



March 23, 2022

Peter Donkers
Chair
BC Farm Industry Review Board

RE: BC Chicken Marketing Board Request for Prior Approval to Amend the Quota Period A-182 Mainstream Pricing Formula

The BC Chicken Marketing Board (Chicken Board) met on March 15, 2023, to assess the ongoing interim formula and the potential for a “floating guardrail trigger mechanism”. While recognizing the importance of the development of the long-term pricing COP model, the Chicken Board is of the view that this interim “floating guardrail trigger mechanism” to be in effect for A-182 and beyond is important in offering a fair short-term formula to stakeholders.

The Chicken Board requests that the BC Farm Industry Review Board (BCFIRB) Chicken Sector Pricing Review Panel (the Panel) review the attached submission to amend the interim pricing formula, effective for A-182 and for subsequent pricing periods until the long-term formula is approved. A-182 pricing will come into effect on April 9, 2023 and a Chicken Board pricing decision will be made on April 5, 2023 (early due to the Easter Holidays April 7-10, 2023).

It should be noted that the Chicken Board does not feel the elements of the request in the initial A-177 prior approval request have changed. The Panel is requested to review these same arguments in the initial A-177 submission (June 10, 2022) as well as additional information in November 18, 2022, and the January 24, 2023 submission, as the current chicken pricing landscape and cost pressures have not materially changed, and the same SAFETI principles apply. This submission has attempted to focus solely on the addition of the “floating guardrail trigger mechanism” rather than duplicate the rationale and content of previous submissions.

Prior Approval Request – Interim Formula for A-182 and going forward:

The Chicken Board is seeking prior approval from the Panel that the current live price formula for mainstream chicken which was in effect for quota period A-181 continue for A-182 going forwards with the addition of the “floating guardrail trigger mechanism”, until such time as a long-term pricing decision is rendered by BCFIRB. This proposal balances the benefits across the industry stakeholders and represents no change from the previous decision apart from the addition of the “floating guardrail trigger mechanism”.

The current formula (used in A-181) and with additional floating guardrail trigger 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.
- *The addition of a trigger mechanism to determine when 50% of the current formula costs exceeding the upper guardrail is appropriate to include in the interim pricing formula to account for the wheat-corn gap. The trigger will be a cost gap of \$115.23 between Ontario and BC feed costs per tonne. If the trigger threshold is not met, no adjustment will be made to the live weight price. If the trigger threshold is met, provisions to cover 50% of the formula costs exceeding the upper guardrail will be made.*
- *If above trigger mechanism met, A provision to cover 50% of the current formula costs exceeding the upper guardrail, after adjustment for the cumulative increase in Ontario grower margins arising from changes to the Ontario Cost of Production formula (COPF) starting in A-180. If the resulting number is negative, no adjustment will be made to the live weight price. (The upper guardrail is currently set at 12.84 cents/kg.)*

The specific methodology for reaching the figure of \$115.23 can be found in Appendix A & B. The figure is derived from calculating the feed costs per tonne between BC and Ontario and comparing the highest feed price gap over a 12-period span from A-157- to A-168. These periods took place before the historical change to the wheat-corn differential, and differential between Ontario and BC feed costs which took place around A-169 (April to June 2021). This change to the historical trends can be viewed in Appendix C, which will be discussed later in this letter.

Stakeholder Consultation

The Board received from W. Holm (former BCFIRB liaison) a document dated February 18, 2023 entitled “*Suggestions for the Implementation of a Trigger Mechanism to Determine When a Floating Upper Guardrail is Appropriate to Include in the Interim Pricing Formula for BC Mainstream Broiler Chicken*” (Appendix A & B).

On a parallel track the Board also gathered information illustrating feed wheat-corn prices from Agriculture Canada. The graph provides monthly data on landed feed and wheat prices in Chatham ON and Calgary AB (Appendix C). These prices do not include transportation costs or actual paid costs for BC or Ontario feed mills. Therefore, they would not illustrate landed costs for BC feed mills or BC growers but would show the relationship between commodity prices both historically and currently. The graph on appendix C shows a fairly consistent historical gap prior to 2021 in the feed differentials between wheat and corn, and Ontario vs Calgary pricing. Post April 2021, these gaps in pricing changed and varied significantly, with larger gap in the feed grain prices between Chatham Ontario and Calgary Alberta than was historically seen prior.

This material was shared with the Pricing and Production Advisory Committee (PPAC) on March 7th, and a PPAC meeting took place on March 13th via Zoom. The meeting was well attended, and the Chicken Board members participated, as observers, to hear the discussion. While discussion was healthy, PPAC



did not come to any agreement on the proposed trigger. Both processors and growers expressed support in principle of the methodology of the W. Holm proposal but raised concerns and felt they could not endorse as a recommendation. Processors questioned the methodology of feed price calculation, validity of feed conversion rates (FCR), and raised questions about how feed costs are calculated. Growers felt using an average or more statistically significant measure than the “highest feed cost” would be more appropriate. A further description of how feed costs are calculated by Serecon will be shared below.

The Board on March 15, 2023 reviewed the material that was discussed by the PPAC and the unedited draft PPAC minutes of March 13, 2023. The Board did receive direct unsolicited submissions from the BC Chicken Growers Association (BCCGA) (March 14/23 letter) and the Primary Poultry Processors Association of BC (PPPABC) (email of March 15/23) which were not copied to the other members of the PPAC or other industry stakeholders. Given these submissions were not shared and discussed at the PPAC, the Board did not take the submissions into account when making its decision on March 15th. The Board does recognize that verifying FCR and other feed related data is critical to long-term pricing.

Clarification on current FCR

The BC interim formula uses the following Feed Conversion rate (FCR):

- From A-135 to A-155 an FCR of 1.61 was used (2.13 kg bird)
- From A-156 to the present an FCR of 1.63 was used (2.21 kg bird)

Previous references to the FCR being 1.65 were unfortunately inaccurate. Actual feed conversion ratio being used is the weighted average of 1.63, not the simple average of 1.65. It has been confirmed by the independent third party (Serecon), in the past it was incorrectly reported at the simple average of 1.65 but the weighted average of 1.63 has been in effect in the formula since A-156.

The Board contracted Serecon to update the BC COP results for 2015, and a further update based on 2018 data (presented in 2019). The FCR change from 1.61 (based on 2.13 kg bird average) to an FCR of 1.63 (based on a 2.21 kg bird average) took place after the 2019 COP update.

Clarification on Feed Cost Data Methodology

Through the PPAC consultation, stakeholders were not clear how the existing formula collects and updates feed cost data, so a brief explanation is below.

Data for a base BC COP was collected for the 2015 COP. During this data collection, Serecon collected data from the farms selected using their actual invoiced feed bills, their FCR, their mortality, etc. Parallel to this, Serecon confidentially receives posted feed prices from 4 BC feed mills for starter feed, finisher feed, etc. and develops a weighted average feed price. Data from the feed mills is shared with Serecon weekly and is compiled for every A-period. This process was redone for the 2019 COP. The 2019 base was reset, and our current feed costs have indexed from there.

In the BC formula, Serecon uses the actual on-farm data collected (2019) for feed costs per tonne as the base. Serecon then compares the actual on farm feed cost, to the average costs received by the feed mills. The actual on-farm feed costs serve as the base, and the feed cost is indexed forward every A-period by comparing to what the feed mills posted (as a percent increase or decrease to the base). This



gives the BC formula the most accurate feed costs net of any discounts on feed that growers may receive for loyalty, volume, etc.

It was noted and requested by some stakeholders to share and publicly post the feed costs received from the feed mills as an aggregate average. At this point, the feed mills have shared this data with Serecon confidentially and have not agreed to share this information publicly on an individual or collective basis due to the competitive nature of their business. This information is held by the independent third party (Serecon) and is not expressly shared with the Board.

Validation of Corn-Wheat differential

The Chicken Board, after consultation with PPAC made the decision to adopt Scenario #3 as per the W. Holm proposal of February 18, 2023. Recognizing that stakeholders still want comfort that the Corn-Wheat differential between BC and Ontario still exists, the Chicken Board will also continue to track the Ag Canada data showing the evolving changes in pricing and gaps between Ontario and Calgary grain costs (Appendix C). Currently, the data shows a significant change from the historical average gap between commodity prices. If the tracking of these commodity gaps differs significantly from what the BC feed cost data shows, the Board may re-evaluate if the floating guardrail trigger need adjustment. This data will be shared with members of the PPAC and updated for each pricing period that the interim pricing formula is in effect.

It should be noted the Board did ask PPAC, and did consider using the Ag Canada grain elevator prices as another option for the floating guardrail trigger mechanism. While the data is valuable, it was determined the data provided by Serecon is more relevant to actual feed costs, it is directly connected to the interim formula, and ultimately provides a simpler trigger mechanism.

Conclusion and Prior Approval Request

The Chicken Board has taken into consideration the input from the PPAC members for the A-182 and beyond prior approval request. 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-181 with the addition of the trigger to continue going forward until the long-term pricing decision is reached by BCFIRB. The same SAFETI process and consideration from the A-177 submission (June 10, 2022) applies to this submission. A-182 pricing will be set on April 5, 2023, therefore, the Chicken Board would request a decision prior to this date.

Lastly, the Chicken Board would like to reiterate that fundamentally the Board wishes to focus on the long-term formula. Requesting the Panel accept more than one period will allow the Chicken Board and stakeholders to focus on the development of the long-term formula. The Board also notes that while we are requesting the approval until the long-term pricing decision is rendered by BCFIRB, we would like to reserve the right to adjust the formula if new information arises from pricing committees, or from our continued consultations with PPPABC and BCCGA.

BRITISH COLUMBIA CHICKEN MARKETING BOARD



Kevin Klippenstein, Chair
BC Chicken Marketing Board

CC: PPAC
BCBHEC

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Suggestions for the Implementation of a Trigger Mechanism to Determine When a Floating Upper Guardrail is Appropriate to Include in the Interim Pricing Formula for BC Mainstream Broiler Chicken

Wendy Holm
February 18, 2023

History

The BC Interim Pricing Formula for Mainstream Broiler Chicken is based on

- a) the Ontario price/kg LW for 2.15 to 2.45 kg birds after deduction of three Ontario-specific costs (modular loading, AI Insurance recovery and OBHECC chick levy);
- b) 75 % of the difference in feed and chick costs between the two provinces; and
- c) catching costs of 4 ¢ (included in “posted price”, excluded when processors compare BC and ON LW prices as this amount is retained as a check off by BC processors/deducted from amount paid to growers for their birds).

The “formula price” is then potentially constrained by a “guardrail” mechanism that maintains the “posted price” differential between the two markets to a minimum of 10.05¢/kg and maximum of 12.84¢/kg.

When the price of BC’s wheat-based broiler rations began to increase in the fall of 2021 (as a result of drought in the Canadian Prairies and the conflict in Ukraine), the cost gap between BC wheat-based feed and Ontario corn-based feed began to widen. This widening gap pushed the BC formula price considerably above the upper guardrail, meaning BC growers could not recover these higher costs. Arguing the widening wheat/corn gap was an extraordinary circumstance, the BCCMB requested FIRB’s prior approval to allow the upper guardrail to “float” – allowing growers to recover 50% of over guardrail costs. In several decisions, FIRB approved CMB’s requested modification to the Interim Pricing Formula for BC Mainstream Chicken for allocation periods A-175 – A-181, along with (for some of the periods) an adjustment that first deducted any increase in ON grower margins (which would have flowed through to the BC price) before adding back 50% of over-guardrail formula costs.

The floating guardrail amendment to the BC pricing formula allowed growers to recover from the extraordinary gap in wheat/corn prices that began in 2021. But grain markets appear to be normalizing, which should result in a narrowing (normalization) of the feed cost gap between BC and Ontario. At issue is how to construct a trigger mechanism within the formula itself to include or not the floating guardrail provision based on an assessment of the normalcy of the wheat/corn gap.

In its February 7, 2023 Decision, BCFIRB provided reasons why the Panel felt a trigger mechanism was necessary:

34. The Chicken Board’s primary rationale for its recommended interim formula amendment is that while the wheat-corn price differential appears to be closing, the future is uncertain. As per previous submissions, its position is that once the wheat-corn differential normalizes, the provision to cover 50% of interim formula costs exceeding the upper guardrail would not be triggered because the upper guardrail would not be reached. Hence, the Chicken Board argues, the Panel should approve the 50% over the upper guardrail amendment because it would only be triggered if the wheat-corn differential continues to be extraordinary for A-181 and A-182.

35. The Panel disagrees with the Chicken Board’s analysis and conclusion. The BC live weight formula price has consistently exceeded (and therefore been capped by) the upper guardrail starting in period A-169 (April 2021). This occurred as a result of changes to the Ontario COPF in A-169 that had the effect of lowering Ontario feed costs, and hence widening the feed cost gap between BC and Ontario. It was only when the price gap between wheat and corn-based broiler rations began to increase above historic levels in the fall of 2021, that Chicken Board recommended the Panel amend the interim formula to reflect an extraordinary wheat-corn differential starting in A-174 (January 2022).

36. In the Panel’s view, it is reasonable to assume that if the 50% upper guardrail amendment remains in place, it is likely to be triggered in most, if not every, pricing period regardless of whether the wheat-corn differential is “extraordinary”.

In its February 7, 2023 Decision, BCFIRB directed the CMB to develop a trigger mechanism for the floating upper guardrail:

39. In the interests of enabling the Chicken Board, BCCGA and PPPABC to focus on developing a long-term pricing formula, the Panel finds development of an accountable “extraordinary wheat-corn differential” trigger for the provision to cover 50% of interim formula costs exceeding the upper guardrail is strategic and effective.

41. The Chicken Board is directed to work with the BCFIRB Pricing Liaison and in consultation with PPPABC and BCCGA to establish a wheat-corn price differential trigger for the provision set out in paragraph 38.

42. If the Panel is satisfied with the trigger, it is prepared to approve amending the interim pricing formula to include the provision in paragraph 38 for A-182 and for subsequent pricing periods until the long-term pricing formula is approved.

Proposed Methodology to Establish a Trigger Mechanism for the Floating Upper Guardrail

The task: To develop a readily applicable, reliable, replicable and reason-based metric (RARRR) to serve as a trigger mechanism within the pricing formula for BC mainstream broiler chicken that can be easily calculated by the CMB each A-period when setting mainstream chicken prices.

Source of Data: The best and easiest source of data is the current BC and Ontario feed costs provided by Serecon to the BCCMB prior to each allocation period. While wheat and corn commodity markets track changes in the relative prices of wheat and corn, complexities such as supply chain backlogs, storage stocks, pricing lags and market speculation would make any attempt to draw a comparison between feed grain prices and broiler ration prices highly unreliable.

Basis for the Trigger: Cost of feed per tonne (to get around FCR differences between BC and Ontario and between A-periods in ON). Trigger set at highest gap observed between wheat and corn-based broiler rations during “normal” feed grain markets - before the gap was dramatically widened by shortages in domestic and global wheat reserves. In each A-period, upper guardrail will float only when the trigger price is exceeded (indicating for the next 8 weeks BC growers will face higher than normal gap in feed costs over their Ontario counterparts)

Timelines for "Normal" : A-135 - A-168 (reflects "normal" wheat corn gap; removes period of rising wheat prices and exceptional wheat/corn gap). The time period has been divided into three scenarios (PPAC to recommend to CMB which should be used.)

- Scenario #1: 34 A-periods (A-134 to A-168)
- Scenario #2: 24 A-periods (A-145 to A-168)
- Scenario #3: 12 A-periods (A-157 to A-168)

FLOATING UPPER GUARDRAIL TRIGGER			
	Scenario 1	Scenario 2	Scenario 3
	\$ 135.02	\$ 122.74	\$ 115.23
A-169			
A-170			
A-171			
A-172		✓	✓
A-173	✓	✓	✓
A-174	✓	✓	✓
A-175	✓	✓	✓
A-176			
A-177			
A-178		✓	✓
A-179	✓	✓	✓
A-180	✓	✓	✓
A-181	✓	✓	✓

Identification of “trigger”: The highest feed cost in the time frame becomes trigger price. The attached spreadsheet details the above calculation. The insert to the right shows how the guardrail trigger would have been applied since A-169 across three scenarios (✓ indicates when floating upper guardrail would have been invoked/triggered).

Implementation Process by CMB Each A-period:

- A. Using Serecon feed price/kg for Ontario and BC, calculate cost/tonne in each province:
 - a. Divide cost/kg by 100 (to convert from cents to dollars)
 - b. Divide by provincial FCR (to determine feed cost/kg in each province)
 - c. Multiply by 1000 (to determine feed cost/tonne)
- B. Subtract cost of feed per tonne in Ontario from cost of feed/tonne in BC (to measure gap).
- C. Upper Guardrail Floats if gap in cost/tonne exceeds trigger price.

Scenario 1	\$ 135.02
Scenario 2	\$ 122.74
Scenario 3	\$ 115.23

Benefits of this Approach: Trigger is VERY simple to calculate each A-period based on data provided by Serecon.

APPENDIX C

Feed Corn vs. Feed Wheat Price
Source: Agriculture Canada Feed Grain Facts
<https://agriculture.canada.ca/en/sector/crops/feed-grain-facts>

