



# **BREXIT AND TRADE NEGOTIATIONS**

## **A PERFECT STORM TAKING SHAPE**

### **I - BREXIT**

Brexit has been a top issue of every Global Food Forum. The paper circulated last year for discussion started by stating that “The political shock of Brexit has yet to be translated in actual economic and commercial terms, but the clock is already ticking”.

The clock has moved on and Brexit is now around the corner, it will happen in 6 months’ time. What is the state of the negotiations? Which are the likely prospects? Which are the consequences of the most likely outcomes for the key agri-food sectors in the EU?

We are at a stage where though we are only a few months away from Brexit, we still have more questions than answers. As a matter of fact the only practical certainty is that on 29<sup>th</sup> March 2019 the UK will no longer be a member of the EU. A total reversal of Brexit does not square with the current political landscape in the UK, and time is running short.

The level of uncertainty at this stage is staggering. There is no clarity on the shape of the post-Brexit relationship between the EU27 and the UK. The status of the border in Ireland has been a major stumbling block, and no clear acceptable solution has been found so far. The political situation in the UK only adds to the uncertainty on the outcome of the negotiations.

Notwithstanding there are many who believe the EU and the UK will find a “way-out” of the current mess that will protect economic interests in both sides. The preliminary understanding to extend the participation of the UK in the single market till end 2020 adds to a (dangerous) perception that probably nothing fundamental will change.

To examine in more depth where we really are it is useful to start by realizing that Brexit should be seen as a process, rather than a single event.

That process has evolved in the last year. There was an understanding that enabled the EU to accept engaging in negotiations on the future of the relationship, including its trade terms. As said above one of the elements of that understanding was the maintenance of the UK in the single market till end 2020, to give more time for a global solution to be found that avoids the return to a hard border in Ireland.

Not much more has been achieved. Even the understanding on the crucial issue of avoiding a hard border in Ireland is little more than a fudge, as it is not feasible under the terms expressed in the understanding. Still that fudge has opened the door for negotiations on the future relationship to start, and that in itself was a positive move.

The problem is that the negotiations have not moved substantially since then. The UK accepts that a hard Irish border should be avoided. But the UK does not want to replace a hard border between the Republic of Ireland and Northern Ireland, by a hard border between Northern Ireland and the rest of the UK. If the UK, as is its current Government position, does not want to stay in the single market, nor in the customs union, with all its obligations, there is no practical solution that has been offered that would square the circle between being out and not having a hard border with the EU. How would the flow of goods from third countries be controlled if they could freely cross the border from Northern Ireland? How would the EU tariff border protection and the conformity with EU standards and regulations be enforced? By the UK under delegation from the EU? Which guarantees would the EU have in particular if the UK would no longer accept the jurisdiction of the European Courts?

The inescapable conclusion is that there is no model in sight that would avoid a hard border other than the UK staying in the single market. The UK might accept to extend the transitional period beyond end 2020, but stretching that date too much would face a powerful backlash from those who do not accept to be out of the EU, but still subject to EU rules and contributing to the EU budget without a seat at the table.

Unsurprisingly the UK Government is pursuing intermediate outcomes that would protect her economic interests. One option put forward in July would be to stay in the single market, but only for goods thus excluding services, and still having the freedom to adopt free trade agreements with third countries. That option would avoid the need for a hard border, and keep the status quo as far as trade in goods is concerned. Those could be good news in particular for the EU agri-food sector as it would keep the current situation, the EU27 enjoying a healthy trade surplus with the UK. Not to mention all the other sectors where the EU27 has a positive trade balance, and those are clearly dominant.

The problem with that intermediate option from a trade viewpoint is twofold: first in many areas trade in services and trade in goods are inseparable; and second if the UK would adopt free trade agreements with the likes of the US, Australia, New Zealand, why not Mercosur, the

competition for agri-food products in the UK market would dramatically change against our interests, and the EU market would be open to trade diversion and cheaper products imported into the UK. That might not be a big problem for other economic sectors that have low or no tariff protection, but would definitely be a big problem for the agri-food sector. We need to ask again: how would the flow of goods from third countries be controlled if they could freely cross the border from Northern Ireland? How would the EU tariff border protection and the conformity with EU standards and regulations be enforced? If by the UK under delegation from the EU, which guarantees would the EU have in particular if the UK would no longer accept the jurisdiction of the European Courts?

We need to be reminded again that we are a bare 6 months from Brexit actually happening. The lack of politically viable solutions is alarming. Whereas the understanding to keep the UK in the single market till end 2020 is no more than an understanding, dependent upon a formal agreement on the next 6 months to gain legal value, the possibility of a hard Brexit (with a hard border) is now higher than ever before but by no means the only possible outcome.

The consequences of a hard Brexit are so dear for the UK, and to some sectors in the EU – the agri-food sector first and foremost – that another possible outcome is to agree to extend the transitional period to give the time to both parties to reach an agreement for the future relationship. One would hope that with the UK already outside the EU the mindset of negotiators and the political climate would be more conducive to finding a solution, so elusive so far. In this scenario we would probably be back to negotiating the largest possible free trade agreement, which for the EU agri-food sector would be better than a hard Brexit but clearly much worse than the current situation – as the UK would also certainly strike free trade agreements with some of the very competitive third countries mentioned above.

Anyhow prospects are not good. The next chapters deal with the Brexit impact on the key EU agri-food sectors – beef, pork, poultry, sheep and goat meat, dairy, sugar, wine – to illustrate and raise awareness to the challenges ahead.

### **General overview of current trade**

60% of the agriculture and food products consumed in the UK are imported. And nearly 75% of these are coming from the EU.

Last year the EU27 exported over €38 billion worth of agri-food products to the UK, and imported only €16 billion – a trade surplus of €22 billion.

The UK is a major outlet for traditional agri-food export countries such as the Netherlands (€6.5 billion), Ireland (€5.4 billion), France (€5.4 billion) and Germany (€5.1 billion).

The agri-food sector in Spain (€3.8 billion), Italy (€3.1 billion), Belgium (€2.9 billion), Poland (€1.9 billion) and Denmark (€1.7 billion) are also exposed to Brexit with certain sectors facing serious risks.

A cautionary word is appropriate as the figures for The Netherlands and Belgium might reflect to a large extent the relevance of their ports, rather than domestic production. But that does not diminish the finding that many EU countries have substantial trade interests in the UK market.

**Table 1: Overview of EU/UK agri-food trade in 2017 (Source: HMRC, UK Gov)**

	Dispatch from the UK (Euros2017)	Arrival to the UK (Euros2017)
Austria	89.801.177,28	262.319.627,65
Belgium	799.908.307,59	2.866.356.399,84
Bulgaria	68.551.981,72	65.547.096,60
Croatia	25.782.289,30	8.547.571,02
Cyprus	94.038.267,09	97.009.688,96
Czech Republic	146.960.068,62	168.623.918,42
Denmark	426.699.362,66	1.713.758.771,52
Estonia	30.412.539,19	11.302.386,59
Finland	138.577.822,80	43.705.468,73
France	2.734.523.101,07	5.379.809.291,58
Germany	1.643.250.247,51	5.118.324.966,07
Greece	153.158.103,85	356.268.112,87
Hungary	61.468.589,82	190.632.540,77
Irish Republic	4.599.262.510,30	5.395.789.091,28
Italy	663.652.013,60	3.127.815.529,79
Latvia	192.582.213,11	61.364.804,46
Lithuania	31.919.482,99	137.225.712,69
Luxembourg	9.631.353,29	8.723.322,67
Malta	68.539.359,97	4.080.038,00
Netherlands	1.873.114.189,49	6.541.486.997,90
Poland	442.847.817,00	1.930.722.826,51
Portugal	198.052.147,71	334.559.710,44
Romania	84.862.443,22	204.507.851,55
Slovakia	27.556.642,43	74.014.482,70
Slovenia	20.783.834,16	20.176.250,51
Spain	1.135.634.933,57	3.754.265.086,64
Sweden	398.067.072,15	508.952.955,02
<b>Total</b>	<b>€16.159.637.871,46</b>	<b>€38.385.890.500,78</b>

## **Sectorial overview of the EU-UK post- Brexit trade challenges**

### ***Meat products: a further chill for EU beef***

It is clear that in the absence of a FTA with the UK the trade in meat products would collapse, as the fallback WTO tariffs are high enough to prevent any meaningful trade flows. Even if a FTA is in place the real game for the future of this trade is tied with the terms of the FTAs between the UK and the rest of the world. As mentioned above it is foreseeable that UK will negotiate FTAs with countries such as the US, Australia, Argentina, Brazil that would pave the way for a significant share of imports from these countries into the 65 million people British market. EU exporters will in the future have to compete with the most competitive meat producers in the world. It is therefore illusory to think they will keep their UK market share, on the contrary they should expect it to shrink significantly.

For meat products, the cascade effect of trade agreements between the UK and the rest of the world will have to be carefully addressed. Serious safeguards on future UK exports will be needed to avoid that a post-Brexit UK open to the global meat market does not lead to a de facto opening of the EU to the world market, by diverting the UK meat production to the EU market and satisfying UK's consumption needs through imports.

Over €1 billion of EU beef meat products are routed to the UK every year, mostly from Ireland (€785 million). The trade surplus in favour of the EU27 is over €600 million. This is an additional sword of Damocles for the whole EU beef sector, which is already under pressure from the EU trade agenda while facing a structural crisis at the same time.

In addition, the upcoming UK FTAs with top world beef producers would have an indirect effect, by pushing Irish beef producers to find new outlets in the world market but also and primarily in the EU domestic market. The impact on prices, in particular on the more valuable cuts, would be devastating to the already fragile economic situation of the sector.

The EU27 enjoys even a higher surplus on the pig meat sector, over €800 million in 2017 for more than €1 billion of exports. Danish, German, Dutch and Irish pig producers will be the ones most affected. Brexit would come on the top of difficult conditions with Russia, leading to an enhanced dependence on exports to China.

To confirm that no meat sector would be spared, in poultry meat the EU27 exports over €1.2 billion to the UK, the trade surplus being even higher than for the other meats just shy of €900 million. The Netherlands and Poland are by far the biggest exporters.

In turn, the UK is expected to pay a special attention to the €440 million trade flow of sheep meat exported or re-exported, in particular in the context of its future new bilateral relations with the New Zealand. A very significant share of this trade flow is channeled to the French

market (€200 million). New Zealand producers benefit from a 280 000 tons tariff free quota to the EU. They see the Brexit as an “opportunity in time of change”.

**Table 2: Overview of EU/UK bovine trade in 2017 (Source: HMRC, UK Gov)**

<b>BEEF</b>	<b>Dispatch from the UK (Euros2017)</b>	<b>Arrival to the UK (Euros2017)</b>
Austria	1.456.827,66	5.727.297,42
Belgium	15.450.650,68	8.107.493,02
Bulgaria	4.368.956,32	56.768,17
Croatia		
Cyprus	437.843,92	43.037,38
Czech Republic	2.706.634,56	47.887,77
Denmark	10.692.518,66	5.192.296,21
Estonia	-	-
Finland	341829,908	66.893,41
France	52.449.310,00	8.626.605,81
Germany	22.997.553,29	36.528.152,00
Greece	1.903.216,53	2.130,25
Hungary	22.079,49	52.482,58
Irish Republic	143.601.118,65	784.933.069,39
Italy	31.835.649,15	11.355.261,67
Latvia	124.637,14	-
Lithuania	87.014,94	-
Luxembourg	100.527,81	-
Malta	578.401,43	3.289,50
Netherlands	96.713.819,67	83.092.852,63
Poland	4.534.575,89	73.455.096,04
Portugal	5.744.389,60	1.660.698,12
Romania	570.250,12	98.986,31
Slovakia	290.425,58	-
Slovenia	7.908,27	-
Spain	9.712.575,38	9.646.310,66
Sweden	5.227.239,34	35.841,09
<b>Total</b>	<b>€ 411.955.953,98</b>	<b>€ 1.028.732.449,42</b>

(Live bovine animals; Meat of bovine animals, fresh or chilled; Meat of bovine animals, frozen)

**Table 3: Overview of EU/UK swine trade in 2017 (Source: HMRC, UK Gov)**

<b>SWINE</b>	<b>Dispatch from the UK (Euros2017)</b>	<b>Arrival to the UK (Euros2017)</b>
Austria	4.995,30	4.900.734,20
Belgium	7.864.920,99	68.305.622,70
Bulgaria	670.647,85	171.906,48
Croatia	97.766,59	-
Cyprus	236.944,62	-
Czech Republic	824.035,91	-
Denmark	38.692.210,25	333.727.792,51
Estonia	179.861,54	-
Finland	3461,794	52.255,52
France	5.774.171,98	50.898.761,75
Germany	42.967.201,80	211.406.645,62
Greece	55.594,08	12.299,98
Hungary	185.903,13	465.678,61
Irish Republic	95.013.500,33	141.456.512,17
Italy	1.200.622,96	11.459.286,64
Latvia	41.466,22	18.833,35
Lithuania	134.255,77	-
Luxembourg	1.179,79	-
Malta	88.309,98	-
Netherlands	12.442.088,13	108.829.901,28
Poland	2.930.259,15	34.106.074,85
Portugal	289.633,72	6.092.751,74
Romania	787.148,52	2.797.244,79
Slovakia	250.845,43	18.688,44
Slovenia	-	-
Spain	3.079.349,06	86.389.877,10
Sweden	7.585.332,63	43.716,27
<b>Total</b>	<b>€ 221.401.707,49</b>	<b>€ 1.061.154.583,99</b>

(Live swine; Meat of swine, fresh, chilled or frozen)

**Table 4: Overview of EU/UK poultry trade in 2017 (Source: HMRC, UK Gov)**

<b>POULTRY</b>	<b>Dispatch from the UK (Euros2017)</b>	<b>Arrival to the UK (Euros2017)</b>
Austria	130.889,82	371.355,57
Belgium	5.861.387,74	53.663.620,40
Bulgaria	581.470,72	1.680.596,02
Croatia	5.358,14	-
Cyprus	512.520,09	-
Czech Republic	1.390.452,27	2.868,47
Denmark	8.937.996,12	8.797.408,94
Estonia	1.175.117,04	1.694,39
Finland	235401,992	-
France	40.339.373,82	36.978.560,61
Germany	31.531.636,55	108.818.062,26
Greece	1.166.499,07	23.616,42
Hungary	11.885.385,10	14.077.939,83
Irish Republic	85.485.245,52	129.259.110,35
Italy	5.381.396,43	28.677.118,12
Latvia	1.825.231,46	4.416,81
Lithuania	415.860,27	1.132.634,19
Luxembourg	1.983,06	-
Malta	951.102,23	-
Netherlands	46.141.752,47	514.886.615,99
Poland	14.126.588,64	261.652.273,86
Portugal	4.054.877,81	354.318,15
Romania	7.836.540,89	30.712.125,85
Slovakia	915.901,24	-
Slovenia	524,39	127.911,81
Spain	29.157.463,15	14.647.169,89
Sweden	4.468.466,35	-
<b>Total</b>	<b>304.516.422,34 €</b>	<b>1.205.869.417,91 €</b>

(Live poultry, "fowls of the species Gallus domesticus, ducks, geese, turkeys and guinea fowls"; Meat and edible offal of fowls of the species Gallus domesticus, ducks, geese, turkeys and guinea fowls, fresh, chilled or froze)



**Table 5: Overview of EU/UK sheep and goats trade in 2017 (Source: HMRC, UK Gov)**

<b>SHEEP&amp;GOATS</b>	<b>Dispatch from the UK (Euros2017)</b>	<b>Arrival to the UK (Euros2017)</b>
Austria	4.269.951,75	333,17
Belgium	48.895.554,83	397.713,81
Bulgaria	1.119.185,22	149.502,95
Croatia	-	-
Cyprus	76.035,10	-
Czech Republic	185.915,68	-
Denmark	2.182.483,12	62.968,37
Estonia	-	-
Finland	32964,631	-
France	203.038.750,15	1.301.834,22
Germany	70.903.183,37	1.775.942,54
Greece	121.190,17	-
Hungary	7.724,57	-
Irish Republic	48.659.424,88	23.796.912,79
Italy	24.279.660,76	6.478,60
Latvia	39.142,01	-
Lithuania	-	-
Luxembourg	3.917,05	-
Malta	45.322,80	-
Netherlands	23.147.396,26	5.025.147,70
Poland	2.104.875,72	131.380,45
Portugal	6.151.747,14	-
Romania	79,87	33.690,31
Slovakia	6.159,12	-
Slovenia	7.739,40	-
Spain	3.045.294,77	4.656.336,57
Sweden	785.099,28	84.181,84
<b>Total</b>	<b>€ 439.108.797,65</b>	<b>€ 37.422.423,30</b>

(Live sheep and goats; Meat of sheep or goats, fresh, chilled or frozen)

### ***Wine and spirits: New World wines and Scotch whisky***

For more than 20 years EU wine producers have been working hard to stop the drain of their market share in the British market. Their efforts to repel the New World onslaught could be short lived as a result of Brexit and the UK's expected opening to New World exports. The willingness of the UK to open its market to New World countries for the wine sector will seriously reduce the attractiveness of the British market for the EU wine sector, and likely erode its market share in any case, and more so if we have to face a hard Brexit (although tariffs are much lower than for meat products).

The UK is a large market for traditional EU wine makers at €2.6 billion, with France leading the way (€1.1 billion), followed by Italy (€780 million) and Spain (€280 million).

The UK will also be willing to secure a preferential access to the internal market for Scotch whiskies, which is indeed particularly sensitive from an UK economic point of view.

This tariff line (more than €1.7 billion) represents 10% of the UK's agri-food exports, with France, Germany and Spain being the main outlets.

***Table 6: Overview of EU/UK wine products trade in 2017 (Source: HMRC, UK Gov)***

<b>WINE</b>	<b>Dispatch from the UK (Euros2017)</b>	<b>Arrival to the UK (Euros2017)</b>
Austria	2.559.715,98 €	6.681.710,83 €
Belgium	10.243.458,72 €	37.312.632,85 €
Bulgaria	337.924,27 €	2.083.610,91 €
Croatia	146.554,60 €	56.925,63 €
Cyprus	2.079.561,50 €	181.148,58 €
Czech Republic	3.936.202,40 €	1.792.643,36 €
Denmark	29.215.769,39 €	13.474.081,55 €
Estonia	1.644.241,47 €	35.430,33 €
Finland	6.392.979,64 €	328.566,92 €
France	56.216.089,88 €	1.134.425.937,95 €
Germany	32.406.452,66 €	174.894.669,58 €
Greece	315.718,12 €	2.736.686,22 €
Hungary	568.801,05 €	9.940.844,98 €
Irish Republic	55.678.918,49 €	16.229.524,67 €
Italy	3.802.521,70 €	775.860.992,08 €
Latvia	5.801.067,64 €	46.277,82 €
Lithuania	863.229,26 €	108.765,83 €

Luxembourg	131.097,48 €	533.164,20 €
Malta	974.168,69 €	69.156,01 €
Netherlands	61.023.895,34 €	24.297.869,98 €
Poland	4.104.155,32 €	10.940.503,60 €
Portugal	670.431,06 €	69.041.524,34 €
Romania	376.184,28 €	5.368.749,58 €
Slovakia	273.174,80 €	831,79 €
Slovenia	129.401,95 €	520.208,14 €
Spain	15.880.933,19 €	282.231.105,69 €
Sweden	19.621.716,53 €	9.990.104,23 €
<b>Total</b>	<b>€ 315.394.365,39</b>	<b>€ 2.579.183.667,66</b>

*(Wine of fresh grapes, incl. fortified wines; grape must, partly fermented and of an actual alcoholic strength of > 0,5% vol or grape must with added alcohol of an actual alcoholic strength of > 0,5% vol; Vermouth and other wine of fresh grapes, flavoured with plants or aromatic substances)*

**Table 7: Overview of EU/UK spirits (obtained by distilling grape wine or grape marc) products trade in 2017 (Source: HMRC, UK Gov)**

<b>SPIRITS</b>	<b>Dispatch from the UK (Euros2017)</b>	<b>Arrival to the UK (Euros2017)</b>
Austria	745.705,11 €	2.328.596,16 €
Belgium	2.033.606,58 €	19.868.701,95 €
Bulgaria	128.321,42 €	28.159,88 €
Croatia	99.116,39 €	12.828,26 €
Cyprus	706.087,31 €	65.788,92 €
Czech Republic	180.560,97 €	1.683.283,07 €
Denmark	3.916.318,20 €	6.828.469,68 €
Estonia	326.003,10 €	36.920,48 €
Finland	925.397,78 €	13.645,22 €
France	12.333.131,76 €	228.595.001,65 €
Germany	7.694.556,00 €	29.921.475,61 €
Greece	186.822,78 €	822.293,60 €
Hungary	436.861,52 €	1.254.508,96 €
Irish Republic	13.391.937,54 €	13.434.110,04 €
Italy	5.153.482,82 €	50.631.150,47 €
Latvia	283.724,48 €	66.427,88 €

Lithuania	379.671,17 €	20.637,27 €
Luxembourg	65.802,61 €	619,56 €
Malta	400.826,45 €	-
Netherlands	8.949.003,34 €	12.735.619,51 €
Poland	674.165,56 €	10.903.264,79 €
Portugal	333.764,18 €	4.954.340,66 €
Romania	313.267,26 €	1.225.739,79 €
Slovakia	199.172,96 €	831,79 €
Slovenia	129.609,61 €	228.975,88 €
Spain	8.123.908,59 €	26.359.739,13 €
Sweden	1.600.716,89 €	8.601.283,59 €
<b>Total</b>	<b>€ 69.711.542,36</b>	<b>€ 420.622.413,78</b>

### ***Sugar and sugar products: refining of sugar cane flooding the EU market?***

Having the UK open to the world market will change drastically the EU sugar landscape, and the difficult balance reached between sugar beet and cane refiners. The longstanding tensions between the continental sugar beet cooperatives (German, French and Dutch) and the US owned cane sugar refining company (American Sugar Refining –Tate&Lyle, which owns, in London, 25% of the total refining capacity in the EU) are about to rebound.

On the one hand, the EU sugar producers are enjoying an important outlet in the British market (€970 million). On the other hand, Tate&Lyle is poised to regain competitiveness from UK FTAs with sugar cane producing countries. In this case, assuming that the beet sugar producing company maintains its production, the British market would most probably be in a position to switch from a deficit to a surplus position.

Restrictions via current EU strict rules of origins for the sugar sector will need to be implemented to the UK to avoid a damaging triangular trade in a post-Brexit context, taking into account that raw sugar refining into white sugar is not considered as a substantial transformation allowing operators to rebrand it as “local products”.

**Table 8: Overview of EU/UK sugar products trade in 2017 (Source: HMRC, UK Gov)**

<b>SUGAR</b>	<b>Dispatch from the UK (Euros2017)</b>	<b>Arrival to the UK (Euros2017)</b>
Austria	3.544.084,06 €	2.300.718,11 €
Belgium	16.795.677,46 €	179.627.172,46 €
Bulgaria	619.875,63 €	1.083.349,83 €
Croatia	194.524,53 €	72.563,04 €
Cyprus	2.033.303,08 €	11.391,74 €
Czech Republic	2.720.512,54 €	41.234.284,08 €
Denmark	10.619.931,67 €	11.202.972,40 €
Estonia	367.544,63 €	23.613,00 €
Finland	2.132.546,12 €	9.908.677,91 €
France	23.961.729,10 €	255.426.222,52 €
Germany	31.431.212,58 €	133.142.309,88 €
Greece	1.457.578,44 €	6.229.543,94 €
Hungary	710.638,76 €	8.513.943,47 €
Irish Republic	121.924.561,54 €	44.262.294,99 €
Italy	23.343.349,32 €	19.024.223,89 €
Latvia	295.867,01 €	645.351,88 €
Lithuania	1.365.932,18 €	506.467,08 €
Luxembourg	384.477,07 €	86.916,82 €
Malta	2.434.711,44 €	2,28 €
Netherlands	35.940.517,60 €	157.756.964,82 €
Poland	14.635.140,33 €	35.129.764,08 €
Portugal	2.845.615,21 €	1.362.188,56 €
Romania	1.071.422,96 €	386.193,13 €
Slovakia	1.111.615,83 €	8.325.992,24 €
Slovenia	812.900,89 €	1.534,65 €
Spain	12.564.966,98 €	46.237.124,09 €
Sweden	8.490.372,69 €	2.041.295,78 €
Estimates	346.179,40 €	3.541.381,03 €
<b>Total</b>	<b>€ 324.156.788,99</b>	<b>€ 968.084.457,68</b>

### ***Milk and milk products: more competition in a big market***

The challenge of Brexit for the milk sector is more than significant (€3.7 billion EU27 exports). Once again, Ireland (€875 million) but also France (€678 million), Germany (€465 million), The Netherlands (€265 million) and Italy (€232 million) have serious interests in the British market.

Even if the trade balance is not in its favour, the UK also has a significant market position in Ireland (in particular via Northern Ireland) and France. In total, nearly €1.5 billion of dairy products are exported or re-exported from the UK to the EU internal market.

To put it into perspective, the volumes of butter exported to the UK are three times those exported to Russia, and cheese volumes are the double. It is worth remembering the devastating impact of the Russian ban on the EU dairy market, already shaken by higher levels of production.

A hard Brexit would dwarf the Russian crisis, but even in the event of a UK-EU27 FTA, a UK FTA with New Zealand and with the US would inevitably bring added competition in the UK market for EU exporters, which would face an erosion of their market share. The losses in the UK market would lead to increased pressure on the EU-27 internal market and to another dairy crisis.

***Table 9: Overview of EU/UK dairy products trade in 2017 (Source: HMRC, UK Gov)***

<b>DAIRY PRODUCTS</b>	<b>Dispatch from the UK (Euros2017)</b>	<b>Arrival to the UK (Euros2017)</b>
Austria	3.183.949,09 €	14.302.933,62 €
Belgium	117.922.502,89 €	244.524.751,39 €
Bulgaria	3.102.309,40 €	2.309.268,76 €
Croatia	689.133,19 €	70.302,72 €
Cyprus	6.168.891,81 €	69.488.246,38 €
Czech Republic	5.540.827,22 €	6.416.682,78 €
Denmark	60.983.982,02 €	265.800.359,97 €
Estonia	680.636,17 €	210.238,38 €
Finland	2.792.831,41 €	2.613.926,03 €
France	173.682.535,08 €	678.384.348,87 €
Germany	123.902.583,16 €	465.225.006,31 €
Greece	12.440.353,81 €	111.889.684,47 €
Hungary	2.717.357,68 €	3.366.449,76 €
Irish Republic	608.137.326,08 €	906.148.741,32 €

Italy	57.357.676,36 €	327.570.200,03 €
Latvia	758.448,94 €	550.917,02 €
Lithuania	2.067.341,39 €	5.582.106,31 €
Luxembourg	360.103,02 €	619,56 €
Malta	4.187.729,01 €	38.312,50 €
Netherlands	205.749.127,19 €	296.648.515,84 €
Poland	24.114.358,39 €	93.824.215,49 €
Portugal	8.499.368,33 €	8.083.630,15 €
Romania	3.810.326,14 €	5.838.581,43 €
Slovakia	1.211.371,18 €	28.881.177,98 €
Slovenia	353.699,73 €	228.975,88 €
Spain	59.079.420,25 €	91.471.885,39 €
Sweden	15.509.618,71 €	16.966.648,32 €
Estimates	1.177.201,65 €	13.251.109,61 €
<b>Total</b>	<b>1.506.181.009,27 €</b>	<b>3.659.687.836,25 €</b>

*(Milk and cream, not concentrated nor containing added sugar or other sweetening matter; Milk and cream, concentrated or containing added sugar or other sweetening matter; Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or flavoured or containing added sugar or other sweetening matter, fruits, nuts or cocoa; Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, n.e.s.; Butter, incl. dehydrated butter and ghee, and other fats and oils derived from milk; dairy spreads; Cheese and curd)*

***Fruits and vegetables: is the carbon foot print a sufficient argument for preferring EU origin?***

With about €5.1 billion of fruits and vegetables exported from the EU27 to the UK, it's clear that EU producers are heavily exposed to the Brexit consequences. Spain (€1.9 billion) and The Netherlands (€ 1.1 billion) top the list.

Many other countries are also concerned, such as Italy, Belgium, Ireland, Poland, France, Germany, Greece or Cyprus, which is traditionally exporting potatoes to the UK (€6 million).

The challenge for EU exporters could come from freer access to the UK market from exporters in North Africa and the US.

Nevertheless, the proximity to the market should allow EU producers to keep strong positions, even under enhanced competition with the rest of the world.

**Table 10: Overview of EU/UK fruits and vegetables trade in 2017 (Source: HMRC, UK Gov)**

<b>FRUITS &amp; VEGETABLES</b>	<b>Dispatch from the UK (Euros2017)</b>	<b>Arrival to the UK (Euros2017)</b>
Austria	2.951.234,15 €	3.550.442,85 €
Belgium	31.723.011,92 €	312.160.278,48 €
Bulgaria	266.005,89 €	790.059,21 €
Croatia	725.452,36 €	217.768,98 €
Cyprus	1.128.414,77 €	15.164.509,56 €
Czech Republic	2.802.036,99 €	347.962,78 €
Denmark	4.108.252,65 €	7.374.292,13 €
Estonia	114.920,38 €	31.386,63 €
Finland	1.598.107,42 €	156.281,63 €
France	70.146.578,28 €	390.957.130,33 €
Germany	35.521.250,30 €	504.303.376,60 €
Greece	4.980.782,20 €	73.241.540,78 €
Hungary	1.143.669,94 €	20.019.792,03 €
Irish Republic	212.789.595,81 €	216.241.313,64 €
Italy	27.415.857,86 €	280.027.053,10 €
Latvia	108.976,91 €	78.408,38 €
Lithuania	770.101,98 €	2.431.382,00 €
Luxembourg	85.989,18 €	53.495,79 €
Malta	1.764.575,90 €	1.257.045,41 €
Netherlands	77.899.668,71 €	1.120.829.973,64 €
Poland	22.391.595,58 €	215.405.781,02 €
Portugal	4.780.536,70 €	78.545.182,62 €
Romania	374.278,81 €	4.086.623,86 €
Slovakia	1.421.063,01 €	1.933.413,09 €
Slovenia	510.047,54 €	203.768,91 €
Spain	47.557.045,45 €	1.862.768.149,17 €
Sweden	10.443.796,64 €	1.307.070,27 €
Estimates	2.460.171,71 €	14.312.098,13 €
<b>Total</b>	<b>€ 567.983.019,04</b>	<b>€ 5.127.795.580,99</b>



## **II - TRADE NEGOTIATIONS**

The FTAs that the EU is actively pursuing will add once implemented to the woes of some important sectors, whilst providing welcome export opportunities to others.

The sector that risks the higher negative impact is beef. With the notable exception of the FTA with Japan where the EU is expected to develop to some extent its exports, the FTAs with Mercosur and Australia will directly impact the internal market through increased imports, including high valued prime cuts, on top of the recent agreement with Canada. Mercosur alone represents a minimum of 100 000 tons of increased beef imports, double of what Canada will be able to ship.

The pig meat sector will probably face a similar pattern of increased imports if Brazil manages to export hormone free meat to the EU. The impact will not be as high as for the beef sector, as the import volumes relative to the EU market are smaller.

Poultry will also face increased competition from Brazil in particular, which means that in the end the whole meat sector is bound to be under considerable duress.

The other sectors where the negative impact will be felt are sugar and ethanol. Again, the world leader Brazil will be in a position to significantly increase exports to the EU, further depressing a market still adapting to the end of the production quotas.

The dairy sector can benefit from a Mercosur FTA, but will suffer under FTAs with New Zealand and Australia. The balance depends on the fine print of each of the FTAs, so it is premature to speculate on the overall effect on the internal market.

On the positive side the EU processed agriculture products, wine and spirits, olive oil, are likely to come out in a better position.

### **ARE THE EU AND THE US HEADING TOWARDS A TTIP-LIGHT?**

Recent trade frictions as a result of US protectionist measures on steel and aluminum have led to discussions at the highest level between the US and the EU on how to avoid further escalation of tariffs and trade barriers.

The outcome of these discussions is not clear so far, a lot will depend on further talks that are under way.

The common understanding seems to be to work towards free trade on industrial products, except on the automotive sector, and somehow increase imports of some goods from the US (soybeans and gas).

The EU claims agriculture would otherwise be out of the talks, whereas the US disputes this.

The fact is that under WTO rules to negotiate a Free Trade Agreement totally excluding an important sector does seem very problematic to say the least, from the standpoint of assuring that “substantially all trade” is liberalised and respecting the Understanding on the Interpretation of the relevant rules.

Therefore the question is where are these talks heading? They could head to failure, and to a renewed risk of escalation of retaliatory measures. The risk is there, it has been clearly expressed by the US, and the primary target seems to be the EU automotive sector. On the other hand the US does not have from a strategic viewpoint an interest in opening trade fronts with China and its main trade partner and ally, the EU, at the same time. So the will to find a workable compromise might be strong from both sides.

The workable compromise could take the shape of a TTIP-light. No one wants to use the TTIP acronym anymore, but what we are talking about is a FTA with many exceptions, and not including highly politicized chapters as ISDS or public procurement. A light version of TTIP.

The EU could push to exclude agriculture, but the US has an interest in increasing its exports and rebalance the trade deficit in the sector. In the end the discussion could be on how far the exceptions would go without excluding any sector a priori. This is a slippery slope as far as the EU agri-food sector is concerned, as it has substantial defensive interests in particular in the meat sectors that outweigh its offensive interests.

## **THE CUMULATIVE IMPACT OF BREXIT AND TRADE NEGOTIATIONS**

Even if seen in isolation, Brexit and the sum of the many trade negotiations, will bring additional volumes to the EU internal market, depressing prices, shrinking farmers revenues and impacting meat, sugar and ethanol processors.

The impact of Brexit will be higher, and even catastrophic if in the event of a hard Brexit the UK and the EU27 revert to applying their WTO bound tariffs to mutual trade. Only in the scenario where the UK would stay in the customs union and would not have the freedom to negotiate FTAs with other countries would the impact be inexistent.

To Brexit adds the impact of all the EU negotiated FTAs, magnifying its negative consequences. We are facing additional quantities of beef in the internal market on the high hundreds of thousand tons, as for pig meat and poultry.

For dairy the difficult to predict balance of the trade negotiations will be dwarfed by the negative impact of Brexit. The same can be said about the wine sector.

On sugar and ethanol the impact might be less dramatic than for the meat sector, but it will further depress the outlook for sugar beet production in the EU.

Therefore what we are looking at is a prospect of simultaneous powerful negative impacts in key agriculture sectors, something never seen before since the inception of the EU.

The current CAP is not wired to respond to such a dramatic impact. It lacks the market tools, the resilience tools, and the budget reserves for such events.

The proposed reformed CAP will be even less prepared, as the budget will shrink and no new market or resilience tools are to be in place.

There is a crucial point to make: whilst the CAP is, with the cohesion policies, targeted by the Commission to suffer big cuts, the agri-food sector will be by large the most negatively impacted by Brexit and by the trade negotiations. The reason is simple: the tariffs are multiple times higher than for industrial products, and the competition from third countries will increase more as a result of market opening.

The Commission President said that the proposed EU budget for 2021-27 has the flexibility to respond to bad outcomes from Brexit. The sector that will suffer the most is undeniably the agri-food sector.

Instead of further cutting the CAP budget, the Commission should reverse course and at least stay the post-Brexit CAP envelope. The EU should build in the new CAP toolbox resilience mechanisms - crop and revenue insurance and mutual funds; and create a real, meaningful, crisis reserve.