Canadian Cattlemen's Association Brief for the Standing Committee on Finance for Budget 2012

Executive Summary

The four priorities for this consultation are achieving a sustained economic recovery in Canada, creating quality sustainable jobs, ensuring relatively low rates of taxation and achieving a balanced budget. CCA's recommendations help on all four fronts. These recommendations are:

1. Reinvest in an industry led market development fund for Canadian cattle and beef.
2. Increase spending on agriculture research, development and technology transfer.
3. Return grain based ethanol production to a market basis.

Canadian beef production contributed $24.6 bilion to Canada's economy in 2010. Smart investments by government and industry in research and market development will grow the industry in a sustainable fashion. These investments include rebuilding the research capacity at Agriculture and AgriFood Canada as well as collaborating on funding research and market development through replenishing the Beef Legacy Fund. This investment will support the ongoing important steps to pursuing, expanding and defending market access for beef, live cattle and genetics. These ongoing steps include pursuit of multilateral and bilateral free trade agreements (that do not trade off beef, cattle and genetics access for protective agricultural interests), personal engagement at the Ministerial and Prime Ministerial level and continued funding of the Market Access Secretariat at Agriculture and AgriFood Canada.

The continued subsidization of refinery construction, production, mandates for usage and tariff protection of grain based ethanol create an artificial reality for this competitor for feed grains. Jobs in this or any industry so reliant on government involvement are not sustainable and they contribute to increased taxation and government spending. Returning the ethanol business to a market basis will help to ensure any jobs in the sector can contribute to a sustained economic recovery.

Reinvest in Industry Led Market Exploration and Expansion – Replenishing the Legacy Fund

The global marketplace is increasingly complex with risk and reward awaiting those that can navigate cultural, business, regulatory, political and commercial barriers. While these opportunities await, businesses in today's competitive global economy are often tested to just compete in their current markets. Further complicating the agriculture business scene is the reality that producers of primary goods, cattle, grain, hogs etc. are often not marketing the good that end use consumers buy. Expanding markets for those finished goods holds great promise for the primary producer and for the economy as a whole. But the margins in marketing the input good do not allow for spending great amounts to explore finished goods markets for potential, demand and feasibility.

The "Legacy Fund" implemented in 2005 as part of the response to market closures following the finding of a BSE positive cow in 2003 has been a success story in utilizing industry and government resources together to enable cattle producers to explore, assess, develop and expand markets for beef, live cattle and genetics. The Legacy Fund was a $50 million investment slated for 10 years of spending. The government dollars came with requirements that the money used is matched by industry funds and that its use is for market development outside of Canada.

CCA recommends that the Legacy Fund be renewed for a further 10 years at a level of $12 million per year. This represents a 0.2% investment on behalf of government into the roughly $6 billion cattle and calf business. It seems a small amount or a large amount depending on what lens you apply. But this amount matched with industry funds can be used to explore the feasibility of expanding access into developing markets where Canadian beef, cattle and genetics are not currently selling. Ultimately beef processors will be the ones making the large investments to serve any new beef market. But there are steps before a market is opened including assessing whether access is worth pursuing that processors will not always take. The gains to be had for primary producers are worth investing resources in this type of exploration and development.

Exploration and development of international marketing relationships are important. International markets often demand products that are not consumed to a great extent in Canada or North America and premium prices for these products are available for these products in international markets. Examples include items such as the tongue, offals, short ribs, skirts, and livers. Consequently, in order to maximize the entire value of the carcass through the sale of specific products, international markets are an important marketing outlet for Canadian beef.

Increasing spending to agriculture research, development and technology transfer

The wide ranging spending cuts of the mid nineties touched most areas of government activity. In the intervening years some of the areas where cuts were made have rebounded and grown beyond those levels. That cannot be said about agriculture research. An area where the budget in 2012 and beyond should increase spending is in rebuilding and increasing the structural capacity for public research at Agriculture and AgriFood Canada, increasing the ability to take research to commercialization and increasing the ability to take research and innovation from labs and universities to people able to utilize that knowledge in factories, on farms and ranches and in processing plants across Canada.

The return on investment in research and development is widely supported by research done in Canada. Research into the Canadian beef checkoff funded research showed returns as high as 46 to 1 on producer dollars spent. The ratio of return was higher in Canada than in the United States and Australia indicating room for further investment in Canada but also indicating great value for money invested in research in Canada.

The OECD is also advocating greater investment in agriculture research. Countries that invest heavily in research and development relative to direct producer support have shown over time to be more competitive than their counterparts expending budget on direct producer support or on market protection measures.

Research is currently part of the five year cycle of agriculture funding between the Federal, Provincial and Territorial governments. Budget 2012 should start to expand on research's value by instituting a longer horizon funding model for agriculture research. By moving to a 10 year funding plan investments can be made in infrastructure, human resources and allow for new ideas to be added to plans that too often are inflexible in the current five year structure.

It must be understood that Canada is losing agriculture brain power to other countries, especially the United States. The United States network of Land Grant universities provides an environment of stable and ongoing research focus. Canada's government research community faces a bureaucratic squeeze and ever dwindling budgets. Reversing both of these trends can keep these people doing what is needed for the agriculture of tomorrow while helping to attract new people to replace the aging short bench currently in place. Increasing budgets for travel and research would allow researchers to better focus on doing research and telling people about their findings, rather than involving themselves in administrative tasks. In recent years too much time is demanded of researchers satisfying government administration demands. Also there are too many restrictions on travel, which hinders the ability of Canada's economy to benefit from research turning into innovation. Research is not innovation until someone takes new knowledge and makes something from it. The administration burden and restrictions on travel are two reasons Canada is not benefiting as it could be from an already too small investment in agriculture research.

The Canadian beef and cattle sector is becoming increasingly concerned over the decline in capabilities related to research within Agriculture and Agri-Food Canada where due to funding cuts, research positions in several core areas have not been filled upon individuals retiring or transferring into administrative roles or out of the organization. In several areas research capacity is at a critical state with little or no transition plan in place to ensure important research programs are maintained. For example Canada previously had several individuals working to improve methods of evaluating carcass quality and composition from a commercial perspective. This is critically important in providing the knowledge necessary to inform federal grading regulations and because carcass yields and quality grades are a key determinant of the ultimate value of animals in the beef industry. Currently though we have no scientists working in this area and despite industry funding support it is our understanding there are no defined plans to fill even one position related to carcass quality assessment, classification, and grading. Similar situations exist in forage and applied food safety research, where capacity has continued to dwindle to the point where despite critical research priorities being brought forward along with industry funding there are not enough permanent position scientists in Canada to do the work necessary.

We cannot solely rely on the private sector for research in these areas. Managing our forage assets, ensuring our food safety and improving the competitiveness of the products we produce through quality improvement and measurement are important bases for the agriculture of tomorrow. As the population continues to grow in the world, few countries are going to be able to produce for themselves and the export market. Canada's low population and large land base point to exporting agriculture outputs as a bright light for future jobs and growth. But without better placed and increased agriculture research funding, countries like Brazil, Australia, Argentina and the United States will be more than happy to take our place in markets such as China, India, Russia and the European Union.

Return grain based ethanol production to a market basis

CCA is in favour of open market competition for the product we produce. For Canada's beef industry to aggressively compete in domestic or international markets, we also need an open market for the inputs we need. Aside from feeder calves (which are sold on the open market), feed grain is the biggest expense in finishing beef. In recent years a new competitor for feed grains has flourished in North America. Ethanol from grain has become the biggest user of corn in the United States and is increasingly a buyer of grain in Canada. Unfortunately this growth has not come from open market signals. This growth in Canada is due to:

- subsidies to build capacity to produce grain based ethanol
- subsidies for producing grain based ethanol
- mandates for inclusion of grain based ethanol in gasoline
- tariffs against import of non-NAFTA ethanol.

These government actions are increasing the cost of feeding cattle and reducing the ability of Canadian cattle producers to profit from selling grain fed cattle.

There are several arguments put forth in favour of government support of ethanol production. One is the environmental benefit of ethanol. This debate rages on largely due to disagreement about how to account for greenhouse gas in models and how to count land usage change effects. What is lacking is a Canadian government study showing the environmental benefit of wheat based ethanol. The main body of research is based on corn and sugar cane based ethanol. A major point that is overlooked in the environmental discussion is that if ethanol significantly contributes environmental benefits then all tariffs on its importation should be removed. This would allow for the most efficient supply of these environmental benefits.

Another argument put forth is the benefit to grain producers. Prices have increased due to ethanol production demands. But we must also examine the long term effects of demand created by government action. Livestock has traditionally been the biggest buyer of feed grain in North America. Ethanol has recently taken over that title. But as the livestock industry shrinks, what happens when government mandates and subsidies disappear? That traditional customer has shrunk and grain producers will be left wondering where demand has gone. It makes it that much more important to let the market decide what the best use of feed grain is so a cliff isn't created for grain producers. When that cliff comes you can bet there will be voices calling for governments to ease the pain from the drop created by removal of government programs.

Recently renewable fuels advocates have stated that ethanol helps to lower the price consumers pay at the pump. This is a great argument for the complete removal of government support for ethanol production. If taxpayer support makes the production possible then drivers are not paying less in total. If ethanol can lower the cost of gasoline, there should be no need for government support.

The last argument to examine is that jobs are created by ethanol production. Jobs created to serve a mandated market are at the mercy of that mandate. The goal of the mandate is not clear; is it to increase production of domestic ethanol, or is it to increase the usage of ethanol? As mentioned, if ethanol usage is the goal then all tariffs on its importation should be removed. If the goal of the mandate is jobs through domestic production then the question of cost needs to be answered. Looking at estimates from Treasury Board reports:

- ecoENERGY for Biofuels provides an operating incentive to facilities that produce renewable alternatives to gasoline and diesel in Canada. This program has distributed close to $1 billion, likely more as the 2010-11 reports were not filed at time of writing. As of March 31, 2010 $473 million remained from the original $1.4 billion budget. At that time there were ample applications to access these funds, as one would imagine.
- The ecoAgriculture Biofuels Capital initiative (ecoABC) is a four-year (extended to six), $200 million federal initiative that provides conditionally repayable contributions towards the construction or expansion of biofuel facilities that have equity investments from farmers and use agricultural feedstock. At time of writing the website for the program states "23% of the $186,000,000 available to the program has been allocated to projects for which contribution agreements are signed." That leaves $143 million uncommitted.

That is roughly $1.6 billion to subsidize building production capacity and for the production of ethanol. Yes there are people working but at great cost. The program websites themselves mention a 7% holdback for administration alone. Taxpayers could do better with that money and government could too by not picking one industry over another. It would be best in CCA's view if some of that money were reallocated to industries that are not relying on subsidy for construction, for mandates for consumption or for subsidy per unit produced. In addition to the cost of the jobs created by government participation in the ethanol business are the jobs lost in the livestock business. Cattle and calf receipts in 2010 totaled $6.16 billion and beef production contributed $24.6 billion to the Canadian economy. Most jobs in the ethanol sector are not newly created jobs from innovative businesses. They are jobs in processing feed grain into fuel at the cost of jobs in processing feed grain into food. This cost is more difficult to quantify but perhaps of a higher impact in rural Canada.

It must be noted that CCA is not recommending cutting programs such as the ecoENERGY Technology Initiative (which invests in the research needed to improve energy technology) or the Sustainable Development Technology Canada for the NextGen Biofuels Fund (which investigates new methods of fuel production). CCA supports this type of investment in new ideas and searching for new technology. The problem programs are the ones that artificially prop up a competitor for inputs. If the technology they use is viable and the product they produce is desired in the marketplace, there should be no need for subsidies, mandates or tariff protections. With those protections in place the jobs produced are not sustainable. They result in higher taxes and increase the time before Canada can return to a balanced budget. In this era of high energy costs a substitute should be able to compete without taxpayers helping out.

Provinces have followed and sometimes led the federal government in subsidizing construction and production in this area. Some of these programs have clear sunset dates and some do not. We believe the federal government should take the lead by clearly laying out a sunset date for the mandate and production subsidies. March 31, 2013 would be a reasonable lead time for companies relying on these subsidies. The blending mandate can be repealed immediately to let the market decide what level of gasoline should have ethanol blends. The federal government can also lead by immediately closing subsidy and loan programs for construction of new capacity. This will save hundreds of millions to help work toward a balanced budget. The result will be jobs that are created in this field or any field using feed grain are sustainable jobs that rely on customer demand instead of government budgets or mandates.

The federal government can also remove all tariffs on imported biofuels to allow for true market competition in this area. As the past year has shown, currency values and sugar prices dictate how much ethanol is available for export from Brazil. A similar situation could develop in North America where the use of feed grains will respond to the best market demand at the time. Entrepreneurs and companies will be able to make decisions based on market demand, not government programs and availability of taxpayer funds.

Conclusion

There are few ways to create wealth. Agriculture uses the energy from the sun and productivity of the land and water to create goods that were not there before. All the value adding transactions in the creation, transportation, transformation, preparation and delivery of finished goods stem from that first wealth-creating step of primary agriculture. Lately agriculture seems to get short shrift as high technology and services take up the economic conversation. But agriculture marches on. Beef production alone contributed $24.6 billion to the Canadian economy in 2010. As Budget 2012 is brought together, the contribution to jobs and wealth that cattle, beef, genetics and other areas of agriculture production deliver must be remembered. Investing in this industry is a good way to build sustainable jobs and sustain the recovery and ability to prosper for much of the Canadian population.

These recommendations provide a good balance. Trimming the amount of taxpayer funds invested in an industry that should be increasingly viable in a high cost energy era, investing some of those savings in agricultural research and market development will leave millions left over. These funds can be used to get Canada's budget back to balance sooner than later so further investments in competitiveness can be made.