



July 15, 2021

Ms. Kirsten Pedersen  
Executive Director  
BC Farm Industry Review Board

VIA EMAIL

Dear Ms. Pedersen:

**Re: Industry Stability and Current Pricing Structures File: 44200-60\BHEC CMB**

The Primary Poultry Processors Association of BC (PPPABC) is in receipt of the BC Farm Industry Review Board (BCFIRB) letter dated July 8, 2021 pertaining to the above matter. In its July 8, 2021 letter, the BCFIRB has asked stakeholders whether one or more of the current pricing structures are resulting in industry instability. Below, we offer the following perspectives and comments.

It is important for the BCFIRB to understand that the BC poultry industry, like all businesses, abhors instability. Processors put considerable effort into ensuring that our customers are confident in our ability to supply their needs and that our businesses are secure and stable. Industry instability does not necessarily happen overnight and there are key factors that can lead to a shift in customer confidence. The customers we deal with have buying offices primarily based in Central Canada and have deep industry intelligence as to what is happening in the marketplace across Canada. Our competitors in Central Canada will ensure our customers are very aware of the increasing live price gap in BC and will look opportunistically to sell into markets served by BC processors.

Market destabilizers can manifest themselves in a wide variety of ways in the BC poultry industry, with some activities destabilizing the industry relatively quickly, while other situations destabilize the industry over a longer time frame. We would suggest that market instability is best defined as, “activities within the value chain that create significant shifts in historical trading patterns, or activities that create market uncertainty which reduces or shifts investment and commitments to the BC industry.” Examples of situations that would destabilize the industry include:

- Extensive grower movement between processors that increases costs and the inability of processors to meet sales requirements;
- Capital investments reduced or not being made in barns and processing upgrades to meet quota expansion and production growth; and

- Shifts in customer order commitments and sales contracts from BC processors to processors in other provinces.

Supply management, and the specific volumes of chicken it brings to the industry, benefits all stakeholders in the poultry value chain. The industry has used these predictable stable production volumes combined with relatively stable pricing relationships to establish well-defined and balanced trading patterns that have been in place for many years. These trading patterns bring customer and income stability to processors and growers, which in turn support industry investment and growth. If the production or pricing relationships are disrupted and high value customers shift their business to other provinces, then BC processors are unable to effectively compete and left to service low value markets with high-cost products.

We have provided examples of what can be considered indicators of market instability, but the challenge in any discussion on market instability is understanding the “leading indicators” of instability. It is critical to address the root causes of market instability *before* these issues surface and become damaging to the industry. Said differently, when market indicators are such that further market uncertainty is predictable or imminent, one should not wait for conclusive irreversible damage to occur before taking the necessary steps to address it.

Members of the PPPABC will independently provide information directly to BCFIRB on a confidential basis that outlines their experiences and shows where market instability is starting to surface based on the current pricing structures.

At a general level, the PPPABC cites the following examples of leading indicators that would suggest market instability has started to surface in the BC chicken sector:

- The BC live price differential with Central Canada is currently at the highest level it has ever been for a sustained time period.
- Customers are enquiring as to why BC live prices are going up faster than prices in other parts of Canada.
- Customers are shifting orders and purchasing products from processors in other provinces because of lower live prices.
- BC processors are being forced to re-evaluate fixed term pricing contracts given the indications on where live pricing is now headed in BC.
- BC processors are feeling compelled to re-assess their investment decisions in BC and elsewhere based on the expectation that the historical live price relationships with Central Canada are no longer relevant, and that a possible 20 cent per kg gap in live price is on the horizon.

The BCFIRB directive to maintain the current pricing formula while a new long-term formula is brought forward by the BC Chicken Marketing Board (BCCMB) and the BC Broiler Hatching Egg Commission (BCBHEC) is inappropriate based on the windfall gains that are now flowing to the

growers. Compounding this, there are early indications of customers starting to re-assess from which province they should source their supply. With the ongoing delays in the supervisory review process, customers will see the BC live price gap relative to Central Canada be sustained at the highest level possible under the current formula which will be considered the new “normal” and customers will consider alternative sources of supply that are made available to them (a leading indicator). Once customers establish these new supply chains with other processors, they will be extremely difficult to reverse, given our high cost of production. As well, the guardrails in the current pricing formula are covering up the fundamental flaw in the current BC live price formula of ignoring the changes in the Ontario live price formula. The BCCMB has proposed changes to the current guardrails, which would increase the live price even further. All these factors will contribute to processors re-assessing their investment decisions (another leading indicator) in the BC poultry industry.

The BCCMB and the BCBHEC have put forward pricing recommendations that, if implemented, will continue to further reduce the competitive position of BC processors in the national marketplace. The BCCMB and the BCBHEC have made it clear, in their pricing recommendations, that they are shifting the entire financial burden of BC’s high-cost production environment to the processors and ensuring growers will insulated from any cost pressures.

More importantly the BCCMB and the BCBHEC have now signaled to our customers, and our competitors in Central Canada that BC poultry will be the most expensive in Canada. We expect our customers to enact strategies to reduce their financial exposure by shifting products away from BC processors, while our competitors will look for opportunities to leverage their competitive advantage. The BCCMB and the BCBHEC’s pricing strategies are going to force BC processors to either match pricing at significantly lower margin or force BC processors to lose business.

Further market instability is imminent with the BCCMB and BCBHEC’s pricing strategies. It cannot be considered a strategic solution to place BC processors into a situation of excessive risk while growers receive record levels of profitability.

Sincerely

A handwritten signature in black ink, appearing to read 'B. Shier', written in a cursive style.

Blair Shier  
President  
Primary Poultry Processors of BC

c. PPPABC Members

Craig Evans – Executive Director, PPPABC

Jim Collins – Chair, BCBHEC

Harvey Sasaki – Chair, BCCMB