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Research Report

The EU-Mercosur agreement: Expectations and concerns in light of the new geopolitical situation

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Policy Brief No. 60, November 2023

The EU–Mercosur agreement: Expectations and concerns in light of the new geopolitical situation

Javier Flórez Mendoza and Bernhard Moshhammer

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Since the second half of 2022, the debate on the ratification of the EU–Mercosur agreement has gained considerable momentum on both sides of the Atlantic. On the one side, there is the recently elected Brazilian president in favour of its ratification, a libertarian Argentinian presidential candidate for whom the agreement does not go far enough and a Paraguayan president who stated he will break off negotiations with the EU if the parties do not reach a deal by December, when Paraguay takes over Mercosur's presidency. On the other side, there is a European Union where continued supply-chain disruptions in conjunction with the geopolitical impact of the Russian war against Ukraine has created the need to redress its global political and economic relations and its widely differing stances in favour or against the agreement. This policy brief examines key developments since 2019, the potential benefits of the agreement and concerns raised around it. It will also look at the economic role the other key actors in the region, the USA and China, play and the economic sectors of particular relevance, namely agriculture and raw materials, in the current debate on the conclusion of the EU–Mercosur agreement.

1. Introduction

After nearly 20 years, negotiations on an Association Agreement (AA) between the European Union (EU) and Mercosur concluded on 28th June 2019. Association Agreements go beyond the scope of Free Trade Agreements (FTAs) as they “bolster broader political agreements”.¹ This differentiation between an FTA and the deeper AA is of pivotal relevance for the ratification process. The ratification of the former only needs to be approved by the European Parliament, while the latter also has to be approved by each member state individually. Once ratified, the EU–Mercosur AA would be the agreement between South America's dominant trading bloc Mercosur, comprising Argentina, Brazil, Paraguay and Uruguay on the one side, and on the other side the 27 member states of the European Union. However, the agreement is still pending its ratification, the dominant argument being environmental concerns with regard to deforestation in particular, concerns which come predominantly from member states with a strong agricultural lobby, such as Austria, France, the

Netherlands and Ireland. Despite the stalemate, both sides still agreed to not reopen negotiations but rather to find other ways to clarify and fine-tune the agreement.

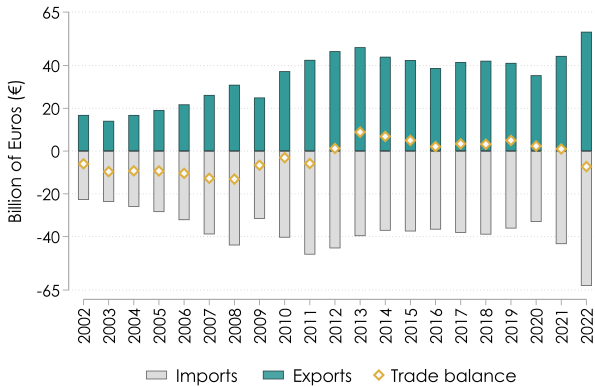
Several studies have shown that the trade agreement between the EU and Mercosur countries can offer mutual benefits in terms of trade flows, economic growth and welfare. For instance, Sinabell et al. (2020) conducted a comprehensive assessment of the potential consequences of the trade agreement using both quantitative and qualitative methods. Their main findings suggest that the Mercosur bloc would gain relatively more, mainly due to the member countries' larger market sizes. Additionally, the European Union is expected to experience significant gains in its industrial and service sectors. The export increase for EU member states is projected to vary from 1.4% in Ireland to 4.1% in Spain. In Austria's case, exports may increase by 2.2%. Similarly, Mercosur's total exports are expected to increase, ranging from 25.6% in Paraguay to 39.9% in Brazil.²

¹ European Commission, “EU trade agreements”, <https://www.consilium.europa.eu/en/policies/trade-policy/trade-agreements/> (25.09.2023).

² Further studies on the agreement's benefits are LSE (2020) and Timini and Vianni (2022).

Furthermore, their findings suggest that the agreement is expected to increase trade and foster economic activity in both regions. According to their calculations, the EU stands to gain in real GDP between 0.03% (in Greece) and 0.16% (in Belgium), while Austria could see an increase of 0.08%. Mercosur countries could experience an increase ranging from 0.33% (in Brazil) to 0.52% (in Uruguay). In absolute value, this accounts for EUR 12 billion in the EU and EUR 7.2 billion in the Mercosur countries. On a per capita basis, both regions could benefit from an increase of EUR 27.2 per person due to the trade agreement. Our recent assessment uses the structural gravity model and incorporates the latest theoretical developments in combination with the most effective econometric techniques to estimate the general equilibrium (GE) effects on trade and welfare. In addition, we employed a new database suitable for this purpose.³ The results, which are presented in Appendix Figures A1 and A2, align with the findings of previous studies.⁴

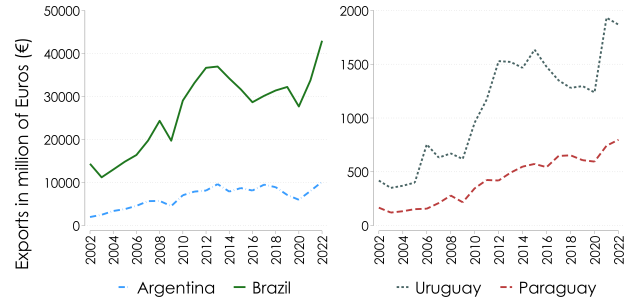
Figure 1: Evolution of Trade Flows: EU-Mercosur (2002-2022)



Source: Eurostat, Extra-EU trade by partner [ext_lt_maineu; last update: 15/09/2023]; own elaboration.

Between 2002 and 2012, the EU experienced a negative trade balance with Mercosur (see Figure 1). Nonetheless, this situation improved after 2013 due to trade diversion and the gradual recovery of the global economy following the economic and financial crisis. Part of these dynamics can be attributed to exchange rate dynamics in the Mercosur countries. The EU trade deficit in 2022 mostly results from an increase in commodity prices worldwide.

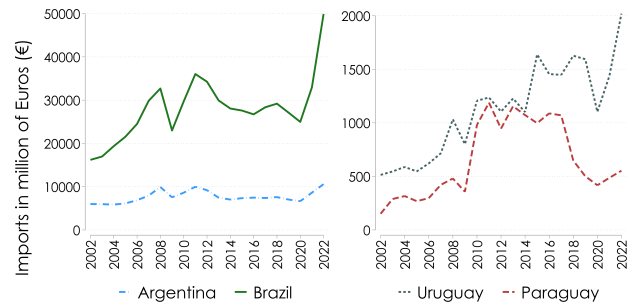
Figure 2: Total EU exports to Mercosur countries (2002-2022)



Source: Eurostat, Extra-EU trade by partner [ext_lt_maineu; last update: 15/09/2023]; own elaboration.

Exports between the European Union and the Mercosur countries have experienced fluctuations over the last few years. However, there was a small recovery after the COVID-19 pandemic with peak levels being reached in 2021 (see Figure 2). Brazil holds a dominant position in the trade bloc due to its larger and more diversified economy. Argentina also plays a significant role in Mercosur, thanks to its agricultural and industrial exports that strengthen the trade bloc's economic integration and trading capacity with the global market. Uruguay and Paraguay have unique export profiles vis-a-vis the EU, Mercosur members will likely expand their market access to the EU and may improve Mercosur's trade terms. As for EU exports to Mercosur, they consist mostly of manufactured goods (European Parliament, 2023).

Figure 3: Total EU imports from Mercosur countries (2002-2022)



Source: Eurostat, Extra-EU trade by partner [ext_lt_maineu; last update: 15/09/2023]; own elaboration.

The EU's import patterns reveal its reliance on the Mercosur bloc for primary goods. Brazil and Argentina are significant contributors due to their agricultural and energy resources. Imports from Uruguay and Paraguay show a similar pattern, but are much smaller in scope, given the size of their economies. Over the period 2002 to 2022, the underlying trade dynamics (see Figure 3) may have changed, reflecting global market

³ The international trade and production database for estimation (ITPD-E-R02) comes from USITC and is provided by Borchert et al. (2022). The data includes international and domestic trade for 170 industries.

⁴ Larch and Yotov (2023), Yotov et al. (2016), Larch et al. (2019), and Weidner and Zylkin (2021) provide recent theoretical and econometric developments on the structural gravity model.

conditions, the proliferation of new regional trade agreements, and the economic stability and export capacity of each country. In 2021 the EU imported animal feed worth EUR 6.0 billion (+22% compared to 2020), oil seeds worth EUR 4.5 billion (+35%), and crude petroleum oils worth EUR 3.7 billion (+52%). The spike in crude petroleum oils is largely attributed to the rise in energy prices (Eurostat, 2022).

2. Cornerstones of the agreement

According to the European Commission (2023), the agreement would lead to a considerable tariff reduction for 91% of product lines from Mercosur and 95% from the EU side resulting in a full liberalisation of more than 90% of all imports within ten years. From a European perspective, the agreement is expected to strengthen economic ties and expand opportunities for trade in industrial goods between the two regions, primarily in sectors such as automobiles, machinery, chemicals, and pharmaceuticals.

Table 1: List of chapters in the EU- Mercosur agreement

Chapters	Definition
Chapter 1	Trade in Goods
Chapter 2	Rules of Origin
Chapter 3	Customs and Trade Facilitation
Chapter 4	Trade Remedies
Chapter 5	Sanitary and Phytosanitary Measures (SPS)
Chapter 6	Dialogues
Chapter 7	Technical Barriers to Trade (TBT)
Chapter 8	Services and Establishment
Chapter 9	Public Procurement
Chapter 10	Competition
Chapter 11	Subsidies
Chapter 12	State-owned Enterprises
Chapter 13	Intellectual Property Rights
Chapter 14	Trade and Sustainable Development
Chapter 15	Transparency
Chapter 16	Small and Medium-sized Enterprises
Chapter 17	Dispute Settlement

Source: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/mercosur/eu-mercosur-agreement/text-agreement_en.⁵

The EU-Mercosur trade agreement covers more than just a reduction in tariffs, as can be seen in Table 1. However, it's important to note that the chapters presented are not yet part of the legal text. This policy brief will predominantly focus on Chapter 1, which entails trade in goods and will also touch upon the

⁵ The EU-Mercosur agreement chapters are for informational purposes only. They will become legally binding once each party completes its internal legal procedures necessary for the agreement's entry into force or provisional application.

implications of Chapter 14 concerning trade and sustainable development.⁶

3. Developments since 2019

The current European Commission took office shortly after the negotiations of the EU-Mercosur agreement were concluded, and it set off its tenure with the ambition to be of a geopolitical nature, a concept which initially seemed quite vague. Prior to the COVID-19 pandemic and the Russian war against Ukraine, the notion of "open strategic autonomy" involves Europe's aim to reduce dependency on external entities while remaining open to global trade. This idea aligns well with the European Green Deal (EGD), embodying the cornerstone of these ambitions.

The concept of "open strategic autonomy" was initially used in the context of defence policy in 2013, but saw its meaning widened in the following years as illustrated by the blogpost of HRVP Josep Borrell in 2020 and its mention in the 2021 Strategic Foresight Report (European Commission, 2021).

The European Green Deal, with its aim to significantly reduce CO2 emissions and consequently fossil fuel consumption, also entails a reduction in dependence on fossil energy supplies from third countries, evidently also with a geopolitical dimension. Nevertheless, this geopolitical dimension did not receive as much attention initially, also because it remained unclear to the wider audience how the European Commission's geopolitical aspirations were to be translated into action. The economic dependencies and geopolitical dimension of trade relations gained momentum in the wake of the COVID-19 pandemic. However, only Russia's full-fledged aggression against Ukraine made these dependencies and vulnerabilities evident. The initial concerns and criticism of the EU-Mercosur agreement, therefore, also have to be seen in the light of this different global environment and why the debate on its ratification has been gaining momentum in the last year.

Concerns related to the agreement, which have been discussed thus far are in the areas of agriculture and environmental protection, in particular deforestation. Member states leading the opposition against ratification are currently Austria, France, Ireland and the Netherlands, countries with a strong agricultural lobby, although the key public argument put forward against the EU-Mercosur agreement regards

⁶ While trade in services, rules of origin (RoO), and non-tariff measures (NTMs) such as SPS and TBTs, as well as other chapters, are relevant, they fall beyond the scope of this policy brief.

environmental concerns.⁷ To address these concerns, an additional legal instrument has been proposed by the European Commission and is currently being negotiated. In principle, it shall include clarifications on issues related to climate change, biodiversity, human rights protection and a roadmap for its implementation. The aim of this instrument is to avoid re-opening negotiations of the agreement itself. The European Commission has now presented its proposal to its Mercosur partners, the response of which is currently pending. France has stated it would link its ratification of the Mercosur agreement to the Mercosur partners' commitment to the Paris climate agreement, a suggestion which has met fierce resistance of some Mercosur partners.⁸

Another political option would be to split off the trade part of the agreement, the sole competence of the European Union. However, there is disagreement on the legality of such a move as it would run against 2018 Council conclusions, which explicitly called on the European Commission to present such agreements as mixed agreements. These 2018 conclusions have to be seen again in the light of a prior European Court of Justice ruling on the EU-Singapore Free Trade Agreement and Investment Protection Agreement, where it ruled that if agreements touched upon mixed competencies, national parliaments would have to approve it.⁹ At the time of writing, the European Commission has not taken any steps in this direction.

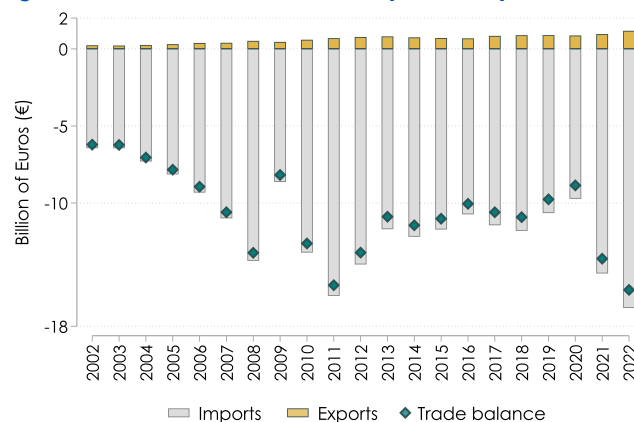
The EU Deforestation Regulation (EUDR) also touches upon concerns raised by critics of the EU-Mercosur agreement. The proposal was presented in November 2021 and adopted in May 2023, and its key pillars will enter into force in December 2024. The EUDR covers the commodities cattle, cocoa, coffee, oil palm, rubber, soya and wood, with the cut-off date for products being considered deforestation-free being December 31st 2020. Any deforestation activities after the specified cut-off date will disqualify products from deforestation-free designation. Hence, products originating from forests that were cleared up until December 31st 2020, would still be considered deforestation-free. The fines for repeated infringements may be at least 4% of the annual turnover of an operator or trader.

⁷ See Politico, von der Leyen vows to conclude EU-Mercosur deal by year-end, 12.06.2023, <https://www.politico.eu/article/von-der-leyen-vows-to-conclude-eu-mercursosur-deal-by-year-end/>.

⁸ See Financial Times, EU trade deal with South America delayed by row over environmental rules, 05.03.2023,

3.1 Persistent Trade Deficits

Figure 4: Raw materials: EU-Mercosur (2002-2022)



Source: Eurostat, Extra-EU trade by partner [ext_lt_mainrawm; last update: 15/09/2023]; own elaboration.

The EU has consistently experienced a trade deficit in raw materials with the Mercosur countries (see Figure 4), particularly with Brazil. This persistent trade deficit over the last 20 years indicates that the EU is structurally dependent on these nations for raw material supplies. In the last decade, the EU has incurred trade deficits in raw materials with all four Mercosur countries. Moreover, this pattern indicates that the EU may rely heavily on the Mercosur countries as they have abundant natural resources. Of the whole Mercosur bloc, Brazil is the most significant supplier.

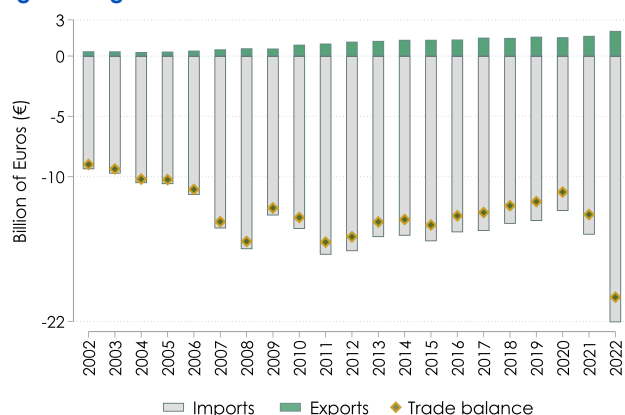
Additionally, in 2022, Brazil was the primary supplier, with the largest trade deficit with the EU amounting to -EUR 13 billion. Uruguay followed with a deficit of -EUR 1.4 billion, Argentina with a deficit of -EUR 1.1 billion, and Paraguay with a deficit of -EUR 140.6 million. These chronic trade deficits underscore the EU's dependence on Mercosur for the supply of raw materials.

In addition, the EU also has trade deficits in agricultural goods with all four Mercosur countries, as shown in Figure 5. The imbalances range from small ones with Uruguay and Paraguay to larger ones with Argentina and Brazil. Brazil has taken the lead as the biggest supplier of agricultural products, as indicated by the widening of the EU's deficit with Brazil over the past decade. Argentina's trade deficit has also grown, while Paraguay's deficit has tripled, indicating a strengthening trade relationship. This trend shows that the EU is increasingly relying on Mercosur countries for agricultural imports, in line with their export-oriented policies and agricultural strengths.

<https://www.ft.com/content/94d2410b-c3c1-4e0b-ad50-6144b310c75f>.

⁹ See Politico, Brussels launches power grab to fast-track EU trade deals, 06.10.2022, <https://www.politico.eu/article/eu-tries-to-grab-power-back-on-trade-deals/>.

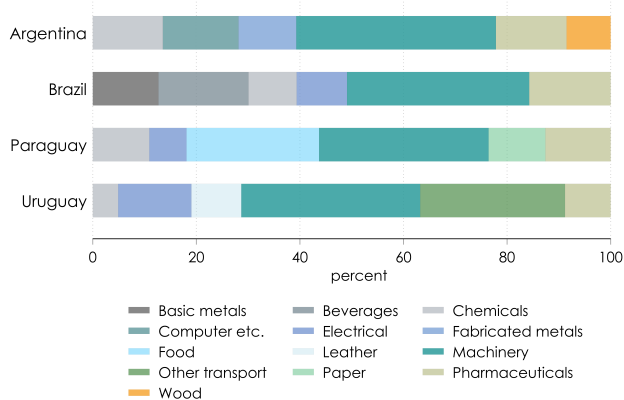
Figure 5: Agricultural trade EU-Mercosur



Source: Eurostat, Extra-EU trade by partner [ext_it_mainagri; last update: 15/09/2023]; own elaboration.

Between 2012 and 2022, the EU's trade deficits in agricultural goods with Mercosur countries have increased. The trade deficit with Argentina rose from EUR 5 billion to EUR 6 billion, indicating an increasing reliance on its agricultural exports. Likewise, Brazil's deficit expanded significantly from EUR 9.6 billion to EUR 13.4 billion, reaffirming its dominant role as a primary agricultural supplier to the EU. Paraguay's deficit, starting at EUR 70.2 million in 2012, nearly tripled to EUR 198.2 million by 2022, suggesting a growing trade relationship. Uruguay's trade deficit also increased from EUR 308.7 million to EUR 381.5 million, reflecting a stable yet gradually expanding trade partnership. These trends highlight the EU's growing dependence on Mercosur countries for agricultural products over the past two decades.

Figure 6: Manufacture exports: Austria to Mercosur (2021)



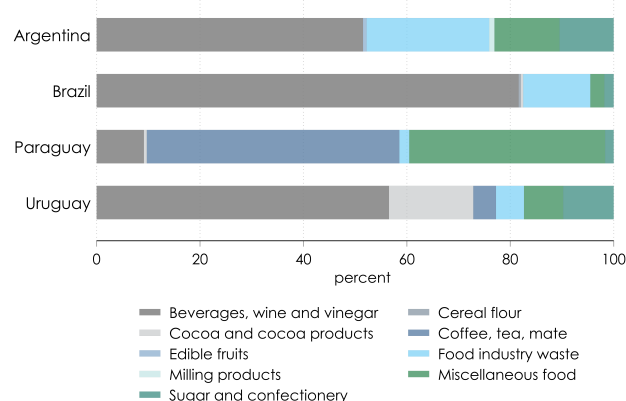
Source: UN COMTRADE, own calculations.

Trade relations between the EU and the Mercosur bloc are extremely important in terms of market access, investment, and economic cooperation. Austria plays a significant role in this partnership, particularly concerning exports of manufactured goods. Figure 6 illustrates that in 2021, Austria primarily exported

machinery to the Mercosur countries. Nevertheless, there are variations in the next most significant export categories. For instance, Argentina relies heavily on computer equipment and pharmaceuticals, while Brazil imports beverages and pharmaceuticals with larger shares. Paraguay's significant imports from Austria include food and pharmaceuticals, and Uruguay depends on other transport and electrical equipment.

These export patterns indicate Austria's strengths in specialised and high-value-added sectors, particularly machinery and pharmaceuticals. These exports not only demonstrate Austria's competitive advantage but also highlight areas for potential initiatives and bilateral engagement between the EU and Mercosur countries.

Figure 7: Agriculture exports: Austria to Mercosur (2021)



Source: UN COMTRADE, own calculations.

Austria also exported various agricultural products to Mercosur countries in 2021. According to Figure 7, the most exported category was beverages, wine and vinegar. The other major exports varied by country. For instance, food industry waste was exported to Argentina and Brazil, coffee, tea and spices to Paraguay, and cocoa products to Uruguay. However, the least traded categories were vegetables and fruits to Argentina and Uruguay, grains to Brazil, and cereal flour to Paraguay. These findings suggest that Austria has a strong position in exporting high-value agricultural products like wine. The role of policymaking in promoting trade relations with the Mercosur bloc could bring significant benefits for both regions.

3.2 The Future Unveiled?

The COVID-19 crisis drew increasing attention to geopolitical vulnerabilities, as the "2021 Strategic Foresight Report" illustrates, identifying "sustainable and resilient health and food systems" as the first priority and "securing and diversifying supply of critical raw materials" as the fourth one. The ranking of "working with global partners to promote peace, security and

prosperity for all" as the ninth priority, does illustrate the still very different assessment prior to the full-fledged Russian aggression against Ukraine, which above all lay open vulnerabilities such as the supply of energy or raw materials.

In light of Russia's war against Ukraine, the European Commission clearly stated its commitment to prioritising political relations with democratic states (von der Leyen, 2022). Latin America plays a pivotal role in these efforts with regard to trade relations and particularly in the supply of raw materials. Negotiations on the EU-Chile Advanced Framework Agreement (a priority of the 2023 Commission work programme) were finalised in December 2022, while the conclusion of the EU-Mexico and the ratification of the EU-Mercosur agreements are still pending.

High-level visits such as President of the European Commission von der Leyen's visit to Argentina and Brazil in June 2023, also reflect this prioritisation. The Commission has now made the commitment to conclude negotiations on both agreements by the end of this year, thus before the European Parliament elections to the European Parliament (von der Leyen, 2023). This is a deadline Paraguay's president agrees with, and he recently stated that until Paraguay's Mercosur presidency starting in early December no further efforts to conclude the agreement will be undertaken.¹⁰

The debate on the ratification of Mercosur picked up pace after Luiz Inácio "Lula" da Silva won the second round of the Brazilian presidential elections on 30th October 2022. In this light, the outcome of the election was of significance given the dismal track record of the Bolsonaro government, which had weakened environmental protection, causing a rapid increase in deforestation in Amazonia. Lula da Silva, on the other hand, had already called during his presidential campaign for ratification of the Mercosur agreement, and he also has a credible track record in tackling deforestation and environmental concerns, one if not the key reservation publicly put forward in Europe regarding the Mercosur agreement.

So all good? Uncertainty now has mounted over Argentina, where the presidential election will take place on October 22nd 2023. Currently, the Argentine economy is in bad shape; after a swift recovery in 2021 from the COVID-19 pandemic, growth turned negative in the last four months of 2022 and is also expected to

remain so in 2023 (-1.6%) in addition to year-on-year inflation surpassing 100% in April 2023 (OECD, 2023). After the currently looming veil of political uncertainty around the presidential election is lifted, Argentina's economy is only expected to see a slow recovery in 2024 (+1.1%).

Argentina's presidential race has received considerable attention, with incumbent Javier Milei (a staunch libertarian) having won the primaries. He has gained wider attention for his calls for a dollarisation of the Argentine economy, extensive budget cuts, massive elimination of ministries and unrestricted bilateral trade. Milei, much like Uruguayan President Luis Lacalle Pou, considers the Mercosur bloc a failure and advocates unilateral trade openness. His reservations about forming any strategic partnerships or agreements with China, Russia and even Brazil are geopolitically interesting, with the primary reason being opposing ideological differences with their representatives.

In a recent interview with *The Economist*, Javier Milei, the libertarian and the top candidate for President of Argentina, after having won Argentina's primary poll, expressed his critical view towards Mercosur.¹¹ He described it as a commercial failure that has not progressed beyond being a customs union, resulting in trade diversions and overall harm to the countries in the South Cone. Milei agreed with Uruguayan President Luis Lacalle Pou in considering Mercosur a failure that mainly benefits politicians and businessmen instead of the general populace. When asked about Argentina's potential exit from Mercosur, Milei advocated for a unilateral opening of trade as part of a broader liberal reform agenda, emphasising a reduced government role in trade management.

On the European side, Spain currently chairs the rotating EU Council Presidency and has put Latin America among the priorities on its agenda. Key political pillars of the Spanish EU Council Presidency are the EU-Community of Latin America and Caribbean states (CELAC) summit and also the clear commitment to advancing trade negotiations with Chile, Mexico and Mercosur. Spain already hosted the EU-CELAC summit on 17th and 18th July in Brussels, only the third meeting of heads of state or government in this format and the first in eight years. Reports indicate that progress has been made, with Brazil requesting more market access in exchange for accepting more environmental obligations.¹² Nevertheless, despite the general support on the Spanish political spectrum for

¹⁰ See Financial Times, South American leaders issue ultimatum on EU trade pact, 25.09.2023, <https://www.ft.com/content/26ab22e1-ecc4-43ae-9d96-7054f343e140>.

¹¹ See Economist, An interview with Javier Milei, 07.09.2023, <https://www.economist.com/news/2023/09/07/an-interview-with-javier-milei> and Financial Times, Argentina radical rightwinger shakes up presidential race with primary win, 05.03.2023,

<https://www.ft.com/content/612a09a1-af5b-4173-8897-0bd516a148e5>.

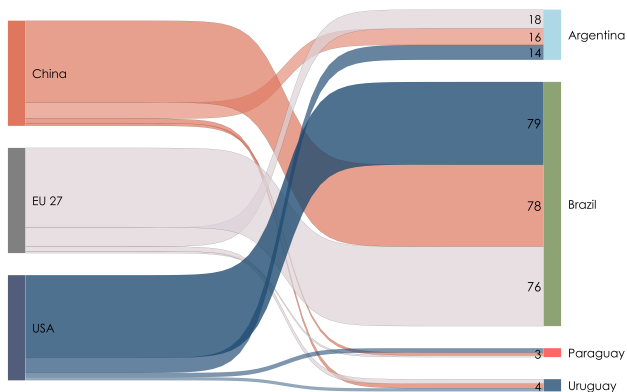
¹² See Politico, Brussels Playbook, 18.07.2023, <https://www.politico.eu/newsletter/brussels-playbook/eu-tangoes-with-latin-america/>.

close ties with Latin America, the focus of Spanish politics remains Spanish domestic politics and efforts to form a new government.

4. Geopolitical dimension of EU-Mercosur relations

Besides the EU, China and the United States are the other key geopolitical trading partners for Mercosur and competitors of the EU as depicted in Figure 8. China is a major trading partner, especially for commodities. Its investments in infrastructure and industries have accelerated growth opportunities but also carry dramatic political risks for the region regarding fiscal stability, as the experience in Europe (Montenegro) or Africa (Angola, Ethiopia or Zambia) shows.¹³ Historically, the United States has been Latin America's key trading partner, but changing US trade policies and tariff acceleration could potentially distort existing relationships worldwide.

Figure 8: Exports shares from EU, China and USA to Mercosur countries (2021)



Source: UN COMTRADE, own calculations.

Figure 8 shows the trading positions of the EU, China and the USA with the Mercosur countries. A forthcoming EU-Mercosur trade agreement could shift this balance, potentially favouring the EU via tariff reductions and better market access.

4.1 Diversifying the EU's supply with raw materials

The "Study on the Critical Raw Materials for the EU" gives a regular update on strategic dependencies in the supply of raw materials and rare earths to the EU. As part of the 2008 EU Raw Materials Initiative, the first list was presented in 2011 and since then has been updated every three years. Furthermore, the proposed

Critical Raw Materials Act would set clear benchmarks for the EU's internal and external raw materials supply chain in areas such as extraction, processing, recycling and dependency on single third countries (European Commission, 2023c). After the Council had agreed on its General Approach, the European Parliament recently adopted its position, and negotiations are expected to begin soon. The "Critical Raw Materials Club" aims to collaborate with EU allies to address raw material supply challenges and reduce dependence on China. While it was presented in this year's State of the European Union address, the scope and format have not yet been specified (von der Leyen, 2023).

The latest version of the study on critical raw materials helps contextualise the significance of Latin America or Russia in the EU's supply. The current list comprises 34 raw materials (European Commission, 2023c). China continues to play a dominant role in the supply of critical raw materials, providing over 90% of rare earths consumed by the EU. Russia has been of particular significance in the supply of nickel (29%) and phosphate rock (24%). In this light, Latin America plays a key role in diversifying the EU's sourcing of raw materials, given its predominantly democratic nature, and the need to diversify but also in light of the green transition and the expected increase in demand for raw materials. Among Latin American trade partners Chile for lithium (79%), Mexico for fluorspar (33%) and Brazil for niobium (92%) are of particular significance for the EU's sourcing. Of the Mercosur states Brazil stands out as it is also one of the main sourcing countries for other raw materials, namely aluminium (12%), manganese (8%), natural graphite (13%) and silicon metal (9%).

5. Conclusions

The current political debate on the ratification of the EU-Mercosur Association Agreement has gained considerable momentum in the last twelve months on both sides of the Atlantic. From the European side, drivers for the stepped-up ambitions to ratify it are the geopolitical disruptions of the Russian war against Ukraine, uncertainty over Chinese foreign and economic actorness and (not restricted to it) the need for more secure and diversified supply chains. On the side of the Mercosur bloc, factors include in particular the election of Lula da Silva who has been in favour of ratification of the agreement, and with regard to European concerns over environmental protection, a favourable and credible track record. Empirical evidence indicates that the implementation of the agreement would be economically beneficial for both sides, though relatively more for the Mercosur bloc than the EU. The impact of agricultural imports on

¹³ See Business Insider Africa, 10 African countries with the highest debt to China, 06.03.2023,

<https://africa.businessinsider.com/local/lifestyle/10-african-countries-with-the-highest-debt-to-china/6zkd9nf>.

EU markets in terms of their volume, seems to be minor compared to the role this issue plays in the public arena, an observation which equally holds true for Austria (see Figure A.1).

To address environmental concerns related to deforestation in vital ecosystems like the Amazon, an additional instrument is being negotiated. The EU Deforestation Regulation restricts commodities that are not considered deforestation-free.

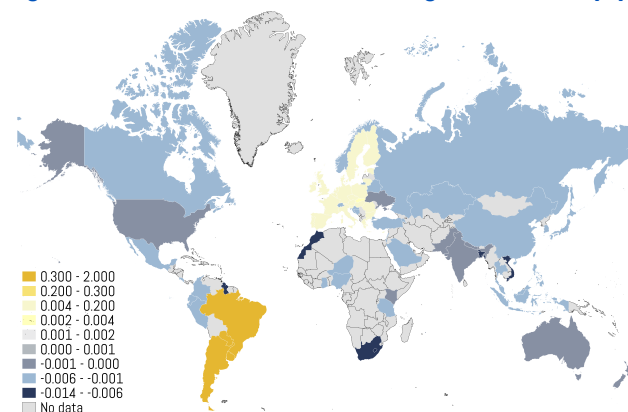
Beyond the welfare benefits of lower tariffs, the EU has a crucial interest in diversifying its sourcing of raw materials for which Brazil is of prominent relevance. The weighing of these arguments is evidently a political decision. Economic findings would favour a ratification. Considering the statements from both sides aiming for ratification by the end of the year, we should soon have a clearer sense of the future of the EU-Mercosur Association Agreement.

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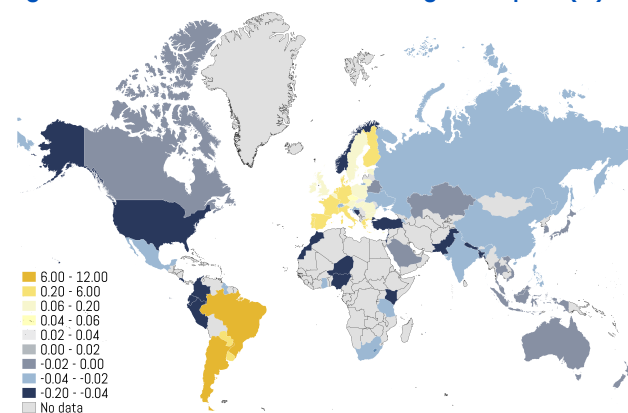
7. Appendix

Figure A1: GE effects EU-Mercosur: changes in Real GDP (%)



Source: ITPD-E-R02, own calculations.

Figure A2: GE effects EU-Mercosur: changes in Exports (%)



Source: ITPD-E-R02, own calculations.

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