The Way Forward

The Strategic Plan

for the Revitalization

of the Alberta Pork Industry

For

Alberta Pork

Submitted by

Toma & Bouma Management Consultants

May 26th 2008

Project Title:	**The Way Forward – A Revitalization Strategy for the Alberta Pork Industry**
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Name of Applicants:	**Alberta Pork**

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May 26, 2008

Alberta Pork
C/O Mr. Paul Hodgman
4828 – 89 St.
Edmonton, AB
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Re: Strategic Plan

Dear Paul:

We are pleased to present a Strategic Plan for the Revitalization of the Alberta pork industry. The plan outlines a vision for the industry and an associated set of strategic initiatives that are built on a marketing platform that is basically already in place.

The major challenge set out in the plan is to 'package' or systematize this platform, build the marketing capability and link production, processing and marketing in a highly connected manner.

This will not be an easy task. But the alternative is the continuation of a system that is clearly broken. If we do not address this fundamental reality, the conditions that have created the distress which is currently at play, will only re-emerge in the future.

Once the plan in principle is accepted, considerable work is required to develop the operational and implementation details. However, charting the direction of the strategy is the fundamental first step. This plan sets that direction.

Sincerely yours,

Jerry Bouma
Project Manager

Toma & Bouma
MANAGEMENT CONSULTANTS

Note to the Reader

This document is a strategic plan for the revitalization of the Alberta pork industry. It represents the third phase of a detailed strategic planning process initiated by Alberta Pork. As such, it proposes a number of directional and structural changes that need to be vetted and discussed by the industry stakeholders.

At this point in the revitalization project, the strategic plan does not provide implementation details and associated costs. These will be developed once the proposed recommendations are discussed and a consensus is reached on an agreed set of directions and initiatives.

The plan is the result of extensive consultations with the Alberta Pork board, industry experts, processors and producers both within and outside of Alberta. As well, the plan draws from the experience of the following professionals who assisted in the preparation of this document. They include:

- Dr. Larry Martin, Dr. Al Mussel; Ms. Kate Stiefelmeyer and Mr. Kevin Grier with the George Morris Centre, Guelph, Ontario.
- Mr. Jean Dumas, Marcon Consulting, Montreal, Quebec.
- Dr. John Patience, Prairie Swine Centre, Saskatoon, Saskatchewan.
- Mr. Ted Bilyea, Ted Bilyea & Associates, Toronto, Ontario.
- Mr. Stuart Bergstra, Mr. Bernard Vincent and Mr. Jerry Bouma, Edmonton, Alberta.

Finally, we wish to acknowledge the financial support provided by Alberta Pork, Alberta Livestock Industry Development Fund and the Agricultural Initiatives Program which is managed by Alberta Agriculture & Rural Development. Without this support, this project would not have been possible.

The Way Forward
Draft Strategy

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Executive Summary

Introduction

Alberta has several fundamental advantages that are inherent to a competitive livestock industry: (1) a large land base coupled with a low human population; (2) a favourable climate for both the production of crops and livestock; (3) the capacity to produce an abundance of feed grains; (4) production management skills that are competent and can easily be adapted or upgraded; and (5) relative proximity to the largest and fastest growing pork consumption market in the world, namely China.

In view of these advantages, the Revitalization Strategy seeks to restore the competitiveness of the Alberta pork industry. It is presented in three parts:

1. Executive Summary which provides a high level overview.

2. The Strategy which presents the vision for the Alberta pork industry and the key strategic initiatives required to achieve this vision.

3. Attachments which provide further background and details on the marketing platform and the strategic options facing the Alberta pork industry.

The Marketing Platform

The Strategy is built on market principles and begins with the establishment of a clear marketing platform that will guide and direct the development of the industry. The immediate focus (1 to 3 years) of this platform will be to:

1. Begin by further building on the Quality, Health, CQA, Animal Care and existing Environment Stewardship platform as defined by already established standards and programs. Alberta in particular has a ‘geographic’ advantage to further substantiate and ‘brand’ this quality position in view of its location in the western prairie and adjacency to the Rocky Mountains; and

2. Simultaneously, begin building a new marketing, sales and business-to-business capacity to deliver ‘unique’ customer specifications to a targeted selection of existing customers and new customers.

Once this platform is established and validated, the strategy calls for a process of continuous improvement by strengthening existing attributes and/or adding new dimensions. One such possibility is to:

3. Build on the marketing platform with associated attributes in response to emerging market signals as these develop (within 3 to 5 years).

Specific to implementation, our recommended starting points are these:

- Establish the 'Alberta pork story' by systemizing the industry's existing attributes specific to quality production, food safety, industry structure and environmental stewardship. Note: this can build on The Canadian Pork Story already detailed by the Canadian Pork Council and Canada Pork International.

- Develop a targeted customer base which values some or all of the above attributes by creating new marketing and business to business capabilities to lead industry development.

The Vision

A highly connected pork industry capable of delivering differentiated high quality, safe pork products in a sustained manner and with flexibility to respond to continuously changing markets and market conditions.

The shorter version of this vision statement is presented as follows:

Deliver quality pork
Respond to changing markets
Act with urgency!

Strategic Initiatives

The vision will be achieved by the implementation of five strategic initiatives. The first four initiatives are immediate (within 1 to 3 years) and need to be addressed simultaneously. They are:

1. Establish system integrity (highly connected sector) – the design of pro-actively managed supply chain (or chains) between the processing sector and producers.

2. Develop new marketing capability – the establishment of new business-to-business skill sets that develop long term supply relationships with a set of targeted markets and customers.

3. Address cost challenges – developing new strategies to address the two major cost items facing pork production: feed grains and labour.

4. Facilitate a favourable business environment – ensuring that the Alberta pork industry has the necessary public and private services, tools and instruments to effectively compete in the global meat industry.

The fifth initiative is long-term in nature (within 3 to 5 years). This is to:

5. Further build the Alberta Brand on a market driven platform that adds value to the Alberta pork offer on attributes such as environmental sustainability. This can be achieved once system integrity is established and the market signals specific to this rapidly emerging area become clearer.

To be very clear, the strategy calls for two fundamental structural changes that are essential:

1. Establish indisputable system integrity in the production, processing and marketing of Alberta pork.

2. Create new marketing and business-to-business development capability that will establish long term customer relationships.

Recommendations:

1. Establish Alberta Marketing NewCo (AMN) with a highly skilled marketing and business-to-business skill set and the ability to invest with joint venture market partners/channels.

2. Establish an 'Alberta Brand' – a set of protocols and a validated 'brand' that will be available to all processors from AMN.

3. Continue discussions with the major provincial processor to gain controlling interest sufficient to supply critical mass and the ability to establish and manage supply chains.

4. Commence discussions with the federally inspected processors to explore how the Alberta Brand strategy can be adopted to support either existing brand strategies or create new branded product strategies. Discussions should commence with provincially inspected processors subsequently.

5. Build a marketing platform on existing attributes and systems.

6. Establish a producer focused Alberta Build program requiring adherence to 'Alberta Brand' quality, CQA; health, animal care and existing environmental standards.

7. Develop adequate crop insurance instruments to support the production of new crops and new feed grain varieties as well as feed cost protection insurance for livestock producers.

8. Explore the viability of establishing sustainability offset programs targeted specifically to the production of feed grains. This requires a high level

sustainability strategy that builds an inter-Alberta market system across three key industries: energy, agriculture, and forestry.

9. Monitor emerging environmental sustainability developments and/or market signals with the strategic intention to strengthen the ‘Alberta Brand’ over time.

In conclusion, the major challenges set out in the plan are to ‘package’ or systematize the marketing platform and to build the marketing capability which links production, processing and marketing in a highly connected manner.

These will not be easy. But the alternative is the continuation of a system that is clearly broken. If this fundamental reality is not addressed, the conditions that have created the distress which is currently at play will only re-emerge in the future.

Jerry Bouma
Project Manager
Toma & Bouma Management Consultants

1.0 INTRODUCTION

Deliver quality pork
Respond to changing markets
Act with urgency!

1.1 The Context

The Alberta Pork Industry Revitalization Strategy must address the most fundamental of challenges:

- The industry is currently competing in a commodity market but with a significant cost disadvantage that is largely structural in nature. This was clearly pointed out in the Situation Assessment.

- Furthermore, it competes in a market wherein the price is set by its major competitor and in the currency of that competitor. Thus is it subject to considerable pressure both in terms of competition intensity and additional currency/exchange risks.

This cost gap relative to the U.S. Midwest is not insignificant or trivial. The analysis illustrates that:

- Total hog production cost gap is $21.36 per head of which $10.60 is feed cost (the 2007 average).

- The total plant processing gap ranges from $10 to $12 of which more than half is due to scale and double shifting.

The questions that arise are these:

- How much of the cost gap with the U.S. can be closed?

- What will it cost to implement the strategies required to achieve the closing of this cost?

- How long will it take to achieve this objective?

Clearly a cost gap of $30 to $35 per hog would be extremely hard to close even with very significant differentiation. Even if this is possible, the question of sustainability arises. When will the next 'price' assault due to oversupply occur? How well will the Alberta least cost strategy fare when this occurs?

It is our view that for the Revitalization Strategy to be successful, it must address the need to substantially reposition the Alberta pork industry while identifying cost reductions/yield improvements and adopt new business models that are better able to compete in the fast moving and ever changing marketplace.

1.2 Challenges and Implications facing the Alberta Pork Industry

The strategy must begin with the establishment of a marketing platform that is achievable, sustainable and able to deliver competitive advantage starting with an analysis of challenges complete with implications. This analysis is summarized in the following table.

Challenges	Implications
Alberta Pork Industry's Competitive Position • High proportion of export but relatively small exporter in world sense. • Significantly fewer resources than key competitors (multi-nationals). • Limited differentiation between Canada and U.S. in export markets. • Faces ongoing competition from other proteins (i.e., beef and poultry). • Higher production costs than Manitoba and Ontario. >$35 a head over U.S. • COOL has generically differentiated Cdn pork to a default of different but not better	• May need to seek **“targeted” or "niche" opportunities,** rather than trying to displace major competitors' volumes. • May need to **focus resources** on a smaller number of high value opportunities. • May need to consider **partnerships** with either other Canadian proteins or customers or both.
Industry Alignment • Misalignment between long-term view and short-term opportunities. • No accepted useful Alberta industry value proposition and strategy - therefore no coordination and information flow up and down the value chain.	• May need to create an economic incentive (i.e., customer pull) for customers to help build a market for distinctive Alberta pork. • Collaboration and discipline is required across the full value chain to ensure benefits are fully realized.
Market Access • Significant market restrictions remain in terms of TRQ, tariff, and non tariff barriers to a number of key countries. For example Japan, Korea, China, Russia, E.U. • Key competitors (i.e., E.U., U.S. Mexico may in some instances be able to achieve better access through bi-lateral agreements. • Animal disease or zoonoses could shut the exports down over night. Canada does not have zoning. • Operating FAD prevention plan not in place.	• Market access will continue to be a key determinant of strategy and industry focus for the foreseeable future. • Some market barriers may offer competitive opportunities and should be maintained / supported. • Strategic investment is at risk without a plan to prevent and contain animal disease and zoonoses. As a minimum Alberta needs be zoned so that it is separate from Eastern Canada and B.C.
Lack of Geographic Diversity of Exports • Alberta is dependent upon the U.S. market which means taking a discount on all commodity pork shipped there. • Lack of diversity limits opportunities to maximize carcass value.	• Increasing share of domestic market and reducing reliance on U.S. commodity market should support optimization of carcass value.

1.3 Opportunities for Consideration

The analysis of challenges and implications leads to a number of potential opportunities to be considered by an Alberta pork revitalization strategy. These are presented as a menu of options and include:

- Develop a "Brand", with a differentiated ‘value proposition’ and ‘message’ relative to key competitors (other Canada, U.S. and E.U. in particular). Could also become the leading edge of a new “Canada Brand”. This may have the potential to mitigate COOL in selected markets.

- Develop a distinct customer focus by improving our understanding of desirable product attributes in potential markets and follow by better matching our capabilities with our targeted markets.

- Consider opportunities presented by new and emerging markets and demand factors such as changing demographics (e.g., increase penetration with teens and young adults), growing concerns with animal welfare and environmental sustainability as well globalization (local food movements; carbon footprint measures, etc.).

- Leverage perceptions of trust and quality, with source and production validation standards using ‘assurance attributes’ to gain shares in key markets.

- Focus on the benefit of being a smaller, potentially more adaptable partner in contrast to large ‘industrial’ suppliers.

- Emphasize the benefits of fresh local product to domestic customers.

- Emphasize Canada’s sustainability rank and sensitivity for nature. Significantly the OECD sustainability ranking places Canada in 6th position worldwide.

Fundamentally, to develop a truly sustainable marketing platform, it is essential to define a value proposition for Alberta pork in domestic and export markets, based on the attributes that are valued by actual customers. Market strategies to create a sustainable, differentiated position require clear understanding of target markets and a continuous in-depth relationship with those markets.

1.4 Narrowing the Focus

The selection of a sustainable marketing platform requires a choice. All successful organizations and indeed restructured industries have made such a choice. There are three fundamental choices from which to proceed:

1. **Operational Excellence**

   Value Proposition: provide middle-of-the-market products at best prices with least inconvenience, *low price, hassle-free.* Examples: Smithfield; Brazil suppliers.

2. **Product Leadership**

   Value Proposition: offer the customer the best products, <u>period</u> - year after year on the basis of specific attribute such as taste; origin; uniqueness. Examples include: Berkshire pork; Spanish ham; Label Rouge Pork (France); branded further processed products: Hormel; Maple Leaf and Schneider's.

3. **Customer Intimacy**

   Value Proposition: provide all the support the customer needs to achieve optimum results from the products or services they buy from us - deliver what the specific customer wants. Examples: Danish Crown; Seaboard; Agrosuper (Chile).

It is important to note:

> ***A successful organization will <u>choose only one</u> of the disciplines on which to stake its reputation - but will not abandon the other two.***

However, it is important to select a lead strategy and build competencies and programs that are able to deliver on this lead strategy. Otherwise, the supplier risks the 'all things to all people' syndrome that inevitably leads to a degeneration of market position as more focused competitors will outflank it by being suppliers that offer differing value propositions and attributes.

1.5 The Strategic Marketing Options

The three fundamental choices provide the framework give rise to five Strategic Marketing Options to be considered. They are:

Operational Excellence:

1. Price Leader – compete as the low cost supplier of pork. This requires the ability to organize, manage and produce low cost product.

Product Leadership:

2. 'Best' in Quality, Health and Food Safety – compete as the safest, quality assured product.

3. 'Best' in Eating Experience – compete on the basis of best or most unique taste.

4. Produced with 'Environmental Sustainability and Sensitivity' – compete on the basis of offering a 'green' product.

Customer Intimacy

5. Delivering to 'Unique' Customer Specifications – compete on the basis of a preferred supplier relationship.

A detailed analysis of the Alberta pork industry with respect to these options combined with an assessment of the strategic implications of each option is presented in Attachment 1.

Another key point needs to be made: Canada as a whole continues to enjoy a world-wide reputation as a fair, honest and reputable supplier. Additionally, the country is perceived as wide-open, vast expanses of land, water, mountains and fresh air. In our view this 'current' positioning is an under realized business platform that provides a base for marketing.

Finally, there is also pressure from some hog producers for the Alberta pork industry to move toward a supply management system. This was examined in further detail (see Attachment 2). The challenges to proceed in this direction are enormous. First, a supply management system requires a national agreement among all provinces and the establishment of a national agency. Second, exports and imports would have to be restricted to manage the domestic supply. Third, a quota system aligned with domestic supply objectives would need to be established. Even with full support from all provinces, such a system would require years to implement. Further it would effectively shut the door to Canada as a major world exporter of livestock and meat producers. Currently there is little to no political appetite at any level of government to move in this direction.

1.6 Recommended Marketing Platform

The Revitalization Strategy builds on the premise that the Alberta pork industry must be market driven and stand on a sound marketing platform. This platform provides:

- The foundation for the industry on which to build.
- A clear focus for the setting of priorities and the allocation of resources.
- The ability for the industry to build on this platform over time as its capabilities strengthen and new market opportunities emerge.

To this end, we make the following recommendations:

Immediate (1 to 3 years):

1. Begin by further building on the Quality, Health, CQA, Animal Care and existing Environment Stewardship platform as defined by already established standards and programs. Alberta in particular has a ‘geographic’ advantage to further substantiate and ‘brand’ this quality position in view of its location in the western prairie and adjacency to the Rocky Mountains; and

2. Begin building the necessary marketing, sales and business to business capacity to deliver ‘unique’ customer specifications.

Longer Term (3 to 5 years):

3. Further build the Alberta Brand on a market driven platform that adds value to the Alberta pork offer on such attributes as environmental sustainability. This can be achieved once system integrity is established and the market signals specific to this rapidly emerging area become clearer.

To summarize, our recommended starting points are these:

- Establish the ‘Alberta pork story’ by systemizing the industry’s existing attributes specific to quality production, food safety, industry structure and environmental stewardship.
- Develop a targeted customer base which values some or all of the above attributes by creating new marketing and business to business capabilities to lead industry development.

2.0 SETTING THE STAGE

2.1 Preamble

The strategic plan is predicated on the premise that the Alberta pork industry is in deep financial distress and requires financial support from the government to survive and make the transition to a renewed competitive position. This financial support will likely comprise a series of direct and indirect instruments to assist both the production and the processing sector make the necessary adjustments. To this end, the strategy lays out a vision, strategic initiatives and a set of requirements that will need to be achieved for those who wish to commit to this strategy and be eligible for financial support.

However, it must be clear that no party is obliged to commit to the strategy and implement the requirements. In these cases, the eligibility for any or all available financial support programs will be evaluated accordingly.

The Alberta pork industry is struggling to survive. It has been assaulted by several major forces that have simultaneously eroded its financial profitability and indeed its very viability. These forces include:

- Major increase in the value of the Canadian dollar.
- Dramatic increases in costs particularly feed and labour.
- Increased competition from the US that is both intense and large scale led by the likes of Smithfield.
- Structural impediments within the processing sector that limits it from double shifting and therefore from being cost competitive to their U.S. counterpart.
- Excess supply of hogs that have driven down prices in the latter half of 2007 and continue to be the case currently.
- Impending implementation of COOL.
- The 'Prosperity Paradox[1]' in Alberta which has further driven up input costs and made labour in particular very difficult to secure.
- The burden of regulatory costs such as the recently added Specific Risk Materials[2] (SRM) rules being applied to the feeding industry; water licensing costs; length of

[1] Note: The prosperity paradox could also be interpreted as "Dutch Disease" – a well documented condition where resource wealth leads to the decline or abrogation of other economic sectors.
[2] SRM rules are a post BSE requirement and necessitate the removal of brain and spinal tissue from meat materials formerly destined for the production of meat meal. These are considered the most susceptible tissue as potential carriers of the BSE prion.

time and costs associated with the registration of new animal health products; challenges in registering new seed varieties.

2.2 Underlying Assumptions and Challenges

The Revitalization Strategy is based on the following assumptions:

1. The current Alberta pork system is ‘broken’ and should not continue as is. A dramatic shift in strategy is required.

2. Retraction and industry down-sizing should be expected in the course of any transition.

3. Alberta has fundamental competitive advantages to produce livestock but not on a least cost platform. These include such factors as available land; water; the ability to produce feed grains; a favourable climate for the production of hogs; production and management capacity; and significantly, the closest major agricultural food surplus region to the Pacific Rim.

4. The industry must be rebuilt on the basis of a new strategy with those producers and processors who are willing and capable of implementing that strategy.

5. The prices paid for red meats (pork and beef) will return to levels that ensure profitability within two years for either the most efficient low cost producers or those suppliers that have established themselves as preferred long-term suppliers. These adjustments will occur as global supplies retract and demand drives up prices to levels that allow producers to make a profit. The reality is that this is a continuation of the cyclical nature of the industry which will eventually lead to another downturn in prices.

As an industry in crisis, the Alberta pork industry faces a fivefold challenge:

- Surviving the short term.

- Dealing with a high value Canadian dollar that has seriously eroded its ability to compete within the US and other export destinations.

- Overcoming the feed grain cost challenge.

- Competing with a highly competitive US pork industry.

- Stabilizing the processing sector.

All five challenges must be addressed. Furthermore, the revitalization strategy must identify a long term competitive position that is clear, viable and sustainable over the long-term. Additionally the strategy must deal with the very serious short-term challenge of keeping the industry alive as it passes through this very difficult period of high costs and low prices.

2.3 Planning Principles

Further to the Situation Assessment, we identified five planning principles that provide the framework for the strategic plan. These are:

1. The necessity of establishing new marketing capability built on product quality, supply assurance and customer focused strategies that are long term and of mutual interest. Alberta cannot nor should it compete as a low cost supplier.

2. The need to organize and build a highly connected industry that links customers to processors and processors to producers. Alberta must build a production-processing-marketing system that captures maximum value and drives out unnecessary system and hidden costs.

3. The ability to secure cost competitive inputs – most notably feed grains and labour over the long term. Alberta must pro-actively establish a feed grain sector that can compete with U.S. corn.

4. The need to operate within a favourable business and political environment that facilitates market access, regulatory reform and long term financing. The Alberta pork industry cannot go it alone. It must have the long-term strategic support of the Alberta government to make the transition necessary to become competitive.

5. The opportunity to build the marketing platform over the long term by extending the 'Alberta Brand' promise to strengthen long-term competitiveness. This may include the addition of specific quality, animal care and/or environmental attributes.

3.0 THE STRATEGY

3.1 The Vision

The long term vision for a revitalized Alberta pork industry is presented as follows:

> ***A highly connected pork industry capable of delivering differentiated high quality, safe pork products in a sustained manner and with flexibility to respond to continuously changing markets and market conditions.***

The following is a shorter more succinct version of this vision:

Deliver quality pork
Respond to changing markets
Act with urgency!

Most importantly, the vision embodies four key characteristics to be achieved:

1. A highly connected industry: markets to processing to production.

2. The marketing of differentiated pork products.

3. The ability to compete over the long term in a sustainable manner.

4. The flexibility and the adaptability to respond to continuously changing markets and market conditions.

The fulfillment of these characteristic require two key fundamentals to capture and deliver this foundation:

1. System integrity that is indisputable – the ability at any time to validate all quality specifications **and** trace any and all products being supplied.

2. A business to business marketing focus that builds on long-term commercial relationships and not simply on transactional relationship.

The details associated with both these fundamentals are described in the ensuing sections of this plan.

3.2 Strategic Initiatives

The vision will be achieved by the implementation of five strategic initiatives. The first four initiatives are immediate and need to be addressed simultaneously. They are:

- Establish system integrity (highly connected sector) – the design of pro-actively managed supply chain (or chains) between the processing sector and producers.

- Develop new marketing capability – the establishment of new business to business skill sets that develops long term supply relationships with a set of targeted markets and customers.

- Address cost challenges – developing new strategies to address the two major cost items facing pork production: feed grains and labour.

- Facilitate a favourable business environment – ensuring that the Alberta pork industry has the necessary public and private services, tools and instruments to effectively compete in the global meat industry.

The last initiative which is long term in nature is this:

- Further build the Alberta Brand on a market driven platform that adds value to the Alberta pork offer on such attributes as environmental sustainability. This can be achieved once system integrity is established and the market signals specific to this rapidly emerging area become clearer.

The details associated with each strategic initiative follow.

Strategic Initiative 1: Establish System Integrity

Background

System integrity is defined as the ability to validate all quality specifications **and** trace any and all products being supplied, at any time. In terms of establishing a starting point, the 'systems' platform, this will build on:

- The current quality, health, safety and environmental platform (under the AOPA framework) as defined by already established standards and programs; and

- The ability to "Delivering to 'Unique Customer Specifications' (as the marketing capability develops). This dynamic is addressed in the following section (see 3.4).

Once this platform is established and validated, the strategy calls for a process of continuous improvement by strengthening existing attributes and/or adding new dimensions. One such possibility is to:

- Build a marketing platform with associated attributes in response to emerging market signals as these develop (within 3 to 5 years).

Discussion

The fundamental shift prescribed by this initiative is the establishment and management of supply chains between the processing sector and the producers. This is a dramatic change to the current industry structure within the Alberta pork industry. While some supply chains do exist within Alberta, they tend to be small and represent the minority of production. For the most part, the main stream of production is loosely connected with the processor.

To be sure, a flow of information does occur between the processor and the producer – namely index; grading performance of carcasses by weight range and lean measure; loin depth; health related data and/or demerits, etc. This information while important is largely post facto. There is no intervention on the part of the processor to work with producers to manage toward the achievement of higher standards nor is there a body of comparative benchmark data that allows an individual producer to compare herd performance to other producers or groups of similar producers. Finally there is no information from the market itself (the customer) that links desirable attributes with production attributes thereby enabling the development of specific management processes that would improve the achievement of those attributes.

The managed supply chain approach would be designed to overcome many of these limitations. It would include:

- An information system that links individual producers with the processor.

- Benchmarking data that group producer results into categories for comparative purposes.

- The provision of diagnostic technical management services to improve performance.

- Over time, include customer measures that would be linked to livestock performance and/or production management activities.

Necessary Conditions

The ability to restructure the relationship between the mainstream processor and producer requires the meeting of several necessary conditions:

1. Full commitment to implementing the Alberta pork strategy as outlined in this document. This requires a new marketing approach supported by structural change.

2. Commitment to market an ‘Alberta Brand’ product that is defined by product and system attributes (see next section for details).

3. Commitment to establish new marketing and business development capability.

4. Commitment to establish supply chain management capability which will result in several unique supply chains that reflect differentiated customer strategies.

5. Commitment to restructuring the relationship with producers by establishing a financial arrangement that shares benefits and risks.

Steps to Moving Forward

The move to establishing system integrity is inextricably tied to implementing a new marketing strategy and establishing new marketing capability (see next Strategic Initiative). A transition strategy including key steps to undertaken is detailed as part of the discussion in this section.

Strategic Initiative 2: Establishing New Marketing Capability

Background

This strategy advocates the development of long-term relationships with customers that are differentiated on the basis of a customized array of products, system and commercial business and/or investment attributes. This is not a new approach. Such relationships are common in many industrial sectors and becoming more common within the food industry as well.

Five fundamentals are required:

1. A new positioning strategy that is unique to Alberta & validated. This requires the establishment of a 'brand' that is unique to the production system described in the preceding strategic initiative. Note: This strategy can be expanded to include Western Canada, particularly Saskatchewan.

2. A marketing capability that is led by a business to business market development and sales approach.

3. The capacity to establish long term business relationships and/or joint ventures with partners that will include financial investment.

4. A targeted marketing and sales strategy that focuses on North American marketers that seeks to differentiate on system integrity, quality assurance and sustainability. Further the pursuit of a business development strategy in the Pacific Rim (primarily China & Japan) that is built on long term assured supply and food safety. There are also opportunities to be addressed in Mexico and possibly the EU as well on specific products (such as hams) over time.

5. Time to identify opportunities, develop the specifics and to implement business-to-business investment initiatives.

Significantly, this will require different skills sets than what is currently at play in the sale of pork.

Discussion

The 'Alberta Brand' embraces a total approach that encompasses the integrity of the system that has produced and processed the pork, as well as the product itself. All pork carrying this brand will meet or exceed defined protocols and standards.

The 'Alberta Brand' will have several applications:

- It may result in the development of a New Named Brand product that will carry the 'Alberta Brand' as part of its integrity validation.

- It will also be available to existing products or trade names provided the product meets the defined protocols and standards. In these cases, it would be available on a licensed basis to qualified users of the brand.

It is useful to draw a comparison between the current approach to the new approach being proposed (see Table 3.1). The dynamics are fundamentally different: the current system is largely supply push; the new approach is largely demand pull.

Table 3.1 Comparison of Current Approach to Marketing to the New Approach

Current Approach	New Approach
• Starts with supply • Sales by brokers; agents • Price based • No unique attributes • Transactional in nature • Loose connection to producers • Always a market but at what price/cost?	• Starts with customer • Business to business approach • Value based • Unique to customer requirements • Producers tied to customer requirements • Takes time to develop and may facilitate investment by both parties

In order to be successful, the marketing strategy must address two fundamental opportunities:

1. Strengthening and/or re-establishing a strong position within Canada and Alberta's current international customers – a market that is being eroded by the aggressive marketing and sales activities of US based as well as suppliers from other countries. This will require a careful evaluation of customers and subsequently focusing on those that value the current Alberta supply relationship.

2. Exploring new business relationships and/or joint ventures in China and the Pacific Rim – a market that is seeking long term supplies of safe, high quality pork for specific high end channels (specifically eastern China)

The simplest solution is the formation of a 'dedicated marketing company' that:

- Establishes, "owns and manages" an 'Alberta Brand' that could be stand alone or be used to enhance current brands subject to the meeting of agreed standards;

- Develops the customer base for 'own' brand product and services those customers.

- Contracts with processors to supply requirements by customer and/or geographical market.

Under this scenario, the ‘dedicated marketing company’ would require capital for start-up and operations. It could be owned by a third party investor group or as a corporate body owned by hog producers. No purchase of existing assets would be required. This is effectively the Seaboard-Triumph model – a long term contractual arrangement with an established marketer (and brands) with a dedicated processor/production system.

Implementation Challenges

The major challenge to the development of an effective ‘marketing company’ is the question of how to effectively link and manage such production-processing system that has consistency; critical mass; is responsive to market conditions; and fairly rewards the participants.

The simplest method to achieve this is by means of an integrated system (top-down single owner or small ownership group) with the financial resources and the management structure capable of driving the strategy and the implementation. This is effectively the Smithfield model which is not a likely option for Alberta at this point in time.

Alternatively, a contractual arrangement between the marketing company and the processors is another option (the Seaboard-Triumph model). However, this approach will only have merit if:

- Financial returns from an ‘Alberta Brand’ marketing strategy driven by the dedicated marketing company is greater than the current system; and

- Processors implement tightly managed supply chains that have a financial arrangement that is superior to the current system in order to attract producers to participate.

The eventuality that either outcome will occur on its own volition is highly unlikely. Currently there is no ‘Alberta Brand’ nor is there any new marketing capability with any track record. In our view, the current cultural commodity inertia is so great, contracts and ‘good intentions’ will not be sufficient to lead and drive the necessary changes.

Making the Transition

The major processing infrastructure within the Alberta pork industry revolves around the Red Deer plant currently owned by Olymel. In recent months, Western Hog Exchange and Olymel have brought forward a proposal that essentially seeks to restructure this operation: Olymel would sell 49% of the asset to hog producers and/or investor; Olymel would continue to process the hogs and market the pork within its own system. Producers would receive a market price for hogs delivered and a share of profits commensurate with the level of investment based upon an agreed distribution. The actual financing of this purchase for producers would require some form of upfront financing by a government backed loan guarantee paid out over time from producer revenues.

The merits of this proposal are examined within the strategic intentions of the Revitalization Strategy as outlined by the Strategic Initiatives 1 & 2.

At the same time, discussions would also take place with the smaller processors within Alberta (and possibly Britco located in the lower mainland of British Columbia but whose supply base is largely from Alberta). These processors would be encouraged to participate in the ‘Alberta Brand’ strategy on two levels:

1. Using the ‘Alberta Brand’ to enhance or further differentiate their own company brands subject to the meeting of the required standards.

2. Developing a supplier agreement with AMN who would in turn market and sell pork products under the ‘Alberta Brand’ program.

Recommendations Specific to Strategic Initiatives 1 & 2

We offer the following set of recommendations specific to the preceding strategic initiatives:

1. **Establish Alberta Marketing NewCo** – this new entity would have as its primary mandate to lead and deliver the Alberta Pork Revitalization Strategy. This would be a for-profit company owned by pork producers and investors that would 'own' the 'Alberta Brand' and undertake to develop a targeted set of national and international customers. The organization would be defined by business-to-business and marketing experts that excel in account management and long term commercial relationships. (Note: this entity is presented in conceptual form only. It will require a detailed business and operational plan subsequent to the acceptance of this recommendation).

2. **Establish and delineate the 'Alberta Brand' -** based on a set of baseline standards and protocols that are already in place specific to:
    - CQA
    - Food Safety
    - Animal Health
    - Animal Care
    - Environmental standards as per AOPA.

    In effect this begins the process of building the 'Alberta Brand' story[3] and defining the detailing the system requirements that will need to be met and validated by participating producers.

3. **Begin discussions with Alberta based processors** with respect to their interests in the Alberta strategy and the role they are either willing or able to play. Clearly any financial considerations for any new business arrangements that require government support or backing will need to take this into consideration. Other key points to consider in the implementation of an 'Alberta Brand' strategy are:

    - The ability to supply a critical mass of 'Alberta Brand' pork and accordingly a critical mass of slaughter hogs.

    - The willingness and ability of Olymel as well as other processors to implement supply chains that include different financial arrangements and information sharing with producers.

4. Establish Alberta Marketing NewCo which will in turn lead to the restructuring of the current organizations to work together under one umbrella within the Alberta pork industry. For example:

[3] For an excellent and very current example of a comprehensive 'system' story, review Seaboard Foods, Sustainability & Stewardship, Our never ending commitment, April 2008.

- Western Hog Exchange as the natural party (due to its current role as a procurement agency) to lead the supply chain implementation and management role as it transitions its skill sets from procurement to supply chain management. This would be done within NewCo.

- Alberta Pork as the natural party (due to its leadership role in strategy, promotions, food safety, quality assurance and animal care) to lead the Pork Industry Revitalization Strategy as well as define the 'Alberta Brand' and accordingly, detail and manage the system integrity fundamental to the brand.

Significantly both organizations can bring financial resources to the table that could be used to contribute or seed the purchase of necessary processing capacity.

6. Establish Marketing and Business to Business Development activities with key customers; target markets (Canada; USA; Mexico; Japan; China). This would entail the development of a very targeted market research and business-to-business exploration strategies with existing customers and potential customers. These activities would only proceed once the appropriate business arrangements are in place with the processors.

7. Subject to the structure of processor business arrangements, assess the Red Deer plant as well as other processing plants in response to customer requirements and priority customers with respect to needs/ deficiencies/opportunities. For example, the need and opportunity for a further processing facility must be examined within the context of customer requirements and profitability. Also, it may be the case that a Chinese or an Asian customer wants large volumes of carcasses over an extended period of time and to be cutup and distributed in China. This may requires a joint venture investment in specialized cutting operation which in turn would change the configuration and the labour requirements of the Red Deer plant substantially.

Strategic Initiative 3: Address Cost Challenges

The Current Financial Crisis

It is well recognized that the current situation among Alberta hog farms is desperate. Producers are losing in excess of $50 per hog. This situation is not likely to improve for at least another 6 months in view of the recent USDA forecasts. However, the demand for pork continues to be strong and as the overall pork industry contracts, prices will return to profitability.

The broad strategic questions facing the province are these:

- Is Alberta committed to the long-term development of its livestock industries? This is not a rhetorical or trivial question. It must be understood that Alberta's livestock industries (specifically pork and beef) are under extreme financial pressure due to the convergence of several market and structural factors. Without some intervention, both sectors may be affected negatively, to such a degree that they will no longer be a significant component of the Alberta agricultural economy.

- Is Alberta committed to supporting the pork industry as it restructures and transitions to a strategy that positions it favourably (and hopefully) uniquely in the long term? This question speaks to support of an industry strategy that will take time by those participants who choose to commit and make the necessary adjustments.

It is clear that not all producers will be able to survive the financial crisis currently afflicting the industry. In light of the proposed Revitalization Strategy, the industry will divide into the two segments:

- Strategy Participants – those producers and processors who agree to commit to the strategy and implement the necessary requirements. These would be supported by a 'Build Program' designed to support those participants that have the potential (and the desire) to meet the 'Alberta Brand' standards.

- Status Quo – those producers and processors who wish to remain as is and continue the pursuit of their own individual strategies (low cost; commodity; niche market; local; farmer's market, provincial abattoirs, etc.).

We recognize that the transition described above is a very dynamic process. Should 'status quo' producers or processes wish to be part of the Alberta Brand platform at some later date, a process enabling this participation would be developed.

Recommendations Specific to the Current Financial Crisis

With respect to the proposed 'Build Program' we recommend the following:

1. Agreement by the Alberta pork industry to several sets of parameters and/or conditions that producers will need to meet in the short term and over the long term:

    - The implementation of best practices specific to CQA; food safety, animal health, animal care and traceability.

    - Participation in a production and financial benchmarking program (the best program for this purpose will need to be determined).

    - The adoption of an agreed set of set of environmental and sustainability standards already in place (such as the Alberta Environmental Farm Plan Program). Additional standards will be developed over time such as potential eco-efficiency objectives specific to energy, water and other selected input use.

    Note: We recommend that all protocols and measures pertaining to productivity and/or best practices required to meet the 'Alberta Brand' standards be established by a committee of well-informed producers with the expertise of qualified technical advisors.

2. We further recommend that financial support for the purpose of transition will need to be structured to provide:

    - Up-front support or front-loading for Strategy Participants to enable both financial survival in the immediate term and transitional support in the medium term. This could take the form of payments with no interest or deferred interest loans until market prices improve.

      Note: These discussions need to take place with Alberta Agriculture & Rural Development and AFSC and within the context of the proposed Alberta Farm Recovery Program – Phase 2 that is currently being considered.

Longer Term Cost Issues: Feed Grain

Discussion:

The establishment of a dedicated feed grain sector in Alberta is an enormous challenge. Currently, crop producers have little or no incentive to grow crops for feed since market signals are not clear and returns from livestock feeding are not sufficient to attract or facilitate the emergence of a feed grain production sector.

The only incentive for growing feed is the expectation of higher net revenues from the combined crop/livestock enterprise versus growing food crops (wheat, malt barley, oilseeds, etc.). There are two scenarios wherein a feed grain variety might be grown:

1. **The pure crop producer –** there **must** be a high likelihood that the net revenue per acre in growing feed is greater (or least equal) to growing a food crop. If this is not the case, there is no incentive to grow varieties specific for feed.

2. **The livestock producer with a crop land base** - total net revenues to the enterprise is greater by producing feed **and** livestock than doing either enterprise separately. In other words, feed production is a cost centre; the value is captured through the profitability of the livestock enterprise.

The current pork revenue forecast provides little or no incentives to change these dynamics, in the foreseeable future. The variables affecting the profitability of growing feed grains are threefold:

1. Yield per acre.

2. Net margin per acre (difference between revenues vs. costs).

3. Profitability of the livestock enterprise – this impacts both the ability to pay in the case of the feed purchaser; and the profitability of the entire operation in the case of livestock/crop producer.

Accordingly there are only fours types of incentives that will stimulate feed production:

1. Increasing yields – better varieties and/or quality thereby increasing the revenue per acre.

2. Altering or enhancing components within the grain and thereby improving livestock productivity (better returns as the same cost or the same return at lower costs). Increasing specialized varieties are being developed that improve feed efficiency, meat quality and/or other productivity factors.

3. Reducing costs such as a nitrogen fixing variety that requires less fertilizer.

4. Reducing risks via insurance programs on "untested" new crops & new varieties.

Recommendations Specific to Feed Grains

1. **Re: Yield/Specifications** – a great deal of study, evaluation and resources have been applied to the challenge of increasing yields of feed grain varieties. We have nothing to add to these insights and recommendations that have already been provided by previous task forces. The most important impediments are:

   - The removal of KVD in wheat as an impediment to variety registration. This appears to be in progress as per the recent announcement by Federal Minister of Agriculture.

   - Ensuring that the novel traits definition does not become unduly restrictive (or punitive). The latter point is extremely important to the extent that it is our understanding the CFIA is currently considering the classification of a dried distillers grains (DDG) as a "plant with novel traits" (PNT). This would be a clear set back for livestock feeding in western Canada, and all industry as well as provincial governments need to be harnessed to ensure that this does not occur.

   We don't wish to be trivial but perhaps the Alberta pork industry with government could promote a major world wide contest[4] to the seed breeding community that offers a major incentive or prize to the individual or company that develops the most highly productive feed wheat or barley for pork production under Alberta conditions. This has the potential to draw attention to Alberta and perhaps create the necessary 'breakthrough' in this seeming impasse.

2. **Re: Cost reduction measures** – we recommend that a focused effort be applied to examine the viability and soundness of a 'green' and/or a bio-energy offset program to be applied to Alberta produced and fed feed grain. Conceptually the offset would be provided to the feed grain 'user' – namely the livestock feeder in manner similar to the way the Crow Rate Benefit offset program was designed in the 1980's. This could be part of a larger provincial sustainability strategy that is discussed in more detail in Section 3.7.

3. **Re: Risk reduction measures** – review crop insurance programs to ensure that the lack of available insurance is not a disincentive to growing new feed varieties (wheat; barley; peas; triticale etc.). It is our understanding that it is difficult for a

[4] In 1999, the new owner of Goldcorp, a small gold mining operation set up such a contest. The company owned mining rights to a large tract of land, an extensive data base of samples but no clear sense of what and where gold might be found. He offered a prize of $575,000 to anyone who would bring forward the best methods to review the data. The contest drew attention from 1,000 virtual prospectors using the most sophisticated of methods and technologies which resulted. The exercise resulted in 110 target sites; an 80% success rate; eight million ounces of gold and the transformation of a $100 million company to $9 billion (Source: Financial Post).

producer to adequately ensure a new crop with little or no history on his/her particular farm or within the neighbouring locale.

Another risk reduction measure is the feasibility of implementing a cost input insurance plan specific to feed grains. This would be similar to insurance programs available to crop producers that provide Income Protection, thereby protecting revenues. Thus if it is possible to ensure revenues from crops producers, it should be possible to ensure costs for crops (grains) for other producers.

Note: It is expected that the producers most responsive to a green or bio-energy offset program will be livestock feeders that have a crop production base or have contracts or business relationships with other crop producers willing to produce feed grains for them.

Strategic Initiative 4: Facilitating a Favourable Business Environment

Discussion:

The establishment of a favourable business environment for livestock production as well as processing and adding value is a continuing and ongoing challenge for Alberta. The following are a general set of recommendations that are supportive to the core revitalization strategy. More details will be developed once the specifics of the core strategy are agreed to. However, there are several areas toward which the governments of Alberta and Canada can provide assistance:

Recommendations:

1. Ensure the actualization of 'zoning' Canada as a disease risk mitigation measure into two distinct zones delineated by West Hawk (Ontario, Manitoba border). Efforts at the federal level are in progress with respect to this initiative. This is extremely important in two ways: a) it further substantiates the 'Alberta Brand' strategy within the context of a defined zone; and b) it enables Alberta to better manage the risk of disease outbreaks particularly if one should occur in eastern Canada. The sooner this is accomplished, the better. Note: If Brazil has been successful in this area, this is no reason for Canada not to have this in place.

2. Market and Business-to-Business Development – the Revitalization Strategy calls for a highly targeted approach by country and regions within countries. The government can play a key facilitative and support role in this process as targeting becomes clear. It may be opportune for example, for the Government of Alberta to review its policy on the establishment of key offices in those markets that represent long term opportunities for a range of Alberta agri-food products and services. This would require the placement of Development Officers with a strong agri-business and marketing focus.

3. Review crop insurance programs and other risk management tools to ensure that new crops (such as peas and triticale) and new varieties of feed wheat and barley are able to be insured at similar levels as crops with long histories.

4. Facilitate the establishment of feed grain production contracts between livestock producers and dedicated crop producers. This may be a mute point and an industry service that the market will readily respond to and provide the necessary expertise and services. However, it is apparent that the incidence of contracted feed grain production between crop producers and livestock feeders is an exception. This is largely due to the fact that such arrangements have not been a necessity or a good risk management strategy by virtue of the current grain marketing system. However, if new income protection insurance instruments combined with cost production insurance instruments are development, they may an opportunity to facilitate the development of new contractual arrangements that are beneficial to all parties.

5. Provide leadership to facilitate the establishment of sustainable agriculture and forestry industries to work with the energy sector in a coordinated manner. This is a broad strategy that requires a clear cross industry vision, high levels of commitment and the development of a new generation of sustainability incentives.

   Our observations are as follows:

   - First and foremost, Alberta has a major public issue with respect to sustainability and the positioning of the Athabasca tar sands. Increasingly, Alberta stands out as a carbon emitter and a target for environmentalists and potentially the market place itself.

   - At the same time, Alberta is home to two large resource industries that are both major carbon sequesters, namely (1) agriculture and; (2) forestry. Significantly both industries, which are very export dependent, are struggling with revenue and profitability issues. If there is ever a time for both industries to establish a sustainability platform to improve both competitive position and efficiencies, now may be that time.

   To this end, we recommend that new innovative approaches be explored to work with all three industries (energy; agriculture; forestry) to determine whether a substantive inter-Alberta sustainability or carbon-offset program can be developed. At the general level, such a broad based initiative could serve to re-position Alberta as a leader in sustainability while providing new sources of revenue for the pork industry. Another example is the possibility for the energy industry to work with pork and cattle producers as well as rural municipalities to develop bio-digesters to process manure and human waste to produce bio-energy.

   Specific to livestock production, the development of an offset program to support the production of livestock would have a three-fold effect:

   - Stimulate the production of feed grains due to increased returns. The offset provided to livestock producers will bid up the price for feed grains and/or facilitate the formation of feed grain production contracts at prices that are sufficiently attractive to induce uptake.

   - Reduce of cost of livestock feeding; thereby better compete with corn-based rations fed in Eastern Canada and the USA. The offset will also reduce the cost of feeding (provided that the full amount of the offset is not passed on in its entirety to the price paid for the feed grain).

   - Provide a made in Alberta market mechanism for the Alberta energy industry to trade carbon emission or carbon footprint levies with Alberta agriculture and forestry participants. Such a program could be initiated in highly targeted test manner toward such critical areas as feed grains in the case of agriculture.

Strategic Initiative 5: Building the Environmental Sustainability Platform

Background

We have conducted considerable research on developments in the domain of environmental sustainability. This area is moving quickly and many multi-national companies and industry sectors are aggressively adopting environmentally sustainability strategies. We observe three types of response at the corporate or industry level:

1. Those on which the environmental sustainability platform is foundational to the very essence of their formation and ensuring strategies. Companies such as Stonybrook Farms (the world's largest producer of organic yoghurt) and Whole Foods (major retailer of organic and natural food products) fall into this category.

2. Those who are see market opportunity and are pro-actively positioning new product or service lines as environmentally sustainable or re-positioning existing products lines to become so. Other factors driving change are the financial markets which are increasingly evaluating a company's environmental profile.

3. Those who making changes only because they are forced to do so or in response to required risk mitigation strategies.

Opportunities will arise although it is early stage as to the specifics of these opportunities and how they will be expressed in the market place. Generally speaking the meat industry is one of the last sectors to show any definitive response on this issue. Recent efforts to position the environmental sustainability of red meat production can be seen by small groups of producers/processors who are marketing natural, organic or 'grass fed' products. On a large scale, 'systems' such as Seaboard Foods is now positioning itself as the most environmentally sustainable pork production system in the USA.

Recommendation

At this stage of the Revitalization Strategy we recommend that the Alberta Pork actively monitor and assess the opportunities that are emerging. However, any and all sustainability measures that are market driven and have potential to provide market advantage can only be realized if the necessary 'System Integrity' outlined earlier in this presentation is established. This is by far and away the most important priority facing the Alberta pork industry.

We also add a word of caution. It is critical that any sustainability measures specific to livestock production be done within the context of the total system. Meat production (particularly) beef is by definition a carbon emitter. Thus the total system including grain production methods; manure handling practices; energy sources; water usage needs to be taken into consideration.

4.0 SUMMARY AND NEXT STEPS

4.1 Summary

The Alberta Pork Revitalization Strategy recommends a series a major structural and operations changes that are summarized as follows:

1. Establish Alberta Marketing NewCo (AMN) with a highly skilled marketing and business to business skill set and the ability to invest with joint venture market partners/channels. AMN would be the lead organization to drive and implement the strategy and combine the current mandate of the Western Hog Exchange (to lead the supply chain management function) and Alberta Pork (to lead the brand development and quality assurance functions). AMN needs to achieve two fundamentals that cannot be comprised:

    - Indisputable 'system' integrity, upon which Alberta pork will be produced, processed and marketed.

    - Establish a new level of marketing and business-to-business capability and skill set that does not currently exist within the Alberta pork industry.

    Note: This proposed industry restructuring does not eliminate the need for an industry organization that continues to advocate for and lobby on behalf of producers on industry issues. Thus Alberta Pork as an organization would continue as an organization although the mandate will change to reflect the needs to the restructured industry.

2. Establish the 'Alberta Brand' – a defined set of protocols and standards that can be applied to the products marketed by AMN and be made available as a 'product brand enhancement' to all processors within Alberta who meet the brand requirements.

3. Commence discussions with the federally inspected processors to explore how the Alberta Brand strategy can be adopted to support either existing brand strategies or create new branded product strategies. Subsequently, commence similar discussions with provincially inspected processors.

4. Build a marketing platform based on existing attributes and systems. More specifically, the marketing platform will begin by:

    - Systemizing the industry's existing attributes specific to CQA, food safety, animal care, industry structure and environmental stewardship.

5. Establish a producer focused 'Alberta Build' program designed to assist producers to make the transition. This will requiring adherence to 'Alberta Brand' quality, CQA, health and animal care standards. Producers who do not wish to adhere to

these standards and remain status quo, will not be eligible for support or transition funding.

6. Develop adequate crop insurance instruments to support the production of new crops and new feed grain varieties (the sellers of feed grain) as well as feed cost protection insurance for livestock producers (the buyers of feed grain).

7. Explore the viability of establishing sustainability offset program targeted specifically to the production of feed grains. This is a broad strategy that requires a clear cross industry vision, leadership and commitment at the highest level of the Alberta government, and the development of a new generation of sustainability incentives across three industries: energy; agriculture and forestry.

8. Monitor emerging environmental sustainability developments and/or market signals with the strategic intention to strengthen the 'Alberta Brand' over time. This will serve to strengthen and deepen the 'Alberta Brand' marketing platform as opportunities develop and market signals become clear.

4.2 Next Steps

The most significant next steps include:

1. Discussions with the pork processing sector.

2. Developing a detailed business plan including costs for the establishment of the Alberta Marketing NewCo. Note: Our preliminary estimate is that this organization would be comprised of 4 to 5 very experienced business to business senior account managers. Annual costs including travel, expense, business to business development costs are estimated to be between $2 and $3 million.

3. Define and detail the 'Alberta Brand'.

4. Develop a detailed Supply Chain strategy including management, information system requirements, producer-processor information interfaces; financial arrangement including pricing, costs and net earning distribution schemes.

5. Develop a financial transition plan for the Strategy Participants.

6. Review potential insurance tools and/or instruments that could be developed or provided for Crop Income Protection or Feed Cost Purchase Protection.
7. Evaluate the effects and the potential mechanics of a proposed inter-Alberta sustainability offset program that could be used to stimulate the establishment of the environmental platform and at the same time stimulate feed grain production and reduce the costs of livestock feeding.

5.0 RISKS AND REALITIES

The plan outlined in this strategy has numerous risks and will be challenging to implement for several reasons:

1. The major processor may not accept the basic premise that the Alberta Brand strategy has merit and that new marketing capabilities using different skill sets and approaches is any different or improves upon the current approach. This will impact both their willingness to lead or even participate in the strategy.

2. The same concerns specific to the major processor may also be the case with the remaining Alberta processors who are smaller and in some cases already have very definitive brand strategies.

3. The adoption and implementation of supply chains which connects producers with processors under a common protocol and linked with comprehensive information systems will take time and require strong leadership and clear implementation capabilities. Where this leadership comes from and how this will be implemented needs to be identified.

4. The assessment of market and business to business opportunities needs to be done by the right people with the right skill sets. This will take time and involves a process of discovery, not a single round of discussions characteristic of a market research exercise.

5. Even with the full cooperation and support of the industry, the establishment of an Alberta Marketing Company to lead market development is extremely critical. If this is not done with the proven capable leadership, qualified staff and sufficient resources, the risk of failure is very high. Thus the choices made in the staffing of this initiative will be a major determinant of success or failure.

6. Governments, both provincially and federally are unwilling to take the necessary steps to create the competitive environment necessary to facilitate the re-establishment of a competitive livestock industry.

7. The transition from a supply driven commodity industry to a market driven connected industry will take time and money. The necessary transition support from federal and provincial governments as well as other industry safety net programs may not be forthcoming or sufficient to enable this transition.

8. Finally, the cost gap between the Alberta pork industry and low cost competitors is sufficiently great, that even a successfully implemented differentiation strategy may not be sufficient to restore competitiveness to individual producers and processors.

One thing is clear however. The current situation in which the Alberta pork industry finds itself is so serious that there is clear recognition that the industry cannot continue as is. Thus the industry must find new ways to organize itself and/or develop new business and marketing strategies. Otherwise, there is a high likelihood that the current situation will occur again in the near future.

Attachment 1:

Background Analysis to Establish a Marketing Platform

(Note: these are power point slides in a separate electronic document)

Attachment 2: Supply Management as an Industry Strategy

Overview

The processes required to establish a supply management system are lengthy and onerous. First, a supply management system requires a national agreement among all agricultural producing provinces, the development of a national plan and the establishment of a national agency. Second, exports and imports would have to be restricted to manage the domestic supply. Third, a quota system aligned with domestic supply objectives needs to be established.

Two such systems that have operated in Canada for nearly 40 years are detailed below.

The Canadian Dairy Industry

Programs to support prices, export surplus products, and limit imports were in effect throughout the 1940's and 1950's and were extended with the establishment of the Agricultural Stabilization Board in 1958. After extended periods of low returns and excess suppliers it became clear that a mechanism was needed to ensure reasonable support prices for storable dairy products to underpin producer returns. New mechanisms were also needed to control costly surplus production. The following events ensued:

- 1963 - The federal government convened the 1963 Canadian Dairy Conference, which led to the creation of the Canadian Dairy Advisory Committee the same year.

- 1965 - In its final report, this Committee recommended the creation of the Canadian Dairy Commission.

- 1966 – The Canadian Dairy Commission (CDC) was established with the proclamation of the Canadian Dairy Commission Act on October 31, 1966. Through the creation of this special Crown Corporation, the federal government confirmed its commitment to a strong and viable dairy industry in Canada.

- 1970 – The establishment of a National Milk Marketing Plan which led to the development of an Interim Comprehensive Milk Marketing Plan in 1970 and the subsequent establishment of the Canadian Milk Supply Management Committee (CMSMC). Ontario, Quebec and the federal government were the original parties to this Plan. All remaining provinces except Newfoundland entered the Plan by the end of 1974. Since Newfoundland did not produce significant amounts of milk for industrial purposes and was not a signatory to what is now known as the National Milk Marketing Plan, it maintained observer status in national milk marketing activities. However, following months of negotiation with industry representatives, Newfoundland and the other nine provinces reached an agreement for Newfoundland's entry into the National Milk Marketing Plan and the Comprehensive Agreement on Pooling of Milk Revenues effective August 1, 2001. The National

Milk Marketing Plan’s most important function is to establish the national milk production target for industrial milk in Canada, or Market Sharing Quota.

The Canadian Egg Marketing System

The national system was introduced in response to the ‘boom and bust cycles’ of the 50s, when a cycle of egg plenty and low prices forcing producers into bankruptcy would be followed by low egg supplies and high prices. The following events ensued:

- 1960’s – formation of provincial marketing boards for eggs (as well as chicken and milk).
- 1968 – The Canadian Egg Producers Council and the Canadian Federation of Agriculture sponsor the first national conference of egg producers which recommended the formation of a national agency by special federal legislation.
- The introduction of federal legislation (Bill C-197 and subsequently Bill C-176) that resulted in the Farm Products Marketing Agency Act dealing with eggs and poultry.
- December 1972 – official proclamation of the Canadian Egg Marketing Agency (CEMA).

The 1972 legislation also enabled farm product producers to manage inter-provincial and export trade. CEMA manages Canada's supply of eggs for consumption. Each year, it estimates what the table and processing markets will need and establishes a national quota that respects Canada's international trade agreements. The agency implements this national quota order upon the National Farm Products Council’s (NFPC) approval. It allocates this quota between the provincial and territorial boards using criteria set out in a federal-provincial-territorial agreement. Then these boards allot quotas to registered producers.

Summary

First it is important to understand the context of the times in which supply management emerged as a national policy for the dairy and poultry industry. Three key points are noted:

1. Supply management emerged during an extended era of low commodity prices. Subsequent to World War II and particularly following the Korean War (1952), the demand for Canadian agricultural commodities declined. As a consequence, the 1950’s and the 1960’s were characterized by long periods of low returns to Canadian farmers.

2. Multiple pricing in the market place. The dairy market in particular experienced a bewildering range of prices paid to producers. At one time, dairy producers in Ontario were subject to more than one-hundred different prices, every one-cent increment between the high and the low price. Many of the prices paid for milk at that time were below the cost of production and producers had very little bargaining power.

3. A predominant domestic focus. With the exception of grains, very little production from the dairy or poultry sectors was being exported. Thus, the issue of export or imports had relatively little significance and the ability and the political climate to establish production quotas to meet domestic demand was relatively straightforward.

With respect to the later point, the Canadian pork industry in 2008 faces a totally different situation. Firstly it has become a major export industry with more than 50% of total production leaving the country in the form of either live animals or meat products. Secondly, agricultural policy, at both federal and provincial levels of government, has supported the position of Canada as a major agri-food exporter for the past twenty years. Thirdly, Canada’s supply management policy has been under attack at the WTO and with the U.S. in particular. Considerable effort is being extended to just to defend and maintain the current system.

Even with full support from all provinces, a supply management system requires years to implement. Further it effectively shuts the door to Canada as a major world exporter of livestock and meat producers. Currently there is little to no political appetite at any level of government to move in this direction.

Currently national supply management in the Canadian dairy and poultry sectors is under siege. Its inherent protectionism is increasingly labeled anachronistic in the contemporary, globally competitive economy. It is being argued that the pragmatism that led to the creation of private interest governments in the dairy and poultry sectors was not accompanied by the necessary degree of broader support in the Canadian political community for the goals and instruments of supply management.