

I'm choosing our
AGRICULTURE



CHAIRMAN'S Message



2010 has been an extraordinarily busy year in which the Fédération des producteurs de bovins du Québec (FPBQ) faced many challenges. Our annual report summarizes the various actions we took to respond to them during the year.

A vital safety net

Income security continues to be a key pillar in the development of our cattle farms. In 2009, producers achieved major gains when the Government substantially increased the budget of La Financière agricole du Québec (FADQ) to \$650 million. However, cattle producers are well aware that this issue is far from closed.

“Basing agricultural policies only on economic criteria and insisting on performance at any price will cost us dearly in the long term, both as a people and as a society.”

The FADQ has taken the reality of our cattle operations into account. This is confirmed by maintenance of the Farm Income Stabilization Insurance Program (known as ASRA) in the feeder calf sector, with one-third of the compensation paid on the cow for another year. But we recognize that 2011 will be a crucial year. The Federation will continue to express the views of Quebec cattle producers to ensure that the FADQ makes an enlightened long-term decision. Providing producers with a long-term safety net is a way of choosing our own agriculture!

A strong cattle Federation

You also know that as a result of our pressure tactics throughout Quebec, the FADQ undertook to return to producers the reductions that were made by the 25 per cent measure, up to the allocated overall budget. In an environment where consolidation rules, cattle producers need more than ever a strong, effective and well managed collective organization. Coordinating our strengths and demonstrating our solidarity within an organization that secures gains for its producers is also a way of choosing our own agriculture!

A real Quebec agricultural policy: it's urgent!

The Quebec government will soon table its long awaited Green Paper, which will lay out the foundations of our agriculture for the years ahead. Our tools – the marketing act, income security, preservation of farm land and occupancy, as well as single union representation that fosters strength and unity among producers – already respond to concerns that have been expressed. As for protecting the environment, we do this every day. Maintaining these gains is a way of choosing our own agriculture!

Rooted in our community, our farm businesses impact society in many ways, including social, environmental, economic and land use. It goes without saying that our farms, no matter what their size, are family farms. As such, each and every producer expects to receive fair government support.

We have a duty to protect and enhance our northern agriculture, just as a people defends and protects its language and culture. It defines us and is part of our landscape. This is the choice our government must make so that we, as producers, can also continue to choose our own agriculture!

Michel Dessureault, Chairman

MARKETING Activities



MARKETS

The number of beef-type cows in the Canadian cattle herd decreased by 4% in 2010, whereas dairy cows remained stable. In Quebec, production volumes are down in all sectors. Fed cattle slaughter has fallen by 9% from the previous year and feeder calf supply has posted a decline of 2%. The only increase was the number of cull cattle marketed in Quebec, which recorded a modest growth of 1%. In 2010, Quebec production of grain-fed and milk-fed calves declined by 4% and 3%, respectively, while the supply of dairy calves fell by 11%.

FEEDER CALVES

Highlights

In 2010, the number of feeder calves sold at special auctions increased by 6,992 head. The price followed an upward trend throughout the year, whereas the volumes marketed fell below 30,000 calves in winter 2010.

In 2010, the feeder calf marketing agency obtained the FADQ's recognition of supervised weighing and implemented this service in October. On August 10, the Régie des marchés agricoles et alimentaires du Québec (RMAAQ) approved the new *Règlement sur la production et la mise en marché des veaux d'embouche* which, in particular, allows for the addition of supervised sales and the conclusion of agreements with Agri-Traçabilité Québec (ATQ), in order to obtain information on all feeder calves raised in Quebec and marketed by Quebec producers. In August, the RMAAQ also officially approved the new feeder calf Marketing Agreement signed with the two auction associations.

A feeder calf and fed cattle Round Table was set up composed of two representatives each from the feeder calf and fed cattle sectors and one from the Federation. Both marketing committees must approve proposals developed by this group before being implemented.

Direction in 2011

The initial months of 2011 will be dedicated to the implementation of all the provisions of the Regulation and the Agreement, in particular the collection of feeder calf marketing data, including supervised sales. The agency is aware that adjustments could be made in 2011, particularly for producers who sell animals for breeding purposes and who are insured only under ASRA's feeder calf program. Concerning the obligation to have genetically superior sires, the Federation asked the FADQ to postpone its decision in order to conduct an overall analysis of the situation and reach an agreement on a concerted and coherent action plan.

New Survey

A new cost of production survey will be conducted by the Centre d'études sur les coûts de production en agriculture (CECPA). The CECPA has selected 70 cow-calf operations with between 60 and 350 cows. The new model will apply as of 2012.

FED CATTLE

Highlights

In 2010 the volume of production fell by 7.6% (13,600 head). Due to this decline, marketing activities focused on consolidating operations and on enhancing relations with frequent buyers. The agency collaborated with JBS-USA to alleviate the negative financial impact of the Country of Origin Labelling (COOL) legislation and maintained communications with its three main Canadian buyers, Cargill, St-Helen's Meat Packers and Ryding Regency.

Bœuf Qualité Plus

As of December 31, 2010, 25 cattle operations, representing one-third of production, had complied with the criteria defined in the *Manuel du producteur*.

Veterinary Expertise

The veterinary expertise group continued its activities by publishing several articles in *Bovins du Québec* and in *Expertise vétérinaire en santé des bovillons d'abattage* (www.santedesbovillons.qc.ca).

The group also continued to provide support to the feeder calf sector. For the 2010-2011 season, the control of vaccinations will be performed in Quebec feedlots receiving calves from special auctions in Quebec.

Bovitrace

As of December 31, 2010, some 40 farms representing 55% of Quebec's total fed cattle production were using the Bovitrace software (www.bovitrace.com).

New Survey

A new cost of production survey will be conducted in 2011. It will be based on 37 fed cattle operations that raise between 500 and 4,300 head of fed cattle. The new reference model will take effect in 2012.

Direction in 2011

In 2010, the agency continued the implementation of its two-tier action plan for communications and marketing. The communications section was implemented with publication of nine issues of the newsletter *le bouvillon* and organization of four regional meetings throughout Quebec with the theme "*le bouvillon en région*."

Concerning marketing, meetings with the groups involved are underway. The feeder calf and fed cattle Round Table will also continue its work.

In 2011, the Fed Cattle Marketing Committee (known as the CMMBA) will devote resources to defending the interests of fed cattle producers regarding the ASRA program and its new terms and conditions, as well as the new cost of production formula.

CULL CATTLE AND DAIRY CALVES

Highlights

In 2010, the number of cull cows rose by 11.5%, a significant increase over the previous year. Cull cattle farmers received an average price of \$567 per head sold, the highest level since 2002.

The new agreements with the two auction associations took effect on April 15, 2010. Producers may now be paid by bank transfer, and variable sales commissions have been established for cull cattle, depending on whether they are delivered to an auction barn or directly to the Levinoff-Colbex plant in Saint-Cyrille-de-Wendover.

The grading and pricing grid was modified twice, in February and in August. Throughout the year, the agency worked to reinforce orderly and efficient marketing, with the fundamental objective of marketing in Quebec the maximum number of animals born and raised here.

Direction in 2011

In 2011, the agency will submit proposals to amend the *Règlement sur la production et la mise en marché des bovins de réforme et veaux laitiers* that are designed to reinforce all the incentives already in place, or that will be introduced in 2011, to encourage the marketing in Quebec of animals born and raised in this province.

Following a study on the transportation of cull cattle and dairy calves, the agency adopted the principle of partial transportation equalization. The goal is that no producer in Quebec should pay more than \$40 to transport a cull cow to an auction barn, an assembly yard or directly to the slaughter plant, based on, of course, the destination that incurs the lowest cost.

In 2011, the agency will establish a system to compensate for latent defects. It will also work on developing an optimum marketing program for organic meat, as well as a project to have each dairy calf at the auction barn graded by a neutral grader.

GRAIN-FED VEAL

Highlights

In 2010, the total production of grain-fed veal amounted to 30 millions pounds, reducing the actual production decline from 2009 to only 1.4%. In 2010, a total of 18,261 grain-fed calves were not sold through the electronic auction system, a 4% drop from 2009.

The Marketing Committee established several priorities: the issuance of additional production histories; the issuance of histories specifically for young farmers; the reduction of production costs and the revision of the *Cahier des charges* (specifications manual). There will be greater use of the Extranet site.

Follow-up to Cost of Production Survey

Following the updating of the cost of production model, which resulted in a decrease in grain-fed veal producers' returns of \$74 per calf, an external consultant was commissioned to assess the impact of the new model and the adjustment measures producers planned to implement to cope with it. The study confirmed that 80% of grain-fed veal operations will face financial difficulties with the implementation of the new model in 2010. Despite this finding, the FADQ took no action to alleviate the impact of the new model, as the Federation had requested.

Promotion

In 2010, the marketing agency's promotional efforts focused on the Maxi and Loblaws supermarket chains, Quebec Grain-Fed Veal was introduced in the Super C stores in fall 2010. Efforts to develop markets with the HRI trade continued and the agreement with an American distributor was maintained.

Direction in 2011

At year's end, the RMAAQ approved the amendment to the *Règlement sur la production et la mise en marché des veaux de grain* related to the management of histories. The agency will launch a call for proposals for the production of 5,000 grain-fed calves under supplementary histories. In combination an allocation of histories will be issued under the aspiring farmers' program. This project should begin in spring 2011.

Following two days of recipes development, a new recipe booklet will be published in 2011. A communications firm was hired to reposition the product. The Conseil pour le développement de l'agriculture du Québec (CDAQ) contributed to the funding of this study. In 2011, the marketing agency will introduce HACCP standards into the specifications manual and determine the importance to attach to certification and how it must be monitored. If all these issues are resolved, substantial changes to the promotion strategy could be initiated as of July 1, 2011.

MILK-FED VEAL

Highlights

The effects of the financial crisis that hit the United States were still felt in 2010. The strength of the Canadian dollar and the low price of U.S. milk-fed calves (Non-Packer Owned – NPO) contributed to keeping the price of Quebec milk-fed veal at the lowest level recorded in the past six years.

In 2010, the Régie approved amendments to the *Règlement sur la production et la mise en marché des veaux de lait* as well as a production exemption request. As stipulated in the marketing agreement, the members of the Pricing Round Table held several meetings in 2010 to establish the 2011 pricing grid. This committee's discussions will continue throughout 2011.

In 2010, the Milk-Fed Veal Cost of Production Committee (known as CCPVL) continued to lobby the FADQ for adjustments to the 2009 compensation program. The cap that was initially set at \$173/calf was finally changed to \$193/calf. The CCPVL also lobbied for recognition of the actual feed costs. The committee is still awaiting the conclusions of the FADQ.

Promotion

The sector's promotional initiatives focused on special projects tailored to each banner. In particular, a DVD was distributed with every purchase of scallops at the IGA supermarket. Veau de lait du Québec was promoted on several Canal Vie TV programs featuring chef Louis-François Marcotte: *Le BBQ de Louis* and *Cuisinez comme Louis*.

A facebook page about milk-fed veal went on-line to build consumer loyalty and encourage regular visits to www.veaudelait.com. A broad-based advertising and promotion (contest) campaign was carried on the Canoë portal.

Direction in 2011

The Federation is collaborating with the FADQ and the ATQ to establish an efficient system for monitoring production histories.

The CMMVL is currently studying various financing alternatives to help milk-fed veal producers convert to a group housing system. This element is at the centre of strategic thinking discussions initiated by the CMMVL.

In 2011, the marketing objectives are to continue to boost domestic demand and to respond to this need, while emphasizing promotional initiatives in non-Quebec markets. Maximum use will be made of the social media to reach specific clientele groups.

GENERAL Activities



INCOME SECURITY

In 2009, the FADQ undertook to adopt various cost reduction measures in order to remain within its budgetary commitments.

With regard to insurable production volumes, the Federation was successful in persuading the FADQ to not place an individual cap on cattle production sectors, given the production decline and caps already imposed by some marketing agencies (grain-fed and milk-fed veal).

Despite the Federation's objections, since January 1, 2010 the FADQ has been applying a higher contribution rate, corresponding to 50% of the total premium, to every producer whose ASRA- eligible volume is greater than three times the reference models in effect at November 11, 2009.

The FPBQ also opposed the removal of the 25% least efficient farms from the cost of production surveys. After much pressure from the farm union milieu, the FADQ committed to return the sums accumulated through this measure to the affected producers, at the end of each ASRA insurance year until 2013, without however exceeding the overall budget allocated to ASRA.

INSURANCE PROGRAM (ASRA)

In recent years there have been high intervention levels in the cattle sector. As a result, insurance premiums have increased in almost all our production sectors. The new rate calculation method in force since 2010 spreads repayment of the accumulated deficit over 15 rather than 5 years. This has reduced pressure on the premium to be paid by cow-calf and fed cattle producers.

However, since the insurable volumes have been reduced, the producers who remain in production will shoulder a greater proportion of the deficit reduction. The grain-fed and milk-fed veal producers insurance Funds are expected to continue to show a positive balance.

Updating of farms models

The CECPA has begun a review of the cost-of-production models for feeder calves and fed cattle. The study will be completed in 2011 and will cover the results of the 2010 farm year. The new models will take effect in 2012.

ADVANCE PAYMENTS PROGRAM

Since 2008, the Federation has acted as Administrator for the Advance Payments Program (APP) in Quebec. As at March 1st, Some 515 cattle producers had received APP loans, comprising 382 under the emergency program and 164 under the standard program. The loans to cattle producers totalled \$54 million, including \$30 million for the interest-free portion and \$24 million at a very low rate (prime minus 1% for emergency APP loans and prime minus 0.25% for standard APP loans).

For the first emergency advance under the 2008-2009 APP, producers were granted an initial reprieve for the repayment of their advances (until

September 30, 2010). Following representations by the FPBQ, the federal government granted a further 18-month reprieve that will end on March 31, 2012. Thanks to this second extension, Quebec cattle producers will save more than \$1.5 million in interest payments.

At the Federation's request, Agriculture and Agri-Food Canada (AAFC) relaxed certain rules relating to financing cooperatives.

PROGRAMS TO SUPPORT ADAPTATION

The MAPAQ's *Stratégie de soutien à l'adaptation des entreprises agricoles 2010-2015* (government strategy to support the adaptation of farm businesses) has two components, namely programs to assist individual farm businesses, and sectoral programs.

The assistance to individual farm businesses component consists of programs to enhance business counseling services, interest relief and support for the modernization and competitiveness of farm businesses. The Federation invites all Quebec cattle producers to verify their eligibility and to make the best possible use of the available assistance to improve their farm's profitability.

MANURE PILES IN FIELDS

In July 2010, the Minister for Sustainable Development, Environment and Parks announced amendments to the Agricultural Operations Regulation (AOR). All agricultural operations may now stockpile solid manure on cropland, subject to certain conditions.

For more than 15 years, the Fédération has worked on this issue. Between 2007 and 2008, two major projects were conducted to improve current knowledge on the management of manure piles in fields. The Federation was involved in these projects, which were in addition to the studies already conducted on farms and at the Institut de recherche et de développement en agroenvironnement (IRDA) over the past 15 years.

It is these specific projects that helped to identify the environmental impact of the stockpiles and the ministry referred to this information to develop the AOR amendments.

The Federation and a number of producers took an active role in the development of knowledge on stockpiles by participating in various projects. In addition, representations were made to the ministries concerned and various farm representatives sat on the Expert Committee. We have reason to be proud of this work!

To improve the producers' knowledge on stockpiling practices, the Federation has developed and coordinated a series of training sessions that will be given throughout Quebec in fall 2010 and winter 2011.

WINTERING PENS

The recent regulatory amendment does not introduce any new provisions regarding wintering pens. The Federation is therefore continuing its efforts to obtain recognition of wintering pen housing systems.

After participating in three major research projects concerning wintering pens on farms and at the IRDA, the Federation began work in fall 2009 on a project to assess and improve the management of wintering pens and vegetative strips. This two-year project is designed to improve the environmental performance of wintering pens and vegetative strips and determine best management practices during critical periods.

Furthermore, in 2009-2010, the IRDA conducted an analysis of design guides from Ontario and the U.S. Department of Agriculture, and also reviewed the literature on this topic. Two new project proposals are being developed to follow up on this analysis.

SPECIFIED RISK MATERIAL (SRM)

On July 12, 2007, Canada banned the use of meat and bone meal containing specified risk material (SRM) from the feed of all farm animals. This regulation places Canadian cattle slaughter plants at a competitive disadvantage with U.S. plants since the United States does not have similar regulations. Faced with these new difficulties, the Gencor plant in Ontario and XL Foods in Saskatchewan closed their doors.

A survey published in 2009 by the Canadian Meat Council confirmed that the SRM regulations represent recurring costs of \$31.70 per cull cow slaughtered by Canadian plants. For Levinoff-Colbex, this represents an additional annual expenditure of more than \$4 million.

The many representations made to the federal government finally paid off in 2010. Recognizing the loss of competitiveness caused by the SRM regulations, the federal government introduced a \$25-million financial compensation program for one year. It is combined with a \$40-million program to support the adoption of technologies to reduce SRM-related costs. However, the technologies identified to-date have not made a significant contribution to reducing the competitiveness gap caused by the SRM regulations.

In this context, the Federation and the Canadian beef industry are asking the federal government to renew the compensation program and to maintain it until Canadian and American regulations are harmonized.

RESEARCH FUND

Three new projects financed by the Research Fund were initiated in 2010, making a total of 12 projects started, underway or completed, for a total cost of \$2,748,711. Producers invested \$780,721 of this amount, representing a leverage ratio of 3.5:1.

The Federation is also conducting other projects: training regarding field manure piles; the Verified Veal Program in Ontario and Quebec; training for the Verified Beef Production and Boeuf Qualité Plus programs; strategic planning of grain-fed veal promotion; a research project on backgrounding cattle on pasture; and strategic planning within the framework of the *Programme d'appui financier aux regroupements et aux associations de producteurs désignés* (financial support program for designated producer groups and associations).

To conduct these projects, the Federation is receiving financial assistance exceeding \$360,000 from various government programs.

PERIODIC EVALUATION

On November 10, 2010, the Federation appeared before the RMAAQ for its fourth periodic evaluation.

In this fourth report, the Federation described the collective actions it has taken since 2006 and demonstrated that the Joint Plan has been administered and enforced in the interests of all the producers while promoting the efficient and orderly marketing of cattle.

After every review, the Régie prepares an analytical report and makes recommendations. The Régie and the Federation reports are available on the FPBQ's Web site at www.bovin.qc.ca.

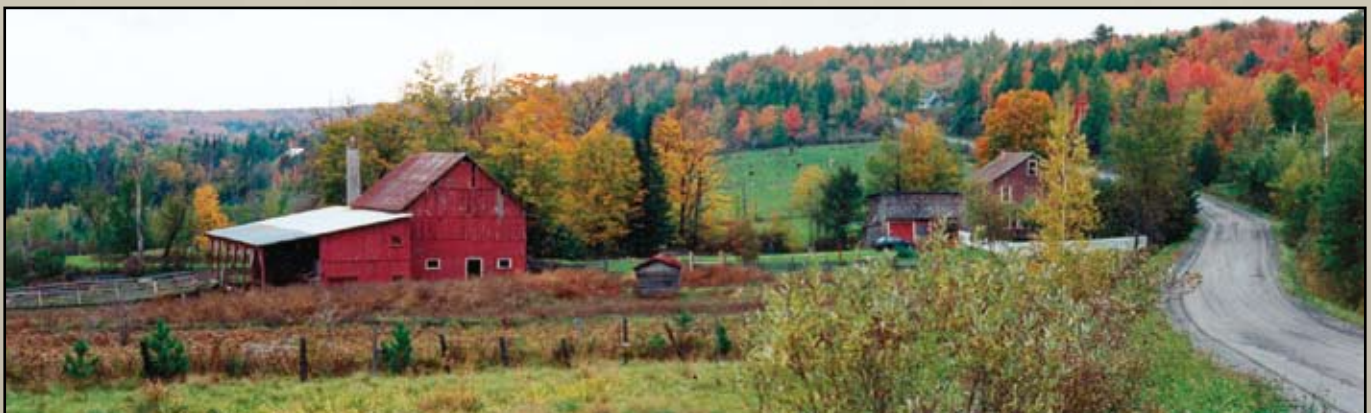
INFORMATION AND COMMUNICATIONS

Communications with producers is a priority for the Federation. Nine issues of the newsletter *La Minute bovine* was published in 2010 and four issues of *Bovins du Québec* were enclosed with the farm paper, *La Terre de chez nous*. The Federation continued to publish one page in the *Quebec Farmers' Advocate* each month. A newsletter about Levinoff-Colbex (*La Capsule*) intended for first-line administrators was launched in 2010.

Following media training sessions given to the Federation's administrators, a communications committee was created composed of staff and elected administrators. This committee is responsible for coordinating and guiding the Federation's communications activities. To date, it has recommended a number of initiatives, the main one being an assessment, in 2011, of our existing tools to improve their reach and effectiveness.

The statistics on Web visitors are rising constantly. In 2011, the Communications Department will make some minor changes to the site's design.

For the second year in a row, the Federation's employees participated in the *Relay for Life* event in Longueuil, thus providing positive visibility for all Quebec cattle producers.



BUSINESS Unionism



Quebec cattle producers are involved in two enterprises that are important for the beef and veal industry in Quebec.

RÉSEAU ENCANS QUÉBEC

Réseau Encans Québec (REQ) was created in 2002 and the Federation owns 50% of its shares. It is mainly involved in the marketing of feeder calves, cull cattle, dairy calves and lambs. REQ is the largest auction facility for live animals in eastern Canada and markets more than 80% of livestock sold through Quebec's auction system.

The Board of Directors is composed of four members appointed by the Federation and Gestion S.T.M. inc. They are Claude Viel, Michel Dessureault, Edoardo Maciocia, and René St-Pierre.

Highlights in 2010

REQ concentrated its operations in Saint-Isidore, Danville and Saint-Hyacinthe. Since January 2009, REQ has been operating a cull cattle assembly yard in its facilities at the Levinoff-Colbex slaughter plant in Saint-Cyrille-de-Wendover. In 2010, 45% of Quebec cull cattle were delivered directly to the plant by producers.

REQ also coordinates assembly services for cull cattle and dairy calves in the Abitibi-Témiscamingue, Saint-Jean-Valleyfield and Mont-Laurier regions. Furthermore, in partnership with the Federation, REQ developed a system of supervised feeder calf sales to offer producers in remote areas a sales service tailored to their needs. In addition, to meet Japanese market requirements for cattle under 21 months of age at the time of slaughter, REQ adapted its information processing system, making the age of feeder calves available to buyers in the sales ring at the time of sale.

Lastly, the supervised feeder calf sales system developed by REQ is now part of the marketing agreement that binds all auction facilities to the Federation. Used mainly by producers in the Saguenay-Lac-Saint-Jean and Abitibi-Témiscamingue areas, more than 5,000 calves were directly marketed by this service in 2010.

Financial Results

Thanks to its rationalization efforts and tight control of spending, REQ succeeded in improving its financial performance in 2009-2010, and will show a positive balance again this year.

LEVINOFF-COLBEX

Since 2006, Levinoff-Colbex S.E.C. has been owned by the Fédération des producteurs de bovins du Québec. The enterprise operates two facilities: the slaughter plant in Saint-Cyrille-de-Wendover and the cutting centre in Montreal. It is the largest cull cattle slaughter and processing plant in eastern Canada and employs 300 persons.

Highlights in 2010

In 2010, Levinoff-Colbex should end the fiscal year with an operating profit, or an improvement of \$7 million over last year's results. This improvement is mainly due to:

- ✓ A substantial increase of about \$30 per head in revenues from the sale of hides and by-products.
- ✓ Implementation of the federal one-year SRM financial compensation program. This assistance represents more than \$4 million for Levinoff-Colbex.
- ✓ An increase in the weekly slaughter volume of cows and fed cattle, rising from about 2,600 head in 2009 to 3,000 head in 2010.

In 2010, Levinoff-Colbex slaughtered and processed some 10,000 head of fed cattle for a Japanese company. Quebec's traceability system helped in winning this contract. The number of cull cows delivered directly to the plant now account for one-half of the volumes from Quebec.

In the past year, 150 members from 12 regional boards of directors visited the Levinoff-Colbex plant.

Special Contribution of \$53.86

The collection of the special contribution for the development of cull cow marketing continued in 2010. In addition to sending invoices to all milk producers, the Federation initiated procedures with the RMAAQ to collect from those producers who had not paid their 2008 and 2009 invoices.

Based on favourable judgments by the RMAAQ and official approval by the Superior Court, in January 2011, the Federation launched the final procedures to allow it to place a seizure order on the milk pay of the producers concerned.

The contributions of all cow-calf producers are fully paid up, since they are deducted directly by the FADQ from the ASRA compensation payments. The milk producers' invoices have been paid in the following proportions: close to 98% for 2008, 97% for 2009 and 88% for 2010.

Improving Profitability

Levinoff-Colbex submitted an infrastructure modernization project (integrated plant) under the federal Slaughter Improvement Program.

The enterprise received a conditional offer of \$9.6 million from Agriculture and Agri-Food Canada (AAFC). To date, no pay-out has been received under this program since work has not begun. Efforts are continuing with the Quebec government and other private partners in the meat sector to complete the project's funding. Levinoff-Colbex has asked AAFC to extend its offer of financing.



Fédération
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