



16.06.2020

EU-UK future partnership – dairy trade must continue

Eucolait is extremely concerned about the declaration by the UK that it will not consider an extension of the transitional period. Progress in the negotiations between the EU and the UK has been slow and the positions of each side appear insurmountable. With the extension of the transitional period ruled out, there are only four months left to get from the current impasse to an agreement to avoid a hard Brexit. This immense task is further complicated by the ongoing pandemic and its economic fallout.

The baseline position of Eucolait remains unchanged: the future trade relationship between the EU and the UK should be as close to the present situation as possible, with trade unfettered tariffs, quotas or by unnecessary non-tariff barriers. Nevertheless, given that the UK will be out of the single market and the customs union at the end of this year, we acknowledge trade cannot be as frictionless as today.

Negotiating a comprehensive trade agreement within the available time frame will require strong political will. In addition, the deal will have to be simple one, as the time factor alone makes line by line tariff negotiations impossible. The key components of the future trade deal need to include duty and quota free access to each other's markets, an alignment or equivalence regime for food legislation and customs facilitations.

No tariffs or quantitative restrictions

Dairy companies on both sides are operating in an integrated supply chain that must be maintained. The impacts of a lack of agreement on tariffs are well known by now. Assuming that the current EU external tariffs were to be applied by both sides (with minor adjustments on the UK side) from January 2021, the dairy sector would be among those hardest hit, with estimates suggesting more than 90% of current trade being eliminated. Dairy supplies from the EU to the UK exceed € 3,5 billion, making it our most important export market by far. More than half of the exports are cheese, but the volumes of fermented products, butter, infant formula and liquids are also substantial. On the import side, the EU external tariff would wipe out virtually all dairy imports from the UK, currently amounting to almost € 2 billion worth of products. This would also displace EU exports to the UK since a large share of the products previously exported to the EU27 would then remain on the UK market. Maintaining duty free access across all dairy product categories is therefore of utmost importance.



This said, the UK is far from self-sufficient in dairy and as such will have to continue importing large volumes of dairy products, especially cheese, or face product shortages and price inflation.

Reintroducing import duties on dairy products would create significant additional costs for both businesses and consumers and would force the EU dairy sector to look for alternative export markets in a world where demand is heavily affected by covid-19. Downward pressure on milk prices as a result seems inevitable.

Preferential rules of origin

As far as dairy products are concerned, Eucolait does not see a need for rules of origin that would significantly differ from the standard EU rules of origin used in most free trade agreements concluded by the EU. For standard dairy products (chapter 4), the extension of benefits to third countries can be excluded by the “wholly obtained” rule, while bilateral cumulation of origin between EU and UK should of course be allowed. For processed products with dairy components (e.g. specialty nutrition under chapter 19), there should be more flexibility offered as regards the origin of the dairy components, given that certain specialty ingredients are not produced in sufficient quantities in Europe. The threshold for non-originating dairy ingredients should be set at the lowest at 20% on a weight basis.

Level playing field

This has become the thorniest part in the discussions and pragmatic solutions are urgently required to break the deadlock. The EU negotiating directives suggest that access to the sizeable EU market should be conditional on maintaining a level playing field through robust commitments in areas such as environmental protection, labour standards, competition, or food safety. While both parties should deliver on the principles laid down in the political declaration, the UK’s choice to leave the EU to regain its freedom to regulate also needs to be respected. In our opinion, the level playing field commitments should focus on reaching broadly equivalent outcomes, rather than tying the UK to the EU acquis. It is worth noting that the EU has granted very comprehensive access to its market, including free access for dairy, to other trading partners such as Canada or Japan, without such comprehensive level playing field provisions. The UK’s track record while part of the EU does not give reason to believe that a lowering of standards in the relevant areas will take place. Still, the partnership agreement could contain a safeguard clause on market access to prevent any race to the bottom on the initiative of either side.



Customs facilitation

For trade to flow relatively freely and to resemble in any respect the situation of today, enhanced customs facilitation will need to be a key part of the new partnership. We accept that completely frictionless border arrangements will be impossible and that there will need to be certain customs procedures and border checks. The partnership should make full use of all possible facilitations within the framework of the EU customs code, considering the longstanding membership of the UK to the EU and the trustworthiness of its administration and operators.

In this context, we welcome the phasing in period of 6 months announced by the UK government as far as customs procedures and controls are concerned.

Sanitary and veterinary solutions

In addition to keeping customs channels open, Eucolait wishes to see continued alignment and co-operation in the field of food safety and veterinary rules. This would prevent cumbersome divergence in rules and standards in the years to come. It is worth reflecting that the starting position with the UK is quite different to that of a regular third country trading partner. Currently there is already perfect alignment. Food safety rules need not remain identical in the future but they have to remain sufficiently close to allow for reasonably frictionless trade.

The EU should strive for arrangements without veterinary controls to avoid serious delays at border control posts. The Brexit preparedness exercises showed that neither the UK, nor EU Member States would have had the capacity to deal with the current EU – UK trade flows in animal products. When food safety systems are closely aligned, it is possible not to have veterinary checks at the border. The most comprehensive evidence of this is the veterinary co-operation between the EU and Switzerland, which allows for the movement of dairy products without veterinary controls.

Aside from avoiding or minimising the disruption caused by border checks, a regulatory committee should be set up to ensure continuous coherence between the EU and UK on food safety matters.



Conclusion

Maintaining a close partnership, economic and otherwise, is clearly in the interest of both parties. Pragmatic solutions will be required to address those areas where UK wishes to diverge from EU rules and policies. It is evident that a third country cannot be granted the same benefits as a Member State and that Brexit will inevitably have negative economic repercussions, but matters should not be made worse with additional, unnecessary hurdles.

The focus needs to be on maintaining a strong relationship in the interest of EU and UK citizens and businesses. The dairy trade will be able to cope with some friction due to customs controls but otherwise trading conditions within the EU-UK dairy supply chain must remain unchanged.