



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.07

Required Report - public distribution

Date: 8/28/2003

GAIN Report Number: CA3052

Canada

Poultry and Products

Annual

2003

Approved by:

Gary Groves
U.S. Embassy

Prepared by:

George Myles

Report Highlights:

Present prospects point to lower Canadian production of chicken and turkey in 2003 from year ago levels. The effects of Sudden Acute Respiratory Syndrome (SARS), which dampened economic activity in the first half of the year, and the events surrounding the discovery of Bovine Spongiform Encephalopathy (BSE), which increased domestic beef supplies, contributed to the national poultry meat agencies setting conservative production allocation levels, a development which is forecast to linger into 2004. In poultry meat trade, the value of U.S. poultry meat exports to Canada, in the first six months of 2003, is almost 10% above last year's pace.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1]
[CA]

Table of Contents

Executive Summary 3

Section I. Broiler Chicken..... 4

 Production Outlook 4

 Tariff Rate Quotas/Imports 5

 Exports..... 5

 Marketing 5

 Chicken Utilization 5

 U.S. Poultry Meat Export Growth 5

Section II. Policy 6

 Chicken Industry Structure..... 6

 Policy Developments 6

 WTO Position of the Poultry Sector..... 6

Section III. Turkey 7

 Production Outlook 7

 Imports 7

 Exports: 8

Executive Summary

* The unbroken run of increased Canadian chicken production in recent years appears to be over. Chicken production in the first six-months of 2003 was 2.3% less than during the same period a year ago.

* Canada is the second most important export market for U.S. poultry meat. In 2002, U.S. poultry meat exports to Canada reached a record \$267 million, accounting for almost 16% of total U.S. poultry meat exports to the world (Russia, 22%). In the first six months of 2003, the value of U.S. poultry meat exports to Canada is almost 10% above last year's pace.

* For 2003, global access to Canada's chicken tariff rate quota (TRQ) is 69,762 metric tons, but U.S. exports will exceed that level as a growing proportion of total Canadian chicken imports is occurring outside Canada's TRQ under two special import categories, the "import to re-export" program and the "import to compete" program, which are made available to Canadian poultry processors and food manufacturers by the government of Canada.

* Turkey output in Canada during 2003 is forecast to fall for the third consecutive year. The Canadian Turkey Marketing Agency is under pressure to trim production allocations due to increasing turkey meat imports and relatively high levels of turkey in frozen storage.

Section I. Broiler Chicken

Production Outlook

The steady year-to-year increases in Canadian chicken production registered throughout the most of the 1990s and in recent years are unlikely to be repeated during 2003 and into 2004. As a result, the almost unbroken run in the growth in Canadian chicken production over the past ten years may be disrupted. Two contributing factors are 1) reduced economic activity and a sharp decline in tourism early in 2003 related to the outbreak of the human disease, Sudden Acute Respiratory Syndrome (SARS), and 2) the discovery of a single case of Bovine Spongiform Encephalopathy (BSE) in May 2003, which resulted in increased domestic supplies of beef, retail and fast-food beef promotions, and somewhat lower retail beef prices. At its present pace through June 2003, Canadian chicken output is poised to decline in 2003. According to the Chicken Farmers of Canada, production in the first six-months of 2003 was 2.3% less than during the same period a year ago. Output may advance slightly in 2004, but probably remain under or close to the record level produced in 2002.

Country Commodity	Canada		(1000 MT)(MIL HEAD)			
	2002 USDA Official [	Revised Estimate [	2003 A Official [	Estimate [	2004 A Official [	Forecast Estimate [
Market Year Begin	01/2002		01/2003		01/2004	
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	26	29	24	31	25	28
Production	945	932	975	915	0	930
Whole, Imports	0	1	0	1	0	1
Parts, Imports	72	76	80	84	0	89
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	72	77	80	85	0	90
TOTAL SUPPLY	1043	1038	1079	1031	25	1048
Whole, Exports	8	5	7	5	0	5
Parts, Exports	67	87	73	80	0	85
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	75	92	80	85	0	90
Human Consumption	944	915	974	918	0	931
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	944	915	974	918	0	931
TOTAL Use	1019	1007	1054	1003	0	1021
Ending Stocks	24	31	25	28	0	27
TOTAL DISTRIBUTION	1043	1038	1079	1031	0	1048

Tariff Rate Quotas/Imports

Virtually all Canadian imports of chicken are from the United States. Canada recognized the poultry meat inspection system of Brazil on August 2002 (see CA2088), but very little Brazilian product has been imported. U.S. access to Canada's chicken market is determined by a NAFTA formula of 7.5% of the previous year's Canadian production of chicken as published by Statistics Canada. For 2003, Canada's chicken tariff rate quota (TRQ) is 69,762 metric tons. Imports of U.S. broiler chicken cuts, fresh or frozen above the TRQ, are assessed an over access duty of ranging from 238% to 249%. However, the NAFTA agreement recognizes a supplementary import system which allows additional imports (at zero duty) when Canadian supplies fail to meet market demand. In addition, Canada's DFAIT allows special imports of chicken (at the duty free rate) for Canadian processors who are manufacturing chicken products for re-export and to processors who manufacture processed chicken items and items containing chicken that are not subject to a TRQ (i.e., similar products of U.S. manufacture which enter Canada duty free). The latter being known as the FTA or non-Import Control List allocation holders. For more information see the Policy Section.

Exports

Canadian chicken exports to Cuba, formerly the third most important export market for Canadian chicken, declined sharply following the opening of the Cuban market to U.S. chicken in 2002. Canadian exports of chicken to Cuba in 2002 fell to 7,200 metric tons from almost 17,000 metric tons during 2001. Exports to Cuba in the first half of 2003 show further significant decline. Canada's top markets for chicken in The January-June period of 2003 are the United States, South Africa, and Russia. Total chicken exports in the first half of 2003 fell 6.5% below last year's pace over the same period.

Marketing

Canadian importers of chicken must be in possession of an import permit issued by the Department of Foreign Affairs and International Trade. Further information on TRQ product coverage and a listing of the import allocation holders is available on the DFAIT website at: <http://www.dfait-maeci.gc.ca/trade/eicb/agric/chicken-en.asp>

Chicken Utilization

The Further Poultry Processors Association of Canada, the organization representing manufacturers of value-added poultry products, estimates Canadian chicken utilization shares by sector for 2001 as: retail, 65%; fast food, 22%; other restaurants and taverns, 8%, and hotels and institutions, 5%.

U.S. Poultry Meat Export Growth

After Russia, Canada is the second most important export market for U.S. poultry meat. In 2002, U.S. poultry meat exports to Canada reached a record \$267 million, accounting for almost 16% of total U.S. poultry meat exports to the world (Russia, 22%). In the first six months of 2003, the value of U.S. poultry meat exports to Canada are 9.6% above last year's pace.

Section II. Policy

Chicken Industry Structure

Last year's report, CA2112 contained a summary of the structure of Canada's chicken industry including a discussion of the production allocation periods and the Chicken Farmers of Canada's (CFC) export policy. That summary remains current.

Policy Developments

A growing proportion of total Canadian chicken imports is occurring outside Canada's TRQ under two special supplementary import categories, the "import to re-export" program and the "import to compete" program. Under the "import to re-export" program, processors may import additional chicken for further processing provided the products are exported within six months. The "import to compete" program allows Canadian processors and food manufacturers to import chicken for the production of processed chicken products that are not on Canada's Import Control List, such as chicken dinners. Due to the increasing presence of new and innovative chicken products in the marketplace, which are not on the Import Control List, Canadian food manufacturers are importing additional chicken under this special provision to remain competitive [i.e., their products would not be competitive if they purchased their raw product at the regulated (higher) Canadian price]. This has raised the ire of the CFC, which views the development as a threat to its supply management program. The agency continues to lobby the GOC for wider coverage of chicken products on the Import Control List. However, the rules for exemption were essentially laid down in the FTA/NAFTA in an era prior to the dramatic growth of the market for further processed chicken and products containing chicken. The resulting dilemma for Canada's national chicken agency demonstrates how the strict structure of the regulated market is less responsive to new product demand and product innovation.

WTO Position of the Poultry Sector

The Supply Management Five (SM5) is a group of producers consisting of the Dairy Farmers of Canada, the Broiler Hatching Egg Marketing Agency, the Canadian Egg Marketing Agency, the Canadian Turkey Marketing Agency, and Chicken Farmers of Canada. This group of producers share common interests and has developed a unified position on agriculture within the context of the upcoming round of the World Trade Organization's negotiations on international trade and current agricultural negotiations. They continue to lobby the GOC to work toward preserving their domestic supply-managed marketing structures for turkey, chicken, egg and dairy products and to preserve the power to regulate the volume of domestic product marketed, to operate a central desk selling agency and to pool returns.

Section III. Turkey

Production Outlook

The production of turkey meat in Canada during 2003 is forecast to fall for the third consecutive year. It is estimated that the Canadian Turkey Marketing Agency (CTMA) will be under pressure to trim production allocations due to a combination of increased imports and relatively high frozen storage stocks. Present indicators suggest there was a small increase in turkey disappearance in early 2003, but the anticipated increase in supply of competing meats over the next 18 months suggests that the national agency will be obliged to proceed cautiously in setting the 2004 national production allocation. As a result, no major shift in turkey production is forecast.

Country Commodity	Canada Poultry, Meat, Turkey					
	2002 Revised		2003 Estimate		2004 Forecast	
Market Year Begin	USDA Official [Estimate [	USDA Official [Estimate [	USDA Official [Estimate [	USDA Official [Estimate [	USDA Official [Estimate [	USDA Official [Estimate [
	01/2002	01/2002	01/2003	01/2003	01/2004	01/2004
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	19	19	15	14	12	10
Production	147	147	152	145	0	147
Whole, Imports	0	0	0	0	0	0
Parts, Imports	6	7	6	8	0	8
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	6	7	6	8	0	8
TOTAL SUPPLY	172	173	173	167	12	165
Whole, Exports	0	0	0	0	0	0
Parts, Exports	14	26	15	20	0	20
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	14	26	15	20	0	20
Human Consumption	143	133	146	137	0	135
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	143	133	146	137	0	135
TOTAL Use	157	159	161	157	0	155
Ending Stocks	15	14	12	10	0	10
TOTAL DISTRIBUTION	172	173	173	167	0	165

Imports

Similar to chicken, U.S. access to Canada's turkey market is determined by a NAFTA formula (3.5% of the targeted turkey production announced by the Canadian Turkey Marketing Agency). For 2003, the turkey TRQ is 5,588 metric tons. For turkey meat, the over access tariff rates for 2002 range between 154.5% and 165% but supplementary imports at zero duty are allowed under certain supply circumstances. Similar to the chicken industry, there are provisions to operate the special supplementary import categories, the "import to re-export" program and the "import to compete" program. Canadian importers of turkey must

be in possession of an import permit issued by the Department of Foreign Affairs and International Trade. Further information on TRQ product coverage and a listing of the import allocation holders is available on the DFAIT website at:

<http://www.dfait-maeci.gc.ca/~eicb/turkey/turkey-e.htm>

Exports:

In 2002, Canada exported turkey meat to 47 countries. Exports to Russia and South Africa accounted for more than half of total Canadian turkey exports. In the first six months of 2003, total turkey exports slipped substantially from the record pace during 2002 when they reached 26,000 metric tons.

VISIT OUR WEBSITE: The FAS/Ottawa website is now accessible through the U.S. Embassy homepage. To view the website, log onto <http://www.usembassycanada.gov>; click on Embassy Ottawa offices, then Foreign Agricultural Service. The FAS/Ottawa office can be reached via e-mail at: agottawa@usda.gov