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Industry Not Ready for New Ethanol Rules

New federal regulations designed to reduce greenhouse gases are to be implemented by September. Specifically the regulations require gasoline to have a five percent renewable content. Petroleum product companies are suggesting that some gas stations around the country could run out of gas this fall if the government doesn't provide more time to meet the new targets. Environment Minister Jim Prentice says he intends to move forward with the implementation of the regulations. Tony

Macerollo, of the Canadian Petroleum Products Institute, said he was mystified that companies will have less than two months to prepare before the rules are enforced and noted that the regulations fail to provide adequate time to build blending facilities. Macerollo also questioned whether the government's renewable-fuels strategy is an effective policy given that federal experts have estimated it would cost industry and consumers up to C\$3 billion over the next 25 years, along with at least C\$2 billion in federal subsidies for the production of ethanol and other renewable fuels. The government has estimated that the renewable-fuels policy will allow it to reduce greenhouse gases by about one megaton of carbon dioxide equivalent emissions per year. In comparison, its national climate-change goal is to reduce Canada's overall emissions by about 280 megatons by 2020.

Europe's Biodiesel Producers Seek EU Anti-Fraud Probe of Canadian Shipments

The seizure by Italian customs officials of a shipload of Canadian biodiesel highlights the global battle for a slice of the growing renewable energy market. Italian customs officials blocked the cargo last month after receiving a tip that the material originally came from the United States. Last May, the European Commission imposed duties on U.S. biodiesel for a five-year period, in response to what it said were illegal U.S. subsidies and export pricing practices. The duties have sent U.S. exports to Europe plummeting, to less than 400,000 tons in 2009 from 1.5 million tons in 2008. European producers have asked the European Union's anti-fraud office and trade department to investigate whether U.S. fuel is being labeled as coming from Canada, or mixed into Canadian biodiesel, for sale at a lower price than EU biodiesel of comparable quality. Canadian biodiesel exports to the EU have mushroomed, to more than 140,000 tons in 2009 from about 1,700 tons in 2008. Canadian officials say the boom was caused by the drop in U.S. exports, as well as growing European demand. If investigators determine that Canada has provided transshipment of U.S. exports, Canadian producers could also face EU duties.

DNA Tests Fight Phony Baloney

U.S. federal authorities cracking down on food fraud are using DNA testing technology developed at the University of Guelph in the Canadian province of Ontario. The Food and Drug Administration has been under pressure to take action against companies practicing fraudulent labeling. Even the best companies can be duped. Both Heinz and Kraft, which have rigorous quality control measures in place, were allegedly fooled when a tomato supplier sold moldy tomato paste as a higher-grade product. Washington-based Grocery Manufacturers Association has commissioned a study into food fraud in the U.S. John Spink, an expert on food and packaging fraud at Michigan State University, estimates that 5 to 7 percent of the food supply is fraudulently labeled. University of Guelph officials note that so far the investigations in Canada have been ad hoc, and often media driven. While Canada is not immune to the problem, the Canadian Food Inspection Agency, (CFIA) which is responsible for food labels, has not announced plans for a similar monitoring system.

Canada Likely to Continue Spud Dumping Case

As has been the case every five years since 1990, the Canada Border Services Agency (CBSA) in late December launched an investigation of its anti-dumping order on U.S. potatoes shipped to the western Canadian province of British Columbia (B.C.). Based on CBSA's four-month review, they have predicted that U.S. potatoes will likely fit the dumping criteria in B.C. if seasonal anti-dumping duties don't remain in place. Before the duty can continue, the Canadian International Trade Tribunal's (CITT) must conduct an inquiry to determine whether the expiry of the order is "likely to result in injury or retardation to the Canadian industry." The CITT is scheduled to make that ruling

by September 10, 2010. The duty applies to whole potatoes originating in or exported from the United States for use or consumption in B.C., but excluding imports to that province during the period from May 1 to July 31, inclusive, of each calendar year. Also excluded are seed potatoes, red potatoes, yellow potatoes, exotic potato varieties and white and russet potatoes imported in 50-pound cartons in count sizes of 40, 50, 60, 70 and 80. It is the importer's responsibility to calculate and declare anti-dumping duty liability, and to advise customs brokers that the potatoes are subject to anti-dumping measures. Currently, duties are announced weekly based on the difference between calculated normal value and the export price published in USDA's National Potato and Onion Report. In 2009, Canada imported more than C\$95 million in potatoes from the United States.

Wheat Board Expects Tests to Find GMOs

The head of the Canadian Wheat Board, Ian White, noted at the recent annual meeting of the Canada Grains Council that increased testing for genetically modified (GM) materials in world wheat supplies will inevitably prove positive, due to contamination from other crops in the grain-handling system. The expected finding of GM materials in wheat highlights the need for the grain industry, governments and export markets to agree on accepting low-level tolerance threshold for GM materials. Due to opposition from consumers and food-industry players, there is no commercialized production of GM wheat in the world, unlike other crops such as canola, corn and soybeans. White predicted that GM wheat production may not start for another 10 years.

Canadian Grape Growers Hope for Sunnier Days

Last year was tough for the Grape Growers of Ontario. In the vineyard, growers faced cold, wet weather that made it difficult to produce stellar fruit and outside the fields they fought to protect their power to negotiate grape prices. Revamping the grape pricing system was part of a series of reforms to the Ontario wine industry announced by the province last October. Many wineries have complained that prices of Ontario grapes are too high compared to other wine-growing countries. Growers proposed several different pricing models to the Ontario Farm Products Marketing Commission, which in turn reviewed the province's grape pricing system and made a recommendation to Ontario's agriculture minister. A decision is expected shortly. Last year many growers could not sell all their grapes, resulting in about 8,000 tons of surplus fruit and an overall price decrease of 7 percent. A bigger surplus is expected this year.

In the meantime, growers have found a new niche, added by the monopolistic sales system. The Ontario Liquor Board has just released a selection of well-priced "eco-friendly" wines that are either fully organic or made from organically farmed grapes. The big difference between the two categories is that the latter can contain added sulfur, an antiseptic that kills spoilage organisms and prevents wine from oxidizing and becoming flat-tasting.

Canadian Forestry Isn't Out of the Woods Yet

While there are some indications that a recovering economy will bring positive results in 2010, the forest, paper-and-packaging industry isn't out of the woods yet, according to a report prepared for Deloitte Touche Tohmatsu's Compass 2010 Global Forest, Paper-and-Packaging Sector Outlook in April. However, while North American and European housing and newsprint markets remain weak, the Asia-Pacific region is emerging as a source of growing demand. China's economic stimulus money is creating boom conditions, with the demand for lumber and building materials stronger now than it has ever been. Not having green products is becoming a competitive disadvantage, the

report says, but the development of more environmentally friendly products will depend heavily on the consumer and pressure from society. Biofuels will also be an important part of future growth for the industry, currently the world's largest producer and user of bioenergy.

Logs Bound for China Subjected to Stripping

Those raw logs being shipped to China aren't quite as unprocessed as they may look.

As a result of environmental regulations set by the United Nations, logs from the western Canada province of British Columbia (B.C.) must be stripped of their bark prior to shipment. That means each log has to be run through a mechanical ring-barker before shipment. Since 2000, China has required that all Canadian logs exported to China must be treated by debarking or methyl bromide fumigation prior to export. The phytosanitary certificate attesting to treatment is actually enforced by Ottawa, through the Canadian Food Inspection Agency. Either procedure adds significantly to processing costs. There are a few exceptions to the rule. Logs consigned to the Port of Putian, China, between Oct. 1 and April 30 of each year may be exempted, but they must be inspected by the CFIA and found free of visible pests, fungi, soil, branches and leaves. While China is becoming a major destination for B.C. logs, Japan continues to be the largest market, absorbing between 40 and 50 percent of the total volume. China has climbed steadily over the past several years, reaching quarterly levels of 19 percent. That runs against a declining trend of shipments to the United States., dropping from about 35 percent of total volume in 2008, down to a low of 11 percent by the third quarter of 2009.

EU Ban on Canadian Flax Continues

Keystone Agricultural Producers (KAP) in the prairie provinces of Canada continues to look for ways to address the problem producers are facing in selling flax to Europe. Since the European market has imposed restrictions on any flax found to have traces of genetically modified (GM) material, Canadian flax producers are at a disadvantage when vying against producers from other countries. At the KAP general council meeting held in April, members approved a resolution to initiate an examination of a potential consumer boycott of European products in response to restrictive protocols on Canadian flax exports. Canadians receive about C\$9/bushel of flax when they sell it to the European Union, while other exporters, such as the U.S., Argentina and Brazil, receive about C\$13/bushel. Canadian flax receives a lower return because of the risk of GM contamination and potential impounding.

Exchange Rate: Noon rate, May 4, 2010 (Bank of Canada): U.S. Dollar = C\$.98.