



BC Farm Industry Review Board

May 12, 2020

File: 44200-60/BHEC CMB

DELIVERED BY EMAIL

Morgan Camley
Dentons Canada LLP
Counsel for Primary Poultry Processors'
Association of British Columbia

Claire E. Hunter Q.C.
Hunter Litigation Chambers
Counsel for BC Chicken Marketing Board

Robert Hrabinsky
Affleck Hrabinsky Burgoyne LLP
Counsel for BC Broiler Hatching Egg
Commission

Paul D. McLean
Mathews, Dinsdale & Clark LLP
Counsel for BC Chicken Growers'
Association

Dear all:

CHICKEN SECTOR PRICING SUPERVISORY REVIEW – PRICING CONSULTATION INVITATION

On April 30, 2020 the BC Farm Industry Review Board (BCFIRB) supervisory panel¹ met with the Broiler Hatching Egg Commission (Commission) and the BC Chicken Marketing Board (Chicken Board). The meeting was intended to establish a consistent, transparent process to manage any future changes to the respective pricing tools until such time that the outstanding linkage exit question and chicken pricing formula questions are resolved."²

A summary of the April 30, 2020 meeting is attached to this letter and will be posted to BCFIRB's web site.

The panel will meet with and/or receive written submissions from key industry parties before determining what steps, if any, it needs to take to ensure stable industry pricing in the interim until the longer-term issues around the linkage and the chicken price formula are resolved. The panel appreciates that there are additional pressures on the parties resulting from the COVID-19 pandemic that may also need to be taken into account as it determines its next steps.

¹ Peter Donkers, panel chair; Al Sakalauskas, member; Harveen Thauli, member

² 2020 April 14. BCFIRB. Price Linkage Supervisory Review April Meeting Planning

Web:

Email: firb@gov.bc.ca

Website: www.gov.bc.ca/BCFarmIndustryReviewBoard

Phone:

Info: 250 356-8945

Fax: 250 356-5131

Mail:

PO Box 9129 Stn Prov Govt
Victoria BC V8W 9B5

Office:

2975 Jutland Rd
Victoria, BC V8T 5J9

Background

On March 17, 2020 BCFIRB established a supervisory panel to address the Commission's price linkage exit notice and any related supervisory matters as the panel may deem necessary.³ On April 29, 2020 the former BCFIRB pricing appeal panel transferred the matter of a time for the adoption of a new long-term chicken pricing formula to BCFIRB's supervisory authority.⁴ Given the inter-connected nature of broiler hatching egg and chicken pricing, the supervisory panel is including the outstanding chicken pricing formula as a related supervisory matter.

Consultation

The supervisory panel would like to schedule separate meetings of approximately one hour with your respective organization representative(s) no later than May 29, 2020, by video or teleconference. The panel would like to focus about 45 minutes of this time on interim pricing stability and 15 minutes on long-term pricing barriers and considerations.

While the primary meeting purpose will be to discuss what, if any, changes or timelines the panel should be considering to help ensure interim pricing stability until such time that the outstanding linkage exit question and long-term chicken pricing formula questions are resolved, the panel also wishes to hear your views on long-term pricing matters.

To schedule a meeting with the supervisory panel please contact Kirsten Pedersen by May 15, 2020.

Conference number information and a short agenda will be provided in advance.

If the current situation does not allow your representative(s) time to meet, the panel will accept written submissions until May 29, 2020.

Summaries of these meetings and any written submissions will be posted to BCFIRB's web site. Prior to posting any meeting summaries, BCFIRB staff will confirm the correctness of the summary with your representative(s).

If your organization anticipates that it may wish to share information it considers sensitive or confidential, please let the panel know this in advance during the meeting, or in your submission. The panel can then assess the nature of the information and use

³ 2020 March 17. BCFIRB. Price Linkage Supervisory Review.

⁴ 2020 April 29. BCFIRB. RE: PPPABC and BCCGA v. BC Chicken Marketing Board – Long-Term Chicken Pricing Formula Order Transfer to Supervisory Authority.

its discretion to determine the most appropriate course to manage receipt of the information and any sensitivities.

The panel looks forward to hearing from you.

Regards,

A handwritten signature in black ink, appearing to read "Peter Donkers". The signature is stylized with a large, sweeping initial "P" and a long, thin tail extending upwards and to the right.

Peter Donkers
Panel Chair

Attachment

cc: Jim Collins, Chair
BC Broiler Hatching Egg Commission

Stephanie Nelson, Executive Director
BC Broiler Hatching Egg Commission

Harvey Sasaki, Chair
BC Chicken Marketing Board

Bill Vanderspek, Executive Director
BC Chicken Marketing Board

BCFIRB web site



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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%.¹ 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 3rd 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.

¹ 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.