

GENERAL MANAGER'S REPORT

We Still Suffer 9/11

The yank-back months of September 2001, May 2002 and May 2003 will long be remembered in the world meat trade (if not in all agricultural trade). Yank-back, because they symbolise the visible American return to protectionist for the international meat trade.

The tragic September 11th terrorist actions, which altered the course of history, made us realize how uncertain North American and international markets can be. Fortunately, other than some short-term border disruption, we got by 9/11 itself. However, we did not escape the clutches of the U.S. foreign policy shift and the rising American protectionism that followed in the form of the U.S. Farm Bill that was introduced in May of 2002. One obvious consequence of that Bill was the country of origin labelling (COOL) provision.

The U.S. meat trade itself is currently wrestling with the complexities of COOL - often jokingly referred to as the bill of unintended consequences. Opposition to COOL continues to build as U.S. understanding about its costs and effectiveness mount. However, even if mandatory COOL dies or becomes voluntary, the U.S. foreign policy shift toward protectionism will not soon pass.

The May 20th announcement by Canadian officials of a single case of BSE in a Northern Alberta cow sent shock waves around the world. My perspective is that this cow could just as easily have turned up in Montana as Alberta. In fact, doubts about that cow's origin suggest that she may have been born in the U.S.A. (had full traceability been possible such might have been found to be the case). The Canadian handling of the event indicates that, despite some initial minor problems, our system - of national animal health protection, food safety, surveillance and testing - works. Extensive testing has not detected a second case of BSE. We can have confidence that Canada has one of the world's best food safety supply and quality protection systems. As well, specific to meat and bone meal use, since 1997 it has been illegal to feed ruminant by-products to other ruminants (a parallel precaution implemented simultaneously in both Canada and the U.S.A. to limit the spread of transmissible spongiform encephalopathies). However, despite this and the extensive testing, the barriers to trade that have been set up will not soon come down. Access to the American market for Canadian beef will proceed at a political snail's pace in keeping with the current protectionist attitude.

Two years ago in this report, I concluded that foreign animal disease is the biggest threat to the Canadian pork trade. (Foot-and-mouth disease outbreaks in Europe and Asia stimulated this conclusion). I do not expect this to change in the future. In fact, this concern will likely increase as the international markets focus more and more on the attitudes born of the U.S. Farm Bill. Most countries would like to find ways to produce their own meats rather than import and lose the value added economic benefit that the livestock and meat industry offers.

Given our export status, developed in the past decade, we desperately require increasing market access. Like the pork exporting Danes, we cannot continue to be the top world pork exporter without access to as many foreign markets as possible. This means we must focus on quality assurance programming, food safety systems, health initiatives and traceability to continue to promote our industry internationally.

Traceability

In our August issue of the Industry Review and in this annual report, we detailed the Canadian Pork Council (CPC) traceability strategy and business plan that was approved by the CPC Board of Directors at their July meeting.

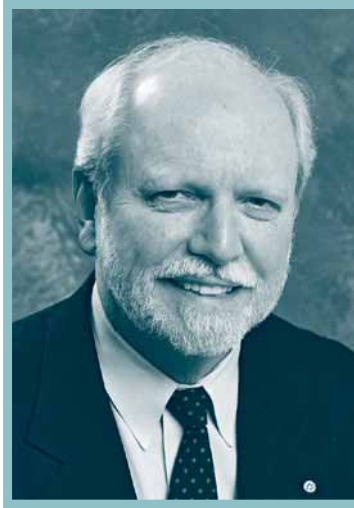
The recent beef BSE crisis has underlined the importance of identification and traceability. Tracking that single Alberta cow to her birthplace was scientifically

necessary, but such was not possible to overcome political pressures. This must not happen in the hog industry - we must have a system that will allow traceback. Within two years we will have it, including a GPS (global positioning satellite) technology. Watch for this important system as it develops, and please cooperate with its necessary implementation.

Canada Pork International

We have many important affiliations, as listed throughout this annual report. However, there is one that we cannot forget since it is an association on which the entire pork export system depends - Canada Pork International (CPI).

With the help of CPI, Canada is currently the world's largest pork exporter, selling more than fifty percent of our Canadian production in foreign markets. This is a remarkable story when one remembers that Canada was a net importer of pork meat in the mid-1970's.



Ed Schultz

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This success story is in no small way the saga of CPI, which has fostered goodwill, cooperation and achievement by co-ordinating the Canadian efforts of meat exporters, producer groups and the federal and provincial governments.

In its 12th year, CPI is the successful joint undertaking of the Canadian Meat Council, representing the pork packing and trading companies, and the Canadian Pork Council (CPC), representing hog producers organizations across Canada (in Alberta - Alberta Pork). I am proud to be a CPC appointed Director of the 14 member CPI Board of Directors.

CPI is described by its manager, Jacques Pomerleau of Ottawa, as the export market development agency of the Canadian pork industry. Its specific mission is to promote our industry internationally and seek increasing access on world markets for Canadian pork products. CPI fulfils its mandate in a very effective manner and has won the respect of our chief competitors - the Americans and the Danes.

Surprisingly, CPI is able to function on a very low annual operations budget (about \$600,000). This is made possible by the strong cooperation of all Canadian stakeholders (meat companies, governments and producer groups) and, so far, CPI foreign offices have not been essential to export initiatives.

Staff Changes

During the year we said goodbye to two employees and said hello to two new members. Food Service Specialist Drew DePatie resigned to accept a position with Alberta Beef. He was replaced by James Ducs. Communications Specialist Deni Cameron resigned due to health reasons and will be replaced in the early fall. We will miss the contributions of both Drew and Deni. However, we are already enjoying the energy of James Ducs, a former Bridge-Brand representative with extensive meat marketing experience. We welcome newcomer Deanne Dechaine as receptionist during the year. We share her services with Alberta Turkey Producers and Alberta Quality Pork.



James Ducs,
Food Service Specialist



Deanne Dechaine,
Receptionist/Clerk

Too Much Protein Inventory in Canada

The announcement by the Beef Information Centre that Canadians took home 123,000 tonnes of beef during July 2003 compared with 76,000 tonnes the previous July tells me that we are going to have a serious problem. When the Christmas Visa and MasterCard bills come due in January and February, retail sales of beef, pork and chicken are going to tank while people eat beef out of their bulging freezers.

The BSE crisis is not just a beef issue. The entire Canadian meat infrastructure is being hurt. A huge inventory of meat protein has to be cleared.

The Agricultural Producers Association of Saskatchewan suggestion to reduce the Canadian cattle herd was a good one. Government should act to remove surplus cows and help prevent economic damage to the entire meat industry. Otherwise, we are going to have a hard time coming out of this crisis. "Trickling" beef across the U.S. border will not do it.

The Future

What a difference a cow makes!

That single BSE animal illustrates how vulnerable we, as export dependent marketers, have become.

The current American treatment of Canada is also very revealing. Mind you, we should not be surprised. Remember the countervail and Canada's experience with the U.S. legal processes?

The American countervail action against Canadian hogs has been characterised as one of the most complex legal cases under U.S. trade law. Over a period of more than 15 years (ending January 1, 2000), the case involved two separate petitions to the U.S. Department of Commerce to undertake investigations for applying countervailing duties on hogs and pork, multiple appeals by Canada to the U.S. Court of International Trade and Binational Panels under the Canada - U.S. Free Trade Agreement (CUSTA), two extraordinary challenge committees under CUSTA, a Gatt Dispute Settlement Panel, 12 administrative reviews of the annual countervail duties, and an amendment to the U.S. 1930 Tariff Act which allowed subsidies on hogs to be passed through, and attributed to, the pork processing system. It is hard to believe today that this frustrating experience almost did not occur. It started with a 3 to 2 vote by an American trade panel!

As one who lived through the entire 15 year countervail experience - the lessons were well learned. It did not matter that the U.S. government subsidised its industry while at the same time countervailing Canada for its public assistance. There was no equity or balancing out, as it were. They could only see our benefits and under U.S. law there was no methodology to negate or reduce the countervail by deduction against their benefits. Thus, the countervail was very unfair when the U.S., at the same time, was subsidising its agriculture industry.

The lesson learned: small countries, like Canada, benefit from well-defined subsidy definitions and trade rules. It should be a priority for Canada to continue to work for international trade rules, improved rule structure and international disciplines for trade in agricultural products. This is the only way for us to have continued market access and a future in the international trade game.

As to the controversial COOL part of the U.S. Farm Bill, should mandatory COOL come to be installed at the end of September 2004, I believe the Canadian pork industry will rise to the challenge. We will find a way to minimize the impact of this threat. We will also find a way to make it work for us and turn it into a positive Canadian marketing program.