



April 11, 2013

File: 44200-40

DELIVERED BY EMAIL

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Dear Sirs/Mesdames:

CURRENT NATIONAL AND PROVINCIAL CHICKEN INDUSTRY ISSUES

The BC Farm Industry Review Board (BCFIRB) is the provincial supervisory body with responsibility to ensure the regulated system in British Columbia (BC) operates on the legislated basis of legality, sound marketing policy and in the overall public interest. The regulated marketing sector in this province accounts for approximately half of all farm gate receipts and supports a vital processing and marketing sector. BCFIRB recognizes the value of supply management in terms of its contribution to the sustainability of the BC agri-food economy and, in this case, the Canadian chicken industry generally.

Over the years, there have been an increasing number of inter-related issues within the chicken supply managed system. As a provincial supervisory body, signatory, and member of the National Association of Agri-food Supervisory Agencies (NAASA), BCFIRB has been actively involved in these issues on an on-going basis. As well, the BC Chicken Marketing Board and other stakeholders have expressed concerns about the impact on this province of unresolved pricing and allocation issues. These issues appear, to BCFIRB, to be symptoms of problematic governance and decision making processes. While the symptoms of these problems receive regular attention and the expenditure of considerable resources, the underlying causes – which have been evident for some time – have never been resolved. Many of these underlying problems have been the subject of discussion around the NAASA table for a number of years. If these underlying problems are not addressed soon, BCFIRB sees further risk to the future of a supply managed chicken industry and its contribution to BC's agri-food economy.

BCFIRB notes that the Chicken Farmers of Canada (CFC) strategic plan, now in development, identifies many of these same underlying problems as needing to be resolved, and CFC has suggested some strategies towards resolution.

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What prompted BCFIRB to act now, and express its views as a supervisory agency with legislated and signatory responsibilities, is the apparent confusion in some quarters between developing a comparative advantage-based approach to growth in accordance with section 23(2) of the *Farm Products Agencies Act (FPAA)* and addressing provincial requests for increased production. The intent of this letter is to support a wider and more comprehensive discussion on some of the underlying, inter-related issues in the chicken industry, risks, questions arising and possible conclusions.

Comparative Advantage

Developing a comparative advantage approach to distribution of growth is not dependent on managing provincial requests for increased production. The two should be addressed separately.

The principle of comparative advantage is an on-going legislated responsibility under s. 23(2) of the *FPAA*. In contrast, responding to point-in-time provincial requests for increased production is strategic management. Making the two issues inter-dependent is neither strategic nor effective. Nor has it resulted in a resolution for all the resources expended to date.

BCFIRB continues to support Farm Products Council of Canada (FPCC) in meeting its legislated responsibility to ensure all agencies, including CFC, consider the principle of comparative advantage in growth allocations. From BCFIRB's point of view, little has changed since the July 8, 2005 "NAASA Report to Federal/Provincial/Territorial Ministers of Agriculture" which outlined some of the principles underlying comparative advantage (referred to in the report as 'differential growth'):

1. That there is a capacity for differential growth [comparative advantage]

NAASA members strongly support Agencies integrating the capacity for differential growth into their operating agreements, and believe this is consistent with the original intents of supply management. Differential growth is a pre-requisite for a strong, flexible, and responsive system that can adapt to changing markets and economic factors, changing international trade rules and provincial policy aims.

Differential growth will be driven by many factors related to both the demand and supply of chicken, turkey and eggs at the national, regional and provincial levels. Population growth, market growth, processing capacity, expansion capabilities and environmental and bio-safety concerns are examples of the various factors that Agencies might consider.

It is important that there is an understanding that differential growth means that provinces will grow at different rates. It will require clarity and agreement of the starting point in terms of base production. The Agencies will also need to provide a clear mechanism for dealing with negative market growth.

BCFIRB fully supports FPCC in ensuring compliance with governing legislation and FPCC's stated values of collaboration, innovation, fairness and respect and transparency.¹ We are confident the latter will be maintained by FPCC in making its final decision(s) on the very important question of how to apply the principle of comparative advantage to allocation of growth, not only in the chicken industry, but also in the egg, turkey and hatching egg industries.

National Allocation, Provincial Production Shares and Pricing

Alberta, then Ontario, requested production increases, stating they are short based on population (AB 3%, ON 6% short). For Alberta, this is a particularly long outstanding request, going back to at least

¹ FPCC Strategic Plan 2012-15.

2007. Ontario and BC also recently requested an increase in allocation or some other means of meeting their growing specialty markets.

BCFIRB agrees it is important for the chicken supply management system to be responsive to signatory issues, although any citing of population as a determining factor is challengeable given that “self-sufficiency” is not part of the federal-provincial agreement. Whatever that response is, it must be strategic, effective and accountable. Supply management can only exist with cooperation and collaboration. Effective responses must take into account all interests, and be focused on benefits to the industry as a whole. Effective and appropriate national responses also should also not be subordinate to regional interests or sectors.

Increased production in a province must come by way of increasing the national allocation overall (growing the market), and/or from moving existing/future production (benefits) from another province(s). In any scenario, provinces, producers, and processors may see variable benefits and/or losses.

However, there are significant outstanding issues that make it difficult to develop long-term effective and strategic approaches to provincial production requests:

- National agencies, such as CFC and ultimately FPCC, have the responsibility to determine an appropriate national allocation that meets consumer demand at a price that provides a fair return to producers. The system for chicken provides a bottom up process intended to translate legitimate requests for increased allocation to meet demonstrated market demand. If such allocation decisions are not being made, it leads to the question whether sufficient accountability and strategic assessment is being applied to national allocation setting.
- Price influences market (consumer) demand. Ensuring the price of chicken is based on an accountable, transparent system that results in a fair return for efficient production would provide a step towards, in turn, an accountable, more accurate and transparent basis for the national allocation. This also points to the urgent need to address chicken pricing in light of Ontario’s proposed incentive pricing structure, and delays in updating the 20 year old Ontario Cost of Production (CoP) formula, which is based on long out-dated industry information. The realities of today’s national chicken market means that all provinces must factor Ontario pricing into their own pricing calculations – establishing an accountable pricing mechanism should be a priority for all concerned.
- Domestic allocation is flawed. While pricing is one influence on the national allocation, there are other distorting influences that are not appropriately considered in the national allocation process. These influences – such as tariff rate quota, plant supply quota and spent fowl imports – have a significant repercussion on the volume and timing of regional processor production requests in the bottom-up allocation system. While some of these are outside of direct CFC control, there may be more effective and accountable ways to take them into consideration in the allocation setting process.

All of this must be considered in light of the fact that the national domestic market for chicken is not growing in real terms. Per capita consumption of Canadian produced chicken is in fact declining year over year. Currently, it is estimated that 20 to 25 percent of chicken consumed in Canada is imported,

and that share is growing. We are likely foregoing important domestic market share and market growth opportunities due to current allocation and pricing strategies.

There are also issues at the provincial level. These include (but are not limited to):

- Significant provincial requests for increased production through growth and re-allocation can be in contrast to period to period allocation requests and final national allocation decisions (high v low). If provinces take the position they require more allocation, should both producers and processors in that province demonstrate the market exists for more production?
- Inter-provincial movement of chicken (IPM) continues to be a point of conflict that impacts provincial relations and agreements. Movement of agricultural products across provincial boundaries continues to be an ongoing business challenge in agriculture. As outlined by NAASA at a September 9, 2009 meeting with industry stakeholders regarding IPM, conflicting regulations in each jurisdiction may contribute to this issue:

Allocation and pricing are directly related but as allocation is a national responsibility and pricing a provincial one, they are not always managed in direct conjunction with each other. Moreover, how allocation is managed internally by provinces (e.g. assured supply vs. non-assured supply to processors) not only can lead to increased use of IPM but can also affect pricing (i.e., premiums/no premiums). Provincial pricing decisions can also promote use of IPM if stakeholders perceive a need to seek or pay premiums. In both cases, decisions in one province can impact stakeholders in another. Consequences, unintended or otherwise, abound from regulatory decisions being made at both national and provincial levels.

The Agreement on Internal Trade (AIT) “facilitates inter-provincial trade for the benefit of all Canadians, including producers and processors”². Although measures related to supply management are permitted under the AIT, could IPM issues potentially place that status at risk?

Unresolved, these outstanding national and provincial issues will eventually contribute to increased provincial fragmentation and will further limit industry ability to address critical operational matters in a comprehensive and sustainable way.

Governance

Good governance is necessary to be able to respond to changing societal priorities in an increasingly complex marketplace. As outlined in NAASA’s September 9, 2009 Supervisory Principles:

2. In responding to current, emerging and potential marketing opportunities, NAASA members believe it is important for boards and agencies to:
 - a) possess or access the business and other expertise necessary for them to function effectively in today’s social and business environments;
 - b) take into account the interests of all stakeholders in making principled, sound and fact-based business decisions that maintain a viable and sustainable agri-food industry;
 - c) adopt strategic and pro-active approaches;
 - d) develop and promote regulations and policies that facilitate and support a competitive and growing agri-food industry; and
 - e) establish and maintain appropriate and effective performance expectations and measures that review and enhance their operations, policies and overall capabilities on an ongoing basis.

² ‘Progress on Trade in Agriculture and Energy’, Committee on Internal Trade, October 15, 2009.

There are good, knowledgeable and dedicated people around the CFC, provincial board and supervisory agencies tables. However, the question remains – has the collective governance capacity (e.g., in terms of make-up, organization, conflicts of interest and voting structure) necessary to address these outstanding issues been demonstrated? In BCFIRB's view, this is a valid question for CFC, provincial boards and supervisory agencies considering the current circumstances.

Risks

It is well recognized that there will be a progressive trend towards liberalization of trade, over time, in Canada. Industry must take the lead in making operational and policy decisions to prepare itself in the best way possible to meet these production and cost price challenges. The status quo will not suffice as Canada cannot out produce or under price the United States, or other international producers in chicken in the near term.

Restricted production, along with import controls, benefits producers and processors through guaranteed price and stable production. Consumers receive a safe, continuous supply of product. Retention of these benefits must be earned through cooperation and coordination along with good governance and sound nationally oriented decision making. Retention of these benefits is not a right or an entitlement.

Continued infighting presents the public with the image of an entitled sector operating inefficiently, without transparency or accountability. Federal and provincial governments may question support of such a system unless the system can clearly demonstrate public benefit delivered in an accountable and transparent manner.

Conclusions

The supply managed chicken industry faces a growing number of complex and inter-related issues. BCFIRB is concerned that these issues persist in part as a result of national governance and decision-making processes that have subordinated themselves to individual provincial and sector interests. That is not the intent of supply management.

In conclusion, BCFIRB poses the following questions for consideration:

Comparative Advantage

- 1. Would it be effective and strategic for CFC to immediately decouple comparative advantage from the matter of responding to provincial requests for increased production?*

Pricing

- 2. In the absence of an updated CoP, are there steps provinces should be considering to ensure transparent and accountable pricing?*
- 3. Would it be strategic for CFC to develop a national CoP (or at least a reference framework), as was attempted in 1992 that would inform provincial pricing formulas? (e.g. similar to the egg pricing system)?*

National Allocation and Provincial Shares

4. *What steps need to be taken to ensure the national allocation reflects today's actual retail and consumer demands?*
5. *What process (other or new) is needed to strategically, effectively and fairly address other provincial production requests? (see question 4)*

Governance

6. *Do CFC and the provincial boards have the governance capability to make the decisions necessary to address these issues in accordance with the FPAA, the federal-provincial agreement for chicken and the operating agreement? If not, what is the responsibility of the supervisory boards to facilitate or assist in some way to ensure such decisions are made in the best long-term interests of the Canadian chicken industry, which includes consideration of the overall public interest?*

As outlined above, increasing, inter-related issues within the chicken supply managed system are a risk to the industry and its contribution to the BC agri-food economy. These issues appear, to BCFIRB, to be symptoms of problematic governance and decision-making processes. BCFIRB hopes this letter will generate a wider and more comprehensive discussion on the core problems in order to reach strategic, effective and accountable answers.

Supply management can only exist with continued cooperation and collaboration. Effective responses must take into account all national interests, not be subordinate to regional interests or sectors, be focused on benefits to the industry as a whole, and be in line with legislation.

BCFIRB acknowledges that the national supply management system is complex, interconnected and often conflicted. However, there are also considerable benefits. Success requires timely cooperation and coordination.

Yours truly,



Ron Kilmury
Chair

cc: BC Minister of Agriculture
BC Chicken Marketing Board
BC Chicken Growers Association
Primary Poultry Processors Association of BC

National Association of Agri-food Supervisory Agencies Members

BC Farm Industry Review Board web site