Appendix 1 – PPPABC Email Correspondence to PPAC Re: Price Working Group

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From:	Blair Shier <bshier@jdsweid.com>
Sent:	January 9, 2020 6:21 PM
To:	'Paul Godin (pdgadr@gmail.com)'; 'Jim Byrne (jimbyrnebcc@gmail.com)'
Cc:	'Scott Cummings'
Subject:	FW: BC Pricing - where are we headed ?
Attachments:	Fwd: TCC (10.9 KB)

Jim and Paul....

Wanted to share with you a thought that I had on my way home from our last meeting. It is not a criticism so much as an observation on the process we have been going through. I've chatted w Scott and we are aligned on the issues/ observations.

Our pricing discussions have migrated to the development of a new pricing formula that "maintains the status quo" ... the mantra of "no party being advantaged / or disadvantaged" seems to have become the core attribute of the formula under development. We seem to have lost focus on the discussion of a price that delivers a "fair return for growers" and "allows processors to be competitive". We spent some time early on developing definitions (and I recognize I still owe the group the definition for processor competitiveness) but we have not spent any time looking at these issues since those original meetings. Both parties have put strong stakes in the ground that in essence says neither party is willing to accept a scenario where they accept less than what the current formula is delivering.

Where I think we have missed the opportunity to bring in the "fair return for farmers" and "processor competitiveness" would be in how we look to split the relief that is coming our way (we hope) from Ontario ..... One could argue that the benefit that is forthcoming (from ON) should be split based on an assessment of which party is facing the bigger gap vs their declared objective (fair return vs competitiveness).

At this point I am not advocating we open up discussions on the "50/50" that has been agreed to (at least conceptually), but the reality is that these changes will embed new expectations on both sides of the discussion. I guess what I am saying is that we might come up with a formula that we will agree to – but it is not based on addressing the core issues, it is more of a bargained solution.

The email in the attachment from Bob outlines some of the items included in his gross margin calculations. There are still some problem areas that we see in this that we'd like to see rectified. This won't change how we approach the negotiated settlement and that commitment that we'll negotiate 50/50 on any upcoming Ontario increase but we want the gross margin to accurately reflect what growers actually face in terms of costs and what they realize on an operating margin basis. That is the required in order for the Board, or others, to assess whether the Growers are earning a fair return or not.

While the expected "relief" will assist processors and growers in arriving at an agreement for now, it is important that we get the fundamental questions answered for the Board so that future pricing discussions start from the same points we did; with no fundamental understanding of the two measures the Board is supposed to consider when setting live price: Fair return for Growers and Processor Competitiveness

Happy to discuss further but I don't want to de-rail the progress we've been making.

Blair

Appendix 2 – PPPABC Correspondence to BCCMB Re: Kevin Grier Market Report and PWG

January 6, 2021

Chicken Sector Pricing Review – Market Submissions

List of Outstanding Questions and Concerns

We have had an opportunity to review the BCCGA submission, "Costs and Returns in BC Chicken Marketing" and have identified several areas: that require further clarification, assertions that are incorrect and not substantiated, and characterizations that are simply not applicable to the BC industry. We have summarized our issues below and contend that this document completely misrepresents the industry in BC.

Aspects of the BCCGA Submission that Require Clarification and/or Further Understanding

- BC is a net exporter of chicken
  - The Growers have agreed their calculations were incorrect. They did not include the portion of NMD that is exported out of the country nor did they account for the difference between actual exports and the export coefficients. Correcting these errors proved that BC is a net importer of chicken however the Growers continue to contest the magnitude of this imbalance.
- Require understanding and clarity on the hatchery and processor models (Pages 7 – 11 and Pages 12 – 17)
  - The grower's models have not been shared and validated with the BC industry although they are being used to support BCCGA conclusions.
  - Hatchery model makes no reference to the hatching egg imports required through trade agreements.
  - Data sources are not clear – for example Section 3.5 (Page 14) refers to a live chicken price for the weight category of 1.4 to 2.7 kgs – where is this from?
  - BCCGA needs to explain the relevance of these models to the pricing review process and market discussions?
- There is an analysis of Nielsen retail data (Pages 30 – 32) but it is not clear of its relevance and what conclusions are being derived from the analysis.
- Section 4.7 includes analysis of Live Prices between provinces and we require clarification as to what weight categories are being used for each Province.
- The concept of selling "Buy BC" chicken is suggested as a potential opportunity for processors, but it is not clear exactly what problem this will solve. We require the BCCGA to provide evidence to support this claim. We understand there is a segment of BC consumers that will be interested is this product claim and there is some potential benefit to smaller processors. However, the reality is that customers, not processors, determine what labels will appear on their product. Further, it is not clear how this strategy could receive substantive traction when most products are private label, customer buying offices are in Ontario, and purchasing practices and product distribution are not typically done on a provincial basis.

BCCGA Assertions that Need to be Substantiated

- Further processed is a "no growth and declining" market
  - Processors assert there is plenty of evidence that would suggest this has been, and continues to be, one of the largest growth areas for chicken.
  - How does the BCCGA explain continued investment in FP plants across the country over the past many years and FP innovations at retail?
  - Data to support the BCCGA's assertion that FP is a no growth market has not been provided.
- Understanding of the retail and foodservice business in western Canada
  - Oversimplification of the industry with many conclusions based on retail fresh business, based on information drawn from Central Canada.
  - More analysis and detail are required from the BCCGA perspective on food service, deli, or other product categories in retail and food service. These segments have been largely overlooked.
- Inaccurate description of pricing arrangements in foodservice category (Page 22) and we request BCCGA provide evidence of these arrangements.
- Provinces as "unique markets" needs to be substantiated by BCCGA in the context of the customer base
  - Several references to BC being a unique market and exporting 9,000 tonnes of product to AB.
  - That MB and SK are unique markets and combined ship approximately 10,000 tonnes of product to AB.
  - We request that BCCGA explain how each province can be characterized as a unique market from a customer buying perspective.

BCCGA Assertions that are Misleading or Incorrect.

- Relevance of EMI "wholesale price" as a price indicator in western Canada
  - EMI reflects pricing for commodity product sold to a secondary market (i.e. deboners, packers, further processors) which is a large component of eastern industry, that is almost non-existent in the west. Because EMI wholesale pricing is not relevant in western Canada, any conclusions based on EMI data are not accurate.
- Processor pricing practices with customers
  - Pricing structure breakouts not supported and based more on the Central Canada industry – i.e. Spot market
  - A constant reference to "majority of chicken sold by processors is on a formula contract" which does not recognize the realities of market segments beyond the fresh tray pack category.
- Use of "anecdotal" sources of information and incomplete citing of sources
  - Over-reliance on and conclusions based on anecdotal information
  - Anecdotal industry and retail contacts should be identified
  - Proper citing of documents (i.e. CFC source documents should referenced)

- Misrepresentation of the foodservice industry (Page 22) as the document completely excludes the largest food service chains (McDonalds, Tim Hortons, Subway, and others). By excluding these chains, it excludes the fact that all of this product is sourced from Central Canada and also ignores the direct relationships existing between processors and customers (eg. McDonalds and Cargill.)
- Live price-based pricing model is incorrect as it starts with a bid that captures processor costs then adjusts with changes to the live price (Page 27).
- Role of the processor in the industry is mis-represented
  - Significant influence over allocations (Page 19) – processors only have 2 out of 14 votes in the CFC double majority allocation system
  - Benefits of limited supply reviewed, no comments however on processor risk of over-supply or grower benefits to supply management
  - Leverage over retailers (Page 19 – 21) – no recognition of the evolution to central or regional purchasing practices
  - Oversimplification of retailers – no discussion on penalties & deductions
  - Inaccurate description of processor relationships with retail grocery customers in Western Canada (Page 21).
  - No basis or support for the assertion that TRQ is used by processors to augment grocery supplies (Page 21)
- Number of Processing Plants (Page 22)
  - Plant numbers by company is incorrect
- Characterization of large retailers having exclusive relationships with processors
  - None of the examples are correct (Page 21)

Additional Requirements to Effectively Participate in the Review Process

We are concerned about how this Supervisory Review is unfolding as it is unlike previous Supervisory Reviews in which we have been involved.

It appears that this process has lost sight of the fact that this review is the result of the Processors appealing the actions of the BCBHEC in December 2019. At that time, the PPPABC was concerned about changes the BCBHEC made to the price linkage. We were concerned that these changes would negatively impact the competitiveness of BC Processors.

It should also be noted that the BCBHEC withdrawing from the linkage was due to a disagreement with the BCCMB with respect to the exclusion of loyalty premiums in the linkage agreement. Therefore, what started as a dispute regarding the sharing of profits between these two parties has now evolved into both parties trying to use this process to increase grower and breeder margins at the expense of the processors.

We are currently participating in the Supervisory Review in good faith, however we have serious reservations about the current approach. Normally, we would be presenting our views and evidence in hearings directly to FIRB as an independent oversight body. In this review we are now presenting to the BCBHEC and BCCMB who primarily represent the growers and breeder producers. As noted above, this dispute was initiated between these two parties and now they are adjudicating a process which now seems destined to increase their respective returns by increasing the live price. We believe this puts us at a distinct disadvantage in the review process.

Further demonstrating our contention is the fact that the BCBHEC clearly has a predetermined outcome in mind which is to continue to operate outside the linkage model and to implement a COP model for pricing. The BCBHEC's pursuit of this approach has now resulted in BCCGA throwing out the work of the PWG and pursuing their own COP model with no regard for the overall industry. If these changes were implemented, the combination of these actions would cost the processors more than $41M annually, which would immediately make it impractical to grow chicken in BC. There is a requirement to ensure the BC chicken industry is competitive. The suggestions of implementing COP pricing schemes in the manner contemplated by the BCBHEC and BCCGA does not take this into account

One also must consider that this review is taking place at a time when both breeder and broiler grower quota has recently traded at record levels. (It should also be noted that processors were not involved in these transactions). How, on one hand, can we have Boards and producers trying to leverage increased returns based on not recovering their costs, when in reality, producers are willingly paying record prices for quota. One must surmise that they are achieving strong returns in order to justify these prices.

We therefore respectfully request:

1. The Board and Commission ensure that stakeholders remain focused on the objective and find a pricing solution that respects the needs of all stakeholders and ensures that the BC industry can be successful within the national system.

2. The PPPABC retains the right to a full hearing with the BCFIRB Review Panel which we believe is consistent with the Final Terms of Reference dated October 28, 2020. While we hope we can come to a resolution acceptable to all parties, the PPPABC needs to reserve its right to a hearing regarding the recommendations put forward by the BCCMB and the BCBHEC and our original December 2019 appeal.

3. We would ask that both the Commission and the Board be actively involved in the discussions at the various tables. While we understand the Board and Commission find some value in hearing the debate between the growers and the processors; ultimately it is critical for us to hear from the Board and Commission in these meetings and ensure they understand the positions being put forward.

4. We would recommend strongly that the work from the PWG be introduced into the discussions. The Processors and Growers agreed to several issues in those discussions and it is our opinion that by using the PWG material as a starting point we could be more productive in advancing the discussions.

Appendix 3 – CPEPC Correspondence to CFC Re: Live Chicken Prices and Industry Competitiveness

May 24, 2018

Michael Laliberté, Executive Director
Chicken Farmers of Canada
350 Sparks Street, Suite 1007
Ottawa, ON K1R 7S8

- Via e-mail -

Subject: Live chicken prices and industry competitiveness

Dear Michael,

THIS LETTER IS SENT ON BEHALF OF THE MEMBERS OF THE PRIMARY CHICKEN PROCESSING SECTOR OF THE CANADIAN POULTRY & EGG PROCESSORS COUNCIL

Following the implementation of the new Ontario COPF pricing methodology in 2015 many provinces started setting live prices at levels higher than the historical differential relative to Ontario. This in turn has created concerns for processors regarding the competitiveness of provincial chicken industries which could be disruptive to orderly marketing if this problem is not resolved.

Although price setting authority rests with the provinces, the impact that live pricing is having on provincial industry competitiveness should be of critical importance to CFC given the interests of its members to have a healthy national supply management system and CFC's responsibility identified in Section 21 of the Farm Products Agencies Act:

The objects of an agency are

(a) to promote a strong, efficient and competitive production and marketing industry for the regulated product or products in relation to which it may exercise its powers; and

(b) to have due regard to the interests of producers and consumers of the regulated product or products.

Farmers and processors must work together and jointly contribute to maintaining competitiveness in provincial chicken industries.

1. Why Action is Required

a) The Canadian Chicken Market

The chicken market can be broken down into three categories: fresh; frozen primary (whole birds, cuts etc.) and further processed. These products are sold and distributed interprovincially with fresh chicken estimated to represent approximately two thirds of the market and frozen one third.

Advances in packaging technology, combined with efficient supply chain management systems used by large food service and retail customers means fresh chicken can travel relatively long distances and still meet shelf life specifications. In addition, fresh chicken is transported interprovincially to further processors, who produce product for a national market and require competitively priced raw material. That being said, due to shelf life considerations, fresh chicken for retail accounts (i.e. tray pack) is mostly a regional market in Canada: a western market and an eastern market.

Frozen primary and further processed products have longer shelf life, allowing for national distribution in Canada. Further processed products for many large customers are sourced from a single supplier at one price nationally.

Given the changing dynamics of consumer preferences, and the changing buying patterns of large customers, significant shifts in business may occur in any of these three categories and may displace current sales of a processor in a specific province or region. In order to effectively compete and ensure their products find a home in the marketplace, processors in every province must have the ability to compete in fresh primary products within their regions and in the national frozen primary and further processing markets. Live prices in a province relative to the rest of Canada are a critical factor to a provincial chicken industry's ability to be competitive and ensure its chicken can be sold at a profitable price.

Increasing live-price differentials within a region or within Canada will marginalize a processor's ability to compete in fresh, frozen primary and further processed markets and over time will be detrimental to processors and farmers in provinces that are not competitive resulting in less investment, fewer jobs and in the long run loss of processing and production.

b) The Customer

Processors face on-going price pressures from grocery, foodservice and food distribution customers who are highly sophisticated and in many cases operate within global markets.

The Canadian retail grocery market is very consolidated. In 2012 the top three retailers (Loblaws, Sobeys, and Metro) represented 81% of the market[1]. Since then there has been further consolidation and Walmart and Costco have become key competitors. More recent estimates from BMO indicate that traditional supermarkets share of food sales has declined to 74% in the

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[1] George Morris Centre and Institute for Competitiveness and Prosperity, Improving Productivity in Canada's Food Processing Sector Through Greater Scale, February 2012.

fourth quarter of 2017 while Walmart and Costco's share of the market is 21%[2]. The Weston Group, Empire, Metro Inc, Walmart and Costco are responsible for the lion share of the grocery retail market in Canada. Many of the products they sell are "private label", meaning that the customer owns the product specification, and as such works aggressively to reduce cost without impacting product quality. "Request for Proposals" (RFPs) are very common in the category with customers asking suppliers for 1-3 year contracts that are either fixed price contracts or linked to live prices. More recently grocery retailers are attempting to build into contracts guaranteed savings in year 2 and beyond. In addition, customer specification details are becoming increasingly complex and costly, but suppliers are not able to increase prices.

Growth in the food service market is relatively flat which is contributing to consolidation as restaurant operators grow through acquisition. Cara has been aggressively purchasing companies including several recent purchases (Pickle Barrel, St Hubert's and the Keg) to become the largest full-service restaurant player in Canada. According to NPD Group, Cara, MTY Food Group Inc and Restaurant Brands International Inc (RBI) are the three largest players in the Canadian market accounting for one-sixth of restaurant sales[3]. In 2017 RBI purchased Popeyes and MTY acquired Imvescor which managed five banners (Baton Rouge, Pizza Delight, Scores, Toujours Mikes and Ben & Florentine). Food service companies are requiring longer term contracts from their suppliers, in some cases up to two years, and are pushing them to provide savings.

The food distribution business is dominated by two players, Gordon Food Service (GFS) and Sysco. These two companies purchase and distribute across Canada, import chicken using import quota, and even have their own product lines.

The market that processors must operate within is dominated by large sophisticated retailers, food service and food distribution companies who are placing increasing demands on their suppliers including: business forecasting; order fulfillment and significant penalties; vendor-managed inventory programs; and product development for private label.

As these companies become more national in scope so has their approach to sourcing, which means that processors are competing with each other for business across Canada. These customers want the lowest price they can get from their supplier. They do not think in terms of provinces, rather they see Canada as one market. If a processor has to pay a higher live price for their product, that is not the concern of the buyer.

Buyers know which provinces have the lowest live costs and they know when costs between provinces change. This impacts customer purchasing behaviour and in some cases processors are required to quote for business based on the lowest live price in the region or country, regardless of where their plant is located. The ability of processors to pass on higher live costs to their customers can be extremely challenging, particularly if these increases are not occurring in other parts of the country.

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[2] Hollie Shaw, business.financialpost.com. Why Walmart and Costco keep stealing market share from domestic giants Loblaw, Metro and Sobeys. May 8, 2018.
[3] Aleks Sagan, finance.jahoo.com/news/cara-apos-keg-asqusition, January 24, 2018.

The chicken market at the processing level is subject to supply and demand market factors, no different than other commodities. As such, there are times when the processing industry as a whole may be able to pass higher prices onto the marketplace (i.e. when supply levels are lower relative to demand), and times when processors must accept prices that are below acceptable levels, and in some instances, less than cost. What is important to note though is that retail and food service buying behavior forces processors in all provinces to accept similar selling prices.

When supply increases above demand, some provincial chicken industries with low live prices may be able to sustain lower selling prices, but processors in provinces with significant live price differentials above Ontario, could face unsustainable losses. This will undermine the ability of those processors to effectively compete, it will undermine the viability of the industry as a whole in those provinces and it will undermine a national system of orderly marketing.

2. Historical Differences in Live Prices

Live price spreads calculated below represent the difference in price relative to Ontario from 2010 to 2017 (quota periods A-95 to A-146) using consistent weight categories over time[4].

Table 1: Average Annual Price Spreads Relative to Ontario ($/kg) *

Annual Average Spreads								
Year	QP	BC	AB	SK	MB	QB	NS	NB
2010	A-95 to A-100	0.077	0.053	0.046	0.035	0.020	0.085	0.085
2011	A-101 to A-107	0.073	0.053	0.046	0.035	0.020	0.085	0.085
2012	A-108 to A-114	0.071	0.052	0.044	0.035	0.020	0.083	0.085
2013	A-115 to A-120	0.072	0.052	0.045	0.037	0.020	0.083	0.085
2014	A-121 to A-127	0.073	0.054	0.046	0.038	0.020	0.085	0.085
2015	A-128 to A-133	0.077	0.058	0.058	0.064	0.020	0.102	0.102
2016	A-134 to A-140	0.081	0.069	0.056	0.073	0.020	0.103	0.103
2017	A-141 to A-146	0.095	0.077	0.064	0.054	0.020	0.103	0.103
2018 YTD	A-147 to A-149	0.110	0.087	0.085	0.079	0.020	0.110	0.136
Pre-ON COPF	A-95 to A-128	0.073	0.053	0.045	0.036	0.020	0.084	0.085
After ON COPF	A-129 to A-149	0.088	0.071	0.063	0.033	0.020	0.105	0.108

*Note, in Ontario staring in period A-145 the regulated live price includes an additional 1.2 cents per kilogram to cover farmers' costs to transition to modular loading. Due to the specific purpose of the 1.2 cent adjustment, it has been excluded from this analysis. Also, live prices have not been adjusted for catching costs over the 7-year period of measurement.

[4] BC: 2.251 – 2.50; AB: 1.90-2.35; SK minimum price; MN: 2.20-2.30 (prior to A-141, 1.65-2.2): ON: 2.15-2.45; QU: 2.15-2.45; NB: minimum price; NS: minimum price.

The data clearly shows a significant deviation in provincial live pricing relative to Ontario since the implementation of the COPF in that province in 2015. In several provinces the differential continues to grow each year.

3. Addressing Provincial Chicken Industry Competitiveness

The CPEPC Primary Processing sector is recommending two courses of action:

a) Consistent Pricing Methodology

Live price setting in every province must be transparent, credible, defensible and determined using a consistent methodology.

b) Live Price Caps

To maintain the competitiveness of provincial chicken industries there must be a cap on the maximum differential in live pricing in each province relative to the Ontario live price for the 2.15 to 2.45 weight category.

The Primary Chicken sector recommends that price caps be established based on historical price spreads prior to the 2015 Ontario COPF implementation as shown in the table below.

Table 2: Recommended Live Price Caps by Province ($/kg)

Province	Cap*
BC	0.073
AB	0.053
SK	0.045
MN	0.036
QU	0.020
NB	0.085
NS	0.085

*Prices caps for each province are based on the weight categories identified in Table 1. Refer to footnote #4.

The objective is to develop a mechanism that provides transparent, stable, predictable and competitive live prices that allow farmers and processors the opportunity to invest and grow their businesses.

4. Next Steps

The Primary Chicken sector requests a meeting between our Committee and the CFC executive to discuss this matter at the CPEPC convention in Montreal June 3 – 5. CPEPC staff will be in contact with you to arrange a time and location.

Please confirm your availability so that we can arrange a meeting room.

Yours truly,

Mike Terpstra
Primary Chicken Sector Manager

cc: Mike Pickard, Interim Chair Farm Products Council of Canada
John Les, Chair National Association of Agri-Food Supervisory Agencies