IGFA
The Irish Grain and Feed Association
Feeding the Food Chain

EU/US WTO Aircraft Dispute - Regulation 2020/1646

IGFA Briefing on the Implications for Agri Business

Introduction

IGFA is the united voice of the compound feed manufacturers, feed material importers, grain intake and premix companies in Ireland. Collectively our members produce approximately 4.3 million tonnes of animal feed, provide employment for thousands of people throughout the country and are an essential partner in the Irish rural economy. IGFA's mission is to support our members by creating a political and economic environment that enables them to produce safe and nutritious feed profitably and sustainably.

It is well documented that Ireland has a deficit in all types of feed materials. This is due to our maritime climate. Our import deficit can be as high as 60% and we import over 3 million tonnes of product from third country suppliers.

The US has traditionally been a major supplier of the Irish feed industry. The freight and logistics from the US to Ireland is as cost competitive as freight from parts of the EU. These supplies are a major factor in the cost competitiveness of the Irish feed industry and as a consequence, our livestock sector.

Commission Regulation (EU) 2020/1646

The Boeing–Airbus dispute between the EU and the US has been ongoing for 16 years. In November, EU member states gave the green light to proceed with the publication of a list of products originating in the US that would be subject to duties. This EU retaliation means that products on Annex 1 of Regulation 2020/1646 will have an additional 15% duty and those on Annex II, a 25% duty.

Two important feed materials for the Irish market are included in Annex II and therefore particularly impacted by this Regulation. They are beet pulp (CN code 23032010) and molasses (CN Code 17031000).

Sharp market shocks such as tariffs or quotas have a major and disproportionate impact on the Irish feed industry and our farming customers.

The Regulation 2020/1646 was published and took effect on 10 November 2020. It set out the steps taken during 2019 under the direction of the WTO arbitration system. The EU provided member states ample opportunity to discuss, review the proposed list, consult with industry and provide comment. There was therefore a high level of transparency between the Commission and member states.

However, despite the fact that Irish officials had access to all of this information, there was no consultation with Irish industry or discussion with IGFA or our members on the potential impacts of agreeing this Regulation. DETE and DAFM officials totally failed to forewarn our industry or give us the opportunity to provide our views when formulating voting policy on this Regulation.

We believe there are serious issues to be addressed by the Irish delegates involved in these discussions. In particular the lack of notice provided to Irish industry so that we could act to limit damage to businesses and customers.

Impact of the Regulation

Two important feed materials for the Irish market are included in Annex II and therefore liable for a 25% tariff. They are beet pulp (CN code 23032010) and molasses (CN code 17031000).

- Sugar Beet Pulp (CN 23032010)

Beet pulp pellets play an important role in ruminant diets and, in line with the Department's nitrate reduction strategy, help reduce our need for high protein feed materials. They are a sustainable co-product from the food industry which can be valorised by the livestock sector. The EU market place is already experiencing a significant tightening of digestible sources of feed materials. The Ukraine has just reported a drop in Maize production of 8 MT, the US 5.5 MT and China has projected its increased import requirements from 7 to 13 MT. This points to a sharp tightening of global supplies for feed materials. This is compounded by the fact that the EU sugar beet crop is being impacted by the effects of drought and diseases (yellow virus). Overall, the supply of beet pulp is reduced by 6% in the EU and 14% in the rest of the world (ROW). If we look at the Ukraine and Russia, the two main suppliers from ROW, their supplies are reduced by 10% and 33% respectively. It follows therefore, that the loss of US supplies from our feed balance sheet will be very challenging.

In order to cushion farmers against such market shock, the industry enters into long-term forward contracting for supplies, logistics, insurance, port capacity and shipping freight. All these steps are governed by enforceable contracts and come with strict financial terms, time frames and penalties for non-execution of contract.

US beet pulp pellets are loaded from the Great Lakes area and this key area is only accessible in the Autumn/early Winter due to weather limitations (ice). This is therefore the season for shipment out of this area and the system is in place to proceed. Cancelling these cargos comes with large financial penalties and finding replacement product for the Irish market at present will be extremely difficult. The importer will have to choose between paying the levy, which would get passed onto feed compound businesses and farmers or defaulting on contracts. This would create further tightening of feed supplies, which would also result in increased feed costs.

- Molasses (CN 17031000)

Molasses is used in most feeds as a nutritional energy source, palatability enhancer and feed formulation binding ingredient. Over 100,000 tons of molasses comes into the EU each year from Florida. In Ireland this is destined for the mineral feed supplement market (licks/blocks). Key components in Floridian cane molasses such as product viscosity, pH, low sugar invert sugars and palatability are crucial for producing mineral licks/blocks. Other origins of molasses can give rise to adverse chemical reactions in the process, resulting in soft product (therefore not a solid lick/block), shrinkage over time and in some instances, expansion and over flowing product. Years of research has gone into understanding the chemical reaction in the feed lick/block manufacturing process and the origin of molasses plays a crucial part in the process. Therefore, it is not possible to change molasses origin without research/investment in the production process.

Sugar cane is not grown in Europe and beet molasses is not generally used for making mineral licks/blocks. Once again, this mineral feeding method is particular only to the maritime grass growing regions of the EU and Ireland in particular.

Support for the immediate imposition of these punitive tariffs by the DAFM and DETE point to serious deficiencies in their willingness to ensure that the competitiveness of the Irish food industry and the Irish farmer is protected.

IGFA Position

- **Lack of consultation**

It is important to note that IGFA does not question the trade policy direction of the EU on this matter. Our principal concern is that the views of the Irish feed industry were not sought and there was a complete lack of discussion with us on the potential impacts of agreeing this Regulation. DETE and DAFM officials totally failed to forewarn our industry or to consult with our members when formulating voting policy on this Regulation.

- **No notice period**

A significant issue for our members is that no notice period was provided for or requested by the Irish delegation when supporting this Regulation. The damage to Irish farmers and trade could have been minimised if officials had requested a workable 30 or 60 day notice period at the very minimum. Alternatively, they could have notified industry during 2019/2020 that the Regulation was being discussed and voted on so that businesses could prepare and protect themselves.

- **Timing**

This extra pressure has come at a difficult time for our industry. Not only are feed companies entering the peak feeding period, but to prepare for Brexit the Feed industry has 'front loaded' deliveries over the next few months. This is specifically in order to stockpile ahead of 1 January 2021 and to protect upstream and downstream customers. Implementing tariffs just weeks before Brexit will now cause serious financial damage. As already explained, defensive reactions such as switching destinations and cancelling shipping contracts are simply not possible at this short notice without serious financial penalties. These unexpected additional costs will be picked up by the internal market and not fall on the US suppliers.

The impact of the Covid19 pandemic cannot be overstated with businesses, logistics, supply chains and markets already stretched at this difficult time. Operating in a pandemic environment means it takes longer to react and adjust our logistic systems. These systems have weathered the strain of recent months, but only due to detailed planning and longer-term scheduling of our logistics.

- **Increased costs**

Global supply contracts for logistics, port space and shipping freight are negotiated well in advance of shipping dates. These contracts come with strict financial terms, time frames and penalties for non-execution of contract. A workable notice period is therefore essential when dealing with international supply chains.

The costs of this additional tariff will be passed down the chain to Irish farmers and Irish agricultural businesses. It is a significant concern that these costs will fall disproportionately on SMEs in vulnerable rural areas which might already be under extra financial pressure due to Brexit.

In addition, due to the lack of notice there has been little opportunity to limit costs. The time between publishing the legislation and implementation (7 - 10th November) permits the feed material importer no time to react and prepare. The costs on both commodities this month are estimated to be over €2 million if 25 % tariffs are to be applied. Despite the best efforts by trade to make alternative arrangements, some product must arrive and be unloaded. These unexpected additional costs will be picked up by the internal market and not fall on the US suppliers. Surely the objective is to retaliate against the US and not to add more pain to the EU internal market?

IGFA Requests

Due to the fact that no notice or opportunity to submit views was permitted to the Industry, and that we are likely to face significant extra costs through no fault of our own, we are requesting Ministers to consider what flexibility they can apply to the interpretation of the Regulation.

We also require assurances that industry will receive a full tariff rebate for product arriving in the November and December 2020 period.

This lack of action by the two Ministries gave us no time to prepare and seriously calls into question their consultation procedures. This failure in the system is having an immediate impact in relation to this Regulation, but also makes IGFA members anxious about the future. With Brexit just around the corner and the inevitable complexity that will surround our future trading relationship with the UK, we need to ensure that government departments are not only working hand in hand with industry but closely and in constant consultation with one another. This is the only way to avoid future damage to Irish Agri businesses.

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