



**Ontario Pork
June 11, 2008
Policy Day
White Papers**

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STRATEGIC PLANNING PROCESS

When the board embarked on its strategic planning process, it hired two professional facilitators to assist them with the arduous task of building consensus among 14 extremely divergent points of view.

The first task was to discuss how they wanted to work together, knowing full well there would be heated discussions, emotionally-charged debates and battle lines drawn. A Code of Behaviour was written and signed by each member of the team that laid down the ground rules they would all agree to follow. For example, everyone needed a chance to be heard, everyone promised to be concise, to stay on topic and to remain respectful at all times.

At the beginning of each session, members were asked to identify the issues important for them to have discussed in the strategic planning forum. Each member would propose an issue for discussion and each item would be posted on the walls around the room. Members were each provided with a set number of adhesive dots that they could place on the issue or issues they believed most strongly needed to be on the agenda. After all the dots were placed, the top three to six issues were on the table for that session.

This process happened repeatedly over the course of the eight-month strategic planning process. It was an extremely difficult and arduous process that resulted in the two-page strategic direction document that was approved by the board.

The strategic direction document is just that – it's a direction for further discussion. At the June 11th Policy Day, we will be looking to councilors and delegates for their input as we attempt to take the direction to the next stage – a strategic plan that will form the foundation of Ontario Pork's next business plan.

We are including several pieces of background information to help define various elements that will be discussed during the June 11th day. Ontario's hog and pork industry is a complicated business with many interconnected pieces. Ontario Pork's service offering is also complicated and interconnected. This information package is an attempt to provide enough background information and a frame of reference for commonly held terms so that everyone is speaking the same language.

STRATEGIC DIRECTION BRIEFING AS FORMALIZED BY ONTARIO PORK BOARD OF DIRECTORS

The board of directors of Ontario Pork has prepared this briefing to update producers on the status and direction of our strategic planning to date. Following vigorous discussion among board members based on input from producers and industry stakeholders, we have developed a number of concepts for moving our Ontario industry forward. These concepts will be outlined for management to produce operational programs and timelines.

Important changes associated with our strategic direction are outlined here. We anticipate that a significant portion of these changes can be implemented within the marketplace by March of 2009. Nevertheless, it is important to appreciate that some aspects of the strategy are, as yet, very preliminary and remain the focus of continued refinement.

Our efforts have proceeded during a time of great difficulty and uncertainty within our industry. Maple Leaf's announcement regarding plans for their Burlington plant, the continuing financial crisis caused by increased disease costs, record-high grain costs, and unfavourable currency fluctuations have expanded both the urgency and the complexity of our planning effort. The board has consulted widely with producers and industry through direct conversation and through IPSOS REID surveys, the Vision 2010 process, the JRG Market Access Study, George Morris Centre Transportation Report, and the Policy Conference. In responding to the diversity of ideas being heard, we developed a direction that enables producers to make the most of evolving industry opportunities while retaining the valuable powers and freedoms hard-won by past boards and entrusted to the stewardship of future boards.

Producers have told us that they need continued assurance of timely and accurate payment, more choice in marketing and in the structuring of business arrangements that fully mobilize industry resources as they pursue new industry opportunities. Producers want a dynamic Ontario Pork focused on productive goals and accountable to a high standard of operational performance.

At the same time, we are committed to working tirelessly for the equitable distribution of costs and benefits across the entire spectrum of production approaches while preserving meaningful price transparency and market access for the benefit of all Ontario producers.

In addition to our current marketing functions we have identified a number of measures in our strategic direction. These include;

- Implementing an expanded vision of producer marketing choice will accommodate licensed agents who must agree, and adhere, to a "Code of Conduct" clearly establishing the rights and obligations.

- Establishing the equivalent of a “Packers and Stockyards Act” to promote a level playing field and to advance competitiveness within a North American market.
- Ontario Pork would continue to provide the settlement function during transition to the “Packers & Stockyards Act” (or equivalent) with exception where individual producers acting as agents licensed by Ontario Pork, have provided waivers (indemnify OP re payment guarantee, while having access to all necessary data).
- In exchange for the “waiver” Ontario Pork must be provided with all transaction data in support of the system functions (other than payment) until mandatory price reporting is in effect.
- Requiring of management continued improvements in productivity and efficiency with a specific emphasis on building within Ontario Pork a “customer service” culture that is responsive to producer needs and focused on producer success.
- Ongoing commitment to accurate price transparency and access to markets. This is essential to the accountability entrusted to us for industry self-regulation under the Farm Products Marketing Act.
- Providing industry information to our producers for informed decision-making
- Advancing measures to assure food safety and traceability.
- Assessing of the costs and benefits associated with a shift to “F.O.B. Plant” pricing for market hogs.
- Continued fiscal responsibility on behalf of our producers and industry stakeholders in regard to how we set policy and how we carry out our operational responsibilities.

As you consider the strategic direction outlined here, recognize that the diversity of your board of directors mirrors the diversity of the producer community itself.

THE U.S. PACKERS AND STOCKYARDS ACT

The Ontario Pork board has determined it is necessary to ensure timely and secure payments to producers before moving to licensed selling agents who are responsible for paying producers. The Packers & Stockyards Act in the United States has been identified as a potential solution.

Purpose:

“To assure fair competition and fair trade practices, to safeguard farmers and ranchers...to protect consumers...and to protect members of the livestock, meat, and poultry industries from unfair, deceptive, unjustly discriminatory and monopolistic practices.”

Who manages the Packers & Stockyards Act?

The Packers & Stockyards Act is administered by the Grain Inspection, Packers and Stockyards Administration (GIPSA) through its Packers and Stockyards Program. GIPSA is part of USDA's Marketing and Regulatory Programs.

What does the Packers and Stockyards Act do?

- Provides payment protection by requiring prompt payment, bonding packer and poultry trust accounts and market agency custodial accounts.
- Covers unlawful acts – unfair, deceptive, discriminatory, or monopolistic practices, in the marketing of livestock, meat and poultry
- Enacted in 1921 to assure effective competition and integrity in the marketing of livestock, meat and poultry.

What is “prompt payment” for purchase of livestock?

- Each packer, market agency, or dealer purchasing livestock must pay the full amount of the purchase price for livestock before the close of the next business day following the purchase and transfer of possession of the livestock.
- In the case of a purchase on a carcass or “grade and yield” basis, the purchaser will make payment to the seller the full amount of the purchase price not later than the close of the first business day following determination of the purchase price.

How does the Packers and Stockyards act provide protection of public interest from inadequate financing arrangements?

All livestock purchased by a packer in cash and all inventories, receivables or proceeds from meat, meat food products, or livestock products derived there from, shall be held by such packers in trust for the benefit of all unpaid cash

sellers of such livestock until full payment has been received by such unpaid sellers. Any packer whose average annual purchases do not exceed \$500,000 will be exempt from this requirement.

The Packers & Stockyards Act is enacted by Congress and managed and enforced through the United States Department of Agriculture. Essentially it requires purchasers of livestock to pay for the full value of the livestock by close of business the day following the purchase or price determination in the case where livestock are priced based on grade and yield. The Act also prohibits the livestock purchaser from using the livestock, inventories or receivables from meat, meat food products or livestock products as collateral or other form of security against any indebtedness.

A thorough exploration of whether or not an equivalent act could be enacted in Canada has not been done, however, government and legislative consultants suggest that a provincial act would likely require a minimum of two years to be passed into law. If the act needed to be federal, it would be a minimum of four years to move through the enacting process.

United States Department of Agriculture; USDA Grain Inspection, Packers and Stockyards Administration, Packers & Stockyards Program, (brochure June 2007)

United States Department of Agriculture; USDA Grain Inspection, Packers and Stockyards Administration, Packer & Stockyards Act; (brochure June 2007)

United States Department of Agriculture; Packer and Stockyards Act, 1921; March 2006

WHAT IS FREIGHT ON BOARD (FOB) PLANT PRICING?

As part of the Strategic Planning process, Ontario Pork evaluated the study “An Economic Review of Hog Transportation Regulation in Ontario” completed in 2006 by The George Morris Centre. The authors of the report determined that an economically efficient model of hog marketing would establish that the pricing point would be at the plant (FOB the plant). Producers would pay the freight cost and processors would compete with each other for the hog supply. They concluded that this system would minimize transportation costs, maximize producer revenue and efficiently allocate hogs among competing processing plants.

The George Morris Centre study commented that this regulated approach used by Ontario Pork which essentially splits the freight cost between producers and processors is a material departure from an economically efficient system in both substance and perception. Prices paid and received under this system do not reflect the straightforward transfer of the value of the hogs from the farm to the plant, given transportation costs. The separation of the price received by the producer from the price paid by the processor due to transportation regulation introduces confusion.

The study also concluded that the existing system of pricing and transportation cost regulation has the following effect on the market.

1. Deflates prices paid to producers for hogs located relatively close to the plant
2. Inflates prices paid to producers for hogs located relatively distant to the plant.

In the process of developing a strategic direction for Ontario Pork, the board of directors has included a plan to assess the costs and benefits associated with a shift to “FOB Plant” pricing for market hogs. The process for evaluating FOB Plant pricing will be developed as part of the Strategic plan.

THE 'MUST HAVES' IN EXECUTING THE STRATEGIC DIRECTION

During the strategic planning process, the board of directors identified the following eight elements as being essential 'must haves' that must be considered and included in any strategic plan that is born from the strategic direction.

- Maintenance of regulatory authority
 - Code of Conduct for licensed selling agents
 - Choice in marketing
 - Price reporting and access to markets
 - Traceability, food safety and foreign animal disease preparedness
- Timeliness and security of payment
- An organizational focus on customer service
- Canadian Quality Assurance (CQA[®])

To facilitate meaningful discussion around these elements, these elements need to be reasonably well defined as they are currently interpreted quite differently among the producer membership. Below are basic definitions of what we believe these eight elements to truly mean to a marketing system.

The current service offering and marketing system for live hogs implemented in Ontario by Ontario Pork is complicated in that many elements are inter-dependent on one another. It is difficult to remove one service or element without having an impact on another.

In order to re-engineer the marketing system to accommodate the strategic direction and maintain the 'must haves' each element needs to be considered on its own merits first and then considered within the context of the entire service offering.

MAINTENANCE OF REGULATORY AUTHORITY

Regardless of the details involved in changes to the marketing system for live hogs in Ontario, it is imperative that the Farm Products Marketing Act continue to provide regulatory authority to Ontario Pork so that the organization is fully equipped to respond effectively to emergencies such as an animal disease outbreak, a food safety issue or other crisis within the province's hog and pork sector. This is directly linked to the ongoing requirement for traceability, food safety and foreign animal disease preparedness.

Code of Conduct

The most significant change to marketing practices under the board's strategic direction will be the licensing of selling agents. The Code of Conduct for those selling agents will form a critical foundation that will ensure maintenance of all the 'must haves' identified by the board during its strategic planning process. The Code of Conduct will actually become the most significant design element in the execution of a strategic plan built to bring the strategic direction to fruition.

The Code of Conduct must ensure all the requirements of the 'must haves' are met and will also define other requirements selling agents must meet. Many questions still need to be asked and answered. For example:

- Does an agent have to be a producer?
- Can a processor be an agent?
- Will there be minimum or maximum volume requirements?
- When will payment be required?
- What form of secure financing arrangements will be required?
- What will a licensed selling agent have to provide in terms of waivers indemnifying Ontario Pork against financial liability?

Choice in Marketing

The Ontario Pork board determined that choice in marketing is essential to foster innovation and entrepreneurship in the Ontario hog and pork industry. A segment of the industry with new innovations and ideas believes the current system restricts their ability to develop business opportunities. Licensed selling agents are one way to introduce more flexibility to an already extensive list of marketing options.

Price Reporting and Access to Markets

Price reporting and access to markets will provide producers with the necessary information to evaluate market opportunities and determine what option is most productive, efficient and profitable for their business. Ontario Pork remains committed to accurate price reporting and access to markets for all producers.

Ontario Pork currently maintains data, including prices, for all hogs in Ontario which is true price transparency. Ontario Pork does not publish this information but provides a price reporting system that provides producers with an average selling price to evaluate the contracts, pool and pool plus marketing options available to them. Price reporting is mandatory in the United States and is essential to the accountability entrusted to Ontario Pork for industry self-regulation under the Farm Products Marketing Act. The Strategic Direction provides for all producers to have open access to all available marketing options. Price reporting and access to information is the foundation for market access.

Traceability, Food Safety and Foreign Animal Disease Preparedness

As farm animal movements increase, there is wide recognition that the industry must improve its preparedness in the event of a foreign animal disease outbreak or food safety crisis. Traceability is one component in ensuring food safety and foreign animal disease preparedness. There are three components to traceability

- 1) Identification of farms
- 2) Identification of animals
- 3) Tracking movement of animals

Ontario Pork has been working towards a traceability program for the past few years. Ontario Pork's board continues to believe this is crucial to a vibrant hog and pork industry in Ontario and will continue to develop a traceability system. Ontario Pork will continue to work with governments and other agencies on other components of food safety and foreign animal disease preparedness.

TIMELINESS AND SECURITY OF PAYMENT (See U.S. Packers and Stockyards Act)

The Ontario Pork board has determined it is necessary to ensure timely and secure payments to producers before moving to licensed selling agents who are responsible for paying producers. An act for Canada, comparable to the Packers & Stockyards act in the United States, has been identified as a potential solution.

AN ORGANIZATIONAL FOCUS ON CUSTOMER SERVICE

Ontario Pork's board determined that management must continue to make improvements in Ontario Pork staff productivity and efficiency with a specific emphasis on building a "customer service" culture that is responsive to producer needs and focused on producer success.

The organization must be fully engaged in the success of the industry and all of its sectors. Staff will play a central role in providing information to producers that will help them make informed, sound business decisions. This will include facilitating ongoing research projects, transactional data management, hog characteristics, traits and quality required by various processors and more.

CANADIAN QUALITY ASSURANCE (CQA®)

CQA® is the on-farm food safety program for Canadian hog producers. If our industry is to maintain and build our domestic and international markets we must provide assurances of production of a high quality pork product. Regardless of the marketing system, maintaining the CQA® program for Ontario Producers is necessary.