

NATIONAL PORK PRODUCERS COUNCIL

Steve Meyer

At the present and into the future, the red meat industry is consumer-driven. In the past that has not been the case. The pork industry has not been consumer-driven, it has been cost-driven. The poultry industry has not been a cost-driven system since about 1982 or 1983. As poultry went through massive rationalization in the 1970s, it was absolutely a cost-driven business as they bought market share every year by learning how to raise birds and process them at lower cost.

The North American red meat industry needs to realize that it is still in the rationalization process. This process is not going to be done on the basis of consumer demand. It is going to happen based on cost. We will pay attention to consumers as long as it does not cost us any money. One of our supply chains' problems is that we get a great deal of lip service from retailers who want quality but will not pay for it. Excel had to sell programs strictly on cost.

Food safety, on the other hand, may drive the industry because the risks are so great. When the packer does a case-ready program for the retailer, it becomes an insurance policy because, if somebody gets sick, it is not the retailer who is going to pay—it is the packer. Food safety is going to drive the meat industry. Without the consumer input, I am not sure the industry would be so motivated.

The Canadian paper was an informative survey of what is going on with the Canadian industry. A U.S. example of the same types of interactions between the processing and retail levels involves Farmland Industries. They have an exclusive arrangement with Hy-Vee stores on a line of pork products that are fresh-processed with a deep-basting technology which seems to be "fail-safe". Ease and convenience in food preparation seems to be what consumers want.

With trade liberalization, our industries are going to become very free-flowing. In 1997, the United States imported over three million hogs from Canada. It will import somewhat less than that this year—with further declines in the years to come. This decline is because the Canadian packing industry will become more competitive. In the process, Canadian producers are going to take part of our market in Japan. The Canadians are also going to start supplying more of their needs at home. The United States will be exporting less pork products to Canada.

U.S. producers have no choice but to compete with efficient producers. Some producers in a few states believe they have that choice. The efficient producers just choose to go to another state or to another country.

Food safety, Hazard Analysis Critical Control Point (HACCP) programs, and “trace back” are all important. U.S. producers have a voluntary producer certification program called Pork Quality Assurance. I know that Canada is embarking on a similar program. A challenge for both of us is to make these programs mesh. For instance, a U.S. packer in Minnesota, starting next January, will not buy anything except our highest certification level pigs. As more and more of our production meets those specifications, other plants are going to begin requiring the highest level of pork quality assurance. They are not necessarily going to pay for it—just require it. Consumers should not have to pay for a safe product either. They deserve a safe product.

Pork is one of the most protected, restricted products in international trade. Two percent of the world’s production is traded. More pork is consumed in the world than any other meat product by a factor of about two. Yet, there are all of these road-blocks to trading pork around the world. NAFTA and WTO will help somewhat. Still, those tariffs do not come down very quickly.

David Anderson mentioned a number of factors which are important in the North American pork sector. There are several reasons for the increase in market weights—very good genetics and plant operating costs being the main ones. One other reason for increased weight is that some producers have not figured out the right objective function in hog production. They still maximize profit per head when they should be looking at profit per day. Many times, hogs are fed too long. Similarly, capital-intensive time-dimensioned production systems feed hogs 18 weeks and sell them on the eighteenth week regardless of what they gross. That happened this spring when weights rose dramatically as prices were going down. Part of the reason for this situation was that those hogs performed so well over the very mild winter in our major growing areas that they ended up heavier in a given number of weeks. The market did not need this extra weight.

Productivity is increasing rapidly. In 1970, the United States produced 1,500 pounds of carcass pork per breeding animal. Last year, it produced just over 2,500 pounds per breeding animal. We are really proud of that accomplishment. But, the best 10 percent of our operations produce 5,000 pounds per breeding animal. Many producers are not doing very well.

Larry Martin indicated that production costs in Canada are much lower because Canada does not have the grain and transportation subsidies any longer. I believe it is because Canadians have better technical efficiencies. As our industry consolidates, the United States will reduce its production costs and, in the end, they will be very close to those of Canada. On the other hand, as your packing industry consolidates and modernizes and gets larger plants, Canada will eliminate its cost disadvantage in packing costs. Canada has a very competitive industry in which there will be a packer shake out. As long as there is a border between our two countries, it will overlap and be very competitive all the way through.

The Paul Engler comment concerning feed as a factor influencing the location of cattle feeding was very interesting. However, it is not necessary to have feed at your back door. North Carolina is proof of that. What it had was three advantages: new technologies, entrepreneurial spirit, and necessity. They knew they had to have something to supplement the income of tobacco in North Carolina. The Extension Service asked, "Why can't we raise hogs?" Two or three guys took the leadership role and created an industry. These producers became so big that they had cost advantages.

The environment is a social issue. Social issues as well as economic issues have to be addressed. The new costs imposed from environmental solutions will be significant, but they will not be huge. These costs are being added to an industry which has been the most profitable of all the agricultural industries outside of poultry.

From a trade policy perspective, the countervail was zero last year and it will be the same this year. It will still stay on the books, but not come into play.

For the Mexican pork industry, it is in all of our best interests to work cooperatively in North America. Your hog numbers have fallen in the last few years, especially since the devaluation of the Peso. The number of producers has fallen as well. There are interesting things going on with the regionalization concept in Sonora. Mexico increased exports to Japan by 120 percent last year. They are raising a speciality product just to ship to Japan. We should not leave Mexico out of this discussion even though the current strength in the pork industry is in the United States and Canada.

Similarly, do not forget South America. A Western Hemisphere trade agreement will take advantage of grain grown very efficiently in South America. Producers in the United States are looking very seriously at starting operations in South America. Major investment will take place, when the risk factor in South America gets to a manageable level.