Canadian Pork Council
Conseil canadien du porc

Canadian Pork Council
Submission to the Standing Committee on Agriculture and Agri-Food study on Business Risk Management Programs
June 19, 2020

Summary

Canada's pork producers work hard every day to produce a high-quality, affordable protein that is in demand in Canada and around the world. Canada's pork industry has responded to that demand by exporting almost 70% of its production. Those exports to more than 90 countries contribute significantly to the health of rural communities and the broader Canadian economy.

However, the export-oriented nature of the Canadian industry also exposes Canada's pork producers to significant market volatility. The result is that trade barriers, border closures or a global economic downturn can cause substantial financial harm to pork farms located from coast to coast.

That volatility, and the other challenges that farms face, including disease and weather, make it essential for pork producers to have access to a meaningful and effective suite of business risk management programs.

Unfortunately, the current suite of programs does not offer access to meaningful, effective programming. This has become very evident during the COVID-19 pandemic, and the corresponding impact it has had on farm incomes.

As a result, the need for changes to programs, mainly to AgriStability, has never been more acute. The CPC's priorities for fixing AgriStability are:

1. Increase the trigger to 85%
2. Remove the payment caps.
3. Remove Reference Margin Limiting

African Swine Fever (ASF) has the potential to have a devastating impact on Canadian pork producers. The current suite will not have the capacity to respond, and the government and industry must continue to work together to develop a stand-alone response that can be implemented quickly if ASF is detected.

The need for these urgent reforms does not take away from the need for long-term, more comprehensive changes to the suite. However, they should only be considered once these critical enhancements to AgriStability are made.

Risk, volatility, and the impact on pork producers

Farmers across agriculture face significant pressures as they produce food. However, several important factors make pork producers more exposed to risk and volatility.

First, pork producers operate in an export-dependent sector. Pork producers export live pigs including isowean piglets and market hogs, mainly to the US. The pork value chain exports a variety of pork products, from fresh and frozen pork, to highly processed products, to more than 90 countries around the world.

Canadian hogs are sold on a US-based price. This means that even if Canadian market fundamentals may be positive if there is a price decline in the US, Canadian farmers will see their prices fall as well.

In a healthy trade environment, this is very beneficial for Canadian farmers. However, recent events have brought increased unpredictability to global markets. This change has meant that factors beyond an individual producer's control are increasingly impacting our farms.

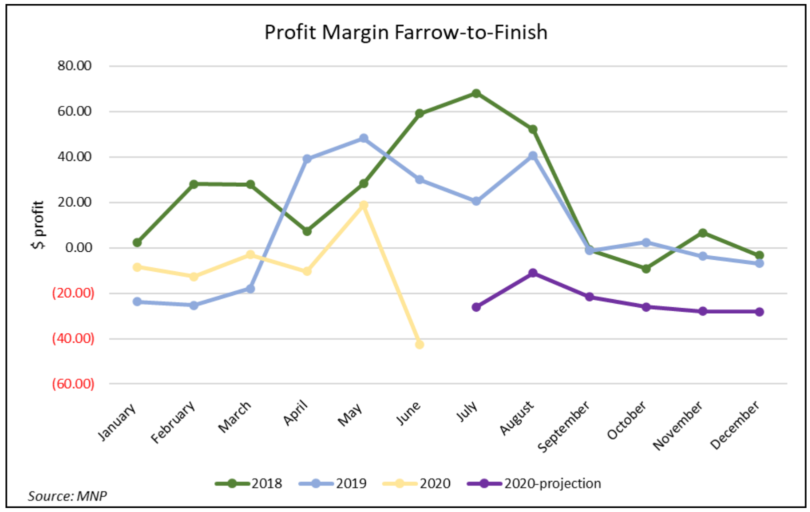
Examples of these impacts include:

- In 2018, the China-US trade war led to a 37% drop in prices from August to September. As a result of the link between Canada and US prices, some Canadian farmers saw losses greater than $40/ pig.
- In June 2019, China suspended Canadian pork imports. Canadian pork exports to China dropped from an average of $84 million per month in the first half of 2019 to less than $1 million.
- The rapid expansion of the US live hog supplies has forced down Canadian and American live hog prices. American pork production has increased 5.5% from March 2019 to March 2020.
- In May 2019, the United States Department of Agriculture announced the $16 billion Market Facilitation Program. The program offered American producers a per head payment of $8 in 2018 and $11 in 2019.
- The COVID-19 pandemic has increased volatility in domestic and export markets. Demand shot up as consumers engaged in panic buying in the early days of the pandemic and then saw some of the deepest, fastest declines as the reality of the economic shutdown impacted the sector.

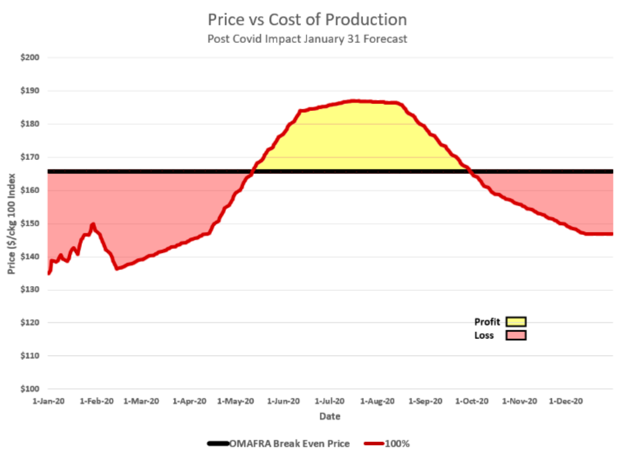
Over and over again, Canadian pork producers are being hurt by factors outside their control.

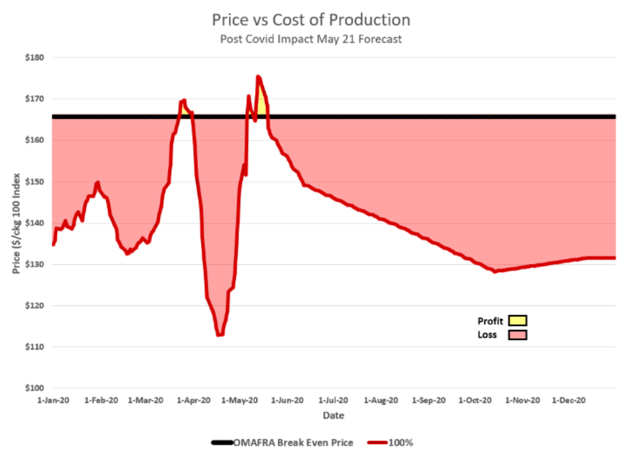
The COVID-19 impact has been severe on producers. At a time when producers should have been experiencing seasonally high profit margins, they were suffering the deepest losses they have seen in recent memory.

The graph on the right provides an overview of profit margins for a typical Canadian farrow to finish pork producer. It highlights the significant deterioration in margins as the pork sector has faced increased pressures from the volatile global economy.



The two graphs below highlight the impact of COVID-19 on pork producers based on an Ontario Ministry of Agriculture and Rural Affairs calculation of a producer's breakeven price versus the price they receive from the market in 2020. The graph on the left is based on the projection made in January. The chart on the right is the revised projection they made in May.





While pork producers should have expected positive returns for roughly six months in 2020, they have been left with 11 months of losses, some of which are very severe.

Response of the Existing Suite

Despite the significant losses and the hurt it is causing Canadian farm families, the existing suite of BRM programs isn't doing enough to help pork producers.

There is an often-repeated claim that because governments spend $1.6 billion on BRM programs that farmers have the support that they need to deal with the challenges they face. However, COVID-19 has underscored how that is simply not correct.

The lack of available data challenges in-depth analysis of the suite by industry. Unfortunately, FPT governments limit the information they make available to the industry. However, notwithstanding the lack of readily available data, there are some very evident problems in the current program design.

AgriInsurance

More than half of the funding for business risk management goes to subsidize crop insurance premiums. This investment does little to support livestock and other sectors outside grains and oilseeds and has done nothing to help farmers as they struggle through the COVID-19 crisis. At a time when farmers need urgent help, there should be questions asked about how this $1 billion is being invested, including questions about how premium rates are set and the financial impacts of the large reserves being held by crop insurance providers.

AgriInvest

AgriInvest is supported by farmers as it is one of the few programs that is predictable, bankable, and timely. However, it is also a program that pays farmers regardless of need. This results in a scenario where some farmers have accumulated a positive balance in their accounts. When governments speak to the funds in the accounts, it creates the perception that support is available to producers. However, it masks the reality that most farmers, including most pork producers, require the funds as soon as they are available. For pork producers that have managed to build a reserve, it represents less than 2% of their cash expenses

AgriRecovery

AgriRecovery, which is not a program (it's just a framework), hasn't worked. The process around initiating a request, the limited scope of what it can cover, its retroactive focus and lack of transparency, limit its effectiveness as a useful tool for farmers. While governments call it a disaster program and COVID-19 has been one of the largest disasters to impact Canadian pork producers in recent memory, AgriRecovery has offered little.

AgriStability

Finally, AgriStability is a broken program. Governments of all stripes have cut the program, turning it into a meaningless risk management tool. While the program may pay out in disaster scenarios, the unpredictability, complexity, and challenges around timeliness, have pushed farmers away from it.

The combination of a $3 million per farm cap and the reference margin limit means the program struggles to meet the needs of both larger farms and smaller diversified operations. It neither helps to manage a disaster or stabilize incomes.

Today, if a farmer with a historic margin of $100,000 sees their margin decline to $55,000, AgriStability will only offer $10,500 in support. The farmer is left to cover 77% of the loss on their own. They may also only have that support in-hand a year after the damage has been done.

Interim payments are intended to provide a timelier response. However, their complexity, the challenges of overpayments, and negative experiences with advances in the past, have resulted in farmers avoiding applying for an interim payment.

Short term solutions

In an ideal world, governments and producers could take years to come up with fixes to the suite of BRM programs. Unfortunately, years have already been spent talking about the issues and COVID-19 has underscored the need to act. Governments must now move quickly to fix AgriStability.

The Canadian Pork Council recommends the following targeted enhancements to AgriStability:

1. **Increase the payment trigger to 85%**
2. **Remove the caps**
3. **Remove Reference Margin Limiting**

These changes could be implemented as short term enhancements to AgriStability for the remaining 2 years of the Canadian Agricultural Partners to support the sector as it recovers from COVID-19.

The industry has been told that now that FPT governments are considering making these changes but they cannot agree on who should pay, or how to pay, for the fix.

Farmers do not care if costs are split 60/40 as usual or paid 90% by the Federal Government. What matters is that the changes are made.

It is important to highlight that AgriStability only costs money if a farmer needs it. And even with these changes' farmers are still going to bear the burden for most of the loss.

<u>BRM and ASF</u>

African Swine Fever is a disease that has caused farmers significant financial harm when it has been detected. The financial consequences are because of border closures, the cost of stamping out the presence of the virus and the cost of recovery.

The consequences of an ASF would be extremely damaging to Canadian pork producers due to the export-dependent nature of the sector.

Pork producers are concerned that the BRM suite cannot manage the marketplace collapse that will result from the closure of Canada's export markets in response to an outbreak of ASF. In 2016 AgriStability paid out $509 million across all eligible commodities. An ASF outbreak in the pork sector would cost the pork sector billions.

The relatively recent example of a similar situation, the outbreak of bovine spongiform encephalopathy and the closure of borders to Canadian beef, required billions in additional support, at a time when the AgriStability trigger was 85%. The hole for pork producers today would be even greater given the limited scope of AgriStability.

Industry representatives have been working with government officials to explore what additional response programming will be required to manage an outbreak of ASF and the resulting loss of exports markets.

The market closure will result in an immediate oversupply of live hogs that must be rapidly managed. Unlike cattle or grain, pigs cannot be sent to pasture or stored in bins. The size of the herd will need to be rapidly decreased to match the anticipated domestic market demand.

Both AgriStability and AgriRecovery will be very limited in how they can respond to ASF.

The pork industry needs the government to continue to work with it to develop a stand-alone response so that it can be implemented quickly if ASF is detected.

Looking to the future

While the urgent need is for enhancements to AgriStability, it is important to continue to consider other changes to the way Canada protects its farmers, food security and rural communities.

While there has been a focus for years about fixing AgriStability there are other options that are available and that should be considered.

For example, hog farmers could be better served by a backstop for a hedging program. Being better able to use futures markets could have let farmers lock in profitability for parts of 2020.

About the Canadian Pork Council

The Canadian Pork Council represents 6,000 pork producers from across Canada. Canada's pork producers are Canada's diversified agricultural sector. Canadian pork producers are diversified in where they are, with farms located from coast to coast. Canadian pork producers are diversified in who they are, with farmers of all ages and farms of all sizes. Canadian pork processors are diversified in who they are and where they are located. And the Canadian pork value chain is diversified in the markets it sells to, producing pork and pork products for Canadians and markets all around the world.

Canada's Pork Producers

Number of Farms	6,000	On-farm jobs	31,000
Number of Hogs Marketed	27 million	Feed Consumption	10 million tonnes
Value of Farm Cash Receipts	$5 billion	Live hogs exported	5,000,000

Canada's Pork Industry

Pork produced annually	1.93 million tonnes	Pork exported	1.15 million tonnes
Direct jobs	18,000	Value of exports	$3.71 billion
GDP/vale added to the economy	$1.9 billion	Number of export destinations	92 countries