

Haney Farms Quarterly



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To the Point—Is COOL Cool for the Beef Industry?

By Shaun Haney

In today's global environment we face many challenges as producers and industry. It seems that as we find a solution to control a new pest or find a way to grow new crops in our area there is always a new issue on the horizon to challenge our resilience.

Regarding the beef industry, one of the issues is the proposed country of origin labeling (COOL). In the 2002 US Farm Bill, COOL was initiated by George Bush. COOL is a pool of controversy inside and outside the borders of the United States. Everyone from Senator Hillary Clinton, Governor Arnold Schwarzenegger and the American Mushroom Institute have stated their opinions.

And so my quest to discover the future affects of COOL began.

What is COOL?

According to the Canadian Cattle-men's Association website, the US COOL legislation requires that all beef, lamb, veal, pork, farmed fish, perishable agricultural commodities and peanuts sold in the US bear a label stating their country of origin to the point of retail sale.

For example, cattle raised in Canada and shipped live to the US to be slaughtered in less than 100 days are to be labeled "Raised in Canada, Harvested in the US." As I polled local feedlot operators, their first comment back was the fear that the North

American producer would bear the cost of this new infrastructure.

The Food Marketing Institute (FMI) would tend to agree with the increase in costs due to the fact that they have dealt with the already implemented mandatory labeling of seafood. FMI stated in a recent Dow Jones newswire that "the measure hadn't increased US seafood sales but had cost the supermarket industry 10 times more than what the USDA had estimated."

According to a couple of different sources, the USDA has estimated that the cost of COOL will be \$2 billion dollars to the total agricultural industry. That would make the total cost \$20 billion if the 10X factor holds true again.

So if labeling is so expensive, then why do it? COOL is being encouraged for several reasons:

1. Food traceability
2. Food security and safety
3. Barrier to entry

Food Traceability

Words like traceability and accountability are great, if provided with some sort of net benefit to the industry stakeholders. This seems to be the part of the equation that is left unsolved.

Herb Lock of FarmSense Weekly commented, "that COOL is a step towards origin traceability, which leads to full accountability within the system." Herb continued, "I



truly feel that the consumer is ready for COOL."

Many Democrats in the United States agree with the need for traceability in the food system. In a Dow Jones article, Rep. Earl Pomeroy, D-ND., believes that, "consumers want to know where their food comes from." Earl continued, "We know where our T-shirts are made—but we don't now where our T-bones come from."

The irony of the above sentiment is that Canada is much further along in the age verification and traceability process than the US.

Food Security

The United States is fighting a war in Iraq and is pushing towards becoming self sustainable in areas of false vulnerability. Labeling is moving ahead completely on the backs of politicians trying to be re-elected. As Americans justify issues like COOL with the push of homeland security through self sufficiency, decisions are made that have consequences outside of the domestic borders of the United States. Very much like the push of bio-

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Are you willing to pay to know where this cow came from?

“The fact that chicken is not required to follow COOL means that revenues to broiler and chicken suppliers will increase.”



Will COOL open up new opportunities in the orient for Canadian beef?

fuels, COOL is being pushed as an American internal solution to international problems.

Herb Lock agrees, “Homeland security will justify anything, whether it’s COOL or bio-fuels.”

Barrier to Entry

The CCA feels that COOL is nothing more than an artificial trade barrier.

The George Morris Center concluded from its research of COOL in a May 11, 2007 Research Summary that COOL is nothing less than a non-tariff barrier to trade.

COOL as a facilitation of trade barriers is very obvious while traceability and security are the facades that sell the concept.

Does the Consumer Really Care?

In the June 2007 edition of Fast Company magazine, Tracy Satedler reported that the University of Bradford was working on the Fair Tracing Project. Consumers will be able to enter the numeric code into their PDA right in the grocery store to discover all the trace back information. This information would encompass text, audio and / or video.

My initial reaction to this is that it is pretty neat technology. After further thought, the actual value that this provides could be greatly debated.

I went next door to ask my neighbors if they would use this technology at the store and what their opinions were of COOL type legislation. Here are the responses that I got back:

1. When I buy groceries I do not have time to be researching where a cow was slaughtered.
2. Being able to trace back to birth place is more useful as a conversation piece within a dinner party environment than impacting purchase decisions

3. I’ve done well without this sort of information in the past .

4. Both my wife and I work, so when we shop at the grocery store we have very little time. We assume that if the product is on the shelf then it is safe. I am not equipped as a consumer to be making decisions on food safety based on information on my PDA.

The Fair Tracing technology would enable the implementation of COOL but at what cost and benefit to the industry and consumer?

What will be the affects to the Canadian producer?

According to the George Morris Center, the US packer will need to segregate, sort, control and account for Canadian livestock that they purchase. They would also need to segregate and label the meat from these animals separately from other meats.

One of the major affects from this is that the risks and liabilities now involved in mis-labeled product should be very concerning to the whole supply chain. As feedlot owners, our own internal quality management systems are going to have to improve and shift towards more ISO 9000 ways of operating which come with extra costs.

Larry Martin of the George Morris Center confirms my concerns further when he states, “these extra costs and risks mean one of two things: US packers won’t bother buying Canadian livestock, or US packers will discount bids on Canadian livestock by the amount of the added costs and risks.”

The American Meat Institute argues that the biggest false assumption is that the consumer will pay more for a country of origin labeled product. The fact that chicken is not required to follow COOL means that revenues to broiler and chicken suppliers will increase. Consumers will substi-

tute chicken for beef and pork when their prices increase relative to the price of chicken.

According to Ted Haney, “from a Canadian beef perspective, asking Bob’s Grocery in Arkansas to sell Canadian beef instead of American is really asking Bob to stick his neck out there.”

So is there a bright side to this dark and dreary picture? A prominent cattle industry veteran (who asked to stay anonymous) thought so, “In the long term, if we do the right things right, we can have a much more successful and exciting industry than today’s industry. However the transition will not be easy.”

The George Morris Center provided some optimism in the May 2007 report saying, “Never before has Canadian product been labeled conspicuously, and with a potential cost advantage over its US competitors. This yields the opportunity for Canadian companies to more easily establish brand value propositions.”

Conclusions

My background is the seed business which is built on traceability. I have to admit that when I began this journey of discovery I truly misunderstood the ramifications facing the beef industry in North America due to COOL.

Since COOL is going to be a reality, we have to begin to re-adjust to what new-normal looks like. The problem is that the new topography of the new-normal is truly undiscovered. One thing is for certain, the Canadian identification system is much more prepared for COOL than the American system. It seems logical that COOL could provide significant opportunities for us but will the American underlying goals make COOL nothing more than a trade barrier. I guess the future is cool whether we like it or not.

Send Feedback to shaney@haneyfarms.com

What is Needed For Alberta Agriculture to Survive 2015 and Beyond

By Barry Mehr

We must understand our global market opportunities and carefully pick our various market niches. To be a competitive supplier for the long term we must understand our markets better than our current and future competitors. This alone will not bring success.

The new but over used term "value chain" will be the only way individual enterprises can be successful in the long term. We must pick our partners with the same kind of care we do our spouses but we need to be much more objective in these choices. These arrangements will be at least 5-10 years in length and some will be for a generation. This will be true whether we are producing for the food, fuel or fibre markets.

Because high quality commodities are going to come from low cost producing regions like South America, we must move to service the world's highest quality niches far better than we have in the past. Our "value chain" must deliver every time exactly what the end customer wants or we will not be in business. It's as simple as that to say but much more difficult to do. I believe we have no choice if we are to continue to have a viable agriculture industry.

The current "Alberta/Western Canadian Advantage" is the quality and sophistication of our producers. Future success will be achieved by those that best apply emerging knowledge (mainly science) to serving end "value chain" customer needs. This includes

keeping costs to a minimum while meeting the highest quality standards. We will no longer be able to be independent entrepreneurs but will be interdependent members of strong functioning business alliances.

Our business world as it gets interdependent will get more complicated as we seek win/win solutions for both our partners in the "value chain" but for our end con-

"Because high quality commodities are going to come from low cost producing regions like South America, we must move to service the world's highest quality niches far better than we have in the past."

sumer for the products from the "value chain". Questions that must be answered going into partnerships include how economic success is shared fairly by all the partners in a "value chain".

Grain markets have turn around driven by the advent of the bio fuels industry. The same forces are at play as in the more traditional markets. Throughout the world the increased crop values are caused by this new demand that is dependent on governments' intervention of one form or other including but not exclusively

government subsidy. The "jury will be out for some time" on whether this will be sustainable globally. How in the long term can Canadian crops compete if we have markets devoid of government intervention? Probably a bio diesel industry based on Canola seed containing near 70% oil is what is required for viability in Western Canada. Some plant scientists claim that is achievable given a reasonable amount of time. It's the same old story of how we must compete with the intervention of other governments like the EU., US. and countries like Brazil?

The value proposition where Canada has what could be a bright future includes highest qualities achievable, assured environment sustainability and safest food product production which must include full product traceability from consumers in Japan, China, Taiwan, Korea, The European Union and North America to individual Western Canadian producers including both animal and plant genetics. It will be traceability that includes agronomic including all management practices, inputs like feed and fertilizer and processing, packaging and distribution practices will have to be as disciplined as producer practices.

If we take on the challenges our PEOPLE ADVANTAGE will ensure a bright and prosperous future. If we try to maintain the traditional ways we stand to lose our industry entirely. It's up to us to make the choices.

Send your feedback to shaney@haneyfarms.com



Barry Mehr
Associate
Strategy Summit

Product	
Sand--Unwashed	1.5" Clear
Feedlot Fill	1.5" Crush
Top Soil	3" Minus
Washed Pebble Crush	2-6" Pond Amour
3/4" Clear	6"+ Amour
3/4" Crush	Large Rocks

Why Farmers Lose in Markets

Courtesy of Good Morning Prairie's by John DePutter

VANCOUVER - Mar 20/07 - SNS -- One of the great mysteries in commodity trading is why people stampede into a commodity even when they know everyone else is doing the same things and there is a high likelihood prices will reverse.

A good answer was provided by Michigan Agricultural Experiment Station (MAES) environmental science and policy researcher Joseph Arvai, who says while the human brain can simultaneously process emotional and empirical information, emotional responses are much stronger in most people than the rational response.

"People tend to have a hard time evaluating numbers, even when the numbers are clear and right in front of them," Arvai said. "In contrast, the emotional responses that are conjured up by problems such as terrorism and crime are so strong that most people don't factor in the empirical evidence when making decisions."

This is obvious in commodity markets. Strong prices in the weeks before seeding attract undecided acres to those particular crops, often resulting too much area being sown. Barring a weather disaster, the resulting over supply results in significantly lower prices.

Faced with this simple and well known cause and effect of supply and demand, affected growers respond emotionally, saying the trade is once again manipulating markets to steal their profit. Significantly, most farmers avoid using or misuse risk management tools which would help them secure a higher average price.

A small percentage of farmers approach seeding decisions differently. One seed plant operator in Saskatchewan always left the final decision about what to seed on land until after supplying seed to his neighbors. He planted what was left and generally experienced above average returns, tending to more frequently grow crops in lower to normal supply.

Undeterred Emotionalism

Arvai and other researchers were not looking at this phenomenon. Instead they asked individuals to consider two risk scenarios common in many state parks in the United States. One involved crime -- vandalism and purse snatching -- and the other involved damage to property from white-tailed deer, such as auto-deer collisions. The participants were asked to indicate which problem required more attention from risk managers.

"The neat thing with crime and deer over-

population is that both risks could be measured on the same scale, which made our jobs as researchers easier," Arvai explained. "But because crime incites such a negative emotional response from most people, it consistently received more attention, even when the numbers showed that the risks from deer were much worse. We had to ratchet up the deer damage until it was ridiculously high before people noticed that it was a higher risk than crime.

"The bigger problem we've uncovered is that this response isn't limited to crime and deer," he continued. "We see it happening in other areas: terrorism, the war in Iraq and infectious diseases."

Can this heart over head thinking be reversed?

"People can be given tools that help them to 'listen' more to the empirical side of their brains," Arvai said. "But in our experiments, the effects of these tools tend to be relatively short-term. We've been able to make people aware that they're letting their emotions guide them, and we've developed decision aids that help them strike a better balance between their emotions and the numbers. But people tend to revert to decisions guided by emotions once the experiment is over and they leave the room."

Customer Focus—College Farms

Every Summer Issue of the Haney Farms Quarterly recognizes a high valued customer. This issue's customer focus centers around Auburn Hubbard and his family farm, College Farms.

Auburn Hubbard is a man who is proud of his family farm's past and very optimistic about its future. With a land base centered in the Lethbridge area, Auburn and his family are very much part of the Lethbridge community. Farming with his wife Kim and their 3 boys and one daughter makes College Farms a

true family operation.

Auburn's grandfather started the family operation after he immigrated from England. At one time Auburn's grandfather had over 100 work horses on the farm. Over the years Auburn and his family have developed the family operation and have grown wheat, barley, canola and fababeans.

Haney Farms would like to take this opportunity to thank College Farms for its loyal support.



Don McDowell presents Auburn Hubbard with his prize of 4 Flames tickets after he completed the Haney Farms—"Getting to Know the Customer" survey

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