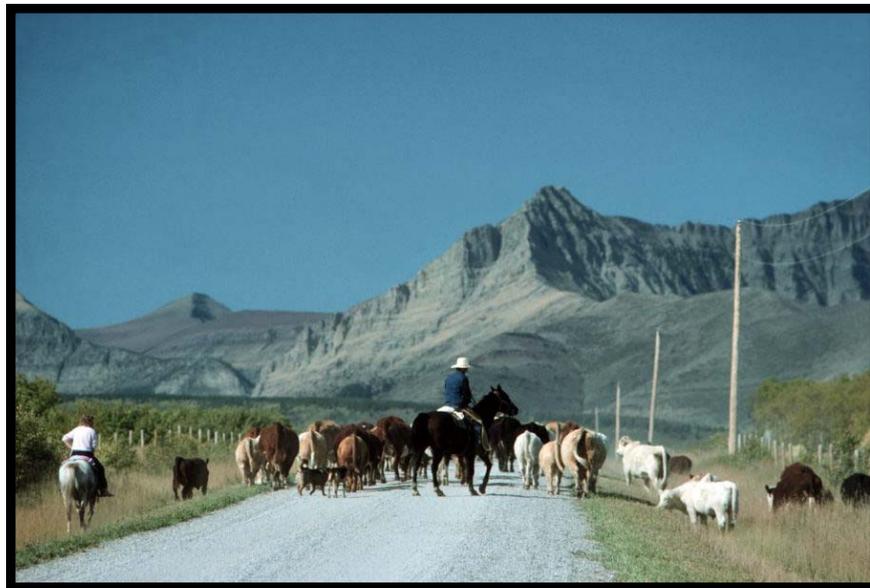


A Review of the Competitive Position of Alberta's Primary Beef Production Sector

Executive Summary and Summary of Findings



**Economics & Competitiveness Division
Alberta Agriculture, Food and Rural Development**

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Foreword & Acknowledgments

Preparing a comprehensive review of the global beef complex represents a significant challenge. In order to give a full appreciation of the breadth of the business world-wide, and an understanding of our industry's role in it, all of the key elements needed to be brought together and put into context under the same cover.

We embarked on this project full of energy and enthusiasm. We were armed with our knowledge, experience and the strength of industry consultations that could, with a bit of effort, be translated into a valuable reference source. Our intention as well was to stimulate critical thinking and action on the part of producers, industry organizations and governments alike.

The breadth of this document is reflected in the listing of project contributors. Many individuals have contributed to bringing this project to fruition. I would like to acknowledge the time and effort of the following staff from Alberta Agriculture, Food and Rural Development, Alberta Economic Development and Agriculture and Agri-Food Canada:

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While each of these individuals has contributed to this project in some way, large or small, the responsibility for the conclusions drawn, based on the input and information available, rests with the primary author.

My thanks to you all.

Dale A. Kaliel
Sr. Economist: Production Economics



Executive Summary

This full study report is an extensive document, covering beef industry structure and performance in some depth. As such, this Executive Summary is designed to introduce the context of the study and deliver a thumbnail of the key observations and conclusions drawn.

Study Context (Section 1: Introduction)

- ! The beef industry is at a crossroads. Consumers are demanding an increasing variety of safe, nutritious, convenient and consistent foods. The public is demanding, in a somewhat nebulous fashion, that agricultural producers be responsible stewards of the resources in their control. Beef production margins are generally declining. In order to maintain its competitive position in global beef markets, the Alberta industry will have to keep pace with the economic evolution occurring world wide.
- ! The intent of this project is to add to the knowledge set of beef industry participants by providing information on Alberta's current industry status relative to other global beef industry participants. This information and analysis will complement the knowledge of individual producers and provide insight for consideration in their short and long term planning and decision making.
- ! Project objectives revolve around providing information and analysis regarding industry structure, resource use, production, consumption, trade, market fundamentals, and key industry issues, all funneling to an assessment of Alberta's competitive position relative to a group of significant global beef producing regions. Countries selected as comparators include Canada (with specific reference to Alberta and Western Canada), the United States (with attention given to specific state groupings), Brazil, Argentina, Uruguay and Australia. These countries are referred to as the "Focus-6" (Foreign Other, Canada and the United States).

Key Observations and Conclusions (Section 7: Overall Assessment and Conclusions)

- ! At present, the primary Alberta beef industry is relatively competitive with its global peers. The perception of a threat from "low cost" countries does not take into consideration the evolving divergence of "commodity vs. product" producing regions.
- ! Looking forward to the future, the pace of change in the industry will quicken. This will involve changes throughout the primary and secondary levels in terms of:
 - < how products are produced and moved through market channels,
 - < the technology and business management skills required by primary producers to stay on the leading edge of unit production cost control,
 - < how primary producers work together to attain unit cost efficiencies,
 - < how primary producers work together, and with upstream clients, to attain value chain efficiencies and a product focus,
 - < the relative importance of research, technology development, business knowledge and skills, and
 - < investment and infrastructure development throughout the industry.Intensive production oriented regions will evolve to service higher-valued product-based markets. Extensive production oriented regions will generally evolve to fill the more generic commodity beef markets. This differentiation is not intended to imply that one approach is superior to the other. From a broader perspective, it does imply a rational approach to more efficiently meeting the needs of consumers.

- ! A “Conceptual View of Beef Production and Marketing Systems” describes the evolving roles of extensive vs. intensive production systems in adapting to the notion of beef as a commodity vs. specific beef products. Product-oriented production and marketing channels can be viewed as a series of focused production chains, or distributions, containing:
 - < groups of efficient producers with focused products,
 - < integrated information value chains,
 - < integrated, efficient and consumer-driven product streams, and
 - < (relative) premiums for delivering products with specified attributes.
 Commodity-oriented production and marketing channels can be viewed as one broad undifferentiated production chain, or distribution, which the market place can access to meet its further value-added and/or processing needs. This distribution has no definable premium structure and as such specifically requires lowest unit cost sources.

- ! North America is at a vulnerable stage in moving to a product vs. commodity emphasis. To slide back now to a commodity orientation would put the industry in direct competition with South America and, to some extent, Australia. The structure of the North American industry and its prevailing unit cost structures would not support this movement.

- ! While there is considerable concern regarding South America as a potentially significant competitor to Canada and the U.S. in global beef markets, because of the predominance in servicing commodity markets, this concern is currently not as great as it is perceived. However, Australia, with its emerging cattle feeding industry and substantial inroads in existing value-based markets, should be viewed as a real and imminent threat.

- ! Developed nations and mature industries re-invest in themselves. For the Alberta, and North American beef industries to maintain their competitiveness, the pace of:
 - < production and economic research and technology development,
 - < business management skills extension,
 - < adoption of innovative business arrangements, and
 - < consumer preference and product development research
 must be quickened. To stay at today’s pace, or to reduce public and private re-investment in these areas at this time, would be equivalent to giving up the current, hard fought competitive edge this region enjoys ... likely forever.

Supporting logic and rationale behind these observations and conclusions can be found in the following “Summary of Findings” section and, from there, the related sections within the body of the full report.

Summary of Findings

The Summary of Findings is designed to:

- C summarize the detail presented in each of the main study sections, and
- C act as a “spring board” into each of the detailed main study sections, following the key observations and conclusions back through to the root information, analysis and logic paths.

The intent of each section is also noted to put context on the summarized findings.

Primary Resource Base (Section 2)

Intent: describe the resources used in primary beef production by the Focus-6 countries, yielding insight into:

- < how they produce,
- < how big they are, and
- < relevance of industry size.

! From the point of view of the resource base employed in beef production, Alberta, and Canada, are small. Compared to the other Focus-6 countries, Canada ranks 5th in terms of cow herd, slaughter volumes and grazing acreage.

! The resource base profiles intuitively advance the understanding that the cost of producing beef cattle, and the associated rates of return on assets, play an important role in establishing a country’s competitiveness in the global beef complex. For Alberta to have developed the presence it now has in competitive beef markets, the Province’s producers and further processing industries must be reasonably competitive.

! Moreover, by deduction from the resource profiles, size of the industry is important regarding production of a “critical mass of the commodity”, sufficient to:

- C support internal infrastructure within the region, and
- C gain recognition from importing nations as a reliable, longer term supplier.

The combination of an established cow/calf industry, an expanding cattle finishing industry, and relatively new, world scale packing businesses indicate that the Province has developed, and is building upon the critical mass required to be a global player.

! The intensity of production systems employed in each of the regions is generally reflected in their extraction rates (ie. a region’s ability to bring slaughter cattle to market relative to the size of its breeding herd). The South American countries employ more extensive production systems (lower animal productivity; higher age at slaughter; lower stocking rates) and this is reflected in their lower relative extraction rates. Alberta, as a sub-region, and the United States, through their higher intensity production systems, have much higher extraction rates and are far more responsive in bringing slaughter cattle to market. Coincidentally, Canada’s overall extraction rate is lower than Australia’s and modestly higher than Argentina’s.

Beef Production, Consumption and Trade / Markets (Section 3)

Intent: describe the linkage between the aspects of world production, consumption and trade, yielding insight into:

- < the magnitude of the market,
- < the presence and relative importance of the major players, and
- < factors that can have short and long term effects on the momentum of established production and consumption patterns and trade flows.

- ! The U.S. led the world in beef production in 1999 with a share of 24% of the total. Other regions ranked in descending order by share of production are: the European Union (15%), Brazil (13%), China (10%), Argentina (6%), Australia (4%), Canada (3%) and Uruguay (1%). The balance of 24% was produced by the remaining countries.
- ! World-wide production of fresh, chilled and frozen (FCF) beef has grown from 31.8 mmt in 1965 to 57.2 mmt in 2000. North American production over the same period increased from 10.3 to 15.0 mmt. Similar data sources charted global pork and poultry production rising from 42 to 157 mmt during this time frame.
- ! Global major meat production (poultry, pork and beef) has grown from 167 mmt in 1996 to 193 mmt forecasted for 2001. In 1999 shares of global meat production stood at 31% for poultry, 43% for pork and 26% for beef and veal.
- ! On the consumption side, in 1999 the U.S., with 4.6% of the world's population, accounted for roughly 26% of the world's total beef consumption. Canada consumed 2%, the Focus-6 consumed 46.7%, the European Union consumed 15.1% and China consumed 10.4%, with the remaining 28% consumed in other nations. This consumption was driven by population shares of 0.5%, 8.9%, 6.3%, 21.3% and 63.5%, respectively.
- ! Although the total consumption of beef is important in a broader sense, the characteristics of the products consumed, and the prices paid for them, are of more long term significance to the beef industry. Beef demand is a longer term, more dynamic notion incorporating:
 - C drivers of longer term per capita consumption trends (such as tastes and preferences; cultural factors; product acceptance; income levels and distribution; etc.)
 - C response to prices of the product and its substitutes, and
 - C population.
 These elements focus on beef as a series of specific products as opposed to a generic commodity. The differentiated product vs. generic commodity notion is becoming increasingly important in understanding global consumption patterns and emerging trends.
- ! World beef import and export statistics relay massive volumes and values of products moving internationally. Although the magnitude of these movements draws the most attention, the global beef trade hinges on:
 - C the residual volume of beef available for trade after netting out consumption from available production, and
 - C the composition of the products traded in terms of their unit values.
 For instance, the U.S. produces and consumes vast quantities of beef, it's a net importer of beef in quantity, yet it's also net exporter in terms of value. Australia, ranked fourth among the Focus-6 in terms of size of beef herd, leads the world in net beef trade, both in quantity in value. Canada is a modest net exporter of beef in both quantity and value. The differential between average unit export and import values for these countries is quite revealing. The U.S. imports sizable quantities of lower valued commodity while exporting reasonable quantities of much higher valued product. Australia's average export value is much lower, indicating the predominance of lower value commodity exiting the country. Canada's average export and import values are quite close, suggesting a mix of product and commodity moving into and out of the nation. This underpins the notion of intensive production systems supporting the creation of differentiated, higher-valued products for export.
- ! Longer term projections of volume-based world beef market shares indicate gains on the part of Brazil and Canada. More importantly, the estimates show the U.S. moving from a net import to a net export position by the latter half of this decade. This changes suggests a fundamental shift within global trade and may be interpreted in part as a solidification of the product vs. commodity notion.
- ! Historically, Australia, Uruguay and Canada lead the Focus-6 with respect to export dependence (the percentage of a country's production that is available for export). Projections for American export

dependence shares emphatically drive home the key notion of the U.S. becoming an even more dominant player in the beef (volume and value) export complex. Projected export dependence shares for the EU shed little promise for a major breakthrough in that market, unless it's on a value basis.

- ! The implications of export dependence within a country are far reaching. Export dependent countries tend to be more sensitive to their costs of producing the commodity. There is added pressure within export dependent countries to deliver lower cost commodity to remain competitive in commodity-based export markets. Furthermore, if the production and/or productivity growth rate exceeds the population growth rate, export dependence shares advance. This impacts extensive vs. intensive production systems in different manners, but with similar effects.
- ! Livestock diseases such as FMD and BSE have two major areas of effect. The first is in long term productivity reductions. These have a greater impact on regions with intensive productions systems. The second, and more immediate impact is on the trade front with producing (and in some cases consuming) nations blocking access. The story on major-scale livestock diseases begins and ends with the value of lost productivity. The extent to which countries will go, and the investment they will make in maintaining their disease-free status is directly related to the value of lost productivity plus the economic benefit associated with maintaining their export business. The greater the productivity and second round economic losses, the more stringent "disease-free" status countries will be in maintaining this status.

Market Analysis, Outlook and Export Market Features (Section 4)

Intent: describe the world market and fundamentals, linking the impact of world beef production, consumption and trade to local product values, through a review of:

- < domestic and world beef and meat markets, examining supply, demand and pricing, and
- < selected export markets and opportunities in these markets.

- ! The outlook for the Canadian cattle industry remains positive for the short term. Record level market prices, driven in part by recent gains in beef demand, should benefit from the reduced beef supplies ahead. In the longer term, these prices will come under pressure from increased supplies once the herd expansion of the next cattle cycle is underway.
- ! Market fundamentals and an analysis of cattle price-volume cycles suggest a tightening of North American feeder cattle supplies over the short-run as more heifers are diverted from the feedyard to pasture in order to expand beef herds. As calf crops eventually increase, a larger supply of feeder calves will be added to the production mix. The peak in animal production (and the offsetting reduction in prices) is not anticipated for another five to six years.
- ! Although long term price forecasts are difficult to estimate with any degree of certainty, what is more significant is the general trend in pricing and the ability to identify cost benchmarks to deal with the general price trends that are projected.
- ! Forecasted growth in the world economy and a more liberalized trading environment should lead to increased global demand for beef, pork and poultry. Growth in meat production will be constrained by lower beef supplies in the short term, mainly from production and trade uncertainties related to disease outbreaks and drought-related impacts on cattle inventories.
- ! In the longer term, increases in global meat demand will in part be met by increased production from herd rebuilding in the major cattle producing regions of North America and Oceania. World pork and poultry production is also forecasted to rise which will exert more competitive pressure.
- ! The timing and magnitude of outlook elements will be affected mostly by uncertainty about consumer responses to BSE concerns, a continued and deeper slowdown in the U.S. economy, and the impact these events would have on beef demand. Weaker product demand (in domestic and key export

markets) in the face of rising beef supplies over the next decade would not be supportive to cattle prices. Forecast growth in pork and poultry production will pressure world meat prices and beef market share. Locally, increases to feed grain costs and the reallocation of herd resources will also affect the bottom line for many producers.

- ! In the longer run, beef operations must achieve some form of competitive advantage - either lower than average costs of production or higher than average market returns - in order to stay profitable.
- ! As the beef production system becomes more closely aligned with the end consumer, coordination among participants will continue to increase. Moving from a “supply-push” to a “demand-pull” system will have a marked influence on beef cattle producers.
- ! The world market is becoming increasingly segmented. Strong demand for grain-fed beef among the leading importers, particularly Japan, South Korea and Mexico, should favour higher exports from Canada and the U.S.
- ! The “Overview of Selected Export Markets and Opportunities” section provides a brief review of issues, concerns and opportunities over the near term in servicing the following priority market areas:
 - < Mexico
 - < European Union
 - < United States
 - < Japan
 - < South Korea
 - < China

Costs and Returns (Section 5)

- Intent:* describe the relative competitiveness of the Focus-6 countries through a review of:
- < economic and financial performance within each region, in context with the production systems employed in each.
 - < a “systems approach” to other considerations affecting the relative competitiveness of countries in beef production.
- ! Classical competitiveness analysis follows the route of comparing unit production costs. It assumes reasonably comparable industry structure, production systems and products brought to market. There is considerable variance among the Focus-6 regarding these conditions, particularly:
 - C the structure of the industries (marketing systems, business infrastructure, regulatory control, etc.) varies widely,
 - C production systems ranged from highly extensive to highly intensive, and
 - C the range in commodity vs. product orientation covers almost the full spectrum possible.Even if full unit cost comparability were possible, the relevance would be questionable. Moreover, assessing the competitiveness of a primary industry (producing cattle) can only be done indirectly by interpreting the manner in which it delivers an array of beef products to the market place.
 - ! The importance of cost competitiveness is more relevant in assessing how an individual or locale performs within a region’s (or country’s) predominant production system. General cost competitiveness, at the primary level, is necessary at the interface with the global market place. The ability of a region’s beef industry, viewed as an aggregate of individual producers, to bring a definable product to the market in a cost-effective manner is paramount. If this is not present, the ability to maintain a reasonable presence in longer term markets for cattle and beef is diminished.
 - ! When comparing production costs between competitive regions, rushing to the conclusion of which nation has the highest or lowest unit cost (either per lb. or per head) can lead to erroneous interpretations. Maintaining strict comparability and reliability regarding economic and financial

information among the Focus-6 group was a challenge. However, sifting through the economic and financial information from these countries did reveal a few substantive findings. Ranging over the full breadth of production systems within the group:

- C the extensive producing regions exhibited lower costs per head, but these were also accompanied by lower revenues. There was not as much differentiation in net returns (primary production margins) as might be expected.
- C the most significant finding of the economic review was the near identical rates of return on assets across the group. Average returns on assets invested in beef production, ranged in the order of 3% to 5% for 1999.

Alberta, as an element of the Focus-6, can be considered as competitive among its peers. Moreover, from a global perspective, there is a reasonable balance with regard to cost competitiveness, and more importantly, there is a high degree of competitiveness within the Focus-6 regarding returns to assets used in the primary production of beef cattle ... regardless of production systems employed.

- ! Reasonable cost competitiveness at the primary level within a region can be considered as a necessary condition for longer term participation in global beef markets. However, there are other considerations throughout the “value chain” that can add to, detract from, or overcome minor shortcomings in primary cost competitiveness and affect a regional industry’s overall competitiveness at the interface with the global market. For instance:
 - C infrastructure, information systems and business arrangements can reduce total transaction costs throughout the production system, from “pasture to plate”. A trace back and verification system is a key feature to enable these cost savings.
 - C formal or informal integration throughout the value chain improves the efficiency of translating consumer product needs into secondary and primary industry product traits. Not only is the industry more focused on delivering the products desired by end consumers, but this information is transferred up and down the production chain efficiently.
 - C a positive policy environment can promote environmentally sound production practices, delivery of “safe” food products, facilitate producer business management and technical skill development, and minimize business uncertainty through non-intrusive, producer-driven regulations.

The Danish pork industry case holds out an example of a target for the evolution of the North American beef industry.

Issues and Opportunities (Section 6)

Intent: describe the myriad of issues facing the Alberta beef industry today in its quest to solidify and expand its position in the global beef complex. Issues are reviewed by broad “focus” area, identifying key areas, observations and opportunities.

Focus on Unit Production Costs

- ! *Adoption of Management Skills, Information and Technology:* The rate of adoption of management skills, information and tools will have to increase significantly for Alberta to maintain its cost effectiveness at the primary level. An ongoing investment in the development of business management skills, targeted at operations with the long term business goal of economic growth and sustainability, will contribute significantly to the beef industry’s prosperity. Key areas include:
 - C producers are resilient, creative, flexible and, in particular, responsive to improving management skills and information use.
 - C create a visible linkage between economic and business management research and downstream extension efforts. Public extension services are positioned to effectively create this linkage and are perceived as knowledgeable, unbiased and relevant.Producers will be better equipped to make better decisions.

- ! *Research and Development: Production and Business Management Technology:* For the primary beef industry to keep its competitive edge, the pace of production research and technology development will have to be quickened and focused. Moreover, economic and business management information, research and technology development must be enhanced to complement the production side. Key areas include:
 - C coupling production based research with an economic evaluation and complementary economic research will expedite the flow and adoption of research and technology, creating production and management efficiencies.
 - C integrated beef and forage systems research and technology development, with associated economic analysis and extension, will form the basis for effective long term on-farm resource allocation.
 Information and technology will be available to advance the industry's long term cost competitiveness.

- ! *Innovative Business Arrangements:* There is reluctance in the industry, based on entrenched business mindsets and/or mistrust, to form business arrangements that effectively reduce unit production costs. Business alliances, partnerships, cooperatives and joint ventures regarding input procurement, asset sharing and focused volume-based marketing hold significant potential for reducing unit production costs.

- ! *The Beef Production "Dichotomy":* Primary beef producers are pressured to:
 - C match their herds and production systems to the local environment in the most cost effective manner for their farms, and
 - C match their products with what consumers, at arm's length, are demanding.
 These can, at times, be perceived as being at odd's. The challenge for beef producers is to turn these potentially opposing pressures into a business advantage. There will be little choice to do otherwise as consumers are focused on food products, not the "commodity", beef.

Focus on Products

- ! *Products, not Commodities:* The transition from a commodity to a product business approach must be made by individual business and the industry. Targeting the beef industry, at each level of the production chain, to deliver on specific preferences, or requirements of the next successive step in the chain will bring along with it the associated premiums. The direction for the industry will be to import low-valued commodity and direct higher-valued product, produced and/or processed locally, into the domestic and export markets that pay premiums. Key areas include:
 - C conscious, strategic alignment of groups of cow/calf and feeder cattle operations focused on meeting the specific needs of the finishing industry. Further development of a forage-based backgrounding component would act as a "bridge" to meet timing, frame and type needs of intensive lots.
 - C sufficient slaughter cattle volumes would support differentiation and segmentation, at the packer level, of "carcasses" into "product streams".
 - C strategic organization of the production chain to deliver specific product, packaging and portion traits.
 - C consumer product development, linked to associated product research, keying in on traits, markets and branding schemes.
 The focus will be on producing what the next leg of the production chain, ending with the final consumer, demands.

- ! *Innovative Business Arrangements:* There is reluctance in the industry, based on entrenched business mindsets and/or mistrust, to develop business arrangements that enhance the ability to meet specific client needs throughout the value chain. Business alliances, partnerships, cooperatives and joint ventures linking specific product needs regarding input specifications, down-stream client needs, strategic information sharing, and focused volume-based arrangements hold significant potential in improving overall value chain revenues and reducing unit production costs of value chain participants.

- ! *Research and Development: Products, Preferences, Markets and Value-Chains:* Product development, market and consumer preference research creates market opportunities for Alberta beef products. Increasing the value, volume and share of Alberta beef products in domestic and export markets is key to the long term viability of the industry. It is critical to have a sound understanding of consumer preferences and demand drivers in priority markets. The functioning of value or product chains, in terms of participant relationships, performance of chains, and the implications of aspects of revenue, cost and risk sharing, are not fully understood. Linked with market area and preference information, “product” research can become more focused.
- ! *Adoption of Management Skills, Information and Technology:* There is a significant role to be played by smaller value-added processing, retail and food service business in expanding beef’s profile in both domestic and export markets. The issue is whether or not their knowledge base, marketing and business skills, and information systems are sufficient to reach the potential in this area of opportunity. The strength of small businesses lies in the energy and creativity they employ in servicing customer’s needs. Business development, market and product information, and management training assistance builds on these strengths. Regulatory compliance, in both domestic and export markets, challenges small businesses.

Focus on Investment and Infrastructure

- ! *Resource Base:* There is concern among producers that it is increasingly difficult to earn a reasonable rate of return (living) and that the value of their assets may be in jeopardy. However, the Alberta industry is well positioned to be a significant player in primary beef production. The upcoming generation’s producers will be prepared to manage their businesses within this “new reality”. In short, unless there is an unforeseen shift in global beef production, the resource base devoted to primary beef production will likely remain in that use, although the manner in which operations are managed will evolve over time. Assets (equity) will remain in the business but the composition of the farming population will change.
- ! *Labour Availability:* Difficulties in finding and maintaining capable labour has been voiced as an agriculture-wide issue. Training programs, promoting working in agriculture as a career choice, are in part working to fill this gap. However, the fact remains that to maintain qualified labour in the industry, pay and benefits will have to be competitive with other industry sectors.
- ! *Role of Industry Organizations:* Concern has been voiced as to the future role of industry organizations in the evolution of the beef industry. A few key opportunities exist for producer organizations in the regard:
 - C act as a “voice of producers”, bringing forward the priorities of the industry to the public policy forum.
 - C act as a “voice of producers”, working as key partners in developing proactive strategies and operational plans to deal with many of the industry “issues of the day”.
 - C act as a “peer voice”, working as a key partner in developing and gaining acceptance for inter-regional trade arrangements.
- ! *Investment in Packing Facilities:* There is concern that the expansion of the feedlot finishing industry may soon exceed packer capacity in the Province. However, with the shift from a commodity to a product focus, so too will the emphasis of the major packing facilities. What is produced, not how much is produced, will play a major role in further investment in packing facilities in Alberta. Packing capacity in any location will adjust more to accommodate a product emphasis as opposed to commodity volumes.
- ! *Investment in Value-Added Processing:* There is concern that, while slaughter capacity has expanded and consumer demand for processed products has increased, value-added processing in Alberta has not followed suit. On the domestic front, there are opportunities for investment in processing firms to meet refined and differentiated consumer preferences. Value-added processing tends to locate near the

market as opposed to the source. Extending expanded processing capacity in any large way to export markets is largely controlled by major packers. Local investment in processing facilities will be driven by targeted, smaller-volume penetration of processed beef into export markets.

Focus on Balancing Business, Public and Consumer Needs

- ! *Overarching Issue - Public Perception of Agriculture:* With urbanization of the population over time, the linkage to, and understanding of agriculture has diminished. Subsequently, public perceptions are formed regarding the actions and motives of the industry that are not founded in fact, science and/or majority. These perceptions can influence government decisions on how the industry should operate, or how they will be controlled. Production technology, management systems and producer-driven stewardship standards have undergone positive dramatic changes over time. Collaborative public and private sector efforts to objectively and proactively inform the public of these developments, their implications to the public, and the industry's sense of responsibility would improve the image of agriculture.
- ! *Business Needs: Business Risk / Disaster Management:* Sources and impacts of business risk in agriculture are increasing. The industry requires options for managing risk that respond to "disaster" at the industry level while maintaining opportunity for individually-driven business success and failure. "Disaster" situations can result in business failures at a broad industry level in the short run while longer term prospects are for viability and growth. The primary beef industry, and individual producers, are recognizing that they bear the responsibility to manage the bulk of their business risk. They also realize the need to develop the knowledge, skills and information systems to deal with these risks. There is a role for government, however, to offer programs designed to bridge the industry over disaster situations. These programs must find the fine balance between providing sufficient protection to maintain the industry on its long term course, and remaining relatively production and investment neutral.
- ! *Business Needs: National "Herd Security":* Transmittal of livestock diseases can result in productivity losses and/or reduced public acceptance of beef as a safe food source. It is the role of government, in consultation and partnership with industry, to define, monitor and police compliance in health of animals and disease control standards. Key areas include:
 - C zero-tolerance in regulations and trade protocols regarding FMD and other "industry stopping" or catastrophic diseases,
 - C trace back and contingency planning in the event of potentially epidemic diseases, and
 - C risk assessments and common sense in facilitating livestock movement in North America.
- ! *Public Needs:* Production agriculture has been implicated in compromising air and water quality. As well, agriculture is but one user of public lands that have other business, wildlife and recreational options. The role of the Government, in consultation with stakeholders, is to:
 - C provide balance at the interface of multiple, and often conflicting uses of public resources, and
 - C work with industry to develop acceptable production and joint-use standards based on "good science and good sense". This includes, for example, consistent standards and protocols for siting livestock operations and for humane husbandry practices.Measures are directed to promoting sound, responsible stewardship and then creating public awareness of same.
- ! *Consumer Needs:* Consumers demand a safe food supply. Food production systems, from gate to plate, have intensified resulting in increase opportunities for health related hazards (perceived or real) to occur. It is the role of government to define, monitor and police compliance in food safety standards. Industry recognizes the importance of stringent sanitary and processing standards and generally works with government to ensure compliance. Key areas include:
 - C work proactively with processors, retailers and food service industries to ensure compliance, and
 - C education of the public regarding appropriate handling and preparation of foods to minimize post-purchase hazards.

Focus on Trade and Trade Relations

! *Domestic & North American Level:* Integration into a “North American beef production region” has been taking place gradually for some time. Consolidation and growth-to-scale of packing and intensive feeding businesses have quickened this process. However, there are still vestiges of regulation and vested interest, based on “nationalistic” fears carried forward to today, that slow this process. A number of inter-related issues revolve around this evolution of Canadian and American beef trade and trade relations. Because of this high degree of inter-relationship, issues are flagged together in a section and opportunities applying in part, or in whole, to all follow separately.

Issues

- < Dependence on the U.S.: Concerns regarding the dependence of the Alberta beef industry on the U.S., as an outlet for product and a supply of feeder cattle, tend to be based on fear of “losing control of one’s destiny”. The level of mutual knowledge and trust required for free flowing business relationships has not yet fully developed.
- < Protectionism: When the economy slows, pricing and producer margins, on both sides of the border, tend to be squeezed. This results in grass roots lobbies to “protect the local industry” and has brought on responses such as countervailing duty petitions, punitive inspection and grading actions, country of origin labeling requirements and strict enforcement of health of animals import regulations.
- < U.S.D.A. Inspection & Grading: The “U.S.D.A. inspected and/or graded” label has value in the American and international markets for commodity beef. A significant portion of this value is being conveyed to higher-valued beef product streams. The U.S. has a considerable investment in getting this “acceptability and related preference” into place. The recent Canadian grading system changes provide comparability but do not carry the U.S.D.A. label that elicits the market premium. Discontinuities occur in movement and value of product and create market inefficiencies, particularly with respect to essentially identical products.
- < Brand Labeling: The movement towards branded products, in both domestic and export markets, is an attempt to associate quality characteristics with a specific set of consumer preferences. Quality is in “the eye of the beholder”. Although branding may in part circumvent the issue of “U.S.D.A.” labeling, if product branding is to be in the purview of international corporate businesses, should the “Alberta Beef” label be required?
- < Disease Control and “National” Herd Security: Maintenance of “national” herd health presents some difficult trade-offs for Canada and the U.S. regarding freer-flowing, reciprocal movement of cattle and beef. There is suspicion that import regulations are used to unduly restrict trade flows beyond the levels required to maintain disease control.

Opportunities

- < Efforts to improve trade relations begin with producers and producer organizations gaining a fuller appreciation of the nature of the industry, particularly the common ground, on both sides of the border.
- < Collaboration of producer organizations at the national level to proactively address common trade and policy issues to the benefit of the mutual “Canadian-American region” will reflect leadership, commitment and direction to local, state, provincial and federal policy makers.
- < The role of the various levels of government is twofold:
 - C act as both a partner and facilitator in the trade relations and issues resolution activities among producer organizations, and
 - C implement regulatory, program and policy changes reflecting the consensus achieved through the collaborative efforts of producer organizations.

- < Key areas include:
 - C increased knowledge and understanding, by producers, of the nature of the industry across the continent, and the benefits of working together as partners in a global context,
 - C strive towards “grading equivalencies” to remove product discounts derived through regulation,
 - C develop transparent protocols regarding the movement of livestock between the two countries as well as importation from other countries,
 - C reinstatement of USDA grading of Canadian beef carcasses in the U.S. and removal of country of origin requirements, and
 - C recognition that the definition of product characteristics, to be encompassed by brands or labels, is specified by consumers, not government or industry. Country of origin, carcass grade, inspection, etc. may or may not play a role in product specifications.
- The intent is to promote cooperation and transparency between the two countries.

! *Multilateral Trade and Trade Relations*

- < Beyond NAFTA: The aim of moving beyond NAFTA to include other Central and South American countries (“Free Trade of the Americas”) is to open up market access among the participants. With improved access, however, comes increased competition from other beef producing nations. The opportunity in such agreements is to solidify the “commodity vs. product” approach, promoting the ongoing industry structural evolution towards more “globalized” trade in beef. Access will require logical resolution of trade barriers yet maintain the ability to protect herd health status.
- < The World Trade Stage: The aim of the WTO agricultural trade agreement (negotiations in progress) is to reduce subsidization and trade barriers globally. Although this brings opportunities to expand trade and rationalize subsidization (dumping) activities, a number of needs and trade-offs are brought into play among industries, nations and trading blocks. Key areas include:
 - C sanitary and phytosanitary concerns among nations,
 - C protectionism has made resolution of trade barriers and impediments difficult, and
 - C potential to increase access to North America by subsidized products.