

ACEA policy paper

EU-Mercosur Free Trade Agreement



INTRODUCTION

In 2024, approximately one in every three vehicles produced in the EU found its way to international markets. Free trade has been the backbone of this success, driving nearly a €100 billion surplus for the EU every year. But the road ahead is getting bumpier – rising costs, tougher competition, and supply chain risks threaten the EU’s position as a global automotive powerhouse.

With 270 million consumers and a growing appetite for European vehicles, the Mercosur market¹ presents a golden opportunity. The EU-Mercosur trade agreement would eliminate tariffs of up to 35% for the import of vehicles, giving European automakers a competitive edge over rivals from other global regions. According to the European Commission’s projections, the agreement will triple exports of automotive goods to the Mercosur bloc by 2040. And it’s not just about exports – securing raw materials from diversified sources strengthens Europe’s economic security at a time of increasing geopolitical uncertainty. European companies will also benefit from access to public procurement in the Mercosur countries.

However, Europe can only reap these benefits if the deal is ratified. The EU must move swiftly, independently approving the trade provisions to avoid unnecessary political deadlocks. Critics argue for stricter environmental safeguards, but the reality is clear: this deal already includes some of the strongest sustainability commitments ever negotiated, aligning with the Paris Agreement and tackling deforestation.

To safeguard Europe’s automotive leadership, the EU must ratify the deal without delay.

¹ Includes Argentina, Bolivia, Brazil, Paraguay, and Uruguay

KEY MESSAGES AT GLANCE

FREE TRADE AS AN ESSENTIAL PART OF THE EU AUTOMOTIVE INDUSTRY COMPETITIVENESS

- Free trade is essential to secure access to new markets and diversify input sources to face competitiveness challenges.
- Trade agreements are vital in sustaining and reinforcing the EU's position as a global leader in automotive manufacturing and innovation.

MERCOSUR POTENTIAL AS AN EXPORT MARKET

- The agreement will help expand the EU's global footprint in an increasingly protectionist world.
- Strengthening the EU's presence in Latin America, a region with significant growth potential, is crucial as competition from automakers from other global regions increases.

IMPORTANCE OF THE AGREEMENT AS PART OF EU ECONOMIC SECURITY STRATEGY

- The deal will help diversify trade partnerships to reduce dependencies and become more resilient against external shocks.
- It will also enhance access to critical raw materials that are key to the EU's electric vehicle supply chain.

THE AGREEMENT CONTAINS ROBUST SUSTAINABILITY PROVISIONS

- The agreement allows the EU to suspend the deal if one of the parties formally withdraws from the Paris Agreement or fails to implement its commitments in "good faith".
- Binding commitments will require the Mercosur countries to adopt measures to further stop deforestation as of 2030.

KEY MESSAGES IN DETAIL

FREE TRADE AS AN ESSENTIAL PILLAR OF THE EU AUTOMOTIVE INDUSTRY COMPETITIVENESS

Free trade is fundamental to the global competitiveness of the EU automotive industry, with over 30% of the EU's total vehicle production exported to third-country markets in 2024.

As the sector faces significant competitiveness challenges, including the impact of US tariffs on cars and car parts and components, fierce international competition, high energy costs, increasing regulatory burdens, and supply chain vulnerabilities, it is vital that the EU pursues an ambitious trade agreement agenda that removes barriers, secures access to new export markets, and diversifies our input sources.

With a trade surplus of nearly €100 billion every year, the automotive sector is a key driver of economic growth and prosperity. Ensuring free, predictable and rules-based trade conditions will be essential to sustaining and reinforcing the EU's position as a global leader in automotive manufacturing and innovation.

The conclusion of this agreement reflects a new direction in the EU FTA² agenda strategy which should be sustained by ratifying the modernised agreement with Mexico, and by accelerating negotiations with other relevant partners such as Australia, India, and the ASEAN countries³.

MERCOSUR POTENTIAL AS AN EXPORT MARKET

As global trade dynamics shift towards protectionism, marked by rising US tariffs, an economic slowdown in China, and increasing trade barriers worldwide, the EU must urgently expand its global footprint by securing new alliances and accessing untapped markets. The Mercosur bloc, with over 270 million consumers and annual vehicle sales exceeding three million, presents a key opportunity for Europe to strengthen its presence in Latin America, a region with significant growth potential.

This agreement offers a first-mover advantage, ensuring that European automobile exports enter the Mercosur market at reduced tariffs before competitors from other global regions can negotiate similar access. By eliminating tariffs of up to 35% on vehicles and auto parts, and tackling technical barriers to trade (TBTs), the agreement will make EU-made cars significantly more competitive in a region which is already experiencing an important influx of vehicles from China. According to the European Commission updated economic assessment on the agreement, exports of automotive goods to the Mercosur bloc are expected to increase by 200% by 2040.

² Free Trade Agreement

³ The Association of Southeast Asian Nations (ASEAN) countries are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam

The EU automotive industry also considers that the changes introduced to the 2019 agreement with regards to the treatment of automobile products – which were made in exchange of obtaining stronger sustainability commitments from the Mercosur countries – are acceptable.

IMPORTANCE OF THE AGREEMENT AS PART OF EU ECONOMIC SECURITY STRATEGY

The EU-Mercosur agreement is also a fundamental instrument in advancing the EU's economic security strategy. In times of increasing geopolitical fragmentation and supply chain vulnerabilities, diversifying trade partnerships is essential.

By securing new export markets and supply chain diversification for critical raw materials (eg graphite, manganese, and lithium, which are key for electric vehicle batteries), the agreement will contribute to reducing excessive dependencies and will enhance the EU's resilience against external shocks.

THE AGREEMENT CONTAINS ROBUST SUSTAINABILITY PROVISIONS

The EU-Mercosur agreement includes robust and enforceable sustainability provisions.

As part of the additional commitments that were negotiated after 2019, the Paris Climate Agreement has now been included as an essential element to the agreement. This allows for the suspension of the deal if one of the parties formally withdraws from the Paris Agreement or if it fails to implement its commitments in "good faith". Such clause only exists in the EU agreements with New Zealand and the UK, considered to be "golden standards" in terms of sustainability commitments.

Additionally, the new annex to the Trade and Sustainable Development chapter that was negotiated also includes binding commitments for the Mercosur countries to adopt measures to further stop deforestation as of 2030.

While some critical voices argue for further environmental safeguards, the reality is that having an agreement in place is far better than having none at all. This is particularly relevant in the current geopolitical context, where other dominant trading actors in the world pursue trade agreements with little to no sustainability commitments.



ABOUT THE EU AUTOMOBILE INDUSTRY

- 13.2 million Europeans work in the auto industry (directly and indirectly), accounting for 6.8% of all EU jobs
- 10.3% of EU manufacturing jobs – some 3.1 million – are in the automotive sector
- Motor vehicles are responsible for €383.7 billion of tax revenue for governments across key European markets
- The automobile industry generates a trade surplus of €106.7 billion for the European Union
- The turnover generated by the auto industry represents over 7.5% of the EU's GDP
- Investing €72.8 billion in R&D per year, automotive is Europe's largest private contributor to innovation, accounting for 33% of the EU total

ACEA REPRESENTS EUROPE'S 16 MAJOR CAR, VAN, TRUCK AND BUS MANUFACTURERS

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