

# RESEARCH - ANALYSIS - SOLUTIONS

## CCPA REVIEW

Economic & Social Trends in Manitoba

Fall 2007

### A Pig in a Poke:

#### The George Morris Center Final Report To Manitoba's Clean Environment Commission

One of the more disturbing aspects in the evolution of environmental policy in Manitoba is the increasing reliance by public bodies on Industry Advocacy Research (IAR), rather than objective analysis, as the basis for decision-making.<sup>1</sup> A recent case in point involves the George Morris Centre (GMC), an industry-funded agri-food 'think-tank' based in Guelph, Ontario.<sup>2</sup>

Earlier this year, Manitoba's Clean Environment Commission (CEC) contracted the GMC as 'independent experts' in order "...to provide the latest research findings and advice to the panel..." in its ongoing Hog industry review.<sup>3</sup> The GMC has a history of IAR contracts with the Canadian Pork Council.

The specific issue tasked to the GMC was an analysis of the "... economic background against which the environmental sustainability of the

Manitoba hog production industry can be measured"(p. 1).<sup>4</sup> In fact, the GMC narrows its analysis to the question of the "sustainability" of the alleged 'economic viability' of Manitoba's hog industry,<sup>5</sup> relying heavily on a data-base supplied by industry promoters and interviews of "... industry leaders and government personnel in Manitoba ... "(p. 1).

The GMC begins with an overview of the evolution of Manitoba's hog production system. There has been an accelerated growth of hog output, almost exclusively oriented to exportation, along with a dramatic decline in producer numbers. Intensive livestock operations (ILOs) dot the Manitoba landscape, particularly in the Southeast.

After noting that "hog producers in integration has not only proceeded from the end product processors (packers) downward in the stages of production, but also from input suppliers (feed com-

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309 - 323 Portage Avenue

Winnipeg, MB R3B 2C1

ph: (204) 927-3200 fax: (204) 927-3201

ccpamb@policyalternatives.ca

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panies) upward. An essential component of this has been the generalization of the “all-in, all-out” model, which shifts the bulk of the risk attending hog production to those hog production units under contract (p.11).<sup>6</sup>

These developments are celebrated by the GMC as being a quintessential cost-effective business model (p. 12).

The transformation of the industry, the GMC observes, was the direct and deliberate result of federal and provincial government policy (pp.12-13). Thus, the federal removal of the Crow entitlement, which significantly reduced hog production costs, was as a major ‘catalyst to growth,’ as was the hog price-boosting depreciation of the Canadian dollar, arguably a result of federal stabilization policies in concert with the actions of the Bank of Canada.

At the provincial level, the elimination of single desk selling played a major role. Here, the GMC makes the remarkable (and self-contradictory) claim (p. 12) that this action “... resulted in a more efficient and competitive industry...” characterized by “... larger and more specialized vertical supply chains or loops” (read: vertically integrated oligopoly).

In subsequent years, the government of Manitoba has provided “...overt support for the hog industry.” This was crucial because “... it provided the simple message to the public of Manitoba that the hog industry is competitive and sustainable,” and “... it signaled to the hog industry players to get it done.” This overt support, the GMC contends, was “... paramount to sustaining the growth achieved in Manitoba during the 90’s and early 2000’s” (p. 13).

As a result of expansion, the GMC notes that the economic impact of the industry considered as a whole (hog production plus packing) is now roughly \$2 billion. However, only \$.85 billion of this is attributed to hog production itself (packing is responsible for the remainder), since half of Manitoba’s hog output is exported to extra-

provincial packing operations and, as a consequence, the associated secondary multiplier effects (spin-offs) obtain outside the province, notably in the US (p.16).

Moreover, the GMC estimates that a total of only 1382 direct, and 3394 indirect, jobs are attributable to hog production, with another 3713 direct and indirect jobs created in the packing component. The industry total (8488) represents about 57% of the number (15,000) claimed in recent Manitoba Pork Council (MPC) advertising (p. 15-16). The clear, yet unmentioned, implication is that job creation from hog production is minimal, and is hardly sufficient to inspire the re-population of rural Manitoba, as the industry claims.

Section 3 consists of the reproduction of one of the GMC’s studies, commissioned by the Canadian Pork Council (p. 18). Here, a number of barriers to hog production expansion in Manitoba are considered. Chief among these are: (a) US farm subsidy programs (which account for the decline in Canadian barley acreage relative to American corn acreage); (b) the subsidy-driven initiative to develop corn-based ethanol production in the US; and (c) the prospect of America’s Country of Origin Labeling (COOL) requirements, viewed as a non-tariff trade barrier (pp. 19-23, 31).

But, by far, the most significant barrier involves the protracted collapse of the US dollar, and the consequent appreciation of Canada’s currency. The resultant decline in Canadian hog producers’ gross revenue is described as “severe”. According to the GMC, with a \$.90 dollar, Canadian hog producers were losing \$10/head (pp. 24-25). Most recent estimates of producer losses, issued by the MPC (prior to the dollar’s rise to \$105 US), have ranged from \$30 - \$50 dollars/head.

All this notwithstanding, the GMC advances the remarkable conclusion that the economic prospects for hog production expansion in Manitoba are “moderately positive” (p. v), and “...when

the difficulties pass, Manitoba's model has proven it to be the best place to grow and move forward" (p. xviii). Apparently, this is because the source of future industry growth is through export market development, a suggestion that is reinforced by the manifest decline in Canadian domestic per capita pork consumption (p. 36).

To the GMC, this implies that "Canada has a greater stake ... in export market competitiveness, by which is meant 'cost-competitiveness' (read: cost shifting/avoidance maximization).<sup>7</sup> In this context, the GMC identifies Brazil as an increasingly significant rival for pork export markets. Indeed, from a 'cost-competitive' perspective, "...Brazil's long term prospects are good," because of its "...improvement in productivity... , favorable domestic policies..., and a weakening currency" (pp. 32-35). It also has a virtually non-existent environmental regulatory regime.

The message in all of this is that the future of Manitoba pork production requires the maintenance of 'export market cost-competitiveness,' in which "environmental Legislation" is a 'key issue.' Hence, the GMC's fundamental piece of advice to the CEC: the Manitoba government, in designing a regulatory regime, must not "...unfairly burden the industry relative to other jurisdictions" (p. viii), such as Brazil.

This advice is reiterated, albeit obliquely, in the GMC's discussion of the known negative environmental and health impacts ingredient in industrial hog production in Section 6. These impacts are characterized as mere 'concerns,' to which, happily, both industry and government "...have responded with initiatives to reduce the risk" (p. 55).

After observing that "legislation and regulation have often been the principal policy tools used by Canada and its trading partners to achieve environmental objectives...", the GMC opines that "...as the challenges of the transition to sustainable production have become better un-

derstood and the limitations of regulations more apparent, the major stakeholders (government, industry and society) in environmental protection have begun to experiment with other mechanisms... ." <sup>8</sup> Of these, the GMC clearly prefers "...market based instruments, fiscal instruments, and a range of voluntary and non-regulatory initiatives..." such as Beneficial Management Practices (BMPs) [pp. 55- 56].

The reason for such a preference is clear enough. Government regulation, when environmental protection is the actual and paramount objective, has (at least) the potential to prohibit, eliminate and/or seriously constrain environmentally unsustainable developments, such as ILO hog production. On the other hand, market-based, fiscal, and/or voluntary non-regulatory initiatives, wherein expansion and growth are the actual and paramount objectives, ensure the proliferation of environmentally unsustainable developments, while propagating the illusion of environmental protection.

The case of BMP's illustrates the point. According to the GMC, swine ILO operators ... "have been using BMP to manage risk ... for years." The question is, how many? The GMC cites a Manitoba Government survey, with a sample of 131 respondents, which indicates that " ... 48.9% of hog producers surveyed ... had partially or fully implemented manure management BMPs" (p. 56). Yet, three pages later, the GMC reports that BMP adoption by Manitoba hog producers under the Canada-Manitoba Farm Stewardship (CMFS) program was 178, out of a total of 1670, or roughly 10% (p. 59). This is hardly an encouraging participation rate, particularly given the fact that the CMFS provided funding for the implementation of BMPs. Moreover, when adopted, the concrete effectiveness, feasibility, and affordability of BMPs are speculative, as the GMC notes (p. 60).

Section 6 concludes with a comparative review of environmental regulation relating to hog production in various jurisdictions. This review is

guided by the proposition that "... the number and strength of environmental regulations in a particular jurisdiction may be a reflection of the intensity of agriculture in the region and the resulting environmental problems that may occur" (p. 63). Here, the GMC falsely identifies swine ILO production as an agricultural activity, not unlike traditional family farming. The clear and manifestly false suggestion is that the environmental problems specific to ILO production are problems ingredient in agricultural activity generally.<sup>19</sup>

The GMC linkage between regulatory intensity and hog densities (p. 63, p. 51) conveys the further suggestion that expansion of swine ILO's in low density areas (such as Western Manitoba) need not be accompanied by increased regulation (voluntary initiatives will suffice). Objectively, such a suggestion is a corollary of the absurd proposition, advanced in various formulations by industry promoters at the CEC public hearings, that 'polluting industries can become environmentally sustainable simply by changing location.'

Whether or not the CEC will rely on the advice offered in this latest example of Industry Advocacy Research is, at this point, an empirical question. However, one thing is clear. The degree to which it is relied upon will be a measure of the degree to which a special interest group, the hog industry, has succeeded in hijacking a public review process, by stealth.

- Joe Dolecki

*Joe Dolecki is an Associate Professor and Chair of the Economics Department at Brandon University.*

## Endnotes

1. Among other things, this has contributed to the subordination of the public interest to the special interests of industry stakeholder groups in Manitoba. For a succinct discussion, see Ruth Pryzner's *Stakeholder Democracy* (May, 2007) submission to the CEC. Available on the Beyond Factory Farming website.
2. See description on the Canada Beef Export Federation's website.
3. See CEC website.
4. All references are to George Morris Centre. *Final Report, Economic Analysis of the Hog Production Industry in Manitoba*. (September 7, 2007). Available on the CEC website.
5. Among other things, the meaning of 'environmental sustainability' is nowhere specified in the GMC's *Final Report*, nor is there any reference to the provisions of Manitoba's *Sustainable Development Act*.
6. Maple Leaf's "Signature Pork Program" serves as a classic example.
7. For a succinct discussion of cost avoidance/shifting and the meaning of 'efficiency', see my submission to the CEC, *On the Sustainability of the Hog Industry in Manitoba* (May 2007). Available on the Beyond Factory Farming Website.
8. It is useful to note that the 'challenges of the transition to sustainable production' which have 'become better understood' are unspecified, rendering this construction incoherent.
9. The fact is that hog ILOs are industries that masquerade as agriculture. In the final analysis, this is the fundamental (and intellectually honest) distinction that the GMC wishes to obscure.

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**Winnipeg, MB R3B 2C1**

**ph: (204) 927-3200 fax: (204) 927-3201**

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