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Report Highlights:
Canfor Does A U-Turn On Softwood Lumber Proposal * Canada Pleased With WTO Interim Report On Softwood Lumber * NDWC Charges "Completely Hypocritical" Says CWB * Monsanto Canada Will Wait To Register GM Wheat * Mandatory Grain Variety Eligibility Declaration Use Ruled Out By CGC * Grain Commission Proposes Wheat Quality Assurance Strategy * CWB Wheat Pool Deficit Elicits Mixed Reaction * Canada, U.S. At Odds Over Interim WTO CWB Trade Ruling * CWB Announces Premium-Priced Market Development Contract Program

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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.

CANFOR DOES A U-TURN ON SOFTWOOD LUMBER PROPOSAL: According to a December 19 article from the *Vancouver* Sun, Canadian forest giant Canfor, the biggest corporate opponent of the new Canada-U.S. softwood lumber accord said it is now tentatively ready to sign on, saying that it's willing 'to consider an interim quota' to end the softwood lumber dispute. "While we have consistently indicated that Canfor does not favor a quota system that restricts Canada's shipments to the U.S. in the absence of a better alternative, we have indicated a willingness to consider an interim quota ... while policy changes are being implemented across Canada," Canfor Corp. CEO David Emerson said. Emerson attributed his company's change in attitude to a call to industry from Prime Minister Paul Martin's new international trade minister, Jim Peterson, "to find a way to make the U.S. proposal work." Emerson said on December 18, "Canfor would accept its pro rata share of the required shipment reduction for the country as a whole, but we have been unwilling to sacrifice hard-won customers by agreeing to accept a disproportionate reduction in shipments while others accept a less than proportionate reduction." He said federal or provincial governments may want to modify quota allocations and offer to acquire them at fair market value. "Quota volumes acquired by government could then be 'sold' to companies on whatever basis they determined to be appropriate," Emerson said. "Under this method, those companies that have invested in and grown their customer base could elect to sell or not sell quota volumes."

CANADA PLEASED WITH WTO INTERIM REPORT ON SOFTWOOD LUMBER: In a December 19 news release from the Canadian Department of Foreign Affairs and International Trade (DFAIT), International Trade Minister Jim Peterson said he is pleased with the WTO interim report on softwood lumber. "We have consistently maintained that countervailing and anti-dumping duties imposed by the U.S. on Canadian softwood lumber exports violate international trade rules," said Minister Peterson. "We are pleased with today's interim report." The release states that the Canadian government will continue to work with the provinces and industry on our two-track strategy of litigation before NAFTA and WTO panels and negotiations to find a lasting resolution to this dispute. This latest WTO panel finding will be an important element in Canada's ongoing consideration of the U.S. proposal for a settlement.

NDWC CHARGES "COMPLETELY HYPOCRITICAL" SAYS CWB: In a December 19 news release, the Canadian Wheat Board (CWB), in response to a media release from the North Dakota Wheat Commission (NDWC), responded that farmers of Western Canada operate in a commercial environment and the government guarantee on CWB payments is not an export subsidy. "These charges demonstrate the hypocrisy of the NDWC," said Ken Ritter, chairman of the CWB's board of directors, who farms near Kindersley, Saskatchewan. "They denounce the potential trade-distorting effects of an $85.4 million deficit in the wheat pool, the first in 12 years, when the U.S. government has paid out $3.7 billion in marketing loans and deficiency payments to wheat farmers in that country over the past five years alone."
"As we have stated on many occasions in the past, this is plainly a case of the pot calling the kettle black," said Ritter. Ritter also firmly rejected NDWC accusations that the CWB had artificially inflated its Pool Return Outlook (PRO) for wheat in the fall of 2002 in order to

attract votes for pro-single desk candidates in the CWB director elections. The CWB states that it is committed to greater dialogue with its counterparts in the U.S. In the meantime, however, the CWB will continue to fight to remove the tariffs that have been imposed by the American administration on spring wheat and to re-establish full access to the U.S. wheat market.

MONSANTO CANADA WILL WAIT TO REGISTER GM WHEAT: A December 18 article from *Reuters (Winnipeg)* reported that Monsanto's Canadian division will not ask an annual industry meeting in February 2004 to recommend its genetically modified wheat be registered in 2004, according to a company memo Reuters obtained. Instead, Monsanto will continue to test its wheat until it becomes more accepted by the industry, the company said. Under Canadian rules, Monsanto could ask an industry body, the Prairie Registration Recommending Committee for Grains, to review its agronomic data. The committee is responsible for advising the federal government on what varieties of grain should be registered for commercial use in Canada. "However, Monsanto does not intend to bring forward any of our current lines for recommendation at the 2004 annual meeting," wrote Curtis Rempel, who heads the GM wheat project for Monsanto Canada, in a memo to the committee, which is scheduled to meet February 24-26, 2004. The Canadian government regulators who reviewing food, feed and environmental safety data on GM wheat have not yet approved the crop for release. The decision to hold off asking for registration "has no commercial impact on this project," Rempel said in the memo, noting the company remains committed to selling GM wheat when it can prove it can be kept separate from traditional wheat and has customers lined up to buy it.

MANDATORY GRAIN VARIETY ELIGIBILITY DECLARATION USE RULED OUT BY CGC: Mandatory grain variety eligibility declarations (VED) will not be used in the grain handling system because potential costs to producers outweigh foreseeable benefits, the Canadian Grain Commission (CGC) announced in a December 19 news release. "Based on extensive consultations and independent cost and benefit studies, we believe a mandatory variety eligibility declaration system would not serve the interests of producers and other key stakeholders in the grain industry at this time," said CGC Assistant Chief Commissioner Terry Harasym. Harasym continued: "I emphasize that our decision applies only to a legislated VED system. Based on current practice, it seems likely that variety declarations will increasingly be used in private, commercial transactions. Eventually, they will form an integral part of the Canadian grain production, marketing, and handling system." The VED concept was proposed to address two grain quality assurance issues: (1) Visually indistinguishable non-registered wheat varieties, often of U.S. origin, potentially compromising the quality of premium milling wheat shipments; (2) The constraints kernel visual distinguishability (KVD) imposes on developing and handling non-milling wheats, such as high yielding feed varieties. "We remain committed to resolving the issues the VED proposal was intended to address, which is why we are proposing a wheat quality assurance strategy," Harasym said.

CGC PROPOSES WHEAT QUALITY ASSURANCE STRATEGY: From the same news release, the CGC noted that it is advancing a Wheat Quality Assurance Strategy composed of three elements: (1) Development of rapid, affordable variety identification technology -- this will require the cooperation of producers, handlers, marketers, and government. The CGC will act as a catalyst in mobilizing resources and moving a technology strategy forward in a collaborative fashion. (2) Increased CGC monitoring of rail and vessel shipments for non-registered wheat varieties and downgrading shipments if they contain non-registered varieties in excess of grade tolerances -- declarations may form part of contracts between producers, the Canadian Wheat Board and grain companies, but these would not be required by the federal government. (3) Development of a proposal to restructure the western wheat classes to enable the development, registration, and handling of non-milling wheats, such as high-yielding feed varieties -- this proposal will involve collaboration with producers and other grain industry stakeholders.

CWB WHEAT POOL DEFICIT ELICITS MIXED REACTION: The December 18 edition of *FarmAssist.ca* reported that when it comes to the Canadian Wheat Board's (CWB) 2002/03 wheat pool deficit, opinions in the western Canadian grain industry range from frustration and displeasure to acceptance and relief. The C$85.4-million shortfall, which will be covered by the Canadian federal government, has been attributed to a combination of factors, including the unexpected strength of the Canadian dollar and drought-reduced domestic crop that reduced Canada's market share. The deficit "was expected, but it is still unacceptable," said Ted Menzies, former vice-president of the Grain Growers of Canada, who pointed out that Australia - whose currency also strengthened on the year - didn't have a deficit. According to Menzies, there wouldn't be a deficit if western Canadian farmers were allowed to market their own grain. He said he was frustrated that in a year that saw some of the highest wheat prices in recent history, Canada was unable to sell its grain. While he did not like to see a deficit in any of the pool accounts, Stewart Wells, President of the National Farmers Union, said he understood the unpredictable events of last year, and appreciated the safeguard provided by the government guarantees. Ahead of the December 15 announcement of the shortfall, most people in the grain trade were expecting a deficit of between C$30 million to C$100 million.

CANADA, U.S. AT ODDS OVER INTERIM WTO CWB TRADE RULING: The December 23 *Globe and Mail* reported that Canada and the U.S. are both claiming victory in the wake of a confidential World Trade Organization (WTO) ruling on the legality of the Canadian Wheat Board (CWB). In a report delivered to Canada and the United States, the WTO ruled that the government-controlled wheat-trading agency is legal under global trade rules, Canadian officials said. "The WTO rules have shown that members have a right to establish and maintain [State Trading Enterprises], and in that regard, I think Canada's international obligations are met," a trade department official told Reuters. But a U.S. trade official insisted that the ruling, which won't be made public until February 6, contained "good news" for U.S. wheat and grain farmers. Responding to media inquiries, the official said the WTO dispute settlement panel found that the CWB "unfairly discriminates" against U.S. wheat and grains in world markets. The official also said the report calls for a "level playing field by agreeing that Canadian wheat farmers should pay fair market value for transporting Canadian wheat and stop discriminating against U.S. wheat." Neither side would provide further details.

CWB ANNOUNCES PREMIUM-PRICED MARKET DEVELOPMENT CONTRACT PROGRAM: On December 19, the Canadian Wheat Board (CWB) announced the Market Development Contract Program for wheat and durum varieties eligible for premiums ranging from $2.50 per tonne to $10 per MT in 2004/05. Under the program, farmers get a premium for production contracts that allow the CWB to test market new varieties among potential customers and provide buyers with quantities to meet their processing needs once the variety has been established. Varieties eligible for Market Development Contract Programs as of August 1, 2004 are: 5700PR - Canada Prairie Spring Red wheat ($5 per tonne premium); AC Navigator - extra strong Canada Western Amber Durum wheat ($2.50 per tonne premium); Snowbird and Kanata - Canada Western Experimental Hard White wheat ($7.50 per tonne premium); and AC Bellatrix, AC Readymade, AC Tempest, CDC Buteo, CDC Osprey, McClintock and Norstar - Canada Western Red Winter Select wheat ($10 per tonne premium). "These varieties represent significant breeding advancements in their classes," said Gord Flaten, director of market development. "In addition to earning a premium for their crops, farmers who enter into these contracts are also helping to ensure that the wheat and durum varieties grown in Western Canada continue to meet the needs of our customers."

"The Market Development Contract Program also allows buyers to test their milling and end-use qualities, which increases the potential market for the high-quality grains grown by western Canadian farmers," he added.

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