



November 18, 2022

Peter Donkers
Chair
BC Farm Industry Review Board

RE: BC Chicken Marketing Board Request for Prior Approval to Amend the Quota Period A-180 Mainstream Pricing Formula

The BC Chicken Marketing Board (Chicken Board) requests that the BCFIRB Chicken Sector Pricing Review Panel (the Panel) review the attached submission to amend the interim pricing formula, effective for A-180. A-180 pricing will come into effect on December 18, 2022 and a Chicken Board pricing decision will be made on December 15th, 2022.

It should be noted to the Panel that the Chicken Board does not feel the elements of the request in the initial A-177 prior approval request has changed. It is advised to review these same arguments in the initial A-177 submission (June 10, 2022), as the current chicken pricing landscape and cost pressures have not materially changed, and the same SAFETI principles apply. This submission has attempted to compliment the previous submission rather than duplicate the rationale.

Prior Approval Request – Interim Formula for A-180 & Beyond

The Chicken Board is seeking prior approval from the Panel to maintain the current live price formula for mainstream chicken in effect for quota period A-178/179 to continue going forward until such time as the Long-Term Pricing Formula (Grower Cost Recovery Model) is in place or until otherwise directed by BCFIRB. This proposal balances the benefits across the industry stakeholders and represents no change from the previous decision.

Previously, the Panel approved an amendment to capture 50% of costs above the guardrail to run from A-177 through A-179 inclusive. That formula was amended by BCFIRB on August 24, 2022 effective quota period A-178 to change to the Ontario weight category from 2.45 – 2.65 kg to 2.15 to 2.45 kg going forward. The weight class change is in effect until the long-term formula is in place, but the 50% of costs above the guardrail amendment expires at the end of period A-179. It is this guardrail amendment provision that the BCCMB seeks prior approval on going forward.

The current formula (used in A-178/A-179) and proposed going forward will be:

Ontario price + BC catching price + 75% of the difference in the feed and chick costs of growing a kilogram of live chicken between Ontario and BC.

- *The Ontario Price used in the formula effective in A-178 and going forward will be the posted price at the weight category (2.15 to 2.45 kg). (This represents a decrease of 2 cents/kg from the previous formula. The August 24/2022 BCBCFIRB decision approved effective A-178 that the weight category until otherwise directed or the long-term formula is implemented.)*
 - *The Ontario price used in the formula will be minus the CFO Modular Loading recovery (1.2 cents/kg), CFO AI Insurance recovery (0.15 cents/kg) and OBHEC chick levy (0.06 cents/kg).*



- The price is inclusive of catching at 4.0 cents/kg. Any increase or decrease to the price of catching must be approved by the Board and will be reflected in the BC live price going forward.
- A provision to cover 50% of the current formula costs exceeding the upper guardrail. (The upper guardrail is currently set at 12.84 cents/kg.)

Analysis and background

The below graphs and charts illustrate outcomes from the current formula and have been updated up to the most recent period, A-179.

Figure A (below) - The BC versus Ontario feed differential from A-168 to A-179 continues to oscillate. The downward trend experienced from A-174 through A-177 has reversed direction and increased substantially in period A-178 and A-179. It should be highlighted that only 75% of the difference in feed and chick costs is captured in this formula. A-179 feed price showed a continued increase in the BC versus Ontario feed price differential.

Figure A

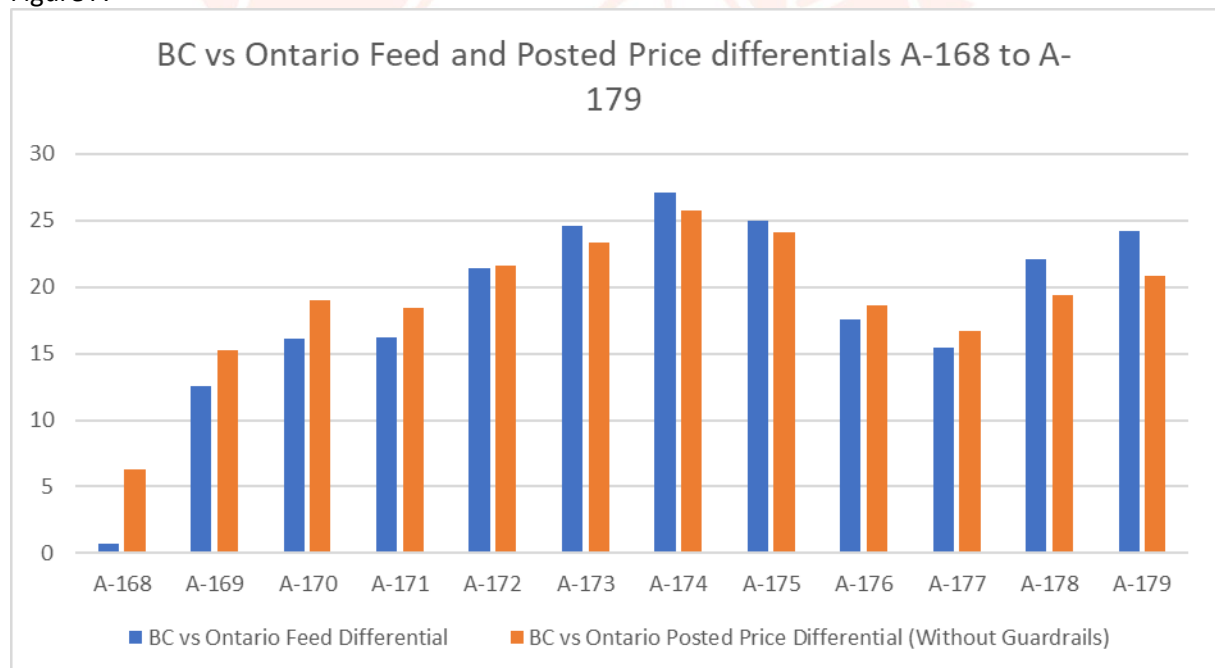
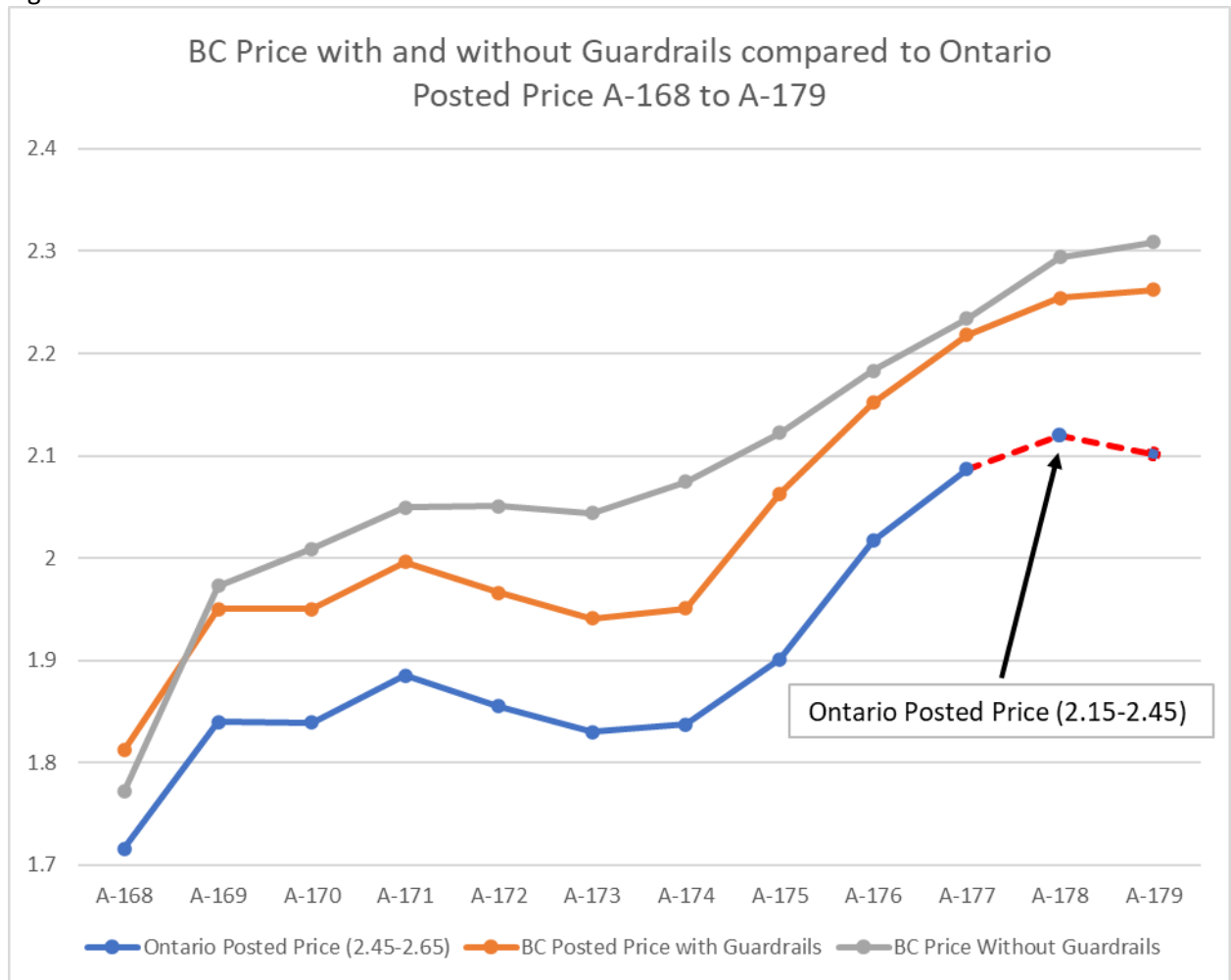


Figure B (below) - The BC live price with and without guardrails compared to the Ontario posted price (note the change in weight category for A-178) show that while the gap narrowed for several periods, it is again widening. The most up to date information for A-179 price has shown a further widening in this gap.



Figure B



*Weight category changed to 2.15-2.45 in A-178

Figure C (below) – Shows the impact of the upper guardrail (\$0.1284/kg, inclusive of \$0.04/kg for catching costs) on the BC grower margin component. BC grower margin is defined as live price minus feed and chick costs. The “margin” is the return left to cover all other fixed and variable costs to produce a kg of chicken in BC. It should be noted, the PPPABC references that the amended formula has resulted in “increases in BC grower returns which have reached record levels”. The PPPABC equates grower returns to income after “feed, chick and catching” costs. As with the BC grower margin illustrated in Figure C below, the “BC grower returns” must also cover the remaining variable and fixed costs to produce a kg of chicken in BC which have also been increasing.

The prior BC formula (pre-A-175) took into consideration 75% of the BC – Ontario feed and chick cost difference and capped the BC live price over Ontario at \$0.1284/kg. For A-175, the formula only covered 50% of the difference in BC feed and chick cost over Ontario that exceeded the \$0.1284/kg upper guard rail as a mechanism to balance the policy objective to provide a grower a reasonable return and maintain processor competitiveness. Since A-172 feed costs in BC began to increase at a greater rate than feed costs in Ontario with cost pressures being felt by BC growers. The effect was intensified in A-173 due to flooding resulting from the Atmospheric River in November that cut off feed ingredient



supply to BC feed mills. For the period A-170 to A-174, BC growers incurred a shortfall in recovering the 75% of the BC feed and chick cost difference over Ontario. The amendments approved in A-175 and A-177 that grant 50% of costs above the guardrail has given some alleviation to the cost increases. Without the upper guard rail, the full 75% of the BC feed and chick cost would be included in the BC live price and BC grower margins would have maintained the level of increase experienced in quota period A-169. Without the amended formula in A-178 and A-179, grower margin would have trended downward. Continuing with the amendment (50% of costs above the guardrail) would result in BC grower margin maintained.

Figure C

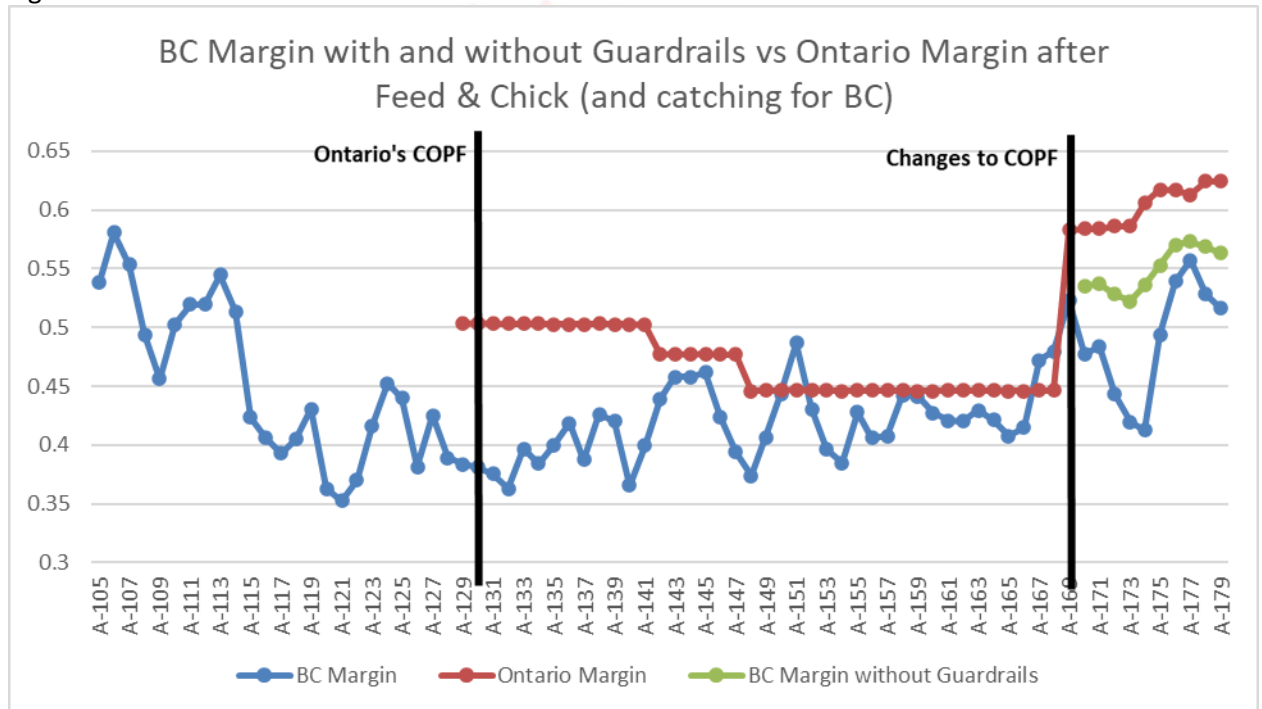
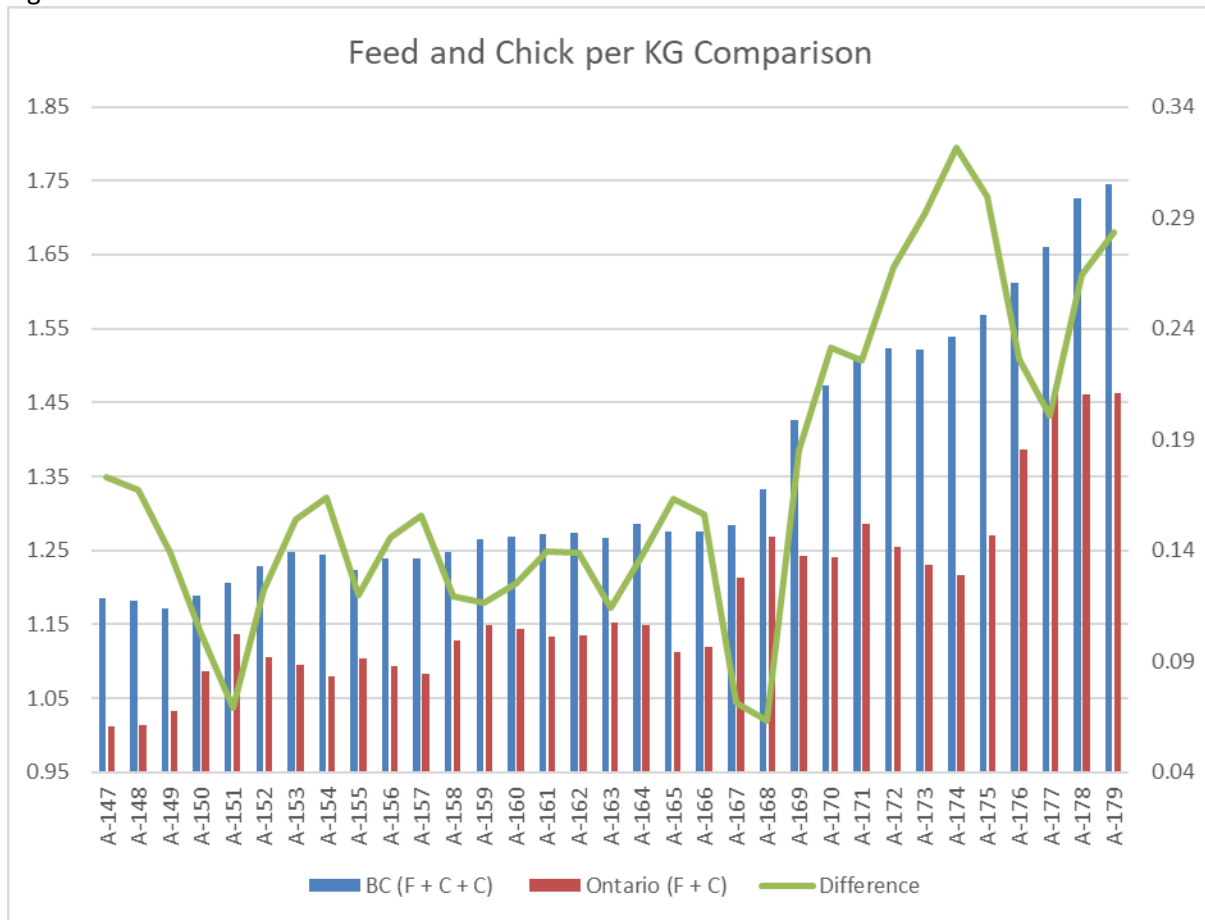


Figure D (below) – Similar to figure A, shows the difference in feed and chick per KG comparison between BC and Ontario. While there was a trend to close the gap in A-174 to A-177, this trend reversed in A-178 and A-179. The Guardrails have been exceeded in every period since A-169. Please note BC (F+C+C) = Feed + Chick + Catching, whereas Ontario (F+C) = Feed + Chick.



Figure D



Stakeholder Consultation – PPAC Feedback

The Chicken Board requested feedback from the PPAC on the draft proposal to proceed with continuation of the current interim formula. The Chicken Board also solicited to hold a meeting. The BCCGA noted they “did not feel that a PPAC meeting is necessary”. The PPPABC noted they would “avail ourselves to discuss further” but did not provide availability for a meeting. Thus, no PPAC meeting took place and both BCCGA and PPPABC provided written submissions to the Chicken Board. The Chicken Board provided their draft proposal to the PPAC on October 13th, 2022 and gave until November 1st for written feedback. The Chicken Board provided an update to the proposal (with A-179 pricing added) on October 26th, 2022. The written feedback of both BCCGA and PPPABC is attached as appendix for reference.

BCCGA Feedback (appendix)

The BCCGA agreed with the BCCMB proposal to maintain the current interim formula into A-180 and beyond. Disagreement was expressed around the previous decision to move to the Ontario weight class down from 2.45 – 2.65kg to 2.15 – 2.45kg.



PPPABC Feedback (appendix)

The PPPABC does not agree with the Chicken Board's proposed prior approval request for a variety of reasons outlined in their letter. The Chicken Board considered and discussed the claims raised in the letter. The Chicken Board will take this opportunity to address the PPPABC's concerns and remind all stakeholders that only transparent and verifiable data can be used by the Chicken Board.

Feed Conversion Rate (FCR)

PPPABC claims that the current formula uses an "outdated Feed Conversion Ratio" which leads to an inaccurate analysis. This has already fulsomely been addressed in the Chicken Board's June 10, 2022 prior approval request and August 15, 2022 letter, but some additional information is provided here. It should first be noted that the PPPABC is not using the correct FCR for BC in their analysis which overstates their claims. In our existing BC formula, we use an actual *weighted* average FCR of 1.63, not the *simple* average of 1.65.

We do agree with PPPABC that 'it is imperative that the Chicken Board uses actual data for the live pricing formula' which is what is proposed in moving towards a Grower Cost Recovery Model. On-Farm data collection is well underway (Serecon) and the Cost Recovery Model Committee (CRMC) will review the updated FCR for the Long-Term formula when available. Until this data collection is complete, the Chicken Board does not have verified, reliable, or transparent data on the current FCR. Unverified data from an unidentified number of corporate farms is insufficient to reflect the industry as a whole and does not provide an appropriate degree of confidence. Once this data collection (Serecon) is completed, it will be reviewed by the CRMC committee of which we are hopeful PPPABC will participate.

PPPABC claim that "it is well recognized in the industry that BC feed conversions are typically better than Ontario and have improved since 2017". This is not necessarily true and highly dependent on feed the grower is purchasing. Changing FCR can impact other elements in any cost model and are related to feed mix change (i.e. different performance resulting from use of corn, wheat, soy, etc). The Chicken Board notes it will not tamper with the current formula by arbitrarily adjusting line items that benefit one stakeholder or another, without reliable, verifiable, and transparent data.

Furthermore, it is known that the Ontario COPF has made recent changes to how they calculate FCR. The Ontario COPF changed from a fixed amount method based on a farmer survey to a 6-period rolling average of actual feed data collected from farmers. This change was to increase the accuracy of the conversion ratio, but it did also increase the feed cost in their live price. Of note, the Ontario COPF is not merely collecting feed data provided by feed mills; they collect, audit, and verify actual farm data. This reinforces the need for verifiable and transparent data in BC.

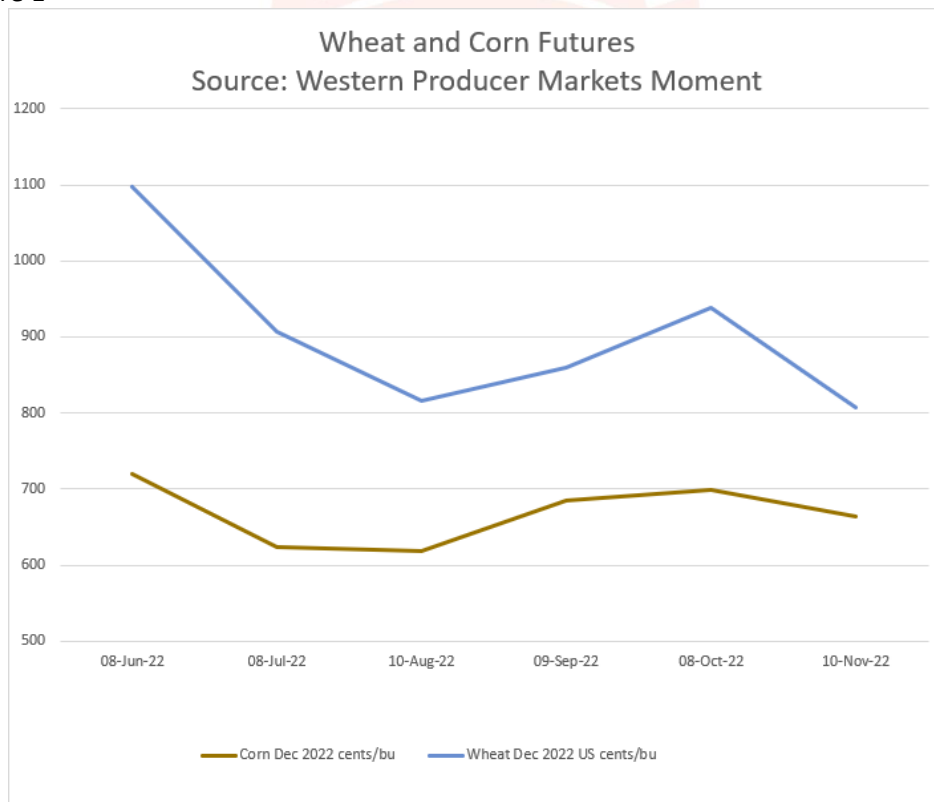
Wheat-Corn differential

PPPABC highlights some important information about the wheat-corn price differential. The Chicken Board does agree that this is good news that there appears to be closing of the gap in the wheat-corn differential (futures graph, figure E). We would be cautious and refute that this gap has yet closed. Actual feed prices in A-179 still saw a widening gap and while we remain hopeful the gap could shrink in coming periods; the gap between Ontario and BC is still significant. If feed costs remain high, it is not fair or equitable to ask growers to bear the sole impact of these increased costs.



The PPPABC criticizes the Chicken Board for not providing actual data on grain prices or their impact on feed prices. While the Chicken Board is not projecting future feed prices in our submission, our current interim formula collects and considers current local feed costs for each A period. The Serecon approach to feed data collection results in a slight lag compared to Ontario feed costs. Feed data is collected by an independent 3rd party and the aggregate feed and chick cost data is shared through the PPAC each period. An increase or decrease in feed prices will directly move the live price in an equivalent direction (relative to Ontario pricing + 75% of feed and chick differential). It should be noted that the PPAC unanimously requested the Board to remove from the formula component of “The difference in the feed and chick costs will be calculated based on a 6-period rolling average” in quota period A-144. The rolling average previously flattened out the peaks and valleys of feed cost changes.

Figure E



Changes made to Ontario COPF and impact on Guardrails

The PPPABC claims that the current guardrails have been rendered obsolete. The Chicken Board refutes this as the guardrail are very much still in place, albeit through the prior approval process, have been temporarily amended to provide a balance in interests of all stakeholders. Costs for all stakeholders, processors and growers alike, have seen dramatic increases over the last couple years. The Chicken Board refutes the erroneous premise that the “BC live price will always hit the upper guardrail even when the feed differential with Ontario normalizes”. If the Ontario COPF rises, all prices across Canada rise and do not affect the differential whatsoever. If the feed and Chick differential between BC and Ontario normalize, it would be expected pricing would once again align within the guardrails.

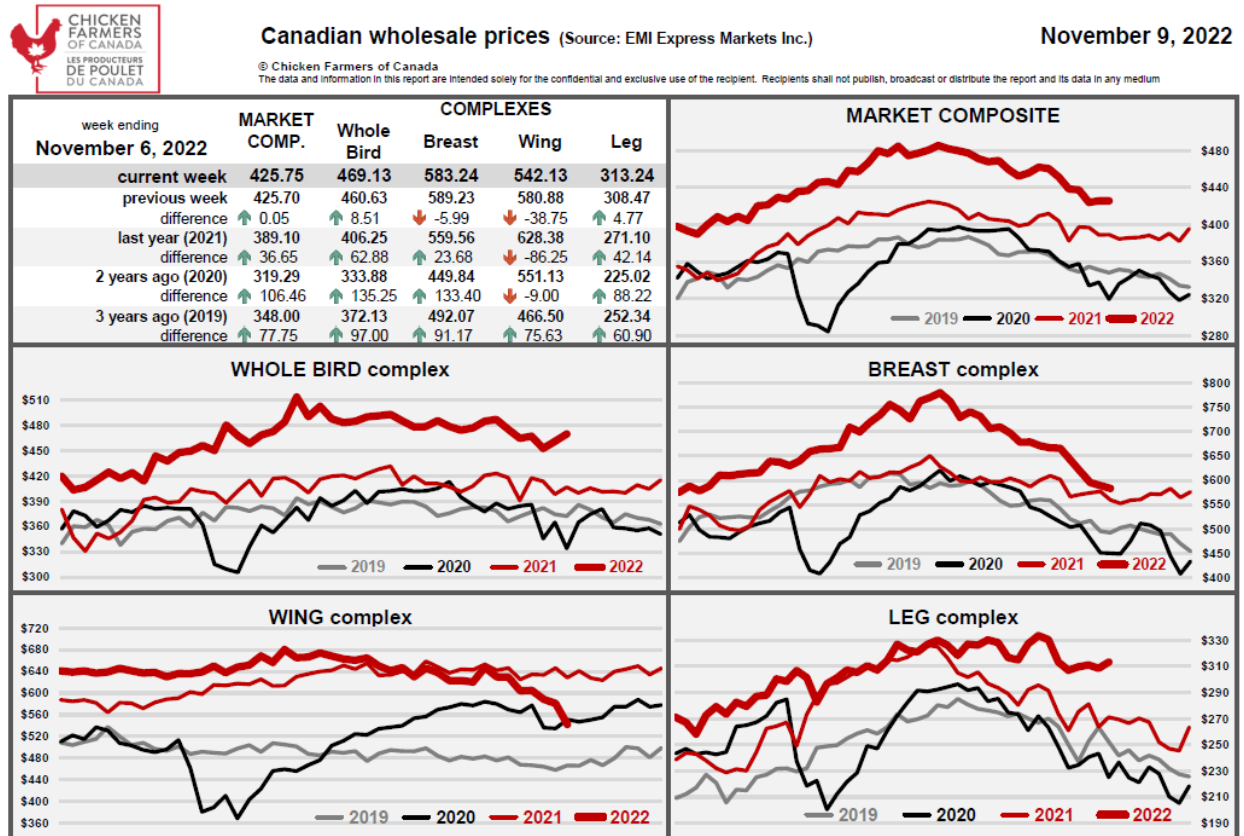


BC Grower Returns

PPPABC continues to make the false connection with ‘grower returns’ as a measure of profitability for growers. The Chicken Board made a fulsome argument against this claim in our June 10, 2022 submission. The term ‘producer margin’ as used within the Ontario COPF is meant to capture all costs outside of feed and chick (i.e. labour, taxes, heating, building, maintenance, etc.). Due to ongoing inflation, costs have risen for growers and processors alike. Therefore, it is the obvious conclusion that the costs outside of feed and chick have increased substantially for all growers (record high costs (price) x normal volume of chicken = record revenue). It must be stated that processors and growers alike must understand that record revenue is no indication of profitability or sustainability without recognition of the costs incurred. The Chicken Board would also note that increases to the Ontario ‘producer margin’ (also captured in BC formula) do not contribute to the price differential between Ontario and BC.

Likewise, and with the same logic, Figure F below showing Canadian wholesale prices, we cannot differ from these figures the profitability or sustainability of the processing sector. The graphs in Figure F show record high wholesale prices for Canadian chicken, which would lead one to believe under the same volume of sales, the processor have also experienced record revenues. While many can speculate, it would not be appropriate to connect these revenues with increased profitability or greater return for processors. While the Chicken Board has great interest in understanding processor returns, to date this data has not been provided by PPPABC and therefore we cannot make this false equivalency.

Figure F





The best information available to view processor margins can be found in Figure G below. While we recognize Western processors do not contribute to this EMI composite data, it is the only source of processor-relevant data that is provided to the Board.

Figure G



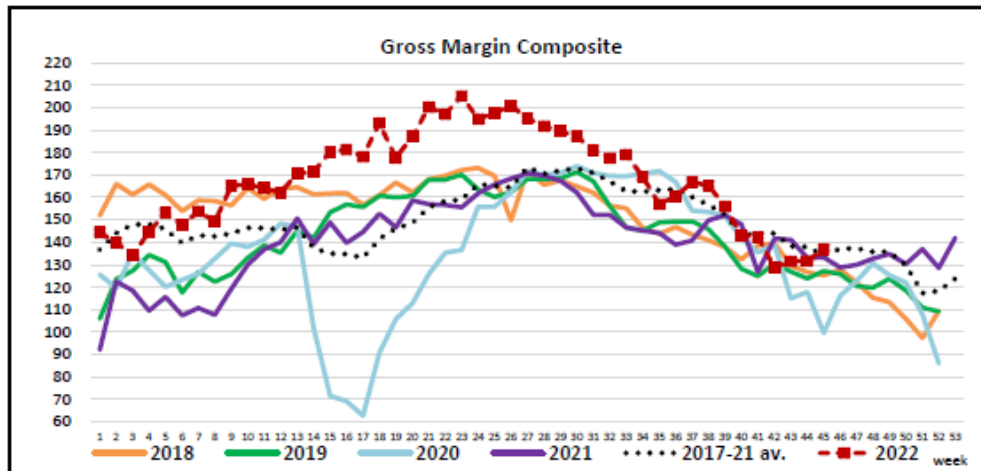
CPEPC Gross Margin Composite Report

w/e	Sunday, November 13, 2022	Canadian Market Composite*	Canadian Weighted Live Price	Gross Margin Composite**
Current Week		430.95	214.53	136.83
Last Week		425.75	214.53	131.63
difference		5.20	-	5.20
same week last year (2021)		384.53	187.35	128.69
difference		46.42	27.18	8.14
same week 2 years ago (2020)		335.99	159.92	116.20
difference		94.96	54.61	20.63
same week 3 years ago (2019)		349.92	162.60	125.77
difference		81.03	51.93	11.06

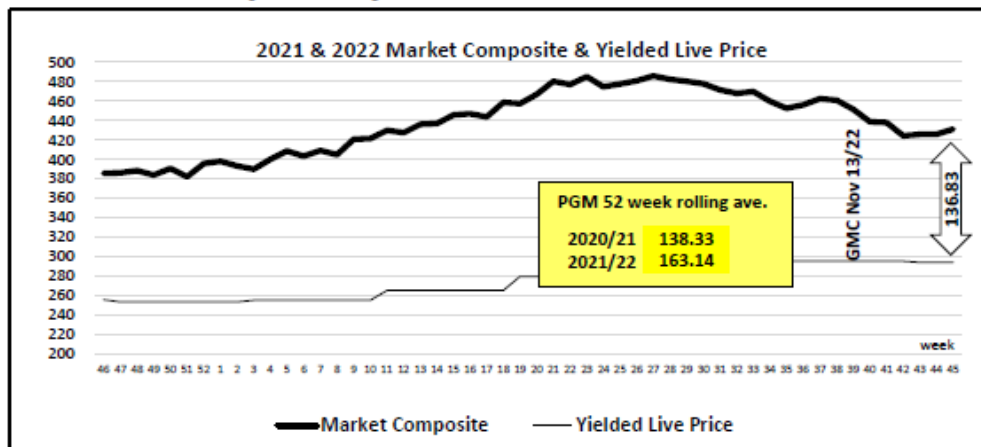
*Source: CFC weekly report using data provided by EMI (Express Markets Inc.). All data reported in cents per kilogram.

EMI Composite measures a specific subset of chicken products. The EMI Composite and PGM are trend indicators for this subset.

**The Gross Margin Composite only reflects the difference between wholesale and live price (on an eviscerated basis) and does not include processing costs. When comparing the GMC year over year, the context of sharply increasing processing costs needs to be taken into consideration.



The 2015 to 2019 5-Year PGM Average is 152.5 cents/kg.





Consideration for Processor Competitiveness

PPPABC make the claim that the Chicken Board has made no consideration for processor competitiveness. Again, the Chicken Board would refer to the June 10, 2022 prior approval submission where the consideration for processor competitiveness was described in detail.

As in the previous submission, the Chicken Board has attempted to address processor competitiveness but note that no recognition of the Chicken Board's efforts has been given by the PPPABC. A number of factors are currently in place due to these considerations

- BC growers only capture 75% of the feed and chick differential as compared to Ontario.
- The request is for only 50% of costs that exceed the guardrail results in a 50/50 split of the ongoing extraordinary feed cost challenges experienced in the sector.
- The Chicken Board adopted the Ontario posted weight class (2.15 to 2.45 kg) as committed to throughout the pricing process. This was a direct transfer of 2 cents in the live price from BC growers to BC processors and a positive impact on processor competitiveness.

While the Chicken Board desires a sustainable and healthy processing sector, it is disingenuous to ask growers to bear all costs, nor give any recognition of the Chicken Board's attempts to address this processor competitiveness through the means above. We respectfully understand the challenge to "pass along the live price increases in BC" and is a driving force between splitting the costs challenges experienced by all stakeholders at 50% above the guardrail.

Lastly, the PPPABC letter criticizes the Chicken Board for inadequately addressing processor competitiveness, while the PPPABC has provided little to no data from the processing perspective. PPPABC continues to bring forward their perceived grower data, but no verifiable or transparent data has been provided to show how the competitiveness of processors have been impeded. It is worth reiterating that the Chicken Board does not control the wholesale or retail price of chicken, and therefore does not have access to this data unless this is voluntarily shared by processors.

Processor proposal for a fixed differential over Ontario

The PPPABC goes on to propose a fixed differential over Ontario with an updated FCR as the Interim pricing model. The flaws in the FCR proposal are described above. The Chicken Board is not prepared to review or re-examine its pricing approach. The "fixed differential over Ontario" model has been reviewed in previous discussions and written statements. The Chicken Board's position is also supported in the November 1, 2022 decision from BC FIRB in paragraph 34, "*The Panel is not prepared to direct the Chicken Board to re-examine its pricing approach. As PPPABC is aware, the Chicken Board consulted with stakeholders on five pricing options, starting in 2020, including through a BCFIRB Pricing Liaison led Roundtable session. Re-development and examination of pricing options is not effective, strategic nor accountable.*"

Conclusion and Prior Approval Request

The Chicken Board has taken into consideration the input from the PPAC and further deliberated at their regularly scheduled November 8-9, 2022 Chicken Board meeting. The Chicken Board is formally seeking prior approval from the Panel to maintain the current live price formula for mainstream chicken in effect



for quota period A-178/179 to continue going forward until such time as the Long-Term Pricing Formula (Grower Cost Recovery Model) is in place or until otherwise directed by BCFIRB. The same SAFETI process and consideration from the A-177 submission (June 10, 2022) applies to this submission.

As previously stated, the Chicken Board will apply the amending formula as long as the 75% of BC feed and chick cost difference over Ontario feed and chick exceeds the upper guard rail. The basis for this conclusion is that the long-term average BC feed and chick difference over Ontario falls within the upper guardrail of \$0.1284 per kg (as per August 15, 2022 letter). If the feed differential were to normalize, then the amendment to add 50% of costs of the guardrail would become moot in any period in which this occurred.

BRITISH COLUMBIA CHICKEN MARKETING BOARD

Harvey Sasaki
Chair

Attachment: BCCGA PPAC feedback, PPPABC PPAC Feedback

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BC Chicken Growers'
ASSOCIATION

October 14, 2022

DELIVERED VIA EMAIL

Woody Siemens,
Executive Director, BCCMB

RE: PPAC - A-180 Prior Approval to Continue Interim Formula

Dear Woody,

The BC Chicken Growers' Association (BCCGA) is writing in regards to the BC Chicken Marketing Board's (BCCMB) request for feedback to seek a continuation of the current interim formula, that allows for cost recovery of 50% of the costs that exceed the guardrail and the Ontario weight category change from 2.45 – 2.65 kg to 2.15 to 2.45 kg. The BCCMB plans to seek the BC Farm Industry Review Board Chicken Sector Pricing Review Panel's prior approval to maintain the current live price formula for mainstream chicken for quota period A-178/179 to continue going forward until such time as the Long-Term Pricing Formula (Grower Cost Recovery Model) is in place or until otherwise directed by BCFIRB.

While the BCCGA still disagree with the arbitrary Ontario weight category change that represents a decrease of 2 cents/kg, we believe it would be unreasonable not to at least include a cost recovery of 50% of the costs that exceed the guardrail with the 2 cent/kg weight category adjustment, which is an additional cost to the BC growers. We agree with the BCCMB's proposal to maintain the current live price formula for mainstream chicken for quota period A-178/179 and to continue going forward until such time as the Long-Term Pricing Formula Cost Recovery Model is in place.

At this time, we do not feel that a PPAC meeting is necessary.

Thank you for your attention to this important matter.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Dale Krahn', is positioned above the typed name.

Dale Krahn, President
BC Chicken Growers' Association

Cc: Harvey Sasaki, Chair
BC Chicken Marketing Board

101 - 32450 Simon Avenue, Abbotsford, BC V2T 4J2

tel 604.556.0378 | www.poultryinmotion.ca | office@bcchickengrowers.ca



November 1, 2022

Mr. Jim Byrne
 Chair, Production and Pricing Advisory Committee
 BC Chicken Marketing Board

Dear Jim:

Re: BCCMB Request for Prior Approval to Retain the Current Mainstream Pricing Formula Going Forward for Quota Period A-180 and Beyond

The Primary Poultry Processors Association of BC (PPPABC) would like to take this opportunity to respond to the BC Chicken Marketing Board's (Chicken Board) A-180 Prior Approval Request dated October 12, 2022 (Prior Approval Request). The Chicken Board is specifically requesting that the current A-179 live pricing formula remain in effect for A-180 and until such time as the Long-Term Pricing Formula is implemented.

Chicken Board Proposed BC Live Price Formula

Ontario Live Price (2.15 – 2.45 kg)
 Less: Modular Loading
 Less: AI Insurance
 Less: OBHEC Chick Levy
 Plus: Catching Costs
 Plus: 75% of BC / ON Feed and Chick Differential
 Plus: 50% of Formula Costs Over the Upper Guardrail

The Prior Approval Request is proposing a BC live price formula similar to the interim formula proposed in the Chicken Board's March 4, 2022 Pricing Review decision. The only difference being the addition of a component to include 50% of formula costs over the upper guardrail. The Chicken Board's rationale for including this component in the interim formula, which was outlined in their previous requests, "is to provide relief to growers

from escalating feed costs resulting from the wheat/corn price imbalance". While wheat-corn imbalance has had an impact on BC's feed differential with Ontario, the imbalance appears to have run its course and commodities are moving much closer to their historical relationship. The PPPABC cannot accept the Chicken Board's Prior Approval Request for the following reasons:

1. The Chicken Board's on-going use of an outdated feed conversion ratio (FCR) has led to inaccurate analysis that has increased the feed differential, overstated the live price, and understated grower returns;
2. The wheat-corn imbalance is correcting itself and grain markets are returning to historical differentials;
3. The changes made to the Ontario Cost of Production Formula (ONCOPF) have inflated the BC live price under the BC pricing formula and have rendered the guardrails irrelevant;
4. The analysis in the Chicken Board's Prior Approval Request gives no consideration to the increases in BC grower returns which have reached record levels; and
5. Processor competitiveness has not been factored into the Chicken Board's analysis of their Prior Approval Request and if approved will entrench BC processors as the least competitive in the country.

The Chicken Board's current rationale for their Prior Approval Request is that it "balances the interests and concerns of all stakeholders." This is not the case, as the Prior Approval Request is based on incomplete and non-comparable data that has led to incorrect conclusions, provides no consideration for processor competitiveness, and will ultimately crystallize record grower returns and competitive disadvantages for processors indefinitely. Processor competitiveness has deteriorated throughout the supervisory review and processors were also significantly impacted by the wheat-corn imbalance in their attempts to pass significant live price increases through to the marketplace. There is no consideration being given to processor competitiveness and the difficulties that BC processors have faced with the recent live price increases. As such, the PPPABC is at loss to understand how the Prior Approval Request is balancing grower returns with processor competitiveness.

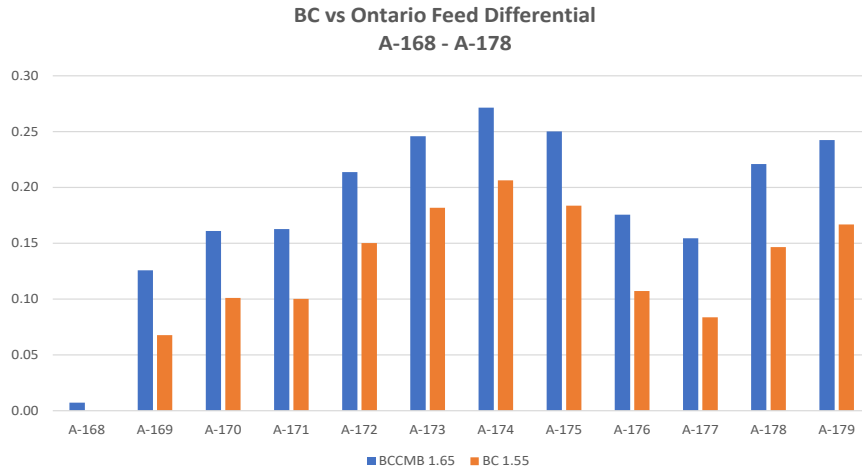
The Chicken Board's On-Going Use of an Outdated Feed Conversion Ratio (FCR) has led to Inaccurate Analysis That Has Increased the Feed Differential, Overstated the Live Price, and Understated Grower Returns

The Chicken Board's analysis is overstating actual feed costs and understating grower returns which is not presenting an accurate assessment of the actual situation facing the industry. This has led to the Chicken Board making erroneous conclusions and biased decisions which favor BC growers. The PPPABC agrees that the imbalance in the relationship between corn and wheat prices has had an impact on the feed differential between Ontario and BC. However, BC feed costs are being derived using an FCR that was established almost 6 years ago in 2017 while Ontario feed costs are calculated based on current FCR data. Any attempt to provide relief to BC growers due to feed cost anomalies must assess the actual costs being experienced by growers and not a theoretical cost.

It is well recognized in the industry that BC feed conversions are typically better than Ontario and have improved since 2017. This means that the feed costs in the BC Live Price formula are being overstated and are not reflective of actual feed costs. In A-169, Ontario amended the ONCOPF and started using an actual FCR that is updated each cycle which significantly reduced Ontario feed costs. The Chicken Board however in their Prior Approval Request analysis have used the "overstated" BC feed costs and the new "actual" Ontario feed costs to erroneously calculate and overstate the feed differential.

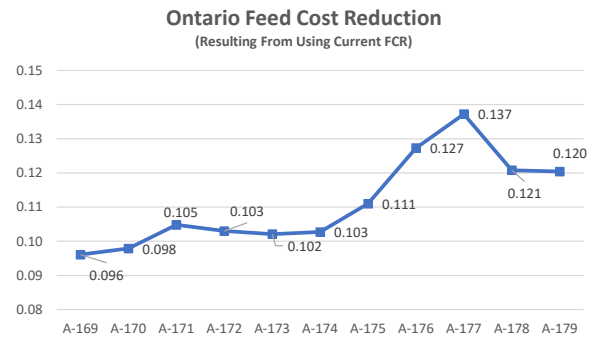
The chart in Figure 1 below recreates the Chicken Board's "BC verse Ontario Feed Differential A-168 – A-178" [sic] in their Prior Approval Request analysis showing their calculation of the magnitude of the feed differential with Ontario (blue bars).

Figure 1



The orange bars in Figure 1 are the PPPABC’s calculation of the feed differential with Ontario using the current FCR for BC.¹ This provides a more realistic view of the BC feed cost and shows a material reduction in the feed differential with Ontario which would have reduced the BC live price. This provides a much more accurate portrayal of the actual feed cost differential between BC and Ontario. Given that feed costs make up a significant proportion of the BC live price, the Chicken Board needs to be using actual costs as opposed to inflated costs derived from an FCR that is almost 6 years old. The chart in Appendix A shows since A-169 that the outdated BC FCR has increased the BC live price an average of almost 5.0 cents per live kg (75% of the difference in the feed cost differential).

The Chicken Board’s analysis is overstating the magnitude of the differential as it uses theoretical feed costs for BC and actual feed costs for Ontario. The chart on the right further illustrates the reduction in Ontario feed costs caused by the FCR change. This chart shows the difference in Ontario feed cost using the 1.813 FCR in the old ONCOPF and the actual FCR in the new ONCOPF from A-169 to A-179. Ontario feed costs from A-169 onwards have been reduced by an average of 11 cents with the use of the actual FCR reduction in the new ONCOPF.



It is imperative that the Chicken Board uses actual data for the live pricing formula. In the absence of the Chicken Board actually and properly conducting its own work in this regard, then provided the Chicken Board is prepared to enter into serious and constructive discussions on updating this type of model with accurate information, then the PPPABC is prepared to share its detailed FCR data for use in the model on a limited basis with the Chicken Board under strict confidentiality provisions.

¹ The use of the 1.55 FCR’s represents current BC feed conversions for an experienced BC grower based on the PPPABC corporate farm data.

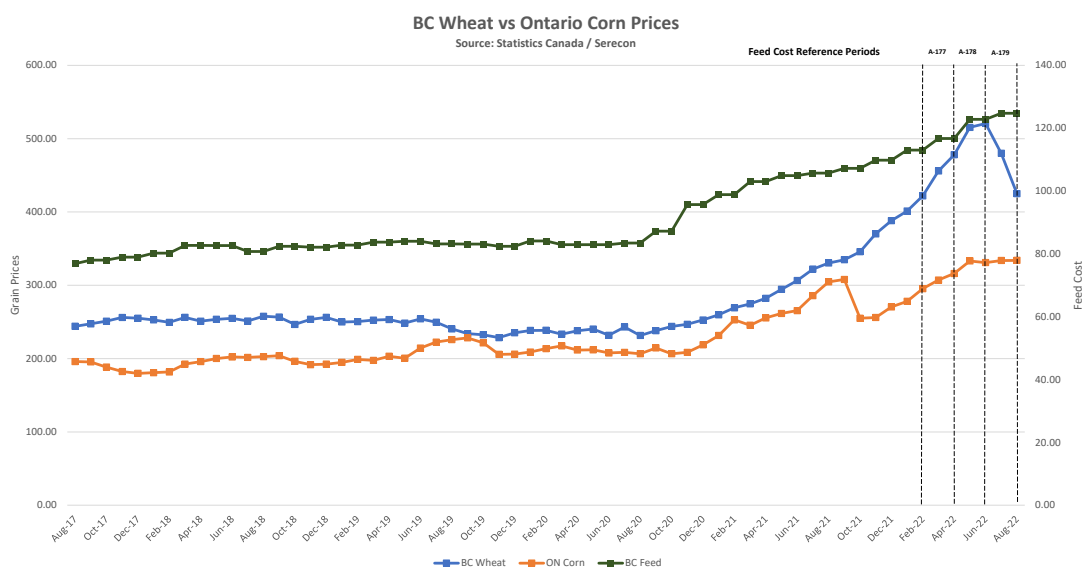
The Wheat-Corn Imbalance is Correcting Itself and Grain Markets are Returning to Historical Differentials

Wheat prices declined dramatically in July and August against corn prices and is continuing on an overall downward trend at a less rapid rate. Live prices in other provinces have already recognized and accepted this reality by substantially reducing their A-179 live prices relative to Ontario (as shown in the table on page 5 below).

The Chicken Board’s original prior approval requests were designed to provide BC growers with relief from the wheat-corn price imbalance that was impacting the feed cost differential. This current Prior Approval Request does not mention wheat-corn imbalance as a rationale to extend the current live price formula, and in fact, the Board presents no actual data on grain prices or their impact on feed prices.

The graphs in Figure 2 below shows BC wheat prices and Ontario corn prices with the “A-cycle feed cost reference periods”² with the actual feed cost overlayed to show how grain prices are impacting feed costs. Appendix B provides further wheat and corn data from multiple sources that all show similar trajectories for wheat and corn for A-179 feed pricing and a significant softening in wheat prices.

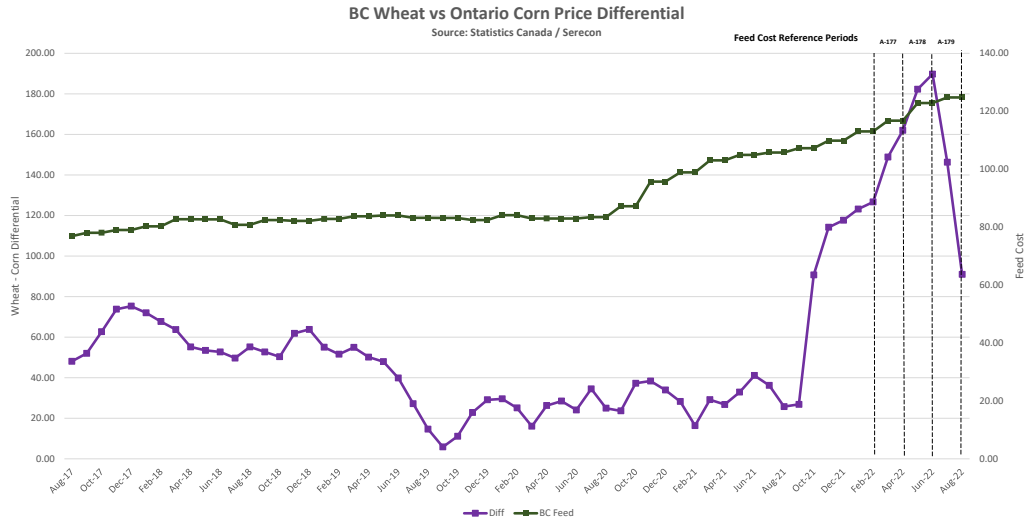
Figure 2



The graph in Figure 3 shows the wheat-corn differential or the “imbalance” that has up to now been the basis for the Chicken Board’s prior approval requests and how it tracks with the feed cost reference periods and actual feed costs.

² Feed Reference Periods are the periods used to determine feed prices and costs in the live pricing formula which lag the actual pricing period. For example, in BC the feed pricing used to determine A-179 feed costs is collected from A-177 or July and August Feed pricing – outlined in Appendix C.

Figure 3



These graphs show that for the A-179 pricing cycle, BC wheat prices declined sharply while Ontario corn prices remained steady which resulted in a significant reduction in the wheat-corn differential. What is problematic to the PPPABC is why BC feed prices have increased in A-179 which is inconsistent with other western provinces, particularly given declining wheat prices and flat corn prices. Feed costs in A-179 have come down in unison across western Canada consistent with the wheat cost reduction.

Chicken live prices and the live price differential with Ontario for the four western provinces (net of catching) are summarized below and show significant live price declines, reflecting lower feed costs, in all provinces except BC. The live price differential with Ontario shows processors in other western provinces improving their competitive position with Ontario while the competitiveness of BC processors continues to deteriorate.

Net Live Price Change			
	A-178	A-179	Inc / Dec
BC	2.209	2.222	0.013
AB	2.204	2.147	-0.057
SK	2.237	2.179	-0.059
MB	2.239	2.165	-0.074

* Net of Catching Costs

Live Price Differential to Ontario			
	A-178	A-179	Inc / Dec
BC	0.123	0.135	0.012
AB	0.104	0.046	-0.058
SK	0.137	0.078	-0.059
MB	0.139	0.064	-0.075

* Net of Catching Costs

This further loss of competitiveness for BC processors in A-179 is despite the change in the weight category in the BC live price formula in A-179 which was supposed to benefit processors by reducing the Ontario base price by 2 cents.

The Changes Made to the Ontario Cost of Production Formula (ONCOPF) Have Inflated the BC Live Price Under the BC Pricing Formula and Have Rendered the Guardrails Irrelevant

The financial balance between growers and processors changed significantly when the changes to the ONCOPF were introduced in A-169 and 100% these benefits were passed along to BC growers and entrenched in the BC live price formula. The guardrails in the current BC live pricing formula that were

originally put in place to balance grower returns and processor competitiveness were rendered obsolete at that time.

The impact of ONCOPF changes was outlined by PPPABC to the PPAC in its April 12, 2021 correspondence. Instead of acknowledging and attempting to modify the live price formula to balance the impact between growers and processors, the Chicken Board directed all of the ONCOPF benefits to BC growers. The Prior Approval Request includes as part of its rationale that, "The Guardrails have been exceeded in every period since A-169." This is not a surprise and what the Chicken Board fails to acknowledge is that the changes to the ONCOPF, which provided significant improvements to BC grower returns, is the main reason why the guardrails are continuously exceeded.

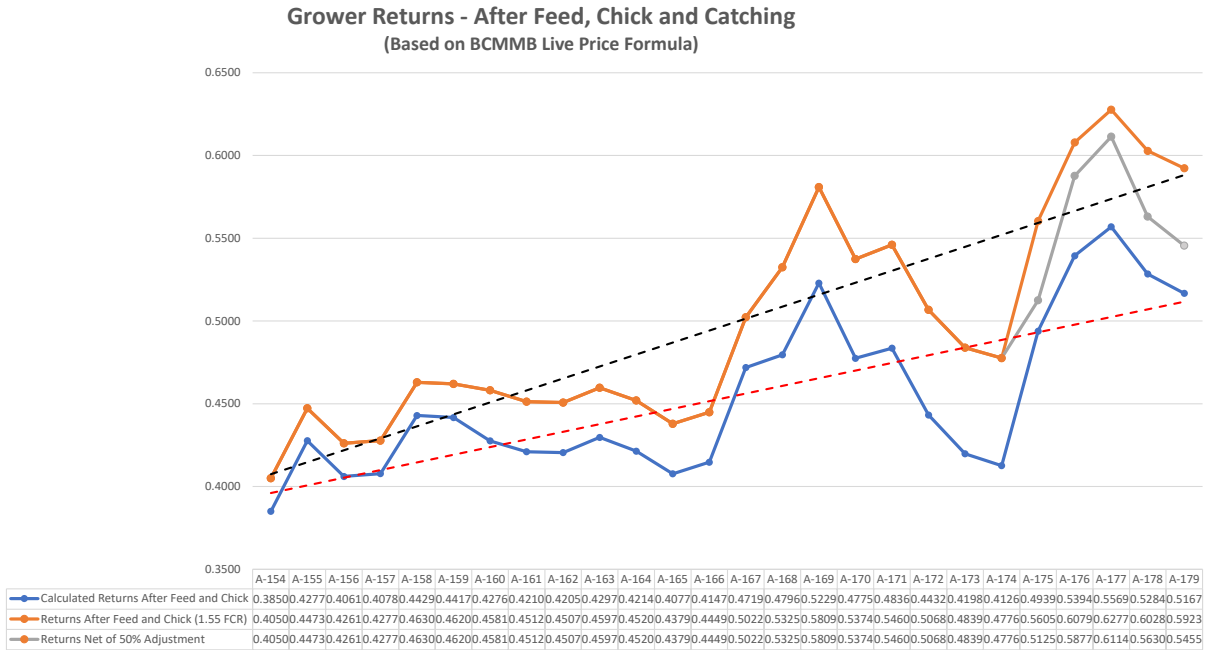
The Chicken Board by passing along to the growers all the improvements to the ONCOPF have complicated and convoluted the BC live price formula. It also means that the BC live price will always hit the upper guardrail even when the feed differential with Ontario normalizes. The ONCOPF updates have changed the financial circumstances of the parties to the direct benefit of the Growers and, when combined with the Chicken Board's failure to define processor competitiveness and reasonable grower returns, has rendered the current guardrails meaningless.

The Analysis in the Chicken Board's Prior Approval Request Gives No Consideration to the Increases in BC Grower Returns Which Have Reached Record Levels

Using similar logic, the use of an outdated FCR in the Chicken Board's feed price calculation and the live price formula is understating the grower returns in Figures C and D of the Chicken Boards Prior Approval Request analysis. The higher BC live price and lower actual feed costs means that the actual grower returns realized from A-169 to date are 6 - 7 cents higher than what the Chicken Board has reported.

The increase in grower returns is shown below in Figure 6 with the blue line consistent with Figure C in the Chicken Board's Prior Approval Request analysis. This line shows the increasing trend in grower returns that were taking place even prior to the improvements realized from the changes in the ONCOPF. The orange line in Figure 4 shows actual grower returns using the BC FCR that is more representative of actual feed costs being experienced by BC growers. The gray line removes the "50% over the guardrail adjustment" in the current pricing formula from actual returns and shows that even without the feed commodity adjustments, BC growers are still realizing increasing record returns.

Figure 4



Also, it is also not clear why the Chicken Board has introduced Ontario grower margins in Figure C of their Prior Approval Request analysis as the BCFIRB has already pointed out in their A-174 – A-175 decision that Ontario margins are irrelevant.³

“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 margins are in serious decline..... 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.”

Critically and much more concerning, is the fact that BC grower returns after feed, chick and catching as shown in Figure 4 are not in serious decline but are continuing on an increasing trend despite the fact that the Chicken Board has still not defined a reasonable return for growers as per the Supervisory Review Terms of Reference. All these increases in grower returns have come at the expense of BC processor’s who are forced to absorb the highest live prices in the country.

Processor Competitiveness Has Not Been Factored Into The Chicken Board’s Analysis of Their Prior Approval Request and if Approved Will Entrench BC Processors as the Least Competitive in the Country

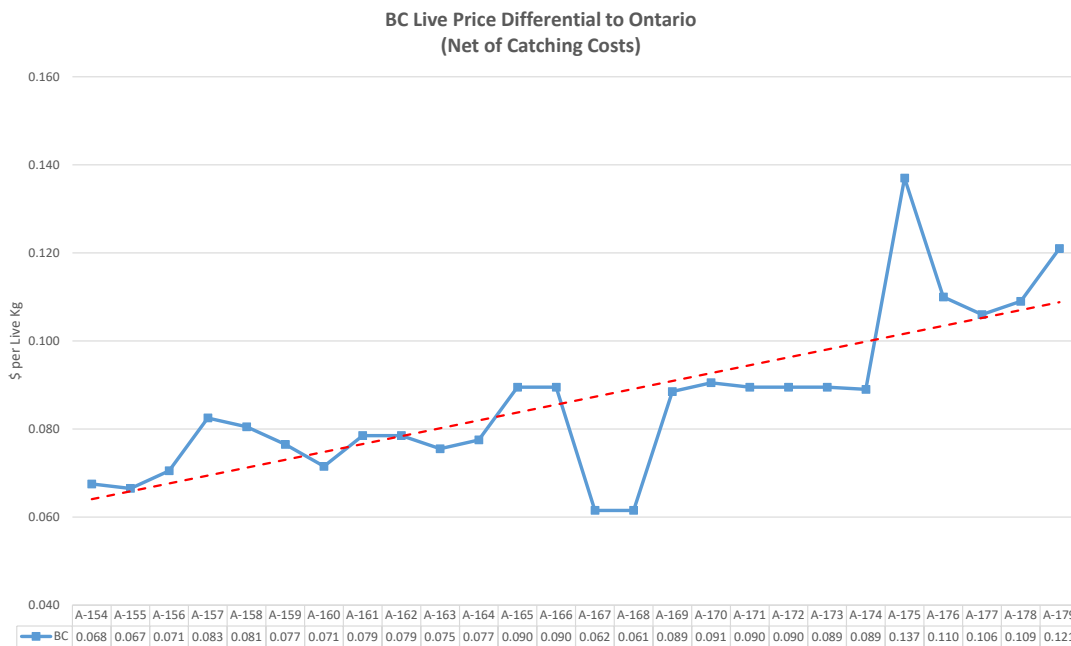
In the Prior Approval Request, the Chicken Board has not provided any analysis or given any consideration to the competitive position of BC Processors. The Chicken Board has not effectively defined or quantified processor competitiveness through the supervisory review process, and not surprisingly their Prior

³ BCFIRB Decision – BC Chicken Marketing Board Interim Pricing Formula A-174 Interim Prior Approval

Approval Request is silent on the impact that the formula will have on BC processors for A-180 and beyond.

Figure 5 shows that the BC live price differential with Ontario has continued with an increasing trajectory and in fact has doubled since A-154. BC processor competitiveness has deteriorated over the past number of years making BC processors the least competitive in Canada. In fact, processor competitiveness would have been worse in A-179 if the Ontario weight category used in the BC live pricing formula had not been reduced. Going forward, the Chicken Board’s Prior Approval Request and interim formula proposal will ensure BC processors remain the least competitive in the country.

Figure 5



BC Processors compete in a national marketplace that is becoming more competitive and price sensitive and now Ukrainian imports pose a significant threat to the industry. BC processors are struggling to pass along all the cost increases we have had to endure the past few years. Specifically, we are struggling to pass along the live price increases in BC that are substantially higher than most of Canada. What is particularly concerning is how processors explain to customers why live prices in BC have increased, while they have decreased 5.7 – 7.4 cents in other provinces and why our live differential with Ontario is now 13.5 cents.

The Chicken Board has failed throughout the supervisory review process to effectively define processor competitiveness and reasonable grower returns. The Chicken Board’s latest Prior Approval Request continues to ignore the BCFIRB’s requirement that it be demonstrated that processor competitiveness is considered in pricing recommendations.⁴

“Before making any future recommendations to amend the interim pricing formula, the Chicken Board must clearly demonstrate that it considered processor competitiveness in detail beyond

⁴ BCFIRB Decision – BC Chicken Marketing Board Interim Pricing Formula A-174 Interim Prior Approval

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.”

The PPPABC does not understand how the Chicken Board can conclude that their Prior Approval Request, “balances the interests and concerns of all stakeholders” when they have not provided any analysis to determine the impact of the formula on processor competitiveness.

The Interim Formula Must Address the Substantial Weakening of BC Processors Competitive Position Within the Country

The Chicken Board’s failure to effectively define processor competitiveness and reasonable returns to growers continues to result in recommendations that are not assessed against agreed upon criteria. If the Chicken Board’s Prior Approval Request is approved, it would crystallize all the benefits growers have received through the ONCOPF and the outdated FCR into the interim formula which would reduce the competitiveness of BC processors for an indefinite period of time.

The PPPABC is of the position that the supervisory review has languished for way too long and as a result the pricing formula has become convoluted and is in no way balancing grower returns with processor competitiveness. The pricing formula is broken, and the Chicken Board is trying to amend it through a flawed analysis using inaccurate data. This is completely ineffective and over the course of the supervisory review has cost processors millions of dollars in excess live bird costs and has now made BC processors the least competitive in Canada.

The PPPABC recommends that the Chicken Board adopt a simpler approach to the interim pricing model by introducing a live price formula that is a fixed differential over the ONCOPF and recognizes the current FCR for BC.

A fixed differential pricing formula has worked effectively in the past, it is easy to administer, and based on our analysis, provides increased returns to growers, AND also provides processors with a more competitive live price. Using the fixed price differential as the interim formula will also allow the stakeholders the opportunity to assess the impact and value of a fixed differential approach over several production cycles.

Figure 6 below outlines the impact that a 5-cent fixed differential pricing model would have on grower returns. This table shows that under this fixed differential pricing model, growers from A-176 forward would be realizing returns in excess of 50 cents after feed, chick and catching. Even with the wheat-corn imbalance, as shown in Appendix D, average grower returns for A-169 – A-179 would have been \$0.4869 per kg after feed, chick and catching. This compares to average returns of \$0.427 between A-154 and A-168 or an 14.0% increase.

The PPPABC has collected FCR information from its corporate farms which show the current weighted average FCR is 1.558 for the six periods up to and including A-177. It is recognized that corporate farms do not perform as well as owner/operator facilities and there was no adjustment to choose only “efficient farms.” As such the PPPABC believes and recommends that a 1.55 FCR be used as a reliable number for current BC farms.

Figure 6

BC Pricing - Fixed Differential		A-176	A-177	A-178	A-179
Net ON Price		1.9827	2.0525	2.0855	2.0865
plus: Fixed Differential	0.050	0.050	0.050	0.050	0.050
plus: Catching Costs		0.0400	0.0400	0.0400	0.0400
BC Fixed Differential Calculated Price (2.15 - 2.45 kg)		2.073	2.143	2.176	2.177
Actual BC Posted Live Price		2.152	2.218	2.254	2.262
Grower Return Impact - FCR = 1.65		A-176	A-177	A-178	A-179
BC Fixed Differential Calculated Price (2.15 - 2.45 kg)		2.0730	2.1430	2.1760	2.1770
less: Catching Costs		0.0400	0.0400	0.0400	0.0400
less: BC Chick Cost / Live Kg		0.4424	0.4534	0.4534	0.4534
BC Feed Costs per Tonne		684.97	707.52	744.24	756.06
less: BC Feed Cost / Live Kg	1.55	1.0617	1.0966	1.1536	1.1719
Fixed Differential Grower Returns		0.5289	0.5530	0.5290	0.5117

The Chicken Board is aware that feed companies have accurate and verifiable FCR data by production cycle that can be consolidated and used in the formula. It should be their responsibility, as the governing body to obtain recent, accurate data for use in the formula.

It should also be recognized that the ONCOPF will undergo additional increases and updates in January 2023. The PPPABC has been advised that the changes will result in an increase of approximately \$0.03/kg (net) price improvement that will flow entirely to the growers under the fixed differential live price formula

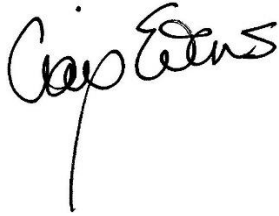
Stakeholders in the BC industry need to acknowledge that the new ONCOPF has fundamentally shifted the live price dynamics in the industry and is providing growers across Canada significant protection against the inflationary factors in their cost base. Unfortunately, the way in which the Chicken Board has incorporated these changes in the live price has not only resulted in protection for BC growers, but is also providing them with record returns, at the expense of the competitiveness of BC processors.

The PPPABC believes that, in the interim, this is a more effective pricing formula (which treats stakeholders more fairly until the Supervisory Review is complete) than what the Chicken Board has proposed. Also, while the PPPABC understands that the wheat-corn imbalance did have an impact on live price and grower returns for a few cycles, however the largest impact of this anomaly was felt by BC processors. BC processors have had to try to pass these large cost increases onto the marketplace while processors in other provinces have not been faced with the same challenges. Given the current situation, a wheat-corn imbalance should not be the driver for the interim pricing formula. The BC industry must return to a live price formula that allows its processors to be competitive within the national system. A continuation of the current formula does not allow this to happen.

The PPPABC would support this interim formula as it balances processor competitiveness with grower returns and it is based on actual verifiable FCR data.

We look forward to your response and will avail ourselves to discuss further at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Craig Evans". The signature is written in a cursive style with a prominent vertical line extending downwards from the end of the name.

Craig Evans
Executive Director
Primary Poultry Processors of BC

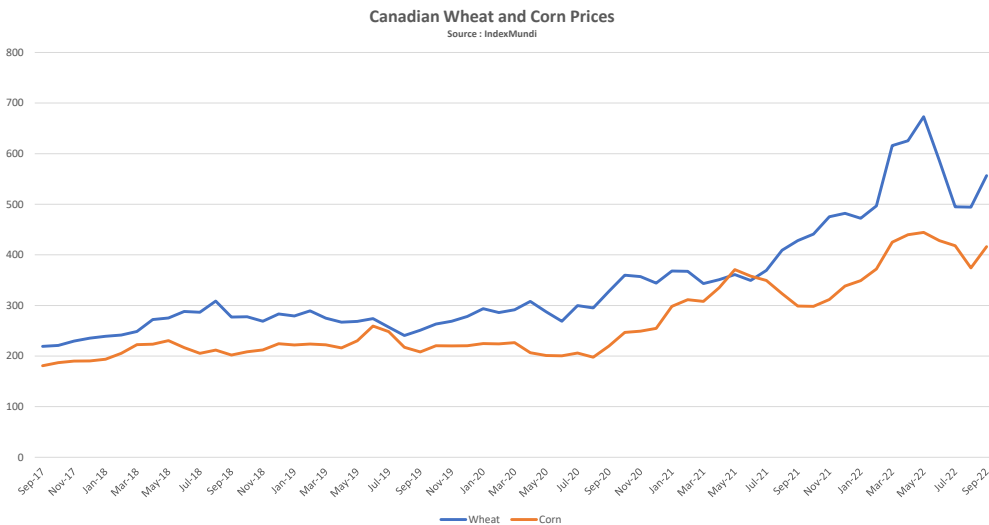
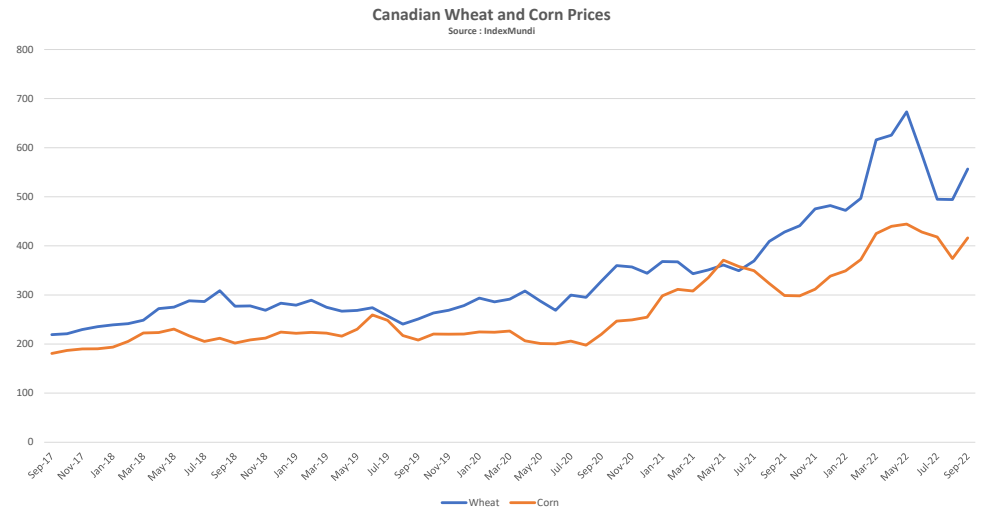
c. Harvey Sasaki – BCCMB
Jim Collins – BCBHEC
Wendy Holm – BCFIRB Liaison
PPPABC Membership

Appendix A – Impact of Outdated FCR on BC Live Price

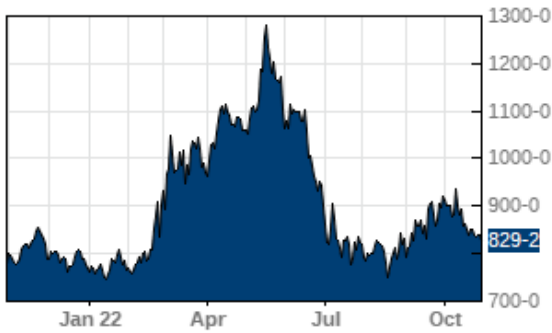
The chart below analyzes the impact on BC live price by using a theoretical as opposed to actual FCR. The theoretical FCR is increasing the BC live price by an average of almost 5 cents per kg.

FCR	A-168	A-169	A-170	A-171	A-172	A-173	A-174	A-175	A-176	A-177	A-178	A-179	Avg
BCCMB 1.65	0.0072	0.1257	0.1609	0.1626	0.2138	0.2458	0.2714	0.2502	0.1756	0.1544	0.2209	0.2424	0.2022
BC 1.55		0.0676	0.1010	0.1002	0.1502	0.1817	0.2064	0.1837	0.1072	0.0836	0.1465	0.1668	0.1359
Difference		0.0581	0.0599	0.0624	0.0636	0.0641	0.0650	0.0665	0.0684	0.0708	0.0744	0.0756	0.0662
Price Impact (75%)		0.0436	0.0449	0.0468	0.0477	0.0481	0.0487	0.0499	0.0513	0.0531	0.0558	0.0567	0.0497

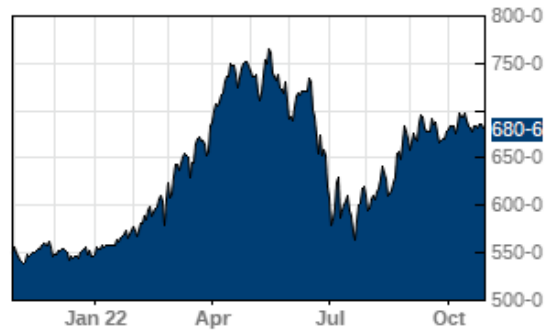
Appendix B – Wheat and Corn Pricing Data



FCC – Wheat Prices (CBOT)



FCC – Corn Prices (CBOT)



Macrotrends – Canadian Wheat Prices



Macrotrends – Canadian Corn Prices



Appendix C – BC and Ontario Feed Price Reference Periods

	Date W/E	ON Feed	BC Feed
A-177	1 09-Jul-22	0.63042	
	2 16-Jul-22	0.60946	
	3 23-Jul-22	0.61125	
	4 30-Jul-22	0.60760	
	5 06-Aug-22	0.61438	
	6 13-Aug-22	0.60625	
	7 20-Aug-22	0.61149	
	8 27-Aug-22	0.61090	
A-178	1 03-Sep-22	0.62640	
	2 10-Sep-22	0.63041	
	3 17-Sep-22	0.62937	
	4 24-Sep-22	0.63743	
	5 01-Oct-22	0.64470	
	6 08-Oct-22	0.62941	
	7 15-Oct-22	0.62325	
	8 22-Oct-22		
A-179	1 29-Oct-22		
	2 05-Nov-22		
	3 12-Nov-22		
	4 19-Nov-22		
	5 26-Nov-22		
	6 03-Dec-22		
	7 10-Dec-22		
	8 17-Dec-22		
A-180	1 24-Dec-22		
	2 31-Dec-22		
	3 07-Jan-23		
	4 14-Jan-23		
	5 21-Jan-23		
	6 28-Jan-23		
	7 04-Feb-23		
	8 11-Feb-23		

The BC and Ontario live price formulas use actual feed pricing from previous production cycles. The feed reference periods for the two provinces do not line up exactly in their live price formula calculations. The BC Formula uses the feed price from two cycles prior to the current price period while Ontario uses 4 weeks from two cycles prior and 4 weeks from the previous cycle.

As illustrated in this chart, the feed prices for A-179 are depicted in green and in BC are based on A-177 feed prices, July 9, 2022 – August 27, 2022, while in Ontario the feed reference period for A-179 is August 6, 2022 – September 24, 2022.

For A-180 feed prices in BC will be based A-178 feed prices while in Ontario the reference period will be October 1, 2022 – November 19, 2022.

Appendix D – BC Fixed Differential Pricing Model – Impact Analysis (A-169 – A-179)

The is table shows what grower returns would have been realized using a 5-cent fixed differential model for the A-169 – A-179 production cycles with no adjustment for the wheat-corn imbalance.

BC Pricing - Fixed Differential	A-169	A-170	A-171	A-172	A-173	A-174	A-175	A-176	A-177	A-178	A-179	
Net ON Price	1.8055	1.8035	1.8504	1.8205	1.7955	1.8025	1.8661	1.9827	2.0525	2.0855	2.0865	
plus: Fixed Differential	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	
plus: Catching Costs	0.0365	0.0365	0.0365	0.0365	0.0365	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400	
BC Fixed Differential Calculated Price (2.15 - 2.45 kg)	1.892	1.890	1.937	1.907	1.882	1.893	1.956	2.073	2.143	2.176	2.177	
Actual BC Posted Live Price	1.950	1.950	1.996	1.996	1.941	1.951	2.063	2.152	2.218	2.254	2.262	
Grower Return Impact - FCR = 1.65	A-169	A-170	A-171	A-172	A-173	A-174	A-175	A-176	A-177	A-178	A-179	
BC Fixed Differential Calculated Price (2.15 - 2.45 kg)	1.8920	1.8900	1.9370	1.9070	1.8820	1.8930	1.9560	2.0730	2.1430	2.1760	2.1770	
less: Catching Costs	0.0365	0.0365	0.0365	0.0365	0.0365	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400	
less: BC Chick Cost / Live Kg	0.4339	0.4474	0.4456	0.4373	0.4274	0.4261	0.4309	0.4424	0.4534	0.4534	0.4534	
BC Feed Costs per Tonne	579.82	599.15	624.42	635.76	640.79	649.88	665.70	684.97	707.52	744.24	756.06	
less: BC Feed Cost / Live Kg	1.55	0.8987	0.9287	0.9679	0.9854	0.9932	1.0073	1.0318	1.0617	1.0966	1.1536	1.1719
Fixed Differential Grower Returns	0.5229	0.4774	0.4870	0.4478	0.4249	0.4196	0.4533	0.5289	0.5530	0.5290	0.5117	Average 0.4869