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Turning Sour

A US-EU Trade War Would Result in Dairy Winners and Losers

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Introduction

The makings of a trade war between the US and the EU are brewing. In a dairy trade battle, the EU stands to lose more than the US because US imports of European dairy products far exceed EU imports of US dairy products. Furthermore, the impact on specific products in individual countries is far greater. While imports account for a small percentage of US supply, and EU exports to the US represent a small percentage of European output, additional tariffs on selected European dairy exports to the US will create winners and losers in the latest trade saga.

Approaching a US-EU Trade War

On April 12, 2019, the United States Trade Representative (USTR) announced that it is considering levying additional tariffs on European products included in 317 tariff codes, valued at approximately USD 21bn. The recent announcement publicizes a more-than-a-decade-old dispute between the US and the EU.

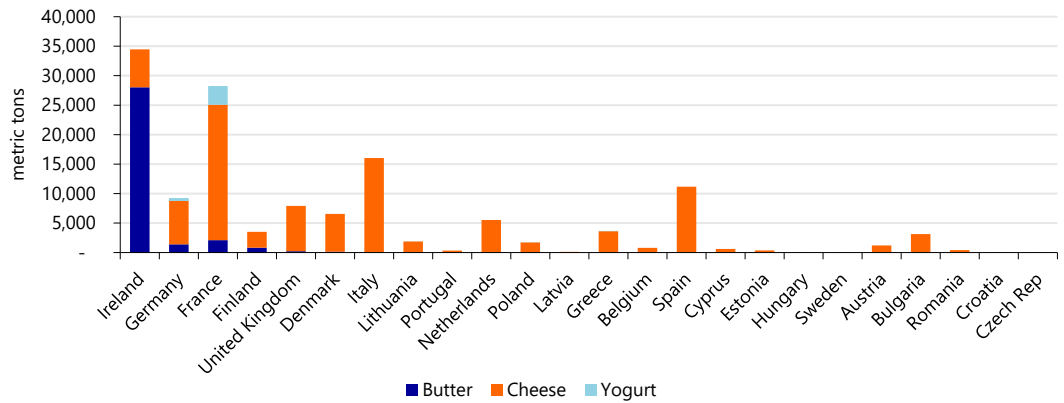
The US case against the EU dates back to October 2004 when the US filed a World Trade Organization (WTO) dispute settlement case against the EU for subsidies provided to large civil aircraft manufacturers. In 2011, a WTO panel confirmed that the EU and certain member-state subsidies to Airbus breached the EU's obligations under the General Agreement on Tariffs and Trade (GATT 1994) and the Agreement on Subsidies and Countervailing Measures (SCM Agreement). Since then, the US and EU have been embroiled in a settlement process that resulted in the July 2018 request by the US for a WTO arbitrator to determine the level of countermeasures authorized as a result of the EU's WTO inconsistencies. The USTR expects the WTO arbitrator's report regarding the level of countermeasures in the summer of 2019.

The EU responded to the USTR announcement by publishing a preliminary list of US products that the European Union may subject to countermeasures (tariffs) as a result of the March 29, 2019 WTO decision – this decision indicated that the US provides illegal subsidies to Boeing. The EU is in the process of requesting a WTO arbitrator decision on the appropriate retaliation amount. As a result, US countermeasures, if enacted, are likely to be in place for several months before the EU can take action.

44 Tariff Codes vs. 11 Tariff Codes

The US list of 317 European products potentially facing additional levies includes 44 dairy tariff codes covering European butter, yogurt, and cheese varieties with a 2018 import value near USD 1bn (see *Figure 1*). Of the more than 400 tariff codes on the EU preliminary list, representing around USD 20bn of US exports to the EU in 2018, just 11 include dairy products. Three of the tariff codes are for cheese, and eight include high-protein dairy ingredients like casein, whey protein concentrate, and milk proteins. In 2018, the EU imported 1,355 metric tons of cheese and 18,230 metric tons of high protein dairy ingredients from the US, under the targeted tariff codes.

Figure 1: US selected dairy tariff codes imports by country, 2018



Source: GTIS, Rabobank 2019

US Dairy Imports Far Outweigh EU Dairy Imports

In the dairy trade battle, the EU stands to lose more than the US because US imports of European dairy products far exceed EU imports of US dairy products. In 2018, the US imported more than 230,000 metric tons of EU-28 dairy products. In contrast, the EU imported less than 23,000 metric tons of US dairy products. In value terms, the EU exports more than USD 1bn of product to the US market. Conversely, the US dairy exports to the EU average slightly above USD 100m.

The USTR identified 44 dairy tariff codes that could face additional duties up to 100%. Most of the tariff codes are for cheese, but the list also includes butter and yogurt. The US dairy markets are highly regulated, and dairy imports are no exception. Dairy imports fall under two categories: licensed and non-licensed. Dairy imports that enter the US under the licensed program are limited to a specific volume and subjected to a lower tariff rate (TRQ) than non-licensed imports, which have no volume cap but a higher TRQ.

In 2018, the US imported 188,529 metric tons of dairy products under the selected 44 Harmonized Tariff Schedule (HTS) codes included on the USTR’s preliminary list for potential higher tariffs. The EU accounted for 73%, or 137,106 metric tons of that volume, which included 100,225 metric tons of cheese, 33,080 metric tons of butter, and 3,771 metric tons of yogurt (*see Table 1*). Four countries represented 65% of the US dairy imports from the EU under the selected tariffs: Ireland 25%, France 21%, Italy 12%, and Spain 8%. Individual country impacts on specific products are far greater. For example, nearly all of the US imports of Ireland’s butter and cheese are covered under the selected 44 HTS codes. Also, more than 96% of the imported cheeses from France, Spain, and the United Kingdom are included, along with over 75% of cheese imports from Denmark and Germany, nearly 50% of all Italian cheese imports, and 40% of the cheese imports from the Netherlands (*see Figure 2 and Table 2*).

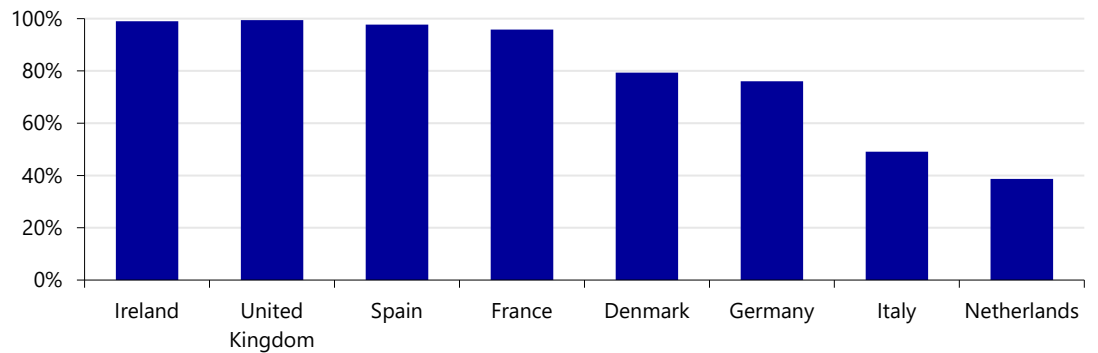
Table 1: US butter imports, selected HTS Codes, 2018

metric tons

HTS Code	4051020	4051010	Total	Percent
World	30,177	7,219	37,396	
Ireland	25,433	2,588	28,021	75%
Germany	1,037	364	1,401	4%
France	608	1,503	2,111	6%
Finland	199	624	823	2%
United Kingdom	152	79	231	1%
Denmark	71	73	144	0%
Italy	30	47	77	0%
Lithuania	24	15	39	0%
Portugal	22	5	27	0%
Netherlands	16	37	53	0%
Poland	9	90	99	0%
Latvia	3		3	0%
Greece	1	1	2	0%
Belgium	-	49	49	0%
EU Total	27,605	5,475	33,080	88%

Source: Trade Data Monitor, Rabobank 2019

Figure 2: US cheese imports under targeted tariff codes by country as a percent of total in 2018.



Source: Trade Data Monitor, Rabobank 2019

Table 2: US cheese imports under selected HTS codes, 2018

<i>metric tons</i>							
HTS Code	0406.10	0406.20	0406.30	0406.40	0406.90	Total	Percent
World	10,303	15.4	2,290	420	123,995	137,023	
Ireland	-	-	-	-	6,446	6,446	5%
Germany	348	-	4	-	7,002	7,353	5%
France	58	0.3	1,141	-	21,754	22,954	17%
Finland	54	-	-	-	2,646	2,700	2%
United Kingdom	-	-	4	420	7,247	7,670	6%
Denmark	38	-	98	-	6,272	6,408	5%
Italy	1,937	-	40	-	13,986	15,963	12%
Lithuania	168	-	55	-	1,635	1,859	1%
Portugal	-	-	-	-	315	315	0%
Netherlands	55	-	-	-	5,404	5,459	4%
Poland	353	-	176	-	1,089	1,618	1%
Latvia	107	-	-	-	-	107	0%
Greece	13	-	-	-	3,594	3,607	3%
Belgium	-	-	-	-	749	749	1%
Cyprus	3,298	-	20	-	7,838	11,156	8%
Estonia	47	-	-	-	558	604	0%
Hungary	-	-	-	-	369	369	0%
Sweden	-	-	-	-	78	78	0%
Austria	-	-	-	-	40	40	0%
Bulgaria	-	-	-	-	1,211	1,211	1%
Romania	-	-	-	-	3,127	3,127	2%
Croatia	-	-	-	-	414	414	0%
Czech Rep	-	-	-	-	39	39	0%
EU Total	-	-	-	-	9	9	0%
EU as a % of Total	6,476	0.3	1,538	420	91,821	100,255	73%

Source: Trade Data Monitor, Rabobank 2019

Ireland

In 2018, the US imported 34,467 metric tons of Irish dairy products included in the selected 44 tariff codes. Of that amount, 28,021 metric tons was in the form of butter, with a customs value of USD 181.5m. Nearly 6,350 metric tons was in the form of cheese, valued at over USD 40m.

The annual allocation of licensed EU butter is 9,616 metric tons. As a result, the vast majority of imported Irish butter is subject to the non-licensed TRQ rate of USD 1.541/kg or USD 0.70/lb. Under the worst-case scenario, an additional tariff up to 100% would be added on top of the existing tariff, which would likely double the price of European butter for US consumers. European branded butter sold at the retail level is already twice the price of the leading US branded butter. As a result, it is unlikely that European butter would retain its existing market share if prices escalate to four times the level of the leading domestic branded butter.

France

The US imported 28,256 metric tons of French dairy products, covered by the selected 44 dairy tariff codes, in 2018. Over 80% of that volume was cheese that fell under 15 of the selected tariff

codes in 2018, and represented more than 95% of all cheese imports from France, with a customs value of over USD 190m.

US imports of yogurt and butter from France were minimal in 2018. Imports of French yogurt tallied 3,191 metric tons, accounting for 22% of all US yogurt imports. During the same period, the US imported 2,111 metric tons of French butter, representing 6% of US imports of butter.

Italy and Spain

US imports of Italian dairy products under the selected 44 tariff codes rank a distant third to Ireland and fourth to France. The US imported nearly 16,000 metric tons and 11,150 metric tons of cheese from Italy and Spain, respectively. Those imports were dominated by sheep's milk cheeses, which accounted for almost 70% of Italian and over half of Spanish cheese imports. More than 95% of the sheep's milk cheeses that enter the US originate from Europe.

Winners and Losers

While butter, cheese, and yogurt imports account for a small percentage of US supply, and EU exports to the US represent a small percentage of European butter, cheese, and yogurt output, additional tariffs on selected European dairy exports to the US will create winners and losers in the latest trade saga. In general, specialty European cheeses are high value and not necessarily as price sensitive at the retail level. However, a 100% surcharge on top of an already pricey product could have customers choosing a less-expensive domestic cheese or non-EU import. Many imported European cheeses are marketed and distributed by specialty food companies, which also carry domestic specialty cheeses in their product lines. As a result, an additional 100% tariff on European cheeses is likely to reduce the competitiveness of European cheeses in the US market, decrease the promotional activity of European cheeses, encourage US consumers to explore less-costly domestic specialty cheeses, and provide a competitive advantage to non-EU imported specialty cheeses.

In this case, the winners would include, but not be limited to, the specialty dairy manufacturers across the US and in Australia, Canada, New Zealand, Norway, Switzerland, and other non-EU countries. Individually, the biggest loser is likely to be Ireland, with nearly 34,500 metric tons of annual dairy exports at risk of higher tariffs. Collectively, the EU-28 can ill afford to lose the US as a market for over 100,000 metric tons of cheese, especially with the uncertainty of a hard Brexit looming, which would place the United Kingdom's 400,000 metric ton cheese market up for grabs.

Imprint

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