

SETTING THE STAGE: PRODUCING PORK IN A CHANGING ENVIRONMENT

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INTRODUCTION

It has been said that the only thing constant in life is that things will always change. Our industry offers a prime example. I grew up on a prairie farm that grew crops, milked cows, cattle for beef, chickens and of course hogs.

As I remember, all the kids going to our country school had farms similar to ours. Farms changed over time. Farms became more and more specialized, mostly straight grain farms.

A CHANGING BUSINESS

I started farming in 1975, not growing crops but with 20 acres and a new hog barn. My father always said we raised hogs to lift the mortgage. I always wondered why we bothered with the rest. Over the years, building barns and changing how things were done became the norm. The speed of change has accelerated to the point it has become breath-taking. The 900 or so hogs that my early operation took 12 months to raise are now produced in every 12 hours at Big Sky Farms. Smithfield Foods does it in 36 minutes. Genetics, health, nutrition, food safety, welfare, environment and economics have all changed dramatically.

THE CHANGING MARKETPLACE

In earlier times, food was raised close to the consumer. Wall Street in New York got its name from the wall built to keep hogs out of the city. Many hogs were slaughtered on the farm or by butcher shops in towns. The big towns had bigger butcher facilities. Regions were generally self-sufficient. Later, improvements in transportation allowed food to move. Perishable foods like meat waited for the age of portable refrigeration. Economics of business lead to fewer and larger systems to supply consumers their food.

THE FACTORY

The family abattoir and corner grocery store has been replaced by big companies supplying millions of consumers. Big companies do things on a large scale. Factories make large quantities of few things. Factories focus on design, uniformity and least cost. Today, many

hog producers are labeled as operating factory farms. Consumers use a multitude of products made in factories, yet seem to desire their food grown on the idyllic family farm. Niche markets have arisen that are willing to pay a higher price for such products. However, mainstream food supply continues to strive for lower costs, uniformity and safety. I cannot deny it. Big Sky Farms operations are hog factories. In our factories, we have well designed pig quarters, great nutrition and professional animal care. We produce large volumes of uniform hogs to provide low cost, safe and dependable pork for national and international markets.

DIVERGING MARKETS

As an industry, we should not discourage producers from identifying and filling niche markets. If a group of consumers want 'free range', 'Berkshire', 'natural' or 'organic' pork, economics should dictate the supply. Production, processing and marketing these niche products needs to be tailored to the market. However, we need to recognize that mainstream hog production must fill the needs of the mainstream market. About 50% of hogs born in Canada will be consumed outside of Canada. Our mainstream production must therefore compete in a global marketplace. Global consumers have the luxury of accessing supplies based on price, food safety, traceability, country health status, politics, animal care, environmental factors or any other criteria they deem worthy at any point in time. Canada cannot and should not assume we will have a long term favored status in any market. Just ask our beef producers about the American market today.

DOMESTIC TRENDS

Far be it for me to know what the consumer will desire tomorrow. Consumers today are placing a high discount on un-safe food. Dioxin residues in meat in Europe caused scandals in recent years. We are accused of using drugs, antibiotics and hormones to get our animals to market cheaply with disregard to residues. Testing does show that residues are found on occasion. Animal care is thought to be lacking on intensive operations. Unfortunately, there are examples of bad care. However to suggest that this is only a problem on large operations is very naïve. Some of the worst cases of animal abuse occur on hobby farms. Environment lapses have been blamed on intensive livestock operations. North Carolina and The Netherlands are often cited as examples. The Walkerton E. coli sickness is mentioned in Canada. This was a case of many errors, none to do with our definition of an intensive livestock operation. Consumers will demand minimum standards for food production or many will not buy our product.

Consumers are also buying their food from fewer and larger markets. Most purchases are based on convenience and price. Wal-Mart, Superstore and other retailers duke it out for the consumer. These guys demand what their consumer wants, in quality, quantity and lowest price possible. Consumer power has been concentrated in fewer and more powerful retailers hands.

FOREIGN TRENDS

Export markets have trends tailored to their culture. Europe has restrictions that are based on slaughter plant certifications, antibiotic/drug/hormone use and animal welfare. The bottom line is that they don't want foreign competition and will use non-tariff barriers to keep us out.

Japan had tariffs to keep domestic prices high for many years. However, when BSE caused scandals, food safety and country of origin labelling became high priorities. Japan now requires country of origin labeling for all meat. USA attempted to enact country of origin labeling for political reasons and it is still a possibility. Traceability will be a pre-requisite in the future. BSE has shown us that the movement of live animals across borders is much more difficult than meat. Meeting the needs of the foreign markets is much more than price and supplies.

THE TIME BOMB

Canadian hog production is now split evenly between domestic and export markets. About 7.8 million pigs moved live into the USA. Of these, about 2.2 million go south as market hogs and 5.6 million feeder pigs. Canada cannot physically feed all our pigs if the USA border closes. Even if we could, we cannot slaughter the finished hogs. What would happen to our market if the USA border closed for any reason? **KA-BOOM!** As an investor with millions tied up in hog barns, this is an un-acceptable risk. Slaughtered hogs can be boxed, frozen and shipped to 100 plus countries. The frozen product can also be put in storage. We must expand our slaughter capacity. **This must be a priority!**

SELLING THE MEAT

If we finish all these pigs in Canada, then slaughter them here, can we sell the meat? The Americans appear to be buying our pigs now and selling the meat. Americans have high volume, double shifted and low cost plants. To compete with Tyson or Smithfield's head to head on price alone may be a problem. But the Danes compete successfully with North America while having a definite cost disadvantage. Their cost of production is about 25% higher than ours. Their total cost of slaughter plant workers with benefits is \$40 per hour Canadian. They survive by marketing themselves on quality and uniformity. We need to be comparable to the Danes on quality and comparable to the Americans on cost. If we then make sure the market appreciates what Canadians can deliver, we will flourish.

BRAND CANADA

As the requirements of the marketplace become more sophisticated, producers must meet the challenge. Multinational integrators have tightened their systems by controlling the whole food chain. Producers like the Danes have closed the loop by ownership of processing. They have high standards for the food chain. We in Canada can compete with the Danes as

professional food suppliers. Our slaughter plants for export are required to be federally inspected. If federally inspected plants accepted only Canadian Quality Assurance™ qualified hogs, our CQA™ program can be the platform for the Brand Canada. CQA™ already defines the use of medications and documentation. CQA™ could require hogs be feed quality controlled feed. Animal welfare standards can be added to CQA™. Environmental standards can be added to CQA™. Transportation can be added.

WHO PAYS? CAN WE AFFORD THIS?

Canadian producers have billions invested in facilities and stock not to mention the tens of thousands of people that depend on our success. Finding our international market niche will be a definite asset. If we want to compete on price alone, we need to beat the Brazilians and the Poles. Our best bet is to be safe, wholesome and reasonably priced. I believe we can all benefit by making **BRAND CANADA PORK – THE BEST IN THE WORLD!**