

**Standing Senate  
Committee on  
Agriculture and Forestry**



**Comité sénatorial  
permanent de  
l'agriculture et des forêts**

## **THE BSE CRISIS – LESSONS FOR THE FUTURE**

### **INTERIM REPORT**

**The Honourable Donald H. Oliver, Q.C.,  
Chairman**

**The Honourable Joyce Fairbairn, P.C.  
Deputy Chair**

**April 2004**

Ce rapport est aussi disponible en français.

Des renseignements sur le Comité sont donnés sur le site :

[www.senate-senat.ca/agfo.asp](http://www.senate-senat.ca/agfo.asp)

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## **ORDER OF REFERENCE**

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Extract of the *Journals of the Senate*, Monday, February 16, 2004:

The Honourable Senator Oliver moved, seconded by the Honourable Senator Keon:

That the Standing Senate Committee on Agriculture and Forestry be authorized to hear from time to time witnesses, including both individuals and representatives from organizations, on the present state and the future of agriculture and forestry in Canada;

That the committee submit its final report no later than June 30, 2004.

The question being put on the motion, it was adopted.

Paul C. Bélisle

*Clerk of the Senate*



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## **FOREWORD**

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In February and March 2004, the Standing Senate Committee on Agriculture and Forestry examined issues related to Bovine spongiform encephalopathy (BSE) in Canada. Because a single case of BSE caused such turmoil in the cattle industry and rural communities, the Committee felt there was an urgent need to study the implications of this situation and explore potential solutions, with the aim of preventing the recurrence of such a disaster.

The Committee heard from stakeholders from the entire beef chain, including individual farmers, farmers' organizations, packers and retailers, as well as the Minister of Agriculture and Agri-Food, the Honourable Bob Speller, and representatives from the Canadian Food Inspection Agency and from Agriculture and Agri-Food Canada. The Committee also obtained input on the situation in rural Canada by inviting representatives from rural municipalities. The Committee held seven meetings and sat 14 hours, listening to 27 witnesses.

The Committee recognizes the efforts and the tremendous cooperation among all stakeholders to find solutions to this crisis, and wishes to thank all the witnesses who appeared. The Committee also wishes to emphasize the climate of frankness and openness that prevailed at these hearings.

This report gives an overview of the current situation and problems, and proposes a long-term approach to ensuring greater security and stability for the Canadian beef industry.

## INTRODUCTION

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On 20 May 2003, the Canadian Food Inspection Agency (CFIA) announced the discovery of a single case of bovine spongiform encephalopathy (BSE) in Alberta. Canada's exports of beef and cattle, which totalled about \$4 billion in 2002, stopped as countries immediately closed their borders to all cattle and beef products. On 8 August 2003, the United States, by far our major market – accounting for over 70% of Canada's exports of beef products and for nearly all our exports of live cattle – announced a partial opening of its border.<sup>1</sup>

On 23 December 2003, a case of BSE was discovered in Washington State.<sup>2</sup> On 9 January 2004, DNA testing indicated that the BSE-infected animal in Washington State was born in Alberta. This case suspended actions that had been undertaken to reopen the U.S. border to Canadian live cattle, and reinforced the argument that this was more a North American issue than a national one. In fact, major markets for North American beef, such as Japan and South Korea, continue to ban imports of beef products from both the United States and Canada.

The Canadian reaction to the crisis has been exemplary:

- The Canadian investigation of the May 2003 case of BSE was praised by an international panel of experts, and also by the Office international des épizooties (OIE) and the Food and Agriculture Organization of the United Nations. These organizations issued public statements commending Canada for the transparency and competency of our efforts, our capacity to respond effectively to the situation, and the fact that we gave priority to the public interest in dealing with the disease.
- Adequate measures to increase the safety of beef were put in place, including the removal of specified risk materials<sup>3</sup> from cattle carcasses older than 30 months, and increased BSE surveillance and testing.
- The Canadian population showed tremendous support to the cattle industry by increasing the domestic consumption of beef by 5% from 2002, a world premiere in a country affected by an unforeseen case of BSE.

Even though the safety of beef is not in question in Canada, the industry has suffered and still suffers from the closure of its export markets. This report gives an overview of the current situation in the beef industry, and proposes some policies for the longer term.

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<sup>1</sup> The United States allows imports of boneless meat from cattle less than 30 months old, and boneless meat from calves 36 weeks or younger. Mexico, our second market for beef, made a similar announcement on 11 August 2003.

<sup>2</sup> Canada also imposed trade restrictions on U.S. beef. Canada continues to import U.S. boneless beef from cattle less than 30 months old, live cattle destined for immediate slaughter, and dairy products, semen, embryos and protein-free tallow.

<sup>3</sup> Specified risk materials (SRM) are tissues that, in BSE-infected cattle, contain the agent that may transmit the disease. In diseased animals, the infective agent is concentrated in certain tissues such as the brain and spinal cord. Scientific research has shown that these tissues do not contain the infective agent in cattle younger than 30 months.

## **THE CURRENT SITUATION IN THE BEEF INDUSTRY**

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Why did one single case of BSE cause such havoc in the beef industry in Canada? –primarily because this industry, which generated more than \$7.5 billion in farm cash receipts in 2002, was built on exports almost exclusively to one country.

Prior to the BSE crisis, Canadian ranchers had access to packing plants not only in Canada but also in the United States, and were thus able to benefit from keen competition when they wanted to sell their livestock. This, in fact, has been the force driving the growth of the industry in the last two decades. The current U.S. border closure to all live cattle and meat from animals older than 30 months now prevents Canadian access to the U.S. packing infrastructure. This situation has created a huge oversupply of live cattle that cannot pass through the bottleneck of Canada's domestic packing capacity, although Canadian packers have been slaughtering at a rate close to their maximum capacity during fall 2003 and winter 2004,<sup>4</sup> in response to the partial reopening of the U.S. and Mexican borders to some categories of beef in August 2003.

### ***Box 1: Canadian Cattle Prices in 2003***

Between May and July 2003, the price of cattle and calves dropped almost 50%. For example, the July 2003 price for slaughter cattle in Alberta was about 35% of the price before the U.S. border closed, and prices for feeder cattle fell about 40%. Market receipts for cattle and calves in the third quarter of 2003 tumbled to less than \$500 million, down 73% from the \$1.8 billion recorded in the third quarter of 2002.

In December 2003, average prices for slaughter steers and heifers in Alberta were 18.5% and 15.5% lower than in December 2002, respectively. Over the same period, average prices for slaughter steers and heifers in Ontario were 23% and 24% lower, respectively.

The country's cattle herd has been growing in size,<sup>5</sup> and cattle prices have remained very low (see Box 1). Cow-calf and feedlot operators have suffered a sharp loss of income and equity that has reduced the availability of cash flow and access to financing. Mr. Neil Hardy, President of the Saskatchewan Association of Rural Municipalities, estimated that the cow-calf sector lost \$3 billion in equity due to the decline in the value of the breeding stock. For some farmers, it meant the loss of a lifetime's earnings, and in some extreme and painful cases the seizure of cattle because they could no longer be fed.

At the other end of the chain, the price of beef at the retail level fell in September 2003 by approximately half the decrease felt by ranchers. Nevertheless, it increased subsequently to reach pre-BSE levels in December 2003 (see Table 1 in the Appendix A), while slaughter cattle prices remain 20% below their pre-BSE levels (see Figure 1 in the Appendix B). This situation raised suspicions that some group in the chain may have been earning excessive profits on the back of farmers and consumers. The Committee heard from various stakeholders in the chain and took note of their explanations.

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<sup>4</sup> The industry currently has the capacity to slaughter about 70,000 cattle per week. After the discovery of BSE, the slaughter rate dropped to 30,000 cattle per week.

<sup>5</sup> Statistics Canada reported that in January 2004, the Canadian cattle herd reached 14.7 million head, 1.2 million more than in January 2003.

Although Canadian packers operate near maximum capacity, they have been faced with increased costs: with the closure of the Japanese and South Korean markets (which were Canada's third and fourth most important markets, respectively, before the BSE crisis), carcass values dropped because of the loss of export markets for offal.<sup>6</sup> Packers also had to deal with increased costs for the removal and disposal of Specified Risk Materials and additional costs for rendering meat and bone products.<sup>7</sup> The Canadian Council of Grocery Distributors, which represents retailers, stated that profits are no greater than a year ago, and the pricing or saving that has been passed to the retailers from the packers has been passed on to the consumers in turn, notably by more aggressive promotion of beef products. For many retailers, meat is a way of bringing consumers into the store, and it is not a highly profitable feature. Value-added products, as opposed to fresh products, contribute to the profitability of a retail store; the business model is to attract consumers by promoting loss leaders and feature prices, and then to sell many other products so that overall the store can make a profit.

A number of investigations were launched to examine the issue of beef pricing. The Quebec and Alberta governments concluded in October 2003 and March 2004, respectively, that there was no evidence to support the claims of unfair pricing in the beef supply chain. Industry Canada's Competition Bureau is currently monitoring and gathering data on a number of complaints about beef prices, but has not yet received a mandate to launch an official inquiry.

Beyond the beef pricing issue and the adjustments that have been made in the industry, there is no doubt that a huge portion of rural Canada is in turmoil. We are currently seeing the impact of this crisis in our businesses and in our towns and cities. Other parts of the agriculture sector, such as the hog, sheep and bison industries, are feeling the effects of border closures and depressed prices. Witnesses reported many layoffs in the feedlot sector, but also bankruptcies in the trucking industry and layoffs in a number of service industries. Rural Canada is being hit hard, and the damage needs to be addressed as soon and as broadly as possible.

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<sup>6</sup> The Canadian Meat Council estimated at \$192 per head the loss of revenue from parts valued in Asia, such as offal from fed slaughter steers and heifers.

<sup>7</sup> The Canadian Meat Council estimated at \$312 per head the loss of revenue from the removal of SRM and lost markets for cows and animals over 30 months, and \$40 per head for extra rendering costs.

## **BRIDGING MEASURES UNTIL THE U.S. BORDER REOPENS**

Exports of live cattle represented 40% of our exports of beef and beef products before the BSE crisis, which means that a permanent closure of the U.S. border to Canadian live cattle would be disastrous for the country. There is no doubt that, in such a case, Canada would need to dramatically downsize its cattle herd and totally restructure the industry. The consequences would be devastating for rural Canada: they would lead to a downsizing of our entire rural economy, especially in Western Canada.

### **A. Market Access**

Reopening the U.S. border in order to remove the surplus of live cattle is the first priority in the short term. In November 2003, before the discovery of the BSE case in Washington State, the United States issued a proposed rule regarding the creation of a new category of low-incidence countries, which would have the effect of ending the import ban on live Canadian cattle less than 30 months old (see Box 2). The comment period closed on 5 January 2004, but it reopened until April 7 because the United States announced it had finished its investigation into the U.S. BSE case in the meantime. Once this new comment period closes, U.S. law requires that the U.S. Department of Agriculture analyze and respond formally to all the comments received before the publication of the final rule. The length of time this takes depends largely upon the extent of the comments received.

Other factors have also been seen as impediments to reopening the U.S. border:

- The (U.S.) National Cattlemen's Beef Association had identified the CFIA's delay in removing some restrictions on U.S. imports of feeder cattle relating to diseases known as blue tongue and anaplasmosis<sup>8</sup> as an impediment to a timely reopening of the American border to Canadian exports. Canada has now, however, announced the removal of these restrictions. Effective 1 April 2004, the new rules

#### ***Box 2: The U.S. Proposed Rule***

A proposed regulation was published by the U.S. Department of Agriculture (USDA) on November 4, 2003. This rule considered allowing the importation of live slaughter and feeder cattle under 30-months of age and their products as well as other ruminant products already being allowed entry under permit since September 2003. Once a proposed regulation is published, any stakeholder could send comments to the USDA. Under U.S. rulemaking procedures, the USDA is required to address in writing all comments received. The USDA's views on each comment are subsequently published with the final rule in the Federal Register.

The comment period on the proposed rule closed on January 5, 2004, but finalization of the rule was suspended pending completion of the investigation into the Washington State BSE Case, and provision for a further opportunity for public comment. On March 4, 2004, the U.S. announced the reopening of the proposed rule for a further 30-day comment period. In addition, the USDA asks for comments on removing the 30-month age restriction on beef products that exists in the proposed rule and suggests a supplementary rule-making process for live animals not included in the current proposed rule.

The government of Canada submitted comments during the first comment period and submitted further comments on the revised rule.

<sup>8</sup> Bluetongue and anaplasmosis are livestock diseases found in the United States, but not in Canada.

remove anaplasmosis and bluetongue testing and treatment requirements from all feeder cattle imported from the United States.<sup>9</sup>

- Given the surplus of 1 million live cattle in Canada, there is a concern that Canadian live cattle may flood the U.S. market as soon as the border reopens. Witnesses told the Committee that not all 1 million head will be ready at the same time, and not all the cattle will move at once. Furthermore, to operate at full capacity and remain viable, the major U.S. packers located along the Canadian border need the Canadian cattle. This is reinforced by the fact that the U.S. herd totalled 95 million heads in January 2004, the lowest level since 1952. The Canadian industry, however, is aware that anti-dumping charges might be laid if there are too many cattle moving into the United States, as in 1999.

Nevertheless, there is a real sense of optimism that the United States will reopen its border in the foreseeable future. This expectation is based on a simple trade equation: why would other markets want to buy from North America when North Americans cannot even trade among themselves? The full restoration of trade access from Canada to the United States is an essential precondition for the American cattle and beef industry to regain reciprocal market access within North America, especially in Mexico, and ultimately to other major foreign markets.

Regaining other export markets for beef may take longer, since an international consensus will be required before any country removes its restrictions. Japan, for example, is testing all slaughtered cattle for BSE, and has made it clear that such testing is required in order to export beef to the Japanese market. From the Canadian perspective, a distinction must be made between the use of such testing as a food safety measure and its use as a marketing tool. The testing of all animals at slaughter for human consumption is not supported by science as an effective measure, according to the CFIA and Health Canada. An animal can test negative at a certain point in its life; yet later, if the animal is allowed to live longer and develop the disease, it may test positive. The test at slaughter will not find every positive animal. Therefore, it is a false assumption that testing an animal somehow increases the food safety factor.<sup>10</sup> Obviously, however, consumers and societal values are also a consideration from a marketing perspective, and testing can be used as a marketing tool to address some of the customers' concerns.

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<sup>9</sup> U.S. feeder cattle from 39 states considered to have a low incidence of bluetongue will be able to enter Canada directly without testing. Feeder cattle from the remaining 11 states, which are considered to have a high incidence of bluetongue, are also not required to be tested, provided they reside for at least 60 days prior to import in a low-incidence state. Testing, however is still an option, and should the feeder cattle be found free of bluetongue, the 60-day period will be waived. Historically, the high-incidence states, all of which are southern, have not exported significant numbers of feeder cattle to Canada.

<sup>10</sup> Among the 10 cases of BSE in Japan, there were two animals less than 24 months old. Although they tested positive on the rapid test method used in Japan, they did not demonstrate positive results on direct examination of the brain through the **internationally accepted test** of immunohistochemistry and histopathology.

## **B. Financial Support**

Cattle producers need to be ready when the U.S. border reopens, and this means that the market has to keep functioning: cattle must be bought, fed and sold. Given Canadian cattle producers' difficult financial situation, this is a huge challenge. There was unanimous consent among witnesses that interim measures are needed as a bridge between the current situation and the time when the U.S. border will reopen to live cattle. Various options were put forward, such as a price support scheme, a loan guarantee program and direct cash payments. Many witnesses, however, advised that further programs should not repeat the mistakes of the first program that was implemented shortly after the BSE case was discovered in May 2003.

The National BSE Recovery Program, announced in June 2003, has been criticized because payments to producers were tied to the slaughter of the animals. The program's main objective was to increase the number of Canadian cattle slaughtered, and it achieved that goal; but with limited slaughter capacity, it created an oversupply, which depressed cattle prices paid to producers.

On 22 March 2004, the federal government announced \$995 million in transition assistance for Canadian farmers, including \$680 million to cattle producers. The funding will be delivered as a direct payment of up to \$80 per eligible animal<sup>11</sup> on inventory as of 23 December 2003. Cattle producers will also receive a share of the \$250 million that will be provided to all farmers as a direct payment based on their past income. This program will act as a bridge until the new Canadian Agricultural Income Stabilization (CAIS) program is in place. The Canadian Cattlemen's Association told the Committee that the new program is market-neutral and will avoid the problems of the earlier programs.

In addition to the need for bridge funding, some changes to CAIS have been suggested that should enable it better to meet the needs of the cattle industry. Notably, Mr. Hardy mentioned the following changes:

- base reference margins on accrual accounting,
- use opening and ending values for inventory valuation,
- allow producers to establish fair market values for inventory based on sales or purchases within 30 days of their year end, and
- allow producers to use a letter of credit for their CAIS account deposits.

The Committee notes that the Minister of Agriculture and Agri-Food told Committee members that he has agreed to an annual review of business management programs (including CAIS), during which those kinds of issues can be discussed.

The transition assistance will not put an end to the hardship being experienced by cattle producers. The reopening of the border is vital to their survival, but we would be foolish to return to the previous situation and feel comfortable. Ready access to the U.S. market is a

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<sup>11</sup> Eligible animals include all bovine animals except mature bulls and cows (cows that have calved and intact bulls older than one year).

double-edged sword, and the loss of this access has shown the vulnerability of Canada's beef industry. There is a crucial need for public policy to lessen this vulnerability.



## REDUCING THE VULNERABILITY: POLICIES FOR THE LONG TERM

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The cattle industry has grown tremendously in the last 12 years, from \$4 billion in farm cash receipts in 1990 to \$7.6 billion in 2002. The forces behind that growth have been trade agreements such as NAFTA and the proximity of the U.S. market, a huge asset but also a critical weakness. The closure of the U.S. border taught us a key lesson: **the beef industry we developed in Canada is very vulnerable**, and is far too dependent on the will of our main trading partner.

Although there is a sense of optimism that the U.S. border will not remain closed for long, another case of BSE is possible in the future. It is therefore paramount that Canada take measures to prevent further border closure and to build preparedness in case it closes again.

### A. Adding Value

In 2002, about 40% of Canada's exports of beef and beef products was live cattle. There is definitely a higher risk in being dependent on another nation's infrastructure to process our cattle. As evidenced by the current trade situation with the United States, borders are more sensitive to issues related to live animals: health problems are infinitely more complex than with meat products, and live animals are a potential health risk to other animals. Furthermore, they have limited shelf life and a daily carrying cost. When a health issue arises, borders usually reopen more quickly for meat products than for live animals. In the case of BSE, some markets, such as that of the European Union (EU), did not even close to meat; an exporter would have been able to export meat to Europe without interruption – if it had been able to meet that market's other requirements.<sup>12</sup>

#### **Box 3: Rancher's Beef Ltd.**

Sunterra Farms, a family-owned farming enterprise that undertakes value-added processing and specialty marketing in pork, veal and lamb, has founded Rancher's Beef Ltd. Ownership is open to anyone who wants to invest, and more than 50 producers from Alberta, British Columbia, and Saskatchewan have made a commitment to purchase ownership.

The objective is to build a state-of-the-art processing plant with a capacity of 250,000 head/year, combined with feedlot operations with ownership linkage to cow/calf operators and backgrounders. Rancher's Beef intends to develop and market specialty branded beef products by organizing the supply chain to deliver a differentiated superior value to its customers, notably a complete traceability system from animal production to the final meat product.

Producers will be in control and will share in the profitability of the entire chain. Current financing includes commitments of over \$25 million in assets and \$17 million in equity.

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<sup>12</sup> The EU allows imports of Canadian beef products derived from animals raised without growth-promoting hormones. Current packing plants in Canada do not have the required infrastructure to segregate the carcasses of animals produced with and without those hormones.

The overall vulnerability of the cattle industry is thus tied to the export of live cattle. Moreover, as mentioned by the Canadian Cattlemen's Association, there is a concern about potential dumping charges from the United States if too many live cattle move down once the border reopens. This is not to say there is no risk in the meat market; agriculture is by definition a risky business. There is evidence, however, that the risk is more manageable with processed products than with live animals.

As mentioned previously, it is Canada's domestic packing capacity that created a bottleneck preventing the movement of cattle and creating the oversupply. There is also a lack of market opportunities for producers when 80% of the capacity for slaughtering steers and heifers is located in two packing plants in Alberta. Concentration in the packing industry has been mentioned several times as an impediment to a competitive marketplace at the slaughter level.

Clearly, there is a need to bring some packing capacity back to Canada and to add further processing in order to capture the value-added benefits. Interest in producer-owned capacity has grown, and there are currently a number of initiatives to increase the packing capacity at home. There have been numerous proposals to build new slaughterhouses, reopen old plants that were previously shut down, and convert capacity to cattle, especially to deal with older animals. Some additional capacity might be operational in 2004, for example through Jencor Foods in Ontario (using the former MGI plant) and Atlantic Beef in Atlantic Canada. Sunterra Farms is also planning to build a plant that could process 250,000 head a year in Alberta (see Box 3).

We must not forget, however, that when the U.S. border reopens to live animals, cattle producers will have renewed access to U.S. packing plants, **turning an oversupply market into a competitive one for the packing industry**. In the long term, however, there are solutions to sustaining an increased capacity in Canada.

First, some business conditions have changed. Before the BSE situation, the main economy of scale in the packing industry derived from the value of the non-meat part of the carcass. Small processors could not make up on the revenue side for their losses on the non-meat part of the carcass. Now that markets are closed to many non-meat parts, bigger processors have lost an economic advantage. Second, in involving the farmer through cooperatives or limited ownership schemes such as the Sunterra Farms proposal, the packing plant is integrated: farmers can share in the profitability of the entire chain. Such arrangements also allow a fully traceable system from the calf to the meat, a feature that may appeal to some customers.

Finally, in developing their own brands, these new packing plants may fill niche markets, by adapting more quickly to what consumers want. For example, Mr. Art Price from Sunterra Farms mentioned that they could test all of the beef for BSE if a customer wanted that service. A critical point is that this increased capacity must cater to a customer desire, or it will create a commodity product that is no different from those of the bigger players. Further processing is a way to differentiate new products. The Sunterra Farms initiative appears to be big enough to affect the market: with a capacity of 250,000 head per year, it could take a significant portion of the current surplus out of the market. This does not mean, however, that there is no room for other people to do the same thing, particularly in

the further processing and specialty business. According to Mr. Price, existing slaughter plants have little choice but to use a commodity product approach, because they need the largest possible share of the market. New packing plants, however, could do things that bigger plants are unable or unwilling to do.

To make these initiatives successful and create additional capacity in Canada, the government must create an environment that is conducive to such new ventures. For example, Mr. Garnett Altwasser from Lakeside Packers Ltd. mentioned that, historically, one out of three pounds of beef consumed in Canada has been imported. It has been more cost-effective to export live animals and import further processed products, such as steaks for the food service industry.

The Committee has currently an order of reference to study the development and marketing of value-added agricultural, agri-food and forest products, on the domestic and international markets. In doing so, the Committee wishes to propose ways for the government to create the best possible environment for farmers that will enable them to move up the value chain and retain a larger share of the profits. In the meantime, given the cattle industry's financial situation, governments need to provide financial support for the transition to a new domestic marketplace that will give producers the option of investing in value-added products and processes, and create the appropriate domestic competitive tension with the large commodity-based processors. For example, the federal government could provide funding for initiatives such as Rancher's Beef Ltd. In its 2004 budget, the government indeed committed \$270 million in additional venture capital funding, including \$20 million for FCC Ventures, a Farm Credit Canada program that invests in Canadian businesses in the agricultural sector, including value-added processing.

Although it created a crisis, the discovery of a single case of BSE clearly indicated two main weakness of the Canadian cattle industry: its huge dependence on cattle export and the concentration of its packing sector. The BSE crisis offers the opportunity of address these weakness. Therefore, the Committee recommends:

**Recommendation 1: That the Government funnel some of the venture capital funding announced in the budget specifically into additional value-added capacities for the livestock sector in both western and eastern Canada, and develop with the industry a long term vision for further processing in that sector.**

## **B. Rules-based Trading**

Although the cattle industry can reduce its vulnerability by processing animals domestically, exports of live cattle will remain an option, particularly for dairy replacement heifers, and there is also a need to reduce some of the risks involved in this type of trade. One issue for which Canada has fought, and should continue to fight, is trade based on rules and scientific standards. In September 2003, Canada, the United States and Mexico jointly requested the OIE (the world animal health organization) to provide an internationally agreed-on, science-based trade response to BSE. The OIE issued a statement in January 2004 indicating that a

science-based standard for resuming trade with BSE-infected countries exists, but that countries do not follow it:

the existence of valid up-to-date standards did not prevent major trade disruptions due to a failure by many countries to apply the international standard when establishing or revising their import policies.

The World Trade Organization (WTO) is the only organization that can enforce OIE standards, since it uses them in its rulings. The fact that trade barriers related to BSE have never been challenged under the WTO, however, shows that there is a need to develop a more practical approach to resuming trade when the disease appears in a country.

Leading by example, North America must show that it can maintain the highest safety standard in its countries without disrupting trade among those countries. Canada, the United States and Mexico have agreed to enhance efforts to increase harmonization and equivalence of BSE regulations in North America. The first step is to establish a mutual recognition among the three NAFTA partners that the presence of the disease below a certain threshold in a given country does not penalize that country. Thus, new cases of BSE (up to a certain point) are to be considered part of the normal situation in a country with a minimal risk of BSE: it does not change that country's BSE status, nor does it call into question the safety of the beef and the measures that are in place to control the disease. In this regard, the rule that is currently under review in the United States may be a model that many countries will use to reopen their borders. Other safeguards, such as surveillance and feed regulations, will also have to be harmonized.

Given the integrated nature of the cattle industry in North America, it must be recognized that the Canada/U.S. border is an arbitrary line that has little to no effect on the safety of the beef consumed in North America. In fact, the international team of scientific experts that examined the U.S. investigation of the Washington State BSE case concluded that the U.S. case cannot be dismissed as an "imported" case, and that both the Alberta and the Washington State cases must be recognized as being indigenous to North America. North American countries must, then, harmonize not only BSE regulations, but even more.

Our goal should be to ensure that the safeguards in every aspect of the cattle industry are the same on both sides of our borders. Recent history tells us that if a foot and mouth outbreak were to occur in Canada, we would end up in the same situation as we are today. By harmonizing health standards and protocols across the North American cattle industry, we could make sure that, when an animal health issue arises in some part of the continent, proper measures are taken to contain the problem, but markets continue to function. In fact, in many cases, closing the border entirely may not increase the level of safety, and may only put an undue burden on farmers.

The recent outbreaks of highly pathogenic avian influenza in Texas and British Columbia are a good example of what increased harmonization can provide. The CFIA has announced import restrictions on live poultry and poultry products from Texas, and the United States has also temporarily suspended imports of poultry and poultry products from British Columbia. Appropriate health and safety measures are in place, and other trade between the two countries has not been interrupted. This is further reinforced by the international team

of experts that examined the U.S. investigation of the Washington State BSE case, who recommended that:

the U.S. 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.

Such policies already exist since the Article 712.3 of the North American Free Trade Agreement states that “Each Party shall ensure that any sanitary or phytosanitary measure that it adopts [...] is based on scientific principles [...] and] not maintained where there is no longer a scientific basis for it.” Should this article had been enforced effectively within appropriate timeframe, the BSE crisis would not have been so detrimental to the beef industry, since it became quickly clear that there was no scientific basis to further restrict the movement of live animals and beef products in relation to BSE. Therefore the Committee recommends:

**Recommendation 2: That Canada and its North American partners use the lessons learned from the BSE crisis and the OIE recommendations to enhance the harmonization of their sanitary and phytosanitary standards and, to this end, that they set up a permanent NAFTA agricultural secretariat with the mandate to use these standards and generate reports including recommendations for actions by NAFTA partners to regulate the trade flow when a sanitary or phytosanitary issue occurs.**

Of course, science and politics do not always see eye to eye, and we cannot guarantee the reactions of a sovereign country when a health issue arises outside its borders. We cannot forget that Canada’s best insurance is **to maintain the best possible animal health standards in our country** and encourage the North American market to do the same. The CFIA has already imposed the removal of Specified Risk Materials in slaughtered cattle older than 30 months, which is currently the measure that provides the highest possible health protection regarding BSE. The CFIA is also considering improvements to our feed policy and the cattle identification system. Surveillance of the disease has increased, and the federal government has announced additional funding to finance these initiatives.

Impartial and internationally recognized bodies (the OIE and the Food and Agriculture Organization of the United Nations) have praised Canada for the transparency and competency of our BSE-related efforts, and for our capacity to respond effectively to the situation. These commendations will play over time to our advantage: countries do, and will, respect the integrity of our food inspection system.

## CONCLUSION

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Even though the safety of Canadian beef is not in question, and the CFIA's reaction has been widely praised as a model to follow, the closure of export markets because of a single case of BSE has been a disaster for Canada's cattle industry. With exports of live cattle to the United States banned, farmers had to rely on domestic packing capacity to sell their animals; the resulting surplus of live animals drove cattle prices down steeply, and they remain low.

The reopening of the U.S. border is vital to the industry's survival, and the Committee wants the government to pursue its efforts to convince the United States that it is in the best interests of North America as a whole to show leadership to the rest of the world in resuming trade based on scientific grounds. As a country that is dependent on trade, Canada needs clear rules to address animal health issues in a manner that protects public health adequately without putting an undue burden on farmers.

Being dependent on our neighbour's infrastructure to process our animals is also a weakness that needs to be addressed, and the Committee believes we must restore and extend the value-added capacity in Canada. The government should create the appropriate environment for new ventures to thrive in our marketplace.

Promoting rules-based trade and developing value-added processing in Canada would reduce the vulnerability of the cattle industry. The BSE crisis of 2003-2004 has been alleviated by major injection of support by federal and provincial governments, totalling almost \$1.6 billion at the term of the report. It is the hope of the Committee that our study and its recommendations will assist in reducing the impact of any future BSE cases on our national economy, our consumers and particularly the cattle industry and all related aspects of agriculture which supports the well-being and future of the communities in rural Canada.

## APPENDIX A

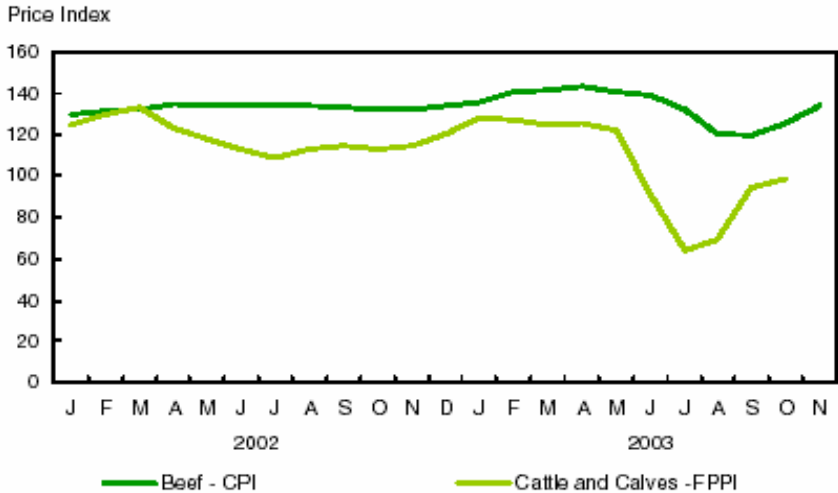
<b>Table 1: Average Retail Prices for Beef Products (CANS)</b>							
		Round steak	Sirloin steak	Prime rib roast	Blade roast	Stewing beef	Ground beef reg.
		..... 1 kilogram.....					
2000	January	9.05	11.09	14.38	6.13	6.80	4.05
	February	9.36	11.23	14.03	6.33	6.98	4.18
	March	9.35	11.17	14.46	6.40	7.07	4.21
	April	9.55	11.88	15.01	6.43	7.30	4.35
	May	9.55	12.16	15.94	6.41	7.41	4.33
	June	9.63	12.16	15.75	6.29	7.34	4.38
	July	9.75	12.27	16.05	6.65	7.34	4.44
	August	9.87	12.57	15.87	6.48	7.24	4.43
	September	9.70	12.80	16.22	6.60	7.17	4.45
	October	9.86	11.97	15.91	6.55	7.12	4.47
	November	9.79	11.73	16.19	6.69	7.28	4.51
	December	10.25	12.32	16.13	7.00	7.57	4.54
2001	January	10.41	12.77	16.90	7.17	7.43	4.61
	February	11.13	13.05	17.31	7.40	7.91	4.79
	March	11.47	13.50	17.61	7.85	8.17	5.07
	April	11.70	13.87	17.99	8.07	8.45	5.11
	May	11.38	14.95	18.44	7.99	8.54	5.12
	June	11.34	14.92	18.56	7.57	8.34	5.17
	July	10.93	14.33	18.68	7.73	8.12	5.16
	August	10.89	14.21	18.68	7.58	7.99	5.09
	September	11.18	14.20	19.05	7.65	7.97	5.15
	October	11.15	13.30	17.62	7.83	8.14	5.23
	November	11.00	13.09	18.30	7.91	8.04	5.20
	December	11.47	13.21	17.74	7.95	8.20	5.29
2002	January	11.13	13.53	18.10	7.82	8.18	5.35
	February	11.26	13.56	17.82	7.92	8.36	5.42
	March	11.30	14.15	18.66	8.04	8.39	5.32
	April	11.36	14.64	18.49	8.16	8.27	5.47
	May	11.43	14.24	18.36	8.26	8.54	5.38
	June	11.30	14.09	18.36	8.28	8.52	5.47
	July	11.29	14.09	18.61	8.14	8.59	5.33
	August	11.08	13.94	19.00	8.04	8.39	5.52
	September	10.85	14.08	19.20	7.96	8.22	5.45
	October	11.01	13.92	18.05	8.37	8.33	5.51
	November	11.10	13.53	18.27	8.37	8.36	5.44
	December	11.39	13.43	18.62	8.50	8.64	5.42
2003	January	11.43	13.76	18.94	8.26	8.39	5.61
	February	12.09	14.29	19.09	8.52	8.79	5.75
	March	12.24	14.26	19.31	8.67	9.01	5.70
	April	12.58	14.14	19.28	8.70	9.03	5.90
	May	11.65	14.16	19.06	9.07	9.04	5.84
	June	11.57	14.65	19.17	8.65	9.05	5.66
	July	11.59	13.80	18.81	8.10	8.81	5.21
	August	10.68	14.31	18.13	6.97	8.02	4.59
	September	10.91	13.79	17.18	6.77	7.76	4.48
	October	11.45	13.36	17.54	7.66	8.41	4.78
	November	12.25	14.10	18.36	8.37	8.72	5.10
	December	11.99	13.86	18.80	8.37	8.79	5.13
2004	January	11.75	14.11	18.42	8.31	8.73	5.08

Source: Statistics Canada, Table 326-0012

Table prepared by Emmanuel Preville, Parliamentary Research Branch.

APPENDIX B

Figure 1: Price Index of Cattle and Calves Compared to Retail Beef Price Index



Source: Statistics Canada, *Mad Cow Disease and Beef Trade: An Update*, Catalogue No. 11-621-MIE-2004010, p. 6.



## **APPENDIX C: LIST OF WITNESSES**

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<b>DATE</b>	<b>WITNESSES</b>
February 19, 2004	<ul style="list-style-type: none"><li>- John Kolk, Farm Producer, Picture Butte</li><li>- Ed Fetting, Chief Executive Officer, Economic Development Lethbridge</li></ul>
February 24, 2004	<p><i>From Agriculture and Agri-Food Canada:</i></p> <ul style="list-style-type: none"><li>- Andrew Marsland, Assistant Deputy Minister, Market and Industry Services Branch</li><li>- Tom Richardson, A/Assistant Deputy Minister, Strategic Policy Branch</li><li>- Gilles Lavoie, Senior Director General, Operations, Market and Industry Services Branch</li></ul> <p><i>Canadian Food Inspection Agency:</i></p> <ul style="list-style-type: none"><li>- Robert Carberry, Vice-President, Programs</li><li>- Brian Evans, Chief Veterinarian Officer for Canada</li></ul>
February 26, 2004	<p><i>Canadian Meat Council:</i></p> <ul style="list-style-type: none"><li>- Jim Laws, Executive Director</li></ul>
March 9, 2004	<p><i>As a panel:</i></p> <p><i>Saskatchewan Association of Rural Municipalities:</i></p> <ul style="list-style-type: none"><li>- Neal Hardy, President</li></ul> <p><i>Association of Manitoba Municipalities:</i></p> <ul style="list-style-type: none"><li>- Stuart Briese, President</li></ul> <p><i>Alberta Association of Municipal Districts and Counties:</i></p> <ul style="list-style-type: none"><li>- Jack Hayden, President</li></ul> <p><i>As a panel:</i></p> <p><i>Agricultural Producers Association of Saskatchewan:</i></p> <ul style="list-style-type: none"><li>- Terry Hildebrandt, President</li></ul> <p><i>Western Stock Growers' Association:</i></p> <ul style="list-style-type: none"><li>- Bill Newton, President</li></ul> <p><i>Canadian Federation of Agriculture:</i></p> <ul style="list-style-type: none"><li>- Marvin Shauf, Second Vice-President</li></ul>

**DATE****WITNESSES**

March 11, 2004

The Honourable Bob Speller, P.C., M.P., Minister of  
Agriculture and Agri-Food Canada

*From Agriculture and Agri-Food Canada:*

- Sammy Watson, Deputy Minister

*From the Canadian Food Inspection Agency:*

- Richard B. Fadden, President

March 23, 2004

*Canadian Council of Grocery Distributors:*

- Nick Jennery, President and Chief Executive Officer
- Kim McKinnon, Vice-President, Communications

*Lakeside Packers Ltd.:*

- Garnett Altwasser, President

*Levinoff Meat Products Ltd.:*

- Brian A. Read, General Manager

*Cargill Foods:*

- Willie Van Solkema, Canadian Business Manager

March 25, 2004

*Canadian Cattlemen's Association:*

- Stan Eby, Vice-President
- Hugh Lynch-Staunton, Director
- Anne Dunford, Senior Analyst

*Sunterra Farms:*

- Art Price, Chairman
- Doug Price, Director