



April 17, 2023

Mr. Peter Donkers
Chair
BC Farm Industry Review Board

RE: BC Chicken Marketing Board Rationale for Prior Approval “Trigger Mechanism” for quota period A-182 Mainstream Pricing Formula.

The BC Chicken Marketing Board has been instructed by BCFIRB to elaborate on its rationale for selecting Scenario #3 (\$115.23 floating guardrail trigger value) for inclusion in the Mainstream Pricing Formula, effective A-182 and going forward.

As there was no agreement at the PPAC on the proposed trigger, on March 15, 2023 the Board discussed the three scenarios provided by W. Holm (BCFIRB member), as well as using wheat-corn differences between the Calgary Alberta and the Chatham Ontario prices published by Agriculture and Agri-food Canada. The scenarios were looked at through the SAFETI lens and the Board found scenario #3 to most meet the criteria of being strategic, accountable, fair, effective, transparent, and inclusive. The Board made the decision to use Scenario #3 after fulsome discussion. The rationale for this decision was based on the following factors:

- The Board recognized that there were too many changes to the pricing formula both in BC and Ontario to warrant using data averaged from over the past 5+ years, especially when in A-135 the price was still being determined on a multi period pricing agreement of the PPAC using a BCFIRB formula of the weighted average of Ontario, the Prairie Provinces, plus a differential of 4.35 cents up to 4.85 cents and 5.771 cents. Up to this point there were no guard rails established for the live price of mainstream chicken, which were first put in place in A-146.
- An updated BCCMB pricing formula (50% of the cost differential of feed and chick between BC and Ontario) was not utilized until **A-144**. Guardrails were not used until **A-146**, after the Sept 8/17 mediation. The 50% formula remained in place until **A-150**, when the formula was increased to 75% of the cost differential of feed and chick between BC and Ontario.
- Due to the above two bullets, the Board felt the live pricing formula was materially different when going back 34 or 24 periods as in scenarios #1 & #2. Those historic prices were based on negotiation and did not include guardrails.
- The new and updated Ontario COPF was used in **A-169** which coincided with the change to the historical gap in east-west corn and wheat differential. The Board felt that this better reflected the current state of affairs in the BC chicken industry and was of the consensus that the 12 periods denoted in scenario #3 was the most appropriate trigger.



- In addition to using a trigger arising from the current pricing formula, the Board required a solution that was readily available, transparent, and easily replicable each A-period. Basing the trigger on information already supplied by an independent third party and used in the current pricing formula was important to prevent an overly complicated methodology.
- The BC live price captures 75% of the difference in feed and chick costs compared to Ontario, up to the guardrail. Beyond the guardrail, the live price captures 50% of feed and chick costs exceeding the guardrail if the trigger is met. The Board, through many iterations of the interim pricing formula, has balanced the interest of stakeholders. The trigger at a feed cost differential of \$115.23 balances the interest of stakeholders through the live price, ensuring growers are fairly compensated when grain prices continue to breach historical norms while also still providing a guardrail which slows the live price differential between Ontario and BC.
- The PPAC did agree, as per the PPAC minutes, that there are other ways to establish a trigger rather than looking at 34 period maximum. The Board considered this feedback when making the decision to use a lesser time period to develop the trigger.
- The decision to use 12 periods over 24 or 34 periods actually reduces volatility by not capturing one-time anomalies. It was suggested at the PPAC that heat domes, rail car issues, transportation costs etc. all impact costs and could have caused one period spikes or valleys. Choosing 12 periods does not eliminate this potential, but it eliminates using the highest anomaly of record to set a trigger.
- In addition, the Board continues to track Agriculture and Agri-Food Canada's Feed Grain Facts data on feed corn versus feed wheat (Calgary Alberta and Chatham Ontario). If the Agriculture and Agri-Food Canada data contradicts what is presented by Serecon, the Board would potentially review the effectiveness of the trigger. This check and balance gives the Board confidence in monitoring the effectiveness of the trigger at \$115.23 and acting in the public interest.
- In previous interim formula requests, the Board made the argument that the provision for 50% of costs exceeding the upper guardrail would be in effect as long as the costs breached the guardrail. BCFIRB requested a trigger be put in place, and the Board canvassed the former BCFIRB Pricing Liaison, as well as PPAC, the PPPABC and BCCGA for options. The Board reviewed the options that came forward and ultimately made its SAFETI principles-based decision.

Pricing for A-182 shows the trigger calculation as follows:

Table A

Period	BC \$.kg	BCFCR	\$.MT	ONT \$/kg	ONT FCR	\$/Mt	Difference
A-182	1.2587	1.63	772.21	1.0062	1.6098	625.05	147.16



Table B

Scenario #1	Scenario #2	Scenario #3
34-A Periods	24-A Periods	12-A Periods
A-135 to A-168	A-145 to A-168	A-157 to A-168
Trigger \$135.02	Trigger \$122.74	Trigger \$115.23

Of note, in all scenarios brought forward the trigger would have been realized and the provision for 50% exceeding the upper guardrail would be used when setting the price in quota period A-182. The difference of 147.16 (Table A) would exceed all three scenarios in Table B.

In summary, this is the Board's SAFETI rationale for choosing scenario 3 as the triggering mechanism.

Strategic

While the BCCMB is prioritizing the development of a long-term pricing formula, a reliable interim formula is also sound marketing policy in that it provides a predictable mechanism, including with respect to a trigger mechanism, for setting the live chicken price.

Accountable

The Board is accountable for its decisions to the entire industry and must consider the impact of its decisions on other parties. In the interests of orderly marketing, scenario 3 provides a stable, accessible, and understandable mechanism with the minimum of confounding historical influences.

Fair

The means by which the BCCMB reached its decision was transparent and through the PPAC process, provided opportunity for stakeholders to provide feedback.

Effective

The trigger data is readily available, obtained from known historical sources over a reasonable timeframe selected so that it does not cause added burdens or delays in calculating it each period. Thus, it is a straightforward, efficient and effective tool.

Transparent

The data utilized in both the trigger and the East to West corn:wheat price differential are from established and reliable sources that are readily accessible by all stakeholders. They are readily accessible for use in the interim formula until such a time as the long-term pricing formula is in effect.

Inclusive

Affected stakeholders had opportunity to provide input. Stakeholder interests have been considered in the choosing of Option 3. All interests, including the public interest, are best served by a straightforward, transparent and stable trigger mechanism as part of interim pricing pending the finalization of a new approach to long-term pricing in the BC chicken sector.



In conclusion, the Board finds that scenario #3 of 12 A-periods (floating guardrail trigger of \$115.23) is the timeframe closest to reality while excluding the more recent phenomenon of high inflation and increases in grain costs beginning around A-169. Scenario #3 as presented represents a sound marketing policy approach to interim pricing by allowing for a straightforward and transparent reflection of current realities (apples to apples comparison). The Board reiterates that it is also sound marketing policy to prioritize a long-term pricing formula and will be proactively engaging with all stakeholders in a thorough examination of all aspects of BC chicken sector pricing to fulfill that objective.

BRITISH COLUMBIA CHICKEN MARKETING BOARD

Kevin Klippenstein
Chair

cc: PPAC
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