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Report Highlights:
Every facet of Canada's cattle and beef industry has been impacted by the discovery of BSE in a single cow in Alberta in May 2003. From the collapse of the cattle marketing structure to the closure of international borders to Canadian cattle and beef, the industry is attempting to recover from the turmoil. The issues surrounding a return to more normal production and more normal trade continue to be dynamic.

Includes PSD Changes: Yes
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Executive Summary

IMPORTANT NOTE: Until such time as there is a change in the status of Canadian live cattle exports under the BSE ban, the tabulated estimates for 2003 and forecasts for 2004 in this report reflect the current total ban on Canadian live cattle exports.

* The closure of international borders to Canadian cattle and beef on May 20, 2003 following the discovery of a single case of bovine spongiform encephalopathy (BSE) in an Alberta cow has had a profound impact across every facet of Canada's beef industry and its associated industries. Combined with exports of live slaughter cattle, Canada exported almost 63% of total output on a beef equivalent basis prior to the BSE discovery.

* For 2003, Canada's cattle industry will have to cope with an additional 750,000 to 1.0 million head of live cattle that, in the absence of the BSE discovery, were forecast to be exported live to the United States in the final seven months of the year.

* Total Canadian beef imports in 2003 are expected to be only moderately lower than last year despite GOC action to make an adjustment to the supplementary import provisions of Canada's TRQ for non-NAFTA beef. Actual imports and issuances of supplementary permits were well above year earlier levels when the BSE crisis emerged in late May 2003.

* Canadian beef exports are forecast to fall sharply to about 460,000 metric tons from 610,000 metric tons during 2002, a decline of about 25%.

* Canada's federal and provincial governments responded to the BSE crisis with special compensation programs to ease the financial strain of the cattle market price collapse.

* Unlike Japan, where a BSE outbreak resulted in a sharp decline in beef consumption, Canadian consumers responded with a strong increase in beef consumption.

* The rate of expansion in the Canadian hog industry over the next two years is forecast to slow. The outlook for 2004 points to Canadian pork output reaching about 1.94 million metric tons, an increase of about 1.6% above the estimated 2003 level of 1.91 million metric tons.

* Recent increases in Canadian pork production have been export driven. Pork exports are projected to reach 975,000 metric tons in 2003, almost 13% greater than a year ago and more than triple the level of 301,000 metric tons ten years earlier.

* Live hog exports to the United States during the January-June period were 10% above the same period in 2002. Post forecasts that 6.6 million Canadian hogs will be exported live to the United States during 2003, an increase of almost 15% over last year.

Section I. Cattle and Beef

Cattle Numbers; Inventory Situation

Canada's cattle inventory reached 15.7 million head on July 1, 2003 the highest level on record. The development is the result of the closure of international borders to Canadian cattle and beef on May 20, 2003 following the discovery of a single case of bovine spongiform encephalopathy (BSE) in an Alberta cow. The subsequent collapse of the Canadian cattle marketing structure disrupted the normal flow of cattle through the production chain, which was exacerbated by the loss of the U.S. market to Canadian live slaughter cattle. Last year, Canada exported, on average, more than 30,000 slaughter cattle per week to U.S. packers. Surprisingly, the record 15.7 million head inventory was only 2% above last year's level at that time due mostly to a 5.3% decline in Alberta numbers where, prior to the BSE incident, the effects of two years of drought, tight feed supplies, and higher feed prices had already significantly reduced herd size in Canada's most important cattle producing province.

Normally, the country's cattle industry operates in a regular, but constant cycle of production. The discovery of BSE in Canada disrupted the supply chain at its origins in the beef cow foundation herds through to the feedlots and the meat packing industry where cattle are destined for slaughter and sale. With the industry heavily dependent on the normal flow of Canadian beef to foreign markets and on the daily movement of live slaughter cattle to the United States, the international border closures and restrictions have presented a unique situation related to the current number of Canadian cattle on farms.

For 2003, Canada's cattle industry will have to cope with an additional 750,000 to 1.0 million head of live cattle that, in the absence of the BSE discovery, were forecast to be exported live to the United States in the final seven months of the year.

Year-end cattle numbers in Canada could increase substantially given the lack of an export outlet and weaker Canadian slaughter rates compared to a year ago. There is a growing problem of older and cull cows, whose numbers are sharply increasing "on the farm" partly because of the loss of important live sales to specialty packers in the United States and due to low demand for slaughter cows from domestic packers because the meat from 30 month and older cows currently has no major market outside Canada. The normal pattern of a seasonal period of heavy cow kill this fall is unlikely.

Given the situation of the massive "backup" of cattle in the production chain, it is possible the national cattle inventory could reach near 14.5 million head by the end of the year, an increase of 7-8% above the 2002 year-end level. For 2004, an unusually high carry-over of breeding cows is possible exacerbating the already anticipated move to higher heifer retention numbers given the relatively weak demand for feeder cattle. The potential for breeding herd numbers to increase, combined with a buildup of background cattle and no outlet for feeder cattle exports, points to problematic levels of cattle for the domestic production cycle during 2004.

Important Note

Until such time as there is a change in the status of Canadian live cattle exports under the BSE ban, the tabulated estimates for 2003 and forecasts for 2004 shown below reflect the current total ban on Canadian live cattle exports.

Cattle Numbers

Country	**Canada**					
Commodity	**Animal Numbers, Cattle**			(1000 HEAD)		
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [	Estimate [	A Official [	Estimate [	A Official [	Estimate [
Market Year Begin		01/2002		01/2003		01/2004
Total Cattle Beg. Stks	13762	13762	13372	13454	13152	14400
Dairy Cows Beg. Stocks	1084	1084	1075	1065	0	1050
Beef Cows Beg. Stocks	4636	4636	4616	4752	0	5000
Production (Calf Crop)	5623	5757	5450	5800	0	6000
Intra EC Imports	0	0	0	0	0	0
Other Imports	138	138	180	75	0	50
TOTAL Imports	138	138	180	75	0	50
TOTAL SUPPLY	19523	19657	19002	19329	13152	20450
Intra EC Exports	0	0	0	0	0	0
Other Exports	1691	1691	1500	510	0	0
TOTAL Exports	1691	1691	1500	510	0	0
Cow Slaughter	0	528	600	380	0	475
Calf Slaughter	0	293	300	320	0	340
Other Slaughter	3753	3016	2850	3000	0	3285
Total Slaughter	3753	3837	3750	3700	0	4100
Loss	707	675	600	719	0	750
Ending Inventories	13372	13454	13152	14400	0	15600
TOTAL DISTRIBUTION	19523	19657	19002	19329	0	20450

Beef Situation

The level of Canadian beef production in 2003 is highly dependent on the timing of the resumption of Canadian beef exports to the United States, the major market. Following the U.S. announcement of a partial lifting of the ruminant ban, an issue surrounding the age identification and segregation of slaughter cattle (i.e., under 30 months) being processed in Canadian plants, has delayed Canadian boneless beef exports to the United States (boneless beef being the major category included in the partial lifting of the U.S. ban).

Although somewhat speculative at this juncture, it would appear that Canadian beef output during 2003 will be down at least 4-6% from the 2002 level. It is anticipated that the year-to-year decline in output, currently at about 15% below last year, will ease as the year progresses and beef exports begin to flow.

Anecdotal evidence suggests that Canadian domestic consumption of beef increased in the weeks immediately following the BSE discovery. Many of the major fast food merchandisers such as Mcdonald's, Wendy's, A&W, Dairy Queen, Burger King and Pizza Hut announced that in response to the difficulties facing the beef industry, that they were planning to acquire 100% of their beef requirements from Canada-source beef for their Canadian operations.

Unlike Japan, where a BSE outbreak resulted in a sharp decline in beef consumption, Canadian consumers responded to balanced press reports with a strong endorsement of the safety of Canadian beef. Early indications are, albeit based on speculative estimates of production and trade, that total domestic beef consumption in 2003 may increase from between 5-6% from a year ago.

Country	**Canada**					
Commodity	**Meat, Beef and Veal**				(1000 MT CWE)(100(	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [	Estimate [	)A Official [	Estimate [	)A Official [	Estimate [
Market Year Begin		01/2002		01/2003		01/2004
Slaughter (Reference)	3753	3837	3750	3700	0	4100
Beginning Stocks	32	32	28	32	25	50
Production	1290	1295	1255	1245	0	1365
Intra EC Imports	0	0	0	0	0	0
Other Imports	307	307	340	280	0	250
TOTAL Imports	307	307	340	280	0	250
TOTAL SUPPLY	1629	1634	1623	1557	25	1665
Intra EC Exports	0	0	0	0	0	0
Other Exports	610	610	615	460	0	550
TOTAL Exports	610	610	615	460	0	550
Human Dom. Consumptic	991	992	983	1047	0	1070
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumpti(	991	992	983	1047	0	1070
Ending Stocks	28	32	25	50	0	45
TOTAL DISTRIBUTION	1629	1634	1623	1557	0	1665

Cattle Prices

As shown in the following table, Canadian cattle producers enjoyed relatively strong prices early in 2003 and the industry was anticipating a profitable year in most sectors. The discovery of BSE in a single cow in late May suddenly changed all forecast scenarios for Canada's cattle industry. The total disruption of Canada's cattle caused prices to collapse. In the weeks that followed the outbreak, cattle markets closed, domestic packers killed half their normal levels and the loss of the U.S. market to live Canadian cattle and beef prompted the federal government and some provincial governments to announce emergency price-deficiency programs to aid their cattle sectors (see Policy Section).

Canada: Slaughter Steer Prices				
Monthly Weighted Averages; Alberta				
Units: C$/hundredweight				
	2001	2002	2003	
January	107.66	105.08	114.17	
February	113.81	107.10	115.13	
March	118.07	109.62	110.29	
April	111.75	98.19	108.55	
May	105.24	94.77	106.31	
June	99.81	90.73	65.44	
July	98.41	90.11		
August	97.95	92.43		
September	94.25	94.57		
October	94.82	97.23		
November	96.88	101.69		
December	99.07	105.05		
Annual Aver.	102.82	98.88		
Sources: StatCan,Cattle Statistics				

Beef Trade

Prior to the BSE crisis, prospects for Canadian beef trade were for increases in both Canadian exports and Canadian imports of beef. All major trading partners suspended imports of Canadian beef in late May 2003. The United States, Canada's largest export market for beef, announced on August 8, 2003 that it would partially open its borders to certain Canadian beef and ruminant products. Mexico followed suit shortly thereafter. The GOC took action to limit imports of non-NAFTA beef within its WTO commitment (see Policy Section).

The uncertainty created by the BSE crisis has makes it difficult to formulate estimates for Canadian beef trade into 2004 given the dynamics of the situation and the changing policies of Canada and its trading partners as they react to developments concerning the BSE issue.

On balance, total beef imports in 2003 are expected to be only moderately lower than last year despite GOC action to make an adjustment to the supplementary import provisions of Canada's TRQ for non-NAFTA beef (see Policy Section). Actual imports and issuances of supplementary permits were well above year earlier levels when the BSE crisis emerged in late May 2003. As the impact of the BSE crisis continues into 2004, the GOC has stated it will re-examine its import policy with regard to supplementary imports to non-NAFTA trading partners.

As for exports, levels are forecast to fall sharply to about 460,000 metric tons from 610,000 metric tons (cwe) during 2002, a decline about 25%. Beef exports during 2002 represented about 47% of total Canadian beef production, evidence of the industry's heavy reliance on trade. Combined with exports of live slaughter cattle, Canada exported almost 63% of total output on a beef equivalent basis during 2002. For 2004, beef exports are forecast to climb to the 500,000 metric ton level provided the issues surrounding the age classes of slaughter cattle can be resolved.

Policy Update

Beef Tariff Rate Quota

As a result of the trade disruption to Canadian beef exports, the GOC in mid-July announced that all applications received after July 9, 2003 for supplemental imports from non-NAFTA countries will be refused. Canada has a tariff rate quota (TRQ) of 76,409 metric tons for non-NAFTA fresh chilled and frozen beef and veal. Imports entering Canada within this TRQ quantity are duty-free. Imports above this level normally pay a duty of 26.5 percent. The GOC may authorize supplemental duty-free imports of non-NAFTA beef over the TRQ level to provide Canadian value-added processors with access to offshore beef of similar quality and price as is available to U.S. processors. Imports from the United States and Mexico, as well as from Chile, are not subject to the TRQ and hence there are no quantitative limitations on duty-free imports from these three countries. The major non-NAFTA suppliers are New Zealand, Australia, and Uruguay.

Within the TRQ level, there are two country reserves--29,600 metric tons for New Zealand and 35,000 metric tons for Australia. The remaining amount of 11,809 metric tons is open to imports from other countries certified by the Canadian Food Inspection Agency, and to Australia and New Zealand once they have filled their reserves.

A government-industry committee has been charged with examining various aspects of the current policy on supplemental beef exports. The committee will identify specific cuts or types of beef that are not available in Canada, i.e. for which substitute products are not available, and will examine other details of the current supplemental beef import policy and procedures. According to officials at the Department of Foreign Affairs and International Trade (DFAIT), the committee is in the final stages of preparing a recommendation to be presented to the ministers in mid-to-late September.

According to DFAIT, importers will still be allowed to import non-NAFTA beef and veal under the TRQ. As of mid-July, the TRQ was about 70 percent filled, leaving roughly 22,000 metric tons of non-NAFTA beef and veal to be imported this year under the TRQ. In addition, more than 15,000 metric tons of unused supplemental import authorizations, issued prior to July 10, remain valid.

BSE Compensation Programs

Federal Program: The GOC announced a BSE assistance package that will be cost-shared by the federal government and participating provinces and territories on a 60-40 basis. The cost-shared funding was originally estimated at C$276 million from the federal government and C$184 million for provincial and territorial governments. The federal government added an additional C$36 million to the program in August 2003. The program has two key elements:

For slaughter cattle: Financial assistance when the price of cattle falls below a reference price, based on market value in the United States. Payments will be on a sliding scale, meaning that government support increases as the average price declines. The percentage of government contribution decreases as the price declines, creating a strong incentive for producers to sell at the best price possible. Producers of other ruminants were also eligible for payments.

Processors incentives to sell or otherwise move surplus meat cuts that were produced after May 20 out of inventory. These cuts have a very low domestic demand and are usually exported. This program is intended to free up storage space, allowing processors to operate at increased capacity to serve the domestic market.

Provincial Programs: All major cattle producing provinces are operating BSE recovery programs in conjunction with the federal government and some additional assistance programs directed at feeder cattle and other background cattle.

Canada's New Policy On Specified Risk Materials

On July 18, 2003 Agriculture and Agri-food Minister Lyle Vanclief and Health Minister Anne McLellan today announced that specified risk materials (SRM) will be removed from Canadian cattle at slaughter. This policy takes into account current science and the recommendations of the international team that examined the investigation into Canada's single case of BSE and recommended that Canada eliminate SRM from product destined for consumption. The new policy requires the removal of the brain, spinal cord and other tissues from carcasses of cattle older than 30 months. Scientific research has shown that these tissues, in cattle younger than 30 months, do not contain the infective agent. A portion of the small intestine will be removed from carcasses of all cattle.

Cattlemen’s Semi-Annual Meeting

At the semi-annual meeting of the Canadian Cattlemen’s Association (CCA) August 15-17 in Moose Jaw, Saskatchewan, the BSE crisis dominated discussion. However, a resolution was passed that related to allowing year-round imports of U.S. feeder cattle without testing for anaplasmosis and bluetongue. The CCA holds the position that there is no scientific reason for the GOC to restrict year-round imports of feeder cattle.

Section II. Hogs and Pork

The number of hogs on Canadian farms on July 1, 2003 was almost identical to the inventory at that time one year ago. As of July 1, the inventory of hogs on farms stood at 14.6 million head, 0.2% lower than the same time last year. In recent quarters, growth in the Canadian hog sector has been slowing from the rate of expansion in recent years that often averaged 5.0% annually. Hog producers saw their profits diminish or experienced losses as a result of weaker market prices for hogs and escalating feed costs over a two-year period beginning in mid-2001. For 2004, post forecasts a modest increase in the hog herd to about 14.9 million head, or an increase of 1.2% from the 2003 beginning inventory.

Country	**Canada**					
Commodity	**Animal Numbers, Swine**			(1000 HEAD)		
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [	Estimate [	A Official [	Estimate [	A Official [	Estimate [
Market Year Begin		01/2002		01/2003		01/2004
TOTAL Beginning Stocks	14367	14367	14726	14667	15050	14850
Sow Beginning Stocks	1463	1468	1507	1524	0	1550
Production (Pig Crop)	29630	29613	30200	30800	0	31500
Intra EC Imports	0	0	0	0	0	0
Other Imports	6	14	5	5	0	0
TOTAL Imports	6	14	5	5	0	0
TOTAL SUPPLY	44003	43994	44931	45472	15050	46350
Intra EC Exports	0	0	0	0	0	0
Other Exports	5720	5740	5800	6600	0	6900
TOTAL Exports	5720	5740	5800	6600	0	6900
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	22134	22128	22676	22600	0	23000
Total Slaughter	22134	22128	22676	22600	0	23000
Loss	1423	1459	1405	1422	0	1456
Ending Inventories	14726	14667	15050	14850	0	15000
TOTAL DISTRIBUTION	44003	43994	44931	45472	0	46356

Pork

Increases in Canadian pork production in recent years have been export driven. Pork exports are projected to reach 975,000 metric tons in 2003, almost 13% greater than a year ago and more than triple the level of 301,000 metric tons ten years earlier. On the other hand, domestic consumption during the same period averaged only single digit increases and per capita disappearance has remained relatively constant at about 28 kilograms (carcass weight equivalent).

The outlook for 2004 points to pork output reaching almost 1.94 million metric tons, an increase of about 1.6% above the estimated 2003 level of 1.91 million metric tons. An additional factor affecting pork exports in late 2004 is the U.S. Country of Origin Labeling (COOL) regulation, which could result in an increase in Canadian hog slaughter in the final

Country	Canada					
Commodity	Meat, Swine				(1000 MT CWE)(100(	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [	Estimate [	)A Official [	Estimate [	)A Official [	Estimate [I
Market Year Begin		01/2002		01/2003		01/2004
Slaughter (Reference)	22134	22128	22676	22600	0	23000
Beginning Stocks	39	45	40	54	40	40
Production	1835	1854	1880	1910	0	1940
Intra EC Imports	0	0	0	0	0	0
Other Imports	92	91	100	77	0	80
TOTAL Imports	92	91	100	77	0	80
TOTAL SUPPLY	1966	1990	2020	2041	40	2060
Intra EC Exports	0	0	0	0	0	0
Other Exports	839	863	875	975	0	1000
TOTAL Exports	839	863	875	975	0	1000
Human Dom. Consumptic	916	882	925	836	0	815
Other Use, Losses	171	191	180	190	0	200
TOTAL Dom. Consumptic	1087	1073	1105	1026	0	1015
Ending Stocks	40	54	40	40	0	45
TOTAL DISTRIBUTION	1966	1990	2020	2041	0	2060

quarter of the year if COOL impacts Canadian live slaughter hog exports to the U.S. more so than Canadian pork exports.

Hog Prices

Hog market prices in the second quarter of 2003 showed strength over last year, but by the start of the third quarter weekly prices fell below year ago levels reflecting in part, ample supplies of beef in Canada related to the BSE situation. The continued relative weakness in hog prices over the past 15-16 months is expected to result in a reduced rate of hog industry expansion into 2004.

Canada: Slaughter Hog Prices; Ontario & Manitoba

Units: $C/kilogram; index 100 dressed

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

Source: StatCan & AgCan;

Live Hog Exports

The table below illustrates that the trend to lower slaughter exports to the United States continued throughout the first six months of 2003, but that the decline was more than offset by the sharp rise in exports of feeder pigs. Year-to-year, the increase in the January-June period was 10% above the same period in 2002 and there is no evidence to suggest that the rate of exports in the second half of 2003 will subside.

An important hog processor in Manitoba temporarily curtailed production in July 2003 (citing poor profitability linked to Japan sales and to the general appreciation in the Canadian dollar in 2003) with a resulting increase in live slaughter hog exports to the United States. Also, much of the recent increase in feeder exports to the U.S. has come out of new operations in Ontario, which became the leading export province of feeder pigs early in 2003. As a result, post forecasts that 6.6 million Canadian hogs will be exported live to the United States during 2003, an increase of almost 15% above the prior year. For 2004, given the anticipated increase in the breeding herd and the associated larger pig crop, post projects live Canadian swine exports to the United States to increase from the 2003 level. The U.S. Country of Origin Labeling (COOL) regulation scheduled to become effective in September 2004 is forecast to result in a decline in live hog exports in the final quarter of 2004 but Canadian hog industry officials continue to work toward expanding opportunities with major U.S. packers (for slaughter hogs) and with U.S. hog finishers (for feeder hogs) to mitigate the impact on live animal trade in the post COOL period.

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

HS= 0103

Units: Thousand Head					Jan-June	Jan-June	
TYPE	HS Code	2000	2001	2002	2002	2003	% change
Slaughter	0103.92	2,019	2,152	1,966	1,037	878	-15.3%
Feeder	0103.91	2,336	3,169	3,757	1,846	2,301	24.6%
Purebred	0103.10	5	21	15	13	2	-84.6%
TOTALS		4,360	5,342	5,738	2,896	3,181	9.8%

Source: World Trade Atlas

Pork Trade

Exports

The strong increase in Canadian pork exports evident in recent years continued in the first half of 2003 posting a 24% increase over the level for the same period last year. For all of 2003, the year-to year increase is expected to be tempered because exports in the final quarter last year so strong, but on balance, post forecasts exports during 2003 to reach approximately 975,000 metric tons, almost 13% above the year earlier record of 863,000 metric tons.

In the first six months of 2003, Canadian pork exports to the top three markets, the United States, Japan, and Australia accounted or more than 83% of the total with the United States alone accounting for 55% of the total.

For 2004, pork production prospects suggest continued growth in Canadian pork exports to the world. Total Canadian pork exports during 2004 are forecast to reach 1.0 million metric tons for the first time in history.

Imports

Canadian pork imports in the January-June period of 2003, mostly from the United States, fell sharply off last year's pace showing a decline of 20%. The Sudden Acute Respiratory Syndrome (SARS) outbreak in Canada's two most populous cities weakened economic activity, sharply reduced foreign visitor travel to Canada, and dampened overall demand for imported pork. In addition, Canadian storage stocks of pork were exceptionally high during the first half of 2003. For 2004, the outlook is for a modest increase in demand for certain fresh or frozen pork cuts provided storage stock levels return to more normal levels.

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