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Issues and Opportunities: Economics of Pork Production



Larry Martin, PhD

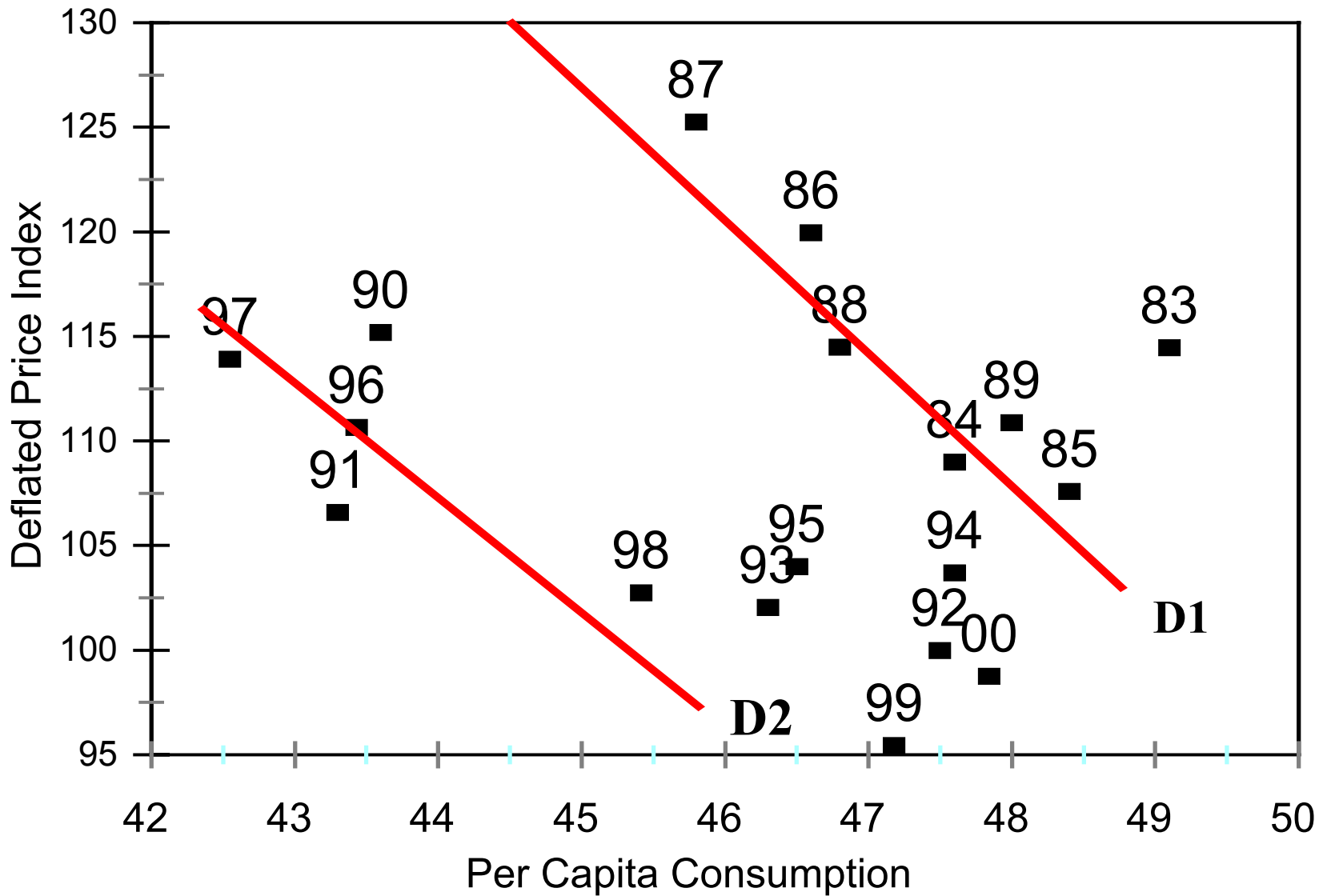
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Presentation Overview

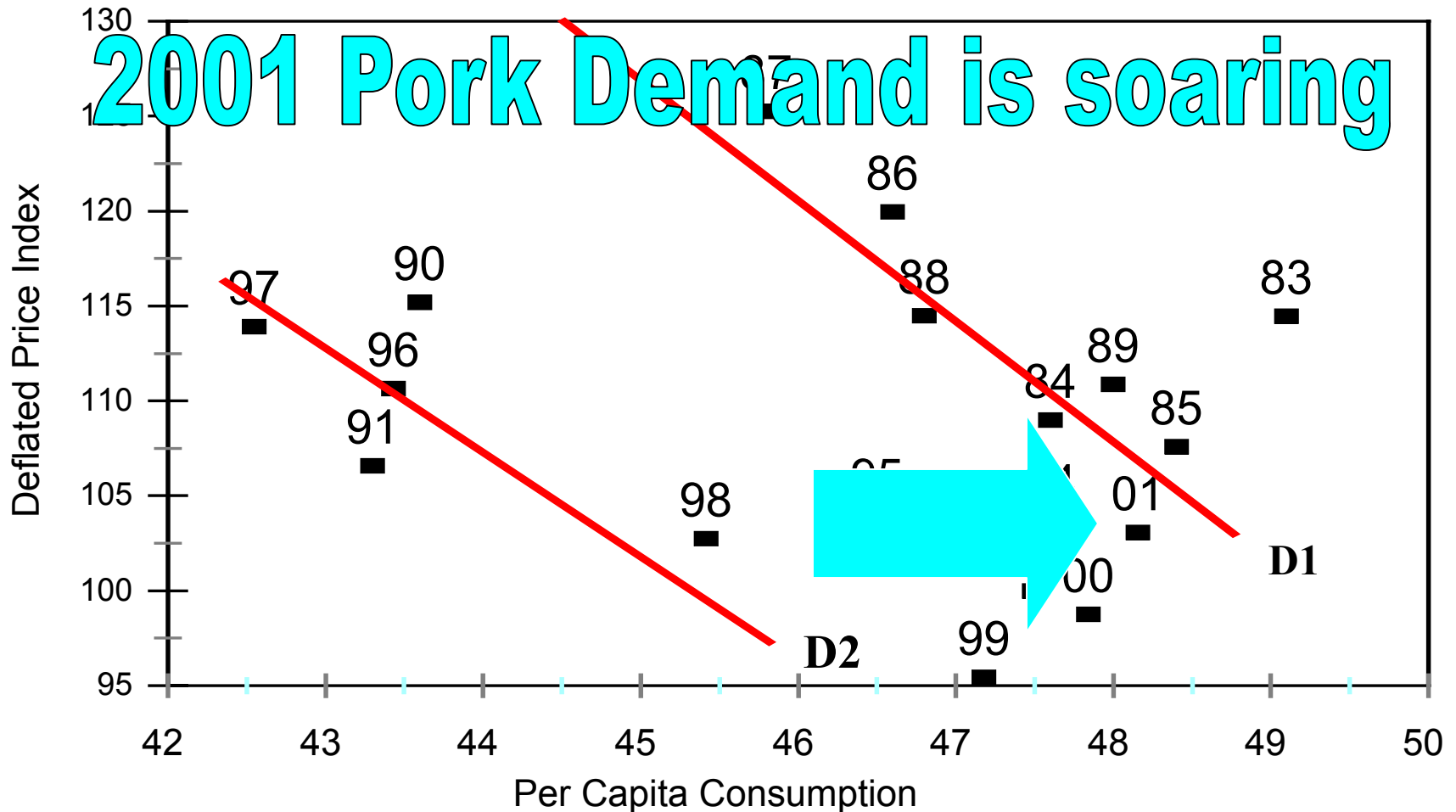
- Demand – Domestic and Export
- Canadian Structural Change
 - Income Issues
- Western Canadian Competitiveness
- Hog Cycle
- Food Safety/Environmental/Animal Welfare
- US Subsidies and Protectionism

Canadian Pork Demand 1983-2000



2001 Pork Demand

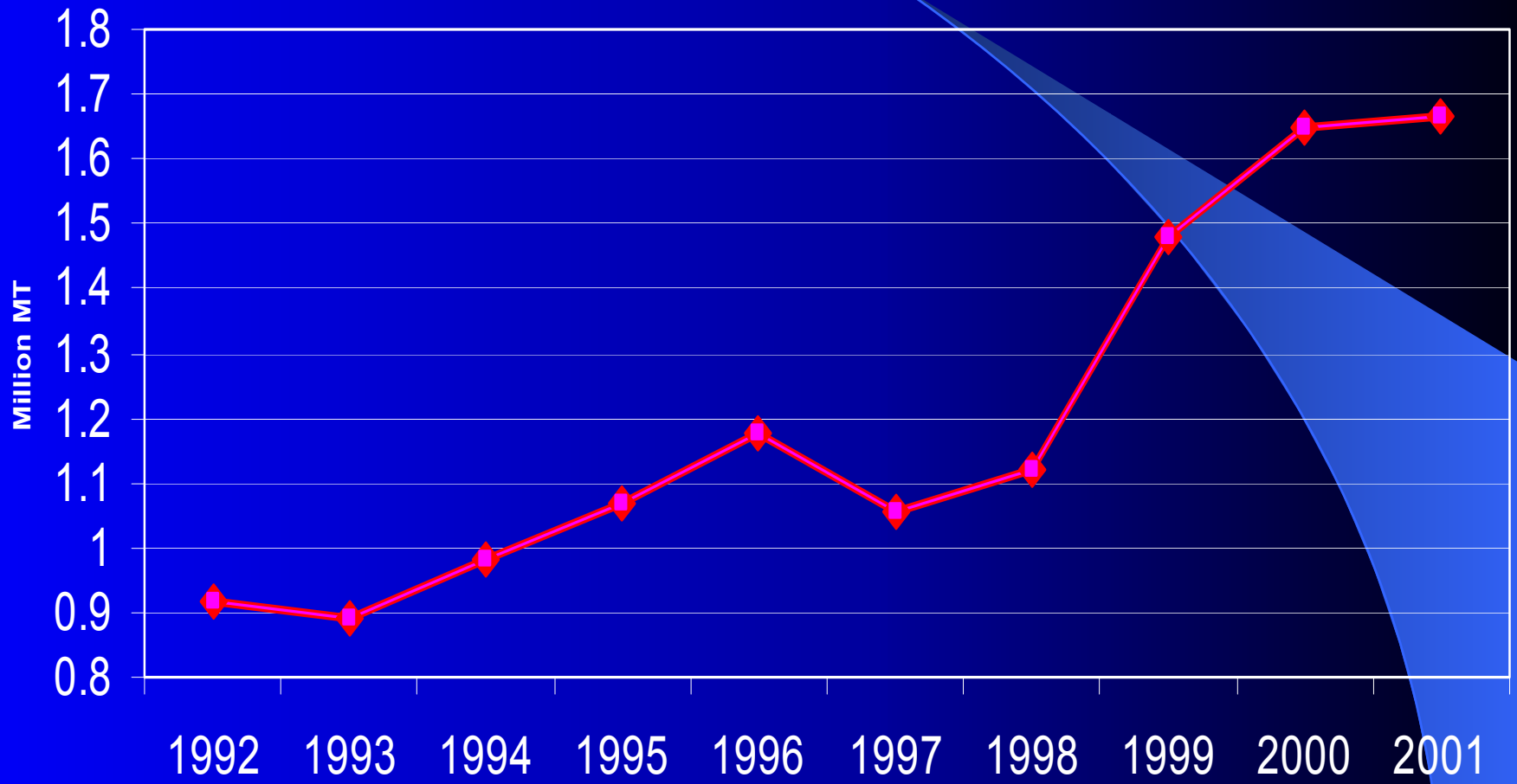
Canadian Pork Demand 1983-2000



Domestic Demand Drivers

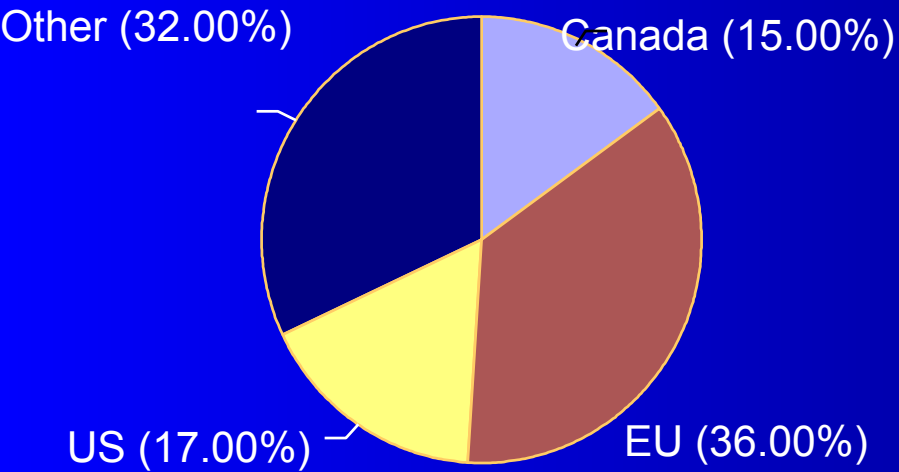
- Foodservice
 - Bacon
 - Ribs
- Economy
- Improved Perceptions
- 1998/9 foundation--Features
- Beef Prices

Asian Pork Imports

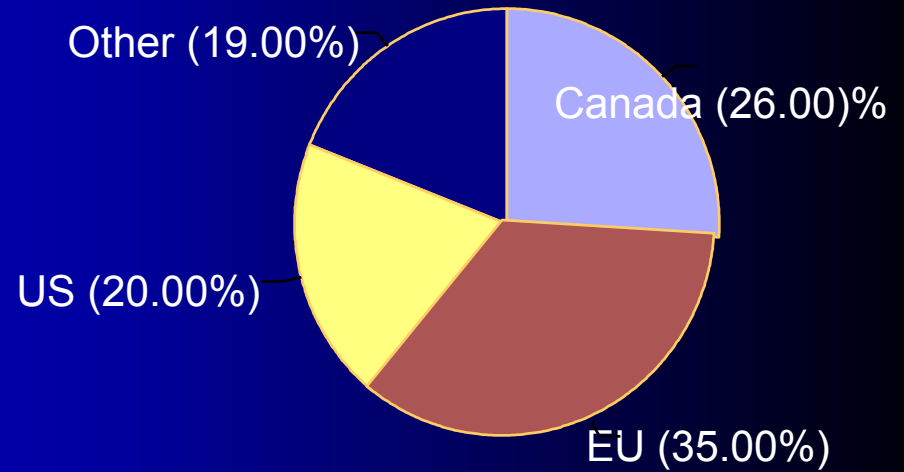



Source : USDA FAS

Shares of Global Pork Exports 1997



Shares of Global Pork Exports 2001f





Canadian Industry Size and Structure

8 LARGEST COMMERCIAL PORK PRODUCERS IN CANADA

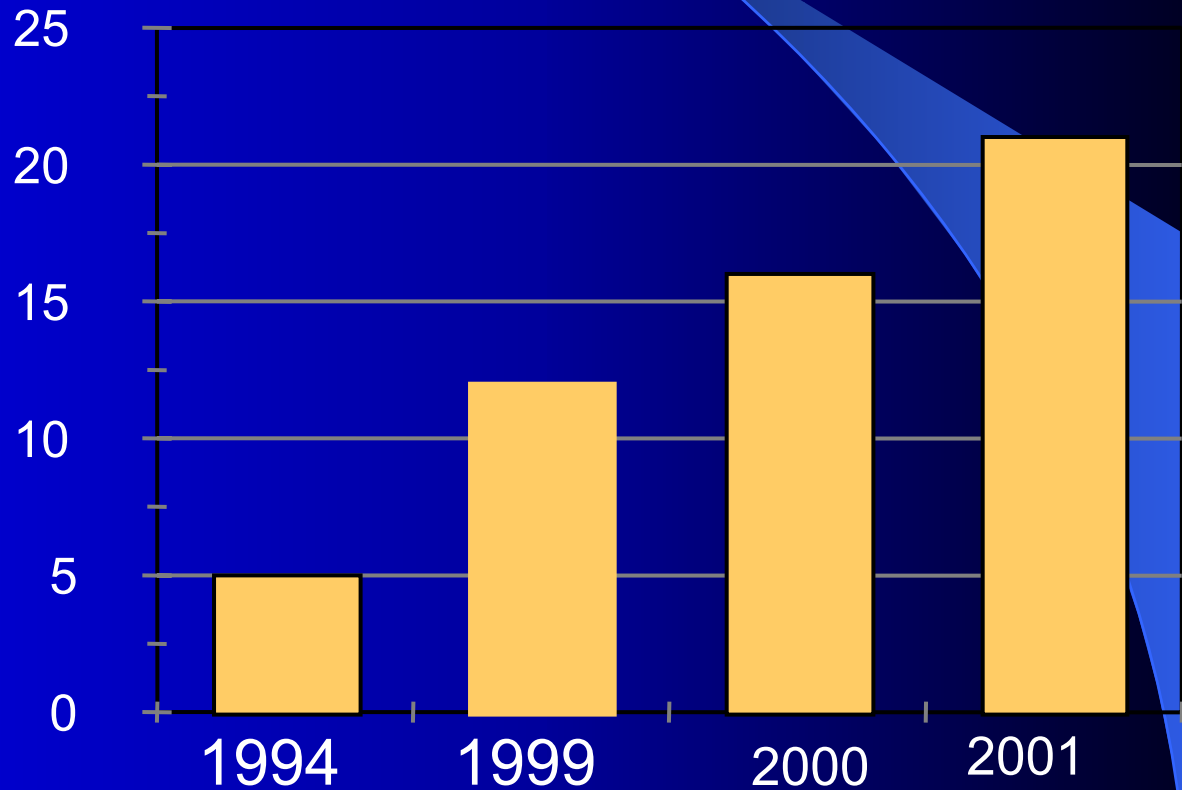
Successful Farming Magazine 2001

| 2001 RANK | 2000 RANK | NAME OF OPERATION | HEADQUARTERS | #SOWS 2001 | #SOWS 2000 |
|-----------|-----------|--------------------------------|------------------------|------------|------------|
| 1 | 1 | Maple Leaf Foods (Elite Swine) | Landmark, Manitoba | 90,000 | 58,600 |
| 2 | 2 | F. Menard | Ange Gardian, Quebec | 32,000 | 30,000 |
| 3 | 6 | Premium Pork | Lucan, Ontario | 32,000 | 20,000 |
| 4 | 3 | Isoporc(Cote-Paquette) | Ange Gardian, Quebec | 30,300 | 23,000 |
| 5 | 5 | HYTEK | LaBroquerie, Manitoba | 30,000 | 20,000 |
| 6 | 4 | The Puraton Corporation | Niverville, Manitoba | 25,000 | 23,000 |
| 7 | 9 | Big Sky Farms | Humboldt, Saskatchewan | 20,000 | 11,500 |
| 8 | 7 | Saskatchewan Wheat Pool | Regina, Saskatchewan | 16,500 | 15,600 |
| | | | Total: | 275,800 | 201,700 |

Top Eight Canadian Share

- 21% in 2001
- 16% in 2000
- 5% in 1994

Top Eight Canadian Sow Share



- Ontario's top 25 hog production systems:
 - Multi-site
 - 125,000 sows
 - Marketing 2.1 million finished hogs (not counting Premium Pork's 30,000 sows)
 - Up to 45% of finished marketings
- Quebec
 - Menard and Cote & Paquette up to 16% of marketings
 - Top six control up to 30%
- Saskatchewan
 - Multi-site (across the prairies)
 - Top 4 control 40%+ of sows

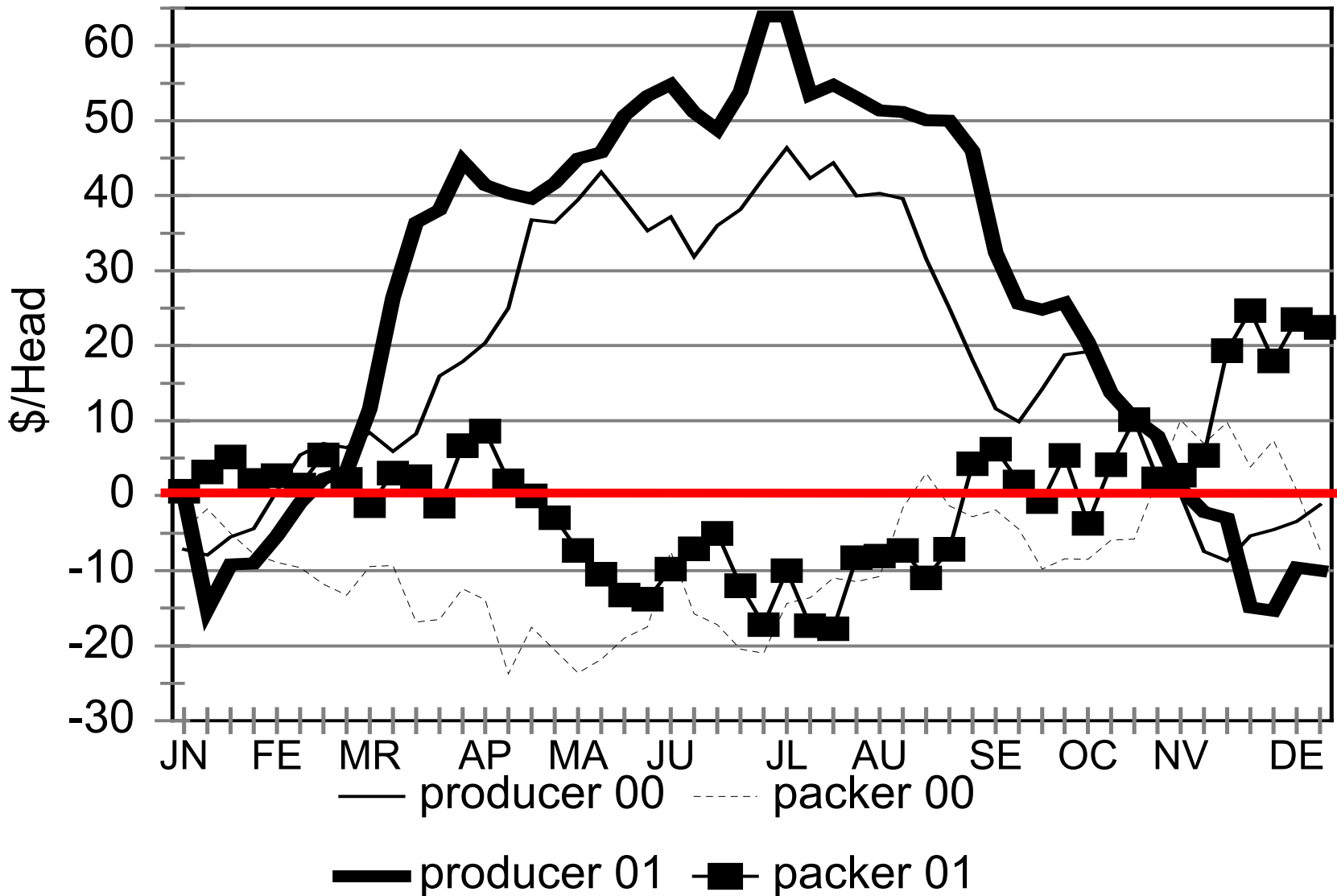
Production systems
(multi-site) and
operations of this size
were not heard of 10
years ago...

Marketing Methods

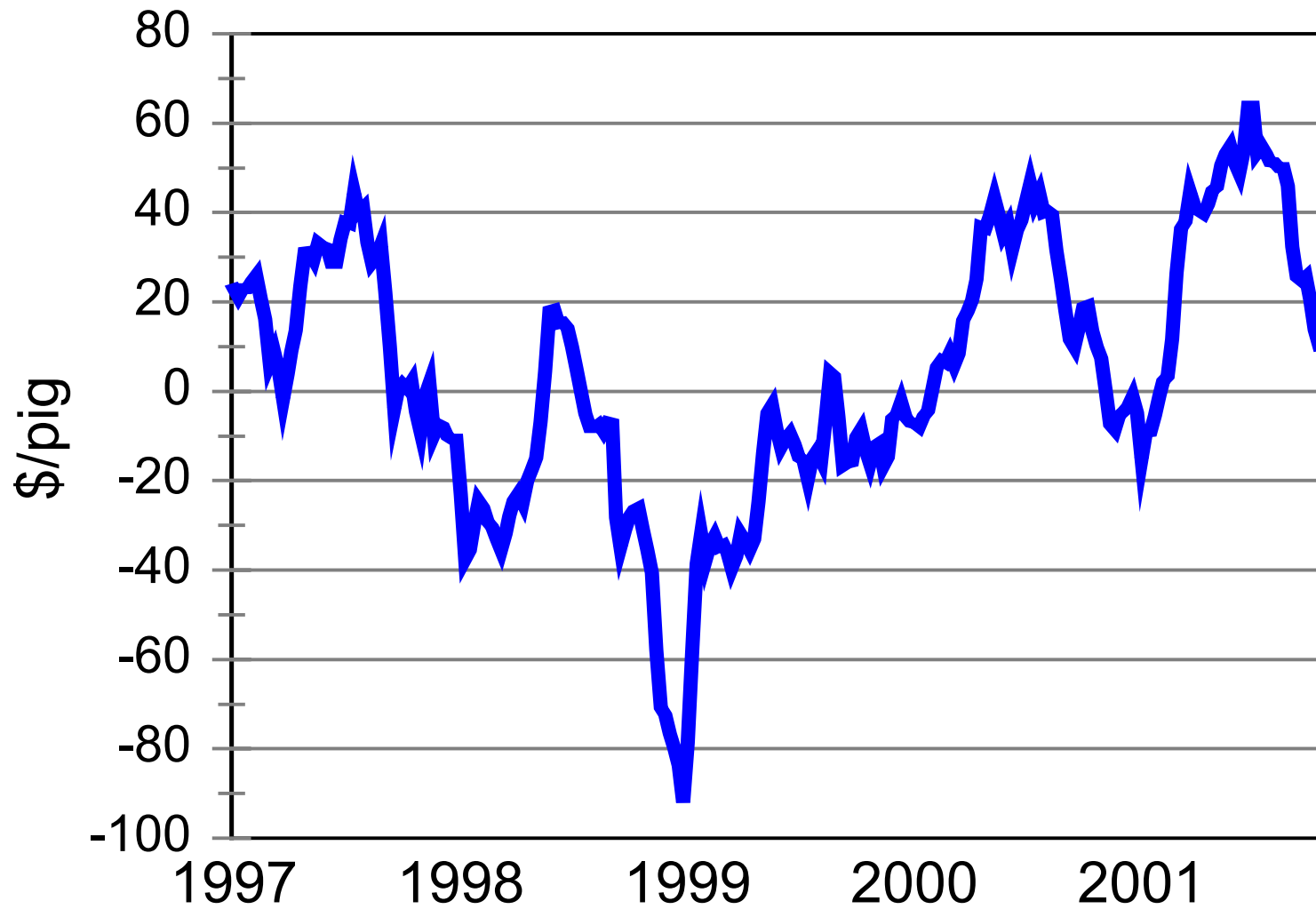
- Ontario: almost fully contracted/formula within regulated structure
- Quebec: full board authority with three types of channels
- Prairies: no board monopoly power (likely 50% or more on cash or spot sales)

Canadian Hog Farm Income

Ontario Producer & Packer Margins



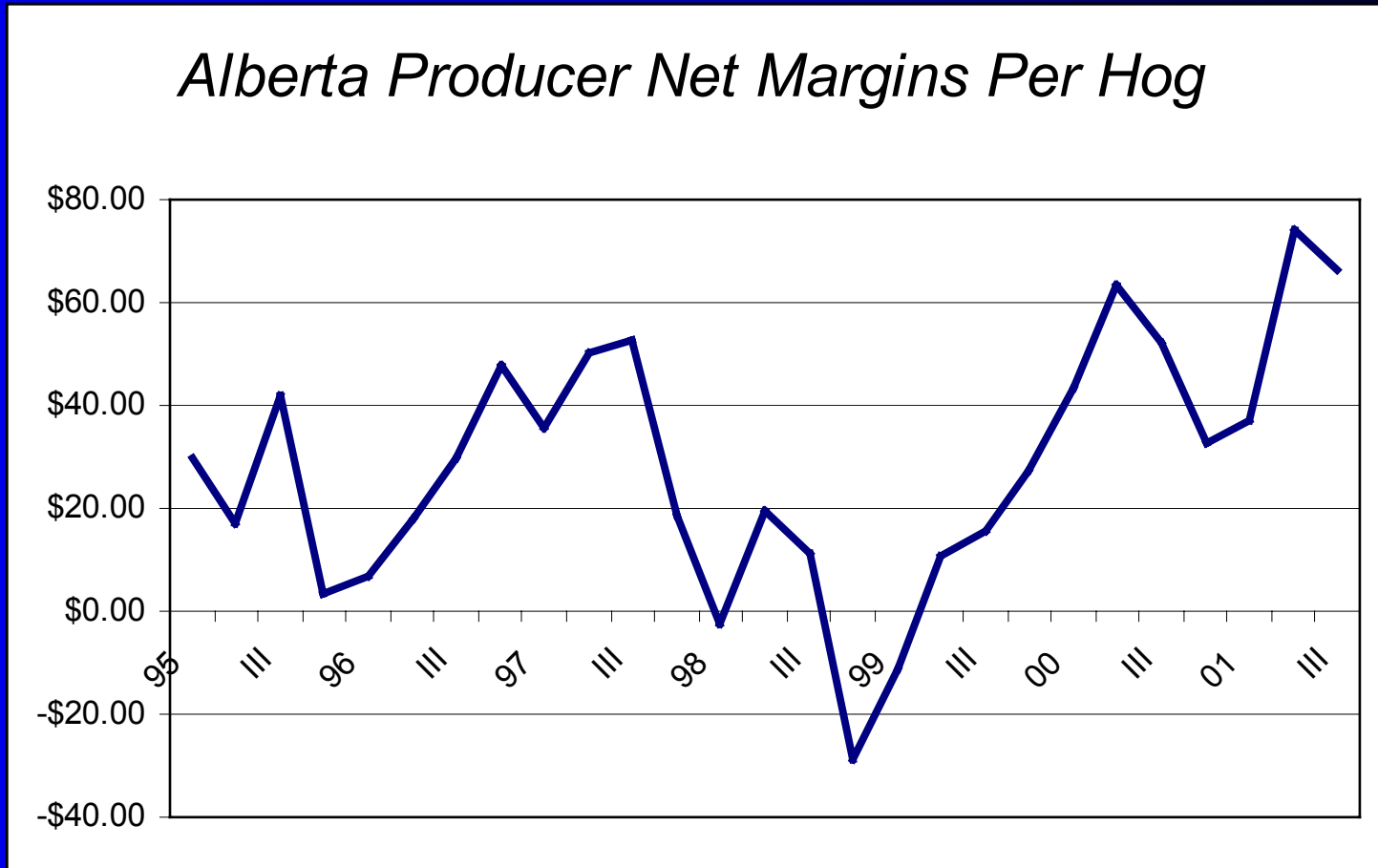
Ontario Producer Net Returns/Pig



Ontario Financial Situation

- 1998-99 losses of \$22/hog
- 2000-01 profits of \$25/hog
- At a rate of one hog per week, Ontario producers only recently made back losses from 1998-99

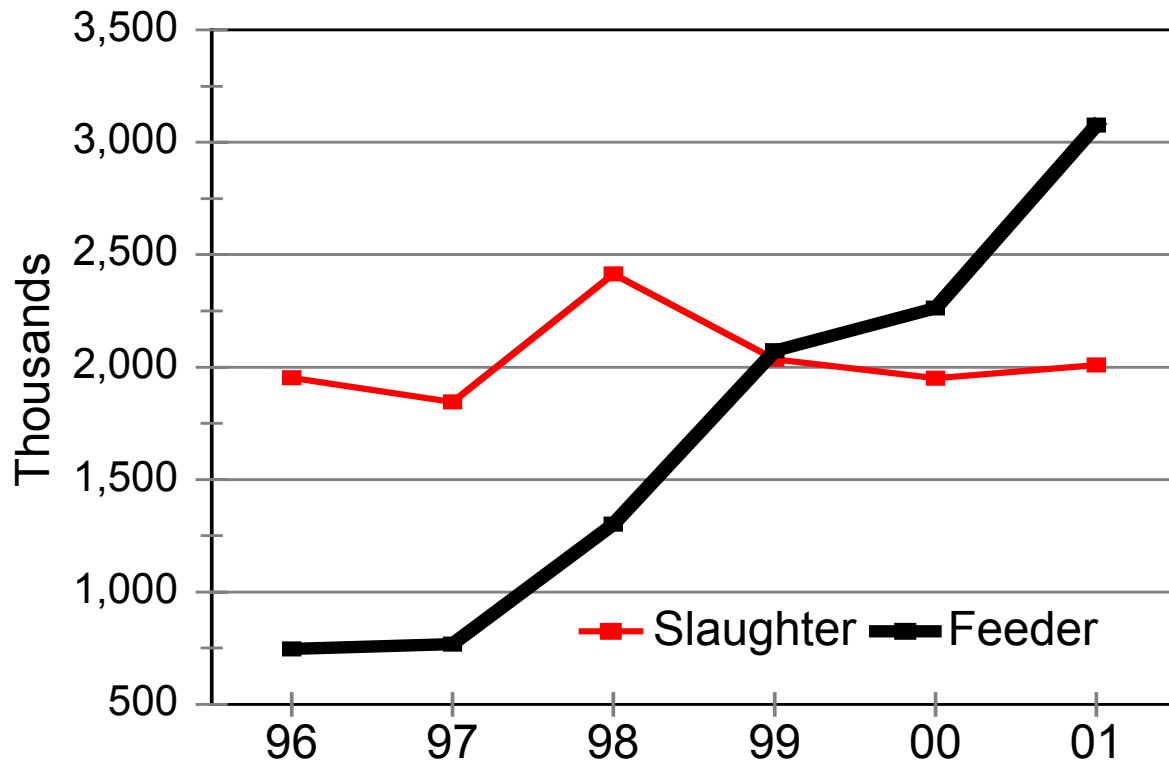
Situation Not as Bad in the West



Western Canadian Structural Change

- 1997/98 GMC Hog Competitiveness Study
 - Manitoba most competitive region in the world

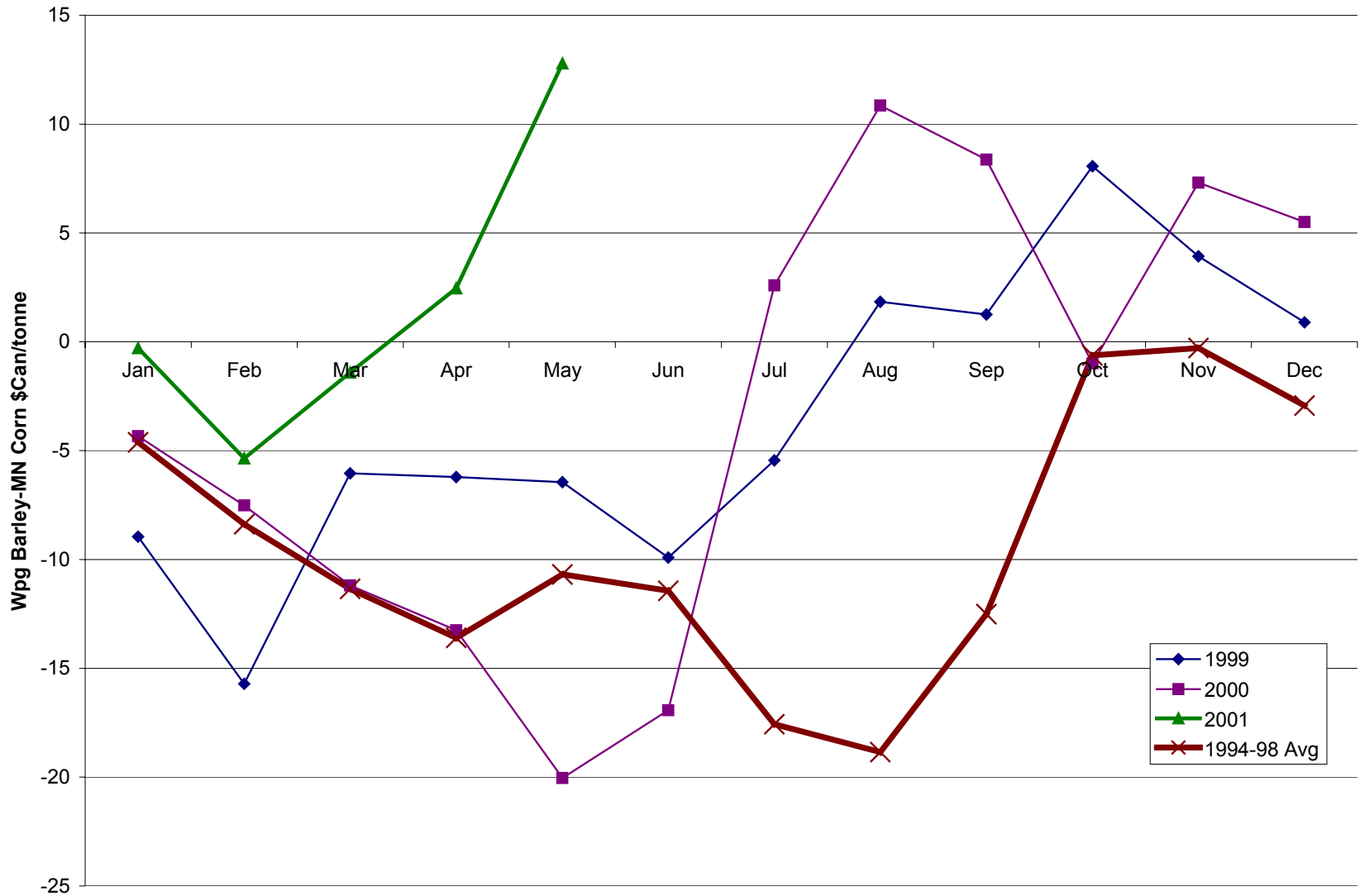
Live Hog Trade to US



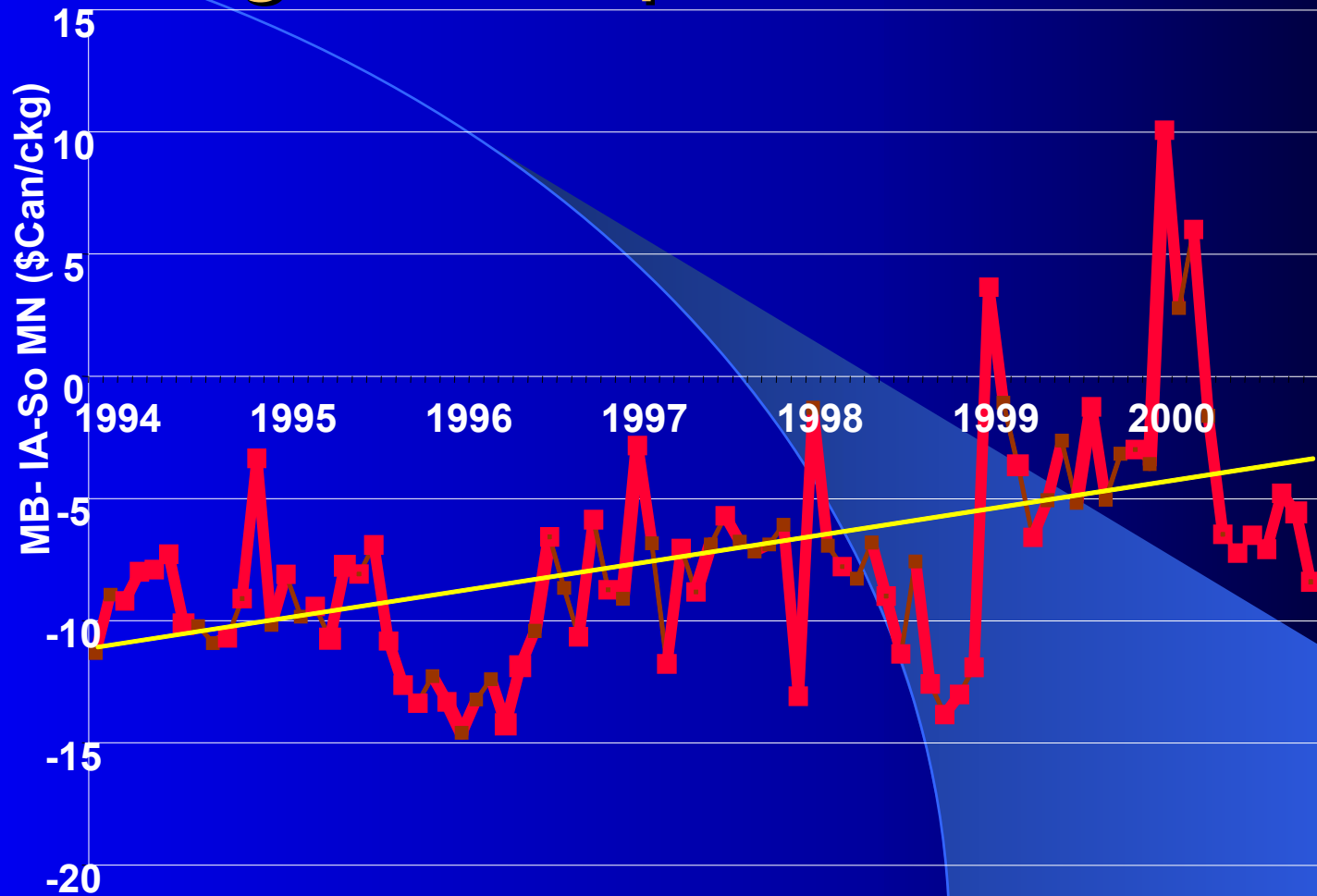
- Biggest issue today
- 54% of feeder exports are from Manitoba (32,000 per week)
- 39% from Ontario

If the west is so competitive,
why can't they keep their hogs
home?

Winnipeg Barley vs. Minnesota Corn



Manitoba- Southern Minnesota Hog Price Spread, 1994-2000

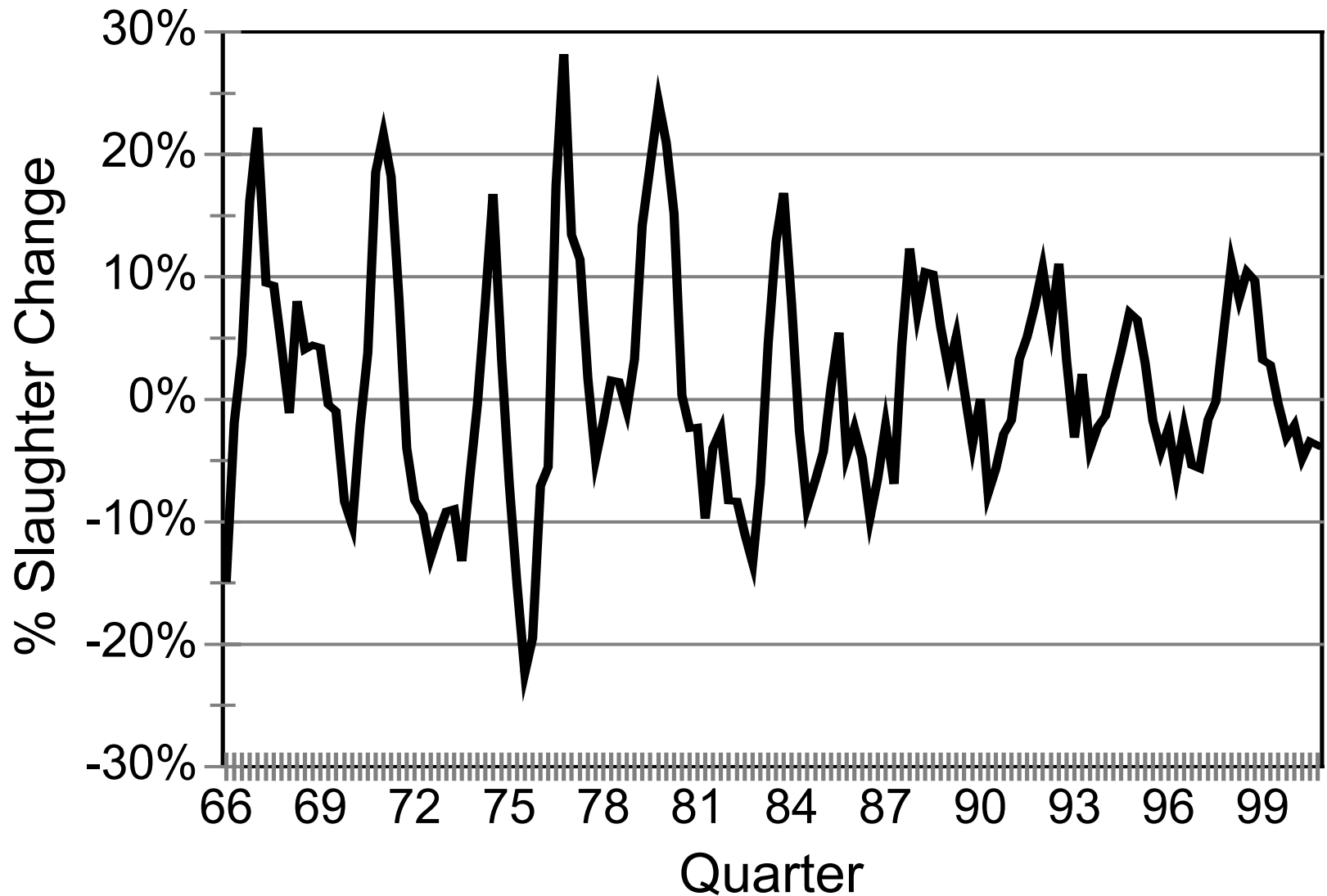


Conclusions from GMC study

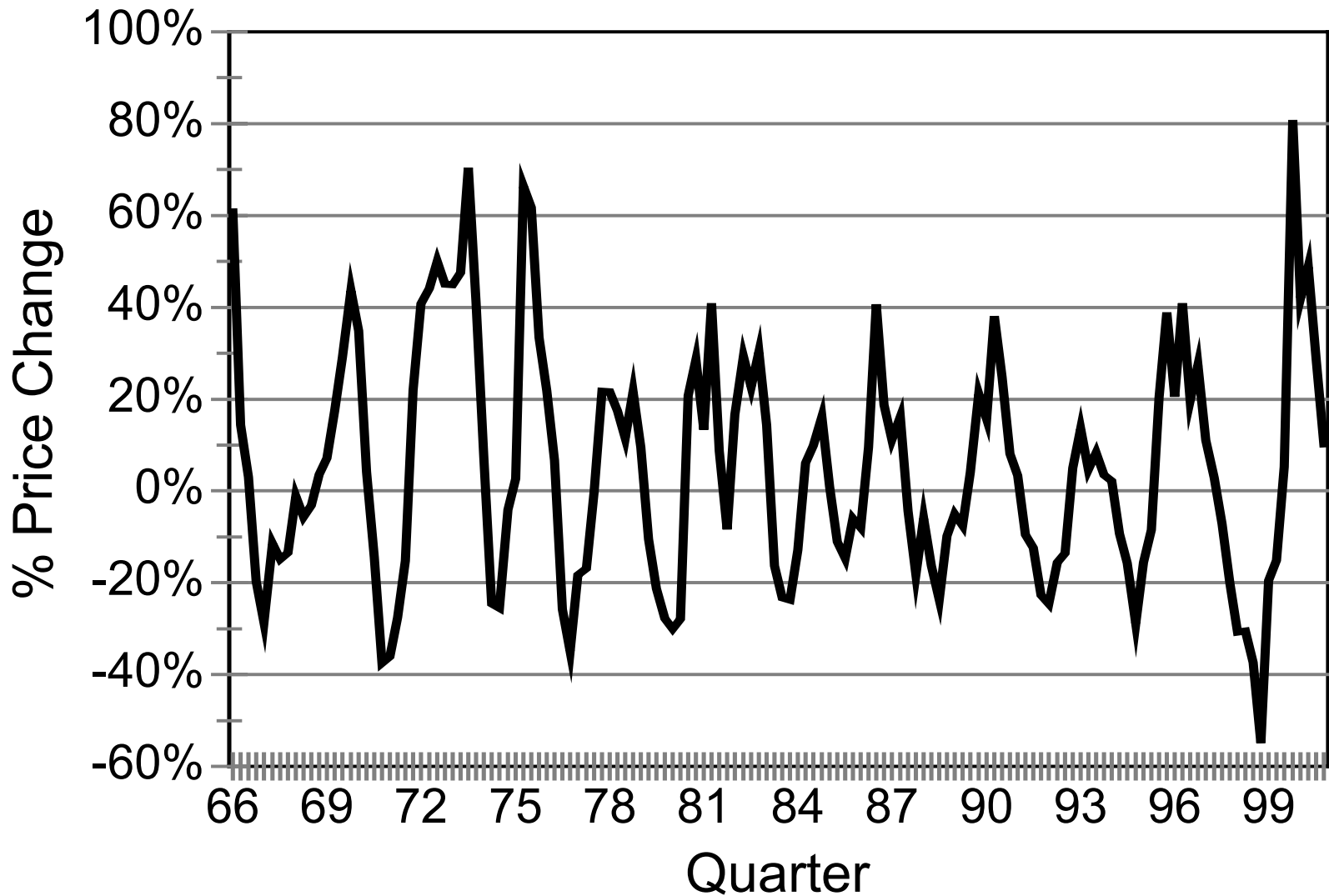
- S. Minnesota has cost/margin advantage in farrow-finish and finishing
- Eastern Prairies have advantage in farrowing
- Inexpensive feed in Minnesota
 - US farm bill, vomitoxin, drought
- Hog price differential

Hog Cycle Gone?

Quarterly Slaughter YTY Change



Quarterly Price YTY Change

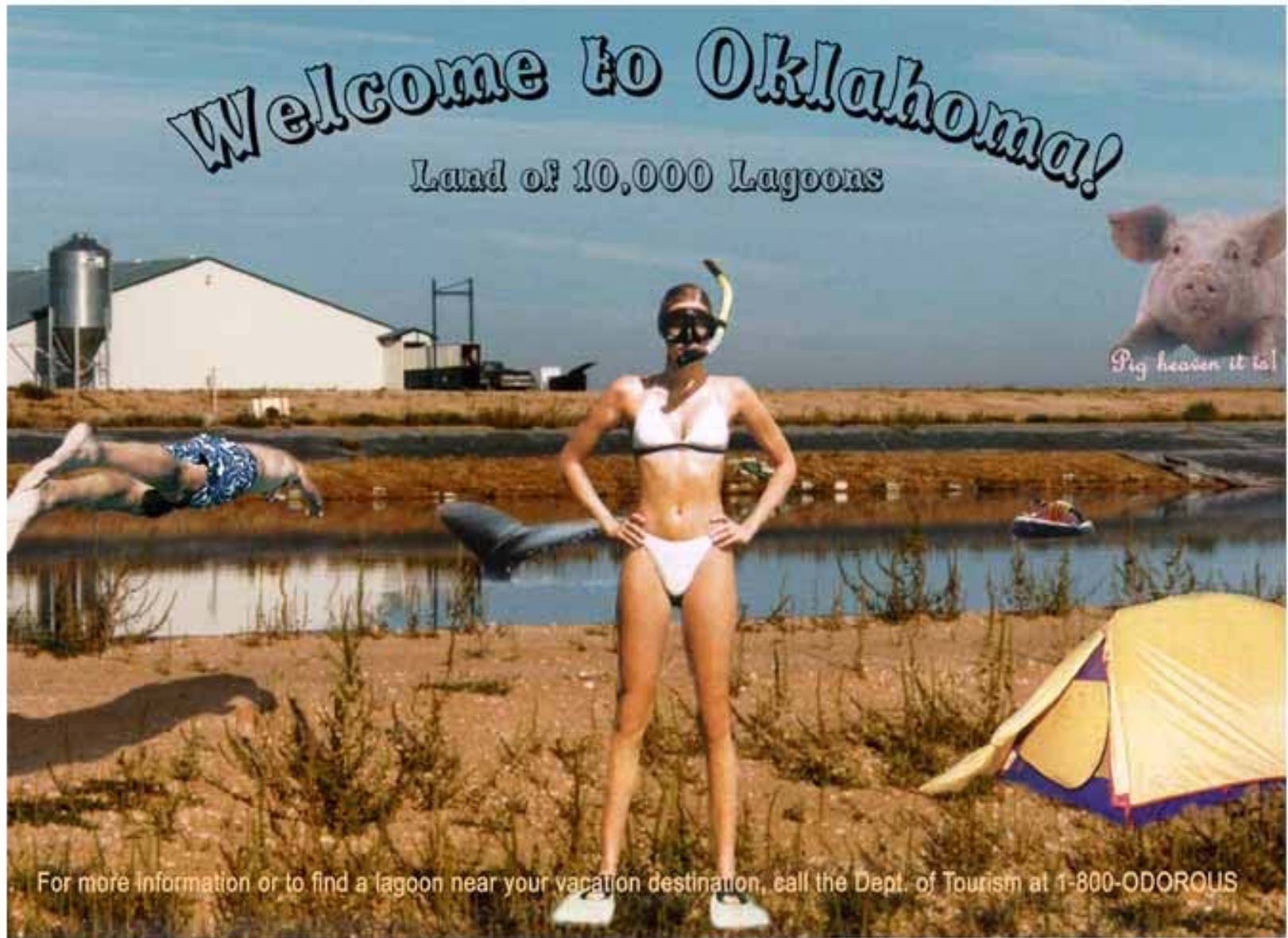


Hog Cycle Gone?

- No, but...

Food Safety, Environment, and Welfare

A postcard from the future...



Brought to you by the Oklahoma Family Farm Alliance and Sierra Club.

This is the swine industry's vision for the future of rural recreation in Oklahoma.
Your support for HB 1237 (Begley) can help them achieve this goal.



If we are
supposed to
eat animals,
why are they
made out
of meat?

Concerns About Environment and Welfare are a Piece With Food Safety

- My take is that these factors will be the principal ones facing the hog and, indeed, all of agri-food over the next decade
- Internationally:
 - WTO > WHO > Food Safety Standards < Informed by
 - environmental and welfare concerns
 - Will define the rules of the game if we want to play
- Domestically and in NAFTA, no clear process for integrating Food Safety and economics in policy
 - Major conflict
 - International approach will dominate

Concerns About Environment and Welfare are a Piece With Food Safety

- Whether we like it or not, this set of pressures is going to force trace back, IP, and good supply chain management
- Most people continue to see environment, and environmental regulation as a problem and a cost.
- But first mover advantages will be large and will accrue to those who turn them into opportunities and assets.

Impacts on Pork Industry

- The UK's animal movement has been particularly influential.
 - Some supermarkets in the U.K. have announced that they will only import pork from welfare-friendly systems.

Impacts on Pork Industry

- Eventually this will become another step in identify preservation, I.e., identifying the care and handling of livestock.
- For most producers “animal welfare” is just good animal husbandry.

Direction of US Farm Programs

- It would appear that the great free traders to the south are about to:
 - Raise loan rates marginally and target prices a lot - for wheat, feedgrains, soybeans
 - Give lots of money for environmental practices
 - Increase total subsidies by \$73 bil
 - Administer the subsidies in a way that is production and trade distorting – no one else in WTO could possibly do what they are about to do.

Farm Bill (Cont'd)

- It would appear that the great “world leader” to the south is about to:
 - Turn the mid-west into a region of well-off welfare recipients
 - Continue to inflate land values
 - Continue to encourage livestock production through low feed prices
 - Continue to harm the economies of developing countries

Farm Bill (cont'd)

- The great free traders to the south may also:
 - Require country-of-origin labelling
 - Prevent packers from owning livestock

Issues and Opportunities

- Hog price/feed cost structure in Western Canada
- Vomitoxin
- US farm programs
 - If they are structured to force down grain prices
 - Will force down hog prices
 - If they they continue to subsidize those in the US who grow their own grain.
 - Could be great for Canadian producers if they ban packer ownership
 - Will be short term pain, long term gain with country of origin labelling

Issues and Opportunities

- Size, structure and technology matters
 - Easier for coordination
- Environmental/animal welfare/food safety concerns
 - Problem or opportunity
 - How to manage supply chains
- Disease/bio-terrorism
- Improving domestic demand
- Int'l market access

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