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This Week in Canadian Agriculture, Issue 28

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Report Highlights:

* U.S. Agricultural Exports to Canada Show Strong Growth During the First Half of 2005 *
Canadian Cattle Numbers at Record Levels * New C\$1 Million Program to Help Offset Start-
Up Costs of New Ruminant Slaughter Facilities * Softwood Lumber Dispute Rages On *
Smaller Companies Feel the Pain of Lumber Dispute * Crop Update

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
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This Week in Canadian Agriculture is a weekly review of Canadian agricultural industry developments of interest to the U.S. agricultural community. The issues summarized in this report cover a wide range of subject matter obtained from Canadian press reports, government press releases, and host country agricultural officials and representatives.

Disclaimer: Any press report summaries in this report are included to bring U.S. readership closer to the pulse of Canadian developments in agriculture. In no way do the views and opinions of these sources reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

U.S. AGRICULTURAL EXPORTS TO CANADA SHOW STRONG GROWTH DURING THE FIRST

HALF OF 2005: U.S. food and agricultural exports to Canada during the first half of 2005 increased to \$5.2 billion, up almost 9% from the January-June period a year ago. The strong increase in exports to the northern neighbor in the first six months of this year boosted its leading share as the No. 1 market of U.S. food and agricultural products to 17% of total. U.S. food and farm exports to Canada are on pace to reach almost \$10.5 billion during 2005. High value consumer-oriented products accounted for all of the improved export performance to Canada with sales in that sector up almost 15% through June 2005 compared to a year ago. U.S. exports in the "bulk" and "intermediate" agricultural product categories showed year-to-year declines. Virtually all of the consumer-oriented agricultural product categories registered increased sales to Canada in the first half of 2005 led by significant year-to-year increases for fresh vegetables, red meats, breakfast cereals, tree nuts, fruit and vegetable juices, beer and wine, and processed horticultural products. There was a decline in exports of poultry meat to Canada but lower sales so far in 2005 are more a reflection of the spike in exports of U.S. poultry meat to Canada during 2004 when an outbreak of avian influenza in British Columbia resulted in additional demand for U.S. product to replace the domestic production shortfall.

CANADIAN CATTLE NUMBERS AT RECORD LEVELS: Unsurprisingly, Canadian cattle numbers reached an all time high on July 1, 2005. This week's Statistics Canada's cattle survey showed the national cattle herd at 17.3 million head, up 3.2% from that date one year ago and almost 10% above the level on July 1, two years ago. Canadian cattle herd numbers surged after the United States closed the border to Canadian cattle and certain beef products following a case of BSE in Alberta in May 2003. The U.S. border recently opened (July 18, 2005) to young Canadian slaughter cattle and certain feeder cattle. Most of the cattle inventory increase since 2003 occurred in Western Canada. According to StatsCan, cattle numbers in Alberta, Saskatchewan and Manitoba climbed by 1.4 million head during the two-year period prior to July 1, 2005. The herd expanded 10.4% in Manitoba during the two years while Saskatchewan's numbers soared 13.7% and Alberta's herd rose 13.1%. Over the same comparative period, Ontario cattle numbers advanced 3.1% and Quebec's 3.5%. Producers reported that many of the additional cattle on Canadian farms were cull cows that under normal trade circumstances (i.e., no BSE and border controls) would have been slaughtered or exported to the United States for slaughter. Cull cow market prices in Canada took a severe slide after the May 2003 BSE finding. Many of these cows intended for market were kept by producers and bred to calve, further adding to the growth in total cattle numbers.

NEW C\$1 MILLION PROGRAM TO HELP OFFSET START-UP COSTS OF NEW RUMINANT

SLAUGHTER FACILITIES: Agriculture and Agri-Food Minister Andy Mitchell has announced a new C\$1.0 million (\$825,000) Ruminant Slaughter Facility Assessment Assistance program designed to help producer groups pay for some of the costs of feasibility studies, business plans, marketing plans or other start up costs associated with establishing or expanding a federally inspected ruminant slaughter plant in Canada or converting provincial ruminant slaughter plants to meet federal inspection standards. Under the plan, producer-led initiatives can receive up to half of the costs, to a maximum of just under C\$100,000. Minister Mitchell claimed that the program was consistent with Canada's transition strategy to increase domestic cattle and other ruminant slaughter and reduce dependence on live animal markets in the United States. Private investment in slaughter plant expansion and construction and government programs have helped increase Canadian cattle slaughter by almost 20% above pre-BSE levels (i.e., May 2003). Additional slaughter capacity is expected to come on stream through the end of 2006.

SOFTWOOD LUMBER DISPUTE RAGES ON: The reaction to United States refusal to abide by a NAFTA panel ruling has been swift. Some parties have called on the Canadian government to take retaliatory action against the U.S., while others have called for calmer heads to prevail. Some in the industry have suggested that Canada should retaliate against the U.S. through such measures as stopping oil and gas exports to the United States. Although the Canadian government has indicated that it is not considering stopping gas and oil exports, government officials did pull out of softwood negotiations scheduled for August 22. The withdraw from the negotiations drew support from trade experts, industry players and provincial governments. In addition, the Canadian government is also again considering imposing duties on U.S. imports. While the government of Canada is considering its next course of action in this ongoing dispute, the lumber industry is planning their own strategies for a negotiated settlement. According to the *Vancouver Sun*, the strategies include:

- Accepting a quota on lumber exports, favored by Quebec.
- A graduated export tax that would be higher when lumber prices are low and zero when they are high, favored by British Columbia.
- No tax or quota period, the position favored by B.C. coastal producers based on the fact that they have made the transition to a market-based timber pricing system and are not significant planers in the U.S. framing lumber market.

Despite developing negotiating strategies, the lumber industry is not settling just yet and is still calling on the federal government to take retaliatory action against the U.S. in order to rebalance what they see as an unfair situation. The industry has also indicated that it would like to see a linkage of lumber with future energy exports in any future bilateral discussions with the United States.

SMALLER COMPANIES FEEL THE PAIN OF LUMBER DISPUTE: The ongoing softwood lumber dispute is continuing to takes its toll on the smaller lumber companies. According to the Saskatoon StarPhoenix, the duties on Canadian softwood lumber have made it impossible for smaller operators like the Zelensky Brothers in La Ronge, Saskatchewan, to sell their lumber into the United States. In addition, the cost to ship lumber overseas is too high, so the company has been forced to operate on one shift over three years. The Zelensky Brothers' operation has made very few sales into the U.S. during the dispute and was forced to shut down for a few months last year. In order to survive, the company has changed some production in the plant and attempted to expand into some smaller markets in Canada, but that has been difficult. The latest developments in the softwood case indicate that an end to the dispute is still far away and for small companies like the Zelensky Brothers, the suffering will continue.

CROP UPDATE: According to the Saskatchewan department of Agriculture, cool, damp weather has hindered harvesting during the past week, with only two percent of the crop combined and six percent swathed or ready to straight combine, which is slightly lower than the five-year average of four percent combined and eight percent swathed or ready to straight combine. The earlier hot, dry weather has resulted in a decline of the yield estimates for the provincial crops. According to the Manitoba department of Agriculture, lack of moisture in the province has become an issue. In the *Southwest* region, the lack of moisture has limited yield potential and hastened maturity for most crops. Harvest of winter wheat and early barely indicates poor yields and low bushel weights. Fusarium is and leaf diseases have hastened the maturity of most spring wheat crops. Many oat crops are ripening quickly due to leaf rust. Most flax has finished flowering and is turning rapidly. In the *Northwest* region, rain is needed to finish early seeded crops and carry later crops through filling. Swathing has begun for some wheat and barley crops. Winter wheat is swathed and combining has begun. In the *Central* region, the hot weather has resulted in rapidly advancing crop maturity. Rain has fallen and may have aided with the filling of late-seeded crops in some areas. Winter wheat harvest is complete, with yields ranging between 10-50 bu/ac and generally lower quality and bushel weight. Oats are yielding 20-70 bu/ac with light bushel weight. Soybeans are podding and sunflowers are improving, but flax fields have been written off. In the *Eastern* region, the warm temperatures have enabled the fields to continue to dry out, with most districts reporting dry soils. Most crops that were not taken for greenfeed or worked down will produce very poorly. According to the Ontario Wheat Producers' Marketing Board, harvesting of the winter wheat crop is virtually complete with preliminary yield estimates at or just slightly below the trend-line, but 10 bu/ac or more below the potential yield prior to the very hot summer. The hot, dry weather has resulted in one of the best quality wheat crops in Ontario in a number of years. Test

weights are high, with no evidence of fusarium. In addition, moisture is lower, there are few sprouts, the falling numbers are good and the protein is good. According to the Ontario department of Agriculture, a good number of pods are fully developed and seed is being produced and filled in the soybean crop. Soybean aphids and spider mites are showing up in fields, with spider mites causing a large amount of damage in some fields. The hot weather has left the soybean crop vulnerable to aphids. Much of the corn crop has achieved good to excellent pollination. Rains came at a critical period and reduced the stress for much of the crop, with exceptions in the western and northern regions of the corn growing area that remains very dry.

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