



GEORGE MORRIS CENTRE

Moving through the Challenges: Ontario Hog Production

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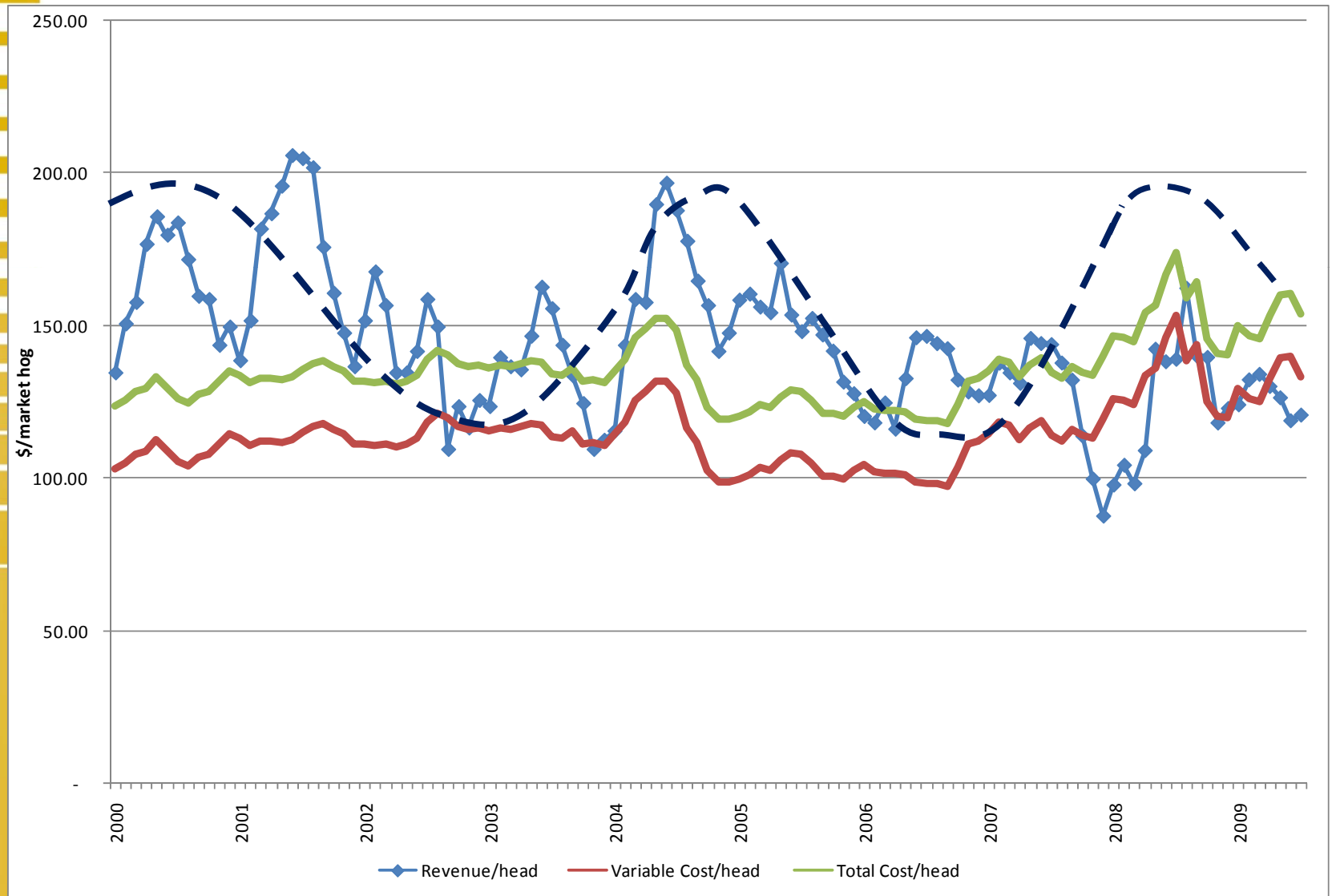
Canada's Independent Agri-Products Think Tank



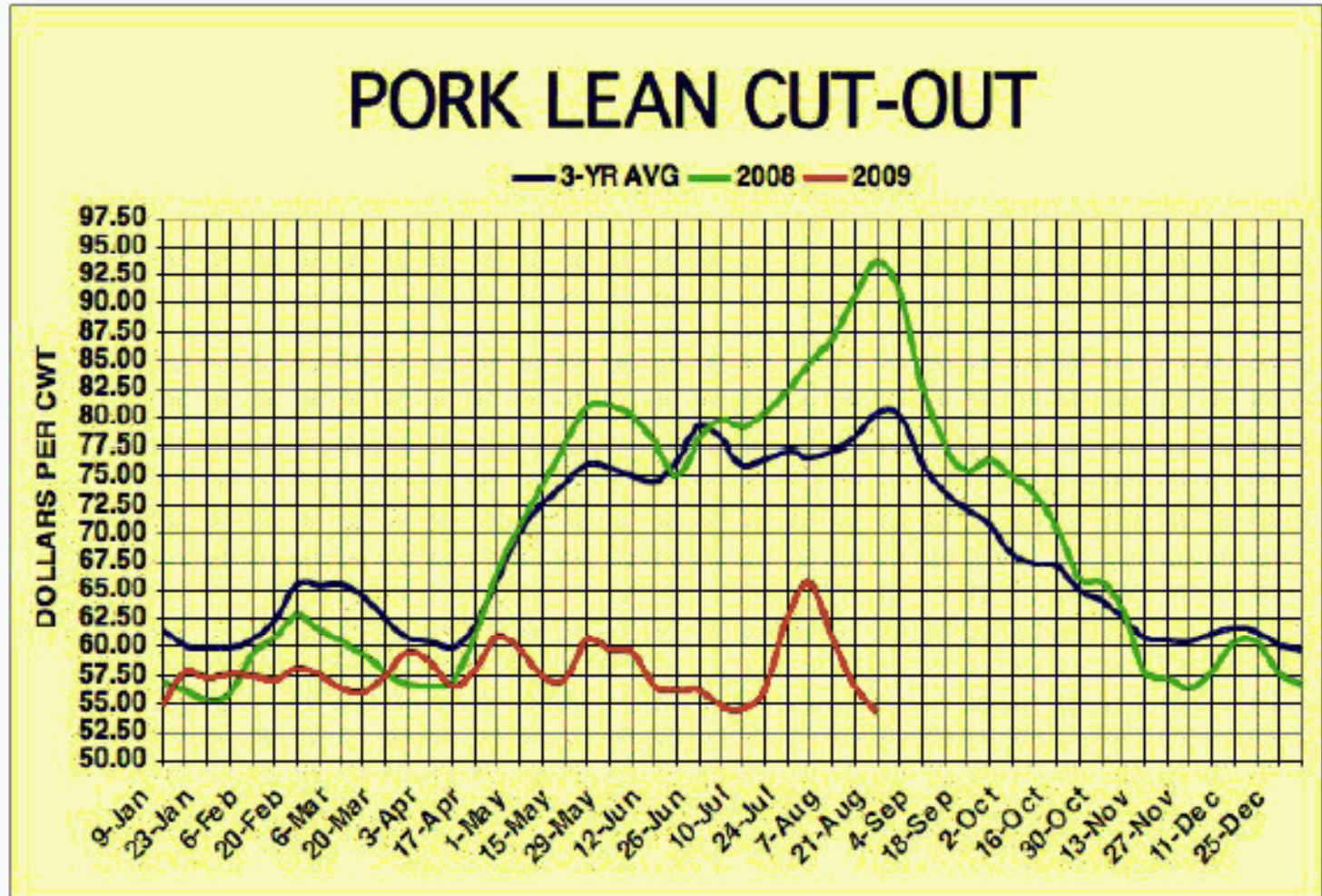
Overview

- The current situation
- How we got here
- Going forward

Ontario Hog Production Costs and Returns



Pork Market Slump



Source: DTN



Outlook

- George Morris Centre forecasts, based on futures
 - More bullish depending on H1N1 bounce back

	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10
Futures \$US/cwt	50	55	65	68	61
Exchange Rate	0.92	0.92	0.92	0.92	0.92
Ontario index 100 \$Can/kg	100	110	130	136	122



Not Just a Canadian Problem

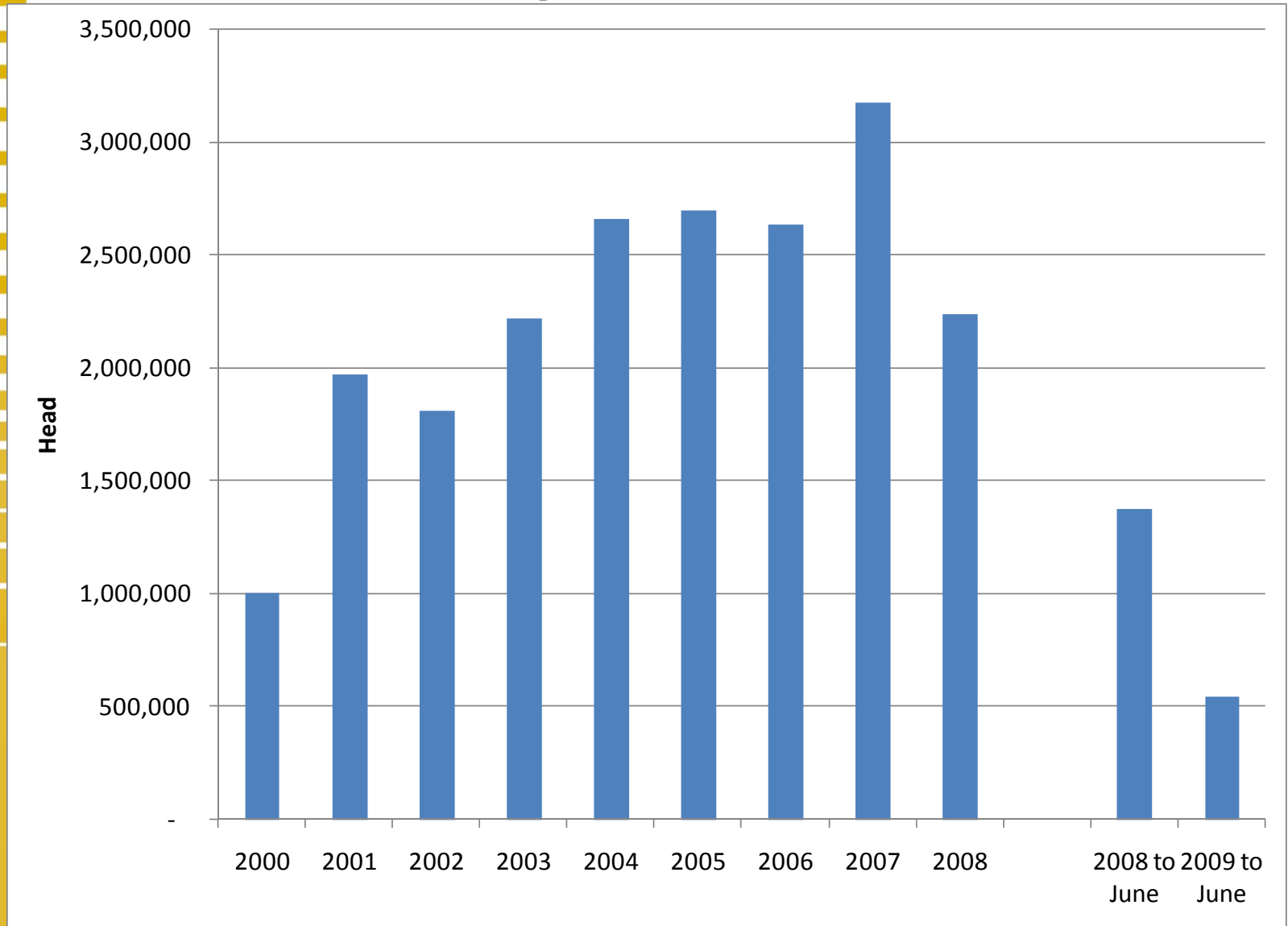
- US pork exports off 18% mid-year 2009 vs. mid-year 2008
- Smithfield financial results
 - Loss of \$190 million fiscal year just ended
 - Previous year profit \$129 million



How did we get here?

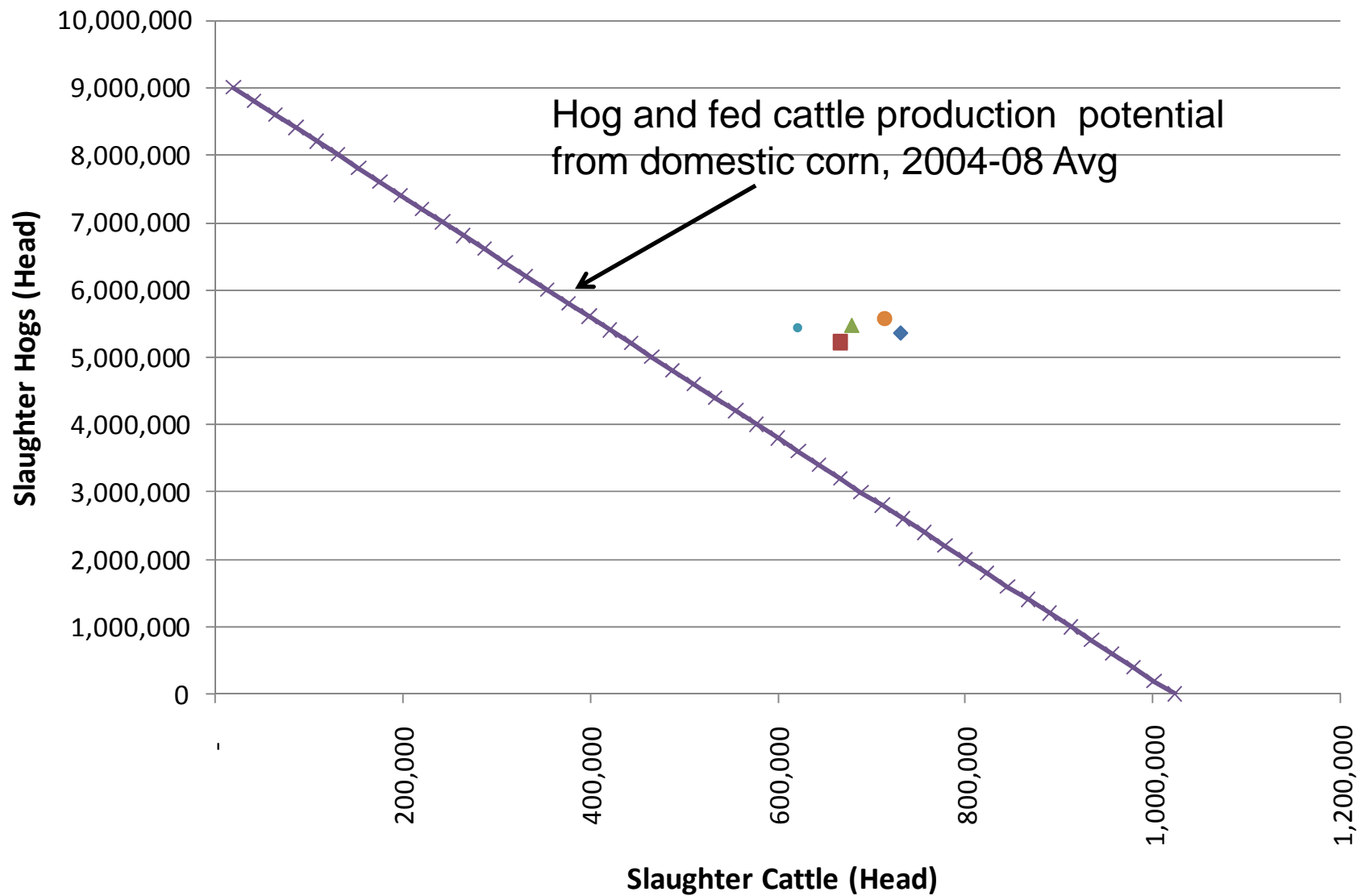
- Sluggish demand due to recession
- H1N1
- COOL in US
- Structurally stronger currency
- Livestock feeding demand exceeding Ontario corn supply

Live Hog Exports to US



Source: USDA FATUS

ON Livestock Demand vs. Corn



● 2004 Marketings ▲ 2005 Marketings ■ 2006 Marketings ● 2007 Marketings ◆ 2008 Marketings



Going Forward

- Supply management as an option (?)
- Safety net programs
- A step back for a moment



Supply Management

- Developed in an era of market power abuses, confusion regarding market size
- Important pricing benefits
- Requires demand with no (or few) substitutes in which changes in supply strongly impacts price
- Requires domestic/import focus
- Requires few or insignificant constraints due to trade agreements
- *Does this describe pork in Ontario?*



Safety Net Programs

- Needed to allow us to live to fight another day
- Existing programs not well equipped for sector-level crises
- Safety nets do not increase the size of the pie
- Cannot be a long term solution
- Advanced recovery will be based on other aspects of policy:
 - Marketing innovation
 - Market development
 - Research



A Step Back

- Crisis today is no fault of producers
 - Industry must now downsize and there is no shame for those who exit
- Ultimately Ontario has huge natural resource, production efficiency, information, and geographic advantages in pork production
- Will be opportunities; market will look different
- Will take time restore and leverage these; need to work as a system



GEORGE MORRIS CENTRE

*Working to develop a
more competitive and prosperous
Canadian agri-products sector.*

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