

Behind the Veil of Countervail - A Canadian Perspective

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On March 5, 2004, the USA National Pork Producers Council, a few state hog producer organizations and some individual farmers petitioned their government to initiate countervailing and antidumping duty investigations of imports of live swine from Canada.

■ The Allegations

In their press release of that same date, the NPPC indicated they were requesting that the U.S. government “investigate whether Canadian live swine producers are receiving illegal subsidies and selling hogs in the United States at prices that are lower than hog prices in Canada”.

Canadian pigs do not receive illegal subsidies, nor are they sold below prices prevailing in Canada, and there is plenty of evidence of that.

■ Canadian Pigs are Not Unfairly Subsidized

The U.S. Department of Commerce (DOC) less than five years prior to the NPPC filing this case concluded that there were insufficient countervailable subsidies being paid on Canadian hog exports to justify continuation of the countervailing duty order that had been in place since 1985.

There has been no deviation in Canada since then away from the whole farm approach that both international and U.S. trade challenge criteria view as completely acceptable. This is why, in its preliminary determination announced in August, 2004, the DOC concluded “that countervailable subsidies are not being provided to producers or exporters of live swine from Canada”.

■ **Canadians Do Not Undersell in the United States**

Canadian hog prices fully reflect those in the United States. They are all part of an integrated North American hog market where prices vary geographically basically in relation to transportation costs between surplus and deficit areas. There is no incentive for Canadian slaughter hog exporters to accept lower prices from U.S. buyers than they can obtain in Canada. Weanling and feeder pigs exported to the United States are typically sold under contract where the contract price is pegged to an objective, published price (e.g., Chicago Mercantile Exchange Lean Hog futures).

What is also very surprising is that these actions were taken despite a large, and growing, component of the U.S. hog industry becoming specialized in finishing pigs and reliant upon the dependable supply of high quality feeder pigs available from Canada. These developments have been completely unrelated to subsidies or price underselling.

■ **Canadian Pigs are an Important Component of U.S. Pork Production**

Far from hurting U.S. operations, two-thirds of the pigs imported from Canada are young “weanlings” and feeder pigs that support U.S. farmers. As much as 80% of the value of the finished hogs is added in the United States. They are fattened by U.S. hog growers, are fed U.S. corn and soybeans, and have enabled some smaller hog farmers to remain competitive in the face of pressures to consolidate farms.

Much of the remaining imports are slaughter hogs, which also help many U.S. packers, large and small, fill their capacity to operate at maximum efficiency and meet the demand for pork in both domestic and export markets that the U.S. has been so successful in developing in recent years.

Availability of Canadian born pigs — weanlings, feeder swine, slaughter hogs, cull sows and boars — are essential to the United States being able to maintain its position as an internationally leading pork producer and exporter.

■ **Canada’s Growth Responds to U.S. Demands, Not Subsidies or Dumping**

The American petitioners regularly point to growth in Canada’s breeding herd relative to U.S. trends as evidence that the alleged unfair subsidies are causing increased pig production in Canada. This argument is seriously flawed in that it

fails to recognize that the increase in sow numbers in Canada is associated with the growing demand in the United States for weanlings and feeder pigs and that if one looks at pigs kept for finishing, the U.S. is actually well out ahead of Canada.

The accompanying table shows that while the breeding herd and piglet populations in Canada are exhibiting moderate growth, pigs kept for finishing show no expansion. This has been the case for the last several surveys.

Table 1. Change (%) in U.S. and Canadian Hog Numbers, 2004 vs. 2003

2004 vs. 2003 (June 1 for U.S., July 1 for Canada)	US	Canada
Breeding Herd	- 1.5%	+ 2.6%
Feeder Pigs (US - under 60 lb: Canada - under 20 kg)	-0.6%	+3.6%
Growing and Finishing Pigs	+2.1%	+0.1%
Total Swine	+0.8%	+1.4%

(Source: USDA and Statistics Canada)

In the United States, on the other hand, the number of pigs at the growing and finishing stages of production have been increasing relative to Canada (and furthermore, by much more than the increases in exports of feeder pigs from Canada).

These numbers illustrate very well the phenomenon that we have seen in recent years with the increased market integration under NAFTA combined with (a) favourable feed cost conditions in the American Midwest and (b) advantageous animal health and other farrowing cost advantages in Canada. This has led to increased specialization in the raising of piglets in Canada and in the finishing of hogs in the United States.

■ **Reasons for Increase in Slaughter Hog Exports**

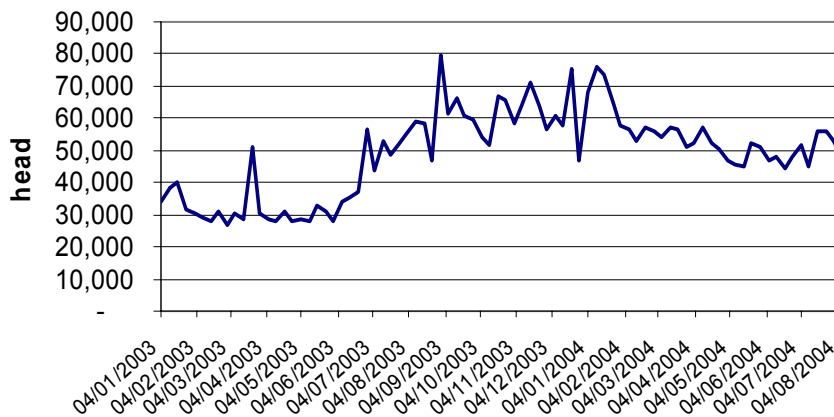
The filing of this case coincided with an unusual increase in Canadian swine exports to the U.S., starting in mid-2003. While the growth in feeder pigs has been explained already as a response to increased demand by U.S. finishers, the greater movement of slaughter hogs to American plants was caused by a sharp reduction in purchases by Canadian processors as a result of the combined impact of: (1) rapid appreciation of the Canadian dollar starting earlier in 2003; and (2) the displacement of pork by beef on our domestic retail market following the discovery of a BSE-infected cow in Canada and prior to the resumption of exports to the U.S. of beef from younger Canadian animals.

■ The U.S. Must Prove Injury

The U.S. petitioners must demonstrate that imports are causing, or threaten to cause, material injury to their industry for the imposition of countervailing and/or antidumping duties. We do not see the conditions being in place that will support a finding of injury.

Live hog prices increased significantly in 2004 regardless of any increase in imports of Canadian pigs. Meanwhile, growth in the Canadian breeding herd expansion levelled off and Canadian slaughter hog production was flat. Canadian slaughter capacity by mid-2005 is projected to be up by more than 15%. Canadian live hog exports have been declining since January 2004 (see **Figure 1**).

Figure 1. Weekly Canadian slaughter hog exports to the United States



■ Conclusion

Trade duties on Canadian pigs are neither justified, nor are they in the interest of the U.S. industry. An estimated 1,300 U.S. hog finishers rely on supplies of Canadian feeder pigs (George Morris Centre study on mandatory COOL impacts (2003)). U.S. pork exporters would lose out on supplies to sustain their now world leading export levels (which includes much larger U.S. pork exports to Canada). Canadian slaughter hogs, sows and boars are an important component of supply for many U.S. packers. Some individual U.S. plants may even be threatened with having to close.

The North American pork industry is economically integrated. NAFTA provides conditions for specialization in areas of competitive advantage (e.g., farrowing in Canada, finishing in U.S. Midwest). The DOC preliminary subsidy determination confirms U.S. and Canadian hog producers are operating on a level playing field. Duties will hurt players on both sides of the border that have made large investments that rely on an open border.

Finding an alternative to the continuation of these trade battles would save time and money for both American and Canadian producers and would permit us to focus more on cooperation in the many areas in which we have common interests.