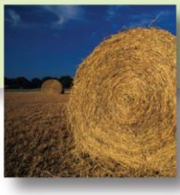
2009 Agricultural Outlook



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1.0 Introduction

BDO Dunwoody LLP has a strong desire to provide additional value to their farm clients. As a result, the George Morris Centre was commissioned to create a straightforward yet comprehensive overview for 2009.
This document provides a market outlook of major commodities in Canadian agriculture. The outlook includes an examination of prices and comments on the longer terms trends and issues in each industry.

The following industries have been examined:

- Grain and Oilseeds
- Beef Cattle and Hogs
- Dairy
- Horticulture

2.0 Grains and Oilseeds – *Larry Martin, Senior Fellow and Tesfa Asfaha, Research Assistant*

2.1 Introduction

The grains (corn, wheat) and oilseeds industries are the heart of North American agriculture. Most regions can grow the crops as substitutes or in rotation with other crops, such as horticulture. Their availability and price are related directly to food demand through flour, starch and edible oils, and indirectly through meat. Increasingly, their value is affected by the energy sector through the growing bio-fuels phenomenon. Therefore, prices of grains and oilseeds affect a multitude of other factors or are affected by them.
In the past several months, prices made record highs and displayed record volatility. The question now is whether we will continue to see this kind of behavior going forward.

2.2 Stocks/Use Ratios, Price Levels and Volatility

Tables 2.1 – 2.3 contain USDA estimates of supply (annual production plus carryover inventory), exports, domestic use, new carry over and annual average prices for US corn, soybeans and wheat since 1990/91 including forecasts for 2008/09. Focusing on the last two columns, one quickly sees that there is a strong inverse relationship between the stocks/use ratios and annual prices for all three crops. The stocks/use ratio expresses end-of-year carry over as a percentage of the total use. This simply reflects the supply and demand balance. When supply is high relative to demand, price is forced down and surplus is left to carry over in inventory. When supply is low relative to demand, price has to rise to allocate the scarce product and inventories are drawn down.

Table 2.1: US Corn Supply, Utilization and Price, 1990/91 – 2008/09

Year	Supply (1000 MT)	Exports (1000 MT)	Domestic Consumption (1000 MT)	Ending Stocks (1000 MT)	Stocks/ Use Ratio (%)	Average Price (US$/Bu)
1990/1991	235,772	43,858	153,273	38,641	19.601686	2.28
1991/1992	229,008	40,233	160,826	27,949	13.900895	2.37
1992/1993	268,848	42,249	172,927	53,672	24.943302	2.07
1993/1994	215,187	33,741	159,851	21,595	11.154903	2.5
1994/1995	277,133	55,311	182,251	39,571	16.657125	2.26
1995/1996	227,960	56,589	160,552	10,819	4.9824768	3.24
1996/1997	245,674	45,655	177,586	22,433	10.048781	2.71
1997/1998	256,521	38,214	185,087	33,220	14.876781	2.43
1998/1999	281,580	50,401	185,788	45,391	19.218084	1.94
1999/2000	285,315	49,191	192,496	43,628	18.051447	1.82
2000/2001	295,655	49,313	198,102	48,240	19.497605	1.85
2001/2002	289,875	48,383	200,941	40,551	16.264379	1.97
2002/2003	268,685	40,334	200,748	27,603	11.449631	2.32
2003/2004	284,239	48,258	211,644	24,337	9.3639141	2.42
2004/2005	324,526	46,181	224,648	53,697	19.826902	2.06
2005/2006	336,232	54,201	232,063	49,968	17.455216	2
2006/2007	317,870	53,970	230,786	33,114	11.628903	3.04

2007/2008	365,587	62,233	266,966	36,388	11.053497	3.5
2008/2009*	343,486	50,802	266,967	17,083	5.3759177	3.75

*Preliminary estimation.
Source: USDA Foreign Agricultural Service and USDA Economic Research Services.

Table 2.2: US Soybean Supply, Utilization and Price, 1990/91 – 2008/09

Year	Supply (1000 MT)	Exports (1000 MT)	Domestic Consumption (1000 MT)	Ending Stocks (1000 MT)	Stocks/ Use Ratio (%)	Average Price (US$/Bu)
1990/1991	59,019	15,161	34,903	8,955	17.89	5.74
1991/1992	63,114	18,614	36,922	7,578	13.65	5.58
1992/1993	67,246	20,972	38,319	7,955	13.42	5.56
1993/1994	59,015	16,006	37,318	5,691	10.67	6.40
1994/1995	74,284	22,867	42,305	9,112	13.98	5.48
1995/1996	68,407	23,108	40,306	4,993	7.87	6.72
1996/1997	70,015	24,110	42,317	3,588	5.40	7.35
1997/1998	76,899	23,760	47,701	5,438	7.61	6.47
1998/1999	80,118	21,898	48,736	9,484	13.43	4.93
1999/2000	81,822	26,537	47,388	7,897	10.68	4.63
2000/2001	83,049	27,103	49,203	6,743	8.84	4.54
2001/2002	85,478	28,948	50,867	5,663	7.10	4.38
2002/2003	80,800	28,423	47,524	4,853	6.39	5.53
2003/2004	71,782	24,128	44,595	3,059	4.45	7.34
2004/2005	88,224	29,860	51,404	6,960	8.56	5.74
2005/2006	90,420	25,579	52,612	12,229	15.64	5.66
2006/2007	99,255	30,427	53,234	15,595	18.6%	6.43
2007/2008	86,355	26,535	54,105	5,715	7.1%	9.00
2008/2009*	86,164	24,630	55,574	5,960	7.4%	8.85

*Preliminary estimation.
Source: USDA Foreign Agricultural Service and USDA Economic Research Services.

Table 2.3: US Wheat Supply, Utilization and Price, 1990/91 – 2008/09

Year	Supply (1000 MT)	Exports (1000 MT)	Domestic Consumption (1000 MT)	Ending Stocks (1000 MT)	Stocks/ Use Ratio (%)	Average Price (US$/Bu)
1990/1991	89,883	28,500	37,150	23,627	35.66	2.98
1991/1992	78,626	35,284	30,799	12,928	19.68	2.74
1992/1993	81,968	37,283	30,688	14,442	21.39	3.41
1993/1994	82,624	33,111	33,738	15,472	23.04	3.26
1994/1995	81,141	32,541	35,014	13,787	20.47	3.45
1995/1996	75,040	33,795	31,028	10,234	15.79	4.55

1996/1997	74,727	27,298	35,397	12,073	19.27	4.30
1997/1998	82,190	28,315	34,212	19,663	31.45	3.38
1998/1999	91,793	29,001	37,589	25,744	38.98	2.65
1999/2000	90,791	29,399	35,373	25,848	39.80	2.48
2000/2001	88,934	28,027	36,184	23,846	36.64	2.62
2001/2002	79,774	26,270	32,434	21,150	36.08	2.78
2002/2003	66,961	22,834	30,448	13,374	24.96	3.56
2003/2004	78,903	32,295	32,507	14,872	23.23	3.40
2004/2005	75,531	28,464	31,823	14,699	24.16	3.40
2005/2006	74,193	27,424	31,357	15,545	26.51	3.42
2006/2007	68,174	24,738	31,025	12,410	22.25	4.26
2007/2008	71,114	31,297	31,325	8,491	13.56	6.10
2008/2009*	75,169	25,854	32,821	16,492	28.11	5.50

*Preliminary estimation.
Source: USDA Foreign Agricultural Service and USDA Economic Research Services.

Within this structure, note that the stocks/use ratio for corn was at a record low in 1995/1996 and prices were at record highs. In addition, prices in that year were extremely volatile. The same is true for soybeans in 1996/97 and wheat in 1995/96, although the wheat ratio was still at 15%. So, all three had relatively low stocks/use ratios at roughly the same time and all three experienced high and volatile prices.

Finally, note the differing patterns of use for the three commodities. Corn's export use has no real long term trend in it, although there is an upward trend in corn exports over the past few years. But domestic use grew rapidly, especially after 1999. This reflects the emergence of ethanol production for energy.
Soybeans reflect a similar pattern of upward trending domestic demand. This is almost all increased crush of soybeans, reflecting growing world demand for oil and protein, the latter mainly to feed livestock to satisfy a more than 50% growth in meat consumption in developing countries of Asia and Africa.
Interestingly, wheat appears to have no discernible trend in either domestic or export use and its production has trended downward in recent years as acres were switched to corn and soybeans because of the changes in demand noted above and because of US farm programs that favoured corn and soybeans.

2.3 The 2008 Explosion

The run-up in prices through June of this year can be explained with this framework. First, note that all three stocks/use ratios for 2007/8 were low. In fact, during most of the year, they were expected to be lower than they were. The S/U for wheat was record low, while the other two were among the lowest on record. This reflects the extremely strong demand for livestock products and, therefore, livestock feed that was occurring in the developing world, as well as the strong demand for grains and oilseeds for bio-fuels.
In the winter of 2008, there was concern about running out of grain. This fed the pricing issue and drove it upward until it became evident that demand was not as great as expected, bringing prices downward by more than half of their summer peaks.

2.4 Where To From Here?

USDA's most recent forecasts for 2008 are in the last lines of the three tables. They are most interesting given historical relationships between prices and stocks/use. Note the following:

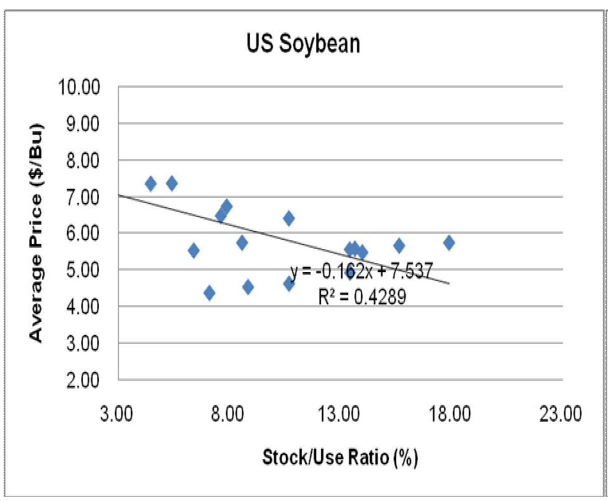
- Corn – is forecast to have record high prices at $3.75 and the second lowest stocks/use ratio on record. This results from slightly lower supply, no change in forecast domestic use and a substantial decline in forecast export demand.

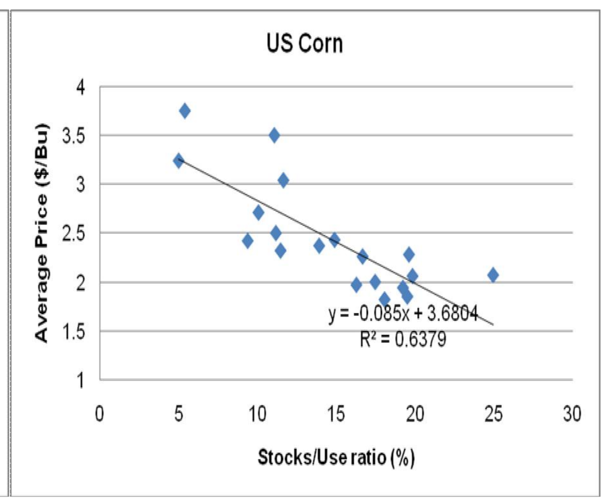
- Soybeans – almost no change in an already low stocks/use ratio and the second highest annual price at $8.85. Total supply is almost unchanged, domestic use is forecast to be up a little and export demand is forecast to be down.

- Wheat – unlike the others, a much higher stocks/use ratio resulting from higher production, marginally higher domestic consumption and much lower export demand. But still the second highest price forecast, at $5.50.

In our view, the possibility exists for continued price volatility in the coming months. The forecast price for corn is well above recent nearby futures prices, suggesting a potential rise. The relatively low stocks/use ratios for corn and soybeans implies potential volatility. The much higher ratio for wheat will act as a damper on price volatility for all three crops. But the very conservative demand estimates for wheat could change rapidly and we could see a much different stocks/ use ratio by the end of the crop year – it would take little to raise the demand for wheat and lower the stocks by 3 million MT, thereby making a year more like the one we just saw.

We think that USDA really expects this. Figure 2.1 contains the charts showing the historical relationship between stocks/use and price for the three crops. We have estimated a line summarizing the relationship. Note that for corn and soybeans, the price forecast is close to the line. In the case of wheat, the forecast price at $5.50 is well above the line. This suggests to us that USDA actually expects a lower stocks/use ratio than their estimate.





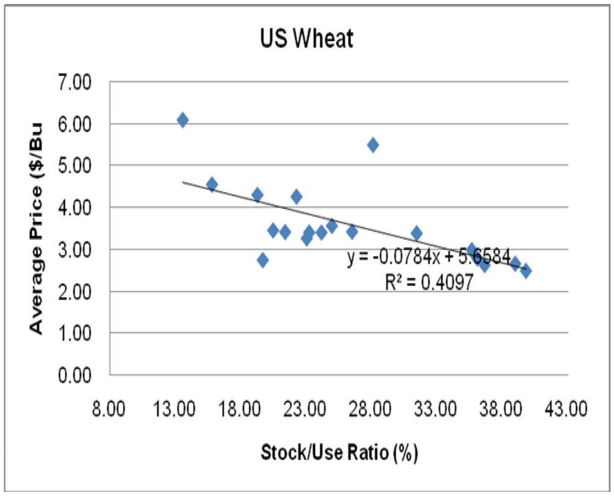


Figure 2.1: Relationship between Stocks-to-Use Ratio and Price

If these forecasts for US prices are in the ballpark, Canadian prices will depend on the exchange rate and basis. As with livestock, we are using an $.80 Canadian dollar. Demand for corn in Eastern Canada for feed use will drop off with the reduction in livestock breeding inventories. However, new capacity for ethanol is coming on stream. Therefore, we expect the demand for corn to remain strong and we'll use a basis of $US.10 per bushel over the nearby future for our basis estimate.

Because of the recent growth in soybean production in Eastern Canada in recent years, basis has slipped to $US.40 - .60 under the nearby. We'll use $.50.
We have little useful information on the basis for wheat because of regulated marketing, so we are going to assume a basis of $US.10 under.

With these assumptions, this would put Canadian corn at about $4.80 for the year, soybeans around $10.40, and wheat at about $6.75.

3.0 Beef Cattle and Hogs – *Kevin Grier, Senior Market Analyst*

3.1 Introduction

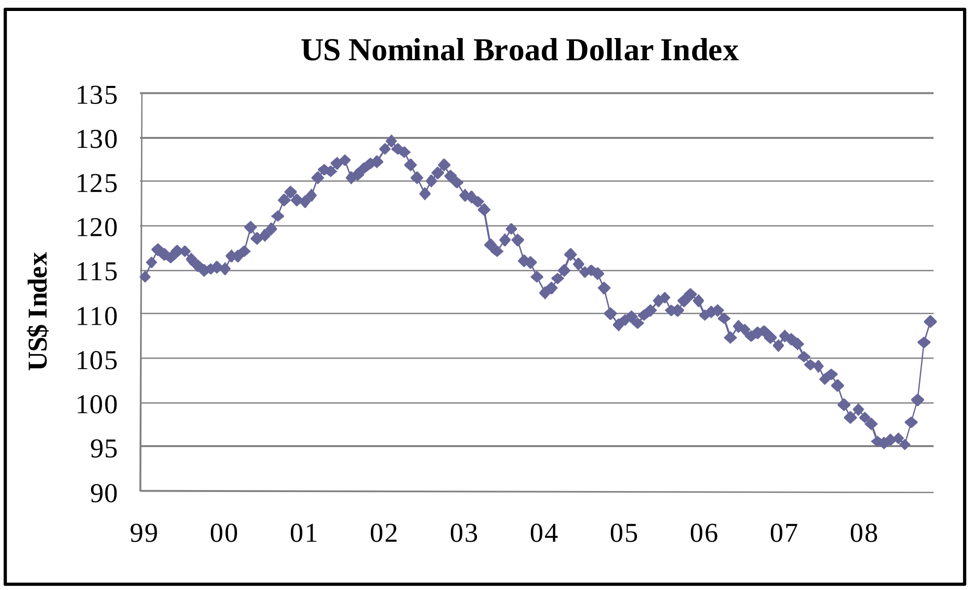
There are three components to the cattle and hog price determination process in Canada: US cattle and hog prices; the Canada/US exchange rate; local supply and demand (basis or spread). The following outlines those three components for Canadian livestock producers.

3.2 International Drivers for US Pricing

The outlook for cattle and hogs in Canada over the next 12 to 18 months will be driven by factors typically beyond the normal livestock market parameters. World financial markets, credit availability and currency are factors that have come into prominence in terms of determining direction of livestock pricing.

During the past three to five years, the importance of international markets and export demand has become increasingly clear. During this relatively short time frame, the United States has become a major presence in global pork markets. During the past year, as the US also gained access to markets it lost due to its 2003 BSE case, it has also increased its significance in global beef markets. Prior to the past several years, the US beef and pork industries were primarily domestically focused. In 2008 pork exports will represent about 24% of total US production. That is more than twice its share in 2004.

The US growth in global markets has coincided with two major drivers: global economic growth and a depreciated US currency. As lesser developed nations gain wealth and grow economically and as these nations urbanize, their diets change toward more protein based products such as beef, pork and chicken. Thus until mid-2008 growing global economies were demanding meats that were increasingly supplied by the United States. With regard to the US dollar, the following graph shows the US dollar index against a basket of global currencies.



The depreciated US dollar generated greater profitability and helped US packers compete in world markets. The depreciated currency also resulted in higher domestic pricing in the United States throughout the supply chain.
The net result is that despite the fact that North America produced record supplies of meat and poultry, livestock prices in the United States were incredibly high. In other words, given record supply levels, export markets helped sustain higher pricing than would have been possible only five years ago.

Within that context, weakness in the global economy and appreciation of the US dollar take on increasing importance in terms of pricing and profit potential for Canadian livestock producers. In order to make pricing forecasts for cattle and hogs, assumptions must be made regarding export market potential and the US currency. In that regard, the obvious deduction is that there will be declines in export volumes, but more importantly, declines in pricing prospects in those export markets.

While that is a negative factor, on the positive side of the ledger, North American production of beef and pork is expected to be moderately lower in the next two years. In 2009, the US sow inventory is expected to be at least 4% lower than in 2008 while the Canadian herd could be reduced by another 5% on top of significant declines in 2007 and 2008. Similarly both the US and Canadian cow herd continue to decline at more modest but steady rates. This in turn will result in reduction in both beef and pork supplies in North America. Past experience has shown that even modest reductions in supply have been accompanied by very strong upward pricing responses. Therefore, in the coming year or two, Canadian livestock producers should work on the assumption that US prices will be similar to price levels seen in the US during the past year. That is, in 2009 US hog and cattle prices are expected to be roughly equal to or moderately stronger than during 2008.

3.3 Canadian Pricing Prospects

The next factor in determining livestock pricing in Canada is the exchange rate. Changes in the exchange rate result in immediate changes in livestock prices in Canada. For example a one cent depreciation in the value of the C$ will result in an immediate increase in the value of Canadian cattle by a similar one cent or so per pound on the live price.

The final component of pricing is local supply and demand conditions. These local supply and demand conditions have been severely damaged with the implementation of the US Country of Origin Labeling program (COOL). COOL has resulted in diminished US demand for Canadian cattle and hogs. COOL means that Canadian feeder cattle or hogs that are exported to the United States for finishing and slaughter must be labeled as “Product of US and Canada.” Cattle and hogs that go to the US for immediate slaughter must be labeled as “Product of Canada and the US.” This has resulted in several major US packers deciding that they will not take Canadian livestock for direct slaughter. Others only take them at certain plants. Canadian livestock sold for finishing to the US are being discounted or rejected given uncertainty of finished pricing or finding slaughter plants. This has occurred even though the COOL program is simply in its initiation or trial phase. Full implementation begins in March 2009.

That in turn has resulted in lower price spreads in Canada relative to the United States for cattle. It has not yet hurt market hog pricing in Canada given that most pricing is formula based. If COOL continues to result in reduced demand for Canadian hogs in the coming years, however, the hog price in Canada will eventually be reduced as well.
Looking ahead into 2009 and 2010, and assuming a C$ value of approximately 0.80, Canadian cattle producers could reasonably expect that prices will range around C$95/cwt. Hog producers could plan for pricing in the C$160-165/ckg range.

4.0 Dairy – *Allan Mussell, Research Associate*

4.1 Introduction

Milk production is stable within the confines of the supply-managed Canadian dairy industry, with milk production technology improving. As a result, the Canadian cow herd has declined over time to just under 1 million cows, and this contraction will likely continue. The Canadian dairy industry is stable, and has broadly lagged its US counterpart in adopting scale economies, due in large part to the capital costs associated with quota. WTO trade liberalization stands to have adverse effects on the Canadian dairy industry. Existing levels of protection have been sufficiently high to prevent dairy imports, and compositional standards limit the extent of the use of milk protein isolates. At the same time, increases in administered milk prices that have recently occurred create an incentive to substitute for dairy products.

4.2 Outlook

By nature, as a supply-managed product in which farm production costs can be passed through, the Canadian dairy market is exceptionally stable. However, besides being stable the market has seen prices increase over time, inducing sluggish consumer demand and increasing interest on behalf of processors for substitute ingredients. Thus, within the general sphere of market stability, the following is likely to unfold in the near-term future. Following an emergency industrial milk price increase in September, the decrease in energy and feed prices this fall should prevent an additional price increase in February. Secondly, a court challenge to the compositional standards for cheese which has been launched by processors, creates the prospect of future decreases in industrial milk prices that could be significant. Finally, there are ongoing attempts by marketing boards to gain back market share lost to substitute ingredients. Part of a package to regain market share is likely to include price reductions, particularly on non-fat solids. Thus, the outlook is for flat to slightly lower milk prices and steady volume.

4.3 Structural Issues - Cost Competitiveness, Trade and Domestic Marketing

Within its protected environment, the cost competitiveness of the Canadian dairy industry has lagged. Compared with other jurisdictions that use confinement housing and grain feeding of dairy cows (notably the US), Canada's dairy industry is small-scale and high cost. The stable environment has allowed smaller, tie-stall operations to remain viable where competition from larger scale-efficient free stall units have driven tie-stall facilities out elsewhere. While replacement of tie-stall facilities with free stalls is occurring in Canada, the rate at which this is progressing is slowed by the need to finance milk quota, and the need to acquire it through quota exchange mechanisms in which supply is often tight.

As it appears that the WTO-Doha Round may be restarting, the latent threat to the Canadian dairy industry reasserts itself. Dairy is vulnerable in all significant aspects of the WTO: export subsidies, domestic support, and market access. As the negotiations currently stand, the proposed elimination of export subsidies would completely stop Canadian dairy exports and force surpluses to be dealt with in the domestic market. Deemed domestic support to dairy is significant, and would face limits under the proposed WTO agreement. Increased market access in terms of reduced tariffs and increased tariff-rate quotas is a threat that may be mitigated by classifying dairy products as "sensitive"; however it appears that not all supply managed product will fit within the range of tariff lines allotted as sensitive. There is also the prospect of a maximum tariff of 100% that could greatly impact Canadian dairy products. Thus, a WTO agreement would result in milk and dairy product prices decreasing to meet imports, or a sharp reduction in quota to maintain what's left of the domestic market at existing prices. The former is the more likely as the latter would be catastrophic.

Finally, domestic milk marketing is under strain. On one hand, marketing boards have been successful in consistently increasing milk prices without inducing a dramatic decrease in demand. On the other, increasing prices have stifled growth in product sales, encouraged investment in substitute dairy ingredients, and increased quota values. Provincial milk marketing boards are thus challenged to engage processors more effectively to increase markets, likely with the prospect of reducing prices.

5.0 Horticulture – *Kate Stiefelmeyer, Research Associate*

This section of the analysis includes an examination of potatoes, wine grapes and peaches.

5.1 Potatoes

The Canadian potato industry is the largest vegetable crop industry in Canada. In 2006 and 2007, farm cash receipts for potatoes reached just over $890 million and $840 million (excluding farm payments); in 2007 this represented 2.1% of total farm cash receipts and about 35 per cent of the total vegetable farm cash receipts. Harvested acreage decreased by 7.5 percent from 424 thousand acres in 2004 to 393 thousand acres in 2007. In a move to improve potato prices, the industry deliberately decreased potato acreage and production.

In 2007, PEI accounted for just below 25% of total Canadian potato production, followed by Manitoba (22%) and Alberta (17%). Figure 5.1 shows the prices received in PEI, Ontario, Manitoba and Alberta for commercial potatoes between September 2005 and September 2008. The figure shows that prices in all four provinces generally follow the same trend. However, PEI prices have been more volatile than in Manitoba or Alberta, and Ontario prices have consistently been the highest over the time period. Overall, this past year, potato prices have been trending upward.

A number of factors have had an impact on the industry in recent years:

- The industry's cost structure is improving compared to competitors such as Idaho. A recent analysis shows that Canada's variable and total costs per acre are lower than in Idaho, but Idaho's higher yields per acre result in lower cost of production per volume.
- Canada is increasingly dependent on processed potato exports for expansion in the potato industry and has shown that it can compete in a free-trade environment. However, competition for export markets is increasing with the US, EU (Netherlands in particular) and the increasingly competitive Australian and New Zealand industries accessing the same potential export markets. Developing countries such as China are also looking to coordinate and increase domestic potato production and processing capacity.
- Exports of frozen potatoes dropped due to a strengthening Canadian dollar and lost production capacity but the industry remained the second largest frozen potato exporter in the world.
- A significant proportion of production is traded (76% in 2005/06) and with most heading to the United States, the fact that the United States is weathering difficult financial times may impact demand of Canadian product. Although most fresh potatoes are likely eaten at home, 88% of all French fries in the United States are eaten outside of the home; 75% of which are sold through restaurants (Lucier, 2003). In January 2008, the consumer research company Mintel released results of a national poll showing that 54% of people who eat out regularly have cut back due to the economic downturn. However, since French fries are a fairly cheap alternative to other foods they may weather the storm better than other higher priced foodservice items.
- The industry has taken it upon itself to impose a voluntary supply management standard on acreage planted which has improved market returns and met the demands of consumers.
- There continues to be increased concentration in potato processing as well as the retail industry (AAFC, 2007).
- The potato industry has access to and has adopted available technologies that have enhanced the productivity of this industry. For example, the industry is moving toward

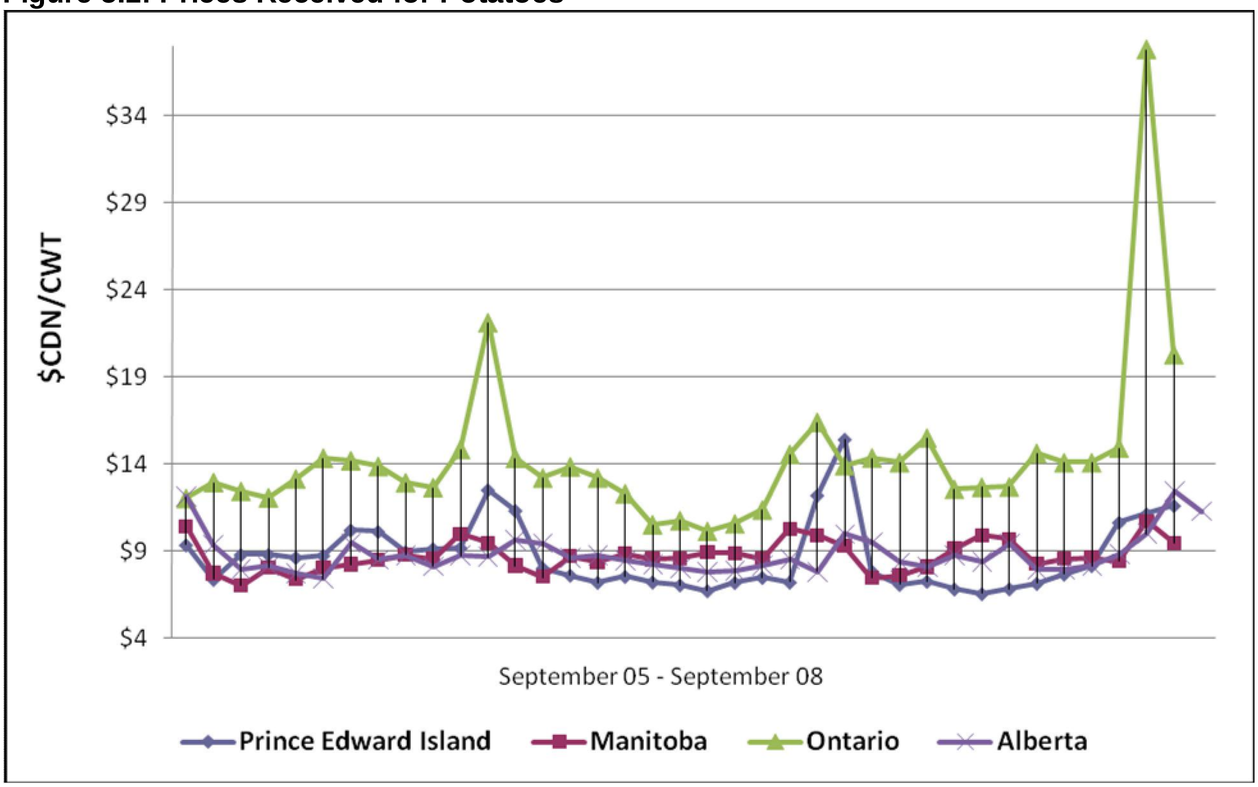
increased irrigated acreage due to processor demands for more consistent quality. The irrigated acres also produce higher yields that help to meet processor demand. However, rising energy costs and water shortages may influence how much land will be in irrigation in the future (AAFC, 2005).

Potato producers will face several changing factors in the future that will be both challenges and opportunities:

- Rising input prices
- Opportunities in the non-food sector, including feed, fertilizer and bio-plastics
- Demand growth in developing countries, but also increased competition from these countries as their domestic production ramps up
- Processors and retailer consolidation will increase Canadian competition
- Consumer demand for healthy foods will provide an opportunity for the industry to market potatoes as healthy baked snack products and move away from fried potato products

The outlook for the next year probably depends mainly on whether the voluntary supply restriction process is successful. When grain prices were rising they gave growers a feasible alternative to potatoes. Now that grain prices are falling, the voluntary restriction may be more difficult to ensure discipline.

Figure 5.1: Prices Received for Potatoes



Source: Statistics Canada, CANSIM

5.2 Peaches

Ontario dominates Canada's tender fruit production, followed by British Columbia. In 2007 Ontario produced 81% of the peach crop in Canada (Statistics Canada, 2008). In Ontario, approximately 90% of all tender fruit production takes place in the Niagara Region and the remainder in Norfolk County and Southwestern Ontario. This discussion will focus on Ontario peach production.

Ontario peach growers sell to both the fresh market and the processing market. On average over the last five years, 25-29%, or just over 5,550 tonnes, of Ontario's peach production has gone to the processing market (OTFPMB, 2007). The volume sold into the processing market is expected to decrease drastically due to the closure of CanGro Foods Inc. in St. David's in 2008.

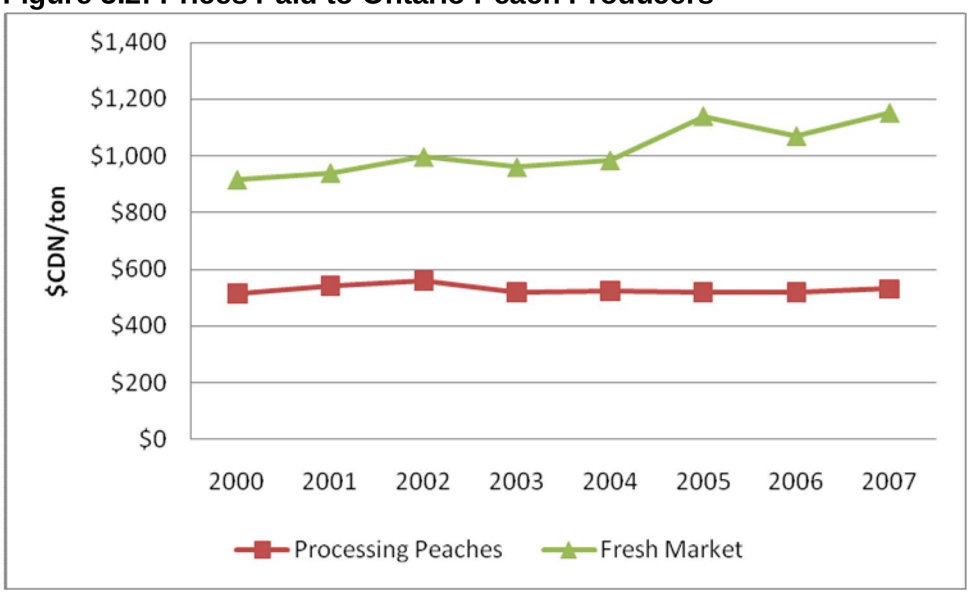
Since 2007 prices paid to producers for processing peaches have remained steady while prices paid for fresh market product have slowly increased.

Table 5.1: Peach Production Statistics, tons

	2000	2001	2002	2003	2004	2005	2006	2007
Total Canadian Production	32,085	33,673	31,765	33,460	32,373	24,765	30,597	37,115
Total Ontario Production	26,600	28,100	25,570	27,200	26,400	19,750	23,988	30,000
Production for Fresh Market*	17,862	18,512	17,525	17,021	16,925	14,286	18,539	15,569
Production for Processing	7,872	7,163	6,019	6,903	6,828	4,668	6,126	5,613

*Production does include direct to consumer sales.
Source: Ontario Tender Fruit Producers Marketing Board, 2008; Statistics Canada, CANSIM

Figure 5.2: Prices Paid to Ontario Peach Producers



*Fresh Market prices are average returns from dealers/shippers.
Source: Ontario Tender Fruit Producers Marketing Board, various annual reports

A number of factors have put competitive pressure on Ontario peach producers in recent years:

- The larger of two peach processors in Ontario, CanGro Foods Inc. announced its closure in 2008. CanGro Foods Inc. canned approximately 85% of the Ontario peaches in the processing channel.
- The market for canned fruit is relatively stagnant. People prefer fresh and fresh-cut product and other forms of processed fruit. New transportation and packaging technologies allow better access to them. Improved packaging for processed product has led to growing consumption of frozen fruit and dried fruits.
- Competition in fruit processing is increasing as China and Thailand have been increasing market share while the traditional markets' (US, EU, and South Africa) shares have been growing at lower rates.
- Some of the acreage dedicated to processing peaches will likely be put into fresh peaches and other tender fruits. However, this fruit will not arrive on the market for a few years as the trees mature.
- The seasonality of Ontario horticulture, the demands by consumers for year-round fresh produce and the appreciating Canadian dollar are already leading to increased competition with imports from other countries. With a steady supply of produce throughout the year, prices that historically peaked in the winter have now leveled out. In order to deal with this issue, Ontario producers must determine how to differentiate themselves from the imports. In this regard, the buy local campaign and recent trend has helped in the differentiation process. However, retailers indicate that imported product has better shelf life and better consistency of size and quality. While consumers want to support local, they also want quality.
- Ontario's increasing minimum wage will affect peach producers significantly. Horticulture crops are among the most labour-intensive crops, therefore the wage impact will be more acute in this industry.
- Although the Ontario fresh peach industry is domestic-focused, the Canadian dollar has just as big an impact as it does on export-focused industries. The strengthening Canadian dollar results in lower priced imports in which Ontario must compete.
- The industry must determine how to take advantage of the popular buy local movement.

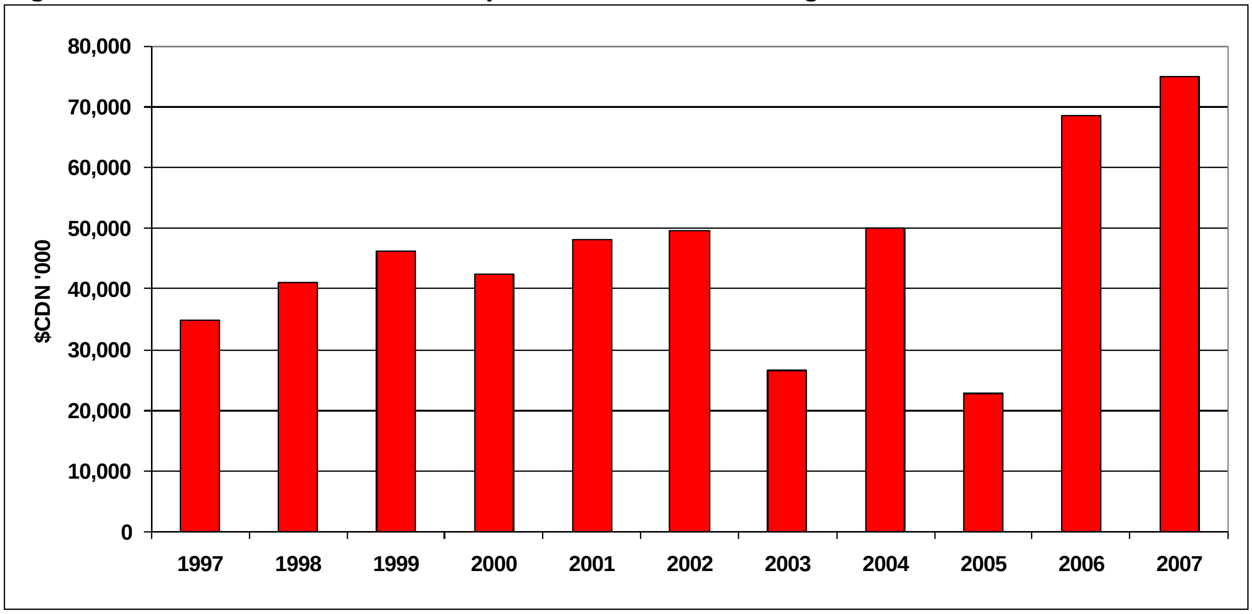
5.3 Wine Grapes

As with peaches, Ontario dominates vine and grape production used in Canadian wines. Ontario's four designated viticultural areas (Niagara Peninsula, Pelee Island, Lake Erie North Shore and Prince Edward County) house 15,000 acres of vines for wine grape production – approximately 75% of the total production in Canada.

The wine industry in Ontario is a burgeoning production and tourism industry. As a result, the number of grape vines has grown by 46% since 1997. In particular, growth has been strong in Vinifera vine varieties used to produce Ontario's high quality wines.

In 2007, licensed Ontario wineries (+100) purchased a total of 52,229 tonnes of Ontario grapes for early and late harvest wines (GGO, 2008 Annual Report). Figure 5.3 shows the growth in the total grape crop value sold to licensed processors over the last decade. Despite reduced production in 2007 compared to 2006, farm cash receipts continued to grow, likely as a result of the increased production of vinifera varieties which receive higher prices. Table 5.2 compares prices received for Concord and Hybrid varieties to Vinifera varieties such as Chardonnay, Riesling, Cabernet Sauvignon and Shiraz.

Figure 5.3: Farm Gate Value of Grapes Sold for Processing



(Source: Grape Growers of Ontario, various Annual Reports)

Table 5.2: Ontario Grape Processing Prices, $/tonne

	2002	2003	2004	2005	2006	2007	2008*
Concord	$410	$310	$367	$336	$299	$330	$410
Blue French Hybrids	$750	$750	$750	$810	$834	$851	$860
Seyval Blanc Vidal	$460	$495	$495	$555	$572	$583	$600
J. Riesling	$1,250	$1,125	$1,250	$1,400	$1,442	$1,471	$1,471
Chardonnay	$1,100	$1,300	$1,300	$1,450	$1,494	$1,524	$1,509
Cabernet Sauvignon	$1,775	$1,800	$1,800	$1,980	$2,039	$2,080	$2,038
Shiraz, Sirah, Syrah	$1,300	$1,100	$1,300	$2,000	$2,060	$2,101	$2,143

*New prices recently announced by the Farm Products Marketing Commission.
(Source: Grape Growers of Ontario, various Annual Reports; Cattell, 2008)

Grape prices are negotiated every year between the Grape Growers of Ontario and the Wine Council of Ontario, unlike in other jurisdictions where individual pricing contracts are set up between the buyer and the seller. Once a minimum base price for grapes has been set, contracts for the sale of grapes cannot take place below this minimum base price.

A significant short crop was experienced in 2005 due to a harsh winter. As a result the GGO and the WCO entered into a 3 year pricing agreement for the 2005 through 2007 harvest years. Prices increased across the board 10% for 2005, 3% for 2006 and 2% for 2007.

2008 marked the end of the pricing agreement between the parties and prices have been finalized for the 2008 crop. Negotiations began in July but no agreements were made in what has become quite a toxic negotiating relationship. The pricing decision ended up in arbitration by the Farm Products Marketing Commission in October. Once the process falls to arbitration, a decision is made by choosing one party's submission. The Grape Growers of Ontario announced that a decision was made in their favour.

Price increases were primarily reflected in Labrusca grapes (see Table 6.2) not in Vinifera or hybrid grape varieties. Vinifera prices remained the same, decreased and increased across the board.

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