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Report Highlights:

"What's New, Eh?" * Less than 3 Months Before 5 a Day Logo Ban Takes Effect * Prof Says Fewer Farmers Means Economic Prosperity * Prime Minister Slams U.S. Farm Bill
* Canada, Mexico Discuss U.S. Concerns * NAFTA Performance Report * Country of Origin Rule Could Prompt Branded Promotion for Canadian Beef in the U.S. * Prince George, B.C. Annual Cut Increased to Battle Beetle Infestation * Deputy Prime Minister Says Canada Will Win U.S. Softwood Lumber Dispute * Measures Introduced to Limit Spread of Swede Midge * Canada Contends That U.S. Pasta Is Subsidized under Byrd Amendment * Quebec to Launch a "Discovery Store" for Imported Wine
... and MORE!

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1], CA

This Week in Canadian Agriculture is a weekly review of Canadian agricultural industry developments of interest to the U.S. agricultural community. The issues summarized in this report cover a wide range of subject matter obtained from Canadian press reports, government press releases, and host country agricultural officials and representatives. Substantive issues and developments are generally also reported in detail in separate reports from this office.

Disclaimer: Any press report summaries in this report are included to bring U.S. readership closer to the pulse of Canadian developments in agriculture. In no way do the views and opinions of these sources reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

LESS THAN 3 MONTHS BEFORE 5 A DAY LOGO BAN TAKES EFFECT: The Canadian Food Inspection Agency (CFIA) notified the U.S. produce industry on August 27, 2001 that based on interpretations of Section 5.(1) of the Food and Drug Act, Section 7 of the Consumer Packaging and Labeling Act, and Part II, Section 6. (1) of the Fresh Fruit and Vegetable Regulations actions were being taken to ban all U.S. fruit and vegetable exports to Canada that bear the 5 A Day for Better Health logo beginning December 1, 2001. USDA sought and obtained a delay in implementation until August 31, 2002. In the interim, U.S. fruit and vegetable producers and shippers agreed to develop new packaging material that would comply with Canadian labeling laws. While the Produce for Better Health Foundation, the non-profit sponsor of the 5 A Day campaign, develops strategies with U.S. industry for a longer term solution to marketing prepackaged produce containing nutrition and promotional information in Canada, U.S. produce exporters need to ensure that their fresh produce labels to Canada will comply with the Canadian regulations when the extension runs out in 12 weeks. The Canadian Produce Marketing Association, whose members are mostly Canadian and U.S. companies involved in 90% of total produce distribution in Canada, is preparing a special notice for its upcoming newsletter warning its members that beginning September 1, 2002, the CFIA is scheduled to begin stricter enforcement, including detention of product until the labels are brought into compliance.

PROF SAYS FEWER FARMERS MEANS ECONOMIC PROSPERITY: Hymie Rubenstein, professor of Anthropology at the University of Manitoba, in the guest column of the *Report Newsmagazine*, claims that a declining farm population actually enhances both national economic growth and the standard of living of the average Canadian. According to Rubenstein, international comparisons show that the lower the proportion of farmers a country has, the higher are its levels of economic prosperity and social well-being. Rubenstein says that Canada's major farm organizations have repeatedly bemoaned the trend of falling Canadian farm numbers, arguing that a whole rural way of life is unceasingly being destroyed by a combination of international capitalism and foreign farm subsidies. They have repeatedly backed up their cries to "save the family farm" with noisy public demonstrations. Moreover, agricultural supports represent an unfair transfer of wealth from the average Canadian household whose net worth is only one-quarter that of the average farm household. If huge agricultural subsidies in the U.S. and Europe are producing a worldwide glut of cheap food, even more of them should see this as a reason to switch to other career opportunities. "For though it may sound unsympathetic, the fact remains: the fewer farmers we have, economically the better off we will be," Rubenstein concludes.

PRIME MINISTER SLAMS U.S. FARM BILL: In an address to International Monetary Conference this week in Montreal, Prime Minister Jean Chrétien sharply criticized the U.S. Farm Bill. Chrétien has shuffled his cabinet twice in recent weeks in the midst of corruption allegations, the removal of the high profile Finance Minister from cabinet, and growing sentiment in the Liberal Party for the Prime Minister to step down. The theme of the speech was international co-operation and the interconnectedness of countries in a global marketplace. According to a report in the *Globe and Mail*, it was no surprise that the recent U.S. farm bill, which, the paper says, gives massive subsidies to American farmers and raised the ire of Canada's farmers and agricultural representatives, was Mr. Chrétien's target. He called subsidies — which allows U.S. producers to sell crops at a lower price — "completely unacceptable." Mr. Chrétien urged conference delegates to put pressure on their governments not to subsidize agricultural crops and, instead, let those crops sell at the world market value. "I'm sorry," Mr. Chrétien said at the end of his speech, "but I feel quite strongly about it."

CANADA, MEXICO DISCUSS U.S. CONCERNS: According to the *Globe and Mail*, the challenge of having the United States as a neighbor was one of the topics discussed during a meeting with Mexican President Vicente Fox and International Trade Minister Pierre Pettigrew. Pettigrew, heading a trade mission to Mexico, said that he and Fox talked about how Canada and Mexico have to cope with issues that arise from "sharing a continent with the U.S." One of the challenges takes the form of the hefty

subsidies Washington has decided to give American farmers after the U.S. Congress passed the latest farm bill last month providing \$190-billion (U.S.) in farm subsidies over the next ten years. The move has raised deep concerns in Canada and Mexico, where farmers believe their produce would face unfair competition. "What we need in agriculture is freer trade and a rules-based system," Pettigrew said. The North American Free Trade Agreement has boosted trade on the continent but would not be the venue for dealing with farm subsidies, the minister said. "I believe we should do it at the WTO negotiations first," Pettigrew said, referring to the Geneva-based World Trade Organization that sets rules for international commerce and establishes panels to resolve disputes. While dismissing any suggestion of Mexico and Canada forming a common front on trade, Pettigrew said Canada would "offer total support to Mexico in the rule-based system as the next chair of the WTO ministerial meeting."

NAFTA PERFORMANCE REPORT: The U.S., Canada, and Mexico jointly released a report praising NAFTA's performance. Entitled, *NAFTA at Eight, A Foundation for Economic Growth*, the report shows that by lowering trade barriers, the agreement has expanded trade in all three countries. This has led to increased employment, more choices for consumers at competitive prices, and rising prosperity. From 1993 (the year preceding NAFTA implementation) to 2001, trade among the NAFTA nations climbed 109 percent, from US\$297 billion to US\$622 billion. Each day the NAFTA parties conduct nearly US\$1.7 billion in trilateral trade. Thanks to NAFTA, North America is one of the most competitive, prosperous and economically integrated regions in the world. For Canada, from 1993 to 2001, merchandise exports to its NAFTA partners climbed 95 percent, from US\$117 billion in 1993 to US\$229 billion in 2001. By contrast such exports to the rest of the world in the period increased only five percent. Mexico exported US\$139 billion to its NAFTA partners in 2001, an increase of 225 percent from 1993. By comparison, Mexican exports to the rest of the world increased 93 percent over the same period. U.S. merchandise exports to NAFTA partners nearly doubled between 1993 and 2001, from US\$142 billion to US\$265 billion. This was significantly higher than the 44 percent growth in U.S. exports to the rest of the world. For copies see <http://www.dfait-maeci.gc.ca/nafta-alena/celeb2-e.asp> or www.ustr.gov

COUNTRY OF ORIGIN RULE COULD PROMPT BRANDED PROMOTION FOR CANADIAN BEEF IN THE UNITED STATES: In its monthly report, the Canadian Cattlemen's Association (CCA) speculates on the impact of U.S. mandatory country of origin labeling. Mandatory country of origin labeling is scheduled to be introduced in 2004 as part of the new U.S. Farm Bill. Prior to that a voluntary program will be in place. The CCA hopes that the two year voluntary program will prove that a mandatory program is not in the best interest of U.S. producers, industry or consumers. However CCA is proceeding with mitigation plans as though the mandatory program will come into effect. The CCA believes that it is difficult to say exactly what the impact of this Bill will be on the Canadian beef industry until all the details are known. The details may or may not be made known until September 2004, just before the rules come into effect. While mandatory country of origin labeling will have a negative impact, it is not insurmountable. According to the CCA, much of the beef Canada exports is grinding beef or high end cuts that go to the food service market, which is not affected by country of origin labeling. Mitigation plans include enhancing those end uses, as well as developing branded programs in the U.S., and alternative export markets. CCA continues to work with a coalition of U.S. retailers, packers, processors, the U.S. National Cattlemen's Beef Association, and the Canadian embassy in Washington to oppose mandatory labeling.

WEEKLY CROP CONDITIONS - STILL DRY!: According to the *Agriweek* weekly crop report, the 2001 drought area of western Canada, which extends from mideastern Saskatchewan to central Alberta, remains a dry area this spring. Only a few districts between Melfort, Saskatchewan and Red Deer, Alberta have received as much as half an inch of rain since the spring thaw. Topsoil moisture is extremely low and subsoil moisture virtually non-existent. High winds last week dried out any remaining moisture. Only two weeks are left for rain to come in time to permit seeding to finish. If rain does not come, seeded acreage totals in Saskatchewan and Alberta will be significantly reduced from earlier intentions. In the extreme east, west and south of the grain belt conditions are much better, and the Peace River area has excess moisture. Overall, seeding is about 75% done, and would have been basically completed by now if not for the lack of moisture. Warmer weather last week allowed fair germination of earlier planted crops, though some fields will have to be reseeded because of wind damage. Warmer, drier weather allowed corn and soybean planting to proceed rapidly in southern Ontario last week, with corn over 90% planted and beans at least 60%. Spring crops are doing well.

RALPH GOODALE TAKES OVER PUBLIC WORKS PORTFOLIO: In a recent mini-cabinet shuffle, House Leader Ralph Goodale assumed responsibility as Minister of Public Works and Government Services in what was considered as a move to clean up the tarnished image of the government agency. In January, Goodale was moved from his position as Minister of Natural Resources in to the position as House Leader. Goodale retains his

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responsibility over the Canadian Wheat Board. Art Eggleton lost his portfolio as defense minister, but agriculture minister Lyle Vanclief and trade minister Pierre Pettigrew were unaffected by the shuffle.

CARRIER LUMBER, B.C. REACH SETTLEMENT: According to a May 27 release from the British Columbia provincial government, Carrier Lumber and the province have settled the dispute arising from actions of previous governments that affected Carrier's forest tenures. Carrier had claimed damages as a result of government actions that made it impossible for the company to harvest 2.5 million cubic meters of timber under tenures granted in 1983 to address the pine beetle attack at that time. The settlement consists of C\$30 million, two parcels of land purchased by the government from BC Rail, and 1.5 million cubic meters of timber, to be harvested over the next five years, free of stumpage charges. Where possible, the timber harvested under this settlement will address the current pine beetle attack. The settlement will provide Carrier with enough timber to maintain a two-shift operation at its Prince George mill for the next five years.

PRINCE GEORGE ANNUAL CUT INCREASED TO BATTLE BEETLE INFESTATION: British Columbia Ministry of Forests chief forester Larry Pedersen announced that the allowable annual cut for the Prince George timber supply area will be increased to battle the continuing mountain pine beetle epidemic. Effective June 1, the new allowable annual cut will be 12.244 million cubic meters, an increase of about 2.9 million cubic meters per year from the last allowable annual cut set in 1996. "This increase is vital to help slow the spread of the beetle and to salvage the large and growing areas of infested timber," Pedersen said. "The epidemic is expanding at a vigorous rate, and the current level of harvesting just hasn't kept pace." Recent aerial and ground surveys indicate the beetle epidemic has more than doubled in the last year and has attacked an estimated 428,000 hectares in the Prince George timber supply area. This is not a long-term solution: it's a temporary, extraordinary measure to deal with a catastrophic mountain pine beetle infestation," Pedersen said. The Prince George timber supply area covers about 7.5 million hectares. Roy Nagel, general manager of the Central Interior Logging Association, which represents contractors in northwestern B.C. said the provincial government will have to consider reducing its stumpage rates because the damaged trees will be so costly to log.

NAFTA TRIBUNAL AWARDS MINIMAL DAMAGES TO POPE & TALBOT: According to a press release from the Canadian Department of Foreign Affairs and International Trade, the Government of Canada received a decision from a NAFTA tribunal awarding American lumber producer, Pope & Talbot, Inc., US\$461,566 in damages and interest arising out of the tribunal ruling that administrative actions taken by Canada violated NAFTA's investment rules (Chapter 11). The Tribunal found that Canada had not violated NAFTA in its implementation of the Softwood Lumber Agreement. The tribunal found that Canada breached NAFTA in the course of a quota audit, when it asked Pope & Talbot, Inc. to ship its Canadian company's records back to Canada. Pope & Talbot, Inc. originally claimed US\$508 million in damages. According to the NAFTA tribunal, the award of damages should compensate the company for expenses incurred as a result of a verification audit.

DEPUTY PM SAYS CANADA WILL WIN U.S. SOFTWOOD LUMBER DISPUTE: According to an article from the *Canadian Press*, Canada will eventually win the softwood lumber dispute with the United States, Finance Minister John Manley said Wednesday. Manley said the troubles over lumber and Canadian anger over American farm subsidies are natural in the complex, intertwined Canada-U.S. relationship. "I am confident that we will win our challenges on softwood lumber before the World Trade Organization and NAFTA," he said in a speech to senior federal public servants. "That said, we need to consider ways to limit the capacity for future trade actions to be taken." Manley, who is also deputy prime minister and the minister responsible for cross-border security, said most of Canada's opportunities and challenges arise from its unique relationship with the Americans. "But, as with all relationships, tensions naturally exist from time to time in our relations with the United States." He said, though, that these disagreements shouldn't make Canada shy away from the United States. "Less engagement with the United States - will not increase our sovereignty. Less engagement, frankly, only puts at risk our ability to influence."

MEASURES INTRODUCED TO LIMIT SPREAD OF SWEDE MIDGE: The Canadian Food Inspection Agency (CFIA) is implementing a control program to limit the spread of swede midge (*Contarinia nasturtii*), a small fly that attacks Brassica crops such as broccoli, cauliflower, cabbage and canola. Swede midge is an exotic pest, and it was found in nine counties in Ontario and one municipality in Québec in 2001. Swede midge is known to be widespread in Europe, but it has not previously been reported in North America. U.S. and Canadian plant health officials are meeting in Washington this week to discuss the risk posed by swede midge, prevent its spread and minimize the impact on trade. According to the CFIA, the value of Brassica vegetable crops produced in Canada is approximately \$120 million annually. The total value of canola production in Canada is about \$2.2 billion annually.

For more information see CA2068.

CGC CAUTIONS THAT GRAIN MIXED WITH HELIX TREATED CANOLA SEEDS WILL BE DESTROYED: According to a May 31 Canadian Grain Commission (CGC) advisory, the CGC is warning primary elevator operators and inspectors in the trade to watch for treated seeds in canola. HELIX Xtra™, a recently approved seed treatment dressing for use on canola and mustard seed, that contains a green dye which may not easily be visually distinguishable from untreated canola. To ensure the safety of grain entering food and feed channels, care should be taken when dealing with rapeseed, canola and mustard seed. The potential for misidentification is highest with two new varieties of canola, Agassiz and Roughrider, which have varying degrees of green outer hulls and are similar in appearance to canola seed lightly treated with HELIX Xtra™. HELIX Xtra™ is a liquid seed treatment licensed for use on canola and mustard seed for the control of flea beetles, seed-borne blackleg and the seedling disease complexes caused by *Pythium* spp., *Fusarium* spp. and *Rhizoctonia* spp. A green dye has been added rather than the usual baby blue colored dye standard for rapeseed and canola seed treatment dressings. Grain containing seed treated with HELIX Xtra™ will be segregated from the grain handling system and disposed of. The CGC is working with Health Canada to resolve this matter but a solution is not expected in time for seeding of the 2002 crop.

BARRY SENFT LEAVES CGC, JOINS CIGI: According to *Canadagricultureonline*, Barry Senft is the new executive director of the Canadian International Grains Institute (CIGI) replacing Arnold Tremere, who retired May 31. Senft was previously the chief commissioner of the Canadian Grain Commission. Before joining the commission in 1997 he was second vice-president of the Saskatchewan Wheat Pool. He also has an interest in the family farm near Lipton, Saskatchewan. CIGI provides technical and educational programs that support market development efforts for Canadian grains, oilseeds and pulse crops.

CANADA CONTENDS THAT U.S. PASTA IS SUBSIDIZED UNDER BYRD AMENDMENT: Canada contends that U.S. pasta is subsidized under the Byrd Amendment, which allows anti-dumping duties collected by U.S. Customs to be paid out to the U.S. industry damaged by the subsidized imports. Although U.S. pasta exports to Canada have increased since 1999 through the end of 2001, Canada's net trade balance in wheat flour, durum wheat and pasta products combined has remained positive, slipping from US\$118 million in 1999 to US\$65 million. For 2001, Canada's net trade balance in these products recovered slightly to nearly US\$73 million. Hence, Canadian sales of durum wheat and wheat flour to the U.S. have more than adequately offset the increasing exports of U.S. pasta to Canada. For more information, see GAIN report CA2067.

QUEBEC TO LAUNCH A "DISCOVERY STORE" FOR IMPORTED WINE: At a recent Consular Corps luncheon in Montreal, the President of Quebec's Liquor Board, the Societe des Alcools du Quebec (SAQ), announced plans for a new superstore that will give imported wines greater access to the Quebec market. "SAQ Decouvertes", the SAQ Discovery store, will open in early 2003 in downtown Montreal, and will give producers an opportunity to showcase their wines, on a trial basis, in the Quebec market. Wines that test well will be made available in SAQ stores throughout the province. Quebec is the largest wine consuming province in Canada. The SAQ generates over \$1.5 billion in annual net sales; U.S. wine exports to Quebec in 2000 totaled \$21 million.

CANADIAN PRESIDENCY CONTINUES AT IFAP: According to a press release from the Canadian Federation of Agriculture, Jack Wilkinson, an Ontario farmer, was elected president of the International Federation of Agricultural Producers (IFAP) at its 35th General Conference in Cairo, Egypt. "This is great news for Canada," said Bob Friesen, President of the Canadian Federation of Agriculture (CFA). "We face big challenges in the international arena right now - the U.S. Farm Bill, continuing high subsidies in other countries, and foreign challenges to our effective marketing institutions like supply management. With a Canadian at the helm of this important organization, Canada will have more strength to push its position abroad." IFAP was formed in 1946 as a forum to foster cooperation between the agricultural producers' organizations of the world. 89 organizations from 68 countries are members of IFAP. This represents over 500 million farmers worldwide. With the election of Mr. Wilkinson, Canada will have three seats on IFAP. CFA President Bob Friesen, Vice-President of IFAP during the last term, will retain his seat on the executive committee. Leo Bertoia, President of Dairy Farmers of Canada, is Chair of the IFAP Dairy Committee and will also retain his seat on the Executive Committee. Jack Wilkinson is currently President of the Ontario Federation of Agriculture. He served two terms as President of CFA prior to Mr. Friesen, and still serves as a member of the CFA Executive Committee and Board of Directors. In the past he has held the Vice-Presidency of IFAP.

Did You Know... that since the opening of the border under the Canada United States Trade Agreement in the early 1990's, the export of flour produced in Canada to the United States has grown dramatically. From 1991/92 to 2000/01, Canadian mills' exports of flour and semolina to the U.S. increased from about 24,000 tonnes to over 215,000 tonnes. (Source: the Canadian Wheat Board)

Recent Reports from FAS/Ottawa:

Report Number	Title of Report	Date
CA2066	This Week in Canadian Agriculture, Issue 18	5/30/2002
CA2067	Canada Contends U.S. Pasta Subsidized Under Byrd Amendment Provisions	6/06/2002
CA2068	CFIA Implements Swede Midge Control Program	6/05/2002

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