

Canada meat, grain sectors eye EU trade

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By Rod Nickel

SASKATOON, Saskatchewan, June 3 (Reuters) — Canada's agriculture industry is eyeing free-trade talks with the European Union as a rare chance to open a big high-income market, but for the beef sector a major production shift may also be at stake.

The Canadian beef industry has taken hits in recent years from low prices and prohibitive U.S. food labeling laws, but the prospect of shipping to Europe could prompt creation of a hormone-free beef sector.

"I can definitely see that this is a (potential) agreement that's huge enough to be transformative in the industry," said John Masswohl, director of government and international relations for the Canadian Cattlemen's Association.

Hormone treatments are widely used in raising North American cattle to speed up growth and reduce feed costs.

With wide access to a rich market like Europe, beef farmers could justify paying the 20-30 percent higher costs of raising the hormone-free cattle acceptable to the EU, Masswohl said. Beef processors would consider building slaughter plants dedicated to hormone-free cattle if they had assurance of demand, he said.

To make it all happen, negotiators would have to overcome a two-decade-long standoff on North American beef and differences in meat-packing standards on the two continents.

The EU banned North American beef more than 20 years ago over health concerns about eating meat treated with growth hormones, but it recently agreed to compensate the United States by allowing it to export 20,000 hormone-free tonnes annually for the next three years tariff-free.

Canada, hoping for similar access as compensation, is carrying out negotiations with the EU separately from free-trade talks. The first round of free-trade negotiations is expected in the fall, after Canadian and EU officials at the Leaders' Summit in Prague on May 6 announced plans to pursue an agreement.

The EU allows Canada and the United States combined to ship 11,500 tonnes of hormone-free beef annually at a 20 percent tariff, not including its newly granted access to the U.S. All other North American beef is subject to much higher tariffs.

Europe consumes 8 million tonnes of beef per year but produces only 7.5 million. It also represents a high-income market that exporters covet.

"There's a huge opportunity for Canadian beef producers if we can get preferential access," Masswohl said.

If Canada could ultimately ship 500,000 to 600,000 tonnes of beef to Europe, it would create new demand for at least 2 million head of cattle and put the industry into aggressive expansion mode, he said.

The grain sector is also eager to gain access to Europe.

Canadian milling wheat with the highest protein content is currently under no tariff or quota, but restrictions apply against medium- and lower-quality wheat.

Easing those restrictions would give Canadian growers a "huge advantage," especially organic farmers, said Janelle Whitley, trade policy analyst for the Canadian Wheat Board. The CWB markets Western Canada's wheat and barley.

Canada shipped 2 million tonnes of spring wheat and durum to the EU during the 2006-07 crop year. "(Free trade) definitely would create a more stable and transparent market for us," Whitley said.

Malting barley, used in brewing beer, faces an 8 percent tariff for the first 50,000 tonnes and higher tariffs after that, Whitley said.

"(Europe has) got some of the biggest breweries around, so the potential for malt is pretty high," said Doug Robertson, president of the Grain Growers of Canada.

The EU could become a solid customer of Canadian pork, especially hams that Canada produces in surplus, said Jacques Pomerleau, executive director of Canada Pork International, the industry's marketing promotion agency. Poland and Romania were big importers of Canadian pork prior to joining the EU within the past five years.

Free-trade talks on pork would need to address the EU's bureaucratic quota system, tariffs varying within the quota from 100 and 400 euros per tonne and the strict approval process for foreign packing plants, Pomerleau said. Only one processing plant in Canada has European approval.

The net result of the EU's protectionist pork trade is that few countries, Canada included, ship the 75,000 tonnes they're allowed by EU quota.

"If you want to discourage trade, this is the way to do it," Pomerleau said.
(Reporting by Rod Nickel; editing by Jim Marshall)