



**HOUSE OF COMMONS
CANADA**

**REPORT ON THE BEEF AND PORK SECTOR
INCOME CRISIS**

**Report of the Standing Committee on
AGRICULTURE AND AGRI-FOOD**

**James Bezan, MP
Chair**

**DECEMBER 2007
39th PARLIAMENT, 2nd SESSION**



The Speaker of the House hereby grants permission to reproduce this document, in whole or in part for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.

If this document contains excerpts or the full text of briefs presented to the Committee, permission to reproduce these briefs, in whole or in part, must be obtained from their authors.

Also available on the Parliamentary Internet Parlementaire: <http://www.parl.gc.ca>

Available from Communication Canada — Publishing, Ottawa, Canada K1A 0S9

**REPORT ON THE BEEF AND PORK SECTOR
INCOME CRISIS**

**Report of the Standing Committee on
Agriculture and Agri-Food**

**James Bezan, MP
Chair**

December 2007

39th PARLIAMENT, 2nd SESSION

STANDING COMMITTEE ON AGRICULTURE AND AGRI- FOOD

CHAIR

James Bezan

VICE-CHAIRS

André Bellavance

Paul Steckle

MEMBERS

Alex Atamanenko

Hon. Wayne Easter

Larry Miller

Hon. Carol Skelton

Brian Storseth

Ken Boshcoff

Guy Lauzon

Jean-Yves Roy

Lloyd St. Amand

OTHER MEMBERS OF PARLIAMENT WHO PARTICIPATED

Hon. Geoff Regan

CLERK OF THE COMMITTEE

Jean-François Lafleur

LIBRARY OF PARLIAMENT

Parliamentary Information and Research Service

Mathieu Frigon

THE STANDING COMMITTEE ON AGRICULTURE AND AGRI-FOOD

has the honour to present its

FIRST REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied the beef and pork sector income crisis and has agreed to report the following:

TABLE OF CONTENTS

INTRODUCTION	1
BACKGROUND	2
A. Beef Industry	2
FIGURE 1 – Cattle Prices Versus Barley Prices in Alberta	3
B. Pork Industry	4
FIGURE 2 – Quebec Hog Prices Versus Ontario Corn Prices	5
TRANSITIONAL AND LONGER-TERM MEASURES	6
A. Transitional Measures (Recommendations 1 et 2)	6
B. Long-Term Measures (Recommendations 3 à 6)	7
Appendix A: Witnesses List	11
Appendix B : Briefs List	12
Government Response	13

REPORT ON THE BEEF AND PORK SECTOR INCOME CRISIS

Report of the Standing Committee on Agriculture and Agri-Food

INTRODUCTION

The beef and pork industries are currently buffeted by what could be considered a “perfect storm”. Decreasing prices, increasing input costs, a strengthened Canadian dollar and regulatory compliance costs are all elements of this storm, which has resulted in an acute income crisis for the beef and pork industries. Although both the production and processing sectors are affected, the crisis became acute this fall for hog and cattle producers, who are struggling to meet even their immediate financial obligations. Current events have implications for both short-term and transitional measures to alleviate the worst effects of the crisis and for longer-term measures, such as adjustments to ongoing business risk management (BRM) programs, to improve the competitiveness of the industry in the long run. The recommendations of the Standing Committee deal with both of these aspects.

BACKGROUND

A. Beef Industry

There truly is a crisis occurring at this moment in the livestock industry. It's both an income crisis and an input cost crisis. Both pressures are occurring at the same time.

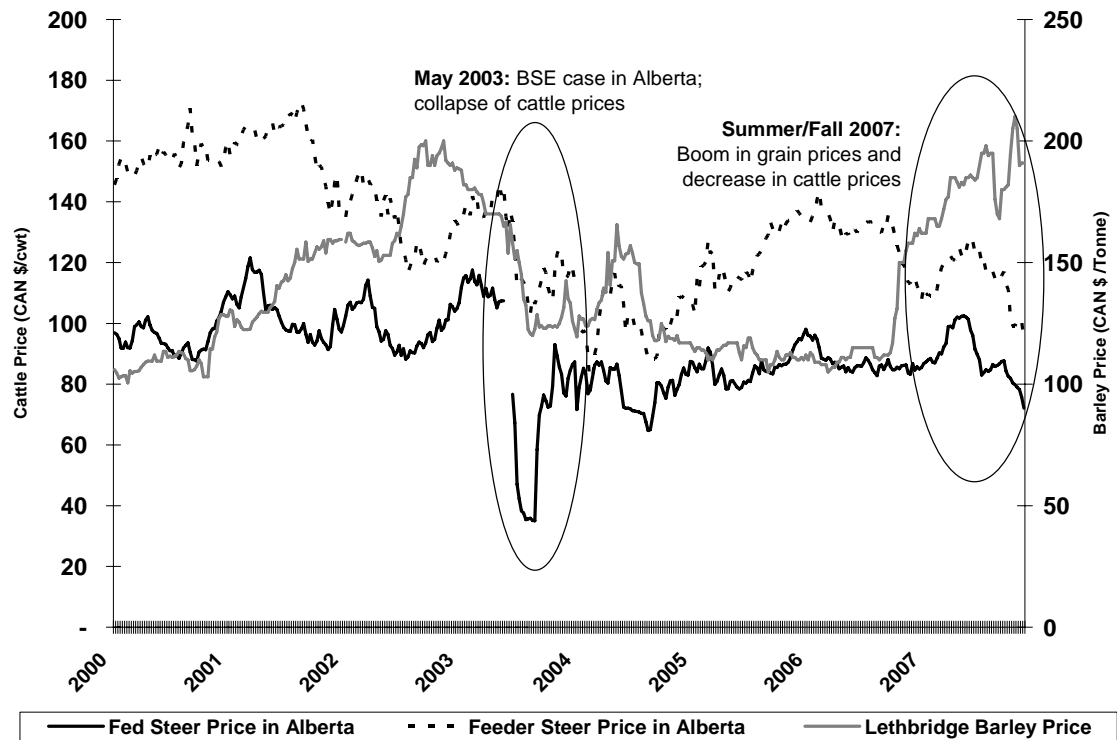
There are many factors creating this situation, and thus there needs to be a combination of actions forming a solution. I would also add that I sense a crisis of confidence in this industry.

Brad Wildeman, Chair, Canadian Cattlemen's Association, Standing Committee on Agriculture and Agri-Food, Evidence, No. 4 – 15:35, 2nd Session, 39th Parliament, Ottawa, 26 November 2007.

The Canadian cattle industry was severely hit by the bovine spongiform encephalopathy (BSE) crisis that began in May 2003. A ban by the United States on imports of live cattle and meat from Canada resulted in a complete collapse of cattle prices, as

shown in Figure 1. In subsequent years, slaughter capacity in Canada was improved, and the U.S. border was progressively re-opened to Canadian exports, which went some way toward helping the cattle industry to stage a post-BSE recovery in 2005 and 2006. Relatively low feed grain prices and borrowing costs during the same period also provided some relief with respect to input costs for cattle producers. In late 2006, grain prices showed a spectacular recovery. This was particularly true for barley, which has traditionally been the feed grain of choice for Canadian cattle producers. Not long thereafter, in mid-2007, cattle prices in Canada started an abrupt slide, which was explained, at least in part, by the fall of the U.S. dollar relative to the Canadian dollar. Cattle producers were therefore caught with rocketing input costs and falling output prices, which together translated into a cash-flow squeeze.

Figure 1 –Cattle Prices Versus Barley Prices in Alberta



Note: The relationship between cattle prices and barley prices is a good indicator of feed-lot profitability.

Source: CANFAX

One of the differences between the current crisis and the BSE-related crisis of 2003 is the fact that current events are also proving to be highly challenging for Canadian meat processors. Competition from U.S. meat processors has heated up with the strengthening of the Canadian dollar. Moreover, it is felt that some regulatory measures, such as inspections fees and the ban on specified risk materials (SRM), has put Canadian meat processors at a competitive disadvantage vis-à-vis their American counterparts.

B. Pork Industry

Pronounced economic cycles are typical of swine production, and it seems that the sector is currently at the bottom of a cycle. Hog prices began to decrease in

The Canadian hog producers are facing a financial crisis that is unprecedented in terms of cause and unparalleled in terms of negative outlook. Simply put, prices are collapsing, input costs have increased dramatically, and cash losses are mounting at such astonishing rates that entire communities, including producers and their input suppliers, face financial ruin. Most disturbing is the observation that no positive market correction in the foreseeable future seems apparent.

Mr. Curtiss Littlejohn, Director, Canadian Pork Council, Standing Committee on Agriculture and Agri-Food, Evidence, No. 4 – 15:40, 2nd Session, 39th Parliament, Ottawa, 26 November 2007.

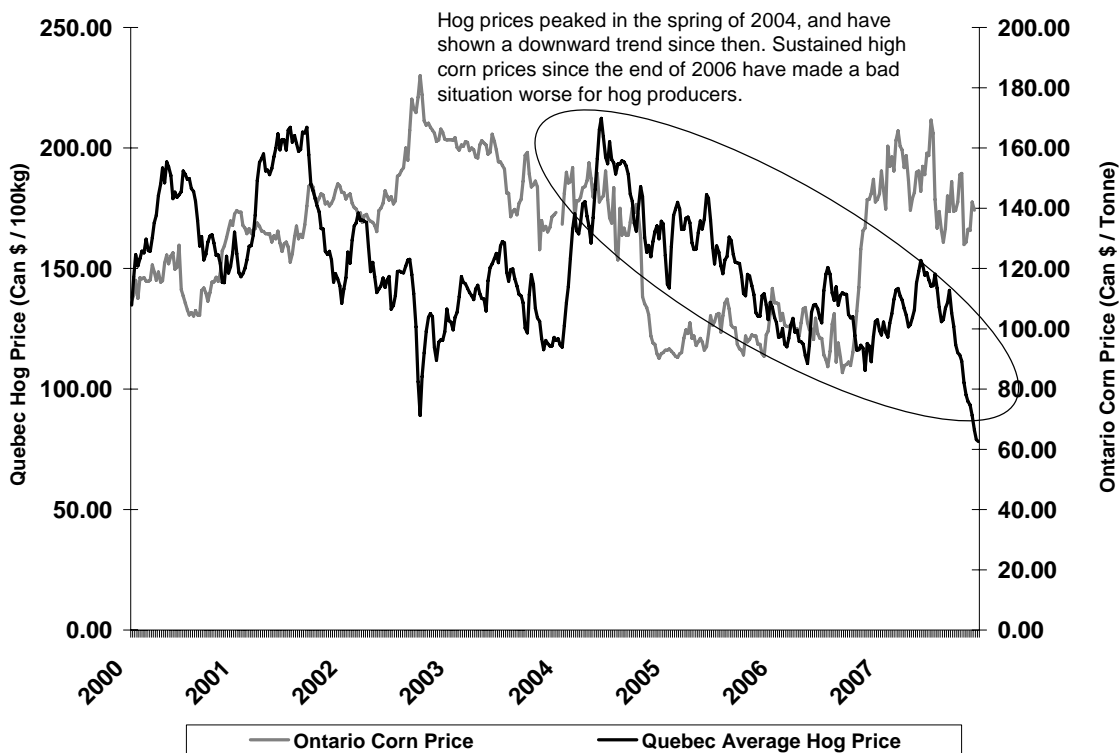
Earlier, we voiced our greatest concerns: the lack of support, and in the current conditions, the risk of seeing our industry's viability disappear. We think there will be renewed demand for these products world-wide, but will we still be there? We should. We shouldn't simply stand back and let U.S. producers take over. The Canadian government has to support those export products.

Mr. Jean-Guy Vincent, Standing Committee on Agriculture and Agri-Food, Evidence, No. 4 – 16:25,

2004 and have followed a downward trend ever since. The increase in the Canadian dollar has made this decline even sharper. Although prices improved modestly at the beginning of 2007, they started to collapse in September and have now reached record low levels (see Figure 2). At the same time as hog prices were decreasing, feed prices began to increase. Feed corn prices, which were steadily below

\$100 in 2005 and 2006, reached more than \$140 before the end of 2006 and have remained high. Not unlike the situation faced by cattle producers, hog farmers' cash flow is being squeezed between rising input costs and decreasing output prices, which together translate into a liquidity crisis.

Figure 2 – Quebec Hog Prices Versus Ontario Corn Prices



Note: The relationship between hog prices and feed corn prices has traditionally been a useful measure of pork production profitability.

Source: CANFAX et Fédération des producteurs de porc du Québec

Again, in a manner similar to current trends in the beef industry, the impact of the current crisis has not been limited to the hog farming sector. The increase in the Canadian dollar has also made it difficult for Canadian abattoirs to compete for supplies of live hogs and for sales of their products into domestic and foreign markets.

TRANSITIONAL AND LONGER-TERM MEASURES

A. Transitional Measures

Hog and cattle producers are both currently experiencing severe cash flow problems resulting from the “rising cost–declining price” squeeze. Accordingly, while professing faith in a bright longer-term outlook for their industry, farmers’ representatives have stressed to the Standing Committee the need to implement an immediate transitional measure. This intervention could go a long way toward alleviating the liquidity crisis that many farms are experiencing. Therefore:

Recommendation 1

The Standing Committee on Agriculture and Agri-Food recommends that Agriculture and Agri-Food Canada deploy, before the end of 2007, a special transitional measure that will provide cash-flow in the form of interest-free loans to be paid back over a period of three to five years, and bankable cash advances to hog and cattle producers.

Feedback received by the Standing Committee suggests that the Canadian Agricultural Income Stabilization Program (CAIS) Inventory Transition Initiative (CITI) was well-received by producers. However, producers continue to request that 100% of entitled payments under the P1/P2 inventory method be paid out for the 2003, 2004 and 2005 CAIS program years. Therefore:

Recommendation 2

The Standing Committee on Agriculture and Agri-Food recommends that Agriculture and Agri-Food Canada, in partnership with the provinces and territories, payout the remaining percentage owed to producers under the CAIS Inventory Transition Initiative (CITI), and respect the federal-provincial funding agreement.

B. Longer-Term Measures

All witnesses appearing before the Committee have stressed the significant adverse effect of the rising Canadian dollar on both the beef and hog sectors. Witnesses have mentioned that a decrease in the Bank of Canada target overnight rate should be implemented as soon as possible to relieve some of the upward pressure on the Canadian dollar. The Committee fully shares the concern of the industry regarding the impact of the strengthening dollar, while recognizing that many factors beyond the Bank of Canada target overnight rate are at play, and that these factors potentially have an influence on the evolution of the U.S./Canadian exchange rate. Therefore:

Recommendation 3

The Standing Committee on Agriculture and Agri-Food recommends that Agriculture and Agri-Food Canada (AAFC) hold formal discussions with the Minister of Finance to show the impact of the strengthening Canadian dollar on the food producing and processing industry in Canada and to examine ways to relieve the pressure on the industry from the rising Canadian dollar. AAFC officials should report back to the Committee on the result of these discussions.

Witnesses appearing before the Standing Committee delivered mixed messages on the ability of current and projected business risk management (BRM) programs to deal with a crisis of the type that producers are currently experiencing. On the one hand, some farmers' representatives mentioned that, although they would welcome some modifications to current programs to make them better suited to help farmers when a liquidity crunch arises, a margin type of program has some strong advantages. On the other hand, some farmers observed that margin programs will never be up to the task of providing proper assistance to farmers. The Committee notes that federal, provincial and territorial agriculture ministers included in their joint press release of 17 November 2007 a special section that deals specifically with the current crisis

and calls for a national concerted approach. The Committee welcomes this initiative and would like to provide some specific guidance as to how current programs could be modified to render them more responsive when a crisis arises in the farming sector. Therefore:

Recommendation 4

The Standing Committee on Agriculture and Agri-Food recommends that measures be taken to improve the responsiveness of BRM programs when a liquidity crunch arises in the farming sector. Examples of these measures include, but are not limited to:

- allowing producers, for the purpose of reference margin calculations, to use the better of the Olympic average, the average of the last three years, or a five-year rolling average;
- eliminating the viability test, which requires that producers show positive margins in two of the three years;
- increasing the annual contribution limit in the AgriInvest program;
- fast-tracking the federal \$600 million Kickstart program for producer accounts in the AgriInvest program, so that funds can start flowing earlier than initially planned.

Canada's federally inspected meat processing industry is the most regulated of all food processing sectors. It's estimated that federally inspected meat processors collectively pay over \$20 million per year in fees--fees such as inspection services, export certificates, label approvals, etc. This constitutes a major disadvantage to Canadian processors. (...) This is in sharp contrast to American processors and Canadian provincially inspected processors, who are not subject to these same additional costs. To create a level field internationally, the fees should be removed immediately.

Jim Laws, Executive Director, Canadian Meat Council, Standing Committee on Agriculture and Agri-Food, Evidence, No. 4 – 16:10, 2nd Session, 39th Parliament, Ottawa, 26 November 2007.

The Standing Committee notes that a common theme in the comments made by representatives of the beef and pork industry is the significant regulatory cost compliance they face relative to their U.S. counterparts.

That the Standing Committee on Agriculture and Agri-Food request that the Minister of Agriculture and Agri-Food conduct a full review of all inspection fees charged by the Canadian Food Inspection Agency and; that this information be shared with the Committee and used by the Minister to investigate possible options for the government to deal with the inequity between what Canadian Livestock Producers and Packing Plants pay for inspection fees as compared to their counterparts in the United States.

Motion carried by the Standing Committee on Agriculture and Agri-Food, Minutes No. 2, 2nd Session, 39th Parliament, Ottawa, 19 November 2007.

At their meeting of 19 November 2007, the Committee passed a motion requesting that a full review of inspection fees charged by the Canadian Food

Inspection Agency be conducted by Agriculture and Agri-Food Canada. In light of comments received from the industry, the Committee realizes that other regulatory compliance costs may put the Canadian meat processing industry at a competitive disadvantage vis-à-vis other countries. Therefore:

Recommendation 5

The Standing Committee on Agriculture and Agri-Food recommends that the Minister of Agriculture and Agri-Food conduct a complete review of regulatory measures susceptible of putting the Canadian meat industry at a competitive disadvantage vis-à-vis other countries, and that this information be shared with the Committee.

Finally, it has come to the Standing Committee's attention that government officials may have underestimated the cost burden associated with the specified risk material ban compliance for meat processors. Although a joint provincial-federal initiative does exist to provide assistance for processing plants to invest in new capital requirements, this program does nothing to alleviate the effects of increasing disposal costs resulting from the SRM ban, which contrary to the situation in the United States automatically brought the value of SRM down to nothing. Therefore:

Recommendation 6

The Standing Committee on Agriculture and Agri-Food recommends that Agriculture and Agri-Food Canada review program funding available to beef producers, processors and renderers to help them with the disposal and storage costs of ruminant specified risk material (SRM).

APPENDIX A

LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p>Canadian Cattlemen's Association</p> <p>John Masswohl, Director Governmental International Relations Brad Wildeman, Chair</p>	2007/11/26	4
<p>Canadian Meat Council</p> <p>Jim Laws, Executive Director</p>		
<p>Canadian Pork Council</p> <p>Curtis Littlejohn, Director Stephen Moffett, Director</p>		
<p>Fédération des producteurs de bovins du Québec</p> <p>Vincent Cloutier, Assistant Secretary Michel Dessureault, Chairman</p>		
<p>Fédération des producteurs de porcs du Québec</p> <p>Nathalie Hansen, Public and governmental relations Communications Services Jean-Guy Vincent, President</p>		
<p>Maple Leaf Foods Inc.</p> <p>Rory McAlpine, Vice-President Government and Industry Relations</p>		

APPENDIX B

LIST OF BRIEFS

Organizations and Individuals

Canadian Cattlemen's Association

Fédération des producteurs de bovins du Québec

REQUEST FOR GOVERNMENT RESPONSE

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

A copy of the relevant Minutes of Proceedings ([Meeting No 4](#)) is tabled.

Respectfully submitted,

James Bezan, MP
Chair