



March 8, 2022

Mr. Peter Donkers
Chair
BC Farm Industry Review Board

Dear Mr. Donkers:

**Re: BC Chicken Marketing Board Request for Prior Approval to Amend the Quota Period A-175
Mainstream Pricing Formula**

The Primary Poultry Processors Association of BC (PPPABC) is in receipt of the BC Chicken Marketing Board (BCCMB) prior approval request to the BC Farm Industry Review Board (BCFIRB) to amend the A-175 mainstream pricing formula. It would have been beneficial for the BCCMB to have presented some of their rationale, information, and analysis in this request at the February 15, 2022 Pricing and Production Advisory Committee (PPAC) meeting. This would have allowed stakeholders to have a more fulsome and constructive discussion and conclude on the A-175 pricing issues. The BCCMB has not effectively used the PPAC to bring parties together to agree and conclude on data and analysis. The lack of structure has compromised the effectiveness of the PPAC and unfortunately has further divided the parties.

It is not clear to us, what the A-175 prior approval process looks like but given the time sensitivity of the issues we believe we need to provide a number of perspectives and concerns with respect to the rationale and analysis provided by the BCCMB. The PPPABC believes that the BCCMB request is incomplete, inaccurate, and misleading. The BCCMB's motivation appears to be to simply push their request through as quickly as possible by exaggerating the situation and manipulating the data to support their pre-determined conclusions and their proposal. Our specific concerns are outlined below:

1. **Reasonable Return to an Efficient Grower** – The BCCMB states that, “an efficient BC grower is not achieving cost recovery...” (Page 4) but presented no evidence to show that growers are currently losing money, or what a reasonable return is for an efficient grower. The BCCMB goes on further to say, “It is hampering the ability of growers to reinvest in their farms.” Again, there was no evidence provided to show that farm investment has declined because growers are not recovering costs.

The BCCMB stated in A-174 that feed prices were the reason for their formula amendment request. The BCCMB has changed their rationale and are now saying that “The source of the impact on broiler growers is not attributable to a single factor, rather the combination of a number of factors.” These factors included BC Grower Margin, Feed conversion ratio, Corn versus wheat supplies and pricing, and changes in the Ontario Farm Gate Minimum Live Price formula. We will comment below on each aspect of the BCCMB's new rationale.

2. **BC Grower Margin** – The BCCMB has finally acknowledged that BC growers will see a margin increase in A-174 and A-175 because of changes to the Ontario producer margin however they further state, “it is not equivalent to the increase realized by Ontario growers.” This is irrelevant as BCFIRB pointed out in their A-174 Prior Approval Decision, “Supply management is neither intended nor designed to guarantee equality of gross grower margins across the country.”¹ Further,
- a. Ontario growers are being compensated for margin declines caused by the annual adjustments in previous years. The BCCMB previously shielded growers from the full impact of the annual adjustments in the Ontario Live Price by transferring some of these costs onto BC processors. As the efficiency factors in Ontario grew, the BCCMB introduced new pricing formulas in BC which increased the live price differential with Ontario. The BCCMB can’t now claim to provide the same level of increases to BC growers as Ontario growers, when they were shielding BC growers from experiencing the same level of decrease that Ontario growers were experiencing in previous years.
 - b. The BCCMB still has not defined what is a “fair return” to a BC grower, which is required by BCFIRB.² The PPPABC has demonstrated below, with numbers readily available to the BCCMB, that BC growers will realize returns in A175 that are greater than those realized in many previous periods over the last 3 years, without any further assistance from the BCCMB. As such BC Growers will receive fair returns in A-175 without further adjustments to the BC formula.
 - c. The BCCMB compares BC grower margins with Ontario grower margins (Page 5) however they have misrepresented and inflated Ontario grower margins by using the Ontario 2.45 – 2.65 kg weight category which is 2 cents higher than the Ontario 2.15 – 2.45 kg reference category. The Ontario 2.15 – 2.45 kg reference category is used to develop the Ontario live price and compares to the BC 2.021 – 2.170 kg reference category.
 - d. The BCCMB is also using an outdated and incorrect feed conversion ratio when calculating the BC feed cost. This has inflated the BC live price and under stated the actual returns realized by BC growers. The feed conversion ratio in the BC Live Price Formula is based on a 2018 survey of 14 growers and is severely outdated and is distorting live pricing, grower returns and processor competitiveness.

Although the BCCMB mentions that BC growers will see a margin increase in A-175 they do not provide any proforma analysis to show what that grower margin could look like. This is despite the fact they know the following:

- The Ontario live price for A-175 has increased by 6.4 cents
- Ontario feed prices for A-175 have increased by 4.72 cents per kg³
- Ontario producer margins have increased an additional \$0.011 / kg over and above the increase in A-174

¹ British Columbia Farm Industry Review Board, Prior Approval Chicken Interim Pricing Formula for A-174, February 4, 2022, P.9

² Ibid, P.9

³ Chicken Farmers of Ontario Website

The PPPABC made requests of the BCCMB to get better visibility on BC feed prices for A-175 which have not been followed up. The PPPABC does not understand why the BCCMB has not received and provided this information to BC stakeholders which would provide a more complete picture of the A-175 pricing situation.⁴ What is particularly disturbing as illustrated below, is that the feed pricing information used in the BC pricing model is still not available and the feed reference period for A-175 ended January 15, 2022. When compared to Ontario, the BC industry is waiting longer to obtain older information that is fundamental to the BCCMB’s pricing proposal.

	Date W/E	ON Feed	BC Feed
A-173	1	27-Nov-21	
	2	04-Dec-21	
	3	11-Dec-21	
	4	18-Dec-21	
	5	25-Dec-21	0.51397
	6	01-Jan-22	0.52449
	7	08-Jan-22	0.53242
	8	15-Jan-22	0.52884
A-174	1	22-Jan-22	0.52794
	2	29-Jan-22	0.52508
	3	05-Feb-22	0.53348
	4	13-Feb-22	0.54591
	5	19-Feb-22	
	6	26-Feb-22	
	7	05-Mar-22	
	8	12-Mar-22	

3. **Feed Conversions** – The BCCMB is using an outdated and incorrect feed conversion rate. The 1.65 feed conversion is inflating the BC live price and understating actual BC grower returns. The BCCMB uses feed cost as a major component in its pricing model and thereby should be validating their feed calculation. The fact that the PPPABC are the ones bringing this up is a further signal that there is a problem with the current process. The chart below shows the impact of the feed conversion ratio (FCR) on the calculated A-174 BC live price as well as grower returns.

Impact of Feed Conversions	A-174 Current (1.65)	A-174 Ontario (1.609)	A-174 Efficient Grower (1.55)
Calculated BC Live Price	2.074	2.053	2.025
Net Grower Returns (After Feed Chick and Catching)	.4126	.4407	.4777

What this chart illustrates is that using a more accurate actual feed conversion would have reduced the BC live price by approximately 6 cents / kg. Using the Ontario COPF A-174 feed conversion (FCR = 1.069), grower returns are 7 % higher than current formula returns and while returns for an efficient grower (FCR = 1.55) would be over 15% higher.

The BCCMB is attempting explain away this fundamental error by suggesting “The current BC formula has already overcompensated for the “potentially” lower BC FCR by taking into consideration only 75% of the feed and chick cost difference in the Live Price formula” (Page 6). At no point previously has it been suggested that the 25% portion of the feed and chick cost difference was a buffer for the Board to allow errors in their formula to favor of BC grower returns. It is important to note that if the BCCMB was using the more accurate feed conversion in the current pricing formula, there would have been numerous periods where BC grower feed and chick costs would have been less than Ontario feed and chick costs. The reason for this situation was in those periods corn prices had

⁴ BC Feed data for A-175 is based off A-173 weekly feed prices

increased relative to wheat prices. The BCCMB never came forward with a proposal to reduce the live price differential in order to assist BC Processors vs. their Ontario counterparts.

The PPPABC has now had the opportunity to pull actual feed conversions from their corporate farms for the periods A-168 to A-173 with the average conversion being 1.598 for that time period.⁵ Given that these are corporate farms, it is generally accepted that owner / operator farms perform better than corporate farms. Given this verifiable data and information it is the PPPABC position that an efficient producer independently owned farm would realize a 1.55 FCR.

If we use these conversions rates to calculate actual BC grower returns, it becomes evident that the BCCMB’s margin comparison table in their request (Page 5) is exaggerating and overstating the BC grower margin difference with Ontario between 4.5 and 6.5 cents.

Cycle	BC Margin With Guardrail	Ontario Margin	BCCMB Difference	Ajusted Ontario Margin	Feed Conversion Impact		Adjusted Margin Differences			Margin Difference Overstatement		
					Adjusted BC Margin 1.6069	Adjusted BC Margin 1.55	BC - 1.65	BC - 1.6069	BC - 1.55	BC - 1.65	BC - 1.6069	BC - 1.55
A-170	0.4775	0.5841	-0.1066	0.5641	0.5033	0.5374	-0.0866	-0.0608	-0.0267	0.0200	0.0458	0.0799
A-171	0.4836	0.5842	-0.1006	0.5642	0.5105	0.5460	-0.0806	-0.0537	-0.0182	0.0200	0.0469	0.0824
A-172	0.4432	0.5861	-0.1429	0.5661	0.4706	0.5068	-0.1229	-0.0955	-0.0593	0.0200	0.0474	0.0836
A-173	0.4198	0.5862	-0.1664	0.5662	0.4474	0.4839	-0.1464	-0.1188	-0.0823	0.0200	0.0476	0.0841
A-174	0.4126	0.6061	-0.1935	0.5861	0.4406	0.4776	-0.1735	-0.1455	-0.1085	0.0200	0.0480	0.0850

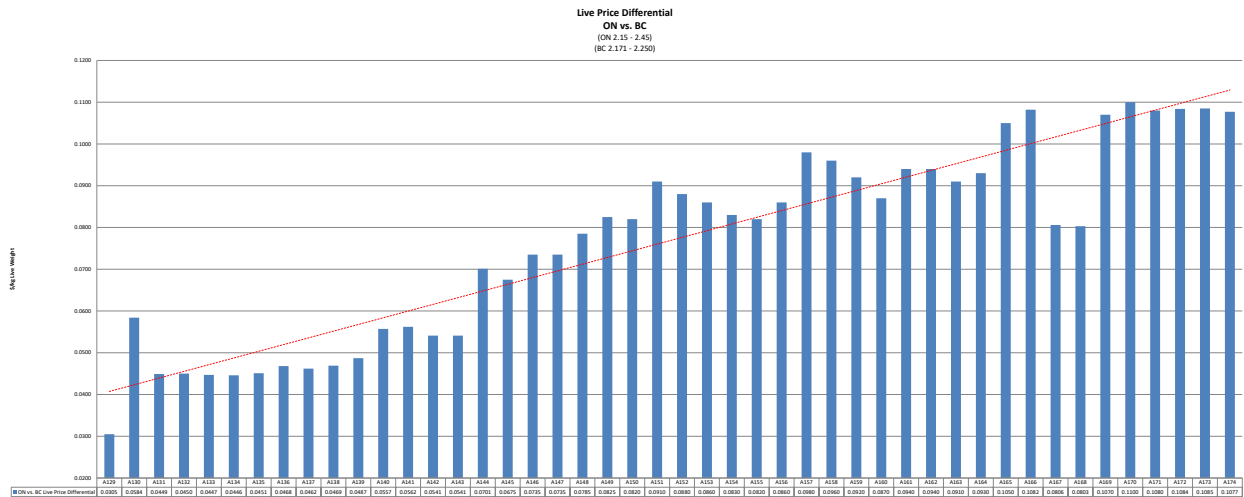
By using the Ontario 2.45 – 2.65 kg weight category for pricing (2 cents higher price) and the Ontario cost data for the 2.15 – 2.45 kg weight category the BCCMB has overstated Ontario grower margins by an additional 2 cents. Based on these two factors alone, the BCCMB has misrepresented and overstated the margin differences by using two different weight categories for their calculation. In addition, by using an outdated FCR to calculate BC margins, the BCCMB are understating actual grower returns while and at the same time increasing the live price differential with Ontario and reducing processor competitiveness.

4. **Corn versus Wheat** – The PPPABC has never disputed that the price balance between corn and wheat has changed, nor have we disputed that feed grain costs in general were increasing. We are concerned about the rapid cost increases in the commodities and the Ukraine / Russia situation has added further complexity and this issue must be carefully assessed.
5. **Ontario Farm Gate Minimum Live Price Formula** – The BCCMB has outlined some of the changes that have occurred in the ONCOPF but still fail to do the math to calculate that the actual impact on grower returns and processor competitiveness. As of A-175, as the PPPABC has pointed out in a number of its submissions, the changes to the ONCOPF, from A-169 to A-175, have provided BC growers with an additional 9 – 10 cents in producer margin, which have directly mitigated the wheat vs. corn current imbalance.
6. **Annual Adjustments** – The BCCMB fails to recognize and appear to be hiding in their recap of the “annual adjustments” that they increased the BC live price differential with Ontario increased with each increase in the annual adjustments as shown in the chart below. This insulated BC growers from realizing the full burden of the annual adjustments that were being realized by Ontario growers by forcing BC processors to pay a portion of them. When the annual adjustments were

⁵ These periods include higher feed conversions as a result the 2021 Heat Dome

eliminated in A-169, it was our understanding and only seemed fair to BC processors that a portion, of this incremental differential would be returned.

The BCCMB state in their submission (Page 14) that the PPPABC has not provided any verifiable evidence to support the claim that there was an agreement between PPPABC and the grower association that and benefits from a reduction in the ONCOPF would be shared equally between the parties (Appendix 1). This is completely incorrect as the BCCMB was made aware of this agreement in our correspondence to the BCCMB dated January 6, 2021 (Appendix 2). Irrespective of whether there was agreement with the Growers, the evidence is clear that BC Processors have been forced to pay a portion of the adjustments, which have now been removed. There is no reason or rationale for BC Processors to continue to pay for any portion of these.



7. Producer Margin Changes – The BCCMB maintains that they are not attempting to ensure BC growers margins are on par with Ontario growers (Page 11). However, this seems to be their key comparison as opposed to what is a reasonable return for an efficient grower, which the BCCMB has yet to determine. In fact, in the paragraph that follows this statement on the same page, the BCCMB is once again actually comparing the margin gap between BC and Ontario growers. This is because the BCCMB has failed to determine what is a reasonable return for an efficient grower.

Further to this, the BCCMB in their A-175 request has now introduced the notion that an increase in “grower margin” is not an increase in in “grower profit”. The PPPABC in its March 8, 2020 correspondence to the BCCMB indicated that returns to growers should be measured as returns after operating costs as there are several areas where BC growers have cost advantages. The BCCMB chose not to pursue this line of thinking previously as it did not support their intended outcome. Now they are supporting this line of thinking when it better suits them, however, the Board has chosen only certain aspects of this information to support its desired outcome instead of preparing an impartial analysis to fully assess the situation.

For example, in their A-175 request, the BCCMB introduces several new items into the discussion (capital costs, labour, sawdust, heat, etc..) that BC growers need to recover. The BCCMB has presented no evidence to show that growers currently are unable to cover these costs, nor have they compared the Serecon COP against the Ontario identified areas where BC growers have cost

advantages. As shown in the table below BC growers have labour and operating cost advantages over Ontario.

A-174 Cost Component	BC - Serecon	Ontario COPF
Labour	0.1197	0.1399
Operating Costs ⁶	.2059	.2315

Nowhere in any of the BCCMB’s analysis have they shown the BC grower operating cost advantages given that they hinder the Board’s desired outcome.

This is an example of the BCCMB trying to sensationalize the situation to push their agenda, by simply making broad statements and assumptions that cannot be substantiated, are not based on verifiable data, and are in fact, incorrect, once the numbers are properly presented. It is also a further indication that the BCCMB has not done a thorough analysis of the current situation.

8. **Processor Competitiveness in the Canadian Market** – The BCCMB position was very clear in the A-175 PPAC meeting that it was producers not processors that had a labour cost disadvantage to Ontario. Now the BCCMB is backtracking and saying that BC processors actually do have a labour disadvantage due to scale, which was only one aspect in the PPPABC “Processor Competitiveness Report” referred to by the BCCMB. They conveniently omit the other real and distinct cost disadvantages faced by BC processors outlined in the report, including wage rates and access to chicken TRQ. For example, the PPPABC report also concludes that, when Ontario labour is adjusted for product mix, that BC processors have a 33% labour disadvantage. The BCCMB is trying to oversimplify and minimize the very real processor cost differences BC processors have with Ontario by implying that it is based solely on production volume.

The BCCMB is relying on a model used by Kevin Grier and in his “Costs and Returns in BC Chicken Marketing” report which was built upon numerous inaccuracies. For example, this was built on the foundation that BC was a net exporter of chicken which was later reviewed, reconciled, and found to be completely incorrect. The Kevin Grier processor “analysis” is based on theoretical modelling, inaccurate and misleading information, and the inaccurate foundation that BC is a net exporter of chicken, unlike the PPPABC analysis which is based on actual verified processor costs. The PPPABC has provided in detail a number of concerns with respect to the accuracy of the Grier report and its portrayal of the Canadian Poultry Processing Industry (Appendix 2). Irrespective of these facts, the BCCMB continues to utilize this report as if it an accurate portrayal and representation of the BC processing sector and the BC processors competitive position.

The only reason for the BCCMB to use the Kevin Grier theoretical, inaccurate, and misleading data as opposed to the PPPABC’s actual verified data is because it better aligns with their pre-conceived assumption that their recommendation will not impact processor competitiveness.

The BCCMB is misleading and incorrectly implying that because catching is included in the BC live price, that BC processors are realizing increased returns from live price contracts because the catching costs are charged back to the grower (Page 13). The PPPABC in its submissions, at the “without prejudice meetings” and on several other occasions have explained how live price contracts

⁶ Serecon “Other Operating Costs” and CFO “Operating and Capital Costs” less Capital Components

in the chicken industry work with retailers. As we have mentioned in these instances, “all processors in all jurisdictions” when bidding on and establishing live price contracts include “all live, catching, processing, overhead, and delivery costs” for a specific period. Whether catching is included in the live price or not is completely irrelevant to establishing a base level of pricing and the reference jurisdiction for live price changes.

Once base level pricing is agreed to, then the customer’s price will fluctuate with “changes” the reference jurisdiction live price. As we have mentioned on several occasions, the challenge for BC processors is that most of our customers are based out of Ontario and certainly aware of the price differences between the provinces. As such, these customers will typically want to price and use live price changes off the lowest cost processor. This not only makes it very difficult to pass though all costs increases initially, but also when there are differences in the live price changes between jurisdictions. This is a well know fact throughout the industry and not just a BC Processor position. As reference we attach a letter from CPEPC which outlines this same position with respect to the marketplace that is *agreed upon by all Processors in Canada* (Appendix 2). The assertions made by the BCCMB that by including catching costs in our live price contracts gives us an advantage is simply not accurate.

The BCCMB also references “fixed price” contracts with customers but fail to mention that these are generally associated with frozen primary and further processed product. As we have discussed with BCCMB, BC is at a significant cost disadvantage to Central Canada processors who use TRQ, fowl, less expensive labour, and less expensive live birds to realize a significant cost advantage. Given most further processed products are frozen which provides longer shelf life and easier transportation options, the frozen primary and further processed market is clearly a national market. This aspect of the chicken business in BC requires stable and competitive raw material pricing in order to remain viable in the future.

The BCCMB, in order to support their A-175 request have, completely ignored that we operate in a national market, misrepresented how customer contracts work, incorrectly assessed the impact of catching in live price, and have completely underestimated the difficulty that BC processors have in passing cost increases through to customers.

The BCCMB submission attempts to draw conclusions from EMI data that are both erroneous and irrelevant. The BCCMB suggests that EMI data is used as the basis for National contract negotiations which is incorrect and simply not true. As has been stated in the current and previous Pricing Reviews, BC processors do not contribute data to the EMI because they simply do not sell into the wholesale commodity market. The BCCMB states that EMI wholesale prices have increased and given the trend of increases in live bird prices that would seem to be a logical conclusion. If live prices are increasing, then it is not a stretch to see wholesale prices increasing. The PPPABC would assert that the EMI data provided (Page 14) provides insight as to the general live price margin status of the processing industry but does not provide any insight on the competitiveness of BC processors in a regional or national Market. Also, these graphs are revenue based only and do not show the competitive cost and TRQ disadvantages experienced by BC Processors.

The BCCMB also state, “The PPPABC have provided more analysis of grower margins and information on defining reasonable returns to growers than they have on BC processor competitiveness.” and that processors as a “quid pro quo” should be providing the BCCMB with BC processor margins. The

PPPABC has put together and provided a tremendous amount of analysis and information throughout this entire review process. The issue is that the BCCMB does not view it objectively and refuses to accept any of it at face value. There is no question that BC Processors are significantly disadvantaged, and the BCCMB refused to acknowledge that.

Up to this point, the BCCMB has not done their own analysis of grower returns nor considered any of the PPPABC analysis on grower returns to understand the impact of their pricing proposals. The BCCMB is making these statements to deflect from the fact that they have not done the proper analysis to understand how their proposal will affect A-175 grower returns and processor competitiveness.

9. **PPPABC Analysis and Perspective on A-175** – The PPPABC has projected BC Live Price for A-175 based on the actual Ontario Live Price for A-175 projecting the same \$30 / tonne increase in BC feed pricing and holding the chick price steady. We have used this to show: the calculated BC live price, the BC posted live price, forecasted grower returns, and the live price differential with Ontario using the current formula, using the Ontario FCR, and the Efficient Grower FCR.

Current Formula	A-175 (Current)	A-175 (1.6033)	A-175 (1.55)
Calculated Live Price	2.135	2.116	2.084
Posted Live Price	2.015	2.015	2.015
Grower Returns	.4268	.4586	.4948
Live Price Differential	.0884	.0884	.0884
BC Proposed Formula	A-175 (Current)	A-175 (1.6033)	A-175 (1.55)
Proposed Live Price	2.055	2.055	2.055
Proposed Grower Returns	.4670	.4989	.5351
Proposed Price Differential	.1345	.1345	.1345

This chart clearly shows the impact of feed conversions on live price, grower returns and processor competitiveness. If the feed conversion for an efficient grower (1.55) is used in the current live price calculation, the live price would be reduced by 7 cents compared to the current formula. Even though the calculated live price hits the upper guard rail, and efficient grower can expect to realize returns of 49.48 cents. As shown in the second half of the chart, the BCCMB proposal would increase the live price by an additional 4 cents and an efficient grower would realize returns over 53 cents.

Our forecasts for A-175 indicate that grower returns even without the BCCMB’s proposed formula would be near record levels. If the BCCMB proposal is approved growers would be realizing excessive returns at the expense of processor competitiveness as the live price differential would increase to a record 13.45 cents after catching over Ontario.

In closing, the PPPABC believes that the economics that have been forecasted for the parties in A-175 do not warrant an alteration to the formula as grower returns remain in a reasonable range and the live price differential is at the upper guardrail. However, the PPPABC is very concerned about the commodity issues facing the industry and as was stated previously the Russia / Ukraine issues are likely to cause further complications going forward. On that basis only, the PPPABC believes potential amendments to pricing may be required in future periods, however this should only be permitted if:

1. The discussion between parties does not center solely on feed cost differentials but rather focuses on returns to growers, which incorporates both the ONCOPF factors and actual feed conversions.
2. The live price differential is reduced by 2.5 cents (representing 50% of the A-169 ONCOPF margin adjustments) as a base case from which any alterations to the formula might be considered.
3. The formula that is developed to amend the live price is transparent and fair to both parties. Any amendments should be robust enough that it would allow the live price to move up and down based on the key indicators.
4. There are clear and measurable guidelines in place as to when any formula amendments are no longer required.

The PPPABC remains optimistic that an amicable solution based on verifiable facts can be reached that benefits all stakeholders.

Sincerely,

A handwritten signature in black ink, appearing to read 'B. Shier', with a stylized flourish at the end.

Blair Shier
President
Primary Poultry Processors Association of BC

- c. Harvey Sasaki – Chair BCCMB
Jim Collins – Chair – BCBHEC
Wendy Holm – BCFIRB Liaison