



EU-Mercosur: The saga of the largest mega regional trade agreement between the EU and the Global South

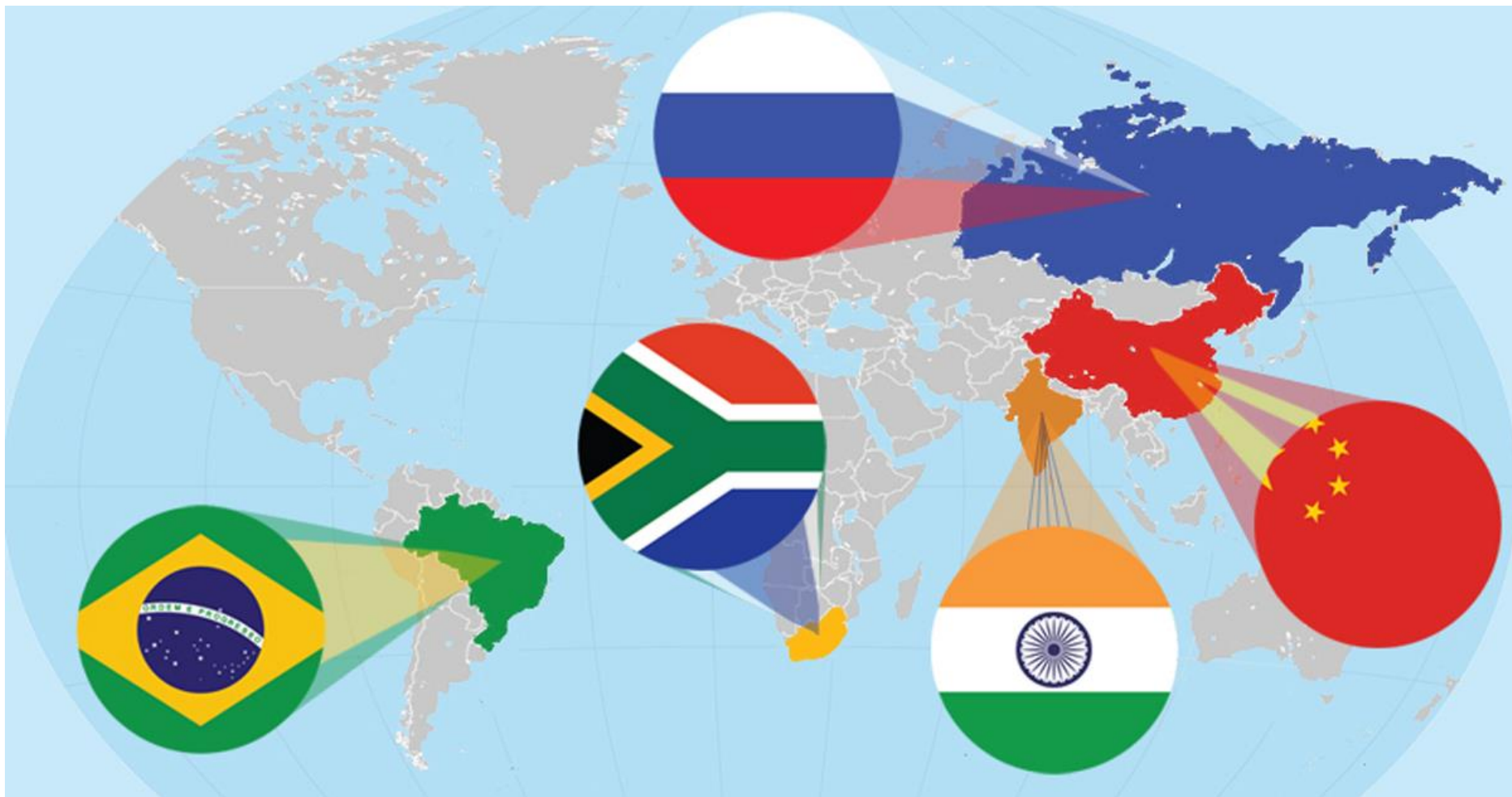
Klarissa Martins

PhD Candidate in European Law and International Law

Alma Mater Studiorum – Università di Bologna

31 October 2023

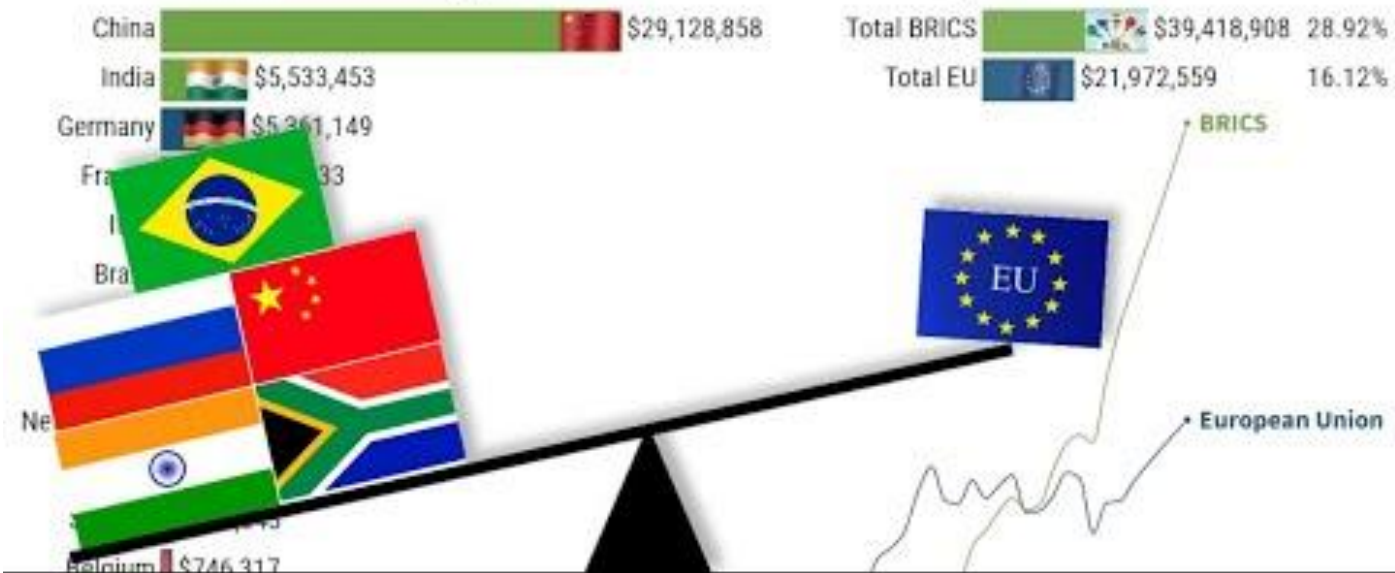
BRICS: Brazil, Russia, India, China and South Africa





BRICS vs European Union

*Nominal GDP (1960 - 2027)



The State of Democracy

Global Democracy Index rates, by country/territory (2022)*

Full democracies

● 9.00-10.00

● 8.00-8.99

Flawed democracies

● 7.00-7.99

● 6.00-6.99

Hybrid regimes

● 5.00-5.99

● 4.00-4.99

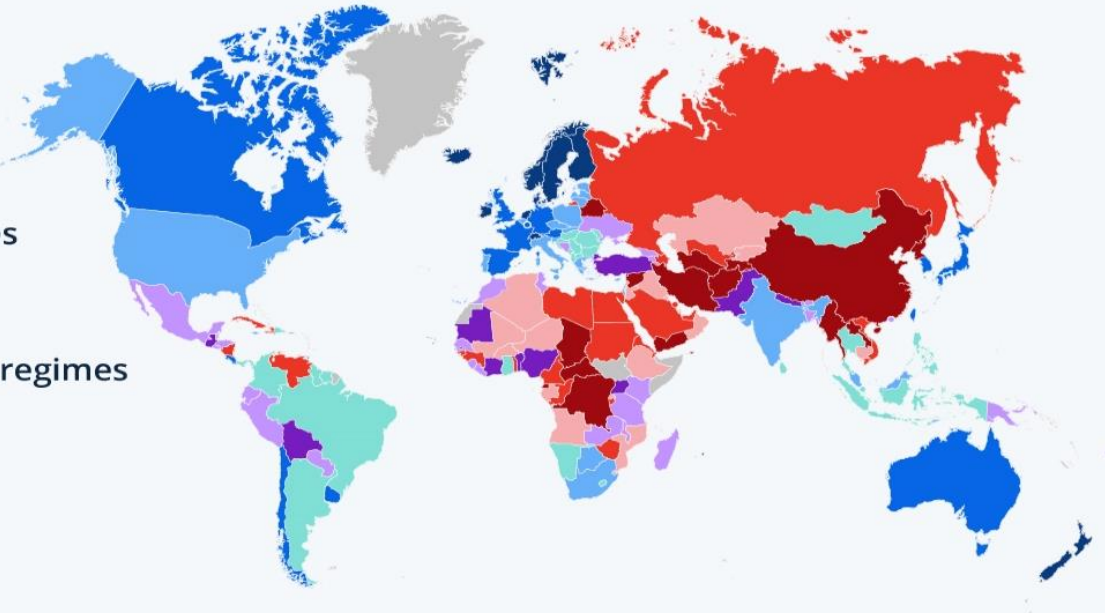
Authoritarian regimes

● 3.00-3.99

● 2.00-2.99

● 0-1.99

● No data



* takes into account electoral process and pluralism, civil liberties, the functioning of government, political participation and political culture

Source: The Economist Intelligence Unit



statista 

BRICS admits six new members

Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the UAE are set to join the core group of Brazil, Russia, India, China and South Africa. These 11 countries have a combined population of 3.7 billion.



The expansion of the group is part of its plan to build dominance and reshape global governance into “multipolar” world order that puts voices of the Global South at the centre of the world agenda.



BRAZIL



RUSSIA



INDIA



CHINA



SOUTH AFRICA



ARGENTINA



EGYPT



ETHIOPIA



IRAN

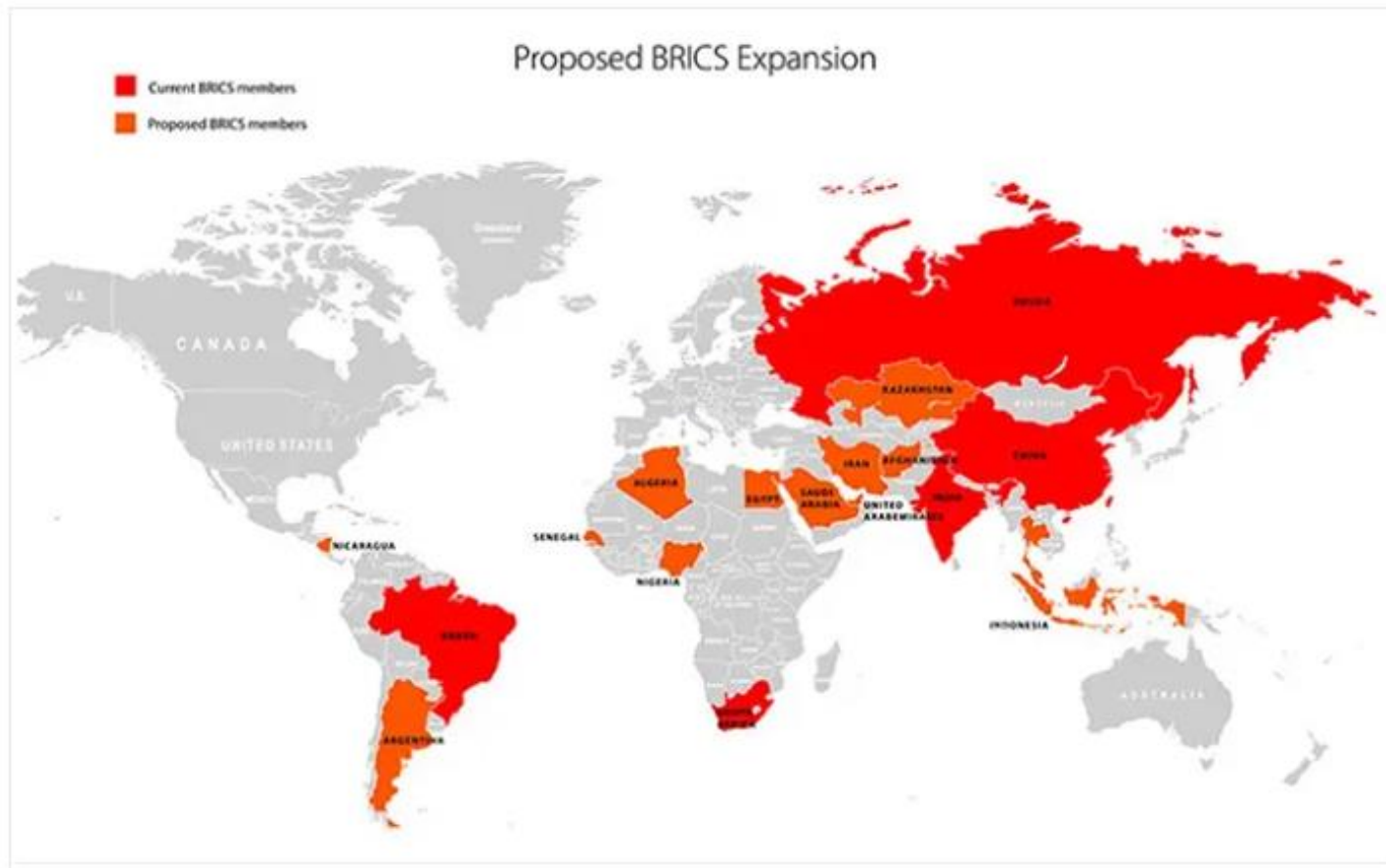


SAUDI ARABIA



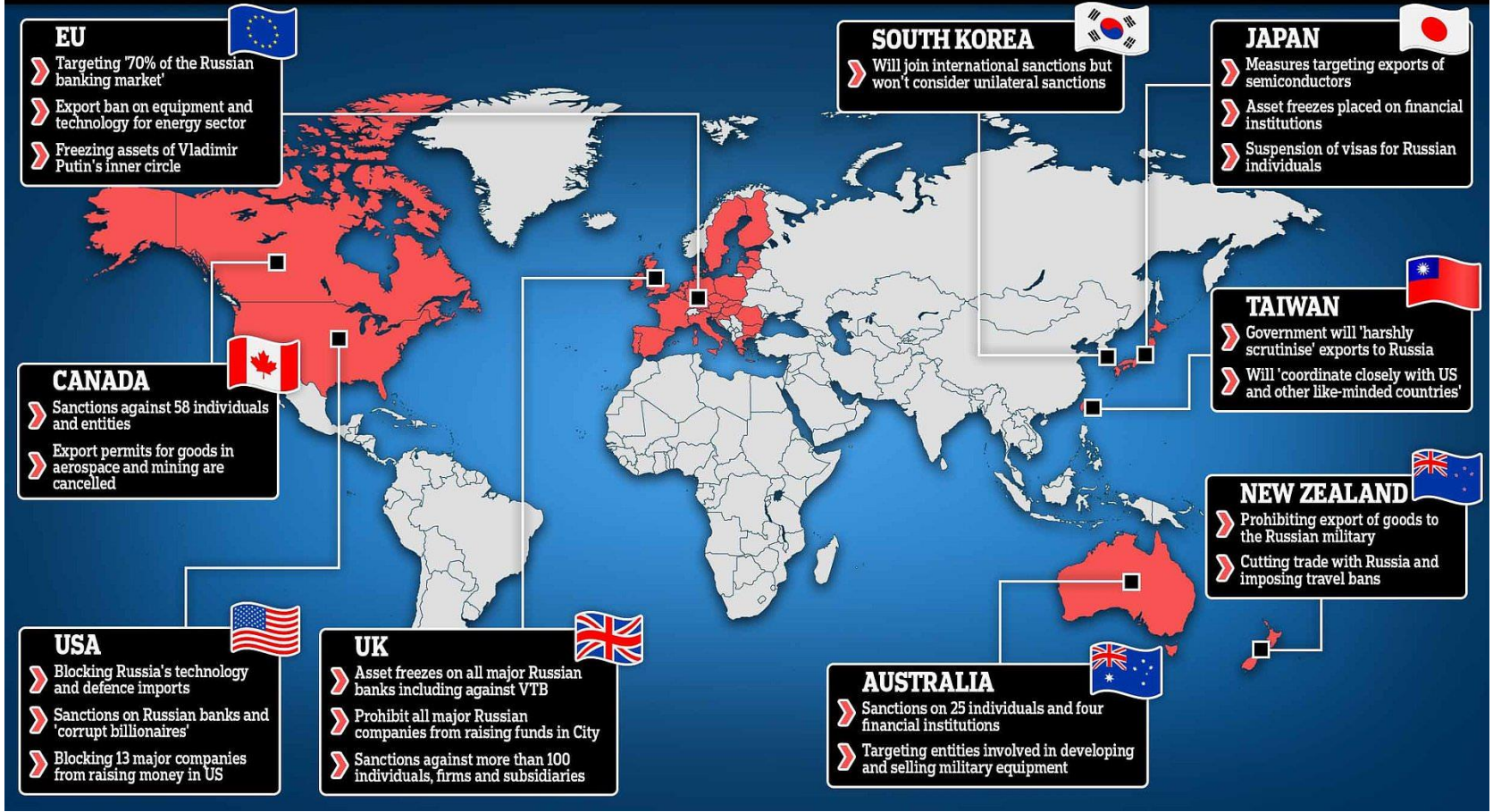
UAE





These include Afghanistan, Algeria, Argentina, Egypt, Indonesia, Iran, Kazakhstan, Nicaragua, Nigeria, Saudi Arabia, Senegal, Thailand, and the United Arab Emirates. Collectively, these nations if combined would create an entity with a GDP 30% larger than the United States, over 50% of the global population and in control of 60% of global gas reserves. An overview of these candidate members can be found here: <https://www.russia-briefing.com/news/russia-s-new-foreign-policy-to-concentrate-on-global-south-partnerships.html/>

SANCTIONS PLACED ON RUSSIA BY GOVERNMENTS AROUND THE WORLD



The EU

Our focus now is on growing the EU's broad network of trade agreements, which play a crucial role in helping our economies to grow at this time of economic uncertainty, securing privileged access to key markets for our exports, as well as access to key inputs and raw materials via diversified and resilient supply chains. Cooperation with reliable global partners matters more than ever in this changing geopolitical landscape.”

Valdis Dombrovskis, the Commission's Chief Trade Enforcement Officer (CTEO) - Report on Implementation and Enforcement of EU Trade Agreements 11.10.2022.

EU and Mercosur Relations



EU Mercosur Negotiations

- The relations between the European Community (EC) and Mercosur had started almost with the creation of the latest in 1991 due to strong cultural and historical ties with Spain (Argentina, Uruguay and Paraguay) and Portugal (Brazil).
- In the case of Brazil, it became the capital of Portugal (1808) after the Napoleonic invasions, and have its independence declared in 1822 by the Portuguese Don Pedro I with a strong diplomatic participation of Maria Leopoldina Habsburg.



EU Mercosur Negotiations

- 1995 the parties signed a framework agreement

TITLE I

OBJECTIVES, PRINCIPLES AND SCOPE

Article 1

Basis for cooperation

Respect for the democratic principles and fundamental human rights established by the Universal Declaration of Human Rights inspires the domestic and external policies of the Parties and constitutes an essential element of this Agreement.

Article 2

Objectives and scope

1. The objectives of this Agreement shall be to strengthen existing relations between the Parties and to prepare the conditions enabling an interregional association to be created.
2. To those ends, the Agreement covers trade and economic matters, cooperation regarding integration and other fields of mutual interest in order to bring about closer relations between the Parties and their respective institutions.

EU-Mercosur Framework Agreement (1995)

TITLE II

TRADE

Article 4

Objectives

The Parties shall undertake to forge closer relations with the aim of encouraging the increase and diversification of trade, preparing for subsequent gradual and reciprocal liberalization of trade and promoting conditions which are conducive to the establishment of the Interregional Association, taking into account, in conformity with WTO rules, the sensitivity of certain goods.

Article 5

Dialogue on trade and economic matters

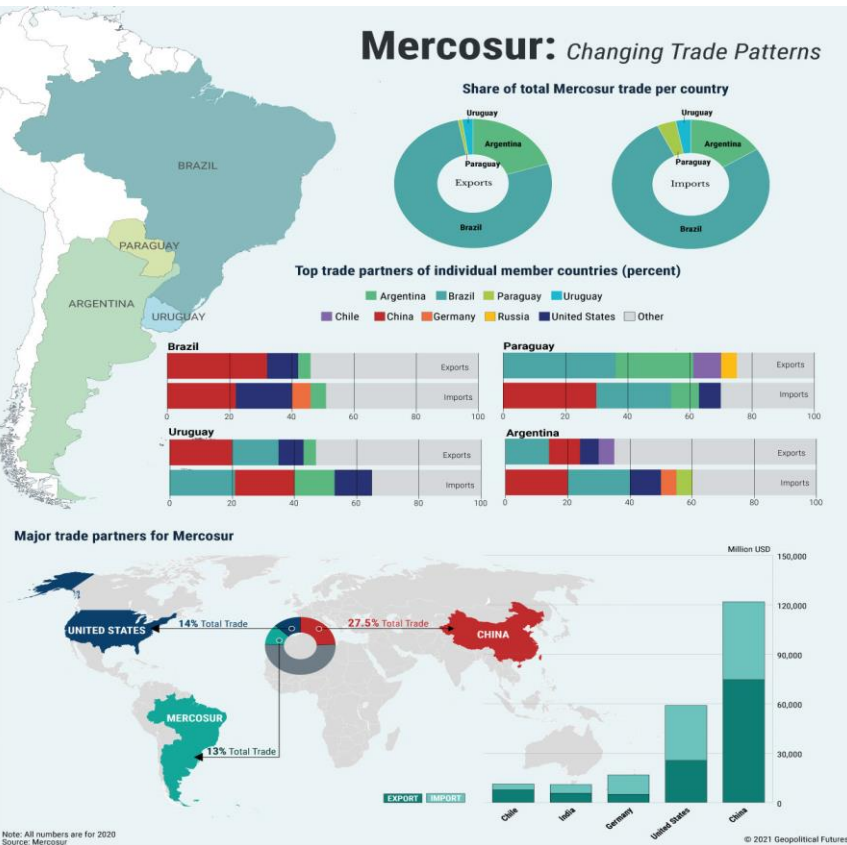
1. The Parties shall agree on the scope of cooperation in trade matters without excluding any sector.
2. To those ends, the Parties shall undertake to conduct periodic dialogue on trade and economic matters, within the institutional framework established by Title VIII of this Agreement.
3. In particular, cooperation of this nature shall focus mainly on the following:
 - (a) market access, trade liberalization (tariff and non-tariff barriers) and trade discipline such as restrictive trade practices, rules of origin, safeguards and special customs arrangements, for example;
 - (b) the Parties' trade relations with non-member countries;
 - (c) the compatibility of trade liberalization with GATT and WTO rules;
 - (d) the identification of goods which the Parties consider to be sensitive or of priority importance;
 - (e) cooperation and exchanges of information on services, within the Parties' respective spheres of competence.

EU Mercosur Negotiations

- 1999 the European Commission received a negotiating mandate to start negotiations.
- July 2001 the EU made its first tariff offer to Mercosur, which covered 90% of agricultural trade and 100% of industrial trade. In response, Mercosur offered a gradual liberalization over ten years that included 86% of industrial products (**excluded the automobile sector**) and 100% of agricultural products (**excluded the liberalization of services and public procurement**)
- 2003 The Doha round failed and neither the EU wanted to open up its **agricultural market** and reduce subsidies for this sector, nor was Mercosur willing to opening up the industrial sector and public procurement.
- **2004 negotiations were suspended**

EU Mercosur Negotiations

- From 2005 the negotiations with the EU did not progress and the boom of international trade with China made the Mercosur economies less dependent on the EU.
- No substantial progress was made until 2016, period in which the accession of Venezuela in the bloc took place (2012), which, from a European perspective, did not facilitate EU-Mercosur negotiations;
- From the end of 2016 the EU and Mercosur re-started negotiations in which each made new offers to cut tariffs.
- On 28 June 2019 the European Union and Mercosur reached a political agreement for a comprehensive trade agreement that included public procurement and automobile sector.



Trade and Investment

People's Republic of China-MERCOSUR (People's Republic of China-MERCOSUR FTA)

Sources:

- http://www.chinadaily.com.cn/business/2017-02/03/content_28092515.htm

Members

China, People's Republic of

Argentina

Brazil

Paraguay

Uruguay

Relevant Dates

Proposed/Under consultation and study
2017-0-0

News

[People's Republic of] China, Venezuela elevate ties to all-weather partnership

Asia News Network

14 Sep 2023

[People's Republic of] China-Latin America trade reaching new heights

Hellenic Shipping News

4 Jan 2023

Brazil's coffee exports to [People's Republic of] China double in 5 years

Xinhua News Agency

16 Jan 2020

From 2018 Mercosur shifted its south-south trade policy

- In July 2018 was launched negotiations of an FTA with Singapore, and a FTA was concluded on July 2020, after 6 rounds of negotiations.
- In 2018 Mercosur launched negotiations for a FTA with Canada.
- In 2019 Mercosur concluded the negotiations of an FTAs with the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland) and with the European Union.
- In 2021 Brazil presented offer for accession to the WTO Agreement on Government Procurement.
- In 2022 Brazil, the biggest Mercosur members, started the process of accession to the OECD.

KEY FACTS



A region of over **260 million** consumers



The 5th largest economy outside the EU with an **annual GDP of €2.2 trillion**



Closed markets with high tariff and non-tariff barriers



A destination for EU goods worth **€45 billion** (in 2018) and EU services worth **€23 billion** (2017)

A market for **60,500 EU companies**



A major destination for EU investments, with **€381 billion in investment stocks in 2017**

Trade is essential to growth and job creation. EU exports to Brazil alone support already **855,000 jobs in the EU and another 436,000 in Brazil**. More exports means more jobs.

EU – Mercosur Trade Agreement ‘in principle’ (2019)

- The Agreement is considered the *largest trade agreement the EU has ever concluded*, covering roughly 25 % of world GDP and a market of 780 million consumers, being 260 million in Mercosur, and 214 million just in Brazil.
- Currently, the EU exports to Mercosur alone support already 855.000 jobs in the EU and another 436,000 in Mercosur. With the increase of exports, the number of jobs is expected to increase, raising their citizens standards of living and consequently purchase power.
- the EU is Mercosur's second biggest trade in goods partner after China, accounting for 16.2% of the bloc's total trade in 2021 and Mercosur is the n. 11 trade in goods partner for the EU. With the application of the Agreement, the EU expected to recover the leader position it has in South America in the 90s and 2000s.

Another milestone trade agreement concluded by the Juncker Commission

Agreement	Population covered	Trade in goods	Trade in services	Tariff savings for EU companies	Joint GDP
Canada	550 million	€72 billion	€35 billion	€0.6 billion	€18 trillion
Japan	639 million	€135 billion	€53 billion	€1 billion	€21 trillion
Mercosur	773 million	€88 billion	€34 billion	Over €4 billion	€19 trillion

Available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_19_3396

EU – Mercosur Trade Agreement in principle (2019)

The Agreement in principle contains 17 Chapters divided as follows: 1. Trade in Goods; 2. Rules of Origin; 3. Customs and Trade Facilitation; 4. Trade Remedies; 5. Sanitary and Phytosanitary Measures (SPS); 6. Dialogues; 7. Technical Barriers to Trade (TBT); 8. Services and Establishment; 9. Public Procurement; 10. Competition; 11. Subsidies; 12. State-owned Enterprises; 13. Intellectual Property Rights, including Geographical Indications; 14. Trade and Sustainable Development; 15. Transparency; 16. Small and Medium-sized Enterprises; 17. Dispute Settlement, 13 Annexes and 2 protocols.

The agreement included a public procurement chapter, opening for the first time the Mercosur market for foreign companies to compete with national companies in bidding for public contracts. Hence, EU companies will have the first move to enter into this huge market in South America, able to compete in government contracts on goods, services (including construction services) and works purchased by public entities at federal/central level.

EU – Mercosur Trade Agreement in principle (2019)

The TSD Chapter comprises 18 articles:

(1) Objectives and Scope; (2) Right to regulate and levels of protection; transparency; Multilateral Labour Standards and Agreements; (5) Multilateral Environmental Agreements; (6) Trade and Climate Change; (7) Trade and Biodiversity; (8) Trade and Sustainable Management of Forests; (9) Trade and Sustainable Management of Fisheries and Aquaculture; (10) Scientific and Technical Information; (11) Trade and Responsible Management of Supply Chains; (12) Other Trade and Investment-related Initiatives Favouring Sustainable Development; (13) Working together on trade and sustainable development; (14) Sub-Committee on Trade and Sustainable Development and Contact Points; (15) Dispute Resolution; (16) Consultations; (17) Panel of Experts; (18) Review.

The TSD Chapter of the EU Mercosur FTA

3. The Parties recognize that the economic, social and environmental dimensions are interdependent and mutually reinforcing dimensions of sustainable development, and reaffirm their commitment to promoting the development of international trade in such a way as to contribute to the objective of sustainable development, for the welfare of present and future generations.

4. Consistent with the instruments referred to in paragraph 2, the Parties shall promote sustainable development through:

(a) the development of trade and economic relations in a manner that contributes to the objective of achieving the Sustainable Development Goals and supports their respective labour and environmental standards and objectives in a context of trade relations that are free, open, transparent, and respectful of multilateral agreements to which they are Party.

(b) the respect of their multilateral commitments in the fields of labour and of the environment.

(c) enhanced cooperation and understanding of their respective labour and environmental trade-related policies and measures, taking into account the different national realities, capacities, needs and levels of development and respecting national policies and priorities.

5. Recognizing the differences in their levels of development, the Parties agree that this Chapter embodies a cooperative approach based on common values and interests.

The TSD Chapter of the EU Mercosur FTA

Article 2

Right to regulate and levels of protection

1. The Parties recognise the right of each Party to determine its sustainable development policies and priorities, to establish the levels of domestic environmental and labour protection it deems appropriate and to adopt or modify its law and policies. Such levels, law and policies shall be consistent with each Party's commitment to the international agreements and labour standards referred to in Articles 4 and 5.
2. Each Party shall strive to improve its relevant laws and policies so as to ensure high and effective levels of environmental and labour protection.
3. A Party should not weaken the levels of protection afforded in domestic environmental or labour law with the intention of encouraging trade or investment.
4. A Party shall not waive or derogate from, or offer to waive or derogate from, its environmental or labour laws in order to encourage trade or investment.
5. A Party shall not, through a sustained or recurring course of action or inaction, fail to effectively enforce its environmental or labour laws in order to encourage trade or investment.
6. A Party shall not apply environmental and labour laws in a manner that would constitute a disguised restriction on trade or an unjustifiable or arbitrary discrimination.

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The TSD Chapter of the EU Mercosur FTA

Article 6

Trade and Climate Change

1. The Parties recognise the importance of pursuing the ultimate objective of the United Nations Framework Convention on Climate Change (UNFCCC) in order to address the urgent threat of climate change and the role of trade to this end.
2. Pursuant to paragraph 1, each Party shall:
 - (a) effectively implement the UNFCCC and the Paris Agreement established thereunder;
 - (b) consistent with article 2 of the Paris Agreement, promote the positive contribution of trade to a pathway towards low greenhouse gas emissions and climate-resilient development and to increasing the ability to adapt to the adverse impacts of climate change in a manner that does not threaten food production.

The TSD Chapter of the EU Mercosur FTA

Trade and Sustainable Management of Forests

1. The Parties recognise the importance of sustainable forest management and the role of trade in pursuing this objective and of forest restoration for conservation and sustainable use.
2. Pursuant to paragraph 1, each Party shall:
 - (a) encourage trade in products from sustainably managed forests harvested in accordance with the law of the country of harvest;
 - (b) promote, as appropriate and with their prior informed consent, the inclusion of forest-based local communities and indigenous peoples in sustainable supply chains of timber and non-timber forest products, as a means of enhancing their livelihoods and of promoting the conservation and sustainable use of forests.
 - (c) implement measures to combat illegal logging and related trade;
3. The Parties shall also:
 - (a) exchange information on trade-related initiatives on sustainable forest management, forest governance and on the conservation of forest cover and cooperate to maximise the impact and ensure the mutual supportiveness of their respective policies of mutual interest;
 - (b) Cooperate, as appropriate, bilaterally, regionally and in international fora on issues concerning trade and the conservation of forest cover as well as sustainable forest management, consistent with the 2030 Agenda for Sustainable Development.

Dispute settlement in the TSD Chapter

Article 15

Dispute Resolution

1. The Parties shall make all efforts through dialogue, consultation, exchange of information and cooperation to address any disagreement on the interpretation or application of this Chapter.
2. Any time period mentioned in Articles 16 and 17 may be extended by mutual agreement of the Parties.
3. All time periods established under this Chapter shall be counted in calendar days from the day following the act or fact to which they refer.
4. For the purpose of this Chapter, parties to a dispute under this chapter shall be as set out in Article 2 (Parties) of Chapter 1 (Objective and Scope) of Title VIII (Dispute Settlement).⁴
5. **No Party shall have recourse to dispute settlement under Title VIII (Dispute Settlement) for any matter arising under this Chapter.**

Opposition to the Ratification

However, some member states and MPES heavily demonstrated opposition to the agreement in the current format, demanding for the Commission to develop additional sustainability guarantees and enforcement mechanisms.

On 7 October 2020 the European Parliament (EP) adopted a Resolution stating that the agreement could not be ratified “as it stands.

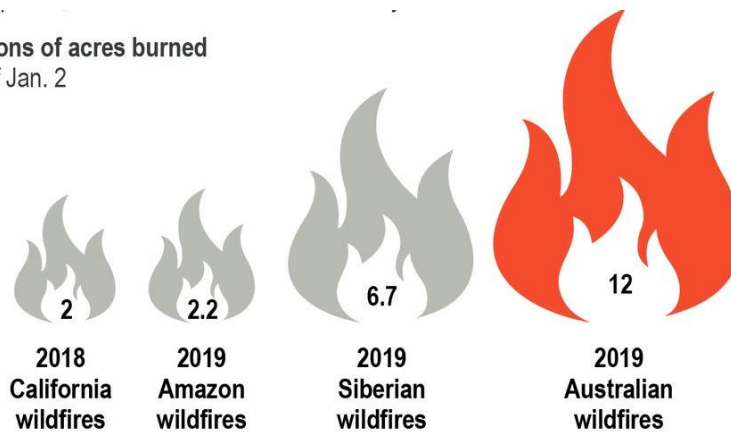
European Parliament resolution of 7 October 2020 on the implementation of the CCP (2019/2197(INI))

36. Stresses the importance of the recently concluded modernisation of the EU-Mexico association agreement and the conclusion of the Mercosur association agreement, which both have the potential to deepen our strategic partnership with Latin America, to create additional opportunities in our trade relations with those countries, and to help diversify supply chains for the European economy; considers that the association agreement between the EU and Mercosur represents the largest ‘bloc to bloc’ deal of its kind and has the potential to create a mutually beneficial open market area encompassing approximately 800 million citizens; points out that this agreement, like all EU trade agreements, must ensure fair competition and guarantee that European production standards and methods are upheld; **points out that the agreement contains a binding chapter on sustainable development that must be applied, implemented and fully assessed, as well as specific commitments on labour rights and environmental protection, including the implementation of the Paris climate agreement and the relevant implementing rules; emphasises that the EU-Mercosur agreement cannot be ratified as it stands;**

The Amazon Argument



Millions of acres burned
as of Jan. 2



SOURCE: Statista

AP

Social Problems in the Amazon:

“Data on the region expose a set of needs and vulnerabilities to which populations in the Amazon are subjected. The classic indicators of poverty, such as the Municipal Human Development Index (M-HDI) and per capita income, indicate that **the Amazon remains one of the poorest regions in Brazil**. In 2020, the average M-HDI of the municipalities in the region was 0.736, which is considered high but still below the national average. Average monthly income of employed persons aged 14 years or older in the region was BRL 2,059.75 in 2020, also below the national average of BRL 2,782.5. According to the Brazilian Institute of Geography and Statistics (IBGE), in 2019, about 20.9% of the population in the region lived below the poverty line, that is, with a monthly per capita income less than BRL 486.00. **About 9.7% of the population lives in extreme poverty, with per capita income up to BRL 168.00.** As a consequence, despite accounting for only 8.6% of the country’s population in 2019, this territory presented 15.73% of the total Brazilian population living in poverty and extreme poverty.”

Poverty in the Brazilian Amazon and the challenges for development. Rodrigues DL, Silva DN. Cad. Saúde Pública 2023; 39(10):e00100223

Available at: <https://scielosp.org/pdf/csp/2023.v39n10/e00100223/en>

“The environment cannot be improved in conditions of poverty”

“[a]re not poverty and need the greatest polluters? ... The environment cannot be improved in conditions of poverty”.

Indira Gandhi, the then India’s Prime Minister during the *Founex Conference* 1971.



The Sustainability Impact Assessment (2020)

Sustainability Impact Assessment in Support of the Association Agreement Negotiations between the European Union and Mercosur

December 2020



This report is part of an engagement process with civil society that aims to contribute to a sound, evidence-based and transparent societal debate in view of the future approval and implementation of the agreement.

The trade relations between the EU and Mercosur are essential for both blocs, given that the EU is the second trading partner for Mercosur and Mercosur the eleventh trading partner for the EU. An inter-regional Framework Cooperation Agreement from 1999 currently forms the basis for EU-Mercosur trade relations. Following negotiations since 2000, in June 2019 the EU and Mercosur reached a political agreement for an

Print or share



Client: European Commission - DG Trade

Authors: Max Mendez-Parra (ODI), Elitsa Garnizova (LSE), Daniela Baeza Breinbauer (LSE), Stefania Lovo (University of Reading), Jean-

The Sustainability Impact Assessment (2020)

4.4. Conclusion

Overall, the baseline analysis reveals that environmental policies in Mercosur countries are less stringent than in the EU, yet they are well in line with other countries of similar income levels. Brazil, in particular, outperforms other Mercosur and upper-middle-income countries in terms of adoption of climate change policies. Mercosur countries contribute to about 3.5% of global GHG emissions, compared to 9.5% of the EU, and adopt, on average, a cleaner energy mix than EU countries, with the sole exception of Argentina. Regarding air pollution, Mercosur countries show lower levels of pollutants than the EU and countries of similar income levels. Deforestation remains a concern in Mercosur countries, with the exception of Uruguay. While the situation improved during the first part of the twenty-first century, recent trends suggest a resurgence of deforestation. From 2004 in Brazil, the introduction of a series of policies to reduce and monitor deforestation led to a decrease in deforestation rates. However, from 2014, Brazilian deforestation rates began to rise due to a combination of worse economic conditions and deteriorating commitments to environmental regulation and enforcement.

Next Steps

In 2020 the EC claimed to present a new instrument to the TSD Chapter.

June 2022 European Commission Communication - *The power of trade partnerships: together for green and just economic growth* – proposing a new enforcement mechanism regarding the TSD chapter, with the possibility of trade sanctions, as last resort instruments, for material breaches of the Paris Agreement and the ILO fundamental labour principles.

The EU-New Zealand FTA, with negotiations conclude in June 2022, followed this new model

Novel EU's Approach on the DSM for the TSD Chapter EU-New Zealand FTA

Article 26 - Temporary Measures

2. For disputes under Chapter 19 (Trade and sustainable development) this Article applies if: (a) a situation set out in point (a), (b) or (c) of paragraph 1 of this Article arises and the final report of the panel pursuant to Article 26.12 (Final report) finds a violation of: (i) Article 19.3(3) (**Multilateral labour standards and agreements**); or (ii) Article 19.6(3) (Trade and climate change), if that panel, in its final report, finds that **the Party complained against failed to refrain from any action or omission that materially defeats the object and purpose of the Paris Agreement**; or (b) a situation set out in point (d) of paragraph 1 of this Article arises and the decision of the panel pursuant to Article 26.15 (Compliance review) finds a violation of: (i) Article 19.3(3) (Multilateral labour standards and agreements); or (ii) Article 19.6(3) (Trade and climate change), if the panel, in its decision finds that the Party complained against failed to refrain from any action or omission that materially defeats the object and purpose of the Paris Agreement.

...and the TSD additional instrument?

A non-official document (dated February 2023) was leaked on March 2023 bringing more substantial obligations but without procedural modifications regarding enforcement mechanism in the TSD Chapter, such as the new approach included in the EU-New-Zealand FTA.

The leaked document emphasizes the cooperative approach:

“The Agreement provides for a specific forum to monitor the implementation of the Trade and Sustainable Development Chapter, as set out in Article 14 of the TSD Chapter [Sub-Committee on Trade and Sustainable Development and Contact Point]. **The Parties agree that to ensure an effective implementation of TSD commitments they will develop a roadmap towards meeting these commitments and put in place a series of actions and cooperation activities]**

Considerable inclusions in the “leaked” document (2023):

Regarding the **Paris Agreement**: *Timely communication and implementation of successive and progressive Nationally Determined Contributions (NDCs) reflecting the highest possible ambition, in accordance with Art. 4.2 and 4.3 of the Paris Agreement, and that therefore there will be no reduction in the level of ambition of each Party's NDC, including with respect to deforestation targets existing on 28 June 2019, i.e. the date of the political agreement on the EU-Mercosur text, and as reflected in each Party's national laws.*

Regarding **Deforestation**: *In addition, the two sides are signatories to the Glasgow Leaders' Declaration on Forests and Land Use, where both sides committed to: trade and development policies, internationally and domestically, that promote sustainable development, and sustainable commodity production and consumption, that work to countries' mutual benefit, and that do not drive deforestation and land degradation. halt and reverse forest loss and land degradation by 2030 while delivering sustainable development and promoting an inclusive rural transformation. To this end **the EU and Mercosur will set an interim target of reduction of deforestation of at least 50% from current levels by 2025.***

Follow up of the Negotiations:

Mercosur members have emphasized that they will not accept a sanction-based approach to enforce obligations assumed in the TSD chapter neither unilateral imposition of EU environmental standards (as the EU Deforestation-Free Regulation and the carbon border adjustment mechanism).

The presidents of Argentina and Brazil have signalled in some speeches the wish to review trade concessions regarding public procurement and automobile sector.

Negotiations are undergoing and are expected to end by December 2023, when Brazil gives the pro-tempore presidency of Mercosur to Paraguay.

Industry coalition joint letter on the EU-Mercosur Agreement

05/07/2023

We are writing you on behalf of 19 European business associations, representing different European industrial sectors that create millions of jobs in Europe and provide an essential contribution to the wellbeing of the Europeans citizens. United, we are calling on the European Union to take all the necessary initiatives to ensure the swift ratification of the EU-Mercosur agreement.

For all our sectors, the EU-Mercosur agreement is key to preserving our competitiveness. It would offer us an opportunity to diversify our export markets and the portfolio of suppliers of critical industrial inputs.

The war in Ukraine and its subsequent strain on our supply chains has demonstrated the importance of diversifying our portfolio of export markets and of suppliers of critical industrial inputs. The EU-Mercosur agreement will help ensure that our supply chains remain operational in an increasingly volatile and ambiguous world marked by several crises, which span from strategic dependencies on the supply of critical raw materials, to concerns for feedstock, as well as to demographic challenges. In this context, finalising the adoption of the EU-Mercosur agreement is absolutely vital.

Available at: <https://www.eurochambres.eu/publication/industry-coalition-joint-letter-on-the-eu-mercosur-agreement/>



ALMA MATER STUDIORUM
UNIVERSITÀ DI BOLOGNA



ImprovEUorGlobe

Thank you very much for your attention :)

klarissa.martins2@unibo.it



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