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Report Highlights:
Canada's BSE Investigation; No Evidence Yet Beyond Single Cow * Canada Tightens Rules on Imports of Certain Beef from Non-NAFTA Suppliers * Potential CWB Pool Account Deficit * Minister Thinking about Name Change for CWB * Canadian Crop Conditions Good * Ontario Corn Production Outlook Lowered * Cabbage Seedpod Weevil Found in Ontario Canola * Mixed Industry Reaction on Softwood Lumber Export Quota & Tax Proposal * Louis Dreyfus Agrees to Run Churchill Facility ... 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.

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'S BSE INVESTIGATION; NO EVIDENCE YET BEYOND SINGLE COW: The Canadian Food Inspection Agency's BSE investigation has revealed no case of BSE (bovine spongiform encephalopathy) beyond the single Alberta cow. So far, all tests of animals on the case farm and trace farms have proved negative. There are 15 farms under quarantine and approximately 1,500 animals have been depopulated. On Tuesday, June 3, Canadian Food Inspection Agency reported to the U.S. Department of Agriculture's Animal and Plant Health Inspection Service, or APHIS, that their investigation showed that five bulls from one of the potential source herds in Canada were sold to a farm in Montana. Following up on this information, APHIS, along with Montana state veterinary officials, are in the initial stages of conducting investigation in an effort to determine the final disposition of these five animals.

CANADA TIGHTENS RULES ON IMPORTS OF CERTAIN BEEF FROM NON-NAFTA SUPPLIERS TO SUPPORT DOMESTIC INDUSTRY DURING BSE UNCERTAINTY: The GOC is requiring companies applying for supplementary imports of non-NAFTA beef and veal to check with at least five Canadian suppliers for their product needs before they are granted an import permit. The current policy requires companies to check with only two domestic suppliers. Supplementary imports are normally not be allowed if a Canadian supplier is able to meet the applicant's needs at prices that are competitive with prices of similar products imported into the United States. The new requirements will be in effect for all requests for supplementary imports received after May 20, 2003. *Comment: Canada has no quantitative limits on imports of U.S. beef, but non-NAFTA suppliers are limited by a tariff rate quota (TRQ) to 76,409 metric tons per year. In the January to May period of 2003, supplementary imports (beyond the TRQ) were approved (not necessarily entered) for 42,419 metric tons, a large increase over the rate last year. The GOC claims the new rule addresses the uncertainty brought on by the recent discovery of BSE in one cow in Alberta and reflect the government's commitment to supporting the Canadian industry through the BSE crisis. The major non-NAFTA suppliers are Uruguay, New Zealand and Australia.*

FAO SAYS BSE CASE NO NEED FOR PANIC: In a press release this week, the Food and Agriculture Organization of the United Nations said that the identification of a single case of BSE is not a cause for panic and that the discovery of the case proves that active surveillance and diagnosis programs are working. The FAO's Andrew Speedy, Animal Production and Health Division said "It is good news that odd single cases of BSE are being picked up by inspection. There has been no sign of an escalation of numbers in any of the countries that have identified isolated cases. Rather, it demonstrates that active surveillance is picking up the one-in-a-million case."

R-CALF CALLS FOR EXTENDED BEEF BAN FROM CANADA; NATIONAL CATTLEMEN'S BEEF ASSOCIATION APPLAUDS INVESTIGATORS: In response to Canada's single case of BSE, R-CALF USA, a national cattle producer association of about 8,400 cattle producers in 42 states, sent a letter to Members of Congress with a list of recommendations for the USG prior to reopening the United States-Canadian border to beef and cattle imports. Press reports indicate that R-CALF supports a seven year ban on Canadian beef and cattle. Meanwhile, the National Cattlemen's Beef Association, the marketing organization and trade association for American cattle farmers and ranchers, released a statement that supports what it termed the quick response of U.S. and Canadian animal health officials to the investigations surrounding the discovery of BSE in the Canadian cow.

MORE ON POTENTIAL CWB POOL ACCOUNT DEFICIT: Referencing the May 23 edition of *Agriline*, the June 2 version of *Agriweek* reported that the decline in the monthly Canadian Wheat Board (CWB) Pool Return Outlook (PRO) has dropped for the seventh consecutive months. Each successive reduction in monthly estimates, especially late in a very slow crop year when almost all of the CWB's business has been done, adds credence to talk that the CWB pre-sold large amounts of 2002 crop wheat before the start of the crop year, before prices shot up last summer, at very cheap prices. With two months left in the crop year, the Board has sold or committed over 90% of the year's volume. The newest pool prices for some types of wheat are very close to the CWB's initial payments, which were raised sharply last fall when the CWB elections were on. If there is any further decline, the main wheat pool could be in a deficit, meaning that the CWB paid farmers more than it received from sales, minus expenses. There is only a spread of 60 cents to $2 between initial payments and pool return prices for milling wheat; the widest spread for any wheat is $6 a tonne for feed. If there is a shortfall, the Board will likely cross-subsidize milling wheat returns from other types. There is about $45 a tonne to play with for the better grades of durum. Initial payments exceeded eventual returns in 1990/91 and 1985/86. Since 1991, the CWB can has unlimited discretion in calculating pool returns and final payments and can freely cross-subsidize to make up deficits. The alternative is to have the federal treasury make them up, which would be a subsidy.

GOODALE THINKING ABOUT NAME CHANGE FOR CWB: A May 22 article from the *Western Producer* reported that the Canadian Wheat Board (CWB) may be due for a name change, according to CWB minister Ralph Goodale. During a May 14 appearance before the Senate foreign affairs committee to respond to American trade challenges to the board, the Goodale explained that the CWB no longer is the government-controlled crown corporation it once was, but a corporation with 10 of 15 directors elected by farmers. British Columbia Liberal senator Jack Austin wondered if the name should be changed, since the term "board" suggests government control. Goodale responded that the name change issue has been considered. The CWB's foreign customers were asked and they said they would like to continue dealing with the name they are accustomed to, Goodale said. But he said the value of that market recognition may be surpassed by the benefit of a new name to reflect the board's recently legislated distance from the government. "We may be arriving at the point where Canada Grain Inc. might be more reflective of the reality," said Goodale.

AGRIWEEK CROP CONDITIONS: CROP REPORT: The June 2 edition of *Agriweek* reported

that crops are looking good throughout western Canada. Good weather last week allowed seeding to proceed rapidly and forecasts were for more of the same. Seeding is basically complete in Manitoba and should be finished in Saskatchewan by early next week and in Alberta by June 5. Topsoil moisture conditions are good to excellent and some of the worst dry areas of last year have received the most rain. Emergence is good and weed control is starting on the earliest fields. No insect problems have so far developed, probably because of the late and cold spring, but moderate to severe grasshopper infestations and the usual incidence of insect attacks on canola are expected. Right now everything points to average yields or better, though subsoil moisture is not ideal and crops will be vulnerable to midsummer heat waves. Ontario corn and soybean growers made some progress last week, but planting of both crops is one to two weeks later
than normal. Crops need warmer temperatures, which are predicted for the next few days. Winter wheat continues to do well and above-average yields from a record seeded area are expected.

SASKATCHEWAN CROP IS 91% SEEDED: Saskatchewan farmers have seeded the bulk of the 2003 crop, according to Saskatchewan Agriculture, Food and Rural Revitalization's weekly crop report. Seeding progress is now on par with the five-year average. Farmers in all areas of the province have made good progress, with all crop districts showing seeding completion averages of more than 80%. Some areas of the province are reporting normal levels of crop development, while others are behind for this time period. Most crops are emerging evenly and in good condition. Topsoil moisture conditions on crop land deteriorated slightly during the past week with hot, windy weather. However, 71% of reporters still rate topsoil moisture as adequate. On hay and pasture land, 64% of reporters rate topsoil moisture as adequate. Subsoil moisture is generally good throughout the province. Some reseeding is taking place due to wind, frost, uneven germination, and insect damage. Reporters indicate flea beetle and grasshopper populations are increasing in many areas.

ALBERTA CROP CONDITIONS: In Alberta Agriculture monthly crop conditions report as of May 26, after two consecutive dry years, the crop season began under more favorable moisture conditions this year. Provincially, surface moisture is currently rated as 5% poor, 15% fair, 30% good and 50% excellent. Rating for sub-surface moisture is 15% poor, 25% fair, and 60% good or excellent. Sub-surface moisture remains a concern in some areas of the North East and North West Regions. Snow and cool, wet weather during early May delayed seeding and crop emergence. Seeding progress in Alberta is estimated as 60% complete, about one week behind normal. Seeding is 80% complete for dry peas, 65% complete for canola and spring wheat, 50% complete for barley and 35% complete for oats. Due to damage from snow and frost, some fields have been reseeded in the Southern and Central Regions. Early seeded crops have emerged or are emerging. Cool temperatures during early May also slowed pasture and hay growth. Provincially, pasture and tame hay are rated as 20% poor, 25% fair and 55% good or excellent. Due to drought conditions during the 2002 crop season, establishment of forage crops seeded in 2002 is poor. Fall seeded crops are mostly rated as good or excellent in the Southern and Central Regions. Elsewhere, rating of fall seeded crops ranges from poor to good. Alberta's crop report is based on municipality level information provided by members of the Association of Alberta Agricultural Fieldmen and the Agriculture Financial Services Corporation (AFSC).

In a related May 28 Government of Alberta news release, as a result of the snowmelt and spring storms, soil moisture conditions throughout the province are the best they have been in more than four years and are even slightly better than the long-term average. There are excellent subsoil moisture reserves in southern and west central Alberta. Some concern still exists, however, about dry conditions in the east central, northeast and northern Peace regions. These areas will require timely and above average growing season precipitation to get average yields. Spring growing conditions are optimal across many parts of Alberta, according to the Alberta Agriculture's 2003 Spring Stubble Soil Moisture Map.

ONTARIO CORN PRODUCTION OUTLOOK LOWERED: According to the June 4 edition of *Good Morning Ontario*, Ontario's uncooperative spring weather has caused the outlook for corn to be downgraded. Ontario corn acreage for 2003/04 is now pegged at 1.80 million acres, says the Ontario Corn Producers (OCPA) in its June 3 supply-demand report. That is down from 1.88 in its April outlook and 1.925 in 2002/03. Production is now expected to reach 207.9 million bushels based on an average yield of 115.5 bu/ace. This is down from the April forecast of 217.1 million and 2002/03's of 217.7 million. As a result, 35.0 million bushels of corn will be imported from the U.S. into Ontario. Overall OCPA expects the Ontario corn supply to reach only 277.7 million bu. This is down from 290.3 million in 2002/03. Ending stocks will fall to 33.7 million bu. That is up from the April forecast of 30.3 million but still below last year's 34.8 million.

CABBAGE SEEDPOD WEEVIL FOUND IN ONTARIO WINTER CANOLA: According to the June 3 Ontario Ministry of Agriculture and Food (OMAF) Crop Pest Report, cabbage seedpod weevil has been found in moderate to high numbers in winter canola. OMAF pathologists are warning that Ontario canola fields should be carefully monitored to ensure that thresholds are not being reached. The cabbage seedpod weevil was first reported in Ontario in the fall of 2001 and has since been increasing in number and spreading in distribution.

B.C., QUEBEC LUMBER OFFICIALS BACK EXPORT QUOTA & TAX: According to the May 30 edition of the *Vancouver Sun*, chief executive officers from major companies in British Columbia and Quebec threw their support last week behind a new Canadian plan to resolve the softwood lumber dispute by imposing a transferable quota system on all Canadian lumber exports to the U.S. The Canadian plan is similar to the previous Softwood Lumber Agreement that expired in 2001. While Canadian officials said they would never return to managed-trade solution, two years of declining lumber prices, anti-dumping and countervailing duties, cut-throat competition and a climbing Canadian dollar, have changed attitudes. B.C. and Quebec lumber officials now believe that if a two-year quota deal can act as a bridge to true free trade in lumber, then the price may be worth paying. The Canadian plan would give provincial governments and companies the time they need to develop and adapt to new market-based timber pricing systems. The key elements of the proposal are: (1) No fee on up to 17.1 billion board feet of lumber a year; (2) A fee of $25 a thousand board feet for the next 950 million board feet; (3) A fee of $50 a thousand board feet for the next 950 million board feet, which would bring total shipments up to 19 billion board feet or 34% of the U.S. lumber market; (4) Any shipments above 19 billion board feet would pay a fee of $100 a thousand board feet. The Canadian proposal also suggests using $150 million of the estimated $1.5 billion in cash deposits already collected by the U.S. to fund a North American Lumber Trade Council to jointly market lumber and address joint issues that affect the industry. The remaining $1.35 billion would be returned to Canadian mills.

QUEBEC, ONTARIO, MANITOBA AND ALBERTA JOIN MARITIMES IN OPPOSING EXPORT QUOTA PROPOSAL: A May 30 *Canada NewsWire* article reported that the Canadian Lumber Remanufacturers Alliance (CLRA), representing Canada's independent lumber and wood products sector from Quebec, Ontario, Manitoba and Alberta, joined Maritime lumber producers in calling on Canada to withdraw the latest offer on interim measures to end the ongoing Canada-US softwood lumber dispute. Citing last week's WTO interim ruling, Ontario CLRA representative Jim Livermore said, "Under its latest offer to the US, our own government is proposing we stay in the dispute under interim measures. This is completely unacceptable to us." Alberta CLRA representative Bob Murphy said, "Alberta was not consulted; the Maritimes were not consulted; and we were not consulted on this proposal." "Canada's latest offer unfairly punishes us as a distinct sector of Canada's lumber and wood products industry. We are independent. We have no allegations of subsidy, and who buy our supply through market-based practices," said Jacques Cote, Quebec CLRA representative. "The Government of Canada and all provincial governments must stand up now and negotiate us out of this dispute. The federal government must stiffen its resolve, do the right thing, and insist on our full exemption." concluded Roslyn Nugent, Manitoba CLRA representative for the CLRA. The CLRA accounts for approximately 5% to 10% of Canada's traditional softwood trade with the US.

LOUIS DREYFUS AGREES TO RUN CHURCHILL FACILITY: The June 2 edition of the *Winnipeg Free Press* reported that Louis Drefus has come to the aid of the port of Churchill in a deal that will ensure the northern port continues operations this shipping season. The agreement involving Louis Dreyfus Canada is the missing financial link in a federal-provincial effort to help OmniTRAX, which owns the troubled port. Also to be announced is an agreement between OmniTRAX and the Canadian Wheat Board to increase its shipments through Manitoba's seaport.

Ottawa and the province had announced earlier this spring $2.2 million in funding to be used to both market the northern seaport and to help cover infrastructure costs, but OmniTRAX had not committed to keeping the port open. Churchill Mayor Michael Spence said his community has been buzzing as news leaked out that Louis Dreyfus is taking over management of the port facilities, and bringing new business with it. OmniTRAX spokesman Tom Henley said he could not comment on the involvement of Louis Dreyfus, except that after months of uncertainty the port will open for business this year. Henley said the first ship is expected to arrive in late June or early July. The deal between Louis Dreyfus and OmniTRAX is described as a strong partnership involving the management of the port and grain terminal. "You need to ship a lot of non-CWB crop to make it viable and that is why having a private company like Louis Dreyfus involved is significant because they deal in non-CWB grains," said another official. Last season, Churchill handled 280,000 tonnes of grain and other commodities; the port needs about one million tonnes to make a profit. The federal-provincial funding is targeting $1.8 million for infrastructure improvements to the port and Bay Line that runs south to The Pas and $400,000 to enhance marketing efforts through the Churchill Gateway Development Initiative.

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