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LIVESTOCK AND PRODUCTS ANNUAL

Canada Livestock and Products Annual

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Report Highlights:

Canadian cattle and hog herds face continued pressure from drought conditions, low sales prices, fluctuating feed costs, and soft domestic and export markets. However, if the overall economic recovery continues and no other major shocks occur, 2009-2010 should be the trough with rebuilding emerging, especially in cattle, in late 2010. Distress is exemplified by live exports where hog and cattle exports dropped over 30% Jan-June 2009 compared to Jan-June 2008. Factors causing the decline include the stronger Canadian dollar, slump in U.S. demand, high U.S. stocks and changes in U.S. labeling rules. The difficult situation facing the hog industry has prompted the second restructuring program in as many years. Details should be available in the next few months and include buy out provisions, long term commercial loans and support for export promotion. Canadian beef exports were buoyed by negotiations with Hong Kong, Taiwan and Jordan as Canada claws back markets lost after the 2003 BSE detection. Insufficient progress with South Korea prompted a Canadian WTO dispute settlement case. U.S. beef exports are forecast to rebound by 2010 spurred by demand for high end cuts in the hotel and retail sectors.

Executive Summary:

- Canada's beef cattle herd is forecast to decline to 12.8 million head into 2010, down 2.7 percent from 2008 end, due to continued low calf prices and a lower calf crop in 2009, a reflection of general market uncertainty.
- Cattle exports are forecast to flatten out in 2010 to 1.15 million head following a drop in 2009 due to reduced demand from U.S. feedlots and a stronger Canadian dollar. Total live exports are on pace for a 30% drop in 2009 to 1.12 mil. head.
- Canadian total beef imports are expected to rise in 2010 to 290,000 MT due to the stronger Canadian dollar and ample availability from overseas suppliers. Imports from the United States declined 8 percent to 78,101 MT CWE in the first half of 2009 in part due to reduced demand from the high end restaurant trade.
- Total Canadian beef and veal exports are forecast up in 2010 to 490,000 MT due to further re-opening of global markets rather than from increased U.S. imports.
- Canada initiated a WTO dispute settlement case in December 2008 arguing COOL was creating undue restrictions on cattle and hog exporters. As of August 2009 Canada has not taken the next step of requesting a WTO dispute resolution panel.
- The Canadian hog herd is forecast to continue its decline into 2010 (11.5 million head) as the industry faces the third consecutive year of low returns. This follows a record herd decline of 12 percent during CY 2008.
- Total domestic hog slaughter numbers are projected to peak at 22.4 million head in 2009 and decline in 2010 as the industry adjusts to the lower overall.
- Based on January to June 2009 data, post estimates that Canadian live hog exports to the United States may fall nearly 40 percent during 2009 translating into a one year decline of over 3.0 million head due to factors including stronger Canadian dollar, record U.S. pork stocks, and changes in U.S. labeling requirements.
- Canadian pork imports are forecast to follow the longer term trend and increase to 200,000 MT in 2010 with a stronger Canadian dollar and higher demand for high quality U.S. fresh cuts. Following a strong 14 percent increase in 2008, U.S. pork sales to Canada during the first six months of 2009 declined over 10 percent.
- Canadian pork exports are forecast stable in 2010 at about 1.13 MMT with expanded non-U.S. growth spurred by lower prices but restricted by stronger Canadian dollar. .
- On August 15, 2009 Canadian government announced a C\$92 million restructuring plan for the hog industry. The actual specifications/requirements/approvals of the program are to be developed over a few months.

Commodities:

Animal Numbers, Cattle
Meat, Beef and Veal

Production:

Cattle and Beef Production

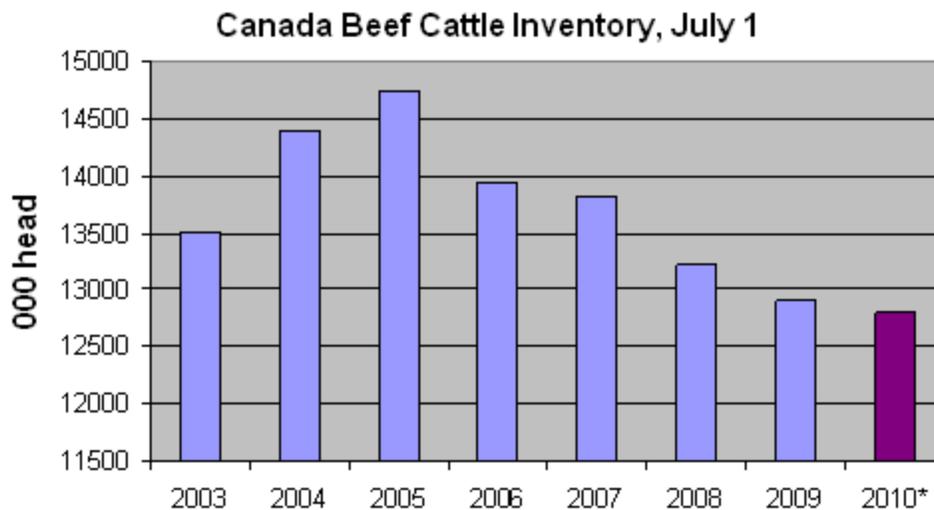
The cattle herd is forecast to decline into 2010 due to continued low calf prices and a lower calf crop in 2009, a reflection of general market uncertainty. The total beef cattle herd is forecast to reach 12.8 million head at the end of 2009, down 2.7 percent from 2008 end. Drought conditions in parts of western Canada is another factor wrecking havoc on feeding operations. Total herd numbers are projected to continue a moderate decline into 2010 but flatten out by late 2010 with economic recovery and a moderate rebound in prices fed by tightened supply.

In August of 2009, Statistics Canada published the latest cattle inventory for July 1, 2009. The data show the total beef cattle and calf inventory fell to 12.9 million head, a decline of 2.4 percent compared to one year ago. Steer and beef heifer inventory have increased by 5 percent as more cattle are kept on feeding operations in Canada.

The market and trade disruption associated with the detection of bovine spongiform encephalopathy (BSE) in Alberta in May 2003 resulted in a forced retention of the Canadian cattle herd which peaked in mid-2005. Since that time, Canadian cattle numbers have declined steadily reflecting fewer breeding cattle on fewer cattle farms.

The number of farm operations reporting beef herds for January 1, 2009 was 86,520, or a 3.8 percent reduction from one year earlier. However, reduced North American inventories have implications for lower utilization rates in the feedlot and packing sectors. With excess capacity at both levels over the last several years, demand for feeder cattle may rise as feeders look to fill their feedlots despite weak profit margins.

Reduced cow numbers will translate into a reduced calf crop in 2010 however 2010 should show signs of rebuilding and reduced cow slaughter. There has been some shift in slaughter from the east to the west. Eastern Canadian slaughter has declined 8 percent due to reduced packing capacity and stronger feeder exports from the region. Slaughter in the Western Region has increased 5 percent with reduced demand among U.S. finishing operations.



Source: Statistics Canada, *Post estimate.

Cattle Market Prices

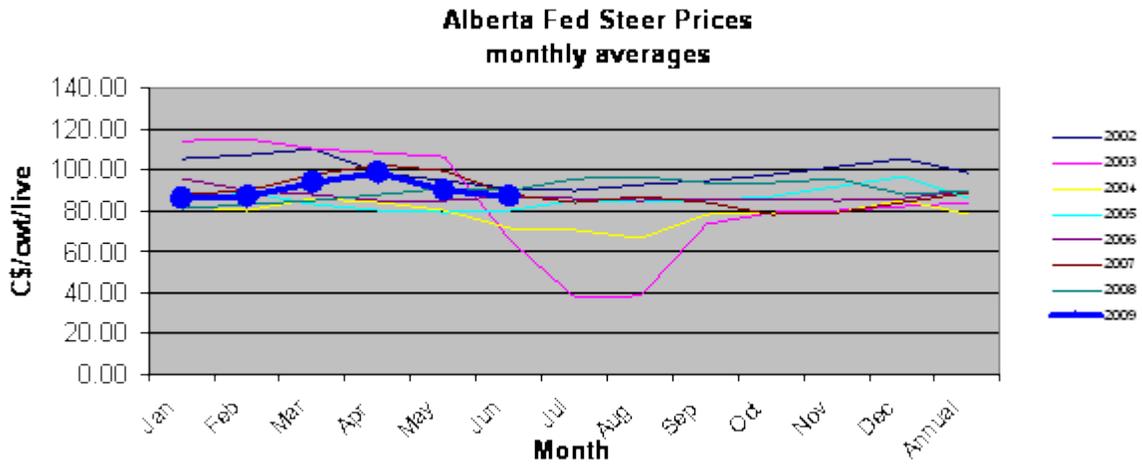
With tighter supplies due to the smaller herd and consumption forecast for a modest return in 2009 and into 2010, fed steer prices can be expected to increase moderately into 2010.

In 2009, cattle market prices by mid-year were virtually unchanged since January, with an April 2009 high of 98.85 C\$/cwt/live. As illustrated below, prices remain well below pre-BSE levels but many producers are optimistic that lower Canadian cattle inventories will lead to stronger market prices for the remainder of 2009.

While there have been some year-over-year price increases attributed to the smaller herd size, they were not as high as expected due to softer demand and larger than anticipated production. Canadian feeder prices in 2008 were pressured by higher feed grain prices which peaked in June of 2008 at C\$270/MT for corn and \$259/MT for barley.

Alberta Fed Steer Prices								
monthly averages								
C\$/cwt/live								
	2002	2003	2004	2005	2006	2007	2008	2009
Jan	105.08	114.17	82.36	85.26	95.39	87.60	81.27	86.30
Feb	107.10	115.13	80.03	88.68	89.32	90.19	83.42	86.53
Mar	109.62	110.29	85.81	83.19	87.51	97.59	85.29	93.38
Apr	98.19	108.55	84.25	80.14	85.22	101.87	87.93	98.85
May	94.77	106.31	80.03	79.54	85.03	99.67	90.86	89.85
Jun	90.73	65.44	71.73	80.42	86.92	88.21	90.18	86.68
Jul	90.11	37.80	70.64	84.77	85.84	84.39	95.55	
Aug	92.43	39.02	66.69	85.03	85.23	86.52	96.71	
Sep	94.57	73.09	78.39	85.19	86.01	84.36	93.42	
Oct	97.23	79.07	79.12	86.57	85.69	78.55	93.36	
Nov	101.69	80.45	79.18	91.98	84.97	79.46	95.16	
Dec	105.05	82.06	85.32	96.42	85.68	84.33	87.69	
Annual	98.88	84.28	78.40	85.62	89.60	88.56	90.07	

Source: Statistics Canada.



Source: Statistics Canada.



Source: Statistics Canada.

Confirmed Cases of BSE

In May 2009, Canadian Food Inspection Agency (CFIA) confirmed bovine spongiform encephalopathy (BSE) in an 80-month-old dairy cow from Alberta. No part of the animal's carcass entered the human food or animal feed systems. The animal's birth farm has been identified, and an investigation is underway. The age and location of the infected animal are consistent with previous cases detected in Canada. In November 2008 CFIA confirmed a case of BSE in a seven year old dairy cow from British Columbia. These were the 15th and 16th cases detected since 2003 through the national BSE surveillance program. No part of the animal's carcass entered the human food or animal feed systems. These cases were detected through the national BSE surveillance program, which continues to play an important role in Canada's strategy to manage BSE.

Consumption:

Beef and Veal Consumption

Domestic per-capita beef consumption is expected to rebound moderately by late 2010 prompted by the economic recovery and soft prices. Total consumption is forecast at 1.09 MMT in 2010. Beef has been the favored red-meat for consumption given some effect of H1N1 on consumer perceptions of pork although lower pork prices coupled with shoppers seeking increased value puts downward pressure on beef prices. Total CY 2009 consumption forecast to rise 2 percent, or 31.0 kilograms carcass weight basis per capita.

In 2008, per capita beef consumption declined to 30.32 kilograms carcass weight basis, a 4.7 percent decrease from 31.68 kilograms in 2007 and the fifth decrease in six years.

Beef consumption increased moderately in 2003 after the BSE-related market disruption resulted in additional beef supplies on the Canadian market at reduced prices.

Detections of 16 BSE cases in Canada have not caused great concern among Canadian consumers who have shown a high degree of confidence in the country's food inspection system. Canada's cattle industry and Canadian food safety officials have been successful in reassuring beef consumers that the human health risk associated with BSE is extremely small and that Canada's feed ban policies and BSE surveillance program help mitigate the health risk to the food supply.

Canadian Per Capita Beef & Veal Consumption								
Units: kg per person; carcass weight								
Year	2003	2004	2005	2006	2007	2008	2009*	2010*
							forecast	projection
kg	33.58	32.03	31.12	30.81	31.68	30.32	31.00	31.70
Source: StatsCan & Post Forecast								

Trade:

Cattle Trade

Feeder cattle exports are forecast to flatten out in 2010 following a considerable decrease projected for 2009 due to reduced demand from U.S. feedlots and a Canadian dollar that has strengthened over the first half of 2009. In 2008 Canadian feeder cattle exports were supported by a smaller U.S. calf crop and strong demand from U.S. feedlots during the first half of the year. However, by the second half of 2008, U.S. finishing operations and packers reduced purchases of Canadian cattle. The reduction coincided with COOL implementation and followed a 13 percent increase in live cattle exports to the United States; live exports are on pace for a 30 percent decrease in 2009 to 1.12 million head.

Canadian imports of live cattle are projected in 2009 and 2010 to continue grow modestly if the Canadian dollar remains strong. A forecast of 50,000 head for 2009 and 60,000 head for 2010 remains well below the peak in 2000 of over 350,000 head.

Beef and Veal Imports

Canadian total beef and veal imports are expected to rise in 2010 to 290,000 MT as attributed to the growing strength of the Canadian dollar and ample availability from overseas suppliers. Canada has seen increased imports of beef from Australia and New Zealand during the January – June 2009 period with supplies from those countries rising 93 percent and 69 percent, respectively, compared to the same period of 2008. Nearly all beef imports from Oceania are frozen, with New Zealand consistently taking 50 percent share in that market sector.

As the value of the Canadian dollar strengthened into the summer, total Canadian imports of beef and veal, carcass weight basis, advanced strongly during the first six months of 2009, and are expected to reach an estimated 270,000 MT for the year, well above the 2008 level of 230,000 MT.

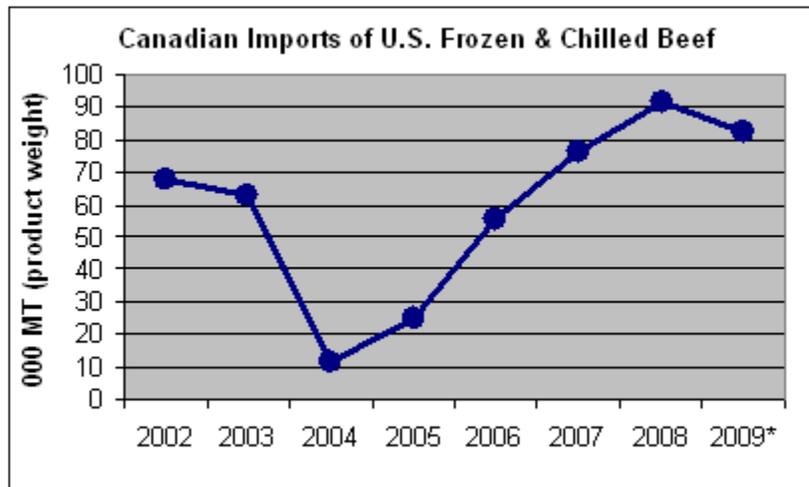
Imports of beef from the United States are expected to rebound modestly in 2010 due to higher disposable income for high-end fresh beef and a rebound in the food service sector, as well as a stronger Canadian dollar. Canada imported 40,747 MT of fresh beef in the January – June period, with the United States supplying 96 percent. Canada remains an attractive value for U.S. exporters with a stronger Canadian dollar and strong demand for high-end cuts. Beef and veal import data on the accompanying PS&D are comprised of fresh and frozen beef and veal and prepared and/or preserved beef and veal, converted to carcass weight equivalents.

Imports from the United States declined 8 percent in the first half of 2009 in part due to reduced demand from the high end restaurant trade. However, the trade is picking up with the stronger Canadian dollar and slow economic recovery. In the first six months of 2009, total imports of beef from the United States reached 78,101 MT CWE, on pace to reach approximately 150,000 MT CWE for the year.

Until 2008, Canadian imports of beef from the United States, comprised roughly of 75 percent fresh and frozen and 25 percent prepared (i.e., luncheon meats, sausage, other prepared beef) had risen steadily in the post-BSE era for a number of reasons. Stronger demand for U.S. beef in Canada was related to the changes in the slaughter and beef marketing pattern in Canada that was profoundly disrupted by BSE. Also, the stronger Canadian dollar increased the purchasing power of Canada's HRI sector, which appreciates high quality U.S. beef (especially the higher end restaurant and hotels in Ontario).

Canada operates a tariff rate quota (TRQ) on beef but it does not apply to imports from the United States, Mexico, and Chile under free trade agreement provisions. The global minimum access commitment for beef and veal is 76,409 MT within which there are two country-specific reserves: 29,600 MT reserved for imports from New Zealand and 35,000 MT reserved for imports from Australia. The balance of the TRQ, 11,809 MT (known as the MFN reserve), is reserved for imports from all other eligible suppliers, including those from New Zealand and Australia once their country-specific allocations are filled. Beef imported in excess of the minimum access commitment incur the higher "over access commitment" rate of 26.5 percent. For the purpose of administering the beef and veal TRQ, the quota year is the calendar year. Following the detection of BSE in Alberta in 2003, the Government of Canada moved to restrict the issuances of supplementary beef imports from non-NAFTA suppliers because of beef surpluses in Canada. As a result, imports from these suppliers have been lower since that time.

Canada Total Beef Imports						
Quantity in Metric Tons, CWE				Jan - Jun		% chng
	2006	2007	2008	2008	2009	- 09/08 -
World	179,567	241,859	230,387	117,031	135,439	15.73
United States	113,482	147,092	171,390	84,841	78,101	-7.95
New Zealand	36,778	36,043	30,980	17,862	30,121	68.63
Australia	13,897	16,349	13,173	4,527	8,726	92.77
Uruguay	9,923	31,900	6,832	6,224	15,866	154.93
Brazil	3,715	8,635	5,864	2,923	2,090	-28.49
Import Market shares						
United States	63%	61%	74%	72%	58%	
New Zealand	20%	15%	13%	15%	22%	
Australia	8%	7%	6%	4%	6%	
Uruguay	6%	13%	3%	5%	12%	
Brazil	2%	4%	3%	2%	2%	
Source: World Trade Atlas						



Source: Derived from World Trade Atlas. *Post Forecast



Source: Derived from World Trade Atlas. *Post Forecast.

Beef and Veal Exports

Total Canadian beef and veal exports are projected to increase in 2010 to 490,000 MT due to a low U.S. herd size and further re-opening of global markets. Exports may be restricted by a higher-value Canadian dollar reflecting relatively high prices of Canadian beef in the United States as three-quarters of Canadian beef exports are fresh or chilled cuts shipped to the U.S. market and the exchange-rate acting as major determinant of exports. Any increase in Canadian beef exports is most likely to come from Canadian efforts to regain access to lost international beef markets rather than from increased exports to the United States. For 2010, an increase of beef exports to Hong Kong is projected following the loosening of restrictions on Canadian beef in that market. Greater shipments to other Asian destinations such as Taiwan and Japan may be the result of ongoing market-access negotiations.

Total Canadian beef exports have not recovered to their pre-BSE level and Canadian shipments are down 6 percent during the January – June 2009 period as compared to the same period one year earlier. The decline of Canadian beef export trade since BSE has been shared relatively equally between lower exports to the United States and to the rest of the world. The U.S. share of total Canadian beef exports has remained relatively constant, 81.5 percent during 2008 versus 82.7 percent of total in 2002. Among former major destinations that currently accept Canadian beef, Japan has proven to be the slowest export market to recover. Despite a 50 percent increase between CY 2007 and CY2008 Canadian beef exports to Japan in 2008 were only one-quarter of their pre-BSE peak reflecting increased competition and the stronger Canadian dollar. As of the first six months of 2009 however, Canadian exports to Japan had increased 37 percent over the same period a year earlier.

Other significant increases indicating an aggressive approach to opening markets include Canadian exports to Hong Kong and Taiwan, with significant increases to both during first six months of 2009 over the same period of 2008. As market access to other

countries increases, the proportion of exports going to the United States is expected to decrease.

In 2008, Canadian fresh and frozen beef and veal exports totaled 493,819 MT CWE, up 8 percent from 2007 but still 25 percent below the 647,067 MT CWE exported during 2002, the last full calendar year of beef trade unaffected by the first detection of BSE in Canada in May 2003.

Although Canada was categorized by the World Organization for Animal Health (OIE) in May 2007 as a Controlled Risk Country for BSE, many trading partners continue to maintain partial or complete bans on Canadian beef, mostly notably, South Korea which was the fourth most important export market for Canadian beef in 2002. See the following section on policy for further information.

Canada Fresh and Frozen Beef Exports				Jan - Jun	
Quantity in Metric Tons, CWE					
Country	2006	2007	2008	2008	2009
-- The World --	476,565	457,468	493,819	246,146	231,267
United States	405,291	380,946	402,459	202,147	192,717
Mexico	45,637	47,361	48,489	25,598	21,239
Hong Kong	11,118	10,973	10,048	4,508	5,389
Philippines	348	367	8,364	3,899	1,518
Macau	7,937	8,208	7,372	4,041	2,002
Japan	3,062	4,609	6,905	1,837	2,527
Taiwan	-	569	1,907	1,055	1,763
Cuba	370	117	1,493	307	202
Other	2,803	4,318	6,783	2,755	3,911

Policy:

Country of Origin Labeling (COOL)

Canada initially requested World Trade Organization (WTO) dispute settlement consultations with the United States on COOL in December 2008, arguing the measures were creating undue trade restrictions, to the detriment of Canadian cattle and hog exporters. At that time the interim rule was in effect.

The final rule to implement COOL was published in the U.S. Federal Register on January 15, 2009. On February 20, 2009, the U.S. Secretary of Agriculture issued an open letter to the U.S. industry, encouraging the use of stricter and broader labeling practices.

According to Canadian industry, the rule and proposed requirements will only add to the challenges they are already experiencing. They have observed that some U.S. processors are choosing not to buy Canadian animals, or are buying at reduced prices. With fewer U.S. plants accepting Canadian cattle and on fewer days, bidders on Canadian cattle at

feedlot and slaughter levels have been reduced. This has also increased transportation costs as cattle must be hauled longer distances, putting downward pressure on prices. It is estimated, for example, that the Alberta to Nebraska cash to cash basis has widened \$3-5/cwt.

On May 7, 2009, the Government of Canada requested further consultations on COOL which were held in June. As of the end of August 2009 Canada has not taken the next step of requesting a WTO dispute resolution panel in the WTO dispute settlement process.

Hong Kong and Jordan Lifts Bans on Canadian Beef, WTO Dispute Filed Questioning South Korea Requirements

In January of 2009, it was announced that an agreement had been reached with Hong Kong to expand exports for Canadian beef. After Canadian exporters demonstrate that they meet Hong Kong requirements, the market will reportedly be open to all commercially-significant Canadian beef exports although not at full compliance with the OIE guidelines. The first phase of the agreement allowed access to the Hong Kong market for most bone-in products from cattle under 30 months of age and has expanded since then. As successful shipments proceed allowable exports should be expanded to include products from all cattle under 30 months and rib cuts, boneless beef and offal from all Canadian cattle.

Hong Kong was not a major market for Canadian beef until 2005. Following the detection on bovine spongiform encephalopathy (BSE) in Canada in May 2003, Hong Kong instituted an import ban but lifted it about 18 months later for Canadian boneless beef from animals under thirty months of age. By 2005, Hong Kong was the third most important export market for Canadian beef and retains that ranking today. For the January – June period of 2009, Hong Kong had imported over 3,800 MT of Canadian beef valued at over \$C14 million. The Canadian Beef Export Federation (CBEF) estimated the potential value of the Hong Kong Market to be C\$40 – 50 million.

Canadian beef producers were hopeful that regained U.S. access to South Korea's beef market would bode well for Canada, however, the optimism faded and negotiations between Canada and South Korea stalled. On April 9, 2009, Canada requested WTO consultations with South Korea on the beef import regime. The consultations, held on May 7, did not resolve the issue. On July 9, 2009, Canada announced that it is requesting the establishment of a WTO dispute settlement panel. The WTO panel will be asked to determine whether South Korea's continuing ban on Canadian beef is consistent with its international trade obligations under the WTO. It is Canada's view that South Korea's continuing ban is a violation of its WTO obligations in that the ban is not based on the relevant international standards or on science, and that it is discriminatory and restricts trade more than necessary.

In February of 2009, Jordan reopened its market to Canadian beef. The Canadian Beef Export Federation (CBEF) states that the recent Canada – Jordan FTA will provide advantages to exporters in Jordan, a market estimated to be worth \$1 million.

Production, Supply and Demand Data Statistics:

Animal Numbers, Cattle Canada	2008		2009		2010	
	Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
	USDA Official Data	New Post Data	USDA Official Data	New Post Estimate	USDA Official Data	New Post Forecast
	(all data in 1,000 head)					
Total Cattle Beg. Stks	13,895	13,895	13,180	13,180		12,820
Dairy Cows Beg. Stocks	984	984	978	978		975
Beef Cows Beg. Stocks	4,982	4,982	4,655	4,655		4,550
Production (Calf Crop)	5,300	5,300	5,100	5,140		5,050
Intra-EU Imports	0	0	0	0		0
Other Imports	49	49	40	50		60
Total Imports	49	49	40	50		60
Total Supply	19,244	19,244	18,320	18,370		17,930
Intra EU Exports	0	0	0	0		0
Other Exports	1,598	1,598	1,150	1,120		1,150
Total Exports	1,598	1,598	1,150	1,120		1,150
Cow Slaughter	780	780	700	650		575
Calf Slaughter	338	338	335	330		330
Other Slaughter	2,727	2,727	2,965	2,900		2,800
Total Slaughter	3,845	3,845	4,000	3,880		3,705
Loss	621	621	550	550		550
Ending Inventories	13,180	13,180	12,620	12,820		12,525
Total Distribution	19,244	19,244	18,320	18,370		17,930

Meat, Beef and Veal Canada	2008		2009		2010	
	Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
	USDA Official Data	New Post Data	USDA Official Data	New Post Estimate	USDA Official Data	New Post Forecast
	(slaughter in 1,000 head, all other data in 1,000 MT CWE)					
Slaughter (Reference)	3,845	3,845	4,000	3,880		3,705
Beginning Stocks	45	45	35	35		50
Production	1,285	1,285	1,340	1,300		1,275
Intra-EU Imports	0	0	0	0		0
Other Imports	230	230	235	270		290
Total Imports	230	230	235	270		290
Total Supply	1,560	1,560	1,610	1,605		1,615
Intra EU Exports	0	0	0	0		0
Other Exports	494	494	525	475		490
Total Exports	494	494	525	475		490
Human Dom. Consumption	1,031	1,031	1,050	1,080		1,090
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	1,031	1,031	1,050	1,080		1,090
Ending Stocks	35	35	35	50		35
Total Distribution	1,560	1,560	1,610	1,605		1,615

Commodities:

Animal Numbers, Swine
Meat, Swine

Production:

Strong Hog Inventory and Production Declines Continue

The Canadian hog herd is projected to continue its decline into 2010 (11.5 million head) as the industry faces the third consecutive year of low returns. The government is again poised to assist in restructuring which will likely encourage additional hog farmers to leave the industry. This follows a record herd decline of 12 percent during CY 2008, and further declines are projected in 2009 and into 2010. Hog farmers are expecting to lose C\$45–55 per hog in 2009 according to Canadian Pork Council (CPC).

Total domestic hog slaughter is projected to peak at 22.4 million head in 2009 and decline in 2010 as the industry adjusts to the lower overall. The increase for slaughter and pork production in 2009 is attributed to more weanlings being fed to slaughter in Canada rather than exported for finishing to the United States. Finishing operations in the United States have been discouraged from importing Canadian live hogs without a discount as attributed to increasing segregation, and/or accounting costs required under the U.S. country of origin labeling (COOL). Manitoba's industry has been worst hit due to its level of production of weanlings normally exported to United States feeding operations. Reportedly, some producers have lost most or all of their usual customers and are now competing for space in Canadian finishing facilities. Slaughter hog exporters are competing for space among Canada's remaining packers.

According to Statistics Canada, the Canadian hog industry continued its transition during the second quarter of 2009 and farmers reported 12.1 million hogs on their farms as of July 1, a decline of nearly 7 percent from one year earlier and a cumulative decline of 20 percent from the herd peak size of 15.1 million in 2006.

With high feed costs, an ongoing recession and low pork prices, Canadian hog industry leaders report this as the worst financial crisis the industry has witnessed. This is exacerbated by continuing strength of the Canadian dollar. A Government of Canada (GOC) recovery plan announced in August of 2009 will aim to support viable hog operations through loans while helping non-viable operations transition out of the industry. The plan is valued at C\$92million.



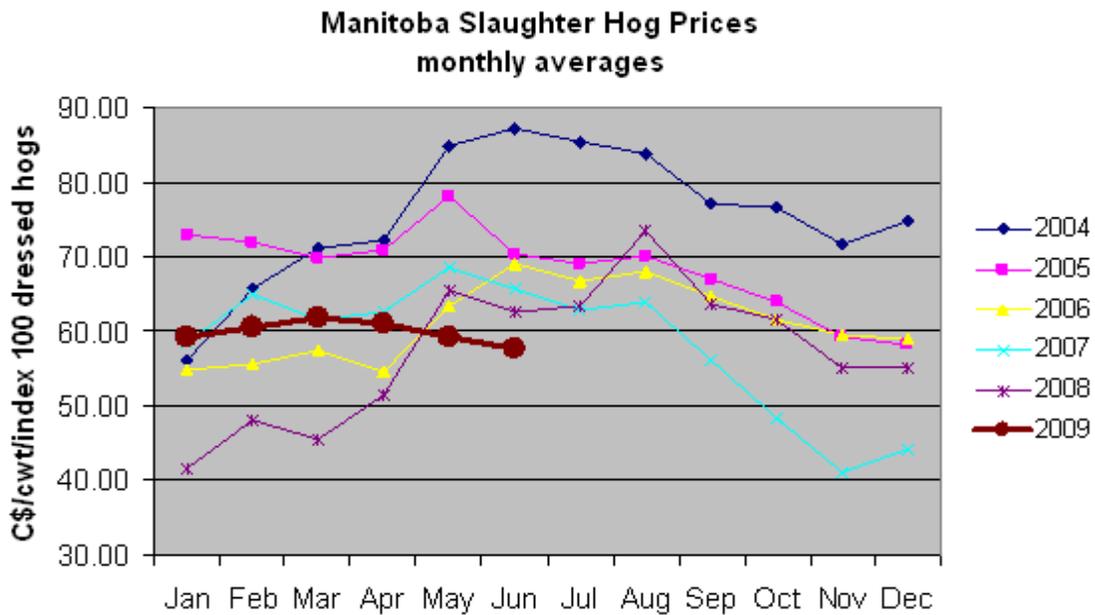
Source: Statistics Canada. *Post forecast and projection.

Hog Market Prices

Hog prices are expected to remain relatively stable with weakening negative perceptions regarding H1N1, and are projected for an eventual moderate increase in late 2010 depending on how quickly the industry can begin restructuring and reduce total herd size. There appears to have been some recovery in prices with early 2009 levels higher than those one year earlier, however, beginning in May, prices had again fallen below levels of the previous year.

Manitoba Slaughter Hog Prices						
monthly averages						
C\$/cwt/index 100 dressed hogs						
	2004	2005	2006	2007	2008	2009
Jan	56.25	72.89	54.83	58.55	41.70	59.28
Feb	65.77	71.96	55.62	64.83	48.02	60.43
Mar	71.21	69.84	57.38	61.52	45.56	61.82
Apr	72.12	70.94	54.64	52.67	51.40	60.93
May	84.82	78.23	63.24	68.64	65.36	59.34
Jun	87.09	70.45	69.03	65.63	62.51	57.56
Jul	85.28	68.99	66.78	62.75	63.42	
Aug	83.91	69.98	68.00	63.92	73.47	
Sep	77.11	66.88	64.58	56.10	63.68	
Oct	76.66	63.98	51.58	48.35	61.56	
Nov	71.67	59.21	59.40	41.00	55.07	
Dec	74.84	58.29	59.04	44.27	54.98	
Annual	75.75	68.47	61.18	58.18	57.23	

Source: Statistics Canada.



Source: Statistics Canada.



Source: Statistics Canada.

Consumption:

Domestic pork per-capita-consumption is projected to remain relatively flat in 2009 and 2010 at about 23 kg. Low consumer prices should counter concerns caused by the mislabeling of H1N1 and the recession. However, per capita consumption at the 23 kg is a level not seen in the Canadian market in 15 years. According to Statistics Canada, per capita pork consumption in 2008 declined 4.8 percent from the year earlier level and has

fallen below the 2005 low. Some of the longer-term factors behind declining pork consumption during that period include 1) Relatively strong retail prices during a period when BSE-related issues boosted Canadian beef supplies, 2) Consumer perception the the preparation of pork based meals at home is lengthy compared to other meats; 3) Pork’s limited success to capitalize on foodservice market gains shared by other meats and fish; and, 4) Lack of perception that pork is a “healthy” meat.

Canada Per Capita Pork Consumption										
Units: kilograms (carcass weight basis)										
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
28.69	28.94	27.83	25.07	26.6	22.98	23.33	24.68	23.51	22.9	23.2

* post estimate

Trade:

Hog Trade

Live hog imports are projected to increase through 2010 but total numbers remain well under 5,000 head. Live swine imports increased 33 percent during the January to June period of 2009 to 1,403 head.

Fewer hogs on Canadian farms are expected to result in lower exports of live hogs to the United States in though 2009 and continuing into 2010. Based on January to June 2009 data, post estimates that Canadian live hog exports to the United States may fall nearly 40 percent during 2009 translating into a one year decline of over 3.0 million head.

Reasons for the sudden decline live hog exports to the U.S. market include a relative price increase due to the strength of the Canadian dollar, relatively low hog and pork prices in the United States, record U.S. pork stocks, and changes in labeling requirements.

Pork Imports

Canadian pork imports are projected to follow the longer term trend and increase to 200,000 MT in 2010 with a strengthening Canadian dollar and higher demand for high quality fresh cuts from the United States. Pork imports have declined nearly 9 percent during the January – June period of 2009 due to overall weaker demand for pork and continuing strong domestic slaughter numbers resulting in growing domestic supply but are expected to rebound in 2010.

Following a strong 14 percent increase in 2008, U.S. pork sales to Canada during the first six months of 2009 have declined over 10 percent. Canadian pork imports had 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. Reportedly sourcing practices by big box stores such as Costco has also pulled U.S. pork into Canada. Nearly three-quarters of pork imported from the United States was destined for Ontario in CY2008.

Total Canadian pork imports in 2008 reached 194,494 MT (CWE), 13.7 percent above the year earlier level of 170,984 MT. Minor suppliers include Denmark, Chile, and Italy.

Canada: Pork Imports						
MT - carcass weight basis						
Country	2006	2007	2008	January - June		% change
				2008	2009	
-- The World --	145,452	170,984	194,494	90,057	81,971	-8.98
United States	137,490	164,483	186,898	88,655	79,736	-10.06
Denmark	3,493	1,272	3,008	24	1	-96.56
Chile	2,991	2,197	2,510	742	1,817	144.98
Italy	670	627	927	492	284	-42.21
Finland	227	377	652	-	-	0
Netherlands	65	1,705	155	-	-	0
Others	516	323	344	145	133	

Source: derived from World Trade Atlas.

Pork Exports

Canadian pork exports are expected to remain stable in 2010 at about 1.13 MMT with expanded non-U.S. opportunities in overseas growth markets spurred by lower prices but restricted by an increase in the value of the Canadian dollar. Total pork exports from Canada have nearly doubled over the last 10 years with the opening of new markets and increasing export volumes namely to Japan, South Korea and Hong Kong. Newer growth markets include Australia and Taiwan, with exports of Canadian pork to those markets having increased 49 percent and 23 percent respectively during the first six months of 2009 as compared to the same period one year earlier. Working to support increased exports are the low prices, reopening of the Russian market and overall economic recovery.

Continued weak U.S. demand for imported pork will pressure Canadian pork exporters to continue increasing sales overseas in order to maintain total exports at the 2008 level. Over the first six months of 2009 exports to the United States increased 2 percent from the same period one year earlier. Exports to South Korea increased 9.1 percent while shipments to Russia over the six month period have declined over 17 percent due in part to a short term ban on certain pork products from Quebec and Ontario related to the H1N1 flu. On July 17, 2009, the GOC announced that Russia had agreed to lift all remaining restrictions on pork products which should result in increased exports.

Total CY2008 exports increased 9.2 percent to reach a record 1,128,619 MT CWE. Much of the increase was due to a 65 percent increase in exports to Russia, to reach 109,838 MT prior to the placement of recent restrictions and a 568 percent increase in shipments to Hong Kong which reached a level of 45,259 MT.

Canada: Pork Exports						
MT - carcass weight basis			January - June			
	2006	2007	2008	2008	2009	% Change
-- The World --	1,081,214	1,032,787	1,128,619	542,079	536,354	-1.1
United States	448,575	432,879	362,890	177,036	180,866	2.2
Japan	244,994	250,968	262,298	128,902	129,112	0.2
Russia	83,145	86,211	142,790	40,734	33,734	-17.2
Korea, South	74,507	66,724	64,887	33,967	37,051	9.1
Hong Kong	4,755	8,799	58,837	39,467	18,921	-52.1
Australia	48,388	52,434	45,959	22,070	32,935	49.2
Philippines	7,769	11,316	32,356	19,056	19,087	0.2
Mexico	37,808	37,226	29,549	14,825	10,963	-26.0
China	20,631	22,849	23,142	15,084	12,399	-17.8
Taiwan	6,578	6,307	17,138	8,825	10,891	23.4
Others	104,065	57,076	88,773	42,112	50,396	
Source: derived from the World Trade Atlas						

Policy:

Country of Origin Labeling (COOL)

Canada initially requested World Trade Organization (WTO) dispute settlement consultations with the United States on COOL in December 2008, arguing the measures were creating undue trade restrictions, to the detriment of Canadian cattle and hog exporters. At that time the interim rule was in effect.

The final rule to implement COOL was published in the U.S. Federal Register on January 15, 2009. On February 20, 2009, the U.S. Secretary of Agriculture issued an open letter to the U.S. industry, encouraging the use of stricter and broader labeling practices. According to Canadian industry, the rule and proposed requirements will only add to the challenges they are already experiencing. They have observed that some U.S. processors are choosing not to buy Canadian animals, or are buying at reduced prices. Prior to the COOL many hog operations were integrated across the boarder with weanlings exported from Canada to be fed in the United States.

On May 7, 2009, the Government of Canada requested further consultations on COOL which were held in June. As of the end of August 2009 Canada has not taken the next step of requesting a WTO dispute resolution panel in the WTO dispute settlement process.

Response to Hog Industry Financial Crisis

With the industry still struggling in 2009, the Canadian Pork Council (CPC) submitted a proposal to GOC for \$800-million per year in aid with low prices and still-restrictive export markets due to H1N1. There within, farmers had requested loans equivalent to \$30 per hog or the approximate difference between costs and revenue per animal. According to CPC, as a result of a relatively strong Canadian dollar, high feed costs and consumer perceptions about H1N1 which reduce demand, Canada's hog industry is losing approximately C\$3.4 million per day.

In response to the CPC proposal, on August 15, 2009 GOC announced a C\$92 million restructuring plan which will aim to invest in marketing activities to create increased export demand for Canadian pork, provide longer term commercial credit to assist viable operations through the industry crisis and assist struggling operations to transition out of the industry.

Under the restructuring program, marketing activities will be concentrated on international markets with C\$17 million over four years from market research, promotion and access initiatives to find/expand new markets for Canadian pork. The government's partner for this component will be Canadian Pork International which is charged with developing proposals and assuring industry matching funds. Long term commercial loans at market rates will be offered to viable operations for restructuring. For this component the GOC will work with commercial lending companies. Under the third component of the program C\$75 million will be allotted for a transition program under which producers will tender bids for the amount of funding needed to cease hog production for at least three years. The Canadian Pork Council is to work with the government to develop this part of the program. The actual specifications/requirements/approvals of the program are to be developed over a few months after the August 2009 announcement. Available details and future updates are available from the Agriculture and Agri-Food Canada (AAFC) website:

http://www.agr.gc.ca/cb/index_e.php

The program follows the sow cull program begun in early 2008. The goal of the C\$50 million program was to reduce sow numbers by 10 percent. Indications are that the program succeeded in culling approximately 7-8 percent of the swine breeding herd by the fall of 2008.

According to the CPC, the path to successfully restructuring the hog industry requires increased disappearance of Canadian pork totaling 730,000 tons, an increase of 150,000 tons over 2008; exports of 4 million live hogs to the United States or 5.3 million fewer than 2008; total pork exports of 1 million tons, 20 percent of which will be to the United States; total domestic slaughter of 21.5 million head, 0.2 million fewer than 2008; a reduction in total production from 31 million in 2008 to 25.5 million pigs; and an increase of domestic market share to 88 percent compared to 75 percent in 2008.

Production, Supply and Demand Data Statistics:

Animal Numbers, Swine Canada	2008		2009		2010	
	Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
	USDA Official Data	New Post Data	USDA Official Data	New Post Estimate	USDA Official Data	New Post Forecast
	(all data in 1,000 head)					
Total Beginning Stocks	13,810	13,810	12,400	12,181		11,483
Sow Beginning Stocks	1,483	1,483	1,381	1,371		1,270
Production (Pig Crop)	31,249	31,068	29,800	29,400		28,000
Intra-EU Imports	0	0	0	0		0
Other Imports	2	3	1	2		2
Total Imports	2	3	1	2		2
Total Supply	45,061	44,881	42,201	41,583		39,485
Intra EU Exports	0	0	0	0		0
Other Exports	9,357	9,357	7,000	6,200		6,200
Total Exports	9,357	9,357	7,000	6,200		6,200
Sow Slaughter	0	0	0	0		0
Other Slaughter	21,694	21,691	22,100	22,400		21,700
Total Slaughter	21,694	21,691	22,100	22,400		21,700
Loss	1,610	1,652	1,401	1,500		1,500
Ending Inventories	12,400	12,181	11,700	11,483		10,085
Total Distribution	45,061	44,881	42,201	41,583		39,485

Meat, Swine Canada	2008		2009		2010	
	Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
	USDA Official Data	New Post Data	USDA Official Data	New Post Estimate	USDA Official Data	New Post Forecast
	(slaughter in 1,000 head, all other date in 1,000 MT CWE)					
Slaughter (Reference)	21,694	21,691	22,100	22,400		21,700
Beginning Stocks	57	57	50	55		55
Production	1,920	1,941	1,960	1,990		1,950
Intra-EU Imports	0	0	0	0		0
Other Imports	195	193	205	170		200
Total Imports	195	193	205	170		200
Total Supply	2,172	2,191	2,215	2,215		2,205
Intra EU Exports	0	0	0	0		0
Other Exports	1,129	1,128	1,150	1,130		1,125
Total Exports	1,129	1,128	1,150	1,130		1,125
Human Dom. Consumption	798	813	820	830		840
Other Use, Losses	195	195	195	200		190
Total Dom. Consumption	993	1,008	1,015	1,030		1,030
Ending Stocks	50	55	50	55		50
Total Distribution	2,172	2,191	2,215	2,215		2,205