



Evaluation of AAFC's Program Response to the BSE Crisis

Final Report

Office of Audit and Evaluation

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Executive Summary

This report examines the relevance, success and cost-effectiveness of Agriculture and Agri-Food Canada (AAFC) programming related to Bovine Spongiform Encephalopathy (BSE), in particular AAFC's "industry sustaining" and "industry repositioning" programs. The objectives of the evaluation were to determine whether the programs were relevant to the needs of agricultural producers and processors affected by the BSE crisis at the time; to determine the extent to which the programs achieved their stated objectives; and to examine the adequacy of program design and delivery.

Overview of the Federal Response

On May 20, 2003, when one Canadian cow tested positive for BSE (or Mad Cow disease), more than 40 countries, including the United States (US), closed their borders to imports of Canadian cattle, beef, and other ruminants (e.g., bison and sheep). This had several immediate implications for the Canadian cattle industry.

- ▶ Canadian exports of 20,000 live cattle per week ceased.
- ▶ Processors reduced their slaughter rates from 70,000 to 30,000 head per week because of increasing inventories of lower-value beef cuts.
- ▶ Producers delayed marketing their cattle in hopes of the border reopening or the announcement of a federal program.

As the length of the border closure increased, producers expressed strong concerns that they would be unable to afford to feed their cattle and would therefore be forced to dispose of the animals themselves. They were also concerned that when the US reopened its border to imports from Canada, the release of the pent-up inventory would depress cattle and beef prices significantly.

In response to the border closure, producer concerns, and the evolving nature of the BSE crisis, the federal government introduced a number of industry sustaining BSE-related programs. Initial programming was introduced under the assumption that the US would reopen its border within 10 weeks and was therefore intended to help the industry weather the border closure. As time passed and the border closure persisted, in an effort to reduce industry reliance on export markets and to minimize its exposure to future crises of this nature, the federal government shifted the focus of its programming to repositioning the industry towards increased profit and viability through strategic investments in capacity, increasing the systems of quality control, and increasing foreign confidence in the Canadian product.

A total of 18 different AAFC programs were introduced (seven industry sustaining and eleven industry repositioning), and a total of \$2.1 billion in federal funding was budgeted over a five-year period from 2003-04 to 2007-08. One of the programs, the Canadian Cattleman's Association Legacy Fund, will continue to receive funding until 2015.

Methodology

The evaluation synthesizes the findings of two separate BSE evaluations conducted by Prairie Research Associates (PRA) Inc. on behalf of AAFC: a summative evaluation of AAFC's industry sustaining programs and a formative evaluation of AAFC's industry repositioning programs, both undertaken over a two year period from 2006-07 to 2007-08.¹ The findings are based on evidence gathered from six sources: A document and file review; key informant interviews; case studies; market and economic analysis; analysis of program data; and a producer survey.

Key Findings

The BSE "industry sustaining" and "industry repositioning" programs were developed quickly, in a climate of uncertainty, and multiple lines of evidence indicate that these programs were relevant to the needs of the agriculture industry; they aligned with AAFC's Strategic Outcome of Security of the Food System; and they represented an appropriate response to an unfolding and uncertain crisis. In terms of program impacts, a high percentage of producers participated in BSE industry sustaining programs, and a majority saw these as being valuable in supporting financial operations. The BSE industry sustaining programs achieved their key objectives of sustaining the industry through the crisis, avoiding a mass slaughter of the cattle herd, and maintaining producer and consumer confidence in the industry. The industry repositioning programs provided support to reduce the industry's vulnerability to trade restrictions, to enhance Canada's traceability system and to facilitate the evolution toward increased profits and viability through value-added processing opportunities for the Canadian livestock industry. At the time of this evaluation, industry repositioning programs were making progress towards their intended outcomes. The programs were delivered efficiently and effectively, taking advantage of existing AAFC program terms and conditions, teams and experience.

The design of the BSE industry sustaining programs was predicated on a discrete supply chain. Due to the structure of the beef and cattle industry, some vertically integrated producers were able to obtain support from multiple elements of the BSE programs. However, these instances were rare, and the total financial support to individual producers remained relatively low due to the scale of operations. More significantly, processors who were vertically integrated backwards into production (e.g., feedlots) benefited from the support to expand the domestic slaughter capacity, the support provided to feedlots and the price reductions for live cattle. Overall, this reflects the challenge of designing programs that target industry participants that operate at specific points in the supply chain, without unduly benefiting entities that are vertically integrated.

¹ A summative evaluation examines impacts in order to make a decision about overall effectiveness. Summative evaluations are typically undertaken at the end of a four-year life cycle of a program when intermediate and longer-term outcomes begin to be realized. A formative evaluation examines the effectiveness of a program implementation and is usually conducted in mid-cycle of the program (normally within 2 years of start-up).

In terms of the programs to increase domestic slaughter capacity, these programs were implemented as part of a contingency plan in the event the border remained closed for a lengthy period. In this eventuality, the Canadian livestock industry would have been significantly reduced without an expanded domestic slaughter capacity. As it turned out, the border did re-open in 2005, and this, along with several other factors resulted in an excess slaughter capacity in Canada. It should be noted that AAFC did suspend or cancel the slaughter capacity programs, given that sufficient slaughter capacity had been (or was planned to be) established. Government officials could not have known that the US border would re-open to exports of live cattle under thirty months within two years, reducing the need to expand domestic slaughter capacity.

In terms of cost-effectiveness, government support helped avert the most serious financial impacts of the BSE crisis and allowed most producers to sustain their operations (at least those that wanted to and were not about to retire). It should be noted that the programs reviewed in the context of this evaluation were BSE specific and not reflective of the total amount of support received by producers, who received additional funding through other federal programs (such as the Canadian Agricultural Income Stabilization Program) or provincial programs. As is the case with disaster-relief type programs, Government program payments are only intended to compensate a portion of the financial losses incurred by producers. Given the severity of the crisis, the industry sustaining programs were not sufficient on their own in most cases to enable producers to manage the financial crisis resulting from the border closure, and many producers experienced long-term reductions in their net worth.

The intended long-term impacts of the BSE industry repositioning programs were not well-defined at the outset, and no system was put in place for measuring or tracking the long-term performance of these programs. In some cases, there were no indicators and targets to facilitate performance monitoring. In many cases, the performance measures that were identified in program contribution agreements were activity and not outcome-based. In addition, not all programs were formally required to maintain databases on program applicants and/or projects, affecting the availability of information to support performance monitoring and reporting.

BSE programs were rolled out quickly to respond to a crisis situation, and multiple lines of evidence indicate that the response was as timely as could be expected. The border closed on May 20, 2003 and the first funds started to flow on July 1, 2003 through Phase I of the BSE Recovery Program (Slaughter Element). Based on the findings of this evaluation, there was good FPT and industry collaboration, and no perceived overlap and duplication with other AAFC programs, or with provincial or territorial BSE-related programs. However, due to the differing and inconsistent federal and provincial data definitions and collection systems used to track producers and their participation in various programs, governments cannot confirm with 100% certainty who benefited and by how much across all industry sustaining programs. Furthermore, it is not possible to conclude definitively that there were no cases of duplicate payments to program recipients.

Lessons Learned

Since all BSE-response related programs have ended (with the exception of the Canadian Cattleman's Association Legacy Fund, which will continue to receive funding until 2015), the focus of this evaluation was on lessons learned as opposed to recommendations for improvement. The following lessons learned from the experience with BSE-response related programs may serve to inform the design of future disaster-related initiatives in the agricultural sector.

1. Given that it is not possible to predict when the agricultural sector will be confronted with another disaster of the magnitude of BSE, it is critical to maintain knowledge of current market structures. There is also value in simulating a range of possible demand and supply side crises, in order to develop a readiness response, which includes: establishing appropriate baselines for the sector; developing a list of internal and external experts with knowledge of how to respond to a crisis situation in the agricultural sector; and a sense of the organizational structure required to manage the crisis.
2. In a crisis situation, there is pressure to focus on the achievement of short-term activities and outputs, and not long-term outcomes. In developing a readiness response for future crises in the agriculture sector, there is value in giving some thought to the associated performance measures and expected immediate, intermediate and end outcomes. Where possible, pre-planning expected outcomes, indicators and targets will facilitate the speed with which disaster-related programs can be launched, and will ensure that effective measures are in place to report on performance.
3. In a crisis situation, there are trade-offs between maintaining tight management controls and facilitating the speed of program implementation through the use of multiple delivery agents, including provinces and territories. To facilitate effective program delivery (i.e. reduced potential for overlap and duplication of program payments) and performance monitoring and reporting, AAFC should ensure clarity and consistency in how data is defined and performance information is collected.