



September 7, 2022

Mr. Peter Donkers
Chair, BC Farm Industry Review Board
firb@gov.bc.ca

Dear Mr. Donkers:

Re: BC Chicken Marketing Board Long-Term Pricing Process

The Primary Poultry Processors Association of BC (PPPABC) understands that the BC Farm Industry Review Board (BCFIRB) will be issuing its final written expectations and directions regarding the BC Chicken Marketing Board's (Chicken Board) March 4, 2022 long-term pricing development plan no later than September 2022. We further understand that the Supervisory Panel is not prepared to replace the Chicken Board's process or involve an independent third-party in the development process.

In advance of the BCFIRB providing their direction to the Chicken Board, the PPPABC wants to confirm its view on how the Pricing Review should proceed towards a reasonable conclusion.

Step 1 - the Chicken Board must return to the original terms of reference and establish the definitions and metrics by which "reasonable returns for growers" and "processor competitiveness" will be established.

Step 2 - Develop long-term pricing formula options that can be assessed against the definitions and metrics

Step 3 - Analyze the long-term pricing formula options against the definitions that have been established using the metrics that have been identified.

Step 4 - Recommend the long-term pricing formula based on the assessment of the options against the criteria.

PPPABC has stated on the record that it has lost confidence in the Chicken Board's ability to manage a fair, principled, and objective pricing process which recognizes the legitimate interests of BC processors as well as growers. These concerns are clearly demonstrated in the Chicken Board's August 15th and 17th correspondence to BCFIRB (see Appendix 1 & 2). In light of these concerns, PPPABC's position is that a structured process with more oversight is required. To that end PPPABC continues to advocate for an independent third party process to ensure a fair, objective and balanced outcome.

The Chicken Board's current process has several moving parts and has failed to conclude several key aspects of the Terms of Reference. For example, by failing to effectively define processor competitiveness and reasonable returns to growers, the Chicken Board cannot now effectively and objectively evaluate the different pricing options. The Chicken Board simply decided to pursue a Cost of Production or Cost Recovery Model without any analysis to show the impact on stakeholders or whether it would be effective for all parties. Without a clear definition of processor competitiveness, there is no objective way to understand the considerable risk the Cost Recovery Model presents to processors. Without measurably objective criteria, PPPABC does not have any confidence that the Chicken Board's process will fairly address and balance processor competitiveness with grower returns.

It should also be noted that the significant changes currently resulting from the Ontario Cost of Production Formula (ONCOPF) are capturing the majority increased costs being realized by BC growers. This is especially the case as feed differentials normalize and these improvements to the ONCOPF need to be considered when considering and evaluating pricing alternatives.

In summary, the PPPABC believes the pricing formula development process needs a "reset" with all parties re-committing to the original terms of reference. Given the significant and unabated challenges the Chicken Board has had managing the process to date we are again asking for clearly defined independent oversight be ordered as part of the process going forward. The PPPABC has always demonstrated good faith in its participation in this important industry process and wishes to continue to bring value to the pricing process, but to do this there must be:

- clearly defined outcomes;
- an adherence to a structured process;
- increased, independent and meaningful oversight; and
- strict milestones.

Finally, any pricing formula development process also needs to be transparent, objective, and fair with respect to evaluating of data and information—something we say has not been the case to date.

The PPPABC has made an honest and demonstrated effort of participating in the review process and it wishes to continue to do so as long as there is a commitment to a clear and structured process that fairly evaluates all of the possible pricing options against defined grower return and processor competitiveness measures.

As always, we will avail ourselves at your convenience to further discuss this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'B. Shier', written in a cursive style.

Blair Shier
President
Primary Poultry Processors Association of BC

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

Appendix 1 – Processor Competitiveness Measures Presented to the Chicken Board (Excerpts from February 17, 2021 Presentation to the Chicken Board)

The BC Chicken Marketing Board (Chicken Board) maintains in their August 15, 2022 letter to the BC Farm Industry Review Board (BCFIRB) that, “We have not received suggested measures for processor competitiveness from stakeholders to date that pertain to the definition agreed to in the Pricing Review Process, “The ability to profitably and sustainably maintain or enhance market share”.” This is incorrect and further demonstrates that the Chicken Board is not adequately reviewing and adjudicating the material presented to them.

The PPPABC agreed in principle to the processor competitiveness definition as a “placeholder” to keep the supervisory review process moving forward and indicated they would come back to the Chicken Board with a recommendation on appropriate measures. This is exactly what the PPPABC presented to the Chicken Board in their February 17, 2021 presentation on processor competitiveness. In their presentation, the PPPABC considered and evaluated alternative competitiveness measures and concluded that live bird cost was the best measure to support the definition. There was no response from the Chicken Board on these measures, and it is misleading for them now to state that they have not received any suggested measures.

Understanding the Facts

As we mentioned in that presentation, to properly frame processor competitiveness, it is important that the BC Chicken Marketing Board accept the following facts:

- BC is a net importer of chicken from other provinces;
- Chicken is a commodity and suppliers can be easily switched out by customers;
- BC processors operate and must be able to compete nationally;
- BC processors are at a cost disadvantage to central Canada processors;
- Live bird and labour are the processors’ largest cost items – approximately 75% of total cost;
- The fact that Ontario and Quebec, with the majority of production, set the primary and further processing wholesale pricing across the country is significant”¹.

Competitiveness Conclusions

1. Poultry is in essence a commodity market and to effectively compete, BC processors need to be cost competitive with their Central Canada counterparts.
2. Processors in Central Canada have labour cost advantages, they also have advantages based on TRQ and fowl access as well as advantages based on the size and scale of their operations.
3. Given that live chicken makes up more than 65% of Processors costs it is imperative that BC Processors have access to competitively priced raw material.

¹ British Columbia Farm Industry Review Board, In the matter of the Natural Products Marketing (BC) Act and a Supervisory Review of BC Chicken Marketing Board Pricing-Related Recommendations, Decision, June 9, 2010, p.6

Processor Competitiveness Measures Considered and Evaluated

Metrics which measure “the ability to profitably and sustainably maintain or enhance market share” need to be assessed against certain criteria. Specifically, data needs to be:

- Meaningful and representative
- Transparent and clearly understood
- Readily available and robust for updating

The PPPABC considered and presented to the Chicken Board a variety of metrics that measure “the ability to profitably and sustainably maintain or enhance processor market share” including:

1. Live bird cost comparisons - are the most transparent cost element that makes up over 65% of a processor’s total costs.
2. Labour comparisons – the other most significant cost element is extremely challenging to compare between provinces given the different product mixes, automation, and use of third tier processors in Central Canada
3. Revenue and/or margin comparisons – this data is not available due to legal and competitive sensitivities
4. Market share – given that we operate in supply management, market share is production based and there is no sales-based market share data available.

The Chicken Board has steadily focused on revenue and margin comparisons between processors as the metric for processor competitiveness. As we have discussed on several occasions, processor revenue and margin data are not readily available and collecting this data is simply not feasible. The sharing of revenue and margin data also has legal and competitive implications and is far more sensitive than cost benchmarking. Agri-Stats does not provide comparisons on revenue, Nielsen price data has been shown to be not representative of selling prices, and commodity wholesale pricing does not exist in western Canada.

Recommendation

Live bird is the processors largest cost item and is the most reliable and transparent metric available to support processor competitiveness. Live bird cost is therefore recommended by BC Processors as the best metric to be used to measure competitiveness with processors in Central Canada.

Appendix 2 – PPPABC Review of Inaccuracies in BCCMB Correspondence to BCFIRB on Long-Term Formula Development dated August 17, 2022

| BCCMB Statement | PPPABC Response |
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| <p>The Chicken Board is also confused with the PPPABC closing statement that they “will participate with an observer only and under protest”. The Chicken Board is interested in receipt of the Panel’s interpretation and response to this statement.</p> | <p>It was the Chicken Board who invited the PPPABC Executive Director to be an observer. “Under Protest” simply means we do not agree with the process. It is more relevant to understand what the Chicken Board’s interpretation is of an Observer.</p> |
| <p>HANDLING OF THE REVIEW PROCESS</p> | |
| <p>The Chicken Board also retained a third party to address the question of grower sustainability and assessment of the various models presented by the growers and PPPABC (Appendix B).</p> | <p>We never had the opportunity to review and discuss our model and material with the third party, Hugh Scolah, and had no idea the Chicken Board had engaged him which would have been beneficial to the process. Further, the Chicken Board did not understand much of the information and did not accept the facts as we had presented them. We believe, if we had been given the chance to properly convey the information we prepared, and the model itself, directly to Mr. Scolah, that his findings and conclusions regarding our model would have been far different.</p> |
| <p>The PPPABC has throughout the process gone to the Review Panel with their specific process concerns and bypassed the Chicken Board.</p> | <p>PPPABC held numerous discussions with the Chicken Board and sent a letter to the Chicken Board on March 29, 2021 and again on August 5, 2022 outlining concerns with the process, how our data was being incorrectly interpreted, and the Chicken Board’s reluctance to conclude on assumptions. The Chicken Board chose to not adequately respond to our concerns, forcing us to escalate matters to BCFIRB.</p> |
| <p>In our meeting with PPPABC on July 27, 2022, we asked the PPPABC if they would share their concerns and position that they had presented to the Review Panel with the Chicken Board to see if there was some ability to resolve issues to enable their participation in the Cost Recovery Model Committee.</p> | <p>The Chicken Board only asked if would be willing to share our discussions with BCFIRB from the previous day (nothing with respect to resolving issues). We indicated at this point that we would not be participating in the CRM meeting given that the Chicken Board has arrived at a methodology without meeting the TOR and without acknowledging our in-depth presentations and materials.</p> |
| <p>To be clear, the TOR were created for the purpose of developing a long-term Pricing strategy and a model (pricing of live chicken) for use in the BC chicken industry. Those terms were met when the Board submitted its final proposal to FIRB in March of 2022 and will continue to be respected to the completion of the supervisory review.</p> | <p>The Chicken Board has been told repeatedly by the PPPABC and now BCFIRB that they have not met the TOR for the supervisory review. This has been demonstrated every period, given the Board is unable to quantify the effect of their continuing proposals on each of the respective parties: grower returns, processor competitiveness</p> |
| <p>The Chicken Board extensively consulted with PPPABC and considered proposals of up to seven different pricing models.</p> | <p>Our last meeting with the Board on pricing was November 2021. The Board has not met the TOR, the Board has not fairly adjudicated the extensive information provided to them by the PPPABC, and the Board has refused to engage with the PPPABC to further review and conclude on the PPPABC data. As such, the Board has not adequately ‘consulted’ with the PPPABC. They have merely accepted information from the Processors and attempted to build arguments around why it is not valid in order to support their predetermined and favored pricing methodology.</p> |

| BCCMB Statement | PPPABC Response |
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| Grant Thornton Information | |
| <p>In short, the Grant Thornton model was based on assumptions that were narrow in focus and did not contain a complete narrative which skewed the results and resulted in an incomplete conclusion</p> | <p>It is not clear what this statement even means and PPPABC was never provided the opportunity to review the model with Hugh Scolah. The assumptions were in fact well documented in the model and it is completely interactive, and assumptions easily changed or modified. In fact, we presented many different variations of the model to the Board. This statement by the Board demonstrates the disregard of the information provided by Processors, and the desire of the Board to build arguments around why the information is not valid.</p> |
| Agri-Stats Document | |
| <p>The data was helpful in demonstrating that many plants in the east are 'Kill Chill' plants while the Western processing sector have complete plants which measure output by the finished product not at the chill tank.</p> | <p>This statement is incorrect. The majority of plants in eastern Canada have similar set-ups to western Canada, there is however a large number of secondary processors that expand capacity for primary plants and utilize TRQ as raw material. Either way, the Agri-stats data clearly demonstrated that processors in Eastern Canada have a distinct cost advantage over BC Plants.</p> |
| <p>When you consider that dynamics of the industry in the west (i.e., proximity to farms and the market; Grier and Mussel) the difference expressed by Agri stats Data is offset by the advantages here in the west both in proximity and transport incentives.</p> | <p>First, there is no analysis provided here to support the allegation and the Grier and Mussel data is based on a 2018 model was updated with anecdotal information and "estimated" conditions for 2020. Second, and more importantly, Agri-Stats is based on actual processor financial data. The data clearly shows distinct cost advantages experienced by Eastern Processors vs. BC Processors.</p> |
| <p>In fact, there are reports prior to the more recent corn-wheat divergence, to the effect that BC processors have had landed chicken on the processor doorstep at an equal cost to eastern counterparts when including transportation costs and estimated premiums paid to growers (FERENCE).</p> | <p>This allegation is incorrect. The Chicken Board has no reliable or verifiable data or calculations to support this allegation. The Agri-stats data showed a significant cost advantage experienced by eastern processors vs. BC processors in landed cost.</p> |
| Grower Returns | |
| <p>To be clear, the BCCMB has not withheld any information and the accusation is incorrect.</p> | <p>BCFIRB was not aware of the magnitude of the increases in grower returns after feed, chick, and catching despite the PPPABC providing this to the Board on multiple occasions.</p> |
| <p>The PPPABC claim that growers are making record returns yet refuse to acknowledge the increases costs that growers experience – increased 'revenue' to cover inflated costs does not equal increased returns or profits</p> | <p>There is recognition of operating cost increases in the ONCOPF and the Board has provided no reliable or verifiable evidence to show that operating costs are increasing faster than returns after feed chick and catching. If the Board had concluded on their TOR, they would be able to quantify the returns Growers are making after all costs. The Board has failed in this aspect. Either way, the current Serecon data shows record returns after feed, chick and catching.</p> |
| <p>It must be noted, record revenue when live price is at its highest level and production levels continue to increase is an obvious reality and the same can be said of any commodity both growing in volume and undergoing unprecedented inflationary pressures. Hence volume times price will yield "record" revenues, but growers are also faced with unprecedented record feed costs and inflationary cost pressures on nearly all inputs.</p> | <p>Returns after feed, chick and catching are at all-time highs. No verifiable or reliable data has been provided to indicate that returns after feed, chick and catching are not covering operating costs. It is good to see the Chicken Board realizing the impact of volume increases being realized by growers. As the Chicken Board points out volume is increasing revenue and is also reducing operating costs per kg with fixed and semi-fixed operating costs spread out over larger volumes. Again though, the Board has failed on the TOR and can provide only anecdotal arguments to suggest Growers are not making record returns, when the Serecon numbers show record returns after feed, chick, and catching.</p> |

| BCCMB Statement | PPPABC Response |
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| <p>The Board has never guaranteed that the Grower Cost Recovery Model will provide an increase or decrease to the BC Live price, its intention is to provide an accurate and fair live price.</p> | <p>Without defining reasonable returns and processor competitiveness, the Chicken Board will be unable to establish an accurate and fair live price. We are confident that the Board's process will not lead to a fair live price.</p> |
| <p>It should be noted in PPPABC's letter, they define 'processor competitiveness' as measured by the live price differential with Ontario net of catching, however, the Chicken Board has rejected the idea of a fixed differential.</p> | <p>The live price differential with Ontario is the competitiveness measure by which the impact of any pricing formula can be measured and evaluated. The Chicken Board rejected the fixed differential and other pricing formulas based on a flawed process. The Board should not be able to reject proposed pricing methodologies without first concluding on the TOR. Further the Chicken Board has recently stated that they want to keep BC processors competitive, with the implication that they have determined we are currently competitive. That is not the case. BC Processors are now the least competitive in the country.</p> |
| <p>It is disingenuous to assign the inflationary cost of broiler quota solely on independent chicken growers when 31% of quota transfers was for corporate farms in 2020, and a further 26% of quota transfers was for corporate farms in 2021.</p> | <p>The value of quota is related to the ability to cash flow the business / purchase. The better the cash flow then the better the ability to purchase quota. As demonstrated by these numbers, the majority of quota in 2020 and 2021 was purchased by independent growers. That demonstrates these quota market values are largely based expected farm cash flows</p> |
| <p>Processors Interests</p> | |
| <p>The PPPABC statement "significant concerns around how processor interests are being represented and the lack of objectivity of the BCCMB in the pricing review process" are completely unfounded.</p> | <p>As noted earlier, and on many occasions throughout this process, the Chicken Board has dismissed and marginalized processor information. This most recent response from the Chicken Board contains numerous inaccuracies and misrepresentations about our information. There is no objectivity when the adjudicating body refuses to acknowledge and understand the information submitted to it, and instead continues to misrepresent and mischaracterize it.</p> |
| <p>The fact that the PPPABC has failed to provide transparent and verifiable data other than live price and labour costs to represent processor competitiveness measures has not been helpful to the process.</p> | <p>This again demonstrates that the Board has not properly and fairly reviewed our information within this process;</p> <ol style="list-style-type: none"> 1) Live price and labour are by far the 2 largest processor cost factors and represent approximately 75% of processing costs. Processors presented third party information which demonstrates the significant advantage Ontario Processors have over BC Processors on the two largest processor cost factors, and yet somehow, the Chicken Board will not accept the premise that BC Processors are not competitive. As we have presented, live price differential with Ontario is the most reliable, verifiable, and repeatable measure of competitiveness. 2) PPPABC provided third party TRQ evidence, which confirms a huge advantage for Central Canadian Processors vs. BC Processors 3) PPPABC presented Agri-stats data which included the majority of cost categories of Processors. The evidence demonstrated that Ontario Processors held huge cost advantages over BC Processors. <p>For the Chicken Board to suggest we haven't provided transparent and verifiable data other than live price and labour is inaccurate. This comment, in addition to numerous others, clearly demonstrate the Chicken Board not fairly reviewing, understanding, and adjudicating BC processor data</p> |

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| The continued involvement of the Review Panel through the Review Liaison continues to provide stakeholders a mechanism to avoid engaging in the Chicken Review process. | The Chicken Board does not accept the BCFIRB involvement and wants free reign over the process. |