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## Canada

## Livestock and Products

## Annual

## 2006

**Approved by:**

Lisa Anderson  
U.S. Embassy

**Prepared by:**

George Myles

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**Report Highlights:**

This report reviews developments in the Canadian cattle and pork sectors that will influence the production and trade of live animals, beef and pork through 2007.

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

\* For 2006, Canadian beef and veal output is forecast to fall to about 1,375 thousand metric tons, down 10% from the 2005 level. Weaker demand for Canadian beef in major markets and the resumption of live exports of slaughter cattle to the United States during the last half of 2005 are two major reasons behind reduced Canadian cattle processing.

\* The buildup in Canadian cattle numbers beginning in mid-2003 because of the market disruption caused by BSE was partly alleviated when the U.S. announced in August 2003 that it would allow imports of "under thirty month" beef from Canada. At that time, Canada moved to increase its own slaughter capacity, but when Canadian access to the U.S. "live" market partially resumed in July 2005, live cattle exports increased and Canadian beef production and exports slowed.

\* Cow slaughter in Canada during 2006 is on pace to reach 800,000 head. This is more than 40% above last year's level and will contribute importantly toward the industry working its way out of the cattle backlog linked to the 2003 BSE outbreak.

\* Since the resumption of live cattle exports to the U.S. in July 2005, Canadian beef exports are running at a rate 20% below their pre-BSE level. Although three-quarters of the decline reflects lower beef exports to the U.S., most of the remainder is because of a recent sharp decline in beef exports to Mexico. Canadian beef exports to Japan resumed in late 2005, but so far in 2006, exports to that country represent less than 1% of total Canadian beef exports. For 2007, anticipated weaker demand in major markets and a strong Canadian dollar point to a second consecutive year of decline for Canadian beef exports. Canadian beef exports are currently more reliant on U.S. market sales than prior to the first detection of BSE in Canada in May 2003.

\* U.S. beef exports to Canada in the first six months of 2006 are up 35% from the same period a year ago. Higher U.S. production, a strong Canadian dollar, and lower beef production in Canada have combined to fuel the increase in Canadian demand for U.S. beef. 2006.

\* After Mexico and Japan, Canada is the third most important export market for U.S. exports of fresh and frozen red meats. In 2005, U.S. fresh and frozen red meat exports to Canada reached a record \$456 million and accounted for more than 12% of the U.S. total in the category. For 2006, the value of U.S. fresh and frozen red meat exports to Canada is forecast to exceed \$630 million reflecting increased exports of both beef and pork.

\* Canadian pork production during 2006 is expected to slip to about 1,885 thousand metric tons, 1.5% below the level of a year ago. A decline in Canada's hog inventory and significant hog production losses in Ontario and Quebec because of porcine circovirus are major reasons for reduced pork production. Prospects for increased U.S. pork output in 2007 will put downward pressure on Canadian hog market prices and lead to an additional production decline for Canadian pork next year.

\* For 2006, Canadian pork exports are forecast to increase about 1.6% to 1.1 million metric tons. During the first half of 2006, weaker exports to the United States and Japan, down 3% and 14% respectively year over year, were more than offset by Canadian pork export increases to Russia, Romania, and South Korea.

\* For 2006, Canadian pork imports from the U.S. are on pace to exceed 100,000 MT for the second consecutive year, a development not seen in U.S./Canada pork trade since the late 1970s. U.S. pork captured 97% of the Canadian import market for pork last year.

## Section I. Cattle and Beef

Throughout the first half of 2006, Canada's cattle industry has been characterized by an important inventory reduction, significantly lower cattle slaughter, weak beef exports, and higher beef imports, mostly from the United States. These developments indicate that the Canadian cattle industry is working its way out of the cattle backlog associated with the initial detection of BSE in Canada in May 2003. However, cattle marketing patterns may not necessarily return to their pre-BSE pattern. At this juncture, it would appear that the ability of the Canadian cattle industry to recapture pre-BSE trade levels for beef and cattle will dictate the future size of Canada's cattle herd.

### Beef Production Down Significantly in 2006

Canadian beef and veal output during 2006 is estimated to fall to 1,375 thousand metric tons, down almost 10% from 1,523 thousand metric tons. In response to lost exports markets for live cattle after BSE was detected, slaughter capacity expanded during 2003 and 2004, but the re-opening of the U.S. border to cattle under 30 months of age in July 2005 resulted in renewed live slaughter cattle exports to the U.S. and the underutilization of the expanded slaughter capacity. Canadian cattle processors have been facing pressure from weaker demand for Canadian beef in the U.S., Mexico and Asian markets, a situation exacerbated by a stronger Canadian currency.

Country Commodity	Canada Meat, Beef and Veal					
	2005		2006	Estimate	2007	Forecast
Market Year Begin	USDA Official [ Estimate]	Revised [ Estimate]	2006 Official [ Estimate]	Estimate [ Estimate]	2007 Official [ Estimate]	Forecast [ Estimate]
	01/2005	01/2005	01/2006	01/2006	01/2007	01/2007
Slaughter (Reference)	4484	4475	4340	4050	0	3925
Beginning Stocks	42	42	45	41	40	44
Production	1475	1523	1450	1375	0	1335
Intra EC Imports	0	0	0	0	0	0
Total Imports	133	133	125	150	0	160
TOTAL Imports	133	133	125	150	0	160
TOTAL SUPPLY	1650	1698	1620	1566	40	1539
Intra EC Exports	0	0	0	0	0	0
Total Exports	553	553	550	455	0	440
TOTAL Exports	553	553	550	455	0	440
Human Dom. Consumptic	1052	1104	1030	1067	0	1059
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumptic	1052	1104	1030	1067	0	1059
Ending Stocks	45	41	40	44	0	40
TOTAL DISTRIBUTION	1650	1698	1620	1566	0	1539

### Inventory to Fall Again in 2007

Post forecasts the total Canadian cattle herd to decline to 14.0 million head by the end of 2007. That level would be more than 1.0 million less than the ending inventory of 15.1 million head when inventories reached their peak during the BSE-related backlog. In the

most recent official release of Canadian cattle numbers, Statistics Canada reported that the total cattle inventory on July 1, 2006 fell to 16.2 million head (Note: mid-year inventories are larger due to calf crops), almost 5% below a year ago on the same day. Almost all of the inventory decline is attributable to increased live cattle exports to the United States after USDA reopened the border to Canadian slaughter and feeder cattle in mid-2005. After the "live" market reopened in July 2005 and live cattle exports resumed, Canadian beef exports slowed.

The Statistics Canada inventory report showed that although cattle numbers fell in all provinces, most of the decline was on the Prairies. The combined herd in Manitoba, Saskatchewan and Alberta plunged by 610,000 head and accounted for three-quarters of the total decline in the one-year period ending July 1 this year. Compared to a year ago, Alberta's herd, the largest of any province, plunged 6.0%, Saskatchewan's fell 4.8%, and Manitoba's, 2.0%. In British Columbia, the herd dropped by 9.3%. In Central Canada, Quebec's cattle count edged down 1.0%, while Ontario's was 4.2% lower.

Commodity	Animal Numbers, Cattle (1000 HEAD)					
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [	Estimate] [NA	Official [	Estimate] [NA	Official [	Estimate] [
Market Year Begin	01/2005		01/2006		01/2007	
Total Cattle Beg. Stks	15063	15063	14830	14830	14360	14400
Dairy Cows Beg. Stks	1066	1066	1049	1049	0	1040
Beef Cows Beg. Stocks	5297	5297	5279	5264	0	4950
Production (Calf Crop)	5638	5625	5625	5300	0	5000
Intra EC Imports	0	0	0	0	0	0
Total Imports	21	21	25	30	0	25
TOTAL Imports	21	21	25	30	0	25
TOTAL SUPPLY	20722	20709	20480	20160	14360	19425
Intra EC Exports	0	0	0	0	0	0
Total Exports	562	558	1000	910	0	700
TOTAL Exports	562	558	1000	910	0	700
Cow Slaughter	560	560	610	800	0	800
Calf Slaughter	375	375	360	350	0	350
Other Slaughter	3549	3540	3370	2900	0	2775
Total Slaughter	4484	4475	4340	4050	0	3925
Loss	846	846	780	800	0	800
Ending Inventories	14830	14830	14360	14400	0	14000
TOTAL DISTRIBUTION	20722	20709	20480	20160	0	19425

## Reduction in Beef Cow Herd

The market and trade disruption caused by BSE to normal marketing patterns for cattle caused the Canadian beef cow herd to increase sharply after May 2003. Until Canadian processors made the adjustment to increase the slaughter levels of domestic cows, many of which were formerly exported live to the United States, cow herd numbers rose to a record level. Canada's cow inventory peaked at almost 5.5 million beef cows at mid-2005 despite the fact that cow slaughter that year rose to an estimated 560,000 head, well above the 2004 level. Since that time, cow slaughter has been on the upswing and for 2006 total cow slaughter is forecast to reach 800,000 head. This development in the cow herd points to a lower calf crop for 2007 and reduced production potential in the longer term.

## Outlook Points to Lower Beef Production in 2007

Presently, post forecasts total Canadian beef and veal production during 2007 to fall to an estimated 1,335 thousand metric tons, a 3% decline from the current year's anticipated level. The anticipated overall decline in the cattle inventory, the lower calf crop of 2006, and live cattle exports to the United States are factors behind the expected decline.

## Consumption

### Prices

The forecast of large U.S. beef supplies in the last half of 2006 is expected to put downward pressure on Canadian fed cattle prices for the remainder of the year.

## Alberta Fed Steer Prices- monthly averages

C\$/cwt/live

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>2002</b>	105.08	107.10	109.62	98.19	94.77	90.73	90.11	92.43	94.57	97.23	101.69	105.05
<b>2003</b>	114.17	115.13	110.29	108.55	106.31	65.44	37.80	39.02	73.09	79.07	80.45	82.06
<b>2004</b>	82.36	80.03	85.81	84.25	80.03	71.73	70.64	66.69	78.39	79.12	79.18	85.32
<b>2005</b>	85.26	88.68	83.19	80.14	79.54	80.42	84.77	85.03	85.19	86.57	91.98	96.42
<b>2006</b>	95.39	89.32	87.51	85.22	85.03	86.92	85.84					

Source: CanFax

## Per Capita Consumption

Eight cases of BSE detection in Canada since May 2003 have not had a major negative impact on Canadian beef and veal consumption. In fact, per capita beef consumption was higher last year than during 2002, the pre-BSE era. Canadian consumers continue to demonstrate a high level of confidence in the Canadian food inspection system.

### Canadian Per Capita Beef and Veal Consumption

Units: carcass weight	Post Fore.				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
kilograms per person	31.70	32.98	31.83	32.98	31.90

Source: Statistics Canada

## Trade

### Can Canada Recover Lost Markets for Beef?

During the nine calendar quarters prior to 2<sup>nd</sup> quarter 2003 (i.e., the quarter when BSE case #1 was detected), total Canadian beef exports averaged 148,552 metric tons carcass weight equivalent (cwe) per quarter. Canadian beef exports were heavily reliant (more than 96%) on three markets, the U.S., 82%, Mexico, 11% and Japan, 4%. U.S. and Mexican markets re-opened for Canadian beef (UTM) shortly after Canada's first BSE case on May 20 2003 and by the fourth quarter of 2003, Canadian beef exports were running at a rate close to their pre-BSE level. However, since the resumption of live cattle exports to the U.S. in July 2005, Canadian beef exports have fallen to a rate 20% below their pre-BSE level. Three-quarters of the decline reflects lower beef exports to the U.S., while most of the remainder is because of a recent sharp decline in beef exports to Mexico. Canadian beef exports to Japan resumed in late 2005, but so far in 2006, exports to that country represent less than 1% of total Canadian beef exports in the first six months of 2006. For 2007, anticipated weaker demand in major markets and a strong Canadian dollar point to a second consecutive year of decline for Canadian beef exports.

The table below demonstrates that Canadian beef exports are currently more reliant on U.S. market sales than prior to the first detection of BSE in Canada in May 2003. Because of the relative small size of offshore markets for Canadian beef, Canada's efforts to recover lost export markets in non-NAFTA countries will not offset a general decline in exports. Prospects for live cattle exports and additional beef items are dependent on future U.S. rule making (commonly referred to as U.S. Minimal Risk Rule #2). If Canada gains renewed access to U.S. markets for live, mature cattle (and some of their products) under a future rule change, it would probably result in an additional decline in Canadian slaughter rates. It remains uncertain whether Canadian meat processors could establish a successful market in the United States for Canadian manufacturing-type beef.

## Canadian Beef Exports: Before and After Canada's May 2003 BSE Case

Units: metric tons (product weight) and \$US millions	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	Jan-June <u>2005</u>	Jan-June <u>2006</u>	%change 06/05
Qty to United States	388,500	255,833	356,507	368,442	202,886	148,894	-27%
Qty to Rest of World	80,990	39,252	73,815	57,379	30,358	23,334	-23%
<b>Total to the World</b>	<b>469,490</b>	<b>295,085</b>	<b>430,322</b>	<b>425,821</b>	<b>233,244</b>	<b>172,228</b>	<b>-26%</b>
share exported to U.S.	83%	87%	83%	87%	87%	86%	
<b>Value to U.S.</b>	<b>\$1,118</b>	<b>\$854</b>	<b>\$1,198</b>	<b>\$1,266</b>	<b>\$721</b>	<b>\$479</b>	<b>-34%</b>

Source: Derived from World Trade Atlas

## Imports

Canadian beef and veal imports during the first six months of 2006 were 15% higher than during the same period a year ago reflecting, for the most part, a 35% increase in imports of U.S. beef over the same period. Imports from other suppliers were generally lower, a development partly linked to lower demand for manufacturing beef and the increased Canadian supplies of non-fed beef reflecting the significant rise in cow slaughter. Higher U.S. production, a strong Canadian dollar, and lower beef production in Canada combined to fuel the increase in Canadian beef imports from the United States in the first half of 2006.

As shown below, imports of U.S. beef declined sharply beginning in 2004 after the U.S. BSE case in Washington State. Although Canada did not include U.S. beef from bovines under 30 months (or slaughter cattle) in its import control measures taken in response to the first U.S. case of BSE, the decline was due to the trade disruption caused by the delay associated with the implementation of the U.S. Beef Export Verification Program (BEV) which certified that U.S. beef met Canadian import control measures for BSE.

## Canadian Beef Imports from the U.S: Before and After 1st U.S. BSE Case in Dec 2003

Units: metric tons (product weight) and \$US millions	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	Jan-June <u>2005</u>	Jan-June <u>2006</u>	%change 06/05
Qty from the U.S.	84,793	81,677	18,387	39,252	14,350	33,779	135%
Qty from Rest of World	152,156	129,186	66,780	63,137	40,933	29,955	-27%
<b>Total from World</b>	<b>236,950</b>	<b>210,863</b>	<b>85,167</b>	<b>102,389</b>	<b>55,283</b>	<b>63,734</b>	<b>15%</b>
U.S. share Cdn. beef imports	36%	39%	22%	38%	26%	53%	
<b>Value of beef from U.S.</b>	<b>\$278</b>	<b>\$315</b>	<b>\$92</b>	<b>\$197</b>	<b>\$73</b>	<b>\$187</b>	<b>156%</b>

Source: Derived from World Trade Atlas

## Section II. Hogs and Pork

## Pork Production

The post estimate for Canadian pork production in 2006 is 1,885 thousand metric tons, a modest 1.5% decline from the 1,914 thousand metric tons produced last year. The estimate reflects a decline in Canada's hog inventory, hog disease losses in Ontario and Quebec (i.e., porcine circovirus; see CA6013), and increased pork production in the United States, the largest export market for Canadian pork processors. Prospects for another increase in U.S. pork output in 2007 and a flat hog inventory in Canada point to an additional small production decline for Canadian pork output next year.

Commodity	Meat, Swine		(1000 MT CWE)(1000)			
	2005	Revised	2006	Estimate	2007	Forecast
Market Year Begin	USDA Official [	Estimate[1]A	USDA Official [	Estimate[1]A	USDA Official [	Estimate[1]A
	01/2005		01/2006		01/2007	
Slaughter (Reference)	22469	22325	22200	22000	0	21700
Beginning Stocks	45	50	38	59	40	54
Production	1915	1914	1910	1885	0	1860
Intra EC Imports	0	0	0	0	0	0
Total Imports	139	139	160	140	0	145
TOTAL Imports	139	139	160	140	0	145
TOTAL SUPPLY	2099	2103	2108	2084	40	2059
Intra EC Exports	0	0	0	0	0	0
Total Exports	1083	1083	1110	1100	0	1120
TOTAL Exports	1083	1083	1110	1100	0	1120
Human Dom. Consumptic	783	766	758	730	0	684
Other Use, Losses	195	195	200	200	0	205
TOTAL Dom. Consumptic	978	961	958	930	0	889
Ending Stocks	38	59	40	54	0	50
TOTAL DISTRIBUTION	2099	2103	2108	2084	0	2059

## Consumption

### Prices

Prices in the first six months of 2006 were about 19% below the comparable period in 2005. Canadian hog market prices are expected to remain under pressure during the last half of 2006 into 2007 reflecting a forecast of rising pork production in the United States; Canada's largest export market for pork and live swine.

Canada: Slaughter Hog Prices; Ontario & Manitoba  
Units: \$ Canadian/100 lbs; index 100 dressed hogs

	ONTARIO			MANITOBA		
	2004	2005	2006	2004	2005	2006
January	52.16	71.56	54.33	56.25	72.89	54.83
February	64.86	72.46	53.38	65.77	71.96	55.62
March	71.67	70.53	56.34	71.21	69.84	57.38
April	71.21	69.69	52.44	72.12	70.94	54.64
May	85.73	77.02	59.94	84.82	78.23	63.24
June	88.90	69.35	65.99	87.09	70.45	69.03
July	84.82	66.90		85.28	68.99	
August	80.29	68.85		83.91	69.98	
September	74.39	66.41		77.11	66.88	
October	70.76	64.02		76.66	63.98	
November	63.96	59.42		71.67	59.21	
December	66.68	57.71		74.84	58.29	
Average	72.57	67.83		75.75	68.47	

Source: StatCan

### Growth in Hog Numbers Slows

Canada's hog inventory fell for the second consecutive quarter when hog producers reported 14.5 million hogs as of July 1, 2006. This was 3.1% below the same date last year, and reflected, in part, weak hog market prices since the fall of 2005. At mid-year, hog inventories in Eastern Canada fell 5.1%, substantially more than the rate of decline of 0.4% in the West. According to Statistics Canada, hog production in Quebec and Ontario has been more adversely affected by disease than in normal years. This is evidenced in record level death losses. Producers have been contending with a new strain of porcine circovirus along with other diseases, sometimes made worse by this virulent disease. Exports of Canadian hogs, principally to the United States to be fed, were up 9.6% in the first half of 2006 from the same period the previous year. They were at historically strong levels.

Commodity	Animal Numbers, Swine (1000 HEAD)					
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]
<b>Market Year Begin</b>		<b>01/2005</b>		<b>01/2006</b>		<b>01/2007</b>
TOTAL Beginning Stocks	14675	14619	14496	14690	14500	14250
Sow Beginning Stocks	1613	1613	1610	1607	0	1600
Production (Pig Crop)	32595	33369	32400	33200	0	33000
Intra EC Imports	0	0	0	0	0	0
Total Imports	1	1	2	1	0	1
TOTAL Imports	1	1	2	1	0	1
TOTAL SUPPLY	47271	47989	46898	47891	14500	47251
Intra EC Exports	0	0	0	0	0	0
Total Exports	8215	8215	8600	8600	0	8800
TOTAL Exports	8215	8215	8600	8600	0	8800
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	22469	22325	22200	22000	0	21700
Total Slaughter	22469	22325	22200	22000	0	21700
Loss	2091	2759	1598	3041	0	2751
Ending Inventories	14496	14690	14500	14250	0	14000
TOTAL DISTRIBUTION	47271	47989	46898	47891	0	47251

## Per Capita

With the exception of turkey meat, which remained flat, pork is the only meat in the five years ending 2001 that registered a decline in per capita consumption. Canadian per capita pork consumption peaked in 1999 at 30.09 kilograms but slipped more than 23% to 22.93 kilogram during 2005. Strong price competition from other meats at the grocery retail level and an increase in foodservice meals, where there are fewer pork menu offerings compared to beef and chicken, are two important factors for the trend to lower Canadian pork consumption.

### Canadian Per Capita Pork Consumption

Units: carcass weight	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	Post Forecast <u>2006</u>
kilograms per person	28.94	27.83	25.12	26.65	22.93	21.40

Source: Statistics Canada

## Pork Trade

### Exports

For 2006, Canadian pork exports are forecast to increase about 1.6% to 1.1 million metric tons. During the first half of 2006, weaker exports to the United States and Japan, down 3% and 14% respectively year over year, were more than offset by Canadian pork export increases to Russia, Romania, and South Korea. A modest increase to about 1,120 thousand metric tons, an 1.8% increase, is anticipated for Canada's pork exports during 2007 when exports to the United States will again be under pressure reflecting the estimated 3% rise in U.S. pork output.

### Imports

For 2006, Canadian pork imports from the U.S. are on pace to exceed 100,000 MT for the second consecutive year, a development not seen in U.S./Canada pork trade since the late 1970s. Lower Canadian pork output and increased Canadian pork exports to South Korea, Eastern Europe and Australia have created additional demand for U.S. pork in the Canadian market particularly in Ontario, the destination for almost 70% of U.S. pork exports to Canada. U.S. pork had 97% of the market share for the Canadian pork import market in the first half of 2006.

## Industry Developments

### Ontario Pork Board To Study Open Marketing System

Currently, Ontario farm product marketing legislation provides regulations for the establishment and powers of Ontario Pork, the provincial hog marketing board. The

regulations stipulate that all of the province's slaughter hogs be through the central selling desk of Ontario Pork and all producer returns pooled. In recent years, some producers have been lobbying for a more open marketing system, speculating that they could increase individual returns. Support for a more open system has grown and in response, Ontario Pork has announced that it will provide consultation on the issue to get input from producers and other industry stakeholders. No timetable has been announced.

### **Carbadox**

In February 2001, responding to the European Union audit in the fall of 2000 of the Canadian Program for the Control of Residues, Canada made a public commitment to reassess the use of Carbadox in pigs. By April 2001, the Canadian Pork Council had advised producers to cease using Carbadox (trade name Mecadox ®) until Health Canada completed a review of the availability of this veterinary drug. On Aug 10, 2001 Health Canada (HC) issued an order to stop the sale of Carbadox. Since that time, HC has announced its intention to add carbadox to Canada's list of banned substances under Canada's Food and Drugs Act.

Carbadox is an approved veterinary drug in the United States with a recommended withdrawal period to eliminate residues from pork meat. To date, Japan, Australia and the European Union have banned the use of carbadox, but accept imports from countries that use the antibiotic under their residue monitoring and control measure regulations. HC is currently considering a regulatory proposal that is much stricter than that used by Japan, Australia and the EU –one that also would reportedly require certification that imported pork has no carbadox treatment history. The Canadian Pork Council, the National Pork Producer's Council, the drug manufacturer and the U.S. government are all urging HC to adopt a less aggressive approach to eliminate possible carbadox residues from the Canadian Food Inspection Agency supply.

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](mailto:agottawa@usda.gov)