



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