

Renewal of the Quebec Marketing Convention

A new pricing formula

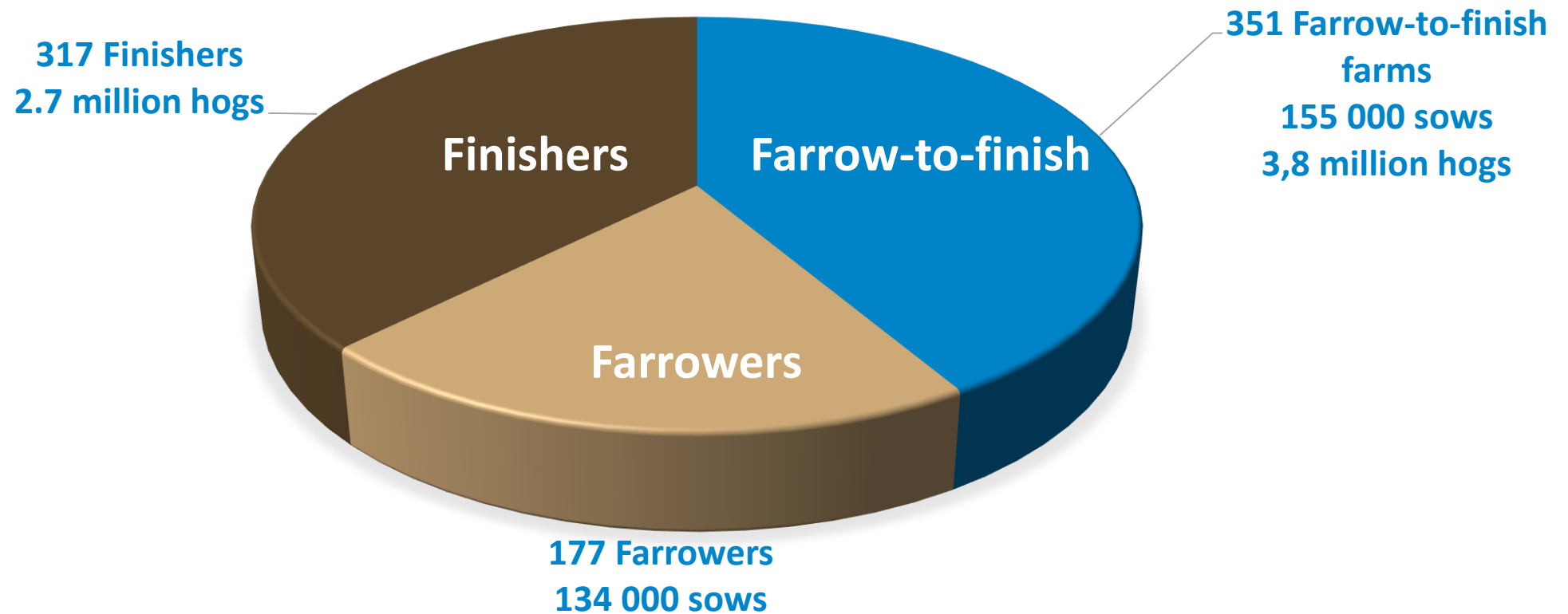
Alberta Pork's Annual General Meeting
November 20th, 2019

Vincent Cloutier, agr.
Quebec Pork Producers Association

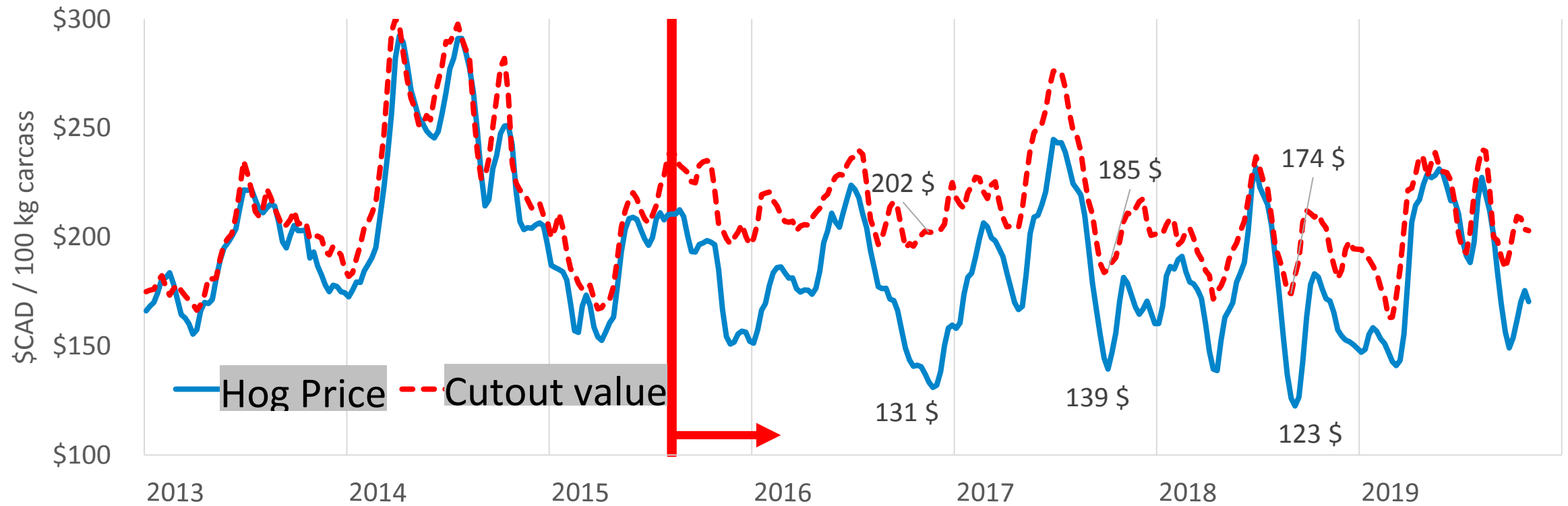




Profile of Quebec Hog Farms, 2018

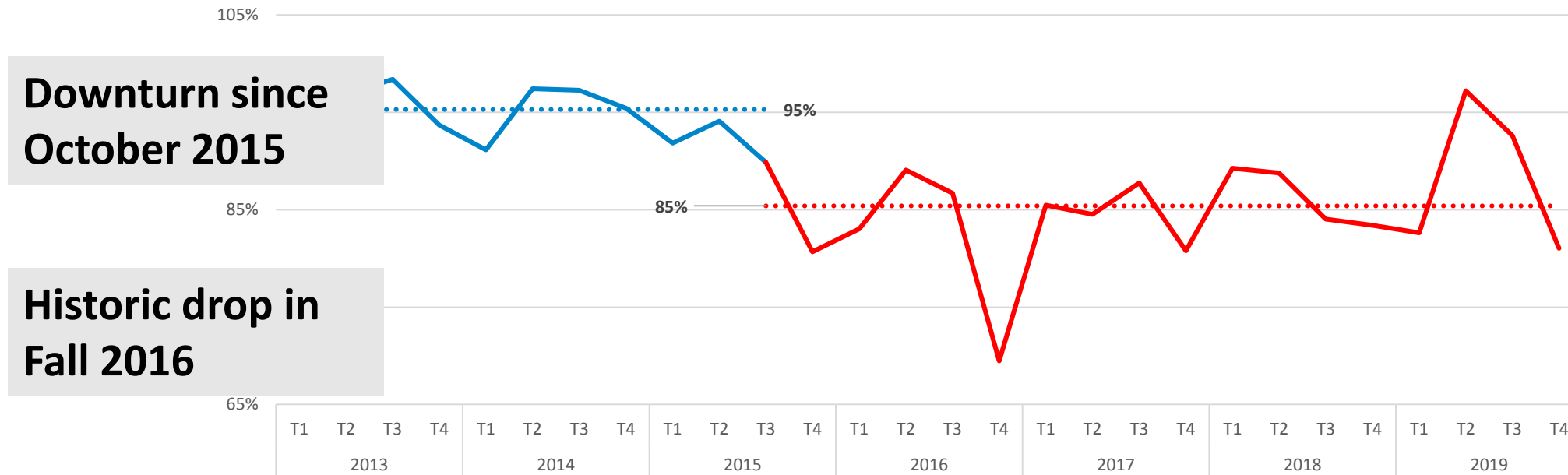


Compared Evolution of Price for Live Hogs and Cutout



Source: USDA

Quarterly Changes in Live Hogs/Cutout Ratio



Source: USDA. Pork carcass prices (LM_HG201). Meat prices (LM_PK602 et NW_LS500). Compiled by The Quebec Pork Producers Association

Two major changes in 2019

Price

- Window contract based on cutout's value (floor and cap prices)
- 2\$ premium for hogs meeting Quebec Quality criteria

Penalties for quality issues

- Higher expectations – and therefore penalties – for improperly fasted, untattooed and dirty pigs



Importance of Legal Framework

Collective Marketing : The Legal Framework

Marketing of Agricultural, Food and Fish Products Act

Sets the rules allowing orderly production and marketing of agricultural products

Régie des marchés agricoles
(Quebec agricultural products)

Quebec Pork Producers Joint Plan
Tool that allows producers to
negotiate marketing

Marketing Board
Les Éleveurs de porcs du Québec
Administration of Joint Plan

Production Marketing Regulation
Terms and conditions of production and
marketing that pork producers must respect

Hog Marketing Agreement
Governs relations between producers
and Buyers

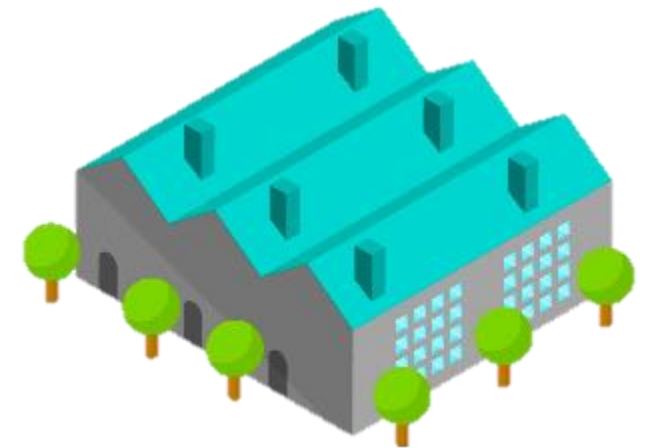
Ensure Market Power Equilibrium

Convention 2009-2015

Marks major changes from previous conventions



**Closer business links between farmers
and slaughterhouses**



Attribution and assignment of all pigs to
slaughterhouses

Premiums in recognition for « specific hogs »,
which meet specific criteria



Assignment of all hogs to Buyers

Guarantees supplies to Buyers

- Quebec pork producers are required to deliver all their hogs to Buyers

Guarantees supply flows for pork producers

- Buyers are required to give Quebec-grown hogs priority

Special agreements

“Quebec Quality” pigs
meet standards for basic
characteristics

→ Base price
(final price based on cutout
and quality premium)

Pigs subject to special
agreements
meet standards for certain
characteristics

→ Base price
+ specific premiums
(production, transport, etc.)

Assignment of all hogs to Buyers

6.9 million hogs produced in Quebec

distributed to

7 Buyers (slaughterhouses) in Quebec

Oymel
(4 plants)

Agromex

**Les Viandes du
Breton**

Aliments Asta

**Oly-Robi
Transformation**

**Abattoir
Lamarche**

L.G. Hébert

Pricing

Two fundamental objectives for the 2019-2022 Convention

1. Ensure a fair and equitable distribution of revenue between farmers and buyers

2. Recognize quality of Quebec hogs and their value on North American and export markets

Novelties in the 2019-2022 Hog Marketing Convention

- *Risk-sharing mechanism (hog prices vs cutout value)*
- *Recognition of quality of Quebec hogs*



2019-2022 Agreement

Continuation of 2016-2019 Agreement

 Introduction of a new price formula

- US benchmark price adjustment based on pork meat (cutout)
- \$2/100 kg in recognition of the distinct characteristics of “Quebec Quality” pork

 Introduction of strict requirements respecting animal tattoos, fasting time, and cleanliness

- The Régie considers that higher price and premium justify stricter standards
- Financial penalties apply in cases of non-compliance

2019-2022 Agreement

Price formula

- **90 % to 100 % “cutout” window**

The **US benchmark price (LM_HG201)** should be within a range of 90 % to 100 % of the reassembled carcass (LM_PK602) (“cutout”).

US benchmark price →
LM_HG201

100 % LM_PK602 = cap price (maximum)

90 % LM_PK602 = floor price (minimum)

3 different situations

LM_HG 201 is above 100 % of the cutout

→ Cap price applies

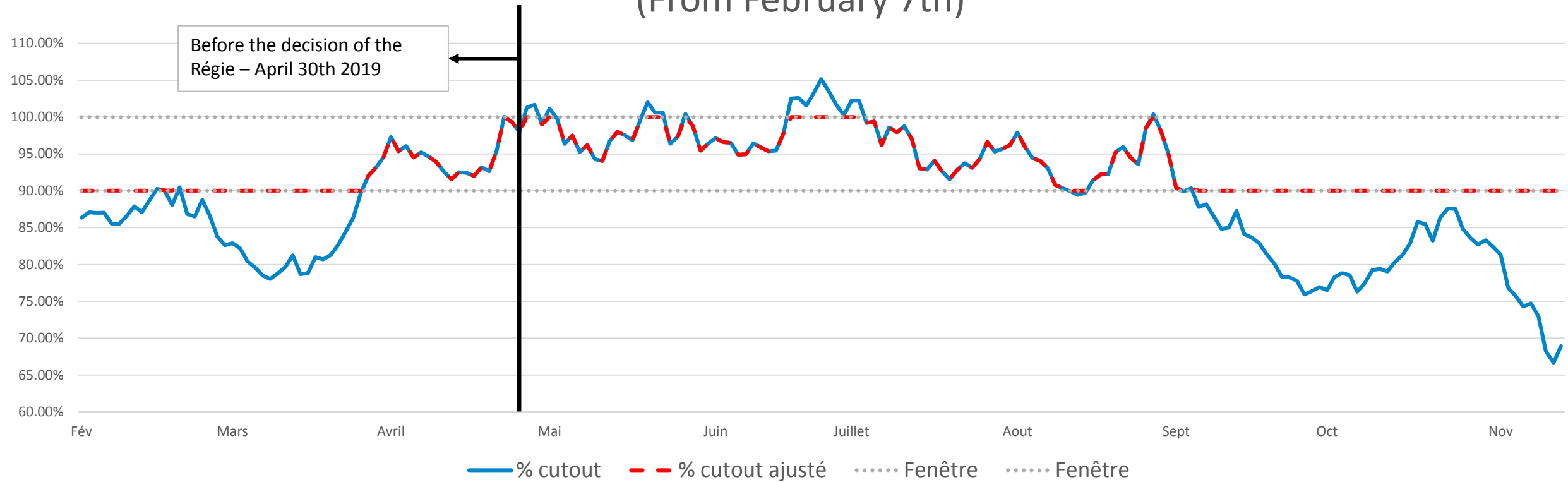
LM_HG 201 is between 90 % and 100 % of the cutout

→ LM_HG 201 sets the price

LM_HG 201 is below 90 % of the cutout

→ Floor price applies

Daily Evolution of the Live Hogs/Cutout ratio (From February 7th)

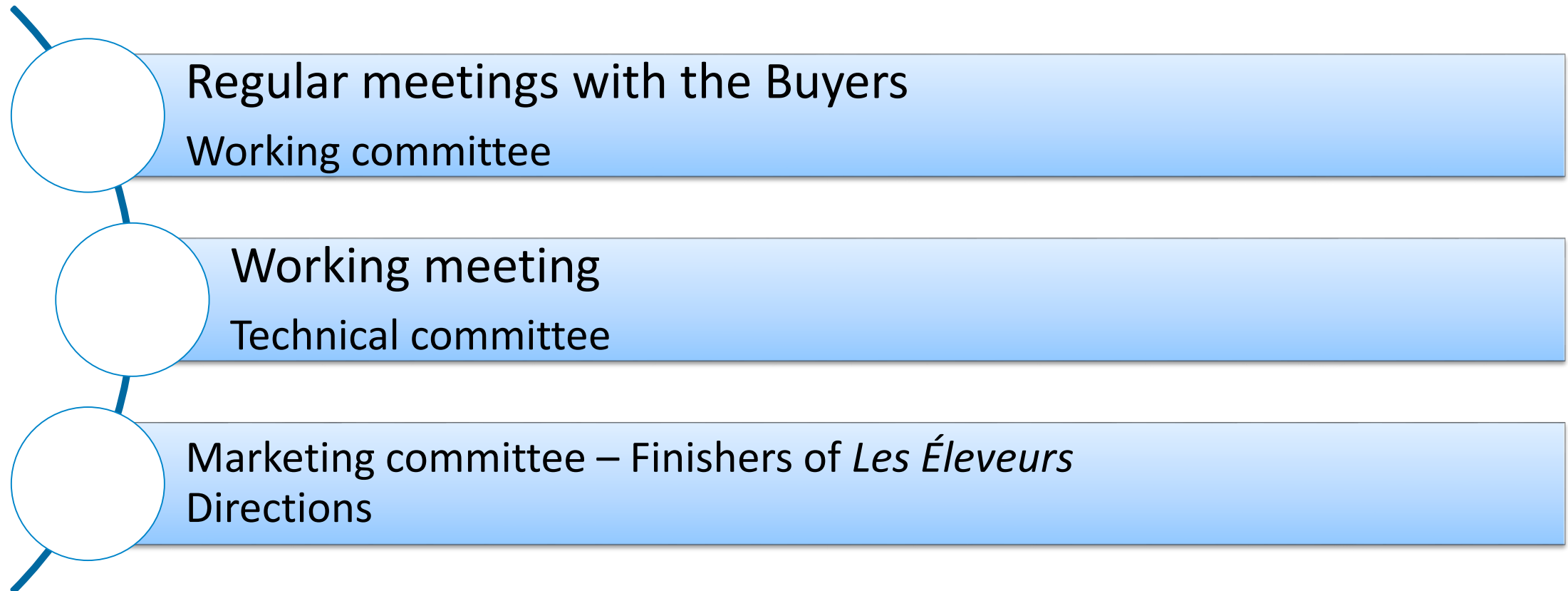


2019-2022 Convention

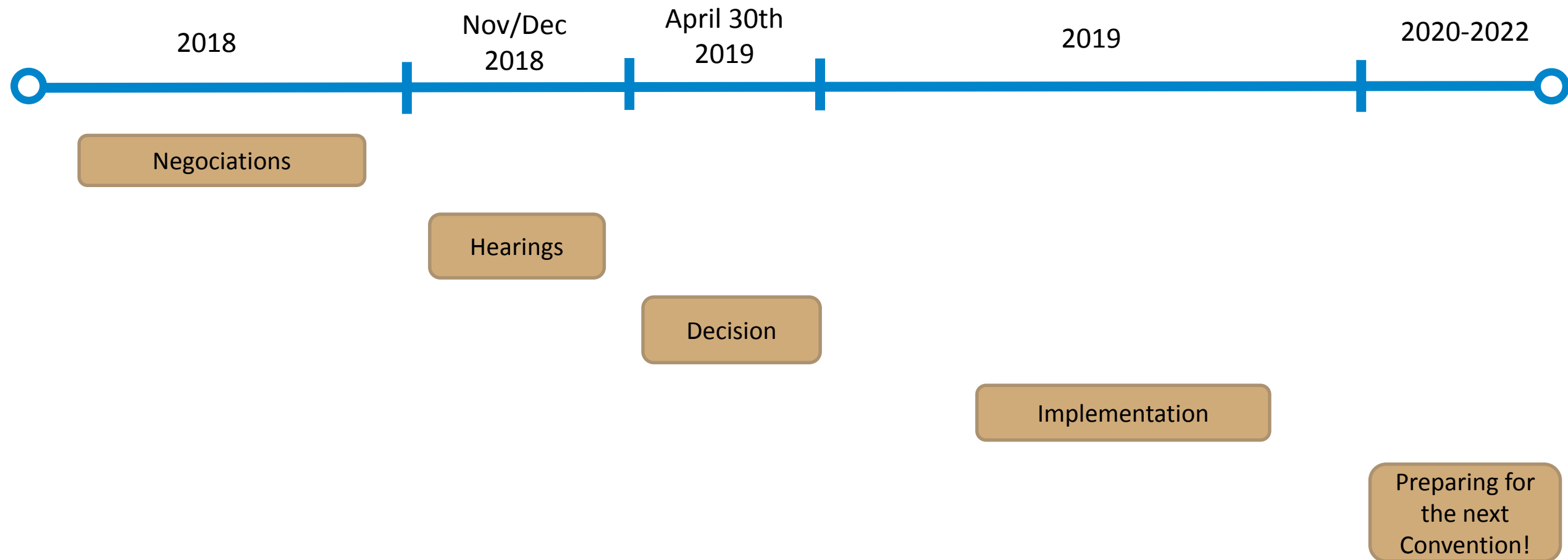
Price formula

- **CAD \$2/100 kg premium**
 - In recognition of the quality characteristics defined in article 4.1 :
 - Weight requirements
 - *CQA* (or *CPE*) certified
 - Fasting, tattooing and cleanliness of pigs
 - Antibiotics declaration
 - Without immunocastrator

Our Priorities for the Implementation of the Actual Convention

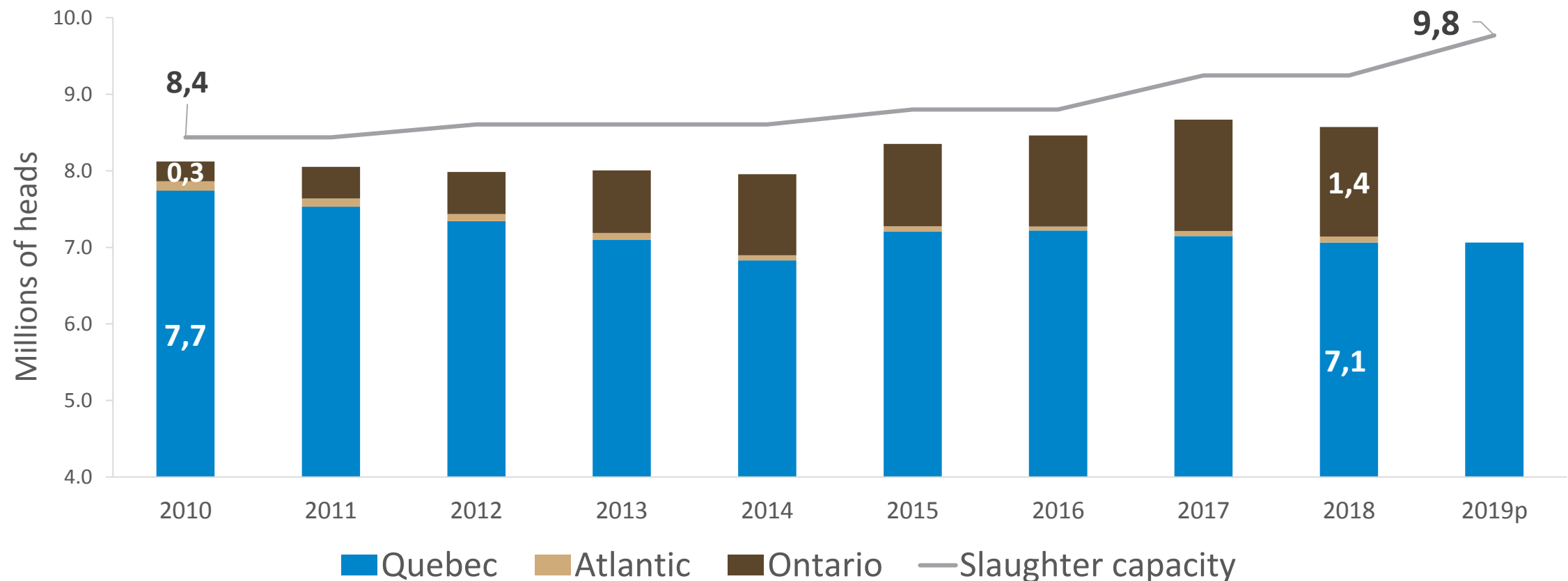


A long process...



Conclusion

Slaughter and Slaughter Capacity in Quebec



And for the Future

Growing
concentration

Distance with US
reality

- Product
- Market access
- Proportion of volumes exported in various destinations
- Supply & Demand dynamics

Need for a strong
partnership

Thank you

Special agreements

Different types of special agreements

Heavy pigs

Lean pigs

Genetic record

Specific feed program

Pig certifications

- Organic
- Antibiotic-free
- Certified humane
- Nagano

Impact of the decision on the liquidity of hog companies (M\$) Based on the Farrow to finish model under the Farm Income Stabilization Insurance (*known as ASRA*)

	Without ASRA	Without ASRA (2/3)	Additional cash		
			Without contribution (1/3)	With Income	Total
2015	48 M\$	32 M\$	16 M\$		16 M\$
2016	97 M\$	64 M\$	32 M\$	25 M\$	57 M\$
2017	- M\$	- M\$	- M\$	89 M\$	89 M\$
2018	75 M\$	50 M\$	25 M\$		25 M\$
2015-2018	220 M\$	147 M\$	73 M\$	113 M\$	187 M\$

Sources : La Financière Agricole du Québec, Les Éleveurs de porcs du Québec