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AMENDMENT TO REGULATION 402 (CHICKENS – MARKETING) UNDER THE FARM PRODUCTS MARKETING ACT (ONTARIO)

The British Columbia chicken pricing formula, like all other provincial pricing formulas, currently incorporates Ontario's live price. Accordingly the BC Farm Industry Review Board (BCFIRB) appreciates the opportunity to provide a submission on the proposed amendments to Regulation 402¹. BCFIRB supervises the BC Chicken Marketing Board under the *Natural Products Marketing (BC) Act* and is a signatory to the Federal Provincial Agreement for chicken and its' Operating Agreement.

Accepting at this time that pricing off of Ontario remains a strategic and effective approach for the chicken industry at both the national and provincial levels; the Ontario pricing formula has implications for the price chicken farmers receive in BC and across Canada. Disclosure of the pricing formula also has implications for the transparency and accountability of chicken pricing in BC and other provinces. The importance of, and reliance on, Ontario's pricing reflects the interdependent, cooperative federal-provincial partnerships that form supply management as well as the changing nature of the chicken industry. As a partner in this system, BCFIRB is pleased to comment on Ontario's initiative in updating its pricing Regulation for the benefit of the chicken industry and the public.

The following sets out BCFIRB's perspective on the responsibility of all marketing boards and supervisory bodies for transparent, accountable pricing, the strategic and practical objectives of price setting in the chicken industry, and the proposed Regulation amendments.

¹ The method used to determine the minimum live price for chicken paid to Ontario producers.

Responsibility for transparent, accountable pricing

Constitutionally and under provincial legislation, provincial marketing boards are responsible for setting the price a farmer is paid for their chicken.^{2,3} A legislated power to set price comes with the responsibility to exercise this power accountably. This means both marketing boards and supervisory bodies should ensure that any pricing methodology:

- a) employs sound, open processes and defensible data; and,
- b) results in a fair return for efficient producers and a consistent supply of food for consumers.

Strategic and Practical Objectives of Price Setting

Setting the price farmers receive at an appropriate level is important for several reasons:

- It contributes to ensuring a fair return for efficient farmers;
- It encourages an appropriate level of production to meet market needs, minimizing over or under production;
- It affects allocations and the opportunities and effectiveness of the supply chain by
 - influencing processor and further processor import decisions;
 - influencing processor and further processor development of substitutes for supply managed products;
 - influencing consumer choice and demand; and,
- It influences the level of foreign interest in accessing Canada's domestic market.

If price is set 'too high' it can inhibit product innovation and growth. An excessive price can also be one of the contributing factors in raising the value the marketplace attaches to quota which in turn can increase farm debt and/or discourage new entrants. Innovation, growth, new producers and financially viable farms are keys to the sustainability of the chicken industry value chain.

Chicken Farmers of Ontario reported in 2011 that Canadian produced chicken only filled 76% of the national domestic market. The remainder of the market was filled by imported fowl, chicken imported under Tariff Rate Quota⁴, supplementary imports⁵, Duties Relief Program⁶, processed products imported under the 13% Rule⁷ and domestic fowl⁸.

² Depending on the individual provincial legislation, marketing boards may have the power to set the minimum and/or maximum price the farmer receives.

³ The Ontario Egg Reference Case (1978) established provinces may impose controls on both pricing and quantity in the province because it is a local matter, a matter of provincial jurisdiction and falls within section 92.10 of the *Constitution Act, 1867*. (Skogstad 1987).

⁴ Tariff Rate Quota or TRQ is a trade policy tool for controlling imports. Under TRQ a certain amount of product, such as chicken, can enter Canada at a lower tariff rate. If the amount exceeds the amount set by TRQ, importers must pay a high tariff. Canada permits a 7.5 % annual import access level for chicken (16th largest importer of chicken).

Chicken Farmers of Canada estimates that the economic impact of every percentage point of market share lost to the Canadian chicken industry represents \$65 million in GDP and 559 jobs.

There will always be an incentive for processors and others to import chicken in its various forms as long as the Canadian price to farmers is higher than those of exporting countries. That is not to say that prices paid to Canadian farmers should be competitive in the international market place.⁹ For example, price impacts farmer's ability to contribute to Canadian programs desired by the public such as food safety, animal welfare and biosecurity. It does however raise questions about farm efficiency, production scales, and other related matters.

Despite the upward pressures on domestic pricing, accountable pricing in the chicken industry is essential to maintaining and growing domestic market share and ensuring ongoing consumer support for domestic product. As noted in the April 11, 2013 open letter¹⁰ from BCFIRB to Farm Products Council of Canada and the Chicken Farmers of Canada:

We [Canada] are likely foregoing important domestic market share and market growth opportunities due to current allocation and pricing strategies.

Proposed amendments to Regulation 402

BCFIRB recognizes the extensive investment by Chicken Farmers of Ontario, the Ontario Farm Products Marketing Commission and industry stakeholders in developing the proposed Regulation amendments. However, it is not possible to provide a specific assessment of the amendments in terms of transparency and accountability as compared to the current Regulation in the absence of specific wording. The [Regulatory Registry web page](#) only provides a few summary sentences.

As such, the following are some general observations and questions BCFIRB offers for consideration.

The Regulatory Registry web site refers to "...minimum price for chicken will be based on a cost of production that was determined both by surveying producer costs in addition to using a model farm for elements not covered in the survey." It also states that "[f]eed and chick components will be updated each quota period with the remaining elements updated annually based on publicly available indices."

⁵ Supplementary imports are imports brought into Canada at a reduced tariff rate if the purchaser (e.g a processor) can demonstrate to the federal government that adequate supply does not exist in Canada.

⁶ Duties Relief Program enables qualified companies to import goods without paying duties as long as they export the goods within four years.

⁷ 13% Rule specifies that food products made of up to 87% chicken can be imported to Canada without paying the same level of tariff required if it was a 100% chicken product.

⁸ Fowl is chicken whose primary purpose is not meat production but for other purposes. For example, hens that lay eggs for the table egg market. Once these birds are no longer productive, they are considered "spent" and are sent for slaughter. Can also include stewing hens, boiling fowls, pot roasting hens, mature chickens, or old roosters.

⁹ Canada is ranked as the 15th largest chicken producer in the world at 1,025,000,000 kg in 2012. The United States is ranked as the first largest chicken producer in the world at 16,621,000,000 kg in 2012.

¹⁰ 2013 April 11. BCFIRB. [Current National and Provincial Chicken Industry Issues](#).

As BCFIRB understands it, the current pricing formula is based largely on proxies, does not take into account changing production efficiencies¹¹ and other production and cost contributing dynamics. Overall there is a lack of transparency, and in relation, accountability. Pricing should employ sound, open processes with defensible data. In that light:

1. Will the amendments require all the elements (and values inputted) of the price formula be publicly available and substantiated?
2. Will the amendments require updating of values in each quota period (and annually as appropriate)?
3. Will the updates and supporting rationale be reported publicly, and by whom?
4. Will the 'publicly available indices' be identified and publicly reported?

As a practical matter, provincial boards need understand what to expect and the timing of changes so they can advise the industry and public. As a matter of meeting their responsibilities to the public interest, every province relying on the Ontario price should be able to understand and explain the pricing components and calculations involved in support of its own price.

Defensible pricing that meets the intent of supply management will play an increasingly important role in the future of Canada's chicken industry both in terms of industry success and continued public support.

Summary

BCFIRB is pleased to see the steps the Commission has taken to address long outstanding issues with the current Ontario pricing formula given its relationship to chicken pricing and production across Canada. However, BCFIRB cannot currently assess the extent to which the proposed amendments will improve transparency and accountability given the information available.

There remain, to date, unanswered questions regarding the true costs of production of efficient farmers. The cost includes elements introduced through meeting increasingly stringent animal welfare, food safety and biosecurity standards, all demanded by the public. Recognizing the cost of such standards on domestic production would be helpful in comparing the competitiveness of Canadian prices with imports.

The decline in national production and increasing levels of imports may be an indication that the current price farmers receive for their chicken is not 'correct'. However, the 'correctness' question, alongside the 'adequacy of supply' question¹² cannot be answered in the absence of solid analytics and transparency – knowing the real costs of the industry and how those costs are incorporated into pricing. Pricing should employ sound, open processes based on defensible data.

¹¹ Efficiencies can include feed conversion ratios (how much feed it takes to produce 1 kilogram of chicken, growth rates (7 weeks v 10 weeks); survivorship and body mass.

¹² As outlined in BCFIRB's April 11, 2013 open letter, current allocation processes are also a major factor in the declining share of Canadian domestic chicken in the marketplace.

BCFIRB appreciates the opportunity to provide input on this provincial question which has influence in BC and across the country.

Yours truly,

A handwritten signature in black ink, appearing to read "John Les". The signature is fluid and cursive, with a large loop at the end.

John Les
Chair

cc: James Mack Assistant Deputy Minister
Agriculture Policy and Science
British Columbia Ministry of Agriculture

Robin Smith, Chair
BC Chicken Marketing Board

Casey Langbroek, Chair
BC Broiler Hatching Egg Commission

NAASA Members

BCFIRB website