



## **INTERIM PRICING SUBMISSIONS AND LONG-TERM PRICING NEXT STEPS – June 26, 2020**

By way of a June 8, 2020 letter, the BC Farm Industry Review Board (BCFIRB) requested further submissions from chicken and hatching egg sector stakeholders concerning the subject. June 19, 2020 submissions were received from the Primary Poultry Processors Association of BC (processors or PPPABC) and the BC Chicken Growers' Association (BCCGA). These were in addition to earlier submissions from the processors, the BCCGA, the BC Egg Hatchery Association (BCEHA), and the BC Broiler Hatching Egg Producers' Association (BCBHEPA).

The BCFIRB letter also provided opportunity to the BC Broiler Hatching Egg Commission (Commission) and the BC Chicken Marketing Board (Chicken Board) as the first instance regulators to respond to those submissions.

The Commission and the Chicken Board (the boards) have reviewed the stakeholder submissions and are submitting this joint response. Certain issues to which the boards wish to address separately as the Commission and Chicken Board are intended as appendices to the joint submission and will be forwarded under separate cover. The overall response is joint because as the boards have worked through pricing issues and engaged together in the Chicken Industry Strategic Framework project, they have agreed that the regulation of the BC chicken industry should be more closely integrated; both generally and with respect to pricing. The boards are co-locating in July 2020 and discussions between the boards on the development of a new regulatory framework are ongoing.

The boards again acknowledge that there is general dissatisfaction with the current pricing regime in BC, specifically the live price formula and the limitations of the linkage. The boards do not disagree with the processors that the present differential between BC and Ontario has increased. The boards also agree that the pricing relationship between Ontario and BC is and will remain a factor. However, that relationship should not be based on accepting an Ontario posted price that may not reflect the actual price for chicken in Ontario. BC should also not be accepting of decisions by Ontario – that may or may not be made – as determining the price for BC chicken without a new analysis of the pricing structure in BC and its impact on all stakeholders. Much has changed in BC, across the west and nationally in the 25 years since

BCFIRB's review of the chicken industry and the creation and initiation of the Linkage Agreement in 1995.

That is why the boards, as part of this response, will be proposing a new approach to pricing in BC that will provide for long-term stability and certainty. It is time for the BC chicken industry to turn the page on pricing and focus on repositioning for the future.

### **Status of the Linkage**

At the outset of Period A-156, the Commission advised of its intent to withdraw from the linkage effective the commencement of Period A-158. Subsequently, by way of a July 31, 2019 letter, BCFIRB advised that its prior approval was not required for either or both boards to withdraw from the linkage. However, BCFIRB expected that the Commission, prior to pursuing an exit from the linkage would provide an "evidence-based SAFETI rationale setting out why the exit would be in the best interest of the hatching egg sector and the overall chicken supply chain" and asked the Commission to "remain engaged with the price linkage agreement following any future exit submission to BCFIRB until such time as BCFIRB assesses the submission and provides its response." As communicated previously, the Commission is in the process of preparing that evidence-based submission and has remained engaged within the price linkage agreement to date. The Chicken Board is on record as supporting the continuation of the linkage agreement.

Please see the appendices for the Commission's and the Chicken Board's further comments about the current status of the linkage.

### **Interim Pricing**

Although differences remain, it is the strongly held view of the boards that substantive changes to pricing in the BC chicken industry are required. Both boards are also strongly of the view that maintaining the *status quo* of the current Chicken Board pricing formula and the current linkage agreement parameters on an interim basis is the only realistic option pending the development of a new approach to pricing. This point is put forward despite the PPPABC members stopping the payment of loyalty bonuses to growers effective Period A-163. The processors action to stop the payment of the loyalty bonus should be viewed as an interim pricing measure unilaterally taken by the processors.

Although the boards will address some in this letter, many of the issues and financial calculations raised by stakeholders in their submissions can and should properly be responded to as part of the new approach to pricing.

The true live price of chicken in Canada and in BC is currently in a state of flux and not transparent. Recent allocations by the Chicken Farmers of Canada have shown that at least during COVID-19, there are market differences between eastern and western Canada. This has been argued nationally by the Canadian Poultry and Egg Processors Council in its complaint to the Farm Products Council of Canada regarding the Period A-165 allocation. There is no evidence that current pricing is unsustainable for any stakeholder in the short term. Nor is it feasible at this stage to assess all the hard costs the BC chicken industry has incurred because of COVID-19.

Any substantive attempt to “stabilize” BC pricing on an interim basis is likely to suffer from a lack of supporting rationale, lead to unintended consequences and potentially lock-in significant flaws in the current BC pricing structure that should be re-evaluated. All things considered, the boards believe that the *status quo* offers the interim certainty and stability the industry currently requires.

Certain issues that some submissions argue have a direct impact on interim pricing should be clearly understood and are addressed by the Commission and the Chicken Board in the appendices.

Given the above, the information outlined in the appendices, other issues arising from COVID-19, and no evidence of unsustainability in the interim, the BC pricing situation is presently stable and certain. The general dissatisfaction notwithstanding, there is no substantiated rationale for changing the *status quo* until a new approach to pricing is realized.

## **Calculations**

In their June 19, 2020 submission, the processors provide several cost and differential impact calculations. While some of these points should and can be addressed in substance during the new pricing approach review, the boards in the appendices are providing their “interim” response regarding these cost and differential calculations.

## **New Approach to Pricing in BC Chicken Sector**

It seems that a major objective of the processors is to forestall real change in BC by returning to and locking in a historical approach to chicken industry pricing in BC that again considers ‘assurance of supply’. In addition, they seek to secure for themselves and their hatcheries all benefits that may arise if long-awaited changes to annual adjustment in Ontario are effected.

The processors want to disadvantage producers and growers at the outset; to which the boards strongly object. The boards believe it is time for a different approach to BC pricing that takes

into consideration the interest of processors and hatcheries, but which gives greater weight to the future sustainability of hatching egg producers and chicken growers.

An issue that has plagued pricing discussions in BC is that of processor competitiveness. Although it remains unresolved today in terms of actual numbers, there are other measures which indicate the competitiveness status of the processors. Sofina's chicken operations are part of a major national company. Since 2004, the Pollon Group and Sunrise Farms have expanded outside of BC and between them now have operations in Alberta, Saskatchewan, Manitoba, and Ontario. The boards appreciate that the "BC" processors have major competitors in the marketplace but absent definitive evidence to the contrary, the breadth of these processors operations across the country leave the boards unable to defensibly address their arguments about overall competitiveness and sustainability at this time.

Here in BC, processors own associated hatchery operations which are also part of the overall processor revenue stream. Including prices hatching egg producers pay to hatcheries for breeder chicks and vaccines, the costs of which are included in the linkage. As well, the amount of broiler quota held directly or indirectly by most of the processors is approaching 25 percent of all such quota in BC. These integrated business operations provide processors with a significant financial advantage, as evidenced by their ongoing acquisition of broiler quota and farms. Something that the average chicken grower (or new entrant) is increasingly unable to do as grower returns are unable to cash flow these purchases. Growers being shut out of opportunities to acquire quota or farms are not the intended outcome of supply management.

BC is a high cost province, notably feed and land. This has been the case historically but now growers and producers are facing increasing costs in terms of food safety, animal care, environmental, farm practices, etc. These are obligatory (as are similar requirements for processors) but are not sustainable for producers and growers under the current pricing regime. New entrant chicken growers are facing increasing challenges, bringing into question the future of new entrant and regional programs. Both boards continue to support the overall objectives of the Regulated Marketing Economic Policy and the Specialty Review but are increasingly reluctant to continue encouraging new producers and growers to enter an industry facing such financial challenges. By way of comparison, the egg and dairy sectors supported by COP-based pricing are less affected by these challenges as pricing in those sectors has been resolved both provincially and nationally.

As clearly illustrated by commencing the Chicken Industry Strategic Framework initiative, and examining closer regulatory integration, the boards are committed to a fulsome examination of the challenges and opportunities the BC chicken industry faces in order to be sustainable and successful over the longer term. Pricing has been ever present in the discussions between the boards and with stakeholders as a factor that must be addressed, including in promoting new approaches in the west and nationally.

The boards have come to an understanding that it is essential that a sustainable return on investment be identified for producers and growers and for this margin to be a major consideration in the future pricing structure in BC. Identifying their costs and establishing a fair, sustainable return for efficient producers and growers will ensure their interests are first and foremost in future pricing, again as intended by supply management. This will address the major, long term objectives of the BCBHEPA and BCCGA in their submissions.

The boards intend including the work done to date on the hatchery margin, breeder chick and vaccine pricing in this review, addressing the principal concern of the BCEHA in their submission (and of the PPPABC submission as it applied to the hatcheries). Given the nature of the industry, this new “linkage” will enable future discussions about the appropriate live price to be better informed by the transparent, substantiated needs of producer, hatchery, and grower stakeholders. Between them, the boards have the pricing jurisdiction to ensure regulatory certainty and stability through formula-based pricing on an ongoing basis, similar in principle to the three-way model in Ontario. It would address the processors concerns about dealing with a multi-faced pricing environment. The sole issue would be the appropriate live price.

If processors have competitiveness issues, the boards believe there should be an onus on the processors to bring these forward in ways matching the boards’ pricing transparency and substantiation. In this way, factors such as Ontario differentials or substantive market developments can be considered in subsequent, evidence-based pricing decisions. This could include guardrails if substantiated by the evidence brought forward by processors.

Similarly, stable, certain, and sustainable pricing will enable stakeholders to engage in initiatives to increase industry efficiencies and cost reduction, support policy objectives of Government, promote western and national pricing approaches and streamline regulation. These are in the interest of all stakeholders and will be expedited and enhanced by resolving pricing in the first instance.

The Commission has been engaged with Serecon and MNP in examining the hatching egg producer cost of production and the necessary return on investment. It is preparing a producer survey to update the existing information supplied in the earlier linkage COP surveys. The Chicken Board has also commenced a survey and engaged a third-party economist to review chicken grower costs and appropriate margin. Both boards will now be working with the hatcheries on the hatchery margin, breeder chick and vaccine pricing component to see if all three components can be integrated into a new three-way “linkage”.

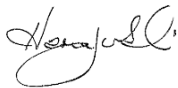
The boards acknowledge that the PPPABC, the BCCGA, the BCEHA and the BCBHEPA have all expressed concerns about the amount of time it has taken to resolve the current pricing issues in BC. The boards share that frustration. What is clear to the boards is that this delay and

frustration arises from systemic flaws in the current pricing and linkage that need to be re-examined in-depth rather than patched over. This refocusing should include an in-depth assessment of the pricing (and allocation) decision-making in Central Canada that is increasingly directing outcomes in BC.

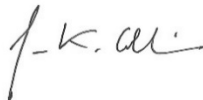
The boards propose engaging in a joint, evidence based, SAFETI process that will examine hatching egg costs and margin, the hatchery margin (including breeder chick and vaccine pricing) and chicken grower costs and margin. Having taken COVID-19, the time of year and resources into account, the boards will commit to finishing this process by Period A-167, commencing December 20, 2020. As this process will be fact-based and transparent, the boards intend sharing information as appropriate throughout so that the outcome of this new “linkage” formula will have already been subject to external scrutiny.

### **Conclusion**

BCFIRB should support the current status quo for the purposes of interim pricing. The boards also strongly recommend that BCFIRB support the boards working together to resolve BC chicken industry pricing for the longer term. Permitting the boards to concentrate on a new approach to pricing instead of further trying to manage pricing in the interim is a better utilization of time and resources. Doing so will also enable the boards as first instance regulators to address jointly other outstanding regulatory issues in the sector. This resetting will provide the refocusing the sector needs to allow the BC chicken industry to move forward.



Harvey Sasaki, Chair  
BC Chicken Marketing Board



Jim Collins, Chair  
BC Broiler Hatching Egg Commission