

EU-Mercosur for European Companies

What the agreement changes, where the opportunities are and why Paraguay deserves a closer look

The EU-Mercosur Interim Trade Agreement has applied provisionally since 1 May 2026. For European companies, its importance goes well beyond lower tariffs: it changes customs economics, services access, public procurement, rules of origin and the case for producing inside Mercosur. Paraguay is particularly relevant where companies are looking for a lower-cost regional base rather than simply a larger end-market.

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1 The agreement is already operational

For European companies, the most important starting point is that EU-Mercosur is no longer merely a political project awaiting an uncertain future. The Interim Trade Agreement (ITA) has applied provisionally since 1 May 2026, after the EU and the four founding Mercosur states completed the procedures required for provisional application. The broader EU-Mercosur Partnership Agreement will eventually replace the interim trade instrument once its full ratification process is complete. In practical terms, however, the core trade rules are already part of the commercial environment.

This distinction matters because companies can now build pricing, sourcing and investment decisions around rules that are in force rather than around a hypothetical future agreement. Tariff reductions have started, origin procedures apply, customs authorities are implementing the new framework and service providers can begin to rely on commitments contained in the agreement. The benefits are phased in over time, so the commercial effect in 2026 is only the first stage of a much longer adjustment.

2 What changes for a European company

The agreement is broad enough that its value depends on the business model. A German machinery exporter, a Spanish engineering firm, an Italian food producer and a French logistics group will not use the agreement in the same way. The relevant question is therefore not whether EU-Mercosur is beneficial in the abstract, but which part of the agreement changes the economics of a particular transaction or investment.

Business model	Main change	Practical relevance
Export goods from the EU	Progressive tariff elimination and simpler customs procedures	Lower landed cost and stronger price competitiveness
Sell services into Mercosur	More predictable market access and fewer establishment restrictions in covered sectors	Useful for finance, telecoms, transport, digital and business services

Business model	Main change	Practical relevance
Bid for public contracts	Improved access and non-discrimination within covered procurement	New opportunities in infrastructure, equipment and professional services
Establish in Paraguay	EU-Mercosur access can be combined with Paraguayan investment incentives	Potential regional production and distribution base
Produce for export	Preferential access depends on satisfying product-specific origin rules	Local production can qualify, but origin is never automatic

3 Tariffs: the most visible benefit, but not the only one

Mercosur historically protected many industrial imports with relatively high tariffs. The European Commission identifies machinery, vehicle components, chemicals and pharmaceuticals among the sectors where duties have been especially significant. Under the new agreement, around 90% of Mercosur imports from the EU will ultimately be liberalised, although the timetable varies by product and can extend to fifteen years. The EU will liberalise an even larger share of imports from Mercosur, generally on a shorter timetable.

For European manufacturers, the immediate effect is easier to understand in sectors where the tariff was previously large enough to influence the purchasing decision. Machinery and appliances have commonly faced duties in the 14-20% range; chemicals and pharmaceuticals often faced rates around 14-18%; transport equipment could be subject to substantially higher duties. The agreement progressively removes or reduces many of these barriers. In the automotive sector, some of the first cuts took effect on day one, while most machinery tariffs will be dismantled over a longer period.

The commercial significance is not simply that an exporter can reduce its invoice price. A lower tariff can change the total cost of ownership for a Mercosur customer choosing between European, Asian and locally produced equipment. European capital goods often compete on reliability, energy efficiency, after-sales service and financing rather than on factory-gate price alone. When the customs penalty falls, those non-price advantages become more important.

4 Rules of origin become a commercial function, not a customs afterthought

Tariff preferences are available only when the product satisfies the agreement's rules of origin. That sounds technical, but it will influence sourcing, manufacturing and supply-chain design. A product shipped from Europe does not qualify merely because the seller is an EU company, and a product manufactured in Paraguay does not qualify for EU preferences merely because the factory is located in Mercosur. The relevant product-specific origin rule must be met.

European exporters therefore need to know where components come from, what transformation takes place in the EU and which origin documentation must accompany the transaction. The European Commission directs exporters to the ROSA tool within Access2Markets to test origin requirements and to check whether Registered Exporter or Approved Exporter status is needed for self-certification. These procedures are not a minor administrative issue: an incorrectly claimed preference can generate additional duties, delays and disputes with the importer.

For companies considering production in Paraguay, origin rules are even more strategic. A European group may import machinery or components, process or assemble goods in Paraguay and then sell into the EU or elsewhere in Mercosur. Whether the final product benefits from the agreement depends on sufficient transformation and the applicable origin rule. The agreement can therefore reward genuine regional production, but it should not be treated as a simple trans-shipment route.

5 Services matter almost as much as goods

The agreement is frequently discussed through agriculture and industrial tariffs, yet services are economically substantial. EU-Mercosur trade in services reached EUR 41.5 billion in 2023, with EU exports of EUR 28.6 billion. The agreement creates a more predictable framework for European suppliers in sectors including financial services, telecommunications, postal and courier services, transport, digital trade and environmental services.

Its value lies partly in limiting certain discriminatory or quantitative restrictions. In covered sectors, European suppliers may establish an enterprise and operate on terms comparable to domestic and other foreign suppliers, subject to the reservations written into the schedules. In some activities, the agreement also prevents a country from requiring a local presence merely to provide the service. Licensing and qualification procedures are expected to be clear, fair and timely.

This does not create an EU-style single market. National regulation still matters. A financial institution remains subject to financial supervision; an engineering or professional-services firm may still need local licences; telecommunications operators must comply with spectrum and sector rules. The agreement improves the framework within which those rules operate, but it does not abolish them. European companies should distinguish market-access commitments from the separate question of local regulatory authorisation.

6 Digital trade and temporary movement reduce friction for service businesses

For technology and professional-services companies, the digital provisions are particularly relevant. The agreement supports electronic contracts, signatures and authentication, prohibits customs duties on electronic transmissions and limits certain prior-authorisation requirements for online services. It also creates a framework for cooperation on consumer protection and other digital-trade issues.

The agreement also facilitates temporary entry for several categories of businesspeople, including intra-corporate transferees, graduate trainees, business visitors, business sellers, contractual service suppliers and independent professionals. These provisions can make it easier to deploy personnel for projects, installations, negotiations and specialised

assignments, although they do not replace immigration, professional-qualification or labour-law requirements in the host country.

7 Public procurement opens another route into the market

European companies often approach Latin America through private customers and overlook public procurement. EU-Mercosur is important because it improves access to covered government contracts and seeks to place European bidders on an equal footing with Mercosur companies within the scope of the procurement commitments. This can be relevant to infrastructure, transport systems, environmental equipment, health technology, digital solutions, engineering and other sectors where public entities are major purchasers.

The opportunity should nevertheless be analysed tender by tender. Coverage depends on the entities, thresholds and categories listed in the agreement and on domestic procurement procedures. The agreement reduces discrimination; it does not eliminate the need to understand local tender rules, guarantees, documentation, tax treatment or qualification requirements. For smaller European suppliers, the practical improvement may be as much about transparency and access to information as about formal market opening.

8 Why Paraguay deserves attention within Mercosur

Brazil is by far the largest market in Mercosur, and Argentina remains the second major industrial economy of the bloc. Paraguay therefore cannot compete with either country on domestic market size. Its relevance is different. It combines comparatively low taxation, abundant renewable electricity, a growing industrial base, access to the Mercosur market and a policy framework designed to attract foreign production. For a company whose objective is to manufacture, process, assemble or provide regional services rather than merely selling into the largest consumer market, that combination can be important.

Paraguay's Ministry of Industry and Commerce has explicitly presented the EU-Mercosur agreement as an opportunity to attract European investment that adds value locally. The logic is straightforward: European companies can use Paraguay not only as an end-market, but as a production and logistics platform linked to Brazil, Argentina, Uruguay and, where origin requirements are satisfied, the European market itself. That proposition is strongest in agroindustry, machinery-related activities, automotive components, logistics, renewable-energy-intensive production, technology and business services.

The point is not that the agreement turns Paraguay into a duty-free bridge between two continents. It does not. The opportunity comes from combining the agreement with real economic activity in Paraguay: local processing, labour, energy, logistics, services and investment. Where those elements create the required origin and a competitive cost base, the trade agreement can amplify the result.

9 Paraguay adds domestic investment incentives to the trade agreement

European investors should also separate the benefits created by EU-Mercosur from those available under Paraguayan domestic law. Law 7,548/2025, implemented by Decree 5,432/2026, provides a modernised incentive regime for national and foreign investment. Approved projects may obtain customs-duty and VAT relief on qualifying capital goods. Projects of at least USD 13 million may, subject to the statutory conditions, obtain additional relief on certain foreign financing costs and a ten-year exemption from the Tax on Dividends and Profits generated by the approved investment.

This can interact with EU-Mercosur in useful ways. A new factory may import European equipment under a Paraguayan incentive regime, reducing the initial investment cost even before the agreement's tariff schedule is fully phased in. Later replacement investment, spare parts or equipment outside the original approval may benefit more directly from the progressive tariff reductions. The two regimes should therefore be modelled together rather than treated as substitutes.

The Maquila regime provides a second route for export-oriented activity. Paraguay's updated Maquila Law 7,547/2025 and its 2026 implementing decree modernise a system under which approved production or services are carried out for a foreign principal and exported. The regime can be highly competitive for regional manufacturing and services. But again, Maquila status and EU-Mercosur origin are different concepts: a maquila product exported to the EU must still satisfy the agreement's origin rules to obtain the preferential tariff.

10 The agreement does not remove the need for local strategy

Trade agreements can create the illusion that regulatory complexity disappears once tariffs fall. In practice, European companies will still face national tax systems, labour law, product registration, technical standards, sanitary rules, customs procedures and sector regulation. Distribution networks and payment practices remain local. In some industries, the decisive barrier may be licensing or market structure rather than customs duty.

The agreement also has transition periods. A product scheduled for tariff elimination in ten or fifteen years may still face a meaningful duty today. Companies need to work with the actual tariff line and calendar, not the eventual zero-rate headline. Access2Markets, the agreement's tariff schedules and local customs advice should therefore be part of pricing and investment analysis from the beginning.

For agricultural and food companies, European sanitary and phytosanitary standards remain fully applicable to Mercosur imports. The agreement does not lower EU food-safety requirements. Sustainability commitments have also been strengthened, including the Paris Agreement as an essential element and commitments related to deforestation. Companies in sensitive supply chains should therefore consider trade preferences together with traceability and EU regulatory obligations.

11 Where the opportunities are likely to be strongest

For European industrial companies, the clearest opportunities are in sectors where high historical tariffs have constrained exports and where European technology has a recognised quality advantage: machinery, electrical equipment, chemicals, pharmaceuticals, medical and measuring instruments, transport equipment and specialised industrial inputs. The agreement improves the economics of direct exports while also making local assembly or production easier to justify.

For service companies, the most promising areas include engineering, logistics, telecommunications, environmental services, digital solutions, finance and specialised business services. Paraguay is relevant here because a relatively small domestic market can still support a regional service platform, particularly where labour costs, tax treatment and access to neighboring markets are competitive.

Agri-food producers have different opportunities. Mercosur has historically imposed high tariffs on many European food and beverage products, and the agreement progressively reduces those barriers while protecting 344 European geographical indications. Premium foods, wines, spirits, dairy products and processed products can therefore gain better access, although the commercial opportunity will vary sharply by country and consumer segment.

12 A practical approach for European companies

The agreement is best treated as a strategic variable rather than a marketing slogan. A European company considering Mercosur should start with the specific product or service, identify the tariff and phase-out schedule, check origin rules and local regulatory requirements, and then compare alternative entry models: direct export, distributor, local subsidiary, joint venture or regional production base.

For companies with no existing presence in South America, direct exports may be the natural first step because the tariff savings improve the economics without requiring fixed investment. Where sales become recurring, a local commercial structure may improve distribution and after-sales support. For capital-intensive or export-oriented operations, Paraguay deserves a separate investment model because its domestic incentives can be combined with the new trade framework in ways that are less relevant to a purely sales-oriented strategy.

The strategic change created by EU-Mercosur is therefore broader than tariff elimination. It reduces the economic distance between Europe and South America's largest trade bloc. For European companies, that creates three simultaneous possibilities: sell more competitively into Mercosur, provide services under a more predictable framework, or establish productive capacity inside the bloc. Paraguay will not be the correct location for every project, but for companies seeking a cost-efficient, export-oriented base rather than the largest local market, it has become considerably harder to ignore.

Sources

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