



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

**Date:** 2/28/2008

**GAIN Report Number:** CA8009

## Canada

### Livestock and Products

#### Semi-Annual

#### 2008

**Approved by:**

Norval Francis  
U.S. Embassy

**Prepared by:**

George Myles

---

**Report Highlights:**

Canadian production of beef and pork is forecast to be lower during 2008. Livestock inventories are in decline reflecting high feed costs and low market prices. Canadian imports of beef and pork are increasing, bought on partially by a strengthening in the Canadian dollar to levels not seen in decades. Canadian red meat exports, on the other hand are forecast to struggle to reach last year's levels given lower slaughter output and the competitive challenges in international markets related to the Canadian dollar's rise.

---

Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Semi-Annual Report  
Ottawa [CA1]  
[CA]

## Table of Contents

<b>Executive Summary</b> .....	<b>3</b>
<b>Section I. Cattle &amp; Beef</b> .....	<b>4</b>
Cattle Herd Continues Decline .....	4
Per Capita .....	6
Cattle Market Prices .....	6
<b>Trade</b> .....	<b>7</b>
Beef and Veal Imports .....	7
Beef and Veal Exports.....	8
Outlook.....	8
<b>Policy</b> .....	<b>9</b>
New Program Proposals for Livestock Farmers .....	9
U.S. Country of Origin Labeling (COOL).....	9
Market recovery post-BSE .....	10
Canada Confirms 12 <sup>th</sup> BSE Case With Detection In Alberta.....	10
<b>Section II. Hogs &amp; Pork</b> .....	<b>11</b>
Hogs, Supply and Disposition .....	11
<b>Consumption</b> .....	<b>13</b>
Hog Market Prices.....	13
Per Capita Consumption .....	13
<b>Policy</b> .....	<b>14</b>
Live Hog Exports to the United States.....	15
Lower Live Hog Exports Under COOL? .....	15
Pork Imports .....	16
U.S. Pork Sales to Canada Surge .....	16
Pork Exports.....	17
<b>Chart: 10 Years of Canadian Pork Exports</b> .....	<b>17</b>
<b>Recent Livestock related reports</b> .....	<b>18</b>

## Executive Summary

THIS REPORT DOES NOT CONTAIN OFFICIAL USDA DATA

**Note:** The forecasts in this report are made under the policies in effect at the time of writing. U.S. Country of Origin Labeling (COOL) is scheduled to come into effect in September 2008. However, the USDA regulations associated with COOL are not yet known. COOL regulatory provisions may impact on U.S./Canadian trade in livestock and livestock products but analysis of the potential impact cannot be made in absence of the final COOL regulations, the basis on which U.S. packers and feeders may adjust their purchases of live livestock and meat from Canada.

\* After peaking in mid-2005, Canada's cattle inventory began 2008 with its third consecutive annual decline. According to Statistics Canada, cattle farmers reported 13.9 million head on their farms on January 1, 2008, down by 210,000 head, or 1.5%, from January 1, 2007. The level was only slightly more than the 13.5 million head cattle inventory at the beginning of 2003 before Canada's initial detection of BSE.

\* Lower beef production is forecast for 2008. Presently, post predicts the annual decline in total Canadian beef and veal output during 2008 to range between 6.0-7.0%.

\* During 2007, U.S. exports of fresh and frozen beef and veal to Canada reached 75,880 MT (product weight) surpassing their pre-BSE level of 67,565 MT. Strong demand for U.S. beef in Canada is related to lower Canadian fed slaughter and a stronger Canadian dollar.

\* Canadian beef exports have not recovered to their pre-BSE level. Fresh and frozen Canadian beef and veal exports have fallen annually since 2004 even as international market access began to improve after trading partners lifted, or partially lifted, BSE-related import control measures.

\* Canadian hog inventories plunged during 2007 as a strong Canadian dollar and high feed costs challenged producers. According to the January 2008 Livestock Survey by Statistics Canada, there were 14.0 million hogs on farms 897,000 fewer than on the same date in 2007. This is down 6.0% from 2006 and is 2.4% lower than October 1, 2007.

\* Given the poor profitability prospects for 2008, many industry analysts anticipate a continued reduction in the Canadian swine herd throughout 2008 and the exit from the industry of many smaller producers. In late February 2008, the Canadian government announced a C\$50 million program to encourage producers to cull the national sow herd by 10%, or about 150,000 head.

\* Pork production will fall in 2008 and Canadian pork exports are likely to struggle to maintain the levels of recent years. Ironically, as the profitability fortunes of Canadian hog producers decline, increased foodservice and retail demand for certain cuts of U.S. pork and the strong Canadian dollar has resulted in record imports of U.S. pork

\* Canadian live hog exports to the United States reached 10.0 million head during 2007, a 14% increase from the previous year. Prospects for even stronger feed prices in 2008 combined with the outlook for continued weak hog market prices in Canada are expected to propel live hog exports to the United States to a new record level in 2008.

## Section I. Cattle &amp; Beef

## Cattle Herd Continues Decline

After peaking in mid-2005, Canada's cattle inventory began 2008 with its third consecutive annual decline. According to Statistics Canada, cattle farmers reported 13.9 million head on their farms on January 1, 2008, down by 210,000 head, or 1.5%, from January 1, 2007. The level was only slightly more than the 13.5 million head cattle inventory at the beginning of 2003 before Canada's initial detection of BSE. The inventory soared after the discovery of the May 2003 BSE case reflecting lost access to international markets for cattle and beef but it has since dropped by almost 1.0 million head.

Country	Canada								
	Commodity						(1000 HEAD)(PERCENT)		
	Animal Numbers, Cattle								
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Total Cattle Beg. Stks	14655	14655	14655	14130	14130	14155	13725	13725	13945
Dairy Cows Beg. Stks	1019	1019	1019	1005	1005	1005	1000	1000	989
Beef Cows Beg. Stks	5247	5247	5247	5000	5000	5010	4900	4900	4982
Production (Calf Crop)	5313	5313	5339	5270	5270	5476	5150	5150	5250
Intra-EU Imports	0	0	0	0	0	0	0	0	0
Other Imports	38	38	38	50	50	54	50	50	50
Total Imports	38	38	38	50	50	54	50	50	50
Total Supply	20006	20006	20032	19450	19450	19685	18925	18925	19245
Intra EU Exports	0	0	0	0	0	0	0	0	0
Other Exports	1032	1032	1032	1260	1250	1393	1350	1300	1500
Total Exports	1032	1032	1032	1260	1250	1393	1350	1300	1500
Cow Slaughter	695	695	695	725	725	705	650	650	715
Calf Slaughter	329	329	329	340	340	340	330	330	345
Other Slaughter	2939	2939	2940	2760	2760	2682	2670	2670	2440
Total Slaughter	3963	3963	3964	3825	3825	3727	3650	3650	3500
Loss	881	881	881	640	650	620	600	600	635
Ending Inventories	14130	14130	14155	13725	13725	13945	13325	13375	13610
Total Distribution	20006	20006	20032	19450	19450	19685	18925	18925	19245

## Beef Outlook

Lower beef production is forecast for 2008. Cattle on feeding operations as of January 1, 2008 fell 8.6% from a year earlier according to Statistics Canada and accounted for most of the year-to-year decline in total cattle numbers. By comparison, total beef cow numbers slipped less than 1.0% in the year ending January 1, 2008. The resulting reduction in the number of slaughter type animals combined with increased access to U.S. live cattle markets is expected to keep downward pressure on 2008 beef production in Canada. On November 19, 2007 the U.S. re-opened the border to Canadian cattle born after March 1, 1999 with the implementation of Minimal Risk Rule 2.

Presently, post predicts the annual decline in total Canadian beef and veal output during 2008 to range between 6.0-7.0%.

Country	Canada								
Commodity	Meat, Beef and Veal								
							(1000 HEAD)(1000 MT CWE)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Slaughter (Ref)	3963	3963	3964	3825	3825	3727	3650	3650	3500
Beginning Stocks	41	41	41	49	49	49	49	45	45
Production	1391	1391	1391	1345	1345	1310	1300	1300	1230
Intra-EU Imports	0	0	0	0	0	0	0	0	0
Other Imports	180	180	180	225	225	242	255	240	250
Total Imports	180	180	180	225	225	242	255	240	250
Total Supply	1612	1612	1612	1619	1619	1601	1604	1585	1525
Intra EU Exports	0	0	0	0	0	0	0	0	0
Other Exports	477	477	477	480	480	457	550	470	450
Total Exports	477	477	477	480	480	457	550	470	450
Human Dom. Cons.	1086	1086	1086	1090	1094	1099	1034	1075	1035
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Cons.	1086	1086	1086	1090	1094	1099	1034	1075	1035
Ending Stocks	49	49	49	49	45	45	20	40	40
Total Distribution	1612	1612	1612	1619	1619	1601	1604	1585	1525

## Consumption

**Per Capita**

The Canadian per capita consumption of beef and veal has remained flat over the past ten years. The 32.80 kg per person (carcass weight equivalent) during 2006 (the most recent official data by StatCan), is virtually unchanged from the 32.83 kg reported in 1997. Swings in per capita consumption over the ten year period have been relatively minor. Even though per capita beef and veal consumption has shown zero growth in 10 years, the good news for the Canadian beef industry is that per capita consumption remained relatively strong during a period when exports showed a BSE-related decline.

**Cattle Market Prices**

Alberta fed steer prices slipped moderately in January 2008 but many observers predict price strengthening related to a lower cattle inventory and steady demand from the domestic market. Prices are forecast to increase to the mid-\$80.00 per hundredweight range by mid-year.

Alberta Fed Steer Prices- monthly averages													
C\$/cwt/live													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
<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	98.80
<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	84.28
<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	78.40
<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	85.62
<b>2006</b>	95.39	89.32	87.51	85.22	85.03	86.92	85.84	85.23	86.01	85.69	84.97	85.68	89.60
<b>2007</b>	87.60	90.19	97.59	101.87	99.67	88.21	84.39	86.52	84.36	78.55	79.46	84.33	88.56
<b>2008</b>	81.27												
Source: CanFax													

Trade

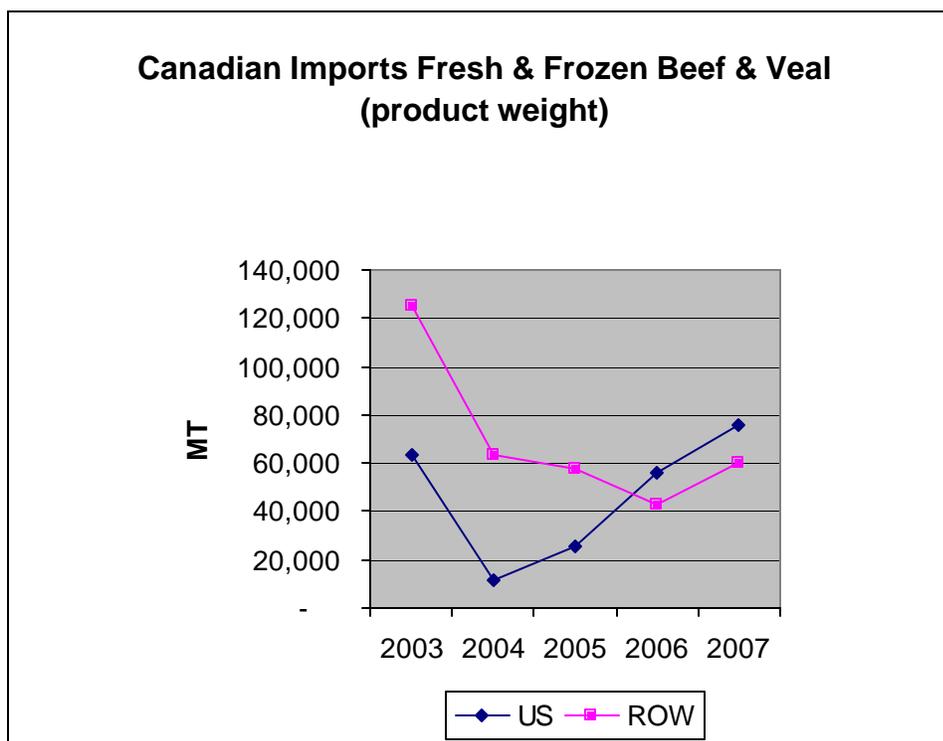
**Beef and Veal Imports**

During 2007, U.S. exports of fresh and frozen beef and veal to Canada reached 75,880 MT (product weight) surpassing their pre-BSE level (67,565 MT). The development is significant in that it occurred during a period of near-record cattle slaughter in Canada due to the BSE-related backlog in Canadian cattle numbers. Strong demand for U.S. beef in Canada is related to the changes in the slaughter and beef marketing pattern in Canada that was profoundly disrupted by BSE and the strengthening Canadian dollar versus the U.S. dollar. Also, fed slaughter in Canada has trended lower and the increased purchasing power in Canada's HRI sector, which prefers high quality U.S. beef (especially the higher end restaurant and hotels in Ontario), has resulted in increased purchases of U.S. beef. As well, there is anecdotal evidence that the major foodservice companies are importing more U.S. beef. The trend is expected to continue throughout 2008.

Following the detection of BSE in Alberta in 2003, the GOC moved to restrict the issuances of supplementary beef imports from non-NAFTA suppliers. The chart below illustrates Canadian beef imports for the five year period ending 2007. The recent spike from other suppliers in 2007 mostly reflects product imported from Uruguay.

<b>Canada: Fresh and Frozen Beef &amp; Veal Imports</b>					
<b>Quantity in Metric Tons Product Weight</b>					
<b>Country</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
The World	188,169	75,203	82,608	98,357	135,649
United States	63,104	11,758	25,156	55,773	75,880
Rest of World (ROW)	125,065	63,446	57,453	42,584	59,770

Source: WTA



**Beef and Veal Exports**

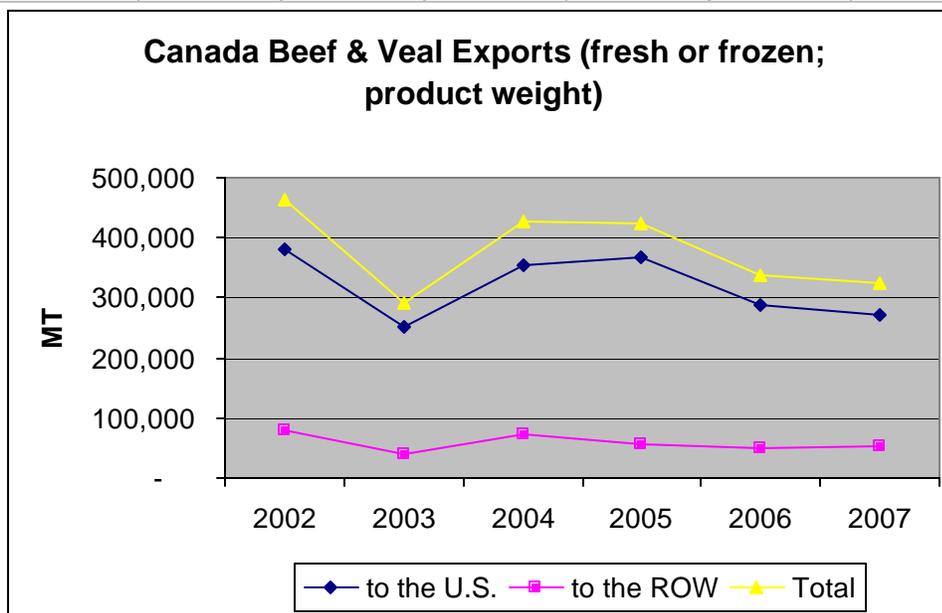
Canadian beef exports have not recovered to their pre-BSE level. As shown in the table and graph below, fresh and frozen Canadian beef and veal exports have fallen annually since 2004 even as international market access began to improve as trading partners lifted, or partially lifted, BSE-related import control measures. Total Canadian fresh and frozen beef and veal exports during 2007 slipped to 323,704 MT (product weight), 4.2% below the year earlier level and 30% below the 2002 level, the full calendar year prior to Canada’s detection of BSE in May 2003.

**Outlook**

With all of Canada’s major markets accepting or partially accepting Canadian beef under their BSE import measures, it would appear that any Canadian successes at lifting BSE-related restrictions in other markets would have only minor impact on total beef exports. For 2008, prospects do exist under MRR2 to export additional beef from older animals to the United States, but this prospective development could be significantly hindered by the increase in the value of the Canadian dollar, resulting in Canadian beef being less competitive in all markets. Present Post analysis is that total beef exports in 2008 will again fall below year earlier levels.

Canada: Fresh and Frozen Beef and Veal Exports						
Units: MT product weight						
HS codes: 0201, 0202						
Country	2002	2003	2004	2005	2006	2007
The World	462,155	291,854	428,638	423,407	337,931	323,704
United States	382,072	253,152	355,430	366,678	287,516	270,133
Mexico	49,262	23,938	64,569	40,804	32,584	33,809
Hong Kong	483	122	91	9,308	7,940	7,833
Macau	-	216	6,363	4,674	5,669	5,862
Japan	12,185	6,113	-	5	2,187	3,292
Others	18,152	8,313	2,185	1,938	2,035	2,776

Source: WTA



## Policy

### New Program Proposals for Livestock Farmers

On February 25, 2008 The Honourable Gerry Ritz, Minister of Agriculture and Agri-food introduced proposed amendments to the *Agricultural Marketing Products Act* (AMPA) which will give Canadian producers better access to cash advances. Proposed changes to the Advance Payments Program (APP) through the amendments to AMPA would provide Canadian producers access up to C\$400,000 (up to C\$100,000 interest-free) in repayable advances. Cash advances under the APP help producers with cash flow by giving them the flexibility to keep their products and sell them when market conditions are favorable. The collaboration of all political parties will be required in Parliament for passage of the AMPA amendments. The proposed changes to the APP will provide easier access to immediate cash flow by:

- Removing the requirement for livestock producers to use a Business Risk Management program such as AgriStability as security for a cash advance and allowing producers to use inventory as security. This brings the treatment of livestock more in line with other produced commodities.
- Adding "severe economic hardship" as a condition to offer emergency advances, on the recommendation of the Minister of Agriculture and Agri-Food and the Minister of Finance.
- Revising the security requirements for emergency advances and increasing the emergency advance available to producers from a maximum of \$25,000 to \$400,000 in conditions of severe economic hardship.

"We welcome this change as it will provide much needed cash flow to producers at a time when the current crisis across the country has reached a critical point," said Hugh Lynch-Staunton, President of the Canadian Cattlemen's Association (CCA). "This improvement to the APA is consistent with (our) recommendation and will improve Canadian producers' ability to deal with their liquidity crisis.

Advances to hog producers will be based on the number of animals they expect to raise for sale for a 12 month period. The repayment period will start one year after the producer has received the advance and must be repaid within the production period to be determined under the Advance Payments Program. According to AAFC, when these program changes are implemented, producers will have access to C\$3.3 billion in repayable advances. Taken together, program improvements made in December and proposed changes to AMPA represent significant changes to advance payments. If all livestock producers take full advantage of the program, an estimated \$3.3 billion in repayable advances will be available. AAFC also announced a new C\$50 million initiative with the Canadian Pork Council to deliver a sow cull program that will help restructure the industry to bring it in line with market realities (see Policy in Pork Section of this report). AAFC will review meat inspection user fees to assess their impact on competitiveness of the livestock sector. The government will work to reduce costs and increase competitiveness under Canada's enhanced feed ban. This complements the federal government's last year's commitment of C\$80 million to help the industry adjust to new feed standards.

### U.S. Country of Origin Labeling (COOL)

Canada's beef and pork industries are deeply concerned about U.S. Country of Origin Labeling legislation a provision of the U.S. Farm Bill which was postponed twice before but which is now scheduled to become effective by September 2008. Last year, Canada's beef

and pork industries formed the Canadian Livestock Producers Against COOL and issued a press release calling on the Canadian government to convince the US to repeal or substantially revise the mandatory COOL provisions of the U.S. Farm Bill. Beef and pork producers in Canada are concerned that the COOL provisions could cause U.S. packers and purveyors of meat to be required to segregate Canadian meat in the U.S. market resulting in a strong disincentive to import Canadian slaughter animals and meat. They believe that significant trade disruption could result in substantial economic loss for the Canadian livestock and meat industry and claim that Canada would be justified challenging COOL in its present form at the WTO and under NAFTA.

### **Market recovery post-BSE**

Canada continues its attempts to regain access to world markets that were lost after the BSE case in May 2003. In May 2007, the World Organization for Animal Health, or commonly referred to as the OIE (for its French language acronym), granted Canada (and the U.S.) a "controlled" risk status for bovine spongiform encephalopathy (BSE). Hugh Lynch-Staunton, president of the Canadian Cattlemen's Association, told the *Canadian Press* that the Canadian cattle industry is hopeful that the OIE's second-highest safety designation will translate into more (Canadian beef) exports. "It's a very significant step," said Lynch-Staunton. "It gives an independent, scientific assessment of the BSE situation in Canada," he said.

On February 25, 2008 Gerry Ritz, Minister of Agriculture and Agri-Food announced that Mexico will allow the resumption of the importation of Canadian breeding cattle, dairy or beef, under 30 months of age. Mexico banned imports of live Canadian cattle in May 2003 after the initial detection of BSE in Alberta. Mexico reopened the market for most Canadian beef that same summer, but has kept the border closed to Canadian cattle. Canadian products now approved for export to Mexico include beef derived from animals under 30 months of age and dairy and beef breeding cattle. At the same time, the Minister also said that Barbados, which had already opened its market to Canadian beef, would now accept a full range of breeding cattle.

### **Canada Confirms 12<sup>th</sup> BSE Case With Detection In Alberta**

On February 26, 2008, the Canadian Food Inspection Agency (CFIA) confirmed bovine spongiform encephalopathy (BSE) in a six-year-old dairy cow from Alberta. The animal's carcass is under CFIA control, and no part of it entered the human food or animal feed systems. According to the CFIA, the age and location of the infected animal are consistent with previous cases detected in Canada and the new case will not affect Canada's Controlled Risk country status, as recognized by the World Organization for Animal Health (OIE). Based on science, the CFIA says that it does not expect that the finding should impact access to any of Canada's current international markets for cattle and beef. The CFIA reiterated that as Canada progresses toward the eradication of BSE, the periodic detection of a small number of cases is fully expected. It said that its BSE surveillance program, which targets the highest risk animals and regions, continues to benefit from very strong producer participation and that Canada's animal and human health safeguards prevent potentially harmful cattle tissues from entering the human food and animal feed systems. The CFIA will conduct an epidemiological investigation directed by international guidelines to identify the animal's herd mates at the time of birth and potential pathways by which it might have become infected. Once completed, a report on the investigation will be publicly released. Canada's last case of BSE was detected in December, 2007.

## Section II. Hogs &amp; Pork

Canadian hog inventories plunged during 2007 as a strong Canadian dollar and high feed costs challenged producers. According to the January 2008 Livestock Survey by Statistics Canada, there were 14.0 million hogs on farms 897,000 fewer than on the same date in 2007. This is down 6.0% from 2006 and is 2.4% lower than October 1, 2007. Given the poor profitability prospects for 2008, many industry analysts anticipate a continued reduction in the Canadian swine herd throughout 2008 and the exit from the industry of many smaller producers. In late February 2008, the Canadian government announced a C\$50 program to encourage producers to cull the national sow herd by 10%, or about 150,000 head (see Policy Section).

## Hogs, Supply and Disposition

Country Commodity	Canada								
	Animal Numbers, Swine						(1000 HEAD)(PERCENT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Total Beginning Stks	15110	15110	15110	14907	14907	14907	14400	14400	14010
Sow Beginning Stks	1571	1571	1571	1546	1546	1546	1500	1500	1517
Production (Pig Crop)	32274	32274	32274	31900	31900	31900	31100	31100	31400
Intra-EU Imports	0	0	0	0	0	0	0	0	0
Other Imports	1	1	1	1	1	1	1	1	1
Total Imports	1	1	1	1	1	1	1	1	1
Total Supply	47385	47385	47385	46808	46808	46808	45501	45501	45411
Intra EU Exports	0	0	0	0	0	0	0	0	0
Other Exports	8777	8777	8777	9672	9400	10034	9750	9500	10800
Total Exports	8777	8777	8777	9672	9400	10034	9750	9500	10800
Sow Slaughter	0	0	0	0	0	0	0	0	0
Other Slaughter	21786	21786	21786	21200	21200	21269	20400	20400	20411
Total Slaughter	21786	21786	21786	21200	21200	21269	20400	20400	20411
Loss	1915	1915	1915	1536	1808	1495	1451	1701	1600
Ending Inventories	14907	14907	14907	14400	14400	14010	13900	13900	12600
Total Distribution	47385	47385	47385	46808	46808	46808	45501	45501	45411

## Pork Production

Domestic slaughter has continued to decline after reaching a record high in 2004, consistent with soft domestic demand for pork, lower prices paid to producers and higher feeding costs. Hog slaughter dropped 2.4% between 2006 and 2007.

Pork production will fall in 2008 and Canadian pork exports are likely to struggle to maintain the levels of recent years. Ironically, as the profitability fortunes of Canadian hog producers decline, increased foodservice and retail demand for certain cuts of U.S. pork reflecting the strong Canadian dollar has resulted in record imports of U.S. pork (see Trade Section).

Country	Canada								
	Meat, Swine								
Commodity	(1000 HEAD)(1000 MT CWE)(								
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Slaughter (Reference)	21786	21786	21786	21200	21200	21200	20400	20400	20411
Beginning Stocks	59	52	59	50	50	50	50	50	54
Production	1898	1898	1898	1850	1850	1850	1790	1790	1790
Intra-EU Imports	0	0	0	0	0	0	0	0	0
Other Imports	145	145	145	160	150	171	165	155	185
Total Imports	145	145	145	160	150	171	165	155	185
Total Supply	2102	2095	2102	2060	2050	2071	2005	1995	2029
Intra EU Exports	0	0	0	0	0	0	0	0	0
Other Exports	1081	1081	1081	1040	1040	1033	1025	1025	1010
Total Exports	1081	1081	1081	1040	1040	1033	1025	1025	1010
Human Dom. Cons.	779	772	779	780	770	789	740	730	774
Other Use, Losses	192	192	192	190	190	195	190	190	195
Total Dom. Cons.	971	964	971	970	960	984	930	920	969
Ending Stocks	50	50	50	50	50	54	50	50	50
Total Distribution	2102	2095	2102	2060	2050	2071	2005	1995	2029

## Consumption

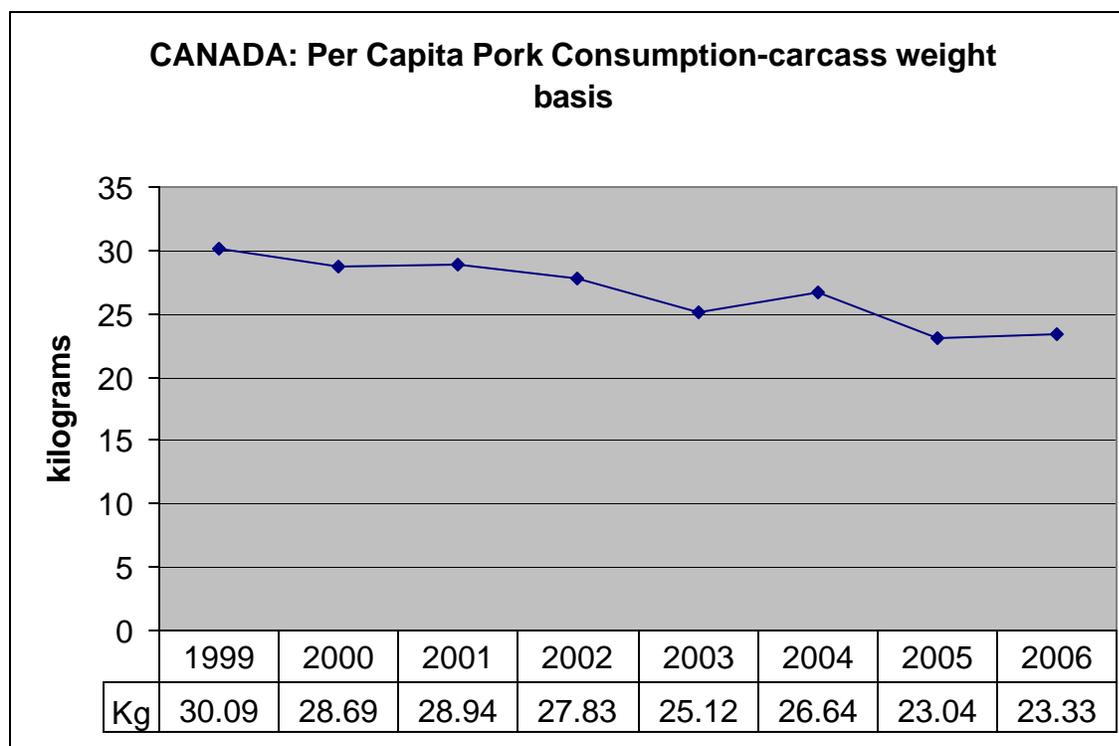
### Hog Market Prices

Canadian hog market prices have been under pressure since mid-2005 when expansion was evidenced in the U.S. hog inventory and when Canada's pork processors were confronted with declines in the consumption of pork in Canada and lower pork exports, partially reflecting a strengthening Canadian dollar. From January 2007 to December 2007, the Canadian dollar rose more than 17% against its U.S. counterpart. In the final quarter of 2007, Canadian hog market prices plunged more than 30% below year earlier levels. Some market analysts predict that Canadian hog market prices may rebound in late 2008 while others believe that 2008 prices will be the bleakest on record.

Canada: Slaughter Hog Prices; Ontario & Manitoba									
Units: \$ Canadian/100 lbs; index 100 dressed hogs									
	ONTARIO				MANITOBA				
	2004	2005	2006	2007	2004	2005	2006	2007	
January	52.16	71.56	54.33	57.44	56.25	72.89	54.83	58.55	
February	64.86	72.46	53.38	62.48	65.77	71.96	55.62	64.83	
March	71.67	70.53	56.34	60.57	71.21	69.84	57.38	61.52	
April	71.21	69.69	52.44	60.44	72.12	70.94	54.64	62.67	
May	85.73	77.02	59.94	66.10	84.82	78.23	63.24	68.64	
June	88.90	69.35	65.99	68.27	87.09	70.45	69.03	65.63	
July	84.82	66.90	66.19	61.39	85.28	68.99	66.78	62.75	
August	80.29	68.85	65.13	62.51	83.91	69.98	68.00	63.92	
September	74.39	66.41	64.37	54.91	77.11	66.88	64.58	56.10	
October	70.76	64.02	59.72	46.70	76.66	63.98	61.58	48.35	
November	63.96	59.42	57.96	40.30	71.67	59.21	59.40	41.00	
December	66.68	57.71	57.39	42.52	74.84	58.29	59.04	44.27	
Average	72.57	67.66	59.47	56.51	75.75	68.47	61.18	58.18	
Source: StatCan									

### Per Capita Consumption

According to Statistics Canada, per capita pork consumption peaked at 30.09 kg in 1999, but almost regular annual declines have been evident since that time. Per capita pork consumption in Canada fell almost 20% over the six year period 2001-2006. Some of the factors behind declining pork consumption include 1) Strong retail prices during a period when BSE-related issues boosted Canadian beef supplies, 2) Consumer perception that the preparation of pork based meals at home is lengthy compared to other meats and; 3) pork's inability to capitalize on foodservice market gains shared by other meats and fish.



## Policy

### Sow Cull Program Announced With Goal For 10% Breeding Herd Reduction

As part of its expanded effort to help struggling hog producers, Agriculture and Agri-Food Canada (AAFC) announced a Cull Breeding Swine Program designed to help restructure the industry to bring it in line with market realities. The objective is to reduce the national breeding herd size by up to 10 per cent over and above the normal annual cull rate. In a press release, AAFC said that it recognizes that increased input costs and a strong Canadian dollar have resulted in ongoing losses in the hog sector. The sow cull measure is directed at assisting producers planning to exit the industry or permanently downsize their operations. The program will be delivered through the Canadian Pork Council, the national organization representing hog producers. The Canadian Pork Council released the following preliminary details of the Cull Breeding Swine Program:

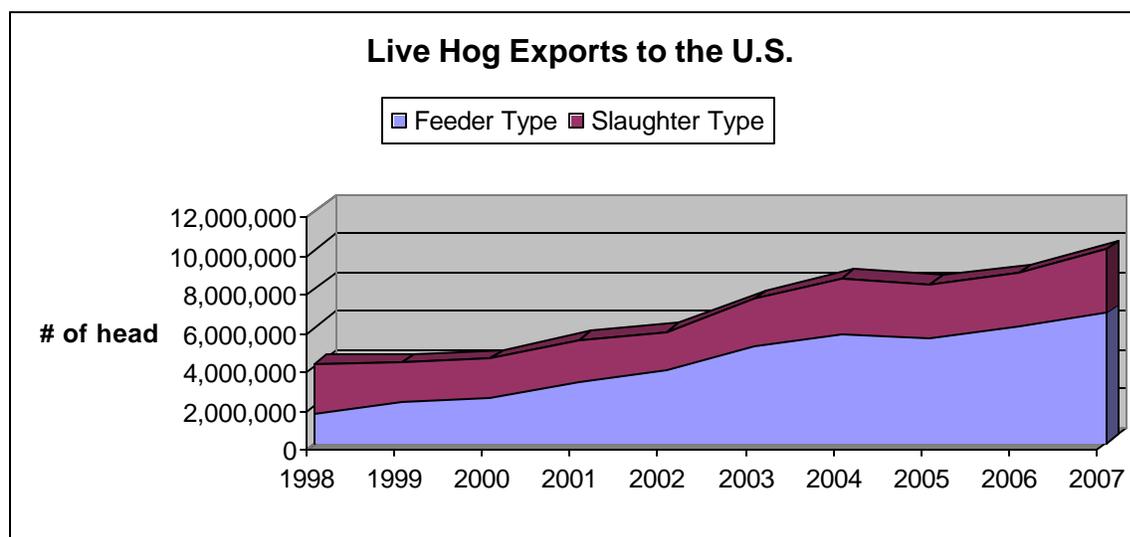
1. A payment of \$225 per sow or boar slaughtered would be available to eligible producers following program launch and approval of application. In addition, reimbursement will be made for costs of slaughter and carcass disposal.
2. Reimbursements will be based on invoiced receipts.
3. Producers must agree to empty at least one barn, and not to restock this barn for a period of 3 years. Partial barn reductions are not eligible for the program.
4. A payment of \$225 per sow/boar less the selling price will be available for producers that sold animals from November 1, 2007 until the date of the launch of the program, as long as they can provide receipts and agree to keep the barn empty for the three year period.
5. Animals must be slaughtered and disposed of in compliance with environmental (regulations).
6. It is expected that the (C\$50 million) funding will result in a 10% reduction of the Canadian swine breeding inventory (approximately 150,000 animals).
7. The animals/meat must not enter the human food chain. The animals may be rendered for use in pet food or other purposes, or disposed on-farm.

## Live Hog Exports to the United States

Canadian live hog exports to the United States reached 10.0 million head during 2007, a 14% increase from the previous year. Prospects for 2008 suggest that the level may approach 11.0 million head. Canada's export dependent pork sector has entered a period of economic uncertainty caused by a combination of the meteoric rise in the Canadian dollar and high prices for agricultural commodity inputs. High energy prices and strong economic growth in Canada have helped propel the Canadian dollar to 30 year highs. From January 2007 to December 2007, the Canadian dollar rose more than 17% against its U.S. counterpart. As a result, the pork sector's ability to profit from increasing world demand for protein is obstructed by the high value of the currency as its competitiveness is reduced. High commodity prices have dramatically increased hog feed costs resulting in substantial losses for hog producers, losses exacerbated by ever declining market price offerings from Canadian meat packers who are struggling to compete in U.S. and world markets in the new, high value Canadian dollar environment. Prospects for even stronger feed prices in 2008 combined with the outlook for continued weak hog market prices in Canada are expected to propel live hog exports to the United States to a new record level. In the first six weeks of 2008, preliminary data show combined exports of live Canadian feeder and slaughter hogs to the U.S. 34% above the same period a year ago.

### Lower Live Hog Exports Under COOL?

Country of Origin Labeling (COOL) was part of the 2002 Farm Bill and directed the Secretary of Agriculture to promulgate regulations requiring U.S. retailers to notify their customers of the country of origin of covered commodities which included the muscle cuts of beef, veal, lamb and pork (and their ground meats); farm raised fish and shellfish; wild fish and shellfish; perishable agricultural commodities and peanuts. Only the mandatory fish provisions went into effect as scheduled in April 2005. However, a revised version of COOL is expected to implement the meat provisions by September 2008. An updated version of COOL is in both the House and Senate versions of the farm bill, which passed last year but lingers in conference committee. Currently, there is uncertainty about the impact of COOL implementation on Canadian live hog exports to the United States. Will COOL provisions discourage U.S. packers and hog finishers from purchasing Canadian hogs due to identification and segregation complexities or are they likely to simply pay less to offset additional costs associated with COOL? The issue is expected to become clearer once USDA's COOL regulations are known.

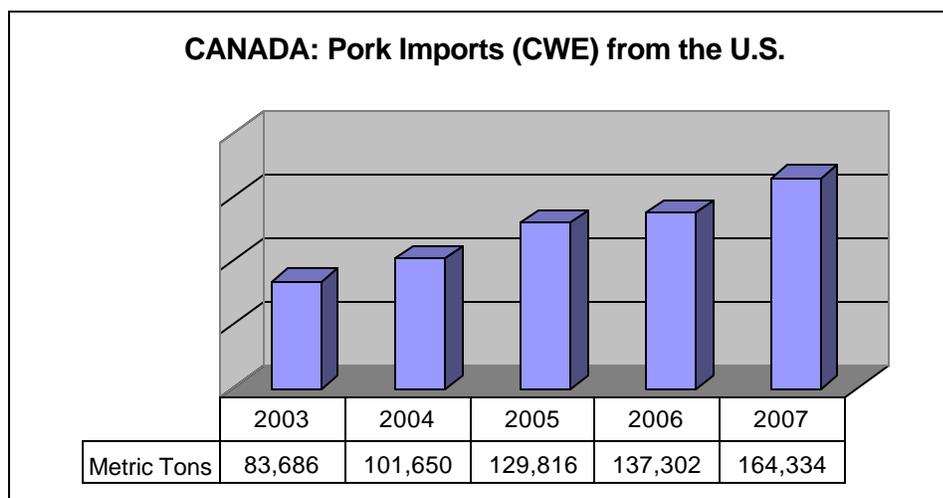


## Pork Imports

Total Canadian pork imports in 2007 reached 170,796 MT (CWE), 18% above the year earlier level of 145,264 MT. More than 96% of Canadian pork imports are from the United States. Minor suppliers include Chile and Denmark.

## U.S. Pork Sales to Canada Surge

U.S. pork sales to Canada increased 20% during 2007 to reach 164,334 MT (CWE). Canadian pork imports have increased in recent years reflecting the appreciation of the Canadian dollar and demand for U.S. fresh or chilled pork cuts, including back ribs and for U.S. prepared pork including pre-packaged sausages. More than 80% of pork imported from the United States is destined for Ontario and British Columbia. For 2008, demand for U.S. pork in Canada is expected to increase modestly reflecting the outlook for lower Canadian pork production and forecasts of a continued strong Canadian dollar versus the U.S. dollar.



Pork Exports

After more than ten years of consecutive annual increases, Canadian pork exports peaked during 2005 and fell throughout 2006 and 2007. Total pork exports (CWE) in 2007 slipped 4.4% from the year earlier level (see table).

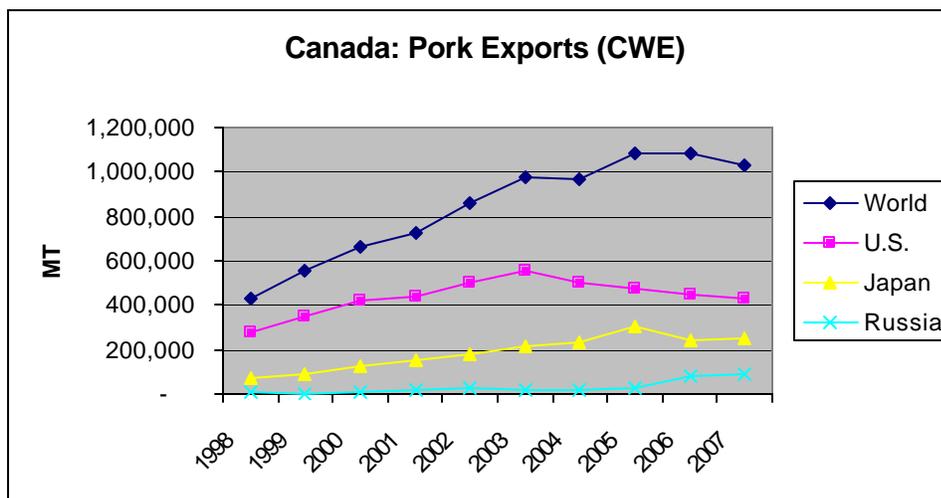
For 2008, the outlook for lower pork production in Canada, prospects for increased live hog exports to the United States, and a strong Canadian dollar point to lower Canadian pork exports, probably in the neighborhood of 1-2.0% lower than the 2007 realized level, hovering near 1.0 MMT (CWE).

**Canada: Pork Exports  
MT- carcass weight basis**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>% change</u>
The World	1,083,652	1,080,642	1,032,599	-4.4%
United States	477,899	448,523	432,795	-3.5%
Japan	304,063	244,992	250,968	2.4%
Russia	25,499	83,113	86,178	3.7%
Korea, South	57,680	74,475	66,724	-10.4%
Australia	44,304	48,365	52,434	8.4%
Mexico	45,565	37,760	37,226	-1.4%
China	18,045	20,631	22,849	10.8%
New Zealand	8,688	10,873	11,286	3.8%
Philippines	10,105	7,769	11,284	45.2%
All Others	615,859	639,889	611,088	-4.5%

Source: World Trade Atlas

**Chart: 10 Years of Canadian Pork Exports**



**Recent Livestock related reports**

Report Number	Title of Report	Date
CA8004	Canada Looking To Reopen Mexican Dairy Cattle Market	02/01/2008
CA8002	Policy and Market Changes In Canada Due To High Commodity Prices	01/11/2008
CA8003	Country Of Origin Labeling; Anxiety Pervades Canadian Livestock Industry	01/11/2008
CA8001	Live Cattle Imports from Canada Climb Higher In 2007	01/04/2008
CA7062	Ag Minister Ritz Issues Statement on Usda Decision To Lift Heightened Inspection Of Canadian Meat	11/30/2007
CA7064	Canadian Pork Council Protests Eu Export Subsidies	12/06/2007