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EU-UK trade relations after Brexit – the position of dairy trade

Eucolait believes that the UK leaving the EU will cause great damage, economic and otherwise, to both the Union and the United Kingdom. Even though the divorce procedure has not yet been triggered, the UK government has already clarified its intention to leave the single market while at the same time stressing its wish to maintain strong trade ties with the EU. As the withdrawal notification under article 50 TEU is expected by the end of March, it is important to assess which kind of an agreement would be in the best interest of both sides once the UK is no longer a member of the European Union.

From our perspective, the future trade relationship between the EU and the UK should be as close to the present situation as possible. This means that milk and dairy products should circulate freely between the two markets, without being subject to tariffs or non-tariff barriers and without or with minimal border and customs controls.

Key facts on EU – UK dairy trade

Existing trade flows between the UK and the rest of the EU are very significant. The UK annually 'exports' more than 1 billion € worth of dairy products to other EU Member States, whereas 'imports' from the EU-27 account for more than € 3 billion. The EU is by far the main market for UK dairy products and an almost exclusive supplier when it comes to UK dairy imports.

Despite being the EU's 3rd largest milk producer, the UK is only about 81% self-sufficient in dairy, notably due to high drinking milk consumption. This makes the UK the second biggest dairy importer in the world (if intra-EU trade is considered as external trade) and the largest importer of cheese. In spite of industry efforts to grow production, the UK will remain dependent on imports at least in the medium term.

Market access

In light of the interdependence between the EU and UK in the dairy sector, it is obvious that any reintroduction of tariffs or other barriers to trade would be very detrimental especially on the EU-side, but also for the UK due to lost export opportunities and price increases. With tariffs applied on EU dairy products, the market share we enjoy today might be replaced by other dairy exporters like New Zealand, Australia or the United States as a result of future trade deals with better market access concessions.

Consequently, we strongly believe there should be continuous open, duty free access for EU dairy products in the UK and reciprocal treatment of UK products within the EU. This should be accompanied by a mutual recognition of each other's food safety systems as equivalent. Such recognition should not be difficult to achieve since today the UK is part of the single market and follows the same food safety and food information rules as other EU Member States. A regulatory committee should be set up post-Brexit to avoid that undue regulatory barriers are set up in the future and to eliminate the need for health and veterinary certificates in EU-UK cross border trade.

Nature of the future EU & UK agreement

How exactly the future relationship will look like will of course depend on the political will on both sides but it appears that a 'classic' free trade agreement would fall short of the aim of maintaining the existing free movement of goods. For this, strong regulatory and trade facilitation (customs) components are required. This could be achieved for instance through a comprehensive customs union agreement. To date, EU has a customs union with Turkey but it does not cover agricultural goods. The EFTA and the EEA agreement are often quoted as models for the future EU-UK deal but agricultural products are also excluded from the EEA. Moreover, the UK would first have to apply for EFTA membership which makes this option even less attractive. It therefore seems that no existing trade arrangement the EU has with a third country should be copy-pasted but and that a tailored 'sui generis' agreement between the EU and UK is the only viable option. This is logical since the circumstances are completely new: countries with currently close trade ties with the EU are not former Member States.

The mantra of indivisibility of the four freedoms has been omnipresent in Brussels since the results of the referendum are known. However, we are convinced that strong trade ties or a joint market with the UK are not incompatible with any EU principles and would serve EU's economic interests, certainly as far as our sector is concerned.

The particular case of Northern Ireland

The impacts of Brexit will not be felt to the same degree across Europe, with Ireland being the Member State most affected. Looking at dairy trade, Ireland is both the main supplier and customer of the UK. Also politically the divorce will be very complex not least due to the Good Friday agreement and the specific nature of the border separating Northern Ireland from the Republic (future EU external border vs common travel area). In this context, we would like to highlight the huge volumes of raw milk crossing the border from the UK to Ireland every day

to be processed there: about 800 million litres in 2016, corresponding to some 12% of Ireland's milk production pool. Moreover, 75% of the processing facilities in Northern Ireland are fully or jointly owned by Irish cooperatives. A reestablishment of a border, let alone duties, would be extremely harmful to both producers in Northern Ireland and dairies in the Republic of Ireland.

Timing – avoid trade disruption

In order to avoid any disruption of trade, the negotiations on the future trade arrangement should be an integral part of the article 50 process, rather than only being initiated once the exit has taken place. Today, EU MFN duties on the main dairy products are in the region of 100-200 €/100kg (approximately 40% to 80% depending on product and prices). If the UK continues to use the EU tariff classification and duty rates (at least in the first stage after Brexit), the same tariffs would apply to EU exports to the UK. It goes without saying that, given the size of the trade flows in both directions, the impact of such a scenario would be catastrophic.

The second best option would be an interim agreement maintaining the status quo until the talks on the future trade agreement are finalised and the new trading arrangements are implemented. The establishment of such an interim regime should be decided as early as possible so as to limit the uncertainty faced by companies operating in both markets and to avoid any unnecessary disturbance of normal business activity.

Conclusion

We wish to reiterate our strong commitment to maintaining open dairy trade - free from tariffs and non-tariff barriers - between the UK and EU and look forward to engaging constructively with the negotiators and other stakeholders throughout the article 50 process.