



June 10, 2022

Peter Donkers  
Chair  
BC Farm Industry Review Board

**Re: BC Chicken Marketing Board Request for Prior Approval to Amend the Quota Period A-177 Mainstream Pricing Formula**

The BC Chicken Marketing Board requests that the BCFIRB Chicken Sector Pricing Review Panel (Panel) review the attached submission to amend the interim pricing formula, effective for A-177. A-177 pricing will come into effect on July 3<sup>rd</sup>, and a Board pricing decision will be made on June 29<sup>th</sup>.

To summarize the Board's request for prior approval; the Board is seeking a provision to cover 50% of the current formula costs exceeding the guardrail, to include the full Ontario Margin increase that came into effect in A-175, and to change the weight category to align with Ontario, as committed to in the long-term submission. This proposal balances the benefits across the industry stakeholders. This updated formula would be in place until the long-term BC Cost Recovery model can be implemented.

Concurrently with this submission to the Panel, the BC Chicken Marketing Board (Board) will submit this proposal to the PPAC and give an option for a meeting, and/or written submissions for the Board's further considerations. Deadline for written submissions will be end of day on June 17<sup>th</sup>. The Board believes ample feedback has been provided over the preceding months without substantial changes to the arguments for A-177. However, the Board is open to reconsideration if verifiable and transparent data is provided which convinces the Board an alteration is necessary.

The Board will be setting pricing on June 29<sup>th</sup> and understand the timeline is relatively tight. In absence of sufficient time for the panel to deliberate on the prior approval, the Board would request a one-period extension to the Panel's prior-approval decision in effect for A-175 and A-176, if necessary, with the start of the updated interim pricing then occurring in A-178.

Sincerely,

Harvey Sasaki  
Chair



- c.c. Jim Collins, BC Broiler Hatching Egg Commission  
Blair Shier, President, Primary Poultry Processors of BC  
Dale Krahn, President, BC Chicken Growers Association  
Angela Groothof, President, BC Broiler Hatching Egg Producers Association  
John Franck, President, BC Egg Hatchery Association  
Kirsten Pedersen, Executive Director, BC Farm Industry Review Board  
Stephanie Nelson, Executive Director, BC Broiler Hatching Egg Commission  
Wendy Holm, BCFIRB Pricing Liaison



**Schedule 15**  
(Part 55)  
(Section 55.4)

**Board Decision or Determination**

Form B

*attach applicable Forms A, if available*

***A-175 Mainstream Pricing Formula amendment to address extra-ordinary feed cost increase***

**1. Date(s) of this decision:**

Meeting of the PPAC on February 16, 2022

BCCMB decision on May 26, 2022

**2. Members of Board present for decision:**

H. Sasaki, DA Janzen, R. Nickel, B. Vanderspek and C. Paulson

**3. What sources of information did the Board consider in coming to its decision?**

- Form A - Application for Decision or Determination
- Board Staff's Briefing Note
- Applicant's oral submissions
- Board's Orders (give reference numbers, if applicable):
  - Schedule 19 – Pricing Model
  - Schedule 2

[ X ] Other (explain):

- 2022-01-18 – letter from PPPABC re: Request for immediate input – changes to BC Live Price Formula
- 2022-01-18 – letter from BCCGA re: Approval to include an adjustment of 50% of the amount exceeding the upper guardrail for A-174
- 2022-01-19 – letter from BCCGA re: a note on the A-174 Exceptional Circumstance PPAC Meeting. BCCGA key points and numbers
- 2021-11-25 – letter from BCCMB to PPAC re: A-173 Exceptional Circumstances
- 2022-01-14 – letter from BCCMB to PPAC re: immediate input for A-174
- 2021-12-14 letter from PPPABC re: potential modification to A-174 BC Live Pricing Formula.
- 2021-12-24 letter from PPPABC re: A-174 Exceptional Circumstances – Addendum
- 2022-01-11 letter from PPPABC re: potential modification to A-174 BC Live price and Changes to ONCOPF plus appendix 1 – CFO letter to Producers
- 2021-12-20 – letter from BCCGA re: Proposed Live Price re: variation for Exceptional Circumstances.
- 2022-01-14 – BCCMB current FCR
- BCCMB graph – Prairie Provinces Posted Price Differential over BC from A-097 to a-174
- BCCMB graph – BC Posted Price with and without guardrails and Western Provinces Posted Price Differentials over Ontario from A-169 to A-174
- 2022-01-25 BCCGA letter to FIRB re: “BCCGA Policy Statement on BCCMB’s Proposed amendment to the Quota Period A-174 Mainstream Pricing Formula.”
- 2022-00-25 PPPABC letter to FIRB re: BC Chicken Marketing Board – Interim Chicken Pricing Proposal.
- 2022-01-27 – FIRB letter to BCCMB re: “Decision (Operative Part only) on the Request for Prior Approval of the Proposed Amendment to the Chicken Pricing Formula.
- 2022-02-04 FIRB decision “IN THE MATTER OF THE *NATURAL PRODUCTS MARKETING ACT* AND BC Chicken Marketing Board Interim Pricing Formula A-174 Prior Approval
- 2022-02-23 – letter from PPPABC to BCCMB re: Serecon Model is Inflating BC Feed Costs and Understating Grower Returns
- 2022-02-24 – letter from PPPABC to BCCMB/BCBHEC re: Process Concerns = A-175 PPAC Meeting.
- 2022-02-25 BCCMB letter to FIRB re: BCCMB Request for Prior Approval to Amend the Quota Period A-175 Mainstream Pricing Formula & Final Submission & SAFETI.
- 2022-02-28 PPPABC letter re: BCCMB Final Draft Pricing Decision – Interim Pricing Formula
- 2022-03-01 PPAC letter to BCCMB re: report of Feb 16/22 PPAC meeting.
- 2022-03-04 – Peninsula and Area Agricultural Commission letter to FIRB and municipalities re: Current Poultry Costs and Rising Cost of Feed.
- 2022-03-08 – BCCGA letter to FIRB re: Potential Price formula Changes for period A-174 (March 13-May 7, 2022).

- 2022-03-08 PPPABC letter to FIRB re: BCCMB request for Prior Approval to Amend the Quota Period A-175 Mainstream Pricing formula & Appendix 1 PPPABC email Correspondence to PPAC re: Price Working Group.
- 2022-03-15 BCCMB letter to FIRB re: BCCMB Interim Pricing Formula A-175 Prior Approval
- 2022-03-22 Ontario Producer Margin Adjustment document
- 2022-03-10 BCCMB Pricing Order #166 for quota period A-175
- 2022-03-09 BCFIRB A-175 Pricing Decision – IN THE MATTER OF THE *NATURAL PRODUCTS MARKETING (BC) ACT* AND BCCMB Interim Pricing Formula A-175 Prior Approval.
- 2022-03-12 BCCGA letter to BCCMB re: inclusion of Ontario grower margin in A-175 and A-176 & April 12/22 letter from MNP re: review of operational capital cost increases as of A-175
- 2022-04-11 – PPPABC letter to PPAC re: BCCMB Prior approval Chicken Interim Pricing Formula for A-175 BCFIRB March 9/22 decision.
- 2022-05-03 – Serecon Ontario Pricing sleeve calculations -A-176
- 2022-05-06 email re: FCR Scenarios from Serecon
- 2022-05-19 – FIRB decision PPPABC v BCCMB re: A-175 prior approved formula
- Ontario's posted Live Price for A-173
- Ontario's posted Live Price for A-174
- Ontario's posted live price for A-175
- Ontario's posted live price for A-176
- Manitoba's posted Live Price for A-173
- Manitoba's posted Live Price for a-174
- Manitoba's posted live price for A-175
- Manitoba's posted live price for A-176
- Saskatchewan's posted Live Price for A-173
- Saskatchewan's posted Live Price for A-174
- Saskatchewan's posted live price for A-175
- Saskatchewan's posted live price for A-176
- Alberta's posted Live Price for A-173
- Alberta's posted Live Price for A-174
- Alberta's posted live price fore A-175
- Alberta's posted live price for A-176
- Serecon – Ontario Chicken Pricing sleeve Calculations
  - A-173
  - A-174 with and without catching cost increase
  - A-175 V1, V2, V3, V4 final
- B.C.'s Live Price for A-173
- B.C.'s Live Price for A-174
- BC's posted live price for A-175
- BC's posted live price for A-176

#### 4. What is the Board's decision?

The BC Farm Industry Review Board Pricing Supervisory Review Panel (the "BCFIRB Review Panel" provided the BC Chicken Marketing Board (the "Chicken Board") "Prior Approval Chicken Interim Pricing Formula for A-175" on March 9, 2022. The prior approval decision provided an amendment for quota periods A-175 and A-176 only. The BCFIRB Review Panel decision did not preclude the Chicken Board "from requesting future amendments the [sic] interim pricing formula until such time as the Panel amends or lifts its July 3, 2020, Interim Order".

The Board has made the decision to request prior approval from BCFIRB to amend the current BC Live Price formula commencing in quota period A-177 (shipments July 3, 2022) and continuing until the transition to the Long-term BC Cost Recovery Model or the corn-wheat divergence corrects, based on :

**Ontario Price based on the weight category of 2.15 to 2.45 kilograms.** It will **NOT** include the \$0.012 per kilogram CFO modular loading cost recovery of \$0.0120; CFO AI Insurance recovery of \$0.0015; or OBHEC chick levy of \$0.0006 if still applicable in quota period A-177.

**Plus**

75% of the difference in feed and chick costs per kilogram of live chicken between BC and Ontario. It will not be based on a 6 period rolling average.

**Plus**

**\$0.04** per kilogram which is the current catching cost. Increases or decreases in the price of catching must be approved by the Chicken Board in advance.

**Plus**

Guardrails will be set at a maximum of \$0.1284 and a minimum of \$0.1005 (reflecting the new catching costs effective in quota period A-174).

**Plus**

**A provision to cover 50% of the current formula costs exceeding the upper guardrail to address the continued escalation of feed ingredient costs facing BC growers.**

It should be noted the above would include the Ontario Producer Margin increase in A-175.

#### 5. Why did the Board come to this decision?

The BCCMB decisions are in accordance with sound marketing policy and the application of principle-based regulation (PBR) and outcome-based decision making. This is achieved by applying SAFETI (Strategic Accountable, Fair, Effective, Transparent, Inclusive) principles as directed by FIRB. These initiatives support good governance in the regulated marketing sector.

The prevailing extraordinary feed ingredient cost conditions that existed since quota period A-170 continue to provide financial challenges to BC broiler growers as well as broiler production throughout Canada. The British Columbia broiler industry has a higher cost profile due in part to the need to import feed ingredients into the province. The differential in the past has primarily been driven by the transportation cost.

Wheat is the primary protein feed ingredient in western broiler production with corn providing the protein input in central and eastern Canada. Starting with in the summer of 2021 (quota period A-170) wheat supply shortages was expected due to drought conditions in the Canadian prairies and the US Midwest. This resulted in wheat prices rising and increasing the wheat/corn price differential. The impact to BC broiler growers was higher than normal feed ingredient costs as well as the BC feed cost differential over Ontario increasing to the point that the upper guard rail in the BC live price being exceeded.

The situation was exacerbated in quota period A-173 when BC felt the impact of the Atmospheric River systems that caused major disruption to the BC transportation network. While the Province of BC intervened, the flood related impacts to the rail and highway systems, resulted in the inability to secure lower cost corn and the need to access the Port of Vancouver for feed ingredients that carried a much higher cost (export grade versus feed grade).

While feed ingredient costs are constantly changing based on market conditions, supplies remain tight and the historic wheat/corn differential has remained out of sync. Corn prices have as well increased in Central Canada and are reflected in the Ontario Farm Gate Minimum Live Price. However, the BC over Ontario feed cost differential remains such that the upper guardrail in the BC live price has been exceeded in every quota period since A-170 and is expected to continue well into the future. The extraordinary feed ingredient conditions will not be resolved until wheat storage supplies return to historic levels.

The Chicken Board provided an in-depth analysis of the feed ingredient cost and supply challenge and the impact on BC costs in its February 23, 2022, Prior Approval Request for Amendment to the BC Live Price Formula for quota period A-175. The February 2022 Request is attached for reference and this submission will focus on the changes since the February 2022 analysis. The Chicken Board will also focus the specific issues raised by industry stakeholders in response to the quota period A-175 amendments.

### ***Sound Marketing Policy Considerations***

Sound marketing policy embodies the three pillars of supply management, production controls, pricing mechanisms and import controls. For the proposed amendment, the Board will focus on the pricing pillar.

The Board is responsible for establishing a minimum price for chicken produced in British Columbia. This minimum production price is based on production costs and market conditions. The policy intent is to provide efficient growers with a reasonable return that reflects production costs and provides Canadian consumers with a predictable and consistent

supply of chicken at reasonable prices. The Board also takes into consideration British Columbia processor competitiveness in the Canadian market.

The Chicken Board, in its March 4, 2022, Pricing Review Decision submitted to the BCFIRB Review Panel included a “Transition Period” provision in recognition that the shift to a BC Cost Recovery Model would take time if approved by the BC FIRB Review Panel. The Chicken Board proposed that it would “continue to apply the current floating differential live price formula with no change to the minimum and maximum guardrails. The Chicken Board intends to shift the Ontario Farm Gate Minimum Live Price used in the formula to the 2.15 – 2.45 kg weight class. This will result in a \$0.02/kg reduction in the BC formula.” The Chicken Board included a caveat that “The shift in Ontario weight class reference price will only be adopted if the amendments to the current formula for quota period A-175 proposed by the Chicken Board are approved by the Review Panel.”

With the March 9, 2022 BCFIRB Review Panel prior approval decision only applied to quota periods A-175 and A-176, a return to the base live price formula (quota period A-174) would not achieve the desired balance of the dual policy objectives of reasonable return to growers and processor competitiveness in Canadian markets. Supply related issues have pushed feed costs higher and despite recent increases in corn prices as reflected in the A-176 Ontario live price, the corn/wheat price spread has continued at above historic levels. Further, the implementation of only the change in Ontario live price used in the Chicken Board’s proposed “Transition Period” for the long-term pricing formula would only serve to exacerbate the situation and place broiler growers in financial jeopardy.

The Primary Poultry Processors Association of British Columbia (the “PPPABC”) has made submissions expressing concern that the current amended pricing formula did not adequately address the processor competitiveness policy objective. The BC Chicken Growers Association (the “Growers Association”) while supportive of the principle of the amendment and that “*This was a necessary step and was urgently needed to sustain BC chicken farms (April 12, 2022 BCCGA letter to Woody Siemens)*”. The Growers Association also noted that the “*exclusion of the Ontario grower margins, which covers increased grower’s operational and capital costs (“working costs”) excluding feed and chick costs, erodes the gains made by the 50% exceeding the upper guardrail. The submission by the board already accounted for only 50% of the increase of costs to growers and provided 50% of the benefit to the processors (April 12, 2022 BCCGA letter to Woody Siemens)*”. These points will be covered in sections that follow.

### **Reasonable Return to an Efficient Grower**

The amended pricing formula applied in quota periods A-175 and A-176 have had a positive impact on returns. The amended pricing formula added \$0.0205/kg above the upper guardrail for quota period A176 and added \$0.0478/kg above the upper guardrail for quota period A-175. If the amended formula were to be continued for quota period A-177 with the “Transition Period” formula shift in Ontario weight category, the grower benefits of the feed cost amendment to reduce the financial impact of the higher BC feed costs would be partially offset and place BC broiler growers at financial risk.



The PPPABC contend in their submissions and appeal documents that “BC growers have realized significant increases in financial returns over the past two years and will continue to do so until a new pricing structure is in place (April 11, 2022 PPPABC letter to Jim Byrne)”. The PPPABC have stated that “The BCCMB has still not defined what is a “fair return” to a BC grower (March 8, 2022 PPPABC letter to Peter Donkers)”.

The Growers Association maintains that growers are not achieving cost recovery. The Growers Association point out that growers receive only 50% of the increased cost to growers above the guardrail, leaving the other 50% uncovered. As well, the BC live price formula only accounts for 75% of the BC feed and chick cost difference over Ontario. The upper guardrail has been exceeded since quota period A-170 due to rising feed costs. The Chicken Board has prepared the following table to illustrate the amount the upper guardrail has been exceeded for each period since A-170.

Quota Period	Total Differential over Ontario	Upper Guard Rail	Differential over Upper Guardrail	BCFIRB's Amended formula adjustment	Amount of differential not covered
A-170	0.1828	0.1249	0.0579	n/a	0.0579
A-171	0.1783	0.1249	0.0534	n/a	0.0534
A-172	0.2100	0.1249	0.0851	n/a	0.0851
A-173	0.2278	0.1249	0.1029	n/a	0.1029
A-174	0.2516	0.1249	0.1267	n/a	0.1267
A-175	0.2352	0.1284	0.1068	0.0480	0.0588
A-176	0.1802	0.1284	0.0518	0.0205	0.0314

The Growers Association recognizes that the current pricing formula cannot make up for past losses, however, they point out that growers have had to absorb the amount of the full differential exceeding the upper guardrail for 5 quota periods.

With no apparent end to the higher feed ingredient costs being experienced, the Chicken Board is of the opinion that a return to the pre-A-175 pricing formula would cause undue financial hardship for broiler growers, if the upper guardrail continues to be exceeded. This scenario (return to pre-A-175 pricing formula) would not be considered providing efficient growers a reasonable return.

In response to the PPPABC’s point that “BCCMB has still not defined what is a ‘fair return’ to a BC grower” the Chicken Board has used a number of measures that it has taken into consideration in balancing “reasonable returns to growers” with “processor competitiveness in

Canadian markets. The Chicken Board has provided data and analysis on feed and chick costs and BC Grower Margin.

As stated in the Chicken Board's March 4, 2022 Pricing Review Decision submitted to BC FIRB, "While 100% of the grower cost base is a target for "reasonable returns" "Other factors, such as efficiency benchmarks will need to be included to ensure that the grower cost base is not overstated.

### **Processor Competitiveness in the Canadian Market**

The January 25, 2022, PPABC response to the quota period A-174 proposed pricing formula amendment is critical of the Board for not assessing "*whether Processors would still be competitive at the new differential*". The Board fully acknowledges and respects the need for BC processor competitiveness in conjunction with an efficient grower receiving a reasonable return. This has been a constant challenge for the Board to find the balance of these two incongruent objectives.

The PPPABC has stated that "*The BCCMB has presented no information or circumstances to justify the Decision being revisited...The BCCMB's proposed amendments are focussed solely on increasing grower returns, do not consider processor competitiveness, and ignore the broader pricing issues facing the industry*" (April 11, 2022, PPPABC letter to Jim Byrne). In that same letter the PPPABC states "*The BCCMB's pricing formula decisions are favoring growers and have created a situation whereby other industry stakeholders, such as feed companies, can now claim part of the proceeds within the system. All of which comes at the expense of BC processors and their competitiveness.*"

The PPPABC have not provided any evidence or proof that "*feed companies, can now claim part of the proceeds within the system*". The feed industry is an essential component of the broiler industry in BC. The feed industry is a competitive environment and we have seen evidence of finding ways to minimize the increased costs to BC broiler growers. The substitution of corn for wheat in broiler rations to take advantage of the lower cost of corn is but one example of the feed industry working with the chicken industry to address the wheat shortage and feed cost pressures. The fact that the BC live price formula does not take into account 100% of the BC over Ontario feed cost difference or 100% of the amount exceeding the upper guardrail, is a measure of the Chicken Board's balancing the interests of reasonable return to an efficient grower and processor competitiveness in Canadian markets.

As stated in the Chicken Board's request for amendment to the pricing formula for quota period A-175, "throughout the Long-Term Chicken Pricing Supervisory Review, the Board has sought input from the processors to define and provide measures of processor competitiveness. As well, the BC FIRB Review Panel sought input with respect to indicators of market instability." While in the March 8, 2022 letter to Peter Donkers the PPABC addresses "*Processor Competiveness in the Canadian Markets*", no additional meaningful, representative, verifiable and transparent data was provided to substantiate the arguments put forward by the PPPABC.

The PPPABC continue to not provide any verifiable evidence to substantiate that BC processors are unable to pass cost increases through to customers. The Chicken Board accepts that BC processors from time to time are required to “bid” on contracts and that that BC live price may have an impact on those bids. The Chicken Board also recognizes that the system of supply management results in the amount of chicken produced in Canada is balanced with the demand for chicken in Canada and that each province has a provincial allocation. As such, there are limits as to how much any Canadian processor can supply. In an unregulated market, clearly BC processors would be under extreme pressure and even at risk of survival.

As acknowledged in the Chicken Board’s March 4, 2022, Pricing Review Decision, “There is a definitive lack of readily available, transparent and meaningful quantifiable measures tied to ‘the ability to profitably and sustainably maintain or enhance market share’ definition of processor competitiveness in Canadian markets as presented through the Pricing Review.” The pursuit of measures of processor competitiveness in the Canadian market remains elusive and requires further discussion by all stakeholders.

For the interim period, the Chicken Board has taken into consideration, not only BC live price relative to Ontario, but relative to other Western Provinces. BC processors operate in each of the western provinces as well as some having further processing facilities in Ontario. The prices and actions of BC processors in these provinces do contribute to processor competitiveness in the Canadian market and should not be discounted or dismissed when considering the BC live price formula.

The Chicken Board does not control the wholesale or retail price of chicken in BC. BC processors have stated that they “do not contribute data to the EMI because they simply do not sell into the wholesale commodity market” (March 8, 2022 letter to Peter Donkers). The PPPABC goes further to state “*The PPPABC would assert that the EMI data provided (Page 14) provides insight as to the general live price margin status of the processing industry, but does not provide any insight on the competitiveness of BC processors in a regional or national Market*”.

As the Chicken Board does not have any post-farm gate pricing data specific to BC, it can only infer from available data that the higher BC processing costs are in some way being captured in the contracts they supply. There is no verifiable data provided by PPPABC to indicate the contrary. Rather the PPPABC speaks in general terms “*the challenge for BC processors is that most of our customers are based out of Ontario and certainly aware of the price differences between the provinces. As such, these customers will typically want to price and use live price changes off the lowest cost processor. This not only makes it very difficult to pass through all cost increases initially, but also when there are differences in the live price changes between jurisdictions.*” While eloquently stated, the PPPABC have not provided any verifiable data to provide any measure of the actual impact incurred by BC processors.

The PPPABC also state in their March 8, 2022, letter that “*BC is at a significant cost disadvantage to Central Canada processors who use TRQ, fowl, less expensive labour, and less expensive live birds to realize a significant cost advantage*”. The Chicken Board accepts that

both BC processors and growers operate in a higher cost environment than central Canada for various reasons. The Chicken Board in its decision making attempts to balance these higher cost differences and have not simply attributed the “benefits” to one party over the other in its pricing decisions.

The higher cost BC environment has a greater impact on relative “profitability” more than competitiveness on all stakeholders in the BC chicken industry. The supply management system through the allocation process reduces the competitiveness factor, as there is a finite amount of chicken allocated for production that is direct proportion to demand. The Chicken Board concurs that the TRQ and fowl imports that primarily flow to Central Canada provide a benefit to Central Canada processors for certain further processed products however, they do not have the same impact on the supply of fresh market product.

BC allocation has continued to increase over time. The Chicken Board adopted measures to enable full utilization of the provincial allocation. BC processors have not reduced chick placements nor the allocation growth. In the absence of any other verifiable data, the Chicken Board has adopted this measure as being consistent with the “maintain or enhance market share” definition of processor competitiveness.

The Board proposed during the Pricing Review and in its Pricing Review Decision to shift the Ontario Farm Gate Minimum Live Price used in the BC interim formula to the 2.14 – 2.45 kg weight category; resulting in a \$0.02/kg benefit to BC processors. In keeping with its Pricing Review Decision, the Chicken Board remains committed to moving ahead with the adjustment, provided that the feed price challenges are addressed in the amended pricing formula going forward. The amended formula must contain provisions to address situations such as the high feed ingredient prices that are resulting in the upper guardrail limiting the growers’ ability to realize a reasonable return.

The shift in Ontario Farm Gate Minimum Live Price weight class (2.15-2.45kg) combined with the continued amended BC live price formula will provide balance in growers receiving a reasonable return and BC processors being competitive in Canadian markets.

### **BC Grower Margin**

The current amended formula provides an adjustment for the Ontario Farm Gate Minimum Live Price Producer Margin component. The PPPABC in their April 11, 2022, letter to Jim Byrne state that *“The BCCMB now appears to have expanded their amendment request to include capturing operational, labour and capital cost increases.”* What the PPPABC in raising this issue have neglected to include is that the PPPABC have never challenged any changes to the Ontario Producer Margin or its inclusion in all prior iterations of the BC live price formula that included the utilization of Ontario live price. The changes to the Ontario Producer Margin were taken as a proxy to changes in the equivalent cost components in BC. The Chicken Board is confused as to why at this point, the PPPABC are singling out individual annual changes in the Ontario Producer Margin and requesting their “exclusion” from the BC live price formula. The only

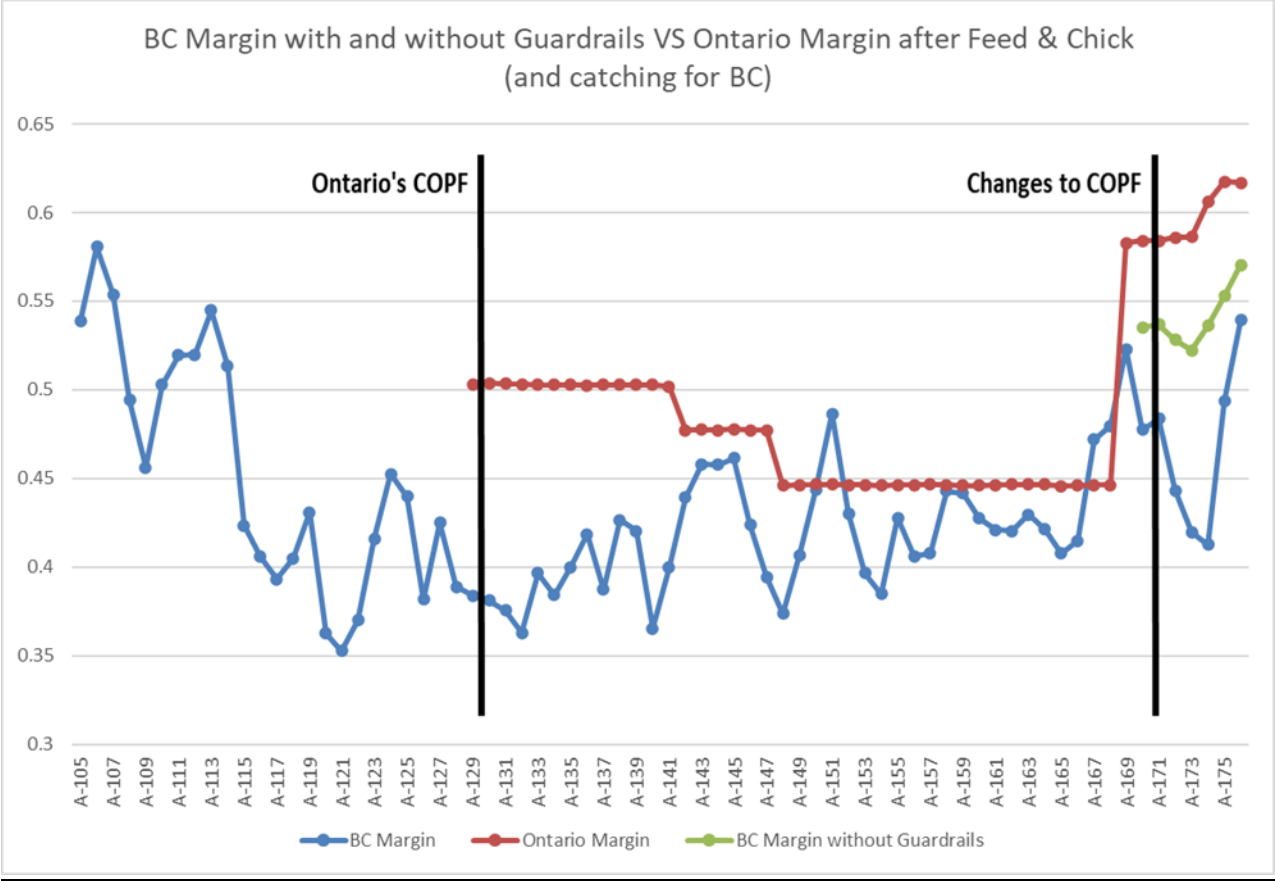
conclusion that the Chicken Board can draw is that it is an attempt to reduce the magnitude of any change in live price resulting from the amendment to the BC live price formula.

The Growers Association on April 12, 2022 submitted information highlighting the increases in production costs for BC growers. The submission included documents from MNP which calculated the increase in the Ontario producer margin from quota period A-148 to A-175 at 16%. MNP *“found that, after removing feed and chick costs and the levies that are only applicable to the Ontario market, the operational and capital costs had increased by 15%”*. MNP went further using three known Canadian price indices tracked by Statistics Canada to identify the BC inflationary rates from quota period A-160 to A-175 to range from 29.2% (following the CPI) and 51.9% (following the IPPI). MNP recommended that *“an approximate increase of 40% to the operational and capital cost (as opposed to the 15% increase) in addition to the granted increase to feed and chick costs for the next quota period.”*

The Chicken Board is of the view that the changes to the Ontario producer margin are consistent with the increases in BC operational and capital costs (those included in the Ontario producer margin). It is difficult to draw a direct comparison of cost elements between BC and Ontario as the models in BC and Ontario are compiled by two different firms with differing assumptions. As previously stated, the PPPABC has not taken exception with any of the Ontario producer margin costs in the past when used in the BC live price formula.

The Chicken Board accepts that the Review Panel made the adjustment to the Chicken Board’s proposed amendment to the live price formula in an effort to “further balance” the interests of growers and processors. The inclusion of the shift in Ontario weight class used for the Ontario live price in the BC live price formula provides a greater off-set to balance the interests of growers and processors and view any adjustments in the Ontario Producer Margin in the proposed transitional BC live price formula as unnecessary.

The graph and table below shows the impact of the upper guard rail on BC grower margin. As reported in the following Corn versus Wheat section, BC growers have incurred a shortfall in recovering the 75% of the BC feed and chick cost difference over Ontario for the nearly a year. Without the upper guard rail, the full 75% of the BC feed and chick cost would be included in the BC live price and BC grower margins would have maintained the level of increase experienced in quota period A-169 as trending downward. The proposed amendment would result in BC grower margin to fall between the green and blue lines on the graph owing to only 50% of the difference would be included in the amended formula.



	BC Margin with Guardrail	BC Margin without Guardrail	Difference
A-170	0.4775	0.535325	-0.057825
A-171	0.4836	0.536925	-0.053325
A-172	0.4432	0.52825	-0.08505
A-173	0.4198	0.522475	-0.102675
A-174	0.4126	0.536175	-0.123575
A-175	0.4937	0.552925	-0.059225
A-176	0.5394	0.57065	-0.03125
	BC Margin with Guardrail	*Ontario Margin	Difference
A-170	0.4775	0.5841	-0.1066
A-171	0.4836	0.5842	-0.1006
A-172	0.4432	0.5861	-0.1429
A-173	0.4198	0.5862	-0.1664
A-174	0.4126	0.6067	-0.1941
A-175	0.4937	0.618	-0.1243
A-176	0.5394	0.6174	-0.078
	BC Margin without Guardrail	*Ontario Margin	Difference
A-170	0.535325	0.5841	-0.048775
A-171	0.536925	0.5842	-0.047275
A-172	0.52825	0.5861	-0.05785
A-173	0.522475	0.5862	-0.063725
A-174	0.536175	0.6067	-0.070525
A-175	0.552925	0.618	-0.065075
A-176	0.57065	0.6174	-0.04675

\* Ontario Margin is calculated using Ontario Live Price used in BC formula

### **Feed Conversion Ratio**

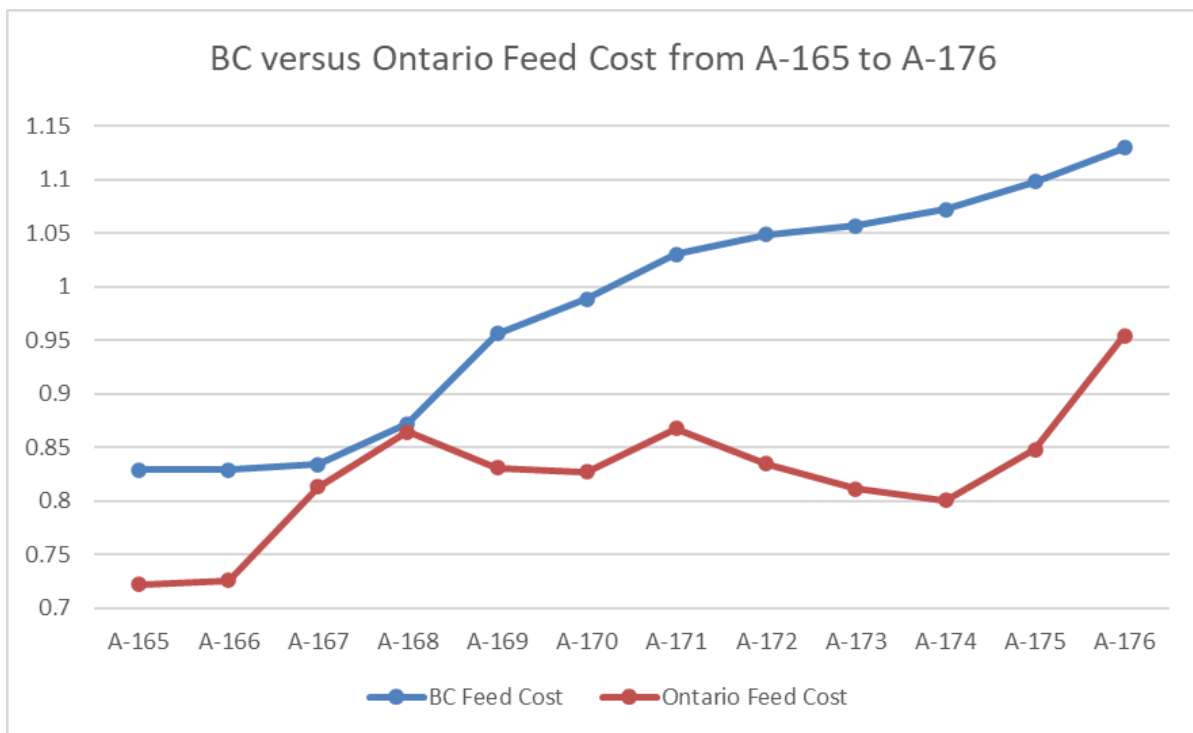
As described in the February 23, 2022 Chicken Board Request for Prior Approval Amendment of the live price formula, the PPPABC has and continue to challenge the Feed Conversion Ratio (“FCR”) used in the BC live price calculations. The PPPABC in their March 8, 2022, letter to Peter Donkers, repeated their concern that *“The BCCMB is using an outdated and incorrect feed conversion rate. The 1.65 feed conversion is inflating the BC live price and understating actual BC grower returns.”*

The Chicken Board recognizes that the 2018 Linkage COP FCR, calculated from grower data by Serecon, is dated. However, it represents the only transparent and verifiable grower cost data available at this time. The Chicken Board as part of its March 2022 Pricing Review Decision has committed to updating all grower cost elements through an independent third party survey, including production factors such as FCR. The Chicken Board has initiated a process to identify and evaluate competent firms to conduct the cost survey.

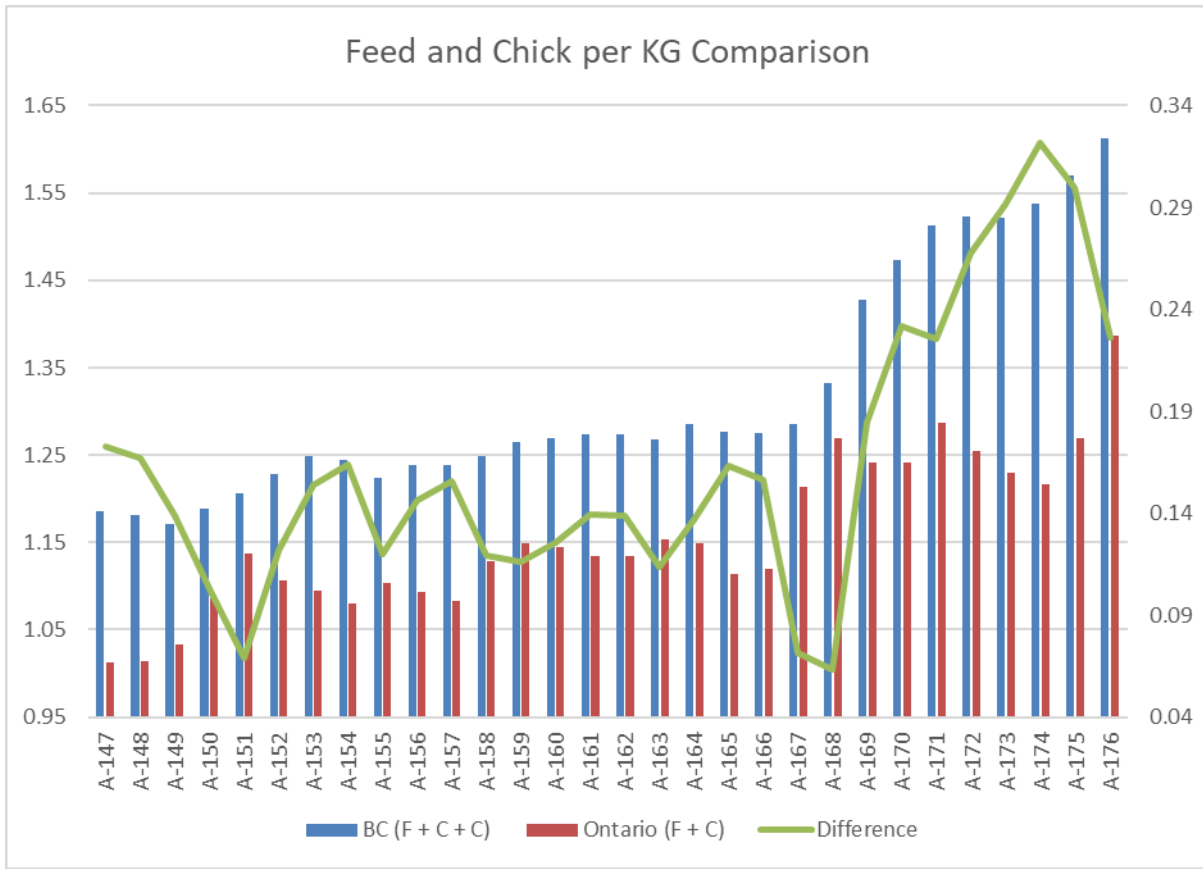
Past Serecon COP surveys identified a wide range in variability in the FCR between farms. This variability is not solely limited to the “efficiency” of the grower. Growers work with their

respective feed companies in the design of feed rations that both meet production and cost goals. For example, a grower may have a higher FCR using lower grade feed ingredients (thus, lower than average feed cost) feeding for a few extra days to achieve market weights, while another may have a lower FCR using higher grade feed ingredients (higher than average feed cost) may have a shorter feeding period to achieve market weight. These differences add to the complexity that the Chicken Board’s Pricing Review Decision process is intended to address. To make any assumptions about FCR based on “unverified” industry data that suggests the use of a lower FCR in the BC live price formula would be inconsistent with sound marketing policy and SAFETI principles that guide informed decision making.

The current BC formula has already taken into consideration difference in the BC FCR by only applying 75% of the feed and chick cost differential in the live price formula. Further, the live price formula only accounts for 50% of the difference above the upper guardrail. As such the BC live price formula and currently amended BC live price formula have built in measures to address any potential “overstatement of the feed costs”.





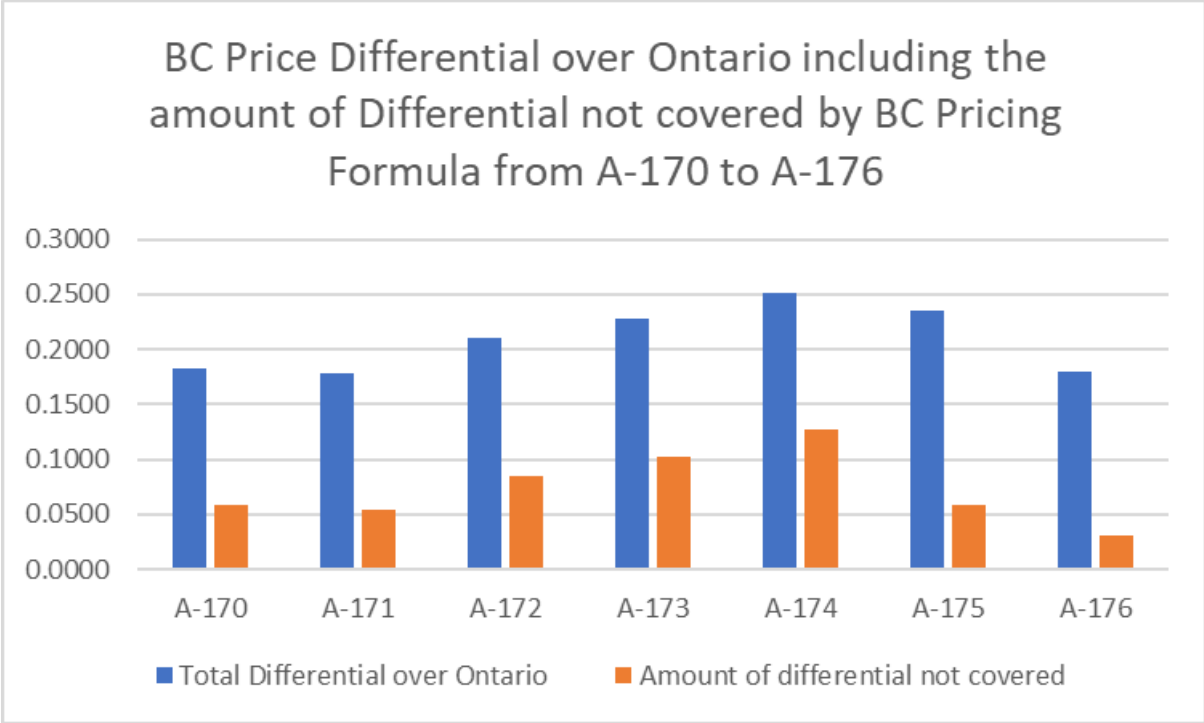


**Corn versus Wheat**

The Russian invasion of the Ukraine has added greater instability in global feed ingredients supplies and costs. Building on the Chicken Board’s February 25, 2022 Request for Prior Approval to Amend the Mainstream Pricing Formula, despite the recent increase in corn prices, the wheat-corn differential remains at unprecedented levels. This differential continues to result in the application of the upper guardrail and growers not covering the cost of feed in the live price formula.

The following graphs are updated from the February 25, 2022 Chicken Board Request and illustrate the continued high wheat over corn differential.

The application of the amended live price formula has reduced the shortfall in grower recovery of the 75% of the feed and chick cost differential between BC and Ontario. The graph below shows the impact and effect of the amendment on the reduction in shortfall.

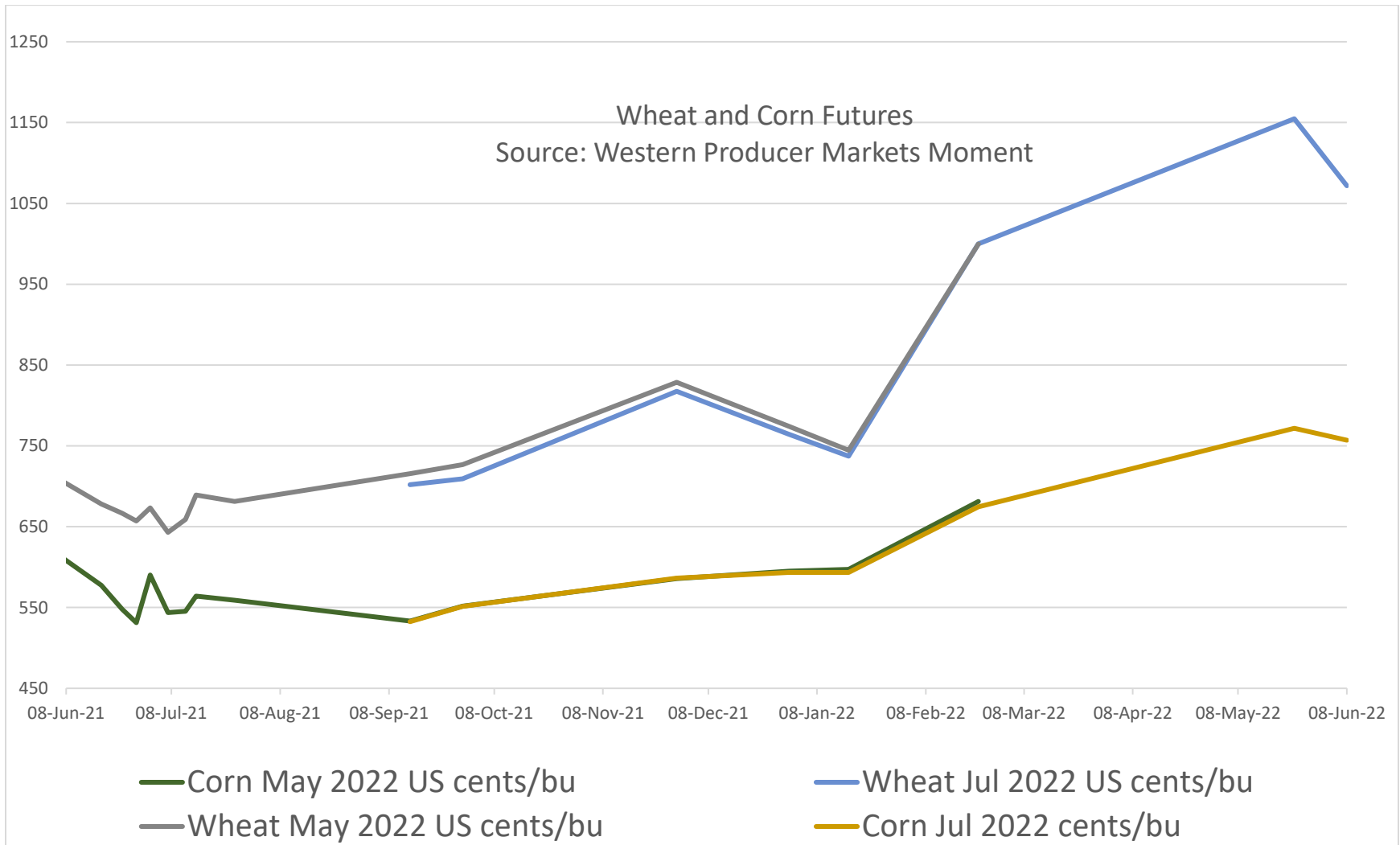


The effect of the guard rail limits on the BC live price is a shortfall in grower recovery of the 75% feed and chick cost differential between BC and Ontario. Growers have no means of recovering the excess feed cost other than through the live price. In BC, processors have been shielded from significantly higher live prices that would have prevailed due to the higher feed ingredient costs with the upper guard rail in place which is unlike the situations processors faced in the Prairie provinces where they have had to endure the full feed cost impact in those provinces in the provincial live price.

US Corn US\$/bu					US Wheat US\$/bu					Difference Wheat - Corn US\$/bu				
	2019	2020	2021	2022		2019	2020	2021	2022		2019	2020	2021	2022
Jan	3.56	3.79	4.24	5.57	Jan	5.28	4.87	5.48	8.48	Jan	1.72	1.08	1.24	2.91
Feb	3.6	3.78	4.75	6.1	Feb	5.33	4.88	5.83	9.17	Feb	1.73	1.1	1.08	3.07
Mar	3.61	3.68	4.89	6.56	Mar	5.19	4.86	5.85	9.94	Mar	1.58	1.18	0.96	3.38
Apr	3.52	3.29	5.31	7.08	Apr	4.93	4.84	6.04	10.2	Apr	1.41	1.55	0.73	3.12
May	3.63	3.2	5.91		May	4.78	4.76	6.46		May	1.15	1.56	0.55	
Jun	3.98	3.16	6		Jun	4.81	4.56	6.24		Jun	0.83	1.4	0.24	
Jul	4.16	3.21	6.12		Jul	4.52	4.54	6.26		Jul	0.36	1.33	0.14	
Aug	3.93	3.12	6.32		Aug	4.35	4.55	7.13		Aug	0.42	1.43	0.81	
Sep	3.8	3.4	5.47		Sep	4.26	4.73	7.75		Sep	0.46	1.33	2.28	
Oct	3.84	3.64	5.02		Oct	4.45	4.98	7.9		Oct	0.61	1.34	2.88	
Nov	3.68	3.79	5.27		Nov	4.39	5.24	8.51		Nov	0.71	1.45	3.24	
Dec	3.71	3.97	5.47		Dec	4.64	5.43	8.58		Dec	0.93	1.46	3.11	
Avg	3.75	3.5	5.4		Avg	4.74	4.85	6.84		Avg	0.99	1.35	1.44	

[Source: CME Group Chicago: daily prices](https://teseo.clal.it/en/?section=cereali_usa)

([https://teseo.clal.it/en/?section=cereali\\_usa](https://teseo.clal.it/en/?section=cereali_usa))



Futures price of corn and wheat for March 2022 and July 2022 contracts

### **Summary of Decision & Impact.**

To summarise the proposed change in comparison to A-174 (before the Review Panel's prior approval), the normal pricing formula will be applied with a provision to cover 50% of the current formula costs exceeding the upper guardrail, will include the full Ontario Margin increase that came into effect in A-175 (+\$0.0109/kg), and a change in the weight category to align with Ontario (less - \$0.02 cents/kg). For reference, if all else being equal with A-176, this would be equal to approximately a \$0.015/kg decrease in live price, although we cannot establish the live price or the final impact until Ontario publishes their Farm Gate Minimum Live Price for quota period A-177 the week of June 27, 2022. This is also not an indication that this will decrease the final live price in A-177 and beyond. This proposed interim pricing formula will be in place until the long-term BC Cost Recovery Model is in place.

## **RATIONALE FOR DECISION BASED ON OUTCOME BASED PRINCIPLES**

SAFETI has been applied at all stages of the decision-making process: information gathering, analysis of risks and opportunities, options development and evaluation through to the final decision of the Board.

### **Strategic & Effective:**

The Board has the authority to make orders it considers necessary or advisable to promote, control and regulate effectively the marketing of the regulated product, and to amend or revoke them, under 11(1)(q) of the Natural Products Marketing (BC) Act. The Act at 11(1)(k) gives the Board the authority to set the prices, maximum prices, minimum prices or both maximum and minimum price at which the regulated product or a grade or class of it may be bought or sold in British Columbia or that must be paid for a regulated product by a designated agency and to set different prices for different parts of British Columbia.

The BC Chicken Marketing Scheme (1961) grants the Board the power under 4.01(g) to fix the price or prices, maximum price or prices, minimum price or prices, or both maximum and minimum prices at which the live chickens over 2 days old that are regulated product, or any grade or class thereof, may be bought or sold in the Province, or that shall be paid for the regulated product by a designated agency, and may fix different prices for different parts of the Province. Further, 4.01(l) gives the Board the authority to make such orders, rules and regulations as are deemed by the Board necessary or advisable to promote, control and regulate effectively the production, transportation, packing storage or marketing of the regulated product and to amend or revoke the same.

The decision is consistent with sound marketing policy and balances processor competitiveness with the objective to provide efficient growers a reasonable return. The proposed amendment to address 50% of the 75% of BC feed and chick cost difference exceeding the upper guard rail provides the balance. Growers have absorbed \$0.3373/kg in higher feed cost difference for quota periods A-170 through A-174 not covered by the BC live price. Efficient growers have no ability other than through live price to cover their costs of production. The adjustment in the Ontario Farm Gate Minimum Live Price used in the BC live price formula provides processors with a \$0.02/kg benefit.

The PPPABC have not provided the Board with any verifiable data or information that their competitiveness will be impaired or evidence of impending market instability. The PPPABC have not provided any evidence that the increase in live price cannot be passed or recovered through contracts.

There was sufficient, verifiable information indicating harm to the BC industry to make a decision that leads to an effective outcome. It will have a clearly defined regulatory outcome – to provide the chicken industry with a fact based, pricing formula that is simple, transparent

and capable of providing predictability and stability until such time as the long-term pricing strategy is developed and the extraordinary feed costs normalize.

### Accountable

Under the Chicken Scheme section 3.20 Pricing and Production Advisory Committee (the “PPAC”), sub-section (3) states the Board must consult with the committee and consider the committee’s advice before the Board makes any decision relating to pricing or production.

The Chicken Board posted its decision on June xx, 2022 to invite stakeholder comment to inform its final pricing decision for quota period A-177 (Chicken Board pricing meeting to be held June 29, 2022). The Board requested that a meeting of the PPAC be held on June xx, 2022 to hear stakeholder concerns.

PPAC members were advised of the Board’s intent to request BCFIRB prior approval of an amendment to the Live Price formula for mainstream chicken. The Board outlined its process to provide a request to FIRB and stakeholder review and comment the following week. The Board followed up the meeting with a letter outlining its intent and advising processors to advise their customers accordingly of the potential change in live price formula

As the Board will make its decision at the A-177 Pricing Meeting to be held on June 29, 2022, it will request a decision on prior-approval from FIRB prior to this date. The Board advised participants that the exact amount of the increase could not be established until Ontario published the Farm Gate Minimum Live Price for quota period A-175 the week of June 27, 2022.

The submissions of the Growers and Processors as well as the FIRB Panel decision regarding the proposed amendment for A-174 and A-175 period are attached and have been taken into consideration by the Board in this decision.

The Board is accountable for its decisions to the entire industry and must consider the impact of its decisions on other parties. The Board is taking into account the interests of both growers and processors. Those who determine they are aggrieved by this decision may appeal to BCFIRB. Both growers and processors are well aware of their rights to appeal and the methodology to do so.

The BCCMB maintains its legitimacy and integrity through understanding and discharging its responsibilities (as per the NPMA, Provincial Policy, BCFIRB direction) and is accountable by providing reasons explaining the course of action to stakeholders within this Schedule 15.

### Fair

The decision making process has ensured procedural fairness. All sides were consulted and their opinions heard. The Board has with this document provided a rationale illustrating sound marketing policy is being achieved.

The amendment to the current pricing formula addresses the concerns brought forth of both the growers and processors in their submission.

### Transparent

Pricing orders are transmitted to all mainstream growers and processors by email.

The decision making process is transparent. The processes, practices, procedures and reporting on the mandate are open and accessible to the people impacted by the decisions and operations of the Board.

This Schedule 15 containing the Board's decision and rationale will be posted on the website. Further, an explanation will be included in the BCCMB Monthly Board report and will also provide a reference to the Schedule 15 on the website.

### Inclusive

In his "Chicken Industry Pricing – Episode III" letter dated March 18, 2016 BCFIRB Chair John Les stated:

*The fundamental premise behind how best to determine the price a grower receives for their chicken from a processor remains the same as it was in 1995 and in 2010. In summary, and as recorded in paragraph 23 of the June 9, 2010 BCFIRB decision:*

*All parties in this supervisory review agree that a workable pricing model must be consistent, predictable, transparent, and result in a live price that gives growers a reasonable return and allows processors to be competitive in the Canadian market. These same considerations apply to the BC broiler hatching egg sector.*

*In its June 2010 decision BCFIRB gave the Chicken Board flexibility for making changes to the current formula-based pricing model (paragraph 30): any long term changes to the pricing model will also require the Chicken Board to consult with PPAC. BCFIRB wishes to make it clear that if the Chicken Board decides as the first instance regulator that it should undertake any initiative regarding the pricing model, the requirement to consult with PPAC remains.*

*Finally, as per BCFIRB's general supervisory expectations, the Chicken Board must demonstrate a thorough and substantiated use of principles-based regulation and SAFETI in arriving at any changes to the pricing model that clearly reflect "sound marketing policy". This would necessitate consultation with a broad range of stakeholders and consideration of inter-provincial and national implications*



As per BCFIRB's March 18, 2016 instructions, appropriate interests were considered and consulted. The PPAC consists of representatives of chicken growers, processors and hatching egg producers.

The decision of the Board is in the public interest to provide continuity and stability respecting the live pricing of the regulated product.

Parties impacted by the decision were provided an opportunity to comment prior to the Board coming to its decision.