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EU (dairy) trade policy flying high again

The announcement of a political agreement on the landmark EU-Japan deal (allegedly the largest bilateral trade deal ever) is a big victory for EU trade policy and indicative of changing tides. Even though protectionism and the number of trade barriers are reportedly on the rise globally, the period characterised by stalled or outright dead trade negotiations such as TTIP seems to be coming to an end. Good news for European dairy exporters!

Up until recently, things looked pretty dire in the world of trade policy. The ultimate priority and “mother of all trade negotiations” TTIP was put to the freezer (forever?) and the agreement with Canada was almost abandoned on the finish line due to some high profile power struggles between the EU institutions and among and within EU Member States (thinking about Belgium and Wallonia in particular). The disputes had to do with a perceived lack of legitimacy and transparency of the negotiations as well as with the interpretation of the Lisbon Treaty provisions on the approval of international agreements concluded by the EU. Even after the signature of CETA it had not become clear how the adoption procedure for trade deals should look like and who needs to endorse what. This did not bode well for the conclusion of future deals.

The economic partnership agreement with Japan is of course not concluded yet but the political agreement means that all major issues have been settled and that agreement on the final text should follow in the near future (even if admittedly in the case of CETA it still took several years). The opinion of the Court of Justice on the nature of the EU-Singapore FTA adopted in May has hopefully clarified the procedure for the adoption of this and other future FTAs. The opinion states that the EU has exclusive competence to conclude agreements in most areas covered by EU trade deals, except for indirect foreign investment and investment protection which fall under shared competence between EU and its Member States. This basically means that ratification by national (and in some cases regional) parliaments would only be necessary in these 2 areas, which raises the question whether it would not make sense to exclude investment chapters from EU trade deals and negotiate investment treaties separately. This solution might simplify and speed up the adoption of trade deals on the EU side.

The ‘EPA’ with Japan is by far not the only bright spot on the horizon. After some delays, the date of provisional application of the deal with Canada has finally been fixed on 21 September, the last day of the summer. By then, the practical arrangements for the administration of the cheese quota granted to the EU will hopefully also be finalised. And then there is Mercosur and Mexico, two negotiations that have been put on fast track and might be concluded already by the end of the year. Apparently there is also some progress again with Malaysia and Indonesia, both major dairy importers.

More imminently, the Singapore ruling should clear the way for the swift application of the EU-Singapore agreement (not a major one for dairy as all duties are already at zero) and of the EU-Vietnam deal which was finalised at the end of 2015 but has been in translation and legal scrubbing since then.



The current boost enjoyed by the EU can at least partly be attributed to the direction the US trade policy has taken under the new administration. The US withdrawal from TPP certainly helped the negotiations with Japan, which were moved up the ladder of priorities. It would also have been more difficult for Japan to sign up to two trade deals with a considerable impact on certain industries domestically, including dairy, even if the TPP might still go ahead without the participation of the US. Similarly, the announcements made by President Trump with regard to Mexico and the planned NAFTA renegotiation have pushed Mexico to reevaluate its options, giving the negotiations on the modernisation of the EU-Mexico deal some new momentum.

What can we expect for dairy from all of this? In the case of Canada, we already know. EU exporters will benefit from a new duty free cheese quota increasing from 2 950 tonnes in year 1 to 17 700 tonnes in year 6 of implementation. In addition, the EU share of Canada's WTO cheese quota has been increased by 800 t to a total of 14 300t. Assuming the quota is managed properly, EU cheese exports to Canada should more than double from the current 15 000 t and make Canada the 6th or 7th market for European cheese. As for the free access for MPCs, this may be compromised by the Canadian milk class system. And who knows, if the Canadian supply management system is abolished, we might suddenly witness a flood of milk from across the Atlantic.

Also in Japan cheese will be the main beneficiary. Reportedly duties will be phased out for hard cheese over 15 years whereas soft cheeses will benefit from a zero duty TRQ increasing to 31 000t over the same period (and beyond depending on consumption growth). Tariff reductions will also apply to whey and SMP for feed while SMP (for food applications) and butter will benefit from a low volume TRQ of 15 000t in milk equivalent in addition to the existing WTO quota.

Market access for dairy in Mercosur and Mexico is still very much a question mark at this stage but it is and should be a priority item for the EU in both negotiations. In the case of Mercosur, dairy is one of the few offensive agricultural interests of the EU, thanks to the growing Brazilian market. If the EU manages to reach a deal with Mercosur, it will be the first trading partner to have done so. The situation with Mexico is quite different. It is one of world's largest dairy importers which has already opened up its market to the US. Next to tariffs, there are a good number of technical barriers in both Mercosur and Mexico that need to be addressed as well to provide for meaningful market access.

Looking east once again, the Vietnam deal will bring full duty free access to EU dairy exports. The same goal should be pursued in the negotiations with the other South East Asian nations.

Next to the ongoing and concluded talks, there are a few more in the pipeline, namely Australia, New Zealand and Chile (modernisation), not all of which have so far gathered boundless support from the whole dairy community. And let us not forget the first ever backwards trade negotiation with our UK friends where we will have to go from EU, single market and customs union membership to something less attractive. It is tough to find anything positive about this time consuming and unfortunate exercise but at the end of it the EU will most likely have become the largest dairy exporter in the world, finally overtaking New Zealand. Not exactly a fair competition but who is to judge?