

Dividing EU-UK farm trade quotas: no friends, just interests

Blog post by Senior Associate Guillaume Ferlet, 6 October 2017

News this week that the EU and the UK have agreed on a methodology for dividing current farm trade quotas between them was expected at some point. These 'TRQs' are in effect a piece of EU property that the two sides needed to agree how to divide. The problem is of course that they are used by other WTO members to trade with the EU and the UK, and these members will inevitably have a view on how they should be divided. This week we got the first sight of that view. What did it tell us?

The TRQ problem works like this. Most agricultural products incur high tariffs at the EU border. Nonetheless, the EU has committed at the WTO to allow around a hundred of them to be imported at a low tariff up to certain specified quantities – these are tariff-rate quotas (TRQs). As an EU member, the UK is covered by these EU-wide TRQs with all other EU member states. Brexit raises the question of what should happen to them.

One way to do this might just be to use import data. The problem with this, is that it gives an inaccurate picture of which member states are actually using EU TRQs, since many products are imported into EU trading hubs such as Rotterdam, Antwerp or Hamburg, only to be then dispatched for consumption in other member states. The methodology Brussels and London are now jointly proposing to the WTO is to split up these TRQs according to where final consumption happens, rather than where the products are imported in the EU. For instance, most of the meat products imported under EU TRQs from Australia and New Zealand is consumed in the UK (if not necessarily imported at first in the EU through the UK), so a correspondingly large portion of these meat TRQs will be offloaded by the EU onto the UK after Brexit.

Practically speaking, it will likely be difficult and time consuming to generate the data necessary to implement this methodology, as consumption data per EU member state is not readily available, unlike import data. But division along consumption data lines is the only method likely to satisfy the agricultural sector in the EU27, which seems intent on offloading as much of the EU TRQs onto the UK as possible.

In the bigger Brexit process picture, this is very much a withdrawal issue, not a future partnership one – splitting up TRQs is about dividing current property. It is about how the EU and the UK trade in agricultural products with the rest of the world in the future, not about how they trade with each other. This week's announcement shouldn't be taken as a sign that the EU can be nudged by the UK into discussing the future partnership.

Possibly more worrying for the UK is the stance the US and Canada took this week. Both are now spearheading opposition to the EU-UK proposal. They fear the chosen methodology would lead to loss of access for their agricultural exporters to both the EU and UK markets, and seem to want a more generous proposal than a splitting of the two markets along strict lines of historical

consumption data. Other countries, such as Brazil, Australia and New Zealand, are expressing similar reservations.

Such opposition from the WTO membership is not so much a problem for trade on the ground on Brexit day 1, as lack of agreement on time in Geneva does not mean that cargoes would stop at EU and UK borders. The EU itself has still not agreed with the rest of the WTO membership what its TRQs should be following its latest rounds of enlargements, and that has not stopped the bloc from trading in agricultural products with the rest of the world – negotiations are ongoing, and in the meantime, the EU simply applies its own understanding of what its updated TRQs should be. Likewise, the EU and UK will do this after Brexit if they have not obtained timely consent from the WTO membership on the proper methodology to split up EU TRQs, and this until negotiations are completed.

But tense negotiations in the WTO are more of a reminder - like the huge emergency tariffs applied to Bombardier aviation exports to the US last week - that there are few friends in trade policy, just interests. Even in the places where the UK might be hoping for fast and deep trade agreements after Brexit, settling these exit issues is likely to be a priority and hard bargains will be driven.