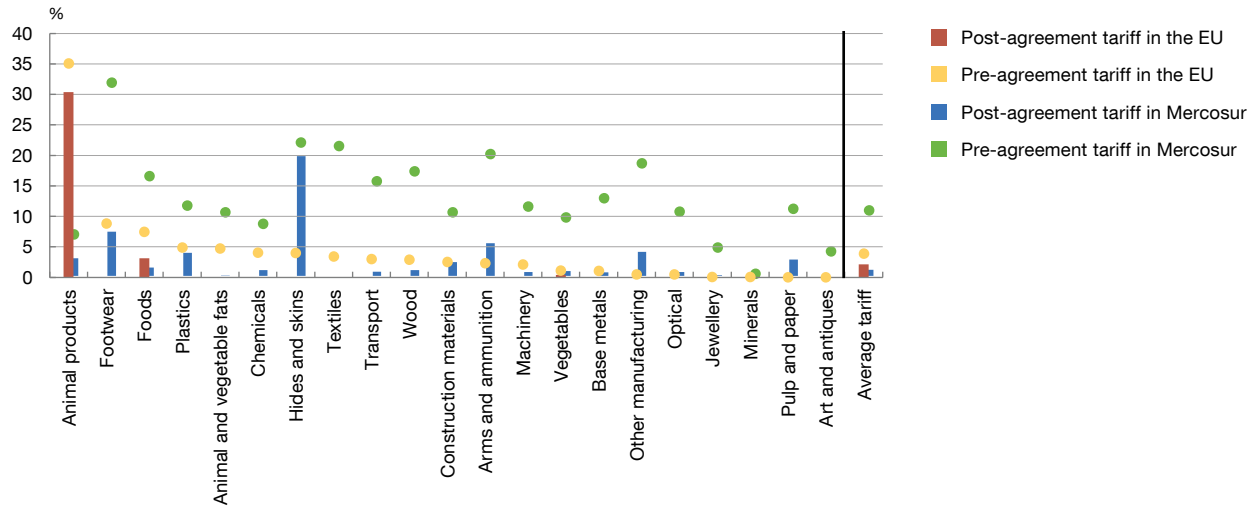
2.2 Tariff reductions and exceptions

Bilateral trade relations between the EU and Mercosur are currently subject to the most-favoured-nation (MFN) tariff. This tariff is decided at the product level but applied indiscriminately to all WTO members. In 2024, the EU's effective tariff, that is, the trade-weighted average tariff, was 4%, while that of Mercosur was more than twice as high, about 11%. Nevertheless, tariffs for specific products may be much higher. For example, Mercosur's tariffs on manufactures imports such as car parts, machinery, chemicals, pharmaceuticals, textiles and footwear range from 14% to 35%. On foodstuffs, such as dairy products, chocolate and confectionery, spirits and wines, they range from 20% to 35%.

The EU-Mercosur agreement would phase out these tariffs within a timeline of no more than 15 years for over 90% of the products traded between the two regions. The EU would fully eliminate tariffs on imports from Mercosur for the vast majority of sectors, in

Chart 2

Import-weighted tariffs, EU-Mercosur



SOURCES: Banco de España based on European Commission (2019) and World Bank.
NOTE: This analysis is based on data of the EU-Mercosur agreement publicly available (data download date: February 2025) on the European Commission website. The tariffs for each sector relate to the weighted average tariffs applied by the EU and Mercosur on products classified under the HS six-digit nomenclature. This means that certain products could have tariffs higher or lower than the average. The average compound tariffs, or tariff-rate quotas, on some products were calculated according to the tariffs applied to each product in the last year for which information is available and taken from the World Bank's World Integrated Trade Solution (WITS) database. If the imported amounts of a product exceed the agreed quotas and the post-agreement tariff does not change, we have maintained the same tariff for that product. In all events, we take into account the final tariff without adjusting for gradual reductions over time.

particular manufactured goods. Mercosur would also completely eliminate its tariffs on an important share of EU exports, including machinery and chemicals, the effective rates on which would fall from about 8% to less than 1%. In other leading sectors, such as transport (including vehicles), the reduction would also be considerable, in light of the current high levels (Chart 2). Hence, Mercosur's effective tariff[6] on goods imports from the EU would decline significantly, from 11% before the agreement to 1% once it is implemented. The EU's effective tariff on goods imports from Mercosur would decrease from the current 4% to 2% under the agreement.

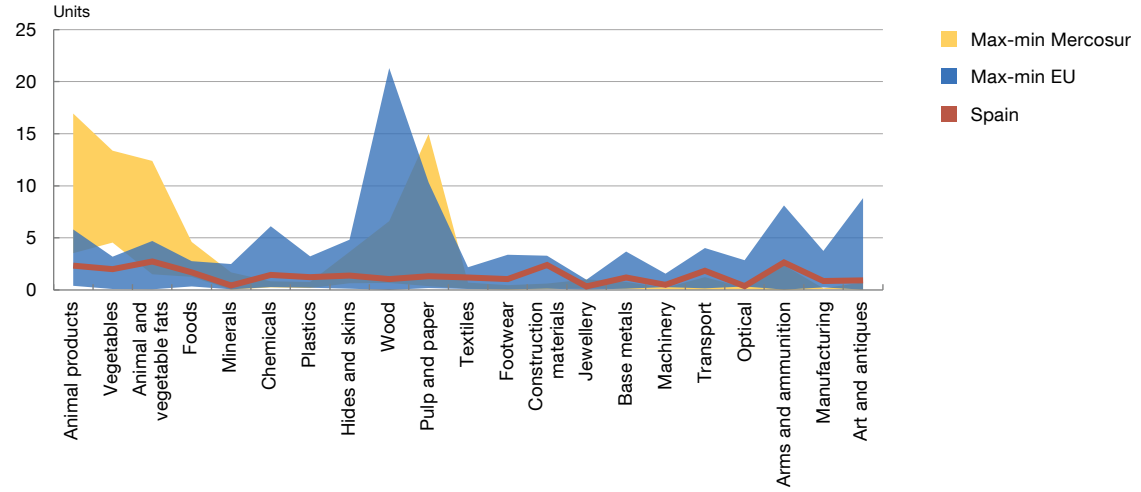
Nevertheless, tariffs would not be eliminated across the board. For various products identified by both parties – approximately 10% of the total – tariffs would remain unchanged or would see only a partial reduction. In these cases, the tariff would be reduced only for a given volume (quota) of products, to be set at levels close to current trade flows. For all imports beyond that quota, pre-agreement tariffs would remain in effect. In most of these cases, the timeline for lowering tariffs is up to 15 years.

For imports from Mercosur, the EU would apply this arrangement to 23% of animal products, which is why the effective tariff would remain high for this sector (Chart 2). The EU would also apply it to 7% of plant products and 6% of foodstuffs. By way of illustration, out-of-quota,

6 The effective rate after the implementation of the agreement is calculated by maintaining the weight of each trade flow constant, at 2024 levels.

Chart 3

Comparative advantage (a): aggregate sectors



SOURCE: World Bank based on CEPII-BACI.

a A country's comparative advantage in exporting a product (or the products belonging to a sector) is calculated as the share of the exports of that product (set of products) from the country as a percentage of the exports of all products from the same country, divided by the product's share of global exports of all goods. Data from 2023. The chart shows, for each sector, the difference between the maximum and the minimum comparative advantage found among Mercosur countries (yellow areas); the difference between the maximum and minimum comparative advantage among EU countries (blue areas); and the comparative advantage of Spain (red line).

the EU would maintain high tariffs on bone-in beef (46%-75%), sugar (34%), cheese (32%), rice (21%) and poultry (13%). As for imports from the EU, Mercosur would apply this mechanism to some manufactured products that are important for domestic industries. This includes some footwear products, on which a 15% rate would continue to be applied; freight transport vehicles (28%); and powdered milk (25%).

The products selected as exceptions under the agreement and the manner in which concessions are calibrated could, at least in part, reflect differences in the sectoral comparative advantages between the two blocs. The EU generally has a comparative advantage in high-tech manufactures such as machinery, electrical equipment and chemicals, while Mercosur stands out in natural-resource intensive goods, such as animal, mineral, food and plant products, including wood products (Chart 3).[7] Similar to the EU overall, Spain has a greater

7 The concept of comparative advantage dates back to David Ricardo's international trade theory, which links countries' trade patterns to their relative productivity differences. Directly measuring each country's productivity for each export product would, however, require multiple databases, which are not always available at the required level of granularity, along with a series of assumptions. If Ricardo's theory is borne out, a country's comparative advantage in a given product would manifest itself in the trade in that product. Accordingly, comparative advantage information could be obtained directly from trade data, which are very detailed and publicly available. Specifically, the starting point is the assumption that the greater the weight of the export of a given product for a given country (relative to that product's weight in world trade), the greater is that country's competitive strength in producing and exporting that product. The standard formula for calculating the revealed comparative advantage (RCA) index for country C and good g is as follows:

$$RCA_{Cg} = \frac{\frac{X_{Cg}}{\sum_{j \in G} X_{Cj}}}{\frac{X_{Wg}}{\sum_{j \in G} X_{Wj}}}$$

, where, X_{Cg} is the value of country C's exports of good g; $\sum_{j \in G} X_{Cj}$ is the value of overall exports from country C (the sum of exports of all goods j – the set of which is named G – from country C); X_{Wg} is the value of global exports for good g; and $\sum_{j \in G} X_{Wj}$ is the value of overall global exports. In other words, RCA_{Cg} index measures the share of a given product in the country's exports relative to its share of global trade.

comparative advantage over Mercosur in trade in manufactured goods, while it has less of an advantage in products with high natural resource content. The agreement thus applies higher tariffs on sectors especially exposed to international competition, thereby maintaining relative protection for sectors in which the other bloc has more robust output capacity.[8]

To protect the sectors most vulnerable to international competition, the agreement also envisages a bilateral safeguard mechanism. The EU may invoke the mechanism if it detects a considerable increase in imports from Mercosur that may cause, or threaten to cause, serious injury to European output. This mechanism entails ongoing monitoring of certain agricultural products, biannual reports and the possibility of quickly initiating investigations if potential injury is identified. According to the terms of the agreement, an annual increase of imports above 5% and the existence of prices at least 5% lower on imported products than those produced in the EU are considered sufficient evidence to adopt provisional measures. Such measures may include the temporary suspension of the tariff reduction or even the reversal of tariff preferences. In addition, this mechanism may be triggered even if only one EU Member State were injured. The measures may be maintained for up to four years, provided the conditions giving rise to them persist.

The structure of exceptions in the agreement exists alongside important opportunities to diversify the supply of critical raw materials,[9] which are essential for the digital and ecological transition,[10] with potential benefits for both parties. The reduction of tariffs by the EU allows it to lower import costs, enhancing its industry's competitiveness. Moreover, this tariff reduction would eliminate the "tariff escalation effect", that is, the practice of applying higher tariffs on processed products than on raw materials. This lowers the disincentives that lead Mercosur countries to process raw materials and export higher-value-added products, rather than limiting themselves to unprocessed raw materials. The agreement also lowers other, non-tariff barriers in the sector, prohibiting minimum pricing, export monopolies and export taxes,[11] and eliminating non-automatic import licensing. Brazil is positioning itself as the EU's primary supplier of several strategic minerals (such as nickel, niobium, tantalum and vanadium), all of which are scarce in European territory, and for which the EU largely depends on a small number of trading partners (Chart 4). Mercosur overall – including Bolivia, which joined the South American bloc in 2024, although not the agreement with the EU – has reserves with growth potential in such materials as lithium and graphite.

In addition, the region would have the capacity to meet most or even all European demand for several of these materials (Chart 5). Given that these minerals are used to

8 An analysis with greater product granularity yields results that are qualitatively similar. The comparative advantage is greater for (a country of) the EU in 93% of the 5,606 six-digit Harmonized System (HS-6) products analysed.

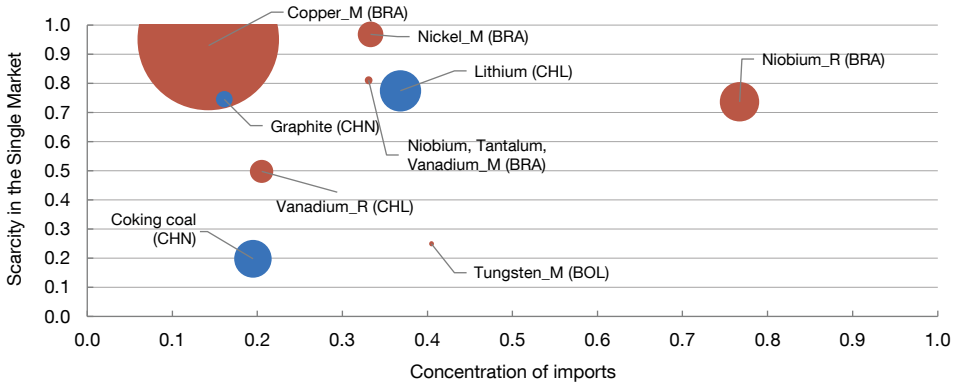
9 Critical or strategic raw materials are a set of minerals and mineral derivatives of noteworthy economic importance produced by only a few global suppliers. Critical raw materials are identified by the European Commission (2023) according to their economic importance and supply risk. Strategic raw materials are characterised by their high strategic importance, in light of their use in key technologies that underpin the ecological and digital transitions or for defence or aerospace applications.

10 Campos, Suárez-Varela and Timini (2022).

11 With a few exceptions, generally in the EU's favour.

Chart 4

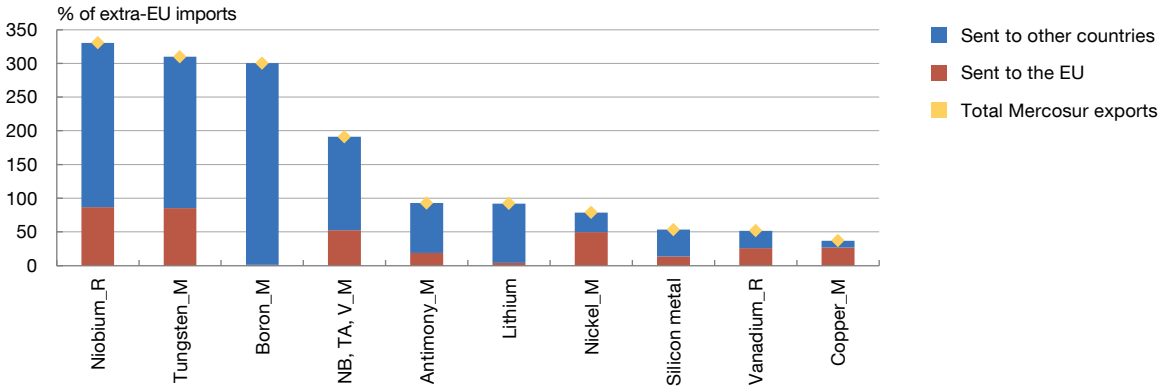
The EU's trade dependencies (2023): selected critical and strategic raw materials



SOURCES: Banco de España based on CEPII BACI, European Commission (2021) and European Commission (2023).
NOTE: The concentration of imports is calculated as the Herfindahl-Hirschman Index, based on quotas for imports from the various extra-EU suppliers. Scarcity is measured as extra-EU imports of each product divided by total imports. Both indexes stand at between 0 and 1. For the analysis of critical raw materials, bilateral trade flows corresponding to the HS six-digit codes indicated in European Commission (2023) are used. The size of the circles reflects the value of European imports from outside of the EU. M indicates the mining stage, and R, the refining stage of the various materials. The ISO code of the largest supplier for the EU for each product is indicated on the respective label. The critical raw materials for which Mercosur member countries are currently important suppliers are indicated in maroon, while the products that could begin to be exported in coming years in light of the reserves thereof are indicated in blue. BRA: Brazil; CHL: Chile; CHN; China and BOL: Bolivia.

Chart 5

Selected critical and strategic raw materials: exports from Mercosur and share sent to the EU (2023)



SOURCES: Banco de España based on CEPII BACI and European Comision (2023).
NOTE: NB, TA, V_M refer to niobium (NB), tantalum (TA) and vanadium (V) in the mining stage. The analysis of critical and strategic raw materials is based on trade flows corresponding to the HS six-digit codes indicated in European Commission (2023). M indicates the mining stage, and R, the refining stage of each material. Mercosur as a whole includes Bolivia. For each mineral, the chart shows Mercosur exports as a percentage of extra-EU imports. A value of 100% or more indicates that Mercosur exports may cover all imports from the EU. The chart distinguishes between Mercosur exports to the EU (red part of the bar) and to other countries (blue part of the bar). The sum of the red and blue parts, indicated on the chart with a yellow diamond, relates to total Mercosur exports.

manufacture solar panels, wind turbines, electric vehicles, smart grids, high-capacity batteries and renewable-energy storage systems, as well for advanced electronic products, compact electronic devices, condensers, superconductors and aerospace equipment, they are essential for key industries.

Hence, the agreement not only protects given sectors through exceptions from the tariff reductions, but also offers a path for the EU to reduce its economic vulnerabilities to geopolitical factors.[12]

12 Ioannou and Pérez (2023) and Attinasi et al. (2024).

3 Economic analysis of the agreement: a review of the literature

Since negotiations over a trade agreement between the EU and Mercosur began, various studies have examined the potential repercussions for trade and economic well-being in the countries involved and beyond.[13]

However, studies conducted prior to the EU-Mercosur agreement were based on somewhat vague assumptions about the nature of the resulting trade liberalisation. Some assumed full liberalisation of trade in agricultural and manufactured products, while others envisaged varying lists of goods that would be excluded from the tariff reductions; typically, agricultural (rice) and light manufactured (meat and dairy) products were excluded from EU tariff reductions, while manufacturing goods (textiles, chemicals and automotive products) were excluded from Mercosur tariff reductions. Some studies focused exclusively on the liberalisation of trade in goods, while others also considered trade in services.[14]

Conversely, more recent studies have benefited from the specific details of the agreement, allowing for more precise and realistic analyses. This research has mainly followed one of two approaches.

The first approach uses computable general equilibrium models (e.g. Corong, Hertel, McDougall, Tsigas and Van der Mensbrugghe, 2017; and Latorre, Olekseyuk and Yonezawa, 2020). These models capture institutional and economic characteristics in considerable detail, seeking to approximate reality more closely. At the same time, because they include multiple relationships between economic variables, these models are more complex and require the calibration of numerous parameters, over which there is not always consensus in the literature and which, moreover, may not derive from estimates consistent with economic theory.

The second approach is to use "new quantitative trade models" (Caliendo and Parro, 2015; Yotov, Piermartini, Monteiro and Larch, 2016; and Allen, Arkolakis and Yakahashi, 2020). These models tend to be more firmly anchored in trade theory and are characterised by simplicity, with outcomes depending on a limited number of parameters that can either be directly calculated using structural estimates consistent with the model's theoretical foundations or be precisely calibrated thanks to extensive analysis in the literature. In this case, the outcomes depend essentially on how trade relations were structured before the agreement, the size of the reduction in bilateral trade costs – a measure that includes both tariffs and non-tariff barriers – and certain key elasticities: trade elasticity, which measures how trade flows respond to changes in trade costs, and supply elasticity, which indicates how output responds to changes in export prices. Timini and Viani (2022)

13 Measures of "economic well-being" can vary depending on the model used. They can be grouped into indicators of general economic activity (e.g. GDP or GDP per capita) or consumption-based measures (e.g. consumption of a representative worker).

14 See Timini and Viani (2022) for a more exhaustive review of this literature.

and Berganza, Campos, Estevadeordal, Talvi and Timini (2025) use the latter approach to study the effects of the EU-Mercosur agreement.[15]

A common finding across all of these studies is that the entry into force of the EU-Mercosur agreement would increase trade between the two regions and have a far greater impact on Mercosur's overall trade and economic activity than on the EU's, given the relative weight of each partner in the other's global trade.[16] Most studies also suggest that the effects for third countries, not party to the agreement, would be very limited.

According to the more recent studies (Timini and Viani, 2022; Berganza, Campos, Estevadeordal, Talvi and Timini, 2025), the EU-Mercosur agreement would boost bilateral trade between the two regions by 37% in the long term.[17] Because the relative weight of each bloc in the other's international trade differs, the impact of this increased bilateral trade on each region's overall trade also varies. For Mercosur countries, for which the EU is a key partner, global trade could grow by between 5% and 13% (Chart 6.a). Conversely, for EU countries, whose trade with Mercosur represents just a small fraction of their global trade, the increase would be more moderate (between 0.3% and 0.7%).[18] In Spain's case, the growth in total trade could be as much as twice the EU average (Chart 6.b), reflecting Mercosur's greater relative importance for the Spanish economy.

These estimates do not account for other potential benefits, such as access to advanced technologies, the role of critical raw materials in production processes, stronger global value chains and increased foreign investment. Accordingly, the long-term effects identified might be viewed as a lower bound. What is more, nor do the estimates take into account the potential short-term adverse effects, such as job losses in sectors most exposed to increased international competition, since the model is based on a single sector.[19]

In fact, most of the studies lack a detailed sectoral analysis, with the notable exceptions of Mendez-Parra et al. (2020); Latorre, Yonezawa and Olekseyuk (2021) and European Commission (2025), which use computable general equilibrium models. Of these,

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15 To conduct an ex ante simulation of the expected effects of the agreement, these authors assume a reduction in bilateral trade costs similar to those produced by previous agreements with similar provisions. They estimate this reduction in bilateral costs using a structural gravity regression for a set of existing agreements between advanced economies and emerging markets.

16 For more details on the impact of the agreement on different measures of economic activity and well-being, see the papers referenced in this section.

17 See Timini and Viani (2020); Timini and Viani (2022) and Berganza, Campos, Estevadeordal, Talvi and Timini (2025). These studies analyse the 2019 agreement, which was updated in 2024. However, most of the changes introduced in this update affected aspects that are unlikely to impact the long-term estimates. The revisions mainly relate to, for example, environmental concerns (Paris Agreement), institutional issues (the establishment of a dispute settlement mechanism) and the schedule for tariff liberalisation.

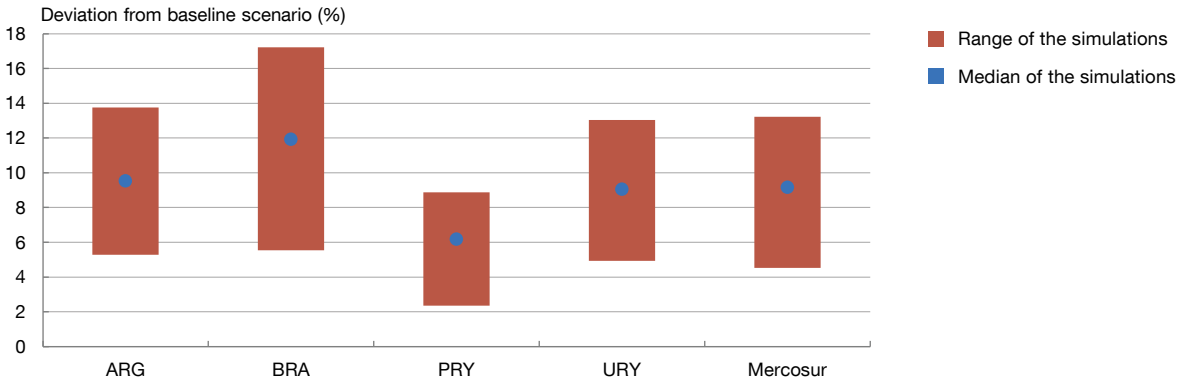
18 The figures presented derive from a general equilibrium model that factors in trade diversion effects. However, a simple approximation can be obtained through a quick calculation, by multiplying the estimated increase in bilateral trade by the relative weight of each region in the other's international trade. In the case of Mercosur, the EU accounts for around 17% of its global trade (the sum of exports and imports), whereas Mercosur represents just 2% of the EU's global trade. Based on this approximation, the impact on overall trade would be 6.5% for Mercosur and 0.7% for the EU. These figures are within the range obtained using the general equilibrium model under the various trade cost reduction assumptions.

19 Labour supply is inelastic in the type of model used.

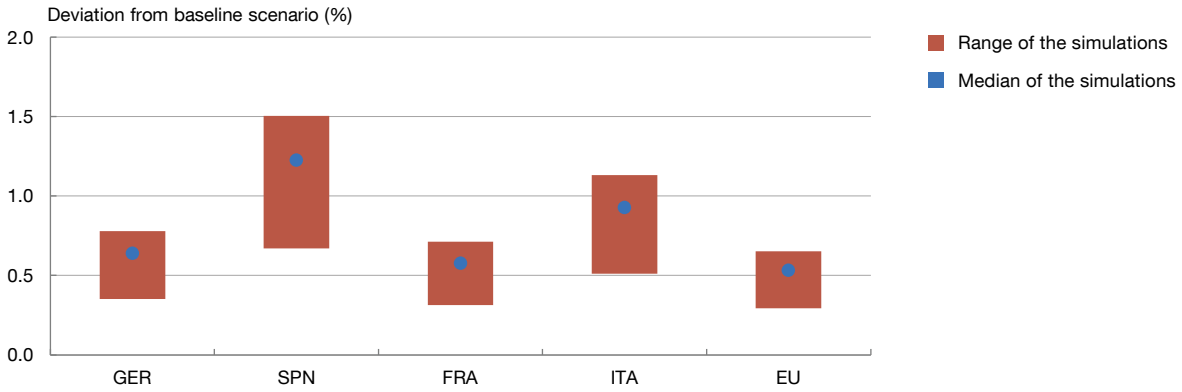
Chart 6

The EU-Mercosur agreement and its potential economic impacts

6.a Impact of the agreement on Mercosur trade



6.b Impact of the agreement on EU trade



SOURCES: UN COMTRADE, Banco de España.
NOTES: The range and the median of the simulations were calculated on the basis of the results of Timini and Viani (2022); J.C. Berganza, Campos, Estevadeordal, Talvi and Timini (2025). The average for the two areas, "Mercosur" and "EU", relates to the simple average for the effects calculated or each country in each area. ARG: Argentina; BRA: Brazil; GER: Germany; ESP: Spain; FRA: France; ITA: Italy; PRY: Paraguay; URY: Uruguay.

only the latter two were able to include in their models specific details of the agreed trade concessions. Broadly speaking, the aggregate results of these analyses are consistent with those of models without a sectoral breakdown. For instance, the European Commission (2025) estimates that bilateral trade between the EU and Mercosur could increase by 39%, very close to the figures calculated by Timini and Viani (2022) and Berganza, Campos, Estevadeordal, Talvi and Timini (2025). At the sectoral level, these studies indicate that agricultural and manufacturing exports between the two regions would increase in both directions. However, they warn that output could decline in some EU agricultural sectors, albeit only very slightly (less than 1%). Importantly, these figures should be interpreted with caution since they derive from models that, by their nature, simplify certain key aspects of the agreement.

First, the available sectoral aggregation makes it impossible to capture the full diversity of tariffs applicable to each product. For example, across the different categories

of beef alone, the ad valorem import tariff for goods entering the EU Single Market ranges from 25% to 80%. Second, these models do not explicitly distinguish between different qualities or products within the same sector. As a result, a fresh cheese from Brazil is treated as equivalent to Parmigiano Reggiano from Italy or a Manchego cheese from Spain. This not only makes it difficult to adequately capture the protection of geographical indications included in the treaty, but also to gauge consumer "appetite", i.e. their readiness to switch cheese types in response to tariff changes. Third, as explained above, for many agricultural products the EU will apply reduced tariffs only up to a pre-determined quota of imports (similar to current trade flows), beyond which the pre-agreement tariff will apply. Such quotas are a common feature of the EU's customs duty structure, particularly for agricultural goods: around 23% of animal products and 7% of agrifood products are subject to quotas. However, the limitations of general equilibrium models make it difficult to explicitly model quotas, which are typically factored in using partial tariff reductions. For instance, Mendez-Parra et al. (2020) models the beef quotas in the agreement as tariff reductions of 15% or 30% in the two scenarios envisaged, figures that probably far exceed the actual reductions agreed in the treaty. Similar issues arise for other types of non-tariff barriers. Finally, the models do not explicitly account for the bilateral safeguard mechanism established in the agreement, which could be activated should sharply increased imports from Mercosur cause or threaten to cause serious injury to European production.

4 Conclusions

The EU-Mercosur Partnership Agreement would represent a significant step towards greater trade integration between the two blocs, progressively removing tariffs on more than 90% of traded products over a period of up to 15 years. Alongside the reduction in import duties, non-tariff barriers would also be lowered considerably, including in trade in services.

However, tariffs would not be eliminated across the board. For a number of products identified by both parties, tariffs would remain unchanged or be only partially reduced based on quotas. In these cases, a reduced tariff would be applied for only a given quota of imported products, to be set at levels close to current trade flows. For all imports beyond that quota, pre-agreement tariffs would remain in effect. In addition, the phase-in period for the tariff reductions is up to 15 years, while a bilateral safeguard mechanism means tariff concessions could be reversed should imports increase by an excessive amount.

The structure of exceptions in the agreement exists alongside important opportunities to diversify the supply of critical raw materials that are essential for the digital and ecological transition. Hence, the agreement would not only protect certain sectors through tariff exemptions, but also represent a path for the EU to reduce its economic vulnerabilities to geopolitical factors.

According to the more recent studies, the entry into force of the EU-Mercosur agreement could increase bilateral trade between the regions by around 40% in the long term. This rise in bilateral trade would lead to higher overall international trade for both blocs, although the impact would be greater for Mercosur than for the EU given each bloc's different weight in the other's international trade. In the case of Spain, the projected trade growth would exceed the European average as Mercosur represents a more important trading partner for the Spanish economy. However, the economic impact could ultimately be much larger, since the models do not factor in potential long-term benefits such as access to critical raw materials, advanced technologies, stronger global value chains and increased investment.

Most of the studies conducted to date do not include a detailed sectoral analysis. The few exceptions suggest that both agricultural and manufacturing trade would grow, while warning that some EU agricultural sectors could see output decline, albeit very slightly (less than 1%). Importantly, these figures should be interpreted with caution since they derive from models that simplify certain aspects of the agreement. In particular, the models fail to capture the broad range of tariffs applicable within each sector, quality differences between comparable products or the impact of import quotas (frequently applied to agricultural products), as well as the bilateral safeguard mechanism. All of these factors could have a bearing on actual outcomes and warrant consideration when evaluating the scope and effects of the agreement. To better assess the sectoral impacts of the agreement, the authors are developing specific quantitative models to capture both the envisaged tariff liberalisation and the changes to non-tariff barriers.

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