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EU-MERCOSUR TRADE RELATIONS – CHALLENGES AND PROSPECTS IN THE LIGHT OF THE COMPLETED NEGOTIATIONS OF THE TRADE AGREEMENT

STOSUNKI HANDLOWE UE-MERCOSUR – WYZWANIA I PERSPEKTYWY W ŚWIETLE ZAKOŃCZONYCH NEGOCJACJI UMOWY HANDLOWEJ

Summary: Dynamic changes in world trade in recent years have provided an important impetus for the European Union to modify its trade policy and seek to strengthen bilateral relations, including through the negotiation of trade agreements. The completion of negotiations for an agreement with Mercosur is an important part of this effort. The aim of the paper is to present the results of research concerning the analysis of the EU-Mercosur trade relations and to indicate the perspectives of the negotiated deal. From the analysis carried out in the paper, it can be concluded that despite a mere 2% share of total EU trade, the Mercosur group is an important partner for the EU, and the opportunities for developing mutual cooperation are significant. This is supported not only by the untapped potential in mutual trade relations giving considerable chances to achieve significant savings after the implementation of the agreement, but also by external determinants that provide an additional significant incentive to strengthen the EU position in the region. To achieve the objectives of the study, the analytical and descriptive method was mainly used. The considerations were based mainly on original materials and scientific papers on EU trade policy, as well as data from reports of international organizations.

Keywords: EU, FTA, international trade, Mercosur, trade relations

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Streszczenie: Dynamiczne zmiany zachodzące w handlu światowym w ostatnich latach stanowiły ważny impuls dla Unii Europejskiej do modyfikacji swojej polityki handlowej i dążenia do umacniania stosunków o charakterze dwustronnym, także poprzez negocjacje porozumień handlowych. Zakończenie negocjacji porozumienia z Mercosur stanowi istotny element tych działań. Celem artykułu jest przedstawienie wyników badań dotyczących analizy stosunków handlowych UE-Mercosur oraz wskazanie perspektyw negocjowanego porozumienia. Z przeprowadzonej w opracowaniu analizy można wnioskować, że mimo zaledwie 2% udziału w handlu UE ogółem ugrupowanie Mercosur jest ważnym dla UE partnerem, a możliwości rozwoju wzajemnej współpracy są znaczące. Przemawia za tym nie tylko niewykorzystany potencjał we wzajemnych stosunkach handlowych dający spore szanse na osiągnięcie istotnych oszczędności po wdrożeniu porozumienia, ale także zewnętrzne determinanty, które stanowią dodatkowy, ważny bodziec do umacniania unijnej pozycji w tym regionie. Dla realizacji celów opracowania zastosowana została głównie metoda analityczno-opisowa. Rozważania oparte zostały głównie na materiałach źródłowych oraz opracowaniach naukowych dotyczących unijnej polityki handlowej, a także danych z raportów organizacji międzynarodowych.

Słowa kluczowe: FTA, handel międzynarodowy, Mercosur, stosunki handlowe, UE

INTRODUCTION

In the face of today's dynamic and multifaceted changes in the global economy, the position of a country or bloc is also evidenced by its ability to adapt to the changing reality. Both the crisis of the multilateral system within the World Trade Organization (WTO) and other events¹ changing the global situation in world trade have become a source of instability and, thus, an important impetus for the European Union to modify its trade policy, as reflected in the provisions of successive trade policy strategies. In the face of these events, the EU is, therefore, seeking alternative opportunities for more favorable access to other markets, emphasizing the strengthening of bilateral relations with countries and trade groups, stressing the importance of priority partners with significant economic potential. The opening of the EU to other countries and regions, including through bilateral agreements, promotes the diversification of trade, which is proving to be particularly important in such a challenging and dynamically changing economic environment.

Particularly noteworthy in this context are the actions taken with regard to the Mercosur countries. The longest in the history of the EU, finalized negotiations of a free trade agreement (FTA)² between the blocs significantly expand the catalog of

¹ These are mainly the intensification of protectionist tendencies in U.S. trade policy, the U.S.-China trade war, the COVID-19 pandemic, the conclusion of trade agreements critical to the global economy in the Asia-Pacific region (Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Regional Comprehensive Economic Partnership (RCEP)), and now the effects of Russian aggression in Ukraine also resulting in increasing problems in EU-Chinese relations.

² W. Goode, *Dictionary of Trade Policy Terms*, Cambridge University Press, Cambridge 2003, p. 181.

EU trade agreements confirming its involvement in this economically important area. Strengthening trade relations with Mercosur, the importance of which has been emphasized in EU documents for years, is particularly important, among other things, in view of the consolidation of China's position in relations with the bloc's countries or changes in the architecture of trade agreements in other regions of the world.

The aim of the paper is to present the results of research concerning the analysis of the EU-Mercosur trade relations and to indicate the perspectives of the negotiated deal. The specific objectives are to trace the evolution of mutual trade relations since the creation of Mercosur, as well as to show the mutual importance of the partners by analyzing trade volumes. The objectives outlined above intended to confirm the thesis that despite the EU's small share of total trade, placing Mercosur only in 10th position among EU partners, the EU will seek to consolidate relations with the group, which involves the completion of negotiations for a trade agreement. Therefore, the finalization of the negotiations, together with the lengthening prospect of the agreement's entry into force, were the main rationales for the choice of topic.

The considerations carried out in the article were based mainly on original materials (the texts of the Agreement³ and official documents) as well as scientific studies on EU trade policy. Data from the resources of the European Commission and the World Trade Organization (WTO) was also used. In order to achieve the objectives of the article, the analytical and descriptive method was mainly used. The study included four Mercosur countries – Argentina, Brazil, Paraguay and Uruguay⁴. The conducted argument was supported by the presentation of data in tabular form. Due to the extent and complexity of the subject matter, the author focused on selected aspects of the problem at hand.

LITERATURE REVIEW AND RESEARCH BACKGROUND

The issue of the EU's trade relations with third countries or other trade blocs, including the EU's free trade agreements, is relatively frequently addressed in academic research and is, thus, the subject of numerous studies. Valuable contributions to the

³ The Mercosur-EU Free Trade Agreement is part of the Association Agreement (AA) covering trade (discussed in this article), political dialogue and cooperation in selected areas (e.g., human rights). Negotiations of the three pillars have been completed but not signed. Taking into account the Commission's transparency policy, the Commission published the texts of the Trade Part of the Agreement following the agreement in principle announced on June 28, 2019.

⁴ Venezuela, which officially joined in July 2012, was suspended from membership in 2017 indefinitely (there are no permanent expulsion provisions) due to human rights and trade violations of the bloc. Bolivia is in the process of acceding the group. See: MERCOSUR, <https://www.mercosur.int/en/about-mercotur/mercotur-countries/> [retrieved: 10.06.2022].

critical debate have been made by Ambroziak⁵, Mazur⁶, Meissner⁷, Kasteng, Kokko, Tingvall⁸ among others. However, they most often concern those EU partners whose participation in EU trade places them among the key partners. Therefore, especially against this background, the issue of the EU's trade relations with the countries of South America, including Mercosur, is relatively less frequently addressed. This was certainly determined by the protracted negotiations of the trade agreement for two decades, but also by the relatively smaller share of the bloc in total EU trade in relation to other partners with whom agreements have been concluded or are under advanced negotiations. It should be remembered that trade relations with Mercosur countries are still based on the MFN. And here there is an important context of analysis leading up to the provisions in the EU's trade strategies⁹, in which the group was indicated as acquiring significant, even strategic, importance from the point of view of the EU's economic interests. Faced with a standstill at the WTO and in anticipation of reform restoring the role of the organization globally governing world trade¹⁰, these strategies are placing increasing emphasis on strengthening relations of a bilateral nature, in-

⁵ Ł. Ambroziak, *Potencjalny wpływ umowy o partnerstwie gospodarczym UE – Japonia na polski handel rolno-spożywczy z Japonią*, „Gospodarka Regionalna i Międzynarodowa” 2017, nr 53(2).

⁶ G. Mazur, *EU-ASEAN Free Trade Agreement(s) - Prospects and Challenges for Inter-Regional FTA*, *The Development Challenges of Asia-Pacific Countries* nr 486, Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu 2017.

⁷ K. Meissner, *A case of failed interregionalism?: analyzing the EU-ASEAN free trade agreement negotiations*, „Asia Europe Journal” 2016, Vol. 14, No. 3.

⁸ J. Kasteng, A. Kokko, P. Tingvall, *Who Uses the EU's Free Trade Agreements? A Transaction-Level Analysis of the EU – South Korea FTA*, „World Trade Review” 2022, 21(1).

⁹ A turning point in the EU's efforts became the strategy “Global Europe. Competing in the global market” of 2006, as in fact the important role assigned to trade agreements has been noted since then. It also identified economic criteria for new FTA partners, mainly market potential (economic size and growth) and the level of protection against EU export interests (tariff and non-tariff barriers). Mercosur, combining high levels of protection with large market potential was identified as one of the priority partners for the conclusion of a trade agreement, which also emphasized the growing importance of this trade bloc in the global economy. Subsequent strategies in 2010, 2015 and 2021 exposed the importance of developing the EU's bilateral relations, also within the framework of a broad cooperation plan with Latin America, but leaving room for the rebuilding of the WTO's position in the global economy due to the fact that almost two-thirds of the EU's trade with the rest of the world, including trade with the United States, China, Russia and India, now takes place on the basis of WTO-guaranteed rules (MFN), which also indicates the need for a smoothly functioning organization that globally manages international trade. See: *Global Europe. Competing in the world. A Contribution to the EU's Growth and Jobs Strategy*, Commission of the European Communities 2006, <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2006:0567:FIN:en:PDF> [retrieved: 10.05.2022]; *Trade, Growth and World Affairs. Trade Policy as a core component of the EU's 2020 strategy*, European Commission 2010, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52010DC0612&from=EN> [retrieved: 10.05.2022]; *Trade for All. Towards a more responsible trade and investment policy*, European Commission 2015, http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf [retrieved: 10.05.2022]; *Trade Policy Review - An Open, Sustainable and Assertive Trade Policy*, European Commission 2021 https://eur-lex.europa.eu/resource.html?uri=cellar:5bf4e9d0-71d2-11e8-9ac9-01aa75ed71a1.0001.02/DOC_1&format=PDF [retrieved: 10.05.2022].

¹⁰ See more: B.M. Hoekman, P.C. Mavroidis, *WTO Reform: Back to the Past to Build for the Future*, „Global Policy” 2021, Volume 12, Supplement 3, April 2021, <https://onlinelibrary.wiley.com/doi/epdf/10.1111/1758-5899.12924> [retrieved: 29.06.2022].

cluding negotiations of trade agreements, thus filling a gap in an increasingly ineffective multilateral system. The completion of negotiations with Mercosur is an important part of these efforts and offers opportunities to take advantage of the potential in mutual trade relations. Not insignificant in this context are the agreements concluded in other regions of the world, especially Asia-Pacific, which can also affect the competitiveness of EU exports to the markets of these partners and, thus, prompt the EU to take increased action in this regard, providing an opportunity to create a counterweight to the EU's main competitors. Mercosur, therefore, appears to be an interesting case for analysis in this context. In view of the above, it can be concluded that the issues raised in this article are topical and relevant, yet insufficiently researched. The contribution, therefore, is to show the importance of mutual relations, including the negotiated agreement, for its parties, both in terms of their economic potential as well as the external current determinants of cooperation. This enables a deeper understanding of the rationale for this cooperation and its complex determinants. In addition, the study is an up-to-date analysis and, from this point of view, also adds value to the existing state of the art in this area.

EU-MERCOSUR TRADE RELATIONS – ORIGINS AND INSTITUTIONAL FOUNDATIONS OF MUTUAL COOPERATION

The significant development of relations between Latin American countries that took place in the 1980s and 1990s resulted in the signing of the Treaty of Asunción by Argentina, Brazil, Paraguay and Uruguay on March 26, 1991, which gave birth to the Common Market of the South (Mercado Común del Sur, Mercosur)¹¹. Since its inception, Mercosur members have had ambitions to create an EU-like bloc, with free movement of goods, services and factors of production between countries¹². Progress has been gradual, however, and the scope of integration has remained limited – according to the treaty's provisions, it was planned to create a common market by the end of 1994, a goal that has not been realized to date. The operation of the existing customs union is also hampered by numerous non-tariff barriers and the partial implementation of the common external tariff only¹³.

¹¹ *Mercosur Free Trade Agreement 1991*, <https://www.worldtradelaw.net/document.php?id=fta/agreements/mercosurfta.pdf> [retrieved: 10.06.2022].

¹² *Mercosur: South America's Fractious Trade Bloc*, CFR 2021, <https://www.cfr.org/background/mercosur-south-americas-fractious-trade-bloc> [retrieved: 19.06.2022].

¹³ *List of Exceptions to the Mercosur Common External Tariff*, Global Trade Alert 2018, <https://www.globaltradealert.org/state-act/30536/brazil-new-changes-to-the-list-of-exceptions-to-the-mercosur-common-external-tariff> [retrieved: 10.05.2022]; *The trade pillar of the EU-Mercosur Association Agreement*, EPRS 2019, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/640138/EPRS_BRI\(2019\)640138_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/640138/EPRS_BRI(2019)640138_EN.pdf) [retrieved: 25.05.2022].

Official talks between the EU and the Mercosur organization began as early as 1991, and in May 1992 the European Commission signed an Inter-Institutional Agreement on Cooperation with Mercosur¹⁴. Two years later, a joint declaration of the EU and Mercosur was signed to create an interregional association of a political and economic nature¹⁵. The Interregional Framework Cooperation Agreement between the EU and Mercosur entered into force in 1999. This agreement expressed the will to continue the process of bilateral integration and sanctioned the goals of the two organizations based on three pillars: political dialogue, cooperation and technical assistance, and trade matters. It is with regard to the latter that Article 4 of the said agreement provides for the gradual and bilateral liberalization of trade exchanges¹⁶.

The idea of negotiating an EU-Mercosur Association Agreement, including a free trade area, was born at the Rio de Janeiro Summit in June 1999. Negotiations began in 2000, but were repeatedly resumed and suspended. In May 2016 the EU and Mercosur resumed the negotiating process, exchanged new market access offers and increased the pace of negotiations, holding negotiating rounds and meetings at regular intervals. Serious challenges to the multilateral trading system related to the intensification of protectionism in U.S. trade policy since 2017 and uncertainty about the impact of the U.S.-China trade war on global trade also contributed significantly to the decision to conclude the agreement. In addition, the loss of preferential GSP status¹⁷ for Mercosur countries as of January 2019 has increased their interest in concluding a free trade agreement with the EU. The agreement, reached on June 28, 2019, was the culmination of nearly 20 years of negotiations between the trade blocs¹⁸.

¹⁴ After relations between the EU and the countries now forming the bloc cooled in the 1980s, the EU re-evaluated its policy toward the region at the beginning of the following decade. Over the period 1985-1992 the EU was Mercosur's largest trading partner, accounting for 26% of all trade. In the late 1990s, the EU also became the largest foreign investor of the bloc. *EU-MERCOSUR relations*, European Commission 1994, https://ec.europa.eu/commission/presscorner/detail/en/MEMO_94_62 [retrieved: 10.05.2022]; T.M. Leonard, *UE a MERCOSUR: perspektywy współpracy*, „Studia Europejskie” 2001, nr 1.

¹⁵ *Working Document on EU-Mercosur economic and trade relations with regard to negotiating an interregional association agreement Committee on International Trade*, European Parliament 2006, https://www.europarl.europa.eu/meetdocs/2004_2009/documents/dt/605/605665/605665en.pdf [retrieved: 20.05.2022].

¹⁶ *Interregional Framework Cooperation Agreement between the the European Community and its Member States, of the one part, and the Southern Common Market and its Party States, of the other part*, [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:21996A0319\(02\)&from=PL](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:21996A0319(02)&from=PL) [retrieved: 30.05.2022].

¹⁷ See more on GSP in: M. Czermińska, J. Garlińska-Bielawska, *European Union-West Africa Trade Relations: with or without Economic Partnership Agreement (EPA)*, *Annals of the Administration and Law* no. 17 (2), Wyższa Szkoła Humanitas, Sosnowiec 2017, p. 106-115.

¹⁸ *The trade pillar of the EU-Mercosur Association Agreement*, EPRS 2019, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/640138/EPRS_BRI\(2019\)640138_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/640138/EPRS_BRI(2019)640138_EN.pdf) [retrieved: 25.05.2022]; *Working Document on EU-Mercosur economic and trade relations with regard to negotiating an interregional association agreement Committee on International Trade*, European Parliament 2006, https://www.europarl.europa.eu/meetdocs/2004_2009/documents/dt/605/605665/605665en.pdf [retrieved: 20.05.2022].

The main reason for the prolonged negotiations and, at the same time, an obstacle to the conclusion of an agreement was the clear contradiction of the parties' interests – the EU side advocated mainly the liberalization of trade in industrial goods, and the Mercosur – trade in agricultural goods, which corresponds (discussed further below) to the structure of mutual trade between the regions. Agriculture remained the biggest bone of contention. Opposition on the EU side concerned the opening of the market to goods that did not meet EU quality and sanitary standards and so-called sensitive goods, which mainly included beef, sugar, cereals, wine and dairy products. This did not make it easy to reach a compromise, especially since the Mercosur countries simultaneously feared competition from subsidized EU foods¹⁹.

A problem that made it difficult to reach an agreement between the trade blocs was, also, the course of negotiations at the World Trade Organization. The greater the benefits anticipated for developing countries in multilateral negotiations, the less willing Mercosur countries became to make concessions in bilateral negotiations with the EU. There was also the issue of changing approaches to trade policy in Mercosur countries, which resulted in the start of negotiations with other countries as well²⁰. The bloc has concluded trade agreements with India, Israel, the Southern African Customs Union (SACU) and Egypt. Importantly, negotiations are underway for agreements with Canada and EFTA²¹. However, no agreement with a key Mercosur partner and also a major EU competitor in the region has yet been concluded²². For Mercosur, therefore, a trade agreement with the EU would mark the first such comprehensive agreement with an economically developed partner, ranked among those of key importance to the grouping, giving the bloc privileged market access to a key player in the global economy. The entry into force of an agreement with the EU could also increase the attractiveness of the Mercosur group in the aforementioned ongoing negotiations with other partners²³.

It is worth noting in this context that the EU is the most active participant in trade agreements in the global economy, with the range of agreements expanding

¹⁹ K. Pawlak, A. Sapa, *Potencjalne skutki utworzenia strefy wolnego handlu UE-MERCOSUR dla handlu rolno-żywnościowego UE*, „Zeszyty Naukowe Szkoły Głównej Gospodarstwa Wiejskiego w Warszawie Problemy Rolnictwa Światowego” 2016, tom 16 (XXXI), zeszyt 1, pp. 200-201.

²⁰ *The trade pillar of the EU-Mercosur Association Agreement*, EPRS 2019, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/640138/EPRS_BRI\(2019\)640138_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/640138/EPRS_BRI(2019)640138_EN.pdf) [retrieved: 25.05.2022]

²¹ *Regional Trade Agreements Database*, <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx> [retrieved: 10.06.2022].

²² Uruguay's recent efforts to conclude a free trade agreement with China have been a source of tension between the bloc's members. While Brazil has supported the FTA with China, Argentina has voiced opposition, citing concerns that the trade deal could increase the flow of cheap Chinese imports into the region. *Uruguay advances free trade talks with China, aims to be Mercosur 'gateway'*, <https://www.reuters.com/world/americas/uruguay-advances-free-trade-talks-with-china-aims-be-mercotur-gateway-2021-09-08/> [retrieved: 20.06.2022].

²³ See: M. Wąsiński, B. Znojek, *Perspektywy wejścia w życie umowy UE-Mercosur*, „Biuletyn PISM” 2019, nr 104 (1852).

year after year. This trend is definitely on the rise, especially because of the many agreements that are under negotiation²⁴. In 2021, the EU had 46 active trade agreements with 77 partners. The value of trade with these partners reaches €1,300 billion, accounting for almost 35% of the EU's external trade²⁵. The EU's activity in this regard is determined by the situation in the global economy, and the expansion of the network of trade agreements is also aimed at protecting against the negative effects of these developments, which justifies the move towards the Mercosur group.

COMPLETION OF AGREEMENT NEGOTIATIONS AS A KEY STAGE IN THE DEVELOPMENT OF EU-MERCOSUR TRADE RELATIONS – THE ECONOMIC POTENTIAL OF THE AGREEMENT AND ITS IMPORTANCE FOR THE PARTIES TO THE AGREEMENT

As mentioned above, after nearly two decades of negotiations and nearly 40 rounds of talks, on June 28, 2019, the European Union and the four Mercosur countries reached a joint agreement on reducing trade barriers and further economic integration. As the world's fifth-largest economy, representing a market of more than 260 million consumers, with an annual GDP of more than \$2.4 trillion, the Mercosur bloc represents an important export market for the EU, while remaining the only major trading partner in the region with which the EU has not implemented a preferential trade agreement²⁶.

The EU and Mercosur have significant structural economic and productive differences. The EU countries are more industrialized and have significant complementarities of their productive structures, while the Mercosur group specializes in the production of raw materials, with lower levels of intra-bloc exchange as presented below²⁷. Considering also the high level of EU import tariffs on sensitive

²⁴ Also during the standstill in negotiations with Mercosur, the EU was active in signing agreements with third countries both in that region (with Mexico (1999), Chile (2002), Peru and Colombia (2010), Central America (2012) and Ecuador (2014)) and in others (South Korea, Canada, Japan, Vietnam). L. Ghiotto, J. Echaide, *Analysis of the agreement between the European Union and the Mercosur*, <https://www.annacavazzini.eu/wp-content/uploads/2020/01/Study-on-the-EU-Mercosur-agreement-09.01.2020-1.pdf> [retrieved: 20.06.2022]. More on trade agreements see: *Regional Trade Agreements Database*, <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx> [retrieved: 10.06.2022].

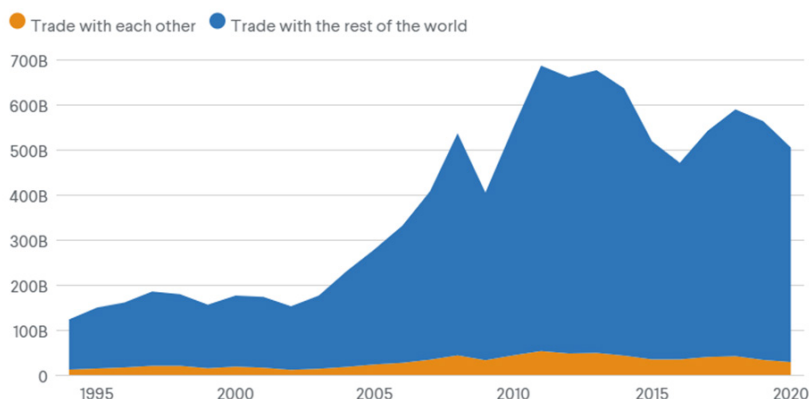
²⁵ Given the EU's success in negotiating trade agreements, it is important to keep in mind the, already mentioned, large participation of partners with whom trade is conducted on the basis of rules guaranteed by the WTO (MFN). *DG Statistical Guide 2021*, https://trade.ec.europa.eu/doclib/docs/2013/may/tradoc_151348.pdf [retrieved: 15.06.2022].

²⁶ EU already has trade agreements with almost all other Latin American countries. See more: *EU and Mercosur reach agreement on trade*, Press release, 28 June 2019 Brussels, https://ec.europa.eu/commission/presscorner/detail/en/ip_19_3396 [retrieved: 10.05.2022]; *Ibidem*, pp. 47-48.

²⁷ L. Ghiotto, J. Echaide, *Analysis of the agreement between the European Union and the Mercosur*, <https://www.annacavazzini.eu/wp-content/uploads/2020/01/Study-on-the-EU-Mercosur-agreement-09.01.2020-1.pdf> [retrieved: 20.06.2022].

agricultural products and Mercosur's high import tariffs, significant potential for cooperation and trade liberalization is apparent.

Figure 1. Mercosur members' trade in goods (current dollars)



Source: *Mercosur: South America's Fractious Trade Bloc*, CFR 2021, <https://www.cfr.org/background/mercotur-south-americas-fractious-trade-bloc> [retrieved: 19.06.2022].

In 2021, total trade volume between the EU and Mercosur oscillated around EUR 88 bn, making the EU Mercosur's second-largest trading partner. However, the group ranks only tenth among the EU's largest export markets, as well as in total trade. The huge potential for mutual trade cooperation is limited by numerous barriers of both tariff and non-tariff nature. EU exporters mainly point to the following constraints: high import tariffs, complicated procedures and technical regulations and standards that differ significantly from international standards, and an uneven playing field in key service industries. Difficulties also arise from the preference in Mercosur markets for government contracts given to domestic companies and goods over foreign ones. In addition, the lack of sufficient knowledge and access to information regarding the rules of doing business and trading in the South American environment is a significant problem²⁸.

As with other new-generation agreements concluded by the European Union in recent years, including with Canada, Japan and Vietnam, the agreement goes beyond purely trade issues. However, it should be emphasized that the liberalization of trade in goods was one of its main goals, which involves a relatively high average degree of tariff protection especially in the Mercosur bloc. As for the EU in 2020, the average MFN tariff rate was 5.1%, and for Mercosur members, respectively: 13.4% in Argentina, 13.3% in Brazil, 9.6%

²⁸ *The EU-Mercosur agreement explained*, European Commission, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/mercotur/eu-mercotur-agreement/agreement-explained_en [retrieved: 18.06.2022].

in Paraguay and 10.3% in Uruguay. However, the discrepancies for agricultural products were already much smaller. For the EU, the average MFN tariff rate was 11.2%, while for Mercosur countries it fluctuated around 10%²⁹. In addition, significantly higher tariffs are maintained on certain items, important from the point of view of the parties to the agreement, which significantly restricts mutual trade. From the EU's point of view, these are mainly: cars (current tariff: 35%), car parts (14-18%), machinery (14-20%), chemicals (up to 18%), clothing (up to 35%), pharmaceuticals (up to 14%), leather shoes and textiles (up to 35%). High import duties on EU agricultural exports to Mercosur, such as wines (27%), chocolate (20%), whiskey and other spirits (20 to 35%), cookies (16-18%), canned peaches (55%) and soft drinks (20-35%) would also be phased out. The agreement calls for the elimination of high tariffs in key EU export sectors and for products that have so far not entered the Mercosur market, such as clothing and footwear³⁰.

As far as the overall market access is concerned the agreement will significantly liberalize mutual trade in goods. The EU will liberalize 92% of its imports from Mercosur over a transition period of up to 10 years. Mercosur will fully liberalize 91% of its imports from the EU over a transition period of up to 10 years for most products. Longer transition periods of up to 15 years have been reserved for some of the most sensitive products. For products that will not be fully liberalized, there will be an additional guarantee of market access through tariff quotas. Translating this into tariff lines, Mercosur will fully liberalize 91% and the EU 95% of them (see Table below)³¹.

Table 1. Liberalization of trade in goods in the EU-Mercosur agreement (%)

Sector	Mercosur	EU
Overall market access		
Imports from other party	91	92
Tariff lines (in respective schedules)	91	95
Market access for industrial goods		
Imports from other party	90	100
Tariff lines (in respective schedules)	n.a.	100

²⁹ *World Tariff Profiles 2021*, https://www.wto.org/english/res_e/booksp_e/tariff_profiles21_e.pdf [retrieved: 17.06.2022].

³⁰ *New EU-Mercosur trade agreement 2019*, https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157964.pdf [retrieved: 15.05.2022]; J. Hagemajer, A. Maurer, B. Rudloff, P. Stoll, S. Woolcock, A. Costa Vieira, K. Mensah, K. Sidlo, *Trade aspects of the EU-Mercosur Association Agreement*, European Parliament 2021, [https://www.europarl.europa.eu/RegData/etudes/STUD/2021/653650/EXPO_STU\(2021\)653650_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2021/653650/EXPO_STU(2021)653650_EN.pdf) [retrieved: 10.05.2022].

³¹ As with other trade agreements, the EU will not fully open its market to agricultural imports. For sensitive products, access to the EU market will be granted in a limited and tightly controlled manner, taking into account the concerns of European farmers and consumer preferences. This will be achieved through carefully calibrated quotas for beef, poultry, sugar, ethanol, honey, rice. *New EU-Mercosur trade agreement 2019*, https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157964.pdf [retrieved: 15.05.2022].

Market access for agricultural goods		
Imports from other party	93	82
Tariff lines (in respective schedules)	95	99

Tariff lines are products as defined in lists of tariffs rates; n.a. - not available

Source: *Mercosur: South America's Fractious Trade Bloc*, CFR 2021, <https://www.cfr.org/backgrounder/mercosur-south-americas-fractious-trade-bloc> [retrieved: 19.06.2022]; *New EU-Mercosur trade agreement 2019*, https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157964.pdf [retrieved: 15.05.2022].

As mentioned, the agreement goes beyond purely commercial issues. Among other things, it provides for the mutual opening of public procurement markets, or the protection in Mercosur countries of more than 350 geographical indications, i.e. distinctive high-quality regional wines, spirits, beer and food products from the EU, such as Prosciutto di Parma (Italy), Münchener Bier (Germany) and Tiroler Speck (Austria)³². The agreement will remove a number of the significant barriers faced by EU companies in the areas of telecommunications, financial, business and transportation services, among others. On sanitary and phytosanitary (SPS) measures, the agreement reaffirms the parties' WTO commitments. The SPS chapter will create mechanisms to streamline and facilitate trade while maintaining food safety, animal and plant health³³. The Trade and Sustainable Development (TSD)³⁴ chapter is based on the premise that increased trade will not come at the expense of the environment or working conditions. Both sides also agreed to abide by multilateral environmental agreements they have signed, such as the CITES Convention on Trade in Wildlife, and to cooperate in their implementation³⁵. The parties committed to effective implementation of the Paris Agreement³⁶ and cooperation at the interface between trade and climate change³⁷.

³² This is the largest number of EU GIs ever covered by a trade agreement. *The trade pillar of the EU-Mercosur Association Agreement*, EPRS 2019, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/640138/EPRS_BRI\(2019\)640138_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/640138/EPRS_BRI(2019)640138_EN.pdf) [retrieved: 25.05.2022].

³³ This is because EU producers were primarily concerned about importing food that does not meet EU quality and safety standards (in Mercosur countries, breeding standards are lower and pesticides banned in the EU are used on crops) and, thus, cheaper, which could lead to the exclusion from the market of European producers who produce it more expensively.

³⁴ In response to growing pressure to integrate sustainable development into EU FTAs, a Trade and Sustainable Development (TSD) chapter was added starting with the EU-South Korea FTA in 2011.

³⁵ However, there are doubts among member countries about the ability to enforce these commitments against Mercosur countries and to respond quickly in case of non-compliance. Therefore, the EC is considering ways to increase contractual sustainability commitments. An additional protocol or political declaration to the main body of the agreement is being considered.

³⁶ The Paris Agreement includes, among other things, Brazil's commitment to reduce its greenhouse gas emissions by 2025, measures to stop illegal deforestation, including in the Brazilian part of the Amazon, but also the EU's commitment to reduce its emissions by at least 40% by 2030.

³⁷ *New EU-Mercosur trade agreement 2019*, <https://trade.ec.europa.eu/doclib/docs/2019/june/>

In addition to the trade benefits, the strategic objectives of the agreement are also worth highlighting. The implementation of the EU-Mercosur agreement may represent an opportunity for the EU to compete more effectively for economic influence in the region with key EU trading partners, mainly China and the US. Thus, it could be a crucial step in reinforcing the EU's position in the global economy, especially in light of Asian agreements such as the CPTPP and RCEP, as well as strengthening the position of China, which is seeking to increase trade with Mercosur also in the context of the Belt and Road Initiative (BRI)³⁸. For the Mercosur bloc, on the other hand, the agreement could provide a key impetus for the economic integration processes being undertaken. In addition, overcoming the difficulties caused by the pandemic in Mercosur countries will require the support of international financial institutions and the attraction of foreign capital. These efforts could also be facilitated by a signed agreement with the EU³⁹.

It should be remembered that the EU's primary goal in bolstering relations with Mercosur was to remain a major trading partner in a region with strong development potential, which, as is well known, has not been achieved due to China's strengthening position there⁴⁰.

Given that Mercosur is one of the most closed economic areas in the world in terms of tariffs and economic regulation, the relative impact of liberalization triggered by a trade agreement with the EU could be stronger in this area of the world compared to other regions or countries whose economies are more open⁴¹. Removing high tariffs on EU exports to Mercosur could significantly contribute to the substantial benefits of the agreement, which are estimated at EUR 4 bn per year⁴². The

tradoc_157964.pdf [retrieved: 15.05.2022]; *The trade pillar of the EU-Mercosur Association Agreement*, EPRS 2019, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/640138/EPRS_BRI\(2019\)640138_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/640138/EPRS_BRI(2019)640138_EN.pdf) [retrieved: 25.05.2022].

³⁸ It should be noted that the development of relations with the PRC is being prioritized in the region, mainly by those countries that see the benefits of engagement with the BRI, especially Argentina or Uruguay. B. Znojek, *Narastające trudności na drodze do ratyfikacji umowy UE-Mercosur*, „Biuletyn PISM” 2021, nr 1 (2199); *Developing Global Free Trade: Linking China's BRI with Mercosur, South America*, China Briefing 2019, <https://www.china-briefing.com/news/developing-global-free-trade-linking-chinas-belt-road-initiative-with-mercosur-south-america/> [retrieved: 18.06.2022].

³⁹ *Comprehensive Free Trade Agreement with Mercosur. Potential gains for the EU*, European Commission 2016, https://trade.ec.europa.eu/doclib/docs/2016/may/tradoc_154559.pdf [retrieved: 25.05.2022]; B. Znojek, *Narastające trudności na drodze do ratyfikacji umowy UE-Mercosur*, „Biuletyn PISM” 2021, nr 1 (2199).

⁴⁰ China has been Mercosur's most important trading partner since 2015.

⁴¹ K. Cremers, Y. Laurans, T. Voituriez, *The Future of EU Free Trade Agreements: European dialogue in light of the EU-Mercosur Association Agreement*, IDDRI 2021, <https://www.iddri.org/sites/default/files/PDF/Publications/Catalogue%20Iddri/Etude/202102-ST0221-eu%20mercour%20trade.pdf> [retrieved: 12.06.2022].

⁴² According to EC estimates, gains resulting from tariff reductions and intensified trade will be three times higher than those from agreements signed with Canada and Japan. *EU and Mercosur reach agreement on trade*, Press release, 28 June 2019 Brussels, https://ec.europa.eu/commission/presscorner/detail/en/ip_19_3396 [retrieved: 10.05.2022].

removal of significant non-tariff barriers would certainly increase trade dynamics. Thus, in terms of liberalization savings, the agreement would be the most significant of those concluded by the EU to date⁴³.

It should be remembered, however, that despite the positive conclusion of the negotiations, on the formal side, the approval process for the agreement with Mercosur is, however, still at an early stage. First of all, the discussion around the agreement is currently focused on the possibility of effective enforcement of sustainable development provisions. The EU is, therefore, making its ratification contingent on an additional agreement increasing commitments in this regard⁴⁴. Second is the formal process of ratifying the document. While in the case of Mercosur the consent of the authorities of individual countries is required for its entry into force, in the case of the EU the ratification path will depend on the classification of the document. In the case of separating the trade part from the AA, the agreement could be concluded according to exclusive competence – the approval of the EU Council and the European Parliament will suffice for entry into force. If the AA is treated as a whole, once the document is approved by the EU Council and EP, it will be possible to apply the provisions provisionally, but the consent of all EU countries will be required for ratification. Its progress will, therefore, be adversely affected by lingering concerns in some EU countries that the agreement could hit the interests of European agriculture. Combined with sustainability concerns, the prospect of its entry into force is rather remote⁴⁵.

GENERAL CHARACTERISTICS OF THE EU-MERCOSUR TRADE

Mercosur holds the 10th position (as of 2021) among the EU's key trade partners (it ranks 10th export market and the 11th source of imports) with its share at over 2.1% of the Union's total turnover, with Brazil as the leading trade partner of the EU within Mercosur, accounting for more than 1.6% of the share. As a bloc, the EU is ranked second largest trade partner of Mercosur, following China, and in front of the USA. It is noteworthy that China's significant share exceeds 27% and 16.2 and 14.2% for the EU and US respectively⁴⁶.

⁴³ M. Wąsiński, B. Znojek, *Perspektywy wejścia w życie umowy UE-Mercosur*, „Biuletyn PISM” 2019, nr 104 (1852); *The trade pillar of the EU-Mercosur Association Agreement*, EPRS 2019, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/640138/EPRS_BRI\(2019\)640138_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/640138/EPRS_BRI(2019)640138_EN.pdf) [retrieved: 25.05.2022].

⁴⁴ At an informal meeting at the end of 2020, the parties confirmed their willingness to work out a compromise in this point.

⁴⁵ M. Wąsiński, B. Znojek, *Perspektywy wejścia w życie umowy UE-Mercosur*, „Biuletyn PISM” 2019, nr 104 (1852); B. Znojek, *Narastające trudności na drodze do ratyfikacji umowy UE-Mercosur*, „Biuletyn PISM” 2021, nr 1 (2199).

⁴⁶ *European Union, Trade in goods with Mercosur 4*, European Commission, https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_mercosur-4_en.pdf [retrieved: 30.05.2022].

The EU's trade relations with the Mercosur group are characterized by a melting balance surplus in favor of the EU over the period under review and a declining share of total EU trade with third countries (see Table below).

Table 2. EU trade in goods with Mercosur (2011-2021)

Year	Imports			Exports			Balance bn EUR	Total trade bn EUR
	Value bn EUR	% Growth between current and previous year	% Ex- tra-EU	Value bn EUR	% Growth between current and previ- ous year	% Ex- tra-EU		
2011	48.45	-	2.9	42.64	-	2.6	-5.80	91.09
2012	45.51	-6.1	2.7	46.76	9.7	2.6	1.25	92.27
2013	39.77	-12.6	2.4	48.61	4.0	2.7	8.84	88.38
2014	37.27	-6.3	2.3	44.12	-9.2	2.5	6.86	81.39
2015	37.58	0.9	2.3	42.58	-3.5	2.3	5.00	80.16
2016	36.74	-2.3	2.3	38.83	-8.8	2.1	2.10	75.57
2017	38.26	4.2	2.2	41.65	7.3	2.1	3.39	79.92
2018	39.06	2.1	2.0	42.25	1.4	2.1	3.19	81.32
2019	36.23	-7.3	1.9	41.23	-2.4	1.9	5.00	77.46
2020	33.15	-8.5	1.9	35.50	-13.9	1.8	2.35	68.65
2021	43.48	31.2	2.1	44.52	25.4	2.0	1.04	88.01

Source: *European Union, Trade in goods with Mercosur 4*, European Commission, https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_mercosur-4_en.pdf [retrieved: 30.05.2022].

EU exports to Mercosur countries are dominated by industrial products. They accounted for more than 94.5% of all goods exported to Mercosur in 2021. The situation is different for imports from Mercosur to the EU, of which more than 45% are agricultural products (excluding fishery products)⁴⁷. A summary of the key groups is shown in Table 3.

⁴⁷ WTO definition excludes “fish and fish products” from the scope of “agricultural products”.

Table 3. Commodity structure of trade flows between the EU and Mercosur – top five most vital groups of products (HS section) in 2021

Imports from Mercosur		Exports to Mercosur	
HS section	% Total	HS section	% Total
V Mineral products	22.3	XVI Machinery and appliances	27.8
II Vegetable products	20.7	VI Products of the chemical or allied industries	26.3
IV Foodstuffs, beverages, tobacco	19.1	XVII Transport equipment	10.5
VI Products of the chemical or allied industries	6.8	VII Plastics, rubber and articles thereof	6.0
X Pulp of wood, paper and paperboard	6.4	XV Base metals and articles thereof	5.8

Source: *European Union, Trade in goods with Mercosur 4*, European Commission, https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_mercosur-4_en.pdf [retrieved: 30.05.2022].

The commodity structure of reciprocal trade, as mentioned earlier, has been a major issue during the negotiations. Despite the trade balance surplus in favor of the EU in total trade, it records a high negative balance in foreign trade in food, which, according to the latest EC data for 2021, has further worsened, amounting to more than EUR 17 bn. Considering the balance of the trade balance including these commodity groups, it is noticeable that there is a considerable asymmetry in trade, which, incidentally, also persisted during the period of negotiating the trade agreement.

Table 4. Trade flows by AMA/NAMA Product Groups

AMA/ NAMA Product Groups	2018	2019	2020	2021	2018	2019	2020	2021
	Imports (value Mio EUR)				Exports (value Mio EUR)			
Total	39,063	36,231	33,151	43,482	42,255	41,227	35,503	44,524
Agricultural products (WTO AoA)	16,429	16,051	16,491	19,603	2,089	2,199	2,196	2,331
Fishery products	704	679	578	777	94	92	71	78
Industrial products	21,930	19,501	16,082	23,102	40,072	38,936	33,237	42,114

Source: *European Union, Trade in goods with Mercosur 4*, European Commission, https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_mercosur-4_en.pdf [retrieved: 30.05.2022].

Economic cooperation between the EU and Mercosur goes beyond the traditional trade flows. Reciprocal trade in services is also developing dynamically. The value of trade in services between the EU and Mercosur reaches close to EUR 25 bn per year (see Table 5).

Table 5. EU-Mercosur trade in services by members of the group in 2021 (bn EUR)

Country	EU Imports	EU Exports	EU Trade Balance
Argentina	1.6	3.5	1.9
Brazil	5.4	12.5	7.2
Paraguay	0.1	0.3	0.2
Uruguay	0.5	0.9	0.4

Source: *EU trade relations with Mercosur*, European Commission, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/mercosur_en [retrieved: 10.05.2022]; *EU27 Trade in Goods by partner (2021, excluding intra-EU trade)*, European Commission, https://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.pdf [retrieved: 10.05.2022].

The EU exported EUR 17.2 bn of services to Mercosur while Mercosur exported EUR 7.6 billion of services to the EU in 2021. The European Union is the most important investment partner for Mercosur with an accumulated stock of investments that increased from EUR 130 bn in 2000 to EUR 330 bn in 2020. The largest investors in South American markets are Spain, Germany and France, which put capital mainly in the banking, electronics, telecommunications, aviation and water sectors. It is noteworthy that 80% was EU investment in Brazil⁴⁸.

CONCLUSION

Dynamic changes in world trade in recent years, including, in particular, the crisis of the multilateral trading system within the WTO, have provided an important impetus for the European Union to modify its trade policy. The EU has re-evaluated towards relations of a bilateral nature, filling the gap in the increasingly ineffective multilateral system. However, it should be borne in mind in this context that a complete turn away from the multilateral system is not possible, which is related to the fact that under preferential agreements the EU carries out only a part of its trade turnover, and a sizable part of it is subject to the MFN clause. Therefore, it ought to be noted that despite the conclusion of negotiations for the agreement with Mercos-

⁴⁸ *EU trade relations with Mercosur*, European Commission, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/mercosur_en [retrieved: 10.05.2022].

ur already three years ago, the EU's current relations with this bloc are still based on the said clause and, for the time being at least, the specter of the agreement's entry into force is not getting any closer. The reason for this situation is the objections to its ratification, which focus on ensuring the effectiveness of the provisions, that is, their enforceability, especially with regard to sustainable development.

The analysis carried out in the study showed that despite a mere 2% share of total EU trade, the Mercosur group is an important partner for the EU. As such, mutual cooperation between the blocs presents many opportunities, but may also involve certain risks. As far as opportunities are concerned, one should certainly mention the completion of negotiations on a trade agreement, which, especially in view of the peculiarities of the region, characterized by relatively high closures, would provide opportunities for significant savings, estimated at EUR 4 bn a year, three times more than the agreements concluded with Canada and Japan combined. For this reason, among others, the agreement could become the most significant in a wide range of EU agreements. Its conclusion would strengthen the EU's competitive position in the area, as it could create a stronger basis for EU economic cooperation not only with Mercosur, but also with other South American countries with economic ties to Mercosur member states. The agreement could, therefore, be an important step in bolstering the EU's position in the global economy, especially in light of the CPTPP and RCEP agreements or China's position, which has been strengthening for years. The EU would, thus, be the first key trading partner to conclude a trade agreement with Mercosur countries.

In terms of risks, the concern is the influx of cheap food that does not meet EU standards. However, this is to be prevented by contractual provisions. It should be borne in mind, however, that cooperation in the trade of agricultural goods between the European Union and Mercosur is characterized by far-reaching, deepening asymmetry, and there may be some concerns about its intensification. However, the experience gained with previous agreements with countries in the region, with a similar commodity structure of reciprocal trade⁴⁹, has shown that properly chosen provisions in the agreements can effectively protect the European market. On the other hand, it is important to note that thanks to the deepened cooperation as a result of their implementation, the EU presence has increased and consolidated in the markets of these partners.

A complex issue concerning the EU's relationship with Mercosur, which is related to the signing of the FTA, are the aforementioned sustainability aspects. Without an agreement in this sphere, it is difficult to expect the agreement to enter into force, as it would be at odds with the EU's global role in climate protection and the tenets of the European Green Deal.

⁴⁹ This includes Andean Community countries, which mainly export agricultural products to the EU (almost 50% of total exports to the EU). *European Union, Trade in goods with Andean community*, https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_andean-community-3_en.pdf [retrieved: 19.06.2022].

However, it is worth noting that the Mercosur countries remain the only ones without an agreement in the region, and the lack of an agreement will negatively affect the EU's position in the area due to, among other things, China's strengthening position there, which may encourage further developing of closer relations with that country by the countries of the region, also in connection with cooperation within the BRI.

The negotiated agreement is certainly a key, and perhaps groundbreaking, step in the interaction between the trade blocs. As with previous agreements, such as with Japan, implementation of the agreement would send a signal that the two signatories reject protectionism, which is also extremely important in the context of the current challenges to the global economy.

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