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Report Highlights:
Canada's cattle industry is formulating a made-in-Canada strategy to deal with a large surplus of cattle related to the U.S. border closure to Canadian live cattle exports following the discovery of BSE in an Alberta beef cow in May 2003. Canadian fed cattle prices are down 30-35% from their pre-BSE levels and prices for some classes of non-fed slaughter cattle are at distress levels. Since the R-Calf injunction of April 2004, hope that the U.S. border would soon be open has turned to despair among many industry participants.

Includes PSD Changes: Yes
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Executive Summary

- Canada's cattle industry faces significant challenges as it attempts to cope with a rising cattle inventory brought on by the loss of access to U.S. cattle markets following its May 2003 BSE incident.

- Since the R-Calf injunction in April 2004, hope that the U.S. border would soon be open has turned to despair among many Canadian industry participants.

- The Canadian cattle industry is formulating a made-in-Canada strategy to deal with a surplus of cattle. Proposals in the home-grown solution include increasing slaughter capacity, increasing cow slaughter and the processing of manufacturing type beef, and capturing more of the domestic market by displacing imported product both from offshore and from the United States.

- Canada's Agriculture Minister, Andy Mitchell supports the made-in-Canada solutions. He believes the Canadian cattle industry needs to reposition itself to lessen its reliance on live cattle exports to the United States.

- Canadian live hog exports to the United States in the first half of 2004 ran 33% above the level for the same period a year ago. However, the year-to-year rate of increase is expected to ease somewhat during the last half of 2004 because the highest rate of exports last year occurred during the July to December period. Still, total live hog exports to the U.S. in 2004 could exceed 8.5 million head.

- On August 17, 2004 the United States Department of Commerce (DOC) preliminarily ruled that Canada's subsidies for its hog industry are too small to justify the imposition of U.S. countervailing duties on hogs coming from Canada. The DOC's preliminary determination in the anti-dumping case is scheduled for October 15, 2004.

- Canada sold half of its pork production into international markets in 2003 via record exports of 975,000 metric tons, a 13% increase over the year earlier level. When the pork equivalent of its live hog exports is included, Canada exports about two-thirds of its total pork production.

Section I. Cattle and Beef

Current Situation:

Canada's cattle industry faces significant challenge as it attempts to cope with a rising cattle inventory and the loss of access to U.S. cattle markets. The GOC and the cattle industry are anxiously awaiting a 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 that would permit the importation of live Canadian cattle.

In the three years preceding the discovery of Canada's first case of BSE in May 2003, Canada exported an average of 1.3 million head annually of predominantly slaughter cattle into the U.S. market, a level often representing as much as a third of its slaughter-type animals. Canadian fed cattle prices are down 30-35% from their pre-BSE levels and some classes of non-fed slaughter cattle prices are at distress levels.

Since the R-Calf injunction of April 2004, hope that the U.S. border would soon be open has turned to despair among many industry participants. As a result, the Canadian cattle industry is formulating a made in Canada strategy to deal with a surplus of cattle. Canada's Agriculture Minister, Andy Mitchell supports the made-in-Canada solutions, including increased slaughter capacity, matching supply of animals to capacity available and increasing access to foreign markets. He believes the Canadian cattle industry needs to reposition itself to lessen its reliance on live cattle exports.

Key Features of A Strategic Plan:

The Canadian Cattlemen's Association (CCA) is exploring contingency plans to address a cattle inventory backlog and insufficient domestic slaughter capacity. At the CCA's annual convention held in mid-August 2004, the association revealed it is considering a set aside style program with the support of the provinces and the federal government whereby fed cattle would be set aside on a holding ration and enrolled in a type of regulated marketing schedule to enable cattle to be slaughtered prior to 30 months of age. The plan may include government assistance funds to offset feed costs during a holding period. The CCA is hopeful that a plan will be forthcoming in the next few weeks. The industry has additional longer-term goals to increase slaughter capacity particularly for cull animals and to increase its market share of the domestic market by displacing imported product.

Increasing Slaughter Capacity

According to industry sources, existing slaughter capacity (federal and provincial) in Canada is currently about 79,000 head per week. Through expansion to existing facilities, plant conversion, and new investment, the industry is targeting to have capacity increase to 86,000 by spring 2005 and to 98,000 by 2006. The medium term solution includes recapturing the ability to process non-fed slaughter cattle that previously were exported live to plants in the United States. A major part of this strategy is to process for consumption a much greater share of Canadian domestic needs for manufacturing type beef that in recent years has been dominated by imported product. In fact, past GOC policies that encouraged the importation of manufacturing beef led, in part, to the decline in number of non-fed slaughter facilities that are so desperately needed under present circumstances. Since BSE, the GOC has responded by not issuing supplementary import permits for beef beyond Canada's non-NAFTA tariff rate quota.

Cattle Inventory

The loss of access to the U.S. cattle market to the Canadian cattle industry since May 2003 has resulted in a backlog of cattle in Canada. On July 1, 2004 there were about 1.0 million head more cattle in Canada than would have been expected under a more normal situation. Given falling demand and prices for non-fed cattle, the 2004 calf crop will be the largest on record.

Country	Canada					
Commodity	Animal Numbers, Cattle			(1000 HEAD)		
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [	Estimate [	)A Official [	Estimate [	)A Official [	Estimate [
Market Year Begin		01/2003		01/2004		01/2005
Total Cattle Beg. Stks	13488	13488	14660	14660	15750	15660
Dairy Cows Beg. Stks	1065	1065	1077	1077	0	1080
Beef Cows Beg. Stocks	4752	4752	5021	5021	0	5030
Production (Calf Crop)	5773	5792	5800	5900	0	5950
Intra EC Imports	0	0	0	0	0	0
Total Imports	75	60	5	40	0	30
TOTAL Imports	75	60	5	40	0	30
TOTAL SUPPLY	19336	19340	20465	20600	15750	21640
Intra EC Exports	0	0	0	0	0	0
Total Exports	510	510	0	0	0	0
TOTAL Exports	510	510	0	0	0	0
Cow Slaughter	350	350	450	385	0	500
Calf Slaughter	330	350	360	400	0	450
Other Slaughter	2735	2838	3190	3515	0	3950
Total Slaughter	3415	3538	4000	4300	0	4900
Loss	751	632	715	640	0	640
Ending Inventories	14660	14660	15750	15660	0	16100
TOTAL DISTRIBUTION	19336	19340	20465	20600	0	21640

Beef

Canadian beef production during 2004 is on track to post double-digit gains as the industry attempts to process the additional cattle that under normal trade patterns would be exported to the U.S. for slaughter. For 2005, post forecasts an additional substantial production gain given the incentive to slaughter cattle in advance of 30 months of age (i.e., BSE dentition criteria) and the large 2004 calf crop.

Country	**Canada**					
Commodity	**Meat, Beef and Veal**				(1000 MT CWE)(100(	
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [	Estimate [I	)A Official [	Estimate [	)A Official [	Estimate [I
Market Year Begin		01/2003		01/2004		01/2005
Slaughter (Reference)	3415	3538	4000	4300	0	4900
Beginning Stocks	24	34	36	48	26	35
Production	1135	1190	1325	1425	0	1575
Intra EC Imports	0	0	0	0	0	0
Total Imports	274	273	230	85	0	80
TOTAL Imports	274	273	230	85	0	80
TOTAL SUPPLY	1433	1497	1591	1558	26	1690
Intra EC Exports	0	0	0	0	0	0
Total Exports	384	385	565	450	0	540
TOTAL Exports	384	385	565	450	0	540
Human Dom. Consumptio	1013	1064	1000	1073	0	1100
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumptio	1013	1064	1000	1073	0	1100
Ending Stocks	36	48	26	35	0	50
TOTAL DISTRIBUTION	1433	1497	1591	1558	0	1690

Consumption

Fortunately for Canada's cattle industry, Canadian beef consumption rose sharply following the BSE crisis and the loss of international markets. According to Statistics Canada, retail ground beef prices fell an average of 24% between May 2003 and September that year. Even though retail prices for higher-valued beef cuts remained strong, Canadians responded with higher demand for beef at the expense of other meats. On balance, Canadian beef consumption rose about 5% during 2003 according to the Statistics Canada data.

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	
August	92.43	39.02	
September	94.57	73.09	
October	97.23	79.07	
November	101.69	80.45	
December	105.05	82.06	
Annual Aver.	98.88	84.28	

Source: StatCan

Trade

Imports: Canadian beef imports fell dramatically in the first half of 2004 reflecting in part, the additional supplies of domestic beef and the GOC policy to restrict supplementary import permits for non-NAFTA 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.

In the January to June period of 2004, total Canadian beef imports ran 70% 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.

Exports: Canadian beef exports suffered sharply in 2003 following the single case of BSE discovered in Alberta in May 2003. However, since the U.S. action on August 8, 2003 to permit imports of certain Canadian boneless beef and beef products, 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 generally rest on U.S. and Mexican markets although Macau and the Philippines are accepting Canadian beef.

Policy

The GOC continues to lobby USDA at every opportunity in its attempt to secure the re-opening pf the U.S. border to Canadian live cattle. Last week, Agriculture Minister Mitchell met with U.S. Secretary of Agriculture Ann Veneman to discuss the border situation.

Canada's BSE policies including those related to the removal of Specified Risk Materials (SRM), feed bans, surveillance and imports are detailed on the following Canadian Food Inspection Agency Inspection webpage:

http://www.inspection.gc.ca/english/anima/heasan/disemala/bseesb/bseesbindexe.shtml

Section II. Hogs and Pork

Hog Inventory

The Canadian pig herd reached 14.8 million on July 1, 2004 a 1.4% increase over the year earlier level. The breeding herd was 2.6% higher than a year ago and 1.1% higher than the April 1 survey. Recent stronger prices for market hogs and record exports of live hogs to the United States are expected to result in continued breeding herd expansion during 2005. Post forecasts that the hog inventory will exceed 15.0 million head by mid-2005.

On August 17, 2004 the United States Department of Commerce (DOC) preliminarily ruled that Canada's subsidies for its hog industry are too small to justify the imposition of U.S. countervailing duties on hogs coming from Canada. The DOC's preliminary determination in the anti-dumping case is scheduled for October 15, 2004. In March, the DOC initiated the two separate investigations against live swine from Canada based on a petition by the U.S. hog industry.

Country	Canada					
Commodity	Animal Numbers, Swine				(1000 HEAD)	
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [	Estimate [	DA Official [	Estimate [	A Official [	Estimate [
Market Year Begin		01/2003		01/2004		01/2005
TOTAL Beginning Stocks	14672	14672	14608	14623	14700	14900
Sow Beginning Stocks	1537	1527	1586	1578	0	1600
Production (Pig Crop)	31309	31414	32000	33000	0	33400
Intra EC Imports	0	0	0	0	0	0
Total Imports	4	4	6	6	0	5
TOTAL Imports	4	4	6	6	0	5
TOTAL SUPPLY	45985	46090	46614	47629	14700	48305
Intra EC Exports	0	0	0	0	0	0
Total Exports	7442	7443	7800	8600	0	8800
TOTAL Exports	7442	7443	7800	8600	0	8800
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	22600	22464	22700	22600	0	22900
Total Slaughter	22600	22464	22700	22600	0	22900
Loss	1335	1560	1414	1529	0	1605
Ending Inventories	14608	14623	14700	14900	0	15000
TOTAL DISTRIBUTION	45985	46090	46614	47629	0	48305

Pork Production

Canadian pork production during 2004 is estimated at 1.9 million metric tons, the eighth successive year of record production. An additional moderate pork production gain of about 1.8% is forecast for 2005. As its live hog exports to the United States increase, Canada's pork production increase potential is reduced. When live hog exports and pork exports are combined, Canada exports about two-thirds of its total pork production.

Country	**Canada**					
Commodity	**Meat, Swine**				(1000 MT CWE)(100(	
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [	Estimate [I	)A Official [	Estimate [	)A Official [	Estimate [I
Market Year Begin		01/2003		01/2004		01/2005
Slaughter (Reference)	22600	22464	22700	22600	0	22900
Beginning Stocks	54	54	40	48	40	44
Production	1895	1882	1905	1900	0	1935
Intra EC Imports	0	0	0	0	0	0
Total Imports	91	91	100	100	0	100
TOTAL Imports	91	91	100	100	0	100
TOTAL SUPPLY	2040	2027	2045	2048	40	2079
Intra EC Exports	0	0	0	0	0	0
Total Exports	974	975	1050	960	0	980
TOTAL Exports	974	975	1050	960	0	980
Human Dom. Consumptic	836	810	780	848	0	859
Other Use, Losses	190	194	175	196	0	200
TOTAL Dom. Consumptic	1026	1004	955	1044	0	1059
Ending Stocks	40	48	40	44	0	40
TOTAL DISTRIBUTION	2040	2027	2045	2048	0	2079

Consumption

Pork consumption suffered one of its worst performances in recent memory during 2003 falling almost 10% from the 2002 level. The market disruption caused by Canada's BSE crisis and increased competition from other meats in relation to popular low carbohydrate diets resulted in weak pork disappearance.

Live Hog Exports

After reaching a record 7.4 million head in 2003, Canadian live hog exports (virtually all to the U.S.) are on pace to exceed that level during 2004. Through the first six months of 2004, live hog exports to the U.S. reached 4.2 million head, one-third greater than the 2003 pace for the same period. However, post predicts the year-to-year rate of increase will ease somewhat during the last half of 2004 because the highest rate of exports in 2003 occurred during the July to December period. On balance, post forecasts total hog exports to the U.S. during 2004 to fall within the 8.5- 8.7 million head range. For 2005, expectations of a higher hog inventory and uncertainty surrounding the timing of Canadian hog slaughter capacity expansion and of the level of Canadian pork exports, Canadian live hog exports could approach the 9.0 million head level.

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

HS= 0103

Units: Thousand Head					Jan-June	Jan-June	
TYPE	HS Code	2001	2002	2003	2003	2004	% change
Slaughter	103.92	2,152	1,966	2,458	888	1,390	56.53%
Feeder	103.91	3,169	3,757	4,971	2,301	2,847	23.73%
Purebred	103.1	21	15	9	2	2	0.00%
TOTALS		5,342	5,738	7,438	3,191	4,239	32.84%

Source: World Trade Atlas

Hog Prices

In early 2004, Canadian hog market prices returned to levels not seen since mid-2001. Attractive for finished hogs in the domestic market combined with brisk demand for Canadian feeder pigs in U.S. Midwest markets can be expected to boost profitability prospects for Canadian hog growers and encourage additional breeding herd expansion.

Canada: Slaughter Hog Prices; Ontario & Manitoba
Units: $C/kilogram; index 100 dressed

	ONTARIO				MANITOBA			
	2001	2002	2003	2004	2001	2002	2003	2004
January	1.38	1.50	1.23	1.15	1.41	1.53	1.33	1.24
February	1.51	1.67	1.39	1.43	1.48	1.63	1.41	1.45
March	1.81	1.56	1.36	1.58	1.76	1.54	1.39	1.57
April	1.86	1.34	1.35	1.57	1.83	1.38	1.37	1.59
May	1.95	1.34	1.44	1.89	1.95	1.38	1.53	1.87
June	2.05	1.41	1.62	1.96	1.98	1.44	1.62	1.92
July	2.04	1.58	1.55		1.98	1.56	1.59	
August	2.01	1.49	1.43		1.96	1.51	1.55	
September	1.76	1.09	1.33		1.81	1.15	1.45	
October	1.60	1.23	1.24		1.64	1.31	1.38	
November	1.47	1.16	1.09		1.48	1.23	1.26	
December	1.36	1.25	1.12		1.38	1.28	1.26	
Average	1.73	1.38	1.34		1.72	1.41	1.43	

Source: StatCan & AgCan

Pork Trade

Imports: On the strength of increased imports from the United States, Canadian pork imports during 2004 are expected to advance at least 10% above the year earlier level and reach 100,000 metric tons carcass weight equivalent. U.S. pork accounted for almost all Canadian pork imports in the first half of 2004 that was comprised of a wide range of fresh and chilled cuts and processed pork items. The outlook for 2005 Canadian imports is for no change.

Exports: Canada's pork packing industry sold half of its throughput into international markets in 2003 via record exports of 975,000 metric tons or a 13% increase over the year earlier level. The top five markets for Canadian pork and their share of total in 2003 were the U.S. (56%), Japan (22%), Australia (4%), Mexico (4%), and Taiwan (2%).

Predictions that Canada would export more than 1.0 million metric tons of pork during 2004 may not be realized. In the first six months of the current year, total Canadian pork exports ran 2.3% below their level for the same period last year. Increased pork exports to both Japan and Mexico in the January to June period of 2004 failed to offset an almost 10% year-to-year decline in Canadian pork exports to the United States. On balance, total pork exports could slip 1.5%-2.0% to about 960,000 metric tons (carcass weight equivalent) from the 2003 level.

Policy

Trade Actions

The United States Department of Commerce (DOC) preliminarily ruled on August 17, 2004 that Canada's subsidies for its hog industry are too small to justify the imposition of U.S. tariffs on hogs coming from Canada. In March, the DOC initiated two separate investigations against live swine from Canada based on a petition from the National Pork Producers Council. One investigation focuses on whether Canadian live swine are subsidized (the countervail case) while the second investigation alleges that Canadian live swine are sold into the U.S. at below fair value (the anti-dumping case). The DOC's preliminary determination in the anti-dumping case is scheduled for October 15, 2004. The final determinations in both the countervail and the anti-dumping investigations have been aligned and are currently scheduled for December 28, 2004.

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