Make Informed Decisions

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Expect Tariffs on Hogs and Pork

Livestock and meat industry members can easily think of at least five or ten good reasons why Donald Trump will not impose 25% tariffs on Canadian and Mexican imports. Those good arguments against tariffs include the threat of retaliation; the U.S. inflationary impacts; the costs to U.S. supply chains; and U.S. industry opposition.

The High Probability of Tariffs

Regardless of the strength of those points and any others, I expect that there will be tariffs imposed. For Trump, this is not an economic or trade issue, it is a security issue.

As noted in The Wall Street Journal, December 15, "Donald Trump's tariff threats have triggered a behind-the-scenes lobbying campaign to soften or alter the president-elect's plans. But the effort faces a potentially insurmountable roadblock: Trump isn't budging. That has left business executives scratching their heads about how to lobby for exemptions from the steep tariffs Trump has promised on imports from China, Canada, Mexico and other countries. Trump's team has told corporate consultants there is no waving the president-elect off his plans to make liberal use of tariff s once he gets into office."

If serious and influential U.S. forces won't get him to move, there is no way Canadians will. The way to forestall the tariffs would require our federal government to act in a mature and competent manner regarding border security. So therefore, there will be tariffs; it is just a matter of how long they will be in place.

Who Pays?

Tariffs are a tax on imported goods. The tax is paid by the importer. The U.S. packer buyer of Canadian market hogs or the U.S. integrator that purchases prairie weaner pigs will be responsible for forwarding the 25% tariff to the U.S. government. The U.S. further processor that purchases Canadian picnics or the U.S. distributor that purchases Canadian loins will have to remit the 25% tariff.

Beyond that technical or transactional component of the tariff, the real question is who will take the loss on the transaction. Given the supply-demand and competitive dynamics, there is little probability that the tariff is going to be passed along the chain in the form of higher prices to consumers, at least in the short run. In economics, the short run denotes a period where at least one input is fixed, limiting a firm's ability to adjust its production capacity fully (Investopedia). For here, let's call the short run one year. Eventually the consumer will pay, but in the short run, the trader(s) will pay.

The question then becomes whether the Canadian seller or the U.S. buyer must absorb the 25% tariff out of the margin. Will the buyer or seller take the margin hit? That will depend on the relative state of supply and demand and market leverage. One side could absorb the full magnitude or there will be a mix of margin loss on both buyer and seller.

Those considerations apply to spot market, contractual and formula transactions. There are also going to be circumstances where either buyer or seller will want to nullify or renegotiate contracts considering the tariff. New forms of contractual and negotiating creativity will emerge.

Hogs Will Flow

In the case of market hogs and weaners, the pigs are going to flow across the border, regardless of the tariff, at least in the short run. Weaner and feeder pigs are in strong demand now, which augers well for seller leverage. Most sellers have no options, other than the U.S. Prairie businesses are built on that relationship. In the case of weaners and feeders, therefore it is likely that most of the 25% tariff will come out of the seller margin. The strong pricing and weaker C$ will help to ease that pain for sellers.

In that case of market hogs, Canadian seller leverage is also poor given the eastern Canadian packing situation. With that noted, the U.S. packers that are working with Canadian hogs are not able to cut off the flow. They will likely take part of the tariff margin hit on their Canadian purchases, at least in the short run.

As noted here often, the flow of market hogs to the U.S. is not the preferred option of Canadian sellers. Border and transport costs as well as the longer term border transactional risk make U.S. sales a second choice. With that said, it does appear to be working from Ontario operations into nearby Michigan and Ohio packers. In other words, it is proving to be a sustainable, if more costly option for Ontario producers.

In the unlikely event that the tariff stays in place for a year or more (long run), then both the market hog and weaner trade would probably prove unsustainable. The market hog export transaction is already tight. The 25% tariff puts it off the table in terms of viability over the long run. The same is true for weaners. Sellers cannot sustain a 25% margin hit on their main business. The Canadian sow herd would probably downsize over the next two years (long run adjustment) by the amount that goes live to the U.S.

Pork Less Vulnerable

In the case of the pork flow, the shorter term transactional dealings would be like that of the live hogs. Buyers and sellers are already getting their negotiating tactics and options in place. Canadian packers negotiating leverage is probably less than the buyer side, generally. They are, however, less vulnerable in terms of sales options than their producer counterparts. Furthermore, there are long standing sales and supply relationships that have been built over many years. These relationships are based on specifications and other logistical as well as market factors. Buyers in the U.S. won't always be able to turn on a dime and change suppliers away from Canada. Nevertheless, Canadian packers would probably take a notable margin hit on U.S. sales whether spot, formula or contract.

With that said, over the last 12+ years, the U.S. has only represented about 30% of Canadian pork exports. The U.S. also represents about 85% of Canadian pork imports. Those imports would probably be sharply curtailed in the event of the pending trade dispute. It is reasonable to assume a retaliatory tariff would be applied to U.S. pork. Even if there are no retaliatory tariffs, it is likely that the suddenly more available Canadian supplies would take the place of U.S. imports. On a net export basis, therefore, the U.S. only represents about 8-10% of Canadian production. Canadian pork packers have options other than the U.S.

Canadian pork packers would be greatly harmed by the dispute, but they are less U.S. dependent than their beef counterparts. The U.S. represents about 80-85% of Canadian beef exports. Net U.S. beef exports after U.S. imports represent about 20-25% of Canadian beef production. I have argued that there is a risk of Canadian beef plants going dark for a day a week due to this dispute. That is not likely for Canadian pork packers.

Impacts Vary Regionally and by Company

It is important to note that the above discussion is a big picture Canadian perspective. There are regional and company specific differences that make the transactions more or less negatively impacted by the tariffs. Some exporters will have more leverage than others. Some exporters have more options than others. Some exporters have longer standing market ties that won't be broke, in the short run.

Few traders on either side of the border want these tariffs. Nevertheless, the prospects of tariffs are real. Both buyers and sellers should expect them and plan accordingly.

A version of this note first appeared in the Canadian Pork Market Report, December 16, 2024. If you would like a free trial to the report, email, kevin@kevingrier.com

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