



BC Chicken Growers'
ASSOCIATION

March 8, 2022

DELIVERED VIA EMAIL

Kirsten.Pedersen@gov.bc.ca

Peter Donkers, Panel Chair, BC Farm Industry Review Board

RE: Potential Price Formula Changes for Period A-175 (March 13, 2022, to May 7, 2022)

Dear Peter,

The BC Chicken Growers' Association (BCCGA) is providing this submission in support of the BC Chicken Marketing Board's (BCCMB) proposed amendment to the live pricing formula effective for A-175.

This BCCGA submission includes this letter followed by:

- A BC Chicken Costs Analysis for A-175 Pricing Decision by MNP
- Additional comments provided by the BCCGA

The BCCGA requests that the BC Farm Industry Review Board (FIRB) approve this necessary change.

Sincerely

Dale Krahn, President
BC Chicken Growers' Association

cc. Woody Siemens, Executive Director, BC Chicken Marketing Board
Wendy Holm, FIRB Liaison, Supervisory Review on Long Term Pricing

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BC Chicken Cost Analysis for A-175 Pricing Decision

Based on the information provided by you, we have prepared an analysis of the increased costs incurred by BC chicken growers for periods A-129 through A-174. We have not reviewed, audited, or otherwise attempted to verify the accuracy or completeness of the information provided. Accordingly, we do not express an audit opinion or review conclusion, or provide any form of assurance on the information presented below.

Facts, Assumptions, and Overview

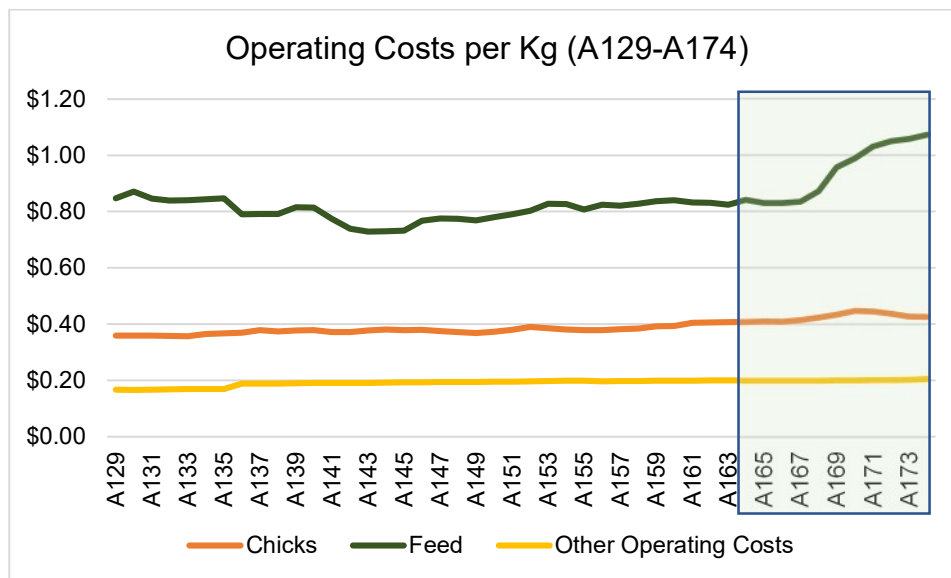
The following analysis is based on the Serecon BC Broiler Cost of Production data provided for periods A-129 through A-174.

- While all costs have increased in this timeframe, the analysis focuses on operating costs (chick, feed, and other operating costs, as categorized and presented in Serecon's reports
- The analysis considers both long-term (A-129 through A-174) and short-term (A-165 through A-174) trends, and presents a comparison of immediate cycles to A-169, when the Ontario COP came into effect.
- This analysis is based on the assumption that a reasonable return should be based on cost of production.

The starting point of A-129 is based on the change in Ontario's pricing formula at that time to illustrate the volatility that has resulted since then. At that time, BC growers were only receiving 95% of their cost of production.

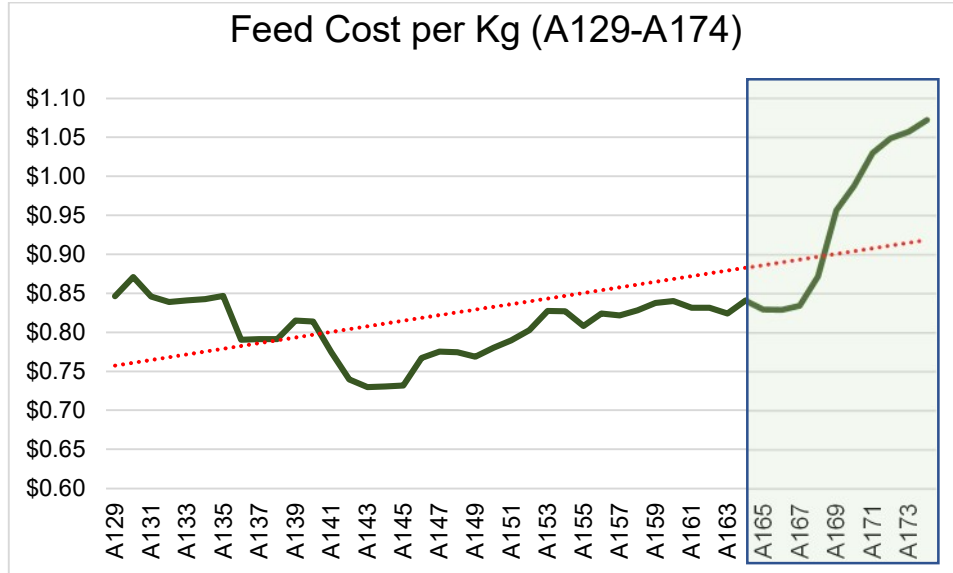
Long-term Analysis (A-129 to A-174)

From A-129 to A-174, BC chicken growers' operating costs have increased, on average, 24.08%. During this period, live chicken prices have only increased by 19.90%. This differential represents a significant decline in profitability for BC chicken growers.



During this period:

- o Chick costs increased 18.43%
- o Feed costs increased 26.69%
- o Other operating costs increased 23.07%



From A-129 to A-174, feed costs have increased by \$0.0036/kg per cycle, on average (with total operating costs increasing by \$0.006/kg per cycle).

In the recent period of heightened variability (A-165 through A-174, highlighted in the charts above), feed costs increased by \$0.0257/kg per cycle (with total average operating expenses increasing \$0.0284/kg). For an average BC grower, this represents an increase in operating costs of \$4,170 *per cycle* (\$3,773 of which is feed).¹ While operating costs increased 18.40% during this period, live prices only increased 15.67%, illustrating that BC growers are getting *further away* from their cost of production (reasonable return).

¹ Based on an average farm in BC producing 146,800kg in A-173 per BC Chicken Facts, Fall 2021 (<http://bcchicken.ca/wp-content/uploads/2022/01/2021-BC-Chicken-Facts-Fall.pdf>)

Comparison to A169

In A-169, the Ontario COP came into effect. While BC's operating costs continue to increase, the live price has actually *decreased*:

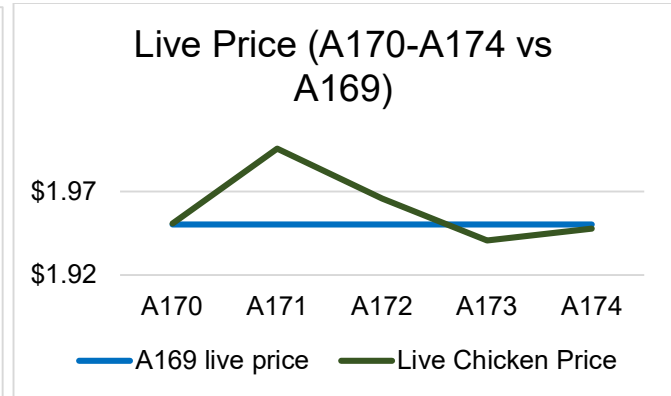
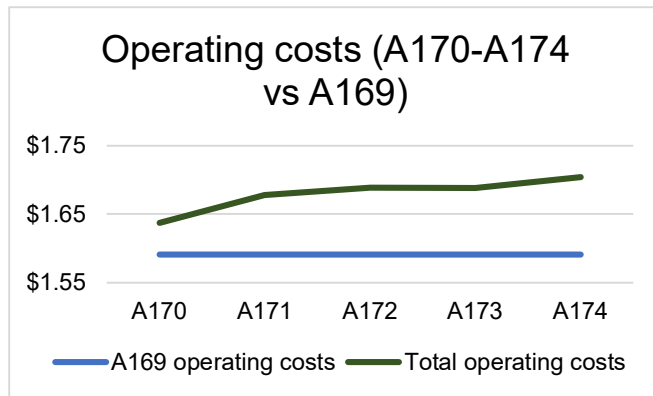
	A169	A170	Change \$	Change %
Total operating costs	1.5910	1.6372	0.05	2.90%
Live chicken price	1.9503	1.9509	0.00	0.03%

	A169	A171	Change \$	Change %
Total operating costs	1.5910	1.6777	0.09	5.45%
Live chicken price	1.9503	1.9958	0.05	2.33%

	A169	A172	Change \$	Change %
Total operating costs	1.5910	1.6888	0.10	6.15%
Live chicken price	1.9503	1.9658	0.02	0.79%

	A169	A173	Change \$	Change %
Total operating costs	1.5910	1.6883	0.10	6.12%
Live chicken price	1.9503	1.9408	(0.01)	-0.49%

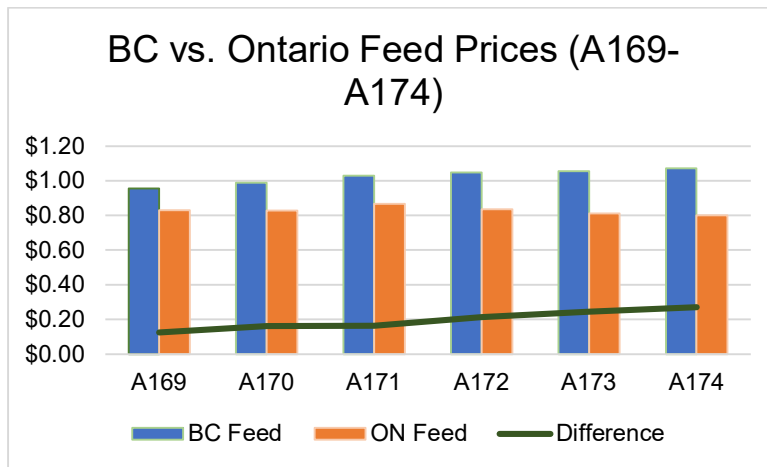
	A169	A174	Change \$	Change %
Total operating costs	1.5910	1.7043	0.11	7.12%
Live chicken price	1.9503	1.9478	(0.00)	-0.13%



Immediate Analysis (A-173 & A-174)

In A-173 and A-174, the difference between Ontario and BC feed costs has continued to diverge and are the highest they have ever been (a difference of 24.58 cents and 27.14 cents in these cycles, respectively, while the average difference in the long-term period under review was less than 10 cents).

The current live price formula, which is based on covering 75% of the provincial feed and chick cost difference, already results in BC growers not receiving 100% of their cost of production. As the provincial price differential increases, more strain is put on BC growers. Since A-169, the cost difference has increased steadily and the trend suggests the strain on BC growers will only increase unless prices are increased to reflect these rapid changes.



Impact of Upper Guardrail

In both the short-term and the long-term, pricing decisions have failed to reflect increases in growers' cost of production.

	Increase in operating costs	Increase in price
Long-term (A129-A174)	24.08%	19.90%
Short-term (A165-A174)	18.40%	15.67%

In 8 of the past 10 cycles, BC's live prices have been limited by the upper guardrail on the adjustment between Ontario's Cost of Production Formula and BC's chick and feed cost differential and as a result, the additional feed, chick and operating costs are being borne entirely by the growers.

The short-term analysis above illustrates that BC's feed costs have increased significantly, further intensifying the wheat/corn imbalance, and suggests that the upper guardrail is no longer effective at its current level. The current formula was not meant for such major differences in feed costs.

In the past two cycles alone, had the guardrails on the pricing formula not been in place, an average BC farm would have received 13.2 cents more per kg. For an average BC grower, this represents \$19,338 per cycle (or \$125,954 annually, based on 6.5 cycles per year), which is simply unsustainable, and even with the 13.2 increase the price is below the COP.

Chicken growers are not receiving a reasonable return in the current environment. Ultimately, BC growers are requesting that prices be increased to reflect their 100% cost of production. In the short-term, given the limitations in place with the interim pricing formula, and with the expectation that costs will *continue* to increase for A-175, a conservative request is to eliminate, or at the very least increase, the upper guardrail to ensure grower returns are moved *closer* to the cost of production, not further away.



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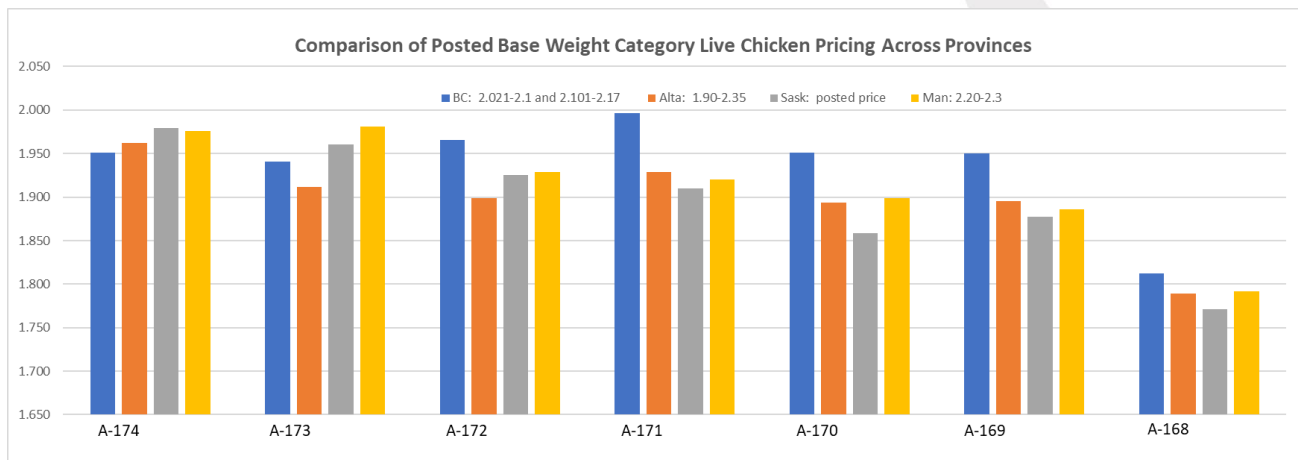
BCCGA Addendum to Potential Price Formula Changes for Period A-175 (March 13, 2022, to May 7, 2022)

1.0 Provincial Live Price Comparisons and Processor Competitiveness:

The following review of the live prices paid to growers in the Western provinces addresses the claims made by the Primary Poultry Processors' Association of BC (PPPABC) that they cannot compete at the current prices.

Historically, and well known, BC has the highest live price of the Western Provinces, in part, due to the BC chicken growers' great distance to the supply of grains.

The graph below shows that before period A173, the BC processors were paying higher BC live prices compared to Alberta, Saskatchewan, and Manitoba. Beginning in A173, Saskatchewan and Manitoba provinces raised their live price above the B.C. live price. In period A174, Alberta followed suit with all three Western provinces having higher live prices compared to BC. The Prairie provinces' authoritative bodies understood that the wheat/corn price imbalance would have a devastating effect on their growers and moved to correct the problem.



The historical price difference between the provinces has changed; BC now has the lowest live price of chicken of the Western provinces. Although our neighbouring Western provinces now have higher live prices compared to BC, the PPPABC are claiming that they cannot compete in the marketplace. Prior to A173, the BC chicken growers had a live price which was higher than the other provinces and the PPPABC claimed they could not pay higher prices due to them not being able to compete, even when allocations have increased steadily from A170 to A176. Now that BC live prices are lowest in the West, they still claim to be unable to compete. This shows their blatant disregard for the state of the chicken industry in BC.

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APPROVED total allocation - KG LIVE				
	B.C. C.-B.	A.B. Alb.	Sask.	Man.
A-170	41,373,536	27,675,830	10,553,291	11,576,852
A-171	40,754,417	28,414,875	10,498,137	11,413,996
A-172	40,784,810	28,357,525	10,362,269	11,313,551
A-173	38,189,921	26,408,414	9,882,223	10,573,156
A-174	40,082,821	27,527,412	10,063,774	11,128,536
A-175	40,597,820	27,654,743	9,929,219	11,348,026
A-176	42,189,013	29,026,476	10,431,642	11,856,302

Even before the increased feed costs and changes in the Western provinces' live prices, the PPPABC claims do not reflect the true state of their competitiveness. Below are indications of processors' substantial profitability:

- *"Since the Notifiable Avian Influenza outbreak in 2004 the major BC processors made major investments through new construction and acquisitions of existing processing and facilities within and external to BC."*¹
- *"The processing sector in BC is vertically integrated, with most processors owning hatchery operations along with primary and further processing facilities. All primary processors, with the exception of Sofina Foods, hold broiler quota in BC. Collectively BC processors hold greater than 20% of broiler quota in British Columbia; with greater than 4.5 million kg of quota acquired since 2004 (12% of quota holdings in 2014)."*¹
- *"The provincial quota utilization has been close to 100% on average for the past four years, COVID notwithstanding. The Chicken Board would not expect that BC processors would continue to set chick placement levels to utilize 100% of the BC allocation if it were creating instability to their markets or adversely affecting their competitiveness or profitability."*¹ The increased allocations are shown above.
- The wholesale market prices clearly show 2021 prices being higher than the last two years with this trend continuing in 2022. The EMI - Canadian Wholesale Prices report dated February 15, 2022, below indicates that the processors are doing extremely well. *"The recent EMI data show strong wholesale prices, particularly during a low market period. Clearly, there is some recognition and response by the retail and wholesale market to higher live prices."*¹
- *"... estimates suggest that wholesale chicken pricing in BC is 7-8% over Ontario wholesale pricing. This is well above the western price spread assumed in the processing plant model, meaning the that the processor margins estimated for BC from the model are likely to be conservative, by perhaps 10¢/kg or more."*²

¹ [Final Decision - BCCMB Long Term Pricing formula for Mainstream Chicken Appendices.pdf](#)

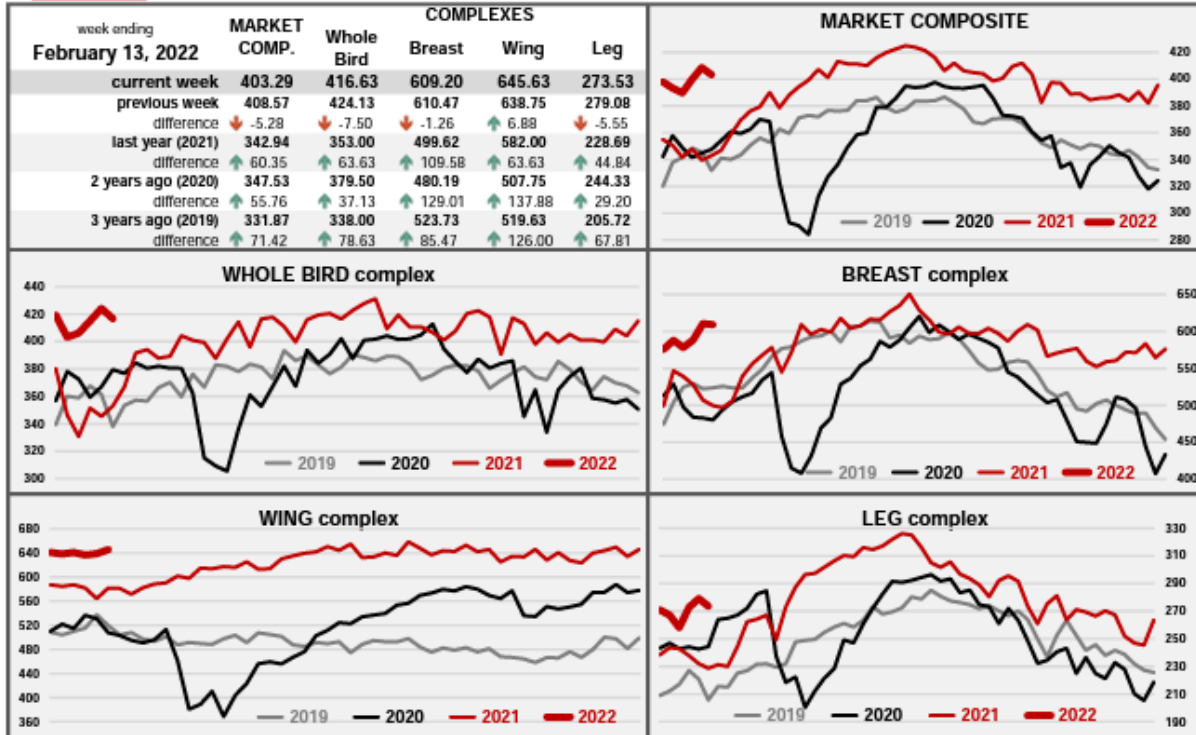
² [Costs and Returns in BC Chicken Marketing - Agri-Food Economic Systems 2020](#)



Canadian wholesale prices (Source: EMI Express Markets Inc.)

February 15, 2022

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2.0 Processors Conduct and Breach of Confidentiality

The BC Chicken Growers’ Association (BCCGA) is genuinely concerned about the conduct of the PPPABC. The PPABC has provided misleading information which they have been introducing to this Supervisory Review process for long term pricing as well as in the recent application by the BC Chicken Marketing Board (BCCMB) to increase A174 pricing. We are concerned this pattern will continue for the A175 request to adjust the interim live price formula.

The PPPABC letter, Draft final Pricing Decision - Feedback dated February 7, 2022, to the Chairs of the BC BCCMB and the BC Hatching Egg Commission (BCBHEC), broke the confidentiality agreement of the Pricing Working Group (PWG). The initial Terms of Reference, disseminated to the assigned members of the BCCGA and the PPPABC, highlighted the expectations clearly. The PWG discussions were without prejudice and confidential. The PPPABC suggests that there was an agreement to split any adjustments to the new Ontario COPF. This is typical of the tactics employed by the PPPABC in pricing matters, where data is cherry picked and the complete story is left out to suite their arguments. Throughout this process they have relied on hyperbole, cherry picking and withholding of data, never showing the whole story. The BCCGA is very concerned about due process and the PPPABC’s lack of regard for agreements made regarding confidentially. Trust is certainly lost with these tactics.

Additionally, the PPPABC has consistently scrutinized the grower returns and manipulated the data to reflect growers doing better than ever, even while other reputable firms confirm that BC's chicken farms are unsustainable. The growers' costs are completely transparent, and the processors are abusing this to their advantage. The PPPABC has been allowed to make these claims without any reference to their own revenues or margins. By doing this they have prolonged the pricing process completely to their benefit and this should be recognized as a tactic to ensure their returns.

These situations have made this process extremely difficult for the other stakeholders as it only benefits the processors. The actions of the processors confirms that their actual intentions are for their desired outcome, and this must be questioned in this process.

The BCCGA maintains that the Processors do not have the BC chicken industry's best interest in mind and are purely concerned with their profits at the expense of the other stakeholders.



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