

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Report Highlights:

The erosion of Canada's feed cost advantage, the closure of a cow cull plant and developments at a major beef packer will significantly drive cattle exports up. Slaughter and beef production will likely reach lowest levels in 15 years, as will beef exports. The hog sector weathered high feed costs better than expected. Hog exports are revised higher, and so are pork production and exports

Due to exceptional circumstances, Statistics Canada decided to postpone its release of Cattle and Hog Statistics by two weeks. The new release day is March 6, 2013. Therefore, a number of indicators in this report, such as inventories or slaughter, remain as estimates, whereas normally we would have reported official data. Readers are encouraged to check Statistics Canada [website](#) after March 6, 2013 to get the most recent official data.

In 2011, Canada conducted an Agricultural Census. Data from this census is now incorporated into official livestock statistics. Readers are urged to use caution when comparing indicators included in recent reports (and based on new census data) with the same indicators included in older reports (based on data prior to census). The two sets of data are statistically different and therefore not directly comparable.

The temporary closure of the XL Foods slaughter plant in the fall of 2012 (following an *E. coli* outbreak) had a significant impact on cattle trade and beef production and trade. Readers should be aware that 2012 increases in cattle exports and beef imports, and decreases in cattle slaughter and beef exports can be attributed, to a great extent, to the temporary closure of that plant.

CATTLE AND BEEF

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

CANADA Animal Numbers CATTLE ('000 head)	2011		2012		2013	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Forecast
Total Cattle Beg. Stks	12,155	12,155	12,215	12,215	12,545	12,380
Dairy Cows Beg. Stocks	966	966	959	959	955	955
Beef Cows Beg. Stocks	4,046	4,046	3,998	3,998	4,020	4,020
Production (Calf Crop)	4,599	4,599	4,509	4,509	4,530	4,475
Total Imports	73	73	65	56	65	55
Total Supply	16,827	16,827	16,789	16,780	17,140	16,910
Total Exports	696	696	725	825	700	875
Cow Slaughter	535	535	490	450	465	400
Calf Slaughter	293	293	275	275	275	275
Other Slaughter	2,563	2,563	2,235	2,325	2,245	2,225
Total Slaughter	3,391	3,391	3,000	3,050	2,985	2,900
Loss	525	525	519	525	505	525
Ending Inventories	12,215	12,215	12,545	12,380	12,950	12,610
Total Distribution	16,827	16,827	16,789	16,780	17,140	16,910

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

CANADA Meat BEEF and VEAL	2011		2012		2013	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Forecast
Slaughter (Reference)	3,391	3,391	3,000	3,050	2,985	2,900
Beginning Stocks	30	30	31	31	30	60
Production	1,154	1,154	1,060	1,075	1,055	1,025
Total Imports	282	282	285	301	290	315
Total Supply	1,466	1,466	1,376	1,407	1,375	1,400
Total Exports	426	426	395	335	415	340
Total Dom. Consumption	1,009	1,009	951	1,012	930	1,015
Ending Stocks	31	31	30	60	30	45
Total Distribution	1,466	1,466	1,376	1,407	1,375	1,400

In this report, Post's revised data differ from most of the official USDA cattle and beef estimates for 2013, in order to reflect various changes in market conditions observed over the past six months. Some of the major factors that triggered these forecast revisions include: the continued impact of the changes that took place at the XL Foods beef plant in Brooks, Alberta, following the detection of *E. coli* O157:H7 back in September 2012; a revision in calf crop estimates for 2013; the continued erosion of the feed cost advantage that Canada enjoyed over the past couple of years.

Discussions with the Canadian cattle sector led Post to revise downward the 2013 calf crop estimate to 4,475,000 head. This number is 55,000 head lower than the official USDA estimate. There are

suspicions that, despite the 2011 agriculture census, Statistics Canada calf production estimates remain somewhat overvalued. The new post revision brings this indicator more in line with the beef cow productivity levels observed over the past several years.

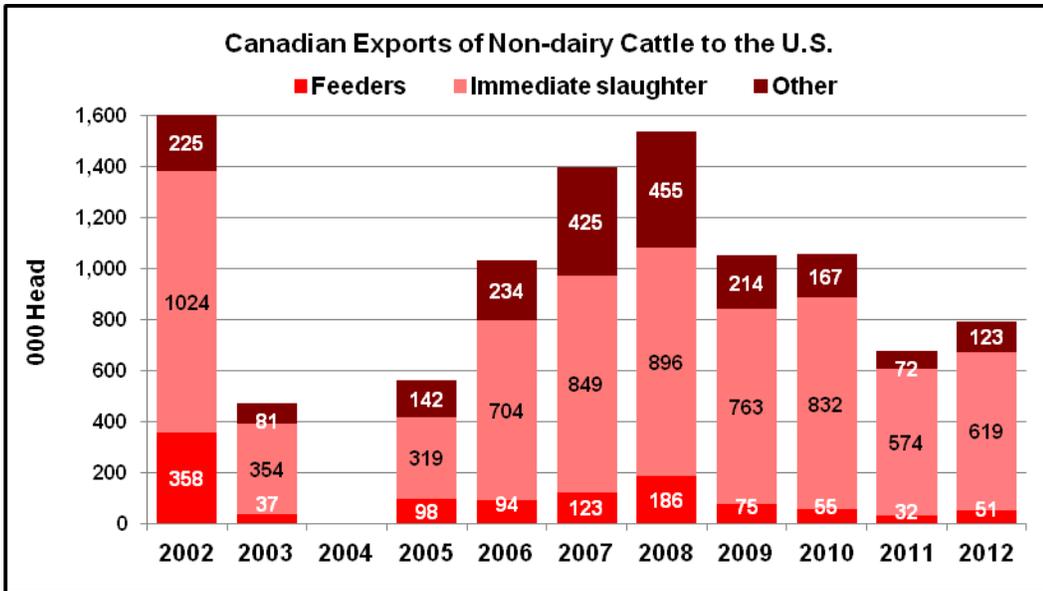
Post revised upward total cattle exports to 875,000 head, 175,000 head higher than the official USDA estimate. Several factors are at the basis of this revised forecast.

First, the sector continues to feel the impact of the *E. coli* outbreak at the XL Foods beef plant. This plant is responsible for roughly one-third of the total Canadian slaughter. Its license to operate was temporarily suspended by the Canadian Food Inspection Agency (CFIA) on September 27, 2012. The plant was allowed to resume operations on October 23, under enhanced CFIA oversight. The enhanced oversight lasted until January 14, 2013, when the plant resumed operations under normal CFIA oversight. Here is the complete [timeline of events](#) for this *E. coli* outbreak. The plant was not allowed to export beef and beef products to the United States from September 13 to December 8, 2012.

During this period, the plant changed ownership: JBS is now the new owner of XL Foods. At the time of reporting, JBS has not aggressively procured Canadian cattle. At the same time, the company has a beef plant in northern Utah which also procures cattle from Canada. JBS's decisions in the coming months will impact on the number of cattle being exported to the United States. In addition, before the *E. coli* outbreak, XL Foods slaughtered bulls. Slaughter ceased in September 2012 when the plant's operations stopped. To date, no decision to resume the bull cull was made. As a consequence, Post estimates that in 2013 up to 25,000 bulls could be exported to the United States for slaughter.

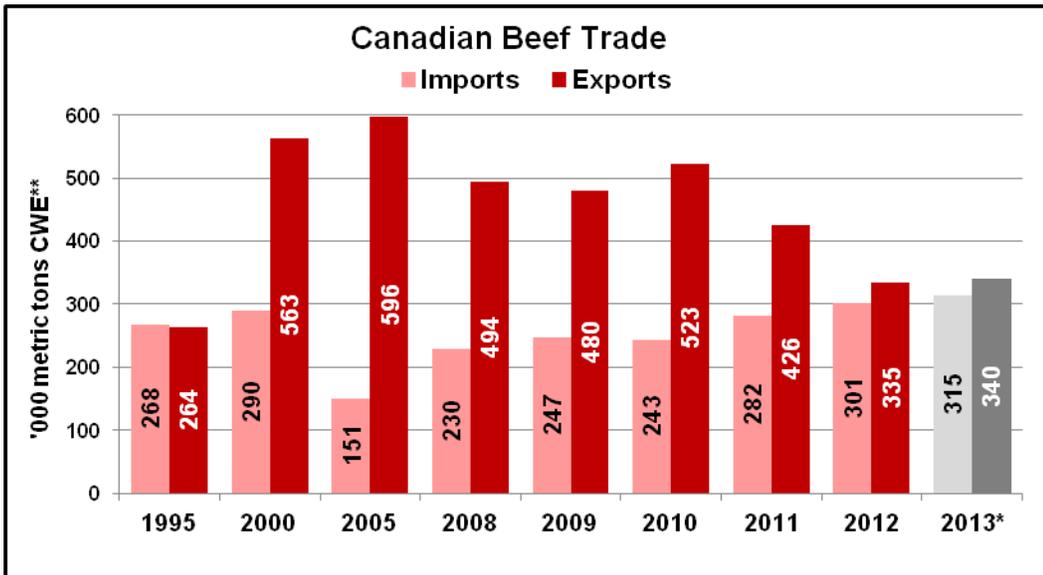
A second development, which impacts cattle exports in 2013, was the closure, in May 2012, of the Levinoff-Colbex beef cow slaughter facility at St.Cyrille-de-Wendover in Quebec. That plant processed most of the beef cows in eastern Canada. Post estimates that in 2013 up to 75,000 cows could be exported to the United States for slaughter because of this plant closure.

Finally, the driving force behind the increased cattle export estimate for 2013 is the erosion of the feed cost advantage that Canada enjoyed for the past couple years. Feed prices in Canada have slowly aligned to the feed price levels in the United States, and there are indications that crop producers are taking advantage of this by increasing feed exports. This trend, coupled with the expectation of a regular crop year in the United States will result in more cattle being exported south of the border for feeding and/or finishing. This category of cattle comprises the bulk of Post's revised cattle export figure for 2013.



Source: Global Trade Atlas

With fewer cattle available in the country, the slaughter forecast was revised downward by 85,000 head to 2,900,000 head. After experiencing an average increase of almost 30 pounds in 2012, carcass weights are expected to remain stable in 2013. With this assumption, and given lower slaughter, Post adjusted downward Canada's beef production by 30,000 MT to 1,025,000 MT. Beef supplies will remain very tight, and are likely to hit record low levels, possibly not seen in more than 15 years.



Source: Global Trade Atlas / *Post estimate

Given the beef production outlook presented above, trade will be impacted correspondingly. Post revised upward Canadian beef imports by 25,000 MT to 315,000 MT while, at the same time, revised downward beef exports by 75,000 MT to 340,000 MT. Japan will be a market with potential export gains, given the recent decisions to remove the 21 months age restriction for cattle and to allow imports of beef coming from cattle under 30 months of age. However, as the supplies of beef remain limited, increased exports to Japan will have to come from reduced exports to other markets.

CANADA: Total Beef Imports (Quantity in metric tons, CWE*)

	1995	2000	2005	2008	2009	2010	2011	2012
World	268,309	290,280	151,000	230,009	247,032	243,443	281,928	301,316
United States	146,221	128,553	60,360	171,226	163,796	175,237	220,438	228,607
New Zealand	60,192	29,602	42,265	30,866	42,146	31,576	34,351	29,514
Australia	56,038	55,268	11,395	13,173	16,955	11,794	13,608	21,422
Uruguay	157	34,493	27,144	6,832	16,803	15,734	8,492	15,677
Brazil	2,085	4,125	7,383	5,764	5,663	7,415	4,195	4,702
Argentina	3,439	38,168	2,315	2,061	1,603	1,625	824	1,309
All other countries	177	71	138	87	66	62	20	85

Import Market Shares

United States	54.5%	44.3%	40.0%	74.4%	66.3%	72.0%	78.2%	75.9%
New Zealand	22.4%	10.2%	28.0%	13.4%	17.1%	13.0%	12.2%	9.8%
Australia	20.9%	19.0%	7.5%	5.7%	6.9%	4.8%	4.8%	7.1%
Uruguay	0.1%	11.9%	18.0%	3.0%	6.8%	6.5%	3.0%	5.2%
Brazil	0.8%	1.4%	4.9%	2.5%	2.3%	3.0%	1.5%	1.6%

Source: Global Trade Atlas / *Conversion to carcass weight equivalent (CWE) at 1.4 for fresh, chilled and frozen meat, and at 1.79 for salted and processed meat

CANADA: Total Beef Exports (Quantity in metric tons, CWE*)

	1995	2000	2005	2008	2009	2010	2011	2012
World	263,682	563,090	596,307	493,819	480,321	523,073	425,915	335,257
United States	248,232	469,043	515,797	402,459	389,564	414,678	329,934	257,297
Mexico	197	43,712	57,125	48,489	48,063	49,437	34,609	23,233
Hong Kong	116	919	13,035	10,048	12,663	21,125	29,108	24,106
Japan	8,871	22,155	7	6,905	11,313	17,932	13,153	14,370
Russia	84	0	0	513	1,084	5,859	5,393	1,867
Taiwan	743	2,335	0	1,907	3,926	3,239	1,497	520
All other countries	5,439	24,926	10,343	23,498	13,708	10,803	12,221	13,864

Export Market Shares

United States	94.1%	83.3%	86.5%	81.5%	81.1%	79.3%	77.5%	76.7%
Mexico	0.1%	7.8%	9.6%	9.8%	10.0%	9.5%	8.1%	6.9%
Hong Kong	0.0%	0.2%	2.2%	2.0%	2.6%	4.0%	6.8%	7.2%
Japan	3.4%	3.9%	0.0%	1.4%	2.4%	3.4%	3.1%	4.3%

Source: Global Trade Atlas / *Conversion to carcass weight equivalent at 1.4

HOGS AND PORK

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

CANADA Animal Numbers SWINE ('000 head)	2011		2012		2013	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Forecast
Total Beginning Stocks	12,690	12,690	12,785	12,785	12,813	12,815
Sow Beginning Stocks	1,193	1,193	1,195	1,195	1,165	1,185
Production (Pig Crop)	28,593	28,593	28,400	28,400	27,850	28,200
Total Imports	3	3	3	2	3	3
Total Supply	41,286	41,286	41,188	41,187	40,666	41,018
Total Exports	5,821	5,821	5,725	5,672	5,550	5,650
Total Slaughter	21,269	21,269	21,200	21,300	21,100	21,100
Loss	1,411	1,411	1,450	1,400	1,500	1,400
Ending Inventories	12,785	12,785	12,813	12,815	12,516	12,868
Total Distribution	41,286	41,286	41,188	41,187	40,666	41,018

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

CANADA Meat SWINE	2011		2012		2013	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Forecast
Slaughter (Reference)	21,269	21,269	21,200	21,300	21,100	21,000
Beginning Stocks	44	44	63	63	43	61
Production	1,797	1,797	1,790	1,820	1,775	1,795
Total Imports	204	204	240	241	225	245
Total Supply	2,045	2,045	2,093	2,124	2,043	2,101
Total Exports	1,197	1,197	1,250	1,243	1,195	1,235
Total Dom. Consumption	785	785	800	820	810	820
Ending Stocks	63	63	43	61	38	46
Total Distribution	2,045	2,045	2,093	2,124	2,043	2,101

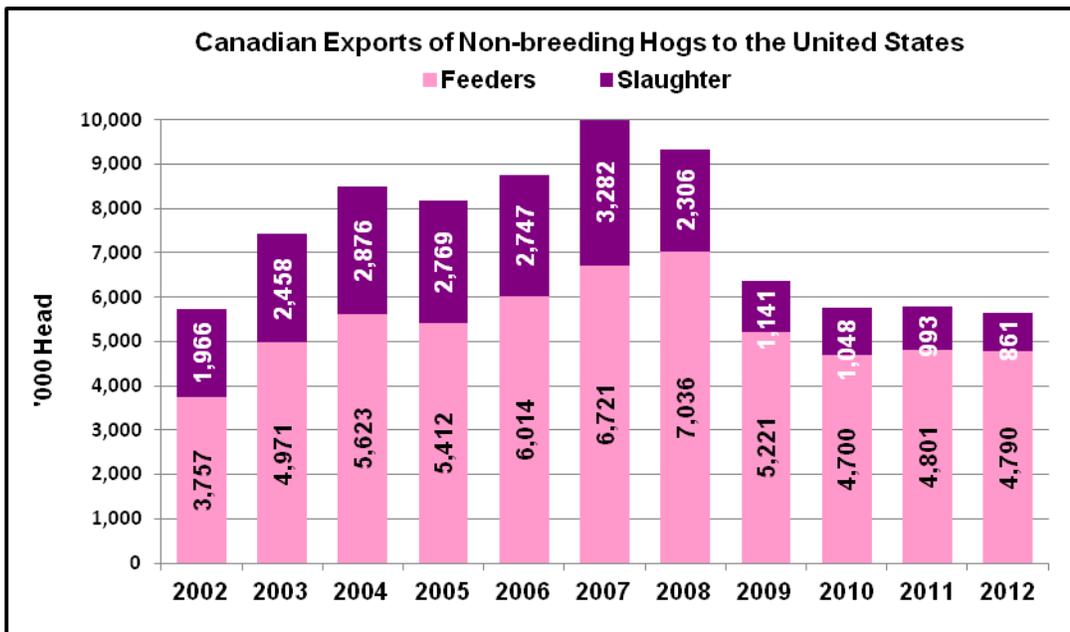
All data in 1,000 metric tons, carcass weight equivalent, except slaughter in 1,000 head

In the fall of 2012, Post reported that the prospect of high feed costs and a reduced demand for feeder hogs in the United States had the potential to jeopardize the recovery in the hog sector. At the time, Post anticipated that, facing higher costs and struggling financially, smaller producers would start liquidating their inventories, and the sow herd would decline substantially.

While producers' concerns regarding feed costs remain valid, and their financial situation continues to be fragile, the magnitude of the herd liquidation was vastly overrated. Most producers remained in business and continued to produce as usual, on expectations of improved hog prices supported by sustained demand and tight supplies.

As such, Post revises upward the sow herd estimate for the beginning of 2013, up by 20,000 head compared to the USDA official estimate. As a consequence, with more sows remaining in production, the pig crop is also revised higher, by 350,000 head. Post now forecasts the overall hog supply for 2013 higher by almost 1 percent compared to the USDA official estimate; however, this remains about 0.5 percent smaller than the 2012 estimate.

As the feed price scare fades away, the demand for Canadian feeder hogs is expected to return to more normal levels, and this is what will drive the estimated change in hog exports in 2013. Compared to the USDA official volume, Post revises upward by 100,000 head to 5,650,000 the total hog exports for 2013. This level is comparable with the 2012 hog export level that stood at 5,672,000 head.



Source: Global Trade Atlas

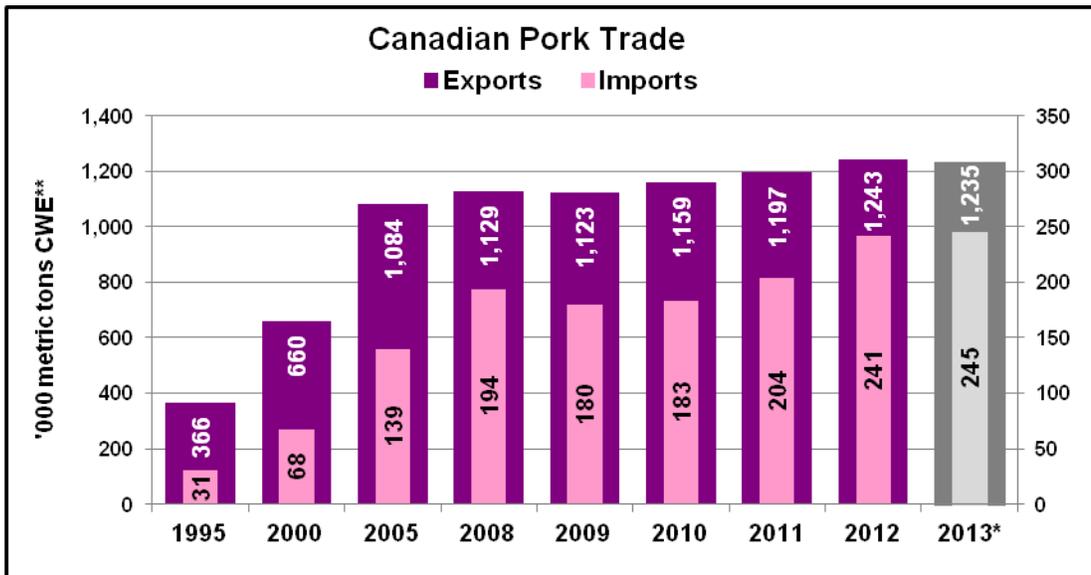
Hog slaughter is expected to remain unchanged compared to the USDA official estimate; however, carcass weights changed, and have now an impact on pork production. While it is estimated that in 2012 weights increased by almost 1.5 percent compared to 2011, 2013 carcass weights are anticipated to decline by about 0.5 percent. This is due to the fact that, given the higher feed costs, producers prefer to sell the hogs quicker, while packers are willing to take in these lighter hogs given the need to supply a very tight market. Nevertheless, despite the anticipated reduction in weights for 2013, carcasses will still be heavier than previously estimated and, therefore, Post adjusted upwards by 20,000 MT the pork production, compared to the USDA estimate.

Canadian pork exports are likely to be impacted by a number of factors in 2013. First, starting from December 2012, the Russian authorities have prohibited the importation of pork containing ractopamine. The Canadian industry and authorities have so far complied with all requirements set by Russia, and there is no reason to believe that they would not continue to do so throughout the year. Russia grew to become the third largest pork export market for Canada in 2012, and, in 2013, it is likely to become the second largest market. This development could happen based on several factors. On one side, Canada's exports to Russia will increase if the United States remains locked out of that market. On

another side, exports to Japan (currently the second largest export market) are expected to remain sluggish because of a weakening in the Yen, making imports from Canada more expensive.

Second, pork exports to South Korea are likely to see an additional decline. As the U.S.-Korea FTA continues to be implemented, tariff cuts are making American pork increasingly more competitive in that market. Simultaneously, the Korean pork industry recovered fully after the 2011 FMD outbreak and returned to previous levels of production. Third, in a recent development, the Chinese authorities have placed additional ractopamine-related requirements on U.S. exports of pork to that market. To the extent the United States may not be able to meet those requirements, Canada could partly capture some of their lost market share.

Finally, the Comprehensive Economic and Trade Agreement (CETA) under negotiation between Canada and the European Union, which at this point is reportedly very close to completion, is not likely to have a major impact on pork exports in 2013. Aggregating the influence of the various factors described above, Post revised upward the pork export estimate to 1,235,000 MT, 40,000 MT higher than the USDA official estimate.



Source: Global Trade Atlas / *Post estimate

Post also revised upward the pork imports estimate to 245,000 MT, 20,000 MT higher than the USDA estimate. It is expected that, as U.S. exports of pork cannot reach markets such as Russia, or potentially markets like China, additional volumes of pork will be shipped to Canada.

CANADA: Total Pork Imports (Quantity in metric tons, CWE*)

	1995	2000	2005	2010	2011	2012
World	31,119	67,759	139,445	183,337	203,978	241,172
United States	26,320	61,883	129,818	177,495	195,744	228,463
Chile	0	0	1,027	2,262	2,696	3,340
Denmark	4,443	4,809	6,814	1,332	2,668	2,497
All other countries	356	1,067	1,786	2,248	2,870	6,872
Import Market Shares						
United States	85%	91%	93%	97%	96%	95%
Chile	0%	0%	1%	1%	1%	1%
Denmark	14%	7%	5%	1%	1%	1%

Source: Global Trade Atlas / *Conversion to carcass weight equivalent at 1.3

CANADA: Total Pork Exports (Quantity in metric tons, CWE*)

	1995	2000	2005	2010	2011	2012
World	366,189	659,814	1,083,686	1,159,196	1,197,248	1,242,931
United States	257,416	420,854	477,899	395,559	364,714	360,639
Japan	51,434	125,661	304,063	259,966	255,667	245,621
Russia	8,819	8,110	25,499	99,563	167,245	243,936
China	299	1,929	18,045	38,998	78,829	89,002
Korea South	5,211	14,181	57,708	56,065	100,751	68,240
Mexico	1,894	17,049	45,565	61,858	35,420	43,165
Philippines	311	4,714	10,105	48,634	40,434	40,131
Australia	3,973	13,496	44,304	50,595	36,575	36,589
Taiwan	996	6,254	12,262	27,120	27,828	23,008
Hong Kong	4,717	5,947	4,015	31,439	13,925	12,291
New Zealand	2,813	10,836	8,688	10,861	11,473	7,987
All other countries	28,306	30,783	75,533	78,538	64,387	72,322
Export Market Shares						
United States	70.3%	63.8%	44.1%	34.1%	30.5%	29.0%
Japan	14.0%	19.0%	28.1%	22.4%	21.4%	19.8%
Russia	2.4%	1.2%	2.4%	8.6%	14.0%	19.6%
China	0.1%	0.3%	1.7%	3.4%	6.6%	7.2%
Korea South	1.4%	2.1%	5.3%	4.8%	8.4%	5.5%
Mexico	0.5%	2.6%	4.2%	5.3%	3.0%	3.5%

Source: Global Trade Atlas / *Conversion to carcass weight equivalent at 1.3