



BC Chicken Growers'
ASSOCIATION

March 15, 2024

DELIVERED BY EMAIL

BC Farm Industry Review Board
2975 Jutland Rd
Victoria, BC V8T 5J9

Attn: Peter Donkers, Chair

Dear Mr. Donkers,

Re: BCCGA response to FIRB letter dated November 23, 2023

The BC Chicken Growers' Association (BCCGA) thank you for your letter dated November 23, 2023, in which four questions are asked of the BCCGA:

1. What, if any, concerns should BCFIRB be aware of with regard to the process followed by the BC Chicken Marketing Board (BCCMB) in developing the long-term pricing recommendation?
2. Are there any outstanding sound marketing policy concerns with the Chicken Board's long-term pricing recommendation that BCFIRB should be aware of?
3. What are the anticipated impacts of the long-term pricing recommendation on producers' gross margins in British Columbia?
4. What are the anticipated impacts of the long-term pricing recommendation on reasonable returns to growers in British Columbia over the next five years?

BCCGA Response:

1.

The BCCGA believes the process followed by the BCCMB has been both fair and equitable, with a fulsome attempt to ensure that all stakeholders have had an opportunity to provide input. The BCCGA's concerns lie with the lengthy delays experienced at various points due to the Primary Poultry Processors Association of BC (PPPABC) either declining to participate (Cost Recovery Model Committee) or participating based on a list

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of conditions and then withdrawing from discussions before their conclusion (Joint Working Group).

The BCCMB received data from the BC Hatching Egg Commission, the PPPABC, and the BCCGA numerous times throughout the process. Additionally, Meyers Norris Penny (MNP) and Serecon provided input, assessment, and critique on the Cost of Production (COP) methodology, which was reviewed, questioned and discussed at length by all parties. While MNP provided a review opportunity, Serecon was able to communicate between the parties to answer methodology questions and provide insight into different approaches to the various COP line items.

The call for data from the PPPABC, confidential or otherwise, has been made by BCFIRB at the 2019 appeals, as well as by the BCCMB throughout various pricing negotiations and discussions. We understand the PPPABC has provided some data to the BCCMB but the BCCGA has not been provided all of this information.

2.

Considerable analysis has been completed studying the returns of growers and the competitiveness of processors. Surveys and analysis by MNP and Serecon, have highlighted the need for change to a COP based pricing model in order to ensure the survival and future growth of chicken growers in British Columbia.

While the processors had ample opportunity over the last four years to provide verifiable data on their competitiveness positions, they have explicitly refused to do so. The BCCGA is concerned about this lack of disclosure. The processors have relied on the live price as their sole source of competitiveness data. However, cost data without revenue data is not sufficient for establishing competitiveness. Due to the lack of revenue data, the BCCMB has chosen to apply a competitiveness tax on the growers' returns within the COP, and so have adjusted growers' efficiencies within the COP. The BCCMB has chosen to present a COP which attempts to return a set price to an average efficient farmer.

A true Cost of Production model would typically attempt to attain all the data available, within set constraints and accessibility, and provide a return covering all costs to the average or median producer of the goods. Those above the set price would experience a benefit to their efficiencies achieved, and those below the set price would find they have work to do to achieve these benefits.

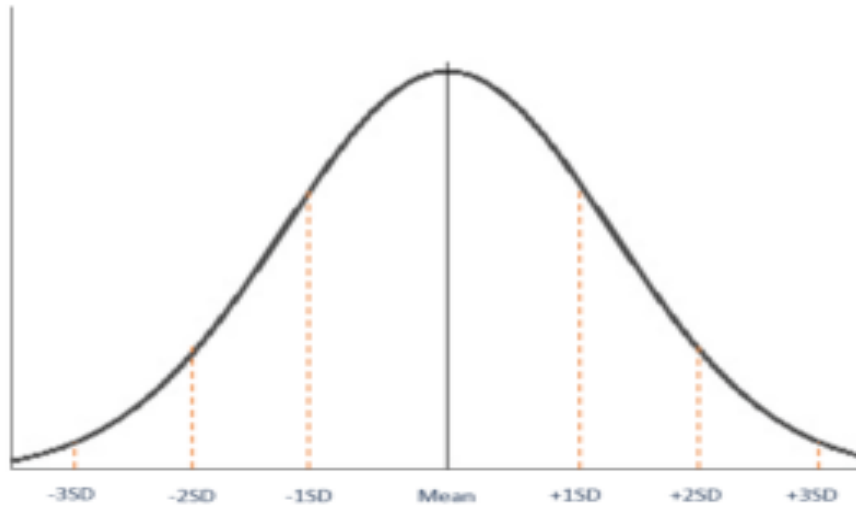
Two issues arise from the chosen path:

An efficient grower was chosen. This efficiency was brought in through:

a. Tax #1 - Farm Size:

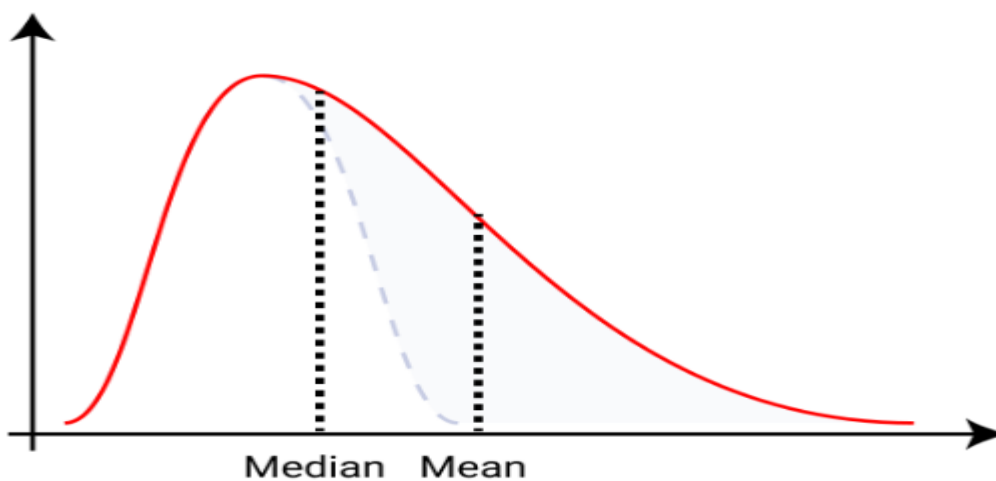
A normal distribution of data would typically look like Figure 1, with an even distribution on both sides of the average (mean) of the sample. In this case the median would therefore also be the average. (See Figure 1: Normal Distribution)

Figure 1: Normal Distribution



In BC, the average farm size, per the survey, was discovered to be 124,483 kg/cycle. The median farm size was stated as 97,681 kg/cycle. This shows us that exactly half of the population is 26,802 kg/cycle smaller than the average farm. We would therefore see a positively skewed distribution with a higher percentage of the population below the average (mean). See Figure 2: Positively Skewed Distribution

Figure 2: Positively Skewed Distribution



The farm size chosen for the calculations is the mean and is significantly larger than the median size by 27.4%. This puts heavy downward pressure on the COP price and will

put more than 50% of the growers in BC under the set COP. This means more than 50% of the growers will not be receiving their costs of production. We fail to see how an industry can survive within the regulated supply management system if more than 50% of the producers are not receiving their full costs to produce food.

b. Tax #2 - Chicken weight categories

The chicken weight categories recently chosen by the BCCMB are 2.02kg -2.17 kg, even though the average sized bird produced in BC is 2.27 kg. This has a 3-cent downward impact on the COP price (per the BCCMB's presentation). The BCCGA has stated in the past that this categorization is not relevant to the majority of BC chicken growers and still stands behind this assertion. A 3 cent drop due to a categorization change is difficult to digest. The argument put forth by the BCCMB is to match Ontario's categorization although we do not understand why they have the categories chosen. While we have the data which shows BC's most produced category, we are ignoring this data for non-transparent and non-verifiable data out of Ontario.

c. Tax #3 - Barn Density

Barn Density was increased to 2.88 kg/ft², while the average square footage from the surveys was 2.74 kg/ft². This amounts to a 1.55 cent decrease in the COP price (per the BCCMB's presentation). While the BCCGA recognizes that there are efficiencies which are gained by raising birds at the maximum 2.88 kg/ft² we must recognize that the 2.74 kg/ft² average density from the survey is just that, an average, and not the median. This number shows many growers above this number and many more below.

For all growers to achieve 2.88 kg/ft² would require all growers to have newer barns which can be fully stocked at all times of the year. This is simply not possible. We know from the survey that many growers have barns that are 21 years old and older, which is 3 years older than the prior survey from 2019. Older barns are generally accepted to not to be as efficient as newer barns. Many would lack tunnel ventilation in the summer or the ability to heat the barn sufficiently while removing the required carbon dioxide and carbon monoxide in the winter. Additionally, it was noted by a hatchery that moving to a higher density is not necessarily desired since this can put the birds in more stress if the barns are not adequate, which then can cause disease outbreaks. Many BC chicken producers cannot afford to build new barns and renovate existing barns as their returns have not been sufficient, and we see this from the supplied data from Serecon.

We now see that an "average efficient grower" was chosen, which then moves the set price of the COP further down, creating a large gap between those who are average and those who are efficient. The BCCGA recognizes that a move to efficiency is extremely important. Still, there is already a strain on farmers who fall below the average farm size, adding to this the adjustments of categories, barn densities, and an average feed conversion ratio.

Processor competitiveness has been very difficult to evaluate due to a lack of transparent and verifiable information. Given that this is an unknown variable, it is difficult to understand how grower efficiencies have been somewhat arbitrarily applied to the COP,

with what seems to be an attempt to reduce grower returns to appease processor complaints rather than making decisions based on actual surveyed data.

It was noted that the proposed BC live price differential with Ontario for A-188 is \$0.2903. However, the feed and chick differential represent 105.6% of this difference. The differential of all other costs is \$0.0162 LESS than Ontario's "non-feed and chick" COP components. A grower can do little to nothing to reduce their feed and chick costs; it is immediately borne by the growers each cycle and is representative of the higher feed costs in BC. The only tool a grower has to become more efficient (and thus reduce feed costs and the cost of chicken in BC) is to invest in their farms by replacing barns when they are depreciated and investing in equipment with modern technology. This cannot be done without proper COP pricing.

3.

Impacts to the efficient grower, within the proposed long-term pricing, are that their gross margin will increase in comparison to the current interim formula. This amount will be a large step towards growers being able to pay for the rising costs of their expenses, plus capital improvements (which have been missing for many years).

An increased gross margin, however, is not as appealing as it looks on the surface. Fixed and variable expenses have increased dramatically over the last many years. It is no longer possible to look at the gross margin number on its own and compare it to the gross margin from five years ago because of these increases in expenses.

BC dairy farmer's pricing structure is an example of a pricing structure that has yet to be reactive to their rising costs, resulting in over 40 dairy farms being sold in 2023 alone. It is imperative that chicken growers have a pricing model that is reactive to the costs they incur, as recommended by the BCCMB, to be sustainable.

4.

Through this long-term pricing proposal, consistent updates, and review of current methodologies and costs, we believe the BC growers can look forward to:

- a. Better cost recovery,
- b. Increase efficiency through equipment upgrades, new barn constructions, and new environment technologies,
- c. Improve animal welfare on farms,
- d. Potential expansion of their businesses. We expect to see a shift from processor dominated quota purchase transactions to growers being able to afford to expand their operations.
 - a. Growers will be closer to being able to run their farm businesses as they are meant to be run, as their counterparts across the country do, instead of barely covering their costs.
 - e. An increased desire and the financial ability for the next generation to keep farming the family farm.

BC growers have had new and difficult environmental and social pressures added to their costs over the last few years. We note the heat dome, flooding and fires have affected grain costs, bird health and welfare, and availability of water for the flocks.

Although the question was asked regarding grower returns, the growers also recognize it is important to have healthy processors as well. Growers maintain that processors will continue to be profitable and remain a part of a growing chicken industry in BC. There has been no evidence by the processors that this will not continue. However, they may not be as profitable with a more balanced industry, and the industry, as a whole, will be much more stable. The purchasing and ownership of quota is a large indicator of industry health and the very fact that the processors own approximately 25% (as reported by the BCCMB) of BC quota is a very major concern and indicates a large imbalance, as this quota has largely come from the purchasing of existing family farms that could not find it sustainable to continue chicken farming.

Processors are concerned that the higher live price will make them uncompetitive in the Canadian market. This concern needs to be put into context: without being provided the data outlining processor profits across the country it is impossible to confirm that. The Growers maintain they will only have reduced profits, but there is no evidence that the reduced profits would make them uncompetitive.

It is understandable that the processors do not want to give up profits, but they have been buying discounted chicken from growers for years, as is evident by the Serecon COP. It has been at the expense of growers that the processors have purchased a significant portion of BC broiler quota, expanded on their farms, expanded their plants, and expanded into other provinces.

We must also recognize that the PPPABC do not provide data concerning their BC margins to the national EMI. The EMI (CPEP Gross Margin Composite Report – attached) shows stable margins across the country, while this is also a concern it is an indicator both of the processors' financial health and their desire to ensure their BC margins are not reported.

As receivers of the product, it is at this point the processor should be encouraged to become more efficient and consider their own efficiencies rather than rely solely on the BC growers to supply a cost-efficient product.

Recently, the Chicken Farmers of Ontario also reviewed their COP and negotiated an increase to the Producer Margin component. This new Farm-Gate Minimum Live price came into effect in A-187. Throughout the negotiations a specific focus was ensuring a fair return for labour and investment on the farm in support of sustainable chicken farming families.

With the multi decade long history of the pricing process in BC, the issues have consistently been the same. It will require the BCFIRB to make decisions that will not be agreed to by all parties. However, based on the many discussions, meetings, studies, industry submissions and data collection, we believe this process has been thorough and allows BCFIRB to be able to make a decision that is reasonable and defensible.

Thank you for your attention to this matter. We look forward to your reply.

Sincerely,

A handwritten signature in black ink, appearing to read 'B1' followed by a stylized name.

Brad Driediger
Acting President
BC Chicken Growers' Association