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## 2016 – a year of rupture

We experienced the beginning of the Russian embargo in 2014 and milk quota abolition in 2015; but 2016 has certainly not been lagging behind in terms of seismic political and policy developments. Brexit, President Trump, the beginning of the end of the single market for dairy? While markets have recovered in the course of the year on the back of weakening supply, most of the political incidents have been quite the opposite of reassuring for the future of our industry.

The first bad omen came in April when France notified its decree on mandatory origin labelling on dairy products. Against all expectations, reason and fundamental principles of EU law, the Commission did not block the adoption of the decree. The strange thing is that the rationale behind this decision is nowhere to be found and no one in the Commission seems to stand behind the decision which makes you wonder about the circumstances in which it was taken. The green light given to France of course led to a snowball effect as other Member States such as Italy, Greece, Portugal, Lithuania and Finland followed suit. The disastrous effects on the functioning of the internal market won't be felt until next year when these rules enter into force, one by one. Unfortunately this is just one example of a greater protectionist and populist tendency, in Europe and beyond.

A far deadlier blow to the single market and the EU as a whole was dealt on 23 June when 51,9% of UK voters opted to leave the Union. As the infamous Art. 50 procedure still needs to be triggered by May's government, we are completely in the dark about the direction of the negotiations, let alone the outcome, i.e. how the future trade relationship between the UK and the remaining 27 might look like. While an arrangement which is as close as possible to the current situation of free movement of (dairy) goods is clearly the most desirable one from our perspective, such an option seems unlikely unless the UK continues subscribing to all 4 freedoms and contributes to the EU budget at a scale justifying the access (something close to the EEA/Norway option). It is obvious that the consequences of any market access restrictions would be tremendous, given the size of existing trade flows. The UK is notably the worlds' biggest buyer of cheese. Whatever the result, the EU Brexit team plans to move fast as Chief Negotiator Michel Barnier has set October 2018 as a deadline for finalising the divorce talks (in case article 50 is triggered in March as announced), thereby paving the way for Brexit in March 2019.

2016 was also an interesting year from an EU dairy policy perspective. In an effort to curtail EU milk flows, the Commission put in place an unprecedented milk production reduction aid scheme, paying producers 14c for every kg of milk not produced. This was the first policy measure designed to manage production since the quota removal. While the rationale and timing of the move are somewhat disputed, the Commission certainly showed it is ready to use its emergency powers under the common market organisation regulation in a creative manner and Commissioner Hogan recently confirmed he would not hesitate to launch a similar scheme again in the future if needed. The Commission also surprised market participants with the opening of the sale of SMP from intervention at a time of quite low (albeit increased) SMP prices and when PSA and the milk production reduction scheme were still operational. The novelty was that only a small part of the total volume was put available for sale so as to test the waters. The results of the first tendering round will be known later this week.

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On the trade policy front, it became more and more apparent that the EU is suffering from a legitimacy crisis as in particular TTIP and CETA were not only heavily criticised by NGOs and the general public but also by prominent members of national governments and of the European Parliament. At the heart of the debate is the dispute about investment protection and the question whether this is an area of exclusive EU or indeed 'mixed' competence. The complications were illustrated in late October when the deal with Canada was held hostage and almost blocked by the Walloon government. And the agreement is not ratified yet...

Free trade proponents (along with many others) were further stunned by the election of Donald Trump as President of the United States on 8 November. Among his arsenal of controversial plans, Mr Trump has promised to pull out of the Transpacific Partnership on his first day in office and to at least renegotiate NAFTA, if not withdrawing from it. And it is safe to say that we should not expect much traction in the WTO either. On the positive side, if the US do pull out of TPP and NAFTA, this might increase the chances of a swift conclusion of the trade talks the EU is engaged in with Japan and Mexico. While the President-elect has not mentioned TTIP at all, he declares himself generally open to bilaterals which are in America's genuine interest. So perhaps TTIP is not dead but definitely in the freezer for the time being. Of more immediate concern is the rhetoric about eliminating trade deficits. If this were to be applied to the dairy sector, the EU would have considerable issues, but perhaps addressing cheese and butter imports is not the first item on Mr Trump's to do list.

And yet, despite all the challenges, the future is still looking reasonably positive. Consumption of dairy products within the EU (with the exception of drinking milk) and globally seems to show no signs of fatigue and the EU is set to become the world's leading exporter by 2026.

In hindsight, 2016 truly set out to rattle us all. All that's left to be said is that we look forward to a brighter 2017!