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Report Highlights:

Salmon Stocks Low on Prince Edward Island * Canadian Ethanol Plants Need Federal Help * Ukrainian Wheat Rejected * Western Farmers Plan Additional Border Protest Against CWB * Sharp Rise in Number of Restaurant Meals * Dairy Prices Inflated by Millions of Dollars Annually * Canadian Dairy Products "A Good Deal" Proclaims Dairy Group * Cheese Shortage Reveals Canadian Dairy Products Not Such a Good Deal * Quebec Butter Ban Demanded * Canada Shipping BST-free Milk to U.S. * Canada a Loser in Free Trade, Poll Suggests

...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.

SALMON STOCKS LOW ON PRINCE EDWARD ISLAND: The Atlantic Salmon Federation (ASF), an international, non-profit organization that promotes the conservation and management of the wild Atlantic salmon and its environment with seven regional councils (New Brunswick, Nova Scotia, Newfoundland, Prince Edward Island, Quebec, Maine and New England) has released a report with the University of Prince Edward Island on the state of PEI's Atlantic salmon stocks. The report on the distribution of salmonids was carried out during the summers of 2000, 2001, and 2002 on 68 rivers. Atlantic salmon and speckled trout are the only salmonids indigenous to PEI. Atlantic salmon, once widely distributed, were found in only 28 river systems and their numbers in seven of these streams were so low that, without immediate intervention, extirpation appears inevitable. Todd Dupuis, ASF's Regional Director for PEI, is calling on the federal and provincial governments to "sponsor greater community stewardship of fish and fish habitat." He said that the province must also deal with pesticide runoff from PEI's potato fields which has led to a number of highly publicized fish kills in recent years.

FEDERAL FUNDING FOR VETERINARY COLLEGES: Agriculture and Agri-Food Minister Lyle Vanclief has announced a federal investment of C\$113 million to support Canada's four veterinary colleges, located in Saskatchewan, Ontario, Quebec and Prince Edward Island. The money will complement provincial and college funding and is targeted for renovation and expansion of diagnostic laboratories and veterinary hospitals, as well as laboratory and clinical equipment necessary to ensure the continued international accreditation of Canada's veterinary colleges. According to Vanclief, the federal investment is designed to promote the food safety objectives of the Agricultural Policy Framework, through which the Government of Canada is working with provinces and stakeholders to build on existing food safety measures and improve the agriculture and agri-food sector's ability to identify and respond to food safety issues and concerns. The funding will be allocated to the four veterinary colleges as follows: Western College of Veterinary Medicine (Saskatoon), C\$22.24 million; Ontario Veterinary College (Guelph), C\$37.27 million; Faculté de médecine vétérinaire de l'Université de Montréal (Saint-Hyacinthe), C\$35.46 million and; Atlantic Veterinary College (Charlottetown), C\$18.03 million.

CANADA A LOSER IN FREE TRADE, POLL SUGGESTS: The December 8 edition of the *Globe and Mail*, covering an article from the *Canadian Press*, reported that according to a poll, nearly half of Canadians felt their country had been a loser in the North American Free Trade Agreement (NAFTA). On the 10th anniversary of NAFTA's signing, 47% of Canadians polled said their country had been a loser in the deal while 52% of Mexicans felt that way. Only 37% of

American respondents said they believed they lost in the deal that was to open the borders of the three countries to freer trade. About half of Americans polled, 48%, reported they felt their country had been a winner as a result of the agreement. Thirty-eight percent of Canadian respondents and 30% of Mexicans said their country was a winner in the deal. The Ipsos-Reid poll was conducted in November on behalf of the Washington, D.C.-based Woodrow Wilson International Center for Scholars. A sample of 1,000 adult Canadians and 1,000 adult Americans were surveyed.

WESTERN FARMERS PLAN ADDITIONAL BORDER PROTEST AGAINST CWB: The December 12 edition of the *Calgary Herald* reported that the thirteen Albertan farmers recently jailed for carrying wheat and barley across the U.S. border with CWB approval have promised to stage another, more massive border demonstration sometime early in 2003. Jim Ness, one of the jailed members of Farmers for Justice, said that "Ours is a cause of basic freedom, and to (federal CWB Minister Ralph) Goodale we say, you have no idea of the hornet's nest you have stirred up." The article goes on to say that Farmers for Justice also called on the U.S. Trade Commission to take its complaints over the wheat board's monopoly on wheat and barley sales in the West to a NAFTA tribunal rather than simply levy a tariff against Canadian imports. Although the results of the CWB directors election will be released on December 16, Ness says that with five of the fifteen directors appointed by the Canadian government, the results will be a foregone conclusion: "The government will keep control of the wheat board." The article further notes that Alberta's Bill 207 (the Alberta Wheat and Barley Test Marketing Act), that is attempting to assert constitutional control over agriculture in the province, permitting a dual marketing approach, has received royal assent. A test market is now being planned. If the Canadian government refuses to sign off on Alberta's dual marketing strategy, the province can either challenge Ottawa in court or go ahead with its plan and let the Canadian government take the province to the Supreme Court of Canada.

CWB REPORTS C\$4.9 MILLION SAVED IN TRANSPORTATION IN 1ST QUARTER 2002/03: According to the Canadian Wheat Board (CWB), changes to the grain handling and transportation system – including grain company tendering, freight and terminal rebates and financial penalties for non-performance in the delivery of grain to port – resulted in savings of \$4.9 million during the first quarter of the current crop year (August 2002 to October 2002). More information about the transportation system and how savings are being generated can be found on the CWB website at: http://www.cwb.ca/en/movement/car_awards/results.jsp

PRAIRIE PASTA PRODUCERS REACH DEAL WITH DAKOTA GROWERS PASTA CO.: The December 9 edition of *Agriline* reported that Prairie Pasta Producers has reached a deal with Dakota Pasta Growers Co. for an option to purchased up to three million, 20% of the company's D-series shares. Each share carries the right and the obligation to deliver one bushel of durum. Prairie Pasta Producers would deliver to the plant as an accredited exporter of the CWB. However, the possibility of U.S. tariffs on Canadian wheat and durum imports has raised concerns among members of Prairie Pasta Producers about the deal. The option is set to expire November 25, 2003.

UKRAINIAN WHEAT REJECTED: The December 12 *Good Morning Ontario* also reported that Canada has canceled all import permits for Ukrainian feed wheat after three recent

shipments were found to be infected with flag smut and dwarf bunt disease. Ukrainian agriculture authorities are checking into how the infected grain got to Canada. Ukrainian officials said one of the diseases, flag smut, was widespread in Europe, but the other, dwarf bunt, was very rare.

CANADIAN ETHANOL PLANTS NEED FEDERAL HELP: According to the December 12 edition of *Good Morning Ontario* quoting *Reuters*, the lack of startup capital and marginal returns could put the brakes on plans to expand Canada's ethanol industry. The Manitoba government said it will consider fostering the industry by mandating the use of cleaner ethanol-blended gasoline in the province. But unless the Canadian government creates more appealing tax incentives, similar to those available for U.S. ethanol producers, plans in Manitoba and other parts of Canada will stall, says Bliss Baker, president of the Canadian Renewable Fuels Association. "Without these additional incentives, I suspect we will not have much of an ethanol industry -- period -- in the future," Baker told *Reuters*. Five Canadian plants currently produce about 235 million litres a year of the high-octane, water-free alcohol made from grain, and import another 100 million litres annually from the United States.

DAIRY PRICES INFLATED BY MILLIONS OF DOLLARS ANNUALLY: Evidence provided by the federal government to the World Trade Organization (WTO) reveals that Canadian buyers of industrial milk are paying millions of dollars a year more than they should be under Canada's supply management system, reports the Canadian Restaurant and Foodservices Association (CRFA). An average price of C\$29 per hectoliter (100 litres) of milk would cover efficient dairy farmers' economic cost of production, based on new evidence provided by the Canadian government. Assuming an additional 20% for profit and marketing costs, the price would rise to C\$35/hectoliter. Industrial milk is currently sold at nearly C\$60/hectoliter in Canada, with more than 47 million hectolitres produced annually. Under Canada's supply management system, dairy prices are supposed to be set at a level that provides "efficient producers with the opportunity for a fair return," according to the Canadian Dairy Commission (CDC) mandate. The federal government figures indicate that the CDC has been using a vastly inflated cost of production to set dairy prices. To compound the problem, the CDC has increased dairy prices steadily each year, despite the fact that the cost of production has been falling. Over the last eight years, the CDC-published cost of production has fallen by 7.8%, but industrial milk prices have increased by 27.8%. Inflation over that same time period was just 16.8%, reports the CRFA. Dairy producers, who represent fewer than 8% of farms in Canada but receive 70% of consumer subsidies to agricultural producers, according to the Organization for Economic Cooperation and Development (OECD), report average profit margins of 25.4%, compared to 14.1% for all farm types, according to Statistics Canada. The CDC is expected to announce 2003 dairy prices by December 13.

CANADIAN DAIRY PRODUCTS "A GOOD DEAL" PROCLAIMS DAIRY GROUP: This week, Dairy Farmers of Canada (DFC) reported that Canadian consumers continue to have access to quality dairy products at lower prices, according to a DFC survey conducted recently in eight Canadian and American cities. This latest cross-border pricing survey reveals that consumers pay 18.8% less for a nutritional basket of dairy products in Canada than for the same basket of dairy products in the United States. DFC looks at four different baskets of dairy products in its surveys.

Agriculture and Agri-Food Canada (AAFC) put together the nutritional basket of dairy products

in 1991. This basket contains a variety of commonly purchased dairy products including cheese, milk, butter, yogurt and ice cream and costs 18.8% less in Canada than in the U.S. DFC has added three other baskets of dairy goods that reflect different buying patterns to its survey: typical

product purchases of DFC staff, typical family expenditures (used by Statistics Canada to calculate the consumer price index), and a simple average of all products. These additional DFC baskets also show lower retail prices in Canada than in the U.S. in the December survey.

CHEESE SHORTAGE REVEALS CANADIAN DAIRY PRODUCTS NOT SUCH A GOOD DEAL: According to the CRFA, a cheese shortage in Canada rejects the claim that supply management delivers lower dairy prices for Canadian consumers. This fall the Canadian Dairy Commission (CDC) will import 750 tonnes (1.6 million lbs.) of U.S. cheddar cheese because there's not enough domestic supply to meet Canadian demand. The U.S. cheese is cheaper than the comparable Canadian cheese, but consumers won't see any of the savings. The CDC plans to re-sell the U.S. cheese at higher Canadian prices and hold the profits for an unspecified "special project," according to a CDC official quoted in *Ontario Farmer* magazine. Mozzarella cheese in Canada, costs at least one-third more than in the U.S., reports the CRFA. The current cheese shortage, along with other recent findings, confirms that supply management isn't delivering such a great deal to consumers after all. For example: (1) At the farm gate, Canadian fluid milk prices are 41% higher than in the U.S., according to The Fraser Institute; (2) The dairy industry insists on tariffs of up to 245% to block U.S. cheese products from coming into Canada; (3) Canadian dairy farmers sell industrial milk in Canada at C\$60/hectoliter (100 litres), but they are capable of selling to U.S. processors at an average price of C\$29/hectoliter, according to the Canadian government; (4) Canadian consumers subsidize dairy producers to the tune of C\$2.47 billion annually through higher than world prices, according to the OECD. The CDC is expected to announce by mid-December, the new price of industrial milk, from which products such as cheese, yogurt, butter and ice cream are made. The restaurant industry, one of the largest buyers of dairy products in Canada, is calling for a price rollback to more accurately reflect the true cost of dairy production.

QUEBEC BUTTER BAN DEMANDED: According to the December 5 edition of *CanadagricultureOnline*, oilseed processors and canola grower associations have called for a ban on the sale of yellow-colored Quebec butter in the western provinces. Their move is the latest in a long-running battle to make Quebec repeal regulations requiring all margarine sold in the province to be an unappetizing white. Quebec has pushed the art of foot-dragging to new heights in side-stepping the issue which both sides believe will eventually be resolved in favor of yellow margarine. On the proposed butter ban, "Fair is fair," says Ross Ravelli, president of the Canadian Canola Growers' Association. "This is a simple request for reciprocal action that will place the same color restrictions on butter exported from Quebec for sale in western Canada that apply to canola- and soybean-based margarine sold in Quebec. Consumers in western Canada have every right to identify butter from a jurisdiction that discriminates against western oilseed growers."

CANADA SHIPPING BST-FREE MILK TO US: The December 9 edition of *Agriweek* reported that the system patched together by the provincial marketing boards to produce off-quota milk for

an isolated export market might eventually break down. The supply management system has tried to have it both ways: maintain high domestic prices behind high tariff walls while trying to export dairy products at world prices. However, that will not end a growing business of exporting raw milk from Ontario to processors in New York State. Several private exporters, including InterNat Dairy Direct of Keswick, have found a way to offer off-quota milk producers prices as high as 50 cents per litre for milk that is picked up at their farms and trucked across the border. Because of the provincial undertakings done in an attempt by Canada to sidestep US and New Zealand trade action, this milk can be produced without quota completely outside the marketing board system. The article states that the exporters have discovered there is sizable American demand for milk produced by cows not injected with the production-enhancing hormone BST. BST is illegal in Canada but is universally used in the U.S., so the Canadian milk is the only reliable non-BST supply.

SHARP RISE IN NUMBER OF RESTAURANT MEALS: Statistics Canada released its 2001 Household Spending survey which showed a 10% year-to-year increase in the amount of money that Canadians spent on restaurant meals. Households spent an average of C\$6,430 on all food during 2001, up from \$6,220 in 2000. The increase was due mainly to higher spending on restaurant meals, which rose 10% to C\$1,430. According to Statistics Canada, spending in restaurants, which includes drive-ins, canteens, cafeterias and take-outs, accounted for almost one-quarter of all spending on food during 2001. Food industry interviews conducted by the *Globe and Mail* showed that quick service establishments accounted for the biggest increase. That sector, which accounts for two-thirds of all meals bought in Canada during 2001, was up 8%. Spending at family restaurants and casual dining places was up 5% while spending at all other restaurants was up 2%. Industry observers say things have leveled off in the current year and total restaurant spending is predicted to climb by a more modest 3%.

SUNKIST ROLLS OUT THE ORANGE CARPET: Sunkist announced in Toronto this week that good things come in "little" packages. Stuart Little 2 was released on DVD and video by Columbia TriStar Home Entertainment, just as Sunkist's navel orange season begins. Sunkist will celebrate by rolling out the orange carpet for Stuart with "A Little Goes a Long Way" Sweepstakes. The sweepstakes offers Canadian consumers a chance to win more than 1,000 related prizes. The promotion will also provide fun recipes and information on the health benefits of citrus as an easy and healthy snack alternative. Grocery store produce sections across Canada will feature eye-catching graphics of Stuart Little on limited edition bags of Sunkist navel oranges and lemons. Each bag will include a Sunkist Citrus booklet containing high-value coupons and six kid-friendly recipes named for favorite Stuart Little characters, such as "Stuart's 'Little' Orange Gingerbread Men" and "Falcon's Favorite Fresh Orange Cranberry Sauce." The booklet also includes holiday craft ideas such as using citrus in holiday ornaments and creating a Sunkist Citrus Snowman. As one of the world's oldest and largest citrus marketing co-operatives, Sunkist Growers is owned by more than 6,000 citrus growers in California, Arizona and Texas.

Did You Know ...that Canada will export up to 3 million fresh Christmas trees to the United

States in 2002 worth about \$30 million? About two-thirds of them will be destined for festivity celebrations in the U.S. northeast.

Recent Reports from FAS/Ottawa:

Report Number	Title of Report	Date
CA2140	Honey Update	12/11/2002
CA2139	Strawberry Market Update	12/06/2002
CA2138	This Week in Canadian Agriculture, Issue 43	12/05/2002
CA2137	Statistics Canada November 2002 Crop Estimates Released	12/05/2002

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