



THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 8/29/2019
GAIN Report Number: CA19029

Canada

Poultry and Products Annual

2019

Approved By:

Evan Mangino, Agricultural Attaché

Prepared By:

Mihai Lupescu, Sr. Agricultural Specialist

Report Highlights:

FAS/Canada projects slightly slower growth in Canadian chicken meat production for 2020, as demand growth continues to moderate following exceptional growth in 2017 and 2018. Import tariff rate quota volumes are expected to reach a record-high 110,000 metric tons in 2020, on estimated 2019 Canadian production increases and additional free trade agreement market access entering into force. The United States should continue to be the largest supplier of chicken meat to Canada.

Keywords: Canada, CA19029, Poultry, Chicken

Note Regarding Reporting Change:

This report provides *chicken meat* estimates and forecasts for 2018-2020. The prior *broiler meat* series has been discontinued and will not be revised or updated in the future.

Official USDA data is available via the [PSD database](#). The October 2018 data release included a historical *chicken meat* series back to 1999. The *broiler meat* series terminated with 2016 data.

Chicken meat is defined as meat of domestic fowl (*Gallus gallus/Gallus domesticus*) including all chickens: broiler, layer, hybrid, domestic breeds, spent hens, ex-breeding stock, etc.

Executive Summary

- FAS/Canada forecasts slower production growth for 2020, with chicken meat production forecast to reach 1.355 million metric tons (MMT), 2 percent above the estimated 2019 level. Retail and food service demand for chicken meat remains solid.
- FAS/Canada estimates 2019 chicken meat production at 1.33 MMT, reflecting a more modest growth after market adjustments in 2017 and 2018 pushed production growth sharply higher. Market demand remains strong as Canadian consumers – increasingly diverse, economically strong and seeking comparative cost savings relative to other proteins – are expected to drive chicken meat sector growth of 2.5 percent in 2019, following two consecutive years of exceptional 5 percent growth.
- Canadian chicken meat imports are regulated under two tariff rate quotas (TRQs): the global TRQ (calculated as a function of Canadian chicken meat production in the preceding calendar year); and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) TRQ (expressed as a specific annual volume). The combined volume of chicken meat imported under both TRQs is projected to reach just over 100,000 MT in 2019 and 110,000 MT in 2020, both record highs.
- In addition to TRQ imports, Canadian poultry processing and further-processing companies are expected to import over 50,000 MT of chicken meat in 2019 under Canada's two import for re-export programs. Nearly all of the finished products produced under these programs would be exported to the United States.

CHICKEN MEAT

NOTE: "NEW Post" data reflects Post's assessments and are NOT official USDA data.

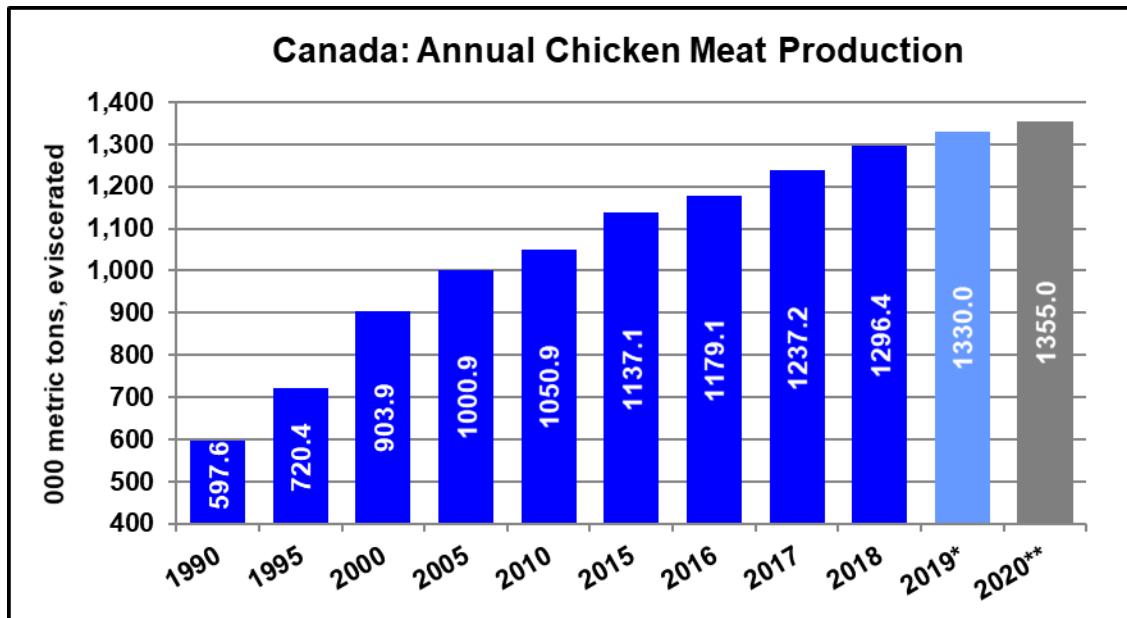
| CANADA Meat CHICKEN | 2018 | | 2019 | | 2020 |
|---------------------------|-----------------------|------------------|-----------------------|-----------------------|-----------------------|
| | USDA Official Data | NEW Post Data | USDA Official Data | NEW Post Estimates | NEW Post Estimates |
| Beginning Stocks | 46 | 46 | 55 | 54 | 55 |
| Production | 1,300 | 1,296 | 1,335 | 1,330 | 1,355 |
| Total Imports | 170 | 170 | 175 | 165 | 170 |
| Total Supply | 1,516 | 1,512 | 1,565 | 1,549 | 1,580 |
| Total Exports | 124 | 124 | 130 | 120 | 125 |
| Total Dom. Consumption | 1,337 | 1,334 | 1,385 | 1,374 | 1,405 |
| Ending Stocks | 55 | 54 | 50 | 55 | 50 |
| Total Distribution | 1,516 | 1,512 | 1,565 | 1,549 | 1,580 |

All data in 1,000 metric tons, carcass weight equivalent

Chicken Meat Production

FAS/Canada forecasts 2020 chicken meat production to rise 2 percent to 1.355 MMT on steady demand for broiler meat and continued relative price competitiveness across retail and food service sectors.

FAS/Canada estimates 2019 chicken meat production reaching 1.33 MMT, growing 2.5 percent to meet sustained domestic demand. In Canada, the chicken meat market is driven by broiler meat production, representing between 97 and 98 percent of the market. The balance is comprised of other chicken meat, mostly spent fowl (also called stewing hen).



Source: Statistics Canada / FAS/Canada *estimate ** forecast

Under Canada's supply management system, poultry farmers are not vertically integrated into the processing and further processing industries. A large number of independent chicken farmers, often relatively small family operations, supply live birds to processing companies. Production is tightly controlled through a quota system. Representatives of chicken producers, poultry processors, poultry further-processors and the food service sector make production decisions jointly, taking into account current and forecast data on indicators, including: imports, stocks, retail and food service sales, wholesale and retail prices, competing protein prices, world production conditions, feed prices, exchange rates and domestic macroeconomic indicators. Then the Chicken Farmers of Canada (CFC), established under the [Farm Products Agencies Act](#) in 1979, allocates the total national quota volume for each 8-week production cycle to each of the ten producing provinces, where provincial-level organizations allocate the production quota to individual producers in the province based on their share of the total production quota.

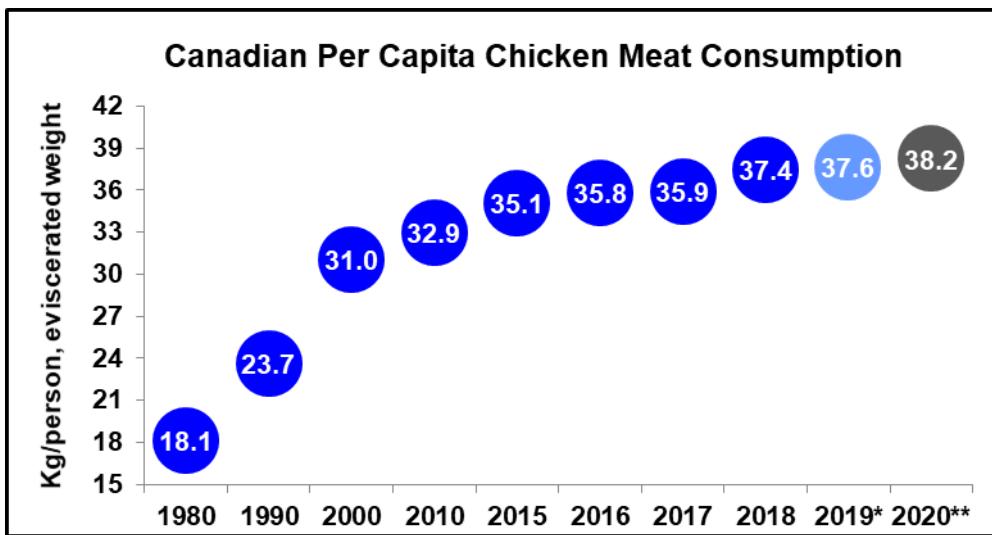
The prices at which chicken farmers sell their live birds to processors vary from province to province and are typically established based on a cost of production formula. The two major input costs are feed and day-old chicks. Overall, this supply management system based on production controls and cost-based prices insulates Canadian chicken farmers from fluctuating feed costs and stabilizes chicken farm income.

Canadian poultry processors have to price their products to the demands of the Canadian market, which limits processors' ability to pass higher input costs on to consumers. However, with stable live bird costs and higher than average chicken cutout values in 2019, FAS/Canada expects that processors' profit margins will remain positive into 2020.

Consumption

Per capita chicken meat consumption has grown steadily since 2015. FAS/Canada forecasts per capita consumption levels to continue to rise again in 2020, up to 38.2 kg from an estimated level of 37.6 kg in 2018. This recent consumption pattern reflects, at times limited and, often higher-priced red meat supplies driving consumers and food service operators towards abundantly available and relatively competitively priced chicken.

Total chicken consumption in Canada has tripled over the last 35 years, due in part to the country's steady population growth, which pushed total population up more than 50 percent from 24.5 million in 1980 to about 37.5 million in 2019. In addition, Canadian consumer preferences have shifted towards chicken primarily due to an increase in health awareness and the perception that chicken is leaner, and therefore healthier, than other meats.



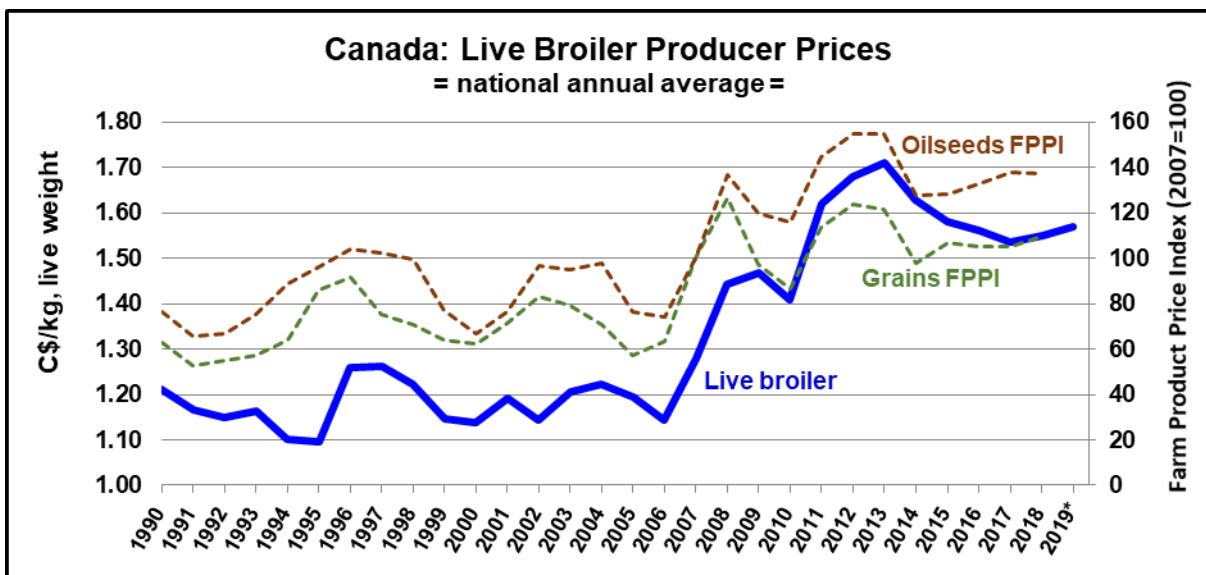
Source: Statistics Canada / Post *estimate ** forecast

Increased chicken consumption can also be attributed to the proliferation of chicken-based fast food offerings as well as Canada's changing ethnic composition. More than 1 in 5 Canadians were born in another country, and Canada's immigrant population increasingly hails from countries with stronger dietary preferences for chicken rather than beef or pork. Increasing diversity has also expanded the range of food service outlets offering chicken-based dishes.

According to [Agriculture and Agri-Food Canada](#), in 2017, retail chicken purchases accounted for approximately 59 percent of Canada's total chicken food availability, while quick-serve restaurants constituted 24 percent, full-service restaurants 12 percent, and hotels and institutions utilized the balance of about 5 percent.

Prices

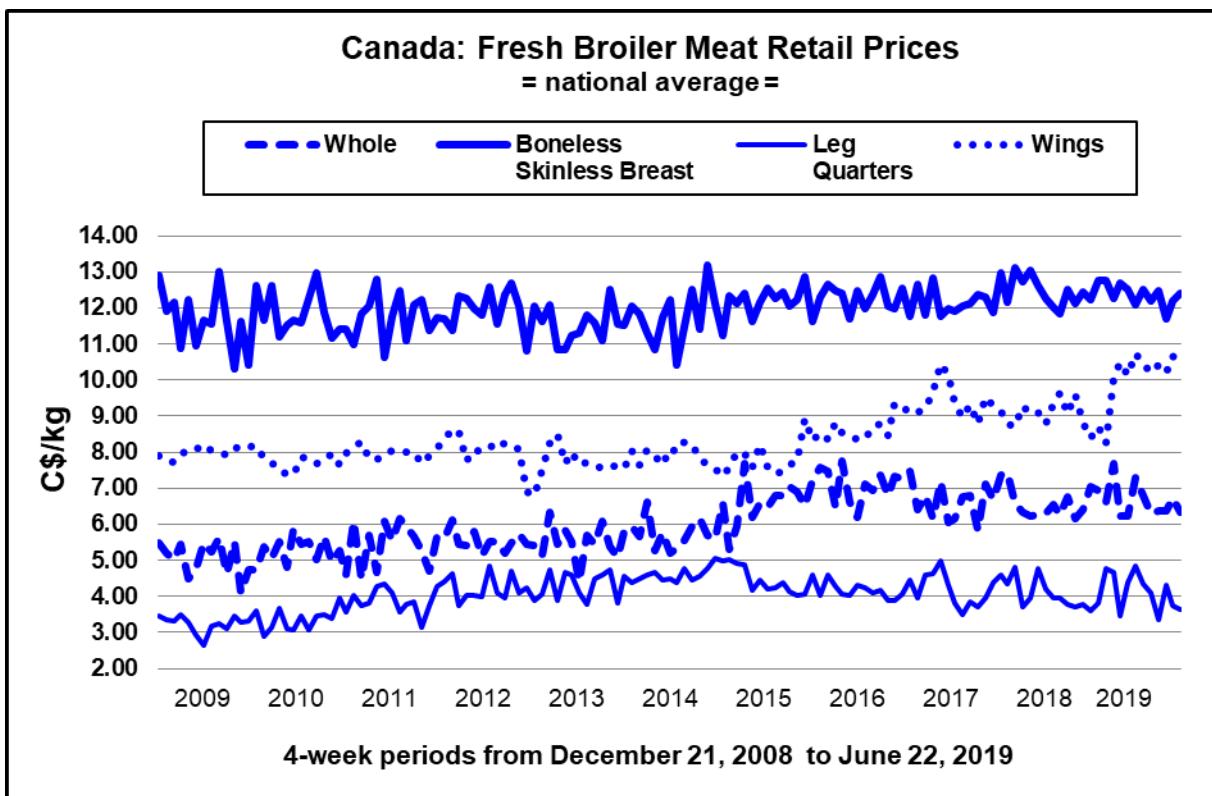
Under the supply management system, chicken producers receive a fixed price for their live birds, which is based on production costs and determined every 8-week production cycle. Ontario is the largest chicken producing province in Canada, accounting for about one-third of the market, and therefore Ontario live bird prices are the basis for the calculation of prices in other provinces. Due to the supply management system, producer prices have remained remarkably stable over time, tracking changes in feed complex prices.



Source: Statistics Canada / Chicken Farmers of Canada / *FAS/Canada estimate

The Canadian supply management system only guarantees prices for producers. Wholesale and retail broiler meat prices are usually reflective of market conditions in terms of supply and demand. They are also reflective of consumer preferences for various chicken cuts, and of their quality and degree of transformation.

Similar to consumers in the United States, Canadian consumers tend to prefer white meat (breasts and wings) over dark meat (legs and thighs), although consumer demand is increasingly balanced. The most expensive chicken cut remains the fresh boneless skinless breast, widely used in restaurants and a preferred barbecue item for Canadians. Wings are particularly popular during the winter hockey season and wing demand has picked up considerably over the last couple of years. Leg quarters have traditionally been the least expensive chicken cut in groceries. However, greater consumption of ‘ethnic cuisines’ and consumer price sensitivity have combined to drive up the demand. However, as leg quarters became more popular, retail prices rose steadily. The gradual decline in leg quarter prices over the past several years is not a reflection of lost interest for dark meat among consumers, but rather a transition towards a more expensive dark meat cut: boneless thighs.

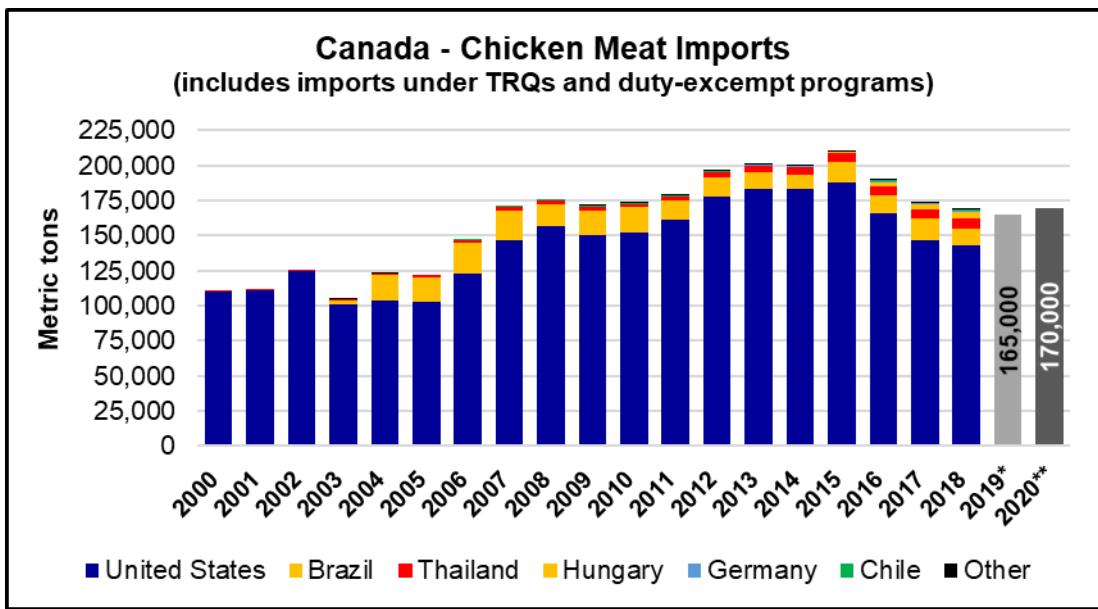


Source: Agriculture and Agri-Food Canada

Trade

Imports

FAS/Canada projects total chicken meat imports (including TRQs and import-for-re-export programs) at 170,000 MT, up 5,000 MT from the estimated level of 165,000 MT for 2019. Discussed in the policy section, broiler meat imports are controlled and subject to two TRQs, the larger of which is a function of the Canadian production level in the preceding year. Additional imports outside of the TRQs are concentrated under two import-for-re-export programs. Market conditions in the United States also play a significant role in import decisions, since a large price differential between lower U.S. broiler meat prices and higher Canadian prices creates a strong incentive for importers to source U.S. chicken meat, especially under programs that provide a customs duty exemption (i.e., the import-for-re-export programs). Imports of spent fowl are not import controlled.



Source: Global Trade Atlas / FAS/Canada *estimate ** forecast

The overall decline in imports from the 2015 peak is largely attributed to border enforcement measures by the federal authorities which uncovered imports of broiler meat (subject to TRQs) wrongfully labeled as spent fowl (not subject to import controls). Following these enforcement measures, imports of chicken meat under the spent fowl tariff lines declined considerably.

| Canada: Chicken Meat Imports, January - June (metric tons) | | | | | | | |
|--|---------------|---------------|---------------|----------------|--------|--------|-----------------------|
| | Quantity | | | % Market Share | | | % Change 2019/2018 |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | |
| World | 85,420 | 84,710 | 82,157 | 100.00 | 100.00 | 100.00 | - 3.01 |
| United States | 72,387 | 71,767 | 66,651 | 84.74 | 84.72 | 81.13 | - 7.13 |
| Brazil | 7,930 | 5,700 | 7,558 | 9.28 | 6.73 | 9.20 | 32.60 |
| Thailand | 3,124 | 3,800 | 4,273 | 3.66 | 4.49 | 5.20 | 12.47 |
| Hungary | 1,268 | 2,172 | 1,632 | 1.48 | 2.56 | 1.99 | - 24.84 |
| Germany | 294 | 719 | 1,365 | 0.34 | 0.85 | 1.66 | 89.76 |
| United Kingdom | 100 | 173 | 463 | 0.12 | 0.20 | 0.56 | 167.65 |
| Chile | 259 | 225 | 175 | 0.30 | 0.27 | 0.21 | - 22.30 |
| Other countries | 58 | 154 | 40 | 0.07 | 0.18 | 0.05 | -74.03 |

Source: Global Trade Atlas

The United States is Canada's largest supplier of chicken meat, with an historical market share of around 85 percent, followed by Brazil, at about 10 percent and Thailand at 5 percent of the import market. Some Canadian importers are discouraged from importing Brazilian chicken, despite its lower cost, because it cannot be re-exported to the United States. Since the entry into force of the Comprehensive Economic and Trade Agreement (CETA) with the European Union (EU), Canada has imported an increasing volume of chicken meat from EU countries, such as frozen wings from Hungary and German processed products. As a result, U.S. share of Canadian chicken meat imports fell to just over 80 percent in 2019. Typically, Canada imports chicken wings and chicken breasts. Wings are primarily

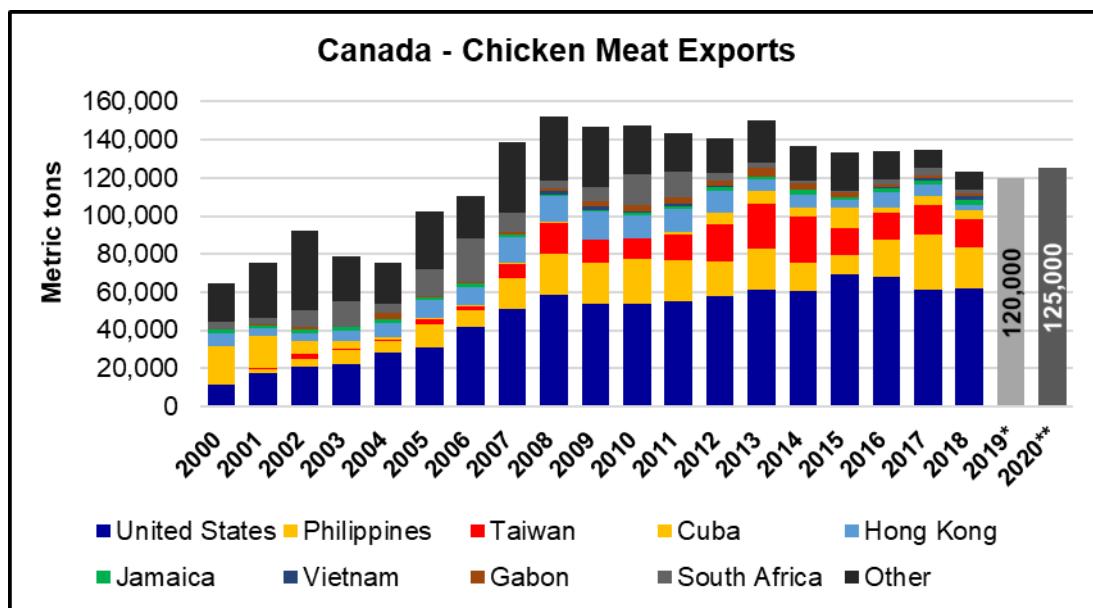
destined for the food service sector, while breast meat is utilized in various distribution channels, such as further processing, food service and retail.

Product Control for Brazilian Poultry

Since USDA does not permit imports of Brazilian chicken meat, the Canadian Food Inspection Agency (CFIA) has strict import procedures to ensure that Brazilian chicken meat in Canada does not enter the United States. Under CFIA regulations, chicken meat imported from Brazil may not be exported to the United States and may not be used in the manufacture of meat products exported to the United States. Canadian poultry slaughter and processing establishments that import chicken meat from Brazil are not eligible to export poultry meat products to the United States. In addition, chicken meat and meat products from non-eligible establishments must not enter Canadian establishments that have full export status for the United States. All Canadian establishments (including storage facilities) must segregate the meat on their premises by country of origin and destination.

Exports

FAS/Canada forecasts 2020 chicken meat exports at 125,000 MT, up 5,000 MT from the 2019 estimated volume. In general, Canadian chicken exports fall into two broad categories. “Re-exports” under Canada’s imports-for-re-export programs constitute roughly half of all export shipments, with most products destined for the United States. The remaining export volume is generally comprised of dark meat cuts for developing country markets. While market forces play a certain role in Canada’s export levels, the timeframe for the re-export requirement under Canada’s import-to-re-export programs also impacts the chicken meat export volumes in any given year.



Source: Global Trade Atlas / FAS/Canada *estimate ** forecast

| Canada: Chicken Meat Exports, January - June (metric tons) | | | | | | | |
|--|---------------|---------------|---------------|----------------|--------|--------|-----------------------|
| | Quantity | | | % Market Share | | | % Change 2019/2018 |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | |
| World | 70,933 | 63,933 | 61,838 | 100.00 | 100.00 | 100.00 | - 3.28 |
| United States | 30,347 | 32,558 | 28,063 | 42.78 | 50.92 | 45.38 | - 13.80 |
| Taiwan | 8,473 | 9,082 | 11,095 | 11.95 | 14.20 | 17.94 | 22.17 |
| Philippines | 15,335 | 11,145 | 10,168 | 21.62 | 17.43 | 16.44 | - 8.77 |
| Jamaica | 836 | 1,081 | 1,630 | 1.18 | 1.69 | 2.64 | 50.76 |
| Cuba | 1,911 | 1,682 | 1,612 | 2.69 | 2.63 | 2.61 | - 4.18 |
| Hong Kong | 4,829 | 1,579 | 1,386 | 6.81 | 2.47 | 2.24 | - 12.25 |
| Benin | 485 | 213 | 917 | 0.68 | 0.33 | 1.48 | 329.74 |
| South Africa | 3,509 | 600 | 851 | 4.95 | 0.94 | 1.38 | 41.79 |
| Other countries | 5,208 | 5,993 | 6,116 | 17.16 | 18.41 | 21.79 | 2.05 |

Source: Global Trade Atlas

Policy:

Tariff Rate Quotas¹

Canada controls broiler meat imports through TRQs. Under the global TRQ, the minimum access level into Canada under its World Trade Organization (WTO) commitments is 39,844 MT, but Canada applies the higher access level negotiated under NAFTA, equal to 7.5 percent of the preceding year's domestic broiler production as reported by Statistics Canada. For 2019, the global chicken TRQ is 94,600 MT, based on the 2018 production level. In 2020, FAS/Canada forecasts the global permit allowance will reach 97,000 MT based upon estimated 2019 production. Actual chicken imports under the TRQ may be slightly higher or lower than the allocated amounts, based on prevailing market conditions in each year.

On December 30, 2018, the [Comprehensive and Progressive Agreement for Trans-Pacific Partnership](#) (CPTPP) entered into force among the first six countries to ratify the agreement – Canada, Australia, Japan, Mexico, New Zealand, and Singapore. On January 14, 2019, the CPTPP entered into force for Vietnam. The remaining countries (Brunei, Chile, Malaysia, and Peru) have yet to ratify the agreement. Currently in its second implementation year, the CPTPP commitments for Canada include a 2019 chicken meat TRQ volume of 7,833 MT, reaching 11,750 MT in 2020. To date, no chicken imports have entered the Canadian market under the CPTPP TRQ, but it is expected that after ratification, Chile would be the only likely supplier of chicken meat to Canada under the this TRQ.

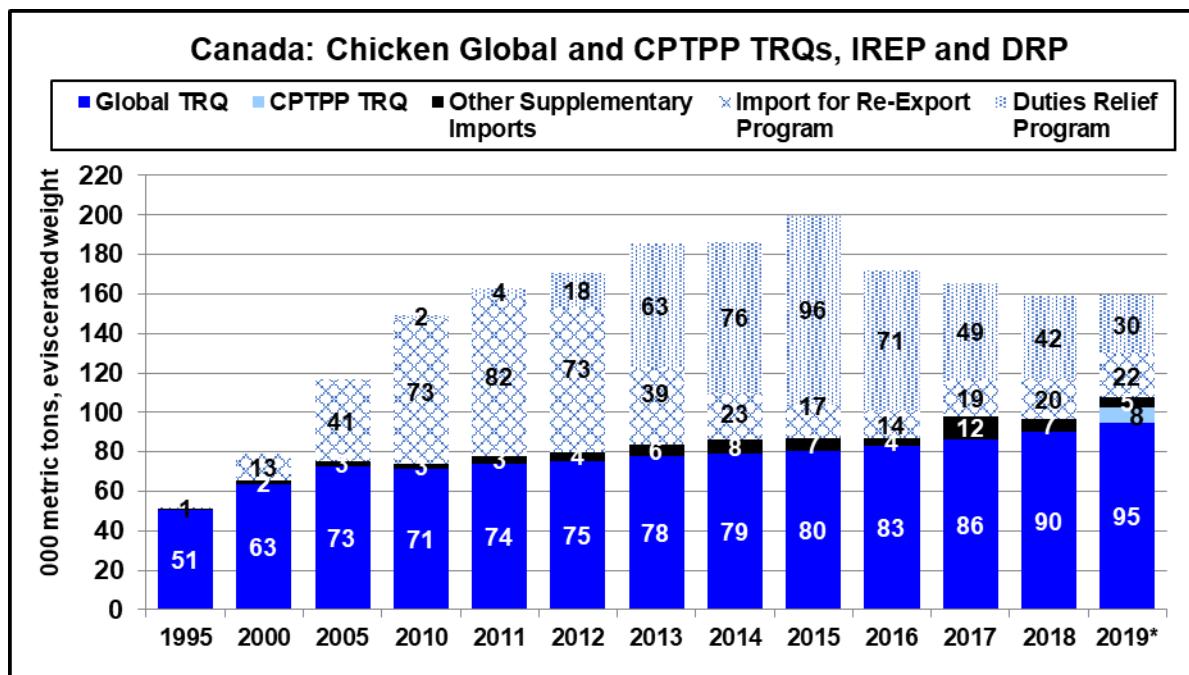
¹ The import volumes of chicken meat mentioned in this section are expressed on a carcass weight equivalent basis based on Canada's international trade commitments, under which import permits are issued at a 1:1 ratio for bone-in chicken cuts and a 2:1 ratio for boneless cuts. Therefore, the import quantities mentioned in this section are not directly comparable with the import volumes mentioned in the rest of this report (which are expressed on a product-weight basis).

Under these TRQs, imports are subject to low "within access commitment" duty rates, while imports over the TRQ limit are subject to prohibitive "over access commitment" rates. Under the North American Free Trade Agreement (NAFTA), imports from the United States within the global TRQ benefit from duty free treatment, while over-quota duties can reach 249 percent. For instance, within access imports of fresh boneless breasts from the United States enter Canada duty free, while over access imports would be subject to a 249 percent tariff. Comparatively, imports of frozen boneless breasts from Brazil within the global TRQ are subject to a 5 percent tariff, and over access imports face the same 249 percent tariff.

Global Affairs Canada (GAC) issues supplementary import permits in the following situations:

- [Resale Due to Domestic Market Shortages](#) – no such permits were issued in 2018.
- [Dark Chicken Meat not Supplied by the Chicken Farmers of Canada's Domestic Supply Program](#) – no such permits were issued in 2018.
- [Import-to-Compete Program](#) – 6,670 MT of import permits were issued by GAC in 2018.
- [Import for Re-Export Program \(IREP\)](#) – 19,830 MT of import permits were issued by GAC in 2018.
- [Test Marketing](#) – no such permits were issued in 2018.
- [Extraordinary or Unusual Circumstances](#) – no such permits were issued in 2018.

Information on the chicken TRQ, supplementary imports and the process of importing broiler meat into Canada is located on the [GAC website](#).



Source: GAC/DFATD, CBSA, Statistics Canada, FAS/Canada calculations / *FAS/Canada estimate

Import for Re-Export Program

Traditionally, the majority of supplementary imports have been comprised of imports under the Import for Re-Export Program (IREP). The program requires that the resulting processed chicken product be exported, since diversion of product imported under IREP to the domestic Canadian market is

prohibited. IREP helps Canadian poultry processors remain viable by giving them access to lower priced imported chicken, but offers little to Canadian consumers who pay high retail prices for chicken under the supply managed regime. Canadian proponents of the IREP program argue that it allows Canadian chicken processing plants to achieve economies of scale they could not otherwise achieve if restricted to available supplies of domestically produced chicken. IREP imports may be sourced from any country and re-exported to any country, but in practice almost the entire volume is imported from the United States and exported back to the U.S. market.

Duties Relief Program

After Global Affairs Canada tightened requirements for IREP in 2012, importers increasingly turned to the Duties Relief Program (DRP) operated by the Canada Border Services Agency (CBSA). Details about the program can be found following this [link](#). While in general the DRP is very similar to IREP, there are some differences that make DRP more appealing to importers. For instance, DRP requires the finished chicken meat products be re-exported within four years, rather than the three-month limit under IREP. Imports of chicken under DRP peaked in 2015 and have since declined following a series of compliance verification activities in 2016 that revealed program non-compliance. FAS/Canada expects use of DRP will further decline into 2020, as some companies will return to the IREP program.

Government Consultations on IREP/DRP

Canada launched consultations with industry stakeholders on potential changes to IREP and DRP in the spring of 2017, following a November 2016 [announcement](#) to, “address the concerns of import predictability and effective border controls for supply-managed commodities, while ensuring that Canadian processors who use dairy and poultry inputs can remain competitive in export markets.” The federal government is still reviewing input received from stakeholders, and there is no timeframe for a decision on possible changes to the programs.

FAS/Canada estimates 2019 imports under IREP and DRP at just over 50,000 MT, down from the 2015 record level of 113,000 MT, due to closer scrutiny of program utilization and stricter compliance enforcement.

The United States-Mexico-Canada Agreement (USMCA)

The [USMCA](#) was signed in November 2018. As of writing this report, the Agreement has been ratified by Mexico and is pending ratification by the U.S. Congress and the Canadian Parliament. Under the USMCA, Canada committed to provide chicken meat market access under a [TRQ](#) with an initial volume of 47,000 MT in year one of implementation, increasing to 57,000 MT in year six of implementation, then gradually increasing to 62,963 MT by year 16 of implementation; the TRQ volume would remain constant at 62,963 MT per year thereafter. The provisions of the current NAFTA agreement remain in place until the USMCA enters into force.

Supply Managed TRQ Consultation

In May 2019, GAC opened a public consultation on the Canadian allocation and administration of its dairy, poultry, and egg TRQs. Under free trade agreements recently concluded by Canada (CETA, CPTPP and USMCA), the number of TRQs administered by GAC would triple to approximately 60, increasing the workload of administering TRQs with varying rules and requirements. The consultation is meant to gather input from stakeholder as to how to best administer TRQs going forward. For additional information please refer to FAS/Ottawa’s [GAIN Report CA19019](#).

Special Agricultural Safeguard (WTO)

In 2008, Canada notified volume and price triggers that would be used to operationalize the WTO Special Agricultural Safeguard (SSG) for Canada's supply-managed products, including broiler meat. The SSG allows additional duties to be triggered when import prices fall below a certain price level or exceed a certain volume. Canada published its most recent volumetric trigger levels in [2013](#); price triggers have not yet been published. In the event that import prices fall below trigger prices, the SSG would not automatically be activated, but the situation would be evaluated on a case-by-case basis requiring formal WTO notification and an Order in Council (i.e., federal cabinet approval). To date, Canada has never used the SSG mechanism.