



# Special Report

## **Some Perspective on the US National Pork Producers' Council's Claims About Canadian Swine Subsidies**

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The U.S. Commerce Department announced on August 17 that Canadian farm support payments to swine producers are fully in compliance with U.S. law and international trade rules. The ruling was a victory for the Canadian swine industry and its U.S. customers and a clear defeat for the U.S. National Pork Producers Council (NPPC), the organization that filed this trade petition. Despite this ruling it appears that the NPPC is in denial or shock.

The National Pork Producers Council is rapidly becoming the R-CALF of the hog industry. R-CALF is a US cattle producer association. Its main goal is to bring attention to itself by trying to impede trade at the expense of rational thought. R-CALF is not concerned about the potential negative consequences for the US cattle industry when trade is impeded. In their simple view, imports are bad and anything one can say, truth or not, to protect R-CALF producers from having to compete is fair game. Other than posturing politicians, most adults in the cattle and beef industry do not take R-CALF seriously. Unfortunately, the politicians make the rules.

NPPC for years garnered well-deserved respect in US policy circles and in other countries, for taking principled, well reasoned approaches to issues. Generally NPPC could be counted on to take market oriented, less interventionist positions. For some reason, NPPC seems willing to let that political capital go to waste as it pursues its costly and unjustified fight against Canadian live hog imports.

In its latest dip towards irrelevance, NPPC appears to try to distort what the Commerce Department said. The NPPC does acknowledge in its "Canadian White Paper," that the Commerce Department preliminarily found that the [Canadian] federal income stabilization subsidies were not 'illegal.' That ruling was based on an initial finding that the subsidies were not targeted at the Canadian hog industry specifically, and that they were too small to have an effect. Despite that, however, NPPC goes on to say that, "Regardless of the Commerce Department's analysis, the fact remains that substantial subsidies are being provided to Canadian hog farmers. As a result of the subsidies, Canadian hog farmers do not operate under normal market conditions. Income stabilization subsidies eliminate normal economic risks for Canadian producers and encourage Canadian farmers to expand production even when they lose money, thereby disrupting the normal hog cycle."

NPPC then goes on to repeat its sleepy arguments that it has been using since the beginning. Those arguments are as follows:

- As a result of subsidies, Canadian producers have continued to expand their herd size, despite and contrary to, market conditions.
- Most of the over production is exported to the United States.
- This excess supply harms U.S. producers because it causes prices and profitability to be lower than what they would otherwise have been in the United States.

- U.S. hog producers...bear the full brunt of the disrupted hog cycle caused by the Canadian subsidies.
- This imbalance and unfairness should be stopped through the elimination of Canada's income stabilization subsidies.

NPPC says Canadian hog farmers receive substantial subsidies under a wide variety of programs. They note that between 2000 and 2003, more than \$100 million was distributed to Canadian hog farmers under the federal income stabilization program. In fact, they say these subsidies are estimated to have benefited Canadian producers by as much as \$4 - \$6/pig. NPPC lists the number at \$137 million in total over 4 years.

Lets get some perspective on those numbers. Canada marketed about 450,000 market hogs per week at a rough value of over \$145/hog or \$65 million per week from 2000 through 2003. That translates into about \$3.4 billion per year. Over the four years the dollars work out to approximately \$13-14 billion. This, of course, does not include the millions of weaner/feeder hogs amounting to more billions of dollars that Canadians marketed over those four years to US finishing operations. Somehow, NPPC expects people to believe that a generally available safety net program with payouts of less than one percent of revenue is going to have all those market distorting effects listed above.

NPPC's hired hand on this project is Iowa State's Dermot Hayes. He makes offhand comments in his paper like, "Hog production in Iowa in the past twenty-five years has not been very profitable in part because of an explosion in the Canadian sow herd." Funny how the data show that the US hog industry has seen unprecedented growth in that period; in fact the US moved from being a net importer of pork to being a net exporter. Another gem is: "When Canada expands the number of sows in the absence of any increase in North American demand, then some other location in North America will eventually have to produce fewer sows. In this sense distortions can literally cause the sow herd to move north." This is interesting given that all the market analysts can talk about these days (including the ones at Iowa State) is the extreme increase in market demand - both domestic and foreign demand. Export demand has been increasing for several years. Increased demand means that "some other location" isn't necessarily affected by Canadian expansion. Increased demand is one of the reasons people invest in new operations.

It's also funny how Hayes doesn't talk about the tremendous subsidies for corn and soybean meal that benefited US hog producers at least since the 1996 Farm Bill. Nor did he point out that Canadian hog producers have faced – and overcome - tremendous uncertainty in the past few years because of drought and exchange rate variation.

Farm support programs are part of the industry landscape in Canada and around the world, and especially in the United States. Canada worked hard to design ours so that they conform to World Trade Organization rules. Essentially, the US Commerce Department determined that Canada's support to hog farmers was well within acceptable trade related bounds.

The only good thing about this process is that the next time NPPC complains about Canadian subsidies, nobody is going to take them seriously.