

Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 8/8/2002

GAIN Report #CA2090

Canada

Agricultural Situation

This Week in Canadian Agriculture, Issue 27

2002

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Report Highlights:

"What's New, Eh?" * Canada Wins Key WTO Lumber Dispute * B.C. Government Commits to Further Discussions on Forest Practices Code * Canada to Begin Talks on a Proposed Free Trade Agreement with the Andean Countries * CWB Blasted for Market "Distortion" * CWB Predicts Smaller Canadian Wheat Crop * Canadian Hemp Grower Starts Arbitration over Compensation Claim * Saputo Announces the Closing of its Wisconsin, USA Cheese Manufacturing Plant
...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.

CANADA WINS KEY WTO LUMBER DISPUTE: On July 26, in a press release, International Trade Minister Pierre Pettigrew welcomed a recent World Trade Organization (WTO) finding, saying that U.S. duties on Canadian softwood lumber violate international trade rules. The WTO agreed with Canada that the United States was wrong in finding that Canadian provincial stumpage programs are subsidies. The final WTO report on Canada's challenge of the U.S. Department of Commerce's preliminary determination of subsidy is expected in September.

Canada is also pursuing a WTO challenge of the final U.S. determination of subsidy, and is preparing challenges of the final determinations of dumping and injury. The Government of Canada, the provinces and industry have also initiated three NAFTA cases regarding the U.S. final subsidy, dumping and injury determinations. Those decisions are expected in 2003.

The BC Lumber Trade Council, which speaks for companies responsible for half of Canadian softwood lumber exports to the US, says the WTO has sent a strong message to the Department of Commerce and the US lumber industry that the premise on which the US has based their case has no merit. "This is another vindication for Canada," said John Allan, President of the BC Lumber Trade Council. "The US case against Canada is on legal and political quicksand."

Frank Dottori, CEO of Tembec and co-chair of the Free Trade Lumber Council was elated: "This is total victory for Canada. Let's hope that this will bring the U.S. government to a more reasonable approach to this dispute."

B.C. GOVERNMENT COMMITS TO FURTHER DISCUSSIONS ON FOREST PRACTICES CODE: The British Columbia government will sit down with stakeholders, including First Nations, to revise the proposed results-based forest practices code and work on other recommendations contained in George Hoberg's report on the code consultation, announced Forests Minister Michael de Jong. The report by Hoberg, head of the department of forest resources management at the University of British Columbia, were released on July 25. Hoberg's report contains 24 recommendations, among them that government work with industry to analyze the cost implications of the new code and include site-level plans in the new framework. A key recommendation was that government work with stakeholders and First Nations to revise the proposed results-based code. "Our goal is to bring in a new code that will cut the regulatory burden and costs associated with an overly prescriptive legislative maze while maintaining the province's high environmental standards," said de Jong. The government intends to introduce legislation this fall, with implementation of the new results-based code in April 2003. The consultation process Hoberg directed ran from May 1 to June 30, 2002. Hoberg met with 58 stakeholder groups and individuals, and received 133 written submissions.

CANADA TO BEGIN TALKS ON A PROPOSED FREE TRADE AGREEMENT WITH THE ANDEAN COUNTRIES: According to a August 7 press release from the Canadian Department of Foreign Affairs and International Trade, the Government of Canada and members of the Andean community (Bolivia, Colombia, Ecuador, Peru and Venezuela) will hold preliminary talks on a proposed free trade agreement. "A free trade agreement between Canada and the Andean countries will both strengthen our economic relations and promote socio-economic development in the region," said International Trade Minister Pettigrew. "We are further developing our commitments to the Americas, while continuing to pursue greater trade and investment liberalization." The Andean countries are important commercial partners for Canada; bilateral trade in 2001 reached C\$3.6 billion, with Canadian exports totaling C\$1.5 billion. Cumulative Canadian investment in the Andean countries is estimated at \$11 billion. The Government of Canada will shortly undertake a broad and comprehensive consultation process to seek input from the provinces and territories, the Canadian public, businesses and non-governmental organizations.

CWB CHANGES FEED BARLEY POOL RULES: According to a July 26 story from *Canadagriculture Online*, the Canadian Wheat Board (CWB) will not allocate to the 2001/02 feed barley pool all interest paid by the government on bad debts from previous feed barley credit sales. The decision appears to have been triggered by the small amount of feed barley delivered in 2001/02 and the large amount of interest available for allocation to the

pool. Deliveries for the 2001/02 crop year, which ended July 31, are only 56,000 tonnes, down sharply (due to high prices in the domestic market) from the four-year average of 416,000 tonnes. Potential 2001-02 interest on feed barley bad debts is estimated at C\$8 million. If that whole amount were distributed over the 56,000 tonnes delivered, total payments per tonne for feed barley would far exceed total payments for malting barley. And that would draw public attention to the whole issue of interest revenue assignment, about which the Canadian auditor general expressed concern in her report on the CWB earlier this year. As things stand now, the CWB plans to assign C\$2.5 million of this year's interest to the feed pool. That will permit payment of the C\$180 per tonne (less freight and elevation) indicated in the 2002/02 pool return outlook released on July 25. The remaining C\$5.5 million "will be placed in a contingency fund."

CWB BLASTED FOR MARKET "DISTORTION": According to *Canadagriculture Online*, Albert Wagner, President of the Western Barley Growers Association (WBGA), commenting on the CWB's recent decision to assign enough interest earnings to the feed barley pool to maintain the return at about C\$180 per tonne basis west coast or St. Lawrence, said "Adding a dollar a bushel to the feed barley pool to bring the final payment up to the same level as the domestic feed market clearly demonstrates that the Canadian Wheat Board (CWB) is unable to attract premiums for farmers through the single desk." For 2001/02 the CWB will get C\$8 million in interest on feed barley credit sales made in the late 1970s and early 80s. The CWB has decided to allocate C\$2.5 million (C\$45 per tonne) to the 2001/02 feed barley pool and hold back the balance of the C\$8 million, even though the *Canadian Wheat Board Act* requires the whole amount be paid into the 2001/02 pool. The WBGA "has long argued that interest earnings from credit sales belong to all barley farmers, not just those who sell into the pool account in any given year," noted Wagner. "Using farmers' money to cover up poor CWB sales returns is a clear distortion of market signals, and leaves the impression the board actually sold feed barley for more than it did. It is clear in the case of barley that the CWB is selling for less, therefore it is time the monopoly be removed."

CWB PREDICTS SMALLER CANADIAN WHEAT CROP: In the Canadian Wheat Board's August 7 crop year-end conference, the CWB provided 2002/03 crop production estimates for western Canada. Spring wheat production is estimated at 12.24 million metric tonnes (MMT) - 6.09 MMT below the five-year average and the smallest milling wheat crop since 1974 and 25% smaller than the 2001/02 spring wheat crop says the Board. The CWB cited significant areas of Western Canada experiencing severe drought conditions. "In many of the driest areas, there will be nothing at all," noted CWB President and CEO Greg Arason. Prairie durum production is predicted to be 4.1 MMT, approximately 34% higher than it was in 2001, but under the 5-year average of 4.7 MMT. The CWB explained that durum was planted in areas where moisture was more plentiful. Barley production is now pegged at 7.8 MMT. This is 4 MMT below the five-year average, and 24% below production for crop year 2001/02.

SASKATCHEWAN CROP PRODUCTION ESTIMATED AT 65% OF AVERAGE: According to Saskatchewan Agriculture's latest crop report, pre-harvest crop production estimates indicate that Saskatchewan farmers are expected to harvest 16.5 million tonnes of grains, oilseeds, and specialty crops. This is 35% below the ten-year average and the smallest crop since 1988. Dry conditions in central and northern areas of the grainbelt, for much of the growing season, are the main cause of the below average production forecast. The below average production forecast comes despite the fact that Saskatchewan farmers seeded a record area of 34.5 million acres this spring – up 4% from the ten-year (1992-2001) average. Provincial crop yield estimates range from 60 to 90% of the 10-year average. There is, however, a high level of variability both at the local and regional levels. Flax and pulse crop development continues ahead of the five-year (1997-2001) average, and spring cereal, canola, and mustard crops are not far behind. Saskatchewan spring cereals are 21% in the firm dough stage and three percent ripe, compared to the average of 33% and 6 percent respectively. Flax crops are 71% at or past the boll stage, compared to the average of 66%. Canola and mustard crops are 75% at or past the podding stage, compared to the average of 83%. Pulse crops are 75% podding and 15% ripe compared to the average of 69% and 18% respectively. Fall-seeded crops are 53%, compared to the five-year average of 77%. At the provincial level, harvest operations are just getting underway with less than one percent of the crop swathed or combined. Crop reporters indicate as much as 3.0 million seeded acres will not be combined, compared to 1.0 million acres on average. The major sources of crop damage during the past week were grasshoppers, drought, and frost. The extent of any frost damage will become more apparent as the weather warms up.

CANADIAN HEMP GROWER STARTS ARBITRATION OVER COMPENSATION CLAIM: According to an August 7, 2002 article from *Just-food.com*, Canadian hemp exporter Kenex has filed its NAFTA Notice of Arbitration with the US State Department and will now work with the US to will select a three-member arbitration

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panel to determine if at least US\$20M compensation is due to Kenex for losses stemming from the Drug Enforcement Administration's (DEA) attempt to ban hemp seed foods. Kenex has exported industrial hemp products to the US for the past five years, but its sales were affected when the DEA introduced a zero tolerance import policy on THC, the active ingredient in marijuana that is found in trace measure in hemp seeds.

On 9 August 1999, US Customs at the behest of the DEA impounded a Kenex hemp birdseed shipment, issued recalls on other shipments, and threatened Kenex with over US\$500,000 in fines. While the shipment was eventually released, Kenex said it had lost most of its major customers as well as a major investor, and was financially devastated. Kenex insists that the DEA's attempt to ban hemp food sales is a clear violation of NAFTA because hemp is a recognized commodity of trade under both NAFTA and WTO; the DEA did not provide any notice and opportunity to US trading partners or foreign companies to provide input into its ruling; the US did not conduct a risk assessment or offer any science-based rationale for issuance of the rule; and the DEA did not seek to minimize impact on trade. The article states that the Government of Canada has voiced its objections to the new DEA rules and notes that the US is the number one importer and consumer of hemp products, including hemp foods.

QUALITY AND SAFETY IN CANADA'S GRAINS AND OILSEEDS SECTOR: According to a recent report from Agriculture and Agri-Food Canada (AAFC), concerns related to the quality and safety of commodities for human consumption have risen dramatically in recent years, says an August 7, 2002 *Good Morning Ontario* article. Food safety incidents in other countries have increased consumer awareness about how food is produced, how it is stored, and how it is processed. The grains and oilseeds sector of Canada has been producing high-quality commodities for decades, and during this time, the monitoring of quality and safety has increased in importance. The changing marketplace, however, demands that more be done. The AAFC report states that not only does Canada need to expand and improve existing systems, but it may also need to add traceability as a working component in the system as more consumers insist on it. AAFC says the potential advantages that expanded safety testing would provide the entire supply chain, and the development of more varieties that cannot be managed with visual segregation suggest that it may be time to reassess the regulations in the grains and oilseeds sector.

SAPUTO ANNOUNCES THE CLOSING OF ITS DENMARK, WISCONSIN, USA CHEESE

MANUFACTURING PLANT: Saputo Inc. announced on August 1, 2002 the closing of its Denmark (Wisconsin, USA) cheese manufacturing plant. This plant's activities will be transferred to the Whitehall (Pennsylvania, USA) cheese facility by October 1, 2002. Thirty-five employees are affected by this decision. This plant's closing is part of Saputo's continual analysis of its activities and the implementation of measures aimed at improving its operational efficiency. After this closing, the USA Cheese Division will operate 14 plants and employ 1,800 individuals. Saputo is the largest dairy processor in Canada and one of the leading cheese producers in North America, employing over 7,000 individuals.

Did You Know... that according to the Canadian Wheat Board, the CWB is the world's largest durum wheat exporter with more than 60% of world durum trade?

Recent Reports from FAS/Ottawa:

Report Number	Title of Report	Date
CA2086	This Week in Canadian Agriculture, Issue 25	7/18/2002
CA2087	Dairy Semi-Annual Report	7/19/2002
CA2088	Canada Allows Poultry Meat Imports From Brazil	7/31/2002
CA2089	This Week in Canadian Agriculture, Issue 26	8/01/02

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