



FUTURE DIRECTION FOR THE PORK INDUSTRY

Introduction

The pork sector in Ontario is in its third year of crisis. Now is the time to forge a new path for the Ontario Pork Sector. Moving forward, the CFFO believes that the pork sector should maintain its market orientation, but that orientation will need to be one governed by production discipline and control for those producers operating in cooperation with Ontario Pork.

There are three key premises to the document that must be considered:

1. The future of the Ontario pork industry must feature production discipline and coordination to ensure stability for producers.
2. It is consumer pull, not producer push that drives the industry.
3. The competition for Ontario's hog producers are those in other jurisdictions, not other Ontario hog producers.

Part 1. The Future Role of Ontario Pork

The CFFO believes that the future of the Ontario pork industry must feature production discipline and control. The long-term processing contracts that Ontario Pork has developed can be leveraged into the foundation of a first class marketing business for hog producers of all sizes. The CFFO believes that the following steps must be taken for Ontario's producers to have a strong position in the pork sector:

1. **A Competitive Pork Supplier.** The Farm Products Marketing Commission should review the powers of the Ontario Pork Producers Marketing Board and provide it with the powers necessary for it to function as a competitive supplier of hogs to both Ontario and for the world market, and the first choice of processors in forming supply contracts.
2. **Powerful, but not a full single desk.** The powers of Ontario Pork should not include full single desk selling powers. Ontario Pork would serve as the coordinator of supply from Ontario producers to processors in Ontario and beyond.
 - a. Significant legislative tools and penalties need to be developed which strongly discourage the breaking of supply licensing agreements by either processors or producers.
 - b. Those producers that choose to market their own hogs should be able to do so without working through Ontario Pork. However, Ontario Pork would not be required to work on their behalf in the area of marketing if problems were to arrive.
 - i. Furthermore, producers that choose to operate outside the organized portion of the industry will also be required to opt out of government business risk management programming.

3. **Cooperatives within the new system.** Producer groups involved in cooperative processing ventures would need to choose as a group whether they want to be involved in the ordered marketing structure or to operate outside the structure. The following steps are recommended for cooperatives under the ordered marketing structure:
 - a. If various requirements are met (good faith effort), then access to safety nets is assured for producers.
 - b. The cooperative must be within the organized supply framework. This model works as the demand for hogs originates from the processor, which presumably has a target market for its production.
 - c. Contracts between the processor and producer-shareholders will not involve Ontario Pork as negotiator, including the areas of payment schedules, logistics and settlement.
 - d. Contracts between the processor and non share-holders are negotiated with Ontario Pork and licensed by Ontario Pork.
 - e. Full reporting of pricing will be required of the cooperative for full transparency.
 - f. All producers must pay Ontario Pork for any check-off portion that is deemed to be for the “good of the industry” – lobby efforts, environmental studies, advertising, etc.
4. **Negotiator of Contracts.** The powers of Ontario Pork need to include being the negotiator of all contracts between those producers which choose to market through Ontario Pork and processors in Ontario and beyond.
5. **Supply Arrangement.** Ontario Pork needs to be able to negotiate, at regular intervals as determined by Ontario Pork in cooperation with processors, the supply requirements of the various processors it has contracted. These supply requirements would then be allocated to producers working through Ontario pork.
 - a. The production levels of individual producers would be granted through licenses to produce. These licenses would have to operate with a small sleeve of under and over production that reflects the realities of raising live animals.
 - b. Ontario Pork would have the power to reject a producer’s license if quality and quantity problems persisted over time.
6. **Pricing.** The price of hogs sold through Ontario Pork would generally be based on a formula price that fits Ontario but is a reflection of the realities of the North American market price for hogs. Ontario Pork should be given the power to negotiate floor prices with processors to ensure the long-term sustainability of the Ontario sector.
7. **Market Segmentation.** In order for Ontario Pork to be a desirable business partner with processors, the powers of Ontario Pork should include the ability to segment producers into different production categories based on quality as determined by consumer demands. Those producers with high quality hogs would be able to fill higher value contracts. Those of lesser quality would have to fulfill other contracts.
8. **Promotion.** The new Ontario Pork must be mandated to work with processors, retailers and government to significantly increase promotion of pork to Ontario consumers, and to actively combat the negative impact of incidents like H1N1.

Full Traceability. The quality of these hogs can only be assured through a full traceability system for all producers contracting through Ontario Pork. Such a system would need to be put in place.

Part 2. Government Support for the Sector

There are a number of areas in which the provincial government can play a key role in improving the competitiveness of the entire sector.

1. **Cost-Shared Traceability Programming.** In order for Ontario Pork to be able to segment the quality of hogs being produced by many different producers, full traceability must be in place. Producers do not have the capital at this time to invest in this sort of program themselves. The CFFO suggests that the government cost-share a traceability program at a very favourable rate with a portion the check-off charged to those contracting through Ontario Pork.
2. **Cost-Shared Energy Conservation and Production.** The province needs to put forward strong cost-share programs for producers to invest in energy-saving and energy producing technologies. Further to that, the province may need to back loans for the producer portion of these investments, as producers are already at the limit of their borrowing ability.
3. **A Government Funded Exit Strategy.** Despite these steps to provide stability and a strong negotiator of hog sales in Ontario, there will still be some producers that may decide to exit the industry. The province must step up and supplement the federal transition program to allow those producers unable to continue to exit the industry with dignity.
4. **A Tri-partite Long-term Exit Strategy.** Further to that, a discussion should be initiated with regards to a tri-partite arrangement between farmers and the federal and provincial governments to encourage complete tear down of buildings for those exiting the industry, along with a 10 year agreement to not resume producing hogs in Canada.

Part 3. A Strategic Alliance for the Sector

Ontario's pork producers need to examine the possibility of forming strategic alliances both within their own ranks and with Ontario's processors. With regards to the latter alliance, this option may not be one that can be acted on immediately due to the strain of the current crisis. However, in the long-term, investing producer equity into Ontario's pork processing plants and retail chains provides for influence further up the chain.

Building bridges all the way up to retail has the potential to improve the overall efficiency of the sector. Furthermore, all segments would be able to work together to market and promote pork products to consumers. If a positive relationship could be established between all three segments, then a single voice on the direction of the industry could emerge.

The development of a strong strategic alliance, with producers having an ownership stake further up the chain, will allow for new opportunities to emerge. Risk sharing in a form of livestock insurance or floor pricing for hogs are some of the possibilities of such an alliance.

Production efficiencies and stronger market penetration may also be achieved through tightly aligned producers and processors that are able to share in the cost of market research and its results.

Strong strategic alliances that share information are better able to align specific volume commitments on both the production and processing side.

Marketing for Ontario: In the area of marking and securing the local market, the *Homegrown Ontario* label needs to be taken to the next level. Currently, it is focused on independent meat packers and independent grocers. There is the critical need to bring in the three major processors and the three major retailers under this label and stocking *Homegrown Ontario* in a manner that is of equal prominence and market penetration to that of *Foodland Ontario*.

Horizontal Alliance Benefits: There are also potential benefits to be realised from Ontario's producers coming together to be a more competitive group. Therefore, producers need to be allied with each other, not just with other segments of the supply chain.

1. **Producer Sharing Groups.** Collectively pooling the knowledge of Ontario's pork producers will allow all Ontario producers to be more efficient and productive. Sharing subtle ways of improving an operation will raise the quality and effectiveness of the Ontario segment of the sector. The Agricultural Management Institute can be engaged in setting up these producer groups.
2. **Benchmarking.** Gathering benchmarking information for Ontario's producers will enable them to assess where they are relative to their neighbours, and identify areas where improvement may be possible or necessary. The University of Guelph shares an interest in developing these benchmarks and could potentially be engaged in this process.

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Frequently Asked Questions Regarding CFFO's position on the Ontario Pork Industry

Has the CFFO changed its stance on the future of the hog industry?

The CFFO has not moved from its position that hog producers should have the ability to operate on their own if they choose to do so.

In our submission to the Farm Products Marketing Commission in July of 2008, the CFFO argued that within a dual marketing framework Ontario Pork should still offer all the services it currently provides for hog producers that choose to market through it. Ontario Pork has the tools to seize the opportunity to be a first class marketer of pork for Ontario's producers. The organization's established contacts with producers and processors, along with years of processor demand information, can be leveraged into creating relationships of high value to producers and processors alike.

Our new proposal still maintains the right of producers to choose to market on their own. Producers still have the right to arrange their own deals, but are assuming more risk by not being part of the organized, Ontario Pork led portion of the industry.

In our new document, the CFFO has turned its attention back to the role that Ontario Pork can play in the industry. Ontario Pork can be an excellent marketer of hogs. The CFFO has outlined the steps that we believe are necessary to turn Ontario Pork into that first class marketer of pork and deal maker for all the producers that choose to align themselves with it.

There is a shift in our thinking in that we believe that there needs to be strong market supply coordination for Ontario hog producers, through an improved Ontario Pork. The organization has the potential to be the best marketer of hogs in Ontario, and competitive with any other marketer in North America.

Further to that, the conditions of the industry are changing as well. The prolonged downturn in prices is calling for drastic action if the industry is to be sustained in this province. Quebec has adopted a supply chain model, which when coupled with ASRA and a new agreement on internal trade between our provinces that does nothing to deal with the imbalance created by ASRA payments to producers, has the potential to further jeopardize the Ontario hog industry. As these circumstances have changed, the recommended direction of the industry must move to reflect those changes.

Why is the CFFO recommending that some farmers be forced out of safety nets in this new plan?

No hog farmer ***must*** exit safety net programming. Every farmer has the choice of working with Ontario Pork to establish a stable industry that coordinates supply through the licensing of production.

On the other hand, farmers have the freedom to venture on their own, engaging the free market. However, if they chose to do so, they have the right to succeed *and* the right to fail in their businesses free from industry and government support.

What does the CFFO recommend regarding regulation 419 of the Farm Products Marketing Act?

The CFFO believes that nearly all of Regulation 419 is appropriate for governing hog marketing in Ontario. However, the CFFO believes that there needs to be an amendment to section 9 which allows producers to market on their own, provided they accept whatever restrictions are deemed appropriate. One of our key recommendations is that those producers marketing outside of Ontario Pork lose their eligibility to engage in safety net programming.

Is there room for producer co-ops in the plan?

Yes, there certainly is room for producer co-ops within our system. Further to that, we believe that arrangements can be reached that reflect the unique structure of a producer owned co-op.

Could co-ops be licensed as agents of OP?

This is one of the details that would need to be worked out as the details of implementing our vision take place. The positives and negatives of such an arrangement would have to be considered.

Is this the same as the new Quebec model or not?

There are definite similarities between what we have proposed and the new model the Quebec Pork industry is implementing. There is nothing in our plan that prevents that form of supply coordination from taking place in Ontario.

The one notable item of concern is that the Quebec plan is underpinned by ASRA whereas no such program exists in Ontario. Establishing an agreeable floor price in Ontario between processors and producers is essential to long-term stability.

What about US and foreign market hogs and meat?

There are very few American market hogs going to Ontario processors. The supply of Quebec hogs has been reduced to a trickle since the new plan came into effect. Under our plan, Ontario Pork would be the supplier of choice for Ontario's processors, working to fulfill all their needs through supply coordination.

Regarding Ontario store shelves being filled with American products, we believe that stronger coordination between producers and processors will allow for closer supply arrangements with retailers featuring Ontario Product. The CFFO has not endorsed regulatory measures to ensure that Ontario grown and slaughtered pork is on store shelves, as this adds cost to a system that is already struggling to be profitable.

What about captive supply hogs?

Captive supply as it exists now would have to be taken into consideration when licensing is established. While eliminating the particular practice of processors owning hogs is unlikely at this time, licensing would effectively place a limitation on the ability of processors to expand their herds, and thus the impact of captive supply on the market.

Why is the CFFO getting involved in commodity issues?

Our members have been looking to our organization for leadership on the issue. While the decision is ultimately in the hands of Ontario Pork and its leaders, the CFFO can provide a voice for those producers that chose the CFFO as their general farm organization. Further to that, the CFFO has a long tradition of showing leadership in times of commodity specific crisis.

It is out of compassion and a desire to lead that the CFFO has decided to involve itself in what some would deem to be commodity specific affairs. The CFFO hopes to work cooperatively with Ontario Pork to resolve these matters and provide leadership on the rough road ahead.

Are the policies laid out in the CFFO plan open to debate and amendment?

The CFFO believes that all the plans being proposed from a variety of producer groups need to be considered in moving the industry forward. What the CFFO has accomplished so far is to establish a vision. There are a great many details that will need to be hammered out in consultation with our members and other interested parties. The CFFO has no doubt that the ideas and conclusions will change over time as the industry unites.

At the end of the day, what the CFFO wants to see is a hog industry that is geared towards long-term stability for those engaged in the business of raising hogs in Ontario. If our organization needs to make compromises to make that happen, it will do so.

What does the CFFO believe the next steps are?

Several things need to happen:

1. Working cooperatively with Ontario Pork and all the different stakeholders looking to provide direction must meet and find common ground, uniting in their vision for the industry. This process will involve compromise and negotiation.
2. Within our plan, Ontario Pork must meet with Ontario's largest processors and determine what they can do to be the best suppliers of hogs for their facilities. Bringing the processors on side with an industry plan is essential to success.