

2011

BEYOND THE GATE



Diversification, Differentiation: Our Strategy for Success

By Frank Goetz, CEO and President, Canada Gold Beef

In December, the European Union (EU) finalized agreements with the World Trade Organization (WTO) that allows Canada to partake in duty-free access on 20,000 tonnes of beef imports to the EU. Previously, the U.S. had nearly sole access to the quota established in 2009; Australia joined in early 2010. The quota is for beef from cattle raised without the use of growth promotants, which are banned in Europe.

This development is worth \$10 million to the Canadian beef industry and it is the impetus that propels CGB to enter into the EU marketplace as part of a broader strategy of diversification and differentiation.

The opportunity

The opportunities in the EU are significant as Europeans typically pay more for beef products than do consumers in North America. The EU's population of 500 million represents a substantial market in itself. Europeans are importers of beef — and will likely remain so because local supplies cannot meet market demand for quantity or quality.

Diversification

Diversification is a fundamental of our company. It is never good for any company or industry to have all their eggs in one basket. CGB believes it makes good business sense to sell a portion of our product to the EU and a portion domestically.

Differentiation

Like North Americans, EU consumers purchase different levels of beef quality. Similar to North America, the highest quality delivers

the highest prices. The new tariff-free product, which CGB will supply, is of the highest quality and therefore sells to discerning consumers at the highest price.

Raising cattle for the EU requires substantial connection to primary producers, feedlots and processors. It also requires documentation and verification of attributes by CFIA approved veterinarians.

Significance to suppliers

CGB is able to take advantage of this new market because of the structure of our market chain and our ability to track and verify differentiated production.

Wherever customers buy beef, consistency of supply is fundamental. As a market chain, CGB is able to work backwards from the consumer to the producer and be connected throughout the chain. This gives us the ability to provide a consistent supply and to forecast the quantities of both cattle and beef products we require.

The consistency, predictability and ability to forecast demand and supply are our competitive advantage — fundamental to market development and maintenance.

COMMUNICATION IS KEY



We believe good business requires effective communications. Canada Gold Beef has an ongoing commitment to all members in our market chain to ensure that our business is as good as it can be and to continually improve working relationships. To that end we are publishing Beyond The Gate. This newsletter is intended to provide you with the information you need to participate in our market chain so you are aware of the responsibilities and benefits of your participation. That way we can all succeed.

Meeting the EU Market's Technical Requirements

By Dr. Joyce Van Donkersgoed, Technical Advisor, Canada Gold Beef

Canada Gold Beef requires that all beef exported to the European Union (EU) under the CGB market chain meet quality standards. This is the differentiation that places CGB above commodity beef. Suppliers must provide detailed documentation verifying the fulfillment of CGB Cow-Calf Program Requirements and Canada Food Inspection Agency's (CFIA) hormone-free (HF) program requirements for the EU high-quality beef program. It includes the following:

- >> Cow-calf producers must work with their veterinarian to implement CGB program requirements (www.canadagoldbeef.ca) and get enrolled in CFIA's HF program.
- >> Cow-calf producers must complete a CFIA Cattle Registry and Transfer Certificate for HF cattle. A CFIA-approved veterinarian must check 10 per cent of the calves for hormones.
- >> The signed CFIA Transfer Certificate, CCIA birth certificates, CFIA HF Vet On-Farm Checklist Report, and CGB CC003 Cattle Sales and Transfer Sheet must accompany the cattle to the CGB HF approved feedlot.
- >> The feedlot is required to have detailed individual animal traceability, health and feed records to comply with CGB and EU HF program requirements.
- >> Mid-way during the feeding period, the CFIA-approved veterinarian must collect urine samples from each pen of HF cattle. They must test negative for hormones.
- >> Prior to slaughter, the cattle must be worked through the chute and a transfer certificate completed with individual animal IDs.
- >> The feedlot's veterinarian must check 10 per cent of the cattle being shipped to verify the absence of hormones; and inspect the feed records to ensure that the cattle comply with the EU high-quality beef feed requirements.
- >> The signed CFIA Transfer Certificate, EU Feed Attestation Form, and Vet On-Farm Visit Checklist Report, the CCIA birth certificates and CGB feedlot forms must accompany the cattle to the CFIA EU-approved slaughter facility, and a copy submitted to the CGB office.

CRITERIA ELIGIBILITY FOR THE EU TARIFF RATE QUOTA FOR HIGH QUALITY BEEF:

- >> Cattle were not given hormonal growth promotants (HGP) and/or beta-agonists having an anabolic effect (CFIA Hormone Free Program).
- >> Beef cuts were obtained from carcasses of heifers (never calved) and steers (castrated bulls) less than 30 months of age.
- >> For at least the last 100 days before slaughter, the cattle were fed a high-energy ration containing not less than 62 per cent concentrates and/or feed grain co-products on a dietary dry-matter basis that met or exceeded a metabolisable energy content greater than 12.26 mega joules per one kilogram of dry matter.
- >> Heifers and steers fed the high-energy diet were fed, on average, no less than 1.4 per cent of live body weight per day on a dry-matter basis.

THE DEFINITION OF HORMONE



The EU only accepts meat from cattle that have never been treated with Hormonal Growth Promotants (HGP) and/or beta-agonists having an anabolic effect (anabolic compounds). These include growth implants placed in the ear of cattle which contain substances like testosterone, estradiol, progesterone, trenbolone acetate; feed additives for estrus suppression (melengesterol acetate) and additional muscle growth (ractopamine, zilpaterol); and vaginal sponges that contain progesterone.

Implants are commonly used in commercial feedlots in North America because they significantly improve ADG and DMC in feedlot cattle and reduce production costs. Many cow-calf producers do not use them. The value of growth implants in pre-weaned calves varies depending on feed availability and is not always economically beneficial.

Published data suggests a potential economic value of implants of \$25 per head in pre-weaned calves and \$80 to \$100 per head in feedlot cattle. Feed additives used in feedlots — like MGA® (controls riding (estrus) in heifers) and the new beta-agonists like Optaflexx® and Zilmax® — improve performance and carcass value ranging from \$10 to \$40 per head. For this branded beef program to be sustainable the cost of not using growth-enhancing technologies must be offset by higher prices for hormone-free beef.

Inside Canada Gold Beef

Q&A with Bill Newton, Cow-Calf Producer, and CGB Director and Secretary-Treasurer



How does the CGB market chain work?

CGB is a market chain that moves cattle through a system from cow-calf, to feedlot, slaughter, further processing and distribution of beef products. Our network includes cow-calf producers, feedlot operators, accredited veterinarians, slaughter facilities and beef distribution systems.

We identify the end user for our beef products and procure and produce cattle that meet requirements to sell into those high-quality markets domestically and internationally. CGB does not have its own cowherd, so we rely on cow-calf producers to raise cattle to meet market criteria. We purchase calves and yearlings from cow-calf producers to be sold into differentiated beef markets. (See Page 2 for specifications)

By participating in the CGB marketing chain, cow-calf producers have the support and the processes to ensure their herd is eligible for this business opportunity.

Why international markets?

CGB believes that diversifying markets for Canadian beef is a good idea for several reasons.

- 1 We have seen the impact of border closures on our export-dependent industry. Non-tariff trade restrictions such as Country of Origin Labeling (COOL) pose a significant threat to Canadian producers because of our over-reliance on the U.S. market.
- 2 The U.S. is Canada's principal competitor in international high-quality beef markets; at the same time it is a net importer of beef.
- 3 Global currency fluctuations affect net returns to Canadian beef producers and make international markets attractive. The appreciation of the Canadian dollar makes it more difficult to profit from selling beef in North America.
- 4 Living standards in countries like China are rising, which offers other potential markets for Canadian beef as people become more affluent and likely to consume more meat.
- 5 Because EU countries continue to eliminate farm support programs to balance debt, EU producers face a high cost of production for grain fed beef. This will make Canadian product more attractive to EU consumers.

Why Europe?

Beef production in the EU has fallen significantly in the last decade and it now imports North American, South American and African beef. Because of animal health and production issues in some of these countries, availability is limited and beef supply and demand ratios are improving. We have very good eating beef, better than most of the world.

The ability to share in the zero duty Tariff Rate Quota (TRQ) is a tipping point. Prices for beef in the EU are higher than in North America. (Beef standards and production costs to meet those standards are also higher.) We have an arrangement with distributors in the EU to supply cattle with the required specifications; and we have the ability to export high-quality products. We believe this opportunity offers higher net margins than the North American commodity market.

What are some of our challenges?

CGB is growing and quite naturally, we are still overcoming the challenges of operating a market chain, including the following:

- 1 Overcoming potential misgivings of market chain participants: Our role is to assure all participants in the chain that we are in business together, that we can all profit without taking away from another. That is how we build a sustainable industry.
- 2 Procuring a supply of beef for specific markets while the Canadian cowherd has declined significantly: Cow-calf producers are in an enviable position now and may hesitate to participate in our offer. However, premiums for participating in CGB are about more than just dollars. We offer participants the opportunity to receive information on how their cattle perform as they move through the chain and the stability that diverse markets and differentiated products offer.

Canada Gold Beef is developing a system based on best practices and mutual respect amongst value chain partners. Our customers are provided with a high quality beef product that meets or exceeds their expectations.

Our Marketplace

It's important to note that the end users for Canada Gold Beef products are the consumers who eat the beef. The distributors who sell the beef to are our customers. Some consumers are looking for a commodity — the lowest cost option. And others are willing to pay more to have the specific attributes they want in their food.

Some consumers want organic beef. They represent a relatively small market and supplying that product requires a rigorous and specialized set of criteria for raising and finishing animals with considerable additional expense.

The consumers CGB is targeting want a high-quality product with moderate differentiation. EU customers want beef that is hormone free. Our production systems are capable of supplying them. We believe significant business opportunities for all participants in our market chain lie in supplying this discerning market with CGB Class A hormone-free beef. As we identify additional new market opportunities for our differentiated beef products — like antibiotic-free — we will work with our market chain participants to supply those markets' growing needs to ensure the best economic returns for all involved.

European Connection

Canada's ambassador to the European Union, Ross Hornby; Canada's Minister of Agriculture, Gerry Ritz; and a Canadian beef industry delegation met with their European counterparts in Brussels in January. The meeting introduced European importers to Canadian beef products. Frank Goetz attended the meeting and reports that the European delegation responded enthusiastically to CGB products served at the event. We see this as a positive introduction to a responsive market.



We see huge opportunity here. We welcome any interested cow-calf producers to contact us to see if the CGB market chain is a fit for them.

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