12.07.2017

Comments on the ongoing negotiations between the EU and Mexico

We understand that the negotiations on the modernisation of the EU-Mexico FTA are making progress. In this context, we would like to reiterate the importance of this deal for the dairy sector and present a number of additional observations based on the experiences of our members exporting to Mexico.

Significant potential to increase EU exports if tariff protection is removed

Mexico is roughly 82% self-sufficient for dairy products, meaning that it needs to import 18% of its dairy product needs every year (approximately 3 million tonnes in milk equivalent). Mexico has become the largest SMP importer in the world and it is also among the biggest butterfat, cheese and casein importers globally. Mexico's dairy imports are likely to increase further as the population of already almost 130 million and its middle class with more disposable income continue growing. From our perspective, these aspects make Mexico a priority country on the EU trade policy agenda. The revamped agreement should result in significantly enhanced, preferably duty-free access for EU dairy products in Mexico.

Currently, the primary supplier to Mexico is the US, benefiting from its proximity to Mexico, but also crucially from duty free access to the Mexican market as part of the NAFTA (which has been the case since 2008, when all duty and quantitative restrictions were lifted between the NAFTA members). The US exported over €1 billion of dairy products to Mexico in 2016, all at zero duty. By comparison, EU exports of dairy products to Mexico were valued at about € 175 million during 2016, making it only the 17th market for EU dairy products in value terms. The top products being exported by the EU to Mexico are cheese (primarily varieties falling under CN 0406 90), casein and caseinates, infant formula and SMP. However, unlike their US counterparts, EU dairy exports are subject to tariffs of mainly between 20% and 45% according to the market access database but we hear of duties of up to 80% being applied to cheeses. EU exports of SMP can in principle benefit from a duty free WTO quota but are subject to various non-tariff barriers.

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Dismantling of tariffs has to be accompanied by the removal of non-tariff barriers

There are a number of outstanding issues affecting EU dairy exports to Mexico.

Cupo system

The 'cupo' system of import licences applies to milk powder (0402) and fat filled milk powders (1901). Regarding the 80 000 tonne quota of SMP, half of the quota is allocated to the government social programme (Liconsa) and 45% to historical importers. There is also a special allocation to border zones, meaning that only a minimal quantity of 1-2% is in fact accessible to newcomers, while the historical licences are held by a small number of actors. Both Liconsa and the historical importers usually prefer to source product from the US which is also duty free by virtue of NAFTA and is not subject to any (cupo) licencing requirement. While the dominance of the US on the Mexican market is of course also linked to geographical proximity and price competitiveness, the EU will have to benefit from the same duty and barrier-free access to the Mexican market in order to be able to compete on a level playing field. Should the negotiations result in tariff rate quotas for certain products, it will be crucial that these are not subject to the cupo system but a more trade conducive administration method.

VAT on casein and caseinates

While food and drugs are VAT exempt in Mexico, casein and caseinates which are classified under Chapter 3501 are not seen as food and are therefore subject to a 16% VAT duty on import. This levy is refundable but it takes several months for the money to be repaid. Eucolait would appreciate if this issue could be addressed in the negotiations in that casein imported as food ingredient is exempted from VAT on import.

SPS issues

We are aware of occasional issues with product approvals and standards which should be addressed in a strong SPS chapter. In order to allow for smooth trade, Mexico should recognise the EU as a single entity and food legislation should be conform to Codex Alimentarius standards.

The Mexican authorities also require a radiological certificate for dairy products, at least from certain Member States, and consignments must be certified by the Office of Radiological Protection at the EPA (Environmental Protection Agency). This requirement creating additional costs and administrative burden is linked to the Chernobyl disaster of 1986 but seems quite outdated today in relation to EU dairy products.

Conclusion

As in other key markets, EU exporters need to be able to compete under the same conditions with other main dairy suppliers. Apart from the US which already enjoy full access under NAFTA, New Zealand and Australia might also benefit from improved concessions if the Transpacific Partnership goes ahead without the US. Although the current geopolitical climate is one of uncertainty and certainly not desirable, the trade policy of the new US administration may be favourable to EU exports to Mexico, in particular in the context of the renegotiations of the NAFTA, as Mexico is looking to diversify its trade relations.

Eucolait therefore supports an ambitious FTA with Mexico providing for the removal of tariffs on dairy products, while abolishing complex licence requirements and other administrative hurdles. Given that Mexico is a major importer of a large variety of dairy products, all dairy lines should be considered important in the negotiations. We look forward to seeing enhanced access for EU dairy and remain available to offer any feedback or assistance should this be necessary.