CSCanada
Canadian Social Science
Vol. 14, No. 2, 2018, pp. 82-86
DOI:10.3968/10166

ISSN 1712-8056[Print]
ISSN 1923-6697[Online]
www.cscanada.net
www.cscanada.org

CETA Agreement and Canadian Dairy Sector

Sunil Kumar Dash[a],*

[a]Graduate School, Chulalongkorn University, Bangkok, Thailand.
*Corresponding author.

Received 10 November 2017; accepted 6 January 2018
Published online 26 February 2018

Abstract

The Comprehensive Economic and Trade Agreement (CETA) is a trade deal between the EU and Canada and one of the most ambitious trade deals between the two blocs, Canada on one hand and the EU on the other hand. The combined effect of CETA on Canada's gross domestic product (GDP) estimated to be about $7.9 billion which represents an average gain in income of about $220 per person ($2015). To enter Canada, tariff protection is considerable for many sectors which inhibit the imported products competing at Canadian marketplace. On dairy sector context, the products that are imported to be subject to excessive tariffs, occasionally over 300 per cent. For example, present out-of-quota tariffs concerning cheeses are 245.6%, which extensively supress the export of EU cheeses to Canada. With CETA, Canada agreed to establish two new tariff rate quotas (TRQs) for cheese originating in the European Union: One for 16,000,000 kg of cheeses of all types and another for 1,700,000 kg of cheeses of all types to be used in food processing. Howsoever, the industrial cheese quota will be made available entirely to further processors. In 2016, Canada's cheese production increased from 386,937,000 kg in 2006 to 476,641,000 kg. Comparing the amount that has been allocated to the EU, it's evident that around 3% of the Canadian production would enter into the domestic market. It may not seem like much, yet given Quota system of Canadian Dairy sector, CETA might create significant consequences in the quota-based production system.

Key words: CETA; Canadian dairy sector; Cheese; Quota system

Dash, S. K. (2018). CETA Agreement and Canadian Dairy Sector. *Canadian Social Science, 14*(2), 82-86. Available from: http://www.cscanada.net/index.php/css/article/view/10166
DOI: http://dx.doi.org/10.3968/10166

INTRODUCTION

The European Commission describes CETA as one of the most important trade deal between the two blocs and a milestone in the EU's trade policy. CETA has been provisionally applied from 21 September 2017. CETA promises to remove all tariffs progressively on the products to be traded between the EU and Canada with substantial liberalization of trade in agricultural products. However, the rights and obligations of both the parties under the WTO agreement are affirmed. The European Commission states that CETA has some of the strongest commitments to promote labour rights, environmental protection and sustainable development. Furthermore, CETA commits to apply international rules on workers' rights, environmental protection and climate action and these obligations are binding (European Commision, 2017).

Under the agreement of Goods, Canada and the EU agreed to liberalize trade in goods progressively in accordance with the provisions of CETA agreement over a transitional period and aims at substantial liberalization by the year 2024. Both the EU and Canada commit to the basic principle of "National Treatment" of WTO, thus discrimination between the imported products and domestically produced goods is prohibited. An important part of CETA is the call for tariff elimination across most of the goods sector. In sectors where tariffs are not eliminated, CETA keeps some tariff-rate quotas that will nonetheless allow each of the parties to increase exports. Those sectors include agriculture, food, automobiles, textiles and alcoholic beverages.

According to Canadian Parliamentary Budget Office, the overall gain in trade is larger for the European Union than it is for Canada. This is because, the exporters in Canada used to face lower tariffs than the European exporters prior to the agreement. As a result, Canada will reduce the tariff protection faced by European exporters by more than what the European Union will have to on Canadian goods (Office of the Parliamentary Budget Officer, 2017).

1. MARKET ACCESS FOR AGRICULTURAL GOODS

Under CETA, many customs duties on farm-based products and other processed products including drinks will be eliminated. However, there'll be limited quotas for a few sensitive products for the EU which are under the entry price system and dairy products for Canada. Canada will eliminate duties for 90.9% of all its agricultural tariffs while the EU will eliminate 92.2% for its part, upon entry into force of CETA (European Commission, 2014). The rest of the tariffs will be eliminated in stages through transition periods of 3 to 7 years, depending on the tariff line.

Tariffs will be eliminated within specified periods, primarily through the following four phase-out categories (Government of Canada, n.d.):

- Immediately upon entry into force of the Agreement (category A)
- IOver 3 years through 4 equal cuts (category B)
- IOver 5 years through 6 equal cuts (category C)
- IOver 7 years through 8 equal cuts (category D)
- IGoods that are excluded from the above commitments are denoted in category E

2. CETA AND CANADIAN DAIRY SECTOR

According to the joint study conducted by the European Commission and the Govt. of Canada in 2008, for Canada, engaging in a large and integrated market such as the EU would open many doors for its business outside the North American context (The European Commision and the Government of Canada, 2008). On a trade-weighted basis, Canadian goods faced an average tariff of 2.2% in 2007 entering the EU market while EU goods faced a comparable tariff of 3.5% in the Canadian market. The dairy products that are imported to Canada are subject to high tariffs, sometimes exceeding 300 per cent. With CETA, Canada agreed to establish two new tariff rate quotas (TRQs) for cheese originating in the European Union: one for 16,000,000 kg of cheeses of all types and another for 1,700,000 kg of cheeses of all types to be used in food processing. The Government of Canada has decided to allocate cheese quota (all types of cheese) across the cheese value chain, including cheese manufacturers, distributors and retailers, with portions of the quota being specifically reserved for small and medium-sized enterprises. Howsoever, the industrial cheese quota will be made available entirely to further processors.

Supply management is Canada's highly protectionist quota system in the dairy industry. The fundamental principle of supply management is to balance production and consumption domestically. Province-based marketing boards issue quotas so farmers can produce and distribute industrial milk for processing and consumption. Canadian Dairy Commission states that the establishment of marketing quotas control the national production at the farm level (Canadian Dairy Commission, 2016). Under the system, only farmers who own a dairy "quota" can legally produce milk for sale. Province based Dairy marketing boards set limits on the extent of production, and they sell the milk on the farmers' behalf at prices that the boards usually fix, based on the farmers' average costs and with a markup value.

2.1 Out-of-Quota Tariffs on Cheese Are Higher

Canada historically is not a significant exporter for dairy related products as Canada's milk and dairy production's purpose is primarily to meet domestic requirements. It essentially follows the Import for Re-Export Program for dairy products and those are mainly used to manufacture further processed food products for the export market. Canada maintains tariff quotas with high over-quota duties on imports of dairy, poultry, egg and some other agricultural products. Usually, out-of-quota tariffs on cheeses are close to 300%, which inhibits the EU cheeses entering to Canada, despite consumer demand. Now with CETA, the EU would get benefit of exporting the cheese to Canada which is almost double the amount it used to be. In 2016, Canada's cheese production increased from 386,937,000 kg in 2006 to 476,641,000 kg (Canadian Dairy Information Centre (CDIC), 2017). Comparing the amount that has been allocated to the EU, it's evident that around 3% of the Canadian production would enter into the domestic market, thus it will influence the supply management system, particularly the Canadian producers.

2.2 Cheese Pricing in Canada and the EU

Canadian Dairy Commission sets prices for dairy products based on costs of production, rather than allowing prices to be determined by the market forces of supply and demand. According to Petkantchin (2006, p.1), the supply management policy determines a high support price for milk based on cost of production and proceeds to control the supply, which eventually regulates the consumer and processor market pricing. Canadians pay more for dairy products than residents of almost any other developed country in the world. Analysis of the cheese pricing for last five years and comparison with the EU consumer price reveals that Canadian consumers paid almost twice than the EU consumers for each kilogram of cheese. The below table reflects the price comparison between the EU and Canadian consumers where the information has been extracted from the official websites of Canadian Dairy Commission and Europa.

Table 1
Consumer Price Comparison for Cheese

Year	Price of cheese in Canadian domestic market: Average price/250 gm cheese (in CAD)	Average price/1 kg cheese (in CAD)	Equivalent to EURO	EU market: Average price in the EU (in Euro)	Variation with the EU average price (in %)
2017	2.77	11.08	7.34881	3.394	217
2016	2.77	11.08	7.34881	2.854	257
2015	2.91	11.64	7.72023	3.099	249
2014	2.98	11.92	7.90594	3.761	210
2013	2.82	11.28	7.48146	3.656	205
Average	2.85	11.4	7.56	3.35	226

Note. Currency conversion has been taken from xe.com and the figure is the average of the last 5 years.

2.3 Trend on Domestic Appetites for Cheese

On the other hand, if we look at the domestic appetites for cheese, it has an increasing trend in the last five years. In the future, however, those appetites may be fed with imported products, particularly for the special cheese exports of EU. If the domestic appetite trend follows like this, the Canadian domestic market may or may not shrink. Below mentioned chart illustrates the cheese consumed by the Canadians over six-year period starting from 2011 and estimates a forecast for the next four years. The information has been collected from the official website of the Canadian Dairy Information Centre.

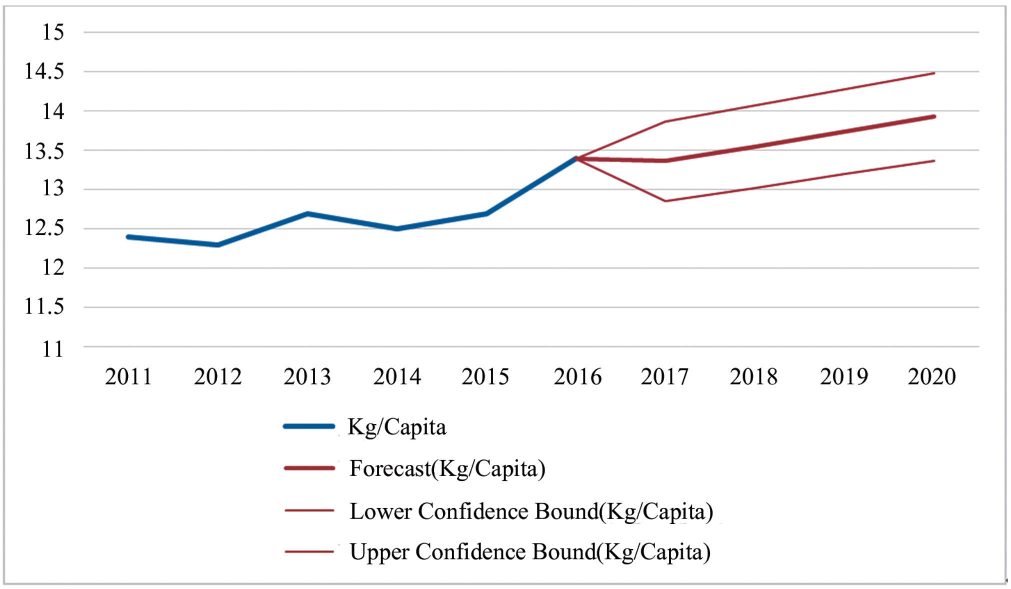

Figure 1
Trend on Canadian Domestic Appetite for Cheese

2.4 CETA and WTO Concerns

Back in 1999, United States and New Zealand were the complainants against Canada over the Dairy dispute case claiming that Canadian Dairy Commission and provincial marketing boards had enough involvement with the aid by federal and provincial governments that constitute “government action” under the Agreement on Agriculture. Appellate body concluded the Canadian supply management system to be taken into consideration as a government subsidy and Canada violated through giving export subsidies (payment in kind) on dairy processed products (World Trade Organization, 2017). Following which, Canada revised the supply system for sales of domestic milk and a separate scheme governing milk to be sold for export. Because of WTO’s decision, Canada agreed to bring the export milk pricing system into compliance, with all required legislative changes were implemented by 2000. In turn, Canadian dairy processors were unable to supply export markets that they have before 2000. Following which the trade balance in dairy sector turned to be deficit and in last 10 years it remained same. The following graph shows the Trade balance of Canada Dairy Sector from 2007-2016 where information has been accessed from the Canadian Dairy Information Centre.

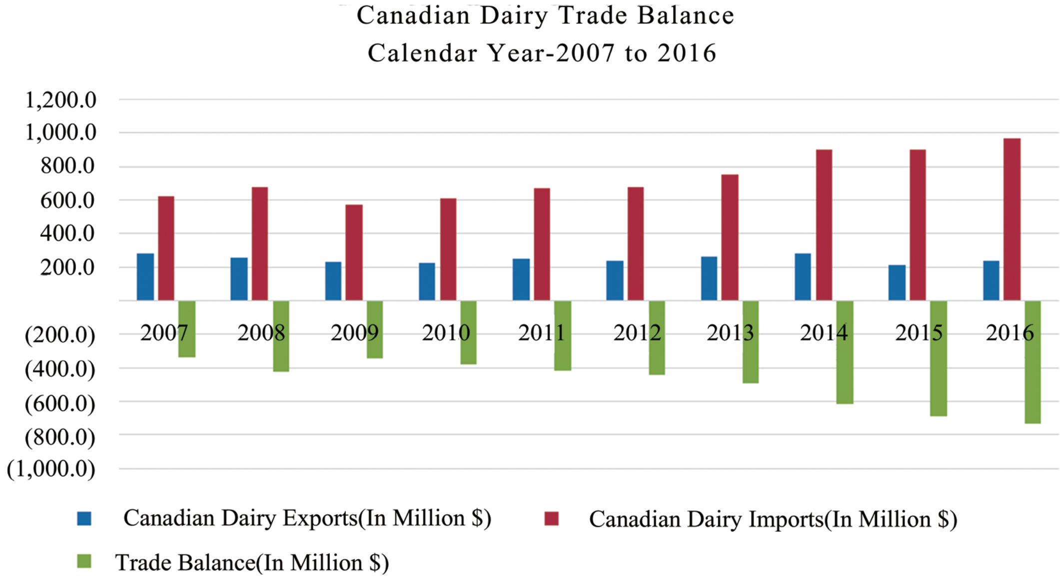

Figure 2
Canadian Dairy Trade Balance

After the CETA agreement, Norway, Switzerland, New Zealand and the United States renewed concerns about Canada's allocation of its tariff rate quota for cheese as it gives significant flexibility on the quantity of cheese to be imported from the EU on lower tariffs. As normally the imports exceeding TRQ face a high duty to enter Canada, the argument is, Canada has allegedly allocated its cheese tariff quota to the EU under CETA, which means there will be lower market access for non-EU exporters (World Trade Organization, 2016).

With CETA coming into force Canada's dairy industry which normally focused on the domestic market now gets tariff-free access for Canadian cheese in Europe. Howsoever, Canadian growers need to lower the production cost as they can't sell the cheese at a higher price than EU market price. For this, whole supply management system needs to be restructured as government intervention in export prices may violate WTO norms on export subsidies which may further lead to disputes as it happened in the past.

CONCLUSION

After the extra imports from the EU, CETA will influence the cost of cheese in Canadian domestic market and it will be beneficial for the Canadian consumers in the context of choice and preferences.

Canada agreed to allocate a cheese quota using an import-licensing system on an annual basis. The percentage of the annual cheese TRQ is divided by 50 percent equally between the cheese manufacturers group and the "distributors and retailers" group. For both the groups, the allocation of the TRQ is divided further into two categories, i.e. "small and medium sized" which gets 30% and rest of the 20% belongs to the "large" category.

In most appropriate way, many of the licences under cheese TRQ should go to the small producers and small processors who are most affected by CETA.

However, it may negatively influence the Canadian producers who used to get a higher price for their produce than rest of the world, as per the supply management system. Canadian govt. being aware of the potential woes CETA may bring for the producers, announced extra support plan to compensate. Furthermore, there is support provision for improving the production and processing methods more efficiently, which aims at reducing the production cost so that Canadian exported product can compete with the EU dairy products.

However, the extra support plan would take time to meet its objective. It would be crucial to see how Canadian government will compensate the loss to the existing domestic producers.

If the implementation not done right, CETA may make the Canadian dairy sector highly susceptible and many small cheese producers and processors could disappear.

REFERENCES

Canadian Dairy Commission. (2016, May 30). *Supply management.* Retrieved 2017, December 12 from http://www.cdc-ccl.gc.ca/CDC/index-eng.php?id=3806.

Canadian Dairy Information Centre (CDIC). (2017). *Cheese production by province.* Canadian Dairy Information Centre (CDIC), 1. Retrieved December 12 from http://www.dairyinfo.gc.ca/pdf/prod_cprov_e.pdf.

European Commision. (2017). *CETA explained*. Retrieved 2017, December 22 from http://ec.europa.eu/trade/policy/in-focus/ceta/ceta-explained/

European Commission. (2014). *CETA – Summary of the final negotiating results*. Retrieved 2017, December 22 from http://trade.ec.europa.eu/doclib/docs/2014/december/tradoc_152982.pdf

Government of Canada. (n.d.). Trade and Investment Agreements: European Union. *Chapter Summaries.* Retrieved 2017, December 22 from http://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/ceta-aecg/chapter_summary-resume_chapitre.aspx?lang=eng#a2.

Office of the Parliamentary Budget Officer. (2017). *The Canada-EU comprehensive economic and trade agreement: A prospective analysis.* Ottawa. Retrieved 2017, December 22 from http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2017/CETA/CETA_EN.pdf

The European Commision and the Government of Canada. (2008). *Assesing the costs and benefits of a closer EU-Canada economic partnership.* Joint Study. Retrieved 2017, December 21 from http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_141032.pdf

Valentin, P. (2006). *Reforming dairy supply management in Canada: The Australian example.* Regulation Series, Montreal: Montreal Economic Institute, 1-3. Retrieved 2017, December 10 from http://www.caaaq.gouv.qc.ca/userfiles/file/meireformingsupplymanagejanv06_en.pdf.

World Trade Organization. (2016). *Canadian dairy policy top of agenda for farm committee.* Retrieved 2017, December 7 from http://www.wto.org/english/news_e/news16_e/agcom_16sep16_e.htm.

World Trade Organization. (2017). CANADA - DAIRY (DS103, 113). *Dispute cases, world trade organization* (pp.43-45). Retrieved 2017, December 10 from http://www.wto.org/english/tratop_e/dispu_e/cases_e/1pagesum_e/ds103sum_e.pdf.