United States Department of Agriculture
Foreign Agricultural Service

GAIN
Global Agricultural Information Network

Voluntary Report – Voluntary - Public Distribution **Date:** August 27,2020

Report Number: CA2020-0079

Report Name: Overview of COVID-19 Impacts on Canadian Agriculture

Country: Canada

Post: Ottawa

Report Category: Agricultural Situation, Agriculture in the Economy, Agriculture in the News, Vegetables, Poultry and Products, Potatoes and Potato Products, Oilseeds and Products, Livestock and Products, Grain and Feed, Avocado, Canned Deciduous Fruit, Dried Fruit, Fresh Deciduous Fruit, Fresh Fruit, Kiwifruit, Raisins, Stone Fruit, Strawberries, Dairy and Products, Biofuels

Prepared By: FAS/Canada

Approved By: Evan Mangino

Report Highlights:

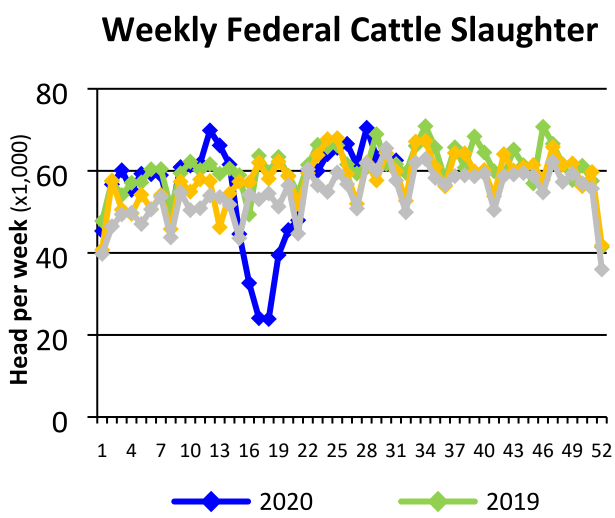
Canada's effective national pandemic response has helped Canada's food and agriculture industries settle into a relatively stable 'new normal' operating environment, despite acute disruptions early in the COVID era. Canadian food and agricultural industries appear to have avoided many of the dire predictions made in the spring of 2020, and the largest bilateral agricultural trade relationship is functioning relatively smoothly in spite of the continued border closure.

Summary

Global agricultural trade has demonstrated remarkable resilience and flexibility throughout the COVID-19 pandemic, adopting new measures and adapting to new, changing conditions with alacrity. Despite acute disruptions early on, Canada's effective national pandemic response has helped Canada's food and agriculture industries settle into a relatively stable 'new normal' operating environment. Though images of dumped milk and shuttered restaurants dominated media attention in April, industry concerns about widespread animal culling, shortages of vital agricultural inputs, and crops rotting in the fields have largely been avoided. The U.S.-Canada border has been closed to non-essential traffic for months – and remains closed at least through September 21 – but agricultural trade has barely skipped a beat. Though it has provided more than $200 million USD of agri-food support programming, the Government of Canada largely resisted agricultural sector requests for targeted financial assistance, relying on the existing agricultural safety net and COVID-response measures open to the broader economy. The Department of Finance Canada has forecast a nearly 7 percent economic contraction in 2020, and while the long-term financial ramifications of the COVID-19 pandemic cannot yet be tallied, the Canadian food and agricultural industries appear to have avoided many of the dire predictions made in the spring of 2020.

Cattle and Beef

Though Canada was poised for higher cattle slaughter and beef production in 2020, early COVID-19 outbreaks at Canada's two largest beef slaughter facilities – which together account for more than 70 percent of Canadian beef slaughter capacity – drove slaughter numbers down sharply and created a 130,000 head backlog of fed cattle waiting to be slaughtered. While 'set aside' programs in [Alberta](), [Saskatchewan](), and [Ontario]() as well as the [Western Livestock Price Insurance Program]() helped to mitigate financial costs of longer cattle feeding, the slaughter backlog remains above 100,000 head as 2020 slaughter levels were down 7 percent year-over-year through August 1. Despite these challenges, placement of cattle on feed is projected to rebound with imported feeder cattle supplementing smaller Canadian calf numbers in 2020.



Source: CanFax/AAFC

While beef imports and exports were anticipated to climb modestly in 2020, COVID-19-related retail shopping patterns helped push imports in the first half of 2020 up 21 percent over the same period in 2019, despite the significant reduction in food service demand. Beef exports in April 2020 were down 75 percent year-over-year from April 2019, reflecting, in part, the export volumes shipped from Canada's two largest beef plants. Though beef exports through June 2020 were down double-digits from 2019 levels, shipments remained above the five-year average and are expected to recover in the second half of 2020, barring further disruptions to processing capacity and recovery in global foodservice demand.

Swine and Pork

COVID-19 hit the pork processing sector earlier, temporarily shuttering two federally inspected plants and generating a backlog reportedly as large as 150,000 head at its peak. U.S. pork processing disruptions also affected Canadian swine farmers, who sell large numbers of weaned pigs and slaughter hogs into the American supply chain, resulting in selective euthanizing and considerable financial losses. Despite concerns that widespread culling would be necessary, the industry managed to clear the slaughter backlog before August by adding shifts and workdays and by avoiding further COVID-related disruptions. While a major Canadian pork processing facility voluntarily suspended exports to China in mid-August after employees tested positive for COVID-19, production at the facility continues and export activity is expected to be reallocated across other facilities. As of August 1, hog slaughter was four percent above 2019 levels, roughly where it was before COVID arrived.

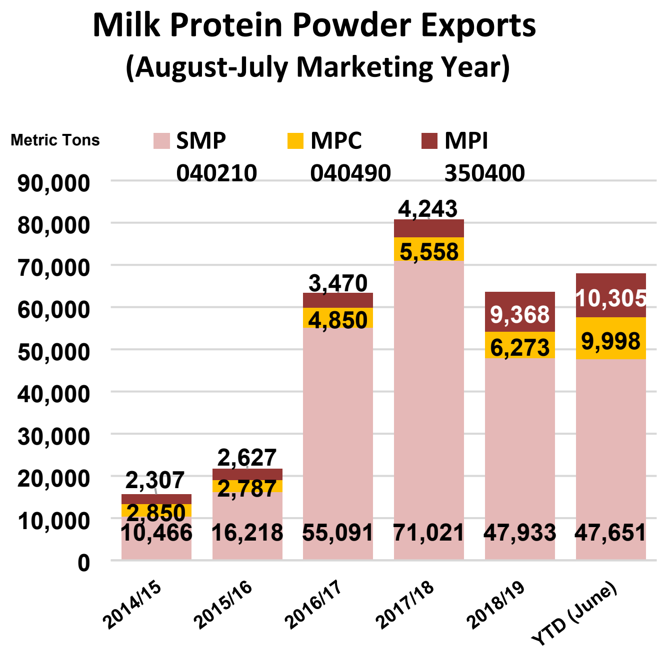
Despite early processing disruptions, Canadian pork exports remained strong through the first half of 2020 with shipments to China more than 50 percent higher than the same period in 2019, as Chinese production continues to recover from the effects of African Swine Fever. Chinese purchases of Canadian pork through June have been strong enough to outpace shipments to Canada's long-standing, top two export markets: the United States and Japan. Meanwhile, Canada has imported more pork from the United States in 2020 to cover Canadian demand, largely insulated from the COVID-related contraction in foodservice, as the strong export pace has pushed more Canadian pork overseas.

Poultry and Eggs

Production of poultry and eggs declined during the first half of the year, as a result of lower demand due to the closure of the food service sector. A portion of eggs destined for processing were diverted towards the retail sector, while prices for certain poultry cuts, like chicken wings, plummeted triggering a surge in volumes of product placed in cold storage for later consumption. As the Canadian economy reopened, consumers flocked to rotisserie chains and fast food restaurants, where poultry items feature prominently. Strong demand from more frequent 'dining-in' coupled with the summer barbeque season helped to drive poultry production back to levels closer to what would have been expected for summer 2020, absent COVID-19.

Canadian exports of poultry and eggs increased by 8 percent through the first half of 2020 compared to the same period in 2019, largely due to a weaker Canadian dollar. With overall demand for poultry and eggs weakened by the pandemic and with ample domestic supplies, FAS/Canada does not expect imports to return to pre-pandemic levels in the second half of 2020.

Dairy
The closure of the foodservice sector at the onset of the COVID-19 pandemic drove down overall demand for dairy products (particularly for cream and cheese), which was only partially offset by increased retail demand for fluid milk, yogurt, and butter. The gradual reopening of the economy since May has bolstered demand for dairy products, however production levels have not yet returned to their pre-COVID trajectories.



Marketing year-to-date, Canada's exports of dairy products have increased nearly 35 percent over the same period in 2019, driven by various milk protein and whey powders. While weaker demand for infant formula and butter helped push total dairy imports down slightly, imported cheese volumes rose through the first half of 2020 due to expanding quota levels under the Comprehensive Economic and Trade Agreement (CETA) with the European Union and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Entry into force of the United States-Mexico-Canada Agreement (USMCA) on July 1, 2020, is expected to push Canadian cheese imports even higher in the second half of 2020.

Grains
With COVID reaching Canada just before planting season, early concerns centered on possible disruptions of seed, fertilizer and crop protection product delivery. However, as supply chains remained resilient during COVID, planting decisions were not noticeably affected by input availability. Increased demand for flour and pasta during the COVID-era have sustained prices for Canadian hard red spring wheat varieties as well as durum, while lower demand for and production of ethanol has limited corn deliveries and created cash flow challenges for Canadian corn producers. Barley producers' have faced similar challenges as beer consumption has fallen further due to disruptions across the foodservice sector during COVID.

COVID disrupted logistics operations and transportation facilities in key export markets early on, and COVID drove a prolonged shortage of shipping containers. However, as Canada's petroleum industry contracted during COVID, less competition for rail service and backlogs from transportation disruptions earlier in the crop year helped to push wheat, flour and wheat product exports through June nearly 25 percent above the three-year average, including monthly record high exports in May 2020.

Oilseeds

Having overcome the same concerns regarding access to crop inputs early in the planting season, COVID has not had as significant an impact on Canada's oilseeds sector as other factors, including successive years of inadequate precipitation in Manitoba and Saskatchewan. Insufficient moisture in the prairies had been driving soybean area lower even before bulk soybean shipments to China fell off in late 2018 and before COVID-19 depressed demand for cooking oils around the world as foodservice activity contracted. Meanwhile canola area planted was down in 2020 on lower prices, uncertain demand, trade uncertainty, and continued agronomic and meteorological challenges. China's suspension of Canada's two largest canola handlers' export licenses since 2019 has had a greater impact on the canola sector than COVID to-date.

Biofuels

While a biodiesel plant in Quebec stopped production entirely in April, remaining biofuel plants were operating in the 50-70 percent capacity range early on during COVID. Biofuel production has since recovered, as export demand picked up in the EU (ethanol) and the United States (biodiesel).[1] In May, Quebec and Ontario experienced a 60 percent decline in gasoline demand, reflected in a lower demand for ethanol. While some biofuel facilities have been approved to produce alcohol for hand sanitizers, such production is less profitable than fuel grade ethanol as hand sanitizer inputs require additional processing and come with corresponding higher production costs.

Ethanol exports have risen sharply, breaking back-to-back monthly records in May and in June, reaching 15.6 million 17.0 million litres of pure alcohol, respectively. Certification of one Canadian plant under the EU's Renewable Energy Directive (RED) has supported growing ethanol exports to the Netherlands, pushing more U.S. ethanol exports to Canada to backfill behind Canada's increased exports. Canadian imports of biodiesel have been flat during COVID, while exports to the United States (representing 99 percent of the total) have continued to grow in response to strong U.S. demand.

Fruit & Vegetables

Canada's produce sector was among the first agricultural industries to feel the brunt of COVID-19, as flows of temporary foreign workers (TFW) halted in March. However, the Government of Canada responded quickly to facilitate TFW travel and has provided more than $65 million USD to offset costs associated with mandatory COVID-19 quarantine measures for inbound international travelers. Estimates have placed 2020 agricultural TFW entries into Canada at around 80 percent of 2019 numbers, and the growing horticulture industry had expressed that 2019 levels were not sufficient to satisfy labor demand in 2019. Widely publicized COVID-19 outbreaks among TFWs on vegetable farms further affected available labor supplies, temporarily disrupting new arrivals and resulting in greater scrutiny of on-farm conditions.

Field vegetable area planted in 2020 has been reported lower across a number of commodities, with reports of large amounts of early harvest crops, such as asparagus, being plowed under due to a lack of

[1] Virtually all of the biodiesel produced in Canada is exported to the United States to benefit from the U.S. blenders credit.

harvest labor. The shuttering of foodservice operations had an almost immediate impact on Canada's potato industry, as frozen processed products quickly filled available storage and uncertainty surrounding future foodservice demand caused some 2019/20 crop year contracts to be broken and some 2020/21 crop year contract volumes to be as much as 30 percent lower. Foodservice demand has rebounded quicker than expected, but after planting decisions were made, which could result in Canada importing potatoes later in the 2020/21 crop year to meet processing demand. Potatoes aside, vegetable trade flows between the United States and Canada have been moving at levels that would have been expected absent COVID, demonstrating the resilience of the industry.

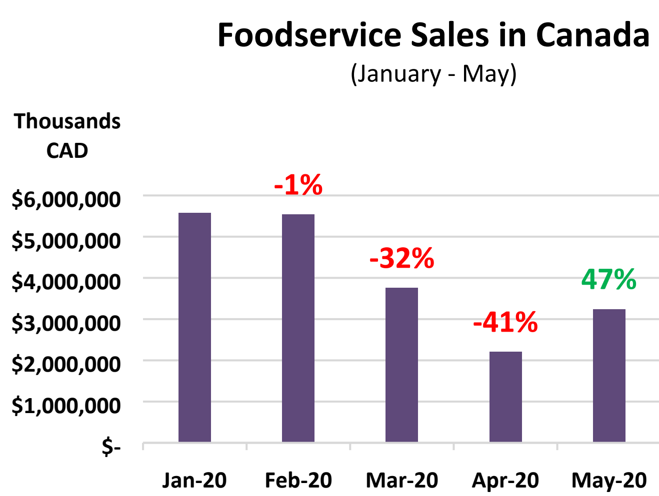
As with the vegetable sector, labor availability has affected Canadian fruit growers' outlook for 2020, with demand for TFWs greatest among those crops that require manual pruning and harvesting. While area in production is less likely to be affected than vegetables, due to the perennial nature of the crops, harvest workforce numbers could place an upper limit on production volumes in 2020. Trade data on Canada's 2020 fresh fruit crop is not yet available for major fruit crops, such as blueberries and apples, given the growing season in Canada.

Food Processing

The food processing sector has been hit hard by the COVID-19 pandemic, not only in terms of workers contracting the virus and associated plant closures, but also in terms of supply chain disruptions, access to inputs and labor, and increased costs associated with purchasing personal protective equipment (PPE) and the implementation of newly mandated public health/safety measures. Despite a $60 million USD federal Emergency Processing Fund to defray costs of PPE and new health protocols, the food processing industry estimates the overall costs associated with COVID-19 at more than $600 million USD, not including billions of dollars sales lost during the period. Canada's exports of processed foods (excluding meat, poultry, and dairy) increased by 1 percent during the first half of 2020, while imports remained flat compared to the same period in 2019.

Foodservice

Though Canada's foodservice sector was on track to top $73 billion USD in sales in 2020 before COVID-19, the national restaurant industry association estimates 2020 losses of between $15 and $35 billion USD. Foodservice sales fell sharply in March, as provincial authorities imposed COVID-related measures, including the closure of non-essential businesses, local and international travel restrictions, and measures to limit public interactions. In May, the first provinces gradually allowed restaurants and bars to reopen at reduced capacity and under strict social distancing and public health protocols. While restrictive measures



remain in place across Canada, food service sales continue to recover as Canada has kept COVID case counts low across the country fueling consumer confidence. Foodservice and drinking establishment sales increased 47 percent month-over-month to $3.2 billion in May 2020.

Retail

Retailers were forced to adapt quickly to unprecedented consumer demand (e.g., panic buying and stockpiling) and equally unprecedented operational demand (e.g., e-commerce, crowd control, sanitizing, etc.) at the beginning of the pandemic. Retail grocery sales during the week ending March 21 rose 40 percent over the same week a year earlier. As consumers pivoted to online shopping, e-commerce grocery sales doubled between February and May 2020 – albeit from a small base of less than 5 percent of total retail grocery sales. One consequence of the rapid transition to higher levels of e-commerce sales was Walmart Canada's July announcement of a 5 percent "e-commerce development fee" for products sold on its online platform as well as a 1.25 percent "infrastructure development fee" on all goods it purchases to offset the costs of new distribution centers needed to support higher e-commerce sales volumes. While government regulatory flexibility helped to ease the massive redistribution of foodservice products to retail channels early in the pandemic response, the phased re-opening of foodservice establishments from May helped restore stability to food supply chains. New COVID case counts, limits on out-of-home activities, and fears of a second wave will continue to drive retail sales growth and patterns through the remainder of 2020.

Attachments:

No Attachments.