Will Canada Still Produce Pork?

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Introduction

The Canadian hog industry is undergoing a period of uncertainty due to the rapid escalation of feed grain prices, the appreciated Canadian dollar and packer consolidation. The pending US Country of Origin Labeling legislation is also threatening the industry's access to the US. Throughout 2007, producers have seen either negative margins or margins that are weaker than their US counterparts. For these and other reasons, producer attrition is accelerating and producers are assessing their futures in the industry.

In this environment, producers are asking themselves whether their businesses can be competitive or not. The overriding issue for the prairie hog industry is that if it is not competitive in this region, why not and where can it be competitive?

This paper looks at the current challenges and assesses prospects for the future in the prairie hog industry.

Before dealing with problems, it is important to assess the Canadian industry's strengths. A number of factors converged in the mid-1990's to generate and sustain the Canadian and in particular, the prairie industry's growth. The following are key points:

- The 1995 repeal of the Western Grain Transportation Act (WGTA), in particular, created an incentive to produce livestock in the Western provinces, a region historically dedicated to grain production.

- The move from single desk selling to open marketing accelerated change on the Prairies. Essentially, the fact that producers were responsible for their own marketing decisions resulted in a more efficient and competitive industry, based a more knowledgeable producer base.

- The Governments on the Prairies also played a role through overt support for the hog industry. The governments of the day provided the vision, the direction and the reassurance that growing the hog industry was the right thing to do. This was very significant because it provided the simple message to the public that the hog industry is competitive and sustainable.

- Related to the above concepts was the fact that there was regional acceptance of livestock growth. This acceptance was due to the lack of alternatives or, conversely, the positive spin-offs of hog production.

- During the period of depreciation of the Canadian dollar in the late 1990's and early 2000's, a lower dollar meant higher hog prices. Not only that, but other costs such as labour could be much higher in Canadian dollars while still remaining competitive in US dollars. A cheap dollar was especially good for weaner pig shippers to the US. Given that feed grains were not a large part of their business, compared to finishers, the depreciating dollar simply translated into higher prices and higher profits. The net result was that the cheaper dollar resulted in higher profits or lower losses than would have otherwise been the case. This encouraged expansion, especially of the weaner trade.

- Canada signed trade agreements with the US in 1989 through CUSTA, with Mexico in 1993 through NAFTA, and with the WTO in 1994 which had the effect of increasing market access for Canadian products. In addition, the countervailing duty that had been levied by the US on Canadian hog exports expired fully in 1997. The effect was greater access to export markets for meat and livestock, along with other products. This was significant for Western Canada because the local population of consumers is quite small compared to its productive capacity for livestock and meat; the presence of a more readily accessible export market provided a demand-based rationale for livestock development.

- The Canadian Prairies also had an advantage over the US in terms of swine diseases, available land and a supportive climate for production. This is partially manifested in the fact that Canada has much higher sow productivity than the US.

▪ Industry Issues and Challenges

Prairie hog producers face a number of competitive challenges relative to their counterparts in the US Midwest. The most important challenge relates to feed grain costs, but labour is also a significant variable. Based on George Morris

Centre analysis, as of late 2006 or early 2007, an efficient operation on the Prairies may be at a cost disadvantage, compared to the US Midwest, by approximately $5-8/head. This differential between Canada and the US helps to explain why, over the past three years, US producers have enjoyed an extended period of profitability while prairie producers have seen variable returns at best, or losses at worst.

The Canadian and Prairie pork packing industries appear to be at a competitive disadvantage across a range of critical success “drivers.” The most important of these drivers is economies of scale and its impact on plant efficiency. There is little doubt that there are real, measurable weaknesses facing Canadian packers for each of these competitive drivers. For the industry as a whole, a conservative estimate of the disadvantage would also be $5-8/hog in Prairie plants.

Lastly, the pending 2008 US legislation regarding Country of Origin Labeling has the potential to exert a negative impact on the Canadian livestock industry. It might result in lower prices in Canada and could accelerate producer attrition and the decline in herd sizes for both cattle and hogs.

▪ Prospects for the Future

There is a moderately positive outlook for Canadian hog production competitiveness in the future, compared with recent history. The policy factors working against feed grain production and pricing are now widely known and producers are working to deal with them. The major factor that could act against this would be major ethanol developments in Western Canada that cause barley and feed wheat prices to increase proportionally or more against US corn. The driver for this would be a policy decision by the government to increasingly subsidize ethanol production on the Prairies, given that it is not economical without subsidies. This currently appears unlikely, but the understanding must exist that ethanol development in Western Canada is a negative for the livestock industry, especially in an environment of rising feed grain prices.

The prospects for the packing industry range from optimistic to pessimistic, from a producer perspective. Regardless of the overall prairie situation in packing, however, there are two important points to be made with regard to Manitoba:

- Manitoba will soon be home to the largest packing plant in Canada and this plant is likely going to be competitive with those in the US. Moreover, the Springhill plant will stay in production. As such, Manitoba is the only province to gain capacity based on known plans.

- Manitoba has the easiest and least costly access to the most important US hog slaughter plants in the Mid-west.

As such, while prairie scenarios can be debated, there is little overall concern regarding Manitoba's hog packing prospects.

Hog density per square kilometer of arable farmland has been cited as a measure of industry potential when compared to the swine industry in other regions and countries. In Canada, Saskatchewan is at 7 hogs produced per square kilometer, Alberta at 17, Manitoba at 76, Ontario at 126, and Quebec at 208. Compared to the United States and other major pork producing countries, hog production densities are not remotely an overriding issue for the prairie industry. Internationally, by comparison, densities in Canada are low compared to Iowa at 212, North Carolina at 484 and the Netherlands at 1,350 pigs per square kilometer of arable farmland.

In addition, Canada has the second highest quantity of arable land per person in the world, after Australia. Canada's arable land per person is nearly double that of competing nations such as Argentina, Brazil and the United States. In general, according to the Canadian Agri-Food Marketing Council, Canada has greater availability of fertile arable land relative to human and animal requirements than most, if not all, major pork producing countries.

▪ Summary and Conclusions

The Prairie hog and pork industry is an agricultural success from any economic perspective, including, growth, jobs, incomes and trade. The entire industry in Canada has undergone a period of three years in which it has suffered disproportionate losses relative to US competitors. As a result, the industry now finds itself in a period of rationalization of packing plants and more rapid attrition in producer numbers. The summer 2007 announcement by Olymel that it would reduce its pricing structure in Red Deer will accelerate the attrition in producer numbers on the prairies. Furthermore, the prospects for packing plant closures on the prairies and in Ontario are factors that, again, will involve massive challenges for producers. Lastly, the pending US legislation regarding Country of Origin Labeling has the potential to further reduce pricing in Canada relative to the US. There will be a period of two to three years of industry pressure and reduced production in much of the prairies and the hog regions of Eastern Canada.

At the same time, however, the Prairies are in a strong position on two key fronts. First, and most importantly, the region has enormous production capability in feed grains and land available for hog production. The fundamental factors that made Western Canada the number one growth area in North America are still in place and are at the forefront for the future. The key problems that the Prairies face in feed grain competitiveness are policy related, not natural disadvantages. These policy issues can, and likely will, be addressed.

Prairie producers will not escape the coming difficulties but they are in a good position to endure it, compared to other areas of Canada. Furthermore, when the difficulties pass, the Prairie model of open marketing has proven it to be the best place to grow and move forward.