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**Research Report**

## Assess\_EU-Mercosur 2.0: Assessing the final agreement text of the association agreement between the EU and Mercosur

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# Assess\_EU-Mercosur 2.0:

## Assessing the final agreement text of the Association Agreement between the EU and Mercosur

Studie im Auftrag der Kammer für Arbeiter und Angestellte für Wien (AK Wien)

Simela Papatheophilou, Bernhard Tröster, Werner Raza, Laura Coral

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**AUSTRIAN FOUNDATION FOR  
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**Assess\_EU-Mercosur 2.0:**

Assessing the final agreement text of the Association Agreement  
between the EU and Mercosur

Final Version, 18 June 2025

Simela Papatheophilou, Bernhard Tröster, Werner Raza, Laura Coral

Study commissioned by the Chamber of Labour Vienna (AK Wien)

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## EXECUTIVE SUMMARY

After some 20 years, the negotiations on the EU Mercosur Association Agreement (EUMAA) were concluded in June 2019. Due to strong opposition by EU Member States as well as from trade unions and civil society organizations, in particular with respect to the lack of enforceable environmental provisions and the potential impacts on EU agriculture as well as workers' rights, further negotiations on the agreement in principle took place in 2023 and 2024. Based on a previous ÖFSE assessment study (Tröster/Raza 2021), this report presents an updated assessment of the potential effects of the EUMAA in its final version, thereby paying particular attention to the new elements included in the agreement. Against the background of recent geopolitical changes, the report also discusses the agreement's potential to promote economic security in the EU as well as to enhance inter-regional cooperation.

Notable **new provisions in the final agreement** include, amongst others, (i) a commitment to the Paris Climate Agreement as an 'essential element'; (ii) a new Annex to the Trade and Sustainable Development Chapter, with a focus on the creation of local raw material value chains and on provisions facilitating compliance for Mercosur producers with the EU Deforestation Regulation; (iii) exceptions, in particular for Brazil, with respect to the prohibition of export taxes; (iv) a rebalancing mechanism, that allows for non-violation complaints by partners with respect to new regulations; (v) changes to public procurement, essentially granting preferential conditions and exceptions to individual Mercosur countries, (vi) longer phase-out periods for tariffs on automobiles for Mercosur countries, as well as an automotive investment safeguard against import-related market supply shocks; (vii) an expanded list of geographic indications for EU products; and (viii) a new Cooperation Protocol, including an enhanced cooperation fund of 1.8 billion EUR as part of the EU-LAC Global Gateway Investment Agenda.

Our **overall assessment** is that the **new elements will not significantly change the economic and political impacts of the agreement**. If anything, the new elements entail net benefits for Mercosur countries in economic terms, while the new environmental provisions demanded by the EU are essentially either of symbolic value, or even bear a risk of weakening recent EU regulatory initiatives, in particular the EU Deforestation Regulation. More specifically, our in-depth analysis of the elements can be summarized in the following eight conclusions:

- 1) As in previous assessments (e.g. by LSE (2020)), with some 0.1 % of EU GDP, we expect the **overall impact of the EUMAA on EU aggregate income to be very small**. Based on the LSE (2020) study, **employment effects for the EU** might well be **slightly negative in aggregate**. Gains in export-oriented manufacturing sectors might be more than offset by employment losses in agriculture/food and services. In total, employment in the EU could be reduced by up to -0.06 % or 120,000 jobs. For Austria, based on the 2020 LSE study, up to 1,200 jobs might be lost.
- 2) **During the early implementation** phase of the EUMAA (years 1 – 10 after entry into force), the **EU might overall face negative GDP and employment effects**. **Positive economic effects** due to increased manufacturing exports **might only materialize in the medium to long term**. This is due to the fact that while EU liberalization commitments start to kick-in after the entry into force of EUMAA, the long transition periods for tariff liberalization on vehicles (both conventional and hybrid/electric) in combination with the automotive investment safeguard, as well as limited access to public procurement in Mercosur markets will likely impede strong export growth from the EU in the short to medium-term. Also, given Mercosur countries', and in particular Brazil's efforts to establish domestic production of electric vehicles, the economic benefit of enhanced

medium to long-term market access might be superseded by the ongoing transition to electric mobility.

- 3) Though welcome in principle, the new **commitment to remaining a party in good faith to the Paris Climate Agreement is largely symbolic** in nature, as **enforcement** of this provision **remains vague**. While leaving the Paris Agreement by a member state, such as Argentina, might ultimately lead to the suspension of the agreement, slow implementation of decarbonization commitments by a member might not qualify for any retaliatory action.
- 4) The introduction of a **rebalancing mechanism** in the EUMAA **may weaken the EU's domestic policy space** for the introduction of new environmental and social regulations. What is more, given the vagueness of the respective terminology, it cannot be ruled out that the rebalancing mechanism **may be used to challenge EU regulation currently under implementation**, in particular the EU Deforestation Regulation.
- 5) While supporting Mercosur countries in their compliance efforts with respect to EU regulations, such as e.g. the EU Deforestation Regulation, should be welcomed in principle, the **Annex to the Trade and Sustainable Development Chapter bears the risk of weakening standards for proper implementation**, e.g. by effectively outsourcing certification and documentation requirements to Mercosur countries. Neither the new Annex nor the Trade and Sustainable Development Chapter itself introduces binding sustainability measures, as they are not enforceable by sanctions.
- 6) **EUMAA will contribute to increasing GHG emissions overall**, and in particular in Mercosur countries, due to increased transport emissions as well as increased deforestation for the production of agricultural products such as beef or soy. If the latter is taken into account, GHG emissions increase drastically. Given recent ECHR jurisdiction in the high-profile case *KlimaSeniorinnen Schweiz and Other v Switzerland*, GHG emissions resulting from the import of products must be considered to fall under the responsibility of the country where such products are consumed. Thus, given its decarbonization commitments under the Paris Agreement and its duty to comply with the European Convention on Human Rights (Art. 6 TEU), the EU would be obliged to compensate increased emissions from trade with additional GHG emission reductions elsewhere. No such measures have been proposed by the EU so far, neither for the EUMAA nor for other trade agreements.
- 7) The **EUMAA's contribution to promoting economic security in the EU will thus remain highly limited**. While partially constraining Mercosur countries' policy space with respect to export restrictions on raw materials, the agreement does not include specific support measures to promote the build-up of domestic raw materials value chains in Mercosur countries, with subsequent export of critical raw materials to the EU. Also, the EUMAA does not include an investment chapter that would support EU foreign direct investment. No specific information is provided on the announced Enhanced Cooperation Fund. If the Enhanced Cooperation Fund were to be included in the political cooperation part of EUMAA (and not in the trade part), there is also the risk of a large delay of the Fund becoming operational, as ratification by all EU Member States would take years. Finally, largely absent are also specific support measures to ensure the social and environmental sustainability of raw materials extraction or the improvement of working conditions in this sector.
- 8) Given recent geopolitical changes and the fragmentation of the rules-based international order, **EU policy makers place high hopes into establishing a strategic partnership with Mercosur countries thanks to the EUMAA**. While, in and of itself, this is highly desirable, these **hopes may well be overblown**. With a far-right government in office in

Argentina, its political priorities are closely aligned with the Trump administration and other far-right governments also in the EU. The minority government led by the Workers' Party (PT) in office in Brazil is under strong internal pressure by right-wing economic and political forces, and its victory in the upcoming presidential elections in 2026 is far from certain. Political stability in the two core Mercosur countries thus must be assumed to remain highly precarious. Besides, the overall foreign policy approach of the Lula government is based on a strategy of non-alignment, aiming to exploit cooperation potential with China, the US and the EU alike. While all of this does not preclude enhanced cooperation per se, the stability of such cooperation as well as its strategic trajectory remain questionable.

By way of summary, it must be emphasized that given the multi-faceted nature of the EUMAA, any final assessment necessarily involves multiple trade-offs between economic, political, social, and environmental aspects. Such an assessment is not a technical exercise, but necessarily political and normative in nature. Importantly, such a political assessment should be based on quality information. To this undertaking, the study wants to contribute.

## ZUSAMMENFASSUNG

Nach rund 20 Jahren wurden die Verhandlungen über das Assoziierungsabkommen zwischen der EU und dem Mercosur (EUMAA) im Juni 2019 abgeschlossen. Aufgrund des starken Widerstands von EU-Mitgliedstaaten sowie von Gewerkschaften und Organisationen der Zivilgesellschaft, insbesondere hinsichtlich fehlender durchsetzbarer Umweltbestimmungen und der potenziellen Auswirkungen auf die EU-Landwirtschaft sowie die Arbeitnehmerrechte, fanden 2023 und 2024 jedoch weitere Verhandlungen über das Abkommen statt, die im Dezember 2024 abgeschlossen wurden. Auf der Grundlage einer früheren ÖFSE Studie (Tröster/Raza 2021) enthält dieser Bericht eine aktualisierte Bewertung der potenziellen Auswirkungen des EUMAA in seiner endgültigen Fassung, wobei der Schwerpunkt auf den neuen Elementen des Abkommens liegt. Vor dem Hintergrund der jüngsten geopolitischen Veränderungen wird in dem Bericht auch das Potenzial des Abkommens zur Förderung der wirtschaftlichen Sicherheit in der EU sowie zur Verbesserung der inter-regionalen Zusammenarbeit erörtert.

Zu den **neuen Bestimmungen im finalen Abkommen** zählen unter anderem (i) eine Verpflichtung zur Umsetzung des Pariser Klimaabkommen als „wesentliches Element“ des Abkommens; (ii) ein neuer Anhang zum Kapitel „Handel und nachhaltige Entwicklung“ mit Schwerpunkt auf der Schaffung lokaler Rohstoffwertschöpfungsketten und Bestimmungen, die den Mercosur-Produzenten die Einhaltung der EU-Entwaldungsverordnung erleichtern; (iii) Ausnahmen, insbesondere für Brasilien, vom Verbot von Ausfuhrsteuern; (iv) ein „Ausgleichsmechanismus“, der Beschwerden von Partnern wegen Verstößen gegen neue Vorschriften ermöglicht; (v) Änderungen im Bereich des öffentlichen Beschaffungswesens, die im Wesentlichen einzelnen Mercosur-Ländern Präferenzbedingungen und Ausnahmen gewähren; (vi) längere Auslaufzeiten für Zölle auf Kraftfahrzeuge für Mercosur-Länder sowie eine Investitionsschutzmaßnahme für die Automobilindustrie gegen importbedingte Schocks; (vii) eine erweiterte Liste geografischer Herkunftsbezeichnungen für EU- und Mercosur-Erzeugnisse; und (viii) ein neues Kooperationsprotokoll, einschließlich eines aufgestockten Kooperationsfonds in Höhe von 1,8 Mrd. EUR als Teil der Global Gateway-Investitionsagenda der EU für Lateinamerika und die Karibik.

Unsere **Gesamtbewertung** lautet, dass die **neuen Elemente die wirtschaftlichen und politischen Auswirkungen des Abkommens** nicht wesentlich verändern werden. Wenn überhaupt, bringen die neuen Elemente für die Mercosur-Länder wirtschaftliche Nettovorteile mit sich, während die von der EU geforderten neuen Umweltbestimmungen im Wesentlichen entweder symbolischen Charakter haben oder sogar die Gefahr bergen, die jüngsten Regulierungsinitiativen der EU, insbesondere die EU-Entwaldungsverordnung, zu schwächen. Unsere eingehende Analyse der einzelnen Elemente lässt sich in den folgenden acht Schlussfolgerungen zusammenfassen:

- 1) Wie in früheren Bewertungen (insb. von der LSE (2020)) gehen wir davon aus, dass die **Gesamtauswirkungen des EUMAA auf das Gesamteinkommen der EU mit etwa 0,1 % des BIP der EU sehr gering** sein werden. Basierend auf der Studie der LSE (2020) könnten die **Beschäftigungseffekte für die EU insgesamt leicht negativ** ausfallen. Zuwächse in exportorientierten Industriebranchen könnten durch Beschäftigungsverluste in der Landwirtschaft/Lebensmittelindustrie und im Dienstleistungssektor mehr als ausgeglichen werden. Insgesamt könnte die Beschäftigung in der EU um bis zu -0,06 % oder 120.000 Arbeitsplätze zurückgehen. Für Österreich könnten bis zu 1.200 Arbeitsplätze verloren gehen.
- 2) **Während der frühen Umsetzungsphase** des EUMAA (Jahre 1 bis 10 nach Inkrafttreten) könnte die **EU insgesamt mit negativen Auswirkungen auf das BIP und die Beschäftigung konfrontiert sein. Positive wirtschaftliche Auswirkungen** aufgrund



gestiegener Exporte der verarbeitenden Industrie **könnten sich nur mittel- bis langfristig** bemerkbar machen. Dies ist darauf zurückzuführen, dass zwar die Liberalisierungsverpflichtungen der EU nach Inkrafttreten des EUMAA relativ rasch greifen werden, aber die langen Übergangsfristen für die Liberalisierung der Zölle auf Fahrzeuge (sowohl konventionelle als auch Hybrid-/Elektrofahrzeuge) in Verbindung mit den Investitionsschutzmaßnahmen im Automobilbereich sowie der begrenzte Zugang zu öffentlichen Aufträgen in den Mercosur-Märkten ein starkes Exportwachstum der EU kurz- bis mittelfristig wahrscheinlich behindern werden. Angesichts der Bemühungen der Mercosur-Länder, insbesondere Brasiliens, eine heimische Produktion von Elektrofahrzeugen aufzubauen, könnten die wirtschaftlichen Vorteile eines verbesserten mittel- bis langfristigen Marktzugangs durch den laufenden Übergang zur Elektromobilität überlagert werden.

- 3) Die neue Verpflichtung, **das Pariser Klimaabkommen in gutem Glauben umzusetzen, ist zwar grundsätzlich zu begrüßen, hat jedoch weitgehend symbolischen Charakter**, da die **Durchsetzung** dieser Bestimmung **nach wie vor vage** ist. Der Austritt eines Mitgliedstaats wie Argentinien aus dem Pariser Abkommen könnte zwar letztendlich zur Aussetzung der Vorteile des Assoziierungsabkommen gegenüber diesem Staat führen, doch würde die langsame Umsetzung der Dekarbonisierungsverpflichtungen durch ein Mitglied möglicherweise keine Vergeltungsmaßnahmen rechtfertigen.
- 4) Die Einführung eines „**Ausgleichsmechanismus**“ (**rebalancing mechanism**) im EUMAA **könnte den Handlungsspielraum der EU** für die Einführung neuer Umwelt- und Sozialvorschriften schwächen. Angesichts der Unbestimmtheit der entsprechenden Terminologie kann zudem nicht ausgeschlossen werden, dass der Ausgleichsmechanismus **genutzt werden könnte, um derzeit umgesetzte EU-Vorschriften**, insbesondere die EU-Entwaldungsverordnung, in Frage zu stellen.
- 5) Die Unterstützung der Mercosur-Länder bei ihren Bemühungen zur Einhaltung von EU-Vorschriften, wie z.B. der EU-Entwaldungsverordnung, ist zwar grundsätzlich zu begrüßen, doch birgt der **Anhang zum Kapitel „Handel und nachhaltige Entwicklung“ die Gefahr einer Schwächung der Standards** für eine ordnungsgemäße Umsetzung, indem beispielsweise die Zertifizierungs- und Dokumentationsanforderungen effektiv an die Mercosur-Länder ausgelagert werden. Weder der neue Anhang noch das Kapitel über Handel und nachhaltige Entwicklung selbst führen verbindliche Nachhaltigkeitsmaßnahmen ein, da diese nicht dem Sanktionsmechanismus des Abkommens unterliegen.
- 6) **Das EUMAA wird zu einem Anstieg der Treibhausgasemissionen insgesamt** und insbesondere in den Mercosur-Ländern beitragen, da die Transportemissionen steigen und die Entwaldung für die Produktion von Agrarprodukten wie Rindfleisch oder Soja zunimmt. Berücksichtigt man vor allem letzteres, steigen die Treibhausgasemissionen durch EUMAA drastisch an. Angesichts der jüngsten Rechtsprechung des EGMR in der viel beachteten Rechtssache *„KlimaSeniorinnen Schweiz und andere gegen die Schweiz“* sind Treibhausgasemissionen, die durch die Einfuhr von Produkten entstehen, als in die Verantwortung des Landes zu fallend anzusehen, in dem diese Produkte verbraucht werden. Angesichts ihrer Verpflichtungen zur Dekarbonisierung im Rahmen des Pariser Übereinkommens und ihrer Verpflichtung zur Einhaltung der Europäischen Menschenrechtskonvention (Art. 6 EUV) wäre die EU daher verpflichtet, die durch den Handel verursachten zusätzlichen Emissionen durch zusätzliche Treibhausgasemissionsreduktionen an anderer Stelle auszugleichen. Bislang hat die EU weder für das EUMAA noch für andere Handelsabkommen entsprechende Maßnahmen vorgeschlagen.

- 7) Der Beitrag des **EUMAA zur Förderung der wirtschaftlichen Sicherheit in der EU wird sehr begrenzt** bleiben. Das Abkommen schränkt zwar den politischen Spielraum der Mercosur-Länder in Bezug auf die Einführung von Ausfuhrbeschränkungen für Rohstoffe ein, enthält jedoch keine spezifischen Unterstützungsmaßnahmen zur Förderung des Aufbaus inländischer Wertschöpfungsketten für Rohstoffe in den Mercosur-Ländern mit anschließender Ausfuhr kritischer Rohstoffe in die EU. Die Probleme der europäischen Rohstoffwirtschaft sind struktureller Natur, und nur im Rahmen zielgerichteter industriepolitischer Maßnahmen zu lösen. Zu dem angekündigten Fonds für verstärkte Zusammenarbeit werden keine konkreten Angaben gemacht. Sollte der Fonds für verstärkte Zusammenarbeit in den Teil des EUMAA aufgenommen werden, der die politische Zusammenarbeit betrifft (und nicht in den Teil, der den Handel betrifft), besteht zudem die Gefahr einer erheblichen Verzögerung bei der Inbetriebnahme des Fonds, da die Ratifizierung durch alle EU-Mitgliedstaaten Jahre dauern würde. Schließlich fehlen auch konkrete Unterstützungsmaßnahmen zur Gewährleistung der sozialen und ökologischen Nachhaltigkeit der Rohstoffgewinnung, oder zur Verbesserung der Arbeitsbedingungen in diesem Sektor weitgehend.
- 8) Angesichts der jüngsten geopolitischen Veränderungen und der Fragmentierung der regelbasierten internationalen Ordnung setzen **die politischen Entscheidungsträger der EU große Hoffnungen in den Aufbau einer strategischen Partnerschaft mit den Mercosur-Ländern** dank des EUMAA. Dies ist zwar an sich sehr wünschenswert, doch **könnten diese Hoffnungen überzogen** sein. Mit einer weit rechtsstehenden Milei-Regierung in Argentinien sind die politischen Prioritäten des Landes eng an die Trump-Administration und andere rechtsnationale Kräfte auch in der EU angelehnt. Die Minderheitsregierung unter Führung der Arbeiterpartei (PT) in Brasilien steht unter starkem internem Druck von rechten wirtschaftlichen und politischen Kräften, und ihr Sieg bei den bevorstehenden Präsidentschaftswahlen im Jahr 2026 ist alles andere als sicher. Die politische Stabilität in den beiden Kernländern des Mercosur muss daher weiterhin als äußerst prekär angesehen werden. Darüber hinaus basiert die allgemeine außenpolitische Strategie der Regierung Lula auf einer Strategie des Non-Alignment, die darauf abzielt, das Kooperationspotenzial mit China, den USA und der EU gleichermaßen zu nutzen. All dies schließt eine verstärkte Zusammenarbeit zu einzelnen Themen an sich nicht aus, doch bleiben die Stabilität einer solchen Zusammenarbeit sowie ihre strategische Ausrichtung fraglich.

Zusammenfassend ist zu betonen, dass angesichts der Vielschichtigkeit der EUMAA jede Bewertung zwangsläufig Güterabwägungen zwischen wirtschaftlichen, politischen, sozialen und ökologischen Aspekten erfordert. Eine solche Bewertung ist keine technische Übung, sondern notwendig politischer und normativer Natur. Wichtig ist jedoch, dass die Bewertung auf informierter Grundlage passiert. Dazu möchte diese Studie einen Beitrag leisten.

# 1. INTRODUCTION

On 28 June 2019, the European Union (EU) and the four original Mercosur member countries (Argentina, Brazil, Paraguay and Uruguay) concluded talks on an association agreement between the two blocs, after 20 years of negotiations. Strong opposition from a number of EU member states (particularly France, Austria, and Poland) and from civil society and trade unions emerged however on various aspects of the agreement, including on the lack of enforceable environmental provisions with respect to deforestation, as well as concerns about imports of sensitive agricultural products to the EU and the lacking enforceability of labor rights in the EUMAA.

In consequence, additional negotiations took place in 2023 and 2024 regarding an additional instrument on environmental provisions, complemented by various other issues requested from Mercosur countries. To address internal opposition, the EU demanded additional commitments concerning adherence to the Paris Climate Agreement and on combating deforestation. Meanwhile, Brazil requested various amendments with the aim to protect its domestic industry. Besides, Mercosur countries voiced their concerns with respect to implementation of the new EU Deforestation Regulation (EUDR), requiring importers of forest-related products (e.g. soya, meat, palm oil) to certify their production as deforestation-free. Ultimately, the parties agreed to changes on a number of issues. The conclusion of these negotiations was announced in December 2024.

In contrast to the situation in 2019, major geopolitical shifts have taken place during recent years. Most notably, economic stagnation in the EU as well as the increasingly hostile trade policies of the Trump administration vis-à-vis the EU, have propelled a shift in EU trade policy-making. EU trade policy is now to be used to increase the EU's economic security. Given the Mercosur's abundance in mineral resources (e.g. lithium), agricultural commodities and energy (e.g. hydrogen, biofuels, gas and oil), the EU-Mercosur Association Agreement (EUMAA) is now portrayed as an instrument in the EU's quest to promote economic security and build political alliances with like-minded democratic countries, in particular Brazil.

The text now goes through legal review and translation into all official EU languages before the ratification process can start. The agreement contains both a political cooperation pillar and a trade pillar. As such, the EUMAA is a so-called "mixed agreement", requiring ratification from both EU institutions (Council, European Parliament) as well as from member states. It is however quite likely that the European Commission (EC) will propose to split the EUMAA into a "trade" and a "political" component, as it has done with other recent mixed agreements (e.g. EU-Chile FTA). The "trade" component would be presented as an interim trade agreement, falling under EU-exclusive competence, requiring only approval by qualified majority in the Council and the European Parliament. If ratification of the political component fails in one or more Member States, the interim trade agreement would nevertheless remain in effect. Thus, ratification could be accelerated and a likely veto in member states would not jeopardize the application of the trade component. The ratification process is expected to start in the second half of 2025.

Based on the 2021 ÖFSE report on the EU-Mercosur Agreement (Tröster/Raza 2021), which provided a systematic assessment of the economic, social and ecological impacts of the EUMAA, this report focuses on a concise assessment of the final text of the AA. The objective is to assess whether the final revisions introduced until December 2024 have led to substantial qualitative changes, which would lead to an overall change with respect to our 2021 assessment. Also, new arguments to the debate, concerning the role of the EU Deforestation Regulation (EUDR) and of the EU's economic security will be discussed.

Chapter 2 scrutinizes the changes made to the text of the EUMAA, assesses the changes relating to environmental matters, changes relating to economic and trade matters, as well as

changes introduced regarding economic and political cooperation. Chapter 2 thus presents a comprehensive overview of the changes in the agreement, serving as a basis for Chapter 3, which takes an in-depth look to the economic impacts of the EUMAA, in particular with respect to employment effects and the Mercosur as a market for EU automobiles. Chapter 3 will assess whether the changes in the final text of the EUMAA will affect the economic impacts to be expected. Correspondingly, Chapter 4 assesses whether the changes in the final EUMAA warrant any change in the expected climate impacts of the EUMAA, as well as whether other pieces of EU legislation that have been adopted since the adoption of the EU-Mercosur agreement in principle in 2019, in particular the EU Deforestation Regulation, will be affected by the EUMAA. Last but not least, Chapter 5 assesses the validity of recent arguments made on the potential of the EUMAA to increase economic security in the EU, especially by improving access to strategic raw materials and by promoting political cooperation between the EU and the Mercosur countries.

## **2. CHANGES MADE TO THE FINAL TEXT OF THE AGREEMENT**

### **2.1. Changes relating to environmental matters**

#### **Changes relating to environmental and climate provisions in the agreement**

Remaining a party in good faith to the **Paris Agreement** has been added as an ‘essential element’ of the EUMAA. So-called ‘essential elements’-clauses are typically found in international agreements that the EU enters into and allow either party to take appropriate measures, including the suspension of the agreement, if the other party violated the human rights, freedoms or democratic principles that were declared ‘essential elements’ of the agreement. The reference to specific international conventions that specify the principles included as ‘essential elements’ is not uncommon.

The Paris Agreement is also referred to in the essential elements clauses of the EU-New Zealand FTA (OJEU L 2024/866) as well as the EU-UK Trade and Cooperation Agreement (2021, OJEU L 149/10). However, the practical implications are extremely limited: In practice, the EU has very seldom suspended treaties with reference to essential elements clauses (Eckes/Krajewski 2025). If countries seriously breach their (human rights) treaty obligations, the EU mostly employs CFSP (Common Foreign and Security Policy) sanctions against them (Bartels 2023). An example of this is the case of Nicaragua: The European Parliament called seven times for the suspension of the applicable Cooperation Agreement due to human rights concerns – especially arbitrary arrests of opposition members, persecution of human rights defenders and journalists, and torture of detainees. While no suspension has taken place, CFSP sanctions were adopted.

#### **Changes made to the Trade and Sustainable Development (TSD) Chapter**

The TSD Chapter itself was not amended in the course of the 2023-24 discussions between the EU and Mercosur representatives. This is particularly notable because since the conclusion of the agreement in principle in 2019, the EC has made a turn towards more effective TSD chapters and has opted to include them in the state-to-state dispute settlement that governs FTAs (Jütten 2023). Yet, the TSD Chapter in the EUMAA remains outside the state-to-state dispute settlement (Art. 15 (5) TSD Chapter), thus weakening its potential to enforce sustainability-related commitments of the parties (Eckes/Verheyen 2023; Paulini 2023).

However, an **Annex to the TSD Chapter** was added. Just as the TSD Chapter itself, the Annex is outside the scope of dispute settlement. No trade sanctions can be used by either

party to enforce the Annex. Lacking therefore enforcement, the Annex is comparatively weaker than other parts of the Trade Agreement.

The Annex provides that the parties will put together “a series of actions and cooperation activities” to put the TSD Chapter into action (A.1.7. of the TSD Annex). Those should include, amongst others, measures to support producers of sustainable goods in achieving better market access and in participating more in the trade between the parties (A.3.29. of the TSD Annex). Within a year, a list of products from Mercosur countries that contribute to the conservation or sustainable use of forest and vulnerable ecosystems, should be established. The products on this list, which are to be reviewed every three years, must be granted preferential/additional market access “or other incentives by the EU to promote their trade, such as technical assistance, capacity building”, amongst others (Art. 3.40 of the TSD Annex). Supposedly, such products might include products from small-scale agroforestry, e.g. fruits, nuts, medicinal plants or honey, but no further details are provided as of yet.

The parties commit to take measures to support investment and industrial development in raw material-producing countries to add local value and promote jobs especially in the fields of metals and minerals mining, energy production (with a focus on renewables and liquified natural gas, ‘sustainable mobility’ (incl. lithium-ion batteries), biofuels, such as biodiesel or ethanol and hydrogen (A.3.32. of the TSD Annex). In those sectors, the parties agree to facilitate and promote “investments that foster local addition of value in production chains in raw material-producing countries” and provide “technical and other support for projects” to enable “the building of capacities in Mercosur countries” (Art.3.34. of the TSD Annex).

Concerning raw materials, the TSD Annex thus shares striking resemblance with the Strategic Raw Materials Partnerships that the EU has conducted with various raw-material exporting countries since 2021 (see in detail Tröster et al. 2025). Furthermore, the parties commit to fostering “interregional value chains in areas that offer indirect contribution to the energy transition” (Art.3.35. of the TSD Annex). Healthcare, the digital economy and sustainable food production are mentioned as sectors that indirectly contribute to the energy transition. The Annex also provides for the parties promoting foreign direct investment to create more jobs for women especially in male-dominated fields, e.g. through exchanging information and data collection methods for devising gender-appropriate trade policies (A.5.46). Important are the additions of Part B.3 of the Annex: Where a party’s law requires verification of compliance of an imported product with the relevant laws of another party, the information provided by the latter party’s authorities shall be used. Thus, wherever EU Law requires operators to prove that no laws were breached during production in a Mercosur member state, the relevant country’s authority should be used to provide the respective documentation. Examples of EU legislation where this is relevant are the Timber Regulation and the EU Deforestation Regulation (EUDR): The EU does not allow illegally harvested timber to be sold on the EU market, defining ‘illegally harvested’ as “harvested in contravention of the applicable legislation in the country of harvest” (Art. 2 (g) Timber Regulation, Regulation 995/2010/EU, OJEU L 295/23). The Timber Regulation will be repealed by the EUDR. In the EUDR, one of the conditions for placing the covered products (cattle, wood, soy, palm oil, rubber, coffee, cocoa) on the market, is that “they have been produced in accordance with the relevant legislation of the country of production” (Art. 3 b, EUDR). In practice, this means that, especially for the EUDR, EU enforcement authorities are told to accept information by the authorities of Mercosur countries on the compliance of products with the relevant national laws (see in detail Chapter 4).

Where products placed on the EU market must fulfill traceability requirements, documentation, licenses, information, and data from certification schemes or traceability systems officially recognized, registered or identified by Mercosur countries shall be used as a source for verifying compliance by authorities in the EU. If those sources provide contradicting



information, authorities in the EU shall request information and clarifications provided by Mercosur countries.

Art. 56 (a) of Part B.3 of the Annex provides that regarding “sustainability measures affecting trade and the placement on the market related to the protection of wooded ecosystems and where EU law so allows [...] this Agreement [...] shall be favorably considered, among other criteria, in the risk classification of countries”. Without explicit mention of the EUDR, it is apparent that this provision aims at Art. 29 (4) b EUDR, which provides that agreements addressing deforestation are one of the factors taken into consideration in classifying countries in one of the three risk categories the EUDR includes. The classification has consequences for the stringency of due diligence requirements.

### **Changes made concerning the exports of mineral resources and other commodities**

As in 2019, there is no dedicated Energy & Raw Materials Chapter in the EUMAA. However, the general prohibitions of import and export price requirements or of the creation of new import or export monopolies applies also to raw materials (Grieger/Gyorgyi 2025).

Whereas the 2019 agreement in principle envisioned the abolishment of all export taxes, the final version of the EUMAA includes exceptions, the following of which are particularly relevant:

- Argentina can maintain an export tax on certain commodities, including agricultural commodities (esp. animal feed), but also mineral fuels/oils, cork (and derivate products), paper/cardboard for recycling, iron and steel waste and scrap respectively, as well as works of art or antiquities. Export duties for those products cannot exceed the rates stated in the list of exceptions in the Export Duties Annex.
- Brazil can introduce export taxes on raw materials except for nickel, copper, aluminum, steel raw materials,<sup>1</sup> steel, and titanium. Brazil can therefore apply export taxes on materials such as niobium, vanadium, or lithium. If Brazil introduces export taxes on raw materials, the EU benefits from a reduction of the duty of at least 50 % and is exempt from facing duties above 25 %. In practice, this means that if Brazil e.g. introduces an export tax on lithium of 20 %, products destined for the European market could not be taxed above 10 %. If Brazil raised the export tax to 60 %, products for the EU could only be taxed at 25 %.

### **Creation of a “rebalancing mechanism”**

As a new element, the EUMAA now includes a ‘rebalancing mechanism’ as part of the dispute settlement mechanism, modelled after the WTO non-violation complaint mechanism (Art. XXIII GATT 1947). This instrument has never before been included in a bilateral treaty of the EU. It allows parties to take the question whether measures taken by the other party nullify or substantially impair the complainant’s benefits under the EUMAA to the arbitration panel that serves as the dispute settlement body of the EUMAA. If this is the case, the impaired party can take rebalancing measures (EC 2024b).

The nature of the rebalancing mechanism remains obscure: The text of the EUMAA establishes that the arbitral panel tasked with resolving such conflicts can only make “recommendations” for adjustments to the defending party, but cannot oblige the party to withdraw the measure (Art.XX.13 para. 9bis (c) of the Dispute Settlement Chapter). It can “suggest ways and means” of adjustment, including compensation, but the suggestions are

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<sup>1</sup> Making steel requires materials such as iron ore, coal and limestone. There are many other materials that can be used, depending on the type of steel produced, such as chromium, molybdenum, nickel, aluminum, cobalt, tungsten, vanadium, and titanium (EUROFER 2020). As the materials for which export taxes can be introduced are only those listed under the Harmonized System (2022) in Chapters 25 to 28 and Headings 71.10, 72.02, 81.09 and 81.12, materials not included there, but used for steel production cannot be covered by export taxes. This e.g. applies to cobalt.

not binding (Art. XX.13 para. 9bis (d)). Complainant and defendant should “engage in consultations with the purpose of agreeing [on] a mutually agreed solution.” (Art.XX.17 para. 2). However, while this is worded in a way that suggests a merely consultative nature of this process, if the defendant does not comply with the measures of the arbitral award, the complainant can demand that the defendant provides an offer of temporary compensation. If the complainant does not request temporary compensation, or cannot agree with the defendant on measures to take as temporary compensation, the complainant can suspend concessions or other obligations (Art. XX.20). This de-facto renders arbitral awards binding, despite the wording of Art.XX.13 para. 9bis.

Compared to the temporary measures a party can take if the defendant does not comply with arbitral awards concerning breaches of the treaty, when it comes to the rebalancing mechanism, there are more restrictions: If the complainant decides to suspend tariff concessions, goods that are subject to full tariff liberalization must be prioritized. If the good is subject to tariff rate quotas, at least 50 % of the quota volume that should have been available to the defendant must remain available. For goods with liberalization schedules longer than 11 years, the suspension of tariff concessions shall not be more than half the difference between the tariff rate that would be applicable according to the EUMAA at the relevant time and the non-preferential tariff rate. In short: “[T]he complaining party shall accord to the defending party [...] treatment that is meaningfully more favorable than the treatment it accorded prior to the entry into force of this Agreement.” (Art. XX.20.3quarter).

According to Art.XX.20 para. 5 (b), concessions or other obligations shall only be suspended until the measures that were found by the arbitration panel to nullify or substantially impair a benefit of the complainant, has been “withdrawn or amended so as to eliminate that nullification or substantial impairment”. The rebalancing mechanism is therefore not to be mistaken as a mere tool for dialogue, but entails a legal enforcement mechanism.

The EC argues that such disputes can only cover measures that the complainant could not foresee at the time of the agreement (EC 2024b), based on the WTO panels’ jurisprudence (WTO Panel, Japan – Measures affecting Consumer Photographic Film and Paper Report 1998, WT/DS44/R, para. 10.61). However, *verbatim* in the General Definitions section of the EUMAA, ‘measures’ also encompass legislative measures that have been adopted, but not implemented (Dupré/Kpenou 2025). This could therefore include the EU Deforestation Regulation (EUDR; Regulation 2023/1115, OJEU L 150/206), the Corporate Sustainability Due Diligence Directive (CSDDD; OJEU L 2024/1760), and the EU Regulation prohibiting products made with forced labor on the EU market (OJEU L 2024/3015), all of which were adopted by the time the EU and Mercosur reached the EUMAA, but had not entered into force (Feigl-Heihs 2025).

While indeed, the WTO arbitral panels have been restrictive in their application of the non-violation complaint mechanism (see Staiger/Sykes 2013), this does not preclude such a mechanism for being “a powerful regulatory freeze tool”, deterring parties from legislations that could potentially lead to less trade (Dupré/Kpenou 2025: 10; Eckes/Krajewski 2025). While the EC implicitly assumes that the rebalancing mechanism of the EUMAA will only have the limited applicability to non-foreseeable actions, without textual reference to the WTO panels’ practice of interpretation, the wording of the EUMAA allows other interpretations as well (ibid.). It should be noted that the non-violation complaint mechanism of the WTO is still viewed as a highly problematic legal institution by most countries (Larouer 2006), including the European Economic Community (EEC), the precursor to the EU, which referred to the mechanism as something that should “remain exceptional, since otherwise the trading world would plunge into a state of precariousness and uncertainty” (WTO Panel, EEC – Oilseeds Report 1989, para. 113).

## 2.2. Changes relating to trade and economic matters

### Changes related to public procurement

Access to public procurement of the other respective party remains a part of the EUMAA, as had been envisioned in 2019. However, **more exceptions** (for the EU, Brazil, and Argentina) have been agreed on, especially concerning the health sector (EC 2024). The scope of the liberalization of public procurement has thus decreased, compared to the preferred scenarios of the EU.

The EUMAA forbids **offsets** (Art. X.11 of the Government Procurement Chapter). The EUMAA defines offsets as “measures used to encourage local development or improve the balance-of-payments accounts by means of the use of domestic content, the licensing of technology, investment requirements, counter-trade or similar requirements” (Art. X.2 (j) of the Government Procurement Chapter). In other words, the “purchasing government obliges a foreign seller to include extra benefits with the sale of the base good”, such as hiring locals, buying the materials used locally or even ensuring that the catering of the foreign workers is local (Taylor 2003: 339). Argentina may use offsets under conditions such as applying them in the same manner among all participating suppliers and them not exceeding set percentages of the value of the procurement (50 % at first, reduced in steps until eventually being limited at 20 % after 16 years). Brazil may use offsets, under the condition that they are used indiscriminately. Paraguay may use offsets under the same conditions, but only for the first 10 years of the EUMAA being in force. No exceptions for offsets are included in the Uruguay Annex.

The Annex for Public Procurement in the EU defines **thresholds**, where the EU must open public procurement to operators from Mercosur. The Annexes on Public Procurement in Argentina and Brazil initially establish higher thresholds and detail in which steps the thresholds have to be lowered until they eventually are the same as in the EU, meaning that the scope of procurement open to EU operators in those two countries will increase step-by-step within the coming years.<sup>2</sup> In Paraguay and Uruguay nothing changed concerning the thresholds for the opening of public procurement to EU operators.<sup>3</sup>

In comparison to Argentina, Brazil has reserved further exceptions for itself: These include the right to apply **margins of preference**<sup>4</sup> to national manufactured goods and services, which is – from a developmental point of view – a highly useful mechanism (Vieira 2023). Some public procurement in Brazil can be limited to Brazilian NGOs as well as Brazilian Micro- and Small Enterprises. Paraguay has not re-negotiated its public procurement provisions and continues to have broader exceptions and also a (time-bound) clause allowing it to use margins of preferences. Similarly, nothing has changed about public procurement in Uruguay. The exceptions and possibilities to apply margins of preference (only in construction procurement) remain unchanged. An overview of the margins of preference of the four Mercosur countries is given below in Table 1.

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<sup>2</sup> In Brazil, the thresholds will remain higher than in the EU for the first 7 years of the EUMAA being in force and then be lowered to the same level. In Argentina, the levels will remain higher for the first 5 years, then be lowered in the 6<sup>th</sup> year and the 11<sup>th</sup> year of the EUMAA being in force, before being lowered to the same level as the thresholds for the EU 16 years after the EUMAA entered into force.

<sup>3</sup> In Uruguay, initially higher thresholds are created, which are subsequently lowered to the level of EU thresholds concerning goods and services and to a slightly higher level than EU thresholds for construction and public works services. In Paraguay, the thresholds for goods and services procurement is to be lowered over the years, but will remain significantly higher than in the EU. Construction services are not covered in the case of Paraguay.

<sup>4</sup> Margins of preference are predefined thresholds by which a domestic bidder's price can exceed that of a foreign bidder and still be awarded the contract (see Vieira 2023).



**Table 1: Margins of preference in the EUMAA**

Conditions for margins of preference to be allowed	Argentina	Brazil	Paraguay	Uruguay
Goods/Services covered	N/A	Manufactured goods and services as defined by Brazilian law	All products and services	Construction service contracts or public works
Margin allowed	N/A	25 %	20 %	Qualification established in Uruguayan law (currently 8 %) <sup>5</sup>
Further conditions	N/A	Not specified	Labor, raw materials and input from Paraguay more than 40 %; in services: more than 70 % of staff are nationals	Condition of hiring nationals
Time period, during which margins of preference are allowed	N/A	Not specified	18 years after EUMAA enters into force	Not specified

Source: Own elaboration based on EU-Mercosur final documents

The liberalization commitments on government procurement refer in principle to the federal level. In the Annex on EU Coverage on Government Procurement, it is stated that the chapter on government procurement does not cover **sub-central government entities**, but that the EU would allow including sub-central government entities to be covered if the Mercosur countries change the exceptions in their Annex.<sup>6</sup> In short, the EU is willing only to allow Mercosur access to public procurement, if Mercosur countries offer the same level of openness to European companies in procurement procedures at sub-central level. While In the case of Brazil, the sub-national entities covered by the liberalization of public procurement, have already been decided on (and listed in Appendix X-C-2, Annex on Brazil's Coverage on Government Procurement), Argentina, Paraguay, and Uruguay shall internally consult with their provincial or respectively departmental governments to reach "satisfactory" coverage of the sub-central governments, whereby satisfactory is defined as encompassing sub-central governments generating 65 % of the national GDP (Appendix X-B-2, Annex on Argentina Coverage of Government Procurement; Appendix X-E-2, Annex on Paraguay Coverage of Government Procurement; Appendix X-E-2, Annex on Uruguay Coverage of Government Procurement). Whether such an agreement will be reached, remains doubtful due to the strong opposition to opening public procurement to European firms that has been expressed by workers' representatives and civil society organizations in Mercosur countries (Borek 2024; European Trade Union Confederation/Coordinadora de Centrales Sindicales del Cono Sur 2024).

<sup>5</sup> [Texto Ordenado de Contabilidad y Administración Financiera \(TOCAF\)](#) (accessed 4 June 2025).

<sup>6</sup> A the ECJ held in its recent decision *Kolin İnşaat Turizm Sanayi ve Ticaret*, C-652/22, the access of third country nationals to public procurement at any level is an exclusive competence of the EU, meaning that the inclusion of sub-national entities would not create more ratification requirements compared to including merely national entities or EU entities.

Besides, the EU's aim in the Mercosur negotiations to ensure the widest possible scope for the liberalization of public procurement stands at odds with the announcement of the EC only two months after finalizing the EUMAA that it wants to propose a revision of the Public Procurement Framework in 2026, including "European preference criteria in EU public procurement for strategic sectors" (EC, COM(2025) 85 final, p. 7). Such preference criteria – which the EC announced for 2026 – would have to take the obligations that the EU entered into with the EUMAA – into consideration. The EUMAA thus presents a limitation to the policy space of the EU to introduce such preference criteria.

### **Changes related to tariffs and quotas**

The overall tariff and quota schedule of 2019 remains in place except for changes in the automotive sector. While the tariff reduction schedule from currently 35 % over 15 years for vehicles with combustion engines remains unchanged, the EUMAA includes now a quota of 50,000 units of finished vehicles with reduced tariffs to be imported to the Mercosur countries until year 8. The adjusted agreement also introduces specific tariff liberalization schedules for **electric vehicles, hybrids, hydrogen cars and cars with new technologies**.

Currently, Argentina and Brazil apply tariffs of 35 % to electric vehicles and hybrids, while Paraguay and Uruguay apply tariffs of respectively 20 % and 23 %. Mercosur countries must lower their respective tariffs on electric and hybrid vehicles to 25 % in Argentina and Brazil, to 16.4 % in Paraguay and to 14.3 % in Uruguay in the first five years and then gradually to zero by year 18. Concerning hydrogen fueled vehicles, current tariffs can remain unchanged at 35 % for the first six years. Reductions take place over the years 7 to 24 of the EUMAA being in force, resulting in a full elimination of tariffs on hydrogen vehicles only in year 25. The tariff elimination for cars with new technologies is scheduled to happen gradually in the span of 30 years.

Furthermore, Paraguay was granted an additional quota of 1,500 tons of **pork** annually to be imported duty-free and an additional annual quota of 50,000 tons of **biodiesel** to be imported duty-free to the EU (EC 2024). No other changes to agricultural quotas have been made.

### **Automotive investment safeguards for Mercosur countries**

In general, the agreement in principle from 2019 allowed either party to apply bilateral safeguard measures, if imports of a product increased to a degree where the party's domestic industry was threatened to be seriously injured or was in fact seriously injured. Bilateral safeguard measures can only be taken during the transitional period (for details see Table 2).

The 2024 agreement extends the safeguard provisions concerning cars, as there is a strong expectation that the EUMAA will lead to an influx of car imports from the EU to Mercosur (Feigl-Heihs 2025). Bilateral safeguard measures may be applied already, if "injury" (not "serious injury") to domestic industry occurs or threatens to occur (Art. X-A.2 of the Annex to Bilateral Safeguard Measures). As Table 2 illustrates, the transition period during which parties can make use of the exceptional safeguard measures is also longer (cf. Art. X-A.1 (f) of the Annex to Bilateral Safeguard Measures; Art. 1 (7) of the Chapter on Bilateral Safeguard Measures), as a result of the longer time frames for tariff elimination for (some types of) cars.

**Table 2: Transition periods for bilateral safeguards in the EUMAA**

	Transition period for automotive investment safeguards	Transition period for other safeguards
Tariff elimination within less than 10 years	12 years	12 years
Tariff elimination within 10 years or more (includes various types of motor vehicles that have a 15-year tariff elimination timeline)	18 years	18 years
Tariff elimination within 18 years (applies to electric and hybrid vehicles)	20 years	N/A
Tariff elimination within 25 years (applies to hydrogen fueled vehicles)	25 years	N/A

Source: Own elaboration based on EU-Mercosur final documents

The duration that the safeguard measures can have (Art. X-A.7 of the Annex to Bilateral Safeguard Measures; Art. 7 of the Chapter on Bilateral Safeguard Measures) is also longer for cars, namely three rather than 2 years.

Bilateral Safeguards can only be made use of, if the injury to the domestic industry is due to an “increase of imports of vehicles” (Art. X-A.2 (1) Annex to Bilateral Safeguard Measures). It therefore cannot be used, if the injury to domestic industry is due to increased imports of auto parts or due to other factors. Bilateral safeguard measures must furthermore be based on an investigation by the competent investigating authority (in the EU: the EC; in Mercosur, the Industrial or Economic Ministries of the member states). This authority must “demonstrate, on the basis of objective evidence, the existence of a causal link between increased imports of the vehicle concerned and injury. The competent investigating authority shall also evaluate all known factors other than increased imports under preferential terms of this Agreement that might be at the same time causing injury to the domestic industry.” (Art. X-A.9 (2) Annex to Bilateral Safeguard Measures)

This ensures that bilateral safeguard measures could not be arbitrarily imposed in the case of a struggling domestic industry, if the reasons for the struggle are not to be found in the increased imports of vehicles due to the EUMAA (e.g. due to other changes in industry, such as more reliance on EVs rather than combustion engines). As the Bilateral Safeguards Chapter (and its Annex) will be included in the Trade Part of the EUMAA and do not contain any clauses exempting them from dispute settlement in accordance with the Dispute Settlement Chapter of the EUMAA, disputes concerning the application of bilateral safeguard measures could be brought before an arbitration panel.

### **Geographical indications**

According to Art. X.33 of the Intellectual Property Chapter of the EUMAA, all parties are obliged to implement the protection of protected geographic indications (GIs).

The annex listing the products with GIs has been modified to now 350 GIs from the EU, the highest number of EU GIs ever covered by an FTA (Grieger/Gyorgyi 2025: 10), as well as 220 GIs from Mercosur countries. In the case of Austria, this includes 16 foods and drinks that cannot be sold in Mercosur countries under their protected names, unless they are truly from Austria.

### 2.3. Changes relating to economic and political cooperation

The final EUMAA has been amended to include a Cooperation Protocol, stating that measures are necessary to ensure that Mercosur economic actors, especially Micro-, Small- and Medium Enterprises (MSMEs), women, smallholders, indigenous peoples and local and traditional communities, benefit from the agreement.

Those measures – which are not defined in the Cooperation Protocol – should be financed by EU financial support in the forms of “grants, loans, guarantees and technical cooperation” as well as “financial resources from national, regional and international financial institutions” (Cooperation Protocol). Which institutions are meant, remains unclear. While the EU pledges to include “new resources not available at present under other programs” (Cooperation Protocol), it is possible that the EU’s original contributions are only a part of funding and that most funding comes from other sources and is merely rebranded. The Cooperation Protocol further mentions making use of the Global Gateway initiative as well as the Team Europe approach, where the EU envisions to “establish a specific Mercosur program as a main channel to streamline cooperation” including in addition to its own funding also contributions from Member States (Cooperation Protocol).

The program is to be supervised, steered and designed by the Subcommittee for Development and International Cooperation. Nowhere in the publicly available texts of the EUMAA, i.e. nowhere in the trade pillar of the EUMAA, is this Subcommittee mentioned. For the time being, it thus remains entirely unclear what competences the Subcommittee has and how it will be composed.

In its press statements about the EUMAA, the EC announced even more areas of future political cooperation between the EU and Mercosur, such as migration, education, ocean governance, as well as the fight against terrorism, money-laundering and cybercrime (EC 2024a). However, the political parts of the EUMAA are not yet publicly available, making it impossible to evaluate these claims.

#### Creation of the Enhanced Cooperation Fund

The EU-LAC Global Gateway Investment Agenda, presented in 2023, announced 45 billion EUR for over 130 projects across Latin America and the Caribbean until 2027 (EC 2023b). Indeed, as of May 2025, 158 projects in the region have been announced under Global Gateway, 22 of which are located in the four original Mercosur member states that are parties to the EUMAA (EC undated).

While the Cooperation Fund is not explicitly mentioned in the Cooperation Protocol, the EC has stated publicly that the above-mentioned Mercosur program will be financed by an enhanced cooperation fund of 1.8 billion EUR as part of the EU-LAC Global Gateway Investment Agenda. According to the EC, the Fund should not only finance the measures for vulnerable economic actors such as MSMEs, women or smallholders (as outlined above), but also investments “in the development of new sustainable forest value chains, for example in the Amazon” and “in renewable energy and added value creation, for example in critical raw materials, including upstream processing and battery production” (EC 2024a: 6).

Indeed, the EU-LAC Global Gateway Investment Agenda did mention the goal of supporting “the development of human capital, including empowerment of people, especially women, youth and the most vulnerable, and strengthen the enabling business and regulatory environment, with the aim of creating local added value, growth and quality jobs”, however, only through “investments to help address LAC’s infrastructure needs” (EC/High Representative of the Union for Foreign Affairs and Security Policy 2023: 6). In the past, Global Gateway projects have adopted a rather flexible understanding of “infrastructure”, financing, for instance, projects for rural development and productivity, or the Project Paulo Freire II in Brazil, which focuses on overcoming rural hunger and extreme poverty (EC 2025). Another

example is the Global Gateway project AL-INVEST Verde, which is implemented across various Latin American states, including the Mercosur member states, and aims at supporting MSMEs' efforts to integrate into deforestation-free supply chains, climate mitigation projects and offer technical assistance for public entities for the enforcement of sustainable policies (aimed at the EUDR) (sequa gGmbH et al. 2025).

While such projects thus already exist and would not be a complete novum, they represent only a very small share of Global Gateway Projects, which tend to be very large projects focused on physical (energy or transport) infrastructure (Gerasimcikova et al. 2024).

The published parts of the EUMAA do not establish the fund. It is therefore possible that the fund will be established either in the cooperation pillar – which will likely be split from the trade pillar of the EUMAA – or in a separate act of the Commission. Where it will be established has implications for the timeline of the fund: If it is established in the Cooperation Pillar of the EUMAA, it will be required to go through lengthy ratification processes, potentially delaying its implementation by years (see Grieger 2024). Apart from the modalities of establishing the fund, there are further open questions, such as whether the Fund will be used to finance additional or existing projects under Global Gateway or from which budgets the fund will be financed.

## **2.4. Overview of the changes to the EUMAA**

Table 3 provides a summary of the changes that were made to the text of the final EUMAA.

In conclusion, concerning the changes regarding environmental matters, even though the parts of the EUMAA centered on sustainability, climate protection, and the environment have expanded relative to the agreement in principle of 2019, the new provisions contain aspects that can lead to 'regulatory freeze' and be used as a tool to weaken environmental protection.

The trade- and economy-related changes correspond to the fears of specific sectors and industries of suffering adverse consequences from the EUMAA. The sector arguably benefitting most from these changes is the car manufacturing sector in Mercosur countries – a sector which will predictably come under most pressure from the EUMAA (see Chapter 3).

Concerning the planned increase of economic and political cooperation, little can be said, as the political parts of the EUMAA are not yet fully publicly available. While the creation of an Enhanced Cooperation Fund has been announced, it remains unclear how this Fund will contribute to the stated goals of sustainable development in the Mercosur countries and to which degree programs will be funded through new funds or rather through a rechanneling and rebranding of existing funds.

**Table 3: Changes to the text of the EUMAA**

Change	Main content of the change	Potential effects
Paris Agreement as 'essential element' of the EUMAA	Either party is allowed to take measures (and at most suspend) the treaty if the other party leaves the Paris Agreement	Strengthens commitment of parties to (environmentally) sustainable policies; unlikely to be implemented in practice.
Annex to Trade and Sustainable Development Chapter	Reiteration of non-binding targets + focus on raw materials value chain creation + provisions aiming to ensure that Mercosur countries are assessed to be of low risk for deforestation and that their authorities get a say in the assessments whether operators importing goods from Mercosur countries to Europe comply with the relevant standards	Might weaken sustainability-related laws of the EU with extraterritorial effects (especially EUDR)  No sanctions/dispute settlement mechanism in case of non-compliance
Exception to the prohibition of export taxes	Mostly concerns specific raw materials from Brazil	It becomes more expensive to import unprocessed raw materials from Brazil
Rebalancing mechanism	Possibility to launch complaints before the EUMAA arbitration panel in the case that measures were taken that are considered to diminish the positive effects expected from the EUMAA	Unforeseeable; different interpretations of whether complaints against measures that the EU has decided on, but not implemented (e.g. CSDDD or EUDR) are possible
Changes to public procurement	Exceptions to the liberalization of public procurement (e.g. margins of preference, certain offset-measures allowed); restricted scope (e.g. health sector); exception of sub-national level	EU firms will not benefit as much/quickly from public procurement in Mercosur as expected
Changes to tariff elimination schedule	Longer phase-out periods for tariffs on electric, hybrid, and hydrogen-powered vehicles	Changes are supposed to counteract Mercosur car-manufacturing sector's fear of adverse effects from the EUMAA (see in detail Chapter 3)
Automotive investment safeguards	Bilateral safeguard measures in the automotive industry have been slightly strengthened in comparison to the bilateral safeguards for other industries	Changes are supposed to counteract Mercosur car-manufacturing sector's fear of adverse effects from the EUMAA (see in detail Chapter 3)
Protection of geographic indications	List of products benefitting from protected geographic indications has been expanded	Producers of listed products must not fear that products from other places will be sold under the same name
Cooperation Protocol published	Increase of economic and political cooperation	Potential new venue for cooperation between the blocs; new EU Fund worth up to € 1.8 bn.

Source: own elaboration based on the [published text of the EUMAA](#)



### 3. THE ECONOMIC IMPACTS OF THE FINAL ASSOCIATION AGREEMENT

#### 3.1. Potential economic impacts

The Assess\_Mercosur study by Tröster/Raza (2021) provided a critical assessment of the results and the methodologies of impact studies on the expected economic and social effects of the EUMAA. The analyzed studies mainly employ standard Computable General Equilibrium (CGE) models, and report overall small changes to real GDP. According to the impact assessment on behalf of the EC carried out by the London School of Economics (LSE 2020b), the EU GDP could increase by +0.1 % or EUR 15 billion within a 12-year period – equivalent to EUR 2.50 per capita and year. GDP changes in Mercosur would range from 0.1 % in Paraguay (or EUR 1.20 per capita per year) to 0.7 % in Argentina (or EUR 8.6 per capita per year).

However, the expected changes to trade flows and output on a sectoral level are different between the regions. Generally, the EU benefits from strong increases in exports in manufacturing sectors, which generate modest output growth ('Vehicles, transport equipment' +0.6 % and 'Machinery' +0.5 %). At the same time, output in agri-food sectors shrinks, in particular in the sectors beef (-1.2 %) and sugar (-1.0 %), due to higher import competition. In Mercosur, the output and trade effects are inversely mixed. Agri-food sectors in Brazil and Argentina would benefit, for example output in Brazilian 'Poultry meat, pork' would increase by +3.7 %. Most manufacturing sectors in Mercosur will contract, e.g. 'Machinery' by -5.1 % in Brazil and 'Vehicles, transport equipment' by -14.4 % in Uruguay.

Even though, Tröster/Raza (2021) highlight the general methodological issues with standard CGE models in general and several problematic assumptions and missing data transparency of the assessed studies, these official impact assessments by the EC would imply slightly negative employment effects for the EU and Austria. Tröster/Raza (2021) estimate based on the LSE impact assessment and sectoral labor market data that employment in the EU would be reduced by -0.06 % or 120,000 jobs in the EU, particularly in agriculture (-16,100 / -0.5 %) and food sectors (-33,800 / -0.7 %) as well as in the services sectors (-103,400 / -0.07 %).<sup>7</sup> Only EU manufacturing sectors would see higher employment (+33,000 / +0.11 %). For Austria, the potential employment effect would also be negative with 1,200 jobs, particular through adverse effects in agriculture (-60 / -0.18 %) and food (-500 / -0.64 %) and the services sector (-1,740 / -0.06 %). The manufacturing sector would benefit with 1,100 additional jobs (+0.18 %).

In our assessment, the discussed changes and additional elements included in the final text of the EUMAA in 2024 will not significantly change the overall economic effects, as estimated by the impact assessments. This is because, firstly, the political and environmental elements are not captured in the CGE models. Secondly, the changes to tariff schedules in the automobile sector are too specific to be taken up in such models, which usually use aggregated data of the automotive industry. Thus, they do not distinguish between different vehicle types (cars, pickup trucks, heavy trucks, and buses), propulsion systems (combustion engines, hybrid systems, and electric drives) or even between finished vehicles and auto parts (Dulcich 2023).

Given the longer transition periods for the automobile industry agreed upon in the final EUMAA, the realization of the economic effects will however take place over a longer-term horizon. It should also be expected that during this transition period, the short to medium-term

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<sup>7</sup> These surprisingly large employment losses for the EU services sector apparently have to do with the assumption in the LSE (2020) study, that EU trade liberalization for services is associated with a significant and one-sided reduction of Non-Tariff-Measures (NTMs), particularly for the category of other services (see also Tröster/Raza 2021: 20). As a result, services imports from Mercosur increase and displace EU services jobs. But even without the large job losses in services, employment effects from agriculture/food and manufacturing would show a negative balance in the EU.

effects for the EU might be negative at aggregate level, given that most imports to the EU, and in particular agricultural imports, will immediately profit from the EU's liberalization commitments, while EU exports in manufacturing sectors, and in the car industry in particular, will be temporarily impeded by the respective tariffs in place in Mercosur.

Given this context and against the background of the recent discussion about the large gains to be expected for the EU car industry, in the following section, we provide a deeper dive into the potential effects of the EUMAA on the automobile sector in both regions.

### **3.2. Potential impacts on the automobile sectors**

The automobile industry is among the sectors most impacted by the EUMAA, albeit with markedly different expectations from the EU and Mercosur. According to LSE (2020), the EUMAA is expected to boost production and employment within the EU's automotive value chain, while all Mercosur countries are likely to experience significant declines. This development is driven by a significant increase in EU exports, once Mercosur's high tariff of 35 % on finished vehicles and up to 18 % on auto parts are phased out. Thus, there have been major concerns in Mercosur countries, that this tariff liberalization puts local automotive manufacturing at risk.<sup>8</sup>

#### **Automotive sector in Brazil and Argentina<sup>9</sup>**

In Brazil, the automotive manufacturing significantly expanded during the 1950s under President Juscelino Kubitschek's industrialization plan with high tariffs restricting imports and enforcing high local content requirements. Companies like Ford, General Motors, Volkswagen, Mercedes-Benz, Toyota, and others established local manufacturing operations (Duarte/Rodrigues 2017). As a response to the high oil prices and the oil import dependency during the 1970s, ethanol (on the basis of sugar cane) was promoted as an alternative fuel. Brazil specialized in the production of vehicles with ethanol powertrains in the 1980s, but the overall sector consolidated during this decade.

In the 1990s, Brazil's automotive industry transitioned from a highly protected market to a more liberalized and globally integrated one, spurring modernization and attracting foreign investment. Brazil maintained its technologically unique approach by introducing flex-fuel engines in the early 2000s, that run on ethanol blended with gasoline (Dulcich 2023). Government initiatives like Inovar-Auto (2012–2017)<sup>10</sup> and Rota 2030 (from 2018) promoted local production through technological innovation, local R&D, and fuel efficiency.

Based on similar policies as in Brazil, the automobile sector in Argentina expanded also during the 1950s and 1960s. In the 1970s, however, Argentina's automotive industry faced economic instability and political upheaval, leading to liberalization and industry consolidation. Argentina did not follow Brazil's ethanol or flex-fuel strategy. In the 1990s, automakers such as Toyota and Ford used Argentina as a major regional hub for pick-up truck manufacturing. This segment accounts for more than 50 % of the total vehicle production in the country (Dulcich 2023).

Both countries adopted the Mercosur Automotive Policy in 2000 after high variations in the tariff rates in Brazil during the 1990s (Amann et al. 2007). Since then, import tariffs on finished cars from outside the bloc are as high 35 % and between 14 % and 18 % for auto parts, while within the bloc these products are traded tariff-free.

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<sup>8</sup> Uruguay has a small assembly industry, producing 19,000 units, mainly for exports to Brazil and Argentina ([link](#)). Paraguay has no significant manufacturing.

<sup>9</sup> Automotive assembly in Argentina and Brazil began in the early 20th century, with Ford and General Motors establishing facilities in both countries.

<sup>10</sup> The program was ruled to be non-compliant with WTO regulations in 2017, after complaints by the EU and Japan ([link](#)).



## Current Production and Trade Situation

In **Brazil**, more than 2.5 million units of vehicles were produced in 2024, of which 1.9 million were passenger cars, 300 thousand commercial utilities, 140 thousand heavy-duty vehicles and 32 thousand buses. In the same year, 1.95 million units were registered of which 1.65 million or 85 % came from local production. Around 300,000 passenger cars were exported, and the same number of cars were imported, of which 40 % came from Argentina and Uruguay (Anfavea 2025). Thus, Brazil has a high level of self-sufficiency also in the other vehicle categories (Dulcich 2023). Overall, the sector represents 20 % of industrial GDP in Brazil and 2.5 % of total GDP and employs around 1.3 million people directly and indirectly (Anfavea 2025).

**Argentina** has seen major shifts in both production and consumption patterns since the early 2010s. The total production declined significantly from more than 820,000 units in 2011 to 250,000 in 2020, but recovered to 620,000 units in 2023. This was driven by changes in passenger car production, as pick-up truck production of 300,000 units was the highest ever reported (ADEFA 2024). Vehicles sales have gone through similar changes. In 2023, 400,000 units were sold, of which one third or 130,000 units was imported. Thus, more than 300,000 units were exported in 2023, making Argentina a net exporter, particularly through exports of cars and pick-up trucks to Brazil, the latter being the destination of two-thirds of all exports. The automotive sector employs 25,000 people directly, and contributes 3 % to Argentina's overall GDP and 10 % to the industrial GDP and exports (ibid.).

## Trade with Europe

The specific production and tariff constellations in Mercosur countries is also represented in the trade patterns of EU exports to the Mercosur countries. Auto parts have a significantly higher export volume compared to finished vehicles (see Table 4). In 2024, all EU countries exported auto parts worth EUR 5.5 billion and finished vehicles with a value of EUR 1.5 billion, which is around 12 % of total goods' exports of the EU to the Mercosur countries. The dominant destination is Brazil (80 %), and the main exporters of these products come from Germany (40 %).

**Table 4: Exports of auto parts and vehicles from EU to Mercosur (2024, in Mio EUR)**

	<b>Argentina</b>	<b>Brazil</b>	<b>Paraguay</b>	<b>Uruguay</b>	<b>Total</b>
Parts	926	4,385	29	105	5,445
Vehicle	171	1,212	84	83	1,550
<b>Total</b>	<b>1,097</b>	<b>5,597</b>	<b>113</b>	<b>188</b>	<b>6,996</b>
<i>thereof Hybrid/EV exports</i>	<i>18</i>	<i>420</i>	<i>17</i>	<i>23</i>	<i>479</i>
<i>Share of hybrid/EV exports (in % of vehicles)</i>	<i>11 %</i>	<i>35 %</i>	<i>21 %</i>	<i>28 %</i>	<i>31 %</i>

Source: Eurostat

Note: Parts include HS 4010, 4011, 8407, 8408, 8409, 8483, 8708; Vehicles include HS 8701 – 8707; Hybrids/EVs 870340, 870350, 870360, 870370, 870380

Overall, the 2024 data for EU exports are significantly higher compared to the pre-COVID-19 level of 2019 of EUR 5.0 billion (parts EUR 4.2 billion/vehicles 800 million). One reason is the increasing importance of hybrid and battery-electric vehicles, which now represent 31 % of all vehicle exports compared to 11 % in 2019 (see Table 4).

Table 5 provides the respective numbers for Austria. With close to EUR 30 million, direct exports are small, though the relative share of auto parts and final vehicles exports are similar to the EU totals. These numbers, however, provide only a partial picture, as due to the close integration of the Austrian with the German car industry, indirect exports, i.e. auto parts originating from Austria that are built into cars originating from Germany, are not accounted for.

**Table 5: Exports of auto parts and vehicles from Austria to Mercosur (2024, in Mio. EUR)**

	Argentina	Brazil	Paraguay	Uruguay	Total
Auto Parts	1.8	15.3	0.0	0.4	17.6
Vehicles	0.9	9.9	0.3	–	11.0
<b>Total</b>	<b>2.7</b>	<b>25.2</b>	<b>0.3</b>	<b>0.4</b>	<b>28.6</b>

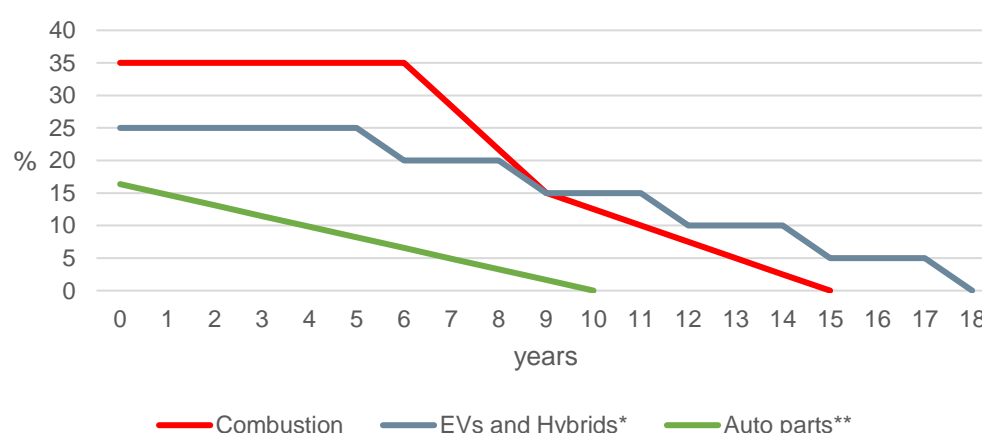
Source: Eurostat

### Tariff and quota changes

As shown in section 2.2., the automobile sector is subject to changes in the tariff elimination schedules for Hybrid, EV, hydrogen and other technologically innovative powertrains as a result of the renegotiations in 2023 and 2024. The EUMAA includes now a quota of 50,000 units of finished vehicles with reduced tariffs for imports into Mercosur until year 8 and broader safeguard measures for the sector. The EU automotive sector generally welcomed the political agreement in 2024 due to the prospects for exports of finished vehicles. The German VDA (2024) announced: *“In 2023, German manufacturers produced around 355,000 cars in Mercosur, mainly in Brazil and Argentina – and 375,000 cars in the first nine months of this year alone. In contrast, only 20,700 cars were exported from Germany to Argentina and Brazil in the whole of 2023. Thus, there is still significant potential to increase these exports, and the conclusion of negotiations on the Mercosur trade agreement is paving the way for this.”*

Tariff elimination under the EUMAA is however not proceeding instantaneously, but will be differentiated by auto parts, vehicles and Hybrids/EVs and will be stretched over a transition period of up to 18 years (see Figure 1). Conventional vehicles remain protected as the gradual tariff reduction over 12 years starts only in year 7 after the start of the EUMAA.

**Figure 1: Tariff Elimination Automotive Sector Mercosur**



Source: Own elaboration based on EU-Mercosur final documents

Notes: \* schedule for Brazil; \*\* only 10 year elimination of Auto parts tariffs shown

## Potential effects on EU exports and Mercosur manufacturing

It is useful to split the analysis on the potential effects of the EUMAA on the automotive sector in Mercosur and the expected export destination for the EU car makers into two periods.

In the short run (first 10 years), the conventional manufacturing complex in the Mercosur countries remains largely protected and can potentially benefit from lower costs for imported auto parts. As tariffs for auto parts will be eliminated over 10 and 15 years, European manufacturers of auto parts could increase their market share due to the relative price advantages of declining tariffs. However, the newly introduced quota of 50,000 units of finished tractors and passenger cars with a 50 % reduction of the base rate could already increase the pressure on domestic manufacturing earlier.

In the long run (after 10 years), the tariff protection of finished vehicles is eliminated up to year 15 (conventional), year 18 (hybrid and EV passenger cars), year 25 (hydrogen fueled passenger cars) and year 30 (other technologies). This differentiation already indicates that the effects on EU exports and manufacturing in the Mercosur countries depend on the transformation of the automobile sector in this period. In particular, domestic policies in Mercosur countries guiding how the sector should be decarbonized play a crucial role.

In the segment of vehicles with standard combustion engines in the Mercosur countries, it is possible that European automaker replace domestic production by relatively cheaper exports of finished vehicles from their more efficient plants in Europe (Dulcich 2023). However, in 2021 Brazil still favored biofuels over EVs based on the experience with flex-fuel powertrains in consideration of the lacking energy production, transport and charging (Aguiar et al. 2025; Fritz 2022). This specialization on flex-fuel engines would continue a partial protection of the Brazilian manufacturing as it requires adaptations compared to standard combustion powertrains (Dulcich 2023). This specialization on flex-fuel engines would continue to exert a partial protection of Brazilian manufacturing, as it requires adaptations compared to standard combustion powertrains (ibid.).

Recently, the importance of hybrids and EVs in decarbonization strategies has changed, also linked to the fact that Argentina and Brazil own many critical minerals such as lithium or copper necessary for battery and EV production. However, single Mercosur members have introduced very different internal policies to promote EVs sales. As most of these vehicles are imported, all countries have already used exceptions to the common external tariff.

In Brazil, hybrids and EVs are exempted from tariffs since 2015 and have also benefited from domestic tax exemptions and reductions. However, Brazil wants to stimulate EV production in the country and has therefore replaced the Rota 2030 sector policy with the Mover program, which grants carmakers access to financial credit in return for investments in EVs and hybrid car production. At the same time, Brazil is gradually reintroducing import taxes to support Brazil's local electric vehicle manufacturing. Since January 2024, fully electric vehicles have faced a 10 % import tax, which is set to reach 35 % by July 2026. Hybrid vehicles followed a similar path, starting at a 15 % import tax, which shall also reach 35 % by 2026 (Díaz Silva 2024). Currently, BYD and Great Wall Motors are building EV factories in Brazil (Leung 2024; Teixeira 2025), but also Volkswagen and Stellantis as well as Toyota announced new investments in hybrid and EV manufacturing in 2024 (Mann 2024; S&P Global 2024).

The other Mercosur countries are lacking a policy towards domestic EV production capacities. In early 2025, Argentina eliminated import tariffs on EVs and hybrids with a value under USD 16,000, up to an annual quota of 50,000 vehicles (Reuters 2025). Uruguay applies a zero % import duty on EVs, Paraguay has mixed rates from zero to 35 %.

As Brazil announced its priority to rebuild and modernize its domestic automobile industry towards more hybrids and EVs, the interplay with the tariff eliminations for European cars in this field will be challenging, as already now a large share of hybrids and EV imports come

from the EU. It remains thus possible that the phase-out of tariffs for both conventional and hybrid/EV cars foreseen in the EUMAA will disincentivize EU car makers from promoting domestic production in Mercosur countries. If, in contrast, Chinese car makers cater to the policy preference of Brazil, in particular, for domestic production of hybrids and EVs, and hence increase investment in Mercosur, the EUMAA may have contributed to a weakening of the strategic position of the EU car industry in Mercosur markets.

## **Conclusions**

All in all, while we would expect an increase of EU exports of car parts to Mercosur in the first ten years after the entry into force of the EUMAA, the impact on exports of finished cars is likely to be slower. This is due to the long transition periods with respect to tariff reductions for finished cars. What is more, given the long transition period, any effect on exports may well be superseded by the ongoing technological transition toward electric mobility and the corresponding changes to the business models of transnational car manufacturers.

## **4. THE CLIMATE IMPACTS OF THE FINAL ASSOCIATION AGREEMENT**

The EUMAA has been subject to criticism due to its potential climate-related impacts, particularly concerns regarding increased deforestation and greenhouse gas (GHG) emissions associated with trade (FERN et al. 2023; Fritz 2020; Kehoe et al. 2020; Sharma 2019). The new political agreement on an improved EU-Mercosur Association Agreement, which was reached in December 2024, claims to promote joint values such as sustainable development, strengthen workers' rights, fight climate change, increase environmental protection, encourage companies to act responsibly, and uphold high food safety standards (EC 2024a). As outlined in Chapter 2, several modifications were introduced to the version of the EUMAA signed in 2019, some of which present commitments for sustainable development. However, the extent to which these changes meaningfully address climate-related concerns remains uncertain.

In terms of assessing the sustainability and climate change mitigation potential of the new agreement, three elements are particularly relevant: 1) the inclusion of the Paris Agreement and international climate governance as essential elements of the agreement; 2) the introduction of a “rebalancing mechanism”; and 3) the provisions in the Trade and Sustainable Development (TSD) chapter together with the newly formulated Annex to the TSD Chapter. After analyzing the impacts of the changes made to the EUMAA that relate to climate protection or the prevention or mitigation of deforestation, we look at the climate impacts to be expected from the EUMAA and other limiting factors for environmental protection in Mercosur.

### **4.1. Significance of changes in the final EUMAA for climate impacts**

#### **Inclusion of the Paris Agreement as an essential measure**

A close examination of the environmental implications of the EUMAA starts with the inclusion of the Paris Agreement as an “essential element” in the EUMAA. Nonetheless, the EUMAA's formulation does not include the enforceability of climate-related obligations but merely reaffirms the parties' commitment to international climate frameworks. Specifically, parties can only take measures – including the suspension of the EUMAA – if the other party “ceases to remain, in good faith, a signatory to the UNFCCC and the Paris Agreement”. This clause does not extend to scenarios where a party merely threatens to withdraw; it applies only to formal withdrawal or “undermining it from within” (Šefčovič 2025). It must be doubted if a party failing to comply with implementation obligations would already be seen as “ceasing to remain, in good faith, a signatory”, especially in the light of how, even now, implementation of the Paris Agreement is lagging and not on track to meet the climate targets enshrined in the Agreement,

and one Mercosur country (Argentina) has notably reduced its efforts to achieve the goals of the Paris Agreement (New Climate Institute/Climate Analytics 2025).

Only two months after the conclusion of negotiations on the EUMAA in December 2024, Argentina's president Milei announced that he was considering withdrawing from the Paris agreement, after already cutting the environment ministry's budget by almost half (Gadea Lara 2025; Ubertalli 2025). Analysts argue that the fact he has not withdrawn has to do with the high legislative hurdles in the domestic Argentine legal system for withdrawing from a ratified treaty and with the possibility of losing trading partners or access to international finance by leaving the treaty (Gadea Lara 2025). One could argue that the sustained reduction of efforts under the Paris Agreement, the open defiance against the agreement, and the slashing of financial means to enforce climate measures already now amount to not acting in good faith as a party to the Agreement.

In their current form, the provisions do not impose obligations that would require prioritizing climate objectives over economic considerations (Eckes/Krajewski 2025). It is highly improbable that a failure to advance international climate governance would result in the suspension, partial or full, of the EUMAA. This is not least owed to the fact that agreements can only be suspended by the Council with a qualified majority, upon a proposal by the Commission or the High Representative for Foreign Affairs and Security Policy (not the European Parliament)<sup>11</sup> (Art. 218 paras. 8 and 9 TFEU).

Another procedural uncertainty is what to do, if only one Mercosur member leaves the Paris Agreement. Eckes/Krajewski (2025) argue that it is unclear whether this scenario would warrant a suspension of the EUMAA as a whole or only vis-à-vis the country that withdrew for the Paris Agreement. However, in the light of EU practice concerning the suspension (or taking of other measures) due to human rights breaches affecting only one state in a multilateral agreement, in our assessment the EU could only suspend the EUMAA vis-à-vis the specific Mercosur country that has withdrawn from the Paris Agreement (Bartels 2023; Saltnes 2013). In fact, as Argentina's conduct – as outlined above – has given rise to fears that the EU might rather sooner than later make use of the essential elements clause in the EUMAA, the EC has recently stated that it would only suspend the EUMAA vis-à-vis Argentina in the case of a unilateral withdrawal from the Paris Agreement (Bonini 2025).

The possible impact of including the commitment to international climate frameworks, such as the Paris Agreement, remains vague, having a limited contribution beyond what is established under existing international legal frameworks (Eckes/Krajewski 2025; Lehmen/Vidigal 2025). Still, the addition of the Paris Agreement as an essential element may serve as an incentive for acting in accordance with national commitments under the Paris Agreement, allowing, at least in theory and under certain constraints, for the partial or full suspension of the EUMAA as a measure of last resort (Eckes/Krajewski 2025).

### **Insertion of the “Rebalancing mechanism”**

A second relevant point influencing the possible climate impacts of the EUMAA is the introduction of a “rebalancing mechanism”. As explained in Chapter 2.1, this mechanism may create obstacles for adopting future policies to reduce trade-related emissions or for implementing such policies. As such, the rebalancing mechanism could complicate the EU's efforts to advance its climate and sustainability agenda.

A key example is the potential interaction between the rebalancing mechanism and the applicability of the recent EU Deforestation Regulation (Regulation 2023/1115/EU, OJEU L 150/206; in the following: EUDR) (Dupré/Kpenou 2025; Lehmen/Vidigal 2025). The formulation of the “rebalancing mechanism” and the definition of “measures” within the EUMAA could be interpreted to encompass the EUDR (Dupré/Kpenou 2025), thereby

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<sup>11</sup> This means that 55 % of Member States representing 65 % of the population must vote in favor of suspension.



subjecting it to potential challenges in its implementation in Mercosur countries. While the precise implications remain uncertain, the timeline of the EUMAA's signing and its entry into force will likely play a crucial role.

### **Box 1: The European Deforestation Regulation**

The European Union Deforestation Regulation (EUDR), i.e. Regulation (EU) 2023/1115, entered into force on 29 June 2023 as part of several environmental initiatives launched by the EC in 2019 to address global crises, focusing on combating deforestation.

The EUDR aims to target local and global deforestation by regulating the placement and export of products linked to deforestation – such as cattle, wood, soy, palm oil, rubber, coffee, cocoa and some derivate products – within and from the EU market (Art. 1, Annex I). The regulation mandates that relevant products must be “deforestation-free,” meaning they must originate from land not subject to deforestation after 31 December 2020 (Art. 2). Therefore, under the EUDR, any operator or trader who places defined commodities on the EU market, or exports from it, must be able to prove that the products do not originate from recently deforested land or have contributed to forest degradation, have been produced in accordance with the relevant legislation of the country of production, and are covered by a due diligence statement (Art. 3).

Mandatory due diligence is required prior to market entry or export of defined products, comprising data collection, risk assessment, and risk mitigation processes (Art. 8). Operators or traders must assess and document risks based on specified criteria and submit electronic declarations through a centralized EU database. Enforcement of EUDR is delegated to Member States' competent authorities, which must conduct risk-based compliance checks and submit annual reports. A benchmarking system classifies countries by deforestation risk levels, affecting the stringency of due diligence requirements (Art. 29).

Following a 12-month extension granted in December 2024, the EUDR will be fully enforceable from 30 December 2025 for medium and large entities and 30 June 2026 for micro and small enterprises, amid concerns raised by several nations over implementation clarity and readiness raised by several nations.

Sources: Regulation (EU) 2023/1115; (EC 2024)

The EC maintains that the EUDR will apply to Mercosur countries (EC 2024b). However, questions remain whether the enforcement of the EUDR may provoke retaliatory measures under the rebalancing mechanism (Eckes/Krajewski 2025).

Besides the timeline of the EUDR for entering into force, several other aspects of the EUDR have implications for trade under the EUMAA. In practice, specific export sectors in Mercosur countries may view the regulation as a disadvantage, especially if they face trade barriers that “nullify or substantially impair” the benefits defined under the AA. While the EUDR applies equally to all products placed on the EU market or exported from the EU, many targeted goods – such as soy and cocoa – are primarily produced outside the EU, potentially amplifying its impact on non-EU producers.

The rebalancing mechanism could potentially function as a means of “political pressure”, discouraging the adoption of further climate regulatory measures. Even without explicit threats to trigger the mechanism, the mere possibility of a claim may lead officials to self-censor or water down proposals. Furthermore, the mechanism could hinder the development of “mirror measures” that seek to condition access to the EU market on compliance with European production standards (Eckes/Krajewski 2025). In this sense, the mechanism may entrench the regulatory status quo at a time when significant structural transitions are necessary to support a decarbonized economy (ibid.).

How this dynamic will unfold in practice remains unclear. Mercosur countries have expressed concerns, as illustrated by a joint letter formulated by producing countries, including some Mercosur countries, requesting a delay in EUDR implementation (Producing countries 2023). Simultaneously, Mercosur countries have begun introducing compliance measures, such as those outlined in a publication by Proforest (2025), and are engaging with support initiatives to achieve regulatory compliance with the EUDR such as the AL-INVEST Verde program. These actions indicate an effort to align with EUDR requirements, though tensions and possibilities of retaliation under the rebalancing mechanism remain.

Overall, the formulation of the rebalancing mechanism in its current form could undermine the implementation of new EU climate and sustainability regulations that aim at reducing the environmental footprint of traded goods. The current text of the agreement leaves open possibilities for retaliatory measures if Mercosur countries perceive disproportionate disadvantages on trade connected to compliance with such regulations. This could potentially not just affect the EUDR, but also the Corporate Sustainability Due Diligence Directive (CSDDD; OJEU L 2024/1760), and the EU Regulation prohibiting products made with forced labor in the EU market (OJEU L 2024/3015).

### **The TSD Chapter, including its proposed Annex (2024)**

The third point involves the Trade and Sustainable Development (TSD) Chapter of the EU-Mercosur AA, including its proposed Annex published in late 2024. While Chapter 2 in this report summarized important elements of the TSD Annex, an analysis of its interplay with the EUDR is presented here.

Although the Annex to the TSD Chapter does not mention the EUDR explicitly, several of its provisions are closely linked to its content and objectives. Notably, Article 16 reaffirms the parties' commitments to implement domestic and international obligations to reduce deforestation and increase forest cover by 2030. Article 50 further underscores the importance of securing adequate financing to prevent deforestation and to support forest conservation and restoration. In this context, the EUDR may reasonably be understood as falling within the scope of such domestic obligations, implying that the EU is not expected to weaken or repeal the regulation.

Upon closer inspection, the applicability of the EUDR under EUMAA appears to have significant limitations. While the TSD Chapter outlines explicit commitments to address deforestation, the Chapter may ultimately lead to a weaker application of the EU Regulation on Deforestation-Free Products (EUDR) in Mercosur countries: Direct implications for the EUDR arise from Section B.3 of the Annex, which addresses sustainability measures affecting trade. Section B.3 includes indirect references to the country benchmarking system under Article 29 EUDR. According to Article 29 EUDR, the classification must rely on both quantitative and qualitative indicators, such as deforestation rates and data from institutions like the FAO or the EC's Joint Research Centre. "Agreements or other instruments between the country concerned and the Union [...] that address deforestation and forest degradation and facilitate compliance of relevant commodities and relevant products with Article 3 [...]" are also to be taken into consideration in the classification of risk levels (Art. 29 (4) lit. b EUDR). Article 56(a) of the TSD Annex explicitly states that the EUMAA would be "favorably considered" in the context of such classifications. This Article implies that the mere conclusion of the agreement could influence Mercosur countries' risk categorization under the EUDR, potentially easing their regulatory burden (Eckes/Krajewski 2025; Rice 2024).

On 22 May 2025, the EC published the first official EUDR risk classification list, assessing countries based on the risk of producing non-deforestation-free commodities according to Article 29 in the EUDR. The classification used both quantitative and qualitative data and placed Argentina, Brazil, and Paraguay under standard risk, while Uruguay was classified as low risk (EC 2025a). For Mercosur countries, this means that due diligence under the EUDR

remains in simplified form, with compliance checks applying to 3 % of operators for standard risk countries and 1 % for Uruguay. The first country-benchmarking list appears to have taken a favorable view of Mercosur countries, as none was classified as high-risk, nor were any of their regions. Even the Brazilian Amazon, which has lost more than 10 % of its forest between 2001 and 2020 alone (Rodríguez Montellano et al. 2022), is not regarded as high-risk for deforestation. Overall, the list is not particularly stringent, with all EU Member States designated as low-risk. Only four countries – Belarus, North Korea, Myanmar, and Russia – received a high-risk classification, all of which are currently subject to sanctions by the UN Security Council or the EU Council. This classification framework remains subject to change, as the benchmarking system is scheduled for review in 2026 (EC 2025b).

Furthermore, Articles 56 (b, c) indicate that certification schemes recognized by Mercosur countries would be accepted as valid for verifying compliance with traceability obligations under the EUDR. Additionally, Articles 54 and 55 of the Annex emphasize that parties should consider the other party's scientific and technical information as well as statements on the legal compliance of products from the latter party when implementing sustainability measures. This formulation suggests that the authorities within the EU (i.e. Member States' authorities) would, in principle, place trust in certification systems officially recognized, registered or identified by Mercosur countries and information shared by national authorities when conducting checks.

Previous analyses have raised concerns that this approach may undermine the autonomy of EU Member States' authorities responsible for enforcing EUDR requirements. Incorporating such provisions in the EUMAA raises important questions about the integrity and independence of the EUDR's implementation framework. Scholars such as Lehmen/Vidigal (2025) and Eckes/Krajewski (2025), as well as recent media and NGO reports (e.g. Burr 2024; Guillot/Gijs 2024; Rice 2024), have highlighted the risks this may pose for regulatory coherence and enforcement credibility within the EU.

Finally, the last Article of the Annex to the TSD Chapter (Art. 64) ominously states that the provisions in this Annex do not constitute "an acknowledgement that market requirements of a Party are consistent with WTO rules and principles". It is possible that this clause was added on behalf of Mercosur to ensure that countries in the bloc could lodge a complaint under WTO law at the WTO dispute settlement body against unilateral legislation construing market requirements for operators (also) outside the EU, such as the EUDR or the CSDDD (Eckes/Krajewski 2025).

In conclusion, additions to the TSD Chapter fail to enhance environmental protection under the EUMAA. On the contrary, the main additions to the TSD Chapter could weaken the effects of the EUDR by compromising the benchmarking system and the independence of Member State's competent authorities.

### **Illegality of the EUMAA due to European climate-related legal obligations?**

Legal scholars Verheyen/Winter (2024) have argued that the EUMAA is incompatible with EU climate protection laws and fundamental rights. The FTA contributes to greenhouse gas emissions and loss of carbon sinks both within and outside the EU, threatening fundamental rights such as health, equality, and property. Furthermore, by accelerating the EU's carbon budget consumption, the FTA jeopardizes the achievement of the Paris Agreement's targets, potentially causing global temperatures to exceed the critical 1.5°C or even 2°C thresholds. According to these scholars, this renders EUMAA inconsistent with both the Paris Agreement and the broader Framework Convention on Climate Change (ibid.).

In its recent Judgment in the case *KlimaSeniorinnen Schweiz and Other v Switzerland*, the European Court of Human Rights held that so-called "embedded emissions" (i.e. greenhouse gas emissions generated abroad for the production of goods for consumption in Switzerland) were to be regarded as falling under Swiss responsibility (ECtHR, *KlimaSeniorinnen v*



Switzerland, para. 280). As Switzerland had failed to “act in good time and in an appropriate and consistent manner regarding the devising, development and implementation of the relevant legislative and administrative framework” to reduce GHG emissions, the Court held that Switzerland had thereby violated Article 8 of the European Human Rights Convention (ECtHR, *KlimaSeniorinnen v Switzerland*, para. 573 f).

As the ECtHR held (*KlimaSeniorinnen v Switzerland*, para. 657), the complexity of the issue warrants that the Court cannot prescribe the specific measures the state has to take in order to not emit so many GHG emissions as to violate the European Human Rights Convention. In other words: How Switzerland reduces its GHG emissions – 70 % of which are generated abroad as “embedded emissions” – is a political decision of Switzerland, not a judicial decision to be made by the ECtHR. While only Switzerland was formally a party to the dispute of *KlimaSeniorinnen v Switzerland* and is thus obliged to implement the judgement (Art. 46 European Convention on Human Rights), all other parties to the European Convention on Human Rights now have to reasonably assume that their citizens could take them to the ECtHR, if they emit too many GHG emissions (including via trade).

This also has implications for the EU, which – while not a member of the European Convention on Human Rights – has committed in the EU Treaties to comply with the Convention (Art. 6 TEU) “and hence must take not only export-related (generated on EU territory) but also import-related emissions (of goods consumed on EU territory) into account” (Eckes/Krajewski 2025: 4).

Eckes and Krajewski (2025) argue that the expected increase of trade in emission-intensive products, such as beef and soybeans, therefore opens up the question whether the conclusion of the EUMAA is in line with the EU’s (human rights) obligations to reduce GHG emissions, including trade-related ones. However, as the ECtHR has argued, it is a political decision how a state (or the EU) wants to spend their GHG budgets. If the expected increase of GHG emissions in trade with Mercosur is accounted for, more emissions will have to be reduced elsewhere. As stated above, in the EUMAA climate concerns do not take priority over economic considerations. If the EUMAA is ratified, an increase of GHG emissions for EU consumption must be calculated as belonging to the EU, even though they are generated elsewhere, and the EU will have to find other ways to reduce GHG emissions. While GHG emissions will increase, the policy space for reducing GHG emissions will decrease,<sup>12</sup> making it harder to take actions to reduce GHG emissions. Since to the best of our knowledge, the EU has so far not addressed this issue with specific measures, neither for the case of GHG emissions produced by the EUMAA nor for its other bilateral free trade agreements, there is a risk that EU is in breach of its obligations to reduce GHG emission.

## 4.2. Expected Climate Impacts of the Agreement

As shown above, the changes made to the text of the EUMAA do not contribute to decreasing the environmental effects of the EUMAA. In our assessment of the agreement in principle that had been reached in 2019, we had concluded that “a profound revision of the agreement will be necessary” to ensure that it accomplishes the climate targets that the EU is obligated to fulfil (Tröster/Raza 2021: 30). While changes have been made to the EUMAA, these changes are not comprehensive, let alone a profound revision of the EUMAA.

The much-cited SIA study (LSE 2020) applying a standard CGE model with neoclassical foundations came to the conclusion that climate emissions from the EUMAA will be small. The study reports higher CO<sub>2</sub> emissions in the EU of +0.05 % (or 2 million tons of CO<sub>2</sub>) until 2032, in Brazil (+0.18 %), and Argentina (+0.69 %), but lower emissions in Paraguay and Uruguay,

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<sup>12</sup> This owes to the fact that the EU cannot simply quit the EUMAA without consequences, as the treaty is legally binding and enforceable via a dispute settlement mechanism. Furthermore, especially the rebalancing mechanism makes it more difficult for the EU to take unilateral action to reduce GHG emissions (see in detail section 4.1. on the rebalancing mechanism).

which sum up to an increase of 1.8 million tons in absolute terms in all Mercosur countries (ibid.: 86, Table 23). The global CO<sub>2</sub> emissions would even decline by 6.8 million tons (or – 0.01 %) due to reductions in the rest of the world linked to trade diversion effects. Considering the changes in other GHG emissions such as methane, the emissions in Mercosur countries would be significantly higher with 17.5 million tons of CO<sub>2</sub> equivalents due to the increase in animal production, but would nevertheless lead to a small decline of global emissions (-1.8 million tons CO<sub>2</sub> equivalents or less than 0.01 %).

Other CGE model applications show similar CO<sub>2</sub> effects for the EU and Mercosur. Campos et al. (2022) expect the EUMAA to increase CO<sub>2</sub> emissions of Mercosur and the EU by 5.4 million tons or 0.15 %. Latorre et al. (2022) report an increase of 4.9 million CO<sub>2</sub> emissions by the two blocs. Even though these results seem small, they would contrast with the EU goal to decrease overall emissions. In addition, the LSE (2020) impact assessment emphasizes that the additional emissions from one additional agreement are not so relevant, without considering the cumulative effects of FTAs (Tröster/Raza 2021). In fact, long-term assessments show that import-related GHG emissions have grown faster than export-related emissions of the EU (ibid.).

**Table 6: Overview on studies on GHG emissions changes of the EUMAA**

Academic Study	Methodology	Assessed changes on GHG emissions	Other studied environmental or climate impacts
LSE (2020)	Standard CGE model	Changes in GHG emissions (ambitious scenario, in % and CO <sub>2</sub> e <sup>13</sup> ):  EU: -0.01 %, -0.5 mio tons Brazil: 1.15 %, 12.5 mio tons Argentina: 0.99 %, 4.3 mio tons Paraguay: 0.14 %, 0.08 mio tons Uruguay: 0.87 %, 0.8 mio tons RoW: -0.02 %, -15 mio tons	Recognized impacts on land use and deforestation, water resources, air pollution, and waste. No modelling of these impacts.
Ambec et al. (2020)	Emission intensities based on GDP effects + deforestation effects	EU & Mercosur: + 11.5 mio tons of CO <sub>2</sub> e	X
Campos et al. (2022)	Standard CGE model	EU & Mercosur: + 5.4 mio tons of CO <sub>2</sub> or 0.15 %	X
Latorre et al. (2022)	Standard CGE model	EU & Mercosur: + 4.9 mio tons of CO <sub>2</sub>	X
Mercado Cordova & Koo (2023)	Standard CGE model + land use changes	Global emissions: + 121 mio tons of CO <sub>2</sub> e due to land use change	X

Sources: Ambec et al. 2020; Campos et al. 2022; Latorre et al. 2022; LSE 2020

Importantly, these studies do not include GHG emissions from transportation and particular the effects of land use changes and deforestation. Various reports (FERN et al. 2023; Fritz

<sup>13</sup> Carbon Dioxide Equivalent (CO<sub>2</sub>e) is a unit of measurement to account for the global warming effects of other greenhouse gases apart from Carbon Dioxide.

2020) and academic studies (Arima et al. 2021; Kehoe et al. 2020; Mercado Cordova/Koo 2023b) assessing the climate impacts of the EUMAA, broadly reach the same conclusion: the EUMAA is not climate-friendly, primarily due to the risk of export-driven deforestation in Mercosur countries. Mercado Cordova & Koo (2023) show that considering emissions from land-use changes would increase emissions from changes in trade and production patterns shown by Campos et al. (2022) by a factor of 24, i.e. an increase from 5.4 mio tons to 121 mio tons. In other words, the increase of GHG emissions will mostly result from more deforestation and only to a lesser degree from changes to trade and production alone.

### **Expected impacts on deforestation**

Deforestation as one element of land use change does not only have an adverse impact on the climate, but also presents a threat to indigenous communities, biodiversity, and rainfall patterns (Arima et al. 2021). The Amazon region has experienced escalating deforestation, especially between 2020 and 2021, when forest loss reached its highest level in a decade, a trend evident both inside and outside designated conservation areas (Ziccardi et al. 2024). The risk of furthering deforestation of the Amazon forest is one of the major reasons why the EUMAA has become “the iconic representation of an ‘environmentally high-risk commercial tool’ that should be avoided” (Cesar De Oliveira et al. 2024: 2).

As stated above, the changes in the text of the EUMAA do not contribute to lessening deforestation. In fact, there are new provisions that serve the purpose of weakening the EUDR and other EU legislation that has potential to decrease deforestation rates. On the bright side, the EUMAA does create a venue for enhanced dialogue and cooperation on issues concerning sustainable development (Cesar De Oliveira et al. 2024). However, experience with Domestic Advisory Groups created to facilitate civil society participation in FTAs shows that creating a venue is not enough, if the venue is then underused (Martens et al. 2020).

Several studies use CGE simulations to show the effects of the EUMAA on land use change. Cordova and Koo (2023) see a net forest loss of more than 54,000 hectares (ha) to accommodate cropland expansion due to the EUMAA. Arima et al. (2021) estimated that the EUMAA would lead to additional land conversion (from forest to cropland) in Brazil ranging from 56,000 ha to 173,000 ha, which is equivalent to 1.3 to 4.2 times the area of Vienna. Their projections also show that the drivers of deforestation in Brazil will likely be sugarcane production as well as soy production, the latter mainly for domestic use. This is of particular relevance, given that sugarcane is not one of the commodities covered by the EUDR, meaning that the EUDR will not have any impact on reducing deforestation for sugarcane plantation.

The studies cited in Table 7 do not take the EUDR into account, which “could potentially prevent some of the negative impacts” of the EUMAA (Cesar De Oliveira et al. 2024: 2). However, there are reasons to believe that the effects of the EUDR on deforestation in Mercosur will be limited: Firstly, much of the impact of the EUDR depends on its implementation. The EUDR replaced the European Timber Regulation (EUTR; Regulation 995/2019/EU, OJEU L 295/23). Implementation of the Timber Regulation showed issues with non-compliance of many operators and few compliance checks on importing operators (Köthke 2020). It is likely that the implementation of the EUDR will face similar challenges. Secondly, the regulation only covers specified products. Other commodities, such as sugarcane, which is estimated to be the biggest driver for deforestation in Brazil due to the EUMAA, or poultry, which is also expected to increase significantly due to the EUMAA, are omitted (Palmieri et al. 2024).

**Table 7: Overview of studies on deforestation risks of the EUMAA**

Academic Study	Methodology	Evaluation of deforestation risks	Other information
Mercado Cordova/Koo(2023)	Standard CGE model + land use changes	Deforestation of 54.000 ha	Estimated net cropland increase between 73,000 ha and 405,000 ha
Arima et al. (2021)	Standard CGE model + land use changes + spatial allocation model of deforestation	Additional 56,000 ha – 173,000 <sup>ha</sup> deforestation in Brazil	Brazil's main deforestation driver is croplands, with sugarcane being the most relevant

Sources: Ambec et al. 2020; Arima et al. 2021; Campos et al. 2022; Latorre et al. 2022; LSE 2020a; Mercado Cordova/Koo 2023a

Thirdly, the share of Mercosur exports going to the EU, is declining (Fearnside 2021; Reis et al. 2023), limiting the scope of the EUDR further. The past decades have shown that rising revenues from soybean and beef exports, driven largely by Chinese demand, increase the environmental impact and land use change in Brazil (Fearnside 2021; Fearnside/Figueiredo 2016; Rajão et al. 2020). China's imports and investments have had a major global environmental impact, particularly in the Amazon, where they also fund infrastructure projects that contribute to deforestation (Fearnside/Figueiredo 2016). Given this market situation, it is reasonable to assume that beef and soybean exporters in Mercosur countries will allocate those shares of their products from proven deforestation-free sources to Europe, while exporting deforestation-dependent products to China and other markets. This in no way diminishes the importance of the EUDR in de-incentivizing deforestation, but shows that there are limits to what such a regulation can achieve in the light of Europe not being the only possible destination of deforestation-dependent products.

In scenarios of effective governance, the forest losses expected from the EUMAA are only about half the predicted forest losses under less effective governance scenarios (Arima et al. 2021). Differences in the effectiveness of land governance policies have been observed as a major factor for deforestation rates (Arima et al. 2014). Studies highlight that Brazil's prior success in curbing deforestation – particularly from 2004 to 2012 through initiatives like the Action Plan for Prevention and Control of Deforestation in the Legal Amazon (PPCDAm) – was largely due to strong federal action and inter-agency collaboration (Ziccardi et al. 2024). These efforts brought deforestation to historic lows by 2012. Subsequent administrations, particularly under President Bolsonaro (2019–2022), saw a marked rollback of environmental governance. This included the dissolution of climate-focused government departments and a systematic dismantling of environmental protections (Rajão et al. 2020; Viola/Gonçalves 2019). Empirical data reinforces this link between political leadership and environmental outcomes (Rajão et al. 2020; Viola/Gonçalves 2019; Ziccardi et al. 2024). Under Bolsonaro, deforestation within Indigenous Territories surged, with 49,740 hectares lost in 2019 alone, one of the worst figures recorded in over a decade (INPE 2024 as in Ziccardi et al. 2024). While President Lula's 2023 return to office brought a decrease in annual deforestation rates, emerging policy proposals – such as the construction of the BR-319 highway and the privatization of federal forest lands – raise concerns about renewed forest loss in the near future (ibid.). Indeed, new data underline these concerns: Deforestation rose globally in 2024, reaching unprecedented levels of rainforest loss, with Brazil being one of the most affected countries (Goldman et al. 2025).

Some argue that the EUMAA creates venues for dialogue and cooperation that could be used to advocate for better land conservation policies (Cesar De Oliveira et al. 2024). Indeed, such venues are created in the EUMAA: Each party shall “endeavor to take into consideration the comments received” concerning the planned adoption or amendments of trade-related laws and regulations (Art. 3 (2) lit. c Transparency Chapter). The Parties should also encourage public participation in the development, enactment and implementation of trade measures with potential effects of the protection of the environment or labor conditions as well as measures concerning the environment or labor conditions with potential trade effects (Art. 3 TSD Chapter). A Sub-Committee on Trade and Sustainable Development is to be established, consisting of “senior officials, or their delegates, from each Party” (Art. 14 TSD Chapter), with the power to make recommendations to the Trade Committee. Furthermore, civil society domestic advisory groups have been announced and are referred to in the Trade part of the EUMAA (e.g. Art. 17 TSD Chapter). However, their institutional set-up is in a part of the agreement that has not been made publicly available. The EC has announced the set-up to be “relatively open and flexible”. Whether criticism of ineffective institutional set-ups of civil society domestic advisory groups has been taken into account in the set-up of the mechanism, remains thus to be seen.

By way of summary, as of yet little is known about the dialogue and cooperation forums established by the EUMAA, but unless civil society participation is institutionalized properly in the institutional regulations of the agreement (which are not yet published), advocacy for better land conservation policies would solely rest with EU officials. In light of the recent change of policies – the EU postponing the EUDR and proposing to scale back on major other environmental obligations of companies, as well as some Member States proposing to cut back on the obligation of the EUDR as well (Narodoslawsky 2025) – expectations of the EU using venues for dialogue to nudge Mercosur into more land conservation seem overly optimistic.

## **5. ECONOMIC SECURITY AND POLITICAL COOPERATION ASPECTS OF EUMAA**

### **5.1. Securing better access to Strategic Raw Materials**

Securing access to the raw materials of the Mercosur countries is undoubtedly one of the EU's goals from the EUMAA. In the field of raw materials policy, the EU has already actively engaged in its “open strategic autonomy”-approach, as the risk of supply-chain disruptions is particularly acute in this field (Guinea/Sharma 2023; Tröster et al. 2025).

Apart from agricultural goods, raw materials are the other type of goods where the EU has a very pronounced and longstanding trade deficit vis-à-vis Mercosur countries (Mendoza/Moshhammer 2023, based on 20 years of trade data). This is on one hand due to the overall high reliance of Europe on raw materials from abroad. For some of the raw materials that the EC itself defines as ‘Strategic Raw Materials’ (SRMs), because of their importance for the green and digital transition, defense, and aerospace technology, the expected global demand growth and potential production constraints, EU import exceeds 90 % (this concerned gallium, lithium, magnesium, titanium metal, platinum group metals, and rare earth elements for magnets) (EC 2023a). Even if the EU managed to reach its ambitious goals for domestic mining, processing, and recycling of SRMs, the majority of SRMs would continue to be imported from third countries (Tröster et al. 2024).

On the other hand, Brazil and Argentina – the two large economies of Mercosur – are important exporters of raw materials worldwide: Brazil dominates the world supply of niobium (mining 92 % of the niobium mined worldwide; Carrara et al. 2023), is ranked second in global iron



and magnesite mining, and ranks among the top ten global producers of bauxite, beryllium, chromium, feldspar, graphite, gypsum, lithium, manganese, nickel, petroleum, rare earth minerals, tantalum, tin, and vanadium. Argentina is among the top five lithium mining countries, and among the top ten for boron minerals (Reichl/Schatz 2025). Argentina is the only of the Mercosur countries that has concluded a Strategic Raw Materials Partnership with the EU and is also the only Mercosur member state that is a member in the Minerals Security Partnership, chaired by the EU and the US to bring together raw materials exporting and importing countries to further value chains outside of China (see in detail Tröster et al. 2025). In contrast to Brazil and Argentina, while Uruguay and Paraguay host some mining, mining is not one of the major sectors of the economy in either of these countries (Reichl/Schatz 2025). Given therefore, the EU's priority of diversifying its imports of raw materials and the potential that the Mercosur countries have in this regard, it is not surprising that the new TSD Annex includes provisions that mirror the provisions found in the Strategic Raw Materials Partnerships that the EU has conducted with 14 countries, including Argentina.

The four pillars of Strategic Partnerships are typically (1) the development and integration of raw materials value chains, (2) cooperation in the field of research and development, (3) promotion of environmental, social and governance criteria and standards, and (4) financial and investment instruments for raw material projects (Tröster et al. 2025). Most of those pillars are also present in the EUMAA in one form or another. – all of them in non-binding forms, just as in Strategic Raw Materials Partnerships. The development and integration of raw materials value chains and financial and investment instruments for raw material projects are particularly prominent in Art. 32 and 34 of the TSD Annex. Cooperation in development in connection to raw materials also features in Art. 32, whereas research cooperation is not explicitly mentioned. However, research cooperation (not necessarily with a focus on raw materials) might be included in the (not yet publicly available) political parts of the agreement, given that the EC has announced research to be among the topics of enhanced political dialogue (EC 2024). More worrying is the absence of environmental, social and governance criteria (ESG criteria).

While the EUMAA, especially the TSD Chapter and its Annex reiterate commitments of promoting sustainability, mining is a sector particularly prone to human rights abuses, bad labor conditions and negative environmental impacts (Bridge 2004; Maus et al. 2022; Owen et al. 2022). The inclusion of specific ESG criteria for raw materials projects, such as specific requirements for local consultations with affected populations, environmental impact assessments, and labor conditions that extractors need to meet, would therefore have been a useful addition.

Whether the provisions aimed at attracting investment towards mining in Mercosur will indeed lead to more minerals imports to the EU, cannot be assessed at this point. However, the EU's primary goal of ensuring that Mercosur countries cannot restrict exports to Europe (e.g. through export restrictions aimed at fostering local processing and beneficiation), is upheld: The prohibitions on import or export monopolies, restrictions of regulating supply of raw materials and the prohibition of higher export prices are all included in the Trade in Goods Chapter (respectively Art. 9 para. 3, Art.10, Art. 5). However, as the EUMAA does (in contrast to other FTAs concluded by the EU) not contain an "Energy and Raw Materials Chapter", some provisions typically found in such chapters are not included in the EUMAA. This concerns particularly guarantees of access to the parties' energy infrastructure, as well as rules concerning permits for exploration.<sup>14</sup> Notable also is the fact that the EUMAA does not include an investment chapter, which is typically seen by the corporate sector in the EU as an important measure to promoting a stable investment climate.

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<sup>14</sup> These rules are not so detailed, but the rules on licensing requirements and licensing procedures in the Trade in Services and Establishment Chapter of the EUMAA should apply to mining permits as well.

Exceptions were made for Brazil, which is allowed to introduce export taxes on some raw materials within specified margins (see Chapter 2.1). This is not to be explained by Brazil not wanting to export such raw materials to Europe. In fact, Brazil already exports most of its SRMs to the EU (measured by value; (Guinea/Sharma 2023: 13). It is rather reflective of Brazil's intention to upgrade its minerals value chains and to advance domestic downstream production (Bloomberg 2025; Mining Technology 2025). Currently, Brazil has no export taxes in place.

Argentina, which also wants to further mining, especially of lithium, follows a different policy. Driven by the need to reduce its crippling debt and against the marked shifts in economic policy introduced by the Milei government, the new RIGI program offers foreign investors extraordinarily beneficial conditions for up to 30 years, including very low taxation for mining companies, free movement of capital and repatriation of profits, as well as virtually no for local value creation requirements (Carry 2025). While there currently are still some export taxes in place affecting raw materials exports, export taxes for mineral raw materials are relatively low at 8 %. Furthermore, even prior to the conclusion of the negotiations on the EUMAA, Argentina's president Milei had announced plans to eliminate the export tax on mineral raw materials parallel to the country's current elimination of export taxes on a wide range of other products and raw materials.

In conclusion, the EUMAA protects European access to raw materials on paper. But there is more to securing minerals than simply outlawing tariffs or export prohibitions. While the legal framework established in the EUMAA ensures long-term access to raw materials, the provisions of the EUMAA cannot overcome the structural hurdles for more raw material extraction: Mining operations are very costly and need to be preceded by exploration and feasibility studies, which often take 15 years or more, until a mine operates (IEA 2021). So far, European investors have been largely absent from the minerals sector in Mercosur countries not due to the lack of a Free Trade Agreement, but due to other factors that have made such investments unattractive, including fluctuating raw material prices, high investment risks, high costs of technical knowhow. The EU's policy of de-risking arguably does not go far enough, especially in comparison to Chinese competitors (Schulze 2025). The latter profit in particular from support from Chinese banks in offering very favorable financing conditions, are open to invest in the establishment of local refining capacities and further downstream activities (as many of them control the entire mining value chain), and are indirectly supported by Chinese government initiatives under the framework of the Belt and Road Initiative. In contrast, the EU's 'raw materials diplomacy', i.e. all the tools that the EU has used to gain access to minerals abroad, have so far not led to substantive interest of European investors (Carry 2025; Schulze 2025). The reasons for this have to do with structural factors, most importantly the lack of large-scale mining companies in the EU that control mining value chains and dispose of the required technologies. Whether the enhanced cooperation fund of the EUMAA and the related Global Gateway initiative will significantly change this, remains to be seen. It is however apparent that the build-up of European value chains in strategic minerals is in large measure an issue that needs to be addressed via more effective EU industrial policies.

## **5.2. Promotion of political cooperation between the EU and Mercosur**

The EC expects – or at least promises – enhanced political dialogue between the EU and Mercosur countries as a result of the EUMAA:

“The new agreement will enhance political dialogue and increase cooperation in areas such as migration, digital economy, research and education, human rights, including the rights of indigenous people, corporate and social responsibility, environment protection, ocean governance, as well as fight against terrorism, money laundering and cybercrime.” (EC 2024)

The fora established for such dialogue and enhanced political cooperation are still not known, making an assessment of this expectation difficult. However, the implicit basis of such expectations in the EU, namely a similar political orientation and commitment to liberal democracy on both sides, is on thin ice.

In politically volatile times – such as the ones we are experiencing today – political priorities may change quickly. The current EC itself has performed a drastic shift from its predecessor, prioritizing competitiveness and military security, while de-prioritizing prior EU policy goals such as decarbonization and corporate and social responsibility (Tröster et al. 2025). Many of the areas named are furthermore areas where the EU shares its legislative competences with the member states (e.g. concerning environmental protection, research, security, according to Art. 4 TFEU) or where the EU has only a (subsidiary) supporting competence (e.g. education, according to Art. 5 TFEU). Political dialogue in such areas therefore is riddled with many national interests. In some areas, such as migration, political disagreements between EU member states are so pronounced that political dialogue even within the EU is difficult.

Concerning the four original Mercosur member countries, similar concerns are valid. The four countries are in no way politically homogenous. While Paraguay is politically characterized by the rule of the conservative Colorado Party which has, with minor interruptions, been in power for almost 80 years (NPR 2023), Uruguay's political landscape in the 21<sup>st</sup> century has changed with the emergence of the Frente Amplio into power, a center-left party coalition (Yanakiew 2020). Argentina and Brazil have seen recent swings between right- and left-wing politics. In 2022, Luiz Ignacio Lula da Silva narrowly defeated his predecessor as Brazilian president, ultra-conservative Jair Bolsonaro. Lula's win was seen as yet another sign of a second 'pink tide' in Latin America, i.e. a time of left-wing politics in the region (Grattan 2022). The Lula government however does not hold a majority in Brazil's Congress, and is thus effectively a minority government dependent on garnering political support from increasingly politically assertive parties in the political center and on the right. With recent polls suggesting increasing dissatisfaction with the government's performance, and uncertainty whether Lula will stand for re-election in 2026 given his age and health condition, a change in government seems probable.

With regards to the political situation in Argentina, Argentina's left-wing government was voted out of office in 2023, with right-wing populist Javier Milei becoming Argentina's new president. Milei has since then implemented radical neoliberal austerity policies, increasing poverty levels to some 57 % as of January 2025, while bringing down inflation from some 289 % in mid-2024 to 120 % in January 2025.<sup>15</sup> Milei has expressed political reservations with respect to enhanced regional cooperation, given marked divergences between his libertarian economic views and the social democratic outlook of the Lula government in particular.

What is more, the foreign policy trajectories of Argentina and Brazil point in different directions. The Milei government is sympathetic to the Trump administration and other far-rights governments also in the EU, and thus has withdrawn the application of Argentina to join the BRICS group. The Brazilian government however follows a strategy of non-alignment vis-à-vis the US, China and the EU, at the same time as promoting South-South cooperation, including through the BRICS group (Amorim 2024; Heine et al. 2025).

These "contradictory political developments in the individual member states" of Mercosur render cooperation within Mercosur and the finding of common strategies vis-à-vis third parties (such as the EU) more difficult (Parlament Österreich 2025: 9). The development of Mercosur will thus be stifled by political conflict between the Member state governments, which have highly diverging views of how their countries' economic policies should proceed, and thus envision different strategic trajectories for Mercosur (Mendoza/Moshammer 2023). The 25-

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<sup>15</sup> See <https://apnews.com/article/argentina-poverty-levels-uca-study-milei-devaluation-d5cb0a20b1e768efdeafbad5bf05eded> (accessed 4 June 2025).



year long history of the EUMAA negotiations is riddled with phases of relative agreement and phases of relative disagreement, precisely because of changes of government in Mercosur countries, particularly in Brazil and Argentina (see examples from Pose-Ferraro 2025). It was “a rare convergence in favor of a deal between Mercosur’s largest economies” that presented the chance to finalize the EUMAA, in combination with the fact that this occurred at the same time as the US administration’s protectionist turn in trade policy became apparent (ibid.: 8).

While all of this does not preclude cooperation between the blocs on particular issues, the stability of such cooperation is questionable, and the opportunities for alignment between the blocs on issues of strategic geopolitical relevance must be considered low.

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