

BC Chicken Marketing Board (Chicken Board) Cost Recovery Model Committee (CRMC) – Report for December 2022

Committee Membership

The CRMC Terms of Reference is intended to include representation from the key sectors of the BC Chicken Industry

- Growers through the BC Chicken Growers Association (BCCGA)
- Hatching eggs through the BC Broiler Hatching Egg Commission (Commission)
- Hatcheries through the BC Egg Hatchery Association (BCEHA)
- Processors through the Primary Poultry Processors Association of BC (PPPABC) and non-PPPABC processors
- BCCMB through the Executive Director (non-voting)
- BCFIRB through the Liaison (non-voting)

The Chicken Board responded on December 13, 2022 to the PPPABC letter of November 16, 2022 addressing the PPPABC's five "conditions" for participation on the CRMC. The Chicken Board is awaiting the response from the PPPABC. At the December 7, 2022 CRMC, the BCCGA raised concerns with respect to the "conditions" for active PPPABC participation on the CRMC.

The PPPABC continued to "observe" the process through their Executive Director at the December 7, 2022 CRMC meeting. All other members were present and actively participated in the discussions.

Cost Recovery Model Components

Commission staff presented an overview of the return on and of capital components of the Hatching Egg COP at the December 7, 2022 meeting of the CRMC. The discussion on the components contribute to developing a broader understanding of the rationale and their application in the COP. A key observation was the importance of ensuring consistency in aligning pricing formulas and models throughout the chicken value chain, particularly with the Hatching Egg COP having been accepted by BCFIRB and the Commission working with the hatcheries to establish a "cost-based" approach to future hatchery margin increases.

Serecon presented an outline of the different cost modelling principles and concepts that were contained in the December 7, 2022 'BCCMB COP Element Discussion Initial Considerations document' given to the CRMC. Serecon provided context with respect to the development of COPs, more specifically that there are no right or wrong ways of presenting a COP, rather there are many ways of representing COPs and that there were five principles that Serecon follows in developing a COP:

1. Endorsed by industry
2. Easily understood
3. Based on accepted valuation standards
4. Encourages efficiencies and continuous improvement
5. Contributes to the long-term viability of stakeholders

Serecon was likely to apply modelling to some cost elements while others would be based on actual data in the proposed BC Grower Cost Model. Labour and capital were two cost elements where modelling is being recommended. With respect to labour, typically COPs include two categories that are modelled, general and management. CRMC members made a case for Serecon to consider three categories for modelling, general, management and skilled. While the labour cost will be modelled, the grower surveys collect labour data and will be used for comparison to ensure that the modelled data can be justified.

Serecon recommends modelling physical capital (barns and land) based on an approach that establishes a weighted average as opposed to using the oldest or newest cost. The Committee raised questions to explore other options for valuation of barns and land which were discussed. Serecon pointed out that it was important to put capital costs into perspective; the relative percentage that capital costs represent in the Grower Cost Model versus the major costs of feed can chick, which are based on actual data. The other important consideration raised by Serecon was the ability to defend the method and data used. Publicly available and accepted valuation standards being much easier to defend than anecdotal references or limited available and transparent data.

With respect to return of and on capital, Serecon suggested that a COP must include both a return of capital and some return on capital. As with other elements, it is important to not stray from the methodology applied to the Hatching Egg COP unless there is verifiable, transparent data to indicate that the life expectancy of barns is different.

Serecon reported to the Committee on its process for establishing the feed cost component. Serecon collects data from the grower directly in the initial data collection phase and collects feed mill price data. Serecon compares the two to establish a relationship of farm versus feed mill data. Post initial survey, Serecon collects feed mill price updates and establishes an index for the change from the original survey. The index is applied to the grower survey COP feed prices for pricing period updates. The feed mill price data is weighted based on proportionate share of feed supplied to broiler growers along with the assumption that feed mill margin has not changed since the base feed price for the COP was established.

The CRMC established the following actions based on the COP presentations by the Commission and Serecon:

- The CRMC requests the Commission share their PowerPoint presentation with the CRMC.
- Serecon to look at the inclusion of 3 categories of labour (general, skilled, and management).
- Serecon to follow up on the impact of land being included or excluded within the agriculture and utility beta.
- Barn life – In order to consider a different barn life (i.e. 30 or 20 years versus 40 years) the BCCGA will need to provide additional data to support this change. A decision on this action will not be made until Serecon has presented the draft grower cost data and barn-life based on survey data.
- Serecon to come back to the CRMC in mid-January with the compiled grower cost data, including recommendations on where to use modelling and actual data prior to MNP's having completed its 3rd party review.

The CRMC is tentatively scheduled to meet on January 19, 2023 for the Serecon presentation of the draft grower cost data. The date is subject to change depending on the ability to Serecon to complete the grower surveys during the Avian Influenza outbreak that has seriously affected the lower mainland.

Policy Objectives – Definitions and Measures

The Chicken Board engaged the services of Hugh Scolah to prepare a discussion paper on the definition and measures of processor competitiveness. The paper is expected to be available in mid-December and will be circulated to the Committee in advance of the January 2023 meeting. The CRMC is scheduled to meet on January 10, 2023 to discuss the Scolah discussion paper. It is hoped that the PPPABC will be in attendance and a full participant in the discussions.

It is also expected that the CRMC will discuss the definition of “reasonable return to an efficient grower”. The measures of this objective will be derived from the grower cost data.

Prepared by:

Harvey Sasaki

CRMC/Grower Cost Recovery Model Project Manager