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### CANADIAN PORK COUNCIL

*Martin Rice*

I am going to start with a few comments on the Anderson et al paper. Tension between the U.S. and Canadian pork producers has declined considerably. When the countervail came up ten years ago, the U.S. leadership looked at the United States as its market. Therefore, any product coming into the United States was looked upon as displacing a U.S. product. Now, as a net exporter, the U.S. market is the world. The United States looks at imports from Canada much differently now. Packers in the Northern states now look at live hogs coming in from Canada as helping them keep their plants running. It is quite a different set of circumstances now than we had ten years ago.

On the demand issue, Canadian pork consumption has been relatively flat. Unlike the United States where per capita meat consumption is still increasing, per capita meat consumption in Canada has been declining. As a result, with flat pork consumption, pork has been able to increase its market share. It is in pork's best interest that Canada keeps its poultry supply management program through the next World Trade Organization (WTO) round. Our per capita poultry consumption is considerably below the United States. This contributes to pork's higher market share.

Anderson indicates that U.S. producers have responded to packer signals to increase carcass weights. In Canada, it has been the opposite. Canadian producers have been pressing packers to accept higher carcass weights since the grading system was established in 1968. Canada is still averaging 25 pounds or 10 kilos less than a U.S. hog. We can add more weight to those animals, since there is a higher return to the producer from finishing than in feeding new piglets. It has only been since the increased flow of live hogs to the United States, that Canadian packers are now having to accept higher weights. I think that the higher hog weights desired by the United States are perhaps the most attractive feature of that market. Canadian packers now have to look at accepting heavier hogs as a way of retaining more of those pigs for their use in Canada.

Canada is now the number four exporter of pork in the world. If we slaughtered more of our pigs in Canada, we would probably be number two. A chart in Anderson's paper indicates that exports to the United States account for 70 to 80 percent of our pork exports. Canadian data shows quite a different story. In 1991, 75 percent of our pork exports by volume went to the United States. In 1997, this figure was down to approximately 50 percent of our pork export volume. The Canada-United States Trade Agreement (CUSTA) took affect in 1989 and was the year when the last pork countervail investigation took place. As a result of that

countervail, the Canadian industry decided that it must become less dependent on the U.S. market. Consequently, when we went into CUSTA, we set an opposite course from that pursued by most other Canadian industries—to be less dependent on the U.S. market.

I agree that differences in costs of production between the United States and Canada are small. The North American industry—including Northern Mexico—is in an excellent position to increase its share of the world pork market. Cost differences between Canada and the United States are fairly unimportant in explaining our future in the world market.

From literature read, I have always assumed free trade agreements, trade liberalization or removal of trade barriers forces industries to either make adjustments or compete. The real adjustments in the Canadian industry are just now happening—in the last year or so—even though we have had CUSTA and now the North American Free Trade Agreement (NAFTA) for nine years. I suspect that one of the reasons may be the exchange rate. When CUSTA went into effect, the Canadian dollar was well over 80 cents on the U.S. dollar and now it is at 70 cents. That has shielded Canadian packers from their higher labor costs (when you adjust for the exchange rates). If we had a 90 cent Canadian dollar, Canadian labor costs would be far out of line. Pressure for Canadian industry to assure that more and more Canadian hogs did not go to the United States has forced packers to look at heavier weights and ways to rationalize their operations to be competitive.

### **Comments on the Hobbs and Kerr Paper**

Moving on to the Canadian paper, the first page indicates that the Canadian agribusiness community has moved into a state of disequilibrium. The Canadian industry has always been unstable. While we have had cyclical variations, the width of the variations has become greater. Even though our demand for North American pork has become much more globalized with the reduction in trade barriers, we still have to absorb a large, disproportionate share of the adjustment in the world pork supply. Europe, for instance, will throw up an export tax on grains to stabilize their supplies. If, all of a sudden, the internal price of grain goes up, they tax it so that they can protect their domestic livestock industry. There are variable import levies in Europe and certainly many trade barriers in Asia.

The North American industry has to absorb all of the downside supply adjustment. In addition, the decision to build more hog farms is more complicated and involves more parties. Credit institutions play a larger role now in terms of how soon new units can be built in response to increasing prices. The exception, perhaps, is Murphy Family Farms which has been able to generate so much of their expansion from internal retained earnings. That is not the case for most of the industry, but particularly for new producers.

Information is becoming more difficult to come by for producers. Marketing boards are probably going to have to be called something else. Many of them are carving out the marketing aspect and concentrating on other issues.

One of the difficulties in determining the impact of trade liberalization agreements is when a trade agreement leads to dialogue between countries which did not previously communicate. Before NAFTA, Canadian pork producers never had contact with the Mexican pork producers. Now, we meet with them twice a year. We may not eliminate non-tariff barriers, but we find ways of handling them so they are less irritating. Border inspection is no longer an issue, as it was during the negotiations.

With globalization, it is much more difficult for countries to pursue targeted economic development strategies. Asia's problems are a result of channelling low interest credit to certain industries, maintaining high tariffs on certain imports and exchange rate management. These macroeconomic strategies are becoming much more difficult due to globalization, trade agreements and investment agreements.

There is an indication in the Canadian paper that the Uruguay Round did not impact greatly on pork exports. I would differ on this point. The Korean and Philippine markets did not exist for Canada before the WTO. Sales to Japan have increased because of decreasing their minimum import price under the WTO. The existence of the sanitary and phytosanitary agreement is a major accomplishment. The prospect of having dispute settlement procedures has helped Canada open markets to Argentina and to secure access to Australia. They know that under a dispute panel, they would not fare very well.

Hopefully, we are going to be successful in securing further trade liberalization. There are three huge questions in the upcoming negotiations:

- Can we get terms of access for China in the WTO that are acceptable to the livestock industry?
- Can we maintain a science-based approach in our sanitary and phytosanitary agreements?
- Can we finally achieve the goal of eliminating export subsidies?