



Ontario Processing Vegetable Growers
STRATEGIC PLAN
2017-2021

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Chair's Message

This strategic plan is the outcome of a process in which our directors and management have jointly engaged in order to develop a five-year vision setting out where we believe our sector needs to go.

One of the realities that is obvious to us is that in order to achieve positive outcomes, there is a need to have effective and strong relationships with our value chain partners and with government. Accordingly, a significant focus of this plan, and a shift in emphasis from previous planning, is to invest more resources and effort in developing and maintaining those relationships for our mutual benefit. As an organization, we recognize that there is a need for continuous change in our culture—our approach to doing business—in which our needs as growers are effectively addressed together with the needs of our customers and in which we are pro-active and positive in reaching out to our partners to understand their needs.

We recognize and respect that it is the role of the Farm Products Marketing Commission to provide oversight for the orderly marketing system in Ontario. We embrace the Commission's view that our organization has a shared responsibility with our customers to work collaboratively to support the growth of the processing vegetable industry in Ontario. In the nature of any trading relationship, sellers will be looking for a higher price and buyers for a lower price. We are committed to approaching this trading relationship, in the context of our larger value chain relationship, to reach agreements that settle prices, terms and conditions that achieve optimal outcomes. The optimal outcomes are ones that give both parties fair returns and, building on the mutual interdependence of our relationship with our customers, enable us both to realize opportunities for growth. We believe that the current price discovery and settlement system, retaining the negotiating agency authority conferred on our organization by Regulation under the Farm Products Marketing Act, can enable these outcomes to be realized. It will require creative thinking and innovative approaches from all parties to the negotiating process. An Industry Advisory Committee – or similar collaborative structure – would be an excellent forum to set a framework to enable a more positive and constructive spirit to prevail during and after negotiations.

As growers, we do not believe that the vegetable processing sector in Ontario is a zero sum game. That is, we do not believe that “gains” that we may be perceived to have achieved ought to come at the expense of our customers; nor that “gains” that our customers may be perceived to have achieved ought to come at our expense. We are looking for true win/win outcomes where both parties to the trading relationship gain benefits. Through a cooperative and collaborative approach, we believe that it is possible to generate a win/win attitude. Among the keys to practicing this positive approach are having a shared understanding of the sector's needs and challenges and shared goals for future outcomes to achieve together. Both these elements of a positive sector framework – understanding each other's needs and working towards convergent goals– in turn, require intensive, honest and open communication.

We appreciate the valuable insights from our partners in the development of this plan and the assistance provided by the Policy team at OMAFRA in the statistics they researched on our sector.

We intend to send a strong signal and message by this strategic plan to our growers, to our customers, and to government, that we are committed to a positive future for our sector and keen to play a constructive role in achieving it.

On behalf of the Board of the Ontario Processing Vegetable Growers,

Francis Dobbelaar, Chairman

What We Stand For

OUR MISSION

To supply our customers with safe, high quality vegetables for processing, according to their requirements and on competitive terms and conditions, that have been profitably grown using sustainable production practices

OUR VISION

Ontario's vegetables for processing value chain is growing, thriving and committed to innovation

OUR VALUES

Leadership – We will serve as one unified voice for Ontario's processing vegetable growers

Collaboration – We will identify common goals with our value chain partners and work together to achieve them

Integrity – We will do business honestly, consistently and with accountability

Excellence – We will work to continuously improve production outcomes for processing vegetables

Innovation – We will seek to find and adopt better ways of achieving positive outcomes

Profitability – We seek to provide fair returns on investment relative to labour, capital and risk to our growers through negotiating competitive prices, terms and conditions with our value chain partners

OUR STATEMENT OF CARE

Our customers – We seek to grow and prosper with our customers as partners with aligned goals

Our growers – We will work for the best interests of our growers at all times to enable their farms to prosper from the production and marketing of vegetables for processing

Our consumers – We are committed to providing safe, high quality, locally grown, nutritious vegetables that can be accessed and enjoyed throughout the year

Our people – We will treat our staff with dignity and encourage their professional development

Our value chain relationships – We will work to support our sector through collaboration in research, crop production and harvesting practices, information sharing, sector strategy development and through negotiation of fair and competitive terms of sale

Our environment – We care about our water, soil and air resources and will work to use them as responsible stewards so that they are sustained for future generations

WHO ARE OUR CUSTOMERS?

Our customers are all those who benefit from the vegetables which we grow. Our primary customers are the processors and green shippers to whom we sell the vegetables we grow for processing. Our processor customers sell their products to further processors and to merchandisers in the grocery retail and food service segments. In the final analysis, the value chain stops at the consumers who enjoy vegetables in processed forms in their meals and snacks. Consumers are also our customers.

Strengths/Weaknesses/Opportunities/Threats (SWOT) Analysis

The SWOT Analysis is an assessment of Ontario's vegetable processing sector from the growers' standpoint. Those points in *italics* relate specifically to the OPVG as an organization.

Strengths – Key Advantages

- Excellent natural endowments of water, soil and climate for vegetable production that enable high quality, consistent supply for processors on a sustainable basis
- Experienced and dedicated growers with infrastructure, knowhow and commitment operate at a smaller scale than other growing regions, providing for a diversified grower base with excellent crop rotation practices and intense focus on the crops as specialty production
- Vegetables are in demand by consumers and recognized as vital for a healthy diet
- Proximity to major North American population centres represents a vast consumer market accessible to the processors
- Government support is valuable through such mechanisms as Agricorp crop insurance, OMAFRA extension expertise, and University of Guelph research (Ridgetown campus in particular)
- Availability of an effective seasonal workforce (Example: The S.A.W.P. is used by both growers and processors for seasonal labour needs).
- Efficient price discovery and contracting system provides confidence for growers
- Supply chain collaboration between growers and processors – Ontario Tomato Research Institute; Ontario Cucumber Research Institute; Pea, Bean, & Corn Research Committee; Joint Annual Conference
- Processing vegetable industry in Canada provides vital food security against fresh market supply disruptions in winter months
- Significant investment in the sector by both growers and processors (Example: new automated harvesting equipment)
- *Collaborative sector approach to research for solutions to Ontario-specific needs*
- *Equitable and consistent treatment of all growers in contracting while providing a level and transparent playing field for Ontario's processors*
- *OPVG efficiently disseminates information to growers to advance their knowledge and provides a single point of contact for government and industry to inform, collaborate and work with growers on common needs*
- *OPVG, as a multi-crop organization, brings a depth of experience and resources to a range of crops that the crops would not have access to if considered individually; i.e. there are synergies from serving the needs of growers and customers of multiple crops*

Weaknesses – Challenges To Overcome

- Processor sector in Ontario is not able to foster unity on marketing initiatives and therefore does not bring the optimal level of inter-firm cooperation and leadership across the sector for joint development
- Consumer demand growth is occurring in the fresh segment of vegetables and tends to be stagnant in the processing segment at present – in certain categories there is competition from Europe and Asia
- Land costs, including rent, are higher in Ontario than in other producing jurisdictions; this valuation makes succession planning to the next generation more challenging to plan and finance
- Minimal processing of cucumbers is being done in Canada – cucumbers are grown for export for processing in the US
- Major technologies and materials for processors are imported (all cans, for example, are imported from the US) and many technologies originate in Europe; few are ‘home grown’
- High level of dependency on the highly concentrated Canadian grocery retail market is a barrier to growth – limited, sustained penetration of export markets
- Limited innovation in process, product and packaging has occurred in the processed vegetable category leading to a focus on lowest cost, commodity-based marketing
- Key strategic business decisions may be taken by foreign-owned processor firms by management outside Canada based on perceptions of how to best achieve global shareholder value
- Smaller market crops such as green peas do not receive the same level of investment by breeders as the large market crops and therefore have not demonstrated the same level of gains in yield
- *Succession planning: OPVG’s attracting younger growers to be engaged on the Board to bring renewal and long term commitment to the future*
- *Use of social media to proactively communicate with consumers in general and social license activists in particular has not been developed as this role is currently outsourced primarily to Farm and Food Care*
- *Relationships with government and industry are not as effective as they need to be to achieve the OPVG’s goals to advance the sector*

Opportunities

More scope for innovation throughout the value chain:

- New crops that may be of interest to our customers that are currently imported to meet Canada's changing ethno-demographic profile – baby corn and water chestnuts are examples – that might be able to be grown in Ontario for processing uses and which could be coordinated with the World Crops effort of Vineland Research and Innovation Centre
- New genetics – analogous to the diversity of colour, size and shape in fresh tomatoes – for tomato niche products and/or which target specific end-use needs (higher brix levels in tomatoes for paste, for example)
- Packaging that provides an alternative to metal cans that is perceived to be more consumer friendly (example: resealable or equipped with pull tab) and/or made from compostable plastic composite alternatives
- Higher productivity – investigate the potential of Vineland Research and Innovation Centre's robotics group to develop technology to mimic hand harvest of cucumbers with automation

Changes in the way crops are grown and harvested

- Expanded use of fertigation to stabilize yields, optimize the application of nutrients and target micro-nutrients to plants when needed
- Expanded certified organic production with greater expertise developed in alternative agronomic management practices
- Enhanced logistics between the grower and the processor/green shipper to maximize yields and product quality, minimize waste and reduce cost to both parties

Enhanced marketing and communications

- Inform consumers about the advantages of processed vegetables and the nutrition they deliver
- Emphasize product safety characteristics such as the elimination of BPA in can liners in consumer outreach messages
- Pilot national marketing campaign with Bonduelle and Quebec growers to emphasize the availability and quality of frozen and canned sweet corn, beans, green peas, carrots, etc. in winter months
- Emphasize the local origin of processed vegetable products in the domestic market with enhanced identification for consumers
- Encourage full support by government procurement institutions to buy Ontario-grown product
- Target the education system to reach children about the benefits of processed vegetables

Enhance investment

- Support joint effort with government to attract a major cucumber processor to Ontario
- Longer term contracts to give growers and processors mutual confidence to invest in new technologies and expansion for the long term
- Grower development program to bring new growers into the sector and mentor them
- Encourage long-term expansion in capacity utilizing advanced technology, ideally with tripartite participation (processors, growers and government); examples include high yield evaporators, continuous retort cookers, robotic packaging systems, aseptic filling lines, etc.

Threats

Government policies affect the competitiveness of the sector

- At the federal level, less harmonization that could follow from the PMRA Review may lead to the end of certain crop protection materials that remain available to US growers – a specific example is fungicide to control powdery mildew in cucumbers – as well as the high cost to agri-chemical companies for obtaining registration of new products in Canada relative to the size of the market
- At the provincial level, the introduction of cap and trade to price carbon could lead to higher energy costs for natural gas and diesel fuel throughout the value chain vis-à-vis the US
- Electricity costs are higher in Ontario than nearby US states – electricity is an essential input for flash freezing and holding frozen vegetables in warehouses until shipped
- Mobility of capital to jurisdictions where it can achieve the best return could lead to future investment occurring in the US – certain Ontario processors already have processing facilities in the US
- Specific beneficial policies, such as access to the S.A.W.P. for seasonal labour, and the definition of tomato juice in Canada that provides a non-tariff barrier to reconstituted product, could be withdrawn or modified

Financial risks

- The relative rate of exchange vis-à-vis the US affects competitiveness and the uncertainty related to exchange rate volatility increases risk
- A processor could experience financial difficulty and default on payments to growers

Climate change risks

- The unknown impact of climate change and expected greater volatility in temperature (frost dates) and rainfall levels
- More intense pest and disease pressures such as bacterial spot in tomatoes and downy mildew in cucumbers



Situational Analysis

Vegetables are a Great Food Source

- Canada's Food Guide recommends at least 7 servings of vegetables and fruit per day for teenagers and older adults, eating "at least one dark green and one orange vegetable each day" and having "vegetables and fruit more often than juice." The nutritional benefits of eating vegetables as a core part of a healthy diet are well documented.
- According to a 2015 poll conducted on-line by Environics and commissioned by the Vancouver Humane Society, 12% of Canadians in the 18 to 34-year old age group are classified as vegetarian or mostly vegetarian. In Ontario, 8% of the population are classified as vegetarian or mostly vegetarian. A growing proportion of the Canada population is eating less meat, making vegetables even more important as one of their primary food sources.

Conclusion: Vegetables will be in growing demand as a key global food source

Major Growth is Occurring in the Fresh Vegetable Category

- The primary growth in vegetable consumption has occurred in the fresh category. An indicator is the rapid growth of Ontario's greenhouse vegetable sector in Graphs 1 and 2. Disappearance data for processed vegetable products shows that relative consumption per capita is in slow decline.
- With the exception of certain root crops that can be stored for periods of time without processing, Canada, on account of our latitude, cannot supply fresh vegetable crops year-round. To meet that need, Canada must import fresh vegetables from more southerly growing regions. Even the greenhouse vegetable sector is challenged to supply product during the low light winter months.

Table 1 Ontario Disappearance Data For Processed Vegetables

COMMODITY	UNIT	10 YEAR AVERAGE ¹	2015	CHANGE
Beans green and wax canned	tonnes	17,272	17,654	2.2%
Beans green and wax frozen	tonnes	3,904	3,724	-4.8%
Carrots canned	tonnes	1,742	1,655	-5.3%
Carrots frozen ²	tonnes	14,281	12,827	-11.3%
Corn canned	tonnes	13,968	12,965	-7.7%
Corn frozen ³	tonnes	7,071	4,276	-65.4%
Peas canned	tonnes	7,764	7,586	-2.4%
Peas frozen	tonnes	9,258	9,792	5.8%
Tomatoes canned	tonnes	51,345	50,617	-1.4%
Tomatoes, pulp, paste and puree	tonnes	36,719	38,066	3.7%

Source: Data provided by OMAFRA from Statistics Canada

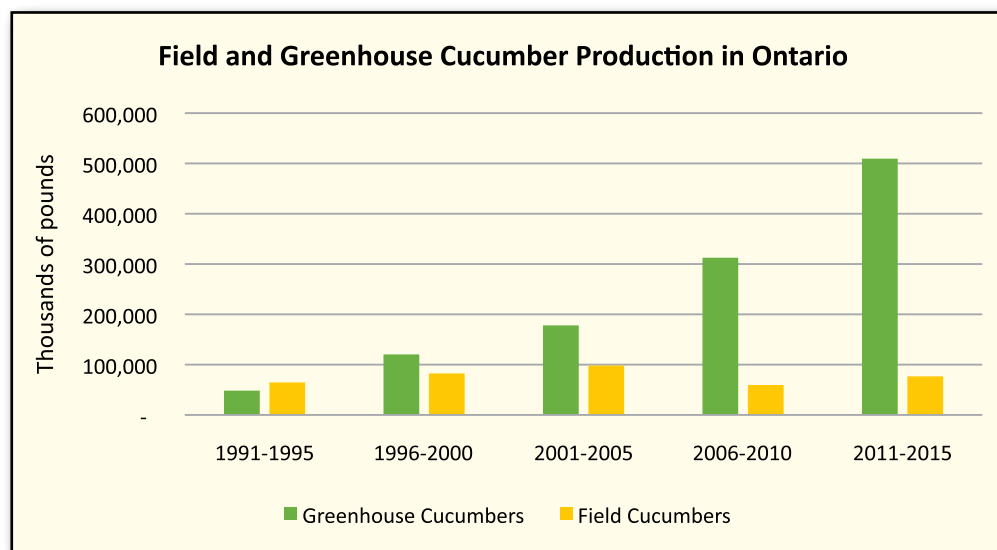
The data, which includes imports as well as domestically sourced product, shows that there has been modest decline in six categories, major decline in one category (frozen corn), and modest growth in three categories. None of the growth is greater than the population growth over the ten-year interval and therefore all categories, on a per capita basis, are in decline.

1. 10-year average data is the years 2006 to 2015

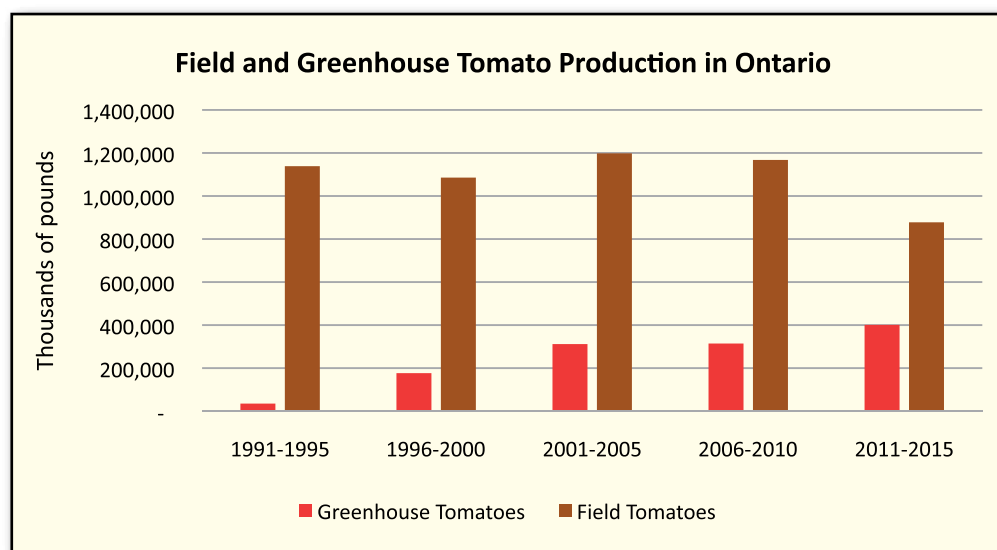
2. Frozen carrots may not capture all further processing end uses including carrots used for mixes (such as in muffin batter) and soup

3. The 2015 figure is an outlier relative to the previous years. On the basis of comparing the average of the previous three years (2012 to 2014), a more accurate estimate of the decline is in the range of 7.3%.

Graph 1 Comparison of Field and Greenhouse Cucumber Production in Ontario 1991-2015



Graph 2 Comparison of Field and Greenhouse Tomato Production in Ontario 1991-2015



While not all the field production in either case is for processing, as a portion is also for the fresh market, the majority of field production of both crops is for processing. The data shows that the growth in production volumes has been occurring in the greenhouse sector for the fresh market and not in field production for processing.

Conclusion: There is a major marketing challenge for processing vegetable firms to convince consumers that processed vegetables are an attractive, convenient alternative to fresh vegetables and thereby to participate in growth opportunities. There are opportunities to learn from the success of fresh vegetable marketing, such as innovation in packaging and varieties, to satisfy consumer needs.

Sources: Data for both graphs was taken from the OMAFRA Statistics website

Context For The Ontario Vegetable Processing Sector

The processing vegetable industry in Ontario is made of up several subsectors, each of which has its own unique opportunities and challenges. As a result, there is no “one size fits all” solution for sector development. For example, even within the tomato processing subsector, there are distinct markets for concentrated tomato paste, single strength tomato juice and single strength whole peeled, crushed and diced tomatoes, in both consumer ready formats for retail sales and industrial ingredient formats for remanufacturing.

Table 2 2015 Harvested Tonnage and Value for Major OPVG Regulated Crops

REGULATED CROP	PRODUCTION	FARMGATE VALUE	NUMBER OF
	IN TONS	IN \$000S	CONTRACTS
Carrots	44,443	\$5,887	16
Cucumbers	29,411	\$11,057	124
Green and Wax Beans	28,562	\$5,249	78
Green Peas	32,088	\$9,889	182
Lima Beans	4,757	\$2,232	32
Squash and Pumpkins	14,029	\$1,772	7
Sweet Corn	83,737	\$ 8,089	132
Tomatoes	432,175	\$ 50,559	95
Totals of disclosed crops	669,202	\$94,734	666
Source: OPVG Website – shaded lines have suppressed data to protect confidentiality in cases in which there are three or fewer customers. Squash and pumpkin data are combined.			

To provide context for Ontario's vegetable processing sector, it is necessary to look to trends in the US as an important reference point. The US is Ontario's major competitor, as the largest source of imported processed vegetable products and a market for exports from Ontario.

- In 2015, about 20 percent of processing vegetables utilized in the US were imported compared with 7 percent in the early 1990s; Canada is the leading import source to the US market with 50% share but it is losing share to Mexico⁴
- Canning vegetables, particularly processing tomatoes, accounted for majority of the decline in US per capita domestic use. Between 2013 and 2015, per capita consumption of canned tomatoes in the US declined by 16%⁵
- Over the past several decades, the processing tomato industry has been moving westward. California accounts for about 94 percent of the area harvested for processing tomatoes in the United States--up from 87 percent in 1990 and 79 percent in 1980. Texas, Utah, Illinois, Virginia, and Delaware once harvested thousands of acres, but today they have little or none. 96% of the volume is produced in California with the remainder primarily in Indiana, Ohio and Michigan⁶
- In describing industry market structure, the USDA notes, "In the past, many firms made paste and also remanufactured this paste into other products. The industry appears to be polarizing, with several firms specializing in the manufacture of bulk industrial paste and others specializing in the remanufacture of industrial paste into consumer products"⁷
- In a global market, Ontario is a small player. For its most important processing crop, tomatoes, Ontario produced 432,175 tons in 2015 as compared to 14,400,000 tons in 2015 for California⁸, representing 3% of California's volume

Conclusion: Challenges that the Ontario tomato processing sector is facing have many points in common with the US experience: a consolidation of firms, greater market dominance of California (in the case of tomatoes), and declining consumption in many categories.

4. USDA Economic Research Service, Vegetables and Pulse Outlook, April 29, 2016 p. 6

5. Ibid, p. 10

6. USDA Economic Research Service, Processing Tomato Industry, <http://www.ers.usda.gov/topics/crops/vegetables-pulses/tomatoes.aspx#processing>

7. USDA Economic Research Service, Processing Tomato Industry, <http://www.ers.usda.gov/topics/crops/vegetables-pulses/tomatoes.aspx#processing>

8. Source: California Tomato Growers' Association Statistics section, <http://www.ctga.org/Statistics>



Farm Size and Scale Considerations

California is Ontario's largest competitor for processing tomatoes. California has a scale of production that is substantially greater than Ontario's as the following table shows.

Table 3 Ontario and California Processing Tomato Comparison for 2015

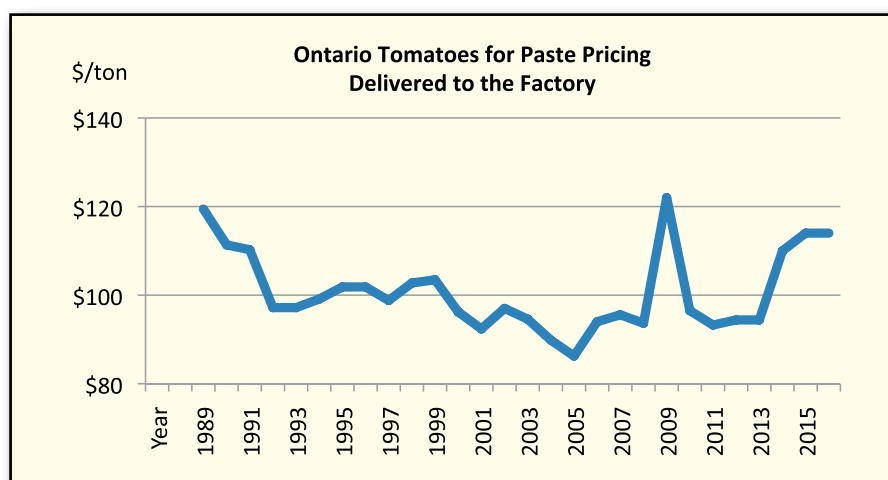
PROCESSING TOMATO DATA	ONTARIO	CALIFORNIA
Number of growers	94	318
Total tons processed	439,530	14,300,000
Total acres in production	10,639	296,000
Average grower size – acres	113	931
Average grower size – tons	4,676	45,000
Source: Data compiled by OPVG staff from OPVG data and California Tomato Growers' Association data		

Conclusions: In order to offset the advantages of the economies of scale that California has, as well as a longer growing season, Ontario growers need a collective agency to pool their resources and work together for a stronger sector. From a food security standpoint, as North America's tomato processing production becomes more concentrated in California, the risks increase if there are future disruptions to production in this State related to water, earthquake, etc.

Vegetable Product Farmgate Price Trends

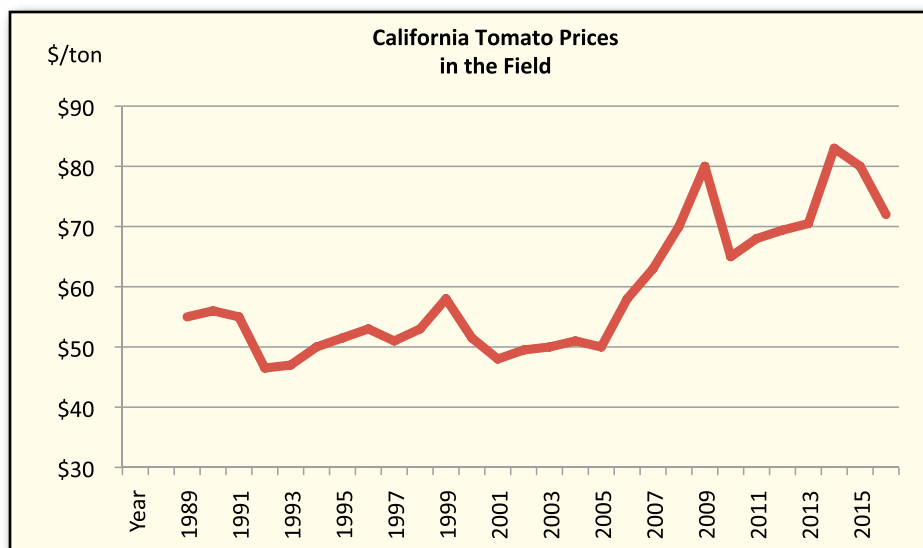
The following graphs show the contracted price trends for the past twenty years. Many factors influence competitive price trends including the rate of exchange between the US and Canadian dollar (see Graph 5 for comparison purposes), North American and global supply/demand trends, and the price of the major cash crops (corn and soybeans) as alternatives to the use of the same grower land base in the Great Lakes basin. It is not the purpose of this section to analyze the factors that influence price trends but to show trends.

Graph 3 25 Year Tomatoes for Paste Ontario Contract Price Trend



Source: OPVG data

Graph 4 25 Year California Tomato Contract Price Trend



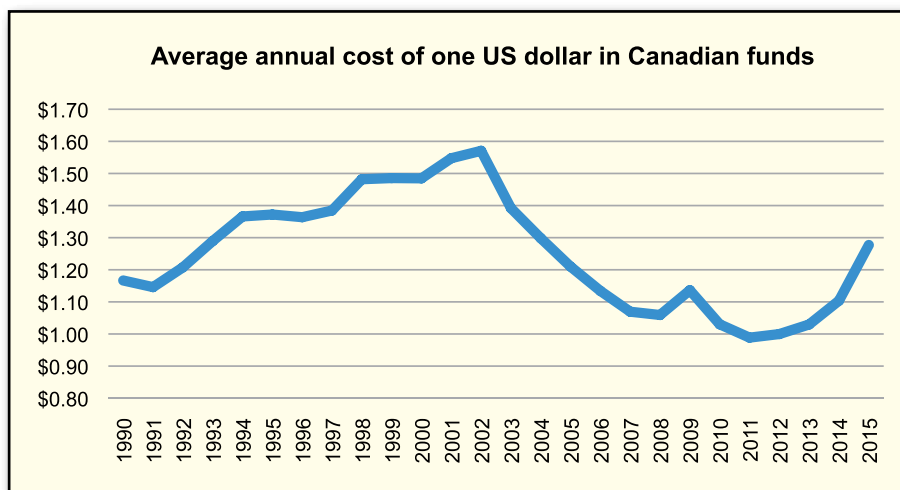
Source: Data supplied by the California Tomato Growers' Association to OPVG

The basis for comparing these two charts is not strictly the same on at least two accounts:

- The California price is an F.O.B. field price whereas the Ontario price includes the cost for the grower to deliver the loads to the processor
- The Canadian price is in Canadian dollars and the US price is in US dollars

In developing a five year agreement to reference Ontario prices with California, the OPVG and its customers take these kinds of differences into consideration to ensure that Ontario processors have access to competitively priced tomato inputs.

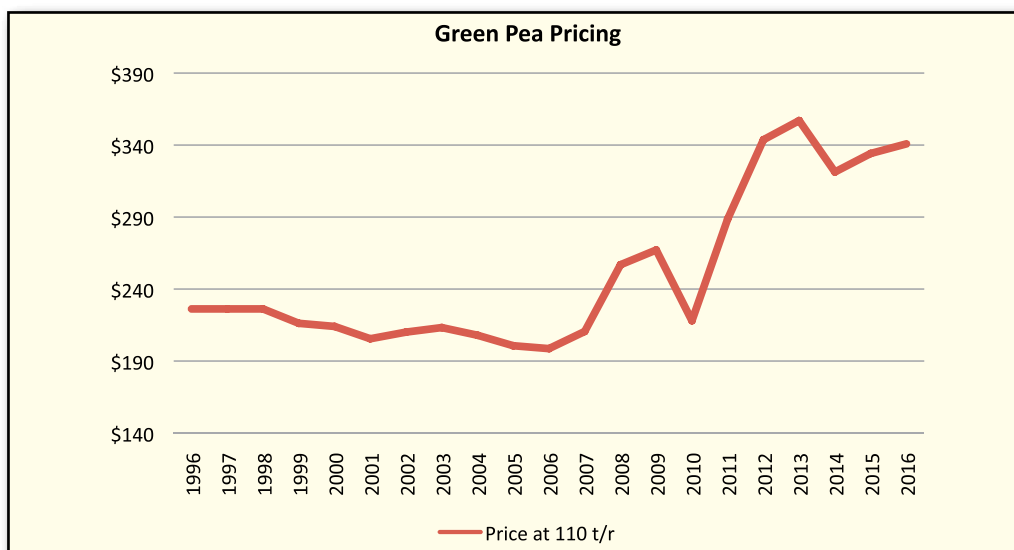
Graph 5 Twenty-five year trend in Canadian – US Dollar Exchange



Source: <http://www.canadianforex.ca/forex-tools/historical-rate-tools/yearly-average-rates>

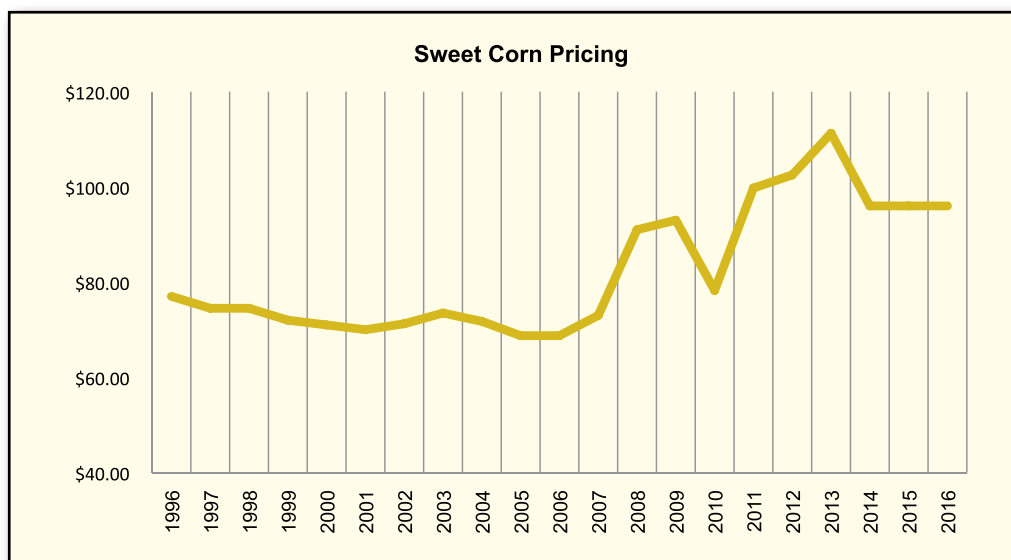
The y axis on this chart references the average annual value of one US dollar in Canadian funds.

Graph 6 20 Year Ontario Green Pea Contract Price Trend



Source: OPVG Data

Graph 7 Twenty Year Sweet Corn Contract Price Trend



Source: OPVG Data

Conclusion – How This Data Informs The Strategic Plan

In many crops, such as tomatoes for paste, in real (inflation-adjusted) terms, Ontario growers are earning less per ton than twenty-five years ago at a time when costs to growers have steadily increased – costs for labour, equipment, fuel, fertilizer, crop protection materials, etc.

Rising costs to growers that are not recovered from the contract price require that growers continuously increase their productivity in order to remain in the business.

Productivity gains, in turn, require long term reinvestment in technologies like drip irrigation. Growers will reinvest only if they perceive that the potential return relative to their risk is fair and reasonable.

Strategic Priorities

Confidence and Trust Within The Sector

	GOAL	PRIMARY FOCUS	INITIATIVES	EXAMPLES OF POSSIBLE NEXT STEPS	MEASURES
1	Confidence and Trust	Within The Sector	Strengthen and maintain effective relationships with industry and government for both short term and long term positive outcomes	Recruit* positions for the roles of industry and government relations: - understanding partners' needs - having common information on which to make decisions including negotiation of price and terms * could be staff roles or out-sourced to obtain the expertise under contract	<ul style="list-style-type: none"> The level of investment in the sector by growers and by processors The number of innovations including new product introductions, new technologies introduced, new processes implemented
			Collaborate on joint investment and policy initiatives to advance the sector with industry and with government	<ul style="list-style-type: none"> development of a mutual code of practice for undertaking negotiation that reduces potential conflict and misunderstanding a sustained marketing campaign to promote frozen and canned vegetables in winter months an 'open the lid for Canada' campaign to identify and promote locally grown processed canned products 	<ul style="list-style-type: none"> The rate of growth in the sector as measured by volume of shipments and by value of shipments The profitability of the sector (net returns) The productivity of the sector (yields, recovery, labour) The number of joint projects undertaken, funds leveraged and positive outcomes achieved
			Collaborate on research-based solutions to production and processing challenges	<ul style="list-style-type: none"> Undertake a preliminary feasibility assessment with Vineland Research on robotic technology for hand-harvest cucumbers Explore the feasibility of public breeding programs in the next five year cluster cycle to position Ontario as a global leader in green pea genetics and drive for yield gains 	<ul style="list-style-type: none"> The number and quality of joint projects undertaken The dissemination and take-up of the learning gained and results achieved

Service and Renewal For The Grower Community

	GOAL	PRIMARY FOCUS	INITIATIVES	EXAMPLES OF POSSIBLE NEXT STEPS	MEASURES
2	Service and Renewal	For The Grower Community	Effective negotiation of price, terms and conditions for growers with customers (processors and green-shippers) for long term stability	<ul style="list-style-type: none"> Expanded use of multi-year pricing formulae to give both parties to negotiations more certainty for a longer period Addressing US dollar exchange risk through hedging instruments 	<ul style="list-style-type: none"> Number of multi-year contracts in place
			Develop and implement a mentoring program for new farmers in vegetable processing	<ul style="list-style-type: none"> Connect with the University of Guelph on curriculum content for processing vegetable crops to determine need for extension courses as orientation – a specific need could be developing a course for organic production practices for select crops 	<ul style="list-style-type: none"> Number of new entrants either as next generation farmers or farmers new to the sector
			Review Board governance once every five years including size of Board and performance of directors	<ul style="list-style-type: none"> Undertake next review by 2018 	<ul style="list-style-type: none"> Effective Board governance and grower communications High level of grower satisfaction with the Board's performance Orderly succession of directors with increasing diversity (gender and age)
			Competitive position for Ontario growers vis-à-vis growers in jurisdictions with which Ontario competes	<ul style="list-style-type: none"> Harmonization of crop protection materials with US through the PMRA to ensure access to appropriate products Continue progressive work with Agricorp to ensure strong suite of risk management tools 	<ul style="list-style-type: none"> Number of new registrations accepted in Canada Effective crop insurance coverage

Effective Connections with Current Product Users, Potential Users and Influencers

	GOAL	PRIMARY FOCUS	INITIATIVES	EXAMPLES OF POSSIBLE NEXT STEPS	MEASURES
3	Effective Connections	Current Product Users, Potential Users and Influencers ¹⁰	Proactive approach to social license issues with use of social media to disseminate messages	<ul style="list-style-type: none"> Bisphenol A (BPA) information including publicizing its elimination from cans where appropriate 	<ul style="list-style-type: none"> Number of positive messages picked up by major media for the advantage of processed vegetables
			Outreach to youth through AgScape [formerly known as Ontario Agri-Food Education] to inform and educate on how vegetables are preserved and why they are an excellent choice	<ul style="list-style-type: none"> Pilot program in Ontario classroom to gauge student interest and impact including farm tour 	<ul style="list-style-type: none"> Number of students reached Indicators of positive behavioural/attitudinal modification
			Approach both Ontario and federal governments to encourage procurement focus on Canadian processed vegetables by institutions they fund or control (hospitals, prisons, Armed Forces, etc.)	<ul style="list-style-type: none"> Development of a product 'catalogue' of Ontario processors' products that is both web-based and print-based to increase awareness and access and which tells the story of the products 	<ul style="list-style-type: none"> Number of enquiries/hits and contact points made Increase in institutional volumes as tracked and reported by processors

10. Influencers include the media



Strategic Rationale

The OPVG's Negotiating Agency Authority

During the time when this strategic plan was in preparation, including undertaking a wide range of interviews with sector stakeholders, the Farm Products Marketing Commission posted a forty-five day regulatory change notice in late June 2016 on Ontario's Regulatory Registry¹¹. Should the regulatory change be implemented, over the objections of the OPVG, the negotiating agency authority of the Board would be removed and the major *raison d'être* for the organization would be eliminated. On August 3rd, the Board of Directors met with representatives of the Farm Products Marketing Commission to obtain better understanding of the strategic rationale for the proposed changes. The OPVG believes that the Commission's concerns can be addressed and the Commission's expectations can be met through this strategic plan. Accordingly, the strategic plan has been developed on the basis that the current authorities exercised by the Board will remain, in accordance with growers' expectations, after due consideration is given to all options.

The OPVG acknowledges that a number of trends that have occurred in the sector in Ontario over the past ten years have been adverse in terms of their impact on the Ontario economy as a whole, including growers. It would be over-simplifying the underlying causes to assign responsibility for adverse trends to the current negotiating system used in Ontario. As noted on page 11, many of the same trends are occurring in the sector in the US. By the same measure, it would be unrealistic to expect that disempowering growers in removing their right to negotiate collectively would solve the challenges facing vegetable processing in Ontario. That step is premised on the assumption that the cost of raw product to processors is too high and therefore processors are not competitive. If processors had lower vegetable input costs, so the argument goes, the sector in Ontario would flourish. That premise assumes that Ontario growers would be willing to grow their crops for less return and increased risk, that is, that there would be as much supply as the processors needed if each grower was treated as an isolated, individual unit of production. There is empirical evidence from other production regions like Australia that shows that premise is not valid.

Among the advantages of the current system are (a) it provides processors with a level playing field with respect to terms and conditions related to price and a sufficient supply to enable their facilities to operate at the capacity levels they determine are needed and (b) it provides growers with reasonable assurance that they will be paid at a price that is known before they make a commitment to planting the crop and on terms and conditions that will be legally enforced by their agency, the OPVG.

The current delegation order provides for the annual determination of minimum prices for vegetables, including class, variety, grade or size of vegetables. The OPVG has utilized this authority in the past to recognize processor objectives such as end-use pricing in tomatoes, distinctions between hand- and machine-harvested cucumbers and slicer vs. dicer carrots, to name a few. Future needs could be explored more fully through an Industry Advisory Committee as ways and means to address ever changing market requirements (i.e. freeze dried vegetables).

The OPVG is committed to engaging mediation as an essential step before any cases go to arbitration and to use its best efforts through mediation to reach agreement with the customer.

The OPVG is prepared to consider an innovation incentive for processors that take risks with significant new process technology or market introductions. The form and details of the incentive require further discussion and definition.

11. Proposed amendments to Regulation 440 (Vegetables for Processing – Marketing) under the Farm Products Marketing Act to remove the provisions establishing negotiating agencies and to add provisions establishing an industry advisory committee posted at <http://www.ontariocanada.com/registry/quickSearch.do?searchType=past&year=2016&month=8>

Value Not Cost Is the Primary Issue

On the basis of its research, the OPVG has concluded that the single most significant fundamental challenge facing the sector is not the cost of raw product but the value perception by consumers of finished product.

- Many of the processed products in both industrial formats (tomato paste and bulk diced for remanufacturing) and retail formats (canned and frozen vegetables) are commodity items sold primarily on the basis of price.
- At a time when grocery retailers are looking for product offerings to differentiate themselves from their competition, there has been little innovation in the category to provide that kind of differentiation.
- Because the retail category for shelf stable processed vegetables is low growth or no growth, the primary basis for processors' gaining market share is offering a lower cost to the retailer than competitors, and that approach, in turn, puts intense cost pressure on all suppliers including the growers. While this approach to intra-category competition may increase one processor's market share, it comes at the expense of another processor— there is no net growth in the category overall.

The OPVG proposes that a better long term solution is to grow the category through innovation and thereby create a higher value perception for processed vegetables among consumers so that they are willing to pay more. The OPVG cannot undertake that effort unilaterally nor can it lead the effort but it is willing to work with processors, both individually and collectively, to invest in market-building initiatives and innovation. The OPVG supports the formation of a Canadian Processed Vegetable Marketing Council in which it would be willing to be an active member and funder. As noted in the strategic plan, the Council could undertake initiatives to increase awareness of frozen and canned vegetables in winter when fresh imports are higher cost. The Council could also identify Canadian-grown and processed canned vegetables by distinctive lids to take advantage of those retailers and consumers which support 'buy local' merchandising. The OPVG does not seek to prescribe or predetermine what marketing campaigns would be most effective. It proposes that the Council will invest in market research and follow the direction indicated by the insights gained. In addition to processors, governments at both federal and provincial levels could participate and invest in the Council. Addressing the value proposition for processed vegetables in the perception of both grocery retailers and consumers is the fundamental problem. Lower prices for raw product, if they were able to be achieved through the dismantling of the collective negotiating system now in use, are not likely to lead to sustained category growth nor to increased profitability within the sector.

The growth in grocery retail stores is occurring in the store periphery in the produce, meat, bakery and dairy sections, which emphasize fresh offerings, and is declining in the shelf stable 'centre of store' section. Nearly all processed vegetable products are positioned in the 'centre of store.' Orange juice provides an example. Led by Tropicana's investment to fundamentally change the way orange juice is merchandised, over the past twenty years orange juice has shifted from the dominant format being the 12.5 oz. frozen concentrated can to single strength format in the chilled (dairy case) section of the store in a gable top carton. While there has been a significant shift in the merchandising of orange juice to consumers, tomato juice has remained primarily in the 48 oz. can in the shelf stable section of the store. The category has been experiencing declining volumes. Should an Ontario processor choose to experiment with a chilled vegetable juice product offering, whether 100% tomato or containing other vegetable juices, the OPVG would consider how to support that kind of innovation with a proposed innovation incentive. The OPVG is not presumptuous and does not purport to tell its customers how they should be merchandising their products. The tomato juice example is given for the purposes of illustration only and not because the OPVG is suggesting that refrigerated juice is a better way to market tomato juice. The paradigm in which the orange juice category was reinvented may not be transferable to tomato juice but the need for innovation in tomato juice merchandising appears necessary in order to reverse the decline in the category.

Learning From Other Marketing Board Experiences

Two other marketing boards have liberalized the arrangements by which producers can market their crops over the past fifteen years. Both the Ontario Wheat Producers' Marketing Board, one of the predecessor organizations to Grain Farmers of Ontario, and Ontario Pork, have gone from a mandatory single desk selling agency to a voluntary one, in which producers have the option of marketing their crop through each Board or directly without the Board. The circumstances of change in these organizations are not parallel to those of the Ontario vegetable processing industry.

In the case of the marketing of wheat, it is a globally traded commodity with a well organized pricing mechanism through the Chicago Board of Trade including sophisticated trading options that include futures contracts. Many Ontario wheat growers are able to store their wheat on farm at harvest and determine when to deliver it to the elevator and therefore have discretion over when to price their crop. There are many buyers in the market on any given day giving producers many options, each competing for the wheat farmer's crop. Thus, wheat is fungible. Processing vegetables are not. The impetus for change in the wheat sector came from producers with many resolutions over a period of years preceding the change.

In the case of the marketing of hogs, the impetus for change came from a significant number of hog producers themselves who were dissatisfied with the system for marketing hogs in Ontario. There is no parallel level of producer dissatisfaction with processing vegetables. There have been no grower resolutions calling for change to the system. Like wheat, hogs are priced by general reference to the Chicago Board of Trade and specifically priced according to quality specification grids agreed upon between the producer and the processor according to the grades assigned. Hog producers have choices as to which processor they will deliver their hogs to. Hogs are continuously coming to market unlike processing vegetables which have a seasonal harvest window.

In the mid-1990s, Australia deregulated its tomato processing sector. The Australian industry went through a period of upheaval and structural change following deregulation. Consequences included:

- a decline in the number of growers from 107 in 1991 to 16 in 2016
- a decline in the number of processors from 10 in 1991 to 3 in 2016
- overall tomato production volumes remain relatively unchanged

If future public policy changes cause Ontario to experience what Australia's tomato processing sector went through when it was deregulated, there would be a significant reduction in the number of growers and processors and no net growth in the sector. A more concentrated sector with larger units of production would lead to a loss in the diversification of farm income among growers and in increased supply risk to processors from less geographically dispersed fields. Australia is now in the process of re-examining the need to return to regulated marketing for this sector.



The Role of The Industry Advisory Committee

The OPVG is strongly supportive of the recommendation to implement an industry advisory committee for the processing vegetable sector in Ontario.

The Committee could be charged with establishing the basis for a positive and productive relationship among all the key parties in the value chain and driving towards ways to increase the value perception of the product and reversing the trend toward declining consumption. This partnership fostered by the Committee would work to develop and deploy integrated solutions that drive profitable growth in a socially responsible manner that is sustainable. The OPVG's strategic plan is aligned with key result areas that the Committee will jointly identify for the sector as a whole.

In addition to processors, green shippers and the OPVG representing the growers, it is important to include further processors which purchase product in industrial formats and grocery retail merchandisers which purchase processed product in consumer formats.

One of the observations which the OPVG has made over the past twenty-five years is that customer representation has increasingly been delegated to less senior levels on formal bodies. There have been two consequences: (i) the perception is that grower-customer dialogue is low priority and (ii) the subject matter under discussion tends to be very much about the trees-- or even the leaves on the trees-- in the forest rather than considering the forest itself strategically. The OPVG recommends that senior management be represented on the Committee in order to ensure that it is sufficiently empowered to address strategic needs of the sector. The OPVG is committed to that principle for participation and industry engagement.

Conclusion: Price Discovery and Negotiation System

This strategic plan is predicated on (a) the OPVG retaining its negotiating agency authority (b) the OPVG using that authority collaboratively with its customers to develop the sector and achieve growth in volumes and profitability throughout the value chain. The OPVG recommends this option to the Commission as the most assured way for the Commission to achieve its sector goals.





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