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Report Highlights:

Canada has a large inventory of cattle following the disruption to the supply chain caused by the May 2003 discovery of BSE in Alberta and the subsequent closure of the U.S. border to live cattle from Canada. While uncertainty surrounds Canadian beef production levels for 2004, beef output may show a double-digit percentage increase over the 2003 level. Canadian beef exports are forecast to rebound to pre-BSE levels reflecting strengthening sales to its top two markets, the U.S. and Mexico. Canadian pork production in 2004 is forecast to fall from its record level during 2003. Two elements that will limit pork production this year are the expectation of a lower inventory when Statistics Canada releases the data next month and a continued high level of live feeder pig exports to the United States.

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Executive Summary

- * Uncertainty surrounds Canadian beef production levels for 2004. Canadian beef output in 2004 may show a double digit percentage increase over the 2003 level.
- * Canada has a large inventory of cattle and the supply chain has been disrupted following Canada's May 2003 BSE incident and the subsequent closure of the U.S. border to live cattle from Canada. Many Canadian producers reacted to the disruption in 2003 by temporarily delaying marketing intentions, but the industry will face a serious inventory backup in 2004 unless slaughter rates increase significantly.
- * Canadian beef exports are forecast to rebound to pre-BSE levels reflecting strengthening sales to its top two markets, the U.S. and Mexico.
- * The GOC has yet to make a determination as to the treatment of supplementary import permits for non-NAFTA beef during 2004. Until that time, non-NAFTA countries' access to the Canadian beef market in 2004 is limited to 76,409 metric tons.
- * Pork production in 2004 is forecast to fall from its record level during 2003. The expectation is for a lower inventory and for a continued strong level of live feeder pig exports to the United States, two elements that will limit pork production. About one hog in five born in Canada will be fed, raised and slaughtered in the United States.
- * Maple Leaf Foods, a major pork processor, has introduced a DNA traceability system will allow Canadian pork marketed worldwide to be traced back to the maternal sow. The company believes the system will provide a major competitive advantage and far-reaching benefits for the Canadian pork industry.
- * Present indicators point to Canadian pork exports in 2004 at levels close to or slightly below the realized 2003 total of 975,000 metric tons (carcass weight equivalent). Prospects for additional meat supplies in the United States related to lower U.S. beef exports due to BSE and increasing U.S. pork supplies may negatively impact demand for Canadian pork in U.S. markets.
- * Bovine Spongiform Encephalopathy is abbreviated throughout this report as BSE.

Section I. Cattle and Beef

Note: The data estimates in this report were made prior to Statistics Canada's release of Livestock on Farms at January 1, which will be available in mid-February 2004. As a result, they are subject to change at that time.

Cattle Numbers PS&D

The Canadian cattle industry appears poised to record a significant inventory increase when Statistics Canada releases its Cattle on Farms report in mid-February 2004. Slaughter levels in 2003 were reduced due to the market disruptions of the BSE incident in May 2003 and the subsequent closure of the U.S. border to Canadian cattle. Had more normal trading conditions prevailed throughout 2003, 1.0 million to 1.2 million head of Canadian cattle would have been exported live to the United States in addition to the 0.5 million head that were exported in the Jan-May period prior to the discovery of BSE in Canada.

The United States is currently studying a proposed rule to re-open the border to Canadian live cattle less than 30 months of age for immediate slaughter. However, the analysis in this report reflects the import policy as of the final week of January 2004.

Commodity	Animal Numbers, Cattle (1000 HEAD)					
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [	Estimate [DA	Official [	Estimate [DA	Official [	Estimate [I
Market Year Begin	01/2002		01/2003		01/2004	
Total Cattle Beg. Stks	13762	13762	13454	13454	14500	14700
Dairy Cows Beg. Stks	1084	1084	1065	1065	1050	1060
Beef Cows Beg. Stocks	4636	4636	4752	4752	5000	4800
Production (Calf Crop)	5757	5757	5800	5800	5900	5700
Intra EC Imports	0	0	0	0	0	0
Total Imports	138	138	75	75	50	20
TOTAL Imports	138	138	75	75	50	20
TOTAL SUPPLY	19657	19657	19329	19329	20450	20420
Intra EC Exports	0	0	0	0	0	0
Total Exports	1691	1691	510	510	0	0
TOTAL Exports	1691	1691	510	510	0	0
Cow Slaughter	528	528	380	350	500	450
Calf Slaughter	293	293	320	330	340	360
Other Slaughter	3016	3016	2900	2735	3410	3190
Total Slaughter	3837	3837	3600	3415	4250	4000
Loss	675	675	719	704	750	720
Ending Inventories	13454	13454	14500	14700	15450	15700
TOTAL DISTRIBUTION	19657	19657	19329	19329	20450	20420

Beef PS&D

NOTE: The beef production forecasts in this report reflect the trading policies of Canada's trade partners with regard to BSE at the end of January 2004. Changes to these policies will be reflected in data revisions in subsequent reports.

Uncertainty surrounds Canadian beef production levels for 2004. Following Canada's BSE case, the Canadian beef industry was struggling with the impact of the related loss of the U.S. market for up to 1.5 million head annually of Canadian live slaughter cattle and for beef from cattle older than 30 months. The situation was exacerbated by the discovery of BSE in a Washington State cow in December 2003. The potential for increased Canadian boneless beef (30 mos. or less) exports to the U.S. in 2004 are dimmed by the prospect of millions of pounds of extra beef on the U.S. market reflecting the loss of U.S. beef export markets which normally absorbed about 10% of U.S. production.

At this juncture, it appears that Canadian beef output in 2004 will show a double-digit percentage increase over the 2003 level. Many Canadian producers reacted to the disruption in 2003 by temporarily delaying marketing intentions, but the industry will face a serious inventory backup in 2004 unless slaughter rates increase significantly.

Another important factor influencing Canadian beef output in 2004 is the outcome of the ongoing issue of the proposed U.S. rule to permit the resumption of imports of certain live cattle into the U.S. market.

Commodity	Meat, Beef and Veal				(1000 MT CWE)(1000	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [	Estimate [DA	Official [	Estimate [DA	Official [	Estimate [I
Market Year Begin	01/2002		01/2003		01/2004	
Slaughter (Reference)	3837	3837	3600	3415	4250	4000
Beginning Stocks	32	32	32	24	50	36
Production	1295	1272	1210	1135	1430	1310
Intra EC Imports	0	0	0	0	0	0
Total Imports	307	307	280	286	250	230
TOTAL Imports	307	307	280	286	250	230
TOTAL SUPPLY	1634	1611	1522	1445	1730	1576
Intra EC Exports	0	0	0	0	0	0
Total Exports	610	611	425	385	615	550
TOTAL Exports	610	611	425	385	615	550
Human Dom. Consumptic	992	976	1047	1024	1070	1000
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumptic	992	976	1047	1024	1070	1000
Ending Stocks	32	24	50	36	45	26
TOTAL DISTRIBUTION	1634	1611	1522	1445	1730	1576

Cattle Prices

Canadian slaughter steer prices in the first few weeks of 2004 are in the low C\$80 per hundredweight range. They are relatively strong reflecting strong export sales to Mexico, where Canadian beef is currently filling the void of U.S. sales to Mexico, and due to a strong domestic market where GOC policy is limiting non-NAFTA beef access.

Canada: Slaughter Steer Prices
 Monthly Weighted Averages; Alberta
 Units: C\$/hundredweight

	2001	2002	2003
January	107.66	105.08	114.17
February	113.81	107.10	115.13
March	118.07	109.62	110.29
April	111.75	98.19	108.55
May	105.24	94.77	106.31
June	99.81	90.73	65.44
July	98.41	90.11	36.75
August	97.95	92.43	41.10
September	94.25	94.57	73.15
October	94.82	97.23	83.60
November	96.88	101.69	80.50
December	99.07	105.05	84.25
Annual Aver.	102.82	98.88	84.94

Shaded area indicates post estimates

Sources: StatCan, Cattle Statistics & CanFAX weekly

Beef Trade

Canadian beef exports were severely disrupted by the discovery of a case of BSE in May 2003. Pre-BSE estimates of Canadian beef exports in the 550,000–600,000 metric ton range for 2003 in reality reached only about 385,000 metric tons following the closure or partial closure of major export markets.

Beef Export Outlook for 2004

Canadian beef exports have been strong since the partial lifting of the U.S. ban on Canadian beef in August 2003, a policy subsequently adopted by Mexico shortly thereafter. A bright spot for the Canadian beef industry is exports in early 2004 that are recording sharp increases to both the U.S. and to Mexico. While uncertainty surrounds predictions that these levels will continue (Canada is currently filling a void in Mexico created by the absence of U.S. product) throughout 2004, export prospects are favorable. At this early date, post forecasts that total Canadian beef exports could reach 550,000 metric tons in 2004, more than 40% above the 325,000 metric tons of 2003 when export markets were disrupted.

Beef Import Outlook for 2004

Canada Studying Import Access for Non-NAFTA Beef

Canada has no quantitative limits on imports of U.S. beef, but non-NAFTA suppliers are limited by a tariff rate quota (TRQ) to 76,409 metric tons per year. In a normal year, at the discretion of the government, supplementary imports from non-NAFTA suppliers are permitted under certain situations of domestic supply availability. However, after May 2003, in order to address the uncertainty brought on by Canada's BSE incident, the GOC tightened the rules for non-NAFTA suppliers when it was learned that in the January to May period of 2003, supplementary imports (beyond the TRQ) were approved for 42,419 metric tons. The major non-NAFTA suppliers are Uruguay, New Zealand and Australia.

Following the BSE incident in Alberta and the subsequent loss of the market for live slaughter cows to the United States, the Canadian beef industry, through its promotion arm, the Beef Information Center, is applying strategies to increase Canadian consumption of its own cow beef.

According to officials at the Department of Foreign Affairs and International Trade who administer the beef TRQ, the GOC is studying the Canadian beef supply situation and meeting with stakeholders to determine if supplementary import permits will be issued during 2004. A decision is expected in February or March.

At this time, post estimates total Canadian beef imports during 2004 at about 230,000 metric tons (carcass weight equivalent), down from the previous 3-year average of 300,000 metric tons. This is based on an assumption that the TRQ for non-NAFTA countries will be filled, that the GOC will allow modest supplementary imports (of certain cuts) from those countries, and that U.S. beef exports to Canada, although restricted to boneless beef from cattle under 30 months, will maintain their traditional market share.

Policy

BSE Interim Measures: On December 24, 2003, in response to the discovery of the single case of BSE in Washington State, Canada implemented interim import restrictions on certain U.S. ruminants and ruminant products. By January 22, 2004, the GOC introduced new measures to narrow the scope of the import restrictions placed by the Canadian Food Inspection Agency (CFIA).

Examples of prohibited commodities:

- animals of the family *Bovidae* such as cattle, bison, sheep, goats, muskox, buffalos and water buffalos;
- meat or meat products derived from animals of the family *Bovidae* (*Bovidae*) and things containing such meat or meat products;
- ingredients derived from *Bovidae* for use in animal food and animal food containing those ingredients;
- ingredients, other than manure, derived from *Bovidae* to be used in fertilizer and fertilizer containing those ingredients; and
- specified risk material from the animals of the family *Bovineae* (*Bovineae*) (eg. brain of cattle and bison).

Examples of exempted commodities:

- boneless beef of cattle under 30 months of age subject to the development of certification procedures;
- cattle imported for immediate slaughter;
- *Bovidae* and things derived from them imported for medical use, scientific research or zoological collections;
- embryos from the family *Bovidae*;
- animals and things carrying an animal pathogen imported into Canada under an import permit;
- products of a rendering plant imported into Canada under an import permit issued after December 25, 2003;
- meat and meat products originating in Argentina, Australia, New Zealand, Chile, Uruguay, or Brazil that are processed in the US;
- meat and meat products originating in Argentina, Australia, New Zealand, Chile, Uruguay, Canada or Brazil that are in transit in the US;
- meat or meat products that are kept on a ship as ships stores;
- meat and meat products intended to be used for personal consumption (less than five kilograms in total);
- milk and milk derivatives;
- hides, wool, skins and their derivatives;
- pet chews (not containing *Bovineae* specified risk materials or vertebral column);
- protein-free tallow;
- household garbage from the US containing animal protein;
- aircraft garbage and ships' refuse;
- commercially prepared pet food that does not contain ingredients derived from *Bovineae*;
- transshipments through Canada to communities where only practical water/land route is through Canada;
- a food containing meat or meat products in insignificant quantity; and
- things from bones and tissue (not specified risk material from animals of the sub-family *Bovineae*) subjected to rigorous processes of extraction and purification.

Live Feeder Cattle Imports Year Round

In mid-December, 2003 the Canadian Food Inspection Agency (CFIA) released a discussion paper on the year-round importation of U.S. feeder cattle. Currently, the entry of U.S. feeder cattle to Canada is restricted to the October 1-March 31 period due to CFIA requirements regarding bluetongue and anaplasmosis. Interested parties have until February 15, 2004 to submit comments to CFIA. Since early 2000, the Canadian Cattlemen's Association (CCA) has advocated an extension of the conditions for winter importation. The CFIA discussion paper lists options, one of which would set certain conditions on summer importation such as unique ear-tag identification and a "direct to slaughter" requirement for U.S. feeders exiting Canadian feedlots. On the animal health side, the CCA has long believed that a policy incorporating such procedures imparts minimal risk to Canada's beef herd and to wildlife. On the political side, the CCA has consistently pressured the GOC to move quickly on the issue of year-round access, particularly since the U.S. is currently studying a regulatory proposal to establish Canada as a minimum risk region for BSE, which would allow U.S. imports of Canadian cattle under 30 months of age for immediate slaughter and of certain other ruminants. The full text of the CFIA's discussion paper is available on the CFIA website at:
<http://www.inspection.gc.ca/english/anima/heasan/import/bovine.shtml>

Section II. Hogs and Pork

During 2004 Canada's hog inventory may take a pause from the steady, annual increases recorded over the past decade. Combined with the continuation of a high level of live hog exports to the U.S., Canadian pork production is forecast to show a modest decline from the 2003 level.

Post anticipates that when Statistics Canada releases the Canadian hog inventory for January 1, 2004 in mid-February 2004 that total hog numbers will show a small decline. This development is directly related to declining profitability in the latter part of 2003 (low market prices/strong feed grain prices) and to the rise in exports of live feeder pigs to the United States. The actual decline in the breeding herd is expected to be fractional, if any.

Canadian pork consumption was disrupted by developments surrounding Canada's BSE incident in May 2003. The impact of BSE on beef marketing patterns and a staid consumer reaction to human health risks resulted in a increase in beef consumption partially at the expense of pork. Anecdotal evidence suggests that per capita pork consumption slipped moderately during 2003.

Commodity	Animal Numbers, Swine (1000 HEAD)					
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [	Estimate [D]	USDA Official [	Estimate [D]	USDA Official [	Estimate [D]
Market Year Begin	01/2002		01/2003		01/2004	
TOTAL Beginning Stocks	14367	14367	14667	14667	14650	14400
Sow Beginning Stocks	1468	1468	1524	1524	1550	1520
Production (Pig Crop)	29613	29625	31000	31000	31500	31000
Intra EC Imports	0	0	0	0	0	0
Total Imports	14	14	5	5	0	6
TOTAL Imports	14	14	5	5	0	6
TOTAL SUPPLY	43994	44006	45672	45672	46150	45406
Intra EC Exports	0	0	0	0	0	0
Total Exports	5740	5740	7000	7200	6900	7000
TOTAL Exports	5740	5740	7000	7200	6900	7000
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	22128	22140	22600	22600	23000	22400
Total Slaughter	22128	22140	22600	22600	23000	22400
Loss	1459	1459	1422	1472	1450	1406
Ending Inventories	14667	14667	14650	14400	14800	14600
TOTAL DISTRIBUTION	43994	44006	45672	45672	46150	45406

Pork

Low profitability for Canadian hog producers in the final quarter of 2003 and prospects for continued and complex competitive issues in 2004 related to BSE in both domestic and world meat markets point to a pullback in Canadian pork production in the coming year. As mentioned earlier, a combination of an anticipated reduced hog inventory at the beginning of 2004 and a continued strong level of live hog exports to the United States is expected to result in lower pork production for 2004.

For some time now, the pork industry has been awaiting the implementation of a second shift at the large Maple Leaf Foods processing plant in Brandon, Manitoba. The current speculation in the industry is that the Brandon plant will not begin a second shift until the fall of 2004.

Commodity	Meat, Swine					
	2002		2003	Estimate	2004	Forecast
Market Year Begin	USDA Official [	Estimate [DA	USDA Official [	Estimate [DA	USDA Official [	Estimate [DA
	01/2002	01/2002	01/2003	01/2003	01/2004	01/2004
Slaughter (Reference)	22128	22140	22600	22600	23000	22400
Beginning Stocks	45	45	54	54	40	40
Production	1854	1854	1910	1895	1940	1875
Intra EC Imports	0	0	0	0	0	0
Total Imports	91	91	77	90	80	100
TOTAL Imports	91	91	77	90	80	100
TOTAL SUPPLY	1990	1990	2041	2039	2060	2015
Intra EC Exports	0	0	0	0	0	0
Total Exports	863	863	975	975	980	960
TOTAL Exports	863	863	975	975	980	960
Human Dom. Consumptic	882	882	836	834	835	815
Other Use, Losses	191	191	190	190	200	200
TOTAL Dom. Consumptic	1073	1073	1026	1024	1035	1015
Ending Stocks	54	54	40	40	45	40
TOTAL DISTRIBUTION	1990	1990	2041	2039	2060	2015

Hog Prices

Canada: Slaughter Hog Prices; Ontario & Manitoba
 Units: \$C/kilogram; index 100 dressed

	ONTARIO			MANITOBA		
	2001	2002	2003	2001	2002	2003
January	1.38	1.50	1.23	1.41	1.53	1.33
February	1.51	1.67	1.39	1.48	1.63	1.41
March	1.81	1.56	1.36	1.76	1.54	1.39
April	1.86	1.34	1.35	1.83	1.38	1.37
May	1.95	1.34	1.44	1.95	1.38	1.53
June	2.05	1.41	1.62	1.98	1.44	1.62
July	2.04	1.58	1.55	1.98	1.56	1.59
August	2.01	1.49	1.43	1.96	1.51	1.55
September	1.76	1.09	1.33	1.81	1.15	1.45
October	1.60	1.23	1.24	1.64	1.31	1.38
November	1.47	1.16	1.09	1.48	1.23	1.26
December	1.36	1.25	1.12	1.38	1.28	1.26
Average	1.73	1.38	1.35	1.72	1.41	1.43

Source: StatCan & AgCan

Industry Developments

MAPLE LEAF FOODS, INC., TO PURCHASE SCHNEIDER CORPORATION FROM SMITHFIELD: Last week, Maple Leaf Foods, Inc. announced that it has executed a definitive agreement with Smithfield Foods, Inc. of Smithfield, Virginia to purchase Schneider Corporation of Kitchener, Ontario for \$378 million (approximately C\$515 million). Schneider, a value-added pork processor is a historically strong brand in Canada and is one of Canada's largest producers of premium branded quality food products, specializing in packaged processed meats, poultry and grocery products, but is. Schneider's employs approximately 5,000 people at its 20 facilities across Canada. Maple Leaf is Canada's largest food company and one of the largest processors of slaughter hogs in Canada. In 1997, Maple Leaf bid \$130-million to get Schneider, but the company moved to thwart the bid and accepted a Smithfield offer.

MANITOBA ENVIRONMENT COMMISSION CLEARS WAY FOR SECOND SHIFT AT MAPLE LEAF BRANDON PLANT: Earlier this month, the Manitoba Clean Environment Commission released its report on this summer's public hearing regarding the expansion of the City of Brandon's Industrial Wastewater Treatment Facility and Maple Leaf Foods Inc. hog processing plant alterations. The commission has recommended approval of the expansion of Brandon's treatment facility to accommodate waste from a second shift at the Maple Leaf plant. Maple Leaf's license allowed for future expansion to a two-shift operation, but only pending improvements and approvals for the expansion of the Brandon treatment facility. The current speculation in the industry is that the Brandon plant will not begin a second shift until about the fall of 2004.

MAPLE LEAF FOODS LAUNCHES DNA PORK TRACEABILITY PROGRAM: Maple Leaf Foods, one of Canada's leading food processing companies, has announced that it is ready to launch the first commercial application of its DNA traceability program. According to the company, the DNA traceability system will allow Canadian pork marketed anywhere in the world to be traced back to the maternal sow and the system will provide far-reaching benefits for food safety and the Canadian pork industry. The company believes this will offer the Canadian pork industry with a major competitive advantage and enable the promotion of a "Made in Canada" brand. It also claims that DNA traceability provides further assurance to consumers that they are getting pork from the world's healthiest hogs, raised under the third-party audited Canadian Quality Assurance program (established by the Canadian Pork Council). The traceback system will be implemented at one of Maple Leaf's plants in the spring of 2004, and is targeted to provide fully traceable pork products to the Japanese market by the fourth quarter of 2004.

QUEBEC PORK MORATORIUM UPDATE: Pork production in Quebec will not be expanding until more stringent regulations to protect the environment are put into place, according to Quebec's environment minister Thomas Mulcair. The moratorium on pork production expansion in the province was initially implemented in early 2002, but ; yet persistent environmental concerns have prevented the moratorium from being lifted. A main concern is the amount of phosphorus produced on hog farms. Mulcair has indicated that the moratorium will not be lifted until producers reduce the impact of their farms on the environment. The new pork production regulations will be written by the provincial government, with input from the ministries of agriculture, health, and municipal affairs. Quebec is Canada's largest pork processing province accounting for 39% of total federally inspected hog slaughter in 2002. Manitoba is second at 21%.

Live Hog Exports

As shown below, Canadian live hog exports to the United States in the January to November period of 2003 were more than 27% above the year earlier level for the same period. When final data for all of 2003 becomes available, total live hog exports will be recorded at about 7.2 million head, with about two-thirds of the total being young feeder pigs. At this juncture, the post forecast of live Canadian hog exports to the U.S. during 2004 is 6.9 million head. This estimate takes into account factors that include an outlook for a stronger Canadian dollar and the possibility of a double shift at the Maple Leaf Foods slaughter facility beginning sometime during the final quarter of 2004.

Canada: Live Swine Exports to the U.S., Calendar Year, by type

HS= 0103

Units: Thousand Head

TYPE	HS Code				Jan-Nov	Jan-Nov	% change
		2000	2001	2002	2002	2003	
Slaughter	0103.92	2,017	2,152	1,966	1,803	2,177	20.7%
Feeder	0103.91	2,336	3,169	3,757	3,426	4,490	31.1%
Purebred	0103.10	4	21	15	15	8	-46.7%
TOTALS		4,357	5,342	5,738	5,244	6,675	27.3%

Source: World Trade Atlas

Pork Trade

Present indicators point to Canadian pork exports in 2004 at levels close to or slightly below the realized 2003 total. Prospects for additional meat supplies in the United States related to lower U.S. beef exports due to BSE and increasing pork supplies may negatively impact demand for Canadian pork in U.S. markets. A depreciating dollar (and an appreciating Canadian dollar) may boost U.S. pork exports causing increased competition for Canadian pork exports in third markets.