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Agricultural Outlook Forum

Presented: February 17, 2006

A NEW LOOK FOR THE CANADIAN PORK AND BEEF SECTORS

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GEORGE MORRIS CENTRE

A New Look for the Canadian Pork and Beef Sectors

2006 USDA Agricultural Outlook Forum

Kevin Grier

February 17, 2006



Purpose

- Provide a Canadian perspective of:
 - the characteristics of the North American pork and beef industry
 - the Canadian competitive forces facing the US industry

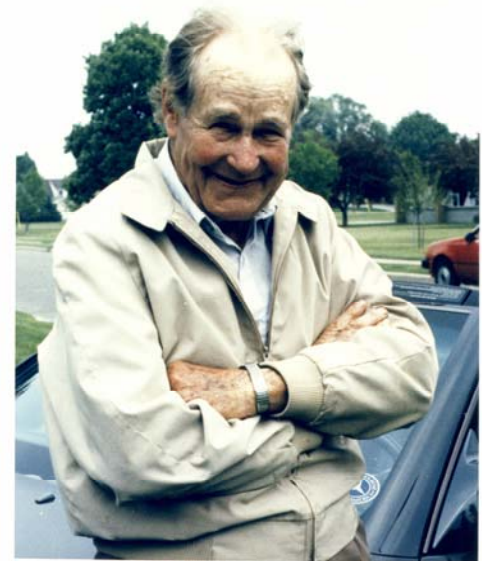


Presentation Outline

- Domestic Market Characteristics
- Price Determination and Discovery
- Trade Challenges
- Competitiveness
 - Status and prospects

George Morris Centre

- Economic Research into the Canadian Agriculture and Food Industry
- Independent
 - Financially
 - Structurally
 - Research Perspective



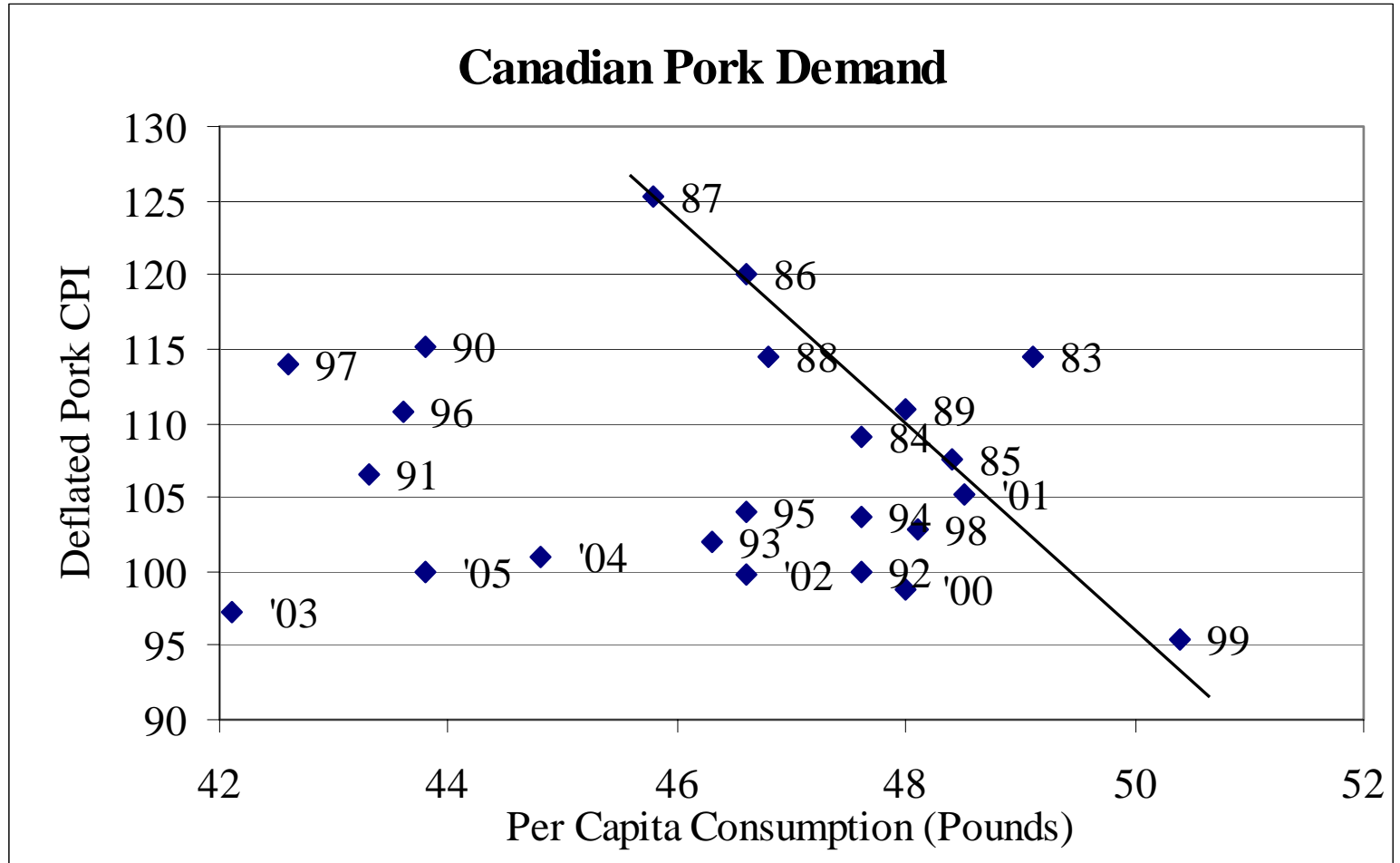
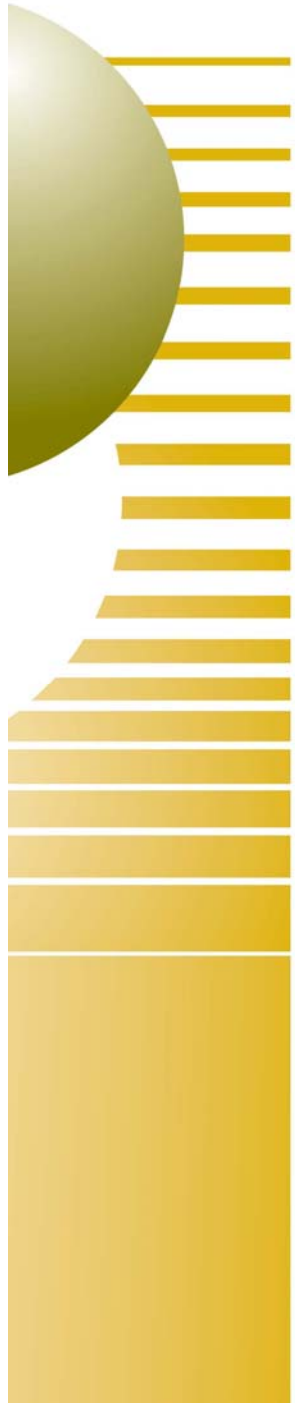


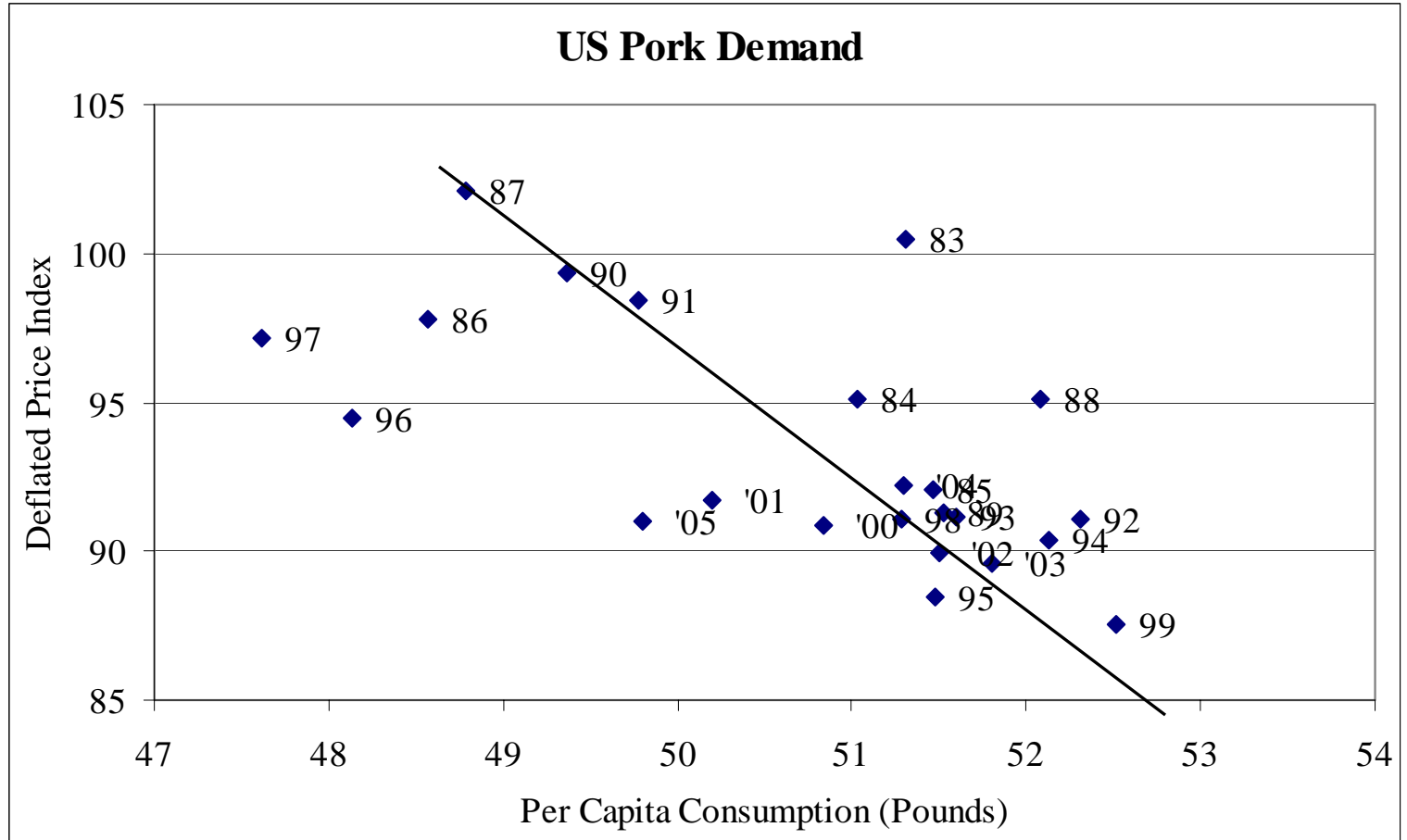
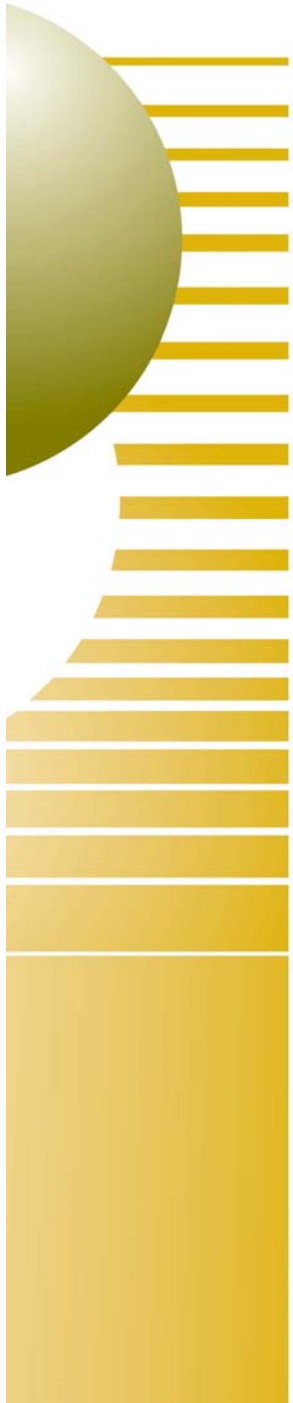
GMC Areas of Activity

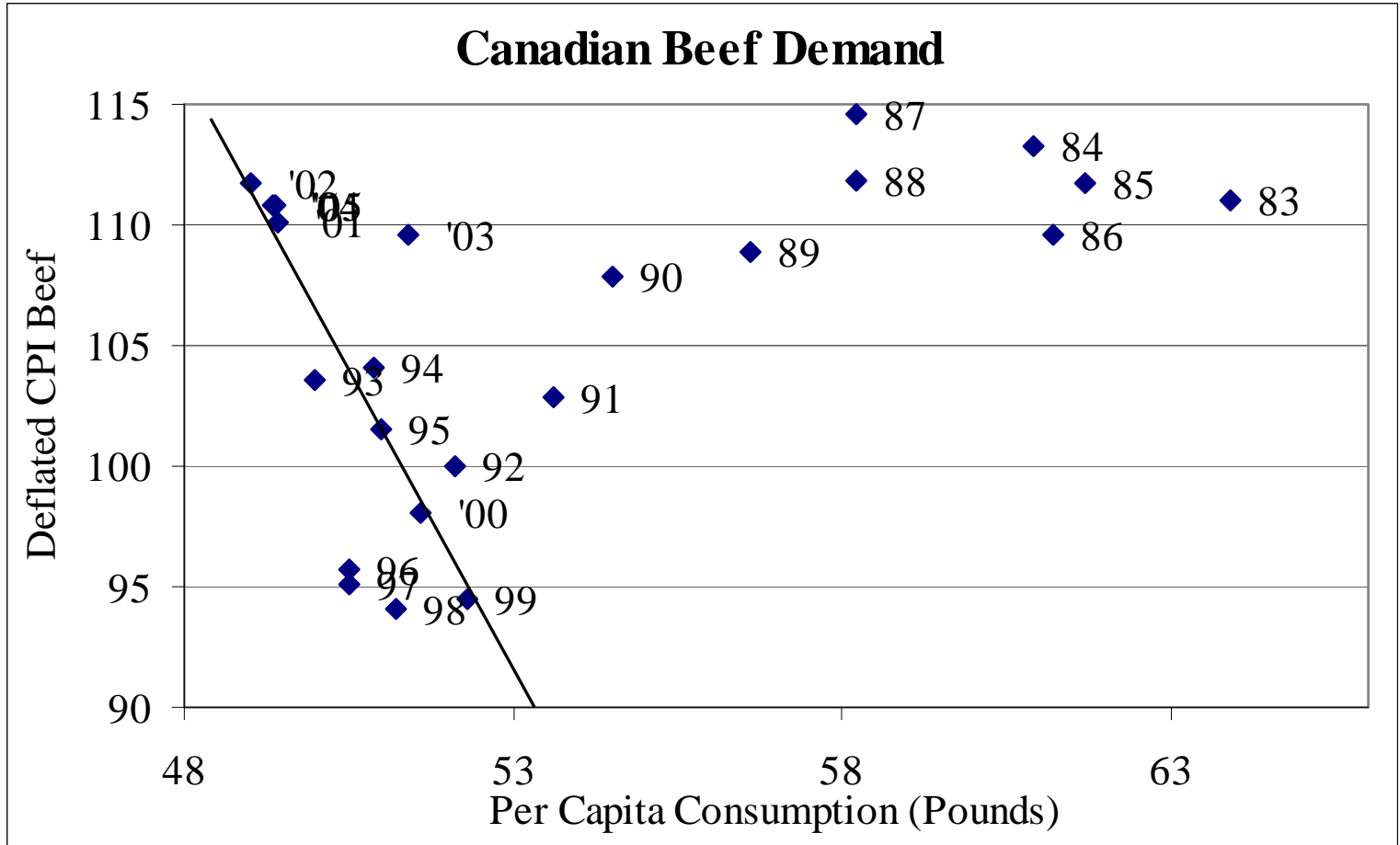
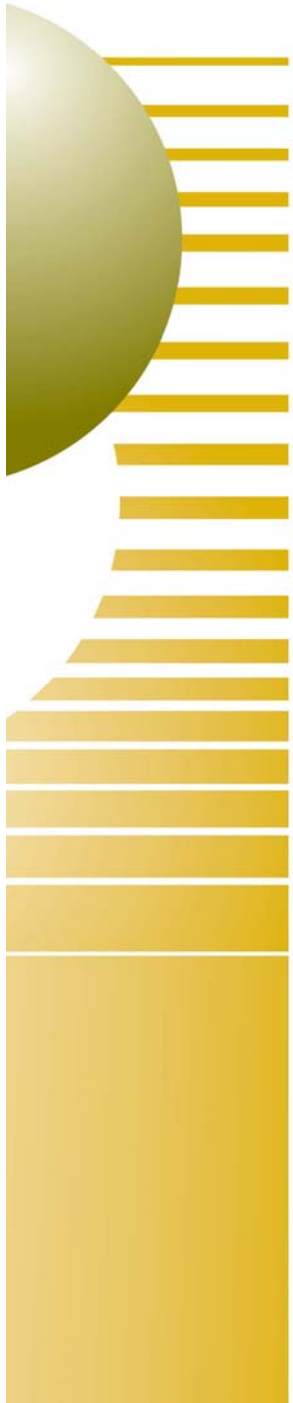
- Contract Research
 - Clients: eg. Private Companies, Producer Associations, Government
 - 2005 Research examples: BSE, Hog Marketing, Environment
- Market Analysis
 - Beef, Chicken, Pork and Grocery Reports
 - Price Forecasting
- Education
 - Executive Development
 - Risk Management

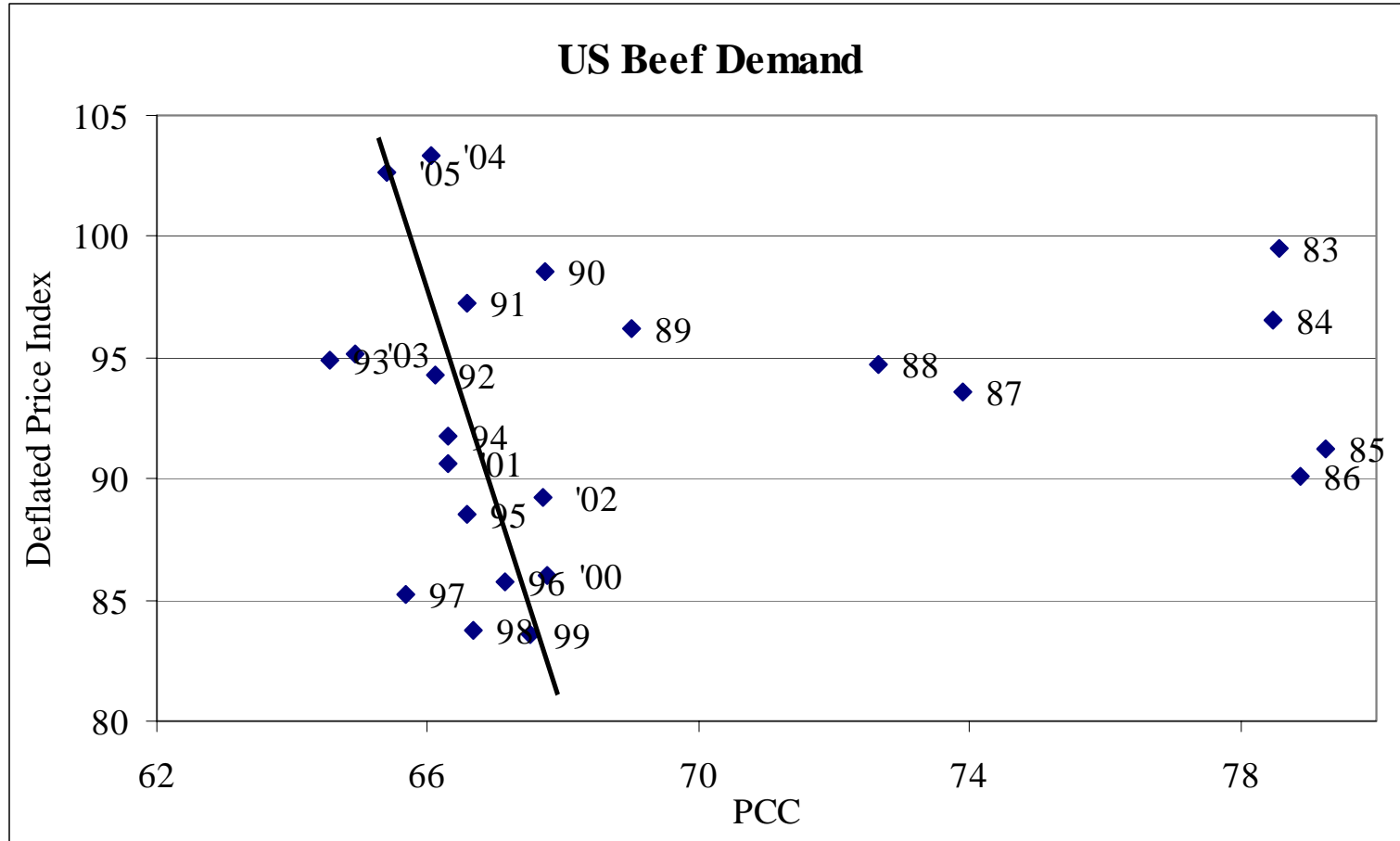
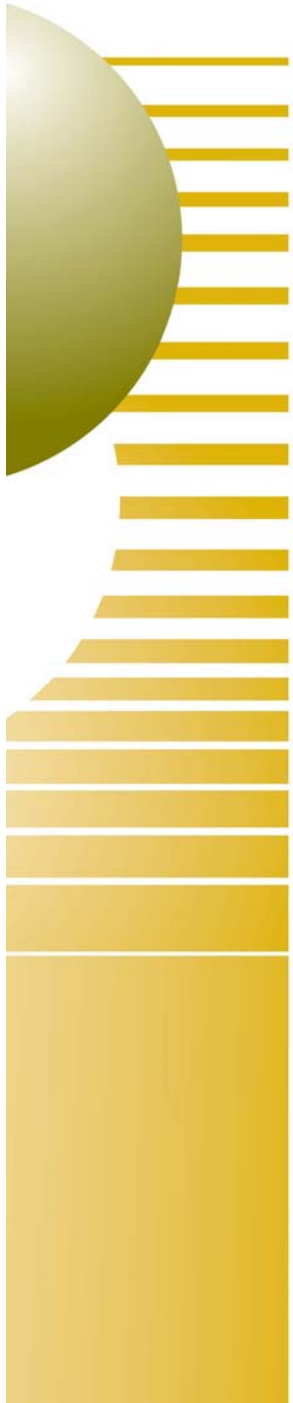


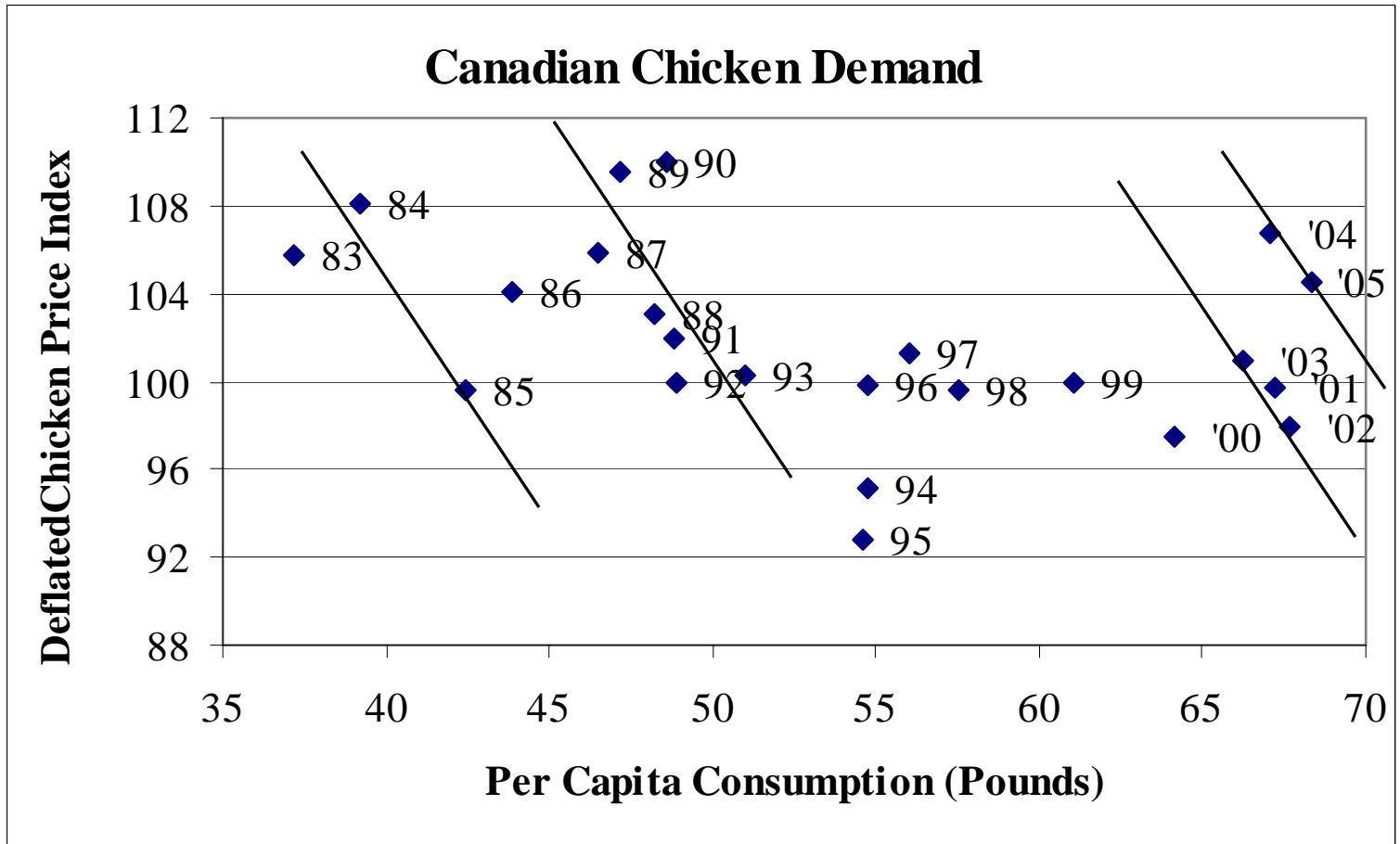
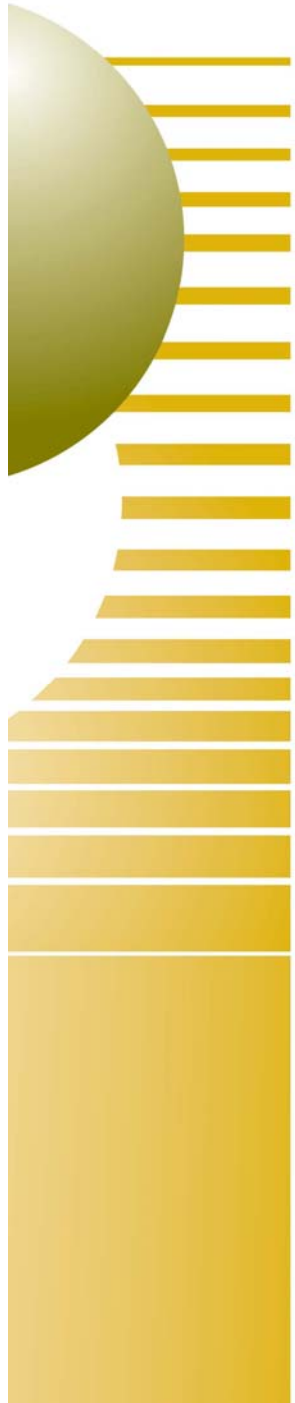
Characteristics and Status of the North American Industry

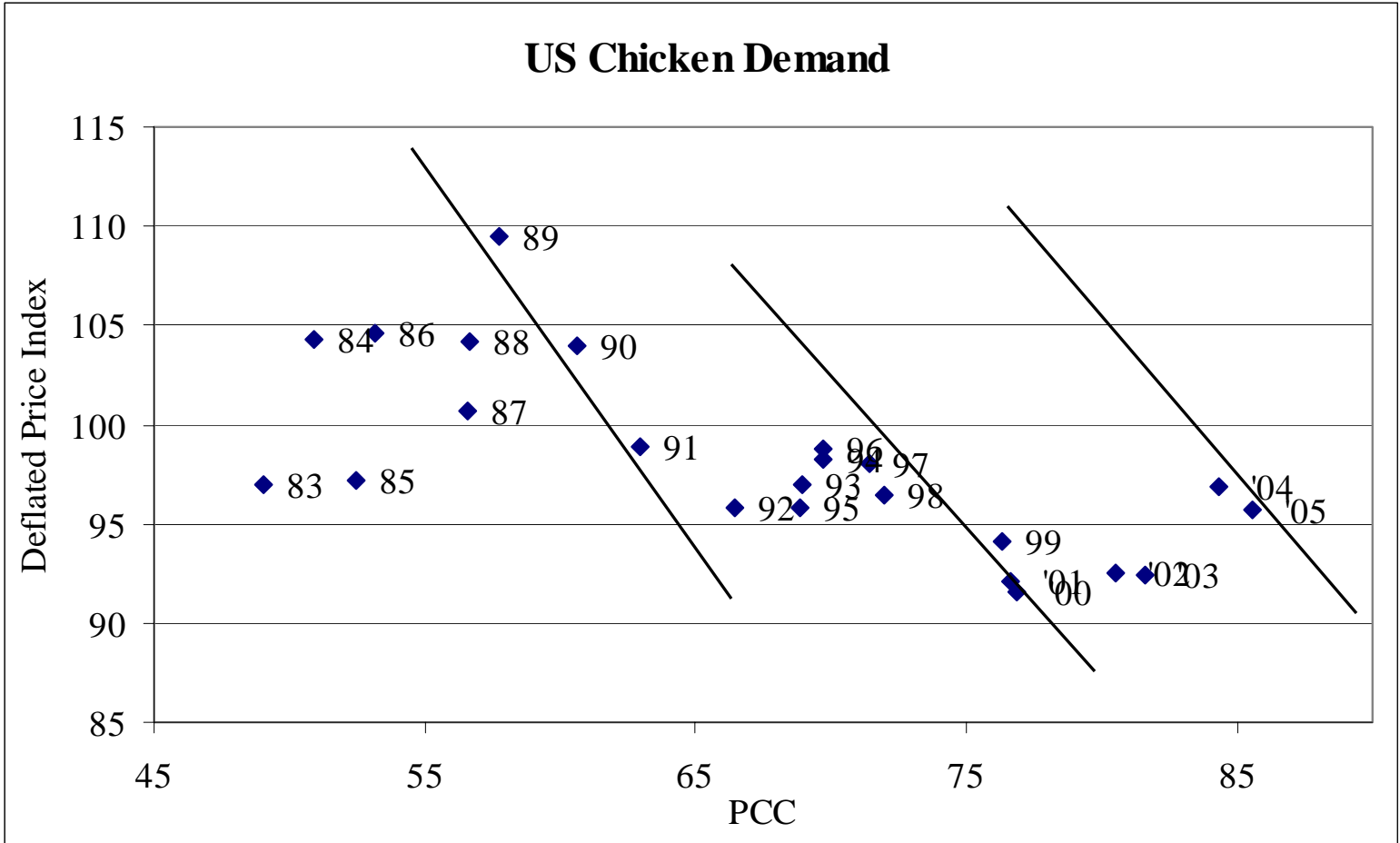














Beef Production Characteristics

Canada and the US

- Cow-calf production based on western pasture
- Feeding in large scale feedlots close to grain
- Grain based feeding
- Packing in large scale plants close to feedlots
- Cargill and Tyson

The Beef Sectors are Identical



Pork Production Characteristics

Canada and the US

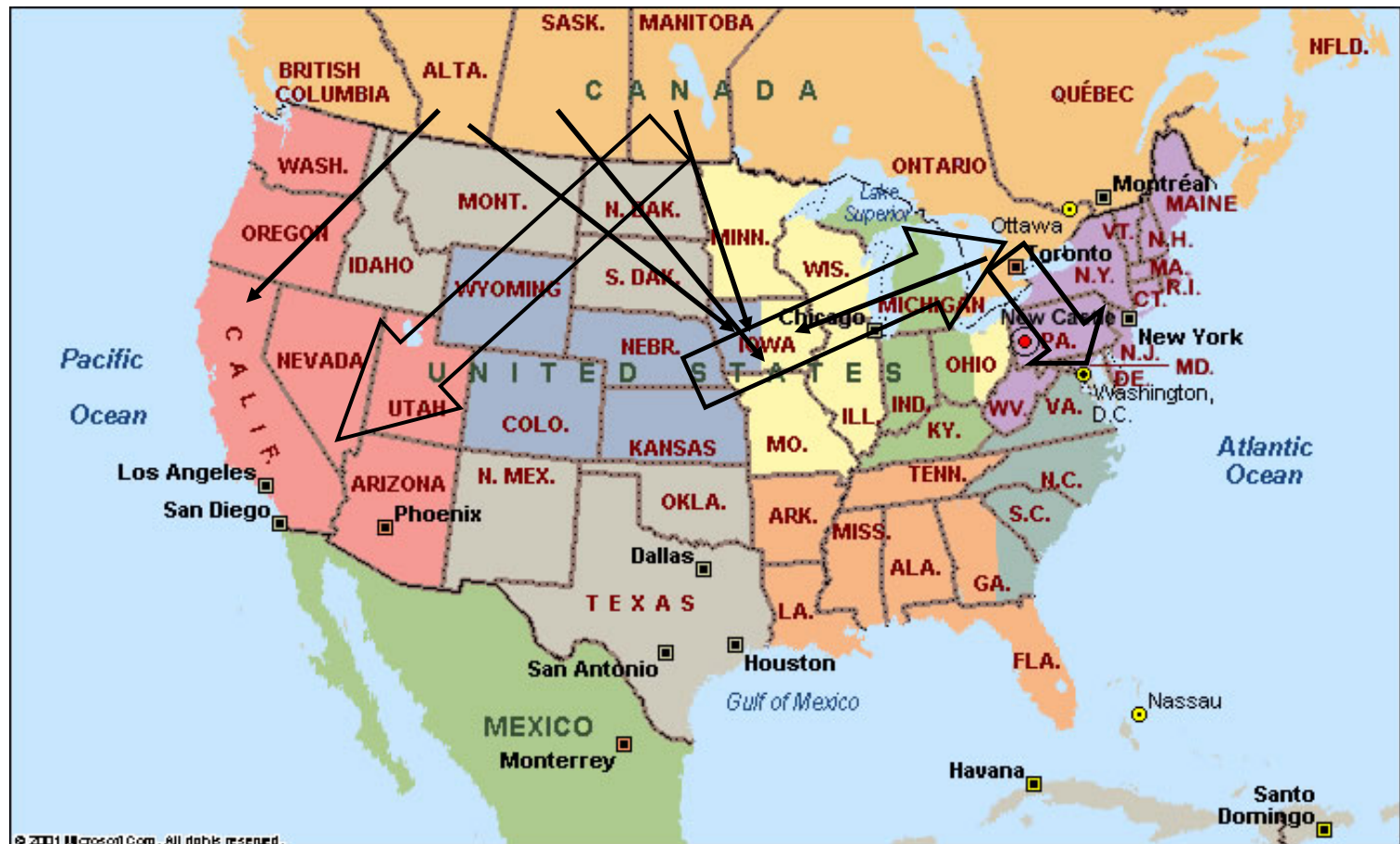
- Three site production systems
- Farrowing driven by advanced husbandry
- Increasing integration in various forms
- Packing close to finishing
- Overseas export driven

The Hog and Pork Sectors are Identical

Cattle and Beef Sales



Hog and Pork Sales



Hogs →

↓ Pork



Rationale for Hog and Pork Sales

- GMC Research; Informa Research; USDA ERS Research:
 - Sales occur for rational, economic reasons
 - Comparative advantage; structural change; industry evolution



Assertion

- Ontario weaner sales to Iowa occur for the same reasons that pull/push Oklahoma weaners sales to Iowa.
- Manitoba slaughter hog sales to Sioux Falls occur for the same reasons that pull/push Minnesota hog sales to Sioux Falls



Rationale for Cattle and Beef Sales Patterns

- GMC Research:
 - Western Canada is the most competitive region in NA for cow calf production
 - Western Canada is competitive with the High Plains for feeding
 - Tyson and Cargill plants in Alberta are among the most competitive in NA.



Assertion

- Alberta beef to California occurs for the same reasons that Nebraska beef goes to Ontario.



Cdn Livestock and Meat Pricing

- Pricing: US/Exch – Spread
- US benchmark
 - nearest alternative
- Exchange
 - price impact
- Spread
 - S&D, Freight
- Pricing is formula



Key Points

- There is no border for the livestock and meat market.
- Cda has small population and significant production resources...like Nebraska and the TPH



Recent Trade Issues

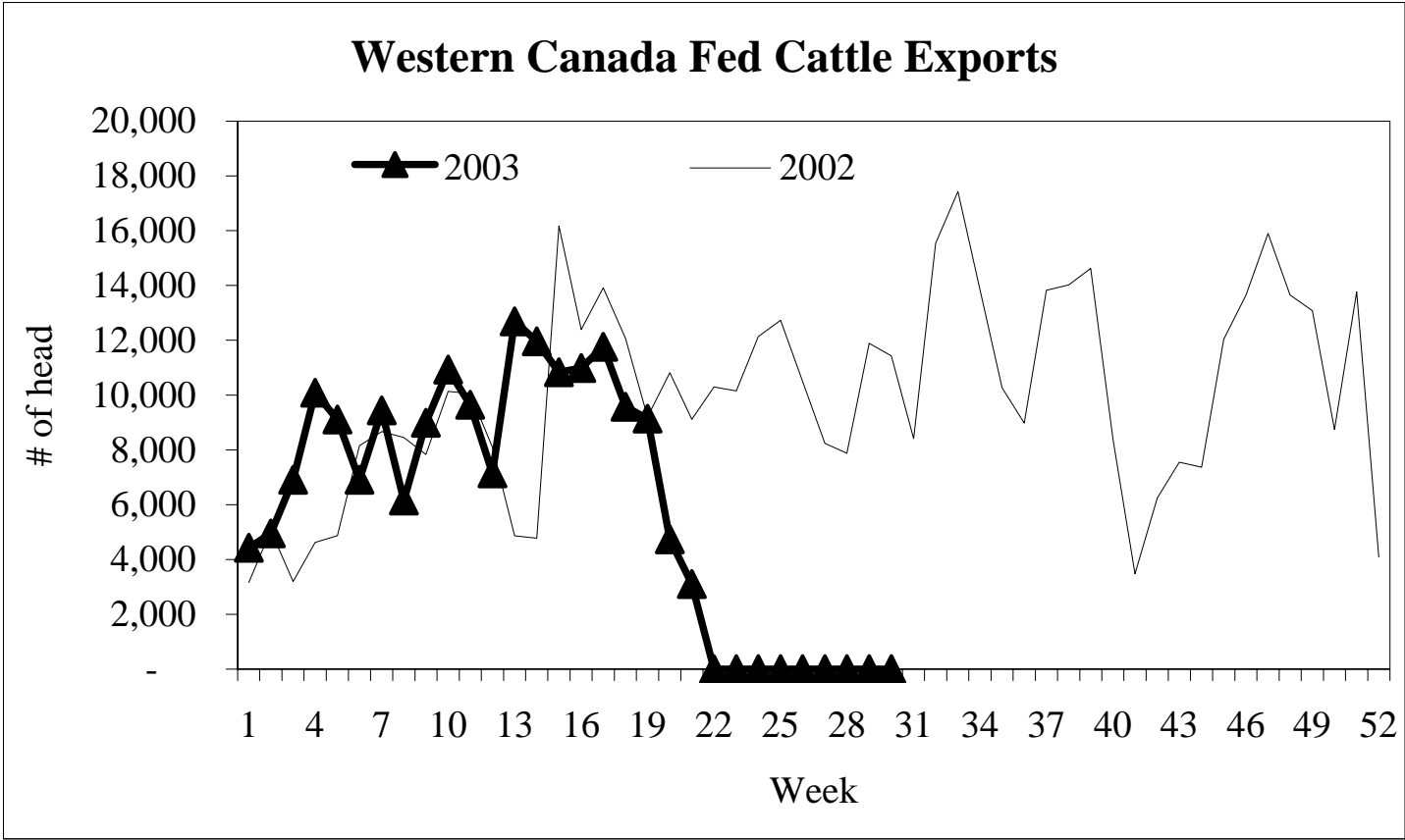
- Pork Countervail and Anti-dumping
- BSE

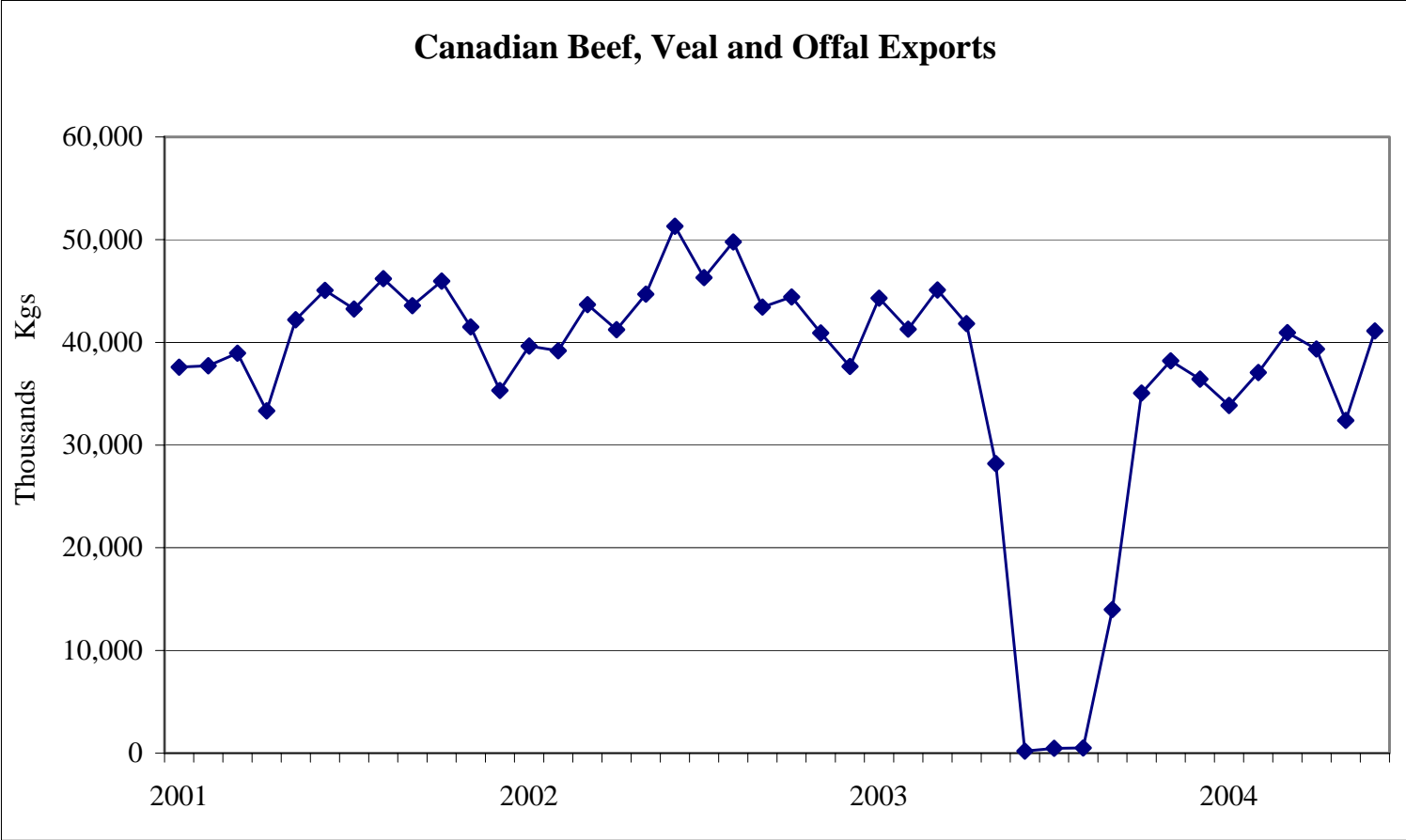
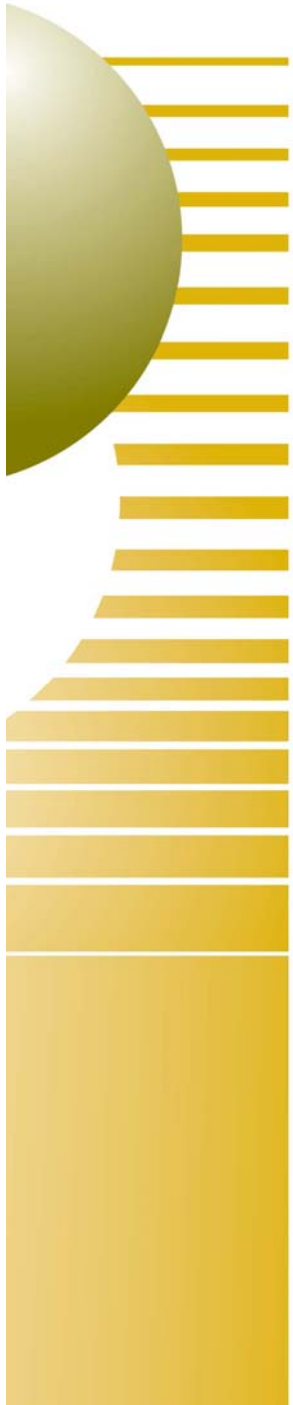


Pork Countervail

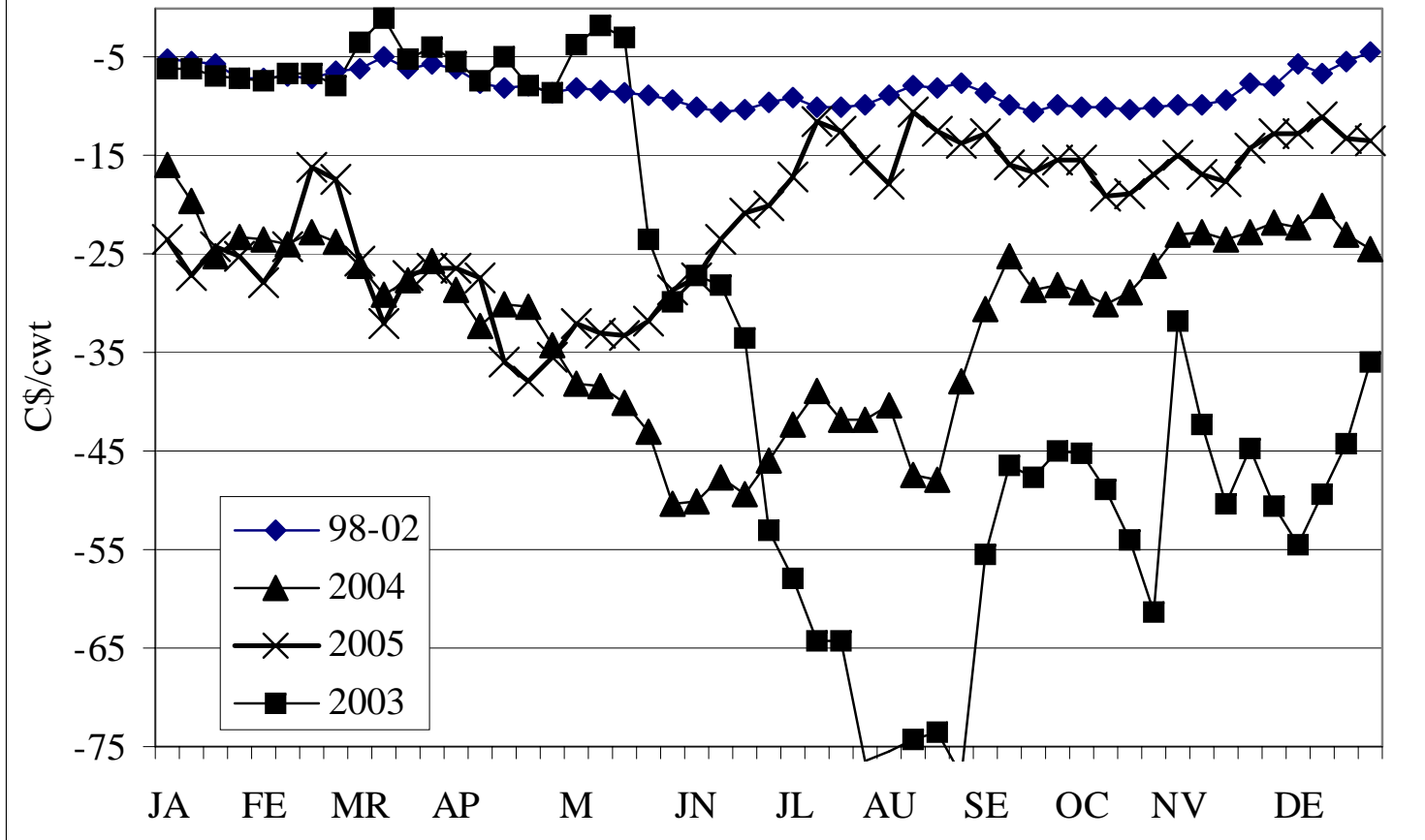
- US Commerce Department
 - Most expertise on Cdn programs
- Dumping
 - Major challenge for both countries
- Injury
 - Value added
 - Independent producers
 - Environmental
 - Structural Reorganization

BSE





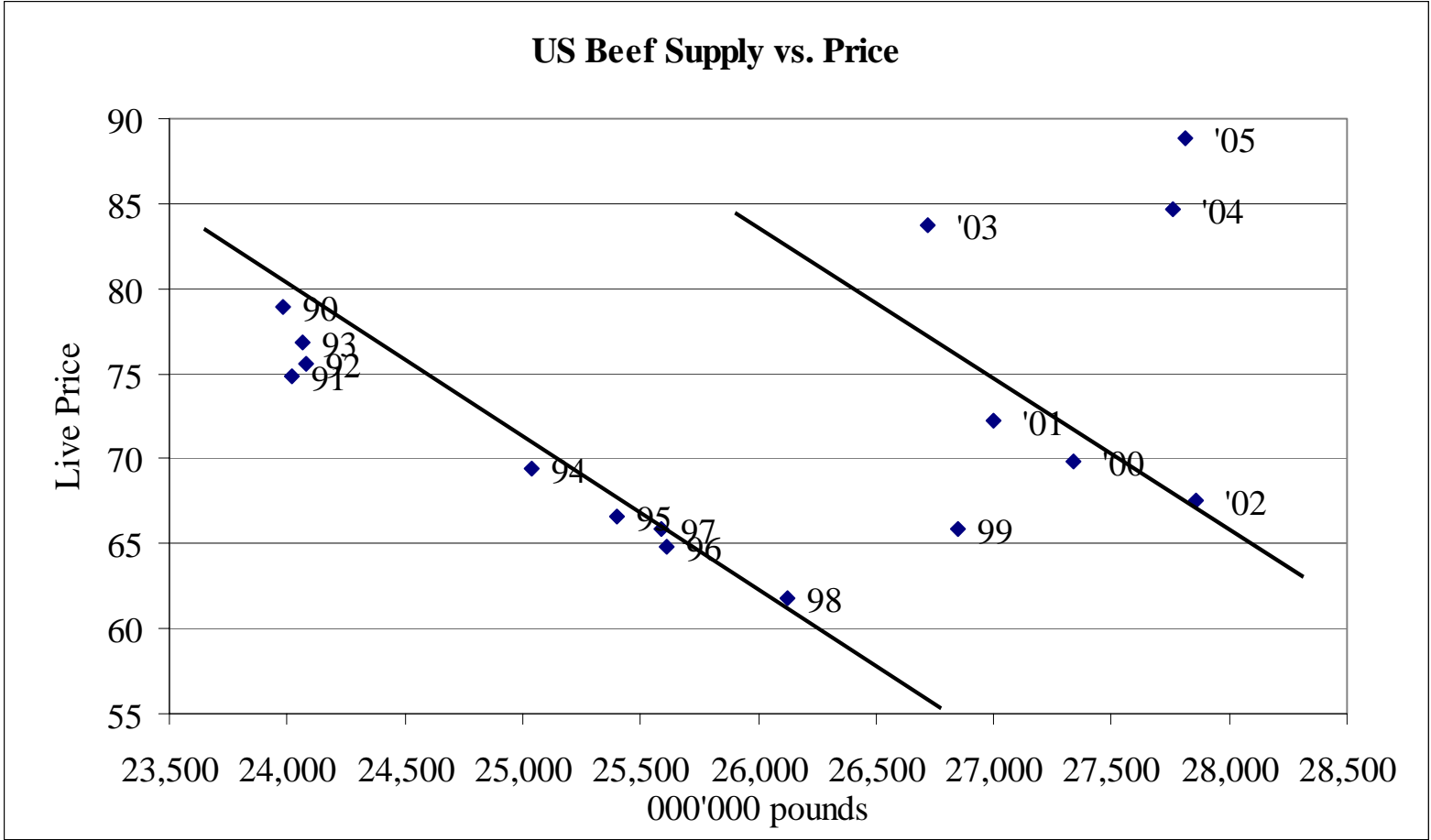
Alta-Texas Fed Cattle Spread





BSE

- USDA acted in good faith
- Minimal price impact in the US
- Cost the US
 - 4,450 head per day; 7 plants closed
- Painful lessons learned





Trade Disputes

- Negative Impacts
- Iowa Pork resolution...hog lanes



Canadian Competitive Forces

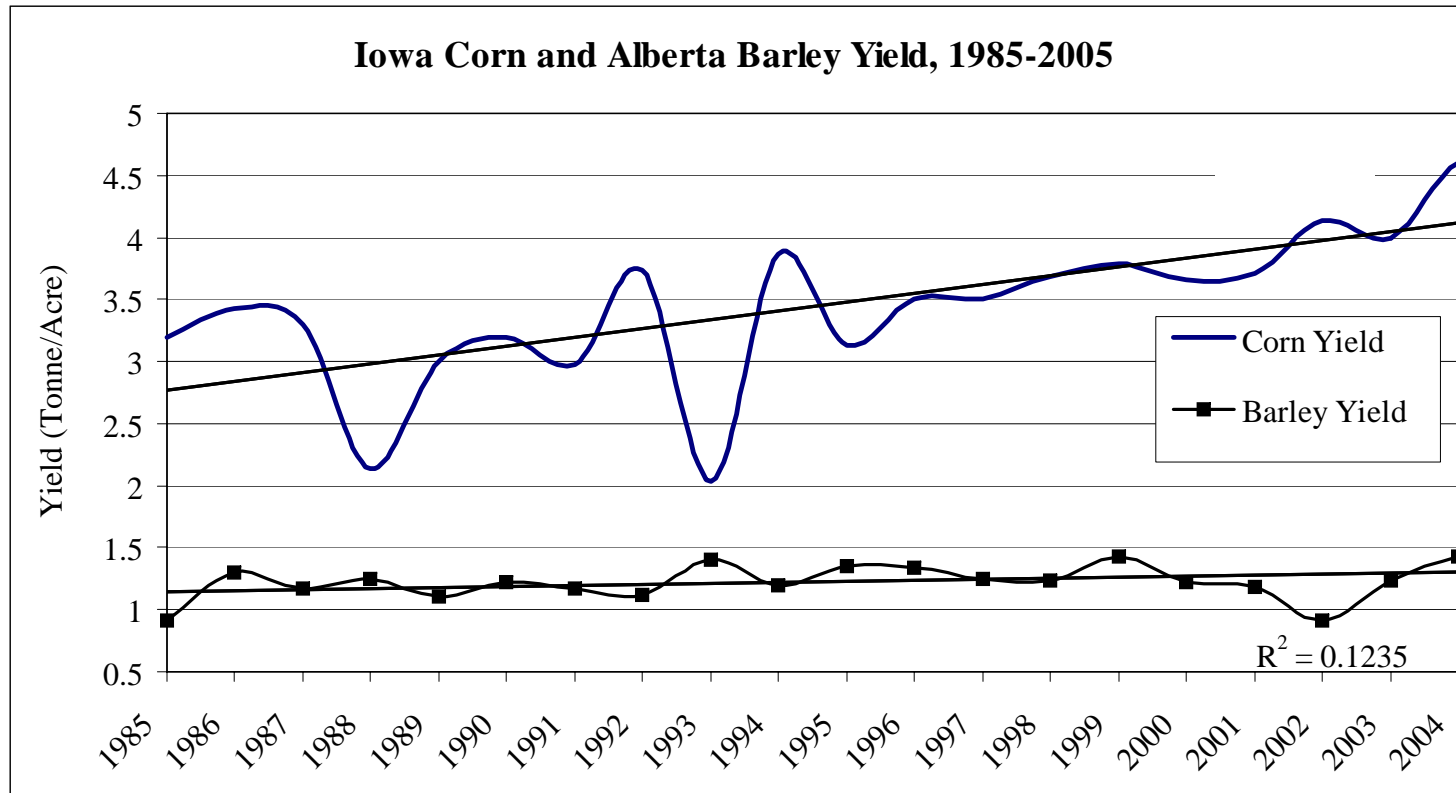


Competitive Assessment

- GMC H&P research:
 - Farrowing...advantage Cda
 - Finishing...advantage US
 - Ont and Prairies are cost competitive
 - Revenue issue
 - Packing...advantage US
- GMC C&B
 - Canada is competitive through the chain

Production Assertion

- Cost and productivity; Cdn prod'n is competitive, with one caveat:



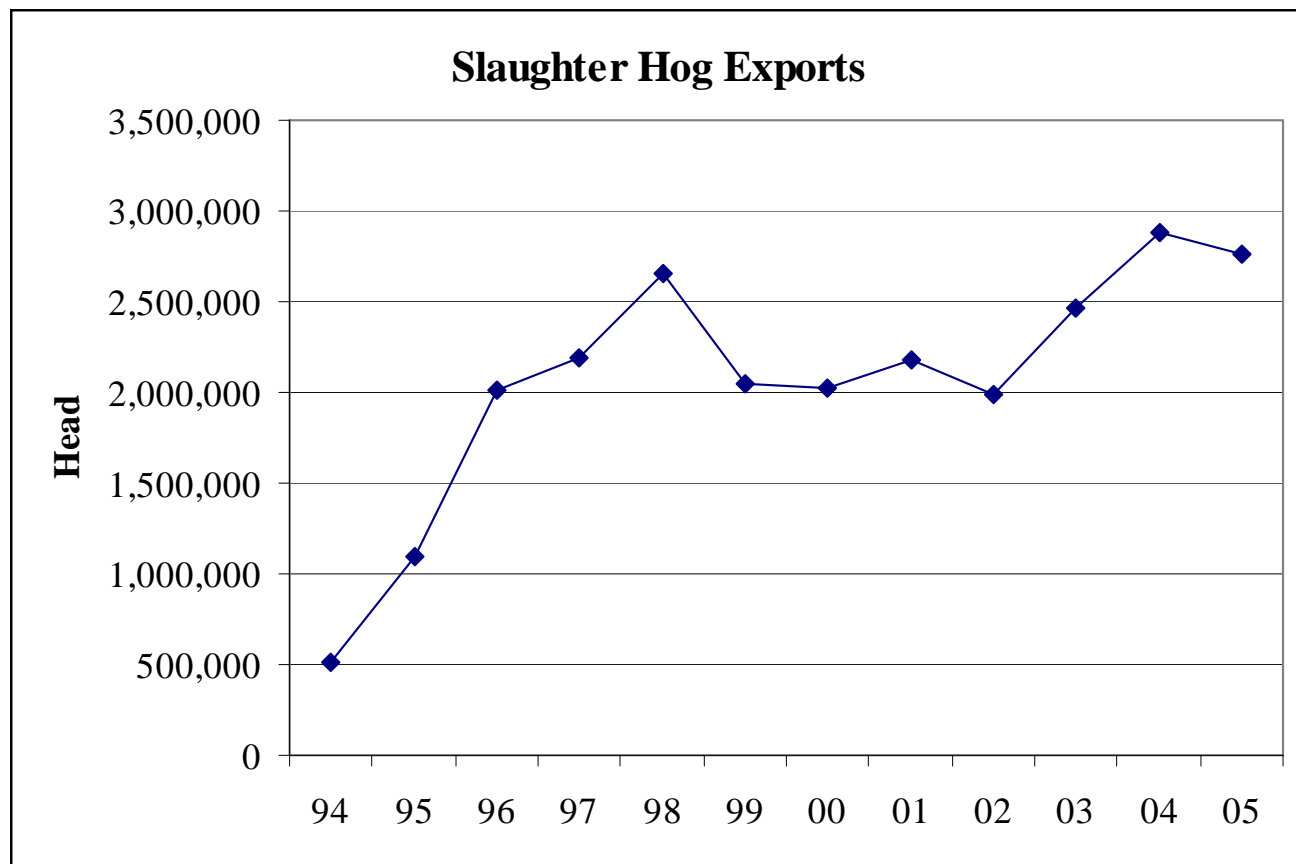


Production Competitiveness Challenges

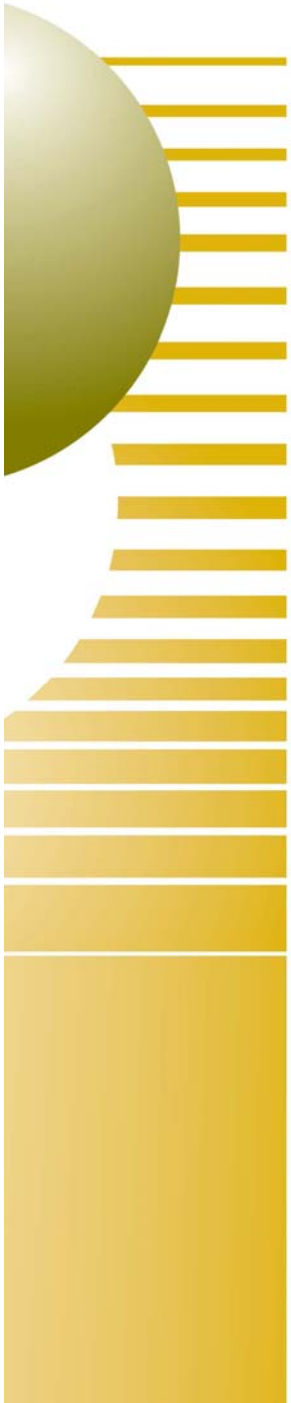
- Environmental regulation
- Feed grain costs
- Veterinary drug licensing
- Pricing...

Packing: The Competitive Focus

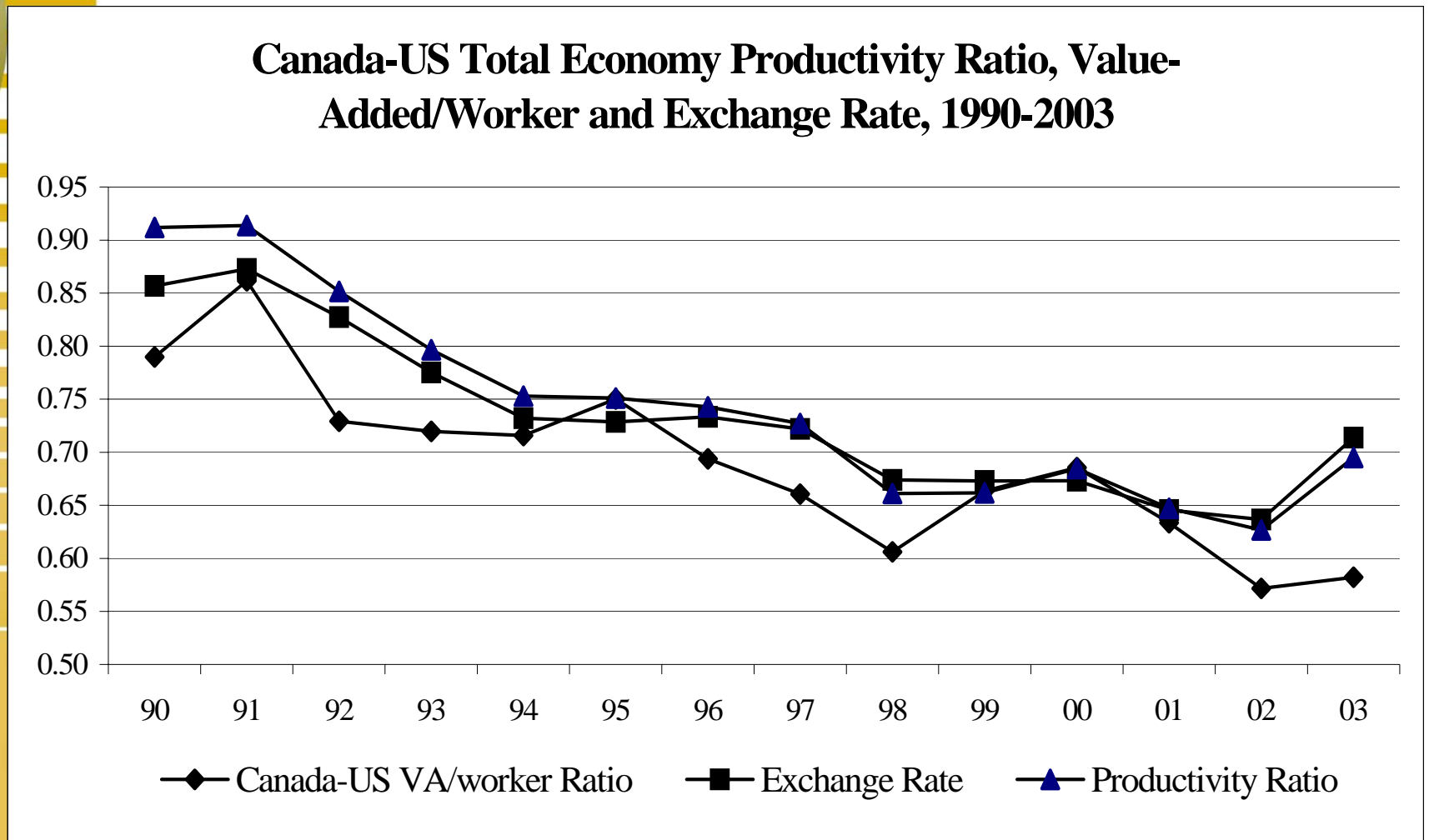
- Pork Export trends suggest the industry is competitive...world leader
- But the slaughter shipment south suggest...?



Packing Sector Competitiveness



General Cdn Competitiveness





Packing Assertion

- The productivity challenge faced by the Cdn economy is applicable to the red meat sector and it's a pork, not a beef problem.



Cdn Beef-Pork

- Cargill and Lakeside are double shifted
- Cargill and Lakeside go on Saturday
- These plants rate high with the others in the Tyson & Cargill complex

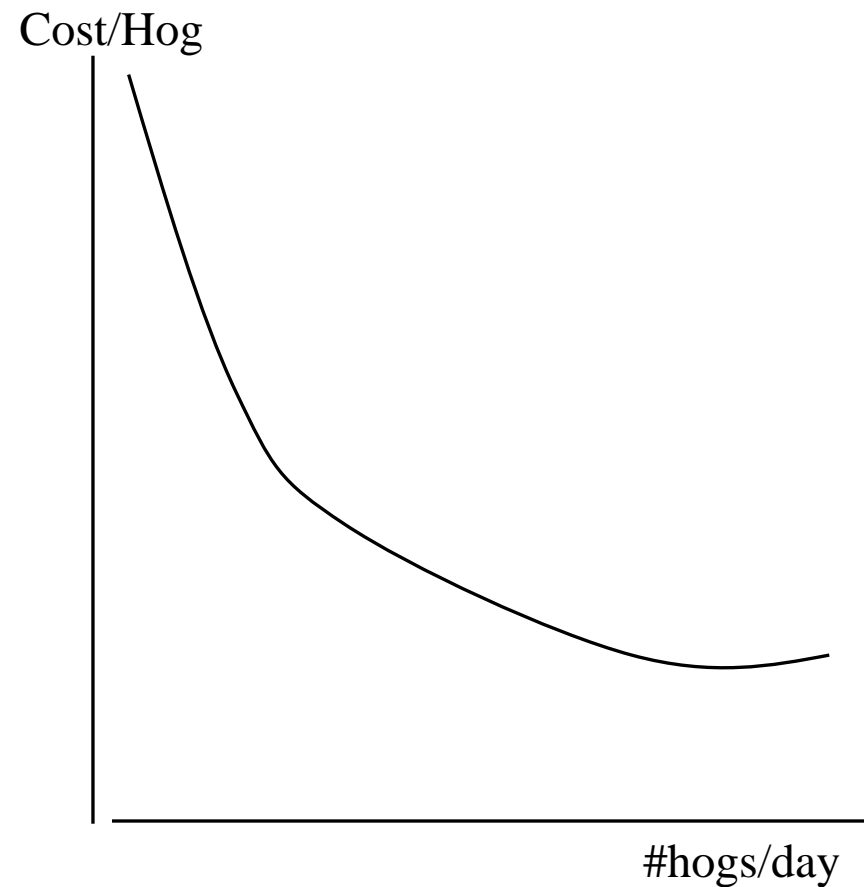


US-Canada Comparison

- Canada
 - Cda average daily capacity: 3,200 head
 - 5 largest Cdn plants: 8,400 per day.
 - 3 of top 29 are >40,000 per week
- US
 - average daily capacity: 13,000 head.
 - nearly 4 times greater than in Canada.
 - 5 largest US plants: 21,000 head
 - 2.5 times greater than the top five in Canada.
 - 20 of top 29 are > 40,000 per week

Size Matters

- Larger plants have lower costs/head than smaller plants.
- USDA research: \$2-8/head lower

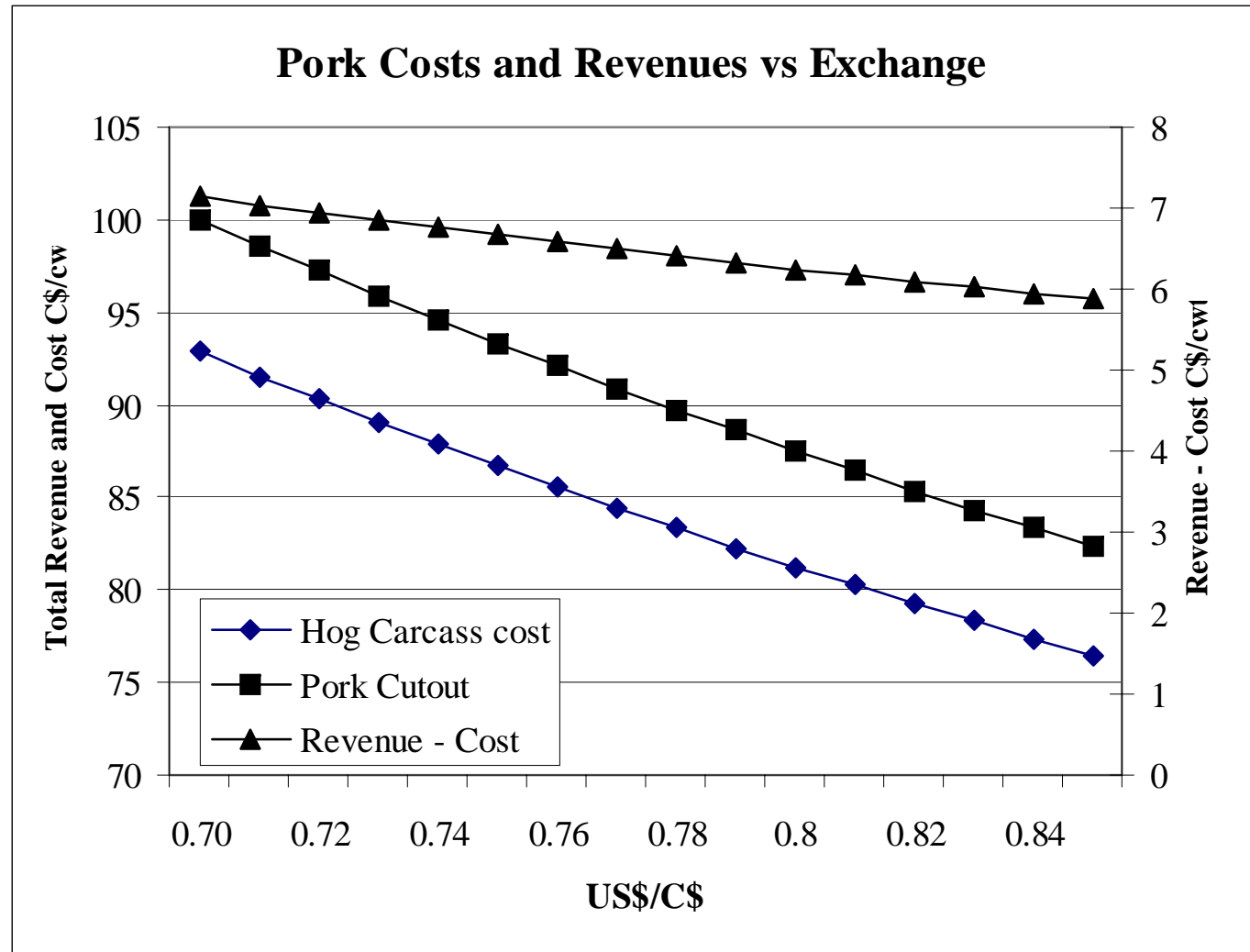




Double Shifting

- All major US plants double shift
- Until Olywest RD...not a factor in Cda
- GMC research: Double shifting a large, 45,000 head plant would reduce costs by around \$5/head

Exchange Rate Impact: Packer Level



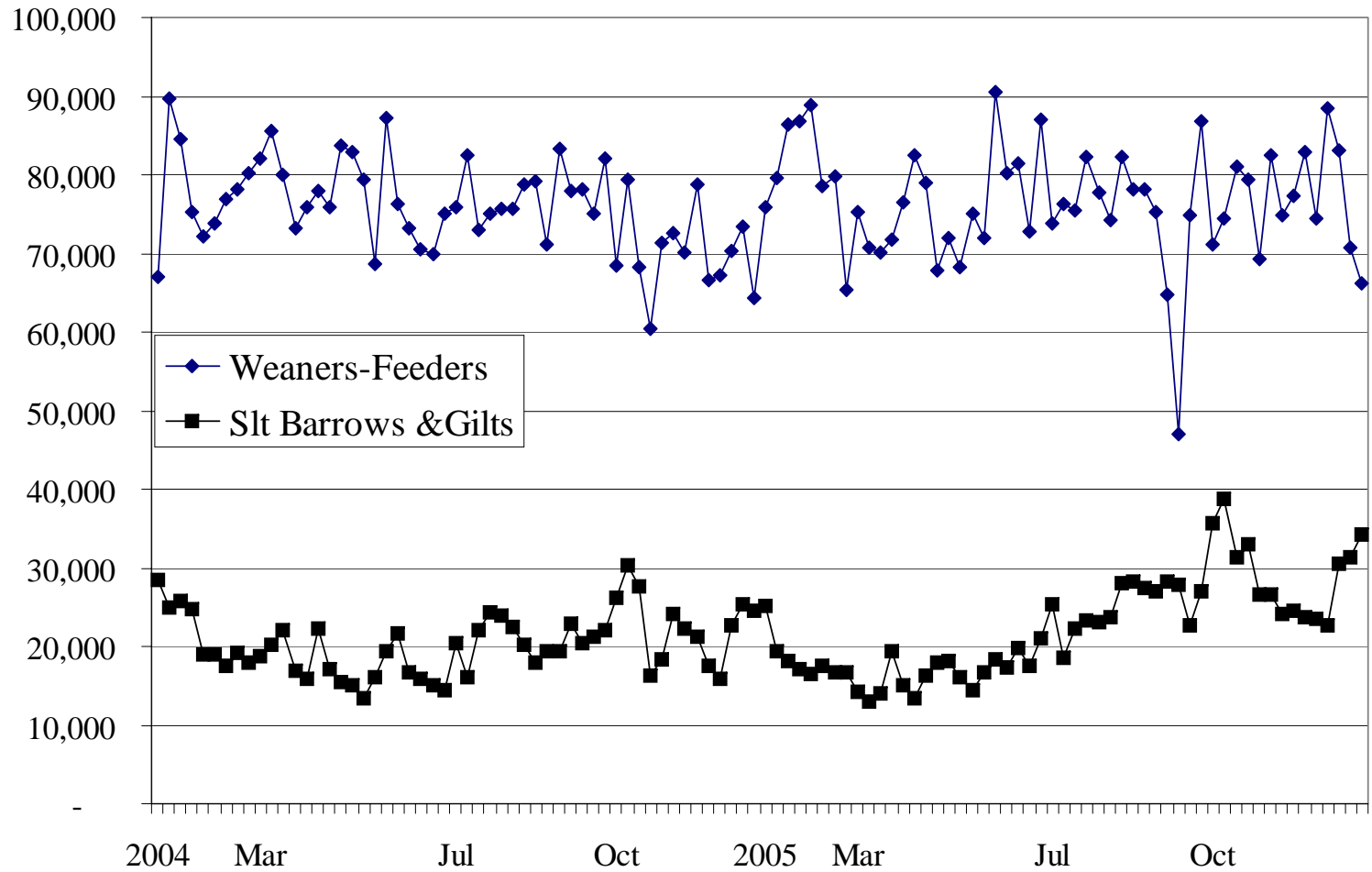


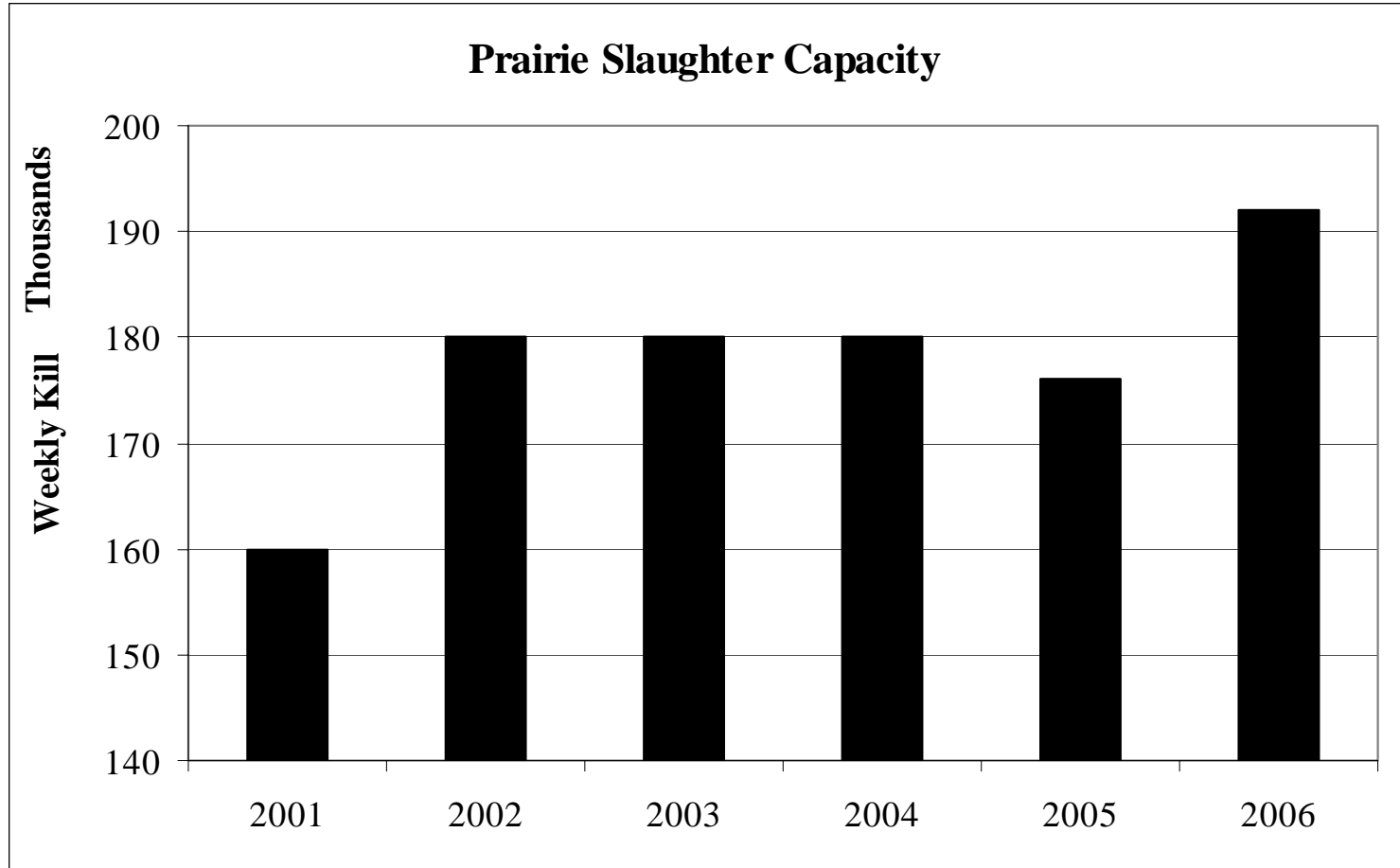
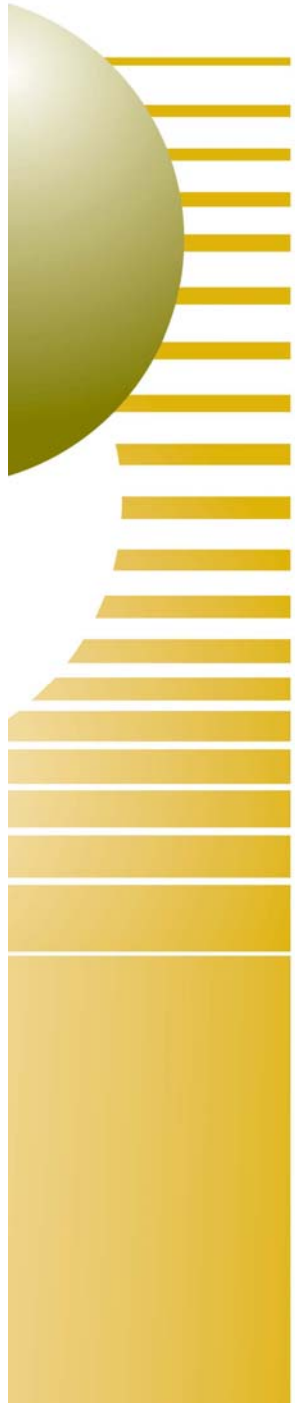
Exchange Rate Impact

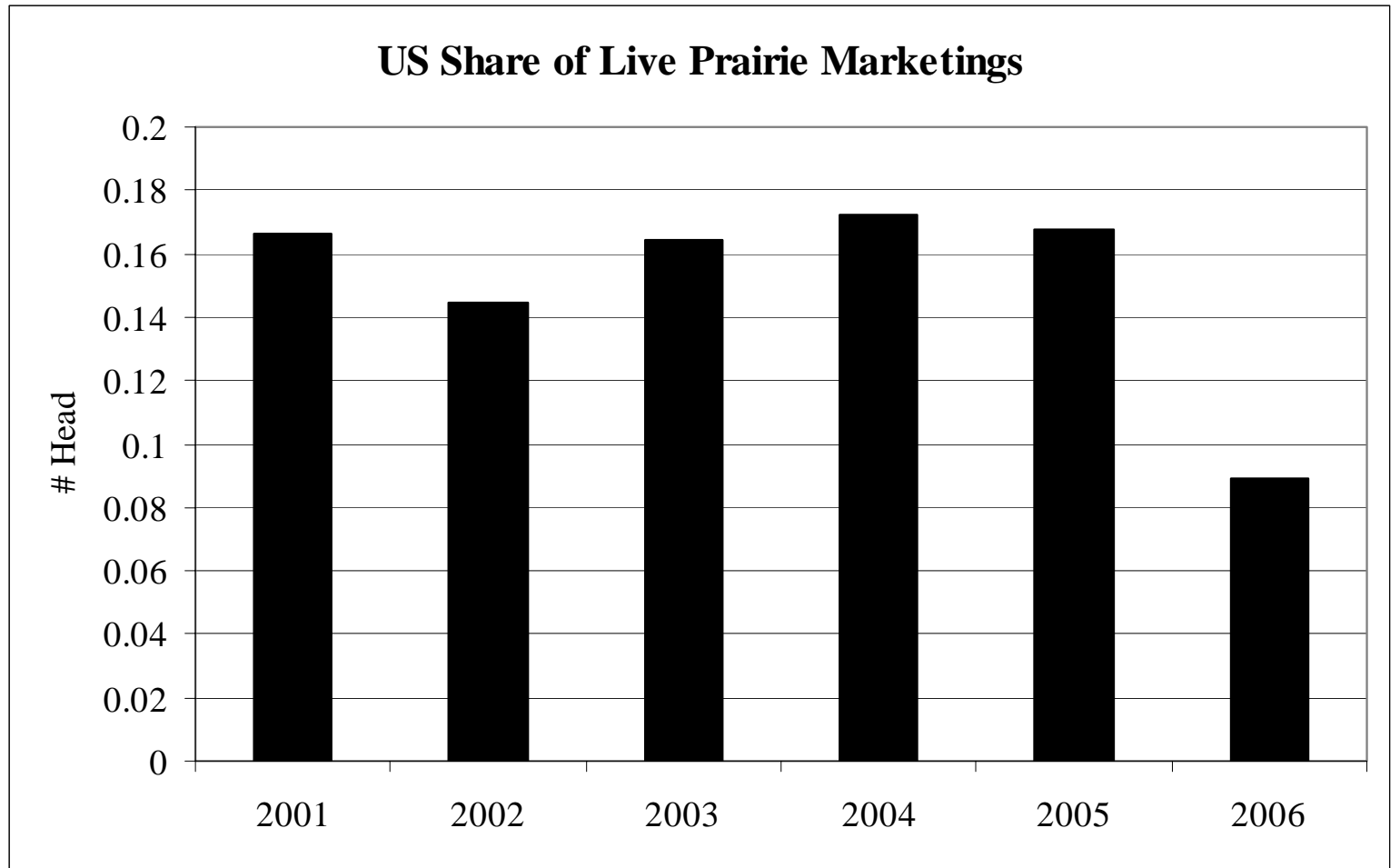
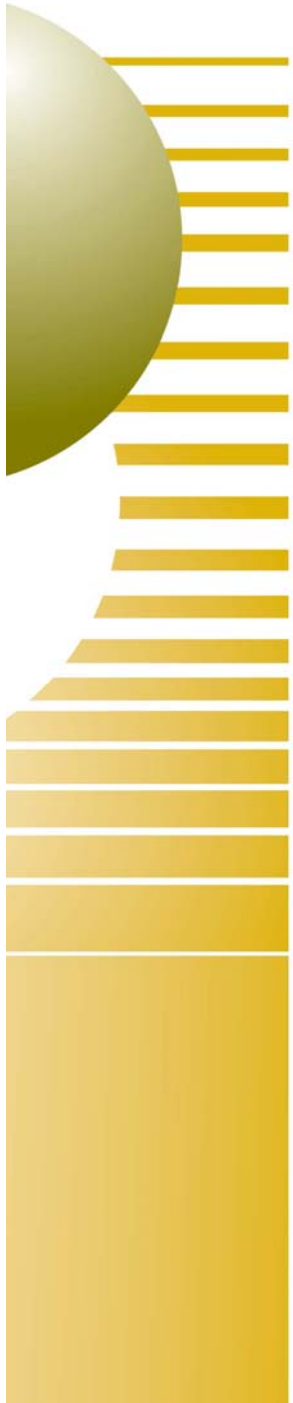
- Operating Costs of \$35/head
- Half = Labor
- @C\$.63 = US\$11/head
- @C\$.85 = US\$15/head

- Squeeze on the gross mgn and operating cost disadvantage

Hogs Through North Dakota







Not counting weaners/feeders



Cattle Feeding Competitiveness

- Wider spread post BSE
- Large volumes of feeders going south
 - Usually north



Beef Packing Capacity

- 2002: 72-75,000/week
- 2005: 95,000
- > fewer cattle heading south...



Summary

- Canada and the US are one market.
- Sales between countries occurs due to comparative advantage.
- Trade disputes hurt both countries.
- Canada has competitive challenges ahead.
- Live animal sales will decrease with capacity increases.



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