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This Week in Canadian Agriculture, Issue 4

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Report Highlights:
* Canada Remains No. 1 Market for U.S. Agricultural Exports * Competitiveness of Quebec Hog Industry in Decline * Cattle and Hog Inventory Declines * Dairy Farmers Receive Warning From Ag Negotiator * Canfor Spins of Pulp Operation

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Includes PSD Changes: No
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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.

CANADA REMAINS NO. 1 MARKET FOR U.S. AGRICULTURAL EXPORTS: The release of the 2005 trade data show Canada remained the top market for U.S. food and agricultural product exports last year, importing a total of $10.6 billion worth of U.S. food and farm goods. The level was more than $1.2 billion more than to Mexico and $2.7 billion more than to Japan, the next most important export destinations. Canadian purchases of U.S. agricultural products accounted for 17% of total U.S. food and farm exports. More than half of total U.S. exports of fresh fruits and vegetables ($4.2 billion) are shipped to Canada. Of total American exports of consumer-oriented agricultural products ($27.0 billion), nearly one-third was destined for Canada. Total bilateral agricultural trade between the United States and Canada reached $22.9 billion in 2005, more than $62 million per day. Total U.S. agriculture, fish and forest product exports to Canada in 2005 ($13.3 billion) exceeded the level exported to the twenty-five European Union member states by $4.5 billion for the same time period.

COMPETITIVENESS OF QUEBEC HOG INDUSTRY IN DECLINE: In Post's analysis of Canadian anti-dumping and countervailing duties on U.S. grain corn last December, we said that the resultant east/west imbalance in the Canadian hog industry due to the impact of the corn duties could be expected to result in a hastened shift in hog feeding and processing to western Canada (see CA5085). This week, the *Globe and Mail* published an article outlining some of the economic, political, and environmental forces that are causing the pork industry to move out of Quebec. The factors include, 1) the investments of Olymel, Quebec's largest pork processor, in new facilities in western Canada (see 5078) and the company's closure of certain Quebec plants; 2) Higher pork production costs in Quebec and the associated lingering effects of the Quebec hog moratorium that banned hog industry expansion for many years; 3) Processing facilities in Quebec that are small by today's standard and; 4) the Quebec industry's struggle with an outbreak of post-weaning multisystemic wasting syndrome, a hog disease that reportedly wiped out more than 200,000 pigs last year.

CATTLE AND HOG INVENTORY DECLINES: Canada's cattle herd has declined for the first time in three years in the wake of the reopening of the U.S. border to Canadian cattle (i.e., under 30 months for slaughter or to designated feeding establishments), easing the situation for Canadian farmers who had to feed record numbers of animals over the past two years. According to Statistics Canada, cattle producers held 14.8 million head on their farms as of January 1, 2006, a drop of about 233,000 head from the record 15.1 million head established a year earlier. Despite the decline, the total was still more than 1.3 million higher than 2003 levels before the worldwide ban on Canadian cattle, resulting from the first Canadian case of bovine spongiform encephalopathy (BSE), in May 2003. Exports of live cattle to the U.S. resumed after the border was reopened in mid-July 2005. More than 500,000 head were exported to the U.S. in the last half of the year. So far in 2006, live cattle exports are on pace to reach about 1.0 million head comprised of both slaughter and feeder types. Canadian hog farmers reported a total hog inventory of 14.5 million head on their farms as of January 1, 2006, 1.2% lower than on the same date in 2005.

DAIRY FARMERS RECEIVE WARNING FROM AG NEGOTIATOR: According to the *Western Producer*, Canada's dairy farmers received a warning from Steve Verheul, Canada's chief agriculture negotiator at the World Trade Organization (WTO), at the recent annual Dairy Farmers of Canada (DFC) convention. Mr. Verheul warned attending delegates that Canada's attempt to preserve over-quota tariffs, a key demand for the DFC, would be almost impossible to achieve if a deal is reached. Proposals at the WTO call for a range of measures to address the issue of over-quota tariffs, including a tariff cap of 100 percent to 75 percent. According to Mr. Verheul, Canada has no allies among the other 148 WTO members on the issue of blocking over-quota tariff reductions. The DFC has long maintained that any reduction to over-quota tariffs, which limit the import of dairy products into Canada, would result in the end of the supply management system in Canada. Mr. Verheul also indicated that any WTO deal would hurt the dairy industry by ending export subsidies, thereby ending dairy exports that have been deemed by the WTO to be supported by export subsidies. In addition, Mr. Verheul stated that any final WTO deal would also limit the government's ability to support agriculture through amber box spending that has an impact on production or trade. This would restrict the Canadian Dairy Commission's ability to establish support prices for skim milk powder and butter, as it would exceed the $600 million annually in amber box spending. In order to address the price support issue, the DFC indicated that the dairy pricing system will be changed over the next year to make it more WTO-compliant.

CANFOR SPINS OFF PULP OPERATIONS: According to the *Globe and Mail*, Canfor, Canada's largest lumber producer, is spinning off most of its pulp operations, in order to concentrate on its wood products business. Canfor plans to transfer three of its four British Columbia (B.C.) pulp mills and related employees into a pulp income trust, which will distribute a 20 percent stake to shareholders, leaving the company with the remaining 80 percent. The move follows a fourth quarter loss of $12.3 million, as a result of lower prices for lumber, pulp and building material products. According to Canfor, the goal of splitting the pulp from the wood operations is aimed at providing value to shareholders. The move will be discussed by a special meeting of shareholders in June and must be approved by B.C.'s provincial court before it can be finalized.

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