Proposition 12 Costs & Impacts

National Pork Producers Council

Proposition 12 does not improve animal welfare.

Pigs are social animals, but when they are in a group settings, they will establish a hierarchy by fighting to establish dominance and secure resources, including feed. This environment **decreases fertility and embryo survival rates** and leads to **increased morbidity and mortality**. According to Iowa State University's Dr. Lee Schulz, case farm data suggests group housing is associated with a **4% higher sow mortality rate** than farms with individual stalls.

Proposition 12 hurts small farmers, increases risks of consolidation.

The sectoral changes triggered by Prop 12 will be more **favorable to large farms**. On average, small farms have lower profit margins and return on investments, meaning they have less capital to undertake the financial investment required for Prop 12. North Carolina State University's Dr. Barry Goodwin estimates that construction of a new Prop 12-compliant farrow to wean barn could **cost 10-15% more per sow** for small farms. **Small farms may also be burdened by less favorable terms of credit**.

The cost of segregating Prop 12-compliant pork from non-Prop 12-compliant pork on the line at harvest facilities may encourage processors to harvest only Prop 12-compliant hogs, which **closes or complicates producer access to local markets**. Small farms may be required to either adopt costly new technologies or bear the logistical cost of transporting hogs to distant processors. Dr. Goodwin states that, in the long run, high market segmentation costs will likely encourage widespread adoption of Prop 12-like housing. Large farms will be better positioned, **leaving many small farms with the decision to exit the business** or enter a production contract, resulting in **fewer and larger farms owning a greater portion of sows** in the U.S.

Prop 12 barns generate negative returns due to increased costs, lower productivity.

Drs. Schulz and Goodwin indicate **the cost of constructing new Prop 12-compliant gestation barns is 40-43% higher** than gestation stalls and 22-25% more than conventional group housing with the same number of sows. A producer with 6,400 sows could see operating costs 15.5% higher than stall housing. Dr. Schulz also shows the net present value of **a new 6,400 head Prop 12-compliant sow facility is *negative* $6.70 million** after its 15-year lifespan. Only stall housing generates a positive net present value, while very negative values generated by Prop 12-like systems indicate they do not cash flow.

Productivity losses associated with increased square footage limit a producer's ability to offset higher costs. According to Dr. Schulz, group housing resulted in a decrease of three weaned pigs per sow per year when compared to stall housing. For a farm with 6,400 sows, a producer may market **19,200 fewer weaned pigs per year**, equating to approximately $900,000 in value based on an average of USDA-AMS reported wean pig prices. **The cost and production disadvantages of Prop 12 are clear.**

Premiums may not be guaranteed for the entire life of the investment.

To overcome the significant negative cash flow associated with Prop 12 compliance, producers would need to secure large premiums for the 15-year life of their barn. According to Dr. Schulz, **a 6,400-head, compliant sow farm would need a $8.39 premium per weaned pig for 15 years to *break even***. Compliant barns may expect a 12% decline in weaned pigs per sow, per year, compared to conventional group housing. A premium of $17.16 per weaned pig for 15 years is needed to maintain the same net present value as stall housing for 6,400 sows. It is **highly uncertain how long premiums will be available** in the marketplace or if premiums of this size are currently offered. Without protection against a **50-state patchwork of regulations**, producers investing in Prop 12-compliant barns are at risk of losing their premiums if they cannot comply with changing standards.

Sec. Vilsack: "Somebody has got to provide some sort of degree of consistency and clarity."

U.S. Agriculture Secretary Tom Vilsack testified before the Senate Agriculture Committee, "I do not think the Supreme Court, when it decided that pork producers had a choice to participate in the California market or not, understood the pork market. When you're dealing with 12% of the pork market in one state, **there is not a choice between doing business in California and not in California.** It is going to be driven by that requirement, which is going to make it very, very difficult. **Somebody has got to provide some sort of degree of consistency and clarity.** Otherwise, you are just inviting 50 different states to do 50 different iterations of this, and **farmers don't need the chaos - they need clarity and certainty**." (2/28/24)

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