



CANADIAN CATTLEMEN'S ASSOCIATION

BRIEF TO THE HOUSE OF COMMONS STANDING COMMITTEE ON AGRICULTURE
AND AGRI-FOOD REGARDING PROCESSING CAPACITY IN THE BEEF SECTOR

FEBRUARY 10, 2021

Thank you for the opportunity to share the Canadian Cattlemen's Association (CCA)'s recommendations to optimize beef processing capacity within Canada. The beef industry is Canada's largest agricultural sector contributing \$9 billion in farm cash receipts and \$17 billion to Canadian Gross Domestic Product while generating 228,000 jobs. It supports strong rural communities and is the largest Canadian conserver of the Great Northern Plains. Canada was the first country in the world to have a certified sustainable beef claim. The sector's contributions to Canada's economy and environment would not be possible without the ability to process our product for national and international customers.

Sufficient processing capacity is directly tied to producer income and the industry's ability to contribute to economic growth and recovery. Attaining the right mix of size and scale of processors within Canada is imperative as each contribute to the overall economic health of the industry. Larger processors are efficient competitors nationally and internationally, enabling Canada to optimize trade agreements while small to medium size packers allow for localized slaughter capacity and local food systems. Over the last number of years, the beef industry has been challenged with maintaining small to medium sized packers and having sufficient processing capacity in Eastern Canada. During the pandemic, our sector demonstrated great resiliency, but vulnerabilities were identified.

This submission will review the current and historic context of packing capacity in Eastern and Western Canada and because Canada's packing capacity cannot be examined alone, this submission will examine Canada's sector within the North American context. This paper will conclude with several recommendations on how to create an environment that will support an optimal Canadian packing system:

- 1. Establish a Red Meat Industry Export Development Fund*
- 2. Support North American Integration Through Harmonizing Canadian and American Shipping Requirements for Beef to South Korea*
- 3. Extend Set Aside Program Availability into the 2021-2022 Fiscal Year*
- 4. Update Canada's Specified Risk Material (SRM) Removal Requirements*
- 5. Implement the Recommendations of the Labour Workforce Action Plan*
- 6. Support Automation in Processing Plants, and*
- 7. Place Vaccination Priority on Agri-Food Processing Workers.*

CCA welcomes the Committee's report on the subject, and to working with all levels of government in implementing these important initiatives.

Section 1: Beef Cattle Processing Capacity in Eastern Canada

Year	FI Slaughter	FI Capacity	Utilization
2015	10,768	15,233	71%
2016	11,429	13,416	85%
2017	12,155	13,250	92%
2018	12,650	13,250	95%
2019	12,824	13,075	98%
2020	12,550	12,550	100%

Eastern Canada (comprised of Ontario, Quebec and the Atlantic Provinces) packing capacity was approaching full capacity prior to the pandemic and the sector seasonally experienced long delivery times to get cattle to market. This resulted in longer feeding periods, increased costs and lower prices for producers. This capacity shortage has been

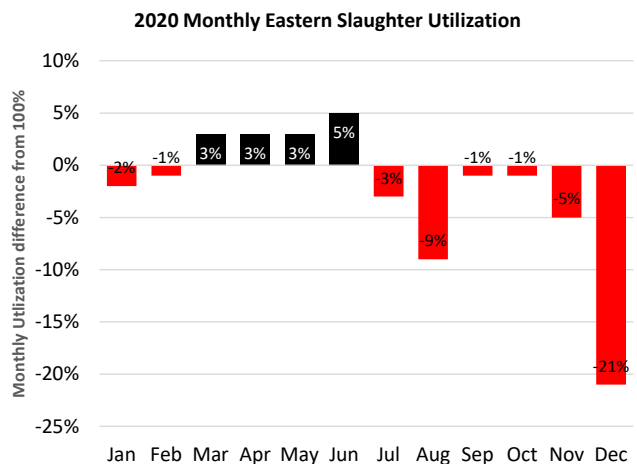
particularly acute during the fall and winter months where producers are experiencing delivery and processing delays and a negative price spread to other regions.

Capacity was reduced in 2015 and 2016 with the closures of Les Viande Laroche and Valleyfield. In October 2019, the Ontario packing sector lost 11% of its weekly kill capacity with the closure of Ryding Regency. Eastern Canada now has 10 operating packing plants, with six in Quebec, one in Atlantic Canada and three in Ontario with available weekly capacity at an estimated 12,550 head (assuming five working days).

Eastern Canada federally inspected (FI) slaughter was down 4% between 2019 and 2020 even as utilization (the percentage of total available slaughter capacity currently being utilized) has increased year over year. Lower total slaughter suggests that the remaining plants who have increased capacity in 2020 has not been sufficient to cover the capacity lost.

To meet strong demand, eastern packers pushed utilization rates in March through June 2020 to above 100% by using Saturday shifts. This meant that 2020, in comparison to 2019, largely had sufficient levels of packing capacity. However, while the effort to increase processing capacity within the current operations is admirable, a 100% utilization rate for packers is not sustainable as they require time for regular maintenance. Additionally, a 100% utilization rate limits adaptability to emergency events such as COVID-19 and is not economically ideal for producers vying for limited processing spots, this results in lower prices.

Chart 1



Source: Canfax Research Services

During the pandemic, Ontario packing capacity was keeping pace with demand but was set back in December of 2020 when COVID-19 caused a shut-down at the Cargill Guelph facility. The shut down at the plant, which processes 75% of total eastern packing capacity, resulted in an estimated backlog of 10,000-15,000 head of cattle during the two-week period. The Set Aside

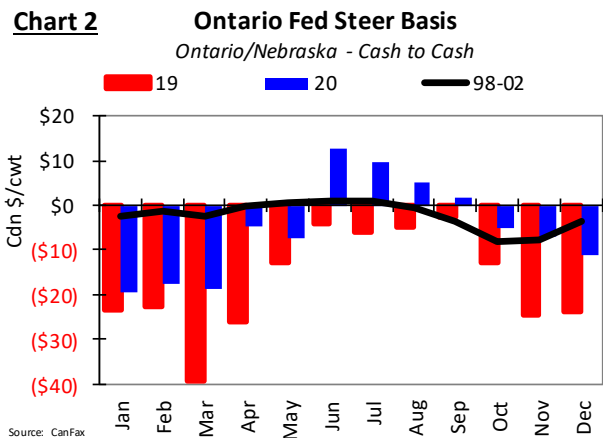
program implemented under AgriRecovery has helped bring stability to the market. However, the backlog of 10,000-15,000 head of cattle remains as it is difficult to increase capacity beyond the 100% utilization rate, further demonstrating the precariousness of 100% utilization rates. In December 2020, Eastern fed slaughter was about 11,900 head below last year.

Limitations in packing capacity have had a significant financial impact for Eastern Canada’s beef industry. The economic shortfall is demonstrated by the \$129 million that would be gained if fed cattle and cow prices normalized to their five-year average (as shown in the table below).

<i>\$ CDN, million</i>	Ontario	Quebec	Total
Fed Cattle	\$89.7	\$11.5	\$101.3
Dairy Cows	\$10.2	\$11.5	\$21.7
Beef Cows	\$4.3	\$1.6	\$5.9
Total	\$104.2	\$24.6	\$128.8

Marketings are based on federal and provincial slaughter (source: Canadian Beef Grading Agency) and fed cattle exports to the United States (source: Statistics Canada). Costs based on monthly live prices reported by Canfax Research Services (source: Canfax, Beef Farmers of Ontario, Les Producteurs de bovins du Québec) and January 1,2020 inventory (source: Statistics Canada), with dairy cow costs in Québec using Ontario dairy cow prices.

On average, cash losses in the Ontario feeding sector have been -\$238 per head in 2020 (Source: Canfax Trends – East). Cattle hedged with the CME futures would have been profitable in May, but for the entire year were on average -\$106 per head. Consequently, the eastern feedlot industry has lost an estimated -\$2.8 million per week on average in 2020 (Source: Canfax Trends – East).



As mentioned above, the lack of capacity has placed a financial pressure on Ontario producers over the last few years. However, it is recognized that external market events in 2020 supported a temporary turn around in trends as can be seen in the chart on Ontario Fed Steer Basis.

Section 2: Beef Cattle Processing Capacity in Western Canada

Over the past five years, approximately 77% to 79% of Canada’s total beef processing has taken place in Western Canada. Canadian slaughter rates have averaged 56,249 head per week with an 86% utilization rate over the last five years. With the emergence of COVID-19 in spring 2020, temporary slowdowns effectively halted just over two-thirds (70%) of Canadian beef processing capacity over a two-week period and resulted in the first half of 2020’s cattle slaughter being down 11% compared to the same period in 2019. This created a backlog of approximately 130,000 head of cattle in western Canada and the subsequent cumulative feedlot losses (using cash prices) of \$152 million between mid-March and mid-June.

Since May 2020, processing plants in the West have had an impressive recovery and have efficiently processed the backlog. This was possible due to the capacity available (i.e. lower utilization rate) in the West to ramp up slaughter; Canadian federally inspected slaughter averaged 61,342 head per week in the second half of 2020, the highest since 2010 representing 94% of capacity. While cattle producers suffered significant profit losses from low market prices and high input costs associated with managing their cattle supply, the Set Aside program through AgriRecovery did help stabilize the market and avoid even greater losses.

Section 3: Canadian and North American Beef Cattle Processing Capacity

As mentioned above, in 2020 Canadian federally inspected slaughter capacity averaged 57,681 head per week with a utilization rate of 89%. Slaughter rates have increased 27% from 2015 to

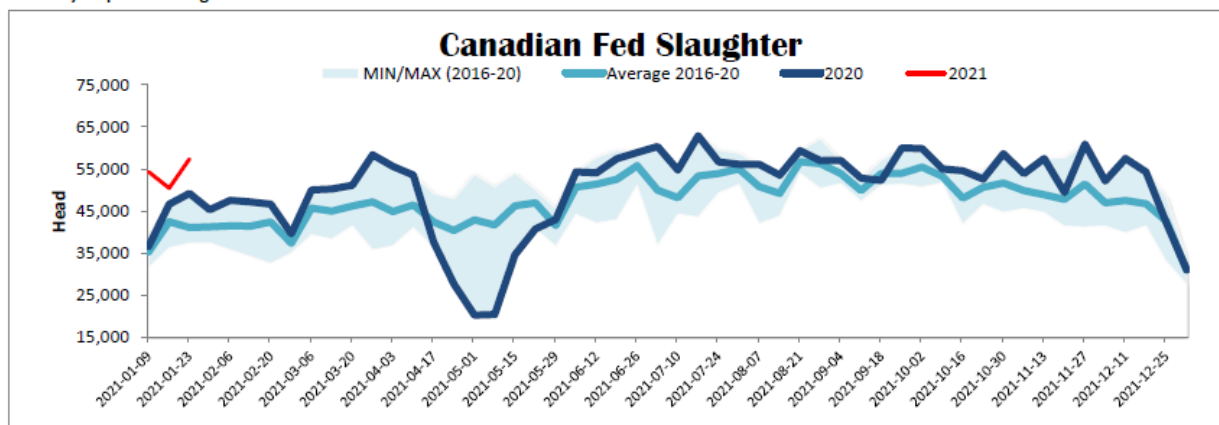
Year	FI Slaughter	FI Capacity	Utilization rate
2015	47,748	63,300	76%
2016	50,634	63,300	80%
2017	54,457	66,092	82%
2018	57,906	66,600	87%
2019	60,567	66,196	92%
2020	57,681	65,100	89%

2019, contributing to higher utilization rates within Canadian packing plants. However, beyond the total slaughter and utilization rates it is also important to analyze the industry from the perspective of diversity in scale, size and integration within the North American system.

Chart 3

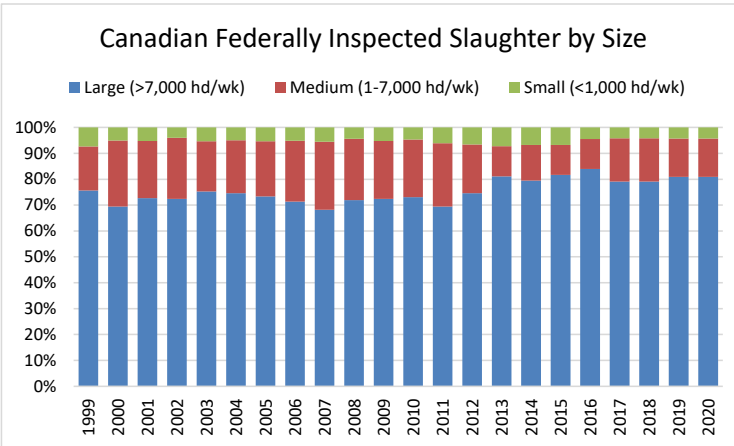
Year to Date for the Week Ending January 23, 2021

Federally Inspected Slaughter



It can be seen that packing capacity has become more concentrated in large facilities over the last decade. Larger processors are highly efficient competitors nationally and internationally, enabling Canada to optimize trade agreements and supply safe and affordable food at home and abroad. Overall, it should be noted and celebrated that the current structure of the packing industry responded swiftly and showed great resilience in the face of COVID-19, especially when

Chart 4



examined within the North American context. The prioritization of the open border allowed the North American packing system to ebb and flow, largely avoiding empty grocery shelves.

However, small to medium size packers also play a key role supplying localized slaughter capacity, local food systems and overall resiliency. Over the last decade the beef industry has been specifically challenged with

maintaining small to medium sized packers. This is due to a number of factors including, difficulty in competing with larger plants efficiencies of scale and regulatory burden (including but not limited to the cost burden of specified risk material removal) which created higher costs leading to the exit of mid-sized enterprises. Large packers are best suited to process a standard mix of products because they do not have the same flexibility to produce niche products or to frequently change product mixes that smaller plants have and can. There is a role for small and medium sized plants in filling this consumer demand.

Creating the right conditions for small, medium and large packers is essential to a resilient Canadian beef sector. Additionally, the integration and thinning of the U.S. border for live cattle and meat trade will further build resiliency within the Canadian beef supply chain. Recommendations on how to further improve the Canadian and North American processing systems are outlined below.

Section 4: Recommendations to support beef processing capacity in Canada

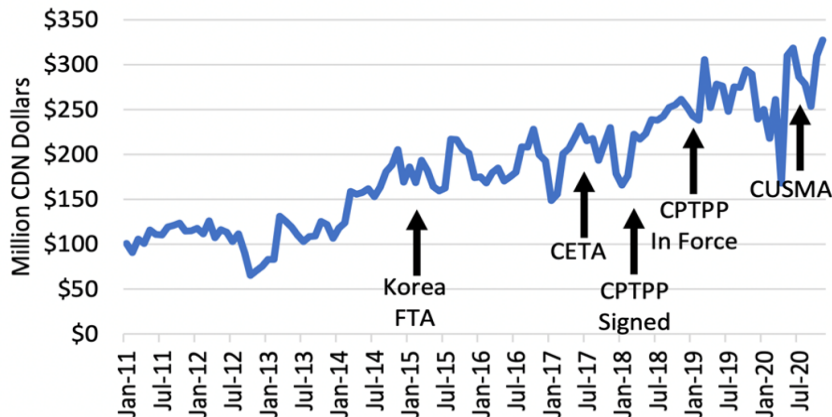
As demonstrated by this brief, Canada’s beef farmers and ranchers are dependent on a robust and dynamic processing sector. While processing recovery, following impacts of COVID-19, has been impressive there is room for improvement. The recommendations below will strengthen beef processing capacity in Canada and the industry’s ability to contribute to Canada’s economic recovery.

1. Establish a Red Meat Industry Export Development Fund

Between 2008 to 2017, Canada’s agricultural exports grew three times faster than the Canadian average, confirming that agricultural products are a net cash generator for Canada’s economy. Last year, Canadian beef exports grew an impressive 17 per cent and opportunity for further growth remains. The sectors’ ability to maintain jobs through COVID-19 makes agriculture a priority for economic recovery.

Chart 5

Monthly Canadian Beef Export Value



Source: Statistics Canada

To capture the opportunity presented to Canadian agriculture and specifically Canadian beef, CCA recommends creating a \$100 million CDN Red Meat Industry Export Development Fund to support processing capacity optimization, export diversification and address trade limiting factors. The cost shared fund between industry and government would be used for initiatives such as: segregating market specific product, implementation of on-farm production protocols that increase supply for specific markets, innovations that address current challenges (e.g. labour) and innovations that increase value added opportunities.

2. Support North American Integration through Harmonizing Canadian and American shipping requirements for beef to South Korea

The Canadian beef sector experiences a major issue in accessing processing capacity within North America due to differences between Canadian and U.S. shipping requirements to South Korea. Canada’s trade arrangement with South Korea stops shipments of beef from Canada if another case of BSE is found in Canada. As the U.S. does not have this same requirement, processing plants in the U.S. that would otherwise compete for Canadian cattle are hesitant to do so or will refrain from buying Canadian cattle because they are required to segregate Canadian and American cattle when shipping to the South Korean market. This is a cost many U.S. plants are not willing to incur with specific impact on Eastern Canadian cattle markets.

While our preference is to have Canadian cattle processed domestically, an integrated North American market supports competitive pricing as well as the ability to adapt when challenges, such as COVID-19, arise within plants.

3. Extend Set Aside Program availability into 2021-2022 Fiscal Year

Set-Aside programs were effectively used in the beef industry to address backlogs created by plant-shutdowns due to COVID-19. The objective of the set-aside program is to delay the marketing of cattle when processing capacity is not available. The program is designed to encourage farmers to hold cattle on maintenance rations (i.e. removed from the value chain for a set period of time) allowing cattle marketings to be stretched out until slaughter capacity can

be regained. The program was originally developed by governments and the Canadian beef industry acting in concert during the BSE era and was successful then and now during COVID-19. Given that COVID-19 challenges continue, CCA recommends maintaining the funding of this program so that it can be reinstated immediately (within a 1-2 week window) if required.

4. Update Canada's Specified Risk Material (SRM) Removal Requirements

CCA recommends revisions to Canada's specified risk material ("SRM") removal requirements, a regulatory relic and costly burden from the BSE days. Canada's current SRM removal requirements were developed in 2003 and further adapted in 2007. Today, global BSE cases are at negligible levels, as such there is a need to review Canada's SRM removal protocols. Canada is at a significant competitive disadvantage to our international competitors causing particular hardships for small and medium processors.

The current cost discrepancy between the U.S. and Canada is significant. On average, Canadian processors remove 58 kilograms of SRM on over thirty-month of age animals, whereas the U.S. removes approximately 900 grams. Based on estimates that were done by the Canadian Meat Council, this costs the Canadian industry in excess of 31 million dollars in lost value per year. Furthermore, meat is damaged and ultimately lost during the removal of the spinal column in over 30-month animals in Canada while American competitors are able to harvest the meat, further compounding the disparity and lack of fairness between the two systems. Canada's requirements have created a significant disadvantage for Canadian cattle producers and processors that is no longer supported by science.

It is positive to note that initial discussions on reviewing Canada's SRM removal requirements have begun, the goal should be to fully align our SRM rules with the United States. This will have immediate benefits to both processors and the beef supply chain in Canada.

5. Implement the recommendations of the Labour Workforce Action Plan

A skilled and adequate supply of labour is critical to increasing processing capacity in the Canadian beef cattle industry and to remaining competitive with international counterparts. Jobs in primary and further processing have gone unfilled, as a result processing plants have had to shift labor to core processing activities (cutting primals) and away from value-added cuts that meet different end-user specifications in various export markets.

Hiring Canadians to fill jobs in beef processing is always the first choice for employers in the sector. Employers work to attract employees from across Canadian society, including First Nations groups, young people and women. However, positions continue to be vacant and the industry must rely on immigration. Foreign workers in meat packing plants provide stability throughout the agriculture and beef sectors, and more are needed. Viable pathways to permanent residency are needed to allow these workers to become Canadian citizens. Foreign workers become an important part of Canada's rural economy by bringing their families, purchasing homes and consumer goods, and paying taxes. In 2018, a report by the Canadian Meat Council and Canadian Agricultural Human Resource Council (CAHRC) cited there was nearly

1700 vacancies in meat processing plants and 900 temporary foreign workers seeking to transition to permanent residency.

On May 15th, 2020 the Government of Canada launched its Agri-Food Immigration Pilot. This pilot is intended to provide pathways to permanent residency for workers currently employed in beef processing and primary production. The Pilot will help put industry on the path to resolving the labour gap by helping to ensure there are more workers in beef processing plants and at the farm level, along with providing workers with the opportunity for a pathway to permanent residency.

6. Support Automation in Processing Plants

Canadian beef processing plants have often referenced that automation does not replace labor but facilitates the transition of labor to different value-added jobs or creates jobs by opening up new product line options. Greater automation can be done through several routes; primarily through investments in innovation that support technology development. Additionally, through cost-share incentives that encourage the adoption of technologies that may need to be adapted to commercial environments. This would speed up the adoption process given there is often risk and large capital expenditures involved, as well as plant down-time and human resources that tend to slow the willingness to adopt.

7. Place Vaccination Priority on Agri-Food Processing Workers

CCA fully appreciates and supports that our first responders, medical professionals, elderly and care providers, along with other vulnerable individuals, clearly have the highest priority for vaccination. However, as governments move beyond these highest priority groups, front line food and agriculture employees, including temporary foreign workers, should be included as the next highest priority for the vaccine within any federal and provincial COVID-19 vaccination plan. This request is consistent with the recommendations of the National Advisory Committee on Immunization's preliminary guidance on key populations for early COVID-19 immunization.

Conclusion

The CCA appreciates the opportunity to provide input on this important study. As demonstrated, a lack of processing capacity creates a range of challenges for producers, feedlot owners and processing plants and impacts the sectors' growth and export opportunities. Strategic government investments and actions are required to assist with addressing the sectors vulnerabilities which have been highlighted during the COVID-19 pandemic. An efficient and resilient processing sector allows primary producers the stability to make sound business decisions and encourages investments in the small to medium sized enterprises that Canada's beef industry is comprised of. The sector has built a robust national and international market demand for its high-quality product, further optimizing processing capacity will help in continuing to build upon that success.

If current challenges in beef processing are addressed, the Canadian beef industry will emerge as a key recovery sector post COVID-19. Implementing these recommendations will provide necessary stability to the industry. CCA would be pleased to provide any additional information that the Committee may seek.

About the Canadian Cattlemen’s Association

The Canadian Cattlemen’s Association represents Canada’s 60,000 beef farms, ranches and feedlots. Founded by producers and led by a producer-elected board of directors, CCA works to address issues that concern Canada’s beef producers. The CCA’s vision is to have a dynamic, profitable Canadian beef industry with high-quality beef products recognized as the most outstanding by customers at home and around the world.

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