

# Proposition 12 Reported Compliant Volumes and Wholesale and Non-Carcass Premiums

Hannah Hawkins, Shawn Arita, and Seth Meyer

This article focuses on the volumes, prices, and premiums associated with Prop 12 products for wholesale pork and hogs. The amount of reported Prop 12-compliant pork is found to be significantly lower than California's pork demand. Wholesale prices for compliant products were significantly higher (upwards of 30% and higher), with compliant hogs carrying a \$5.50 per hundredweight (cwt) premium.

This article provides evidence about the extent to which implementation of Prop 12 has affected wholesale pork and hog markets in the period before and just after full implementation and enforcement of Prop 12 pork regulations. Our analysis utilizes wholesale information collected by the U.S. Department of Agriculture's (USDA) Agricultural Marketing Service (AMS) under the Livestock Mandatory Reporting (LMR) system.

By law packers are required to report both hog slaughter and pork sales information to AMS. While AMS does not collect information on the number of hogs under compliance, it is able to track Prop 12 compliance for pork product transactions based on product description codes indicated by packers. While these codes should reflect Prop 12 compliance each week, there may be short delays in meat packers' reporting and USDA classifying Prop 12-compliant products. The LMR data offers a comprehensive view of the wholesale pork trade (approximately 87%), but excludes products from smaller packers and processed items like cured, smoked, cooked, flavored or portion-control cuts. Additionally, LMR doesn't track destination

locations, and some Prop 12-coded products may not be destined for California.

## Share of Reported Prop 12-Compliant Pork

Figure 1 illustrates the share of sales reported by packers as Prop 12 compliant relative to total sales. Data collection for Prop 12 compliance began in 2022, even before the regulation went into effect. Initially negligible (less than half a percent), these shares gradually increased during the partial implementation of Prop 12, reaching 1.5%. Keep in mind that these sales figures represent pork products sold, not the actual number of sows raised in compliant housing, or the number of pigs weaned in those systems.

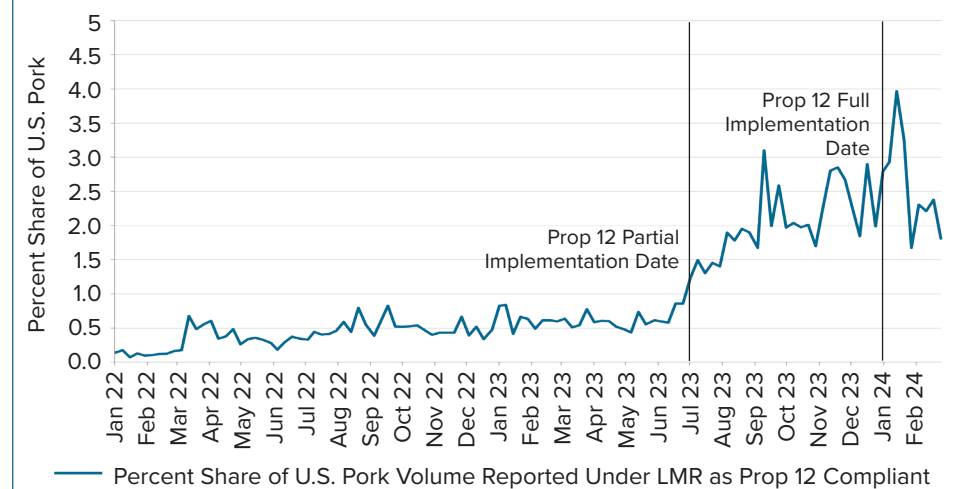
There was a temporary spike in compliance share to 4% in early January, followed by a dip back to previous levels. The share fluctuated around 2% in February 2024. While pork sales naturally fluctuate week-to-week, a general upward trend in reported Prop 12 compliance seems evident over the implementation period.

Figure 1 shows a relatively low share of pork being reported as Prop 12 compliant (2%–4%) relative to our estimates of typical California pork consumption. Since approximately 53% to 60% of the volume of pork for all hogs slaughtered is covered under Prop-12 (including mature sows that tend to produce a low percentage of fresh cuts), we may expect that California Prop 12-compliant pork would be equivalent to approximately 5% to 6% of U.S. pork production. The high reported as Prop 12 compliant in the LMR data, reached only 4%, before falling back down to 2%. Thus, the share still falls significantly short of California's typical demand for Prop 12-covered pork meat.

While being mindful that the market is in a transitioning phase, we note several factors that may be contributing to the current observed shortfall:

- **Limited Supply of Compliant Pork:** Prior to Prop 12, estimates on the number of producers who would comply varied. The low share indicates limited supply and

**Figure 1.** Percentage Share of U.S. Pork Volume Reported Under Livestock Mandatory Reporting (LMR) as Prop 12 Compliant, by Week, January 2022 Through February 2024



Source: Authors' calculations using Circana data.

a shortage of compliant products in California, which in turn would lead to higher prices and lower purchases of pork.

- **Data Considerations:** Both the LMR and Circana data offer valuable insights through their comprehensive and real-time information. However, data limitations and sampling discussed previously could affect the reported shares examined.
- **Potential for Non-Compliance:** Prop 12 is a recently implemented regulation, and some initial uncertainties regarding enforcement

are possible. Our analysis using Circana data (mentioned in the previous article) showed a decline in California's share of U.S. retail fresh pork purchases (from 9% to 7%) during Prop 12 implementation. The observed gap between the reported Prop 12-compliant pork volume (LMR data) and the expected consumption of covered pork in California could be due to several factors. While the presence of non-compliant products in the market is a possibility, further investigation is needed to determine the extent to which this contributes to the gap.

## Wholesale Price Premiums of Prop 12-Compliant Pork Products

Table 1 summarizes data from USDA AMS, showing the average share of national pork volume compliant with Prop 12 and the average wholesale price premium for Prop 12-compliant primal cuts (major wholesale cuts of pork carcass) during the eight months from July 1, 2023, to February 29, 2024. The table includes primal cut categories that encompass both products covered by Prop 12 regulations and those that are not. For instance, loin and belly cuts are covered categories. As shown in the table, 3% of the national volume for both loin and belly cuts were Prop 12 compliant during this period.

The prices of compliant loin and belly cuts were found to be 29% and 31% higher than their non-compliant counterparts, respectively. In contrast, ham, and trims, which are generally not covered by Prop 12, have a very low reported share of Prop 12 compliance and much smaller price premiums. On average, Prop 12 compliance resulted in a 22% wholesale price premium, which aligns with the 20% retail price premium observed using Circana data (mentioned in the previous article). It is important to note that both the share of compliant products and the price premiums have fluctuated over the eight-month period. The table shows simple averages, which don't capture these variations.

## Animal Confinement Legislation Premiums

USDA tracks and reports various non-carcass merit price premiums paid by processors for hogs with specific characteristics, such as large volume purchases, preferred delivery times, premium breeds, quality assurance programs, beta-agonist-free status, compliance with animal confinement legislation (including

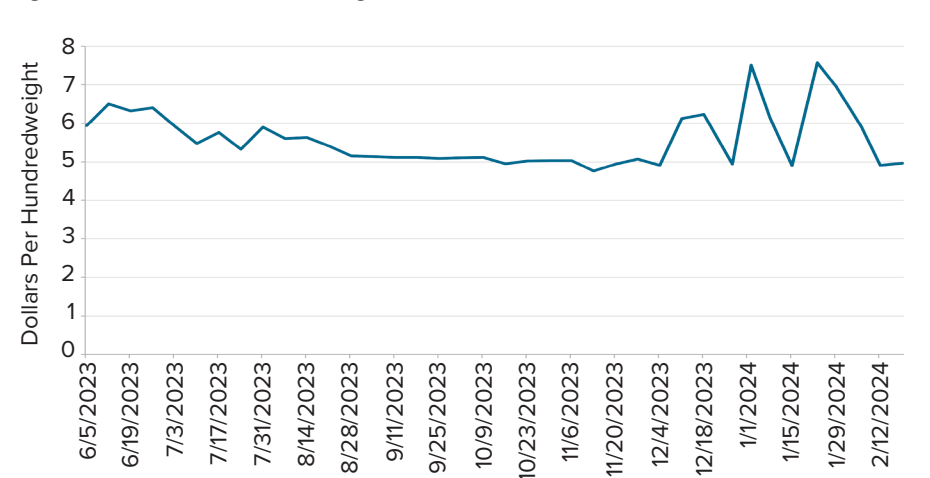
**Table 1.** Average Compliant Volume Shares and Price Premiums, by Primal Cut

Primal Cut	Prop 12 Share of Total Pork* by Primal Cut	Average Price Premium (Across Individual Products Within Primal Cut)
Added Ingredient	4%	12%
Belly	3%	31%
Butt	4%	30%
Ham	0%	16%
Loin	3%	29%
Picnic	4%	33%
Sparerib	5%	20%
Trim	0%	9%
Variety	1%	15%

Source: Authors' calculations using USDA AMS data.

Note: \*For this article total pork is defined as a combination of the weekly comprehensive pork report and the specialty pork report.

**Figure 2.** Animal Confinement Legislation Non-Carcass Price Premium, \$/cwt



Source: USDA AMS National Weekly Direct Swine Non-Carcass Merit Premium.

Prop 12), and others. The premium associated with animal confinement legislation was specifically for Prop 12 compliance and began separate reporting on November 20, 2023, although data collection started in June.

Figure 2 displays the premium for Prop 12-compliant hogs from June 5, 2023, through February 19, 2024. The average premium shows a gradual decline, initially exceeding \$6 per hundredweight (cwt) before dropping to around \$5.00/cwt by early September. Since December 2023, the premium has fluctuated between \$5/cwt and over \$7/cwt, with increased volatility observed in early 2024. This volatility could be attributed to limited trading activity or the overall volatility in the hog market at the time. Additionally, due to segmentation, slaughter volumes in a compliant system might be more fixed, potentially leading to greater price fluctuations.

No data are available to make a direct comparison between the animal confinement legislation premium and the estimated on-farm costs of compliance for sow farrowing operations. We lack reliable and comprehensive data on farm costs for those operations that are most likely to supply the less than 10% of hogs needed for the California market. We also lack data on added costs of compliance, including maintaining traceability along the supply chain from weaning through slaughter, and on to the consumer. Because Prop 12 sets housing and farm treatment regulations for sows, to provide the financial incentive to convert housing and practices compliant with Prop 12, the premium paid for farrowing must cover the costs for enough low-cost converters to supply the demand in California. This economic reasoning applies to hog operations that control the hogs from farrow to finish, as well as those that only do the farrowing and market their weanling pigs. As of 2015, farrow-to-finish operations

represented 11% of hog production, while feeder-to-finish operations that buy weanling pigs from farrowing specialists, accounted for 83% of production.

## Conclusion

While directly affecting a small share of North American hogs and pork, the implementation of California's Proposition 12 has been unsettling for many in the pork industry. Costs of compliance and price premiums for products destined for California have rippled through the supply chain. On average, from the partial implementation to full enforcement of Prop 12, wholesale prices were found to be significantly more expensive for covered products. While the share of Prop 12-compliant pork volumes reported in LMR has been slowly rising, it still appears to be significantly lower than California's pork demand. Since September, packers paid an average premium of about \$5.50/cwt for Prop 12-compliant hogs. It is not yet clear where prices and quantities will settle in the California market.

Pork industry participants face additional questions. These include how animal confinement legislation premiums beyond California will translate to the expansion of group housing and compliant pork supply, how packers and retailers will adapt to meet the demand for compliant products, and how consumers will respond to higher pork prices. And, with Massachusetts Question 3 (The Act to Prevent Cruelty to Farm Animals), will we see a patchwork of different animal welfare policies spread across the country?

### Suggested Citation:

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*The findings and conclusions in this article are those of the authors and do not represent any official U.S. Department of Agriculture or U.S. government determination or policy.*

### For additional information, the authors recommend:

Davis, Christopher G., Carolyn Dimitri, Richard Nehring, LaPorchia A. Collins, Mildred Haley, Kim Ha, and Jeffrey Gillespie. 2022. "U.S. Hog Production: Rising Output and Changing Trends in Productivity Growth." ERR-308, USDA Economic Research Service. Available at: <https://bit.ly/4cgdBwk>.

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