Project brief

Thünen Institute of Market Analysis 2025/16a

Update: EU-Mercosur Agreement - Implications for the Agri-food Sector

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- **The EU-Mercosur Partnership Agreement leads to a diversification of trading partners and increases resilience to multiple crises on both sides of the Atlantic.**
- **The EU maintains significant trade protection for many agri-food products.**
- **The changes in production within the EU are small. The most affected areas are beef and poultry production, with slight declines of up to 1.5%, while new export opportunities arise for dairy and some processed food products.**

Background and objectives

After nearly 25 years of negotiations, the EU and Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay) concluded their partnership agreement on December 6, 2024. However, ratification is still pending. If the European Commission opts for an interim trade agreement, its trade-related provisions may come into force following approval by the European Parliament and Council. In June 2019, an initial political agreement on the draft text of the agreement was reached. The negotiations that followed aimed, among other things, to improve the rules within the sustainability chapter, including provisions on climate protection and forest conservation.

In the agri-food sector, the agreement foresees a gradual reduction or elimination of tariffs. For so-called "sensitive" products - such as beef, pork, poultry, ethanol, honey, and sugar - fixed tariff quotas will be implemented. These quotas allow only a limited quantity to be imported at a lower tariff rate. Imports exceeding the agreed quota amounts are subject to higher tariffs. Additionally, the EU protects around 350 geographical indications—such as “Bavarian Beer” or “Nuremberg Sausages”—against imitation.

The agreement also includes a commitment by Mercosur countries to reduce export taxes. For example, Argentine soybeans will be subject to a maximum export tax of 14% once the agreement has been fully implemented.

A bilateral safeguard mechanism - the so-called safeguard clause - can be applied if imports cause or even only threaten to cause serious injury in the partner country’s market. Animal health status is also taken into account. The agreement could allow unaffected regions within the EU to continue exporting, even if an animal disease occurs in other parts of the EU.

The agreement also includes a sustainability chapter, which addresses, among other things, the implementation of the Paris Climate Agreement, improvements in animal welfare, and measures to combat illegal deforestation and preservation of biodiversity.

This study is an update of the analysis by Pelikan and Döbeling (2020), which examined the effects of expanded market access on the agri-food sector. The present analysis takes into account the changed international conditions.

Approach

To analyze the effects of the Mercosur Agreement, we implement the tariff reduction commitments specified in the agreement using detailed tariff data. Additionally, we estimate the extent to which tariff quotas will be utilized in the future. For this purpose, a Mixed Complementarity Problem (MCP) model was developed (Döbeling, 2022) and extended to account for administrative costs. The results from the MCP model are processed using a tariff analysis tool (TASTE), and aggregated to the level of product groups (e.g., dairy products). Next, the MAGNET model (Modular Applied GeNeral Equilibrium Tool) is applied. This general equilibrium model covers bilateral trade flows across 141 countries and 65 sectors in both agriculture and industry. This approach makes it possible to account for interactions between sectors and trade diversion effects from other world regions.

The analysis is based on a baseline scenario that projects macroeconomic and trade policy developments up to the year 2034 (Haß et al., 2024). This baseline also includes other existing EU trade agreements, such as those with Canada, New Zealand, and Japan. For the current study, we assume that the Mercosur Agreement will be fully implemented by 2034, even though some product groups are subject to transition periods of up to 15 years. Furthermore, an additional hypothetical baseline is created, in which the U.S. increases its tariffs on all products to 50% and all other countries respond with equivalent countermeasures on U.S. goods. The results presented here do not reflect the direct impact of a potential

U.S. tariff policy, but instead show the isolated effect of the Mercosur Agreement compared to its respective baseline. In this way, the impact of the agreement was "tested" under significantly changed international conditions.

Results

Many studies indicate positive, albeit moderate, economic growth on both sides. According to the current analyses, the EU's gross domestic product (GDP) increases by between €1.7 billion and €15 billion, while the Mercosur countries see gains ranging from €0.7 billion to €11.4 billion. The EU primarily benefits through increased exports in the industrial sector, whereas Mercosur countries expand their agricultural exports. Nonetheless, the EU maintains a relatively high level of protection in the agri-food sectors by introducing tariff quotas. A recent estimate by Matthews (2025), for example, shows that the additional beef imports into the EU would lead to only a slight price decrease of around 2%.
Another aspect frequently mentioned in the literature is the increase in resilience and competitiveness through trade diversification. Given ongoing crises - such as trade disputes, geopolitical tensions, and armed conflicts - the Latin American market is becoming increasingly important as an alternative source of supply and export destination. Concerns that the agreement might undermine European food safety standards can largely be refuted based on various sources: Sanitary and phytosanitary (SPS) measures, along with EU regulations, continue to be applied to all imports, including the existing ban on hormone-treated meat. Concerns about deforestation require a more differentiated view. While deforestation in Brazil rose by 70% during the presidency of Jair Bolsonaro (2019–2022), early data under the current administration of Luiz Inácio Lula da Silva (since 2023) indicate a clear slowdown, particularly in illegal logging activities. Research also suggests that a sustainable intensification of agriculture could mitigate potential negative effects of the agreement. For instance, Follador et al. (2021) write that Brazil could meet growing demand for ethanol without expanding deforestation.
This, however, would require more sustainable production practices - especially the intensification of livestock farming - to prevent the expansion of pastureland into forested areas.
Our 2020 study findings were confirmed under the updated baseline scenario and changing international conditions.
There is economic growth on both sides of the Atlantic. The EU is recording production increases in the industrial sector, while the Mercosur countries are seeing growth in the agri-food sector. Although EU protection against Mercosur imports declines, the agreement does not establish full free trade. Significant protection remains in place, particularly for many sensitive agri-food products.

No sector in the EU is expected to experience a production decline of more than 1.5%, even in the face of further global uncertainty (as indicated by the shaded areas in Figure 1). The largest effects are observed in the beef and poultry sectors.

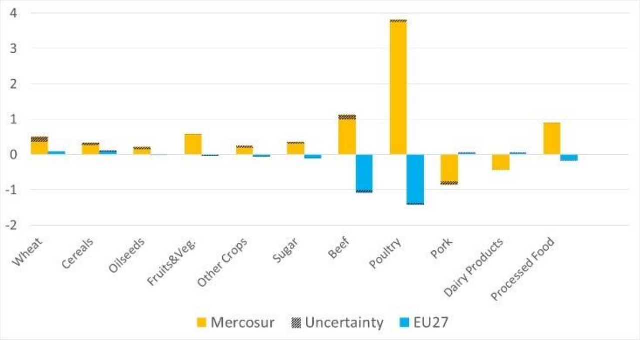

Figure 1: Changes in production in 2034 due to the EU-Mercosur trade agreement (based on a combination of the MCP and MAGNET models. Note: Uncertainty due to U.S. tariff policy – (Source: Own calculations).

Imports from Mercosur countries are expected to increase in these categories. However, the growing demand for poultry within the EU reduces pressure on domestic producers. The agreement also creates new export opportunities for the EU, particularly for dairy products such as cheese and milk powder, as well as processed foods such as chocolate.

Conclusions

In summary, sensitive agricultural products remain protected under the agreement. They are subject to tariff quotas, within which additional imports can be expected. However, in most cases, these quotas do not result in an actual increase in import volumes to the full extent of the quota limits. This is partly because some quantities that were previously imported under higher tariffs are now covered by the quotas. Additionally, administrative costs often prevent full utilization of the available quota volumes. As a result, the extra quantities entering the EU market do not lead to a "flooding" of European agri-food markets.

Further information

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Run time

since 2001 (permanent task)

Project-ID

1068

DOI: 10.3220/253-2025-72

Publications

Döbeling T (2022) The access to CETA quotas: Extending CGE models with a market for quota licenses. Q-Open (2).

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