



COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT (CETA)

MEETING OF THE COMMITTEE ON AGRICULTURE OTTAWA, 23 SEPTEMBER 2019

REPORT

The second meeting of the EU-Canada Comprehensive and Economic Trade Agreement (CETA) Committee on Agriculture took place in Ottawa, Canada, on September 23, 2019. Both parties demonstrated a positive and collaborative approach, with each highlighting the importance of the EU-Canada relationship, CETA and the need for reliable and like-minded trading partners.

CETA implementation: Review of bilateral trade data/performance measurement

Both parties highlighted certain success stories since the implementation of CETA in September 2017 but noted that work remains to be done in order to see the full realization of the benefits of the Agreement. Both parties' data showed similar trends for 2019, which indicated an increase in trade under CETA on both sides. The parties agreed to share their respective data including on seafood, and perspectives on CETA implementation every six months going forward (with the first such occurrence to take place at the end of February 2020 when data for calendar year 2019 becomes available).

EU beef and pork TRQs

Canada raised its concerns and asked questions about the EU's quota management system for meat tariff rate quotas (TRQs). Canada noted that Canadian industry is in the process of increasing production eligible for export to the EU. Nevertheless both parties agreed that the main reason for the low utilisation of the beef and pork TRQs to this point was that supply meeting EU sanitary and import requirements was currently not available on a large scale. Canada reiterated that as the sector increases its ability to export to the EU market in compliance with EU requirements in the coming years, the CETA requirement (Annex 2 B, Section A: article 6) that for volumes not allocated during the initial application period, "import licenses will be issued automatically on-demand" will become of increasing importance. Canada noted its' view that this was currently not the case.

The EU gave details of its shared management system for TRQ administration, including that automatic allocation does not mean immediate, because requests reaching the 28 Member States need to first be aggregated by the European Commission before they can be processed and subsequently issued later that same month. The EU expressed the view that it has fully complied with its CETA commitments by putting in place a TRQ administration system that is as conducive to trade as possible. The EU makes allocations for the meat TRQs 11 times per year. Moreover, the quantities not used in a quarter are automatically carried over to the

next quarter until the end of the allocation year (in October) so there are opportunities for companies to submit applications for licences throughout the year. Each applicant who has submitted an application will receive an import licence, provided that the eligibility conditions are fulfilled.

Canada also requested better access to quota utilization data. Canada is of the view that in coming years, once Canadian industry increases its capacity to export to the EU market, statistics on actual import quantities will become necessary in order to accurately monitor TRQ fill-rates, but that the EU does not report quantities actually imported. Canada indicated that this could become problematic if the need should arise to invoke the CETA under-fill mechanism (CETA Annex 2-A: Tariff Elimination, Article 19), which is based on “quantity actually imported”. The EU noted that data on quota allocation, which is publically available on-line at its Meat Market Observatory, is a reliable and sufficient guide to actual imports for Canada.

It is Canada’s view that the information available online for Canadian exporters and EU importers with respect to the administration of the CETA beef and pork TRQs is complex and difficult to navigate. Canada said that plain language guidance on EU TRQ administration procedures would be welcome and helpful for industry in accessing the TRQs under CETA. Both sides committed to work together in the coming months to create and publish online simplified and easily-understood information on TRQ administration. The EU also provided information about its contact point on the Meat Market Observatory, AGRI-EURO-MEATMO@ec.europa.eu, for queries from industry, which Canada appreciated. A Trade helpdesk is also available for individual operators.¹

In the context of Brexit, Canada sought assurances from the EU that the TRQ volumes for beef and pork under CETA will remain unchanged as per the CETA text, including those that were integrated from the EU’s World Trade Organization (WTO) commitments. The EU outlined its’ position that Brexit will not affect the EU’s bilateral part of the commitments under CETA.

Canadian cheese TRQs

The EU reiterated its concerns about the cheese TRQ management system with respect to CETA commitments, which should not create barriers to imports and be as conducive to trade as possible. It considers that the cheese TRQ is not going to those operators most likely to use it. The EU referred specifically to the arguments made in its April 2019 request for a CETA cheese TRQ review and stressed that in its’ view the current system distorts the market. Canada pointed out that the cheese quota had a very high fill-rate of around 99% in 2018 and explained a number of the subtleties of Canadian TRQ administration.

Some of the issues raised by the EU included the timing of imports (not equally spread and concentrated in the latter months of the calendar year) and the high rate of transfers, with quota transfer costs of CAD \$2.5 per kg of EU cheese in Canada on average in 2019. The EU considers that these issues are due in large part to the fragmentation of the TRQ volume into pools, specifically, the allocation of 50% of the cheese quota to Canadian cheese manufacturers. The EU reiterated its request for greater transparency on quota utilization, particularly regarding quota transfers.

¹ <https://trade.ec.europa.eu/tradehelp/>

Canada explained that the allocation method ensures greater access for new entrants across the value chain and indicated that the allocation policy is consistent with its commitments under CETA. Canada also pointed out that since the implementation of CETA, the quota transfer costs have decreased in value (from CAD \$6-7 per kg to under CAD \$3 per kg on average) and is expected to keep coming down. Canada also noted that under the WTO cheese TRQ, there are allocation holders who are cheese manufacturers and who have a long history of full utilization. The Canadian position is that it will take time for the market to adapt to the increase in available volumes, especially as new entrants develop new business relationships. Canada also mentioned that the increase in imports in the latter months of the calendar year reflect Canadian seasonal cheese consumption patterns.

Canada noted that it is currently undertaking a comprehensive review of its supply-managed TRQ administration policy and thanked the EU for its submission during the consultation phase. Canada provided clarity on the next steps of their review and indicated that there will be an opportunity for a bilateral discussion with the EU on the draft allocation policies when they are published in early 2020 as part of the second round of stakeholder consultations, which was appreciated by the EU.

Canada further explained that any potential policy changes would take effect in the 2021 TRQ year. Canada identified some of the elements that it was considering under the comprehensive review, including possible amendments to the transfer mechanism, the minimum allocation quantity and increased transparency. Canada also noted that transfers between operators were necessary in order to allow smaller players and new entrants to use the quota. The EU conveyed the message that it understands the business need for transfers but highlighted that in their view these should be the exception, which the EU believes has not been the case for the past two years. While Canada was responsive in addressing the EU's questions and provided opportunities to discuss the various reasons behind the timing of imports and transfers, the EU remains concerned that in light of the high rate of transfers, the CETA cheese quota is not being allocated at the outset to those operators most likely to use it in accordance with CETA requirements.

Other trade issues: Hazard-based decision making

Canada raised concerns with the potential impact on trade of the EU's hazard-based decision making and approach to assessing plant protection products and impacts on cut-offs for import tolerances. Canada asked that while the technical discussion on the issue will take place at the CETA Sanitary and Phytosanitary Measures Joint Management Committee (SPS JMC), the CETA Committee on Agriculture should remain aware of the file given the potentially significant impact on agricultural trade between the EU and Canada. It noted that the European Commission would be organizing dedicated sessions/seminars for Third Countries to share information and address concerns and questions on the issue. Canada thanked the EU for this commitment. The EU took note of Canada's concerns and explained that the legislation is intended to address legitimate public health concerns and is non-discriminatory, reiterating that their approach to decision-making is transparent.

Canada's exports of durum wheat to EU & EU country-of-origin labelling for primary ingredients

Canada brought up the decline in durum wheat exports to Italy since the adoption of Italy's country of origin labelling (COOL) in 2017-18 and stressed the need to address the matter given the importance of the market for Canadian producers as well as the importance of

Canadian durum wheat exports to the EU as a CETA outcome. According to trade data, while there has been some increase in Canadian exports in 2019, they remain well below the level prior to 2017. Canada shared its concern that misinformation regarding the quality and safety of Canadian durum, coupled with a mandatory COOL measure adopted by Italy, has had a negative impact on Canadian exports of durum wheat to Italy. Canada noted that Canadian exports have consistently met EU requirements.

The EU appreciated that Italy is a major export interest for Canada and noted that Canada is now firmly back in the market. In 2018/19 Canada was back as the main origin for EU durum wheat imports. The EU sees this as a positive market development and noted that fluctuations in exports is a sign that the market is functioning well.

With regard to EU COOL, the EU confirmed that its legal framework favours voluntary origin labelling as the most appropriate solution in terms of balancing the interests of producers and consumers. The Commission's implementing measure to complete the relevant EU legal framework will enter into application on April 1, 2020. From that date on all Member States including Italy, will no longer be able to adopt national rules. The EU explained that it has a reliable system of ensuring compliance in Member States with EU regulations.

EU Veterinary Medicinal Regulation

Canada expressed concern with the potential trade impact of the EU's Veterinary Medicinal Products Regulation and subsequent implementing regulations for export of live animals and animal products to the EU. It noted that it shares the EU's concern that antimicrobial resistance (AMR) represents a serious public health issue that requires global attention and efforts and notified the EU of the pan-Canadian framework on AMR under development. However, it noted that the proposed changes to EU regulations could have an unnecessarily restrictive impact on international trade. The EU noted Canada's concerns and indicated that it would report the contents of the discussion to the EU officials involved in the SPS JMC. It also confirmed that it will continue to act in full transparency and will keep Canada informed during the development of legislation. Canada will have a chance to provide feedback when the implementing rules are notified to the WTO, in particular on the import-related measures.

Milk class 7 (dairy ingredients)

The EU expressed doubts about the WTO compatibility of Canada's Milk Class 7 for dairy ingredients. It also requested information on the future of Milk Class 7 under the Canada-United States-Mexico Agreement (CUSMA). Canada reiterated to the EU that Canadian industry's decision to create and implement Class 7 is consistent with Canada's trade obligations. Canada also informed the EU that Milk Class 7 would be eliminated within six months following the entry-into-force of CUSMA and that estimating a timeline on ratification is difficult considering that the ratification procedures in the countries involved are somewhat unpredictable. The EU sought assurance from Canada that any solution agreed under CUSMA would also apply to the EU.

Canadian compositional standards for dairy products

The EU raised concerns with Canada's cheese compositional standards. It emphasized that the standards limit the types of cheese the EU can export to Canada and that the compositional standards limit the quantity of milk protein substances the EU can export to Canada. According to the EU, imports of milk protein substances from the EU have fallen sharply

since the introduction of these standards in 2007. Canada stated that international food standards were taken into account when the cheese standards were developed. Nevertheless, the EU questioned whether they are aligned with the Codex standard for cheese. Canada expressed its view that the standards do not prohibit the use of milk protein concentrate (MPC) but restrict use of high-protein ingredients in cheese in unlimited quantities. MPC can be used in the manufacturing of other food products as its use is not limited to standardized cheeses.

Canadian sugar countervailing duties

The EU sought information on Canadian countervailing duties applied to imports of refined sugar from the EU. It noted that since the EU abolished sugar production quotas in October 2017, there is little justification for Canada to maintain the countervailing duty. The EU requested that Canada drop the countervailing duties. Canada clarified that the countervailing duty on EU refined sugar is set to expire on October 30, 2020 and before expiry, the Canadian International Trade Tribunal will seek the views of interested parties on whether the order should be reviewed. The EU enquired about the review process, to which Canada responded that if such a review takes place parties who participated in previous reviews, or the original investigation, would have the opportunity to submit their views.

Any other business

Both parties provided an update on international trade negotiations of interest. Canada updated the EU on ongoing Mercosur negotiations as well as on the ratification process of CUSMA. The EU updated Canada on recent conclusion of negotiations with Mercosur.

In addition, Canada mentioned the ongoing work of the Government of Canada in partnership with the Canola Council of Canada (CCC) and the European Commission on the certification of Canadian canola as a sustainable input into European biofuel production under the Renewable Energy Directive. Given the importance of the European market for Canadian canola growers and the sustainability of Canadian canola, Canada encouraged the European Commission to continue work with the CCC towards a resolution to the matter. The EU reassured Canada that its services remain open to continue the dialogue in order to find a solution in line with the requirements of the EU Renewable Energy Directive.

Participants:

Agriculture and Agri-Food Canada

Global Affairs Canada

Mission of Canada to the EU

European Commission, Directorate General for Agriculture and Rural Development

European Commission, Directorate General for Trade

Delegation of the European Union to Canada