Western Stock Growers' Association

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Regulatory Costs Associated with the Alberta Beef Industry
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Background
Regulatory costs imposed on the beef industry by all levels of government, has been a major contributing factor to the non-competiveness increasingly experienced and our subsequent inability to effectively export into a world market. Over the past 10 years, these costs have affected the beef industry in two ways.

1) As the Canadian/US dollar exchange rate increased from a low of $.63 experienced in 2002 to near par value, the cost of regulation related to the beef industry has not experienced a corresponding decrease in real dollar terms. A par exchange rate accentuates these regulatory costs making them highly visible and detrimental.
2) Additional regulations over this time period, however well intentioned when first imposed, have added significant costs to an already heavily burdened beef industry. Of particular concern are regulations related to food safety which have ballooned post-BSE.

The Canadian beef industry has now reached a "tipping point" where industry and government have a choice of either addressing regulatory costs and focusing on export capabilities or further shrinking the industry to match heavy regulation costs with a focus on domestic supply under import tariff protections Western Stock Growers' Association (WSGA) continues to focus its efforts on making the Canadian beef industry into a thriving, complex industry, with many diversified players at all levels of production and with the ability to export value-added beef product into the world market. In particular, Western Canada is blessed with tremendous natural wealth which can be sustainably and efficiently harnessed to supply a vibrant domestic and export beef market. Shrinking the industry to domestic supply through further increased regulatory costs, and then imposing import tariffs to further protect the downsized industry is certainly not what WSGA and its voluntary membership wish to see happen. The following document addresses a partial list of regulatory costs which can be reduced, eliminated, or made more efficient.

Exchange Rate Concerns
The Canadian dollar in US currency terms experienced a steady decline from $.87 in 1992 to $.64 in 2002 then a brief spike to $1.03 in late 2007, a decline to $.80 in 2009 and is now on track to meet or exceed par in early 2010. This has created a roller coaster effect in terms of exchange rate and as a consequence put extreme pressure on all Canadian exporters to become more efficient and competitive or lose world market share. In the case of the Canadian beef industry, short term margin players such as retailers, packers, and feedlots have all reduced input costs to help come in line with new exchange rate realities. In simplistic terms this has meant a reduction in the price of cattle, one of the largest input costs to beef products, driven all the way down to the cow/calf producer level. We are now seeing the exchange rate adjustment in the cow/calf sector with a mass exodus of producers and a shrinking of the cow herd by roughly 20%.

Unfortunately, regulatory costs imposed by all levels of government have not experienced a corresponding decrease in relative exchange rate terms and at best have remained fixed, or in the case of food safety, increased dramatically.
It is imperative that government regulations come back in line with a higher Canadian dollar. This will mean a review

of regulation costs by all levels of government, with the goal of reducing costs through efficiency, in some cases eliminating regulation all together, and in other areas transferring costs to the true beneficiary of the regulation.

Examples of Regulatory Costs

Regulation, however well intentioned when first put in place, has become a major problem for all Canadian business. In particular, those businesses that must operate on a world stage have been slowly strangled by "red tape" to the point of non-competiveness. Regulation is pervasive. Each linear and separated silo of government departments have all helped to increase regulation on industry. This includes regulation related to environment, work safety, food safety, land planning and zoning, labour contracts, transportation, water, and the list goes on and on.

The cumulative effect of regulation has resulted in a massive intrusion by government, to the point of partial suffocation of certain export industries. Regulatory costs imposed by government cannot mean industry leaving a blank cheque on the table for government to use at will, but a partnership of government and industry whereby the end goal of what is needed through regulation is met and export industries have the opportunity to flourish. This becomes a change in government culture where all current and future regulatory costs are continually evaluated against changing financial markets.

Within the beef sector there are some "low hanging fruit" regulations that if changed or eliminated will have a significant and immediate effect. These are for the most part related to food safety.

Food Safety

Paramount is the fact that Canada requires food safety regulation, not only to assure our domestic beef consumers but to also assure consumers in foreign markets. Also paramount is the need for food safety at a competitive cost.
Post-BSE has seen an avalanche of food safety regulation designed to limit not only the liability related to consumers' possible exposure to BSE material but to also limit the liability of the Canadian Food Inspection Agency as it relates to containment of BSE pre-2003. Once the horse escaped the barn in 2003, CFIA has continued to nail, bolt, and cement the door shut, all at a significant cost to the beef producer.

Unfortunately at the very same time we found BSE and flooded the beef industry with food regulation costs we also experienced the appreciation of the Canadian dollar. Not only have the short term margin players in the beef industry passed down exchange rate costs to the cow/calf producer, they have also passed down food safety costs as well.
The following are estimated regulatory costs associated with BSE and food safety. This does not include an exhaustive list.

SRM removal in a federal plant - \$7.00/hd UTM and \$35/hd OTM
SRM removal in a provincial plant – approximately \$150.00/head depending on whether normal drop is also part of SRM drop or whether it has been segregated
Dead stock removal at feedlots - approximately \$100/head
Dead stock removal at veterinary clinic, including newborn calves - ?
Extra equipment and production line related costs in federal packing plants to reduce contamination -?
Feed mill flushing requirements – yet to be determined?
Traceability costs throughout all levels of the beef production sector - ?

The above list, although partial in nature identifies some of the direct costs. There are also indirect costs experienced through regulation such as the lack of interprovincial trade for provincially inspected beef. The remote threat of provincially inspected beef traveling through a neighbouring province and then illegally on to the US creates a situation where a US consumer may be exposed to a potential BSE positive OTM beef product. The result is regulation preventing interprovincial trade and a distinct advantage for the oligopoly packers in Canada and a subsequent reduction in the value of OTM cows.

Food safety regulation is necessary and must be delivered at competitive prices. However, a higher level of regulatory burden has not translated into a quality export beef product with higher export sales.

Private for Profit Partnership

Western Stock Growers' Association welcomes the opportunity to work with Jason Krips from AFRD to jointly identify regulatory costs that severely affect the beef industry and to also help provide solutions. WSGA recognizes that many regulatory costs are at the Federal level and we welcome the opportunity to help lobby the Canadian government with the help of provincial counterparts. The Beef Industry Alliance is a successful and positive group to work with, and we look forward to continuing to work with them. Combined with producer input and support, we will reach our goals. We will see this process through to fruition if industry keeps driving the process forward. Certainly a partnership can be formed between government and industry to help facilitate changes. In the end we will have a profitable, sustainable beef industry.