

# Sustainability Focus

The balancing act of sustainable agri-food trade

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**Steve Gillman**  
Agri-Food Policy and  
Sustainability Correspondent

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*The European Commission has a renewed ambition to use its single market to raise sustainability standards around the world. IHS Markit explores what this means for the agri-food sector, both within the EU and beyond.*

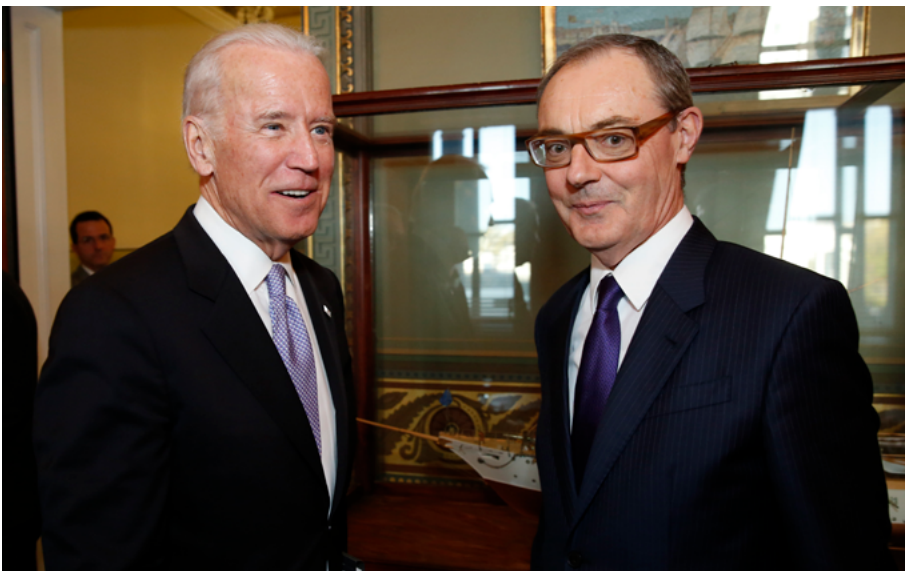
Over [half](#) of European consumers now consider sustainability when they shop and that public interest continues to drift up the political agenda with EU policymakers pushing for higher production standards around the world.

The Commission's Green Deal, which sets out a strategy to be climate-neutral by 2050, is proposing a range of new sustainability measures that could shape how its trading partners operate, from the Biodiversity Strategy's plans to limit products linked to deforestation to the Farm to Fork Strategy's plans to revamp EU pesticide legislation. There are also more profound proposals, like a carbon border tax and including a sustainable development chapter in all EU trade deals.

Like many sustainability issues, the key factor to consider with an international orientated policy is where do you draw the line on what is considered environmental, economic and social progress. For sustainable trade, this means identifying what standards exporting countries must meet to enter the EU market and how demanding their alignment must be.

“The challenge is always to balance bringing other countries along with these higher standards and recognising that if you take it too far there's a risk it'll actually be counterproductive,” said David O'Sullivan, a long-standing European Commission trade official and, until recently, former EU ambassador to the United States, and now working at law firm Steptoe & Johnson.

If the EU is too demanding on developing countries it risks strangling the export businesses of trading partners and ultimately making it harder for these countries to move up the development curve since they cannot afford to adopt higher sustainability standards. For developed countries, it risks tightening trade tensions.



Joe Biden (left), and David O'Sullivan, Head of the Delegation of the EU to the United States, April 2016 White House, Washington, USA

Image: European Union, 2016 Source: EC - Audiovisual Service

“There has to be some comparative advantage for less developed countries to sell their products, which is the only way that they can participate in the global economy and have a higher standard of living,” O'Sullivan told IHS Markit.

And the EU isn't always in the driving seat. The bloc must balance its own economic needs and the wellbeing of its domestic businesses, many of which are dependent on exports. In 2019, there were 615,000 European small enterprises exporting goods to third-countries, representing [87%](#) of all EU exporting companies.

It leaves the EU in a precarious situation

– the bloc has committed to push global sustainability forward, but going too fast could risk economic strain, at both home and abroad, while going too slow means the bloc may miss its newfound environmental and social objectives.

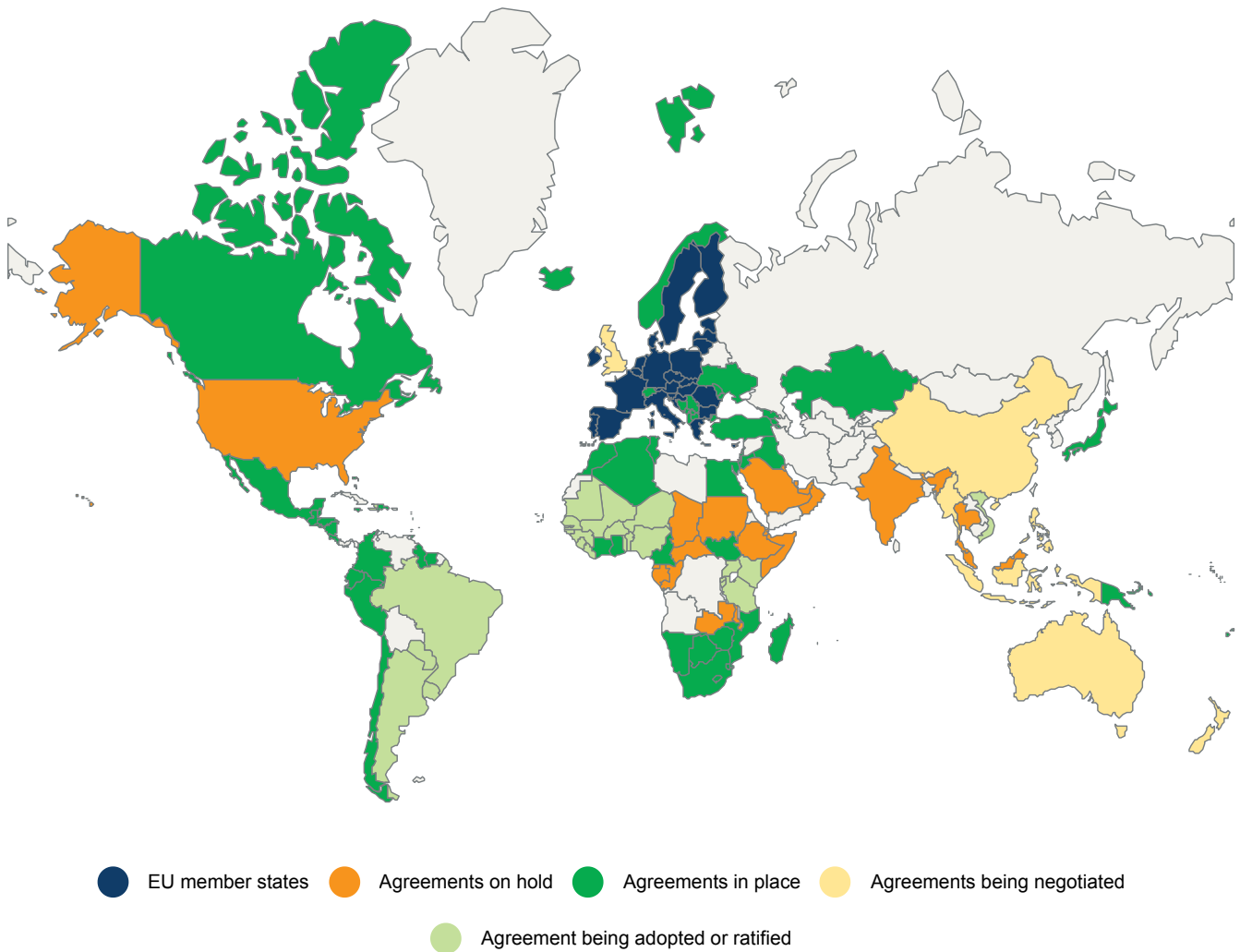
And nowhere is this balancing act currently more visible than the EU-Mercosur trade deal.

## Where’s the beef?

The unratified trade deal between the EU and Brazil, Paraguay, Argentina and Uruguay, otherwise known as Mercosur, has the potential to create the world’s largest free trade area – covering a population of **780 million**. Big winners are expected to be Europe’s automotive industry and Mercosur’s agri-food sector – the EU will drop tariffs on **82%** of its agriculture imports.

### EU Trade Agreements

An overview of the European Union's free-trade agreements and other trade negotiations



Source: IHS Markit / [https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/#\\_in-place](https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/#_in-place)

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This trade dynamic sees a convergence of two very different needs – economic prosperity and environmental protection.

By increasing the possibility of more agricultural exports into the EU, the Commission could risk incentivising [deforestation](#) in the Amazon, which would worsen the climate and biodiversity crisis while also jeopardising the human rights of indigenous populations. It could also export its pesticide dependency to countries with lower standards, risking biodiversity decline and human health.

The Commission doubts the trade deal would impact deforestation rates significantly, but green groups and think tanks argue the EU executive is still not doing enough to incentivise Mercosur countries, particularly Brazil, into adopting more concrete and ambitious measures on environmental protection.

The EU-Mercosur trade agreement has a sustainable development chapter, which the Commission has committed to becoming the norm for all its future deals. EU Trade Commissioner Phil Hogan, recently said during a webinar that the two blocs have already put in place working groups to start implementing the sustainability chapter in advance of its ratification, which he said could give them eight years to raise standards in places like Brazil.

“Market access gives you the leverage in order to get the gains that we [want to] make on sustainable development,” Hogan said.

But that doesn’t address the domestic issue of economic stability of the agri-food sector. EU trade and farmer groups have claimed that cheaper Mercosur imports undermine EU food producers in the single market because they do not have to meet the same, often costly, sustainability standards – and at a time when their financial wellbeing is under threat from COVID-19’s economic downturn.

Growing opposition is drifting up the political agenda too. Recently, the Netherlands voted to reject the agreement, something [Wallonia](#) has also pushed for, while there have also been symbolic “no” votes from Ireland and Austria.

O’Sullivan says the Commission will always have to try to strike the right balance between lifting sustainability standards around the world and protecting domestic industries against the commercial strengths of its trading partners.

Without a stable economic foundation, it is difficult to see how developing countries will be able to adopt what the EU perceives as higher sustainability standards – and if the bloc has the right to impose them after decades of operating without similar restraints.

“Third countries’ comparative advantage is that they have cheaper labour and slightly lower standards,” O’Sullivan said. “Killing that off completely will kill off their possibility to grow, develop and follow the same development curve that we did.”

There is also a perception that EU agri-food production is the most sustainable, but Sabine Weyand, the Commission’s top civil servant for trade policy, recently warned against presuming member states are the “pacemakers”.

“What we see very often are third countries with more climate friendly production conditions than we have,” she said, adding that this risks disputes over what exactly is sustainable and who should set the rules.

## US versus EU

Hogan describes the trade relationship between the EU and the United States as the “central artery of the world economy”, adding that it is crucial to support the interconnectivity between transatlantic supply chains. Yet the two blocs historically have a very different approach to trading sustainably, especially around the ‘precautionary principle’.



This is a fundamental element of international policymaking and means governments should protect human, animal or plant health, or the environment, in the face of a perceived risk – even when scientific evidence is not conclusive.

It is something the EU has often championed, but according to O’Sullivan “the Americans take the opposite view” because many US policymakers see think it limits a large range of products without clearly demonstrated risks.

“I don’t think we’re close to solving that sort of philosophical difference,” he added.

That creates a sensitive backdrop for introducing another of the EU’s sustainability ambitions – a carbon border adjustment tax, which aims to put a CO<sub>2</sub> price on goods imported to the EU to reduce the risk of production moving to cheaper and unsustainable places.

Weyand has said that agri-food products would be exempt from a carbon border adjustment mechanism, but that does not mean it will ease tensions to an already strained trading relationship. Most recently, the Boeing-Airbus dispute has seen an escalating tit-for-tat tariff battle, which has hit many EU agri-food sectors like olive oil and wine.

So, what would happen when you add a stricter use on pesticide residuals found on agri-food products or products linked to deforestation?

The US’ ability to embrace more sustainable trade may very much depend on whether Donald Trump stays in the Whitehouse or not, but O’Sullivan says that US-EU trade relationships have been strained before he was elected and the bloc will need to back up any new policies with hard science and a strong methodology.

That could mean the EU should keep the US very close when shaping its global sustainable trade vision – if they don’t it risks any European proposals being ignored on the grounds that they are simply protectionist policies in disguise.

“[Trade negotiations] have to be a fact-based discussion and not just based purely on a precautionary approach,” O’Sullivan said.

## EU Enforcement

The Commission is establishing a chief enforcement officer to monitor the implementation of all aspects of the bloc’s 40 trade agreements. When they come across a sustainability violation, they will be faced with a choice – pursue a path that incentivises a trading partner to address the different environmental and social issues or impose more direct market measures like fines or banning certain imports.

O’Sullivan says the initial trade negotiations are crucial to prevent conflicts down the line but believes when “partners commit to respect certain standards, we should be rigorous in enforcing those”.

This is something already in the Commission’s crosshairs. The EU executive is targeting a reform of the World Trade Organisation (WTO) to help it meet its sustainability objectives while avoiding geopolitical trade disputes. Phil Hogan recently went as far as saying that the WTO is in “crisis” and the organisation is operating from an outdated rulebook, urging change to raise sustainability standards.

But even then, a reformed WTO will still face the same balancing act when handling disputes stemming from EU trade deals – push global sustainability forward or prevent economic strain.

“You’re always going to have to have bear in mind that balance,” said O’Sullivan. “There is no perfect answer.”

## Solutions Showcase

Each month, we feature different sustainable agri-food solutions that could help put the sector on a resilient path. This time we're looking at seeds, soil, and seawater.



The **True project** aims to increase sustainable legume cultivation and consumption across Europe by addressing lower yields and a lack of demand. Its researchers have developed environmental footprints for different legumes and found that substituting peas in meatballs could reduce the carbon footprint by 84%. They also claim that making pasta from chickpeas instead of durum wheat reduces the carbon footprint per unit of nutrition by 75%.

**Naturbec** have developed different biofertilisers and plant protection products orientated towards improving productivity and profitability of farming. Their microbial-based products aim to leave zero residues while supporting crop health and soil fertility.



**Seawater Solutions** uses the two underutilised resources in the world, seawater and degraded land, to create wetland ecosystems where food is grown. Their approach could free up more land for cultivation for sea-vegetables like samphire and in a way that also captures carbon from the atmosphere and cleans water.

Do you have a project that you'd like featured here? Send suggestions to: [steve.gillman@ihsmarkit.com](mailto:steve.gillman@ihsmarkit.com)

## SUSTAINABILITY SPOTLIGHT

- Trade and Biodiversity – an [analysis](#) from the European Parliament's policy department
- The World Resource Institute (WRI) has [compared](#) the life cycle greenhouse gas emissions of dairy and pork systems across different countries
- Friends of Europe have [explored](#) how protecting biodiversity could spare us future pandemics
- McKinsey & Company take a [look](#) at some of the green technologies to feed the world sustainably
- Tassos Haniotis, an agriculture director at European Commission, [explains](#) how CAP Strategic Plans support the European Green Deal
- Institute for Agriculture and Trade Policy's [analysis](#) on 'How Big Dairy is heating up the planet and hollowing rural communities'
- Friends of the Earth released a [report](#) explaining how industrial farming is driving global insect collapse
- How to best use the new CAP Eco-Schemes? A recording of a [webinar](#) on the new environmental schemes proposed in the next CAP
- International agricultural researchers [defend](#) the climate mitigation potential of regenerative agriculture

## Customer Success Team

AgriSupport@ihsmarkit.com

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

EMEA: +44 203-855-3890

APC: +852 372-670-59

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