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Report Highlights:
Canadian Livestock Groups Focus Again on Country of Origin Labeling* With Exports to Canada Valued at More Than $1.0 Million per Day, U.S. Pet Food Industry Concerned as Canada's Enhanced Feed Ban Becomes Effective* Proposed Cheese Rules Elicit Criticism * CTA Rules in Favor of Small Grain-Shippers * EcoENERGY For Biofuels Details Unveiled * Quebec Opens Corn-Ethanol Plant * Canadian Wheat Board Wins Bid to Have Case Expedited

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Includes PSD Changes: No
Includes Trade Matrix: No
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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.

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.

CANADIAN LIVESTOCK GROUPS FOCUS AGAIN ON COUNTRY OF ORIGIN LABELING: Last month USDA's Agricultural Marketing Service reopened the comment period on the Interim Final Rule (IFR) for mandatory country of origin labeling (COOL) for fish and shellfish which has been in effect for over two years. The comments received by USDA will be used to promulgate a final rule for mandatory COOL for fish and shellfish, and to the extent applicable, other covered commodities. COOL was part of the 2002 Farm Bill, but implementation for meat and livestock was delayed twice. The current effective date is September 2008. Martin Rice, Executive Vice-President of the Canadian Pork Council said his group would file a brief, which will include concerns that COOL will not only disrupt the U.S./Canada livestock and meat market but also result in additional costs for U.S. buyers of Canadian meats. The Canadian Cattlemen's Association, which also feels it will be negatively impacted by COOL, is reportedly developing a marketing plan that will focus on the U.S. foodservice sector that is exempt from COOL. The CCA is also looking at branded programs for Canadian beef to mitigate the potential effects of COOL.

WITH EXPORTS TO CANADA VALUED AT MORE THAN $1.0 MILLION PER DAY, U.S. PET FOOD INDUSTRY CONCERNED AS CANADA'S ENHANCED FEED BAN BECOMES EFFECTIVE: In June 2006, the Canadian Food Inspection Agency announced it would attempt to eradicate BSE from the domestic cattle herd by preventing 99% of any potential BSE infectivity from entering the feed system. Canada's "Enhanced Feed Ban" (EFB) became effective this week (on July 12) and the regulation bans specified risk materials (SRM) from all livestock feeds, pet foods, and fertilizers. Canada already protects human health by applying a similar SRM (removal) policy for beef for human consumption. SRMs are the cattle parts that are most likely to contaminate feed with the BSE infective agent. To keep SRMs out of the feed chain, Canada will place strict new requirements on the handling, transport, and disposal of SRMs. This action will encompass cattle producers, slaughter plants, renderers, feed manufacturers and fertilizer and pet food plants. While it is largely aimed at introducing new domestic controls, the development is an important concern to the U.S. pet food industry because Canada is the industry's number one export market. U.S. pet food sales (dog and cat) to Canada during 2006 reached a record $393 million and accounted for 37% of total U.S. pet food sales worldwide. Under Canada's EFB, only U.S. pet food that is free from SRM will be permitted entry. At the time of writing, the CFIA was expected to require both an import permit and certification stating that the U.S. pet food either does not contain any bovine ingredient, or if it does, that the bovine ingredient(s), does not contain SRM. It would appear that U.S. pet food with other ruminant ingredient (i.e., lamb) or pet food containing fish meal would not require an import permit but most pet food shipments to Canada travel in trucks that contain a variety of pet food types. It is hoped that as the new import rules are applied that the issues surrounding border documentation can be satisfactorily worked out to result in minimal trade disruption for U.S. pet food exporters.

PROPOSED CHEESE RULES ELICIT CRITICISM: The Canada's conservative government has met severe criticism both domestically and internationally for its proposed regulations on cheese compositional standards that were published in Gazette part I mid-June (see This Week in Canadian Agriculture, Issue 18, CA7031). Many editorialists find it astounding that a conservative government, who should - "theoretically" - favor market forces, would put in place such prescriptive regulations. Articles in the July 3rd edition of the Montreal Gazette and the July 5th edition of the Financial Post accuse the federal government of pandering to "Canada's powerful dairy lobby" and lament the fact that the increased cost to cheese producers of $72 million dollars per year (according to the impact analysis), will likely be passed on to consumers. Dairy Farmers of Canada, the national lobby organization representing Canadian dairy farmers, disagrees that the new regulations will affect cheese prices for consumers. On a website created to address consumer concerns about these regulations (www.realcheese.ca), the argument is made that the retailer and cheese makers will continue to price

cheese the way the always have, and the price will be what the market can bear. Despite the fact that the impact analysis statement contends that imports, for the most part will not be affected, the international community disagrees. The Ontario Farmer reports that the Canada's proposed rules have jeopardized talks between Canada and the European Community on allowing easier access for Canadian common wheat. The Ontario Farmer reports that a letter written by Jean-Luc Demarty, the director-general of the European Commission for Agriculture and Rural Development was sent to Agri-Food Canada's deputy minister Yaprak Baltacioqlu on June 6th making clear that discussions were off until the impact of the proposed cheese rules on the European Commission were assessed. Demarty contends that the proposed rules for cheese, in combination with the Article XXVIII action Canada is taking on milk protein concentrates, will reduce access of EU dairy products. The fact that the proposed rules will further limit access to the Canadian market was also raised by New Zealand, the U.S., Australia, and the EC during the World Trade Organization's Technical Barriers to Trade Committee meeting on July 5th in Geneva.

CTA RULES IN FAVOR OF SMALL GRAIN-SHIPPERS: Great Northern Grain (GNG) Terminals, a small in-land grain terminal in Nampa Alberta, has declared victory in their level-of-service complaint against Canadian National (CN) Railways. The Canadian Transportation Agency (CTA), found that CN had breached its statutory obligations to provide Great Northern Grain Terminals (GNG) with adequate and suitable rail service. The distance between some crop growing regions and the ports mean that significant segments of the grain shippers are often at the mercy of one of the two major railways companies in Canada, CN and Canadian Pacific Railway. Canadian law, however, protects against abuse by requiring these rail companies to provide adequate service to shippers. The CTA stated that "through its virtually exclusive control of rail service in portions of the western grain market, CN generates an imbalance and, inevitably, as seen in this case, a failure in the market place". GNG, who was supported by 10 grain-industry corporations, including the Canadian Wheat Board which sought intervener status in the case, took action in March 2007 after a change was made to CN's advance-product program. CN, which originally offered blocks of 50 cars to be booked for one destination, had changed its set limit to 100 cars for 42 consecutive weeks to secure supply. GNG had argued that while this may be reasonable for large grain operators, such a policy change discriminates against small companies and single point shippers. In order to remedy the situation, the CTA ordered CN to: (1) put in place a program whereby GNG can order blocks of 50 rails cars in advance; (2) not prohibit or restrict GNG from trading cars; and (3) advise GNG of the methodology it uses in its determination of allocating rail cars. The CTA also encouraged the railroad to make this information available to other shippers on its Website. This decision is important, says James Nolan a transportation economist at the University of Saskatchewan, as this decision will undoubtedly be scrutinized by shippers and railroads in the US, where similar problems exist. The CTA also directed CN to have these solutions implemented by August 1, 2007, the beginning of the 2007-2008 crop year. CN, even before the decision was rendered, had changed its 100 car rule back to 50 cars but stated that it will need more time to study the decision before taking further action. The news release on the CTA's decision can be found at the following web address:
http://www.cta-otc.gc.ca/media/communique/2007/070706_e.html.
The full decision is available at this web address:
http://www.cta-otc.gc.ca/rulings-decisions/decisions/2007/R/344-R-2007_e.html.

ECOENERGY FOR BIOFUELS DETAILS UNVEILED: The Canadian federal government has made public further details regarding the $Can 1.5 billion earmarked in the March 2007 federal budget for production incentives for renewable alternatives to gasoline and diesel fuel. The biofuels producer incentives will be available over a period of 9 years, instead of the 7 years as originally stated in the March 2007 budget. The ecoENERGY for Biofuels Intitative is to provide these operating incentives, based on production levels and other factors. These incentives, which are subject to finalization and approval, will be eligible for production between April 1, 2008 and March 31, 2017 and will be available to facilities constructed before March 31, 2011, and will also be subject to volume limits. Program volume limits are 2 billion litres of renewable alternatives to gasoline, and 500 million litres of renewable alternatives to deisel. Incentive rates are up to $0.10 per litre for renewable alternatives to to gasoline, and up to $0.20 per litre for renewable alternatives to diesel for the first three years of the program, declining over the following 6 years (detailed table available on website). A cap of 30 percent of program volume limits per recipient and a minimum production volume per eligible facility are also part of the program details provided by the government. This change, which will replace current federal policies which provide an excise tax exemption of $0.10 per liter for ethanol and $0.04 per liter

for biodiesel, is designed to ensure the development of a Canadian renewable fuel industry. The details in full are available at the following website: http://oee.nrcan.gc.ca/transportation/overview.cfm

QUEBEC OPENS CORN-ETHANOL PLANT: Also in biofuel news, Quebec's first ethanol plant was launched in Varennes, Quebec at the end of June. The Varrennes corn-based ethanol plant is GreenField Ethanol's third operating plant in Canada. The other plants are located in Chatham and Tiverton Ontario, and two more are under construction in Johnston and Hensall Ontario and are scheduled to be operating in 2008. The Varennes plant was one of the recipients of funding under the federal government's Ethanol Expansion Program (EEP). The plant's feedstock will be purchased through Pro-Ethanol, a group of 500 Quebec corn farmers that have invested in the plant. The plant has an operating capacity of 120 million litres of ethanol. Petro-Canada, a Canadian oil and gas company, has already purchased all of the ethanol that the plant will produce for the next 10 years. While it remains unclear whether or not the federal renewable fuel standard being developed will be a national mandate (each province having to meet the mandate) or a national average, Quebec is poisitioning itself to meet a five percent ethanol content in gasoline for the province by 2012, as announced last month by Quebec Premier Jean Charest. Quebec, however, seeks to meet that mandate largely through cellulosic ethanol, which is the reason a 6 million dollar commitment of public funds to research and development on ethanol made from waste from forest and agriculture sectors, as well as urban waste, was also announced by the provincial government.

CANADIAN WHEAT BOARDS WINS BID TO HAVE CASE EXPEDITED: The Canadian Wheat Board (CWB) has won its bid to have its court challenge to the federal government's decision/methods of removing barley from the control of the CWB's single desk (see This Week in Canadian Agriculture, Issue 20). The case will be heard July 25th - 27th in Calgary. Usually, it can take up to five months to get a court date. The two cases, that of the CWB and that of Friends of the CWB, will be heard at the same time. While the case is being heard in advance of the dissolution of the single monopoly on barley, the court will likely take longer than 4 days to render its decision. There will undoubtedly be continued market uncertainty until a final decision is rendered.

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