



BC Chicken Growers'
ASSOCIATION

June 19, 2020

BY EMAIL

Kirsten Pedersen, Executive Director
BC Farm Industry Review Board (BCFIRB)

Dear Kirsten:

Interim Pricing Submissions and Schedule

This letter is in response to the BC Farm Industry Review Board's (BCFIRB) request on June 8, 2020 for a written submission from the BC Chicken Growers' Association (BCCGA) in response to the following two questions. The answers are provided below.

Question 1: Are one or more of the pricing structures in place currently resulting in industry instability? If yes, please provide your rationale that demonstrates this instability.

The current chicken live pricing structures are unsustainable for the chicken industry. Our members require a healthy industry with BC chicken growers and broiler hatching egg producers receiving a sound return while processors remain competitive.

At the present time, BC live chicken prices are significantly below our members' actual Cost of Production ("COP"). While the processors have historically discounted the value of the Serecon COP, we believe it is a fair representation of the actual costs our members incur to grow chicken. Presently, that model suggests that the current BC live price is at 12 cents/Kg below the COP. The reality is that for several years depreciation has and continues to fund chicken farm operations and it is very difficult for BC chicken growers to re-invest in their farm business and the industry.

The current live price formula is based on the Ontario live price formula that is neither transparent nor predictable. The 75% differentials in feed and chick prices are too low and have diminished the capital our members need for replenishment or refurbishment of their farm operations.

The BC broiler hatching egg producers are faced with the same issues as the BC chicken growers and claim that revenue streams of other stakeholders have added to their hardship. The BC Broiler Hatching Egg Commission (BCBHEC) have now said that they are planning to exit the linkage agreement and move to their own COP. Our linkage agreement with BC broiler hatching egg producers has provided stability in the chick price. However, the recent BCBHEC unilateral change to the linkage agreement, that removed the revenues from spent fowl and salvage eggs and made changes to the kill age, has resulted in more instability.

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At the same time, BC processors are pursuing a decrease in the live price when metrics and studies show that they are doing financially well. BC processors do not contribute to the national data collection for wholesale pricing. Data on their competitiveness and the amount of chicken crossing provincial borders is not available.

Additionally, and concerningly, consolidation of chicken quota to BC processors has accelerated over the past several years. BC processors have offered the highest price for quota as an increasing number of BC chicken growers exit the industry due to low and unacceptable returns. While it is speculative, our members believe this is part of a concerted effort to reduce and eventually eliminate small, independent chicken growers in British Columbia. The impact of these acquisitions is that large corporations, who own processing plants and hatcheries, acquire quota while farm succession to the next generation is greatly reduced.

These trends indicate that the chicken industry is a stable and profitable business for BC processors but an unsustainable business for non-vertically integrated chicken farms. BC processors now control approximately 25% of BC chicken quota which provides them with a competitive advantage on input costs such as feed and chicks and accurate knowledge of the BC chicken growers' costs of production.

The current BC Chicken Marketing Board (BCCMB), an appointee majority board, has continuously delayed the decision on the long-term price. Numerous pricing appeals have been filed since the inception of the appointed board. This situation has contributed to pricing tensions and resulted in the friction that we see in the industry today.

One other issue is the chicken catching charges with more details below.

Question #2: If you believe current pricing structures are resulting in industry instability, what interim changes do you believe are necessary to create stability? Please provide your rationale.

Short-term

Recognizing that a permanent long-term pricing model is unlikely to be implemented in the coming months, we believe the following immediate actions can be undertaken to provide stability to the industry:

- rescind the BCBHEC's linkage changes by including revenues from spent fowl and salvage eggs and not allowing changes to the kill age unless determined for an extended period as has historically been the case; and
- the BCBHEC/BCCMB linkage agreement to remain in place for the interim live price; and
- the current Ontario based pricing formula to remain functional but move from 75% to 100% recovery of feed and chick costs.

These adjustments will bring the BC chicken live price formula closer to the BC chicken growers' COP. However, this will not yield the actual cost recovery for BC chicken growers.

The BCCGA requires an implemented change to catching charges that has been discussed throughout the Western provinces, where BC processors pay for catching instead of BC chicken growers paying first and then adding that amount to the live price. This charge back artificially inflates the live price. This change would follow the Ontario model where processors pay for catching costs.

Long-term

- All stake holders need to be fiscally healthy for the BC chicken industry to remain viable. We believe that a COP based price model is the best long-term solution. There is nothing radical in this suggestion as this model would mirror that adopted in the organic sector. Notably, in that process, the BC processors refused to divulge financial information, and in response, the live price was set at 100% COP. The BC processors claimed hardship (as they always do) but the organic industry is thriving under the COP model. The specialty chicken live price is also based on a 100% COP model and has continued to grow over the past decade. Specialty chicken is in a unique position where the BC allocation is not protected by Chicken Farmers of Canada (CFC) and therefore is even more vulnerable to national competitiveness. BC specialty chicken processors have continued to grow the market and operate under these conditions.
- The BCCGA supports a COP based pricing model for both the BC broiler hatching egg producers and BC chicken growers and would support a simultaneous move to a COP based pricing model. The BCCGA would consider wholesale margins being used as a component of fixing a live price, only if processors provide independently verified data on a regular basis. Data must be provided by all stakeholders, whether in confidence or not. Processors can no longer claim hardship without providing verifiable data. However, based on historical practices, we have little faith that the processors will be forthcoming with such data. A long-term price that yields cost recovery for BC chicken growers will stem the long-term instability.
- The BCCGA requires that the BCCMB composition be changed from the current appointee system to a BC chicken grower elected board with an appointed chair. This is the predominant model we see within supply managed commodities in BC and across the country. The last all grower elected board was in 1995. Since then, there has been a lack of equity for BC chicken growers and ongoing conflict with BC processors. For long-term pricing to be resolved, the BCCMB composition needs to be addressed. The BCCGA feels that this situation has gone on far too long. The BCCMB has had ample time to move forward with options but has preferred to watch Ontario and rely on the Price Working Group while the BC industry has reached this stage of instability. The BCCGA has indicated October 31, 2020 as a timeline for the BCCMB to make the long-term pricing decision. If the BCCMB does not determine a long-term price by that date, the BCCGA supports the BCFIRB Supervisory Review on the linkage to include the long-term pricing model, on the understanding that the BCCGA is granted standing to fully participate in the review.

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- The BCCGA requires the transfer of ownership (FOB) to be clarified by defining at which stage this transfer occurs. Chicken catchers are the agent of the BC processor as the BC chicken growers cannot select their own catching crews. The BC chicken growers and BC processors need to be equally responsible for animal welfare and actively manage this risk.

Please feel free to contact us at any time if you have any questions or require clarification.

Sincerely,



Dale Krahn
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