Special Report on the Future of the Quebec Pork Industry

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The Quebec pork industry managed to dodge a bullet in mid-February as employees at Olymel's Vallée-Jonction plant accepted the company's final wage concession package. Olymel says the plant has lost about $50 million over the last three years. It was expected to close by May 25, as employees were previously unwilling to accept a significant pay cut. The plant closure would have resulted in the loss of about 35,000 head capacity. This is additional to the pending closing of Olymel's St-Valerien plant early this spring. St-Valerien has the facility to kill up to 35,000 head but has not been operating anywhere near capacity. The closure of both plants would have meant the loss of about 70,000 head per week of capacity. That loss would occur in a province that could slaughter about 190,000 head per week.

Despite the union agreement, Olymel is not making any promises about the longer term. According to Nova Scotia Pork's publication Porkfolio, Olymel said the Vallée-Jonction plant will have to return to its maximum production capacity of 35,000 head per week from the current level of 29,000. Olymel also referred to the importance of the company's customers. Olymel is obviously pointing to the need for profitability to keep the plant open.

The Quebec pork industry has undergone a series of setbacks and impediments over the past two or more years. The challenges started with the province's moratorium on hog production and moved forward through the 11th hour negotiations at Vallée-Jonction. In between those events, the province's hog marketing system has become dysfunctional. During the fall of 2006, the marketing system was generating the lowest hog prices in North America. Adding to the difficulties is the fact that another important hog slaughter plant, Trahan, has been on strike for months and its largest packer, Olymel, is pondering major strategic directions. All the while, Quebec's hog inventories continue to decline.

Needless to say, within this very stressful and uncertain environment, Quebec hog producers are anxiously pondering their future and their options. This uncertainty was only modestly eased by the settlement at Vallée-Jonction. Calls for government financial assistance, producer-owned packing plants and buyouts are common. Furthermore, the general farm organization in Quebec, l'Union des producteurs agricoles (UPA), would never want to sit still and let the market work. Recall that the UPA was involved in the purchase of the Levinoff cow slaughter plant a couple of years ago. They like to think of themselves as being in that business, which doesn't bode well.

Furthermore, a recent article in Le Devoir notes that Lucien Bouchard, the former premier who is negotiating next steps on behalf of Olymel, is turning his attention away from labour and toward hog marketing. Bouchard's next move is to contact the UPA and the Fédération des producteurs de porcs du Québec (FPPQ) to discuss options of the collective marketing system. The English translation of the Le Devoir article basically includes the following initiatives: to eliminate perverse impacts of the current mechanisms; to establish more flexibility in the system; to increase effectiveness; and to reduce costs. In the world of regulated marketing, "them's fightin' words". So Bouchard was just getting warmed-up and in-shape with the plant union.

Add to the mix the fact that there is an election going on now in Quebec and it is an environment that makes for very poor government policy making. At the same time, an environment such as this can also make for very good business and industry building opportunities.

A ministers' committee was created by the Quebec government to look at the pork industry. This committee and the Quebec government need to make an unequivocal statement that the Quebec pork industry is on its own. It needs to state that the government is not interested in building a plant; bailing out Olymel; or allowing producer check-off money to finance an acquisition or new plant.

There are several pork-packing companies in Quebec. They will be watching to see what the government does or does not do in their industry. If they believe that the government will interfere, they will not invest in their own operations. They will not be interested in competing with check-off or tax dollars.

We have recommended for years that the best way to encourage an industry is with the tax system. This could be done by increasing the rate at which investments are depreciated, reducing tax rates, removing capital taxes, and/or by reducing or removing capital gains taxes. Using the tax system would mean investments are made only if there is a business case, and would reduce the likelihood of a trade action that could follow from a direct subsidy. It would not rely on civil servants' decisions about who gets the money, nor would it provide a disincentive for others to invest.

The Quebec industry will move forward on its own if the government makes a stand not to interfere. If no such assurance is made, then the last few years of turmoil will only have been a warm-up for the real show.