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When the going gets tough

Groenenboom Land and Cattle Company copes with uncertainty in the post-BSE marketplace.

Herb Groenenboom (left), and **Dan Groenenboom** (right), Co-owners, Groenenboom Land and Cattle Company Ltd.

Agriculture can be an uncertain business at the best of times, so imagine the challenges currently facing Canada's beef producers.

In May of 2003, the Canadian Food Inspection Agency (CFIA) confirmed a case of Bovine Spongiform Encephalopathy (BSE) in a beef cow in Northwest Alberta presenting the greatest challenge the Canadian beef industry had faced in over fifty years.

BSE is a fatal disease of the central nervous system of beef and dairy cattle, thought to cause Creutzfeldt-Jakob disease in humans. The more common name of BSE, "Mad Cow Disease," stems from the symptoms seen in afflicted cattle.

The discovery of BSE in Canada led to the immediate closure of all export markets and had an instantaneous and profound effect on the entire beef production and marketing chain. The subsequent discovery late last year of another case of the disease in a Washington state cow born in Alberta compounded the difficult situation, prolonging the investigation period during which the trading borders remained closed.

While intensive efforts by stakeholder groups and governments including a \$680 million federal transitional support program, announced earlier this year, are helping Canadian beef producers recover from loss of markets due to BSE, there remains a great deal of uncertainty about the immediate future of the industry. Managing risk is a key factor in all types of businesses, but clearly, this threat to the beef industry is without precedent.

Producer adopts a conservative approach in dealing with the impact of BSE

Groenenboom Land and Cattle Company Ltd. is a family-owned, mid-size feedlot with a 14,000 head one-time capacity near Lethbridge, Alberta. Co-owner (with his father and two brothers) Herb Groenenboom confirms that the biggest challenge facing those involved in the beef industry today is assessing the level of risk that is acceptable.

"Today, everything about our business is speculative," Groenenboom comments. "Where historically we could look at futures and be reasonably certain of a level of stability in the markets, planning for the business has now become a question of how much financial risk one is willing to assume."



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The Groenenbooms' management strategy over the past year has been to maintain a conservative approach in terms of replenishing the feedlot. "We're now running at about 50-60% of our capacity, and we intend to stay well under capacity at least until the trade borders reopen," he says.

Groenenboom believes most beef producers are similarly cautious about business expenditures. "People I know who had plans to expand or make major equipment purchases have put those plans on hold. The bottom line is that we don't really know how long it will take for the industry to recover, or if it will ever be the same."

While Groenenboom admits the challenges of the past year have been stressful, he says he's grateful for the support—financial as well as moral—that has been offered. "I know I speak for the industry when I say how grateful we are to Canadian consumers who continue to buy our products and contribute through their tax dollars to support us through this difficult period."

He also credits Scotiabank for a level-headed approach in dealing with clients like himself who are affected by the BSE situation. "Scotiabank is certainly one of the big players in our industry, in terms of financing, and their support hasn't wavered," he reflects. "There was concern after the BSE discovery that the devaluation of the cattle would cause the banks to reconsider their position. In my opinion, the best thing Scotiabank did was to let us continue making the decisions that we thought were best for the business."

Bob Funk, Vice-President of Agriculture for Scotiabank, articulates that the Bank's position is predicated on a thorough understanding of the industry. "This is an unprecedented problem for the beef trade. Clearly, it has been an extremely tough year for the industry and everyone connected to it. However, just as we have been doing from the moment that the case of BSE was discovered in Canada and the border was closed, we are continuing to work together with our customers on a one-on-one basis to help them weather this crisis. We are committed to being fair and as patient as possible."

Adds Pat Killoran, Scotiabank's Director in Lethbridge: "We recognize the importance of the beef industry to the Canadian economy. Unfortunately, this situation has continued longer than many people first anticipated and while there is no "one size fits all" solution for our customers, we are committed to making every effort to address their individual needs. This may include additional working capital, payment deferrals or loan restructuring."

Scotiabank's knowledge of the industry has led to other innovative programs. Pat Killoran points out that Scotiabank recently launched an alliance program with Unifeed, an established feed producer, to help beef producers finance livestock and feed. Under this arrangement, Unifeed sales personnel now act as the bank's agents, offering producers a needed financing program — with Scotiabank then providing the financing to Unifeed for the resulting receivables.

"This is a winning arrangement for all concerned," Killoran concludes, "and it's one more way whereby the Bank shows its commitment to agriculture."

U.S. working to open border

The United States Department of Agriculture is currently assessing the comments it has received on the proposed rule for importing live cattle, beef and beef products under and over 30 months of age into the U.S. from Canada. A decision regarding resumption of imports of live Canadian cattle under 30 months of age is expected.

Currently, boneless cuts of beef may now be traded with the U.S., and a growing list of other countries. Bone-in cuts, ground beef and live beef are not yet open to trade.

An open border is critical to the industry as price discovery for cattle inventory has become a challenge. Due to border restrictions, all beef that is exported must be processed in Canada and the current supply is in excess of packer capacity. Prior to BSE, approximately 20% of Canadian beef was shipped as live cattle based on normal supply and demand and Canadian packer capacity. The importance of an open U.S. border to live cattle is vital since the industry has been built to export beef.



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