



# Action News

Canadian Cattlemen's Association



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## Calculating the impact of COOL

The impact of the Country of Origin Labelling (COOL) measure on Canadian cattle exports is significant. We have resisted public quantification of the cost as this may well become a point of arbitration in Geneva if the U.S. refuses to resolve the issue and Canada seeks authority to impose tariffs on U.S. exports equivalent to the negative impact of COOL. Nevertheless, the Canadian Cattlemen's Association (CCA) can highlight some of the factors that will go into that assessment should it be necessary.

One indication of the differential impact of the COOL measure is a change in proportion of U.S. cattle on feed placements that are comprised of Canadian feeder cattle. When this ratio was measured, examining both the time period before and after the COOL measure came into effect on September 30, 2008; a large and statistically significant econometric estimate was derived confirming the substantial influence of COOL.

Overall, the COOL measure caused a loss of U.S. imports of Canadian feeder cattle of about 480,000 head in the first 80 weeks after the COOL measure came into effect. That is an estimated reduction of 6,000 head per week, which is substantial when it is considered against average weekly feeder cattle exports prior to implementation of the COOL measure of 10,494 head in 2007 and 8,372 head in 2006.

Econometric estimates of the influence of the COOL measure on the ratio of imports of fed cattle to U.S. slaughter show that the COOL measure decreased imports relative to slaughter by 30 per cent, or a decline of about 400,000 head during the same period. That is an estimated reduction in slaughter cattle exports of 5,000 head per week, which is substantial when it is compared to average weekly fed cattle exports to the U.S. prior to the implementation of the COOL measure of 16,333 head in 2007 and 13,534 in 2006.

The fed cattle basis, which measures the difference between Canadian and U.S. fed cattle cash prices, was examined to measure the impact of the COOL measure on the price differential between the two markets. Econometric analysis analyzing weekly fed cattle prices from 2005 through 2010 and full years through September 2009 found that in both cases the COOL measure widened the negative price basis for fed cattle by about 30 per cent of the initial basis, or about US \$4 per hundredweight. Based on the live weight of a typical animal of about 1,200 pounds, this works out to a price difference of about US \$48 per head for Canadian fed cattle. For feeder cattle, the strong impact of the COOL measure on U.S. import quantity dominates any potential price impact. It is important to note that the effect of the basis difference caused by COOL is felt on every fed animal sold regardless of whether it is exported or not, so any quantification of the impact of COOL would have to include total Canadian marketings, not just exports to the U.S.

## Watching the USD strengthening

The Canadian dollar is always an important factor for cattle producers to consider as we head into a new year. Another important factor to follow in 2012 is the U.S. dollar index value and trend. With the U.S. now a net-exporter of beef, changes in the U.S. dollar index and the impact on the U.S. cattle market need to be watched closely.

After roaring past par under the influence of high oil prices and strong commodity markets, the Canadian dollar has largely traded below par since the third week of September 2011. A weaker loonie is supportive to Canadian prices and is always a major factor to follow because of its impact on Canadian cattle markets.

Although the value of the loonie to the U.S. dollar has always been important, part of the reason the Canadian dollar strengthened and was over par for most of 2011 was because of weakness in the greenback. The weak U.S. dollar has been very supportive to the North American beef market, as it has made U.S. beef more appealing on the world market, and has made imports less competitive in the U.S. market.

As the U.S. dollar index increases, it tends to have a negative impact on the U.S. commodity market. Although there is significant volatility in the markets, the Canadian market is somewhat cushioned because the higher US dollar tends to cause the Canadian dollar to weaken, and therefore U.S. prices in Canadian terms may not drop as much as the U.S. prices. On the other hand, Canadian prices may not rise as much as when the U.S. market rallies and the U.S. dollar index drops.

The US dollar continues to be considered a safe haven, and as more negative news around Europe and the global economy builds, the US dollar index rises. The US dollar index has been on a strengthening trend since the end of October 2011, and has been negative to the U.S. cattle and commodity markets.

Although the relative value of the Canadian dollar is important to follow, the US dollar index value and trend are also very important for Canadian producers to follow in terms understanding some of the drivers of the North American beef market. In the short term, it appears the US dollar will remain well supported, and keep pressure on the Canadian dollar, while longer term, the Canadian dollar should remain strong and strengthen.

### CANFAX MARKET BRIEFS

Week ending Dec 23rd, 2011

	This wk	Change
<i>(in Cdn\$)</i>		
↑ Fed steers	115.29	+0.54
Fed heifers	114.62	n/a
↑ Feeder steers	---	+0.50
↑ Feeder heifers	---	+0.29
↑ Cdn Feeder Index	143.40	+3.50
↑ Cdn Calf Index	153.80	+3.81
↑ D1/D2 cows	69.83	+1.46
↑ Slaughter bulls	74.94	+0.09
↓ Mar barley (\$/tonne)	217.00	-3.00
<i>(in US\$)</i>		
↑ Cdn spot dollar	97.93	+1.38
↑ Dec live cattle	123.15	+4.40
↑ Jan feeder cattle	146.87	+2.90

## Global Market Situation & Outlook 2011/12 – Part 2

*The World Meat Markets conference was held in Divonne-les-Bains, France earlier in December. Canfax Research was there and filed this report. Part 1 (<http://www.cattle.ca/action-news/2011/12-19-11.html>) ran in the December 19, 2011 edition of Action News and provided an overview of current consumer demand. Part 2 provides an outlook on demand for beef, pork and poultry.*

### Beef

In 2008, before the global recession hit in the fourth quarter there were many changes to global beef trade due to growing demand in dynamic markets with a growing middle class. As the global recession has been dealt with in some regions and become further entrenched in others, demand regions have once again shifted resulting in exporting countries changing where they move product to - depending on the exchange rates and price.

Global beef production is projected to be down 0.6 per cent in 2012 after being down 0.9 per cent in 2011. The

decline in the global cattle herd is slowing as Australia and Argentina consolidate and look at expansion, while Brazil continues its slow growth. Production of grain fed beef continues to be constrained as the U.S. herd continues to decline with drought and feed shortages. The largest declines in beef consumption have been seen in the US (-3.5%), EU (-1.7%) and Argentina (-6%) in 2011 while growth occurred in Brazil (+1.2%), MENA (+2.6%), Korea (+10.4%), and Russia (+1%). As global beef supplies have tightened prices have increased resulting in total expenditures on wholesale beef increasing by nearly 60 per cent over the last 10 years.

One thing to keep in mind in terms of future beef production is the contribution of the dairy herd, which is seeing increased demand particularly in countries like India and China. Indian milk consumption has been growing at 8 per cent per year and it is expected that India will soon need to import. The largest milk producers in the world are the EU (21%), India (16%), U.S. (13%), China (4%) and New Zealand (3%). While New Zealand accounts for only 3 per cent of global production, it exports 95 per cent of production and sets world prices. Milk demand is expected to grow by 53 billion liters, up 10 per cent over the next five years. The cost of producing milk will become a more important factor in determining the location of herds in the future as there is an increased globalization of prices with regional prices (U.S., NZ and Germany) moving together. Increasing beef production from dairy cows is desirable as they provide lean trim product, which is in high demand around the world. Forty-eight per cent of beef consumed in North America is hamburger and that proportion is even higher in the EU at 53 per cent. When evaluating the various production regions in the world, Canada is well-situated in terms of resources to increase production for the global market.

### **Pork**

Disease issues reduced pork production in 2011 with Porcine Reproductive and Respiratory Syndrome virus (PRRS-V) in China resulting in 1.5 million tonnes of product being removed from production. In order to manage inflation, imports were opened up and measures were taken to maintain the price signal to domestic producers to increase production. South Korea removed a third of their domestic herd in early 2011 following the Foot-and-Mouth Disease (FMD) outbreak in December 2010. Russia continues to have challenges with African Swine Fever (ASF) with an increase in the incidences reported. Concerns are that the disease may be present in the wild boar population and is approaching the European Union (EU) border. Bans have been proposed but nothing has been adopted yet to control this issue. It is estimated that as many as 1 million hogs would have to be removed from the herd.

In 2012, global pork production is expected to be up 1.6 per cent as Asian herds recover. Reduced herd numbers in Asian countries will result in increased reliance on imports over the short term, with the U.S. and Canada being the major beneficiaries as well as the EU to some extent. Global pork consumption is projected to be up 1.7 per cent in 2012 with a rebound in Asian countries. However, high prices are limiting consumption growth.

### **Poultry**

Poultry is the winner in tough economic times as consumers trade down to cheaper protein options. It is also the first winner as increased disposable incomes provide more dollars for protein consumption and it is the first step on the ladder. Global poultry production was up 3 per cent in 2011 and is projected to be up another 2.3 per cent in 2012. The largest growth regions are China (+4.5%), Brazil (+3%) and Russia (+7.5%).

At the same time the U.S. industry has been challenged with higher feed prices and reduced export market access. U.S. has been banned from the Russian and Chinese markets which represent important markets for U.S. legs. This has increased U.S. domestic supplies and pressured prices lower in 2011; resulting in the U.S. poultry industry contracting. The U.S. has recently gone to the WTO on the Chinese ban.

## Alberta Beef Producers elects CCA directors

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During the Alberta Beef Producers (ABP) annual general meeting in December, five delegates were re-elected as CCA directors to serve in the 2012-13 term. Dave Solverson, Erik Butters, John Schooten, Bob Lowe and Larry Delver were elected from a field of nine candidates. ABP will appoint two additional delegates as CCA directors in early 2012, for a total of seven CCA directors. Manitoba Beef Producers representatives for 2012 are Ray Armbruster, Ted Artz and Heinz Reimer. Ivan Johnson will continue to represent the Prince Edward Island Cattle Producers on the CCA Board. We'll look forward to updates from the rest of the provincial association members as their respective annual general meetings conclude.

## CCA Action News

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