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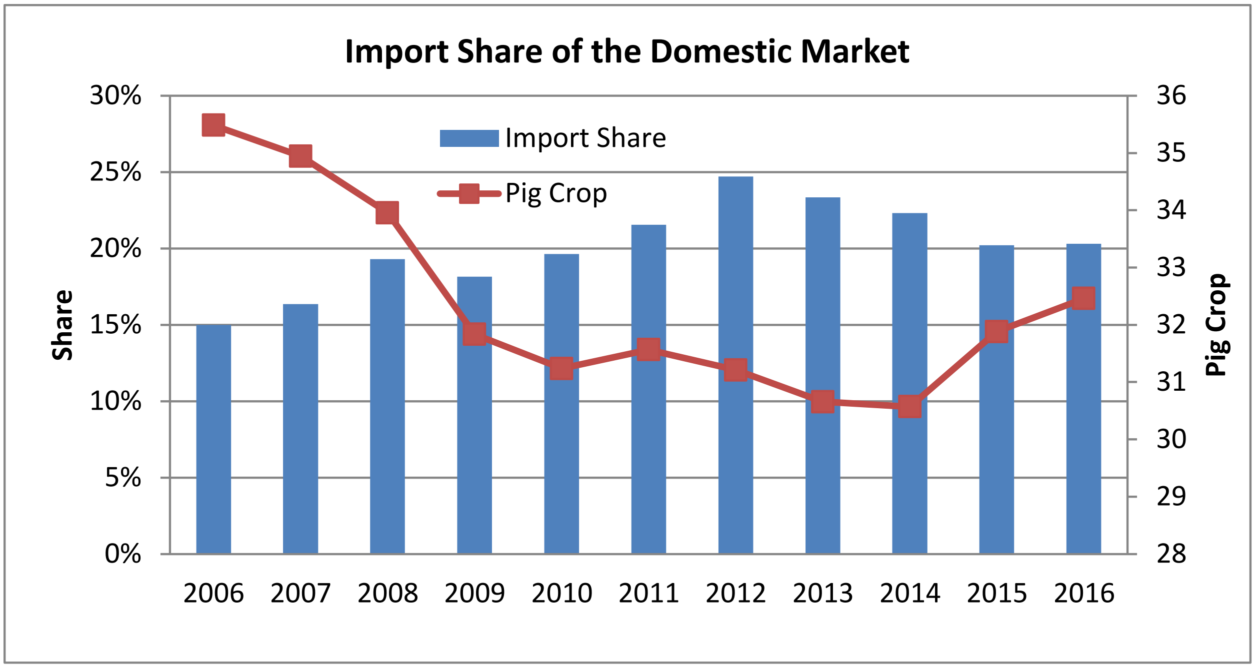
Is the Canadian Pork Industry Competitive?

By Kevin Grier, January 2017

It is a regular occurrence to hear pork industry leaders, government and academics claim that the Canadian industry can't compete with the Brazilians, Euros or Americans. As a result of the lack of competitiveness, the call is usually to turn to schemes like Brand Canada, Traceability or niche markets as a way to compensate. Regardless of the merits or not of those types of schemes, I question the lead assumption that Canada cannot compete. Where is that evidence of a lack of competitiveness?

As a starting point, Canada is the seventh largest pork producer in the world. Prior to the rapid growth in production in Vietnam and Russia, it was the fifth largest. From 2000-2015, the Canadian industry's pork production has grown at an annual rate of about 1.5% each year. That is less than the global growth of 1.8% and U.S. growth of 1.7% but far in excess of EU growth of 0.5%. The point is that Canada is a growing global pork leader now and it has been for many years. The fact that it is growing despite the financial trauma of the 2006-2012 period is testimony to the industry's robustness.

The George Morris Centre used to define competitiveness as the ability to profitably grow or maintain market share. With regard to domestic market share, imports currently comprise about 20% of Canadian pork consumption. The U.S. represents about 90% of Canadian imports. In 2012 the share was about 25% and in 2006 the share was 15%. The import share is at least in part, a reflection of the state of the herd. In 2006 when the pork import share was very low, the Canadian herd was near its peak. In 2012 when import shares were high, the herd it had dipped to a low. Over the 11 years from 2006 through 2016 the share averaged 20%, right where it is in 2016. As such while there are ebbs and flows, the industry is clearly able to hold its domestic share against U.S. pork imports.

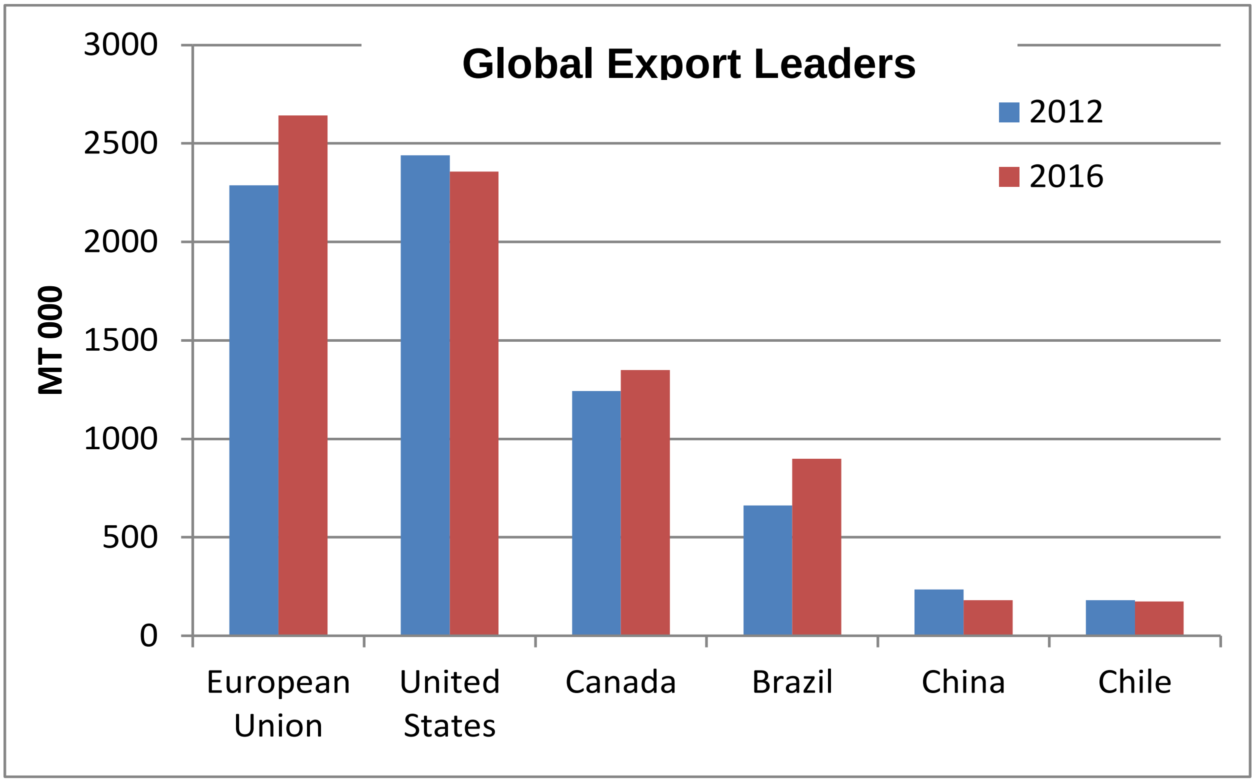


In terms of direct Canada-U.S. imports and exports, Canada is likely to finish 2016 with a surplus in pork trade of about 158,000 tonnes. That is short of the surplus in 2006 of 224,000 tonnes when the herd was near its peak, but more than double the surplus of 59,000 in 2012 when the herd was near its low. The average surplus with the United States over the past 11 years has been 143,000 tonnes. The surplus in 2016 will be greater than average.

As such in terms of domestic market share and in terms of trade with the United States, Canada appears to be competitive.

With regard to exports, while Canada is the seventh largest producer in the world, it is the world's third largest exporter and has been since at least 2000. The leaders are the countries of the E.U. and the United States. Since 2000 global pork exports have grown by 6.6% each year, led by the United States' 9% annual growth. Over that time, Canada's exports have grown by 4.6% each year. While that Canadian growth is slower than the world overall, the Canadian growth pace is still impressive. Further to that, for the period from 2000 to 2013 Canada's pork exports would have been impeded by a near continual appreciation of the currency. That again makes the export performance notable.

As of 2015, Canadian exports had a 19% share of total world import imports (not counting Canada's imports). That is down from 23% share in the 2000-2006 period of Canada's huge herd build-up. The Canadian share of global imports in 2015 is right at the average of the 2008-2015 period of Canada's herd consolidation. Furthermore, Canada's share of the Chinese market has significantly increased from 2012-2016, going from about 12% to about 14%. Canada's share of the Japanese market has held about steady over that time at 19% while Canada has gained share in Mexico.



Canada has remained a growing exporter in a world of growing exports. While the share of world imports is off its peak when the Canadian herd was at its peak, it has maintained its global share in recent years.

Based on factors such as growth and market share domestically and globally, it is hard to argue that the industry is not competitive.

As noted above, the competitive definition also utilizes the word “profitably.” That is important because if share is gained due to continual losses, it does not indicate competitiveness. Clearly during the period from 2006 through the first half of 2013, the industry at the production level did not see many profitable periods. The reasons behind the losses are well documented including the appreciation of the C$, the ethanol impact on grain prices and COOL. Those were, however, all external factors that were not intrinsic to the Canadian industry. Furthermore, from the second half of 2013 through most of 2016, hog farming has seen mostly profitable quarters. Canadian packers have been very profitable in 2016 and have enjoyed good profits in 2014 and 2015.

As noted above, profits in a commodity business can be impacted by factors beyond the industry itself. With that acknowledged it is important to look at overall costing structures of Canada against competing regions.

In that regard, comparing costs between regions, let alone countries or continents is subject to a great deal of wide interpretation. With that acknowledged most international studies and comparisons that I have seen shows that Canada is the second or third lowest cost region in the world for producing hogs. Most Canadian regions are not as low cost as Iowa, but then again, most U.S. regions are not as low cost as Iowa. There are also regions in Brazil which are lower cost than Canada, but that is it. Canadian hog farming is far more cost efficient than any Euro country or other regions around the world.

The point is that while hog profits can vary based on commodity fortunes, Canadian hog production is very competitive compared to other major producing regions.

With regard to the packing sector, as I have noted in many presentations and papers over the years, Canadian packers lag behind their U.S. counterparts in terms of cost efficiency. Labor costs and most importantly economies of scale result in big U.S. packers being in general about $5-10/hog lower cost than a typical Canadian plant. A higher cost plant translates into a lower break-even bid price for a hog. Higher operating costs are not good for hog prices.

With all of that noted, the Canadian packing sector is making strides like never before in the last ten years to address costing deficiencies. In 2008 Maple Leaf was the first Canadian plant to run a double shift, which is the best way to capture economies of scale. Since then, other plants such as HyLife and Conestoga have also run double shifts. Investments in plant and equipment as well as logistics and structure have also improved packing competitiveness in recent years.

The main point is that the industry does have its challenges, but the data does not support assertions that it is not competitive. It is better to argue and demonstrate that the industry is competitive when dealing with government and financial institutions. A competitive industry demands more respect with all players.

A version of this report first appeared in the Canadian Pork Market Review. If you would like a free two month trial of this report, please contact, kevin@kevingrier.com

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