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This Week in Canadian Agriculture, Issue 7 2001

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Report Highlights:

What's New, EH?

- * **CWB Signs Deal with China for 500,000 Tons of Wheat**
 - * **Mission to Assess Brazil's BSE Risk Concludes**
 - * **Canada Bans British Livestock, Animal Products over FMD Outbreak**
 - * **CFIA Reports Rumors of Potato Bulk Waiver Denial Unfounded**
 - * **Iraq Halts Grain Imports from Canada**
 - * **Canada Customs on Guard for Illegal Shipments of Corn**
- 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.

CWB SIGNS DEAL WITH CHINA FOR 500,000 TONS OF WHEAT: According to the February 15 edition of *Canada Agriculture Online* The Team Canada 2001 trade mission to China and Hong Kong paid off for the Canadian Wheat Board with an agreement to supply 500,000 tonnes of wheat to the China National Cereals, Oils and Foodstuffs Import and Export Corp. The deal, which marked the 40th anniversary of active grain trading between Canada and China, is estimated to be worth about C\$125 million. Former Saskatchewan premier Roy Romanow, who's leading the province's delegation on the trip, says the Team Canada mission was an "important catalyst" in bring about the agreement. Romanow also called the deal "very important" for Saskatchewan farmers, given that 60% of Board wheat comes from the province, putting its share of the deal at about \$75 million.

MISSION TO ASSESS BRAZIL'S BSE RISK CONCLUDES: The Canadian Food Inspection Agency (CFIA) has concluded its on-site visit to Brazil as part of its continuing process to fully assess the Brazilian regulatory system for the risk of bovine spongiform encephalopathy (BSE). Led by Canada's Chief Veterinary Officer, experts from Canada, the United States (U.S.) and Mexico visited Brazil from February 14-18 in order to verify information provided by Brazilian authorities, which will help expedite the BSE review process. The mission focused attention on three specific risk factors and further information or clarification was sought in each of these areas. The three risk factors are: 1) feeding and rendering practices; 2) import practices; and 3) surveillance and laboratory procedures. According to the CFIA, Brazilian officials have indicated they are completing a comprehensive traceback of animals imported from the European Union. Upon their return, tripartite scientific team members from Canada, U.S. and Mexico will complete their review of the technical findings based on the new knowledge obtained during the course of the mission. Building on this information, and in keeping with NAFTA responsibilities, animal health authorities of Canada, the U.S. and Mexico will take all the steps required to expeditiously complete the assessment of the Brazilian regulatory system for the risk of BSE.

CANADA BANS BRITISH LIVESTOCK AND ANIMAL PRODUCTS OVER FMD OUTBREAK: The Canadian Food Inspection Agency (CFIA) placed an immediate suspension on all imports of livestock and animal products (meat, dairy products, embryos, semen, etc.) following the Foot and Mouth Disease outbreak in Britain. The action was taken under the import control measures of Canada's Health of Animals Act. According to Canadian press reports, similar import suspensions have also been announced by the European Union, the United States, Japan, South Korea, and Thailand.

GOVERNMENT OF CANADA CONTINUES TO DEFEND DAIRY INDUSTRY:

According to a February 16, 2001 Agriculture and Agri-Food Canada news release, Canada's dairy industry claims that the changes made bring itself into step with World Trade Organization (WTO) commitments and the federal government is fully prepared to defend those changes. That was the message delivered by Agriculture and Agri-Food Minister Lyle Vanclief and International Trade Minister Pierre Pettigrew in response to the lists of possible trade measures against Canada released by the United States and New Zealand. The Ministers also stressed that the actions from the U.S. and New Zealand are part of WTO procedure and do not mean any trade action is on the immediate horizon. "There are a number steps in the WTO process that have to take place before any retaliation is possible," said Mr. Vanclief. "Retaliation would only be possible if Canada is found non-compliant with its WTO obligations. The Government of Canada, provincial governments and the dairy industry have worked together on measures they believe bring them into compliance and the government will vigorously defend them." "We are confident Canada has met its WTO obligations for dairy," said Mr. Pettigrew. "The federal government will vigorously defend the actions we have taken during the compliance panel process." For more information, see GAIN report CA1024.

HALF OF P.E.I. POTATO FARMERS APPLY FOR DIVERSION PROGRAM: According to the local Island press, over 300 applications have already been filed with the Prince Edward Island Potato Board by farmers anxious to participate in the province's potato diversion plan. The provincial government announced a C\$15 million diversion program in January 2001 (see CA1015) to help ease the financial loss associated with lost sales due to the closure of the U.S. border because of the potato wart crisis. Under the plan, growers may divert (mostly by chopping and spreading) up to 10% of their 2000 crop. "We're just getting started and we hope to issue checks in the next week or so," said Ivan Noonan, general manager of the Potato Board. According to the producer board, there are approximately 600 potato producers on P.E.I., but only about half have filed for diversion monies. Many growers with guaranteed contracts with major processors have reportedly opted not to apply. The provincial government's diversion plan is designed to remove up to 3 million hundredweight of potatoes from the marketplace at \$5 a hundredweight. No federal compensation has yet been announced.

CFIA STATES RUMORS OF POTATO BULK WAIVER DENIAL ARE UNFOUNDED:

A recent rumor circulating the U.S./Canada potato industry alleged that Canada had recently denied to issue a ministerial waiver (packaging requirement exemption) on a bulk shipment of U.S. potatoes destined for an Alberta-based potato processor. The Canadian Food Inspection Agency (CFIA) has confirmed that no application for a bulk waiver was received from the Alberta company. Under Canada's standard container rules under the Fresh Fruit and Vegetable Regulations, the CFIA will only issue bulk waivers for fresh fruits and vegetables when domestic supplies are in short supply. Canadian processors are required to establish if domestic supplies are available before they make an application for a bulk waiver from CFIA. In the recent instance, it has been learned that domestic supplies are available and that the Canadian processor is working with Manitoba potato suppliers to determine if the product specifications can be met. The company has not applied to CFIA for a ministerial waiver to import potatoes. Normally, for potatoes, there are few requests for bulk waivers in the months following the domestic harvest when Canadian storage supplies are high. According to the CFIA, applications for bulk waivers are rarely turned down because Canadian processors have determined that domestic supplies are

insufficient to meet their requirements before applications are filed.

WESTON LTD. PURCHASES BESTFOODS BAKERY: With the purchase from Unilever valued at US\$1.765 billion, George Weston Ltd. would become a major player in the baked goods sector in North America, making it the second-largest bakery in North America. Based in Toronto, Weston is already a major player in the North American food processing industry, with annual sales of C\$2.6 billion of which more than half comes from the U.S. market. Weston will add 19 plants and 12,000 staff to its payroll. The deal, when it closes this summer, will take Weston's breads, buns and cookies into just about every supermarket in North America. For more information, see GAIN report CA1025.

CWB EXPORT PROJECTIONS: On February 19, the CWB issued its second-quarter report covering the period from August 1 thru February 4. Highlights include continued good sales of high quality durum to Morocco and strong sales to Algeria. With the increased sales activity to Morocco it is likely to become Canada's number two market for durum after Algeria. Last year over 50% of Canadian durum exports went to these two countries. Strong growth continues in direct rail shipments from country elevators to U.S. Gulf ports destined for Caribbean and Central American countries and to mills in Mexico. The CWB's winter rail program is on target to hit about 800,000 tonnes by the end of March. Key destinations for these wheat and durum wheat shipments include North Africa, Italy and Latin America. Through the second quarter, farmer deliveries of all grains and oilseeds were up about 260,000 tonnes compared to last year, totaling some 18.3 million tonnes. Deliveries of durum wheat, barley and oats more than offset the decline in red spring wheat and canola. The total export program is slightly ahead of last year at 12.9 million tonnes. Higher levels of barley, oats and flaxseed shipments account for the increase on a year-to-year basis. The CWB predicts exports of wheat, durum and barley for the 2000-01 crop year at 18.2 million tonnes, down slightly from 19.0 million tonnes last year. The CWB states that it is on target for exports at 40% of the total at the end of January. It expects exports of Prairie wheat, durum and barley to be about 14.4 million tonnes or 80% of the total program by the end of May.

PIONEER PLANS "LARGEST TERMINAL" AT MARSHALL, SK: According to a February 16 article from *Canada Agriculture Online*, James Richardson International's Pioneer Grain plans to start groundwork this spring on a C\$12 million farm service center and terminal two miles east of Marshall, Saskatchewan. The new center will have 23,600 tons of grain storage capacity, making it Pioneer's largest Prairie terminal project to date, plus a dual driveway and capacity for full-unit trains (100-plus cars). A 3,000 sq. ft. crop protection products storage facility and 1,800-tonne capacity dry fertilizer shed and blender are also planned. Crop inputs services are expected to be available in the fall, and the grain handling capacity should be onstream by spring 2002.

PROVINCIAL AND FEDERAL AG MINISTERS TO MEET: According to the February 19 edition of *AgriLine Daily*, a meeting between provincial agricultural ministers and the federal agricultural minister will take place in Quebec City March 6-7. Demands for new farm aid money from Ottawa will dominate the proceedings. Farmers held a demonstration at the Manitoba legislature asking for provincial action. In Ontario, the Ontario Corn Producer's

Association (OCPA) reports that the gap in public support between US grain and oilseed farmers with Ontario growers is estimated to be about C\$300 million/year, which equates to about C\$1.5 to C\$2 billion nationally. While the OCPA is pressuring Ottawa for the lower end of this range, the newly-formed Grain Growers of Canada (GGC) is asking for the higher end of the range. According to the GGC, data from the OECD shows that the gap including all government programs is about C\$3 billion/year, which is similar to the Ag Canada estimate of C\$3.4 to C\$4.2 billion. OCPA and GGC are seeking a two-pronged approach to increased assistance. First, an immediate one-time infusion of cash to be distributed to farmers using the fairest and most convenient method available in each province. In Ontario, this would be through the Market Revenue Insurance (MRI) program. The second aspect would be a longer-term commitment to improve safety net programs to grain and oilseed producers starting in the 2001 crop year.

STARLINK CORN FOUND IN QUEBEC: The February 19 edition of *Agriline Daily* reported that two samples of US corn brought into Quebec were found to contain traces of the banned Starlink variety, out of 57 samples tested, since testing began late November of last year. The article reports that no positive samples have been discovered in Ontario.

IRAQ HALTS GRAIN IMPORTS FROM CANADA: The February 20 edition of *Agriline Daily* reported that Iraq has halted grain imports from Canada to protest Ottawa's support of US and British airstrikes last week. The article notes that during the first five months of the 2000/01 crop year, Iraq imported 310,000 metric tonnes of Canadian wheat, almost double exports for the same period in the previous crop year. Total exports in crop year 1999/00 were 262,000 metric tonnes, representing the first sales to the country from Canada since the UN imposed trade sanctions in 1990.

CANADA CUSTOMS ON GUARD FOR ILLEGAL SHIPMENTS OF CORN: The February 20 edition of *Agriline Daily* also reported that the Canada Customs and Revenue Agency has said that it is illegal to bring US corn into Ontario and then ship it into western Canada. The duty on US corn west of the Ontario/Manitoba border applies to imported corn on the basis of where it is used, not where it crosses the border. Canada Customs officials are "on alert" for grain trucks.

CWB ANNOUNCES NEW PAYMENT OPTIONS: The February 20 edition of *Canada Agriculture Online* reports that the Canadian Wheat Board (CWB) has broadened the Producer Payment Options program for 2001-02. Enhancements will make it possible for growers to price additional classes of wheat and feed barley, lock in futures prices after delivery, and change the basis contract futures month any time before the contract month expiry date. As well, daily prices will be offered. Growers can lock in a fixed price for a given quantity of wheat (excluding durum) or feed barley (offered as a pilot program) based on CWB pool return outlooks (PROs). Or they can lock in a basis over the Minneapolis Grain Exchange futures price for wheat (not barley) and later lock in a futures price. These payment options will be available every business day from March 22 to July 31, 2001. Minimum contract size for both options is 20 tonnes.

Did You Know....that Japan is Canada's second largest food export market after the United

States? Canadian agricultural exports to Japan in 1999 reached \$1.3 billion, nearly 16% of the total. This compares to the U.S. market of \$8.1 billion, or 59% of total Canadian food exports that year. Canadian sales to Japan are dominated by seafood, fresh meats, bulk grains, and other non-processed food items. Canada has seen some success in gaining entry to Japan's consumer frozen food market, but frozen french fry exports account for virtually all the gain in this sector.

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