



March 29, 2024

Peter Donkers
Chair
BC Farm Industry Review Board

Hello Mr. Donkers,

RE: BCCMB RESPONSE TO STAKEHOLDERS MARCH 18, 2024, SUBMISSIONS

On November 23, 2023, the BC Farm Industry Review Board (BCFIRB) laid out a schedule for eligible stakeholders to answer BCFIRB questions regarding the October 30, 2023, long term pricing recommendation (the Recommendation) submitted by the BC Chicken Marketing Board (Chicken Board). On December 22, 2023, in response to a December 15, 2023, request by the Primary Poultry Processors Association of BC (PPPABC), BCFIRB suspended this process to allow the PPPABC to submit corporate information on a confidential basis. On January 18, 2024, BCFIRB provided directions on how this confidential information was to be brought forward to the Chicken Board as the first instance regulator.

Three of the four members of the PPPABC provided individual submissions regarding their competitive positions and met separately with the Chicken Board. The fourth member and other, non-PPPABC processors declined to participate. As outlined in its February 14, 2024, letter to BCFIRB following these meetings, the Chicken Board found no “new, verifiable, and substantiated evidence as to the overall competitiveness of the three PPPABC members – who are national in scope.”

On March 4, 2024, BCFIRB re-initiated the supervisory review process outlined in its November 23, 2023, letter. In doing so, it required the Chicken Board to update the information in the Recommendation. The Chicken Board provided the update on March 11, 2024. Submissions in response were received as follows:

- March 15, 2024, from the BC Chicken Growers’ Association (BCCGA);
- March 18, 2024, from the BC Egg Hatchery Association (BCEHA); and,
- March 18, 2024, from the PPPABC.

As well as confirming previous statements of the Chicken Board, this letter will provide an overview of the situation as it now stands and identify a way forward. The letter, together with the detailed responses in the attached Appendix A, is the Chicken Board’s detailed reply to the above submissions.

Transparency

First, the Chicken Board and the BC Broiler Hatching Egg Commission (Commission) have developed cost of production formulae (COP) for chicken growers and hatching egg producers through lengthy, transparent and consultative processes that included expert third-party advice. Both COPs have efficiency factors incorporated. It is sound marketing policy to ensure that these growers and producers, as the foundation of the BC supply-managed chicken industry, are sustainable and contributing to provincial food security.



Despite exploring numerous options for competitiveness within the Canadian Marketplace, including with the PPPABC, the Chicken Board does not have the verifiable and substantiated evidence necessary to support its regulatory decision-making as to the actual revenue, profitability, and competitiveness of BC processors, the three largest of which are national in scope. There is even less transparency, verifiability, and substantiation as to the profitability and competitiveness of other individual downstream stakeholders such as wholesalers, retailers, and food service operations.

Pricing in the Canadian supply management framework is a provincial responsibility. Under the British Columbia Chicken Marketing Scheme, 1961, the Chicken Board has statutory responsibility for determining the price paid to chicken growers in BC. Here, it has done so through a lengthy, intensive, and transparent decision-making process that enabled and encouraged processor participation throughout.

Timeline

There is a long history of pricing disputes in the BC chicken sector. BCFIRB's (then the BC Marketing Board) initial supervisory reviews concerning pricing in the chicken and hatching egg sectors were conducted in 1994 and 1995. In the three decades since, there have been numerous follow-up supervisory reviews and scores of appeals from pricing decisions of the Chicken Board and the Commission. More recently, as noted by the BCCGA and outlined by the Chicken Board in its Recommendation, it is now almost five years since the May 19, 2019, BCFIRB appeal decision requiring the Chicken Board to make "a decision regarding a long-term pricing formula not later than (January 2020)". It is three and a half years since the latest supervisory review commenced.

Twenty-one months have now passed since BCFIRB approved the BCEHA-supported proposal that a hatchery COP be developed to ensure BC hatcheries receive the "reasonable" margin for hatching services" they continue to seek. BCFIRB's approval of the Commission's hatching egg sector pricing recommendations also confirmed a previously negotiated hatchery margin increase. The Chicken Board agrees that a new hatchery COP could have an impact on BC pricing— including the overall competitiveness of any parent corporate processor – but to date, the BCEHA has not tabled any proposal, much less one matching the transparent, substantiated, and defensible COPs developed for hatching egg producers and chicken growers. (Please see Appendix B & C for further information on the Commission's response to some of the claims made by the BCEHA).

Fifteen months have passed since the Chicken Board's membership was reconstituted with two new independent appointees. One year ago, the Chicken Board restructured its approach through the creation of the Joint Working Group (JWG) process as a result of the PPPABC's refusal to participate in the earlier Cost Recovery Model Committee (CRMC) process. Six months ago, the PPPABC walked out of the JWG process after refusing to continue discussions on the Chicken Board's draft proposal with respect to a long-term pricing recommendation to BCFIRB. The PPPABC is now raising issues for discussion that were thoroughly canvassed during the JWG process (as per the Recommendation) or which could have and should have been raised with the JWG in September 2023.

The Chicken Board has proposed that the transition to the new COP phase in over six periods, commencing in Period A-187 (January 14 to March 9, 2024) and, subject to any exceptional circumstances arising, completing by Period A-192 (October 20 to December 14, 2024). The PPPABC suggests deferring implementation to Period A-194 (February 9 to April 6, 2025), so it may engage with



issues that were, or ought to have been discussed during the JWG process. It is also not clear whether the PPPABC's implementation target includes an additional transition – i.e., further delay – phase in past Period A-194.

In contrast, the Commission developed a transparent, verifiable, and defensible COP with efficiencies incorporated that was approved by BCFIRB on June 3, 2022, and is now fully implemented. Through the JWG process, the Chicken Board developed a COP for chicken growers that also incorporates efficiency factors which, as clearly outlined by the BCCGA in its submission, still place pricing pressure on most BC growers. It is noteworthy to consider that less the cost of feed (a major factor), the BC chicken COP is leaner than its Ontario counterpart in recognition of BC's higher cost impact on processors. The proposed COP was tabled with BCFIRB on October 30, 2023.

Going Forward

As per its March 11, 2024, letter, the Chicken Board expects that “the same standards will be applied to the development of a hatchery COP as have been applied to the COPs for chicken growers and hatching egg producers.” This should include robust consultation and the incorporation of efficiency factors. Hatcheries are encouraged “to be more proactive in developing a substantiated COP that can be included in the Chicken Board's consideration of ‘market conditions’ and other developments during the proposed transition period to a new COP for chicken growers.”

In its March 18, 2024, submission, the PPPABC suggests that it “and the downstream stakeholders would be better served” by: (1) maintaining current pricing until A-194; (2) revising and adjusting the COP to align more closely with the Ontario chicken COP; (3) concurrently introducing a new hatchery COP; and, (4) developing a new “exceptional circumstances” process for when there are “extreme” differences between BC and Central Canadian pricing, the burden can be shared “fairly” by all BC stakeholders.

First, the Chicken Board rejects deferring the implementation of a new pricing formula to A-194. The PPPABC is requesting the BCFIRB not approve the Recommendation so it may participate in further process, despite the Chicken Board already undertaking such discussions, including several attempts to engage with the PPPABC which it refused. This approach is vastly different from the BCCGA which, while even now not fully satisfied with the Chicken Board's Recommendation, participated in good faith throughout both processes. More fundamentally, it would be unfair to growers and other industry participants who have been waiting five years for a new live price formula to be subject to further delays. As the record shows, the COP process has verified and substantiated that a new grower COP is required to sustain BC chicken production.

Second, the Chicken Board agrees in principle with the PPPABC that where feasible the BC and Ontario COPs should be more closely aligned over time. In fact, the Chicken Board considers this essential as it continues to advocate for the development of common western and national pricing frameworks. The Chicken Board will continue to engage with Chicken Farmers of Ontario to ensure BC has a better understanding of the Ontario COP where possible. The Chicken Board also reiterates that it appreciates that feed issues require increased scrutiny and feed conversion rates require annual updating. The Chicken Board is enhancing its capacity to acquire BC industry and other data to support both initiatives. As outlined in its Recommendation, and in support of continuous improvement, the BC COP is scheduled to be reviewed in 2025. The Chicken Board will consult with the PPAC in that review.



Third, the Chicken Board notes that an A-194 implementation date for a hatchery COP would be almost three years after BCFIRB approved that approach. Unless the BCEHA demonstrates a greater sense of urgency (to which the Chicken Board is prepared to respond), it seems likely that the incorporation of a hatchery COP will be part of the 2025 review. As well as consulting with stakeholders during that review, the Chicken Board and Commission will continue to engage in their board-to-board discussions about pricing in their respective sectors.

Fourth, the Chicken Board confirms its earlier statement that its General Orders will continue to provide an “exceptional circumstances” provision for stakeholders to bring forward pricing issues on a period-by-period bases (i.e., short-term). However, the Chicken Board also confirms that such “exceptional circumstances” must be supported by verifiable and substantiated evidence if they are to be considered. As part of that process, the Chicken Board is prepared to engage with, and receive third-party expert evidence but will not fetter its statutory responsibility to decide whether the “exceptional circumstances” being advanced warrant a change to its live pricing.

Conclusion

In its Recommendation, the Chicken Board submits that the transition to the new COP be conducted over time through a phased-in approach. It remains the Chicken Board’s position that a transitional period represents sound marketing policy. Further, given the delays to date, such an approach will incentivize the BCEHA and the PPPABC to engage in developing a hatchery COP (with the Commission as regulatory lead) fully and constructively, while supporting the continuous improvement of the Chicken COP.

There will always be pricing issues and disagreements amongst stakeholders, and it is unlikely that all stakeholders within the chicken industry will be fully satisfied with pricing decisions. However, a key lesson from the last 30 years is that continually shifting from one pricing approach to another does not provide any stakeholder with long-term pricing certainty and stability. A COP framework provides the basis upon which such certainty and stability can finally occur in the BC chicken industry supply chain. As co-regulators of the BC chicken industry who have been collectively working on pricing, both the Chicken Board and Commission have demonstrated that their decision-making processes reflect sound marketing policy by being strategic, accountable, fair, effective, transparent, and inclusive.

As regulators, both boards have a statutory duty to make pricing decisions based on verifiable and substantiated facts. That is what the Chicken Board and Commission have done with their respective COP proposals.

Given the history of this matter and the present circumstances, the Chicken Board respectfully requests BCFIRB provide the necessary direction to advance the supervisory review in a timely way. It is critical to ensure that stakeholders engage fully with the Chicken Board and the Commission as first instance decision-makers and move to the next stages. More broadly, as fundamentally important as pricing is to all stakeholders, there are many other issues requiring the engagement of all stakeholders in support of the future sustainability of the BC chicken industry.

Yours truly,



Kevin Klippenstein
Chair
BC Chicken Marketing Board





Appendix A

The Chicken Board has addressed in detail each of the PPPABC, the BCEHA, and the BCCGA's concerns.

Response to PPPABC's March 18, 2024, Submission to BCFIRB Re Chicken Marketing Board Long Term Chicken Pricing Recommendation

Page 1, paragraph 1:

- **“flagrantly favours the interests of growers”** – The PPPABC did not provide any workable definition or benchmarks of processor competitiveness. The PPPABC provided no evidence of a disparity in benefits to growers over processors. The Board continues to be open to verifiable evidence to the contrary. Page 11-19 of the Recommendation provides more information on the balancing of interests.

Page 1, paragraph 2:

- **“particularly concerned about the impact and financial harm would impose on processors, hatcheries, downstream customers, and consumers”** – The PPPABC has not provided any verifiable evidence on the impacts of a COP to their business or other industry stakeholders.
- **“Cancellation of a proposed new chicken processing plant”** – No verifiable information was provided by any industry stakeholder evidencing that the cancellation of the proposed chicken processing plant was a result of the Recommendation. Processors, like all stakeholders, make business decisions every day. The Chicken Board was not privy, nor provided any verifiable information as to the contents and considerations that went into the processors decision to cancel the proposed new plant. Regardless of this processors business decision, BC maintains the same share of national chicken quota regardless of where processors choose to prioritize their investments.
- **“...Eliminating market development volumes...”** The Chicken Board acknowledges that processors make business decisions on a variety of factors. Market Development (MD) in BC peaked at 13.72% back in 2003 and has been on a downward trend ever since, due to a variety of factors including BC processors expanding from BC to other provinces across the country, the impacts of Avian Influenza, and changing market dynamics and consumer trends. In 2023, MD sits at an average of 2.21% after a consistent and steady decline since the peak of 2003. MD has also been much lower in BC in recent years because of Highly Pathogenic Avian Influenza and resulting limits on export. While some growers enjoy the perks of additional production through MD, processors benefit from this production being available at a discount. Market Development (MD) is a national program whereby primary processors apply for provincial MD allocation to the Chicken Farmers of Canada (CFC) in order to help facilitate the balance of consumption between white and dark meat; it is a national program initiated by the primary processors. Some of the changes in MD can be attributed to BC processors investing in new processing plants in other provinces and using MD as a tool to entice growers to ship to them to supply their new processing plants.
- **“...and shifting national contracts to other provinces.”** Processors are to make business decisions on how to best mitigate their risk and maximize their returns. As the Chicken Board stated in their March 11, 2024, letter, *“The allocation is determined to meet the **national** demand for chicken, not provincial demand. This ensures that over time all chicken can be sold in the market and supply is equal to demand. In other words, another province cannot ‘over*



produce' in order to take the BC market, and likewise BC cannot underproduce and be absorbed by another province." (emphasis added).

Page 2, paragraph 3:

- **"It was developed without independent oversight..."**. The entire process has been undertaken pursuant to the Supervisory Review of the BCFIRB. The Chicken Board includes two elected grower members and three non-grower, independent, and appointed members and has transitioned two of those independent members over the previous year and a half. All the appointed members are experienced in supply management and familiar with the BC processing sector. Since 2019, six different independent members have served on the Board and contributed to its strategic directions and attention to pricing issues. The Chicken Board also took additional steps hire an *independent* third party consultant (Serecon) to collect data and construct the COP model, but also hire an *additional independent* third party consultant (MNP) to review the data and methodologies proposed by Serecon. The claim of no independent oversight and other arm's length scrutiny does not accurately reflect the process and the involvement of various parties.
- **"...there is no recognition in the Recommendation of the historical understanding that stakeholders in BC's high-cost operating environment must share the "cost burden" to maintain a viable industry."** The Chicken Board's Recommendation discusses the balancing of interest on pages 11-19. Issues raised by the BCCGA in its submission are testament to the 'balancing' of interests the Chicken Board has undertaken (i.e. efficiency measures put downward pressure on live price). In our submission, we stated *"The Chicken Board has regulatory responsibility for the farmgate price of live chicken, based on a verified and efficient COP. As that regulator, the Chicken Board cannot justify making or defending a pricing decision respecting processor competitiveness impacting that COP without valid, verifiable and transparent evidence to inform its decision."*

Page 2, paragraph 4:

- **"The Recommendation remains incomplete and is using outdated and inaccurate data"**. The Chicken Board maintains its position that its Recommendation is thorough, up to date and includes the necessary available data. Further, the Chicken Board confirms that the Recommendation includes numerous continuous improvement initiatives (see page 38). With respect to the data collected and analyzed, the Chicken Board engaged consultants to undertake independent and accurate information for this process.
- **"...not including the anticipated hatchery margin increase of 10-12 cents..."** The Chicken Board has not been provided with any transparent and verifiable data that supports this assertion by the PPPABC. The Chicken Board reminds industry stakeholders that hatcheries in BC are vertically integrated and owned by their parent processor companies. Processors make their own decisions as to whether they have the *opportunity* to recover all costs in their price to customers, regardless of a regulatory assigned hatchery margin. The Board supports the development of a hatchery COP. That this has not occurred to date is a question for the hatcheries and processors, not the Board or the Commission. Please refer to the Commission's update regarding this matter in Appendix B.
- **"...Recommendation is also using outdated and inaccurate data with feed conversion ratio (FCR) – now over 3 years old."** The Board has recognized that the FCR data is based on 2021



data collection. The Recommendation states that this data will be updated in early 2025 once the COP is implemented (see page 17). The Board has also confirmed that it understands that feed issues require further scrutiny going forward, and FCR will need to be updated annually.

- **“In addition, cost elements like labour and working capital are inflated, particularly compared to Ontario.”** The Chicken Board disagrees with the PPPABC assertion. Through the Joint Working Group (JWG) process, all numbers were reviewed by the committee, and the two third party, independent consultants. On Page 38 of the Recommendation, it was noted that *“However, the Board believes that the labour and wage rates included in this version of the COP are well below industry standards”* (emphasis added). This is evidenced by the comparison of labour to Ontario in A-187, where the BC COP would provide \$0.1310/kg and the Ontario COP would provide \$0.1592. Additionally, during the JWG process the PPPABC proposed a new model for working capital. The Chicken Board considered this proposal, and received independent opinions from Serecon and MNP, both confirming that the current model for working capital was fair and commonly used in COPs. The Chicken Board cannot comment on Ontario’s model for working capital but note throughout our two formulas there are differences in methodology, but excluding feed, results in a leaner COP in BC than in Ontario due to the Boards extensive efficiency factors (see March 11, 2024, letter page 4).

Page 3, paragraph 6

- **“...the same analysis showed that other pricing models better balanced processor competitiveness and grower returns”.** The Chicken Board disagrees with this statement and has not stated that other pricing models better balance processor competitiveness with grower returns. The Board’s decision, based on the information available to it, best balances interests.

Page 3, paragraph 7

- **“...the Chicken Board using data and information selectively that would support and promote their COP pricing decision.”** The Chicken Board has stressed that we will review all transparent, verifiable, and repeatable data in our decision-making process. As stated in our Recommendation cover letter, *“The grower COP is measurable, processor competitiveness is not”*, and is further discussed starting on page 11.
- **“BC Chicken Market – Net Importer/Exporter – The Chicken Board rejected an analysis between growers and processors facilitated by the BCFIRB liaison, that concluded that BC was a net importer of chicken...”.** There was no consensus or agreement on this analysis or conclusion as being suggested by the PPPABC. This item is specifically addressed in the Recommendation on page 40, including an agreed upon statement by growers and processors.
- **“Processor comparative Cost Data – the Chicken Board rejected independent third party data (Agri-Stats)... in favour of the growers’ unverified anecdotal processor cost model...”.** This item is specifically addressed in the Recommendation in Appendix G (page 122). The Chicken Board can advise that it did not consider the growers’ processor cost model in its final decision. While both the Agri-Stats document (provided by PPPABC) and the processor cost model (provided by BCCGA) contained interesting information, neither was relied upon by the Chicken Board for its Recommendation.
- **“Serecon developed the COP using historical approaches, some of which were shown to be inaccurate... This has led to compromise and transparency issues with some of the**



calculations". Beginning on page 33 of the Recommendation, the Board outlined many of the changes made as a result of the JWG and stakeholder feedback but is not inclusive of all changes. The Board has been fully transparent with methodologies and calculations throughout the process. Further, Serecon (as well as MNP) spoke directly to the JWG numerous times to ensure understanding and transparency of their data (Appendix I, of the Recommendation) as questions were raised and addressed.

- **"MNP was engaged with a limited scope and used primarily to validate the calculations..."** MNP was hired as an additional independent third-party consultant to review the work done by Serecon, and again to review and comment on the PPPABC proposal on working capital methodology. MNP spoke directly with the JWG on two occasions. The Board was satisfied with the input provided by MNP and Serecon's response to errors or suggestions identified by MNP.
- **"Hugh Scolah was engaged by the Chicken Board to define processor competitiveness...and he acknowledged that his view of processor competitiveness were incorrect..."** The Chicken Board engaged the assistance of another third-party consultant, Hugh Scolah, after little progress or support in defining processor competitiveness came from PPPABC (see page 125 of the Recommendation, Appendix H). The Chicken Board notes the Cost Recovery Model Committee (CRMC) meeting being referenced was only attended by one representative of the PPPABC, who only attended as an 'observer'. As the meeting minutes from this CRMC show, it was suggested by the BCFIRB liaison that two confidential PPPABC documents be shared with Hugh Scolah, as well as an additional 'in camera' meeting take place with Hugh Scolah, the BCFIRB liaison, and the PPPABC to further examine the issue. This suggestion and opportunity for discussion was later declined by the PPPABC. The PPPABC comment that Hugh Scolah "acknowledged that his views of processor competitiveness were incorrect" is incorrect.

Page 4, paragraph 8

- **"This pattern of behaviour continues in the Recommendation which implies that labour costs need to be increased and be closer to the Ontario COP in the next update."** The reasons for continuous improvement in the labour calculations are outlined on page 38 of the Recommendation. None of the reasons provided are "to be closer to the Ontario COP" or that "labour costs need to be increased". The larger farm sizes captured in the BC COP data collection are already factoring in barn and labour efficiencies (page 14). The intention of continuous improvement is well outlined in the Recommendation. The PPPABC is expecting that the BC farm labour rate be well under other, competing BC labour rates.

Page 5, paragraph 9

- **"The Chicken Board is asking for approval of the recommendation before the BC hatchery margin issue has been addressed"**. The Chicken Board made its decision to pursue a COP (or grower cost recovery model at the time), on March 4, 2022. The Commission COP with approval to pursue a hatchery COP was accepted by BCFIRB on June 3, 2022. The hatcheries, which are vertically integrated and owned by their parent processors, have had nearly two years to pursue an increase to their hatchery margin via a transparent and verifiable COP, which was not forthcoming (see attached Appendix B & C for further information from the Commission). While the Board understands that COPs are part of a larger industry pricing framework, holding back one part of the supply chain due to the inaction of another does not incentivize those that are



lagging. Whether or not there is completion of a hatchery COP, the lack of information from processors as outlined in our recommendation on page 11-13 will still be an issue.

Page 5, paragraph 10

- **“...all stakeholders need to share and balance the financial burden, keeping pricing competitive for the betterment of the industry. Assessing how the financial burden should be shared requires an understanding of the full impact of all stakeholder pricing elements...”**. The Chicken Board reiterated that it is unable to assess the processors assertion with respect to their financial burdens without verifiable data (see pages 11-13 of the Recommendation). Even so, the Chicken Board and Commission have responded through COPs that include grower efficiencies to the benefit of other stakeholders.

Page 5, paragraph 11

- **“The sharing mechanism has not been adequately addressed...without regard to their impacts on one another.”** The Chicken Board’s position is fully addressed on page 23 of the Recommendation.

Page 6, paragraph 13

- **“The chicken Board has failed to define processor competitiveness and as such has not satisfied the objective...”**. The Chicken Board has addressed this item in the Recommendation on page 11-13, and specifically on page 12 where we state *“The definition of BC processor competitiveness is the efficiencies of BC growers, which is established through a BC COP based live price formula with built in grower efficiency factors. Processor competitiveness is further established by efficient COP’s implemented on the pricing of hatching eggs, as well as development of an efficient hatchery COP.”* PPPABC goes on to state that the Board asserts that the only way to measure competitiveness is for processors to show business losses, reduced capital investments and plant closure. This was from the Scolah report that stated in the absence of any other verifiable information, these outcomes may have to suffice as measurements. As repeatedly stressed, the Board remains open to reviewing any verifiable data regarding processor competitiveness. However, the current definition utilised by the Chicken Board is set out above.

Page 6, paragraph 14

- **“Through a confidential process, processors outlined to the Chicken Board the capital investment consequences and market implications of the Recommendation.”** The Chicken Board refers to its February 14, 2024, letter where the Board concludes in the *“absence of any new, verifiable, and substantiated evidence as to the overall competitiveness of the three PPPABC members – who are national in scope – the Chicken Board cannot justify a change to its recommendation”*. This item was also addressed under ‘page 1, paragraph 2’ above.

Page 6, paragraph 15

“The recommendation if implemented will result in a BC live price differential in the range of \$0.30 - \$0.35 per kg (15-17%) higher than the live price in Central Canada...” The Chicken Board’s March 11, 2024, letter to BCFIRB, at page 4, contains the most accurate and up to date information available. The differential in A-188 between the new BC COP at 100% and the



Ontario COPF was \$0.2903 with >114% of the differential solely on the grower's cost of feed. Cost factors alone, without consideration of processor revenue or margins, limits any useful translation of the dollar figures provided. Further concerns around the hatchery margin are addressed in the same letter on page 9 and are further expanded on in the Appendix B provided by the Commission.

Page 7, paragraph 16

- **“The recommendation concludes that the only appropriate regulatory option available to measure processor competitiveness is through the BC grower efficiency regardless of the live price”.** The Recommendation concludes, on page 13, with the Chicken Board stating, *“Therefore, the Board has determined the only appropriate regulatory option currently available to measure processor competitiveness is through the efficiency of the BC Chicken growers and the grower efficiencies built into the COP and industry”* (emphasis added).

Page 7, paragraph 17

- **“the recommendation further indicates that if processor competitiveness is an issue, then the exceptional circumstance process can be used by processors to consider competitiveness and adjust live price... however for the exceptional circumstances request to be considered by the Chicken Board, it would need to include verifiable combination of factors including the live price differential, allocation changes, and the previously debunked “Hugh Scolah” competitiveness factors.”** This is not what is provided in our General Orders under *Schedule 2(7). Variation for Exceptional Circumstances*. The Chicken Board notes that the PPPABC's assertions are not required in order to trigger exceptional circumstances. The Recommendations states, *“It must be clearly articulated by the Board here, that any review or future consideration for alteration of the pricing formula brought forward by any stakeholder will require verifiable and transparent evidence that it is required for the benefit of the industry.”*

Page 8, paragraph 18

- **“It does not seem consistent with sound marketing policy for the Chicken Board to now be putting up process barriers in the Recommendation to the same ‘exceptional circumstances’ on feed costs when it would be beneficial to processor competitiveness”.** See the Chicken Board's response ‘page 7, paragraph 17’ above.

Pages 8-9, paragraph 19

- **“Feed Conversion Rate (FCR) – This continues to be the major element of the Chicken Board COP that is overstating grower costs and decreasing efficiency.”** This issue is addressed in the Recommendation on page 17 (grower efficiencies), and page 39 (continuous improvement). The Chicken Board is unable to confirm the accuracy of PPPABC's proposed FCR numbers as the data does not provide the size of the 23 farms and no feed prices for bulk purchasing have been explained and is otherwise not proven to be statistically significant. The Chicken Board can advise that the FCR will be updated annually.
- **“Interest on Working Capital – the Recommendation uses a theoretical calculation, without supporting data, which overstates grower costs and is almost 25 times higher than Ontario”.** This is specifically addressed in the Recommendation on page 34, with such data being supported by two separate and independent third-party consultants with extensive experience



in COPs. The Chicken Board cannot comment on the Ontario COP methodology but can confirm that the BC COP methodology around interest on working capital is sound.

- **“There are additional cost elements that our analysis show are overstated in the Recommendation and details can be provided under separate cover upon request.”** The Chicken Board extended timelines and remained open for discussions on all elements of the COP, which is clearly noted throughout the Recommendation and specifically in the timeline provided in Appendix I. The Chicken Board notes that the PPPABC was given opportunities for further discussion but ultimately walked out of the meeting on September 19, 2023 (see page 30 of the Recommendation). Unfortunately, PPPABC did not take advantage of the three years of industry consultation to bring these analyses forward. The Board is concerned that this claim is a bid to further delay implementation of a transparent COP.

Page 10, paragraph 21

- **“The Chicken Board acknowledges that the Recommendation includes calculations and formulas that are not accurate or require refinement”.** The PPPABC’s assertions mischaracterize the discussions and decisions within the Recommendation. The Chicken Board outlines continuous improvement (page 38) but stands behind the current framework as an accurate measure – based on the information available - of the current cost of production for an efficient grower. Again, the COP is backed up by an additional third-party review noted on page 32 of the Recommendation. The PPPABC has failed to provide evidence that any aspect of the proposed COP was “materially inaccurate.”

Page 10, paragraph 22

- **“What is an absolute certainty is that this level of price increase cannot be passed through to trade without customers pursuing alternate sources of supply”.** The Chicken Board’s letter of March 11, 2024, on pages 7-9, outlines the Board’s response to this comment, but specifically, *“The allocation is determined to meet the **national** demand for chicken, not provincial demand. This ensures that over time all chicken can be sold in the market and supply is equal to demand. In other words, another province cannot ‘over produce’ in order to take the BC market, and likewise BC cannot underproduce and be absorbed by another province”* (emphasis added)

Page 10, paragraph 22

- **“If the Recommendation is implemented, processors will be immediately forced to reduce market development allocations, reduce jobs, shut down production lines in further processing plants, lower production allocation requests and limits capital spending...”.** See the Chicken Board’s response to ‘page 1, paragraph 2’ above.

Page 10, paragraph 23

- **“The Recommendation, in the context of a nationally driven allocation system, would result in BC Processors having excess supply of chicken relative to their market demand”.** See the Chicken Board’s response to “page 10, paragraph 22” above.

Page 11, paragraph 25-27

- **“Restaurants BC have stated that currently 62% of restaurants in BC remain unprofitable and up to 2,000 at risk of closure with rising food costs identified as a major factor in the industry’s**



lack of profitability". The Chicken Board is certainly sympathetic to rising costs and the ability for stakeholders to cover their costs. The Chicken Board's role as a regulator is not to oversee the business decisions and profitability of all BC business sectors. Further, chicken is not the only input or product sold by restaurants and retailers and it is not the only product experiencing cost of production increases. The Chicken Board's jurisdiction ends at the farm gate (the price grower receives for live product). The Chicken Board does not control wholesale pricing to customers or retail pricing to consumers.

Page 11, paragraph 28

- **"Both grocery and food service retailers are suggesting the Recommendation flies in the face of the BC government's "BuyBC" program"**. The BuyBC program, as set out on the Provincial government website, "helps to promote B.C. food and beverages to ensure consumers can easily identify and enjoy local food products". The Chicken Board, while supportive, does not regulate the "BuyBC" promotional program. As stated, ensuring that chicken growers and hatching egg producers – who are the foundation of BC's supply managed chicken industry – are sustainable is an important contribution to BC's long-term food security.

Page 12, 'Summary'

Given the significance of this portion, the Board also addressed this section in the cover letter to this submission.

The PPPABC provides a summary list of actions that, in its view, can be taken. The Chicken Board is of the view that further delay of this process is not in the best interests of the industry or the stakeholders. It was the PPPABC's decision to remove itself from the stakeholder engagement process in September 2023. The Chicken Board nonetheless gave the processors an opportunity to provide additional information, none of which was verifiable. Further, the PPPABC's continued objections have already been raised and thoroughly discussed and the Chicken Board has made decisions on a path forward.

1. **"Maintaining the current interim Pricing Formula through 2024 and working towards an A-194 implementation"**. The PPPABC have provided no rationale for this. The industry has been seeking resolution on the live price for decades, and further delay is not necessary.
2. **"Revise and adjust the elements and methodologies in the Recommendation to align more closely with the Ontario Live Price Formula..."**. A national COP framework is alluded to on page 5 and 7 of the Recommendation and will be included in the Chicken Boards 2024-2027 Strategic Plan. Although the Chicken Board has no expectation that in the short-term a national COP framework can be implemented, it agrees that a common framework nationwide with individual provincial cost inputs is desirable.
3. **"Coincident with the introduction of the new live price formula, introduce a hatchery margin increase, based on BC Hatchery COP similar to Ontario"**. The Chicken Board is supportive of an *efficient and transparent* BC Hatchery COP and looks forward to reviewing it with the Commission and other stakeholders. However, BC growers need not be penalized for the slow progress made by the vertically integrated hatcheries.
4. **"Develop a new "exceptional circumstances" mechanism/sleeve that recognizes BC's high cost of production environment and 'shares the burden' fairly..."** See the Chicken Board's response to "page 7, paragraph 17" and "page 8, paragraph 18".



Response to PPPABC's March 18, 2024, Letter to BCFIRB Re BC Chicken Marketing Board Information Request

While most of this submission is similar to the above, only a few of the items will be addressed to avoid redundancy.

Page 4

- **“The ON COPF ‘operating costs’ are updated annually while the BC COP increases them every cycle”**. The PPPABC is mischaracterizing how the updates to the BC COP are made. Cost elements within the BC COP are changed period to period based on different indexes (see Recommendation, Appendix A, page 50). The Chicken Board’s letter to the BCFIRB on March 11, 2024, at page 3, evidences that cost categories move both up and down and provide not just *increases*, but rather an accurate reflection of the costs of producing chicken. For example, comparing A-180 to A-188, feed, utilities, and MD lease cost all saw a decrease per kilogram in a period of high inflation. The Chicken Board’s position is that the BC COP is dynamic, responsive, and fair.

Page 8

- **“They state these factors add up to 4.55 cents per kg but the details behind that calculation have not been shared and as such is not clear on how they are being used to drive efficiency”**. The Chicken Board acknowledges that while three PPPABC members were invited to the JWG meetings, a full cohort did not always attend, with some meetings having no PPPABC members in attendance. The Chicken Board, however, can advise that the COP and supporting data were examined in great detail. Further, the calculations are outlined on pages 14-19 of the Recommendation. Also of note, the Recommendation did not state that it ‘adds up to 4.55 cents’, rather, the Chicken Board stated it is *“equal to **at least 4.55 cents; with additional significant impacts of farm size, and the downward pressure on the COP over time through annual updates of FCR and volume (kilograms sold)**”* (emphasis added). Thus, 4.55 cents is only an initial, easily quantifiable figure and conservative as to the eventual overall impact.

Response to BCEHA's March 18, 2024, Letter to BCFIRB Re BC Chicken marketing Board Long Term Chicken Pricing Recommendation

The Chicken Board agrees with the development of an *efficient and transparent* BC Hatchery COP and simply question why it has yet to be developed. As addressed in the above comments, and as addressed by the Commission in Appendices B & C, the delays have not been caused by either the Chicken Board or the Commission and we encourage a timely resolution. Many of the concerns expressed by the BCEHA reflect those raised in the PPPABC’s letter, so the Chicken Board’s response here will be limited to key additional points.

Pages 3-4

- **“The Board and Commission have not adequately considered the needs and impacts on hatcheries, processors, and other downstream industry stakeholders”**. The BCEHA had an opportunity to provide feedback on the needs and impacts when the Chicken Board included a member of the BCEHA to join the JWG and remained open to hearing their concerns. The BCEHA



walked out of the JWG meeting of September 19, 2023, provided no feedback to the Chicken Board after the draft presentation on September 19, 2023, or the industry presentation on

September 22, 2023. The BCEHA also did not attend the final JWG meeting of October 16, 2023. None of these concerns were raised by the BCEHA at any point during the JWG from its creation on April 18, 2023, to the last meeting on October 16, 2023.

Page 7

- **“The BCEHA is also concerned that the COP formula proposed in the Recommendation now contains a number of calculations and assumptions that are different than what is being used in the Commissions COP”.** The Chicken Board and Commission recognize there are differences in the COP methods, which are reflective of the different sector they operate in. The Chicken Board’s Recommendation addresses this on page 23, *“It is the Chicken Board’s view that if either party’s efficiency factors or methodologies are vastly disproportionate on either side, then it may require further discussion on a pricing relationship. Both formulas, with efficiency factors incorporated, provide a model for compensating the efficient grower and producer. In other words, there is not a disproportionate advantage of one sector over the other between the COP’s, and therefore both the Chicken Board and the Commission are satisfied with the hatching egg COP being an input into the Chicken Board’s COP based live price.”*

Response to BCEHA’s March 18, 2024, Letter to BCFIRB Re BC Chicken Marketing Board Information Request

The BCEHA’s concerns asserted in this letter are addressed by the Chicken Board in response to the PPPABC and BCEHA’s letters set out above. Again, as addressed above, and as addressed by the Commission in Appendices B and C, the delays are not due to either the Chicken Board or the Commission and we encourage a timely resolution.

Response to BCCGA March 18, 2024 letter to BCFIRB Re BC Chicken marketing Board Long Term Chicken Pricing Recommendation

The BCCGA letter, while addressing items they believe to be concerning issues, largely supports the fair and balanced process the Chicken Board took in developing our long-term pricing recommendation. The Board would comment that the Board developed a COP for an efficient grower. The BCCGA describes the efficiency factors as a ‘tax’, whereas the Board views these as a necessity to ensure growers are striving for efficiency and competitive farming operations in support of the larger BC industry.

March 25, 2024

VIA EMAIL

Kevin Klippenstein, Chair
BC Chicken Marketing Board
220-1848 McCallum Rd
Abbotsford BC
V2S 0H9

Dear Mr. Klippenstein,

RE: HATCHERY COST OF PRODUCTION PROGRESS AND CONCERNS FOLLOW UP WITH THE BC CHICKEN MARKETING BOARD.

The BC Broiler Hatching Egg Commission (the Commission) received the March 7, 2024, from Primary Poultry Processors Association of BC (PPPABC) letter to the BC Farm Review Board (BCFIRB) regarding the request for the BC Chicken Marketing Board (BCCMB) to provide more information.

The Commission responded to the PPPABC under separate cover but felt it prudent to ensure that the BCCMB has formal communication on the hatchery margin matter. The Commission has concerns regarding statements made within the PPPABC's March 7, 2024, letter that appear to mischaracterize the hatchery cost of production (COP) process progress.

The Commission has ongoing challenges in receiving information from the BC Egg Hatchery Association (BCEHA) on the progress of the hatchery COP. The Commission acknowledges BCFIRB's direction of the original April 29, 2020, Terms of Reference that, "BC Hatcheries [are] to receive a reasonable margin for hatching services." Still, we have yet to see a formal document submission from the BCEHA on the long-awaited hatchery COP.

The Commission is in the final implementation period of the hatching egg COP. It took ten pricing periods and over a year and a half to implement fully. In that timeframe, the BCEHA has provided no substantive update on the hatchery COP. The hatcheries report verbally at monthly hatchery meetings that progress is ongoing.

At the most recent hatchery meeting, the BCEHA told Commission representatives that the first draft was imminent but unusable as new components were to be added at the behest of their processor counterparts.

The PPPABC March 7, 2024, letter states, "Over the last number of years, BC hatcheries have acted in good faith and have not pursued hatchery margin increases to keep BC live price competitive and not adversely impact our negotiations." The Commission was and continues to be prepared to engage with the BC hatcheries on their COP and has never waived from their timelines. I have attached a letter from the Commission on October 26, 2023, requesting a progress update from the BCEHA. A response was received indicating a report would be provided by the end of 2023. No such report has been received and no other update on timelines has been given.

The PPPABC's March 7, 2024, letter also refers to unsustainable "stagnant" hatchery margins. The Commission reminded the PPPABC, and would like to remind the BCCMB, that the hatcheries did receive a margin increase at the implementation of the hatching egg COP.

The Commission finds it unsettling that the PPPABC would suggest a proxy number for an increase in hatchery margin be used; that would certainly not be acceptable to the Commission, or BCFIRB for that matter, as evidenced in the extensive analysis prepared for the Commission's COP roundtables, final submission, and implementation plan updates. The hatchery COP should be held to the same standard as the hatching egg and chicken COPs.

The PPPABC states in their March 7, 2024, letter that, "There are some modest differences in services provided between the provinces; they tend to offset and are not necessarily material". The Commission would suggest that some significant goods and services that are neither "modest" nor "offsetting" are included in the Ontario COP. An illustrative example of this difference is the vaccines. Ontario producers' vaccinations are included in the hatchery margin; Ontario producers do not pay for vaccines directly, whereas in BC, our producers do. Recently, BC poultry veterinarians have proposed a price of \$1.93 per placed bird. Without delving deep into the numbers, this cost translates into 1.89 cents per saleable chick. If the payment methodology of Ontario on vaccines was adopted, this would decrease the saleable chick price by 1.89 cents and increase the hatchery margin by 1.89 cents – without any change to the day-old broiler chick price paid by Chicken Growers. Additionally, there are vaccination labour differences between the provinces that should be mentioned; BC producers pay for the vaccination crews and Ontario includes those costs in the hatchery margin. This supports the Commission's continuing position that one cannot compare the BC hatchery margin against another provincial hatchery margin without examining each component of the underlying COPs – they clearly do not "offset."

The process employed by the Commission since its position letter of April 2018 on leaving the Linkage has been based on transparent, verifiable data. BCFIRB agreed in their June 3, 2022, decision that the Commission's process was sound. Therefore, it would be ill-advised to deviate from the current transparent process by making use of unverified "placeholders." Should the hatchery margin be as critical to hatcheries in BC as the PPPABC writes, they should prioritize the completion of the hatchery COP as agreed to and approved by BCFIRB. Verifiable data within our well-established transparent process are the only ways to ensure both the integrity of the Commission's COP is maintained and the BCEHA achieving the aim of an updated hatchery margin.

Thank you for allowing the Commission to bring this to your attention.

Regards,



Bill Vanderspek, Chair
BC Broiler Hatching Egg Commission

October 26, 2023

VIA EMAIL

John Franck, President
BC Egg Hatchery Association
505 Hamm Road
Abbotsford, BC V2T 6B6

Dear Mr. Franck,

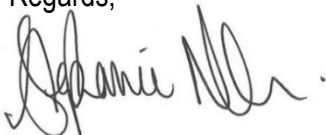
RE: HATCHERY COST OF PRODUCTION UPDATE REQUEST

The BC Broiler Hatching Egg Commission (the Commission) requests an update on the progress of the BC Egg Hatchery Association (BCEHA) Cost of Production (COP).

The BC Farm Industry Review Board (BCFIRB) approved the Commission's COP-based pricing proposal on June 3, 2022. Within that approval was a commitment to support the BCEHA's COP development. The Commission intends to keep that commitment, as previously evidenced by supplying data requested by Serecon Inc. earlier this year, and by our letter of May 23, 2023, seeking clarity of the BCEHA on the "broiler breeder productivity data" request.

To that effect, the Commission requests that a timeline and specific deliverables or a workplan be shared. The Commission reaffirms its commitment to supporting the BCEHA through their COP process. Please advise if there are any support or resources the BCEHA requires.

Regards,



Stephanie Nelson, Executive Director
BC Broiler Hatching Egg Commission

cc: Keith Nash – Staff, BCEHA