



January 24, 2022

Peter Donkers
Chair
BC Farm Industry Review Board

RE: BC Chicken Marketing Board Request for Prior Approval to Amend the Quota Period A-181 & A-182 Mainstream Pricing Formula

The BC Chicken Marketing Board (Chicken Board) met on January 23, 2023, to assess its pricing options in the short-term that could facilitate improved engagement with industry stakeholders in support of achieving a long-term pricing formula. While recognizing the importance of the former, the Chicken Board is of the view that focusing on the latter for Periods A-181 and A-182 should be the pricing priority for the industry.

The Chicken Board requests that the BC Farm Industry Review Board (BCC FIRB) Chicken Sector Pricing Review Panel (the Panel) review the attached submission to amend the interim pricing formula, effective for A-181 & A-182. A-181 pricing will come into effect on February 12th, 2023 and a Chicken Board pricing decision will be made on February 9th, 2023.

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 have changed. It 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 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 complement the previous submissions rather than duplicate the rationale and contains much of the same content.

Prior Approval Request – Interim Formula for A-181 & A-182

The Chicken Board is seeking prior approval from the Panel to maintain the current live price formula for mainstream chicken which was in effect for quota period A-180 to continue for period A-181 & A-182. This proposal balances the benefits across the industry stakeholders and represents no change from the previous decision of BC FIRB dated December 13, 2022.

The current formula (used in A-180) and proposed for the next two periods 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 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.)

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-180.

Figure A (below) - The BC versus Ontario feed differential from A-168 to A-180 continues to oscillate. The downward trend experienced from A-174 through A-177 has reversed direction and increased substantially in period A-178 through to A-180. It should be highlighted that only 75% of the difference in feed and chick costs is captured in this formula. A-180 feed price showed no material difference in the BC versus Ontario feed price differential compared to A-179.

Figure A

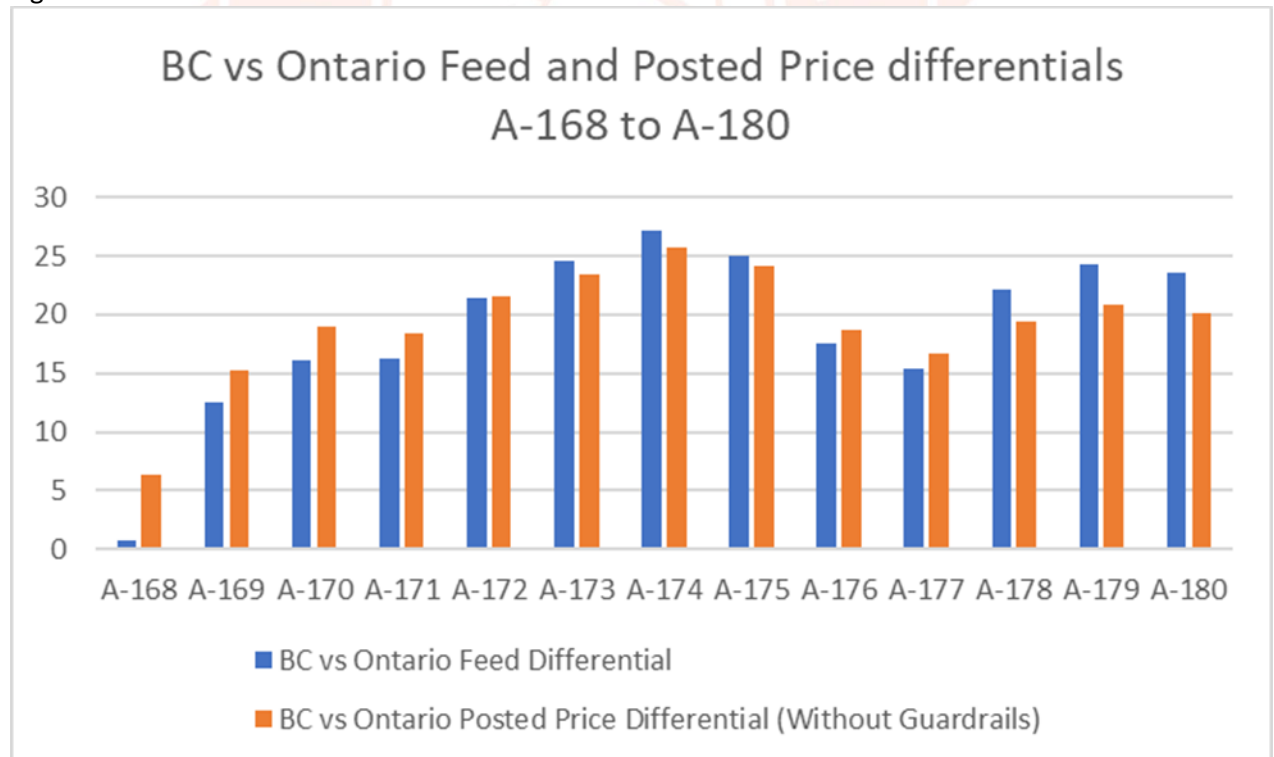




Figure B (below) - The BC live price with and without guardrails compared to the Ontario posted price (note the change in weight category for A-178) show that while the gap narrowed for several periods, it is again widening. The most up to date information for A-180 price has shown no change in the gap compared to the previous period.

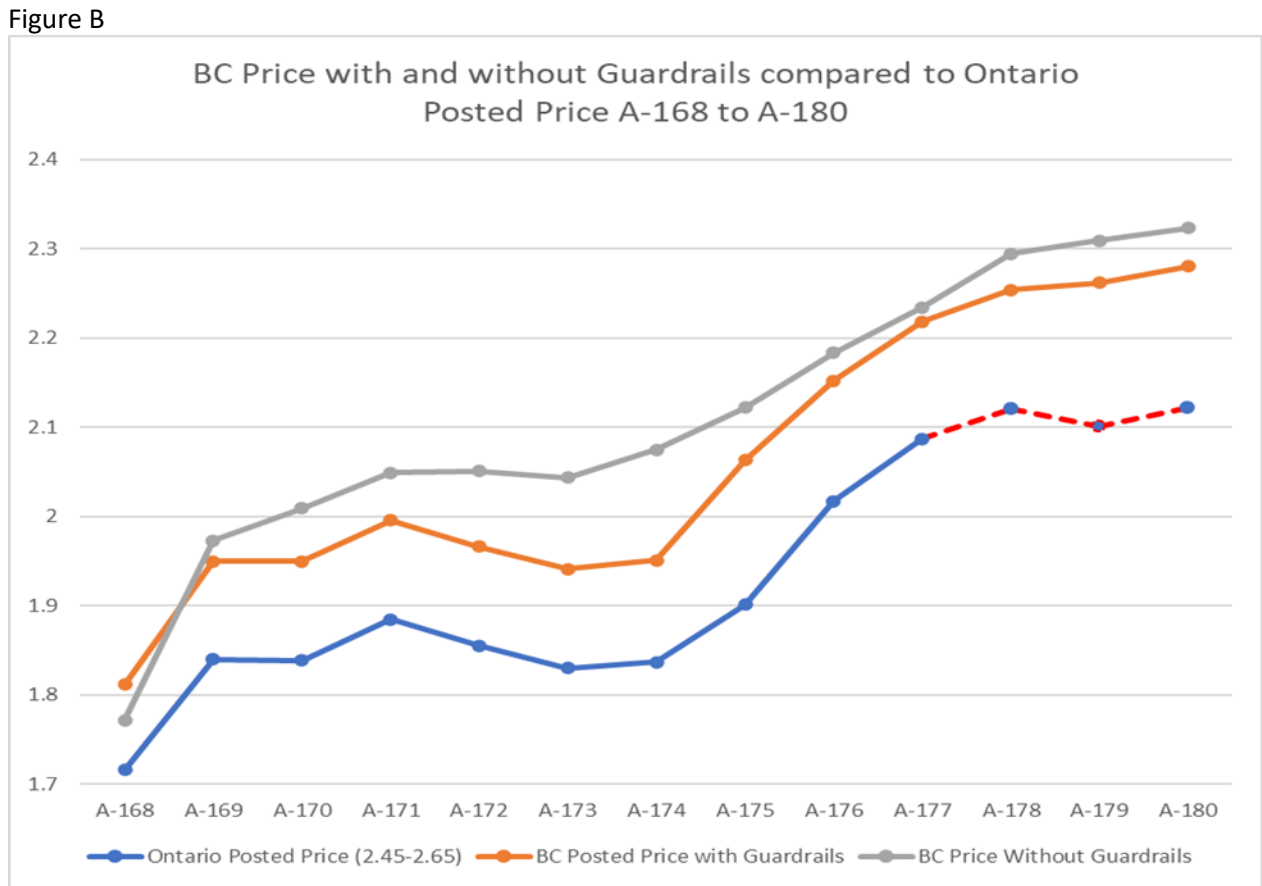


Figure C (below) – Shows the impact of the upper guardrail (\$0.1284/kg, inclusive of \$0.04/kg for catching costs) on the BC grower margin component. BC grower margin is defined as live price minus feed and chick costs. The “margin” is the return left to cover all other fixed and variable costs to produce a kg of chicken in BC. 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 v. 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 to A-180, 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

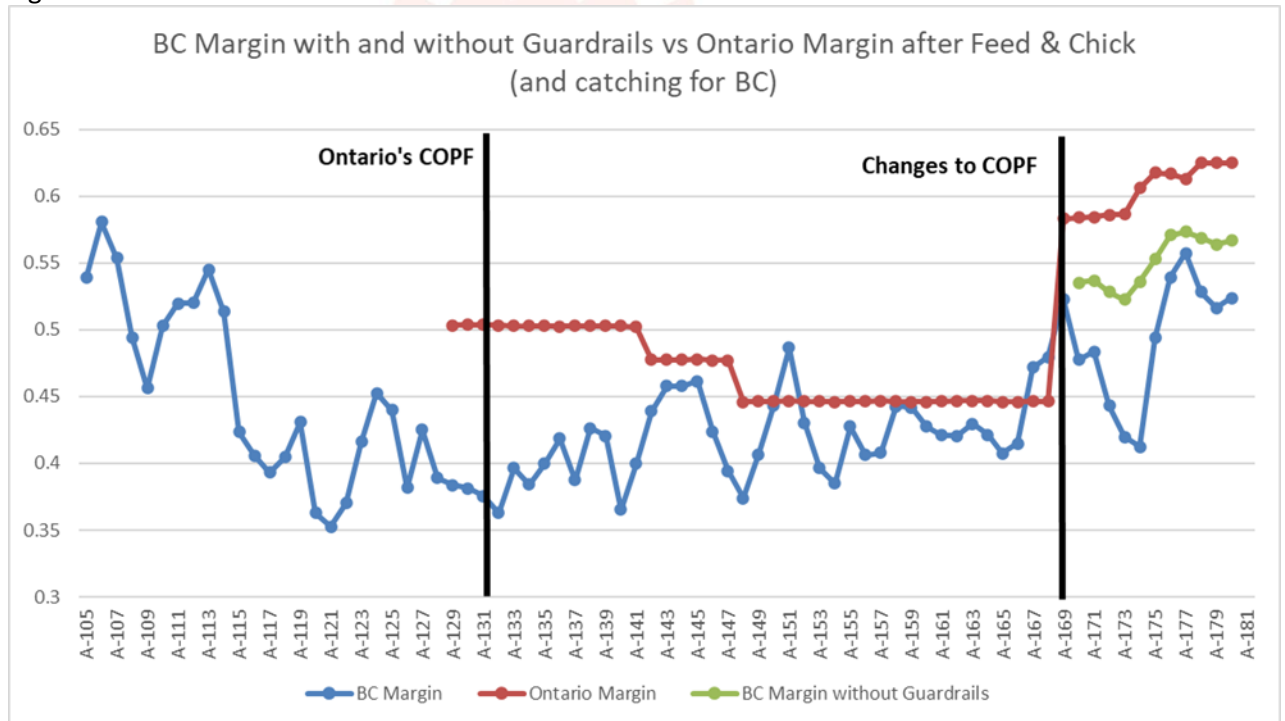
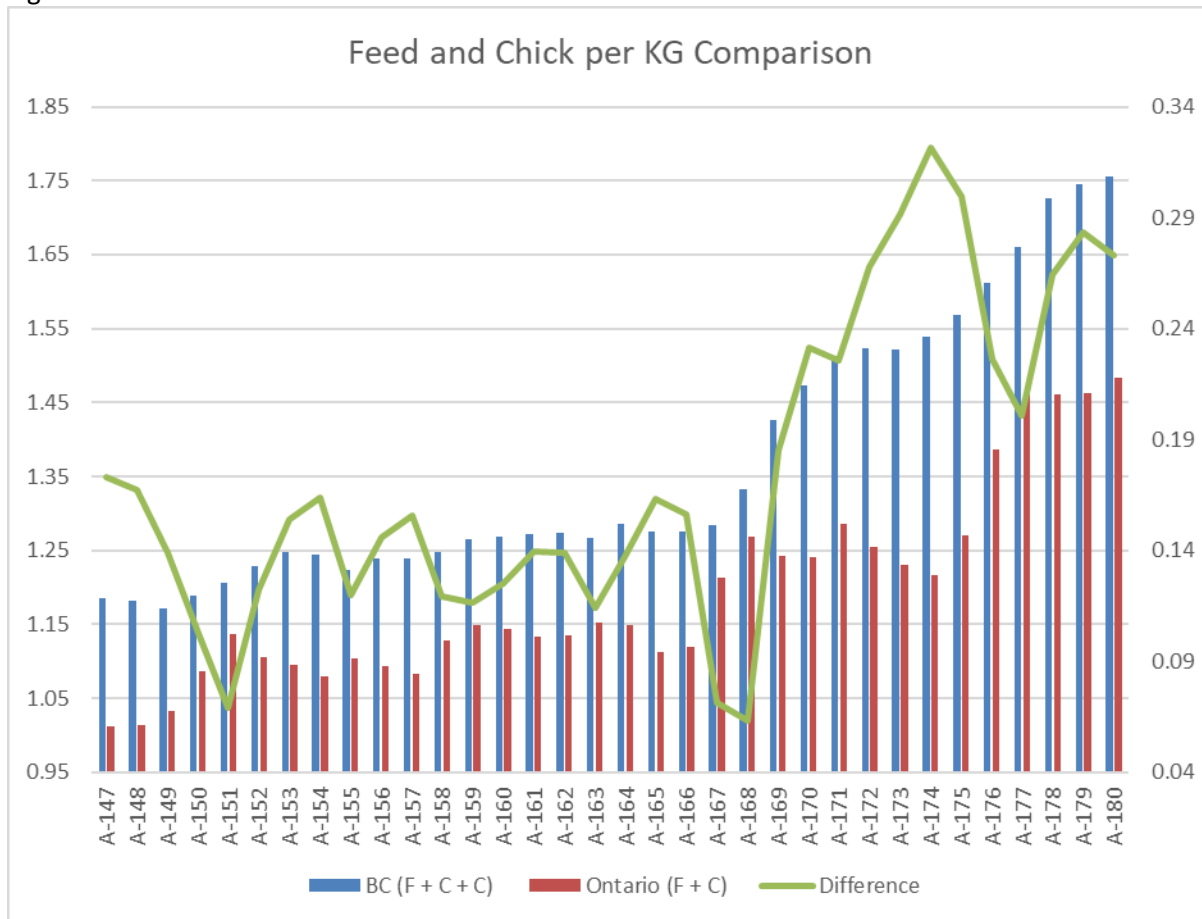


Figure D (below) – Similar to figure A, shows the difference in feed and chick per KG comparison between BC and Ontario. While there was a trend to close the gap in A-174 to A-177, this trend reversed starting in A-178. The Guardrails have been exceeded in every period since A-169. Please note BC (F+C+C)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



Figure D



Stakeholder Consultation – Previous and current Pricing and Production Advisory Committee (PPAC) Feedback

The Chicken Board requested feedback from the PPAC on the draft proposal to proceed with continuation of the current (A-180) interim formula for the two periods of A-181 and A-182. The Chicken Board had solicited for a PPAC meeting on January 20th if any further input can be gathered for the two periods being looked at. Both the BC Chicken Growers’ Association (BCCGA) and the Primary Poultry Processors Association of BC (PPPABC) elected to submit feedback in writing.

The Board will address a couple of items which have been raised by PPAC members as well as remind all stakeholders that only transparent and verifiable data can be used by the Chicken Board.

Feed Conversion Rate (FCR)

This has already fulsomely been addressed in the Chicken Board’s June 10, 2022, prior approval request and August 15, 2022 letter, as well as some additional information provided in the A-179 submission.



The Chicken Board does agree ‘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 for the long term. On-Farm data collection is complete (Serecon) and the Cost Recovery Model Committee (CRMC) will review the updated FCR for the Long-Term formula when finalized. Until this data collection is complete, the Chicken Board does not have verified, reliable, or transparent data on the current FCR. It should be noted that changing FCR will 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. While we appreciate the position of PPPABC and their potential sharing of corporate farm data on FCR, this data on its own will not be statistically significant nor useable in any pricing decisions.

The BCCGA comment on a January 19, 2023 presentation from Serecon, specifically on feed costs and feed conversion. The CRMC has seen an initial draft result on feed conversion rate (and feed) but this has not been reviewed by the Board, nor has Serecon confirmed these results as more than draft at this time. The Board will refrain from commenting or using these FCR’s at this time, noting that only the members of the CRMC were privy to the presentation. Similar to the proposal to use other FCR’s, the Board can only use verifiable and transparent data in our pricing formula.

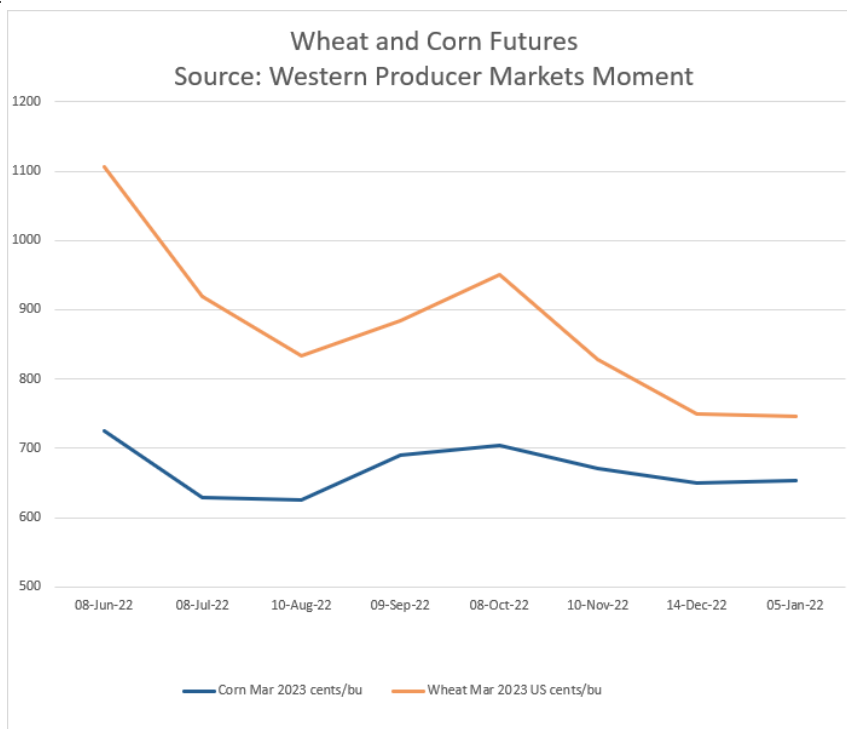
Wheat-Corn differential

The Chicken Board notes it there appears to be a positive trend with a closing of the gap in the wheat-corn differential (futures graph, figure E). However, we are cautious that this gap has yet closed. *Actual* feed prices in A-179 and A-180 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.

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 Chicken Board believes the guardrails 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. The Board recognizes that costs for all stakeholders, processors and growers alike, have seen dramatic increases over the last couple years. If the Ontario COPF rises, all prices across Canada rise and do not affect the differential. 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

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. The Board acknowledges this feedback submitted by BCCGA.

Consideration for Processor Competitiveness

As in the previous submission, the Chicken Board has attempted to address processor competitiveness. 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.
- For two periods, the Board is requesting continuation of the current formula which includes *'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.'* At the time of this letter, it is the Chicken Boards understanding that the Ontario COPF will see an update to its cost elements, including grower margin, but we have no knowledge on the amount of the impact.

Weight Category Change

The weight category change to align with the Ontario posted weight class (2.15kg to 2.45kg) was committed to throughout the pricing process. For full rationale, please refer to the Chicken Board request to the BC FIRB Panel of August 16, 2022. This was approved by the BC FIRB Pricing Panel in the interim formula until the long-term pricing is resolved in their August 24, 2022 decision.

Engagement on extraordinary vs normal feed price gap

In the Panel's previous prior approval decision, the Chicken Board was encouraged to meet and discuss with stakeholders how to "determine a verifiable 'normal' vs extraordinary' feed price differential". It should be noted, that with a change in board membership, the holiday season, and tight timelines these discussions have not yet occurred. The Chicken Board has attempted to balance time constraints for all stakeholders input, as well as grant time for the BC FIRB Panel deliberation. The Board has a meeting scheduled with the PPPABC on February 6, 2023. While the agenda for this meeting is still being finalized, we are hopeful this meeting can assist in more fruitful conversations going forward.

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. As noted above, further dialogue with PPPABC will occur on February 6 and in future meetings.

Conclusion and Prior Approval Request

The Chicken Board has taken into consideration the input from the PPAC members for the A-181/A-182 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-180 to continue going forward for periods A-181 & A-182. The same SAFETI process and consideration from the A-177 submission (June 10, 2022) applies to this submission. A-181 pricing will be set on February 9, therefore, the Chicken Board would request a decision prior to this date.



Lastly, the Chicken Board would like to add that fundamentally the Board wishes to focus on the long-term formula. Requesting the Panel accept more than one period will allow the Board, CRMC and stakeholders to focus on the development of the long-term formula. The Board also notes that while we are requesting the approval for two periods, we would like to reserve the right to adjust the second period (A-182) if new information arises from the CRMC or our upcoming consultations with PPPABC and BCCGA.

BRITISH COLUMBIA CHICKEN MARKETING BOARD

Kevin Klippenstein, Chair
BC Chicken Marketing Board

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