LMC Brussels Update – July 2016

Brexit - Michel Barnier**,** the former Vice-President of the European Commission, former Commissioner for the Internal Market and former French Agriculture Minister, was appointed as Chief Negotiator in charge of leading the Commission Taskforce for the Preparation and Conduct of the Negotiations for the UK exit of the EU. Barnier has mostly worked on financial regulations during his time at the Commission. He will take up his duties as of 1 October 2016. In line with the principle of 'no negotiation without notification', the task of the Chief Negotiator in the coming months will be to prepare the ground internally for the work ahead.
Meanwhile, Theresa May informed EU Council president Donald Tusk that Britain would skip its turn for EU Presidency in the light of last month's referendum vote for Brexit. The EU presidency rotates between the 28 EU member states on a six-monthly basis, giving each the opportunity to shape the agenda. The UK was due to hold the Presidency seat in the second half of 2017.

CAP and Brexit – Alan SWINBANK, from University of Reading, drafted a report for the EU Parliament's COMAGRI on the interactions between EU's external policy and the CAP. It includes a chapter on the possible impacts of Brexit on CAP post 2020. It highlights that revised trade arrangements between the UK and its former EU partners will take time to formulate, and agri-food trade concerns are unlikely to have much leverage in these negotiations, which will likely be dominated by wider economic and political objectives. If a trade agreement that excludes agriculture is not put in place this could put severe pressure on market prices in regions that currently have a heavy dependence on the British market (e.g. Irish beef). Moreover, unless the UK can be persuaded to pay a sizeable fee to access the Single Market (as do members of the European Economic Area), the loss of the UK's net contribution to the EU budget might trigger a reconsideration of CAP funding post-2020.
Meanwhile, during a speech at Kent County Show, Commissioner Hogan confirmed that as long as the UK remains a full member of the EU, farmers will continue to have full access to the CAP support schemes and to the EU internal market for agricultural products. They are likewise expected to continue meeting their obligations and responsibilities.

Economic outlook - The Commission's first assessment of the economic outlook for the euro area and the EU shows that ahead of the UK referendum, the latest available data pointed to expected GDP growth in the euro area of 1.7% (EU28 1.8%) in both 2016 and 2017. Following the referendum, growth in the euro area would moderate to 1.5%-1.6% in 2016 and to 1.3%-1.5% in 2017. Although the depreciation of the pound sterling mitigates the economic fallout for the UK, the analysis suggests that the UK economy is likely to be more severely affected, with a GDP loss of 1% to 2.75% by 2017. Neither of the analysed scenarios contains assumptions on the shape of any future agreement between the UK and the EU.

EU aid package - In response to the continued market downturn, the Commission put forward a third package of support measures worth €500 million, addressed mainly at the dairy and livestock sectors. €150 million will be distributed through an EU-wide measure to farmers who voluntarily decide to reduce their dairy deliveries, helping to restore the balance between demand and supply. €350million will be rapidly made available through national financial envelopes to help producers face cash-flow problems. This aid will be conditional on the respect of certain commitments, and Member states will have flexibility to support vulnerable livestock sectors, and also be able to provide national top-ups up to 100%.The details of how this package will be implemented will be finalised in the coming weeks.

Meat market observatory - The Commission launched a Meat Market Observatory website providing regular and timely reporting of prices, production and trade, and some short-term analysis for the beef and veal and the pigmeat sectors. The website is complemented by an Economic Board comprising experts from different parts of the chain that will meet a few times a year. During the kick off meeting in July, Agriculture Commissioner Hogan said that the improved exchange of information and greater transparency should help to anticipate market fluctuations and mitigate volatility. The next meeting pencilled in for October 27 should focus on prices, margins and export priorities.

2017 EU Budget - The Council's Permanent Representatives Committee agreed its position on the 2017 EU draft budget, amounting to €156.38 billion in commitments and €133.79 billion in payments. Under Heading 2 (CAP budget for Pillars 1 and 2), the Council's position amounts to €58.7bn in commitments, and €55bn in payments, a reduction of €179million and €198million respectively compared to the draft budget proposed by the Commission. And a reduction of €3.8bn in commitments and €82 million in payments compared to the 2016 budget. The Council is expected to formally adopt its position by mid-September. It will serve as a mandate to negotiate the 2017 EU budget with the European Parliament.

Sheep Meat Forum – During the 3rd meeting of the Sheep Meat Forum, the likely impact of Brexit on the EU sheep meat market was highlighted with DG AGRI stressing the fact that the EU sheep meat market is strongly influenced by UK domestic supply. It was also reminded that WTO concessions offered by EU to third countries (such as import quotas for New Zealand) will have to be reviewed as a result of Brexit. Some interesting information were also released on this occasion. On sheep EID, the Commission informed the participants that an official consultation on identification rules for all animals will be launched mid-2017. The Commission is also working on a study on possible simplifications of live animals movements for slaughter. The final report of the sheep meat forum will be prepared by the Chair on the basis of the discussions at the three meetings. It will be presented during the final conference on 13th October 2016 and will aim to identify key issues for the sheep sector within the CAP.

Carcase chilling temperature - Current legislation requires that carcasses are chilled to no more than 7C and that this temperature is maintained until mincing. The European Commission wants to revise this legislation to provide industry with more flexibility and asked EFSA's scientific opinion on safety and quality aspects. Results suggest that that chilling bovine or ovine carcasses to between 4 and 10°C surface temperature, inclusive, results in similar or lower predicted pseudomonad growth as compared to chilling to a core temperature of 7°C. The results were different for porcine carcasses however. Experts concluded that the time-temperature chilling profiles that may be used to obtain similar or less growth to that obtained when chilling to a core temperature of 7°C is dependent on the initial contamination level, and that effective hygienic measures during slaughter and processing help control contamination with spoilage bacteria.

National Emissions Ceiling Directive – The Council and the European Parliament reached a first agreement on a new National Emissions Ceiling Directive, which sets stricter national limits for air pollutants from 2020 to 2029 and from 2030 onwards. Under the first reading agreement, methane is excluded from the scope of the directive. Indicative emission levels for 2025 (non-binding) will be identified for each member state. The reduction commitments from 2030 for ammonia are lower than in the Commission proposal and in the Parliament position: 18% for the EU as a whole (against 27% in the Commission proposal)**.** The European Parliament as a whole is expected to vote it in the autumn. Then the text will be submitted to the Council for final adoption at first reading.

Outlook - The OECD/FAO forecasts an increase of 16% in global meat production in 2025 compared to 2013-15. In the bovine meat sector, production is expected to grow from 2016 onwards, with higher carcass weights more than offsetting the decline in cattle slaughter. Pigmeat production will also grow after 2016, driven by China, where herd size is expected to stabilise after years of substantial reductions. Production is also expected to increase in the sheepmeat sector with an expected global growth of 2.1% p.a., led by China, Pakistan, Sudan and Australia. Global annual meat consumption per capita is expected to reach 35.3 kg retail weight equivalent by 2025, an increase of 1.3 kg compared to the base period. This additional consumption will consist mainly of poultry. Globally 10% of meat output will be traded in 2025, up from 9% in 2015, with most of the increase coming from poultry meat. The most significant growth in import demand originates from Viet Nam, for all meat types. Africa is another fast growing meat importing region albeit from a lower base. Brazil's share of global exports is expected to increase to around 26%, contributing to nearly half of the expected increase in global meat exports over the projection period.

Origin labelling - France is set to launch a one year mandatory origin labelling pilot project for dairy and processed meat products as French Minister has secured a green light from the European Commission. The project is expected to be launched beginning of 2017. The EU revised Food information law requires country of origin labeling on fresh meat and allows countries to introduce country of origin labelling requirements for foods not already covered under certain conditions. Other countries (Italy, Portugal) also have notified the Commission of similar origin-labelling schemes.

US TSE rule - The USDA is proposing to update its regulations regarding BSE, scrapie and other TSEs, to more closely align them with current scientific understanding and international guidelines. The current import regulations prohibit the importation of most live sheep and goats and their products from countries considered a risk for BSE. Because it has been shown that sheep and goats and other small ruminants pose a minimal risk of spreading the BSE disease agent, APHIS is proposing to remove the current BSE-related restrictions on imports of live domestic sheep, goats and small ruminants, as well as most sheep and goat products. In principle sheep exports from the UK could resume in early 2017. Processed animal protein that contains ruminant materials will continue to be considered a BSE risk and be restricted from countries that are not negligible risk for BSE.

US market access - Ireland has secured improved access for Irish beef to the US market, with the decision of authorities there to recognise Ireland's raw meat control system as equivalent to that of the US. In principle this extends access to include manufacturing beef intended for grinding which is typically used in burgers and similar processed products. Ireland is the first EU Member State to achieve this status.