RED DEER CHAMBER of COMMERCE

Policy 2009
Board of DirectorsApproved
September 23, 2009

Stabilizing the Hog Industry through Facilitating the Creation of a Trade-neutral, Producer-driven, Price-stabilization Fund

The hog industry in Canada is recognized as being one of the most cost-competitive in the world, and maintains second-to-none standards for product quality and safety. The Canadian Pork Industry is now in the midst of its greatest crisis ever due to the perfect storm created by the following unprecedented and unanticipated setbacks:

1. **Rising grain and oilseed prices** due to poor harvests globally and the diversion of food-grains and oilseeds into energy production

2. **The implementation of Country of Origin Labelling (COOL) legislation** in the United States, effectively constitutes a non-monetized tariff on hog and pork exports, further depressing prices

3. **Persistent health fears** generated by the outbreak of the H1N1 flu virus (a.k.a. swine flu) and further exacerbated by media attention, both of which have reduced world-wide pork consumption

4. **Reduction of domestic and export prices** attributed to a rapidly rising Canadian dollar, which negatively impacts both producers and processors

5. **Worldwide reduction in access to credit,** which has threatened the overall viability of the industry by adding to the producer's challenge in **securing credit to finance ongoing operations, service debt commitments and cover losses**.

The current climate has resulted in the loss of many leading and previously resilient producers. More such losses are anticipated in the coming months. Complicating any recovery plan is the need to maintain high quality processing infrastructure for Canadian pork. Continued processor viability is contingent upon an adequate supply of quality hogs. Producers meanwhile must be viable in order to supply sufficient hogs so that all members of the value chain can thrive. Should Canada's pork production fall below critical capacity for industry sustainability and viability, other countries will move quickly to capture Canada's market share.

Preserving our pork industry is key to protecting our national interests of **food security and food safety.**

Previous programs have not been able to avert this crisis and repeating such programs now is unlikely to produce different results. Some methods of government assistance that have already been tried include:
1) **Grants or Subsidies:** Government grants could run up against retaliatory trade action by other hog producing nations. There is a desire among producers to find a way to provide some

long-term price stability. One round of grants can often lead to another and only serve to “tide over” from crisis to crisis. Long-term macro-economic level grants can cause even greater price fluctuations.
2) **Supply-management:** These constructs are under severe and mounting pressure to be eliminated by Canada’s trading partners. Paying producers to cull their herds, while justifiable on an acute emergency basis, in reality constitutes a colossal waste of product.
3) **Agri-stability:** This current federal program has a mandate to help stabilize net incomes for producers. It does nothing to address gross income shortfalls – shortfalls that can and have bankrupted producers.

The recently announced Federal Program to aid Hog Producers is helpful, although urgent clarification of the details is needed so that the funds can flow to producers. However there are significant concerns about the proposed Hog reduction program and its likely deleterious effects upon the processing industry. Many processors of all sizes are working on wafer thin margins. Any reduction in hog supply to such operations is a threat that could easily result in plant closures and job losses. Indeed there is already anecdotal evidence of such closures or pending closures amongst provincially-approved plants resulting from reductions in hog numbers.

The packers and the producers are mutually dependant. The packing industry is already operating below a sustainable threshold. Federal dollars being spent to reduce Hog Production in the medium term could further erode slaughter capacity, which will undermine the viability of the industry as whole. This "domino effect" potentially could negate the benefit of the Federal program and even accelerate the decline of the industry. Government support for the packing sector must be sufficient enough to maintain capacity within reasonable distance of the main hog producing areas of Canada. It should be noted that there are both financial and animal welfare concerns when live animal transportation is significantly extended, which will be a definite reality if current trends are allowed to continue.

As desperate times can often lead to desperate measures, it is imperative that the government work closely with producers and processors to ensure compliance with WTO and NAFTA regulations. The industry cannot be expected to bear all of the impact of the aforementioned setbacks, which are completely outside the control of producers and processors, nor can they bear that impact and survive.

Neither can Canadians be expected to eat our way out of this crisis. Ultimately, as Pork is part of the Red Meat complex, it substitutes for other red meats in Canadians' diets. Nationally we will gain very little if consumers eat more pork at the expense of say of beef or chicken unless it is just imported beef or chicken they cease buying. There is limited scope to influence Canadian Consumers' buying choices by nation of origin within WTO rules. Therefore the impact of efforts to stimulate the consumption of Canadian Pork within Canada, while laudable, may not have much desirable impact for the Ag industry as a whole. Fundamentally, the only long term strategy likely to lead to a sustainable improvement in the viability of all parts of the Canadian Pork industry will be that of securing real growth in pork exports. Focusing on the hundreds of millions of consumers outside Canada will provide better results than upon the food choices of 31 Million Canadians.

A new approach is needed.

Establishing an industry/producer-driven price stabilization fund could provide new and innovative avenues to support pork industry sustainability.

Elements of this fund could involve:

- A supplement for hog producers when prices are below (negative ledger) the break-even point (BEP) to a maximum of 90% of the BEP calculation, or desired pricing based on risk premium
- A percentage deposited back into the stabilization fund during periods when prices are above the BEP (positive ledger)
- Private-sector seed-funding, which meets the requirements of the WTO (and since currently producers are in no position financially to provide the seed-funds to create such a pool independently, Government-backed, private sector investment constitutes a critical component of this concept)
- A percentage of the profits distributed back to stakeholders, making investment attractive to private investors.

Quick action is needed to create this producer driven, government-backed fund in the present climate. This would give the fund opportunity to grow and become self-sustaining. The BEP could be instituted at the abattoir gate, since BEPs at that point in the production stream are well understood and easily calculated. Establishing a payout maximum of 90% of BEP (or pricing coverage based on risk premium) would maintain market pressure on producers. Less efficient operators would have to improve efficiencies of production or exit the industry, ensuring Canada's continued competitive position in world markets.

The Government of Canada would have an important role in supporting the liquidity of the fund, through creating an environment conducive to the development of private investment and developing incentive vehicles that attract outside capital (existing examples of this include "Flow-Through" share programs such as those utilized in the oil & gas industry, and Exchange Traded Funds).

In addition to participation in the creation and establishing of this fund, federal government support for enhanced marketing initiatives that promote Canada's superior product and create awareness of the fact that Canada maintains the highest international food safety standards, would also be meaningful and support long-term success.

Consequently, the Red Deer Chamber of Commerce recommends that the Government of Canada:

1. Reform agriculture policy in Canada so that it focuses on and encourages sustained international competitiveness in all aspects of the industry including producers and processors;

2 Assist the Canadian pork industry to re-establish viability immediately by facilitating the creation of a private-sector financed, government-guaranteed price-stabilization fund;

3. Institute appropriate tax incentives to attract private-sector investment to the fund;

4. Facilitate the development of meaningful, practical parameters for the fund through a collaborative effort by private investors, producers and processors; this will maximize participation and ensure the longevity of the fund.

5. Support long-term industry success by directing more resources toward trade enhancement, and work with industry to showcase Canada's superior pork products and unsurpassed food safety standards.