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Task 2. Rationalised Scenarios of Free Trade Agreements. Scenario 8. EU-Mercosur Free Trade Agreement

Report on Scenario 8 // July 2025

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Abbreviations

C2C	Country-to-country
CBAM	Carbon Border Adjustment Mechanism
CGE	Computable General Equilibrium
ECRMA	European Union's Critical Raw Minerals Act
EFTA	European Free Trade Association
EU+	European Union, EFTA and United Kingdom
€ mm.	Millions Euro
FTA	Free Trade Agreements
FDI	Foreign Direct Investment
ICIO	Inter-Country Input-Output tables
GDP	Gross Domestic Product
GEM	Global Extraction Method
GVA	Gross Value Added
ITPD-E	International Trade and Production Database for Estimation
HEM	Hypothetical Extraction Method
JRC	Joint Research Centre
LNG	Liquefied natural gas
MERCOSUR	Mercado Común del Sur (Argentina, Brasilia, Paraguay and Uruguay
NQTM	New Quantitative Trade Model
NTB	Non-tariff barriers
OSA	Open Strategic Autonomy
R2R	Region-to-region
TRAINS	Trade Analysis Information System
UNCTAD	United Nations Conference on Trade and Development
USITC	United States International Trade Commission
WIOD	World Input-Output Database
WITS	World Integrated Trade Solution
WTO	World Trade Organization

Abstract

This policy report provides a detailed analysis of the trade pillar of the EU–Mercosur partnership agreement, which was reached in December 2024. It uses a combination of qualitative insights and quantitative modelling to evaluate the anticipated impact on European regions.

First, we provide a qualitative analysis of the trade agreement, which is one component of the broader partnership agreement that includes two additional pillars: cooperation and political dialogue. The trade chapter covers trade in goods and services, as well as other disciplines within the context of Open Strategic Autonomy (OSA), such as public procurement, geographical indications, and various items related to sustainable development. The agreement reinforces multilateral rules, referring to international agreements such as the Paris Agreement, the UNFCCC Agreement and ILO agreements concerning labour conditions, as well as various WTO agreements.

Secondly, we present a quantitative analysis considering the most significant provisions of the agreement regarding trade and the welfare of 296 European regions, encompassing 27 EU countries that are members of the FTA, as well as four EFTA countries and the UK, which lack an agreement with Mercosur. To this end, we apply a general equilibrium gravity model (GE-PPML approach).

In EU+ regions (the EU, EFTA and the United Kingdom), real wages — used here as a measure of welfare — are projected to rise by an average of 0.015%. This increase is slightly larger in EU regions (0.018%) and there is a modest decline in the United Kingdom and EFTA regions (-0.001%). In practical terms, only 47 regions experience a decline in welfare, and even then, the drop is no more than 0.005%. At the other end of the spectrum, the remaining regions register gains of up to 0.095%.

Trade between the EU and Mercosur expands markedly under the agreement. EU imports from Mercosur are expected to rise by 31% (around €19 billion), while EU exports to Mercosur are predicted to grow by 25% (approximately €18 billion). However, non-EU regions are forecast to reduce trade with Mercosur. As Mercosur currently accounts for a small proportion of the EU's total trade with Iceland, Liechtenstein, Norway and Switzerland, the agreement only modestly increases aggregate imports and exports by 0.106% and 0.116% respectively. Nevertheless, this additional trade will boost welfare by increasing real wages.

Mercosur is expected to increase its exports of mining and quarrying products by 34%, thereby reinforcing the FTA's role in securing the EU's access to critical raw materials and energy supplies. Imports of agricultural and food products into the EU are also set to rise significantly — by 27% and 16%, respectively. Yet even regions specialising in these sectors are projected to benefit.

Although Mercosur's exports of raw material-intensive products will remain dominant, its exports of manufactured products (excluding food) and services will also grow by 40% and 45% respectively, indicating slight economic diversification of Mercosur's exports towards products that are less intensive in terms of raw materials.

Highlights

- In this report, we analyse the trade agreement between the European Union and Mercosur. We assess its anticipated impact on the EU+ regions, which we define as the 27 EU member states, the UK and the EFTA countries.
- Our analysis comprises three main steps. First, we provide a qualitative overview of the main provisions of the EU–Mercosur trade agreement, which is one pillar of a broader partnership that also includes political and cooperation components. Secondly, we offer a descriptive assessment of EU–Mercosur trade patterns in order to identify the countries, regions and sectors most involved. Thirdly, we use a general equilibrium gravity model (GE PPML) to estimate the effects on welfare and trade across 296 European regions.
- For estimation purposes, we use the UN COMTRADE database to analyse aggregate trade flows and the ITPD-E v3 dataset to analyse sectoral trade. The time period covered is from 1986 to 2022. The EUREGIO-2017 interregional input-output tables support our regional simulations.
- Raw materials and agri-food products play a pivotal role in trade from Mercosur to the EU+. The agreement aims to secure more reliable access to critical raw materials from Mercosur in order to support the EU's green and digital transitions, while also easing market access for Mercosur's agricultural exports.
- Sectoral trade analysis reveals significant concentration in services and other manufacturing, which together account for the bulk of EU+ exports to Mercosur. Meanwhile, EU+ imports from Mercosur are dominated by food, beverages and tobacco, and agriculture and fishing.
- At a detailed product level (HS6), imports from Mercosur are heavily focused on unprocessed agricultural goods (e.g. soybeans and meat) and key minerals (e.g. copper and niobium). This structure reflects the typical North–South pattern of the EU exporting high-tech goods and services while importing natural and agri-based products.
- Key EU+ trading partners with Mercosur include Germany, Italy, France, the Netherlands, the UK and Switzerland. These countries account for the majority of bilateral trade. At the regional level, the largest importers include Lombardia, Noord-Holland and Île-de-France, while the leading exporters include Île-de-France, Oberbayern and the Eastern and Midland regions of Ireland.
- From a welfare perspective, EU regions experience an average real wage increase of +0.018%, while EFTA and UK regions show no significant change. The main beneficiaries are regions in Croatia, Bulgaria and Slovenia.
- Trade gains are driven by an overall increase in trade with Mercosur. EU+ imports from Mercosur are expected to grow by 24%, while exports are expected to grow by 20%.
- The results show that EU+ regions that trade more with Mercosur are more likely to experience real wage increases. Conversely, regions with little or no trade with Mercosur tend to experience few benefits, or even modest negative effects.
- From a policy perspective, the agreement enhances the EU's economic security and strategic autonomy, particularly with regard to securing access to critical materials. However, concerns remain regarding environmental standards and competition in the EU's agricultural sector.
- In conclusion, while the agreement's impact on welfare is modest, the EU–Mercosur FTA contributes to the EU's broader strategy of diversifying trade partnerships, enhancing supply chain resilience and reinforcing geopolitical ties with South America.

1 Introduction

On 6 December 2024, the European Union and the four founding Mercosur countries (Brazil, Argentina, Uruguay and Paraguay) reached a political agreement on an ambitious partnership agreement comprising three parts: Trade, Cooperation, and Political Dialogue. The EU–Mercosur Partnership Agreement comprises a political and cooperation pillar and a trade pillar. The trade chapter of the agreement follows the model of a deep trade agreement (DTA), which refers to a type of trade agreement that goes well beyond reducing tariffs and quotas at the border. According to the European Commission, this deal will reflect the latest EU standards on trade and sustainable development, incorporating a wide array of provisions that harmonise regulatory standards, address non-tariff barriers, and include disciplines on domestic policies related to investment, competition, public procurement, labour, the environment, and intellectual property rights.

The EU is Mercosur's second-largest goods trading partner after China and ahead of the United States. In 2024, the EU accounted for 16.8% of Mercosur's total trade. Mercosur is the EU's tenth-largest goods trading partner. (European Commission, 2025a). In 2024, the EU's exports to the four Mercosur countries totalled €53.3 billion, while Mercosur's exports to the EU amounted to €57 billion, resulting in a slight surplus in Mercosur's favour. The bloc's main exports to the EU were agricultural products (42.7% of the total), mineral products (30.5%), and pulp and paper (6.8%). Meanwhile, the EU's exports to Mercosur included machinery and appliances (28.1% of the total), chemicals and pharmaceutical products (25%), and transport equipment (12.1%). In 2023, the EU exported €28.5 billion worth of services to Mercosur, while Mercosur exported €13.1 billion worth of services to the EU. Mercosur is not as relevant a trade partner for the EU as the EU is for Mercosur. However, the EU was the largest foreign investor in Mercosur in 2021, with investments totalling €340 billion (European Commission, 2025a). Mercosur is one of the richest regions in terms of strategic assets, such as lithium (particularly in Argentina), niobium, graphite, rare earths, and nickel (in Brazil). Mercosur has huge economic potential in terms of consumption. Despite the opportunities that Mercosur brings for European producers and consumers, there is some reticence concerning environmental standards, labour rights and phytosanitary rules, and the agreement has received criticism from the EU farming sector and some reticent EU members. The agreement will help to increase some EU agri-food exports by recognising Geographical Indications (Gis), while protecting sensitive sectors. The agreement also aims to secure an efficient, reliable and sustainable flow of critical raw materials for the global green and digital transitions.

One of the key features of this report is its consideration of regional-level factors alongside an aggregate country-level analysis. Combining qualitative analysis with a quantitative framework provides a deeper understanding of the impacts and potential implications of the EU-Mercosur agreement on the welfare of 296 European regions, including the 27 EU countries that are members of the FTA, as well as four EFTA countries and the UK, which do not have an agreement with Mercosur. Focusing on the regional level enables us to design more precise and effective policies, known as 'place-based' policies, which are considered essential for the European Union (Barca et al., 2012). Furthermore, an uneven distribution of industry within countries appears to exist (Krugman, 1991), resulting in significant regional disparities in both trade flows and welfare (Anderson and Van Wincoop, 2001; Behrens et al., 2007).

From a qualitative perspective, we examine the key provisions of the modernised EU-Mercosur trade agreement. The EU-Mercosur agreement constitutes a strategic partnership with significant economic and geopolitical implications for both regions. Its provisions represent a notable evolution in EU trade policy, particularly through the integration of robust commitments to sustainability and climate governance. Key elements of the agreement include: Environmental and climate commitments; supply chain diversification and resilience; trade and investment expansion; promotion of sustainable development; and geopolitical reinforcement of EU-Mercosur relations. The new 2024 version of the EU-Mercosur Free Trade Agreement (FTA) deepens economic integration while emphasising other crucial issues, such as sustainability, labour rights, and critical minerals. It also incorporates rebalancing mechanisms to address any sudden or unexpected adverse effects of the agreement. The aim of these measures is not only to increase bilateral trade between EU and Mercosur, but also to reinforce geopolitical cooperation.

To better understand key issues, we complement this qualitative analysis of the provisions with a descriptive analysis of trade variables. This includes the main characteristics of trade, as well as specific aspects such as the primary trade partners and the sectors most affected by the EU-Mercosur Free Trade Agreement (FTA). Our analysis reveals that trade between Mercosur and European regions is highly concentrated within a limited number of sectors and that not all regions engage with Mercosur to the same extent. Consequently, the gains from trade are asymmetric.

From a quantitative perspective, we review how previous literature has analysed the impact of the EU-Mercosur FTA (LSE, 2020; Latorre et al., 2021; Timini & Viani, 2022; Martínez, 2023). However, these studies lack a regional approach, focusing instead on the Agreement as conceived in 2019. For this reason, we contribute to the existing body of research by conducting a simulation analysis using a general equilibrium gravity model, as previously employed by Francois et al. (2005) and O'Ryan et al. (2011), but with the addition of a PPML method proposed by Anderson et al. (2018). The GE PPML method is consistent with the gravity equation framework and can therefore provide a more accurate picture of the trade relationships between Mercosur and European regions. This enables us to evaluate the potential impact of the FTA on real wages via terms of trade, which is our measure of welfare.

Our results suggest that the FTA will increase welfare in European regions on average, but by a small amount. The majority of EU+ regions will experience welfare gains. However, some non-EU regions (usually from EFTA or the UK) experience a slight decrease in real wages. Consequently, EU regions appear to benefit from signing the trade agreement, which is consistent with previous literature on trade agreements (Baier & Bergstrand, 2007; French & Zylkin, 2024). The study highlights that regions with higher levels of trade with Mercosur will benefit more.

The remainder of this report is structured as follows. Section 2 provides an overview of the main features of the FTA between EU regions and Mercosur. Section 3 presents a descriptive analysis of the main characteristics of trade between European regions and Mercosur. Section 4 focuses on the methodology. Section 5 summarises the main impacts of the EU-Mercosur FTA on European regions. Finally, Section 6 offers concluding remarks.

2 Main features of the trade agreement between EU and Mercosur

2.1 Schedule: from signature to implementation

Negotiations between the European Union and Mercosur on a trade agreement began in 1999. In December 2024, Mercosur leaders and the President of the European Commission officially announced the conclusion of negotiations, marking a significant milestone. This concerns the trade agreement exclusively, which is one component of the broader Partnership Agreement, alongside two additional pillars: cooperation and political dialogue.

The 2024 version of the trade pillar of the agreement incorporated recent EU demands for Mercosur to make stronger sustainability commitments, particularly with regard to the Paris Agreement. At the same time, it addressed Mercosur's requests for the EU to allow greater policy flexibility for its industrial development.

Despite the conclusion of negotiations, implementation may be delayed due to the ratification process. Specifically, the EU-Mercosur Association Agreement requires unanimous ratification by all EU member states due to its 'mixed' competence nature. To expedite approval, the European Commission has proposed splitting the agreement in two, enabling the trade pillar to be ratified independently as an interim agreement under exclusive EU competence, even if impediments are encountered during national parliamentary approval of the political and cooperation components.

2.2 How deep is the trade agreement between EU and Mercosur?

The signed agreement is notably comprehensive, extending beyond the mere 12riticized1212d12 of trade in goods and services. Its scope aligns with that of recent EU agreements, which are 12riticized1212d by a broader remit than that of conventional trade in goods and services. In scholarly literature, these treaties are 12riticized as 'deep trade agreements' (DTAs) or 'WTO-plus agreements' (Orefice and Rocha, 2014). This nomenclature reflects the fact that they include disciplines that liberalise and harmonise various regulatory domains (e.g. investment, government procurement and intellectual property) to a greater extent than can be achieved through multilateral negotiations, particularly given the current stalemate in such negotiations. From a non-economic perspective, these treaties incorporate provisions on political and cooperation themes. Political considerations are embedded throughout the agreement, encompassing stipulations on democratic freedoms, human rights and sustainable development.

The extensive trade pillar encompasses trade in goods and services, as well as numerous market access provisions and other disciplines, in line with the context of Open Strategic Autonomy (OSA). Notably, these disciplines include provisions related to public procurement, sustainable development, and various rebalancing or dispute settlement mechanisms.

2.3 Trade in Goods

The chapter on trade in goods sets out commitments to tariff 12riticized1212d12 in both the industrial and agricultural sectors.

Mercosur's offer involves extensive tariff 12riticized1212d12, with differentiated schedules for tariff reduction over periods of 4, 8, 10 and 15 years. The offer covers around 91% of goods imported by Mercosur from the European Union. Only a small proportion of goods are subject to quotas or other non-tariff measures, while the exclusion list accounts for around 9% of goods and 8% of the total import value. Specific conditions were negotiated within the automotive sector for electrified vehicles, hydrogen-powered vehicles, and new technologies, with tariff elimination periods of 18, 25, and 30 years, respectively.

In contrast, the European Union's offer demonstrates an even broader scope of 12riticized1212d12, with phases of products subject to immediate or linear tariff reductions over periods of 4, 7, 8, 10 and 12 years. These products

correspond to approximately 95% of goods and 92% of the value of European imports of Brazilian goods. Approximately 3% of goods and 5% of the value imported by the European Union are subject to quotas or other non-tariff treatments, primarily applied to items within the agricultural and agro-industrial sectors. This approach reflects the balance sought between opening up the market and protecting sensitive sectors for both parties.

There is a significant disparity between the negotiation interests and the level of trade protection in both blocs. Mercosur offers greater protection for industrial goods, primarily because its manufacturing sector is far less competitive than Europe's (Castilho & Sarti, 2020). Notable tariff reductions for European goods entering Mercosur markets include automobiles (current tariff: 35%), automotive parts (0–18%), machinery (up to 20%), chemicals (up to 18%), clothing (up to 35%), pharmaceuticals (up to 14%), and leather shoes and textiles (up to 35%). A longer phase-in period for tariff reduction would apply to sensitive items such as passenger cars with internal combustion engines (15 years with a quota subject to a 50% preferential intra-quota tariff in the seventh year). For electric vehicles, the transition period would be 18 years, with an immediate tariff reduction of 25%. In the latter stages of negotiations, car safeguards were introduced, allowing for more flexible triggering (e.g. by providing evidence of 'injury' rather than 'serious injury') and an additional year of maintenance. The agreement also states that different schedules could be considered for new automotive technologies. For the EU's significant machinery export sector, 93% of European exports would be fully 13riticized13 within 10 years.

2.4 Focus on agriculture and food

Protection is generally higher in the agricultural sector within the EU, while Mercosur countries demonstrate strong competitiveness in certain areas. This disparity contributes to resistance towards 13riticized1313d13 in some European countries. EU protection on agri-food products is 13riticized1313d by high tariffs and/or tariff quotas (for example, up to 35% on wines and 20% on alcoholic beverages, as well as compound tariffs equivalent to an ad valorem rate of up to 62% on out-of-quota meat). The agreement provides for the reduction of protection for key Mercosur export goods, such as beef and poultry, sugar and ethanol, primarily through adjustments to tariff quotas. These changes will be implemented by increasing quotas or reducing intra-quota tariffs, but rarely both at the same time, and over varying schedules with implementation periods extending up to 10 years. However, as 13riticized by the European Union, tariff quotas for sensitive goods such as beef, poultry, and sugar will not significantly increase access to the European market. In the case of Mercosur, tariff quotas will apply to cheese, powdered milk, infant formula, garlic, chocolate, and chocolate drinks. Although Mercosur's protection for agri-food products is less extensive than for manufactured goods, certain European agri-food exports will benefit from tariff rate reductions. This particularly applies to sophisticated agri-food products such as wines (currently subject to a 27% tariff), chocolates (20%), whiskies and other spirits (20–35%), cheeses (28%), cakes and biscuits (16–18%), and even soft drinks (20–35%). Other EU exports, such as olive oil, fresh fruit and nuts, will also benefit from tariff reductions, although they will face greater competition from Mercosur goods.

Regarding agri-food products, the Intellectual Property chapter of the agreement includes recognition of geographical indications (Gis). This clause is intended to protect these brands and is of particular interest to the EU.

2.5 Raw materials

The agreement either eliminates or sets at zero export taxes on all raw materials and industrial goods for Argentina, Uruguay and Paraguay. For agricultural goods, the agreement reduces export taxes for Argentina or eliminates them for Uruguay, Paraguay and Brazil. Regarding industrial goods, Brazil has set a zero tariff on key raw materials that are essential for EU diversification, such as nickel, copper, aluminium, steel and titanium. However, an exception has been made for critical minerals, for which Brazil retains the right to impose export duties in order to increase the value of critical minerals, provided that the maximum ceiling of 25% is not exceeded and the EU is granted at least 50% preferences.

The EU-Mercosur agreement is strategically important for securing the supply of critical raw materials, as Mercosur countries are major producers of many of these materials. According to the EU (2024c), Brazil accounts for 88.8% of the global niobium processing market, 7.2% of the silicon market, and 4.8% of the vanadium market. Brazil also accounts for 10.4% of global aluminium/bauxite extraction, 7.5% of natural graphite, 6.1% of manganese and 15.9% of tantalum. Argentina accounts for 11% of global lithium extraction. Brazil supplies 82% of the EU's current niobium consumption. Overall, Brazil holds around 10% of the world's critical mineral reserves, including the world's third-largest rare earth reserves.

2.6 Mutual recognition of standards and certifications

The EU-Mercosur agreement aims to streamline customs procedures and harmonise technical standards through mutual recognition of standards and certifications. This objective is explicitly addressed in the Customs and Trade Facilitation chapter, as well as in the Sanitary and Phytosanitary (SPS), Technical Barriers to Trade (TBT), and Digital Trade and E-commerce chapters. The harmonisation and mutual recognition of both regulations and control authorities is a crucial aspect of the agreement, particularly with regard to sensitive environmental and health protection issues. The agreement seeks to promote regulatory convergence, which will likely trend towards stricter European Union standards. While this could reduce trade costs, it would also incur adaptation costs, particularly for Mercosur producers.

2.7 Public Procurement

The Public Procurement chapter sets out a series of provisions based on three key principles: non-discrimination between domestic and foreign firms, transparency, and fairness. During the final negotiation phase, Brazil proposed amendments to the 2019 agreement to protect the use of state purchasing power as a means of supporting various public policies, including those relating to health, industry, and innovation. The adjustments included excluding public health sector purchases from the agreement's scope for Mercosur and EU countries, making certain exceptions for micro and small enterprises and family farming, and granting preferential margins to national products and services. This is the first time that Mercosur countries have made an international commitment regarding public procurement. However, disparities in competitiveness between companies from the two blocs may still lead to asymmetries in access to contracts (Sarti and Castilho, 2021; Ghiotto and Echaide, 2020).

2.8 Services

The Services chapter outlines the commitments relating to the four modes of service supply set out in the General Agreement on Trade in Services (GATS): cross-border trade, consumption abroad, commercial presence and the presence of natural persons. Furthermore, the agreement addresses immigration (regulating the temporary movement of foreign professionals to provide services), licensing procedures for specific services, and particular regulations for postal, telecommunications, and financial services. As previously noted, the chapter also incorporates an article on electronic commerce (e-commerce).

It is important to note that the Services chapter does not explicitly mention investment protection or include a dispute resolution mechanism between investors and states. Investment regulation and protection will continue to be governed by Bilateral Investment Treaties (BITs) that have already been signed between EU and Mercosur countries (excluding Brazil).

2.9 Environment and labour rights

A significant amendment to the agreement that was made recently involves both parties deepening their commitment to the environmental, social and economic agenda. The Annex to the Chapter on Trade and Sustainable Development includes provisions concerning multilateral environmental and labour regimes, the relationship between trade, investment and sustainable development, and trade and women's empowerment. It also includes provisions on cooperation. Mechanisms are in place to explicitly support the implementation of the following multilateral agreements: the United Nations Framework Convention on Climate Change (UNFCCC), the Paris Agreement, the Convention on Biological Diversity (CBD) and International Labour Organization (ILO) Conventions. Violation of the Paris Agreement may result in suspension of the agreement, and Mercosur countries have pledged to halt deforestation by 2030 — the first legally binding commitment of its kind. Several other provisions in this chapter reinforce actions concerning smallholders, cooperatives, women, indigenous peoples, and local communities. Finally, a section is dedicated to promoting sustainable value chains for the energy transition.

The introduction of this annex was intended to address European criticisms regarding the agreement's potential environmental, climate change and food safety impacts. Critics of the agreement comprise two distinct groups within civil society: environmentalists and farmers. As 14riticized by the EU Parliament, 'while the agreement

enjoys the support of EU industry associations and subsectors of EU agriculture with offensive interests, EU farmers' associations with defensive interests have 15riticized it as an unfair "cars for cows" deal' (Grieger and Macsai, 2025, p. 1).

2.10 Dispute settlement mechanism

The agreement includes a dispute settlement mechanism designed to resolve trade disagreements. This mechanism includes provisions for compliance and the potential suspension of concessions if an award is not respected. It also incorporates a 'rebalancing mechanism' to prevent one of the Parties from taking unilateral measures that could nullify or impair the benefits of the Agreement. Additionally, there is a specific dispute settlement procedure for the Trade and Sustainable Development (TSD) chapter.

3 Main features of trade between European regions and Mercosur

3.1 Main trade partners of Mercosur within European countries

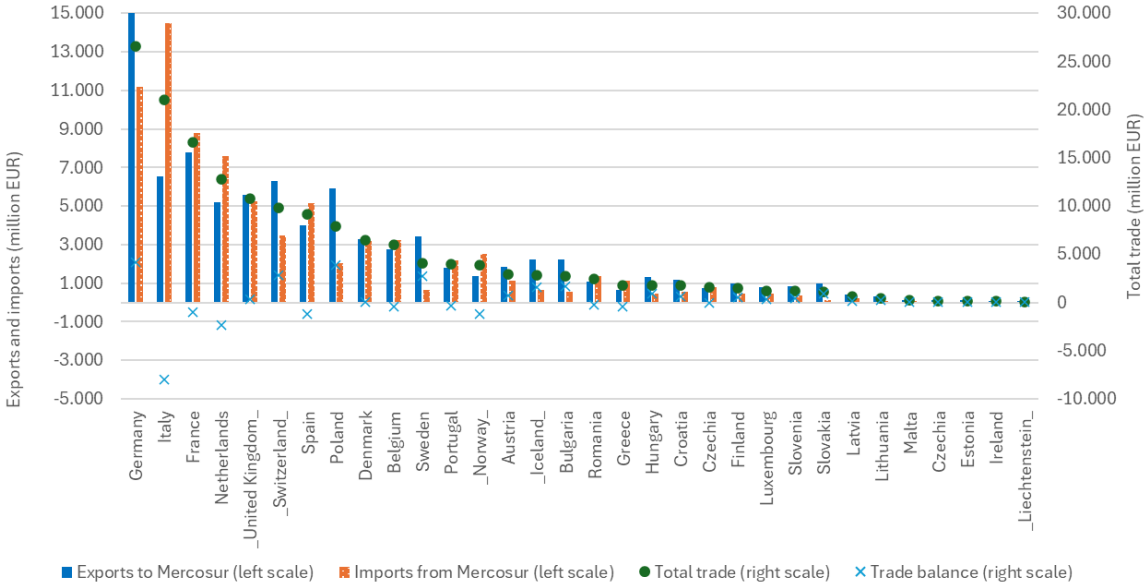
Figure 1 shows total trade volumes with Mercosur, distinguishing between EU members (in blue) and non-EU partners (EFTA and the UK, in red). Figure 2 plots exports (blue) and imports (green), as well as total trade (black dots). Trade between Europe and Mercosur is heavily concentrated among a few key players, while many others engage only minimally. Over half of trade between European partners (the EU, EFTA and the UK) and Mercosur is conducted with Germany (16.2%), Italy (12.8%), France (10.1%), the Netherlands (7.8%), the United Kingdom (6.6%), Switzerland (5.9%) and Spain (5.6%).

However, the data also reveals significant disparities in trade balances across European territories. While some countries enjoy clear surpluses, others experience persistent deficits. Germany, Poland and Switzerland register notable surpluses. In contrast, Italy, the Netherlands, Spain, Norway and France record deficits (see Figure 1). Italy stands out with a significant trade deficit of over 7.9 billion euros, making it the largest importer of Mercosur goods among European countries and accounting for almost 18% of total imports. 51% of Italian imports from Mercosur consist of food, beverages and tobacco, and 16% consist of mining and quarrying products. France, the Netherlands and Spain exhibit high dependence on imports of food, beverages and tobacco, representing 56.7%, 23.7% and 30.8% of their imports respectively. Agriculture and fishing represent 22.2% of Spain's imports from Mercosur and 12% of the Netherlands' imports. Services such as transport and storage, and professional and administrative services, account for more than 40% of the Netherlands' imports from Mercosur. In contrast, the competitive export positions of the main exporters (Germany, France, Switzerland and Poland) are in high-value sectors such as automotive (trade and vehicle repair; motor and transport equipment), machinery and equipment, chemicals and pharma, IT and info services, and finance and insurance.

Smaller Eastern European countries, including Lithuania, Latvia, Slovakia and Bulgaria, exhibit minimal trade volumes with Mercosur. This reflects limited commercial ties, which may be due to factors such as geographical distance, a lack of historical trade relationships, or lower levels of export specialisation. These findings highlight a broader trend: trade between Mercosur and European countries is unevenly distributed across regions and countries. As we will see in the next section, this is also sectorally concentrated.

These disparities reinforce the conclusion that the benefits of the EU-Mercosur Free Trade Agreement are not shared equally. Larger, more industrialised regions are better positioned to benefit from trade liberalisation, while others remain underrepresented. Policymakers may therefore wish to consider strategies for promoting trade diversification, both sectorally and geographically. One such strategy could be to encourage smaller or less active European regions to engage more fully with Mercosur markets, helping to create more inclusive and balanced trade outcomes under the new trade agreement framework.

Figure 1. Exports, imports, and total trade with Mercosur



Source: Own elaboration using EUREGIO-2017.

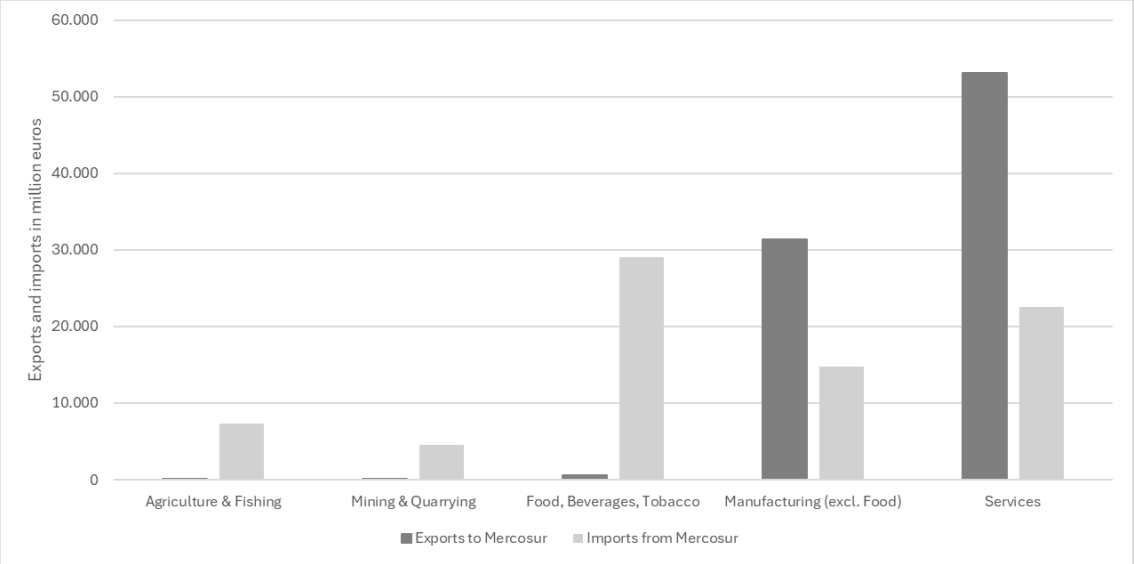
3.2 Trade of European countries with Mercosur by Sector

3.2.1 Overview by aggregated sectors

We will now analyse the sectoral pattern of trade between EU countries and Mercosur. To this end, Figure 2 breaks down trade into five broad sectors: Agriculture and Fishing; Mining and Quarrying; Food, Beverages and Tobacco; Manufactured Products (other than food); and Services. The table presents data on Europe's exports to Mercosur, its imports from Mercosur, its total trade (measured as the sum of exports and imports) and, finally, its trade balance (calculated as exports minus imports).

Trade between Europe (EU-27, EFTA and the UK) and Mercosur is highly concentrated in a few key sectors. The sectors with the highest total trade volumes are Services, Manufacturing (excluding food) and Food, Beverages and Tobacco, which dominate export and import flows alike. Notably, services (probably related to the automotive sector through trade and vehicle repair) lead EU exports, reflecting a strong competitive advantage, while food, beverages and tobacco top imports, mirroring Mercosur's strength in agro-industrial exports. In terms of trade balances, services and manufactured products (excluding food) generate significant surpluses for European regions, with surpluses of over €30 billion and €16 billion, respectively. Conversely, the Food, Beverages and Tobacco sector and the Agriculture and Fishing sector exhibit large deficits, with the former alone accounting for a negative balance exceeding €28 billion. These contrasts reveal divergent sectoral trade dynamics. Europe exports high-value services and manufactured goods while importing substantial volumes of agricultural and processed food products from Mercosur.

Figure 2. Europe's exports and imports per sector with Mercosur



Source: Own elaboration using EUREGIO-2017.

3.2.2 Europe–Mercosur Trade by detailed sectors

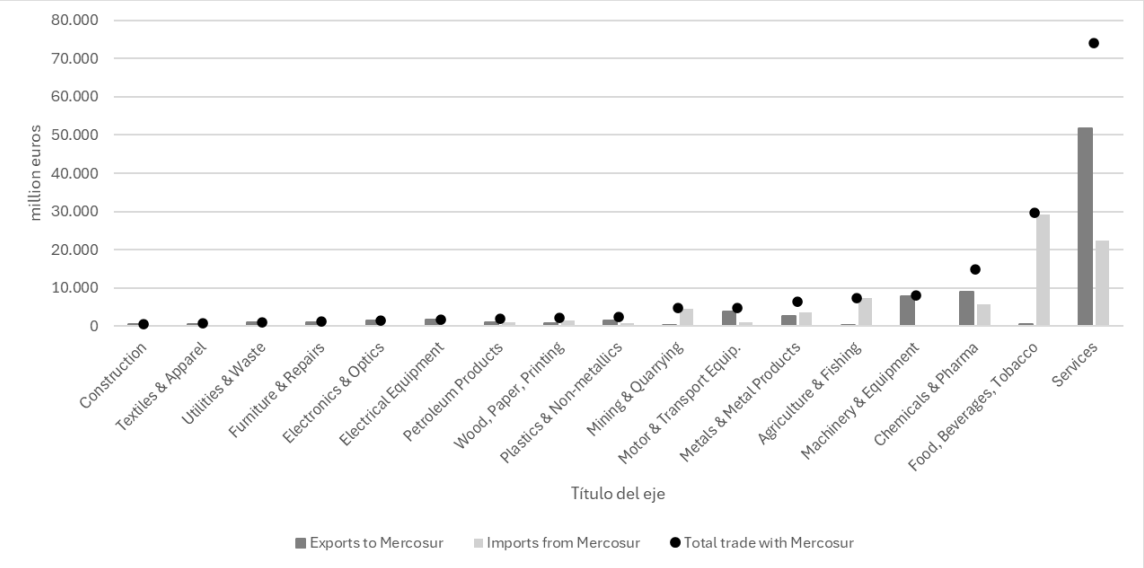
Notably, European countries have a significant trade surplus in services, representing 60% of Europe's exports to Mercosur. This surplus is mainly due to exports of trade and vehicle repair, and transport and storage, which account for 24% and 12% of Europe's exports to Mercosur, respectively. The largest surpluses in trade and vehicle repair are held by Germany, France and the Netherlands, while the largest transport and storage surpluses are held by some Central and Eastern European countries, such as Romania, Poland, Slovakia, Bulgaria and Hungary. However, it is worth noting that services such as transport and storage, and professional and administrative services, are intensively traded in both directions.

Notable trade surpluses are registered within manufacturing sectors for Machinery & Equipment in Germany and Italy, as well as in Bulgaria and Slovenia; for Chemicals & Pharmaceuticals in Poland and Germany; and for Motor & Transport Equipment in Hungary and France.

As previously mentioned, Europe experiences large deficits in 'Food, Beverages, Tobacco', 'Agriculture & Fishing', and 'Mining & Quarrying'. Some countries heavily depend on food imports from Brazil and Argentina, experiencing deficits of over 1 billion euros (Belgium, Spain and the Netherlands), 2 billion euros (Denmark, Germany and the United Kingdom), and over 4.9 billion euros (France) and 7.4 billion euros (Italy). Italy is also a major importer of mining and quarrying products and registers a deficit of €2.3 billion for these products. Spain and, overall, Germany are the main importers of agricultural products and register significant trade deficits with Mercosur in this sector.

The data reflects the typical North–South trade pattern of European countries exporting industrial goods and importing primary products. The sectoral trade balance highlights the dependence of European economies on Mercosur's agricultural exports, as well as their industrial strengths. Although some agricultural products exported by Mercosur are considered manufactured, many of them have undergone little processing, such as soybeans, the main end product of which is crushed soybean meal used for animal feed. The second product is meat, which has attracted resistance from certain European countries regarding the free trade agreement.

Figure 3. European's exports and imports, and total trade per detailed sectors

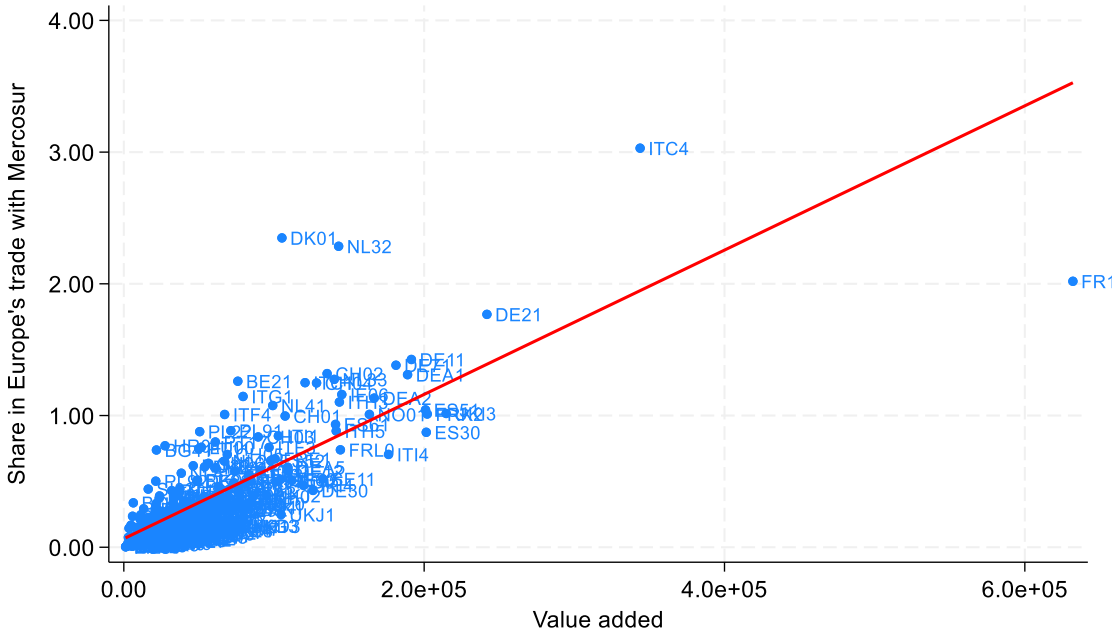


Source: Own elaboration using EUREGIO-2017.

3.3 Trade between European Regions and Mercosur

In the final part of our analysis of trade features, we examine trade between the 296 European regions and Mercosur. Understanding these leading regions provides European governments, businesses and analysts with crucial information for decision-making, strategic planning and navigating the global economy effectively.

Figure 4. Correlation between economic size (measured by value added) and weight in trade with Mercosur for all European regions



Source: Own elaboration using EUREGIO-2017

The 5 European regions with the highest trade volumes with Mercosur are **Lombardia** (ITC4, **Italy)** and **Hovedstaden** (DK01, **Denmark)** with both large import and export, though they run trade deficits with the largest

imports of Food, Beverages, Tobacco products; **Île-de-France (**FR10, **France) -leader in exports of services** and **Oberbayern (**DE21, **Germany)** also heavily trade with Mercosur and display positive trade balances and **Noord-Holland (**NL32, **Netherlands)** also ranks high but imports more than it exports.

The large economic regions exhibit a higher weight of trade with Mercosur. Regions with higher production supply more exports while large regions in terms of population represent higher share of consumption and imports.

Table 1 presents the top 10 European regions importing from Mercosur and **Fehler! Verweisquelle konnte nicht gefunden werden.** presents the top 10 European regions exporting to Mercosur.[1]

Table 1: Top importing regions from Mercosur

NUTS2 code	Region name	Country	Imports from Mercosur (€ mm.)
ITC4	Lombardia	Italy	3,191.67
NL32	Noord-Holland	Netherlands	2,440.56
DK01	Hovedstaden	Denmark	2,174.45
ITG1	Sicilia	Italy	1,670.56
BE21	Prov. Antwerpen	Belgium	1,520.03
ITC1	Piemonte	Italy	1,485.59
ITF4	Puglia	Italy	1,479.14
FR10	Île de France	France	1,345.97
DE11	Stuttgart	Germany	1,340.03
DE21	Oberbayern	Germany	1,224.67

Source: Own elaboration using EUREGIO-2017

Among the top importers, we find the five big regions mentioned previously, as well as three other Italian regions (Sicily, Piedmont and Puglia) and the province of Antwerp in Belgium, which has the largest trade deficit with Mercosur of all the European regions. Stuttgart (Germany) is also one of the largest importers, but this is offset by a high volume of exports.
The top exporting regions (

[1] Table 12 in the Appendix presents the top 10 European regions trade surpluses and trade deficits with Mercosur.

Table 2) include **Île-de-France (France), Lombardia (Italy)**, **Oberbayern (Germany), Hovedstaden (Denmark) and Noord-Holland (Netherlands)** as well as Eastern and Midland (Ireland), Espace Mittelland (Switzerland), Zürich (Switzerland), Warszawski stoleczny (Poland), Darmstadt (Germany).

This is not surprising, given the economic weight of these regions. More surprising is the relatively small weight of Spanish and Portuguese regions, despite their historical colonial ties with Latin American countries. The largest Spanish and Portuguese regions, Catalonia, Andalusia, the Community of Madrid and the Metropolitan Area of Lisbon, rank 20th, 25th, 27th and 33rd respectively in terms of total trade with Mercosur. Catalonia and Madrid — the Spanish regions with the most robust industrial bases — register moderate deficits. Andalucía registers a relatively high deficit (€656 million), while the trade surplus of the Área Metropolitana de Lisboa is small.

Table 2: Top exporting regions to Mercosur

NUTS2 code	Region name	Country	Exports to Mercosur (€ mm.)
FR10	Île de France	France	1957.09
ITC4	Lombardia	Italy	1764.41
DE21	Oberbayern	Germany	1667.54
DK01	Hovedstaden	Denmark	1667.08
IE06	Eastern and Midland	Ireland	1477.12
CH02	Espace Mittelland	Switzerland	1442
CH04	Zürich	Switzerland	1414.35
NL32	Noord-Holland	Netherlands	1297.41
PL91	Warszawski stoleczny	Poland	1222.27
DE71	Darmstadt	Germany	1195.98

Source: Own elaboration using EUREGIO-2017

4 Methodology

4.1 Empirical strategy

We use the Generalised Estimation of Poisson Pseudo-maximum Likelihood (GEPPML) algorithm, proposed by Anderson et al. (2018), to quantify the impact of a new Regional Trade Agreement (RTA) on trade and welfare. GEPPML is a straightforward method of general equilibrium comparative statics analysis that uses gravity models and the theoretical properties of the Poisson pseudo-maximum likelihood estimator. Additionally, we adopt the approach of Timini and Viani (2022) to estimate the impact of existing RTAs on trade (i.e. ex post estimations), thereby inferring the ex-ante trade impacts of the EU-Mercosur agreement. Our approach involves two stages. First, we estimate the 'partial equilibrium' impact of 'EU-Mercosur-like' agreements on trade using a structural gravity equation, incorporating both aggregate bilateral trade in goods and country-sector trade data from 1980 to 2022. Second, we use the multicountry-multisector EUREGIO-2017 database to obtain general equilibrium effects on exports, imports, and welfare for all European regions. To this end, we introduce a 'trade shock' (i.e. the EU-Mercosur trade agreement) into a structural gravity equation system and calculate the new values of exports, imports and welfare. Appendix 7.2 provides a more detailed description of the procedure. Next, we compare the values in the "baseline" scenario (without EU-MERCOSUR agreement) with the values in a "counterfactual" scenario (with EU-MERCOSUR).[2]

4.1.1 Identification of "EU-MERCOSUR like" agreements

To identify the 'EU-Mercosur-like' agreements, we use the World Bank's Deep Trade Agreement Database (Hofmann et al., 2017), which contains detailed information on regional trade agreements. We select regional trade agreements that have the same 'core' provisions as the EU-Mercosur agreement, assuming that they will have similar trade effects.

2 We do all the analyses using the software STATA. For the partial equilibrium analysis, we use the module "ppmlhdfe.ado" and for the general equilibrium analysis, we use the module "gegravity.ado".

Table 14 provides a complete description of the 'core' provisions that define these agreements, including industrial and agricultural tariffs, sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT), state-owned enterprises, public procurement, intellectual property rights, competition policy, investment (including movement of capital), and environmental and labour market regulations.

Table 15 provides a list of 'EU-Mercosur-like' agreements, including a number of previous EU treaties with other Latin American countries, such as Colombia and Peru, and El Salvador, Guatemala, Honduras, Nicaragua and Panama. We have also added the 'EU-Chile' treaty in the case of Chile.

Once we have identified the "EU-MERCOSUR like" agreements (referred as "X"), we group all the regional trade agreements (RTA_{jit}) in four different categories, each identified by a dummy variable: (1) $RTA_{jit}^{X_{NS}}$ corresponds to a dummy equal to 1 if country pair j-I have a "EU-MERCOSUR like" agreement at time t, and if the bilateral trade flow is North-to-South, that is, exports to advance to emerging/developing economies. The dummy is zero otherwise. (2) $RTA_{jit}^{X_{SN}}$ corresponds to a dummy equal to 1 if country pair j-I have a "EU-MERCOSUR like" agreement at time t, and if the trade flow identified is South-to-North, i.e. exports to emerging/developing to advanced economies. The dummy is zero otherwise. (3) $RTA_{jit}^{X_{rest}}$ corresponds to a dummy equal to 1 if country pair j-I has a "EU-MERCOSUR like" agreement at time t, but has not been identified in the two previous categories, i.e. the trade flow is "North-to-North" or "South-to-South". The sum of these three dummies identifies all trade agreements including the main provisions foreseen in the EU-Mercosur agreement. (4) RTA_{jit}^{ALL-X} corresponds to a dummy and identifies all other trade agreements in the sample.

4.1.2 Partial equilibrium analysis

We estimate the direct ("partial equilibrium") of a "EU-MERCOSUR like" agreement on trade using the following equation:

$$X_{jit}^{k} = \exp\left(v_{jt}^{k} + v_{it}^{k} + v_{ji} + \beta_k{}' RTA_{jit} + \alpha_k{}' Z_{jit}\right) + \varepsilon_{jit}^{k} \quad (1)$$

where the dependent variable, X_{jit}^{k}, corresponds to the bilateral trade flows of products in sector k between the exporter country or region j and the importer country or region i at time t. Notice that we always include the domestic trade flows (i=j). v_{jt}^{k} and v_{it}^{k} are country-sector-year fixed effects for exporters and importers and they account for the MTRs (Anderson and van Wincoop, 2003). v_{ji} is a vector of directional ($v_{ji} \neq v_{ij}$) country pair fixed effects and controls for time invariant bilateral trade costs as well as alleviates potential endogeneity issues related to the introduction of new regional trade agreements, RTA (Baier and Bergstrand, 2007). In addition to our main explanatory variable RTA_{jit}, we include a vector Z_{jit} that includes time-varying bilateral distances and international borders. Finally, ε_{jit}^{k} is an error term. The regression equation follows the now standard practice of estimating gravity using the Pseudo Poisson Maximum Likelihood (PPML) estimator (Silva and Teneyro, 2016). We use three-way clustering techniques (Egger and Tarlea, 2015).

4.1.3 Databases

We use two different trade databases to estimate the direct ('partial equilibrium') impact of 'EU-MERCOSUR-like' agreements on trade. Firstly, in order to analyse aggregate trade, we update the original dataset used by Timini and Viani (2022), which ended in 2015. Using the UN COMTRADE database, we extend the analysis period to the year 2022.

Secondly, for the sector-by-sector analysis, we use the ITPD-E v3 database (Larch et al., 2025). This database contains consistent data on international and domestic trade at the industry level, covering agriculture, mining, energy and manufacturing for the period 1988–2022, as well as services for the period 2000–2022. Please note that the ITPD-E v3 only reports administrative data and does not use any statistical techniques to interpolate data; therefore, aggregation of the sectoral trade flows is not possible. We estimate equation (1) for 17 broad industries. Table 16 shows how the 170 industries in the ITPD-E v3 database correspond to the 17 sectors in the EUREGIO-2017 database when Services are considered as one aggregate sector.

We use the aggregated version of EUREGIO-2017 (30 sectors instead of 64) to calculate the general equilibrium effects of the EU-Mercosur agreement on trade and welfare in 297 NUTS-2 European regions. The ESPON-IRIE project contributed to this by creating EUREGIO-2017: an extensive MRIO table detailing transactions at the NUTS-2 level for 297 regions, and linking to global partners such as the US and China (Almazán-Gómez et al., 2023). Sector-to-region-to-sector-to-region flows are aggregated at the sector-to-region level for the 30 sectors (e.g. total exports of agricultural products from Andalusia to Brazil). Please note that EUREGIO-2017 does not include Paraguay and Uruguay.

4.2 Results of partial equilibrium estimations

Table 3 reports the estimates of the partial equilibrium effects of regional trade agreements on bilateral exports for the aggregate trade of goods. The main coefficients of interest are those of the dummy variables $RTA_{jit}^{X_{NS}}$ and $RTA_{jit}^{X_{SN}}$, which correspond to the (partial equilibrium) change in the EU exports to Mercosur and in the Mercosur exports to the EU, respectively, due to the reduction in bilateral costs associated to "EU-MERCOSUR like" agreements.

In Column 1 we estimate the basic structural gravity equation without additional controls and obtain that previous trade agreement like EU-MERCOSUR expanded North exports to South partners in a 56% (i.e. $100*[e^{0.45} - 1]$) while South exports to North expanded by 75% (i.e. $100*[e^{0.56} - 1]$). We should interpret these coefficients as "upper bounds" because they may capture additional important elements that have been omitted in the regression.

In columns 2 we disentangle broader economic integration effects by the inclusion of two interaction terms. First, an interaction between an international border dummy (a dummy equal to 1 if $\neq i$, i.e. if the flow is international trade, and zero if the flow represents domestic trade) and a time dummy. Second, an interaction between the logarithm of distance and a time dummy. In this way, by allowing the coefficient of the international border and

distance to vary over time, we capture a "globalization effect". In this specification, our results suggest that existing agreements like the "EU-MERCOSUR" increase North-to-South exports by approximately 30% (i.e. 100*[$e^{0.27}-1$]), and South-to-North exports by approximately 40% (i.e. 100*[$e^{0.35}-1$]]).

Table 4 reports the partial equilibrium impact of RTAs like EU-MERCOSUR on trade using disaggregated traded flows for 17 sectors. Most of the coefficients are positive, confirming the positive impact of RTA on trade. The coefficient of $RTA_{jit}^{X_{NS}}$(RTA like EU-MERCOSUR North->South) has a positive and statistically significant effect in 9 out of 17 sectors, including agriculture, food products, petroleum, chemicals, metal products, computers and electronic goods, mechanical machinery, transport and services. The coefficient of $RTA_{jit}^{X_{SN}}$(RTA like EU-MERCOSUR North->South) has a positive and statistically significant effect in 8 out of 17 sectors (RTA like EU-MERCOSUR South->North), including food products, wearing apparel, publishing-related products, chemicals, rubber products, nonmetallic products, radio and television products and furniture and other manufacturing products. The smallest impact is found in services (approximately 8% increase), while the largest impact is found in petroleum products (82%). Among the sectors with positive and significant impact, the expected increase in North-to-South exports is 25%, just half the magnitude obtained for total trade of goods in Table 3.

The coefficient of $RTA_{jit}^{X_{NS}}$(RTA like EU-MERCOSUR South->North) has a positive and statistically significant effect in 7 out of 17 sectors, including agriculture, mining, food products, petroleum, non-minerals products, mechanical machinery, and transport. The smallest impact is found in agriculture products (approximately 20% increase), while the largest impact is found in petroleum products (68%). Among the sectors with positive and significant impact, the expected increase in South-to-North exports is 25%, one third of the magnitude obtained for total trade of goods in Table 3.

Table 3: Main results. Dependent variable: aggregate bilateral trade in goods

	(1)	(2)
RTA like EU-Mercosur N->S jit	0.453***	0.267**
	(0.116)	(0.133)
RTA like EU-Mercosur S->N jit	0.568***	0.352**
	(0.152)	(0.162)
RTA like EU-Mercosur rest jit	0.389***	0.148*
	(0.0777)	(0.0853)
Other RTAs jit	0.342***	0.188**
	(0.0874)	(0.0810)
Constant	14.09***	13.92***
	(0.00696)	(0.115)
Observations	107,785	107,785
Directional pair Fes	YES	YES
Exporter*year & Importer*year	YES	YES
International border*year	NO	YES
ln(distance)*year	NO	YES

*Notes: Poisson regressions. Dependent variable: Bilateral aggregate good exports. Fixed effects, constant, and globalisation effects omitted. Standard errors (in parentheses) are clustered at the importer-time, exporter-time and country-pair level. ***p < 0.01, **p < 0.05, *p < 0.1.*

Table 4: Main results. Dependent variable: bilateral trade at the product level.

Sector	RTA like EU-MER North->South	RTA like EU-MER South->North	RTA like EU-MER Rest	Rest of RTAs	Observa-tions
Agriculture	0.266***	0.183*	0.256***	0.288***	6,133,445
Mining	0.305	0.301**	-0.0764	-0.147*	1,069,411
Food, drink, tobacco	0.245***	0.403***	0.339***	0.279***	7,689,617
Textile, clothing, footwear	0.0121	0.0525	0.0588	-0.0175	6,072,159
Wood, paper, printing	0.0864	-0.0901	-0.0265	0.0233	2,697,038
Petroleum	0.601***	0.524***	0.711***	0.451***	878,862
Chemical	0.286***	0.0201	0.253***	0.130*	5,008,513
Non minerals, plastic, rubber	0.0906	0.187**	0.188**	0.230***	5,556,064
Metal products	0.278***	0.167	0.270***	0.274***	4,754,060
Computers, electronics, optics	0.221***	-0.0139	-0.202**	0.0651*	5,614,798
Electrical equipment	-0.0138	0.104	0.0505	-0.00641	4,104,359
Mechanical, other machinery	0.1880***	0.262***	0.184***	0.186***	8,345,833
Transport	0.173**	0.256**	0.243***	0.166**	4,532,731
Other manufacturing	0.239	-0.144	-0.00821	-0.0121	3,737,768
Utilities	0.297	-0.157	0.104	0.0864	667,351
Construction	0.114	-0.115	-0.323	0.0585	54,608
Services	0.0759***	0.105	0.0435	0.167*	884,996

*Notes: Poisson regressions. Dependent variable: exporter-importer-product-year. For each sector, we pool the products. Fixed effects (exporter-product-time, importer-product-time, exporter-importer-product), constant, and globalisation effects omitted to save space. Standard errors (in parentheses) are clustered at the importer-time, exporter-time and exporter-importer-sector level. ***p < 0.01, **p < 0.05, *p < 0.1.*

4.2.1 General equilibrium analysis

Once we have solved the structural gravity system of equations separately for each sector and for the baseline and counterfactual scenario values, we can calculate the differences between the variables of interest (e.g. exports, imports and welfare) for each region-sector combination. Total trade by region is calculated as the sum of trade across sectors. Total welfare by region is obtained as the weighted average of welfare in each sector, as detailed in Anderson and Yotov (2016), where the weight is the share of each sector's gross output in the region. A detailed description of the procedure is provided.

In the next section, we present the general equilibrium results for each European region using the estimated coefficients of $RTA_{jit}^{X_{NS}}$ and $RTA_{jit}^{X_{SN}}$ of Table 4 applied separately to each sector and then we aggregate for the whole region. In the Appendix, we present the general equilibrium results using the estimated coefficients of $RTA_{jit}^{X_{NS}}$ and $RTA_{jit}^{X_{SN}}$ of each sector obtained in Table 5 and then we aggregate for the whole region. In that case, all the estimated coefficients are constrained to zero if they are not positive and statistically significant or we could not estimate the coefficient.

5 Impact of the trade agreement between EU and Mercosur on European regions

Based on the previous model, we analyse in this section the effect of the EU- Mercosur trade agreement on welfare of the EU+ regions. Section **Fehler! Verweisquelle konnte nicht gefunden werden.** analyse the overall effects on European regions' welfare. Section 5.1 compares the results for winners and losers. Section 0 deeps in the analysis of possible heterogeneity among regions and country. Section 5.2 analyses the effect on the trade of EU regions with Mercosur. Section **Fehler! Verweisquelle konnte nicht gefunden werden.** is devoted to overall trade. Section **Fehler! Verweisquelle konnte nicht gefunden werden.** focuses on the effect of the agreement on the regions specialised in Agriculture and Food products.

5.1 A positive and modest impact on EU regions welfare

The trade agreement between the EU and Mercosur is expected to have a generally positive, albeit modest, impact on regional welfare and trade within the EU+ (i.e. the 27 EU member states, the EFTA countries and the United Kingdom). The agreement clearly benefits EU regions more than those outside the EU, where its impact is minimal or slightly negative.

Table 5 shows the expected changes in real wages, as well as in imports and exports, in European regions once the trade agreement between the EU and Mercosur is fully implemented (i.e. in a 'post-FTA' scenario). Real wages are expected to rise by an average of 0.015% across all 296 European regions, with individual variations ranging from –0.005% to +0.095%. EU regions are expected to benefit the most, with average real wages projected to increase by 0.018%. In contrast, the average change in non-EU regions is nearly neutral at –0.001%. As expected, this differential suggests that the agreement's welfare-enhancing mechanisms—such as improved market access and reduced trade costs—are concentrated within the EU. Non-EU regions, which lack preferential access to Mercosur markets and do not benefit from import tariff reductions, experience lower economic benefits. Trade effects follow a similar pattern. Imports and exports are set to grow on average across the European area, but this growth is overwhelmingly concentrated in EU regions. Imports are predicted to rise by an average of 0.106%, including a 0.132% increase in EU regions versus a slight decline of –0.006% in non-EU regions. Similarly, exports are expected to grow by an average of 0.116% across all European regions, mainly due to a predicted increase of 0.143% in EU regions, whereas non-EU regions are only expected to see a marginal increase of 0.003%.

Overall, the EU–Mercosur agreement is expected to deliver a small but positive economic gain for most EU regions. In contrast, non-EU European regions — including those in the UK and EFTA — will experience lower, and in some cases, modestly negative effects. These results are consistent with the institutional asymmetry of the agreement, which only grants tangible economic advantages to EU participants. Nevertheless, given the modest scale of the effects, the overall impact across Europe remains relatively mild.

Table 5: Real wage, overall imports and exports of European regions post FTA (% of initial level), mean across regions

Regions	Statistics	Real wage variation	Imports from all partners	Exports to all partners
EFTA+UK	Mean	-0.001	-0.006	0.003
	Min	-0.005	-0.237	-0.036
	Max	0.005	0.103	0.02
	p50	-0.001	0.01	0.01
EU	Mean	0.018	0.132	0.143
	Min	-0.002	-0.356	-0.12
	Max	0.095	1.409	0.91
	p50	0.013	0.098	0.112
EU+	Mean	0.015	0.106	0.116
	Min	-0.005	-0.356	-0.12
	Max	0.095	1.409	0.91
	p50	0.011	0.075	0.098

Source: Own elaboration using EUREGIO-2017

Regional gains from trade

The EU–Mercosur free trade agreement generates heterogeneous effects across the 296 European regions. To evaluate the distribution of welfare impacts, we distinguish between regions where real wages rise and regions where real wages remain constant or decline.

Table 6 summarise the main statistics of real wage variation among winners, losers distinguishing between EU and Non-EU regions.

According to the results, 249 regions experience an increase in welfare, with an average real wage gain of +0.018%. Among these, EU regions perform slightly better, averaging +0.019%. Only 47 regions, 45 non-EU regions and two EU regions (Basilicata in Italy and Sterea Ellada in Greece), experience a reduction in real wages, typically around –0.01%.

This outcome aligns with what trade theory would predict for the asymmetric structure of the agreement: EU regions benefit directly from preferential trade liberalisation, while non-EU regions—excluded from tariff reductions and enhanced market access—are more likely to be adversely affected, albeit slightly.

Table 6 and **Fehler! Verweisquelle konnte nicht gefunden werden.** present the average change in welfare by country, and Map 1 maps welfare variations across regions and countries.

Table 6: Real wage variation (% of initial level)

		Min	Max	All
EFTA+UK	# Obs	43	14	57
	Min	-0.005	0	-0.005
	Max	0	0.005	0.005
	Mean	-0.001	0.001	-0.001
EU	# Obs	4	235	239
	Min	-0.002	0	-0.002
	Max	0	0.095	0.095
	Mean	-0.001	0.019	0.018
EU+	# Obs	47	249	296
	Min	-0.005	0	-0.005
	Max	0	0.095	0.095
	Mean	-0.001	0.018	0.015

Source: Own elaboration using EUREGIO-2017

As expected, EU countries tend to experience positive welfare gains. Even though disparities exist between members, the gains are always below 1%. The countries whose regions benefit the most on average are Croatia (+0.084%), Bulgaria (+0.056%), Slovenia (+0.052%), the Netherlands and Portugal (both +0.044%), Latvia (+0.031%), and Denmark (+0.031%). The 49 regions with the largest welfare gains (i.e. a real wage increase of more than 0.026) — shown in dark blue in Figure 1 — are mainly found in these countries.

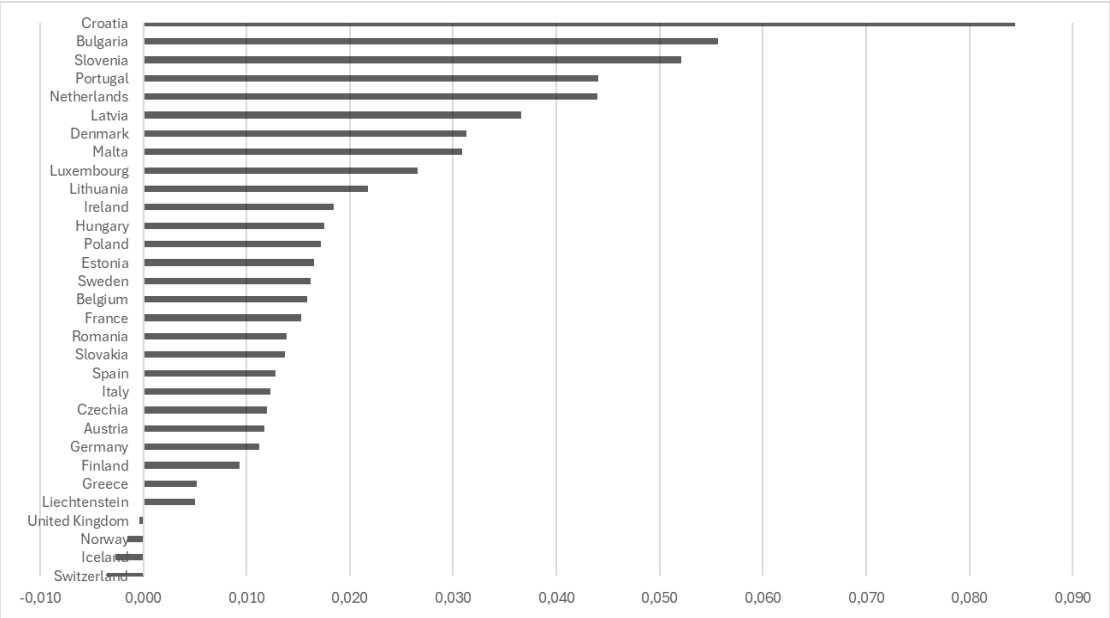
At the other end of the spectrum, Greece and Finland recorded the smallest average gains among EU countries, with average real wage increases of less than +0.01%. These results suggest limited exposure to, or benefit from, the trade channels activated by the agreement.

Regarding variation within countries, several countries exhibit relatively high standard deviations (SD) in regional welfare outcomes, indicating uneven effects across their territories. Notably, Slovenia (SD = 0.017), Croatia (SD = 0.015), Poland (SD = 0.014) and Bulgaria (SD = 0.013) have substantial internal disparities, indicating that the agreement's benefits are concentrated in certain regions. However, as previously mentioned, these differences remain of small magnitude. In contrast, countries such as Germany, Sweden, Spain, Portugal and Greece show a more consistent pattern of modest gains, with lower dispersion in regional outcomes.

The welfare gains from the EU–Mercosur agreement are concentrated mainly in Central and Eastern European countries, notably Croatia, Bulgaria, Slovenia, Hungary and Poland, as well as parts of the Netherlands and Portugal. In contrast, regions with minimal gains are more geographically dispersed but tend to cluster in southern and western Europe, particularly in Greece, Italy, Germany and parts of France and Belgium. The top five regions are Kontinentalna Hrvatska and Jadranska Hrvatska in Croatia, with gains of +0.095% and +0.074% respectively. These are followed by Yugozapaden in Bulgaria (+0.067%), Vzhodna Slovenija in Slovenia (+0.064%), and Severoiztochen in Bulgaria (+0.063%). The five regions with the smallest gains, all close to 0.000%, are Burgenland in Austria, Province of Namur in Belgium, Jihozápad in the Czech Republic, Lüneburg in Germany and Sterea Ellada in Greece (see Tables A1 and A2 in the Appendix for further details).

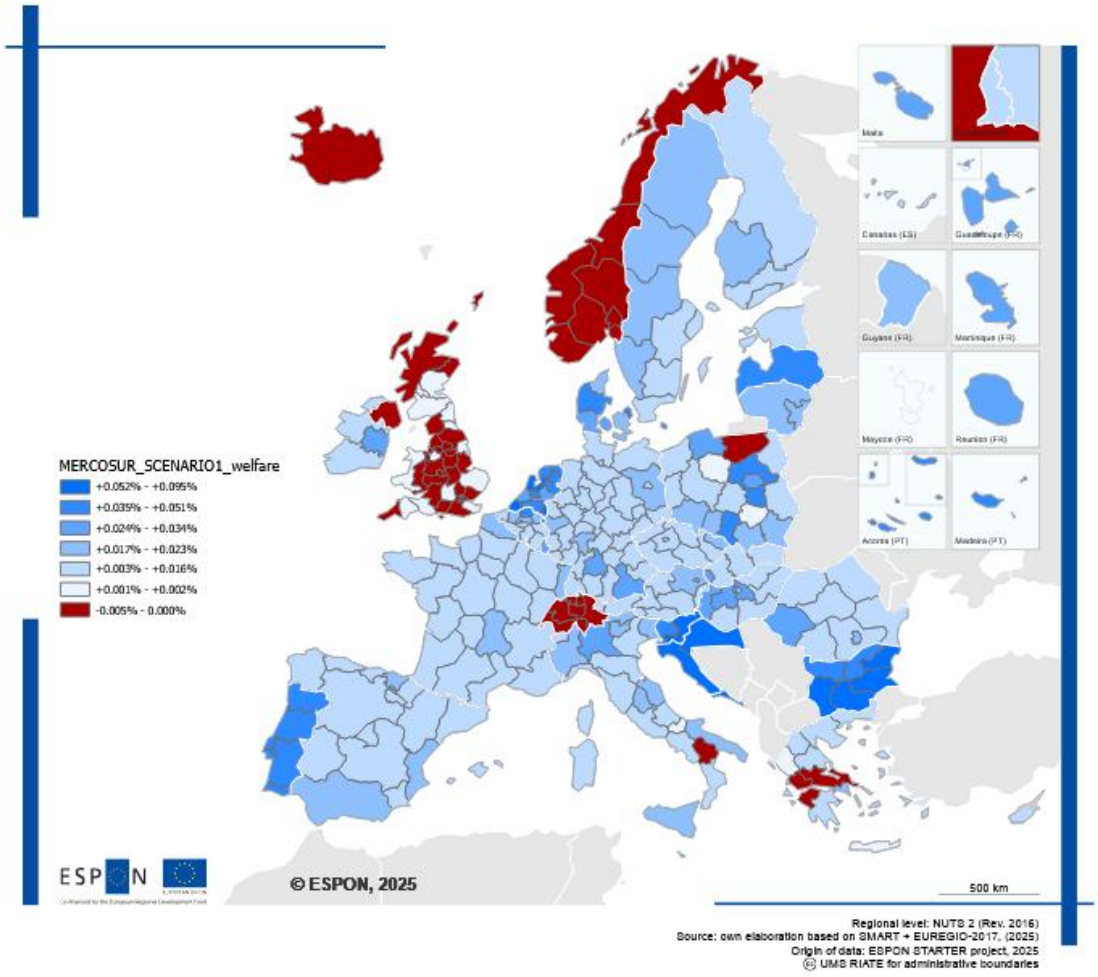
These findings highlight that, even within the EU, where the agreement has an overall positive effect, the magnitude of the gains varies across regions but remains small.

Average welfare gains by country



Source: Own elaboration using EUREGIO-2017

Map 1: Impact on regional welfare of EU-Mercosur FTA (real wage, % of initial level)



Map 1 illustrates the impact of the EU-Mercosur Free Trade Agreement (FTA) on regional welfare, in terms of changes to real wages. The regions that would benefit most from this scenario are concentrated in parts of Eastern and Southern Europe. Croatia, north-east Romania, parts of Bulgaria, southern Italy and some regions in southern Spain and Portugal exhibit the highest welfare gains, with estimated increases ranging from +0.035% to +0.095%. These areas are likely to benefit from increased export opportunities or improved access to Mercosur markets, particularly in sectors such as agriculture and light manufacturing, which are set to benefit from reduced trade barriers.

Moderate positive impacts are seen across much of Europe, including France, Germany, Poland, and Hungary. These regions show welfare gains ranging from +0.005% to +0.035%, suggesting that they will also benefit from the agreement, albeit to a lesser extent. The improvements in these areas are likely to be more diffuse, possibly reflecting a combination of trade diversification and improved sourcing of inputs.

In contrast, the map highlights several regions that have experienced negligible or no changes in welfare, which are represented by white or near-white shades. Central European regions, including parts of Austria and Germany, fall into this category. This neutral position may be due to limited exposure to the sectors most affected by the agreement or a balance between competing gains and losses.

Some European regions have negative welfare impacts, as indicated by the dark red areas, which show welfare losses of up to -0.035%. All EFTA countries and many UK regions experience losses because they do not benefit from reduced trade costs with Mercosur. Only five EU regions experience welfare declines, located in Greece, Italy, Poland and French Guiana (Guyane). These losses may be due to increased competition, reduced demand for local exports or limited participation in sectors that benefit from the Mercosur agreement.

In summary, the welfare effects of the EU-Mercosur trade scenario are unevenly distributed across the regions. While peripheral and less industrialised regions in southern and eastern Europe are among the biggest beneficiaries, more developed regions in northern and north-western Europe tend to experience moderate gains. This divergence highlights the need for targeted policy measures to support regions facing adverse impacts and ensure a more balanced distribution of benefits from international trade.

5.2 A significant increase of trade by sectors

Fehler! Verweisquelle konnte nicht gefunden werden. illustrates trade values by sector between the EU and Mercosur, both before and after the free trade agreement (FTA) was implemented, and shows the percentage changes in total (trade-weighted) flows. Table 7 shows changes in imports and exports by sector in terms of value and average percentage change across regions (unweighted).

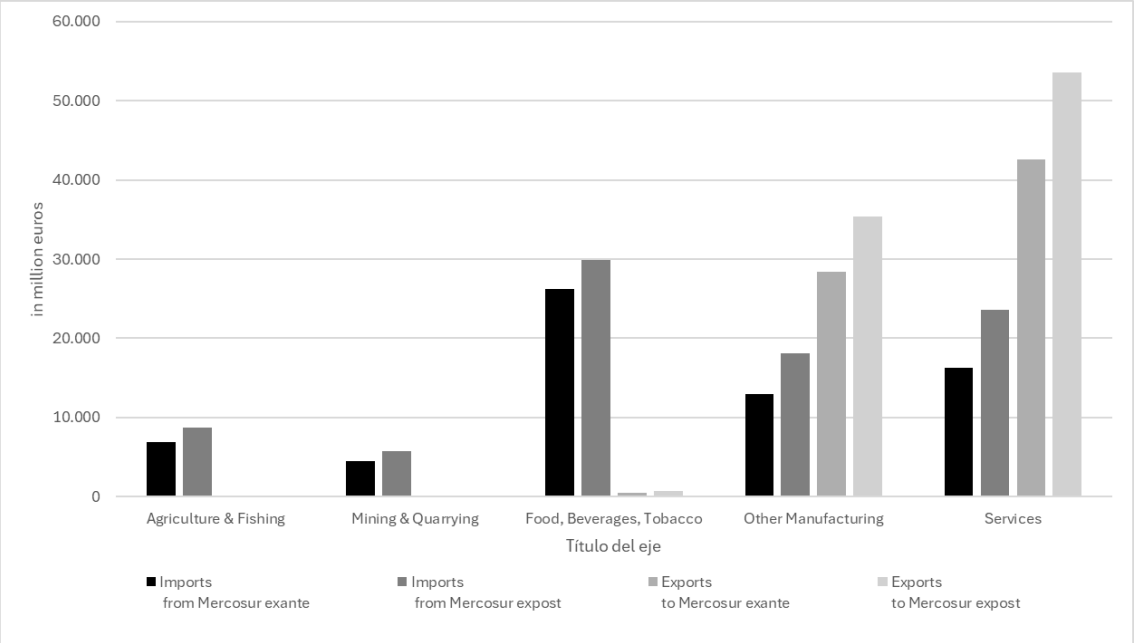
In some cases, large percentage increases reflect very low initial trade levels, meaning the actual change in value is minor. In other words, sectors with the highest growth rates are not necessarily the most important in absolute terms. Therefore, these two perspectives — percentage growth and trade value — can lead to different conclusions about which sectors are truly impacted.

On average, imports from Mercosur to EU regions are expected to rise by 31%, or €81 billion, with increases across all sectors. Imports of resource-intensive goods will grow significantly, with agriculture and fishing increasing by €7 million, mining and quarrying by €5 million, and food, beverages and tobacco by €16 million — already the category with the highest import value from Mercosur. However, the largest percentage increases are in manufactured products (excluding food), rising by 40% (€21 million), and services, growing by 45.9% (€31 million). It is worth noting that the services category may include trade in various types of goods.

On average, a typical EU region would increase its exports to Mercosur by 25%, equivalent to €76 million. The largest percentage increases are seen in food, beverages and tobacco (66.6%), mining and quarrying (38.7%), and agriculture and fishing (47.4%). However, despite these high growth rates, the actual value of the increase in these three sectors is modest, barely reaching €1 million per region. By contrast, most of the additional export value comes from services and manufactured products (excluding food), accounting for €46 million and €29 million per region respectively, despite their lower growth rates of around 25–26%.

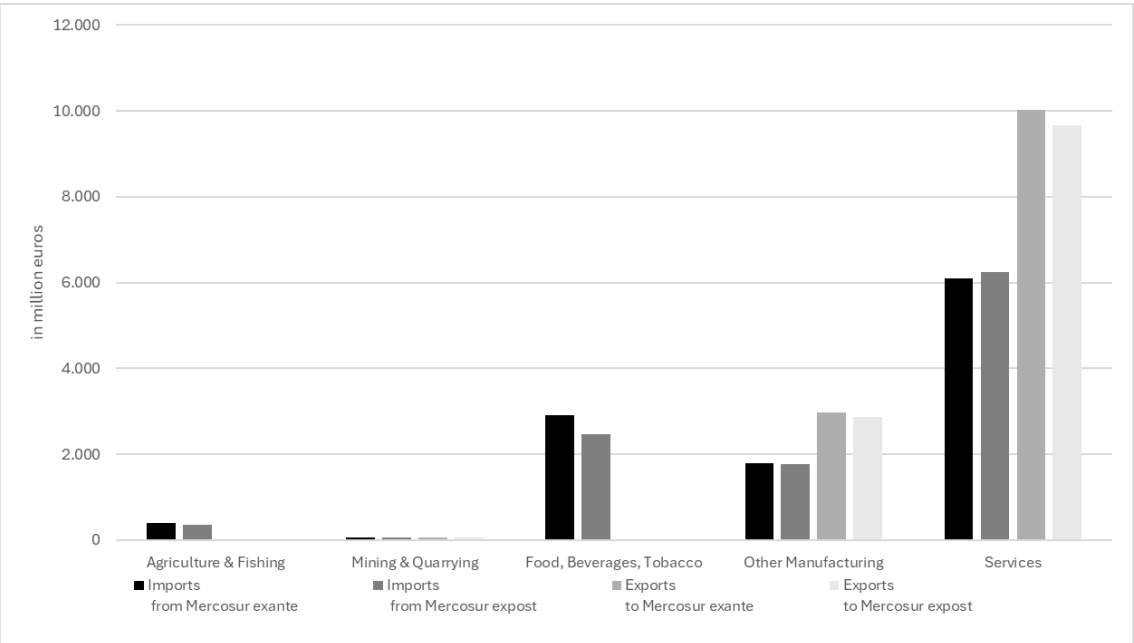
Non-EU territories show the opposite trend. Overall, trade-weighted figures indicate a net decline of €0.34 billion in imports and €0.45 billion in exports. These losses are mainly concentrated in food imports and exports of manufactured products (excluding food) and services. In these high-volume sectors, where non-EU regions were most active, the loss of preferential access compared to EU competitors has resulted in a significant setback.

Figure 5. EU Imports from and Exports to Mercosur, before and after the FTA [3]



Source: Own elaboration using EUREGIO-2017

Figure 6. Imports of UK and EFTA from Mercosur and exports of UK and EFTA to Mercosur, before and after the FTA



Source: Own elaboration using EUREGIO-2017

[3] Increase here is calculated comparing the aggregated value of imports (respectively exports) among regions before and after FTA. The result is slightly different from the one displayed in Table 7 and 8 calculated as an average by regions.

Table 7: Variations (% of initial level) of imports from Mercosur by sector, mean per region

	Sectors	Variation of imports from Mercosur after FTA		Variation of exports to Mercosur after FTA	
		€ mm.	% of initial level	€ mm.	% of initial level
EFTA+UK	Agriculture & Fishing	-1	-9.48	0	11.44
EFTA+UK	Mining & Quarrying	0	-3.65	0	6.41
EFTA+UK	Food, Beverages, Tobacco	-8	-15.96	0	25.36
EFTA+UK	Manufacturing (excl. food)	0	-0.66	-2	-2.97
EFTA+UK	Services	3	2.38	-6	-4.12
EFTA+UK	Total	-6	-5.15	-8	-3.42
EU	Agriculture & Fishing	7	27.09	0	47.41
EU	Mining & Quarrying	5	34.40	0	38.71
EU	Food, Beverages, Tobacco	16	16.45	1	66.62
EU	Manufacturing (excl. Food)	21	40.45	29	26.08
EU	Services	31	45.91	46	25.63
EU	Total	81	31.25	76	25.88

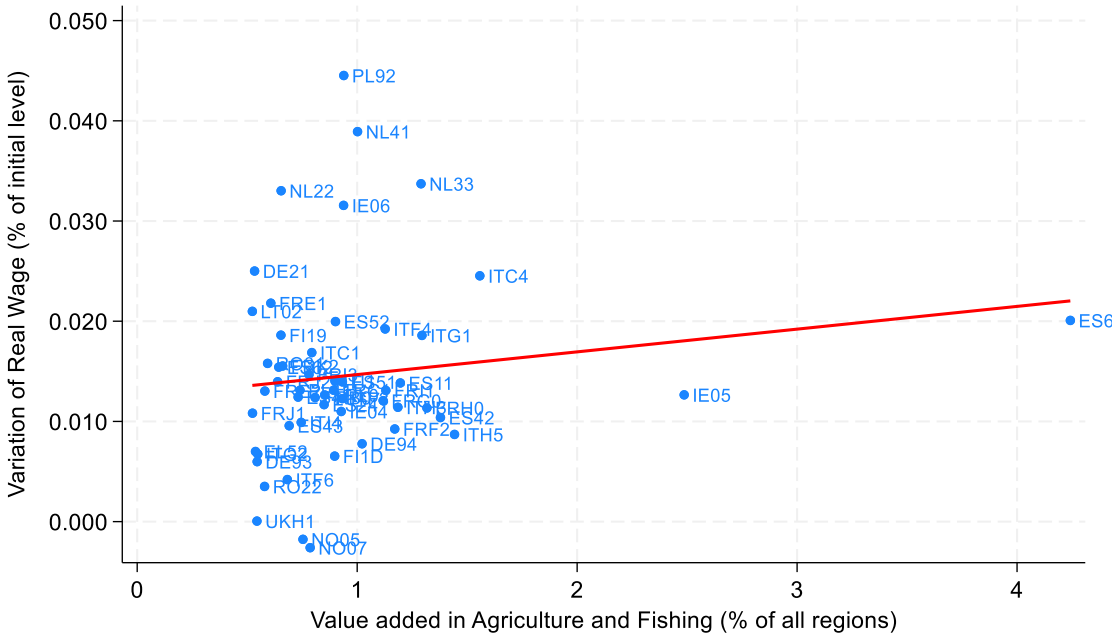
Source: Own elaboration using EUREGIO-2017

Two important sectors are salient in the analysis: agriculture and food products. We present a list of the regions with higher welfare gains in both sectors and a correlation between their weight in terms of value added and the increase in real wages.

The most important producers of Agriculture & Fishing are the following regions: Andalucía (ES61, Spain); Southern (IE05, Ireland); Lombardia (ITC4, Italy); Emilia-Romagna (ITH5, Italy); Castilla-la Mancha (ES42, Spain); Bretagne (FRH0, France); Sicilia (ITG1, Italy); Zuid-Holland (NL33, Netherlands); Galicia (ES11, Spain); Veneto (ITH3, Italy); Champagne-Ardenne (FRF2, France). As can be seen in **Fehler! Verweisquelle konnte nicht gefunden werden.**, the regions accounting for 50% of the European value added of Agriculture and Fishing are not especially hurt by the agreements. The losers are 2 regions from Norway : Nord-Norge (NO07, Norway); Vestlandet (NO05, Norway) and Sicilia (ITG1, Italy); Mazowiecki regionalny (PL92, Poland); Pohjois- ja Itä-Suomi (FI1D, Finland); Wielkopolskie (PL41, Poland); Länsi-Suomi (FI19, Finland); Sardegna (ITG2, Italy); Lüneburg (DE93, Germany); Kentriki Makedonia (EL52, Greece); Sachsen-Anhalt (DEE0, Germany).

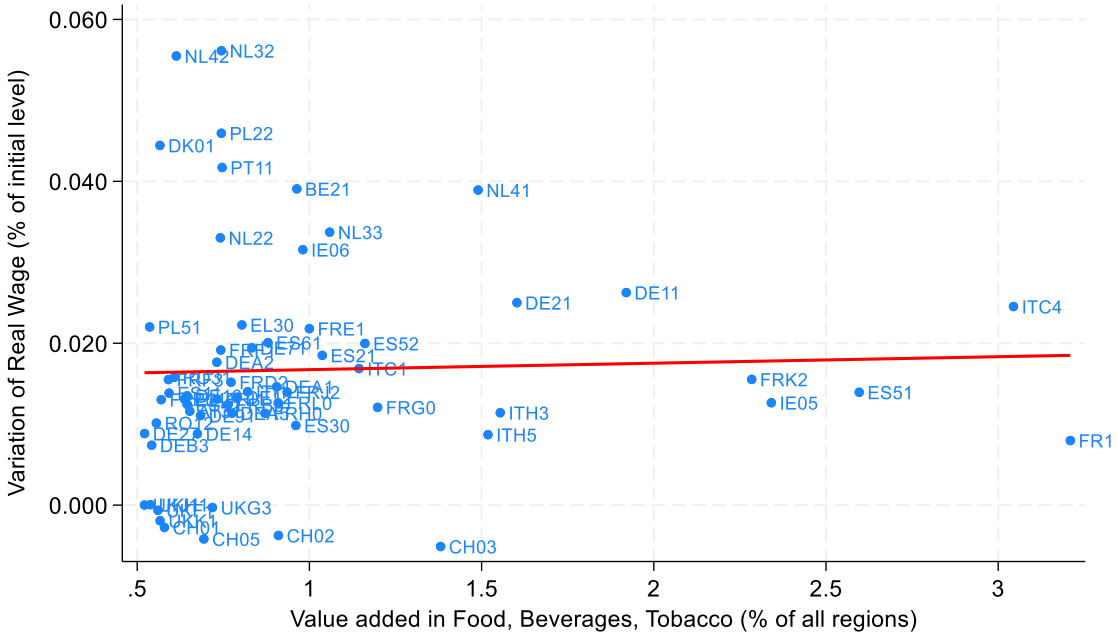
The most important producers of Food, Beverages, Tobacco are Île de France (FR10, France); Lombardia (ITC4, Italy); Cataluña (ES51, Spain); Southern (IE05, Ireland); Rhône-Alpes (FRK2, France); Stuttgart (DE11, Germany); Oberbayern (DE21, Germany); Veneto (ITH3, Italy); Emilia-Romagna (ITH5, Italy); Noord-Brabant (NL41, Netherlands); Nordwestschweiz (CH03, Switzerland) and Pays-de-la-Loire (FRG0, France). As can be seen in **Fehler! Verweisquelle konnte nicht gefunden werden.**, the regions accounting for 50% of the European value added of Food, Beverages, Tobacco are not especially hurt by the agreements. The losers are regions of Switzerland excluded from the agreement Nordwestschweiz (CH03, Switzerland); Espace Mittelland (CH02, Switzerland); Ostschweiz (CH05, Switzerland); Sud - Muntenia (RO31, Romania); Région lémanique (CH01, Switzerland); and 2 Italian regions: Veneto (ITH3, Italy); Emilia-Romagna (ITH5, Italy).

Figure 7. Correlation between Variation in real wage and share in value added of Agriculture and Fishing for the regions accounting for 50% of VA of this sector



Source: Own elaboration using EUREGIO-2017

Figure 8. Correlation between Variation in real wage and share in value added of Food, Beverages, Tobacco for the regions accounting for 50% of VA of this sector



Source: Own elaboration using EUREGIO-2017

5.3 Trade Impacts: Winners and Losers of the EU-Mercosur FTA

Table 8 shows that the EU-Mercosur agreement has had a modest positive impact on trade in the 296 European regions. On average, imports from all partners rise by 0.106 per cent of their pre-agreement level, while exports increase by 0.116 per cent. In other words, the free trade agreement (FTA) between the EU and Mercosur increases trade not only between the two signatories, but also overall, meaning that this trade creation is not compensated for by a significant change in trade with third-party EU partners.

Table 8: Impact of EU-Mercosur FTA on Europe's trade with all partners (% of initial level), mean by regions

		Min	Max	All
EFTA+UK	Imports from all partners	-0.012	0.012	-0.006
	Exports to all partners	0.001	0.009	0.003
EU	Imports from all partners	-0.126	0.137	0.132
	Exports to all partners	-0.023	0.146	0.143
EU+	Imports from all partners	-0.022	0.130	0.106
	Exports to all partners	-0.001	0.138	0.116

Source: Own elaboration using EUREGIO-2017

Breaking down the overall trade results by membership status reveals that growth in European trade is almost entirely driven by EU regions. Imports to the 239 EU regions increased by 0.132%, while exports increased by 0.143%, thanks to the direct tariff reductions they received and the cheaper inputs they could access from Mercosur. By contrast, the 57 regions of the United Kingdom and EFTA experienced minimal change: imports fell slightly by 0.006%, while exports increased marginally by 0.003%. This imbalance reflects the structure of the agreement: its preferential rules benefit EU producers and consumers, while non-EU regions experience modest losses in competitiveness on imports and face limited new demand for their exports.

A similar pattern emerges when regions are examined according to the level of economic gains. In the 249 regions where real wages increase — the areas with the highest overall gains — trade also grows significantly, with imports rising by 0.130% and exports by 0.138%. In the 47 regions where real wages stagnate or decline — those with minimal or no gains — imports contract slightly by 0.022%, while exports remain essentially unchanged at -0.001%.

Maps 2 and 3 illustrate the geographical spread of changes in exports and imports among all trading partners. Both maps reinforce the same conclusion: preferential trade liberalisation stimulates two-way trade, and the regions that experience the greatest increases in imports and exports also see the greatest welfare gains.

Map 2 illustrates the impact of the EU-Mercosur Free Trade Agreement (FTA) on regional exports. Regions expected to experience the strongest export growth are predominantly in Southern and Eastern Europe. Notably, regions in southern Greece, eastern Bulgaria and parts of Romania are expected to experience export growth of over +0.28%, with some areas exceeding +0.40%. These regions are likely to benefit from enhanced market access to Mercosur countries, particularly for sectors such as agriculture, food processing, and low- to medium-tech manufacturing where they may have a competitive advantage.

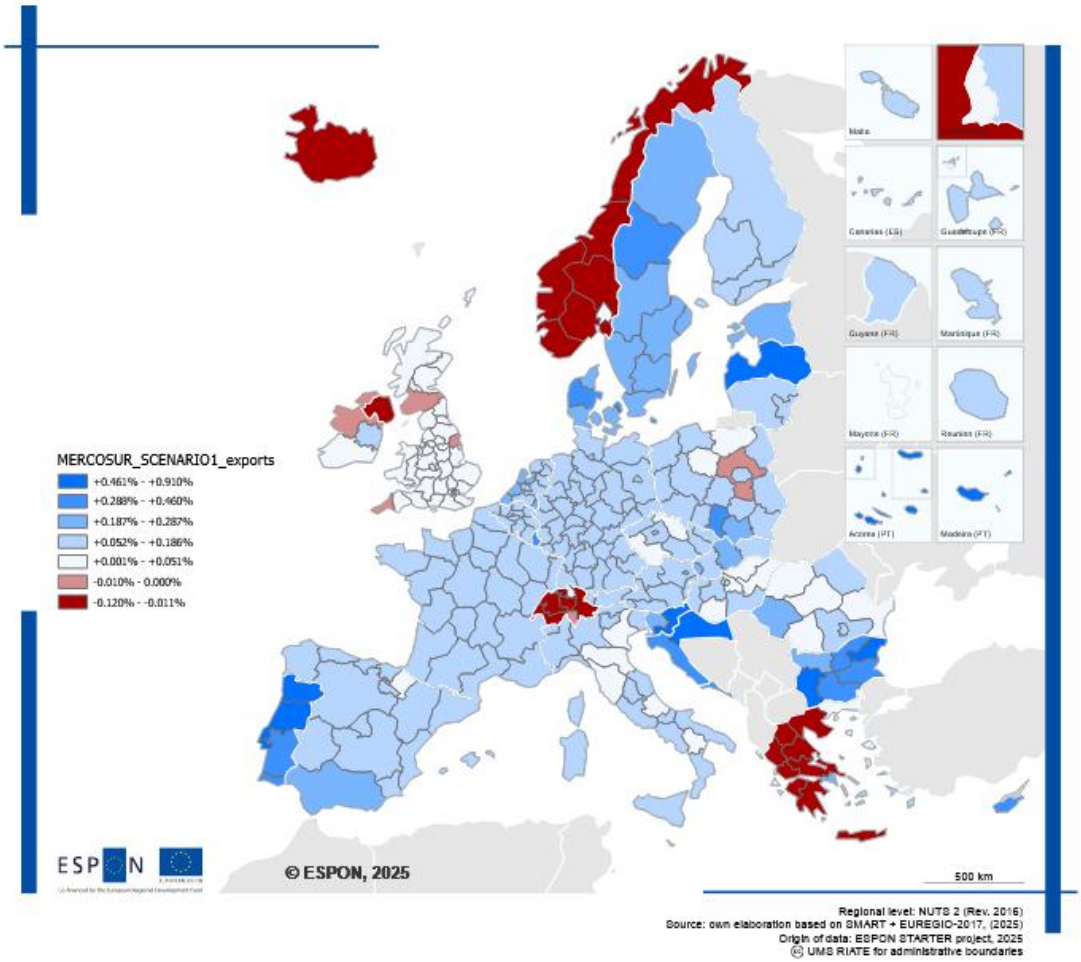
A broader set of regions across Western, Central and Northern Europe also register export gains, albeit to a lesser extent. Much of France, Germany, Spain, Italy and the Baltic States fall into the light-to-medium blue categories, corresponding to export increases of between 0.025% and 0.28%. This indicates a generally positive export effect across the EU, albeit with varying intensity. These gains may reflect improved supply chains and increased trade in intermediate and final goods, particularly in manufacturing hubs and regions linked to transport.

In contrast, several regions show negligible or no change in export volumes, depicted in white. These include parts of Central Europe, such as some Austrian and German regions, as well as areas in the Netherlands and the Czech Republic. Their limited response may be due to their already well-diversified trade profiles or minimal reliance on trade with Mercosur.

A smaller group of regions shows negative export effects, indicated by shades of red. Notably, northern regions of Sweden, Finland and Norway experience export declines, with losses reaching up to -0.12%. The United Kingdom, particularly Scotland and parts of Northern Ireland, also registers export losses. Additionally, Swiss and Alpine regions, as well as some French overseas territories, are similarly affected. These negative outcomes may be due to displacement by more competitive producers or shifts in demand patterns favouring other EU regions.

Overall, the Mercosur trade scenario is expected to have a positive impact on net exports for most EU regions, with the most significant gains projected in Southern and Eastern Europe. However, a few regions in Northern and North-Western Europe are expected to experience losses, highlighting the uneven geographical distribution of trade benefits and emphasising the importance of complementary regional development policies.

Map 2: Impact on regional exports of EU-Mercosur FTA (% of initial level)



Source: Own elaboration using EUREGIO-2017

Map 3 illustrates the impact of the EU-Mercosur Free Trade Agreement (FTA) on regional imports. Regions with the most significant increases in imports — particularly those above +0.25% and up to +1.10% — are scattered across parts of Finland, Romania, Bulgaria, southern Italy and eastern Greece. These regions, shown in dark blue, are likely to experience heightened competition from Mercosur imports, particularly in relation to selected agricultural and processed food products, and more generally in sectors in which Mercosur countries are globally competitive.

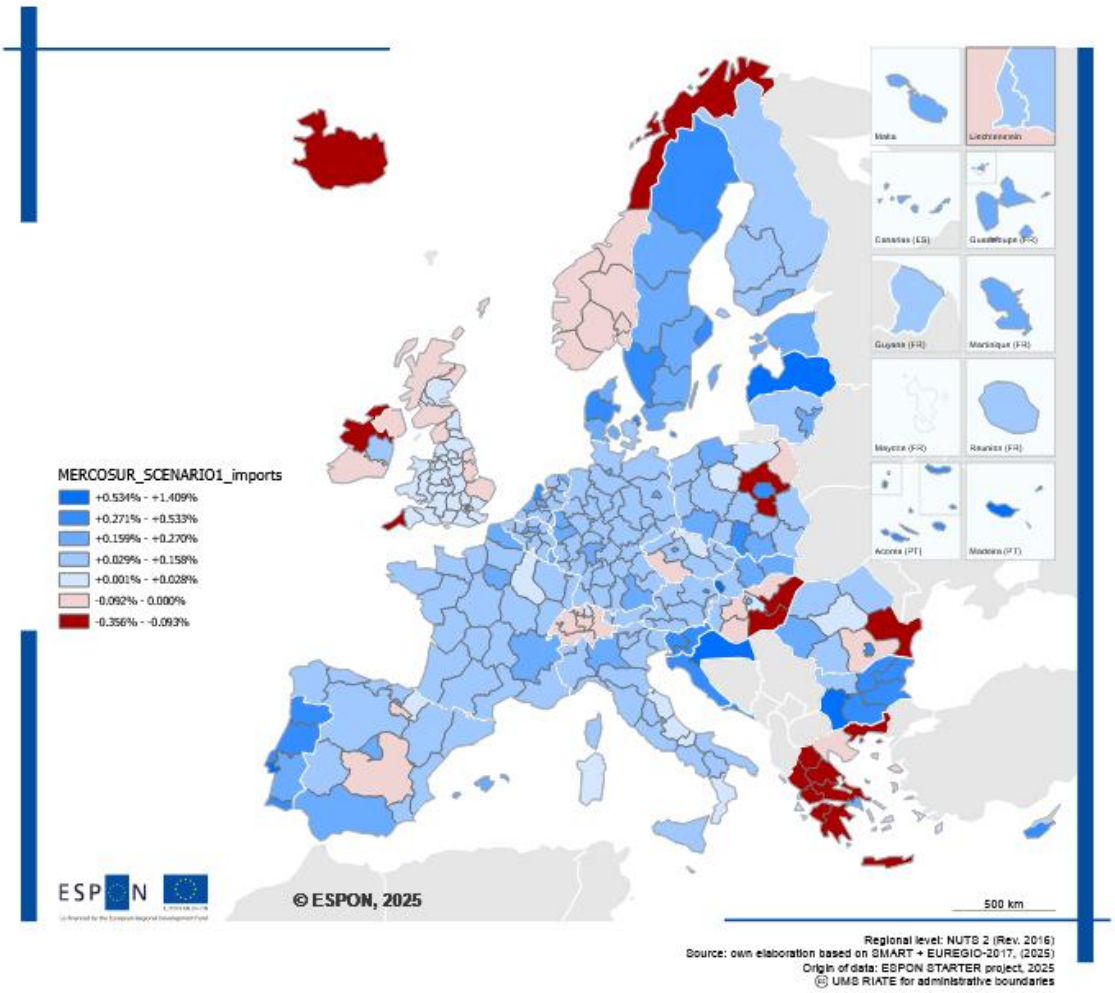
A large portion of the EU shows moderate import increases, indicated by light to medium blue shades. This includes much of France, Germany, Italy, Spain and Poland. These regions likely reflect general trade growth, with increased access to a wider range of Mercosur products, including agricultural goods, raw materials, and intermediate industrial inputs. The widespread light-blue colouring suggests that increased imports will be a common outcome across the EU, though not uniformly distributed.

Some regions show negligible or minimal change in import volumes and are mostly shaded in white or pale pink. These include areas in Central Europe (e.g. Austria and parts of southern Germany), as well as several outermost regions such as the Canary Islands and Guadeloupe. These areas may be less exposed to Mercosur trade, or they may have relatively insulated regional economies.

By contrast, a small but significant number of regions are projected to experience a decrease in imports, indicated by the red colouring. These are concentrated in Greece and parts of Bulgaria, Ireland, Poland and Slovakia. The declines may be due to reduced demand for certain imported goods, changes in production structures, or the effects of trade substitution favouring intra-European over extra-European sources. It is also possible that some of these areas could face localised economic disruption or deindustrialisation due to new competition.

In conclusion, the Mercosur trade scenario is expected to result in widespread increases in imports across Europe, particularly in the eastern and southern regions. However, the effects are not uniform: certain regions in Northern and Southeastern Europe are projected to reduce their import levels, possibly due to structural adjustments or competitiveness pressures. These trends highlight the dual nature of trade liberalisation: while it expands market access and product variety, it also reshapes regional trade balances and may expose local economies to greater foreign competition.

Map 3: Impact on regional imports of EU-Mercosur FTA (% of initial level)



Source: Own elaboration using EUREGIO-2017

6 (Geo)economic policy implications and recommendations

This section examines the strategic importance of the European Union's evolving trade policy in response to the rapidly changing geoeconomic landscape of the global economy. Amid growing uncertainty, geopolitical competition, and structural transformations such as the green and digital transitions, it argues that the EU must leverage its trade power, particularly through modern free trade agreements, to assert its influence, uphold multilateralism, and secure access to critical resources in line with the OSA strategy. Using the new EU–Mercosur FTA as an example, the section sets out nine key policy implications and recommendations. These highlight how such agreements can promote shared values, support sustainable development and deepen cooperation with key partners such as those in Latin America, while also acknowledging the need to mitigate uneven regional impacts within the EU.

I. The new geoeconomic landscape, which has undergone a dramatic transformation over the past five years, requires the major powers, including the European Union, to respond to an evolving context marked by uncertainty using all available instruments. The aim is to become an active player in shaping the new international economic and geopolitical reality rather than passively accepting decisions made by others. For the European Union, few instruments should enhance its capacity to act in this new scenario as much as its status as the world's leading trading power. The successful conclusion of new free trade agreements, regardless of the scale of the increased trade flows they generate, strengthens this source of European power in the emerging global geoeconomy.

II. Even for an economically and politically significant area such as the European Union (and more broadly, the EU+ space as defined in this report), an adequate response to the combination of short-term shocks and structural transformations experienced since the end of the previous decade cannot be conceived from a perspective that is disconnected from the rest of the world — or at least, those parts of it that share an approach to addressing such challenges that is aligned with Europe's. The mere enumeration of recent short-term shocks, such as the pandemic and Russia's invasion of Ukraine, and structural changes, including the reconfiguration of global value chains with a growing emphasis on security and geopolitics at the expense of efficiency, the rise of protectionism in all its forms, and the acceleration towards a new technological revolution, clearly demonstrates this. Furthermore, the need for international cooperation has already been emphasised by longer-term challenges such as demographic ageing, managing large-scale population movements, transitioning to environmentally sustainable economic growth and reviving productivity as a growth driver.

III. In this context, any new free trade agreement concluded by the EU, even one with a modest economic scope, can serve as a crucial signal of the EU's role in the following aspects of international relations, at least:

- Its status as an undeniably relevant pole in a multipolar world and its rejection of a bipolar order, as outlined in the well-known Thucydides Trap, which could result in an international scenario dominated by the current hegemon (the United States) and the power seeking to replace it (China).
- Consistent with the above, it demonstrates a clear and firm commitment to multilateralism as the cornerstone of international relations, incorporating the voices of emerging and developing countries alongside those of the major powers.
- Specifically in relation to international trade, this principle translates into defending the World Trade Organization (including the likely unavoidable reforms to its functioning) and its guiding principles as the backbone of global trade relations.
- In parallel, the establishment of these FTAs constitutes a response to the wave of protectionism initiated by other key actors (particularly the United States) within the global geoeconomic arena. This commitment to deepening trade relations with third countries could benefit the EU in absolute terms and in a differentiated way compared to previous FTAs, at least in the following dimensions:

- Access to critical inputs for the success of ongoing structural transformations, particularly the development of green and digital transitions, while reducing dependence on actors whose behaviour is antagonistic to European values (such as Russia), or who are prone to using their control over such inputs strategically and not necessarily in a friendly manner (such as China).
- The expansion of opportunities in markets where countries that do not share the EU's vision of balanced, multilateral international relations may lose ground easily.
- Aligning FTA signatories with the EU's preferred framework of rules and standards in key areas of international relations, including the green transition, artificial intelligence governance and migration management. Including chapters on these or similar topics within the FTAs themselves demonstrates the potential for collaboration with partner countries on matters beyond strictly commercial issues.

IV. Without disregarding other geographical areas, the EU must capitalize on its comparative advantage in Latin America (based not only on economic factors, but also on historical and cultural ties) to guide the region toward values, principles, and interests aligned with those of Europe. The Latin American and Caribbean region is home to over €660 mm. people and generates more than 7% of global GDP (in Purchasing Power Parity terms), amounting to nearly USD 7 trillion. In this third decade of the 21st century, the region stands out as one of the most open spaces for competition among major powers. However, the European approach is far more comprehensive and, as such, should be more attractive to countries in the region.

- Indeed, the traditional multidimensional presence of the United States has increasingly narrowed to an almost obsessive focus on migration, not always with due respect for the sovereignty of the countries of origin of the migrants.
- For its part, China's growing presence in Latin America has been based on access to the region's exceptional wealth in raw materials and, increasingly, on the absorption of manufactured exports that can no longer (nor wish to be) absorbed by developed countries. While the former dimension generates limited value added for Latin American countries, the latter is raising growing concern and even prompting protectionist reactions. Notably, for example, Brazil imposed significant tariffs in October 2024 on a wide range of imports from China, citing dumping practices (despite cordial political relations between the two governments).

V. In contrast, while the new EU-Mercosur Free Trade Agreement addresses the expected economic components of such agreements (trade, investment and access to public procurement), it also includes clauses that reflect a much broader vision of what the relationship between two major economic areas should entail, even though these clauses were difficult to negotiate and ultimately approve. Notably, the Agreement includes sections on labour rights, environmental protection, and progress in the recognition of standards and certifications that converge towards the rigorous standards characteristic of the EU. This could be considered a model for future EU FTAs.

VI. Although the agricultural sector is particularly vulnerable to trade liberalisation, especially when the free trade agreement (FTA) involves major players in the sector, as is the case with Mercosur, it is important to strengthen existing trade ties in the primary sector. This is because the elasticity of welfare with respect to trade expansion is highest in this sector.

VII. Inclusion of sections addressing access to strategic raw materials, particularly minerals (especially rare earth elements), in EU FTAs is increasingly important due to the critical role these materials play in the green and digital transitions, and the growing demand for them from other major powers. The sustainable, transparent and predictable extraction and trade of these materials, in line with the EU's Critical Raw Materials Act, should be the guiding principle of new FTAs — an approach reasonably met in the Mercosur FTA.

VIII. In order to improve access to strategic raw materials, the EU could collaborate with its partners to develop parts of the value chain in those countries, beyond mere extraction. This would give the EU an advantage

over countries whose interest is limited to purchasing raw materials without processing them at source. Furthermore, such collaboration could prevent radical export bans on critical raw materials from being imposed again, forcing their full processing in the producing country (for example, the case of nickel in Indonesia).

IX. The estimated welfare effects of the FTA with Mercosur are positive, albeit modest. From a geographical perspective, the vast majority of EU regions will benefit from the agreement, albeit only slightly. However, a small number of regions may still be negatively affected. As the net effects of this FTA are unambiguously positive and the EU has the means to compensate those who initially lose out, it is well placed to do so.

Accordingly, and with the aim of preventing the emergence of such disadvantaged regions/areas, it would be appropriate to:

- Increase the funds allocated to the European Globalisation Adjustment Fund (EGF), which aims to compensate workers and self-employed individuals who lose their jobs due to processes linked to digitalisation, the Coronavirus pandemic or the transition to a green economy, by supporting their reintegration into the labour market. The fund targets SMEs concentrated in a single region or a sector spanning several adjacent regions. The increase in EGF funding would explicitly strengthen the employability of workers in regions that are adversely affected by the EU's new FTAs.

- Attempt to correct the traits identified as making it more likely for a region to be adversely affected by the new FTAs. According to the present analysis, there is a relatively strong correlation between the degree of improvement (or deterioration) in regional welfare resulting from the FTA with Mercosur and the higher (or lower) external openness coefficient of each region. Therefore, either through the EGF or a separate fund, the EU could offset the geographical imbalances caused by this agreement by co-financing national or regional programmes that promote the internationalisation of SMEs in regions whose welfare is negatively impacted by the agreement.

7 Conclusions

This policy report provides a detailed analysis of the EU–Mercosur trade agreement, combining qualitative insights and quantitative modelling to evaluate its anticipated effects on European regions.

First, we conduct an in-depth analysis of the trade agreement between the EU and Mercosur, as signed in December 2024. The trade chapter covers trade in goods and services, as well as other areas such as public procurement, geographical indications, and various aspects of sustainable development. The agreement reinforces multilateral rules by referring to international agreements in various areas, such as the Paris Agreement, the UNFCCC Agreement, and ILO agreements concerning labour conditions, as well as different WTO agreements.

Secondly, we outline the key features of European regions' trade with Mercosur. Trade volumes are concentrated in specific sectors and regions, suggesting the possibility of asymmetric gains from trade.

Thirdly, we use a GE PPML methodology to assess the impact of the trade agreement between the EU and Mercosur. We find that, in terms of welfare measured by changes in real wages, the gains from trade are modest but positive in almost all regions, underscoring the agreement's potential to expand market access and foster economic integration. Clearly, the agreement favours EU regions more than Mercosur regions, while its effects outside the EU appear negligible or slightly adverse. According to the projections, the agreement yields a robust expansion of 24.24 per cent on the import side and 20.24 per cent on the export side. This confirms that the EU–Mercosur FTA is expected to increase the overall volume of two-way commerce, while reducing the EU's trade surplus slightly. In contrast, non-EU regions are projected to reduce their imports from Mercosur by 5.15% and their exports by 3.42%.

In general, higher levels of engagement in exports to and imports from Mercosur are welfare-enhancing. Real wage gains primarily accrue to regions that become more outward-oriented overall, not just towards Mercosur.

While our model cannot predict trade flows for specific goods, our quantitative analysis provides an indication of how trade flows evolve by sector.

The main findings of the report are:

- On the import side, Mercosur has a strong mining and quarrying sector, and the agreement will increase their exports of these products by 34%, equating to an additional €5 billion. The agreement will play a key role in ensuring the supply of critical raw materials, as Mercosur countries are significant producers of many of them. In particular, the agreement secures the flow of critical raw materials for the global green and digital transitions by reducing or eliminating export taxes, except for critical minerals exported by Brazil. Brazil has retained the right to impose export duties to scale up critical minerals value chains, with a maximum ceiling of 25%, and will grant the EU at least 50% preferences.
- • Part of the reticence surrounding the agreement stems from European farmers, who are concerned about the increased import of agricultural and food products from Mercosur, and sceptical about phytosanitary standards being respected. Our model predicts significant increases in imports of agriculture and fishing products (€7 billion, i.e. a 27% increase) and food, beverages and tobacco products (€16 billion, i.e. a 16% increase). However, our model shows that regions that produce these goods will also benefit from the agreement. In response to demands from farmers, a bilateral safeguard clause has been introduced that can be applied if increased imports from Mercosur 'cause serious injury to the relevant EU sectors'. Although Mercosur's exports of raw material-intensive products will remain significant, the bloc will also increase its exports of other manufactured goods by 40% (€21 billion) and services by 45% (€31 billion), achieving some diversification.
- For European regions, the majority of the benefits in terms of producer surplus come from manufactured products (other than food) and services, increasing by 26% (€29 billion) and 25% (€46 billion), respectively.

In conclusion, we acknowledge that this policy report has focused primarily on the potential trade benefits of the EU–Mercosur FTA. However, it is important to emphasise that the agreement's scope extends well beyond trade. The agreement includes provisions covering a wide range of areas, including environmental protection, labour standards, sustainable development, digital trade and intellectual property rights. These non-trade dimensions are becoming increasingly important in modern trade agreements and reflect the EU's commitment to promoting values-based partnerships. Therefore, a comprehensive assessment of the FTA must also consider these broader socio-

economic and regulatory implications, as they can significantly impact long-term cooperation and development between Mercosur and the EU.

Understanding the broader implications of the agreement is particularly relevant in the context of European regions, many of which are directly or indirectly affected by EU external trade policies. While some regions are clearly positioned to benefit from increased market access and sectoral integration, others have less exposure to trade with Mercosur and may therefore stand to gain more from the FTA's non-trade provisions. Incorporating a regional perspective into policy analysis can help ensure that the diverse needs and opportunities across European territories are recognised and supported through targeted measures and complementary policies.

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Appendix

7.1 Trade between European countries and Mercosur

In this appendix we provide statistical information about trade between EU+ countries and Mercosur using the EUREGIO-2017 for year 2017 and OECD BITMS and BaTIS databases for year 2023.

Table 9: Main trade variables by country

Country	Exports (€ mm.)	Export Share %	Imports (€ mm.)	Import Share %	Total Trade (€ mm.)	Trade Share %	Trade Balance (€ mm.)
Austria	1.822	2.1	1.128	1.4	2.950	1.8	694
Belgium	2.762	3.2	3.234	4.1	5.996	3.7	-472
Bulgaria	2.215	2.6	562	0.7	2.777	1.7	1.654
Switzerland	6.291	7.4	3.486	4.5	9.778	6.0	2.805
Czechia	129	0.2	46	0.1	175	0.1	83
Czechia	758	0.9	798	1.0	1.556	1.0	-41
Germany	15.339	18.0	11.198	14.3	26.537	16.2	4.141
Denmark	3.257	3.8	3.167	4.0	6.424	3.9	90
Spain	3.993	4.7	5.164	6.6	9.158	5.6	-1.171
Estonia	109	0.1	35	0.0	145	0.1	74
Finland	988	1.2	470	0.6	1.459	0.9	518
France	7.779	9.1	8.809	11.3	16.588	10.1	-1.030
United Kingdom	5.564	6.5	5.240	6.7	10.804	6.6	324
Greece	671	0.8	1.108	1.4	1.778	1.1	-437
Croatia	1.172	1.4	566	0.7	1.738	1.1	606
Hungary	1.324	1.6	444	0.6	1.768	1.1	881
Iceland	2.245	2.6	629	0.8	2.874	1.8	1.616
Ireland	90	0.1	15	0.0	105	0.1	75
Italy	6.551	7.7	14.506	18.5	21.057	12.9	-7.956
Liechtenstein	59	0.1	17	0.0	76	0.0	42
Lithuania	331	0.4	89	0.1	420	0.3	242
Luxembourg	789	0.9	453	0.6	1.242	0.8	336
Latvia	385	0.5	223	0.3	608	0.4	162
Malta	111	0.1	86	0.1	196	0.1	25
Netherlands	5.187	6.1	7.580	9.7	12.767	7.8	-2.393
Norway	1.380	1.6	2.532	3.2	3.912	2.4	-1.152
Poland	5.901	6.9	2.043	2.6	7.944	4.9	3.858
Portugal	1.795	2.1	2.173	2.8	3.968	2.4	-378
Romania	1.074	1.3	1.345	1.7	2.419	1.5	-271
Slovakia	988	1.2	110	0.1	1.098	0.7	879
Slovenia	822	1.0	363	0.5	1.185	0.7	460
Sweden	3.415	4.0	661	0.8	4.077	2.5	2.754
Total	85.296	100.2	78.280	99.8	163.579	100.3	7.018

Source: Own elaboration using EUREGIO-2017

Table 10: Europe's trade flows with Mercosur by aggregated sectors

Sector	Exports (€ mm.)	Export (% of all sectors)	Imports (€ mm.)	Import (% of all sectors)	Total Trade (€ mm.)	Trade (% of all sectors)	Trade Balance (€ mm.)
Agriculture & Fishing	106.0	0.1	7.334	9.4	7.44	4.5	-7.227
Mining & Quarrying	139.0	0.2	4.55	5.8	4.69	2.9	-4.411
Food, Beverages, Tobacco	530.0	0.6	29.089	37.2	29.619	18.1	-28.559
Manufacturing (excl. Food)	31.383	36.8	14.8	18.9	46.183	28.2	16.583
Services	53.139	62.3	22.507	28.8	75.646	46.2	30.632
Total	85.298	100.0	78.28	100.0	163.577	100.0	7.018

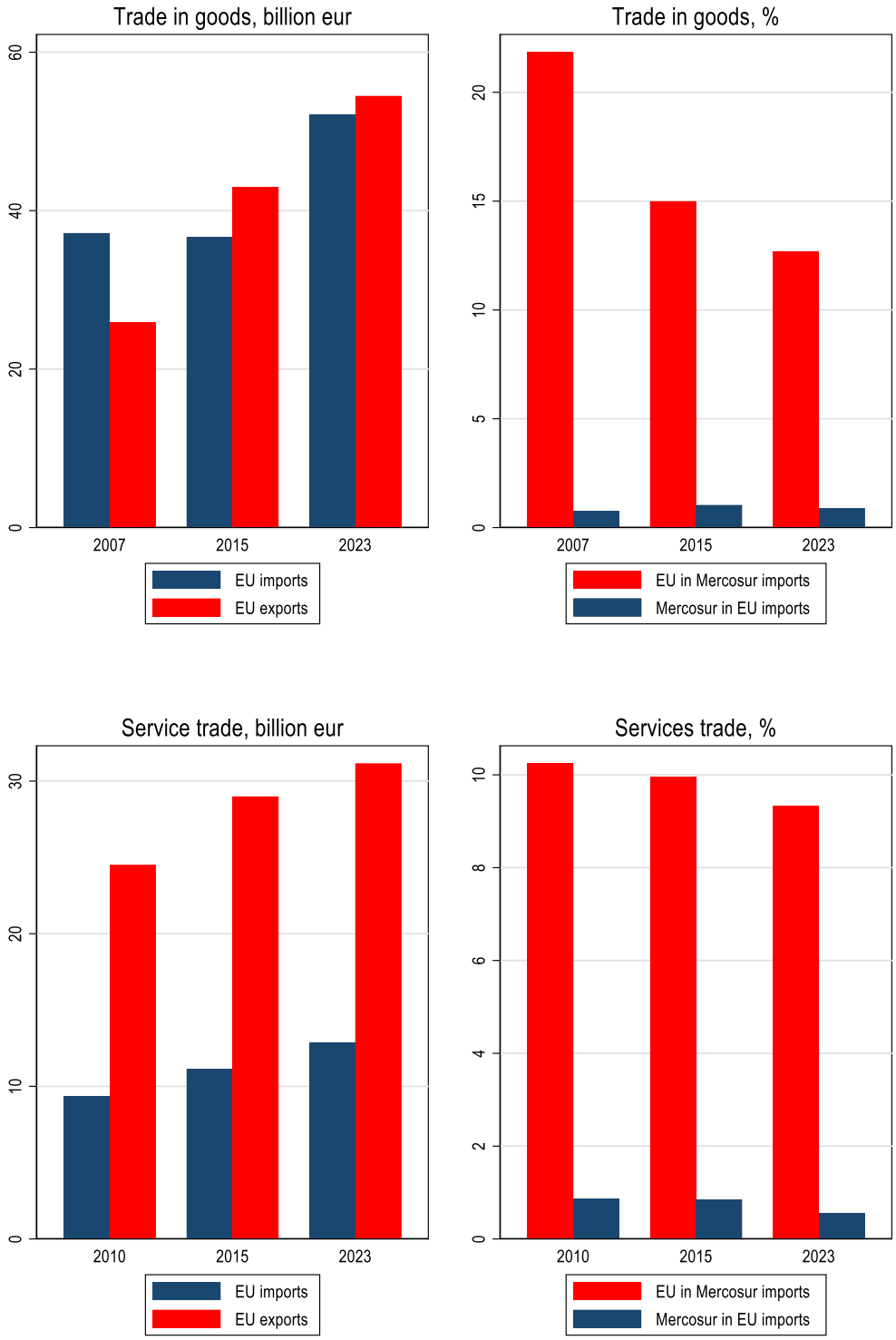
Source: Own elaboration using EUREGIO-2017

Table 11: Europe's trade flows with Mercosur by detailed sectors

Sectors	Exports (€ mm.)	Export (% of all sectors)	Imports (€ mm.)	Import (% of all sectors)	Total Trade (€ mm.)	Trade (% of all sectors)	Trade Balance (€ mm.)
Agriculture & Fishing	106	0.1	7,334	9.4	7,440	4.5	-7,227
Mining & Quarrying	139	0.2	4,550	5.8	4,690	2.9	-4,411
Food, Beverages, Tobacco	530	0.6	29,089	37.2	29,619	18.1	-28,559
Textiles & Apparel	573	0.7	301	0.4	874	0.5	272
Wood, Paper, Printing	785	0.9	1,520	1.9	2,305	1.4	-735
Petroleum Products	914	1.1	1,015	1.3	1,929	1.2	-101
Chemicals & Pharma	9,089	10.7	5,833	7.5	14,922	9.1	3,255
Plastics & Non-metallics	1,428	1.7	896	1.1	2,324	1.4	532
Metals & Metal Products	2,788	3.3	3,673	4.7	6,461	3.9	-885
Electronics & Optics	1,475	1.7	84	0.1	1,559	1.0	1,391
Electrical Equipment	1,681	2.0	76	0.1	1,757	1.1	1,605
Machinery & Equipment	7,946	9.3	214	0.3	8,161	5.0	7,732
Motor & Transport Equip.	3,790	4.4	939	1.2	4,729	2.9	2,851
Furniture & Repairs	913	1.1	248	0.3	1,162	0.7	665
Utilities & Waste	1,010	1.2	25	0.0	1,035	0.6	985
Construction	512	0.6	160	0.2	672	0.4	352
Trade & Vehicle Repair	20,848	24.4	2,174	2.8	23,022	14.1	18,674
Transport & Storage	11,054	13.0	9,381	12.0	20,435	12.5	1,673
Hotels & Restaurants	761	0.9	1,089	1.4	1,850	1.1	-328
Publishing & Media	514	0.6	196	0.3	711	0.4	318
Telecommunications	216	0.3	279	0.4	495	0.3	-63
IT & Info Services	4,036	4.7	440	0.6	4,476	2.7	3,597
Finance & Insurance	4,890	5.7	427	0.5	5,317	3.3	4,463
Real Estate	878	1.0	464	0.6	1,342	0.8	413
Prof. & Admin Services	6,495	7.6	7,597	9.7	14,092	8.6	-1,102
Public Administration	757	0.9	41	0.1	798	0.5	716
Education	440	0.5	17	0.0	457	0.3	422
Health & Social Work	132	0.2	5	0.0	137	0.1	127
Arts & Other Services	596	0.7	212	0.3	807	0.5	384
Households & Intl. Orgs	0	0.0	0	0.0	0	0.0	0
Total	85,298	100.0	78,280	100.0	163,577	100.0	7,018

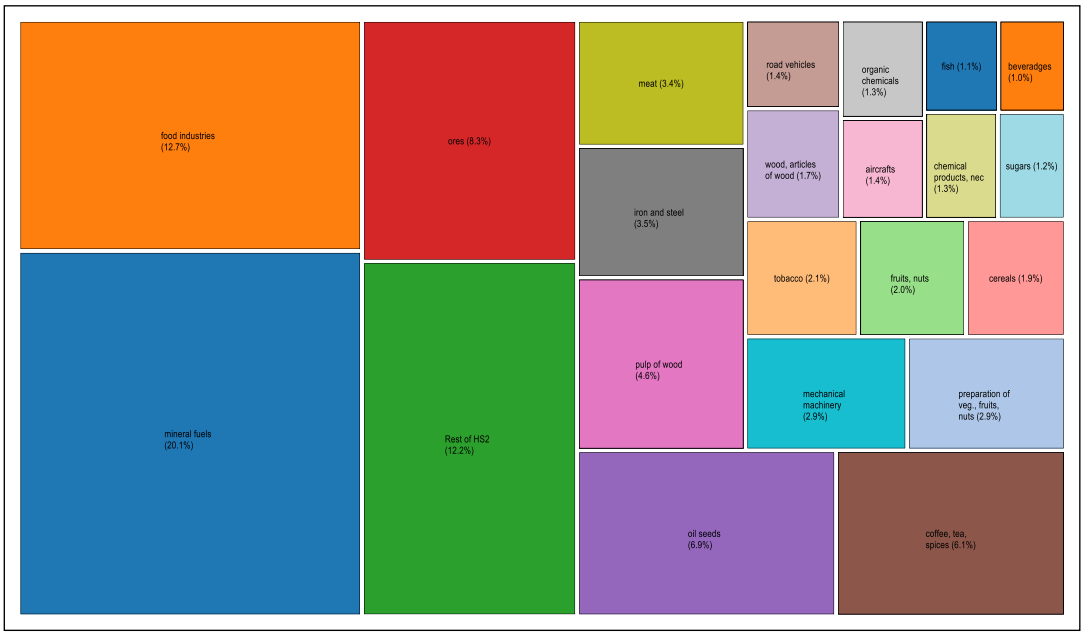
Source: Own elaboration using EUREGIO-2017

Figure A 1 Evolution of trade of goods & services between EU and Mercosur



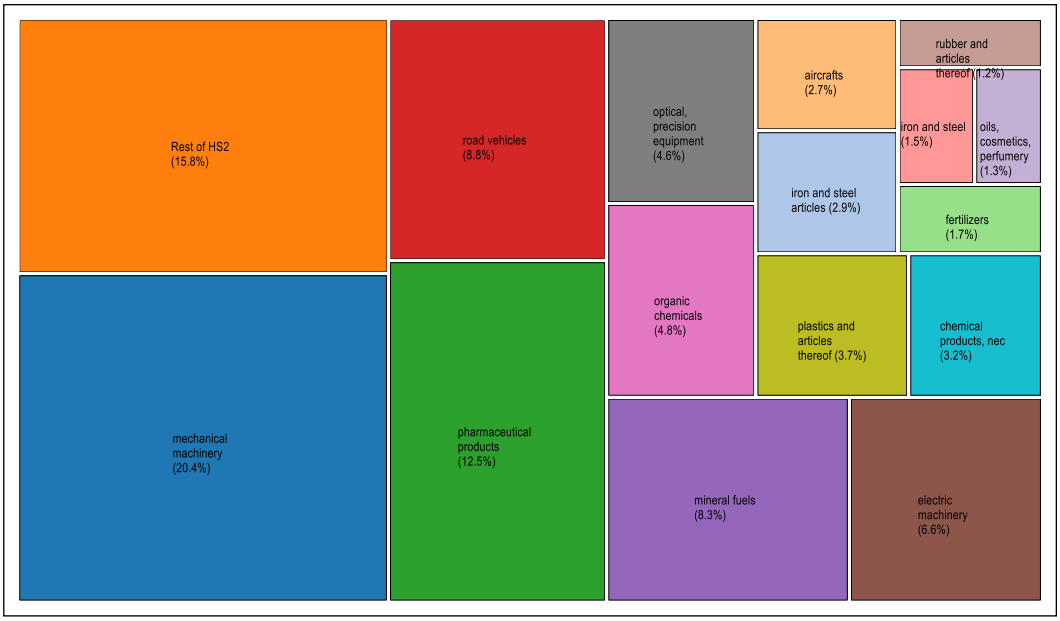
Source: Own elaboration using EUREGIO-2017

Figure A 2 Main exported products (HS2 digits) by Mercosur to EU, 2023



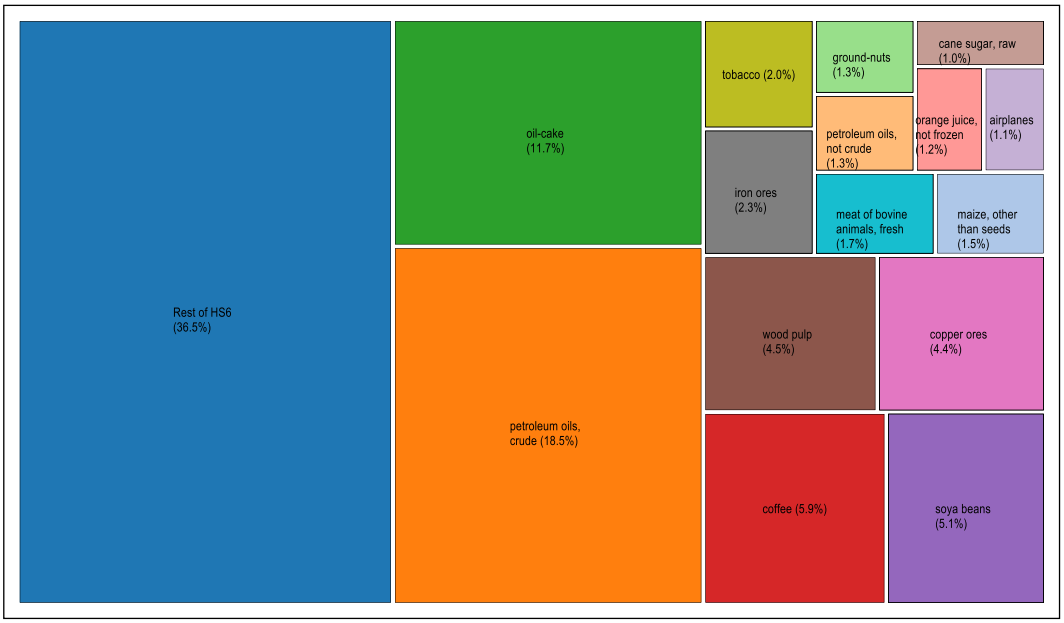
Source: Own elaboration using EUREGIO-2017

Figure A 3 Main exported products (HS2 digits) by EU to Mercosur, 2023



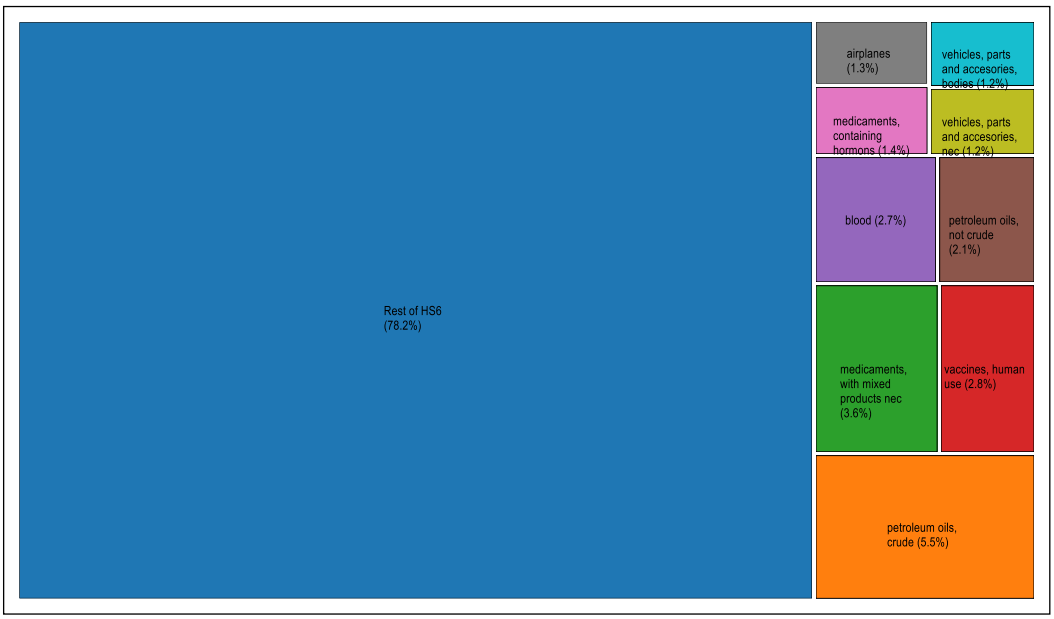
Source: Own elaboration using EUREGIO-2017

Figure A 4: Main exported products (HS6 digits) by Mercosur to EU, 2023



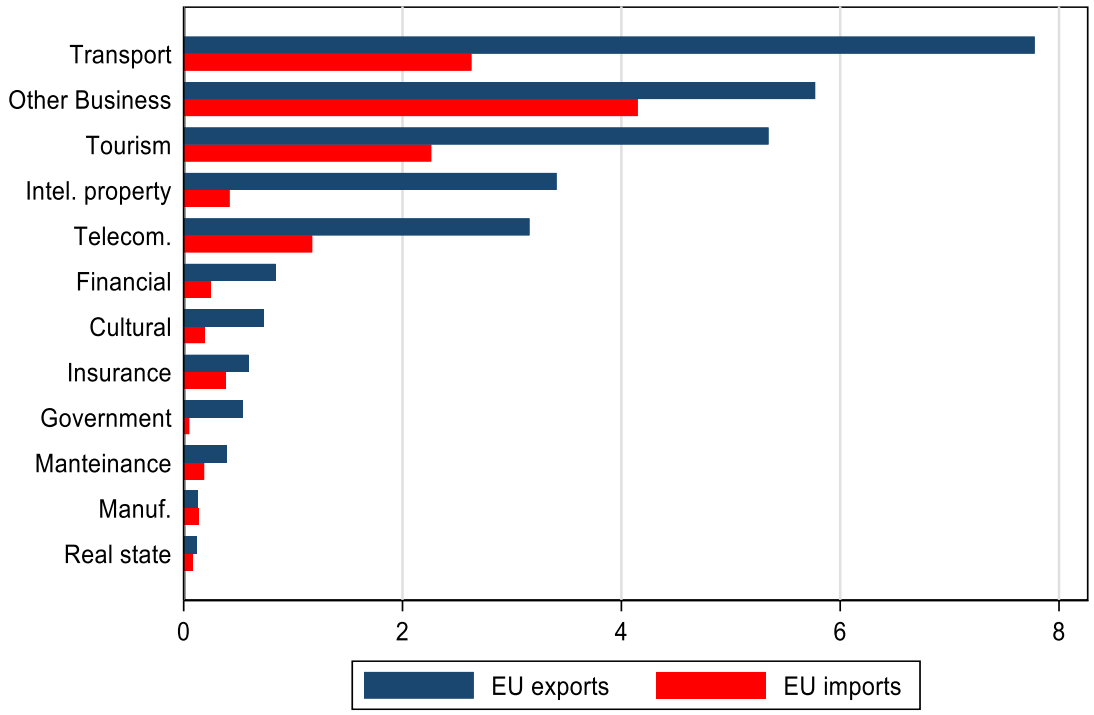
Source: Own elaboration using EUREGIO-2017

Figure A 5: Main exported products (HS6 digits) by EU 27 to Mercosur, 2023



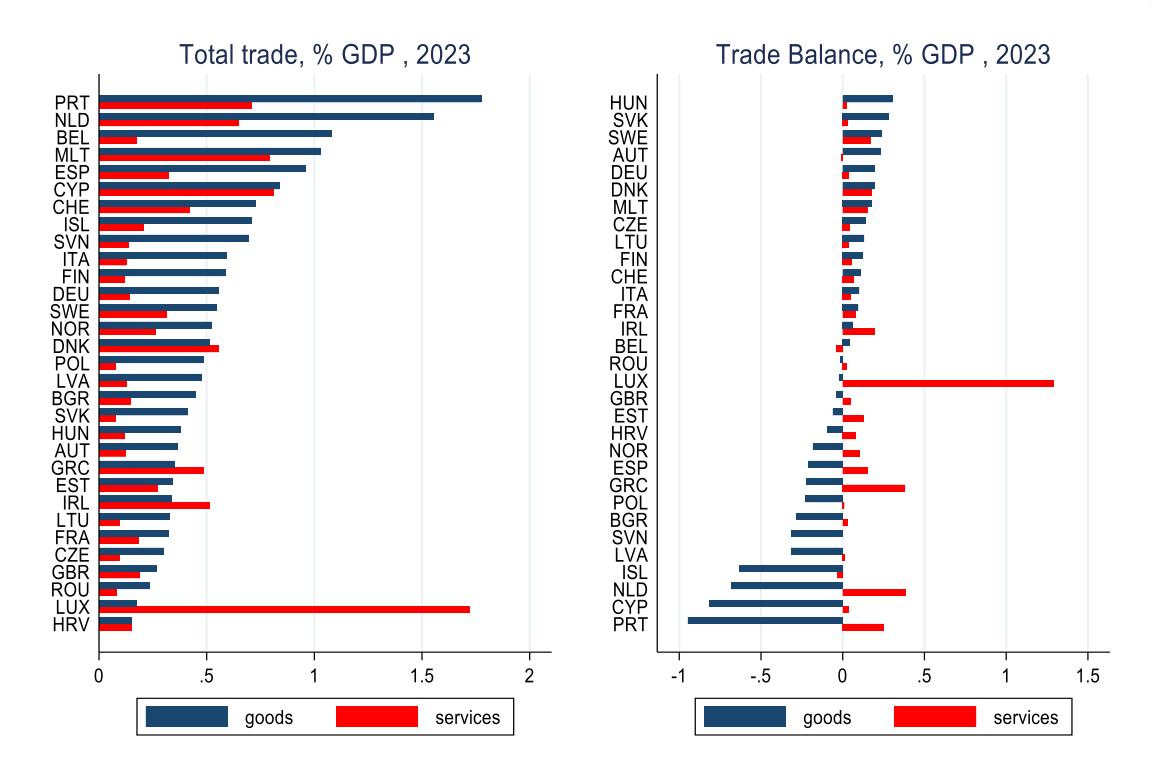
Source: Own elaboration using EUREGIO-2017

Figure A 6: Trade in services by subsector of EU and Mercosur, €bn., 2023



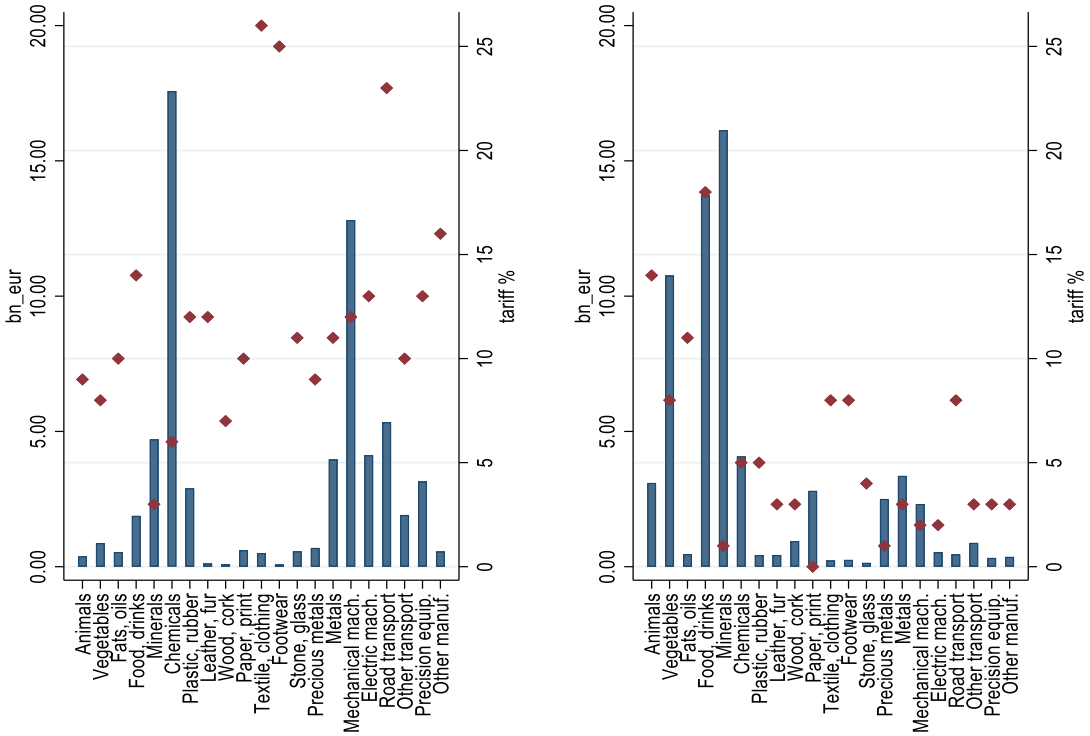
Source: Own elaboration using EUREGIO-2017

Figure A 7: Total trade and trade balance (% of GDP) with Mercosur, by EU+ country



Source: Own elaboration using EUREGIO-2017

Figure A 8: Bilateral trade flows and tariffs between EU and Mercosur, 2023



Source: Own elaboration using EUREGIO-2017

Table 12: Top trade surpluses and deficits by regions in Europe-Mercosur trade

NUTS2 CODE	Region name	Country	Trade balance (€ mm.)
IE06	Eastern and Midland	Ireland	1,057.38
PL91	Warszawski stoleczny	Poland	996.65
CH04	Zürich	Switzerland	788.56
CH02	Espace Mittelland	Switzerland	727.60
SE23	Västsverige	Sweden	675.31
FR10	Île de France	France	611.12
PL92	Mazowiecki regionalny	Poland	590.07
BG41	Yugozapaden	Bulgaria	542.21
PL22	Slaskie	Poland	506.58
IE05	Southern	Ireland	467.81
DK01	Hovedstaden	Denmark	-507.37
ITH3	Veneto	Italy	-570.14
ES61	Andalucía	Spain	-656.89
ITF3	Campania	Italy	-680.78
ITC1	Piemonte	Italy	-927.23
BE21	Prov Antwerpen	Belgium	-978.20
NL32	Noord-Holland	Netherlands	-1,143.15
ITF4	Puglia	Italy	-1,309.18
ITC4	Lombardia	Italy	-1,427.26
ITG1	Sicilia	Italy	-1,468.53

Source: Own elaboration using EUREGIO-2017

7.2 Methodological appendix

Table 13: Provisions considered in building the "EU-Mercosur like" group of agreements

Provisions	Horizontal DB code	Short description
Tariffs (industrial)	wto_plus_ftaindustrial	Tariff liberalization in industrial goods
Tariffs (agriculture)	wto_plus_ftaagriculture	Tariff liberalization in agricultural good
Customs	wto_plus_customs	Information and trade facilitation
Export Taxes	wto_plus_exporttaxes	Elimination or reduction of export duties and other taxes
SPS	wto_plus_sps	Sanitary and Phytosanitary Standards; measures for harmonization
TBT	wto_plus_tbt	Technical Barriers to Trade; measures for harmonization or mutual recognition
Rules on SOEs	wto_plus_ste	Rules on state enterprises, GATT Art. XVII
Public procurement	wto_plus_public procurement	Public Procurement; progressive liberalization, national treatment/nondiscrimination
Trade in services	wto_plus_gats	Liberalization trade in services
IPRs	wto_plus_trips	WTO rules on intellectual property rights
Competition Policy	wto_x_competition policy	Chapter on competition policy
Labour	wto_x_labourmarketregulation	Labor provisions, including ILO standards, other regulations concerning national labor market; enforcement mechanisms
Environment	wto_x_environmentallaws	Environmental provisions including environmental standards and enforcement mechanism

Source: Own elaboration using EUREGIO-2017 Timini and Viani (2022) using Horizontal Depth database. Notes: In the "partial equilibrium" gravity equation, we have included a dummy variable equal to one for each of the provisions included in the "partial equilibrium" gravity equation. Notice that we do not impose any restriction on the rest of wto-plus provisions and wto-extra provisions included in the Horizontal Depth database.

Table 14: Trade agreements like "EU-MERCOSUR"

Name	Year
EEC/EU enlargements	2007, 2013
NAFTA	1994
USMCA	2020
US-Australia	2005
EU-Korea	2011
US-Chile	2004
US-Peru	2009
US-Colombia	2012
Korea-US	2012
Korea-Central America	2019
EU-Central America	2013
EU-Colombia, Ecuador and Peru	2013
EFTA-Central America	2014
Korea-Australia	2014
Canada-Korea	2015
EFTA-Phillipines	2018
EU-Japan	2019
EU-Singapore	2019
Peru-Australia	2020
EU-United Kingdom	2021
CPTPP	2018

Note: See the main text for a definition of "EU-Mercosur like" agreements.

Table 15: Correspondence between EUREGIO sectors and ITPD-E V3

Code	EUREGIO-2017	ITPD-E v3
1	Agriculture	01-26
2	Mining	27-31
3	Food, drink, tobacco	34-51
4	Textile, clothing, footwear	52-62
5	Wood, paper, printing	63-77
6	Petroleum	78-80
7	Chemical	81-89
8	Non minerals, plastic, rubber	90-100
9	Metal products	101-108
10	Computers, electronics, optics	124, 131-137
11	Electrical equipment	125-130
12	Mechanical, other machinery	109-123
13	Transport equipment	138-147
14	Other manufacturing	148-154
15	Utilities	32-33
16	Construction	158
17	Services	154-170

Source: Own elaboration using EUREGIO-2017

7.2.1 The structural gravity system of equations

We propose the use of a multiple sectors and one factor of production (labor) constant elasticity of substitution (CES) general equilibrium structural gravity system of equations, as proposed by Head and Mayer (2014) and Yotov et al. (2016) to calculate the impact of a new regional trade agreement (RTA) on trade and welfare. This is a standard approach in the empirical literature, providing "benchmark trade and welfare estimates" of trade policy changes (Felbermayr et al., 2024).[4] The system of equations can be written as:

$$X_{jit}^k = \frac{Y_{jt}^k E_{it}^k}{Y_t^k}\left(\frac{\tau_{jit}^k}{\Pi_{jt}^k P_{it}^k}\right)^{1-\sigma_k} \quad (1)$$

$$P_{it}^{1-\sigma_k} = \sum_{i=1}^{N}\left(\frac{\tau_{jit}^k}{\Pi_{jt}^k}\right)^{1-\sigma_k}\frac{Y_{jt}^k}{Y_t^k} \quad (2)$$

$$\Pi_{jt}^{1-\sigma_k} = \sum_{i=1}^{N}\left(\frac{\tau_{jit}^k}{P_{it}^k}\right)^{1-\sigma_k}\frac{E_{it}^k}{Y_t^k} \quad (3)$$

$$Y_{jt}^k = \sum_{i=1}^{N} X_{jit}^k \quad (4)$$

$$E_{jt}^k = \phi_j^k Y_{jt}^k = \phi_j^k p_j^k Q_j^k \quad (5)$$

where X_{jit}^k corresponds to bilateral trade flows between the exporter j and the importer i at time t in sector k, including domestic trade flows (i = j). Equation (1), the so-called "structural gravity equation", associates bilateral trade flows (X_{jit}^k) to exporter's and importer's (relative) economic mass $\frac{Y_{jt}^k E_{it}^k}{Y_t^k}$ and trade costs $\left(\frac{\tau_{jit}^k}{\Pi_{jt}^k P_{it}^k}\right)^{1-\sigma_k}$.[5] The latter term is in turn composed by bilateral trade costs (τ_{jit}^k), and the so-called "multilateral trade resistances" (MTRs). $P_{it}^{1-\sigma_k}$ and $\Pi_{jt}^{1-\sigma_k}$, as per equation (2) and (3), capture exporter's international market access and importer's domestic competition, respectively when estimating equation (1) with the PPML, or Poisson Pseudo Maximum Likelihood, estimator (Fally, 2015).

To obtain a "general equilibrium", it is necessary to impose a clear market condition. Equation (4) says that exporter´s supply of product k traded in the market are equal to the total demand of product k in the world. This market clearing condition allows for general equilibrium responses to a change in bilateral trade costs to take place, e.g. the impact of the entry of a RTA. If we use the demand function for product k that exporter j sells to importer I, X_{jit}^k, obtained from a standard CES, or Constant Elasticity of Substitution, utility function, we obtain:

$$Y_{jt}^k = \sum_{i=1}^{N}\left(\frac{\tau_{ji}^k p_j^k}{\mathrm{P}_i}\right)^{1-\sigma_k} E_{it}^k = {p_j^k}^{1-\sigma_k}\sum_{i=1}^{N}\left(\frac{\tau_{ji}}{\mathrm{P}_i}\right)^{1-\sigma_k} E_{it}^k \quad (6)$$

where p_j^k is the factory-gate price of products in sector k for exporter j and $\tau_{ji}^k p_j^k$ is the price of product k charged by exporter j in destination i. Dividing both sides by the world output and using the exporter´s MTR expression (equation 2), we rewrite the market clear condition as:

$$p_j^k = \left(\frac{Y_j^k}{Y^k}\right)^{1/1-\sigma_k}\frac{1}{\Pi_j^k} \quad (7)$$

Finally, going back to the system of equation, equation (5) ensures that aggregate income is equal to aggregate expenditure. ϕ_j^k is an exogenous parameter that measures any trade imbalance or discrepancy between domestic expenditure and domestic production. If $\phi_j^k = 1$, trade is perfectly balanced; if $0 < \phi_j^k < 1$ exporter j faces trade surplus; if, $\phi_j^k > 1$, exporter j faces trade deficit. Additionally, nominal production is calculated as the product of the quantity produced (Q_j^k) and its price (proxied by the factory-gate price, p_j^k). In this framework, Q_j^k is assumed to be an endowment and thus constant, and therefore nominal production and expenditure change as a consequence of changes in prices p_j^k.

[4] The main limitations are the lack of input-output linkages, asset accumulation and income distribution effects. In exchange, it is easy to implement because it does not require sophisticated software, it does not use data-intensive procedures and it allows incorporating "trade shocks" in different ways.

5 $Y_j^k$and Y^k are exporter j and world production in sector k; E_i^k is importer i expenditure and σ_k identifies the "elasticity of substitution among goods of sector k of different countries" and is greater than one.

The initial effects of a RTA are captured through equation (1) (the structural gravity equation). They are the "direct" or "partial equilibrium" effects. The structural gravity model with the adequate data allows estimating in an unbiased and consistent manner the impact of any bilateral commercial policy on trade, both at the aggregate and sectoral level. However, any "direct" estimate of the effects of trade policies can lead to biased or erroneous predictions of the true effects of the policies if "general equilibrium" (GE) effects are not taken into account.

When two countries sign an RTA their bilateral trade increases, but as consequence of it they may trade less with third parties countries and trade less with themselves. That is, any RTA generate "GE effects due to trade diversion", even without no changes in the size of the countries. These effects are captured formally in the MTRs (Equations (2) and (3)). Intuitively, ceteris paribus, countries become "closer" to each other with a RTA and "further away" from everyone else. This implies that trade diversion effects lead to less trade in the rest of the countries, which mitigates the positive partial effects among RTA members. By definition, trade diversion effects cannot fully offset direct trade creation effects among RTA members. But, if they are not taken into account, they can generate a strong bias when measuring the total impact of trade policies.

RTAs generate an efficient re-allocation of production and reSource: Own elaboration using EUREGIO-2017s, measured by an increase in the nominal income of the countries involved and a reduction of the nominal income of the rest of the countries. These "GE effects by size of the markets" are captured by the clearing market condition (equation (4)) and the trade balance condition (equation (5)). The new RTA lower trade costs faced by the local producers (that is, the outward MTRs are larger), leading to higher factory-gate prices (that is, there is an improvement in the terms of trade), which translates in higher income and spending among members.

Throughout the complete structural gravity system, the largest size of the RTA partners translates into further trade not only between members of the RTA but also among these two countries and the rest of the world. By definition, the nominal size effects are weaker than the trade diversion effects in the system as a whole, but it is possible that the GE size effects of the RTA members offset the GE trade diversion effects with some third countries.

As a final step, as demonstrated by Arkolakis et al. (2012), it is possible to formulate the change in welfare derived from trade as follows. First, define welfare as $W_j^k = w_j^k/\Pi_j^k$, e.g. real wage, and domestic trade share as $\lambda_{jj}^k = X_{jj}^k/E_j^k$, e. g. the fraction of the expenditure that country j spends on goods of sector k produced by itself. The "basic" CES export demand function of products of sector k is $X_{ji}^k = \frac{(w_j^k)^{1-\sigma_k}}{\Pi_j^{1-\sigma_k}} E_i^k$. Then $\lambda_{jj}^k = \left(\frac{w_j^k}{\Pi_j^k}\right)^{1-\sigma_k}$ and $W_j^k = \left(\lambda_{jj}^k\right)^{1/1-\sigma_k}$.

Second, define a change in welfare of country j in a particular sector k ($\widehat{W_j^k}$) as the ratio between the value of welfare after the shock (counterfactual scenario, W^1) and the value of welfare before the shock (baseline scenario, W^0): $\widehat{W_j^k} = {W_j^k}^1/{W_j^k}^0$. Using the terms previously included in the model, we obtain:

$$ {W_j^k}^1/{W_j^k}^0 = \widehat{W}_j^k = \left(\frac{{\lambda_{jj}^k}^1}{{\lambda_{jj}^k}^0}\right)^{1/1-\sigma_k} = \hat{\lambda}_{jj}^{1/1-\sigma_k} \qquad (9) $$

Equation (9) indicates that we only need two "sufficient statistics" to calculate welfare gains from trade: λ_{jj}, the change in the share of exporter's j domestic trade (relative to total trade) stemming from the "trade shock" inserted in the model (estimated in the partial equilibrium), and a trade elasticity measure (σ_k).

Therefore, considering as given the trade structure present in the data, the final general equilibrium results are driven by two key parameters: first, the magnitude of the "trade shock", i.e., the change in bilateral trade frictions deriving from the trade policy change (in our case, the entry into force of a bilateral trade agreement); second, the trade elasticity.

In our case, the changes introduced in the counterfactual scenario (with respect to the baseline) concern τ_{ji} (bilateral trade costs). This means that bilateral trade costs in the baseline (${\tau_{ji}}^0$) will not be identical to bilateral trade costs in the counterfactual scenario (${\tau_{ji}}^1$). Bilateral trade costs in the baseline are calculated as follows:

$$ {\tau_{ji}}^{1-\sigma_k} = \exp\left(v_{ji} + \beta' RTA_{ji}\right) $$

where v_{ji} are directional pair fixed effects, and $\beta' RTA_{ji}$ is a vector collecting all the existing trade agreements, grouped in four different categories ($RTA^{X\_NS}, RTA^{X\_SN}, RTA^{X\_rest}, RTA^{ALL-X}$) .

We are interested in RTA^{X_NS}, RTA^{X_SN}. The former is a dummy equal to 1 if country pair j-i has a trade agreement with the main provisions contained in the EU-Mercosur, and if the trade flow identified is North-to-South, that is, exports to advanced to emerging/developing economies. The dummy is zero otherwise. The latter is a dummy equal to 1 if country pair j-i have a trade agreement at time t with the same conditions listed above, and if the trade flow identified is South-to-North, i.e. exports to emerging/developing to advanced economies. The dummy is zero otherwise. In our counterfactual scenario, we redefine RTA^{X_NS}, RTA^{X_SN}, by replacing zeros with ones in the EU-Mercosur (e.g. Spain exports to Argentina/Brazil) and Mercosur-EU (e.g. Brazil/Argentina exports to Spain) country pairs respectively. Therefore, the change in bilateral trade cost is imposed exogenously and bilateral trade costs in the counterfactual scenarios can be obtained as follows:

$$\tau^1{}_{ji}^{\,1-\sigma_k} = \exp\left(v_{ji} + \beta' RTA^1\right)$$

Once the model is solved for the baseline and counterfactual scenario values, we can calculate the differences between the variables of interest (e.g. exports, imports and welfare).[6]

7.3 Expected effects on welfare

Even if Mercosur represents a small share of EU imports, we will see that the trade agreement between EU and Mercosur strengthens welfare in most European regions through two closely linked mechanisms: a price effect and a set of volume effects.

Price effect. Lower tariffs and the removal of many non-tariff barriers make Mercosur goods—particularly agricultural products, raw materials, and certain intermediate manufactures—decisively cheaper for EU buyers. Firms and households therefore shift their purchases away from higher-cost domestic Source: Own elaboration using EUREGIO-2017s or from third-country suppliers toward these less expensive Mercosur alternatives. The immediate result is a fall in the average price of the import basket, which raises real household income and trims input costs for EU producers. Because consumers can now afford the same goods for less money (or a larger bundle for the same money), their purchasing power rises.

Volume effects. The price change triggers two complementary shifts in trade flows and two complementary effects on domestic production.

- **Shift in demand**: The rise of real revenue of consumers increase the demand for imported goods but also for domestic goods. This boosts domestic production.
- **Import diversion and resource: Own elaboration using EUREGIO-2017 reallocation**. The surge in lower-priced Mercosur imports partly displaces domestic production and reduces imports from costlier partners. While some EU firms lose market share, the labour and capital released are re-employed in activities where the region has a stronger comparative advantage or higher productivity. This reallocation boosts economy-wide efficiency and adds to welfare.
- **Export expansion to Mercosur.** On the export side, EU producers—especially in machinery, chemicals, processed foods, and business services—gain easier, more predictable access to a 270-million-consumer market. Higher foreign demand lets these firms exploit scale economies, spread fixed costs, and lift output. The associated rise in wages, profits, and employment feeds back into regional incomes and demand.

Taken together, demand for domestic goods can decrease because of the competition of imports or increase due to the revenue increase boosts by lower importing price and by expansion of exports due to better market access in Mercosur. If the gains outweigh the losses in import-competing sectors, most regions will record a net welfare increase after the EU–Mercosur agreement comes into force.

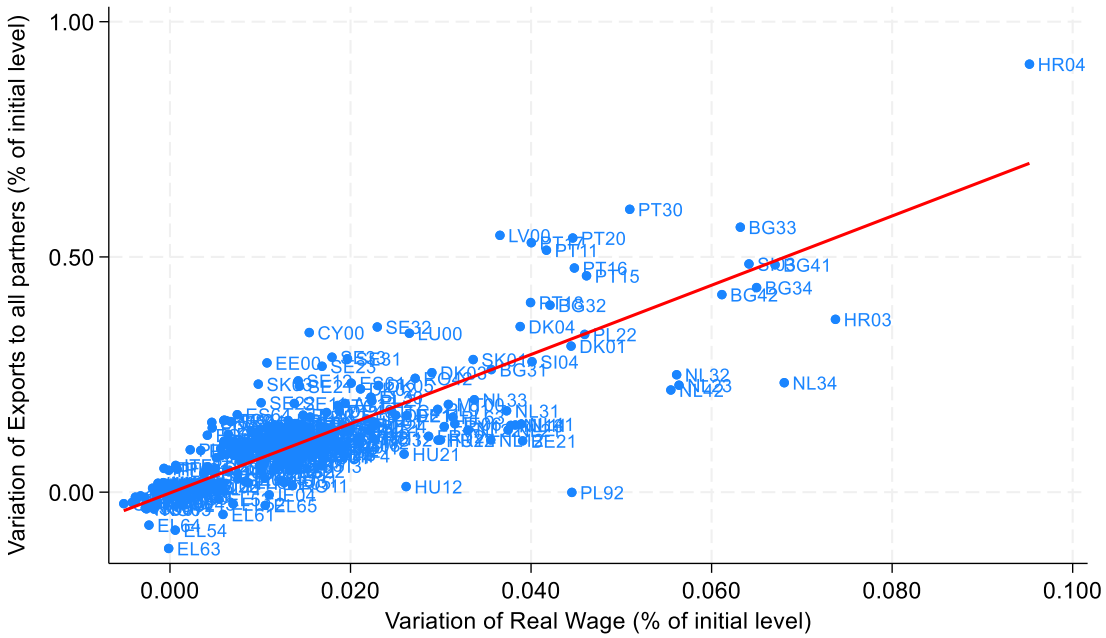
[6] We do not include inter-sectorial linkages à la Caliendo and Parro (2015). The basic assumption is that each pair of region-sector specializes in a variety as in Armington (1969). The total welfare by region is then a weighted average of the sectors in each region as in Anderson and Yotov (2016).

7.4 Overall effects on European regions' welfare

Overall, the regions that benefit the most from the trade agreement between EU and Mercosur are those regions that experience a high increase in trade with all partners. **Fehler! Verweisquelle konnte nicht gefunden werden.** (respectively **Fehler! Verweisquelle konnte nicht gefunden werden.**) illustrates the correlation between the variation in welfare (measured by variation in real wage) and variation in exports to all partners (respectively variation in imports from all partners). In general, higher engagement in exports to Mercosur and, to a lesser extent, in imports from Mercosur, is welfare-enhancing. Real-wage gains accrue primarily to regions that become more outward-oriented overall, not just toward Mercosur. To a lesser extent, welfare gains are also higher, the higher the weight of the region in the trade with Mercosur (**Fehler! Verweisquelle konnte nicht gefunden werden.**). This finding is consistent with standard new-quantitative-trade-model results: real wage effects are chiefly mediated through terms-of-trade improvements and scale-productivity channels that scale with the overall size of trade reorientation.

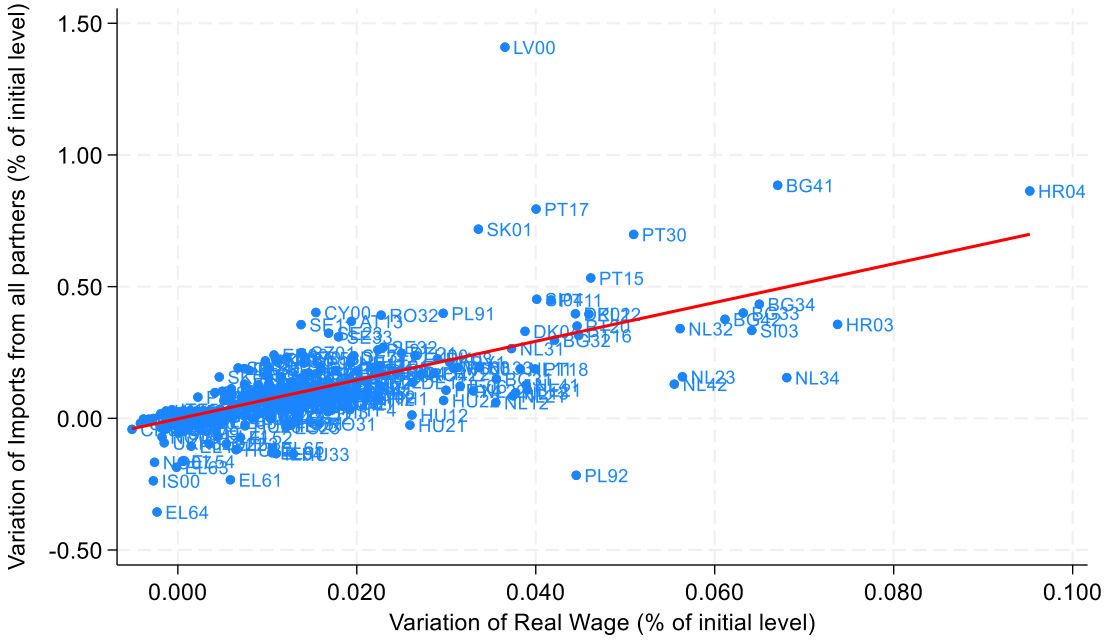
GDP per capita and value added are not significantly correlated with welfare gains mainly because the richest regions or largest in economic terms are not the ones that trade the most with Mercosur since other considerations such as geographical and historical ties also matter to explain these patterns.

Figure A 9: Correlation between variation in real wage and variation in exports



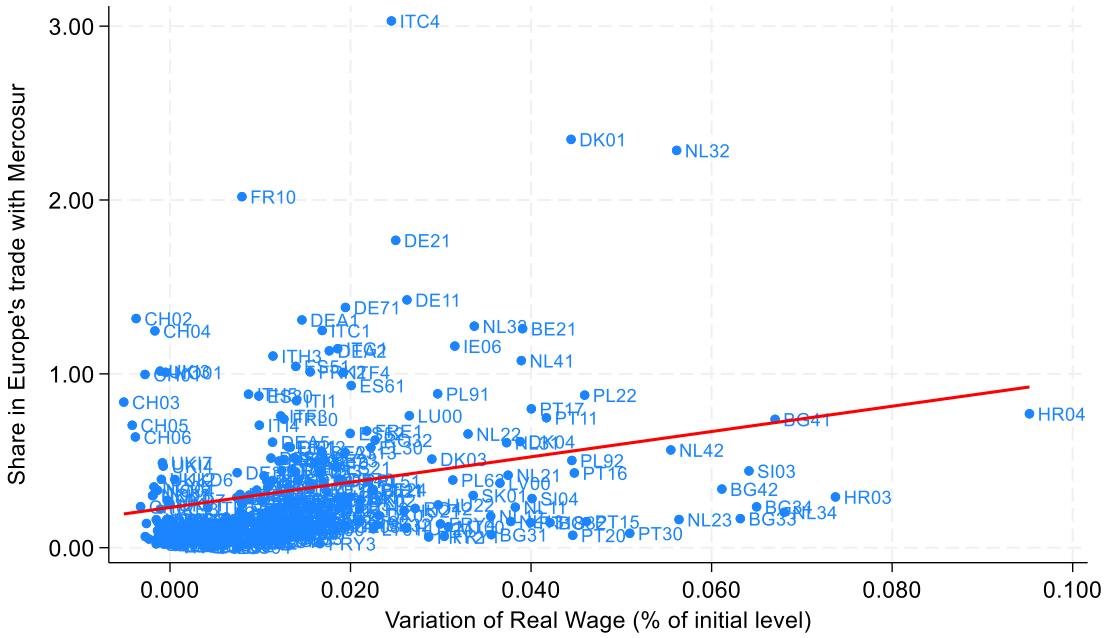
Source: Own elaboration using EUREGIO-2017

Figure A 10: Correlation between variation in real wage and variation in imports



Source: Own elaboration using EUREGIO-2017

Figure A 11: Correlation between variation in real wage and share in trade with Mercosur



Source: Own elaboration using EUREGIO-2017

7.5 Impact of the EU-Mercosur agreement

Table 16: Variations of welfare by country (real wage, % of initial level)

		Variation of Real Wage, % of initial level				
Country	Region	Obs.	Mean	Sd	Min	Max
Liechtenstein	EFTA+UK	1	0.005		0.005	0.005
United Kingdom	EFTA+UK	41	0.000	0.001	-0.002	0.001
Norway	EFTA+UK	7	-0.002	0.001	-0.003	0.000
Iceland	EFTA+UK	1	-0.003		-0.003	-0.003
Switzerland	EFTA+UK	7	-0.004	0.001	-0.005	-0.002
Croatia	EU	2	0.084	0.015	0.074	0.095
Bulgaria	EU	6	0.056	0.013	0.036	0.067
Slovenia	EU	2	0.052	0.017	0.040	0.064
Portugal	EU	7	0.044	0.004	0.040	0.051
Netherlands	EU	12	0.044	0.012	0.033	0.068
Latvia	EU	1	0.037		0.037	0.037
Denmark	EU	5	0.031	0.010	0.021	0.044
Malta	EU	1	0.031		0.031	0.031
Luxembourg	EU	1	0.027		0.027	0.027
Lithuania	EU	2	0.022	0.001	0.021	0.023
Ireland	EU	3	0.018	0.011	0.011	0.032
Hungary	EU	8	0.018	0.009	0.007	0.030
Poland	EU	17	0.017	0.014	0.000	0.046
Estonia	EU	2	0.017	0.008	0.011	0.022
Sweden	EU	8	0.016	0.004	0.010	0.023
Belgium	EU	11	0.016	0.009	0.006	0.039
France	EU	26	0.015	0.006	0.006	0.030
Romania	EU	8	0.014	0.008	0.004	0.027
Slovakia	EU	4	0.014	0.013	0.005	0.034
Spain	EU	19	0.013	0.004	0.004	0.020
Italy	EU	21	0.012	0.007	-0.001	0.025
Czechia	EU	9	0.012	0.005	0.005	0.020
Austria	EU	9	0.012	0.004	0.006	0.019
Germany	EU	38	0.011	0.005	0.006	0.026
Finland	EU	5	0.009	0.006	0.005	0.019
Greece	EU	12	0.005	0.004	-0.002	0.011

Source: Own elaboration using EUREGIO-2017

Table 17: EU-Mercosur FTA: impact on trade of European regions with Mercosur, (% of initial level), mean across regions

		EFTA+UK			EU			All regions		
		Losers	Winners	All	Losers	Winners	All	Losers	Winners	All
Imports from Mercosur	% of initial level	-5.08	-5.34	-5.15	32.56	31.23	31.25	-1.88	29.18	24.24
Imports from Argentina		-6.99	-6.75	-6.93	36.45	31.58	31.66	-3.29	29.43	24.23
Imports from Brazil		-3.04	-4.9	-3.5	32.76	32.67	32.67	0.01	30.56	25.71
Initial imports from Mercosur	€ mm.	236,37	77,80	197,42	11,64	284,19	279,62	217,24	272,58	263,79
Imports from Mercosur	% of Imports from Mercosur, all regions and all sectors	0.3	0.10	0.25	0.01	0.36	0.36	0.28	0.35	0.34
Exports to Mercosur	% of initial level	-3.34	-3.68	-3.42	28.61	25.83	25.88	-0.62	24.18	20.24
Exports to Argentina		-4.45	-4.85	-4.55	26.5	24.74	24.77	-1.82	23.08	19.13
Exports to Brazil		-2.78	-2.95	-2.82	28.83	26.51	26.55	-0.09	24.86	20.89
Initial exports to Mercosur	€ mm.	273,40	95,01	229,59	47,10	304,29	299,99	254,14	292,52	286,43
Exports to Mercosur	% Exports to Mercosur, all regions and all sectors	0.33	0.12	0.28	0.06	0.36	0.35	0.3	0.34	0.34

Source: Own elaboration using EUREGIO-2017

Table 18: Main results for 50 EU regions with higher welfare gains (Variation as % of initial level

Country	Region	Real wage	Imports from all	Exports to all	Imports from Mercosur	Exports to Mercosur
Croatia	Kontinentalna Hrvatska	0.095	0.86	0.91	32.58	27.69
Croatia	Jadranska Hrvatska	0.074	0.36	0.37	33.29	27.60
Netherlands	Zeeland	0.068	0.15	0.23	36.80	26.66
Bulgaria	Yugozapaden	0.067	0.88	0.48	27.64	17.91
Bulgaria	Yugoiztochen	0.065	0.43	0.43	28.80	16.26
Slovenia	Vzhodna Slovenija	0.064	0.33	0.49	37.28	15.75
Bulgaria	Severoiztochen	0.063	0.40	0.56	37.25	19.87
Bulgaria	Yuzhen tsentralen	0.061	0.38	0.42	37.44	14.83
Netherlands	Flevoland	0.056	0.16	0.23	39.60	26.74
Netherlands	Noord-Holland	0.056	0.34	0.25	27.36	26.84
Netherlands	Limburg (NL)	0.055	0.13	0.22	38.57	27.39
Portugal	Região Autónoma da Madeira	0.051	0.70	0.60	23.73	25.82
Portugal	Algarve	0.046	0.53	0.46	22.94	26.06
Poland	Slaskie	0.046	0.40	0.34	30.27	25.80
Portugal	Centro (PT)	0.045	0.31	0.48	34.64	26.15
Portugal	Região Autónoma dos Açores	0.045	0.35	0.54	21.41	26.46
Poland	Mazowiecki regionalny	0.045	-0.22	0.00	38.34	22.22
Denmark	Hovedstaden	0.044	0.40	0.31	13.89	25.39
Bulgaria	Severen tsentralen	0.042	0.30	0.40	36.90	15.94
Portugal	Norte	0.042	0.45	0.51	28.78	25.94
Slovenia	Zahodna Slovenija	0.040	0.45	0.28	37.35	18.85
Portugal	Área Metropolitana de Lisboa	0.040	0.79	0.53	30.38	26.04
Portugal	Alentejo	0.040	0.19	0.40	30.85	26.81
Belgium	Prov. Antwerpen	0.039	0.11	0.11	28.78	24.94
Netherlands	Noord-Brabant	0.039	0.13	0.14	37.82	27.34
Denmark	Midtjylland	0.039	0.33	0.35	35.88	25.76
Netherlands	Groningen	0.038	0.19	0.14	38.48	24.45
Netherlands	Drenthe	0.038	0.10	0.14	37.25	26.59
Netherlands	Overijssel	0.037	0.09	0.13	37.91	27.41
Netherlands	Utrecht	0.037	0.26	0.17	39.07	27.01
Latvia	Latvija	0.037	1.41	0.55	23.39	25.66
Bulgaria	Severozapaden	0.036	0.15	0.26	39.64	19.66
Netherlands	Friesland (NL)	0.036	0.06	0.11	39.71	26.54
Netherlands	Zuid-Holland	0.034	0.19	0.20	37.55	27.04
Slovakia	Bratislavský kraj	0.034	0.72	0.28	42.18	24.85
Netherlands	Gelderland	0.033	0.10	0.13	39.04	27.83
Ireland	Eastern and Midland	0.032	0.12	0.15	44.95	26.26
Poland	Pomorskie	0.031	0.19	0.16	18.74	26.45
Malta	Malta	0.031	0.19	0.19	44.48	26.84
France	Guadeloupe	0.030	0.21	0.14	34.42	25.55
France	La Réunion	0.030	0.11	0.11	32.09	26.19
Hungary	Nyugat-Dunántúl	0.030	0.07	0.11	38.65	25.10
Poland	Warszawski stoleczny	0.030	0.40	0.18	39.78	23.22
Denmark	Syddanmark	0.029	0.23	0.25	40.06	25.29
France	Martinique	0.029	0.17	0.12	31.66	26.17
Romania	Vest	0.027	0.17	0.24	16.59	25.24
Luxembourg	Luxembourg	0.027	0.24	0.34	38.34	26.64
Germany	Stuttgart	0.026	0.14	0.16	36.15	24.87
Hungary	Pest	0.026	0.01	0.01	33.30	26.24

Source: Own elaboration using EUREGIO-2017

Table 19: Main results for the 37 EU regions with lower welfare gains. Variation as % of initial level

Country	Region	Real wage	Imports from all	Exports to all	Imports from Mercosur	Exports to Mercosur
Austria	Burgenland (AT)	0.006	0.05	0.10	31.31	26.25
Belgium	Prov. Namur	0.006	0.08	0.09	32.53	23.40
Czechia	Jihozápad	0.005	-0.01	0.05	30.31	25.72
Germany	Lüneburg	0.006	0.04	0.11	33.92	26.24
Germany	Trier	0.006	0.05	0.11	36.18	27.41
Germany	Unterfranken	0.006	0.05	0.08	37.11	25.77
Germany	Mecklenburg-Vor-pommern	0.006	0.05	0.12	28.24	26.31
Greece	Sterea Ellada	-0.002	-0.36	-0.07	36.78	29.19
Greece	Dytiki Ellada	0.000	-0.19	-0.12	40.08	30.04
Greece	Ipeiros	0.001	-0.16	-0.08	33.32	30.66
Greece	Kriti	0.001	-0.11	-0.02	31.42	28.41
Greece	Voreio Aigaio	0.004	-0.07	0.01	16.38	29.02
Greece	Dytiki Makedonia	0.005	-0.10	-0.02	22.40	30.06
Greece	Thessalia	0.006	-0.23	-0.05	30.58	29.65
Greece	Kentriki Makedonia	0.007	-0.07	-0.02	36.66	28.98
Spain	Ciudad Autónoma de Ceuta (ES)	0.004	0.10	0.12	29.07	24.90
Finland	Åland	0.005	0.03	0.14	43.23	27.08
Finland	Etelä-Suomi	0.006	0.07	0.08	39.56	26.38
Finland	Pohjois- ja Itä-Suomi	0.007	0.05	0.10	41.46	27.29
France	Corse	0.006	0.10	0.10	18.31	25.98
Hungary	Észak-Alföld	0.007	-0.12	0.04	39.22	26.14
Italy	Basilicata	-0.001	0.03	0.05	20.75	28.11
Italy	Molise	0.001	0.02	0.06	24.64	26.79
Italy	Abruzzo	0.004	0.02	0.04	28.44	28.22
Italy	Calabria	0.004	0.02	0.05	14.38	27.61
Italy	Liguria	0.005	0.07	0.07	35.49	27.14
Italy	Valle d'Aosta/Vallée d'Aoste	0.006	0.09	0.15	17.93	26.11
Italy	Sardegna	0.007	0.01	0.09	30.53	26.55
Poland	Warminsko-Mazurskie	0.000	0.00	0.05	32.63	27.09
Poland	Kujawsko-Pomorskie	0.001	0.01	0.05	32.41	26.56
Poland	Swietokrzyskie	0.002	0.08	0.09	32.13	26.37
Poland	Podlaskie	0.003	-0.01	0.09	35.14	26.67
Poland	Lubelskie	0.006	0.11	0.15	40.45	26.12
Romania	Sud-Est	0.004	-0.10	0.01	40.59	26.54
Romania	Sud-Vest Oltenia	0.005	0.03	0.04	39.15	24.98
Slovakia	Západné Slovensko	0.005	0.16	0.15	41.19	26.14
Slovakia	Východné Slovensko	0.007	0.19	0.15	28.57	26.13

Source: Own elaboration using EUREGIO-2017

Table 20: Main results for the regions from EFTA and UK whose welfare decreases with the EU-Mercosur agreement (First part) Variation as % of initial level

Country	Region	Real wage	Imports from all	Exports to all	Imports from Mercosur	Exports to Mercosur
Switzerland	Nordwestschweiz	-0.005	-0.04	-0.02	-0.24	-3.55
Switzerland	Ostschweiz	-0.004	-0.02	-0.02	-0.30	-3.70
Switzerland	Zentralschweiz	-0.004	0.00	-0.01	-0.27	-4.09
Switzerland	Espace Mittelland	-0.004	-0.01	-0.02	-0.02	-3.57
Switzerland	Ticino	-0.003	0.00	-0.01	-0.05	-3.45
Switzerland	Région lémanique	-0.003	0.00	-0.01	-0.17	-3.43
Switzerland	Zürich	-0.002	0.01	0.00	0.08	-3.42
Iceland	Ísland	-0.003	-0.24	-0.03	-7.59	1.93
Liechtenstein	Liechtenstein	0.005	0.10	0.01	0.09	-6.86
Norway	Nord-Norge	-0.003	-0.17	-0.04	1.52	-2.94
Norway	Sør-Østlandet	-0.002	-0.04	-0.02	1.50	-3.05
Norway	Vestlandet	-0.002	-0.07	-0.04	1.58	-3.03
Norway	Trøndelag	-0.002	-0.04	-0.02	1.63	-2.89
Norway	Agder og Rogaland	-0.001	-0.03	-0.02	1.67	-3.01
Norway	Hedmark og Oppland	-0.001	-0.04	-0.03	1.50	-2.82
Norway	Oslo og Akershus	0.000	-0.02	0.01	1.85	-3.08

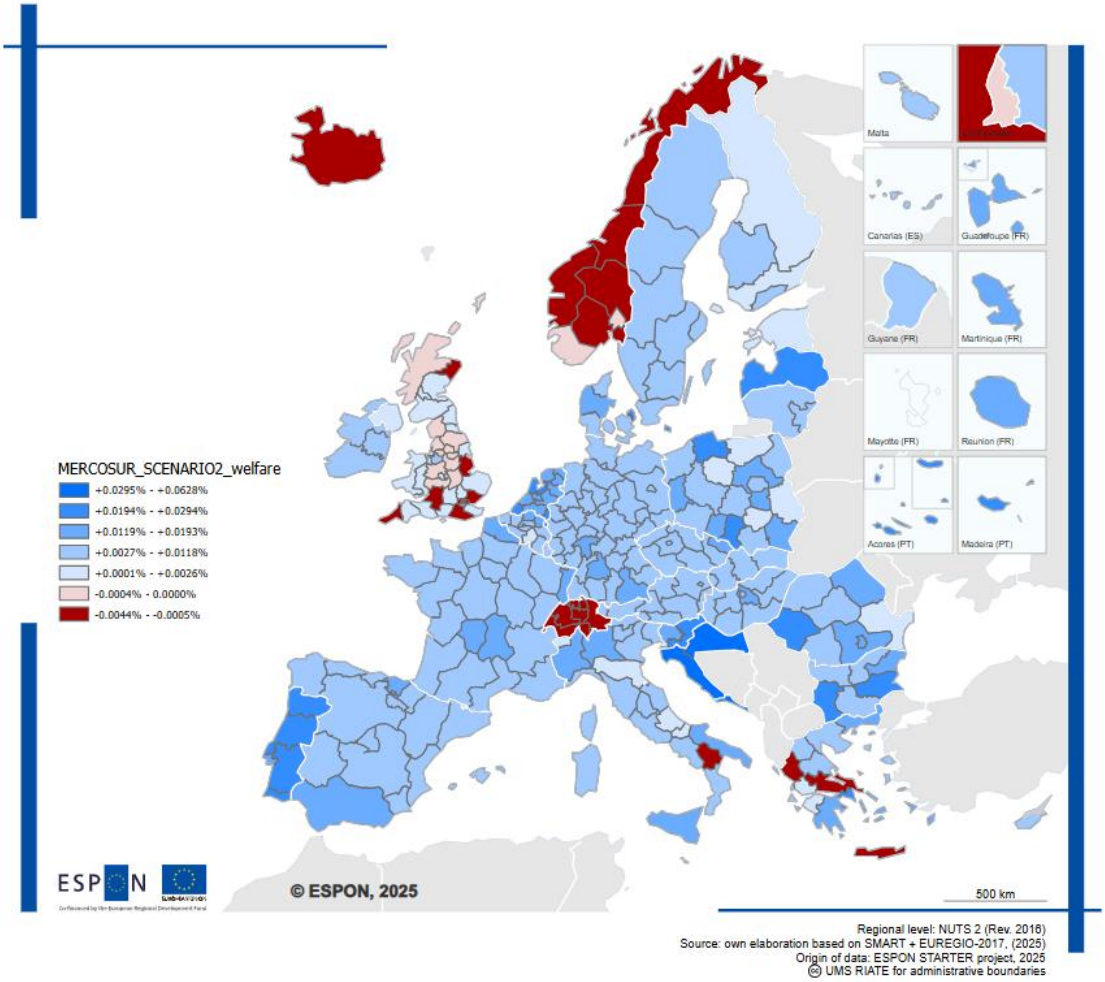
Source: Own elaboration using EUREGIO-2017

Table 21: Main results for the regions from EFTA and UK whose welfare decreases with the EU-Mercosur agreement (Second part) Variation as % of initial level

Country	Region	Real wage	Imports from all	Exports to all	Imports from Mercosur	Exports to Mercosur
UK	Gloucestershire. Wiltshire and Bristol/Bath area	-0.002	0.02	0.01	-12.83	-3.60
UK	Lincolnshire	-0.002	-0.03	0.01	-10.71	-3.93
UK	Cornwall and Isles of Scilly	-0.002	-0.09	-0.01	-6.71	-4.40
UK	Outer London - East and North East	-0.001	0.03	0.02	-8.79	-3.80
UK	North Eastern Scotland	-0.001	-0.01	0.00	-8.31	-3.47
UK	Highlands and Islands	-0.001	-0.04	0.00	-10.43	-3.85
UK	Inner London - West	-0.001	0.01	0.01	-6.83	-3.49
UK	Essex	-0.001	0.02	0.02	-13.14	-2.99
UK	Surrey. East and West Sussex	-0.001	0.02	0.01	-9.77	-3.73
UK	Cumbria	-0.001	-0.01	0.01	-8.05	-2.73
UK	Shropshire and Staffordshire	-0.001	0.00	0.01	-9.19	-3.91
UK	Outer London - West and North West	-0.001	0.01	0.02	-9.08	-3.38
UK	Inner London - East	-0.001	0.02	0.01	-6.94	-3.60
UK	South Yorkshire	-0.001	0.01	0.02	-6.65	-3.37
UK	North Yorkshire	-0.001	0.01	0.01	-9.49	-3.75
UK	Derbyshire and Nottinghamshire	-0.001	0.01	0.01	-7.18	-3.41
UK	West Yorkshire	-0.001	0.01	0.01	-5.58	-3.41
UK	Lancashire	-0.001	0.01	0.01	-7.56	-3.23
UK	Outer London - South	-0.001	0.02	0.02	-8.89	-3.60
UK	Herefordshire. Worcestershire and Warwickshire	0.000	0.02	0.02	-9.27	-3.67
UK	Greater Manchester	0.000	0.02	0.01	-5.69	-3.52
UK	Merseyside	0.000	0.01	0.02	-2.94	-3.36
UK	West Midlands	0.000	0.01	0.01	-5.25	-3.46
UK	Leicestershire. Rutland and Northamptonshire	0.000	0.02	0.01	-6.45	-3.52
UK	Bedfordshire and Hertfordshire	0.000	0.02	0.01	-7.66	-3.28
UK	Hampshire and Isle of Wight	0.000	0.02	0.01	-5.24	-3.68
UK	Northern Ireland (UK)	0.000	-0.01	-0.01	-5.87	-3.95
UK	East Wales	0.000	0.02	0.01	-6.65	-3.38
UK	Berkshire. Buckinghamshire and Oxfordshire	0.000	0.02	0.01	-5.43	-3.60
UK	East Anglia	0.000	0.00	0.00	-7.53	-3.58
UK	West Central Scotland	0.000	0.02	0.02	-4.63	-3.53
UK	Tees Valley and Durham	0.000	0.02	0.01	-3.62	-2.49
UK	Southern Scotland	0.000	-0.06	-0.01	-4.46	-3.59
UK	Dorset and Somerset	0.000	0.01	0.01	-7.38	-3.85
UK	West Wales and The Valleys	0.000	0.01	0.01	-5.89	-3.22
UK	Devon	0.000	0.01	0.01	-7.95	-3.71
UK	Eastern Scotland	0.000	0.01	0.01	-5.91	-3.52
UK	Kent	0.000	0.02	0.01	-7.70	-3.83
UK	East Yorkshire and Northern Lincolnshire	0.000	-0.01	0.00	-7.52	-3.26
UK	Northumberland and Tyne and Wear	0.001	0.01	0.01	-5.93	-3.14
UK	Cheshire	0.001	0.01	0.01	-0.97	-3.31

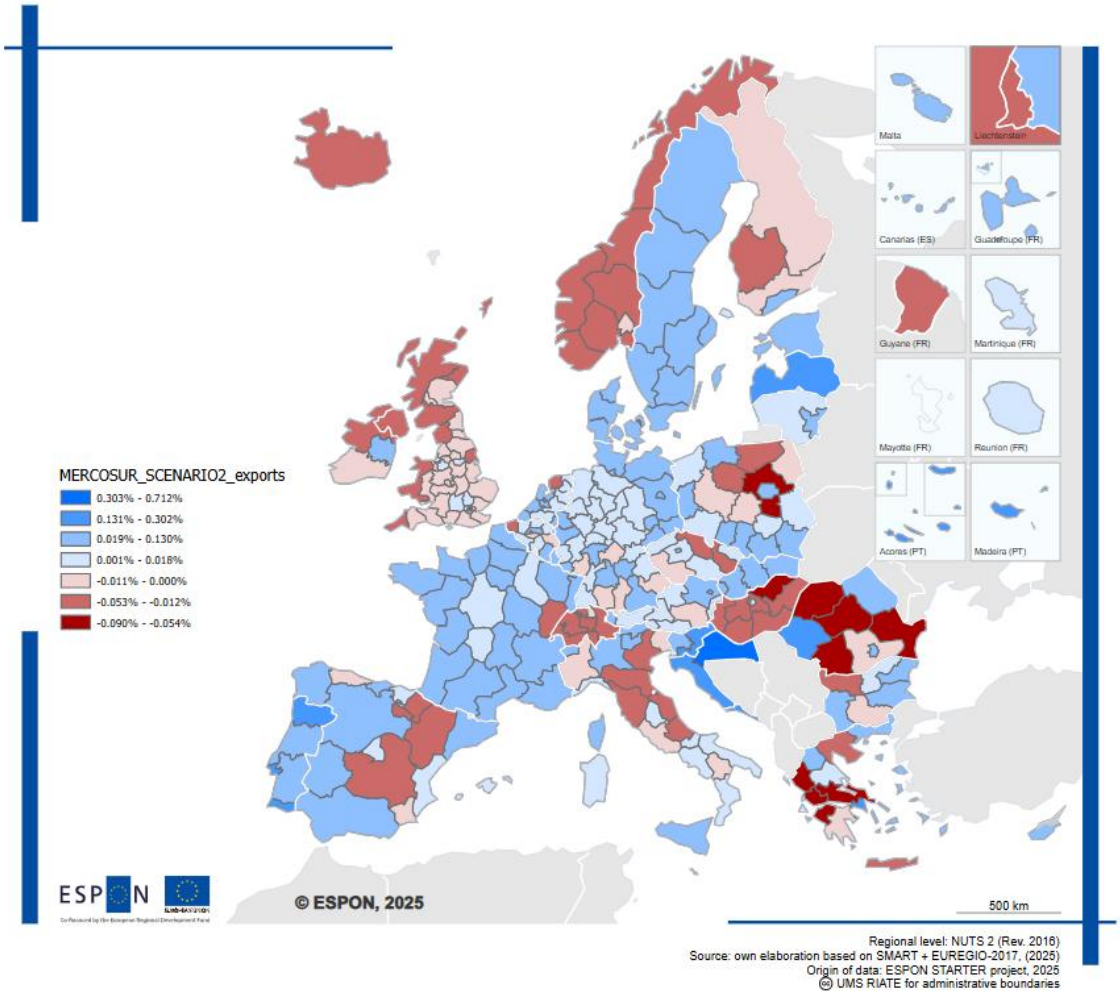
Source: Own elaboration using EUREGIO-2017

Map 4: Impact on regional welfare of EU-Mercosur FTA Scenario 2 (real wage, % of initial level)



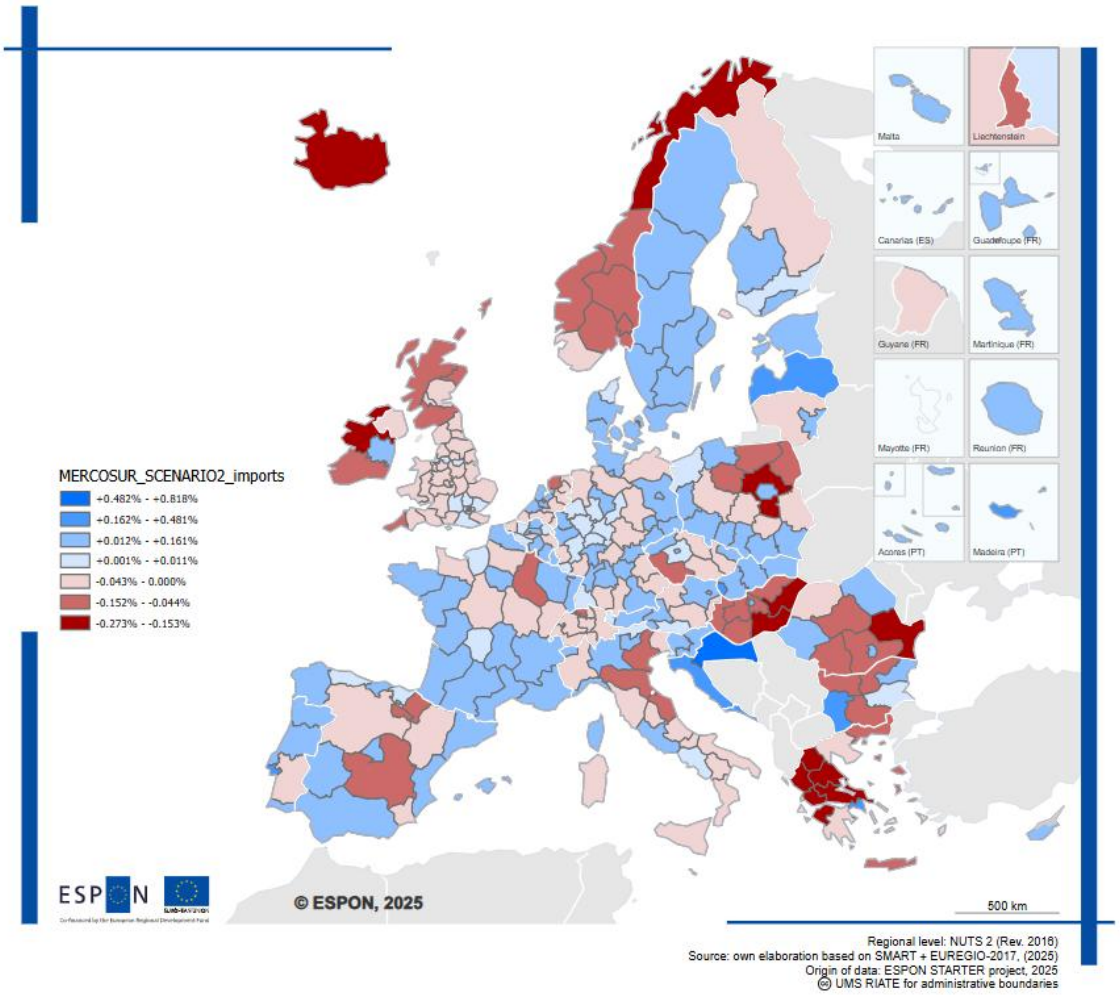
Source: Own elaboration using EUREGIO-2017

Map 5: Impact on regional exports of EU-Mercosur FTA Scenario 2 (% of initial level)



Source: Own elaboration using EUREGIO-2017

Map 6: Impact on regional imports of EU-Mercosur FTA Scenario 2 (% of initial level)



Source: Own elaboration using EUREGIO-2017

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