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EU–Mercosur Partnership Agreement: A Crucial Step for Europe’s Competitiveness

The provisional application of the EU–Mercosur Interim Trade Agreement marks a significant milestone in European trade policy and offers substantial opportunities to strengthen the EU’s competitiveness, resilience and economic security at a time of geoeconomic fragmentation and increasing challenges. This article examines the agreement’s expected economic and strategic benefits, including improved market access for goods and services, enhanced regulatory cooperation, and greater access to critical raw materials essential for the green and digital transitions. It also considers the importance of supply chain diversification, the first-mover advantage secured by the EU and the economic costs associated with delayed ratification. Finally, the article addresses concerns relating to agriculture and sustainability, arguing that the agreement incorporates robust safeguards while reinforcing Europe’s commitment to open, rules-based and sustainable trade.

On 1 May 2026, the Interim Trade Agreement between the EU and the Mercosur bloc – comprising Argentina, Brazil, Paraguay and Uruguay – entered into provisional application, bringing to a close more than 25 years of intermittent negotiations. This milestone marks a significant step forward for Europe’s agenda on competitiveness, resilience and economic diversification.

European industry – from textiles and ceramics to automotive manufacturing and services – has long called for the agreement’s implementation and welcomed the European Commission’s decision to proceed swiftly once Mercosur countries completed ratification. At a time of growing protectionism, geopolitical fragmentation and rising costs, Europe’s ability to remain competitive depends on deepening alliances with reliable global partners. The Mercosur countries have demonstrated a clear willingness to engage in open, rules-based trade and proven themselves dependable in an increasingly uncertain international environment.

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The agreement is more than a conventional trade deal. It creates a market of over 750 million consumers – close to 10% of the world’s population – encompassing nearly 20% of global GDP. Mercosur, with a combined GDP of €2.9 trillion, is the fifth-largest economy outside the EU. The EU accounts for 16.9% of Mercosur’s total trade, while EU exports of goods and services to the region amounted to €84 billion in 2023. EU foreign direct investment stood at €385 billion that same year, making Mercosur the fourth-largest destination for EU outward FDI. These figures point to a relationship that is already deep, but that has developed largely despite significant trade barriers rather than because of a conducive framework.

By eliminating tariffs, improving access to critical raw materials and strengthening rules-based trade, the agreement will enhance supply chain resilience and consumer access to high-quality products. Reduced costs, greater regulatory predictability and deeper cooperation on standards will all contribute to Europe’s long-term competitiveness. With swift provisional application, Europe has chosen action over delay and reaffirmed its commitment to open trade.

A deal 25 years in the making

Negotiations between the EU and Mercosur were first launched in 1999. They stalled, restarted and stalled again over a quarter century marked by shifting political winds, divergent economic priorities and growing civil society scrutiny of trade’s social and environmental foot-

print. That the deal has now entered into force – even provisionally – is a significant achievement.

The agreement is structured as two parallel instruments: the EU–Mercosur Partnership Agreement (EMPA), covering political, cooperation and trade pillars in their entirety, and an Interim Trade Agreement (ITA), covering trade matters alone. The ITA is what is now provisionally applied. Full entry into force of the EMPA will require unanimous Council approval and ratification by the European Parliament and all national – and sometimes regional – parliaments of the 27 EU member states. The institutional hurdles are real: the European Parliament has indicated that the process will not be without political risk, requesting a Court of Justice opinion on the agreement's compatibility with EU Treaty obligations. Fortunately, provisional application means companies in both trading blocs will benefit in the interim, and supporters of the agreement trust it will pave the way for full ratification of the broader EMPA – which remains an economic, strategic and geopolitical necessity for Europe.

What the agreement delivers in practice

Tariff relief and market access

The central benefit is the removal of tariffs on over 91% of EU goods exported to Mercosur, saving European exporters more than €4 billion annually once the tariff elimination schedule is fully implemented. Mercosur tariffs on key European export categories have historically been among the highest in the world, imposing real costs on European exporters and Mercosur consumers alike.

For the automotive sector, the immediate reductions are striking. Duties on EU electric and hybrid vehicle exports have fallen from 35% to 25% on day one, providing European manufacturers with a critical competitive edge at the precise moment when the global EV market is becoming intensely contested. Duties on internal combustion engine vehicles are halved from 35% to 17.5% immediately, with automotive parts facing a gradual dismantlement schedule beginning from provisional application. The European Automobile Manufacturers' Association (ACEA) has estimated that automotive exports to Mercosur could grow by up to 200% by 2040 under the agreement.

For technology industries, approximately 95% of European exports of machinery and electrical and electronic equipment will ultimately be tariff-free, removing duties previously reaching 35%. Textiles face an eight-year transition to full tariff elimination beginning with an immediate cut from 35%. Chemicals, pharmaceuticals, spirits and ceramics all benefit from the removal or reduction of du-

ties that have historically made European product prices uncompetitive in Mercosur markets.

Services represent a growing and often underappreciated share of EU–Mercosur trade. In 2023, EU exports of services to the region reached €29.2 billion – equivalent to 34.3% of total EU goods and services trade with Mercosur – generating a bilateral services surplus of €15.7 billion in Europe's favour. The agreement includes dedicated Services and Investment and Digital Trade chapters, establishing non-discriminatory rules for market access. Mercosur is the EU's seventh-largest trading partner for services, and the agreement's provisions on transport, financial services, telecommunications and professional services are expected to expand market presence for European firms in all four countries.

The agreement also opens public procurement markets, allowing EU companies to bid on equal footing for government contracts across all four Mercosur countries: in Brazil, even at sub-federal level, and with Paraguay subject to a three-year transitional period. For European infrastructure, engineering and professional services firms that have historically faced discriminatory barriers in these markets, this is a substantial gain.

Import diversification

The EU is not only an export economy. To keep producing the high-quality goods and services it creates, European industry depends on resources and inputs imported from third countries. Diversifying import sources is particularly important at a time when the EU has high dependencies on countries that either dominate control over key resources, or that have simply proven to be unreliable or unpredictable partners.

This is most acute for critical raw materials (CRMs). Mercosur countries – Brazil and Argentina in particular – are major producers and processors of many minerals essential to Europe's green and digital transitions. Brazil accounts for 88.8% of global niobium processing, essential for high-strength steel used in transport and infrastructure, and holds significant shares in natural graphite, manganese, silicon metal, vanadium, tantalum and aluminium/bauxite. Argentina processes around 11% of global lithium output, a critical battery input. The agreement provides a framework for securing stable, predictable access to these materials under legally binding terms with sustainability conditions attached – a concrete mechanism for reducing supply disruption risk and directly supporting the objectives of the EU Critical Raw Materials Act. This concern is further heightened by Europe's relative loss of market position in Mercosur gener-

ally, which feeds directly into the first-mover advantage discussed below.

Removal of regulatory barriers

Trade agreements deliver their full value only when accompanied by effective implementation mechanisms. The EU–Mercosur Agreement includes a range of provisions designed to address business concerns about regulatory barriers, market disruptions and dispute resolution. It streamlines customs procedures and provides for alignment of technical standards, including a dedicated motor vehicle annex promoting convergence with international automotive standards. For technology industries, enhanced acceptance of EU conformity assessment procedures reduces the cost of product testing and certification. Wine and spirits labelling provisions and stronger protection against counterfeiting are commercially significant gains for those sectors.

For small and medium-sized enterprises, the agreement includes a dedicated SME chapter offering improved market access, simplified compliance processes, and tailored support, including access to the Commission's Access2Markets portal. This matters because SMEs are often the greatest beneficiaries of trade agreements in percentage terms – but only if they can navigate the access conditions.

First-mover advantage

By acting when it did, the EU has secured a first-mover advantage against the backdrop of growing competition in the region. China's share of Mercosur imports rose from 3% in 2000 to 22% in 2023, while the EU's share fell from 25% to 17% over the same period. On the export side, Mercosur exports to China grew from 2% to 26% of the total, while the share going to Europe fell from 24% to 13%. The trend is concerning across all trade categories, but becomes particularly acute for CRMs, where Europe needs to lock in access before further displacement occurs.

The economic costs of delayed implementation

The value of the agreement also becomes clear when considering the counterfactual: the benefits Europe has forgone since 2021 due to delayed ratification. A compelling analysis by ECIPE (Erixon et al., 2026) highlights the scale of those losses. Prior to provisional application, European exporters faced tariffs of up to 35% on clothing and spirits, 18% on car parts, 20% on machinery, 18% on chemicals and 14% on pharmaceuticals. Estimates of the accumulated tariff burden suggest that transport equipment alone lost an estimated €71 billion to unnecessary

tariffs, followed by machinery and equipment (€23.8 billion), chemicals (€21.2 billion), iron and steel and agri-food (€12.6 billion each), and pharmaceuticals (€11.5 billion).

The costs have also been broken down by individual European country. Estimates suggest that Germany incurred the largest losses, valued at €71 billion (1.7% of GDP), followed by France (€38 billion), Italy (€29 billion) and Spain (€20 billion). Export-oriented economies including Sweden, Portugal, Hungary and Belgium experienced cumulative losses equivalent to around 1% of GDP.

Beyond tariffs, additional costs stemmed from burdensome administrative and regulatory procedures that made trade more complex than necessary. These barriers imposed not only direct economic costs, but also indirect costs by forcing companies to devote time and resources to navigating cumbersome processes instead of focusing on long-term investment and business strategy. Moreover, the prolonged negotiations and recurring political uncertainty surrounding the agreement likely discouraged some firms from expanding or diversifying investments into Mercosur, as uncertainty over the future trade framework reduced predictability for long-term commercial planning.

Addressing concerns

The agreement has been subject to intense political debate, with unfair competition for farmers and sustainability raised as the principal concerns. These have been taken seriously and effectively addressed in the final texts.

On agricultural imports, the agreement's approach to sensitive products is carefully balanced. Beef, poultry and sugar – the categories of greatest concern to European farmers – are subject to strictly managed tariff-rate quotas rather than full liberalisation. The agreement does not eliminate EU agricultural protection; it creates bounded additional market access. At the same time, it offers tangible gains for European agricultural exporters: EU agri-food exports to Mercosur are projected to increase by 50%, benefiting producers of wine, spirits, olive oil and dairy products. The agreement also protects 344 EU geographical indications in Mercosur markets from 1 May 2026, banning imitation and misleading use of protected names.

The agreement's rebalancing mechanism allows either party to request a panel ruling if they believe their benefits are being nullified or impaired by measures taken by the other side. Bilateral safeguard clauses allow for temporary remediation in the event of sudden market shocks, and review clauses enable both parties to negotiate amendments in response to changing conditions.

On sustainability, the Trade and Sustainable Development (TSD) chapter has been reinforced with a legally binding annex. For the first time in an EU trade agreement, partner countries have made individual legal commitments to halt deforestation by 2030, subject to dispute settlement. The Paris Climate Agreement is included as an essential element – making this only the third EU trade agreement to contain such a clause, alongside the EU-New Zealand and EU-UK agreements. This means that a material breach of Paris commitments could in principle trigger suspension of the agreement's benefits. The agreement also strengthens workers' rights, includes new commitments on women's empowerment and addresses child labour. For CRMs specifically, the agreement establishes some of the highest sustainability standards in any trade agreement governing resource extraction.

Conclusion

Europe will not strengthen its economy by turning inwards. European companies need access to growing markets, reliable partners and a level playing field. The EU–Mercosur Partnership Agreement delivers on all three counts. It carries a clear geopolitical signal that Europe remains committed to openness at a time of increasing fragmentation and demonstrates that competitiveness and sustainability are not mutually exclusive priorities but can be advanced together through well-designed trade policy. It is now up to companies to seize the opportunities that the agreement creates, and in doing so, to demonstrate the practical value of the EU–Mercosur partnership.

References

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