

PANEL DISCUSSION ON THE BEEF INDUSTRY

Story by Kari Lynn Dundass

The downturn of the beef cattle industry in Canada and particularly here in BC was the topic of discussion at a panel on the beef industry in Kamloops on February 10, 2010. The Kamloops Stockmen's Association, with the support from the BC Cattlemen's Association and funding from the Horn Levy Fund, organized the panel discussion with the purpose of promoting discussion on:

- What if anything can or should be done now and/or in the future to make beef cattle production profitable once again?
- Can we realistically compete on the world market with our much higher production costs?
- Is it realistic to consider anything but the status quo?
- Are there too many trying to make a buck off a beef animal here in Canada?

The forum included panel members that had expertise in a variety of areas. One panel discussion was on the Agri-Support programs and the other was on the present and future of the Canadian beef cattle market, asking the question if there are viable options for the industry. Each panel member was provided with the opportunity to present an opening statement and following each group of panel members, questions were taken from the floor.

Both Brenna Grant from Canfax and Peter Aarestad from Bank of Montreal opened the panel discussion with a presentation on where they each see the cattle industry going and their predictions for the upcoming year. Brenna Grant stated that "consumer confidence continues to struggle" and her 2010 outlook represents "cautious optimism". Peter Aarestad commented on the "sluggish production growth with margins still under pressure" that is affecting the current cattle industry market. He believes that there are many hard decisions to be made by many ranchers in the near future. He emphasized the importance of knowing what your financial numbers are when making decisions.

The Agri-Support programs discussion provided ranchers the opportunity to explain to both Pat DeBoer and Gary Falk of the Ministry of Agriculture and Lands the difficulties and frustrations associated with the programs, specifically the AgriStability program. In regards to AgriStability, Pat DeBoer stated that "annual payments to producers have varied between \$40 and \$60 million for BC". He commented that the AgriStability program can be changed, but it is a challenging process that takes time; however, administration is open to producer input. He stressed the importance for the industry to maximize access/participation and available support under the existing program. It was mentioned in the discussion how important it is for ranchers to check their financial numbers carefully as the placement of the numbers play a role in determining if you receive a payment and how much you will receive. Judy Guichon, Vice-President of the

BC Cattlemen's Association, was able to provide some of her personal experiences with both the CAIS and AgriStability program. She stated "if we have creative new ideas on how government can promote a healthy industry, now is the time to push these ideas forward" ready for 2013 when there is a new federal/provincial agreement.

The discussion on government programs lead into the panel on the current state of the beef cattle industry. Dave Plett from Western Feedlots explained that the reason why some businesses survive and others don't is that the businesses that don't change, usually do not survive. He stressed the importance of the ranching industry to adapt to changing realities and one way for the industry to compete is to "differentiate". He stated that "it's easy being pessimistic and blaming others for your situation - but it's those that accept realities and forge ahead into the new and different future that will carry our industry successfully into the next generation." Dave Chutter, local cattle rancher, presented an interesting graph from Statistics Canada that shows the decline in the Alberta (slaughter) steers, dollars per hundred-weight

(adjusted for inflation). This goes to show the substantial loss that cattle ranchers have been experiencing over the past years. He went on to proposing two solutions as he believes that "our role as producers is to provide government with a solution and aggressively lobby for action". Dick Klein-Geltink, Chair of BC Milk Producers, provided a quick overview of the dairy industry and how they became a supply management industry. Kevin Boon, General Manger of the BC Cattlemen's Association, commented on the Ranching Task Force Initiatives and discussed his opinions on developing a marketing

strategy for BC. He talked about the Beef Information Exchange System (BIXS) which "has been developed to allow information to be gathered and passed through the production chain so that we can create efficiencies in growing, raising and finishing our cattle." Roland Baumann, President of the BC Cattlemen's Association and a representative on the Canadian Beef Export Federation, was unable to attend due to other commitments; however, he provided a report that was presented by Judy Guichon. Roland's report discussed "the opportunities available to our industry today; the greater opportunities to be realized with commercially viable access for Canadian beef in the global export market; and the importance of global markets". He believes that there is "cause for optimism" and by "re-establishing trade with South Korea and China, and expanding access to Japan, Taiwan, Mexico, Russia and the EU, we have the ability to fundamentally change our fortunes." Gillian Watt, Business Mentor at Thompson Rivers University (TRU), summarized the current beef industry projects at TRU and stressed the importance of "communicating, coordinating and collaborating" between sectors, between regional beef associations and between stages in the supply chain.

The opening statements presented by the panel members



Panelists for the Kamloops Stockmen's Association workshop on the downturn of the beef industry.

for the beef industry discussion initiated many questions from the attendees. Discussion covered areas such as marketing ideas that are "outside the box", if supply management in the beef industry is feasible, the possibility of getting payback for the information that we provide such as age-verification and the possibility of differentiating our beef product. Overall, the panel discussion was very successful as it provided producers the opportunity to ask some industry representatives questions

about the industry's current situation, where the industry is going and if and what are some options to the current situation.

Copies of the presentations from the panel discussion can be obtained by emailing kamstock@mail.ocis.net or by calling Kari Lynn at 250-374-6151.

THE BC COW CALF SECTOR IS FAILING

Story by Dave Chutter

THE PROBLEM



The BC cow calf industry is not a profitable business due to rising costs and falling prices and is on the edge of failure. Neither the federal government, the CCA, BCCA or the BC Task Force are focusing on the critical objective of immediate profits to the cow owner, as the lack of results over this past year imply.

Prices between 1942 and 1989 kept pace with inflation ... the "normal" range. Over the last 20 years cattle price increases have been half of price increases for other goods. In other words, if cattle prices had kept pace with other prices, i.e. input costs, cattle today would sell for approximately double their current values (i.e. in the normal range). Current prices on the right of the graph duplicate those on the left side of the graph ... the Great Depression! The "normal" range price average between 1942 and 1989 was \$174. But the price average this past year was \$85 ... half the price! ... in spite of monster super-efficient plants, and ramped up production to serve export markets. There is no evidence that producing more for export will provide cow calf

producers double the price. At the same time that prices have dropped in half, major costs have risen dramatically, particularly fuel, fertilizer, grain and machinery purchases. We need to find a solution that restores cattle prices to the producers at the bottom of the chain to the 50 year "normal" levels, in other words, double the present prices.

The 1979 price for calves of \$1.25/lb adjusted to 2008 dollars would equal \$2.50. Instead the actual price is \$.85/lb. Over the same period the adjusted input costs have risen by a factor of 4. Up to the early 90's, we had Farm Income Assurance to alleviate rising costs and decreasing prices.

Cow calf producers in BC are dependent upon Alberta feedlots to purchase our calves and receive a lower price (3 to 5¢) due to transportation costs. The BC industry does not receive the Alberta lucrative grants and bureaucrat support and we have the additional costs of PST, carbon tax, rising irrigation hydro costs and the lack of opportunity and flexibility due to the ALR. In October 2007 the Alberta Farm Recovery Plan (AFRP) paid out to producers \$165 million to offset rising costs facing the livestock sector. Again in June 2008 AFRP II paid out to producers \$300 million for adaptation to food safety and age verification equaling to about \$167 per cow. Compared to our competition in Alberta our prices are lower, our costs are higher and our Provincial government support is ridiculous.

It is clear that with rising costs outpacing market returns that requires a doubling of the price to keep up with inflation and our uncompetitiveness with Alberta, the BC cow calf industry is not sustainable!

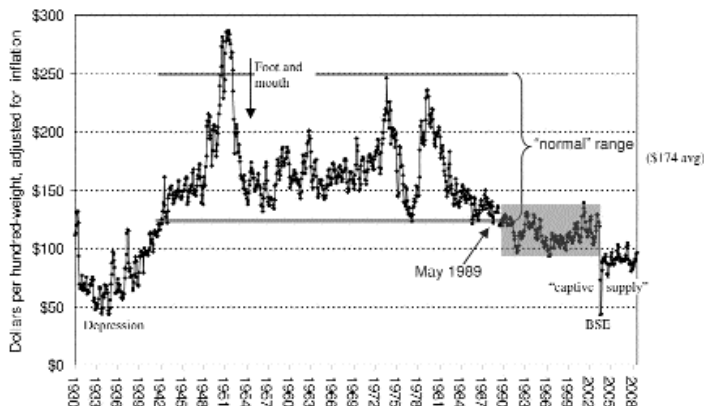
SOLUTIONS

Two alternative solutions have been proposed to government and to BCCA over this past year.

One solution is to reinstate the Four Pillars of the ALR, in particular The Farm Income Assurance Act. FIA, justified as compensation for the taking of property rights under ALR legislation, is the easiest and quickest solution but requires direct government funding. With a cap on BC's insignificant supply, this government handout would not trigger trade sanctions just as Alberta's \$465 million payment did not.

The alternative solution is to implement a provincial supply management program for beef cattle within the boundaries of the province of BC.

Alberta (slaughter) steers
(dollars per hundred-weight, adjusted for inflation)
January 1930 – August 2008



Sources: Government of Canada (Statistics Canada, CANSIM database; Agriculture Canada, *Annual Livestock and Meat Report* [aka *Livestock Market Review*]; Statistics Canada, *Livestock Statistics*, Cat. No. 23-603; Statistics Canada, *Cattle Statistics*, Cat. No. 23-012) and CanFax.

Supply management has achieved the intention of returning some of the power taken by multinational processors and large retailers back to the farm gate. Supply management gets a higher percentage of the consumer dollar than other agriculture sectors. It's recognized that a national program is not an option due to absolute opposition from prairie provinces because of their requirement to export their large excess production. And yet the critics of a BC supply management program, including the leadership and manager of BCCA, repeatedly refer to papers written on the subject of a national supply plan. As far as I am aware, nobody has studied or is knowledgeable about the concept of a BC beef supply managed program. The BCCA plan to implement a BC branded product will not provide immediate assistance to cow calf producers, and to be successful will require an increase in price to the consumer. Nobody knows how much this price increase will be nor the amount of any increase in price associated with a supply managed program. Therefore, before the critics comment, this subject requires study and analysis. We cannot afford to reject an opportunity based on uninformed opinion. Premature critics must be asked what is their alternative solution for immediate results.

As John van Dongen states, an attraction of a supply management program is "that government doesn't have to put money into the system since it's user-pay." A supply managed beef industry in BC would result in a viable cow calf sector and could lead to a stand alone vertically integrated industry involving feeding and finishing and small to medium size abattoirs and processing facilities in various parts of the province offering BC Grown food close to home. These facilities could be large enough to be efficient but small enough to participate in value added, branded or supply chains on a provincial scale.

Our small provincial supply management beef program will not trigger national trade sanctions as Alberta's \$465 million handout did not. Nor would it trigger a blockade of exporting

surplus calves or yearlings out of the province due to our insignificant volume.

All of the ad hoc programs and strategies and issues that BCCA works on are valuable but will not provide immediate long term viability even if considered in a cumulative context. The issue is survival ... in a world where our costs are higher than our competition, where we obtain far less grants and assistance than our competitors, where costs continue to climb and market prices continue to drop in real dollars.

With the ALR restrictions, carbon tax, environmental enhancement contributions, other costs and impediments unique to BC, and the lack of provincial government assistance compared to Alberta, BC cow calf producers have a sound argument for special consideration, assistance and immediate action to ensure viability.

The leadership and management in our provincial organization should not be disregarding potential solutions based on individual personal opinion and national studies. Rather they should welcome proposals and, working with the provincial government, give fair consideration based on analysis of the facts within the context of the province of BC.

After completing analysis, neither of these proposals may be found to be the best solution, but action needs to be taken to put forth a solution to the provincial government. At the present it appears that BCCA does not have a proposed solution to achieve immediate results with which to aggressively lobby government...but it should have!

To quote the Premier "we want to have a strong ranching industry", "successful isn't just barely making it", "we want our kids to know ... they can build ... a good living". Almost a year has passed and there is no evidence of a solution for immediate results.

Dave Chutter is a rancher from the Nicola Valley, member of the BCCA and former MLA for the riding of Yale-Lillooet. info@ranchland.ca

IS THE BEEF INDUSTRY IN THE TANK?

Story by Larry Garrett



The time has come for the cow/calf industry to take the leadership role to revive our industry. I say the cow/calf sector because we are the ones that pay as the price taker at the beginning of the cycle. No disrespect intended for the rest of the cycle, i.e. feedlots, truckers, packers and retailers. Human nature will dictate

that the margin operators in the middle meet their needs first before they pass on money to the cow/calf guy.

In my opinion, we end up with three choices, do nothing, take our industry into supply management or build an export market.

1) By doing nothing we will see a shrinking industry and stagnant prices. This is because consumption will continue shrinking mainly because of the aging demographics of North Americans. Older people, the ones with money, just don't eat as much as they used to, especially beef. The younger generation

will be focusing on getting the mortgage paid. When the old die off and the young get the money, then beef consumption may go up. The ethnic makeup of Canada is predicted to be different than now; will they eat as much beef?

2) Supply Management would see beef as a non-exportable product leading to a shrinking industry. Politically this choice would be unacceptable because it would leave millions of tons of feed grains looking for markets offshore stressing our already overloaded rail system. A shrinking industry means less employment and shrinking opportunities for small town Canada.

3) Building export markets has its share of unsavory choices; however, as a long term investment it may be better for all of Canada. At the present time the European Union Canada Partnership is in critical trade negotiations. Of course the nature of trade negotiations are very confidential, however, you can inform yourself of the difficulties and consequences by phoning the Canadian Beef Export Federation (CBEF) at (403) 274-0005. Where were the negotiations of Friday, March 26, 2010? Canada is in the middle of what could be the largest trade accord every negotiated with Europe. There is potential to zero out 90% of the tariffs that are in place now, except for the 10%

that relate to sectors under supply management in Canada. To put it simply, trade has to work both ways. France would like to export its specialty cheese to Canada but the economics of a 246% tariff make it unworkable. If France can't export cheese to Canada, they won't import Canadian beef. Due to the inflexible hard line that supply management has maintained, beef, pork, canola and grains may be shut out of Europe. The beef deal alone could be a \$150 million deal. Recently CBEF and Canada had a beef deal worked out with Peru. Peru wanted tariff free access for a type of yogurt. Supply Management said no to the imported dairy product, Peru responded with a restriction on Canadian beef imports that make exporting beef to Peru uneconomical. In 2009 our trade negotiators had a tentative deal with China. Canadian beef was included as an exportable product and we all know of China's huge export potential. Yes, everyone says, big deal we sell a couple of fat steers to Peru, but China is a big deal and all deals hinge on, you buy from me,

and I will buy from you. China asked for access into Canada for a processed product called "canned curried chicken". The China deal fell apart because Canada chose to protect the chicken industry, a supply management commodity and would not allow the canned curried chicken from China into Canada without huge tariffs.

So how do we get by the supply management blockages? I think that first we ask diplomatically, as cattlemen and good neighbors, for some flexibility. In my opinion, if none is given then we must join forces with pork, canola and grains and declare war on supply management in Canada or take the cattle industry into supply management.

Larry Garrett is a rancher from the Vanderhoof area, BCCA member and chair of the BCCA Livestock Industry Protection Committee.

COMMENTS ON A SUPPLY MANAGEMENT SYSTEM FOR THE BC BEEF INDUSTRY

Story by Jim Forbes, P.Ag.



As an Industry Specialist for Beef and Bison, I was asked to put together some comments and observations for Beef in BC on the idea of a supply management system for the beef industry. These comments and observations are my own and cannot in any way be construed as government policy.

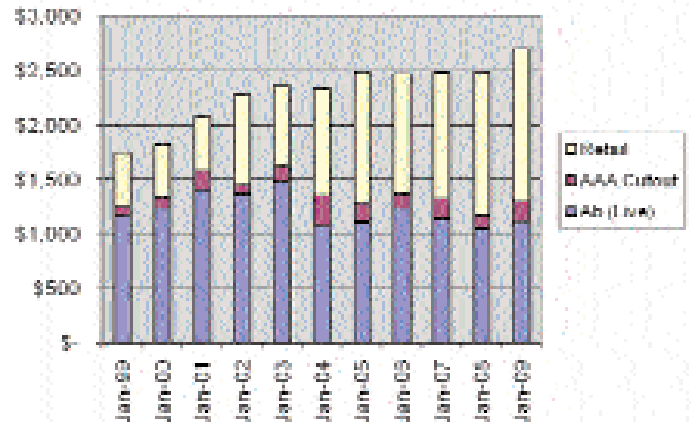
Philosophically, no one can argue with the concept that people with something to sell should get a fair return for their efforts to bring their product or service to market. That concept has a very important condition attached, that there must be a market (need or demand) for that product or service. In this situation, most people in the beef industry would interpret that 'fair return' to mean our beef producers should receive their cost of production plus a reasonable profit. By all accounts has not been happening for years now. Why?

The bare bones overview is that since 2003, for various reasons at different times along the way, events have transpired that created a general excess of supply of beef and/or the competing proteins from pork and chicken. This has provided retailers with the upper hand in the negotiation of wholesale prices for an extended period and allowed them to increase their margins significantly. The graph below illustrates the extent to which this has happened with beef since January 1999. Please note that the retail value in this graph is a proxy based on a weighted average of prices of the six cuts of beef tracked by Statistics Canada in their Consumer Price Index. In looking at the graph it is more important to concentrate on the change in the retail value rather than the total retail value. (The total retail value calculated may not reflect the value of an actual retail carcass because it is based on a set of assumptions and averages; however, the change in value is a measure of how the individual price fluctuations in the various retail cuts have affected the overall retail value of beef carcasses over time.)

As a result of less money flowing through to primary producers and the corresponding decline in profitability, producer and cattle numbers are down across Canada and in the US. Hog producers, and US poultry producers have faced similar economic pressures, all of which has tightened the supply of all the major proteins in North America. The global

Value of Animal at Each Stage

Live 1300lbs, Carcass 700lbs, Retail 500lbs



economic down turn has also temporarily affected the demand side of the equation with consumers scaling back purchases to less expensive cuts and protein sources. As the economy improves and demand catches up to the tightened supplies two things are likely to happen, consumers will be willing to pay more for higher value cuts (within limits), and the upper hand in wholesale price negotiation will shift back towards the packers (and to a lesser degree producers). This will change the apportionment of the margins back to the point where profitability returns to the cattle producers. As profitability returns producers will naturally expand and the cattle cycle once again progresses through the next phases.

Supply Management may seem like a simple strategy to try to moderate the price highs and lows and get a fair return for producers. There is no doubt that supply management has had some success with other agricultural products. However, there are some complexities, legalities and realities for the beef industry that must be examined more closely. The George Morris Center's paper covers some of the intricate details around a supply management for the beef and pork industries. Here are a few other observations for your consideration:

1) Even in supply managed industries there are economic pressures that cause higher cost or less efficient producers to exit the business. In 1987 there were just over 1000 dairy farmers in BC. Today there are 527 dairy farmers milking fewer cows in total (generally in larger herds) and producing more milk than two decades ago.

2) The switch from a free market system where we are the third largest beef exporter in the world, to a supply managed system where we are not able to export beef has the potential to be a major disruption to the Canadian beef supply chain. In 2009 Canadian beef exports brought in approximately \$2.3 billion. When producers are losing as much money as they are now, what effect would it have on the industry to remove a further \$2.3 billion? Once the dust has settled those remaining may be assured of stable prices, but at what cost and who pays for it?

3) Some have suggested a 'BC only' supply management system. As well as the obvious and huge political barriers that would have to be overcome (not to mention the hundreds of millions of dollars in lawsuits and compensation), there are logistical problems to consider that could not be dealt with overnight.

a) Given today's population in BC at just under 4.5 million people and an average retail consumption of 21.4 Kgs, we would need a breeding herd of approximately 343,000 beef cows as well as our present compliment of dairy cows to provide enough meat.

b) The beef herd number above is based on an overall consumption figure and does not balance which cuts are preferred by consumers to what is produced per carcass. Such fine tuning for preferences for the various cuts and grades (and adjusting for seasonal variations) is necessary and would

greatly increase the complexity of managing the supply of beef as compared to milk or eggs.

c) The BC beef cow herd is presently at 197,000 beef cows, far short of what would be needed. While cow numbers could be readily adjusted, BC's feed, water and range resources and related infrastructure would require major investments.

d) New slaughter facilities and slaughter waste treatment facilities would be needed. Given the vocal opposition to the recent proposals to deal with BC's existing volumes of slaughter waste, what are the chances of quickly building capacity for about 10 to 14 times as much?

There are other strategies for improving returns to beef producers which do not involve introducing government legislation. Both direct marketing and participating in a value chain are options which have the potential to capture some of the retail margin that producers have been missing out on. These options involve more time, potential production changes, additional costs, and a different skill set so may not be appropriate for everyone, but as you can see in the above graph there is considerable potential revenue.

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