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An eventful December

Although Christmas is almost upon us, the European agricultural and trade arenas are still full of life. Some thoughts on the WTO, the European trade policy in full gear, Brexit, the CAP reform and of course SMP intervention stocks.

Perhaps unsurprisingly, the 11th WTO Ministerial Conference in Buenos Aires was a disaster as great differences of opinion remain on domestic support and public stockholding, on which the joint EU-Brazil proposal failed to gain enough traction. For us, the most anticipated aspect of the WTO gathering was the potential conclusion, at a political level, of the trade deal with Mercosur in the margins. This was however postponed to January (hopefully not later as the Brazilian election campaign is looming) as fighting over the size of certain EU import TRQs as well as SPS matters made an early conclusion impossible. Let us hope the EU's philosophy of quality over speed pays off for access to the Brazilian market as well.

The other ongoing big negotiation with Mexico was not on the table during the WTO MC11 but hopes remain high for a political agreement this week as negotiators are meeting in Brussels. Although much less important than Mercosur in overall economic terms, this one is probably even more significant for dairy as Mexico is one of the largest dairy importers in the world and agriculture is not included in the current EU-Mexico deal which dates from 2001.

Earlier in December, Jean Claude Juncker and Shinzo Abe jointly announced that negotiations on the Economic Partnership Agreement had been finalised, following the political agreement reached in July. The deal provides for improved access, notably for European cheeses, to what has become worlds' largest export market for cheese since the Russian embargo. The Commission hopes for a quick completion of the approval process and entry into force in early 2019.

Meanwhile, negotiations for a revised deal have also started with Chile and the mandates for the talks with New Zealand and Australia have received the green light in the European Parliament but still need to be adopted by the Council.

Not only Europe has been busy on the trade front. Recovering from the shock of the US withdrawal from TPP, the other nations of the trans-pacific partnership have agreed to push ahead with the deal without the Americans and without altering the market access conditions. US in the meantime remain tangled in the renegotiation of the NAFTA in which the stakes for dairy are quite high and have excelled in torpedoing the work of the WTO, notably by blocking the nomination of new judges to the appellate body of the dispute settlement mechanism. The arguably most important pillar of the organisation today is at great risk and with it the whole rule based global trading system.

Also in December, the Brexit talks finally moved to stage 2 after it was considered that sufficient progress had been made on the rights of citizens, the situation in Ireland and the financial settlement. Regarding the island of Ireland, the UK has committed to avoiding a hard border. In the absence of a more comprehensive solution, Norther Ireland should continue to be subject to EU internal market and customs union rules after the withdrawal date. Aside from formalising the commitments which have been made so far in a withdrawal agreement, stage 2 will see the discussions move towards the future relationship and, most crucially, the transitional arrangements for the immediate post-withdrawal period. On this particular issue, we are still pretty much in the dark as it seems for the EU a prolongation of the status quo (i.e. UK basically remaining a member without voting rights) is not only the most sensible but also the only possible transitional arrangement. How this can be reconciled with the UK's desire to leave the single market, the customs union and the jurisdiction of the European Court of Justice remains a bit of a mystery. But all this should be clarified in the withdrawal deal, to be agreed by March or thereabouts.

On the domestic policy front, the CAP reform was launched with the communication on the future of food and farming in late November. As always, simplification is the buzzword but probably the key element of the Commission blue print is the plan to restrict the role of the EU to determining basic policy parameters and objectives. At the same time, Member States would enjoy greater freedom in tailoring the policy interventions to local conditions, under the supervision of the EU Commission of course. This has been dubbed a partial renationalisation of the CAP and there are indeed some potential concerns on the functioning of the internal market if the common agricultural policy is not so 'common' anymore. The Commission has been keen to stress that co-financing by Member States is off the table but different policy choices among Member States, within the limits set in the CAP, might still lead to an increasingly unlevel playing field across Europe. Then again, it has also become clear that the current overly prescriptive 'one-size-fits-all' approach is out of date. In an effort to further level the playing field, the continuous reduction of the gap between payments to farmers in different Member States is quoted as another important objective as considerable differences in support levels still exist.

Next to increased subsidiarity (=more power to Member States which seems a general trend these days), the communication highlights the role of the holy trinity of knowledge, innovation and technology in making agriculture smarter. But smart is not enough, the CAP also needs to improve its environmental performance and contribute more efficiently to the sustainable development goals. As the current "greening" architecture is not considered a success, it needs to be replaced.

Another big topic is making the farming community more resilient which is where risk management comes in. Luckily for us, the global dimension of the CAP and the positive role of trade are also highlighted as is the continued need for a market oriented CAP.

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None of this means much without money which is why concrete proposals for the future CAP will follow in the summer once the “multiannual financial framework” for the period 2021-2027 has been adopted. A reduction of the overall CAP budget seems inevitable, not least because of the looming Brexit.

Whether we can expect any changes to our beloved market mechanisms, namely intervention and private storage, remains to be seen. With the current experience of the gap between butter and SMP prices, a revision of the intervention system might be on the cards to avoid intervention buying at times when milk prices are at a level which does not call for any political action.

Public intervention for SMP continued to be the hottest topic over the past weeks. All eyes were on Brussels since the Commission announced it planned to engage in some serious selling (and no more buying in spring 2018). However, only 40 tonnes were sold in Q4, with the Commission rejecting virtually all offers as too low. It depends on the perspective… The tender fun will continue in January with larger volumes available and perhaps even at an increased frequency. As of March, we will experience simultaneous buying and selling tenders for SMP.

So dairy markets and policies will remain interesting in the New Year. Onwards and upwards! In the meantime, we wish everyone a peaceful holiday season.