# EU trade agreement with Mercosur

## Advancing trade liberalisation amid rising protectionism

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After more than two decades of negotiations, the EU-Mercosur Trade Agreement has taken a significant step closer to becoming a reality. Last December, European Commission President Ursula von der Leyen and her counterparts from four Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay) announced they reached a political agreement on the matter. However, the partnership agreement will only come into force after completion by each Party of its internal approval procedures (ratification process).

The Agreement aims to strengthen economic ties and cooperation between the two regional markets, which together account for approximately 20% of the world's GDP and 780 million people. Its political and strategic relevance is heightened in times of rising protectionism around the globe, competitive pressure from China's industrial development, trade uncertainties under the new U.S. administration, and escalating geopolitical instability—factors that are reshaping global competition and endangering supply chain resilience.

*This briefing is the first in a series on the EU-Mercosur agreement that BLOMSTEIN will publish in the coming weeks. In this edition, we provide a general overview of the key aspects, focusing on Trade, Public Procurement, Competition and Sustainability. Future briefings will delve deeper into each of these areas, offering a detailed analysis of their specific implications and opportunities for businesses.*

### Trade

The primary objective of the Agreement is to liberalise trade in goods and services through preferential terms.

*Trade in Goods*

With respect to trade in goods, bilateral trade would be stimulated by reducing or eliminating tariffs.

Regarding market access for **European Union (EU) products**, over 90% of goods exported to Mercosur would have their tariffs either reduced or eliminated. The reductions will apply over varying timeframes, depending on the product category. The Agreement covers a broad range of industries, including cars, machinery, information and communications technology equipment, textiles, chocolate, spirits and wine – sectors where Mercosur currently imposes high import tariffs.

Similarly, for **Mercosur products**, the EU would eliminate tariffs on over 90% of goods, also phased in over varying timeframes, depending on the product. However, selected products such as beef, poultry, sugar, and ethanol will be subject to tariff-rate quotas (*TRQs*). These TRQs allow a limited volume of certain goods to enter the EU market either duty-free or at reduced tariff rates, while imports exceeding these limits will face higher tariffs.

Both parties commit to avoiding the introduction of new tariffs or increases to existing ones. On the other hand, the Agreement introduces **bilateral safeguard measures**, allowing either party to temporarily suspend the schedule of tariff reductions or reduce the tariff preference if a significant increase in imports threatens to cause serious injury to domestic industries. These safeguard measures require a formal investigation, evidence-based justification, and prior consultations. Also, they must be limited to a maximum duration of two years or, if shorter, the time necessary to prevent or remedy the serious injury and to facilitate adjustment of the domestic industry.

*Services*

The Agreement seeks to facilitate **trade in services** by ensuring non-discriminatory market access for service providers from the counterparty in specific sectors, such as computer and related services, as well as maintenance and repair of equipment. These covered sectors allow for restrictions as long as they are explicitly stated—such as limits on the number of service suppliers, economic needs tests, output limitations, foreign equity participation, or specific legal entity requirements. Additionally, both parties establish a set of mutual commitments for e-commerce and regulated sectors, including postal services, telecommunications, and financial services.

## Public Procurement

The Agreement aims to open **procurement markets** to the counterparty's businesses, ensuring non-discriminatory access to covered procurement opportunities for goods and services. The coverage of procurement opportunities will vary depending on the party, as outlined in the respective annexes for the EU (e.g., does not include procurement for programme material by broadcasters) and Mercosur countries (e.g., Brazil does not include procurement related to the Unified Health System). Generally speaking, while local content requirements are generally prohibited for these covered procurement opportunities, certain exceptions remain possible under security and general provisions—for instance, measures necessary to protect public order, safety, or public health.

## Competition and Subsidies

The Agreement recognizes that anti-competitive practices, market concentrations, and subsidies can distort competition and undermine trade liberalisation. To mitigate these risks, the parties commit to enforcing **competition laws** that prohibit cartels, abuse of dominant market positions, and market concentrations that impede effective competition. With respect to **subsidies**, they agree to collaborate at both multilateral and regional levels on subsidy-related proposals under the WTO framework while also exploring measures to enhance transparency in subsidy oversight.

## Sustainability

The Agreement explicitly seeks to integrate **sustainable development** into the Parties' trade and investment relationship by establishing principles and actions aligned with the United Nations Sustainable Development Goals and the Parties' commitments in multilateral fora. It emphasizes commitments to labour and environmental standards, including effective implementation of the Paris Climate Agreement, efforts to combat deforestation, and the promotion of responsible value chains.

The Parties commit to enhancing cooperation and mutual understanding of their respective labour and environmental trade policies while considering their distinct domestic realities. Given the complexity such commitments due to the economic and social disparities between the countries, the Agreement also establishes a dispute resolution and consultation mechanism. This framework encourages dialogue, information exchange, and cooperation to resolve any disagreements regarding the interpretation or implementation of sustainability commitments.

## Next Steps

The Agreement still awaits ratification. For Mercosur, each country can implement it individually once approved by its national legislature. This means that even if one country rejects the deal, it would still apply to those that ratify it.

However, for the EU, approval would require approval from both the European Council (comprising member states) and the European Parliament. The process begins in the European Council, where approval depends on qualified majority, that is: at least 15 of the 27 member states, representing a minimum of 65% of the EU population. Consequently, to block the proposal, at least four member states representing more than 35% of the EU population would need to oppose it.

While European Commission President Ursula von der Leyen emphasizes the economic and political importance of the deal, consensus among EU member states remains elusive. France, for instance, is expected to take a firm stance against it.

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BLOMSTEIN will closely monitor further developments and keep you informed. If you have any questions on the topic, Roland Stein, Bruno Galvão, Carolina Vidal, Margarida Marques and the entire team is ready to assist you.

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