



Voluntary Report - public distribution

Date: 1/9/2003

GAIN Report #CA3003

Canada

Agricultural Situation

This Week in Canadian Agriculture, Issue 1 2003

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Report Highlights:

Canada Announces Mandatory Nutrition Labeling * Record Feeder Cattle Exports to the United States * Canada Temporarily Suspends Poultry Meat Imports from California
* Health Canada Releases Report in Response to Biotechnology Expert Panel Report
* Monsanto Canada Seeks Approval for Roundup Ready Wheat * CWB Restates
Opposition to Roundup Ready Wheat * Goodale Calls U.S. Wheat "Inferior" * Reaction
to U.S. Softwood Proposal * Canada Announces Support for Canadian Softwood Lumber
Associations * Vietnam; a New Market for Canadian Livestock
...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.

CANADA ANNOUNCES MANDATORY NUTRITION LABELING: With a notable exemption for fresh fruits and vegetables, almost all U.S. exports of packaged foods to Canada will be required to comply with Canada's new mandatory nutrition labeling regulations announced last week by Health Canada. During a transitional period of between three and five years, depending on the size of the food manufacturer, most food labels will be required to carry a mandatory Nutrition Facts table listing Calories and 13 key nutrients. The new regulations make nutrition labeling mandatory on most food labels; update requirements for nutrient content claims; and permit, for the first time in Canada, diet-related health claims for foods. U.S. food products exported to Canada must meet the same labeling requirements as foods produced in Canada. U.S. food manufacturers will have the same transition time to comply with the new nutrition labeling requirements. Certain foods and beverages are exempted from the new labeling requirements, for example, fresh fruit and vegetables and raw single ingredient meat and poultry that are not ground. Diet-related health claims pertaining to reducing the risk of heart disease, cancer, osteoporosis and high blood pressure will be allowed for the first time in Canada. Further information is available from Attaché report CA3001 or from the following Health Canada webpage:

http://www.hc-sc.gc.ca/hpfb-dgpsa/onpp-bppn/labeling-etiquetage/index_e.html

RECORD FEEDER CATTLE EXPORTS TO THE UNITED STATES: Anne Dunford, Senior Market Analyst with CanFax, a private market research service, says weather was a big factor in the Canadian cattle industry in 2002 where situations ranged from severe drought to too much moisture that resulted in increased livestock feed prices. A lack of profitability in the feedlot sector carried through the entire year. "Some of us were anticipating fall calf prices would be lower than what actually materialized," states Dunford. "One of the outlets that was much stronger than originally anticipated was the fact U.S. buyers were able to come in and really put a solid floor on feeder cattle and calf prices. As a result, 2002 will go down as the largest export of feeder cattle out of Canada in history." The number of feeder cattle and calves that moved from Canada to the US in 2002 reached 450,000 head, an all-time record. This is well ahead of the 190,000 head that went south in 2001. On the import side, only about 10,000 head of U.S. feeder cattle and calves were imported into Canada this year. This is well down from the 170,000 head imported in 2001.

CANADA TEMPORARILY SUSPENDS POULTRY MEAT IMPORTS FROM CALIFORNIA DUE TO DISEASE OUTBREAK: The Canadian Food Inspection Agency has suspended imports of poultry meat and poultry meat products from California until mid-January 2003 as a

temporary measure while U.S. animal health officials implement control measures for Exotic Newcastle Disease. Officials with the California Department of Food and Agriculture and the Animal and Plant Health Inspection Service are conducting an eradication campaign for Newcastle disease, a contagious and fatal viral disease affecting all species of birds. The disease was confirmed on October 1, 2002, and has now spread beyond backyard flocks to affect three commercial operations in California. In an effort to protect the poultry resources of other countries, USDA is not issuing export certificates from quarantined zones.

ANALYST PREDICTS HOG PRICE RISE OF 12-15% IN 2003: Manitoba Agriculture's Chief of Market Analysis and Statistics, Janet Honey, recently told Farmscape, a daily industry information feature presented by Sask Pork that Canadian hog market prices could average 12-15% higher during 2003. Honey said that depending on how many hogs are exported from Canada and on whether carcasses are lighter than last year, as expected, Canadian pork production could be down by 1.5 - 2.0% this year. "With less pork and steady demand, higher hog prices for 2003 are very probable. Going from the first quarter, prices will increase quite dramatically in the second and third quarters, up by about 20% from 2002 and then for the fourth quarter we're looking at prices maybe 25% higher than they were last year" said Honey.

HEALTH CANADA RELEASES REPORT IN RESPONSE TO BIOTECHNOLOGY EXPERT PANEL REPORT: Health Canada released its December 2002 progress report regarding the action plan of the Government of Canada in response to the Royal Society of Canada Expert Panel Report *Elements of Precaution: Recommendations for the Regulation of Food Biotechnology in Canada*. Health Canada, the Canadian Food Inspection Agency (CFIA), Agriculture and Agri-Food Canada (AAFC), Environment Canada and the Department of Fisheries and Oceans have already published two progress reports on the Action Plan in Response the Royal Society of Canada Expert Panel Report. This third progress report provides detailed technical information regarding the key milestones achieved for each of the different actions underway for which the reporting date of December 2002 was identified in either the action plan or the progress reports released in January 2002 or May 2002. Subsequent progress reports will be published in June and December 2003 in combination with updates on the implementation of the recommendations of the Canadian Biotechnology Advisory Committee's (CBAC) report entitled *Improving the Regulation of Genetically Modified Foods and Other Novel Foods in Canada*. These Canadian departments and agencies are drafting a detailed response to CBAC's report and in finalizing a response will be engaging the Chair of CBAC as well as the co-chairs of the GM Food Steering Committee in early 2003 to obtain their feedback. The final response will be published shortly thereafter. To view the entire progress report, visit: http://www.hc-sc.gc.ca/english/protection/royalsociety/progress_report_december.html

MONSANTO CANADA SEEKS APPROVAL FOR ROUNDUP READY WHEAT: According to the January 8th, 2003, edition of the *Winnipeg Free Press*, Monsanto Canada has formally asked Ottawa to approve the world's first genetically modified wheat, but the company vows not to market the controversial grain until enough wary buyers accept it. The biotech giant submitted its application to the Canadian Food Inspection Agency late last month. Information had already been sent to Health Canada and the Pest Management Review Agency. The agencies will assess whether Roundup Ready wheat is safe for human food, animal feed and the environment. Agriculture Canada collaborated with Monsanto on five years of field trials to prepare the

Canadian application. The company has also submitted data from lab tests. Federal regulators are expected to take two or three years to assess the application.

CWB RESTATES OPPOSITION TO ROUNDUP READY WHEAT: In a January 3, 2003 news release, the Canadian Wheat Board (CWB) said that due to the very real dangers of market loss posed by genetically modified (GM) wheat, the CWB opposes the introduction of GM wheat into commercial production in Canada until strict conditions are met. These conditions include providing positive cost-benefits for farmers and achieving widespread market acceptance. The CWB has studied the agronomic value of Roundup Ready wheat and, so far, sees no true agronomic benefits for farmers. As well, with about two-thirds of farmers' customers now on record saying they won't buy GM wheat, market acceptance is low. Monsanto is proceeding with the development and registration of a GM Roundup Ready variety of Canada Western Red Spring wheat - the class of wheat that comprises the majority of the CWB's sales. The CWB and other members of an industry working group recently released a discussion document, 'Conditions for the Introduction of Genetically Modified Wheat', that outlines a comprehensive set of conditions that must be met before GM wheat can be commercially grown in Canada. The document is available on the CWB's Web site at: <http://www.cwb.ca/en/topics/biotechnology/gmowheat.jsp>

INDUSTRY WORKING GROUP PROPOSES FEE FOR MODIFIED WHEAT: According to a January 2, 2003 article from the *Canadian Press*, a grain industry working group suggested that farmers who grow genetically modified wheat could be charged a levy to cover the costs of segregating it from conventional wheat. In a document released this week (see previous story) by a working group on genetically modified wheat, the levy is one option mentioned for sharing the expense of overhauling Canada's bulk grain-handling system. The levy also could act as an insurance fund to cover the costs of accidental contamination, the group says. Researchers estimate it could cost farmers an extra C\$4 a tonne to keep the high-tech wheat separate from conventional wheat to satisfy customers such as those in the European Union, who refuse to buy genetically modified crops. Monsanto Canada spokesperson Trish Jordan said working out the details of how to pay for segregation is a long way off, but she was not enthusiastic about a levy. Organic farmers and others not interested in growing genetically modified wheat argue that they should not have to bear the costs of segregating and monitoring wheat in elevators, rail cars and shipping containers. Other options listed by the group include federal government assistance, having Monsanto and other marketers of GM wheat cover segregation costs, or having all farmers share the costs through the Canadian Wheat Board. The working group also said there must be identified markets for the entire production of GM or co-mingled wheat for multiple years before it is approved.

SASKATCHEWAN FARMERS CUT THE AMOUNT OF CROP IN THE FIELD IN HALF: Saskatchewan farmers made some harvesting progress in November and December, according to a December 30 Saskatchewan Agriculture, Food, and Rural Revitalization news release. A supplemental issue of the Crop Report was published due to unusual weather patterns and harvest activity this fall. An unusual warm spell allowed farmers to return to their fields in many regions. A recent survey of crop reporters estimated about 1.7 million acres remain to be harvested. This is about one-half of the 3.8 million acres of crop yet to be harvested reported in the November 15 crop report summary for 2002. Over two-thirds of the crop still in the field is estimated to be in

northeastern and north central areas of the province. Crops with the highest percentage of the seeded area still in the fields include flax, canola, sunflowers, and canary seed.

CANADIAN FARMERS FORCED TO CUT FOREIGN AID: According to the January 6, 2003 edition of *Good Morning Ontario*, many Prairie farmers who normally donate some of their grain to developing countries say they're been hurt too hard by drought to give much, if anything, this year, says a report from the CBC. It bothers us," says Laurel Scheffelmaier who farms near Calmar, Alberta, southwest of Edmonton. "We have nothing to give ... You can't give what you don't have. It's been a tough year for a lot of farming people in our area." Officials say Canadian grain donations are down by a third, and that there's been a similar drop in other countries that usually contribute a lot of international food aid.

EX-ONTARIO WHEAT BOARD MARKETING MANAGER JOINS FC STONE: According to the January 7 edition of *Good Morning Ontario*, Jim Whitelaw, former marketing manager for the Ontario Wheat Producers Marketing Board and Ken Whitelaw, former marketing assistant with the board, have both joined FGDI, LLC (formerly Farmers Grain Dealers Inc.), a wholly-owned subsidiary of FC Stone Group, Inc. Both Ken and Jim are now grain merchandisers with FGDI and will handle all commodities, but will probably specialize in wheat. FC Stone is a member-owned cooperative that started in the U.S. to provide futures brokerage services for members. Currently, there are approximately 700 U.S. cooperatives and eight Ontario cooperatives that are member owners of FC Stone.

CFIA RESUMES ISSUANCE OF IMPORT PERMITS FOR UKRAINIAN WHEAT: The January 3, 2003 edition of *Agriline* reported that the Canadian Food Inspection Agency (CFIA) re-issued import permits for Ukrainian wheat that arrived in eastern Canada in December, 2002. The wheat, some of which was contaminated with dwarf bunt and flag smut diseases, will be pelletized.

GOODALE CALLS U.S. WHEAT "INFERIOR": According to the January 8, 2003 edition of *Agriline*, the minister responsible for the CWB, Ralph Goodale, said an issue in the U.S. attempt to gain access for U.S. wheat in the Canadian market could ruin Canadian wheat quality by mixing

"inferior" U.S. grains in the Canadian system. Goodale said that U.S. farmers can already sell in Canada under the 1999 Wheat Access Facilitation Program (WAFP), but non have done so.

REACTION TO U.S. SOFTWOOD PROPOSAL: According to the January 8, 2003 *Globe and Mail*, a spokesman for International Trade Minister Pierre Pettigrew was noncommittal about the plan, which is aimed at addressing the U.S. industry's accusation that provinces unfairly subsidize their lumber industries. "We will take the time to analyze this paper before making any interpretation or speculation about a resolution," said Sebastien Theberge. Carl Grenier, executive vice-president of the Free Trade Lumber Council, whose members account for about 40% of Canadian lumber exports to the United States, said the Aldonas proposals "come very close" to being a blueprint for U.S. control of Canadian forestry policies. "They're saying, 'Your system is wrong and you've got to fix it, and this is the way to make the problems disappear.' But we will also lose any control we've had over our forestry policies," he said. Forestry officials in B.C., which has the most to gain from any settlement because it accounts for nearly 50% of

Canada's U.S. lumber exports, were cautious. B.C. Forest Minister Mike de Jong said he looks forward to discussing the report's specifics when he and other federal and provincial officials meet with Mr. Aldonas in Toronto on Friday. "The devil is in the details." John Allan, president of the B.C. Lumber Trade Council, said, "We need to examine more carefully if the approach outlined in the paper represents commercial and market realities in Canada and the U.S.," said John Allan.

WTO PANEL ESTABLISHED IN CANADA-U.S. SOFTWOOD LUMBER DISPUTE:

According to a January 8, 2003 news release from the Canadian Department of Foreign Affairs and International Trade (DFAIT), the World Trade Organization (WTO) established, at Canada's request, a panel to hear Canada's challenge of the U.S. Department of Commerce's Final Dumping Determination relating to Canadian lumber imports. This is the fourth panel established by the WTO relating to the current Canada-U.S. softwood lumber dispute. The panel's establishment follows the U.S. decision to impose an average 8.43% dumping duty on all Canadian softwood

lumber exports to the United States. "We are confident this panel will find that the U.S. dumping determination is flawed," said Trade Minister Pierre Pettigrew. "Canada has always favoured a long-term negotiated resolution to the Canada-U.S. softwood lumber dispute, but only on a fair and reasonable basis. We will continue to pursue a negotiated solution along with our legal challenges." Canada is challenging the U.S. dumping determination based on its inconsistencies with the Anti-dumping Agreement, the 1994 General Agreement on Tariffs and Trade, and U.S. obligations under these agreements.

CANADA ANNOUNCES SUPPORT FOR CANADIAN SOFTWOOD LUMBER

ASSOCIATIONS: According to a December 23, 2002 news release from the Canadian Department of Foreign Affairs and International Trade (DFAIT), Trade Minister Pierre Pettigrew announced a C\$15-million assistance package for Canadian softwood lumber industry associations. The funding will help Canadian industry associations to continue to operate effectively under the burden imposed by the softwood lumber dispute. "The Government of Canada will continue to defend the interests of our industry, workers and communities in every possible way," said Pettigrew. "We are fully confident in our challenges of U.S. trade actions. However, we remain open to a negotiated resolution on a fair and reasonable basis. These measures will help Canada's industry associations until this dispute is resolved." Canadian lumber industry associations have played a key role in the softwood lumber dispute, providing detailed legal and policy advice in the development of the Government of Canada's challenges before the World Trade Organization and the North American Free Trade Agreement. The assistance package to Canada's lumber industry associations follows \$341.5 million in funding allocated in 2002 for three separate assistance measures for Canada's softwood lumber industry, communities and workers.

NEW FOREST INDUSTRY ASSOCIATION CREATED IN QUEBEC: According to a January 9, 2003 news release, the Québec Forest Industries Association (QFIA) and the Québec Lumber Manufacturers' Association (QLMA) have merged their activities into a new organization called the Québec Forest Industry Council (QFIC). "From now on, the majority of lumber manufacturers and pulp and paper companies in Québec will be members of one and the same entity. Our merging will make us an important driving force in this sensitive sector of Québec's

economy, especially in its regions" pointed out Jacques Gauvin, Executive Director of the new Québec Forest Industry Council (QFIC). The QFIC therefore becomes the main voice of Québec's forest industry. It will represent the vast majority of softwood lumber manufacturers, pulp and paper companies and board mills. The Council will champion the interests of these enterprises and encourage their contribution to socio-economic development, the integrated and sustainable management of forests and the optimal use of natural resources. The QFIC will work with government authorities, public and para-public bodies, organizations and the general public.

"Following the example of the QFIA and the QLMA, the new QFIC will continue to encourage responsible behaviour from its members with regard to the environmental, economic and social aspects of their activities" added Mr. Gauvin.

VIETNAM; A NEW MARKET FOR CANADIAN LIVESTOCK: According to the Canadian Food Inspection Agency (CFIA), Canada and Vietnam agreed to an Animal Health Protocol MOU in Ottawa in July 2002. At the MOU signing, several veterinary health certificates were finalized allowing the export of Canadian pork, breeding swine, porcine semen, bovine semen, bovine embryos, poultry meat, day-old chicks/hatching eggs and day-old poults/hatching eggs to Vietnam. According to the CFIA, Canada is one of a few countries to have signed a veterinary protocol for various animal products with Vietnam. Canada will reportedly organize technical seminars on meat processing technologies in Vietnam in March 2003.

Did You Know ...that according to the Wine Institute, Canadians and Americans ranked 35th and 36th respectively in per capita wine consumption, by country. Based on 1997 data, Canadians, at 7.39 liters per person, just edged Americans at 7.38 liters per person. The leaders?... Luxembourg, then France, each at over 60 liters per person.

Recent Reports from FAS/Ottawa:

Report Number	Title of Report	Date
CA3002	Impact of Country-Of-Origin Labeling in Canada	1/8/2003
CA3001	Canada Introduces Mandatory Nutrition Labeling	1/3/2003

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