



BSE and the Beef Cattle Industry **Strategy for Recovery**

FALL 2004

A message to my fellow Canadian beef cattle producers

From Stan Eby, President, Canadian Cattlemen's Association



A strategic plan to reposition the Canadian beef cattle industry has been developed by the Canadian Cattlemen's Association (CCA) and unanimously approved by the CCA Board of Directors. On September 10 the Federal Government announced up to \$488 million will be made available to the industry for efforts to reposition the industry, largely based on the CCA plan. While both the CCA and the Federal Government will continue lobbying to re-open the U.S. border to an expanded list of products, this new direction focuses on recovery through adding value by slaughtering cattle in Canada rather than exporting live animals. This will not only help us through the current crisis but will make our industry less vulnerable to trade disruptions in the future.

All elements of the strategy must work together to achieve the desired goal – a more profitable Canadian beef cattle industry, now and into the future. The publication you're reading describes the elements of the repositioning strategy.

Some aspects of this strategy involve programs offered by government. Details of these programs vary from province to province. I encourage you to contact your provincial cattle association or provincial agriculture department to find out what's being offered in your area. By all sectors of our industry working together, we can reposition the beef industry to be profitable once more. Working together works.

Summary of the Strategy to Reposition the Canadian Beef Cattle Industry

- Increasing slaughter of Canadian cattle with a high priority on increasing slaughter capacity in Canada
- Managing marketings to better match slaughter capacity available until additional capacity comes online
- Expansion of domestic and export markets for Canadian beef
- Addressing cash flow
- Enhancing movement tracking of cattle and age verification, building on the present CCIA system
- Meeting Canada's BSE surveillance targets



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INCREASING SLAUGHTER CAPACITY IN CANADA

In 2002, prior to the discovery of BSE in Canada, Canada exported 1,686,452 head of live cattle at a value of \$1.8 Billion. Most of these exported cattle were destined for slaughter in the U.S. The practice of exporting live cattle for slaughter developed in response to economic forces.

Just over a year ago the U.S. and Mexico markets re-opened to Canadian beef from cattle under 30 months of age. That left the cattle that were previously slaughtered in the U.S. competing for spots in Canadian plants with the cattle normally slaughtered in Canada. The greater supply of cattle than capacity to process them is what has been driving down cattle prices in Canada.

At present Canada has the capacity to slaughter approximately 79,000 head of fed and non-fed cattle each week. A wide variety of factors may prevent plants from operating at 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.

Averaged over the year, there are currently approximately 85,000 head of fed and non-fed cattle marketed in Canada each week. Given Canada's current maximum capacity of 79,000 head per week, this means that without intervention and averaged over the year, there would be a surplus of approximately 6,000 head of cattle attempting to be marketed each week.

In the strategy developed by the CCA, CCA advocated that the expansion of processing capacity through the opening of new plants and the expansion of current processing facilities be given the highest priority. The Federal Government has committed \$66 Million to help with these efforts. A Loan Loss Reserve is being established to increase lenders' willingness to support projects to increase slaughter capacity. Funding will also be directed to the Canadian Food Inspection Agency (CFIA) to expedite necessary inspection procedures.

Even prior to the Federal announcement, the processing sector was responding with plans to increase capacity. Including only those that currently have the capital or have begun construction or expansion, by the first half of 2005 capacity is expected to be 90,000 head per week, increasing to 95,000 head by the end of 2005.



Included in these numbers is the new Atlantic Beef plant opening in Prince Edward Island, Rangeland Beef Processors in British Columbia, Gencor Foods Inc. in Ontario and expansions at XL Foods in Saskatchewan and Colbex/Levinoff in Quebec. In addition 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, to be online by fall 2005. Cargill Foods announced the commencement of the second phase of a three-part expansion to their plant in High River, Alberta increasing the plant's capacity by 2000 head per week.

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 8,750 head per week to federally inspected kills later in 2006.

While much-needed slaughter capacity for non-fed cattle is coming online, this class of cattle will continue to present a challenge over the next few years. The Federal announcement of September 10 includes a provision for removing a percentage of animals from the herd that would normally have been culled but for which there is currently no market. Animals would be humanely euthanized, some of which would be suitable for inclusion in Canada's national BSE surveillance program (see article on page 7). This option will be made available in provinces where governments determine there is a need and may not be offered in all provinces. Contact your provincial agriculture department to find out program availability in your area. CCA will continue to work to address the cull cattle issue.

MATCHING CATTLE COMING TO MARKET WITH AVAILABLE CAPACITY

Over-supply of market-ready cattle compared to capacity available to slaughter them has been the cause of decreased cattle prices throughout the BSE crisis. Slaughter capacity in Canada is increasing. However it takes time for plants to be built or expand their facilities. Until this extra capacity comes online we have to better match the number of cattle coming to market with the processing capacity available.

That's why the CCA advocated for, and the Federal Government included in its strategy, set-aside programs for market-ready cattle and for younger animals. The feeder cattle and fed cattle set-aside programs are designed to influence the marketplace in a manner that will benefit all cattle producers. They are not income support programs.

The set-aside programs benefit all cattle producers, not just those who receive payments for enrolling cattle. All producers benefit from the stability brought to the live cattle market when numbers of cattle coming to slaughter are matched to the slaughter capacity available. Enrolling cattle in the set-aside programs is a concrete way for cattle producers to positively impact the current situation and help re-establish the profitability of the Canadian beef cattle industry.

How Does It Work?

Individual provinces are responsible for determining the elements of the Federal

strategy that they will participate in and how those elements of the program will be administered. You are strongly advised to contact your provincial agriculture department to find out which elements are being offered in your province and the details of how they are being administered. There are some basic aspects of the set-aside programs that are expected to remain standard wherever the programs are offered.

Fed Cattle Set-Aside Program

Fed cattle can be placed on a maintenance ration for an extended period of time with reduced weight gain while maintaining desirable carcass characteristics. The main objective of the fed cattle set-aside program is to stretch out the inventory until increased capacity is online, 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. The number of cattle to be enrolled in the set-aside is determined by a management committee, comprised of federal government, provincial government and industry representatives.

Fed cattle are set aside for up to 90 days and cattle feeders compensated for feed costs during that period when the price the cattle attract on the open market falls below a certain basis compared to the U.S. The management committee determines intakes and releases of animals as required.

Participation is voluntary and usually determined on a reverse bid-in process – feeders offer a per day feeding cost for the cattle they wish to enroll, and the lowest bids are selected.

The program will end on January 1, 2006, or when the U.S. border re-opens to live cattle, or when sufficient capacity has come on-line, whichever comes first. Contact your provincial agriculture department for details in your province.

Feeder Cattle Set-Aside Program

While the fed cattle set-aside helps manage the immediate pressures on feedlots, the feeder cattle set-aside program assists industry in managing the supply of fed cattle over the next one to two years, as slaughter capacity increases.

Producers who voluntarily enroll cattle in the program receive a \$200 per head federal payment and in exchange undertake an assurance that the cattle enrolled will not go to slaughter for at least 12 months. The per-head payment compensates the producer for the added cost of keeping those cattle. All cattle enrolled in the program must be permanently identified. In some provinces an approved electronic ID tag is required.

Contact your provincial agriculture department to determine set-aside programs being offered in your province and the details of how to enroll.

RE-OPENING U.S. BORDER REMAINS A TOP PRIORITY

Clearly a resumption in live cattle trade with the U.S. would have the most immediate and significant positive impact on the Canadian industry from both a short-term capacity and price outlook. This remains a top priority of the CCA, along with the other elements of the repositioning strategy described in this publication.

CCA continues to work with its allies in the U.S., including the National Cattlemen's Beef Association, American Meat Institute, and National Meat Association, in attempting to push the issue forward. The National Meat Association has applied for intervener status in the R-CALF vs. United States Department of Agriculture (USDA) court challenge, to ensure that the court also hears the viewpoint of U.S. organizations in favour of re-establishing trade. The Alaska Farm Bureau is also lobbying for a resumption in live cattle trade

to address that State's concerns with accessing replacement breeding cattle.

The U.S. rulemaking process is complex and must, by law, follow a number of prescribed steps. The proposed rule for importing live cattle and other beef products from regions at minimal risk for BSE has gone through a number of these steps. It has been drafted by USDA, reviewed by the Office of Management and Budget (OMB), been published in the Federal Register, gone through a public comment period, and public comments have been reviewed by USDA.

As this was being written we were awaiting the next step, the completion of drafting of the final rule by USDA and submission to Office of Management and Budget for final legal review and to determine if the rule is considered significant or major. If deemed a

major and/or economically significant rule, OMB has up to 90 days to review the rule and if deemed major, there is a mandatory 60 day implementation period following publication in the Federal Register to allow for potential Congressional review. If deemed neither economically significant nor major, OMB has up to 30 days to review the rule (can be extended to 60) and then can publish it with or without an implementation period. USDA has committed to give R-CALF at least 5 days notice for implementation. In practice a 30 day implementation period for non major rules normally takes place but can be shortened.

The process continues to move ahead albeit very slowly. CCA will continue its lobbying efforts to move the process forward to a favourable conclusion.

BEEF MARKETING STRATEGY

Increasing Canadian slaughter capacity will increase the amount of beef available to be sold into the domestic and export markets. Currently Canada is finding a market for all the beef it's producing. By 2006 it's expected that supply of fed beef will have increased by almost 44%. If Canada remains unable to export beef from older cattle, supply of non-fed beef is expected to be up 154% by 2006. An aggressive global marketing strategy is being implemented to ensure Canada continues to find markets for all of its beef production as capacity increases.

The marketing strategy will be flexible to adjust to changing market conditions. Outcomes of market access negotiations, including which products are eligible to export to which countries, will have a direct impact on strategy. Examples include restrictions on bone-in beef products and eligibility to export further processed products. Total available beef supplies, prices, and market will also have an impact.

The Canadian market continues to be our largest, most stable market. In 2002, 51% of Canadian beef was consumed in Canada. 36% was consumed in the U.S., 6.9% in Mexico, 4% in Asian countries and 2% in all other countries.

U.S. Market

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. Increased slaughter capacity will result in the reduction of the Canadian beef industry's dependence on the U.S. market. However, 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. Currently U.S. beef supplies are very tight as total U.S. production is down over 9% year to date. Enhancing beef sales into the U.S. market is one of the mandates of the CCA's Beef Information Centre (BIC) division. 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 with the suppliers of Canadian beef, will form an effective platform from which sales can be made.

Rest of World

Industry, led by the Canada Beef Export Federation (CBEF), 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. The 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. Efforts have resulted in markets being partially re-opened to Canadian

beef in the United States and Mexico, with full access gained in Macau. Canadian beef has been shipped at least once to 38 countries around the world. Other markets have re-opened to bovine semen, embryos, or both.

Facilitating beef sales into non-U.S. export markets is the role of CBEF. Prior to BSE, CBEF and its members were successfully increasing and diversifying Canadian beef exports. Exports to Asia and Mexico had increased from \$24 million in 1990 to \$471 million in 2002. Sights were focused on exporting \$1.1 billion by 2010.

Looking ahead, the Canadian industry intends to process up to 5 million cattle per year by 2007, an increase of 1 million head or 400,000 tonnes of processed beef over current levels. Increased attention must be paid to the structure of the beef export trade. The challenge is to strengthen international presence and expand trade in global markets to accommodate increased production rather than depending on the U.S. market. In 2002 over 70 percent of Canada's beef exports went to the U.S. The goal is to decrease beef export dependence on the U.S. to 50%. The goal by 2010 is to increase exports outside the U.S. to 500,000 tonnes, a 354,000 tonne increase over 2002 non-U.S. trade.

In order to achieve this, unrestricted access is being sought to export markets currently open to Canadian beef, as well as re-establishing trade to the Asian markets and developing emerging markets such as Europe and Russia.

The September 10 Federal Government announcement included \$37 million in funding for expanding export markets. Funding is targeted to achieving the regulatory requirements needed to re-enter export markets, strengthening Canada's tracking and tracing system for cattle, and meeting internationally mandated surveillance targets.

Domestic Market

Canadian consumers have been exceptionally supportive. According to Statistics Canada, domestic consumption increased by 5% in 2003. Canada was the first country to see domestic consumption increase after having a diagnosis of BSE. The Canadian experience is being used as an example of how BSE doesn't have to mean a crisis in consumer confidence.

Presently the BIC, 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 being 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.

Commercial Beef Utilization

During the BSE crisis the value of cull cattle has declined the most of any class of cattle. This is due in part to a serious lack of slaughter capacity for older cows, and also because to date only one export market – Macau – has re-opened to beef from cattle over 30 months of age. The economic consequences for cow/calf operators have been significant as prior to BSE approximately 25% of revenue was generated from sale of cull cattle.

Efforts are ongoing to increase slaughter capacity and to re-open export markets to beef from cattle over 30 months. Until export markets are re-opened, beef from this class of cattle will have to be consumed domestically. Enhancement of the Commercial Beef Utilization Strategy is ongoing.

One aspect of the strategy is displacing imports of off-shore beef, which is usually lean grass-finished beef for which cow beef can be substituted. Each tonne of displaced offshore beef represents a market for approximately four older cattle. Imports of offshore beef into Canada have decreased 65% since the same timeframe last year.

Under World Trade Organization (WTO) rules, Canada is obligated to import 76,409 tonnes of offshore beef tariff-free each year. Further processors say there are not adequate numbers of older cows being slaughtered in Canada to meet their needs on a steady basis and have successfully argued for continued issuance of supplemental quotas for tariff-free imports. CCA is continuing to oppose this position. Acting on CCA's recommendation is one way the Federal Government can encourage the expansion of cow slaughter in Canada.

The BIC is developing marketing strategies to encourage the increased consumption of commercial beef, especially ground beef, in Canada.

CASH FLOW AND EQUITY ISSUES

On September 10 the Federal Government announced as part of its repositioning strategy for the Canadian beef cattle industry that Canadian Agricultural Income Stabilization (CAIS) program advances would be made available to cattle producers. A set amount for each breeding ruminant on inventory would be made available. CAIS advances based on estimates of full year claims are also available.

As of October 1, five provinces had announced they would participate, making CAIS advances on breeding ruminants available to producers in those provinces. The five provinces that had announced participation by October 1 were Nova Scotia, Manitoba, Saskatchewan, Alberta and British Columbia. Contact your provincial agriculture department for details.

The CCA had lobbied the Federal Government for CAIS program advances as part of the strategy developed by the CCA. The CCA also lobbied for establishment of a long-term debt program

secured by a loan guarantee. This has not been made part of the Federal strategy. CCA is continuing to pursue loan guarantees for eligible producers.

CCA is also continuing to lobby for tax strategies to help producers through the income crisis caused by BSE. These strategies include a temporary tax deferral similar to those granted during periods of severe drought. This would allow producers to defer income until markets normalize. CCA is also lobbying for tax averaging options for producers who may choose to exit the industry at this time. For example, allowing a 10-year deferral on taxable income for producers who need or want to leave the industry would help alleviate financial hardship.

CCA is continuing to lobby on behalf of Canadian cattle producers on these and other issues.

CATTLE IDENTIFICATION PROGRAM GIVES CANADA LEG UP ON THE COMPETITION

The Canadian Cattle Identification Program proved its effectiveness during the investigation into the origin of the Alberta cow diagnosed with BSE when identification records allowed the Canadian Food Inspection Agency to complete its investigation in less than 3 weeks. Now the potential of the identification program to be used as a tool in age verification of cattle is also being explored.

Currently, the state of an animal's teeth (dentition) is the accepted means for age verification of cattle for beef markets that are open to beef from cattle under 30 months. The second incisor tooth generally erupts in cattle at around 24 months. However it's not an exact method and many producers have had the experience of having cattle discounted because the second incisor has erupted when the producer is certain the actual age of the animal is under 24 months.

In addition, on-going negotiations with Japan are indicating the Japanese market could potentially re-open to beef from cattle 20 months or younger. Birth records could become very important in that process and may be of greatest acceptance to the Japanese.

The Canadian Cattle Identification Agency (CCIA) database is capable of storing birth date records filed according to CCIA tag number. Development of this enhancement to the CCIA database is proceeding. However the specifics of how the information will be collected and whether producers will be able to log in to a website through CCIA and upload their birth

date info on their CCIA numbers is still being determined along with a means of verification. In the meantime producers are advised to position themselves to take advantage of this development when it's available by keeping their own records of start of calving season, end of calving season, or exact calving dates if possible, and the unique CCIA tag numbers assigned to calves.



On January 1, 2005 the Canadian Cattle Identification Program is moving to Radio Frequency Identification (RFID) tags, otherwise known as electronic tagging. To help facilitate a timely transition to RFID technology the CCIA will cease the allocation of numbers to the manufacturing of bar-code tags after July 1, 2005. The CCIA is committed to grandfathering bar-code

tags into the system beyond January 1, 2005, but a timeline for this strategy has not been established. CCIA has approved 5 electronic tags for use in the identification program. Cost of CCIA-approved electronic tags is expected to be under \$3.00 at the retail level.

At time of writing one province – Alberta – had mandated cattle enrolled in the feeder cattle set-aside program delivered in that province would be required to be identified with a special electronic tag that also meets the criteria of the CCIA program. Mandating that the tags used in the program be CCIA-approved prevents producers from having to tag twice, once for the Alberta feeder cattle set-aside and once for CCIA identification purposes.

SURVEILLANCE AND CANADIAN CATTLE PRODUCERS – AN IMPORTANT PARTNERSHIP

Canada remains on track to meet its BSE surveillance target of testing 8,000 animals this year. As of September 28 Canada had tested 6,046 animals with all results negative. Canada has committed to testing at least 30,000 animals per year in coming years, a target that will be more challenging to meet. CCA is fully committed to reaching Canada's surveillance targets for BSE testing.

Surveillance is carried out to gain a better picture of the prevalence of BSE in Canada. Failing to meet surveillance targets could impede Canada's negotiations to re-open international markets, perhaps even more so than finding another case of BSE. All risk assessments carried out have concluded that a few additional cases of BSE may be found. Failing to meet surveillance targets could make it appear that Canada is not serious in its commitment to determine the true prevalence of the disease in Canada or in pursuing all measures to eradicate it.

Cattle producers have an important role to play. Canada's national BSE surveillance program targets animals most likely to be affected by BSE – cattle aged 30 months or older that are dead, dying, diseased or down and cattle of any age exhibiting

neurological symptoms. Cattle producers are best able to spot these animals.

The Canadian Food Inspection Agency (CFIA) has put \$4.1 million into a financial reimbursement program to encourage producers, veterinarians, deadstock collectors and renderers to bring forward eligible samples. Reimbursement values are being established provincially to reflect the cost and options for carcass disposal. Producers across Canada can call 1-866-400-4244 toll free to report a potential sample and for more information about reimbursement.

Canada needs to meet its surveillance targets to re-open markets to Canadian beef, to keep open those markets we have already accessed and to maintain Canadian consumer confidence in Canadian beef. Cattle producers can help themselves by helping CFIA find the targeted samples it needs.

Keep informed on the latest developments.

Daily updates from the Canadian Cattlemen's Association are available at www.info-cca.ca or by calling **1-866-INFO-CCA** toll free.

Additional information is available on the Canadian Cattlemen's Association website
www.cattle.ca

Information on BSE is available at www.bseinfo.ca

***Strategy for repositioning the Canadian beef cattle industry -
making our industry less vulnerable to trade disruptions in the future.***

FOR FURTHER INFORMATION ON BSE OR OTHER ISSUES CONTACT YOUR PROVINCIAL CATTLE ASSOCIATION

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