

Ontario Sheep Marketing Agency

Comments on Bill 40 Agriculture Insurance Act (Amending the Crop Insurance Act, 1996), 2015

Thank you for the opportunity to comment on Bill 40; Amending the Crop Insurance Act. The Ontario Sheep Marketing Agency (OSMA) is pleased at the potential to have production insurance opened to livestock producers. The ability to expand the suite of risk management tools that are available to sheep producers is something that OSMA is committed to and we look forward to working with the government on developing a program that meets producer needs.

OSMA is a producer organization representing all aspects of the sheep industry in Ontario. Established in 1985 under the Ontario Farm Products Marketing Act, OSMA's mission is to enhance producer returns and provide consumers with premium lamb and sheep products by encouraging Ontario sheep producers to provide quality, year-round product through advocacy, market development, industry capacity and organizational capacity. OSMA represents over 3,000 sheep producers who contributed over \$300 million to the Ontario economy in 2014.

Prior to Bovine Spongiform Encephalopathy (Mad Cow Disease) being announced in Canada in 2003, the Ontario sheep industry was experiencing a period of growth. From January 2000 to January 2003, Ontario's breeding flock grew by 31.6%, from 164,900 to 217,100 animals. During this same period, exports of Canadian sheep increased by 200% from 50,000 to over 150,000. The majority of these animals were exported as feeder and slaughter animals. The Ontario sheep industry had reached a point of sustainability. It was becoming a major player in the Ontario agricultural landscape.

In May 2003, the Canadian border closed due to Mad Cow Disease. This border closure impacted all ruminant animals, including sheep. The immediate effect of the closure was seen in the decrease of lamb prices and ewe flock size. Since then the sheep industry has been struggling rebuild its flock, keep the industry infrastructure in place and fulfil market demand.

It is worth noting that from 2003 to 2007, the number of lambs produced in the province dropped by 43%, while lamb consumption grew by 30%. The gap in the amount of lamb produced versus what was being consumed was filled by a 51% increase in imported lamb; primarily from New Zealand.

OSMA has been making a concerted effort to help the industry re-establish its market share. The development of risk management tools, such as production insurance, is one in a series of key initiatives that OSMA is proposing, in partnership with government, to help producers meet the industry targets.

An integral part of the OSMA Strategic Plan is to build and implement programs that will enable Ontario sheep producers to prudently increase their production. In 2013, then Premier and Minister of Agriculture and Food, Kathleen Wynne challenged the agricultural sector to double its annual growth rate and create 120,000 jobs by 2020. In response to this challenge, the Ontario sheep industry has set a target of increasing the ewe flock size by 20% to 222,720 ewes.

Increasing Ontario's ewe flock by 20% will mean an estimated 52,000 additional Ontario lambs on the market. Based on a 5.55:1 multiplier and the *2014 average price*¹ of \$209, each additional lamb marketed represents **\$1,160 in increased economic activity; or \$60 million for 52,000 additional lambs marketed.**

Despite the challenges facing the industry, OSMA, working in concert with government and key producers have made some initial progress. Ontario's ewe flock has grown 14% since 2007, making Ontario home to Canada's largest breeding flock. Coming into 2011, producers were feeling confident in rising market prices and began investing in their businesses. It was during this time that 2 lamb value chains were established encompassing 3 processors, 5 retailers and over 50 producers. The role that government support played in this, with the implementation of the Risk Management Program, cannot be understated.

Between 2011 and 2013, however, the industry saw uncharacteristically low lamb prices coupled with increasing costs of production. Lamb prices dropped 20.3% (from an average of \$204.95 to \$163.35) while cost of production increased 40%. As prices began to rise in 2014, so too did the hopes of the industry that producers would start to be profitable again.

Currently, Ontario sheep producers are only supplying 22% of the local demand for product; the rest is being filled by out of province lambs (20%) and off shore product primarily from New Zealand and Australia (58%).

A lack of consistent supply of lambs in Ontario into the processing plants is a growing concern. **Ontario processes 51% of all the lambs that are born in Canada.** In order to keep Ontario processors operating and potentially afford them the opportunity to expand production and create more jobs², more lambs have to be produced.

The price fluctuations that characterize commodity markets do little to provide producers with the confidence they need to make solid investments into their businesses. The uncertainty that comes with being a price taker makes it difficult for producers to start increasing their production and capturing more of their market share.

OSMA is currently working on developing a price predictability model to help mitigate the risk of price fluctuations. This much needed price forecast tool will help local producers make business decisions. Coupled with the Risk Management Program, this tool will help the industry manage price fluctuations and build market and production confidence.

The development of a production insurance program would be an invaluable addition to the industry's risk management toolbox. While price predictability and RMP work to address financial risks, production insurance would help manage production risks such as death losses and abortions. The industry would look to tailor the program to target production issues that producers are facing so that they can prudently expand their production and ensure that the identified and quantified increased demand for Ontario Lamb is being met.

Increasing the supply of Ontario product available to Ontario abattoirs will help ensure that they remain in business, keep jobs in the processing sector and contribute to a strong Ontario economy. Currently, producers are getting the clear message from processors and retailers that the Ontario lamb sector is simply not supplying enough product to match retailers' demand for lamb. A producer who is currently marketing direct to a packer indicated that ***"Our partners tell us they have high demand for our quality assured Ontario product. They are asking us for more than triple what we are currently shipping in order to supply the volume consumers are asking for and that they require for their efficiency. ."***

¹ Based on average market price cwt for 75 lb lambs January – December, 2014

² It is estimated that over 5,000 Ontarians are currently employed by sheep/lamb processing plants

In fact, it is conservatively estimated that the market is undersupplied by 48,000 lambs per year.

A new Ethnic Market study commissioned by Ontario Sheep supports the rise in demand being reported by processing plants. The report indicates that “freshness was reported as a leading quality attribute, and the majority of respondents found Ontario-produced lamb to taste and smell better than imported product.”

Most encouraging in all of this is that lamb producers can increase production and put more Ontario lamb on retail store shelves without impacting the demand for other protein.

OSMA is committed to continuing to provide producers with access to risk management tools that create an environment of confidence for them to expand their production. With this in mind, OSMA was excited to see that there is an appetite to have production insurance opened to livestock producers. We look forward to working with the government to develop a production insurance program that meets the needs of our industry.

OSMA
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