

Flash Analysis

Credit analysis

Impact of the Mercosur Agreement on the European food industry

March 2026, martina.lannert@kfw.de

Status quo

A free trade agreement between the EU and the South American Mercosur states (Argentina, Brazil, Paraguay and Uruguay) has been planned for 25 years. On 17 January 2026, after numerous rounds of negotiations, both sides finally signed a comprehensive partnership agreement. At the same time, the European Parliament commissioned a legal opinion from the ECJ, which postponed the necessary ratification of the agreement. The suspension of the ratification procedure weakens the legal basis of the agreement and carries the risk of the EU losing potential trade advantages over competitors. Despite the block by the EU Parliament and prior to the review by the ECJ, the European Commission intends to provisionally apply the Mercosur agreement soon.

Purpose and content of the agreement

The core of the agreement is the trade section, which aims to provide new impetus for growth, innovation and employment by removing tariffs and barriers to trade. In addition, the agreement contributes to more resilient and diversified supply chains. One of the world's largest free trade zones, encompassing more than 720 million people, could be established, thereby reducing the high dependency on China for the procurement of natural resources.

The free trade agreement includes, in particular, the following significant features:

- Duty-free status for approx. 90% of imported industrial products from South America
- Gradual reduction of customs duties for "sensitive" goods (e.g. beef, poultry, sugar, ethanol) over 15 years
- Agreements on the protection of geographical indications of origin for food-stuffs
- Bilateral protection clause to avoid economic damage (e.g. in the agricultural sector)
- Strengthened cooperation in developing improved animal welfare standards within the framework of the World Organisation for Animal Health
- Commitment to labour and environmental standards

Opportunities and challenges for the European food industry

The agreement primarily benefits sectors that have previously been burdened by high tariffs. These include automotive manufacturers and suppliers as well as the chemical, pharmaceutical and textile industries. However, the following is intended to deal specifically with the impact on the European food industry:

1. *Improved market access and export opportunities:* One of the key benefits of the Mercosur Agreement for the European food industry is improved access to South American markets. The gradual reduction of tariffs will enable food producers to export their products to Mercosur countries at lower prices. This opens up new sales markets for companies that were previously hampered by high import duties. In addition, European companies can benefit from the increased purchasing power and the growing middle class in these countries.
2. *Increasing competition through imports:* The agreement facilitates the import of agricultural and food products from the Mercosur states into the EU. Competitive pressure for European farmers and manufacturers will increase. Adaptations and specialisations will be required.

3. *Quality and sustainability requirements:* The European food industry attaches great importance to high quality, environmental and social standards. Although the agreement provides for some arrangements to protect the environment and social standards, its actual implementation and compliance are being critically discussed. For European companies that focus on sustainability, this could affect fair competition. Monitoring mechanisms and clear certifications are required here.
4. *Opportunities to diversify supply chains:* The agreement offers European companies the opportunity to diversify their supply chains and tap into new sources of natural resources from South America. This can reduce dependencies and secure the (food) supply in the EU in the long term. In addition, product ranges could be expanded and/or costs optimised.
5. *Potential for innovation and cooperation:* Beyond pure trade, the agreement can also provide impetus for innovation and cooperation in the area of sustainable agriculture, agricultural technologies, or food processing. Sharing know-how to improve production processes and sustainability could also benefit both sides.

Conclusion:
Global food companies can benefit; concerns over competitive disadvantages prevail among local producers

The Mercosur Agreement brings a complex interplay of opportunities and challenges for the European food industry. While easier access to new markets and supply sources offers growth opportunities for many companies (particularly those already operating globally), competitive pressure from cheaper imports increases the need for adaptation. For “sensitive” agricultural products such as beef or sugar, market access for imports into the EU remains temporarily limited by quotas. However, the plan is to liberalise trade in these products gradually over several years. Bilateral protection clauses can protect against market disturbances.

The sugar sector is likely to be particularly affected

Some **sugar companies** have expressed critical views on the Mercosur Agreement and fear a weakening of the European agricultural sector due to the import of cheap agricultural products. Particularly for the raw material sugar, the additional (albeit small) quantities are likely to put pressure on the already low EU sugar prices and thus on the earnings situation of sugar-processing companies. The impact of additional sugar volumes on the financial results of these companies has recently been negatively felt due to tariff-favored imports from Ukraine into the EU.

The larger, globally operating **dairy companies**, on the other hand, are likely to benefit from the agreement overall. They gain easier access to South American markets and can expand their export activities. The additional competitive pressure from imports to Europe is likely to remain limited for these global players. Local producers, on the other hand, could find it difficult in light of increased competitive pressure.

It is important for the food industry to respond strategically to these changes, for example by investing in innovation, quality, and sustainable production, in order to remain competitive in the long term. Companies should already be preparing for possible application of the agreement (through adaptations to supply chains, sourcing strategies, customs calculation) and be taking advantage of opportunities for cooperation or new business models.