

BRITISH COLUMBIA FARM INDUSTRY REVIEW BOARD

IN THE MATTER OF THE *NATURAL PRODUCTS MARKETING (BC) ACT* AND
BC Chicken Marketing Board Interim Pricing Formula A-174 Prior Approval

February 4, 2022

Decision Summary

1. The BC Farm Industry Review Board (BCFIRB) does not approve the BC Chicken Marketing Board's (Chicken Board) recommendation to amend the current interim chicken pricing formula (the interim pricing formula) for production period A-174.
2. The Chicken Board is not precluded from submitting requests to BCFIRB for prior approval to amend the interim pricing formula for future production periods.

Introduction

3. In March 2020, BCFIRB established a Chicken Sector Pricing Supervisory Review Panel (the Panel) to address the Broiler Hatching Egg Commission's (Commission) notice to exit the price linkage agreement and any related supervisory matters the Panel may have deemed necessary.
4. In April 2020, given the Chicken Board's failure to issue a decision on a long-term pricing formula after it was granted two deadline extensions and the inter-connected nature of broiler hatching egg and chicken pricing, the Panel decided to include the outstanding long-term chicken pricing formula¹ as a related supervisory matter.
5. A full chronology of events leading to the Chicken Sector Pricing Supervisory Review is detailed in the Panel's supervisory decision of July 3, 2020 entitled "Interim Pricing in the BC Chicken Sector" ("Interim Pricing decision"). That chronology will not be repeated here.
6. In the Interim Pricing decision, the Panel made the following interim order to support industry stability and orderly marketing while discussions for a long-term pricing formula remained ongoing (the Interim Order):
 44. The Chicken Board and the Commission are directed not to change any aspect of the current pricing structures as defined in this decision, unless by the way of BCFIRB prior approval or until such time as BCFIRB determines otherwise.
 45. The Commission and the Chicken Board are directed not to exit the price linkage agreement without BCFIRB prior approval.
7. In the summer of 2021, the Panel reviewed the Interim Order and the state of industry stability at that time. After consultation with the Chicken Board, the Commission and stakeholders, the Panel decided on August 20, 2021 that it would not be amending or rescinding the Interim Order.

¹ The June 2018 Chicken Board interim formula was appealed by the Primary Poultry Processors Association of BC (PPPABC) and the BC Chicken Growers Association (BCCGA), which proceeded to hearing in late 2018. In its May 16, 2019 decision, the BCFIRB appeal panel directed the Chicken Board to issue a decision on a long-term pricing formula no later than January 2020.

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8. On January 20, 2022, the Chicken Board sought BCFIRB's prior approval to amend the interim pricing formula, commencing in production period A-174 (January 16, 2022 to March 12, 2022).
9. The Panel expects the Chicken Board and the Commission to submit their final long-term pricing recommendations in February 2022. Based on the draft recommendations sent to stakeholders for their final consultation, the Panel is aware that the Commission will recommend a Cost of Production formula, and the Chicken Board will recommend that it continue using the interim pricing formula until a "grower cost-based approach" is completed in approximately one to two years.

Issue

10. Does the Chicken Board's recommended amendment to its interim pricing formula accord with sound marketing policy?

Legal Authorities

11. Under s. 7.1 of the *Natural Products Marketing (BC) Act (NPMA)*, BCFIRB is responsible for the general supervision of all marketing boards and commissions in the province, including the Chicken Board. Section 7.1(2) of the *NPMA* provides for this supervisory authority to be exercised "at any time, with or without a hearing, and in the manner [BCFIRB] considers appropriate to the circumstances".
12. Under s. 9 of the *NPMA*, BCFIRB "has exclusive jurisdiction to inquire into, hear and determine all those matters and questions of fact, law and discretion arising or required to be determined by [BCFIRB] under [the *NPMA*]".
13. The Chicken Board has the authority to regulate the price of regulated products under s. 4.01(g) of the BC Chicken Marketing Scheme.

Process

14. For production period A-173, the BC Chicken Growers Association (BCCGA) applied for a variation based on exceptional circumstances under the Chicken Board's General Orders Schedule 2, requesting that the live price be set above the interim pricing formula's upper guardrail. The Chicken Board found, however, that the BCCGA did not provide it with sufficient and substantive new information to support varying its pricing decision for period A-173.
15. On November 25, 2021, the Chicken Board sent a letter to the Panel and its Pricing and Production Advisory Committee (PPAC) advising that it planned to propose an amendment to the interim pricing formula for production period A-174 for the Panel's prior approval, "...after consultation with stakeholders." The Chicken Board acknowledged that the upper guardrail, which constrains live prices to an agreed-on limit, had been "...significantly exceeded..." for three production

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periods, (and that "...the current conditions [increasing grower costs] will continue for some time into the future".

16. On the evening of Friday, January 14, 2022, two days before the start of production period A-174, the Chicken Board requested that the PPAC, the Primary Poultry Processors' Association of BC (PPPABC) and the BCCGA provide it with written submissions by January 18, 2022, on its proposal to amend the interim pricing formula for mainstream chicken in production period A-174. The Chicken Board proposed adding to the interim pricing formula, "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."
17. In the same letter, the Chicken Board also stated that this proposed amendment would increase the live price of mainstream chicken by \$0.0616/kg in period A-174.
18. The Chicken Board further noted that it intended to send its submissions supporting its request to amend the interim pricing formula to the Panel by Wednesday, January 19, 2022, after it had received and duly considered the PPAC's feedback. The PPAC did not support the Chicken Board's proposed amendment. Therefore, the Chicken Board decided to proceed on its own and provide submissions to the Panel.
19. Given the tight timelines, the Panel notified the stakeholders, including the BCCGA, the PPPABC, the Commission, the BC Hatching Egg Producers' Association and the BC Egg Hatcheries' Association on January 18, 2022 of the Chicken Board's intention to seek its prior approval to amend the interim pricing formula and requested brief (1-3 page) submissions from them by January 20, 2022.
20. The Chicken Board notified the Panel that its submission would be delayed. The Panel then notified the stakeholders of this delay and that their deadline for their brief submissions would be extended accordingly.
21. At end of day on January 20, 2022, the Panel received the Chicken Board's request, for its prior approval, to amend the interim pricing formula in period A-174, resulting in a live price increase of \$0.072/kg for mainstream broiler chicken. The Chicken Board provided the Panel with the submissions it had received from the PPPABC and the BCCGA. The Chicken Board asked the Panel for a decision by January 21, 2022.
22. On January 21, 2022, the Panel notified the stakeholders that their submissions would now be required by noon on January 25, 2022.
23. On January 24, 2022, the PPPABC contacted BCFIRB's Executive Director asking if Dion Wiebe from Rosstown Farms and Natural Foods (Rosstown) could be included in BCFIRB's submission process. Rosstown is not a PPPABC member.

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BCFIRB's Executive Director directly advised Mr. Wiebe that he could provide the Panel with submissions addressing how the Chicken Board's proposed amendment would impact his operation, as distinct from PPPABC's position. Mr. Wiebe did not provide any submissions.

24. The Panel received submissions from the BCCGA, the PPPABC and the Commission on the Chicken Board's recommendation to amend the interim pricing formula. The Panel reviewed all of the submissions and issued a decision (operative part only) not to give prior approval to the Chicken Board's request on January 27, 2022 with reasons to follow. These are the Panel's reasons.

Submission Summaries

BC Chicken Marketing Board

25. For period A-174, the pricing formula, without the upper guardrail, results in a live price of \$2.074/kg for mainstream broiler chicken. This price is \$0.1232/kg over the upper guardrail which - adjusted to reflect the increased catching costs – allows for a maximum price gap over Ontario's price of \$0.1284/kg. Consequently, in its pricing order of January 14, 2022, the Chicken Board set the live price for mainstream broiler chicken at \$1.951 (\$2.074 minus \$0.1232, the amount in excess of the upper guardrail).
26. In its correspondence of January 20, 2022, the Chicken Board requested that the Panel prior approve an increase of \$0.072/kg in the live price of broiler chicken for period A-174, noting that this would result in a live price of \$2.0129/kg for period A-174.²
27. In setting the live price of chicken, the Chicken Board relies on an Ontario-based formula that includes an adjustment for differences in feed and chick prices between the two provinces, as these make up the main costs for chicken growers. Changes in the Ontario price and differences in wheat (BC feed) and corn (Ontario feed) costs impact BC grower price either positively or negatively in each production period. The Chicken Board notes several periods where grower price increased and decreased.
28. The Chicken Board provided a SAFETI³ rationale. It states it has not been presented with any objective data to demonstrate the proposed amendment will result in market instability. It argues that the amendment is consistent with pricing in the three prairie provinces. It considered both grower and processor interests – the proposed amendment is short of providing growers with full cost recovery to balance the need to consider processor competitiveness in Canadian markets.

² The difference between the A-174 price of \$1.951 and the proposed price of \$2.0129 is \$.0619 and not \$072. The Chicken Board confirmed the stated increase was incorrect and should have read \$.0619 (half of the amount above the guardrail of \$0.1232 plus the linkage adjustment of .003 cents), not \$.072/kg.

³ Strategic Accountable Fair Effective Transparent Inclusive.

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29. While growers received an increase in margin after feed, chick and catching due to changes in the Ontario formula that came into effect on April 11, 2021 (quota period A-169), the Chicken Board notes BC grower margins are in decline as opposed to remaining stable. To accept a margin increase less than that realized by growers in other provinces suggests BC should strive to be low-cost chicken producers, which is unrealistic.
30. Overall, continuing to apply the upper guardrail while extraordinary high feed prices continue means that growers would not have recovered the higher feed costs for a year, "...exemplifying the verifiable harm to growers."
31. The Chicken Board reports that:

The impact of the continued escalation of feed costs in BC increased the combined 75% feed and chick cost differential to \$0.1463/kg (A-170); \$0.1418 (A-171); \$0.1735/kg (A-172); \$0.1912/kg (A-173); and \$0.2116/kg (A-174). This is despite efforts by BC feed companies to introduce lower cost corn into feed rations to mitigate feed price increases that would have resulted if rations remained dependent on wheat. As well, BC feed prices continue to escalate due to market conditions despite provincial government intervention with feed companies during the November 2021 Atmospheric River Event to not increase feed prices for a two week period."
32. For five periods (A-169 to A-173), BC growers received prices below the Serecon price linkage 2018 Cost of Production (Serecon COP, updated) due to the application of the upper guardrail. The amendment would result in a cost recovery of 95.33%.
33. Growth in national wholesale prices raise questions of harm to processors; no substantive information was provided on industry instability; and the higher live prices paid in the prairies seems inconsistent with BC processor competitiveness concerns.

BC Chicken Growers' Association

34. The BCCGA applied to the Chicken Board for a variation in live price under the Chicken Board's Schedule 2 for exceptional circumstances for production periods A-173 and A-174. Over the last three periods, ingredient costs have escalated, and the upper guardrail was exceeded for periods A-169, A-170, A-172, A-173 and A-174. The proposed price increases sought were the result of the increase in feed costs over Ontario, mainly due to a wheat/corn price imbalance. The BC live prices were significantly below actual cost of production for eight of the past ten allocation periods. There was no way for BC growers to make up the actual feed cost differential unless the upper guardrail was changed. The upper guardrail was preventing growers from covering their rising costs.
35. Historically, BC has the highest live price in Western Canada. The BC price is also now lower relative to the other Western Provinces. As of mid-week (week of

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January 21, 2022), there were no pricing appeals filed in Alberta, Saskatchewan, or Manitoba for period A-174 (higher live prices than BC).

36. The upper guardrail price constraint will cost growers \$4.9 million in revenue. The harm to chicken growers represents a loss of millions of dollars each cycle. The harm that cannot be gauged is how many growers will exit the industry in the next cycle, next year, or next five years if things stay the same. Twenty-two growers (6.6%) have left the industry since 2010.

Primary Poultry Processors' Association of BC

37. The Chicken Board did not allot sufficient time for meaningful consultation with stakeholders. As the proposed change was submitted almost two weeks into the period A-174 pricing cycle, approval of the Chicken Board recommendation would cost processors approximately \$2.7 million.
38. PPPABC questions whether the feed price differential is necessarily impacting grower gross returns and noted that returns to growers currently appear to be similar to returns at the start of the supervisory review. It also noted that the Chicken Board analysis ignores BC grower margin increases of \$0.10/kg realized through changes in the Ontario Cost of Production Formula. (An addition of \$0.05 in period A-169 brought grower margins to pre-supervisory review levels; \$0.02 more was added in A-174 and \$0.036 is scheduled to be added in period A-175.) The price increase proposed by the Chicken Board would increase grower returns by 15-20% over gross returns at the start of the supervisory review, providing growers with gross margins in excess of \$0.48 in A-174 and greater than \$0.51 in A-175.
39. The price would be \$2.023, \$0.18 over Ontario when adjusted for catching and Ontario-specific items.⁴ This would be the largest differential ever experienced over Ontario and cost processors an incremental \$18 million/year with the present formula.
40. The Chicken Board does not provide any analysis of a fair return to growers and processor competitiveness. The analysis it provided was not objective and was biased towards a predetermined outcome. There was no evidence that the recommendation is required for industry stability, orderly marketing or maintenance of a competitive position. If approved, the new price will become the "reasonable benchmark for grower returns and processor competitiveness" with no supporting data.

⁴ PPPABC's cited price of \$2.023 was based on the information contained in the Chicken Board's request of January 20, 2022, to the Panel for prior approval to add \$0.072 to the A-174 live price for regular broiler chicken (\$1.951/kg.). Subsequently, the Chicken Board acknowledged a mathematical error in its request - the price increase it meant to propose was \$.0619/kg, not \$.072/kg, resulting in a live price of \$2.0129/kg.

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BC Broiler Hatching Egg Commission

41. The lack of certainty in the live price for a period that has already started impacts the entire supply chain, including the hatching egg sector through linkage.
42. The Commission agrees chicken growers and hatching egg producers are experiencing feed cost increases. Addressing these increases while accounting for the competitive need of the processors is a difficult and on-going balancing act for the Chicken Board.
43. Pricing issues will always present challenges but a common, long-term BC industry-wide pricing framework focusing on all stakeholder costs would enable the first instance regulators to have a transparent, evidence-based, stable, and certain platform from which to address pricing matters.

Analysis

44. This decision was not an easy one to make. The Panel knows that the Chicken Board and all of the stakeholders continue to deal with substantive business and regulatory challenges arising from circumstances beyond their direct control.

Process

45. The Panel agrees with the PPPABC that the Chicken Board's request did not give stakeholders adequate time for consultation before the sector was well into period A-174 and payments and business contracts were in play. While the Ontario live price data was not available until January 10, 2022, it is evident that the Chicken Board, the BCCGA and the PPPABC anticipated that the upper guardrail would be exceeded again given the continued extraordinary feed costs.
46. The Panel does not expect the Chicken Board to make a final pricing decision before the Ontario price is actually posted. Indeed, the Chicken Board could not do so within the current formula. However, there was opportunity to work with supply chain members on establishing options, and ideally, agreement, on what the approach would be, should the upper guardrail be exceeded again. To clarify, whether there is agreement or not between supply chain members, it remains the Chicken Board's responsibility as the first instance regulator to set price in accordance with sound marketing policy.
47. The Chicken Board forecasts that feed price pressures may continue into the fall. The Panel expects the Chicken Board, the PPPABC and the BCCGA to start discussing now what sound marketing policy pricing would be for production period A-175, and potentially beyond.

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Recommended pricing amendment

48. The Panel agrees revisiting the upper guardrail on price is strategic and effective if that guardrail is regularly being exceeded.
49. However, no party provided satisfactory evidence (data and analysis) to support that a change in the interim pricing formula is required to ensure “fair returns for efficient growers” for period A-174. The Chicken Board argues its recommendation balances chicken grower and processor business needs (*i.e.*, everyone shares in loss). The Panel agrees that this is a strategic consideration, however there is no substantive rationale or analysis to support the Chicken Board’s specific proposed price increase over the upper guardrail.
50. Despite the Chicken Board’s recommendation and the BCCGA’s rationale being based on extraordinary feed costs, no data or analysis was provided on the changes in feed costs and how these changes may impact “fair returns” to BC growers. Forecasting lost revenue, in the absence of any context or benchmarks, is insufficient evidence for amending the interim pricing formula.
51. The Panel gave little weight to arguments that BC grower gross margins must remain on par with grower gross margins across the country, and that BC grower gross margins are in serious decline. Supply management is neither intended nor designed to guarantee equality of gross grower margins across the country. Supply management is intended to ensure a fair return to efficient growers. Data, information and rationale relied on by the Chicken Board about what constitutes a “fair return” to a BC grower remains an outstanding question in the Panel’s view.
52. Declining trends in grower gross margins and/or instability can only be effectively resolved by developing a transparent and accountable long-term pricing formula that takes into consideration costs of all the stakeholders. BCFIRB was satisfied with the Chicken Board’s data showing grower margins vary by period.
53. The BCCGA points to growers exiting the industry. The BCCGA did not explain why 8 of 67 new entrant growers have left the industry since 2007, a fourteen year period. It is difficult for the Panel to give much weight to this argument in the context of one pricing period. Grower entry and exit involves many interacting personal business and regulatory factors and grower returns cannot be considered in isolation.
54. BC is considered one of the highest cost production provinces. Recent variation on historical pricing patterns only strengthens BCFIRB’s view that coordinated pricing across the western provinces would benefit BC’s chicken supply chain. The Panel also notes that, as a high-cost production province, the chicken supply chain has additional pressure to seek and implement efficiencies.
55. Before making any future recommendations to amend the interim pricing formula, the Chicken Board must clearly demonstrate that it considered processor

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competitiveness in detail beyond a mere statement indicating that the loss was shared. Similar to fair grower returns, the Panel finds the Chicken Board has not adequately demonstrated how it assessed data, information and rationale about what constitutes processor competitiveness.

56. Lastly, the PPPABC and the BCCGA should both be prepared to work meaningfully, effectively and transparently with the Chicken Board to assess where they can exercise some short-term flexibility during these challenging times for the benefit of the full value chain.

Decision

57. The Panel does not approve the Chicken Board's recommendation to amend the interim pricing formula for period A-174.
58. The Chicken Board is not precluded from submitting requests to BCFIRB for prior approval to amend the interim pricing formula for future production periods.

In accordance with s. 57 of the *Administrative Tribunals Act*, "an application for judicial review of a final decision of (BCFIRB) must be commenced within 60 days of the date the decision is issued."

Dated at Victoria, British Columbia, this 4th day of February 2022.



Peter Donkers
Chair, Chicken Sector Pricing Review Panel



Al Sakalauskas
Member, Chicken Sector Pricing Review Panel



Harveen Thauli
Member, Chicken Sector Pricing Review Panel



BC Chicken Growers'
ASSOCIATION

January 25, 2022

DELIVERED VIA EMAIL

Kirsten.Pedersen@gov.bc.ca

Peter Donkers, Panel Chair, BC Farm Industry Review Board

RE: BC Chicken Growers' Association Position Statement on the BC Chicken Marketing Board's Proposed Amendment to the Quota Period A174 Mainstream Pricing Formula

Dear Peter,

The BC Chicken Growers' Association (BCCGA) is in support of the BC Farm Industry Review Board's (FIRB) approval of the BC chicken Marketing Board's (BCCMB) adjustment to the existing A-174 pricing formula. As stated by the BCCMB, the adjustment is "Based on the linkage agreement formula, the proposed amendment to the formula yields a \$0.072/kg increase to the current formula live price for Quota Period A-174; from \$1.951/kg to \$2.0129/kg with a resulting cost recovery of 95.33%."

The BCCGA on behalf of the Grower Committee in the Pricing and Production Advisory Committee ("PPAC"), requested exceptional circumstances to amend the pricing orders #164 for period A-173 and #165 for period A-174. These exceptional circumstances requests were primarily due to the significant increased feed costs, mainly due to the wheat/corn imbalance, amid other increased costs.

The BCCMB denied varying the A-173 live price, however, recognized and was concerned with the situation currently facing the BC chicken industry. The BCCMB noted that over the past three quota periods ingredient and other costs have escalated. During this time the existing mainstream live price formula's upper guardrail had been significantly exceeded. The Board also acknowledged that the BC live price relative to other Western provinces is now lower, when historically BC had the highest live price of the Western provinces.

The BCCGA had requested that the upper guardrail be removed during these exceptional circumstances. However, to help balance the interests of the processors and growers, the BCCGA accepts the proposed adjustment for A-174.

The feed prices across Canada and Western Canada have increased significantly. BC growers have been exceptionally hit hard by the wheat/corn imbalance, amid other increased costs. The upper guardrail for A-174, A-173, A-172, A-170 and A-169 have kept growers restricted to these upper guardrail levels. The current formula was not meant for such major differences in feed costs.

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Allocation Period	Cost to Growers (Kgs = Domestic allocation + MD)
A-174	38,754,535 kgs x \$0.1276 = \$4,945,079
A-173	37,111,184 kgs x \$0.1028 = \$3,815,030
A-172	39,498,995 kgs x \$0.0851 = \$3,361,364
A-171	38,923,570 kgs x \$0.0534 = \$2,078,518
A-170	40,093,087 kgs x \$0.0579 = \$2,321,390
A-169	37,880,944 kgs x \$0.023 = \$871,262

Allocation Period	Cost to Growers (Kgs = Domestic allocation + MD)
A-174	38,754,535 kgs x \$0.170 = \$6,588,271
A-173	37,111,184 kgs x \$0.156 = \$5,789,344
A-172	39,498,995 kgs x \$0.125 = \$4,937,369
A-171	38,923,570 kgs x \$0.082 = \$3,191,732
A-170	40,093,087 kgs x \$0.083 = \$3,327,726
A-169	37,880,944 kgs x \$0.038 = \$1,439,476

These tables show the losses growers have suffered due to the Upper Guardrail (Table #1) and pricing below COP (Table #2). These are monies that the growers will never get back, monies that they will never be able to reinvest into their businesses. BC growers have moved too far away from their actual costs. BC chicken growers need to recover all their costs.

Period	Feed (\$)	BC Live Price	COP	Below COP	Grower Margin
A-174	1.07	\$1.95	\$2.12	\$0.170	5.5 %
A-173	1.06	\$1.94	\$2.10	0.156	6.0 %
A-172	1.05	\$1.97	\$2.09	0.125	7.2 %
A-171	1.03	\$2.00	\$2.08	0.082	9.2 %
A-170	0.99	\$1.95	\$2.03	0.083	9.2 %
A-169	0.96	\$1.95	\$1.99	0.038	11.6 %
A-168	0.87	\$1.81	\$1.89	0.075	10.2 %

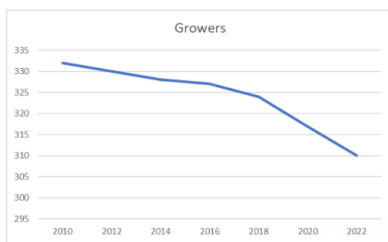
The BC live prices are significantly below our members' actual cost of production, in eight of the past ten allocation periods. The most recent three allocation periods (A-172 to A-174) show a devastating trend. At the current A-174 live price, BC growers would be \$0.170 below their cost of production with the lowest margin of 5.5% in the past ten allocation periods. These pricing structures are not sustainable for the BC chicken industry.

Before the new Ontario COPF, Ontario used a high FCR in their formula; higher than the BC FCR and higher than the actual Ontario FCR. This resulted in an overstated feed cost/kg in Ontario and allowed for a better return to Ontario growers (which was then offset in A-129 by the feed efficiency adjustment). This had an impact and affect on the BC live price because the current formula uses 75% of the difference between BC feed cost/kg and Ontario feed cost/kg. The overstatement of the Ontario feed cost resulted in a lower feed cost differential and had a negative effect on BC grower returns and benefited the BC processor. The higher Ontario FCR generating a lower BC feed cost differential masked the true feed cost differential and added a compounding effect on the BC live price due to the annual efficiency adjustments applied in Ontario prior to A-169.

Ontario Feed Conversion Analysis	A-168
Ont Feed Price (per kg)	\$ 0.4771
"Old" Ont feed conversion ratio	1.8130
"Old" Ont Feed cost per kg	\$ 0.8649
"New" Feed conversion ratio (A-169)	1.6248
"New" Ont Feed cost per kg	\$ 0.7751
Feed cost difference	\$ 0.0898
75% of the feed cost difference	\$ 0.0674
BC A-168 Allotment (domestic + MD)	37,684,430
Dollar amount that BC growers were shorted in A-168 due to the inflated Ontario FCR	\$ 2,538,046.36

In A-169, Ontario changed their FCR to an actual realistic number which resulted in a feed price/kg (lower than before) more reflective of actual feed conversions and cost to grow broilers. The change resulted in a more accurate statement of the feed cost differential between BC and Ontario. It contributes to the BC formula working the way it was intended to by addressing the higher feed costs in BC and BC growers experienced 1 period of returns that were closer to their COP. Then the wheat/corn price imbalance came along and now the BC live price has been limited by the upper guardrail for multiple cycles in a row and seems to be getting worse. There is no way for BC growers to make up this actual feed cost difference without changes to the upper guardrail as it prevents growers from realizing a price increase to cover their rising costs.

The harm to BC chicken growers is the loss of millions of dollars each cycle as shown above. The harm that can not be gauged is how many growers are going to exit the industry in the next cycle, in the next year, in the next 5 years if things stay the same.



Year – No. Of Growers
2010 - 332 growers
2018 - 324 growers
2021 - 317 growers
2022 - 310 growers
*Since 2007 the BCCMB has started 67 New Entrant Growers. 8 of them have since left the industry. The

Historically and well known, BC has the highest live price of the Western Provinces, in part due to the BC growers' distance to the supply of grains. It was unbelievable when the Prairie provinces, Saskatchewan and Manitoba, both reported higher live prices than BC in period A-173. And now in period A-174 Alberta, Saskatchewan and Manitoba have all posted higher live prices than BC. Never have 2 Prairie provinces prices higher than BC in the same cycle, let alone 3!

In A-173, there were no pricing appeals filed in Alberta, Saskatchewan or Manitoba. As of mid-last week, there were no pricing appeals filed in those provinces for period A-174 either. As the BCCMB stated in their submission: *"BC processors operate in the prairie provinces and if competitiveness in Canadian markets is of concern, the higher live prices paid in the prairies seems inconsistent with the competitiveness concerns expressed by BC processors over the current and past BC live prices."*

The significantly higher feed prices during periods A-173 and A-174 are well known to processors, the BCCMB and the BCFIRB. The Prairie provinces' authoritative bodies understood the issues and the numbers and understood that the only choice was to raise the price or risk losing the farmers. These period pricing inadequacies could have been avoided by proactively setting the live prices for BC Chicken, given the higher feed costs, as was done with the other Prairie provinces. We need our authoritative bodies to recognize these inadequacies and protect BC Chicken Growers. This imbalance is causing harm to BC growers as the costs for producers continue to be higher than sustainable.

Sincerely,

Dale Krahn, President
BC Chicken Growers' Association

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January 25, 2022

Mr. Peter Donkers
Panel Chair, BCFIRB Chicken Sector Pricing Review

Via: Kirsten.Pedersen@gov.bc.ca

Dear Mr. Donkers:

Re: BC Chicken Marketing Board – Interim Chicken Pricing Proposal

The Primary Poultry Processors Association of BC (PPPABC) writes in response to your email dated January 21, 2022, requesting our position and views on the BC Chicken Marketing Board's (BCCMB) January 20, 2022, proposal to change the live price formula for regular broilers, and seeking confirmation as to whether we would support prior approval of the change by the BC Farm Industry Review Board (BCFIRB).

As a preface, it is worth noting that the process and timing of BCCMB's proposed pricing change submission has left the PPPABC with very little confidence that our position and concerns have been meaningfully considered and adequately addressed. The BCCMB notified BCFIRB and industry stakeholders on November 25, 2021, that it intended on submitting amendments to the pricing formula to BCFIRB for prior approval for quota period A-174. However, the BCCMB only submitted a proposed price formula amendment for stakeholder feedback after the close of business on Friday January 14, 2022, with the new price coming into effect on Sunday, January 16, 2022. The BCCMB then announced their proposed live price changes to growers on January 17, 2022, two days prior to their meeting to deliberate the proposal and consider input from all industry stakeholders. By bringing forward their proposed formula on the eve of quota period A-174 taking effect, the BCCMB did not allocate sufficient time for meaningful stakeholder consultation and timely BCFIRB 'prior' approval. As a result, processors had no choice but to pay growers and set prices for customers based on the BCCMB's published A-174 price bulletin. We are now two weeks into the production cycle and if the live price is amended, it is highly unlikely processors will be able to pass on the increase to customers resulting in a cost of \$2.7 million to processors.¹

The PPPABC rejects the proposed changes to the BC live price formula put forward by the BCCMB and would not support BCFIRB in providing prior approval for this request, while in the midst of the Chicken Sector Live Pricing Supervisory Review (the Review). The Appendix to this submission puts forward the detailed rationale we provided to the BCCMB for consideration. The PPPABC believes that the situation does not warrant a modification to the current pricing formula for the following reasons:

Proposed Changes Do Not Recognize Grower Returns and Processor Competitiveness

- These are the fundamental issues to be addressed in the Review and the BCCMB provided no comment on the impact that the proposed formula changes would have on these two issues. There was no comment from the Board as to whether the changes result in a fair return for growers, nor was there an assessment of whether Processors would still be competitive at the new differential.

¹ Lost Margin Based on A-174 Production – 38,754,535 kgs x \$0.07 / kg = \$2,712,817

This is particularly important given that the differential would be, by far, the largest differential ever experienced by Processors against their competitors in Central Canada. There is no analysis to suggest that the pricing proposal is required to provide industry stability, orderly marketing or to keep the industry competitive.

Proposed Changes Focus Solely on Feed Costs and Does Not Consider Grower Margin Increases Realized Through the Ontario Cost of Production Formula (ONCOPF)

- The Board analysis focuses almost entirely on the impact of feed pricing and does not adequately consider the margin improvements growers are realizing through the ONCOPF (approximately 5 cents in A-169, 2 cents in A-174 and 3.46 cents in A-175) by virtue of the BCFIRB freeze in the pricing formula. The increase in grower returns realized through the ONCOPF total over 10 cents per kg or \$26.1 million annually² and is in large part offsetting the current increases in feed pricing. The PPPABC has shown that, despite these large feed increases, grower returns (after feed, chick and catching) are consistent with the levels growers were realizing at the start of the supervisory review.

Proposed Changes Will Further Reduce Processor Competitiveness by Increasing the Live Price Differential with Ontario to Record Levels

- The price formula change would increase the live price by 7.2 cents to \$2.023 (not the \$2.0129 as outlined in the BCCMB request to BCFIRB) and result in a live price differential with Ontario of \$0.18/kg after catching and Ontario specific items. The 7.2 cent increase will cost processors an incremental \$18.0 million annually³ over the current formula. If the proposed formula is approved, the live price differential with Ontario will have more than tripled in the past five years.

Processor Competitiveness Live Price Differential with Ontario (Net of Catching & Ontario Specific Items)	Average 2019 – 2020	A-173	A-174 - Current	A-174 Proposed	A-175 Expected	A-175 Proposed
Net BC Live Price (2.021 – 2.170 kgs)	1.6442	1.9045	1.9110	1.983	1.946	2.018
Net Ontario Live Price (2.15 – 2.45 kgs)	1.5484	1.795	1.802	1.802	1.837	1.837
Live Price Differential	0.0959	0.110	0.1090	0.1820	0.1090	0.2166

Proposed Changes Will Provide Growers with Returns That are 15-20% higher than were in place at the beginning of the Supervisory Review

- Despite the current pricing formula being “locked down” by BCFIRB since A-164 growers will have realized over 10 cents of margin improvement by A-175 through changes to the ONCOPF as mentioned earlier. In 2021, despite rising commodity prices, growers realized average returns (after feed, chick and catching) that exceeded 47 cents which is a 12% increase over 2019 / 2020 returns. The proposed changes to the pricing formula, if approved, will provide growers with returns that will be in excess of 48 cents in A-174 and greater than 51 cents in A-175.

Grower Returns After Feed and Chick (Net of Catching)	Average 2019 - 2020	A-173	A-174 Current	A-174 Proposed	A-175 Expected	A-175 Proposed
BC Live Price (2.021 – 2.170 kgs)	1.6807	1.941	1.951	2.023	1.986	2.0576
Catching Costs	0.0365	0.0365	0.0400	0.0400	0.0400	0.0400
Feed and Chick Costs*	1.2241	1.4847	1.4984	1.4984	1.4984	1.4984
Return After Feed and Chick	0.4201	0.4198	0.4126	0.4846	0.4472	0.5192

² Incremental Grower Margin – 250 million kgs x \$0.1046 = \$26.15 million

³ Incremental Cost Calculation – 250 million kgs x \$0.072 = \$18.0 million

The Proposed Changes Will Bias and Prejudice the Live Price Supervisory Review

- The BCCMB's A-174 Live Price communications signalled to growers that they believe the live price should be 7.2 cents higher and by inference that reasonable grower returns should be in the 48 – 52 cent per kg range. The BCCMB did not provide any rationale or support for this pricing level other than feed prices were increasing. If BCFIRB approves the new formula, this level of grower returns, and live price differential will enter into the supervisory review discussions as a reasonable benchmark for grower returns and processor competitiveness.

BCCMB's Analysis of the Price Formula Changes is Superficial and Focused Only on Their Pre-Determined Outcome

- The PPPABC believes restricted timelines and the predetermined outcome that the BCCMB had already announced led to a very superficial assessment of the submissions and a loss of objectivity by the BCCMB. In its decision, the Board fails to provide a necessary and accurate context around the history of Ontario pricing adjustments which is critical to understanding how the pricing situation got to where it is today.
 - It was well understood by the industry that the annual adjustments introduced in A-129 reduced the Ontario live price, caused significant disruption to the industry. The annual adjustments resulted in the provinces increasing their live price differentials to offset a portion of these adjustments to protect producer margins. It is important to understand that Ontario growers absorbed these live price reductions while Ontario processors benefitted from lower prices
 - In BC, prior to the introduction of annual adjustments in Ontario, the live price differential with Ontario was 3.2 cents (net of catching). The live differential increased over time to 9 cents over Ontario because of the annual adjustments as the BCCMB introduced new pricing formulas which were designed to protect grower returns. BC processors in essence paid a portion of the annual adjustments through the BC live price. It was also generally understood by the parties, that when the annual adjustments were removed in Ontario that the BC live price differential would be reduced. In fact, there was also discussion and support by the BC industry to have an industry-wide delegation lobby Ontario for changes to the live price formula to remove the annual adjustments.
 - The annual adjustments were repealed in the ONCOPF in A-169 which increased the Ontario live price despite the additional changes to the feed cost calculation outlined by the BCCMB. By not providing the portion of annual adjustments paid by processors back to them, the BCCMB is now “double dipping” by realizing the portion of the annual adjustments in the live price differential as well as the margin increases in the new Ontario live price formula.
 - It is important to recognize that BC growers understood this concept and had agreed in the Price Working Group (PWG) that 50% of any adjustments would be split between the parties.
 - It is grossly unfair that the BCCMB, after forcing BC processors to pay for the annual adjustments through live pricing for years, to now force them to continue paying after the annual adjustments have disappeared. It should also be noted that the BCCMB's failure to recognize and effectively address this issue is causing much of the current frustration and animosity in the processing sector.
- The BCCMB's analysis focuses extensively on the current live price guardrails but fails to acknowledge that these guardrails were established at the point in time when Ontario annual adjustments were put in place in the ONCOPF. The level of those guardrails was related to the level of returns being experienced at that time. Now that the Ontario annual adjustments have

been eliminated and grower economics have improved, this should have triggered a review of the guardrail levels.

- The BCCMB points out that there have been significant price increases in A-174 across the prairie provinces. Processors in those provinces are meeting with local Boards to discuss and contest these price levels, however these Boards are only prepared to discuss feed costs and not grower returns. These producer Boards all appear to be operating in similar manner by ignoring the improvements to growers brought on by the changes in the ONCOPF and taking grower margins to near record levels in those provinces. It can be argued that these Boards are acting irresponsibly and not in the best interests of the overall industry. There appears to be a concerted effort by the western Boards to increase grower margins at the expense of processor competitiveness.

In closing, the PPPABC respectfully requests BCFIRB not to approve the BCCMB proposed pricing changes for the following reasons:

- The proposed pricing formula in no way effectively balances fair returns to growers and processor competitiveness.
 - Grower returns are consistent with pre-supervisory review levels and as such there is no need to alter the formula given the prior BCFIRB decision that it should remain in place.
 - Processor competitiveness with Central Canada will be severely impaired with the live price differential exceeding 21 cents per kilogram
- The proposed pricing changes being recommended were predetermined, communicated to growers, and then reached through a consultation process with inappropriate timelines, and an analysis that lacked objectivity and was biased towards supporting the predetermined outcome.
- Approving these changes will bias and prejudice the supervisory review by establishing unrealistic and unsustainable expectations on grower returns and processor competitiveness.
- The proposed price formula changes have not effectively assessed or considered the potential damage to the industry that may result if implemented.

We believe the BCCMB's emphasis should be on bringing the live price supervisory review to a speedy and successful conclusion.

Sincerely,



Blair Shier
President
Primary Poultry Processors Association of BC

Attachment: PPPABC Detailed Submissions to BCCMB re: Proposed BC Live Price Changes