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This Week in Canadian Agriculture, Issue 12 2002

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Report Highlights:

"What's New, Eh?" * Canada Listed in U.S. Trade Barriers Report * Canada Confident it Will Win in Softwood Lumber Dispute * ITC Announcement Terminates Anti-Dumping Case on Canadian Greenhouse Tomatoes * U.S. Fresh Tomatoes Hit with Anti-Dumping Duty * CWB Director Calls for Limited Marketing Exemptions * CWB Raises Initial Payments for All 2001/02 Pool Accounts * Saskatchewan Plans to Develop Ethanol Industry * CWB Directors Hear Concerns at Accountability Meetings * CWB Reports More Pricing Options for Canadian Wheat * Survey Indicates Drop in Canada's Canola Acreage * CGC Reports Top Customers of Canadian Wheat for 2000/01 * Quebec Stabilization Program to Cover Canola * Ontario Calls for Dispute Panel in Quebec Margarine Battle * Pepsi Buys PEI's Seaman's Beverages Ltd. * ... and MORE!!

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1], CA

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. Substantive issues and developments are generally also reported in detail in separate reports from this office.

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.

EDITOR'S NOTE: DUE TO TECHNICAL DIFFICULTIES WITH OUR OFFICE'S NETWORK EQUIPMENT, WE WERE UNABLE TO SEND OUT "THIS WEEK IN CANADIAN AGRICULTURE" LAST WEEK.

CANADIAN POLICIES CITED IN TRADE REPORT: Canada's was among 52 countries and three trading blocs cited in this year's National Trade Estimate Report on Foreign Trade Barriers released this week by USTR. For agriculture, the report cites Canada for the Canadian Wheat Board's export monopoly and other trade barriers that impede access to the Canadian market for U.S. products including import policies governing supply-managed products, wine and spirits, and other horticulture and grain products. In the forest sector, the report cites Canada for subsidized timber-cutting regimes which have provoked punitive U.S. duties. For a copy of the report go to: www.ustr.gov

CANADA CONFIDENT IT WILL WIN IN SOFTWOOD LUMBER DISPUTE:

Canadian trade minister Pierre Pettigrew called the Department of Commerce duties on softwood lumber "punitive" and said that Canada will move ahead formally with its NAFTA challenge. For more information on the Canadian reaction to the Department of Commerce final determination on softwood lumber duties, see GAIN report CA2031.

ITC ANNOUNCEMENT TERMINATES ANTI-DUMPING CASE ON CANADIAN GREENHOUSE TOMATOES:

On April 2, 2002 The United States International Trade Commission (ITC) announced that the U.S. tomato industry is not materially injured or threatened with material injury by reason of imports of greenhouse tomatoes from Canada that the Department of Commerce has determined are sold in the United States at less than fair value.

As a result of the Commission's negative determination, no antidumping duties will be imposed on imports of this product from Canada. Last week, the Canada Customs and Revenue Agency imposed provisional anti-dumping duties averaging 22% on U.S. fresh field-grown tomatoes (excluding those for processing) in the tit-for-tat tomato trade action chronicle (see below). With the U.S. penalties on Canadian tomatoes now lifted, there is speculation that support for permanent action against U.S. tomatoes will diminish.

U.S. FRESH TOMATOES HIT WITH ANTI-DUMPING DUTY: On March 25, 2002 the Canada Customs and Revenue Agency (CCRA) announced a preliminary determination of dumping

against U.S. fresh field-grown tomatoes (excluding those for processing) and has applied provisional anti-dumping duties on U.S. tomatoes averaging 22%. The decision follows an investigation started by the CCRA on November 9, 2001, after receiving a complaint filed by the Canadian Tomato Trade Alliance. The complainant is alleging that the dumping of the goods in question is causing harm to Canadian production. Harm is alleged in the form of reduced income and lost incentive to expand and upgrade production facilities in a growing market. Now that a preliminary anti-dumping determination has been made, the Canadian International Trade Tribunal (CITT) will continue its inquiry and hold public hearings into the question of material injury to the Canadian industry resulting from the dumped imports. The CITT is required to make a finding within 120 days. For more information, see CA2032.

MORE GOOD NEWS FOR ONTARIO TOMATO INDUSTRY: Heinz Canada has announced plans to relocate production of 1.2 million cases of canned tomato pasta sauce from a Borden Montreal facility to the Heinz Leamington plant. The Company will make a C\$3 million capital investment to move equipment from Montreal and re-install it in Leamington. Heinz will also spend an additional C\$1.3 million to install a new tomato paste filler which will extend the plant's production capabilities for seasonal tomato products. According to James Krushelniski, Heinz Canada President and CEO, "This is a significant investment not only for Heinz and its employees, but also for Ontario tomato growers and the local community." Based in Toronto, Heinz Canada has 2,000 employees and more than 500 seasonal staff at its manufacturing facilities, head office and sales offices across Canada. Heinz Canada's Leamington plant - one of the largest production facilities in the world for Heinz products - provides a wide range of products including ketchup, chili sauce, tomato juice, jarred baby foods, infant cereal, canned beans and pasta, and vinegar. With the addition of the Catelli, Bravo and Gattuso pasta sauces, total canned production at Leamington will grow to more than 23 million cases or an increase of 5.4%. Heinz purchased the Borden Foods business in 2001 and acquired the Catelli, Classico, Gattuso and Bravo brands of pasta sauces as a result.

CWB DIRECTOR CALLS FOR LIMITED MARKETING EXEMPTIONS: According to the March 25 edition of *Agriline Daily*, Rod Flaman, one of two Canadian Wheat Board (CWB) Directors elected on a pro-choice platform, has proposed that the CWB issue certificates that would allow producers to market some grain outside of the CWB. Such a plan would allow producers to pool certificates to start up value-added ventures. The proposal has not been discussed yet with the rest of the Board of Directors. In Ontario, the Ontario Wheat Producers Marketing Board allows producers to market 300,000 metric tons of wheat directly, or roughly 25% of Ontario's annual wheat production.

U.S. WHEAT VARIETY RECEIVES CANADIAN INTERIM REGISTRATION: *Agriline Daily* also reported that a new U.S. wheat variety called Aslen, developed by North Dakota State University, has received one-year interim registration. Aslen, with moderate resistance to fusarium, is being marketed by Canterra Seeds. It could be commercially available in 2003.

CWB RAISES INITIAL PAYMENTS FOR ALL 2001/02 POOL ACCOUNTS: The CWB announced on March 21 increases to the 2001/02 initial payments for wheat, durum wheat, feed and designated barley effective March 26, 2002. Farmers receive initial payments when they deliver their wheat and barley as an advance on the total returns from the sale of their grain. The increase in initial

payments for wheat will range between C\$8.15 and \$20.25 per tonne, depending on class, grade and quality. In the case of durum, the increase will be between C\$15.30 and \$21.50 per tonne. Feed barley will rise by C\$7 per tonne. The increase for two-row designated barley will be C\$10 per tonne and C\$9 per tonne for six-row designated barley.

SASKATCHEWAN PLANS TO DEVELOP ETHANOL INDUSTRY: According to the Saskatchewan provincial government, the province plans on implementing measures to grow a vibrant ethanol industry in Saskatchewan. In its "Greenprint for Ethanol Production in Saskatchewan," several key actions are outlined to create an environment for private sector development of an ethanol industry in the province. These actions include: (1) effectively eliminating the provincial fuel tax on ethanol produced and consumed in Saskatchewan by way of a rebate; (2) approving legislation to permit the mandating of ethanol-blended gasoline to be sold in Saskatchewan; (3) working with the federal and provincial governments to remove barriers on ethanol exports; (4) calling on the federal government to legislate a mandatory blending of ethanol gasoline in Canada; (5) working with ethanol producers to encourage the establishment of ethanol facilities in the province; and (5) working with wholesalers and retailers to develop a market for ethanol-blended fuel in Saskatchewan.

VANCLIEF APPOINTS NEW CANADIAN GRAIN COMMISSIONER:

According to a news release from Agriculture and Agri-Food Canada (AAFC), Lyle Vanclief, federal agriculture minister, announced the appointment of Ms. Chris Hamblin as Commissioner of the Canadian Grain Commission (CGC) for a six-month term. The appointment of Ms. Hamblin will ensure the consistency of leadership during the internal review of the CGC. The purpose of the review is to ensure that the CGC has the right tools and is adequately equipped to assist producers in this rapidly-changing environment. Ms. Hamblin actively farms on a grain and seed operation in Manitoba, and has been involved in a variety of industry-related organizations, including: Member, Farm Debt Mediation Appeal Board; Member, Western Grain Standards Committee; Member, AIDA Producer Review Committee; Director, 'Ag in the Classroom' of Manitoba; Director, Manitoba Rural Adaptation Council; and Producer Representative on the Premier's Economic Advisory Council, Manitoba. Ms. Hamblin currently resides in Morris, Manitoba.

VANCLIEF APPOINTS ASSISTANT CHIEF COMMISSIONER OF CGC: Minister Vanclief announced the appointment of Albert W. Schatzke as Assistant Chief Commissioner of the Canadian Grain Commission (CGC), for a term of six months. Mr. Schatzke has served as Commissioner since 1997. The appointment of Mr. Schatzke will ensure the consistency of leadership during the internal review of the Canadian Grain Commission. Mr. Schatzke operates a mixed farming operation in Alberta, and has been involved in various commodity groups. Along with his tenure as Commissioner of the CGC, he has held the positions of Director, Alberta Canola Growers Association; Director, Alberta Barley Growers Commission; Director, Alberta Forage Seed Council; and Director, Alberta Terminals Ltd. Mr. Schatzke currently resides in Stony Plain, Alberta.

CGC PLANS TO INCREASE SPENDING ON GRAIN QUALITY ASSURANCE

SYSTEM: The March 27 edition of *Agriline Daily* reported that Canadian Grain Commission plans on doubling its capital spending on its grain quality assurance system in 2002/03 to C\$3 million. Revenue from inspection, weighing, licenses and other fees is expected to rise 14% to C\$41.7 million from

C\$36.6 million in 2001/02. A deficit of C\$430,000 is forecast for 2002/03, up from the current C\$204,000.

CWB DIRECTORS HEAR CONCERNS AT ACCOUNTABILITY MEETINGS:

The ten farmer-elected Canadian Wheat Board (CWB) directors finished their series of accountability meetings with CWB farmers. The meetings were held at 41 locations throughout Western Canada, and directors met with over 3,500 farmers. According to the CWB, several concerns were raised: (1) Widespread personal hardships resulting from ongoing shortfalls in farm income; (2) Elevator closings and grain company consolidation limiting farmer delivery options; (3) Rail transportation costs that remain high in spite of promised reduction; (4) On-going trade action by the U.S. and the cost that it imposes on Prairie farmers; (5) Potential impacts of genetically-modified wheat on markets for Prairie grain; and (6) Activities and initiatives that the CWB can undertake to get more money into farmers' hands. CWB Board of Directors Chairman Ken Ritter said that "The CWB is committed to addressing these important issues. This includes bringing them to the attention of appropriate bodies like the federal and provincial governments, reporting back to farmers on the actions that we will be undertaking as well as continuing the dialogue with our stakeholders on these and other important matters."

CWB REPORTS MORE PRICING OPTIONS FOR CANADIAN WHEAT: The Canadian Wheat Board (CWB) reported that Fixed Price and Basis Payment contract values for the 2002/03 crop year were announced on March 28. On every business day until July 31, 2002, the CWB will post a fixed price and basis payment for each of the six classes of wheat (excluding durum) that are eligible for both programs. A fixed price for feed barley will also be announced daily. Fixed prices and basis payments are available on the CWB Web site (under the Payment section): <http://www.cwb.ca/publicat/pamp-ppo/index.shtml>

SURVEY INDICATES DROP IN CANADA'S CANOLA ACREAGE: According to the April 3 edition of *Good Morning Ontario*, a survey by growcanola.com indicates that "about 12% of Canadian farmers intend to grow 15-20% more canola this year, 6% intend to grow 0-10% more, 28% intend to leave their area unchanged, 69% are expecting to reduce their area between 0-10% and 47% intend to grow 10-20% more less area." Growcanola.com says that this information would point to a seeded area of about 3.678 million hectares (9.089 million acres). If average yields are assumed, farmers would produce about 5.213 million tonnes. This compares with 01/02 production of 5.062 million. Growcanola.com says it admits that its survey is "not a statistically defensible survey (the only survey which is statistically defensible is from Statistics Canada)." It is aware that actual planting often end up higher than original intentions, at least traditionally. Growcanola.com says "until we get a better feeling for how dry the soil is this spring, we will continue to use our current area estimate of 3.885 million hectares (9.6 million acres), which is unchanged from a year ago."

CGC REPORTS TOP CUSTOMERS OF CANADIAN WHEAT FOR 2000/01:

According to Canadian Grain Commission figures for the 2000/01 crop year, the countries importing the largest volumes of Canadian wheat and durum this past crop year were Iran at 1.651 million tonnes, followed closely by Japan with imports of 1.591 million and the United States at 1.448 million tonnes. Algeria was next at 1.346 million and rounding out the top five was

Mexico with imports of 1.158 million tonnes. During the past year, Mexican imports of Canadian wheat grew by 344,000 tonnes.

PRECIPITATION LEVELS STILL DRY IN W. CANADA, SAYS CWB: The Canadian Wheat Board (CWB) reported that although certain parts of the Prairies received above normal precipitation during the month of March, central and western Saskatchewan, eastern Alberta and eastern Manitoba all reported amounts significantly less than normal. For the year to date, precipitation is still well below normal over most of the Prairie region. Southern and northeastern Alberta and western Saskatchewan have experienced extremely dry conditions this winter, among the ten driest on record.

QUEBEC STABILIZATION PROGRAM TO COVER CANOLA: *Good Morning Ontario* also reported that La Financiere agricole du Quebec, the provincial farm finance and insurance agency, has announced that canola will be eligible for coverage under its revenue stabilization program (ASRA) in the 2002-03 insurance year, similar to the coverage given now for wheat, oats, barley, corn and soybeans. Ag Minister Maxime Arseneau says canola acres in Quebec have dropped off in recent years as the market price fluctuated, from 12,000 hectares in 1999 down to 6,000 hectares in 2000 and 5,000 seeded hectares in 2001. ASRA is meant to protect farmers against price fluctuations, triggering a payment when prices fall below a set level based on cost of production.

ONTARIO FARMERS TO GET \$80 MILLION THROUGH EXTENDED MARKET REVENUE INSURANCE: According to an announcement from the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA), Ontario grain and oilseed farmers will receive about C\$80 million for the 2001 crop year through an extended Market Revenue Insurance (MRI) program agreement with the federal government. "We have once again shown our government's commitment to our farmers and to the principles of a 'Made-in-Ontario' safety net system. Ontario's position is clear, we need a package of safety net programs that will not only boost competitiveness but will eliminate ad hoc payments" said provincial agriculture minister Brian Coburn. OMAFRA expects to flow some C\$40 million to eligible farmers under the MRI program by the end of April. This will provide the grain and oilseed sector with transitional assistance before spring planting. The Market Revenue Insurance program, originally slated to end with the 2000 crop year, has been extended for the 2001 and 2002 crop years. It is designed to provide some measure of stability to producers of grains and oilseeds when market prices fall below an averaged support price. For the 2000 crop year, \$122 million was paid to Ontario producers under the program.

CORN PRODUCERS CALL ONTARIO ANNOUNCEMENT "SMOKE AND MIRRORS": According to the Ontario Corn Producer's Association (OCPA), Ontario's corn producers are shocked at the efforts of the Ontario government to portray an April 1st funding announcement of 85% price support for the next two years as a positive development in addressing the funding crisis facing the industry. In reality the agreement is the "minimum" required by both levels of government in funding the Market Revenue Insurance Program and the Ontario government doesn't pay a cent of new money. Ontario corn producers had already indicated to the Ontario government that the two-year offer, for 85% support, made by the federal government on January 23, 2002 was no improvement, but in fact a 75% cut in support from the 2000 crop year. Ontario corn producers,

disappointed with the federal announcement, asked the Ontario government to top-up the 85% offer to assist farmers facing financial uncertainty, but Minister Coburn's announcement failed to meet the needs of his constituents. Quebec, which values its agriculture industry, does manage to provide a much higher level of support for farmers than Ontario.

ONTARIO CALLS FOR DISPUTE PANEL IN QUEBEC MARGARINE BATTLE: The *Globe and Mail* reported on March 26 that the province of Ontario has turned up the heat in the dispute over Quebec's long-standing refusal to lift a ban on butter-colored margarine by asking to put the issue to a dispute settlement panel. After more than four years of talks with the Quebec government that didn't appear to be going anywhere, a decision was made last week to go the dispute settlement route, said a senior trade policy adviser with OMAFRA. "Last week, we informed Quebec that -- whereas in the past we had gone through consultations with officials and ministers to try and resolve the issue -- those efforts had not brought us any closer to a solution," the official said in an interview. Ontario's action, under provisions of the 1994 Agreement on Internal Trade (AIT), comes just as food and soap giant Unilever Canada Ltd. challenges Quebec's ban in court. The regulation prohibiting butter-colored margarine is discriminatory, protectionist, and contravenes interprovincial and international trade rules, Gerald Tremblay, the lawyer for Toronto-based Unilever, argued before three judges of the Quebec Court of Appeal yesterday. "It is an obstacle to trade," he said. Under the 15-year-old regulation enacted to protect Quebec's 10,000 dairy farmers, the province has prohibited margarine producers from tinting their product the same pale yellow hue as butter.

'HEALTH FOODS' LEAD RECALLS IN MARCH: According to an article in the *Globe and Mail*, almost half of serious food recalls in Canada during the current month were for "all-natural" and organic products. The paper reported that of the 21 Class 1 (serious) food recalls so far in March 2002 by the Canadian Food Inspection Agency (CFIA), 10 have been for self-described organic or natural products, and an 11th was for bean sprouts. CFIA officials reportedly suggested that the number of recalls in the category may be related to the increased use of the words "organic" or "all-natural" on the product packaging. Anecdotal evidence suggests that Canada's organic food market accounts for about 1-2% of total annual Canadian food sales.

THE U.S. COMPANY, WHOLE FOODS MARKET, an organic and natural foods grocer, has picked Toronto, Ontario for its first foreign store and is considering opening another in Vancouver, British Columbia. Growing sales of organic foods in Canada lured the company north of the border. A recent study by the Canadian government showed that sales of organic foods have grown 15% in the past few years. Whole Foods' 3716-square-meter store will open in May in downtown Toronto's Yorkville district, home to some of the city's most expensive restaurants and boutiques. Whole Foods estimates the value of the U.S. Canadian organic food market at US\$10 billion annually.

PEPSI BUYS P.E.I.'S SEAMAN'S BEVERAGES LTD.: The Pepsi Bottling Group, Inc. announced this week that it has signed a Letter of Intent to acquire Canadian bottler Seaman's Beverages Limited of Prince Edward Island. "We are very pleased to add this bottling operation to our existing Canadian territories," said John T. Cahill, CEO. "The Seaman family has not only built a strong bottling business over the past six decades, but also demonstrated a strong commitment to their employees and the local community. We intend to build on the strength of this

business, while respecting the culture and regulatory environment of Prince Edward Island." Seaman's Beverages was founded by F. Rundell Seaman in 1939. P.E.I. is one of the few jurisdictions in North America that does not permit the sale of soft drinks in cans under strict environmental regulations. As a result, the Seaman beverage bottles are a familiar sight in Island stores.

CALIFORNIA WINE FAIR 2002 TOURS CANADA: The Wine Institute of California kicked off it's 22nd annual wine fair in Canada, on March 1, 2002, in Vancouver. This is the largest tour of its kind, reaching an audience of over 8,000 members of the wine trade and consumers. Other dates of the tour include: March 7, Regina, Saskatchewan; April 10, Toronto, Ontario; and April 11, Ottawa, Ontario.

Did You Know... that according to Agriculture and Agri-Food Canada, 1.6 million tonnes of vegetable oil was produced in Canada In 1999/200. Canola oil accounted for 79% of production and soybean oil about 18%. Flaxseed, mustard seed and sunflower seed oils made up balance.

Recent Reports from FAS/Ottawa:

Report Number	Title of Report	Date
CA2029	Forest Industry Profitability Declines Significantly in 2001	03/21/2002
CA2030	This Week in Canadian Agriculture, 11	3/22/2002
CA2031	Canada Launches NAFTA Challenge Following U.S. Final Determination on Softwood Lumber	3/25/2002
CA2032	Preliminary Determination of Dumping Against U.S. Tomatoes	3/26/2002

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