FARMERS' BARGAINING POWER IN THE PRE-SLAUGHTER MARKETING OF ONTARIO HOGS

by T. S. Rackham

Setting

Efforts of Canadian farmers to increase their bargaining power in the primary markets have not altogether paralleled those of American farmers.

Time will permit me only to touch the highlights of one of them -- the now-successful effort of a producer group in Ontario to gain monopoly control of the supply of live hogs in order to secure higher returns.

Three general conditions differentiate the Canadian from the U. S. hog marketing system:

1. Federal regulation and supervision of grading, including grade-price differentials and a quality premium program, relieve producers and processors of any latitude in bargaining within these variables.

2. Long-established standardization of the bacon-type hog gives the live product characteristics of homogeneity, so processors generally need not be selective to get the kind of hogs they desire.

3. Grade and premium benefits limit to about one week the optimum period in which prime quality hogs can be delivered. Thus there is a steady rather than discontinuous flow of hogs to market and it is unprofitable for producers to hold their hogs off the market.

In Ontario three other conditions have been important:

1. Wartime fixed-contract pricing destroyed competitive marketing and led to delivery of nearly all hogs directly to plants.

2. The large Ontario market is isolated by distance from Canadian surplus hog producing areas.

3. Truck route and licensing controls restricted the freedom of producers to designate where they wanted their hogs delivered.

Thus producers raised hogs and shipped them off without knowledge of price or access to alternative markets in a market completely void of bargaining. Bargaining took place between trucker and processor on a transportation cost

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1 Associated with the Department of Agricultural Economics, Ontario College, Guelph, Ontario, Canada.
margin, and occasionally truckers could pass some gains back to producers. Variation in prices to producers at one plant on the same market day often amounted to a dollar per cwt. or more, dressed weight.  

Dissatisfied with pricing conditions, farmers agitated for more bargaining power. Three gains were anticipated from producer control:

1. Reduced marketing margins mainly from pressure on processors.
2. Elimination of under-the-counter trucking and handling kickbacks.
3. Upward pressure on the retail price to squeeze consumers for additional nickels and dimes.

**Development of Power in Hog Producers Marketing Board**

First, the Ontario Hog Producers Association was organized. It worked out a scheme under the Ontario Farm Products Marketing Act to set up a negotiating committee and agency for selling hogs. This was partially accomplished when the Ontario Hog Marketing Board was formed as one of several commodity marketing boards under the regulatory Farm Products Marketing Board. The hog board collected license fees from producers and through a checkoff (2 cents per hog), the supporting-and-policy-making Ontario Hog Producers Association gained strength and unity. An attempt was made to negotiate prices in 1951, but no agreement was reached, and the packers refused to go to arbitration. The parent provincial Farm Products Marketing Board was reluctant to interfere.

The Hog Marketing Board proceeded to set up a marketing agency by unifying the commission firms operating on the stockyards into a single selling agency controlled by the board through a contract agreement. The agency was empowered to establish prices, sell the product, direct the movement of hogs, and handle payments to producers. It sold its hogs to the highest bidder and withheld hogs from those not meeting this bid. However, the agency had little bargaining power because less than 10 percent of hogs moved into trade through the stockyards. Processors paying freight assistance to truckers were still able to attract direct shipments in sufficient quantity to offset any increase in bargaining power based on loyalty to the hog marketing agency.

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New legislation permitted formation of a successor to the contract marketing agency. This was the Ontario Hog Producers Cooperative Ltd., a sales agency directly dependent on the Hog Marketing Board and the policy-making Ontario Hog Producers Association. This development brought the producer organization into direct conflict with truckers and drovers, who still maintained freedom to deliver their hog loads to the processor of their choice. Eventually the sales cooperative set up district assembly yards to serve the hog producers and sidestep opposing truckers and drovers. The sales cooperative then hired its own staff and trucks to make delivery as it directed. Bargaining power of the agency increased as the volume moving independently to processors was shut off.

However, complete control was not achieved until legislation designated the Ontario Hog Producers Marketing Board and its selling agency as the sole marketing agent for all live hogs produced in the province. This action gave the producer organization monopoly control of hog supplies. The organization could discriminate between processors by threatening of retaliatory action if outside supplies were brought in.

Operations were centralized by setting up assembly points throughout producing areas, maintaining supply information, and dispatching full loads by telephone from the central office. The central selling agency analyzed trade factors and established prices weekly. The co-op salesman contracted prospective purchasers by telephone and accepted price and quantity bids. He was able to play one processor against another and delay acceptance of offers he deemed unsatisfactory. At times prices were not stabilized early enough to keep hogs rolling to market and processors' killing floors operating. Small above-average-quality lots would be sold early to specialty firms to set high opening prices.

This situation led to week-end hog carryovers and tail-end sacrifice pricing. This was partly offset by directing the overrun to a cooperative, producer-owned packing plant or outside the province to an agency in Montreal, a hog deficient area. Packers claimed that to keep plants operating they were forced to make bids inconsistent with market demand, that when their storage space was filled they had to quit buying. The selling agency claimed this practice was really a conspiracy to break the price which the agency's research indicated to be consistent with supply-demand relationships. These claims led to conflict among producers, the Ontario Hog Producers Marketing Board, processors, and the Ontario government through the parent, regulating Ontario Farm Products Marketing Board. The government ordered the board's selling agency (still supported by the required two-thirds majority of producers) to set up a more acceptable system of marketing hogs by April 1, 1961, or suffer its compulsory powers to be withdrawn.

As a result, a teletype system was set up connecting each processor with a master teletype unit in the selling office. This is how the system works:
The selling agency lists at given offering prices the various lots of hogs available in the Ontario area for that market date. If after a given time there is no taker at first offering price, the various lots are listed at lower offering prices. Buyers can bid on any lot of hogs listed regardless of the point at which the hogs are assembled. However, buyers bid on the basis of F.O.B. assembly point, so they have to make some adjustment for the cost of transportation to their plants. The offering price of each lot is progressively reduced until a buyer signals his acceptance. His action locks the circuit, ends the bidding and notifies other buyers of the sale. Only the sales agency and the buyer know who bought the lot in question. The sales agency may, at its discretion, refuse a bid and continue offering for sale the lot or portion of lot not desired by the purchaser.

Observations and Conclusions

Ontario commodity marketing boards such as this one grew out of a background of Canadian cooperative and government marketing experience. They were conceived, according to J. K. Galbraith to "become part of a system of countervailing power to offset the concentration of resources and bargaining power in large industrial and commercial corporations, labor unions and supermarket chains."

They are looked upon as a method of improving bargaining power of producers who had so little power that they could only accept or refuse the first price offered. Their power potentially would be derived from monopoly control over supply of the product in a market. However, the Ontario commodity marketing boards in general and the hog producers in particular, have not attempted any production control. Thus they lack ability to control or set price level.

I believe the Ontario Hog Producers Marketing Board anticipated that they could gain an advantage over consumers that would force price levels up at retail, that they could impose a loss on processors and truckers by reducing the operating margins of the latter.

The attempt, in the words of Professors Kaldor and Paulsen, was to influence the terms of trade through discriminatory control of the supply variable using an instrument sanctioned by the provincial government. This instrument was compulsory channeling of all hogs through the board's selling agency, a bargaining agent that played an active role as contrasted with the passive market role played by sellers before collective union.

The result was a demonstration that the long-run gains came not from bludgeoning power but from perfecting the bargaining process. These are relatively small gains in monetary terms but still of value and mutually acceptable to the opposed forces.
As I see it the gains are these:

1. Efficiencies in mass full-load collection and movement of hogs with minimum disturbance, crosshauls, overlapping of agents services, and communication expenses.

2. Reduction and prevention of covert marketing practices, under-the-counter subsidies, and so forth, with resulting nonmonetary dividends in producer confidence, in equitable treatment and in better producer-processor relationships.

3. The possibility that the price level will adjust more smoothly to demand and supply conditions rather than in the jerky manner pressured by the previously imperfectly counterbalanced powers.

The hog producers have now launched a program to take over processing of their own hogs. Ultimately they may attempt to raise or control the price level by production control and thereby extract higher prices from consumers -- at the risk of attracting supplies from other areas.