Mercosur and EU finalise free trade agreement, establishing one of the world's biggest free trade zones, but ratification hurdles await | Credendo

Event

In early December 2024, the European Commission and four founding members of Mercosur (Argentina, Brazil, Paraguay and Uruguay) announced that a free trade agreement had finally been concluded. The free trade agreement was 25 years in the making. It was first signed in 2019 but details and terms were still in negotiation amid environmental and protectionist concerns. The final agreement includes amendments on the environment (with deforestation mitigation goals and a suspension in case of serious breach of the 2015 Paris Agreement), critical minerals and automobiles, amongst other things. The free trade agreement, if ratified, would create one of the biggest free trade zones in the world, with a population of more than 700 million and potentially spanning 31 countries. Mercosur is currently the EU's tenth largest trade partner for goods (and the ninth biggest export market for Belgium outside Europe), while the EU is Mercosur's second largest partner. Nevertheless, the ratification of the deal is still uncertain, especially due to opposition of France and Poland, whose farmers are concerned about Mercosur's agricultural imports.

Impact

The ratification process is expected to proceed at two different speeds. Mercosur countries are likely to ratify the trade agreement relatively quickly in the coming months. Currently, the deal excludes Venezuela (suspended since 2016) and Bolivia, which joined Mercosur only in July 2024. Bolivia has four years to comply with all Mercosur treaties and regulations before it can ratify the EU-Mercosur free trade agreement. In contrast, the ratification process for the EU will be lengthy and might stall. The agreement requires a legal review before its ratification by the Council of the European Union and a majority in the European Parliament. Thereafter it requires the ratification of every EU member state, though the trade chapter could be accepted by a qualified majority if the EU decides to separate the trade elements.

If the free trade agreement gets ratified, the trade deal promises significant benefits for both trade blocs. For Mercosur countries, it will support economic growth through increased foreign investment and exports, especially for agricultural products and critical minerals. For the EU, it will save companies EUR 4 billion in duties each year and mainly benefit added-value sectors, such as (electric) vehicles. The free trade agreement will gradually eliminate tariffs on over 90% of traded goods within a time span of 15 years, depending on the product, though some quotas will remain, mainly for sensitive agriculture products such as meat. Furthermore, the agreement tightens and standardises labour, food safety, intellectual property and environmental regulations. Lastly, it will help diversify EU's trade partners amid high geopolitical tensions, especially given Trump's imminent presidency, and provides access to a secure source of energy and food.

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