A Summary of the Supplemental Report to:
"Evaluating the Economic Benefits from the Canadian Beef Check-Off"

The National Check-Off provides industry funding for the Beef Cattle Research Council (BCRC) responsible for the industry's national research program; the Beef Information Centre (BIC) tasked with market development in Canada and the United States; and the Canada Beef Export Federation (CBEF) which develops export markets in Mexico, Asia, and more recently Russia and the Middle East.

An evaluation of the economic impact of the National Check-off program for beef cattle in Canada was completed in April 2010. This study had three main conclusions:

1) Historic investment of NCO funds in marketing and research activities generated positive economic benefits for producers; every check-off dollar invested in marketing and research activities earned back $9 in producer benefits.
2) There has been under investment in both marketing and research activities; the extent of under investment was larger for research than for marketing activities.
3) Shifting check-off dollars from marketing to research could increase producer benefits without an increase in the check-off levy.

A supplemental report provided analysis and discussion on a number of "what-if" scenarios related to the National Check-off program. These scenarios were developed as part of the National Check-Off Evaluation to provide the NCO Agency information to base future decisions about the Check-Off on and to provide the necessary information to industry for discussion. None of these scenarios were done with the intentions that it specifically would be pursued but to see which would be the most effective option.

A CLOSER LOOK AT RETURNS TO MARKETING

Based upon previous international work in this area, this supplementary study examined domestic and export marketing activities separately. This is due to the distinct nature of the activities undertaken in both the domestic market and export markets. The research found that export marketing activities had a larger return as they are able to increase beef cutout values by exporting products into premium based markets as well as exporting products with limited domestic demand. In contrast the domestic marketing activities tend to be focused on protecting the domestic market share from competing proteins and imports. The distinction between domestic and export marketing activities therefore requires that they be evaluated separately and compared to international benchmarks rather than each other.

The supplemental study showed that investment in domestic and international marketing activities generated positive economic benefits for producers.

- From fiscal year 2005/2006 to the end of 2008 every check-off dollar invested in domestic (i.e. Canada and the U.S.) marketing activities increased producer benefits by $3.40. This fits within the range seen in the United States of 1.3:1 to 9:1 but is lower than the average of 5.5:1 or the Australian average for marketing and research of 5:1.
- Every dollar invested in international marketing activities increased producer benefits by $16. Canada's beef cattle check-off return on export marketing fits within the range seen in research

from the United States 16:1 to 18:1 and is similar to the average of 15:1.
- Canadian beef cattle check-off returns on research of 46:1 falls within other research done in Canada which showed a range of 26:1 to 57:1.

The study concluded that there has been less than ideal investment made in both domestic and international marketing activities.

SUMMARY OF SCENARIOS

Scenario 1: Benefits from participation of Quebec and PEI
This scenario mimics what would be expected if the NCO were a truly national program (with all eligible provinces participating) and consequently a levy on beef imports was enacted. Simulation results show that participation of Quebec and PEI in the NCO program, coupled with the application of a $3.40 per tonne levy on beef imported into Canada (equivalent to $1 per head assuming a 650 lb carcass), generates positive economic benefits for Canadian cattle producers. Every additional check-off dollar (i.e. check-off revenues from Quebec and PEI and the import levy) invested in marketing and research activities increased Canadian cattle producer benefits by $8.

<u>Regulatory requirements and timeline</u>: Both Quebec and PEI have signed on with the NCO program in early 2010. The benefit of a fully national program is the ability to move forward with implementing the import levy and collecting check-off from beef and live cattle imports. These efforts have also been made possible with the National portion of the Alberta check-off returned to being non-refundable. Using the carcass equivalent of $1/head on beef imports plus the $1/head on live cattle, we would have averaged $750,000 in additional NCO revenue historically. However, smaller imports since 2003 have this lower averaging around $650,000 annually. Work is underway to get the National Check-off collected on imports.

Scenario 2: Benefits of collecting check-off on live cattle exports
Live cattle exports represent a significant portion of Canadian beef production. From 1995-2009 live cattle exports (feeder and slaughter cattle exports) have averaged 1 million head annually. At the present time, Canada's beef cattle check-off does not apply to live animals exported from Canada. Once agreements have been finalized to implement the national check-off and import levy across all regions of Canada, an export levy could be applied. Application of the existing $1 per head NCO levy to live cattle exported from Canada to the U.S. could increase Canadian cattle producer benefits, providing an estimated $800,000 annually. Simulation results show that every additional check-off dollar (i.e. check-off revenues from the export levy) invested in marketing and research activities increased Canadian cattle producer benefits between $5.65 and $7.00.

<u>Regulatory requirements and timeline</u>: While collecting NCO on live cattle exports would even the playing field between selling to a domestic packer versus a US packer; there are questions as to how the levy would be collected at the border, with the cost of collecting (by paying a third party) potentially greater than the actual collections. This is a scenario that needs more investigation on what would be the net return.

Scenario 3: Benefits of merging BIC and CBEF
Following the direction from the provincial organizations, CCA recommended the adoption of an integrated governance model for BIC and CBEF, at their Annual General Meeting in March 2010.

The possible integration of BIC and CBEF could impact the NCO program in two ways. Firstly, the integration could result in cost savings as compared to the status quo (with two separate marketing divisions). If such cost savings were to emerge, they could in principle be invested in marketing and/or research activities. Reinvestment of cost savings in marketing and research activities could serve to lessen the impact of under investment in marketing and research activities, to the benefit of producers. However, the possible integration is not expected to lead to substantial cost savings; those familiar with the possible integration estimate these cost savings to be about $177,000 annually. Such a cost saving is small in comparison to BIC and CBEF budgets.

Secondly, integration would result in an increase in the co-ordination of domestic and international marketing efforts. Enhanced co-ordination is expected to increase the effectiveness of domestic and international marketing activities. While it will be difficult, if not impossible, to gauge the extent to which integration would increase the effectiveness of domestic and international marketing activities in the future, it is possible to simulate the impact of possible increases in marketing effectiveness by increasing the elasticity of demand for beef with respect to marketing activities.

Assuming investment levels do not change, the benefits received by Canadian cattle producers would increase if the proposed integration of BIC and CBEF leads to enhanced effectiveness in increasing demand for Canadian beef. Simulation results suggest that a one percent increase in marketing effectiveness (as measured using the elasticities of demand for Canadian beef with respect to investment in marketing activities) could lead to an increase in Canadian cattle producer benefits anywhere between $1.2 and $1.9 million annually.

Regulatory requirements and timeline: Currently there is a working group preparing a set of recommended options for industry stakeholders to consider. If stakeholders agree that integration is the preferred option, there will be an adjustment period before benefits are realized. It is also recognized that there are costs associated with structural changes that will impact net benefits to producers in the short term.

Scenario 4: Impact of an increase to the Check-off levy

The study was initiated to obtain an independent evaluation of the economic benefits from the Canadian beef cattle check-off and was not intended to make the case for an increase in the national check-off. However, it is recognized by the NCO Agency that declining inventories since 2005 will have a significant impact on marketings and consequently check-off dollars in the coming years. This study provides valuable information to facilitate industry discussions on how to address these concerns.

While the national check-off provides the core industry funding for research and marketing programs, it does not fully cover the costs of all programs and activities. Supplementary funding is obtained by leveraging the national check-off, attracting $6 for every $1 of producer funds.

Increases in the check-off levy to $2, $3 and $5 per head were simulated. The additional investment in marketing and research activities (from the increased check-off levy coupled with leveraged funds) increased Canadian cattle producer benefits. For every additional dollar invested, the increase in cattle producer benefits ranged from $7.20 (with a $5 per head levy) to $9.30 (with a $2 per head levy). It was assumed that for every additional dollar allocated to domestic marketing activities, $1.50 of leveraged funds were added; and for every additional dollar allocated to international marketing activities, $2 of leveraged funds were included. Therefore, increases were assumed to be not only in the check-off but also in the leveraged dollars they accessed.

Regulatory requirements and timeline:
An increase to the national check-off will be a very involved process including consultation and approval from beef cattle producers through their provincial organizations, agreement among provincial organizations and the appropriate legislative and regulatory amendments. The national check-off has been $1 per head cattle since it was introduced in 2002. Any change in the national check-off would be driven by provincial beef cattle organizations which collect and remit the levy. Provincial beef cattle organizations take their direction from producers in their respective provinces.

MOVING FORWARD

The role of leveraging and organizational effectiveness cannot be overstated. This analysis did not take explicit account of the role of leveraging. In fact, leveraged funds were held constant. It is also recognized that while some of the difference in BCR's were due to differences in leveraging abilities there is also the significant difference in investment. Diminishing marginal returns means any increases in investment in marketing and research beyond their historical levels will result in lower BCRs. This does not mean that producer benefits decline; it means that the incremental producer benefits arising from each additional dollar is smaller than the return to producers from each dollar invested historically.

While a detailed analysis of the impact of leveraging on the BCRs and producer benefits is outside of the scope of the current study, it will be important to undertake further analysis to measure the extent to changes in the historic BCRs are due to changes in leveraging ability and how much are due to each organization's programming changes.