



**National Farmers Union**

**Submission to the  
Ontario Farm Products Marketing Commission  
Review of the  
Ontario Hog Producers' Marketing Board**

**July 22-25, 2008**

**Guelph, Ontario**

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## **Introduction**

The National Farmers Union welcomes this opportunity to provide input into the Ontario Farm Products Marketing Commission review of the Ontario Hog Producers' Marketing Board.

The National Farmers Union was founded in 1969 and is the only farm organization in Canada chartered under a special Act of Parliament. The NFU is a Canada-wide, non-partisan, direct-membership organization composed of thousands of family farmers who produce a wide range of commodities. We advocate policies which strengthen farmers' market power – thereby leading to higher realized net farm incomes. We promote sustainable agricultural practices, protection of the environment and social justice.

NFU policy is democratically determined by farmer delegates at annual conventions, following the introduction of resolutions and the conduct of informed, reasoned debate on issues of concern. All members of the farm family, including women and youth, are eligible to vote on policy at our conventions, and are also eligible to hold leadership positions at all levels of the organization.

The NFU Policy Statement contains the following Principles of a Basic Livestock Policy:

**✓ *Single-desk selling be the cornerstone principle***

**✓ *Full and open price transparency***

***✓ Guarantee that all packer-owned livestock is sold by public auction;***

***✓ That all contract details be made public and contain price, premiums paid, delivery conditions, parties and volume;***

***✓ That mandatory price reporting require all packers to detail actual price paid.***

- ✓ *Equal treatment of all sellers, both contract and non-contract producers*
- ✓ *Economic, social and environmental sustainability of livestock production*

The NFU Policy statement also contains the following sections:

*That farm products marketing agencies should develop and adopt new marketing procedures. The objective should be to negotiate long-term agreements with buyers, domestic and into export, with volumes and price determined on a forward basis with escalator clauses geared to inflationary factors in the economy of the country.*

*Legislation should be introduced to exclude chain stores, packing plants, feed companies and other agribusiness firms from commercial livestock production and feeding enterprises.*

The current regulations under which the OPPMB functions reflect many of the principles outlined in the NFU policy statement listed above, with the notable exception of requiring packer-owned livestock to be sold through public auction.

## **Issues of concern in the OPPMB Review**

In our letter dated May 2, 2008, to the Ontario Farm Products Marketing Commission, the NFU requested that the Commission review a number of critical issues concerning the Ontario Pork Producers' Marketing Board in particular and the need to strengthen farmers' market power in general.

1. The ability of the OPPMB to function effectively in the marketplace on behalf of farmers if its existing marketing jurisdiction is weakened;
2. The cost to farmers – in both the short term and long term – resulting from the weakening or elimination of the OPPMB's marketing jurisdiction.

As stated in the "Notice of Pre-Hearing Meeting" dated April 8, 2008, the OFPMC is responding to a request from "a group of pork industry stakeholders" that a review be conducted regarding the marketing powers of the OPPMB. Specifically, the group seeking the review wants substantial amendments to Sections 10 and 11 of Regulation 419 of the Farm Products Marketing Act. The review will also examine the "role of the OPPMB" in the marketplace.

Section 10 of Regulation 419 vests the OPPMB ("local board") with the authority to determine the "times and places" at which hogs may be marketed; to determine the "quality of each class, variety, grade and size of hogs" that shall be marketed by each producer; to "prohibit the marketing of any class, variety, grade or size of hogs"; to determine prices for hogs and for various grades of hogs for different parts of Ontario; to fix and impose service charges for hog marketings; to enforce payment on behalf of producers; and to forward the prices to farmers for hogs received, "less service charges", within specified time frames.

Section 11 of the regulation specifies the method of sale of hogs that the OPPMB may use.

The OPPMB “vision statement” stipulates that both “producers and processors” must be “equal and effective participants” in the marketplace. Currently, the largest players in the pork processing industry in Canada enjoy an extremely effective position in the marketplace. Their sheer economic power, combined with their ability to manipulate prices and supplies through direct contracts with producers, gives them a considerable advantage. On the other hand, individual producers cannot realistically match the economic power of these large corporations. It is only by working together through their single-desk sales agency, that farmers are able to gain a stronger position in the marketplace. Rather than being a “facilitator” and “service provider” for both corporations and producers, the OPPMB must first and foremost act on behalf of farmers.

The National Farmers Union is strongly supportive of single-desk, producer-run marketing agencies for farm commodities. We believe this is the most effective method for farmers to achieve a level of market power appropriate to their requirements. The Sections of Regulation 419 which are singled out for the review deal directly with this principle of the single-desk.

The NFU believes it is of vital importance for a single-desk marketing agency to operate in the economic interests of the farmers. In order to function effectively, therefore, the OPPMB should encourage the sale of hogs through the OPPMB pool by placing limitations on the number and frequency of direct producer-processor contracts in the short term, and eventually phasing out such direct contracts in the long term.

Further growth of direct producer-processor contracts by the OPPMB serves only to strengthen the economic power of the processors at the expense of farmers.

The current regulations, under which the OPPMB operates, allow producers to sign contracts directly with processors regarding price and delivery. This development has occurred over many years, despite resistance to the trend among farmers. Processors, meanwhile, have been highly supportive of the introduction of direct producer-processor contracts. While there are some producers who are ideologically opposed to the OPPMB pooling system and seek to gain individual advantage over their neighbours, it is likely that a significant number of farmers who sign direct contracts with processors do so for reasons of economic expediency. They may be facing pressure from creditors to accept lower prices if it improves short-term cash flow difficulties.

This pressure is especially likely to occur at the present time, when hog prices have plummeted to record lows. An alarmingly high number of Ontario hog farmers have been forced out of the business over the past year.

Meanwhile, the OPPMB regulations clearly recognize that the majority of producers benefit from the stabilizing influence of the current pooling system on price and supply.

While the OPPMB has ensured it retains a check-off on all hogs sold through direct producer-processor contracts, many farmers are concerned that there is no reciprocal benefit to farmers in the form of higher returns, as there would be if the single-desk sales advantage were used exclusively. In fact, the excessive market power of processors – who are able to manipulate prices by playing off their own direct-contracted hog supplies against those offered by the OPPMB through the pool, virtually guarantees that there will continue to be downward pressure on hog prices at the farm gate.

In an era of increasing market concentration by a few large livestock processing companies, there is a stronger need than ever for farmers to strengthen their bargaining position through collective action. We strongly urge that the OFPMC does not weaken the regulatory and marketing powers of the OPPMB.

## **Organic Hogs – Separate Pool**

While it is essential that the single desk structure be strengthened, it is also important to ensure there is sufficient flexibility in the OPPMB structure to enable producers of hogs destined for specific, premium markets to earn higher returns. For example, producers of organic hogs should be able to capture the advantages of both single-desk selling, and the premiums associated with organic markets. Therefore, a specific organic hog pool should be implemented to accommodate producers of organic hogs.

## **Benefits of the single desk at risk from contracts**

In the early 1990s, Ontario had over 10,000 hog farms. Many of these were traditional family-run, farrow-to-finish operations. While their numbers have declined over the past two decades, there remain a considerable number of hog farms which operate on this production model.

While these enterprises are smaller, individually, than contemporary large-scale hog operations, they have the advantage of flexibility by virtue of a more diversified commodity mix. Consequently, they are better able to adapt relatively quickly to changing market conditions. By marketing their product through a producer-run marketing structure, such as the OPPMB, they are able to capture the benefits of larger-scale operations. The OPPMB, acting on their behalf, is able to assemble large shipments of desired animals for sale in quantity to single buyers. Farmers acting on their own, without the direct and indirect support of the OPPMB, would be unable to negotiate the same type of prices with large processors.

The NFU recommends that an in-depth cost-benefit analysis be conducted to determine the impact to farmers before any decision is made to weaken the OPPMB's marketing jurisdiction. There are several reasons for this recommendation:

**1. Costs and benefits shift over time.** The experience of farmers over the past five decades, and in particular over the last twenty years, has been that costs in agriculture are increasingly shifted onto farmers, while the benefits are increasingly captured by others. In the absence of the OPPMB's current marketing jurisdiction, processors' freedom to dictate prices and deliveries would be greatly enhanced in the long run, while the ability of the majority of individual producers to have fair access to the market at fair prices is questionable.

**2. Costs and benefits are not evenly distributed.** Costs and benefits, often reported as aggregates or averages, hide the reality that each farmer experiences unique costs and benefits. With hog marketings, some large farmers might experience small benefits but other farmers might incur costs and risks so large that, in some cases, they are put out of business. A truly comprehensive cost-benefit assessment must take into account atypical and dramatic impacts on a minority of farmers.

**3. Will there be a realistic opportunity to reinstate the OPPMB's marketing jurisdiction once it is removed?** Given the fact that under the North American Free Trade Agreement and other trade deals that Canada has signed since 1989, there are severe limitations now placed on Canada's ability to establish agricultural commodity marketing agencies within its own borders. Under many trade deals, private multinational companies are able to launch legal actions against provincial and federal governments to claim damages resulting from lost profits due to reduced market access. When calculating the long-term costs to Ontario farmers, the surrender of democratic producer input and control over their own industry must be included in the equation.

It is vital that farmers retain and strengthen their single desk marketing agency in order to ensure there is balance in a marketplace that is dominated by a small number of very large corporations. At the same time, this single desk marketing agency must ensure its policies and priorities are in the best interests of family farmers. At a time when Canada's and North America's pork processing industry is highly-concentrated, the issue of vertical integration and the ability of processing companies to manipulate hog prices through contracts and captive supply is of primary importance.

## **Vertical Integration, Captive Supply and the single desk**

Vertical integration by processing companies and the use of captive supply<sup>1</sup> by these companies are two of the most pressing concerns facing farmers in Ontario today.

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<sup>1</sup> "The Effects of Hog Mega-Barns on Communities, the Environment, and Independent Hog Producers," Brief submitted by the NFU (Alberta) to the Flagstaff County Appeal Board for its consideration of the application of Taiwan Sugar Corporation, Hardisty, Alberta, October 6, 2000: "*Captive supply is not a problem unique to Canada, nor is it unique to the pork processing industry. US cattle producers report that large beef packers use cattle herds they own to depress prices. These producers claim that when cattle prices rise above levels that packers feel are desirable, the packers withdraw from the market and draw from the cattle herds they own – their "captive supply." Since fat cattle need to be sold within a short time frame to capture a profit this packer withdrawal quickly depresses prices. Once prices fall, it is alleged, packers resume buying from farmers and the packers restock their captive supplies. It is not unreasonable to suspect that some corporate pork-packing-plant owners choose to own (low –profit) hog mega-barns for*

Questions regarding the jurisdiction of the Ontario Pork Producers Marketing Board over pricing and supply of hogs must be viewed in the context of the growing market power of large, vertically-integrated companies.

Corporations that own hog barns and packing plants – and often feed mills and other related businesses – are referred to as “vertically integrated.” Olymel and Maple Leaf are two of the largest pork processing firms in Canada and among the most successful examples of this type of company.

Maple Leaf Foods, owned by Wallace McCain, recorded revenues of \$3.86 billion in 2006. It is the largest fresh pork processor in Canada, marketing its products under both the Maple Leaf and Schneider brand labels.<sup>2</sup> It also owns the country’s largest rendering operation, Rothsay, and has an 88% share in Canada Bread, the biggest bakery corporation in Canada.

Olymel is the second-largest pork processing company in Canada, and markets its products under the Flamingo, Galco, LaFleur, Olymel and Prince brands. It was originally the processing arm of La Cooperative Federee, but in 2005 a merger with Supraliment resulted in the creation of a single company, Olymel, with integrated slaughtering, processing and marketing operations. Its gross revenue in 2007 was \$1.42 billion.<sup>3</sup>

Vertical integration has redefined the economic landscape of hog production in Ontario and across Canada. Independent farmers need to make a profit on the hogs they sell. Vertically-integrated corporations, on the other hand, are less dependent on making a profit on their hogs. When the price of hogs drops very low, a corporation which owns both barns and packing plants would see large losses at the barns, but equally large increases in profits at its packing plants. If the output of the company’s barns matched the capacity of its packing plants, for every dollar it lost on pig production, it would make an extra dollar at its plants. Low hog prices are far less damaging to an integrated company than they are to a family farm hog producer.

Vertical integration has other negative effects. When packers are able to contract directly for hogs, they take those hogs first. The result is that independent family farmers have reduced market opportunities. In addition to creating problems with market access, packer contracting hinders price discovery. When a significant portion of the hogs move under contract, and only a small minority sell at public auction, it is difficult to discover the “fair market price” for a hog.

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*much the same reasons: to ensure supply and to exert downward pressure during times of price increases.” The same effect of exerting downward pressure on prices at the farm gate is also achieved through the use of direct contracts, where a company has the ability to hold off on accepting hogs from a farmer, for a variety of reasons, even though a contract is in place.*

<sup>2</sup> <http://biz.yahoo.com/ic/54/54131.html>

<sup>3</sup> <http://biz.yahoo.com/ic/138/138370.html>

## Recommendations

If it is to operate on behalf of family farms in Ontario as an effective single-desk seller, the Ontario Pork Producers Marketing Board must have the marketing power to be able to market pigs in a manner that prevents packers from exploiting their captive supplies.

1. The only effective method for reducing the level of packer control over the industry is to remove packer ownership of supplies obtained under direct producer-processor contracts.
2. To be truly effective as a single desk seller whose objective is to maximize returns for Ontario hog farmers, the Ontario Pork Producers' Marketing board must have jurisdiction over the sale of all pigs, with the exception of breeding stock and farmer-to-farmer sales of weaners in Ontario.

This would increase the market control of the board, as would the addition of a check-off on weaner pigs going from Ontario to the US. While the potential exists for the imposition of Country of Origin Labelling (COOL) to limit the flow of Ontario weaner pigs into the US, the current large-scale exports of hogs to be finished in the US, and imported back into Canada as processed pork, has severely depleted the Board's financial resources. There is also a case to be made for the Board to have jurisdiction over all pork coming into Ontario, both live and processed. While this may contravene federal trade laws, it is the only way the Board would be able to exercise price discipline. At present the Ontario pork price is based on the US price, but if the Board's jurisdiction was extended, conditions would emerge where a true, transparent, "Made-in-Ontario" price, based on matching supply with demand, would emerge.

3. Because the Board is financed by farmers by means of a check-off levied on each hog sold, the Board's lobbying efforts must reflect the economic interests of family farmers – those who make up the majority of the producers. The Board should not be implementing or working for policies which benefit packers at the expense of farmers. The experience of many family farmers is that the Board has supported the interests of corporate intensive-livestock operations at the expense of small and medium-size family farms. The portion of the producer check-off which is directed toward lobbying should be voluntary and refundable

4. Under the current grading system, all grading is done at the packing plants by the packers, and the Board accepts the grades specified by the packers. An independent third-party auditing system of the grades must be implemented. A common practice is for packers to simply say that the carcass tattoo cannot be read, which allows the company to then give the producer a lower grade. It is not uncommon for a significant percentage of the animals shipped to slaughter to have receipts from the packing company marked as "plugged", signifying an unreadable tattoo.

5. The Ontario Pork Producers Marketing Board needs to be given the power to fine packers and retailers for breaking the rules, and to seize assets if fines are not paid.



## **Conclusion**

The recent sharp decline in hog prices at the farm gate underlines the tremendous imbalance that exists in the marketplace between the large processors and family farmers. While processors are able to take advantage of captive supplies by slashing contract prices to farmers in order to protect their profit margins, farmers are faced with the stark choice of absorbing the loss or getting out of the business. In the past year, record numbers of farmers have chosen the latter course, and the number of farmers producing hogs in Ontario has declined dramatically.

The jurisdiction and marketing authority of the Ontario Pork Producers Marketing Board has been steadily eroded as individual production contracts for animals produced outside the pool have become more accepted. While some individuals, producing ever-larger volumes of hogs under contract, may benefit in the short term, the undermining of the single desk and the pooling system inevitably creates greater instability in the system. The shift away from a large number of flexible and sustainable family farm operations toward a small number of inflexible, high-volume, intensive livestock operations creates a situation where a price crash of the magnitude currently being witnessed has disastrous consequences.

***All of which is respectfully submitted  
by the National Farmers Union***