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Poultry and Products Annual

2016

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Report Highlights:
Broiler meat production is forecast to expand 2.5 percent in 2017, as chicken continues to be competitive and an attractive substitute to red meat. Canada's chicken tariff rate quota (TRQ) is projected to reach 87,000 metric tons in 2017, from a level of 83,400 metric tons in 2016. For 2017, both Canadian exports and imports of broiler meat are estimated at 150,000 MT. Imports from the United States typically account for about 85 percent of Canada's total imports, and are thus estimated at 127,500 MT for 2017.

Executive Summary:

- Post forecasts a return to moderate growth for 2017, with broiler meat production estimated at 1,195,000 metric tons (MT), or 2.5 percent above the 2016 estimated level. Poultry meat will continue to be competitively priced and an attractive substitute to other pricier meats. With supply management, poultry farmers in Canada recover their costs of production from processing plants. Farmers are, therefore, largely sheltered from the impact of fluctuating feed costs. Although poultry processors' ability to pass on input costs to downstream customers is more limited, in 2017 they are likely to continue to enjoy positive profit margins.

- For 2016, Post estimates the broiler meat production at 1,165,000 MT, a level reflecting an improved performance in the sector compared to previous years, as the industry steadily increased production throughout the year to meet a solid demand. The growth in the chicken sector is estimated for 2016 at 4.8 percent, which is a remarkable level. The last time the sector grew at a rate above 4 percent was back in 2001 (a 6 percent growth rate at the time).

- Canadian imports of chicken meat are regulated under a tariff rate quota (TRQ) which is a function of the previous year's production level. The global quota for 2017 is projected at 87,000 MT. In 2016 the TRQ level is 83,400 MT.

- Canadian poultry companies have been increasingly utilizing various government administered imports for re-export programs. Through these programs, Canadian chicken processors import chicken meat duty free for use in processing, provided they re-export the associated processed products. Since 2007, imports for re-export have exceeded the TRQ volume, and therefore total chicken imports are more than double the TRQ volume.

- Two import for re-export programs are currently used by Canadian poultry companies. The Canada Border Services Agency (CBSA) operates the Duties Relief Program (DRP), which continued to increase in popularity among Canadian companies. Post anticipates that in 2017 over 95 percent of Canada's imports for re-export will be part of CBSA's program, as opposed to the imports to re-export (IREP) program administered by Global Affairs Canada (GAC, formerly DFATD).

Poultry, BROILER MEAT

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

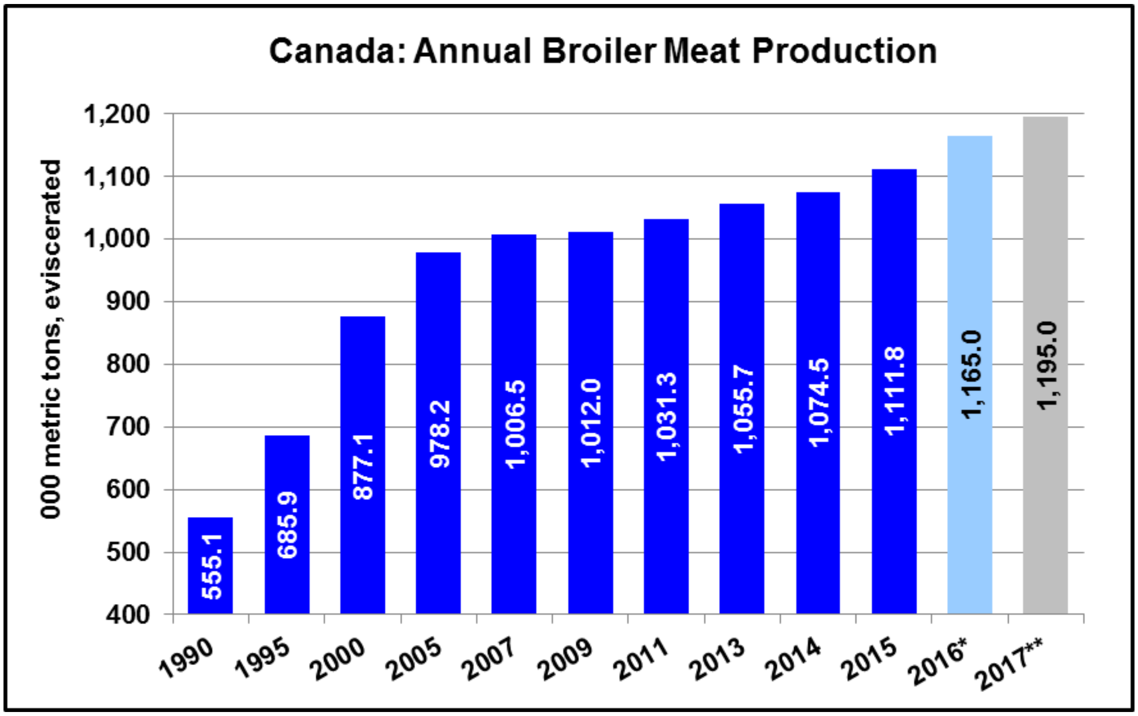
CANADA Poultry BROILER	2015		2016		2017
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	NEW Post Estimates
Beginning Stocks	34	34	45	43	55
Production	1,110	1,112	1,160	1,165	1,195
Total Imports	150	150	155	140	150
Total Supply	**1,294**	**1,296**	**1,360**	**1,348**	**1,400**
Total Exports	133	133	150	140	150
Total Dom. Consumption	1,116	1,120	1,155	1,153	1,190
Ending Stocks	45	43	55	55	60
Total Distribution	**1,294**	**1,296**	**1,360**	**1,348**	**1,400**

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

Broiler Meat Production

For 2017, Post forecasts a 2.5 percent increase in broiler meat production, up to 1,195,000 metric tons (MT), given that the current market conditions – strong demand for broiler meat, and limited supplies of beef coupled with elevated prices – will continue to prevail and to represent a growth opportunity for the chicken sector as supplier of an alternative source of proteins. In general, with supply management, poultry farmers recover their cost of production from processing plants. In this way, farmers are largely sheltered from the impact of fluctuating feed costs. Typically, the same cannot be said about poultry processors, since their ability to pass on high input costs to downstream customers is more limited. However, given the current market conditions, it is expected that processors will continue to enjoy positive profit margins into the coming year.

For 2016, Post revised broiler production upwards to 1,165,000 MT reflecting an estimated 4.8 percent growth over the previous year, as the industry steadily increased production to meet a stable and robust demand. It must be said that growth rates above 4 percent, like the estimated one for 2016, have not been observed since the 2001, when the chicken sector in Canada grew by 6 percent.



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.

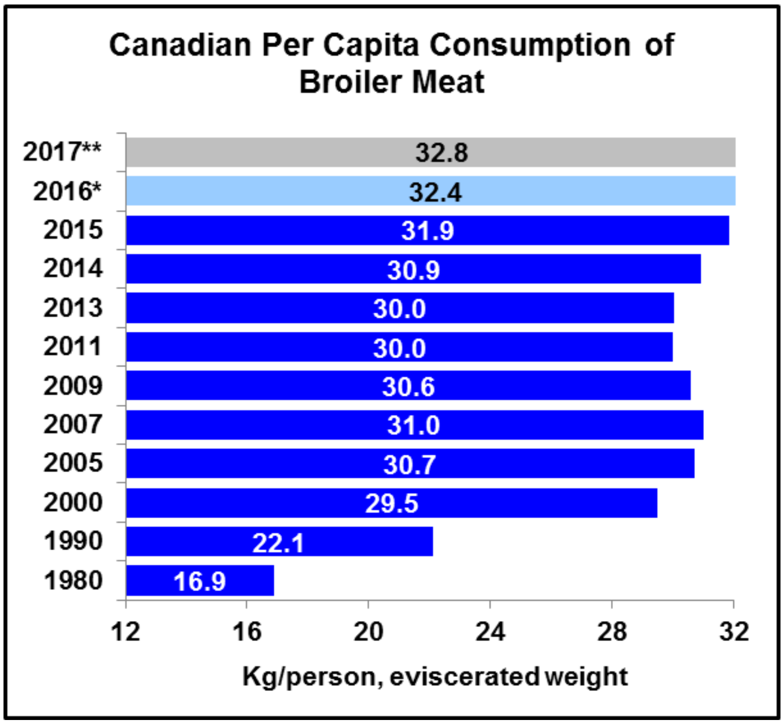
During the decade beginning in 2000, broiler production expansion slowed down, achieving a much more modest average annual growth rate of 1.6 percent. This slowdown in expansion reflected a matured market that seemed to have maximized its potential. However, looking at the growth rates from the last couple of years, it appears that 2015 may have marked the beginning of a new phase of more sustained growth in the broiler sector. This expansion period is primarily fueled by a stronger chicken demand, coupled with the annual increase in Canadian population and the ethnic composition of Canada's immigration, where many newcomers of Asian or African origin have a stronger preference for chicken meat versus red meat. The stronger chicken demand is reflective of the tighter supplies of red meats associated with high prices, while broiler meat is competitively priced and featured in grocery stores, encouraging an increased consumption.

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. Production volumes are decided for 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 their share in the total production quota.

In November 2014, a new allocation agreement was reached between industry and provincial stakeholders that share future growth as follows: 45 percent of future growth is allocated to provinces based on historical market shares, while the other 55 percent is allocated based on comparative advantage factors. Provinces that experience a higher population growth rate or a higher gross domestic product (GDP) growth rate receive a larger share of the future growth in broiler production. Other comparative advantage factors that are taken into account include: the consumer price index, the farm input price index, quota utilization, further processing and the supply share.

Consumption

Per capita broiler meat consumption had been stagnant and slightly declining since it peaked in 2007. However, this trend reversed in 2014 and Post forecasts this new higher consumption level to continue into 2017, with a per capita level of 32.8 kg, modestly up from an estimated level of 32.4 kg in 2016. This recent development is a reflection of limited and pricier supplies of red meats that prompted many consumers to turn toward chicken, given that it remained abundantly available and competitively priced.



Source: Statistics Canada / Post *estimate ** forecast

Looking from a long term perspective, total domestic chicken consumption in Canada has almost tripled in the past three decades. The increase was partly due to the country's population growth which increased almost 47 percent from 24.5 million in 1980 to about 36 million in 2016. At the same time, the increase in consumption is also 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. In parallel, the increase in chicken consumption can also be attributed to the proliferation of fast foods focusing on offering a variety of chicken based meals.

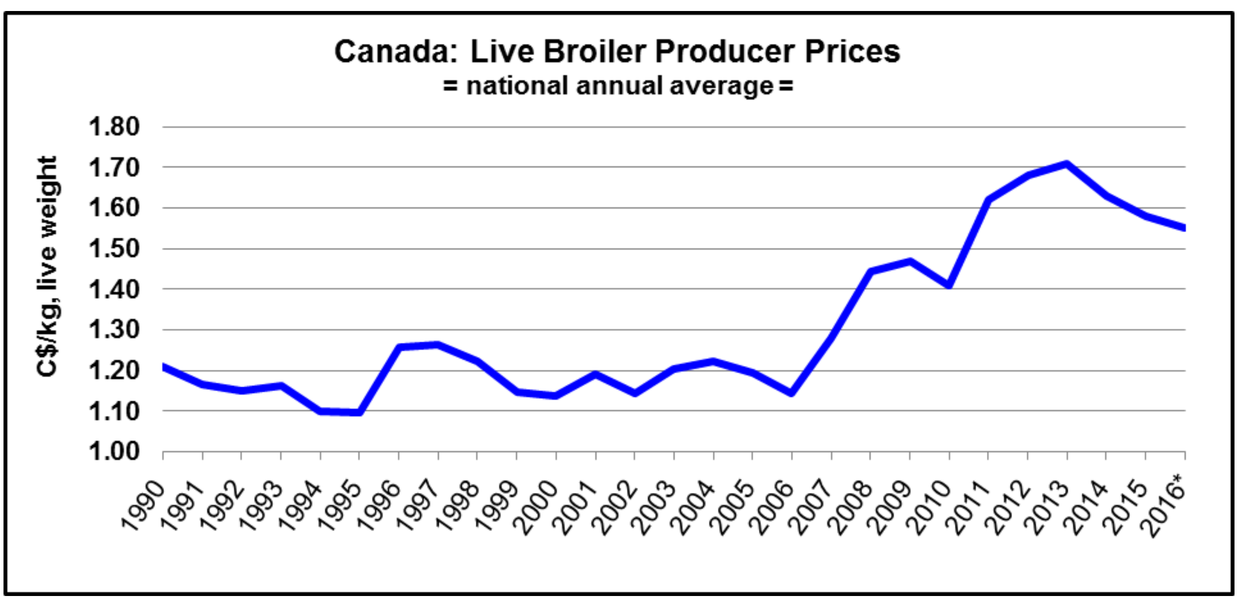
Price has typically not been a major factor in influencing consumption since poultry prices, due to the supply management system, are usually consistently higher than pork and beef cuts, which are not under supply management schemes. Over the past couple of years though, and moving into 2017, red meat prices are likely to trend higher, making chicken a more attractive choice price-wise as well.

In addition, the ethnic composition of Canada's immigration, where many newcomers are of Asian or African origin, is one that is more likely to have stronger dietary preferences for chicken rather than beef or pork. Plus, 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 2014-2018 has as an overall objective to "grow consumer demand for Canadian-grown chicken", and lists only one quantitative goal, "to have Canadians eat one additional chicken meal every two months". The previous Strategic Plan for 2009-2013 listed as an industry objective to increase annual per capita consumption of chicken to 33 kg, an ambitious goal that remained unachieved.

Prices

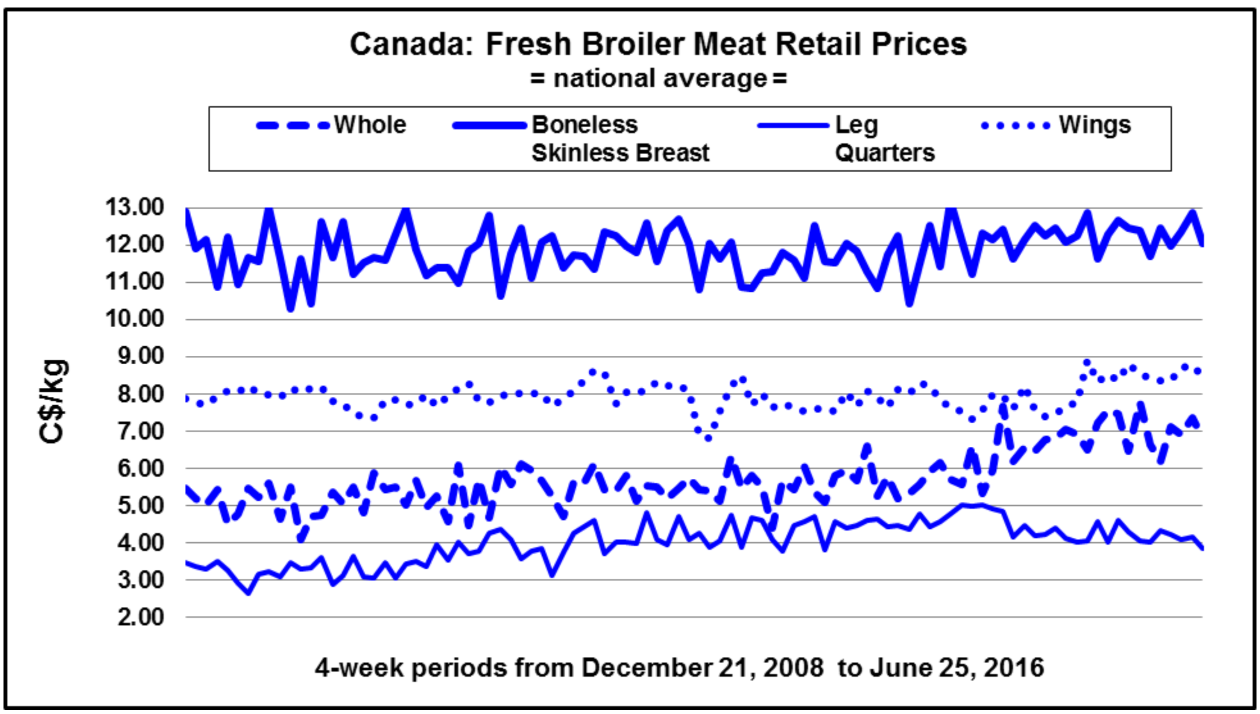
With the supply management system, chicken producers receive a fixed price for their live birds, which is determined every 8-week production cycle based on production costs. Ontario is the largest chicken producing province in Canada, capturing about one-third of the market, and therefore Ontario live 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 over the 2008-2013 period, due to dramatic increased in grain and feed prices. However, since 2014, prices have come down, reflecting once again cheaper feed costs.



Source: Chicken Farmers of Canada / *Post estimate

The Canadian supply management system guarantees prices only 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 the 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 cuts 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 2017, imports are projected at 150,000 metric tons (MT), up 10,000 MT from the revised estimate level of 140,000 MT for 2016. 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. Additional imports outside of the TRQ may be imported under re-export programs. Market conditions in the 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 IREP (imports for re-export program) or DRP (duties relief program).

CANADA: Broiler Meat Imports

Quantity in metric tons, product weight				January-May		%change
	2013	**2014**	**2015**	**2015**	**2016**	**2016/15**
World	**143,723**	**152,593**	**149,833**	**61,105**	**49,208**	**-19.5%**
United States	126,125	135,796	127,159	53,686	38,301	-28.7%
Brazil	12,210	10,112	14,977	4,896	6,512	33.0%
Thailand	4,784	5,831	6,133	2,339	2,643	13.0%
Other countries	604	854	1,564	184	1,752	852.2%
Import Market Shares						
United States	88%	89%	85%	88%	78%	
Brazil	8%	7%	10%	8%	13%	
Thailand	3%	4%	4%	0%	4%	

Source: Global Trade Atlas

The United States is Canada's largest supplier of broiler meat, with a market share typically above 85 percent, followed by Brazil, typically at about 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. As a very recent trend, Hungary has become a supplier of frozen wings to Canada (possibly in the 2,000 MT range for 2016), these being reportedly priced more competitively than the Brazilian wings.

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. In addition, poultry meat and meat products from non-eligible establishments must not enter Canadian establishments that have full export status for the United States. All Canadian establishments (including storage facilities) must maintain inventory records regarding origin of all meat present on their premises and the destination of meat shipped from the premises.

Exports

Post forecasts 2017 broiler meat exports at 150,000 MT, up 10,000 MT from the estimated level for 2016. While market forces play a certain role in Canada’s export levels, the main reason for the recent increases in volume probably has to do with the increased use of the Duties Relief Program (DRP), under which importers have up to four years to re-export the imported chicken meat, as opposed to three months under the traditional IREP. The use of the DRP became popular in 2012, and 2016 is the first year when some of the imports from 2012 are due for re-export. This explains, at least in part, the anticipated increases in Canada's exports of broiler meat for 2016 and 2017.

Generally speaking exports fall into two broad categories: the majority of them represent the "re-export" side of the IREP or DRP, 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

Quantity in metric tons, product weight				January-May		%change
	2013	2014	2015	2015	2016	2016/15
World	**150,119**	**136,746**	**133,237**	**54,615**	**58,015**	**6.2%**
United States	61,529	60,299	69,253	27,602	30,381	10.1%
Taiwan	23,827	24,234	13,992	8,480	6,979	-17.7%
Cuba	6,299	4,449	10,589	3,923	797	-79.7%
Philippines	21,282	15,151	10,364	2,382	8,452	254.8%
Hong Kong	6,221	7,157	4,207	1,892	3,051	61.3%
Tajikistan	3,455	1,606	3,399	669	864	29.1%
Gabon	4,615	3,758	2,974	967	156	-83.9%
Other countries	22,891	20,092	18,459	8,700	7,335	-15.7%
Export Market Shares						
United States	41%	44%	52%	51%	52%	
Taiwan	16%	18%	11%	16%	12%	
Cuba	4%	3%	8%	7%	1%	
Philippines	14%	11%	8%	4%	15%	
Hong Kong	4%	5%	3%	3%	5%	
Tajikistan	2%	1%	3%	1%	1%	
Gabon	3%	3%	2%	2%	0%	

Source: Global Trade Atlas

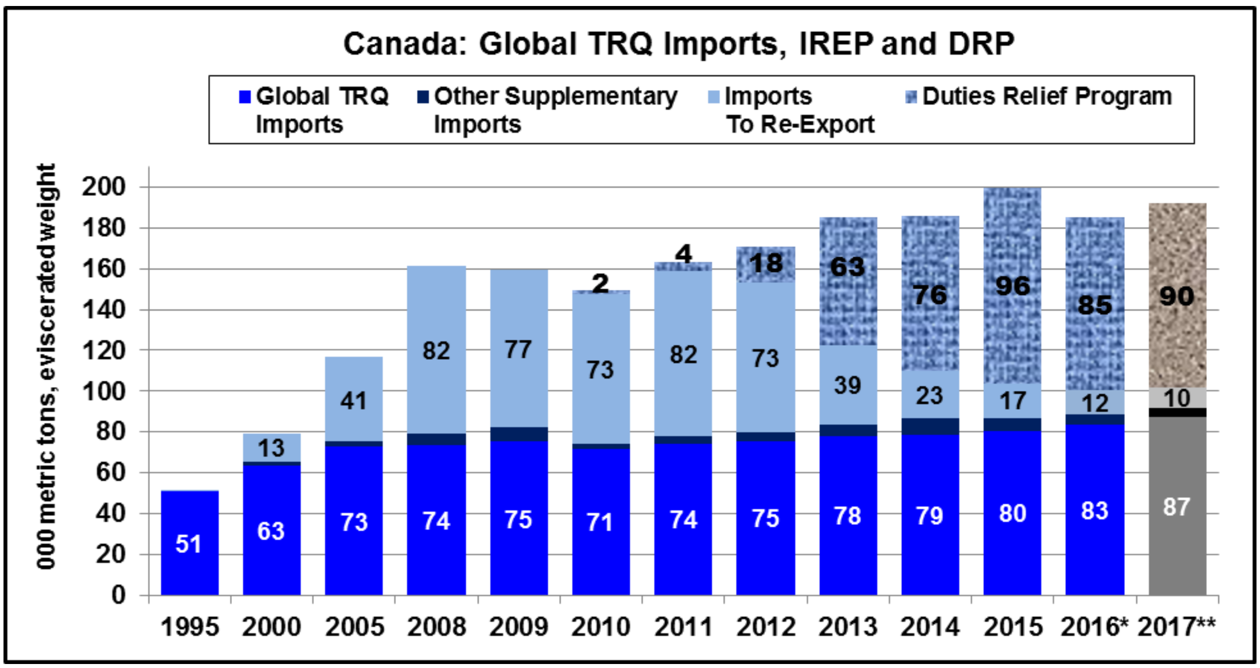
Policy:

<u>Tariff Rate Quota</u>

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 2017, the global permit allowance is forecast to increase to 87,000 MT based upon the estimated 2016 production. For 2016, the global chicken TRQ is 83,400 MT as based on the 2015 production level. Actual chicken imports under the TRQ may be slightly higher or lower than the allocated amounts, based on prevailing market conditions in each year.

Under the TRQ, imports are subject to low "within access commitment" rates of duty up to the predetermined limit, while imports over this limit are subject to higher, prohibitive "over access commitment" rates of duty. Imports from the United States benefit from a duty free treatment under the chicken TRQ, while over-quota duties can reach 250 percent.

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 Global Affairs Canada (GAC, formerly DFATD), at the following link.



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

Imports for Re-Export Program: Traditionally, 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 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.

Duties Relief Program: The year 2012 marked the emergence of usage in another imports for re-export program, namely the Duties Relief Program (DRP) operated by the Canada Border Services Agency (CBSA). Post anticipates that by 2017 nearly 95 percent of Canada's imports for re-export will be part of CBSA's DRP program, as opposed to the IREP program under Global Affairs Canada (GAC, formerly DFATD). Details about the program can be found following this link. While in general the DRP is very similar to the IREP, there are some differences that make the DRP more appealing to importers, like for instance the requirement to re-export the chicken meat within up to four years, rather than within three months as required by the IREP.

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 link. 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).