



2 March 2021

Reflections on the EU trade policy review

Eucolait welcomes the publication of the new trade strategy and the commitment of the Commission to an open, sustainable, and assertive trade policy in the next decade. As the association representing the trade in the EU's largest agri-food sector, we particularly appreciate the emphasis placed on open and fair trade with well-functioning, diversified and sustainable global value chains. It is crucial that the strategic autonomy is indeed open and does not translate into a policy of self-sufficiency and closed borders.

Resilience

The ongoing covid-19 pandemic has reminded us of the importance of a robust and resilient food system. Food security should never be taken for granted. While the dairy sector has proven that it can withstand the unprecedented circumstances of the last 12 months, its resilience can be enhanced through further diversification of supply chains, sourcing, and export markets. As the largest exporter and importer of agri-food products globally, Europe must remain open for business with the rest of the world. The fact that 85% of global economic growth will take place outside of the EU in the next decade cannot be ignored. A prerequisite for EU's continuous success as a leading actor in world trade is a well-functioning internal market which needs to be preserved against disruptions in any circumstances. In this sense, open trade must be an integral part of the Farm to Fork initiative to develop contingency plans to ensure food security and food supply in the event of future crises.

The EU should also contribute to improving resilience of trade globally by reviving international cooperation in this field, mainly in the WTO. Trade depends on transparent, predictable rules and trust in the multilateral trading system.

Reinvigorating the multilateral trading system

The trend of the last years of growing protectionism, an increasing number of serious trade barriers and disputes and the paralysis of the WTO on all fronts must be urgently reversed. It is necessary that the EU takes a leading role in revitalizing the WTO and we welcome the concrete proposals made to this end. The appointment of the new director general was a good first step towards change. We support the Commission's efforts to adapt the existing rules to reflect today's economic and environmental realities, to significantly increase the transparency of WTO member's trade measures and, most urgently, to restore a functioning dispute settlement mechanism. While the updated trade enforcement regulation allows the EU to enforce its rights despite the blocked arbitration at WTO level,



this cannot be considered a permanent solution. Any potential disputes need to be primarily solved by dialogue, rather than tit for tat retaliation.

Open and rules-based trade is also essential to creating a sustainable food system as the EU cannot realistically achieve its ambitions by acting alone. The WTO is the most suitable forum for determining under what conditions for instance environmental measures can be taken without disproportionately affecting trade partners.

Trade's role in promoting sustainability

In line with the Commission's core policy of the European Green Deal, the new trade strategy places a greater emphasis not only on environmental sustainability, but also on social and economic sustainability. While there is ample evidence that trade contributes to prosperity and growth, as for example illustrated by the findings of the recently updated Joint Research Centre study on the effects of trade agreements on the agricultural sector, the role of trade in promoting sustainability is less known and publicized.

Trade's basic purpose is to balance supply and demand. By redistributing products from areas of excess supply to regions where the demand exceeds local supply (for dairy, this mainly means regions where milk production is less viable and expends more resources), trade ensures that markets function efficiently, and that production can flourish in regions where it is most resource-efficient to produce. This also contributes to global food security as trade is more effective in ensuring that food reaches consumers in sufficient quantities and affordable prices, than trying to achieve self-sufficiency in all sectors in every corner of the world. A side product of trade is the generation of wealth and employment. In the EU alone, there are 35 million jobs directly supported by exports.

In relation to overall carbon emissions created by the agri-food sector, only a small percentage (roughly 6%) is generated from the transportation of food. This indicates that in climate terms, it usually pays to produce in regions achieving much lower emissions per kg of product and to ship it to other parts of the world where production would be less efficient. Open trade can therefore increase the availability of climate friendly products and reduce their price.

Trade is also a vehicle for supporting the overall sustainability agenda and for promoting EU's standards and values. Full access to EU's large single market provides a good incentive for gearing up efforts for instance in relation to labour rules or deforestation. All recently concluded agreements include solid chapters on sustainable development which can be further enhanced in future FTAs. In this context, we particularly welcome the focus in the trade strategy communication on more strategic approaches to international regulatory co-operation.

We applaud the commitment that any sustainability criteria that will need to be met by imports into the EU in the future will be WTO compatible. While there should be unequivocal support of the Green Deal, we want to avoid any new import conditions leading to trade barriers adopted by third countries in retaliation to the demands of the EU.



From negotiation to implementation: realizing hard won gains

The six years since the publication of the last EU trade strategy 'Trade for all' have seen the successful conclusion and/or application of numerous major trade agreements between the EU and global partners - among them CETA, the EU-Japan agreement, the modernised EU – Mexico agreement and a political agreement on an EU-Mercosur deal. Other agreements are in the pipeline, such as the accords with New Zealand and Australia and hopefully also with Indonesia and other South East Asian nations. These negotiations should be concluded and new ones launched as the opportunity arises.

With everything that has been achieved it is also time to reap the benefits of these agreements. In this respect the role of the Chief Trade Enforcement Officer (CTEO) will be critical in the years to come. Current and future trade agreements will require continuous monitoring to ensure that all parties can enjoy the concessions and preferential treatment arising from the deals. As far as market access conditions for dairy are concerned, all recent agreements already in application are delivering quite well, but there are always some hurdles, TRQ administration being one example, which continue requiring continuous engagement from the Commission years after conclusion.

In 2021, a particular emphasis needs to be placed on pragmatic implementation of the EU-UK agreement. Due to the huge volumes traded, the geographic proximity and the integrated nature of EU-UK value chains, the end of the Brexit transition has created numerous challenges, some of which were foreseeable, others not.

Regarding Mercosur, if the agreement comes to fruition, it will be largest trade pact that the EU has finalized with a trading partner and should be considered as a big win for the EU as a global actor. The sustainability related concerns raised by parts of the civil society as well as certain MEPs and Member States must be addressed but in our view the agreement provides the best possible framework for doing so. Once approved, it will be up to the CTEO for ensuring that the sustainability conditions of the agreement are abided by.

Relations with other major actors and geographical priorities

The transatlantic relationship should experience a revival with the new US administration. The first step is to resolve the civil aircraft dispute with the US, which has spilled over and particularly affects EU dairy exports. Despite the dispute, the US remains the most valuable export market for European cheese and butter. The longer-term goal should be a comprehensive trade and partnership agreement, but we continue to manage our expectations in this respect in light of the persisting differences and the experience of TTIP.

We agree that the relationship with China is both important and challenging. Its exceptional growth cannot be ignored and ensuring that China accepts its international trade commitments will be key for the stability of the global trading system. At the same time, our sector depends on the Chinese market which accounts for at least 20% of global dairy trade. While EU is not the main supplier of dairy products to China, China has become the most important destination for EU dairy exports by far.

Deepening and widening of the relationship with Africa is also specifically highlighted in the strategy. We certainly support this objective, from a point of view of enhancing our dairy partnership with Africa,



a continent where there is increasing demand for quality dairy products and ingredients and requiring a combination of investment in local production and imports.

Many other key regions and partner countries are only mentioned in passing or not all, but we trust this is mainly because there are already agreements or solid frameworks for cooperation in place.

Conclusion

The new trade strategy marks a clear shift from 2015's "trade for all" communication and indeed we find ourselves in very different circumstances today. We have since experienced the withdrawal of a large EU Member State and a populist President of the United States, significantly disrupting the transatlantic relationship. We are still in the midst of an unprecedented global pandemic and the world seems to have woken up to the climate emergency.

We support the main lines of the communication and stress that perhaps more than ever, trade is an essential part of the solution. The focus on WTO reform and enforcement is good, but we would also like to reiterate the importance of new bilateral FTAs, those pending, still under negotiation or not yet started. The European dairy sector is well placed to serve the growing global demand for high quality, sustainable dairy products but needs the support of the EU for ensuring good market access conditions in partner countries around the world.