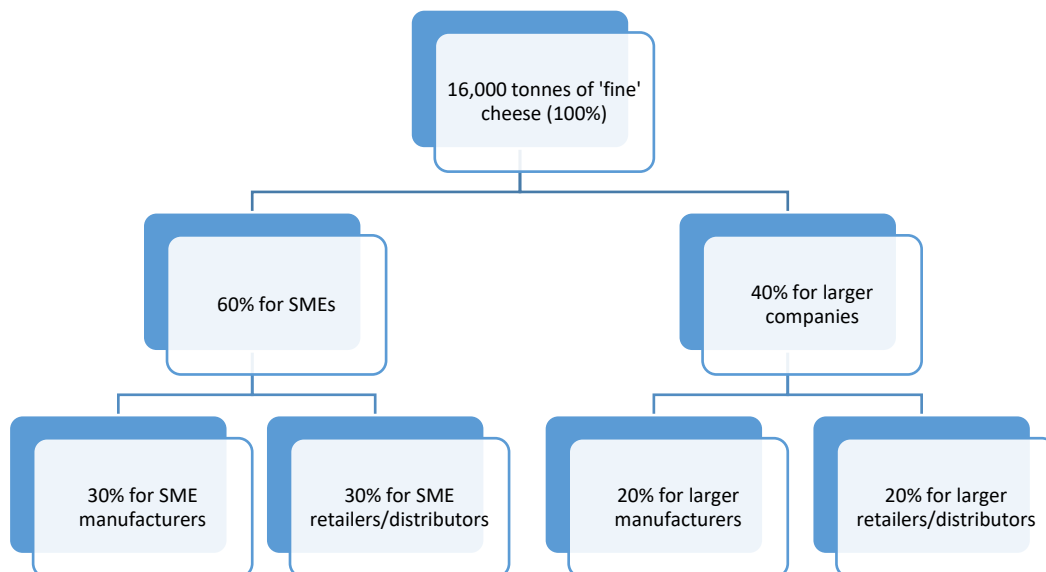


### Experience with the CETA cheese quota and way forward

Since the provisional entry into force of the EU-Canada agreement (CETA) on 21 September 2017, it has been possible for Canadian operators to import EU cheese under a special CETA cheese quota. While we welcome the high fill rate of the fine cheese quota – the fill rate for the industrial cheese quota also improved in 2018 – it also matters how the quota is being filled. Unfortunately, the quality of the market access for EU cheese has been rather disappointing. The administration system of the quota has led to a number of anomalies which have severely curtailed the export opportunities for EU cheese operators. These include late usage arising from high levels of quota allocation transfers, leading to a ‘rush’ at the end of the calendar year and very slack access in the beginning of the year. We understand that last year as much as 40% of the allocations were transferred, with transfer fees as high as 4 CAD per kg. In practice, the quota rent is almost entirely controlled by the Canadian processors, who are not the operators most likely to use it. On the retail/distribution side, extremely low quantities have been allocated and not necessarily to operators with any trading experience. Finally, it is unclear how new entrants are given access to the quota. These shortcomings mean that most European companies potentially interested in exporting to Canada under the quota have not been able to do so.

#### ‘Pooling’/division of quota between Canadian processors and others

The single most urgent issue to be addressed from an EU exporters’ perspective is the ‘pooling’ of the quota, i.e. the division of access rights between manufacturers/processors on one side and distributors and retailers on the other side. Please see below a graphical representation of this (taking the fully realised CETA ‘fine cheese’ quota of 16,000 tonnes for illustrative purposes):



The last line shows a 50/50 split in access for manufacturers (processors) and retailers/distributors. It is very evident that Canadian processors are not the most efficient or active users of the quota as European cheeses directly compete with their own production. Representatives of the Canadian dairy processing industry have openly stated that they are entitled to have access to a large share (or preferably all) of the quota as a compensation for being affected by European imports and that they will not import any cheeses which would be in direct competition with Canadian product. Allocating half of the quota to Canadian processors has not been done in the interest of the filling the quota or in the interest of Canadian consumers but solely to compensate processors for these “losses”.

With respect to the remaining 50% which must be shared by all retailers and distributors, the '[CETA Cheese Quota Holders List](#)' which is updated on an annual basis is evidence of the large numbers of operators, many of which are receiving small volumes which are economically unviable to import. Currently, the quota is allocated to operators [on the basis of market share](#) (meaning that small businesses will receive tiny allocations). This also contributes to a big transfer of unused quota towards the end of the calendar year.

The mere existence of a secondary market for allocation transfers is proof that the quota is not efficiently managed. The EU-Canada agreement provides for a single quota for fine cheese and it should be treated as such. The administration should be simplified and rendered more efficient by removing the subcategories.

In addition, the following suggested solutions for a better functioning management system should be considered.

### **Minimum volume per application**

Eucolait considers that there should be a reasonable minimum volume threshold introduced for quota applications, e.g. 20 tonnes. This would prevent some of the fragmentation which is currently ongoing, whereby operators are receiving access rights to volumes so small that it is unfeasible for them to import the product. Furthermore, actors who cannot handle at least 20 tonnes should not be in the business of direct importing.

### **Allocation based on application volume rather than turnover**

The allocation should not be dependent on the size of the company as this method is too rigid and allows large operators to obtain a considerable share of the quota which they may simply transfer further for a profit. It should be up to each operator to assess how large volumes they wish to and can import. In order to avoid allocating most of the quota to a handful of companies, a maximum threshold of e.g. 10% or 20% could be introduced.



### **Disincentives to transfer quota allocations**

There are already [some provisions in place to penalise underuse and returns of allocations](#). However to ensure efficient use of the quota and to avoid speculative applications and the creation of a secondary market for transferred licences, quota transfers should be subject to control and penalized if repeated or covering large quantities. Penalties should, however, in no way impede the full utilization of the CETA, and be used in a way that will not disable operators to grow their business.

### **Eligibility criteria to apply for a licence**

Currently, the main criterion to apply for licences under the quota is that the operator is active on the Canadian cheese market. We consider that a more appropriate criterion would be that the operator has been active in international trade (i.e. exporting or importing product). This would make it more likely that imports would take place, as the licence holder would have some level of prior familiarity with the importing procedure. A new allocation system should therefore favour operators with a successful track record of importing (European) cheeses and at the same time make room for new comers.

### **Conclusion**

The CETA agreement stipulates that the TRQ administration must be as conducive to trade as possible. According to the TRQ declaration, it must be transparent, predictable, minimise transactional costs for trade, maximise fill rates and aim to avoid potential speculation. Moreover, the quota should be allocated to the persons that are most likely to use it. The current administration method clearly does not fulfil any of these criteria (with the exception of the fill rate). A revision, which is urgently required, should abolish the subcategories (pools) of the quota, set a minimum volume for applications, base the allocation on the application volume rather than turnover, avoid abusive allocation transfers and require that applicants have prior familiarity with international trade.