The Canadian swine industry and the role of the veterinarian

Moderator: Bob Morrison
Participants: Jane Carpenter, Ontario; Camille Moore, Quebec; Neil Shantz, Saskatchewan

The Canadian industry produces 14-15 million pigs a year (Figure 1). Recently, *Swine Health and Production* editor Bob Morrison met with three prominent Canadian practitioners, Drs. Jane Carpenter, Camille Moore, and Neil Shantz, to discuss their views on the state of the Canadian swine industry.

What are the recent changes in Canadian subsidization policy?

Neil: As of July 1994, the federal tripartite program that served to stabilize the Canadian swine industry was discontinued. This program was funded by a three-way premium split among the producers, the provincial governments, and the federal government. It was a zero-sum program, so that when prices were up, money was put into the coffers, and when prices were down, money was taken out of the coffers. But because producers ultimately received $3 for every dollar they contributed, it was a subsidy program.

Right now, Canadian grain producers are subsidized at about 33% of their returns on a metric ton of wheat. Crowe rates encourage grain farmers to ship their grain out of the province to the eastern or Pacific Coast provinces. The Crowe rates will probably be removed from the support of the railroads and a part of the benefits will be passed onto the grain producers to support their transportation costs. The subsidy may be eventually lost completely, due to the national debt. If this subsidy program should be discontinued, farmers in Saskatchewan may have to pay a third of what they receive per metric ton of wheat to send their grain out of the province. This will undoubtedly provide a significant incentive for western grain farmers to go into the pig business.

In the meantime, the western Canadian wheat farmer will continue to profit from the United States export policy. For example, Durham wheat was exported into the United States last year because the United States sold all its high-quality wheat to other countries, making it necessary to import Canadian wheat to keep up with domestic production in the pasta industry. As long as the United States continues its aggressive export mentality, Canadian wheat, beef, and pork producers will have a place to market their product.

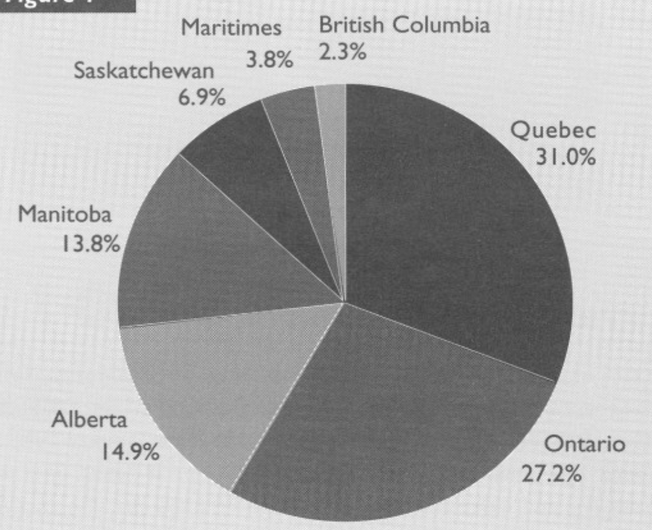
Camille: In the past, we used to pay a duty on corn imported from the United States. The duty was removed 2 years ago. Now, our corn prices follow United States corn prices plus transportation costs.

What are some of the regional differences in Canada?

Neil: There are some true differences in the economics of the industries in each region because of the strengths of each region. In the West, the strengths lie in the abundance of feed and the subsidizations we receive from moving the grain we produce into the central regions of Canada. Western pork producers have never had the opportunity to feel the true benefit of the huge local grain supply, because of the transportation subsidy mentioned earlier.

Camille: Quebec is more than 90% self-sufficient in cereal grains; probably 95% in average years and this year, with the good crop, 100% self-sufficient. If production in the West should increase, our strong eastern packing industry will probably intensify their efforts to find a niche in the export market. In terms of overall global swine production, previously strong export countries like Denmark and Holland are beginning to experience a lot of pressure from environmental regulations. This will increase the market share for Canadian pork exports. If western farmers start to increase their production of pork, they will be able to do it more cheaply than we can in Quebec, but because we have a strong packing and production industry in the east, and one that understands the export market, we should be able to continue to hold our own.

Figure 1



Hog marketings by region (% of total)

Alberta and Manitoba are planning to double their pork production in the next 5 years. Quebec will not be able to double its production, but our production has increased by 2%–3% every year in the past 5 years, and I think we can maintain that increase.

Like North Carolina, we are also close to a huge population center in the eastern provinces and the eastern states. North Carolina is producing more pigs and is looking toward the same markets on which we have traditionally focused our exporting efforts.

A lot of eastern Canadian pork is exported after processing. We have worked hard to export a product with an added value. Eastern processors cannot get all the carcasses they need from Quebec pigs. They are importing 20% of their bellies to keep their plants at capacity. Some of this is coming from the United States.

Neil: I agree with Camille that the strength of the East is the packing industry. The packing industry in the West is extremely weak. The West's export market, in contrast, has traditionally relied on live animals or carcasses into Mexico and California. Because the western economy has been so monopolized by exporting grains across the world, the livestock industry has not had the even production schedule that would allow packers the consistency and confidence they would require to invest heavily in the western swine industry. The packing industry doesn't believe that the western swine production increase will be sustained.

Camille: If a producer in western Canada has a choice, he will always export the grain rather than produce pigs. It is simply the lifestyle of choice in the West. We will see major expansion of swine industry among grain farmers only if people are forced into it. It is not in their mentality.

Neil: I agree, Camille. But in the investor-barn phenomenon we have seen in Saskatchewan, many grain farmers with large savings have already started to see that writing on the wall. There will be a major shift. The major obstacles to expansion will be lack of people and financing. The Saskatchewan marketing board is facilitating the producers in creating an equity investment fund that is hoping to draw on mutual funds from Toronto, Montreal, from growth funds even from within the province, and from pension funds to assist in the financing of these barns. Finances are the number-one limitation to expansion in the West. The mentality has been monoculture, because it allows farmers to have a very attractive lifestyle.

Jane: In the past few years in Ontario, there has been a steady decrease in the number of hogs marketed per week. It is now 60,000–70,000 a week from about 85,000–90,000 a week a few years ago. There has been a change in the way pigs are being sold. There is more contract finishing with packing plants. Some packing plants are running below capacity. These packing plants will try to drive production up to get their plants running at capacity. There has been some Manitoba pork coming into the Ontario packing plants.

The price of pork in Ontario right now is based on a formula price. It follows the Indiana and Illinois price, and we see a reflection of what is happening to prices in the United States in Ontario.

How many pigs are going South to be finished?

Jane: We have certainly taken advantage of some of the opportunities for feeder pig sales to the United States. This has been related to the price you could get for a feeder pig in Ontario and the exchange rate between United States and Canadian currency. This has been mostly direct sales, but there is a move in the direction of contracts. The reason Ontario is selling pigs South is because we don't have the space to finish them. If we had the opportunity to finish them, we probably would be doing that. Depending on how many pigs you can offer for sale at one time and the health status of those pigs, you can receive more money selling pigs South than building new facilities to finish them yourself.

Neil: Without getting into hedging the dollar, most Canadian producers consider it unwise to enter into long-term contracts with United States producers because their profitablity depends on the strength of the US dollar.

Jane: Now in Ontario there is an expansion generated by packing plants entering into contractual arrangements with producers. Producers may be getting a premium on transportation costs, or a feed mill is made part of the arrangement. There is a real change going on in how pigs are marketed and the formulas used, as well as the weight of pigs being marketed. There used to be a penalty for pigs that dressed over 85 kg, and now we have seen the packing industry adopt a heavier grid. We can now ship up to 245 lb (90 kg dressed weight). Producers have been only partly able to respond to these changes — they don't always have the facilities to keep pigs to that heavier weight. Right now there is a heavier grid and a lighter grid to sell on.

Neil: Manitoba is also sending pigs South to be finished. This summer, because western producers had a lack of packing capacity, we were able to sell market pigs to Ontario and Quebec for \$7–\$8 more than we could get for them in the West. This is a reflection of the weakness of the western packer system and possibly the marketing system.

What are marketing boards?

Camille: Marketing boards are organizations that are driven by producers (theoretically)—in the West, they have been in existence for 20 years, but in Quebec only 6 years. There is no direct relationship between producers and packing plants. The board serves as the agency/go-between to sell the pigs to plants. They distribute the profits equally among participating producers—producers get no benefit for producing more pigs. They only get a quality premium. Prices vary day by day but the prices the producers receive is equalized over the week. Eighty percent of hogs sold on a day are equally distributed to all packing plants based on their buying history. The remaining 20% of hogs are sold among packing plants at auction—and the prices on those remaining 20% can be 30%–40% higher. In Quebec, these marketing boards are nonprofit and owned by the producers. They charge a fee for their services. They tend to become a bureaucratic mess.

Neil: In the West, the marketing boards have been facilitating their own organization, and the packer is often bidding on shorter-term contracts (3–6 months). When packers bid on their pigs, they are not able to specify the quality of pigs they are buying from the marketing board. The pigs are a heterogenous group. This means the quality of pigs packers have to work with is highly variable. With the marketing-board system, the high-quality carcass is being underpaid and the low-quality carcass is being overpaid. In Saskatchewan, 3% of producers are producing 50% of the pork, and they see themselves as "carrying" the rest of the industry. This has thrown the western packing industry into chaos. I work with six to eight of the largest producers that market off-board. Provincial legislation gives the boards the power to market all pigs. There will probably be lawsuits between producers and the marketing boards in the not-too-distant future. In the West, we won't see a true expansion in the packing industry until something is done to resolve these problems in the marketing system.

Jane: Another problem with the boards is that they give equal representation to all producer participants. That means that a producer marketing 1000 pigs per week has the same say as the producer marketing 10 pigs per week. A lot of energy is spent on internal politics of big versus little in the producer segment, which slows progress for the entire industry.

How does the Canadian industry compare to the United States industry?

Strengths

Jane: One of the strengths of the Canadian industry is its health status. For example, we are PRV-negative. This is important because there is a cost associated with the United States eradication program. We don't have to deal with compliance problems or the possibility that feral pigs are harboring the disease and reintroducing it.

Neil: In the West, where there are very few pigs, we have had the privilege of taking that health status even further. Almost 70% of the production I see is *Mycoplasma hyopneumoniae*-free. This has allowed feed efficiency and production efficiency that is better than you see in hog-dense regions. The British breeding companies came West first, in the early 1970s and mid-1980s, and so that higher-quality genetics has had a significant impact on 90% of our production in Saskatchewan.

Camille: In Quebec, because the cost of production is higher than in the United States, we have been forced to become more efficient than American producers. We have established a labor force that can keep up with the efficient system.

Neil: In the prairie provinces, the Hutterite community has contributed to efficiency in production. Hutterites represent 40% of pig production in the three prairie provinces. They have traditionally been geared to good husbandry and efficiency.

Camille: Another reason for our higher health status is the amount of land available—a large land mass with a relatively low population. It allows us to put pigs in a safer location and control the health status of our pigs.

Canada also has the advantage of a better reputation in the export market than the United States has. Even though a lot of United States companies are producing a better product now than in the past, Mexico and Japan both prefer Canadian pork to United States pork based on reputation.

Neil: Saskatchewan exports two-thirds of its pork production. We have very few mouths to feed out West.

Weaknesses

Neil: Across Canada, building costs are higher than in the United States. We love our climate, but. . .

Camille: In Quebec, building costs are pretty equivalent to those in the upper midwest, but no one in Canada can compete with the building costs of the southeastern United States. Grain prices in Eastern Canada are higher than United States grain prices for pork producers.

How does the Canadian cost of production compare to that in the United States?

Neil: Cash costs of production for the best western producers would be about US$65-$70 per pig, including depreciation ($90 Canadian). The average income is about US$91 per pig. We are paying $9.50 more than the current price in the midwest for soybean meal. We have tremendous access to protein both from soybean meal and from canola meal.

Camille: In Quebec, the cost of production averages between US$90-$100 per pig (including depreciation). So you can see that there is a large regional difference. We receive US$95-$105 per pig on the average.

Neil: That's why a packer in Quebec can give our producers a $7-$8 premium and freight those pigs all the way to Quebec or Ontario, and that's happening right now. I just heard last week that a broker out of Alberta was moving 17 semi loads per week into one packer in Ontario.

Our goal is to develop the packing industry. Westerners feel that as they increase production and perhaps alter the marketing system, they'll be able to attract packers into the region. So, we in the West are very optimistic for the Canadian industry. We have been so resilient in the past., and when we look at the advantages that the United States or eastern Canada has had over us, they have been mostly political in nature. If we can solve these political problems, we feel that we have nothing but opportunity.

Jane: We in Ontario are optimistic that we can compete with the West and the United States. The Agrimetrics program has indicated that our operating efficiency is competitive with the United States and western Canada. We are doing very well in terms of reproductive efficiency and finishing house performance. We have been at a disadvantage based on price compared to the United States.

Camille: Quebec is optimistic because of opportunities in international trade. Eastern Europe will be a new market for meat. Western Europe will have increasing production concerns, leaving room in the market; Canada can move in to fill that demand. We are also optimistic with the way our industry is being restructured. With GATT, etc., and quotas on dairy and poultry, we are not forecasting any increase in dairy or poultry production, so the only place left available to expand is in hog production. This means capital and people will be available for this expansion.

Neil: In the West, because of our strength in beef and pork, we are just waiting for NAFTA .

Camille: NAFTA will be positive for us, especially with the Mexican market. Mexicans will be producing a lot of pigs in 15–20 years, but in the meantime, there will be a lot of opportunities to market Canadian pork in Mexico.

How will the changing industry affect veterinarians coming out of school?

Jane: Guelph University has gone from five swine faculty positions to one. I have tried to stimulate interest in some fourth-year students in the swine industry. Its difficult to say what will happen in the next 4–5 years. Is there enough commitment within vet schools for swine? Will the curriculum change to make the swine industry an elective like pet birds?

Neil: There are opportunities for vets to be involved in an integrated agribusiness. They are not giving vets the training in financial analysis, only in disease. In the West, it's ironic that vets are being allowed the opportunity to participate in the swine industry to a greater extent than ever. In vet school, the curriculum is a general disease course and that's OK. Industry will provide the specialized training. Continuing education will play a vital role. Different vet colleges will end up specializing in different industries. At the management/technical/leader level, there will be more positions available than there are now.

Camille: In the East, vets can participate in vertically integrated agribusinesses. The strength in the DVM course should be a problem-solving approach. I agree that industry will teach the specialized skills. At the University of Montreal, the curriculum will change completely. Now all that is required is 2 years of college and then students go directly into vet school. That will be changed and after 2 years of college, students will have to do 1 year of a pre-vet basics course. The curriculum will be 5 years, more oriented to problem-solving and individual work, as is the recommendation of the PEW committee. The four Canadian vet schools in Canada met together and tried to assign specializations to the schools. Montreal was assigned to become strong in swine.

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