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Report Highlights:
Government Expresses Disappointment Over WTO Dairy Export Ruling * Dairy Commission Increases Prices for Butter and Skim Milk Powder * Dairy Farmers Protest Over Eroding Pillars of Supply Management * Dairy Farmers Disappointed by Pricing Announcement * Dairy Industry Overcharges Buyers by Millions of Dollars a Year * Manitoba Wants out of Eastern Milk Pool * October Trade Figures Show Increasing Pork Exports * Prime Minister to Head Trade Mission * Agricore United Merger Cushions Impact of 2002 Drought * Saskatchewan Wheat Pool Announces First Quarter Results * New Ethanol Plant for Brantford, Ontario ... 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 DISAPPOINTED WITH WTO DAIRY DECISION: According to a December 20, 2002 news release from Agriculture and Agri-Food Canada (AAFC), Lyle Vanclief, Minister of Agriculture and Agri-Food and Pierre Pettigrew, International Trade Minister expressed disappointment with the decision by the World Trade Organization (WTO) Appellate Body that Canada's approach to the export of products made from commercial export milk constitutes an export subsidy. According to AAFC, the Appellate Body decision emphasized that the WTO consistency of Canada's domestic supply management system was not at issue in these proceedings, exports of dairy products produced within the supply management system can continue but must comply with Canada's WTO exports subsidy commitment levels. "I am committed to continue working with industry and the provinces to establish the best way to comply with this decision," said Vanclief. " I am disappointed with the WTO's conclusion, especially given the changes made to our dairy sector since 1999," said International Trade Minister Pierre Pettigrew. "While we believe we had removed all links to government in export activities when the market-based commercial export milk transactions were developed, we recognize the importance of clear, enforceable rules governing international trade and we fully intend to abide by this decision."

DAIRY FARMERS URGE GOVERNMENT TO COMPLY WITH WTO DAIRY EXPORT RULING: Dairy Farmers of Canada (DFC), in a December 20 news release, expressed its disappointment with the WTO Appellate Body ruling, but urged the Canadian government to take immediate action to comply with the ruling. "We believe this ruling imposes a definition of export subsidies in the WTO Agreement on Agriculture that goes far beyond that envisioned by Canada's negotiators," said DFC President Leo Bertoia. "While milk producers are disappointed with this loss, we will seek to comply as soon as possible. Exports will need to be re-regulated." "Canadian dairy producers will continue to focus on meeting Canada's demand for dairy products with its supply management system," explained Mr. Bertoia. The immediate loss resulting from the WTO ruling will be limited. The government can easily mitigate its impact by enforcing its WTO commitments on imports. Canada is not a large dairy product exporter commercial export markets represent less than 5% of production and 2% of value. Canada continues to have the right to export certain value-added products and limited surplus removal within its WTO export subsidy reduction commitments. "Dairy Farmers of Canada expects the government of Canada to make every effort to avoid any potential for retaliation by New Zealand or the United States," said Mr. Bertoia. "Given the far-reaching implications of this decision, DFC believes the government should seek to clarify the overall status of export subsidies through WTO challenges to other countries' systems," added Bertoia. Because the Government of Canada - not dairy producers - negotiated the WTO rules, DFC believes the government should address any negative consequences that may arise from the Appellate Body's ruling.

DAIRY FARMERS PROTEST ERODING PILLARS OF SUPPLY MANAGEMENT: On December 18, approximately 3,500 angry Canadian dairy farmers converged on federal government department's of International Trade, Customs, Finance, and Agriculture to protest the erosion of two of the three pillars of supply management (price and border controls) regulated by the Canadian government. Dairy producers accuse the Canadian government of allowing dairy imports to circumvent Canadian import controls at the border as well as not setting high enough industrial milk prices for dairy producers. Dairy farmers claim that only 30% of producers are covering their costs of production, despite consecutive years of industrial milk price increases. For more information, see upcoming GAIN report CA2144.

DAIRY COMMISSION INCREASES PRICES FOR BUTTER AND SKIM MILK POWDER: The Canadian Dairy Commission (CDC) announced on December 13, 2002 that, effective February 1, 2003, the support price for skim milk powder will increase from C$4.9858 to C$5.1966 per kilogram (kg), and for butter, from C$5.9011/kg to C$6.1061/kg. The higher support prices are expected to provide dairy producers with an increase of C$2.36 per hectoliter (hl), or 3.9%. In January 2002, the CDC committed to cover the cost of production of 50% of Canadian producers by 2006. "Today's decision is an initial step in fulfilling this commitment. In addition, it recognizes rising farm management costs, as well as higher feed costs which mainly resulted from adverse growing conditions" explained CDC Chairman, John Core. The assumed processor margin will also increase by 3.9%, or C$0.33/hl. The assumed processor margin represents the estimated costs of processing one hectoliter of milk into butter and skim milk powder. Carrying charges, associated with the cost of storage programs used to balance seasonal fluctuations in milk production, will remain at C$0.08/hl. Support prices are the prices at which the CDC buys butter and skim milk powder to balance seasonal supply and demand changes on the domestic market. Support prices are also used as references by provincial marketing boards to price milk sold to processors who manufacture dairy products such as butter, skim milk powder, cheese, yogurt and ice cream. The market impact of the total increase will be influenced by many factors such as the implementation of the increase in the provinces, as well as manufacturing, transportation, distribution and packaging costs throughout the supply chain.

DAIRY FARMERS DISAPPOINTED BY CDC PRICING ANNOUNCEMENT: Dairy Farmers of Canada (DFC), in a December 13, 2002 news release, expressed disappointment with the CDC pricing announcement. "In November, DFC indicated to the Canadian Dairy Commission that an increase of at least three cents per litre was required by dairy producers this year in order to cover increased costs and to move towards covering the costs of 50% of producers," explained Mr. Leo Bertoia, DFC president. "The CDC, which establishes support prices for butter and powder, failed to recognize the extent of increased costs faced by producers. Pricing authorities for table milk have looked at the very same elements considered by the CDC and concluded that producers required at least three cents a litre to cover their increased costs." "Canadian dairy producers rely solely on the marketplace for their income," added Mr. Bertoia. "In addition to higher production costs, producers have seen an erosion of their income because of uncontrolled imports of blends
designed to circumvent Canada's WTO access commitments. Today's announcement has done

nothing to reduce producer scepticism about government's ability to stop the erosion of supply management's pillars. Producers are frustrated and will be marching in front of the Canadian Dairy Commission and Agriculture Canada on December 18, 2002," concluded Mr. Bertoia.

DAIRY INDUSTRY OVERCHARGES BUYERS BY MILLIONS OF DOLLARS A YEAR: In reaction to the CDC pricing announcement, the Canadian Restaurant and Foodservice Association (CRFA) reported on December 13, 2002 that Canada's consumer-subsidized dairy industry is overcharging buyers by millions of dollars a year, and the situation has just gone from bad to worse. For the restaurant industry alone, the price hike means C$85 million in extra costs. The increase in industrial milk prices announced today CDC will widen the already dramatic gap between world and Canadian prices. According to the CRFA, the latest increase brings the price of industrial milk, used to make cheese, yogurt and ice cream, to C$62.58/hectoliter - an overall increase of 4.5%. "The dairy industry has created an alternate universe that completely ignores the input of anybody other than the dairy producers themselves. The so-called consultation process is a sham. It's inconceivable that the CDC could announce this outrageous price increase when all the evidence proves dairy prices should be dropping," says Stephanie Jones, Vice President of Food Supply with the Canadian Restaurant and Foodservices Association. Recent reports from the World Trade Organization and the Organization for Economic Cooperation and Development clearly show that Canadian dairy prices are far higher than necessary to provide dairy farmers with a reasonable rate of return. As a result, the average Canadian dairy farm is worth over C$1 million in quota value alone and enjoys a profit margin of over 25%, compared to just 14% for the average farm and just seven percent for the average Canadian business. "It's clear the CDC's only priority is to increase returns to dairy farmers, regardless of the impact on other stakeholders. It's time for the Minister of Agriculture to step in and take control," says Jones. "Dairy producers are laughing all the way to the bank, and Canadian consumers are paying the price."

ADRIAN MEASNER APPOINTED AS NEW CEO FOR CWB: On December 13, 2002, Ralph Goodale, Minister responsible for the Canadian Wheat Board (CWB), announced the appointment of Adrian Measner as President and Chief Executive Officer of the CWB, replacing Greg Arason, effective December 31, 2002. Mr. Measner's selection follows an extensive and professional executive search process, launched by the Board of Directors earlier this year. This selection reflects the preferences of the Directors. "Mr. Measner's outstanding record in the key areas of sales performance and transportation, along with a solid personal farm background, makes him an excellent choice for this position," said Mr. Goodale. "In all aspects of his career, he has been focused on one primary goal – finding ways to boost the incomes of western Canadian farmers."

Mr. Measner most recently held the post of Executive Vice-President of Marketing for the CWB, and has extensive experience in grain marketing, transportation and international wheat and barley sales. Mr. Measner first joined the CWB in 1974. Measner runs a small grain farming operation in Manitoba's Interlake area. Ken Ritter, Chair of the board, said "The board is confident in Adrian's ability to lead management in the organization's mission of maximizing returns to Prairie farmers." The process to select the new CEO was thorough, Ritter noted. A selection committee consisting of six members of the board and one federal government representative assisted the board in identifying and selecting candidates. A total of 35 applicants were carefully considered, with eight interviews conducted. The President and CEO is responsible for leading management in implementing an innovative and comprehensive international marketing strategy.

CWB LOWERS POOL RETURN OUTLOOK FOR 2002/03 WHEAT AND DURUM: In a December 19 news release, the Canadian Wheat Board announced its December Pool Return Outlook (PRO) for the 2002/03 crop year. Wheat values are between C$7 and C$12 per tonne lower than the November 2002/03 PRO. Durum values are down by C$4 to C$7 per tonne. Feed barley values are down C$5 per tonne while designated barley values are unchanged. The PRO's for most commodities were raised back in November, prior to the CWB board of directors election.. It is interesting to note that PROs were lowered only after the polls for the CWB closed. For actual PRO pricing details, visit the CWB website at: http://www.cwb.ca/db/contracts/pool_return/pro.nsf/WebPRPub/2002_20021219.html

OCTOBER TRADE FIGURES SHOW INCREASING PORK EXPORTS: Canada was the world's top pork exporter in 2001 and Canadian pork exports have continued to grow this year. In the January to October period of 2002, Canada's total pork exports surpassed 535,000 metric tons (product weight), 15% higher than for the same period last year. The top export markets for Canadian pork in the first 10 months of 2002 and the percentage share to that market were: The United States, 59%; Japan, 21%; Australia, 4%, and Russia, 3%. Canada, along with Denmark and Brazil are the primary competitors of U.S. pork in foreign markets. While exports to Japan dominate U.S. exports of pork, Canada ranks as the third most important market for U.S. pork and accounted for 12% of total U.S. pork exports during 2001.

PRIME MINISTER TO HEAD TRADE MISSION: Prime Minister Jean Chrétien announced that he will lead a Team Canada trade mission to the Netherlands, the United Kingdom and Italy from March 25 to April 4, 2003. The Prime Minister will be joined by provincial premiers, and business executives. They will travel to The Hague and Amsterdam, London, Rome and Milan. "The Netherlands, the United Kingdom and Italy are among Canada's most important trade, investment and science and technology partners in the world," said the Prime Minister. The trade mission will focus on promoting investment, trade and science and technology development in a number of areas including: aerospace, agri-food, construction and building products, culture, education, environment, health, information and communications technology, life sciences and sustainable energy. Two-way merchandise trade between Canada and these European countries reached C$25.2 billion in 2001.

AGRICORE UNITED MERGER CUSHIONS IMPACT OF 2002 DROUGHT: According to a Agricore United December 12, 2002 news release, Agricore United announced that it recorded a net loss of C$33.8 million in the quarter ended October 31, 2002, resulting in a net loss of C$17.5 million or C$0.42 per share for the 12 months ended October 31, 2002. The loss for the quarter represents an increase of C$11 million over the pro forma results for the same quarter last year - measured as though the merger had occurred on August 1, 2001. "The 2001 and 2002 droughts have severely impacted all aspects of the agricultural industry and our company is not immune to the effects," said Brian Hayward, Chief Executive Officer. "Fortunately, cost savings in excess of C$90 million achieved as a result of the merger last November as well as general cost containment have cushioned the impact on our bottom line." Coupled with reduced interest costs and lower depreciation and amortization, the cost reductions increase to $92 million.

Ongoing consolidation of the company's grain handling network, annualization of synergies already achieved and additional synergies still to be realized from the merger are expected to further increase these cost savings in the coming months. The company's 37% market share of grain shipments for the 12 months ended October 31, 2002 was consistent with its share at July 31, 2002. However, industry grain shipments as a whole continued to trend downward - declining 24% compared to the 12 months ended October 31, 2001.

SASKATCHEWAN WHEAT POOL ANNOUNCES FIRST QUARTER RESULTS: According to a December 13, 2002 article from *oatgrower.com*, low carry-over and dramatic production declines, followed by excess moisture and freezing temperatures delayed harvest and severely reduced the quality of grains and oilseeds available to the industry, driving down Saskatchewan Wheat Pool's (SWP) volumes and sales. SWP recorded consolidated sales and operating revenues in the first quarter of Fiscal 2003 of C$469.5 million, down 11% from the first quarter of 2002 after excluding sales from companies that were sold last year. First quarter earnings before interest, securitization, taxes, depreciation and amortization, was C$1.2 million, down from C$17.0 million in the first quarter last year. Excluding the impact of divested companies, the reduction is primarily related to low grain volumes, coupled with lower earnings from the Company's pork production operations. The first quarter operating loss, prior to interest, securitization and taxes was C$11.8 million compared to a loss of C$0.8 million in the first quarter last year, prior to a gain on sale of the company's livestock affiliate. The net loss for the period was C$15.6 million or (C$0.42) per share, slightly better than the comparable C$15.7 million loss last year prior to the gain on sale. Primary grain shipments for the quarter were 1.5 million tonnes, down 22% from 2.0 million tonnes in the first quarter of last year reflecting reduced supplies and a significant decline in exports during the period. The Pool's wholly owned port terminals volumes were 0.5 million tonnes, down from 1.1 million tonnes in the first quarter last year. Dramatic declines in the export of wheat (55%), barley (42%) and canola (30%) in the quarter, coupled with reduced volumes associated with the labor dispute in Vancouver primarily contributed to the reduction.

CN AND CP WESTERN GRAIN REVENUE BELOW REVENUE CAPS FOR CROP YEAR 2001/2002: According to a December 17, 2002 Canadian Transportation Agency (CTA) news release, CTA Chairman Marian Robson announced that the Agency has found that Canadian National and Canadian Pacific Railway (CN and CP) revenues for the movement of Western grain did not exceed their revenue caps for crop year 2001/2002. CN's grain revenue of C$280.2 million was C$13.5 million below its revenue cap of C$293.7 million while CP's grain revenue of C$277.9 million was C$8.7 million below its revenue cap of C$286.6 million. Effective August 1st, 2000, a new revenue cap regime for the movement of Western grain by a prescribed railway company (currently CN and CP) replaced the former rate scale regime for such movements. As a result, the *Canada Transportation Act* requires the Agency to determine each railway company's revenue cap annually and whether each cap has been exceeded by the railway company. If a railway company exceeds its revenue cap in a crop year, it must pay out the excess amount and the applicable penalty to the Western Grains Research Foundation. In the course of establishing Western grain revenue, the Agency examined and verified detailed railway submissions of grain traffic and revenue information. The revenue cap applies to the movement of grain from Prairie origins to terminals at Vancouver, Prince Rupert, Thunder Bay and Churchill. Crop year 2001/2002 is the Agency's second year for revenue cap determinations.

UKRAINE SAYS GRAIN DOCUMENTS TO CANADA MAY BE FAKE: A December 18, 2002 *Reuters* article reported that pest-infected grain shipments sent from Ukraine to Canada may have slipped through export quality checks with false documents, a senior Ukrainian official was quoted by local news agencies as saying on December 18. "There are a lot of errors in the documents for this shipment of grain and it looks like these certificates were false," Interfax-Ukraine quoted Ukranian Deputy Prime Minister Ivan Kyrylenko as saying. "This grain was supplied to Canada by a private company, which has no relation to Ukraine," he added. Last week Canada said it had cancelled all import permits for Ukrainian grain after three shipments were found during unloading to be infected with the two crop diseases. On December 12 Ukraine launched an investigation into how infected grain was delivered to Canada, slipping through what officials call a tough system of checks. Kyrylenko said the government was continuing the probe. Most of the cargo sent to Canada contained Russian wheat and not Ukrainian produce, Kyrylenko said. Earlier, analysts said the 26,000 tonne cargo contained 3,000 of Ukrainian grain. The rest was Russian. Analysts said Ukraine had already supplied Canada with up to 100,000 tonnes of feed wheat and was expected to sell as much as 200,000 tonnes on the Canadian market this season. Ukraine plans to export in 2002/2003 (July-June) at least 12 million tonnes of grain from its 38 million-tonne crop compared with the 9.1 million tonnes it exported in 2001/2002.

CANADA SEEKING NEW MARKETS FOR CANOLA IN IRAN: The December 16 edition of *Good Morning Ontario*, quoting reports from Resource News on DTN, indicated that Canada is seeking new markets for canola in Iran. "Iranian and Canadian canola industry representatives have already put a lot of work into removing the barriers that have prevented canola from being imported into that country," a spokesman for the Canola Council of Canada said.

NEW ETHANOL PLANT FOR BRANTFORD, ONTARIO: According to the December 13 edition of *Good Morning Ontario*, Integrated Grain Processors Cooperative (IGPC), a farmer-based value-added cooperative in southwest Ontario, says it will construct an ethanol production facility in the Brantford area. The company says the proposed ethanol facility will employ 30- 35 full time people many in relatively high-paying jobs. Construction costs would be approximately C$60 million dollars and will take about 12-14 months from ground breaking to completion. The plant is expected to generate over C$50 million in annual revenue, 80% of which will be spent within a 75-kilometer radius of the plant." In a related article, Canada's ethanol industry will get a boost from the passage of the Kyoto Agreement. It specifies that 35% of the Canada's gasoline must contain 10% ethanol by 2012.

Did You Know ...that about three-quarters of Canadian sunflower seed production last year was exported to the United States primarily destined for the birdseed trade and the confection industry? Canada's sunflowers are grown in southern Manitoba, southwestern Saskatchewan and the irrigated areas of southern Alberta. (Source: AAFC)

Recent Reports from FAS/Ottawa:

Report Number	Title of Report	Date

CA2143	CWB Denounces US Decision to Request Consultations at WTO	12/19/2002
CA2141	This Week in Canadian Agriculture, Issue 44	12/12/2002
CA2140	Honey Update	12/11/2002
CA2139	Strawberry Market Update	12/06/2002

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