

Quebec Farmers'

Advocate

Vol. 25, No. 4

July - August 2005

\$50 per year (including taxes)

CLAUDE JOYAL inc.
#1 Eastern Canada
Specialty Retailer of Tractors



**THE BIGGEST SELECTION
OF USED COMBINES,
ALL BRANDS
WORK-READY**

Interest Financing
0% September 2006*

*Minimum \$10,000
*Subject to credit review
*Call us at 1-800-363-3636

What's Inside...

R-CALF still not finished p. 2

Cantley dry materials dump p. 3

Beef Briefs p. 5

Yellow margarine could spread into Quebec

Andrew McClelland
Advocate Staff Reporter

Quebec's status as a distinct minority in the ways of margarine could soon be coming to an end. That was the feeling expressed by Sean McPhee, president of the Vegetable Oil Industry of Canada (VOIC), upon learning that an inter-provincial trade panel has recently ruled in favour of Alberta's challenge to Quebec's "white-margarine-only" laws.

The Agreement on Internal Trade (AIT) panel, made up of representatives from British Columbia, Manitoba and New Brunswick, is expected to make its official report available to the public on August 22nd. Yet oil industry representatives are already declaring a victory in the



Editorial

Feeding the world

Gib Drury
QFA President

There has been a major shift in the last 40 years in the dynamics of feeding the world. No one questions any longer the ability of the agricultural community to produce enough food for all the humans and domestic animals on this planet. What is questioned and is brought under increasing scrutiny is how that food is produced. The technological innovations (for example, mechanization, irrigation, chemical crop inputs, and genetic manipulation) have boosted world food production to a level where all major field crops are in a surplus situation and consequently the resulting prices received by producers do not even cover the cost of their production. To compound the problem, the rich developed countries are awash in too much food while the third world cannot even afford the costs of transportation and distribution of these surpluses, even if they were given to them as humanitarian aid. Now there is a good conundrum for the world's diplomats, politicians and religious leaders to resolve.

The use of these new technologies needs to be addressed well. It is a bit like playing with fire. There are many beneficial uses for fire (heating, cooking, energy production) but if you are not careful and vigilant you can get burned if things are not kept under control. The current reliance on pesticides, herbicide chemical inputs and genetically modified organisms are a classic example of playing with fire. The long-term effects are unknown and their potential uncontrolled proliferation is a major risk.

What we need at this point in our history is an unprecedented political willingness to make food distribution and adequately feeding every human being a world priority: Imagine if the World Trade Organization had these priorities as its goal, not just the maximization of profits from export trading. Imagine if we were presented each day with a world hunger report to tell us how we were progressing in feeding the world, instead of a stock market report to tell us how wealthy we are.

The reigning philosophy of striving to produce more and more in order to reduce your unit cost of production does not compute anymore in a world flooded with surpluses. In our haste to produce ever-greater surpluses with the uncontrolled, indiscriminate use of the new technologies we may well be putting ourselves at risk.

Let's take this opportunity, when the world has the ability to fully feed all of its inhabitants, to change our guiding principles: let's replace profit maximization with resource optimization and equitable distribution so we can pass on a better world to the next generation. Wishful thinking? Yes indeed, but the Quebec Farmers' Association and other farm organizations can play a major role in reorienting the guiding principles—it is our members who decide how the food will be produced and should have an influential say in how it is distributed.

R-CALF wants back in the courts

Andrew McClelland

Advocate Staff Reporter

Canada's cattle industry breathed a sigh of relief on July 14th when the Ninth Circuit Court of Appeals overturned the injunction on the shipment of Canadian cattle into the United States. But the jury is still out on whether or not a case seeking a permanent injunction will be heard in law courts south of the border.

The case, the latest action of the Ranchers-Cattlemen Action Legal Fund—better known as R-CALF—was scheduled for July 27th. However, presiding Judge Richard Cebull postponed the hearing in order to review the report issued by the appeal court that overturned the temporary injunction on Canadian cattle. As normal trade is slowly beginning to resume across the Canada-US border, it is hoped that the case will be dropped.

In the written decision issued by the Ninth Circuit Court of Appeals, the district court in Montana over which Judge Cebull presides often receives a stern reprimand. The report frequently makes reference to Cebull's tendency to side with R-CALF's scientific experts and ignore the advice of similar experts working for the United States Department of Agriculture (USDA).

“[I]n assessing the prevalence of BSE in the Canadian herd, the district court rejected USDA's calculation and accepted the prevalence rate provided by R-CALF's expert, completely without explanation,” the report states.

The appeal court also decided that Cebull “erred in criticizing the Canadian feed ban” and “committed legal error by failing to respect the [USDA's] expertise.” With a higher court being so strongly opposed to the preliminary injunction, Canadian beef producers are hoping that the postponed case to establish a permanent ban will never be heard in court.

Yet R-CALF shows little signs of stopping in its quest to protect US ranchers from outside competition. The organization recently released a report declaring that reopening the border to live cattle imports from Canada will result in a sizeable blow to the US economy.

John VanSickle, the author of the report, and according to R-CALF a “nationally recognized agriculture economics expert,” argues that the increase in production that importing live cattle from Canada would entail would not offset the overall loss to the US beef industry.

“Overall results of our analysis of resuming imports of Canadian cattle into the US indicate a net decline of \$7.56 billion in U.S. economic output, a decline of 68,442 jobs, and a decline of \$3.57 billion in value added products,” says VanSickle. An announcement from Judge Cebull indicating whether or not R-CALF's latest case will be heard in court is expected shortly.

Yellow margarine could spread into Quebec

Andrew McClelland

Advocate Staff Reporter

Quebec's status as a distinct minority in the ways of margarine could soon be coming to an end. That was the feeling expressed by Sean McPhee, president of the Vegetable Oil Industry of Canada (VOIC), upon learning that an interprovincial trade panel has recently ruled in favour of Alberta's challenge to Quebec's "white-margarine-only" laws.

The Agreement on Internal Trade (AIT) panel, made up of representatives from British Columbia, Manitoba and New Brunswick, is expected to make its official report available

to the public on August 22nd. Yet oil industry representatives are already declaring a victory in the ongoing battle to force Quebec to allow yellow dye in its margarine.

“VOIC commends Alberta, Manitoba and Saskatchewan for their resolve in successfully challenging Quebec’s outstanding obligation under the AIT to eliminate the margarine colour regulation,” said McPhee. “Clearly, Alberta and the other western provinces have set the standard for internal trade liberalization and the strengthening of the Canadian economic union.”

Quebec's ban on the use of yellow colouring in its margarine has long been a thorn in the side of Canada's vegetable oil industry. The law, passed in 1987, is intended to protect consumers from confusing the butter substitute with real butter while scanning the shelves of their local supermarket. It provides a distinction that Chris Judd, a Shawville dairy producer and QFA vice-president, feels strongly about.

“Adding yellow dye to margarine just isn’t fair to the consumer,” Judd argues. “Many people have trouble digesting edible oils, but butter is not a problem for them. The taste between butter and margarine is so close now that there needs to be some way for those people to know. The consumer should have a choice and one way to ensure that is to have a colour difference.”

The controversial regulation also supports dairy producers. It has been estimated that as many as 3000 jobs on 600 Quebec dairy farms would be affected were the law to be revoked.

“One of the dairy industry’s problems is that we have too much skim milk powder, but we definitely don’t have a surplus of butter,” says Judd. “If yellow margarine is sold in Quebec, it will probably reduce butter consumption. That will cut back on our dairy quotas and result in a reduction of income for all dairy producers.”

The most vocal opponent of the law has been Unilever, a vegetable oil giant who—along with manufacturing everything from Calvin Klein perfumes, Dove soap and Hellmann's mayonnaise—owns 60 per cent of the province's margarine market. As Quebec is now the only North American territory to insist upon non-yellow margarine, special production costs lower Unilever's profits by a million dollars a year.

Although Canada's vegetable oil representatives have called the law "null, unconstitutional, invalid, inoperable, unreasonable, contrary to Canadian federalism and the North American Free Trade Agreement," the courts have a history of siding with dairy producers who want the law to remain in place.

In recent years, both the Quebec Superior Court and the Quebec Court of Appeals supported the province's right to regulate the colour of margarine sold in its borders. The Supreme Court of Canada upheld those rulings on March 17th when it rejected Unilever's arguments that it should be permitted to sell yellow margarine within Quebec.

"We expect that the law will stay just the way it is," said Guylaine Gosselin, general manager of the *Fédération des producteurs de lait du Québec* (FPLQ). "The Supreme Court has said that Quebec has a right to decide what colour its margarine is, and a trade panel cannot change that. The AIT's decision has no force or bearing on the law whatsoever."

Should the decision turn out in Alberta's favour when the AIT officially releases its report, Quebec will have 60 days to change its tune on yellow margarine. At that time, the province will be in danger of suffering retaliatory trade action from the Western provinces.

However, the FPLQ insists that it will not be intimidated by any trade threats.

"How will retaliatory trade action happen within Canada?" asks Gosselin. "There are no borders between provinces. This is not an issue of right or wrong, it's an issue of large multinationals like Unilever trying to overpower governments. We're confident that the Quebec government will protect its laws."

Concentration requires efficient regulation on the price of milk

The UPA believes that the principle of regulating the price of consumer milk by the imposition of maximum and minimum limits must be maintained. Far from being obsolete, an efficient regulation supports collective action and innovation in the agricultural sector, which is dealing with strong economic changes, notably the concentration of the distribution sector, while having a positive impact for consumers. This is what Laurent Pellerin, the UPA President, stated in a letter sent on July 7th to the *Régie des marchés agricoles et alimentaires du Québec* (RMAAQ). On August 12th, the RMAAQ ended its hearings on the regulation of the price of consumer milk. The decision is expected this fall.

"The law on the marketing of agricultural, food and fisheries products and its regulations are the heart of the marketing tools that agricultural producers have given themselves over the last fifty years", pointed out Pellerin. He added that these tools control trade and guarantee transparency of transactions. "In addition, they are even more pertinent in a context where the arrival of world players, who are little inclined to respect the rules established by the industry, may disrupt the market," he explained. We know that the distribution giants, obsessed by the lowest prices, prefer low-costing sources of supply and increase pressure on suppliers and consequently on agricultural producers.

"At a time of globalization and opening up of markets, agricultural producers expect the measures in effect to be protected as well as a rigorous and innovative application of the law", stated Pellerin.

In addition, Pellerin believes, like the *Fédération de producteurs de lait du Québec*, that the definition of "value added milk" must be reviewed. This term must refer to a true added value of the dairy product and not of the equipment and wrapping process. For the UPA, value added milk must not become a way of getting around the regulation on

prices. We know that there is no maximum price on this category of products. Value added milk currently represent 30 per cent of the consumer milk market.

Consensus

What comes out of the report is that the main players of the industry favour maintaining a regulation with minimum and maximum prices. Many prefer a reduction of the gap between these prices. The majority would like for the maximum price to correspond to the price paid by dairy plants to avoid a price war, which would be fatal for small plants and devastating for the large processors. For its part, the Nutrinor cooperative, in the Saguenay-Lac-Saint-Jean region, suggests a unique price in Quebec that would be set according to the maximum price of milk containing 2 per cent fat.

LTCN 2005-08-11

Progressive return to North American prices after embargo lift

More than three weeks after the reopening of the United States border to Canadian feeder calves and steers, Quebec producers are beginning to see a positive impact on prices. Between July 15th and August 5th, the price of steers jumped by \$2 per hundred pounds. As for feeder calves, the increase was \$10 per hundred pounds, which represents \$55 more for a 550-pound animal.

But in the United States, the effect was the opposite. In mid-July, expecting a flood of Canadian cattle, the price of steers on the futures market began to drop. Some American analysts are worried about cattle surpluses while their country has not yet recaptured its biggest beef exportation market in Japan.

However, the expected rush to the border did not happen. From July 24th to 30th, two weeks after the lift of the embargo, 4,435 Canadian beef cows crossed the border. This is a 60 per cent decrease compared to the weekly average shipment for the 1998-2002 period (12,000 heads per week). Many reasons explain the low volume of cattle shipments to the United States. The increase in the slaughtering capacity in Canada, coupled with the rise of the Canadian dollar and the increase of transportation costs compared to May 2003, is hindering trade. It should also be pointed out that over the last two years, many cattle carriers have switched to other sectors.

Something positive for Quebec

Even if Quebec is not a big exporter of steers and feeder calves, the freeing up of the Canadian market did some good. "The price of steer and feeder calf no longer depends on the Canadian market. The gap with the American price should decrease progressively and return to a normal level," said Ann Fornassier, economist at the *Fédération des producteurs de boeuf du Quebec*. This gap depends on many factors, including the time

of year and the province. “In Quebec, the sale price was very similar to that in the United States,” declared Fornassier.

While beef cattle producers are seeing the light at the end of the tunnel, the dairy genetics sector is still waiting for good news. The sale of dairy heifers to the United States was a great part of our market,” stated Fornassier. Cull cows are also on the sideline. Despite an embargo still in effect, the price of cull cows has improved slightly. This situation results from a decrease in the supply of cows during the summer season.

LTCN 2005-08-11

Farm income in 2004: some relief for tired producers

Farm cash income reached a “record level” of 6.3 billion dollars in 2004 according to the report on bio-food activities in Quebec, which was published on July 21st by MAPAQ.

This 5.7 percent increase in comparison to 2003 comes primarily from an income increase of \$378 millions, notably in the pork (+27.7 per cent), poultry (5.4 per cent) and dairy (3.7 per cent) sectors. The beef sector, which had to deal with the mad cow crisis, had a decrease of 6 per cent. There was also a decrease of \$40 million in the payments of income assistance programs.

These good results allowed the total net revenue, what is left after the operating expenses and by taking into account factors such as amortization, home-consumed products and stock variations, to reach \$878 million. This represents a 38.5 per cent increase compared to 2003. “This means that everything went well overall in 2004 despite the mad cow crisis,” declared Sami Ben Saha, from the ministry’s branch of economic studies.

The data of the MAPAQ report is essentially taken from Statistics Canada’s report on agriculture for the month of May. The fact of highlighting the “record” level of farm cash income, a headline taken by most media this summer, angered quite a few people in the agricultural sector where the situation remains worrisome, even if there has been some improvement. According to Statistics Canada, farmers’ net income remains slightly below the historical average of \$1.3 billion, despite an increase of \$224 millions in 2004.

Worrisome situation

“We must admit that 2004 was a better year than 2003, when the majority of the large sectors were affected and when we were right in the middle of the mad cow crisis. However, there are still cash flow problems as operating expenses continue to increase,” stated Gilbert Lavoie, senior economist at the UPA. Lavoie pointed out that farming operations had to expand, thus going into debt, over the last ten years to maintain their family income level. “The capital level needed to obtain one dollar of income went from 3.5 to 5 dollars,” he explained.

“We can feel some change. After the 2002-2003 crises, the year 2004 brought some relief to producers. However, the situation remains worrisome as far as debts are concerned, thus making some farms vulnerable to a possible price or interest rate variation.

According to the last financial survey of farms, which dates back to December 2004, the assets of Quebec farming operations increased by more than nine per cent between 2001 and 2004 while the liabilities increased by nearly 23 per cent.

LTCN 2005-08-04

The agreement is signed on food wheat

Producer and industry representatives met on Tuesday, July 26th, to sign the agreement for the cooperative selling of food wheat in Quebec.

They finally agreed on the last issue that had not been solved, which were the service charge rates that will be included in the agreement. Contrary to what was expected, it was not necessary to use the conciliation services of the *Régie des marchés agricoles du Québec* to reach a consensus. The parties decided to go ahead with the signing on the day that was chosen for this conciliation.

According to Denis Couture, President of the *Fédération des producteurs de cultures commerciales du Québec*, everyone is a winner with this agreement that will finally allow wheat producers to take back their place on the market. "What was bothering us the most at the Federation was that we were unable to produce wheat to feed the population," Couture declared. The federation's president believes that the production of food wheat could reach 200,000 tonnes in the coming years. According to him, the integration of this crop in rotation with corn and soya will provide a better image of commercial crops to environmentalists and the public at large.

Laurent Bousquet, from the *Coop fédérée*, said he hoped that the production of food wheat will be multiplied ten fold. "There is also a lot of synergy to create around cultivars that were developed in Quebec in this production and the opportunities offered to seed producers. The structure is already in place in grain production and we have to take advantage of it," he stated.

Pierre Dagenais, Vice-President of the *Association des négociants en céréales du Québec*, said he was pleased with the negotiations and that he is ready to work hand in hand with the partners. The same goes for Yvan Lacroix, of AQUINAQ, who was signatory of the agreement even if, according to him, his organization is not tied with the operations. "It is important for us to be there, even symbolically, to show our support," said Lacroix.

The Federation has sent to all Quebec grain centres the instructions for certification applications, which should have been submitted at the latest on July 27th, 2005. The list of accredited services centres was sent on August 4th.

LTCN 2005-08-04

Cash crop producers prepare for war on municipal taxation

The *Fédération des producteurs de cultures commerciales du Québec* wants a municipal taxation system that will take into account the economic value of land with a ceiling on the taxable value. The Federation is supporting the action plan adopted by the UPA General Council as was defined last June.

One of the Federation's favourite means consists of banning access to motorized off-road vehicles using farmland. "We are currently doing an inventory of all the major trails, region by region, and ensuring that producers whose land is used for these trails are ready to proceed with us," declared Denis Couture, president of the Federation.

In a press release issued on July 11th, the Federation said that the purpose of this pressure tactic is to legally bring the authorities to define a viable reform for farming operations. The Federation believes that in spite of the fact that the MAPAQ has corrected the administrative weaknesses of the property and school tax reimbursement program, the reform of municipal taxation has not yet begun. "The agricultural world feels excluded from the current negotiations on municipal taxation," stated the press release.

LTCN 2005-08-04

The CFA and producers are asking for a true partnership

Agricultural producers from across Canada are asking for a true partnership within a modified Agricultural Policy Framework.

This was one of the conclusions reached at the Canadian Federation of Agriculture's semi-annual meeting held last week in Winnipeg, Manitoba.

Laurent Pellerin, President of the UPA and 1st Vice-President of the Federation, stated that agricultural producers from across the country are more determined than ever to obtain modifications to the Agricultural Policy Framework.

"There is unanimity with all Canadian producers. A modified Policy Framework must lead to a true partnership with producers. We want some kind of Canadian Farm Bill. If we do not obtain one from the government, we will prepare one ourselves," declared Pellerin.

This request could not be made directly to the Canadian Minister of Agriculture, Andy Mitchell, for the simple reason that he did not deem it necessary to attend the Federation's meeting. Wayne Easter, parliamentary secretary of the Minister, was also absent.

"He would have liked to be there, but the Minister had to attend other events in his county," explained Elizabeth Whitting, Mitchell's press secretary. She added that Wayne Easter was away on a trip and that the Minister was represented by a senior official, Charles Catlin. She also mentioned that Minister Mitchell attended the Federation's

annual meeting last February. “The Minister meets with Bob Friesen, the president of the Federation, every month,” she declared.

Along with the Policy Framework, Laurent Pellerin points out that the members of the Canadian Federation of Agriculture are also requesting the establishment of a fair price for agricultural products.

“The Policy Framework is closely tied with producers’ income. We are constantly being asked for more, especially regarding the environment, so we will need collective involvement to help us,” he said.

Laurent Pellerin also stated that the Federation has two new members, the Canadian Wheat Board and the Saskatchewan Seed Grain Producers. “For those who had doubts about the representativeness of the Federation, we are increasing the number of members,” he stated.

LTCN 2005-08-04

Closing of Smurfit-Stone mill has devastating impact

All the residents of the Chaleur Bay region in the Gaspé will be affected by the recent closure of the Smurfit-Stone paperboard mill in New Richmond. The company has already sent psychologists to support the former workers hit by the decision. In the coming days, the councillors of the city of New Richmond accompanied by Nathalie Normandeau, Minister of Municipal Affairs and Regions, will meet the top executives of the American multinational company to find out more about the immediate future of the workers and of the mill.

One thing is for certain, the workers have not given up and want their kraft board mill to start operations again. The question remains: is Smurfit-Stone ready to sell its New Richmond facilities to manufacture the same kind of product elsewhere, even though it is closing its mill due to a decreasing demand in Eastern America?

It is hard not to see a connection with the Gaspesia plant. Many remember the mess that ensued when Abitibi sold its Chandler plant and prevented the buyers from getting involved in the newsprint paper sector.

Quite shaken by the closing of the cardboard plant, Minister Normandeau and the mayor of New Richmond, Nicole Appleby, reacted to the decision by saying they want to diversify the economy of the Chaleur Bay region.

“This news is a very hard blow for the company employees and for the New Richmond population. After Murdochville and Chandler, here is more bad news. I did not believe it at first,” declared Minister Normandeau.

A relatively good performing plant and equipment in good shape was not enough to save the mill. “Globalization and the competition from Asian markets got the better of the mill,” said the Minister to explain the closure.

The closure of the Smurfit-Stone plant will have a dramatic impact on the social-economic fabric of the Chaleur Bay region. The annual total payroll of the 295

employees was \$25 million. New Richmond was counting on taxes of more than one million dollars per year, which is 20 per cent of its budget.

The economic benefits for the overall region (from Paspédiac to Nouvelle) are estimated at more than \$50 million annually for more than 1000 direct or indirect jobs. Only a few days after the closing, some business owners were planning cuts in their small to medium-size enterprises.

Lumber producers

“This closure will certainly have a significant impact on the Gaspé lumber producers. But it is hard to evaluate. We do not directly supply the New Richmond Stone plant, but we sell lumber to sawmills that sell their sawdust, woodchips and shavings to the paperboard mill,” declared Jean-Pierre Rivière, director-general of the *Syndicat des producteurs de bois de la Gaspésie*.

The mill needed between 300,000 to 350,000 tonnes of woodchips, sawdust and shavings annually to make cardboard. It is estimated that 70 per cent of the sawdust and shavings used by the mill came from sawmills in the Gaspé region. The decision to close the paperboard mill will also have a short-term impact in the transportation industry.

According to Rivière, the Uniboard paperboard mill in Sayabec, in the Matapédia Valley, represents the only market for sawdust and shavings. It should be pointed out that lumber producers from the Gaspé have stopped supplying the Matapédia Valley mill since July 25th because of the closure of one shift.

“The closure of the Smurfit-Stone mill does not put our sawmill in jeopardy, but it makes it more vulnerable. It is more complicated to find buyers for sawdust and shavings than for woodchips. The sale of woodchips represented 25 per cent of the sawmill’s revenue”, stated Alain Tremblay, Director-General of the *Scierie de Saint-Elzéar*.

Tembec in Matane represents the safest outlet for this raw material, but profitability will be affected, as there will be additional costs. “This will have a short-term impact on shavings and sawdust. We will be quite limited, but we will find clients in the medium-term,” stated Tremblay. Uniboard in Sayabec remains the target to sell these products. Regarding the possibility that work will resume at the New Richmond paperboard mill, Tremblay sees only two possibilities: the purchase by Domtar or Cascades or even some companies from China.

Diversification plan

The mayor of New Richmond, Nicole Appleby, is affected by the closure, but nevertheless sees the future with certain optimism. She stated that for the last three years the city has had an economic diversification plan so that the regional economy does not rely on a single enterprise. “We now have a head start thanks to our plan,” Appleby said. According to the mayor, everything is in place to attract companies in the city’s industrial park. “We will not be able to solve all the problems overnight because the situation is dramatic. However, we must not panic. We have to ensure that the Smurfit-Stone employees leave with the best conditions. We have to ensure the population that everything is in place to diversify our economy.” The Mayor is relying mostly on the development of ligneous fibre and windmills.

LTCN 2005-08-11

\$55 million for the beef sector

Following the update of the specialized workers' salary (SOS), the *Financière agricole du Québec* will pay \$55 million to cattle breeders as part of the Farm Income Stabilization Insurance (FISI) program. For the beef steer sector, this modification of the SOS translates into an additional \$2.1 million (\$9.63/beef steer), which will be added to the \$24.6 million already budgeted. The first compensation advance payment for 2005 represents a net payment of \$29 per steer. The intervention amount for 2005 is \$72 per head after deduction of the contribution. For milk-fed and grain-fed calf producers, the update of the SOS will provide \$10.63 and \$13.63 respectively per head. The intervention amount for 2005 is \$142 per milk-fed calf and \$77 per grain-fed calf, after the contribution is deducted. FISI is used to fill the difference between the stabilized income and the average price of the market.

LTCN 2005-08-11