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Canada

Poultry and Products Annual

2010

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Report Highlights:
Under Canada's strict supply management system broiler meat production is forecast to increase by 2 percent in 2011, up to 1.04 MMT, as the sector takes advantage of improved market demand. Post estimates broiler production at 1.02 MMT in 2010, up 0.9 percent from a year earlier. Broiler meat imports are also forecast to increase in 2011 to 130 TMT, up from an estimated 125 TMT in 2010. An increased demand in the Asian markets will pull broiler meat exports up in 2011 to a projected volume of 155 TMT, with an estimated 2010 export volume of 150 TMT.

Executive Summary:

- Taking advantage of improved market demand and the sector's ability to adjust quickly, Canadian broiler meat production is forecast to increase by 2 percent in 2011, up to 1.04 million metric tons (MMT). For 2010, Post estimates broiler production at 1.02 MMT, up 0.9 percent from 2009.

- Broiler meat imports are also forecast to increase in 2011 to 130 thousand metric tons (TMT), up 4 percent from the 2010 level, which, in turn is estimated to decrease by 3.8 percent from 2009 to 125 TMT.

- Canadian imports of chicken are regulated under a tariff rate quota (TRQ). The global quota for 2011 is projected at 76,500 MT. In 2010 the allocated TRQ level is 75,815 MT. In recent years, Canadian poultry companies have increasingly utilized International Trade Canada's Import to Re-Export Program (IREP) whereby Canadian chicken processors import chicken under tariff free supplementary import permits for use in processing, provided they export the associated processed product. As a result, total chicken imports are about double the TRQ volume, as attributed to IREP imports.

- Post forecasts 2011 broiler meat exports at 155 TMT, up 3.3 percent from the 2010 level, which is estimated at 150 TMT. Increased demand on the Asian markets and some of the African markets as recovery picks up after the recession year is the driving force behind Canadian exports in both 2010 an 2011.

Commodities:
Poultry, Meat, Broiler

Production:

Broiler Meat Production

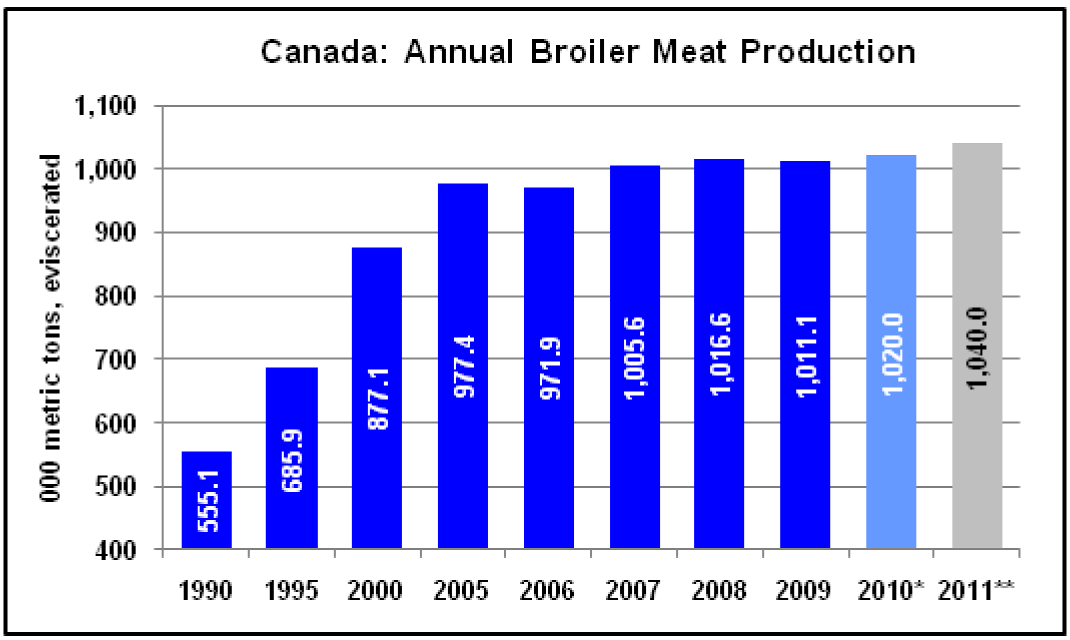
For 2011 Post forecasts an increase of 2 percent in broiler meat production over the 2010 level, up to 1.04 million metric tons (MMT). Improving economic and market conditions, combined with a projected decline in red meat production and with the broiler sector's ability to more quickly adjust to market needs are the major factors underlying this evolution.

Post estimates broiler meat production for 2010 at 1.02 MMT, up a moderate 0.9 percent from 2009, reflecting a slow recovery out of the recession year.

Canadian broiler meat production had seen a period of rapid growth during the 1990s, with an average annual growth rate of 5.8 percent for the entire decade, reflecting a strong domestic market demand both from the retail and foodservice sectors and a change in consumer preferences away from red meat and towards a perceived healthier chicken diet.

With the decade starting in 2000, broiler production expansion slowed down, achieving a much more modest average annual growth rate of 1.6 percent, reflecting a matured market that seems to have maximized its potential. For the time being, future growth will be mainly supported by the annual increase in Canadian population, and by the ethnical composition of Canada's immigration, where many newcomers of Asian or African origin have a stronger preference for chicken meat versus red meat.

Canada operates a supply management system in the broiler sector. Unlike in the United States, the industry is not vertically integrated, with a multitude of independent chicken farmers, often operating family businesses, supplying live birds to processing companies. Production is tightly controlled through a quota system. Decisions on production volume are taken before every 8-week cycle, with the national volume being allocated to each of the ten producing provinces, and subsequently further allocated to individual producers based on the total production quota.



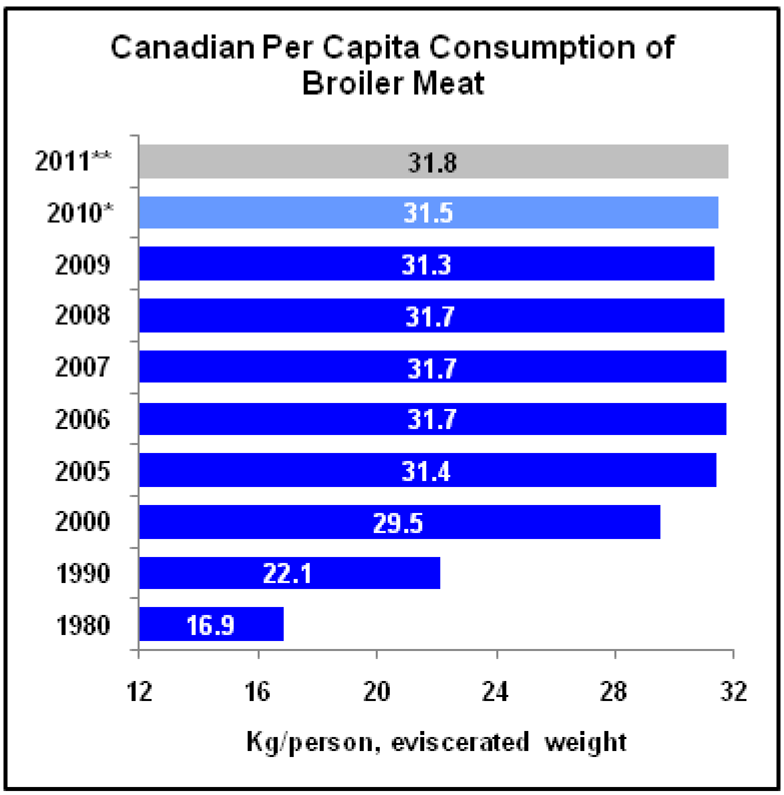
Source: Statistics Canada / Post *estimate ** forecast

Consumption:

Reflecting production trends, a stronger demand and continued consumer preference, per capita broiler meat consumption is forecast to increase in 2011 to 31.8 kg, up from an estimated 31.5 kg in 2010.

Total domestic chicken consumption in Canada has almost doubled in the past 30 years. The increase was partly due to the country's population growth which increased almost 39 percent from 24.5 million in 1980 to about 34 million in 2010. At the same time, the increase in consumption is also attributable to chicken's increasing popularity among Canadians during the period. Overall, Canadian 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. Price is not a major factor since poultry prices, due to the supply management system, are consistently higher than beef or pork, which are not under supply management schemes.

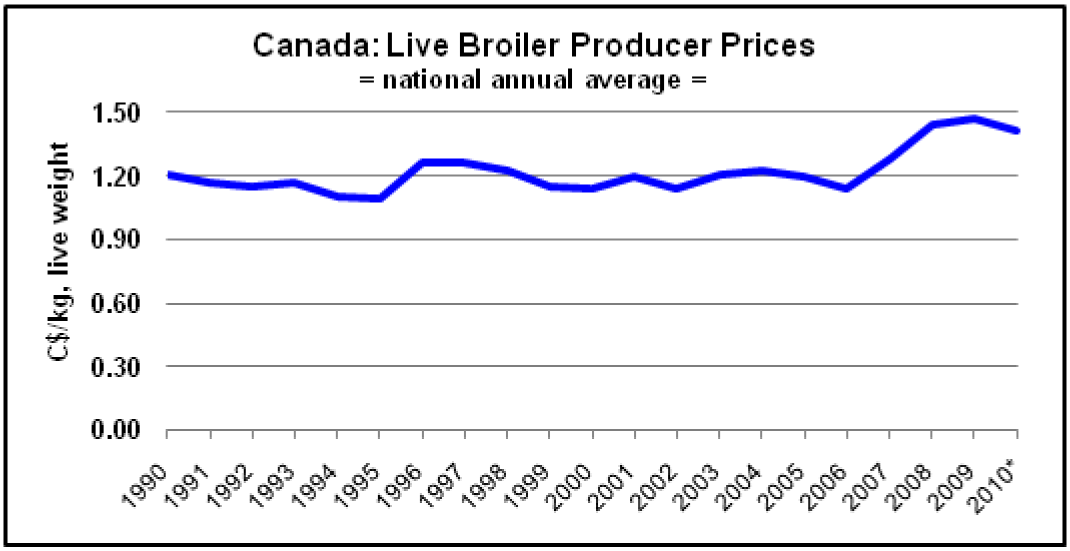
In recent years, the pattern of Canada's immigrant population is one that is more likely to have dietary preferences for chicken rather than beef or pork. In addition, Canada's food service providers are continually introducing chicken menu items in creative ways or as an ingredient in ethnic-style food offerings that are becoming increasingly popular. Chicken Farmers of Canada's Strategic Plan for 2009-2013 lists as an industry objective to increase annual per capita consumption of chicken to 33 kg.



Source: Statistics Canada / Post *estimate ** forecast

Prices:

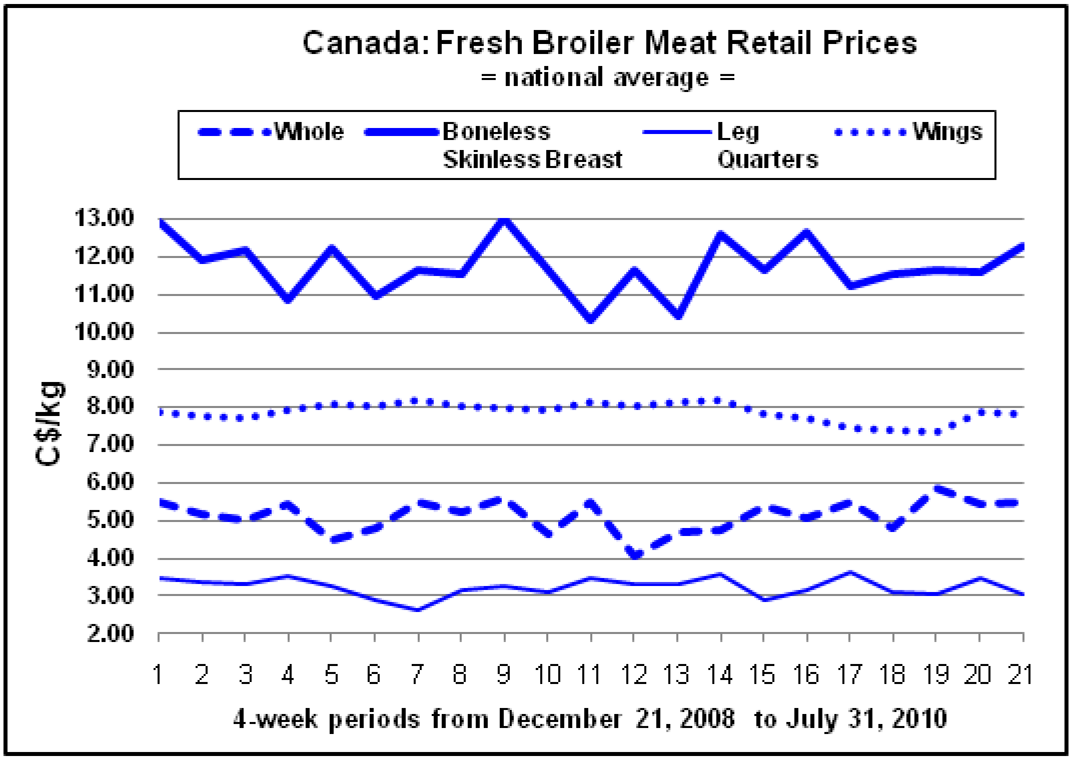
With the supply management system, chicken producers receive a fixed price for their live birds, which is determined every 8-week cycle based on production costs. Ontario is the largest chicken producing province in Canada, capturing about one-third of the market, and therefore Ontario live bird prices 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, and only showed a more substantial increase in the past few years due to the dramatic increase in grain and feed prices.



Source: Chicken Farmers of Canada / *Post estimate

Like with most agriculture products, broiler meat retail prices are minimally impacted by farm gate prices. The Canadian supply management system only guarantees certain price levels for producers and not downstream for the other participants in the supply chain. Wholesale and retail broiler meat prices are usually reflective or 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.

Similarly to consumers in United States, Canadian consumers tend to prefer white meat (breasts and wings) rather than dark meat (legs). The most expensive chicken cut is the fresh boneless skinless breast, widely used in restaurants and a preferred barbecue item for Canadians. Wings are seen as a good complement to beer and are very popular during the winter hockey season. Leg quarters are usually the least expensive chicken cut in groceries, cheaper even than the whole birds.



Source: Agriculture and Agri-Food Canada

Trade:

<u>Imports</u>

For 2011 imports are projected at 130 thousand metric tons (TMT), up 4 percent from a year earlier. Post estimates the 2010 import volume at 125 TMT, down 3.8 percent compared to 2009. Under the supply management system, most broiler meat imports are controlled and subject to a tariff rate quota (for more information consult the policy section of this report), which is a function of the production level. Market conditions in United Sates also play a significant role in import decisions, since a large price differential between the lower U.S. broiler meat prices and the higher Canadian ones is a strong incentive for importers to bring in more American meat, especially under programs that provide a customs duty exemption, such as the imports to re-export program (IREP).

CANADA: Broiler Meat Imports

Quantity in metric tons, product weight				January-July		%change
	2007	**2008**	**2009**	**2009**	**2010**	**- 10/09 -**
World	**125,889**	**132,971**	**129,679**	**72,383**	**67,994**	**-6.1%**
United States	102,411	114,283	110,706	62,081	59,208	-4.6%
Brazil	21,215	15,615	16,152	8,643	7,558	-12.6%
Thailand	2,364	2,455	2,260	1,244	1,023	-17.8%
Chile	47	754	724	522	242	-53.6%
Import Market Shares						
United States	81%	86%	85%	86%	87%	
Brazil	17%	12%	12%	12%	11%	
Thailand	2%	2%	2%	2%	2%	

Source: Global Trade Atlas

United States is Canada's largest supplier of broiler meat, with a market share in excess of 85 percent for the recent years, followed by Brazil at about 12 percent market share. Some Canadian importers are discouraged from importing Brazilian chicken despite its lower cost because it cannot be re-exported to the United States. During the first seven month of 2010, imports from Unites States were down 4.6 percent compared to the same period in 2009, while Brazilian imports were down 12.6 percent.

Product Control for Brazilian Poultry: Since USDA does not permit imports of Brazilian chicken, the Canadian Food Inspection Agency (CFIA) has strict import procedures to ensure that Brazilian chicken in Canada does not enter the United States. Under CFIA regulations, poultry 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 poultry meat from Brazil are not eligible to export poultry meat products to the United States. All poultry meat and meat products present in the non-eligible establishments must not enter Canadian establishments that have full export status for the United States. All Canadian establishments (including storage facilities) must maintain inventory records regarding origin of all meat present on their premises and the destination of meat shipped from the premises.

Exports

Post forecasts 2011 broiler meat exports at 155 TMT, up 3.3 percent from the 2010 level, which is estimated at 150 TMT. Increased demand on the Asian markets and some of the African markets as recovery picks up after the recession year is the driving force behind Canadian exports in both 2010 an 2011.

Generally speaking exports fall into two broad categories: the majority of them represent the "re-export" side of the IREP, exports being a requirement of the program since the original imports are prohibited from entering the domestic market, while the rest of them reflect "genuine" exports. The latter category is made up mostly of dark meat cuts (such as leg quarters) since, like in the case of United States, the Canadian domestic market shows a stronger preference for white meat (breasts).

CANADA: Broiler Meat Exports

Quantity in metric tons, product weight				January-July		%change
	2007	2008	2009	2009	2010	- 10/09 -
World	**138,978**	**152,067**	**147,015**	**83,808**	**84,671**	**1.0%**
United States	51,147	58,612	54,045	31,677	30,496	-3.7%
Philippines	15,993	21,812	21,076	8,554	12,233	43.0%
Hong Kong	12,880	13,315	14,420	7,074	8,793	24.3%
Taiwan	7,747	16,203	12,220	8,514	7,725	-9.3%
South Africa	10,338	4,031	7,343	2,722	9,127	235.3%
Macedonia	9,360	4,929	5,014	4,017	1,031	-74.3%
Afghanistan	1,014	2,419	4,323	2,928	1,687	-42.4%
Gabon	1,242	1,542	3,206	1,703	1,840	8.0%
Colombia	2	896	3,112	1,540	1,453	-5.6%
Ghana	6,414	2,271	2,922	1,882	1,248	-33.7%
Russia	5,366	5,758	2,403	1,523	2,636	73.1%
All other	17,475	20,279	16,931	11,674	6,402	-45.2%
Export Market Shares						
United States	37%	39%	37%	38%	36%	
Philippines	12%	14%	14%	10%	14%	
Hong Kong	9%	9%	10%	8%	10%	
Taiwan	6%	11%	8%	10%	9%	
South Africa	7%	3%	5%	3%	11%	
Macedonia	7%	3%	3%	5%	1%	

Source: Global Trade Atlas

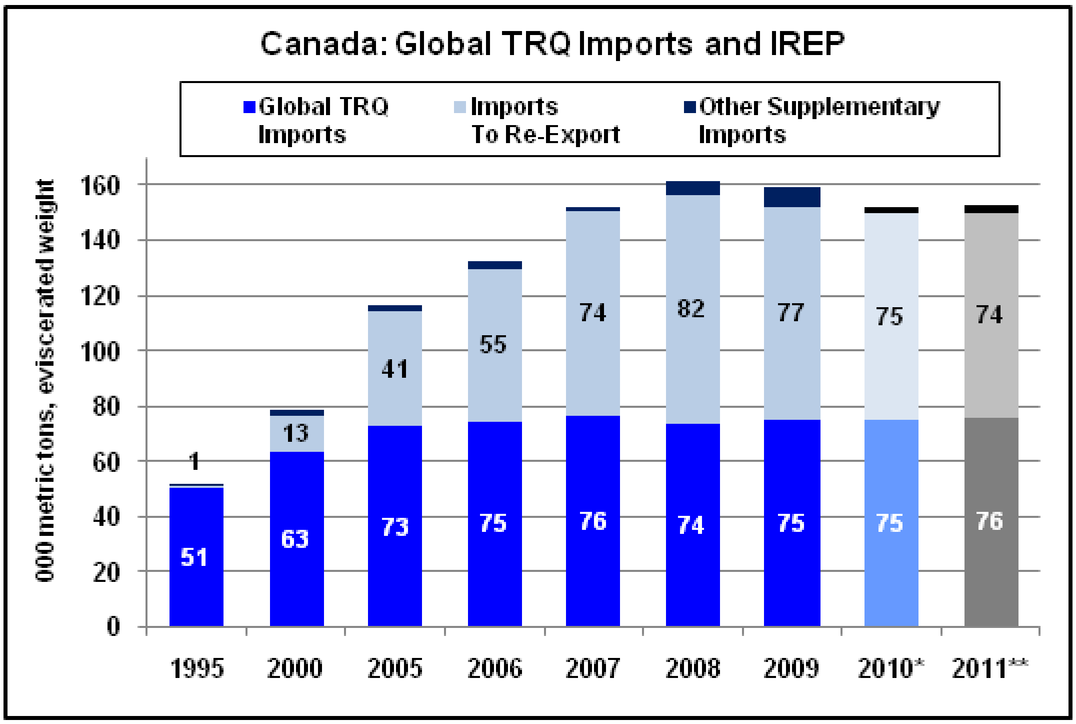
Policy:

Tariff Rate Quota

Canada controls imports of chicken under a tariff rate quota (TRQ). The minimum access level (into Canada) under the World Trade Organization (WTO) commitment is 39,844 metric tons (MT) but Canada applies the higher access level under NAFTA, which is equal to 7.5 percent of the previous year's domestic chicken production as reported by Statistics Canada. For 2011, the global permit allowance is forecast to increase to 76,500 MT based upon 2010 production. For 2010, the global chicken TRQ is 75,815 MT as based on the 2009 production level. Actual chicken imports under the TRQ may be slightly higher or lower than the allocated amounts, based on prevailing market condition in each year.

Under the TRQ, imports are subject to low "within access commitment" rates of duty up to the predetermined limit and imports over this limit are subject to higher "over access commitment" rates of duty. However, Canada regularly issues supplementary import permits for: 1) periods when there are

product shortages; 2) the chicken Import to Re-Export Program (IREP), under which import allocations are issued to Canadian poultry processors whose finished manufactured products are intended for re-export, and 3) to Canadian poultry companies, commonly referred to as the FTA (free trade agreement) sector, who compete in the Canadian marketplace with similar, imported processed products that receive zero-tariff treatment under the NAFTA. Information on the chicken TRQ, other supplementary imports and the process of importing broiler meat into Canada is located on the web site of the Department of Foreign Affairs and International Trade (DFAIT), at the following link:
http://www.international.gc.ca/controls-controles/prod/agri/chicken-poulet/index.aspx?menu_id=26&menu=R



Source: DFAIT / Post *estimate **forecast

Imports to Re-Export Program: In recent years, the majority of supplementary imports have been comprised of imports under the IREP program. The program requires that the resulting processed chicken product be exported, since the diversion of product imported under IREP to the Canadian (domestic) market is prohibited. It is a policy that 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 became popular at the end of the 1990s and have continued to grow significantly, to the point where in 2008 they exceeded the import volumes under the global TRQ. IREP imports may be sourced in any country, but in practice almost the entire volumes are imported into Canada from United States, and once processed they return back to the U.S. market.

Special Agricultural Safeguard (WTO)

In 2008 Canada gave notice of the volume and price triggers that will be used to operationalize the World Trade Organization (WTO) Special Agricultural Safeguard (SSG) for Canada's supply-managed products (i.e. products under a tariff rate quota). The Special Agricultural Safeguard is a provision that allows additional duties to be triggered when import prices fall below a certain level. Currently published triggers are available at the following site:
http://www.agr.gc.ca/itpd-dpci/tec/4910-eng.htm

The Canadian government officials are still in consultation with the poultry industry in readjusting price-triggers for a small number of poultry commodities, and as of September 2010, the new triggers have yet to be made public. Unit prices which would theoretically trigger the SSG are currently much lower than current import price trends and activation of the safeguard is not expected. In the event that import prices do decline to levels 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).

Production, Supply and Demand Data Statistics:

CANADA Poultry, Meat, Broiler	2009		2010		2011
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011
	USDA Official Data	New Post Data	USDA Official Data	New Post Data	New Post Data
Beginning Stocks	37	37	37	44	40
Production	980	1,011	1,010	1,020	1,040
Whole, Imports	0	0	0	0	0
Parts, Imports	130	130	135	125	130
Total Imports	130	130	135	125	130
Total Supply	**1,147**	**1,178**	**1,182**	**1,189**	**1,210**
Whole, Exports	0	5	0	4	5
Parts, Exports	147	142	153	146	150
Total Exports	147	147	153	150	155
Human Consumption	963	987	992	999	1,020
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	963	987	992	999	1,020
Total Use	1,110	1,134	1,145	1,149	1,175
Ending Stocks	37	44	37	40	35
Total Distribution	**1,147**	**1,178**	**1,182**	**1,189**	**1,210**