



9 September 2020

A renewed trade policy for a stronger Europe – response of Eucolait

Introduction

In terms of the overall direction trade policy has taken in recent years, we are heartened to see the importance that the European Commission has placed on (and the resources that have been made available for) the negotiation and conclusion of quality trade agreements that benefit businesses and consumers in the EU Member States and third country trade partners. In the last decade, there have been major trade wins for European dairy operators in the form of the conclusion of trade agreements with Vietnam, Japan, Canada, Ukraine and South Korea, to name but a few examples. The fact that most of the recently concluded agreements are ‘deep and comprehensive’ in nature also illustrates the key role given to trade in driving the relationship between the EU and its partners. At the same time, the last few years have been characterised by a growing number of trade barriers, an increase in protectionism and the paralysis of the WTO. This trend needs to be urgently reversed.

Looking to the future, it is clear that in order to be successful, sustainability and value-based trade will have to be at the heart of any trade policy initiatives launched by the Commission. Focusing in on our sector, Eucolait supports the broad shift towards increasingly sustainable food systems at home and abroad and is convinced that trade has a key role to play in this regard. While the connection between trade and prosperity is well-known and established, albeit constantly challenged, the link between trade and sustainability is less obvious. There is certainly a lot to be done when it comes to transport emissions, as already outlined in the Green Deal communication, but the positive environmental effects of (dairy) trade should not be overlooked.

Trade and traders contribute to better availability of food across the EU and the world by distributing products from surplus to deficit regions. It appears obvious that some areas are better equipped for the production of a given agricultural commodity than others, be it in terms of productivity, costs or environmental footprint. In this sense, Europe is extremely well placed for milk production and the quality of our dairy products and ingredients is top class. The importance of trade for food security will continue increasing because of growing demand and the impacts of climate change not being evenly spread across the globe. Both economically and environmentally, it makes more sense to trade than trying to achieve self-sufficiency in milk in every region.

As the world’s largest exporter and importer of agri-food products, Europe must be open for business with the rest of the world, especially in the current climate. Open and rule-based trade will be essential for achieving a sustainable food future. The ongoing covid-19 pandemic has further emphasised the importance of a robust and resilient food system. This resilience can be further enhanced through diversification of supply chains, sourcing and export markets. Conversely, a policy of self-sufficiency and closed borders is doomed to fail.



A strong EU with a well-functioning internal market is a prerequisite for a successful trade policy. Member States must work together as one union as opposed to clinging to protectionist policies and isolationist strategies. Measures giving preference to domestic products or promoting short supply chains as the sole sustainable sources of food are not the answer. Better communicating the benefits of the single market would go a long way in dissuading nationalism in food policy which has made intra-EU trade more challenging in recent years. Only by acting as one will the EU have sufficient weight on the global stage and the EU as a whole is much better equipped at withstanding external shocks to the market such as droughts, floods, pandemics or trade embargoes than a single Member State would be on its own.

In terms of maximising the benefits that have been earned through FTA negotiations, the Commission should not hesitate to seek the full enforcement of trade agreements. The role of the chief trade enforcement officer should give teeth to this task going forward.

On a broader platform, the participation of the EU and the leadership offered by the EU in the WTO will be crucial to the continued relevance and existence of the organisation. The appellate body has been in a suspended state since late last year and the EU has been instrumental in creating an alternative solution to this conundrum.

Overall, Eucolait foresees a role for the EU in championing sustainable practices in trade, whereby incentives should be prioritised over regulation and while maintaining the openness that has continuously been a hallmark of the EU's trade strategy.

Eucolait welcomes this opportunity to respond to the consultation on the EU future trade policy. We have attempted to cover all questions included in the consultation document.

Questions

Question 1: How can trade policy help to improve the EU's resilience and build a model of open strategic autonomy?

The resilience of the EU dairy sector has been demonstrated during the ongoing pandemic. From our perspective, resilience can be improved by further diversifying supply chains and export markets. The starting point must be a well-functioning internal market without artificial barriers created at pan-European or Member State level. The European dairy market is extremely dynamic with about one third of the milk produced crossing intra-EU borders in the form of various dairy products.

In addition, the European dairy sector depends on exports which account for a growing share of EU production (currently about 13%). Any trade shock like the Russian embargo, the additional tariffs imposed by the US or the looming Brexit has significant repercussions for the whole dairy supply chain. A further diversification of export destinations to avoid being overly dependent on certain large markets seems key. EU trade policy contributes to this diversification by improving market access conditions for EU dairy products in free trade agreements.



Concluding new agreements obviously needs to be accompanied by thorough monitoring of the proper implementation of FTAs and enforcement of EU's rights under those agreements. In parallel, any technical or sanitary barriers not in line with international trade rules should be systematically addressed. We feel that the Commission requires additional resources for this important task.

The Commission should constantly push for the EU to be considered a single entity from an SPS perspective. If this is not the case, it not only means that Member States will be treated differently by the trading partner. It also hampers intra-EU trade when ingredients from several Member States are being used in the final exported product. This also ties into the issue of pre-certification (also known as background certificates) which are a serious headache and administrative burden for European exporters.

Last but not least, despite being a net exporter, the EU should also be open to imports of dairy products, be it consumer products like British, Swiss or Icelandic cheeses, certain specialty ingredients not available in sufficient quantities in Europe or dairy commodities like milk powders and butter, especially when there is a strong disconnection between European and global prices.

We understand the concept of open strategic autonomy and agree that trade policy is a useful tool in promoting European values and of course the EU also needs to protect its strategic interests. Any defensive trade measures will however have to be very carefully designed and be completely WTO-proof to avoid trade disputes where the agricultural and food sector ends up footing the bill.

Question 2: What initiatives should the EU take – alone or with other trading partners - to support businesses, including SMEs, to assess risks as well as solidifying and diversifying supply chains?

While risk assessment is primarily an internal affair for each business, the EU can help by providing thorough information about the market entry and investment conditions and the general business climate in each country. The market entry handbooks and the market access database are good examples in this regard and should be developed further. The direct exchange with stakeholders in various fora (civil society dialogue, market access advisory committee) is equally important.

In addition to FTAs opening markets and proper enforcement, promotion initiatives such as trade fairs and high-level trade missions can further contribute to diversifying supply chains.

Question 3: How should the multilateral trade framework (WTO) be strengthened to ensure stability, predictability and a rules-based environment for fair and sustainable trade and investment?

The multilateral rule-based trading system has been crucial for the success of the European dairy sector. The WTO requires urgent revitalisation to deal with today's challenges and the EU needs to remain a leading actor in the reform process. This said, rapid change appears unlikely in the current climate (lack of any meaningful progress in the negotiations and blockage of the dispute settlement mechanism), meaning that in the short run the objectives of stability, predictability and a rule-based environment will probably have to be primarily pursued by other means such as bilateral agreements



and broader initiatives like the EU-Africa partnership. In parallel, the EU should continue reinforcing international standards (Codex, OIE...) and promote their use by trading partners.

Question 4: How can we use our broad network of existing FTAs or new FTAs to improve market access for EU exporters and investors, and promote international regulatory cooperation—particularly in relation to digital and green technologies and standards in order to maximise their potential?

In addition to reducing tariffs, FTAs are increasingly leveraged to promote European standards and values. The level of regulatory cooperation that can be achieved depends on the partner country and its appetite to allow interference in its domestic regulatory system. Ideally, all international trade should take place on a level playing field but differences in level of development, climate, natural resources and conditions of production need to be considered as well.

Question 5: With which partners and regions should the EU prioritise its engagement? In particular, how can we strengthen our trade and investment relationships with the neighbouring countries and Africa to our mutual benefit?

The relationships with our nearest neighbours are crucial, starting with the UK which is currently the most important dairy trading partner of the EU27 by far. A lack of a high-quality trade agreement would have severe consequences for our sector, not to mention all the wider economic and (geo)political repercussions.

Another immediate priority is the normalisation of the EU-US relations and the removal of the retaliatory tariffs placed on dairy products in the context of the aircraft dispute. The US market is absolutely essential for European exports of cheese and butter.

European dairy businesses have strong trading relationships in most countries around the world and they are all important, in particular in the context of increased diversification. In terms of dairy consumption growth, (South-East) Asia is certainly the most promising region. Priority is naturally given to like-minded countries supportive of open, rule-based trade but Europe can hardly afford to neglect its relationship with China, a superpower which also happens to be, by far, the largest dairy importer worldwide. A progressive normalisation of the trade ties with Russia would also be desirable.

Eucolait supports the EU-Africa cooperation on food value chains and believes that increased investment in milk collection, processing and distribution infrastructure in Africa should be encouraged. At the same time, European exports remain essential for food security in many African countries with a growing population and natural conditions that make it challenging to fully satisfy the increasing demand for dairy products domestically. A complementary approach of increasing milk intake by enhancing local production and trade with the EU should be followed.

Question 6: How can trade policy support the European renewed industrial policy?

Dairy is one of the major agricultural sectors and trade is an essential part of the value creation along the supply chain. EU dairy exports in 2019 exceeded € 17 billion and with the UK considered a third country, that figure would climb to above € 20 billion. As growth possibilities within Europe are limited, trade policy will play a crucial role for the future of the sector by facilitating market access in third countries, in turn contributing to the overall industrial policy. The dairy industry in Europe is constantly reducing its environmental footprint and many companies have established climate neutrality objectives in line with the industrial strategy and taken decisive steps in this regard.

Question 7: What more can be done to help SMEs benefit from the opportunities of international trade and investment? Where do they have specific needs or particular challenges that could be addressed by trade and investment policy measures and support?

The market access database should be further enhanced to include as much as information as possible about the legislation, import procedures, certification requirements etc. of third countries. Events allowing for in-depth analysis of third country markets like the technical webinars organised in the context of the EU-Japan agreement are also very helpful. More readily available information and support would encourage more SMEs to branch into business outside of the EU.

Question 8: How can trade policy facilitate the transition to a greener, fairer and more responsible economy at home and abroad? How can trade policy further promote the UN Sustainable Development Goals (SDGs)? How should implementation and enforcement support these objectives?

We support a move for a transition to a greener, fairer and more responsible economy, which would entail bringing trade policy in line with the other policy objectives of the Commission. The EU should continue pushing for higher standards in the relevant international organisations and in free trade agreements. Ideally, the enforcement of these standards should be mutually agreed by global participants, in such a way that consequences are clear, proportionate, and non-discriminatory. Various trade policy instruments such as lower tariffs can be used to encourage imports of sustainably produced goods. When taking unilateral measures negatively affecting certain imports, e.g. a carbon border tax, the EU needs to act in full compliance with the norms issued by international bodies it supports, first and foremost the WTO.

Question 9: How can trade policy help to foster more responsible business conduct? What role should trade policy play in promoting transparent, responsible and sustainable supply chains?

EU trade policy is already upholding responsible standards for business, e.g. by making the conclusion of certain FTAs contingent on the adherence by a third country to ILO standards. A continuation of this policy, as well as monitoring the other responsibilities attached to a 'deep and comprehensive' agreement, will ensure that the EU continues to be a champion for sustainable business conduct. Bringing it closer to home, there are a number of well-established codes of conduct and dispute

settlement mechanisms (arbitration etc.) companies use to self-govern their contractual relationships. Self-governance can go a long way in ensuring that standards remain high within an individual sector.

Question 10: How can digital trade rules benefit EU business, including SMEs? How could the digital transition, within the EU but also in developing country trade partners, be supported by trade policy, in particular when it comes to key digital technologies and major developments (such as block chain, artificial intelligence, big data flows?)

The EU should strive for a completely paperless environment for trade. Digitalisation is ongoing but customs documents and veterinary certificates in paper form are still quite common. In this vein, the measures taken by the Commission during the height of the pandemic to allow for the electronic transmission of veterinary certificates while international postal services were disrupted should be lauded. It is clear that digitalisation has significant benefits in terms of reducing costs for businesses and reducing waiting and processing times.

Phenomena like block chain or e-commerce are becoming increasingly relevant in the food supply chain but we see these more as market driven developments than something that should be promoted through EU trade policy.

Question 11: What are the biggest barriers and opportunities for European businesses engaging in digital trade in third countries or for consumers when engaging in e-commerce?

Much of the success of expanding digital trade will depend on the willingness of individual operators and, in a broader sense, third countries to embrace the technology that is being rolled out. For individual operators, in particular SMEs, that may be struggling to adapt to new ways of transferring documents, seeking approvals etc. increased support should be provided, perhaps by local or national chambers of commerce. In terms of supporting a harmonised approach by third country to accepting increased digitalisation, it became clear during the pandemic that many trading partners are on board and willing to engage with technology (certificate transfers etc.) Third countries that currently do not have the resources to embrace this technology should be supported by the EU and others to acquire the technology and skills necessary to take it on.

Question 12: In addition to existing instruments, such as trade defence, how should the EU address coercive, distortive and unfair trading practices by third countries? Should existing instruments be further improved or additional instruments be considered?

We welcome the appointment of the Trade Enforcement Officer, which we believe will help to create a new dimension in ensuring that the benefits of trade agreements can be fully realised. Most EU agreements have solid mechanisms in place to ensure that its provisions are adhered to but there is also a political side to the equation. This is probably why the Commission has so far been relatively prudent and patient in enforcing EU's rights under these agreements.