HOUSE OF COMMONS
CANADA

CANADIAN LIVESTOCK AND BEEF PRICING IN THE AFTERMATH OF THE BSE CRISIS

Report of the Standing Committee on Agriculture and Agri-Food

Paul Steckle, M.P.
Chair

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THE STANDING COMMITTEE ON AGRICULTURE AND AGRI-FOOD

has the honour to present its

SECOND REPORT

Pursuant to Standing Order 108(2), the Committee proceeded to a study on the pricing of beef at the slaughter, wholesale and retail levels in the context of the BSE crisis in Canada. After hearing evidence, the Committee agreed to report to the House as follows:

CHAIR'S FOREWORD

The House of Commons Standing Committee on Agriculture and Agri-Food conducted a study of "the pricing of beef at the slaughter, wholesale, and retail levels in the context of the BSE crisis in Canada." This study follows up on the Committee's report entitled *The Investigation and the Government Response Following the Discovery of a Single Case of Bovine Spongiform Encephalopathy*, tabled in the House of Commons in November 2003. In that report, the Committee observed stable or slightly decreasing wholesale and retail prices for beef products in the face of sharply declining cattle prices. The Committee found this rather unresponsive pricing pattern disconcerting and therefore recommended that the Competition Bureau conduct an investigation into the pricing of beef at the processing and retail levels — a recommendation that was supported by an official written request to the Commissioner of Competition.

In his letter of response on 3 December 2003, the Acting Commissioner of Competition stated that the Committee's report and hearings of 11 August 2003 did not "disclose any specific indication of an offence under the *Competition Act* had occurred" — a requirement under section 9(2) of the Act. Consequently, the Competition Bureau was not in a position to initiate an inquiry into the pricing of beef.

Since that time, more data has been made available which suggests that the situation has grown worse. In the aftermath of the BSE crisis, many industry experts and the public at large have observed cattle prices plummeting well below economically viable levels for many cattlemen. At the same time, the wholesale and retail prices of beef products have either risen or fallen by a much smaller proportion than cattle prices. The growing spread between farm-gate and retail prices has led many industry observers to express concern over the recent consolidation and rationalization within the packer and processing segment of the industry, which may have resulted in too much concentration of ownership. In the interest of pursuing these concerns, the Committee has continued its study of all potential explanations, including both competitive and anticompetitive conduct, for the most recent increase in wholesale-to-farm-gate and retail-to-wholesale price spreads. Should any anticompetitive conduct on the part of vertically integrated operators be found, including any conspiracy to lower the prices of cattle in the bidding for supply, the adoption of predatory procurement policies (i.e., using their feedlot activities to cross-subsidize slaughterhouse activities with predatory intent), or the adoption of a policy to refuse to deal with any livestock producer or his agent, the Committee will recommend corrective measures to government. Indeed, the Committee will provide, in addition to this report, a letter and attachments of complaints and allegations made by industry stakeholders to the Minister of Agriculture and Agri-Food, the Minister of Industry and the Commissioner of Competition.

On behalf of the Committee, I would like to thank the individuals and organizations that took part in this series of hearings, and express our appreciation for the helpful insights and analysis they provided. The Committee recognizes that Canada's agricultural sector provides safe and competitively priced food to the public while making a significant contribution to Canada's economy.

LIST OF RECOMMENDATIONS

RECOMMENDATION 1

That the Minister of Industry instruct the Commissioner of Competition, under section 10 of the *Competition Act*, to conduct immediately an inquiry into the pricing of slaughter cattle and beef at the wholesale level.

RECOMMENDATION 2

That the Competition Bureau monitor the wholesale and retail pricing of beef, as well as the fed and feeder cattle prices, and that the Commissioner of Competition report periodically, or at the call of the Chair, to the House of Commons Standing Committee on Agriculture and Agri-Food.

RECOMMENDATION 3

That the Government of Canada engage an independent body to conduct a comprehensive study of the competitive aspects of the cattle and beef products industry in Canada.

RECOMMENDATION 4

That the Government of Canada and its agencies involved in the agri-food sector work with livestock producers and processors to find new business opportunities in the livestock processing sector, with a particular emphasis on increasing livestock slaughter and value-added products processing capacity.

RECOMMENDATION 5

That the Governments of Canada and the United States immediately implement the World Organisation for Animal Health Code and repeal both countries' import embargoes, while continuing to negotiate other modalities of an implementation plan that would improve the free flow of livestock and meat.

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INTRODUCTION

On 20 May 2003, a single case of bovine spongiform encephalopathy (BSE) was detected in Alberta. This discovery set off a series of events that devastated Canadian cattlemen and other livestock producers and that continue to do so. The immediate closing of borders across the industrialized world to Canadian cattle and beef products sent cattle prices spiralling downward, led to the building of record levels of cattle inventories, dramatically raised feed costs, drained cattlemen's cash positions and completely eliminated any chance for profitability in 2003, with little prospects for recovery in the immediate and foreseeable future. The devastation did not stop at cattlemen and other livestock producers. The beef packers and further processors are also important export-oriented businesses that suffered financially from cattle being backed up at the border and from shipments of beef and beef products being halted, particularly exports bound for Japan and Korea. Demurrage and destruction costs were incurred on some of these products, while unusually high storage and refrigeration costs were experienced on backlogged products held in container yards and bonded warehouses. The only positive development arising from the BSE crisis was the donation of more than $1 million of beef products to Canada's food banks.

The cattle and beef products industry is an important source of wealth creation and employment in Canada; by 2002, it had grown to an estimated $7.7 billion in annual sales, with exports surging to $4 billion. Selected regions of Alberta, Saskatchewan and Ontario were particularly hit hard by the BSE crisis. Lost employment at the packers' facilities — which before the BSE crisis had directly employed more than 10,000 people and created five additional jobs (indirect and induced) for every person employed directly — threatened to pull down the economic foundations of many rural, farm-based economies. It is hoped that the $500-million Federal-Provincial BSE Recovery Program and at least $400 million in other provincial government assistance, along with the forthcoming $680-million federal government Transitional Industry Support Program, will prevent cattle-based communities from suffering economic collapse while awaiting the reopening of the export markets, in particular that of the United States.

The trends in wholesale and retail prices of beef and beef products since the beginning of the BSE crisis have been a source of confusion and concern for Canadians. Confusion arises because the public has noticed that the transmission of the initial impact on cattle prices, or prices at the production stage, through wholesale stage to the final retail stage was relatively slow, taking about two months overall. Furthermore, retail price reductions in this period were also less severe; the percentage decline in retail prices was small compared to that of farm-gate prices (the prices received by cattlemen). Concern arises because the lack of responsiveness of wholesale and retail prices to farm-gate prices suggests that the recent consolidation and rationalization within the packing and processing segment of the industry may have resulted in too much concentration of ownership that has engendered anticompetitive pricing and procurement practices. Moreover, Canadians are understandably worried by the possibility that one segment of the industry — packers and further processors — may have largely (except for their initial losses) escaped the economic turmoil caused by the BSE crisis, and may indeed have unduly profited by it, while another segment — cattlemen and ranchers — is undergoing financial upheaval.

Obviously, the economic forces that drive farm-gate, wholesale and retail prices of beef and beef products are complex. One of these complexities involves the joint production characteristic of the various beef cuts. The loss of the Japanese and Korean markets for beef tongues, kidney, tripe (stomach), feet and tails — by-products that are now sent to rendering or sold at significantly lower prices in other export markets — along with the loss of the lucrative Korean market for short ribs, which are now sent to "trim" for hamburger at 20% of the value of short ribs sold to Korea, has exerted pressure for change on current pricing arrangements. Also factoring into the farm-gate-wholesale-retail pricing equation is the fact that packers have lost the credits they used to receive from the rendering of the discarded meat and bones and, apparently, are now charged up to $40 per head to take away this material. Furthermore, since July 2003, Canada requires the removal of specific risk materials (SRM) — the contagion agent for BSE — at slaughter from all cattle aged 30 months and older, which has added directly and indirectly to processing costs: directly in the form of veterinarian and dentition costs, and indirectly by requiring separate slaughtering and processing lines based on the age of the cattle. Consequently, a much larger (processing cost) wedge has been driven between wholesale prices of traditional domestic-market beef cuts and the farm-gate prices of cattle, putting upward pressure on the former and downward pressure on the latter.

Which of these two economic accounts — the anticompetitive version or the competitive version — best explains the much larger wholesale-to-farm-gate price spread is the object of this Committee's investigation. The Committee has organized this report in the following way.

In Chapter 1, the Committee reviews the data on markets and prices — farm-gate, wholesale and retail — for cattle, beef and beef products just prior to and in the wake of the BSE crisis, and the wholesale-to-farm-gate and retail-to-wholesale price spreads.

In Chapter 2, the Committee examines the industry's competitive structure and performance at each stage of production. The Committee also focuses on the competitive aspects of the vertically integrated companies (i.e., feedlot and slaughterhouse operations) — Cargill Foods, Tyson Foods, XL Beef in Western Canada and Better Beef in Ontario.

In Chapter 3, the Committee assesses both the short- and long-term impacts of the BSE crisis, as well as the performance of the Federal-Provincial BSE Recovery Program.

In Chapter 4, the Committee assesses the responses of industry and the federal government to the BSE crisis and offers further suggestions for mitigating such crises in the future.

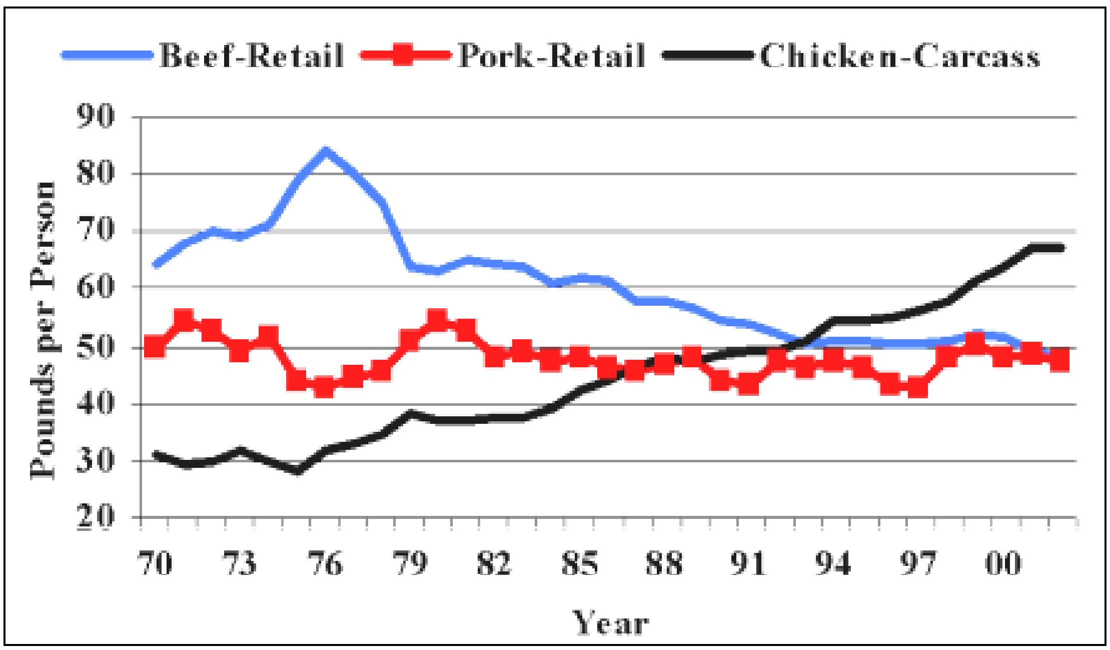
In the Conclusion, the Committee summarizes its findings and recommendations to government.

CHAPTER 1
BEEF AND CATTLE MARKETS AND PRICES IN CANADA

Domestic and Export Markets for Canadian Beef and Cattle (1987-2002)

Since the late 1980s, the Canadian cattle and beef industry has grown to an estimated $7.7 billion in annual sales. This expansion was primarily driven by exports to the United States, as it was stimulated by policies favouring freer trade (through the implementation of the FTA and the NAFTA) and a declining Canadian dollar currency exchange value. Domestic consumption of beef products, on the other hand, remained either stable or declined over the period (see Figure 1.1).

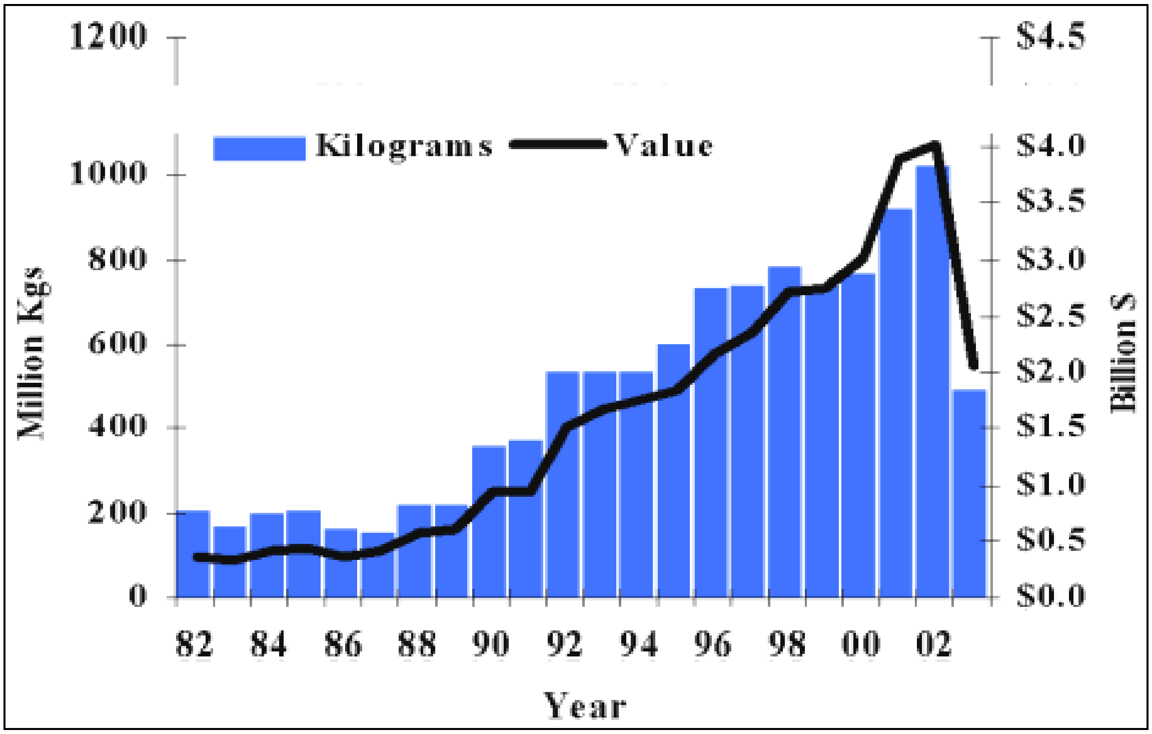
Figure 1.1
Canadian per Capita Meat Consumption
1970-2002



Source: Canfax, George Morris Centre

Indeed, total cattle and beef exports were $4 billion in 2002, the equivalent of $11 million in sales per day (see Figure 1.2). These exports consisted of $1.8 billion worth of cattle and calves and $2.2 billion in beef products. Approximately 60% of Canada's production was exported in 2002, with the United States accounting for 80% of Canadian beef exports and almost 100% of cattle exports.

Figure 1.2
Canadian Beef and Cattle Exports
1982-2003



Source: Canfax, George Morris Centre

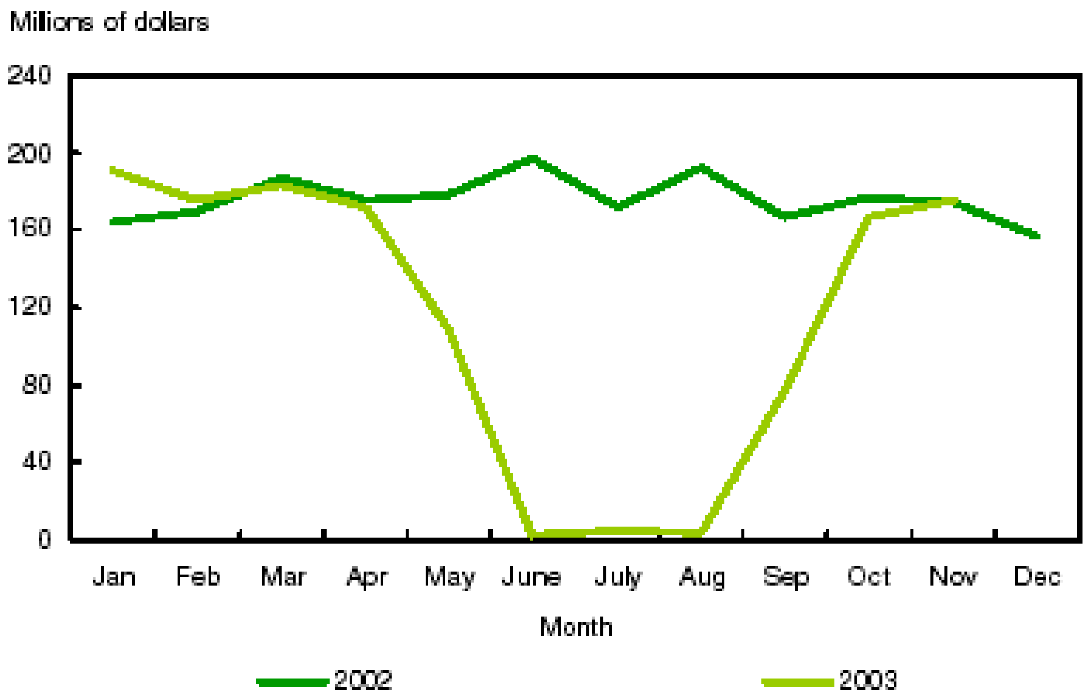
The export market has enjoyed phenomenal growth since the late 1980s. In the early 1980s, the value of Canadian cattle and beef exports consistently hovered just below the $500-million level. In the 15-year period that followed the 1988 implementation of the FTA, Canadian cattle and beef exports experienced an eight-fold increase, the equivalent of a 16.3% annual compound growth rate. The FTA was clearly the principal stimulus for this strong performance, but the declining value of the Canadian dollar vis-à-vis the U.S. dollar — from US85¢ in 1990 to US64¢ in 2002, or about a 25% decline in value over the period — also played an important role.

Post-BSE Beef and Cattle Markets

The Canadian beef and cattle industry was enjoying record demand in 2003. However, the export market, which had begun the year in strong fashion, started to show signs of weakness in late March and early April, the likely consequence of a rising Canadian dollar. Bad soon turned to worse when, on 20 May 2003, a single case of BSE was found in Alberta. Based on this finding, borders across the industrialized world were immediately closed to Canadian cattle and beef products. Canadian beef exports plummeted to virtually zero throughout

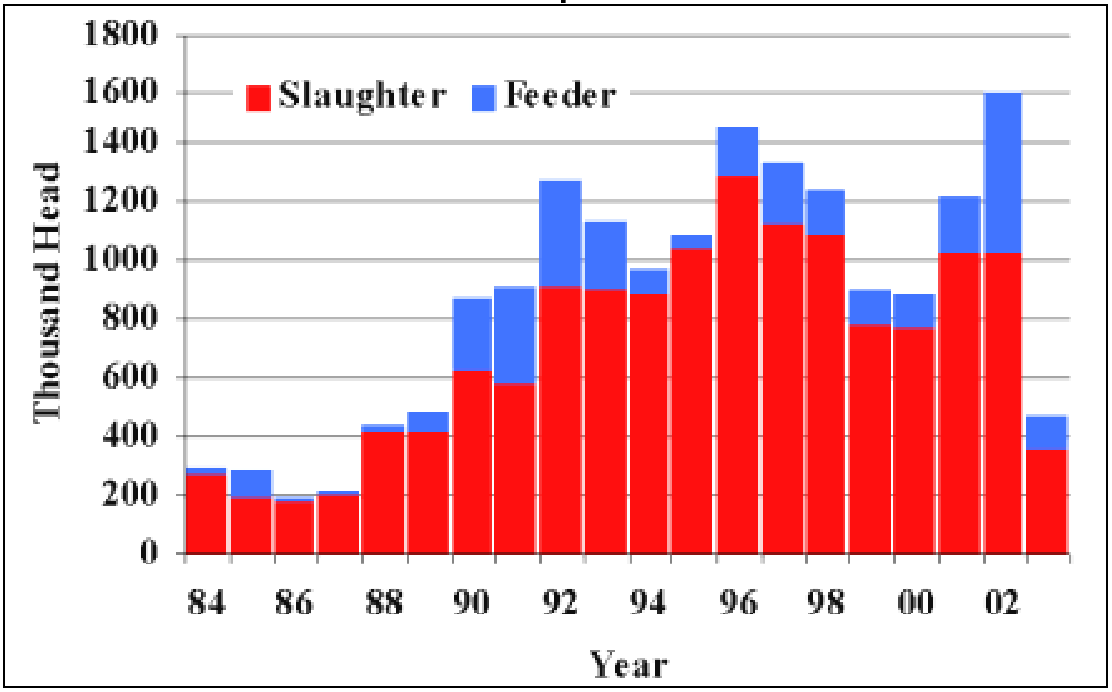
June, July and August 2003, but gradually recovered through September and October with the lifting of the U.S. embargo on Canadian boneless beef cuts from cows no more than 30 months old. By November 2003, beef export values had returned to pre-BSE crisis levels (see Figure 1.3), which is somewhat surprising given the 20% appreciation of the Canadian dollar vis-à-vis the U.S. dollar in the period. This superior export performance can only be explained by the comparative advantage bestowed upon Canadian packers relative to U.S. packers through the depressed Canadian cattle prices needed to relieve the excess supply situation created by the U.S. embargo on Canadian cattle. Nevertheless, due to lost sales during the summer months, beef product exports in 2003 were well below 2002 levels. In fact, between January and November last year, Canadian companies exported $1.3 billion worth of beef products, down 36% from $2.0 billion during the same 11 months of 2002.

Figure 1.3
Canadian Exports of Beef Products — 2002-2003



Source: Statistics Canada, Catalogue no. 11-621-MIE — No. 010, *Mad Cow Disease and Beef Trade: An Update*, p. 2

Figure 1.4
Canadian Cattle Exports — 1984-2003



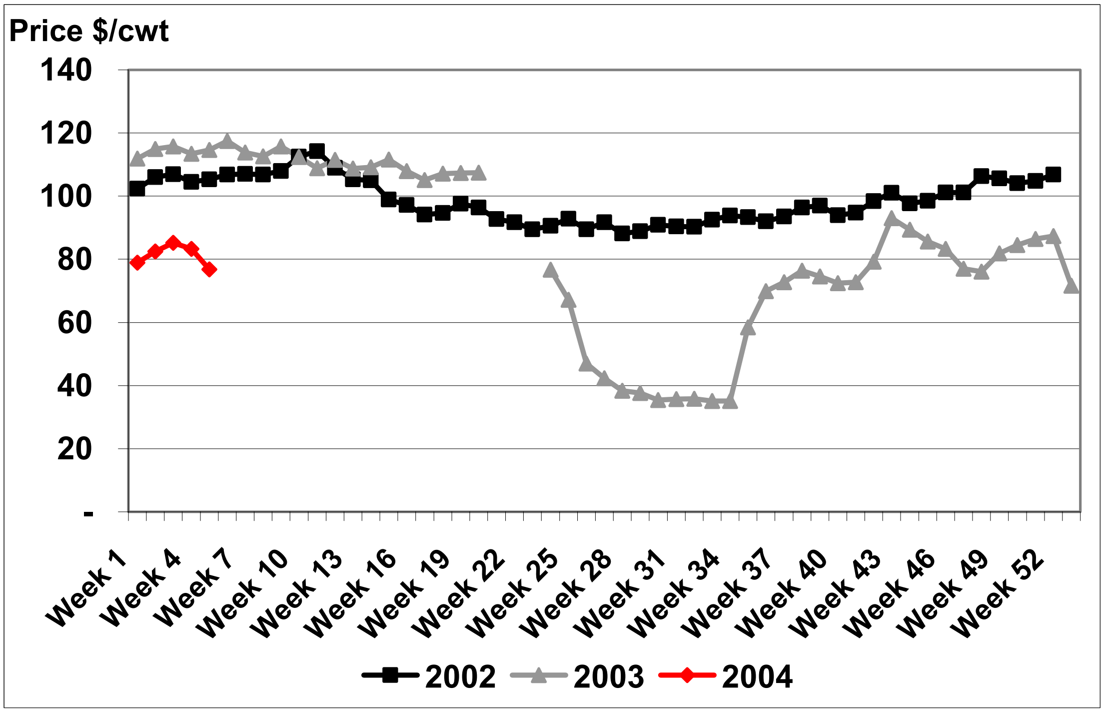
Source: Canfax, George Morris Centre

Unfortunately, cattle exports remain subject to the U.S. import embargo. As a consequence, Canadian cattle exports of 512,353 head before 20 May 2003 will represent the year's exports, which on an annual basis are down more than 70% from 2002. For a year that started off with so much promise, the year-end data for 2003 represent the poorest export performance in more than 15 years.

Cattle Prices (2002-2004)

The prices for live cattle are set either by open- or sealed-bid auction. The auction companies are independent from those who buy and sell cattle at their auctions; they receive a percentage of auction receipts for their efforts. According to Canfax data, in the first nine weeks of 2004, Alberta feeder steers (600-700 lb.) sold, on average, for $83.22/cwt (per hundred pounds). In the same period in 2003, Alberta feeder steers (600-700 lb.), on average, sold for $126.33/cwt, but throughout the year they averaged $119.77/cwt. The prices of Alberta feeder steers post-BSE have, therefore, declined about 34% from one year earlier. For Alberta cattleman, these prices translate into a drop from $758 per 600-lb. steer in early 2003 to $499 per 600-lb. steer in early 2004.

Figure 1.5
Alberta Weekly Fed Steer Prices — 2002-2004



Source: Canfax Spreadsheets, George Morris Centre

Also according to Canfax data and as shown in Figure 1.5, the prices paid for Alberta fed steer in 2002 varied between $90.25 and $114.22/cwt in 2002. The average price for 2002 was $98.82/cwt. Applying this price against the average slaughter weight of 1,300 pounds, a fed steer fetched, on average, $1,284 in 2002. From 1 January to 20 May 2003, Alberta fed steer prices ranged from $105.08 to $117.52/cwt and averaged $111.38/cwt, meaning an average fed steer price of $1,448. So the cattle market was booming in terms of the prices paid to feedlots before the BSE crisis struck. From 20 May 2003 to the end of that year, Alberta fed steer prices ranged from $35.06 to $89.36/cwt and averaged $65.96/cwt, which translates into an average fed steer price of $857. Thus, in the post-BSE period, Alberta feedlots suffered a 33% decline in the price of a steer from 2002 and a 40% decline in price from the pre-BSE period in 2003.

Canfax data indicate that the prices for Alberta dairy cows (D1 and D2) were faring well before the BSE crisis struck, up from an average price of $57.04/cwt in 2002 to $58.49/cwt in the first five months of 2003. This represents an increase of 2.5% (or 6% per annum). However, post-BSE prices in 2003 averaged $21.71/cwt, representing a decline of 63% from the first five months in 2003.

While still well below the prices paid in the pre-BSE period, cattle prices have recovered somewhat in 2004. The average price paid for Alberta fed steer in the first two months of 2004 was $82.29/cwt, representing a 25% increase over the post-BSE 2003 average price. The average price paid for Alberta dairy cows (D1 and D2) in the first two months of 2004 was $23.72/cwt, representing a 9.3% increase over the post-BSE 2003 average price.

Wholesale Beef Prices (2002-2004)

Wholesale prices for various beef cuts — the prices packers and further processors receive — vary tremendously from cut to cut or product to product. The prices of the various beef cuts, however, provide a very narrow picture on the revenues or the value received by packers. Notably, before the BSE crisis struck, a slaughter cow weighing 1,387 pounds provided about 625 pounds of domestically consumed meat, 580 pounds of by-products (i.e., hide, offal, bone meal, etc.) and 182 pounds of waste.[1] After the detection of BSE in Canada, processing practices were changed in favour of safety, and these changes, along with the internationally applied embargo on Canadian beef products, have resulted in a lower average product-to-waste ratio per slaughter cow. Moreover, since the prices of the various beef cuts may, at any one time, fluctuate in opposite directions, a narrow focus on the price of cuts may (and likely will) be misleading without some knowledge of the carcass yields. A composite price or value that comprises all beef cuts, weighted according to their yields, and by-products is far more informative.

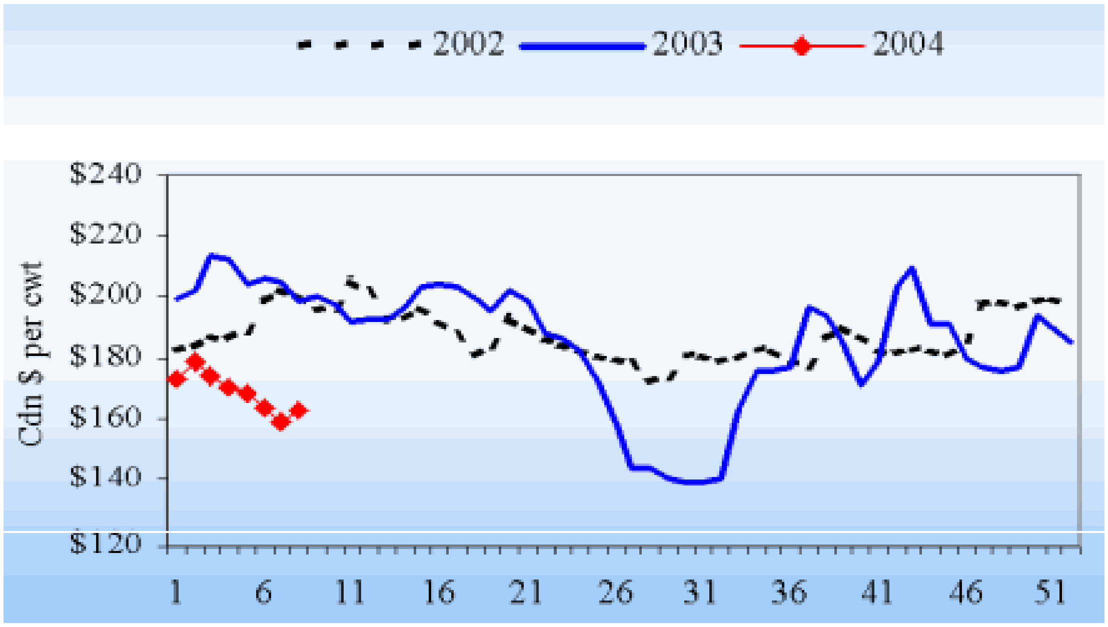
To this end, the George Morris Centre has constructed such a composite model of the wholesale value of beef products. The model provides a "cut-out" value (see Figure 1.6), meaning the total value, at the packer/wholesale level, of the various cuts and products that make up a carcass of beef. The cut-out is constructed by combining the value or price of each individual cut of beef and weighting the cut by its typical yield from the various primals (i.e., hip, loin, chuck and rib). The combination of the cut prices and their yields together is the beef cut-out. The yields are based on typical or standard Canadian cutting specifications. The cut prices are based on information from the beef trade and from packer price sheets. The cut prices are obtained from across Canada and the cut-out value is taken back to a southern Alberta basis.

Figure 1.6 shows the average value received by packers for AAA cut-out from the first week in 2002 to the eighth week of 2004. The graph shows that packers fared better in 2003 until the finding of BSE on 20 May than in 2002. The AAA cut-out value in the first part of 2003 fluctuated between $180 and $215/cwt. Through the summer months of 2003, however, the AAA cut-out value declined and then stabilized at $140/cwt, representing a 27% drop from the preceding $190 cwt-trend level. By the fall of 2003, the wholesale AAA cut-out value returned

[1] Government of Alberta, Agriculture, Food and Rural Development, Backgrounder — *How the cattle and beef industry works*, http://www.gov.ab.ca/acn/200403/16064.html

to 2002 levels of about $190/cwt, but values received by packers have declined once again in the first two months of 2004.

Figure 1.6
Canadian Weekly Cut-out Values
AAA — 600-750 lbs

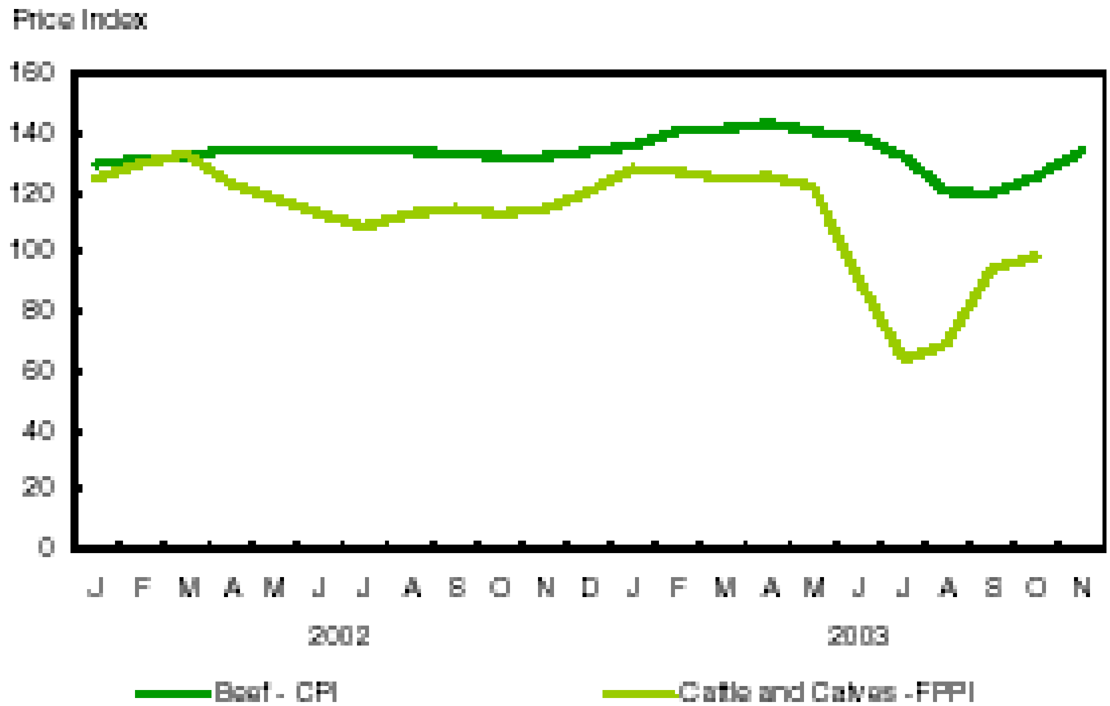


Source: Canadian Box Beef Report, George Morris Centre

Retail Beef Prices (2002-2004)

Retail prices for beef products performed much like wholesale prices throughout 2003 and so far in 2004. While fluctuations in wholesale prices of tenderloin, striploin and top-butt were more moderate than fluctuations in cattle prices throughout 2003, retail price fluctuations were more moderate still. As shown in Figure 1.7, retail prices for beef products declined 14% between May and September 2003, but have trended up since then. September 2003 beef prices were the lowest since January 2001.

Figure 1.7
Retail Price Index of Beef Products in Canada — 2002-2004



Source: **Statistics Canada, *Mad Cow Disease and Beef Trade: Un Update*, Cat. No. 11-621 — MIE, p. 6**

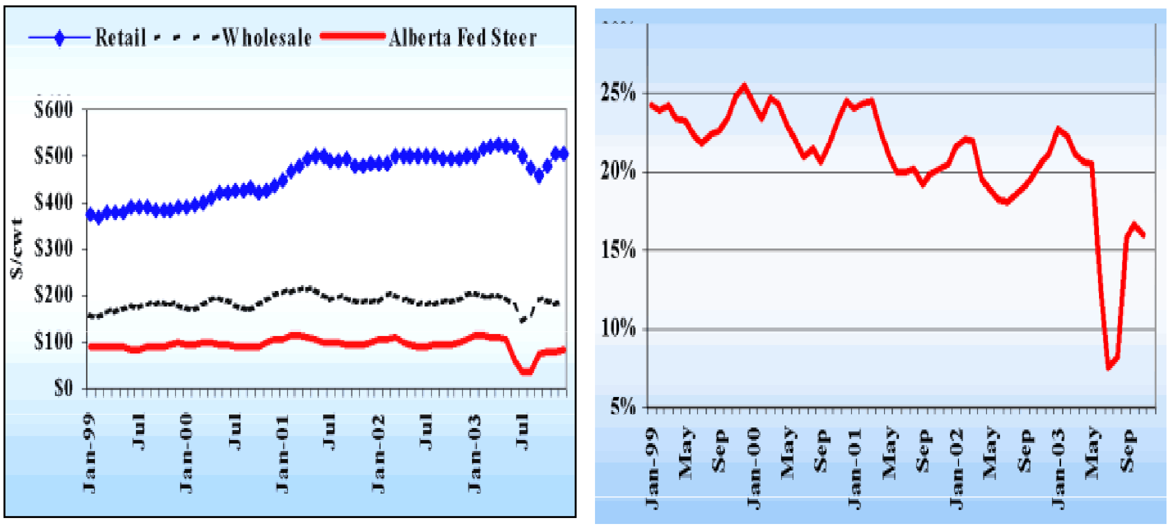
Retail-Wholesale-Farm-gate Price Spreads

The difference in prices received by the packer and the cattleman is called the wholesale-to-farm-gate price spread. It generally reflects the packer's unit costs of trimming, boning, shrinkage, cutting loss, packaging and transportation, and, over the longer term, it provides a risk-compensated profit margin. The difference in prices received by the retailer and the packer is called the retail-to-wholesale price spread. It generally reflects the retailer's unit costs of retail trimming, boning, packaging, transportation, store overhead, shrinkage and cutting loss, and, over the longer term, it provides a risk-compensated profit margin. In the short term, however, there is no guarantee of profit for packers or retailers, and these price spreads may result in profits or losses.

As noted above, retail prices have undergone a slight decline since the BSE crisis began; wholesale prices, as represented by the composite AAA cut-out values, showed a 27% decline in the immediate aftermath of the BSE crisis but have since recovered to pre-BSE levels; and Alberta fed steer prices declined about 40% throughout the summer of 2003 but have regained about 20% since then. These data suggest rising retail-to-wholesale and wholesale-to-farm-gate price spreads. The first graph of Figure 1.8 confirms both these trends. The wholesale to farm-gate price spread has increased from about $70/cwt in January 1999 to more than $100/cwt in December 2003, while the retail-to-wholesale price spread has increased from about $220/cwt to more than $320/cwt in this same period.

Figure 1.8

Retail-Wholesale-Fed Steer Live Price Spreads **Fed Steer Price as a % of the Retail Price in Canada**



Source: Canfax, George Morris Centre

The second graph demonstrates the declining farm-gate price of cattle as a percentage of the retail price of beef — a simple arithmetic consequence of the above-noted rising price spreads. The Alberta fed steer price, which in January 1999 represented 25% of the retail price of beef, represented only 15% of the retail price in December 2003. At the height of the BSE crisis, the fed steer price fell to 7% of the retail price. However, while both graphs demonstrate the plight of cattlemen relative to packers and retailers since the BSE crisis struck — confirming what many Canadians suspected — the graph also points out that this pattern has been transpiring for more than four years — long before a single case of BSE was found in Canada.

CHAPTER 2
INDUSTRY STRUCTURE, PERFORMANCE AND COMPETITION

An Integrated North American Market

The implementation of the FTA in 1988 meant that Canadian and U.S. markets for cattle and beef, which had enjoyed limited trade until that time, would become inextricably integrated. Domestic production would no longer be strictly geared to domestic consumption. Instead, North American production would supply North American consumption (as well as many overseas markets). This shift in orientation would mean that distinct Canadian and American cattle and beef prices would disappear as arbitrage activities forced their convergence. With the elimination of most tariff and non-tariff barriers to trade, trade would disproportionately rise in value and trading patterns would be determined by efficiency considerations, not by national decision-making. However, what remained un-integrated were both countries' food safety and security regulations. Domestic agricultural policies and tax regimes, which can indirectly affect the performance of this industry, also remain separate.

Integration on a continental basis obviously provides significant benefits to those companies and industries that possess a comparative or competitive advantage and are ready and able to export. Canadian cattlemen and other livestock producers possess the former advantage, while Canadian beef packers, particularly those that are a subsidiary of a U.S.-based multinational, possess the latter advantage. Together, these economic advantages translated into live cattle exports of about 1.6 million head, or more than 30,000 head per week, and into 1 billion kilograms of beef products for Canadian producers in 2002. The other side of the coin to this new lucrative commerce is that such exporters assume significant economic risks should the U.S. border be shut to Canadian exports for any reason. Particularly vulnerable were cattlemen and feedlot operators who would no longer possess the competitive alternative of foreign packers bidding for their 30,000 cattle destined for export and would thus become captive to Canadian packers. This vulnerability, as it turned out, came about because both countries' food safety and security regulations remained separate, without any implementation plan of the rules- and science-based procedures established by international treaty for addressing common concerns. Due to unequal lobbying capabilities across the industry's stakeholders, the regulations could and are being used as a barrier to trade.

This potential scenario became reality with the finding of BSE in one cow, in one herd, in Alberta. The United States immediately closed its borders to all

Canadian cattle and beef, not just Alberta cattle and beef, while the borders of every other Canadian province remained open to Alberta cattle and beef. Canadian and provincial health and safety regulators focused their rules and regulations on the specific farm or herd where the BSE case was discovered (and any other farm or herd where the infected cow had resided), whereas U.S. regulators indiscriminately banned all Canadian cattle and beef products from importation because of the perceived risk of BSE contamination through Canada's country-wide cattle feed system. Canada, in turn, retaliated by imposing a temporary ban on the importation of U.S. cattle and beef products when a BSE case was found in Washington State.

Without any implementation plan of the formal international rules for resolving the food safety and security problem, international negotiation is required. In such a situation, however, the ear of the U.S. regulator will favour U.S. cattlemen, who gain a premium on their slaughtered cattle without competition from Canadian cattle, over Canadian diplomats. U.S. cattlemen vote for their President, Congressmen and Senators, while Canadian diplomats do not — the calculus of the political decision is that simple.

As such, international negotiation has been arduous and time consuming, resulting in the resumption of trade between Canada and the United States only in boneless beef products from cows no more than 30 months old. U.S. borders remain closed to Canadian cattle and vice-versa. The consequence of an integrated market becoming separate once again was the loss of more than three months' worth of cross-border trade in beef products and at least a year's worth of cross-border trade in cattle. Herds unexpectedly grew in size across Canada, exposing all Canadian cow-calf and cull cow operators to losses in revenue and increased feed costs. American consumers also lose under this temporary arrangement.

The Cattle-Beef Supply/Value Chain

The market data presented in the previous chapter represent the aggregation of commercial activity in roughly four live animal markets, two wholesale markets, and two retail markets. These markets are schematically displayed in Figure 2.1. The four live animal markets include:

(1) Feeder Cattle: cow-calf farmers and ranchers sell steers and heifers of 6 to 12 months of age, weighing between 600 and 800 pounds, to feedlot operators who feed and fatten the cattle for slaughter;

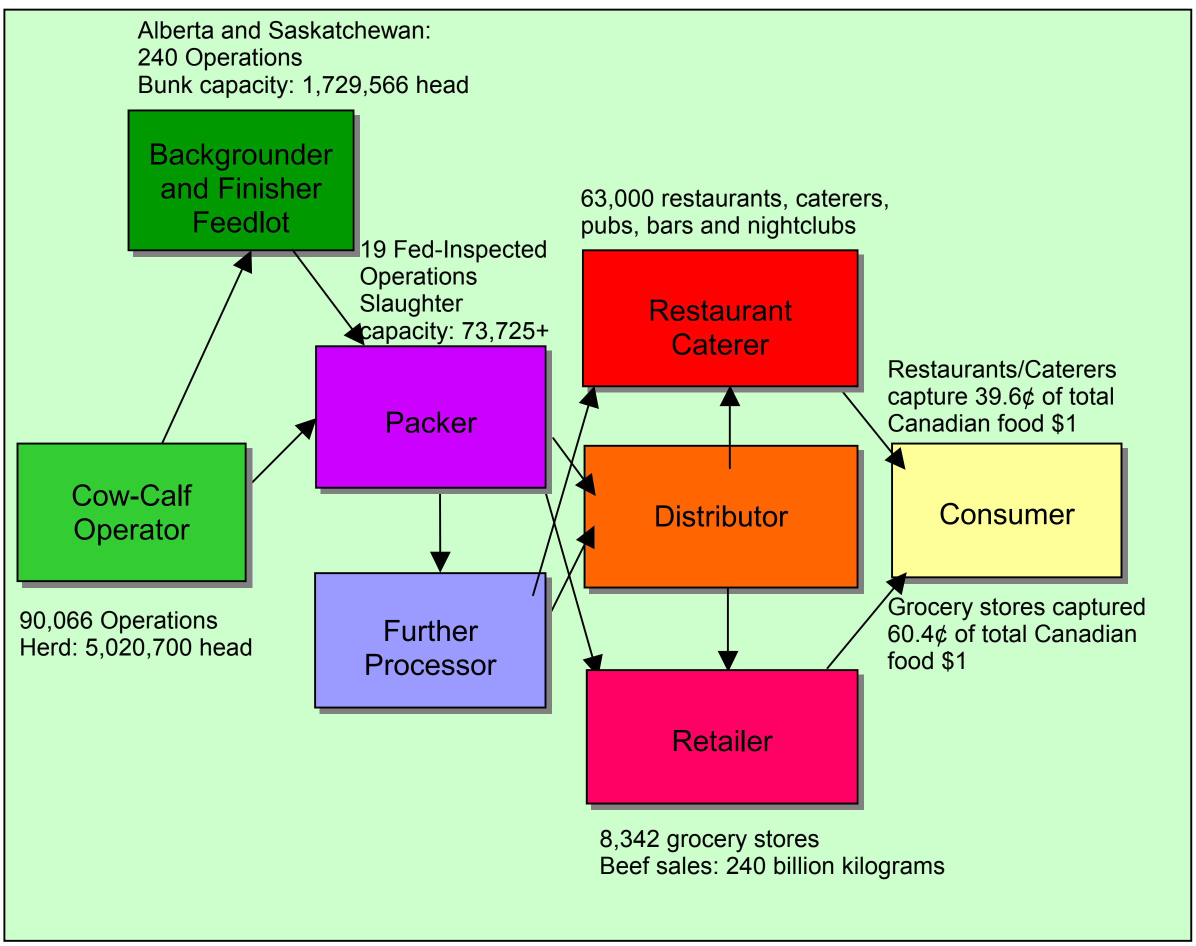
(2) Slaughter Cattle: feedlot operators (or farmers) sell young cattle, typically 18 to 24 months of age, weighing between 1,200 and 1,400 pounds;

(3) Dairy and Beef Breeding Cattle: farmers sell dairy and beef breeding cows, classified as D1 through D5, that are typically more than 30 months of age; and

(4) Veal Calves: farmers sell veal calves of 18 to 20 weeks, averaging 525 pounds live weight, to packers.

From fed steer are produced the prime cuts and the best meat. From dairy and beef cattle are produced stewing beef, ground hamburger and other further processed beef products. By-products, such as beef tongues, kidney, tripe (stomach), feet and tails, are produced from all types of cattle. The two wholesale markets include, first, packers and, second, further processors (who have obtained their beef from packers) who sell to distributors, retailers or restaurants/food caterers. The distributors, in turn, sell to retailers and restaurants/food caterers who in turn sell to consumers. Retailers and restaurant/food caterers make up the two retail markets.

Figure 2.1
The Cattle-Beef Supply/Value Chain



Source: Canadian Meat Council and Canfax Weekly Summary

Industry Structure and Performance

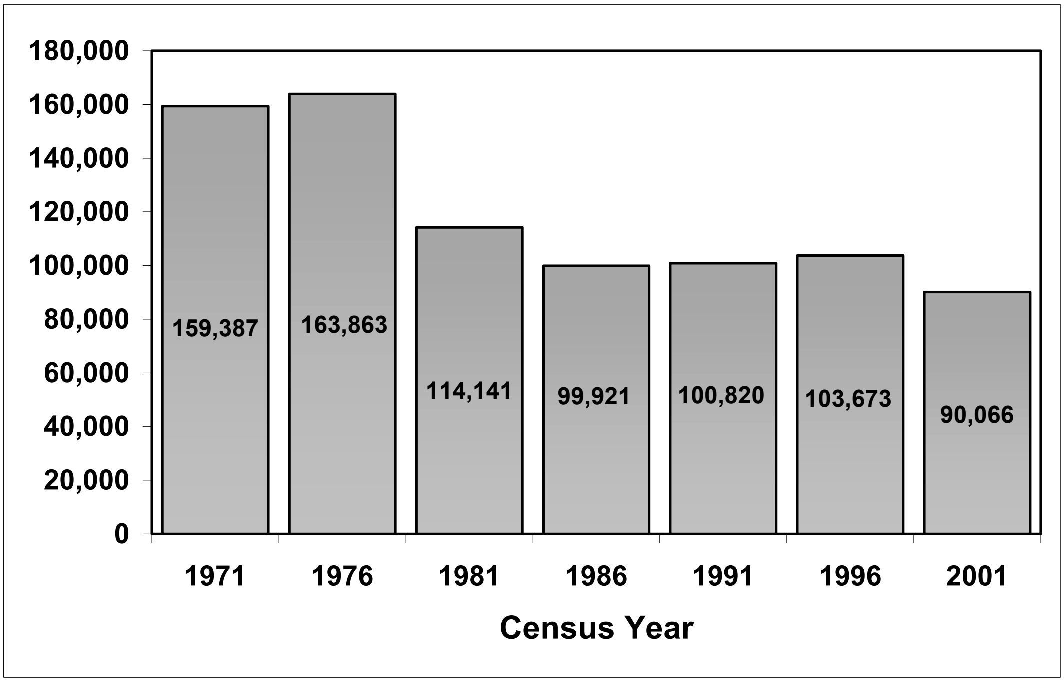
Canada's cattle and beef products industry is structured quite differently at the different stages of production, although there is a common trend among these stages to more consolidation and concentration — a fact that will be highlighted. Each stage involves a number of different types of operations. This chapter will focus on the structure and performance of industry participants who have garnered the lion's share of the market at each stage; they will be described and analyzed in turn.

Cow-Calf Operations

Beef production begins with cow-calf operators that raise calves for the industry. Cows are selected for their mothering ability, beef quality traits and other traits. Mating takes place in early summer, with peak calving occurring in the following spring. On most farms, the entire cow-calf process takes place exclusively in open pastures, where the cattle graze and the calves nurse until they reach 500-600 pounds. At this stage, they are weaned from their mothers and are fed a forage-based diet.

Canada's 2001 Census indicates that there were 90,066 farms reporting beef cows, down from 103,675 in 1996, or about 16%, and down from 163,863 in 1976, or about 45% (see Figure 2.2). Consolidation is evident in all sectors, as farms became fewer but larger. In 2001, Canada's beef-cow herd was estimated at approximately 4.6 million head, compared to 4.5 million head in 1976. Therefore, the average Canadian beef-cow farm has grown from 27 head to 51 head between 1976 and 2001. Forty percent of the beef-cow herd is now located on farms with more than 123 head.

Figure 2.2
Number of Farms Reporting Beef Cows in Canada



Source: Statistics Canada

In part because of the BSE crisis, Canada's herd of beef cows grew to just more than 5 million head by 1 January 2004, the largest ever. The eastern Canadian herd amounted to 706,700 head, or 14% of Canada's entire herd of beef cows, and the western Canadian herd totalled 4,314,000 head, or 86%. Principally for climatic conditions, the raising of beef cattle is concentrated in western Canada, away from the main consumption centres of the country.

Dairy operations, on the other hand, are found in greater number in eastern or central Canada than in western Canada. Because the production of milk and other dairy products is not as dependent on climatic conditions as beef production, and because of a relatively shorter product shelf life and more costly transportation, dairy operations are located closer to the main consumption centres of the country. Hence, dairy operations are distributed across the country more in accordance with the country's population than are beef cattle operations. Furthermore, cull cows, which are disproportionately exported to the United States for slaughter relative to beef cows because of insufficient cull cow slaughter capacity in Canada, are a more important source of stewing and ground beef for eastern Canada than for western Canada. Eastern Canada's herd of dairy cows stood at 836,100 head on 1 January 2004, or 78% of Canada's entire herd of dairy cows of 1,077,100 head. There was 241,000 head of dairy cows in western Canada, or 22% of the country's herd. Due to much-improved milk productivity, this herd has continuously declined in size, from roughly three million head in 1960.

Feedlot Operations

Feedlot operators specialize in the feeding of a high-protein diet to the young cows they purchase from farmers, typically 600 to 800 pounds, until they reach 1,200 to 1,400 pounds and are ready for slaughter. Initially, feedlots put their calves on a diet consisting of forages, but they are progressively shifted to a diet of about 90% grain. A grain-based diet promotes the production of a tender, marbled beef.

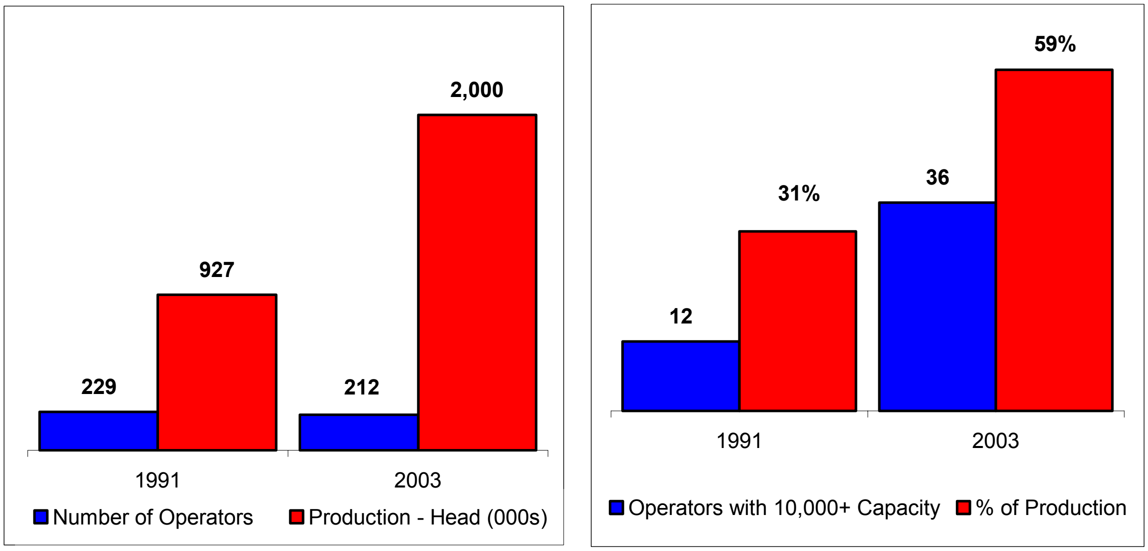
Table 2.1
Alberta and Saskatchewan Feedlots and Bunk Capacity — 1 January 2004

Bunk Capacity	Alberta		Saskatchewan		Alberta and Saskatchewan		Bunk Capacity
	#	Capacity as % of Total	#	Capacity as % of Total	#	Capacity as % of Total	
1,000-5,000	130	20%	19	34%	149	21%	1,000-5,000
5,001-10,000	46	22%	6	29%	52	22%	5,001-10,000
10,001-15,000	14	11%					
15,001-20,000	11	13%	3	38%	39	57%	10,001+
20,001+	11	35%					

Source: Canfax

Statistics are available on feedlots located in Alberta and Saskatchewan. As of 1 January 2004, there were 212 feedlots located in Alberta and 28 feedlots in Saskatchewan. Table 2.1 provides a distribution of feedlots according to size (bunk capacity) for Alberta and Saskatchewan. When these operations are divided into 1,000-5,000, 5,001-10,000, and 10,000+ bunk capacity categories, their total capacity is fairly evenly distributed in Saskatchewan. Not so for Alberta feedlots. Eleven Alberta feedlots of 20,000+ bunk capacity hold a commanding 35% of total Alberta feedlot capacity. The most common feedlot size is 1,000-5,000 bunk capacity; there are 130 of these in Alberta, but together they hold only 20% of the province's feedlot capacity.

Figure 2.3
Feedlot Consolidation and Concentration in Alberta — 1991 and 2002



Source: Canfax Annual Report 2002, George Morris Centre

Figure 2.3 indicates that consolidation has been taking place within this segment of the industry as well. In Alberta, the number of feedlots declined from 229 in 1991 to 212 in 2003. During this period, annual feedlot production increased from 927,000 to 2 million head. Average annual feedlot production has, therefore, grown from 4,048 to 11,538 head. Feedlots with more than a 10,000 bunk capacity grew in number from 12 to 36 between 1991 and 2003, and their share of production almost doubled, from 31% to 59%.

Packing and Processing Operations

Packers slaughter the cattle. Carcasses averaged 836 pounds in 2003. The meat is cut, trimmed and packaged. Meat products are then transported to retailers, distributors or restaurants/food caterers; by-products, such as hide, offal and bone meal, are sold to other customers. Because these packer activities are reduction processes (from the cow carcass to specialized meat cuts), slaughterhouses economize on transportation costs by locating closer to cow-calf/feedlot operations than to the consumption centres of the country. This explains why the majority of Canada's slaughter capacity is located in Alberta and Saskatchewan.

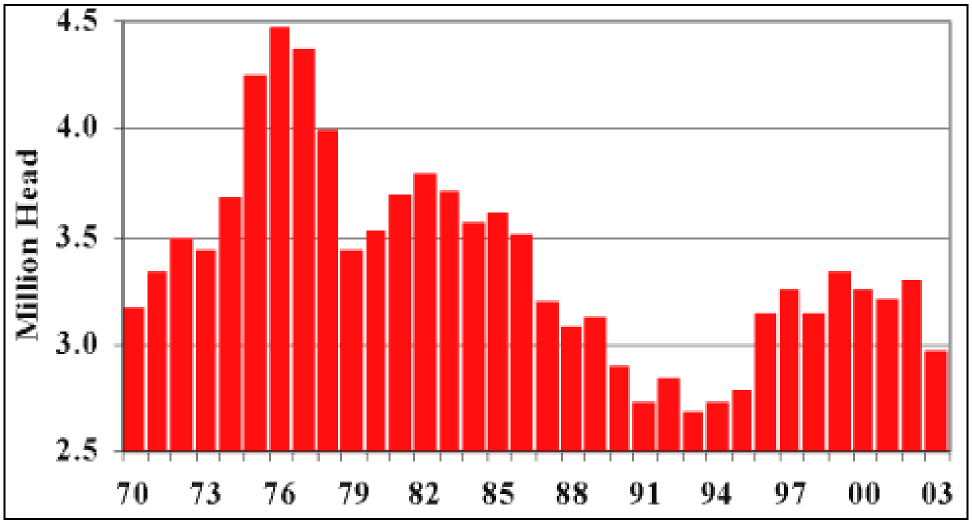
Packers can be divided according to whether they are federally or provincially inspected; the focus in this chapter is placed on federally inspected packers and processors. Table 2.2 indicates that there are 19 federally inspected beef packers in Canada, ranging in size from a weekly slaughter capacity of 25 head in Lacombe, Alberta, to 22,000 head in Brooks, Alberta. The industry's total weekly slaughter capacity is more than73,725 head, with Alberta leading the way with 49,325 head.

Table 2.2
Canadian Federally Inspected Beef Packers — 2003

Company	Location	Type of Cattle	Weekly Slaughter Capacity (Head)
Medallion Meat Corp.	Falkland, B.C.	Beef	500-600
Pitt Meadows Meats	Pitt Meadows, B.C.	Steers, Cows, Bulls, Calves	75
Northwest Foods Inc.	Edmonton, Alberta	Steers, Heifers, Cows, Bulls, Bison	600
Bouvry Export Co. Calgary Ltd.	Fort McLeod, Alberta	Bison	1,200
Cargill Foods	High River, Alberta	Steers, Heifers	20,500
Lacombe Research Centre	Lacombe, Alberta	Steers, Heifers, Cows, Bulls	25
Lakeside Packers Ltd. (Tyson)	Brooks, Alberta	Steers, Heifers, Cows, Bulls	22,000
XL Beef	Calgary, Alberta	Steers, Heifers, Cows, Bulls	5,000
XL Beef	Moose Jaw, Sask.	Steers, Heifers, Cows, Bulls	4,000
Plains Processors Ltd.	Carman, Manitoba	Steers, Heifers, Cows, Bulls, Calves	200
Better Beef Limited	Guelph, Ontario	Steers, Heifers	8,500
St. Helen's Meat Packers Ltd.	Toronto, Ontario	Steers, Heifers, Cows, Bulls, Calves	2,000
Ryding Regency Meat Packers Ltd.	Toronto, Ontario	Steers, Heifers, Calves	1,500
White Veal Meat Packers Ltd.	Weston, Ontario	Calves	250
Abatoir Colbex Inc.	Wendover, QC	Bulls, Cows	2,500
Ecolait Ltée.	St-Clair Laplaine, QC	Calves	2,400
Abattoir St-Germain	St-Germain, QC	Calves	1,700
Viandes Giroux (1997)	East Angus, QC	Cows	75
Abattoir Z. Billette	St-Louis-Gonzague, QC	Steers, Heifers	600
Total			**73,725**

Source: Canfax Annual Report 2002, George Morris Centre

Figure 2.4
Canadian Cow Slaughter Numbers at Federally Inspected Plants



Source: Canfax, George Morris Centre

From Figure 2.4, one can infer that the source of the existing high concentration of ownership in Canada's beef packing industry is the consolidation that took place between the late 1970s and early 1990s. The number of cattle slaughtered has steadily declined from its peak of about 4.5 million head in 1976 to its low of 2.7 million head in 1993. Many slaughter operations shut down and went out of business in this period. Thereafter, slaughter numbers increased and levelled off in the 3.2- to 3.4-million-head range until the BSE crisis hit in 2003.

Retailer Operations

Grocery retailers, defined to comprise supermarkets, groceries and other food stores, and totalling 8,342 stores, sell more than 25,000 items. In 2002, they generated $64 billion in sales and employed 400,000 people. Profit margins across all items sold in these stores average about 1%-2% of sales.

Grocery store sales have outpaced the Canadian economy consistently over the past few years, growing on average by 4% per annum. Despite this strong performance, the traditional grocery sector has consistently lost market share of total retail sales. Other types of retailers, such as drug stores, mass merchandisers and warehouse clubs, have migrated into grocery retailing to provide consumers with the convenience of "one-stop shopping." The resultant broad range of retail channel choices for basic groceries has, therefore, intensified competition for the consumer dollar and encouraged channel blurring. Consequently, the grocery retail sector has seen its market share of total retail dollars decline to 22% in 2002. Table 2.3 provides the market shares of grocery sales of the top 10 retail companies in Canada in 2002.

Table 2.3
Top Ten Grocery Retailers in Canada by Sales and Market Share — 2002

Retailer	Sales (in million $)	Market Share	Retailer	Sales (in million $)	Market Share
Loblaws	23,894	32.0%	Costco	3,550	4.8%
Sobeys	10,960	14.7%	C Store	3,258	4.4%
Safeway	5,492	14.7%	Wal-Mart	2,758	3.7%
Metro	5,201	7.0%	Drugmart	2,659	3.6%
A&P	4,400	5.9%	Overwaites	2,667	3.6%

Source: CIBC World Markets Estimates

Canadian grocery retailers sold 240 billion kilograms of beef and beef products for $2.1 billion in 2003. Because of strong sales promotion on the part of many grocery retailers in an attempt to help out Canadian cattlemen throughout the past year, beef consumption in Canada was up 5% from 2002. This increase compares very favourably to the rather flat performance over the past several years, though it does not exceed the rise in chicken (5%) and pork (9%) consumption over the past 12 months. According to AC Nielsen scanned data, the average price of beef and beef products declined 13.8% between May and December 2003.

Competition

For some time now — at least two decades — all segments of the beef industry in Canada have undergone consolidation, with the remaining participants becoming larger — much larger. For example, according to Statistics Canada census data, cow-calf operations almost doubled in size in the past quarter century, from an average of 27 head in 1976 to 51 head in 2001. However, with more than 90,000 cow-calf operators, this segment is the least concentrated of the industry. Efficiency gains would appear to be the primary motive behind this consolidation. Indeed, the data indicate that the retail prices of beef products have been rising by the rate of general inflation of goods and services over the past several years. At the same time, farm-gate prices of cattle have been declining as a percentage of retail prices. These two trends tend to support the efficiency claims.

There is some evidence of consolidation in the feedlot segment of the industry as well, with Alberta operations declining in number from 229 in 1991 to 208 in 2002 and then increasing to 212 by 2004. Countrywide data are not available, but Alberta and Saskatchewan data suggest a trend to fewer but larger feedlot operations. The motivation again appears to be efficiency gains, as the industry segment is not dominated by a small number of operators.

The packing segment of the industry, however, is another matter. At first glance, it would appear that 19 federally inspected packing plants, along with hundreds of provincially inspected packers,[2] provide sufficient competition. However, the packing industry in western Canada is best characterized as a triopoly made up of Cargill Foods, Lakeside Packers (a division of Tyson Foods) and XL Beef, with a half dozen fringe or small rivals providing competition. In eastern and central Canada, the industry is also concentrated — although less so — with Better Beef Limited controlling 8,500 head of a central Canada weekly slaughter capacity of 19,525 head, or 43.5%.

Focusing on western Canada, Cargill Foods, Lakeside Packers Ltd. and XL Beef have a weekly slaughter capacity of 51,500 head of a total western Canada weekly slaughter capacity of 54,200 head. These three companies, therefore, control 95% of western Canada's beef packing industry. They are also vertically integrated into feedlot operations, with packer-owned cattle procurement averaging 16% of Alberta cattle marketings in the past six years.[3] It is claimed that, like Colorado-based packers, Alberta packers are more vertically integrated (in percentage terms) than their Kansas, Nebraska or Texas counterparts to manage the greater seasonal aspect of fed cattle supply in Canada. Partial vertical integration thus provides a more secure and balanced supply of fed cattle to their packing operations throughout the year, thereby lowering their investment risk while realizing greater economies of scale.

Cargill Foods and Lakeside Packers Ltd. are subsidiaries of U.S.-based multinational corporations that benefit from considerable market infrastructure in, and information on, the United States, Japan, Mexico and other major meat-importing countries. Being part of this larger network requires their management to use Canadian cattle and beef in ways to complement and coordinate, but not directly compete with, their U.S.-based plants. A competitive advantage is believed to be obtained from this type of corporate organization.

The smaller packers may be at a disadvantage relative to Cargill, Tyson and XL Beef in terms of unit production costs, but they are not without their core competencies themselves. Being much smaller, their production schedules are more flexible and can be more easily set to accommodate prevailing market conditions. Smaller packers also possess better knowledge of the local markets and are better able to take advantage of local opportunities when they present themselves.

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2 For example, the Department of Agriculture and Food of Ontario lists 121 provincially inspected beef packing plants. These plants are locally based operations whose products are restricted from inter-provincial trade.

3 Canfax Weekly Summary, Volume XXXVI, Issue 6, 13 February, 2004, p. 1.

CHAPTER 3
BSE IMPACTS AND THE GOVERNMENTS' BSE RECOVERY PROGRAM

BSE Impacts

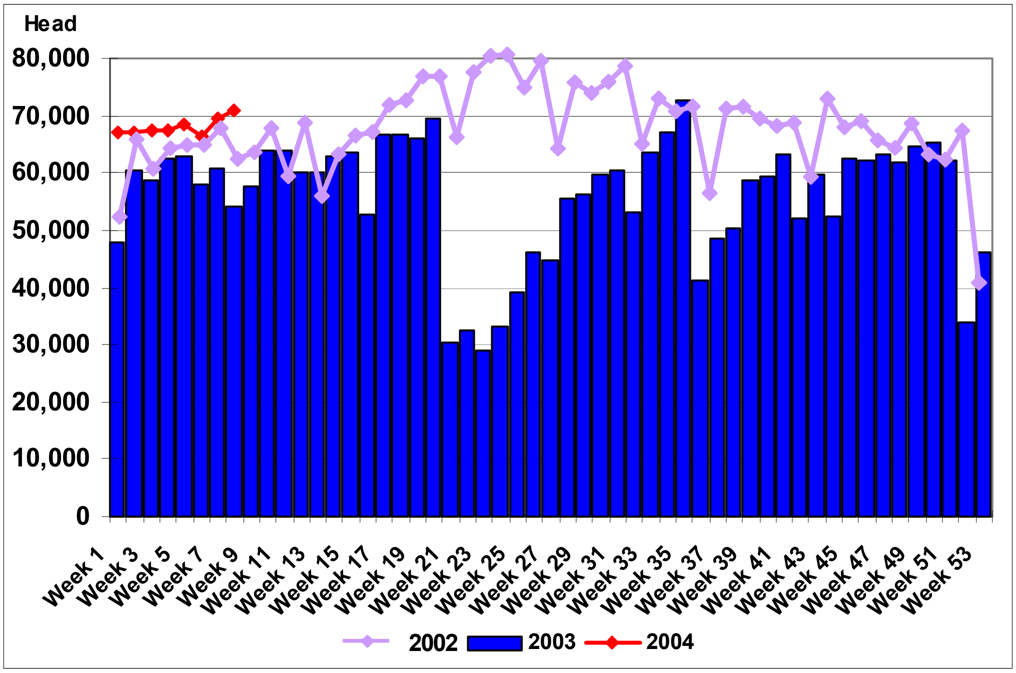
The impacts of BSE can be grouped into those that affected the beef industry in the short term and those that will affect it in the longer term. The short-term impacts of BSE ensue from the closing of borders across the industrialized world to Canadian beef and cattle. These impacts fell disproportionately on cattlemen and other livestock producers, but also on packers, their employees and suppliers. They are one-time burdens and they will remain burdens until the borders are once again open. The long-term impacts ensue from the imposition of more regulations on the processing of beef to ensure food safety. These impacts have fallen disproportionately on packers, but to some extent on cattlemen and consumers. This burden will be borne in perpetuity. Beef cattle operations have already experienced significant attrition over the last 30 years, dropping from 159,387 in 1971 to 90,066 in 2001, as displayed in Figure 2.2. This attrition will likely continue in part because of the immediate impacts of BSE, despite government assistance; in part because some of these long-term BSE impacts are likely to be passed down the value chain from packers to cattlemen; and in part because other longer-term trends are likely to continue.

Short-term Impacts

The closing of borders across the industrialized world to Canadian beef and cattle imposed losses in a variety of ways on many Canadians and their businesses. For example, about 25,000 head of cattle per week normally destined for the United States were put on the Canadian market — after the packers had ratcheted up their production to approximately 90% of capacity in the fall and, therefore, had little ability to absorb this excess supply (see Figure 3.1). As a result, cattlemen and feedlots incurred substantial losses on the sale of their cattle. For the cattle they could not or chose not to sell, they will incur greater feed costs and will eventually suffer significant price discounts on their aging cattle when they do sell. Packers also incurred demurrage and destruction costs on some of their product, while incurring high storage and refrigeration costs on backlogged products held in container yards and bonded warehouses.

Although a large number of different parties suffered losses because of the BSE crisis, some of those losses were a gain on the balance sheets of other Canadians. For example, the extra cattle feed costs incurred by cattlemen are revenues to cattle feed companies — this industry will actually benefit from the BSE crisis in the short term. The warehouses and container yards that stored the backlogged beef of packers also gained as a result of the BSE crisis. The customers of Canada's food banks gained more than $1 million of donated beef products. For this reason, summing the gains and losses of the different parties affected by the BSE crisis is not an efficient way of determining the cost of the BSE crisis to Canada. Such a list does, however, serve to indicate to government which groups may deserve emergency assistance and compensation.

Figure 3.1
Canadian Weekly Slaughter Numbers at Federally Inspected Plants



Source: Canfax, George Morris Centre

Another but very crude way of estimating the adverse economic impact of BSE on Canada for 2003 is simply to calculate Canada's lost beef and cattle exports in 2003. This can be done by subtracting Canadian beef and cattle exports of $1.8 billion in 2003 from the estimated value of Canadian exports had BSE not been detected. Since exports in 2003 prior to 20 May were at levels similar to their average performance in the same period over the past three years, it would not be unreasonable to substitute Canada's average export performance of $3.6 billion over the past three years for what Canada would have exported in 2003 in the absence of the BSE crisis. This methodology suggests that the BSE crisis cost Canada $1.8 billion in lost beef and cattle exports.

However, two caveats should be understood before using this estimate. Some beef products previously destined for the lucrative export market, such as short ribs bound to Korea, have been diverted post-BSE to lower-value domestic ground beef markets. Therefore, packers were able to recoup some lost export sales through domestic sales. In this sense, the $1.8 billion estimate is too high. At the same time, the loss of approximately $1.8 billion in export receipts by Canadian packers and cattlemen would have a negative impact on aggregate spending that would ripple through the Canadian economy, with the ripples being largest in cattle country. In this sense, the $1.8 billion estimate is too low. Caution is thus warranted when quoting the $1.8 billion estimate.

Long-term Impacts

The long-term impacts of the BSE crisis will ensue largely from the imposition of more regulations on the processing of beef and the separation of cattle to ensure food safety. The direct beneficiaries of these regulations will be Canadian consumers. Secondary beneficiaries will be the veterinarians whose skills will be in higher demand, and the regulators who will administer the new health and safety regulations. Canadian packers will bear the brunt of these added costs, but to the extent that these costs can be passed up or down the value chain, cattlemen and consumers may also lose. Presumably, from the viewpoint of ensuring health and safety, consumers will gain more than they lose and will be net winners from the new regulations.

Although it is still too early to estimate the added processing costs faced by packers, they claim the following cost increases:

- extra labour costs to separate cattle 30 months of age and older from those less than 30 months of age;
- extra labour costs to raise the boneless product mix from 70% to 100% in order to meet export requirements; and
- direct costs to remove and dispose of specified risk materials (SRMs) from cattle aged more than 30 months and distal ileum (lower small intestine) from cattle of all ages. These activities also indirectly raise production costs by slowing line speeds.

The George Morris Centre speculates that the average unit operating costs for Canadian packers of about $150 per head pre-BSE will be about $250 per head post-BSE. Given this huge increase, it is uncertain whether all 19 federally inspected packers will remain economically viable. In the longer term, some packers may have to leave the business, find a new owner, or merge with an existing operator.

In the intermediate term, however, it appears that Canadian packers are financially viable. Indeed, the excess cattle supply of 25,000 head per week has led to huge increases in packer gross margins,[4] far more than the estimated average operating cost increase of $100 per head. A report produced by the Alberta Cattle Feeders Association and presented to the Government of Alberta, entitled *Consolidated Beef Industry Action Plan: Actions for Industry if Borders Remain Closed*, states that the average gross margin received by Canadian packers for the period 22 September 2003 to 16 February 2004 was $431 per carcass, as compared to $144 per head one year earlier and to CAN$208 per head for the U.S. packer industry in the same period. The report claims Canadian packer margins are 200% higher than one year ago and 107% higher than in the United States in the same period.

If these estimates are correct, they paint a picture in which Canadian packers may have profited from the excess supply of Canadian cattle in the intermediate period between the immediate aftermath of the BSE crisis, wherein almost everyone including packers suffered, and the longer term wherein packers will likely suffer the most. Such findings, however, should be approached with caution. For example, the George Morris Centre's gross margin estimates assume Canadian packers receive the list price for some of their products sold, even when these products are discounted from their list prices. Moreover, cow slaughter or production declined 327,630 head in 2003 from 2002 (see Figure 3.1), thereby raising packers' cost of capital per head by 10% on average.

The Federal-Provincial BSE Recovery Program

In the weeks following the closing of borders to Canadian beef, the packing industry reduced its weekly cattle slaughter to 30,000 head, down from an average of slightly less than 70,000 head per week in May (see Figure 3.1). The BSE crisis resulted in a huge discrepancy in the prices for fed cattle that feedlot operators were asking and packers were offering. Packers needed to bid lower prices for fed cattle because they were getting less for their product and their costs were increasing exponentially. Feedlots, on the other hand, were reluctant to sell fed cattle at the lower prices packers were offering because they were unwilling to realize the huge losses these prices implied.

With the aim of ending this stand-off and helping to unplug the backlog of cattle, on 18 June 2003, federal, provincial and territorial agriculture ministers announced a program to provide $500 million in temporary assistance to the beef industry. The Federal-Provincial Governments BSE Recovery Program (BSE Recovery Program) would pay producers the difference between the weekly average U.S. fed cattle price (in Canadian dollars) and the weekly average Alberta market price, up to a maximum of 50% of the U.S. reference price. The federal

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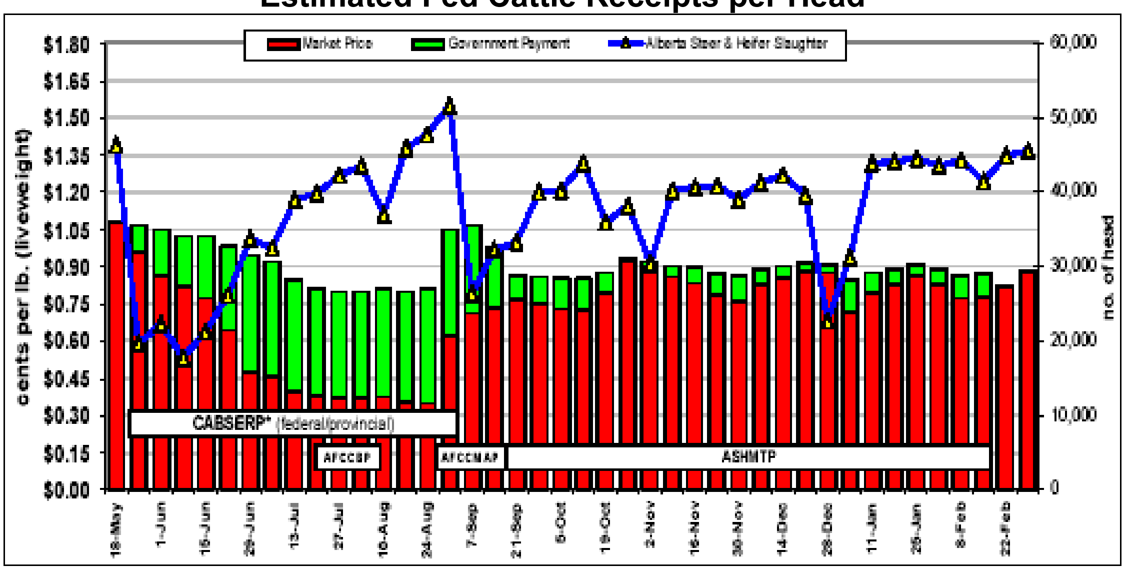
4 Gross margin is defined as beef revenue plus by-product revenue less cattle costs. Gross margins do not include operating costs, packaging costs, or capital costs.

and provincial governments shared the cost of the program on a 60:40 basis; that is, 60% federal and 40% provincial.

The BSE Recovery Program had two primary objectives: (1) encourage feedlots to sell in a depressed market; and (2) increase the volume of slaughter at packing plants. The program was fully subscribed for, and ended in August. Measured against the two stated objectives, the program was a success. As shown in Figure 3.1, weekly slaughter rates gradually increased to more than 60,000 head by the end of August and, with the opening of the U.S. border to Canadian boxed beef in September, they have hovered about this level ever since.

Feedlot sector operators were able to maintain prices closer to historical levels as a result of the BSE Recovery Program. This, in turn, instilled confidence in the cattle industry and allowed feedlot operators to bid for fall calves at prices comparable to those of 2002. Figure 3.2 indicates that even though Alberta fed cattle prices declined to a recent low of $35.06/cwt, after factoring in government payments, feedlot operators' receipts did not fall below $80/cwt. These government payments significantly reduced the impact of depressed prices resulting from the oversupply of cattle and helped maintain the viability of many feedlot operations in the summer when borders were closed to both live cattle and beef.

Figure 3.2
Estimated Fed Cattle Receipts per Head



Source: Alberta Agriculture, Food and Rural Development, *Review of Pricing in the Beef Industry*, March 2004, p. 8.

The BSE Recovery Program is not without its critics. Some commentators have noted that the program's design, which specified a program termination date, encouraged a rush of cattle to the slaughterhouse, depressing prices further than they would have been in the absence of the program. There is some truth to this criticism, but it masks the more important consequences of the program.

The Alberta fed steer price declined 70.2% from its peak of $117.52/cwt in the second week of February to its trough of $35.06/cwt in the fourth week of August 2003. By 20 June 2003, the Alberta fed steer price had already declined 28.6% to $67.16/cwt, but by the week following the announcement of the BSE Recovery Program it had fallen another 18.7% to $47.02/cwt. This price fell another 14% by the fourth week in August, at the end of the program, and it has generally risen from that point forward. These price developments suggest that the BSE Recovery Program did indeed cushion the drop in prices received by cattlemen and feedlot operators, but because of the oversupply of cattle, packers indirectly benefited in the order of $20.14 to $32.10/cwt per head for the cattle they purchased throughout the summer of 2003.

Such a conclusion, however, overstates the case. It should be recognized that there is a seasonable component to the Alberta fed steer price: it declines throughout spring and summer every year, only to recover each fall and winter. For example, the Alberta fed steer price, on average, declined 23% from its peak to its trough in both 2001 and 2002. The peak price was attained in the second and third week of March, respectively. The trough price was recorded in the fourth week of September and the second week in July, respectively. The percentage decline in 2003 was, therefore, 47% more than in the previous two years and the depressed price was more protracted, as it lasted six and a half months compared to an average of five and a quarter months in the previous two years. In light of these two performances, it seems reasonable to conclude that the Alberta fed steer price would have likely declined in the summer months of 2003 in the absence of the BSE Recovery Program, though not as starkly as 18.7% in one week from the announcement of the program.

Had the government program not tied its payment to prevailing prices and the slaughter of cattle, thereby focusing the program's purpose solely on partially compensating cattlemen and feedlot operators for their losses, the industry's recovery would likely have been slower. Fewer cattle would have been slaughtered, meaning that more would have accumulated in feedlots, thus increasing feedlot operators' costs and necessitating some discounting of the market price for the older animals.

CHAPTER 4
INDUSTRY AND GOVERNMENT RESPONSES TO THE BSE CRISIS AND BEYOND

Canadian Cattle Prices and the BSE Crisis

Following the implementation of the FTA in 1988, and the NAFTA in 1994, the Canadian, U.S. and Mexican markets for cattle and beef became fully integrated into a North American market. As one industry stakeholder put it:

> *The market for cattle and beef in Canada is a competitive free market, and prior to the closure of international borders with the discovery of one case of BSE in Canada, the market really was a fully integrated market with the United States of live cattle, beef, and veal.*
>
> Jim Laws, Canadian Meat Council
> Standing Committee on Agriculture and Agri-Food
> *Evidence* No. 4-16:45, 3rd Session
> 37th Parliament
> Ottawa, 23 February 2004

Canada subsequently enjoyed a comparative advantage in cattle and other live animals and a competitive advantage in beef and beef products. These economic advantages came through in the trade data, as Canada became a major net exporter of both these goods. Canada is, in fact, the world's third leading exporter of beef and cattle.

An integrated North American beef and cattle market has its advantages and its disadvantages. On the positive side, Canada has enjoyed greater wealth and prosperity by focusing and specializing its resources, as well as attracting substantial foreign capital, in this industry. Canadians also enjoy similar prices of beef and cattle to Americans, as an integrated market will tend to eliminate price differences (that is, market forces are arbitraging prices across the different regions of North America). On the negative side, Canadian cattlemen, feedlot operators and packers are vulnerable to disruption should the United States shut its borders to Canadian beef and cattle exports, which, on 20 May 2003, in fact happened.

That event led to an oversupply of both cattle and beef in Canada and to an undersupply in the United States. In fact, the U.S. cattle inventory on 1 January 2004 totalled 94.9 million head. This is the lowest cattle inventory level in the United States since 1952. Later, when the U.S. market became open to boneless beef cuts from cattle no more than 30 months of age, the Canadian oversupply remained only in cattle. The U.S. ban on Canadian cattle had the following impact:

> *There is no part of our industry more negatively affected now than feedlot producers. Their live cattle are banned from the U.S., and this has resulted in significant oversupply of live animals in Canada over the past several months. … The oversupply of cattle in Canada has put significant downward pressure on producers' bottom lines. It's a simple equation: more cattle with no increase in demand means lower prices.*

Willie Van Solkema, Cargill Foods
Standing Committee on Agriculture and Agri-Food
Evidence No. 7-15:35, 3rd Session
37th Parliament
Ottawa, 10 March 2004

In other words, the marketplace did what it always does in face of an oversupply situation. Industry participants allowed or forced a drop in the prices of cattle to stimulate domestic demand and reduce the number of surplus cattle. In the absence of the U.S. market for cattle, holding prices at pre-BSE levels would have preserved the oversupply, substantially raised feed costs and led to the financial ruin of many cattlemen. The U.S. market did the opposite. Industry participants raised cattle prices to the benefit of U.S. cattlemen, but to the detriment of U.S. packers. The de-integration of the North American market for cattle meant that the prices of cattle in Canada and the United States would no longer be arbitraged; they would differ substantially. Some of these impacts were quantified in a letter tabled with the Committee:

> *Since the U.S. border with Canada was opened last fall to boxed beef from Canadian cattle under 30 months of age — but remains closed to the import of those very same cattle — the devastation to our domestic livelihood is staggering:*
>
> *Cattle processing volume in the U.S. has fallen 12% … The drop started immediately after the U.S. border was opened to Canadian boxed beef …*
>
> *Canadian cattle have sold for an average of **$275 per head** less than comparable domestic cattle — enabling Canadian processors to undercut U.S. processors in our own marketplace.*

*In the past four months alone, we estimate that the financial loss to a single beef processing plant — Greeley, Colorado — exceeds **$100 million** from diminished economic activity due to declining production levels.*

John Simons, President and CEO, Swift & Company
Letter of 3 March 2004
Standing Committee on Agriculture and Agri-Food
3rd Session, 37th Parliament

In the opinion of most witnesses appearing before the Committee, the market responded. In the words of one witness:

The market is functioning, albeit not as it would arbitrage if the border was open for live cattle.

Garnett Altwasser, Lakeside Packers Ltd.
Standing Committee on Agriculture and Agri-Food
Evidence No. 7-15:50, 3rd Session
37th Parliament
Ottawa, 10 March 2004

The Committee recognizes that the market did respond to the oversupply situation, but that this response was grossly inequitable to some players in the industry. The government, whether federal and/or provincial, needed to intervene and redistribute the hardship inflicted by the U.S. embargo.

Comparative Advantage in Beef and Packer Gross Margins

In the immediate aftermath of the discovery of BSE in Canada, the closing of borders across the industrialized world to Canadian beef had a devastating impact on Canadian packers. According to the Canadian Meat Council, Canadian packers lost an estimated $50 million during the first weeks of the BSE crisis. Once the U.S. embargo on Canadian boneless beef products from cattle no more than 30 months of age was lifted, however, the fortunes of Canadian packers rebounded. The change of circumstance was described as one where:

We have a huge surplus of cattle, we don’t have a huge surplus of meat. The meat has moved quite nicely through the system, given what we’ve been through … The packing plants are running flat out for their export *markets, with as many cows as they can put through, and the meat's not going into the freezer, not being stored some more, it is being consumed.*

Scott Zies, Alliance for Fair Trade in Beef
Standing Committee on Agriculture and Agri-Food
Evidence No. 4-16:15, 3rd Session
37th Parliament
Ottawa, 23 February 2004

In other words, Canada's oversupply of beef and cattle became simply a glut of cattle. Not surprisingly, both wholesale and retail prices of beef products that were headed downward throughout the summer had reversed course and were heading upward from September 2003 until 23 December when a case of BSE was found in Washington State. Nevertheless, Canadian consumers today still benefit from a very slight price advantage in some cases, according to at least one retailer:

The slaughterhouses are giving us just about the same prices as last year, maybe a little less. We take advantage of this, because there is a lot more beef this year, which means that when there are cuts on special, when the prices are lower, of course we use them for our specials. With the regular prices, the price is about the same, just a little lower than last year.

Paul Fortin, The Great Atlantic & Pacific Company of Canada Limited
Standing Committee on Agriculture and Agri-Food
Evidence No. 9-17:15, 3rd Session
37th Parliament
Ottawa, 22 March 2004

With wholesale beef prices approaching pre-BSE prices and cattle prices still mired at recent lows to eliminate the oversupply predicament, a significant comparative advantage has been inadvertently bestowed upon Canadian packers relative to their American competitors. American packers have been paying cattle prices well above pre-BSE levels since the crisis began, so Canadian packers can undercut American packers in their own beef market. As such, Canadian packers' gross margins, and possibly profit margins, have soared to levels never seen before. One Canadian packer company described his situation as follows:

Our losses in May and June were horrendous. In July and August, we did make some money, and in September and October, yes. The question you have to ask yourself, though, is how you value your inventory. … If you valued the inventory at what the markets were before the BSE crisis, you made an awful lot of money. But if you value it on what the expectations are *and take off the carrying costs and the value of keeping an office in Japan that cost us about $10,000 a week to keep operating, the question is out.*

Lorne Goldstein, Better Beef Limited
Standing Committee on Agriculture and Agri-Food
Evidence No. 4-17:20, 3rd Session
37th Parliament
Ottawa, 23 February 2004

The financial data for 2003 are not yet in. In the wake of the BSE crisis, packers stated that they face a number of economic hurdles themselves:

The first variable that must be taken into consideration is the change in value of the Canadian dollar. Cattle are priced in North America in U.S. dollars. The Canadian dollar has appreciated 15%. That equates to 13¢ a pound live. That takes our 87¢ up to one dollar. Because of BSE, … we must bone out a considerable portion of the fronts on the cattle. This would add a cost of $20 to $30 a head or $2.00 to $2.25 per hundredweight. The other major factor is … that is we can't collect on the export premium and … that equates to approximately $190 per animal. The other factor is the increased expense on the rendering. Rendering for the large companies was a revenue source. Today, it's an expense or a wash. Another factor … Canadian packers trading boneless product into the U.S. today are being discounted a nickel to a dime a pound on triple A, or the U.S. equivalent grade would [be] USDA choice, and that reduces their revenues from $2.00 to $3.00 a hundred[weight]. You add all those factors up and you're about $1.13.

Ben Thorlakson, Canada Beef Export Federation
Standing Committee on Agriculture and Agri-Food
Evidence No. 9-16:30, 3rd Session
37th Parliament
Ottawa, 22 March 2004

One Canadian packer roughly calculated the financial impact of BSE on his operations in the following way:

I did a comparison in my company last week. My sale price on my meat last week was roughly $275 an animal less than it was a year ago. I compared what I was paying for steers, and I'm paying about $300 less. ... My operating costs are actually ... not doing as well in killing steers as I was a year ago.

Brian Nilsson, XL Beef
Standing Committee on Agriculture and Agri Food
Evidence No. 7-16:45, 3rd Session
37th Parliament
Ottawa, 10 March 2004

A Canadian retailer advanced an argument that the depressed cattle prices in Canada were the direct result of lost foreign markets for by-product carcass values:

> *With an animal that weighs about 1,200 lbs, by the time you've taken away the hide and the bones, there are about 450 lbs left, but there are a lot of products that are exported, such as tongue, heart, beef cuts called tri-tips … But now, that is what they cannot sell elsewhere, it is what they cannot sell abroad. That is why now farmers perhaps aren't getting the price they should be getting for their animals.*
>
> Paul Fortin, The Great Atlantic & Pacific Company of Canada Limited
> Standing Committee on Agriculture and Agri-Food
> *Evidence* No. 9-16:00, 3rd Session
> 37th Parliament
> Ottawa, 22 March 2004

The Committee, however, observes that Canadian packers' production consistently approached, or sometimes exceeded, its slaughter capacity for a number of weeks this past fall. Moreover, in November 2003, Canadian packers exported as much boneless beef products to the United States as they did in November 2002, despite a 20% appreciation of the Canadian dollar vis-à-vis the U.S. dollar. Given the highly concentrated ownership structure of the packing industry, as shown in Chapter 2, the Committee is concerned that, beyond the possibility that the packing segment of the industry may be unduly profiting from the oversupply of cattle in Canada, the packers may, in fact, be exploiting their market (buying) power at the expense of Canadian cattlemen.

For this reason, the Committee began its hearings on the pricing of beef and cattle by meeting with the Commissioner of Competition Sheridan Scott. During that meeting, the Commissioner explained the parameters and limitations of the *Competition Act*. She then discussed the reasons why the Committee's evidence of last year and its report of November 2003 did not provide sufficient grounds for the Competition Bureau to conduct an inquiry into the pricing of beef. The Committee understands that the Act does not address issues of fairness or unfairness *per se*. The Act focuses on the behaviour and business practices of the marketplace, notably on price conspiracies and abuse of dominance. Despite these limitations, the Commissioner also recognized that the BSE crisis had imposed a very difficult set of circumstances on the livestock market:

> *I don't underestimate the huge impact. … I understand the major changes that are taking place in this market and the devastating effect it's having on many people. So it's difficult for me to come here and say to you that I'm*

limited by my legislation, but the reality is I am limited by my legislation. I'm trying to be as helpful as possible by finding provisions that we can pursue to look at how we can help address this matter …

Sheridan Scott, Commissioner of Competition
Standing Committee on Agriculture and Agri-Food
Evidence No. 2-16:10, 3rd Session
37th Parliament
Ottawa, 16 February 2004

The Committee believes that all aspects of the livestock marketplace must be carefully monitored in the current crisis. The Committee exercised its privilege of asking the Minister of Industry to conduct an inquiry by approving the following motion:

That this Committee requests the Minister of Industry to instruct the Competition Bureau to conduct an inquiry under Section 45 of the *Competition Act* on the pricing of beef at the slaughter, wholesale and retail levels in the context of the BSE crisis in Canada.

The Committee notes that the Minister of Agriculture and Agri-Food also requested that the Minister of Industry ask the Commissioner of Competition to undertake such an inquiry, but the Minister has not yet done so. Given the information contained in this report and in an accompanying letter to the Minister of Industry, the Committee recommends:

RECOMMENDATION 1

That the Minister of Industry instruct the Commissioner of Competition, under section 10 of the *Competition Act*, to conduct immediately an inquiry into the pricing of slaughter cattle and beef at the wholesale level.

In the meantime, the Committee recommends:

RECOMMENDATION 2

That the Competition Bureau monitor the wholesale and retail pricing of beef, as well as the fed and feeder cattle prices, and that the Commissioner of Competition report periodically, or at the call of the Chair, to the House of Commons Standing Committee on Agriculture and Agri-Food.

The Competition Bureau, as a criminal and civil investigative body, does not have a mandate to undertake a study of the competitive aspects of an industry. Parliament has not seen fit to grant these powers to the Bureau. Yet the Committee would recommend such a study to be conducted to make more transparent the business practices of the cattle and beef products industry. When faced with a similar set of circumstances with respect to the petroleum and gasoline industry in 2000, the government chose to engage the Conference Board of Canada to conduct a very extensive and detailed study of the industry. The Committee requests the same to be done for the beef industry and recommends:

RECOMMENDATION 3

That the Government of Canada engage an independent body to conduct a comprehensive study of the competitive aspects of the cattle and beef products industry in Canada.

Government Financial Assistance Programs in Retrospect

In the face of an enormous oversupply of cattle in Canada and many financially strapped livestock producers, government intervention was seen as necessary to get the industry back on its feet. The crux of the problem was put to the Committee as follows:

> *The fact of the matter is, prior to that program, the industry was at a stalemate. We needed to buy the cattle cheaper because we were cut out of the U.S. market. The producer had his costs in these cattle and didn't sell. If you go back through the kill volumes, there were six weeks where the kill volumes were very light; in fact, they were about half.*
>
> *The bottom line is that the government money did not create cattle or take cattle away. The supply and demand for cattle remained the same, whether the government money was there or not. What the government money did was give the producer an assurance that if he sold the cattle to where they were going anyway, he was going to get a portion of the money to bail out his losses. The business started to operate and they started to move cattle.*

Garnett Altwasser, Lakeside Packers Ltd.
Standing Committee on Agriculture and Agri-Food
Evidence No. 7-16:35, 3rd Session
37th Parliament
Ottawa, 10 March 2004

The federal and provincial governments' $500-million BSE Recovery Program accomplished some of its objectives; for instance, it made possible the return to near-capacity production levels by Canadian packers and helped to reduce the oversupply of cattle in a timely manner. However, the program did not raise market prices for Canadian livestock that would have helped financially distressed livestock producers.

The Committee is also aware that another government program, the $200-million Cull Animal Program, does not meet the objective set by producers in terms of the oversupply reduction required. In a letter dated 9 March 2004 to the Committee, Dairy Farmers of Canada indicated that the cull rate for dairy herds "recognized by Agriculture and Agri-Food" is 25%. The program, however, applies only to 16% of the dairy herd. Although this program could alleviate the problem, it is not seen by the Committee as a solution to the oversupply of dairy cows and the low prices received by producers.

The Committee concludes that, overall, the BSE Recovery Program was flawed, not only in its design but also in one of its objectives. Given the program's two stated objectives, the two levels of government were correct in specifying a date for the termination of the program. The deadline encouraged the quickest return to "business as usual" for the packer and processing segment of the industry, but not for livestock producers. The Committee believes, however, that the program should have given a higher priority to cushioning the impact of the oversupply of cattle on cattlemen and ranchers than to increasing the volume of slaughter at packing plants (the program's second stated priority). Had this been the case, the optimal design of the program would not have specified a deadline for its termination. A specific date could only encourage cattle owners to sell their cattle prior to that date — rather than when it would be optimal to do so — to take advantage of the government payment. Only such a deadline could explain the almost 20% decline in the Alberta fed cattle price in just one week (the announcement week of 18-25 June 2003) and the price's rise immediately after the program terminated. In the Committee's view, the program should have tied and delivered the government payment directly to a cattle or livestock owner, with the program deadline being the date when the U.S. government lifts its embargo on affected Canadian livestock. In this way, the program would not have influenced the timing of the cattle being offered for slaughter, and the benefits of the program would have accrued largely to cattlemen and livestock owners. The benefits would not have been appropriated by the packers through further depressed prices throughout the summer.

On 22 March 2004, the Government of Canada announced its Transitional Industry Support Program, which will provide $680 million to cattle producers who have suffered from the prolonged closure of the Canada-U.S. border. The funding will be delivered as a direct payment of up to $80 per eligible bovine animal on inventory as of 23 December 2003. All bovine animals are eligible except for mature bulls and cows (cows that have calved and intact bulls older than one year). Similar measures will be available for producers of other ruminants who have lost access to the U.S. market.

The Committee also assessed the potential policy alternative of regulating a minimum price for cattle, but no support was found within the industry for such an intervention. Some witnesses stated that such a policy would not be in the best interest of the Canadian beef and cattle industry, nor in the interest of Canadian consumers.

Slaughter and Value-Added Products Processing Capacity

At the Committee's hearings, it became clear that many industry stakeholders believe Canada would be better off with more domestic slaughter and processing capacity. As mentioned in Chapter 2, the packing industry has undergone considerable consolidation in the recent past, with plants and jobs disappearing to such an extent that there remain only three major players in Western Canada, and one in Eastern Canada. While this consolidation was occurring, increasing numbers of live cattle were being exported to the United States and, paradoxically, Canada was importing more boneless cuts.

> *The year prior [to BSE], we imported 130,000 tonnes of imported boneless cuts into this country versus 760,000 tonnes into the United States. If you compare the respective populations, we brought in two times the amount per capita. On the other hand, from the supply or the production side, when you consider that we have to export 60% to 70% of our product, and we have a much greater need to export than the Americans, here we are bringing in twice as much imported product as do the Americans.*

Garnett Altwasser, Lakeside Packers Ltd.
Standing Committee on Agriculture and Agri-Food
Evidence No 7-16:00, 3rd Session
37th Parliament
Ottawa, 16 February 2004.

In the past three decades, the industry has forged a new equilibrium based on a domestic weekly slaughter capacity of about 65,000 head, a live animal export market of 25,000 head, and supplemental imports of beef products, of which the United States is by far the largest supplier. On one day in May 2003, this well-functioning, integrated North American market became dysfunctional. A single case of BSE in Canada destabilized this equilibrium. A profitable industry that has historically declined direct government support began losing several millions of dollars per day. Total losses to Canada were in the vicinity of $1.8 billion in 2003, but this total rises with every passing day that the U.S. border remains closed to live animals.

The events triggered by the finding of BSE in Canada have made stakeholders (particularly cattlemen) aware of just how essential the export market for live animals is to their livelihood. It has also demonstrated the vulnerability of the integrated North American market. The two countries' separate food safety and security systems are the weak link in the system. While it is almost back to “business as usual” for the packing segment of the Canadian industry, because many beef products can once again be exported, livestock producers require federal and provincial government assistance for their survival.

Various livestock producers across Canada are nevertheless looking for opportunities to invest in value-added activities. In some regions, livestock producers have only one major slaughter or processing plant to supply. From their perspective, the market is too concentrated. In other regions, slaughter and processing plants are non-existent. For these reasons, some stakeholders appearing before the Committee suggested that there might be investment opportunities for farmers to venture into beef processing.

> *Why don't we take our own destiny in our hands. Get another plant going or expanding the plants that we have here in Canada and after that sell it to them our cut and keep the jobs in Canada. I think that's what we should … be doing instead of waiting for the U.S. to reopen the border.*
>
> Paul Fortin, The Great Atlantic & Pacific Company of Canada Limited
> Standing Committee on Agriculture and Agri-Food
> *Evidence* No. 9-17:00, 3rd Session
> 37th Parliament
> Ottawa, 22 March 2004

However, based on the contradictory evidence received by the Committee, it is unclear whether or not the timing of any additional slaughter capacity in Canada is appropriate.

In its report of November 2003, the Committee recommended to government that it support the development of new market opportunities in the livestock sectors. In the 2004 Federal Budget Plan, the government announced its intentions to inject an additional $270 million for new investment in venture capital to be delivered by the Business Development Bank of Canada and Farm Credit Canada. The Committee once again recommends:

RECOMMENDATION 4

That the Government of Canada and its agencies involved in the agri-food sector work with livestock producers and processors to find new business opportunities in the livestock processing sector, with a particular emphasis on increasing livestock slaughter and value-added products processing capacity.

Fully Open Export Markets and Clear Rules

The Canadian cattle and beef industry is fully integrated within a North American market, but the NAFTA countries have still to develop and implement import-export policies and rules in accordance with international standards — standards that would prevent the use of sanitary measures as a barrier to trade. The BSE cases in Canada and United States highlighted the vulnerability of the cattle and beef products industry, particularly the primary livestock producers. Such action, which is not based on sound science or risk assessment, must be stopped if the Canadian cattle industry is to remain economically viable in the longer term. Canada and the United States do not benefit from imposing import embargoes on each other.

Consultations between the North American trading partners are ongoing, but these trading partners are also competitor countries in many markets, a fact that should not be underestimated when negotiating the harmonization of national food safety and security systems. Last year, in the context of its hearings on the BSE crisis, the Committee wrote to the Director General of the World Organisation for Animal Health (OIE) to clarify whether or not countries could legitimately protect their markets when another country reports only one case of BSE. In his letter of response to the Committee, the Director General wrote:

> *One of the most important of the conclusions of the recent meeting of the expert group in September 2003 was that the scientific basis of the Code chapter was still valid. The experts concluded that the current trade restrictions have resulted from the fact that countries are not applying the OIE Code as written. Many countries are applying trade embargoes as soon as an exporting country reports its first case of BSE, without having conducted a risk assessment as is recommended in the Code. In any case, the present Code does not recommend a total embargo on animals and animal products coming from BSE infected countries, but approaches the BSE risks through increasing levels of restrictions depending on the category of the exporting country. I believe that your efforts should be directed at helping the OIE to encourage OIE Member Countries, including Canada, to follow the OIE Code in setting their import measures.*

Dr. Bernard Vallat, Director General, OIE
Letter to Standing Committee on Agriculture and Agri-Food
2rd Session, 37th Parliament
Ottawa, 3 november 2003

In addition, the panel of international experts on BSE, in its report on measures relating to BSE in the United States, stated:

- *The subcommittee appreciates the intent of the US government to follow a science based approach to policy formulation*.

- *The North American cases demonstrate again that exporting countries feel significant national social and financial impacts when importing countries fail to comply with international rules regarding trade*.

- *Therefore, the subcommittee recommends that the US should demonstrate leadership in trade matters by adopting import/export policy in accordance with international standards, and thus encourage the discontinuation of irrational trade barriers when countries identify their first case of BSE*.

The Committee believes that trade rules harmonization has to be done correctly and promptly. Without it, future market disruptions in agriculture and agri-food trade will be more costly and protracted than the current one. If the NAFTA countries truly believe in an integrated North American market for cattle and beef products, they must fully respect international codes. The Committee recognizes the ongoing efforts on both sides of the border to re-establish exports of all livestock and other related commodities, but is concerned about the negative effects that time spent in political negotiations has had on Canada's livestock market. The primary producers of competitor countries are making inroads into traditional Canadian export markets. The Committee recommends:

RECOMMENDATION 5

That the Governments of Canada and the United States immediately implement the World Organisation for Animal Health Code and repeal both countries' import embargoes, while continuing to negotiate other modalities of an implementation plan that would improve the free flow of livestock and meat.

CONCLUSION

On 20 May 2003, Canada was struck with BSE. The discovery of one case of BSE in one cow, in one herd, in one province set off a series of events that devastated cattlemen and other livestock producers across Canada. The industrialized world immediately closed its borders to Canadian cattle and beef, and a fully integrated North American market for beef products and live animals became de-integrated. Cattle prices spiralled downward, cattle herds grew beyond affordable levels, flourishing cow-calf operations were made unprofitable, and packers and processors were burdened with costly new processing regulations.

The marketplace responded to the oversupply situation by reducing the prices of cattle to stimulate domestic demand. In the absence of the U.S. market for cattle, Canadian industry could not do anything else. At the same time, the depressed cattle price has inadvertently bestowed an economic advantage upon Canadian packers relative to their American competitors, as Canadian packers can now undercut American packers in their own beef markets. Canadian packers have thus quickly returned to profitability; Canadian cattlemen, on the other hand, have not.

The federal and provincial governments responded to the devastating situation with about $1.58 billion in financial assistance to industry stakeholders. The two federal programs had varying degrees of success. Although the Committee understands that the federal-provincial BSE Recovery Program accomplished its stated objectives, the Committee would have preferred that the program's payments be tied and delivered directly to a cattle or livestock owner and that the payments were not subject to a specific cut-off date. In this way, the program would not have influenced the timing of the cattle being offered for slaughter, and the benefits of the program would have accrued largely to cattlemen and livestock owners.

Due to the temporary loss in foreign packers bidding for Canadian cattle and the high concentration of ownership in the Canadian packer and processing segment of the industry, the Committee believes that all aspects of the livestock marketplace must be carefully monitored in the crisis period. The Committee recommends that the Minister of Industry instruct the Commissioner of Competition to conduct an inquiry, under section 10 of the *Competition Act*, into the pricing of slaughter cattle and beef at wholesale level. The Committee also recommends that the Competition Bureau monitor the wholesale and retail pricing of beef, as well as the fed and feeder cattle prices, and that the Commissioner of Competition report periodically to the House of Commons Standing Committee on Agriculture and Agri-Food. Finally, the Committee recommends that the Government of Canada engage an independent body to conduct a comprehensive study of the competitive aspects of the cattle and beef products industry in Canada.

In the longer term, efforts must be focused on improving the operation of the North American marketplace for cattle and beef products. The use of sanitary measures for political purposes as a barrier to trade must be eliminated. More slaughter and value-added products processing capacity is needed in Canada to improve the competitive structure of the industry and to reduce the number of Canadian cattle and livestock exposed to trade embargoes. Accordingly, the Committee recommends that the Government of Canada pursue business opportunities with a particular emphasis on increasing livestock slaughter and value-added products processing capacity in Canada. The Committee also recommends that the governments of Canada and the United States immediately implement the OIE Code and repeal both countries' import embargoes.

APPENDIX A
LIST OF WITNESSES

Associations and Individuals	Date	Meeting
Competition Bureau	16/02/2004	2
Suzanne Legault, Assistant Deputy Commissioner, Legislative Affairs Division		
Sheridan Scott, Canada's Commissioner of Competition		
Richard Taylor, Assistant Deputy Commissioner of Competition, Criminal Matters Branch		
Alliance for Fair Trade in Beef	23/02/2004	4
Wayne Holland, Co-Chair		
Scott Zies, Co-Chair		
Better Beef Limited		
Bennie Dejonge, President		
Lorne Goldstein, Secretary Treasurer		
Canadian Meat Council		
Jim Laws, Executive Director		
Levinoff Meats Limited		
Brian Read, General Manager		
Cargill Foods	10/03/2004	7
Willie Van Solkema, Assistant General Manager / Sales		
Lakeside Packers		
Garnett Altwasser, Chief Executive Officer		
XL Beef		
Brian Nilsson, Co-President		
Canada Beef Export Federation	22/03/2004	9
Ben Thorlakson, Chairman		
Canadian Council of Grocery Distributors		
Paul Fortin, Vice-President, Fresh Foods Merchandise & Procurement, The Great Atlantic & Pacific Company of Canada Limited		
Nick Jennery, President		
Kim McKinnon, Vice-President, Communications		
George Morris Centre	25/03/2004	10
Kevin Grier, Senior Market Analyst		

APPENDIX B
LIST OF BRIEFS

Alliance for Fair Trade in Beef

Canada Beef Export Federation

Canadian Council of Grocery Distributors

Canadian Meat Council

National Farmers Union

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government provide a comprehensive response to this report.

A copy of the Minutes of Proceedings of the Standing Committee on Agriculture and Agri-Food (*Meetings Nos. 2, 4, 7, 9, 10, 11 and 13 which includes this report*) is tabled.

Respectfully submitted,

Paul Steckle, M.P.
Huron—Bruce
Chair

MINUTES OF PROCEEDINGS

Wednesday, March 31, 2004
(*Meeting No. 13*)

The Standing Committee on Agriculture and Agri-Food met *in camera* at 4:51 p.m. this day, in Room 362 East Block, the Chair, Paul Steckle, presiding.

Members of the Committee present: Gilbert Barrette, hon. Mark Eyking, hon. David Kilgour, Larry McCormick, John O'Reilly, Louis Plamondon, Dick Proctor, Gerry Ritz, Paul Steckle and Rose-Marie Ur.

In attendance: *Library of Parliament*: Jean-Denis Fréchette, Principal; Dan Shaw, Analyst.

Pursuant to Standing Order 108(2), the Committee resumed its study of a draft report on the pricing of beef at the slaughter, wholesale and retail levels, in the context of the BSE crisis in Canada.

It was agreed, — That the draft report, as amended, be adopted.

It was agreed, — That the report be entitled: Canadian Livestock and Beef Pricing in the Aftermath of the BSE Crisis.

It was agreed, — That the Chair, Clerk and researchers be authorized to make such grammatical and editorial changes as may be necessary without changing the substance of the report.

It was agreed, — That the Chair present the report, as amended, to the House as the 2nd Report of the Committee.

It was agreed, — That, pursuant to Standing Order 109, the Committee request that the Government table a comprehensive response to the report.

At 6:22 p.m., the Committee adjourned to the call of the Chair.

Bibiane Ouellette
Clerk of the Committee