



August 15, 2022

This letter was edited from the original in red, to fix errors

Mr. Peter Donkers, Chair
Farm Industry Review Board
PO BOX 9129 Stn Prov Govt
Victoria, BC V8W 9B5
BY EMAIL:

RE: BCCMB Response: Weight class change proposal – further information and analysis requested

Dear Mr. Donkers,

The Board would like to thank the Panel for its time to meet in-person on August 3rd in Victoria. The continued dialogue helps support the success of the BC Chicken industry in its development of both the interim and long-term pricing formula.

In follow up to our previous letter of July 18th, the Board would like to provide further context to their deliberations before making the prior approval request. The Board reaffirms its recommendation that the change in weight class *in combination* with the extraordinary feed cost adjustment (50% of costs above the guardrail) provides the balance of processor and grower interests.

In the Boards consideration, we continue to define a reasonable return to growers as a recovery of grower cost. In the interim formula, we recognize that only 75% of feed and chick *differential* are captured, as well as only 50% of costs above the guardrail. This is meant as interim measures until the Board can collect current data and implement the long-term Cost Recovery Model.

The Board continues to struggle to define processor competitiveness due to a lack of BC processor data that is verifiable, transparent, and repeatable. We have not received suggested measures for processor competitiveness from stakeholders to date that pertain to the definition agreed to in the Pricing Review Process, “The ability to profitably and sustainably maintain or enhance market share”.

In the Boards deliberation of the weight class change, a number of options were considered, including:

1. Capturing the full Ontario producer margin vs FIRB’s Ontario producer margin adjustment (A-175 & A-176);
2. Weight class changes vs no weight class changes;
3. Status quo formula;
4. An extension of the previous prior approval formula for A-175 & A-176; and
5. Change the BC Feed Conversation Rate (FCR).

In previous discussions other options discussed included changing or reducing the guardrails, or a fixed differential over Ontario, both however failed to provide an appropriate balance of processor and growers interests. Prior to A-169 period, the Chicken Board had discussion with all stakeholders around



the weight class change and it was illustrated that the net impact (prior to A-169 period) was virtually nil. However, clearly going forward there is pressure on processor competitiveness as a result of the formula amendment and this weight class adjustment would provide some relief. This topic was heavily discussed in December 2021 and in the 'without prejudice' meetings. Additional comment on the options considered can be found below.

Ontario Grower Margin Amendment Analysis.

The Board reviewed the previous FIRB Panel Amendment to the Ontario grower margin in A-175 and A-176. In A-175 this amendment represented a decrease of \$0.0480/kg, and in A-176 this amendment resulted in a decrease to the live price of \$0.0205/kg.

Period	Grower Margin Amendment	Posted Live price	Live price without amendment
A-175	\$ 0.0480	\$ 2.0630	\$ 2.1110
A-176	\$ 0.0205	\$ 2.1520	\$ 2.1725

Edited:

The Board reviewed the previous FIRB Panel Amendment to the Ontario grower margin piece in A-175 and A-176. In A-175 this specific amendment represented a decrease of \$0.0055/kg, and in A-176 this amendment resulted in a decrease to the live price of \$0.0055/kg.

Period	Grower Margin Amendment	Posted Live price	Live price without amendment
A-175	\$ 0.0055	\$ 2.0630	\$ 2.0685
A-176	\$ 0.0055	\$ 2.1520	\$ 2.1575

The Board reviewed this amendment prior to its A-177 proposal in the lens of SAFETI. However, the Board felt that the Ontario grower margin increase in A-175 is not an increase in grower revenue, rather reflective of the cost increases and inflation growers are experiencing across their farm, outside of feed & chick costs. The Board debated and deemed continuing with an ideology of 'sharing' the Ontario Grower Margin increase between processors and growers as unfairly benefiting processors over growers who have no other cost recovery mechanisms. The Board deliberated whether to request prior approval to continue with the A-175/A-176 interim price formula, but ultimately decided this was not a fair balance of processor and grower interest.

The Status Quo Formula

The Board reviewed whether reverting back to the status quo interim formula was appropriate. This status quo formula would be based off Ontario pricing plus 75% of feed and chick differential, with no costs above the guardrail covered. Data available to the Board (feed grain futures) indicated continued high feed costs. This option was untenable for growers who would be bearing the increased costs to their business with no ability to offset. While futures markets are beginning to show some relief from the peak, we have not yet seen a decrease in BC grain prices. Reverting back to the status quo formula



would be disproportionately benefiting the processors and was not deemed to be a fair formula at this time.

Changing or reducing the guardrails

The Board has heard comments about increasing or decreasing the guardrails. The Board had brief discussions on this but did not see this as a tenable interim option. Lowering the guardrail would not support cost recovery for growers in an environment with raising costs. On the reverse, the Board does understand the need to balance processor competitiveness with the ability for growers to have a reasonable return. To balance these two factors, the Board preferred the 50% of cost recovery above the current guardrail rather than a blanket increase to the guardrail. The 50% option provided some assurance to both processors and growers that impacts would be felt but shared across stakeholders. While 50% insinuates an equal share of the burden between processors and growers, it's important to remember that growers are only compensated at 75% of the feed and chick differential with Ontario.

Fixed differential over Ontario

The idea of a fixed differential over Ontario pricing has been discussed for years. The idea recognizes that BC is a higher cost of production province but does not factor in BC specific costs. BC has relied on the Ontario published pricing but this model lacks transparency as the exact figures and negotiations are closed to the BC Board and stakeholders. Depending on the amount of the “fixed differential” growers could be placed at an unsustainable disadvantage when costs rise relative to those in Ontario, as we are currently seeing with the Corn-Wheat differential. Additionally, a fixed differential would not be transparent; it does not specify what differences in BC versus Ontario costs are included, nor does it make any reference to absolute differences between BC and Ontario production costs. In the Board's view, a fixed differential does not meet the criteria of sound marketing; it fails to address variations in BC costs that are not in sync with changing costs in Ontario and fails to provide a reasonable return to growers.

Change the BC Feed Conversion Rate (FCR)

The PPPABC has commented the Feed Conversion Rate (FCR) has improved for BC growers and is not being reflected in the current cost formula. The PPPABC has argued that the current BC FCR is overstated and based on the 2018 Serecon linkage COP, and claims that “the estimated BC average FCR for broilers on conventional feed – 1.55”. While FCR *may* be improved on BC farms, the Board reviewed this request holistically over the whole interim formula. The Board does not at this time have reliable, transparent data on current FCR's for BC growers. The Board remain committed to collecting this information for the long-term cost recovery model formula.

Although not its intended purpose, the BC Formula already has ‘compensated’ for a lower FCR by taking into consideration only 75% of the feed and chick costs differences in the live price formula, as well as only 50% of those costs above the guardrail. The Board felt it would not be fair or effective to alter certain factors in isolation without considering the formula as a whole. Deliberations occurred around adjusting FCR such as, if 100% of feed and chick, and potentially higher percent of costs above the guardrail were established for the model, however, this would still leave the challenge of a lack of reliable, transparent and verifiable data on FCR. Ultimately, the Board does not agree altering the FCR in isolation meets the criteria in the lens of SAFETI and deferred updating the FCR to the long-term Cost Recovery Model.



Weight Class Change vs No Weight Class Change

In the Boards March 4, 2022 submission, the Board committed to changing the weight class to 2.15-2.45kg for the interim formula if an amendment to capture 50% of costs above the guardrail was achieved. This was consistent with the Board’s prior approval submission for A-177. While growers did not support the weight class change, this is supported by the fact that this weight class adjustment to 2.15-2.45kg aligns with the largest portion (~38.03% in A-175) of BC Chicken production (2.171 to 2.5000 kg BC weight class). The table below illustrates this for period A-175.

Average Live Weight	A-175			
	# Growers	% of Total Growers	# Kgs Produced	% Of Production
Primary Growers Receiving Allotment	288			
1.600 kg and below	2	0.69%	74,483	0.20%
1.601 – 1.700 kg	4	1.39%	513,835	1.35%
1.701 – 1.780 kg	9	3.13%	844,684	2.22%
1.781 – 1.850 kg	6	2.08%	835,123	2.19%
1.851 – 1.950 kg	17	5.90%	2,097,643	5.51%
1.951 – 2.020 kg	20	6.94%	2,236,170	5.88%
2.021 – 2.100 kg	32	11.11%	4,403,786	11.57%
2.101 – 2.170 kg	35	12.15%	4,860,655	12.77%
2.171 – 2.250 kg	24	8.33%	5,118,376	13.45%
2.251 – 2.500 kg	63	21.88%	9,353,186	24.58%
2.501 – 2.730 kg	31	10.76%	3,708,299	9.74%
2.731 – 3.180 kg	37	12.85%	3,326,733	8.74%
3.181 kg and above	8	2.78%	682,051	1.79%
Column Totals	288	100%	38,055,024	100%

The Board also deliberated making no change to the weight class keeping this item status quo. The Board acted in good faith to a commitment they made in the March 4, 2022 submission and still feel is the correct move to balance processor and grower interests, and align with the posted Ontario live price. This option provides relief for growers for the exceptional feed ingredients costs being experienced in balance with providing a \$0.02 per kg reduction in the live price to address BC processor competitiveness in the Canadian market.

Using the above table for A-175, we can see there was 38,055,024 kgs shipped which represent a total approximate grower revenue of \$78,393,350 (38,055,024kg x \$2.06/kg). The weight class change will shift the live price by two cents, which is a total of \$761,100. This benefit is equal to approximately 1% of the grower revenue and shifted from growers to processors.

In the Boards view, the weight class change in combination with the 50% of costs above the guardrail amendment balances interests of processors and growers and can be explained through the lens of SAFETI.

Strategic:

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 weight class aligns with central Canada allowing processor to compare and compete at the same weight classifications. The weight class change in connection to the 50% costs above the guardrail amendment has a clearly defined regulatory outcome. This interim formula will provide the chicken industry with a fact-based pricing formula that is simple, transparent, and capable of providing stability and predictability until such a time the Cost Recovery Model is implemented.

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 submissions of both growers and processors were 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. While processors and growers alike are experiencing the effects of inflation, the weight class change demonstrates a balance of processor and grower interests.

Fair:

The Board considered whether the decision is fair to all stakeholders. The Board found it is sound marketing policy to find a balance in the interim pricing formula. This decision will permit Chicken to be priced off the weight category where the largest portion of chicken is produced. Growers are able to partially recover their grain costs above the guardrail, but the processor competitiveness effects are balanced by the \$0.02/kg decrease due to the weight class change.

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



Effective:

The decision allows the continued competitive position of BC processors, while limiting the cost impacts to growers through the 50% above the guardrail amendment. The decision shows a careful balance of interests which will continue to allow growers to achieve partial cost recovery and allow processor to maintain market share in a high-cost environment.

Transparent

The weight class aligns with the largest portion of chicken production. Growers and processors can understand where the pricing alignment is derived from related to the average live weight. Statistic on weight classes is published in the quarterly Chicken Facts, and pricing is published each period. Stakeholders were given an opportunity to provide their position and rationale for the Boards consideration.

Inclusive

The Board consulted through the PPAC offering a virtual or in-person meeting, or written submissions. No meeting took place, but the Board carefully reviewed and considered feedback from stakeholder written submissions. The Board considered the positioning of stakeholders and made a decision consistent with its March 4, 2022 submission for the interim formula.

The Panel had also requested that the Board establish a trigger as to when “extraordinary feed costs” become “ordinary” and the amendment to provide for covering 50% of the extra feed costs above the upper guard would be eliminated. The Board has reviewed historical BC feed + chick cost differential over Ontario. The average difference from quota period A129 to A168 (the period of the original Ontario Farm Gate Minimum Live Price formula) is \$0.1068 per kg. For quota periods A-169 to A-177 the difference is \$0.2119 per kg. As previously stated the Board will apply the amending formula as long as the 75% of BC feed and chick cost difference over Ontario feed and chick exceeds the upper guard rail. The basis for this conclusion is that the long-term average BC feed and chick difference over Ontario falls within the upper guardrail of \$0.1284 per kg.

BRITISH COLUMBIA CHICKEN MARKETING BOARD

Harvey Sasaki

Chair

Cc: BCCMB PPAC
BCBHEC
PPPABC
BCCGA