

**The impact of the free trade agreement between the European Union and Mercosur on trade flows and reducing customs tariffs**

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## Abstract:

The EU has concluded a trade agreement with the four founding members of Mercosur (Argentina, Brazil, Paraguay, and Uruguay) as part of a bi-regional Association Agreement. Current trade relations between the EU and Mercosur are based on an inter-regional Framework Cooperation Agreement which entered into force from 1999, The European Union and Mercosur states – Argentina, Brazil Paraguay and Uruguay – reached a political agreement on 28 June 2019 for an ambitious, balanced and comprehensive trade agreement. The EU is Mercosur's number one trade and investment partner, so This paper analysis the EU Mercosur free trade agreement (FTA) that designed to increase the flow of goods among the two blocks, in addition to reducing Tariffs and quotas on goods and services and identifies asymmetries and similarities in the member states' trade policy by cluster analysis. in addition to clarifying the extent of trade flow between the two blocks, the extent of the increase in the volume of exports and imports between them, and the extent of progress in service trade between the two parties, as this progress was enhanced by reducing customs tariffs and removing customs barriers between the two blocs.

## KEYWORDS:

Mercosur; regional integration; trade policy; non-tariff measures, European union, bilateral trade, trade liberalisation, clusters analysis.

## المستخلص العربي

أبرم الاتحاد الأوروبي اتفاقية تجارية مع الأعضاء المؤسسين الأربعة للميركوسور (الأرجنتين والبرازيل وباراجواي وأوروغواي) كجزء من اتفاقية الشراكة الثنائية الإقليمية. وتستند العلاقات التجارية الحالية بين الاتحاد الأوروبي والميركوسور إلى إطار عمل إقليمي. اتفاقية التعاون التي دخلت حيز التنفيذ اعتبارًا من عام 1999، توصل الاتحاد الأوروبي ودول الميركوسور – الأرجنتين والبرازيل وباراجواي وأوروغواي – إلى اتفاق سياسي في 28 يونيو 2019 بشأن اتفاقية تجارية طموحة ومتوازنة وشاملة. يعد الاتحاد الأوروبي الشريك التجاري والاستثماري الأول لميركوسور، لذا تحل هذه الورقة اتفاقية التجارة الحرة للميركوسور التابعة للاتحاد الأوروبي (FTA) والتي تهدف إلى زيادة تدفق التجارة بين الكتلتين، بالإضافة إلى تخفيض التعريفات الجمركية والحصص على السلع والخدمات وتحدد عدم التماثل والتشابه في السياسة التجارية للدول الأعضاء من خلال التحليل العنقودي، و توضيح حجم التدفق التجاري بين الكتلتين، ومدى زيادة حجم الصادرات والواردات بينهما، ومدى التقدم في تجارة الخدمات بين الطرفين، حيث تعزز هذا التقدم من خلال التخفيض الجمركي الرسوم الجمركية وإزالة الحواجز الجمركية بين الكتلتين.

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## Introduction

Regional integration has become the effect of the permanent evolution of the world economy, mainly due to technical progress, which through innovative solutions in the field of transport and information has contributed to reducing the geographical distance in economic cooperation. Activities towards international integration are aimed at increasing the investment attractiveness of economies by facilitating new markets, production factors and technologies, but also at increasing external security or gaining greater negotiating power on the international stage. The purpose of this paper is to characterize the economic relations between the European Union and Mercosur as well as to determine the bilateral benefits and obligations associated with signing the free trade agreement and clear the impact of the EU Mercosur trade on Mercosur block.

In June 2019 the EU and the Mercosur group (Mercado Común del Sur – Argentina, Brazil, Paraguay and Uruguay) announced the political agreement for an Association Agreement including a trade component after the “longest trade negotiations in the world”. Starting officially in 1999, The struggles around the agreement have a structural reason in the long-standing asymmetries of the EU-Mercosur trade relation. While the trade balance between the two regions has almost been in equilibrium during recent years, Mercosur exports to the EU are dominated by agricultural and food products, as well as minerals and other commodities. On the other side, EU exports to the Mercosur countries consist largely of manufactured goods such as machinery, motor vehicles, chemicals and pharmaceuticals. These structural differences in the trade flows exist despite the high levels of protection through tariffs and EU tariff rate quotas (TRQ) in the sectors most exposed to imports. Therefore, producers in the most competitive sectors in the respective regions argue in favor of the agreement, while producers and workers in protected sectors fear to be exposed to highly competitive imports. Still others see the agreement as a starting point for future liberalization of protected and subsidized sectors (agriculture in the EU and industry in Mercosur). The agreement now reached focuses on the gradual removal of tariff barriers for more than 90 % of tariff lines in

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bilateral trade, while further trade liberalization for sensitive agricultural products on the EU side will remain limited. The agreement also covers a wide range of other trade issues including chapters on Customs and Trade Facilitation, Trade Remedies, Sanitary and Phytosanitary Measures (SPS), Dialogues, Technical Barriers to Trade (TBT), Services and Establishment, Public Procurement, Competition, Subsidies, State-owned Enterprises, Intellectual Property Rights including Geographical Indications, Trade and Sustainable Development, Transparency, Small and Medium-sized Enterprises and Dispute Settlement .

### **Objectives :**

- 1-identifying common patterns in the international trade among Mercosur members and eu .
- 2-The cluster analysis identifies explicit features and attributes of the Mercosur trade policies.
- 3-Explain the commercial benefit that accurate both parties EU and Mercosur .

### **The importance of the research:**

The aim of the of this paper focus on the trade relations between eu and Mercosur and clear the foster economic cooperation and enhanced trade between the European union and Mercosur countries.and explain their efforts to reduce tariffs and trade barriers, promote investment and strengthen political ties between the regions

### **Hypothesis:**

- 1-The free trade agreement between Mercosur and the European Union increased the trade flow between them.
- 2-.The EU Mercosur agreement led to the reduction in tarrif and non tariff barriers between the two blocs.

### **Previous studies:**

- 1-Kristina MENSAH ,Trade aspects of the EU-Mercosur Association Agreement In this study by European parliament,2021 .

This study analyzed the provisions of the EU-Mercosur trade agreement (EUMETA) in its form presented by the European Commission. And analyzed covers the potential macroeconomic effects of the agreement that

are based on the analysis of the extent of trade liberalisation through the lens of a computable general simulation model, as well as more detailed analysis of trade structure, tariff structure, non-tariff protection and the trade-related provisions of the agreement including trade in services and government procurement. Moreover, and analyzed the institutional provisions of the EUMercosur Association agreement (EUMEAA) in relation to the positioning of the European Parliament and civil society. We place a special focus on the agri-food sector and some selected sensitive subsectors. The quantitative assessments are amended by qualitative analysis, in particular with regard to the trade and sustainable development chapter of the agreement, issues related to food security and an overview of existing approaches on sustainable development in the Mercosur countries.

2-Lucas Baggi de Mendonça Lauria\*Non-tariff Protectionism InMercosur: Analysis and Recommendations on the Last Three Decadesvol. 45(1) Jan/Apr 2023.

This paper aims to discuss and demonstrate the non-tariff challenges to Mercosur's trade Integration. Its Common External Tariff (CET) and exceptions and discussed, as well as the Evolution of its non-tariff protectionism framework in the last three decades. This is an unprecedented exploratory exercise on all 5019 non-tariff measures (NTM) notified by Mercosur members To the WTO from 1995 to 2020. As main results, we see that (i) members with fewer exceptions to The CET are the ones that most use NTMs to protect their markets; (ii) the stock of NTMs targeted At members and non-members varies accordingly; (iii) of the 10 countries most targeted by NTMs Imposed by Mercosur members, its own members figure in the 3<sup>rd</sup>, 4<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup> positions; (iv) The bloc lacks deep regulatory harmonization, especially with regard to sanitary and phytosanitary Barriers in 11 sectors.

3- World Trade Organization MERCOSUR ,Objectives and Achievements , Trade Policy Review Division , June, 1997,

The paper focused the objectives of MERCOSUR and assesses its achievements, focusing on institutions and fulfilment of commitments. It concluded that considerable progress has been made to achieving a

customs union and even beyond that towards a common (but not EU-style single) market .

4-Erika Bethmann Fernando Gracia, The Impact of Non-tariff Measures within the EU-Mercosur Agreement on Member Countries and the United States Economic working paper , united states ,U.S International TRADE Commission ,2022.

The European Union (EU) and Mercosur – the South American trading bloc comprised of Argentina, Brazil, Paraguay, and Uruguay – reached a political agreement regarding the trade part of the EU-Mercosur Association Agreement. Although the EU-Mercosur Association Agreement has been under negotiation since 1999, there have been few computable general equilibrium (CGE) analyses undertaken that have provided an analysis of the agreement’s non-tariff measures generally, or their potential effects on the U.S. economy. In addition to providing an update to the existing CGE literature on this agreement, and its potential effects on the U.S. economy, this paper analyzed concurrent trade policy issues. For example this agreement has garnered press recently as European civil society groups and some government representatives have threatened the ratification of the agreement for failing to protect the Amazon rainforest with enforceable environmental provisions. This paper aims to update the existing, yet somewhat outdated literature on this particular agreement, with additional qualitative information on the nature and coverage of non-tariff provisions related to the security and protection of health and the environment—provisions that are currently serving as a barrier to ratification in the EU. and aim to assess the impact of the non-tariff measures contained in the EU-Mercosur Agreement on the member countries and important third-country trade partners (the United States and China) using the comparative static CGE model Global Trade Analysis (GTAP) framework. Consistent with other studies, the results show that both Mercosur and the EU see small gains in real GDP and welfare, with Mercosur gaining relatively more than the Eu.

5-Marcel Adenäuer and Thomas Heckeley, Impact Assessment of Trade Liberalisation Between EU and Mercosur Countries , Institute for Food and Resource Economics, University of Bonn ,2008.

The bilateral trade negotiations between the Mercosur group and the EU since 2000 on agricultural products served as incitement to analyse the impacts of possible outcomes. The objective of this paper is to quantitatively assess impacts of bilateral liberalisation scenarios on EU25 and Mercosur markets as well as their bilateral trade flows. For this purpose, the CAPRI model, which has already been applied to several multi- and bilateral trade liberalisation scenarios in the past, has been adopted in several ways. (1) Trading blocks in CAPRI have been expanded so that the Mercosur countries are now represented with country specific behavioural functions and explicit trade flows. (2) The parameters of these behavioural functions have been calibrated using recently estimated supply and demand elasticities (CAP, E. ET AL., 2006) as prior information in a constrained Bayesian framework (HECKELEI, T. ET AL., 2005). (3) Two different baselines scenarios varying in the assumed production potential of the Mercosur countries were defined with experts from these countries. This approach reflects that developments in Mercosur countries are very dynamic with lots of uncertainties. It also provides analysis of results dependent on baselines which is an innovation in CAPRI (technically and qualitatively). In this paper three selected scenarios are analysed. The first scenario reflects an unilateral partial liberalisation between the EU25 and the Mercosur countries by allocating additional Tariff Rate Quotas (TRQs) to the Mercosur countries for certain products based on an official EU proposal (USDA, 2005). The second scenario combines the partial unilateral liberalisation with the multilateral WTO G20 proposal. Sensitive products are defined according to JEAN, S. et al. (2006). The third comprises a bilateral full liberalisation between the EU25 and the Mercosur countries by allowing quota and duty free access in both directions for all agricultural products. The results focus on welfare effects and the market balances of seven key commodities (wheat, maize, rice, soybeans, bovine meat, chicken a). Furthermore, a sensitivity analysis on the elasticities of substitution between foreign and domestic produced goods that drive demand of trade

flows is provided and shows that the choice of those elasticities is very crucial with respect to model results.

6- Jacopo Timini and Francesca Viani ,A highway across the Atlantic trade and welfare effects of the Mercosur agreement , BANCO DE ESPAÑA, Madrid, 2020.

This paper analyzed EU-Mercosur agreement and its effects on trade and welfare using a general equilibrium structural gravity model. and discussed the increase in trade flows generated by trade agreements that are similar to the EU-Mercosur one, in a partial equilibrium setting. and analyzed increase in trade is mapped into reductions in bilateral trade costs and imputed to EU-Mercosur country pairs to compute the general equilibrium effects of the agreement in terms of trade creation, trade diversion, and welfare effects. So this paper indicate that the EU-Mercosur agreement is likely to have a positive impact on trade and welfare of both regional blocs, although with substantial heterogeneity both between and within the two areas.

### **The research gap :**

As for the difference of this research paper from previous studies through the research gap , It comes through that this paper added how this agreement liberalized trade between them especially in the trade of goods and services, and removed trade obstacles, which led to an increase in trade flow between them , as trade in goods rose to reach in 2022 to 118.9 billion euros , and The EU27 continued to run a substantial services trade surplus with Mercosur. In fact, this surplus expanded by more than twenty percent from 2015 to 2019, and removing customs Tariffs between them by 90%, these points were reviewed through the title of the research ,The impact of the free trade agreement between the European Union and Mercosur on trade flows and reducing customs tariffs , and in this way we have clarified the research gap.



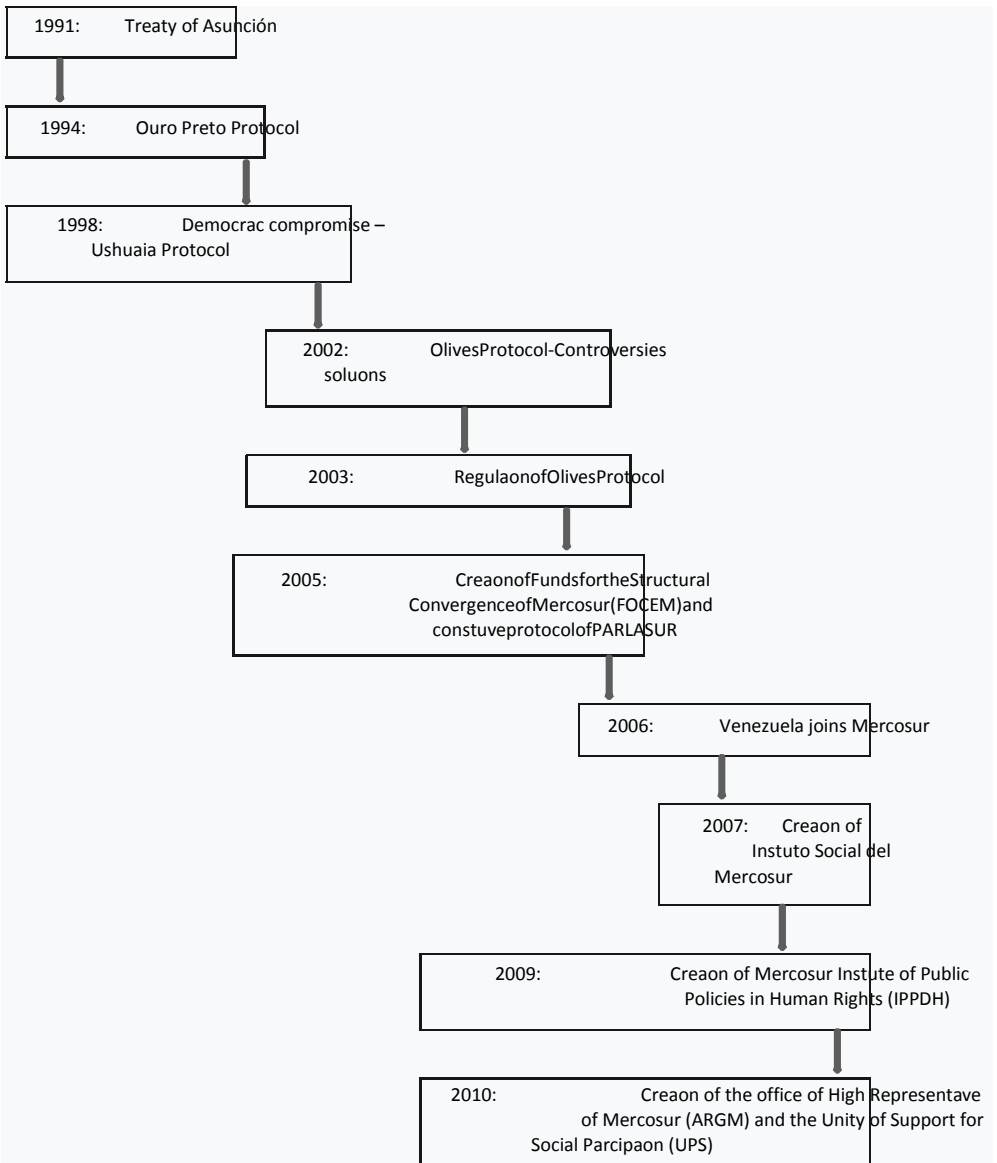
## **Methodologies :**

This study is focus on studying the impact of the trade agreement between the European Union and Mercosur on the Mercosur bloc and on its trade movement, including exports and imports between it and the Union, and on removing trade obstacles between them, and comparing the impact of trade between them on the European Union and Mercosur before and after the trade agreement.

### **Mercosur countries:**

Mercosur In 1985, the Argentina–Brazil Integration and Economics Cooperation Programme was established. The first important agreement of this programme was the Act of Cooperation and Integration, signed by Argentina and Brazil on 29 July 1986. The objective of this programme was to create economic cooperation between the biggest countries in South America. On 29 November 1988, two years after the Act of Cooperation and Integration, the same countries signed the Treaty of Cooperation, Integration and Development. (Arantza Gomez Arana,2017, )

This treaty was designed to reduce internal tariffs on some goods within ten years (Alvarez 1995; Simancas 1999). On 6 July 1990, the Act of Buenos Aires was signed, with the intention of establishing a common market by 31 December 1994 (Laporte Galli 1995). In the second semester of 1990 Brazil and Argentina invited Uruguay, Paraguay and Chile to join; Chile declined the invitation (Manzetti 1994). On 26 March 1991, the Republic of Argentina, the Federal Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay subscribed to the Treaty of Asunción



This treaty created the Common Market of the South. Despite consisting of a mere twenty-five pages, the treaty outlined a basic set of objectives and

the methods by which these objectives would be achieved (Bouzas and Soltz 2001). One of the main aims was the reduction of the tariffs for Brazil and Argentina by 31 December 1994 and the reduction of the tariffs for Paraguay and Uruguay exactly one year later. In order to achieve this objective, there was an attempt to develop a free circulation of goods and services, in addition to the introduction of a common external tariff, adoption of a common commercial policy, the coordination of macroeconomics and sectorial policies and the harmonization of the necessary legislation to strength the process of integration (Bouzas and Soltz 2001)At the end of June 1992, the institutional structure was established. However, it was not until December 1994 that the four members of Mercosur signed the Ouro Preto Protocol (OPP). As a result of this protocol, on 1 January 1995, Mercosur received its international legal powers at the same time that it signed the Europe–Mercosur Inter-regional Framework for Cooperation Agreement (EMIFCA) with the EU.

### **THE TRADE PILLAR between EU and Mercosur:**

The EU and Mercosur have structural economic and productive differences, as a result of a differentiated insertion in the global value chains. While the EU countries are more industrialised and have significant complementarities of their productive structures, Mercosur specialised in the production of raw materials, with lower levels of intra-bloc commercial exchange (Olivera and Villani, 2017). The productive capacity of the EU is four times larger than that of its South American partner, with a GDP per capita of USD 41,890 compared to USD 10,600 in Mercosur in 2018. According to the Observatory of International Conjuncture and Foreign Policy (OCIPEX), Germany alone has a GDP almost equal to that of Argentina, Brazil, Uruguay, and Paraguay combined . These differences are crucial when evaluating the impact of trade liberalisation on the two regions.

European industry is much more competitive than the industry in Mercosur countries. It is, therefore, an asymmetric trade relationship (Español, 2018; Zelicovich, 2019; Sanahuja, 2019; Makuc, Duhalde, and Rozemberg, 2015), which is one of the main problematic aspects of the agreement.

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Mercosur countries specialise in the export of agricultural products and commodities to the EU in 2011 these exports exceeded 73% of its total exports to the region), while the EU primarily exports products with medium and high added value to Mercosur in 2011, these represented close to 70% of total exports of its exports to Mercosur. Also, Paraguay and Uruguay, the smallest countries in the bloc, promote the production of agricultural goods, such as beef, dairy products (Uruguay), fruits and vegetables, and some processed agricultural products. For its part, Brazil has established itself as a producer and exporter of agri-food: beef, poultry, and pork; other processed agricultural products that include sugar, flour, fruits, and vegetables; traditional products such as cocoa, coffee, bananas and dairy.

Moreover, while the EU sells only 1.3% of its exports to Mercosur, for the Southern bloc, the importance of the European trading partner is more significant: almost 21% of their exports go to the EU . Despite very high tariffs, 42% of income from Mercosur's fresh beef exports, which face a 59% Most Favoured Nation (MFN) tariff out of quota, is realised in the EU. Also, a third of Mercosur's honey exports and around 10% of poultry meat exports go to the EU (Baltensperger and Dadush, 2019). The dependence on European purchases was a significant factor at the time of closing the agreement.

The asymmetric trade relationship has lasted throughout the 20 years of negotiations. , Mercosur has specialised in the production and export of agricultural goods, while the EU exports to Mercosur goods with medium and high technological content. During the period 2014-2016, the top twelve products that Mercosur imported from the EU were industrial goods. For example, the first six products were as follows: 1) medicine, vaccines, and immunological products; 2) airplanes and airplane parts; 3) parts and accessories for motor vehicles, motor cars, and vehicles; 4) light and medium oils and preparations; 5) fungicides; 6) light vessels and floating cranes. Mercosur, on the other hand, in the same period, exported products related to agricultural activities and mining to the EU: 1) products related to soybeans (soya-beans and oils); 2) wood pulp; 3) copper and iron ores and concentrates; 4) coffee; 5) petroleum oils; 6) orange juice; 7) bovine meat.

In Table 4, we see that these products already enter the EU with zero tariffs, except for some of the most protected sectors in Europe, for example bovine meat production and orange .

#### Eu trade with Mercosur:

When looking at the trade data since 1999, in nominal terms the trade of current EU MS with Mercosur has been growing fast until the global financial crisis of the end of the 2000s. During the period of 1999-2008 exports to Mercosur more than doubled and imports more than tripled. However, after some recovery after the 2009 crisis, trade with Mercosur stagnated, and in 2009 it was at the level very similar to that of 2019. The relative importance of trade with Mercosur in total EU imports and exports shows, on the other hand, that compared to the level of 1999, the importance of trade with Mercosur is in decline since 2009. In 1999, the share of Mercosur in both EU imports and exports was roughly 2.5 % and by the end of 2019 it was only 2.0 %. (European Parliament Coordinator, PE 653.650 – November 2021.)

Shifting the focus to individual countries the EU MS trading the most with Mercosur include Spain and Portugal which reflects the historical and cultural ties with the South American partners these types of relationships are found to be extremely long-lived in bilateral trade relations and stem from both historical relationships and trade routes, lower transaction costs due to common languages and more compatible demand structure. The new EU MS (acceding on 2004 and later) are in general found to trade much less with Mercosur than the remaining member states .

**Table 1**  
**Mercosur and European Union: growth of trade flows, 1990-2000**  
 (% average annual growth)

	To/From Mercosur	To/From EU	To/From Extra-Region	To/From World
<b>European Union</b>				
Exports	13.0	5.8	7.0	6.1
Imports	3.4	5.4	7.0	5.9
<b>Mercosur</b>				
Exports	16.9	4.0	4.9	6.4
Imports	16.4	13.6	11.5	12.3

Source: Own calculations on IMF-DOTS data

In the last decade inter-regional trade increased at an average annual rate of 7%.as shown in Table 1, the growth of trade flows benefited more the EU than Mercosur: EU exports to the Mercosur increased by 13% annually, while the exports to the world only increased by 6%. EU imports from Mercosur only increased by 3% annually, compared to a 7% increase of extra-EU imports. The increase of bilateral trade flows allowed the EU to steadily increase the market share in Mercosur from 27% to 30% (with a peak of 35% in 1999). In contrast, the trade performance of Mercosur in the EU market has been much less dynamic. Mercosur exports to the EU increased at 4% annually, well below the growth of total exports (6%). Meanwhile, Mercosur imports from the EU (14%) outstripped extra-regional imports (11%). During the last decade the market share of Mercosur in the EU dropped from 3,2% to 2,3%. (Paolo Giordano,The external dimension of the Mercosur,May 23, 2002).

**Table 2****Mercosur: bilateral trade balance with the EU, 1990-2000**

(millions of dollars)

	1989	1995	1997	1998	1999	2000
All food products	6,460.4	8,081.6	10,350.4	9,710.1	9,466.8	8,597.9
Agricultural raw materials	449.1	1,252.1	760.5	750.8	794.7	1,038.8
Ores and metals	2,049.7	1,667.5	1,483.9	2,313.1	2,031.9	2,436.2
Fuels	-88.0	-439.2	-418.4	-365.1	-324.1	-273.9
Manufactured goods	-192.0	-13,549.7	-18,473.1	-18,837.0	-15,744.6	-12,661.6
Total	8,679.1	-2,987.6	-6,296.7	-6,428.1	-3,775.2	-862.6

Source: Own calculations on DATAINTAL

.The asymmetric dynamism of trade flows explains the change of the sign of the bilateral trade balance and the accumulation of a trade deficit in Mercosur after 1995 (Table 2). In fact, the growing trade deficit in industrial products due to the rapid expansion of manufacture imports has not been matched by an equivalent increase in agriculture exports of Mercosur, through which the latter used to generate trade surpluses. In the last three years, the reduction of the bilateral trade deficit was only due to the shrinking of Mercosur absorption capacity in manufacture products.

The asymmetry of trade relations has also manifested at the qualitative level .The analysis of the sectoral composition of trade flows reveals that in 2000 Mercosur ,exported more natural resource based products to the EU (69%) than to the world (55%), while it imported relatively more industrial products from the EU (90%) than from the world (76%). This structure of international specialization characterized by the exports of low value-added products and the imports of high technological content products has worsened during the 1990s. Paolo Giordano,The external dimension of the Mercosur,May 23, 2002).

### **Tariffs and non-tariff barriers**

The EU-Mercosur negotiations started in 2000 and over the years experienced different phases.In May 2016, the EU and Mercosur relaunched

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the negotiation process, exchanged new market access offers, and intensified the pace of negotiations by holding negotiation rounds and meetings at regular intervals.

On 28 June 2019, the European Union and Mercosur reached a political agreement for an ambitious, balanced and comprehensive trade agreement covering issues such as, rules of origin, Tariff, Technical barriers to trade, Sanitary and phytosanitary measures, Services, Government procurement (European commission, The EU-Mercosur negotiations for a Trade Agreement, 2023).

The EU-Mercosur Agreement is the EU's largest trade agreement, expecting to boost bilateral trade and economic integration between the two regions. It envisages the removal of trade tariffs between the two areas, as well as including provisions that facilitate trade in services and the liberalisation of public procurement processes. Under the Agreement, Mercosur will remove tariffs on 91% of the goods imported from the EU, including key exports such as vehicles (35%) and machinery. In return, the EU will exempt duties on 95% of goods imported from Mercosur, along with 83% of agricultural imports. To protect European farmers, 357 traditional European products recognised with Geographical Indicators (GI) will be protected against counterfeit products in the South American countries. To facilitate trade in services, which is expected to grow faster in the post covid-19 world, the Agreement has included provisions that reduce non-tariff barriers. Both sides simplified their customs procedures and strengthen their collaboration on standards and technical regulations, offering greater legal certainty and a level playing field.

Furthermore, the treaty upholds the liberalisation of public procurement processes by both parties. Hitherto, Mercosur countries have not allowed third country's access to their public tenders. EU firms will be the first non-Mercosur business to have access to these processes. In line with the model of trade agreements imposed in recent years, the treaty includes provisions for safeguarding the environment and labour standards. It is based on the premise that trade should promote sustainable development. (Elcano Royal Institute's Office, EU-Mercosur Free Trade Agreement, 2021).



## Effectively applied tariffs in EU-Mercosur trade (HS Sections)

EU import tariff versus Mercosur						
Product Name	Weighted average tariff	Simple average tariff	% of domestic peaks	% of international peaks	Maximum rate	% dutyfree
Live Animals; Animal Products	9.3	7.1	2.3	4.4	23	3.3
Vegetable, Fruits, Nuts	1.1	4.8	1.4	4.9	20.8	84.7
Food Products	4.7	10.5	17.2	21.0	74.9	62.0
Minerals	0.0	0.1	0.0	0.0	1.7	98.9
Fuels	0.0	0.4	0.0	0.0	3	99.0
Chemicals	4.2	3.5	0.1	0.1	17.3	26.6
Plastic and Rubber	4.6	4.7	0.0	0.0	6.5	3.9
Leather	4.1	3.8	0.0	0.0	9.7	6.4
Wood and Wood Products	0.4	0.7	0.0	0.0	10	90.9
Textiles and Clothing	2.4	9.7	0.0	0.0	12	32.4
Footwear	8.8	9.1	17.6	17.6	17	1.0
Cement, Stone, Glass, Ceramics	0.5	3.5	0.0	0.0	12	84.5
Metals and Metal Products	0.8	2.7	0.0	0.0	10	73.4
Machinery and electrical equipment	1.9	1.7	0.0	0.0	14	19.5
Transport Equipment	3.0	4.1	1.5	2.0	22	0.1
Miscellaneous	0.6	1.4	0.0	0.0	10.5	69.5
Total trade	3.9	2.3	3.2	4.3	74.9	64.1
Mercosur import tariff versus EU						
Product Name	Weighted average tariff	Simple average tariff	Number of domestic peaks	Number of international peaks	Maximum rate	% dutyfree
Live Animals; Animal Products	7.5	9.5	0.0	23.1	28	28.7
Vegetable, Fruits, Nuts	9.9	8.7	0.9	1.7	55	3.5
Food Products	16.9	16.4	1.0	62.1	35	0.1
Minerals	3.8	3.8	0.0	0.0	6	2.3
Fuels	0.1	1.5	0.0	0.0	4	7.5
Chemicals	6.9	8.4	0.0	2.5	35	6.4
Plastic and Rubber	11.0	13.2	0.4	38.1	35	0.3
Leather	21.8	19.8	6.2	75.4	35	0.0
Wood and Wood Products	10.6	11.8	0.3	33.8	35	13.9
Textiles and Clothing	21.9	25.1	26.1	92.2	35	0.1
Footwear	31.9	24.1	21.6	97.4	35	0.4
Cement, Stone, Glass, Ceramics	8.7	11.9	0.3	16.0	35	0.0
Metals and Metal Products	12.6	14.2	0.6	47.0	35	0.7
Machinery and electrical equipment	11.7	10.7	0.4	29.3	35	6.3
Transport Equipment	14.8	13.7	2.7	47.3	35	15.1
Miscellaneous	11.2	13.5	2.5	46.2	35	6.3
Total trade	13.0	10.5	1.9	28.8	55	6.4

Source: UNCTAD TRAINS database. Note: Weighted tariffs averages are weighted by the value of imports. Domestic peaks are the tariff lines where the applied tariff is at least three times the simple average tariff level. International peaks are the tariff lines where tariffs exceed 15 % of duty-free' refers to the share of bilateral imports in the particular category that is not subject to any tariffs.

Tariff protection in bilateral trade between the EU and the Mercosur, On average, the level of tariff protection of EU imports is considerably lower than that of Mercosur imports. This is manifested by considerably lower average tariff rate (3.9 % versus 13 %) as well as a significantly larger share of duty-free EU imports (64 % versus just 5.6 in Mercosur). Going into sectoral details, in the EU tariffs on agricultural goods and food products are on average comparable across the two regions, with, however, persistently higher protection on the part of Mercosur. What is not reflected here is the complex set of TRQs diverging in quantities, tariff levels across single agricultural products. Moreover, the EU side uses more TRQs than the Mercosur side excluding complete product categories. Moreover, in these categories Mercosur has considerably more tariff lines with rates exceeding 15 % (international peaks). It is important to note that most of Mercosur's export to EU are in agri-food (around 46 % in 2019) where tariffs are relatively high. However, still a large part of agri-food trade is duty-free. However, unlike in Europe where – beyond agri-food imports and footwear – tariffs are low and on average do not exceed 5 % (and the number of tariff peaks is negligible), Mercosur maintains very high tariffs on most manufacturing products. These includes EU large export categories such as transport equipment, machinery and electrical equipment. Significant reduction in tariffs in these sectors certainly presents an important business opportunity to EU producers. The share of EU imports that will be duty-free immediately after the agreement enters into force is 72.4% (in terms of 2019 EU imports of Mercosur), as compared to roughly 64 % duty-free in 2019. Therefore, the immediate – and often feared in terms of competitive effects – liberalisation of imports will not be substantial as a large part of EU imports from Mercosur is already duty-free. However, additional 19.7 % of the value of trade will be liberalised gradually after 5 to 16 years following the implementation of the agreement, leading to a combined of 92.1 % of imports duty-free after 16 years. Tariffs will be maintained (either a specific portion of a combined ad-valorem tariff or other non-zero tariffs) in roughly 0.4 % of Imports. 7.3 % of 2019 EU imports will be subject to tariff-rate-quotas mainly for agricultural products either With duty-free in-quota imports or with

preferential in-quota tariffs according to a complex pattern differing across products Differing across products.(European commission,trade in organics, importing organic produce,2021).

### EU tariff liberalisation versus Mercosur

section	Percentage of EU imports					Percentage of all CN8 categories in the tariff schedule				
	Immediate zero tariff	Gradual full liberalisation	Partial liberalisation	TRQ	Excluded from liberalisation	Immediate zero tariff	Gradual full liberalisation	Partial liberalisation	TRQ	Excluded from liberalisation
Live Animals; Animal Products	9.3	24.2	0.0	66.1	0.4	52.0	13.2	1.8	23.2	9.7
Vegetable, Fruits, Nuts	75.9	7.9	2.0	14.1	0.0	36.5	55.3	2.1	5.7	0.4
Food Products	68.5	27.8	0.1	2.2	1.4	23.2	67.6	1.2	6.4	1.6
Minerals	100.0	0.0	0.0	0.0	0.0	97.5	2.5	0.0	0.0	0.0
Fuels	99.3	0.7	0.0	0.0	0.0	86.7	13.3	0.0	0.0	0.0
Chemicals	40.5	59.4	0.0	0.1	0.0	33.7	65.1	0.1	1.1	0.0
Plastic and Rubber	18.8	81.2	0.0	0.0	0.0	37.5	62.5	0.0	0.0	0.0
Leather	94.8	5.2	0.0	0.0	0.0	74.6	25.4	0.0	0.0	0.0
Wood and Wood Products	94.1	5.9	0.0	0.0	0.0	84.3	15.7	0.0	0.0	0.0
Textiles and Clothing	82.4	17.6	0.0	0.0	0.0	6.0	94.0	0.0	0.0	0.0
Footwear	39.7	60.3	0.0	0.0	0.0	29.2	70.8	0.0	0.0	0.0
Cement, Stone, Glass, Ceramics	97.2	2.8	0.0	0.0	0.0	67.0	33.0	0.0	0.0	0.0
Metals and Metal Products	90.1	9.9	0.0	0.0	0.0	80.7	19.3	0.0	0.0	0.0
Machinery and electrical equipment	78.7	21.3	0.0	0.0	0.0	95.0	5.0	0.0	0.0	0.0
Transport Equipment	13.4	86.6	0.0	0.0	0.0	51.9	48.1	0.0	0.0	0.0
Miscellaneous	99.5	0.5	0.0	0.0	0.0	88.6	11.4	0.0	0.0	0.0
Total trade	72.4	19.7	0.4	7.3	0.3	54.3	40.7	0.45	3.42	1.13

Notes: 'Immediate zero tariffs' means either tariff elimination in the first year of the implementation of the agreement or zero tariffs in current are phased in over several years. 'Partial liberalisation' refers to a situation where non-zero tariffs will remain even after the full implementation of the agreement. Source: own elaboration on the agreement in principle annexes and Eurostat COMEXT 2019 trade data.

On the Mercosur side the implementation of the EUMETA would immediately result in 15.9 % of trade subject to zero tariffs (more than

double the level from 2019), while an additional 74.8 % will be fully liberalised in up to 16 years following the EUMETA. Tariffs will be phased out in gradual way over this period. Therefore, the full implementation of the agreement will result in 90.7 of 2019 trade to be tariff free and a similar percentage of goods traded. Only 0.4 % of 2019 EU exports to Mercosur and 0.3 % of products will be subject to TRQs. All in all, the reduction in tariff barriers on the Mercosur side appears to be much more pronounced than on the EU side, which mainly stems from a significant difference in initial levels of tariff protection. In order to analyse the structure of non-tariff protection, we perform a frequency analysis of NTMs using UNCTAD data available for 2010-2018 which we extrapolate to 2019 to match with the latest complete trade data obtained from UN COMTRADE. We compute two types of measures of incidence of NTMs. One is the frequency indicator that shows the share of narrowly defined products (in HS6 classification) subject to NTMs in total number of traded products. The other is the coverage ratio which shows the share of trade subject to NTMs in total value of trade. Both groups of indicators are computed using bilateral trade between Mercosur and EU member states. (Abbott, P. C. 2002, 'Tariff-rate quotas: Failed market access instruments?', *European Review of Agricultural Economics*, 29)

## Mercosur tariff liberalisation versus Eu

section	Percentage of Mercosur imports					Percentage of all CN8 categories in the tariff schedule				
	Immediate zero tariff	Gradual full liberalisation	Partial liberalisation	TRQ	Excluded from liberalisation	Immediate zero tariff	Gradual full liberalisation	Partial liberalisation	TRQ	Excluded from liberalisation
Live Animals; Animal Products	33.4	51.4	1.9	11.3	2.0	26.4	65.7	0.4	3.3	4.2
Vegetable, Fruits, Nuts	26.4	65.9	0.0	3.3	4.4	44.6	52.2	0.0	0.2	3.0
Food Products	3.4	81.9	0.0	9.4	5.3	18.5	66.1	0.0	4.0	11.4
Minerals	0.8	99.2	0.0	0.0	0.0	4.4	95.6	0.0	0.0	0.0
Fuels	97.7	0.3	0.0	0.0	2.0	91.3	7.2	0.0	0.0	1.4
Chemicals	7.4	87.1	0.0	0.0	5.5	3.7	93.1	0.0	0.0	3.1
Plastic and Rubber	0.6	56.2	0.0	0.0	43.3	1.2	83.3	0.0	0.0	15.5
Leather	0.0	11.3	0.0	0.0	88.7	0.0	36.3	0.0	0.0	63.7
Wood and Wood Products	13.8	74.2	0.0	0.0	12.0	2.8	59.3	0.0	0.0	37.9
Textiles and Clothing	19.4	80.6	0.0	0.0	0.0	6.5	93.5	0.0	0.0	0.0
Footwear	0.1	64.5	0.0	0.0	35.4	1.4	32.9	0.0	0.0	65.7
Cement, Stone, Glass, Ceramics	0.0	91.7	0.0	0.0	8.3	2.9	69.6	0.0	0.0	27.5
Metals and Metal Products	2.0	90.1	0.0	0.0	7.9	1.6	91.1	0.0	0.0	7.3
Machinery and electrical equipment	13.4	78.1	0.0	0.0	8.5	15.9	78.4	0.0	0.0	5.7
Transport Equipment	19.3	74.8	0.0	0.0	5.9	14.9	65.1	0.0	0.0	20.0
Miscellaneous	15.7	74.4	0.0	0.0	9.9	13.8	63.9	0.0	0.0	22.3
Total trade	15.9	74.8	0.0	0.4	9.0	10.7	80.0	0.0	0.3	8.9

Source: own elaboration on the agreement in principle annexes and SECEM Mercosur 2019 trade data. Notes: ‘Immediate zero tariffs’ means either tariff elimination in the first year of the implementation of the agreement or zero tariffs in current tariff schedules. ‘Gradual full liberalisation’ means that tariff reductions are phased in over several years. ‘Partial liberalisation’ refers to a situation where non-zero tariffs will remain even after the full implementation of the agreement.

The results of the analysis show that both EU imports from Mercosur and Mercosur’s imports from the EU are heavily regulated compared to average numbers presented e.g. in Disdier and Fugazza (2020). As many as 96 % of all imported products by the four Mercosur countries is subject to at least one regulation with a corresponding number for the EU at 69 %.

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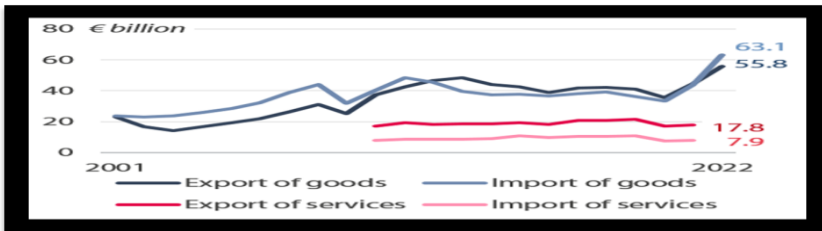
Considering the sizes of actual trade flows it turns out that 93 % of the value of imports on the Mercosur side is subject to NTMs 89 % at the EU side. The predominant regulations are SPS and TBT that cover at least 50 % of traded products (TBT almost 70 % of imported products at the EU side). Other important NTMs include the quantitative restrictions and import licenses which apply to 50 % of traded products a similar fraction of value of imports on both sides. NTMs that seem to be more prevalent on Mercosur's side than in the EU are pre-shipment inspections and other formalities, price control measures and finance measures ,It is difficult to assess the evolution of trade within the particular NTM categories as the coverage of NTMs has significantly changed over time. The UNCTAD data shows almost 20 000 newly introduced regulation product pairs on the EU side since 2010 (one regulation can apply to several products) and almost 40 000 on the Mercosur side. Hence the coverage and frequency of NTMs have risen significantly over the analysed period. We have performed a regression analysis at the product-level to understand how these newly introduced regulations affect trade. The results of this analysis are presented in Table 8. The coefficients shown can be understood as the approximate percentage change in imports after introduction of new regulations to a product that has not been previously subject to this type of NTM. These results are mixed, i.e. they show a significant negative impact of new TBTs and SPS on the imports of EU side by respectively 7 and 11 %<sup>8F</sup> However, at the same time, SPS and TBT have not had a negative effect on the volume of imports of Mercosur from the EU. In fact, EU exports to Mercosur covered by new TBT and SPS regulations trade have been growing faster than average. On the other hand, Mercosur's imports subject to licencing and quantitative restrictions (e.g. often on agricultural exports), as well as finance measures have fallen significantly after introduction of these regulations(( European Parliament Coordinator,PE 653.650 – November 2021)

### **Why does the Agreement matter?**

The EU-Mercosur agreement will open huge opportunities for trade expansion to both sides, as well as giving the EU geopolitical leverage over Mercosur, in regards to environmental protection and climate change.The

agreement promises to be the EU’s largest deal, creating an integrated market of 780 million consumers and saving European exporters around EUR 4 billion of import tariffs on its produces. Mercosur has more than 260 million consumers and, taken as a group, is the fifth-largest economy outside the EU with an annual GDP of EUR 2.2 million. The EU could conclude the most important free trade agreement for the South American economic region. After China, the EU is Mercosur’s second most important trading partner, representing 20% of goods trade. Moreover, Mercosur has been internationally isolated. The only three free trade agreements signed by the bloc, apart from those existing within the so-called ALADI framework (Latin American Integration Association) and those currently under negotiation, are with Israel, Egypt, and Palestine, countries economically irrelevant. The agreement is notably important for the EU because of Mercosur’s high tariff barriers in key areas of bilateral trade. The EU has a comparative advantage over Mercosur in the supply of higher technology content, thus European exports mainly comprise of chemicals, pharmaceuticals, machinery, vehicles, and electrical products which are currently subject to high tariffs. The removal of these tariffs would boost European export in these areas. (Elcano Royal Institute’s Office, EU-Mercosur Free Trade Agreement ,2021.)

Figure (1) Eu trade goods and services with Mercosur



Data Source: Eurostat.

**1- Trade in goods:**

When looking at the trade data since 1999, in nominal terms the trade of current EU MS with Mercosur has been growing fast until the global

financial crisis of the end of the 2000s. During the period of 1999-2008 exports to Mercosur more than doubled and imports more than tripled. However, after some recovery after the 2009 crisis, trade with Mercosur stagnated, and in 2009 it was at the level very similar to that of 2019. The relative importance of trade with Mercosur in total EU imports and exports shows, on the other hand, that compared to the level of 1999, the importance of trade with Mercosur is in decline since 2009. In 1999, the share of Mercosur in both EU imports and exports was roughly 2.5 % and by the end of 2019 it was only 2.0 %. Shifting the focus to individual countries the EU MS trading the most with Mercosur include Spain and Portugal which reflects the historical and cultural ties with the South American partners these types of relationships are found to be extremely long-lived in bilateral trade relations and stem from both historical relationships and trade routes, lower transaction costs due to common languages and more compatible demand structure). The new EU MS acceding on 2004 and later are in general found to trade much less with Mercosur than the remaining member states it is worth noting that the new MS also in general trade less with third countries than the EU-14. (Eurostat COMEXT and UN COMTRADE European parliament, 2021)

In the absence of a preferential trade agreement, EU-Mercosur trade relations are presently largely based on MFN tariffs, as all Mercosur countries have lost their eligibility to unilateral preferential access to the EU market under the EU's GSP226 or GSP+. Next to high tariff peaks for each party's sensitive agricultural and industrial products, significant non-tariff barriers exist that leave considerable trade growth potential unexploited.

In 2022, EU-Mercosur trade in goods reached €118.9 billion, up from €88 billion in 2021, with the EU running a deficit of €7.3 billion, Mercosur's exports to the EU increased by almost €20 billion, with notable growth rates for base metals (92 %), wood (87 %), transport equipment (74 %) and mineral fuels (61.2 %). EU exports to Mercosur grew by €11 billion, owing to increases in exports of chemicals from €11.7 billion in 2021 to €15.1 billion in 2022, machinery and appliances from €12.3 billion in 2021 to €14.1 billion in 2022 and transport equipment from €4.6 billion in 2021 to €6.1 billion in 2022.228 The biggest increase in Mercosur's agri-food



exports occurred in vegetable products (from €6.2 billion in 2019 to €13.4 billion in 2022) as well as in foodstuffs, beverages and tobacco (from €7.5 billion in 2019 to €11.3 billion in 2022). EU exports of services to Mercosur in 2021 were roughly twice as high as EU imports from Mercosur, with business services and transport services ranking far ahead of travel and ICT (Council of the European Union eu-celac summit, 2023).

## **2-TRADE IN SERVICES**

### General policy developments

Regional integration within Mercosur seems particularly laboured in trade in services. Negotiations for Intra-bloc liberalisation began in 1992, but it was not until December 2005 that the Protocol of Montevideo On Trade in Services entered into force. The Protocol is modelled almost entirely on GATS with a few small Adjustments (Stephenson, 2000). In this vein, it is hardly facilitatory to the 'free movement of services' Between signatories. In particular, The Protocol protects members' regulatory autonomy on the entry and Stay of foreigners and is not conducive with the establishment of a common market and the free move-Ment of services providers (Gari, 2009.). Aside from its structural deficiencies, the Protocol is meant To operate on a ratchet mechanism with frequent rounds of 'Negotiations of Specific Commitments on Services' yielding further liberalisation (Gari, 2009). In reality, progress has been slow. Such is the Pace of regional integration, that, during the ongoing eighth round of negotiations, Mercosur countries are attempting to incorporate services provisions already negotiated with the EU into the regulations of The bloc (CIE, 2021).

The goal of the new EU-Mercosur trade deal is to:

- Increase bilateral trade and investment, and lower tariff and non-tariff trade barriers, notably for small and medium sized enterprises
- Create more stable and predictable rules for trade and investment through better and stronger rules, e.g. in the area of intellectual property rights (including geographical indications), food safety standards, competition and good regulatory practices
- Promote joint values such as sustainable development, by strengthening worker's rights, fight climate change, increase environmental protection,

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encourage companies to act responsibly, and uphold high food safety standards

- The agreement represents a win-win for both the EU and Mercosur, creating opportunities for growth, jobs and sustainable development on both sides.(European commission, EU Mercosur Negotiations and agreements,2023).

## **Impact of the EUMETA**

The starting point and comparison therefore for the impact of the EUMETA on services trade are the GATS commitments of the Parties. There is significant variation in the degree of liberalisation of the Mercosur countries under the GATS and many remain ‘unbound’, meaning uncommitted to national treatment and other provisions under the GATS. Mercosur has yet to implement a comprehensive FTA with an external partner. Therefore, GATS-plus provisions in the EUMETA would offer a first-mover advantage for EU service suppliers over services exporters from other economies. Liberalisation commitments are detailed in the respective Annex of the EUMETA and follow a GATS-like Schedule of Specific Commitments, listing limitations to market access and national treatment in the four GATS modes (cross border supply, consumption abroad, commercial presence/establishment and presence of natural persons). As with GATS, the EUMETA schedule is a positive list meaning anything unlisted is not covered liberalised. A comprehensive assessment of the potential impact of the agreement requires detailed analysis of many schedules. The focus here, is therefore on the areas of business and financial services. In the tables below, GATS plus provisions are indicated with an asterisk. It is here that the agreement would provide European service suppliers a relative advantage if the agreement is implemented. As can be observed, the commitments made are relatively modest.

Business services ( European Parliament Coordinator,PE 653.650 – November 2021)

Reflecting the limited integration in Mercosur, members have made different commitments on business services Relative to its GATS

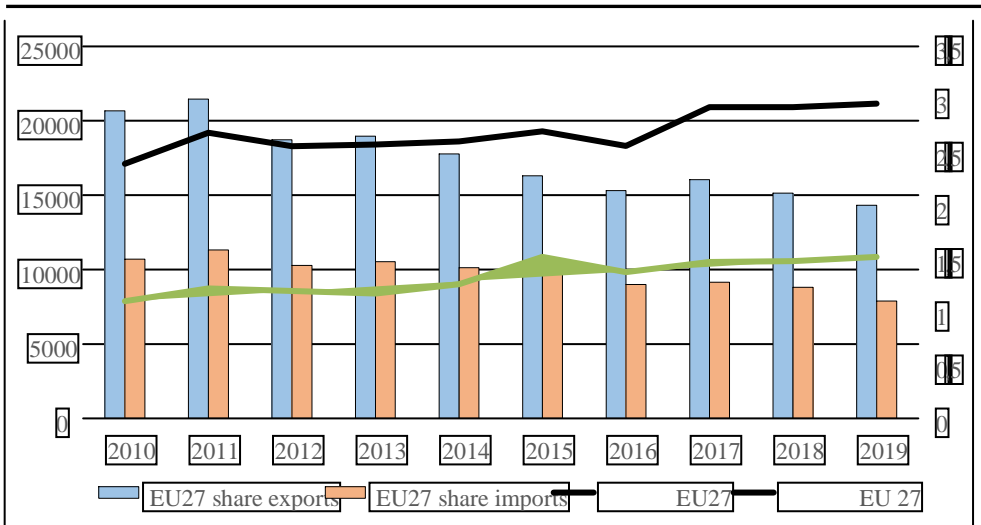
commitments, Argentina has liberalised a number of sectors for mode 3 (commercial presence), although certain barriers remain. For example, persons seeking to provide professional services must obtain recognition of their professional degree, licensing with the relevant professional association and establish legal and/or special domicile in Argentina. Brazil has made a number of concessions in mode 2 (consumption abroad), compared to GATS. Neither Paraguay nor Uruguay have made extensive commitments under GATS so the commitments listed in the EUMETA will give European providers additional clarity going forward.

### **Financial services**

As with business services, Mercosur's members have made varied commitments on financial and insurance services, Argentina has liberalised a number of sectors for services delivered by foreign commercial presence. Although, the outsourcing of financial services still requires prior authorisation from the competent authorities and will be subject to the limitations laid down in the existing legislation for the entities controlled by the Central Bank of Argentina. This continues to represent an obstacle for European suppliers. Brazil has made few additional commitments on financial services, with limited opportunities for European firms. Beyond market access and national treatment, further impediments to trade also remain. For instance, financial services suppliers must still be organised as a 'sociedade anônima' publicly-held company, unless otherwise specified. Paraguay's market for lending services and deposit banking services remains relatively open for foreign service suppliers. However, the repatriation of earnings for foreign suppliers with a commercial presence in Paraguay still requires the authorisation of the Bank Superintendent's Office. Similar to Paraguay, Uruguay's markets for banking services are relatively open for all foreign services suppliers. The EUMETA does provide European providers with further assurances, especially with regard to national treatment ( Jan HAGEMER, European parliament,2021).

### **EU-Mercosur Services Trade Patterns :**

EU27 services trade with Mercosur and its share in total EU27 exports and imports:



Source: Eurostat. Note: Trade values in EUR million measured on left axis. Shares are measured in % on right axis.

Regardless of limited regional integration and economic crises within Mercosur, EU services trade with the bloc continued to increase between 2015 to 2019. Indeed, services trade growth was significantly stronger than trade in goods. Over the four years in question, EU27 services exports to Mercosur rose by nearly ten percent, compared with a small decrease in goods exports. Meanwhile, EU27 services imports from Mercosur remained steady as goods imports shrank by four percent. The EU27 continued to run a substantial services trade surplus with Mercosur. In fact, this surplus expanded by more than twenty percent from 2015 to 2019. With that said, Mercosur services trade has become proportionally less important to the EU over the last decade. Services exports to Mercosur accounted for two percent of the EU27's extra-bloc total in 2019, down from more than three percent in 2011. Similarly, services imports from Mercosur represented just one percent of the EU27's extra-bloc total in 2019, a notable decrease from a decade earlier. This proportional decline is only more apparent in comparison with the reference countries identified by the original SIA in 2015. As a fraction of the EU27's extra-bloc total, services trade with India, Mexico and South Africa has remained constant or even increased. By

contrast, the EU remains an important trading partner for Mercosur countries. In 2019, the EU27 consumed twenty-four percent of Mercosur services exports and produced twenty-six percent of Mercosur services imports. (European Parliament Coordinator, PE 653.650 – November 2021).

### **Hypothesis testing :**

1-The free trade agreement between Mercosur and the European Union increased the Trade flow between them.

This hypothesis has been proven correct because EU exports to the Mercosur increased by 13% annually, while the exports to the world only increased by 6%. EU imports from Mercosur only increased by 3% annually, compared to a 7% increase of extra-EU imports. The increase of bilateral trade flows allowed the EU to steadily increase the market share in Mercosur from 27% to 30% (with a peak of 35% in 1999). In contrast, the trade performance of Mercosur in the EU market has been much less dynamic. Mercosur exports to the EU increased at 4% annually, well below the growth of total exports (6%). Meanwhile, Mercosur imports from the EU (14%) outstripped extra-regional imports (11%). During the last decade the market share of Mercosur in the EU dropped from 3,2% to 2,3%. During (1990-2000), and Mercosur's exports to the EU increased by almost €20 billion, with notable growth rates for base metals (92 %), wood (87 %), transport equipment (74 %) and mineral fuels (61.2 %). EU exports to Mercosur grew by €11 billion, owing to increases in exports of chemicals from €11.7 billion in 2021 to €15.1 billion in 2022, machinery and appliances from €12.3 billion in 2021 to €14.1 billion in 2022 and transport equipment from €4.6 billion in 2021 to €6.1 billion in 2022. 228 billion € The biggest increase in Mercosur's agri-food exports occurred in vegetable products (from €6.2 billion in 2019 to €13.4 billion in 2022) as well as in foodstuffs, beverages and tobacco (from €7.5 billion in 2019 to €11.3 billion in 2022) and services trade with the bloc continued to increase between 2015 to 2019. Indeed, services trade growth was significantly stronger than trade in goods. Over the four years in question, EU27 services exports to Mercosur rose by nearly ten percent, compared with a small decrease in

goods exports. Meanwhile, EU27 services imports from Mercosur remained steady as goods imports shrank by four percent. The EU27 continued to run a substantial services trade surplus with Mercosur. In fact, this surplus expanded by more than twenty percent from 2015 to 2019.

2-The EU Mercosur agreement led to the reduction in tariff and non tariff barriers between the two blocs.

This hypothesis has been proven correct because the EU-Mercosur negotiations started in 2000 and over the years experienced different phases. In May 2016, the EU and Mercosur relaunched the negotiation process, exchanged new market access offers, and intensified the pace of negotiations by holding negotiation rounds and meetings at regular intervals.

On 28 June 2019, the European Union and Mercosur reached a political agreement for an ambitious, balanced and comprehensive trade agreement covering issues such as, rules of origin, Tariff, Technical barriers to trade, Sanitary and phytosanitary measures, Services, Government procurement.

This hypothesis has been proven correct because Tariff protection in bilateral trade between the EU and the Mercosur, On average, the level of tariff protection of EU imports is significantly lower than that of Mercosur imports. This is manifested by significantly lower average tariff rate (3.9 % versus 13 %) as well as a significantly larger share of duty-free EU imports (64% versus just 5.6 in Mercosur). On the Mercosur side the implementation of the EUMETA would immediately result in 15.9 % of trade subject to zero tariffs (more than double the level from 2019), while an additional 74.8 % will be fully liberalised in up to 16 years following the EUMETA. Tariffs will be phased out in gradual way over this period. Therefore, the full implementation of the agreement will result in 90.7 of 2019 trade to be tariff free and a similar percentage of goods traded. Only 0.4 % of 2019 EU exports to Mercosur and 0.3 % of products will be subject to TRQs. All in all, the reduction in tariff barriers on the Mercosur side appears to be much more pronounced than on the EU side, which mainly stems from a

significant difference in initial levels of tariff protection. In order to analyse the structure of non-tariff protection.

### **Conclusion:**

The EU has concluded a trade agreement with the four founding members of Mercosur (Argentina, Brazil, Paraguay, and Uruguay) as part of a bi-regional Association Agreement. Current trade relations between the EU and Mercosur are based on an inter-regional Framework Cooperation Agreement which entered into force from 1999. The EU and individual Mercosur countries also have bilateral framework cooperation agreements, which also deal with trade-related matters. The EU-Mercosur negotiations started in 2000 and over the years experienced different phases. In May 2016, the EU and Mercosur relaunched the negotiation process, exchanged new market access offers, and intensified the pace of negotiations by holding negotiation rounds and meetings at regular intervals. On 28 June 2019, the European Union and Mercosur reached a political agreement for an ambitious, balanced and comprehensive trade agreement covering issues such as Tariffs, Rules of origin, Technical barriers to trade, Sanitary and phytosanitary measures, Services Government procurement, Intellectual property, Sustainable development, and, Small- and medium-sized enterprises. It is clear to us through this research that the trade liberalization agreement between the European Union bloc and the Mercosur bloc led to the liberalization of trade between them, and the impact was clear on the Mercosur bloc. And this became clear by proving the first hypothesis. In this context, the ratification of the EU-Mercosur trade agreement could assume greater importance. A successful ratification of the agreement would once again serve as a clear demonstration to the member states that Mercosur can be an effective Platform for finalizing trade agreements that provides added value to its members, Particularly in negotiations with large economies. In addition, the agreement can Contribute to the the South American region's integration into global and regional value Chains.

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