

Some Economics of Proposition 12 for Pork

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California Proposition 12 Passed in Nov 2018 (63%)

Pork full rules and enforcement, January 1, 2024



- 24 square feet housing space per sow (and many other rules)
- Applies only to mothers of hogs used for uncooked pork cuts sold in California
- Pigs and pork must be traced through the supply chain for compliance.

Rules also apply to amount of time a sow is allowed to spend outside the group, these major issues may cause health and welfare losses for sows.

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Facts

- 1. The relevant sows include those in Canada.**
- 2. North America is a net pork exporter.**
- 3. California rules apply to about 8% of North American sows**
- 4. Prop 12 rules regulate sow farm practices in Manitoba and Minnesota, but almost no sows in California.**
- 5. Sow housing rules have both capital costs and operating costs.**
- 6. Pig and pork traceability from weaning through slaughter to retail is probably even more costly.**
- 7. Uncooked pork cuts are covered by California retail and food service compliance.**

Some Basic Economics

- **Since less than 10% of sows are needed for California, farrowing farms that find compliance more costly will not supply California.**
- **The principle applies to all products or markets segregated by farm practice.**
- **No farm would supply California unless they expect to cover the added farm costs with higher pig prices.**
- **Processors and marketers that plan to sell into California also must expect to cover segregation and traceability costs.**
- **Not unlike organic, antibiotic-free, or ractopamine-free pork.**
- **Therefore California pork buyers pay even more than we already did because of all the other costly California regulations.**

Pork Supply Chain Costs

Farms (farrowing, weanling, and finishing)

If they supply California: Additional costs to comply with Prop 12



Intermediaries (slaughtering, further processing, distributing, and retailing)

If they supply California: Additional costs, additional costs to segregate and trace products to California



Final consumers in California \$\$\$

California consumers of covered pork products must pay.

Covered and Non-Covered Products by Prop 12



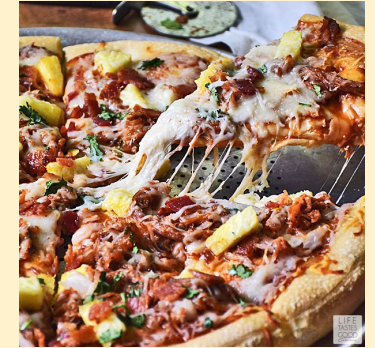
Uncooked pork cuts
=> Covered (e.g., loins
bacon & ribs)



Not cuts of pork
=> non-covered,
=> (e.g. sausage, other
ground pork)



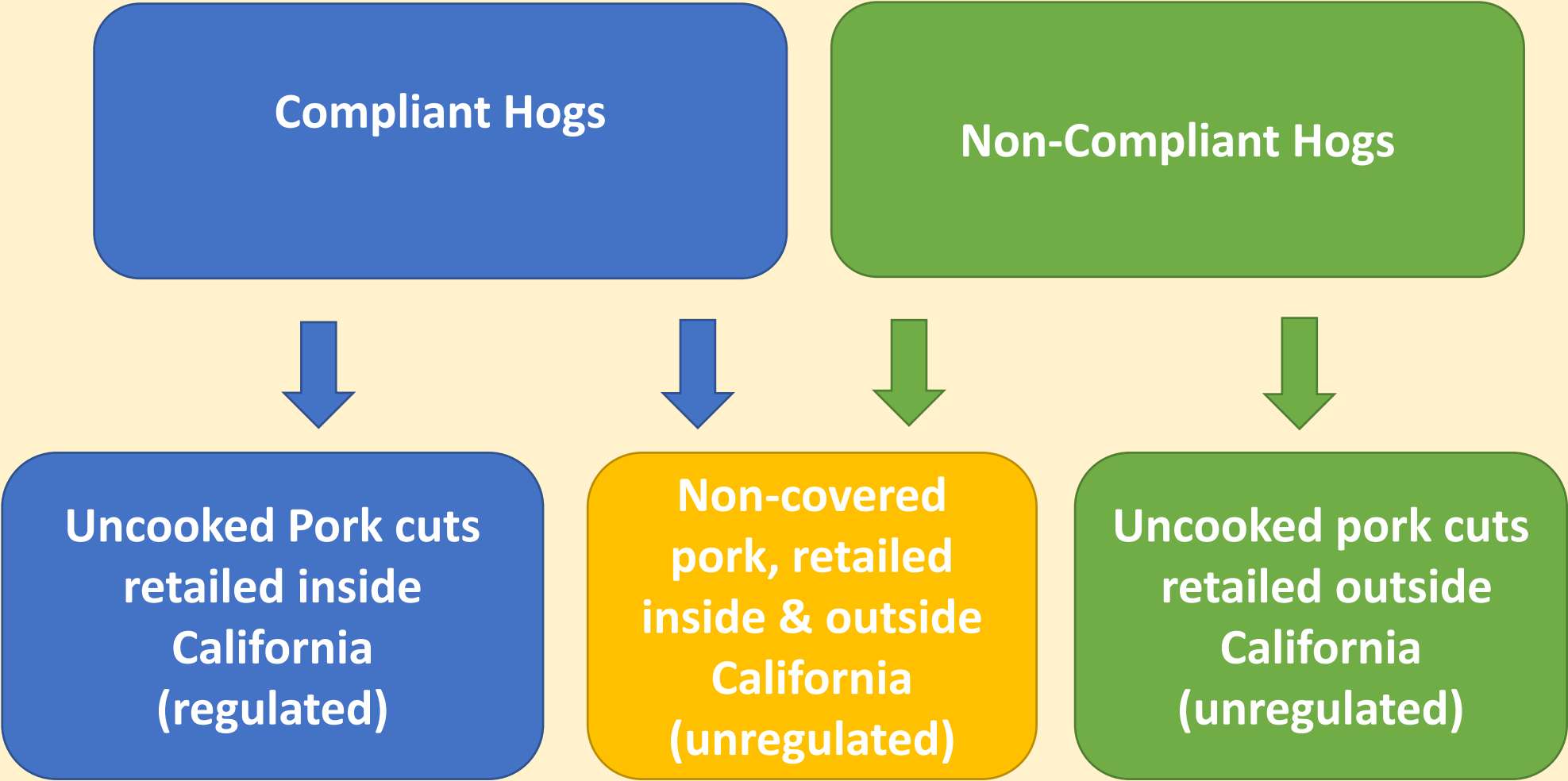
Cooked pork (e.g. cooked hams)
or products mixed with other
meat and ingredients
=> non-covered



Implications for California Consumers

- **We estimated about 7% higher (than w/o prop 12) retail costs (including food service) for covered pork products to California consumers.**
- **With higher prices, California consumers buy less of covered pork (and a little more non-covered pork).**
- **Less bacon; a little more sausage. Less uncooked ham; a little more pre-cooked ham.**
- **Higher prices + less consumption spells losses for California consumers ... about \$300 million per year, or \$10 each for pork consumers**
- **Many who supported Prop 12, but who do not eat pork, do not pay.**

North American Pork Supply Chain After Prop 12 Implementation



Hog Economics

- **Few farrowing farms would comply because the California market needs pigs from less than 10% of the sows.**
- **Farms and firms must expect to cover costs over a reasonable horizon or they never enter the specialty market.**
- **Farms that do not comply (and their consumers) are affected indirectly**
- **Hog and pork prices in the 90% that does not comply with Prop 12 see no direct cost changes.**
- **Overall hog profits may rise a little or fall a little depending on specifics of responses.**
- **Some who find compliance cheap, gain. Other breakeven.**

Pork Economics Outside California

- Notice the markets for all **non-covered** pork products are indirect.
- The 40% of non-covered pork cannot get a premium most is from 90% or more of such products that come from non-compliant sows.
- The market for non-covered products is national, nothing special about California for those products.
- Therefore any impacts on non-covered pork prices and quantities are very small.
- Sausage prices nationally affected by high bacon prices in California.
- Similar to Impacts on consumers outside California are very small.

Implementation Economics

- **Complicated economic regulations always face complicated implementation and delay.**
 - **Regulators, farms, processors, and marketers can never plan perfectly.**
 - **Supply responses may be too large. Prices adjust too little. Recalibration follows and that takes some.**

 - **Delays and interruptions always occur.**
 - **Experience is needed to calibrate and markets take time to adjust.**
- And there are often delays in implementation.**
- **Here a lawsuit by California retailers required forced delay to give them time to adjust after final regulations were ready. And that led to further delays**

Law and Economics of Supreme Pork

- **Federal cases caused producers and retailers to need more time.**
- **The National Pork Producer Council (and the Farm Bureau) sued California Sec. of Agriculture Karen Ross, claiming devastating effects too the national pork industry.**
- **No serious claim that Prop 12 favored California hog farms, there are almost none to favor!**
- **Hence it claimed unconstitutional impacts to the national industry.**
- **The lower courts did not seriously review the facts and sided with California.**
- **The Supreme Court agreed to consider. Five sided with California that the impacts nationally were not large enough. Four wanted the lower courts to access the facts more carefully.**

Economics of Supreme Pork

- **The Supreme Court agreed to consider and economic matters.**
- **It took seriously the magnitude of economic impacts outside California.**
- **(California can do damage to its own consumers)**
- **Five sided with California that the impacts nationally were not large enough to block Prop 12.**
- **Four said that decision should be decided in the lower court with a full evaluation of the economic evidence and wanted the lower courts to access the facts more carefully.**
- **So Prop 12 was set to be implemented.**
- **But everyone agreed time was needed to implement and enforce the rules.**

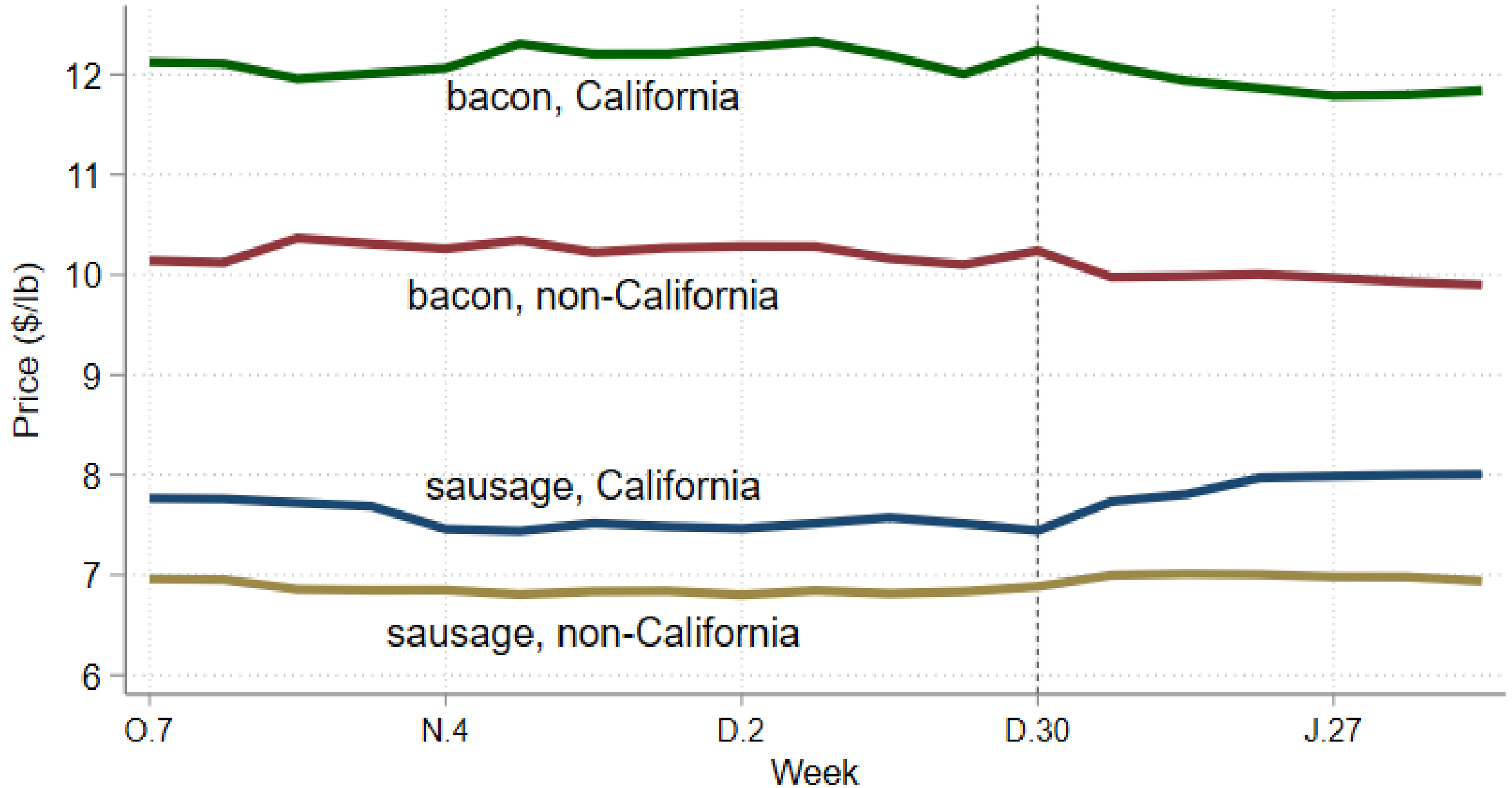
Implementation Path

- **After the Supreme decision, California said it expected farms, firms and markets to begin to comply starting on July 1, 2023.**
- **California had announced many specific over the previous two or three years.**
- **But clearly few had made the big \$\$\$ investments in the compliant supply chain until they knew how the legal challenges would end.**
- **California also said it would not enforce compliance until January 1, 2024.**
- **For six months after July 1 those in the hog and pork industry that wanted to comply and sell into California had to clear out the pipeline and have the compliant hog and pork ready for California consumers.**
- **That caused lots of complications is still complicated.**

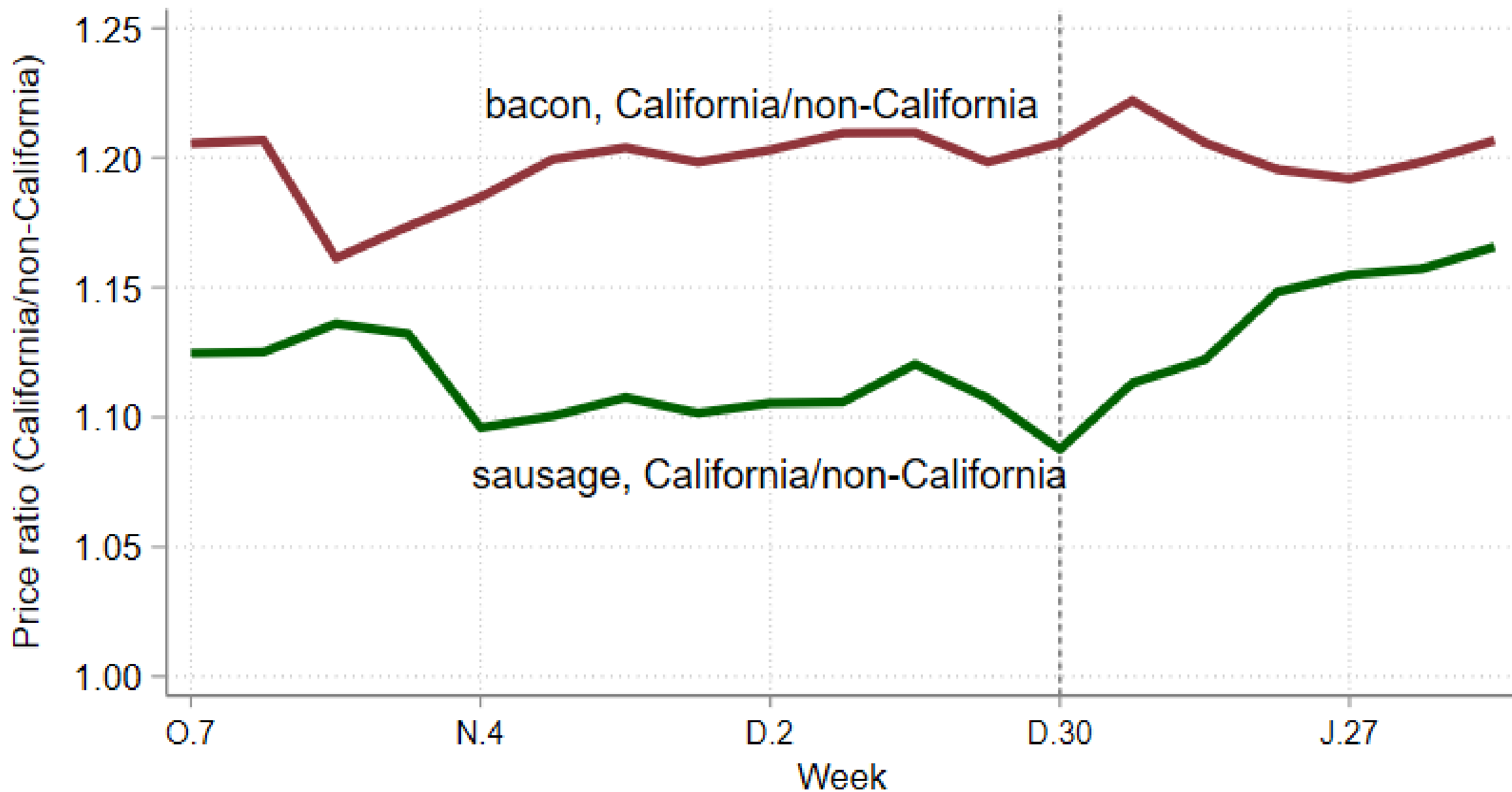
Finally a Little Data

- **Prices for retail prices from scraping retail prices from a large sample of stores inside and outside California.**
- **Here I display a prices from a few products across many UPC codes aggregated for several hundred stores inside and outside California.**
- **Unfortunately this covers only about 20 weeks since early October.**

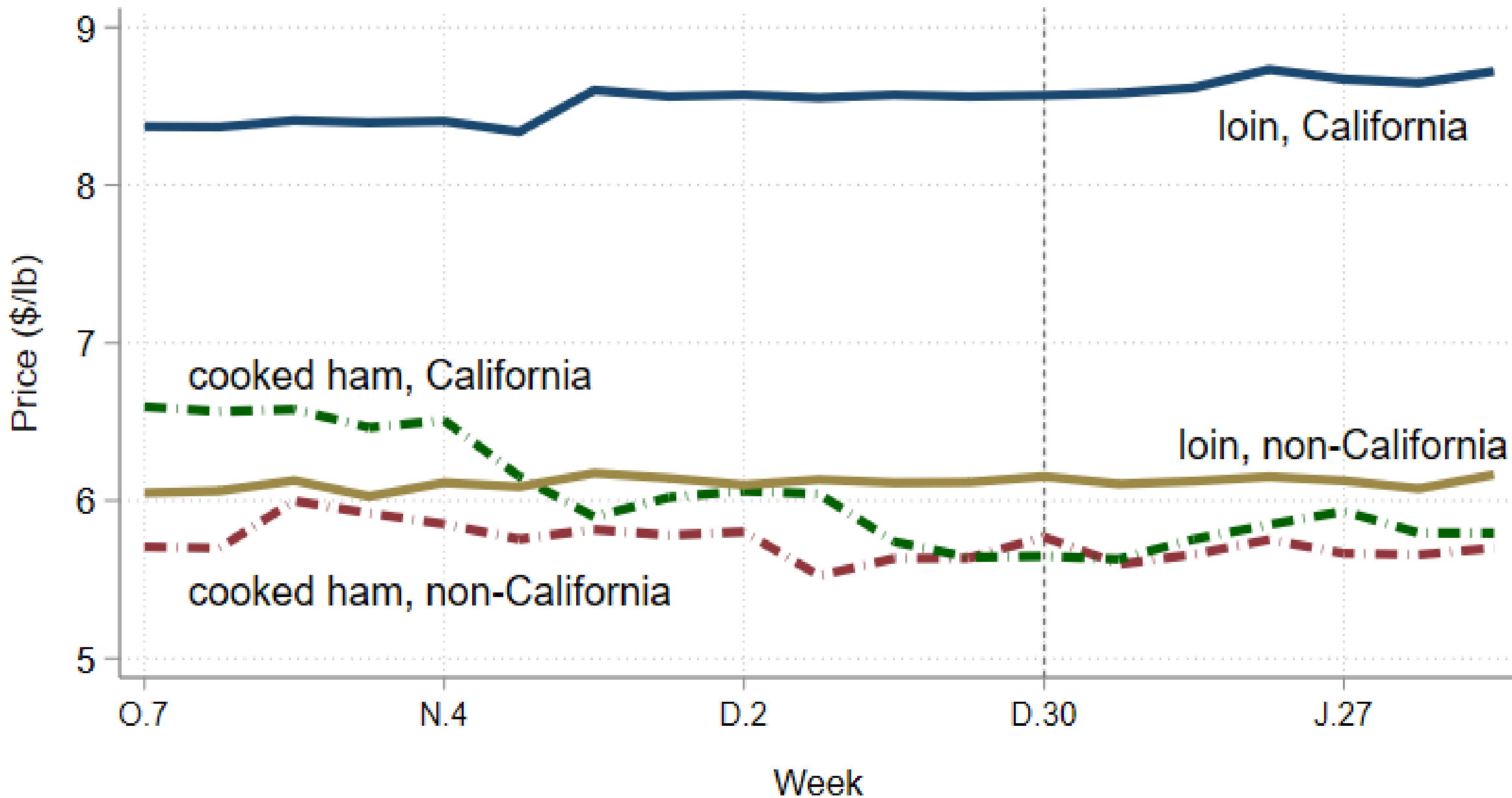
Bacon and Sausage – Price (\$/lb.)



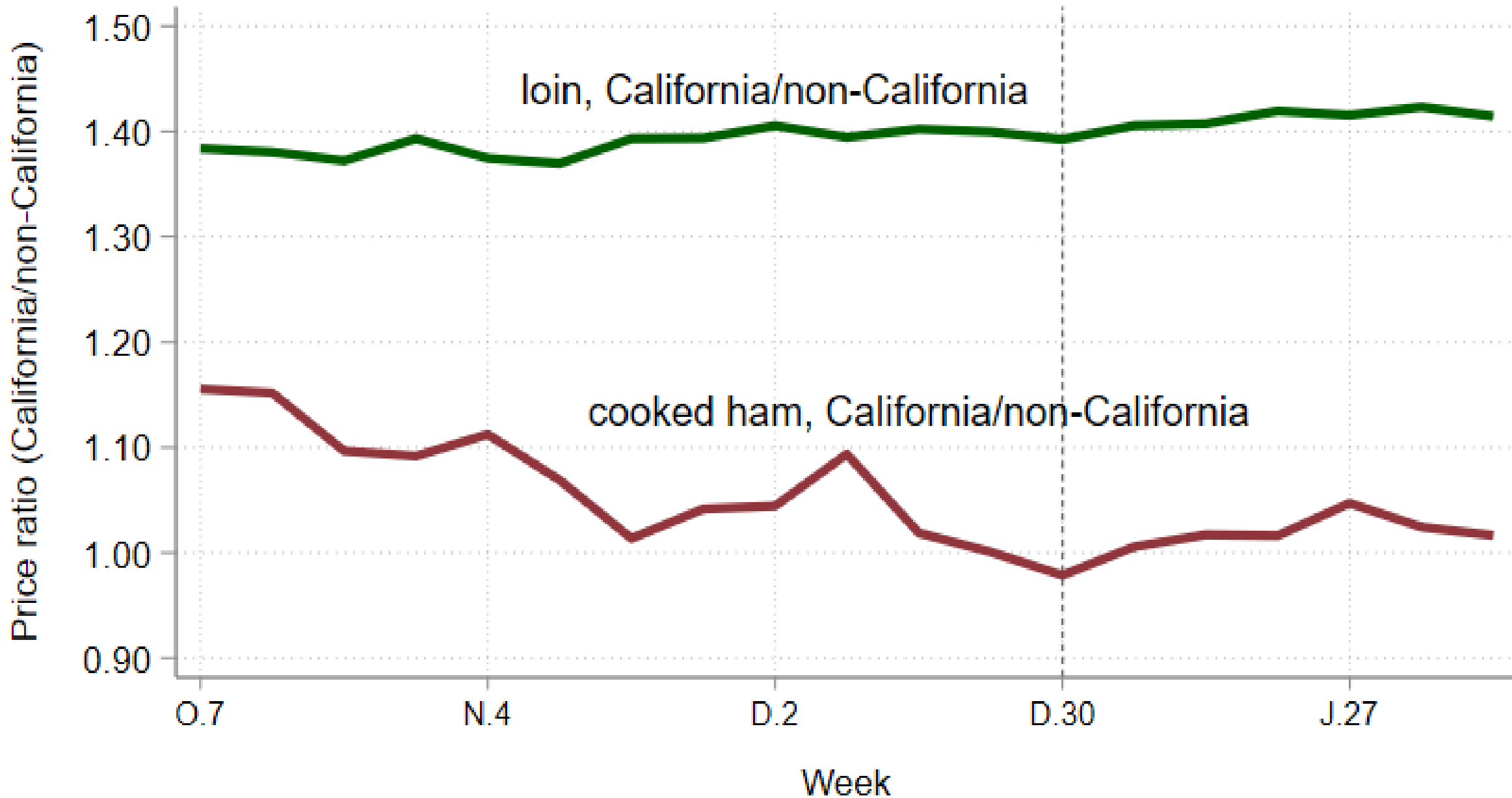
Bacon and Sausage – Price ratio (California/non-California)



Loin and Cooked Ham – Price (\$/lb.)



Loin and Cooked Ham – Price ratio (California/non-California)



A California policy that would have led to more sows to California compliant housing conditions

- 1. Current policy cost Californians about \$300 million annually**
- 2. With that \$300 million, farrowing operations give each of 600,000 sows 4 more square feet per year. That is about \$120 per square foot. Or about \$10,000 per month for 1,000 square feet.**
 - More expensive than an apartment in San Francisco!**
- 3. Say it costs about \$125 per sow, on the margin, for farms that convert. Spending \$300 million could get about 2 million sows into compliance.**
- 4. Simple policy: Pay farms directly to convert. No product rules and no costs to monitor and trace through the market for pork!**