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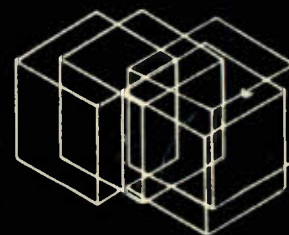
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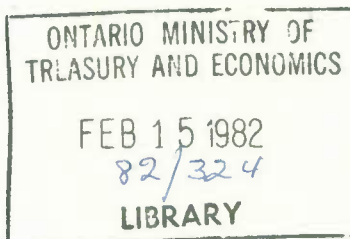
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WORKING PAPER NO. E/I 2
EVOLUTION OF THE HOG MARKETING
SYSTEM IN CANADA

by

J.C. Gilson
University of Manitoba



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Preface

This Working Paper was jointly sponsored by the Economic Council of Canada and The Institute for Research on Public Policy. It is one of a number of studies on regulation and government intervention in Canadian agriculture prepared for the Economic Council's Regulation Reference and the Institute for Research on Public Policy's Regulation and Government Intervention Program.

Analysis of public policy issues are inevitably coloured by the discussant's own beliefs and values. This is all the more likely in a highly controversial area such as agricultural policy, where quantitative information is incomplete and an important element of judgement is required to come to terms with many of the basic issues. This need not detract from the usefulness of the analysis, but it does require the reader to exercise particular caution in assessing the assumptions and the argumentation of those advocating a particular policy perspective. It also adds to the importance of the Council's usual disclaimer that "the findings ... are the personal responsibility of the author and, as such, have not been endorsed by members of the Economic Council of Canada." Similarly, "Conclusions or recommendations in The Institute's publications are solely those of the author, and should not be attributed to the Board of Directors, Council of Trustees, or contributors to The Institute."

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FOREWORD

This study is one of a series commissioned jointly by the Economic Council's Regulation Reference and the Institute for Research on Public Policy which deals with various aspects of agricultural regulation. These studies do not profess to cover the whole field of agricultural regulation but they do focus on several important areas of concern.

The following is a list (alphabetically by author) of agricultural studies to be published in this series:

- * Arcus, Peter L., Broilers and Eggs
- * Barichello, Richard R., The Economics of Canadian Dairy Industry Regulation
- Brinkman, George L., Farm Incomes in Canada
- Forbes, J.D., D.R. Hughes and T.K. Warley, Institutions and Influence Groups in the Canadian Food Policy Process
- * Gilson, J.C., Evolution of the Hog Marketing System in Canada
- * Harvey, D.R., Government Intervention and Regulation in the Canadian Grains Industry
- * Josling, Tim, Intervention and Regulation in Canadian Agriculture: A Comparison of Costs and Benefits among Sectors
- * Martin, Larry, Economic Intervention and Regulation in the Beef and Pork Sectors
- * Prescott, D.M., The Role of Marketing Boards in the Processed Tomato and Asparagus Industries

* Already published

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Résumé

L'auteur décrit l'évolution de la vente centralisée de porcs par l'intermédiaire des offices de commercialisation des producteurs, ainsi que la législation des gouvernements à l'égard des offices de commercialisation du porc au cours des 25 dernières années. Une analyse d'une variété d'organismes de vente centralisés de porcs en Ontario et dans l'Ouest du pays, des niveaux des prix, de la stabilité, des prix interrégionaux et de la performance des exportations amène à conclure que le système de commercialisation du porc au Canada donne des résultats relativement acceptables à l'heure actuelle et assure un pouvoir compensatoire de marché permettant de contrebalancer l'oligopsone que constitue l'abattoir. La présence de ces offices a freiné le développement d'une intégration contractuelle et verticale étendue dans l'industrie canadienne du porc, et c'est pourquoi il ne faut pas s'étonner de constater que les contrats et l'intégration verticale constituent la principale raison de la croissance de la production du porc au Québec, où il n'existe pas d'office de commercialisation.

L'industrie du porc a atteint un stade où les offices de commercialisation opèrent en vertu de lois spéciales créées expressément pour les producteurs de porc, alors que les opérations des abattoirs constituent un type de pratiques

commerciales qui sont régies par la Loi sur les enquêtes relatives aux coalitions. À l'heure actuelle, "... on croit déceler une anomalie d'après laquelle les producteurs de porc, en vertu de la législation et des politiques publiques, sont encouragés à empêcher ou à diminuer la concurrence entre eux afin d'obtenir un plus grand pouvoir de négociation sur le marché, alors que les acheteurs de leurs produits ne doivent pas, selon les dispositions de la même loi, conspirer, agir de connivence pour faire en sorte de faire obstacle, limiter ou diminuer indûment la concurrence sur le marché". Il n'en reste pas moins qu'une fois réalisée l'égalité du pouvoir de négociation -- ce qui nous paraît déjà fait -- nous devons déterminer quel nouveau cadre il faudrait mettre au point pour pallier la situation d'oligopole bilatérale à laquelle font face les producteurs et les acheteurs de porc au Canada. En ce qui concerne les négociations entre les offices de commercialisation et les abattoirs, l'auteur recommande certaines politiques et principes directeurs.

Summary

EVOLUTION OF THE HOG MARKETING
SYSTEM IN CANADA

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UNIVERSITY OF MANITOBA

The development of central selling of hogs through producer marketing boards and Government legislation on hog marketing boards over the past 25 years is traced. An analysis of a variety of central selling agencies for hogs in Ontario and Western Canada, of price levels, stability, inter-regional pricing and export performance, leads to the conclusion that the hog marketing system in Canada is working tolerably well at the present time and provides countervailing market power to a meat packer oligopsony. The presence of marketing boards has prevented the development of extensive contractual and vertical integration in the Canadian hog industry and it is perhaps no coincidence that contracting and vertical integration is the main reason behind the growth of hog production in Quebec which has no marketing board.

The hog industry has arrived at the point where hog marketing boards act under special legislative acts created specifically for hog producers while meat packers' operations are conducted under trade practices whose actions are governed by the Combines Investigation Act. There is now an "... apparent anomaly

that hog producers, by virtue of public legislation and policy, are encouraged to prevent or lessen competition among themselves in order to achieve greater bargaining power in the market place while the buyers of their product must not, according to the provisions of the Combines Investigation Act, conspire, collude or arrange to 'prevent, limit, or lessen unduly,' competition in the market place." The question remains that now, once equality of bargaining power has been achieved, and it is believed that this is the case, what new framework may have to be developed to handle the bilateral oligopoly situation facing the producers and buyers of hogs in Canada. Policies and guidelines in bargaining between marketing boards and packers are recommended.

I INTRODUCTION

Few other sectors of the agricultural industry in Canada have been the subject of as much study and analysis as the hog marketing system. The system has been the topic for court cases, royal commissions, combines investigations, special legislative committees, graduate student theses and journal articles.

If there has been a common focal point for these studies and investigations, it has been the struggle between hog producers and the meat packers for some form of workable competition in the market place. During the past 35 years, there have been a great variety of recommendations relating to ways in which this workable competition might be achieved.

Through all of these studies, and the debates which ensued, a fundamental change was taking place in the Canadian hog marketing system. Slowly but surely, hog producers in the various provinces organized themselves under some form of marketing board legislation with the objective of using their collective power to produce either a more competitive marketing system or a system where they would have greater bargaining power with the buyers of their hogs; a change that was aided and abetted by government policy and legislation, and clarified by decisions of the courts.

Unlike several other commodity marketing boards in Canada, the hog boards have stopped short of a comprehensive supply management program. To date, the hog boards have supported the concept of a "common market" in

Canada and have recognized the international dimensions of the market place.

All of this is not to suggest, however, that either the producers or the meat packers are completely happy, by any means, with the present hog marketing system in Canada. Some producers continue to believe, no doubt, that they have still not achieved sufficient bargaining power in the market place. There is no disguising the fact that many of the meat packers are concerned about the potential powers of the boards.

Whether the development of hog marketing boards in Canada has now evolved to the stage where some form of workable competition has been created in the hog marketing system is the basic question which will be addressed in this study. More specifically, the objectives of the study are the following:

1. To analyze the nature, relevance and limitations of the competitive marketing system as it has applied to hog marketing in Canada.
2. To assess the several alternative methods of marketing employed by hog producers in dealing with the concentration of buying power in the market place.
3. To study the reasons for and the events which led to the development of hog marketing boards.
4. To assess the scope, functions and performance of hog marketing boards in Canada.
5. To evaluate the current status of the hog marketing system in Canada from the standpoint of policy, market structure and regulations.

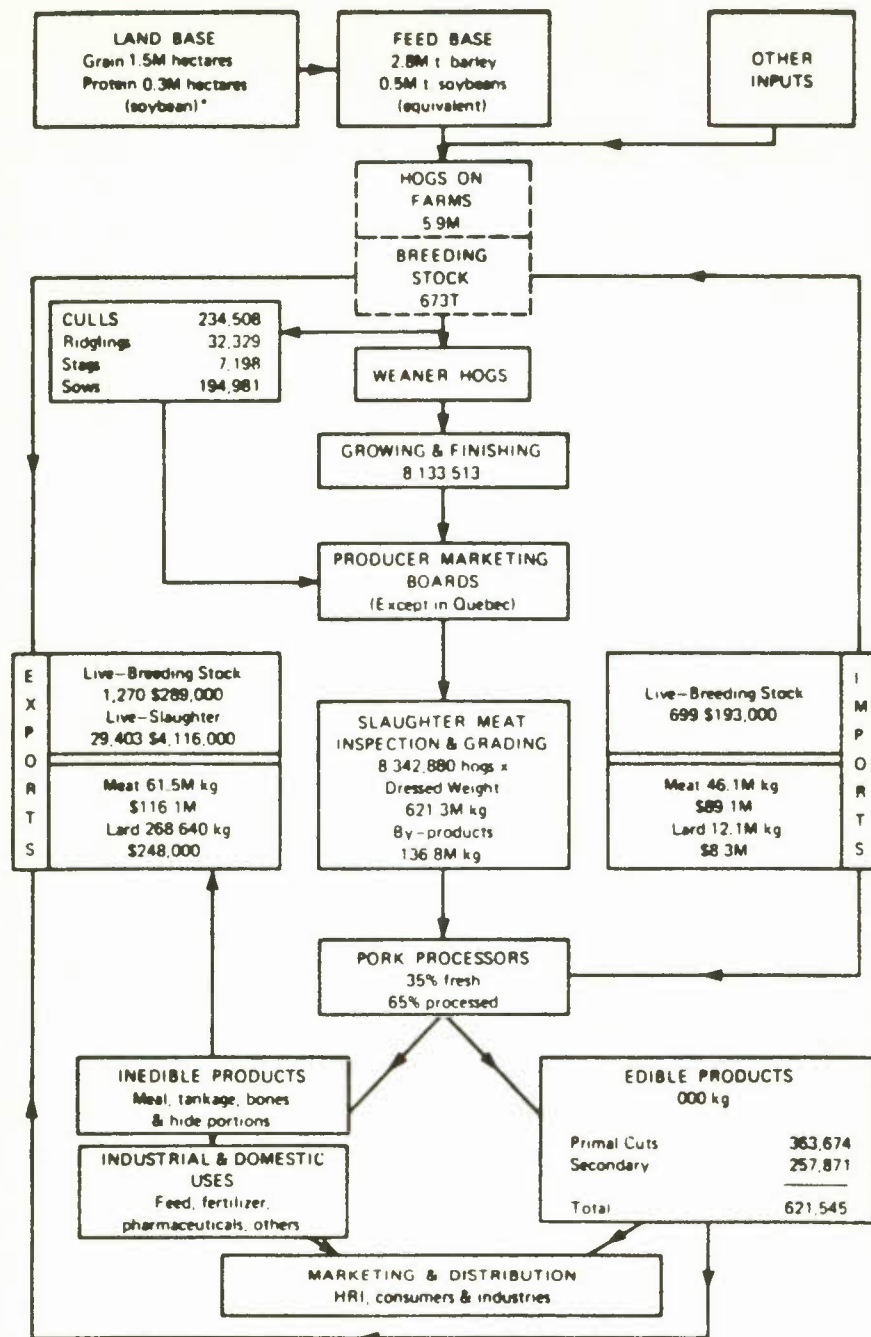
II THE HOG INDUSTRY IN CANADA

The hog/pork industry in Canada is a very large and complex system (Chart 1). In addition to the federal and provincial dimensions of the industry, it has a highly interdependent relationship with several international markets. The industry is an important part of the rural economy and it is very significant from an employment and industrial point of view in many of the larger urban centers of Canada. In general, the system operates without any central control or coordination. Coordination within the system is based primarily on the forces of the market place although it is a system which is shaped and influenced to a significant degree by certain public regulations and policies.

The hog industry in Canada has been characterized traditionally by considerable fluctuations in prices and production (Chart 2). For example, between 1969 and 1971, hog production increased by 33 percent while average annual prices (basis Toronto) declined by nearly 29 percent. By contrast, production during the period 1971 to 1976 dropped by nearly 25 percent while prices increased from approximately \$26/cwt (basis Toronto) to nearly \$64/cwt.

The number of live hogs exported from Canada has varied tremendously from period to period depending on the state of the domestic market for pork (Table 1).

Nearly two-thirds of Canadian hog production is located in the provinces of Ontario and Quebec (Table 2). But this has not always been



* A LARGE PART OF THE SOYBEAN PROTEIN IS IMPORTED FROM THE U.S.A. SUCH THAT THE 0.3 MILLION HECTARES INCLUDE MUCH U.S.A. AREA

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Chart II-1

The Canadian Pork System, 1975

Source: Orientation of Canadian Agriculture, Vol. 1, Part B, Agriculture Canada, Ottawa, 1977.

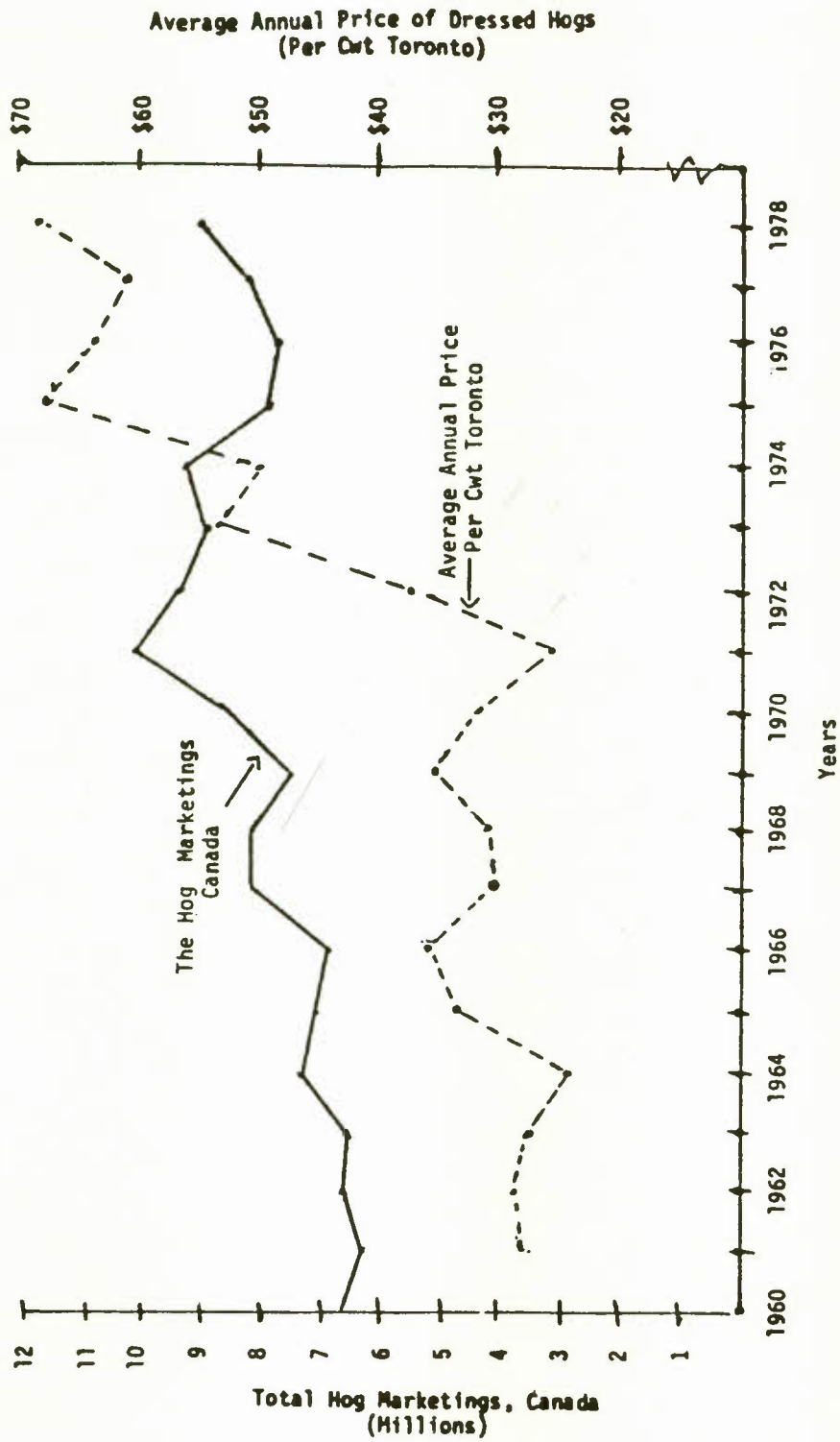


Chart II-2

Table II-1

	Hog Marketing In Canada	Export of Live Hogs From Canada
	.. '000 hogs.....	
1978	9,085	131,295
1977	8,167	28,272
1976	7,679	37,010
1975	7,913	25,141
1974	9,269	163,483
1973	9,041	96,532
1972	9,357	79,036
1971	10,113	62,984
1970	8,648	76,786
1969	7,492	10,747
1968	8,159	13,448
1967	8,203	16,424
1966	6,860	9,987
1965	7,077	9,291
1964	7,282	3,671
1963	6,521	2,993
1961	6,449	n.a
1960	6,764	n.a
Average 1960-64	6,722	7,620

Table II-2

Total Cash Receipts From Hogs--Provinces and Canada

Years	Canadian Total	British Columbia		Alberta		Saskatchewan		Manitoba		Ontario		Quebec	
		Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Average													
1935-39	73	0.9	1.2	15	20.5	7	9.6	4	5.5	31	42.5	12	16.4
1949	292	4	1.4	52	17.8	21	7.2	16	5.5	132	45.2	56	19.2
1951	321	3	0.9	58	18.1	22	6.8	17	5.3	133	41.4	73	22.7
1956	259	3	1.2	59	22.8	22	8.5	15	5.8	98	37.8	55	21.2
1961	303	2	0.7	70	23.1	26	8.6	22	7.3	109	36.0	62	20.5
1966	416	3	0.7	79	19.0	30	7.2	35	8.4	162	38.9	92	22.1
1967	413	3	0.7	76	18.4	31	7.5	36	9.0	152	36.8	99	24.0
1968	408	4	1.0	79	19.4	30	7.4	35	8.8	154	37.7	90	22.0
1969	456	4	0.9	87	19.1	36	7.9	43	9.6	171	37.5	95	20.8
1970	484	4	0.8	92	19.0	51	10.5	58	12.0	169	34.8	91	18.8
1971	429	5	1.2	84	19.6	51	11.9	54	12.4	141	32.9	79	18.4
1972	570	5	0.9	111	19.5	67	11.8	69	12.1	190	33.3	108	18.9
1973	825	6	0.7	160	19.4	98	11.9	108	13.1	265	32.1	160	19.4
1974	778	9	1.2	131	16.8	77	9.9	95	12.2	258	33.2	183	23.5
1975	886	12	1.4	130	14.7	65	7.3	88	9.9	313	35.3	247	27.9
1976	840	12	1.4	113	13.4	56	6.7	80	9.5	306	36.4	242	28.8
1977	844	13	1.5	118	14.0	51	6.0	78	9.2	291	34.5	262	31.0
1978	1,137	19	1.7	148	13.0	68	6.0	99	8.7	391	34.4	372	32.7

Source: Farm Cash Receipts, Statistics Canada, Catalogue No. 21-001, Monthly publication.

so. A decade ago, 42 percent of Canada's hog production was located in the Prairie Provinces and only 18 percent in Quebec; in 1978, these figures were 28 and 33 percent, respectively. In effect, hog production during the past decade has shifted in relative importance from the Prairie Provinces to the Province of Quebec. Several factors may be cited as the reasons for this regional shift in hog production during the past decade: the statutory grain rates in Western Canada and the Feed Freight Assistance program which have favored the transportation of grain over livestock and meat products from the Prairie Provinces; the relatively high grain prices and the appreciation of land values which have favored grain over hog production in Western Canada; the spectacular increase in integration and contract production in the hog industry in Quebec.

As the hog production has shifted from West to East, so has the pork processing industry in Canada (Table 3). Between 1970 and 1978, the proportion of hogs slaughtered in the Prairie Provinces declined from 41.5 to 28.7 percent while the percentage increased from 19.7 to 35.1 percent in Quebec during the same period of time.

The number of slaughtering and meat processing plants in Canada reached a peak in 1974 (Table 4) and since that time has declined as a result of considerable consolidation of activities within the industry. There were a number of reasons for the major consolidation and the several plant closures which have occurred in the slaughtering and processing industry during the past decade; shifts in location of hog and cattle production; need to move slaughter plants closer to major sources of cattle

Table II-3

Hogs: Percent Slaughtered in Federally Inspected
Establishments, By Province, 1960-1978

Year	Atlantic Provinces	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Canada
1960	2.7	16.2	35.0	12.4	6.6	21.6	5.7	100.0
1961	2.9	16.1	34.1	12.9	7.7	21.3	4.9	100.0
1962	1.6	17.8	35.5	11.3	6.2	22.4	3.9	100.0
1963	2.9	20.2	40.3	9.9	4.3	19.2	3.1	100.0
1964	3.0	18.3	38.7	11.3	5.4	20.8	2.5	100.0
1965	3.3	16.3	38.0	11.5	5.7	22.3	3.0	100.0
1966	3.9	16.8	39.8	11.6	5.8	19.5	2.6	100.0
1967	3.8	18.7	37.4	12.2	6.3	19.2	2.4	100.0
1968	4.0	19.1	35.5	12.0	6.3	20.8	2.2	100.0
1969	4.3	20.9	35.1	12.6	6.8	18.2	2.0	100.0
1970	4.1	19.7	32.9	14.6	8.6	18.3	1.7	100.0
1971	3.7	18.5	30.2	16.0	9.8	20.2	1.5	100.0
1972	3.5	21.6	29.8	13.8	10.9	20.7	1.3	100.0
1973	3.6	20.9	29.4	14.1	10.9	20.2	0.9	100.0
1974	3.4	23.6	30.0	13.4	10.8	17.9	0.9	100.0
1975	3.8	28.8	31.4	11.3	7.8	16.1	0.8	100.0
1976	3.8	31.4	32.2	10.6	7.2	14.5	0.9	100.0
1977	3.8	32.9	31.1	10.3	6.8	14.4	0.6	100.0
1978	3.8	35.1	31.4	8.9	6.8	13.0	1.1	100.0

Table II-4

Aspects of the Slaughtering and Meat Processing Industry in Canada

Item	1965	1966	1970	1971	1972	1973	1974	1975	1976	1977
Number of Establishments										
Manitoba	25	26	28	28	27	27	27	31	30	28
Saskatchewan	15	16	21	20	22	22	27	27	28	27
Alberta	33	37	43	44	46	49	52	57	58	57
Ontario	134	145	159	165	171	174	179	175	167	152
Quebec	129	139	134	137	135	132	134	122	119	111
Canada	399	431	453	460	468	473	487	477	467	430
Number of Employees										
Manitoba	3,065	2,995	2,935	2,947	2,864	2,874	3,085	3,250	3,462	3,402
Saskatchewan	1,471	1,537	1,569	1,656	1,707	1,574	1,673	1,507	1,297	1,332
Alberta	4,618	4,525	4,820	5,086	5,167	5,070	5,489	5,919	6,334	6,528
Ontario	11,195	11,469	11,273	11,712	12,005	11,783	12,418	12,290	11,866	12,090
Quebec	6,880	6,916	7,642	7,062	6,722	6,784	7,186	6,859	7,209	7,084
Canada	29,986	30,289	31,099	31,332	31,293	30,937	32,836	32,993	33,237	33,322
Value Added (Million \$)										
Manitoba	24,448	25,700	30,679	36,794	36,380	44,919	53,775	63,761	67,026	74,172
Saskatchewan	12,860	15,457	20,625	24,246	26,542	27,974	37,987	35,134	28,569	25,056
Alberta	46,789	54,496	67,061	76,246	79,560	88,216	115,536	138,438	144,102	176,620
Ontario	104,523	106,375	132,459	147,704	164,653	220,119	265,348	299,835	355,706	333,156
Quebec	66,966	72,705	92,307	95,787	93,042	123,897	134,267	145,505	173,224	185,288
Canada (current \$)	281,650	305,249	378,343	420,051	445,364	555,154	668,035	746,341	819,118	867,437
Canada (1971 \$) ^a	366,732	362,098	387,250	420,051	428,235	497,450	537,870	543,980	556,844	549,011

^aCurrent dollars deflated by the G.N.E. Implicit Price Index where 1971 = 100.Source: Slaughtering and Meat Processors, 1966, 1971-77, Catalogue Number 32-221, Annual Statistics Canada, Ottawa.

and hog supplies; the need to modernize plants as a result of technological changes in the meat processing industry; high capital costs of certain new technological processes.

The slaughtering and meat processing industry in Canada generates jobs for over 33,000 persons and in 1977, had a value-added activity of nearly \$867 million (Table 4).

The final demand multipliers for hogs and certain meat processing activities are included in Table 5. For every \$100 of additional demand generated for hogs there is a combined gross increase of \$178 in the output of all industries providing inputs to hog production; for every \$100 of additional demand created for red meats (Item #8, Table 5) there is a combined gross increase of \$253 in the output of all industries providing inputs to the production of red meats.¹ The highest final demand multipliers occurred for the production of cured meat (Item #10, Table 5).

When the multiplier effects of the pork production and processing industries are taken into account, there can be little doubt of the importance of the hog/pork industry to the Canadian economy.

Traditionally, the U.S.A. has represented the largest single export market for Canadian pork products (Table 6). Since 1971, however, the Japanese market has become an increasingly important outlet for Canadian pork. Further details relating to Canada's pork export trade may be noted in Table 7.

¹See J.C. Gilson, The Pork Industry in Manitoba. In this study it was estimated that for every dollar of additional demand generated for the final pork products in Manitoba, there was a combined gross increase of \$5.88 in the output of all industries providing inputs to hog production, and to the slaughtering and processing industries in Manitoba.

Table II-5

Final Demand Multipliers 1961, 1966 and 1971

Commodity	1961	1966	1971
1 Cattle and calves	1.7418	1.7486	1.7755
2 Sheep and lambs	1.7418	1.7486	1.7755
3 Hogs	1.7418	1.7486	1.7755
4 Poultry	1.7419	1.7487	1.7756
5 Poultry, fresh, frozen, chilled	2.2485	2.5002	2.5039
6 Poultry, canned	2.5755	2.7090	2.6453
7 Other live animals	1.7418	1.7486	1.7755
8 Beef, veal, mutton, pork, fresh, frozen	2.3066	2.2590	2.5331
9 Horse meat, fresh, chilled, frozen	2.5376	2.1373	2.0432
10 Meat, cured	2.5373	2.4965	2.7237
11 Meat, prepared, cooked, not canned	2.5374	2.4965	2.7235
12 Meat, prepared, canned	2.4601	2.4309	2.6092
13 Animal oils & fats & lard	2.5253	2.4863	2.7179
14 Margarine, shortening and like products	2.2122	1.9920	2.2228
15 Sausage casings, natural & synthetic	2.5376	2.4968	2.3841
16 Primary tankage	2.4638	2.4780	2.6453
17 Milk, whole, fluid, processed	2.4159	2.4292	2.5854
18 Milk, whole, fluid, unprocessed	1.7418	1.7486	1.7755
19 Fresh cream	2.3969	2.4327	2.5853
20 Butter	2.4185	2.4294	2.5798
21 Cheese, cheddar, processed	2.4117	2.4354	2.5865
22 Milk, evaporated	2.4394	2.4441	2.5854
23 Ice cream	2.3865	2.4025	2.5270
24 Other dairy products	2.4074	2.4278	2.5808
25 Rice, unmilled	0	0	0
26 Wheat, unmilled	1.7418	1.7486	1.7756
27 Barley, oats, rye, corn, grain nes.	1.7442	1.7496	1.7761
28 Wheat flour	2.0528	2.4130	2.3542
29 Fruits, fresh, except tropical	1.7430	1.7502	1.7764
30 Vegetables, fresh	1.7419	1.7488	1.7772
31 Vegetables, fresh, frozen, dried, preserved	2.0939	2.0994	2.1063
32 Vegetables & preparations, canned	2.0954	2.0925	2.1022

Source: M.H. Yeh and A.J. Begleiter, An Outlook Model For Canadian Agricultural Inputs and Outputs, Department of Agricultural Economics, University of Manitoba, April 1979.

Table II-6

Pork Trade, Canada and the United States (Excluding Live Hogs)
Cold Dressed Equivalent (millions of pounds)

Year	Canadian Pork Trade				U.S. Pork Trade			
	Imports		Exports		Imports		Exports	
	From all countries	% from U.S.A.	To all countries	% to U.S.A.	From all countries	% from Canada	To all countries	% to Canada
1958	1.66	80	68.15	88.1	193	31.1	118	1.2
1959	1.33	95	74.59	75.0	186	30.0	143	0.8
1960	17.67	99	71.61	66.0	185	25.0	138	12.7
1961	41.85	100	56.80	78.0	187	22.7	139	30.1
1962	35.55	100	54.67	84.4	222	17.7	132	26.9
1963	89.65	98	55.77	83.4	225	19.7	208	42.2
1964	53.64	100	62.92	80.8	233	20.7	217	24.7
1965	37.51	76	64.74	85.8	333	16.0	130	21.9
1966	37.40	76	53.29	85.6	381	11.6	140	20.3
1967	28.81	97	63.53	85.6	384	13.7	146	19.1
1968	38.75	97	63.80	84.8	416	13.0	187	20.0
1969	73.73	92	58.19	83.5	409	13.5	236	28.8
1970	26.92	88	72.31	82.9	449	13.0	177	13.3
1971	17.61	83	98.06	68.0	458	14.4	183	8.0
1972	36.34	95	113.49	52.7	509	12.7	223	15.4
1973	45.88	93	122.80	52.8	512	13.9	268	16.0
1974	65.07	97	89.82	49.5	470	9.6	196	32.2
1975	97.70	97	87.41	31.5	428	6.4	211	44.7
1976	197.30	97	85.53	23.0	420	4.7	416	46.2
1977	202.35	98	101.43	20.1	--	--	--	--
1978	106.1	--	115.5	37.1	--	--	--	--

Table II-7

Canada's Pork Exports^a and Imports
(Fresh, Frozen, and Processed)

Trade		Annual			
		1975	1976	1977	1978
<u>Exports</u>					
United States	000 lb.	27,372	19,183	18,773	44,413
	000 \$	26,355	18,581	17,533	40,819
	(\$/lb.)	(0.96)	(0.97)	(0.89)	(0.92)
Japan	000 lb.	53,780	59,271	74,040	70,049
	000 \$	67,916	75,261	98,954	129,817
	(\$/lb.)	(1.26)	(1.27)	(1.34)	(1.85)
Others	000 lb.	4,035	3,368	2,502	4,320
	000 \$	3,663	2,766	2,000	4,149
	(\$/lb.)	(0.91)	(0.82)	(0.80)	(0.96)
Total	000 lb.	85,187	81,822	96,315	118,782
	000 \$	97,934	96,608	118,487	174,785
	(\$/lb.)	(1.15)	(1.18)	(1.23)	(1.47)
<u>Imports</u>					
United States	000 lb.	92,812	190,976	197,011	112,794
	000 \$	81,165	150,722	156,649	117,825
	(\$/lb.)	(0.87)	(0.79)	(0.80)	(1.04)
Others	000 lb.	3,704	3,586	2,702	3,912
	000 \$	3,467	3,178	2,457	3,825
	(\$/lb.)	(0.94)	(0.89)	(0.91)	(0.98)
Total	000 lb.	96,516	194,562	199,713	116,706
	000 \$	84,632	153,900	159,106	121,650
	(\$/lb.)	(0.88)	(0.79)	(0.80)	(1.04)

(continued)

Table II-7

(continued)

Trade		Annual			
		1975	1976	1977	1978
Net Balance	000 lb.	-11,329	-112,741	-103,398	+2,076
All Countries	000 \$	+13,302	-57,292	-40,619	+53,135

^aExcludes export category, "Fancy Meats Pork", which in 1975 = 41.3 million lb. worth \$10.5 million, in 1976 = 39.5 million lb. worth \$10.3 million, in 1977 = 41.9 million lb. worth \$8.5 million, and in 1978 = 66.1 million lb. worth \$17.2 million.

Source: Trade of Canada, Statistics Canada.

III THE COMPETITIVE MARKETING SYSTEM FOR HOGS

The reasons for the development of hog marketing boards, their functions and operations, and the problems which they presently face, cannot be understood without some assessment of the merits and limitations of the competitive marketing system for hogs.

The primary purpose of this chapter is to examine the basic economic functions of the competitive marketing system, the historical difficulties encountered by producers in marketing their hogs and the proposals for changes in the system.

Economic Functions of the Marketing System

One of the most conspicuous features of any marketing system based on competitive exchange and free enterprise is the absence of any conscious design or centralized control for that system. Under the competitive economic system, producers are compelled by competition to organize their businesses and to produce in accordance with the wishes of consumers. Competition among producers not only forces them to recognize the preferences and desires of consumers, but it tends to force them to be as efficient as possible in the conduct of their operations. Every firm in the production and marketing process is constantly subject to a process of selection in the competition for survival; competitive pressure is brought to bear on firms to achieve the highest possible efficiency in their operations or go out of business.

In spite of its limitations, the competitive marketing system has had enormous practical significance for the hog industry. The fact that literally thousands of simultaneous decisions are being made almost every day of the year with respect to the production, marketing, processing, transportation, distribution and consumption of pork products in domestic and international markets, and that these widely dispersed decisions have an underlying coherence, are so commonplace that they have been taken for granted. The fact that the competitive marketing system has performed as well as it has, in spite of its limitations, cannot be ignored by even the more vigorous detractors of the system.

Nonetheless, the system has important limitations and it is these limitations which led producers to press for important structural changes in the methods used to market and price their hogs.

Before judgment is passed on efficacy of the competitive marketing system as it applies to the hog industry in Canada, further details relating to the framework and structure of the system will be examined.

Structure of the Marketing System

The notion of a marketing system for hogs (and pork) begins with the concept of a market. A particular market may be represented by a specific transaction between a single packer and a single hog producer, an auction market where many packers and many sellers of hogs are present, a transaction between a meat packer and a chain store, or a particular supermarket where consumers shop weekly for their supplies of pork products.

A marketing system, on the other hand, consists of a series of distinct, yet interdependent, markets. A marketing system, in effect, is the channel through which a commodity like pork moves from the producer through a series of specialized markets to the ultimate consumer.¹

In a competitive marketing system, the individual markets are connected together and coordinated through the price system.²

A particular market in the system is said to be perfectly competitive when there is a large number of buyers and sellers present, no individual one of which has a perceptible influence on the price for that market; where the product bought and sold in the market is homogeneous; and where there is free entry to the market by potential competitors.

Obviously, one part of the marketing system may exhibit characteristics of a highly competitive situation while another part of the system may be characterized by a very restrictive form of competition.

¹L.P. Bucklin (editor), Vertical Marketing Systems, Scott, Foresman and Co., Glenview, Illinois, 1970.

²See R. Trifon, The Metamorphic Concept of Vertical Integration in Economics, Research Report No. 9, Department of Agricultural Economics, University of Manitoba, September 1961. The alternatives to the competitive price system as a coordinating mechanism for a series of interdependent markets are vertical integration and contracting. Trifon describes vertical integration as the coordination of decision-making processes of two or more stages of production through ownership or financial control by one company of separate establishments in complementary industries. This definition appears to have particular relevance to a large part of the hog industry in the Province of Quebec.

Whatever the form of competition within the marketing system, certain functions and tasks must be performed by that system. There are a great many ways in which the functions of a marketing system may be described³ but the description most commonly adopted is the following:⁴

Exchange Functions

- (a) buying (assembling of product)
- (b) selling

Facilitating Functions

- (a) grading and standardization
- (b) financing
- (c) risk bearing
- (d) market information

Physical Functions

- (a) storage
- (b) packaging, distributing and dispersing
- (c) processing and fabricating
- (d) transportation

All of these functions must be kept in mind when an assessment is made of any particular part of the marketing system. In other words, a particular type of price behaviour which may be perceived as a problem in one part of the marketing chain may be performing a vital function in another part of that same system.

³H.G. Breimyer, Economics of the Products Market for Agriculture, Iowa State University Press, Ames, Iowa, 1976.

⁴R.L. Kohls, Marketing of Agricultural Products, The MacMillen Co., New York, 1961, pages 18-19.

Competitive Marketing System for Hogs

Prior to the introduction of hog marketing boards in Canada, hogs were marketed in a variety of ways.⁵ Until the 1920's, the terminal market was the central focus of most hog marketing systems in Canada. The terminal market evolved as an integral part of the system which depended on the railways as the main mode of transportation for livestock. During the 1920's, two important developments set the stage for far-reaching changes in the hog marketing system: work on the feasibility of carcass or rail grading for hogs; the growth and development of the trucking industry.

In later years, the two primary marketing outlets for hogs were: shipment of hogs direct to packers where prices for hogs were negotiated on a private treaty basis between the packer and the hog producer; direct to the terminal markets where hogs were sold by public auction. However, these were not the only ways of selling hogs. Other methods included: community auction sales, cooperative livestock shipping associations, independent livestock dealers, decentralized packer buying stations and local slaughter houses.

⁵Examples include: Report of the Select Committee for the Legislative Assembly of Manitoba, Livestock Marketing in Manitoba, February 1964; W.L. Bishop, Men and Pork Chops, Phelps Publishing Co., London, Ontario, 1977; L.E. Poetschke, A Study of Price Determination in the Alberta Hog Market, Economics Division, Canada Department of Agriculture, Public No. 1074, March 1960; N.L. Kenyon, The Marketing of Hogs in Ontario, Department of Agricultural Economics, Ontario Agricultural College, Guelph, 1958; L.E. Poetschke and Wm. MacKenzie, The Development of Producer Marketing Boards in Canadian Agriculture, Department of Political Economy, University of Alberta, 1956.

There is no doubt, however, that the bulk of the hogs were shipped direct to the packing plants in the earlier stages of hog marketing in Canada (Table 1). While many methods were adopted in the attempt to bring about greater competition in the market place for hogs, the bulk of hogs were sold by private treaty. It was this aspect of the system, more than any other, which eventually persuaded hog producers that they needed more effective competition and/or greater bargaining power in the market place.⁶

Assessment of the Competitive Marketing
System for Hogs

There are a number of criteria which can be used in the assessment of the performance of the competitive marketing system for hogs: marketing costs; productivity and efficiency of the system; profits; economic growth; equity; responsiveness to consumer needs; price and income stability. Before we make such an assessment, the more general problems and issues associated with the system should be noted.

A study of the livestock marketing system in Manitoba revealed that the major criticisms and complaints relating to hog marketing included: lack of producer bargaining power in the market place; marketing costs and margins; the role of the trucker. By far, the most important concern was the perceived lack of bargaining power in the market place. The Manitoba study made the following observation:

⁶Report of the Select Committee of the Legislative Assembly of Manitoba, Livestock Marketing in Manitoba, February 1964.

Table III-1

Hog Deliveries in Canada 1960 to 1972

	Direct to public stockyards	Direct to packing plants	Percent of total shipped to public stockyards
Average 1960-64	669,998	6,051,916	10.0
1964	686,982	6,594,662	9.4
1965	802,943	6,274,183	11.3
1966	758,368	6,101,662	11.0
1967	837,724	7,348,682	10.2
1968	762,015	7,383,132	9.4
1969	716,072	6,765,407	9.6
1970	1,018,085	7,630,165	11.8
1971	1,235,033	8,878,448	12.2
1972	634,259	8,722,889	6.8

Source: Livestock Market Review.

The loss in bargaining power was attributed to the decline in the proportion of the stock marketed through the Public Markets and the increase in volume sold directly to the packing plants. It was felt that in the direct method of marketing, prices are negotiated in a less competitive manner, since there is only one buyer present and the seller is usually less well⁷ informed than the buyer, and less skilled in price negotiations.

It became increasingly clear in Manitoba during the mid-sixties that hog producers wanted a more competitive marketing system and, failing that, they were prepared to press for greater bargaining power in the market place.

Complaints of hog producers in other provinces with respect to the hog marketing system were not unlike those voiced by the hog producers in Manitoba. Hog producers in Alberta were highly dissatisfied with the lack of competition in the market place. Attempts were made through the Alberta Livestock Cooperative to strengthen the role of the public stockyards in the hog marketing system. The cooperative also attempted to strengthen the bargaining position of hog producers by auctioning contracts to the major packers. In Ontario, the dissatisfaction among hog producers with what they considered their inferior bargaining position with the packers led to the development in 1943 of the Ontario Hog Producers' Association.⁸

Apart from the producers' complaints about the lack of bargaining power in the market place, other limitations of the competitive marketing system for hogs should be noted.

⁷ Report of the Select Committee of the Legislative Assembly of Manitoba, Livestock Marketing in Manitoba, February 1964.

⁸ See L.E. Poetschke and Wm. MacKenzie, The Development of Producer Marketing Boards in Canadian Agriculture, Department of Political Economy, University of Alberta, Edmonton, Alberta, 1957.

Daily, weekly and monthly fluctuations in prices for hogs and pork products, while an indispensable part of the "market clearing" function, are often seen as a poor guide for efficient allocation of resources in the hog industry. Farmers basing production decisions on current prices usually find little relationship between such prices and the prices which prevail when the hogs are ready for the market.

The instability of hog prices also cause perceived inequities among producers. One farmer delivering hogs during one part of the day will frequently receive a price which is substantially different from that received by another producer who delivers his hogs at a different time of the day. These intra-day and intra-week price fluctuations have been a source of considerable irritation to farmers.

It should be noted here, however, that the farmer is not the only stakeholder in the hog marketing system. A given price fluctuation may be a problem to the farmer but it may also be a very necessary part of the marketing operations for another part of the system if unwanted surpluses or shortfalls in pork products are to be avoided.

Still a further problem relates to the dual role played by prices in the marketing system: market clearing and income distribution.⁹ Prices which are necessary to clear the market as a result of an increase in hog production or a decrease in demand for pork products, may be quite unsatisfactory to the hog producer from an income point of view. Of course, what

⁹A.W. Wood, Consumer Interest in Hog Marketing Boards, from Appendix Volume of Research Projects on Consumer Interest in Marketing Boards prepared for the Canadian Consumer Council, Ottawa, March 1974.

the farmer sees as a problem may be viewed in quite a different light by the low-income consumer.

One of the major conclusions which can be drawn from any general analysis of the competitive marketing system for hogs is that the price fluctuations which are viewed by producers as a problem (price instability and uncertainty), and which have important consequences for the producer from a resource allocation and income point of view, are often performing an important economic function in another part of the system. For example, price fluctuations are a necessary part of the market clearing process; a way of equilibrating short and long changes in demand and supply in both the domestic and international markets.

Attempts have been made through various public policies and programs to reduce the impact of price instability on the hog producers. The most significant policy has been the federal Agricultural Stabilization Act which provides for transfer payments to producers when market prices drop below a specified minimum level. Both the federal and several provincial governments have been involved in price stabilization programs for hog producers.

Apart from the price instability issue, hog producers have contended that they lack bargaining power in the competitive marketing system. This loss of bargaining power came about, in large part, as a result of the decline in the proportion of hogs shipped to public markets and the increase in volume sold directly to the packing plants. It was this issue, more than any other, which eventually persuaded hog producers in several provinces

to turn to marketing boards as a way of enhancing their bargaining power in the market place.

It is interesting to note, however, that prior to, and even after hog marketing boards were established, attempts have been made to preserve many elements of the competitive marketing system. Indeed, the teletype system of hog marketing developed by the Ontario Hog Marketing Board in 1961, and later adopted by the hog producers in Manitoba, prompted one writer to observe:

Theoretically, no selling system of which I am aware comes closer to the perfectly competitive model than the teletype system used by the hog agencies.¹⁰

There can be no doubt about the hog producers' dissatisfaction over the years with respect to the operations of the competitive marketing system. But the producers appear to have had a somewhat ambivalent attitude towards the system. Certainly, the dissatisfaction has been strong enough that producers in 8 of the 10 provinces have moved to develop marketing boards and commissions. But what is just as significant, hog producers, unlike several other commodity groups, have not decided, to date at least, to support comprehensive supply management and administered pricing programs.

Whether the traditional competitive pricing system, or some other form of workable price competition, continues as an integral part of the

¹⁰L. Martin, "Effectiveness of Canadian Hog Marketing Boards", National Pork Seminar, Agriculture Canada, Ottawa, October 1977.

hog marketing system in Canada will depend on the effectiveness of the policies designed to offset the effects of the price instability, and whether or not a satisfactory modus operandi can be developed through the existing market structures with respect to the issue of bargaining power in the market place. Further consideration of these questions will be left to later chapters of this report.

IV RESTRICTED COMPETITION IN THE MARKET PLACE FOR HOGS

Framework for Restricted Competition

In our discussion of the pure competition economy, one assumption was very important—that wherever goods are bought or sold, there are many buyers and sellers, not one of whom has enough control over output to have a perceptible effect on price. For some markets this is a reasonable assumption. For the most part, the ultimate consumers of most products are many and their individual purchases have no obvious effect on the general market price. Even here, however, the exception would be when food consumers band together in the form of a food purchasing cooperative. For many markets, however, the buying and selling activities are dominated by a few buyers and sellers.

Where there are only a few buyers, the assumption that they are price takers in the market place, that they will not attempt to bargain for a low price, must be questioned. Ordinarily, a large buyer will attempt to negotiate for a price. He is in a position to bargain. He has the market power to influence the price. If there are many sellers, the buyer can force them to bargain. The result of such bargaining is generally a lower price than would otherwise prevail in a perfectly competitive market.

Under a bilateral oligopoly situation, where a few large sellers confront a few large buyers in the market place, the situation is characterized by negotiation and bilateral bargaining, where price may be determined within very wide limits depending on the relative power of the

respective buyers and sellers. For example, if the few large sellers are well organized as a group (collusive oligopoly) and the buyers are less well organized, the sellers may be in a position to gain a monopoly profit from the market place. The reverse position would hold, if the few large buyers, organized as a collusive oligopsony, faced a group of sellers who were not as well organized. Where power in the market place is relatively well balanced between a few large buyers and sellers, the resulting price and output tend to be very uncertain within a wide range of possibilities.

There are a great variety of possible market structures for buyers and sellers in the market place for agricultural commodities (Table 1). One of the classical studies of market structures for agricultural products was done by Dr. W. Nicholls whose observation which follows, still holds today:

...there is probably no problem in economics where analysis is so difficult or results so uncertain as in the theory of competition among a small number of firms.¹

Concentration in the Hog Marketing System

Concentration of selling or buying power in the hog marketing system is not a new phenomenon. In 1937, the Royal Commission on Price Spreads and Mass Buying expressed concern about the dominance of a few, large firms in

¹W.H. Nicholls, Imperfect Competition Within Agricultural Industries, Iowa State College Press, Ames, Iowa, 1941, page 6.

Table IV-1
Possible Market Structures For
Buyers and Sellers

Sellers	Buyers
Perfect Competition	Perfect Competition
Perfect Competition	Oligopsony
Perfect Competition	Monopsony
Oligopoly	Perfect Competition
Monopoly	Perfect Competition
Oligopoly	Oligopsony
Oligopoly	Monopsony
Monopoly	Oligopsony
Monopoly	Monopsony
Collusive Oligopoly	Collusive Oligopsony

the meat packing industry. In 1958, the Ontario Hog Producers' Cooperative estimated that the "big four" (Canda Packers, Swifts, Burns and Schneiders) bought 56 percent of the Ontario hogs.²

Currently, of the seven largest packing plants in British Columbia, the only Vancouver based plant that buys hogs produced in British Columbia is Intercontinental Packers.³ Even the Intercontinental plant in Vancouver imports the bulk of its hog supplies from its parent plant in Saskatoon. Fletcher's, the largest meat processor in British Columbia, obtains most of its hog supply from Alberta. Most of the smaller plants in British Columbia obtain their hogs from the local supply.

In Alberta, the five largest firms account for approximately 95 percent of the hog purchases in that province. These firms include: Swifts, Fletcher's, Canada Packers, Burns and Gainers. There is only one hog slaughter and processing plant in Saskatchewan, Intercontinental Packers Ltd., located in Saskatoon. The five major slaughterers and processors of hogs in Manitoba include: Burns, Canada Packers, O.K. Packers (Schneiders), Forgan and East-West Packers. Ontario has 29 firms that bid for hogs in the Ontario teletype marketing system. Of these, 10 are major processors with their own teletype buying machines, 9 are small Ontario firms and 10 are Quebec firms. The latter two groups of firms buy hogs in Ontario through

²N.L. Keyon, The Marketing of Hogs in Ontario, Master's thesis, Department of Agricultural Economics, University of Guelph; Report of The Royal Commission and Price Spreads and Mass Buying, 1937, Chapter IV, Section 3(1).

³Paper prepared by the Alberta Hog Producers' Marketing Board for the Agricultural Task Force Study, Canada West Foundation, January 1980.

the teletype machine located in the office of the Ontario Pork Producers Marketing Board.⁴ In 1972, it was estimated that the top 12 slaughtering and processing firms in Quebec bought over half the hogs in the province; the top 20 purchased over 70 percent of the hogs. In the Atlantic provinces in 1972, it was estimated that four firms bought two-thirds of the hogs shipped; eight firms purchased close to 90 percent of the hogs.⁵

During recent years the number of slaughtering and processing plants in Canada has declined (see Table 4, Chapter 2). It is important to understand the major reasons for the consolidation and plant closures which have occurred recently in the industry. These reasons include: low profitability of plants with excess capacity;⁶ need to modernize plants as a result of technological changes in slaughtering and meat processing techniques; the need to consolidate and centralize operations for certain types of meat processing (e.g., sausage kitchens) as a result of costly, highly capitalized, highly automated types of processing equipment and techniques introduced during recent years.

⁴Source: Canadian Pork Council, Spatial Price Differences for Hogs in Canada, March 1979.

⁵For an earlier indication of the degree of concentration in packing industry in Canada see: Report of the Restrictive Trade Practices Commission, Department of Justice, Ottawa, Queen's Printer, 1961. Evidence submitted to the Commission indicated that three firms accounted for approximately 52 percent of the total commercial slaughter in Canada at the time of the Commission's investigation.

⁶See J.L. Morris and D.C. Iler, Processing Capacity in Canadian Meat Packing Plants. A Report prepared for the Food Prices Review Board. The Board concluded from its study that there was considerable excess capacity in many of the slaughtering and processing plants particularly for hogs in the Atlantic provinces, Manitoba and Alberta.

The full impact of the new technological advances on the meat processing business, and the associated need to consolidate and centralize operations in the industry, are not generally recognized by the public. Bacon is now trimmed, the rib-out belly is conveyed off a cut table, injected and conveyed to a smoke house, conveyed through a chill tunnel, automatically formed, sliced, packaged, palletized, and warehoused for shipment in less than a day. Cooked meats are now prepared on the basis of computer assisted linear programmed least-cost formulations, conveyed through a microwave defrost, chop-ground in 5,000 to 10,000 pound batches, cooked and smoked, sliced, packaged and warehoused on the basis of a series of integrated and costly automated equipment that runs continuously.

It is little wonder that consolidation and centralization of processing activities are occurring in the meat slaughtering and processing industry and, what is important, this trend has probably not run its course.

On the selling side of the hog industry, there has certainly been a move towards greater consolidation and concentration of selling power. At the present time, hogs in seven provinces, nearly two-thirds of all hogs in Canada, are sold through marketing boards. In the province of Quebec, where there is no hog marketing board, most of the hogs are produced by a few, large operations run by individuals, feed mills and cooperatives. As one recent report described the situation in Quebec:

These so-called 'integrators' supply about 80 percent of the market hogs and control 50 percent of the breeding stock... The single largest independent operator in the province owns 20,000 sows and markets 300,000 pigs per year. On the commercial side, feed mills control a significant portion of the production, using

the pigs as a vehicle to market feed grains. The powerful Co-operative Fédérée du Québec alone controls 30 percent of the province's 300,000 sows, either directly or indirectly through contract arrangements with independent farmers.

It is to be noted that the concentration of selling power in the hog industry, while obviously significant, does not imply that the sellers have complete "monopoly" power in the hog industry. The sellers do not have control over import of hog carcasses from the United States or processed pork products from other countries nor do they have control over substitute meat products such as beef, mutton, poultry or fish. More specifically, the sellers do not exercise supply management control over the production of hogs, a necessary prerequisite for monopolistic power.

It is difficult to know how to categorize the structure of the hog marketing system in Canada at the present time. Certainly, on the buying side of the market, it could be generally described as oligopsonistic in nature. On the selling side, from a national point of view, the selling market may be generally described as oligopolistic if one assumes that the seven marketing boards compete, to some degree, with one another. At the provincial level there is only one seller where a marketing board is involved, and, to the extent that only provincial hogs are available to the buyers in that province, the seller has a potential monopoly position. However, in principle, buyers in any one province may have hogs (or pork carcasses) shipped from another province or pork carcasses shipped in from

¹G. Winslow, "No Slowdown in Quebec", Hog Guide, January 1980.

the United States. Furthermore, under a teletype or dutch clock system of marketing, prices are established by a "competitive" process, not "administered" as would be the case under a monopoly situation.

In the final analysis, none of the hog marketing boards control the production of hogs and, to that extent, they lack the ultimate sanction of the pure monopolist-complete control over supply in the province. It must also be emphasized that hog pricing in any given province is closely related to the international market, particularly the United States.

Reducing The Restricted Competition
in The Market Place

When any part of the marketing system is dominated by a few large buyers or sellers, one way of attempting to make the market more competitive is to break down or curtail the concentration of power. This certainly appears to have been the earlier objective of the combines legislation in Canada.

Part V, Section 32(1) of the Combines Investigation Act reads:

32(1) Every one who conspires, combines, agrees or arranges with another person

- (a) to limit unduly the facilities for transporting, producing, manufacturing, supplying, storing or checking in any product,
- (b) to prevent, limit or lessen, unduly, the manufacture or production of a product, or to enhance unreasonably the price thereof,
- (c) to prevent, or lessen, unduly, competition in the production, manufacture, purchase, barter, sale, storage, rental, transportation or supply of a product, or in the price of insurance upon persons or property.

(d) to otherwise restrain or injure competition unduly,

is guilty of an indictable offence and is liable to imprisonment for five years or a fine of one million dollars or both.⁸

Skeoch has suggested that:

Essentially, the purpose of the legislation was to maintain effective competition and a rapid rate of technological advance within a system of free enterprise.⁹

Skeoch contends that investigations under the Combines Act, while condemning "collusion, monopolies, mergers and restraints of trade that operate contrary to the public interest", recognized, at the same time, that while the structure of industrial organization has undergone substantial change that was "no reason to lose faith in the efficacy of competition."¹⁰

There is no doubt that the Combines Investigation Branch has been prepared to act, from time to time, whenever it felt that competition in the meat packing industry was being seriously eroded or unduly constrained.¹¹

Means other than the Combines Investigation Act have also been used by hog producers to challenge what they regard as unduly restrictive buying

⁸Combines Investigation Act, Office Consolidation, Supply and Services, Canada, 1978.

⁹L.A. Skeoch, "The Combines Investigation Act: Its Intent and Application", The Canadian Journal of Economics and Political Science, XXII, February 1956.

¹⁰Ibid., page 49.

¹¹Report of the Restrictive Trade Practices Commission, Combines Investigation Act, Ottawa, 1961, pages 428 and 430.

practices in the market place for their hogs. More recently, the Alberta Pork Producers' Marketing Board has taken legal action against certain meat processors in Alberta.¹² A release by the Alberta Board on February 20, 1980, indicates the nature of its allegations:

The Board, by reason of evidence which is now in its possession, honestly believes that no competitive market for the purchase of hogs exists in the Province of Alberta.

The Board, for a number of years has believed that the only rational conclusion which it could draw from its market statistics indicated the price was not the allocator of hog supplies. Actual evidence which subsequently has come into the hands of the Board will now be the basis of the allegation of overt agreement in the intended action.

Until the entire history of hog acquisition in Western Canada has been examined publicly, the Board believes it is pointless to attempt to analyze the current market difficulties in terms of a market place in which buyers actively engage in price competition.¹³

In viewing the application of the Combines Investigation Act to the marketing of agricultural products, it is well to keep in mind the general intent of the legislation. The Act, as it has been applied, does not appear to condemn bigness, concentration or fewness of buyers or sellers as such.

¹²See Report of the Director of Investigation and Research, Combines Investigation Branch, Consumer and Corporate Affairs, Ottawa, March 31, 1978, in which it is noted that a previous inquiry initiated in 1974 by the Combines Investigation Branch in response to several complaints launched against the major meat packing firms by the Alberta Hog Producers' Marketing Board was discontinued in June 1977. It was determined that an offence under the Act had not been disclosed.

¹³Statement of the Alberta Pork Producers' Marketing Board, February 20, 1980. Subsequent to the Board action, the Alberta Minister of Agriculture announced his intention to establish a committee under the authority of the Alberta Department of Agriculture Act to review all aspects of hog marketing in Alberta.

Skeoch has observed:

The rivalry of a few large sellers, provided price and other strategic variables are not eliminated by agreement, and provided express attempts are not made to eliminate other rivals or restrict entry, can be as fully conducive to the welfare of the economy as the type of competition that has been accepted as characteristic¹⁴ of markets in which there are many sellers of a homogenous product.

While the Combines Act condemns any firm (or firms) which "conspires, combines, agrees or arranges with another person...to prevent or lessen, unduly competition...", its more positive objective is to help foster competition in the market place.

Development of Countervailing Power

In traditional economic analysis, restraint on the exercise of power by buyers (or sellers) was to be provided by effective competition on the same side of the market. That is, if a few large firms were exercising undue power in the market place, the best way of coping with that power was to increase competition among those firms, either by ensuring that there were no restrictions on entry to that side of the market by potential competitors, or by reducing the power among the firms by exercising the provisions of the combines legislation. This was a course of action generally supported by farmers when faced by oligopsonistic competition in the market place.

¹⁴L.A. Skeoch, op. cit., page 51.

Even while supporting this type of action, however, farmers expressed a desire for greater bargaining power in the market place. The campaign for compulsory pooling of wheat during the 1920's was based on the desire to achieve greater bargaining power in the market place.¹⁵

The economic rationale for this desire by farmers for greater bargaining power was developed and given considerable publicity by Galbraith in his book, American Capitalism. Galbraith suggested that:

...private economic power is held in check by the countervailing power of those who are subject to it. ...The fact that a seller enjoys a measure of monopoly power, and is reaping a measure of monopoly return as a result, means that there is an inducement to those firms from whom he buys or those to whom he sells to develop the power with which they can defend themselves against exploitation. It means also that there is a reward to them, in the form of a share of the gains of their opponents' market power, if they are able to do so. In this way the existence of market power creates an incentive to the organization of another position of power that neutralizes it.¹⁶

Galbraith suggested that the development of agricultural cooperatives in the market place was a manifestation of the development and exercise of countervailing power. He further concluded that the provision of assistance to farmers to help develop countervailing power has become an important function of government.

We will now turn to the examination of the role of cooperatives, and the later emergence of marketing boards, as a form of countervailing power in the hog marketing system in Canada.

¹⁵V.C. Fowke, The National Policy and the Wheat Economy, University of Toronto Press, 1957, pages 206-218 and 233.

¹⁶J.K. Galbraith, American Capitalism, The Concept of Countervailing Power, Houghton Mifflin Co., Boston, 1952, page 112.

Role of Cooperatives in Hog Marketing

Cooperatives in livestock marketing have been of three general types: local shipping associations; central selling organizations; and, those which have been engaged in the meat packing business.

Examples of cooperative shipping associations for hogs were developed, at one stage, in almost every province in Canada. In Alberta, the cooperative shipping associations operated in conjunction with the Alberta Livestock Cooperative Ltd. In Saskatchewan, the livestock commission department of the Saskatchewan Wheat Pool acted as the sales agency for shipping associations. In Ontario, the shipping associations worked through the United Cooperatives of Ontario.

Central selling cooperatives for hogs were also developed in several of the provinces. Examples include the Alberta Livestock Cooperative which first sold hogs directly to the packers on the basis of contracts negotiated with the packers, and later, acted as a commission agent on the stockyards in Edmonton and Calgary selling the hogs of member organizations.¹⁷ In Ontario, in 1955, the Ontario Hog Producers' Cooperative was formed. It served as a selling agency of the Ontario Hog Marketing Board. In 1953, the livestock department of the Manitoba Pool Elevators opened the Brandon Cooperative Livestock Auction Market where it was proposed that hogs would sell by public auction.

¹⁷Report of the Royal Commission on Price Spreads of Food Products, Vol. III, March 1960; Final Report of the Cooperative Union of Ontario Commission on Relationships Between Cooperatives and Marketing Boards, 1961; Report of the Select Committee of the Legislative Assembly of Manitoba, February 1964.

Examples of cooperatives entering the meat packing business included the First Cooperative Packers of Ontario (COPACO) established in Barrie, Ontario, in 1929, the Cooperative Fédérée in Quebec which, at one stage, operated three packing plants, and the Pool Packers at Brandon, Manitoba, which was established by the Manitoba Pool Elevators.

In general, the cooperatives in hog marketing provided two possible ways of increasing farmers' incomes:

- (a) raising prices to farmers by more effective bargaining power in the market place;
- (b) by reducing marketing costs.

In general, Cooperatives were more successful in reducing marketing costs than in raising prices.¹⁸

The failure of voluntary cooperatives to develop and sustain effective countervailing power in the market place for hogs was not entirely unexpected.

Galbraith in analyzing the strengths and limitations of cooperatives noted:

As a device for getting economics of larger-scale operations in the handling of farm products or for providing and capitalizing such facilities as elevators, grain terminals, warehouses and creameries, cooperatives have enjoyed a considerable measure of success. For exercising market power they have fatal structural weaknesses. The cooperative is a loose association of individuals. It rarely includes all producers of a product. It cannot control the production of its members and, in practice, it has less than absolute control over their decision to sell. ...A strong bargaining position requires ability to

¹⁸ D.R. Campbell, "Voluntary and Compulsory Co-operatives", Canadian Journal of Agricultural Economics, Vol. V, No. 2, 1957.

wait - to hold some or all of the product. The cooperative cannot make the non-members wait; they are at liberty to sell when they please and, unlike the members, they have the advantage of selling all they please. In practice, the cooperative cannot fully control even its own members. They are under constant temptation to break away and sell their full production. This they do,¹⁹ in effect, at the expense of those who stand by the cooperative.

Without complete control of supply, cooperatives were not in a strong position to exercise countervailing power in the market place. In Ontario, for example, the hog producers sought to make their programs compulsory through marketing boards to obtain greater bargaining power in the market place.²⁰

In general, hog producers in Canada came to the conclusion that they could not achieve the desired objectives through voluntary cooperation. This led to the further conclusion that what was needed was legislation which would permit complete control of the product.

Development of Marketing Boards

While marketing boards for hogs in Canada are of a fairly recent origin, board marketing in Canada has a long history. The first provincial attempt to set up a compulsory marketing organization was the British Columbia Produce Marketing Act passed in 1927. This Act later went before the Supreme Court and was ruled ultra vires of the Constitution on the grounds that it interfered with interprovincial trade.

¹⁹J.K. Galbraith, op. cit., page 161; also Report of the Royal Commission on Price Spreads of Food Products, page 36.

²⁰D.R. Campbell, op. cit., page 30.

The first federal legislation relating to compulsory marketing boards was the Natural Products Marketing (Canada) Act which became law in 1934. This Act was declared ultra vires of the Constitution in 1937 on the basis that it encroached on provincial jurisdictions.

Following the rejection of the Federal Act in 1937, all provinces were encouraged to pass some form of marketing board legislation. The provinces proceeded to do so and, in 1949, under pressure from the Canadian Federation of Agriculture, the Federal Government passed the Agricultural Products Marketing Act.

The marketing board legislation in Canada took on a new significance in 1972 with the federal enactment of the Farm Products Marketing Agencies Act. This Act permitted the establishment of national marketing boards with powers of supply management. The establishment of the Canadian Egg Marketing Agency in 1973, the Canadian Turkey Marketing Agency in 1974, and the National Chicken Marketing Agency in 1979 endowed the egg, turkey and chicken producers with an enormous amount of bargaining power in the market place.

By 1977 there were a total of 110 marketing boards in Canada. By 1978, 80 provincial marketing boards had their authority extended to inter-provincial and export trade matters under the provisions of the Agricultural Products Marketing Act of 1949. In addition, four boards established under federal legislation were operating national marketing plans for industrial milk, eggs, turkeys and chickens.

A Marketing Board Defined

One of the best definitions of a marketing board has been provided by Hiscocks:²¹

A marketing board can be defined as a compulsory horizontal marketing organization for primary or processed natural products operating under government delegated authority. The compulsory feature means that all farms producing a given product in a specified region are compelled by law to adhere to the regulations of a marketing plan. The horizontal aspect means that marketing boards control the output of all farms participating in the particular marketing scheme and that they aggregate the supply from all the farms up to a chosen or permitted level. Government authority through legislation is essential to achieve the required compulsion. The power of the boards utilizing this authority is generally wide enough to affect the form, time and place of sales and directly or indirectly, the prices. It is clear that this is a powerful and far-reaching type of market organization and that society takes a very significant step when it gives these powers to one group in the economy.

Most boards have wide-sweeping powers available to them; not all, however, choose to exercise these powers. The general powers of marketing boards may be summarized as follows:²²

- (1) Pooling of prices
- (2) Power to set wholesale or consumer prices
- (3) Power to set minimum or maximum producer prices
- (4) Power to set prices by formula, negotiation or price fixing
- (5) Power to set marketing or production quotas for every producer
- (6) Power to require licensing of growers, producers, processors or dealers
- (7) Power to seize and dispose of any product marketed contrary to board orders
- (8) May have power to regulate interprovincial and export trade
- (9) May have some form of indirect control over foreign imports

²¹G.A. Hiscocks, "Market Regulation in Canada", Canadian Farm Economics, Vol. 7, No. 2, June 1972, pages 20-26.

²²G.A. Hiscocks, "Marketing Boards and Pricing in Canada", Canadian Farm Economics, Vol. 9, No. 3, June 1974.

- (10) Power to purchase and/or sell the regulated product
- (11) May supply market information to producers and other interested parties
- (12) May have resources to develop new domestic markets
- (13) May have resources and authority to develop new export markets
- (14) May undertake promotion of the regulated product

The marketing boards in Canada vary tremendously in terms of the powers exercised over the production, marketing, processing and pricing of agricultural products.²³

At the top of the list are those boards, such as the fluid milk boards, which directly fix prices and establish marketing quotas for a given milk-shed. Close to the top of the list are the poultry marketing boards which set marketing quotas and minimum sales prices.

Another group of boards concentrate on the negotiation of prices with major buyers of the product. These boards ensure that every producer receives the same basic price, that quality standards and grades are uniform and consistent, and that delivery arrangements are satisfactory.

There are still another group of marketing boards which exercise minimum powers under their legislation. Their basic objective would appear to be a better organization of existing markets. Examples include the Ontario Fresh Fruit Board, the Alberta Feed Grain Commission and several fruit and vegetable boards.

As we will see later, the hog marketing boards in Canada vary considerably in terms of the powers exercised and the type pricing policies followed. In all cases, however, no attempt has been made, to date at

²³G.A. Hiscocks, Ibid., page 20.

least, to adopt the supply management policies followed by some of the other commodity boards in Canada.

Emergence of Hog Boards

While the hog marketing boards in the various provinces started at different times and under somewhat different circumstances, the persistent and underlying pressure by hog producers was the desire for greater bargaining power in the market place. In some cases this enhanced bargaining power was to be used to create a more competitive marketing system; in other instances, more direct bargaining devices were developed to deal with the packers.

In almost all instances, the hog producers attempted originally to achieve the goal of greater bargaining power by means short of compulsory marketing legislation.

Prior to the development of the Hog Producers' Marketing Board in Ontario in 1946, local cooperative marketing associations were very popular.²⁴ In the Maritime provinces, the Maritime Co-operative Services Limited was active in the shipping and selling of hogs.²⁵ In Alberta, the Alberta Live-stock Co-operative was very active in bargaining with the packers for the hog producers.²⁶

In almost all cases, however, hog producers eventually decided that the cooperatives did not have sufficient control over their own members,

²⁴N.L. Kenyon, The Marketing of Hogs in Ontario, Master's Thesis, Department of Agricultural Economics, University of Guelph, Guelph, Ontario.

²⁵Wm. MacKenzie, The Development of Producer Marketing Boards in Canada, 1956.

²⁶L.E. Poetschke, A Study of Price Determination in the Alberta Hog Market, Canada Department of Agriculture, Public No. 1074, March 1960.

much less control over overall hog supplies, to exercise much bargaining power in the market place.

The first province to move towards a compulsory marketing plan for hogs was Ontario with the establishment of the Hog Producers' Marketing Board in 1946. It is interesting to note, however, that it was not until 1960 that it became compulsory for all hog producers in Ontario to ship their hogs through the Board. During the period 1946-1950, various means were attempted to give hog producers greater bargaining power in the market place short of complete control over the marketing of hogs. After a long, and sometimes bitter, struggle between the hog producers and the packers, the teletype system of selling, using the dutch auction bid method of pricing, was adopted in Ontario.

The next boards were established in New Brunswick in 1951 and in Nova Scotia in 1953. In the initial stages of their operations, the two boards did not bring about any great change in the marketing system for hogs. One study indicated that:

It would appear that the marketing legislation has been used in both provinces to ensure that the shipping clubs continue to operate, rather than to alter the marketing system.²⁷

The next province to adopt a hog marketing plan was Manitoba with the establishment of the Hog Marketing Commission in 1964. The Manitoba Commission adopted the teletype system of marketing and pricing which had earlier been developed in Ontario. Between 1964 and 1972, prior to the

²⁷Wm. Mackenzie, op. cit., page 65.

period when the Commission was replaced with the Compulsory Hog Producers' Marketing Board, the hog producer in Manitoba has two options for selling:

- (a) To consign his hogs for sale through the Commission;
- (b) To continue to ship hogs directly to packers and to negotiate the price himself.

The primary purpose of the Manitoba Hog Marketing Commission was to create an open and more competitive market place for hogs.

In Alberta, the Hog Producers' Marketing Board was established in 1968 and in October 1969, the Board opened its telebid system of hog marketing. The marketing system adopted by the Board was similar to that established in Ontario and adopted later by the Province of Manitoba.

The Province of Saskatchewan established the Hog Marketing Commission in 1972. After considerable study, the Commission rejected the teletype system of hog marketing and opted, instead, for a negotiation written offer selling system.

The Province of P.E.I. established its hog marketing board in 1972. Hogs were sold to the packers on a formula pricing basis.

Marketing Boards and the Public Interest

With the establishment of the Canadian Wheat Board as a monopoly in the marketing of Canadian wheat in 1943, Fowke raised this question:

Can it be assumed that the Dominion government is so firmly seized of the inequality of the agriculturist's bargaining power that the removal of this inequality may be regarded as one of the long-run goals of future agricultural policy?²⁸

²⁸ V.C. Fowke, The National Policy and the Wheat Economy, University of Toronto Press, 1957, page 295.

During the last two decades there can be little doubt about the answer. Both federal and provincial levels of government have, through various legislative enactments, created compulsory marketing boards for a great variety of farm products in Canada, the more recent and the most comprehensive legislation being the Farm Products Marketing Agencies Act passed by Parliament in 1972.²⁹

If we fail to understand the role that both federal and provincial levels of government have played in the development of agricultural marketing boards in Canada, we will almost certainly fail to recognize the principles which should govern the operation of these boards, particularly the matter of accountability to the public.

In contrast to the meat packers who may be held accountable for their actions under the Combines Investigation Act, the marketing boards appear to be exempt from the provisions of this Act. For example, Section 33 of the Farm Products Marketing Agencies Act states:

Nothing in the Combines Investigation Act applies to any contract, agreement or other arrangement between an agency and any person or persons engaged in the production or marketing of a regulated product where the agency has authority under this or any other Act, under a proclamation issued under this Act or under an agreement entered into pursuant to Section 32 of this Act to enter into such an agreement.³⁰

On the surface, there would appear to be some contradiction between the general intent of the Combines Investigation Act and the general provisions of most marketing board legislation. However, the results of an

²⁹See Grace Skogstad, "The Farm Products Marketing Agencies Act: A Case Study of Agricultural Policy", Canadian Public Policy, VI:1, winter, 1980.

³⁰An Act to establish the National Farm Products Marketing Council, 19-20-21, Elizabeth II, Chapter 65, January 12, 1972, page 2060, item 33.

earlier inquiry by the Combines Investigation Branch into the operations of the Flue-Cured Tobacco Marketing Association of Ontario reveal the special conditions generally associated with compulsory marketing board legislation.³¹ The report of the Restrictive Trade Practices Commission stated in part:

The desirability of placing agricultural producers on a more equal footing with buyers has been recognized in the passing of marketing legislation in a number of countries including Canada. ...in lessening competition in the flue-cured tobacco industry the Association has followed closely the public policy which is becoming more and more the pattern with respect to the marketing of agricultural products.

In its report, the Commission acknowledged the public policy aspects of compulsory marketing legislation in its observation that:

If it is considered necessary that all producers and buyers should be regulated, as is clearly contemplated by the present arrangements of the Association, then the only course would appear to be for the growers to secure governmental authorization for the appropriate control measures.

One may conclude that public accountability with respect to marketing boards rests more with the legislative and policy departments of government than with the Combines Investigation Branch.

The first major test of this public accountability came during the long and bitter controversy surrounding the operations of the Ontario Hog Producers' Marketing Board during the late 1950's. During the period 1955 to May 1961, the prices of hogs under the control of the Ontario Hog Board were negotiated (over the telephone) with the packers. The "non-price"

³¹ Report of the Director of Investigation and Research, Combines Investigation Act, March 31, 1957.

basis of allocating hogs became a source of controversy between the Hog Board and the Meat Packers. The conflict between the Hog Board and the packers continued to escalate until the Ontario government finally intervened.

At the time of the government intervention, then Ontario Minister of Agriculture, the Honorable W.A. Goodfellow made the following observations with respect to the Hog Board's operations:³²

...in the case of the compulsory marketing plan, once a plan becomes law and as long as it remains in force, the producer does not have any choice. The attitude is therefore taken by the Department that, since it has brought down this far - reaching legislation in the interests of farmers and in the belief that such collective action is necessary for the overall good of agriculture, it has a responsibility because of the very nature of the resultant marketing organization. The board marketing powers under the Farm Products Marketing Act, which may be delegated to producer marketing boards, must be recognized as normally the power of a government agency.

The very wording of the Act points up that this is a power granted to the producer marketing board or agency concerned. It is also a power which may be taken away under the jurisdiction of the Farm Products Marketing Act. ...It must be admitted...that some difficulty has arisen in connection with operations conducted under the Ontario Hog Producers' Marketing Plan. While over the years the hog producers have been instrumental in correcting some of the problems and abuses which formerly existed, there has been a growing tendency to look at the powers which have been given to their marketing board and agency not as a legislative right but as a right to operate in any manner they deemed fit regardless of the confines of the legislation.

Fortunately, this controversy was settled in Ontario with the introduction of the teletype system of marketing introduced in 1961, but the

³²W.A. Goodfellow, "Ontario's Hog Controversy", Free Press Weekly Prairie Farmer, December 21, 1960.

observations of the Minister of Agriculture do point up the ultimate responsibility of governments for boards which they have created.

Further discussion relating to the public interest in marketing boards with national supply management schemes was generated by the publication of the Food Prices Review Board, Telling It Like It Is.³³

The Food Prices Review Board concluded:

Given alternatives to protect and stabilize producer income, the supply management marketing board option has little if anything to recommend it. Such marketing boards are usually 'pure' textbook monopolies. Monopolies create both economic distortions and income inequities, and have been legislated against in other economic sectors.

Perhaps the general conclusion which may be drawn with respect to marketing boards and the public interest was best expressed by Galbraith:

If we fail to regard government support to the bargaining power of the farmer and other groups as normal, we shall almost certainly neglect to search for the principles that should govern the subsidy of private groups by public power. We shall also be less likely to correct the considerable number of abuses and faults which have been associated with government aid to countervailing power - abuses and faults which have been especially numerous and serious in agricultural legislation. Many who might have concerned themselves with these faults have continued to suppose that the remedy is to abolish the entire activity. Like the executioners during the French Revolution, they have offered the guillotine as a cure for headache. This is not the best frame of mind in which to seek improvement in what is certain to continue.³⁴

In focusing on marketing boards and the public interest, we do not suggest that the hog marketing boards in Canada have set out to abuse the powers given to them by the respective provincial legislative bodies.

³³Food Prices Review Board, Telling It Like It Is, February 1976.

³⁴J.K. Galbraith, op. cit., page 165.

But in any discussion of restricted competition in the market place for hogs, it is well to remind ourselves of the policy framework within which the hog marketing boards were developed and the accountability which these boards have to the public through the governments which created them.

V SCOPE AND FUNCTIONS OF HOG MARKETING BOARDS IN CANADA

The volume of business handled by the hog marketing boards in Canada may be noted in Table 1. Nearly two-thirds of all hogs in Canada are marketed through boards; the remaining hogs, the bulk of which are produced in Quebec, are marketed through various non-board channels.

Current Operations¹

In British Columbia, where a hog marketing commission was formed in March 1980, hog producers are paid a price based on the weekly average price on the market in Edmonton. Intercontinental Packers Ltd. is the only major packer in the province.

Prior to March 1978, hogs in Alberta were sold through the teletype system on a spot market basis. After that date, however, the method of selling through the teletype system was changed from a spot market to advance buyer bidding ("Tender acceptance teletype auction system"). The advance buyer bidding system operates as follows:

(a) Specified lots of hogs, based on anticipated producer offering volumes, are broadcast over the teletype system for buyer bids.

(b) The bids received from the buyers are then ranked from highest to lowest bid price.

¹Canadian Pork Council, Spatial Price Differences For Hogs in Canada, March 1979; J.C. Gilson, The Pork Industry in Manitoba, Manitoba Department of Agriculture, July 1979.

Table V-1
Provincial Hog Marketing Boards and
Volume of Business, 1977-78

	Value of Receipts \$000
Alberta	107,086
Saskatchewan	46,904
Manitoba	77,465
Ontario	262,131
New Brunswick	4,611
Nova Scotia	13,473
Prince Edward Island	<u>12,032</u>
Total	523,702

Note: In 1977-78, the value of producers' receipts through the Hog Marketing Boards constituted 62 percent of all cash receipts from hog sales in Canada; the biggest part of the non-board sales of hogs occurred in Quebec.

(c) Following the bidding session on any given day, producers are advised of the probable average price for their hogs. The result is that producers know the approximate price before they deliver their hogs. Producers must commit hogs for delivery before 10 a.m. on the next marketing day.

(d) When the actual hogs are delivered, they are allocated to the buyers in accordance with the ranking of bids received earlier from the buyers.

In addition to the "tender acceptance teletype auction system", the Board has provisions in its regulations which permit it to negotiate separate contracts with individual buyers. In 1979, the Alberta Board had negotiated individual contracts with three buyers: Fletcher's Fine Foods Ltd., Gainers Ltd., and Swifts Canadian Co. Ltd. These contracts have been the focal point for considerable controversy between the Board and several of the packers.²

In Saskatchewan, the Hog Marketing Commission contracts with the packers for hog sales, using a negotiation process to determine conditions of sale, which include formula pricing and hog volumes specified by percentage. The system operates as follows:

Hog contracts are negotiated at 'negotiation sessions' which are held prior to the expiration of the previous contract. Contract length has varied from two weeks to six months depending on market conditions. Proposed conditions of sale are mutually exchanged by packers and the Commission prior to negotiation sessions. After terms of sale are agreed upon and an estimate of hog deliveries is discussed, written bids on lots of hogs (expressed as a percent of the total run) are received. A total of seven lots is sold; the first consisting of 94% of the total; the remaining consisting of six lots of 1% each. Packers may bid on all or part of the 95% lot.

²For further details relating to this controversy see J.C. Gilson, The Pork Industry in Manitoba.

...The packers receive hogs on each market day in proportion to the percentage they purchase. ...Packers pay prices determined by the formula (base) price on each day they purchase hogs, adjusted (plus or minus) by their respective bids. The price formula is based on daily hog prices in Toronto, Winnipeg, Edmonton and Omaha plus weekly pork wholesale prices. Producer prices are quoted on a weekly basis.³

When the Manitoba Hog Marketing Commission was established in 1964, hog producers had two options for selling: through a teletype system of marketing; direct to the packers where the producer negotiated his own price. When the Commission was replaced by the Hog Producers' Marketing Board in 1971, producers were required to market all their hogs through the Board. The period between 1971 and 1977 was marked by considerable controversy between the Board and the packers as several different methods of pricing were attempted. Finally, in August 1978, the Manitoba Board announced that it was prepared to introduce the Dutch Clock method of selling, a method which has been continued to the present time. It should be noted that the Manitoba Board also has its own order buyer participating in the Dutch Clock bidding sessions. Such hogs purchased by the Board may be shipped to markets in the United States for slaughter, or the Board may have the hogs slaughtered in plants in Manitoba and the pork products may be sold in Canada or in export markets.

In Ontario, hogs are sold on the basis of a Dutch auction system using a teletype machine operated by the Ontario Pork Producers' Marketing

³Canadian Pork Council, Spatial Price Differences for Hogs in Canada, March 1979, page 2.2.

Board. There are nine major hog processors in Ontario who have teletype buying machines located in their own offices. In addition, there are 13 to 16 small processors who bid for hogs on the teletype machine located in the office of the Ontario Board.⁴

Each of New Brunswick, Nova Scotia and Prince Edward Island have hog marketing boards, the former two managed by the same manager, the latter managed independently. All three boards sell hogs on the basis of a pricing formula.

In New Brunswick and Nova Scotia, the formula involves contacting the OPPMB (Ont) on Tuesday to get a report on the average daily price for each of the preceding Thursday and Monday, developing a weighted average price for the two days and subtracting 40¢ per cwt. This price figure, together with the market trends for the current week, is then used in negotiations with the packers. ...Once the price has been settled for New Brunswick and Nova Scotia its usually accepted for Prince Edward Island as well.⁵

In Quebec there is no producer hog marketing agency, nor is there in fact any provincial hog market as such. ...Producer prices in Quebec are essentially the prices paid by Cooperative Federee as the major packer in the Province. This price, generally determined on Wednesday or Thursday of the week, is developed using current line prices in Toronto and major U.S. markets and wholesale and retail markets, and is generally followed by other packers.

⁴For a detailed description of the teletype marketing system in Ontario see the Report of the Select Committee of the Legislative Assembly of Manitoba, Livestock Marketing in Manitoba, February 1964.

⁵See Canadian Pork Council, op. cit., page 204.

⁶Canadian Pork Council, op. cit., page 2.4; see also J.C. Gilson, The Pork Industry in Manitoba, page 6.10 ff.

The various characteristics of the seven hog marketing boards in Canada may be noted in Table 2. Two of the boards, Ontario and Alberta, sell by teletype, four of the boards use formula pricing and one of the provinces, Manitoba, has recently adopted a Dutch Clock auction method of selling. As we discuss later, however, there is considerable variation within each method of selling for the various provinces.

All boards with the exception of one, Nova Scotia, have adopted some form of price pooling for the hog producers. In the case of Nova Scotia, the price is set daily by the board with the result that prices are equalized among producers without pooling.

Three of the provincial boards, Ontario, Manitoba and Saskatchewan, operate assembly yards. In the case of New Brunswick and Nova Scotia, the boards do not operate assembly yards but the boards do collect fees for local shipping clubs which operate such yards.

Three of the boards, Nova Scotia, New Brunswick and Prince Edward Island have not been involved in export contracts for hogs; the remaining boards have been involved in varying degrees with pork export contracts.

It is interesting to note that only two of the boards, Alberta and Saskatchewan, do not possess quota powers in their regulations. However, none of the boards with quota powers have exercised this option to date.

It is clear that the differences are as important as the similarities among the various hog boards and commissions in Canada. While all the boards and commissions have adopted some form of central selling, the methods used for pricing range all the way from teletype selling in Ontario,

Table V-2

Features of Hog Marketing Boards and Commissions in Canada, 1973

Province	Year Established	Vote Held	Number of Directors	Directors Elected	Current Selling Method	Year Introduced	Prices Pooled
Ontario	1946	Yes	15	Yes	Teletype	1961	Yes
New Brunswick	1951	Yes	4	Yes	Formula	1979	Yes ^a
Nova Scotia	1953	Yes	5	Yes ^b	Formula	1953	No
Manitoba	1964	No	8	Yes	D.C.A.*	1978	Yes
Alberta	1968	Yes	9	Yes	Teletype	1969	Yes
Prince Edward Island	1972	Yes	6	Yes	Formula	1972	Yes
Saskatchewan	1972	No	5	No	Formula	1973	Yes

Province	Operate Assembly Yards	Make Settlements	Sell In Transit	Sell On Farm	Board Levy	Export Contracts	Quota Powers
Ontario	Yes ^c	Yes	Yes?	No	.8%	Yes	Yes
New Brunswick	No ^c	Yes	No	No	77¢	No	Yes
Nova Scotia	No ^c	Yes	No	No	92¢	No	Yes
Manitoba	Yes	Yes	Yes	No	1%	Yes	Yes
Alberta	No?	Yes	Yes	Yes	1.00	Yes	No
Prince Edward Island	No	No	No	No	92¢	No	Yes
Saskatchewan	Yes	Yes	Yes	Yes	80¢	Yes	No

*Dutch Clock Auction

(continued)

Table V-2
(continued)

^a Since price is set daily by the board, prices are equalized among producers without pooling.

^b First elections were held in 1972-1973.

^c Board does not operate yards but does collect fees for local shipping clubs which operate such yards.

Source: Canada Department of Agriculture, Marketing Boards Under Provincial Legislation, Canada 1957, and subsequent issues; hog marketing regulations of the various provinces and interviews with hog marketing board officials.

Note: This table was adapted from (and subsequently revised on basis of current data), A.W. Wood, Consumer Interest in Hog Marketing Boards, prepared for the Consumer Council of Canada, March 1974.

the Dutch Clock auction system in Manitoba, a tender acceptance teletype auction system and contracts in Alberta to formula pricing in the other provinces. In Quebec, where integration and contracting are an important aspect of the hog industry, prices are established in a variety of ways.

Constitutional Considerations

The provisions of the B.N.A. may be interpreted to mean that as a nation, Canada was to have internal free trade; that is, there were to be no restrictions on free trade across provincial boundaries.⁷ The provision of the B.N.A. which states, "all articles of the Growth, Produce, or Manufacture of any one of the provinces, shall, from and after the Union, be admitted free into each of the other provinces."

However, various types of marketing board legislation and regulations related thereto would appear to have placed considerable restrictions on internal free trade for some agricultural commodities.

The constitutional validity of some of the marketing board legislation in Canada has been tested in the courts from time to time. We will summarize briefly some of the more important of these cases.

In 1931, the Supreme Court of Canada ruled that the British Columbia Produce Marketing Act, passed in 1927, interfered with interprovincial trade, and that the levy imposed on producers constituted an indirect tax.

⁷For a comprehensive analysis of this issue, see: A.E. Safarian, Canadian Federalism and Economic Integration, Constitutional Study prepared for the Government of Canada, Information Canada, Ottawa, 1974.

Both of these provisions were ruled to be within the federal jurisdiction and, accordingly, the Act was declared to be ultra vires of the Constitution.

In the attempt to provide agricultural producers with some national marketing legislation, the Government of Canada passed the National Farm Products Marketing Act in 1934. The Board set up under this Act, not only regulated marketing, but was able to delegate regulatory power to provincial commodity boards, provided the Federal Government retained responsibility for interprovincial and export trade. The act was submitted to the Court for a ruling on its constitutional validity and in 1936, the Court declared the Act ultra vires of the Constitution. The Court stated in part:

The enactments in question, therefore, insofar as they relate to matters which are in substance local and provincial are beyond the jurisdiction of Parliament. Parliament cannot acquire jurisdiction to deal in the sweeping way in which⁸ these enactments operate with such local and provincial matters...

It was not until after World War II that farm organizations and government officials began work on a new piece of legislation which would permit provincial marketing boards to function in interprovincial trade. The Agricultural Products Marketing Act which was passed in 1949 enabled the Federal Government to authorize provincial boards to regulate interprovincial and international trade in various products. The Act was further amended in 1957 to permit provincial marketing boards to raise levies on a provincial basis.

⁸Attorney-General for British Columbia v Attorney-General for Canada. In the Privy Council (1937), A.C. 377 III Olmsted 228.

One of the more important cases dealing with restrictions on interprovincial trade in agricultural commodities was the challenge by the meat packers of the provision in the regulations of the Manitoba Hog Marketing Board that stated:

2A. No Manitoba processor shall prepare hogs for slaughter in Manitoba or slaughter hogs in Manitoba unless same has been purchased from the producer board and where hogs have been brought into the province they shall, for the purposes of the Act, be deemed to be hogs produced in Manitoba and shall be subject to the same provisions of the Act and regulation as hogs produced in Manitoba.⁹

The validity of this regulation was challenged by Burns Foods Ltd. who sought an appeal of the regulation through the courts.

The appeal was dismissed by the Manitoba Queen's Bench on December 14, 1972, and by the Manitoba Court of Appeal on April 30, 1973.¹⁰ However, the Supreme Court of Canada allowed the appeal in a ruling on December 21, 1973. A statement from the Supreme Court ruling is revealing:

The Regulation was sought to be supported because it applies only to hogs bought within the Province. The difficulty is that what the order in question does is really to prescribe the conditions under which the hogs may be brought in from outside and that is, in itself, interprovincial trade. It is not an incident of the operation of slaughter taking place within the Province.

It is also said that the pith and substance is not to erect any barrier against the free flow of trade but to stabilize the price of hogs in Manitoba. The difficulty is that such regulation

⁹ Dominion Law Reports 33 D.L.R. (3d), Manitoba Hog Producers' Marketing Board v Burns Foods Ltd., et. al., Manitoba Queen's Bench, December 14, 1972.

¹⁰ Dominion Law Reports 35 D.L.R. (3d), Attorney-General for Manitoba v Burns Foods Ltd., et. al., Manitoba Court of Appeal, April 30, 1973.

by subjecting the price of 'imports' to the same regulations as local sales in, of itself, a regulation of the interprovincial trade.

It is to be noted that there were no provisions in the Agricultural Products Marketing Act (1949), or any other legislation at that time that would permit a given provincial board to control the inflow of farm products into that province from other provinces. Furthermore, there was no effective way of coordinating the activities of provincial boards at the national level. After considerable difficulties among several of the provinces concerning the flow of products from one province to another, the Federal Government passed the Farm Products Marketing Agencies Act in 1972. This Act permitted the establishment of several national marketing agencies for various farm commodities (e.g., eggs, turkeys, chickens). This legislation provided for a national marketing plan including provisions for supply management for eggs, chickens and turkeys. If producers of other commodities wanted to establish a national supply management program, an amendment of the present legislation would be required.

With the important exception of the case involving the Manitoba Hog Producers' Marketing Board v Burns Foods Ltd., and the 1957 amendment of the Agricultural Products Marketing Act which permitted provincial marketing boards to raise levies on a provincial basis, the operations of the hog marketing boards have not resulted in serious constitutional questions

¹¹ Dominion Law Reports 40 D.L.R. (3d), Burns Foods Ltd., et. al. v Attorney-General for Manitoba, et. al., Supreme Court of Canada, December 31, 1973.

or issues. Perhaps this has been so because the boards have not been involved in formal interprovincial agreements or in national supply management programs as has been the case for other commodities.

Product Promotion and Market Development

Almost all of the hog marketing boards are involved in pork promotion programs. Perhaps, the most ambitious pork promotion programs have been sponsored by the Ontario Pork Producers' Marketing Board. An example of the Ontario program is well illustrated by the two pilot restaurants which were opened in 1978: Ontario pork producers opened Canada's only pork specialty restaurant--Pork Pickins--in Toronto in August 1978, the first outlet in a proposed country-wide chain of fast-food pork restaurants; later in the year, Ontario pork producers opened Pork Place--a 200-seat, family-style pork restaurant.

In Manitoba, the Hog Producers' Marketing Board initiated its Pork Pro-Motor project. The Board outfitted a mobile pork information and cooking unit which was available for use by various types of local and community organizations.

The Saskatchewan Hog Marketing Commission has hired a full-time Home Economist to assist with a variety of educational programs relating to the pork industry.

The Alberta Board decided to sponsor the Western Canada Chefs de Cuisine Team to the Culinary Olympics in Germany in 1980. A long-term objective of the Alberta Board is to promote the greater use of pork on menus in hotels, restaurants and other such institutions. A further

program planned for 1980 involves the joint cooperation of the Alberta Pork Producers' Marketing Board, several meat packers and the Alberta Department of Agriculture in a special branded pork products advertising campaign in Alberta.

Inter-Regional Pricing Issues

Nothing has so stirred the hog marketing boards in the Prairie Provinces as the question of inter-regional price differentials.

During 1972 and 1973, relations between the Manitoba Hog Producers' Marketing Board and the meat processors began to deteriorate primarily because of arguments over an appropriate hog price differential between the Winnipeg and Toronto markets. The Board contended that the Manitoba hog prices should be linked to prices in Toronto in such a way that the Winnipeg prices would not be lower than the Toronto price less freight and handling charges.

At various times, attempts were made between the Manitoba Board and the packers to negotiate a price that would reflect a mutually agreed upon price differential between the Winnipeg and Toronto markets but no easy resolution of the problem appeared possible. In 1975, for example, the Board suggested a three-month trial of some type of pricing arrangement that would keep the Toronto/Winnipeg price differential from ever exceeding \$2.40 per cwt. The packers stated that this was out of line with estimated average cost of \$4.57 per cwt to move the surplus pork product to the East. No agreement was ever reached on the matter.

In its 1976 annual report, the Saskatchewan Hog Marketing Commission stated that, "the future of the Western Canadian hog industry lies in joint coordination and cooperation with the other two Western hog agencies in breaking this regional price problem." Currently, the Saskatchewan Hog Marketing Commission calculates a "base market hog price" which is related to daily hog prices in Toronto, Winnipeg, Edmonton and Omaha and weekly wholesale prices in Toronto and Vancouver.

The Alberta Hog Producers' Marketing Board in its ninth annual report (1978) stated that, "Price differentials between Alberta and other hog markets, especially when contrasted with pork prices at retail levels, have too often been absurd."

In theory, if a market is linked by a competitive transportation system and there are no impediments to trade flow, and if the market itself is truly competitive, prices at a deficit market should, on the average, not exceed those at a surplus market by more than transportation and handling costs for the product being moved from one market to another. How well the actual price differentials between Toronto and the Prairie markets actually conform to theory is a question that does not lend itself to an easy solution.¹²

The data in Table 3 indicate the average annual price differentials among the Toronto, Winnipeg and Edmonton markets for the period 1961 to

¹²See Canadian Pork Council, op. cit., Chapters 5 to 8; H.W. Harries, Price Relationships in the Alberta Hog Market, November 1977.

Table V-3
Annual Average Hog Prices
Toronto, Winnipeg and
Edmonton

Year	Toronto	Toronto- Winnipeg Spread	Winnipeg	Winnipeg- Edmonton Spread	Edmonton
dollars.....				
1961	28.36	+2.41	25.95	+1.06	24.89
1962	29.45	+2.18	27.27	+0.60	26.67
1963	27.89	+2.00	25.89	-0.47	26.36
1964	27.32	+2.70	24.62	+0.70	23.92
1965	33.46	+2.02	31.44	+2.33	29.11
1966	36.15	+1.49	34.66	+1.44	33.22
1967	30.72	+2.15	28.57	+1.83	26.74
1968	31.03	+1.55	29.48	+2.30	27.18
1969	35.69	+0.80	34.89	+2.14	32.75
1970	32.40	+2.85	29.55	+0.86	28.69
1971	25.79	+2.73	23.06	+0.96	22.10
1972	37.53	+3.39	34.14	+1.60	32.54
1973	54.87	+3.03	51.84	+1.69	50.15
1974	50.55	+4.18	46.37	+0.80	45.57
1975	68.07	+4.07	64.00	-0.99	64.99
1976	64.23	+4.73	59.50	-1.14	60.64
1977	61.04	+4.39	56.65	-0.54	57.19
1978	69.58	+1.85	67.73	-1.61	69.34

1978. Throughout the entire period both the Winnipeg and Edmonton average annual hog prices remained below the prices in the Toronto market, although the spread between Edmonton and Toronto began to narrow during the latter part of that period.

Given the considerable intra-year fluctuations in hog prices, a more meaningful comparison of the three markets may be made on the basis of monthly and weekly price data (see Charts 1 and 2).

While hog prices in the Edmonton market have traditionally been below those in Winnipeg--an indication that surplus pork production in Alberta was moving to eastern markets--the Edmonton price actually exceeded the Winnipeg price during the period 1975-1978. Indeed, for several weeks during 1978, particularly during the last five months of that year, hog prices in Edmonton were higher than the Toronto prices, an indication of a considerable shift in the regional demand and supply conditions for pork in Canada.

Some indication of the surplus and deficit pork regions in Canada for the period 1960-1978 may be noted in Table 4.

During the period 1970-1974, the relatively large pork deficit situation in Quebec coupled with a relatively large pork surplus in the three prairie provinces, suggest that much of the prairie pork was moving to eastern markets. Accordingly, one would expect that the Toronto-Winnipeg price spread would be approximately equal to the Toronto price less transportation and other transfer costs between the two markets. While there are no definitive data available on these costs of transfer between the

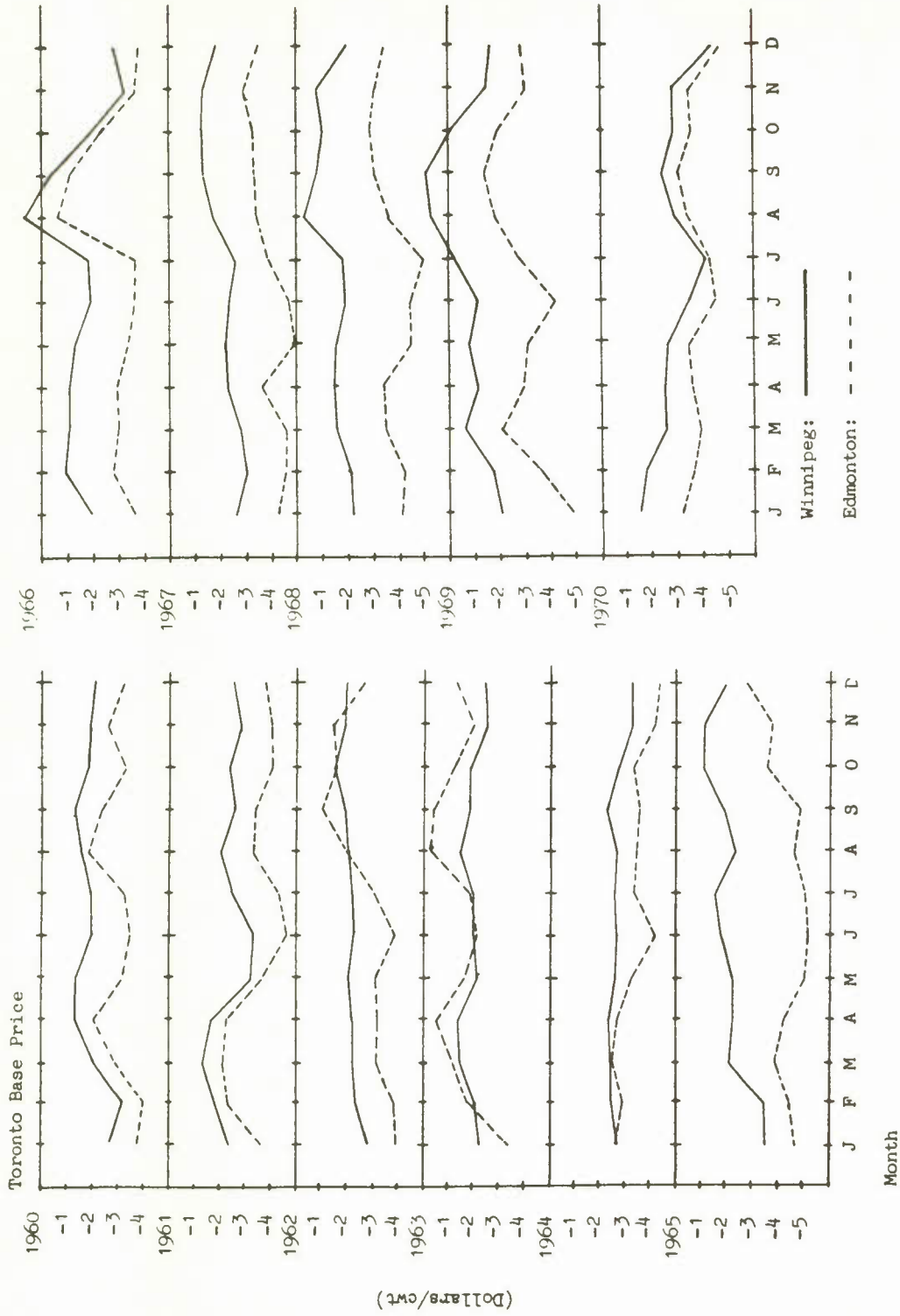


Chart V-1

Average Monthly Price Spread Between Toronto and Winnipeg and Edmonton for Dressed Pork
(Dollars/cwt)

(continued)

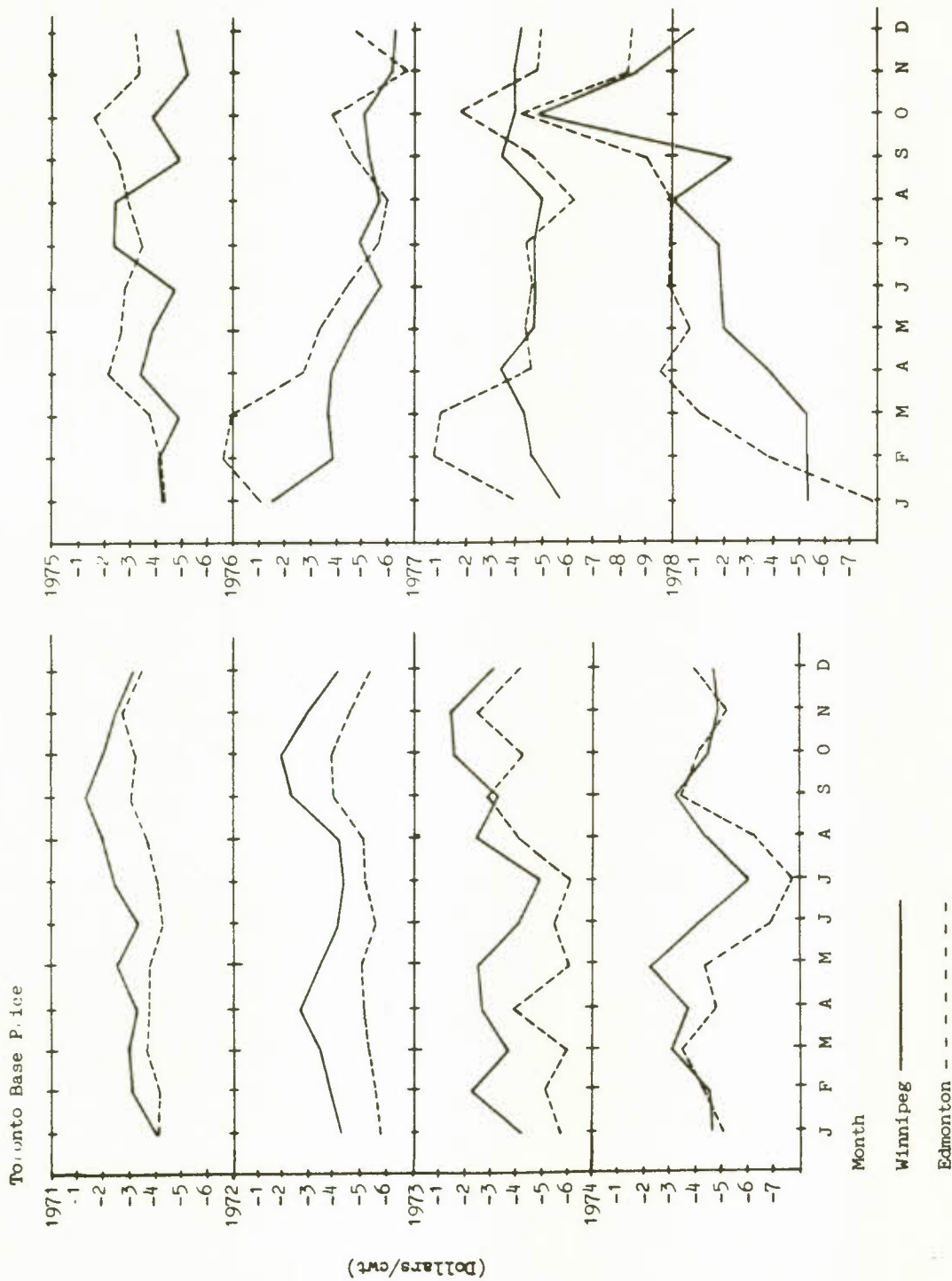


Chart V-1

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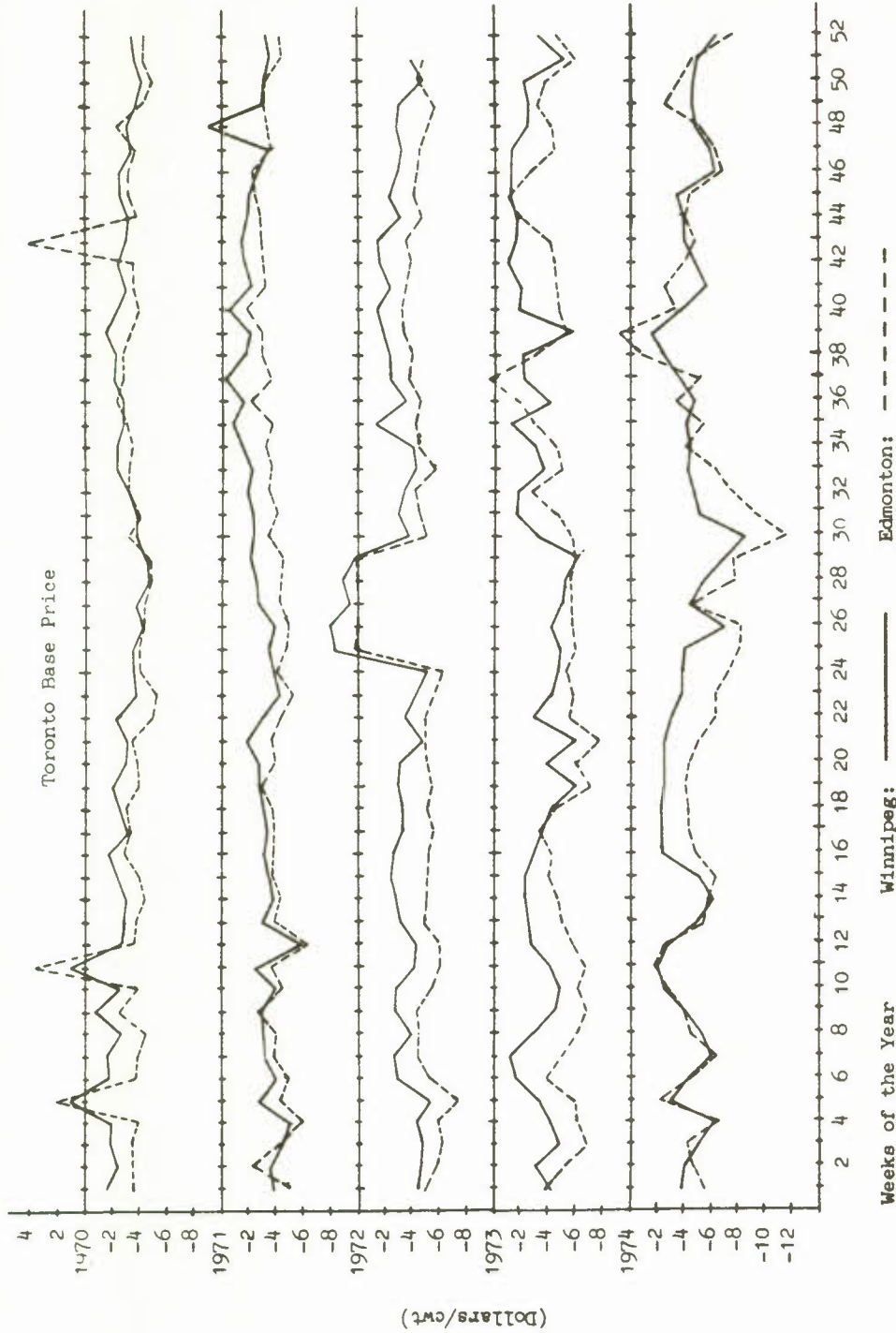


Chart V-2

Average Weekly Price Spreads Between Toronto and Winnipeg and Edmonton
For Dressed Pork (Dollars/cwt)

(continued)

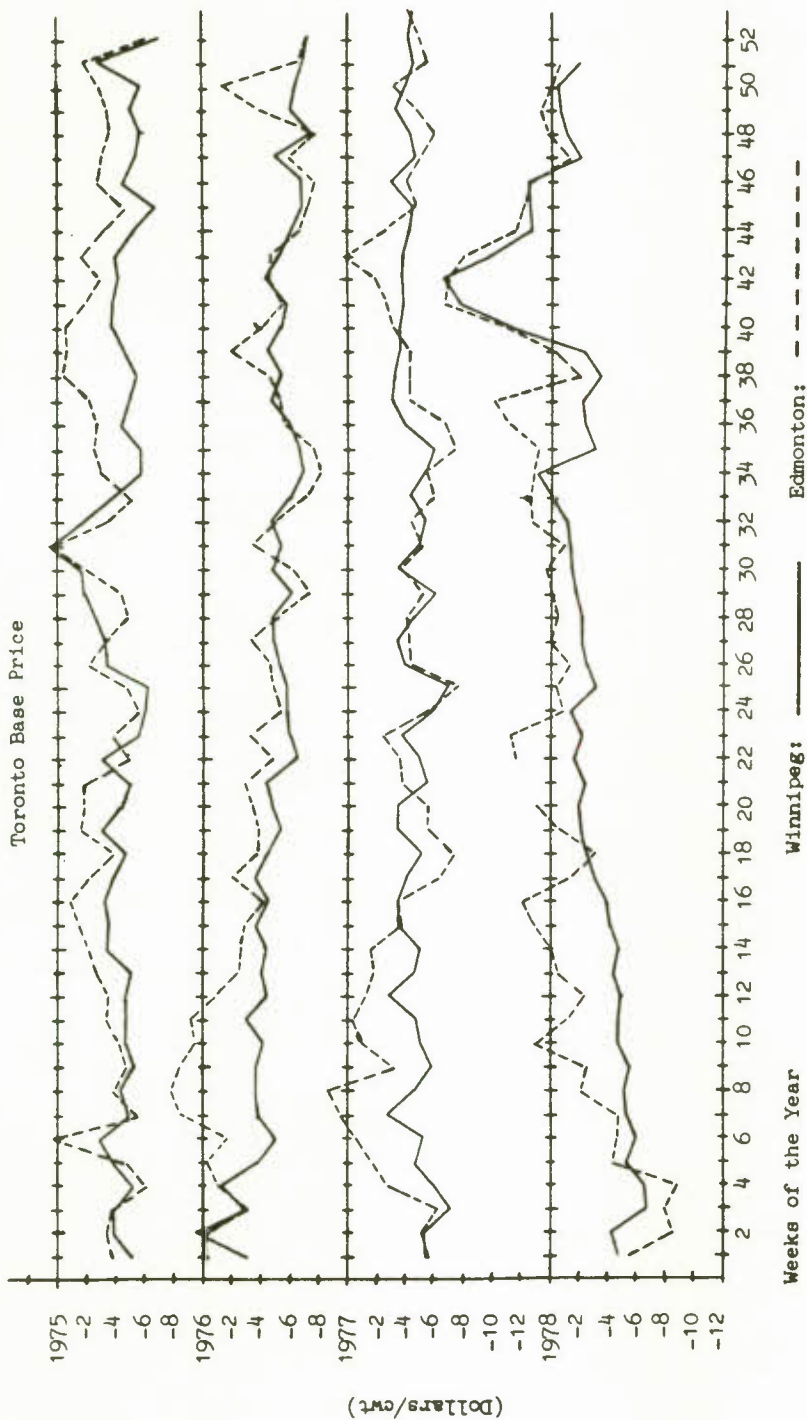


Chart V-2
(continued)

Table V-4
Pork Surplus (or Deficit) Provinces and Regions, Canada

Year	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Maritimes
'000 pounds.....						
1960	(75,165)	177,056	48,412	26,306	22,789	(76,367)	(43,584)
1961	(73,883)	174,293	50,529	29,866	20,667	(70,944)	(40,453)
1962	(75,492)	170,765	40,891	24,070	23,244	(57,092)	(43,311)
1963	(78,999)	124,537	20,520	18,234	54,072	(43,745)	(43,369)
1964	(82,927)	144,457	37,722	34,375	54,596	(51,525)	(43,946)
1965	(78,408)	161,870	38,544	32,670	36,422	(58,020)	(37,118)
1966	(80,429)	128,931	37,253	44,204	52,970	(43,634)	(33,705)
1967	(96,128)	153,344	47,466	59,541	29,576	(32,317)	(40,406)
1968	(95,629)	160,382	42,849	55,763	27,788	(50,441)	(34,701)
1969	(94,780)	143,574	46,766	59,024	20,155	(65,789)	(30,855)
1970	(111,781)	173,079	97,539	108,962	(3,915)	(104,700)	(37,146)
1971	(125,139)	208,518	132,749	125,221	(26,731)	(116,773)	(48,036)
1972	(128,599)	168,612	110,795	101,483	(41,190)	(118,527)	(51,016)
1973	(125,696)	149,213	103,811	106,713	(34,861)	(93,831)	(47,208)
1974	(137,267)	133,747	97,981	100,999	(81,647)	(62,761)	(52,249)
1975	(118,900)	89,545	48,454	65,910	(51,502)	(7,008)	(43,274)
1976	(125,995)	53,067	29,183	54,647	(46,580)	(22,927)	(48,202)
1977	(125,001)	61,218	27,926	56,943	(60,513)	8,991	(46,892)
1978	(130,957)	62,041	33,956	60,891	(8,287)	68,296	(45,611)

two markets, studies indicate that the actual price spread approximated the transportation and other transfer costs.¹³ The fact that the price spread between the Edmonton and Toronto markets did not increase as much as the Toronto-Winnipeg price spread during the period 1970-1974, may be explained, in part at least, by the growing market in British Columbia for Alberta produced pork (see Table 4).

Following 1974, however, it is somewhat surprising that the Toronto-Winnipeg price spread did not show a tendency to narrow given the decline in pork production in the Prairies and the rapid increase in pork production in Quebec. No studies are available which would indicate the reasons for this relatively large price spread between the two markets given the circumstances which prevailed at that time.

On the other hand, the relative increase in hog prices in Edmonton following 1974 probably reflected a number of factors: the growing importance of the market in British Columbia for Alberta pork; the large export sales of Alberta pork to Japan; the relative decline in hog production in Alberta.

Whether a major part of the explanation for the unduly large price differentials between western and eastern markets can be found in a lack of competition among buyers as one study suggested,¹⁴ or whether the

¹³See J. Heads, Transportation Factors and The Canadian Livestock and Meat Industries, Canadian Transport Commission, Report ESAB, 75-19, Ottawa, 1975.

¹⁴See Canadian Pork Council, Spatial Price Differences For Hogs in Canada, March 1979.

differentials can be explained on the basis of a number of complex, competitive factors impinging on the Canadian hog marketing system, can only be determined by much more exhaustive research than has been completed to date.

While the east-west hog price differentials have been the source of considerable controversy between the western hog boards and the packers, it is doubtful if a simple formulaic approach can be used to determine the "proper" spread. If the regional price differentials are excessive, as the western hog boards have alleged, it would seem that the most effective solution to the issue would be to ensure that a more competitive situation prevails in the hog marketing system.

The hog price differential problem has been complicated by the fact that regional price spreads for certain processed pork products do not appear to correspond, at times, in any meaningful or obvious way with the relative prices of the raw product.¹⁵ For example, during 1975, when hog prices in Toronto exceeded prices in Winnipeg by an average of \$4.07 per cwt, the retail price for bacon in Winnipeg exceeded that for Toronto (Charts 3 and 4). A similar situation existed in 1974.

In general, it is difficult to assess regional hog price differentials in isolation from an analysis of the corresponding price behavior for processed pork products. In theory, at least, what the packers pay producers for their hogs will be determined to a significant degree by the

¹⁵One of the more comprehensive studies of the marketing and pricing of one pork product may be found in the publication of the Food Prices Review Board, Bacon, August 1975.

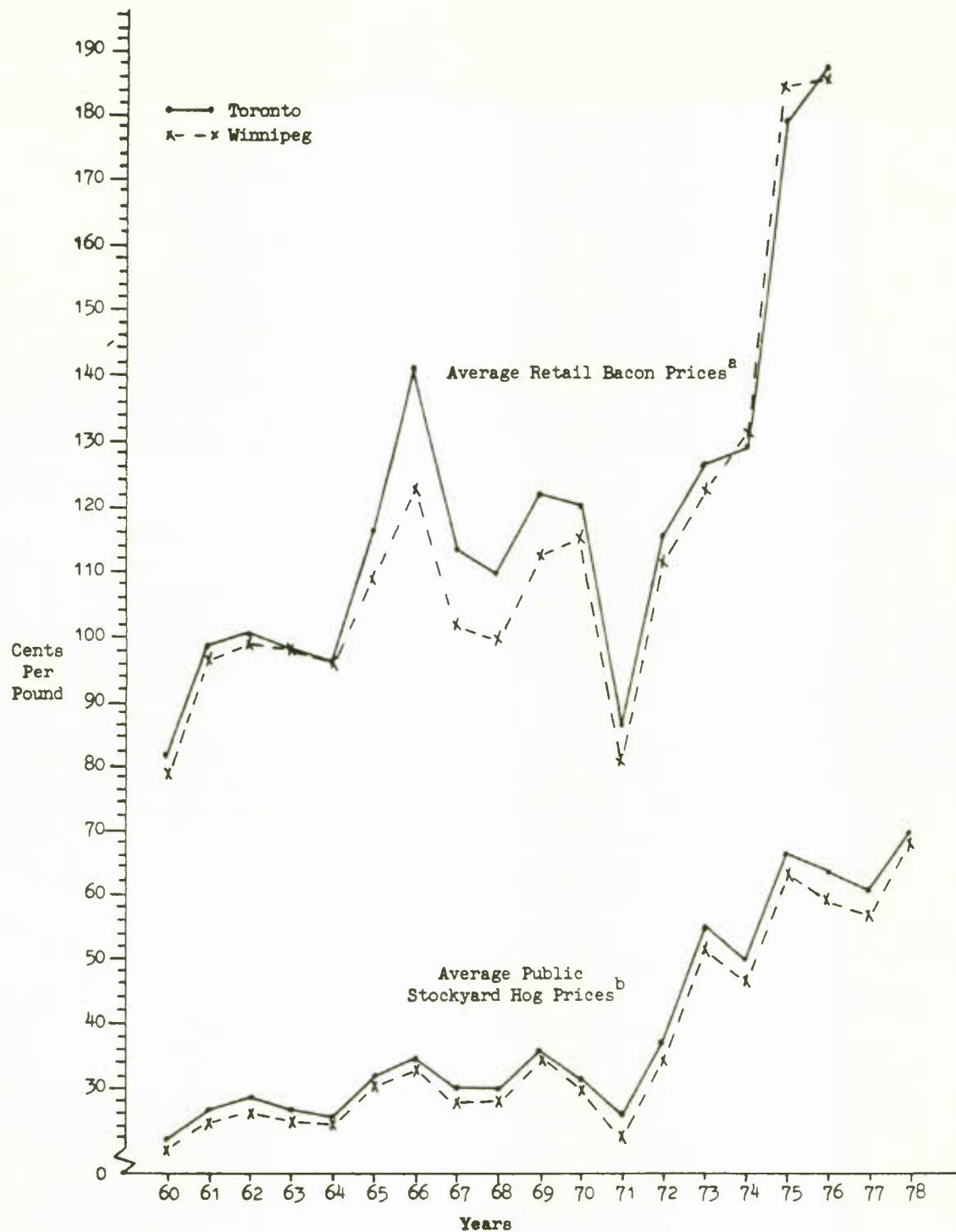


Chart V-3

Yearly Average Public Stockyard Hog and Retail Bacon Prices
for Winnipeg and Toronto

^aBacon: Fancy Side, Rindless, One-pound packages; Livestock and Animal Products, Statistics Canada.

^bHog: 1960-68, average price of Grade B hogs, dressed, cents per pound (Grade A-.01); 1969-78, average price, dressed, Index 100, cents per pound; Livestock Market Review, Department of Agriculture.

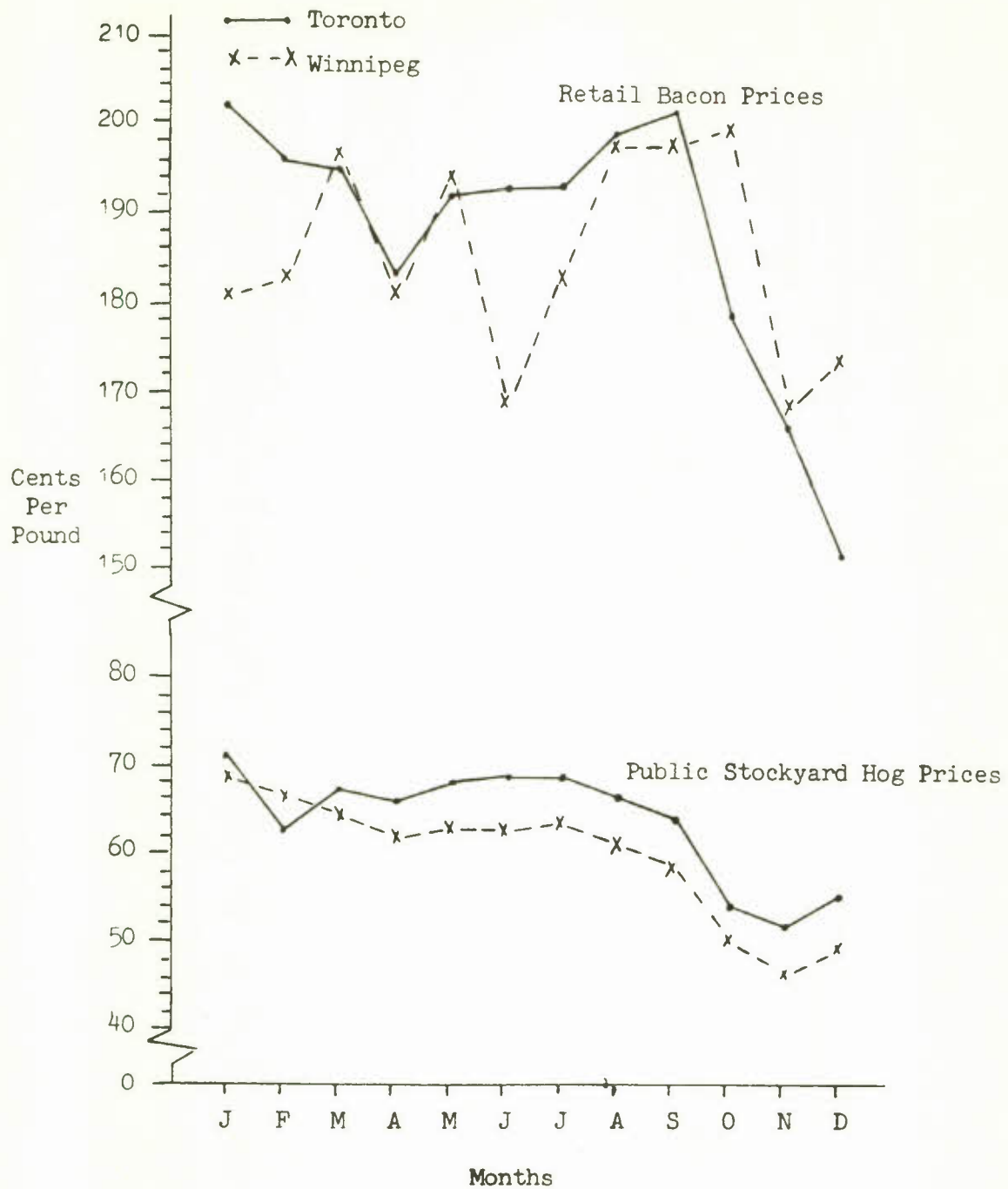


Chart V-4

1976 Public Stockyard Hog and Retail Bacon Prices
for Winnipeg and Toronto

Source: Livestock and Animals Products, Statistics Canada, see Appendix.

prices prevailing in the domestic and international markets for a very large number and variety of fresh, frozen and processed pork products, as well as a miscellaneous variety of by-products.¹⁶

Canada-United States Hog Price Relationships

It is commonly believed that hog prices in the mid-western United States have a very strong influence on hog prices in Canada. This influence exists because of the close proximity of the United States market, similar production and consumption practices, a relatively low tariff barrier on pork and an active two-way trade in pork products between the two countries.

A number of studies have examined the price relationships of hogs in markets in Canada and the United States. Most of these studies confirm that the base price for the North American pork market is established primarily in the United States.¹⁷ The main implications of these studies are that Canadian hog producers are operating in a highly competitive North American market.

¹⁶For a more comprehensive analysis of the situation see, Food Prices Review Board, Pork Pricing, August 1974.

¹⁷Examples of such studies include: H. Harries, Price Relationships in the Alberta Hog Market, study prepared for the Alberta Department of Agriculture, November 1977; H. Fredeen, "Competitive Position and Opportunities in the Pork Processing Sector", Proceedings of the National Pork Seminar, Agriculture Canada, October 1977; J.L. Dawson, "Canadian Hog Prices Within a North American Market", Canadian Farm Economics, Vol. 7, No. 4, October 1972; Food Prices Review Board, Pork Pricing, August 1974.

A further study of the hog price relationships in Canada and the United States was done in Manitoba.¹⁸ The results of the study are shown in Table 5. There is a relatively close relationship between the prices of hogs in Winnipeg and those in three United States markets.

Pork Export Contracts

Prior to 1969, pork trade with Japan was quite sporadic. It was not until the various provincial hog boards attempted to develop and sustain exports to Japan that the market became important. Quality and assured supply have given Canada a strong position in the Japanese pork market.

The Manitoba Hog Producers' Marketing Board started to negotiate with a Japanese trading firm in 1971 for a long-term export contract for hogs. In 1973, the Board signed a 4 1/2 year contract with C. Itoh Co. of Japan and Burns Co. of Canada for delivery of pork under the contract. The contract covered the period 1973-1977.

In April 1979, the Manitoba Board in cooperation with the Alberta Board and the Saskatchewan Hog Marketing Commission, delivered 450 tonnes of frozen pork to the Livestock Industry Development Corporation in Korea.

In addition to the above contracts, the Manitoba Board, through its own provisions department, has been active in making spot sales of pork in parts of Canada, in the United States (particularly New York and California), in England, Japan and more recently in New Zealand.

¹⁸J.C. Gilson, The Pork Industry in Manitoba, Manitoba Department of Agriculture, July 1979.

Table V-5

Comparison of Hog Prices (cwt Dressed Weight)
in Winnipeg, Sioux City, Iowa,
St. Paul, Minnesota and
Omaha, Nebraska,
1960 - 1978

Year	Winnipeg Price \$/cwt	Sioux City		St. Paul		Omaha	
		\$/cwt	Winnipeg- Sioux City price spread	\$/cwt	Winnipeg- St. Paul price spread	\$/cwt	Winnipeg- Omaha price spread
		\$.....	\$.....	\$.....
1960	22.65	17.74	-4.91	18.14	-4.51	16.69	-5.96
1961	25.85	20.09	-5.76	20.70	-5.15	18.98	-6.87
1962	26.65	21.32	-5.33	21.74	-4.91	20.69	-5.96
1963	25.80	19.52	-6.28	19.89	-5.91	18.97	-6.83
1964	24.55	19.33	-5.22	19.45	-5.10	18.80	-5.75
1965	31.65	28.96	-2.69	28.59	-3.06	26.97	-4.68
1966	34.45	30.98	-3.47	31.29	-3.16	30.28	-4.17
1967	28.55	25.27	-3.28	25.75	-2.80	24.50	-4.05
1968	29.10	25.08	-4.02	23.41	-5.69	n.a	n.a
1969	35.45	31.25	-4.20	31.91	-3.54	30.47	-4.98
1970	30.28	28.85	-1.65	29.16	-1.04	28.26	-1.94
1971	22.85	22.65	-0.20	22.96	+0.11	22.59	-0.26
1972	34.00	32.62	-1.38	32.67	-1.33	32.03	-1.97
1973	51.31	50.24	-1.07	50.63	-0.68	49.42	-1.89
1974	46.12	43.37	-2.75	43.69	-2.43	42.65	-3.47
1975	62.55	62.26	-0.29	62.40	-0.15	61.22	-1.33
1976	59.03	53.54	-5.49	53.70	-5.33	52.77	-6.26
1977	56.78	54.31	-2.47	54.13	-2.65	53.49	-3.29
1978	67.83	68.92	+1.09	68.57	+0.74	67.93	+0.10
Average price spread:							
1960-1969			-4.52			-4.48	
1970-1978			-1.57			-1.41	
						-5.47	
						-2.25	

The Alberta Hog Producers' Marketing Board has also been active in the pork export contract business. An indication of the Alberta pork export contract business may be noted in Table 6.

Individual hog producers and packing plants, as well as the Alberta Board, have signed all these contracts. The Boards' primary responsibility is to act as negotiator between buyer and seller with certain supervisory and central responsibilities, such as producer bonding and export carcass audit. A good example of this type of contract was the agreement in 1979 which involved the Board, Gainers Ltd., and Swifts Canadian Co. Ltd., who signed a 20-month Japanese contract for 188,000 hogs. The contract involved 143 Alberta hog producers who committed themselves to supply the hogs in return for a guaranteed margin over feed costs of \$49.84 per hog.

The Saskatchewan Hog Marketing Commission also negotiated a pork export contract with Japan in March 1975. While this first contract contained provisions for volume and term extensions, a subsequent review did not produce terms considered satisfactory for an extension and, accordingly, the contract was successfully terminated. Subsequent to the first agreement signed in 1975, further contracts were signed with Japan for Saskatchewan hogs. The Saskatchewan Commission made note of two concerns about the contracts in its 1976 and 1977 annual reports:

(1) Concern about the uncertainty of hog supplies to fulfill the contract.

(2) Difficulties in negotiating with the Japanese due to increased hog production in Japan and concern about uncertainty relating to duties on Canadian pork exported to Japan.

Table V-6

Alberta Export Hog Volumes Delivered and
Committed Under Contract to Japan

Year	Contract						Total
	E-10	E-20	E-30	E-40	E-50	E-55	
number.....						
1973	2,220						2,220
1974	3,330	56,250					59,580
1975	3,330	75,000					78,330
1976	1,120	18,750	90,000	24,000			133,870
1977			120,000	24,000			144,000
1978			120,000				120,000
1979			30,000		48,720	7,680	86,400
1980					97,440	15,360	112,800
1981					<u>16,240</u>	<u>2,560</u>	<u>18,800</u>
Total	10,000	150,000	360,000	48,000	162,400	25,600	756,000

Source: Alberta Hog Producers' Marketing Board.

The Ontario Pork Producers' Marketing Board has also been directly and indirectly involved in pork export contracts with Japan. In 1979, the Ontario Board has two long-term contracts (of 20 and 30 months duration), and three or four mini contracts (of several weeks duration) with Japan.

All of the pork export contracts have had certain common features:

(1) The original contracts were of a relatively long-term nature (2 to 4 years), but recently the contracts have tended to be a shorter duration (anywhere from 12 weeks to 20 months).

(2) Contracts were negotiated directly between the respective hog boards with some Japanese buying agency, or between certain meat packers and Japanese buying agencies with the assistance of Boards.

(3) Prices were negotiated on the basis of some pricing formula. The formulae made some provision to have the contract prices reflect changes in products costs, particularly feed costs.

(4) In some cases, the packers were a party to the Board contracts on a custom kill basis; in other cases, the hog Boards were not directly involved in the contracts except in a facilitating way.

While pork export contracts have been a very important part of the overall pork export trade, the importance of continuing "spot" sales by the meat packing industry should not be overlooked. There is evidence, indeed, that spot sales of pork constituted the biggest part of the pork trade with Japan in 1978 and 1979, with the biggest part of these spot sales being initiated in the Province of Quebec and to a lesser degree in Ontario. Of course, pork trade with the United States has been based on spot sales by the meat processing industry and to some degree by the hog boards.

VI ASSESSMENT OF HOG MARKETING BOARDS

Selling and Buying Practices

The development of Hog Marketing Boards has brought about a tremendous change in selling and buying procedures and practices during the past two decades. For the most part, the very different selling procedures and the widely scattered markets which characterized the pre-board selling were consolidated into one general method of selling - the Marketing Board. The Marketing Boards have developed a general selling procedure which has had the effect of:

- (a) making the price-making process more explicit;
- (b) centralizing the selling process;
- (c) creating physical efficiencies in the marketing system, i.e., less time consumed in the selling and buying process.

It must be recognized, however, that there are considerable differences as well among the various Hog Marketing Boards insofar as their selling procedures are concerned. The Ontario teletype system has had as its primary objective the creation of a more competitive selling system, albeit with the potential force of collective bargaining power inherent in the Board. Other Boards have adopted variations of the teletype system such as in Alberta or the Dutch Clock auction system in Manitoba. Still other Boards have adopted a formula system of pricing such as in Saskatchewan. Still further variations include order buying by the Board in Manitoba and negotiated domestic contracts with packers as in Alberta.

Price Level

There are essentially three ways in which the Hog Marketing Boards can increase the price received by hog producers:

- (a) by creating greater efficiencies in the marketing system, the gains from which would be passed on to producers in the form of higher prices for their product.
- (b) by extracting from the hog buyers any oligopsonistic gain which might have existed in the absence of bargaining power by the Boards.
- (c) using supply management and administered pricing techniques to force higher prices on the ultimate consumer of the pork products.

It is to be noted, however, that the potential threat of increased imports of pork from the United States places an effective upper limit on the price which the hog boards can extract from the marketing system at any given time.

The cost of operating the Hog Marketing Boards has been relatively small (see Chapter V). While no conclusive evidence exists on the operating efficiencies of the Hog Boards, it is likely that the Hog Boards have achieved certain organizational efficiencies and economies of scale in the assembly, transportation and sale of hogs. To the extent that these efficiencies have been realized, the prices received by producers will have risen accordingly.

Insofar as the second type of gain is concerned (recapturing the oligopsonistic gain through greater bargaining power), again no conclusive empirical results exist on the situation. One can only speculate that the

greatly enhanced bargaining power of hog producers in the market place will have reduced any oligopsonistic gain, if such existed.

Whether Hog Boards have been able to impose greater price increases on the ultimate consumer of the pork products is a debatable question. It is generally recognized that for Boards to exercise "monopolistic" power in the market place, they need some form of comprehensive supply management of the product. To date, the Hog Marketing Boards have not adopted supply management programs like those developed for some other commodities such as eggs, turkeys and chickens. At the same time, however, one cannot ignore the types of supply influencing devices adopted by some of the Boards, such as the "order buying" practices of the Manitoba Board or the use of domestic contracts by the Alberta Board.

Price Stability

No comprehensive form of price stabilization has been attempted by any of the Hog Boards in Canada. Indeed, pre-Board and post-Board comparisons of weekly, monthly and annual price fluctuations for hogs suggest that the Boards have not had much, if any, effect on hog price variations.¹ There is some indication, however, that the Boards may have had some effect on reducing price variations within a week by encouraging a more orderly flow of hogs to the market over the week. Perhaps, the most important influence of the Boards on hog price fluctuations has been

¹See J.C. Gilson, The Pork Industry in Manitoba, July, 1979.

the adoption of daily and weekly pricing pools (see Chapter V). While the prices may fluctuate considerably within these periods, the impact on the producer has been greatly reduced through pricing pools.

Price Equity Among Producers

Price equity² among producers may be assessed from several points of view:

- (a) price equity within a day, a week, a month or a year among producers delivering to a single market;
- (b) price equity among hog producers in several different geographic markets.

There is little doubt that daily and weekly price pooling has created greater equity (equality) of pricing among producers in a given market. Prior to pooling, there were considerable price fluctuations within a day or week and the price received by any individual producer was as much a fortuitous circumstance as the result of sound planning.

There has been considerable controversy as to whether price equity has been obtained for producers among several geographic markets. One of the early promises of the teletype system of marketing, if adopted nationally, was to correct any price inequities among different Markets. The recent controversy over inter-regional price differentials, however,

²By price equity we mean the same price to producers for similar products delivered within a specific time frame at a similar geographic location. Price differences, when they occur, should reflect corresponding differences in form, time or location of product and other cost differences. We recognize, of course, that specific boundaries or definitions of form, time and location are subjective in nature.

suggest that price equity among markets has been seriously questioned by some of the Hog Boards at least.

Assembly of Hogs

It is not clear whether the Hog Boards have added to, or reduced, the cost of assembling hogs. Several of the Boards have developed assembly yards, the most extensive system of assembly yards being in Ontario. In the pre-Board period, the bulk of the hogs were shipped directly to the packing plant thus avoiding costs of loading and unloading, unnecessary bruising and injury to hogs, etc.

Many of the Hog Boards made a very early decision that assembly yards were a necessary part of their overall selling procedure. While the use of assembly yards may have added somewhat to the cost of moving hogs from the farmer to the packer, many of the Boards have made a conscious effort to reduce delay of delivery and costs by introducing in-transit selling methods or, in the case of Alberta, advance selling through its system of advance buyer bidding over the teletype.

Marketing Costs

The central selling method adopted by most Boards, particularly the teletype system of selling, has no doubt reduced some of the costs of selling hogs. In the pre-Board period both buyers and sellers of hogs spent a great deal of time in the marketing process. The packers had a relatively large buying staff at their plants, at the central markets and,

sometimes, at widely decentralized buying stations in the country. The sellers, likewise, spent a great deal of time in selling their hogs.

To the extent that the marketing Boards assumed functions not previously the direct responsibility of producers, costs would be added to the marketing function, e.g., product promotion, market development, research. However, these added costs should be compared with the corresponding gains or benefits from programs such as product promotion or market development.

As the data in Chapter V indicate, the levies imposed on hog producers by the Boards do not appear to be excessive.

Supply Management

The Hog Marketing Boards in Canada do not have a comprehensive supply management program such as that provided for under the Farm Products Marketing Agencies Act. Hog producers are generally free to enter or to leave the industry. There are no quotas on production by the individual producer. There are no provincial hog production quotas such as we find for eggs or chickens. There is nothing to prevent the development of vertically integrated operations up to the processing level. However, the Boards do have an effective indirect control over some aspects of production and processing. For example, it is not possible for an integrated hog producer to process his own hogs in those provinces where all hogs must be marketed through the Board. Some Boards have provisions in their regulations which prevent hog producers over a certain size from engaging in production without a licence from the Board. Some of the Boards have quota powers provided for in their regulations although these powers have not been exercised to date.

Consumer Welfare

In general, unless the Hog Boards collectively pursue a comprehensive supply management program with administered pricing, it is unlikely that they have the ability to impose undue price increases on the ultimate consumer. To the extent, however, that the Boards are able to extract higher prices from the marketing system (whether these higher prices come from oligopsonistic gains, profits, etc.) there is less opportunity to pass such gains along to the ultimate consumer. Whether, of course, such gains would be passed along to the consumer in the absence of Hog Boards is an important question.

Promotion and Development

While the pork promotion programs of the Hog Boards are of relatively recent origin, there is evidence that these programs have been quite effective in making the individual consumer, restaurants, hotels and other institutions more conscious of the value of pork products.

While the market development programs of the various Boards have varied, there is evidence that some important gains have been made, particularly in some export markets. There is little doubt that the Prairie Hog Boards spent considerable time and effort in developing the long-term pork contracts in Japan. The Manitoba Hog Board (as has a number of other Hog Boards) has been involved for a considerable period of time in market development work in the mid-western states and California.

Inter-Regional Pricing

There can be little doubt about the Prairie Hog Boards' interest and concern with inter-regional price differentials. It would be stating it too strongly to say that the Prairie Hog Boards were preoccupied with the inter-regional price problems during the early 1970's but it is a fact that tremendous controversy developed between the Boards and the packers over this issue. It is difficult to say what effect the various programs and selling procedures adopted by the Prairie Boards had on the inter-regional price differentials but the impression is that it was not inconsiderable. Whether the results which followed from the actions of either the packers or the Boards were consistent with results which would have been associated with a freely competitive situation have not been determined.

Export Marketing

The results which followed from the earlier efforts of the Boards to develop export markets through the use of long-term contracts have been commendable. At one stage, nearly half the port exported to Japan from Canada was in the form of Board contracts. Recent evidence suggests, however, that the Board contracts have become a relatively less important part of the export market; spot market sales by the private packing industry have become increasingly important in export markets, particularly Japan.

Impact on Structure of the Hog Industry

There is no evidence to suggest that Hog Marketing Boards have had a significant impact on the production side of the hog industry. It is possible that the presence of Marketing Boards has tended to discourage the development of extensive contracting and vertical integration in the Canadian hog industry; certainly, the integrated hog producer has been prevented from processing his own hogs in those Provinces which have boards. It is perhaps no coincidence that contracting and integration have developed quite rapidly in the Province of Quebec which has no Marketing Board at the present time.

VII CONCLUSIONS, OBSERVATIONS AND RECOMMENDATIONS

Conclusions

1. One of the primary issues in the Canadian hog industry during the past 35 years has been the struggle between hog producers and the meat packers for some form of workable competition in the market place.

2. Ten years ago, over 40 percent of Canada's hog production was located in the Prairie Provinces and only 18 percent in the Province of Quebec; in 1978, these figures were 28 and 33 percent, respectively. This regional shift in hog production was caused by several factors: rising grain prices which favored grain over hog production in the prairies; the statutory grain rates which favored the movement of grain rather than livestock products from the prairies; the rapid growth in vertical integration and contracting in the Quebec hog industry; the earlier effects of the Feed Freight Assistance program.

3. Prior to the introduction of hog marketing boards in Canada, the terminal market was the central focus of most hog marketing systems in Canada. The terminal market evolved as an integral part of the system which depended on the railways as the main mode of transportation for livestock.

4. With the introduction of rail grading for hogs and the development of the trucking industry, the bulk of the hogs were shipped direct to the packers where prices for hogs were negotiated on a private treaty basis between the packer and the hog producer.

5. The direct-to-plant shipment of hogs, and the perceived lack of bargaining power possessed by the producers, led some of the hog marketing boards to develop a more competitive marketing system, while other boards developed more direct bargaining strategies with the packers.

6. The instability of hog prices (the daily, weekly, monthly and cyclical fluctuations in hog prices), while a necessary part of the market clearing process, has been a source of considerable irritation to farmers.

7. Over the years, hog producers adopted several measures in the attempt to make the competitive marketing system perform more effectively from their point of view. These measures included: the development of cooperative shipping associations and central selling cooperatives to enforce greater competition in the central market; cooperative slaughtering and processing plants; teletype marketing; price pooling; better price forecasting methods; government price support programs.

8. Several different approaches were pursued by hog producers in the attempt to deal with restricted competition in the market place. These approaches may be broadly defined as: the attempt to break down or curtail the concentration of buying power in the market place through use of the combines legislation; direct competition with the packers through the development of producer cooperative packing plants; the development of countervailing power in the market place through voluntary central selling producer cooperatives and compulsory marketing boards.

9. The first hog marketing board in Canada came with the establishment of the Ontario Hog Producers' Marketing Board in 1946. Hog producers in seven of the remaining provinces subsequently formed marketing boards or commissions, the most recent being the establishment of a hog marketing commission in British Columbia in March 1980. Neither Newfoundland nor Quebec has a marketing board or a commission at the present time. Almost two-thirds of the hogs in Canada are now marketed through boards or commissions.

10. While all the hog boards and commissions have adopted some form of central selling system for hogs, the specific selling and pricing techniques used in each province vary tremendously. These techniques range from the teletype selling system in Ontario, the Dutch Clock auction system in Manitoba, the tender acceptance teletype auction system in Alberta to various types of formula pricing in the other provinces.

11. One of the more controversial issues between the prairie hog marketing boards and the meat packers has been the "east-west" hog price differential problem. The Prairie Boards have taken the position that the hog price differential between Toronto and the western markets such as Winnipeg and Edmonton has been far larger than could be justified by transportation and other transfer costs between the respective markets.

12. Research undertaken to date on the regional hog price differential problem has not produced any conclusive evidence on the adequacy or inadequacy of the hog price spread between the Toronto and the western hog markets. This situation has been complicated by the fact that price

spreads for processed pork products frequently do not correspond in any meaningful way with the relative prices of hogs between the eastern and western Canadian markets.

13. There is a very close relationship between hog prices in Canada and the United States. Indeed, many studies of the North American pork market confirm that the base price for hogs is established primarily in the United States.

14. Several of the hog marketing boards in Canada were quite successful, particularly during the early part of the 1970's in developing long-term contracts for the export of pork to Japan. While the board contracts continue to be an important part of Canada's pork export trade, there is evidence that "spot-sales" of pork by private industry constituted the biggest part of the pork trade with Japan in 1978 and 1979.

15. The overall assessment of the performance of the hog marketing boards may be summarized as follows:

(a) Selling and buying practices

The hog marketing boards have developed general selling procedures which have had the general effect of making the price setting process more explicit and of creating physical efficiencies in the marketing system.

(b) Price level

The hog marketing boards have essentially three ways in which they can increase the price received by hog producers:

- 1) creating greater efficiencies in the marketing system;

- ii) extracting any oligopsonistic gain which might exist in the system; and,
- iii) using supply management and administered pricing techniques to force higher prices on the consumer.

The price raising effect of the first two possibilities has been limited by the potential threat of increased pork imports from the United States. To date, hog boards have not supported the idea of supply management for their industry.

(c) Price stability

There is some evidence that the hog boards have had some effect on reducing price fluctuations in the short run by encouraging a more orderly flow of hogs to market and by the adoption of daily and weekly pricing pools for producers.

(d) Price equity

Daily and weekly price pooling has created greater equity (equality of treatment) among producers with respect to pricing in a given market within relatively short intervals of time. Debate continues as to whether price equity has been obtained for producers among several geographic markets but evidence suggests that the influence of marketing boards on the size of the regional hog price differentials has not been insignificant.

(e) Assembly of hogs

It is not clear whether the hog marketing boards have added to, or reduced, the cost of assembling hogs. But, there is no doubt that those boards which have developed an extensive

system of assembly yards have made a conscious effort to reduce delay of delivery and costs by introducing such techniques as in-transit selling methods and advance buyer bidding.

(f) Marketing costs

There is no doubt that the central selling method adopted by most marketing boards, particularly the teletype and Dutch Clock auction method of selling, have reduced the cost of selling and buying hogs. Some general indication of the marketing costs incurred by the marketing boards is the levies imposed on producers. These levies do not appear to be excessive relative to the volume of hogs marketed.

(g) Supply management

The hog marketing boards in Canada do not have a comprehensive supply management program such as that provided for under the Farm Products Marketing Agencies Act. Hog producers are generally free to enter or to leave the industry. There are no quotas on production by the individual producer or provincial quotas such as that provided for in the case of such commodities as eggs or chickens. Contract and vertically integrated operations are possible in most phases of the production process. However, where marketing boards are present it is not possible for the vertically integrated operator to process his own hogs.

(h) Consumer welfare

In general, unless the hog boards collectively pursue a comprehensive supply management program with administered

pricing, they have very limited ability to impose undue price increases on the ultimate consumer. The potential threat of pork imports from other countries, and the ready availability of substitute meat products, place a very real limit on domestic pork price increases.

(i) Promotion and development

Almost all of the hog marketing boards and commissions in Canada have developed extensive domestic and export promotion and market development programs. The market development and promotion activities in Japan, the United States, Korea and several other countries have been commendable. If there is a criticism to be made about these export promotion activities, it would be that the "competition" among the various boards may have weakened their bargaining power somewhat in these export markets.

(j) Inter-regional pricing

The inter-regional price differential problem has been the focal point for considerable controversy between the western hog marketing boards and the meat packers for most of the 1970's. Various measures were attempted by the western hog boards to cope with the problem. These measures included: diversion of live hogs to the United States from time to time, formula pricing, variations of the teletype system of marketing, and domestic contracts between the boards and a number of individual packers. Many studies and investigations have been

undertaken with respect to the regional price differential problem but no conclusive evidence has been produced to date which would indicate whether the prevailing price spreads among regional markets have seriously diverged or not from the levels which "ought" to prevail in a competitive marketing system. The analysis included in this study indicates that some basic shifts appear to be taking place in the traditional price spread between the Toronto and Edmonton markets, although these shifts in the price spread do not appear to be clearly or firmly established at this time.

(k) Export marketing

The results which followed from the earlier efforts of the marketing boards to develop export markets, particularly in Japan, through the use of long-term contracts have been commendable. At one stage, nearly half of the pork exported to Japan from Canada was in the form of board contracts. Recent events indicate, however, that the long-term contracts have been replaced to a significant degree by "mini-contracts" and by spot market sales.

(l) Impact on structure of the hog industry

Apart from the fact that the presence of marketing boards has tended to discourage the development of extensive contracting and vertical integration in the Canadian hog industry, with the important exception of Quebec where no marketing board exists, there is little evidence to suggest that the

boards have had any significant structural effect on the production side of the hog industry.

General Observations

Since the inception of the Hog Producers' Marketing Board in Ontario in 1946, there can be no doubt that the basic objective of the majority of the hog producers (with the exception of those in the Province of Quebec) has been to use their power to develop a more competitive marketing system or more direct bargaining strategies with the packers. It is significant to note, however, that the hog marketing boards, unlike some of the other commodity marketing boards, have neither expressed the desire nor have they taken any action to date which would indicate that they view a comprehensive supply management plan as feasible or acceptable for their industry.

Whether the development of hog marketing boards in Canada has now evolved to the stage where some form of workable competition (some form of general equilibrium) has been created in the hog marketing system is a question the answer to which is not altogether clear at the present time. Certainly, the fact that nearly one-third of the hogs in Canada (primarily in the Province of Quebec) are still marketed through non-board channels is bound to have some influence on future plans and decisions of hog producers in those provinces which have adopted hog marketing boards, and perhaps, on the location of hog production and processing facilities in Canada.

What is clear, however, is the role played by the provincial governments in the changes which have occurred in the hog marketing systems

in Canada. The existing hog boards did not arise spontaneously. They were created by special legislative acts of the respective provincial governments. Presumably, these governments enacted legislation to create the boards because they believed, or were persuaded, that hog producers should have greater bargaining power in the market place. The hog boards exist as a legislative right. In the final analysis, the provincial legislative bodies which created these boards are responsible for the policies and are accountable to the public for the operations of these boards.

After 35 years of structural change in the hog marketing system in Canada, it appears that hog producers have achieved a measure of equality of bargaining power in the market place with the buyers of their products. The question now remains as to whether this equality of bargaining power has been, or can be, translated into some form of workable competition in the market place.

The concentration of buyers and sellers in the hog marketing system has resulted in a form of bilateral bargaining¹ which calls for a clear policy framework and clear operating guidelines ("rules of the game") if serious instability and uncertainty in the industry are to be avoided. Insofar as possible, each major party in the system must know, and the

¹We interpret "bilateral bargaining" in a very general way in this context. On the sellers' side of the market, all producers are bound by legislation and regulations to market in accordance with whatever marketing plan is adopted by the particular board. We recognize, of course, that marketing plans differ among the provinces and, in most cases, prices are established, not by direct bargaining, but by methods adopted collectively by the producers such as the teletype system in Ontario, the Dutch Clock auction system in Manitoba or the advance buyer bidding system in Alberta.

public should know, what practices are acceptable or unacceptable if needless controversy and controntation are to be avoided.

The bargaining situation between the hog boards and the meat packers is complicated by the fact that the "rules of the game" which guide the conventional bilateral oligopoly transactions in the market place may not be appropriate for the hog marketing system as it has evolved in Canada.

On one side, we have the hog marketing boards which have been created by special legislative acts and whose operations are governed by policies and regulations laid down by government under the legislation. On the other side, we have the meat packers whose operations are conducted under conventional commercial practices and whose actions are governed, to a large extent, by what is permitted under the Combines Investigation Act.

As a result, we have the apparent anomaly that hog producers, by virtue of public legislation and policy, are encouraged to prevent or lessen competition among themselves in order to achieve greater bargaining power in the market place while the buyers of their product must not, according to the provisions of the Combines Investigation Act, conspire, collude or arrange to "prevent, limit, or lessen unduly," competition in the market place.²

²It must be emphasized here, however, that this apparent anomaly is not unique to the hog marketing system. The parallel situation exists in the field of industrial relations where the state deliberately designed policies to promote and support the organization of labor as a collective bargaining force in the market place. Indeed, without supply management and import controls, hog marketing boards do not possess the powers or the sanctions to administer or set prices in the market place.

This apparent anomaly has been defensible in terms of public policy as long as hog producers were struggling to achieve some semblance of parity of bargaining power in the market place. But what are to be the rules of the game once equality of bargaining power has been achieved?

It seems clear in some of the provinces that new policies and new guidelines may be required if the hog marketing system is to operate with some degree of stability in the future. It is almost certain that increasing government intervention, litigation and more frequent appeals to the Combines Investigation Branch could become the standards for the resolution of confrontations and disputes in hog marketing unless new policies and guidelines are developed for acceptable forms of activity and economic behaviour in the marketing of hogs in Canada.

In the absence of such policies and guidelines, uncertainty and frustration are inevitable. How can hog producers understand, much less reconcile, the legislative support of their actions to achieve greater bargaining power in the market place with public criticisms of their actions when they exert that power? How can the meat packers reconcile the provisions of the Combines Investigation Act with which they must comply with the actions of those with whom they bargain and who are not bound by the same rules? Indeed, on what basis are irreconcilable conflicts between the hog boards and the meat packers to be resolved by government from the standpoint of the public interest?

Perhaps, the answers to these questions will evolve with further experience. The fact that the hog marketing system in Canada is working

tolerably well at the present time suggests that we may be muddling through to a resolution of the problems inherent in the system.

Perhaps, some altogether new framework will have to be developed to handle bilateral oligopoly situations in the marketing of hogs in Canada. The new framework will not likely be found by seeking for further improvements in the conventional competitive marketing system. There are few alternatives which have not been explored in this area during the past 35 years. It is also to be noted that there are limits to the amount of public subsidy, such as that extended to producers under the Agricultural Stabilization Act, which will be available in the future.

It is equally unlikely that the answer will be found in supply management and administered pricing programs. It is not that a comprehensive supply management program could not be devised for the industry but, rather, it appears to be an unacceptable alternative to the provinces and a majority of the hog producers (to say nothing about the Province of Quebec where no marketing board exists) who still view freedom of inter-provincial movement of pork products and expanding export trade as a vital part of their industry.

It may well be that the basis for the new policies and guidelines can be found in the industrial relations field. What the hog industry may need is the equivalent of the framework which now permits labor unions and management to bargain in good faith in accordance with a mutually acceptable set of guidelines and procedures; a setting within which conflict between two parties is not seen as the basis for intervention by the state or the Combines Investigation Act but as a normal part of the bargaining process;

a system where the bargaining takes place in accordance with an accepted set of guidelines relating to rights, duties, bargaining practices and statutory requirements; a process which does provide for the handling and resolution of "irreconcilable" conflicts by formal third-party intervention when such situations arise.

Of course, the particular conventions, assumptions, practices and statutory requirements governing the process of bargaining in the industrial relations field could not be applied without major modifications to the hog marketing system. The differences between the two systems are as great as the similarities. But the long experience gained in the industrial relations field may well provide a good starting point for the development of a formal bargaining framework for the hog marketing system.

As one views the evolution which has been taking place in the Canadian hog marketing system during the past 35 years, there are signs that a workable form of bargaining may be in the final stages of development. The "antagonistic-cooperation" which the Task Force on Labor Relations described as the "mixture of conflict and interdependence inherent in the collective bargaining process" may be the end result of the evolutionary process in the Canadian hog marketing system.³

In the meantime, we should not lose sight of the fact that the Canadian hog marketing system, if not well defined in terms of its

³The Report of the Task Force on Labor Relations, Canadian Industrial Relations, Privy Council Office, The Queen's Printer, Ottawa, 1969.

conceptual framework, is performing reasonably well. In the short run, at least, the objective should be to see that it continues to perform as effectively as possible.

Recommendations

1. Regional Price Differentials

In view of the controversy which has surrounded the inter-regional hog price differential problem, and given the complex number of factors which influence or determine the hog price spread among markets at any given time, it is recommended that every conceivable competitive technique within the present marketing system be used to ensure that the price spreads are, in fact, competitively determined. Any policy, program or practice which increases market intelligence, which encourages opportunities for arbitrage among the markets or otherwise enhances the competitive forces of inter-regional marketing should be encouraged.⁴

2. Instability of Prices

In view of:

- (a) the hog producers long time concern about the instability of prices for their products,
- (b) the fact that price fluctuations, while of considerable irritation to hog producers, have important functions to perform within the hog marketing system,

⁴See J.C. Gilson, The Pork Industry in Manitoba, Manitoba Department of Agriculture, July 1979. The author recommended that the Manitoba Hog Producers' Marketing Board be permitted to use its own order buyer to arbitrage among markets. The specific recommendation stated that, "If and when unreasonable price differentials between markets began to appear, the Board can effectively arbitrage between markets by buying hogs on its own account and selling to other markets." The meat packers agreed providing that the live hogs were sold at truly competitive prices in the other markets.

it is recommended that a thorough review be made of the provisions of the Agricultural Stabilization Act with the view of determining how the provisions of the Act may be better adopted to the problems of the Canadian hog industry consistent with the recognition of the need to place some upper constraint on the amount of public funds which can be devoted to the support of the hog industry. It may be that provision should be made to have hog producers contribute in part to such a stabilization plan along the lines of the present Western Grain Income Stabilization Program.

3. Supply Management

In view of:

- (a) the actual and growing potential importance of export markets for Canadian produced pork,
- (b) the fact that Canadian hog and pork prices are determined in a North American market,
- (c) the need for less, not more, barriers to interprovincial trade in Canada,
- (d) the provision of the BNA Act which states, "all articles of Growth, Produce or Manufacture of any one of the provinces shall, from and after the union, be admitted free into each of the other provinces,"
- (e) the close meat substitutes for pork products,

it is recommended that great caution be exercised by policy makers and hog producers in any consideration of a supply management and administered pricing program for the Canadian hog industry.

4. Policies and Guidelines for Bargaining

Given the following:

- (a) the evolution which has taken place in the structure of the hog marketing system as a result of the hog producers' attempt to develop parity of bargaining power in the market place,

- (b) the present status of the hog marketing boards and commissions in Canada as determined by legislation of the respective provincial governments,
- (c) the nature of the issues and difficulties which have arisen from time to time between the boards and the meat packers in the hog marketing system,

it is recommended that the respective provincial governments examine the feasibility of developing a set of general guidelines and procedures which could be used to govern the conduct of bilateral bargaining or negotiations between hog marketing boards and the meat packers. These guidelines should not have as their objective an elaborate set of legal procedures as to what must or must not be bargained or negotiated but, rather, a framework which would facilitate more constructive relations between the boards and the packers. The guidelines should include, among other things, a provision for formal third-party intervention to reach agreement on certain matters where the parties to the bargaining or negotiations have arrived at "irreconcilable" differences and where the normal processes of bargaining are unable to break the impasse.

Appeals to the Combines Investigation Branch or direct to departments of government, if and when necessary from the standpoint of the general public interest, should be handled in terms of carefully defined procedures. Such final appeals should be used only after every reasonable attempt has been made to resolve the irreconcilable conflict by the "third-party" intervention process described above.

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APPENDIX

Hog and Bacon Price Spreads For
The Toronto and Winnipeg
Markets 1960 to 1976

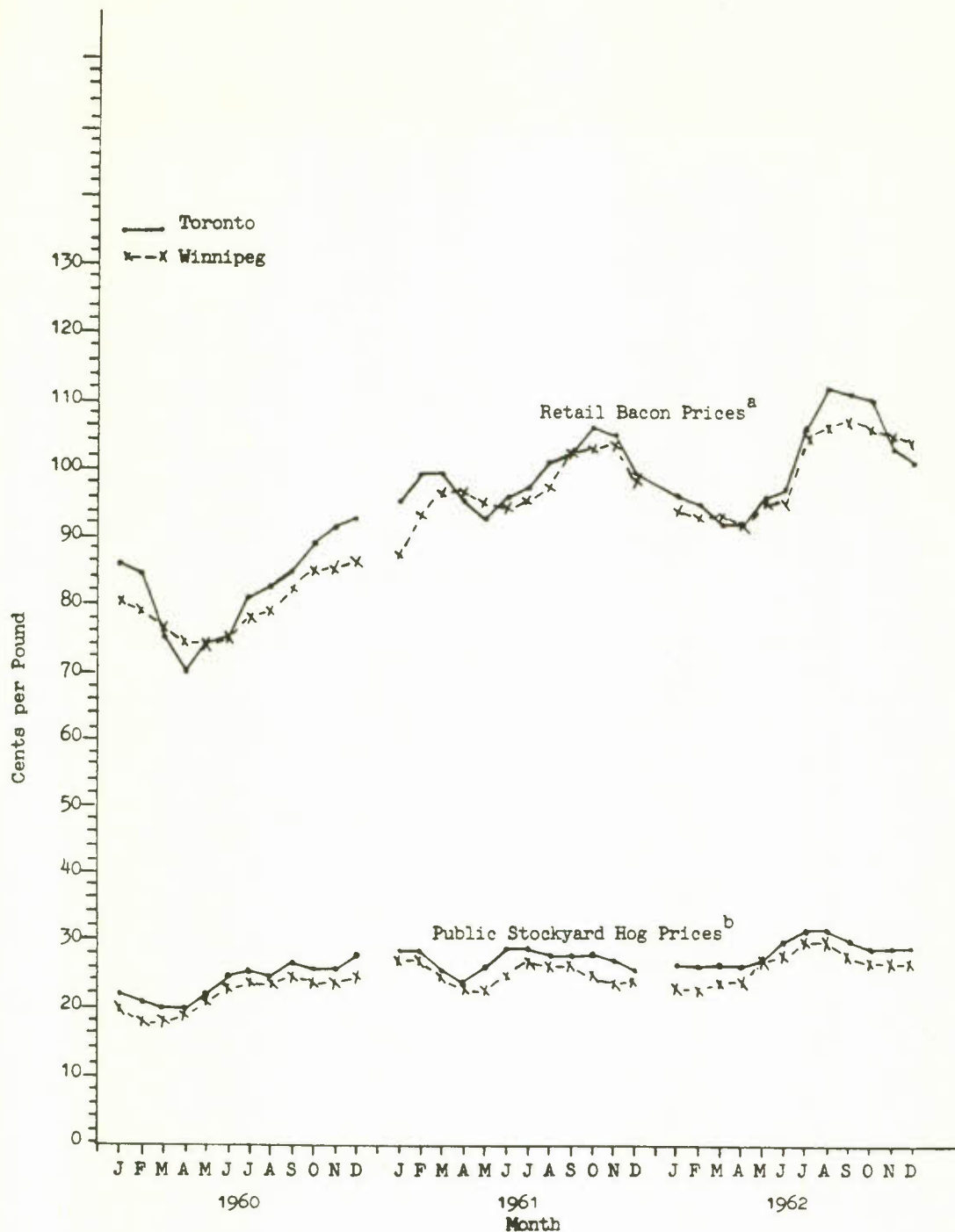


Chart A-1

Public Stockyard Hog and Retail Bacon Prices
for Winnipeg and Toronto

^aSide, fancy, sliced, rindless, (2) (1/2 lb. packages); Source: Livestock and Animal Products, Statistics Canada.

^bAverage price of Grade B hogs, dressed; Source: Livestock Market Review, Department of Agriculture.

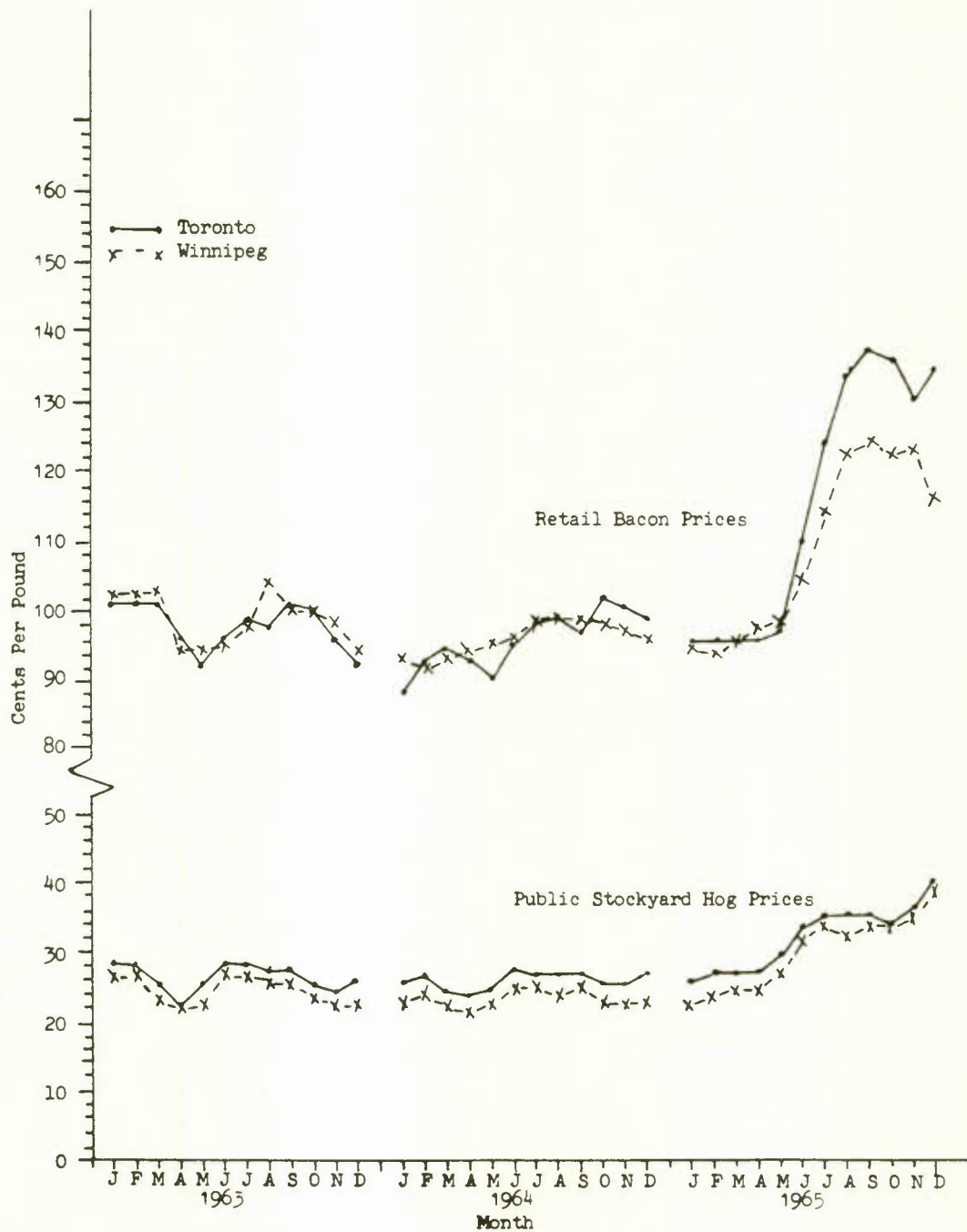


Chart A-2

Public Stockyard Hog and Retail Bacon Prices
for Winnipeg and Toronto

Source: See Chart 1.

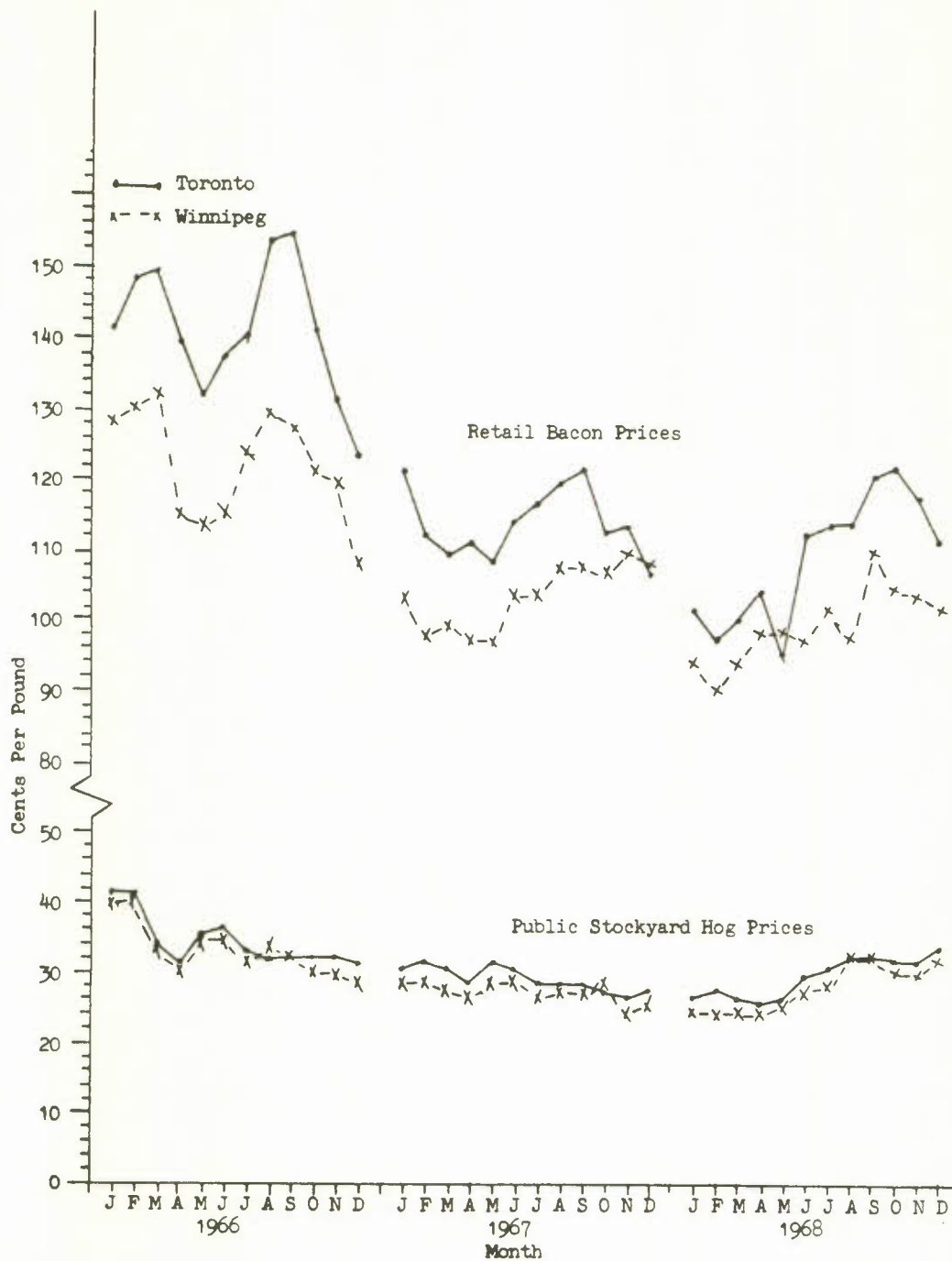


Chart A-3

Public Stockyard Hog and Retail Bacon Prices
for Winnipeg and Toronto

Source: See Chart 1.

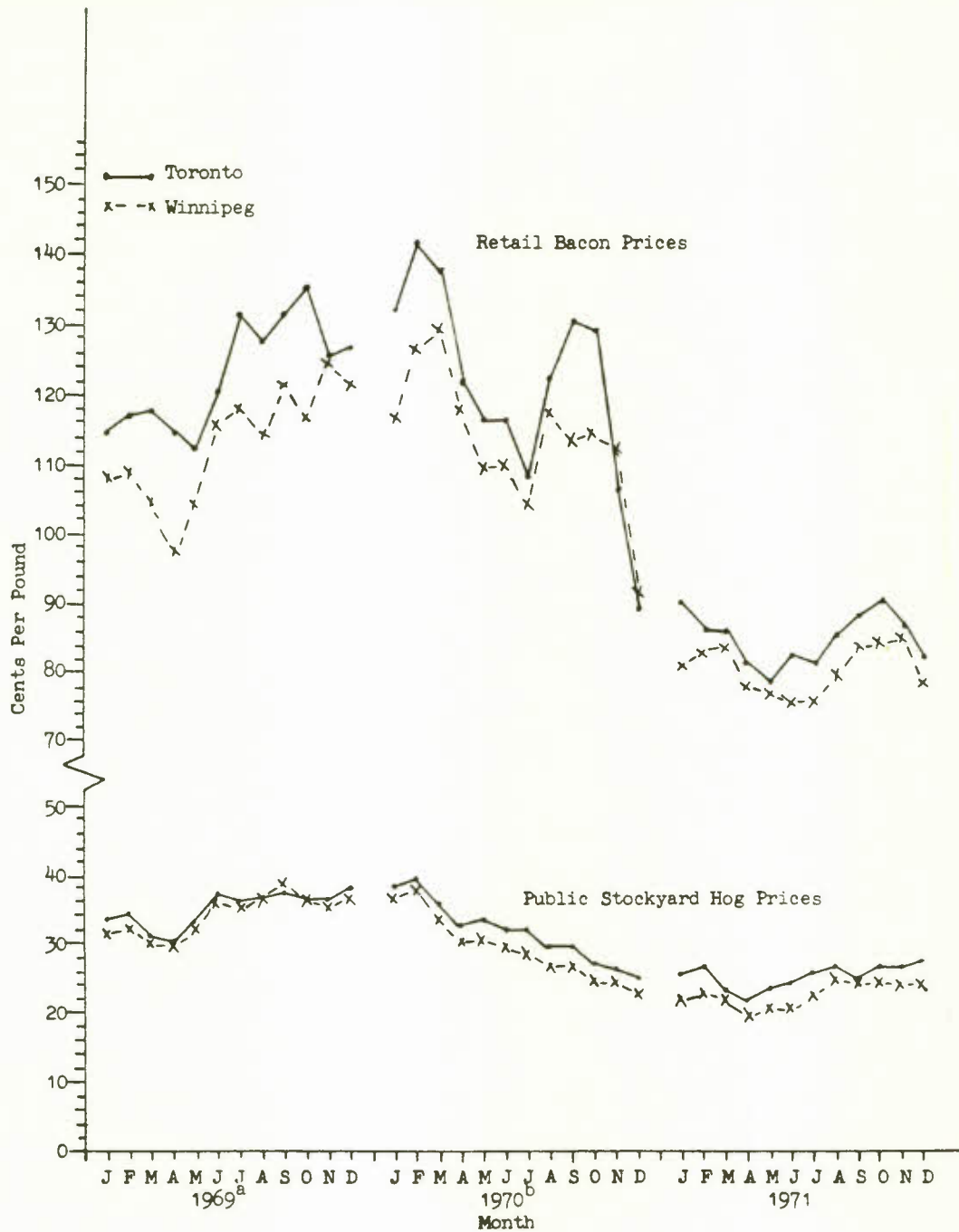


Chart A-4

Public Stockyard Hog and Retail Bacon Prices
for Winnipeg and Toronto

^aHogs, average price, dressed, Index 100, cents per pound; Source: Livestock Market Review, Department of Agriculture.

^bBacon, side, fancy, sliced, rindless, cents per pound, monthly price index, 1961 = 100; converted; Source: Livestock and Animal Products, Statistics Canada.

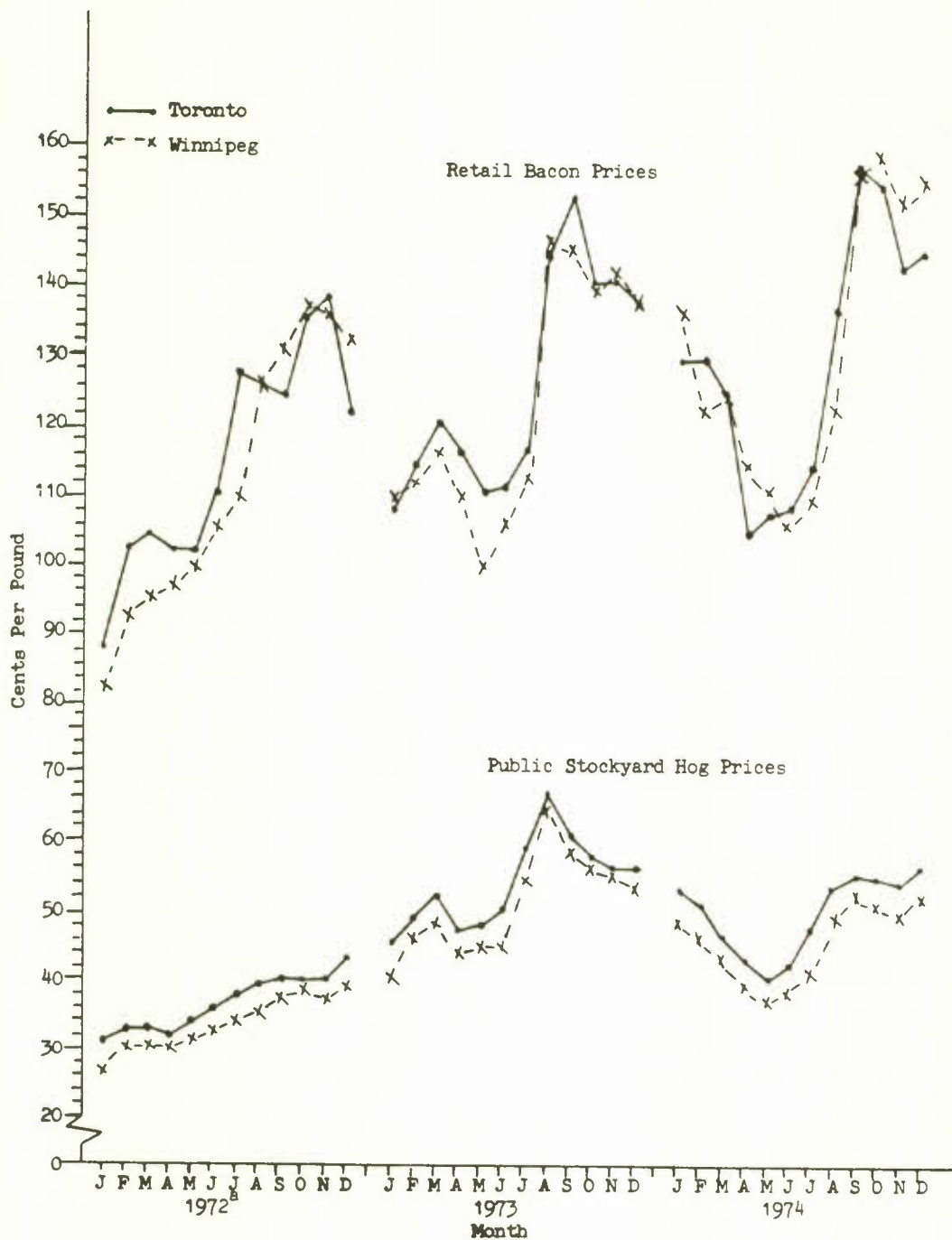


Chart A-5

Public Stockyard Hog and Retail Bacon Prices
for Winnipeg and Toronto

^aBacon index discontinued; side, fancy, sliced, rindless, cents per pound.

Source: Livestock and Animal Products, Statistics Canada. Hog data and source remains the same as in Chart 4.

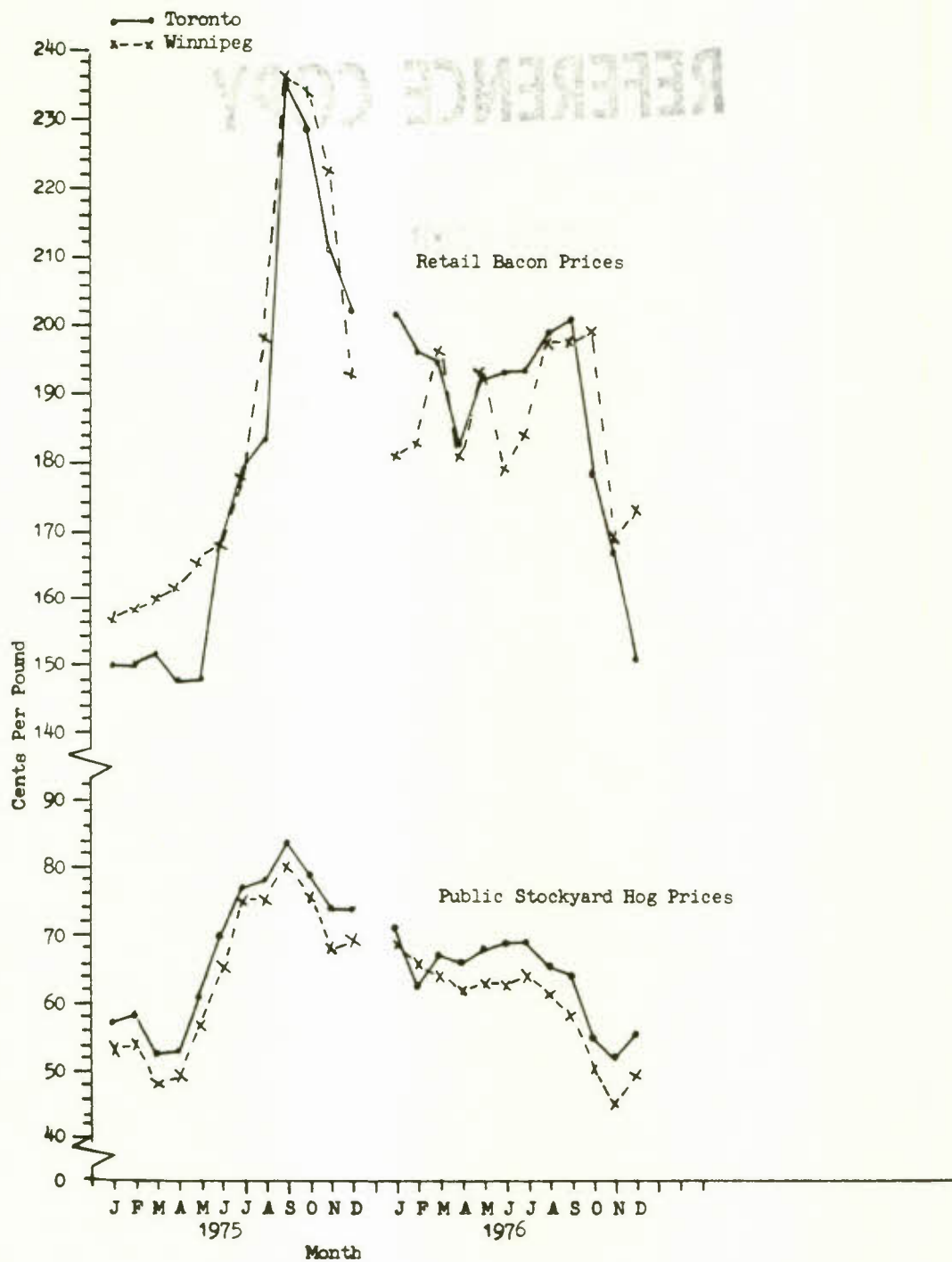


Chart A-6

Public Stockyard Hog and Retail Bacon Prices
for Winnipeg and Toronto

Source: See Chart 5.

Note: After 1976, retail bacon prices were discontinued in all available sources.

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