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Eucolait position on an EU- Mercosur Free Trade Agreement

Eucolait supports the negotiations for a free trade agreement between the EU and Mercosur. We are strongly of the opinion that liberalisation or significant tariff reductions for dairy should form part of any agreement with the South American trading bloc. Easier and increased international trade in dairy products and commodities will provide a strong impetus for growth and job creation in both regions.

Any reduction of tariffs need to be accompanied by a significant elimination of non-tariff barriers in order to ensure a meaningful deal. We consider this necessary if we are to see increased movement of dairy between the EU and Mercosur.

Mercosur constitutes a mixed bag when it comes to dairy as it comprises both major exporters (Argentina and Uruguay) and importers (Brazil and potentially Venezuela). Therefore it is worthwhile looking at the group country by country.

Brazil

Brazil is a major producer, consumer and, to a lesser extent, exporter and importer of dairy products. In recent years Brazil has not been self-sufficient for dairy with the result that it is presently a large buyer of dairy products. While EU exports to Brazil cannot be described as insignificant, they are limited because of the preferential access to the Brazilian market enjoyed by neighbouring Argentina and Uruguay and because of considerable non-tariff barriers. The main dairy product exported by the EU to Brazil is cheese, followed by infant formula and lactose. Most current MFN duties on dairy products range between 16% and 28%.

We are confident that there is untapped potential for EU exporters on the Brazilian market, given that there is already an established culture of dairy consumption (approximately 177 kg per capita consumption in milk equivalent per year) and while consumption is currently under pressure due to certain economic constraints, in the medium to long term that demand for dairy products is set to rise. We therefore recommend a (mutual) full elimination of tariffs on dairy products between the EU and Brazil.

This removal of tariffs needs to go hand in hand with the dismantling of non-tariff barriers. Brazil has a complicated procedure for the approval of exporting plants which makes it nearly impossible for interested exporters to be granted authorisation. On-site visits by Brazilian veterinarians are required: organizing such visits can take years and frequently they do not take place at all. This is compounded by an extremely burdensome system of packaging and labelling approval for imported products. These issues should be a top priority in the negotiations on agriculture and regulatory cooperation.

Argentina and Uruguay

These two countries are net exporters of dairy products and among the key suppliers to the world market (after the EU, New Zealand, USA and Australia), although a majority of the exports are regional, i.e. remaining within South America with Brazil and Venezuela being the main clients.

We believe trade liberalization with these countries will create some opportunities for exporting added value and niche products and will help contribute to stabilizing prices through reciprocal trade of dairy commodities such as SMP. In reality, traded volumes are likely to remain low but we do not see any reason for protectionism either. Dairy consumption is quite mature in these countries and true economic recovery that might boost consumption is still some way off in Argentina, despite their political reforms. Milk production in Argentina is likely to be impacted for some time by high feed costs resulting from the new government policy to increase grain and soy exports. This in turn will limit the amount of exportable dairy surplus.

Paraguay

Paraguay is not entirely self-sufficient when it comes to dairy, yet imports remain quite marginal, while EU exports are almost non-existent. Export potential to Paraguay is probably quite limited but an elimination of tariffs would certainly be helpful in creating possible opportunities.

Venezuela

Venezuela is not currently party to the Mercosur negotiations with the EU. However, if at a later date Venezuela were to join, this would present a golden opportunity for dairy trade growth. Venezuela is a major importer of dairy products on the world market despite a slowdown in imports in 2015 due to lack of purchasing power. Venezuela remains heavily dependent on imported products for its dairy needs (self-sufficiency in production hovers at around 50% in recent years). Therefore if there was to be some economic recovery, combined with engagement with the EU there could be great scope for EU dairy exports.

Euclait hopes that the Commission will take this summary into account and we remain available to provide any additional information which might be of assistance.