Industry in Turmoil:
Report on the Long Term Stabilization of the Beef Industry in Canada

The Standing Senate Committee on Agriculture

The Honourable Herbert O. Sparrow
Chairman

June 1982

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IN MEMORIAM

HONOURABLE SENATOR HARRY W. HAYS, P.C.

This study is dedicated to the Hon. Senator Harry W. Hays, P.C., who spent his life in the service of agriculture. Elected to the House of Commons in 1963, he was Minister of Agriculture for Canada from 1963 to 1966. In his term as minister the policy for entry of the exotic breeds of cattle to Canada was established, as was the new classification for show ring standards. The display herds at the Central Experimental Farm in Ottawa were put in place, and the groundwork for the later introduction of the Canadian Dairy Commission and Canfarm was completed. He was one of the first and most successful promoters and exporters of Canadian breeds of livestock. As a rancher he developed the Hays' Converter breed of beef cattle. He was chairman of the Standing Senate Committee on Agriculture from May, 1980, until his death in May, 1982.

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ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Wednesday, 28th of May, 1980:

"With leave of the Senate,

The Honourable Senator Frith for the Honourable Senator Hays, P.C., moved, seconded by the Honourable Senator Petten:

That the Standing Senate Committee on Agriculture be authorized to examine and report upon any aspect of the Canadian livestock industry;

That the papers and evidence received and taken on the subject of the Canadian beef industry in the Second, Third and Fourth Sessions of the Thirtieth Parliament be referred to the Committee; and

That the Committee, or any sub-committee so authorized by the Committee, may adjourn from place to place in Canada for the purpose of such examination.

The question being put on the motion, it was Resolved in the affirmative."

Robert Fortier

Clerk of the Senate

ACKNOWLEDGEMENTS

The Standing Senate Committee on Agriculture would like to acknowledge the contribution of the many persons who made this report possible.

The Committee would like to thank all of those who participated in the Committee's hearings throughout 1980-1982, and those who took the time to write to the Committee to express their views. This sort of willing public participation was essential to the development and production of the report.

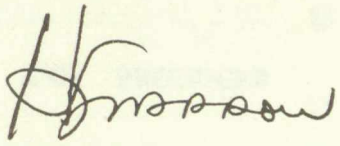
The Committee would also like to thank its consultants, Mr. S.B. Williams and Mr. Max Roytenberg. Mr. Williams' knowledge of Canadian agriculture and his good advice were invaluable. Mr. Roytenberg, of Roygold Marketing Systems, provided important data for the Committee to consider. The Committee's staff, Dr. Grant Carman, Ms. Sally Rutherford and Ms. Aileen Collins spent long hours putting the report into its final form. The Committee's Clerk, Mr. John Desmarais, provided assistance which was appreciated by the Committee and the staff alike. Finally, the Committee would like to thank all of the others who had a part in the production of the report but are too numerous to mention here.

FOREWORD

This is the second report which the Standing Senate Committee on Agriculture has published since it embarked on its inquiry into the beef industry in 1976. After the Committee released its first report, "Recognizing the Realities: A Beef Import Policy for Canada", the Committee undertook specifically to examine the marketing of beef. This present report is the result of two years of study during which the Committee held a lengthy series of hearings across the country and published a Working Paper to foster discussion about the serious problems which have plagued the industry for more than a decade.

The Committee hopes that the conclusions stated within the report will be helpful to the industry and the policy makers in search of means to make improvements in the beef industry in Canada. It is also hoped that the report will provide a starting point of discussion for Ministers of Agriculture when they meet early in July. At the time of release, beef prices are rising. As returns begin to cover costs, many interested people will consider that the industry's problems are in the process of disappearing. From the evidence given at the hearings, it is apparent to the Committee that price was not the only difficulty which the industry has to deal with. Many fundamental issues still require prompt attention.

The broader final paper, containing the rationale and an important overview of the state of the industry, is appended to provide background information to the report for interested readers.



Hon. Herbert O. Sparrow, *Chairman*
The Standing Senate Committee
on Agriculture

June, 1982

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INTRODUCTION

The plight of the Canadian beef producer, which prompted the Standing Senate Committee on Agriculture to begin its study of the beef industry in 1976, continues. In the past, financial hardship forced many long-established producers to sell their cow herds; in recent years it has led to an increasing number of farm bankruptcies. Heavy losses on the part of feeder operators in 1980 and 1981 have led to weaker feeder cattle prices in 1981 and in the first quarter of 1982. Beef producers in Canada have seen prices fall while costs of production have continually increased. Diminishing demand for beef over the past few years has aggravated the situation in the industry.

The unprecedented increases in retail beef prices in 1979, coupled with relatively low prices for competitive meats, had a drastic impact on consumer demand. The brief respite from depressed prices, which beef producers experienced in 1979, has given way to continuing depressed conditions in the beef industry over the last three years and while prices have risen again, there is little expectation that they will remain as high over the long-term. Financial hardship has been aggravated by soaring interest rates, which have forced some long-established producers into bankruptcy and many to the sale of their basic herds. Many feedlots, it they are not empty, are operating at a fraction of their capacity. Even if prices were to remain high, for many it would be a considerable period of time before even accumulated short-term debt could be paid off.

The absence of a long-term strategy, given the nature of the industry and the fact that its production cycle is counted in years

rather than in months as for other livestock and poultry, has had a serious effect on some producers. The conscious efforts of some provinces to redraw the industry's economic lines and ad hoc measures by others have contributed to an already chaotic situation.

Since 1976, when the Committee began its work, it has sought to moderate the impact of external market forces on the Canadian beef industry. This work played a role in the enactment in 1981 of the Meat Import Act. While the Act is a step forward, it is materially different from that proposed by the Committee in 1977. The new legislation provides the Minister of Agriculture with discretionary powers to control beef imports within the framework of our international commitments. While this legislation protects the beef industry from some extreme swings which can occur on the off-shore beef trade, the open border with the United States for live cattle which are not included in the Act leaves the Canadian beef industry vulnerable to negative price movements.

The division among producers on the success of the present marketing system, which was evident when the Committee held hearings in 1976, persists. While many of the industry's leaders continue to insist that the conditions of the past and present are essentially the product of temporary phenomena, and that the unaltered functioning of the existing market, aside from minor fine-tuning, can provide producers with a promising future, new voices have been raised to dispute this.

Many of those who have followed the advice of industry leaders in the past are now searching for new alternatives. Many others now recognize that efforts aimed at long-term stabilization of the industry are required. The focus of the Committee's work in recent years has been in this direction. After careful study, and after weighing the evidence presented at its hearings, members of the Committee remain convinced there is an urgent need to re-assess our policies as they affect the long-term stability of the industry.

As part of its continuing efforts to explore the alternatives for stabilizing the beef industry, in the fall of 1980 and the winter of 1981-1982 the Committee conducted an examination of the marketing systems of various commodities. Representations were

heard from various boards and agencies, including the Canadian Egg Marketing Agency, the Canadian Dairy Commission, the Alberta Pork Producers' Marketing Board, the Ontario Flue-Cured Tobacco Growers' Marketing Board, the Ontario Beef Exchange as well as from Agriculture Canada and representatives of Telidon.

Over the period of the beef inquiry the Committee has contracted with consultants to examine the structure and the operation of the beef industry. In the summer of 1981 the latest of these, a Working Paper entitled, "Alternative Marketing and Stabilization Programs for the Beef Industry in Canada" was released. This work was designed to identify the issues and to propose options for the industry as a means of encouraging discussion of producer and industry problems. Three printings of the Working Paper and the Executive Summary, about 6000 copies in total, were distributed first to Provincial Ministers of Agriculture and then to all other interested parties. The Committee followed up this distribution with public hearings to permit concerned and interested individuals and organizations to explore the issues and air their views as to the course of action the Government of Canada might follow in the existing circumstances.

Hearings were held across the country as follows:

PLACE	DATE
Lennoxville, Quebec	19 November 1981
Portage La Prairie, Manitoba	23 November 1981
North Battleford, Saskatchewan	24 November 1981
Yorkton, Saskatchewan	25 November 1981
Lethbridge, Alberta	26 November 1981
Edmonton, Alberta	30 November 1981
Kamloops, British Columbia	1 December 1981
Ottawa, Ontario	9 December 1981
Guelph, Ontario	1 February 1982
Moncton, New Brunswick	8 February 1982

In the course of its inquiry, the Committee has heard the views of producers, consumers, Provincial Ministers of Agriculture, Government officials, academics, business people and trade

officials. The Committee came away from the hearings with the sure knowledge of two things, first that the industry is in serious trouble and second while there is agreement that stability is a desirable objective, there is no agreement on solutions to the problems besetting the industry or indeed whether any are required.

Faced with these facts and the information gained from various studies, the Committee formulated two principles on the lines along which any conclusions should be made:[1]

1. Canada must have a strong and viable beef industry. The benefits this industry generates for all Canadians are significant. The lost revenues and unutilized resources resulting from a weakened beef industry would be a great economic and social cost to Canada.

2. Beef industry policy approaches must be flexible and developmental. This is necessary so as to provide a combination of approaches which encourage the improvement of the existing institutional framework, and measures which foster the long-term viability of the beef industry, in ways which achieve general acceptance on the part of beef producers.

Considering the significant differences of opinion among beef producers, the Committee did not see fit to force the issue. To polarize the industry further would not be to perform a service for it. Above all else, the Committee has concluded that before any significant and meaningful steps can be taken or programs implemented, there must be a considerably greater advance towards a consensus within the industry than exists presently.[1]

[1] At the time of publication the Committee was made aware by the Canadian Cattlemen's Association that most provincial governments had agreed to meet to discuss a national program for the beef industry. The Standing Senate Committee on Agriculture is encouraged by this action.

SUMMARY OF CONCLUSIONS

Short term assistance programs have been provided by most provinces and a federal plan should not be a duplication of provincial funding. Indeed, provincial programs now cover 99 per cent of the beef cattle population in Canada.

The Committee is strongly of the opinion that an immediate goal should be a national plan which would reduce those productivity distortions which tend to result from provincial programs of direct financial assistance.

As a long-term stabilization plan, at a level considered worthwhile by producers, would almost certainly be a production incentive for some producers, the Committee is not prepared to recommend the development of a stabilization plan that could result in over-production.

While the development of a stable export market is very desirable, it is unpredictable and can from time to time put at risk the domestic market. Therefore, the Committee believes that the importance of developing a stable, profitable and large domestic market should not be overridden by the desire to establish export markets.

Many of the concerns and problems presented by producers and other witnesses at the Committee's hearings revolved around the lack of a vehicle which has the mandate to deal with them. In response, the Committee recommends the establishment of a National Beef Producers Agency through an amendment to the Farm Products Marketing Agencies Act, made up principally of

producer representatives in close cooperation with provincial governments. It would not have price setting or quota granting powers but would act on behalf of producers in a coordinating, an informational and advisory role. The Committee notes that such an Agency could serve as the basis of a marketing board if producers should choose to take this step.

The mandate of the Agency would include:

—the collection, collation and coordination of data and general information about the beef industry in Canada;

—the investigation of improved price discovery mechanisms and systems for the improvement of market information;

—the examination of industry-producer matters such as the negotiation of grade price differentials and weight ranges;

—the monitoring and assessment of the impact of beef imports and exports;

—the investigation of forward contracting;

—the evaluation of the development of grading and livestock specifications;

—the development of a national beef promotion program;

—the consultation and coordination with existing red and white meat producer agencies and institutions; and

—acting in an advisory capacity in the coordination of federal and provincial government activities in the same fields of interest.

The Committee recommends that the Government of Canada investigate the advisability of establishing income averaging programs which would create a capital pool for beef operation financing at favourable interest rates.

CONCLUSIONS

Over the past decade, actions by governments in respect to the beef industry have been dominated by ad hoc solutions to domestic and international problems. Measures which have been implemented in the past have usually been short-term reactions rather than long-term solutions and have proven to be inadequate.

In recent years, individual provincial programs have been aimed at stimulating the beef industry, in areas of the country where economic forces have failed to provide a basis for beef industry development. These actions by individual provincial governments have placed great pressure on other provincial governments to establish similar programs within their borders. The competitive development of such programs by means of income insurance programs and by specific industry input subsidies, is placing the rational economic basis for beef production in Canada in jeopardy. Many producers feel that they require some protection from the violent instability which can be destructive of basic industry structure. Others are concerned about the possible production incentive nature of government intervention programs.

While producers are divided on the best solutions to such problems, many of them call for leadership on the part of the Government of Canada to provide the industry with long-term stability and to ensure its long-term viability. Producers seek the establishment of a comprehensive and well-understood policy so that they will have the assurance of its consistent application in the years to come.

The Committee recognizes that there are conflicting opinions. Some producers are concerned that government intervention could create an over-production incentive. Many others feel that some basic form of protection is immediately required to assure producers a return of their cash costs. Such an approach would be considered less attractive than current provincial plans to some

producers. This makes such a program unlikely to be acceptable to many producers and some provinces. A national program which could replace provincial programs could only be achieved through a marketing board. This option has been rejected by the majority of producer representatives.

In the context of the short-term, beef producers have asked that the Agricultural Stabilization Act be used to provide a 95 per cent support level. The Committee examined the desirability of increasing the support level for one year with the possibility of a change in the stabilization program for the future. The Committee concluded that the proliferation of provincial programs has significantly increased the level of producer returns, and that a federal plan should not be a duplication of provincial funding.

In the context of the longer term, it has been widely suggested to the Committee by producers and their organizations that a national program, which could provide basic cost of production protection, would be acceptable as a replacement for individual provincial programs and would be widely welcomed by producers. The solution suggested most often was a long-term income stabilization program, to be negotiated with provincial governments and producers. The Committee believes, nevertheless, that a continuing income stabilization program, at a level considered by producers to be worthwhile and appropriate, without some form of supply control, would almost certainly be a production incentive to some producers. Supply control as an option has been rejected by the majority of producer representatives.

As was elaborated many times at the Committee's hearings, the Canadian beef industry, considering its present configuration, its markets and its marketing system, is in an over-production situation. With rising prices in the second quarter, if past patterns of increasing production to take advantage of rising prices continue, then this problem will not quickly disappear. Any program that would perpetuate this condition would not serve the industry well. Therefore, the Committee is not prepared to recommend the institution of such a program which would result in over-production.

Witnesses expressed dissatisfaction with other aspects of the beef industry. Most witnesses shared in common the opinion that,

fragmented as the beef industry is, there is no vehicle with a mandate to deal with these aspects. A most important point is that there exists in Canada no national system of producer identification and representation which could discern issues and producer views and realize industry objectives. Certain other issues were presented to the Committee as being of great concern to producers. The marketing system of beef cattle in Canada has been a continuing source of concern and anxiety on the part of many beef producers, while others claim that many of the problems identified by the (McKenzie) Commission of Inquiry into the Marketing of Beef and Veal which reported in 1976, have been alleviated.

Nevertheless, the Committee agrees with those expressing continuing dissatisfaction with the functioning of the marketing system. In general, there appears to be a lack of market information for many small producers who collectively form an important source of beef supplies. Specific problems raised at the Committee's hearings were: the absence of price reporting for private treaty sales in most parts of Canada; such high costs in the marketing system associated with the public auction system that this approach to ensuring independent price discovery is becoming increasingly less useful to producers; great variations in prices offered for the same cattle in the market; packer discounting of railgraded carcasses is often inconsistent with established grades. On the positive side, innovations in technology are appearing and may hold the key to solutions to the problem of developing low-cost, efficient, and independent methods of price discovery. However, the scale of experimentation required for such technology to be readied for application on a regional or national basis will require significant investment and many years to evolve into practical alternatives.

Many producers expressed concern about the impact that the importation of live cattle into different regions of the country had on prices. Producers were not concerned about the overall numbers of live imports but about their concentration in short spaces of time. The fact that influxes of live slaughter cattle do significantly lower slaughter cattle prices and thereby lower already poor returns, caused producers to inquire into the possibility of regulatory action spreading live imports over time and thus minimizing the impact on price. This was not a new complaint. Indeed, this

Committee made recommendations concerning it in an earlier report.

The exclusion of live cattle from the Meat Import Act leaves the import trade in live cattle as unpredictable as the export trade in live cattle. While it is generally known that this unpredictability makes planning difficult and that it can have a detrimental effect on the market, there is little actual data on the impact of the trade in live cattle on pricing. In fact, there appears to be a lack of hard data, except in dollar terms, on the impact of the overall import-export trade on the beef industry in Canada.

The vulnerability of the Canadian beef market to sharp fluctuations in prices, resulting from changes in price and supply of competitive products, changes in the consumer's disposable income, the costs of production inputs, particularly feeds, is magnified by the relatively high price elasticity of demand for beef. Evidence presented at the hearings of the Committee spoke of the beneficial role which a central agency could play in exploring such mechanisms as forward contracting for producers on future markets, or for future delivery, thus providing stable or specific prices against which producers could agree to supply. The impact on market prices of such practices: a) in disposing of supplies during periods of expected heavy supplies; b) in contracting for longer term export sales, could be of great benefit to Canadian beef producers.

The Canadian grading system for beef is considered one of the most advanced in the world. The development of our beef industry depends on the aggressive development of our grading system. Uniformity and other requirements of electronic marketing, concern with regard to discounts within grades by packing houses, the absence of carcass indexing for beef as applied in the pork industry, the necessity for improved specification and, perhaps, grading in the marketing of feeder cattle, all point to the need for substantial work in the grading area on behalf of beef producers. Not the least of the questions in this area is the identification of a grading framework which would permit the marketing of heavy calves, with minimal finishing, directly into slaughter markets. Developments of this kind could improve Canadian beef production in competition with other sources of

meat, and could have important implications for the identification of genetic objectives for the industry. Such specifications and developments may also be important in improving Canadian competitiveness for that growing segment of Canadian domestic consumption which is being supplied by imported boneless beef. What is clear is that beef producers, as the major beneficiaries, have the greatest incentive to ensure that research and change occur as quickly as possible.

Canadian consumption of beef and veal reached a peak of 118 pounds per capita in 1976. Since that time, per capita consumption of beef has been drastically reduced.

Expressions of concern were voiced many times during the hearings, that beef is one of the few major agricultural products which has not benefitted from industry promotion and product development. In an industry which appears as diverse as the beef industry, it is very difficult to establish programs on an equitable basis. Yet the future of the beef industry may depend to an important degree on its successful development. While a start has been made, it may be years before sufficient support can be developed for such a necessary program. The situation is complicated by the separation between production areas and consumption areas and by the impact that such promotion could have on the potential expansion of imports.

With these issues and others in mind, the Committee has concluded that a National Beef Producers Agency should be established. This would be possible through an amendment to the Farm Products Marketing Agencies Act. The financing mechanisms provided under the Act could be used. The Agency could be made up principally of representatives of individual provincial producer agencies in close cooperation with provincial governments. The Agency would not have quota or price setting powers but would act on behalf of producers in a coordinating, informational and advisory role to the federal and provincial governments and to the beef industry in general. The mandate of such a body would be broad and would be concerned with identifying and investigating issues of interest to beef producers.

One of its important functions would be to collect and coordinate data and general information about the beef industry. For

example, a frequent observation by witnesses at the hearings was that more attention must be paid to improving breeding practices and to developing more efficient feeding practices. These two areas, and many others which are important to the understanding and the development of the industry, require a good knowledge of the present state of the industry. There is not presently a body which can undertake to gather the necessary information on behalf of producers. A National Beef Producers Agency, with a mandate to assemble the large body of available information and to undertake studies of benefit to the industry, could provide a valuable service. Specifically, the Committee believes that such a producer agency should investigate price discovery mechanisms and systems for the improvement of market information for the benefit of beef producers and the beef industry in general. It should also address itself to producer-industry matters such as negotiation on grade price differentials and weight ranges. It should investigate aspects of the industry, such as the effect of the import-export trade in both live cattle and beef, and should make recommendations to government about improving the position of the Canadian producer.

The role which a national producer agency could play in mobilizing opportunities for sale of the output of our beef producers, as a means of stabilizing the beef industry, also deserves serious investigation. Therefore, a Producers Agency should explore the forward contracting and sale of Canadian beef production in the domestic and export markets.

Given the concern of producers and the competitive changes noted above, it is important that an evaluation of the grading system should proceed as quickly as possible. Thus the Agency could expand into a continuing area of research.

In line with many presentations on the subject, the Committee believes that effective promotion of beef, with particular emphasis on product development, is important to the industry's welfare. A National Beef Producers Agency could be mandated to develop a national promotion program for beef.

The Committee recognizes that changes or improvements in the beef industry cannot be pursued in isolation from the rest of the meat industry. Although all red and white meat producers are

competitors for the consumer dollar, it is in the interest of both industries to share information and ideas and to support one another in the development of an efficient and competitive meat industry. The Committee, therefore, suggests that a National Beef Producers Agency work with existing red and white meat producers, agencies and institutions, in an attempt to resolve the problems challenging the industry, and to provide mechanisms for such changes as may be required by the meat industry as a whole.

Throughout the Committee's hearings, producer after producer stated that high interest rates were a major cause of their inability to make even the cost of production on their beef operation. Many producers also expressed the desire to have at their disposal a mechanism by which they would be able to defer taxable income and thereby even out their annual income and the tax to be paid. The nature of the beef cycle and its violent fluctuations can impact heavily on the taxation of beef producers. This is particularly so on account of the long-term investments required by beef producers in order to realize some profit from their enterprise. The impact of interest rate volatility, in destroying the viability of beef operations, which has been experienced over the last two years, underscores the continuing need beef producers have for fixed capital sources to finance beef finishing operations.

The Committee is concerned that the difficulties which Canada's tax system imposes on beef producers, be resolved in a way which will permit fixed rate financing of beef operations. Therefore, the Committee recommends that the Government of Canada consider the establishment of income averaging programs for beef producers. This could create a capital pool available for beef operation financing. Such a program could be administered by the Canadian Farm Credit Corporation, to avoid duplicated administrative costs in the provision of such loans for beef producers.

BACKGROUND PAPER

BACKGROUND PAPER

REVIEW OF THE BEEF INDUSTRY SITUATION

I. INDUSTRY STRUCTURE

A. PRODUCER LEVEL

The Canadian beef industry exhibits certain characteristics which affect its competitiveness on a continental basis.

1. SMALL SCALE PRODUCTION

While beef cow herds are of varying sizes, located where suitable grasslands exist across the country, the average size cow-calf herd is small. According to the 1976 Census data the average beef cow herd is 26.5 cows. Some 96 per cent of producers hold 100 cows or less totalling 75 per cent of total cow numbers.

The operating scale in feedlots is similar. Using steers over one year of age as an indication of feedlot activity some 97 per cent of Canadian operations held 100 steers or less, with such operators holding 60 per cent of steers. The remaining 3 per cent marketed 40 per cent of the steers. (In the West, the operating scale is larger.) Over 95 per cent of the cow-calf operations with over 100 head are located in Western Canada, with 55 per cent of the total in Alberta. The average size is closer to 30 (35 in Alberta). Most cattle are finished in "Commercial" feedlots (an estimated 70 per cent in Alberta and 60 per cent in Ontario). (See Tables 2 and 3.)

Based on the 1976 census, of a total of 164,000 farms, only 23,000 farms had beef cow herds of 50 or more. These farms, with 50 or more cows, had 2.2 million beef cows or about 50 per cent of a total of 4.5 million beef cows in Canada during the census year. These farms comprised less than 15 per cent of the total beef operations. Some observers feel that at least 200 cows are required for a full-time beef operation.

Considering the average of beef cow numbers per farm, it is clear that most beef producers are engaged in the industry as a side line to other farming or business activity. Many of these small scale producers are in the beef business, it is said, to use lands and resources that would not otherwise be utilized if the beef production alternative were not available. Some argue that many of these producers are also less vulnerable, as a consequence, to difficult market conditions in the industry.

2. CONCENTRATION OF PRODUCTION IN THE WEST

Table 4 shows cattle and calf production in Canada in the 1971-1981 period. The industry is characterized by a regional distribution of production. Some 80 per cent of beef cow herds are situated west of the Ontario/Manitoba border. This traditional distribution has not altered over many years, and although there has been a trend toward increased beef production in British Columbia and Quebec, beef industries there are relatively small. There has been an apparent change in the share of total slaughter by region, though in the more recent past, the East and West shared the beef industry on a roughly equal basis. Over the past ten years this appears to have shifted westward. Based on the latest data available, about 60 per cent of finished cattle originated in the West versus 40 per cent in the East. This implies that the movement of cattle from the West to the East, for finishing, has been reduced. (See Table 5.)

3. PRODUCTION SPECIALIZATION

The complete production process, which once took place on the farm, has now fragmented into cow-calf operations, backgrounding and feedlot operations. Cow-calf operations usually sell weaned calves to backgrounders or feedlot operators.

These animals are usually maintained until the Fall and sold at weights between 350 and 500 pounds. Producers who are ranchers, rather than mixed farm operators, may retain such animals and over-winter them on roughage.

Little or no grain inputs are made at this stage. With Summer grazing, such animals may be sold in the Fall as yearling feeders at between 600 and 800 pounds. When this function is performed by other than the cow-calf operator, the individual is a "backgrounder". If the producer has grain to market, he may supplement hay and summer grazing with grain, and market heavier finished animals. Often this activity is carried out by the feedlot operator, either on a custom basis, or on his own account after purchasing the animals of the cow-calf operator or the backgrounders.

These changes of ownership, which now characterize the beef industry, add substantial costs. Some believe that cow-calf operators should be encouraged to retain ownership of their animals until marketed as finished cattle. The current Saskatchewan Beef Stabilization Program is designed to encourage this by supporting returns for cattle finished in that province. At present about 27 per cent of the Canadian beef cow herd is located in Saskatchewan. Only about 8 per cent of steer and heifer slaughter takes place in this province.

4. THE NON-BEEF CATTLE SECTOR

A significant portion of Canada's domestic meat supply is a by-product of the Canadian dairy industry. Both cull cows and heifer calves from dairy herds which are not retained for breeding, as well as male calves, find their way into the marketplace. This is evident in Eastern Canada, particularly in Quebec. In 1980 Quebec marketed 6.2 per cent of slaughter cattle in Canada, 76.3 per cent are cows and bulls. Overall in Eastern Canada with 39.1 per cent of national marketings, cows and bulls account for 47.3 per cent while in Western Canada the corresponding percentages are 60.9 per cent and 52.6 per cent.

This element of the beef market has importance in the design of national programs for the beef industry. The importance of

this factor, and an indication of the degree to which beef and live cattle move from region to region, is expressed in Table 6.

Data from Table 5 clearly shows that the apparent shift in the share of slaughter numbers occuring over the past few decades between the East and the West, as noted earlier, has much to do with changes in the size of the Eastern dairy industry. The Eastern share of slaughter numbers of fed cattle (steers and heifers) has not been too far from 40 per cent, except for some years in the seventies, but has recently declined again.

B. THE PROCESSING LEVEL

The Canadian packing industry plays a crucial intermediary role between farmers and retailers, as aptly described in a 1974 study:

> "The Canadian meat industry can be regarded as the system linking the livestock producing agricultural sector with the retail food sector. The system includes the producers of livestock, the slaughtering and meat processing establishments, the retail outlets, and the consumer. The principal inputs into the system are livestock (cattle, calves, pigs, sheep and lambs) and the outputs include fresh, cured, smoked and canned meat, sausage, pharmaceutical ingredients, wool, fertilizer, etc. The supplying of meat, however, is the main activity of the industry, the main source of its revenue, and meat prices remain the principal determinants of livestock prices."[1]

The packing industry is currently concentrated in Western Canada. In line with the increased share of finished cattle, the Western share of total slaughter has risen to about 55 per cent. Excluding the effect of calves and cows, which is strongly influenced by the large Eastern dairy industry, the Western share of slaughter is well over 60 per cent. (See Table 5.)

The industry is dominated by corporate organizations, namely Canada Packers, Burns, Gainers and Intercontinental. The packing industry is characterized by a high level of concentration, and by vertical integration forward into wholesaling activ-

[1] *An Economic Model of the Canadian Red Meat System*, Peter Tryfos, Agricultural Economic Research Council of Canada., p.3.

ity. Fifteen processing facilities have closed since 1975, the last year when a sizable new facility was established. (See Tables 7 and 7-1.)

Two thirds of all large scale plants are owned by the four major packing chains, while independent packing firms hold all the small plants and most of the medium sized plants. While the four corporate chains have only 20 per cent of the plants, they probably have over 50 per cent of the total industry capacity.

Canada Packers is represented in all regions. Burns and Gainers are located in three provinces, with most of their plants in the West. Intercontinental is represented in two Western provinces. The number of plants has been reduced in recent years, particularly in British Columbia and Quebec.

Lower tariffs and higher transportation rates favour greater North/South movement, encouraging the shipping of live cattle South, for finishing, and the import to the East of beef cuts and perhaps of carcasses. These developments could aggravate the trend to by-passing the Canadian processing system. However, these forces could also encourage attempts to offset this tendency by increased imports of live cattle. Given the choice of imports which would place greater pressure on the producer prices, or further consolidations in the face of higher processing costs, it is evident a higher level of live imports would follow. While slaughter numbers have shown an upward tendency, this situation is not likely to encourage innovation in the system.

The marketing process for slaughter cattle has increasingly become a private treaty arrangement between beef producers and/or feedlot operators with packers. Not much more than 20 per cent of slaughter cattle sales now take place through terminal markets, and this percentage does not increase significantly if cattle sold to packers through country auctions are included. (Table 8.) Only prices determined at terminal markets are regularly reported by government. In Alberta only 10 per cent of the slaughter cattle are sold on this basis[2]. The Canadian Cattlemen's Association price reporting system, Canfax, is an attempt to supplement published information for members, by serving as a clearing house for price information related to private treaty arrangements and the results of sealed

[2] *A Comparative Analysis of Pricing Efficiency in Alternative Markets for Alberta Slaughter Cattle*, Dawson, Dau and Associates Ltd., October 1981.

bidding for cattle. While this system is asserted to be effective in Alberta, its use cannot be compared with a generalized information system. For the numerous small scale operators, the experience of marketing one's own cattle, as reported at the Committee hearings, often leads to a lack of confidence in the competitiveness of the market system. If the producer's animals are finished in custom feedlots, reliance must be placed on others to negotiate maximum producer returns.

Meanwhile, the packing industry itself has gone through serious adjustments. Particularly in the Prairies, livestock slaughter numbers through plants declined 14 per cent in Manitoba and Alberta, and 25 per cent in Saskatchewan in 1978 relative to 1977[3]. In 1979, the decline continued by 21 per cent, 11 per cent and 26 per cent respectively. During 1972 to 1979 plant capacity was reduced by almost 40 per cent.These closures were related primarily to reduced hog production, and to a lesser extent reduced cattle production.[4] In the East, expansion of the hog industry has acted to maintain a more efficient use of capacity, and has led to the maintenance of eastern cattle slaughter facilities. Maintaining Western facilities could depend on expanded markets for processed meats in the Western U.S. This is a market which will not be easy to access in the face of the larger U.S. plants with greater efficiency and lower cost and often with single product lines. In 1974 Canada had 12 plants handling 500,000 cwt. or more per year. In the U.S. in 1977, there were 150 plants specializing in steer/heifer slaughter, handling 50,000 cattle or more each year.

With this situation, and the growing Eastern capacity to process and package their own beef (e.g. boxed beef) and expanded production (beef kills in 1980 in Ontario and Quebec were up 7 per cent and 21 per cent respectively), there is concern that Western packing plants may decline to the level of regional suppliers. The rapidly increasing Western population is a small compensating factor. (Table 8.)

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[3] "Stability Overtakes Careening Meat Packers", Lorraine Froelich, *The Western Producer*, January 8, 1982, P. 26.

[4] It should be noted that reduced numbers of packing plants is a phenomenon present in the U.S. as well. Between 1970 and 1977, slaughter plants, processing slaughter steers and heifers fell in number by 27.2 per cent, primarily in the lower volume categories. *The Changing Structure of the Beef Packing Industry*, W.F. Williams, Tara Inc., Lubbox, Texas, P. 13.

The development of the Eastern boxed beef capacity, particularly on the part of some retailers, had the traditional supermarket objective of eliminating intermediaries, even at the cost of taking on substantial investment and intermediary functions. Lower Eastern labour costs, and the availability of fresh trimmings for hamburger, were compensating factors. While the continued transport of large amounts of fat and bone is a continuing industry cost, the highest market returns for such materials are also in the East. Above all, the development of retail processing facilities permitted the maintenance of control over meat quality[5], and it retained for supermarket organizations a greater degree of market power in cattle markets[6]. In the West, while this may not have been as necessary, owing to proximity and market influence and the generalized availability of Western boxed beef facilities, Safeway also maintained such facilities, but closed them in the late seventies after protracted labour difficulties.

The development of larger 60,000 pound rail cars, to transport carcass sides, enabled the railways to offer more favorable rates, per pound of carcass shipped. The market power of retailers enabled them to extract from the packers most of the gains from this economy (75/25), through rebates on the landed prices of carcasses shipped from Alberta to Montreal. This was the destination of many direct from the West purchases. These rebates have been the subject of much study and controversy, and have been considered by some a deduction from producer returns. In the view of others, if the savings had not been extracted by Montreal buyers, they would have been retained by the Packers[7].

For producers, the competitiveness of the industry in determining prices for their cattle output remains a matter of serious concern. Increased concentration, consolidation, undue reliance of the market information system on the pricing reports of terminal markets, arbitrary carcass discounting within the existing grading system, the impact of lot size on price, the anxiety that buyers may discriminate among sellers on grounds

[5] See testimony before the Standing Senate Committee on Agriculture, by J. Levine, then Executive J.P. Retailing Steinberg Ltd., Issue No. 5, March 7, 1978.

[6] See testimony before the Standing Senate Committee on Agriculture by Dr. G. MacEachern, then President of the Agricultural Economic Research Council of Canada, Issue No. 1, December 14, 1977.

[7] *Ibid* — Testimony before the Committee by J. Levine, of Steinberg Ltd., March 7, 1978.

other than cattle quality, all these issues remain to be satisfactorily resolved. Many producers, and some of their representatives, believe that the current system is an excellent one, which could always be improved. Others believe it should be reconstructed.

The charges laid, under the Combines Investigation Act, against certain packing companies in Alberta for alleged restraint of trade in the hog industry during the 1965-78 period, cannot be expected to alleviate producer anxiety.

C. THE RETAIL LEVEL

Five major chains dominate the retail food marketing in Canada, through their market penetration in Canada's urban centres. These corporate chains, Loblaws, Dominion, Canada Safeway, Provigo and Steinberg account for more than 60 per cent of the retail food sales, through less than 15 per cent of the retail outlets. Their influence extends even further through various corporate connections on the wholesaling side for Loblaws and Provigo, and on the manufacturing side on the part of all these organizations. Loblaws is predominant in Ontario but through its parent company, Weston, is involved in most areas of Canada. Dominion, at the present time, is located primarily in Ontario, Manitoba and the Maritimes. Canada Safeway dominates the retail industry in Western Canada and Northern Ontario. Steinberg has been the dominant retailer in the province of Quebec, with an important presence in Ontario and representation through small warehouse outlets as far West as Alberta. With the acquisition of Dominion outlets in the Province of Quebec in 1981, Provigo is now in a position to challenge this supremacy as a retailer, having already surpassed Steinberg in volume of total sales, including its volume as a wholesaler. (See Tables 9 and 10.)

The retail food trade has remained competitive in Eastern Canada, perhaps because substantial shares of business remain in the hands of independent operators (many of them organized into voluntary cooperatives). This competition, while it sometimes takes the form of other than price competition, has in a cyclical fashion been fiercely competitive from a pricing point of view as well. This description cannot be applied to the West, where Canada Safeway has been strongly dominant. A restraining agreement, resulting from charges under the Combines Investigation Act, with regard to Canada Safeway operations in

the province of Alberta, has led to some development on the part of competitive chains, but has led to little evidence of increased price competition.

Meat sales account for about 30 per cent of retail sales. Both Provigo and Steinberg currently function as meat wholesalers and processors for their outlets in Quebec and Ontario. Such facilities are also available to some voluntary groups[8]. The market power of retail purchasing transmitted through a concentrated packing industry is seen by some as an important factor affecting producer returns. While the hotel, restaurant and institutional trades have increased their share of the total beef sales[9], the impact of retail demand remains a primary factor in determining market price levels for beef in Canada.

Beef marketing has traditionally been a central factor in retail store promotion[9]. Corporate chains have used the pricing of particular beef cuts to attract customers through their weekly advertising. In the East, there is a tendency to price lower value cuts more competitively to achieve mass movement of beef through retail outlets. Beef pricing in general, however, has tended to make that commodity a lower margin promotion item compared with pork, poultry, lamb, etc...

More recently, there has been a substantial increase in the level of beef prices. To complicate matters, the recent introduction of metrification at the retail level requires the presentation of beef pricing on a kilogram basis. Both these factors have an important impact on the ability of retailers to use beef in a promotional way. Beef prices may now appear to be expensive for the traditional cuts, which are promoted based on their mass appeal. The shift in demand, away from beef, to other meats, while initially leading to heavier retail inventories, and heavy "specialing" to dispose of the product, may ultimately have had a negative effect on beef merchandising. Higher prices and lower demand may have shifted Eastern retailers away from the lower margin approach. If psychological pricing is no longer possible, and beef produces a smaller share of the retail business so that it is not a prime mover in attracting retail clientele, then shaving margins to achieve mass movement is no longer profitable. Full margins would then seem more appropriate. If

[8] Boeuf-Mérite for Metro.

[9] See testimony before the Standing Senate Committee on Agriculture, by Messrs. MacEachern and Levine as specified earlier.

attractive prices for pork make it a satisfactory promotional vehicle, then promotional monies taken from margins are likely to be concentrated on pork merchandising. In turn, if pork merchandising attracts clientele, then advertising emphasis is likely to shift toward the sale of pork. In spite of the traditional analysis which reflects consumer preference for beef, a shift in advertising emphasis by retailers away from beef merchandising may have further affected the demand for beef.

The beef industry has traditionally relied upon the retail industry to merchandise its product. It may be that this traditional situation will no longer be available to beef producers as a matter of course. As a consequence, it may be that beef producers should consider the promotion of their own product in competition with the promotion efforts of other commodities, which have faced the competition from beef in the past. If beef producers are to expect a continuing and growing share of the consumers' food dollar in Canada, then the beginning efforts which are now being made to advertise beef, may need significant further development.

Within the pricing boundaries set by the U.S. market, the market power of the large retailer purchasers does have an effect on producer returns. The large retailer purchases act through the concentrated packing industry, and their retail power tends to be transmitted directly and have a direct impact on producer returns. The impact of price determination in the Montreal market, owing to large direct purchasers of carcasses from Western plants, has been the subject of much controversy and study as an important factor in this mechanism. It has been suggested in some quarters that some special measures are required to enable the industry to resist retail market power, in ways which could lead to higher producer returns. Action on the part of packers, in this regard, would be an illegal restraint of trade. The only legal means available to counter retail market power in the meat industry, under existing legislation, would require institutional rearrangements at the producer level. The existence of provincial producer marketing agencies operating under existing provincial and federal legislation, could provide the opportunity for market modifications to counter retail market power.

D. INTERNATIONAL TRADE

Canada's international trade position in beef and other meats has always been a central factor in any discussion of the beef

industry stabilization arrangements. Canada's net trade position has been variable over the last ten years. Canada is normally on an export basis for live cattle, and on an import basis for beef. A recent analysis of the situation on a net basis is shown in Table 11. This data shows that Canada has been on a volume net deficit basis until recently. The recent positive balance appears to have continued into 1980 and 1981. This more recent shift to positive balances is also borne out in the same analysis of Canada's beef trade as shown in Table 12.

A somewhat different analysis in Table 12 focuses on the Canadian situation vis-à-vis the United States. The Canadian balance of trade, taking into account both live movement and beef in cattle equivalent terms, clearly shows the importance of the U.S. market. The positive balance of movement is sometimes in excess of 10 per cent of Canadian output of slaughter cattle. Examining the situation from the point of view of total trade (Table 13) shows a much more variable situation. While net exports, in volume terms, were important in 1979 and 1980, there are deficit years, and years when the net positive balance is less important, Table 14 shows net value balances, with the U.S. and the world, on these same bases.

Canadian imports show a tendency to be of higher value per unit than Canadian exports. We tend to import special cuts, finished cattle and boneless beef, while exporting breeder animals and cows, offal and lower value beef products. The terms of trade are usually not in favour of Canada. The net balance of the beef industry in terms of international trade has been negative on the average over the last ten years.

The recent negotiations with the U.S. have lowered mutual tariff and trade restrictions on beef, and beef products, to 1 cent per pound on live cattle and 2 cents per pound on beef and veal and 4 per cent on portion cuts. Increasing transportation rates from the West could make imports of U.S. live cattle and beef more interesting, but there is no clear indication at present that this might be occurring. Changes in U.S. grading regulations, now being discussed, which would lead to leaner cattle, would encourage such movement. Canadian live exports, aside from breeding stock, have been in the form of feeder cattle and cows, but dressed meat exports have increased to become as important in recent years.

The whole question of Canada's international trade in live cattle and beef is important in contemplating major changes in

Canada's long-term policy toward the beef industry. Canada has been successful in maintaining a significant level of movement of unfinished animals for further feeding in the United States. In spite of the higher cost Canadian system, Western producers have been willing to continue to produce relative to this market opportunity.

The returns indicate that this production process has not been satisfactory from an income point of view for most producers . As long as U.S. markets for such products are the determinant of producer returns, it is unlikely that this experience will achieve full cost recovery and a satisfactory return on the average over time.

The other element of live cattle exports has been the movement of slaughter cattle. This is made up principally of exports of cows, particularly when Canadian producers engage in herd reduction in response to market conditions. This movement is in evidence both in the East and in the West. The most recent year shows an increased movement above the recent low level of 1980, and this may show the effect of rising economic pressures on decreasing Canadian herds of beef cows.

Interesting and important, as well, are the quantitites of beef that are now being exported by Canada, particularly to the United States. This movement, which has in the most recent two years, been the equivalent of about 300,000 head (Table 12) has been rising since 1978. This movement may be related to the increased competitiveness which a lower Canadian exchange rate can provide. It has become a substantial outlet for the Canadian industry.

On the import side, Canada continues to face a vulnerability to the impact of substantial changes in the size of live cattle imports from a market point of view. This was in clear evidence in 1981 and in early 1982, when substantial volumes of animals crossed the border in response to Canadian market prices. Indeed, an analysis of price data indicates that during 1981 movement was maintained during periods when pricing comparisons indicate that such movement was less than profitable. It may have been that contractual obligations, or the continuing nature of the trading relationships, fostered continued movement during these periods. It could also be related to the fact that less than fully finished cattle according to American standards (and therefore discounted) could meet the A^1/A^2

designation in Canada, yielding as well as top grade Canadian cattle. Simple price comparisons could therefore be misleading. Such trading relationships continuing over a period of time may develop their own momentum. The 1981 experience has emphasized the Canadian market vulnerability to responsiveness, by Canadian buyers, to import opportunities. Indeed, Table 14 shows that in large part because of the influx of live cattle from the U.S., Canada is again in a deficit position in terms of value for 1981.

Canadian beef imports have declined dramatically from the levels of 1976. Movement in 1980 was the lowest since 1971. The movement from the United States of higher priced cuts, appears to have been effectively discouraged perhaps by changes in Canada's exchange rate.

These data indicate alternating periods of deficit and surplus in the value balance of trade. While these net value figures are not large in relation to Canadian trade, the size of movements in one direction or another has been substantial and represents up to 10 per cent or more of Canadian consumption. It is clear that they are of sufficient importance that they must be given serious consideration as part of the process of determining long run stabilization programs for the Canadian beef industry.[10]

[10] The Meat Import Act provides for maximum beef and veal imports based on the 1971-75 period. However, this is subject to a commitment signed in 1980 under G.A.T.T. for minimum access of 139.2 million pounds of beef and veal adjusted annually for changes in the Canadian population. The adjusted minimum figure for 1981 would be 141 million pounds. The total actual 1981 imports were 118 million pounds, although the provisions of the Act would have permitted entry of up to 160 million pounds.

The Act provided the Minister with discretionary powers on imports, subject to the limitation indicated above. While the legislation can protect the Canadian industry from extreme international instability, it excludes live cattle, and canned and cured products. It is not designed to address problems of income instability or continental beef price levels.

II. BEEF MARKETING, PRICING AND PRODUCER RETURNS

A. PRICE DISCOVERY

The fragmentation of beef production among many small producers, coupled with the concentration of the beef industry at the processing and retail level has created anxiety on the part of many observers regarding the reliability of existing price determination mechanisms to ensure maximized competition for the producer output and a fair return for producers. As the public auctions have increasingly given way to private treaty sales direct to packers, the many small scale producers must increasingly rely on intermediaries for their marketing. With close to 80 per cent of slaughter cattle now sold directly to packers, many producers have their output marketed by the operators of commercial feedlots. There is continuing concern that the prices established on public markets, which handle only 20 per cent of slaughter cattle volume, could be unreliable and could serve as a depressed price-setting indicator for the balance of beef marketings.

Such concerns were documented by investigations carried out by the Commission of Inquiry into Beef Marketing in Canada, which reported in February 1976. Serious inequities were identified in the prices producers received for their output.

Some people believe the current situation has improved from the producers' point of view. A recent study[11] supports this position in Alberta. Although size of lot was a negative factor in price, the study found most price variation, which occurred within grades between the Edmonton and Calgary market, could be explained by differences in carcass yield. The study also revealed that during the 1975-80 period, the proportion of

[11] *A Comparative Analysis of Pricing Efficiency in Alternative Markets for Alberta Slaughter Cattle*, prepared for the Alberta Cattle Commission by Dawson, Dau and Associates Ltd., October 1981.

inspected slaughter animals produced in Alberta, marketed through public yards (including out of province shipments), declined from 19 per cent to 10 per cent. However, the study did not deal with the relationship between these market prices and those paid for product delivered directly to packing plants. It would be interesting to learn whether for the majority of slaughter cattle there are large price variances relative to terminal markets based on lot size, and whether larger sellers receive higher than market established prices.

The public auction system has proved costly[12] and inconvenient, relative to the alternatives, and has encouraged direct sales to packers. The local auction system can also be costly, and has some inherent competitive problems owing to the fragmentation of supplies.

Only price determination at auctions held at terminal markets is regularly reported by government. Many feel these markets cannot be relied upon to provide maximization of competition. For the small scale operators, who are very numerous in the industry, marketing one's own cattle often leads to a lack of confidence in the marketing system. It was voiced a number of times during the Committee's hearings that many are convinced that poor bargaining power and insufficient market information leaves small producers at a serious disadvantage. Those who market through feedlots usually must rely on others to negotiate returns.

Experimentation is occurring in a number of places to devise a method which can function at low cost, meet system requirements, and enhance competition in beef markets. It derives from a body of research which indicate that the public auction system is relatively costly and that the technology is available to permit the industry to seek alternatives aside from the present private treaty system. Of particular concern in the movement through public stockyards and country auctions are the bruising, shrinkage, costs of handling and the costs of carry over, when animals are not sold the same day as they are brought to stockyards, or are held over from one day to the next for slaughter. Transportation costs, commission fees, yardage and

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[12] *Alternative Marketing and Stabilization Programs for the Beef Industry in Canada.* A working paper prepared for the Standing Senate Committee on Agriculture by Roygold Marketing Systems Ltd., July 1981, Table 40.

feeding costs all add up so that the final cost is many times that associated with direct marketing to packing plants.[13]

One of the alternatives being considered is a compulsory teletype system where by cattle would be sold by producer lots and cattle specification, on a Dutch auction bidding system, based on an A grade, with negotiated differentials for grade variation and railgrade settlement. Reduced costs would not likely be achieved without the compulsory feature because of the structure of the Canadian cattle production system, with its many small producers and their lack of bargaining power in dealing with packers and the need to achieve capacity facility usage to minimize costs. Advantages identified include:

1) Lower cost.
2) The pricing efficiency of railgrading.
3) Reduced packer carry over costs through designated delivery times.
4) Equal sales opportunity and increased competition.
5) Reduced transport costs.
6) Reduced marketing time.

Some of the disadvantages include:

1) Additional railgrading costs including producer lot identification.
2) The loss of access to two-way (potential feeder) cattle.
3) The loss of fixed capital in current auction systems.
4) Increased price variability in the absence of pooling.
5) Loss of freedom of marketing channel choice.

It was estimated that a compulsory teletype auction system would yield system costs equal to half those of the terminal market, two thirds of those of country auctions and about equal to those of direct to packer marketing.

Another idea, which has been explored, is the use of what is termed a simultaneous progressive auction[14]. This involves progressive bidding on all lots simultaneously rather than on

[13] *An Evaluation of Alternative Marketing Systems for Cattle in Canada*, unpublished background paper prepared for the Commission of Inquiry into the Marketing of Beef, 1976.

[14] "A Simultaneous Auction as a Marketing Tool for Slaughter Cattle", R. Raikes and L.W. Dippold, *Canadian Journal of Agriculture Economics*, 26(2) 1978.

individual lots. This becomes feasible with the availability of an electronic auction system managed on a regional and even national basis. Such a system would permit simultaneous bidding on a live weight or carcass basis, the market determination of grade differentials, multiple bids, associated with different order sizes at different locations. Such a system could be particularly appropriate for the specification selling of large lots of cattle by a national agency on a weekly auction basis. Sales would only be confirmed with such a system after auction closing. Lots would be sold to the highest bidders by railgrade at major locations based on quantities offered by producers at established prices. This auction system, while it cannot prevent collusion, reduces the effect of declining buyer interest as the auction progresses, and increases the supply risks involved in potential collusion. Such a system maximizes the number of buyers by permitting retailer bidding by specification for custom slaughter. This system permits sellers the option of delivery after the price is known, with subsequent allocation of supplies among high bidders.

Alternative selling methods for slaughter cattle, include a video listing service, as well as electronic auctions. (See Table 15.) The Ontario Beef Exchange[15], which was introduced in 1977, offers slaughter cattle on videotape to buyers. Information included is the seller's identity; and the location, live weights, sex, breeding background and feeding regime of the cattle. Buyers can decline sales offers, and cattle are moved directly to packers after being weighed en route on a third party scale. Cattle can be sold on a live or railgrade basis at the seller's option. Some packers have declined to participate in sales on the Exchange.

A study[16] of alternative marketing methods for slaughter cattle which examined this option concluded that if it were widely used this method would be slightly lower in cost than the direct to packer approach, and about 40 per cent of the cost of marketing through terminal markets. However, the lowest cost method was found to be the electronic teletype auction (Dutch-clock auction system, as developed by Dr. Larry Martin), which was about 35 per cent of the cost through country auctions.

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[15] See testimony before the Standing Senate Committee on Agriculture, April 17, 1981.

[16] *An Economic Comparison of Alternative Selling Methods of Slaughter Cattle in Ontario*, L. Martin, R.R. Richards, W.R. Usborne, University of Guelph, January 1979.

Extrapolations of the results of this study, in the Committee Working Paper[17] indicated that this type of system could have saved the industry, on a conservative basis, $21 million, and perhaps much more. The Working Paper points out that the major savings of such a system, from the producers point of view, could result from enhanced competition. The paper estimated that each 1 per cent increase in the producer returns from sales of slaughter cattle equals $25 million[18]. That producers benefit from such enhancement of competition, in the beef cattle market, is possible and has recently been underlined by charges brought against four meat packing plants in Western Canada, under the Combines Investigation Act, for allegedly "conspiring ... to prevent or lessen unduly competition in the trade of Alberta hogs or pork products",[19] between January 1, 1965 and December 31, 1978. The hog market has historically had a much more orderly marketing system than the beef industry.

The pricing efficiency of any marketing system is based on the extent to which it approaches the characteristics of perfect competition. These characteristics include:

1) Equal access of all sellers to all buyers and vice versa.
2) Buyers and sellers must have equal access to current market price information.
3) Participants must have equal bargaining power.
4) Participants should not be able to influence supply and demand artificially.

On balance, the electronic auction method satisfies these criteria to the greatest degree, although other methods satisfy some criteria as well as does this approach. However, there are operational considerations in using this method which remain to be dealt with. Not the least of these is the need for greater specificity within grades, and designations to permit more effective specification selling. There remains the problem of producer identification at the carcass stage if this method were to be used to sell slaughter cattle on a simultaneous auction

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[17] *Alternative Marketing and Stabilization Programs for the Beef Industry in Canada*, Table 40, and prepared for the Standing Senate Committee on Agriculture by Roygold Marketing Systems Ltd., July 1981.

[18] *Ibid*, page 95.

[19] "Four Meat Packers Hit with Federal Charges", *the Western Producer*, March 11, 1982, P. A3.

basis. There is also the need for developing parameters for trading of delivered product which proves to be outside the product designation of buyers. Management would be a crucial factor in the successful operation of such a system.

The technological feasibility of such a system is well established, although specific computer programs would have to be developed to meet the particular requirements of any regional or national electronic auction system. A presentation to the Committee by Infomart[20], the company developing the Telidon system, made clear that there was great interest in exploring the mechanics of such potential uses of the system. Technical feasibility was not a problem, and there was great eagerness to illustrate and develop potential uses. Expectations of sharply declining prices for remote computer terminals make this option increasingly feasible.

A proposal[21] for the establishment of a non-profit corporation to implement an electronic auction system in Ontario was also presented to the Committee. Essentially, according to the proposal, individual lots of at least 12 head would be auctioned by description through the corporation acting as the third party. Smaller lots would be offered on a commingled lot basis. Sales on a liveweight basis would be completed at a specified weighing point. Sales on a carcass weight or carcass weight and grade basis would take place at packing plants, approved under a beef cattle marketing act. Differentials for weight and grade would be established by a committee of the corporation, and adjusted as necessary. Selling fees would be made up of a listing and description fee and a selling commission. Current rules would apply for payment on a liveweight basis, with payment on a carcass basis within 48 hours. The fee would permit listing of "no sales" up to 3 times during six business days.

B. PRODUCER COSTS OF PRODUCTION AND RETURNS

Data available for 1975, provided in the Committee's report, indicated the cash cost of producing a feeder animal was

[20] See testimony by Infomart before the Standing Senate Committee on Agriculture, April 7, 1981.

[21] See testimony by the Ontario Beef Exchange before the Standing Senate Committee on Agriculture, April 7, 1981.

$4.56/cwt. cheaper in the U.S. than in Canada. In a comparison of cow-calf enterprises, it was estimated that production costs were $10.64/cwt. higher per calf in Canada.[22]

More current costs are available from generalized industry cost evaluations. Based on the data in Table 16, the production costs for slaughter steers in 1980 were about $86.00/cwt., or $2.00/cwt. higher in Western Canada, compared with the U.S. Corn Belt.[23]. However, approximations of costs made by the Saskatchewan Beef Stabilization Board, on a full cost recovery basis, are much higher. Allowing for only 55 per cent of non-cash costs, the support price was established at $87.00 per cwt.[24] On a full cost recovery basis, costs in early 1981 were estimated at $115.00 per cwt.

Examining the cow-calf situation, it appears that the reduced differential in costs for finished cattle production, between Western Canada and the U.S., may have been achieved at the expense of cow-calf operators through downward pressure on calf prices. Data from three studies carried out by Alberta Department of Agriculture are shown in Table 17.

1. CANADIAN PRODUCER RETURNS

The record of producer returns over the last ten years has been highly variable. Data prepared for the Canadian Cattlemen's Association shows positive net income flows in the beef industry of about $140 million per year, in current dollars, during the 1971-80 period, and about $160 million per year in 1976 dollars during this period.

Further calculations show that, on a per head basis, cow-calf operators averaged about $31 (current dollars) per head return in the East and $38 per head in the West during the 1971-80 period. Feedlot operators during this same period averaged about $10 per head in the East and about $4 per head in the West. (See Tables 18, 19 and 20.) Such returns appear insufficient to ensure long-term industry viability. This includes after cost return to labour input, risk and management.

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[22] *Recognizing the Realities:* A Beef Import Policy for Canada, The Standing Senate Committee on Agriculture, October 1977, Table XI and XII, P. 40-41.

[23] References: Broadwith Hughes and Associates; and *U.S. Livestock and Meat Situation.*

[24] *The Saskatchewan Beef Stabilization Plan*, published by the Minister of Agriculture, Government of Saskatchewan, 1981.

On this basis, (Canadian average $36.77 per head) producers with 50 cows would have earned less than $2000 per year over the ten years. Assuming an operation with 100 cows (only 4 per cent of beef operations have more) producers would have averaged an annual net return from cow-calf operations (72.25 feeder animals marketed per year) after allowance for calving rate (85 per cent) and herd replacement (15 per cent) of $2,650 per year over a ten year period.

It is recognized that these calculations are based on market value for operator-produced feed inputs and capital costs for producer equities. However, these costs express real opportunity alternatives for producers. These returns indicate that only very large operations could provide a labour and management return which might be considered satisfactory, relative to alternative income opportunities. It is true that for many producers using marginal land there is no real opportunity alternative.

The 1976 census showed that there were only 149 producers with herds of 500 or more cows, who might be expected on this basis to earn $15,000 per year or more from their labour and management in the beef enterprise. This group constitutes less than one tenth of one per cent of the total number of beef operations in existence at that time. The implication is that most of those engaged in beef production are likely to find returns unsatisfactory over the longer run. This environment is not one likely to encourage long-term use of production planning investment, or stock improvement, by most producers, nor to encourage the development of industry infrastructure.

2. THE IMPACT OF THE CONTINENTAL MARKET

Canadian beef producers operate within a continental framework. They are subject to the functioning of the beef cycle which is a primary factor in determination of the market prices for their industry output. It is the nature of the cycle that changes in consumer demand for beef reflect on processor demand for slaughter cattle. This finally reflects on the feedlot demand for calves and for feeder cattle. The characteristic of the beef cycle, exhibiting large swings in the

marketing system, creates income and industry instability which affects consumers as well as producers. Changes in supply and demand for competitive products like pork and poultry complicate the operation of this cycle. Other important factors, such as in the personal disposable income of consumers and producers feed costs and other costs of production in an inflationary environment, can also have a marked effect on the functioning of the cycle. It is suggested that the reaction of larger scale commercial producers tends to be more volatile and thus more important in price determination. These reactions are based on lower operating cost structures than those available to the vast majority of producers.

With all these complexities, and with a border more and more open to product movement, both continentally and internationally, producers face an increasingly difficult task in determining rational courses of action in the operation of their beef enterprises.

Indeed, while all these factors are important, they are probably, in many instances, irrelevant as determinants of beef prices. Considering how much larger the U.S. industry is than Canada's and that its impact on the Canadian industry is commensurate with this difference in size, it is possible to say that it is the operation of these factors in the United States which determines Canadian prices.[25] Canadian determinants have an impact on Canadian prices, within the range of costs created by tariff and transportation costs in both directions, given the U.S. price. As long as the Canadian price remains no higher than the U.S. price plus tariff and transportation, (plus an allowance for trim on fatter U.S. cattle, or conversely, minus the differential for less than U.S. choice cattle which can match the yield of Canadian A^1/A^2's, and a factor to allow for "friction" before buyers seek new market sources), the effect of Canadian conditions will not be cancelled out by imports from the U.S. Indeed, the impact of live cattle imports from the U.S., in early 1981, was an object lesson in this regard. The dollar impact is obvious from Table 14. Conversely, price declines for slaughter cattle in Canada

[25] *An Economic Model of the Canadian Red Meat System*, Peter Tryfos, published by the Agricultural Economic Research Council of Canada, 1974, P. 11.

could lead to exports of fat cattle to the U.S. which would strengthen the Canadian market when prices were lower than the tariff and transportation difference. Exchange rates must also be considered in determining these price ranges. Thus it is the scale and efficiency of U.S. producers, relative to conditions in the U.S. market, which determines the willingness of farmers in the U.S. to produce, and incidentally the range within which the Canadian market system will function. The price of slaughter cattle in Canada is directly linked to the supply and demand for cattle in the U.S. While prices in Canada can vary from those in the U.S., this variation is constrained by the effect of variable exchange rates, tariff or $1.00/cwt. and 1981 transportation and brokerage costs of about $6.00/cwt.[26] These latter costs have reportedly doubled since 1979.

The impact of Canadian imports from the U.S., which often equal up to 5 per cent of the Canadian production, compared with the negligible size of Canadian exports relative to U.S. production, is the basis for the direct relationship between slaughter prices. Table 21 and Figure I illustrate these relationships. Canadian prices averaged $1.51 (Cdn. $) higher than the Omaha price over the five year period. This compares with a five year average variance of $2.11 when the Committee's 1977 report was written. The price relationships have obviously become more closely linked since then. In Figure II are shown import movements of live cattle from the U.S. in 1980 and 1981 superimposed on a comparison of Toronto prices with landed Omaha prices.

While 1981 prices in Toronto clearly reflect insufficient returns to producers to cover costs, which was also the case in the U.S., they were driven down by live cattle movement from the United States.

If the U.S. production costs are lower than those in Canada, the direct relationship between U.S. prices and Canadian prices must eventually translate that economic reality into returns for Canadian producers. Since American producers,

[26] Brokerage and transportation costs Omaha-Toronto per cwt., annual average 1979: $3.00, 1980: $5.02, 1981: $6.04, 1982: $5.94 — Canfax, Canadian Cattlemen's Association.

with their lower cost structures, will tend to operate based on a cyclical pattern, which will differ from the Canadian situation, the Canadian market can become out of step with the U.S. market. This means that price increases are weakened and declines are aggravated in the Canadian market. It also means that eventually U.S. production costs, rather than conditions in this country, will dictate Canadian prices.

The concept of a pricing differential within which Canadian conditions apply, and outside of which U.S. conditions apply, has been well illustrated by Dr. Larry Martin.[27]

In Figure III the demand for product by Canadians is illustrated by the line DD'. Price P_{us} denotes the price of product in the U.S., P_{us} + tr is the U.S. price plus transfer cost from the U.S. to Canada (the import ceiling), and P_{us} − tr is the U.S. price minus transfer cost from Canada to the U.S. (the export floor). The latter two points on the price axis represent the limits of the range in which Canada's price will normally occur relative to that of the U.S.[28]

Thus, the range of possibilities for the Canadian market price at Toronto varies between $7.00 above the U.S. price ($1.00 duty, $6.00 brokerage and transportation costs from Omaha to Toronto)[29] to $7.00 below the U.S. price. As shown if the Omaha price were equal to 1980 cost of production in the Corn Belt States, that is $84.00, then the maximum Toronto price permitted by the import ceiling would be $91.00. Based on the relationships between the Toronto and Calgary markets for slaughter cattle, ($73.93 versus $80.00 for A^1/A^2 in 1981 and $74.59 versus $80.74 in 1980[30]) about $6.00, the maximum price possible in Calgary would be $85.00. This would be one dollar less than the estimated cost of production in the West, in 1980. From these prices marketing costs of $1.00 to $2.50 per cwt.[31] would have to be deducted and the

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[27] *Economic Intervention and Regulation in the Beef and Pork Sectors*, L. Martin, University of Guelph, Technical Report No. E/I 1, Economic Council of Canada and The Institute for Research on Public Policy, 1981, Figure 2.9, P. 26.

[28] *Ibid* — P. 25.

[29] This is not to say that all cattle coming into Toronto come from Omaha. For the sake of consistent costing, the terminal market is used as the base.

[30] *Livestock Market Review*, 1980 and 1981, Marketing and Economics Branch, Agriculture Canada.

[31] Table 22.

effect on producer average sales returns of a herd grade-out mix (with an 80/20 split and an average discount of $10.00 on cattle grading below A^1/A^2, the average returns are reduced by a further $2.00 per cwt.). This would mean a maximum farm price of $82.00, or $4.00 per cwt. below the average costs. Conversely, prices could fall by $14.00 below the cost level in Western Canada before the accessibility to the American market would dictate that the export floor would prevent any further declines in market prices in Canada.

In practice, over the last five years, prices in Toronto have averaged about $1.50 above the U.S. price. Based on this comparison (given the U.S. market prices at U.S. producers' cost in 1980) this would mean that producers in the West could expect to receive, on the average, a market price of $6.50 less than their cost of production.[32] During 1980 and 1981 the Omaha-Toronto differential averaged $2.59. This would improve the situation by about $1.00/cwt., or a figure below cost of $5.50 per cwt. Taking marketing costs and sales mix into account the Western producer's deficit, on the average, would be $8.50 per cwt.

The degree to which American markets permitted prices above the U.S. cost of production would dictate the degree to which producers might receive their costs, based on this example and on historical patterns. Given the Canadian market price determination mechanism, the U.S. price would have to be $8.50 above U.S. cost of production (using the 1980-81 price differential Omaha-Toronto), in the Corn Belt States, in Canadian dollar terms, (or about $6.50 U.S.) before producers in the West could expect to attain a market price equal to their average cost of production.[33] (Since the U.S.

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[32] $84 (Omaha choice steer average price) + $1.50 (average Toronto-Omaha differential) = $85.50 (Toronto A^1/A^2 price) — $6.00 (Toronto-Calgary differential) = $79.50 compared with 1980 production cost of $86.00.

[33] Actual A^1/A^2 prices at Toronto averaged $81.10 during 1980. On this basis Alberta feedlot operators, taking into account: 1) the Toronto-Calgary spread ($6.00) and the marketing cost (minimum $1 per cwt.) and grade-out mix ($2.00 per cwt.), actually averaged $72.00 per cwt. for steers, or $14.00 below average production costs for slaughter steers during 1980. In the East, based on available data the comparable farm cost figure ($82.02) would not have been attained by a margin of about $4.00 per cwt.

animals which did not grade U.S. Choice, could still match the Canadian A^1/A^2 Grade, and would be available for a lower price, the indicated differential may be too generous. It has been estimated that the differential could be lower by $3.00 per cwt. This could help explain the smaller actual spread which appears to be operative in reality.)

It is clear, of course, that any strengthening of the Canadian dollar would aggravate the situation for Western and Canadian producers. A 90 cent Canadian dollar would reduce Canadian returns by a further $5.00 per cwt.

It is the reality of this situation for Canadian beef producers which has prompted members of the Committee and many others in the beef industry to contemplate ways and means of insulating Canadian producers from their close links with developments in the U.S. market. It is clear that only when U.S. producers are earning returns substantially above their costs, that Canadian producers are likely to receive a return which could be profitable on the average. Also, in that increased scale and pressure for productivity gains, relative to alternative sources of protein, proceed more quickly in the U.S. than in Canada, Canadian producers will likely face a continuing return below their average cost of production.

3. GOVERNMENT INTERVENTION

Not surprisingly, there has been an increasing degree of government intervention in the beef industry, as in other areas of agriculture. It has occurred at the provincial as well as at the federal level. At the federal level, there have been a number of programs which have had the effect of altering the balance of economic forces operating in the industry.

a) FEDERAL GOVERNMENT POLICIES

1) CROW'S NEST PASS RATES FOR GRAIN

Statutory grain rates which were enshrined in 1925, and are currently being discussed for modification, have been thought to have the effect of encouraging the exportation

of grains rather than the utilization of such grains in Western Canada. During many of the past years this effect may have been more theoretical than real as a result of obstacles within the transportation system, which caused higher on-farm inventories, and led to domestic (Western) markets for grain not being closely related to price determination in export markets.[34] Nevertheless, as the grain distribution system has been improved and inventories of grains fell to manageable levels, the impact of the Crow's Nest Pass Rates increased feed costs to the livestock industry above those which they would otherwise be with cost-based transport rates. Current discussion regarding statutory grain rates are important in this context. While livestock producers are aware of the trade-off such a change requires the grain sector to make, it may have been overlooked by beef producers that, together with increased competitiveness versus U.S. fat cattle production, lower domestic grain prices can only increase the competitiveness of Western hog production, versus slaughter cattle. This is also likely to encourage increased pork supplies within the Canadian system.

2) FEED FREIGHT ASSISTANCE

It is clear that this program tends to improve the competitive position of beef producers in the provinces of British Columbia, Northern Ontario and Quebec, as well as in the Maritime provinces. The majority of the grain delivered under the program goes to British Columbia and Quebec. In both these provinces there has been an effort to increase beef production shares. However, since feed freight assistance is much more relevant to finishing operations, rather than cow-calf operations, and since beef finishing has tended, over the past ten years, to become increasingly concentrated in the West, rather than in the East, this element of government intervention does not appear to have been highly relevant. In any

[34] *The Anatomy of the Canadian Barley Market*, L.A. Malmberg, prepared for Alberta Department of Agriculture, July 1980.

event, it is quite possible that in the absence of feed freight assistance in the East, feed supplies could have been supplemented by increased production of Eastern corn, or imports of U.S. corn, with little net effect on the livestock picture.

3) THE AGRICULTURAL STABILIZATION ACT

Current legislation provides for stabilization payments to producers on a mandatory basis, should the average return fall below 90 per cent of the average market prices over the previous five years. This market price is adjusted by the difference between the present year's cost of production and the average of the cost of production in the previous five years including only cash costs. This formula has not resulted in any payments since 1976, when a payment based on a 95 per cent level of support was made.

From time to time there have been suggestions for modifications to the program. (See Table 22.) Since its amendment in 1975, to a five year base and a mandatory 90 per cent of the five year average, and a provision for allowance in changes in cash costs, except for hogs, there have been no payments for beef under the program on a mandatory basis. Opinion has grown, that the support basis is too low. Also, under the program support prices cannot be announced in advance and therefore its effectiveness is greatly reduced and some uncertainty remains. There are other perceived problems with the program. For example there is no mandatory arrangement for cow-calf operators, the basis of the industry. Again, many people feel that annual programs do not provide adequate protection and that shorter program periods are necessary. Also, although the Act provides for participatory producer financing of support above the minimum level, no procedure has been developed for such financing.

A number of ideas have been voiced, which have included:

—a shift to a guaranteed margin approach;

—provision for a participatory program by producers, or producers and provincial governments;

—the addition of beef/cow-calf to the list of mandatory commodities;

—the establishment of quarterly programs.

The implementation of such a program on a quarterly basis would involve the development of a support price based on quarterly cash costs plus average margins on a five year average basis. The support price relative to margin could be announced early in the operating year, and producers would be guaranteed that within the year they would receive a return on their labour, management and capital no less than their average return in the preceeding five years. The significant problem remains, as it does with the current program, that if beef producers have not achieved the margin in previous years, or only one which is very low, as appears to be the case from available data on returns, then such support would be of little assistance.

The elements in the Act which provide for producer participation above the mandatory level, remain to be investigated. The Committee heard from some individuals who proposed the implementation of a tripartite program, involving federal and provincial governments with producers, in the development of an income insurance program, which would replace the existing pattern of individual provincial programs and the Agricultural Stabilization Act.

b) PROVINCIAL GOVERNMENT INCOME ASSURANCE PROGRAMS

Provincial governments have reacted to the situation in the beef industry by developing some programs to assist producers within their jurisdiction. Many of these programs have taken the form of cash and loan arrangements which assist beginners and other beef producers in developing their enterprise. These programs are generally available with varying levels of generosity. Any program designed to

equalize producer opportunity across the country would have to be constructed in a way which takes into account the impact of such a program in reducing regional producer costs. Quebec, Saskatchewan, Alberta and British Columbia have been particularly generous in moderating market-determined costs of capital. There are other ways to assist producers, ranging from assistance in the development of water facilities for cattle, to the leasing and sale of government grazing lands at prices well below market value. All these elements alter the competitive position of beef producers from one province to another as well as within provinces and may render quoted cost figures inappropriate.

Of particular significance is the recent development of income insurance programs in British Columbia, Quebec, Saskatchewan and Manitoba. These programs provide beef producers, through deficiency payments, with an assured level of returns when prices are low. The programs have been matched by ad hoc payments in other provinces, such as those in Alberta, Ontario and Prince Edward Island. In the instance of Alberta, it has been hinted by government officials that such payments could be repeated. If this is the case, the Alberta intervention is likely to become part of a continuing program.[35]

The proliferation of provincial government programs may alter normal supply responses by beef producers and stimulate production regardless of market prices. This would tend to ensure generous supplies relative to Canadian demand, and a Canadian beef industry operating on an export basis for finished beef and which was more likely to be in a chronic loss position. For those producers in provinces whose treasuries could not compete, beef production would gradually cease to be feasible.

This course of events appears to be following a parallel course to that which has developed in the Canadian hog industry. There are at present income insurance programs for hogs in 8 out of 10 provinces. The resulting over-pro-

[35] See appendix A for details of plans and programs.

duction has placed the industry in a chronic loss condition and has aggravated the situation of beef producers, because of the competition from relatively low priced pork in consumer markets.

c) AGRICULTURAL CREDIT PROGRAMS

The nature of the beef enterprise, with its substantial lead times between production decisions and marketing, creates a significant dependency on the borrowing power of participants. Representations made to the Committee made clear the difficulties participants were facing in negotiating for the financing they required to carry on their business. For those who were successful in negotiating credit, the escalation in interest rates, which producers experienced in 1980 and 1981, created financial difficulties. Aside from programs offered by the Farm Credit Corporation and provincial credit programs, short-term credit, at high interest rates, was often all that was available.

Tables 23 and 24 give an indication of credit that has been available to beef producers through the F.C.C. In excess of $90 million was made available to about 1000 beef producers in 1980-1981.

A number of programs are offered at the provincial level, particularly focused on beginning producers. For example, in Quebec the Agricultural Credit Office will assist with borrowings up to $250,000. Interest rebates are provided for costs above 2.5 per cent on the first $15,000 and above 8 per cent on the next $135,000 ($185,000 for joint enterprises). In Alberta rebates from commercial rates of 2 per cent to 3 per cent are provided under certain conditions. In British Columbia, the Agricultural Credit Act provides for rebates above an annually established rate. (This was 12.4 per cent in 1980 and 18.2 per cent in 1981.) The rebate figure currently equals 1 per cent less than the average bank rates to a maximum benefit of $10,000. In Saskatchewan, the Farm Start Program provides for borrowing assistance for those with assets below $200,000. Grants of up to $8,000 are offered together with loans to a maximum of

$90,000 at 6 per cent for 5 years and 8 per cent for an additional 10 years. Additional bank guarantees are available up to $35,000. None of these programs focus on beef enterprises.

The recent income assurance program established in Saskatchewan has been criticized because, although it is designed to encourage the cow-calf operators to finish cattle in that province, no new credit or financing initiatives have been established to assist such operators in taking advantage of the program. It has been estimated by Alberta government officials that 70 per cent of cattle in feedlots in that province are being finished on a custom basis. Financing is crucial to these activities. A similar structure would be necessary in Saskatchewan for finishing to be done there.

The availability of additional sources of financing for beef producers, at fixed rates, over the life of the production cycle, was one of the issues stressed during the Committee hearings. The Canadian Cattlemen's Association advocates that increased funding be made available through the Farm Credit Corporation, and has suggested innovations modelled after Production Credit Associations in the U.S. Essentially, these proposals involve producer financial resources as a source of agricultural credit.

A study[36] regarding the feasibility of income averaging trust accounts was carried out for the Alberta Department of Agriculture in 1976. Based on this work, it was estimated that in excess of $370 million was potentially available for income averaging trust accounts. If such a vehicle were available to Canadian farmers, to finance agricultural activity, the main source of such funds in these calculations would be from the grain sector and from bank deposits of producers. Given that the scale of Alberta agriculture is roughly 20 per cent of Canadian agricultural activity, it is clear that well in excess of $1 billion might be available through their trust accounts. Such trust accounts would

[36] *Feasibility of an Income Averaging Trust Account*, prepared by Peat, Marwick & Partners, for the Alberta Department of Agriculture, March 1976.

enable farmers to put aside, and shelter from tax, portions of their income during profitable years for withdrawal during periods when returns did not prove to be as favourable. In return for sheltering such income from tax, farmers would agree to accept rates of return below those established on commercial markets. The funds would be made available as a credit source to other farmers on a short or medium term basis, at below commercial rates. Being independent from commercial market rates, these funds could be offered on a fixed basis for periods appropriate to the production cycles being financed.

The introduction of such a program could respond to the perceived need which many producers expressed to the Committee during its hearings, and which also was expressed to the House of Commons Agriculture Committee during its deliberations on the amendment of the Farm Credit Corporation Act.

A program for the sheltering of taxable income would require a modification in current government policy regarding the establishment of such accounts. Provisions of a similar nature were eliminated in the November 1981 budget.

III. SUMMARY

The relative position of the Canadian beef industry versus producers in the U.S. is crucial to an evaluation of policy options for the industry. If Canadian producer costs are inherently higher in Canada, yet U.S. costs tend to dictate Canadian prices, the Canadian beef industry will be under continuous external pressure. Indeed, given the historical pattern, Omaha prices at producer cost mean below cost returns for Canadian producers. This would eventually tend to lead to import displacement. The current exchange rate situation has no doubt ameliorated the industry's position and led to a buoyant level of exports of both live cattle and processed beef. However, this is likely to have occurred at levels below average costs of production in Western Canada. In 1980 and 1981, a price recovery dictated by Canadian conditions has been thwarted more than once by live cattle movement from the U.S., leaving Canadian beef producers in difficulty in the face of higher costs.

Even allowing for the generalized effect of depressed economic conditions on beef demand, it remains clear that for beef producers in Canada to have the assurance of receiving an equitable return for their product, increases are required in beef prices to producers. Even if Canadian producers should reduce the quantity of product they were willing to offer, this would not necessarily lead to an improvement in prices. Any improvement would depend on U.S. conditions in the livestock industry, if Canadian prices were at or near the import ceiling. Thus, the remedy for the distress which Canadian producers have been facing could lie outside the Canadian system. The losses which producers have been facing, and for which they have received some compensation in some provinces, can be a chronic combination of higher production costs in Canada and supply-demand conditions in the U.S. To the degree to which this is true, there is no solution as long as we retain an open border with the U.S.

Some longer term remedies have been advanced, including improved productivity and lower production costs for beef. Specifically, it has been suggested that producers pay more attention to the quality of their breeding stock. Another suggestion has been the improvement of the productivity of range lands and pastures. In these instances, the suggestions require higher initial cash costs (of production) even though ultimate costs may be lower. The current volatility of beef cattle prices, and the difficulty of projecting potential sales returns in a rational way, may make such suggestions seem impossible to beef producers. Indeed, for the tens of thousands of small scale producers such suggestions are financially unrealistic. A study of the industry has clearly indicated that the continued participation of many producers in the beef industry depends on the utilization of lands with little alternative use, and labour which might otherwise be unemployed or under-utilized.

Solving the productivity problem may be related to solving the price and supply instability problem. The obvious solution is for many producers to leave the beef industry to lower cost producers. The alternative of import controls can be safely implemented only by introducing a Canadian supply management system for beef, one which could be paid for from the marketplace. In the absence of such direct producer and government action, only costly income support systems can prevent numerous departures from the beef industry.

The Working Paper prepared for the Committee outlined a number of options[37] for implementing supply management systems to address the producer returns problem. Two of the options offered, the Dairy Commission model, and the producer agency model (the deficiency payment system), would minimize interference in the open market system operation. These models would permit market functioning to clear available supplies in the market, and minimize interference with cross-border trade movements. They would provide for import controls to be negotiated by the Government of Canada to ensure more orderly import movement, while allowing traditional export movement in both instances. This would also minimize interference with intercommodity competitiveness, for example, with pork. Producers could

[37] See Appendix B.

count on deficiencies in market returns, relative to costs of production plus a reasonable return, being made up in the first case by transfer payments from the treasury and in the latter case by charges against product moving through the marketplace. In both instances, quota controls would be required to ensure that a full cost recovery system for producers did not create an incentive to overproduction. In both instances, forecasts would be required of future domestic and traditional export market needs, so that national quotas could be established in as appropriate a way as possible.

The producer agency model described would provide for a central selling mechanism to ensure maximization of competitive bidding, equity among producers in the sale of their product, and a more equal bargaining between producers and other elements in the distribution chain. Such a national institution might also be in a position to develop forward contracting of product for export, and perhaps domestic use, based on private treaty arrangements with packers, producer or provincial participant bodies. Such a body could also investigate measures to encourage the genetic improvement of Canadian breeding stock, the development of more accurate specification in the feeder and slaughter cattle grading system, and the implementation of electronic marketing systems.

In the producer agency model it is suggested that costs of production be determined from a model representative of actual commercial production in the industry. It is also suggested that such models for production be established in each province, perhaps by type of operation. Using this approach, existing provincial programs, along with the Agricultural Stabilization Act, insofar as beef is concerned, would no longer be relevant. At the same time, specific provincial programs which assist beef producers would be taken into account in determining producers' actual costs of production.

Representations to the Committee indicated that, on balance, beef producers are not as yet prepared to consider the establishment of quota controls for the beef industry. Many believe that rigidities would be created for the industry which would damage the flexibility many producers believe they require. Academics have stressed the difficulties they foresee in projecting beef

demand, ensuring productivity advances and the avoidance of capitalization of producer benefits. It is assessed as more costly to consumers than stabilization programs. While many producers strongly believe a supply management program is required now, their numbers do not appear to equal the level of generalized support that the implementation of such a measure requires. Indeed, a specific supply management proposal[38] (which contained a participatory income assurance aspect), placed before the delegates of the Ontario Cattlemen's Association Annual Meeting in February 1982, did not receive majority support. It is clear that producers require familiarization with the ideas behind such proposals and their impact on their operations before they can consider them in a balanced and knowledgable manner.

Failing support for supply management measures, and a deferral of any measures which address underlying structural difficulties, and given generalized support for measures which provide Canadian beef producers with a reliable mechanism dispensing disaster relief, and which would be able to displace individual provincial programs, an income assurance program for beef producers appears to be called for.

Because the quota system is not acceptable, the levels of support cannot be those which provide production incentives. Since more established producers are less vulnerable owing to accumulated equity, eligibility limits should be relatively low and protection should be focused on cash costs. Under such a program monies for support cannot be derived from the marketplace. As many producers believe they should be directly involved in such programs, and maximum protection and cost identification requires the use of provincial production bases, a tripartite approach to covering the costs of such a program appears to be called for. The problem remains that the supplementary levels likely to be possible to ensure a nonincentive basis with such a program may not be widely acceptable to both producers and some provinces within the framework of a contributory program.

There are a number of other points to be considered. The federal government requires a national medium through which it might channel support and ensure consistency across the nation.

[38] See Appendix B.

Provincial governments require provincial bodies through which to channel their contributions and to ensure adaptation to provincial conditions.[39] The development of new legislation is a lengthy and time consuming process. One way of dealing with these elements which could be advantageous at the present time as well as for the future would be to establish a National Beef Producers Agency, operating under the Farm Products Marketing Agencies Act, without quota or pricing powers, to administer such a program. That would require an amendment to current legislation (perhaps initiated in the Senate). It would involve provincial agency representation with federal government appointees to ensure a consistent program across the country. An agency of this kind would also provide the framework for many other items on the beef industry agenda which require attention. Finally, such an institution would provide a framework for a continuing dialogue among producers regarding the shape of their industry, and become an unquestioned voice for the Canadian beef industry.

The potential of such a structure to ameliorate the operation of existing marketing systems can be drawn from a study which was made of the operation of the hog marketing system in Canada.[40] The provincial hog marketing boards which have been established discovered hog prices accurately, stabilized returns to producers and added efficiency and speed to the assembly and sale of hogs in the view of the author, Dr. Clay Gilson. The single desk selling features of most provincial boards were credited with reducing price fluctuation, by encouraging the more orderly flow of hogs through the market, with the use of daily and weekly price pooling. These boards have tended to reduce regional price differentials, provided producers with more equitable returns, and reduced the cost of selling and buying hogs. In the view of Dr. Gilson, hog board efficiencies were achieved at no cost to consumers.

Hog boards were successful in implementing domestic and export promotion and market development programs. Their major

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[39] This makes the direct use of the Agricultural Stabilization Act framework very difficult. However, provision under the Act might be adapted to permit federal participation in an income assurance program with producers through a National Producers Agency.

[40] *The Evolution of the Hog Marketing System in Canada*, C. Gilson, prepared for the Economic Council of Canada, 1982.

negative aspect is their tendency to compete one against another to the detriment of Canadian producers as a whole, but this can be no worse than the inherent regional competition which exists among producers across the country in the beef industry.

It is clear from this analysis that the establishment of a marketing agency structure, provincially, within a national framework, so as to permit the operation of a national income assurance program for the beef industry, could have substantial benefits for the industry by improving marketing systems and ensuring more orderly marketing.

APPENDICES

Appendix A: PROVINCIAL BEEF PROGRAMS

1. BRITISH COLUMBIA BEEF STABILIZATION PROGRAM

Initiated in 1976 the British Columbia plan is administered by government in cooperation with the British Columbia Federation of Agriculture; with the cost of the plan shared equally between the government and the producers;

—producers contributions equal 50 per cent of any loss, but since costs have never been achieved, no producer contributions have been made;

—producers are guaranteed their cost of production, including, fuel and feed, based on a model farm concept, payments are made quarterly;

—producers must have a minimum of 20 cows, with enrolment based on a rolling five-year average, based on the three categories of calves, yearlings and finishing animals up to a maximum of 481 animals;

—enrolment must be before September 30, and penalties are imposed on those leaving the plan and re-entering at a later date;

—producers received the following compensation in 1981: $63 for calves; $44 for yearlings; $30 for finished cattle.

2. QUEBEC INCOME STABILIZATION PROGRAM

Also initiated in 1976, the 1981 plan is administered by the government in consultation with the Union des producteurs agricoles and the Fédération des producteurs de bovins du Québec, with costs shared on a one-third to two-thirds basis between producers and government;

—producers are guaranteed full cost of production based on a model farm, including a return on labour of 62 per cent based on 90 per cent of the average skilled workers wages, indexed to the cost of living;

—producers must have at least 10 feeder calves, and can enrol up to a maximum of 500 feeder calves per participant;

—for finished cattle the average price is based on a weighted average for A, B, and C grade cattle sold in Quebec, and all animals under the program must be sold in Quebec;

—producers must enrol by April 30th, and enter the program on a five year basis;

—producers at present pay a basic enrolment fee of $6.50 per feeder calf, multiplied by the number of production cycles proposed, with a total fee from feeder calf to finished animal of $10.00;

—payments are made annually and producers are expected to receive a compensation of $19.00 per cwt., or $71.25 per head for 1981.

3. SASKATCHEWAN BEEF STABILIZATION PROGRAM

Commencing on January 1, 1982, the Saskatchewan plan has a government appointed board, with the stabilization fund financed equally by the government and the producers, to be maintained on an actuarily sound basis, guaranteed by the province;

—producer contributions equal 4 per cent of gross sales and are guaranteed 100 per cent of cash costs, and 55 per cent of capital costs;

—payments are made quarterly, commencing January 1, 1982;

—producers must have a minimum of 10 cows, and can market up to 200 animals, plus 500 feeder, which must be maintained for at least 120 days before sale;

—enrolment is for six years, and any producer dropping out would not be eligible to rejoin for three years;

—costs will be evaluated on the basis of a beef production model to be determined by the stabilization plan;

—numbers eligible may be increased up to three times the present limits, based on the number of producers involved;

—costs will exceed $10 million in the first quarter, and 120,000 head have been enrolled.

4. MANITOBA BEEF STABILIZATION PLAN

A program similar to that of Saskatchewan was announced in Manitoba on April 1st, 1982. While no levels of support have been established, the plan

—gave an immediate grant of $50.00 per cow;

—appointed a producer committee to establish the responsibilities of a marketing commission for the plan.

Basic features of the plan will likely include:

—a government marketing commission which will begin operations in October 1982;

—a voluntary plan available to cow-calf producers who market animals in the province;

—producers must enrol for a six year period, with the funding shared by the province at 2 per cent of the gross sales value of market animals, with producer contributions varying between 4 per cent and 8 per cent;

—participating producers will market all slaughter cattle through the commission;

—in addition, up to $17,500,000 in grants and $24,000,000 in loans will be made available to producers.

5. OTHER PROVINCIAL BEEF PROGRAMS

In addition to these long-term programs, some other provinces have introduced interim assistance during 1981.

ALBERTA

Grants to offset producer losses over the previous 15 months were introduced in Alberta late in 1981. The program:

—paid $50.00 per head for bred cows and replacment heifers;

—paid $4.00 per cwt. on all feeders kept a minimum of 150 days and slaughter cattle and calves kept at least 60 days;

—included cattle sold between December 1, 1980 and November 3, 1981;

—the balance of the program was for sheep and lamb, with the total cost estimated to be $148 million.

ONTARIO

The Ontario government made a grant of $40.00 for all eligible cattle including those owned and feed for at least 60 days in 1980 in grading A, B and C. In addition there is a grant of $20.00 per head for animals purchased as calves, fed in Ontario for at least 120 days, and sold at a weight of at least 600 pounds. A minimum of 10 animals sold was needed to qualify. The cost of this program was estimated to be $28 million.

As well, a $20 million fund was established to provide cow-calf producers with $40.00 for cows producing calves in 1981.

PRINCE EDWARD ISLAND

The province of Prince Edward Island introduced a program which paid producers $40.00 per head of slaughter cattle up to 75 animals, and $20.00 per head in excess of this number.

Appendix B — SUMMARY OF THE PROGRAMS PRESENTED IN THE WORKING PAPER "ALTERNATIVE MARKETING AND STABILIZATION PROGRAMS FOR THE BEEF INDUSTRY IN CANADA".

1. THE CANADIAN WHEAT BOARD MODEL

This model envisages an orderly marketing system with a minimum of intervention in market functioning. The Federal Government would establish a national body, with federally-appointed persons to administer the program of central marketing, with advice from producers. There would be a compulsory auction system, using electronic facilities. Buyers would bid by the Dutch Auction method, by major grade and sex, the highest bid would establish the price, and quantities tendered at that price. There would be standard discounts for various grades. Supplementary quantities would be offered at the established prices.

Producer registration and animal identification would be required. There would be regional assembly of product and shipping to buyers as directed by the agency's local and regional officers. Producers would receive the weekly average price by grade, or sales group, less transport and administration charges.

This system would permit bidding on each regional market, at the same time, from any major city. The model could be extended to feeder cattle.

Gross estimates of net industry savings equal $20 million per annum, but this figure could be doubled. Enhanced competition could equal or exceed these estimates.

There could be intervention by the new body in order to improve market results.

Quota controls are not envisaged. On the other hand, the registration of producers and the computerization of the input would provide the industry with information valuable for profitable extensions in the future.

2. THE CANADIAN DAIRY COMMISSION MODEL

A National Body would provide an income stabilization program for cow-calf producers within a supply management context. There would be federal appointees and staff, with advice from producers. A cost of production formula would be set up. There would be supplementary payments based on average returns.

A market share quota could be allocated to each province. The individual quotas would be set by provincial agencies. Excess production relative to market share could be subject to penalty levies. The quotas could be adjusted in relation to the projected demand. Herd size eligibility for some supplementary payments would have to be determined. Holders of dairy quota would be excluded from participation.

Imports could be controlled, and basic import quotas could be negotiated. The federal body could be the sole importer, it could establish prices or allow the open market to determine price. It could encourage exports and it could assist in improving the domestic market prices. It could encourage producers to retain ownership of animals to the finishing stage. It may encourage the development of custom feeding. It would discourage "inners and outers".

The processing industry would have a better base. International market opportunities, through the use of government to government trading, could promote large contracts outside the quota system.

This model would make for greater stability of production and, consequently, of income to the producer.

3. THE CANADIAN EGG MARKETING AGENCY MODEL

A producers' corporation would be established, made up of representatives from each province. The administration would be by government appointees. There would be a national price structure, designed to give producers their cost of production plus a reasonable profit.

Supply management and quotas would be designed so as to support at the feeder cattle stage. This also would influence finished cattle prices by affecting the number of animals available.

Cost recovery studies and regular surveys would be translated into a regional price structure, adjusted at least monthly.

The new body would move supplies from surplus areas to deficit areas if required. Animals remaining unsold could be sold live or processed.

There would be direct intervention at the feeder cattle stage, to minimize costs and to establish feeder grades.

Administration costs would be recouped by a levy. All buyers would be licensed.

All finished cattle would be sold on a rail-grade basis. Producers would ship only when prices had been established and the buyers named.

Quotas held by all regulated producers would confer a marketing eligibility. Small non-commercial operations, dealing in four cows or less, would be excluded. Provincial bodies would ensure compliance with quotas, which could be adjusted according to demand. There would be penalties for non-compliance with the quota, but extra-quota adjustments could be considered. Large producers might be allowed to fill export orders outside the quota and supply management system.

Information would be compiled in order to project supply and demand requirements. Efforts could be made to increase the home consumption of beef.

An industry consultative committee would be necessary to ensure that the national body's efforts might be seen to be efficient

and also responsible and responsive to the producer needs. It is realized that this substitution of an administrative system makes oversights or failures easy to identify, as the covert decisions of producers and buyers in the market place become changed to overt decisions in the administered system.

The administered system, being in the public view, would have to be self sustaining.

4. PRODUCER INCOME STABILIZATION MODEL

A new agency for producers, established by federal authority, would include representatives from each province and some federal appointees. It would administer a cost of production system, adding a reasonable profit. Open markets would continue to dictate prices. There could be market share quotas, with adjustments.

There would be supply management through production quotas and import controls. Provincial allocations would be made to individual producers. The provincial bodies would be responsible for ensuring compliance with the quotas and would be financially liable for penalties on over-quota production.

Producer registration and animal identification with statistics on quotas allotted, would enable a national body to follow animals through the system, compute average prices, and arrange for supplementary payments. This system could encourage marketing of lighter or heavier weights, and might thus provide an avenue for ensuring finished cattle supplies in relation to demand.

Direct intervention would lead to the encouragement of exports. The supplementary payments would stimulate cow-calf operators to fuller participation in finished cattle production.

Appendix C

TABLES AND FIGURES

TABLE 1

CANADIAN MEAT PRODUCTION FROM CATTLE AND CALVES 1964—1980

	CATTLE			CALVES			
		CUTS			CUTS		
Year	Number Slaughtered —000—	Avg. Cold Dressed Wt. lbs.	Total Weight mill. lbs.	Number Slaughtered —000—	Avg. Cold Dressed Wt. lbs.	Total Weight mill. lbs.	Total Beef and Veal mill. lbs.
1964	2,966	530.3	1,573.5	1,154	123.5	141.0	1,714.5
1965	3,368	519.3	1,750.0	1,302	125.3	162.5	1,912.5
1966	3,285	533.6	1,753.0	1,120	124.7	194.7	1,947.7
1967	3,195	538.1	1,719.4	1,152	126.4	145.6	1,865.0
1968	3,334	547.1	1,824.1	1,051	128.4	142.2	1,966.3
1969	3,177	553.5	1,758.3	894	119.1	107.6	1,865.9
1970	3,165	560.7	1,774.3	857	110.0	101.0	1,875.3
1971	3,343	556.7	1,961.0	811	121.1	98.2	1,959.2
1972	3,490	559.5	1,952.8	644	124.9	80.4	2,033.2
1973	3,443	560.0	1,928.2	510	136.6	69.7	1,997.9
1974	3,676	550.8	2,024.7	600	125.7	76.4	2,101.1
1975	4,238	538.3	2,281.2	963	121.2	116.7	2,397.9
1976	4,476	547.6	2,451.3	944	117.9	111.2	2,562.5
1977	4,387	550.4	2,414.3	934	112.8	105.4	2,519.7
1978	3,987	565.4	2,254.8	736	111.8	82.3	2,337.1
1979	3,432	589.3	2,022.2	518	122.4	63.4	2,085.6
1980	3,528	587.0	2,071.3	522	132.5	69.2	2,140.5

Source: *Livestock and Animal Product Statistics*, 1980, Statistics Canada, Catalogue 23-203.

TABLE 2

NUMBER OF FARMS WITH VARYING BEEF COW HERD SIZES 1976

Herd Size (COWS)

	1-9	10-19	2-49	50-99	100-199	200-499	500 or more
Newfoundland	223	35	13	—	1	—	—
Pr. Edward Is.	1,145	293	151	21	4	—	1
Nova Scotia	1,550	548	364	44	11	1	—
New Brunswick	1,232	555	371	51	10	—	—
Quebec	13,982	5,517	3,081	377	24	4	—
Ontario	14,959	8,992	7,562	1,193	174	27	—
Manitoba	4,590	3,572	5,929	2,304	499	70	8
Saskatchewan	8,675	8,336	14,352	5,372	1,363	259	17
Alberta	8,536	6,931	13,069	6,794	2,613	608	84
Br. Columbia	4,024	1,058	1,194	620	302	129	39
Yukon	1	—	2	—	—	—	—
Total Farms Canada	58,917	35,837	46,088	16,776	5,001	1,098	149
Total Cows Canada	254,321	491,020	1,409,294	1,111,856	644,453	299,503	134,532
East. Canada	33,091	15,940	11,542	1,686	224	32	1
West. Canada	25,826	19,897	34,546	15,090	4,777	1,066	148

Source: *A Descriptive Study of the Canadian Beef Production and Marketing System*, Agrodev Canada Inc., an unpublished paper prepared for the Standing Senate Committee on Agriculture, Senate of Canada, Table 2.1

TABLE 3

COUNT OF FARMS BY STEERS OVER 1 YEAR, 1976

Number of Steers on Farm	Total No. of Farms	% Total of farms	Total Steer No. on Farm	% Total Steers in Canada	Average Head per Farm
1-25	103,747	85.1	729,126	31.1	7.0
26-50	10,299	8.4	369,799	15.8	35.9
51-75	2,970	2.4	185,005	7.9	62.3
76-100	1,612	1.3	142,970	6.1	87.0
101-200	2,077	1.7	293,574	12.5	141.0
201-500	983	0.8	293,778	12.6	299.0
501-1000	197	0.2	134,156	5.7	68.1
1001-2000	47	0.1	65,393	2.8	1,391.0
2000 +	30	—	128,521	5.5	4,284.0
TOTAL	121,962	100.0	2,342,322	100.0	192.0

Source: *ibid*, Agrodev Canada Inc., Table 2.5

TABLE 4

NUMBER AND PERCENTAGE OF BEEF COWS, BY PROVINCE AND REGION, 1971 and 1981

	1971 Number (000's)	% of total	1981 Number (000's)	% of total
Atlantic provinces	45.4	1.5	60.5	1.4
Quebec	132.0	4.3	230.0	5.9
Ontario	383.0	12.3	415.0	10.7
Manitoba	355.0	11.4	405.0	10.4
Saskatchewan	880.0	28.4	1,030.0	26.6
Alberta	1,155.0	37.2	1,485.0	38.3
British Columbia	153.0	4.9	252.0	6.5
TOTAL CANADA	3,103.9	100.0	3,877.5	100.0
Eastern Canada	560.4	18.1	705.5	18.2
Western Canada	2,543.0	81.9	3,172.0	81.8

Source: Statistics Canada, *Report on Livestock Surveys*, Catalogue no. 23-008

TABLE 5

STEERS AND HEIFERS AND TOTAL SLAUGHTER CATTLE MARKETED AT STOCKYARDS & SHIPPED DIRECTLY TO PACKING PLANTS; BY PROVINCE; SELECTED YEARS. (BY PERCENTAGE)

	1955		1965		1975		1980		1981	
	Slaughter Steers & Heifers	Total Sltr. Cattle	Slaughter Steers & Heifers	Total Sltr. Cattle	Slaughter Steers & Heifers	Total Sltr. Cattle	Slaughter Steers & Heifers	Total Sltr. Cattle	Slaughter Steers & Heifers	Total Sltr. Cattle
Atlantic Provinces	1.4*%	1.2*%	1.4*%	1.6%	1.2%	1.4%	1.3%	1.5%	1.2%	1.5%
Quebec	1.8	4.7	1.0	5.7	0.4	3.8	1.5	6.2	2.1	6.5
Ontario	37.4	26.3	37.3	34.4	30.1	28.2	34.0	31.4**	32.4	30.1
Manitoba	7.5	6.2	8.2	9.3	9.0	9.4	8.3	8.5	8.1	8.0
Saskatchewan	17.3	12.4	14.9	15.8	13.8	14.8	8.0	9.2	7.7	9.2
Alberta	31.7	20.1	35.8	31.4	43.5	40.0	44.9	41.0	46.2	42.3
British Columbia	2.9	29.0	1.4	1.8	2.0	2.4	2.0	2.2	2.3	2.4
Eastern Canada	40.6%	32.2%	39.7%	41.7	31.7%	33.4%	36.8%	39.1%	35.7%	38.1%
Western Canada	59.4%	67.9%	60.3%	58.3%	68.3%	66.6%	63.2%	60.9%	64.3%	61.9%

Source: *Livestock and Market Review*, Agriculture Canada

* Excludes Newfoundland

** Due to a labour dispute during October 1980 in Ontario approximately 12,000 head of cattle are not included.

TABLE 6

COMPARISON OF PROVINCIAL SHARES OF BEEF COWS, CATTLE SLAUGHTER AND DAIRY COWS, 1980

PROVINCE	% of Beef Cows	% of Cattle Slaughter	% of Dairy Cows
British Columbia	6.2	2.5	4.6
Alberta	38.7	38.8	8.0
Saskatchewan	26.7	8.8	4.1
Manitoba	10.5	7.9	4.6
Ontario	10.9	33.2	31.8
Quebec	5.6	6.7	41.8
Atlantic Provinces	1.5	2.1	5.0

Source: Derived from the *Report of Marketing Study Committee on Supply Management for Beef Cattle*, Ontario Cattlemen's Association, January, 1982

TABLE 7

PACKING PLANT OPENINGS* 1960-1979

	PLANT	LOCATION	APPROX. DATE OF OPENING
B.C. (3)	Coaspac	Abbotsford	June 1974
	J & L Meats	Surrey	Oct. 1970
	Richmond Packers	Richmond	Jan. 1964
Alberta (6)	XL Beef	Calgary	1972
	Canada Packers	Lethbridge	Dec. 1960
	Canada Packers	Red Deer	1969
	Canada Dressed Meats	Lethbridge	Jan. 1962
	Lakeside	Brooks	Apr. 1974
	Swift	Lethbridge	Mar. 1971
Sask. (1)	Canada Packers	Moose Jaw	1975
Man. (2)	Burns	Winnipeg	1965
	Burns	Brandon	1964
Ont. (6)	Crabtree Meats	Ottawa	Jan. 1965
	Dees Beef	Guelph	Aug. 1962
	Guelph Beef Centre	Guelph	Dec. 1975
	Norstein	Kitchener	July 1963
	Grace	Toronto	Feb. 1969
	Paletta Bros.	Burlington	May 1964
Quebec (4)	Abbatoir du Nord	St. François	Sept. 1977
	Abbatoir de la Mauricie	St. Louis de France	—
	Abbatoir Labbé & Fils	St. Georges O.	—
	Viandes Lépine	Charlemagne	—
N.B. (2)	Chippen	Fredericton	Aug. 1970
	Hub Meats	Moncton	July 1966

Source: ibid, Agrodev Canada Inc., Table 3.13

* The list of plant openings is incomplete; there are several hog killing plants which slaughter a relatively small number of cattle that are federally inspected (this applies particularly to the province of Quebec). In addition, there is a sizable number of plants under either Federal Domestic or Provincial Inspection, although their combined volume of beef slaughter is small.

TABLE 7-1

PACKING PLANT CLOSURES* 1960-1979

	PLANT	LOCATION	APPROX. DATE OPERATION TERMINATED
B.C. (4)	Swift	Vancouver	—
	Burns	Vancouver	Dec. 1961
	Canada Packers	Vancouver	June 1970
	Swift	Richmond	Sept. 1971
Alberta (6)	**Burns	Edmonton	Sept. 1978
	Swift (Union)	Calgary	July 1968
	**Canada Packers	Edmonton	Dec. 1979
	**Kerr	Calgary	Mar. 1979
	Canadian Dressed Meat Ltd.	Medicine Hat	June 1975
	**Intercontinental	Red Deer	Jan. 1978
Sask. (3)	Burns	Regina	Jan. 1974
	Burns	Prince Albert	Mar. 1975
	**Intercontinental	Regina	July 1979
Man. (2)	St. Boniface Packers	Winnipeg	Oct. 1971
	**Swift	Winnipeg	Dec. 1979
Ont. (14)	Canada Packers	Peterborough	Sept. 1967
	Swift	Toronto	Sept. 1960
	Essex	Windsor	June 1969
	Essex	Hamilton	Nov. 1975
	Copaco	Barrie	Nov. 1967
	Whyte	Stratford	Aug. 1967
	Kitchener Packers	Kitchener	—
	Capital Meats	Ottawa	Sept. 1975
	**Ottawa Beef	Ottawa	May 1978
	**Quality Packers	Toronto	May 1979
	Canadian Abattoir	Toronto	—
	**Ontario Beef Terminal	Toronto	June 1979
	**Forest Meat Packers	Toronto	June 1979
	Coleman	London	—
Quebec (6)	Canada Packers	Montreal	—
	Canada Packers	Hull	—
	Wilsie	Montreal	—
	Legrade	Quebec City	June 1968
	Palmont Packers	Montreal	—
	Dominion	Montreal	May 1962
N.B. (3)	Gauvin	Paquetteville	Feb. 1974
	Swift	Moncton	Aug. 1968
	Canada Packers	St. John	Nov. 1976
N.S. (1)	ENESS Abattoir	Halifax	Aug. 1960

Source: ibid, Agrodev Canada Inc., Table 3.12.

* The list of plant closures does not include a number of small plants, the bulk of which were either under Provincial or Federal Domestic Inspection. Their combined volume was only a very small percentage of total gradings.

** Significant operations closed in 1978-1979.

TABLE 8

NUMBER AND PERCENTAGE OF SLAUGHTER CATTLE MARKETED AT PUBLIC STOCKYARDS AND DIRECTLY TO PACKING PLANTS
1950–1981

	Total	Marketed at Stockyards		Shipped Directly To Packing Plants*	
	Number	Number	%	Number	%
1950	1,661,747	1,118,755	67.4	542,992	32.6
1955	1,993,618	1,276,956	64.0	716,662	36.0
1960	2,322,626	2,391,159	60.0	931,467	40.0
1965	3,412,043	1,850,116	54.2	1,561,927	45.8
1970	3,126,344	1,406,970	45.0	1,719,374	55.0
1975	3,418,516	1,080,376	31.6	2,338,140	68.4
1976	3,733,751	1,111,653	29.8	2,622,098	70.2
1977	3,920,459	1,072,582	27.4	2,847,877	72.6
1978	3,510,675	876,857	25.0	2,633,818	75.0
1979	3,039,894	719,533	23.7	2,320,361	76.3
1980**	3,085,854	702,679	22.8	2,383,175	77.2
1981	3,133,333	634,615	20.3	2,498,718	79.7

Source: Agriculture Canada, *Livestock Market Review 1981.*

* Includes slaughter cattle that go through auction markets and are bought by packing plants.

** Due to a labour dispute during October 1980 in Ontario approximately 12,000 head of cattle are not included.

TABLE 9

TEN-YEAR FOOD STORE SALES TREND 1970-1981

	TOTAL SALES		CHAINS		INDEPENDENTS*	
	$ Million	% Change	$ Million	% of Total	$ Million	% of Total
1970	6,849	7.0	3,522	51.4	3,327	48.6
1971	7,260	6.0	3,868	53.3	3,392	46.7
1972	7,721	6.4	4,410	57.1	3,311	42.9
1973	8,595	11.3	4,997	58.1	3,598	41.9
1974	10,263	19.4	6,136	59.8	4,127	40.2
1975	11,984	16.7	7,110	59.3	4,874	40.7
1976	13,156	9.8	7,809	59.4	5,347	40.6
1977	14,371	9.2	8,639	60.1	5,732	39.9
1978	16,253	13.1	9,792	60.2	6,462	39.8
1979	18,192	11.9	10,996	60.4	7,196	39.6
1980	20,204	11.1	12,043	59.6	8,161	40.4
1981**	23,013	13.9	13,637	59.3	9,376	40.7

Source: *Canadian Grocer*, Maclean-Hunter, February 1982.

* Includes voluntary groups and unaffiliated independents

** Maclean-Hunter Research Bureau estimates based on first 10 month data.

TABLE 10

SHARES OF FOOD SALES IN CANADA, SELECTED YEARS

MARKET SHARE	1955	1965	1970	1975	1979
Weston/Loblaw	17.5%	19.7%	17.5%	16.6%	15.7%
Dominion Stores	6.4	9.7	9.3	14.0	14.6
Canada Safeway	5.1	7.2	8.3	9.8	12.8
Steinberg	3.0	5.8	7.8	9.5	12.4
Oshawa Group	0.7	2.2	4.4	5.7	8.1
M. Loeb*	0.5	3.6	5.2	4.2	—
Provigo	0.4	2.2	2.7	3.6	12.7
A & P	n/a	3.9	3.3	2.7	3.0
Other Chains & Indep.	66.4	45.7	41.5	33.9	20.7
TOTAL MARKET	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Statistics Canada, Company Annual Reports from D. Tigert, Burns Fry, Canadian Grocer, February 1981. Taken from *Canada's Agricultural Systems*, Fourth Edition, R. Kennedy and M. Churches, Department of Agricultural Economics, Macdonald Campus of McGill University, 1981, p. 4.21.

* The sales of M. Loeb are included in Provigo for 1979. Provigo has since purchased Dominion Stores Ltd. in Québec.

TABLE 11

COMPARISONS OF TRADE BALANCE IN CATTLE AND CALVES, DRESSED CARCASS BASIS WITH NET BEEF TRADE BALANCE, DRESSED CARCASS BASIS, 1968-1979
(million of lbs.)

	Net Live Cattle and Calves Dressed Carcass Basis	Net Beef Trade Balance Dressed Carcass Basis	Net Balance*
1968	123.1	+ 6.5	+129.6
1969	87.5	−122.2	− 24.7
1970	50.7	−103.9	− 53.2
1971	44.3	− 58.8	− 14.5
1972	63.7	−131.5	− 67.8
1973	31.1	−148.7	−117.6
1974	−14.0	−131.8	−145.8
1975	80.5	−152.5	− 73.0
1976	117.4	−187.2	− 69.8
1977	204.9	−175.9	+ 29.8
1978	154.5	−115.9	+ 38.6
1979	127.4	− 67.4	+ 60.0

Source: Derived Data, various sources. As presented in *Alternative Marketing and Stabilization Programs for the Beef Industry in Canada*, a Working Paper prepared for Standing Senate Committee on Agriculture by Roygold Marketing Systems, Ltd., July, 1981.

* Excludes allowances for edible offal.

TABLE 12

CANADIAN EXPORTS AND IMPORTS U.S.A. AND ALL COUNTRIES OF SLAUGHTER CATTLE AND BEEF IN TERMS OF SLAUGHTER CATTLE, NET TRADE SLAUGHTER CATTLE EQUIVALENT AND FEEDER CATTLE EXPORTS ('000 HEAD)

	1976	1977	1978	1979	1980	1981
EXPORTS						
Slaughter Cattle—Total U.S.A.	249.7	229.1	213.2	137.7	111.0	93.2
Total all Countries	249.7	229.1	213.2	137.7	111.0	93.2
Beef in terms of Slaughter Cattle[1]—						
Total U.S.A.	218.0	194.5	159.9	194.8	239.2	299.7
Total all Countries	228.8	206.5	173.0	212.6	261.3	327.7
TOTAL EXPORTS	478.5	435.6	386.2	350.3	372.3	420.9
IMPORTS						
Slaughter Cattle—Total U.S.A.	133.2	9.8	47.6	19.1	51.8	153.0
Total all Countries	133.2	9.8	47.6	19.1	51.8	153.0
Beef in terms of Slaughter Cattle[1]—						
Total U.S.A.	61.3	30.7	321.3	183.2	270.0	49.0
Total all Countries	512.3	317.6	360.0	310.1	298.5	304.1
TOTAL IMPORTS	645.5	327.4	407.6	329.2	350.3	457.1
Net Trade Slaughter Cattle Equivalent[2]—						
Total U.S.A.	273.3	383.1	301.3	339.1	343.6	254.2
Total all Countries	−204.4	214.4	−21.4	309.2	396.4	27.1
Feeder Cattle Exports	54.7	98.1	62.6	61.6	79.0	44.8

Source: Agriculture Canada, *Livestock Market Review*. Statistics Canada. *Exports by Commodities* (65-004); *Imports by Commodities* (65-007); *Livestock and Animal Products Statistics* (23-203).

[1] Carcass weight of commodity categories of boneless beef (11-01 and 11-03) and bone-in beef (11-05) converted to numbers of cattle on the basis of the annual average cold dressed weight of domestic and imported cattle slaughtered in Canada.

[2] Net trade of slaughter cattle and beef in terms of slaughter cattle. Net exports +; net imports −.

TABLE 13

CANADA IMPORTS AND EXPORTS OF DRESSED BEEF AND VEAL, FRESH OR FROZEN FOR OCEANIA, U.S.A. AND ALL COUNTRIES, AND CANADA'S TRADE BALANCE IN BEEF AND VEAL WITH THE U.S.A. AND ALL COUNTRIES VOLUME, 1971-1980
(million of lbs.)

	IMPORTS TO CANADA			EXPORTS FROM CANADA		CANADA'S TRADE BALANCE	
	OCEANIA	U.S.A.	TOTAL	U.S.A.	TOTAL	U.S.A.	TOTAL
1971	86.0	17.5	103.5	80.4	82.6	+62.9	− 20.9
1972	106.2	27.0	133.2	58.7	60.6	+31.7	− 72.6
1973	114.7	34.8	149.4	55.7	60.4	+20.9	− 89.0
1974	100.6	17.6	118.2	36.8	38.1	+19.2	− 80.2
1975	117.5	11.1	128.6	22.7	25.4	+11.6	−103.2
1976	185.2	24.3	209.6	83.1	87.4	+58.8	−122.2
1977	109.9	13.7	123.7	75.6	80.2	+61.9	− 43.5
1978	137.8	17.4	144.8	62.2	67.5	+44.3	− 77.3
1979	112.6	11.8	124.5	76.8	83.6	+65.0	− 40.9
1980	104.0	12.8	116.8	92.0	100.4	+79.2	− 16.4
1981	93.6	21.4	117.9	114.6	125.2	+93.2	+ 7.3

Source: Statistics Canada Merchandise Trade Catalogues 65-202, 65-203.

TABLE 14

CANADA IMPORTS AND EXPORTS OF DRESSED BEEF AND VEAL, FRESH AND FROZEN FOR OCEANIA, U.S.A. AND ALL COUNTRIES, IMPORTS AND EXPORTS OF LIVE CATTLE FOR U.S.A. AND ALL COUNTRIES, AND CANADA'S TRADE BALANCE IN BEEF AND VEAL WITH THE U.S.A. AND ALL COUNTRIES, VALUE 1971—1981

(in millions of $)

	IMPORTS TO CANADA					EXPORTS FROM CANADA				CANADA'S TRADE BALANCE					
	Oceania	U.S.A.		All Countries		U.S.A.		All Countries		U.S.A.			All Countries		
	Drsd.	Live	Drsd.	Live	Drsd.	Live	Drsd.	Live	Drsd.	Live	Drsd.	Total	Live	Drsd.	Total
1971	41.7	22.0	16.2	22.0	58.0	12.5	45.0	12.7	47.0	− 9.5	+28.7	19.2	− 9.3	−10.9	− 20.2
1972	62.5	23.8	26.3	23.8	88.8	24.3	37.5	26.6	39.4	*	+11.2	11.2	2.8	−49.4	− 46.6
1973	94.2	99.3	39.4	99.3	133.6	59.7	51.7	62.9	56.5	−39.5	+12.3	−27.2	−36.8	−77.1	−113.9
1974	75.9	56.9	21.6	57.0	97.5	13.2	26.7	14.0	28.8	−43.7	+5.1	−38.6	−43.0	−68.7	−111.7
1975	55.7	27.0	16.6	27.3	72.3	35.9	14.3	36.4	16.4	8.9	− 2.4	6.5	9.0	−55.9	− 46.9
1976	101.5	66.2	32.2	70.5	133.7	72.2	54.2	73.2	57.5	6.0	+22.0	28.0	2.8	−76.2	− 73.4
1977	67.7	11.7	20.5	12.2	88.2	97.7	49.9	98.8	53.8	86.0	+29.4	115.4	86.6	−34.4	52.2
1978	115.4	36.2	32.1	36.4	147.5	116.9	58.2	117.9	64.4	80.6	+26.1	106.7	84.1	−83.1	1.0
1979	156.1	19.8	26.1	19.8	182.2	134.9	95.8	135.9	106.6	115.1	+69.7	184.8	116.1	−75.6	40.5
1980	143.1	57.8	34.2	58.5	117.3	136.2	109.9	136.8	123.2	78.3	+75.6	153.9	78.3	−54.1	24.2
1981	122.6	132.5	52.8	133.5	178.8	108.7	125.9	110.9	142.8	−23.7	+73.1	49.4	−22.6	−36.0	− 58.6

Source: Statistics Canada Merchandise Trade Catalogues 65-202 and 65-203.

* less than $100,000.

TABLE 15

COMPARATIVE COSTS FOR ALTERNATIVE SELLING METHODS AT VARIOUS LEVELS OF INTERMEDIARY CAPACITY AND AN 8% RATE OF INFLATION OVER FOUR YEARS

	Country Auction	Terminal Market	Direct	Listing Service	Electronic Auction
Producer and Packer Costs	$ 21.53	$ 22.56	$11.76	$ 8.26	$ 8.25
Intermediary Costs:					
100%	7.89	5.85		3.29	1.70
90%	8.36	6.28		3.55	1.81
80%	8.95	6.76		3.85	1.96
70%	6.68	7.37		4.24	2.14
60%	10.73	8.19		4.77	2.40
Total Costs:					
100%	29.42	28.41	11.76	11.55	9.96
90%	29.89	28.84		11.81	10.07
80%	30.48	29.32		12.11	10.22
70%	31.21	30.29		12.50	10.40
60%	32.26	30.75		13.03	10.66

Source: *An Economic Comparison of Alternative Selling Methods for Slaughter Cattle in Ontario* L. Martin, R.R. Richards, W.R. Usborne, University of Guelph, January 1979.

TABLE 16

COMPARATIVE COSTS OF PRODUCTION FOR SLAUGHTER STEERS, U.S. CORN BELT, WESTERN CANADA AND SASKATCHEWAN—1980

	WESTERN[a] CANADA	SASKATHEWAN[b]	CORN BELT[c] CATTLE FEEDING CATTLE FEEDING U.S.$	CAN.$*
DIRECT	N/A	66.00	62.50	73.06
INDIRECT	N/A	39.00	9.39	10.98
TOTAL COSTS	86.00	115.00	71.89	84.04

Sources: (a) *Cost and Returns in the Canadian Feedlot Sector*, Annual Report, April 1981, prepared for the Canadian Cattlemen's Association by Broadwith Hughes and Associates, derived from Table 11.5, referring to Western feeder steers, 1980 data. The comparable figure for Eastern Canada is $82.02, Table 11.1.

(b) Derived from government documentation for the Saskatchewan Beef Stabilization Plan.

(c) *Livestock and Meat, Outlook and Situation*, Economics and Statistics service, U.S.D.A. LM3-242-Aug. 1971, Table Listing: Steer Prices, Costs and Net Margin.

* Bank of Canada exchange rate for 1980—1.169.

TABLE 17

ALBERTA FEEDER CALF COSTS OF PRODUCTION AND PRICES, 1980 ($Cdn/cwt)

	Evansburg (100 cows)	Drayton Valley (60 cows)	Hanna (200 cows)
Cash cost	74.37	61.99	
Non-cash cost	87.38	77.11	
Total	161.75	139.10	132.22
Sale prices	76.14	76.81	58.48
NET	−85.61	−62.29	−73.74

Source: A series of reports entitled *A Consensus of Costs and Returns*, published by the Alberta Department of Agriculture. Nos. 223, cow-calf enterprise in the Evansburg area, April, 1981; 224, cow-calf and feeder enterprise in the Drayton Valley district, April 1981; 233, cow-calf enterprise in the Hanna district, January, 1982. Inputs in these studies are prices on an opportunity cost basis. Available for the Hanna study are direct and indirect costs of $74.46/cwt.

TABLE 18

NET INCOME FLOWS IN THE CANADIAN BEEF INDUSTRY 1971-1980

NET INCOME FLOWS[1]

(millions of dollars)

	FEEDLOT SECTOR			COW/CALF SECTOR			TOTAL CANADIAN BEEF INDUSTRIES	
PERIOD	EASTERN CANADA	WESTERN CANADA	CANADA	EASTERN CANADA	WESTERN CANADA	CANADA	1981 DOLLARS	1976 DOLLARS
1971	12.8	40.3	53.1	31.5	145.1	176.6	229.7	342.2
1972	9.1	37.6	46.7	47.8	201.0	257.8	304.5	432.3
1973	29.8	46.9	76.7	50.1	263.0	313.1	389.8	510.7
1974	−18.9	−27.3	−46.2	14.4	3.1	17.5	−28.7	−34.1
1975	18.9	0.1	19.0	−25.7	−126.0	−151.7	−132.7	−142.0
1976	−39.4	−44.2	−83.6	−24.8	−137.6	−162.4	−246.0	−246.0
1977	−28.2	−16.0	−44.2	−33.1	− 30.1	− 63.2	−107.4	− 99.4
1978	76.7	100.9	177.6	16.8	86.5	103.	280.9	−238.1
1979	33.8	26.0	59.8	91.0	538.8	629.8	689.6	509.6
1980	− 8.	−99.7	−108.2	28.7	97.2	125.9	26.2	16.7
TOTAL	86.4	64.6	150.7	196.7	1041.0	1237.7	1405.9	1612.2

Source: Broadwith Hughes & Associates—Prepared for the Canadian Cattlemen's Association

As presented in *Alternative Marketing and Stabilization Programs for the Beef Industry in Canada*, A Working Paper prepared for the Standing Senate Committee on Agriculture by Roygold Marketing Systems, Ltd. July, 1981.

TABLE 19

RETURN PER HEAD FOR EASTERN COW-CALF ENTERPRISES 1971-1980

Year	EAST			WEST		
	No. of calves prod.	Net Income	Return per head	No. of calves prod.	Net Income	Return per head
	000's	$million	$/head	000's	$million	$/head
1971	550.7	31.5	57.20	2436.4	145.1	59.56
1972	578.3	47.8	82.66	2549.1	201.0	78.85
1973	602.3	50.1	83.18	2747.2	263.0	95.73
1974	707.6	14.4	20.35	2943.6	3.1	1.05
1975	722.9	−25.7	−35.55	2996.3	−126.0	−42.05
1976	688.1	−24.8	−36.04	2748.9	−137.6	−50.05
1977	670.6	−33.1	−49.36	2918.0	− 30.1	−10.32
1978	611.6	16.8	27.55	2682.2	86.5	32.25
1979	561.9	91.0	161.95	2613.8	538.8	206.14
1980	599.1	28.7	47.90	2730.7	97.2	35.60
TOTAL AVG.	6,393.1	196.7	31.25	27,365.7	1,041.0	38.04

Source: Derived from data developed by Broadwith Hughes and Associates for the Canadian Cattlemen's Association.

TABLE 20

COMPARATIVE COSTS OF PRODUCTION IN FEED LOT OPERATIONS (EXCLUDING LABOUR AND MANAGEMENT RETURNS) FOR EASTERN AND WESTERN CANADA AND FOR CANADA 1971-1980.

	EAST			WEST		
	Feedlot Marketings	Net Income Feedlot Operation		Feedlot Marketings	Net Income Feedlot Operation	
		Tot.	Avg/Head		Tot.	Avg/Head
	'000	$mils.	$	'000	$mils.	$
1971	798.4	12.8	16.03	1174.0	40.3	19.13
1972	815.8	9.1	11.15	1396.3	37.6	26.93
1973	836.5	29.8	35.62	1372.1	46.9	34.18
1974	923.3	−18.9	−20.47	1396.7	−27.3	−19.55
1975	915.8	18.9	20.47	1503.0	0.1	0.07
1976	999.3	−39.4	−39.43	1793.7	−42.2	−23.53
1977	991.9	−28.2	−28.43	1896.7	−16.0	− 8.44
1978	963.8	76.7	79.58	1686.0	100.9	59.84
1979	852.2	33.8	39.66	1472.0	26.0	17.68
1980	903.6	− 8.5	−9.40	1470.9	−99.7	− 0.07
TOTAL	9000.6	86.1		15,161.4	66.7	
AVERAGE			10.45			4.40

CANADA 1971-1980 PERIOD	TOTAL CANADIAN MARKETINGS	24,162,000
	TOTAL NET INCOME: FEEDLOT OPERATIONS	$152,800,000.00
	NET RETURN/HEAD: FEEDLOT OPERATIONS	$6.32

Source: Derived from data prepared by Broadwith Hughes and Associates for the Canadian Cattlemen's Association.

TABLE 21

SLAUGHTER CATTLE AND FEEDER STEER PRICES IN CANADA AND THE U.S., MONTHLY AVERAGES

($ Canadian)

		TORONTO A[1] & A[2] Steers	OMAHA Choice Steers
1976—	JANUARY	44.76	41.44
	FEBRUARY	42.39	38.56
	MARCH	41.57	35.63
	APRIL	45.00	42.40
	MAY	46.05	39.91
	JUNE	43.04	39.45
	JULY	39.85	36.87
	AUGUST	38.85	36.48
	SEPTEMBER	40.87	36.05
	OCTOBER	40.29	36.84
	NOVEMBER	41.35	38.59
	DECEMBER	41.93	40.71
1977—	JANUARY	40.87	39.82
	FEBRUARY	40.83	38.32
	MARCH	41.49	39.19
	APRIL	43.23	42.13
	MAY	43.79	44.02
	JUNE	43.22	42.55
	JULY	44.14	43.44
	AUGUST	44.95	43.11
	SEPTEMBER	46.10	43.41
	OCTOBER	48.42	46.48
	NOVEMBER	49.32	46.70
	DECEMBER	49.30	47.44
1978—	JANUARY	49.32	48.24
	FEBRUARY	49.76	50.36
	MARCH	52.88	53.96
	APRIL	59.67	59.24
	MAY	66.16	63.38
	JUNE	67.18	64.81
	JULY	64.52	61.27
	AUGUST	64.77	59.90
	SEPTEMBER	65.11	62.67
	OCTOBER	67.54	65.45
	NOVEMBER	66.93	62.98
	DECEMBER	67.86	65.79

		TORONTO A[1] & A[2] Steers	OMAHA Choice Steers
1979—	JANUARY	74.25	71.22
	FEBRUARY	80.87	76.29
	MARCH	84.00	82.99
	APRIL	84.14*	86.42**
	MAY	83.62	86.43
	JUNE	83.00	81.88
	JULY	77.75	78.18
	AUGUST	74.81	73.30
	SEPTEMBER	78.40	79.11
	OCTOBER	78.37	79.36
	NOVEMBER	78.50	78.57
	DECEMBER	82.62	80.15
1980—	JANUARY	82.99	77.36
	FEBRUARY	82.36	78.23
	MARCH	78.83	77.78
	APRIL	75.45	74.80
	MAY	76.57	76.26
	JUNE	76.08	76.49
	JULY	81.20	80.97
	AUGUST	84.14	85.02
	SEPTEMBER	83.89	80.96
	OCTOBER	83.91	78.43
	NOVEMBER	83.85	76.82
	DECEMBER	83.42	76.83
1981—	JANUARY	82.79	75.10
	FEBRUARY	79.36	73.59
	MARCH	78.93	73.23
	APRIL	78.76	76.61
	MAY	81.34	80.21
	JUNE	83.03	81.14
	JULY	83.32	81.83
	AUGUST	81.69	81.52
	SEPTEMBER	80.14	78.59
	OCTOBER	79.13	74.64
	NOVEMBER	76.33	72.13
	DECEMBER	74.25	70.88

Source: *Market Commentary—"Animal and Animal Products"* Agriculture Canada. *Canada Livestock and Meat Trade Report*, Agriculture Canada.

TABLE 22

AGRICULTURAL STABILIZATION ACT
BEEF PROGRAM

Crop Year	Year Ending	Support Price /cwt.	Market Price* /cwt.	Deficiency Payment /cwt.
1976	Dec. 31/76	$40.16 (95%)	Quarterly	$1.84-nil-$3.00-$2.98
1977	Dec. 31/77	$36.54 (90%)	$49.19	none
1978	Dec. 31/78	$42.91 (90%)	$59.39	none
1979	Dec. 31/79	$65.16 (90%)	$76.44	none
1980	Dec. 31/80	$78.55 (90%)	$76.37	none

Source: Secretary, Agricultural Stabilization Board.

* Indexed for cash costs.

TABLE 23

LOANS APPROVED TO BEEF ENTERPRISES* 1979-80 to 1982-83

BEEF ENTERPRISE	1979-80		1980-81		1981-82		1982-83**	
	#	AMT $(000)	#	AMT. $(000)	#	AMT. $(000)	#	AMT. $(000)
BEEF FEEDER	180	19,225	108	11,923	111	12,805	39	4,785
COW CALF	180	14,635	167	14,573	179	14,199	62	4,990
COW YEARLING	94	7,547	94	8,799	71	6,599	35	2,761
RAISE & FINISH	67	6,076	57	4,813	50	3,950	20	1,581
REPLACEMENT HEIFERS	6	439	7	707	11	962	5	392
TOTAL	527	47,922	433	40,815	422	38,515	161	14,509

* Loans where 50% or more of the net income is projected to be generated by the enterprise.
** April 1, 1982 to July 1982.

Source: Farm Credit Corporation, Research Division.

TABLE 24

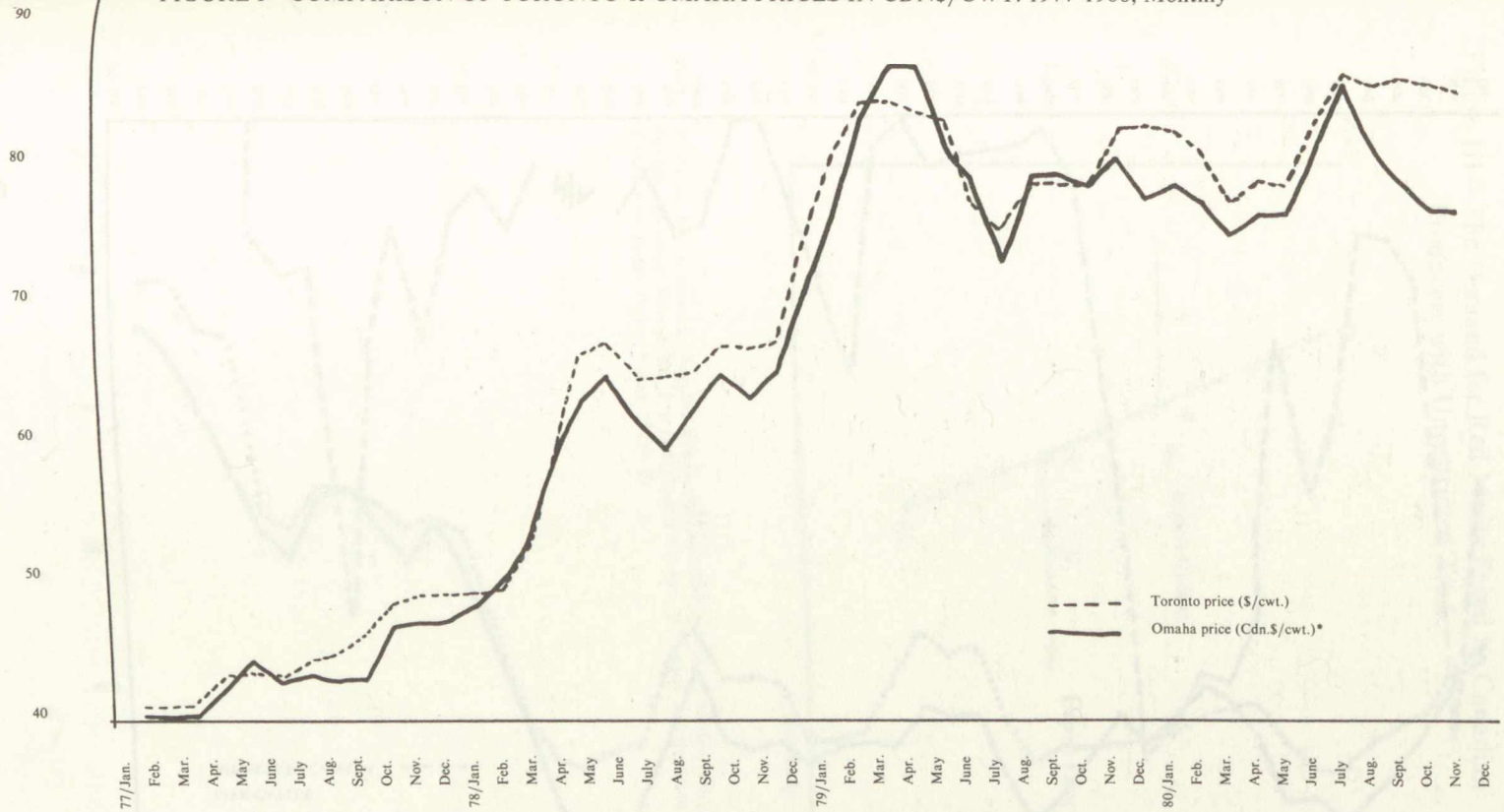
LOANS WHERE 25-49% OF THE PROJECTED NET INCOME WAS PRODUCED FROM BEEF 1979-80 to 1982-83 (July)

PRIMARY ENTERPRISE	1979-80		1980-81		1981-82		1982-83*	
	#	$(000)	#	$(000)	#	$(000)	#	$(000)
CASH CROP	474	45,554	465	42,599	440	39,202	210	17,955
DAIRY	42	3,994	32	4,162	38	4,472	16	1,685
HOGS	97	10,403	53	5,929	61	5,044	19	1,597
POULTRY	3	425	4	494	2	249	—	—
MIXED & OTHER	4	384	4	610	3	493	4	487
TOTAL	620	60,760	558	53,794	544	49,460	249	21,724

* April 1, 1982 to July 1982.

Source: Farm Credit Corporation, Research Division.

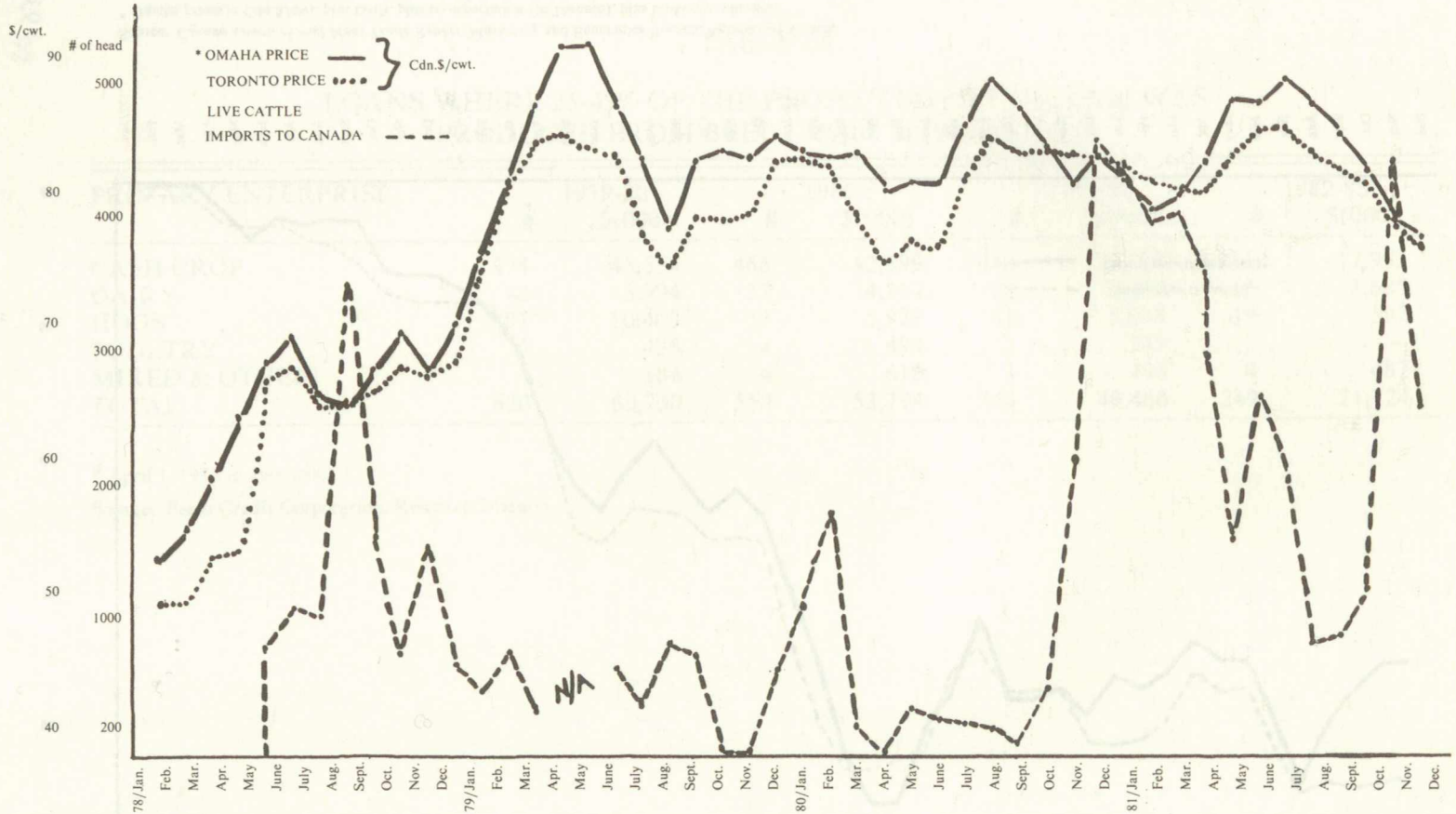
FIGURE I—COMPARISON OF TORONTO & OMAHA PRICES IN CDN$/CWT. 1977-1980, Monthly



Source: *Canada Livestock and Meat Trade Report*, Marketing and Economics Branch, Agriculture Canada.

* Omaha prices in Cdn.$/cwt. plus tariff, plus transportation (to Toronto), plus brokerage charges.

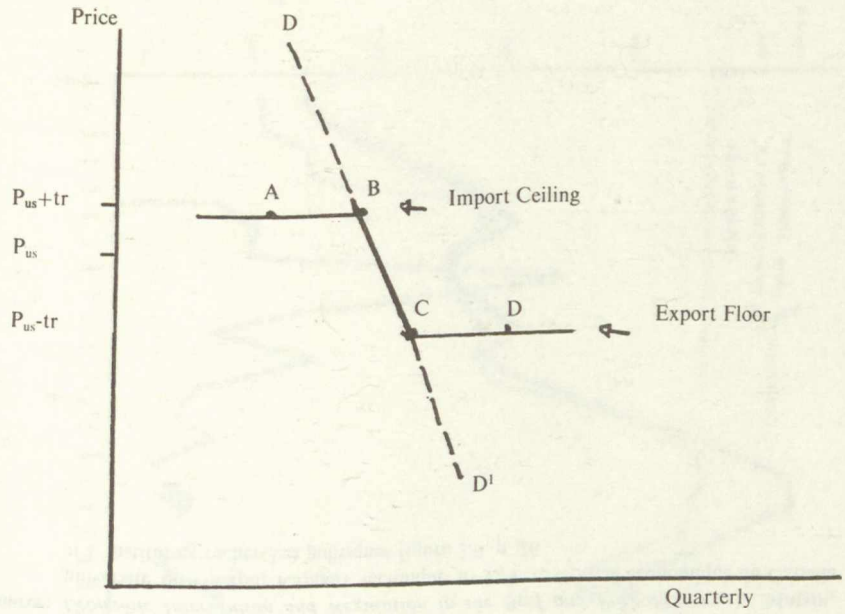
FIGURE II—IMPORT MOVEMENT OF LIVE CATTLE TO TORONTO FROM THE U.S.A. IN RELATION TO TORONTO AND LANDED OMAHA PRICES 1971-1981, MONTHLY



Source: *Canada Livestock and Meat Trade Report:*, Marketing and Economics Branch, Agriculture Canada. Some derived data from various other sources.

* Omaha prices in Cdn.$/cwt., plus tariff, plus transportation (to Toronto), plus brokerage charges.

Figure III—The Demand for Red Meats Faced by Canadian Producers with Unrestricted Trade



Source: *Economic Intervention and Regulation in the Beef and Pork* Sectors, L. Martin, University of Guelph, Technical Report No. E/I 1, Economic Council of Canada and the Institute for Research on Public Policy, Figure 2.9, p. 26.