



June 28, 2019

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Jim Collins
Chair
BC Broiler Hatching Egg Commission

Harvey Sasaki
Chair
BC Chicken Marketing Board

Dear Sirs:

BC BROILER HATCHING EGG COMMISSION PRICE LINKAGE EXIT NOTICE

The BC Farm Industry Review Board (BCFIRB) met on June 12, 2019 to review the Broiler Hatching Egg Commissions' (Commission) April 29, 2019 notice of withdrawal from the price linkage agreement with the Chicken Marketing Board (Chicken Board) and related correspondence.

Background

Linking the price chicken growers and hatching egg producers receive for regulated product was established in 1995 by BCFIRB. It was one of several directions intended to help resolve serious on-going issues disrupting orderly marketing in the chicken supply chain. One of the key issues identified by BCFIRB as contributing to the disruption of orderly marketing at that time was the variable rate of return between the two producer groups:

In the past, the rate of return for the two producer groups has varied. During the 'boom' times, chicken growers received a higher rate of return. Once chicken prices started to slide, it was hatching egg producers who were receiving a higher return. The linkage study has placed both producer groups on an "equal" footing.

While various challenges have arisen over the years, the linkage agreement and related formula in various forms has been consistently used by the two boards since 1995 as a tool to inform producer price.

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Farm Industry Review Board**

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As per the 2016 Memorandum of Understanding (MOU) between the two boards, the Chicken Board and Commission reviewed and updated the linkage formula in 2018/19. While a new MOU has not been signed to date, the updated formula is currently being used to inform the price hatching egg producers receive from hatcheries for their eggs, and the price hatcheries receive from chicken growers for day old chicks.

On April 29, 2019 the Commission issued a notice that it will withdraw from the price linkage agreement with the Chicken Board effective Period A-158 (August 4, 2019). The Commission reflected that withdrawal is not its preference as the linkage has served hatching egg producers and chicken growers well. But certain issues need to be resolved. One of the immediate grounds for the exit notice is its view that the linkage formula is not resulting in a sustainable price for hatching egg producers.

Other items raised by the Commission in an April 18, 2019 letter alerting stakeholders to its pending exit notification include: the impact of the Chicken Board pricing formula on hatching egg producers, the Egg Hatcheries Association requested hatchery margin increase (including negotiations with the Commission on reporting, vaccinations, and breeder chick pricing); the unknown ramifications of Ontario's Cost of Product Formula update; western pricing considerations, the potential for national Cost of Production; and initiation of a Team BC committee to look at long-term strategic vision for the BC chicken sector.

As per section 3 of the 2016 MOU:

...The parties acknowledge that the BC Farm Industry Review Board has directed that neither party may withdraw from the linkage without the approval of the BCFIRB.

Price Pressure

With the decrease in BC chicken grower price – driven by the decrease in Ontario chicken price through the BC Chicken Board pricing formula – hatching egg producer price also decreased through the linkage to the degree that concerns about price pressures started to be communicated in November 2017.

It may be that chicken growers are not seeing the same degree of price pressure as hatching egg producers at this time. While the chicken grower price set by the Chicken Board formula and the chicken Cost of Production, are incorporated in the price linkage formula, it is generally reported that many chicken growers are being paid a retention bonus by processors (currently reported to be approximately 2 to 3 cents per kilogram). The retention bonus (or “premium”) was established in 2010/11 by industry as a means for processors to help cultivate chicken grower loyalty following the end of assurance of supply. The retention bonus is not included in the linkage formula.

The retention bonus may be mitigating to some degree the downward pressure on the price BC chicken growers are paid. However the downward pressure on hatching egg producer price is not mitigated as the retention bonus, or other compensatory calculation, is not part of the price linkage formula. The Commission has not taken action to date such as exercising its price setting authority to amend the price hatching egg producers receive resulting from the price linkage formula.

Status

BCFIRB is aware that the Commission has raised concerns about the linkage and an unsustainable hatching egg price with the Chicken Board as part of the price linkage review process (2018). BCFIRB is also aware that the Commission has argued for the inclusion of the retention bonus in the linkage formula since 2011, with the view that the retention bonus now reflects the actual price of BC chicken.

In an April 29, 2019 letter the Chicken Board stated it would not be in a position to consider further amendments to the price linkage until the BCFIRB decision on the pricing appeal filed by the Primary Poultry Processors Association (PPPABC) and the BC Chicken Growers Association (BCCGA) was rendered and the Ontario Cost of Production Formula (COPF) was determined. In a May 30, 2019 letter the Chicken Board acknowledged receipt of BCFIRB's appeal decision and reported that it could not consider adjustments to the linkage for period A-157¹ as it did not have requested input from growers and processors.

It remains unclear when the Ontario COPF update will be finalized. The process is now at least 6 months past its anticipated end date. BCFIRB staff understands that the PPPABC and the BCCGA have now provided their input to the Chicken Board.

Considerations

As reflected in its July 1995 report, BCFIRB's goal is to ensure "...an effective, timely, transparent and accountable pricing system." Although 24 years have passed, the joint statutory responsibility of the Commission and the Chicken Board to ensure that such a system is maintained remains.

The increasingly competitive industry context and the low Ontario chicken price is challenging BC's chicken supply chain. In BCFIRB's view, the current situation with the reported unsustainable price for hatching egg producers and the price linkage is only one symptom of the larger challenge facing BC's chicken industry.

A relatively abrupt end to the price linkage agreement is a potentially serious risk to the stability of the chicken supply chain (orderly marketing). It may disrupt the establishment of the Chicken Board price formula², as well as potentially result in multiple appeals to BCFIRB from chicken growers, hatcheries and hatching egg producers. In the longer-term there is risk to the effective working relationship between the two boards as well as unproductive expenditure of resources on pricing disputes.

On the other hand, there is also a potentially serious risk to orderly marketing if hatching egg producer price is unsustainable and pressures from Ontario and elsewhere are not faced.

Whether linking chicken grower and hatching egg producer price remains sound marketing policy is a significant question. The Commission has evidently started taking a careful look at its pricing options and the larger industry context (e.g. April 18, 2019 and April 29, 2019 letters).

¹ June 7-August 3, 2019

² In its May 16, 2019 Primary Poultry Processors Association of British Columbia and BC Chicken Growers 'Association v. BC Chicken Marketing Board' appeal decision, BCFIRB directed the Chicken Board to issue its decision regarding a long term pricing formula no later than period A-161.

Next steps

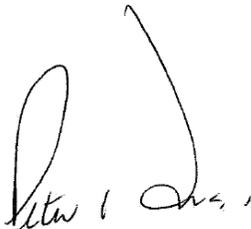
Given the magnitude of the policy question and the long-term success of the linkage agreement in maintaining orderly marketing through changing industry contexts, BCFIRB believes further time than is allowed for by the 2 period exit notice is needed for due process, information collection, and assessment before a final decision is made on the future of the linkage agreement.

BCFIRB asks the Commission and the Chicken Board to work together on a solution to hatching egg producer price issues, interim if necessary, before A-158 (August 4, 2019). This approach will allow time if needed for longer-term sound marketing policy discussions on the linkage to take place, taking into account other key interacting factors including development of the Chicken Board's price formula, the on-going competitive pressures from Ontario and the future of BC's chicken supply chain.

The Commission and Chicken Board are asked to provide a written submission to BCFIRB outlining progress on finding a solution, including plans, timelines and steps taken to date, no later than July 19, 2019. A joint submission is encouraged.

If you have any questions or would like to discuss further, please don't hesitate to contact me.

Yours truly,



Peter Donkers
Chair

cc: Bill Vanderspek, Executive Director
BC Chicken Marketing Board

Stephanie Nelson, Executive Director
BC Broiler Hatching Egg Commission

BC Broiler Hatching Egg Producers Association
BC Chicken Growers Association
BC Primary Poultry Processors Association

BCFIRB website