



# Public Accountability and Reporting Project

*BC Hog Marketing Commission*

June 1, 2019



## CONTENTS

1. Introduction .....	4
2. Overview of the BC Pork Sector.....	5
2.1 BC Pork - Provincial Perspective .....	5
2.2 BC Pork - National Perspective .....	6
2.3 BC Pork – International Perspective .....	6
2.4 Risks Facing the BC Pork Sector .....	9
3. Industry Performance Targets .....	12
3.1 Goals of Performance Targets .....	13
3.2 Risk Factors Associated with Targets .....	14
4. Governance Measures .....	15
4.1 Board Governance – General.....	15
4.2 Financial Responsibility and Accountability.....	16
4.3 Stakeholders / Producer Consultation and Involvement.....	16
4.4 Sound Decision Making / Sound Marketing Policy .....	16
5. Quota Management and Movement.....	18
6. Conclusion.....	19

## 1. INTRODUCTION

This report stems from the BC Farm Industry Review Board's (BCFIRB) expectations that commodity boards fulfill their responsibilities as first instance regulators through strategic and accountable governance using a principles-based approach to regulation. Boards and commissions (commodity boards) created and operating under the authority of the *Natural Products Marketing (BC) Act* (NPMA) must be responsive to the needs of BC producers, processors, consumers and other participants in the agri-food system.

This report lays the framework for the BC Hog Marketing Commission (BCHMC) and BCFIRB to work together to develop and establish improved annual performance measures and reporting on the pork sector and the BCHMC.

The overall goal of Public Accountability and Reporting Project is:

*To support and demonstrate effective governance and sound leadership of the regulated agricultural sectors.*

## 2. OVERVIEW OF THE BC PORK SECTOR

### Snapshot

- In 2019, there are 15 licensed commercial pork producers in BC
- BC farms are concentrated in the central Fraser Valley; there are also two farms in the Peace River, two on Vancouver Island, and one in the Kootenays.
- In 2017, BC's licensed producers raised an estimated 141,000 hogs.
- The BC hog industry farm gate revenue is valued at just over \$32 million.
- The average registered BC hog producer manages 350 sows (farrow-to-finish) and markets about 7,000 hogs annually.
- BC's industry produces both market hogs (85% of production) and round hogs/sucklings (whole hogs for BBQ and Asian markets).
- The BC industry produces around 5% of pork consumed by British Columbians.

The majority of the British Columbia pork sector's farms are family owned and operated. To be considered a commercial pork producer, farms must produce a minimum of 300 hogs a year for processing. There are over one thousand additional unlicensed producers, who may produce less than 300 hogs a year. Most are smaller farms with a few mixed livestock and maybe some crops.

The BC pork sector is represented by two organizations: the British Columbia Pork Producers Association (BCPPA) and the British Columbia Hog Marketing Commission (BCHMC). The BCPPA, incorporated in 1929 represents the sector in such areas as lobbying, animal care, food safety and traceability, environment, research and development, and consumer education. The BCPPA works closely with the Canadian Pork Council (CPC) on nationally validated programs, trade, communications, nutrition, research, and issue management.

The BCHMC was started in 1980 and is authorized under the *Natural Products Marketing (BC) Act*. The Commission regulates all registered producers. It is responsible for orderly production and marketing through promoting and regulating the production, transportation, packaging, storage, and marketing of hogs. For example, the Commission collects levies and plays a marketing role. The levies are used to fund programs and the daily operations of both the BCHMC and the BCPPA.

### 2.1 BC Pork - Provincial Perspective

Provincially BC Pork, through the BCPPA belongs to the BC Agriculture Council. This provides BC Pork an effective voice in provincial politics and input and information on regulatory changes. BC Pork attends provincial agriculture events such as Ag Day in Victoria and the Ag Gala. Through the BCPPA, BC Pork is also a member of the BC Investment Agriculture Foundation.

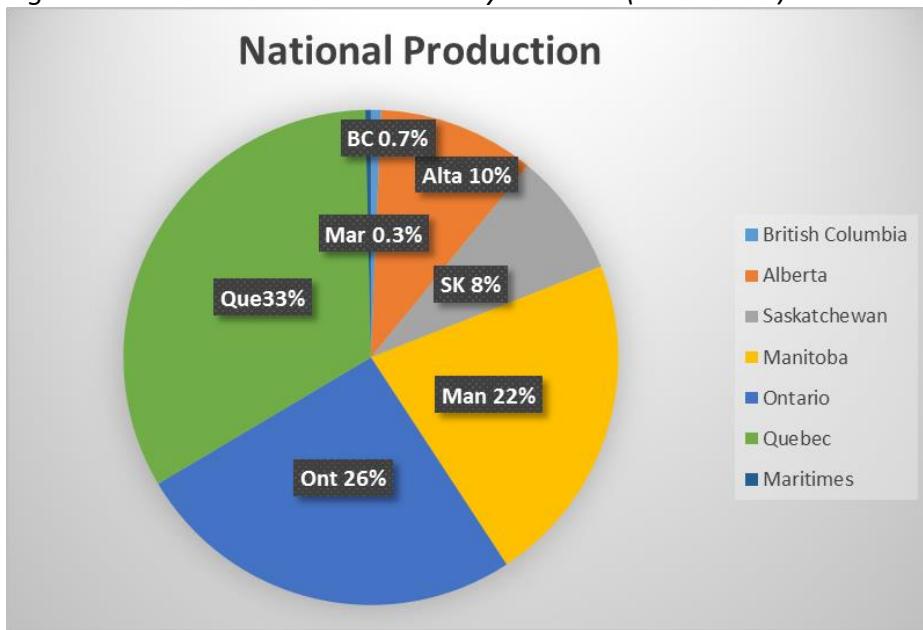
When compared to other agriculture sectors within BC; based on the 2017 BC Ministry of Agriculture's 2017 Fast Stats, BC Pork ranks number 21 on a farm gate basis.

## 2.2 BC Pork - National Perspective

Nationally BC Pork through the BCPPA belongs to the Canadian Pork Council (CPC). The organization is the national voice for hog producers in Canada and plays a leadership role in achieving and maintaining a dynamic and prosperous Canadian pork sector. The CPC manages the national Canadian Pork Excellence (CPE) program that all BC producers are annually validated under. While CPE is managed by the Canadian Pork Council; each province is responsible to administer the program to its producers. CPE has ten modules that include: food safety, animal welfare, traceability, biosecurity and five others.

BC hog production, while important to BC agriculture, is a small market nationally. Based on 2018 CPC statistics, Canada produced about 21.4 million hogs; of which under one percent came from BC. See Figure 1 below. The three largest pork producing provinces – Quebec, Ontario and Manitoba account for 81% of the Canadian pork production. In 2017, there were 6,920 farms reporting pigs in Canada. As of January 1, 2018, there were over 13 million pigs on farms in Canada; of which 81,800 were on BC farms.

*Figure 1: Canadian Pork Production by Province (source CPC)*



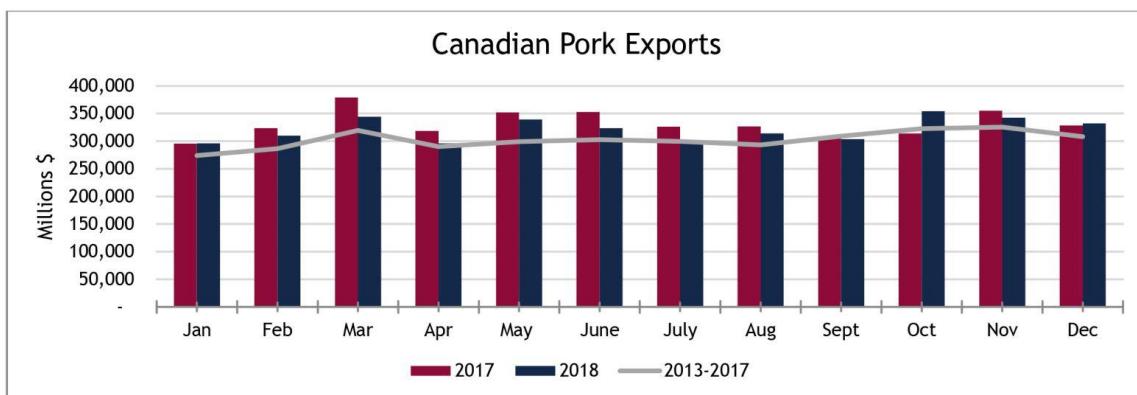
## 2.3 BC Pork – International Perspective

BC Pork through the BCPPA belongs to Canadian Pork International (CPI). Canada Pork International is an organization that unites Canadian pork exporters, provincial institutions and service organizations to promote Canadian pork in a variety of international markets. They

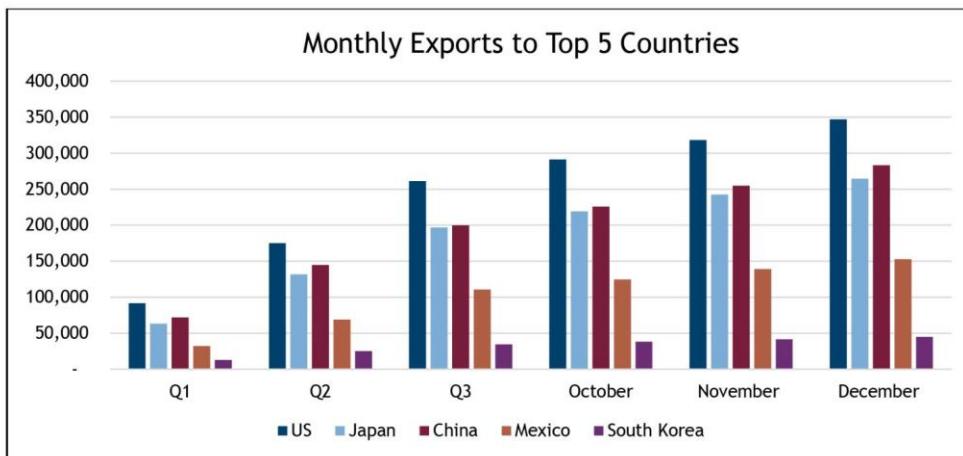
develop new opportunities in existing and new markets for Canadian pork products aiming to serve clients, importers, end-users and consumers abroad.

Pork and pork products are very important agricultural exports for Canada. Canada exports 70% of its production and exported over 1.26 million tonnes of pork and pork products in 2018. The total value was \$3,856,000 (millions). The top five markets were the US, Japan, China, Mexico and South Korea. In comparison, BC exported pork products were worth \$51 M. See Figures 2 and 3 below.

*Figure 2: Canadian Pork Exports (source CPC)*



*Figure 3: Canadian Pork 2018 Exports to Top 5 Countries – by month*



In 2018, global pork production was led by China, which produced 55 million metric tons of pork in that year. See Figure 4 below. The European Union and the United States held the second and third positions, respectively. China's pork production was twice as much as the EU's and over four times as much as the United States'. In 2018, global pork production amounted to about 121 million metric tons.

Figure 4: Global Pork Production (million metric tonnes) (source: Statista)

Country	Production	Rank
China	55.0	1
EU	24.3	2
USA	11.9	3
Brazil	3.8	4
Russia	3.2	5
Vietnam	2.8	6
Canada	1.9	7
Philippines	1.6	8
South Korea	1.3	9
Mexico	1.3	10

As of March 2018, China was home to the largest number of pigs of any country with 440.6 million heads. The European Union and United States were second and third in the list, with over 150 and 73.2 million heads respectively. See Figure 5 below.

Figure 5: World Wide Hog Numbers (million heads) (source: Statista)

Country	Production	Rank
China	440.6	1
EU	150.3	2
USA	73.1	3
Brazil	38.83	4
Russia	22.9	5
Canada	14.7	6
South Korea	11.27	7
Mexico	10.4	8
Japan	9.3	9
Ukraine	6.2	10

There were about 769.05 million pigs worldwide in 2018, meaning that China was home to more than half of the global pig population. Unsurprisingly, China is the leading pork producer worldwide, producing about 55 million metric tons of pork each year. China's global pork exports have been decreasing over the past few years, while the EU remained the top exporter with over three million metric tons of pork shipments last year. The United States is also among the main exporters and importers of pork worldwide. Mexico was the main importer of U.S. pork, followed by Japan, South Korea and Canada.

The most commonly consumed meats in world are poultry and pork. Global consumption of pork is projected to increase from 117.35 metric million metric tonnes in 2017 to about 131 metric kilotons by 2027. China counts for close to half the world's pork consumption. See Figure 6 below.

Figure 6: World Wide Pork Consumption (million metric tonnes) (source: Statista)

Country	Production	Rank
China	54	1
EU	20	2
USA	9.4	3
Russia	3.1	4
Brazil	2.8	5
Japan	2.6	6
Vietnam	2.5	7
Mexico	2.3	8
South Korea	1.9	9
Philippines	1.5	10

## 2.4 Risks Facing the BC Pork Sector

BC Pork faces a number of risks that could potentially jeopardise the entire sector.

a. *Disease - PED*

Porcine epidemic diarrhea (PED) is an extremely infectious disease and has devastating effects on the farm. PED is not a nationally notifiable disease, but it has extensive economic impacts. It can be 100% fatal on nursing piglets.

PED has impacted nearly every hog producing state in the United States since it first found in the United States in April 2013. PED first appeared in Ontario in January 2014 and since the initial confirmation there have been positive farms in PEI, Manitoba and Quebec. Of more concern to BC Pork was when it detected on a central Alberta farm in January 2019. It has since been detected on three farms in southern Alberta.

The risk to BC Pork is transport vehicles from Alberta and trailers that have delivered hogs to Alberta prior to arriving in BC. One of the affected farms in Southern Alberta ships to a Langley abattoir. The other BC abattoir also buys trailer loads of hogs from Alberta.

The only way to prevent PED from coming into BC farms is a strict biosecurity protocol. Working with the BC Provincial Vet Lab, BCPPA has initiated a surveillance project of the two abattoirs that import live hogs from Alberta. Environmental samples are taken daily and tested for PED.

b. *Disease – ASF*

African swine fever (ASF) has not been detected in Canada or North America. Unlike PED, this disease is globally notifiable, so in addition to devastating economic and health impacts it has extensive trade impacts. Affected countries risk having countries closing their borders to Canadian pork. With 70% of Canada's pork being exported, this would

be devastating to pork producers across the county and the allied trades that rely on the pork sector.

The two main areas where ASF is found is China and Europe. It is moving rapidly through China's commercial hog producers. In Europe it is found in wild boar populations. China has already culled more sows than the entire US pork sector. In March 2019 alone, their sow numbers were down -21% (or 9.3 million sows). These lost sows will lead to 150 million fewer piglets and hogs in 2019. Add to that the lost hogs from aggressive culling/selling and it is reasonable to expect losses of 200+ million hogs over the next 12 months. This has ripple effects on world soya, corn, and milk powder markets.

BC has extensive trade and interactions with both China and Europe. The main method of spread of ASF is through people smuggling or bringing product with them as they travel or from being tracked in on the bottom of shoes. Earlier this year, the Port of New York found over one million pounds of pork hidden in containers in just one day. Australia and Japan have both sized smuggled pork products that tested positive for ASF.

*c. Trade Impacts*

BC and all pork producers in Canada, except for Quebec, are price takers. BC's price is usually based on the US pork commodity market price. When the United States imposed tariffs on products coming into the US from China and Mexico and then China and Mexico imposed retaliatory tariffs on the US last summer it impacted prices for BC producers. Prices dropped by over 41% in eight weeks. Prices were below the cost of production for most BC producers for over eight months. As the impacts of sow numbers in China due to ASF became apparent, prices started to rally. Currently prices are above the cost of production.

*d. Activists*

Pork like any animal based agriculture sector is vulnerable to activists whose goal is to shut down animal based agriculture. In March 2019 a rogue activist broke into a hog farm in the middle of the night to shoot a video. The video focused mainly on the farm's hospital pens where hogs had been separated for extra care and attention. The video was released to a local media station and resulted in considerable public attention. The video lacked context and questions were raised as to whether all the images were from the one farm.

The following week-end three busloads of activists arrived on the farm an early Sunday morning. They came prepared with crowbars to break into locked barns. About 60 activists entered the barn violating all biosecurity protocols and refused to leave putting all the hogs health and welfare in jeopardy due to stress and possible disease threats. Local police were needed to remove the activists from the barn.

BC Pork is involved in developing BC pan-farmed animal committee that is looking at ways to address emergency response to livestock transportation issues, whether to resurrect or create a BC farm animal care organization, how to deal with farmed animal welfare complaints and investigations, and how to better protect farms and farm families via strengthening the *Trespass Act*.

### 3. INDUSTRY PERFORMANCE TARGETS

The BCHMC commission initially proposed to use the six targets that were identified in the 2016 strategic plan:

1. Levy income – producer
2. Cost of production
3. Market price
4. Age of infrastructure
5. Number of producers
6. Average age

While these targets were chosen by the Chairs and producers that were involved in developing the strategic plan and could be used to assess the overall status of the sector; the BCHMC has subsequently realized that other industry performance targets would be more appropriate for several reasons.

- Over the past few years, production has slowly decreased on a per hog basis and the number of producers continues to fall. Levy income continues to decline as production declines. Part of the reason of the decline is BC's high cost of production due to high land prices, the cost of shipping feed from the Prairies, lack of local processing, and the higher economies of scale due to small herd sizes compared to other provinces.
- The Commission initiated a cost of production study in 2016/2017 as follow-up to the strategic planning process. Unfortunately due to the small sample size, processor alliances, differences in production systems (round hogs versus farrow to finish), and input cost variations the results were inconclusive and were not statistically valid. The study did show that the costs of production were higher for the producers in the Fraser Valley as compared to those in the Peace River region. The two hog farms in the Peace grow their own grain, while producers in the Fraser Valley import higher priced feed from the Prairies and the US.
- Due to the small size of the BC pork sector, BC producers are price takers and cannot influence hog market prices. In fact BC often takes its price from the lowest US market price.
- Due to the low returns, BC producers have not been investing in new barns or retro-fitting their current barns. There are a couple of exceptions, one farm built loose sow housing several years ago and another recently underwent an extensive retro-fit to convert to loose sow housing. Under the national *Code of Practice for the Care and Handling of Pigs* all sows must either be exercised or be in loose housing by 2024. Nationally it is anticipated that a certain number of pork producers will chose to exit the sector rather than invest in a new production system.

Given these concerns, the BCHMC choose two performance targets that were more realistically within the control of the BCHMC. The two targets are:

1. Education sessions attended by BC Pork's Chairs, directors, member producers
2. Full compliance with the national Canadian Pork Excellence program.

Due the small size of the BC pork sector, BC Pork decided rather than to hold a BC pork conference for 15 producers; instead to set aside funds to encourage producers to attend pork conferences in North America. The BC Pork Manager sent information to producers on the Alberta, Ontario, Manitoba and Saskatchewan pork conferences. Education sessions included the seminars organized by the Centre for Organization Governance in Agriculture (COGA).

Full compliance with the national Canadian Pork Excellence program means full records of partial or full validations for at least three years. Due to changes in validators and managers in BC, many producers only have one year of validation records on file.

The target to reach of full compliance with the national Canadian Pork Excellence program will have to be carried out in two phases because the new CPE program was rolled across Canada in April 2019. Over the next three years producers will be transitioning from the old program Canadian Quality Assurance (CQA) to the new CPE program. With BC's limited number of producers and capacity, BC must bring in a CPE trainer from another province to train producers in the new program. Producers cannot be validated under the new CPE program until they've undergone the training. The first training session will be held in the fall/winter of 2019/2020. After that producers will start transitioning to the new CPE program.

### 3.1 Goals of Performance Targets

The goals for the industry performance targets are listed below.

Year	2018	2019	2020	2021
<b>Education</b>	5	8	12	15
<b>CPE compliance</b>	100% compliant for one year's CQA validations	100% compliant for two year's CQA validations & 20% of producers validated under CPE	100% compliant for three year's CQA validations & 40% of producers validated under CPE	continued 100% compliance for three years – all producers under CPE

In 2018 the education and the CQA targets were reached; three producers attended pork conferences; two attended the Banff Pork Seminar, and one attended the Alberta Pork Conference in Red Deer. The Chair attended three COGA sessions. All producers were validated under the CQA system.

### 3.2 Risk Factors Associated with Targets

There are several risk factors associated with the performance targets. An outbreak of PED or African swine fever would severely disrupt the BC Pork sector. Hog movement, education sessions, and CPE compliance would be put aside to deal with the consequences of the disease outbreak.

Continued erosion of hog prices for BC producers could result in more producers exiting the industry. Lower prices will also impact barn renovations, the average age of farmers as no new, younger farmers enter the sector, and more imports from other provinces.

CPE compliance could be impacted by other provinces. Hog producers in Alberta passed a resolution at their 2018 AGM to refuse to transition to the new CPE system unless they received an additional \$2 per hog to defer the higher costs associated with the CPE program. Hog producers in other provinces are closely following the situation in Alberta. The Canadian Pork Council is working on a project to look into developing a Canadian price for hogs. This may address Alberta producer's price concerns.

## 4. GOVERNANCE MEASURES

The Public Accountability and Reporting Project gave the BCHMC the opportunity for an internal review of its internal policies and processes and to identify areas of possible improvement. The BCHMC already has many of the governance measures in place as part of normal operations' sound management and transparency principles. At the same time, some areas were identified where there was room for improvement.

The governance measures include four elements:

1. Board Governance – General
2. Financial Responsibility and Accountability
3. Stakeholders / Producer Consultation and Involvement
4. Sound Decision Making / Sound Marketing Policy

### 4.1 Board Governance – General

Board meetings are held jointly between the BC Hog Marketing Commission and the BC Pork Producers Association. This ensures full transparency and openness in all decision making. The BC Ministry of Agriculture's Pork Industry Specialist is also invited to all meetings which provides linkages to the provincial government and the Agriculture Minister.

In the past year and a half the BCHMC has implemented or conducted the following:

- The election policy process was revised.
- The General Orders (Consolidated Order) were reviewed and revised.
- Developed director binders for both the BCHMC and the BCPPA – binders contain items such as board policies, general orders, the marketing scheme, and director conduct.
- COMB was contracted to conduct a survey of the two Chairs in 2019. The results of the survey showed that the two pork Chairs were comparable to industry averages.
- Training and professional development is being actively encouraged and financially supported. The intent is for directors to attend technical conferences and COGA sessions.

The BCHMC realises that it has a few areas that need some additional focus.

- The strategic plan needs to be redone to better reflect the state of the BC pork sector. The current six goals are beyond the reach of the BCHMC.
- Succession planning is an area of weakness. With only 15 producers it is difficult to secure directors. In fact the Commission passed a motion at the AGM to reduce the number of directors from three to two. Succession plans also need to be considered for the two Chairs and the General Manager.
- Encourage more producers to attend COGA governance sessions.

## 4.2 Financial Responsibility and Accountability

The Commission has sound fiscal practices in place. The annual financials are audited by an independent auditor. Director travel and expense policies and remunerations are in place. With joint board of director meetings, all fiscal decisions are open and transparent. Board approval is secured before funds are spent. Financials are circulated to the board of directors for all face-to-face meetings.

## 4.3 Stakeholders / Producer Consultation and Involvement

The Commission is conducting sound producer consultation and involvement. BC Pork has linkages with provincial and national organizations as described earlier in the report. In addition, the two Chairs meet two to three times per year with the two main pork processors to discuss emerging issues and possible areas of cooperation.

When the General Orders were revised the Commission followed an open and inclusive process. The board of directors reviewed the current document and suggested changes. Once it was approved by the directors, it was sent to a lawyer to ensure the format was standardized throughout and that it was consistent with language in the Scheme. The draft was sent out to all licensed pork producers for input and comments. None were received. The draft document was presented at the AGM with a further opportunity for questions and input. None were received.

## 4.4 Sound Decision Making / Sound Marketing Policy

The Commission employs SAFETY and Robert's Rules of Order for board meetings, AGMs and decision making in general. Quorum is achieved at meetings; if it is not; the meeting is for information and no decisions are made. Board meeting material is sent to directors a week before each meeting. Decisions made at meetings are circulated to members once the board of directors has approved them.

The majority of the pork processed in BC is sourced from the Prairies and the United States. BC commercial producers are price takers and actions around the world affect the prices BC producers receive for their pork. BC hog prices are tied to Iowa-Minnesota carcass hog prices quoted by the United States Department of Agriculture or Chicago Mercantile Exchange. These prices have no connections to BC consumers' perception of value or quality. In effect, the price forces BC hog producers to compete against commodity pork raised in the US and Canadian prairies; areas with lower costs of production and higher productivity.

As a result, the BC hog industry has been focusing its marketing and production towards local, ethnic, and specialty markets using the brand: "*BC Pork—Proudly grown close to home*" in an effort to differentiate BC pork from commodity pork. The best example of this has been the growth in round hogs to local ethnic markets over the years. In addition, several producers directly market their pork to local consumers and retailers.

In July 2017 the BCHMC contracted Value Chain Management International (VCMI) to conduct an initial assessment of how BC's pork industry could create a long-term defensible competitive advantage through adopting value chain management processes and behaviours.

The report found that many stakeholders voiced concerns about the future of BC's pork sector and many believed that unless transformative change occurred in BC within the next five years, particularly in hog production, the industry would continue to decline. Factors driving this change include 1) tired hog barns, 2) the need to invest in changing production practices such as loose sow housing, 3) farm debt, 4) endemic disease, and 5) the age and skillsets of producers and their workforce. These factors have been discussed previously in this report.

The report concluded with recommended next steps to enable BC's pork industry to transform from a stagnant industry with a questionable future to a dynamic industry with enormous opportunity. The steps included working with local processors to better understand target consumers preferences and demands, developing grading systems for each market segment, allocating pork products to the various market segments, and ensuring that high quality pork consistently went to high-end market segments and efficiently produced pork went to price-sensitive market segments.

The BCHMC and the BCPPA has been meeting with the two processors to implement the strategies suggested in the report. The process is slow and was complicated by the low hog prices the past year. The situation is further complicated because both processors import a significant volume of pork from outside of BC. BC Pork continues to work on joint marketing and promotional projects with the processors as part of the initial steps promoting and differentiating BC Pork.

## 5. QUOTA MANAGEMENT AND MOVEMENT

The BCHMC is not a supply management board, so this report will not include any discussion on quota.

## 6. CONCLUSION

The BCHMC thanks BCFIRB for the opportunity to provide a snapshot of the BC pork sector and for the opportunity to develop internal industry performance measures and for an internal review of governance.

The BCHMC chose two performance targets; education sessions attended by the Chair, directors and registered producers and full compliance with the Canadian Pork Excellence program. Risks to the annual goals being met include disease outbreaks, low market prices, and actions by other pork producers across Canada.

A review of BCHMC governance measures included general board governance, financial responsibility and accountability, stakeholder/producer consultation and involvement and sound decision making / sound marketing policy. Overall the BCHMC has implemented sound governance, but the review identified a few areas that need some additional focus – the strategic plan, succession planning, and directors/producers attending COGA sessions. After reviewing the six performance areas that were identified in the 2016 strategic plan and finding them inappropriate, a new strategic plan will be considered in the near future. The Chair and the board of directors will work to identify potential replacements for the Chair, directors and manager as required. Directors and producers will be encouraged to attend COGA sessions.

BC pork producers will continue to focus on producing high quality, local pork for niche markets. The Commission looks forward to working closely with the BC Pork Producers Association, the Canadian Pork Council, the BC Ministry of Agriculture, and BC processors to develop programs to work towards the continued long term sustainability and competitiveness of the BC pork sector.

The Commission hopes that this report demonstrate effective governance and sound leadership of the regulated hog sector.