



Food & Agricultural Policy

EU food and agriculture in a changing global market

Powered by IEG Policy

Contents

- 4** Chapter 1: EU and external trade – an introduction
- 7** Chapter 2: How global trade changed the CAP
- 11** Chapter 3: An expanding matrix – the EU’s free trade agreements
- 16** Chapter 4: The ‘Brussels effect’ and the battle for regulatory supremacy
- 20** Chapter 5: Under pressure – the WTO and agricultural trade
- 24** Chapter 6: The challenge of Brexit
- 28** Chapter 7: Future challenges for agri-food trade



Cover Image: Port of Hamburg, Germany - Mirko Kuzmanovic/Shutterstock.com



Chris Horseman is a former director of Agribusiness Intelligence and now works for IHS Markit in a freelance consultant and editorial capacity. He is a seasoned analyst of European and global agricultural and trade affairs. His specialist areas include the Common Agricultural Policy (CAP), agricultural trade policy and the World Trade Organisation (WTO). After graduating from the University of Birmingham (UK), Chris worked for a period of time at the European Commission before becoming Brussels Correspondent for Agra Europe in 1987. Chris took up a senior editorial position in Agra Europe’s UK office in 1991, and became Editorial Director in 2006. He is a regular speaker and moderator at agricultural conferences and seminars, and has made numerous appearances on TV and radio news programmes.



Editor: US Food Policy
Joan Murphy
Email: joan.murphy@ihsmarkit.com



Editor: European Food Law
Peter Rixon
Email: peter.rixon@ihsmarkit.com



Analyst: US Agricultural Policy
Roger Bernard
Email: roger.bernard@ihsmarkit.com



Analyst: European Agricultural Policy
Pieter Devuyt
Email: pieter.devuyt@ihsmarkit.com



Analyst: US Food Policy
JR Pegg
Email: jonathan.pegg@ihsmarkit.com



Analyst: US Food Policy
Margarita Raycheva
Email: margarita.raycheva@ihsmarkit.com



Analyst: US Agricultural Policy
Richard Morrison
Email: richard.morrison@ihsmarkit.com



Analyst: European Agricultural Policy
Steve Gillman
Email: steve.gillman@ihsmarkit.com



Consultant: European Agricultural Policy
Chris Horseman (contributor)



Analyst: European Food Law
Sara Lewis (contributor)

Subscription & Marketing Enquiries:
AgriMarketing@ihsmarkit.com

Agribusiness Intelligence Customer Success Team:
EMEA: +44 20 38 55 38 90

APAC: +852 37 26 70 59

AMERICAS: +1 64 66 79 30 70 (New York)/
+1 65 14 44 71 10 (Minneapolis)

Email: AgriSupport@ihsmarkit.com

www.agribusiness.ihsmarkit.com

IHS Markit | Agribusiness | Ropemaker Place | 25 Ropemaker Street | London EC2Y 9LY | UK | Telephone: +44 20 72 60 20 00

Images: Shutterstock.com

Any unauthorized use, disclosure, reproduction, or dissemination, in full or in part, in any media or by any means, without the prior written permission of IHS Markit or any of its affiliates (“IHS Markit”) is strictly prohibited. IHS Markit owns all IHS Markit logos and trade names contained in this report that are subject to license. Opinions, statements, estimates, and projections in this report (including other media) are solely those of the individual author(s) at the time of writing and do not necessarily reflect the opinions of IHS Markit. Neither IHS Markit nor the author(s) has any obligation to update this report in the event that any content, opinion, statement, estimate, or projection (collectively, “information”) changes or subsequently becomes inaccurate.

IHS Markit makes no warranty, expressed or implied, as to the accuracy, completeness, or timeliness of any information in this report, and shall not in any way be liable to any recipient for any inaccuracies or omissions. Without limiting the foregoing, IHS Markit shall have no liability whatsoever to any recipient, whether in contract, in tort (including negligence), under warranty, under statute or otherwise, in respect of any loss or damage suffered by any recipient as a result of or in connection with any information provided, or any course of action determined, by it or any third party, whether or not based on any information provided. The inclusion of a link to an external website by IHS Markit should not be understood to be an endorsement of that website or the site’s owners (or their products/services). IHS Markit is not responsible for either the content or output of external websites. Copyright © 2020, IHS Markit®. All rights reserved and all intellectual property rights are retained by IHS Markit.



Chapter 1: EU and external trade – an introduction

The European Union may be the world's largest single market for agriculture and food products, but it definitely does not exist in a vacuum.

It is the world's leading exporter of agri-food goods – having recently overtaken the United States to the number one position – and it is also the world's second biggest agri-food importer (having recently been overtaken by the US). So, it is clear that for Europe's agriculture and food industries, trade matters a lot.

EU producers are in fact in the odd position of facing two distinct categories of 'imports' and 'exports'.

Sales to or purchases from another country within the EU can involve all manner of logistical complexities, and often entail the challenge of having to market a product in a different language, and to a different culture. But from the point of view of bureaucratic administration, selling a product in another EU member state is no more complicated than selling it in a producer's own country – give or take some possible VAT complications - thanks to the EU's uniquely integrated single market.

From the EU's point of view, such transactions are not 'exports' at all, but simply internal EU transactions. As such, these sales and purchases are not the subject of this report.

Instead, the focus is on trade with countries outside the EU. Growth in this area has been critical in enabling the European agri-food sector, or at least significant parts of it, to thrive and expand.

A focus on products of high and reliable quality has been the key to the EU's success in developing its exports to a world in which, for the greater part of the 21st century, overall welfare levels have been rising steadily and trade barriers have been tending to fall. The latter factor is due in large part to the European Commission's success in negotiating individual trade agreements with key trading partners, including big agricultural importers such as Japan, Canada and South Korea.

Imports have also grown, as the EU has cautiously opened up its historically well-protected agri-food markets to preferential partners, and as the European economy has grown, thereby expanding demand.

But exports have risen faster. Between 2014 and 2019, EU agri-food exports rose by 24.1% by value, while imports increased by 14.6% over the same period. This has resulted in an 80% leap in the EU's trade surplus for agri-food products over those five years, to €31.955 billion in 2019 (see Figure 1).

A focus on quality

But there is a distinct imbalance in the pattern of EU agri-food trade between manufactured products and commodities.

As might be expected from a developed economy, the EU's success in exporting food and agriculture products is driven by the value-added that processors are able to add to their raw materials.

The EU is a net importer of basic commodities – although the headline figures are distorted a little by the EU's heavy importation of tropical products which, for reasons of geography and climate, simply cannot be produced in Europe.

But the further up the food-production value chain one goes, the more positive the trade balance becomes. The EU's trade deficit in agricultural commodities and other primary products is outweighed by big surpluses for processed products, food preparations and beverages – see Table 1.

These statistics in part reflect Europe's colonial heritage. The

Table 1: EU28 agrifood trade balance in 2019 vs 2018, by product category

	2018	2019	% ch 2019:18
Category	€m	€m	%
Commodities	-23,943	-22,575	-5.7%
Other primary	-10,092	-6,271	-37.9%
Processed	14,579	16,129	10.6%
Food preparations	22,682	24,289	7.1%
Beverages	15,475	17,292	11.7%
Non-edible	2,363	3,101	31.2%
Total	21,064	31,965	51.8%

Source: Eurostat, Comext, 2020

© 2020 IHS Markit

continent developed much of its economic strength in the nineteenth and twentieth centuries on the basis of importing raw materials from other continents and exporting finished goods to markets around the world. This pattern has persisted because many countries outside Europe are still able to produce agricultural commodities more efficiently than is possible in EU member states, and the principle of comparative advantage accounts for the resulting trade flow patterns.

This is not to imply, however, that the European Union is any kind of paragon of liberal trade policy. It continues to apply high tariff barriers, and in some cases non-tariff barriers, to imports of sensitive agricultural products from outside the EU.

European farmers are protected by a comprehensive system of subsidies under the Common Agricultural Policy, and while these domestic aid payments have been comprehensively reformed on a number of occasions since the early 1990s, its basic trade regime for agricultural commodities has barely shifted since the current WTO Agreement on Agriculture came into effect in 1995.

This means that, based on the EU's core 'Most Favoured Nation' tariff schedules, effective levels of market protection for commodities like beef and butter are higher now in relative terms than they were 20 years ago. This is an issue which is explored in more depth in Chapter Two.

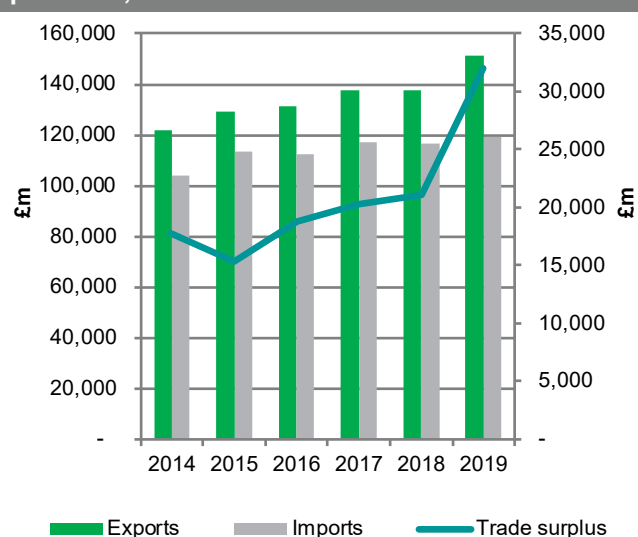
The EU's leading agri-food trade partners

The pattern seen in the list of EU agri-food trade partners varies considerably between exports and imports (see Tables 2 and 3).

While the US tops both charts – and China ranks as second biggest export market and fourth biggest supplier – the EU's list of Top 20 export destinations includes predominantly developed countries such as Japan, Canada and South Korea, plus wealthy emerging markets such as Saudi Arabia and the UAE.

This reflects the EU's status as a major exporter of the kind of premium food and drink products (cheeses, hams, wines

Figure 1: EU import-export balances for agri-food products, 2014-2019



Source: IHS Markit/Comext

© 2020 IHS Markit

and spirits) which are in demand among aspirationally affluent middle-class populations worldwide.

Indeed, the EU has been singularly successful in developing a sense of ‘cachet’ for its food and drink products, aided in

Table 2: EU28 agrifood exports in 2019 vs 2018 - top 20 destinations

	2018	2019	ch 2019:18
Category	€m	€m	%
United States	22,244	24,317	9.3
China	11,098	15,300	37.9
Switzerland	8,248	8,555	3.7
Japan	6,641	7,657	15.3
Russia	6,623	7,191	8.6
Norway	4,495	4,697	4.5
Canada	3,705	3,937	6.3
Saudi Arabia	3,820	3,878	1.5
Turkey	3,145	3,589	14.1
Australia	3,383	3,536	4.5
Hong Kong	3,680	3,270	-11.1
South Korea	3,028	3,166	4.6
United Arab Emirates	2,624	2,765	5.4
Algeria	2,652	2,531	-4.6
Ukraine	2,063	2,480	20.2
Singapore	2,418	2,436	0.8
Israel	1,945	2,128	9.4
Egypt	1,528	2,016	31.9
South Africa	1,704	2,003	17.5
Brazil	1,780	1,925	8.2
Other countries	40,651	43,872	7.9
Total	137,473	151,248	10.0

Note: UK included within EU28

Source: Eurostat, Comext, 2020

© 2020 IHS Markit

Table 3: EU28 agrifood imports in 2019 vs 2018 - top 20 origins

	2018	2019	ch 2019:18
Category	€m	€m	%
United States	12,089	11,799	-2.4
Brazil	11,914	11,626	-2.4
Ukraine	5,626	7,383	31.2
China	5,728	6,146	7.3
Argentina	5,127	5,040	-1.7
Switzerland	4,594	4,734	3.0
Turkey	4,482	4,703	4.9
Indonesia	4,386	4,097	-6.6
Cote d'Ivoire	3,363	3,528	4.9
India	3,155	3,217	2.0
South Africa	2,903	2,791	-3.9
Peru	2,296	2,630	14.6
Morocco	2,403	2,499	4.0
Thailand	2,424	2,481	2.4
Chile	2,510	2,478	-1.3
Canada	1,992	2,443	22.7
Viet Nam	2,480	2,403	-3.1
Colombia	2,189	2,266	3.5
New Zealand	2,434	2,244	-7.8
Malaysia	1,922	1,884	-2.0
Other countries	32,393	32,891	1.5
Total	116,409	119,283	2.5

Note: UK included within EU28

Source: Eurostat, Comext, 2020

© 2020 IHS Markit

no small part by the development and subsequent progressive internationalisation of its system of Geographical Indications, or GIs.

The list of top 20 importing countries, by contrast, includes significant numbers of developing countries, with Indonesia, Cote d'Ivoire and India all ranking in the top 10. These countries supply the kinds of goods that Europe cannot produce – such as cocoa, coffee, tea, palm oil, and spices.

The EU's dependence on imported goods from developing countries is important in the trade diplomacy context, and in recent years Brussels has sought to position itself, with some plausibility, as a champion of developing countries' rights in international trade fora.

However, the EU also imports heavily from emerging and developed countries which are able to compete directly with the EU, such as Argentina (beef), Thailand (poultrymeat and sugar) and New Zealand (lamb and dairy products), and it is with these countries that the EU's bilateral trade relations are often the most complicated.

Brexit: the EU's 'new neighbour'

The role played by geographical proximity to the EU is also obvious from the trade statistics, with Morocco ranking as a leading supplier, Norway a leading export destination, and Switzerland, Turkey and Ukraine featuring on both Top 20 lists.

And this theme of customers and competitors right on the EU's doorstep has just become even more significant, with the departure of the UK from the EU.

Britain legally left the EU on 31 January 2020, and even though it will remain part of the EU's single market and customs union until the end of the year, it is already being counted as a third country by the Commission's trade statistics team. Provisional data for the first quarter of 2020 shows, unsurprisingly, that the UK is now dwarfing all other partners as the EU's number one agri-food export market and import source.

This special report from IHS Markit will examine the various aspects of the EU's agri-food trading relationships – the initial creation and subsequent partial dismantlement of 'Fortress Europe', the EU's unsuccessful attempts to drive and shape multilateral policy reforms in the World Trade Organization, its growing matrix of bilateral regional trade agreements, and the increasingly vital battle for trade power supremacy in the realm of regulatory standards.

Brexit, and its ramifications for EU's agri-food trade, is also explored in depth in Chapter Six.



Chapter 2: How global trade changed the CAP

The European Union has a reputation for operating agricultural markets which are highly subsidised, highly protected and often highly damaging to the interests of trading partners in developed and developing countries. For much of the past 50 years or so, this criticism was fully justified – and it is partly justified even today. But it no longer constitutes the full story.

The Common Agricultural Policy (CAP), which regulates domestic support to the EU agri-food industry, has evolved considerably since the early 1990s, when the first meaningful reforms were introduced. Europe's agri-food trade policy, by contrast, has evolved little since the game-changing entry into force of the WTO Agreement on Agriculture in 1995.

But changed policies have resulted in changed markets – and, this almost by default, has led to some changes in the ways in which the EU interacts with the wider world.

Nevertheless, the EU's trading system still bears the imprint of the original highly protectionist principles which were established when the EU – or its predecessor, the European Economic Community – were first set up in the early 1960s.

For some of the more sensitive products, the EU initially

applied variable tariffs which ensured that the principle of 'Community preference' was always upheld.

Under this system, world market prices were monitored by the Commission, and if prices fell, tariffs would rise to ensure that imported product was never able to compete on equal terms with EU goods - whose internal price was protected by a comprehensive system of domestic price support. For other products, high fixed tariffs or quotas were applied, or a combination of both.

This system created a price gap – sometimes a very large one – between the protected EU price and the global market to which the EU aspired to export its surpluses. This gap was bridged by export subsidies, payable from the EU budget.

By the mid-1980s, the EU's reputation in the global



agri-food trading arena was at rock-bottom. Rival exporters complained that the EU's tariffs were depriving them of access to European markets, while EU export subsidies were also keeping them out of third country markets. Developing countries complained that their farmers were being priced out of their own markets by subsidised EU sales.

The Uruguay Round and the WTO Agreement on Agriculture

It was against this backdrop that the Uruguay Round of multilateral trade negotiations was launched – the initiative that eventually resulted in the creation of the World Trade Organization and the WTO Agreement on Agriculture. The latter is the first, and so far, only, comprehensive global agreement to reduce agricultural tariffs and discipline domestic agricultural subsidies.

The agreement also included curbs on export subsidies – an agreement which was eventually superseded by a deal in 2017 to abolish them altogether.

For the EU, the Uruguay Round agenda of the late 1980s posed a serious challenge. It was very obviously the Common Agricultural Policy, and the EU's associated agri-food trade policy, that were under fire from all sides in the negotiations, but the EU calculated that it would lose too much diplomatic capital by trying to block the negotiations completely. It therefore concluded, following a rancorous and unsuccessful attempt to conclude the Uruguay Round in Brussels in 1990, that its domestic policy would have to change to permit the partial liberalisation of its trade policy.

The net result of these considerations was a comprehensive reform of the CAP which was finally concluded in 1992. This involved a big switch away from the principle of supporting markets through official intervention at guaranteed prices,

and a switch towards direct aid payments to farmers. These 'MacSharry reforms', named after the Irish Agriculture Commissioner who pushed them through the EU Agriculture Council, created a blueprint for the CAP which persists to this day.

A key element in the reforms was a big cut in the guaranteed intervention prices for products like cereals, beef and dairy products. This had the effect of closing the gap between high EU internal prices and typically rather low world prices, and this in turn meant that the EU could contemplate cuts in its import tariffs, and curbs on its export subsidies, without putting the survival of the majority of its agricultural producers in jeopardy. The MacSharry reforms essentially meant that the EU could lose its 'pariah' status and re-enter the global trading arena with some measure of self-respect.

The changes in EU policy were the biggest single factor in permitting the successful conclusion of the Uruguay Round – several years late – and the consequent entry into force of the WTO Agreement on Agriculture (AoA) at the start of 1995. And while the AoA affected the agricultural and agri-food trade policies of all developed countries, it had an especially significant longer-term effect in shaping the EU's CAP, in three particular respects:

• Domestic support

One of the AoA's most innovative elements was in recognising that domestic agricultural support policies could be an important factor in distorting international trade – but also in acknowledging that some types of domestic support were a lot less trade-distorting than others.

Under the AoA, only support which fell into the so-called 'Amber Box' was disciplined. This covers old-fashioned trade-distorting market support, such as buying surplus goods into state intervention.

By changing the thrust of its domestic agricultural policies away from measures and towards direct aid payments, the EU has been able to maintain support to its farmers at relatively high levels without fear of sanction at WTO level. Indeed, in its latest submission to the WTO, for the marketing year 2017-18, the EU declared Amber Box spending of some €6.9 billion – less than 10% of its WTO-sanctioned ceiling of €72.378bn.

Meanwhile, the expectation was that the AoA would be followed up by a new round of negotiations which would further refine the disciplines agreed in the mid-1990s. The Doha Round was duly launched in 2001 – but was never concluded.

Even so, the EU anticipated probable future sanctions on

‘Blue Box’ payments – defined as measures which are production-linked and hence trade-distorting, but whose impact is moderated by production-limiting programmes such as quotas on the number of animals which may be supported. Following the MacSharry reforms, many of the EU’s subsidy payments had been converted into such Blue Box payments.

It was the expectation of a clampdown in Blue Box subsidies that prompted further policy reform in 2003, with the majority of EU direct aid payments being ‘decoupled’ from production – i.e. the aids were no longer dependent on the farmer producing any specific agricultural product. This allowed the bulk of the EU’s aid payments to be classified as ‘Green Box’ – and hence clearly exempted from WTO sanction.

The transition away from the most trade-distorting forms of support and towards Green Box-compatible aid payments since the start of this century is illustrated in Figure 2.

The extent of the EU’s agriculture policy reforms are disputed. In particular, the fact that annual subsidy payments of upwards of €60 billion a year are being declared as being ‘production-neutral’ is viewed with a certain scepticism in non-European quarters.

But it is certainly the case that WTO trade policy initiatives have contributed heavily towards EU policy reforms and have encouraged a wholesale shift towards relatively less trade-distorting forms of support.

EU agriculture production has become more market

orientated as a result, and this in turn has contributed to a general increase in agricultural commodity prices since the early 2000s. This development has been beneficial for global agricultural exporters – but one downside is that improved markets have also removed much of the political and diplomatic pressure which created the conditions for multilateral reforms to be initiated in the first place.

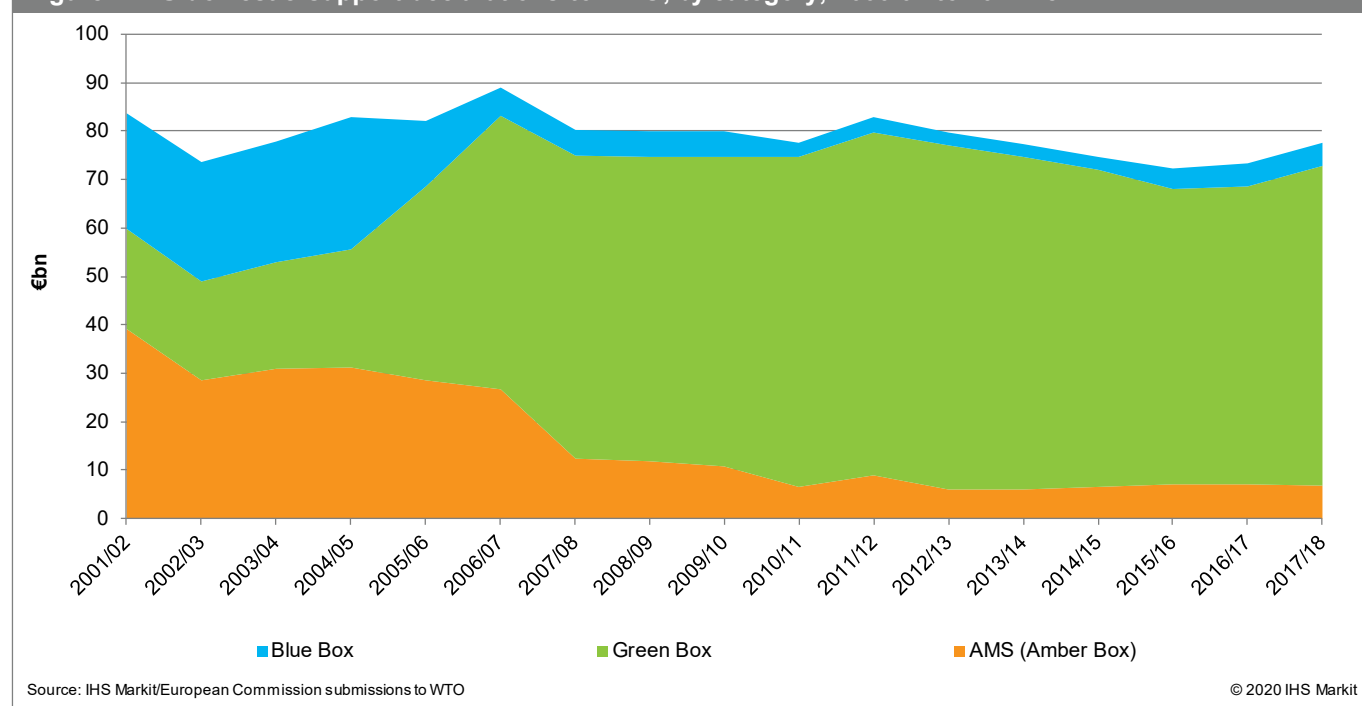
• Export subsidies

Until the mid-2000s, export subsidies were a routine feature of EU agri-food trade. Traders of most key commodities relied on such subsidies to bridge the gap between relatively high EU market prices on the one hand, and typically much lower world market prices on the other. Subsidy payments were periodically adjusted by the Commission to ensure that EU exporters remained competitive.

But the AoA required the EU and all other developed countries to reduce their volume of subsidised exports, as compared with a base period, by 21% over the six-year period 1995-2001, while reducing corresponding budgetary outlays for export subsidies by 36% over the same period. This put a cap on such payments and sowed in European minds the idea that export subsidies would eventually have to disappear altogether.

An agreement was reached at the WTO Ministerial meeting in Hong Kong in December 2005 that export subsidies would be banned altogether once the Doha Round negotiations were completed. That Round never was concluded – but in the meantime commodity prices surged in the late 2000s and

Figure 2: EU domestic support declarations to WTO, by category, 2000/01 to 2017/18



early 2010s, making EU export subsidies simply unnecessary for most products. By the time the WTO agreed to outlaw them completely in 2017, they had become more or less redundant anyway.

- **Market access**

The third leg of the EU's traditional market support 'tripod' was its system of import duties. These were, and still are, intended to make it difficult for imported goods to undercut EU product.

Until the entry into force of the AoA, these were often applied on a variable basis, with tariffs rising as prices fell to ensure that the principle of Community preference was maintained.

The WTO Agreement on Agriculture, however, outlawed variable tariffs in principle, and compelled the EU to undertake "tariffication". This involved converting all barriers to trade in terms of a fixed tariff – either in the form of '*ad valorem*' tariffs expressed as a percentage of the consignment value, or, as in the case of the majority of EU agricultural products, as 'specific' tariffs, expressed as a monetary value per tonne.

These tariffs, once established, had to be reduced by an overall average of 36% over the six-year period 1995-2001, with each individual tariff required to be cut by at least 15%.

One permitted exception to this 'tariffs-only' rule, however, was the creation of tariff rate quotas, or TRQs. This allowed countries to apply zero or reduced tariffs on a set volume of imports each year, with full tariffs applying above that level.

But since these initiatives undertaken within the AoA, there have been no further multilateral reductions in bound tariff levels – and EU tariffs have thus remained unchanged for almost 20 years.

Levels of domestic support within the EU, on the other hand, have undergone reform – sometimes quite radical in nature. The EU's support price for sugar, for example, was reduced by 36% over the period between 2006 and 2010. But the EU's tariffs on raw and refined sugar remained unchanged throughout this process, meaning that the EU's effective margin of protection against imported sugar increased substantially. This kind of 'hidden' protectionism is often cited by critics as evidence for the need for further reform of the international trading system.

The death of multilateralism?

The Doha Round, launched in 2001, was to have been the vehicle by which the global trading community built on the foundation laid by the Uruguay Round by putting in place

deeper cuts in domestic support and more wide-ranging reductions in import tariffs. But after an emerging compromise agreement in mid-2008 was scuppered by an argument between India and the US over safeguard mechanisms, the Round stalled, and eventually died.

WTO members continue to go through the motions of discussing alternative options for multilateral agricultural trade liberalisation, but there is no prospect of any breakthrough being reached in the foreseeable future.

This has left the EU and other major traders pursuing an ever more explicit strategy of negotiating a patchwork of bilateral and regional trade deals which improve terms of trade for the partners involved – but for them only.

For agriculture and food, these range in scope from one partner to another. Full duty-free, quota-free access to EU markets is on offer for most developing countries, but a much more limited range of duty reductions and TRQs is available to other trade partners.

Bilateralism has allowed trade policy to be politically 'weaponised' to some extent, with countries using trade concessions to curry favour with nations with which they want a close association and denying them to countries which are 'non grata' at any given time.

The obvious advantage of bilateral FTAs is that they can be negotiated and implemented (relatively) more easily than a globally binding multilateral deal. But the step backwards from the quest for multilateral solutions has also had the effect of making trade policy reforms less transparent, and this has had the effect of driving increased levels of scepticism and suspicion over the process, particularly among civil society groups.

The almost complete collapse of the WTO as a forum for trade negotiations has also undermined the Organization's status as a regulator of international trade and thrown the functioning of the global rules-based trading system – and indeed the continuing existence of the WTO itself – into some doubt.

The role and the future of the WTO are analysed in more depth in Chapter Five of this report, while the EU's FTA strategy is the main focus of Chapter Three.



Chapter 3: An expanding matrix – the EU’s free trade agreements

Over the years, the EU has developed a large and still-growing network of regional and bilateral trade agreements with countries all around the world. These deals have provided a springboard for much of the growth seen in EU agri-food exports in recent years (see Chapter 1).

The focus on free trade agreements, or FTAs, has been a conscious strategic decision by the EU for the past decade or so, and has been pursued as a response to the lack of any meaningful progress in negotiating steps towards trade liberalisation at multilateral level. With the WTO’s negotiating functions effectively hamstrung since the collapse of the Doha Round in 2008, the only way the EU can gain improved access to third country markets is by negotiating concessions directly with specific countries or groups.

The net result is a matrix of trade deals which currently encompasses 75 countries in all, with more to follow once deals already agreed, or under negotiation, have been approved for entry into force. These are embedded within 40 or so individual agreements.

When the 28 current (or recent) EU member states are added, EU agri-food producers thus now have access to the markets

of over 100 other nations, on terms which are better than those set out in these countries’ WTO schedules. By the same token, European importers can likewise source products from these countries on a preferential basis – even if the preferences are sometimes rather underwhelming in their scope.

The principles underlying preferential trade deals

Each member of the WTO notifies a full schedule of its ‘bound’ tariffs for each product to the WTO secretariat. This involves promising not to increase the member’s tariff for that product beyond the ‘bound’ level.

One of the basic principles of WTO trade law is that a tariff concession, once notified, has to be offered to all other WTO member countries. This is referred to as the ‘most-favoured nation’ principle, and such tariffs are often referred to as ‘most-favoured nation’ or MFN tariffs.



Image: Plenary room of the European Parliament, Brussels, Belgium - Alexandros Michailidis/Shutterstock.com

However, FTAs create a framework within which the parties involved can set aside MFN principles. These latter rules do not apply if concessions are made available within a properly constituted FTA. The main provisions in such cases are that the agreement must cover “substantially all the trade” between the parties involved, with no cherry-picking of specific sectors.

The EU can thus (for example) offer tariff-free access to imports of sugar from developing countries such as Belize and Fiji, without any *prima facie* requirement that the same concession be offered to more dominant sugar exports such as Brazil or Australia.

And as the bound tariff ‘schedules’ of WTO members have in nearly all cases remained unchanged since 1995, when the last set of multilateral tariff reductions were implemented with the introduction of the Agreement on Agriculture, FTAs now represent the only realistic prospect of negotiating improved terms of trade with any given partner.

Types of FTA

The EU’s FTAs take a rather bewilderingly large number of forms, as set out in Table 3. The Commission uses no fewer than 11 different terms to categorise its agreements. In part these reflect the different characteristics of each type of accord, although in some cases the names appear to be a purely political construct.

It will also be noted that a large number of the FTAs provisionally in force have not yet been fully ratified. This is often because ratification of a trade agreement is a complex business, involving the formal approval of the national (and sometimes regional) parliaments of the country or countries concerned. Full ratification can sometime take years – for example, the EU-Canada FTA which came into force in September 2017 has still not been fully signed off on the EU’s side. It is however quite common for FTAs to come into force on a provisional basis, pending full ratification, if both sides’

governments (in the EU’s case, the Council of Ministers and the European Parliament) have given their assent.

The main types of accord are as follows:

European Economic Area, or EEA: This is the closest form of commercial relationship with the EU, and covers Iceland, Norway and Liechtenstein. These European neighbour countries in effect participate in the EU’s single market in most respects - although they are not part of the Common Agricultural Policy, and for some agricultural products tariffs still apply on trade between the EU and these countries. However, the countries concerned align their legislation with EU product standards for food and other traded goods, and they make annual contributions to the EU budget as a kind of ‘fee’ to pay for their preferential access to the EU market.

Switzerland opted not to become a party to the EEA when it was created in 1994, so its relationship with the EU is contained within a complex patchwork of agreements and conventions. Its access to the EU market is however very similar to that of the EEA countries. One specific feature of the EU-Switzerland trade relationship is a ‘zero-for-zero’ agreement on cheese, which ensures duty-free trade in cheese products between the two parties. On other sensitive agricultural products, however, tariffs still apply on EU-Swiss trade.

Stabilisation and Association Agreements: This is a specific category of agreement which the EU reserves for future EU member states – or more specifically, the EU ‘candidate’ countries of the Western Balkans. It encompasses elements of structural aid as well as free trade provisions - although once again, the latter do not extend to all agricultural products.

Association Agreements: An Association Agreement is defined as a treaty between the EU and a non-EU country which creates a framework for co-operation between them.

To this extent, the category somewhat overlaps with Stabilisation and Association Agreements and Partnership and Cooperation Agreements. The EU currently has 12 Association Agreements in place, mostly with Middle Eastern and North African states, but the EU's regional trade deal with the five Central American countries, and its yet-to-be-ratified deal with the Mercosur countries of South America, also fall into this category.

As in all other cases, tariffs are set at zero or reduced levels on the majority of imports.

Economic Partnership Agreements (EPAs): These have been around for about 12 years now and are the EU's preferred vehicle for managing trade relationships with the 79 African, Caribbean and Pacific (ACP) states. These are developing countries linked to the EU under the terms of the so-called Cotonou Agreement – many of them having historic colonial links with European countries.

The EU's concept has been to create a network of regional trade agreements which create more integrated markets and improved terms of trade between the countries in specific EPA regions, as well as liberalising trade between that region and the EU. The European Union offers duty-free access to its markets for all goods from ACP countries, including agricultural products.

However, the approach has met with only partial success. Some regional agreements have yet to enter fully or even partially into force because of the reluctance or failure of one or more countries in the region to sign or ratify.

Customs Union: A Customs Union is in place between the EU and Turkey, and also with the two European micro-states San Marino and Andorra. This means that these states apply the same tariffs and import rules on products from third countries as does the EU. They are not however fully part of the internal EU single market.

Key FTAs for the EU agri-food sector

In recent years, the EU has accelerated the rate at which it has concluded new deals with its trading partners. In 2020, the EU has regional and bilateral FTAs in force with some 75 different countries. By contrast, the total with agreements in force in 2010 was 35, while in 2000 there were just twelve.

The EU's FTAs are also tending to be more ambitious in scope, covering more complex areas such as provision of services, data privacy agreements and, in some cases, investment protection agreements. Many recent deals have also seen quite comprehensive tariff liberalisation for agriculture and food products.

Recently concluded FTAs include the following:

EU-Canada (CETA)

Entry into force: September 2017

Key agri-food highlights:

- Tariffs on 91% of agri-food products removed on day one, with others being phased out or reduced
- Annual TRQ for EU cheese exported to Canada progressively increased from 13,500t pre-CETA to 32,000t when fully phased-in
- Canadian tariffs on biscuits and confectionery abolished
- 143 EU GIs protected on Canadian market

EU-Japan (JEEPA)

Entry into force: February 2019

Key agri-food highlights:

- 85% of EU agrifood exports to gain tariff-free access to Japanese market once FTA fully phased in
- Japanese tariffs of 15% on EU wine exports scrapped from day 1
- Duty-free market access for processed pork
- Japanese tariffs on beef cut from 38.5% to 9% over 15 years
- Japanese duties of almost 30% on Gouda and Cheddar eliminated

EU-Mercosur

Entry into force: Unknown – negotiations completed June 2019

Key agri-food highlights:

- EU concessions to Mercosur: TRQ of 180,000 tonnes of poultrymeat, 99,000t of beef, 25,000t of pigmeat
- EU to eliminate in-quota tariff on 180,000t Brazilian sugar TRQ
- EU to offer reduced-tariff TRQ of 450,000 tonnes of ethanol
- Mercosur offers 30,000 duty-free TRQ for EU cheese
- Big gains for EU wine and confectionery exporters

The pending EU-Mercosur deal will face a great deal of opposition when the accord comes up for approval in the EU Council and the European Parliament. Unlike other recent FTAs, such as those with Japan, Canada and South Korea, the gains for agricultural exporters do not conspicuously outweigh the challenges for EU farmers, especially producers of meat products and sugar. It will take a great deal of diplomatic effort on the European Commission's part to push the deal through.

The fact there is considerable scepticism in many parts of Europe about Brazil's environmental credentials will only make the task more difficult.

The political challenges of trade liberalisation

Indeed, the concessions which the EU was obliged to make to Mercosur in order to get the deal over the line have served to emphasise an important point about trade deals – they do not only create winners.

And although there is consensus among economists that the overall benefits of the EU-Mercosur FTA will substantially outweigh the negatives, it remains a tough task to 'sell' a deal to a European agri-food sector which had grown used in recent years to seeing 'wins' in foreign markets – not 'losses' on their own markets.

The fact that the EU is now fully engaged in FTA negotiations with two other large-scale agricultural exporters – Australia and New Zealand – will not be reassuring news for the producers affected.

Despite all the evidence that FTAs are beneficial for the EU overall, it will be a serious challenge to European farmers and agri-food producers to continue to have faith in the economic benefits of free trade, especially in the aftermath of the coronavirus pandemic.

Table 4: The Eu's FTAs, by agreement type

Type of Agreement	Partner Country	Entry into Force
Economic Area Agreement	Iceland	1994
	Liechtenstein	1995
	Norway	1994
	Switzerland	1973
Agreement		
Stabilisation and Association Agreements	Western Balkans:	
	- Albania	2009
	- Bosnia & Herzegovina	2015
	- Kosovo	2016
	- Montenegro	2010
	- North Macedonia	2004
	- Serbia	2013
Partnership & Cooperation Agreements	Armenia	1999
	Azerbaijan	1999
	Iraq	Provisionally applied since 2012
	Kazakhstan	Provisionally applied since 2012
Association Agreements	Central America:	
	- Costa Rica	Provisionally applied since 2013
	- El Salvador	Provisionally applied since 2013
	- Guatemala	Provisionally applied since 2013
	- Honduras	Provisionally applied since 2013
	- Nicaragua	Provisionally applied since 2013
	Mercosur:	
	- Brazil	Agreement concluded (2019), yet to be ratified
	- Argentina	Agreement concluded (2019), yet to be ratified
	- Uruguay	Agreement concluded (2019), yet to be ratified
	- Paraguay	Agreement concluded (2019), yet to be ratified
	Lebanon	2006
	Jordan	2002
	Israel	2000
	Georgia	2016
	Egypt	2004
	Algeria	2005
	Chile	2003
	Moldova	2016
	Morocco	2000
	Palestinian Authority	1997
	Tunisia	1998
Global Agreement	Japan	in force since 2019
	Mexico	2000 (with 2018 modernisation awaiting application)
Economic Partnership Agreements (EPAs)	CARIFORUM:	
	- Antigua and Barbuda	Provisionally applied since 2008
	- Bahamas	Provisionally applied since 2008
	- Barbados	Provisionally applied since 2008

	- Belize	Provisionally applied since 2008
	- Dominica	Provisionally applied since 2008
	- Dominican Republic	Provisionally applied since 2008
	- Grenada	Provisionally applied since 2008
	- Guyana	Provisionally applied since 2008
	- Haiti	Has not signed or ratified agreement
	- Jamaica	Provisionally applied since 2008
	- St Kitts and Nevis	Provisionally applied since 2008
	- St Lucia	Provisionally applied since 2008
	- St Vincent and the Grenadines	Provisionally applied since 2008
	- Suriname	Provisionally applied since 2008
	- Trinidad and Tobago	Provisionally applied since 2008
Southern African Development Community (SADC):		
	- South Africa	Provisionally applied since 2016
	- Botswana	Provisionally applied since 2016
	- Eswatini	Provisionally applied since 2016
	- Lesotho	Provisionally applied since 2016
	- Mozambique	Provisionally applied since 2016
	- Namibia	Provisionally applied since 2016
Central Africa:		
	- Cameroon	Provisionally applied since 2014
Eastern and Southern Africa:		
	- Comoros	Provisionally applied since 2019
	- Madagascar	Provisionally applied since 2012
	- Mauritius	Provisionally applied since 2012
	- Seychelles	Provisionally applied since 2012
	- Zimbabwe	Provisionally applied since 2012
Pacific:		
	- Fiji	Provisionally applied since 2014
	- Papua New Guinea	Provisionally applied since 2013
	- Samoa	Provisionally applied since 2018
	- Solomon Islands	Provisionally applied since 2020
West Africa:		
	- Cote d'Ivoire	Provisionally applied since 2016
	- Ghana	Provisionally applied since 2016
	- Benin	Signed, awaiting signature by all parties
	- Burkina Faso	Signed, awaiting signature by all parties
	- Cabo Verde	Signed, awaiting signature by all parties
	- Gambia	Signed, awaiting signature by all parties
	- Guinea	Signed, awaiting signature by all parties
	- Guinea Bissau	Signed, awaiting signature by all parties
	- Liberia	Signed, awaiting signature by all parties
	- Mali	Signed, awaiting signature by all parties
	- Mauritania	Signed, awaiting signature by all parties
	- Niger	Signed, awaiting signature by all parties
	- Nigeria	Has not signed or ratified agreement
	- Senegal	Signed, awaiting signature by all parties
	- Sierra Leone	Signed, awaiting signature by all parties
	- Togo	Signed, awaiting signature by all parties
East Africa:		
	- Burundi	Has not signed or ratified agreement
	- Kenya	Signed, awaiting signature by all parties
	- Rwanda	Signed, awaiting signature by all parties
	- Tanzania	Has not signed or ratified agreement
	- Uganda	Has not signed or ratified agreement
Comprehensive Economic and Trade Agreement	Canada	Provisionally applied since 2017
Deep and Comprehensive Free Trade Agreement	Ukraine	Provisionally applied since 2016
Trade Agreement		
	Andean Pact:	
	- Columbia	Provisionally applied since 2017
	- Ecuador	Provisionally applied since 2017
	- Peru	Provisionally applied since 2017
	Singapore	2019
	Faroe Islands	1997
	South Korea	2015
	Vietnam	Signed 2019, awaiting entry into force
Customs Union	Andorra	1991
	San Marino	1991
	Turkey	1995

Source: European Commission, DG Trade

© 2020 IHS Markit



Image: Terminal Steinwerder, Port of Hamburg, Germany - balipadma/Shutterstock.com

Chapter 4: The ‘Brussels effect’ and the battle for regulatory supremacy

Tariffs on imports are not the only, or even the main, barrier facing those who trade agri-food products. Increasingly, the focus for traders is instead on the rules and regulations which apply in each jurisdiction. These have the potential to bar non-compliant products from markets more effectively than even the highest tariff.

Indeed, regulatory issues are probably now the most hotly contested area in international trade negotiations – and the one that can be relied upon to create the greatest amount of public controversy.

Non-tariff barriers are not exclusively an agri-food phenomenon, of course, but they have particular potency in the area of agriculture, where margins of error on issues relating to health and hygiene must always be very small, or non-existent.

Protection or protectionism?

All governments and regulatory bodies rightly make the protection of human health, and the provision of safe and nutritious food, a top priority. But there are different ways of achieving the same basic objectives, and this is increasingly a source of trade conflict.

Moreover, there is no global consensus on precisely what kind of regulations are needed or appropriate in areas such as production methods or guarantees relating to animal welfare or environmental protection.

For governments seeking to find ways of protecting their farmers against keenly-priced competitor products, there has always been the temptation to use regulatory provisions as an effective non-tariff barrier. At the very least, there is a risk that exporter countries will perceive a trade partner’s rules and regulations to have been crafted with that protectionist end in mind, rather than for genuine food quality and consumer protection purposes.

Increasingly, there is a ‘culture war’ being fought over animal, plant and human health regulations in international trade agreements, seen most potently in the ultimately

unsuccessful attempts to agree a transatlantic trade deal between the EU and the United States between 2013 and 2016. The same issues are now arising in the United Kingdom's efforts to negotiate a trade deal with the US to take effect after it leaves the EU customs union at the end of 2020.

The issue touches on questions of national sovereignty and democratic accountability and throws into focus fundamental differences over the appropriate extent of government involvement in private-sector trading activity. It therefore represents a particularly volatile area for policymakers to negotiate.

The WTO SPS Agreement

There are international ground rules underpinning basic animal and plant health rules in the context of trade. Of these codes, the most significant is the WTO's Sanitary and Phytosanitary Measures (or 'SPS') Agreement. This forms a component part of the General Agreement on Tariffs and Trade (or GATT), the basic treaty on which international rules for trade in goods are founded.

The core principle of the SPS agreement is that countries may set their own standards, but that such regulations must be science-based.

To quote the WTO's own guidance on the topic: SPS measures "should be applied only to the extent necessary to protect human, animal or plant life or health. And they should not arbitrarily or unjustifiably discriminate between countries where identical or similar conditions prevail."

Where baselines exist for international standards, guidelines and recommendations, the SPS agreement insists that these should be used by WTO members as a key reference point. These include:

- The FAO/WHO Codex Alimentarius Commission for food standards
- The International Animal Health Organization (Office International des Epizooties, or OIE), for animal health
- The FAO Secretariat of the International Plant Protection Convention for plant health

However, this does not amount to a commonly agreed set of rules and conventions, and the SPS agreement itself has failed to prevent persistent arguments about whether particular requirements by importing countries are excessive or unreasonable.

The 'precautionary principle'

The leeway which WTO members have in interpreting the WTO SPS regulations is perhaps best embodied in the

concept of the "precautionary principle". This is an area where the EU frequently fails to see eye to eye with the US and other trading partners, who accuse Brussels of manipulating the rules to protect whole swathes of their agricultural markets.

According to Article 5.7 of the SPS Agreement, member states may allow temporary "precautionary" measures, which the WTO describes as "a kind of 'safety first' approach to deal with scientific uncertainty." This is designed to give countries latitude to impose controls on trade in situations where there are grounds to suspect a possible risk to human, animal, plant or environmental health even if this has not been scientifically proven.

This regulatory approach is however immensely frustrating for exporters, given the difficulty of 'proving a negative' and offering conclusive proof that the importing countries' concerns are unfounded.

When societal values collide with science

But in the highest profile cases of regulatory disagreement between the EU and its trading partners – especially the US – the issue in question is often not so much a matter of technical risk management judgement as it is a reflection of societal values around agriculture and food production. This often makes it very different for dissenting parties to find common ground on the relevant issues.

A good example is the EU's ban on imports of chemically washed poultry carcasses, or 'chlorinated chicken', to use the preferred media parlance. EU regulation in this area is a regular source of conflict with Washington. The US is a major exporter of chickenmeat, and routinely uses chemical washes at abattoirs to disinfect poultry carcasses, thereby (as it argues) reducing the risk of food poisoning.

The ban is the main reason why EU markets accounted for barely 0.01% of America's US\$3.7 billion poultrymeat exports in 2019.

The EU accepts that there is no risk to human health from use of these 'pathogen reduction treatments' (PRTs), but claims that the need for their use is a symptom of a problem with the highly-intensive production systems typically used by the US (and by many other producer countries).

The EU bans the use of PRTs for its own poultry production systems, claiming that its hygiene requirements make such post-slaughter treatments unnecessary. Its ban is therefore viewed in Brussels as essentially being an animal welfare measure – a topic which is not covered by WTO SPS regulations, but where member countries are nevertheless increasingly asserting their right to take trade-restricting action.



An EU test case on antimicrobials

A similar debate is looming over a question which definitely does have implications for human health – namely the EU’s new ‘suite’ of regulations on animal health and veterinary medicines, and in particular its bid to limit the use of antibiotics in animal health treatments. New rules which are due to take effect in 2022 state that imports of livestock, meat or dairy products will not be allowed from any country which continues to administer antimicrobials which feature on a new list of products which are banned in the EU.

This has triggered alarm among major EU suppliers of livestock products, who have told the Commission that imposing a blanket ban on supplies from any country whose domestic legislation does not fully mirror that of the Commission would be disproportionate to the objective being pursued – i.e. fighting the spread of antimicrobial resistance (AMR) in the human population. It therefore stands to be challenged under WTO rules – assuming the dispute settlement function of the WTO survives the pressures it is currently under (see page 20).

The Commission, for its part, is adamant that it will implement the new rules in a WTO-compatible manner – although so far it has yet to explain how its ban on livestock product imports from non-compliant third countries will actually be applied.

In reality, the EU is likely to try and seek understandings with key supplier countries who can assure the EU that their veterinary rules, even if not identical to those of the EU, have the equivalent effect for purposes of preventing the spread of AMR. The EU-Mercosur FTA which was concluded in the summer of 2019 makes specific provision for ‘dialogue’ on this topic, and similar approaches are envisaged in the FTAs which are currently under negotiation with Australia and New Zealand.

The ‘Brussels effect’

And in this initiative, and in other similar ones, many see evidence of a bid by the EU effectively to ‘internationalise’ the standards which apply in Europe. As the EU’s trade agreements with third countries multiply (as seen in Chapter Three), the EU is increasingly taking the opportunity to negotiate deals which require the country in question to comply with EU regulations for goods which that country exports to the EU – or which it wants to have the potential to export.

The EU is thus using its power as a major importer and exporter to extend its sphere of influence over regulatory issues around the world – a phenomenon which has been described as ‘the Brussels effect’. It could be even be argued that regulatory influence ranks as one of the most successful EU ‘exports’ of the past 20 years or so.

There are growing numbers of examples of the EU using trade policy is a kind of ‘proxy’ for pursuing other kinds of policy goals, such as the areas of social and environmental policy. For example, the new EU-Mercosur deal will, if and when implemented, require the four South American countries to comply with the provisions of the 2015 Paris Agreement on climate change, as a basic precondition for the tariff concessions offered by the EU under that agreement.

Similarly, the EU’s decision to exclude imported palm oil from the list of products which count towards new EU targets on sustainable biofuel production under RED II, its renewable fuels directive, has important trade implications.

By 2030, palm oil will be classified as a ‘high risk’ product for indirect land-use change, which means that biodiesel manufactured from imported palm oil will simply not register as a ‘renewable’ fuel from the point of view of compliance with the new EU renewable energy directive.

There will be no ban on importing palm oil, nor on using it as a feedstock for biodiesel – but its declassification in the context of RED II will drastically reduce its commercial attractiveness for biofuel industries which are scrambling to meet challenging overall targets.

Geographical indications

And perhaps the most celebrated, or notorious, example of the ‘Brussels effect’ is the EU’s system of geographical indications, or GIs.

In all of its new FTAs, and in older ones which it is renegotiating (such as EU-Mexico), the EU is insisting that the relevant party offer legal protection for its most valuable food and drink names within that country, as an essential quid pro quo for the overall agreement. This means that local

producers in FTA partner territories may no longer use protected terms such as ‘feta’, ‘gorgonzola’, or ‘champagne’.

In some cases, the partner is given a transition period (usually six years) in which to phase out the use of the term, while in other cases, individual companies who have historically made use of a disputed term may continue to do so under ‘grandfathered’ rights.

However, the net effect is that the partner country enshrines the EU’s GI protection within in its own domestic laws. And this not only prevents domestic producers from marketing goods with GI-protected product names, but also bars the use of those names for all other countries exporting to that territory.

This has infuriated the United States in particular, and it has retaliated by inserting clauses in its own recent trade agreements with Canada, Mexico and China which limit these countries’ ability to authorise new GIs without a comprehensive objection procedure. But as the EU already has trade agreements, or at least GI protection agreements, in place with all three countries, this represents a case of closing the stable door after the horse has bolted.

UK attempting regulatory equidistance with EU and US

Interestingly, one major developed country which is attempting a kind of equidistance between Brussels and Washington in terms of agri-food regulation is the United Kingdom.

The UK has promised to maintain the high standards on food safety and animal welfare which it has inherited from the EU after it ceases to be subject to EU rules from 2021 onwards.

London is however keen to negotiate a post-Brexit FTA with the US, and it is coming under pressure to change its rules on issues such as ‘chlorinated’ chicken, hormone-treated beef, and genetically modified crops, as the price for such a deal. But this is unlikely to be popular with a UK public which is far more supportive of the EU line on such issues than of the US approach.

The UK has also sounded much more enthusiastic than the EU about issues such as gene-editing and is noticeably more sceptical in its approach to the registration of GIs. This makes the UK a key battleground in the continuing EU-US tussle for regulatory supremacy.





Image: Julia Marton-Lefèvre, Lanre Akinola and Dominik Ziller as panelists at WTO Public Forum, Geneva, Switzerland 2014 - catastrophe_OL/Shutterstock.com

Chapter 5: Under pressure – the WTO and agricultural trade

For the last 25 years, the World Trade Organization has played a prominent role in shaping international trade in agri-food products.

The rules which underpin trade in agricultural goods are set out in the WTO Agreement on Agriculture, which has been in force since 1995 – the same year as the Organization itself was created. Since then, the WTO has provided a forum for further trade policy debates – even if, to put it politely, these debates have not always been conclusive.

And the dispute settlement process which the WTO oversees has played a decisive role in keeping trade open, sometimes triggering major domestic policy reforms as a consequence of its judgements.

But it is not an exaggeration to say that the WTO is currently fighting for its own survival. The world's two trade superpowers, the US and China, are at loggerheads with each other, and, in the case of the US, in a state of barely muted hostility towards the WTO itself.

The Organization's multilateral trade negotiating functions

have almost stopped, its dispute settlement system is temporarily hamstrung, the WTO Secretariat is living from hand-to-mouth because of a US funding embargo, and the WTO's Director General – its senior figurehead – has resigned one year early.

Despite this obvious state of crisis, however, the WTO remains hugely important as the bedrock of the international rules-based trading system. And despite its pursuit of multiple bilateral free trade agreements (see Chapter Three), the EU, a global trading superpower alongside the US and China, remains a strong supporter of the WTO.

Rules and disciplines for agriculture

For all its imperfections, the WTO has brought a degree of order to what had previously been a largely unregulated area of activity, namely agricultural trade and the domestic policies which supported that trade (or, in many cases, undermined it).

There are rules for what countries may and may not do in terms of imposing tariffs on imports, supporting their exports, or giving their farmers an unfair advantage in terms by subsidising and stimulating their production. These rules are not always well-enforced and there are multiple loopholes – but at least the rules are there.

And it is noticeable that the EU has become more supportive of efforts to reform agricultural policies as emerging nations have become more prominent in supporting their own agriculture, partially taking over from the EU the mantle of ‘high agricultural subsidiser’.

A report released by the Australian government in 2019 said that the EU was the second highest holder of agricultural subsidy entitlements in the world behind China – with India in third place and the US in fourth. This is based on countries’ entitlements to ‘Amber Box’ trade-distorting aid payments – see page 9. The other countries in the top ten were Japan, Brazil, Indonesia, Russia, Turkey, and Mexico.

The same report made the remarkable claim that if current rules remain unchanged, the aggregate amount of entitlement to trade-distorting subsidy payments for all countries will almost triple, from US\$740 billion in 2016 to around US\$2 trillion in 2030.

This is because of the WTO Agreement on Agriculture’s ‘*de minimis*’ provisions for domestic support. The rules state that subsidies for any specific product do not have to count against ‘Amber Box’ ceilings if they account for less than 5% of the value of domestic production of that product. The same also applies at aggregate level. Thus, if total trade-distorting subsidies amount to less than 5% of the aggregate value of a country’s agricultural production, they likewise are discounted from the overall Amber Box total.

Thus, as the value of production expands in any country, the leeway to expand payments under the *de minimis* rule will grow proportionately.

This factor alone has driven up substantially the potential headroom for trade-distorting payments in emerging countries like India and China, and this expansion could accelerate as these states develop their agricultural sectors to meet growing domestic and export demand.

But this is far from being the only loophole in the WTO’s rules on domestic support.

As discussed in Chapter Two, the EU was happy to declare some €65.8 billion in European and member state subsidies to the agriculture and rural sector in 2017/18 as having zero or minimal impact on production, and hence on trade. This eyebrow-raising claim is entirely legal under the Agreement

on Agriculture (AoA), because subsidies which are not directly linked to production are classified as ‘Green Box’ subsidies and are hence exempt from any disciplines. And the EU has consciously framed its direct aid payment scheme – which, it is widely agreed, keeps millions of European farmers in business each year – in such a way that they meet the letter of the WTO’s Green Box rules.

The elusive quest for reform

The fact is that the WTO rules on domestic support are in urgent need of reform.

A particularly egregious example of the system’s unfitness for purpose is the fact that in 2017/18, more than 30% of the EU’s total Amber Box payment declaration (€2.1 billion out of a total of €6.9bn) was accounted for by wheat – a sector in which there was in fact absolutely zero market support during that year.

This is because the EU still operates an official intervention price of €101.31 per tonne – and this price is higher than a nominal external reference price of €86.5 per tonne (derived from late-1980s market benchmarks which bear no resemblance to the current state of the market).

However, because these figures have been fossilised into WTO rules, the EU is obliged to count every one of the 143 million tonnes of wheat produced by the EU in 2017-18 as ‘subsidised’, and the Amber Box calculation – the difference between the support price and the nominal reference market price, multiplied by production – is made accordingly.

These rules, and much of the rest of the AoA, have been identified as being ripe for an overhaul since the early 2000s – but no progress has been made in agreeing any changes.

The Doha Round of negotiations, launched in 2001, was intended to be a follow-up to the Uruguay Round which was successfully concluded in 1994 (and which spawned the AoA). But the Round faltered in 2008, after a potential compromise reform agreement was scotched by irreconcilable disagreements between India and the US. Since then, efforts to reform the AoA have made next to no progress.

The process is officially still continuing, and reform proposals, such as the Australian one cited above, are occasionally tabled and debated. But the political and economic circumstances in which 164 member countries with vastly differing objectives and interests could come together and unanimously agree changes to make the system work better have failed to materialise.

There is a widely shared view that a cap should be placed on all forms of trade-distorting agricultural support, including *de*

minimis payments, and that action should also be taken to scale down agricultural import tariffs, with the highest tariffs being reduced by the most.

But the precise shape of any such rules, the exceptions to take account of particular sensitivities, and the options for exempting developing countries from the agreed formulae, continue to represent a challenge so daunting that few have any real faith that they will result in any new multilateral agreement in the foreseeable future.

There is widespread resignation about the slow atrophy of the WTO's trade negotiating function. It is understood that the growth in the number of WTO members – from 76 at the point of its founding in 1995 to more than double that number today – makes it exponentially more difficult to reach consensus views on politically-charged subjects like agricultural support and protection.

It is for this reason that WTO members are increasingly coming together in 'plurilateral' fora to conclude agreements between groups of members who consent to the bound by them. Plurilateral negotiations are currently ongoing at the WTO, for example, on new rules to govern e-commerce.

The Dispute Settlement process

The Organization has however also played an important in overseeing and policing the agreements that have already been agreed. This includes not only the AoA but also parallel agreements like the GATS (the General Agreement on Trade in Services) and TRIPS (Trade-Related Aspects of Intellectual Property Rights).

Indeed, a core element of the WTO's regulatory 'ecosystem', since its founding, has been its Dispute Settlement process. This has given all WTO members the opportunity to challenge measures taken by other measures which they believe are counter to that party's commitments under WTO treaties. The dispute settlement process has often been painfully and painstakingly slow, but it has (eventually) delivered some highly significant verdicts.

An important element in its success has been the fact that, once the appeals process has been exhausted, the losing party is bound by the verdict. This means countries cannot simply ignore verdicts that they don't like and must take action to remedy the identified problem.

Since 1995, some 595 cases have been lodged with the WTO's Dispute Settlement Body (DSB), of which 109 have concerned agriculture and food.

And, perhaps unsurprisingly given its huge stake in global trade, the European Union has been heavily involved in these disputes. WTO statistics show that across all economic

sectors, it has been involved as a complainant in 104 cases and as a respondent (or 'defendant') in 87 further cases. Add in the 205 cases in which the EU has been a 'third party' – which essentially involves voicing active support for one or other side in a dispute between two other members – and the EU has played at least some role in more than 50% of the cases brought.

In the area of agriculture and food, there have 109 cases brought before the DSB, according to the WTO's definition of that sector, and the EU has been directly involved in 47 of these cases (this includes current member states which were involved in disputes in their own name prior to their accession to the EU).

Significantly, in 42 of these cases the EU has been in the dock – with only five cases brought by the EU against other parties. This shows the extent to which Europe's policies impact other countries around the globe, in areas ranging from GM crops and beef hormones to rice tariffs and sugar subsidies.

Further analysis of the 42 agrifood cases against the EU shows that 18 were withdrawn after a mutually agreed solution was reached, while the EU responded to 10 others with action to bring its legislation into conformity with the panel ruling. Of the remainder, many are still officially "in consultations" – but in most cases, these are instances where the case has simply lapsed because of changes in either policies or circumstances.

Some of these cases are long forgotten, but others have had far-reaching consequences.

This is especially so in the case of the dispute brought by Australia, Brazil and Thailand against the EU's sugar export policies in the early 2000s. The case essentially established that the EU had been 'cross-subsidising' some sugar exports which it had been declaring as unsubsidised, thereby putting the EU in breach of its WTO commitments at the time. The Commission's response was to fundamentally reform its entire sugar support regime, slashing EU internal prices, severely reducing EU exports, and thereby allowing global prices to rise substantially.

The EU's current banana import regime is also largely the product of a series of WTO dispute settlement panels which the Commission fought and lost. These cases were brought against the EU by so-called 'dollar banana' exporters in Central America who claimed that the combination of tariffs and quotas applied against them by the EU were unduly high, especially as compared with the completely duty-free market access enjoyed by competitor ACP supplier countries.

In this case, the EU was arguing to preserve the tariff

preferences of the ACP countries as much as arguing in the interests of its own consumers – but in the end, a deal was done to set the MFN tariff for bananas at a level which non-preferential suppliers can live with. (The fact that many of the Central American countries who fought the case against the EU now have their own reduced-duty tariff for EU exports in the context of a regional trade deal with the EU has also helped to ease the politics of the whole situation).

The challenge to the Appellate Body

But the dispute settlement function of the WTO is also now under pressure. The core issue here is the Appellate Body – a sort of ‘court of appeal’ which validates, overturns or finesses the findings of the DSB, if the losing party chooses to appeal.

The US has long had various issues with the Appellate Body, accusing it of judicial overreach, and of acting beyond its established terms of reference, in various respects. But this has come to a head under the Trump administration, which has effectively disabled the Appellate Body by simply vetoing the appointment of new members of the body when existing members end their term of office. Since December 2019, the Body has no longer had enough members to be quorate, and it therefore cannot function.

The pragmatic response of a number of WTO parties has been to set up an interim body which will hear appeals in cases where both parties agree for this to be the case.

In an initiative led by Canada, a group of 19 WTO members, including the EU, have set up the ‘Multi-party interim appeal arbitration arrangement’, or MPIA, which came into force from 30 April 2020. Other countries may join the arrangement at any point. The MPIA is designed simply as a stop-gap solution to prevent trade disputes running into the ground for as long as the Appellate Body is non-functional.

The US, China, and the WTO’s future

But the question is whether, or when, the Appellate Body will ever resume its role at the heart of the WTO’s institutions. The US’s action in choking the life out of the body was cynical, but it speaks more generally of a wider malaise about the role and purpose of the WTO in the 2020s and onwards.

Power politics have returned to the trade policy arena, and leaders in a number of countries, notably the US, are showing a marked preference for bilateral deals, backed by threats of sanctions and non-cooperation, in preference to the WTO’s multilateral rules-based approach.

While most countries see the WTO system as protecting the interests of smaller countries, it remains to be seen whether

the wider WTO membership can resist the anti-multilateralist actions which Washington is currently taking. The most direct and immediate threat from the US is its refusal to sanction a multiannual budget for the WTO secretariat – the relatively small group of officials that oversee the Organization’s functions.

A temporary fix was reached in late 2019 to keep funding the WTO for 2020 only, and not for a two-year period as is customary. This means the funding arguments will resurface once again towards the end of this year.

There is also an acknowledged issue with China, which is now openly vying with the US for the position of the world’s number one trade superpower. Beijing is currently engaged in a trade war with the Trump Administration which encompasses tariffs on a number of major US agricultural exports, and these sanctions are now causing noticeable harm to the US agricultural economy.

It is also the case that the WTO system was never really designed to address an economic model like that of China, where state-run capitalism is the dominant approach. When the country joined the WTO in 2001 the expectation was that it would progressively adopt the liberal, private-sector trading model of most other big trading nations – but this expectation has not come to pass. China remains a highly powerful player in the global agrifood market, but normal WTO concepts of state subsidy, private investment and intellectual property rights are proving very hard to apply in the Chinese context.

Meanwhile, WTO Director General Roberto Azevedo, a former Brazilian foreign minister, has said that he will retire at the end of August 2020 – a year before his term of office as due to expire.

This has triggered a campaign to find a successor, which will not be an easy task given the challenges current facing the Organization. WTO members will need to find someone who is strong enough and capable enough to stand up for the WTO and its values among sometimes hostile world leaders – but who also has sufficiently broad support to command the backing of a membership where consensus is required for all major decisions.

The EU will continue to give the WTO its full support. But difficult concessions will need to be made on all sides, including by the EU, if the WTO is to undergo the reforms that are essential for it to retain its relevance in a turbulent trading world.



Image: Cargo trucks unload at Port of Dover, England - Marcel van den Bos/Shutterstock.com

Chapter 6: The challenge of Brexit

European agri-food producers are facing a wide range of trade-related challenges as they enter the third decade of the 21st century.

An increased focus on product quality and safety guarantees, ever more stringent labelling requirements, an increasingly urgent environmental and climate protection agenda, and changing consumer demands which reflect new dietary preferences - all of these issues have been around for a long time, and their future trajectory can be guessed at with some confidence.

But Brexit, for most people in Europe, came as a bolt out of the blue.

Both the EU and the UK are having to adapt to the realisation that Britain, one of the bloc's largest and most influential member states, has now left the EU and will be ploughing its own furrow on both trade and agriculture policy from now on.

As of mid-2020, the UK is in a kind of post-Brexit limbo. It is no longer a member state, having formally left the bloc on 31 January 2020, but it is in a transition period which will last until the end of the year. At present, therefore, it is still fully part of the EU's single market and customs union.

At present, the EU and UK are engaged in negotiations to put together a free trade agreement (FTA) which is due to apply as of 1 January 2021. Failure to secure a deal would mean the reintroduction of full tariffs on trade between the two sides – plus a series of other non-tariff barriers to trade – and this represents a very worrying potential 'cliff-edge' for agrifood businesses on either side of the English Channel.

But besides the heavy political symbolism of the EU single market splintering in this way – what would be the scale of Brexit's potential impact on the EU agriculture and food sectors, and how might it affect trade?

EU and UK are each other's No. 1 markets

Trade between the UK and the EU27 in agrifood products is significant. Overnight on 1 February 2020, the UK leapfrogged all others to become by far the EU's biggest 'external' trading partner for agriculture and food products.

European Commission data for the twelve months to end-February 2020 show that EU27 exports to the UK were almost double those to the next biggest customer – the US.

Imports from the UK, meanwhile, were 60% higher than from countries number two and three on the list (respectively, Brazil and the US). For agri-food products as a whole, the UK accounts for 22.2% of EU exports, and 13.6% of imports.

It is instructive to compare Tables 5 and 6 with the similar tables on page 6, which relate to the EU28.

What this data clearly shows is that any disruption to UK-EU trade will be a serious problem on both sides of the English Channel – but more especially in the UK, where the comparable figures are significantly greater. More than 60% of EU agri-food exports are sold to the EU, and more than 70% of its imports are sourced from there.

Can tariffs be avoided?

As the UK government and European Commission continue their negotiations on the two sides' future trade relationship, the agriculture and food sectors on either side are adamant that, as an absolute priority, there should be no tariffs on bilateral trade.

In principle, this is already agreed, as both sides are committed

Table 5: EU27 (excl. UK) agrifood exports in Mar 19 to Feb 20 - top 10 destinations

Partner	€m	% of total
United Kingdom	40,679	22.2
United States	21,930	12.0
China	15,216	8.3
Switzerland	8,414	4.6
Japan	7,429	4.1
Russia	7,159	3.9
Norway	4,495	2.5
Saudi Arabia	3,823	2.1
Canada	3,568	1.9
Turkey	3,502	1.9
Other countries	67,188	36.5
Total	183,403	100.0

Note: See page 6 for EU28 trade data

Source: Eurostat, Comext, 2020

© 2020 IHS Markit

Table 6: EU27 (excl. UK) agrifood imports in Mar 19 to Feb 20 - top 10 sources

Partner	€m	% of total
United Kingdom	16,605	13.6
Brazil	10,722	8.8
United States	10,057	8.3
Ukraine	6,869	5.6
China	5,318	4.4
Switzerland	4,615	3.8
Argentina	4,317	3.5
Turkey	4,296	3.5
Indonesia	4,077	3.4
Cote d'Ivoire	3,366	2.8
Other countries	51,443	42.3
Total	121,685	100.0

Note: See page 6 for EU28 trade data

Source: Eurostat, Comext, 2020

© 2020 IHS Markit

to tariff-free, quota-free trade as a key part of their negotiating mandates. However, this is not yet guaranteed. Failure to reach an agreement by the end of 2020 (an extremely tight deadline by the standards of any normal FTA) would lead to the UK leaving the EU customs union at the start of 2021 and hence automatically becoming liable for full panoply of EU tariffs on UK exports. This would add as much as 30-40% to the costs of importing certain sensitive products into the EU.

The UK's own Global Tariff schedule, published in May 2020, is a copy-and-paste of the EU's schedule for most agricultural products, other than the fact that the relevant amounts have been converted from Euros into sterling. That means that the same tariff charges would apply to EU exports to the UK – unless the UK chose unilaterally to disapply tariffs on some imports for a temporary period, in the interests of avoiding supply disruptions and price hikes.

Applications of these tariffs would be hugely disruptive in many sectors, not least cheese, where EU27 exports to the UK were upwards of 500,000t in 2019. Trade of that magnitude would attract tariffs totalling an aggregate of some €800 million in the absence of a trade deal – and hence, of course, the real volume of trade would drop to nowhere near that figure.

Britain is highly resistant to controversial EU demands that Britain should commit to a regulatory 'level playing field' in areas like social, environmental and state aid regulations, and the London government has toyed with the idea of permitting the EU to re-apply tariffs on some sectors, if that is sufficient to exempt the UK from the level playing field rules. Based on initial responses from the Commission, however, this gambit is unlikely to succeed in removing the requirement for regulatory alignment.

But leaving aside the political posturing, the overwhelming interest of both sides to do a deal on tariff-free trade is so great that, barring accidents, the reintroduction of tariffs does seem very unlikely.

Non-tariff barriers set to emerge

However, that does not mean that EU-UK trade will be able to continue as it does today. In all sorts of ways, the business of trading between the two jurisdictions will inevitably become more complicated once the Brexit process is completed, even in the absence of tariffs.

For one thing, the UK, as a 'third country', will become subject to EU sanitary and phytosanitary controls when UK food products are imported into the EU, especially livestock products. The scope of these controls would vary from one product to another, but systematic checks on livestock

consignments, and a requirement that these consignments be imported only via designated Border Inspection Posts, are likely to become features of the new trading environment. The EU would also require inspections of each premise where exported products are prepared and dispatched.

The UK is pressing for this bureaucracy to be minimised, in recognition of the geographical proximity of the two parties and the fact that the two sides' procedures will be identical at the point that the Brexit process is completed. But the European Commission is unlikely to agree to this without some kind of guarantee that the UK's regulatory framework will remain in close alignment with that of the EU – and this, as already noted, is political anathema to the UK.

For all commercial food imports in either direction, advance customs declarations will need to be submitted for every consignment – and this will serve as a huge shock for long-established trade flows which have been bureaucratically 'frictionless' for decades.

The net result is likely to be a slowing down of EU-UK trade, and the partial diversion of EU exports to other destinations which are still inside the EU single market.

Depending on the extent to which this happens, this could have a significant price-depressing effect in some sectors.

Meanwhile, another issue for the food industry is that under a FTA, complex rules of origin would apply on food products exported to the other party. This means that, in principle, exporters would have to prove that all goods were indeed made within the issuing territory, and that the percentage content of any components imported from elsewhere was below a given threshold. The latter might be expressed in terms of share of product weight, or share of value, or a combination of both.

Both the EU and UK have proposed that ingredients sourced from each other's territories should count as 'local' product for the purposes of complying with rules of origin – under a process known as 'bilateral cumulation'. But UK suggestions that cumulation should also apply to imports from third countries with whom the EU and UK both have FTAs in place has fallen on deaf ears.

For many of the EU's other FTAs, agricultural trade is typically focused around commodities whose origin is relatively simple to demonstrate. But EU-UK trade is





notable for its high proportion of more complex manufactured food products, whose ingredients may have been sourced from many different countries.

There is therefore a risk that food products made with components sourced from outside Europe may fall foul of these rules of origin.

For example, would goods made primarily from sugar imported into the UK from the Caribbean be 'British' enough to qualify for concessions under an EU-UK FTA? What about (for example) goods made in Germany with dried fruit imported from the Middle East? Questions of production chain sourcing and associated paperwork, which were irrelevant as long as the UK was still part of the EU, are likely to suddenly become highly salient.

Dividing the spoils: TRQs and Brexit

And indeed, Brexit is already causing headaches for traders all around the world. One issue which is generating friction between the EU and its trading partners is the question of the EU's tariff rate quotas (TRQs) for agricultural products.

The EU has 142 of these TRQs for different products lodged with the WTO. Some are country-specific, while others are open to all-comers (or *erga omnes*, to use the preferred WTO jargon). An example of the former is the 228,254-tonne duty-free TRQ for sheepmeat which is available to New Zealand.

Until the end of the Brexit transition period, these TRQs cover the whole of the EU28. But once the UK leaves the EU customs union, it will no longer be part of that TRQ regime.

The proposed solution reached jointly by London and Brussels is to simply split all existing TRQs between the UK and the EU27, based on an assessment of historical trade flows.

In the case of the sheepmeat TRQ mentioned above, the

quota would be split almost exactly 50:50, with the UK being allocated 114,205 tonnes, and the EU keeping the balance. But New Zealand argues that this would take away the flexibility it currently has to direct imports to any part of Europe, based on real-time market demand.

Moreover, in some cases, the planned solution would allocate 100% of the quota to either the EU or the UK, and this would bar the exporting country completely from access to the other jurisdiction. This is in prospect for no fewer than 60 of the 142 TRQs at issue.

Negotiations to resolve these issues are continuing in Geneva. But until such time as a deal with the parties affected is reached, the zero-sum TRQ split proposed by the EU and UK will come into effect on 1 January 2021, much to the annoyance of trading partners as diverse as Russia, Argentina and Australia, among others. The shadow cast by Brexit is indeed extending around the world.

The push for an EU-UK deal

The impact which Brexit ends up having on agri-food trade depends to a very large extent in the outcome of the EU-UK trade negotiations which are currently ongoing.

The negotiations are unique in that they are beginning from the starting point of full economic integration within the single market and moving to a new and more distant relationship. This is the world's first-ever 'trade de-liberalisation' process, and as such there are no precedents to guide it.

The very close interdependency which either side has with the other means that it is in the overwhelming interests of both London and Brussels to reach a good agreement. Given a modicum of goodwill, such an agreement should be well within reach by the autumn of 2020. But the negotiations have been fraught with political tension since the start, and the risk of an accidental no-deal outcome currently remains far too high for comfort.



Image: Farmers protest against Mercosur trade deal outside of EU Commission Headquarters, Brussels, Belgium - Alexandros Michailidis/Shutterstock.com

Chapter 7: Future challenges for agri-food trade

Trade is the lifeblood of the European agriculture and food sector. Without the ability to source raw materials from around the world, at any time of year, the agri-food sector's offering to its 450 million sophisticated and affluent consumers would be much impoverished. And, without the ability to sell finished goods and commodities on an international basis, on increasingly favourable terms, the sector's revenue and profitability would also suffer considerably.

But the sector's attitude to trade policy remains a complicated one. European agriculture has evolved in the twentieth century under the protective umbrella of a Common Agricultural Policy which sought to cushion producers against the cold winds of international competition, and a common customs tariff which has generally served the same purpose.

EU domestic farm policy has been substantially reformed since the 1990s – EU trade policy too, but to a lesser extent – and concepts like 'Community preference' now belong to a bygone age. The Commission boasts that its policies are more market-orientated than ever before, but it remains the case that European markets for agricultural products are better protected, both internally and externally, than those of most of the EU's competitors.

And there still is huge resistance to the idea of making changes to this state of affairs. Words like 'betrayal' are frequently to be heard whenever the EU considers measures which would make it easier for trading partners to access the EU market.

The furore which has surrounded the conclusion of the EU's FTA with the South American Mercosur bloc in June 2019 has been instructive in demonstrating the outrage which EU producers still feel at the prospect of tariff reductions or tariff quota increases.

Farmers and food producers in Europe had become used to the idea that the EU concluded FTAs which gave them improved access to other countries' markets – e.g. those with Japan, Mexico, South Korea and Vietnam – without requiring

too much in return in the way of difficult concessions. But the Mercosur deal, which creates extensive new tariff rate quotas for highly sensitive products like beef, sugar and ethanol, has posed acute challenges.

How goods are produced – the new battleground

The debates which have followed that agreement, and which presage probable serious problems in getting the deal ratified by European and national parliaments, have sought to transfer the focus back to the conditions in which the agri-food industries operate in countries like Brazil.

The rather relaxed attitude of the current Brazilian government towards environmental protection for the Amazonian rainforest and other climate-related issues has offered good ammunition to those who believe it is unfair for EU producers to have to compete against goods which are produced to 'lower' standards.

Sceptics might claim that the rainforest issue is something of a smokescreen for those who are actually more exercised about the erosion of their margins on European markets. But nevertheless, the question of a 'level playing field' for those who compete with EU producers – who are unquestionably required to produce to high environmental, labour and quality standards – is now very much a live one.

It has even bled across from the Mercosur debate to the post-Brexit negotiations with the UK, where the Commission has made an explicit link between the privileged access which the UK seeks to the EU market and the maintenance of standards which at least match those of the EU.

And as the EU considers the introduction of 'carbon taxes' at the border to neutralise the competitive advantage which would otherwise accrue to competitor products which do not meet EU climate protection standards (a tax which would not, initially at least, apply to agricultural goods), it seems clear that the question of how goods are produced will be at least as big an issue in the trade negotiations of the future as prices or tariffs.

The 'reshoring' debate

And more generally, the trading environment of the future is looking very uncertain – more so than at any point in the past 30 years or so.

The COVID-19 crisis has generated something of a crisis of confidence among those who have come to believe that open markets and 'just-in-time' supply chains will always be able to deliver what the market needs. The sudden onset of a global pandemic in early 2020 caused huge disruptions in the agri-food sector, as retail demand for food surged, while demand from the restaurant and foodservice sectors collapsed virtually overnight.

As of mid-2020, markets have generally stabilised, albeit at lower price levels than before the pandemic struck in most cases. Any food market disruptions were temporary in nature, reflecting the fact that, fundamentally, there was no food supply crisis – just a distribution chain dislocation. European farmers and traders are certainly hoping that the slow recovery in prices which is evident as countries emerge from lockdown will continue.

But at various points during the pandemic, countries around the world introduced restrictions or even bans on exports of staple food products, in a bid to reassure their populations that they would not run short of food.

The restrictions were mostly fairly short-lived, and media attention tended to focus instead on rather more significant controls on exports of personal protective equipment and other medical goods.

But the pandemic and the responses to it have led to growing debate about whether there should be more emphasis on developing strategic stockpiles of vital supplies – or even whether countries should strive for higher levels of self-sufficiency so as not to have to rely on imports for essential goods. Concepts like 'strategic autonomy' and 'reshoring' of supply chains are being bandied around with increasing frequency.

The implications for the global agri-food sector of any such strategic shift would be far-reaching. It would deliver the perfect excuse for those with protectionist instincts to lobby for greater support for internal production and reduced access for imports. But it would fly in the face of the orthodoxy which has been promoted for half a century or more now, namely that what supply chains need is the highest possible degree of economic efficiency.

It is questionable to what extent any 'reshoring' campaign would actually gain traction in the agri-food sector. Food insecurity issues are usually the product of regionally specific supply shocks, such as drought in a particular location at a particular time. The best way to hedge against such shocks having a calamitous effect in any given market, therefore, is to ensure that that country has the option of sourcing product from a range of different sources.

To state the obvious – if a country is reliant primarily or solely on its own production, and its own production fails, then it is in big trouble. It is precisely for this reason that agricultural trade is so important.

Facing an uncertain trade future

But even so, the outlook for agri-food trade is an uncertain one. The economic recession which will follow the COVID-19 pandemic will be a serious one, and recovery is unlikely



to be swift. This could depress consumer demand, particularly for the high-value, high-quality food and drink products at which Europe excels.

Moreover, trade politics are becoming more fraught. Countries like the United States and China have shown that they are quite prepared to use trade as a weapon, imposing tariffs on goods to retaliate against perceived injustices in areas which may be completely unrelated to the sectors affected, and using the threat of tariffs to gain concessions in other areas.

The EU has largely rejected this reversion to strong-arm tactics in international law and has been active in forming coalitions with like-minded partners such as Canada and New Zealand to try and promote the continuation of a rule-based trading system.

Brussels also shares the view of most economists that such tariffs harm consumers in the country imposing the tariffs more than anyone else – and there is no doubt that US agriculture has suffered considerably as a direct result of

China imposing tariffs on US farm goods, in retaliation against the US's own trade measures.

With the World Trade Organization facing problems on multiple fronts at present (see Chapter Five), there are now concerns about the longer-term viability of the institution that underpins the rules-based trading system.

Even so, the EU's status as a major exporter and importer of agri-food products is unlikely to change any time soon. Despite the political, economic and technical barriers which stand in their way, EU agri-food traders have proven adept at both sourcing and selling the products for which they are responsible and have developed and expanded the value and reputation of the EU agri-food sector in the process.

Barring any exceptional escalation of the current issues facing the trading community, therefore, the longer-term prospects for the European agri-food trade are looking bright.

Food & Agricultural Commodities Customer Success Team:

AgriSupport@ihsmarkit.com

Americas: +1 646 679 3070 (New York)/ +1 651 444 7110 (Minneapolis)

Europe, Middle East, and Africa: +44 (0)203 855 3890

Asia and the Pacific Rim: +852 372 670 59