

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Canada

Poultry and Products Annual

2012

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Report Highlights:

Under Canada's supply management system, poultry farmers are able to pass on production costs to processing plants. Processors, though, are limited in their ability to pass on poultry input costs to retailers and final consumers. High feed costs and a shortage of competing proteins will be the major drivers for broiler meat production in 2013, with opposing effects. After a better than expected year in 2012, Post forecasts a very modest increase for 2013. The turkey market remains flat.

Executive Summary:

- With supply management, poultry farmers recover their cost of production from processing plants. In this way, farmers are sheltered from the impact of record high feed costs. The same cannot be said about poultry processors. Their ability to pass on high input costs to downstream customers is limited. At the same time, a shortage of red meat triggered by high feed costs represents an opportunity for poultry meat as alternative source of proteins. The result of these two opposing factors will dictate poultry production in 2013. For next year, Post forecasts a very modest increase of 0.5 percent in broiler meat production, up to 1,045,000 metric tons (MT).
- For 2012, Post revised upwards to 1,040,000 MT the initial forecast of 1,035,000 MT, as the industry increased production especially in the second part of the year to meet a more solid demand. As such, 2012 broiler meat production is estimated to be 1.3 percent higher than in 2011.
- Canadian imports of chicken are regulated under a tariff rate quota (TRQ) which is a function of the previous year's production level. The global quota for 2013 is projected at 78,000 MT. In 2012 the TRQ level is 77,000 MT.
- In recent years, Canadian poultry companies have increasingly utilized International Trade Canada's Import to Re-Export Program (IREP). Through IREP Canadian chicken processors import chicken under tariff free supplementary import permits for use in processing, provided they re-export the associated processed product. As a result, total chicken imports are about double the TRQ volume, as attributed to IREP imports.
- Moving into 2013, Canada's turkey market will remain flat, with production forecast to stay at 165,000 metric tons, basically the same level as in 2012. This development is expected after a better than anticipated year in 2012, when turkey production is now estimated at 165,000 MT, up 3.4 percent from the previous year. Post forecasts per capita turkey consumption at 4.46 kg (eviscerated weight) in 2013, a very modest increase from the estimated level of 4.45kg in 2012.

Poultry, BROILER

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

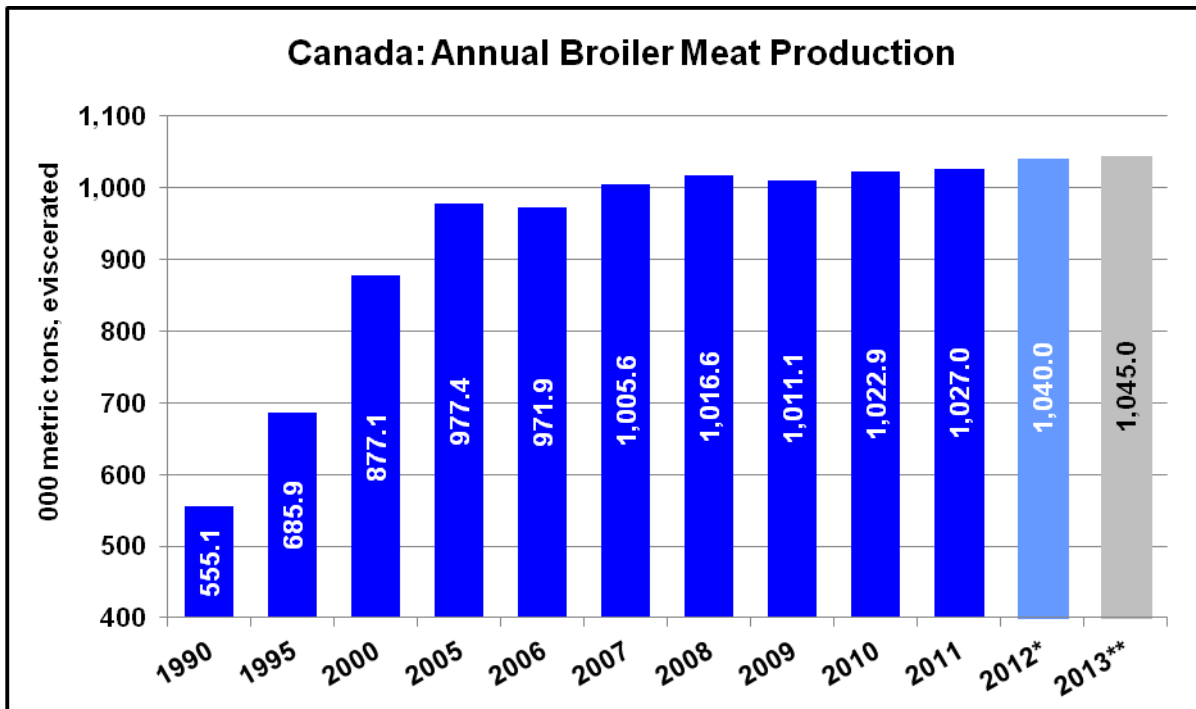
CANADA Poultry BROILER	2011		2012		2013
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	NEW Post Estimates
Beginning Stocks	35	35	35	40	50
Production	1,026	1,027	1,035	1,040	1,045
Total Imports	131	131	135	135	140
Total Supply	1,192	1,193	1,205	1,215	1,235
Total Exports	155	143	155	145	150
Total Dom. Consumption	1,002	1,010	1,010	1,020	1,035
Total Use	1,157	1,153	1,165	1,165	1,185
Ending Stocks	35	40	40	50	50
Total Distribution	1,192	1,193	1,205	1,215	1,235

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

Broiler Meat Production

With supply management, poultry farmers recover their cost of production from processing plants. In this way, farmers are sheltered from the impact of record high feed costs. The same cannot be said about poultry processors. Their ability to pass on high input costs to downstream customers is limited. At the same time, an expected shortage of red meat triggered by high feed costs resulting in reduced animal inventories represents an opportunity for poultry meat as an alternative source of proteins. The result of these two opposing factors will primarily dictate poultry production in 2013. For the next year, Post forecasts a very modest increase of 0.5 percent in broiler meat production, up to 1,045,000 metric tons (MT).

For 2012, Post revised upwards to 1,040,000 MT the initial forecast of 1,035,000 MT, as the industry increased production to meet a more solid demand. After a decline of 0.5 percent in the first half of 2012 (compared to the same period in 2011), production is expected to pick up in the second part of the year and grow by over 3 percent (compared to the similar period in 2011). As such, 2012 broiler meat production is estimated to be 1.3 percent higher than in 2011.



Source: Statistics Canada / Post *estimate ** forecast

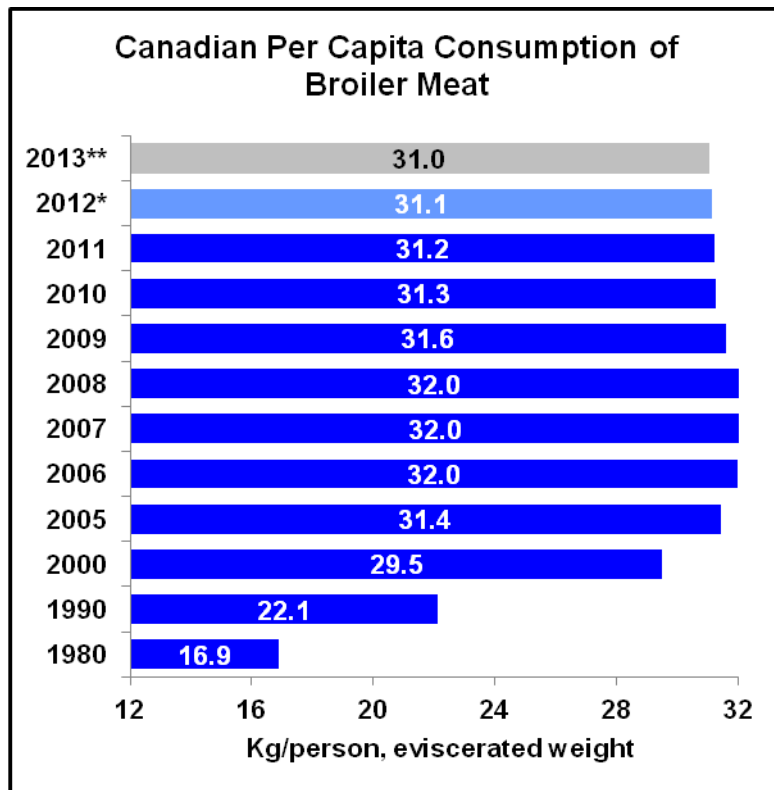
Canadian broiler production experienced a period of rapid growth during the 1990s, with an average annual growth rate of 5.8 percent for the entire decade. This growth reflected a strong domestic market demand both from the retail and foodservice sectors and a change in consumer preferences away from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

During the decade beginning in 2000, broiler production expansion slowed down, achieving a much more modest average annual growth rate of 1.6 percent. This slowdown in expansion reflected 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. Canada has 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 production cycle, with the national volume allocated to each of the ten producing provinces, and subsequently further allocated to individual producers based on the total production quota.

Consumption

Per capita broiler meat consumption had been stagnant and slightly declining for the past five years. Post forecasts this trend to continue into 2013, with a per capita level of 31.0 kg, down from an estimated level of 31.1 kg in 2012. The Canadian market is now mature and supply of broiler meat has not kept up with increases in population. In addition, following the recent recession and given the current fragile economic recovery, consumers are showing restraint in increasing demand. Post also believes that declining consumption levels do not necessarily mean that people eat less broiler meat – it may be that given the existing difficult economic environment consumers, both individual and institutional, are less wasteful with the products they purchase.



Source: Statistics Canada / Post *estimate ** forecast

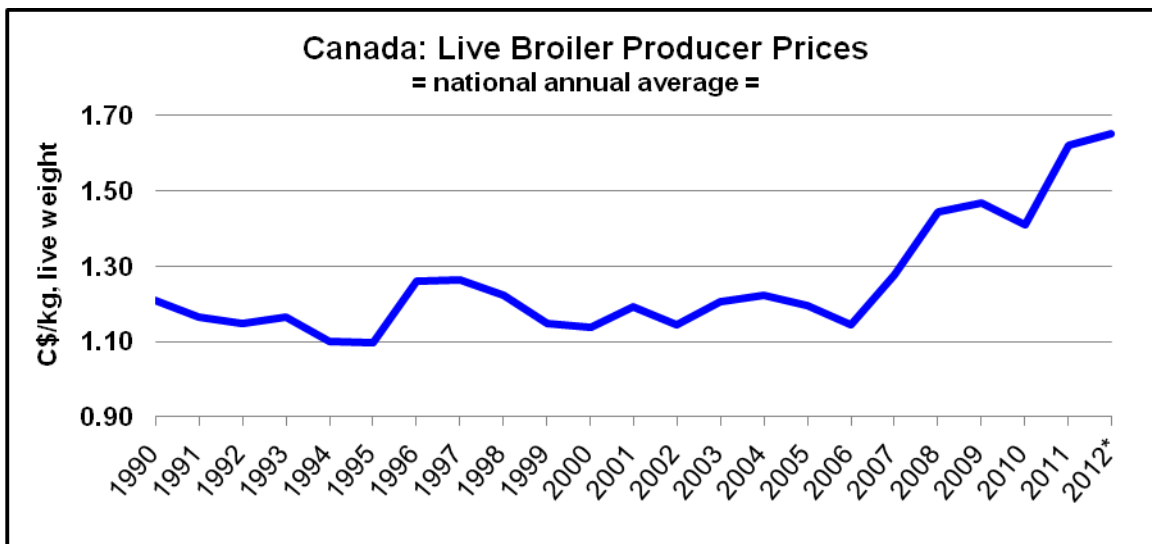
Despite these recent trends, total domestic chicken consumption in Canada has almost doubled in the past 30 years. The increase was partly due to the country's population growth which increased almost 39 percent from 24.5 million in 1980 to about 34 million in 2010. At the same time, the increase in consumption can also be attributed 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, an ambitious goal given the current conditions.

Prices

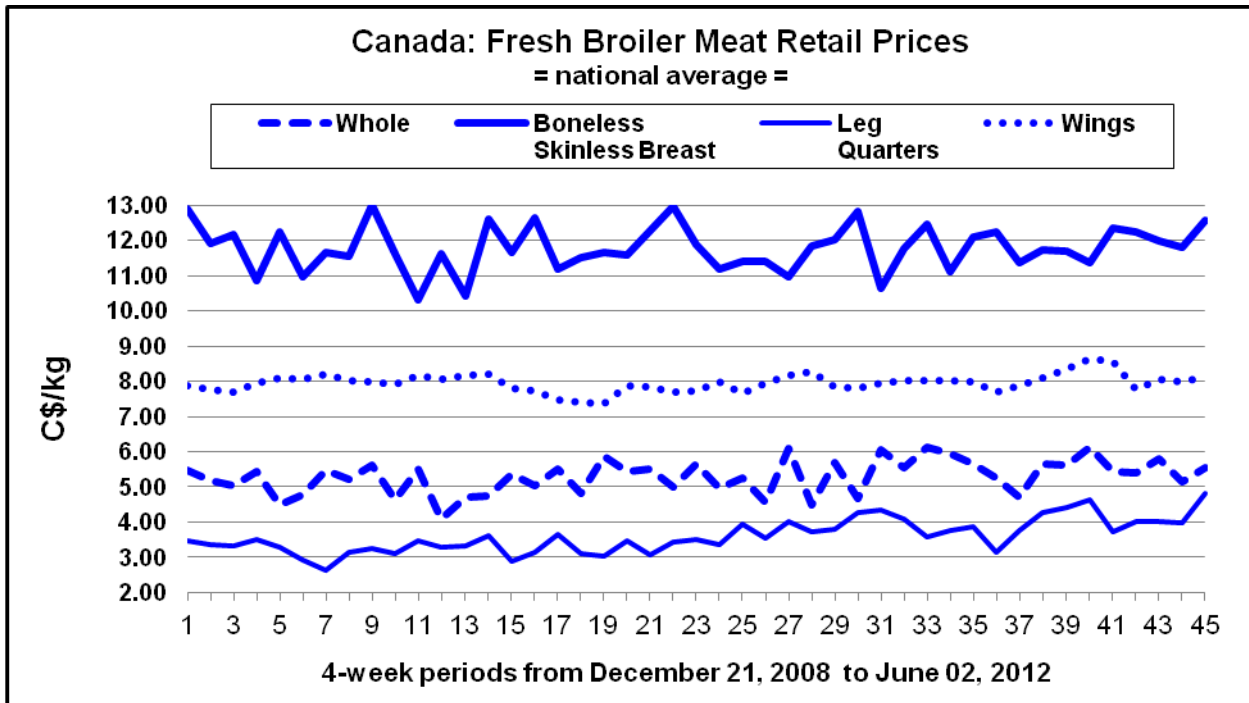
With the supply management system, chicken producers receive a fixed price for their live birds, which is determined every 8-week production cycle based on production costs. Ontario is the largest chicken producing province in Canada, capturing about one-third of the market, and therefore Ontario live 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 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 United States, Canadian consumers tend to prefer white meat (breast 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 have traditionally been the least expensive chicken cut in groceries, cheaper even than the whole birds. However, as the ethnic mix changes in the general population, and for economic reasons, leg quarters are slowly becoming an increasingly popular item, as reflected by a sustained upward trend in retail prices over the past few years.



Source: Agriculture and Agri-Food Canada

Trade

Imports

For 2013, imports are projected at 140,000 metric tons (MT), up 5,000 MT from the estimated level for 2012. Under the supply management system, 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 the United States 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 IREP (imports for re-export program).

CANADA: Broiler Meat Imports

Quantity in metric tons, product weight				January-June		%change
	2009	2010	2011	2011	2012	- 12/11 -
World	129,679	124,049	130,842	62,314	63,596	2.1%
United States	110,710	106,251	116,210	53,644	56,005	4.4%
Brazil	16,127	15,345	11,456	7,111	5,491	-22.8%
Thailand	2,455	2,260	2,071	1,172	1,483	26.5%
Import Market Shares						
United States	85%	86%	89%	86%	88%	
Brazil	12%	12%	9%	11%	9%	
Thailand	2%	2%	2%	2%	2%	

Source: Global Trade Atlas

The United States is Canada's largest supplier of broiler meat, with a market share close to 90 percent in the most recent year, followed by Brazil at just under 10 percent market share. In general, some Canadian importers are discouraged from importing Brazilian chicken, despite its lower cost, because it cannot be re-exported to the United States.

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 2013 broiler meat exports at 150,000 MT, up 5,000 MT from the estimated level for 2012. Increased activity under the imports to re-export program (IREP) and sustained demand on certain Asian markets are the driving forces behind Canadian exports in 2013.

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 United States, the Canadian domestic market shows a stronger preference for white meat (breast).

CANADA: Broiler Meat Exports

<i>Quantity in metric tons, product weight</i>				January-June		%change
	2009	2010	2011	2011	2012	- 12/11 -
World	147,015	147,295	143,423	69,963	66,109	-5.5%
United States	54,045	54,043	55,241	27,547	26,670	-3.2%
Philippines	21,076	23,702	21,194	9,788	7,209	-26.3%
Taiwan	12,220	10,402	13,952	8,268	10,567	27.8%
South Africa	7,343	16,227	13,680	7,649	1,670	-78.2%
Hong Kong	14,420	12,101	12,267	4,234	7,256	71.4%
Macedonia	5,014	2,466	5,420	3,017	934	-69.0%
All other	32,897	28,354	21,669	9,460	11,803	24.8%
Export Market Shares						
United States	37%	37%	39%	39%	40%	
Philippines	14%	16%	15%	14%	11%	
Taiwan	8%	7%	10%	12%	16%	
South Africa	5%	11%	10%	11%	3%	
Hong Kong	10%	8%	9%	6%	11%	
Macedonia	3%	2%	4%	4%	1%	

Source: Global Trade Atlas

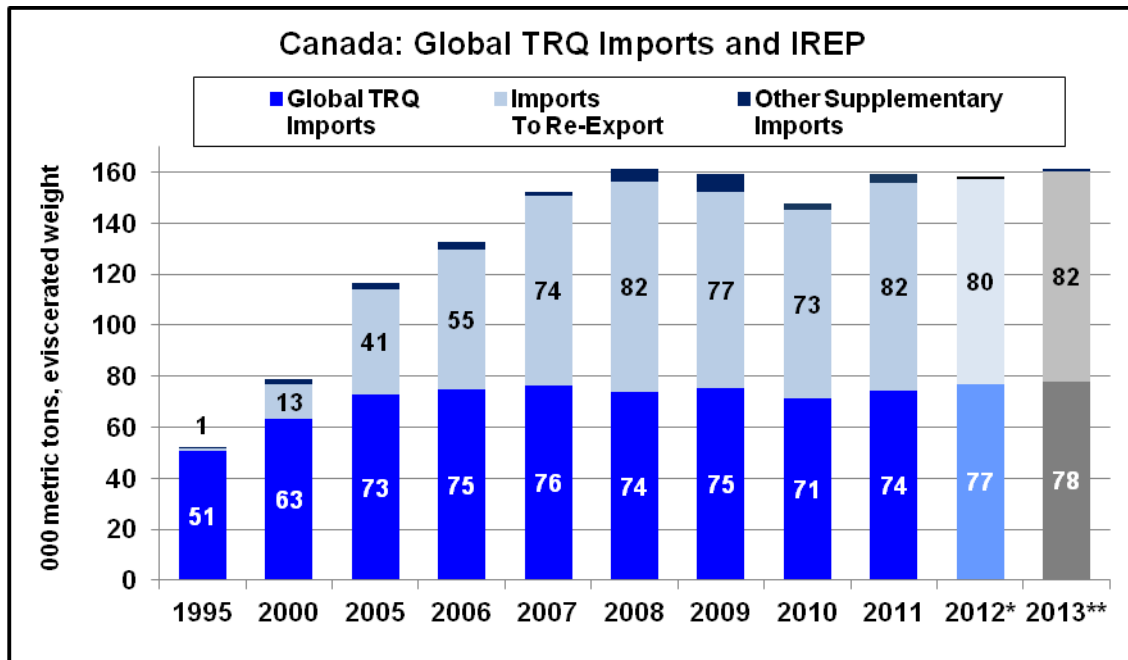
Policy:

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 2013, the global permit allowance is forecast to increase to 78,000 MT based upon 2012 production. For 2012, the global chicken TRQ is 77,000 MT as based on the 2011 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 for the first time 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 the 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 price level or exceed a certain volume level. Currently published volume triggers are available at the following site:

<http://www.agr.gc.ca/itpd-dpci/tec/4910-eng.htm> . Price triggers are also to be listed on the same

website. 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).

Poultry, TURKEY

Moving into 2013, Canada's turkey market will remain flat, with production forecast to stay at 165,000 metric tons, basically the same level as in 2012. This development is expected after a better than anticipated year in 2012, when turkey production is now estimated at 165,000 MT, up 3.4 percent from the previous year. Post forecasts per capita turkey consumption at 4.46 kg (eviscerated weight) in 2013, a very modest increase from the estimated level of 4.45kg in 2012.

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

CANADA Poultry TURKEY	2011		2012		2013
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	NEW Post Estimates
Beginning Stocks	15	15	13	15	15
Production	160	160	162	165	165
Total Imports	8	7	8	8	8
Total Supply	183	182	183	188	188
Total Exports	25	22	25	25	25
Total Dom. Consumption	145	145	145	148	150
Ending Stocks	13	15	13	15	13
Total Distribution	183	182	183	188	188

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