



# BC Farm Industry Review Board

## Chicken Sector Pricing Supervisory Review

April 30, 2020 Introductory Meeting

### Summary

#### Attendees:

**BCFIRB:** Peter Donkers, Panel Chair; Al Sakalauskas, Member; Harveen Thauli, Member; Kirsten Pedersen, Executive Director; Wanda Gorsuch, Manager Issues & Planning

**BHEC:** Jim Collins, Chair; Joe Neels, Vice Chair; Beata Kunze, Member; Calvin Breukelman, Member; Stephanie Nelson, Executive Director

**CMB:** Harvey Sasaki, Chair; Alistair Johnston, Vice Chair; Derek Janzen, Member; Ray Nickel, Member; Gay Hahn, Member; Bill Vanderspek, Executive Director; Christine Rickson, Executive Assistant

#### ***BCFIRB Opening Statement***

The BCFIRB Supervisory Panel Chair, Peter Donkers, reiterated and supported BCFIRB's expectation that workable pricing models must be consistent, predictable, transparent and result in competitive price, across both hatching egg and the broiler chicken sectors. An overview of the current context resulting in the establishment of the supervisory review was provided:

- The BC Broiler Hatching Egg Commission (Commission) notice to exit the price Linkage Agreement with the BC Chicken Marketing Board (Chicken Board) that has been in place since 1995;
- The Chicken Board's notice that a long-term pricing formula will not be in place for A-163 as per BCFIRB's amended pricing appeal Order; and,
- Recent appeals by the Primary Poultry Processors Association of BC (PPPABC) and the BC Chicken Growers Association (BCCGA) of a Commission decision to remove spent fowl and salvage egg revenue from the linkage Cost of Production.

#### ***COVID-19 Overview***

##### Hatching Eggs

Hatching eggs has a two-year planning cycle. Flocks producing eggs this year were placed last year. The core challenge has been focused on how to decrease production in a timely way, while finding some means of retaining flocks for recovery. It is not possible to find value-based markets for all eggs at this time given the decreased demand from chicken growers for chicks,



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and the 40% decrease in the processing market. The current situation is not financially sustainable for hatching egg producers. The Canadian Hatching Egg Producers, with the Commission, is working with Global Affairs Canada on potentially reducing Tariff Rate Quota under utilization penalties.

### Chicken

With the decrease in food service demand, national allocations for the summer (A-163 and A-164) cut production by 15%.<sup>1</sup> The core challenge is ensuring markets are not shorted in the short-term and managing for future demand. A key risk is processing capacity should one of the major BC poultry plants be closed due to COVID. To date processors have successfully cooperated to ensure all chicken is processed despite the closure of some of the smaller plants. However, this comes at increased costs (e.g. additional transportation and overtime).

### ***Price Linkage Overview by Bob Burden (Serecon)***

Mr. Burden provided an overview of the price linkage and answered technical questions on the cost of production components for the panel. He noted that general areas of disagreement tend to focus on labour and capital. While Chicken Farmers of Ontario (CFO) price is used for chick and feed price components, no information is available on what data CFO uses to reach these prices.

### ***Pricing Process Update***

The price linkage cost of production (COP) model was updated in 2019. Commission work on the hatchery margin continues, including a 3<sup>rd</sup> party verification of a proposal to use a formula-based approach.

### Hatching Eggs

The Commission, with its Pricing and Production Advisory Committee support, agreed to continue pricing through the linkage for the time being due to COVID-related chicken sector disruption. It is continuing to develop an alternative COP based pricing model to replace the price linkage.

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<sup>1</sup> A-163: Western provinces domestic allocation revised to 7.5% below the A-163 allocation established in early February. Central and Eastern provinces domestic allocation revised to 15% below the A-163 allocation established in early February.

A-164: Western provinces domestic allocation set at 7.5 % below the adjusted base. Central and Eastern Provinces domestic allocation set at 12.6% below base.



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### Chicken

The Price Working Group (PWG) facilitator will be submitting an update report to the Chicken Board. The Chicken Board will then assess where the process is at and what work remains outstanding. The PWG is temporarily on hold due to COVID. A PWG update with the hatching egg sector was scheduled for March but is now postponed. Ontario's pricing mediation process continues, with no defined end date.

### ***Interim Pricing Stability and Long-Term Planning***

The Commission and the Chicken Board agreed that chicken sector stakeholders are not happy with the current pricing systems in place, however that managing COVID-related issues is the current priority.

Pricing is seen by the Chicken Board and Commission as stable and transparent for the time being, despite overall disagreements with the interim chicken pricing formula and hatching egg pricing results from the price linkage.

No dates or timelines have been set and communicated as to when work will continue on the chicken pricing formula and when the Commission will consult on and submit its price linkage exit submission. The Chicken Board is prepared to expedite its decision-making once it receives a recommendation from the PWG, and the Commission continues to work in the background with information that will support its exit submission.

Achieving consensus on pricing has always been and continues to be a challenge. There appears to be little incentive for parties to change or adapt their positions. The industry strategic framework initiative launched by the Chicken Board and Commission in 2019, is intended to take the challenges and conflicts over pricing and move forward in a constructive and strategic fashion that results in a stable and sustainable industry.

### ***Long-Term Pricing***

The Commission anticipates tabling a new approach for hatching egg pricing in the near future, for consultation. The Boards identified the following considerations and barriers related to long-term pricing success:



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- Over reliance on using Ontario prices. Lack of safeguards or mechanism(s) to manage impacts of Ontario price changes. Continued connection to Ontario chicken price can be a vulnerability. A national or western COP may reduce the vulnerability.
- Little incentive for parties to change or adapt their positions.
- BC chicken sector costs – how to balance all supply chain member business needs (i.e. returns for chicken sector producers and processor competitiveness in a high-cost production province).
- Finding a means to define and assess processor competitiveness based on data.
- Finding a means to define and assess a reasonable return for producers based on data.
- Consideration of pricing impacts on consumers.
- BC's chicken sector cannot compete directly against lower cost imports given supply management requirements based on the public interest demand for quality, food safety, biosecurity, and animal welfare. Competition is within Canada.

### ***Next Steps***

The supervisory panel will be developing a draft Terms of Reference for the Chicken Board, Commission and industry stakeholders. The panel will be determining if there is additional information and/or meetings it may need in the short-term regarding pricing.