

BC Chicken Marketing Board (Chicken Board) Cost Recovery Model Committee (CRMC) – Report for January 2023

Committee Membership

The CRMC Terms of Reference is intended to include representation from the key sectors of the BC Chicken Industry

- Growers through the BC Chicken Growers Association (BCCGA)
- Hatching eggs through the BC Broiler Hatching Egg Commission (Commission)
- Hatcheries through the BC Egg Hatchery Association (BCEHA)
- Processors through the Primary Poultry Processors Association of BC (PPPABC) and non-PPPABC processors
- BCCMB through the Executive Director (non-voting)
- BCFIRB through the Liaison (non-voting)

As a result of changes to the government appointed members of the BCCMB and the Commission, the Commission's representative is now Shane Driessen, replacing Jim Collins.

The Chicken Board responded on December 13, 2022 to the PPPABC letter of November 16, 2022 addressing the PPPABC's five "conditions" for participation on the CRMC. The Chicken Board has not received a response from the PPPABC, however, the Chicken Board and PPPABC, along with a BC FIRB representative will be meeting on February 6. The BCCGA continue to express the view that the subject of PPPABC participation on the CRMC is a matter for discussion at the Committee table.

The PPPABC continued to "observe" the process through their Executive Director at the January 19, 2023 CRMC meeting. All other members, except for the Hatchery Association representative were present and actively participated in the discussions.

Cost Recovery Model Components

Serecon attended the January 23, 2023 CRMC meeting and presented the preliminary data and results, noting that the it would be subject to change based on reconciliation of outlier data and additional data that submitted but unable to be included in the presentation. Serecon pointed out that while the data is compared with the 2019 and 2015 COP, comparability of the results with 2019 should be done with caution as in 2019, the sample population was limited to Fraser Valley farms. Serecon also indicated that it was impressed with the willingness of growers to participate and provide data.

The purpose of providing the preliminary results was to prompt discussion on key areas requiring Committee direction and to illustrate the modelling principles and concepts discussed at the December 7, 2022 CRMC meeting. Further analysis and correction will be applied to bring a recommendation forward to the Committee for consideration prior to initiating the independent 3rd party review.

Serecon responded to the actions established by the Committee based on the December 7, 2022 COP presentations by the Commission and Serecon:

- They are still examining the expansion of labour to 3 categories (general, skilled, and management) versus 2. Two categories were used for the purposes of the preliminary draft COP.
- They have yet to complete their follow up on the impact of land being included or excluded within the agriculture and utility beta. They intend to address in the next iteration of the COP.
- They have used a 40-year barn life based on the preliminary data and precedent set in other broiler COPs. They remain open to considering a different barn life (i.e. 30 or 20 years versus 40 years); however there will need to be a solid case based on data to support a change.
- They presented the preliminary draft COP at the January 19, 2023 meeting with most of the compiled COP data and have included the use of modelling and actual data for costs.

While not yet definitive, the preliminary draft COP indicates strong confidence in the data gathered from the 45 participating growers (30 Lower Mainland; 10 Interior and 5 Vancouver Island). Serecon has yet to finalize the weighting of costs but have a significant amount of data from 450 flock records for the production periods A-168 to A-174. They have screened the data and are only expecting to use 331 flock records in compiling the COP. The average production per flock per cycle was 114,183 kgs. Costs in all categories are up from previous COPs (feed, chick, utilities, fuel, repair and maintenance, etc)

The preliminary results indicate a lower Feed Conversion Ratio, however higher actual feed costs relative to previous COPs based on roughly the same average weight of bird. The preliminary results for feed cost for A-180 were slightly higher than that generated through applying the feed cost methodology to the 2019 COP feed data to A-180. The results fall within the margin of error for the COP (+/- 2.5%). The comparison of the preliminary results with the 2019 updated COP feed costs seem to indicate that the 2019 FCR is currently not resulting in an overstatement of feed costs incurred by BC growers.

The average barn life is 20 years old, higher than previous COPs which will affect depreciation costs. Serecon is continuing to use the barn half-life (20 years, half of 40) approach to model capital costs and land is valued based on the 2001 value to establish rental rate/carrying cost for 10 acres for a broiler operation.

Based on the Committee discussion, Serecon will provide a revised draft COP and include recommendations with respect to:

- Barn life.
- A third category of labour or not
- Follow up on previous Beta Recommendation on whether land factor needs to be considered.
- Completion of review of the two outlier data sets and whether or not to be included as well as the two late submissions of data.

The revised draft COP will also include:

- Levy costs.
- Updated catching costs to actuals.
- A review of insurance, and repair & maintenance costs for accuracy.

Policy Objectives – Definitions and Measures

Reasonable Returns to an Efficient Grower

The Committee discussed how the COP relates to reasonable returns to an efficient grower. Serecon suggested that feed cost representing the largest proportion of the COP is an area for focus, but cautioned to not simply focus on FCR. Serecon affirmed that applying a weighted average to the data used in the COP lends itself to being representative of a reasonable return to an “efficient” grower at the time of the survey. The Committee also discussed frequency of data update to ensure relevance. Serecon suggested that re-survey would be most appropriate when there is a structural change in the industry. Based on the preliminary results it seems that the methodology used by Serecon to date to update feed costs works as it falls within the margin of error for the COP (+/- 2.5%) and as such, the corn/wheat spread does not constitute a structural change.

Processor Competitiveness in Canadian Markets

The Chicken Board engaged the services of Hugh Scolah to prepare a discussion paper on the definition and measures of processor competitiveness. H. Scolah provided a brief overview and engaged in a question-and-answer discussion.

The report generated concerns and significant discussion of several points:

- Some members expected more.
- The comments around wholesale prices may not be indicative of retail sales price.
- Apparent that consideration was not given to the market data provided by the PPPABC.
- The definition used by H. Scolah was slightly different from the stated definition “The ability to profitable and sustainably maintain or enhance market share.”
- Allocation versus available chicken vs factors of competitiveness.
- The report seeming to be focused on processor competitiveness within BC as opposed to in Canada.

The Committee requested that C. Evans ask PPPABC members if they are willing to make available market and competitiveness information (i.e. Agristats and Market Overview reports) and have an “in-camera” conversation around processor competitiveness with H. Scolah. H. Sasaki and W. Holm.

Next Meeting

The Committee is scheduling a meeting for late February to review the revised COP.

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