



March 18, 2024

Mr. Peter Donkers  
Chair  
BC Farm Industry Review Board

Dear Mr. Donkers:

**Re: Chicken Board Response to Pricing Panel Information Request**

The Primary Poultry Processors Association (PPPABC) appreciates the opportunity to respond and comment on the BC Chicken Marketing Board (Chicken Board) March 11, 2024 submission (Submission). The Submission was in response to the BC Farm Industry Review Board (BCFIRB) request for further information on the Chicken Board's October 30, 2023 live pricing Recommendation. Specifically, the BCFIRB asked the Chicken Board to update the information contained in Figure H of the Recommendation<sup>1</sup> and update the analysis to include A-180 – A-192 allocation periods and the January 2024 updates to the Ontario Live Price Formula (ONCOPF). BCFIRB also requested a similar analysis for other cost of production formulas in the western provinces, and the extent to which the Chicken Board analysis provides an approximation of the British Columbia's competitiveness in national chicken price marketplace.

It is the PPPABC opinion that the analysis within the Submission does not adequately consider and respond to the BCFIRB request. The Chicken Board is an "industry board" and it is concerning that their response is incomplete, lacks objectivity, and shows little understanding of how downstream markets and business operate. The Chicken Board does not seem to accept price and demand relationships, implying that having the

---

<sup>1</sup> Figure H – Comparison of BC posted live price vs BC COP vs Ontario Posted live price

highest live price in Canada does not impact the competitive position of BC processors. The Chicken Board is also misrepresenting the influence and impact that BC processors have on the national allocation system. The inability of the Chicken Board to address and assess the impact of the Recommendation on processor competitiveness and downstream stakeholders presents significant short term and long-term risks to the industry.

The Chicken Board has provided some updated data in their response to FIRB but the underlying analysis and major aspects of the commentary provided are not acceptable to the PPPABC because:

- The analysis is limited in scope and does not clearly indicate the changes from the Recommendation
- The Live Price Differential from the Recommendation continues to be understated
- The Chicken Board has not adequately provided a response to the BCFIRB request of providing “an approximation of BC’s competitive position in the national chicken price marketplace”
- The BCCMB has inaccurately defined “efficiency factors”
- Conceptually the Chicken Board has now determined that “efficiency factors” on farm will become the solution to the cost disadvantages faced by the BC poultry industry and the competitiveness of BC Processors.
- The BCCMB introduces concepts which are speculative and or misleading to rationalize their positions.

### **THE ANALYSIS IS LIMITED IN SCOPE AND DOES NOT CLEARLY INDICATE THE CHANGES FROM THE RECOMMENDATION**

The Chicken Board use the Submission to update their COP projections in Figure G from A-183 to A-188, however have failed to provide any commentary on what, if anything, has changed from their original submission. They simply show the BC live

price calculation for these periods with no context around and changes or the impact on the live price differential with Ontario.

Table 1 below takes the live price data provided by the Chicken Board and compares it to the corresponding live price from the Ontario Cost of Production Formula (ONCOPF) for the same cycles and calculates the BC COP live price differential relative to Central Canada.

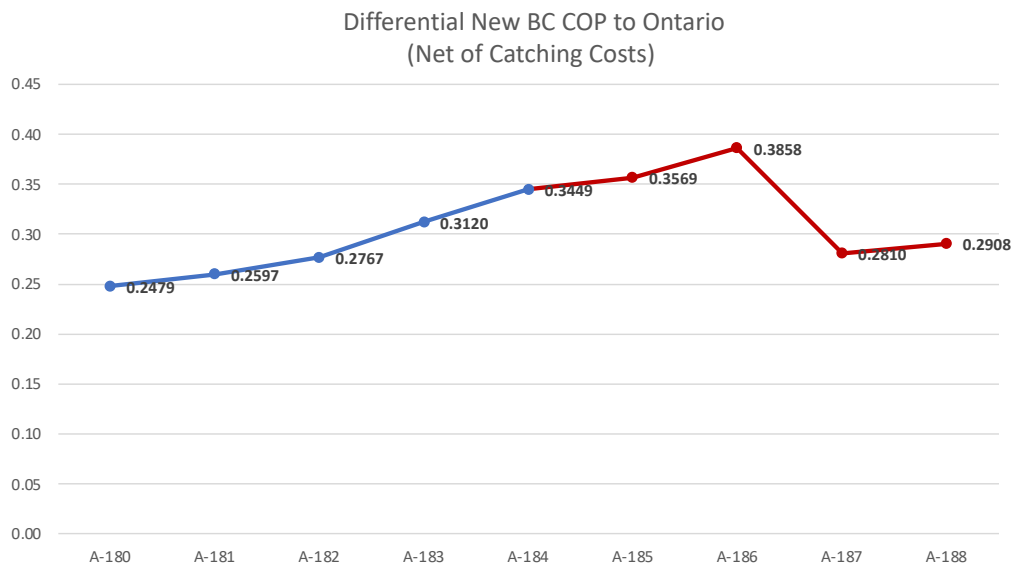
Table 1 – BC COP Impact on Competitiveness

	A-180	A-181	A-182	A-183	A-184	A-185	A-186	A-187	A-188
<b>New BC COP (Net of Catching)</b>	2.3368	2.3469	2.3791	2.3861	2.3613	2.3641	2.3729	2.3453	2.3103
<b>BC Posted Price (Net of Catching)</b>	2.2400	2.2290	2.2430	2.2270	2.1710	2.1735	2.1631	2.1960	2.1588
<b>Increase Over Current Live Price</b>	0.0968	0.1179	0.1361	0.1591	0.1903	0.1906	0.2098	0.1493	0.1515
<b>ON Posted Price</b>	2.0889	2.0872	2.1024	2.0741	2.0164	2.0072	1.9871	2.0643	2.0195
<b>BC COP/ ON Live Price Differential</b>	0.2479	0.2597	0.2767	0.3120	0.3449	0.3569	0.3858	0.2810	0.2908

In comparing the current BC live price to the New BC COP, the BC COP live price peaked at \$0.1903 over the current interim formula in the previous analysis, that number now peaks closer to \$0.21 when including the additional cycles.

Similarly, in the Exhibit 1 below we have plotted the BC live price differential vs Central Canada which shows that the differential experienced in both A-185 and A-186 would have been higher than any number represented in the previous analysis.

Exhibit 1



It is also critical to understand the changes in trends that took place between A-186 and A-187 when the ONCOPF was updated. There was a material reduction to the live price differential between A-186 and A-187 as a result of the increase in the ONCOPF coming from the annual operating cost adjustment. One of the fundamental differences in the methodologies between the Ontario and BC cost of production models is the updating methodologies of grower operating costs. The ONCOPF “operating costs’ are updated annually while the BC COP increases them every cycle. As a result, the only time when the grower operating costs are comparable between BC and Ontario is at the beginning of the year. In fact, the methodology creates a competitive disadvantage for BC processors by increasing the live price differential for BC Processors every cycle of the year.

Table 2 below extrapolates the increase in BC Operating using the average increase in operating costs from A-180 – A-188 while holding feed and chick costs constant. This shows the gradual increase in operating costs that are included in the BC COP which increase the differential over the course of the year.

Table 2 – Operating Cost Impact on Competitiveness

	A-187	A-188	A-189	A-190	A-191	A-192
<b>New BC COP (Net of Catching)</b>	2.3453	2.3103	2.3139	2.3175	2.3211	2.3247
<b>BC Posted Price (Net of Catching)</b>	2.1960	2.1588	2.1588	2.1588	2.1588	2.1588
<b>Increase Over Current Live Price</b>	0.1493	0.1515	0.1551	0.1587	0.1623	0.1659
<b>ON Posted Price</b>	2.0643	2.0195	2.0195	2.0195	2.0195	2.0195
<b>BC COP/ ON Live Price Differential</b>	0.2810	0.2908	0.2944	0.2980	0.3016	0.3052

In summary, when the data is updated to include the A-183 to A-187 production cycles it shows that the maximum BC COP live price increase over the interim formula is higher than was originally forecast as is the live price differential. The impact of the ONCOPF changes show that while it is likely that the live price differential will be lower at the beginning of the year, it will increase over the course of year because of methodology differences in the operating cost updates in the BC and Ontario pricing models.

## **THE LIVE PRICE DIFFERENTIAL FROM THE RECOMMENDATION CONTINUES TO BE UNDERSTATED**

In providing their analysis the Chicken Board continues to underestimate the full impact of their “recommendation” on the BC Live Price. Stakeholders all understand that the BC hatchery margin has not been fully addressed in the context of the Terms of Reference. While the BC Hatchery margin did increase at the time of the implementation of the BC Hatchery COP, the increase at that time was modest as there had been no previous increase for approximately 10 years.

The PPPABC believes that an increase to the BC hatchery margin is inevitable. It needs to be recognized the BC hatchery margins are currently more than \$0.10 / chick below Ontario hatchery margins. While it is understood that some the services provided in Ontario differ from what BC hatcheries provide and vice versa, they cannot account for the entire difference.

In order to fully assess the impact of the Recommendation, the Chicken Board needs to provide COP calculations that include all aspects of the Terms of Reference for the Supervisory Review. The COP calculations should therefore include an estimate of the hatchery margin as outlined in the Terms of Reference in order to measure the full impact of the Recommendation. If the Chicken Board is concerned that they are not able to make an accurate forecast of the pending hatchery margin increase, then a simple sensitivity analysis should be included. Because the Chicken Board has not provided for an allowance for a hatchery margin increase, they have understated the actual live price that will result from the Recommendation.

In the Table and Exhibits below we have added an increase to the hatchery margin to better understand what the full impact of the Recommendation will be on the BC live price and the live price differential vs Central Canada.<sup>2</sup>

---

<sup>2</sup> The PPPABC analysis assumes a hatchery margin equivalent to Ontario as a proxy which is an increase of 10 – 12 cents per chick. This translates into a 5 cent increase in BC chick cost per kilogram which is then incorporated into the BC live price.

Table 3 – BC COP Including Hatchery Margin Impact on Competitiveness

	A-180	A-181	A-182	A-183	A-184	A-185	A-186	A-187	A-188
New COP inc Hatchery Margin (\$0.05 / kg)	2.3868	2.3969	2.4291	2.4361	2.4113	2.4141	2.4229	2.3953	2.3603
BC Posted Price (Net of Catching)	2.2400	2.2290	2.2430	2.2270	2.1710	2.1735	2.1631	2.1960	2.1588
Increase Over Current Live Price	0.1468	0.1679	0.1861	0.2091	0.2403	0.2406	0.2598	0.1993	0.2015
ON Posted Price	2.0889	2.0872	2.1024	2.0741	2.0164	2.0072	1.9871	2.0643	2.0195
Differential New COP inc Hatchery Margin to ON	0.2979	0.3097	0.3267	0.3620	0.3949	0.4069	0.4358	0.3310	0.3408

Exhibit 2 – Live Price Scenario Comparisons Including Hatchery Margin

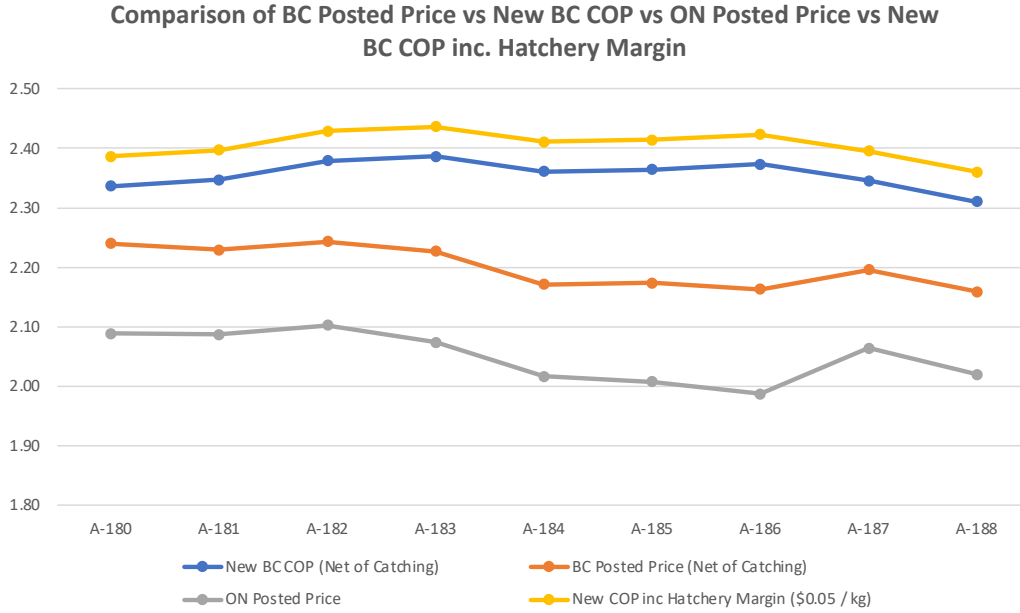
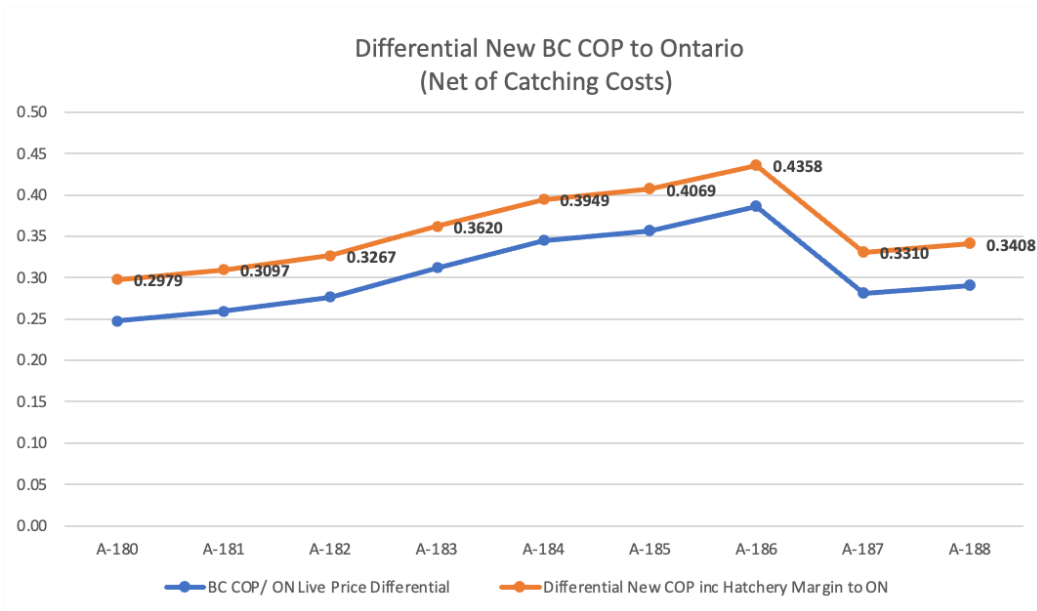


Exhibit 3 – Live Price Differential Including Hatchery Margin



The Chicken Board update of Figure H, as requested by BCFIRB, continues to understate the BC live price differential with Central Canada which is the most important element of processor competitiveness.

More importantly, the Chicken Board analysis continues to neglect any provision for a hatchery margin increase in the Recommendation which will materially increase the live price differential. The Chicken Board position that they cannot include a hatchery margin increase in the Recommendation because there is currently no hatchery COP is reckless and shows a disregard for processors and downstream stakeholders. This also demonstrates the fundamental flaw in the supervisory review process where pricing schemes can be approved and introduced independently with no understanding of overall industry impact.

It is particularly concerning to the PPPABC that in their submission, the Chicken Board would rather comment on the process the hatcheries need to follow to realize a margin increase as opposed to acknowledging that the hatchery margin is well below that of Ontario hatcheries and that an increase that will materially impact the BC live price is inevitable.

**THE BCCMB HAS NOT PROVIDED AN ADEQUATE RESPONSE TO THE FIRB REQUEST OF PROVIDING “AN APPROXIMATION OF BC’S COMPETITIVE POSITION IN THE NATIONAL CHICKEN PRICE MARKETPLACE”**

The BCCMB should recognize that their recommendation will result in a Live Price cost disadvantage for BC Processors in the range of \$90M annually (\$0.35 times BC annual production). The BCCMB is also aware that BC Processors have additional cost advantages in their processing facilities related to scale, efficiency and labour rates.

The submission is silent on the impact this will have on BC Processors

The BCCMB has been advised by PPPABC Members through confidential submissions some of the plans that BC Processors are putting in place that should be of serious concern to the industry. Major Capital investments will be cancelled, jobs will be lost but the BCCMB has not included these scenarios in their response.

Instead, the Board has suggested that processors should invest outside BC, and that the National Allocation system will protect them.

The PPPABC holds the strong view that BC will very quickly become the “chicken source of last resort” in the Canadian marketplace due to its live price being the highest in the country. In very simple terms, given that the allocation system in Canada is controlled by growers through the double majority voting system at CFC there will always be a tendency to “oversupply” the Canadian market. Economic theory would suggest that given the high prices, the oversupply will flow to BC over time as supply chains adjust to the new pricing landscape in Canada. BC Processors will be forced to sell the excess volume at discounts into the commodity markets or put the product into storage. Either scenario has significant negative financial consequences for BC Processors. The PPPABC has shared these scenarios with the BCCMB, but the Board has chosen to not to respond on the FIRB question regarding the competitive realities of the BC industry under their recommendation.

### **THE CHICKEN BOARD HAS INACCURATELY DEFINED “EFFICIENCY FACTORS”.**

The Chicken Board has not been clear as to whether the BC COP is based on “a reasonable return for an average grower” or a “reasonable return for an efficient grower”. The Board states in their submission that the COP model represents a fair return to an “average grower” but then goes on to rationalize that there are elements in the survey that are actually reflective of an efficient farm. The BC Live Price is intended to provide “a reasonable return for an efficient farm.”

The Chicken Board states in their original submission that Farm Size, Bird Weight, Barn Density, Feed Conversion Rate and Annual Volume Adjustments will be used as “efficiency factors” in their proposed COP. They state that these factors add up to 4.55 cents per kg but the details behind that calculation have not been shared and as such it is not clear on how they are being used to drive efficiency.



Most concerning is that some of these factors (FCR and Annual Volume Adjustments and possibly others) are updated on a regular basis within the ONCOPF (and possibly within the BCBHEC COP) as elements used to provide an accurate COP.

**CONCEPTUALLY, THE CHICKEN BOARD HAS NOW DETERMINED THAT “EFFICIENCY FACTORS” ON FARM WILL BECOME THE SOLUTION TO THE COST DISADVANTAGES BEING FACED BY THE INDUSTRY AND THE COMPETITIVENESS OF BC PROCESSORS.**

The Chicken Board position is that they will “gauge competitiveness through an efficient grower COP”. If we are to understand the thinking behind the Chicken Board concept, it suggests that as long as BC growers are efficient, then BC Processor will be competitive. From the PPPABC perspective, we have a fundamental disconnect on this concept. While we understand that efficiency factors, if properly applied can help to reduce live price, it is the view of the PPPABC that the reduction in live price from “efficiency factors” by no means ensures that processors will be competitive. To illustrate our point, using the numbers provided by the Board in their submission, the forecasted Live Price differential vs Central Canada, when adjusted for the increased hatchery margins will be in the range of 35 cents / kg. This apparently includes \$0.0455 cents of “efficiency” in the BC COP (which we believe is not accurate – see previous section). The Board is suggesting that this recovery of 4.55 cents / kg allows the BC Processor to be competitive with a 35 cent / kg or \$90 million annual cost disadvantage vs central Canada.

It should be noted that the ONCOPF actually includes efficiency factors in the ONCOPF calculations and as such it is questionable whether the efficiency factors identified by the Chicken Board actually provide any competitive advantage.

It is also ironic that the Board is using the rationale that a lower live price created by efficiency factors improves the competitive position of BC Processors. However, one of their fundamental arguments throughout the supervisory review has been that live price cannot be used to measure processor competitiveness.

## **THE CHICKEN BOARD INTRODUCES CONCEPTS WHICH ARE SPECULATIVE AND / OR MISLEADING TO RATIONALIZE THEIR POSITIONS**

**COP Costs**<sup>3</sup> - The Chicken Board submission puts forward a table comparing BC and Ontario COP costs for the A-188 production cycle. They comment on how some costs are higher or lower with lower operating and labour costs attributable to their “built in efficiency factors” which are not substantiated. Later in their commentary the Chicken Board indicates that the categories are not comparable due to differences in methodology and are more of a guide than a direct comparison. Since this is not a direct comparison of costs, it is not clear what this table is trying to tell BCFIRB. Also, since the comparison cannot be validated it is not reliable and should be relied on by BCFIRB in their decision-making.

**Efficiency Factors**<sup>4</sup> - The Chicken Board asserts on a number of occasions that when growers realize 100% of the COP that the efficiency factors will likely put “significant downward pressure on the live price result.” There is no analysis or evidence to substantiate these comments and as such it is merely speculation by the Chicken Board to support the Recommendation. The PPPABC would question whether there would be anything motivating growers to reduce costs under a COP pricing formula that does not already exist in current pricing schemes. Furthermore, the PPPABC holds the view that given the COP is based on a grower costs, that there would be a segment of growers very content to let costs increase knowing they will be covered.

**Influencing Allocations**<sup>5</sup> - The Chicken Board implies that BC Processors have influence on the national allocation system which is not accurate. While we do participate in the allocation discussions, it is very clear given the Chicken Farmers of Canada (CFC) allocation voting structure<sup>6</sup> that the grower bodies across the country maintain ultimate control on allocations. We have had numerous discussions with the

---

<sup>3</sup> BC Chicken Marketing Board, Re: BCCMB Response to Pricing Panel Request of March 4, 2024, p. 4

<sup>4</sup> Ibid p.4, p.6

<sup>5</sup> BC Chicken Marketing Board, Re: BCCMB Response to Pricing Panel Request of March 4, 2024, p. 8

<sup>6</sup> CFC Allocation Voting Structure requires a double majority of votes and chicken production from the 14 member CFC Board which includes 10 grower bodies, 2 processor reps, 1 further processing rep, and 1 Food Service rep

Chicken Board on allocations however they have never taken our recommendations forward to the national table.

**BC COP is Lean & Efficient**<sup>7</sup> - The Chicken Board needs to explain what is meant by the following comments, “Further, with the update of CFO’s COP in A-187, it has been proven that the COP proposed by the BC Chicken Board is lean and efficient. This gives the full opportunity for processor competitiveness while balancing the need for fair returns to growers.” It is well known that the BC feed conversion in the COP will be at least 3 years out of date and is overstating feed costs, we know that interest on working capital is 25 times than Ontario. The Chicken Board seems to be implying by this statement that because operating costs are comparable to Ontario that the COP is lean and efficient. These are the same costs they said were not comparable earlier in their submission and again is inconsistent and misleading.

**Phased Implementation**<sup>8</sup> - The Chicken Board is advocating for a compressed phase in process that is not acceptable to processors. The Chicken Board has stated that “A phased in approach is necessary to ensure all stakeholders have an appropriate period to adjust to the new paradigm and pricing formula and for the Board to monitor other developments”.<sup>9</sup> The Chicken Board original 6 period phase in period has now been compressed with the expectation that the COP will be fully implemented to 100% by the A-192 production cycle. This benefits and has little impact on the growers but becomes severely limiting to ability of other stakeholders to “adjust to the formula” and for the Chicken Board to “monitor other developments”. The fact that the BCCMB has simply assumed their submission would be rubber stamped and implemented in a very short time frame should not create negative consequences for the processors. This again shows a fundamental flaw in the process and a disregard for processors and downstream stakeholders.

---

<sup>7</sup> Ibid p. 8

<sup>8</sup> Ibid p.5

<sup>9</sup> BC Chicken Marketing Board, BC COP Based Live Price Decision, October 30, 2023, p. 19

**BC Poultry Capital Investments**<sup>10</sup> - It is very concerning to see the Chicken Board who is supposed to be an industry board making comments that “BC Processors may make National adjustments” to resolve protect their competitive positions in the Canadian poultry industry. Given that some processors have operations outside of BC, the Chicken Board is implying that these processors should invest outside of BC to maintain their competitiveness. This is irresponsible for a board that is supposed to be promoting and furthering the best interests of the industry.

**Live Price to Retail Price Relationship**<sup>11</sup> - The Chicken Board has provided analysis of how the proposed increase on live prices relates to retail prices. The analysis is fraught with invalid assumptions and inaccuracies, and it is not clear that it has anything to do with the competitiveness questions posed by BCFIRB. It is also extremely concerning and shows a lack of understanding of processing and downstream businesses that the Chicken Board would say the live price increase only represents 1.7% of retail chicken prices or 0.94% of retail chicken breasts. At the most basic level, processors sell eviscerated not live chicken and costs do escalate as the products through the system. This would be similar to saying that feed costs should not up because the increase in the price of wheat was only 1.7%. While Chicken Board admits this analysis is “simplistic” it is also very misleading and self-serving as it is being used to dismiss the legitimate concerns of processors and downstream stakeholders

The second half of the statement is perhaps even more concerning and reenforces that bias of the Chicken Board. The BC COP as submitted will result in a Live Price vs Central Canada that is 30-35 cents (15% +/-) greater than Ontario. The Chicken Board is saying that this differential allows “full opportunity for processors competitiveness while balancing the need for fair return for growers”. The BC industry is facing a very significant challenge due to its high costs of production which must be shared across all stakeholders in the industry. The solution being brought forward by the Board is placing the entire burden on the processing sector, which is in no way a balanced solution.

---

<sup>10</sup> BC Chicken Marketing Board, Re: BCCMB Response to Pricing Panel Request of March 4, 2024, p. 8

<sup>11</sup> Ibid p. 8 - 9

**Cost Sharing Mechanism**<sup>12</sup> – The Chicken Board maintains that the reason for the BC’s high live price differential with Ontario is feed costs. The Chicken Board also appears to be under the impression that because the differential is caused by feed costs which is a “direct cost” that it is exempt from the live price differential. The PPPABC understands and agrees that high price differential is coming from feed cost differences, however the question is not “what is causing the differential”, but rather “what is the differential and “how are we going to deal with it”. As has been mentioned in other submissions, BC is a high-cost environment and mechanisms to “share the burden” are required to maintain a viable industry. If the Recommendation is implemented, BC processors should be entitled to same relief from excessive feed costs, that growers received in the Interim Pricing Formula.

## **SUMMARY**

It is the position of the PPPABC that the Chicken Board’s response to the BCFIRB request for further information and analysis on competitiveness is not complete and in particular does not adequately reflect massive competitive cost disadvantage that will be faced by BC processors if the Recommendation is implemented.

The critical question that is not being answered is whether the industry can survive and flourish in the live price environment the Chicken Board is proposing. Further, the Chicken Board’s “wait and see” approach to the Recommendation is not sound marketing policy and presents significant risk to the industry.

BC Processors have met with the Chicken Board and provided insights on how the changes will negatively impact their respective businesses and the BC industry, but the Chicken Board has chosen to go forward putting the processing sector in BC and other downstream stakeholders at significant risk.

---

<sup>12</sup> Ibid p. 4

We agree that there is a need for a path forward and we direct BCFIRB to our recommendations in our March 18, 2024 *BC Chicken Marketing Board Long Term Chicken Pricing Recommendation* submission.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'B. Shier', written in a cursive style.

Blair Shier  
President  
Primary Poultry Processors Association of BC

c. PPPABC Members