

New Processor Allocation System
Targeting Quota Period A-72

Introductory Guide

December 2005

Changing the way we do things is seldom an easy process. Whether at home or at work, routines provide the structure of our lives. Altering them creates some degree of disruption, regardless of how good a new idea is.

That's why the details of our new processor allocation system have been carefully weighed and balanced through our discussions over the past several months. We have not taken any of these changes lightly.

We have worked to address the challenges we have in our current system, and to introduce more flexibility for producers and processors, while striving to balance the interests of all stakeholders in the chicken industry in Ontario.

We believe this new allocation system is a significant enhancement over the current one and better positions producers and processors to meet customer needs.

Please read through this guide, which is provided to help you gain a general understanding of the new processor allocation agreement. This is just the start of the education process. You will receive a package of the new policies, regulations and forms for the new system prior to implementation. In the meantime, you can follow-up on your questions with the resources provided.

By working together through this change and staying open to new ways of doing things we can all benefit from the opportunities the new processor allocation system holds.

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■ Introduction

About this document...

**The New Processor Allocation System is targeted to commence
with Quota Period A-72 (May 28, 2006 to July 22, 2006)**

This document provides an overview of the key changes being worked on by Chicken Farmers of Ontario (CFO), the Association of Ontario Chicken Processors (AOCP) and the Ontario Independent Poultry Processors (OIPP) regarding the governance of various aspects of chicken production and primary processing in the Province of Ontario.

Coming Soon: New Regulations, Policies & Forms

We're currently working on finalizing the policies, regulations and forms that will support the new processor allocation system when it is implemented. The current target for implementation is for Quota Period A-72. We'll confirm the timing and our implementation plans in January 2006. In the interim, we felt it was important to start the education process. To that end we've developed this guide, which includes summary information only, to help with general understanding of the new processor allocation agreement.

For a complete and detailed understanding of the new system, processors and producers will need to refer to the policies, regulations and forms as soon as they are available. The regulations and policies will prevail in the event of any inconsistencies with other verbal or written information.



For answers to your questions about this introductory information...

Producers: Call **Janet Cioruch** at 905 637-0025 ext. 261 or email jcioruch@cfo.on.ca

Processor Staff: Call **Jan Rousell** at 905 637-0025 ext. 240 or email jrousell@cfo.on.ca

Key Dates

Targeting the new processor allocation system with A-72:

January 20, 2006

Form 201 deadline for Quota Period A-72

January 27, 2006

Deadline for processor supply requests for Quota Period A-72

February 3, 2006

Form 101 contracting window opens for Quota Period A-72

February 17, 2006

Form 101 contracting window closes for Quota Period A-72

■ Processor Allocation

Creating an open sign-up pool...

Note: Details of the calculation of the open sign-up pool are still being determined by the processors and CFO.

In Quota Period A-72, a portion of each processor's existing supply will become part of an 'open sign-up pool'.

The intent behind the creation of the open sign-up pool is two-fold:

1. Provide flexibility for producers to choose the processor with whom they wish to do business; and,
2. Provide an opportunity for differential growth among processors

Key Features

- A small portion of each processor's existing supply, plus the amount of Ontario production currently contracted to out-of-province processors, will make up the initial open sign-up pool
- Each processor will be assured 98.5% of their existing supply
- The balance of growth in the first year will be allocated 50% pro rata to processors and 50% to the open sign up pool
- Year 2 growth will be allocated pro rata to processors and the size of the open sign-up pool will be held constant at the average level achieved in the first year
- Year 3 growth will then be allocated 50% pro rata to processors and 50% to the open sign-up pool (unless otherwise agreed)
- Pro rata allocation will vest to processors
- Kilograms signed through the open sign-up process will not vest to processors

■ Pricing

Bringing pricing up-to-date...

Category Pricing Grid

Category ranges and prices remain as they are in the current system with the exception of the following:

- 3.5+ kg: reduced by 3¢ per kg
- 3.2 to 3.5 kg: reduced by 2¢ per kg
- 2.65 to 3.2 kg: reduced by 1¢

The price reduction in these categories reflects the improved genetics of roasters.

This change will also bring improved balance in terms of profitability across all weight categories.

Live Pricing System

Still the Same

- The live pricing system currently in place will continue
- The formula price continues to be a function of “feed”, “chick” and “margin” components



New

- **Prices will be determined two weeks prior to each quota period and will better reflect current feed and chick prices producers are incurring**

In the past, an ongoing challenge in setting live price has been the significant lag (32 weeks) in feed and chick prices. In the new processor allocation system we will have current information at the time live pricing is set and can more accurately reflect producer costs.

Although not yet confirmed, we anticipate that a transition period will apply for up to seven quota periods (A-70 to A-76) to ensure that this change is “revenue-neutral” to producers and processors and to reflect all feed and chick costs to date.

Market Weight Incentive Programs

- The formal Market Weight Incentive Programs will be discontinued in the new processor allocation system
- Processors and producers will have the opportunity to develop agreed upon financial incentives or disincentives in order to encourage producers to meet the specific weight requirements of customers
- Working in partnership, processors and producers will have more flexibility to contract for production that targets specific customer requirements.

■ Form 101 Contracting Process

Introducing the 6-quota period fixed-term agreement...

Producers and processors who are satisfied with their current arrangements do not need to complete a new Form 101 agreement when the new processor allocation system is implemented.

All current Form 101 agreements will continue to automatically renew on a 1-quota period ongoing rollover agreement unless a Form 201 is filed.

When a **processor** files a form 201 to end a 1-quota period ongoing rollover agreement, the producer must sign a new 1-quota period ongoing rollover agreement with a different processor.

When a **producer** files a Form 201 to end the current agreement, however, a new 6-quota period fixed-term agreement will be required.

When a producer files a form 201 to end a 1-quota period ongoing rollover agreement:

- If the producer was contracted to a processor in Ontario, he or she must sign a 6-quota period fixed-term agreement with a new Ontario or out-of-province processor

- If the producer was contracted to an out-of-province processor, he or she may:
 - Sign a 1-quota period ongoing rollover agreement with an Ontario processor, OR

 - Sign a 6-quota period fixed-term agreement with an out-of-province processor

■ Form 101 Contracting Process

When a 6-quota period fixed-term agreement expires...

When a 6-quota period fixed-term agreement expires, and neither the producer nor the processor files a Form 201, then the fixed-term agreement ends and automatically becomes a 1-quota period ongoing rollover agreement with the same processor. Nothing changes and nothing more needs to be done.

If the 6-quota period fixed-term agreement expires and the **processor** files a Form 201, the producer will then enter a 1-quota period ongoing rollover agreement with a new processor.

When a **producer** files a Form 201 at the end of a fixed-term agreement, he or she may be required to sign a 6-quota period fixed-term agreement.

When a producer files a Form 201 at the end of a 6-quota period fixed-term agreement:

- If the producer was contracted to a processor in Ontario, he or she must sign a 6-quota period fixed-term agreement with a new processor
- If that does not happen, the producer will be directed by CFO to sign a 1-quota period ongoing rollover agreement with a new Ontario processor
- If the producer was contracted to an out-of-province processor, he or she may:
 - Sign a 1-quota period ongoing rollover agreement with an Ontario processor, OR
 - Sign a 6-quota period fixed-term agreement with a new out-of-province processor

■ Form 101 Contracting Process

Ending a 6-quota period fixed-term agreement before it expires...

A 6-quota period fixed-term agreement is a legally binding agreement. It cannot be cancelled by one party if the other is fulfilling its basic obligations according to the agreement.

If, however, the producer has been re-assigned through a Form 121 process to another processor in two or more independent quota periods during the term of a 6-quota period fixed-term agreement, the producer may end the agreement before it expires.

Note that the producer must file a Form 201 by the deadline for the effective quota period.

When a producer has been reassigned in two or more independent quota periods during a 6-quota period fixed-term agreement:

- The producer may choose to do nothing and remain with his or her contracted processor for the 6-quota period fixed-term agreement
- OR
- The producer may decide to cancel the 6-quota period fixed-term agreement via filing a Form 201 by the deadline for the effective quota period, and:
 - Sign a 6-quota period fixed-term agreement with either an Ontario processor or an out-of-province processor;
 - OR
 - Sign a 1-period ongoing rollover agreement with a new Ontario processor.

