



# BREXIT

## The Future EU-UK Dairy Framework

Update: 31 January 2020

Dairy matters: across the 28 countries of the European Union, there are 700,000 dairy farms, 12,000 milk and processing sites, and more than 300,000 direct jobs in milk processing companies. The dairy sector is the industrial and societal backbone of rural Europe in the EU27 as much as in the United Kingdom. Even more importantly, dairy matters to consumers. Affordable and high-quality milk, cheese, butter and other products, rich in protein and healthy natural fats, are a mainstay of European diets and part of our culinary heritage.

The dairy sector has made full use of the opportunities offered by the EU Single Market. The economic development of the European "lactosphère" in the European Union has been a unique success story.

We, EDA, and our member DairyUK, want to pursue our joint success story. It is vital that the dairy sector continues to work on a free trade basis in milk and dairy products for both the United Kingdom and the European Union. The UK dairy sector is an interlinked part of our EU dairy chain. It is vital for our sector and all involved to allow the dairy sector to continue to work on a single market/free trade basis on both sides for UK and EU milk and dairy products

Brexit will translate into a short period of negotiations in order to define the future relationship between the European Union and the United Kingdom. On 31 January 2020, the United Kingdom will leave the European Union, this means that the clock is ticking and that a swift start to the negotiations is of the utmost importance. If the United Kingdom leaves the EU Single Market and Customs Union without any trade agreement or alternative solution to keep goods flowing, this would be detrimental to both the UK and EU27 dairy sector. The EDA wants the trading relationship between the United Kingdom and the European Union to remain as close as possible to the status quo.

In light of the above mentioned negotiations, the European Dairy Association calls on the European Union and the United Kingdom to focus in the discussion on the future dairy relationship between the European Union and the United Kingdom on the clear objective to limit any potential negative impact on our sector, and the wider rural economies. Negotiations towards a most comprehensive free trade agreement should be prioritised by both parties to facilitate a free flow of goods.

## EDA key asks:

- Zero tariffs and zero quotas in the trade between the EU27 and UK on dairy and dairy related products.
- Greatest possible alignment in standards to minimize trade frictions and mechanisms to ensure that any divergence in standards causes minimal disruption to trade.
- Smooth movement of dairy products with no technical barriers to trade.
- Recognising existing alignment in food law, allow for technical divergence once underlying principles are maintained
- Robust rules of origin to protect the EU27 and UK market from third country imports.
- Maintenance of all existing dairy GI protection.
- Full implementation of the Protocol established in the Withdrawal Agreement for the Island of Ireland in order to facilitate continued movement of dairy across the land border from both a customs and regulatory perspective.

## Tariffs and quotas

There should be no tariffs and/or quotas in the future free trade agreement between the EU and UK on dairy and dairy related products.

## Sanitary and phytosanitary measures

It is important that a FTA includes an extensive chapter on SPS. It must cover a mutual recognition agreement accompanied by a mechanism to secure its smooth operation.

In the agreement we propose, the parties should recognize each other's autonomy and make room for small differences instead of requiring full alignment. But within the recognition agreement divergences must not undermine a level-playing field. Flexibility from both sides is a pre-condition in terms of finding practical solutions to address the scale of divergence. Therefore, a joint management committee would be established to oversee the agreement including possible legislation adaptations.

Both parties the UK and the EU should also aim to conclude a veterinary agreement by establishing a mechanism for the recognition of equivalence of sanitary measures operating in the two regions. It would allow greater efficiency for inspections and auditing on risk-based principles. It would include the application of the principle of regionalisation for animal diseases.

## Technical barriers to trade

It is crucial to ensure that the movement of dairy products runs as smoothly as possible with no barriers to trade. If there is no Customs Union agreed between the parties, then the UK and the EU should negotiate an agreement which secures smooth customs facilitation.

The adaptation of each product for the 'other' market (EU to UK and UK to EU) would be burdensome. Each product crossing the border would need to be adapted to national requirements, or if an equivalent agreement existed, it would have to be checked by the import authorities and possibly placed into quarantine, etc. For claims and other assessment, an agency would be needed, and the dossiers would be doubled for EU and British markets.

The EU and UK today operate under the same legislation and will continue to do so during the agreed transition period. All businesses and authorities have already adapted to various EU requirements as all Member States were involved in the process of elaborating and deciding on EU regulation at all levels and in all procedural steps. It is important for the future of the dairy industry that the transitional measures continue as long as no permanent agreement is reached. These transitional measures can take place under the umbrella of an interim agreement or alternative solution that secures the unhindered flow of goods.

In order to reduce potential costs for EU27 and UK companies, the following principles should be continued:

- Bilateral customs facilitation of all Simplified Procedures will be needed to protect trade flows and current integrated supply chains.
- Optional mutual recognition of the status of Authorised Economic operator
- Operators should be included of the future EU-United Kingdom relationship in the context of customs cooperation.
- The UK must be able to access the EU transit system to facilitate trade.

## Food Safety and regulatory affairs

In order to achieve frictionless trade, the UK should either subscribe to the EU legislation or processes should be put in place to recognize equivalence of standards in matters of animal health, veterinary medicines, medicated feeding stuffs, animal welfare, food and feed safety and hygiene, food labelling and compositional standards. Stricter rules would result in non-tariff barriers and would limit dairy products exports from the EU and as such decrease the availability of EU products for UK consumers and the secondary processing industry.

## Rules of origin

A common threshold for all EU FTA negotiations should generally be pursued. However, Brexit is a special case, and since the EU and the UK today share common rules, we are of the opinion that the future trade relationship between the two parties should be kept as close as possible to the situation prevailing today.

Within the free-trade agreement negotiations between the parties the rules for internal EU/UK trade should be subject to accumulation and the rules of origin protecting both markets from third country imports should apply both by the EU27 and the UK towards external trading partners.

## Republic of Ireland and Northern Ireland

The island of Ireland has an integrated dairy economy. Failure to implement the withdrawal agreement would result in the imposition of an EU land border on the island that would cause catastrophic damage to the dairy industry on the Island of Ireland and beyond. This damage would be at a technical, commercial, political and social level with companies

carved in half. The Good Friday Agreement (GFA) has been vested in the EU institutions, and the EU has repeatedly recognised that the border issue is a key consideration for them during Brexit talks.

As has been agreed in the Withdrawal Agreement under the Irish Protocol, we support the implementation of the agreement between the parties to facilitate the continuation of a two-way access for raw milk and dairy ingredients between Northern Ireland (NI) and the Republic of Ireland (RoI), without tariffs and free from burdensome non-tariff administrative measures – including all veterinary, SPS, customs and labelling laws. Both parties should therefore accelerate efforts to ensure the smooth implementation of the Northern Ireland protocol.

Finished products should come under the terms negotiated between the EU and the UK in relation to the movement of finished goods and services. EDA looks forward to engaging with the Joint Committee once established to ensure that the provisions in place protect the EU Single Market and the UK Market respectively.

Also per the Protocol, the EDA supports the position of both the EU and the UK that EU common standards will be applied and adhered to on dairy products produced on the island of Ireland. Any future amendments to common EU standards will be fully implemented by authorities in both jurisdictions.

## Geographical Indications

Next to the legal protection of dairy terms, like 'milk', 'cheese' or 'whey' more than 300 designations of cheeses and other dairy products are protected as Geographical Indications through the EU quality policy and the Geographical Indications (GIs) protection scheme.

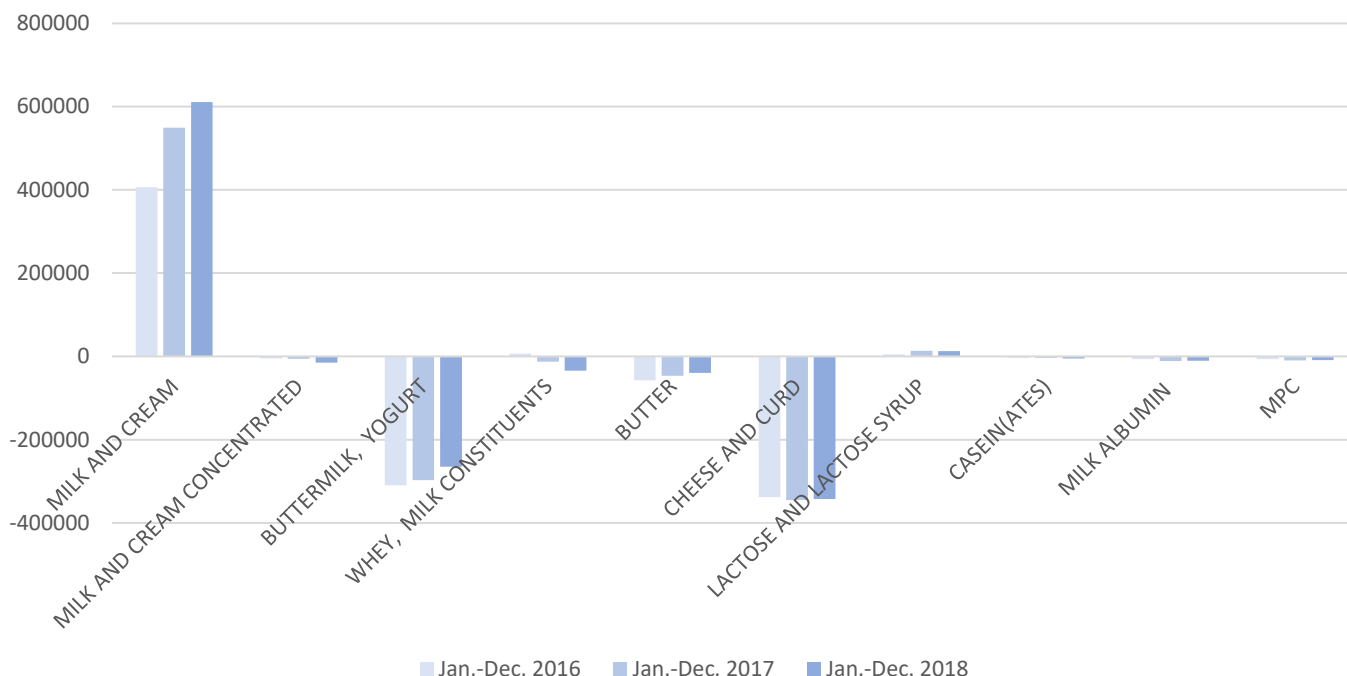
Seventeen UK cheese GIs (out of more than 300 registered cheese GIs) and one UK cream GI are protected by the EU quality scheme. Furthermore, under the regulation protecting geographical indications of spirit drinks, Irish cream (made with a minimum of 10% milk fat) should be produced in the geographical area of the island of Ireland (including Northern Ireland).

DairyUK and EDA have agreed that all dairy GI protection should be maintained.

## EU - UK trading relationship

The UK agri-food market is not self-sufficient and relies on imports to meet domestic demand, particularly from the EU. In 2018, from a milk perspective the UK was almost 90% self-sufficient volume wise/milk equivalent. With respect to milkfat, the UK reached a level of 87% self-sufficiency and for protein a level of 89%. The UK is heavily reliant on cheese imports from the EU27, both for commodity and specialty cheese. The imposition of any level of tariffs would, from an economic point of view, disrupt dairy trade flows in both directions, and in particular, likely make the export of UK dairy products commercially non-viable into the EU market, given the EU's high WTO MFN tariff schedule. It would also impact on the availability and consumer pricing for EU cheese on UK supermarket shelves, driving food inflation as dairy products are a staple part of the UK & European diets.

EU - UK trade balance in Tonnes - eurostat



With the exception of milk and cream, the UK ran a trade deficit with the EU27 in terms of dairy products. The milk and cream surplus are primarily driven by the export of raw milk from Northern Ireland to the Republic of Ireland and this surplus has been accounted for under the Protocol in the Withdrawal Agreement

## EU27 - UK trade

### 0401 - Milk and Cream, not concentrated, not containing added sugar or other sweetening matter

Exports of the UK for 0401 into the rest of the EU27 for the 2016-2018 period have increased to 826,219t in 2018, from 583,554t in 2016. At the same time the EU27 countries' level of imports into the UK market has increased from 177,449t in 2016 to 214,835t in 2017. **In 2018, the UK ran a positive trade balance against the EU27, amounting to 611.384t.**

### 0402 - Milk and Cream concentrated or containing added sugar or other sweetening matter

UK exports for 0402 to the rest of the EU have been increasing substantially over the period 2016-2018, reaching 105,536t in 2018, compared to 101,299t in 2016. Similarly, the EU imports into the UK have been increasing throughout 2016-2018, from 106,510t, to 120,565t in 2017. **In 2018, the UK ran a trade deficit against EU27, amounting to -15,029t.**

### 0403 - Buttermilk & yogurt

On the 0403 products, the UK has a substantial negative trade balance against the rest of the EU of -264,981t. In 2018, exports into the rest of the EU increased to 51,436t compared to 38,145t in 2016. At the same time the imports from the EU has decreased from 347,754t in 2016 to 316,417t in 2018. **In 2018, the UK had a trade deficit against the EU27, amounting to -264,981t.**

### 0404 - Whey

For the period 2016-2018, we observe fluctuations on exports and a considerable increase on imports on the market for 0404. The imports from EU27 reached a high of 88,547t in 2018, instead of 53,233t in 2016. The UK exports into the rest of the EU

has increased from 59.551t in 2016, to 62.582t in 2017, before decreasing to 54.344t in 2018. **In 2018, the UK ran a significant trade deficit against the EU, amounting to -34,203t.**

### 0405- Butter & Butteroil

For products under the 0405 heading, the UK's exports into the EU27 for the 2016-2018 period have increased from 39.744t in 2016 to 49.302t in 2018. The EU27 imports into the UK have decreased for the period 2016-2018, from 97.170t in 2016 to 89.156t in 2018. **In 2018, the UK ran a trade deficit against the EU27, amounting to -39.854t.**

### 0406 - Cheese

The UK has a high dependency for products under the heading 0406. The UK's exports, although high, are much lower than its imports from the EU27. In 2016, the UK exported 128.425t to the EU27, compared to 139.978t in 2018. On the other hand, the EU27 exported to the UK 466.389t in 2016, and 482.661t in 2018. In 0406 products, the UK ran its highest trade deficit against the rest of the EU. **In 2018, the UK ran a significant trade deficit against the rest of the EU, amounting to -342,683t.**

### 1702 11+1702 19 - Lactose

Throughout the period 2016-2018, the UK's exports of lactose to the EU27 have increased, while the EU's exports have decreased steadily. In 2016, the UK exported 12.745t, increasing it to 17.007t by 2018. The rest of the EU imports into the UK decreased from 7.771t in 2016 to 4.025t in 2018. **In 2018, the UK ran a positive trade balance against the EU27, amounting to 12.982t.**

### 3501 - Casein

For products under the 3501 heading, the UK's exports into the EU27 for the 2016-2018 period remained quite stable, decreasing from 657t in 2016 to 539t in 2018. The EU27 imports have fluctuated for the period 2016-2018, from 4.253t in 2016 to 5.265t in 2018. **In 2018, the UK ran a trade deficit against the EU27, amounting to -4.727t.**

### 3502 20 - Milk Albumin

Another interesting dairy product is 3502 20, where both the UK's exports have stagnated over the period 2016-2018. In 2018, the UK exported 13.606t in 2018, while it already exported 13.406t in 2016. The EU27 imports into the UK have increased from 20.004t in 2016 to 24.024t in 2018. **In 2018, the UK ran a trade deficit against the EU27, amounting to -10.419t.**

### 3504 - MPC

For 3504 products the UK imports from EU27 are much smaller compared to the exports into the EU27. We observe though a steady increase for the UK exports increasing from 2.603t in 2016 to 3.014t in 2018. At the same time, the imports from the rest of the EU also increased from 9.284t in 2016 to 11.886t in 2018. **In 2018, the UK ran a trade deficit against the EU27, amounting to -8,872t.**