POLICY BRIEF SERIES

Vol. 1 | Issue 1 | Autumn 2025 Edition

MERIDIAN JOURNAL FOR POLITICAL ECONOMY

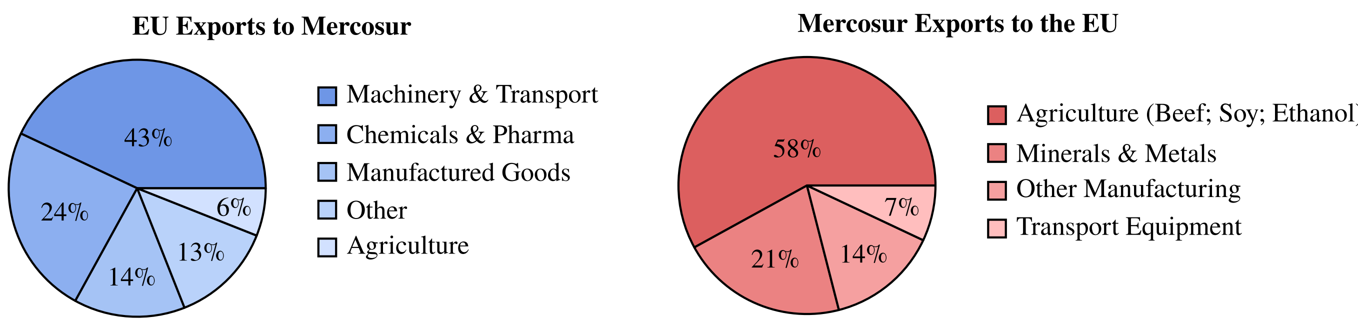
Reassessing the EU–Mercosur Agreement and the Future of Sustainable Trade Policy

Assessing whether the benefits of the EU–Mercosur Agreement outweigh its environmental and political risks.

Executive Summary

EU–Mercosur Trade at a Glance

- **€88 billion** in annual EU–Mercosur trade
- **91%** of tariffs eliminated under the agreement
- EU companies expected to save approximately **€4 billion/year** in duties
- The largest trade agreement ever concluded by the EU
- Combined market of **750 million consumers**



Sources: European Commission (2019), EPRS (2025), Eurostat (2024), UN Comtrade (2023).

Following the update to the Trade Pillar Agreement between the European Union (EU) and Mercosur on 6 December 2024, the long-awaited Free Trade Agreement (FTA), negotiated over more than twenty-five years and marked by multiple suspensions, appears to be regaining momentum. The proposed agreement would eliminate tariffs on approximately 91% of goods traded, connecting two major economic blocs that together represent over 750 million people and a combined annual trade value of €88 billion (European Commission, 2019; EPRS, 2025).

This makes the EU–Mercosur FTA the largest trade agreement ever concluded by the European Union, surpassing the Comprehensive Economic and Trade Agreement (CETA) with Canada and valued at nearly €15 billion more in total trade volume. It also significantly exceeds the scale of the EU–Japan Economic Partnership Agreement (EPA), being nearly four times larger in trade coverage. Once implemented, the agreement could reduce duties for European companies and consumers by approximately €4 billion annually, bolstering competitiveness and export opportunities (European Commission, 2019).

However, the FTA remains politically contentious. The deal reached a major impasse in 2019, when environmental and political opposition, particularly concerns over Amazon deforestation, halted ratification efforts. The 2024 Trade Pillar revision sought to address these concerns through enhanced sustainability provisions, yet challenges persist. Under President Ursula von der Leyen, the agreement must now navigate renewed scrutiny, particularly regarding its compatibility with the EU's emerging industrial and sustainability frameworks, including the recently announced REsource EU Plan.

Context and Background

1991	1999	2000	2019	2020	2022	2024
Treaty of Asunción	EU–Mercosur talks announced	Formal launch of negotiations	Political agreement reached	EP freezes ratification	Lula restores dialogue	Updated Trade Pillar agreed

In June 1999, the then European Communities agreed to begin negotiations with Mercosur, which formally launched in 2000. The FTA would represent the first major accord for Mercosur with another economic bloc, coming less than a decade after the Treaty of Asunción (1991) established the Southern Common Market. Despite the subsequent ascension of Venezuela in 2012 (later suspended), Bolivia's signed ascension protocol in 2015 (pending ratification), and the participation of several associate members such as Chile and Peru, negotiations were conducted exclusively with the founding members: Argentina, Brazil, Paraguay, and Uruguay.

Source: European Parliamentary Think Tank (EP Think Tank).

Mercosur[1] functions as a customs union, meaning its member states apply a Common External Tariff (CET) and cannot independently conclude bilateral trade agreements with non-Mercosur countries. Under World Trade Organization (WTO) rules, specifically the Most-Favoured-Nation (MFN) principle (GATT Article I:1), tariff preferences granted to one trading partner must be extended to all WTO members, unless they are part of a recognised free-trade area or customs union under GATT Article XXIV.

Disputes have previously arisen regarding Mercosur's trade, most notably in the Brazil Retreaded Tyres (2007) case[2], where Brazil's import restrictions were challenged at the WTO for breaching MFN and national treatment obligations. This highlights how regional trade blocs must navigate global trade commitments while pursuing deeper economic integration, underlining the importance of a coherent external trade policy such as the EU–Mercosur FTA.

A political agreement[3] on the FTA was reached in 2019, but the EU soon grew increasingly critical over environmental concerns, particularly the surge in Amazon deforestation under the Bolsonaro administration (Energy Monitor, 2023). Many in the EU viewed this as incompatible with the Paris Agreement and the EU Green Deal, prompting the European Parliament in 2020 to declare that "the EU–Mercosur agreement cannot be ratified as it stands." Negotiations were effectively frozen until Luiz Inácio Lula da Silva assumed office in 2022, restoring dialogue with Brussels.

Under Ursula von der Leyen's leadership, renewed talks in 2024 led to the inclusion of a strengthened environmental clause within the updated Trade Pillar (ERPS, 2025). However, opposition remains, both France and Austria continue to resist ratification, with President Emmanuel Macron labelling the deal "unacceptable in its current form," citing risks to European farmers and potential unfair competition in the agri-food sector (Reuters, 2024; LeMonde, 2025).

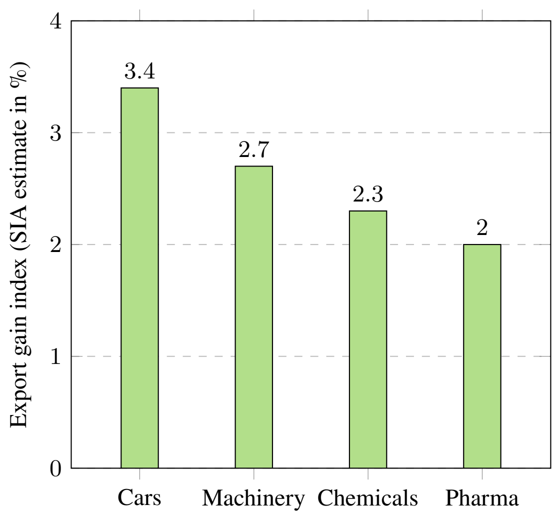
[1] Under WTO rules, regional trade agreements such as the EU–Mercosur FTA must comply with GATT Article XXIV, which requires that customs unions and free-trade areas cover "substantially all trade" among their parties (WTO, 2024).

[2] The Brazil–Retreaded Tyres dispute (DS332) clarified the limits of environmental protection measures under WTO law, ruling that Brazil's import ban violated MFN rules but recognising the legitimacy of certain environmental exceptions (Dispute Settlement Body, 2007).

[3] The 2019 political agreement covered a comprehensive tariff-liberalisation schedule, sustainable development provisions, services, public procurement, and geographical indications, making it the EU's most ambitious agreement with a Latin American bloc (European Commission, 2019).

Economic Impact and Sectoral Gains

Projected EU Export Gains by Sector

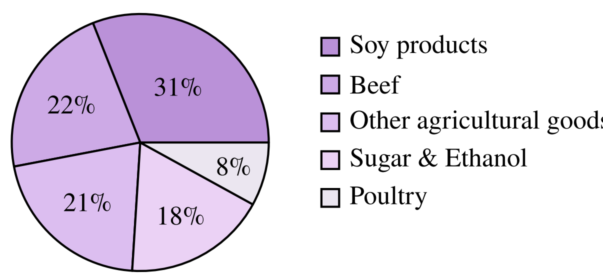


Source: Sustainability Impact Assessment (LSE Consulting, 2021); ERPS (2025).

The proposed EU–Mercosur FTA would eliminate tariffs on approximately 91% of goods traded between the two blocs, covering a total goods exchange valued at around €111 billion in 2024 (ERPS, 2025). Mercosur would progressively remove high import duties on EU industrial products, including cars, machinery, and chemicals, while the EU would phase out tariffs on 92% of Mercosur exports, notably agricultural goods such as beef, soy, sugar-based products, and ethanol.

According to a 2021 Sustainability Impact Assessment (SIA) conducted by LSE Consulting for the European Commission, the EU could see an increase in GDP of between €10.9 and €15 billion by 2032, accompanied by an export growth of 0.4–0.6%. Earlier modelled scenarios (2011) projected higher gains, though these relied on pre-COVID baselines and are therefore interpreted with caution.

Mercosur Agricultural Export Shares to EU



Source: European Commission, Mercosur trade database (2025).

Despite concerns among European farmers over potential competition from Mercosur agricultural exports, quantitative limits on sensitive goods are set to remain in place. The European Commission's 2024 Agriculture Factsheet confirms that Mercosur beef exports to the EU will be constrained by a tariff-rate quota of 99,000 tonnes. In addition, safeguard mechanisms allow the EU to temporarily suspend preferences if import surges threaten market stability (Reuters, 2025; AP News, 2025). Consumer price effects are expected to be minimal in the EU. At the same time, Mercosur countries could benefit from a moderate decrease in consumer prices, estimated between –0.4% and –2.1%, primarily driven by cheaper imports of industrial and manufactured goods. Overall, the economic impact of the agreement is assessed as positive but moderate, with gains concentrated in EU industrial exports and improved agricultural market access for Mercosur.

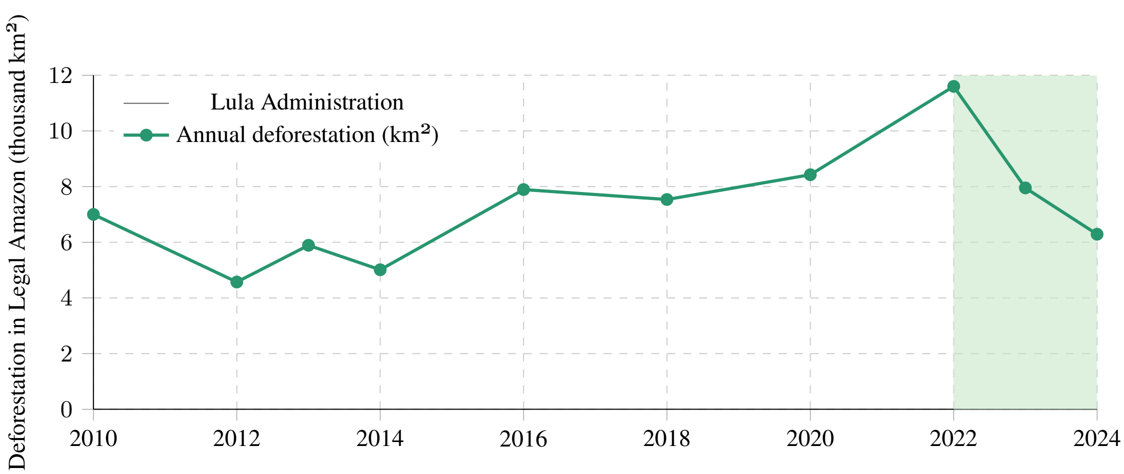
Table 1: **Tariff Comparison: Pre- vs. Post-Agreement**

Sector	Pre-FTA Tariff	Post-FTA Tariff	Notes
Cars	35%	0% (phased)	Major EU export gain
Machinery	14%	0%	Strong export increase
Chemicals	18%	0%	Competitive EU sector
Agricultural imports (beef)	50–70%	TRQ: 99,000 t	Strong safeguard

Source: European Commission (2024), EPRS (2025).

Environmental and Social Considerations

As aforementioned, environmental considerations have been one of the central obstacles to the ratification of the EU–Mercosur trade agreement, driven primarily by France and supported by several environmental NGOs. There are also significant social implications to take into account for this FTA. Despite France's ongoing objections, deforestation rates in Brazil have fallen sharply in recent years, reaching their lowest level in over a decade, an 11% decline in 2024 alone, according to Brazil's National Institute for Space Research (INPE) (Reuters, 2025). This improvement is largely attributed to President Luiz Inácio Lula da Silva's renewed environmental policies, which have halved deforestation rates since he took office in 2023.

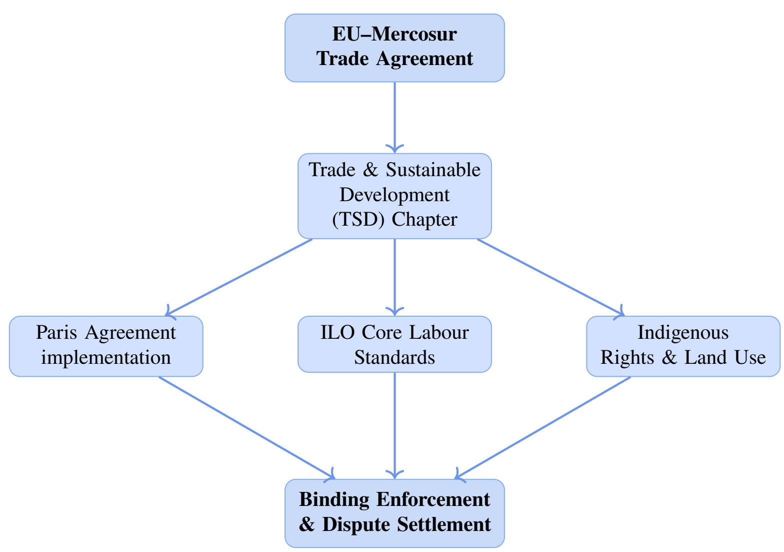


Source: INPE (National Institute for Space Research)

One of the key amendments to the trade agreement came with the updated Trade Pillar in 2024, which strengthened its Trade and Sustainable Development (TSD) chapter. The TSD provisions explicitly link trade preferences to environmental and labour standards, requiring parties to effectively implement the Paris Agreement and to avoid lowering environmental or labour protections for competitive advantage (European Commission, 2024). Recent research has highlighted how the EU's latest FTAs increasingly embed Paris-aligned enforcement mechanisms, shifting from cooperative to binding models (Dupont & Oberthür, Journal of European Integration, 2024).

Beyond environmental protection, labour rights and indigenous protections are equally central. The agreement commits both sides to uphold ILO core conventions and promote inclusive, sustainable agriculture, while establishing dialogues on indigenous rights and land use (European Commission, 2024, TSD Factsheet).

How Sustainability Clauses Fit into the EU–Mercosur Agreement



Nevertheless, political optics remain contentious. France, Ireland, and Austria maintain that ratification should not proceed without stronger environmental guarantees, echoing concerns from NGOs such as Greenpeace and ClientEarth that trade liberalisation could incentivise deforestation. In response, the EU proposed an "Additional Sustainability Instrument" in 2023, outlining cooperation on deforestation-free supply chains, traceability, and due diligence (European Commission, 2023).

Paris Agreement Commitments vs. EU–Mercosur Trade Provisions

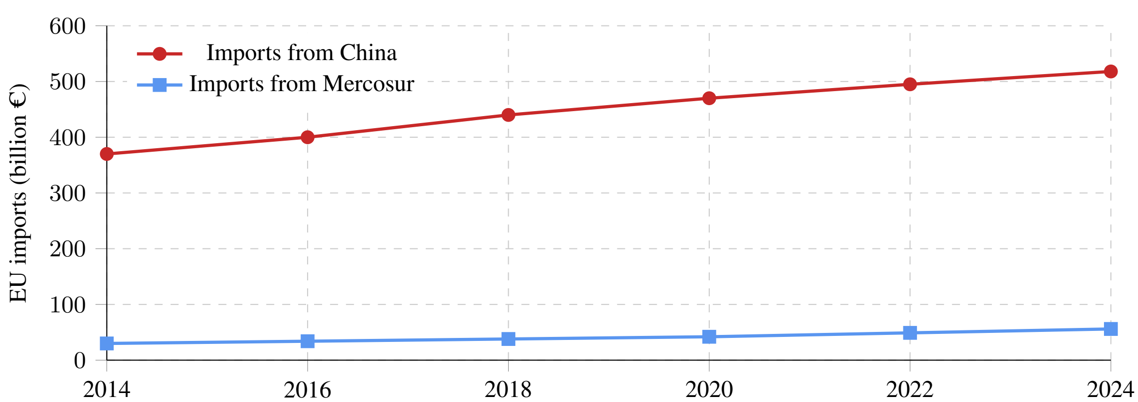
- **Paris Agreement:** temperature goal of 1.5°C, nationally determined contributions (NDCs), and commitments on forest protection and land-use monitoring.
- **Implementation obligation:** the TSD chapter requires both parties to "effectively implement" the Paris Agreement and not weaken environmental laws for competitive advantage.
- **Deforestation-free supply chains:** cooperation on traceability, due diligence, and monitoring of key commodities (e.g. beef, soy, timber).
- **Enforcement:** sustainability commitments can be addressed under dispute-settlement procedures, reflecting the EU's move from cooperative to more binding TSD models.

Political Feasibility and Strategic Implications

Strategically, the aforementioned environmental initiative fits within the EU's Open Strategic Autonomy and its 2023 EU–LAC Agenda, which frame Latin America as a key partner in building sustainable and diversified global value chains (European Commission & HR/VP Joint Communication, 2023). It also aligns with the EU Deforestation Regulation (EUDR), adopted in 2023, which restricts the import of commodities linked to forest loss, demonstrating the EU's intent to reconcile trade liberalisation with environmental accountability.

One of the driving forces behind the EU–Mercosur agreement, now gaining renewed attention, is the EU's ambition to reduce its strategic dependencies on China through ongoing "de-risking" initiatives. As part of this agenda, President Ursula von der Leyen's REPower EU and REsource EU plans emphasise the need to diversify trade partnerships and secure access to critical raw materials, particularly those essential for the green and digital transitions. Latin America, with its vast reserves of lithium, copper, and rare metals, is viewed as a key partner in this effort to strengthen the EU's geo-economic resilience (European Commission, 2023). This approach aligns closely with the EU's broader framework of Open Strategic Autonomy, which seeks to preserve openness to global trade while reducing reliance on a narrow set of suppliers. The EU–Mercosur agreement thus carries not only economic but also strategic significance, serving as a cornerstone of Europe's engagement with the Global South. Politically, the 2024–2025 period represents a crucial ratification window, following renewed momentum under the Spanish and Belgian Council presidencies, both of which have listed Mercosur as a top trade policy priority (Council of the EU, 2024).

EU Imports from China vs. Mercosur (2014–2024)



Sources: Eurostat COMEXT (China imports, 2014–2024); Council of the EU "EU–Mercosur Factsheet" (2024).

Policy Options

The first option is straightforward: proceed with full ratification of the 2024 text and the updated Trade Pillar, which includes enhanced sustainability provisions. This path would reinforce the EU's credibility as a reliable global trade partner and advance its Open Strategic Autonomy (OSA) objectives by deepening ties with Latin America and diversifying away from China (European Commission & HR/VP, 2023). It would also open Latin American markets to European producers and consumers alike, creating new opportunities in industrial and green sectors. However, this approach would likely provoke environmental backlash from NGOs and several Member States that view the current sustainability mechanisms as insufficient (Greenpeace EU, 2024). Enforcement of deforestation and climate provisions would also remain limited under existing frameworks.

The second option would be conditional ratification, revising the sustainability terms as proposed by France, Austria, and Ireland. This would involve binding deforestation targets more closely to Paris Agreement obligations, as outlined in the Additional Sustainability Instrument proposed in 2023 (European Commission, 2023). Such revisions could garner wider political support within the EU and help unify Member States long divided on the issue. Yet, this option risks delaying ratification and could face pushback from Mercosur, whose members have expressed eagerness to conclude the deal swiftly.

A third option would be to postpone negotiations and ratification until after 2025, providing a potential political reset. Upcoming leadership changes, most notably the 2026 European Commission renewal and France's 2027 presidential elections, may reshape the political landscape. However, prolonged delay risks the deal stalling indefinitely. The most drastic course, though increasingly unlikely, would be to abandon the agreement altogether. While this might appease European farmers and environmental groups, it would represent a major strategic setback for the EU's geopolitical ambitions, particularly as China continues to expand its economic footprint in Latin America (Bruegel, 2023).

Recommendations

Given the persistent environmental and social concerns surrounding the EU–Mercosur trade agreement, conditional ratification appears to be the only viable path forward. Ratifying the agreement immediately, without a robust and enforceable sustainability mechanism, would undermine the EU's credibility on climate and human rights, particularly at a time when global expectations for responsible trade are rising. Instead, the EU should finalise and legally anchor the Additional Sustainability Instrument (2023), ensuring independent monitoring of deforestation, labour rights, and Paris Agreement commitments before ratification proceeds (European Commission, 2023).

To guarantee transparency and accountability, the EU and Mercosur could establish a Joint Sustainability Council, modelled on existing Trade and Sustainable Development (TSD) advisory groups, comprising civil society, business, and environmental representatives (European Commission, 2022). Parallel to this, a dedicated SME and Agricultural Adjustment Fund could help support sectors most exposed to liberalisation pressures, ensuring a fair transition across Member States (European Commission, 2021).

Strategically, abandoning or indefinitely delaying the deal would be counterproductive. The growing competition between the United States and China for influence in Latin America reinforces the urgency for the EU to act decisively. Within the framework of Open Strategic Autonomy, conditional ratification, paired with credible environmental enforcement, offers the EU the best route to balance sustainability, competitiveness, and geopolitical resilience (European Commission & HR/VP, 2023).

In short, the EU must present this agreement not as a market-grab, but as a "Green Partnership": a model for fair, sustainable, and strategic trade in a multipolar world.