

# *Communiqué*

## ***CPC President: All Parties Must Act On Continental Hog Price Collapse***

*Ottawa, November 23<sup>rd</sup>, 1998* “Every player in the Canadian pork industry must make every effort to help address the current collapse in hog prices” urges Edouard Asnong, President of the Canadian Pork Council. “Producers are facing exceptionally low prices and there is no immediate relief in sight. Action needs to be taken immediately to help producers through this unprecedented period in a way that will able the industry to realize its outstanding long-term potential as a world-class pork-producing country.”

Mr Asnong explained the price collapse as being the result of an extraordinary convergence of a number of price-depressing factors such as: higher hog numbers than what current processing capacity in the United States was permitted to handle; depressed demand in Asia and Russia given economic crises in those areas; and recent increases by the European Union to the already massive subsidies they provide for their pork to be exported.

“The U.S. National Pork Producers Council must be commended for their leadership and determination to address the current crisis of hog prices”, said Edouard Asnong, President of the Canadian Pork Council in response to a recent release. The American hog farmer organization has appealed to the President of the United States to intervene. They have identified such alternatives as increasing hog processing in the immediate term, and increasing U.S. government purchases of pork for foreign humanitarian assistance. They are also urging U.S. packers to operate longer work weeks, and have asked that fewer live hogs be exported from Canada to American plants.

Mr. Asnong said: “Canada needs to do its part. We operate on a North American market, and we, along with our U.S. counterparts, need to take steps to move the industry through this disastrous situation. Each party that has a stake in retaining a hog production industry in this country must join with us in finding solutions to ensure that all of our own domestically produced hogs can be processed in this country. These parties include packing houses, exporters, federal and provincial governments, food retailers and restaurant operators, and the sectors providing inputs to hog producers such as feed companies and the banking industry.”

The need to increase our processing activity here in Canada was discussed on Friday at a meeting of Canada Pork International (CPI), the sector’s export development arm. “We are certain that substantially more hogs can be processed in this country”, concluded Mr. Asnong.

The discussion at CPI led to a request to Agriculture and Agri-Food Canada to call an emergency meeting of the Hog/Pork Industry Round Table to discuss measures that both industry and government need to adopt to address the emergency. In addition, the hog producer organizations will be meeting as soon as possible with individual meat processors to identify what each company can do to immediately increase the number of hogs they process. “This is a time where everyone must be seen to be doing his or her share to address the crisis”, said Mr. Asnong. “The very survival of a major portion of our producers is at stake”.

What is surprising is that domestic pork prices have not come down in any appreciable manner given hog prices are currently more than 60% down from last year. “We have arranged meetings with food retailing representatives to discuss this situation and to discuss what constraints retailers face and how we can cooperate to enable more pork to be sold here in Canada” said Mr. Asnong.

The farm financing sector plays a particularly crucial role as well at this stage. All forward indicators, such as the hog futures markets indicate that prices will return to levels that enable hog farmers to very soon meet at least their cash cost obligations with further improvements to follow. “The task before us right now is to enable producers to get through these next few weeks, knowing that the current severely inadequate returns do not nearly meet hog farmers’ payment obligations to suppliers”, said Mr. Asnong, who finishes hogs in the Ste-Hyacinthe region of Québec.

The CPC met recently with the Farm Credit Corporation and from that session it was concluded that FCC is committed to being as reasonable as possible in dealing with producers having farm debt payment difficulties since the hog price collapse. However, chartered bank representatives have yet to even respond to correspondence the CPC sent in October where the Pork Council offered to meet with them and present the same information given to FCC on market conditions and trends as well as other initiatives the Pork Council is pursuing. The CPC could then hear from them what are the banks’ concerns and intentions, and to discuss alternatives for dealing with the situation with a minimum of loss of existing producers.

“Having pointed out the responsibility of industry to respond to the crisis, **governments** - both federal and provincial - **have a major role to play**”, concluded Mr. Asnong. The CPC first asked the Prime Minister in October that Canada contribute its fair share, along with the U.S. and the European Union, to providing food aid to Russia, a country that had been the world’s largest meat importer prior to the onset of its economic and potential food availability crises. In separate meetings later this week with Members of Parliament from all five national parties, the Pork Council will emphasize the messages which need to be sent to those in authority that these, and other, ‘counter-disaster’ measures be put in place.

And with respect to continental trade, a vitally important factor to ensure an efficient distribution of the hog processing activity given the current surplus, Mr. Asnong indicated: “Canada and the United States must remove and avoid any unnecessary trade barriers in response to the current economic pressures. Wherever possible, U.S. packers should be able to process Canadian hogs, and vice versa.”

The Canadian Pork Council is the national federation of provincial hog producer associations, including: *Alberta Pork Producers Development Corporation; Fédération des producteurs de porcs du Québec; Manitoba Pork est; New Brunswick Pork; Ontario Pork; Pork Nova Scotia; Prince Edward Island Hog Commodity Marketing Board; and SASK Pork.*

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## ***A CPC Backgrounder on Hog Returns***

The attached chart of inflation-adjusted Ontario hog prices clearly illustrates how drastically farmer returns have slid. While the historical trend is for declining 'real' prices for hogs, the greater than 60% decline in just the past few months to a level which is now just a bit over half of the previous historical low, has created greater economic that anything seen before by pork producers.

The price information presented here below covers the year-to-year change and also looks forward into the short- to medium-term future. All of this is intended to help us better focus on the current critical issue of enabling Canada's pork producers to survive the current market collapse and to still be in business in the few months from now when indications are for prices to return to more normal levels.

### ***The Shorter Term: A Year Ago, the Present, and Indications for the Year Coming Up***

**I. Past**            The weighted average price for the week ending November 21<sup>st</sup>, 1997 (i.e., one year ago), in Quebec was ***\$191.24*** for 100 kilograms (carcass weight basis, index 100).

**II. Present**        This year, for the same week (the one ending November 20<sup>th</sup>) the pooled hog price in Quebec was ***\$70.76*** for 100 kilograms (carcass weight basis, index 100).

**III. Future**        The best known indicator of what direction hog market returns are *expected* to follow over the next several months is the series of prices established daily at the Chicago Mercantile Exchange of what speculators are willing to pay for the opportunity to purchase hogs that are delivered in future months. A few selected dates are presented below from the closing prices on Wednesday, November 18<sup>th</sup>, 1998 for Lean Hogs.

The prices are reported in U.S. dollars for 100 pounds of a lean carcass. We have converted the figures into Canadian dollars per 100 kilograms carcass weight basis.

| <u><i>For delivery in:</i></u> | <u><i>\$ Canadian per 100 kg</i></u> |
|--------------------------------|--------------------------------------|
| December, 1998                 | <b>\$ 94.55</b>                      |
| February, 1999                 | <b>\$120.44</b>                      |
| April, 1999                    | <b>\$133.23</b>                      |
| June, 1999                     | <b>\$165.05</b>                      |
| July, 1999                     | <b>\$167.95</b>                      |



### ***The Historical Hog Price Trend***

Agricultural product prices, certainly those which occur in open, unregulated markets, have been declining ever since such prices have been recorded. This is as a result of major improvements in productivity and efficiency, perhaps greater than has occurred in any other segment of Canada's economy. It is the reason why, as the chart below points out, hog farmers have been getting along in the 1990's, even before the current downturn, that are well under half what they were in the late 1970's when one adjusts for inflation.

In the case of the hog industry, these productivity improvements come about as a result of: breeding programs that lead to faster growing animals; larger and more specialized farms that can take advantage of computerized feeding and environmental maintenance equipment; and better disease control made available by improvements in housing (e.g., better ventilation), just to cite a few examples.

It has been a major success story, and an increasing amount of the research and technology transfer that is required to facilitate this productivity improvement is financed by the farmers themselves. The investment required to take advantage of technological innovations has also been growing rapidly over time. It goes to say that as producers' losses remain so large relative to anything before experienced, which the graph below clearly shows, these investments simply cannot be sustained. Furthermore, many of the recent major investments made to meet the future growth in international consumption of pork meat, could be lost in the event of bankruptcies.

Should this occur, what has been the very favourable long-run experience of both **growth in pork production in Canada** (we are now exporting more than 40% of our production **S** half of that to the U.S. and the rest to offshore markets), and declining prices to consumers for pork and pork products, would also cease.

This is the driving force behind the efforts by the pork producers and their organizations to explain the current situation, to provide the background information that should maintain confidence in the long-term for pork production in Canada, and to initiate actions by all of these players to make it through this temporary, but intensely difficult, crisis.

