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Report Highlights:

This report highlights recent developments in the Canadian beef and pork sectors with regard to livestock inventories, meat and livestock trade, and other factors affecting beef and pork production in Canada during 2005.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

Note: Readers are advised that the inventory numbers for 2004 and 2005 in this report are post estimates made prior to the Statistics Canada information release due shortly. They are subject to revision when Statistics Canada releases the January 1, 2005 cattle survey and hog on Thursday, February 17, 2005.

* Canada's cattle industry is addressing the challenges presented by a rising cattle inventory brought on by the loss of access to U.S. cattle markets under U.S. BSE-related import control measures. Slaughter capacity is steadily increasing and the volume of Canadian beef exports has recovered to near pre-BSE levels.

* The value of Canadian fresh or frozen beef to the U.S. in the January to November period of 2004 was \$1.1 billion, 47% greater than during the same period of 2003 and \$72 million higher than the same period of 2002- before BSE!

* For 2005, Canada will reduce its cattle inventory for the first time in three years if the USDA Minimal Risk Rule is implemented on March 7, 2005 allowing live cattle trade to partially resume. Due to increased slaughter capacity, domestic cattle slaughter beyond 4.5 million head is probable.

* For 2005, Canadian beef imports are expected to advance modestly as a result of increased imports from the United States. The prevailing policy of the GOC to keep non-NAFTA imports within the tariff rate quota of 76, 409 MT is expected to continue to limit imports of offshore beef.

* For 2005, post projects record exports of Canadian beef. The fast pace of Canadian beef exports during 2004 to the U.S. and Mexico is expected to continue. Also, GOC efforts to re-open some traditional export markets for Canadian beef in Asia, notably Japan, may be successful and further boost Canadian beef exports.

* For 2005, the steady annual expansion of the Canadian hog herd will conclude. The uncertainty surrounding the investigative stage of a U.S. trade action against Canadian hogs and softer hog market prices in the latter part of 2004 appear to have halted breeding herd expansion at least temporarily.

Section I. Cattle and Beef

Current Situation:

Canada's cattle industry is addressing the challenges presented by a rising cattle inventory brought on by the loss of access to U.S. cattle markets under U.S. BSE-related import control measures. Slaughter capacity is steadily increasing and Canadian beef exports have recovered to near pre-BSE levels. Nonetheless, the GOC and the Canadian cattle industry are anxiously awaiting the scheduled March 7, 2005 implementation of the USDA proposed rule that would amend U.S. regulations to add Canada to a category of regions that present minimal risk of introducing BSE into the United States. The U.S. action would re-open the U.S. border to live Canadian cattle under 30 months. In the two years prior to Canada's first BSE incident (2001 and 2002), Canadian ranchers and feedlots exported an average 1.5 million head of live cattle to the United States, so the importance to the Canadian industry of traditional access to the U.S. cattle markets can't be overstated.

Despite the first incidence of BSE in Canada on May 20, 2003 and the subsequent trade restrictions enacted by its trading partners, Canadian beef exports managed to recover close to their pre-BSE level, particularly after the United States amended its BSE import control measures on August 8, 2003 allowing imports of Canadian boneless beef from cattle under 30 months of age. Since that time, the Canadian beef industry has slaughtered the fed cattle that can no longer be exported in live form to the United States, and Canadian meat packers have taken advantage of strong U.S. wholesale meat prices. In fact, the value of Canadian fresh or frozen beef to the U.S. in the January to November period of 2004 was \$1.1 billion, 47% greater than during the same period of 2003 and \$72 million higher than the same period of 2002- before BSE!

Country Commodity	Canada Animal Numbers, Cattle (1000 HEAD)					
	2003 USDA Official	Revised Estimate [A]	2004 Official	Estimate [A]	2005 Official	Forecast Estimate [A]
Market Year Begin	01/2003		01/2004		01/2005	
Total Cattle Beg. Stks	13488	13488	14660	14660	15660	15700
Dairy Cows Beg. Stks	1065	1065	1077	1077	1080	1080
Beef Cows Beg. Stocks	4752	4752	5021	5021	5030	5030
Production (Calf Crop)	5792	5792	5900	6000	5925	6050
Intra EC Imports	0	0	0	0	0	0
Total Imports	62	62	40	10	30	40
TOTAL Imports	62	62	40	10	30	40
TOTAL SUPPLY	19342	19342	20600	20670	21615	21790
Intra EC Exports	0	0	0	0	0	0
Total Exports	507	507	0	0	0	1000
TOTAL Exports	507	507	0	0	0	1000
Cow Slaughter	350	350	385	415	500	500
Calf Slaughter	350	350	400	390	450	420
Other Slaughter	2838	2838	3515	3495	3650	3680
Total Slaughter	3538	3538	4300	4300	4600	4600
Loss	637	637	640	670	640	690
Ending Inventories	14660	14660	15660	15700	16375	15500
TOTAL DISTRIBUTION	19342	19342	20600	20670	21615	21790

Cattle Numbers

Note: Statistics Canada is scheduled to release the January 1, 2005 cattle survey on Thursday, February 17, 2005. Readers of this report are advised that the inventory numbers herein are post estimates made prior to the Statistics Canada information release.

Current Summary:

For Canada's cattle industry the year 2004 was characterized by the challenge of a burgeoning inventory due to the loss of access to U.S. live cattle markets under U.S. BSE import control measures. The inventory upsurge resulted in a record calf crop estimated at 6.0 million head, record domestic slaughter estimated at about 4.3 million head, and the highest inventory on record, one that post projects could exceed 15.5 million head when the Statistics Canada January 1, 2005 cattle survey is released on Thursday, February 17, 2005.

Outlook Summary:

As part of its repositioning strategy to be less dependent on U.S. cattle markets, the Canadian cattle industry has embarked on a strategy to deal with the surplus of cattle resulting from the U.S. border closure. Steps are being taken to increase slaughter capacity, increase cow slaughter and process more manufacturing type beef in order to capture more of the domestic market by displacing imported product both from offshore and from the United States.

For 2005, post predicts the Canadian cattle industry will: 1) Surpass the record calf crop of 2004, 2) Increase total cattle slaughter beyond 4.5 million head, 3) Export 1.0 million head of live cattle to the U.S. (contingent on the implementation of USDA's minimal risk rule on March 7, 2005) and; 4) Reduce its cattle inventory for the first time in three years.

Beef Supply & Distribution

Country Commodity	Canada Meat, Beef and Veal					
	2003	Revised	2004	Estimate	2005	Forecast
Market Year Begin	USDA Official [Estimate [1/A Official [Estimate [1/A Official [Estimate [1/A Official [
	01/2003	01/2003	01/2004	01/2004	01/2005	01/2005
Slaughter (Reference)	3538	3538	4300	4300	4600	4600
Beginning Stocks	34	34	48	48	35	40
Production	1190	1190	1450	1460	0	1570
Intra EC Imports	0	0	0	0	0	0
Total Imports	273	273	85	110	0	120
TOTAL Imports	273	273	85	110	0	120
TOTAL SUPPLY	1497	1497	1583	1618	35	1730
Intra EC Exports	0	0	0	0	0	0
Total Exports	384	385	540	570	0	625
TOTAL Exports	384	385	540	570	0	625
Human Dom. Consumpti	1065	1064	1008	1008	0	1060
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumpti	1065	1064	1008	1008	0	1060
Ending Stocks	48	48	35	40	0	45
TOTAL DISTRIBUTION	1497	1497	1583	1618	0	1730

Cattle Prices

Canada: Slaughter Steer Prices
 Monthly Weighted Averages; Alberta
 Units: C\$/hundredweight

	2002	2003	2004
January	105.08	114.17	82.36
February	107.10	115.13	80.03
March	109.62	110.29	85.81
April	98.19	108.55	84.25
May	94.77	106.31	80.03
June	90.73	65.44	71.73
July	90.11	37.80	70.64
August	92.43	39.02	66.69
September	94.57	73.09	78.39
October	97.23	79.07	79.12
November	101.69	80.45	79.18
December	105.05	82.06	85.32
Annual Aver.	98.88	84.28	78.63

Source: StatCan & Canfax

Beef Trade

Imports:

Canadian beef imports fell dramatically during 2004 following the GOC action to restrict supplementary import permits for non-NAFTA beef beyond the 76,409 MT tariff rate quota in response to the BSE crisis and additional supplies of domestic beef. Also, there was some development time surrounding the U.S. Beef Export Verification Program administered by the Agricultural Marketing Service of USDA to ensure that U.S. beef exports to Canada meet Canadian BSE import requirements. As a result, U.S. beef exports to Canada were mostly confined to the last half of the year.

In the January to November period of 2004, total Canadian beef imports ran more than 60% below the level for the same period a year ago. All major suppliers to Canada's beef market noted significant reductions in their sales to Canada.

For 2005, Canadian beef imports are expected to advance modestly mostly as a result of increased imports from the United States. The prevailing policy of the GOC to keep non-NAFTA imports within the tariff rate quota is expected to continue to limit imports of offshore beef.

Exports:

Canadian beef exports suffered a sharp decline immediately following the single case of BSE discovered in Alberta in May 2003. However, since the U.S. action on August 8, 2003 to allow imports of certain Canadian boneless beef and beef products, closely followed by similar Mexican action, Canadian beef exports to the United States have recovered almost to their pre-BSE levels and beef exports to Mexico have advanced strongly beyond their pre-BSE levels. Prospects for 2005 beef exports chiefly rest on U.S. and Mexican markets although some smaller markets are accepting Canadian beef. Also, GOC efforts to re-open some traditional export markets for Canadian beef in Asia, notably Japan, could be successful further boosting Canadian export levels for beef.

For 2005, post projects record exports of Canadian beef. The fast pace of Canadian boxed beef exports during 2004 to U.S. and Mexico is expected to continue. In addition, if the U.S. Minimal Risk rule is implemented on March 7, 2005 Canadian beef from animals older than 30 months will become eligible for export to the United States where the demand outlook for U.S. manufacturing beef is strong.

Policy

Update: Year-Round Access for U.S. Feeder Cattle

On March 10, 2004 then Agriculture Minister, Bob Speller announced that Canada would remove anaplasmosis and bluetongue testing and treatment requirements from feeder cattle imported from the United States enabling year-round access to Canadian feedlots. This was to be done by changing the CFIA's permit system which governs these imports. This policy action did not require a change to Animal Health regulations. Presently, there are two stumbling blocks to year-round access for U.S. feeders: 1) Under current Canadian BSE import restrictions, only U.S. bovines for immediate slaughter and certain veal calves for feeding are permitted entry into Canada under BSE control measures. Therefore, the year-round access for U.S. feeders is unlikely until the removal of U.S. and Canadian BSE control measures on (most) live cattle, 2) Currently, there is some uncertainty as to whether U.S. feeder cattle imported into Canada will meet the eligibility requirements set out under the

U.S. Minimal Risk Rule "premises of origin" identification requirements for those cattle destined to be exported back to the United States for slaughter. Canada is confident it can meet and certify ID and origin requirements for its domestic cattle because of its mandatory cattle identification (ID) program. However, there may be some procedural issues to work out between the animal health regulators in both countries before the importation of U.S. feeder cattle can resume.

Section II. Hogs & Pork

Hog Numbers

When Canada's hog inventory numbers are released on February 17, 2005 they are expected to show that the steady annual expansion of the Canadian hog herd has concluded. Post anticipates that the inventory survey for January 1, 2005 will show that total hog count unchanged from one year earlier at 14.6 million head. The uncertainty surrounding the investigative stage of a U.S. trade action against Canadian hogs, the imposition of U.S. anti-dumping duties in October 2004 (with margins ranging from *de minimus* to 15.01 percent), and softer hog market prices in the latter part of the year all combined to reduce breeding herd expansion and farrowing intentions during the final quarter of 2004.

Country Commodity	Canada Animal Numbers, Swine (1000 HEAD)					
	2003 USDA Official	Revised Estimate [1]A	2004 Official	Estimate [1]A	2005 Official	Forecast Estimate [1]A
Market Year Begin	01/2003	01/2003	01/2004	01/2004	01/2005	01/2005
TOTAL Beginning Stocks	14672	14672	14623	14623	14900	14600
Sow Beginning Stocks	1527	1527	1578	1578	1600	1580
Production (Pig Crop)	31414	31414	33000	33000	33400	33100
Intra EC Imports	0	0	0	0	0	0
Total Imports	4	4	6	6	5	5
TOTAL Imports	4	4	6	6	5	5
TOTAL SUPPLY	46090	46090	47629	47629	48305	47705
Intra EC Exports	0	0	0	0	0	0
Total Exports	7443	7443	8600	8500	8800	8200
TOTAL Exports	7443	7443	8600	8500	8800	8200
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	22464	22464	22600	23000	22900	23400
Total Slaughter	22464	22464	22600	23000	22900	23400
Loss	1560	1560	1529	1529	1605	1555
Ending Inventories	14623	14623	14900	14600	15000	14550
TOTAL DISTRIBUTION	46090	46090	47629	47629	48305	47705

Hog Prices

Canada: Slaughter Hog Prices; Ontario & Manitoba

Units: \$C/kilogram; index 100 dressed

	ONTARIO			MANITOBA		
	2002	2003	2004*	2002	2003	2004*
January	1.50	1.23	1.15	1.53	1.33	1.24
February	1.67	1.39	1.43	1.63	1.41	1.45
March	1.56	1.36	1.58	1.54	1.39	1.57
April	1.34	1.35	1.57	1.38	1.37	1.59
May	1.34	1.44	1.89	1.38	1.53	1.87
June	1.41	1.62	1.96	1.44	1.62	1.92
July	1.58	1.55	1.87	1.56	1.59	1.88
August	1.49	1.43	1.77	1.51	1.55	1.85
September	1.09	1.33	1.64	1.15	1.45	1.70
October	1.23	1.24	1.56	1.31	1.38	1.69
November	1.16	1.09	1.41	1.23	1.26	1.58
December	1.25	1.12	1.47	1.28	1.26	1.60
Average	1.38	1.34	1.61	1.41	1.43	1.66

* estimate

Source: StatCan & AgCan

Pork Supply and Distribution

Country Commodity	Canada		Meat, Swine		(1000 MT CWE)(1000	
	2003	Revised	2004	Estimate	2005	Forecast
Market Year Begin	USDA Official	[Estimate]	IA Official	[Estimate]	IA Official	[Estimate]
	01/2003		01/2004		01/2005	
Slaughter (Reference)	22464	22464	22600	23000	22900	23400
Beginning Stocks	54	54	48	48	44	50
Production	1882	1882	1900	1930	1935	1935
Intra EC Imports	0	0	0	0	0	0
Total Imports	91	91	110	102	110	100
TOTAL Imports	91	91	110	102	110	100
TOTAL SUPPLY	2027	2027	2058	2080	2089	2085
Intra EC Exports	0	0	0	0	0	0
Total Exports	975	975	960	970	980	980
TOTAL Exports	975	975	960	970	980	980
Human Dom. Consumption	810	810	858	862	869	865
Other Use, Losses	194	194	196	198	200	200
TOTAL Dom. Consumption	1004	1004	1054	1060	1069	1065
Ending Stocks	48	48	44	50	40	40
TOTAL DISTRIBUTION	2027	2027	2058	2080	2089	2085

Live Hog Exports

Canadian live hog exports to the United States in 2004 reached a record 8.5 million head (preliminary data). Increases were noted for both classes of live hog exports, those for immediate slaughter in the U.S. and feeder hogs. Workers at Quality Meat Packers in Toronto, were on strike for a month in late 2004 and the labor dispute resulted in an estimated additional 20,000 head per week being exported live for all of November 2004. For 2005, projected increased hog slaughter capacity in Canada and little to no increase in the total pig crop is expected to result in a small decline in the level of live Canadian hog exports to the United States.

Canada: Live Swine Exports to the U.S., Calendar Year, by type

HS= 0103

Units: Thousand Head				Jan-Nov	Jan-Nov	%
TYPE	HS Code	<u>2002</u>	<u>2003</u>	<u>2003</u>	<u>2004</u>	change
Slaughter	103.92	1,966	2,458	2,177	2,610	20%
Feeder	103.91	3,757	4,971	4,490	5,193	16%
Purebred	103.1	15	9	8	5	-38%
TOTALS		5,738	7,438	6,675	7,808	17%

Source: World Trade Atlas

Trade Case Update:

On October 15, 2004, the Department of Commerce announced its affirmative preliminary determination in the antidumping (AD) duty investigation on imports of live swine from Canada with margins ranging from *de minimis* to 15.01 percent. The Department is also conducting a companion countervailing duty (CVD) investigation, and announced its negative preliminary determination in that case on August 17, 2004. The final determinations in both the AD and CVD investigations have been aligned and are scheduled for March 7, 2005. If the Department makes a final affirmative determination in either the AD or CVD investigation, and the U.S. International Trade Commission makes a final affirmative injury determination, the Department will issue a final antidumping and/or a countervailing duty order, as appropriate.

Pork Trade

Imports

Based on eleven months data, total Canadian pork imports during 2004 are expected to reach 102,000 metric tons (carcass weight equivalent), an increase of 12% from the 2003 level of 90,759 metric tons. Imports from the United States during 2004 (90,909 metric tons, valued at \$234 million) represented more than 97% of total Canadian pork imports for year. For 2005, Canadian pork imports are forecast to remain close to the 2004 level.

Exports

The level of Canadian pork exports, which had shown a significant annual increase each year since 1998, slipped during 2004 (based on eleven months data) due to lower exports to the United States, Taiwan and Russia. Pork exports to the U.S. were down 9% from a year ago despite record U.S. exports of pork during 2004. There was a shift to increased live hog exports to the U.S. and a decline in Canadian pork exports. The development marks a transfer of value-added to the U.S. hog industry at both the primary and processing level by fattening Canadian live hogs with U.S. feedgrain to meet the demand for U.S. pork in domestic and international markets.

Canadian pork exports to Mexico increased substantially in the January-November period of 2004 (up 59%), but the gain in pork sales to that NAFTA partner failed to offset the overall decline to other markets. On balance, Canadian pork exports for 2004 are expected to total about 970,000 metric tons carcass weight equivalent.

Industry Developments

Expansion at Major Packer: Olymel, one of Canada's largest processors of pork and poultry will reportedly expand its Red Deer Alberta pork production facility (formerly Fletcher's). The plant currently slaughters about 45,000 hogs per week. The expansion is expected to cost up to C\$15 million and nearly double slaughter capacity. No date of completion is available. Olymel sells almost half of its pork products in the export market. The Red Deer plant exports primarily to the U.S., Japan, Mexico, and Australia.

Quebec Pork Processors Merge: Supraliment, the meat division of Groupe Brochu, and Olymel, a subsidiary of La Coop Fédérée, have announced that they have signed a partnership agreement to merge and integrate their assets and operations in the slaughtering, cutting, boning, processing and marketing of pork and poultry meats. The new company would become a leading processor at both the national and international levels. The deal will have to be approved by Canada's Competition Bureau. The company's aim is to generate sales of C\$2.5 billion from its operations in Quebec, Ontario, and Alberta. In a joint statement Olymel and Supraliment said they will continue to operate their current commercial activities independently until regulatory approval is achieved.

Manitoba Confident Of Successful Defense In Swine Anti-Dumping Case: The Manitoba Pork Council says that there is growing confidence among Canadian hog producers that they will be successful in the final injury determination in April 2005, and that the U.S. trade action against Canadian swine will end. The Council believes that the U.S. hog industry, which has been enjoying record prices, will have a difficult time arguing that increased live swine imports from Canada are harmful to U.S. pork producers. On October 15, 2004 the U.S. Department of Commerce (DOC) announced an affirmative preliminary determination in the antidumping duty investigation of live swine from Canada, with margins ranging from *de minimus* to 15.01 percent. In a companion countervail case, the DOC ruled in August 2004 that Canada's subsidies for its hog industry are too small to justify the imposition of U.S. tariffs.

Exchange Rates

Where prices and values in this report are expressed in Canadian dollars, the exchange rates are: 2000, C\$=US\$.6733; 2001, C\$=US\$.6458; 2002, C\$=US\$.6368; 2003, C\$=US\$.7135; 2004, C\$= US\$.7683.

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