Consultation on EU Agri-food Export Interests
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Geographical Symposium

Latin America, ACP Countries and South Africa

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I have been asked to speak today on Latin America, ACP Countries and South Africa in my capacity as a representative CIAA, which speaks on behalf of the European food & drink industry as a whole.

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▪Above € 800 billion of sales (1st industrial sector)

▪3.8 million employees

▪€ 52 billion of exports (2006)

▪Purchases and transforms 70% of EU agricultural raw material

▪A fragmented industry: 282.600 companies (99 % SMEs< 250 employees)

My specific experience is within the European dairy sector in general and Irish dairy exports in particular.

What I thought I would do today would be to outline the general context of EU food and drink exports to these areas. I would also like to raise three general questions that come up in connection with bilateral Free Trade agreements, with examples drawn from my specific experience with dairy exports to Latin America and Africa.

The three issues that I would like to discuss are:

- How does the negotiation of a Free Trade Agreement relate to earlier agreements negotiated by that country (Example Mexico and NAFTA)

- In the case of Mercosur there is not only the question as to how any new trade agreement will relate to the common external tariff, but also as in the case of Brazil to continuing exceptions to that tariff and anti-dumping duties. Perhaps more significantly Brazil is becoming increasingly competitive in a range of product areas.

- How does one deal with a situation where part of an existing agreement is not implemented? (Example South Africa).

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The overall context

Before discussing specifics, I should give an idea of how Latin America and ACP fit into the overall scale of EU food and drink exports.

Table 1	EU Food and Drink Exports 2005	
		€bn
Total	Countries	52 .6
Mercosur	5	0.5
Mexico		0.6
ACP	78	3.8
South Africa		0.3
	The Big Three	
US		10
Russia		4.6
Japan		3.6

It is interesting to see that the ACP countries, if only because there are so many of them, are already a very substantial market for EU food and drink products

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Equally, making the comparison with other emerging markets the comparative figures are as follows:

Exports to emerging countries, 2000-2005

	Rank[1]	2005 €million	2005/2000
South Korea	9	957	↗ 27%
China	11	765	↗ 72%
Mexico	18	563	↘ -11%
Ukraine	19	525	↗ 62%
Thailand	25	432	↗ 8%
Brazil	26	417	↘ -18%
South Africa	27	389	↗ 33%
Malaysia	38	260	↘ -8%
Indonesia	41	244	↘ -17%
India	60	116	↗ 32%
Chile	72	90	↗ 9%
Argentina	95	51	↘ -12%

(1) Rank in top countries of destination for EU food and drink exports *Source: Eurostat, Comext*

Thus we can see that Latin America has the scale which makes it well worth while to explore the idea of trade agreements and the ACP figures show the benefit of the agreement that are already in place.

<u>Mercosur</u>

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▪Total population 263 million; GDP per capita around €6.600 (fairly developed)
Overall EU food and drink exports reached €523 million in 2005 (-35% to 2000).

Milk products were the main source of the decline. Also Non-Annex 1 products decreased -44% to €97 million.

There is a large trade imbalance, EU f&d imports in 2005 are 17x higher than exports and trade deficit is increasing

For the Mercosur region as such it is mostly spirits (HS2208), olive oil (HS1509), malt (HS1107)

About 80% of EU food and drink exports to Mercosur go to Brazil, so it is worth looking at the figures for that country in more detail.

Brazil	1996	2005	96-05
beverages	110.799	103.246	-6,8%
dairy	85.226	11.345	-86,7%
meat	4.706	2.321	-50,7%
chocolate	56.748	5.158	-90,9%
biscuits	46.691	19.510	-58,2%
starches	79.267	55.548	-29,9%
various	14.891	27.003	81,3%
olive oil	69.736	69.696	-0,1%
fruits/vegetables	37.654	21.817	-42,1%
fish	9.037	17.021	88,3%
animal feed	14.076	30.828	119,0%
remaining f&d	**55.326**	**40.424**	-26,9%
all f&d exports	**584.157**	**403.917**	-30,9%
1-10 cover %	**90,5%**	**90,0%**	-0,6%

The first thing to be said is that Brazil is very competitive in the agri-food sector with exports to the EU amounting to €6.5bn (outweighing their imports by a factor of 16 or so). For this reason a trade agreement with Mercosur is likely to awaken defensive interests as well exporter ambitions.

As you can see from the table, spirits, olive oil and malt are currently the main export items from the EU to Brazil.
Dairy products were in the number 2 spot in 1996, but have been the big losers since then. I would attribute this to a number of factors:

- The formation of Mercosur meant that Brazil took its whole milk powder imports mainly from Argentina.

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- Exceptions were applied to the Mercosur Common external tariff rate of 16% for milk powder imports to apply a higher rate of 27% in Brazil.

- In addition antidumping duties of 3.9% for New Zealand and 14.8% were introduced in 2001 and reviewed and extended as recently as February 2007.

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- The dominant factor however is that Brazilian milk production has steadily increased first displacing imports from Argentina and then making an appearance on export markets.

In the new world of bio-fuels there are many uncertainties and one possibility is that Brazil’s competitiveness in Ethanol will divert resources from other enterprises.

Mexico
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Mexico	2005 € million	Change 1996-2005
Beverages	174	+208%
Dairy	95	-40%
Biscuits	85	+212%
Various foods	45	+245%
Olive oil	26	+647%
Total trade	**563**	

Mexico	1996	2005	96-05
beverages	56.435	174.034	208,4%
dairy	156.006	94.657	-39,3%
meat	3.730	7.117	90,8%
chocolate	12.695	24.739	94,9%
biscuits	27.151	84.633	211,7%
starches	6.587	14.896	126,1%
various	13.190	45.438	244,5%
olive oil	3.516	26.277	647,3%
fruits/vegetables	6.541	21.180	223,8%
fish	441	4.076	823,6%
animal feed	10.362	15.336	48,0%
remaining f&d	**27.856**	**51.090**	83,4%
all f&d exports	**324.510**	**563.473**	73,6%
1-10 cover %	**91,4%**	**90,9%**	-0,5%

The table of food exports to Mexico shows that all sectors are increasing strongly,

- total exports increased by more than 70% in the last ten years

- nearly half of all EU food and drink exports to Mexico are non-annex 1 products

So there has been a strong increase but with the exception of dairy products.
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Mexico is a major importer of milk powder but the EU has come to supply less of this market over the years.

Factors which have contributed to this have been:

- The North America Free Trade Agreement (NAFTA) which allocates 40,000 of the 120,000 TRQ for skim milk powder to the United States.

- The allocation of licences or *cupos* to importers is normally associated with a commercial requirement for immediate importation. This gives a particular advantage to the United States with its land frontier.

- The rise in world prices and the weakening of the dollar led to the running down of US intervention stocks in recent times which allowed the US to become a force on the skim milk powder market and nowhere more so than in Mexico.

- The reduced production of SMP in the EU also affected the supply to high volume markets like Mexico.

ACP

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▪Total f&d exports € 3753 million in 2005 to all 6 EPA regions, a modest upward trend since 2000, mostly concentrated milk (HS0402), fish (HS0303), spirits (HS2208)

▪Non-annex 1 products are a large share reaching € 1028 million and significant growth (+33% since 2000).

▪EPA negotiations scheduled to conclude end 2007, need to include correct application of Rules of Origin, as ACP products will benefit from duty- and quota-free EU access.

South Africa

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South Africa has joined SADC and hence become a member of one Economic Partnership (EPA) region. Of course South Africa is in many ways more developed than many of the other ACP countries. It has its own Trade Development and Co-operation Agreement with EU which came provisionally in to effect in 2000.

South Africa	2005 € million	Change 1996-2005
Beverages	151	+72%
Various foods	43	+107%
Dairy	26	+3%
Biscuits	25	+39%
Meat	20	-10%
Total trade	**388**	

South Africa	1996	2005	96-05
beverages	87.909	151.330	72,1%
dairy	25.284	25.979	2,7%
meat	22.091	19.929	-9,8%
chocolate	10.024	13.828	38,0%
biscuits	17.824	24.696	38,6%
starches	35.403	12.408	-65,0%
various	20.696	42.728	106,5%
olive oil	5.799	11.940	105,9%
fruits/vegetables	8.279	17.197	107,7%
fish	3.633	2.393	-34,1%
animal feed	6.279	16.293	159,5%
remaining f&d	**79.361**	**49.042**	-38,2%
all f&d exports	**322.581**	**387.762**	20,2%
1-10 cover %	**75,4%**	**87,4%**	15,9%

Looking at the table of food and drink exports to South Africa we again see that the drink sector is the star performer (+20% in last 10 years), though processed products (which we group together under the Heading of Non Annex I) amount to about a third of exports and show a higher growth rate.

One aspect of the TDCA, on which I would like to share my experiences, concerns two mutual import quotas for 5,000 tonnes of cheese. These quotas were to be admitted free of duty into the EU from South Africa (which happened) and at 50% of the normal rate of duty into South Africa from the EU (which did not happen). This non-implementation by the South Africans was linked to the continued existence of export refunds. The EU seemed to find itself with no means of getting this provision implemented, which was frustrating for cheese exporters like my company. In the normal series of consultations within the agreement the South Africans proposed a "zero import duty for zero refund" arrangement in 2005. This was actually favourable to EU exporters, as the value of the export refund had declined below the amount of the import duty over time. However there seems to have been difficulty in accepting this offer for the last two years because the original deal had to been implemented first.

The more general lesson I would draw from this experience is that, if it is impractical to enforce the original agreement, a pragmatic solution can often be better for EU exporters than an impasse.

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