

**Supervisory Review of Proposed Amendments to the CFC Operating Agreement
(Federal Provincial Agreement for Chicken)**

**FURTHER SUBMISSIONS OF THE
PRIMARY POULTRY PROCESSORS ASSOCIATION OF BC**

June 9, 2016

1. These supplemental submissions of the Primary Poultry Processors Association of British Columbia are made in response to recent allocations for A-139 and A-140, which were released on June 2, 2016.
2. The allocations for periods A-139 and A-140 were made by CFC using the formula in the 2014 Memorandum of Understanding ("MOU") (the "Formula"). This is the same formula which the BC Chicken Board is advocating to be accepted in the proposed amendments to the Operating Agreement at issue in this Supervisory Review.
3. The A -139 and A-140 allocations are significant as they demonstrate the negative impact of this Formula on chicken allocations to BC. CFC for many years chose to issue *pro rata* allocations across the country. The PPPABC has filed submissions in this Review explaining the detrimental impact on BC processors of *pro rata* allocations. *Pro rata* allocations do not allow for differential growth responsive to the actual needs of the BC market.
4. The BC Chicken Board in its submissions in this Review state that the Formula in the MOU and the proposed amendments to the Operating Agreement will not be significantly worse than *pro rata* allocations. It relies on the March 21, 2016 Ference & Co. report, which states that from A-138 to A-209 "BC's share of the national allocation is projected to be 14.16% based on the current differential growth formula which is slightly less than BC share of 14.21% based on *pro rata*."

See para. 31 of Chicken Board submission
dated March 31, 2016

5. As outlined in PPPABC's prior submissions, A-137 and A-138 were periods of unusually high allocations, which were not sustainable. In A-139 the allocations are returning to more normal levels, and the negative impact of the Formula on BC is highlighted.

6. What the allocations since A-139 reveal is that under normal market conditions the Formula will result in allocations to BC that are significantly less on a percentage basis than Ontario, and the Western region will receive allocations which are similarly less on a percentage basis than Central Canada.
7. The allocations since A-138, expressed as a percentage over base, are set out below:

Period	BC	Western	Ontario	Central	National
A-138	4.3%	5.1%	5.6%	5.1%	5%
A-139	1.5%	1.9%	2.5%	2.2%	2%
A-140	2.4%	2.9%	3.6%	3.2%	3%

Affidavit of J. McDowell #2, Exhibits "A", "B" & "C"

8. Beginning in A-139, the Western region will receive less than the Central region, and BC will continue to receive less than Ontario and the national allocation, as national allocations return to more reasonable growth rate.
9. The CFC vote for the national allocation of 2% in A-139 was unanimous. However, the impact of the Formula on the BC allocation is not supported by the CPEPC Western Director. The Formula distributes the national allocation in a way that results in a significant disadvantage to BC. While the MOU is in place, the CFC allocates using the Formula notwithstanding the Western processors' opposition to the MOU and the Formula. PPPABC opposes the use of the Formula and takes the position the MOU is illegitimate as an allocation methodology, as outlined in its prior submissions.

Affidavit of J. McDowell #2, para. 3

10. The CFC vote for the national allocation of 3% in A-140 was not supported by the CPEPC Eastern Director nor the FPPAC Director. It was supported by the CPEPC Western Director as a national allocation. However, the impact of the Formula on the distribution across the provinces continues to be opposed by the Western processors, as set out in paragraph 9.


Affidavit of J. McDowell #2, para. 4

11. The CPEPC Western Director supported the 3% over base allocation in A-140 because the base allocation for A-140 will actually result in 3.1% more domestic production versus last year where A-139 at 2% over base allocation results in 4.2% versus last year. Although the over base allocation percentage was higher in A-140, the percentage growth versus prior year production is lower.

Affidavit of J. McDowell #2, para. 5

12. It is submitted that the experience in A-139 and A-140 demonstrates the significant negative impact of the Formula in the MOU and the proposed amendments to the Operating Agreement. The Western region will receive significantly less on a percentage basis than the Central region, and this is further reflected in the allocation to BC. This disadvantage will continue throughout the lifetime of the Operating Agreement if the proposed amendments are approved.
13. PPPABC has repeatedly stated that more product is needed in BC to maintain the competitive position of the processors against processors in Central Canada. Recent allocations have been significantly higher than the past 10 year averages and as such, have produced numbers which masked the MOU Agreement's true negative effects on BC. As allocations have now been reduced to normal levels, as shown in A-139 and A-140, the impact of the Formula becomes more severe.
14. Prior to A-137, the Western and Central regions had similar regional allocations, which were slightly over the national allocation, while BC was less than the Western region. However, as the national allocations dropped to 2% and 3%, the Western and Central regions are no longer equal, and the disparity between BC and Ontario is exacerbated. This clearly demonstrates that the analysis in the Ference & Co. report relied upon by the BCCMB which shows little, if any, market share deterioration of BC's position is a 'hopeful' scenario and is not based on the industry posting normal growth numbers. As the industry returns to normal growth numbers, the new MOU will continue to disadvantage BC's processors' supply situation and will provide Ontario with a significant production advantage in the processing sector, allowing it to increase its displacement of Western product in the Western market.

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for: 
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