CETA: THE FACTS AND ITS IMPACT ON DAIRY FARMERS

Dairy Farmers of Canada

On October 18, 2013, the Government of Canada and the European Union (EU) reached an agreement-in-principle on the Comprehensive Economic and Trade Agreement (CETA). Dairy farmers are concerned about the economic and business impact Europe's new levels of access will have on Canada's dairy industry.

WHAT CETA MEANS FOR CANADIAN DAIRY

Under CETA, the EU will get additional tariff-free access for 16,000 tonnes of high-quality retail cheese and another 1,700 tonnes of not-for-retail "industrial" cheese. When combined with the access the EU already enjoys, there will be nearly 32,000 tonnes of European cheese coming to Canada every year. This will more than double European tariff-free access into the Canadian cheese market. More directly, the EU will have the majority share of the fine cheese market with exclusive tariff-free access to about 60% of the total fine cheese market in Canada.

This will push the total tonnage of cheese imported to Canada from all sources to more than 38,000 tonnes and increase the imports' market share from 5% to 9%.

BY THE NUMBERS

This will have a concrete and serious long-term impact on the industry and dairy farmers individually. In fact, once CETA is implemented, the new access is estimated to be:

$110 - $150 million loss in farm income

1.6% - 2.2% of Canada's milk production

4% of the Canadian cheese market

$300 million in cheese sales annually

WHY IT MATTERS TO CANADIAN DAIRY FARMERS

The new market access granted will negatively impact our sector as it will:

1. reduce domestic milk production.
2. allow an influx of subsidized European cheese that will compete for retail shelf space.
3. displace local Canadian and artisanal cheeses made from Canadian milk.
4. compete for the market growth that Canadian dairy farmers have been building through long-term strategic investment in marketing and promotion. These support Canadian cheese makers by growing this sector and developing the Canadian palate for homegrown artisan cheese.

It will create an unfair playing field. In CETA, Canada has agreed to recognize geographical indicators for about 50 European cheeses, affecting Canadian Feta, Asiago, Munster, Fontina and Gorgonzola. Current cheese makers can continue to sell and market these five cheeses as they do now, but any cheese maker who starts producing these cheeses after CETA is ratified will be subject to different labelling requirements that mandate words like "kind," "type" and "style". In practice, this will mean cheeses that are exactly the same will have different labels.

This deal gives away hard-won gains. The Government has nullified the milk protein isolates (MPI) tariff-rate quota that was put in place in 2007, meaning Europeans – not just Americans – have no limits on their exports of MPI to Canada. This undoes a concrete action that government had taken to enforce the border under existing trade obligations and rights.

MITIGATING THE IMPACT

The government must seek to extend the implementation period to minimize the impact on Canada's dairy industry. Dairy Farmers of Canada is recommending a 10-year gradual implementation period for the new cheese imports.

The length of the implementation period will determine the degree of loss in market share and market growth. This table shows how this implementation period affects the financial impact on farm income for the 10 years following the CETA deal coming into effect (ratification).

Canadian Cheese Production Forgone

	Full implementation upon ratification	With gradual implementation of EU imports over 5 years	With gradual implementation of EU imports over 7 years	With gradual implementation of EU imports over 10 years
Cumulative farm income forgone over 10 years	$1.25 billion (all 17,700 tonnes imported each year, starting the first year)	$1 billion (additional 3,540 tonnes imported in the first 5 years)	$875 million (additional 2,529 tonnes imported in the first 7 years)	$688 million (additional 1,770 tonnes imported each year)

Source: DFC Calculations

During the implementation period, the Canadian government must work with the sector to maintain strong consumer confidence and support for the quality, standards and variety that Canadian consumers expect from Canadian dairy.

Government support is also crucial as dairy farmer organizations continue to lead in encouraging farmers to maintain their on-farm programs and set high standards that are consistent with consumer expectations.

At the same time, the Canadian government has a role to play with the industry in investing in the domestic cheese markets to drive innovation and expansion.

MISLEADING STATEMENTS AND REALITIES

There's been a lot of talk about Canadian and EU dairy, the access granted and the scale of the impact on farmers income.

Misleading Statement: ***CETA will give Canadian dairy unfettered access to the EU market.***

FACT The import penetration in our respective markets is stark – Canada will now allow access to 9% of its domestic consumption while the EU allowed 1% access. Though the EU tariffs will no longer apply to Canadian dairy products, it will be hard to rival subsidized cheese in the EU.

Import Penetration Rate - Cheese

Canada	European Union	United States
9%	1%	2.4%

Source: Statistics Canada, USDA

REALITY Only a tiny percentage of fine Canadian cheese, produced at domestic price, may find a niche on the EU market. This will not come close to the nearly 18,000 tonnes of increased access to the Canadian market that has been given to the EU.

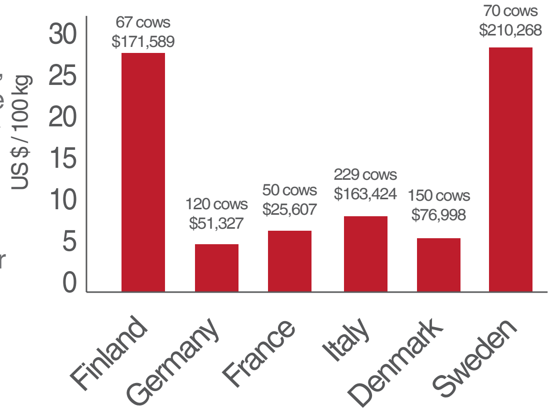
MISLEADING STATEMENTS AND REALITIES

Misleading Statement: ***CETA will allow Canadian farmers to be more competitive and increase exports.***

FACT

A WTO panel determined that Canadian dairy products destined to the export market at prices below the domestic price constitute an export subsidy, and they will be prohibited once the CETA deal is implemented. Meanwhile, subsidies (direct payments – coupled and decoupled) in the EU make up a significant portion of farmers' revenue. They also get a lower market price for their milk. For example, countries like Finland and Sweden are high-cost producing countries and are receiving an outstanding level of support, otherwise they would not be in a position to compete in their own market.

Direct Payments



Source: IFCN

REALITY

Current exports of 1,000 tonnes (out of a 4,000 tonnes access potential) of Canadian aged Cheddar to the European Union are deemed subsidized and will need to stop upon implementation of the agreement.

The global dairy market is not a level playing field. Canadian dairy farmers who get their returns from the marketplace should not be forced to compete with subsidized dairy products that do not reflect the true cost to produce milk. The world dairy market is a dumping ground for surplus supply, only 12% of the world's total milk production in 2012 was produced at a cost equal or lower than the world price.

Misleading Statement: ***Growth in the domestic cheese market will absorb the effects of this deal.***

FACT

Sales of fine Canadian cheeses have been growing at 0.5% to 1% in recent years.

Canadian Cheese Production

Year	Tonnes produced	Growth
2008	399,762	
2009	404,173	1.1%
2010	408,647	1.1%
2011	404,152	-1.1%
2012	408,197	1.0%
Average		0.5% (or app 2,000 tonnes per year)

Source: Statistics Canada

REALITY

Providing Europe with new market access equivalent to 4% of the Canadian cheese market will reduce Canada's domestic milk production and deny Canadian farmers' their return on investment to grow the Canadian cheese market.

Growth in the domestic cheese market is generated through strong and sustained marketing and promotion efforts to drive increased consumption of cheese by Canadian consumers.

KEEPING CANADIAN DAIRY STABLE AND STRONG

From a global dairy perspective, achieving profitability in a sustainable manner year after year, without government financial assistance, can be a challenge. Dairy is one of the most volatile markets in the world, and is very much impacted by weather, climate and the environment.

This is why the EU and many countries provide direct support for their dairy farmers. In Canada, industry and government both have a role in ensuring a strong, stable and sustainable Canadian dairy sector where:

- farmers are able to continue to get their returns directly from the marketplace;
- growth in the domestic dairy market benefits Canada;
- long term planning is focused on strategic investments in markets with growth potential; and
- dairy farmer commitments to Canadian consumers are supported by government.

Dairy farmers have been, and will continue to be, the backbone of many communities across the country. Our products are a reflection of years dedicated to refining and innovating our processes to bring Canadians locally-sourced, high-quality goods.

The federal and provincial governments need to continue to defend Canada's supply management and the three pillars in all international trade negotiations and forums. The government must work with us to ensure the success of supply management now and into the future. While we recognize that trade plays an important role for many sectors in Canada and the country's overall prosperity, small Canadian businesses and jobs remain a priority for our industry.

The Canadian dairy advantage means putting Canadian dairy first.

- In seven out of ten Canadian provinces, dairy is one of the top two agricultural sectors.
- The dairy sector's GDP contribution has risen from $15.2B in 2009 to $16.2B in 2011.
- Jobs grew from 215,104 to 218,330 over that period.

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