HOGWASH
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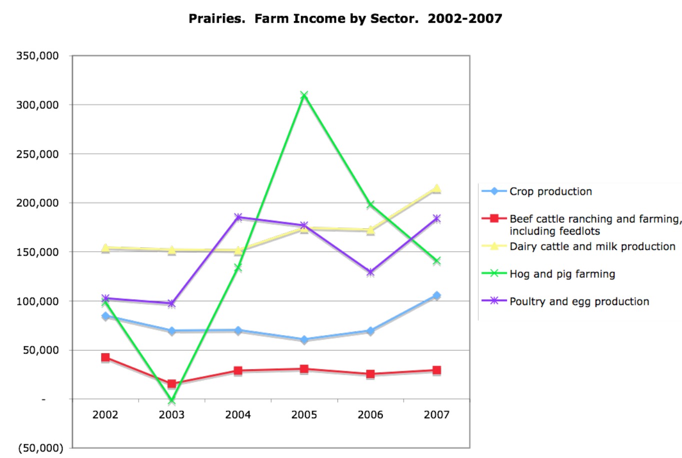
"…Canada is on the brink of being one of, if not the most cost competitive pork producers in the world…." **Prospects for Hog Production and Processing in Canada. George Morris Centre, March 1999**



One of the good things about Farmers' Institutes was getting together with your neighbours once or twice a year to swap stories across the commodity fence. Get a feel for how things are going in another sector. Important to building the social capital of rural communities.

Today, few such opportunities exist. When is the last time you sat down with a farmer who didn't milk cows to find out what was going on in their commodity? How much do you know about the hog situation?

Pretend this is a fence. And I'm a hog farmer. Let's talk.

As recently as the mid 1980's, there was a US hog industry and a Canadian Hog industry. Both countries produced, fed and processed hogs into pork for sale on domestic and export markets. Both were characterized by independent producers and smaller, local packers. Some product crossed the border, but nowhere near today's volumes. From 1985 until 1999, the US market was actually protected by a countervail duty on Canadian hogs.

Things started to change in 1995 with the repeal of the western Grain Transportation Act. Suddenly, marketing grain thru animals made more sense, and farmers started looking more closely at hogs.

The George Morris Centre, a right-of-centre think tank, produced two reports (1997, 1999) on the hog industry. The first, in 1997, urged expansion and modernization of Canada's hog processing sector based on the "extraordinary opportunity" afforded by freer trade and growing Asian markets. The second, commissioned by AAFC and Manitoba Agriculture, pronounced the Canadian Prairies, specifically the Eastern Prairies, as "*…on the brink of being one of, if not the most cost competitive pork producers in the world…*" based on lower cost feed, favourable currency exchange rates (a low Canadian dollar relative to the US), higher production efficiency (more pigs per liter and pigs per sow per year than the US) and lower disease risks (more dispersed production units).

Provincial and federal bureaucrats sprung into action, armed with a quiver of policy incentives to sell hogs as the "new opportunity" for prairie farmers. In Manitoba alone, hog and pig production increased by 78 % from 1995 to 2004, and breeding herd numbers increased by 105%.

When Asian demand began to drop off in 1997, Canadian exports to the US surged. The removal of countervail duties in 1999 created further incentive. The late 1990's saw considerable investment in the Canadian packing sector, but we remained at a smaller scale (average 8,400 hogs per day), higher-cost player. With an average throughput of 21,000 hogs per day, American packers were able to outbid higher cost Canadian plants. What started as a Pacific Rim export market for Canadian pork shifted overnight to an export market for live animals to the US.

As US hog margins collapsed, producers were forced to get bigger or get out. Many independent farrow to finish operations closed and the beginning of 6 years of depressed US hog prices began.

Structural changes also occurred in the packing sector as agribusiness giants repositioned to take advantage of market conditions. Older, higher cost plants built to handle heavy seasonal (fall and winter) volumes and run below capacity the rest of the year were shut down, replaced with modern plants designed to operate at full capacity year around; double capacity in peak market periods. To ensure a guaranteed, on-time supply of uniform, hi-quality product to these new plants, packers moved quickly to vertical integration and contract growing. Large-scale finishing operations were concentrated in the Corn Belt states. The resulting US demand for Canadian feeder pigs – particularly SEW's (segregated early weaners; 10 pounds, 8 weeks old) to supply concentrated contract-finishing operations — changed the nature of our export trade: in 1995, feeder pigs represented 44% of exports. Ten years later, feeder pigs accounted for 70% of Canadian hog exports..

As much as the events themselves, it was the order and speed of their occurrence that facilitated the rapid transition from two independent markets (Canada, US) to one integrated North American market for hog and pork production.

As the US Department of Agriculture observed in its publication Amber Waves in February 2005*: "…Pork production in North America is arguably an application of the theory of comparative advantage. Canada… specializes… in feeder pigs…and the US… in finishing… and processing… hogs… Consumers… reap the benefits of low-cost, high-quality pork products.*

But by 2003 things had already begun to change. Drought and reduced supplies of wheat, corn and soy caused feed prices to rise in both countries, reducing farm margins and more importantly (for us) beginning to erode Canada's comparative advantage in production.

In 2004, 6 years of poor prices resulting in losses 40% of the time provoked two US trade actions (countervail and anti-dumping) against the Canadian hog industry. The former was deemed not material; the latter resulted in a duty that was struck down (and refunded) in March 2005. But relief was short lived.

As the US dollar quickly appreciated by 20%, the currency exchange advantage enjoyed by the Canadian hog industry evaporated. Loss of the lucrative Japanese pork market to the Americans put the squeeze on Canadian packer margins, placing further downward pressure on hog prices.

By 2007, feed prices skyrocketed as global stocks of corn and soy was diverted to ethanol production.

Enacted in the fall of 2008, the USDA's Country of Origin Labeling (COOL) has further reduced the competitiveness of Canadian pork in the US market since it now requires added higher handling costs.

In 2009, H1N1 – incorrectly dubbed "swine flu" — became a global pandemic Stocks increased and prices fell further as confused consumers associated H1N1 with pork consumption and curtailed consumption.

The Canadian Federation of Agriculture notes exports of live pigs in June 2009 were 34.1 per cent lower than in June 2008, and live animal export was $402 million lower between January and June 2009 compared to the year-earlier period.

Canada regularly ranks 7th or 8th in world hog production. But stripped of our currency and feed price advantage, Canadian hog farmers are now losing an estimated $40 CAD a head on every hog marketed. Many farmers continue to produce because high fixed cost barns made it difficult to cut back. Producers report losses in the range of $15,000 a week. An estimated 80% of Alberta's 450 producers are struggling. One thousand hog farmers (11% of the industry) have left in the past year.

In mid August, Canada's Agricultural Minister announced a Hog Industry Restructuring package that offers federal loan guarantees to farmers who want to go deeper in debt, $75 million in exit funding for farmers who want to leave (farmers will "bid" for the right to be paid to shut down barns for 3 years) and $17 million in industry promotional funds.

Farmers say more farm debt is not what is needed. That the buyout program will only work for "older possibly smaller barns" but there are not many of them left because most have already quit. And that the funds are woefully inadequate to help those who want to exit the industry. For most hog farmers, the option seems to be "keep going till you go broke" because if you close down you're stuck with empty buildings that have no value and no way to make payments. That most barns going out of production for three years will never go back into production regardless of age because to have a barn empty for three years is very hard on the buildings (barn air is very corrosive).

In the US the situation is the same. Prices are again at a 6-year low. The top five hog packers in the US control 70% of the market. A mere 3-5% of hogs sold are priced on open spot markets; these determine contracted formula hog prices for the rest, many of which are packer-owned. American hog farmers have racked up $4.5 billion in losses in the past 24 months and are losing an estimated $25 CAD per animal. Obama has been asked to approve $50 million in food assistance programs to purchase US pork, reducing supply and helping to raise prices.

Makes you wonder, doesn't it, how a government strategy to change the face of hog farming in Canada — concentrating and expanding production it in western Canada to supply "lucrative" export markets — could have been launched based on spot cost of production analysis during a period of unusually favourable currency exchange rates and relatively low feed prices?

Where was the sensitivity and scenario analysis to measure the impact of a higher Canadian dollar and/or changes in feed prices? Sadly, armed with more money than ideas, bureaucrats and their high-priced cheerleaders never went there. And now — surprise, surprise — it is farmers and their communities who are suffering. Badly. And all they are offered by Ottawa is more debt. Or an exit strategy hopelessly underfunded that will see farmers bidding against one in a rush for the door that will see many trampled in the process…

Much as our current global monetary crisis lay bare the flaws of neo-classical economic thinking and should pave the way for the rise of more progressive models for the growth of social capital (a la the Emelia Romagna Region of Italy, home to huge, globally successful cooperatives), so too should the plight of Canada's hog farmers SURELY underscore the benefits of Canada's supply management system, which shares and serves the domestic market, requires no government subsidies, and protects the sustainable interests of farmers, communities and consumers. This is what we should be exporting.

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