MARITIME PORK VALUE CHAIN ASSESSMENT FINAL REPORT

Prepared for:
PEI ADAPT Council

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November 16, 2006

EXECUTIVE SUMMARY

THE FUTURE OF ANIMAL AGRICULTURE IN NORTH AMERICA

Source: The Future of Animal Agriculture in North America
http://www.farmfoundation.org/projects/04-32ReportTranslations.htm

- Marketing contracts increasingly replace open markets and relationships among the stakeholders in livestock production. Concerns noted are that marketing agreements, contracts and similar business arrangements are more conducive to larger operations and reduce the availability of market information needed for efficient price discovery.

- The trend to fewer and larger livestock is expected to continue. The economies of scale in production and processing are significant and will drive the design of new and existing facilities.

- Livestock and poultry production and processing are increasingly mobile. The livestock production/distribution industries are continueing to be global in their production and trade activities. Multinational livestock firms may dominate world production and processing and will source and sell products globally.

- Small to mid-size producers face serious survival challenges in determining how they can successfully fit into integrated supply-chain structures. Higher revenue may be possible in value-added niche markets where consumers pay high enough premiums for differentiated products to offset the increased cost of producing, processing and distributing in small quantities, alternatively small and mid-size producers may be able to capture the market access and cost advantages of larger producers by joining a network or alliance that acts like a large producer. Both these options require a high level of cooperation and interdependence among producers.

- Producers can not be expected to invest in production if access is not assured to processing plants that can pay competitively for products. .

- Income is projected to continue to rise in all three North American countries, and globally. The faster growth of income in developing countries worldwide will lead to continued growth in demand for animal source foods. Rising levels of income, changing lifestyles, urbanization and other demographic changes have contributed to increased consumption of prepared foods and increased consumption of food away from home.

- Consumers have diverse preferences. Many consumers, particularly the more affluent, are demanding novel food attributes above and beyond food safety. These attributes may include animal welfare, organic, social responsibility, environmental responsibility, locally produced, and no use of antibiotics, synthetic growth hormones, or genetically modified ingredients.

- Wal-Mart and other very large, retailers are having a significant effect on retailing. In some markets, the presence of large merchandisers can coexist with smaller, niche segments. Internet shopping may allow consumers access to specialty markets and products, but, to date, consumers prefer to shop in-store locations.

- Future growth potential for North American animal product in value-added, branded, packaged products is important. To enhance the competitiveness of the products, government regulators and trade negotiators need to work closely with the food manufacturing and food service industries to assure a sound policy and regulatory framework to support future trade growth.

CANADIAN EXPORT MARKETS

- Canada's top ten markets for January-November 2005 were: United States, Japan, Australia, Korea, Mexico, Romania, China, Russia, Taiwan, and New Zealand. Other than issues with Australia and Romania, there have been very few technical issues of concern with any of the other top ten markets over the past year.

- Several countries have import restrictions based on medication/health status that make it difficult for Canadian processors to enter the market. For example:

Country	Import Restriction
EU	Antibiotic Growth Promoters Beta Agonists - Paylean®
India	Ruminant by-products
Singapore	Beta Agonists - Paylean® Edible Residual Material (ERM)
New Zealand	PRRS

CONSUMER CONCERNS

Source: Executive Summary - 2002 Ipsos Reid Survey

- Consumer's main concern with pork is food safety, particularly with the use of antibiotics and hormones in production. Environment and animal care are the next two areas of concern.

- Consumers indicate that farmers and industry professionals are the most credible sources of information regarding pork production; even more significantly consumers are not interested in learning more. Consumers would like to trust industry to make sure their concerns are met. This creates clear branding and differentiation propositions.

LONG TERM CANADIAN PRICING TRENDS

The largest problem facing producers participating in the commodity pork market is that there is a common North American price. The price received directly by PEI producers is taken from 5 key Mid-west markets; the underlying dilemma for Canadian producers is that the Canada/US exchange rate has reduced the value of Canadian pigs commensurate with the exchange rate. Below is a summary of pricing mechanisms for pork in Canada.

Exchange Rate Effects

Year	Actual Price Received	Potential Price Received if Exchange Rate was Locked at 2000 Levels
2006 (May)	1.1702	1.4844
2005	1.4521	1.7761

2004	1.6629	1.8931
2003	1.3787	1.4662
2002	1.3985	1.3183
2001	1.7668	1.6826
2000	1.6366	1.6366

It's academic whether the low dollar or high dollar is the actual value; what is clear is that at the current value, commodity production in Canada will undergo significant structural change before it becomes sustainable. A key question is whether a commodity priced industry will remain in the Maritimes. The signs of financial hurt are already broadly evident in the Canadian industry.

For the Maritimes to continue to produce market pigs in a commodity business model is probably unsustainable; a radical shift in business model is required.

The Canadian Food Inspection Agency, who is responsible for plant inspection and label approval, has recently agreed to allow descriptions of special and auditable methods of production printed on meat and poultry labels.

NATURAL/ORGANIC FOOD MARKET

WHOLE FOODS INC.

Source: http://www.wholefoodsmarket.com/company/index.html

Founded in 1980 as one small store in Austin, Texas, Whole Foods Market® is now the world's leading retailer of natural and organic foods, with 184 stores in North America and the United Kingdom. To date Whole Foods Market remains uniquely mission driven: We're highly selective about what we sell, dedicated to stringent Quality Standards, and committed to sustainable agriculture.

VALUE ADDED OPTIONS FOR FRESH PEI PORK

Source: Natural & Organic Marketing Group, Inc.
633 St-Joseph Est, Suite 400, Québec, Québec G1K 3C1
Tel : (418) 529-9191 Fax : (418) 529-9123

Approximate values for value added pork (Summer 2005):

Kill Location	Market	Differentiation Points	Farm Cost/Hog	Processing Cost	Sales/Hog
Local	Domestic Commodity	-	Market Price		
Local	Domestic Commodity	-	$167	$48	$207.93
Local	Export Commodity (ASIA Full Set)	-	$167	$48	$224.56
Local	Niche	Soybean/Flax as ingredient	$173	$48	$231.74
Local	Niche	Natural No Antibiotics	$180	$48	$239.99
Local	Niche	Organic	$310	$48	$379.18
Away	Negotiable less transportation costs	Negotiable	Negotiable		

SECONDARY PROCESSING OPTIONS

There is significant value created when processing pork into ready to eat (RTE) products. RTE is normally branded and its value carries through to a customer. Most large processors spend significant time and resources developing branded secondary processed pork products. The following are deficiencies that currently prevent Prince Edward Island Pork industry from participating in these markets:

1. RTE products could not be made at Garden Province Meats without significant renovations that would be impractical. RTE facilities require no cross contamination with primary processing, and thus a separate facility is better.

2. Significant investment is required to create a line of RTE products and most are financed as stand alone businesses, which in PEI's case would be a separate business from Garden Province Meats. Since economy of scale prevails in value added processing as it does in most business, the scale of investment and business planning is significant.

3. In order to introduce RTE to the market place requires significant research dollars, significant investment in marketing and purchase of retail space before a line becomes profitable. Since multiple products are normally required, it is difficult to build new pork value added companies.

An easier startup would be with products for which there is pent-up demand and an existing customer base.

ACKNOWLEDGEMENTS

This report was a collaborative effort. We would like to acknowledge the following individuals and organizations that have made a significant contribution to this important project for the Maritime pork industry.

Prince Edward Island ADAPT Council
Agriculture and Agri-Food Canada
PEI Pork Plus Inc.
Beaton Fitzpatrick Murray
Ontario Pork
Robert Harding, PEI Pork
Eddie Curran, Prince Edward Island Business Development Inc.
Stephanie Laybolt, Atlantic Swine Research Partnership Inc.
Janice Murphy, Atlantic Swine Research Partnership Inc.
Daniel Hurnik, Atlantic Swine Research Partnership Inc.

The work of independent consultants was also instrumental in bringing together the information necessary to fully assess the potential for new market opportunities for the Maritime pork industry. These individuals have been identified throughout the report in connection with the specific components that they contributed to the project. Without their efforts, this report and its conclusions would not have been possible.