



March 18, 2024

BC Farm Industry Review Board  
Chicken Live Price Supervisory Review Panel

Dear Supervisory Review Panel:

### **BC Chicken Marketing Board Long Term Chicken Pricing Recommendation**

The Primary Poultry Processors Association of BC (PPPABC) as well as other downstream customers and stakeholders<sup>1</sup> take the position that it would not be sound marketing policy for the BC Farm Industry Board (BCFIRB) to accept the British Columbia Chicken Marketing Board's (Chicken Board) recommendation for a new long-term pricing formula (the Recommendation) in its current form. Contrary to its obligation to "achieve a fair balance between the conflicting economic interests of industry stakeholders",<sup>2</sup> the Recommendation flagrantly favours the interests of growers at the expense of other industry stakeholders and consumers. The PPPABC recommends the interim formula be maintained until the Recommendation is refined to represent BC grower costs more accurately and include a safeguard to protect industry stakeholders from "exceptional circumstances."

We are particularly concerned about the impact and financial harm the Recommendation would impose on processors, hatcheries, downstream customers, and consumers.<sup>3</sup> Under the Recommendation there would be a significant loss of BC capital investment including the cancellation of a proposed new chicken processing plant,<sup>4</sup> production line closures, loss of jobs and increased pressure on retail and food service customers, and higher prices for BC consumers. Implementing the Recommendation would result in

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<sup>1</sup> Downstream stakeholders who are using the PPPABC to express their concerns with the Recommendation include: the Canadian Poultry and Egg Processors, Restaurants Canada, the Canadian Federation of Independent Grocers, BC Food and Beverage, as well as several independent restaurant franchisees.

<sup>2</sup> [BC Chicken Marketing Board, Code of Conduct, Article 1\(b\).](#)

<sup>3</sup> The Recommendation has garnered significant attention from customers, retailer and restaurant associations, as well as local and national news media which is bringing increased profile and scrutiny to the price of BC chicken, the pricing policy framework, and supply management in general.

<sup>4</sup> Loss of capital investment for processing plant expected to be \$250 - \$270 million with \$600 in economic spin-offs and the loss of 400 – 500 construction jobs.

processors taking immediate defensive measures by eliminating market development volumes and shifting national contracts to other provinces. Trading patterns between processors and customers would undergo massive changes regionally and nationally, with BC processors facing significant risk of losing their high-value business and profitability to other provinces.

Our position that the process to develop the Recommendation was flawed is well-known. It was developed without independent oversight and built around predetermined outcomes<sup>5</sup> and supported by selective information and data-bias towards the Recommendation. A process in which pricing schemes for different sectors are independently approved and introduced also negates the ability for BCFIRB and stakeholders to complete a comprehensive assessment and of the overall impact of these pricing schemes on the industry. As well, 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. In today's feed cost environment, this sharing of the cost burden has never been more important – as BC consumers pay some of the highest chicken prices in Canada.

The Recommendation remains incomplete and is using outdated and inaccurate data. By not including the anticipated hatchery margin increase of 10 – 12 cents, the BC live price differential with Ontario is being understated by 5 – 6 cents. The Recommendation is also using outdated and inaccurate data with the feed conversion ratio (FCR) – now over 3 years old. In addition, cost elements like labour and working capital are inflated, particularly when compared to Ontario. All of this is artificially inflating grower costs in the formula and distorting the actual impact of the Recommendation. The calculation and updating methodologies in the Recommendation are significantly different than those in the Ontario COP, which distorts the comparability of production costs between the provinces.

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<sup>5</sup> The composition of the Chicken Board makes it susceptible to a reasonable apprehension of bias: [British Columbia Chicken Marketing Scheme, 1961, BC Reg 188/61, Section 3.02](#) where the board must have 2 members who are registered growers.

## **Question #1 – Concerns BCFIRB Should be Aware of Regarding Process**

The PPPABC has expressed its concerns with the pricing review process to both the Chicken Board and BCFIRB on several occasions over the past three years.

### ***Procedural Unfairness***

Early in the Supervisory Review process, the Chicken Board analysis of live pricing alternatives cited and acknowledged on 7 occasions that a COP pricing model does not satisfy, recognize, and will negatively impact the marketing policy objective of processor competitiveness.<sup>6</sup> The same analysis showed that other pricing models better balanced processor competitiveness and grower returns,<sup>7</sup> but the Chicken Board decided to pursue a COP pricing model. This approach became further entrenched when it became clear that the BCFIRB would likely approve the BC Broiler Hatching Egg Commission (BCBHEC) COP pricing formula.

The decision to pursue a COP pricing model, was coupled with a lack of independent oversight of the process, and the Chicken Board leading the process, (despite their recommendation for independent leadership) has been problematic. This enabled a pattern of the Chicken Board using data and information selectively that would support and promote their COP pricing decision. The selective use of data and information also extended to how the Chicken Board used third parties that would support its predetermined outcome. Examples of selective data and the ineffective use of third parties includes but is not limited to the following:

- 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 and as such BC processors would not have the ability to pass significant live price increases through to consumers.<sup>8</sup>

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<sup>6</sup> BC Chicken Marketing Board, Pricing and Linkage Review – Preliminary Decision, Key Issues and Considerations, April 19, 2021, p. 10 - 19

<sup>7</sup> Ibid p. 20 - 29

<sup>8</sup> Ibid p.19

- Processor Comparative Cost Data – the Chicken Board rejected independent third-party data (Agri-Stats) that showed BC processors having significantly higher actual verified processing costs compared to their Central Canada counterparts in favor of the growers' unverified anecdotal processor cost model showing lower costs. The growers' processor cost model has never been shared so that it could be scrutinized.
- Serecon developed the COP using historical approaches, some of which were shown to be inaccurate. Also, based on direction from the Chicken Board, Serecon collected cost data from growers in advance of any stakeholder engagement or agreement on the methodologies and calculations to be used in the COP. This has led to compromises and transparency issues with some of the calculations.
- MNP was engaged with a limited scope and used primarily to validate the calculations in the Serecon COP. While they also found a number of errors (which were corrected), MNP, who was familiar with the Ontario COP, was not asked to provide alternate approaches to the Serecon methodologies.
- Hugh Scolah was engaged by the Chicken Board to define processor competitiveness metrics based on the grower's processor model. During his presentation to the Joint Working Group, Scolah gained broader insights into industry and acknowledged that his views of processor competitiveness were incorrect, and his metrics needed to be reconsidered. This reconsideration did not take place, and the Recommendation is proposing to use the original metrics to support exceptional circumstances requests going forward.

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.<sup>9</sup> There is no apparent basis for this as the Recommendation provides data which clearly shows that labour efficiencies improve as barn size increases.<sup>10</sup> BC farms are on average 68% larger than Ontario farms and therefore BC should have labour cost efficiency advantages.

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<sup>9</sup> BC Chicken Marketing Board BC COP Based Live Price Decision, October 30, 2023, p.38 – 39.

<sup>10</sup> Ibid, p. 15.

### ***Need for a Coordinated Approach***

The process which introduces new pricing formulas and updates independently and layers them on top of one another does not provide BCFIRB or stakeholders with a clear understanding of the overall industry impact of the different pricing formulas. For example, the Chicken Board is asking for approval of the Recommendation before the BC hatchery margin issue has been addressed. The increase in hatchery margin will materially increase the BC live price, and the live price differential with Ontario beyond levels projected in the Recommendation which distorts the overall industry impact. The combined impact of these different price schemes needs to be fully quantified and integrated before making any determination on whether BC processors will have a live price that allows them to compete in the national marketplace.

Historically there has also been consensus that because BC is a high-cost production environment 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 and the sharing mechanism developed prior to implementation.

The sharing mechanism has not been adequately addressed because pricing formulas are being developed and implemented independently, without regard to their impacts on one another.<sup>11</sup> The standalone approval of BC Broiler Hatching Egg COP has set unrealistic pricing expectations for other stakeholder groups.

### **Question 2 - Sound Marketing Policy Concerns of Which BCFIRB Should be Aware**

BCFIRB needs to be aware of the following sound marketing concerns and should not approve the Recommendation until they are properly addressed by the Chicken Board.

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<sup>11</sup> In fact, it could be argued that it would have been better if the BC Broiler Hatching Egg COP had not been approved until such time as the other price formulas and an overall industry impact assessment were completed.

## ***Failure to Address Processor Competitiveness in the Canadian Marketplace***

The Chicken Board has failed to define processor competitiveness and as such has not satisfied the policy objective outlined in the April 2020 Terms of Reference. The Chicken Board asserts that processor competitiveness cannot quantitatively be pre-determined, and the only way to establish if processors are no longer competitive is for them to show business losses, reduced capital investments and plant closures.<sup>12</sup> With respect, this approach is an abdication of the Chicken Board's obligation to balance conflicting stakeholder interests.<sup>13</sup>

Through a confidential process, Processors outlined to the Chicken Board the capital investment consequences and market implications of the Recommendation.<sup>14</sup> Following those submissions, the Chicken Board accepted that "... the new pricing framework may add additional pressure, including in the management of BC production ..." but nevertheless declined to reconsider the Recommendation.<sup>15</sup> The Chicken Board effectively takes the position that a significant increase to the BC Live Price will be introduced and "we will see what happens". This approach has created intense public scrutiny on the process and cannot be seen as balanced, responsible or as a sound marketing approach for the industry.

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 as summarized in Exhibit 1 below. This differential puts BC processors at a \$75 million annual cost disadvantage to processors in Central Canada, not including the processing cost differences outlined in the Agri-Stats data. This cost difference also does not include the anticipated increase in hatchery margin which will potentially increase the live price and processor costs by an additional 5 – 6 cents per kg or \$12 - \$15 million annually. These increases will put BC processors at a \$90 million cost disadvantage just on raw materials. Despite the increases to the "Producer Margin" component in the Ontario

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<sup>12</sup> Hugh Scolah's Competitiveness Factors – Loss of Processing Capacity, Loss of Further Processing, The Rate of Capital Investment into Processing

<sup>13</sup> See footnote 2, above.

<sup>14</sup> Chicken Board Response to Confidential Processor Submissions dated February 14, 2024, pg. 1. PPPABC members are prepared to share the same information with BCFIRB subject to appropriate non-disclosure terms.

<sup>15</sup> *Ibid*, pg. 2-3

COP<sup>16</sup> that were introduced in A-187, our analysis indicates that the Live Price Differential will remain in the range of 35 cents (15 - 17%) higher than Ontario when considering the expected increase to the hatchery margin. This is well in excess of any historical difference, cannot be considered reasonable, and will put processors and downstream stakeholders at considerable risk.

#### Exhibit 1 – BC COP Cost Differences and Differentials with Ontario

BC COP Live Price Net of Catching)	A-180	A-181	A-183	A-184	A-185	A-186	A-187	A-188
Chick Costs	0.4517	0.4572	0.4630	0.4549	0.4620	0.4701	0.4796	0.4670
Feed Costs	1.2260	1.2256	1.2374	1.2138	1.2055	1.2052	1.1692	1.1557
Total Operating and Capital Costs	0.6591	0.6641	0.6857	0.6926	0.6966	0.6976	0.6965	0.6876
Total Cost of Production Net of Catching	2.3368	2.3469	2.3861	2.3613	2.3641	2.3729	2.3453	2.3103
Ontario Live Price	A-180	A-181	A-183	A-184	A-185	A-186	A-187	A-188
Chick Costs	0.4654	0.4716	0.4719	0.4729	0.4854	0.4887	0.4872	0.4928
Feed Costs	1.0176	0.9905	0.9771	0.9184	0.8967	0.8733	0.8733	0.8229
Total Operating and Capital Costs	0.6059	0.6251	0.6251	0.6251	0.6251	0.6251	0.7038	0.7038
Total Cost of Production	2.0889	2.0872	2.0741	2.0164	2.0072	1.9871	2.0643	2.0195
Differentials	A-180	A-181	A-183	A-184	A-185	A-186	A-187	A-188
Chick Costs	-0.0137	-0.0144	-0.0089	-0.0180	-0.0234	-0.0186	-0.0076	-0.0258
Feed Costs	0.2084	0.2351	0.2603	0.2954	0.3088	0.3319	0.2959	0.3328
Total Operating and Capital Costs	0.0532	0.0390	0.0606	0.0675	0.0715	0.0725	-0.0073	-0.0162
Total Cost of Production Net of Catching	0.2479	0.2597	0.3120	0.3449	0.3569	0.3858	0.2810	0.2908
Adjusted for Hatchery Margin Increase - \$0.05	0.3090	0.3210	0.3734	0.4062	0.4184	0.4475	0.3429	0.3524

The Recommendation concludes that the only appropriate regulatory option available to measure processor competitiveness is through BC grower efficiency regardless of the live price. This is not sound marketing policy, as grower efficiency and price competitiveness are distinct concepts. For this approach to be effective and to impact the live price differential, and the \$90 million competitiveness gap, BC growers would have to be significantly more efficient than their Ontario counterparts and there has been no transparent quantification of growers. Also, if the Chicken Board is advocating that grower efficiency will lower the BC live price, then they would logically endorse the live price, and the differential with Ontario as an indicator of competitiveness.

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 circumstance request to be considered by the Chicken Board,<sup>17</sup> it would need to include a verifiable combination of factors including the live price differential, allocation changes, and the previously

<sup>16</sup> Chicken Farmers of Ontario Website – Farmer Dashboard

<sup>17</sup> BC Chicken Marketing Board BC COP Based Live Price Decision, October 30, 2023, p.12

debunked “Hugh Scolah” competitiveness factors.<sup>18</sup> This approach effectively makes the threshold for a processor competitiveness exceptional circumstance untenable, and highly unlikely to be recognized by the Chicken Board.

As an aside, BCFIRB in its decision to amend the interim formula said it was sound marketing policy to apply “exceptional circumstances” to address abnormal feed pricing which was negatively impacting growers. 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, downstream stakeholders and consumers. The Chicken Board and BCFIRB need to ensure sound marketing policies are consistent across all stakeholder groups.

### ***COP Pricing Formula is Incomplete, Outdated, and Inaccurate***

The PPPABC has demonstrated that some of the Serecon methodologies in the COP formula are overstating grower costs in several areas including:

- Feed Conversion Ratio (FCR) – This continues to be the major element of the Chicken Board COP that is overstating grower costs and decreasing efficiency. When introduced, the Recommendation would use the 2021 FCR of 1.59, which will be almost four years out of date by the time of implementation. Sunrise Farms and Hallmark Farm’s (through their feed company) have provided their actual verifiable FCR data in Exhibit 2 below. Using the same methodology as Ontario and other jurisdictions, the FCR for BC in early 2024 should be closer to 1.541 or approximately 5 basis points less. The Chicken Board feed cost methodology is over-stating feed costs by approximately \$0.045 per kg which is equivalent to \$38,000 for the average farm, or an \$11.25 million benefit to BC growers. It should be recognized that both Hallmark and Sunrise corporate farms are achieving the highest returns in their history under the current interim formula prior to the increases that would be experienced with the Recommendation.

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<sup>18</sup> Hugh Scolah’s Competitiveness Factors – Loss of Processing Capacity, Loss of Further Processing, The Rate of Capital Investment into Processing



## Exhibit 2 – Sunrise Farms / Hallmark Farms Actual Feed Conversions

Hallmark / Sunrise Average Feed Conversions				
Cycle		Feed Conversion		
		ON	RS	RS - R6
2021	A168	1.6248	1.649	1.640
	A169	1.6248	1.602	1.631
	A170	1.6213	1.638	1.629
	A171	1.6176	1.568	1.623
	A172	1.6140	1.569	1.614
	A173	1.6105	1.564	1.598
2022	A174	1.6069	1.551	1.582
	A175	1.6033	1.559	1.575
	A176	1.5997	1.586	1.566
	A177	1.5961	1.583	1.569
	A178	1.6189	1.539	1.564
	A179	1.6191	1.532	1.558
2023	A180	1.6202	1.576	1.562
	A181	1.6162	1.573	1.565
	A182	1.6098	1.539	1.557
	A183	1.6063	1.527	1.547
	A184	1.6037	1.494	1.540
	A185	1.6016	1.536	1.541

Source: Ritchie Smith FCR Data for Hallmark / Sunrise Corporate Farms  
Average of 23 Farms per Cycle - Conventional Flocks Only  
RS - R6 = Ritchie Smith Rolling 6 Cycle Feed Conversion

Consistent with Serecon Data Collection

Current Average Feed Conversion

Impact of Feed Conversions on Feed Cost			
Cost Components	Ontario	BC COP	BC COP
	COP	1.59 FCR	1.541 FCR
Feed Cost	0.8967	1.2023	1.1652
Chick Cost	0.4893	0.4818	0.4818
Oper & Capital Cost	0.6253	0.6253	0.6253
Total COP	2.0113	2.3094	2.2723
Differential		0.2981	0.2610

A-187 Implementation using A-185 FCR and feed prices

- 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.<sup>19</sup>
- There are additional cost elements that our analysis shows are overstated in the Recommendation and details can be provided under separate cover upon request.

As well and as was shown earlier, the expected increase in hatchery margins has not been included in any of the Chicken Board's analysis or price calculations. As mentioned, this could increase the live price and the price differential with Ontario by 5 – 6 cents. By not considering this in their analysis, the Chicken Board is under-stating the impact of the Recommendation on processors and downstream stakeholders.

<sup>19</sup> Working Capital Interest – BC - \$0.0271, Ontario - \$0.0012, Calculation - \$0.0271 / \$0.0012 = 22.5

The Chicken Board acknowledges that the Recommendation includes calculations and formulas that are not accurate or require refinement. The Chicken Board's plan is to implement the Recommendation, knowing that it is inaccurate, anticipating adjusting some of the calculations going forward. The PPPABC believes that in no way can allowing the Chicken Board to knowingly implement a COP live price that is materially inaccurate be seen as sound marketing policy or in the interest of British Columbians.

### ***Questions 3 & 4 - Anticipated Impacts of the Recommendation on Processors' Gross Margins and Competitiveness***

Speculation on absolute margin loss would be an academic exercise as there are far too many variables involved and assumptions required. What is an absolute certainty is that this level of price increase cannot be passed through to the trade without customers pursuing alternate sources of supply.

### ***Market and Capital Impacts and Implications to Processors***

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 limit capital spending to only those projects that keep the plants operating.

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. Competition between BC processors will become increasingly fierce to move surplus chicken locally. Surplus BC chicken whether sold locally or nationally into commodity markets, would be sold at a significant loss to the processor. The expectation that BC Processors will be able to pass these types of price increases through to the market is unrealistic, particularly in a time of food inflation and when grocery retailers are under fire for high prices and limiting price increases.<sup>20</sup> As set out above the Chicken Board has chosen to do nothing to address acknowledged potential impacts on processor

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<sup>20</sup> Sobeys parent Empire vows to crack down on supplier price increase requests, Rosa Saba, The Canadian Press, December 14, 2023

competitiveness.<sup>21</sup> Providing specific data on the lost margin that will be experienced by BC Processor would be an exercise in speculation, but basic economic theory and the Chicken Board's own "Intentions Data" identifies that as chicken prices increase demand softens and customers look for alternative sources of supply and substitutes.

The Recommendation if left unchecked, will significantly disrupt the orderly marketing of chicken in the province and erode the capability and viability of the processing industry and downstream stakeholders in the province.

### ***Attention of Downstream Stakeholders and the Media***

The Recommendation has garnered significant attention from customers, retailer and restaurant associations, as well as local and national news media who have run stories bringing increased scrutiny to the price of BC chicken, the pricing policy framework, and supply management in general.<sup>22</sup> Grocery and Food Service stakeholders have also tried to voice their concerns directly to the Premier, the Attorney General's Ministry, and BCFIRB and are frustrated their concerns cannot be heard directly.

Restaurants, hotels, and institutions account for 40% of all chicken consumed by Canadians. 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. This includes a 34.8% increase in the price of chicken. BC restaurateurs are deeply concerned to learn that the Recommendation will further increase prices creating a significant differential over the Ontario chicken live price.

According to the Canadian Federation of Independent Grocers, the Recommendation will place huge pressure on independent grocers who operate in BC and compete with national chains. The national chains have the logistical capability to access poultry from Central Canada putting the local independent at significant competitive disadvantage.

Both grocery and foodservice retailers are suggesting that the Recommendation flies in the face of the BC government's "Buy BC" program. These stakeholders find it ironic that

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<sup>21</sup> See footnotes 14 and 15 above.

<sup>22</sup> Food industry groups object to proposed BC chicken price increase, Rosa Saba, The Canadian Press, January 22, 2024

they are being asked to support this program that will require them to pay exorbitantly higher prices for local products.

## Summary

It is the PPPABC position that BCFIRB should not approve the Recommendation in its current form given that it is known to be incomplete and inaccurate. It is our position that the Recommendation would be disruptive to orderly marketing and will have damaging effects on processors and downstream stakeholders. The PPPABC and the downstream stakeholders take the position that the industry would be better served by:

1. Maintaining the current Interim Pricing Formula through 2024 and working towards an A-194 implementation.
2. Revise and adjust the elements and methodologies in the Recommendation to align more closely with the Ontario Live Price Formula including but not limited to:
  - a. Feed conversion data – match the Ontario updating methodology,
  - b. Labour – consistent methodology with respect to hours and labour rates,
  - c. Capital – consistent methodology to depreciation and returns,
  - d. Working Capital – consistent methodology,
  - e. Consistency in updating (annual vs periodic).
3. Coincident with the introduction of the new live Price formula, introduce a hatchery margin increase, based on a BC Hatchery COP similar to Ontario.
4. Develop a new “exceptional circumstances” mechanism / sleeve that recognizes BC’s high cost of production environment and “shares the burden” fairly between stakeholders when live price differentials with Central Canada reach extreme levels.

Respectfully submitted,



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c. PPPABC Members