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EU–Mercosur deal: a subtle tradeoff in growth, emissions and global cooperation

The EU–Mercosur agreement awaits ratification amid agricultural and environmental concerns. OeNB simulations suggest that enhanced trade would deliver only modest economic gains for both regions. By 2040, the EU's GDP would be just slightly higher, with greater gains in Mercosur, and minor effects on jobs and inflation. Emissions could also rise marginally: less so in the EU than in Mercosur. But would closer Mercosur–China cooperation be better for the environment? Beyond the numbers, the deal signals commitment to global cooperation, secures critical raw materials for Europe's green transition and supports Mercosur's sustainable development.

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Economic impact modest yet positive

Our simulations show that the EU–Mercosur agreement would deliver only moderate GDP growth effects of 0.02% to 0.06% by 2040. However, the growth impact is significantly higher during the first 15 years of the deal's implementation. Trade volumes may also expand more rapidly in Mercosur than in the EU.

Environmental costs depend on policy enforcement

By 2040, we project greenhouse gas emissions to be 0.8% higher in Mercosur and 0.1% higher in the EU compared to a non-deal scenario. This is mainly due to agricultural expansion for beef and soy production in Brazil. The extent of the impact will depend on the enforcement of sustainability clauses and environmental policies, such as forest conservation.

Strategic relevance remains high

Despite limited economic benefits, the EU–Mercosur agreement could secure Europe's access to critical raw materials for its green transition and promote sustainable development in the Mercosur region financially. It also signals a commitment to global cooperation, which is an essential factor for advancing climate policies.

Abstract[1]

Negotiations on the trade agreement between the EU and Mercosur were concluded in 2024, though ratification is still pending. Some EU countries remain opposed to the agreement, primarily due to agricultural and environmental concerns. Using Oxford Economics' Global Economic Model (GEM), we simulate the impact of a general trade shock resembling the agreement's estimated outcome. Our results show the impact on trade, GDP, inflation, employment and greenhouse gas emissions in the EU-27, Austria and the three largest Mercosur countries after the agreement's implementation in the post-adjustment phase in 2040. The EU and Mercosur would both see rising trade, though Mercosur's increase would be ten times larger in relative terms. Similarly, after 15 years, annual GDP gains are expected to be modest in the EU (0.02%) and slightly stronger in Mercosur (0.06%). The environmental impact is projected to be relatively more pronounced: greenhouse gas emissions in 2040 could increase by 0.1% in the EU and by 0.8% in Mercosur. While these findings are within the range of (but somewhat lower than) those of prior studies, they should be interpreted with caution, given the model's limitations. Despite environmental concerns, the agreement could signal a commitment to global cooperation and ensure the EU's access to essential raw materials for the green transition. In return, Mercosur countries would receive financial support for their green and digital transformations, strengthening sustainability standards and efforts against deforestation.

1 Introduction

After nearly 25 years of negotiations, four member countries of the Southern Common Market (Mercosur) and the European Union (EU) finally reached an agreement called the EU–Mercosur Partnership Agreement (EMPA) on December 6, 2024.[2] It was concluded amid increased uncertainty following Donald Trump's election as president of the United States in November 2024, as well as China's growing influence in the developing world, particularly in regions rich in natural resources. The large reserves of natural resources in Latin America, which are essential for the green transition, reinforced EU member states' interest in the agreement. The last time the talks had gained momentum was in 2019, when an initial "agreement in principle" was reached during President Trump's first term.

The benefits of free trade agreements are well established in the economic literature (Baier and Bergstrand, 2007; Baier, Bergstrand and Feng, 2014). Reducing tariffs and nontariff barriers lowers costs and incentivizes specialization in industries with a comparative advantage. Moreover, these agreements provide access to larger markets, helping to achieve economies of scale, and may lead to technological advancement. For instance, Bustos (2011) quantified how joining the Mercosur agreement leads to technology upgrading of Argentinian firms.

In terms of environmental concerns, increased agricultural exports, particularly beef and soy from Mercosur countries, could accelerate greenhouse gas (GHG) emissions and deforestation in ecologically sensitive regions such as the Amazon. However, recent simulations by Campos et al. (2022) suggest that

[1] The authors would like to thank Fabio Rumler (OeNB) for helpful comments and valuable suggestions and Bianca Schönhofer (OeNB) for linguistic advice.

[2] The four Mercosur countries are Argentina, Brazil, Paraguay and Uruguay. The agreement does not include Bolivia, a new member of Mercosur. The EU includes Austria, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

the overall agreement's impact on global CO2 emissions is modest. Their general equilibrium model shows that, under plausible scenarios, the agreement could even reduce emissions in Mercosur countries, particularly if environmental clauses are effectively enforced.

Trade affects pollution through three main economic mechanisms. First, the scale effect implies that increased trade leads to greater production and thus more pollution, assuming other factors remain constant. Second, the technological effect suggests that trade can facilitate access to cleaner technologies, helping to reduce pollution even as production continues. Lastly, the composition effect reflects how countries may shift toward producing goods they can manufacture more cleanly, leveraging their environmental comparative advantage, thereby influencing the overall pollution profile of trade. For the latter effect to occur, clear incentives are needed, such as environmental regulations, carbon pricing or changing consumer demand (Le Moigne et al., 2024). Otherwise, countries may specialize in pollution-intensive sectors as long as they remain profitable.

The policy debate over the economic and environmental impacts of increased trade between the EU and Mercosur is as old as the negotiations themselves. A common argument is that increased trade and growth lead to higher GHG emissions and food safety concerns arising from differing regulations. Recent contributions to the debate include Kocher's (2024) favorable blog post on the agreement and Greenpeace's (2025) critical stance. Kocher (2024) presented three arguments in favor of the agreement, based on geopolitical aspects: (1) global trade from Mercosur would grow regardless, either with China or the EU, which is allegedly more climate-conscious; (2) Europe needs Latin America's critical raw materials for the green transformation – otherwise China would have a monopoly; and (3) the agreement includes provisions for rainforest protection. Greenpeace (2025), on the other hand, countered that (1) the environmental concessions were just empty promises; (2) the EU would use the opportunity to delay the transition to clean-powered vehicles by selling its combustion engine vehicles to Mercosur; and (3) more trade would mean more transport emissions.

This article aims to shed some light on the current state of the EMPA negotiations and to examine the potential economic and environmental outcomes for the EU and Mercosur countries. While the economic effects of trade agreements have been widely debated in the news and literature, their environmental impact is less well-known. In the context of the agreement, this is particularly relevant, given the size of the agricultural sector and the abundance of natural resources in the southern countries. Using a semistructural model from Oxford Economics, we simulated the EMPA's impact on exports and imports, GDP, inflation, employment and GHG emissions in the three major Mercosur countries and the EU-27 over the next 15 years and compared the results in a post-adjustment phase in the year 2040.[3]

The remainder of this article is structured as follows: Section 2 provides some technical details about the agreement. Section 3 presents stylized facts about the current environmental conditions and trade relations between the EU and Mercosur, and section 4 elaborates on the proposed measures of trade liberalization. Section 5 describes how we conducted our model simulations, while section 6 compares our results with the previous literature. Finally, section 7 draws conclusions based on the results.

[3] Unfortunately, given the scope of the Oxford Economics Global Economic Model (GEM), we were unable to fully disentangle the effects of the economic mechanisms outlined above.

2 A few technical details about the agreement

Broadly speaking, the EMPA comprises three pillars: trade liberalization, politics and cooperation. Regarding the first pillar, around 60,000 EU companies exporting to Mercosur countries would save about EUR 4 billion annually in tariffs, while the joint market would expand to roughly 780 million people and account for about one-fifth of the global economy.

With respect to EU industrial sectors, the agreement will help boost exports of EU products currently facing high and sometimes prohibitive tariffs[4]. These include, for example, cars (35% tariff), car parts (14–18%), machinery (14–20%), chemicals (up to 18%), pharmaceuticals (up to 14%), clothing and footwear (35%) or knitted fabrics (26%). Additionally, the EU agrifood sector would benefit from lower tariffs on EU export products, such as chocolates and confectionery (20%), wines (27%) or spirits and soft drinks (both 20–35%). The EMPA will also grant duty-free access, subject to quotas, for EU dairy products (currently facing a 28% tariff), in particular cheese.

In return, Mercosur countries will benefit mainly from gradually decreasing tariffs on agricultural products. However, they must comply with European standards and will still face export quotas for "sensitive" EU products such as beef or honey. Moreover, Brazil has also secured concessions on the liberalization of government procurement, among other areas. In addition, Mercosur countries will receive EUR 1.8 billion to support a "fair green and digital transition" as part of the EU's Global Gateway initiative.

Mercosur countries would provide legal guarantees to protect many high-quality European food and drink products recognized as geographical indications, such as Tiroler Speck (Austria), against counterfeiting. In addition, the agreement would create new business opportunities in Mercosur for EU companies involved in government contracts, as well as for service providers in sectors such as information technology, telecommunications and transport.

In terms of the second pillar, i.e. politics, the agreement establishes governance frameworks to resolve disputes, align regulations and standards, and strengthen geopolitical ties. The third pillar, i.e. cooperation, provides financial and technical assistance to support Mercosur's green and digital transitions. The EU and Mercosur commit to the effective implementation of the Paris Agreement on climate change. A dedicated chapter on sustainable development addresses topics such as sustainable forest management and conservation, respect for labor rights and promotion of responsible business practices. Nevertheless, NGOs have criticized the EMPA for undermining the EU's forest protection law, climate commitments and workers' rights, due to the lack of binding dispute mechanisms or sanctions.

The EMPA has undergone legal review, with scrubbing completed, and has been translated into the relevant languages. In Latin America, national parliaments must approve the agreement. If one parliament rejects it, the agreement will still apply to the remaining Mercosur countries. As of September 3, 2025,

[4] As the EU countries are not part of the Mercosur bloc, they are subject to most favored nation (MFN) duties. This is the tariff applied to other WTO member countries with which no preferential trade agreement exists.

the agreement has been submitted in the EU as a split agreement,[5] structured as two complementary legal instruments: first, the EU–Mercosur Partnership Agreement (EMPA), which combines both political and cooperation provisions with a trade component, and second, an interim Trade Agreement (iTA), which focuses exclusively on trade-related matters. The iTA will take effect once it is signed and approved by the Council of the European Union through qualified majority voting, following the European Parliament's consent. In contrast, the EMPA requires ratification by all EU member states before it can fully enter into force. The Commission nevertheless proposes to apply the political and cooperation aspects provisionally ahead of full ratification. Once the EMPA becomes effective, it will supersede and replace the iTA. A summary of the agreement's benefits and the EU's next steps was published in the Commission's press corner.[6]

On October 8, 2025, the European Commission proposed a regulation introducing safeguard measures to protect EU farmers from harmful surges in agricultural imports from Mercosur and from sharp price declines.[7] These measures, which go beyond the agreed-upon quotas for sensitive products, are intended to convince key member states and farming lobbies to ratify the EU–Mercosur deal.[8] The proposed measures include systematic monitoring and biannual reporting, as well as the ability to suspend tariff preferences when import volumes or prices reach risk threshold levels (10%).

Moreover, as part of its broader Vision for Agriculture and Food, the European Commission will launch impact assessments to align certain production standards for imported goods – notably those concerning pesticide use and animal welfare – with EU norms. This measure aims to create equal conditions for domestic and imported agrifood products. Both the EU and Mercosur have comparative advantages in this sector, so some competition is to be expected (European Parliament, 2021).

Furthermore, although the agreement does not alter existing EU sanitary and phytosanitary import requirements, the European Commission will enforce these rules more strictly by expanding audits, checks and inspections in exporting countries and at EU borders. The aim is to guarantee that all imports meet the Union's high food safety and public health standards.

Finally, to complement the trade deal, the European Commission's Common Agricultural Policy (CAP) proposal introduces a new Unity Safety Net worth EUR 6.3 billion. This doubled crisis reserve will reinforce farmers' ability to withstand market shocks or geopolitical disruptions.

Also on October 8, the European Parliament voted on a resolution concerning the EU's political strategy for Latin America, which included a clause welcoming the EU–Mercosur trade agreement. A paragraph acknowledging and supporting the Mercosur agreement was rejected by a narrow majority (269 votes

[5] Agreements of this sort signed by the EU generally fall into three categories. An EU-only agreement falls entirely within the exclusive competence of the EU, particularly in trade matters. It requires ratification solely by EU institutions, with approval by a qualified majority vote in the Council of the EU (55% of member states and 65% of the total EU population) and approval by the European Parliament. A mixed agreement includes provisions under both EU and member state competences and comes into effect in stages: initially as an EU-only interim agreement, later merged into a final mixed agreement once ratified. Ratification is required not only by the EU institutions (unanimous approval by the Council and approval by the European Parliament) but also by each of the 27 EU member states according to their respective constitutional requirements (e.g. parliamentary approval). In a split agreement, the deal is divided into two separate parts: an EU-only part and a mixed part. Each part remains a distinct agreement, subject to its own ratification processes.

[6] https://ec.europa.eu/commission/presscorner/detail/en/ip_25_1644

[7] https://ec.europa.eu/commission/presscorner/detail/en/ip_25_2309

[8] Already in September 2025, the Commission proposed aligning food safety and production standards – including pesticide restrictions – while providing financial support for EU farmers against potentially harmful market impacts.

against, 259 in favor). Thus, the Parliament signaled its reluctance to formally endorse the agreement at this stage, reflecting divisions especially over agricultural, environmental and regulatory concerns.

3 Current environmental conditions and trade relations

To provide an initial overview of the current economic scale and emission levels, we have plotted GDP and GHG emissions for the year 2023. Chart 1 illustrates the relationship between GDP per capita and GHG emissions per capita for the three Mercosur countries included in our analysis – Brazil, Argentina and Uruguay (collectively denoted as Mercosur-3)[9] – as well as for the EU and Austria. While the EU's GDP per capita is almost four times higher (approximately USD 41,400) than that of Mercosur-3 (around USD 11,100), its GHG emissions per capita (7.3 tonnes) are only 10% higher than those of Mercosur-3 (6.6 tonnes). Among the Mercosur-3 countries, Uruguay stands out with the highest per capita emissions (around 11.8 tonnes), despite having a relatively modest GDP per capita (USD 22,800) compared to the EU and, notably, Austria, which records a particularly high GDP per capita (USD 56,000) but still lower per capita emissions (8.3 tonnes).

Brazil, the fifth-largest country in the world, is the leading economy in Latin America and the EU's most significant export market in the region. It also ranked as the EU's tenth-largest trading partner in 2024. Brazil is the primary exporter of agricultural products to the EU[10], while its imports from the EU predominantly consist of machinery and appliances, chemical products and transport equipment.[11] Argentina mostly exports agricultural goods, followed by chemicals and non-fuel raw materials. Argentina's imports from the EU differ markedly, consisting mainly of manufactured goods (e.g. machinery and transport equipment) and chemical products.[12] Uruguay mainly exports pulp and paper to the EU, followed by animal and vegetable products. Its imports from EU countries are led by chemicals, with machinery and appliances as the next largest category.[13, 14] Collectively, Mercosur countries are less significant to the EU's overall trade than the EU is to Mercosur (see also chart 2).

[9] Note that Paraguay is not included in the Oxford Economics Global Economic Model as a separate country and is therefore not included in our simulations. However, this should not alter our aggregated results significantly, given the small size of the country. Additionally, agricultural imports are also subject to quotas that we cannot include in our assessment.

[10] It is also an important supplier of oil and minerals.

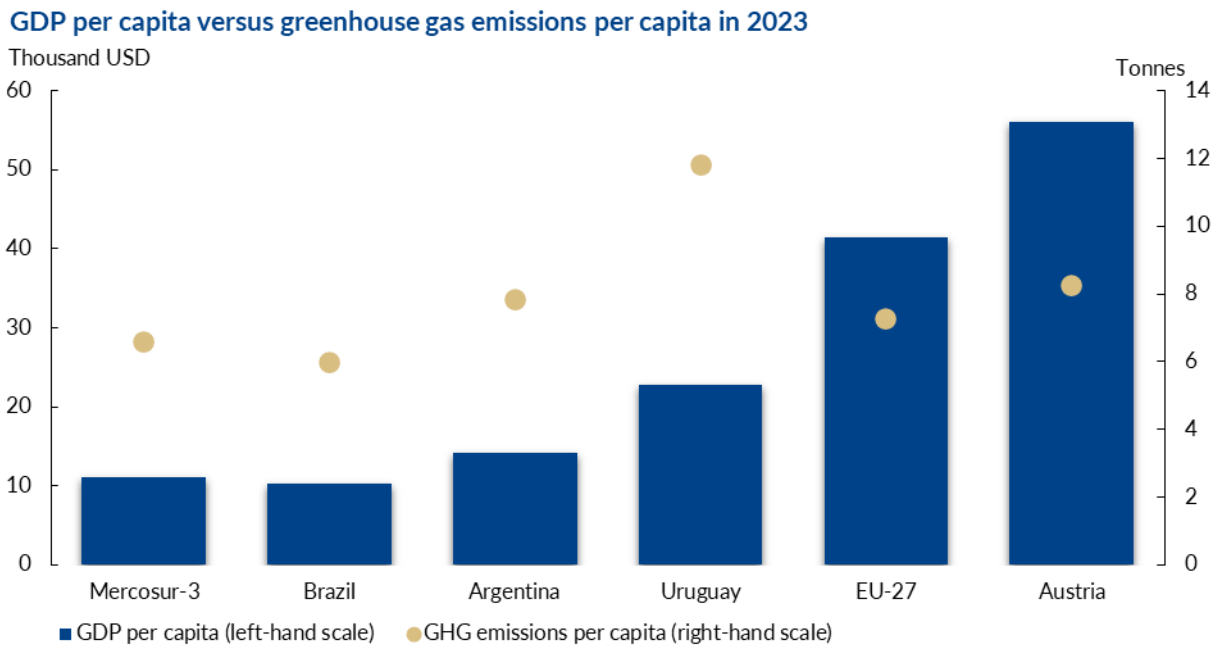
[11] https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/brazil_en

[12] https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/argentina_en

[13] https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/uruguay_en

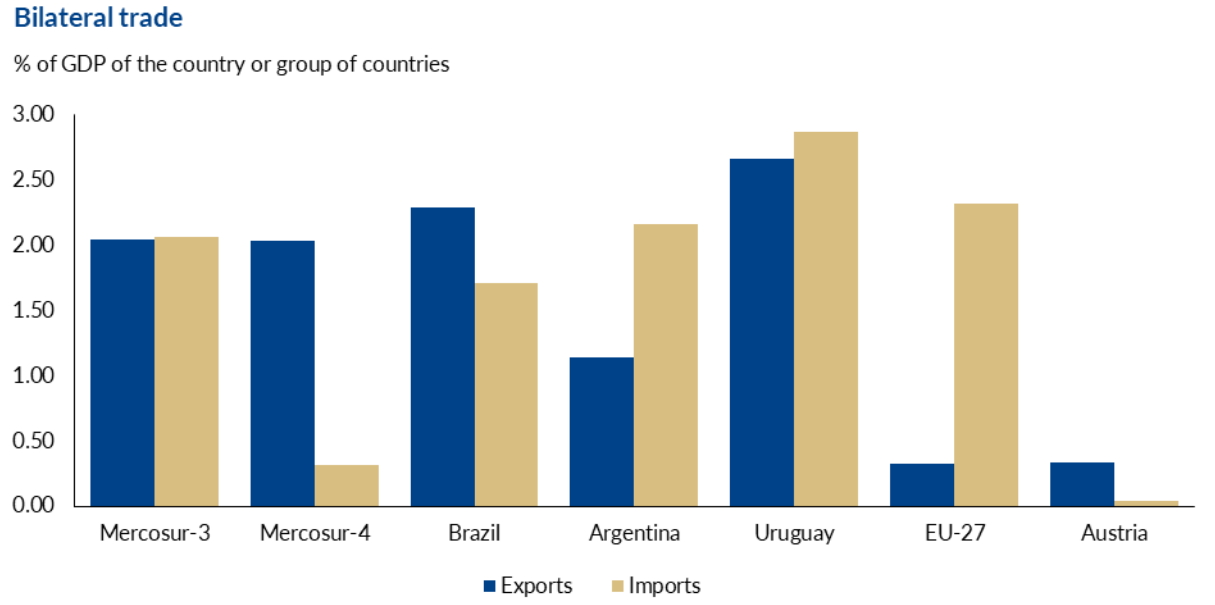
[14] Paraguay imports a similar basket of goods from the EU as the other Mercosur countries (with respect to varieties of goods), while its main exports to the EU are agricultural products. https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/paraguay_en

Chart 1



Source: Emissions Database for Global Atmospheric Research (Joint Research Centre), World Bank, authors' calculations for Mercosur-3.

Chart 2



Note: The values for the EU and Austria refer to trade with Mercosur-4 (i.e. including Paraguay), the values for Latin American countries refer to trade with EU countries.
Source: OeNB estimations based on BACI and World Development Indicators.

4 A deeper look at the proposed trade liberalization

The EMPA establishes a modern framework for liberalizing trade in goods and services, facilitating investment and deepening regulatory cooperation while embedding commitments to sustainable development, labor rights and environmental protection. The agreement's economic pillar aims to dismantle tariffs, reduce nontariff barriers and create a stable, predictable environment for trade and investment. It covers virtually all sectors – goods, services, government procurement, intellectual property and competition – and introduces governance provisions that ensure transparency, dialog and enforceability. This section outlines the main aspects of the EMPA, emphasizing sectoral differences, tariff commitments and the reduction of nontariff barriers (NTBs), based largely on the report produced by the European Commission's (2025) Directorate-General for Trade and the information available in the European Commission's press corner[15]. Below, we outline the key areas covered by the agreement and the negotiated changes related to each.

4.1 Tariff liberalization

Mercosur will fully liberalize 91% of its tariff lines and imports from the EU, while the EU will liberalize 95% of its tariff lines and 92% of its imports from Mercosur. Liberalization is phased in over 10–15 years, with longer transition periods for sensitive products.

- Mercosur tariffs:
    - Passenger vehicles will be liberalized over 15 years (18 years for electric vehicles) with an initial quota of 50,000 units at half of the most favored nation (MFN) rate.
    - Processed foods such as chocolates and sparkling wine face delayed or quota-based liberalization (10–15 years).
    - Most industrial goods – machinery, chemicals, pharmaceuticals and electronics – will achieve full liberalization within 10 years.
- EU tariffs:
    - Liberalization is nearly complete but preserves tariff rate quotas for sensitive agricultural goods such as beef, poultry, sugar and ethanol.
    - Agricultural products benefit from increased but managed access to the EU market under strict sanitary and environmental standards.

The agreement uses an asymmetrical approach, meaning the concessions are not identical for both sides, because Mercosur's average tariffs (about 12%) are higher than the EU's (below 5%). This design aims to strike a balance between each side's sensitive sectors: agriculture for the EU and industry for Mercosur.

4.2 Nontariff measures and trade facilitation

Trade in goods. Multiple fees and formalities are eliminated, while nonautomatic import licensing, export monopolies and price control requirements are prohibited. Brazil and Uruguay will remove customs fees that have long increased import costs.

[15] https://ec.europa.eu/commission/presscorner/detail/en/ip_25_1644

Rules of origin. The EMPA adopts modern EU-style rules of origin based on bilateral cumulation, non-alteration and clear verification procedures. Product-specific rules largely mirror those in recent EU trade agreements: a 45–50% cap on non-originating content for cars and machinery, EU-standard double transformation for textiles and harmonized rules for chemicals, metals and agriculture.

Customs and trade facilitation. The agreement builds on the World Trade Organization's (WTO) Trade Facilitation Agreement, committing both parties to transparent, predictable customs procedures and joint initiatives in technical assistance and capacity building.

Trade remedies. Both sides retain WTO-consistent anti-dumping, anti-subsidy and safeguard instruments, supplemented by a bilateral safeguard clause allowing temporary duties (up to four years, extendable) if preferential imports cause serious injury.

4.3 Regulatory and technical disciplines

Sanitary and phytosanitary (SPS) standards. The SPS chapter safeguards EU food safety and consumer protection standards while improving transparency and risk-based approvals for agrifood trade. It mandates recognition of the EU as a single entity for SPS purposes and promotes regionalization to minimize trade disruption from local disease outbreaks.

Technical barriers to trade (TBT). The TBT chapter encourages regulatory convergence by referencing international standard setting bodies (International Organization for Standardization (ISO), International Electrotechnical Commission (IEC), International Telecommunication Union (ITU), Codex Alimentarius) and reducing duplicative conformity assessment procedures. Mercosur countries will accept EU test results for electronics and adopt UN vehicle standards, significantly lowering compliance costs for exporters.

Sectoral dialogs. Structured dialogs address animal welfare, biotechnology, antimicrobial resistance and food safety science. Cooperation with relevant international organizations in this regard aims to align standards and promote evidence-based regulation.

Services, investment and digital trade. The agreement liberalizes **services and establishment** using a positive-list approach covering all four modes of supply under the General Agreement on Trade in Services (GATS). It guarantees market access and national treatment for business, financial, telecom and maritime services, while safeguarding governments' right to regulate public services.

- **Maritime transport:** After a ten-year transition, EU operators will be permitted to transport containers between Mercosur ports; "lighthouse fees" in Brazil will be abolished.
- **Telecommunications and finance:** New commitments ensure transparent regulation, nondiscriminatory licensing and consumer protection.
- **E-commerce:** The EMPA bans customs duties on digital transmissions, ensures the legal validity of e-contracts and protects consumers against spam.

Investment liberalization covers both services and non-services sectors but excludes investment protection provisions.

Government procurement. For the first time, Mercosur will grant foreign suppliers legal access to public procurement markets. EU firms will compete on equal terms for contracts at federal and central levels, and – conditional on later consultations – at subcentral levels covering 65% of GDP in Argentina and Uruguay.

Brazil and Argentina will also open works concession contracts to EU bidders, while Paraguay commits to partial coverage after a three-year transition. Procurement procedures must adhere to standards of transparency, nondiscrimination and effective remedies under the WTO's Agreement on Government Procurement (GPA).

Competition policy, subsidies and state-owned enterprises. Both sides pledge to maintain robust competition laws and independent authorities. Cooperation mechanisms enable the exchange of nonconfidential information and technical assistance.

Subsidies are recognized as legitimate policy tools but subject to transparency and consultation. Rules for **state-owned enterprises** ensure that they act on commercial principles, thereby preventing market distortion. For Argentina and Brazil, obligations initially apply to central-level state-owned enterprises, subject to later review; for the EU, Uruguay and Paraguay, they apply across all levels.

Intellectual property and geographical indications. The intellectual property chapter reaffirms standards established under the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and introduces enhanced protections for copyrights, trademarks, designs, patents and trade secrets. Mercosur countries commit to improved enforcement, judicial remedies and border control measures against counterfeits.

A landmark feature is the mutual protection of geographical indications (GIs):

- 344 EU GIs (e.g. Champagne, Parma ham, Roquefort) will gain full protection in Mercosur.
- 200 Mercosur GIs will receive reciprocal protection in the EU. The use of misleading terms such as "style" or "type" will be banned, and administrative enforcement (including customs action) will apply.

Sustainable development and governance. The trade and sustainable development chapter obliges both parties to uphold international labor and environmental standards, including the **Paris Agreement** as an essential element: Withdrawal or bad-faith non-implementation may justify suspension of trade preferences.

The agreement also includes provisions encouraging corporate social responsibility, forest conservation and dialog with civil society. Dedicated mechanisms, i.e. a Joint Committee, a Parliamentary Committee and consultative bodies, monitor implementation and facilitate transparency.

5 Model simulations

In order to investigate the implications of the agreement, we conducted simulation analyses of the EMPA using the Oxford Economics Global Economic Model (GEM). The GEM is a large-scale macroeconometric model that covers more than 80 countries and links them through trade, prices, exchange rates and financial markets. It incorporates policy feedback through interest rates, fiscal balances and price responses. The GEM combines short-run Keynesian dynamics with long-run neoclassical equilibrium assumptions, meaning that in the short term, demand factors such as consumption, investment and trade drive output, while in the long term, output returns to potential levels determined by labor supply, capital accumulation and productivity. Financial flows such as GDP or import or export volumes per country are measured on an aggregated level. Within this framework, a change in the world trade index acts as a global demand shock that increases or decreases export and import volumes, stimulating production, income and investment across economies. Oxford Economics has augmented the GEM with a climate

module that tracks how shifts in fossil fuel and renewable energy demand affect global trade, energy prices and sectoral output. This allows us to estimate how different policies would contribute to CO2 and GHG emissions (which can be attributed to different sectors). Higher global trade activity leads to greater output and energy use, and thus higher emissions when energy is produced in a carbon-intensive way. Changes in competitiveness and global demand shift production between sectors with different emissions intensities. While the model does not explicitly include the comparative advantage channel, where trade reallocates production toward cleaner producers, competitiveness and sectoral responses may still cause some relocation effects.

In our study, we assess changes in GDP, consumer prices, trade activity and employment under a trade liberalization scenario after the implementation phase (2040) and provide estimates of the resulting increases in CO2 and total GHG emissions[16]. Monetary policy is assumed to be endogenous, following a Taylor rule.[17] Since we cannot model trade liberalization directly as a reduction in bilateral tariffs, our approach is based on the findings of Campos and Timini (2022) and Berganza et al. (2025). They estimate that the agreement will increase trade between the signatory countries by a cumulative 37% in the long term once a new steady state is reached, driven by the elimination of tariff and nontariff barriers, with minimal trade diversion affecting other world regions. Given the inability to directly incorporate tariff levels[18], we applied a trade shock of 33% to the affected countries over a 15-year horizon.[19] In the GEM, exports are driven by a weighted matrix of trading partners' import demand. Countries are assumed to be infinitely small, in the sense that exports are determined by aggregate demand, meaning that a country cannot ultimately determine its own terms of trade. Consequently, exports are a function of world demand and the real exchange rate, and the world trade matrix ensures consistency in the sums across countries. Imports are determined by real domestic demand and competitiveness. We performed our trade shock on a country's trade matrix by modifying trade intensity with the corresponding countries, which will drive most of the results (price-side impacts and productivity gains from increased trade are therefore not captured in our estimations).

Our estimates of trade diversion are based on an analysis of current trading partners' bilateral trade dynamics in sectors most likely to be affected by the agreement. Since liberalization on the Mercosur side primarily concerns manufactured goods, we analyzed imports classified under the Harmonized System 1992, sections 11, 12, 16 and 17, using the BACI dataset developed by CEPII (Gaulier and Zignago, 2010). These sections encompass product categories such as consumer goods (including textiles and footwear), industrial goods (including machinery and electrical equipment) and transportation equipment (including vehicles, aircraft and vessels).[20] We then identified the origin of imports and determined the main exporting countries in order to assess which were likely to experience trade diversion. Next, we calculated the contribution of these countries and groups to total trade and assumed a reduction of approximately one-third in their market share. A similar approach was applied to EU

[16] While simulations in the GEM account for domestic emissions only, additional emissions stemming from the transport of goods are included; the authors' own upper-bound estimates are based on Cristea et al. (2013).

[17] Simulating the results using a fixed interest rate led to negligible changes in GDP outcomes, averaging below 0.001%.

[18] Note that in the GEM, US bilateral tariffs covering a wide range of countries can be estimated directly, whereas other tariffs cannot.

[19] While this results in an increase of 33% over 15 years rather than the 37% used by Campos and Timini (2022) in the long term, we opted for this number as it is both close to their estimate and more straightforward to implement through successive 10% increments, while also representing a conservative assumption within a 15-year time frame.

[20] To avoid relying on a single year, we conducted our analysis using data from both 2019 and 2023, during which the shares of the main trading partners remained relatively stable.

countries, focusing on sections 1, 2, 3 and 4 of the Harmonized System, which cover agricultural and food products such as live animals, plant-based goods, edible oils and processed food and beverages.

In our scenario, trade intensity is assumed to gradually increase for EU–Mercosur countries and to gradually decrease (to a lesser extent) for other current trading partners in the affected sectors, based on our projections described above, following a three-step phase-in process. Specifically, trade between EU and Mercosur countries was increased by 10% in 2026 in the trade matrix, followed by an additional 10% in 2030 and another 10% in 2035. Moreover, we accounted for trade diversion by assuming a 6.1% decrease in Mercosur trade with China and a 3.0% decrease with the USA, again implemented in three stages (i.e. a 2% decrease in intensity in the trade matrix for China and a 1% decrease for the USA in each stage). Additionally, we assumed a 1.5% reduction in EU trade with the USA and the UK, applied as a 0.5% decrease in each of the three stages.

The resulting scenario was then compared to a counterfactual baseline scenario over a 15-year period (2026–2040), in which no Mercosur–EU agreement was assumed. The baseline scenario and the trade deal scenario are based on historical data up to April 2025 and later projections[21]. The results are presented for the year 2040, which can be interpreted as a long-term equilibrium after the adjustment phase.

Our results should be interpreted with caution due to the limitations of the model and its assumptions. Specifically, the model does not support direct bilateral calibration of tariff reductions or sector-specific disaggregation.

Timini and Viani (2022) conducted a similar analysis to quantify the expected effects of the agreement. Using a structural gravity model, they estimated the long-term impact on GDP and trade. Their model estimates trade costs and flows based on bilateral relationships and economic size, without incorporating dynamic adjustments over time. This approach assumes that once the agreement has reached its full trade creation potential, the effects can be observed relative to a counterfactual scenario without the trade agreement (using 2015 as a baseline). The model assumptions share similar limitations with ours, notably the lack of sectoral disaggregation. However, unlike our model, their analysis does not incorporate dynamic adjustments over time.

Moreover, a detailed sustainability impact assessment by Mendez-Parra et al. (2020) employs a dynamic general equilibrium model, namely, the dynamic GTAP (Global Trade Analysis Project) model, known as GDyn, which incorporates capital accumulation, an adaptive expectation theory of investment and international capital mobility. Moreover, simulations by Latorre et al. (2021) utilize a static general equilibrium framework covering 41 sectors, multiple factors of production (land, natural resources, capital and labor) and a set of global regions including Spain, the other 26 EU countries, Brazil, Argentina, Paraguay, Uruguay and the rest of the world. Their model also accounts for different cost specifications arising from tariff and nontariff trade barriers. Assuming that the agreement entered into force in 2023, their results differ from ours in terms of starting point, timing and static model specifications, so direct comparison is limited. A more recent general equilibrium study by the European Commission (2025), based on a comparative dynamic general equilibrium model, uses the same time horizon as our study and shows results within the same range, without using year-by-year transitions. Complementary to our study, it observes moderate effects on emissions and GDP growth following the agreement's

[21] Note that projections of tariffs on US imports from China and Chinese imports from the USA decreased from the escalations of April 9–11, 2025, to assumptions reflecting further developments based on the May 12, 2025, agreement.

implementation. Table 1 gives an overview of the model assumptions, temporal dimensions and simulation horizons of the models mentioned above.

Table 1

Comparison of model assumptions and simulation horizons

Methodology/ study	This article	Timini and Viani (2022)	Mendez-Parra et al. (2020)	Latorre et al. (2021)	European Commission (2025)
Model	Semistructural large-scale model	Structural gravity model	Computable general equilibrium model	Computable general equilibrium model	Computable general equilibrium model
Temporal dimension	Dynamic	Static	Dynamic	Static	Dynamic
Simulation horizon	2040 (15 years after rollout)	Equilibrium compared to 2015 baseline	2032 (15 years after rollout)	Baseline compared to equilibrium 15 years after rollout	2040 (15 years after rollout)

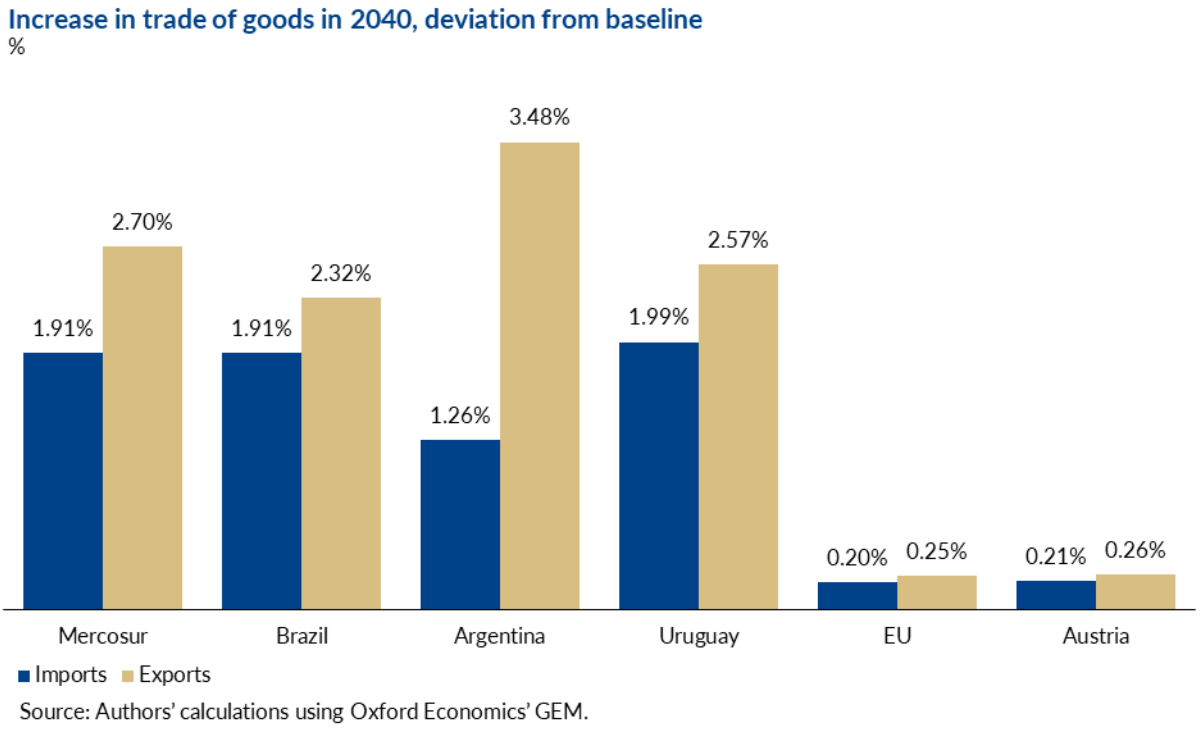
Source: Authors' compilation.

6 Results of the simulations

6.1 Trade results

According to our estimates, the cumulative increase in goods trade (in real local currency units) is projected to be significantly higher for Mercosur than for the EU after 15 years. Total exports and imports of Mercosur are expected to rise by 2.70% and 1.91%, respectively (22.7% and 15.4% on a cumulative basis over 15 years). In contrast, the EU (including Austria) is forecast to experience only modest growth, with total exports and imports increasing by approximately 0.25% and 0.20%, respectively (i.e. 1.5% and 1.2% on a cumulative basis over 15 years). From the EU's perspective, trade with Mercosur matters, but its overall volume remains too limited to generate significant impacts on its highly diversified economy. Importantly, our results are influenced by our initial assumptions of increasing import demand intensity from the corresponding EU–Mercosur trading partners in the country-specific trade matrix, alongside a decrease in the intensity of import demand from other trading partners (as described in the previous section).

Chart 3



Source: Authors' calculations using Oxford Economics' GEM.

For comparison, Timini and Viani (2022) estimate increases of 15.9% in Mercosur's imports and 14.6% in its exports, alongside increases of 0.66% in the EU's imports and 0.67% in its exports, compared to a 2015 baseline scenario. Moreover, Mendez-Parra et al. (2020) project total EU exports to increase by up to 0.6%, while Mercosur's total exports could rise by as much as 6.1%. On the import side, they expect EU imports to grow by up to 1.1%, compared to a 1.4% increase for Mercosur. These aggregate figures, however, mask substantial sectoral variation. EU exports are expected to rise significantly in key manufacturing and consumer goods sectors, with increases of up to 400% in textiles and clothing, 114% in vehicles and automobile parts, 100% in machinery and 60% in pharmaceuticals and chemicals. Beverage exports (e.g. wine and spirits) are also projected to grow by around 36–38%. Regarding imports, the EU is expected to substantially increase its beef imports from Mercosur – by 30% to 64% depending on the scenario – while domestic EU beef production may decline only slightly. The observed differences in projections may be partly attributed to the timing of the estimates – either before or after the COVID-19 pandemic. The resulting base effect may have contributed to some of the variation.

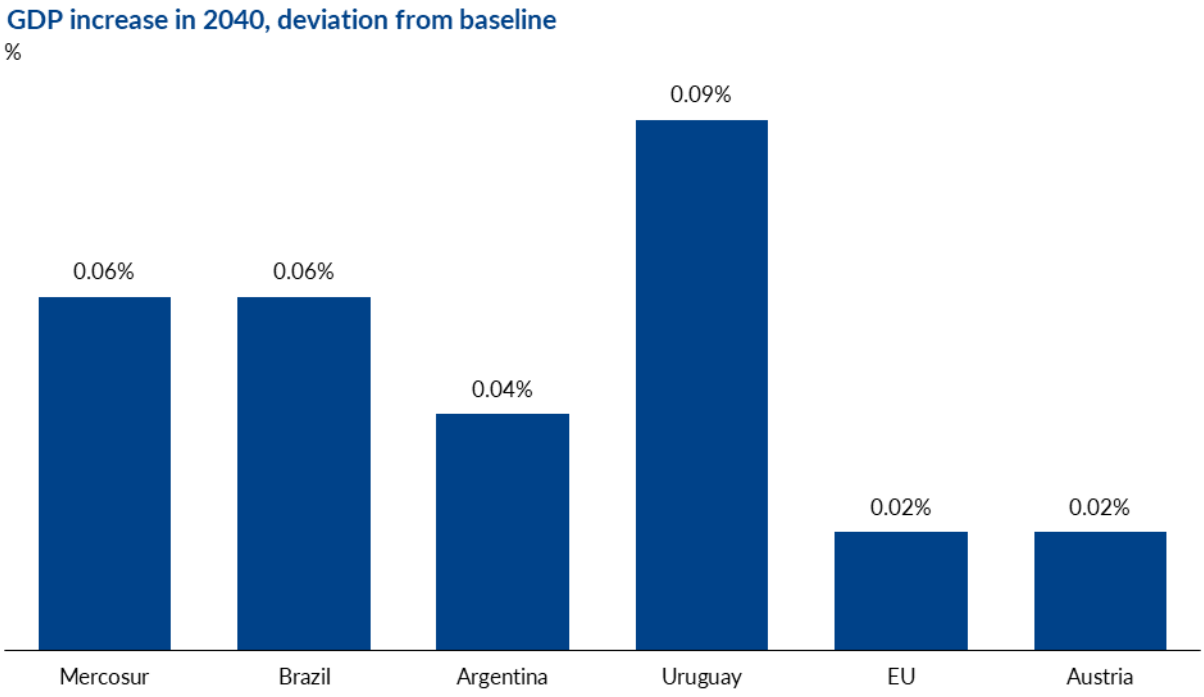
6.2 GDP results

Our simulation results indicate that the agreement's entry into force will lead to a GDP increase of 0.06% for Mercosur countries in 2040 (cumulatively, this is an increase of 1.5% over the years 2026–2040). Uruguay is projected to experience the largest gain at 0.09%, followed by Brazil at 0.06% and Argentina at 0.04%. In contrast, the impact on the EU is minimal, with a GDP increase of just 0.02% in 2040 (and 0.2% cumulatively). Austria falls within the EU average, with a projected increase of 0.02%. The cumulative gains translate into relatively modest average annual effects – approximately 0.1% per year for Mercosur and less than 0.02% per year for the EU.

Comparable results are reported in a recent study on the EMPA by the European Commission (2025), where GDP is estimated to increase by 0.25% for Mercosur and 0.05% for the EU in 2040. Timini and

Viani (2022) estimate a higher GDP increase, namely 0.4% for Mercosur and 0.07% for the EU, compared to a 2015 baseline scenario without the agreement. The differences in results can be partly explained by their use of 2015 as a reference year and the fact that the model by Timini and Viani is static, and hence, assumes no economic adjustment over time, while our model responds to monetary policy. Nevertheless, their findings point in a similar direction. Similarly, Mendez-Parra et al. (2020) project GDP gains of 0.3% for Mercosur and 0.1% for the EU by 2032. Their study suggests a decline in EU agrifood sector output, particularly in beef and sugar production, while manufacturing and services remain unchanged or see only modest growth. In Mercosur, output effects are mixed: Agrifood sectors in Brazil and Argentina benefit, while most manufacturing sectors in Mercosur are projected to contract. Despite methodological and scope differences, Latorre et al. (2021) also identify Uruguay as the main beneficiary among Mercosur countries in terms of GDP gains 15 years after the agreement's implementation (with 1.7%, compared to 0.5% in Argentina and 0.3% in Brazil). Their results for the EU are similar to ours, with an estimated increase of 0.12%.

Chart 4



Source: Authors' calculations using Oxford Economics' GEM.

6.3 CPI results

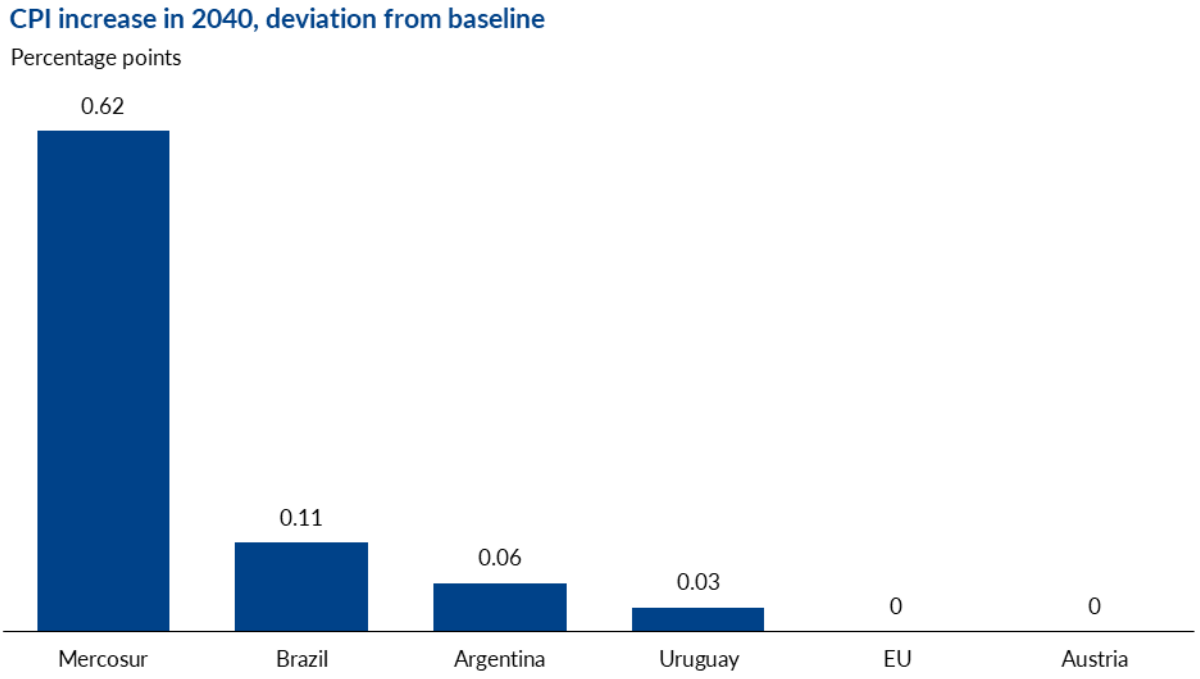
Inflation is expected to decelerate initially once a trade agreement enters into force. Afterward, prices may rebound due to stronger demand, while scale-driven productivity gains could moderate inflationary pressures. These effects could potentially unfold in parallel (ceteris paribus). The time series confirms this pattern: an initial decline in inflation is followed by a rebound that prevails in the long run.

In our simulations, the cumulative CPI exhibits a modest increase in 2040, rising by 0.62 percentage points (pp) for Mercosur countries (3.2 pp cumulatively over 15 years) and by 0.00 pp for the EU (0.3 pp cumulatively). The cumulative results correspond to an average annual CPI increase of 0.2 pp for Mercosur and 0.02 pp for the EU. Mendez-Parra et al. (2020) report a comparable result for the EU in their scenario assuming full tariff liberalization, projecting a 0.3% increase in consumer prices.

In contrast, Mendez-Parra et al. (2020) observe a slight decline in consumer prices in Mercosur countries – by 2.1% in Brazil, 1.4% in Argentina and 0.6% in Uruguay. This is largely due to the higher initial tariff levels in these countries. A comparable relative reduction in tariffs thus leads to a larger absolute price drop in Mercosur than in the EU. This is enough to outweigh demand-driven inflationary pressures.

Unlike our 2040 results, their findings are based on the projected year 2032. In our year-by-year analysis, we also observe temporary price declines – for instance, in Brazil during 2029 and 2031. However, after 2030, this trend reverses. Following initial price reductions due to tariff liberalization, growing trade and economic activity increase demand for goods and services. This heightened demand, particularly in sectors with constrained supply responses, gradually exerts upward pressure on prices. Accumulated over time, these inflationary effects starting around 2030 ultimately surpass the initial deflationary impact of tariff reductions and cheaper imports.

Chart 5



Source: Authors' calculations using Oxford Economics' GEM.

6.4 Employment results

Our simulations indicate modest long-term employment effects as a result of the EU–Mercosur agreement. In 2040, total employment is projected to decrease by 0.01% in Mercosur countries, while no significant effect can be observed for the EU and Austria (0.00%). However, cumulative effects are positive for Mercosur with an increase of 0.25% over 15 years and 0.05% for the EU and Austria, respectively. In absolute terms, the cumulative increase corresponds to approximately 300,000 additional jobs in the Mercosur region, around 100,000 in the EU and about 2,500 in Austria.

In contrast to our findings, Mendez-Parra et al. (2020) estimate modest net job losses across the EU (-0.06%), largely driven by declines in the food and agricultural sectors, despite some gains in manufacturing. For Mercosur, they report positive employment impacts, including a 2.8% increase in Brazil, 1.3% in Argentina and 0.2% in Uruguay, primarily in the agricultural and food sectors. These gains are partially offset by losses in manufacturing.

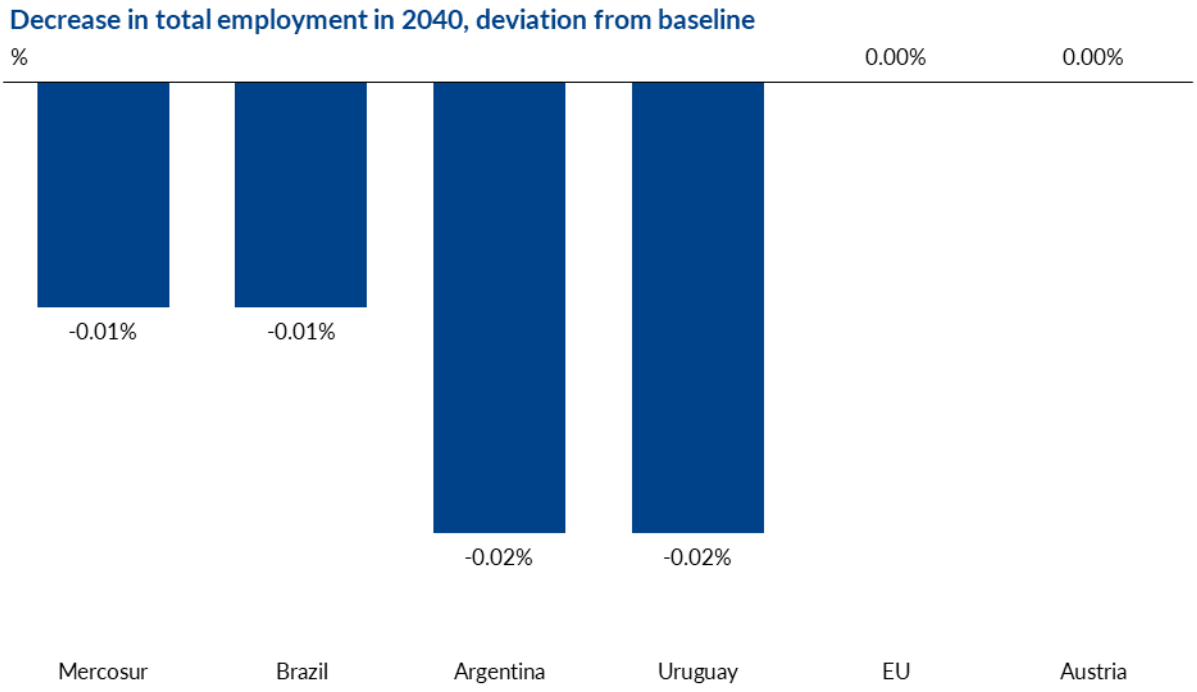
It is important to note key methodological differences. While our analysis provides long-term projections for 2040, the estimates by Mendez-Parra et al. (2020) represent a snapshot of 2032 and do not account for dynamic adjustments over time, nor do they assume full employment. Similarly, our own short-term projections for 2026–2029 suggest temporary employment declines in both the EU and Austria.

However, our long-term model indicates a turnaround after 2030, with employment gains driven by export-led growth, productivity improvements and structural shifts toward higher-skill, higher-value-added industries. Overall, the effect for the EU and Austria is neutral after the adjustment phase.

A study by the Vienna Chamber of Labour (Arbeiterkammer Wien, 2021), building on the findings of Mendez-Parra et al. (2020), estimates a 0.03% employment decline in Austria. However, it also emphasizes that Austria has a stronger trade surplus in industrial goods compared to the EU average,

which could make the effects of tariff liberalization more favorable. At the same time, Austria's comparatively smaller deficit in agricultural and food sectors indicates lower exposure to import competition in these areas relative to the EU average.

Chart 6



Source: Authors' calculations using Oxford Economics' GEM.

6.5 Environmental results

The economic implementation of the EMPA is expected to lead to an increase in GHG emissions. However, the magnitude and drivers of this effect differ notably between Mercosur countries and the EU. Our simulations project a rise in GHG emissions across Mercosur countries, specifically 0.78% in 2040 (6.2% cumulatively over 15 years) – including a 0.23% increase in CO2 emissions (2.2% cumulatively). Among these, Brazil stands out with a 0.85% increase in total GHG emissions and a 0.26% rise in CO2 emissions in 2040, largely driven by the expansion of agriculture, industry and manufacturing in response to increased trade demand.

In both Brazil and Argentina, emissions growth is closely tied to export-oriented sectors. In Brazil, in particular, this includes deforestation and land use change linked to the expansion of beef and soybean production – two of its major exports.

While Uruguay is projected to experience the highest GDP and export growth among Mercosur countries, its emissions growth remains relatively modest. CO2 emissions are projected to increase by just 0.04%, while total GHG emissions rise by 0.19%, largely driven by the pulp and paper industry, a significant source of sulfur and nitrogen oxides. Notably, according to the International Energy Agency[22],

[22] https://www.iea.org/countries/uruguay

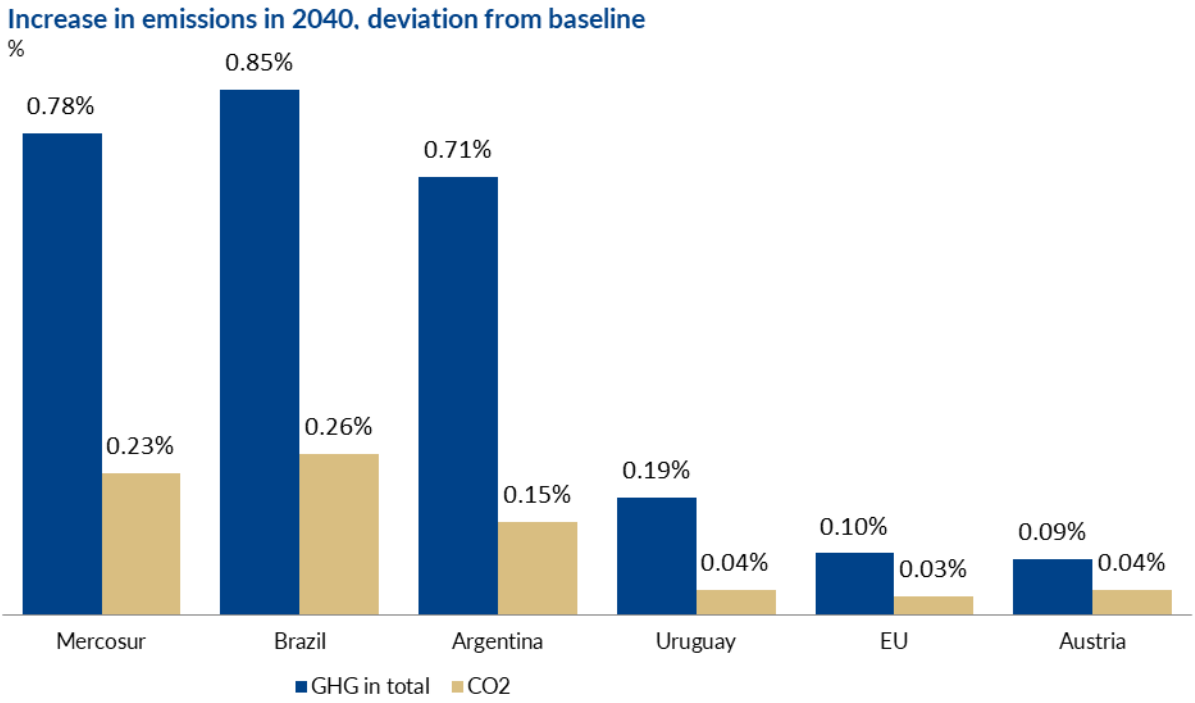
Uruguay ranks among the global leaders in renewable energy, generating 97% of its electricity from renewable sources. It also introduced one of the world's highest carbon taxes in 2022 – USD 137.29 per tonne of CO2 – covering all liquid fuels except jet fuel and fuel used in gasoline production. According to OECD (2024) data, the highest-priced emissions stem from the transport sector, whereas most unpriced emissions arise from industrial energy use. Other non-CO2 GHG emissions remain outside the scope of carbon pricing instruments.

In contrast, the trade agreement is projected to have a negligible impact on the EU's domestic emissions, reflecting its robust climate policy framework and legally binding emissions reduction commitments under the European Green Deal, which outlines goals for 2030 and 2050. For Austria, emissions are projected to increase slightly, with GHG growth of 0.09% and CO2 growth of 0.04%, both approximately in line with the EU average (0.10% and 0.03%, respectively). This limited increase is primarily due to Austria's relatively high share of industrial production under the EU Emissions Trading System (ETS-1).

Overall, the agreement is projected to increase global CO2 emissions by 0.016%, which slightly exceeds the estimated 0.01% rise in global GDP. However, note that global GHG emissions would rise by only 0.0003%. This reflects a tradeoff between emissions generated through trade creation and those reduced in countries experiencing trade diversion. It also accounts for minor shifts in national emissions patterns resulting from altered trade flows.

Our projections are in the range of those of other studies. Latorre et al. (2021) find a similar increase in global CO2 emissions of 0.01%, while GDP rise is slightly higher (0.03%), though their conclusions are based on a different model and set of assumptions. The European Commission (2025) also predicts a comparable annual rise in global GHG emissions of 0.0006% (which is estimated relative to 2023 emissions). Mendez-Parra et al. (2020) estimate a slight reduction in global CO_2 emissions, accompanied by a small increase in other greenhouse gases. Their results suggest a decline in the global emission intensity of economic activity, with a minor increase in Mercosur offset by a decrease in the EU. In line with these findings, Campos et al. (2022), using a standard general equilibrium model, estimate that the CO2 emissions impact of the agreement will be marginal. Their analysis highlights that under certain plausible scenarios, the application of the agreement's environmental provisions could even result in lower emissions in Mercosur countries.

Chart 7



Source: Authors' calculations using Oxford Economics' GEM.

7 Concluding remarks

To evaluate the potential impact of the EU–Mercosur deal, we used the Oxford Economics Global Economic Model and simulated a trade liberalization shock. The results suggest modest gains for both regions, though Mercosur would benefit more. The effects on economic growth in the EU would be limited, whereas Mercosur would experience stronger growth, higher inflation and lower employment. However, no significant effects on inflation or employment would be observed in the EU. Similarly, environmental costs are projected to be comparatively higher in Mercosur. These findings align with those of other studies, albeit at the lower end of the spectrum. The same applies to the most recent study from the European Commission (2025), which used the same post-adjustment phase.

Our findings contribute to the debate on balancing integration and sustainability. Although CO2 emissions are projected to rise slightly more than GDP, the overall impacts remain modest, which is consistent with previous assessments, despite differing methodologies, data periods and sectoral coverage. This reinforces our projections. Still, the magnitude and sometimes even the direction of the outcomes for inflation, employment and emissions vary across studies. This heterogeneity reflects differences in model specifications and assumptions and underscores the need for further empirical work. Moreover, the results should be interpreted with caution due to the limitations of the dynamic model. Its trend-reverting properties dampen effects toward the end of the observation period, and efficiency gains from competition and structural adaptation may be understated. Conversely, our simplified trade shock could overstate the effects on trade and growth. We do not differentiate between sectors, but effects might be higher in agriculture. Similarly, estimates of GHG emissions may misrepresent harm by not fully accounting for policy or technological change. Therefore, our analysis

cannot fully resolve the debate over the tradeoffs between economic benefits and environmental costs, but it still aims to shed some light on the potential economic and environmental outcomes of the EMPA.

Several questions beyond the scope of this study remain: For example, will easier access to critical raw materials speed up the EU's transition to clean transport technologies, or will expanded export markets for fossil fuel cars slow it down? Are rainforest protection provisions effective, or will they be undermined by resource constraints or corruption? Alternatively, one could ask whether other players, such as China, would care at all about this. More importantly, this article does not challenge the strategic rationale of the agreement (Maton, 2024). Climate policy is an inherently international cooperative endeavor. It requires a climate of trust, which is cultivated through sustainable trade. Conversely, internationally coordinated climate policies do not hinder trade. In fact, global carbon pricing – contrary to the "buy local" narrative – could make trade a key channel for reducing emissions (Le Moigne et al., 2024).

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9 Annex

Table A1

Results of various studies on the EU–Mercosur agreement: GDP impacts

Indicator/ country	GDP					
	This article (point in time result 2040)	This article (cumulative result)	Timini and Viani (2022)[1]	Mendez-Parra et al. (2020)	Latorre et al. (2021)	European Commission (2025)
Argentina	0.04%	1.66%		0.7%	0.48%	
Brazil	0.06%	1.23%		0.3%	0.30%	
Uruguay	0.09%	1.99%		0.4%	1.66%	
Mercosur	0.06%	1.47%	0.40%	0.3%		0.25%
EU	0.02%	0.22%	0.07%	0.1%	0.12%	0.05%
Austria	0.02%	0.24%				
World	0.01%	0.10%			0.03%	

[1] Note that this paper refers to welfare numbers instead of GDP.

Source: OeNB, authors' calculations.

Table A2

Results of various studies on the EU–Mercosur agreement: impacts on greenhouse gas emissions

Indicator/ country	GHG emissions					
	This article (point in time result 2040)	This article (cumulative result)	Timini and Viani (2022)	Mendez-Parra et al. (2020)	Latorre et al. (2021)	European Commission (2025)[1]
Argentina	0.71%	6.2%			0.24%	
Brazil	0.85%	6.3%			0.35%	
Uruguay	0.19%	3.7%			1.29%	
Mercosur	0.78%	6.2%				0.046%
EU	0.10%	0.9%			0.09%	0.012%
Austria	0.09%	0.9%				

[1] Annual increase in emissions.

Source: OeNB, authors' calculations.

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