

Warming Up for C.O.O.L.: Canadian Response

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■ Purpose

The purpose of the presentation is to provide insights into the possible implications of the US Country of Origin Labeling law for both Canadian and US hog producers. The presentation will be based on two George Morris Centre research projects on behalf of Canadian hog producer organizations during 2002 and 2003.

■ Outline and Objectives

Canadian Implications

- Brief Description of COOL from a Canadian Perspective
- Overview of Trade Situation
- Examination of COOL Trade Threats
- Evaluation of Possible Canadian Scenarios Post COOL Introduction

US Implications

- Examination of US Weaner Import Rationale
- Examination of US Weaner Importers
- Implications of Impeded Weaner Imports
- Examination of US Market Hog Import Rationale
- Implications of Impeded Market Hog Imports
- Strategies to Take Advantage of US COOL
- Steps to be Taken to Avoid Negative Consequences

■ Canadian Implications

Describing the Threat

COOL

- Fresh meat and produce must be labeled as to country of origin as of October 2004
- Does not apply to processed meats or poultry
- A product is Product of US only if:
 - Born, raised and processed in the US
- Other Possibilities:
 - Born in x, raised in y and processed in the US
 - Born in x, raised in US and processed in US
 - Etc
- Fresh Meat from Canada is product of Canada
- The label must contain the relevant information

The Canada-US Trade Situation

- Total hog exports in 2002 were 5.7 million head
- Feeder/weaner hog (<50kg) exports in 2002 were 3.7 million head
- Slaughter hog exports in 2002 were 2 million head
- Total exports have increased by 39% in the five years since 1998
- Feeder/weaner exports have increased 156% since 1998
- Slaughter exports have decreased 26% since 1998.

The important point to note is that over the last five years, the feeder/weaners have been the cause of the increase in exports to the US. Slaughter hogs have actually declined. Nevertheless, the fact is, that when feeders, market hogs and pork exports are combined, the US represents 35-40% of the market for Canadian hogs

The Importance Of COOL

- The real objective of COOL is to reduce or eliminate imports
- The real objective has nothing to do with “the consumer’s right to know where the product was produced” and it has nothing to do with food safety.
- COOL adds costs throughout the US pork supply chain from farm to retail

- Logistical challenges, particularly post slaughter, mean that it will likely be more expensive for US packers to process Canadian hogs.
- US packers will be less inclined to process Canadian hogs or they will be discounted by the added costs.
- Some major US packers have already decided that they will not take Canadian hogs while others are undecided.
- Major uncertainties exist with regard to Canadian hog exports

Evaluation of Possible Canadian Scenarios Post COOL Introduction

Positive Scenarios

Positive outcomes for Canada could result from the a combination of factors including:

- US packers continue to purchase Canadian hogs without discount.
- Canadian pork is more competitive in US and world markets as a result of US COOL costs imposed on US supply chain.
- Canadian packers increase capacity to take advantage of increased export opportunities in the US and around the world.

Neutral Scenarios

Neutral outcomes for Canada would simply mean “business as usual.” This situation could result from the following factors:

- US packers continue to purchase Canadian hogs without discount
- US industry adopts to COOL seamlessly. Compliance costs are not material.

Negative Scenario

Negative scenarios are also possible and would result from a combination of factors including:

- US packers do not purchase Canadian hogs due to increased logistical costs or the purchases are discounted by the amount of extra costs of handling Canadian hogs.
- Shortage occurs in Canadian hog packing and finishing capacity
- Canadian hog prices decline and contracts are re-formulated.
- Farm operations are jeopardized, particularly those who concentrate on weaner shipments

Discussion and Comment

The US hog and pork industry is opposed to COOL. The National Pork Producers Council has taken a brave and bold stand against the wishes of many key members. The American Meat Institute, which represents hog packers, and the Food Marketing Institute, which represents retailers, are also opposed.

As of late 2003, these key industry players have been working hard to eliminate COOL or reduce the impacts of COOL on their industry. If COOL becomes law, however, the key decision makers that will impact the Canadian industry are the US packers. Whether and how they choose to deal with Canadian hogs is the most important factor in determining whether the situation a year from now is positive, negative or neutral. As of late 2003, the direction or decisions that they are going to take remains uncertain. Any opinions on what direction they take are just that: opinions.

■ **US Implications**

Premise

- COOL's purpose is to impede trade
- COOL may achieve that purpose
- What will be the results if the US is short 6 million hogs?

Weaner/Feeder Impact

Why do Weaner/Feeders Go South?

- Sound economic reasons
 - Canada has comparative farrowing advantage
 - Iowa has comparative feeding advantage
- High quality
- Structural evolution in hog belt
- They have strong demand and we have supply

Implications of Reducing or Eliminating Weaner/Feeder Imports

- Final user is independent farmer/finisher, mostly in Iowa.
- Jeopardize the livelihoods of 1,000+ farmers and farm income of US\$450m
- Jeopardize economic spin-offs (value added)

- A few large integrators (Pork Powerhouses) will replace many farmers

Market Hog/Packer Impacts

Why do Market Hogs Go South?

- Sound economic reasons
 - Price
 - Packer Capacity (here and there)

Implications of Reducing or Eliminating US Live Hog Imports

- Reduce US packing capacity (3-4 plants)
- Increased Canadian pork imports (jeopardize another plant)
- Lost jobs and US\$4 Billion in economic activity
- Increased manure production
 - 2.1 million tons once lost production is replaced
- US production will increase
- Canadian production will decrease, but not by as much as US increases
- Net increase of 4 million head post-COOL
- Hog prices will be 30% lower than they would have been without COOL.

Questions to Address to Move Forward

- What else do we need to know?
- How do we prepare if US does not take hogs?
- What needs to be done to prepare?
- How do we take advantage?