



Canadian Pork Council
Conseil canadien du porc

SUBMISSION FOR THE PRE-BUDGET CONSULTATIONS IN ADVANCE OF THE UPCOMING FEDERAL BUDGET

- Recommendation 1:** That the government protect the viability of Canada's pork industry by offering emergency liquidity support for pork producers that are under extreme financial pressure because of COVID-19.
- Recommendation 2:** That the government make targeted improvements to AgriStability so that the program will respond as increased risk and volatility push producers into a financial disaster.
- Recommendation 3:** That the government invest in a 3 year \$50 million African swine fever (ASF) pandemic prevention plan to protect the pork value chain against the immediate threat of a disease which would have a devastating impact on Canadian farm families, food security, biodiversity and the economy.
- Recommendation 4:** That the government establishes the Canadian Pork Promotion and Research Agency to support the long-term growth and competitiveness of Canadian pork producers.

Introduction:

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

Pork producers operate in an export-dependent sector. 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 processed products, to more than 90 countries around the world and contributes 25 billion to the economy.

As a result, most Canadian pigs are sold on US-based prices. US-based pricing means that even if Canadian market fundamentals are positive when prices fall in the US they fall in Canada too.

In a healthy trade environment, this can be beneficial for Canadian farmers. However, recent events have brought increased unpredictability to global markets, leading to significant losses for Canadian pork producers.

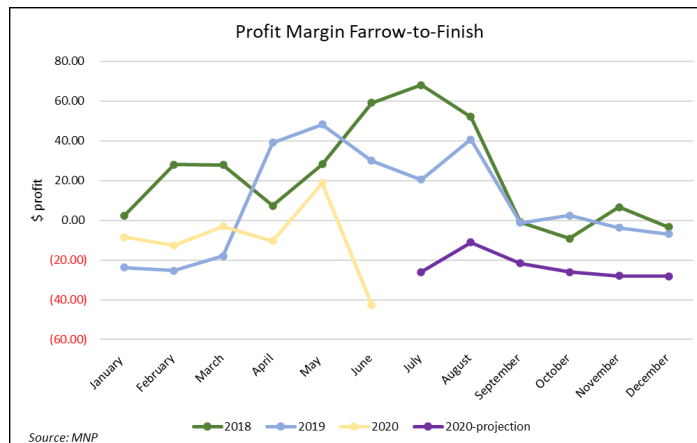
Examples of events negatively impacting Canadian pork producers include the following:

- In 2018, the China-US trade war led to a 37% drop in prices from August to September. Because the prices Canadian Pork producers get for their pigs are based on the US pricing system, Canadian producers lost more than \$40/ pig.
- In June 2019, China suspended Canadian pork imports for reasons outside of pork producers' control. Canadian pork exports to China dropped from an average of \$84 million per month in May to less than \$1 million in July.
- The rapid expansion of US hog production in the last 24 months has driven down Canadian and American live hog prices.
- 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 (\$10.30 and \$14.50 in Canadian dollars).
- In April 2020, the USDA announced its first round of COVID-19 support to producers. With a total envelope of US\$16 billion, it will pay pork producers up to \$45/hog (\$60CDN).

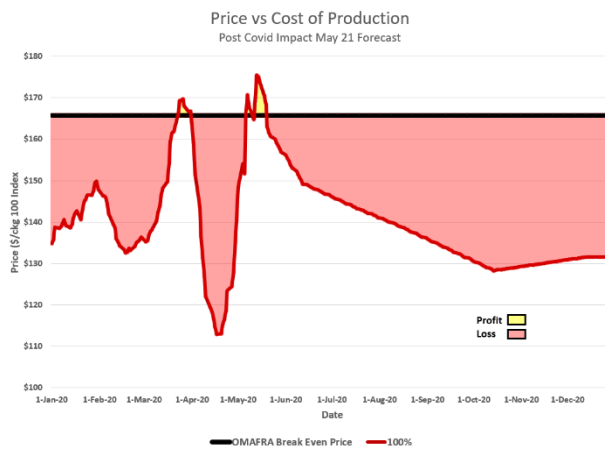
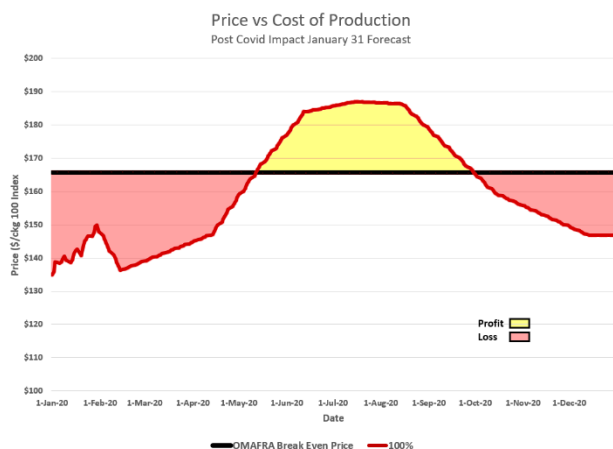
The COVID-19 impact has been severe on producers. At a time when producers should have been experiencing seasonally high-profit margins, they were suffering the deepest losses they have seen in recent memory.

COVID-19 has forced producers into some of the steepest, most profound declines the market has ever recorded. Forecasts made in June 2020 project that pork producers will lose \$20/hog for every hog they sell in 2020. Across the country, this means that producers will lose more than \$500 million. Those forecasts predict that producers will only make money on the hogs they sold in May and will lose money during the remaining 11 months.

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.



Producers are in a cash crisis

The pandemic has pushed some pork producers into an extremely negative financial position. While some producers have been able to mitigate the impacts of the volatility and loss, a significant number do not have access to the tools they need to manage this unprecedented situation.

Some programs are helpful to producers, but others, including the AgriStability Interim Advances, are not. The lack of a targeted response has left some producers facing a cash crisis that risks forcing a large number of Canadian farm families out of pork production.

To prevent the devastating consequences of a mass exit of producers and a rationalization of Canadian pork production, the federal government must move quickly to implement emergency liquidity support through a targeted payment to producers.

The emergency support needs to be:

- Targeted to those producers facing significant loss and at risk of leaving the sector.
- Available soon. Producers have faced months of extreme losses that are not sustainable.
- Significant enough to give producers time to recover. Some producers need emergency support of \$20/hog or higher.

Using the governments' Canadian Emergency Wage Subsidy as an example, the government could make a \$20/hog payment for every hog sold in a quarter if a producer experiences a revenue drop of 30% or more compared to the previous year.

Recommendation 1: That the government protects the viability of Canada's pork industry by offering emergency liquidity support for pork producers that are under extreme financial pressure because of COVID-19.

Managing volatility and risk going forward

In addition to significant losses, the COVID-19 pandemic has brought Canada's pork producers increased risk and volatility for the foreseeable future.

The government's risk management program suite, including the AgriStability program, is supposed to be an emergency backstop that would allow producers to continue producing food despite unprecedented volatility in the marketplace.

Unfortunately, AgriStability is a broken program. It is not effective in helping pork producers manage risk as they produce the high-quality, affordable protein that Canadian families want and need.

Targeted enhancements can fix some of AgriStability's problems.

Raising the payment trigger to 85% will give producers the confidence that the program will be there when they need it. An 85% trigger will mean that producers do not need to wait until they are pushed to the brink before AgriStability kicks in.

Pork producers believe there are other ways to fix AgriStability. For example, if the payment trigger is left at 70% but the compensation rate is increased to 85% it will help provide adequate support when producers need it most. This approach provides additional support to producers while respecting the core of the program's identity as a disaster measure, respecting Canada's trade obligations and has a lower cost than increasing the payment trigger.

Given the crisis pork producers are facing, these critical, targeted changes must, at a minimum, be made for the remaining two years of the Canadian Agricultural Partnership program.

Recommendation 2: That the government makes targeted improvements to AgriStability so that the program will respond as increased risk and volatility push producers into a financial disaster.

Preventing a pork pandemic

COVID-19 has shown the impact that a foreign disease can have on Canada. The Canadian pork industry faces a more significant threat due to the potential incursion of African swine fever (ASF). ASF, a contagious virus that kills pigs, would have a devastating impact on the sector. If ASF was detected in Canada, it would decimate a 25-billion-dollar industry and lead to billions of dollars in losses for farm families, processors and the hundred thousand Canadians employed in the pork value chain.

The disease is not in Canada but is spreading in Asia and Europe.

Producers, processors and governments are working together to ensure Canada is prepared, but there is a lot more to be done. Producers need government support for the following:

1. Biosecurity:

The most critical thing that Canada can do to prevent an outbreak or limit the spread of ASF is to strengthen on-farm biosecurity. Producers need:

- Funding to assist them in transitioning to PigSAFE | PigCARE, to engage biosecurity experts to audit on farm practises and develop individualized action plans that will serve to guide them in enhancing their biosecurity programs.
- Funding to support the adoption of the priorities identified during the biosecurity audit.

2. Traceability:

The traceability system underpins Canada's response and recovery strategy and must be strengthened. The Canadian Pork Council needs funding to work with the Canadian Food Inspection Agency to:

- Improve data quality, coverage and enable more timely reporting.
- Make it easier for responders to extract data to facilitate the rapid deployment of response teams to key farms.
- Implement system improvements to bring in the required human and computing resources.

3. Response programming:

If there is an ASF outbreak, the supply chain will grind to a halt as borders close on Day 1. This will create immediate animal welfare, environmental, financial, and mental health crises on farms across the country.

The existing Business Risk Management suite is not designed to manage a crisis of this magnitude. Producers need the federal government to fully fund efforts to research and develop programs that can be quickly deployed should ASF be found in Canada.

4. Communications:

Since August 2018, industry and government have been disseminating awareness and prevention messaging. The government and industry need to work together to develop and communicate messages to domestic and international consumers to reassure them that Canadian pork is safe.

5. Small Scale Producers:

Small scale, outdoor producers, especially those that do not maintain biosecurity best practices, present a unique challenge preventing and responding to an outbreak. Funding is necessary to ensure small-scale producers are aware of their responsibilities, have access to appropriate training and take the measures required to control their animals and limit the potential spread of ASF.

6. Research:

While knowledge of ASF is increasing, additional investment in research and innovation is required. Surveillance, disease modelling, and mass euthanasia and disposal methods have been identified as key factors for which solutions are not readily apparent.

Wild pigs, an invasive species, pose not only a risk to the environment but also to the security of the pork supply. A comprehensive, national eradication strategy—supported by solid research—is required if this risk is to be addressed.

7. Chief ASF Officer:

Canadian producers and government officials have taken on leadership roles; however, it has become clear that a single, knowledgeable, well-respected champion must be engaged to serve as the focal point for the ASF Action Plan.

The government should fund the appointment of a Chief ASF Officer for a minimum of three years, to lead an efficient, effective, industry-government implementation of the ASF Action Plan.

Recommendation 3: That the government invests in a 3 year \$50 million African swine fever (ASF) pandemic prevention plan to protect the pork value chain against the immediate threat of a disease which would have a devastating impact on Canadian farm families, food security, biodiversity and the economy.

Increasing long-term competitiveness

It has been more than five years since the Canadian Pork Council submitted the proposal for a Canadian Pork Promotion and Research Agency (PRA) to the Federal Government. A PRA will help strengthen domestic and international markets, optimize production efficiencies, and enhance financial returns from the marketplace for the entire value chain. Producers already fund an extensive series of market promotion, market development and research activities, but more needs to be done.

The proclamation was published in Canada Gazette 1 in March, but there has been little progress since. Making the establishment of the Canadian Pork PRA a priority for the government is a small step that can make a big difference for Canada's pork industry.

Recommendation 4: That the government establishes the Canadian Pork Promotion and Research Agency to support the long-term growth and competitiveness of Canadian pork producers.
