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Report Highlights:

Stricter Canadian Content Labeling Rules Proposed * BSE Five Years Later; Beef Exports 30% Lower * What Now for Canadian Beef Exports? * Canadian Supply Managed Industries and Government of Canada Unhappy with Newest WTO Draft Modalities Text* Exporter Group Welcomes WTO Draft Modalities Text* Barley Bill Stalls

Includes PSD Changes: No
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Trade 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.

STRICTER CANADIAN CONTENT LABELING RULES PROPOSED: In response to wide media coverage surrounding increased Canadian consumer interest in food labeling, the government of Canada has [announced](#) its intentions to modernize the guidelines that define the use of the terms "Product of Canada" and "Made in Canada" on food labels and advertising. Canada's current guidelines for Canadian content statements have not been updated since they were created in the 1980's as a way to promote the Canadian brand and manufacturing jobs. As a result, in this new age of sourcing ingredients from around the globe, Canadian content terms can, at times, be misleading to consumers. For instance, cans or jars of olives can be labeled Product of Canada even though Canada grows no olives. Currently, Canadian content terms must meet two basic criteria: (1) the last substantial transformation of the goods must have occurred in Canada, and; (2) at least 51 percent of the total direct costs of producing or manufacturing the goods are Canadian. The Canadian Food Inspection Agency (CFIA) assesses the content statements on a case-by-case basis. The Canadian government's "Food Labeling Initiative" aims to develop new guidelines to more accurately define the terms "Product of Canada" and "Made in Canada." What is currently being proposed is that for a product to be given the label "Product of Canada", all major ingredients, processing and labor used to make the food product would need to be of Canadian origin. If the food product is manufactured or processed in Canada, regardless of the origins of the ingredients, and the last substantial stage of processing occurred in Canada, the claim would be qualified with a "Made in Canada from domestic and imported ingredients" or "Made in Canada from imported ingredients." In comparison, the "Made in USA" content claim (without qualifications on the claims) requires that all or virtually all significant parts and processing that go into the product must be of U.S. origin. The U.S. also permits qualified claims. Canada is seeking input from Canadians and has made available a [discussion paper](#) on the new initiative. CFIA will be holding consultations with stakeholders before new guidelines are put in place. Additional information on this initiative can be found on the [Government of Canada - Healthy Canadians](#) website. Also of note, the House of Commons Standing Committee on Agriculture has been studying the policies governing the use of Canadian content labeling on food labels and advertising in recent weeks. The committee's report to the House is expected in early June.

BSE FIVE YEARS LATER; BEEF EXPORTS 30% LOWER: Five years ago this week, May 20, 2003, Canada's first case of Bovine Spongiform Encephalopathy (BSE) was detected in a beef cow in Alberta. In the years prior to the incident, Canada's cattle industry was in an expansion phase, exporting more than 60% of its production to the United States and overseas markets. Following BSE detection, Canada's trading partners shut their borders to Canadian cattle and beef and the subsequent loss of international markets was devastating to the industry. Loss estimates in the first two years were in the \$5-7 billion range. The Canadian government responded with financial aid upwards of \$500 million. The market disruption altered the U.S./Canada trade flow of cattle and beef that had evolved into an integrated market. By late 2007, Canadian market access to the U.S. beef market was in large part back to where it was prior to BSE following U.S. action to harmonize cattle and beef trade with Canada in line with International Animal Health Standards. However, despite renewed access to the U.S., and several other markets, Canada's beef industry has had difficulty restoring exports to the pre-BSE level although it continues to make efforts to re-open blocked markets such as South Korea. According to official trade data, total Canadian product weight exports of beef and veal (fresh, frozen, and prepared) during 2007 reached 326,723 MT. The level was up from 2003 when the first BSE detection resulted in exports declining to 295,085 MT, but remained 30% below the 469,490 MT exported during 2002, the full calendar year prior to the BSE finding. Canadian live cattle exports to the United States which reached 1.7 million head in 2002, fell to zero in 2004, rebounded to 1.4 million head after access to the U.S. market for live cattle normalized in two stages in 2005 and 2007 after USDA categorized Canada as a minimal risk region for BSE.

WHAT NOW FOR CANADIAN BEEF EXPORTS?: Even with BSE essentially behind them, there is no shortage of current concern among Canadian cattle producers. Faced with a glut of cattle after BSE, the industry has worked the inventory down to the point where slaughter plant capacity is underutilized. Also, new difficulties including higher feed prices, a stronger Canadian dollar, and low market prices for cattle have been stressing the industry. Given the challenges ahead, many in the Canadian beef industry feel the need to be pro-active in order to preserve both profitability and competitiveness. In this regard, at least two industry/producer initiated strategies have emerged to tackle the issue of market development for an industry so heavily dependent on exports. One such initiative is the *Canadian Beef Advantage*, an ongoing market strategy embraced by The Canadian Cattlemen Market Development Council, the Beef Information Centre, the industry's domestic promotional arm, and the Canadian Beef Export Federation, the industry's export promotion arm. The cornerstone of the *Canadian Beef Advantage* is the development of a global branding strategy for Canadian beef and cattle genetics. The sponsoring groups believe they can promote the advantages of Canadian beef drawing on Canada's grading system (quality criteria), Canada's regulatory and food safety standards, and the country's reputation as a "natural" environment. Another initiative is the *Canada Gold Beef* concept, a grass roots effort in western Canada that also wants to produce and sell a family of branded beef products with environmental, animal husbandry, and strict food safety requirements to meet the demands of local and international customers. That group wants to start its own Alberta based slaughter plant to compete with the U.S. players in Alberta, Tyson and Cargill.

Comment: A similar, producer run plant called Rancher's Beef, which began operation during the BSE crisis, went bankrupt within two years. Whatever the outcome, it appears that the Canadian beef industry realizes that beef marketing in the post-BSE era needs to be different. The new realities of international beef marketing, whether they be adjusting to the upcoming U.S. Country of Origin Labeling regulations or facing increased competition in world markets from other global beef suppliers, are likely to be reflected in both industry and government future policies directed at Canada's beef industry.

CANADIAN SUPPLY MANAGED INDUSTRIES AND GOVERNMENT OF CANADA UNHAPPY WITH NEWEST WTO DRAFT MODALITIES TEXT: The Canadian supply managed industries and the Canadian government were both quick to condemn elements of the World Trade Organization's newest agriculture proposals in Geneva. On May 20th, 2008, the chair of the WTO's agricultural negotiations, Crawford Falconer, released his newest draft modalities text summarizing his interpretation of the progress made to-date. Canada's dairy, poultry and egg industry issued a [joint press release](#) on May 21, 2008, denouncing the text, stating that the current proposals would require cuts to the over-quota tariffs that could threaten the survival of supply managed industries in Canada. Supply management in Canada is dependent upon import controls and the supply managed industries fear that cuts to the prohibitively high tariffs would result in imports flooding the domestic market. The supply managed industries also denounced the proposed reforms to the special safeguard mechanism (SSG). In February of this year, the Canadian government announced its intention to render operational the Special Safeguard Mechanism (for more on this, please see TWICA Issue 4, [CA8006](#)). The press statement also critiques efforts to limit the types of food policies that countries' can put in place, going as far as to state that trade liberalization is not the solution to the current food crisis while pointing to the role that the supply managed industries in Canada has played in keeping Canadian consumers partially shielded from rising food prices. Canada's Minister of Agriculture and Canada's Minister of International Trade issued a [joint press statement](#) expressing their displeasure with certain elements of the revised draft modalities text for agriculture. The press release states that the Canadian Government is disappointed that despite "direction intervention with Mr. Falconer to express Canada's firm position" on the issue of sensitive products, little progress has been made to accommodate the Canadian concerns. The press release ends with a reiteration of the Canadian Government's strong support for its supply management industries.

Comment: While it is true that supply management is one of several factors that have helped shield Canadians from the spikes in food prices experienced in other parts of the world, to say that trade liberalization is not the solution to the world food crisis is a bit self-serving. Supply management in Canada, by matching production to domestic demand helps shield consumers from the effects of increasing world demand which can have an inflationary effect on world prices. However, the increased costs of inputs on the supply side of the equation will eventually be passed along to consumers through the supply management cost of production pricing formulas. In addition, many of the protective policy measures that some countries have put in place to reduce the impact of rising world food commodity prices have created greater distortions in the world markets, forcing greater adjustments and higher prices. For a better understanding of the dynamics underlying the increase in food commodity prices, please see [Global Agricultural Supply and Demand: Factors](#)

[Contributing to the Recent Increase in Food and Commodity Prices](#). More on how Canada is experiencing the world increase in food prices can be found in TWICA issue 10, [CA8023](#).

EXPORTER GROUP WELCOMES WTO DRAFT MODALITIES TEXT: The Canadian Agri-Food Trade Alliance (CAFTA), the organization representing producers, processors and exporters of more than 80% of Canada's food and agricultural product exports, are welcoming the release of the WTO Revised Draft Modalities Text. Mr. Darcy Davis, CAFTA President told CNW news group that his organization is very pleased that the progress in all three pillars-domestic support, export competition and market access-continues to be part of the text. Previous CAFTA analysis of the working text reportedly showed that Canadian farmers would realize a potential gain of up to C\$3 billion annually in sales of just seven key commodities. "For livestock producers, the timing of this text is very welcome - the benefits that will flow through this agreement provide long term prospects, and stability, that our beef and pork producers so badly need. We're calling on the Government of Canada to take a leadership role in securing an ambitious agreement and to harvest the gains that have been realized in the last few months. Canadian exporters see this agreement as critical to their long term viability. Every day we wait for an agreement represents almost C\$10 Million in lost opportunity for Canadian exporters." said Davis in the CNW report. CAFTA webpage: <http://www.cafta.org/>

BARLEY BILL STALLS: The barley bill, [Bill C-46](#), which was introduced into Parliament on March 3rd, 2008, has stalled. In the past several weeks there has been some faint hope that the proposed legislation to liberate the barley from the Canadian Wheat Board's (CWB) monopoly would move forward and be debated. The bill has now been withdrawn as a possibility for debate in the near future. From the start, the chance of this bill passing has been low since it is unlikely that any of the opposition parties will support Bill-46. As a result, Canada's minority status government is unlikely to receive the support needed to push this legislation through in time for the new crop year which begins August 1, 2008. The farm press reports that Minister Ritz, Canada's Minister for Agriculture, is looking for alternative methods of fulfilling his promise to liberate the barley for the new crop year. This includes pressing the CWB to offer a pilot project that would allow the barley to be marketed outside the CWB monopoly. Uncertainty concerning the way barley could be marketed in the upcoming crop year may be having a detrimental effect on farmer's decisions on whether or not to plant barley. Planting intentions published at the end of April by Statistics Canada suggest that the area seeded to barley will decrease by approximately 14% compared to the previous year's level. It should also be noted that the Canadian Wheat Board, until a legislative change is effected, is under no obligation to provide options that would result in barley or wheat produced for export or for human consumption being marketed outside their monopoly.

Recent Reports from FAS/Ottawa:

Report Number	Title of Report	Date
CA8018	This Week in Canadian Agriculture, Issue 8	04/04/2008
CA8019	This Week in Canadian Agriculture, Issue 9	04/11/2008
CA8023	This Week in Canadian Agriculture, Issue 10	04/18/2008
CA8025	This Week in Canadian Agriculture, Issue 11	04/29/2008
CA8026	Grain and Feed Annual Report	04/24/2008
CA8027	Canadian Hog Production in Transition	04/25/2008
CA8028	This Week in Canadian Agriculture, Issue 12	05/06/2008
CA8029	Oilseed and Products Annual Report	05/05/2008