

**Cull Breeding Swine Program**  
**Annual Report**  
**Fiscal Year Ending March 31, 2009**

## **Cull Breeding Swine Program**

### **Annual Report as at July 2009**

This Annual Report as at July 2009 has been prepared in conformity with Article 9.01 of the Funding Agreement between the Minister of Agriculture and Agri-Food and the Canadian Pork Council (CPC) signed March 31, 2008 and amended May 1, 2009.

#### **A. Review of the results achieved relative to the Business Plan for the Fiscal Year ended March 31, 2009:**

As disclosed in the March 31, 2009 Business Plan, the overall objective of the Cull Breeding Swine Program (CBSP) is to help return the industry to a competitive position by:

- Reducing the size of Canada's total breeding stock by ten percent (10%)
- Enabling some hog producers to downsize
- Assisting hog producers to address the current market situation

The CBSP was launched on April 14, 2008 and included a cull period from November 1, 2007 to November 30, 2008. This allowed producers to claim for pre-launch and post-launch culls. In other words, if a producer had not yet decided to begin or complete a cull, the CBSP provided an opportunity to be fairly compensated for reducing the herd or exiting the industry.

It is important to note that the amended Funding Agreement signed on May 1, 2009 extended the retroactive period to August 1, 2007 and also included provisions allowing producers to claim for culls through to November 30, 2008, which was the original "*cull deadline*." The **Extended CBSP** was launched on May 7, 2009 and required claims to be filed by June 30, 2009. As of the date of this report, the Extended CBSP had accounted for an additional reduction of 21,000 breeding stock or approximately 1.4% of the national breeding herd bringing the aggregate reduction of Canada's total breeding stock to 8.7%. Considering the fact that the administration of the Extended CBSP began after March 31, 2009, the further effects of the Extended CBSP have not been considered for purposes of this Report but will be measured in the July 2010 Annual Report.

As at March 31, 2009, the CPC, with the assistance of its program administrator Welch LLP, had processed 565 claims and accounted for the reduction of Canada's total breeding stock by approximately 111,000 breeding swine or 7.3%. As outlined in section C of this Report, the CBSP was broadcasted nationally and was generally well received by the industry stakeholders. This being said, one of the most stringent CBSP requirements was that producers agree not to house breeding swine in at least one entire barn for a period of three (3) years from the last cull date. Essentially, a producer had to commit to leaving the industry, which was not a decision any claimant took lightly. Therefore, each producer had to build a business case in order to determine whether or not to participate in the CBSP. In the end, this factor led to some producers not filing a claim under the CBSP, which contributed, to the fact that the target of a 10% reduction in the total breeding stock was not met.

The second objective was met in that the CBSP allowed all Canadian hog producers with breeding swine stock to downsize or exit the industry. The third objective was also met considering the voluntary and inclusive nature of the CBSP, which provided all Canadian producers with the opportunity to address the current market situation. As previously mentioned, each producer considering filing a claim under the CBSP had to build a business case in order to decide whether the payment provisions, terms and conditions of the CBSP were the most appropriate alternative to exercise under their particular circumstances. In the end, those who chose to downsize or exit the industry were able to do so while taking full advantage of the payment scheme and strategy provided for within the CBSP.

The CBSP payments included fair and reasonable reimbursements to producers for transportation, slaughter and rendering costs, feed allowance in addition to a \$225 per breeding swine allocation, which was well above the market rate in 2008. CBSP payments were offset by proceeds of sale, if any, received during the pre-launch cull. All post-launch culls were not eligible if the meat was sold for commercial human consumption. This resulted in an average payment per pre-launch breeding swine of \$176.97.

The pre-launch cull accounted for 59% of the breeding swine claimed whereas the remaining 41% were post-launch cull. In an attempt to alleviate some of the producers' existing financial burden, the CBSP provided for direct payments of approximately \$3,800,000 to service providers for approved post-launch culls costs such as transportation, slaughter and rendering. The CBSP also incorporated a capped reimbursement to producers for feed costs regarding breeding swine culled in the post-launch period in an effort to encourage producers to seriously consider participating in the CBSP.

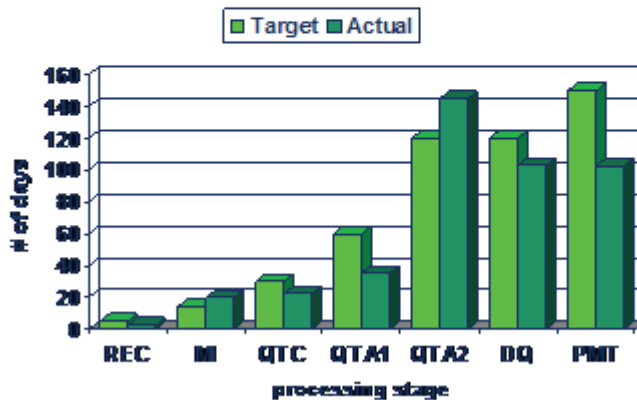
The CPC and Welch LLP worked closely together with industry stakeholders to ensure that both the Funding Agreement and CBSP terms and conditions were followed. In order to ensure that only valid claims were ultimately paid under the CBSP, a risk mitigation matrix was prepared from which an audit strategy was established by Welch LLP. The audit strategy was presented to and approved by the industry stakeholders, the CPC and AAFC. This audit strategy was balanced with the fact that claims were to be processed without undue delay and that payments were to be made to producers and service providers as quickly as possible.

The diagram below provides details of the CBSP claim processing efficiency. Claim processing was divided into 6 distinct steps with a view to maintaining an efficient, effective and economical workflow, to enable the administrator to monitor staff production and provide timely reporting on claim status. The 6 steps are as follows:

1. Acknowledgement of receipt of application;
2. following up missing information;
3. qualifying the producers to proceed with post-launch cull;
4. qualifying the producers to enter the audit phase;
5. audit phase; and
6. final approval and payment.

The average wait period from the time the producer sent his claim to the date the CBSP program administrator mailed the CBSP payment was approximately 110 days, which is 40 days less than the initial target set.

## Processing efficiency



Welch LLP

### All processing calculations use the date the Producer sent the claim as a start date for the cycle

REC – Acknowledgement of claim receipt letter sent

MI – Missing information letter sent

QTC – Qualified to cull letter sent

QTA1 – Qualified to audit letter sent (pre-launch cull only)

QTA2 – Qualified to audit letter sent (all claims with some post-launch cull)

DQ – Disqualification letter sent (100% of claim)

PMT – Approval letter sent with CBSP payment

**B. Review of the Eligible Administrative Activities and Eligible Program Payments (if applicable) made to Eligible Producers:****Eligible Administrative Activities:**

We have prepared a comparison of budget and actual Eligible Administrative Activities (EAA), which can be found in **Appendix 1**. All payments for EAA were made in accordance with the definition of EAA set out in Article 1.01 d) of the Funding Agreement.

It is important to note that approximately 69% of the EAA costs consisted of program administration costs disbursed to Welch LLP. Although the number of claims received and processed was far less than was initially projected prior to the launch on April 14, 2008, the effort required to define the program parameters, build the program framework including the post-launch cull process and processing of claims was underestimated. In the final analysis, the program administration costs disbursed to Welch LLP were \$31,292 (or approximately 2%) less than was budgeted.

Manitoba Pork did not invoice the CBSP for any administrative costs incurred which resulted in a positive variance of \$37,686. The administrative costs paid to Ontario Pork resulted in a positive variance of \$36,758 largely due to the fact that less claims were processed than initially projected. The administrative costs paid budgeted for la Fédération des producteurs de porc du Québec were eventually paid to Fondation Tirelire which took over the administrative function for the province of Québec from la Fédération. The initial infrastructure issues encountered in Québec resulted in additional time spent coordinating post-launch culling and a negative, although nominal, variance of \$7,912.

The actual costs incurred for advertising and communications resulted in a positive variance of \$57,110 largely due to the fact that reliance was placed on focused communication efforts using low cost and grass roots level vehicles. Frequent press releases were issued, the CPC's website as well as the provincial associations' newsletters were used whenever practical to channel information regarding the CBSP including statistics, funds available, policy reinforcements or changes and claim processing deadlines. A full publicity campaign execution and ad equivalencies report is included in Appendix 2.

**Eligible Program Payments:**

Producers who filed a CBSP claim and provided the required supporting information received direct and indirect Eligible Program Payments (EPP) of \$26,420,307. All payments for EPP were made in accordance with the definition of EPP set out in Article 1.01 f) of the Funding Agreement.

Indirect producer payments included all payments made to service providers who were under contract with the CPC and transported, slaughtered or disposed of breeding swine during the post-launch cull period (i.e. April 14 to November 30, 2008).

**C. Summary of communications activities related to the Funding Agreement:**

The CPC has prepared a publicity campaign execution and ad equivalencies report, which is included in **Appendix 2**. The CPC has contracted with “*Adfarm*” to administer the communications portion of the CBSP. Adfarm has provided the CPC with a campaign overview, which contains all press coverage, communiqués and communication outputs associated with the CBSP. The overview can be provided upon request but has not been included with this report in an effort to be succinct.

**D. Audit conducted by an independent auditor:**

Logan Katz LLP Chartered Accountants has provided the CPC with a draft auditors report which is included in **Appendix 3**.

**E. Evaluation reports as required by Article 10:**

The CPC has contracted with Interis Consulting Inc. on April 21, 2009 to conduct the performance evaluation, which is ongoing. Considering the fact that the interim performance evaluation is not yet complete and not due until September 30, 2009, no evaluation report is required at this time.

**F. Accounting of the Draw Downs of the Grant made by the Recipient and confirmation that the expenses incurred by the Recipient in relation to the Draw Downs have been paid in full:**

The accounting of the grant drawdowns made by the CPC has been provided in Appendix 3. By filing this report, the CPC and Welch LLP confirm that the expenses incurred by the CPC in relation to the drawdowns included with the auditors’ report have been paid in full.

**G. Disclosure statement with respect to the total compensation, including all remuneration and benefits, paid to all executive officers and directors:**

By filing this report, the CPC and Welch LLP confirm that no compensation, including all remuneration and benefits, was paid to any CPC executive officers and/or directors.

## Cull Breeding Swine Program

### Appendix 1 to July 2009 Annual Report

The following table provides a comparison of budget and actual Eligible Administrative Activities (EAA):

<b>EAA COST CATEGORY</b>	<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
Program administration:			
Welch LLP	\$1,479,600	\$1,448,308	(\$31,292)
Canadian Pork Council	180,687	193,469	12,782
Alberta Pork	32,115	23,861	(8,254)
BC Hog Marketing Commission	5,663	2,100	(3,563)
Manitoba Pork	37,686	0	(37,686)
New Brunswick Pork	1,960	17,306	15,346
Pork Nova Scotia	9,000	10,291	1,291
Ontario Pork	109,380	72,622	(36,758)
PEI Pork	2,033	2,899	866
Fédération des producteurs de porc du Québec	10,000	0	(10,000)
Québec – Fondation Tirelire	25,250	43,162	17,912
Saskatchewan Pork	64,913	72,182	7,269
<b>Subtotal</b>	<b>1,958,287</b>	<b>1,886,200</b>	<b>(72,087)</b>
Legal	51,468	40,669	(10,799)
Advertising and communications	99,850	42,740	(57,110)
Expert consultants:			
Graham Clarke	54,300	44,003	(10,297)
Jim Dalrymple	18,189	23,634	5,445
Don Lidster	8,000	10,083	2,083
Miles Beaudin	6,875	16,783	9,908
Other	0	16,463	16,463
<b>Subtotal</b>	<b>87,364</b>	<b>110,966</b>	<b>23,602</b>
Office	0	786	786
Audit fees	0	7,000	7,000
<b>Total EAA costs</b>	<b>\$2,196,969</b>	<b>\$2,088,361</b>	<b>(\$108,608)</b>