ALBERTA BEEF – FOCUS ON THE FUTURE

"A Strategic Framework For Repositioning the Industry"

April 30, 2004

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Table of Contents

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A. Background

The occurrence of Bovine Spongiform Encephalopathy (BSE) in North America brought unexpected challenges and new insights into the structure and competitiveness of the Canadian beef industry. These challenges were recognized by the Alberta industry and government as an opportunity to explore options that could be used to strategically address similar situations in the future while continuing to build on the industry's advantages.

On January 12, 2004 about 65 beef industry, Alberta and federal government representatives met in Calgary to discuss key critical issues facing the industry. This meeting was the culmination of several other discussions held previously between industry and government.

In six facilitated discussion groups, participants highlighted their vision of the industry – domestically, internationally and within the market/product development area. Participants also outlined how they viewed the current situation and offered possible strategies to resolve a variety of issues.

At this meeting, a drafting team of industry and government representatives was struck to review the minutes of the discussions as well as develop a draft discussion paper on repositioning the industry.

On February 12, 2004 industry and government met to discuss key critical issues. Throughout the month of March and April, several focused discussions were held between industry, government and other stakeholders to further develop actions for the strategies identified in the framework. As well, a focus group was held to discuss the need to move cattle through the system especially if the border remains closed.

The Drafting Team has reviewed the output from all the meetings, identified strategies and summarized the proposed action items that both industry and government will implement either jointly or independently. Contingency elements have been added to this document to identify potential issues, highlight the possible impact to the industry as a consequence of each and suggest possible responses.

This framework is a result of a collaborative effort between industry and government. It outlines key priority areas that need to be addressed and may be used as a guide for individual industry and government strategic plans.

B. Context

Export markets have contributed positively to Canada's beef sector. However, they can sometimes be accompanied by uncertainties that are different than those found in the domestic market. International trade and related policies attempt to mitigate these uncertainties. The advancement of international rules-base systems for agriculture and food is indicative of the rapid integration of world markets. One of the characteristics of this evolving environment is that economic shocks are immediate and pervasive. Further, the causes of these shocks cannot be assumed to be isolated or controllable. The North American example of the occurrence of BSE and resulting impacts and industry responses is a case in point.

If the benefits of trade are to continue to be harnessed, international and other integrative factors need to be accounted for and dealt with. Trade-oriented industries and economies need to expend appropriate energies on maintaining and building international relationships as well as international systems and institutions to sustain and grow trade.

The challenges of the global environment will not go away and strategic planning efforts therefore need to be maintained and adapted on a continuous basis. BSE brought to light potential challenges for the on-going competitiveness of the Canadian beef supply chain. By strategically addressing these challenges, the industry will be able to build on its strengths and will be able to seize the opportunities that lie ahead.

C. Beef Industry Vision

A strategic framework is guided by a shared vision for the parties concerned. This vision helps focus the development of actions and provides overall guidance to strategic planning of individual stakeholders. The following vision statement was agreed to by stakeholders:

> *A responsive Alberta beef industry that is competitive, sustainable and profitable by satisfying our targeted consumers.*

D. Guiding Principle

Individual organizations and governments that utilize this document for strategic planning can be guided by the following principle:

> *To optimize the beef value chain in Alberta for the enduring benefit of all stakeholders.*

E. Strategic Priorities

One of the main challenges in developing broad-based strategies is the proper identification and elaboration of key issues that need to be addressed. After reviewing the proceedings of January 12th, the drafting team captured the key issue areas under the following three major strategic priority areas:

1. Market access
2. Consumer confidence in the safety and quality of beef
3. Building capacity, capability and advantage within the value chain.

Of the three strategic priority areas noted above, **market access and consumer confidence** are viewed of greatest importance and urgency in the immediate term and into the future as well. **Building capacity and capability** within the value chain was also considered of great importance and critical to the future success of the industry. **Market access** and resumption of exports of live cattle to the US is of immediate importance in order to mitigate some of the anticipated near term supply concerns in the Canadian market. Full restoration of market access has been difficult to achieve and border restrictions have had significant economic impacts.

Considered of at least equal importance in the near term and into the future was the need to have continued **consumer confidence in the quality and safety of beef.** Key messages and information are needed that demonstrate and reinforce to consumers the safety of beef products. An accelerated effort to compile and use science-based information and narrow the gap in scientific knowledge related to BSE and other diseases is important. Maintaining and building public confidence in beef and the Alberta beef industry is critical to this industry's future.

Finally there was an expressed desire to do something about what were thought to be shortcomings or anomalies in the beef value chain that appear to interfere with adjustment and responses to shocks like BSE. The relevant issues were captured under the third theme area of **building capacity, capability and advantage within the value chain**. By addressing the issues in this area, the industry will be more capable of dealing with some of the shorter-term market considerations while at the same time allowing optimal responses to new and/or restored market conditions.

For each priority area, desired outcomes describe the conditions that would exist if the key issues were resolved. The outcomes or desired results were then used to develop appropriate strategies.

1. Theme: MARKET ACCESS

Desired Outcomes:

- All international markets are open to all products and markets dictate prices and movements
- Regulatory standards are harmonized resulting in science-based trade rules in particular as it pertains to BSE

Note: Reciprocity is a necessary condition for two-way trade

Strategy:

a) **Coordinate and intensify lobbying efforts with Federal government to harmonize or seek equivalency with US standards (under NAFTA) and other countries (as part of OIE** deliberations).**

Proposed Actions	By When
• develop joint science based animal health standards for North America for diseases where equivalence can be achieved	I[1]

U – urgent within the next 100 days
[1] **I** – intermediate within the next year

• initiate a joint US/Canada examination of potential for regionalization following OIE guidelines	LT
• organize joint efforts and communiqués to international forums like the OIE	U
• promote the use of OIE science based international standards	LT
• continue to encourage *CFIA to aggressively negotiate animal health and food safety protocols and standards with foreign markets	U
• continue to develop a strong national animal health emergency response strategy which involves government and industry	I
• develop a North American forum (Canada/US/Mexico) to explore science based approaches to establish animal health equivalence and harmonization where possible	I

*CFIA – Canadian Food Inspection Agency
**OIE – Office International des Epizooties – World Organization for Animal Health

Strategy:
b) Further develop allies with state governments and US farm organizations to lobby US and Canadian decision makers for harmonization.

Proposed Actions	By When
• extend an invitation to include US and Mexican participation in Beef Industry Round Table discussions	U
• review recommendations from animal health disease response experiences	U
• communicate the results of joint initiatives by provinces, states and municipalities to build business relationships	U
• further develop organizational communications	U

Strategy:
c) Develop a communication plan highlighting the benefits of harmonization to end-users.

Proposed Actions	By When
• develop a cost benefit analysis of harmonization in various markets	I
• build a business case for harmonization of various elements like tracking, tracing, testing and surveillance protocols based on risk assessment	I
• determine the impact of harmonization on market segments across North America	I
• develop a communication plan that incorporates analysis results	I

LT – long term, 2-3 years in the future

2. Theme: CONSUMER CONFIDENCE IN THE SAFETY AND QUALITY OF BEEF

Desired Outcomes:

- Consumption of Canadian beef continues to grow
- Canadian beef is recognized as a safe and quality product
- Beef consumers are knowledgeable and confident about Canadian beef production and processing systems.

Strategy:
a) Ensure the integrity of the Canadian beef production and processing systems.

Proposed Actions	By When
• continue incentives for surveillance of "high risk" animals	U
• harmonize Canadian feed production processes with the US	U
• research alternatives for traditional rendering of high risk ruminants	LT
• explore alternatives for use of rendered material from high risk animals i.e. Biodiesel	I
• develop an education program about surveillance protocols for high risk animals	U

Strategy:
b) Support consumer information and communication efforts such as by the Beef Information Centre (BIC).

Proposed Actions	By When
• continue consumer tracking to monitor attitudes toward BSE issues	U
• develop a common voice for consistent messaging and information on specified risk materials (SRMs) testing	I
• consolidate existing prion research information based on current science	U
• develop a risk assessment of BSE to human health and communicate results to consumers	U
• develop crisis response plan for future BSE cases	U

Strategy:
c) Develop a BSE information package to enhance decision maker's understanding.

Proposed Actions	By When
• develop an information package for decision makers on current issues	U
• circulate the Review of Pricing in the Beef Industry Report for Federal/Provincial Agriculture Ministers	U
• ensure members of Federal Agriculture Committee have information package	U

3. Theme: BUILDING CAPACITY, CAPABILITY AND ADVANTAGE WITHIN THE VALUE CHAIN

Desired Outcomes:

- Increased Canadian capability to process existing cattle supply
- Manufacturing beef materials meet requirements of the value added processing industry
- Knowledgeable processing sector leaders, scientists, technicians and producers
- Transparent communication along value chain that results in proper price transmission and responsiveness to consumer demand.

Strategy:
a) Encourage risk innovation for the beef value chain.

Proposed Actions	By When
• refine the system for tracking inventory, prices and weight of cattle and beef	U
• research market-based risk management options	U
• assess impact of new costs in the system as a result of harmonization and review its impact on the profitability of the industry	I

Strategy:
b) Accelerate fully operational and effective tracking and tracing system.

Proposed Action	By When
• explore animal identification systems to provide full traceability	I

Strategy:
c) Improve understanding of value and pricing information throughout the value chain.

Proposed Actions	By When
• facilitation of value chains (Agriculture and Food Council/Alberta Agriculture, Food & Rural Development)	I
• continue to support information and price flow through the chain	I
• increase education and awareness among producers and consumers	U

Strategy:
d) Focus consumer research on wants and target beef products to demand.

Proposed Actions	By When
• through research, better understand the relationship between nutrition and health to demonstrate benefits of beef	LT
• develop a forum to bring research players together to define research and development opportunities/needs	U

Strategy:
e) Examine resource allocations and infrastructure requirements with a view to ensuring appropriate emphasis on market and product development.

Proposed Actions	By When
• review and inventory current market and product development initiatives	U
• conduct a gap analysis that will help us achieve desired outcomes	U
• prioritize actions as a result of analysis	U
• review funding for domestic, US and international market and product development programs and allocate resources based on identified priorities	U
• develop risk profile of industry sector	U
• encourage CFIA to ratify National Meat Code in provincial plants	U
• encourage provincial plants to attain National Meat Code standards	I
• conduct a feasibility study on slaughter capacity	U
• explore venture capital opportunities	I

Strategy:
f) Improve utilization of cow/bull meat, targeting new and niche markets.

Proposed Actions	By When
• characterize mature cow/bull meat for processing characteristics and eating quality	I
• explore the opportunities for processing mature Canadian cattle by striving to meet the requirements of the value added sector for commercial beef that is comparable to product received from world markets (i.e. quality, consistency, availability and detailed specifications)	I
• reposition cow/bull meat in eyes of industry and end users	I
• encourage harmonization with U.S. in particular with supplemental imports	U

Strategy:

g) Address gaps in industry expertise within the value chain to build capacity and capability.

Proposed Actions	By When
• identify technical transfer opportunities/needs/priorities	I
• formalize industry and institution recruitment to attract people for further education	U
• develop National Meat Centre for training to achieve a critical mass of trained people in the industry	LT
• establish an industry labour retention program	I

F. Short-term Considerations

There are several "shocks" that might occur to the industry in the short term that need additional consideration. Farm managers are the most knowledgeable and best equipped to react to unexpected events that impact their businesses. However, if an event is wide spread with consequences felt across the industry, a more comprehensive approach may be necessary. Possible "what if" scenarios considered in conjunction with this framework include:

1. Border Remains Closed to Live Animals

a) Issue/Situation

Expectations about the US border opening to live cattle movement creates market uncertainty and vulnerability to significant price changes. If within the next 30 – 60 days, the industry receives information that there will be a defined and prolonged period before the border opens to live cattle, the industry will then need to create a plan to consider and deal with that situation. In the absence of concrete border opening information, the industry will continue to speculate and adjust for an expected opening date.

b) Consequence /Impact

The limited capacity to process and market under 30 month (UTM) animals for the carcass and boxed beef markets is complicated by the border closure to over thirty month OTM animals. Further processors in Canada continue to face difficulties obtaining the quality and quantity of manufacturing beef materials required for their products. It is expected when UTM live cattle trade resumes, slaughter space will be created for some of the backlogged OTM animals to come to market. In the short term, the federal government needs to address the issuance of supplementary import permits of offshore beef for processed beef.

Existing slaughter capacity, with plants working 6 days a week, may not be sufficient if the border continues to remain closed to live cattle. There would continue to be a limitation on capacity for all the cattle that need to be slaughtered in Canada and efforts would need to be made to examine how to increase slaughter capacity towards 80,000 or more head per week.

Cattle movements to market this summer will depend on producers' optimism, feed availability and costs, and the normal flow of OTM cattle being ready for market in the summer. If live OTM cattle movement does not occur within next 12 months, price and slaughter capacity pressure will continue to build as the breeding herd ages and the numbers increase.

c) Response/Possible Actions

- Pursue the opening of other international borders based on our minimal risk status and controls
- If border opening is delayed and industry restructuring is required, a task force should look at and address industry issues.

2. Generalized Drought

a) Issue/Situation

A period of dry weather affecting a significant area of the crop growing area in Alberta would have consequences for pasture, forage and feed grain supplies.

For pasture, many parts of Alberta have had several years of drought, and many areas have also suffered from grasshoppers. This has put considerable pressure and stress on the pasture resource, and grass production for 2004 is quite uncertain. Pasture land will also see some additional pressure because of the additional cows, which are still on farms.

On January 1, 2004, there were approximately 2.0 M cows and 250,000 heifers (similar numbers to 2002), while a year ago there were 1.9 M cows and the same number of heifers. This year the number of yearlings going to pasture may range from 400,000 - 600,000 head, as well as the extra 100,000 cows needing pasture this summer. The competition for grass may displace about 150,000 calves. Better returns from the grain sector will also stiffen land use competition as producers look to better returns from cereals or oilseeds. Better returns on canola and wheat may also pressure barley grain and silage production.

Alberta forage production, from the 2001 census, indicates approximately 16.5 M acres of native pasture and 5.5 M acres of tame pasture. Alberta produced 6.4 M tonnes of tame hay in 2003, more than double that of 2002, and 9% above the 10-year average. Total greenfeed production was estimated at 2.1 M tonnes in 2003, compared to 1.5 M tonnes in 2002. Total silage production in 2003, was 4.5 M tonnes, which was 13% higher than the 4 M tonnes produced in 2002. Silage area harvested dropped below a million acres in 2003 from 2.5 M acres in 2002. The higher yields in 2003, more than offset the additional acres harvested in 2002, to give a larger silage crop.

Barley production for May, 2004 has been estimated at 12.6 M tonnes from 11 M acres with carried forwards total supply is expected to be 14.5 M tonnes. This compares to 16 M tonnes in 2003. Overall Canada is expected to have a stocks-use ratio around 18-20%. In the U.S., the stocks/use for corn is expected to be approximately 9%. As of March 1st, there were approximately 5.2 B bushels of corn in U.S stocks. For this year, supply is estimated at 11.3 B bushels and use is estimated at 10.4 B bushels.

b) Consequence /Impact

- Pasture deterioration would pressure carrying capacities on native and tame pastures
- An increase in supplementary feeding costs and if large number of animals go to market, it may reduce market revenues
- If the extra supply of breeding animals created by BSE border closures are marketed early, it will pressure slaughter capacity
- With a poor forage and feed grain crop, purchased feeds will drive up cost of gain in feedlots and make it more expensive to over winter the cow herd
- Tight winter feed supplies in the 2004-05 winter may result in lighter calves, unthrifty cows and possibly higher vet bills
- If feed grains are in short supply, feedlots may resort to imported corn with additional costs and rations based on corn rather than barley
- As cost of gain increases because of higher feed costs, finished animals may go to slaughter at lighter weights.

c) Response/Possible Actions

- Encourage the salvage of damaged grain and oilseed crops for potential pasture and forage as livestock feed
- Improve communication of how the Canadian Agricultural Income Stabilization (CAIS) program applies to individual producers
- Determine alternative feed and pasture sources and identify quantities available.

3. More BSE Cases

a) Issue/Situation

There is a possibility of other animals testing positive for BSE. For food safety purposes, measures and procedures are in place to remove all specified risk materials from OTM animals.

b) Consequence /Impact

Additional cases, after the border opens to live cattle, should not jeopardize market access to the US. However, if any new cases are identified while the border remains closed to live cattle, it could delay a final decision on opening the border. Increased testing and tighter surveillance may mean finding more positive animals. Domestic consumers may question the safety of the product.

c) Response/Possible Actions

- Continue to emphasize that Canada qualifies for a "minimal risk" status from the Office International des Epizooties (World Organization for Animal Health) having less than one case per million head of cattle per year
- Continue the ban on beef imports from BSE affected countries (i.e. only higher risk countries as we are minimum risk and it would be inconsistent to ban others at same level)
- Maintain the Canadian government national BSE surveillance system
- Clearly communicate risk management opportunities available to the industry, such as CAIS program, Production (Crop) Insurance, Alberta Disaster Assistance Loan Program (ADALP)
- Uphold the ban for feeding ruminant-based protein to other ruminants (cattle, sheep etc.)
- Prohibit the use of specified risk materials from OTM animals in feed production
- Continued vigilance in consumer messaging around the safety of beef.

G. The Next Steps

The Drafting Team that drafted this document, in consultation with industry and government, is committed to continue to act as a communication link regarding what is occurring provincially and nationally on strategies identified in the framework. This Team becomes the ‘Transition Team’ that will monitor progress on identified actions. The situation within the beef industry continually changes and both industry and government need to continue to keep abreast of the challenges and opportunities that the beef industry will face in the future.