

**RESPONSE to QUESTIONS and COMMENTS RAISED by  
the PANEL, FARM PRODUCTS COUNCIL of CANADA (FPCC)<sup>1</sup>**

1. With respect to the number of pork producers in each province and in Canada, there are some inconsistencies between the numbers provided by Canadian Pork Council (CPC) and provincial boards and those of Statistics Canada (SC). For example, CPC indicates there are 5898 producer members, yet SC indicates there are 7000 farms which produce hogs; Québec indicates it has 3376 hog producer members, while there are 1845 hog farms in Québec, recorded by SC. In order to ensure that the majority of hog producers (whether they are members of CPP or not) support the creation of the Agency, definitive numbers are required.

1.1. Please provide data of the total number of hog producers nationally and by province, the number affiliated with CPC and how these numbers relate to the number of hog farms and the SC numbers.

Response:

The Canadian Pork Council membership comprises the farm businesses which sell pigs to inspected slaughter establishments in Canada and/or into international trade of live swine. The members are required under provincial statutes (existing in every province other than Newfoundland and Labrador) to remit levies to provincial pork producer associations. These, in turn, are the member organizations of the CPC. Statistics Canada, for its part, reports the number of farms claiming one or more pigs when responding to the Census of Agriculture.

Please note that the Statistics Canada numbers do not fully take into account the various operating structures that exist in the hog industry. Farm operations that are large family operations, corporate structures with multiple owners, or leased production facilities that provincial pork organizations may count as one production unit.

1.2. Please confirm whether all (or which) provincial boards held a vote, referendum or survey (as demonstrated in the July 21, 2015, British Columbia letter) to assess the degree of support at the provincial level and what were the results in terms of proportion in favour or against the creation of the PRA, if available.

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<sup>1</sup> Taken from Letter of Mr. Mike Picard, Panel Chair, FPCC, of October 8, 2015 to Mr. Rick Bergmann, Chair, CPC (copy attached). FPCC file number 1456-1.

1.3. Please also indicate whether and how those hog producers who are not affiliated with CPC or its provincial boards, have been surveyed for their support of the proposed Agency.

Responses to question 1.2 and 1.3:

All hog producers and products defined for inclusion under the Agency's levy authority are affiliated with CPC and the provincial pork organization where the swine is raised to market weight. CPC wrote and submitted the PRA application at the request of its provincial members. This application has been developed in collaboration with our members since the concept of the Agency was first discussed in 2009. Producers have been involved in the development of the application and have been regularly briefed on the application's content and status during provincial annual general meetings. This direct consultation at each of the provincial AGMs are well attended with an extensive group of participants. This is in addition to the many working meetings and newsletters that have been used to inform our members.

The application included a letter of support from each provincial pork organizations' Board of Directors on behalf of the producers in their province. The purpose of each letter is to ensure that the final version of the application represented the views of the producers on how the Agency would operate if the application were to be successful.

2. With respect to importers, there is no information on the number and names of importers of pork and pork products, which is required to assess their level of support for the PRA as well as to assess the process for nomination of a Board member for the PRA from this group.

2.1. Please provide the list of importers, in categories of large, medium and small-scale importers, if possible. **[see response 2.3 below]**

2.2. Describe how and when CPC plans to reach out to these importers and assess their support/opposition to the creation of the PRA.

Response:

The national agency will reach out to pork importers in order to solicit their interest in representing their market segment's perspective on the Board of Directors once a complete list of importers is developed. The Agency intends to offer information sessions on the Board's mandate, structure and its activities for the importer.

2.3. Describe the process that will be used to select the importer representative on the PRA Board.

Response:

The specifics of a process to select members to sit on the Board of Directors as a representative of importers' interests has yet to be delineated. It is anticipated that final agreement on such a process will await the proclamation of the Agency and constitution of its transitional Board.

However, pending the consideration of any views that might be submitted over the application's comment period and/or public hearings on this matter, the Applicant is committed to working closely with the Canadian Meat Council, Canada Pork International, the Canadian Food Inspection Agency, Canada Border Services Agency and Agriculture and Agri-Food Canada in order to identify an eligible "importer" base (i.e., through the establishment of agreed criteria that will define parameters of a pool from which representatives would be drawn over time).

Once a viable listing is agreed to be reflective of the "importer" community, the proclaimed Canadian Pork PRA will communicate with the pool's constituents in order to: (i) advise formally of the import levy provisions; (ii) detail the role and responsibilities of importers, including their "seat" on the PRA's Board of Directors; and (iii) identify the "importer" Board Member's anticipated involvement in the planning, general administration, distribution of collected amounts and good governance of the Agency as a full participant on the PRA's Board of Directors.

Preliminary analysis suggests that the top 20 importers account for nearly 75% of imported volumes. These top 20 are understood to include some 7 retailers, 3 processors or semi-processors and 10 trading companies. It is also highly believed that 13 of the top 20 (i.e., 3 processors and 10 trading companies) are members/associate members of the CMC and/or CPI.

In short, it would appear that this grouping could provide the initial basis for canvassing nominations for the relevant transitional Board seat. There is little doubt that the procedure and make-up of the sample base will evolve over time, as best practices will undoubtedly emerge.

It remains to be determined how importer-nominees might be selected and advanced for consideration on a more permanent basis. One could envisage a canvass of the “importers list” directly in soliciting interest by the Pork PRA, with a decision being made from the expressions of such interest received by the Board. Alternatively, the responsibility for canvassing and referring a nominee(s) could be delegated to the Canadian Meat Council or Canada Pork International, for the approval of the Board. In any event, the undertaking by the Applicant is to commit to an effective and transparent process which will result in a competent representation of importer interests, ideas and concerns.

2.4. Additionally, please indicate whether and if so, how CPC plans to assess the views of the retail sector and consumer representatives on the proposed PRA.

Response:

The Applicant will consider any question or concerns raised by retailers or consumers as a function of the public consultation process being carried out under the conduct of this application process. For example, the Applicant is committed to a series of consumer benefits arising from the PRA once established. A number of these are listed on pages 8 and 9 of the web posted application.

3. With regards to the import levy calculations, the methodology differs from that used by the U.S. pork checkoff (on imports to the U.S. from Canada).

3.1. Please provide full details of all the steps and conversion factors used in your assessment of the levy revenue estimates. Also please compare this with the U.S. pork checkoff approach and comment on why you chose a different methodology.

Responses:

**A. Details of the conversion factors and fine-tuning the original estimate provided**

The steps and conversion factors used in the Applicant’s approach were designed to bring total imported pork cuts and pork products back to a live hog basis. An imported live hog would attract a levy rate of 75¢ (as discussed in the proposal being considered). The various cuts and products derived from the slaughtered animal would carry respective conversion factors that are applied against the 75¢ live animal levy, in order to provide the value of the levy to be collected on a given product form.

In order to calculate an estimated total levy-return to the Canadian Pork PRA from imports, it is therefore necessary to convert the total of imported products' weight into an equivalent number of live animals (head). The formula used to meet this objective arises from an accepted methodology which was described in a 1989 article authored by Hewston and Rosein<sup>2</sup> for converting pork meat imports to an equivalent number of live hogs. It is as follows: "Pork meat imports per Harmonized System (HS) Code (kg)" x "Trade Volumes to Cold Dressed Carcass Weight Conversion Factor" ÷ "Hot to Cold Carcass Weight Conversion Factor" ÷ "Live to Carcass Weight Conversion Factor" ÷ "Live Hog Weight (kg)" = Number of Hogs.<sup>3</sup>

As such, this response to the Panel's request for "full details of all the steps and conversion factors used in your assessment of the levy revenue estimate" presents an opportunity to elaborate, amend and correct a number of elements contained in the initially submitted application. Specifically, the formula provided in "Section 10—Budget; subsection B—Import Levy Rate and Returns"<sup>4</sup> omitted the inclusion of the "Live to Carcass Weight" conversion factor. The "Steps" provided below now include this factor as Step 5.

The Applicant is also adjusting the "Live Hog Weight (kg)" element of Step 6 (below) to an average weight calculated over 5 years (2010-2014). This average is 97.3 kg and is believed to better reflect/match the average level of imports over 5 years calculation that was used (i.e., in lieu of a single year statistic).

**Step 1:** the Applicant set-out some 34 imported products described at the 10-digit level of the Harmonized System (HS) Code. Although live animal imports are also covered under this application, their HS Codes and descriptions were not included in this calculation given that the volume of such imports remains incidental at this point in time.

**Step 2:** drawing on Statistics Canada import data, the average annual volume of imports calculated over the 5-year period 2010-2014, was ascribed to each of the 34 pork-related HS items.

**Step 3:** each of the 34 HS items' average annual import figures was then multiplied by a cold dressed carcass weight conversion factor. The factors are listed by AAFC's Red Meat Market Information "Red Meat Sector Conversion Factors"<sup>5</sup>.

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<sup>2</sup> see: Hewston, G. and B. Rosien, "A new methodology for estimating pork consumption on a carcass and retail weight basis." *Food Market Commentary*. Vol 11(2), Agriculture Canada, 1989, pages 18-26.

<sup>3</sup> AAFC and the CPC accept the conversion method as appropriate.

<sup>4</sup> See page 14 of the initial Application as posted to the Farm Products Council of Canada website.

<sup>5</sup> See: [http://www.agr.gc.ca/redmeat/rpt/cnvfct\\_eng.htm](http://www.agr.gc.ca/redmeat/rpt/cnvfct_eng.htm). Where there exists neither a specific conversion factor provided, nor is there a relatively close approximation to the description in the product's HS Code, a notation has been inserted in the relevant column of ANNEX G of the Application indicating "none found".

**Step 4:** each of the 34 HS items is then divided by Hot-to-Cold weight conversion of 0.985. This factor arises from the work of Dennis Burson, originally published as a [U.S.] National Pork Board/American Meat Sciences Association *Fact Sheet*.<sup>6</sup>

**Step 5:** each of the 34 HS items' quotients is then divided by a Live to Carcass Weight Conversion Factor of 80%.<sup>7</sup>

**Step 6:** each of the 34 HS items' quotients arising from Step 5 is then divided by a Live Hog Weight (kg).<sup>8</sup> The average weight 2010-2014 is calculated as 121.6 kg<sup>9</sup>.

**Step 7:** multiply each of the 34 HS items' "Live Hog Equivalent" by 75¢ per hog to produce the estimate of the levy that would have been collected.

The impact of these finer-tuning adjustments is somewhat limited, for the purposes of this analysis. In lieu of the initial Application's citing of a "Total import levies" figure of \$2.02 million (Table II, page 15), we would now modify this figure to \$1.8 million. The bottom line is that this figure will vacillate from year-to-year as a function of import quantities and possible subsequent changes to the various conversion factors that are at play.

## **B. Canadian versus the U.S. Pork Levy Approach**

The U.S. pork checkoff is structured as a mandatory assessment of 40¢/US\$100 market value of all pigs sold in the United States, as well as an equivalent amount on imported pigs, pork and pork products. With respect to the U.S.'s imported pigs and pork, the term "market value" means the declared value (for live animals), and for pork and pork products the term refers to an amount which represents the value of the live animals from which the products were derived, based upon the most recent annual seven-market average for barrows and gilts, as published by USDA.

It is perhaps noteworthy that the U.S. beef checkoff provides for an assessment of US\$1/head. The checkoff includes the application of the same rate on imported live animals and the equivalent rate of US\$1/head on all imported beef products.

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<sup>6</sup> See: <http://www.extension.org/pages/27311/procedures-for-estimating-pork-carcass-composition#.ViPtfPnLKE>

<sup>7</sup> AAFC Red Meat Market Information "Red Meat Conversion Factors—Live to Carcass Weight". See: [http://www.agr.gc.ca/redmeat/rpt/cnvfct\\_eng.htm](http://www.agr.gc.ca/redmeat/rpt/cnvfct_eng.htm).

<sup>8</sup> "Live Hog Weight" is calculated as the Average Warm Carcass Weights (97.3 kg) divided by the "Live to Carcass" conversion factor (0.80) = 121.6 kg.

<sup>9</sup> For "Average Warm Carcass Weights", see: Canadian Food Inspection Agency (CFIA) as compiled by AAFC, AID at <http://www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-product-sector/red-meat-and-livestock/red-meat-market-information-canadian-industry/carcass-weight/?id=141586000019>.

Canadian pork producers are applying for the establishment of a levy on a per head basis, with the same rate being applied to imported live swine and an equivalent rate being applied to pork and pork products. This choice originates from a number of considerations. First, there is an extensive history of pork levies being applied in Canada at the provincial level on a per head basis. There is no history of and no demonstrated/resulting producer comfort with an *ad valorem* type approach which, unlike a per head rate, can only be predicted rather than be known in advance for producers' own financial budgeting purposes. Given this history and practice, at what is being proposed in the Application is a natural (and perhaps obvious) inclination to remain consistent with the established provincial programs upon which this initiative is being built.

Second, the need to maintain consistency with the WTO/GATT *Article III* provisions (National Treatment) would suggest that having a levy predicated on a per head basis (i.e., the system that is already well-established domestically in the provinces for hogs) should also be applied to imports. There is no intention to alter an existing, administratively efficient levy system that is already in place domestically, in order to accommodate an approach for hog checkoffs being used in the U.S.

Third, it is believed that a per-head levy conveys a somewhat greater degree of stability and predictability when compared to the potential number and frequency of adjustments required to a levy that is attached to the fluctuating market value of pigs. It is therefore assumed that the predictability of a per-head approach is essentially more supportive of creating a better environment for financial planning, marketing and sales purposes, although it is noted that the Applicant has carried out no empirical analysis to this effect.