

New Study Suggests Canada's Beef Industry at a Tipping Point

OTTAWA, Sept. 10, 2012 — A new study released by CAPI, the Canadian Agri-Food Policy Institute, indicates that Canada's beef industry is at a profound tipping point and corrective action is needed if it is going to deliver maximum benefits to producers and industry stakeholders and deliver on its potential of being a reliable contributor to a protein hungry world.

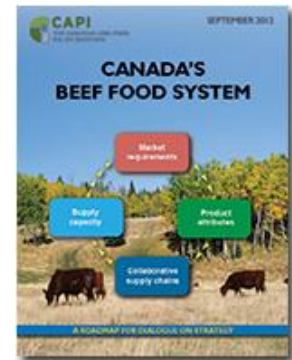
"Canada's beef industry is falling behind and opportunities are being eroded by a failure to work together," says CAPI President and CEO, David McInnes. "The data and interviews show our beef industry lacks a comprehensive strategy to address challenges and take advantages of the significant opportunities that the future offers."

The study shows that Canada with all its natural, quality and production benefits is at risk of becoming a net importer of beef. The cattle cycle is presently experiencing lower production numbers but there is also no apparent strategy to regain valuable domestic market share.

On the export stage, the Canadian industry is extremely reliant on one market — the USA, a market that accounts for 85% of Canada's beef and cattle trade. The good news is the US generates \$1.8 billion in total sales for Canada (nearly \$1 billion in beef exports and over \$800 million in cattle exports). The bad news is Canada is "backfilling" the US market; that is, by relying on Canadian cattle and beef supply, the US beef industry is expanding its exports and taking advantage of higher value and margins. And the Canadian industry appears to be content to let that happen.

But don't blame the government, the study says. When beef producers and the beef industry needed support, like after the BSE crisis, the federal and provincial governments have been there. And the Government of Canada is doing an admirable job of opening new foreign markets yet the beef industry is not doing enough to capture new sales, enhanced prices and greater margins. Ultimately, industry must develop its strategy. Governments can then support genuine strategy development and effectively align its investments behind the priorities.

"There now appears to be a growing appetite in the beef sector to embrace a new approach," says McInnes. "There is an emerging view that we can't optimize the domestic, American and other foreign markets at the rate we are shipping cattle and beef to the US. We either accept that we will remain a primary 'backfill' supplier of beef and cattle to the US — with its consequences and benefits — or we need to make a conscious strategic decision about the markets where we can perform at our best. This includes increasing the share of Canadian-beef in our own domestic market, taking fuller advantage of key high value foreign markets where we have or can develop competitive advantage, and deciding how we can better extract more value from the important US market."



The study also outlines that response to consumer desires is below expectations. Today's consumers want more information including greater knowledge of production practices, the healthfulness of beef and its environmental footprint. Yet the Canadian beef industry is not effectively conveying messages that address issues and concerns or encourage beef consumption.

The CAPI report outlines a directional blueprint that will put the Canadian industry on a path towards progressive success. The report calls for the industry to build a comprehensive and robust strategy involving active engagement from all sectors of the beef supply chain. The report states information – including market intelligence, production and quality information that easily flows from producers to processors, to retailers and consumers, and information that differentiates Canadian beef from its global competitors – can play an important role in the strategy. CAPI's report also emphasizes the need to engage other players in the food system, such as those in health, environment, research, innovation, and others to help meet consumer needs. And the report states a successful strategy will be best-implemented by champions who galvanize key players and set clear objectives.

"In the past, when presented with a challenge, Canada's beef industry rallied, collaborated and addressed the challenge head-on," says McInnes. "Our report suggests, and many industry stakeholders agree, that with a solid strategy, a commitment to work together, and the discipline to execute effectively – then Canada's beef industry will once again rise to the occasion and deliver the benefits that producers, stakeholders and consumers in Canada and around the world desire. The industry needs to imagine what is possible and then design a strategy to achieve that destination."

CAPI interviewed over 80 beef sector stakeholders and a broad variety of support players in the fall of 2011 and conducted extensive outreach in 2012. CAPI initiated this case study with financial support from the Alberta Livestock and Meat Agency (ALMA), the Royal Bank of Canada (RBC) and the Saskatchewan Ministry of Agriculture.

The Canadian Agri-Food Policy Institute (CAPI) is an independent, unbiased policy forum that is dedicated to the success of Canada's agriculture and agri-food sector. CAPI is a catalyst. It identifies emerging issues, promotes dialogue and advances alternative solutions to issues with stakeholders across diverse agri-food supply chains and among other food stakeholders. Based in Ottawa, CAPI was established as a not-for-profit corporation in 2004 by the federal government and is guided by a diverse Board of Directors and an Advisory Committee.

Fact Sheet: Selected key data in CAPI's report

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| 1. Importance of beef sector | The Canadian beef industry generates over \$6 billion in farm gate sales (2011) and represents some 15% of the value of agricultural production. |
| 2. Declining beef trade balance | In 2011, Canada's trade balance in terms of value was \$42 million, falling from \$1.4 billion in 2002. |

- 3. Domestic beef supply** Canada supplies some 75% of its own market's beef. This number has fallen from 87% in 2005 as imports – from the US – have risen.
- 4. Differences in the value of the Canada-US beef trade** Canada's beef exports to the US are only 60% of the value of US beef exports to Canada. In 2011, Canadian exports of beef to the US averaged \$3.74/kg whereas average beef imports from the US were \$6.55/kg.
- 5. US beef exports beyond Canada vs. Canada beef exports beyond US** US beef exports beyond Canada are up 280% on a value basis since 2005; whereas Canadian exports beyond the US are up 45%. Since 2002, Canada's exports to international markets other than the US were down 3.5% while the US beef industry increased exports to the international market by 51% (excluding shipments to Canada).
- 6. Importance of US market** On average, 85% of Canada's beef and live cattle exports are destined to one country, the US. On a five year average (2007-2011), Canadian beef and cattle sales to the US were some \$2.2 billion (and a combined total of \$1.8 billion in 2011).
- 7. Diversifying export markets** In 2011, 74% of Canada's beef exports (quantity) went to the United States, representing 72% of the total value of Canadian beef exports. In 2002, 78% of Canadian beef exports (quantity) went to the US, representing 83% of the total value.
- 8. Canada's cow herd** Canada's cow herd has declined by 1 million head or 20% since 2005.
- 9. Beef consumption (Canada)** Per capita beef consumption has declined 10.7% since 2001 and now totals 27.5 kg/capita (carcass

equivalent). Pork consumption over that time period has declined by 28% while poultry (chicken, hen and turkey) consumption has increased 3.4%.

**10. Beef consumption
(globally)**

Global poultry consumption has increased 10.3% over the last three years (2008-2011) while beef consumption has declined 3.5%. Among OECD countries, beef consumption is declining. But, among non-OECD countries, consumption is rising.

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