

On August 20, 2004 the Canadian Cattlemen's Association (CCA) Board of Directors unanimously approved a strategic plan to reposition the beef cattle industry prepared and written by CCA. Since that time, elements of the plan have been adopted by the Federal Government in its strategic plan announced on September 10. The CCA continues to lobby for other elements of its strategy.

The following document is the strategy approved by the CCA Board on August 20.



CANADIAN CATTLEMEN'S ASSOCIATION

#310, 6715 - 8th Street N.E.
Calgary, Alberta T2E 7H7
Tel: (403) 275-8558
Fax: (403) 274-5686

1403, 150 Metcalfe Street
Ottawa, Ontario K2P 1P1
Tel: (613) 233-9375
Fax: (613) 233-2860

Dear Canadian Beef Cattle Producers,

On August 20, 2004 the Canadian Cattlemen's Association Board of Directors voted unanimously to approve a strategic plan for the Canadian beef cattle industry. The plan will assist the Canadian beef cattle industry to recover from the current BSE crisis and be better able to withstand trade disruptions in the future.

Re-opening the U.S. border to live cattle exports remains a top priority, and we are continuing intensive efforts toward that end. While we remain confident that the border will re-open, no one can be certain as to when. The current crisis has clearly shown that lack of slaughter capacity in Canada for all the cattle produced in Canada puts us in a vulnerable position. We must address this issue by encouraging expansion of slaughter capacity in Canada. This will help not only in the immediate crisis, but will make our industry less vulnerable to trade disruptions in the future.

Expanding slaughter capacity will help relieve the downward pressure on cattle prices that we are experiencing due to more cattle coming to market than there are spots for them in the plants. However expanding capacity takes time, and cattle producers need short-term relief. That's why the Canadian Cattlemen's Association is also proposing a delayed marketing program for finished cattle as well as 2004 calves, to better match the number of cattle coming to market with the capacity currently available. More details of our proposal to government are available in the following document.

CCA is lobbying government officials for cash advances, loan guarantees, and debt restructuring options to assist producers with current equity issues. Other aspects of the strategy include a marketing plan for additional beef produced in Canada, targeted testing of older animals in support of the Canadian Food Inspection Agency's surveillance program, and alternative tax strategies. Elements of the plan are interrelated and must be considered together.

We've traveled a long road since May 20, 2003, and the way has been hard. But we must not forget the successes we've had along the way. We were the first country in the world to see domestic consumers increase their beef consumption after diagnosis of a case of BSE. We were also the first country that the U.S. and Mexico beef markets re-opened to after a case of BSE, and we've seen beef exports to those markets almost fully recover. We've already seen slaughter capacity increase (expected to be 20% over pre-BSE levels by November of this year) and indications are that it will continue to increase. All of these accomplishments were achieved through hard work and pulling together. I call on all of us to continue to work together and see the job through to completion – the recovery of our industry.

Sincerely,

A handwritten signature in black ink that reads 'Stan Eby'. The signature is written in a cursive, flowing style.

Stan Eby

A Strategic Plan for the Canadian Beef Cattle Industry

August 20, 2004
(Updated September 8, 2004)

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Executive Summary

This document outlines a strategic plan to assist the recovery of the Canadian beef cattle industry and strengthen its position into the future in response to the events of May 20, 2003 when Canada's first domestic case of Bovine Spongiform Encephalopathy (BSE) was announced.

This strategy is designed to regain market stability and to position the Canadian industry as a leader in beef safety and quality. The key areas of consideration are as follows:

- Increased slaughter of Canadian cattle with a high priority to increase Canadian processing capacity
- Development of a strategy to manage marketings to capacity
- Increased surveillance/removal of cattle born prior to the feed ban
- Alternative tax strategies
- Cash advances/loan guarantees/debt restructuring
- Canadian beef usage and export market diversification
- The elimination of the issuance of supplementary import permits for non-NAFTA beef products
- Initiation of enhanced movement tracking of cattle and age verification, plus premise identification, building on the present CCIA system
- Continued pursuit of all avenues to restore live cattle export trade

It is important to recognize that the elements of this plan are interrelated and cannot be considered independent of each other.

Overview

Since the announcement was made on May 20, 2003 of a BSE-positive cow in Canada the Canadian beef cattle industry has had 3 primary objectives:

- Maintain consumer confidence.
- Increase throughput of cattle through the marketing chain.
- Speedy resumption of trade.

Maintaining Consumer Confidence

One of Canada's accomplishments during the BSE crisis has been our success in increasing domestic beef consumption. Canada is the first country to have actually increased consumption after having had a diagnosis of a domestic case of BSE. Beef disappearance (the amount of beef produced and no longer available in the supply chain) increased 62% in July 2003, compare to July 2002. When beef consumption statistics were released by Statistics Canada, beef consumption had increased a respectable 5% per capita, or 2.4 pounds per person, in 2003 compared to 2002. Early estimates indicate that consumption is continuing to increase in 2004. This accomplishment is impacting trade considerations. Other countries are beginning to realize that if food safety and animal health precautions are handled correctly, a diagnosis of BSE does not necessarily mean a loss in consumer confidence for an affected country's beef.

Canadian consumers grasped that BSE was an economic crisis, not a food safety crisis. Generally favourable media coverage helped cement that concept in the minds of consumers. Favourable media coverage was encouraged by the transparent manner in which both industry and government responded to the crisis. The Canadian Food Inspection Agency held daily briefings for the media during the weeks of the investigation. The Canadian Cattlemen's Association (CCA) issued news releases almost daily and did over 1,000 media interviews. The CCA's Beef Information Centre division reassured Canadians of the safety of Canadian beef, promoted consumption of cuts that were in oversupply, and supported Canadian restaurants and retailers in their promotions of Canadian beef.

Increasing Throughput of Cattle Through the Marketing Chain

When the U.S. and Mexican borders closed to Canadian beef and live cattle on May 21, 2003 and other export markets closed as well, movement of cattle through the marketing chain virtually ground to a halt. This resulted in a completely dysfunctional market. Plants shut down and there were not enough cattle marketed to set any kind of average price.

CCA lobbied government for disaster relief to get the market re-started. The initial federal-provincial disaster relief program announced June 13, 2003 had two components. The first gave a compensation payment to sellers of slaughter cattle when the price of cattle fell below a reference price, based on the market value in the U.S. This encouraged owners of slaughter cattle to send cattle to market, freeing up bunk space in feedlots and encouraging feedlots to buy feeder cattle to fill those spots. The second component of the program compensated packers for products for which there were few markets in Canada (offals etc.) enabling them to clear out their cooler space and begin slaughtering additional cattle. This program achieved the goal of getting the market working once again.

The U.S. market re-opened to Canadian beef from cattle under 30 months of age in August, 2003. The Mexican market, our second largest export market, quickly followed suit. These actions, combined with the continued strong demand for beef by Canadian consumers, permitted markets to be found for all the beef being produced in Canada. With finding markets for beef no longer an issue, lack of slaughter capacity for all of the cattle coming to market became the key factor driving down the price of Canadian cattle. The industry has encouraged capacity expansion. By November 2004 processing levels are expected to be 20% over pre-BSE levels. Capacity will need to be expanded further and is a key component of the strategic planning process.

Speedy Resumption of Trade

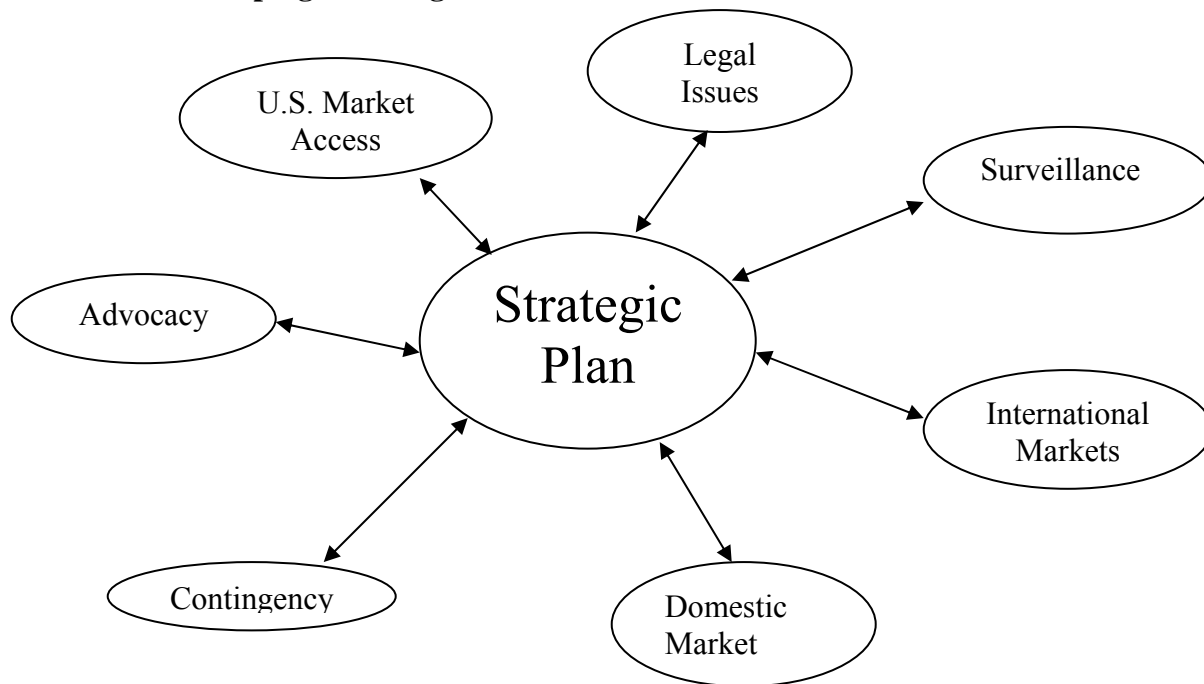
The expansion of Canada's beef industry over the past 15 years has been the result of expansion of export markets. In 1990, exports accounted for just 25.8 percent of Canadian beef and live cattle production. In 2002, exports as a percentage of total production increased to 58 percent. For the Canadian beef cattle industry to recover from the current crisis, it is clear that re-opening export markets is essential.

On August 8, 2003, 16 weeks after the announcement of BSE in Canada, the U.S. announced it was re-opening to boneless Canadian beef from cattle under 30 months of age. Within days Mexico announced it would re-open to the same list of products as the U.S. This was the first time either of these markets had re-opened to any bovine products from a country that had experienced a domestic case of BSE. Sales of Canadian beef to these two countries have rebounded and are at near pre-BSE levels.

Focus has shifted to re-opening the U.S. border to exports of live cattle for processing in the U.S. This process was interrupted, first by the discovery of BSE in the United States on December 23, 2003. The process appeared to be back on track when the permit list for beef products entering the States was prematurely expanded, leading to the R-CALF injunction. Alternatively, expanding slaughter capacity in Canada to ensure hook space for all Canadian cattle coming to market could circumvent the need for live cattle exports.

The Asian market, our third largest export market, is also being diligently pursued.

Process for Developing a Strategic Plan



Tactics

In developing a strategic plan for the beef industry, there are a number of different paths that are being pursued. It is important to realize that the various strategies to address all the industry issues are not unrelated. Actions in pursuing one strategy can negatively or positively affect efforts in another area. Decisions must, therefore, be made accordingly. The following briefly outlines several tactics that have been, and are being, pursued to advance the overall BSE strategy for the Canadian beef industry.

U.S. Market

Obviously, resumption of trade in live cattle remains a top priority of the CCA, as it would have the most immediate and significant positive impact on the Canadian industry from both a short-term capacity and price outlook. In addition to re-establishing trade, efforts continue to increase harmonization of our industries to lessen the probability of future disruptions in trade. Harmonization of health protocols will ensure that Canadian industry is not subjected to additional procedures or costs that will hurt the competitiveness of our products domestically or internationally.

Legal Issues

The CCA and other groups have been investigating legal options. Our legal counsel in Washington has regularly advised the CCA board on the various legal options and the likelihood of success. An important role of both the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) is to ensure that trade is fair, predictable and transparent and that role is vitally important for market stability. We continue to seek legal guidance throughout the process to ensure that we fully understand and develop negotiating positions to best serve the objectives we are seeking.

Surveillance

The new code expected to be adopted next May by the OIE (international organization for animal health) will establish a three-tier risk category system. Depending on a country's efforts and activities toward mitigating the risk of BSE in their national herd, a country will be placed in one of three risk categories:

- 1) Negligible BSE risk or negligible BSE risk without mitigating measures
- 2) Controlled BSE risk
- 3) Undetermined risk

It is imperative that we meet our surveillance targets in order to avoid being categorized as an undetermined risk country according to OIE guidelines. We need to reach our surveillance targets by class of cattle and also by regions. Canada's surveillance program targets animals at highest risk of being infected with BSE. Focusing on these populations better enables Canada's surveillance program to provide a more accurate estimate of the prevalence of the disease in the country and increases the likelihood of detecting further cases, should they exist. This approach ensures that Canada is looking for BSE in the places where we are most likely to find it.

Higher-risk animals include:

- cattle with clinical signs consistent with BSE (for example, behavioural changes including excitability, anxiousness, and emaciation)
- cattle over 30 months of age from the 4-D categories
 - animals found dead (dead stock)
 - animals that are non-ambulatory (downers)
 - animals presented for emergency slaughter (distressed or dying)
 - animals sent to slaughter and found to be sick at the ante-mortem inspection (diseased)

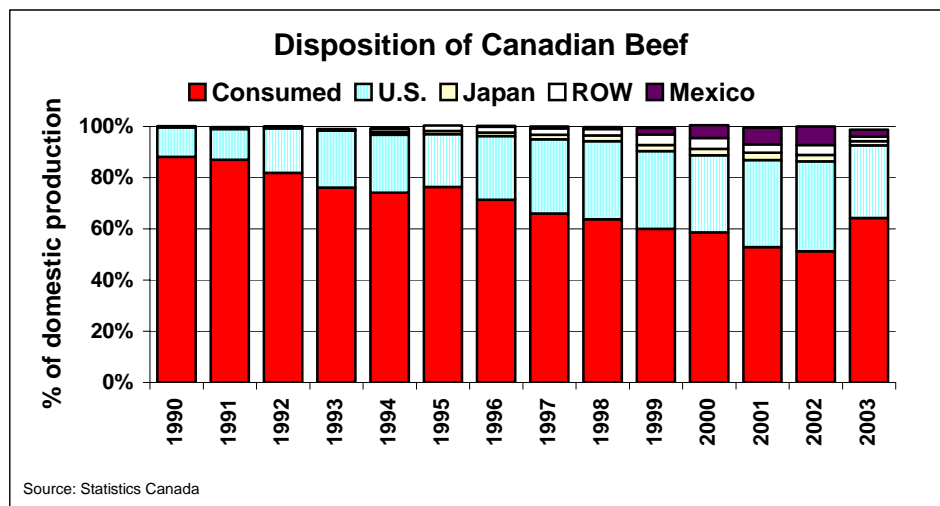
The Canadian Food Inspection Agency (CFIA) is on track to meet its surveillance target of testing 8,000 cattle for BSE in Canada in 2004. However, the CFIA has committed to testing up to 30,000 cattle per year within the next five years, which will be a more challenging target to meet.

International Markets

Industry, led by the Canada Beef Export Federation, the Canadian Beef Breeds Council, and the Canadian Livestock Genetics Association, and with collaboration with government, has been pursuing the re-opening of a wide range of markets to a wide range of meat products, by-products and breeding stock. Our strategic approach has been focused on three elements: ensuring that the scientific basis of Canada’s regulatory approach is sound and is consistent with the recommendations of the international panel; aggressively pursuing technical discussions and education initiatives; and a high level of advocacy. Our efforts have resulted in markets being partially re-opened to Canadian beef in the United States, Mexico, Antigua and Barbuda, Barbados, the Cayman Islands, Honduras, the Philippines, Trinidad and Tobago and Saudi Arabia, with Macau being fully re-opened. Other countries have re-opened their markets to bovine semen, embryos, or both.

Domestic Market

Our domestic consumers have been exceptionally supportive over the course of the last year. According to Statistics Canada, domestic consumption increased by 5% in 2003. Presently, the Beef Information Center, in consultation with the various private industry stakeholders, is developing a domestic marketing strategy to ensure maximized use of Canadian beef. Particular focus is now to be directed toward products that have limited export opportunity and toward the development of new products from these cuts that would further displace products presently imported into Canada.



(ROW = Rest of World)

Advocacy

CCA continues to work closely with the Government of Canada and its diplomatic officials, as well as key elected representatives, to advise them of opportunities for strategic diplomatic interventions that would aid in accomplishing our specific goals in international venues. While

often not readily visible to beef producers, there has been a tremendous amount of effort expended in this area, and several key interventions have been made. The most notable of these is the discussions held between our Prime Minister and the President of the United States.

The CCA has also developed strategic alliances with several organizations in the U.S. that share similar goals. Together with CCA, these organizations are lobbying to fully resume trade activities based on sound and credible science. These organizations include National Cattlemen's Beef Association, the American Meat Institute, the National Meat Association, and the United States Meat Export Federation. These alliances help to increase the effectiveness of our U.S. advocacy work with regulators and decision-makers in Washington.

Contingency

As the uncertainty related to the U.S. border opening to live cattle trade increased, the CCA and other groups began developing plans to assist Canadian producers. Based on varying assumptions of the U.S. border opening to live cattle, several action plans were determined. As the plan proceeded, the need for a short-term contingency plan evolved into a need for a restructuring of our industry as it currently exists. Over the past several weeks there has been a growing desire by many beef producers to develop a plan that would result in both short-term relief from the current financial pressures, as well as actions that would re-position the industry to continue to grow and capture new opportunities both domestically and internationally. A committee within CCA was established to develop several actions to accomplish this objective. The following information provides CCA's strategy for the restructuring of the Canadian beef industry.

Contingency and Restructuring Strategy for the Canadian Beef Industry

This strategy is designed to not only regain market stability, but also to position the Canadian industry as a leader in beef safety and quality. The key areas of consideration are as follows:

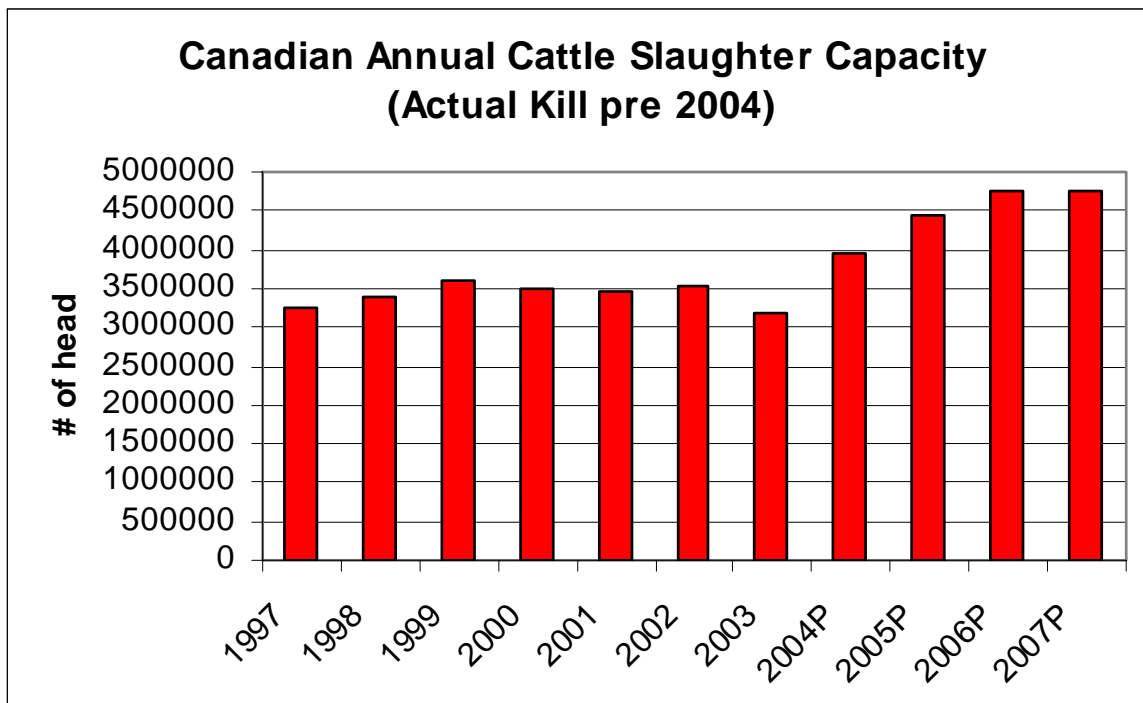
- Increased slaughter of Canadian cattle with a high priority to increase Canadian processing capacity
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Addressing Supply

Increasing Capacity

In order to help address the imbalance between supply and capacity, the CCA is advocating that the expansion of processing capacity through the opening of new plants and the expansion of current processing facilities be of highest priority.

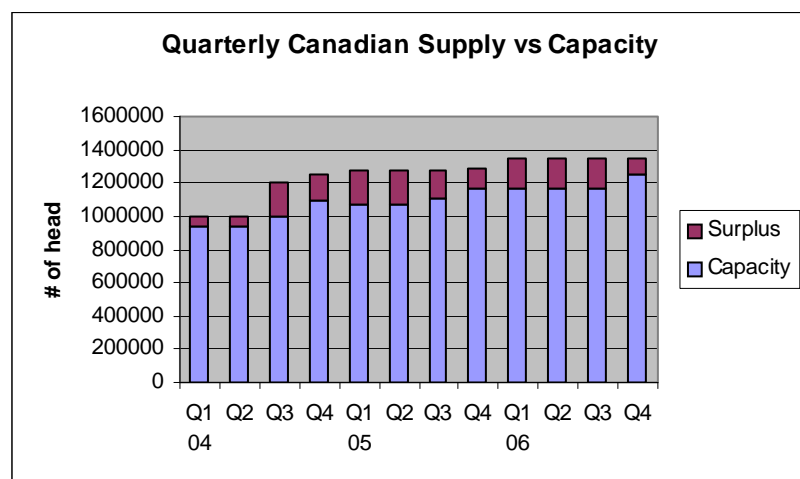


At present, we have slaughter capacity of 79,000. We fully expect to see capacity by November 2004 increased by 6,100 head per week. By the first half of 2005, capacity will be 90,000 head per week, increasing to 95,000 head by the end of 2005. By the second half of 2006, Canadian slaughter capacity will be at 104,000 head per week - an increase of over 31% from present levels. These increases in capacity only include those that currently have the capital or have begun construction or expansion. Further detail on these increases in capacity is provided in the Annex. It should also be noted that there are a number of additional initiatives, in various stages of planning that are not included in these numbers but could also potentially increase this capacity in the longer term.

The numbers provided are those that will definitely be coming on stream in within the time frame provided.

Capacity versus Supply

The following table outlines the balance (or imbalance) between capacity and



expected marketings. Marketing estimates would be best described as “available supply in normal circumstances”. Heifer and cow marketings, especially, can stray well away from forecasts based on normal cyclical variations at the best of times. Today, those forecasts are even more precarious. Many factors will dictate eventual marketings like slaughter capacity, border re-opening, producer’s decisions to downsize their herds and/or exit the industry, prices, drought, etc.

By the end of 2005, fed cattle supply and capacity are expected to balance, with non-fed cattle making up the carry-over into 2006.

Cattle Supply/Slaughter Capacity Estimates (# of head)				
	2004	2005	2006	2007
Anticipated Marketings	4.45 million (3.63K fed)	4.64 million (3.89K fed)	4.9 million (4.15K fed)	5.08 million (4.3K fed)
Surplus from previous year	127K feds already added in	480,000 (166/314)	495,000 nonfed	420,000 nonfed
Available Supply	4.45 million	5.12 million (4.06K fed)	5.395 million (4.15K fed)	5.5 million (4.3K fed)
Jan – June kill	1.903 million (75,000/wk)	2.25 million (90,000/wk)	2.375 million (95,000/week)	2.6 million (104,000/week)
July – Dec kill	2.066 million (79 & 85,000/wk)	2.375 million (95,000/wk)	2.6 million (104,000/week)	2.6 million (104,000/week)
Total Kill	3.97 million	4.625 million (4.06K fed @ 88%)	4.975 million (4.15K fed @ 83%)	5.2 million (4.3K fed @ 83%)
Surplus	480,000 (166K feds & 314K nonfed)	495,000 nonfed	420,000 nonfed	300,000 nonfed

September '04: This table has been revised to reflect the most current data available.

Marketing to Capacity Program

The reality of this increased capacity coming online does not address the immediate market situation related to the oversupply of fed cattle and the resulting prices. The upcoming fall run will place increased pressure on producers and the market as our largest calf crop in 25 years comes to market. Producers facing tightened cash supply over the next few months will be forced to market their cattle into an already oversupplied market. This upcoming fall will be a critical time for Canadian producers, and as the increased slaughter capacity is developed in Canada, we must ensure that we retain the producers that serve as the foundation for our industry. Timing is critical. As cattle age in the system, the 2003 calf crop will be approaching maximum age to enter feedlots to be eligible for export meat to the U.S.A. in spring/summer

2005. In addition, getting as many cattle as possible through the system in an orderly way is also a critical timing problem as producer decisions are made in the late-August to December 2004 period.

The CCA is pursuing two programs – a program to address fed cattle and one to delay the 2004 calf crop. Both programs will be *national* and *voluntary*. An industry advisory committee will be struck to monitor and make adjustments to these programs as necessary. As details are finalized on these programs, they will be made available through the CCA website www.cattle.ca or through the provincial organizations.

The main objectives of the slaughter cattle program are to stretch out the inventory until the increased capacity is on-line and to stabilize or increase current prices for cattle while maintaining current slaughter levels. If price increases are not realized, more cattle will be set aside. We discovered last year that fed cattle can be placed on a maintenance ration for an extended period of time with reduced weight gain while maintaining desirable carcass characteristics. Cattle must be a minimum weight to qualify for the program. It is imperative that the program does not interfere with the packing plants' ability to continue processing at current levels. Eligible cattle will be delayed for 90 days, with producers compensated for the feed costs for that time period. The program would be phased out as the price stabilizes at or above the minimum price.

The desired outcome for the calf crop program is to match the marketing of the 2004 calf crop to increased capacity, therefore allowing for the slaughter of the 2003 calf crop. A percentage of the calves normally finished in the 2nd and 3rd quarter would be eligible based on weight. Monthly allocations would be made and producers would voluntarily apply for an allocation. The calves enrolled in the program could be sold at any time to declared buyers, but could not be sold as finished cattle for twelve months. Therefore, cattle enrolled in the program would need to be permanently identified. Producers would be eligible for additional feed costs (ie. \$1/day). The CCA is also pursuing a cash advance on those cattle enrolled in the program to assist with cash flow, repayable upon sale of enrolled cattle.

A delayed marketing strategy must be coupled with the efforts to expand slaughter capacity or it merely pushes the problem ahead.

Surveillance- Targeted testing of older animals

Canada is challenged to meet internationally recognized surveillance targets for BSE. It may prove problematic to achieve these targets owing to the skepticism of producers, financial disincentive, and the fear of stigma in the event that one or more positive cases are found. In order to meet our surveillance targets, spent cows and bulls should be targeted for testing. Cattle delivered into this testing program could not go into the food chain, as this facility would likely not meet Canada's stringent inspection and processing requirements that ensure food safety. However, once tested, there is the possibility that these animals could enter a higher-valued feed market.

This plan would require establishment of regional test and slaughter facilities close to disposal facilities. While developing the plans for these facilities, additional capacity should be planned for in the event it becomes necessary to depopulate a higher number of spent mature animals with minimal carcass value. The plants could also facilitate the removal of additional spent animals above our surveillance needs. Several details such as disposal options remain to be worked out.

Further, by clearly meeting OIE's surveillance targets, we will have a valuable tool in our negotiations with other countries to regain full market access for our exported products.

Alternative Tax Strategies

While the delayed marketing program should allow producers greater flexibility to manage their herd until the increased capacity comes online, there is also the potential to assist producers and others through pursuing alternative tax strategies. There are three primary areas being focused on:

- *A temporary income tax deferral* could be implemented to assist producers in the near term. Similar to deferrals granted during periods of massive drought, this would allow producers to defer income until such time as markets normalize.
- To encourage the increased expansion of slaughter capacity in Canada, providing *tax incentives* for increased (Canadian) equity investment and risk capital to build and sustain capacity. This would accomplish a stated desire of beef producers to increase the investment by Canadians in future expansions to slaughter and processing capacity.
- In addition, it is realized that some producers may, at this time, be choosing to exit the industry. To accommodate these producers and alleviate financial hardship, it would be useful to provide *tax averaging options* for those exiting the industry permanently. For example, allowing a 10-year deferral on taxable income for producers who need or want to leave the industry should be established.

Refinancing the Industry - Cash Advance/Loan guarantees/Debt restructuring

Due to the long duration since borders were closed and markets collapsed, the equity build up in the industry has been significantly depleted. While we await the increased processing capacity to come on stream, producers will be asked to withhold a percentage of their calf crop from the market, with the proceeds of these sales normally used to pay off current and long-term debt. This will undoubtedly cause significant cash flow issues for many cattle producers. Additionally, due to the growth of the industry in the past few years, there are many young cattle producers who have invested in establishing new enterprises, and therefore are carrying a high ratio of debt to equity. During discussions with producers in developing the plan, many producers expressed deep concern for the welfare of these young producers and for their future viability.

Three key actions are proposed to assist in offsetting some of the consequences described above. These are:

1. *To allow for a cash advance on cattle designated to the marketing to capacity program.* Payments would be based on a percentage of the value of the animal and would be repayable at time of sale.
2. *Establishment of a long-term debt program secured by a loan guarantee.* The opportunity for producers to financially restructure by terming out some of the operating losses from BSE over an extended period of time would free up operating credit necessary to pay their current expenses. In order to allow for this restructuring, cooperating lenders could avail themselves of a loan guarantee from government for a portion of the new term loan in exchange for a fixed, low interest rate, and a long repayment term. If this could be coupled with the option for early repayment without penalty, this could be a valuable tool for many producers, particularly younger producers to survive until markets normalize.
3. *Interim advances on CAIS based on inventory write-down.* While the CCA recognizes that the CAIS program has the potential to offset a portion of the losses in income from BSE, the program is slow to react, the payments are uncertain, and the current application procedures are cumbersome to apply for interim payments. Additionally, the calculation for eligibility does not take into account deferred revenue losses, only actual losses after sale of the animals. With a limited ability to sell their production, this will not allow for adequate cashflow from CAIS fast enough for many producers. To offset this problem, producers should be eligible to apply based on a write-down in the value of their herd, independent of actual sales. This would allow for ease of application, faster access to cashflow, and would parallel the evaluation that lenders are performing on the credit-worthiness of the producer. As these are recognized as advances on CAIS, reconciliation will occur, and any over-payments could be booked against future CAIS payments rather than be subjected to an actual claw-back that could hurt the cash position of producers.

Marketing

In 2002, the last normal year for beef production, domestic fed beef net production was 1.027 million tonnes. The total for 2004 is expected to be 1.174 million tonnes - an increase of 14%. By 2006 this is expected to increase to 1.477 million tonnes - an increase of almost 44%. In addition, domestic supply of non-fed beef is expected to increase by 154% by 2006 if we are unable to export beef from cattle over thirty months. There must be sufficient markets for this increase in beef production, and this will be a challenge borne by the Beef Information Centre (BIC) and Canada Beef Export Federation (CBEF). This will be achieved by 1) increasing domestic consumption; 2) increasing beef exports to the U.S.; and 3) increasing beef exports to non-U.S. markets through increasing market share and market diversification. An aggressive global marketing strategy will be implemented in order to achieve this.

To help coordinate marketing efforts and secure adequate funding, the industry established a Global Marketing Advisory Committee (GMAC) for Canadian beef in 2001. Part of GMAC's role is to provide coordination between the Beef Information Centre (BIC) and Canada Beef Export Federation (CBEF) to ensure that the right products are being marketed to the right customers to increase the value of the carcass, thereby providing the producer with increased

profitability. One tool that can be used is the boxed beef report, which provides the opportunity to identify value opportunities by every cut and product. It is necessary to ensure that markets are being targeted that will increase not only the total tonnage sold, but that the value of the carcass is being maximized.

	Domestic Fed Beef Net Production (million tonnes)		Domestic Non-Fed Beef Net Production (tonnes)		Domestic Non-Fed Beef Supply (tonnes)	
		<i>Change from 2002</i>		<i>Change from 2002</i>		<i>Change from 2002</i>
2002	1.027		320,377		65,118	
2003	0.969	-5.6%	181,115	-43.47%	74,326	+14.1%
2004	1.174	+14.3%	136,802	-57.30%	136,802	+110.1%
2005	1.373	+33.7%	164,208	-48.75%	164,208	+152.2%
2006	1.477	+43.8%	165,293	-48.41%	165,293	+153.8%

* 2004-2006 based on projected slaughter increases

U.S. Market Access and Security

Increased slaughter capacity will result in the reduction of the Canadian beef industry's dependence on the U.S. market. That translates into significant changes in the domestic market as the industry restructures to create greater slaughter capacity and further processing capabilities within Canada. That being said, it is important to recognize that the U.S. is still the largest export market for Canadian beef and as such we must continue to provide service to that market. We exported 407,764 tonnes (carcass weight basis) of beef to the U.S. in 2002 accounting for 33.7% of our production. The expansion of the Canadian beef industry over the past 15 years has been built on trade. Our dependence on trade makes it vitally important that we re-establish export volumes and maintain secure access to the U.S. market. Reducing vulnerability to potential trade impairment can be achieved by further market diversification and development of programs that reduce the threat of regulatory impediments by creating greater customer loyalty. Mitigating the impact of the BSE crisis on U.S. export volumes will require a very targeted and focused mix of industry-wide and company specific tactics.

The marketing strategy will be flexible to adjust to changing market conditions. Outcomes of market access issues including eligible products will have a direct impact on strategy. Examples include restrictions on bone-in beef products and eligibility of further processors to export. Total available beef supplies, prices, and market will also have an impact. Currently U.S. beef supplies are very tight as total production is down over 9% year to date.

To create greater customer loyalty, the identity of Canadian beef will be managed like a branded consumer product with identifiable attributes. For Canada, with very high priced product, it is critical that buyers understand why Canadian beef is a premium product and priced accordingly. In establishing the "Canadian Beef Advantage", the equivalency to U.S. beef will be reinforced and the unique advantages leveraged. These could include genetics, animal management, individual animal identification, vitamin E, inspection, grading, yield, supply capability, etc. The "Canadian Beef Advantage" is being established in consultation with industry and

government partners. Awareness and recognition can be generated using a targeted education and training program focused on key supply-chain partners for optimum synergy. Under this umbrella identity, supply chain developed branded programs can flourish to serve specific market requirements. This will also address the tremendous amount of misinformation about Canadian beef that exists in the marketplace. This product knowledge, combined with the customer's relationships of the suppliers of Canadian beef, will form an effective platform from which sales can be made.

Export Market Initiatives

Canada's BSE crisis has challenged the role and function of the Canada Beef Export Federation. The primary market development focus has been replaced, during the period of trade isolation, by a new mandate of regaining market access while supporting client commitment. The Federation is drawing on strong local relationships to obtain information that is useful to the process of trade negotiation. Former clients are kept fully informed on the efforts and status of Canada's cattle production and beef processing sectors - ensuring their support upon market re-entry. Enhanced market development programs were designed to stimulate volume, value and market share recovery once markets open. Again, resources were identified to allow the Federation to help Canada return to pre-BSE trade levels in the short term.

A new challenge has emerged - that of profitably marketing an additional 400,000 tonnes of beef to international markets, while simultaneously achieving our export diversification goals. Canada is embarking on a significant beef processing capacity expansion - adding 1 million head per year to our existing 3.8 million head base capacity. This industry goal is designed to balance the supply of cattle with processing capacity by 2006. Achieving this goal will remove Canada, on a net basis, from the feeder and slaughter cattle export trade. Specifically, this will eliminate our industry's dependence on the export of 1 million cattle per year to the U.S. The new strategy will develop a secure and diversified mix of markets for the 400,000 tonnes of additional beef products. While exports of processed beef products are of lower risk than the export of live cattle, the challenge remains to both increase capacity and reduce our total beef export dependence on the U.S. to 50% by 2010.

The Canadian beef industry, based on market access recovery and increasing beef processing capacity, can confidently look forward to becoming the second largest exporter of beef products in the world. Looking forward, Canada will reduce its dependence on the risk-laden feeder/slaughter cattle export trade, reduce beef export dependency in any single market, and develop high quality markets for over 1 million tonnes (\$3.7 billion) of high quality Canadian beef. The Canada Beef Export Federation is well positioned to drive the "CANADA BEEF" brand to new awareness levels in Japan, South Korea, Taiwan, Hong Kong, China, Mexico, Europe and new emerging markets around the world.

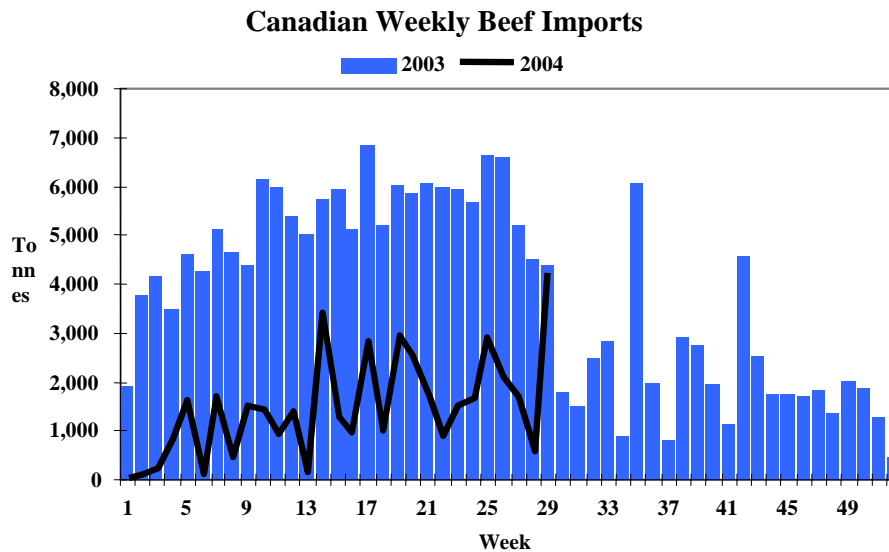
Commercial Beef Utilization Strategy

During the BSE crisis, the value of cull cattle declined the most of any class of cattle. Lower prices and, in some cases, inability to sell cull cattle for immediate slaughter have reduced producer returns. The economic consequences for cow/calf operators are significant as it is

estimated that about 25% of their revenue is generated from sale of cull cattle. Dramatically lower returns are threatening the viability of cow calf operators across the country.

The ownership of this cull cow and bull challenge is currently concentrated with producers and government. The gate to plate coordination of internal players including producers, packers, processors and distributors will be paramount to long-term success. A strategy has been developed to address the mounting cull cow and bull challenge facing the industry. The CCA is addressing live cattle exports, supply development, import permit policy and product segregation issues. The Canada Beef Export Federation is pursuing opening up international markets for products from animals over 30 months. The Beef Information Centre is responsible for implementing the *Commercial Beef Utilization Strategy*. The objectives are as follows:

- 1) To increase market share versus non-NAFTA imports by addressing barriers to increased use of Canadian commercial beef products in the domestic market



- 2) To increase the size of the domestic commercial beef market
- 3) To add value to commercial beef products through new product innovation.

The CCA believes that given the challenge and subsequent consequences we face today, we must plan for the current trade situation and adapt as required if and when markets for beef from cattle 30 months of age and older reopen. Even when we eventually re-establish exports for this class of products, we must reduce our dependency on live cattle exports and our vulnerability to future trade impairment. Sales promotion components designed to expand the size of the market will need to be scaled to the supply and availability of product. Investing now in programs that improve the quality and safety of our products will improve our competitiveness domestically and eventually abroad.

The problem we face, though difficult, permits only one solution. At least until such time as we can win export market access for cattle and or beef from cattle over 30 months of age, we must

either consume the product in the domestic market or suffer its removal from the food supply by means of humane slaughter and destruction of product.

Building on our advantages to position Canada beef as a world leader

Canada has been able to establish itself as a world leader in beef quality and safety. We have the opportunity to use this as a tool to market Canadian beef throughout the world. We can further establish a competitive advantage in our animal management and identification and the resulting safety and quality of our cattle and beef products.

Identification: Tracking and Traceback

The ID traceback system has had the opportunity to be seen in action, and we are now focusing on post-BSE identified program enhancements, system upgrades, the move to radio frequency identification (RFID) technology by 2005, the incorporation of all livestock species through the development of the Canadian Livestock Identification Agency (CLIA), and the need to harmonize ID traceback programs globally. In addition, the collection of birth date data within the Canadian Cattle Identification Agency (CCIA) database will provide producers with the opportunity to log in and manage the data associated with their inventory.

RFID is a critical technology that must be broadly implemented to ensure wide adoption of initiatives related to Animal Movement and Sighting. The move to RFID on January 1, 2005 will provide the industry with further assurances of accurate and efficient collection, management, and retirement of data while facilitating timely processes within a traceback situation. Further enhancements to the Canadian Cattle Identification Program will enable the industry to implement full animal movement tracking through the use of RFID and reader technology at the production, auction mart, and packing plant levels. In addition, this will provide the ability to incorporate historical movement data during an animal health crisis as the animal(s) move through the value chain.

CCIA and the Canadian Food Inspection Agency (CFIA) are participating in a North American harmonization working group on identification to ensure compatibility and standardization as we move forward. In addition to the U.S., as we move forward CCIA continues to communicate and exchange information with other countries such as Australia, Uruguay, Brazil, Japan, etc. on ID technology and traceability requirements. International recognition continues to increase, as Canada becomes the first country to adopt RFID technology as a whole.

Zoning

The CCIA database also provides the unique ability to create virtual health zones that could be used to assess animal presence within specified zones. In the case of an animal health emergency, information will be readily available to track animal presence and movement within specified health zones. This would provide the ability to quickly segregate infectious animal health emergencies into a smaller area, protecting other unaffected areas of the country from the detrimental economic effects of the outbreak.

Value added carcass info

Another tool that the CCIA database could provide is to collect carcass data for producers. This would enable producers to assess their success in both the production and processing of animals through the value chain. This, in turn, provides producers with another tool to make better informed decisions about their production practices.

Quality Starts Here (QSH✓) Verified Beef Program

In the CFIA investigation, it was repeatedly commented that what made their investigation go as quickly and as efficiently as it did was the fact that most of the operations involved in the investigation kept exceptionally good records. As a result the investigation not only concluded very quickly but we were able to prove to our international markets that we had the situation well under control.

The QSH✓VBP program is in the final stage of being reviewed by the CFIA to determine if it is technically sound when tested against the general requirements of a HACCP Based program. (HACCP stands for Hazard Analysis Critical Control Points.) This is an *internationally accepted standard for food safety programs* which helps to identify the food safety risks and hazards related to a food production system and to implement the management procedures needed to reduce risks.

Conclusion and Next Steps

Over the course of the next few years, we will see capacity increase to decrease our dependence on live cattle trade with the U.S. In the meantime, we can provide some breathing room with a program to manage marketings to capacity and by providing financial tools to allow producers more flexibility over the next year.

The CCA's strategy for the recovery of our industry requires the commitment of our producers and other industry members. In developing a strategy for the future sustainability and success of our industry, we realize that there are some outcomes we cannot predict. *No action we pursue will be without some degree of difficulty or failure.* However, inaction is not an option at this time. Canadian producers have shown their resilience over the past 15 months, and there is a strong willingness to pursue any avenues that will help the industry recover. The time has come where we must work to recover and re-position ourselves such that we are able to look forward to a sustainable future in this industry.

ANNEX:

CANADIAN SLAUGHTER CAPACITY

One of the key elements in Canada's BSE response is the availability of slaughter capacity to process the animals expected to be marketed during the fall and winter period. This naturally leads to the question of what exactly is Canada's cattle slaughter capacity.

It must be understood at the outset that any estimate of slaughter capacity is an "estimate". A wide variety of factors prevent plants from operating at theoretical capacity limits. These include the need to perform regular maintenance, the availability of additional labour, and the physical and/or legal ability of plant employees to work unlimited overtime and statutory holidays.

Equally important for plants that kill both fed and non-fed cattle is the fact that slaughter lines can run faster when processing youthful versus older cattle. Thus overall capacity may be reduced or increased depending on the mix of fed and non-fed slaughter. In addition, the balance between Canada's fed and non-fed slaughter capacity has been impacted by the U.S. regulation preventing plants that kill both fed and non-fed cattle from exporting to the U.S. market.

The foregoing was taken into account in calculating Canada's slaughter capacity. It should also be noted that whenever it was required to estimate plant slaughter a conservative estimate was used.

Capacity – June 2004

Canada's current federally inspected slaughter is approximately 75,300 head per week. Of this, approximately 8,000 head per week is "normally" devoted to slaughtering non-fed beef. Thus current fed cattle slaughter capacity of 67,300 per week shows that plants are able to obtain 99% of fed capacity and 95% of non-fed capacity levels.

Provincially inspected slaughter adds another 3,600 head per week. Provincially inspected plants are thought to be operating at capacity limits and it is unlikely that additional capacity will arise through this channel.

Adding provincially and federally inspected slaughter capacity together provides a total Canadian capacity of 78,900 per week or approximately 3.95 million head annually.

Capacity – October/November 2004

By November 2004 new capacity will be available at plants owned by Rangeland Beef Processors, British Columbia; XL Foods, Alberta; Gencor Foods Inc., Ontario; Colbex/Levinoff, Quebec; and Atlantic Beef Products Inc., Prince Edward Island. It is estimated that these plants will add an additional 6,100 head per week to Canadian slaughter capacity.

This will increase overall weekly, federally inspected slaughter capacity to 81,400 head. Combined with existing provincially inspected slaughter (3,600 head per week), the annual kill in Canada would exceed 4.25 million head.

Capacity 2005

There are a number of other planned expansions that will increase 2005 capacity. Several of these will be on-line early in the year as Rangeland Beef, Gencor Foods Ltd. and Atlantic Beef Products Inc. should be fully operational after their 2004 start up. The scale-up of these plants would increase weekly capacity by 2,000 head.

Tyson Foods Ltd. announced a \$17 million expansion to their plant in Brooks, Alberta that will increase that plant's capacity by 1000 head per day to approximately 5000 head per day and add 300 full time jobs to their workforce. The expansion is planned to be online by fall 2005.

Cargill Foods also announced the commencement of the second phase of their three-part expansion to their plant in High River, Alberta.

The additional 10,400 head capacity increases weekly federally inspected capacity to 91,800 head and total Canadian capacity to 95,400 or 4.77 million annually.

Capacity – 2006

There are many other proposals that are being discussed. Included among these are the Alberta-based Ranchers Beef initiative, potential expansion at Better Beef Ltd, Ontario and a new plant in Quebec. In addition, the third phase of the Cargill Foods expansion should be completed. Combined, these may add an additional 9,250 head per week to federally inspected kills later in 2006.

Given the foregoing, total Canadian weekly capacity at the end of 2006 may exceed 104,000 head. This would facilitate an annual kill of over 5.2 million head.