



Canadian Pork Council  
Conseil canadien du porc



# Strengthening Our Future In the Canadian Hog Industry 2014–2017

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# Table of Contents

	Page
<b>Current Situation .....</b>	<b>1</b>
Economic Circumstances .....	1
Risks to the Industry .....	1
Opportunities for the Industry .....	3
Industry Risks and Opportunities .....	4
Managing in a Turbulent Environment.....	4
<b>Pillars of Success .....</b>	<b>6</b>
<b>Industry Integrity.....</b>	<b>7</b>
Biosecurity .....	8
Food Safety.....	9
Animal Care.....	9
Traceability .....	10
Key Initiatives – Industry Integrity Pillar.....	11
<b>Competitiveness .....</b>	<b>12</b>
Swine Health.....	13
Risk Management.....	13
Operating Costs .....	14
Innovation & Productivity .....	15
Key Initiatives – Competitiveness Pillar .....	15
<b>Market Penetration .....</b>	<b>17</b>
Trade Advocacy .....	18
Key Initiatives – Market Penetration Pillar.....	19
<b>Industry Leadership .....</b>	<b>20</b>
National Priorities.....	20
Communications .....	21
National Advocacy .....	21
Member Engagement.....	21
Key Initiatives – Industry Leadership Pillar.....	21
<b>Strengthening our Future – A Summary.....</b>	<b>22</b>

## Current Situation

### Economic Circumstances

In 2014 it would appear that there is a significant opportunity for the industry to grow revenues and improve balance sheets, following a devastating decade—essentially the worst economic period in the last 60 years.

*A devastating decade*

This is a resilient industry. While there has been a huge reduction in hog farms during the decade, along with a major decline in the national herd size, there remain a substantial number of operators (7,000) who are successfully confronting the risks, costs and operational challenges, while seizing the opportunities.

### Risks to the Industry

#### Emerging Diseases

Emerging diseases are not a new phenomenon for the swine industry. Any incident can have a devastating impact on an operator. Diseases continue to pose a threat to future prosperity and to the long-term integrity of the industry. There is always a threat that health issues could close borders. The PEDv situation is currently creating the potential for significant risks within the industry.

*Disease poses a continuing threat to prosperity*

#### Price of Feed Inputs

There has been a relative improvement in the ratio of feed input costs to revenue, with feed being the most important cost of production. There is nevertheless always a significant risk to the industry, given the volatility of feed input markets.

#### Barriers to Re-Investment Capital

Producers are now focusing on their ability to reinvest in their barns and other capital requirements. However, Canada does not have a financial system that makes it easy for producers to find the borrowed or equity capital after a long and debilitating economic cycle.

## Economic Fundamentals

Hog producers operate within the context of national and international markets which are set within domestic, regional and international economies. While Canada came through the recession relatively better off than some of its economic competitors, an economic downturn in Canada would have a domino impact on food production, including pork production.

## Domestic Market Decline

Domestic market decline is a cause for considerable concern. We have experienced an enormous increase in imports of pork into Canada. In fact, they are more than seven times what they were 15 years earlier. In addition, total pork consumption has decreased in Canada relative to other red meats. Consequently, as a result of both factors, the total amount of Canadian pork that is consumed by Canadians is falling at an alarming rate.

*Enormous increase in imports to Canada & falling domestic consumption*

## United States Mandatory Country of Origin Labelling (COOL)

The disruption in the swine trade between Canada and the US, due to the United States mandatory country of origin labeling (COOL) continues to be a major factor in the massive reduction in these exports. Resolution of ongoing litigation may provide more clarity on the prospects for alleviating the effects of this legislation.

## Prices Based on US Price Discovery

Prices that are based on US Price discovery limit the capability of Canadian producers to maximize the value of differentiated products and market access advantages. This builds in an inherent risk to the industry over the long-term, as it has the effect of capping the top end of the revenue ceiling for Canadian products.

## Critiques from Other Value Chain Members

Processors are seeking additional assurances about CQA performance. They need additional reliance on CQA as the basis to provide assurances to their customers about the food safety elements of their product.

*Processors seeking assurances through CQA*

## Questions of Retailers and Exporters

Retailers and exporters have questions related to food safety, animal care and the environmental impacts of the industry. Each of these questions can lead to demands for further actions that will have an impact on the Canadian producers' cost of doing business.

*Retailers and exporters questioning food safety, animal care and environment.*

## Opportunities for the Industry

### Global Demand for Pork

All of the long-term projections for global demand of pork paint a picture of sustained increases well into the future. The ability of Canada to be able to maximize on the opportunity to provide proteins to the rest of the world is in large part going to be a Canadian pork story.

*Global demand looks excellent*

### Increasing Hog Prices

Increasing hog prices is certainly an opportunity for the industry. There is debate about whether or not it is a major opportunity or only a moderate opportunity, because it is unclear what the trajectory of prices is likely to be over the medium-term to long-term.

### Canadian Herd Health Status

Canada has an enviable record in terms of the overall health of the Canadian swine herd. In addition, it can demonstrate significant programs and services, as well as producer management practices that can provide assurances about the health of the herd and therefore the quality of the products.

*Canada's herd health status is a strength*

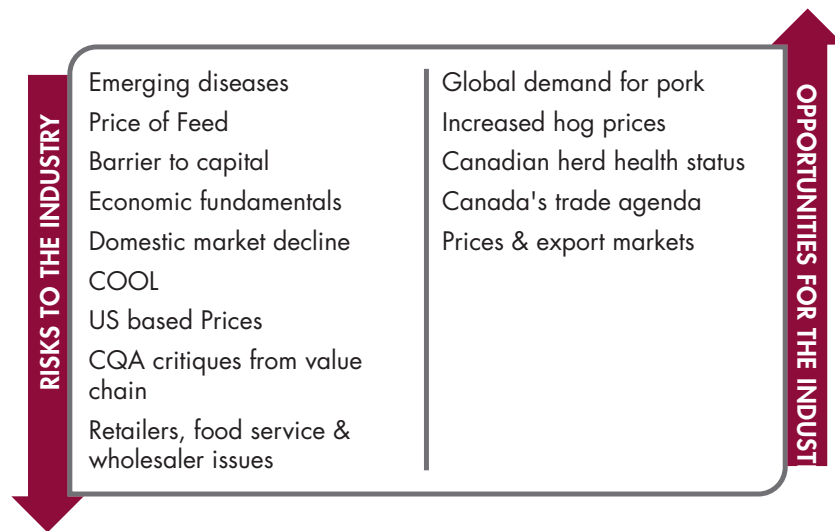
### Canada's Trade Agenda

Canada's current government has been active on a range of international trade files. The Canada-EU agreement provides opportunities for the Canadian pork industry. The Trans Pacific Partnership agreement, if completed, has the potential to provide benefits for Canadian pork producers. In addition, if Canada can implement agreements with individual countries, like South Korea and perhaps Japan, additional benefits can accrue.

## Prices and Export Markets

To the extent that prices are tied to global demand, there are opportunities for Canadian producers to sell more product, with higher demand and with a commensurate increase in price.

## Summary of Risks and Opportunities



## Managing in a Turbulent Environment

During this very difficult economic period producers have made great strides in addressing their competitiveness. In particular, producers have reduced their cost of production substantially through a focus on:

- Examining all their costs
- Utilizing more risk management tools including biosecurity
- Adopting operational efficiencies
- Maintaining their commitment to food safety
- Introducing new elements of animal care
- Exploiting the powerful pork story to help expand international market penetration

There have also been technological and scientific advances that have led to increased efficiencies. Sow productivity is an excellent example. In the recent past the development of the circo virus vaccine was extremely important.

Producers have been developing niche products that have strengthened their relationships with specific processors and helped to differentiate Canadian products.

International markets have been very receptive to Canadian products. Total non-US exports have increased by more than eight times in the last 15 years. It is recognized that a differentiation strategy can further assist efforts to grow these markets.

*Productivity improvements*

*International markets receptive to Canadian products*

## Pillars of Success

CPC will be focused on four Pillars of Success, which in combination can provide the industry with the resources and support necessary for long-term success.

The Pillars of Success respond to the Industry's situation in terms of the economic circumstances, industry performance, industry structure and societal pressures.

*Four pillars for long term success*



- The Industry Integrity Pillar has four elements which will help to defend the industry and provide mechanisms to gain and hold market access.
- The Competitiveness Pillar will focus on four factors that will enable the industry to reduce the cost of doing business.
- The Market Penetration Pillar has three components; focusing on market access and then exploiting domestic and the international opportunities and challenges.
- The Industry Leadership Pillar ensures that CPC has organizational capacity to provide increasing value to its members.



## Industry Integrity

The Industry Integrity Pillar focuses on those capabilities that will determine whether the public stakeholders and consumers will continue to embrace the industry. The Industry Integrity Pillar can turn vulnerabilities, stemming from societal pressures, into opportunities, by demonstrating to the world an industry that produces high quality and safe food, which is produced using humane practices.

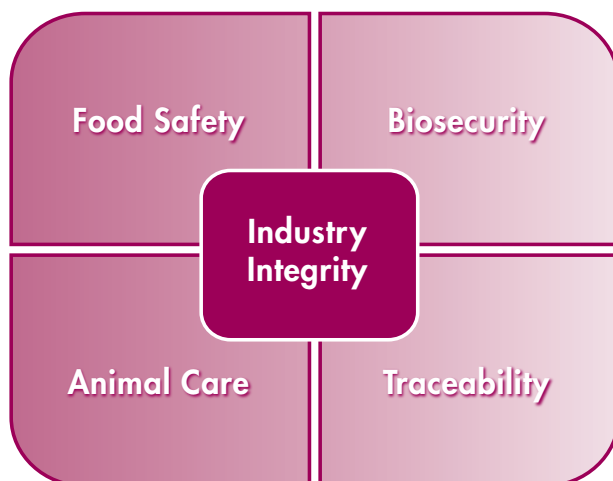
The pork industry is facing the same types of societal pressures that many industries are experiencing. Increasingly, the pressures are coming from the retailers. Disparate voices are affecting planning bodies, trade negotiations and editorial views, which in turn drive further regulatory scrutiny and market place actions.

These societal pressures represent vulnerabilities to either current or future business outcomes. In some cases, when the industry gets out in front of the issues they can become opportunities to exploit, in both domestic and international markets.

CPC has been proactively addressing these issues for more than a decade. The basic level of priority has been that of assuring food safety, which is addressed through CQA. There is an additional level of issues related to safety of the food system that traceability and biosecurity measures are designed to address. The efforts included in the Industry Integrity Pillar provide benefits to the industry and the community.

*Helping stakeholders and consumers embrace the products*

*CPC has been proactively addressing these issues*



The objectives of these programs will become:

- Tools to defend the industry;
- Mechanisms to gain market access and increase share; as well as
- Methodologies to increase on-farm benefits.

## Biosecurity

At the heart of disease prevention and control are a set of biosecurity tools that assist in the development of creating a healthier herd at the level of the farm, region and country. The impacts of effective biosecurity measures include: improved competitiveness for all operators; reduced vulnerability within healthy herds; improved business results for all operators; and enhanced market access.

Through the auspices of the Canadian Swine Health Board, in the last few years, a national biosecurity standard was designed and tested. Delivery systems were developed by regions and it has been implemented on-farm, implicating approximately 70% of the national production.

The relative containment of the PED virus in Canada can, to a large extent, be attributed to the state of on-farm biosecurity. While the results noted above are definitely achievements that will provide residual benefits to the industry, they will be enhanced by continuous and consistent measures.

CPC will provide leadership in retaining the educational modules that are currently available. In the coming years, CPC will determine whether the biosecurity measures should move from educational modules to a program structure and whether there should be some operational merging with the CQA program.

*Biosecurity addresses prevention and control*

*Implemented on-farm, implicating approximately 70% of the national production.*

## Food Safety

Food safety is mandated through CQA, which is a flagship brand for Canadian producers. It promotes on-farm best practices. The CQA program will take the necessary steps to:

- Be more user friendly
- Be more transparent; and
- Increase on-farm benefits

During the next few years the CQA will be rebranded in a manner that will communicate its full value. One of the market requirements will be to determine when it will be necessary to introduce 3rd party audits.

CPC will increase its already stellar participation from 95% to 100% of farms that move animals to federally licensed plants.

CQA will create the capacity to support new export market access requirements related to feed inputs, for example Ractopamine, Tetracycline and Trichinae.

CPC will work with antimicrobial experts to clearly identify the implications of government direction and determine industry action.

*Rebranding to communicate full value*

## Animal Care

Animal care is addressed through the animal care assessment elements of CQA. The industry has a long history of focus on animal care.

The revised code of practice, released in 2014, will trigger a revised ACA. This revision will ensure that Canada will be seen to be, as it is in fact, a country that stresses the importance of animal welfare as an important business principle.

*Canadian producers stress the importance of animal welfare*

In the coming years, the ACA component will:

- Complete an updated animal care assessment
- Develop loose sow housing certification; and
- Take measures that will increase stakeholder recognition of the swine industry's commitment to animal care.

## Traceability

Traceability is the ability to track an animal by means of a documented movement history. In the event of animal health or food safety emergencies, this allows officials to 'trace back' the source of an incident, then 'trace forward' to any other locations that may have been impacted.

The goal is to reduce the time it takes to investigate the source of an animal health or food safety incident. There is significant financial savings in reducing this response time.

CPC views traceability as an ongoing program area of significant importance to the long-term stability and health of the Canadian industry. Traceability is anticipated to pay future dividends in terms of boosting our preparedness in the case of an animal disease outbreak, and ensuring continued market access for Canadian pork products.

PigTrace Traceability will continue its significant investment in technology (databases, software, reporting tools), animal identifiers, time commitment from industry stakeholders, and a significant investment in administration, to ensure effective coordination of the system.

*Tracking by means of a documented movement history*

*In the event of an outbreak it can mean continued market access*

## Key Initiatives – Industry Integrity Pillar

During the period of the plan, the industry will have a focus on the following initiatives:

1. Build a common platform for national on-farm programs. Secure terms for nationally consistent delivery of CQA, ACA, traceability and biosecurity. Rebrand the common platform.
2. Update and revise core elements to ensure that the new platform:
  - Has an updated HACCP model
  - Provides user friendly producer tools
  - Demonstrates increased on-farm benefits
  - Includes updated food safety and animal care assessment elements
  - Leverages program credibility through continued CFIA recognition and/or other potential certification systems and 3rd party oversight
  - Results in increased on-farm participation and producer satisfaction
3. Create the capacity to support new market export requirements (e.g. Ractopamine) & domestic market requirements (e.g. loose sow housing requirements and antimicrobial resistance).
4. Understand customers' emerging concerns about the hog industry including companies that are responding to groups hostile to the pork industry.

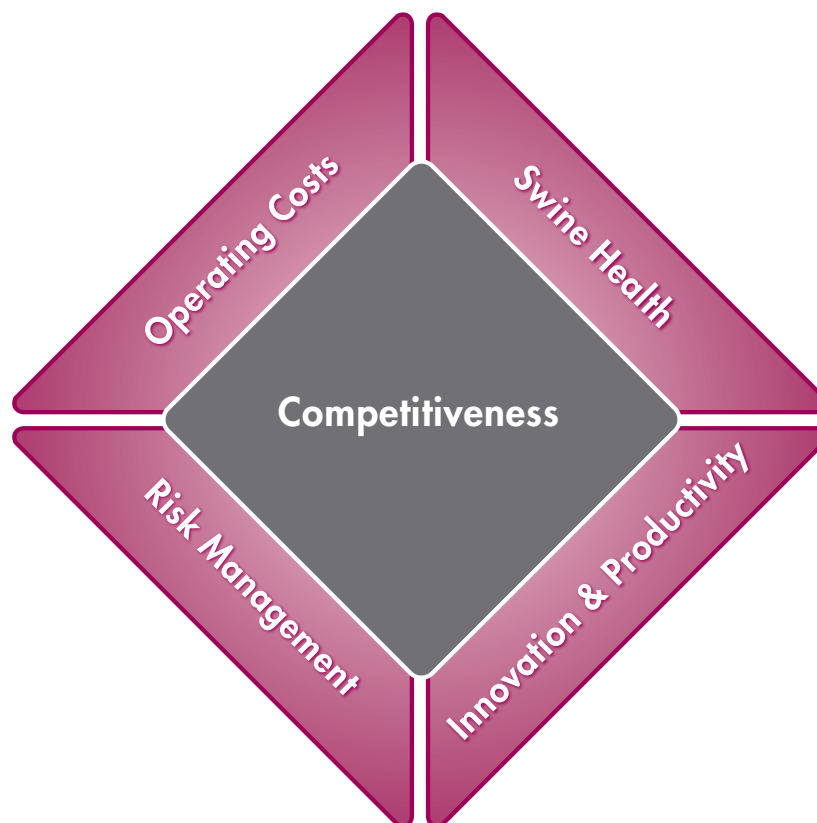
## Competitiveness

Competitiveness will be achieved when it is possible, on a sustainable basis, to bring products to market at prices that offer producers margins that provide a reasonable return on their capital and their labour, as well as the ability to retain sufficient earnings for recapitalization.

In order to achieve the required levels of competitiveness, a constant focus on costs will be necessary to achieve the required margins. CPC will be focused on four elements of competitiveness. They are:

- Operating Costs
- Swine Health
- Innovation & Productivity
- Risk Management Tools

*A reasonable return on capital,  
labour, as well as sufficient  
earnings for recapitalization*



## Swine Health

Swine health is a major cost element in hog production. Swine health constitutes a potential risk of market closure. The ability to provide on-farm solutions that reduce health incidents and increase animal productivity is fundamental to long-term sustainability.

*A major cost element in hog production*

Swine health constitutes a potential risk to individual producers and to the industry overall. Currently CPC is determining the optimal organizational model to provide national leadership and coordination in support of the management of the health of the Canadian swine herd.

In the industry Integrity Pillar biosecurity is addressed as one of the on-farm program elements. In this Competitiveness Pillar there are two components - research into swine diseases and national swine health surveillance.

*Biosecurity, research and surveillance*

There is a continued need for Canada to interact with international bodies on matters related to common swine health issues.

## Risk Management

Hog producers face a combination of production, market and financial risks. Without a range of risk management tools and strategies, these risks can undermine the success of the overall venture. To reduce production or yield risk, both enterprise diversification and production insurance are options. In order to manage market or price risks the options would include futures hedging, forward contracting and spreading sales to manage market or price risks.

*Reducing production risks*

The CPC will determine its role in the development of and facilitating the use of effective risk management strategies and tools.

## Operating Costs

### Feed Costs

Feed costs are greater than the sum of all other operating costs. Québec, Ontario and the West face different challenges in the structure of their feed markets. In some cases, the inability to inventory winter requirements during the harvest period results in higher costs. In Western Canada, the impacts of increased canola production and decreased barley production are changing the availability of lower-cost feeds.

CPC will continue to support and monitor the development of initiatives that can lead to lower feed costs. At a minimum, the industry must achieve the goal of cost parity with its US counterparts. In particular the CPC will monitor and address the big picture policies that affect feed costs in Canada.

Swine Innovation Porc is expected to continue to focus on research efforts that are aimed at reducing feed input costs.

*The industry must achieve cost parity with its US counterparts*

### Veterinary Products

Significant developments are underway in the US, Canada and globally to address antimicrobial resistance. These developments are seeing the removal of certain products commonly used by producers to promote growth. It will be critical for the hog industry to understand the impact of these changes and represent concerns to government. It will also be critical to be part of the solution, to ensure veterinary products remain useful for both animals and humans.

Drug costs are higher in Canada than in the United States due to both the regulatory regimes and the distribution systems of pharmaceutical companies. CPC will support investigations of these problems and identify solutions particularly as they relate to Health Canada's timely approval and the market availability of products.

*Drug costs are higher in Canada than in the United States*

### Labour Costs/Availability

Getting and holding workers at an economically viable price and with the requisite skills is very difficult in some areas of the country, throughout the value chain. CPC, in conjunction with its value chain partners, will make representations as further changes are contemplated in the Temporary Foreign Worker Program.



## Innovation & Productivity

There is a direct correlation between competitiveness and innovation and productivity. Throughout the past decade producers have found many ways to improve the efficiencies and effectiveness of their operations. To support their efforts, a host of regional institutions including provincial associations, universities and companies have been directing their attention to finding solutions that will meet the needs of producers.

At the national level, Swine Innovation Porc continues to coordinate a program of research projects, which are designed to provide benefits at the farm level. CPC will be monitoring the output of these projects and ensuring that innovative ideas achieve the required level of commercialization, so they can be applied by producers, at the earliest opportunity.

The impacts of innovation are most often cumulative. CPC will be looking to Swine Innovation Porc to continue their priority-setting process and their joint planning process with their partners that will result in more 'game changers'. Specifically, CPC will encourage private-sector funding that will result in greater and quicker innovation breakthroughs, leading to cost reductions and/or increased product attributes and prices.

CPC will continue to provide input and direction regarding priority issues to be addressed within the research portfolio.

*A direct correlation between competitiveness, innovation and productivity*

*Innovative applied by producers, at the earliest opportunity.*

## Key Initiatives – Competitiveness Pillar

During the period of the plan, the industry will have a focus on the following initiatives:

1. Continue to build the long term organizational capacity to address swine health needs.
2. Explore and identify the potential for new business risk management tools and implement agreed options. (Hedging, production insurance, improved price insurance, etc.)
3. Continue to support and monitor the development of initiatives that can lead to lower feed costs, through organizations like Swine Innovation Porc.

4. Continue to assemble and submit a representative Canadian data set to InterPIG, an international swine cost of production network.
5. Investigate the controllable factors that can influence an increase in the base price of Canadian hogs.
6. Identify means by which each partner in the value chain can achieve a sustainable value stream.

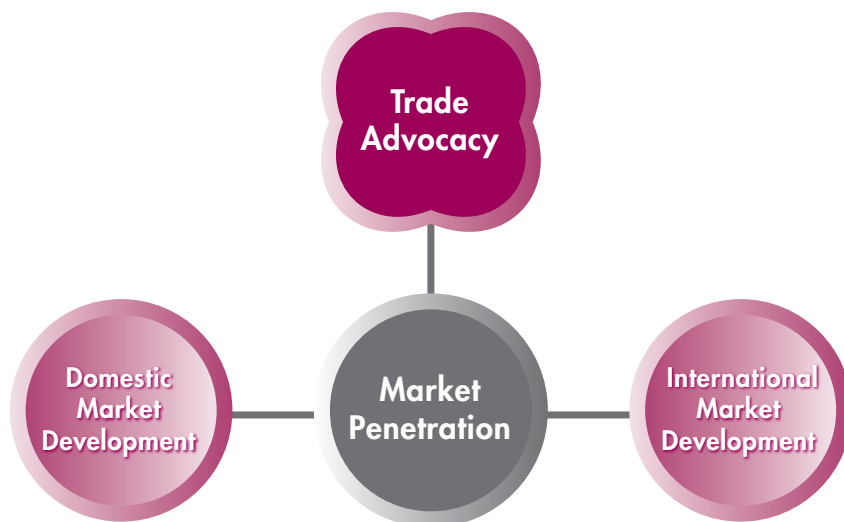
## Market Penetration

Market Access is a prerequisite to market penetration. Having achieved access, market penetration of Canadian pork products is a fundamental determinant of success in the hog industry. To that end producer groups have actively engaged in understanding and responding to customer and consumer needs.

CPC has recognized the need for the development of differentiated Canadian pork products, to be made available to consumers, in both international and domestic markets. CPC and its member organizations are mounting a range of initiatives with processors and other value chain partners, which can result in improved market penetration. CPC views the Pork Value Chain Round Table as a critical organization to facilitate collaboration on a range of market penetration strategies.

Pushing innovation up the value chain, while respecting competitive and proprietary needs of individual companies, is challenging but necessary. In the coming years CPC will report on a range of collaborative approaches with a view to determining the most effective ways to meet the needs of the value chain partners.

*Pushing innovation up the value chain is challenging but necessary.*



## Trade Advocacy

The Canadian government has a trade agenda that can be instrumental in driving benefits to Canadian hog producers. However, it is essential that CPC play an influential role in helping to shape federal trade priorities, through direct representations and through organizations that have mutual interests. The Canadian Agri-Food Trade Alliance is one of CPC's important collaborators.

In addition to participating in a manner that can affect trade negotiations, there are a host of technical trade access issues that create barriers to market entry. CPC will remain vigilant in representing Canadian producer interests in technical trade issues, in collaboration with CPI and CMC.

In the coming years there will need to be a focus on the Canada-EU Comprehensive Economic and Trade Agreement (CETA) finalization and implementation, Korea implementation, TPP development and/or Japan negotiations.

## International Markets

CPC has taken a proactive position in support of market penetration efforts, particularly at the international level. Canadian producers have provided contributions in the order of \$6M in the last five years to support the work of Canada Pork International.

Moreover, the leadership that Canadian producers have provided within this organization has been quite remarkable. CPI will continue to be the primary organization in which CPC rests responsibility for international success in pork marketing. CPC will continue to provide monetary and leadership support to this vital organization.

## Domestic Penetration

One of the most daunting challenges facing the Canadian pork industry is to reverse the declines in domestic pork consumption and the loss of market share to imports. Numerous observers have documented the decrease of market size, the decrease of market share and the rise of imports.

Documented solutions are not so numerous.

*Influential role in helping to shape federal trade priorities*

*Canadian producers have provided contributions in the order of \$6M in the last five years to support the work of Canada Pork International.*

CPC will continue to provide a national service related to communicating the nutritional benefits of pork and responding to adverse claims about pork products.

Several member organizations have designed and implemented market penetration strategies and programs. More recently, initiatives are being more focused on a marketing based approach.

CPC is committed to supporting CPI's implementation of a national domestic marketing initiative.

*Committed to a national domestic marketing initiative.*

## Key Initiatives – Market Penetration Pillar

During the period of the plan, the industry will have a focus on the following initiatives:

1. Ensure favorable terms to the Canadian hog industry, by working directly and through coalitions, to achieve fair trade agreements in key countries. Focus specifically on Canada-EU finalization and implementation, Korea implementation, TPP developments and/or Japan negotiations.
2. Ensure favorable terms to the Canadian hog industry, by working directly and through coalitions, to achieve fair trade agreements in key countries.
3. Support CPI in its international market development and in its domestic market development initiatives, designed to increase the Canadian share in both the Canadian and international markets.

## Industry Leadership

The industry leadership pillar focuses on creating the organizational capacity that will enable CPC to more effectively achieve the expected results in the other pillars.

There are four important elements of industry leadership. These are:

- National Priority Setting
- Communications
- National Advocacy
- Member Engagement

*Creating the organizational capacity*



### National Priorities

In order for CPC to have maximum impact with the available resources, it is important that priorities are established at a national level that can drive the work of staff, CPC committees and its partners.

The process of establishing national priorities involves the identification of issues of national interest, determining the most effective parties to make progress on the issues, and determine the extent to which CPC resources should be implicated in the work.

The establishment of national priorities permits the effective development of strategic plans and more importantly, annual work plans and budgets, which determine the level of effort and the monies that will be spent on specific initiatives.

*National priorities permit the development of strategic plans, annual work plans and budgets*

## Communications

In order for CPC to sustain the required credibility, it is essential that all of the key audiences know, understand and believe in the work that is being undertaken, as well as the results that are being achieved.

The key audiences are the Directors and staff of the member organizations. In addition, processors, retailers, government etc. need to be aware of the CPC's actions, insofar as they are assisting the interests of the stakeholders.

*Members must know, understand and believe in the work that is being undertaken*

## National Advocacy

Hog producers are affected by government programs, policies and regulations at the national level. The ability of CPC to represent the interests of producers at the national level, as it relates to policy making, program development and delivery, and regulatory issues, is very important.

*CPC to represent the interests of producers at the national level*

Determining the national advocacy priorities will have an impact on the use of the political capital that the industry has. Therefore it needs to be used selectively and effectively.

## Member Engagement

CPC will engage its members to participate on initiatives of national interest. The more collaboration that occurs between the CPC and its members, the more likely there will be common understanding and commitment to the general welfare of hog producers.

*Engage members through initiatives of national interest*

## Key Initiatives – Industry Leadership Pillar

During the period of the plan, the industry will have a focus on the following initiatives:

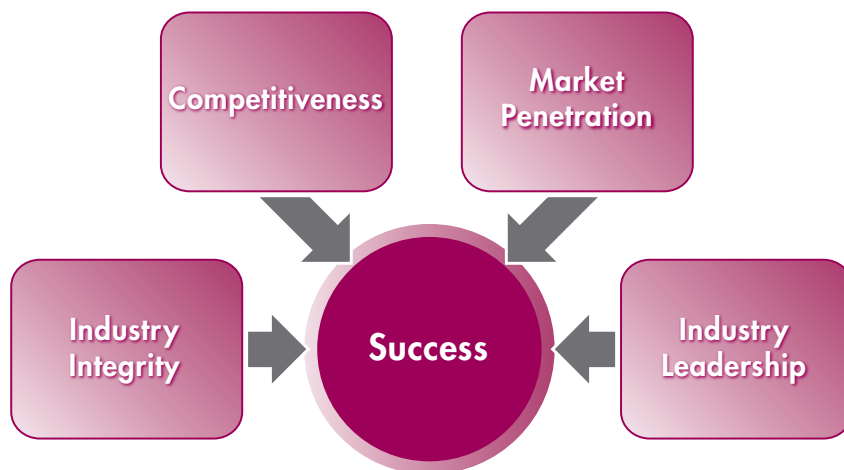
1. Refine and implement a multi-year communications/member engagement plan, taking into account the key audiences, and the most effective types of media.
2. Develop and implement a multi-year advocacy plan which includes an identification of the priority wins needed per year.

## Strengthening our Future – A Summary

The hog industry has undergone a significant downsizing; both in terms of the number of producers and the size of the total national herd. It is therefore important to reflect the changed situation within the strategic focus of the hog industry's plans.

This document has been prepared in order to communicate with all of CPC's partners; including the provincial members, the Pork Value Chain Roundtable, federal policymakers and other stakeholders.

CPC will be focused on four Pillars of Success, which in combination can provide the industry with the resources and support necessary for long term success.



Industry Integrity Pillar has four elements which will help to defend the industry and provide mechanisms to gain and hold market access. These include a focus on:

- Biosecurity
- Food Safety
- Animal Care
- Traceability



The Competitiveness Pillar will focus on four factors that will enable industry to reduce the cost of doing business. These include a focus on:

- Swine Health
- Risk Management Tools
- Operating Costs
- Innovation & Productivity

The Market Penetration Pillar has three components focusing on the domestic and the international opportunities and challenges.

- Trade Access
- International Markets
- Domestic Penetration

The Industry Leadership Pillar has four components which are:

- National priority setting
- Communications
- National advocacy
- Member engagement

The CPC has identified an aggressive program of medium term key initiatives which, in combination with the strategic programs of its partner organizations, will enable the industry to move into a period with a stronger future.



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