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Proposal for a

COUNCIL DECISION

on the signing, on behalf of the European Union, of the Interim Agreement on Trade between the European Union, of the one part, and the Common Market of the South, the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay, of the other part

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

The attached proposal constitutes the legal instrument for authorising the signature of the Interim Agreement on Trade between the European Union, and the Common Market of the South, the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay (hereinafter referred to as 'the ITA').

Mercosur¹ is the world's fifth largest economy outside of the EU in terms of GDP (EUR 2.9 trillion in 2023), and the EU's eleventh largest trading partner. It is an important market, with a population of over 270 million inhabitants and large untapped potential for trade and investment. The EU is the first major economy to reach a comprehensive trade agreement with Mercosur, which will give EU exporters, service providers and investors an important first mover advantage in this region. The ITA will strengthen ties between like-minded, reliable partners, and reflects both sides' commitment to open, sustainable and rules-based trade, countering protectionism. It will create an ambitious and comprehensive framework for the trade relationship that will contribute to economic security and help facing current global challenges.

On 13 September 1999, the Council of the European Union authorised the European Commission to open negotiations with Mercosur and adopted negotiating directives. The negotiations were conducted in consultation with the Council Working Party on Latin America and the Caribbean. The Trade Policy Committee was consulted on the trade-related parts of the negotiations. The negotiation process took more than 25 years. The negotiation of the trade related parts was initially politically concluded in June 2019 and of the political and cooperation part in June 2020. During 2023 and 2024 the EU and Mercosur negotiated additional elements, in particular the Annex to the Trade and Sustainable Development Chapter, including reinforced commitments on deforestation as well as provisions granting Mercosur more flexibility on some industrial policy related commitments (e.g. public procurement). The EU and Mercosur and its members concluded the negotiations of the Partnership Agreement between the European Union and its Member States, and the Common Market of the South, the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay (hereinafter referred to as the "EMPA") on 6 December 2024 in Montevideo, Uruguay.

The negotiated texts relating to trade and investment liberalisation were published by the Commission in August 2019 and in December 2024.

The negotiated outcome consists of two legal instruments:

1. the EMPA that will include a) the Political and Cooperation pillar and b) the Trade pillar; and
2. the ITA covering trade and investment liberalisation.

The ITA is intended to be signed at the same time as the EMPA. Pursuant to Article 23.2(1), the ITA will enter into force on the first day of the month following the date on which the

¹ The Common Market of the South (MERCOSUR for its Spanish initials) is a regional integration process, initially established by Argentina, Brazil, Paraguay and Uruguay, and subsequently joined by Venezuela (currently suspended) and Bolivia (in accession process). Only Argentina, Brazil, Paraguay and Uruguay are parties to the EU-Mercosur Partnership Agreement.

Parties have notified each other in writing of the completion of their respective internal procedures required for this purpose. The ITA will expire and be replaced by the EMPA upon the latter's entry into force, following its ratification.

- **Consistency with existing policy provisions in the policy area**

The ITA provides a comprehensive legal framework for EU-Mercosur trade and investment relations. It will remain in force until the entry into force of the EU-Mercosur Partnership Agreement.

The ITA will replace Title II of the Interregional Framework Cooperation Agreement between the European Community and its Member States, and the Southern Common Market and its Party States, signed in Madrid on 15 December 1995.

The ITA is fully in line with the overall EU vision for its partnership with Latin America and the Caribbean, as outlined in the Joint Communication to the European Parliament and the Council on a New Agenda for Relations between the EU and Latin America and the Caribbean, adopted on 7 June 2023.

In addition, the ITA is in line with the "Trade Policy Review - An Open, Sustainable and Assertive Trade Policy" of February 2021, which anchors trade and investment policy to European and universal standards and values, alongside core economic interests, putting a greater emphasis on sustainable development, human rights, tax evasion, consumer protection, and responsible and fair trade.

- **Consistency with other Union policies**

The EU-Mercosur ITA is fully consistent with European Union policies and will not require the EU to amend its rules, regulations or standards in any regulated area, e.g. technical rules and product standards, sanitary or phytosanitary rules, regulations on food and safety, health and safety standards, rules on GMOs, environmental protection or consumer protection.

The EU-Mercosur iTA also includes a chapter on Trade and Sustainable Development, which links the Agreement to overall objectives of sustainable development and specific objectives in the areas of labour, environment, and climate change.

Furthermore, the EU-Mercosur ITA safeguards public services and ensures that governments' right to regulate in the public interest is fully preserved and constitutes a basic underlying principle thereof.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

The Commission presents the result of negotiations with Mercosur in the form of two self-standing but linked agreements: the ITA and the EMPA.

In accordance with the Treaties and case law of the European Court of Justice, in particular its Opinion 2/15 on the EU-Singapore Free Trade Agreement of 16 May 2017, all areas covered by the ITA fall within the exclusive external competence of the European Union and, more particularly, within the scope of Articles 91, 100(2) and 207 TFEU.

The ITA is to be signed by the European Union pursuant to a decision of the Council based on Article 218(5) TFEU and concluded by the European Union pursuant to a decision of the Council based on Article 218(6) TFEU, following the European Parliament's consent.

- **Subsidiarity (for non-exclusive competence)**

The EU-Mercosur ITA, as presented to the Council, does not cover any matters that fall outside the scope of the EU's exclusive competence.

- **Proportionality**

Trade agreements are the appropriate means to govern market access and the related areas of comprehensive economic relations with a third country outside the EU. No alternative means exist to render such commitments and liberalisation efforts legally binding.

This initiative pursues directly the objectives of the Union's external action and contributes to the political priority of 'EU as a stronger global actor'. It is in line with the EU Global Strategy's orientations to engage with other countries and to revamp its external partnerships in a responsible way, in order to attain the EU's external priorities. It contributes to the EU's trade and development objectives. The proposal is in line with the EU Green Deal.

Negotiations for the ITA with Mercosur were carried out in accordance with the negotiating directives set out by the Council. The outcome of negotiations does not go beyond what is necessary to achieve the policy objectives set out in the negotiating directives.

- **Choice of the instrument**

This proposal for a Council decision is submitted in accordance with paragraph 5 of Article 218 TFEU, which envisages the adoption by the Council of a decision authorising the signing of international agreements. There exists no other legal instrument that could be used in order to achieve the objective expressed in this proposal.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Stakeholder consultations**

During the negotiations with Mercosur, a Sustainability Impact Assessment (SIA) was commissioned from an external contractor to study the potential economic, social and environmental impact of the trade part of the agreement. The SIA fed into the negotiations and informed the negotiators and Commission services. The final report was published on 29 March 2021.

In the framework of the SIA process, the contractor consulted widely internal and external experts, organised public consultations and workshops, conducted online questionnaires and held bilateral meetings and interviews with civil society both in Europe and in Mercosur. Consultations in the framework of the SIA provided a valuable and effective platform for the involvement of key stakeholders and civil society, which participated in significant numbers.

All along the negotiation process, including prior to and after each negotiation round, the Commission informed and consulted EU Member States orally and in writing on the different aspects of the negotiations via the Council's Trade Policy Committee. The European Parliament was also regularly informed and consulted via its Committee on International Trade (INTA), and the EU-Mercosur Monitoring Group. Draft proposals as well as the texts resulting from the negotiations were sent throughout the negotiation process to both institutions. The Commission also organised number of meetings and contacts with civil society (Civil Society Dialogues) to discuss progress and negotiating positions throughout the negotiations.

- **Collection and use of expertise**

The “*Sustainability Impact Assessment in Support of the Association Agreement Negotiations between the European Union and Mercosur*” was carried out by the external contractor London School of Economics Enterprise. The SIA provides an examination of the potential economic, social, human rights and environmental impact of the trade agreement.

The “Economic Assessment of Negotiated Outcome” (the EANO) was carried out by Commission services following the conclusion of the negotiations and reflecting their outcome.

- **Impact assessment**

The SIA consists of two complementary components. First, a robust analysis of the economic, social, human rights and environmental impacts, that the trade agreement under negotiation could have in the EU, in Mercosur countries and in other relevant countries. Second, a broad consultation process involving stakeholders both in the EU and in Mercosur countries, providing opportunities for information gathering and sharing, consultation and dissemination of the results. The SIA provides valuable input to the process of designing possible flanking and mitigating measures, including via proposals in the study.

The report employs the dynamic version of the GTAP Model to study the impacts of two scenarios, one conservative and one more ambitious, with respect to the outcome of the negotiations in terms of tariff and non-tariff measures reductions by both parties. In the conservative scenario, GDP in the EU expands by 10.9 billion euro (0.1%) and in Mercosur by 7.4 billion euro (0.3%) by 2032, in comparison to the modelling baseline without the FTA. In the ambitious scenario, GDP in the EU expands by 15 billion euro and in Mercosur by 11.4 billion euro.

The EANO assesses the economic impact of the actual outcome of the negotiations. It is not based on assumptions regarding the expected outcome of the agreement, contrary to the SIA. The SIA assessed the impact of two scenarios - one conservative and one ambitious - with respect to the outcome of the negotiations in terms of reductions of barriers to trade through tariff and non-tariff measures. The EANO estimates the economic impact based on the actual tariff and non-tariff measures concessions. It also takes into account the fact that the UK is no longer in the EU. This explains the difference in the estimated impact of the agreement in the EANO compared to the SIA. Furthermore, the EANO analysis is updated to include the most recent developments in the EU’s trade policy.

- **Regulatory fitness and simplification**

The EU-Mercosur ITA is not subject to REFIT procedures. It nevertheless contains a framework for simplified trade and investment procedures, reduced export and investment related costs and will therefore increase trade and investment opportunities for small and medium-sized enterprises in both markets. Among the expected benefits are increased transparency, less burdensome technical rules, compliance requirements, customs procedures and rules of origin, enhanced protection of intellectual property rights and geographical indications, better access to government procurement tenders, as well as a special chapter to help SMEs use the opportunities offered under the Agreement.

- **Fundamental rights**

The proposal does not affect the protection of fundamental rights in the Union.

4. BUDGETARY IMPLICATIONS

The ITA will have a financial impact on the EU budget on the side of the revenues. The ITA will lead to an estimated loss of duties of EUR 330 million at the entry into force of the Agreement. After the ITA is fully implemented on the EU side (after 15 years from its entry into force) the yearly loss of duties is estimated to reach EUR 1 billion. This estimation is based on a projection of the evolution of trade for the next 15 years without any agreement. Indirect positive impacts are expected in terms of increases in resources linked to value added tax and gross national income.

5. OTHER ELEMENTS

- **Implementation plans and monitoring, evaluation and reporting arrangements**

The ITA includes institutional provisions that lay down an implementing bodies' structure to continuously monitor its implementation, operation and impact. This institutional framework will be replaced by the one set up in the EMPA, upon its entry into force.

The institutional chapter of the ITA establishes the specific functions of the Trade Council that will oversee the fulfilment of the objectives of the ITA and supervise its implementation and of the Trade Committee that will assist the Trade Council in performance of its duties.

The Trade Committee will supervise the work of specialised Subcommittees and other bodies established under the ITA.

- **Detailed explanation of the specific provisions of the proposal**

The ITA creates a coherent, comprehensive, up-to-date legally binding framework for the EU's trade relations with Mercosur. It will foster trade and investment by contributing to the expansion and diversification of economic and trade relations.

Through this agreement, the EU aims to provide the best possible conditions for its operators on the Mercosur's market. The ITA goes beyond existing WTO commitments in many areas, such as trade in goods, services, government procurement, non-tariff barriers and the protection and enforcement of intellectual property rights, including geographical indications (GIs). In all of these areas, Mercosur countries agreed to significant new commitments in comparison to WTO terms. The ITA also contains advanced provisions on trade and sustainable development, including strong commitments on deforestation.

The agreement satisfies the criteria of Article XXIV GATT (to eliminate duties and other restrictive regulations of commerce with respect to substantially all trade in goods between the parties), as well as of Article V GATS, which provides for a similar test with respect to services.

In line with the objectives set by the negotiating directives, the Commission notably secured:

- (1) The full removal, over time, of duties on 91% of goods that EU companies export to Mercosur. This will save over EUR 4 billion annually in duties. For example, Mercosur countries will remove high duties on industrial products, such as cars (35%), car parts (14 to 18%), machinery (14 to 20%), chemicals (up to 18%), clothing (up to 35%), pharmaceuticals (up to 14%), leather shoes (up to 35%) or textiles (up to 35%). The agreement will also progressively eliminate duties on EU food and drink exports, such as wine (27%), chocolate (20%), spirits (20 to 35%),

biscuits (16 to 18%), canned peaches (55%) or soft drinks (20-35%). The agreement will also provide duty-free access subject to quotas for EU dairy products (currently 28% tariff), notably for cheeses.

- (2) A balanced market opening by the EU, as the agreement will eliminate import duties on 92% of Mercosur goods exported to the EU. Sensitive agricultural products such as beef, sugar or poultry are only given preferential treatment in limited quantities via carefully calibrated tariff-rate quotas.
- (3) For Argentina, Uruguay and Paraguay, the agreement fully dismantles, or binds at zero, export taxes on raw materials and on industrial goods. It also reduces export taxes on agricultural goods (Argentina), or eliminates them (Uruguay, Paraguay and Brazil). For industrial goods, Brazil has bound at zero important raw materials needed for the EU's economic diversification (nickel, copper, aluminium, steel raw materials, steel, titanium). Brazil has maintained policy space to impose export duties on certain raw materials, in such cases the EU has obtained preferences of at least 50% on any export tax introduced by Brazil in the future and a ceiling of 25%.
- (4) A robust bilateral safeguard mechanism that allows the EU and Mercosur to impose temporary measures to regulate imports in the event of an unexpected and significant increase in imports, which causes, or threatens to cause, serious injury to their domestic industry. These safeguards also apply to agricultural goods under the tariff-rate quota regime or can be limited to the territory of EU outermost regions, where relevant.
- (5) The highest standards for food safety, animal and plant health continue to apply to all products, irrespective of whether they are produced domestically or imported into the EU. The precautionary principle applies. The agreement provides for reinforced cooperation with the authorities of the partner countries and faster flow of information about any potential risks through a more direct and efficient information and notification system.
- (6) A comprehensive chapter on trade and sustainable development, which aims at ensuring that trade supports environmental protection and social development. The chapter covers issues such as sustainable management and conservation of forests, respect for labour rights and promotion of responsible business conduct. It also includes specific dispute settlement provisions and a dedicated review mechanism. The chapter also includes an explicit commitment to effectively implement the Paris Agreement on Climate Change, which was also agreed to constitute an essential element of the EMPA, therefore allowing a suspension of the ITA if a Party leaves the Paris Agreement or stops being a party "in good faith". An Annex to the TSD Chapter contains commitments by the Parties to take measures to stop further deforestation as of 2030. This is the first time that Parties to a trade agreement subject to dispute settlement take an individual legal commitment to stop deforestation. The Agreement also offers civil society organisations an active role to monitor the implementation of the agreement, including any environmental concerns.
- (7) New tendering opportunities for EU bidders with Mercosur countries, which are not members of the WTO Agreement on Government Procurement. This is the first time that Mercosur countries will open up their government procurement markets. EU companies will be able to tender for contracts with public authorities, such as central government ministries and other governmental and federal agencies, on an equal footing with companies from Mercosur countries.

- (8) The removal of technical and regulatory trade barriers to trade in goods, in particular by promoting the use of first-party certification and convergence through the use of international standards adopted by ISO, IEC, ITU and Codex Alimentarius, as well as by other international standard setting organisations, in accordance with the common definition agreed by the EU and Mercosur. There is an agreement to reduce duplicative testing in the electronics sector in low-risk areas. There will also be a specific Motor Vehicles Annex promoting UNECE Regulations and reducing duplicative testing in the sector.
- (9) A comprehensive Annex with detailed provisions to facilitate trade in wine and spirits, covering recognition of winemaking practices, certification and labelling, in line with the most modern EU FTAs.
- (10) The opening of services sectors and facilitation of trade in services between the EU and Mercosur, both through local establishment and on a cross-border basis. The agreement covers a wide range of services sectors, including business services, financial services, telecommunications, maritime transport (for the first time Mercosur is opening maritime transport within the region), postal and courier services. It also includes commitments on establishment of enterprises, both in services and non-services sectors. It will ensure a level-playing field between EU service providers and their competitors in Mercosur. The ‘right to regulate’ in public interest is fully preserved, at all levels of government. The agreement also contains advanced provisions on the movement of professionals for business purposes, such as managers or specialists that EU companies post to their subsidiaries in Mercosur countries. There is also a substantive e-commerce chapter – a novelty for the Mercosur partners.
- (11) A high level of protection and enforcement of intellectual property rights including detailed provisions on copyright, trade secrets and enforcement providing for improved protection.
- (12) A high level of protection and enforcement for EU Geographical Indications (GIs), comparable to that of the EU, for 344 EU names of quality food, wine and spirits products.
- (13) A chapter dedicated to SMEs to ensure that they fully benefit from the opportunities offered by the ITA.
- (14) Efficient dispute resolution mechanisms, either through panel arbitration or with the help of a mediator. The dispute settlement chapter includes new provisions modelled on the WTO non-violation complaint - if a party considers that a measure of the other party nullifies or substantially impairs its benefits under the agreement, it can ask a panel to rule on this question.

Proposal for a

COUNCIL DECISION

on the signing, on behalf of the European Union, of the Interim Agreement on Trade between the European Union, of the one part, and the Common Market of the South, the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay, of the other part

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 91(1), Article 100(2), and Article 207(4), first subparagraph, in conjunction with Article 218(5) thereof,

Having regard to the proposal from the European Commission,

Whereas:

- (1) On 13 September 1999, the Council authorised the European Commission to open negotiations on an Agreement with the Common Market of the South and its State Parties consisting of political, cooperation and trade parts.
- (2) The negotiations were successfully concluded on 6 December 2024.
- (3) The newly negotiated partnership consists of two parallel legal instruments. The first instrument is the Partnership Agreement between the European Union and its Member States, of the one part, and the Common Market of the South, the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay, of the other part ('EU-Mercosur Partnership Agreement'), which includes the Political and Cooperation pillar, and the Trade and Investment pillar. The second instrument is the Interim Agreement on Trade between the European Union and the Common Market of the South and the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay (hereinafter 'the Agreement'), which covers trade and investment liberalisation. The Agreement will cease to have effect and will be replaced by the EU-Mercosur Partnership Agreement upon entry into force of the latter.
- (4) Therefore, the Agreement should be signed on behalf of the Union, subject to its conclusion,

HAS ADOPTED THIS DECISION:

Article 1

The signing on behalf of the Union of the Interim Agreement on Trade between the European Union and the Common Market of the South and the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay (hereinafter 'the Agreement') is hereby authorized, subject to the conclusion of the said Agreement.

The text of the Agreement to be signed is attached to this Decision.

Article 2

This Decision shall enter into force on the date of its adoption.

Done at Brussels,

*For the Council
The President*

**LEGISLATIVE FINANCIAL STATEMENT 'REVENUE'- FOR PROPOSALS
HAVING BUDGETARY IMPACT ON THE REVENUE SIDE OF THE BUDGET**

1. NAME OF THE PROPOSAL:

Proposal for a Council Decision on the signing, on behalf of the European Union, of the Interim Agreement on Trade between the European Union, of the one part, and the Common Market of the South and the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay, of the other part

2. BUDGET LINES:

Revenue line (Chapter/Article/Item): Chapter 12, Article 120

Amount budgeted for the year concerned (2025): EUR 21 082 004 566

(only in case of assigned revenues):

The revenues will be assigned to the following expenditure line (Chapter/Article/Item):

3. FINANCIAL IMPACT

☐ Proposal has no financial implications

☒ Proposal has no financial impact on expenditure but has a financial impact on revenue

☐ Proposal has a financial impact on assigned revenue

The effect is as follows:

(EUR million to one decimal place)

Revenue line	Impact on revenue	12 months	Year 2026
Chapter 12/Article 120	<i>EUR 247.5 mn</i>	Entry into force expected beginning 2026	0
Chapter 12/Article/120			

Situation following action					
Revenue line	[N+15]	[N+16]	[N+17]	[N+18]	[N+19]
Chapter 12/Article 120	<i>EUR 1 billion</i>	<i>EUR 1 billion</i>	<i>EUR 1 billion</i>	<i>EUR 1 billion</i>	<i>EUR 1 billion</i>
Chapter/Article/Item ...					

(Only in case of assigned revenues, under the condition that the budget line is already known):

Expenditure line ²	Year N	Year N+1
Chapter/Article/Item ...		
Chapter/Article/Item ...		

Expenditure line	[N+2]	[N+3]	[N+4]	[N+5]
Chapter/Article/Item ...				
Chapter/Article/Item ...				

4. ANTI-FRAUD MEASURES

5. OTHER REMARKS

The proposed Decision does not incur additional costs (expenditure) in the EU budget.

The ITA will have a financial impact on the EU budget on the side of the revenues. The ITA will lead to an estimated loss of duties of EUR 247.5 million at the entry into force of the Agreement.³ After the ITA is fully implemented on the EU side (after 15 years from its entry into force) the yearly loss of duties is estimated to reach EUR 1 billion. This estimation is based on a projection of the evolution of trade for the next 15 years without any agreement.

Indirect positive impacts are expected in terms of increases in resources linked to value added tax and gross national income.

² To be used only if necessary.

³ The estimated amount of revenue losses at EUR 247.5 mn is net of collection costs (a 25% has been deducted from the estimated revenue loss of EUR 330 mn).