



## ONTARIO PORK

December 3<sup>rd</sup>, 2008

Elmer Buchanan  
Acting Chair  
Ontario Farm Products Marketing Commission  
5<sup>th</sup> Floor, One Stone Road West  
Guelph, ON N1G 4Y2

Dear Mr. Buchanan,

Over the preceding weeks, Futures Market prices for 2009 have rallied significantly and are now providing producers with the ability to lock in prices that have some expectation of profit. This is essential to many producers who must provide business plans to their lenders with some degree of certainty that they can demonstrate, at the very least, a break even position. As you are aware, numerous calls have been received by both the FPMC and Ontario Pork regarding the suspension of Ontario Pork's Forward Pricing Program.

Access to the Ontario Pork Forward Pricing Program was suspended by the Board on October 10<sup>th</sup> 2008 as a direct result of the FPMC Decision of October 6<sup>th</sup>, 2008 that removed the monopoly sales authority of the Ontario Pork Producers Marketing Board. Ontario Pork's Forward Pricing Program, was established as a service to producers who did not have the expertise or financial backing to work with a commodities broker. A key risk management component of the program was Ontario Pork's ability to settle all hogs in the province.

The strength of the program was the monopoly settlement powers of Ontario Pork which ensured Ontario Pork's ability to cover off its producers' positions and thus have a very limited risk. Producers would clear their positions against the hogs settled through Ontario Pork. With the removal of settlement from Ontario Pork on April 1<sup>st</sup>,

2009, the producer organization would be exposed to a large degree of risk, if it continues to offer the program, as it exists, past March 14<sup>th</sup>, 2009.

As you have indicated in previous communication with Ontario Pork, the FPMC would like to see the Forward Pricing Program reinstated as quickly as possible or an alternative option for producers established. Ontario Pork had been waiting for the processors to decide if they wanted to have a non-centralized settlement system, or a jointly held settlement system. This has delayed Ontario Pork from bringing decisions before the Ontario Pork Board of Directors on the critical issues of logistics, marketing and settlement.

At the HIAC meeting of November 24<sup>th</sup>, 2008 processors stated they were in favour of a non-centralized system where those involved in the value chain would each make independent decisions around settlement rather than an independent joint settlement corporation. The HIAC accepted this position from the processors. This has freed the way for several decision items to be moved forward to the Ontario Pork Board around questions of sales, logistics, settlement, and the Forward Pricing Program.

#### Board Motion re Forwarding Pricing Program

At the November meeting of the Ontario Pork Board of Directors, key decisions were made to move forward with a new marketing structure. This, for the short term, will enable Ontario Pork to again offer the Forward Pricing Program in a limited capacity until more work is completed. The following motion was passed with provisions:

*“Offer producers the ability to forward contract immediately, extending the delivery timeframe from March 15<sup>th</sup> to July 15<sup>th</sup>, 2009, allowing time for a new Marketing entity to be created.”*

The motion was restrictive and applied the following conditions:

1. Producers would sign an amendment to the Forward Pricing Master Agreement, giving Ontario Pork the:
  - a. *Exclusive ability to assign or transfer any Forward Pricing Contract;*

- b. *Ability to settle all of the producers hogs, through Ontario Pork, its agent(s) or assignee (s), until all hogs under the Forward Pricing Contract are settled;*
  - c. *Acknowledging the existing clauses in the Forward Pricing Contract that allow Ontario Pork to exercise its rights;*
  - d. *The producer agreeing to the insertion of a new clause in the agreement for “new” or “applicable” laws and regulations as they may occur,*
2. This Program would only be available to producers who utilize the marketing and settlement services offered by Ontario Pork, its agent(s) or assignee(s).
  3. This reinstatement of the Program will only extend from March 15<sup>th</sup>, 2009 to July 15<sup>th</sup>, 2009 in order for Ontario Pork to fully explore and potentially implement the options around creating a new marketing approach.

Existing Program Features

The program as it exists today and as it is envisioned to be structured in this interim period includes the provision that the:

Producer’s ability to contract would be limited to a percentage of the producers historic hog shipments. The chart below determines the number of hogs a producer is permitted to book for a certain delivery period in the future.

Outgoing Futures Period	Percentage of Historic Shipments Permitted on Forward Contract
Up to 4 months out	75%
Between 5 and 6 months out	50%
Over 6 months out	25%

Producers must have a historical record of being in good standing with Ontario Pork;

The Administrator of the Program, currently the Director of Sales, Marketing and Logistics shall have the obligation to refuse anyone to the program who has not met the criteria.

### Moving Forward

It is clearly recognized and accepted that Ontario Pork will continue to fund and operate the program for the duration of the interim period. It is the intention of Ontario Pork to begin offering this program again on December 8<sup>th</sup>, 2008. As we work to provide this interim offering of the Forward Pricing Program, legal considerations will have to be given due process and the writing of an amended agreement for producer signature will need to be accomplished.

We are pleased that the FPMC shares Ontario Pork's view that the Forward Pricing Program is an important risk management tool for the industry. We believe the approach set out above for an interim offering of the program provides a means to achieve our mutual goal of offering this vital service to the sector. This is of particular importance in these trying financial times and in view of working through the implementation of the FPMC decision of October 6<sup>th</sup>, 2008.

Sincerely,



Curtiss Littlejohn

Chair