



Beef Industry Trends

Global Outlook

World Hereford Conference

July 14, 2012





Canada Beef Inc. – Three-year plan

Vision

- A dynamic Canadian Beef Advantage delivering recognized value

Mission

- Innovative, collaborative and sustainable Canadian beef solutions

Drivers

- Risk and Reward
- Brand and Reputation
- People and Knowledge



Strategic Priorities

- Create a differentiated brand position for Canadian Beef/Veal
- Identify targeted customers in priority markets
- Maximize the value of priority products in global markets

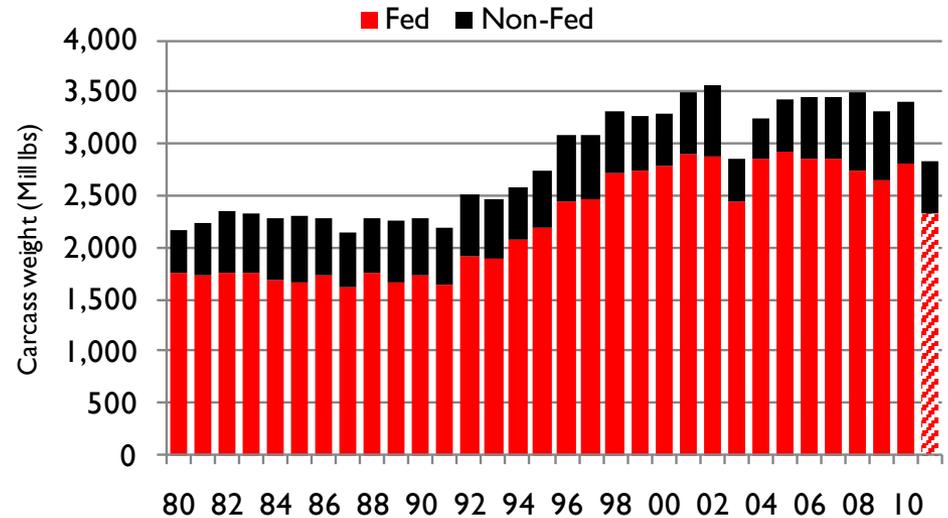
Provide timely and insightful market intelligence to industry stakeholders to support sound management decisions



Canfax Supply Outlook

- Canfax projects decreased fed & non fed production
- Fed marketings down 16% in '11 at 2.85 million head
 - Domestic Slaughter down 12%
 - Exports down 33%
- Fed production to decline further over next 2 yrs with smaller calf crops coming forward
 - Wildcard: fed production could be smaller yet with heifers are retained vs. being fed

Canadian Beef Production

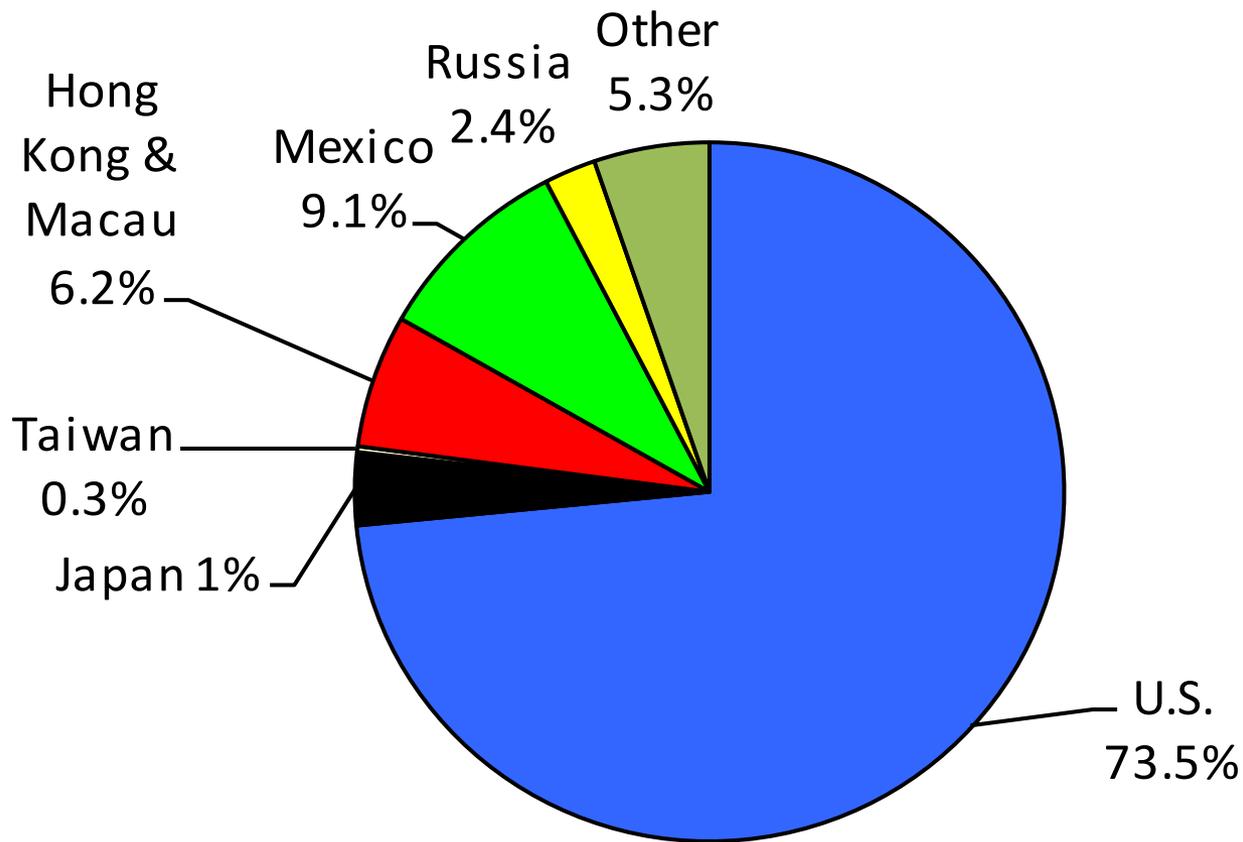


Source: Canfax Research





Canadian Beef Exports, 2011



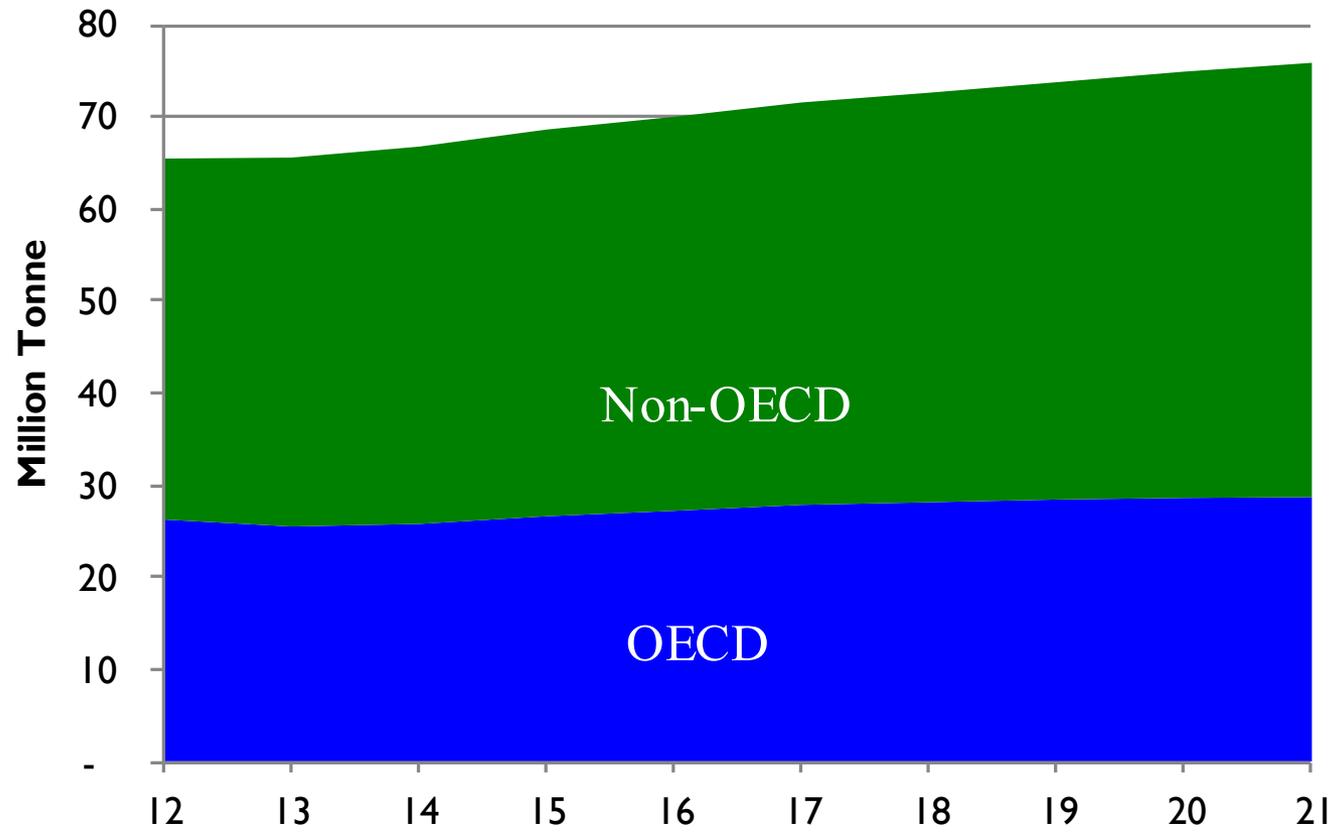
Source: Statistics Canada





Growth in OECD Countries 9% over next 10 yrs, 20% in non-OCED countries

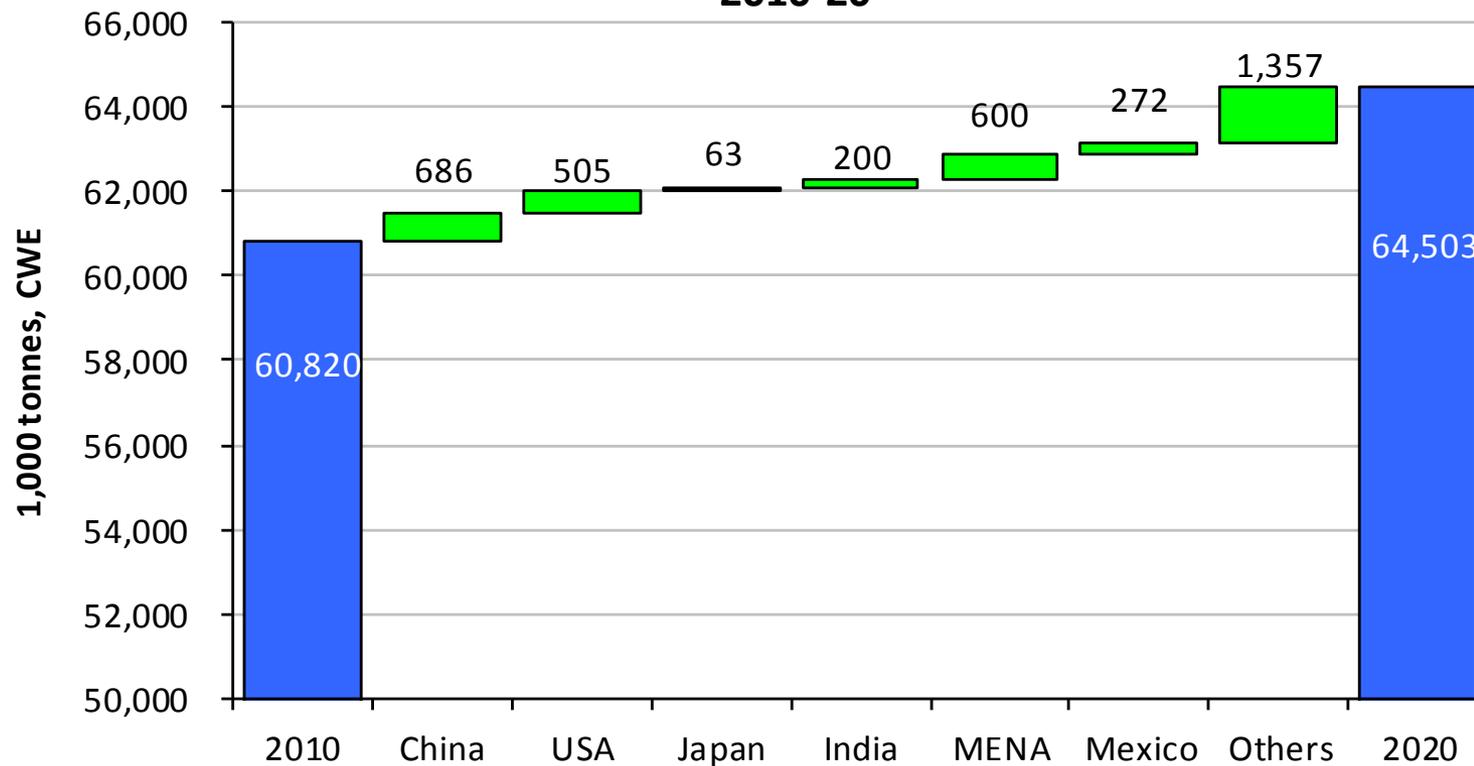
Global Beef Consumption 2012-2021 Estimates





Global Beef Consumption Projected to Grow 6% in the Next 10 Years

Beef Consumption growth by Country/Region 2010-20

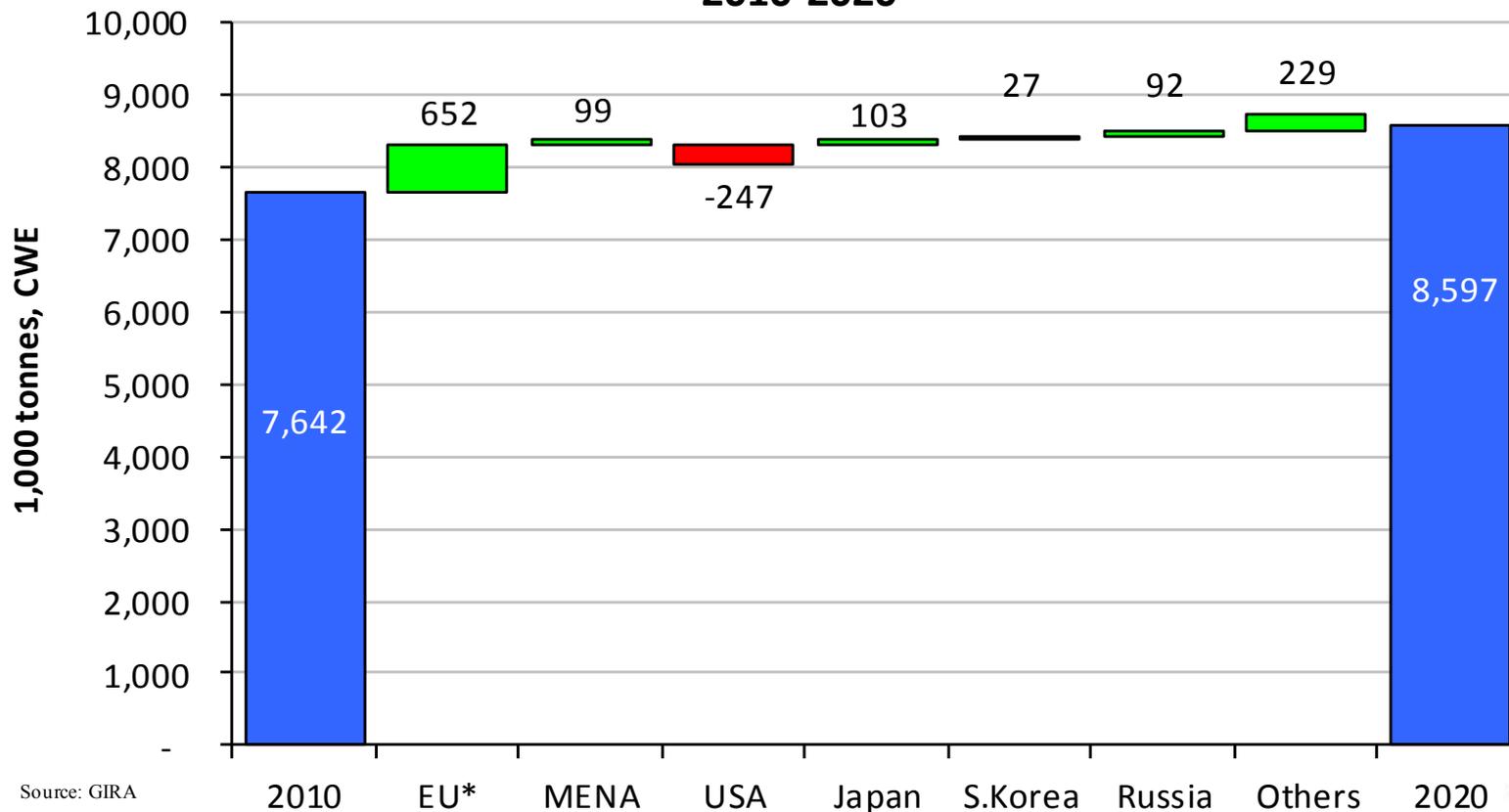


Source: GIRA



Largest import growth in EU, Japan, MENA and Russia

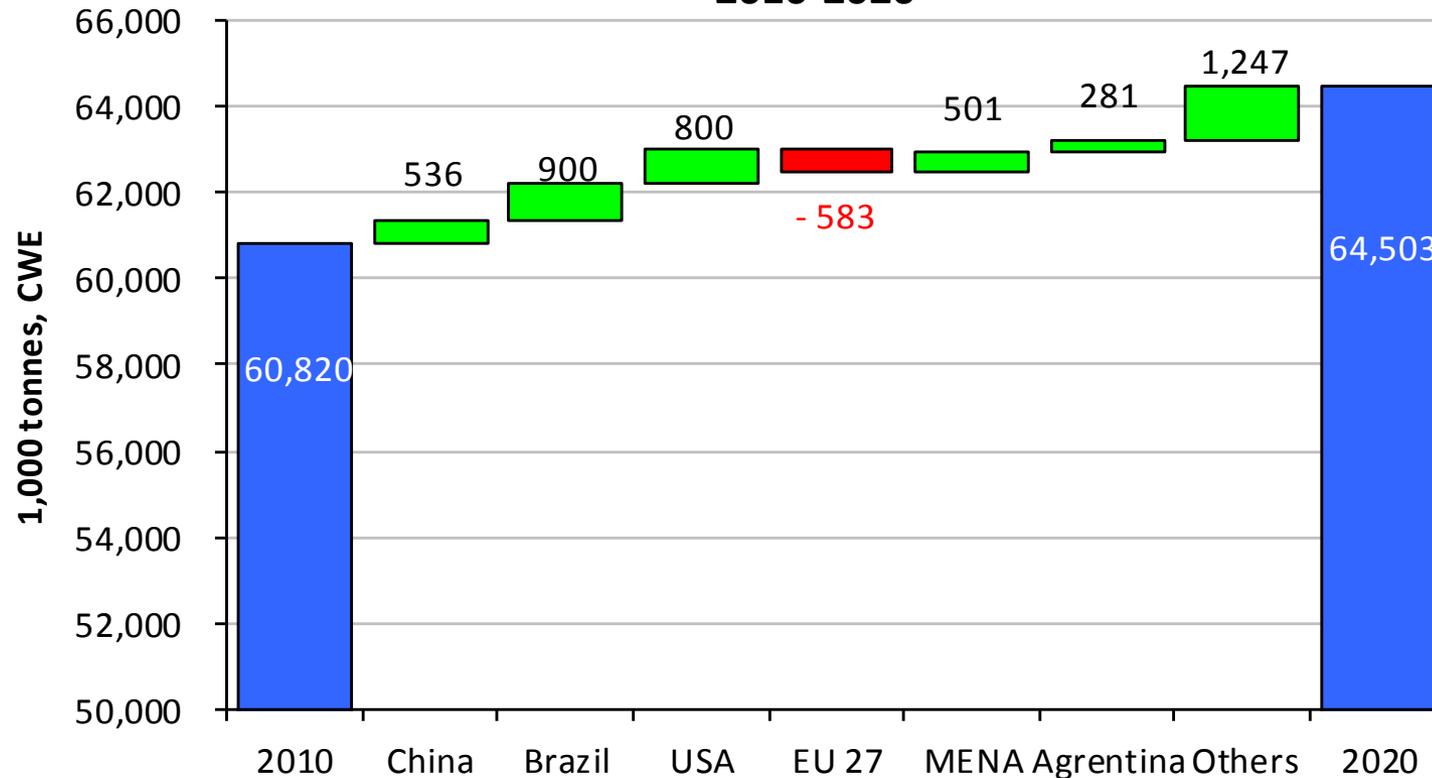
Beef Import growth by Country/Region 2010-2020



Source: GIRA

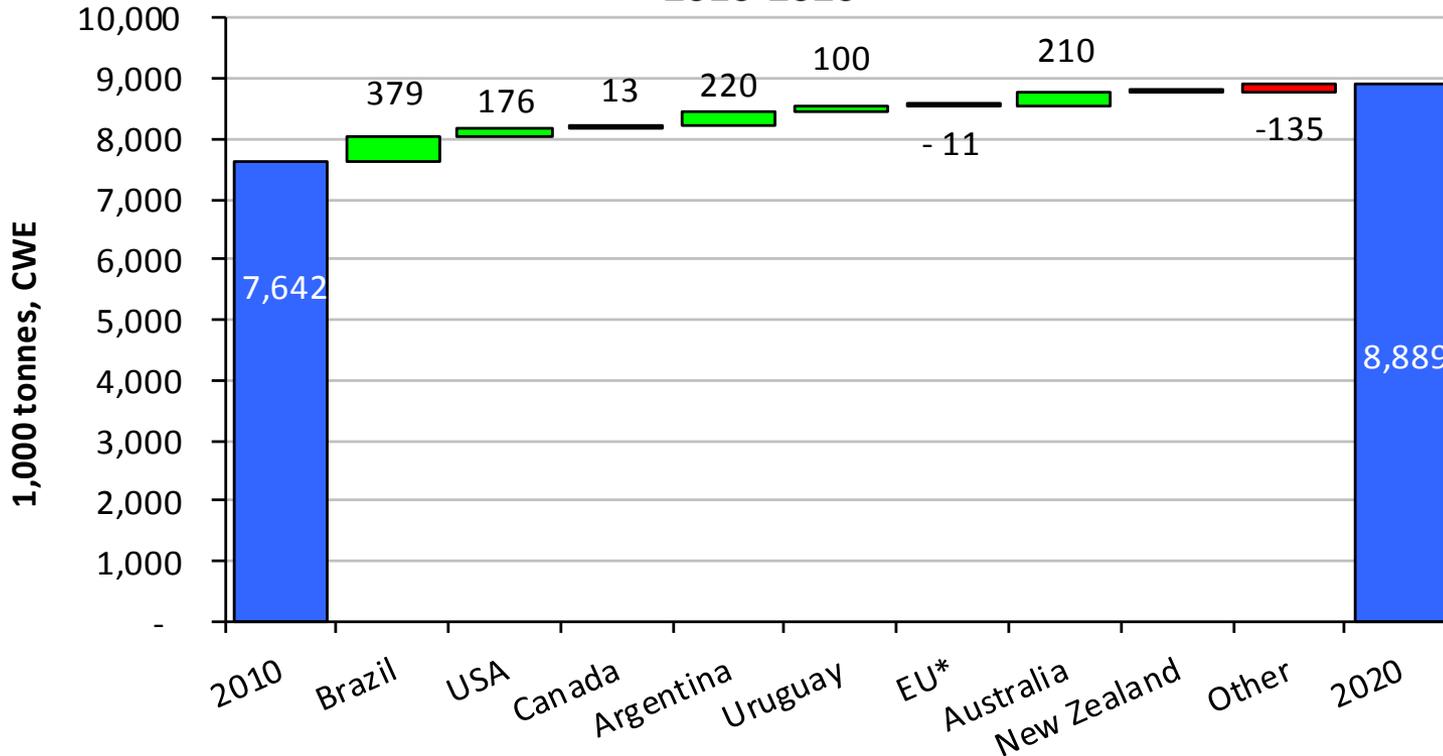
Production growth limited by weather & relative profitability with grains

Beef Production growth by Country/Region 2010-2020



Export Growth Limited - You Can't Export What You Don't Produce

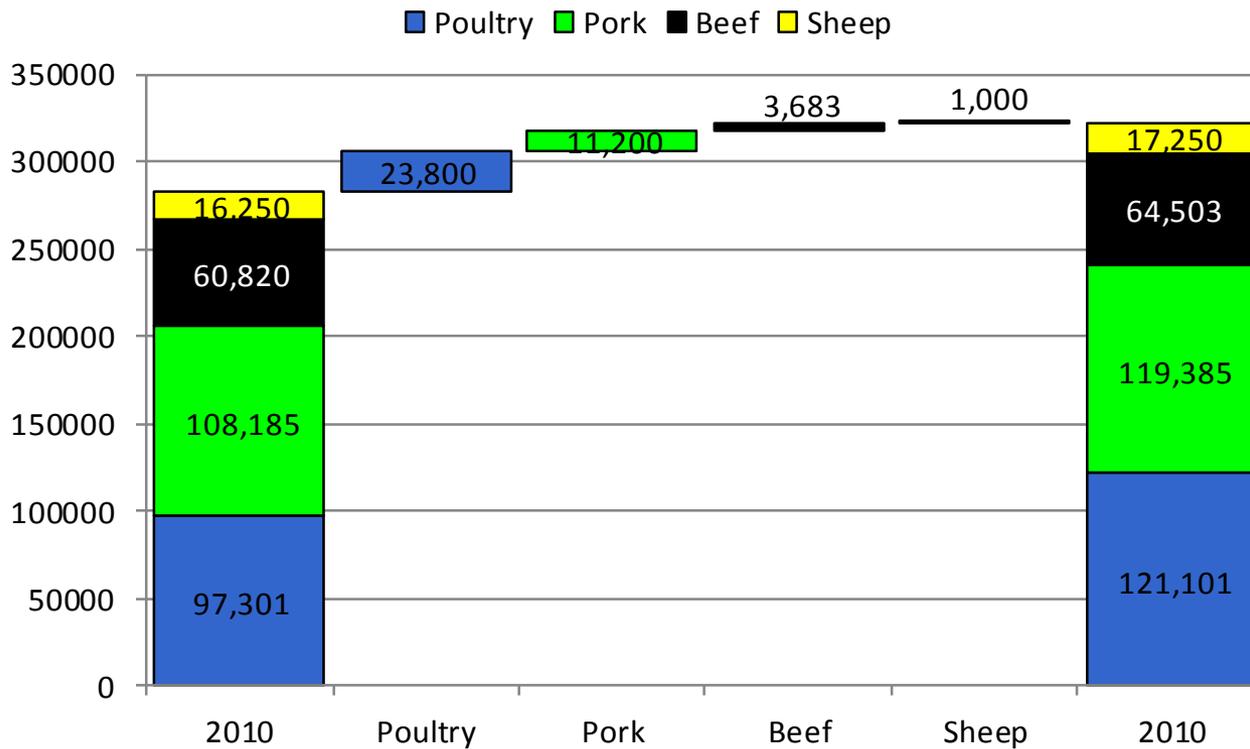
Beef Export growth by Country/Region 2010-2020





Growth in Beef Will Lag Other Meats Worldwide

Global Meat Consumption Growth By Species 2010-2020



Source: GIRA





Canada Outlook

- The Canadian beef market is a mature market with relatively stable levels of demand and consumption
- Future disappearance growth will likely come from population increases rather than from increases in per capita consumption
- Demographic changes such as the impact of the ageing 'boomer' generation and the growing ethnic diversity through immigration will influence future consumption trends
- The combination of tight Canadian beef supplies and a strong Canadian dollar have supported U.S. beef imports with Canada being a very attractive market





The Canadian Consumer: Common Facts

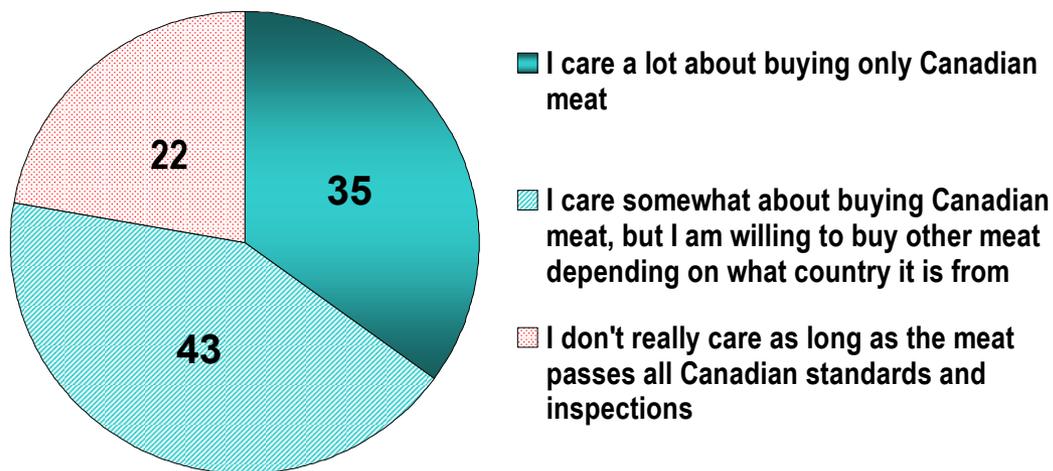
- Aging Population
- Smaller Families
- Dual Income
- Declining Cooking Skills
- Diverse Ethnic Mix
- More Urban
- More Informed “Educated”
- Higher Demand for Quality
- Variety Driven
- More Health Conscious





Canadians care if the meat they buy is Canadian

- **A strong majority (78%) say that yes they do care that the meat they buy is Canadian**
 - 35% care “a lot” about buying only Canadian meat
 - 43% care, but will buy other meat depending on where it is from
- The remaining 22% do not really care, as long as the meat passes Canadian standards and inspections



Source: ALMA Canadian Consumer Retail Meat Study – Dec. 2010





U.S. Outlook

- The U.S. beef market is a mature market with relatively stable historic levels of demand and consumption
- Recent declines in U.S. consumption has been driven by recessionary pressures that have encouraged the consumption of cheaper protein sources
- Premium opportunities outside of commodity markets exist for Canadian exporters, particularly within niche markets such as U.S. Hispanic consumers
- While accounting for almost a third of Canada's beef exports, Canadian product historically represents 3% of U.S. consumption



China and Hong Kong Outlook

- Huge potential consumption - population of mainland China reached is approx. 1.4 billion – one fifth of world's population
- Recent per capita meat consumption of Chinese people is 58 kg and the per capita beef consumption for beef is 4.86 kg
- Local industry cannot meet increasing demand for high quality grain-fed beef
 - Driven by increasingly affluent middle class, young and seeking quality and status symbols
- Traditional Chinese cuisine creates volume and western style restaurants build image for using imported beef
- Greater awareness of Australian and U.S. beef





Japan Outlook

- As of April 2012 beef imports totaled 66,100 tonnes, down 7% from last year. Firm prices from both the United States and Australia reduced beef imports as well as steady supply and cheaper prices from domestic beef market
- Expect increase in imports for the summer and fall however, due to recovering sales at foodservice
- Cooked/convenience meals and take-out food seeing strong growth; value of this sector has doubled in last 20 years (3.4 trillion yen in 1992)
- Demands of Canada beef in retail industry in Japan has been increasing due to shortage of beef imports from the U.S. and Australia





Korea Outlook

- June 21- WTO representatives reached a mutually agreed upon solution
- Higher tariffs and Free Trade Agreements may still impact Canada's competitiveness in these markets
 - difficult to compete with U.S. and Australian grain-fed supplies, even when demand for high-quality beef is high
- Global economic issues impacting Koreans' spending and also beef consumption as they are very closely connected to global markets
 - slow Canadian beef sales as a result
- Korean general public's positive perception of Canada, will eventually give Canadian beef competitive edge in Korea where there is mandatory COOL both in retail and foodservice sector.



Taiwan Outlook

- Legislative Yuan will be voting to lift the ban on ractopamine shortly. Once lifted, the annual sales volume of Canadian beef should resume to its status in 2010 of 2,600 tonnes
 - Yuan will impose stricter labeling laws, regarding nature of the product
- Negative perception about beef since 2011- issues with animal care, feed and BSE
- Opportunity for beef that is positioned as natural and healthy as many families are willing to pay a bit more for beef without growth hormones
- Import volume of Canadian beef will carry extra tonnage to Taiwan after the risk assessment is completed on bone-in beef in October.



Mexico Outlook

- Beef consumption continues to grow, but there is an economically driven demand for lower cost proteins
- Also rising demand for high quality beef by high-end restaurants - see Canadian beef as a premium choice
- Beef exports from Canada into Mexico have decreased in the last year or so
 - The reasons are lack of availability of product as well as factors such as freight costs that also contribute to the effect on final price levels
- Mexico becoming an export player - 112,000 MT's of Mexican beef exported in 2011
- Shortage of beef available in Mexico - resulting in increased prices



The Russian Market for Canadian Beef

- Access is for all Canadian boneless beef; bone-in beef from animals under 30 months
- 2011 trade volumes of 8,138 MT; YTD 2012 similar volumes
- Russia purchases end cuts (hip and chuck) as well as smaller volumes of middle meats
- Continues to be a market for offal (livers)
- Russia currently second largest beef importer in the world and could become the largest



The Russian Market for Canadian Beef Opportunities and Threats

- Russia traditionally has had an element of unpredictability
- Canada has dealt with issues related to forgery of our export certificates in the past
- Canada doesn't have dedicated quota like the U.S. which means we compete with countries such as Brazil for the "other" countries quota
- Russia is making a significant effort to reduce its dependency on exports by investing in livestock production (this has been more successful in commodities other than beef)



The Russian Market for Canadian Beef Opportunities and Threats

- Largest opportunity is associated with Russia's acceptance into the WTO which is expected to occur later this year
 - Canadian A grade product will become exempt from quota restrictions (under our definition of High Quality Beef)
 - Tariff's on offal will also be reduced
- Greater stability around market access as a consequence of adherence to WTO SPS standards
- Canada may ship additional cuts to Russia that were traditionally supplied to Mexico



The Middle East Market for Canadian Beef

- Middle East consists of countries with very different requirements and market access
- Typically seeking affordable boneless beef although other segments may emerge if economy supports
- Niche markets which may be well suited to small and medium size plants
- MENA 2011 trade volumes of 2,282 MT
- 2012 MENA volumes trending slightly higher



The Middle East Market for Canadian Beef

- Egypt is noted as a market with potential for Canada and we have shipped more than \$1 million by April YTD
 - U.S. currently shipping significant volumes of product (\$100 million + YTD)
 - Canada has access for beef from animals under 30 months, offal from animals under 30 months
- Saudi Arabia and UAE have potential to grow
 - Saudi Arabia - access for beef from animals under 30 months; offal from animals under 30 months
- U.S. does not have access because of recent BSE case



The Middle East Market for Canadian Beef Opportunities and Threats

Middle east countries have potential for growth but there are potential barriers:

- Halal certification is often required and can be difficult to obtain especially if stunning with captive bolt pistols is not permitted (worker safety issue)
- Kosher certification required for Israel
- Multiple markets require complex labelling requirements including labels on individual bags of product
- Political instability remains (Egypt, Syria, Iran, Iraq)
- Canada has less experience in the region than United States



The Importance of Market Access

<u>Next Incremental Access</u>	<u>Incremental Value</u>	<u>Total Value</u>
1. Mainland China (U30M)	\$20 million	\$110 million
2. Japan (U30M boneless)	\$47 million	\$125 million
3. Korea (U30M)	\$30 million	\$30 million
4. Mexico (O30M)	\$15 million	\$200 million
5. Russia (B-I/Offal O30M)	\$12.5 million	\$37.5 million
6. Taiwan (B-I U30M)	\$8.4 million	\$15 million

Total for all Selected Export Markets: \$132.9 million incremental increase



TM

CANADA BEEF INC.