



July 2008 Press Release

New Halal Certification at Sunterra Meats Creates Opportunities for Lamb Producers

In July Sunterra Meats Ltd. received an internationally recognized Halal certification for beef, lamb, bison and goat, creating opportunities for servicing a growing Muslim demand both domestically and abroad. Oversight and certification is provided by the Halal Certification Agency from the Canadian branch of the Islamic Society of North America (ISNA). Although the certification is very recent, Sunterra has already seen strong demand for Halal lamb products and expects to increase weekly slaughter volumes as a result.

For the lamb industry opportunities from Halal certification will be focused on the domestic market initially to meet Muslim demand for products produced in strict adherence to a consistent Halal standard from Canada's largest federally inspected lamb processor. Access to the Halal market has been increasingly important in the beef industry especially in opening access to service high-quality markets in the Middle East and to meet demand for beef products in emerging beef export markets like Indonesia. Initial focus on bison and goat will be in the domestic market although export opportunities are expected for countries looking for a variety of species in combined shipments.

The Muslim market in Canada is large and growing with lamb and goat as popular meat products among this demographic. Sunterra expects to improve Halal lamb product availability and consistency. Up to now most Halal products available to consumers in Canada have been supplied by provincially inspected plants, on-farm slaughter, or imported from Australia or New Zealand. Miles Kliner, General Manager of the Innisfail plant noted, "We have seen strong initial reaction from the marketplace to our certification. We have received orders from across Canada for a full complement of products. While some of these are test shipments, the feedback has been really positive. Our biggest challenge is to ensure we grow at the right pace matching this new demand with an adequate lamb supply."

Managing year-round lamb supply is very challenging. Lambs are typically abundant in the summer and fall but supply becomes tight in the winter and is compounded by increased demand during Christmas and Easter seasons. Important Muslim holidays are also during tight supply periods which will make managing supply even trickier. Further compounding supply is a decrease in lamb production in Canada. According to Statistics Canada market lamb inventories at the start of the year are down almost ten percent from 2007 with Western Canada down more than thirteen percent. Ewes and replacement lambs are also down with higher decreases noted in Western Canada. Despite the relative strength of the lamb industry compared to other livestock sectors, this decrease is troubling.

Sunterra will be working hard with Western Canadian producers to reverse this trend. While the number of lamb producers has shrunk following the aftermath of BSE in 2003, there remain some strong lamb producers who have reaped the benefits of the market upswing of the last several years. Sunterra will also work with other livestock producers, particularly beef and pork producers who are looking for an improvement in profitability and diversification. Bob Milligan, a veteran beef buyer, recently joined Sunterra Meats as the Livestock Procurement Manager. He will help Merrell Dickie, who has been with Sunterra for two years, spread the message about lamb production. "It is exciting to be working in the lamb business with such an optimistic future," says Milligan, "there is a lot of work we need to do to reach current and potential producers but we have a positive message to bring and I look forward to playing a role in its growth."

Prices for market ready lambs remain strong and the outlook is good. From Sunterra's perspective the four percent decrease in the national year-to-date slaughter observed to the end of June, was more a function of supply rather than demand. "Various times this winter and spring we did not have enough lamb", comments Kliner, "it was unfortunate that we had to short some key customers and are working to provide assurances that a similar situation will be avoided in 2009". Boxed lamb imports to Canada are down almost ten percent with offshore lamb also down close to six percent in the United States. Decreased production, lower imports and stable lamb consumption in Canada should mean strong, stable prices for lamb producers. "There is a limit to how much we can increase prices, as we have not been able to keep pace with prices to retailers to the same extent that livestock has increased, especially when we find ourselves short on product where we have managed pricing increases," says Kliner. "A stable supply is critical for stable prices."

Central to managing the supply side will be increasing the number of lambs forward contracted. In order to make commitments to customers, especially new ones, it is important to know there is enough lambs secured to cover periods of tight supply. In the past few years Sunterra has had limited success forward contracting with Canadian producers. Contracting can be a very useful tool for producers especially if they are growing their operation and need commitments to secure financing. It also guarantees slaughter availability when lambs are ready for market at their best quality. Sunterra offers various contracting options and although fixed pricing is the most common, other options are available for producers who wish to maintain some pricing risk.

Halal certification should also open the door for Sunterra to actively develop a goat business. Many of the customers looking for Halal certified lamb are interested in goat products too. Under different ownership the plant has experience with goat years ago, although year-round supply was a major challenge then too. Halal certification will strengthen and stabilize demand. The Canadian goat industry is small so Sunterra plans to supplement with supply from the US for initial business development until the Canadian industry can more fully meet the demand.

Another potential project arising out of Halal certification is development of a mutton program. Since BSE most mutton waste is prohibited from being rendered, ending the mutton program at Sunterra Meats in 2003. With segregation of waste flows at the plant as a result of meeting the requirements of the Enhanced Feed Ban in 2007 mutton has potential but the potential revenues were inadequate to restart the program. It has been unfortunate that for several years most Western Canadian producers have had to ship cull ewes to Eastern Canada for slaughter. It is hoped that with a Halal market Sunterra may be able to rejuvenate the mutton business and provide a viable option for ewe processing closer to home.

Also in July Sunterra received approval to process and export beef products to the European Union (EU). Sunterra has been processing bison weekly for the EU since 2006. Sunterra has been an experienced exporter for many years. It was a pioneer in the fresh Canadian pork business in Japan in the 1990's and one of the first companies to re-gain beef market access in Japan following border closures after BSE. EU and Halal approvals are a key part of its strategy and build upon previous approvals for organic, natural, and other export market access. It is the latest step in Sunterra's vision to become a premier supplier of specialty meat products worldwide.

For producers interested in learning more about Sunterra's Halal initiative or other opportunities please contact Sunterra Meats' Livestock Procurement Department. For all other inquires please contact Miles Kliner, General Manager.

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