

DID COVID SUPPORT FOR BEEF CATTLE PRODUCERS HIT THE MARK?

Canadian consumers paid more for beef products in 2020 due to various COVID-19 impacts on the supply chain. Beef cattle producers saw a substantial drop in their revenues, while processors, wholesalers and retailers were the net beneficiaries of the higher prices. With the Federal/Provincial “set-aside” program designed to aid industry during this uncertain time, how much support was supplied relative to the economic pain seen?

COVID-19 hit Canada quickly. Within a matter of days of the COVID-19 crisis being classified a pandemic by the World Health Organization (WHO),¹ Canadians began shopping for groceries at an unprecedented level, with a year-over-year increase in retail grocery sales of 46% for the week of March 11th.² Within this surge, beef sales for the week of March 11th 2020 increased by 55% year-over-year for that week.³

As the demand for beef surged in early 2020, the available supply temporarily fell precipitously. In June 2020, industry estimated a backlog of around 130,000 head of cattle that were unable to proceed to slaughter and processing due to major COVID-19 outbreaks in the Cargill High River plant⁴ and the Brooks JBS plant,⁵ both in Alberta. The two plants combined represent about 70% of all federally inspected beef processing capacity in Canada,⁶ and both incurred either temporary shutdowns or major slowdowns in 2020 in order to clean facilities, provide COVID-19 protections to workers, and develop alternate operations procedures as required.⁷

¹ “WHO Director-General’s opening remarks at the media briefing on COVID-19 – 11 March 2020.” <https://www.who.int/director-general/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020>

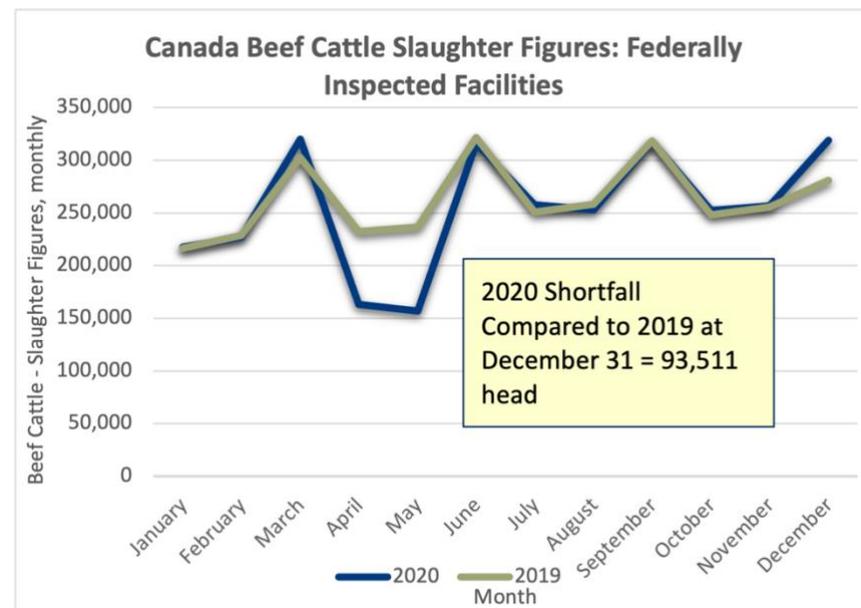
² Statistics Canada, “Canadian Consumers Prepare for COVID-19,” April 8, 2020, Government of Canada. <https://www150.statcan.gc.ca/n1/pub/62f0014m/62f0014m2020004-eng.htm>

³ Ibid.
⁴ Tyson Fedor, “Cargill processing plant with more than 900 COVID-19 cases reopens despite union opposition,” CTV News, May 4, 2020. <https://calgary.ctvnews.ca/cargill-processing-plant-with-more-than-900-covid-19-cases-reopens-despite-union-opposition-1.4923455>

⁵ Tyler Barrow, “JBS meat packing plant in Brooks resumes full operations,” CTV News Lethbridge, May 22, 2020. <https://calgary.ctvnews.ca/jbs-meat-packing-plant-in-brooks-resumes-full-operations-1.4950038>

⁶ Jake Edmiston, “Three meat-packing plants turn out 85% of Canada’s beef. How did this happen?” Financial Post, May 6, 2020. <https://financialpost.com/commodities/agriculture/why-only-three-meat-packing-plants-process-the-vast-majority-of-canadas-beef>

Figure 1 – Canada Beef Cattle Slaughter Figures: Federally Inspected Facilities⁸



Statistics Canada data shows the while monthly numbers recovered by June (see Figure 1), the industry was still behind by 93,511 head as of December 31, 2020 on year-to-date (YTD) slaughter numbers compared to 2019.⁹ This represents a decrease in annual throughput of 3.0% to end of December YTD.

⁷ Ibid.

⁸ Agriculture and Agri-Food Canada, “M007 United States and Canada Slaughtering at Federally Inspected Packing Plants - XLS” https://aimis-simia.agr.gc.ca/rp/index-eng.cfm?action=rR&promptLevel=2&pdctc=&r=99&debugcodes=0&p_68=147480&p_99=18537&p_69=149786&report_for_mat_type_code=45&p_61=MTH&p_70=23094&btnNext=Next#wb-cont

⁹ Agriculture and Agri-Food Canada, “M007 United States and Canada Slaughtering at Federally Inspected Packing Plants - XLS”. Accessed December 5, 2020. https://aimis-simia.agr.gc.ca/rp/index-eng.cfm?action=rR&promptLevel=2&pdctc=&r=99&debugcodes=0&p_68=147480&p_99=18537&p_69=149786&report_for_mat_type_code=45&p_61=MTH&p_70=23094&btnNext=Next#wb-cont

The reduced market demand from processors resulted in an average 2020 farmgate slaughter beef price that was 4.4% lower than the 2019 average price.¹⁰ The prices for the months of April and May 2020 however fell as much as 19% year-over-year (YOY).¹¹ The reduced throughput combined with lower prices compared to the previous year lowered Canadian feedlot gross revenues by an estimated \$379 million comparing YOY.¹² This represents a substantial reduction in income of 6.7% compared to 2019.¹³ While this represents losses in slaughter cattle prices, the prices of “feeder” cattle leaving cow-calf operations also fell 2.8% YOY, with April 2020 prices falling as much as 12% lower YOY.¹⁴

While producers received less revenues YOY, processors and retailers downstream in the value chain received higher prices. The average Canadian retail price for beef in 2019 was \$19.21/kg, while the average for 2020 was \$20.41/kg in 2020, a 6.2% increase.¹⁵ In June and July 2020, retail beef prices were higher by 18% and 13% compared to the same months in 2019.¹⁶ Processors and retailers moved less beef due to the restrictions on processing capacity in 2020. However, when applying the higher prices to the estimated retail amounts that were processed and sold, downstream retail revenues for beef were 3.3% higher YOY, even when considering the reduced volumes. This amounts to \$563 million in additional gross revenues to the downstream processor/wholesale/retail portion of the beef value chain in Canada.¹⁷ Statistics Canada estimates wholesaler margins more than doubled because selling prices rose at a faster pace than their purchase prices.¹⁸

In May 2020, the Alberta government announced it would help feedlot operators with a \$42 million federal and provincial “set-aside” program designed to subsidize feedlots as they held over cattle that could not move to the processing facilities due to backlogs.¹⁹ Based upon Agriculture Financial Services Corporation (AFSC) data to yearend 2020, set-aside commitments totaled \$21.7 million.²⁰ This amounts to 5.7% of the deferred \$379 million in feedlot revenues. Since the backlogged cattle will at some point be monetized, the set-aside funds can be viewed as helping to cover the “carrying costs” of withholding

these cattle from slaughter. These costs can be considerable, with feed, veterinary fees and related costs comprising 40% of feedlot operating costs, not including livestock purchase costs.²¹

IN CONCLUSION

Canadian consumers paid on average 6.2% more for beef products in 2020 compared to 2019, with some months as much as 18% higher year-over-year. Feedlots saw a drop in revenues of \$379 million or 6.7% for that same period, while incurring significant additional operating costs. In 2020, downstream supply chain entities, including processors, wholesalers and retailers, saw gross revenues rise by \$563 million YOY, more than doubling wholesaler margins. The Alberta and Federal governments helped Alberta feedlot operators with set-aside payments of about \$21.7 million to yearend 2020, but a backlog of over 93,000 cattle still existed in the system at December 31, 2020. It is of note that none of the set-aside benefits were directed to cow-calf operators, although they too were subject to substantial price impacts. The COVID-19 impact on Alberta’s beef industry hurt consumers and producers, while other select parts of the industry greatly benefited.

¹⁰ Statistics Canada. Table 32-10-0077-01 Farm product prices, crops and livestock. Average of Alberta and Saskatchewan prices for cattle for slaughter. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3210007701>

¹¹ Ibid.

¹² Author’s calculation using slaughter number differential from 2019 to 2020, combined with prices from above and average carcass weight in 2019, from Agriculture and Agrifood Canada, “A009B Average Carcass Weights for Federal Slaughter of Cattle,” retrieved 20-12-06. https://aimis-simia.agr.gc.ca/rp/index-eng.cfm?action=rR&promptLevel=1&pdctc=&r=107&menupos=1.02.06&debugcodes=0&p_88=137881&report_format_type_code=45&p_70=23094&btnNext=Next#wb-cont

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Average of prices for six types of beef cuts from Statistics Canada data: Statistics Canada. Table 18-10-0002-01 Monthly average retail prices for food and other selected products. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000201>

¹⁶ Ibid.

¹⁷ Author’s calculation using Agriculture and Agrifoods Canada Red Meat Conversion Factors: <https://www.agr.gc.ca/eng/animal-industry/red-meat-and-livestock-market-information/carcass-weight/conversion-factors/?id=1415860000020>

¹⁸ Tyler Patrice and Damigou Lamboni, “COVID-10 and the Beef Supply Chain: An Overview,” Statistics Canada, November 17, 2020. <https://www150.statcan.gc.ca/n1/pub/45-28-0001/2020001/article/00086-eng.htm>

¹⁹ CBC News, “\$42 million aid package for cattle industry announced,” The Canadian Press, May 8, 2020. <https://www.cbc.ca/news/canada/calgary/jason-kenney-high-river-cargill-alberta-ottawa-cattle-1.5560696#:text=Premier%20Jason%20Kenney%20says%20Alberta,during%20the%20COVID%2D19%20pandem>

²⁰ AFSC AgriRecovery, “The 2020 Canada-Alberta Fed Cattle Feed Cost Offset Initiative includes an immediate Fed Cattle Feed Assistance payment and a Bid Set-Aside.” Accessed 2020-12-10. <https://afsc.ca/income-stabilization/agrirecovery/>; Additional FCFA amounts provided by Alberta Cattle Feeders Association.

²¹ Statistics Canada. Table 32-10-0136-01 Farm operating revenues and expenses, annual, 2019 figures for all animal production farms. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3210013601>