



Backgrounder to Financial Assistance Request - May 2009

What the pork industry means to Canada

The Canadian pork sector contributes significantly to the Canadian economy, generating approximately 70,000 jobs. With nearly 2 out of 3 hogs born in Canada exported as either live hogs or pork products, the industry is extremely export dependent. In 2008, \$527 million worth of live hogs were exported. Pork exports during the same period were worth \$2.7 billion dollars. These exports alone generated 42,000 jobs, \$7.7 billion in economic activity and \$2.1 billion in wages and salaries.

The jobs and benefits generated by the hog sector are currently at risk.

On-Farm Losses

Canadian hog producers have been losing money on every hog they ship since the fall of 2006. While accustomed to managing the normal fluctuation of hog prices, the last three years have offered no relief from losses. Without even a brief recovery period during this time, hog producers no longer have the funds or equity to finance these losses.

Work by Myers Norris Penny shows that the cumulative losses for an average hog producer in 2007, 2008 and predicted losses for 2009 prior to the outbreak of H1N1 Influenza A amount to nearly \$30 per hog. This calculation includes returns for AgriStability and AgriInvest.

2005 was the last year hog producers in Canada had the opportunity to make a profit from the market place. This unrelenting level of losses is not normal for the Canadian hog sector.

Losses through 2007 and 2008 were due to a number of simultaneously occurring factors. In 2007, feed costs increased at the same time as the Canadian dollar increased, even surpassing the value of the U.S. dollar. Canadian hog producers are negatively impacted by a strong Canadian dollar in two different ways.

First, as a net exporter of pork products, a strong Canadian dollar reduces the competitive position of our products on international markets. Secondly, Canadian hog prices are established based on the U.S. market with some adjustments, including the exchange rate. A higher Canadian dollar results in a decrease in hog prices paid to Canadian producers.

In the fall of 2008, just as these factors were beginning to stabilize, the United States implemented its Country of Origin Labeling legislation.

Impact of COOL

The introduction of mandatory Country of Origin Labeling in the United States has wreaked havoc on Canadian exporters of live pigs. U.S. packers were suddenly uncertain whether or not they would continue to take Canadian hogs. This uncertainty has made it impossible for Canadian producers to predict demand for their product and left them unable to build sound business strategies for the future.

Since January, 2009, exports of live hogs are down 40% compared to the same period last year. This breaks down as follows: 30% fewer Canadian feeder pigs and 65% fewer Canadian market hogs are being exported to the U.S. . On an annual basis, this represents a loss of \$250 million worth of exports.

The loss of this market is creating significant structural change in the Canadian hog sector. Canadian hogs flowed to U.S. farms and packing plants when all the market signals were favourable. Many of those signals have now changed dramatically and these pigs need to find new markets in Canada.

In the case of feeder and weaner pigs, the comparative advantage of farrowing in Canada was combined with the comparative advantage of finishing hogs in the United States. This combination of production infrastructure created the most efficient and profitable production system.

With Country of Origin Labeling causing discounted prices on hogs with Canadian content, this system is no longer viable.

Impact of H1N1 Influenza A virus

The outbreak of the H1N1 Influenza A virus – unfortunately named “Swine Flu” in the early days and still accepted broadly – has had a dramatic impact on the market for pork. Hog prices tumbled with the news and many export markets closed their borders. Luckily, Canada’s main export markets have remained open.

However, the uncertainty the virus has created is causing market disruptions. In addition, the discovery of the virus in pigs on a farm in Alberta has made Canada even more vulnerable to trade restrictions and consumer confidence issues.

The futures market dropped as much as 17% upon the announcement of H1N1 Influenza A. Futures prices for the spring and summer months are still struggling to recover. Historically, these months bring the highest prices for producers each year. The likelihood of profitability for hog producers in 2009 has evaporated due to the H1N1 virus.

Business Risk Management Programs

Hog producers have access to AgriStability and AgriInvest as core business risk management programs. While these programs have been of considerable benefit to some hog producers during the past years, they have failed others.

Program benefits are received when the current program year margin falls below 85% of the historical reference margin. For the hog sector, the reference margin continues to decrease as a result of consecutive years of losses. In fact, the 2009 reference margin is exactly half the value of the reference margin for 2005 for the model farm constructed by Myers Norris Penny. For 2010, the situation is indeed dire – the reference margin is only 30% of the value of the 2005 reference margin. These eroded reference margins provide no support for producers.

For farms that had Porcine circovirus (PCV) or other production losses, for large farms and for diversified farms, the situation is even worse.

For a producer that had Porcine circovirus on their farm for an 18-month period, the reference margin for 2009 is only 20% of the 2005 figure. And for 2010, it is only 12% of the 2005 value. This renders the program completely ineffective.

For large farm operations, the payment cap of \$3 million greatly reduces returns. In 2007 for example, the payment cap would have impacted farms with 3500 sows or more. This means that for operations with more than 3500 sows, of which there are many, the per hog benefit was less than for operations with less than 3500 sows. In fact, for some operations in Canada, the payment benefit was less than 10% of that received by the farm that was not impacted by the cap, creating significant inequities between farms and not providing the needed support on the larger operations.

And for diversified farms, the profits earned on other commodities are offsetting the huge losses on their pig operations.

It should be noted that the federal government did provide two new assistance tools, announced in February, 2008. These tools include the Cull Breeding Swine Program which removed 111,000 breeding animals from the Canadian herd, facilitating a significant downsizing of the sector. The other was making available emergency advances under the Advance Payments Program. Nearly \$300 million was accessed by hog producers under these emergency advances. However, repayment of these advances is currently required by September, 2010.

Emergency aid is needed. Providing such assistance to Canadian producers in extremely difficult circumstances is not without precedent.

- In November, 2005, a Grains and Oilseeds Payment Program was announced, providing \$755 million to Canadian producers of grains and oilseeds. Payments were based on the five-year average net sales of eligible grains, oilseeds and special crops from 2000 through 2004.
- The BSE Recovery Program provided \$810.7 million through three phases consisting of a variety of initiatives from price incentives, to payments for older animals sold to set-aside programs.

Trade

The request for direct assistance to hog producers is not taken lightly by Canadian hog producers. As a commodity so dependent on trade, the industry is very sensitive to the international optics of direct producer payments. But the repeated and sustained shocks that have hit the industry have left producers no option but to request for immediate financial assistance. Trade in live hog exports has declined significantly and producers are currently most concerned about immediate short-term farm survival.

Producer Adjustments

Canadian hog producers have been responsibly adjusting to market signals as best they can. Breeding herd numbers have been reducing since the second quarter of 2005 which has had the desired effect of reducing hog production numbers. The breeding herd is now 15% lower than its peak in January 2005. Most of this reduction (12%) has taken place since early 2007.

Producers have also been adapting in many other ways, using every avenue at their disposal to try to remain competitive. They have tightened expenses as tight as they can go. And they are currently using what remains of their equity to finance the unrelenting losses.

By contrast, the breeding herd in the U.S. has been expanding since 2004. Only in the second quarter of 2008 have we seen a first decline. The U.S. breeding herd declined 3% from March 2008 to March 2009.

Other countries

While some of the shocks hitting Canadian hog producers are uniquely Canadian, others are not. Hog producers globally are facing difficult situations and many are asking their governments for help.

Hog producers in the United States are facing losses as well, although their losses did not start until nearly a full year after losses began for Canadian producers. Per hog losses in the U.S. are estimated at \$18 per pig. Producers in the U.S. are asking for pork purchase aid along with a variety of other requests.

Canadian Hog Industry Statistics

Producers:	8310 farms reporting hogs in 2009 (down nearly 30% from 2006)
Jobs created:	70,000 jobs in Canada are a direct result of hog production
Hogs of farm:	11.9 million head in 2009 (down 21% from 2006)
Breeding stock:	1.38 million head in 2009 (down 13% from 2006)
Hogs produced each year:	30 million head
Receipts:	\$3.2 billion in farm cash receipts in 2008 (down 18% from 2005)
Pork Exports:	\$2.7 billion in pork export sales (2008)
	Pork exports alone generate:
	42,000 jobs
	\$7.7 billion in economic activity
	\$2.1 billion in wages and salaries

Live hog exports: \$527 million in live hog export sales (2008)

Request for Assistance

Canadian hog producers are requesting financial assistance from the federal government in the amount of \$30 per market hog based on 2008 marketings. Iso-weans and feeder pigs would receive an appropriately lower amount based on \$30 per market hog (Calculation to be determined). We respectfully request there be no caps on payments to individual producers or operations.

The estimated value of this request is \$826 million.