



August 25, 2020

BY EMAIL

British Columbia Farm Industry Review Board
780 Blanshard Street
Victoria BC V8W 2H1

Attention: Kirsten Pedersen

Re: Long Term Chicken Sector Pricing – Revised Review Process

The Primary Poultry Processors Association of BC (PPPABC) writes in response to the BC Farm Industry Review Board's (BCFIRB) letter of August 13, 2020.

The PPPABC is pleased to see that the panel has decided to appoint a third-party BCFIRB liaison. The PPPABC looks forward to working with the panel, the liaison, the boards, and other stakeholders throughout the review process. The PPPABC will provide further comments when details on the person's roles and responsibilities are provided.

The PPPABC will participate in good faith in discussions on what constitutes meaningful data and how that data may be used to develop pricing options and recommendations. However, to understand what data is meaningful for understanding processor competitiveness, a theoretically sound definition of processor competitiveness needs to be established. Without a coherent definition of processor competitiveness, general requests for data will lead the review process astray and risk unsound pricing options.

As part of the revised review process, the PPPABC requests that the panel provide an opportunity for dialogue amongst the boards and stakeholders to establish a framework for processor competitiveness. This will benefit the review process by allowing for a rational analysis of what types of data are relevant. Only once a definition for processor competitiveness is established, then the parties can agree on what data supports the definition, how to get the data, and how the data will be shared and evaluated. The panel and liaison will also need to create protocols to protect competitively sensitive and proprietary data, which could be used by processors in other provinces to the disadvantage of BC processors.

The PPPABC is currently developing a framework for understanding BC processor competitiveness. One potential framework that can be used to define processor competitiveness in the poultry market is to use Michael Porter's generic strategies,¹ with appropriate adaptations to the Canadian chicken market. Generally speaking, the realities of the Canadian chicken market force processors to focus on a cost leadership strategy. Any competitiveness measures need to focus on the comparative cost structures between BC processors and similar processors in Central Canada.

The PPPABC proposes that processor competitiveness can be defined as a comparative cost structure that allows British Columbia processors to:

¹ See, e.g., Michael E. Porter, *Competitive advantage: creating and sustaining superior performance* (New York: Free Press; London: Collier Macmillan, 1985).

1. maintain or enhance market share for chicken as a preferred protein source in the Canadian market;
2. maintain or enhance market share for British Columbia processed chicken in the Canadian chicken market; and
3. achieve sustainable long-term returns on the resources invested.

Most products in the BC chicken industry are commodity based fresh and frozen chicken products that are primarily distributed through a consolidated national retail and food service network. While there are some national and regional chicken brands, most products are sold through private labels where suppliers can be easily switched out. Although there are smaller speciality chicken markets, the majority of BC chicken is sold into a mature market, based on price with little differentiation between products. These factors require chicken processors to maintain cost competitiveness with other processors across Canada.

It must also be remembered that in most cases the individual consumer is not the “customer” of BC processors. Instead, BC processors sell to retailers, who in turn sell to individual consumers. Retailers only raise consumer prices as a last resort, only after they have pushed suppliers (such as processors) to the brink. A recent example of this is one of the major national retailer’s position of forcing specific price decrease expectations onto chicken processors in order for them to recover their COVID-19 costs. We expect other retailers to follow suit in the coming weeks. In this environment, processors with lower costs are better able to react and respond to these expectations and market conditions. Passing cost increases onto retailers is simply not a viable strategy in a market where retailers have dominant power.

The PPPABC looks forward to discussing these concepts further in the Chicken Sector Pricing Review. We agree with the panel’s reminder to the boards that the long-term chicken pricing review must ensure the interests of all stakeholders are taken into consideration during the work carried out. Processor competitiveness is a significant element of any chicken pricing analysis, and it must receive proper consideration throughout the review process.

Sincerely,



Blair Shier
President
Primary Poultry Processors Association of BC

c. Craig Evans – PPPABC
Morgan Camley – Dentons