A Strategic, Economic and Sustainable Win-Win

Views of Swedish Enterprise on the EU-Mercosur Free Trade Agreement

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The benefits of the EU-Mercosur Free Trade Agreement (FTA) would be substantial on both sides of the Atlantic. The agreement will facilitate mutually advantageous trade and investment – hence contributing to strengthening EU competitiveness, increasing economic security, and enhancing sustainable development.

The Strategic Case

The four Mercosur countries (Brazil, Argentina, Uruguay and Paraguay) together have a population of 275 million, and their combined GDP makes them the world's sixth-largest economy. In these geopolitical times, stronger ties between the EU and Mercosur should be a no-brainer from a strategic standpoint, given our shared values. An agreement would also contribute to the broader EU competitiveness agenda as fostering open and competitive markets is a prerequisite for boosting productivity growth. FTAs lead to increased market access and stable, predictable rules which are crucial for European companies to be able to develop, compete and grow on a global level. Trade agreements are also an important component in making supply chains more resilient and therefore contribute to enhancing the EU's economic security.

The Mercosur countries possess vast mineral resources that are in heavy demand in Europe due to its role in the twin green and digital transitions. Several critical raw materials, such as iron ore, bauxite, copper and nickel are extracted in Brazil, while Argentina has vast deposits of lithium. The agreement presents an opportunity, in line with the EU's strategy to enhance economic security, to diversify away from China and Russia and other less-reliable sources of such minerals.

In fact, the EU is already the largest importer of these materials from Brazil. However, many countries (Argentina among them) are imposing, or are considering imposing, export restrictions on strategic commodities. The agreement will ban or limit most such restrictions, ensuring a stable supply of critical raw materials into the EU and providing a hedge against future disruptions.

As of today, Mercosur does not have any similar agreement with the other main economic actors in the world, meaning European firms will enjoy an important edge over global competitors would the agreement enter into force. Further delays in approving the agreement would mean pushing Mercosur even closer to other economic actors – a process that is already well underway. For instance, Chinese investments into Mercosur saw a massive increase between 2020 to 2022[1].

The Economic Case

Some 60,000 European firms export to Mercosur. These companies and their suppliers support 855,000 jobs in the EU[2]. Furthermore, the EU is Mercosur's second largest trading partner in goods after China, with a value of close to €110 billion in 2023. The EU is also a very large investor in the region[3]. Yet the remaining untapped potential is immense.

The main economic benefit from this agreement lies in the reduction of tariffs. Currently, Mercosur has significantly higher import tariffs than the EU with an average rate of 10-12 %, but for some goods it reaches as high as 35% (for example cars). On top of that, there is a multitude of other fees

[1] 5 things to know about Kaja Kallas' European Parliament hearing – POLITICO
[2] EU-Mercosur - a boost for jobs and exports in Sweden
[3] EU trade relations with Mercosur

and import taxes. Most tariffs on goods will be reduced to zero, benefiting EU exporters of products such a motor vehicles, machinery, pharmaceuticals and clothing. These reductions could prove even more important as other big export markets might be looking at restricting imports from the EU.

The agreement lowers tariffs for certain agricultural products where the Mercosur countries have their strongest competitive advantages, which presents an opportunity for Europe to limit food price inflation. To avoid disruptions to the agricultural markets in Europe, a system of tariff rate quotas (TRQs) has been negotiated, which only allow a certain quota of some sensitive goods to enter the EU from Mercosur tariff-free. This is the case for beef, where the quota offered to Mercosur is very small compared to the total EU beef consumption.

The agreement will also make it easier for EU firms to sell services to, and invest in, Mercosur. This includes business services, financial services and telecommunications. There are also benefits in the agreement related to government procurement which historically has been an issue for European companies. The agreement contains rules making it easier for European companies to bid for government contracts and making tendering processes more transparent.

Finally, the FTA will increase predictability. Without the deal, the Mercosur countries have the right to increase tariffs to more than 30% on average. With a deal, such tariff hikes are prohibited. Research has shown that this is the single most important benefit of any trade agreement, as businesses' long-term investments are reliant on stability and predictability.

The Sustainability Case

The Mercosur countries aim to expand trade, connect to global value chains with European partners and climb the value-added ladder. They will do so by opening their economies and making the business climate more predictable. This will spur much-needed EU investment into Mercosur, hopefully contributing to reindustrialisation and creating new jobs in the formal economy. In this way, trade can lift people out of poverty and contribute to social development. Nevertheless, there has been criticism of the agreement on sustainability grounds. Increased trade with the EU, it is assumed, will lead to greater deforestation and other negative effects. However, there are several reasons to believe that this is not the case.

First, the Mercosur countries are becoming increasingly ambitious in their sustainability agendas, not least on reducing CO2-emissions (aiming for net zero in 2050, as the EU) and halting deforestation of the Amazon rainforest[4]. Brazil is also developing its own green industrial policies and aims to become a green leader in the developing world[5]. Furthermore, renewables already make up almost 45% of Brazil's primary energy demand, making its energy sector one of the least carbon-intensive in the world[6]. Uruguay and Paraguay, meanwhile, also have very green energy mixes.

Second, the agreement establishes a more institutional framework for cooperation on sustainability issues between EU and Mercosur. The increased possibilities for EU firms at the forefront of developing green tech and with extensive know-how to enter the Mercosur is also beneficial. In addition, the agreement's chapter dedicated to sustainable development stipulates that trade among them will support and uphold existing environmental standards, conservation of forests and labour rights. The agreement can be suspended, in part or in full, if it is proven that one party has violated its obligations under the Paris agreement.

Finally, the agreement does not affect or undermine EU food safety nor animal and plant health legislation, something that has been a key concern for some.

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[4] Brazil's President Lula unveils plan to end deforestation by 2030 | Environment News | Al Jazeera
[5] Brazil launches new industrial policy with development goals and measures up to 2033 — Planalto
[6] Brazil - Countries & Regions - IEA).