



Canadian Sheep Federation's Border Closure Recovery Strategy

September 2004

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Executive Summary:

This document was prepared by Canadian Sheep Federations {CSF} to outline a strategic plan for assisting the Canadian Sheep Industry's recovery from the effects of the May 20, 2003 US border closure due to Bovine Spongiform Encephalopathy {BSE}.

Prior to BSE border closure the Canadian Sheep industry had been experiencing a period of considerable growth and expansion. Sheep numbers were expanding, exports were increasing and prices were stable. Everyone in the industry was excited about the prospect of even more industry growth. At the same time CSF lead the industry through the process of implementation of the Canadian Sheep Identification Program and is well in the way to delivering the Food Safe Farm Practices program. Both of these programs are intended to ensure the strength and future growth of the sheep industry in Canada.

The post BSE environment is vastly different for sheep producers. Farm cash receipts for the sheep industry are down 42% for the first quarter of 2004 when compare to 2003. Many producers are left wondering where they will market their lambs; let alone what the price will be. Producers are in dire need of help for government to see them through this crisis. CSF needs help to reposition the industry to adapt to the marketing environment that has evolved as the result of this crisis.

The Canadian Sheep Federation, Border Closure Recovery Strategy is designed to facilitate recovery of market stability and position the Canadian Sheep Industry as leaders in providing high quality, safe lamb to the market place. The short term challenges to achieve this are;

- 1] Reestablishment of normal trade in sheep and lamb products with the US and other trading partners.
- 2] Lamb market price stabilization.
- 3] Economic support for producers.
- 4] Increasing the ability to kill and process lamb through federal inspection.
- 5] Increased need for marketing resources to enhance the domestic sale of lamb.
- 6] Producer education to encourage production changes that recognize the prevailing market conditions.

The Solutions that have been identified through consultation with our provincial members are;

- 1] Ewe lamb retention program.
- 2] Investment in an enhanced National Scrapie Strategy.
- 3] Investment in federally inspected kill and processing capacity dedicated to lamb and mutton production. {This would benefit other small ruminant species}
- 4] Market development and promotion for lamb products.
- 5] Industry development and adjustment.

In order to achieve the goals outlined the Canadian Sheep Federation is respectfully requesting that Minister Mitchell and his provincial counterparts fund the Canadian Sheep Federation's Border Closure Recovery Strategy to the sum of \$50,390,000 over the next five years. In addition we would request that our producers be eligible for any additional enhancements to programs such as CAIS. With the commitment of funding we are confident that our industry will emerge from this crisis on a competitive footing with the opportunity to again expand and prosper.

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Background

The Canadian Sheep Federation [CSF] is the national representative for Canada's 13,232 sheep producers. The CSF is governed by a Board of Directors that is comprised of representative from the provincial sheep organizations, the Canadian Sheep Breeders' Association and the Canadian Cooperative Wool Growers. Its mandate is to represent all sheep producers in Canada and encourage the growth and prosperity of the Canadian sheep industry.

Prior to the 20 May 2003 the Canadian sheep industry had, in recent years, enjoyed a period of tremendous expansion and it was well poised for continued growth. In 2003 the industry contributed over \$103 million to the Canadian economy. Sheep producers were experiencing high prices and their farm cash receipts were rising. Between 2000 and 2002, stable lamb prices allowed income to rise 28%, from \$76,537,000 to \$97,779,000. Stable lamb prices allowed our industry to be competitive food producers, with a product that was meeting growing market demand within Canada. This growth in farm income can be attributed to expanding production and increased market penetration. Another affect of the industry being economically productive was an increase in the size of the national flock. From 1996 to 2001, the number of sheep in Canada increased by 46% to a total inventory of approximately 997,000 head.

The Canadian sheep industry was also experiencing dramatically increased international demand for their lambs. The number of lambs exported increased from 85,470 in 2001 to 139,297 in 2002; an increase of 63%. The economic value of the animals exported in 2002 was \$18,661,242.

As the industry expanded, it implemented programs that were geared towards strengthening its markets and increasing consumer confidence in the products. On January 1, 2004, the Canadian Sheep Identification Program was launched. This program was designed to mesh with existing and planned identification programs for the other livestock sectors in Canada, providing the Canadian sheep industry with the ability to trace animals in order to control the spread of disease.

The CSF has also developed the *Food Safe Farm Practices* program, which is our on-farm food safety program. The program is HACCP based identifying good production practices geared to assist sheep farmers to produce a safe and high quality product. The program is currently under technical review by the Canadian Food Inspection Agency; a process which should be completed by November 2004.

Although the industry was continuing to grow, and lamb consumption in Canada was increasing, the reality was that Canadian shepherds were only supplying approximately 50% of the national demand for lamb and mutton. Recognizing this, the industry feels that there is a great opportunity for expansion.

By May 2003, 68,867 animals had already been export from Canada, totaling \$10,946,224. If exports had continued at this rate for the entire year, there would have been a 71% increase in exports in 2003 when compared to 2002. As our reputation for producing quality lambs increased, Canadian sheep producers were receiving inquiries for breeding stock from several countries including; Mexico, the U.S., China, and Brazil. However, at the time of the border closure, 98% of the economic value of exported animals was generated from sales to the United States.

The border closing on May 20, 2003, due to BSE, has been economically devastating for the Canadian sheep industry. With the immediate halting of animals crossing the border, farm cash

receipts that were once increasing, plummeted by 42% during the first quarter of 2004, when compared to the same time period in 2003.

The inability to move animals across the border is a real concern for Canadian sheep producers. This problem is compounded by the fact that the industry does not have access to adequate federal slaughter capacity dedicated to killing lambs. In 2003, 508,614 sheep and lambs were processed in Canada, 67% of which were processed in provincially inspected plants. Therefore, the products have to be consumed in the province in which they are processed; ineligible for interprovincial or international trade. This means that Ontario has had to deal not only with dropping prices for animals, but is also saddled with the responsibility of marketing more lamb. Approximately 45.1% of the nation's processing capacity is in Ontario; only 6% is inspected federally. Displaced lambs originally destined for export primarily from western Canada make their way to Ontario. This will continue to happen because it is the largest market for lamb in Canada. The net result is continued turmoil in the industry because of the inability to effectively process the lambs and move them to market.

Under the current border restrictions boneless lamb could be exported however this is not happening because of the problems with the lack of federal slaughter and processing capacity.

In addition to this negotiations to open the border to sheep are complicated by the lack of a comprehensive National Scrapie Strategy. The US has implemented and funded a national scrapie eradication program intended to establish scrapie freedom in its flock by 2014. This, coupled with the recognition that scrapie is the sheep equivalent of BSE in cattle {although scrapie has been recognized for several hundred years and has never been identified in humans} the USDA feels that Canada needs to improve our existing scrapie policies. Concerns over the possible inability to clearly differentiate between scrapie and the highly theoretical unlikely transfer of BSE to sheep are cited as the rationale for excluding Canadian sheep and lamb products from the US market.

Challenges:

The industry is faced in the short term with several major challenges;

- 1) Reestablishment of normal trade in sheep and lamb products with the US and other trading partners.
- 2) Lamb market price stabilization.
- 3) Economic support for producers.
- 4) Increasing the ability to kill and process lamb through federal inspection.
- 5) Increased need for marketing resources to enhance the domestic sale of lamb.
- 6) Producer education to encourage production changes that recognize the prevailing market conditions.

Solutions:

After considerable national consultation CSF has identified 5 areas that it would like Minister Mitchell and his provincial counterparts to consider;

- 1) Ewe lamb retention program.
- 2) Investment in an enhanced National Scrapie Strategy.
- 3) Investment in federally inspected kill and processing capacity dedicated to lamb and mutton production. {This would benefit other small ruminant species}
- 4) Market development and promotion for lamb products.

5] Industry development and adjustment. Attention to these issues has been identified by the industry as being critical to bringing the industry through this crisis in a position to respond to future market opportunities.

1] Ewe Lamb Retention Program:

A ewe lamb retention program is being proposed to manage the supply of animals going to sales barns and to help maintain sheep and lamb prices at a viable level. This would also allow the industry a short period of market adjustment.

- A producer would be eligible to retain or purchase ewe lambs equivalent to not more than 65% of their existing breeding flock. Ewe inventory would be based on December 23, 2003 {TSIP Inventory Date} or the date of the program announcement {producer's choice}.
- Lambs put on the retention program must be born between April 1, 2004 and March 31, 2005.
- Producers would be required to uniquely identify the lambs that were enrolled on the program.
- Payment per ewe lamb of \$65.00.
- In order to qualify producer must be a permanent resident of Canada.
- To allow producer access CSF suggests a similar hold back to the one used for the TISP program of 30% until the program year end.

The short-term outcome is that it will reduce the number of lambs in the market place. The long-term outcome would be a stronger Canadian flock with a younger average age that would be healthier and more productive.

Cost breakdown ewe lamb retention program:

\$65 per ewe lamb x 307,692 ewes lambs = \$20 million

See Appendix 1

2] National Scrapie Strategy:

The national scrapie strategy, which includes a scrapie surveillance program, would further enhance the ACAAF proposals that the Canadian sheep industry has already submitted; one for a Voluntary Flock Certification Program and one for a National Genotyping Program. This strategy would:

- Establish a baseline incidence of scrapie in the national flock
- Reduce the incidence of scrapie in, and improve the health of, the national flock
- Provide producers with the opportunity to purchase breeding stock from flocks with a low risk of scrapie infection
- Provide recognition of equivalence; in that our policy is equivalent to the USDA scrapie eradication policy. This would facilitate the resumption of normal trade relations with the United States.
- Enhance consumer confidence in our food safety and quality.

Cost breakdown:

Active Scrapie Surveillance Program:

Surveillance Sample Source.	Number of Samples.	Cost Estimate.
Condemnation at slaughter	400	\$40,000
Veterinary pathology lab submissions	100	\$10,000
On farm dead stock	500	\$50,000
Mature normal slaughter	3000	\$300,000
Carcass deterioration		\$100,000
Total	4000 samples/ year	\$500,000/ year

To further enhance the program, in addition to the ACAF proposals {pending approval} already submitted by industry, an additional investment in both the Voluntary Scrapie Flock Certification Program and the Scrapie Genotyping program is being requested.

- Additional investment of \$2 million for the voluntary flock certification program which would increase the number of flocks participating from 75 [proposed in the flock certification pilot project] to over 1200 flocks.
- Additional investment of \$1 million for genotyping over the next 3 years. This would allow the genotyping of 12000 sheep per year and the selection of a critical mass of genotyped sheep to breed replacements for the national flock.

Total: Scrapie Strategy cost:

Surveillance	\$500,000/ year for 5 years = \$2,500,000.00
Scrapie Flock Certification	\$650,000/ year for 3 years = \$1,950,000.00
Scrapie Genotyping	\$300,000/ year for 3 years = \$ 900,000.00

Total; Scrapie Program Cost \$5,300,000.00

3] Investment in Federally Inspected Abattoir Expansion:

The Canadian sheep industry needs the ability to move products between provinces in order to be able to develop new markets and supply more lamb and mutton to meet growing domestic demand. By doing so, it would also put Canadian lamb in the position to displace off-shore lamb. To facilitate this, a financial investment needs to be made to increase federally inspected kill and processing capacity for small ruminants across Canada.

- Industry/government review panel would review the applications that come in from abattoirs across the country and would decide where best to invest the money
- There will be no cap on grants for individual application
- Abattoirs will be required to enter into a multi-year commitment to provide information on purchased lambs such as, province of origin and carcass information (e.g., weight) and data on average weekly prices
- Abattoirs will be required to repay 50% of the grant over the next 2-5 years into an industry development fund which will be jointly administered by the CSF and the provincial sheep organizations.

Cost breakdown:

Requesting \$20 million

- For further breakdown see 4] Market development for the promotion of lamb products

See Appendix 2

4] Market Development for the Promotion of Lamb Products:

With increased federal kill capacity and the ability to move product between provinces, the Canadian sheep industry will require funds for increased marketing and promotion of Canadian Lamb. Resources will be required for ensuring the long-term viability of markets for Canadian lamb.

- Provincial marketing organizations will provide the CSF with proposals on how they propose to utilize the money
- Funding will be provided to the provinces based on their percentage of the national ewe flock

Provincial organizations may choose to use the funding to:

- Design and produce point of sale material (e.g., recipe cards)
- In-store cooking demonstrations
- Sponsorships (e.g., fall fairs)
- Hiring of marketing specialists

Cost breakdown:

Total cost \$2 million over 3 years + 50% of Abattoir expansion grant repayment over the next 2-5 years

- 25% of the Federal Abattoir Expansion Program would be paid back and directed into an industry development fund {see above}.

Total: Funding Market Development request: \$2,000,000,00 over the next 3 years.

5] Industry Development and Adjustment Funding:

The disruption in the normal marketing system in Canada because of BSE, has created considerable issues related to the breeding, feeding and marketing of the displaced lambs. The lambs traditionally exported to the US are finished to a higher weight than required for our domestic market. In addition we have always been challenged by the variation in carcass conformation. In order for the market development to be successful, producers must be provided with the information necessary to produce year-round, quality lamb that is suited to the market place. Producers would be provided with the information they need to modify their production systems to suit the market. This information and technology transfer could include but not be limited to; nutrition, breeding strategies, loin eye scanning of rams to allow better genetic selection and encouragement of sire evaluation programs.

The BSE crisis also disrupted the success of the World Sheep and Wool Congress. Hosted this year in Canada, the organizers were hoping to draw international attention to the quality of sheep produced by our shepherds, in addition to providing Canadian producers with access to breeding stock from around the world. However, the inability to move animals in and out of Canada resulted in lower than expected sheep sales and attendance. As a consequence the economic success of the Congress was compromised. The Canadian sheep industry is requesting then, that the federal government find some way of aiding the organizers in covering the shortfall.

The Canadian sheep industry is dedicated to ensuring that it has the resources necessary to adapt to the challenges that it is currently facing and guaranteeing its long-term viability. As such, the CSF is requesting equal access to other programs and/or program changes that may be developed in the future. Most notably, changes to programs such as the Canadian Agricultural Income Stabilization (CAIS) and Canadian Agriculture and Food International (CAFI) programs.

Implementation of RFID tags:

To help facilitate the implementation of the ewe retention program and the national scrapie strategy, the Canadian sheep industry would like to encourage implementation of the use of RFID tags. This would help track the animals that are being retained, and those participation in Flock Certification and Scrapie Genotyping Programs.

In addition, RFID tags would;

- Enhance the industry's ability to respond to a Foreign Animal Disease Outbreak
- Assist and encourage sheep industry's participation adoption of the CanTrace program.
- Provide abattoirs with the tools required to be able information on lambs purchased

Cost breakdown:

Total cost \$50,000

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| ▪ Advertisements in all major sheep magazines | \$15,000 |
| ▪ Design and development of brochures (20,000) | \$15,000 |
| ▪ Design and development of posters (2,000) | \$10,000 |
| ▪ Producer information sessions | \$10,000 |

Total: Funding Request Industry Development / Adjustment request: \$1,000,000,00 over the next two years.

Total Sheep Industry Request Break Down:

Year 1	Ewe lamb retention	\$20 million
	Scrapie strategy	\$1.4 million
	Federal Abattoir	\$20 million
	Market development	\$1.33 million
	Industry development	\$500,000
	Total	\$43,230,000
Year 2	Scrapie strategy	\$1.4 million
	Market development	\$1.33 million
	Industry	\$500,000
	Total	\$3,230,000
Year 3	Scrapie Strategy	\$1.4 million
	Market development	\$1.33 million
	Total	\$2,730,000
Year 4	Scrapie surveillance	\$600,000
Year 5	Scrapie surveillance	\$600,000
	Grand Total	\$50,390,000

Canadian Sheep Federation respectfully requests that the Minister of Agriculture and his provincial counterparts consider funding an adjustment program for the sheep industry in the amount of \$50,390,000 over the next five years. In addition we request that our producers be given access to any additional enhancements to programs like CAIS. This would help alleviate the considerable damage done to our industry by the current BSE crisis. Immediate investment in the industry is required to assure its further growth and sustainability. With the commitment of funding we are confident that our industry will emerge from this crisis on a competitive footing with the opportunity to again expand and prosper.

Appendix 1

Ewe Lamb Retention Program Rational.

Industry is concerned that we are going to see a flood of lambs hit the market crashing the price even lower than the prices last year. The Statistics Canada reports that lamb inventories on July 1 this year were 50,000 head higher than this time in 2003. This coupled with the fact that we had historically exported 139,000 head per year. CSF is concerned that we probably have close to 190,000 lambs more that need to be marketed than in a typical year.

Last years provincial and federal kill in Canada accounted for approximately 508,618 head of lambs. If we assume; that this is our maximum current kill capacity we are anticipating that these 190,000 lambs are in excess to our current kill capacity. This means that we have 37% more lambs than we have the ability to process and market.

The conclusion is that the only possible out come will be a market crash. To this end we are proposing to remove approximately 300,000 ewe lambs from the market this year by offering the producers this program. If there were full up take it appears that there would be a shortage of lambs however we estimate that 100,000 of these lambs would have in a normal year been retained for normal flock renewal.

Ewe lamb retention program	300,000 lambs
Normal ewe lamb retention	- 100,000 lambs
Lambs held back because of program	200,000 lambs

Kill capacity short fall	190,000 lambs
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The conclusion that we have reached is that if the program were successful we would almost balance the processing capacity with the expected lamb marketing.

Appendix 2:

Increased Kill and Processing Capacity.

Industry has for many years recognized that we are faced with adequate capacity to kill and process lambs in Canada. We are particularly deficient in federally inspected kill and processing capacity. This is more critical every day with National Chains demanding suppliers of products{ including lamb } fit into the centralized national marketing and distribution systems. This coupled with the obvious surplus of lambs created by the border closure make it imperative that we have increased federal capacity for our industry.

If the border remains closed we will be faced with the same surplus of lambs next year. The only solution is to create the kill and processing capacity to handle the product. This must also be federally inspected because the industry is daily facing the same challenge: We can not handle your product in our chain because it is not federally inspected and doesn't fit our marketing system.