



NOTES FOR A SPEECH BY MICHEL DESSUREAULT, PRESIDENT  
OF THE FÉDÉRATION DES PRODUCTEURS DE BOVINS DU  
QUÉBEC [QUEBEC CATTLE PRODUCERS FEDERATION], TO THE  
MEMBERS OF THE STANDING COMMITTEE ON AGRICULTURE  
AND AGRI-FOOD, TUESDAY, OCTOBER 26, 2004

REPOSITIONING STRATEGY FOR THE LIVESTOCK INDUSTRY /  
SLAUGHTER CAPACITY AND THE REGIONS

- Quebec's producers appreciate the commitment by the new Canadian Minister of Agriculture and his government to redouble efforts to **accelerate reopening of borders** to Canadian beef and cattle.
- They also hail the government's willingness to intervene to **increase the country's slaughter capacity**, and the series of measures planned to **develop new export markets**. However, Quebec's livestock producers are **extremely disappointed by the transition measures announced to assist them**.
- Before discussing with you the problem of slaughter capacity in Quebec, I do not wish to miss this opportunity to explain why we are disappointed by the assistance announced, which in our opinion is inadequate and in no way suited to the needs of Quebec producers.

INADEQUATE ASSISTANCE FOR PRODUCERS

- I doubt if I need to remind you that in the new national strategy there is absolutely no direct assistance to compensate for plummeting cattle prices, nor is there any interest-free loan program, two crucial measures that were eagerly awaited by Quebec producers.
- And yet, the need on the farm is desperate. In Quebec alone, we estimate that producers need over \$141 million, while with the announced transition measures Quebec is slated to receive only between \$15 and 20 million, which represents less than 15% of the needs of its producers.

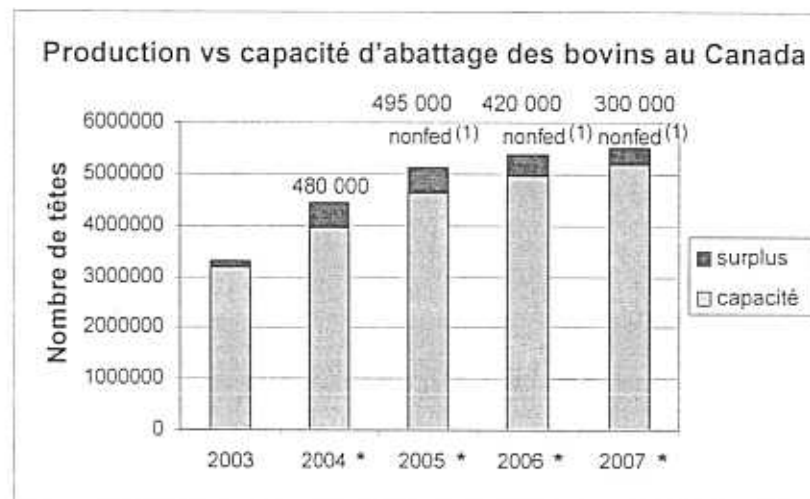
- This is despite the fact that for the past 17 months, the prices for different categories of cattle have in no way reflected the product's value. In Quebec, producers have so far (May 2003-October 2004) incurred losses on the order of \$265 million. Even if we take into account the various forms of government assistance available, producers have lost \$113 million, which is enormous considering the narrow profit margins in the livestock sector.
- The producers still have significant losses to absorb, as can be seen from the table below.

### The Quebec market

Product		Before BSE (May 2003)	17 mos after (Oct 2004)	Difference
Cull cows	\$/lb live	\$0.58	\$0.19	- 67%
Slaughter steers	\$/lb carc.	\$1.82	\$1.29	-29%
Male dairy calves	\$/lb live	\$2.61	\$1.41	- 46%
Female dairy calves	\$/lb live	\$4.68	\$0.67	- 86%
Stockers	\$/lb live	\$1.29	\$0.99	- 23%

- The Fédération would like to draw to your attention two elements in the strategy that in no way respond to the needs of Quebec cattle producers.
  1. Cattle Set-Aside Program for stockers (\$8.5 million) and slaughter steers (\$5.8 million)
    - The set-aside programs as they appear in the new strategy are not really applicable to Quebec, in particular because of our income security programs.
    - For these two production sectors, the Fédération would like a preset provincial allocation and flexibility in the administration of the program, so that it can be **managed collectively** in Quebec within our existing production support programs.
    - A provincial allocation would thus also have to be provided for in the slaughter steer sector.
  2. Cull Animal Program (cull cows)
    - The assistance available under this program is clearly inadequate to achieve its stated goals. Since Quebec has a significant number of cull cattle and the crisis seems likely to drag on for a long time in this sector, the Minister's strategy must be revised.

- For Quebec's producers, the solution lies in setting a Canadian floor price for cull cows. We believe that such a measure should also be implemented for slaughter steers.
- According to our analysis, setting a floor price for cull cows has become inevitable, because even taking into account the projected increases in slaughter capacity in Canada (see table below), it is plain that in 2007 there will still be more than 300,000 cull cows in this country that it will be impossible to slaughter, because there will be no slaughterhouses for them. It is easy to understand that this situation of surplus has a direct effect on market prices and will continue to do so for a long time. In the circumstances, it is obvious that the market price of cull cows cannot be restored without the direct intervention of the federal government. [See below for table headings in English.]



(1) bovins de réforme

\* Prévisions selon Canfax

**Cattle production vs. slaughter capacity in Canada**

Number of head

surplus  
capacity

(1) cull cows

\* estimates by CanFax

- Until such time as a Canadian floor price is ordered, we call upon the federal government to extend, as a transition measure, the BSE3 program, with payment of \$320/cow, calculated on the basis of a realistic annual cull of 25% for the dairy sector and 12% for the beef sector (cow-calf).
- In our opinion, this program still represents the best way of rapidly restoring liquidity to dairy farms.

## SLAUGHTER CAPACITY IN QUEBEC AND CANADA

### (a) A profile of the current situation

- The BSE crisis spotlighted two major weaknesses that make our sector extremely vulnerable and are holding back its development. These are **dependency on exports of livestock and beef, and concentration in the slaughter sector.**
- This dependency on exporting livestock has resulted in slaughter under-capacity in Canada of about 20% for slaughter steers and 40% for cull cows.
- The problem of slaughter under-capacity is just as serious in eastern Canada as in the West.

Distribution of Canadian slaughter capacity		
	Slaughter steers	Cull cows
Western Canada	80%	50%
Eastern Canada	20%	50%

- As for concentration in the slaughter sector, we need only recall that four major companies slaughter almost 80% of Canadian slaughter steer production. This situation is worse in the cull cow sector, where two big companies slaughter 90% of Canadian cull cows.

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**The main slaughterhouses in Canada**

**Slaughter steer**

Rank	Slaughterhouse	Province	% of Canadian slaughter
1.	Lakeside (Tyson)	(Alberta)	34 %
2.	Cargill	(Alberta)	31 %
3.	XL Beef	(Alberta & Saskatchewan)	14 %
4.	Better Beef	(Ontario)	13 %
....			
7.	Abattoir Billette	(Quebec)	1%
	Others	---	7 %

**Cull cattle**

Rank	Slaughterhouse	Province	% of Canadian slaughter
1.	XL Beef	Alberta	50 %
2.	Colbex	Quebec	40 %
3.	Gencor	Ontario	4 %
4.	Others	---	6 %

- This almost total lack of competition also exists in Quebec. With regard to steers, 75% of Quebec steers are slaughtered outside the province. In terms of cull cattle, 90% of the herd is sold to the only large slaughterhouse east of Saskatchewan (Colbex, Quebec).

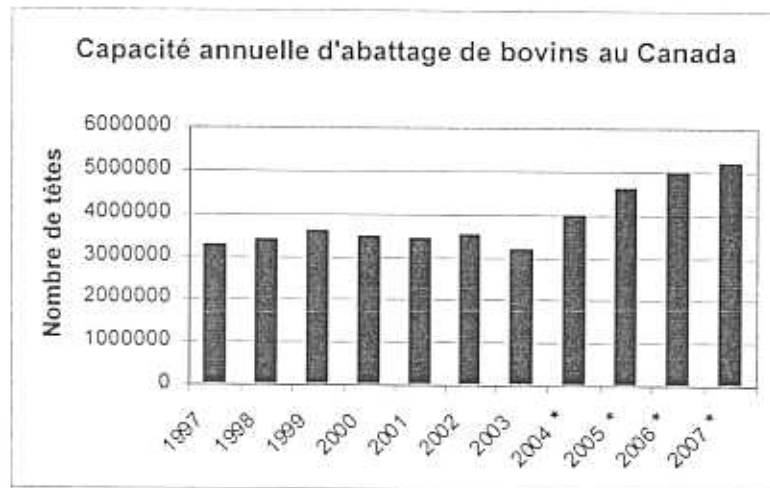
**b) the need to increase slaughter capacity**

**Inadequate funding**

- The current slaughter under-capacity is still more than 20% for slaughter steer and 40% for cull cattle.
- The Canfax data show that, even taking forecasted increases in slaughter capacity into consideration, it is clear that, in 2007, more than 300,000 cull cows will not be able to be slaughtered in Canada, as there will still be a shortage of slaughterhouses (see table, page 3).

## Annual Cattle Slaughter Capacity in Canada

Number  
of heads



\* Prévisions selon Canfax

\*forecasts by Canfax

- If slaughter capacity is to increase significantly, a number of new slaughterhouses will have to be opened.
- The *Fédération des producteurs de bovins du Québec* feels that the amount allocated to support the various slaughterhouses across the country (\$66.2 million) is clearly insufficient. The Federation also feels that the form of the proposed assistance (loan loss reserves) is inadequate.

### New players

- In order to provide for increased market competition and higher prices for producers, it is important not only to increase slaughter capacity, but also to seek new players (particularly producers' organizations) in the marketplace and provide them with financial support.
- The impact of new players in the marketplace will help to boost competition in the industry and re-establish relations so that they are closer to those in a structured and efficient market.
- Producers' organizations can play a leadership role in this regard. I would like to take this opportunity to read to you from the report of the **Standing Committee on Agriculture**, tabled last April, which concluded that Canada's cattle slaughter capacity needed to be increased and recommended that the government "*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.*"
- We feel that federal assistance to producers' organizations interested in investing in new slaughter and processing plants is essential if these goals are to be reached.

- We also feel that the five largest slaughterhouses currently in the market (Lakeside (Tyson), Cargill, XL Beef, Better Beef and Colbex) have absolutely no need for federal government funding to increase their slaughter capacity.
- We are therefore asking the federal government:
  - to grant direct subsidies for new slaughter and processing plants, a much more effective action under the circumstances.
  - that the assistance be provided only to producers' organizations that decide to invest in a new slaughter and processing plant.

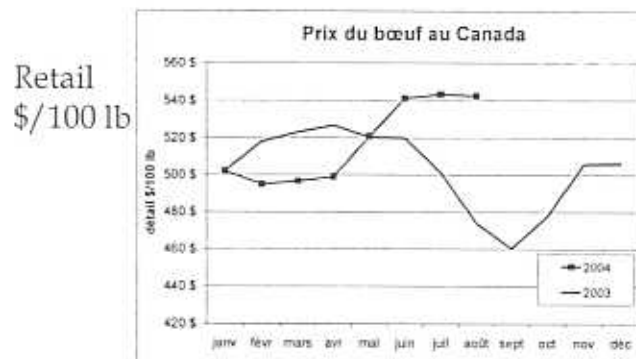
c) **New slaughterhouses in Quebec**

- While producers are selling their cattle at a loss, market conditions in Canada are dictated by a handful of slaughterhouses. The prices farmers receive do not reflect the real value of the product and, furthermore, consumers have not seen any significant drop in prices at the meat counter.
- As shown in the table below, the price of beef paid by Canadian consumers is escalating rapidly at present.

**The price of beef paid by consumers**

Price of beef in Canada

**Le prix du bœuf payé par les consommateurs**



Source: Statistics Canada

- A number of producers' associations in Canada are currently working on opening new slaughterhouses across the country.
- Slaughter steer and cull cattle producers in Quebec are no exception: they are also endeavouring to set up slaughterhouses, because the crisis as shown the need for producers to help build a profitable slaughter, processing and retail industry in Quebec, with plants located in Quebec.
- The two primary objectives here are to increase our slaughter capacity and reduce our dependence on outside plants, and to achieve a market price that

really takes the meat market into consideration and receiving our fair share of the increased value from processing, as well as taking advantage of niche markets.

- In order to achieve their aims, Quebec producers opted, as they always do, for a **collective approach** (equity among producers), to innovate by taking maximum advantage of authority under the legislation (the *Act respecting the marketing of agricultural, food and fish products*) and to promote partnerships with sector experts whenever possible.
- In order to implement this approach, last April and May, Quebec farmers agreed to two types of contributions (\$10 for slaughter steer, \$20 for cull cows) in order to create two marketing development funds, one for slaughter steer and the other for cull cattle.
- With these development funds, producers will be able to work downstream collectively to set up new slaughterhouses.
- At present, the two projects are going through the various legal and technical stages that are needed before implementation (*Régie* approval, finalizing negotiations, setting up the financing package, and so on). A variety of approaches are also being examined (partnership, acquisition or construction of a slaughterhouse, and so on).

### Our conclusions

- We feel the assistance available under the new strategy to increase slaughter capacity in Canada is clearly inadequate.
- Moreover, the form of the proposed assistance (loan loss reserves) is not suited to the circumstances.
- Assistance to producers who wish to invest in new slaughterhouses is essential. It must be available not only in the form of loan guarantees, but also as a direct subsidy.
- Direct government support is essential for these new businesses to be able to confront the keen competition that faces the new players and for them to break even quickly.
- The government must never lose sight of the fact that we are in a crisis situation and that, in order to be effective, actions must be swift and carefully targeted.
- The government must therefore improve its strategy and reposition the Canadian livestock industry.
- Until adequate measures are taken, it will be impossible to measure the extent of the disaster caused by the BSE crisis on cattle farms in Quebec and Canada, and consequently on the other industries both upstream and downstream.



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