



February 25th, 2022

Peter Donkers
Chair
BC Farm Industry Review Board

Re: BC Chicken Marketing Board Request for Prior Approval to Amend the Quota Period A-175 Mainstream Pricing Formula

The BC Chicken Marketing Board (the “Chicken Board”) is seeking the BC Farm Industry Review Board Chicken Sector Pricing Review Panel (the “Panel”) prior approval of an amendment to the current live price formula for mainstream chicken for quota period A-175 which commences, March 13, 2022. Please find attached the Chicken Board’s Schedule 15 Board Decision for your review in considering the Chicken Board’s request for prior approval of the amendment. As first instance regulators to the BC Chicken industry, we have provided due consideration to all stakeholder concerns which balances cost recovery to growers while maintaining processor competitiveness.

The Board has engaged the Pricing and Production Advisory Committee (the “PPAC”) in consultation on January 19th prior to quota period A-174, as well as on February 16th, in advance of quota period A-175. The Board duly considered the quota period A-174 proposal submissions from the Primary Poultry Processors Association of British Columbia (the “PPPABC”), the British Columbia Chicken Growers Association (the “BCCGA”), as well as the decision from the Panel. While the Chicken Board attempted to seek a recommendation or options from the PPAC on quota period A-175, no recommendations have been received to date. The PPPABC committed to sending recommendations in writing, but this has not yet been received as of February 25th. The Chicken Board has received from the PPPABC two letters on February 24, 2022 and has given due consideration to the concerns expressed and will continue to give consideration to any written feedback received after filing this request. Due to the time constraints around pricing the Board needs to pursue the prior approval from the Panel at this time. This will not prevent concurring meaningful dialogue between processors, growers, and the Chicken Board if applicable.

The proposal put forth by the Chicken Board, is to add a provision to cover 50% of the current formula costs exceeding the upper guardrail. While the Board is seeking this prior-approval for quota period A-175, it is expected this provision will be ongoing until the corn-wheat imbalance is resolved. To balance interests of both growers and processors, the Chicken Board is not seeking a 100% cost recovery of the escalating feed costs. By using only 50% of the current formula costs exceeding the upper guardrail the impacts are split relatively evenly across processors and growers.

The Chicken Board will not know the final pricing impact until we are able to set price on March 10, 2022, but are seeking from BC FIRB the prior approval of adjustment to our pricing formula.



Sincerely,

Harvey Sasaki
Chair

- c.c. Jim Collins, BC Broiler Hatching Egg Commission
Blair Shier, President, Primary Poultry Processors of BC
Dale Krahn, President, BC Chicken Growers Association
Angela Groothof, President, BC Broiler Hatching Egg Producers Association
John Franck, President, BC Egg Hatchery Association
Kirsten Pedersen, Executive Director, BC Farm Industry Review Board
Stephanie Nelson, Executive Director, BC Broiler Hatching Egg Commission
Wendy Holm, BCFIRB Pricing Liaison



Schedule 15
(Part 55)
(Section 55.4)

Board Decision or Determination

Form B

attach applicable Forms A, if available

A-175 Mainstream Pricing Formula amendment to address extra-ordinary feed cost increase

1. Date(s) of this decision:

Meeting of the PPAC on February 16, 2022

BCCMB decision on February 16, 2022

2. Members of Board present for decision:

H. Sasaki, DA Janzen, R. Nickel, B. Vanderspek and C. Paulson

3. What sources of information did the Board consider in coming to its decision?

Form A - Application for Decision or Determination

Board Staff's Briefing Note

Applicant's oral submissions

Board's Orders (give reference numbers, if applicable):

Schedule 19 – Pricing Model

Schedule 2

[X] Other (explain):

- 2022-01-18 – letter from PPPABC re: Request for immediate input – changes to BC Live Price Formula
 - 2022-01-18 – letter from BCCGA re: Approval to include an adjustment of 50% of the amount exceeding the upper guardrail for A-174
 - 2022-01-19 – letter from BCCGA re: a note on the A-174 Exceptional Circumstance PPAC Meeting. BCCGA key points and numbers
 - 2021-11-25 – letter from BCCMB to PPAC re: A-173 Exceptional Circumstances
 - 2022-01-14 – letter from BCCMB to PPAC re: immediate input for A-174
 - 2021-12-14 letter from PPPABC re: potential modification to A-174 BC Live Pricing Formula.
 - 2021-12-24 letter from PPPABC re: A-174 Exceptional Circumstances – Addendum
 - 2022-01-11 letter from PPPABC re: potential modification to A-174 BC Live price and Changes to ONCOPF plus appendix 1 – CFO letter to Producers
 - 2021-12-20 – letter from BCCGA re: Proposed Live Price re: variation for Exceptional Circumstances.
 - Serecon – Ontario Chicken Pricing sleeve Calculations
 - A-174 with and without catching cost increase
 - A-173
 - Manitoba’s posted Live Price for A-173
 - Manitoba’s posted Live Price for a-174
 - Saskatchewan’s posted Live Price for A-173
 - Saskatchewan’s posted Live Price for A-174
 - Alberta’s posted Live Price for A-173
 - Alberta’s posted Live Price for A-174
 - B.C.’s Live Price for A-173
 - B.C.’s Live Price for A-174
 - Ontario’s posted Live Price for A-173
 - Ontario’s posted Live Price for A-174
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- 2022-01-14 – BCCMB current FCR
 - BCCMB graph – Prairie Provinces Posted Price Differential over BC from A-097 to a-174
 - BCCMB graph – BC Posted Price with and without guardrails and Western Provinces Posted Price Differentials over Ontario from A-169 to A-174
 - 2022-02-04 – BC FIRB A-174 Prior Approval Decision
 - 2022-01-25 – Letter from BCCGA – Position statement on BCCMB proposed amendment to quota period A-174 Mainstream Pricing Formula
 - 2022-01-25 – Letter from PPPABC – BCCMB Interim Chicken pricing Proposal (A-174 amendment)
 - 2022-02-24 – Letter from PPPABC – Process Concerns
 - 2022-02-04 – Letter from PPPABC – BCCMB Feed Costs A-175

4. What is the Board's decision?

The Board has made the decision to request prior approval from BCFIRB to amend the current BC Live Price formula commencing in quota period A-175 (shipments March 13, 2022) based on:

Ontario Price based on the weight category of 2.45 to 2.65 kilograms. It will **NOT** include the \$0.012 per kilogram CFO modular loading cost recovery of \$0.0120; CFO AI Insurance recovery of \$0.0015; or OBHEC chick levy of \$0.0006 if still applicable In quota period A-175.

Plus

75% of the difference in feed and chick costs per kilogram of live chicken between BC and Ontario. It will not be based on a 6-period rolling average.

Plus

\$0.04 per kilogram which is the current catching cost. Increases or decreases in the price of catching must be approved by the BCCMB in advance. If approved, these increases or decreases will be reflected in the live price as was the case for quota period A-174 when the processors and catching crews reached an agreement to increase the price by \$0.0035 (an increase from \$0.0365 cents to \$0.0400/kg).

Plus

Guardrails will be set at a maximum of \$0.1284 and a minimum of \$0.1005 (reflecting the new catching costs effective in quota period A-174).

Plus [the proposed amendment to the A-175 formula]

A provision to cover 50% of the current formula costs exceeding the upper guardrail to address the continued escalation of feed ingredient costs facing BC growers.

5. Why did the Board come to this decision?

The BCCMB decisions are in accordance with sound marketing policy and the application of principle-based regulation (PBR) and outcome-based decision making. This is achieved by applying SAFETI (Strategic Accountable, Fair, Effective, Transparent, Inclusive) principles as directed by FIRB. These initiatives support good governance in the regulated marketing sector.

Sound Marketing Policy Considerations

Sound marketing policy embodies the three pillars of supply management, production controls, pricing mechanisms and import controls. For the proposed amendment, the Board will focus on the pricing pillar.

The Board is responsible for establishing a minimum price for chicken produced in British Columbia. This minimum production price is based on production costs and market conditions. The policy intent is to provide efficient growers with a reasonable return that reflects production costs and provides Canadian consumers with a predictable, and consistent supply of chicken at reasonable prices. The Board also takes into consideration British Columbia processor competitiveness in the Canadian market.

Reasonable Return to an Efficient Grower

An efficient BC grower is not achieving cost recovery due primarily to the divergence in corn and wheat prices placing BC growers, particularly highly leveraged New Entrant Growers in a precarious financial situation. It is hampering the ability of growers to reinvest in their farms.

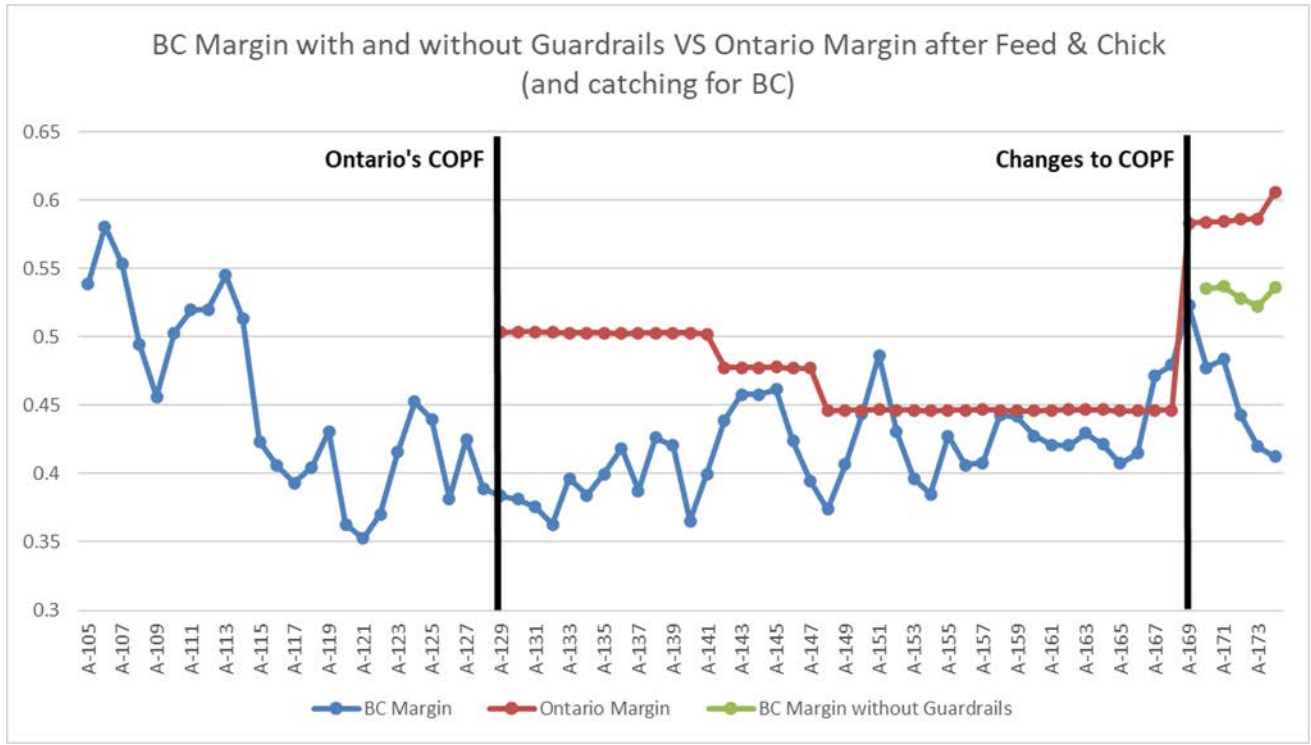
The continued escalation of feed ingredient costs to British Columbia broiler growers over the past 6 quota periods (48 weeks) is indicative of a trend that commenced in the summer of 2021 starting with quota period A-170, not an anomaly. The source of the impact on broiler growers is not attributable to a single factor, rather the combination of multiple factors.

- BC Grower Margin (BC Live Price – feed, chick and catching costs)
- Feed conversion ratio
- Corn versus wheat supplies and prices
- Changes in the Ontario Farm Gate Minimum Live Price formula

BC Grower Margin

While BC grower margin (grower margin defined as the BC live price minus (feed plus chick plus catching costs)) will show a slight increase as a result of the change in the Ontario Producer Margin in A-174 and in A-175, it is not equivalent to the increase realized by Ontario growers. What the previous Board request for quota period A-174 analysis did not show was the impact of the portion of the BC feed and chick cost not covered by the BC grower margin. In other words, what would be the resulting BC grower margin without the upper guard rail constraint.

The graph and table below show the impact of the upper guard rail on BC grower margin. As reported in the following Corn versus Wheat section, BC growers have incurred a shortfall in recovering the 75% of the BC feed and chick cost difference over Ontario for the past 48 weeks. Without the upper guard rail, the full 75% of the BC feed and chick cost would be included in the BC live price and BC grower margins would have maintained the level of increase experienced in quota period A-169 as trending downward. The proposed amendment would result in BC grower margin to fall between the green and blue lines on the graph owing to only 50% of the difference would be included in the amended formula.



	BC Margin with Guardrail	BC Margin without Guardrail	Difference
A-170	0.4775	0.535325	-0.057825
A-171	0.4836	0.536925	-0.053325
A-172	0.4432	0.52825	-0.08505
A-173	0.4198	0.522475	-0.102675
A-174	0.4126	0.536175	-0.123575

	BC Margin with Guardrail	*Ontario Margin	Difference
A-170	0.4775	0.5841	-0.1066
A-171	0.4836	0.5842	-0.1006
A-172	0.4432	0.5861	-0.1429
A-173	0.4198	0.5862	-0.1664
A-174	0.4126	0.6061	-0.1935

	BC Margin without Guardrail	*Ontario Margin	Difference
A-170	0.535325	0.5841	-0.048775
A-171	0.536925	0.5842	-0.047275
A-172	0.52825	0.5861	-0.05785
A-173	0.522475	0.5862	-0.063725
A-174	0.536175	0.6061	-0.069925

* Ontario margin uses the Ontario Price used in BC's Pricing Formula

The Primary Poultry Processors Association (the “PPPABC”) put forward the argument against the quota period A-174 amendment that grower margin increases realized through the Ontario Cost of Production Formula have not been adequately considered. The Board did not go into detail in its decision to request the formula amendment for quota period A-174 with respect to grower margins, however it did present the above graph which shows the effect of the Ontario Farm Gate Minimum Live Price changes on the Ontario grower margins and the performance of the BC grower margin. While Ontario producer margins after feed and chick have increased, BC grower margins have decreased owing to the higher feed and chick costs.

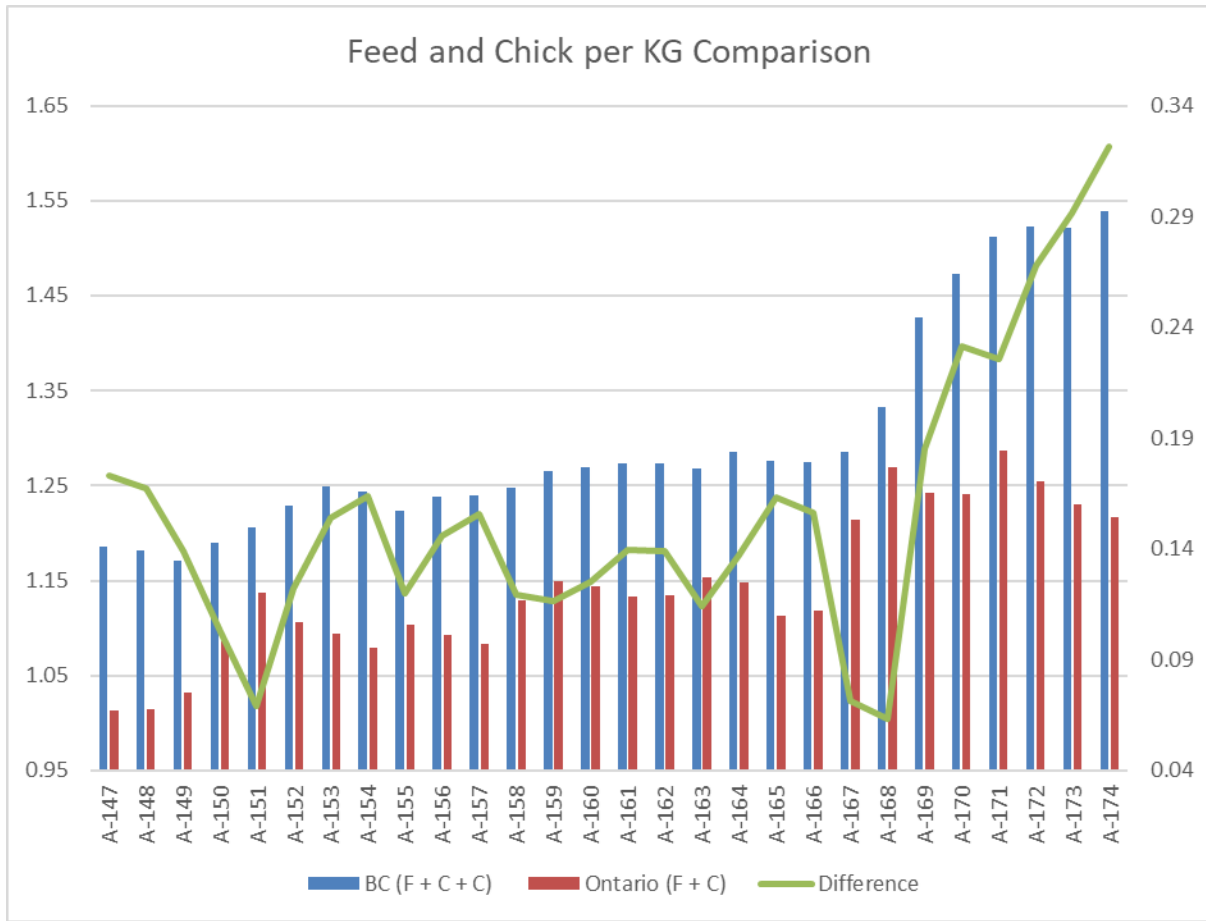
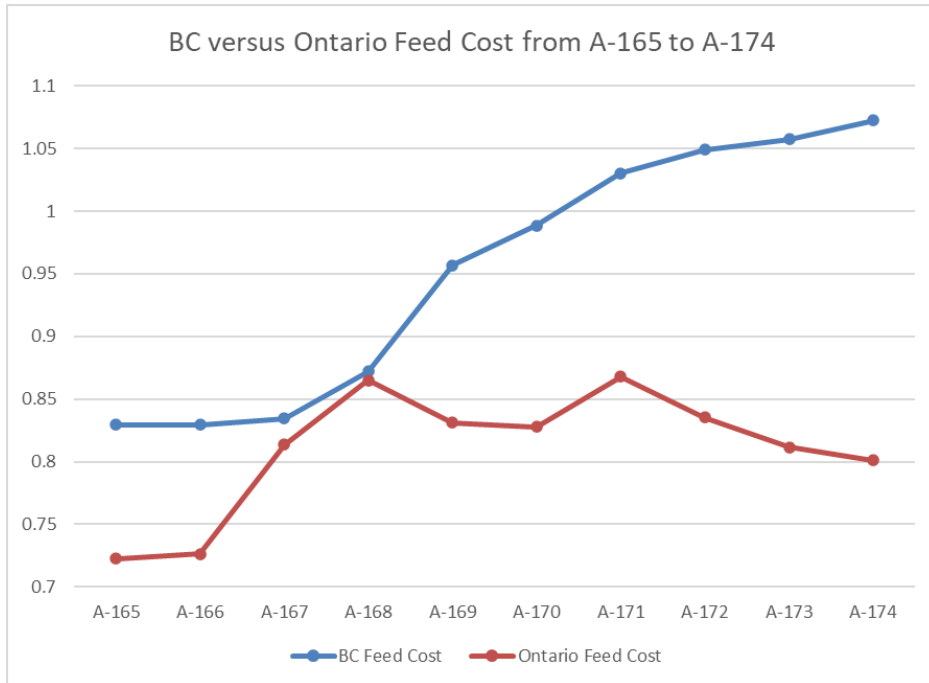
Feed Conversion Ratio

The PPPABC provided the Board with a February 23, 2022 letter, “Serecon Model is Inflating BC Feed Costs and Understating Grower Returns”. The PPPABC “believes that actual feed costs are not being reflected in the current BC Live Price Formula”.

It can and has been argued that the pre-A-169 Ontario FCR of 1.830 was too high, not reflective of industry practices, and overcompensating Ontario growers. The mitigating measure however was the annual feed efficiency adjustment in the pre-A-169 Ontario Farm Gate Minimum Live Price formula and resulted in a lower Ontario Live Price. As well, the higher Ontario feed cost served to offset a portion of the higher BC over Ontario feed cost difference as the BC feed cost is based on a 1.650 FCR. The pre-A-169 BC FCR advantage was partially negated by the Ontario annual adjustments.

Further, it can and has been argued by the PPPABC that the current BC FCR of 1.650 is based on the 2018 Serecon Linkage COP and is overstated. The PPPABC states in its February 23, 2022 letter “BC Processors are aware of industry data that suggests the FCR in BC is substantially less than the reported 1.65 currently being used in the pricing formula”. The PPPABC goes further and suggests “The Estimated BC average FCR for broilers on conventional feed – 1.55”. The PPPABC however has not provided any verifiable “industry” data to validate this current “estimated” average.

The current BC formula has already overcompensated for the “potentially” lower BC FCR by taking into consideration only 75% of the feed and chick cost difference in the Live Price formula. The effect of the quota period A-169 change in the Ontario FCR, irrespective of whether the BC FCR is lower or higher has increased the BC feed price differential over Ontario from the pre-A-169 quota periods. To illustrate, the adjustment of the Serecon COP FCR of 1.65 to the Ontario 1.60 represents a 3% reduction in feed cost. The adjustment of the Serecon COP FCR to the PPPABC unverified 1.55 represents a 6.1% reduction in feed cost. The 3 – 6.1% reduction in feed costs falls well within the 25% of the BC feed and chick cost difference not covered by the BC Live Price Formula.



Corn versus Wheat

Feed corn is grown extensively in Ontario and the United States mid-west states and provides the primary protein source in broiler rations in Central and Eastern Canada, whereas wheat is the primary protein source in broiler rations in Western Canada. Due to drought in the prairies during the 2021 growing season, wheat harvests were dramatically reduced, making short wheat supplies and increased prices. Corn crops were less impacted by the 2021 drought conditions than initially thought and after a brief period of increase, corn prices have declined.

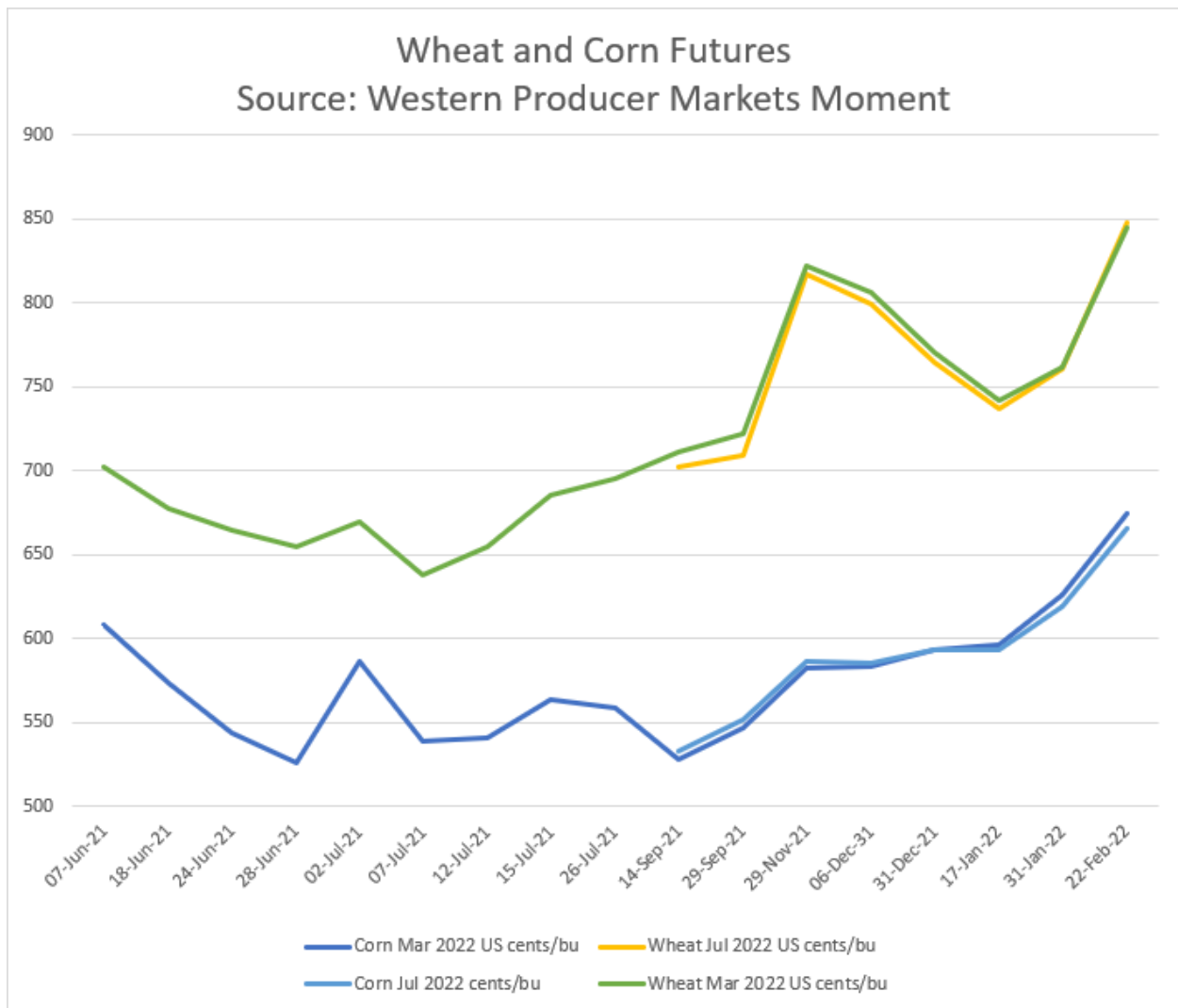
The difference in wheat versus corn prices is unprecedented and since quota period A-170 (July 2021) the gap has widened. Based on data from the USDA AMS Market News, since September 2021, the US wheat over corn differential jumped to 2.28 (US\$/bushel) up from 0.81 (US\$/bushel) in August 2021. The September differential continued to rise through to December 2021 at which point the differential was 3.11 (US\$/bushel). The last quarter of 2021 wheat over corn differential exceeded previous differentials over the previous 2 years which ranged from a low of 0.14 (US\$/bushel) in August 2021 to a high of \$1.72 (US\$/bushel) in February 2019. While there are indications that corn prices are on the rise, the impact over the past 3 to 6 quota periods remains. The Wheat and Corn Futures graph below show March 2022 and July 2022 futures market contracts for wheat and corn prices increasing as well as maintaining the high wheat over corn differential.

The rise in wheat prices has resulted in the BC live price formula upper guard rails being applied and limited the BC live price to the Ontario live price plus \$0.1249/kg for quota periods A-170 to A-173 and the Ontario live price plus \$0.1284/kg for quota period A-174.

The effect of the guard rail limits on the BC live price is a shortfall in grower recovery of the 75% feed and chick cost differential between BC and Ontario. The shortfall for quota period A-170 was \$0.0578/kg; A-171 was \$0.0533; A-172 was \$0.0851; A-173 was \$0.1027; and A-174 was \$0.1236 as shown in the table on page 5. Growers have no means of recovering the excess feed cost other than through the live price. In BC, processors have been shielded from significantly higher live prices that would have prevailed due to the higher feed ingredient costs with the upper guard rail in place. This is unlike the situations processors faced in the Prairie provinces where they have had to endure the full feed cost impact in those provinces in the provincial live price.

US Corn Prices (US\$/bu)				US Wheat Prices (US\$/bu)				Wheat – Corn (US\$/bu)			
Month	2019	2020	2021	Month	2019	2020	2021	Month	2019	2020	2021
January	3.56	3.79	4.24	January	5.28	4.87	5.48	January	1.72	1.08	1.24
February	3.60	3.78	4.75	February	5.33	4.88	5.83	February	1.73	1.10	1.08
March	3.61	3.68	4.89	March	5.19	4.86	5.85	March	1.58	1.18	0.96
April	3.52	3.29	5.31	April	4.93	4.84	6.04	April	1.41	1.55	0.73
May	3.63	3.20	5.91	May	4.78	4.76	6.46	May	1.15	1.56	0.55
June	3.98	3.16	6.00	June	4.81	4.56	6.24	June	0.83	1.40	0.24
July	4.16	3.21	6.12	July	4.52	4.54	6.26	July	0.36	1.33	0.14
August	3.93	3.12	6.32	August	4.35	4.55	7.13	August	0.42	1.43	0.81
September	3.80	3.40	5.47	September	4.26	4.73	7.75	September	0.46	1.33	2.28
October	3.84	3.64	5.02	October	4.45	4.98	7.90	October	0.61	1.34	2.88
November	3.68	3.79	5.27	November	4.39	5.24	8.51	November	0.71	1.45	3.24
December	3.71	3.97	5.47	December	4.64	5.43	8.58	December	0.93	1.46	3.11
Average	3.75	3.50	5.40	Average	4.74	4.85	6.84	Average	0.99	1.35	1.44

Source: Source: USDA AMS Dairy Markets News [CME Group Chicago: daily prices](https://teseo.clal.it/en/?section=cereali_usa)
(https://teseo.clal.it/en/?section=cereali_usa)



Futures price of corn and wheat for March 2022 and July 2022 contracts

Ontario Farm Gate Minimum Live Price Formula

On February 5, 2021, the Ontario Farm Products Marketing Commission (the “OFPMC”) prescribed by way of amendment to Regulation 402, Chickens – Marketing Ontario Farm Products Marketing Act (the “Regulation 402”):

- The elimination of the three annual price adjustments; feed, volume and producer efficiency.
- A revised list of Producer Margin costs applicable to quota period A-148 (2018).

As a result of the changes prescribed by Regulation 402, the Chicken Farmers of Ontario (the “CFO”) updated the elements of the Farm Gate Minimum Live Price for quota period A-169, which included:

- Updating the operational and capital costs to reflect 2021 costs based on the A-148 (2018) producer margin costs (non-feed and chick) established by Regulation 402.
- Changing the calculation of feed costs by reducing the feed conversion ratio from a fixed rate of 1.72 to a rate adjusted for every quota period based on grower results from the previous eight-week pricing period. In quota period A-174 the feed conversion ratio used was 1.6069.
- As part of its annual review for pricing in January 2022, the CFO further adjusted the producer margin costs, in particular focussing on adjustments to the capital items.

Annual Adjustments

Effective January 15, 2015 and commencing with quota period A-129, the Ontario Regulation 402 which includes the pricing formula made mandatory the application of three annual adjustments; feed efficiency, producer efficiency and volume. The three factors were adjusted annually and continued until February 4, 2021 (quota period A-168). In quota period A-168, the feed efficiency adjustment was \$0.044/kg; the producer efficiency adjustment was \$0.028/kg; and the volume adjustment was \$0.061/kg. The total of the three annual adjustments, \$0.133/kg was subtracted from the total of the Chick Price plus Feed Price plus Producer Margin to arrive at the Farm Gate Minimum Live Price.

In April 2021, commencing with quota period A-169, in accordance with the OFMPC mandated changes to Ontario Regulation 402, the CFO changed its Farm Gate Minimum Live Price formula to eliminate the previously mandatory and prescribed annual price adjustments.

Producer Margin Changes

The Board in its proposed amendment is not attempting to ensure that BC growers are on par with the margin after feed and chick in Ontario, rather it is attempting to mitigate some, not all, of the extraordinary feed costs being absorbed by BC growers. The Board acknowledges that BC is a higher cost of production province and that both growers and processors may not realize margins at the same level as other lower cost provinces.

It is important to note that the Ontario Farm Gate Minimum Live Price increase in “grower margin” is not an increase in “profit”. In this definition, grower margin is meant to enable an efficient grower the ability to recover the costs of farm inputs (capital costs, labour, sawdust, heat etc.) outside of feed and chick. These are cost increases also burdened by BC growers. The Board rejects the PPPABC notion that BC grower margins have substantially increased as the guardrail has capped and limited the ability to recoup the increased feed and chick costs which have far exceeded any increase in the grower margin calculation. The graph on page 5 clearly shows that the gap in BC grower margin relative to Ontario grower margin is widening, indicating that in BC an efficient grower is not recovering their non-feed and chick farm input costs.

For quota period A-169, the CFO updated the base producer margin contained in Regulation 402 to reflect 2021 costs. The increase from quota period A-148 to A-169 was \$0.0494/kg. This

increase in producer margin served to off-set only 55.5% of the impact of the previously mandatory and prescribed annual producer efficiency and volume adjustments (-\$0.089/kg).

Feed Conversion Ratio

A further compounding factor in the BC over Ontario difference in feed cost is the change commencing in quota period A-169 is the feed conversion ratio (the “FCR”) used in the Ontario Farm Gate Minimum Live Price formula. The FCR used in Ontario decreased from 1.8130 to 1.6069. This has been covered in a previous section.

Processor Competitiveness in the Canadian Market

The January 25, 2022 PPPABC response to the quota period A-174 proposed pricing formula amendment is critical of the Board for not assessing “whether Processors would still be competitive at the new differential”. The Board fully acknowledges and respects the need for BC processor competitiveness in conjunction with an efficient grower receiving a reasonable return. This has been a constant challenge for the Board to find the balance of these two incongruent objectives.

Throughout the Long-Term Chicken Pricing Supervisory Review, the Board has sought input from the processors to define and provide measures of processor competitiveness. As well, the BC FIRB Review Panel sought input with respect to indicators of market instability. To date, the PPPABC have not provided any specific indicators of processor competitiveness other than a “Private and Confidential” Processor Competitiveness Report that concludes “BC Processor costs are 30% higher than plants in Central Canada” with “Live Bird and Labour cost represent greater than 85% of BC processor cost” and “Live Bird and Labour represent 75% of the cost gap between BC processors and those in Central Canada.” The report goes on to suggest that “Live Bird is the largest cost item and the most transparent metric and is recommended by BC Processors as the best metric to be used to measure competitiveness with processors in Central Canada.”

The PPPABC further articulate in their February 24, 2022 letter “Process Concern – A-175 PPAC Meeting” makes reference to “the BCCBMB (sic) made it very clear, they do not accept that BC processors face a labour cost disadvantage relative to processors in Central Canada. This is in spite of the actual independent third-party evidence provided to the BCCMB that clearly shows the labour disadvantage.”

With respect to the labour cost difference, the study results are of no surprise that Central Canada has a lower per unit labour cost based on the higher volume of chicken produced in Central Canada. Central Canada produces approximately 60% of the chicken in Canada versus 14% in BC. When the denominator is significantly higher in one formula, it will most definitely result in a quotient that is lower; hence a lower per unit labour cost in Central Canada compared to BC.

What the Processor Competitiveness Report does not compare is similar size plants in BC versus Central Canada as was illustrated in the BC Chicken Growers Association “Costs and Returns in

BC Chicken Marketing” and “Comparative Costs and Returns in Chicken Processing – British Columbia versus Competing Regions in Canada” submissions. The Agri-Food Economic Systems October 2020 Report which suggests that based on the same size model processing plant (300,000 birds/week or 15 million birds/year (2017 Comparative Costs and Returns Report)), processor costs and margins in BC are roughly the same as in Ontario. It is acknowledged that the margins in 2020 are down from the previous report period of 2015 to 2018, however, margins are down in all other provinces compared in the study.

The Board acknowledges the work and effort taken by the PPPABC in preparing their comparative analysis, however, it focusses solely on the cost elements and provides no insight or measure of the ability of BC processors to recoup higher BC live prices from the marketplace. Processors have acknowledged three types of contracts; BC live-price-based contracts, Western based live-price contracts, and fixed price contracts. The Board has not received any data or information to indicate the percentage of these contracts which would provide an indication of the ability of BC processors to recover higher BC live prices. An additional factor is product that is sold without any type of contract. An unknown percentage of sales by each processor would be at prices set daily or weekly depending on market conditions which are currently above the prices in the past three years (see table on page 14).

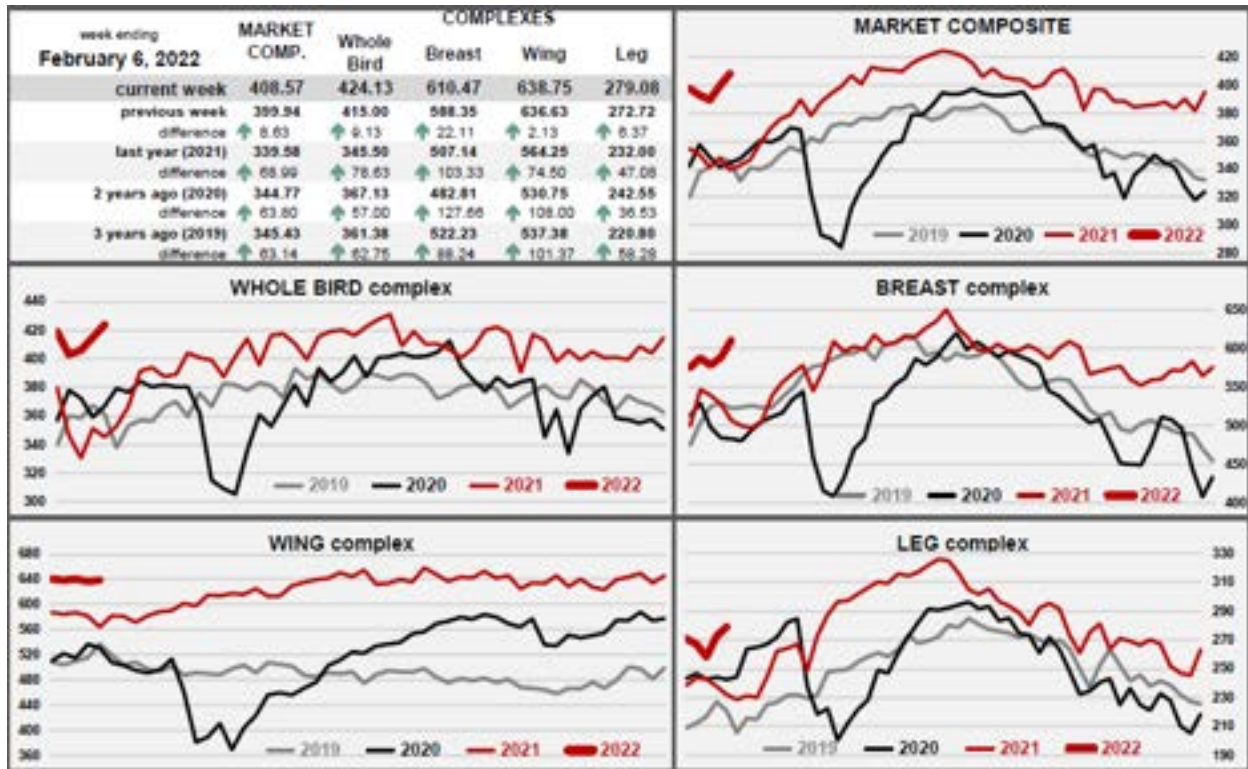
An increase in the BC live price which is supported by substantial feed increases would be appropriate for the marketplace. While the percentage makeup of contract type has not been provided by the PPPABC, both western and BC based pricing contracts are being kept artificially low by the BC live pricing guardrails. Fixed price contracts are always a mix of risk and reward established at the time of signing a contract, with increased profits or losses with any swing in prices. The Board does not guarantee a grower a profitable enterprise, much like the Board does not guarantee the success of processor contract decision like those undertaken in a fixed price contract, however, does provide due considerations to all stakeholders.

The BC processors also have not provided evidence to support the notion that BC and prairie province live prices include the cost of catching which ranges from \$0.040/kg to \$0.045/kg and the impact that has on their ability to remain competitive. The significance of the \$0.04/kg catching cost in BC is that BC processors charge BC growers this cost for catching. It is important to note that catching price in BC, Alberta, Saskatchewan, and Manitoba is included in the posted live-prices of each of these provinces but is deducted in the same amount from a grower’s final payment. This means that the final live price paid by the processors, in the case of BC, is \$0.04 less per kilogram than the posted price which is used to set the contract prices charged by processors to their customers. This is a direct benefit that contributes to BC processor margins in live price contracts. The lack of data or evidence from BC processors to address this issue makes it impossible for the Board to truly address the question of whether or not BC processors are competitive in Canadian markets.

The PPPABC have objected to the Board correlating higher western retail chicken prices as being indicative of BC processor ability to pass on higher live costs. In the absence of the PPPABC not providing the Board with any wholesale price data to consider the Board has had to

rely on the EMI data provided by the Canadian Poultry and Egg Processors Council on Canadian wholesale prices, along with Processor Gross Margins.

The PPPABC maintain that this data and information is not relevant to BC given that BC processors do not contribute to the data base while at the same time stating that they are in the business of competing on national contracts. The Board has reasonably assumed that EMI wholesale data provides the basis for national contract negotiations and as such a relevant data source. The recent EMI data show strong wholesale prices, particularly during a low market period. Clearly, there is some recognition and response by the retail and wholesale market to higher live prices.



The PPPABC have provided more analysis of grower margins and information on defining a reasonable return to growers than they have on BC processor competitiveness. They point to BC grower margins being at a similar level to their experience prior to the on-set of the Ontario Farm Gate Minimum Live Price formula annual adjustments. What the PPPABC has focussed on is processor cost and avoided the need to provide the Board any measure of BC processor margins. It would seem to be quid pro quo to measure processor competitiveness through a margin analysis if it is appropriate to use margins to measure reasonable return to growers.

The PPPABC have continually asserted that there was an agreement at the Pricing Working Group that any increase in the Ontario COPF would be shared between BC growers and processors. The PPPABC have not provided any verifiable evidence to support this claim. The

Board fails to see the rationale for BC Processors asserting the need to be entitled to share in the benefit of an Ontario Producer Margin increase as part of the BC live price formula.

The decision of the Chicken Board is consistent with sound marketing policy and balances processor competitiveness with the objective to provide efficient growers a reasonable return. The proposed amendment is to address 50% of the 75% of BC feed and chick cost difference exceeding the upper guard rail provides the balance.

RATIONALE FOR DECISION BASED ON OUTCOME BASED PRINCIPLES

SAFETI has been applied at all stages of the decision-making process: information gathering, analysis of risks and opportunities, options development and evaluation through to the final decision of the Board.

Strategic & Effective:

The Board has the authority to make orders it considers necessary or advisable to promote, control and regulate effectively the marketing of the regulated product, and to amend or revoke them, under 11(1)(q) of the Natural Products Marketing (BC) Act. The Act at 11(1)(k) gives the Board the authority to set the prices, maximum prices, minimum prices or both maximum and minimum price at which the regulated product or a grade or class of it may be bought or sold in British Columbia or that must be paid for a regulated product by a designated agency and to set different prices for different parts of British Columbia.

The BC Chicken Marketing Scheme (1961) grants the Board the power under 4.01(g) to fix the price or prices, maximum price or prices, minimum price or prices, or both maximum and minimum prices at which the live chickens over 2 days old that are regulated product, or any grade or class thereof, may be bought or sold in the Province, or that shall be paid for the regulated product by a designated agency, and may fix different prices for different parts of the Province. Further, 4.01(l) gives the Board the authority to make such orders, rules and regulations as are deemed by the Board necessary or advisable to promote, control and regulate effectively the production, transportation, packing storage or marketing of the regulated product and to amend or revoke the same.

The decision is consistent with sound marketing policy and balances processor competitiveness with the objective to provide efficient growers a reasonable return. The proposed amendment to address 50% of the 75% of BC feed and chick cost difference exceeding the upper guard rail provides the balance. Growers have absorbed \$0.3373/kg in higher feed cost difference for quota periods A-170 through A-174 not covered by the BC live price. Efficient growers have no ability other than through live price to cover their costs of production.

The PPPABC have not provided the Board with any verifiable data or information that their competitiveness will be impaired or evidence of impending market instability. The PPPABC have not provided any evidence that the increase in live price cannot be passed or recovered through contracts.

There was sufficient, verifiable information indicating harm to the BC industry to make a decision that leads to an effective outcome. It will have a clearly defined regulatory outcome – to provide the chicken industry with a fact based, pricing formula that is simple, transparent and capable of providing predictability and stability until such time as the long-term pricing strategy is developed and the extraordinary feed costs normalize.

Accountable

Under the Chicken Scheme section 3.20 Pricing and Production Advisory Committee (the “PPAC”), sub-section (3) states the Board must consult with the committee and consider the committee’s advice before the Board makes any decision relating to pricing or production.

Based on the FIRB decision with respect to quota period A-174 formula amendment request, the Board was intent on ensuring a timelier consultation process that provided advance notice and timelines for the process. The Board requested that a meeting of the PPAC be held on February 16, 2022.

PPAC members were advised of the Board’s intent to request BCFIRB prior approval of an amendment to the Live Price formula for mainstream chicken. The Board outlined its process to provide a request to FIRB and stakeholder review and comment the following week. The Board followed up the meeting with a letter outlining its intent and advising processors to advise their customers accordingly of the potential change in live price formula

As the Board will make its decision at the A-175 Pricing Meeting to be held on March 10, 2022, it will request a decision on prior-approval from FIRB prior to this date. The Board advised participants that the exact amount of the increase could not be established until Ontario published the Farm Gate Minimum Live Price for quota period A-175 the week of March 7, 2022.

The submissions of the Growers and Processors as well as the FIRB Panel decision regarding the proposed amendment for A-174 period are attached and have been taken into consideration by the Board in this decision. Based on the February 16, 2022 PPAC meeting, the Board is expecting further submissions from stakeholders regarding the proposed amendment for A-175. To date, the Board received two letters from PPPABC and have addressed the points raised for consideration in making this decision.

The Board is accountable for its decisions to the entire industry and must consider the impact of its decisions on other parties. The Board is taking into account the interests of both growers and processors. Those who determine they are aggrieved by this decision may appeal to BCFIRB. Both growers and processors are well aware of their rights to appeal and the methodology to do so.

The BCCMB maintains its legitimacy and integrity through understanding and discharging its responsibilities (as per the NPMA, Provincial Policy, BCFIRB direction) and is accountable by providing reasons explaining the course of action to stakeholders within this Schedule 15.

Fair

The decision making process has ensured procedural fairness. All sides were consulted and their opinions heard. The Board has with this document provided a rationale illustrating sound marketing policy is being achieved.

The amendment to the current pricing formula addresses the concerns brought forth of both the growers and processors in their submission.

Transparent

Pricing orders are transmitted to all mainstream growers and processors by email.

The decision making process is transparent. The processes, practices, procedures and reporting on the mandate are open and accessible to the people impacted by the decisions and operations of the Board.

This Schedule 15 containing the Board's decision and rationale will be posted on the website. Further, an explanation will be included in the BCCMB Monthly Board report and will also provide a reference to the Schedule 15 on the website.

Inclusive

In his "Chicken Industry Pricing – Episode III" letter dated March 18, 2016 BCFIRB Chair John Les stated:

The fundamental premise behind how best to determine the price a grower receives for their chicken from a processor remains the same as it was in 1995 and in 2010. In summary, and as recorded in paragraph 23 of the June 9, 2010 BCFIRB decision:

All parties in this supervisory review agree that a workable pricing model must be consistent, predictable, transparent, and result in a live price that gives growers a reasonable return and allows processors to be competitive in the Canadian market. These same considerations apply to the BC broiler hatching egg sector.

In its June 2010 decision BCFIRB gave the Chicken Board flexibility for making changes to the current formula-based pricing model (paragraph 30): any long term changes to the pricing model will also require the Chicken Board to consult with PPAC. BCFIRB wishes to make it clear that if the Chicken Board decides as the first instance regulator that it should undertake any initiative regarding the pricing model, the requirement to consult with PPAC remains.

Finally, as per BCFIRB's general supervisory expectations, the Chicken Board must demonstrate a thorough and substantiated use of principles-based regulation and SAFETI in arriving at any changes to the pricing model that clearly reflect "sound marketing policy". This would necessitate consultation with a broad range of stakeholders and consideration of inter-provincial and national implications

As per BCFIRB's March 18, 2016 instructions, appropriate interests were considered and consulted. The PPAC consists of representatives of chicken growers, processors and hatching egg producers.

The decision of the Board is in the public interest to provide continuity and stability respecting the live pricing of the regulated product.

Parties impacted by the decision were provided an opportunity to comment prior to the Board coming to its decision.



March 8, 2022

DELIVERED VIA EMAIL

Kirsten.Pedersen@gov.bc.ca

Peter Donkers, Panel Chair, BC Farm Industry Review Board

RE: Potential Price Formula Changes for Period A-175 (March 13, 2022, to May 7, 2022)

Dear Peter,

The BC Chicken Growers' Association (BCCGA) is providing this submission in support of the BC Chicken Marketing Board's (BCCMB) proposed amendment to the live pricing formula effective for A-175.

This BCCGA submission includes this letter followed by:

- A BC Chicken Costs Analysis for A-175 Pricing Decision by MNP
- Additional comments provided by the BCCGA

The BCCGA requests that the BC Farm Industry Review Board (FIRB) approve this necessary change.

Sincerely

Dale Krahn, President
BC Chicken Growers' Association

cc. Woody Siemens, Executive Director, BC Chicken Marketing Board
Wendy Holm, FIRB Liaison, Supervisory Review on Long Term Pricing

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BC Chicken Cost Analysis for A-175 Pricing Decision

Based on the information provided by you, we have prepared an analysis of the increased costs incurred by BC chicken growers for periods A-129 through A-174. We have not reviewed, audited, or otherwise attempted to verify the accuracy or completeness of the information provided. Accordingly, we do not express an audit opinion or review conclusion, or provide any form of assurance on the information presented below.

Facts, Assumptions, and Overview

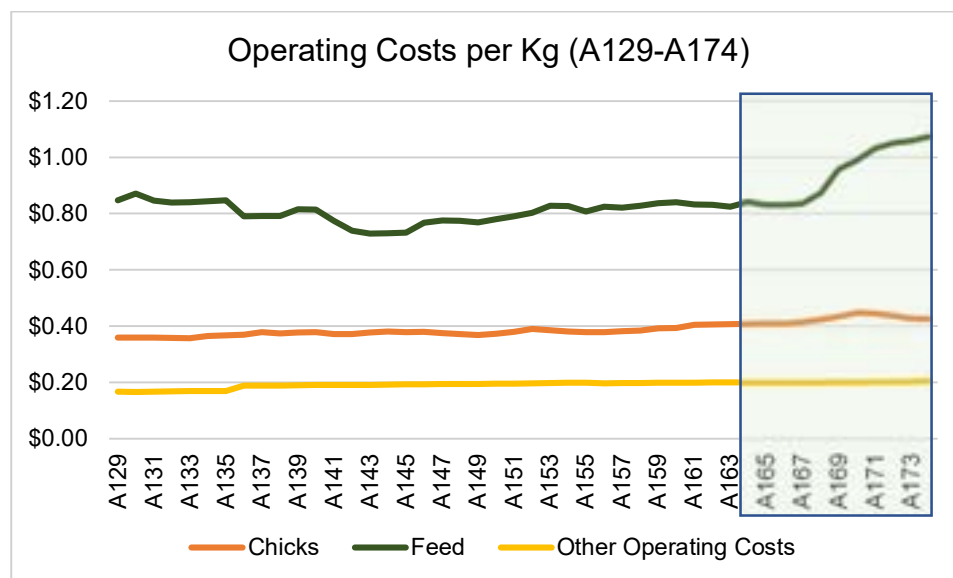
The following analysis is based on the Serecon BC Broiler Cost of Production data provided for periods A-129 through A-174.

- While all costs have increased in this timeframe, the analysis focuses on operating costs (chick, feed, and other operating costs, as categorized and presented in Serecon's reports
- The analysis considers both long-term (A-129 through A-174) and short-term (A-165 through A-174) trends, and presents a comparison of immediate cycles to A-169, when the Ontario COP came into effect.
- This analysis is based on the assumption that a reasonable return should be based on cost of production.

The starting point of A-129 is based on the change in Ontario's pricing formula at that time to illustrate the volatility that has resulted since then. At that time, BC growers were only receiving 95% of their cost of production.

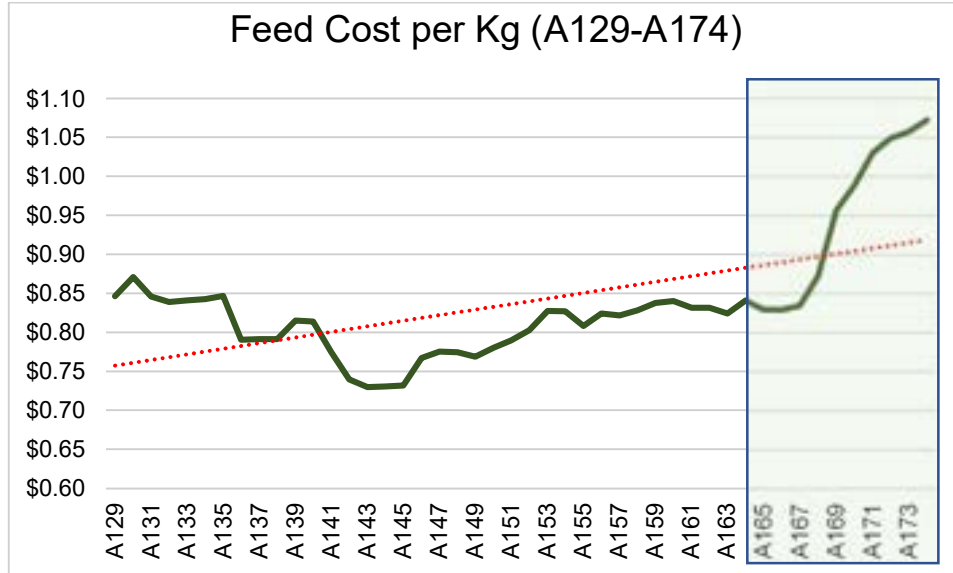
Long-term Analysis (A-129 to A-174)

From A-129 to A-174, BC chicken growers' operating costs have increased, on average, 24.08%. During this period, live chicken prices have only increased by 19.90%. This differential represents a significant decline in profitability for BC chicken growers.



During this period:

- o Chick costs increased 18.43%
- o Feed costs increased 26.69%
- o Other operating costs increased 23.07%



From A-129 to A-174, feed costs have increased by \$0.0036/kg per cycle, on average (with total operating costs increasing by \$0.006/kg per cycle).

In the recent period of heightened variability (A-165 through A-174, highlighted in the charts above), feed costs increased by \$0.0257/kg per cycle (with total average operating expenses increasing \$0.0284/kg). For an average BC grower, this represents an increase in operating costs of \$4,170 *per cycle* (\$3,773 of which is feed).¹ While operating costs increased 18.40% during this period, live prices only increased 15.67%, illustrating that BC growers are getting *further away* from their cost of production (reasonable return).

¹ Based on an average farm in BC producing 146,800kg in A-173 per BC Chicken Facts, Fall 2021 (<http://bcchicken.ca/wp-content/uploads/2022/01/2021-BC-Chicken-Facts-Fall.pdf>)

Comparison to A169

In A-169, the Ontario COP came into effect. While BC's operating costs continue to increase, the live price has actually *decreased*:

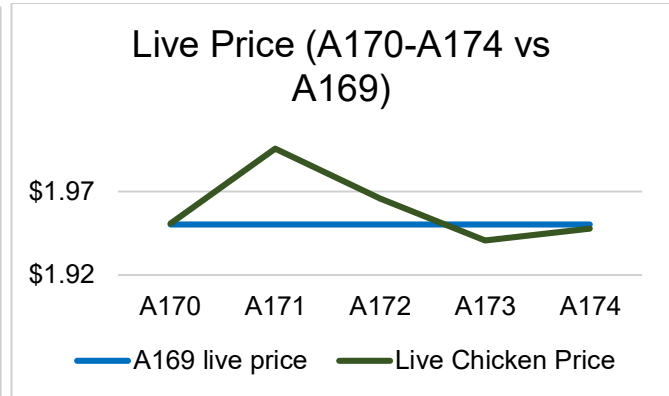
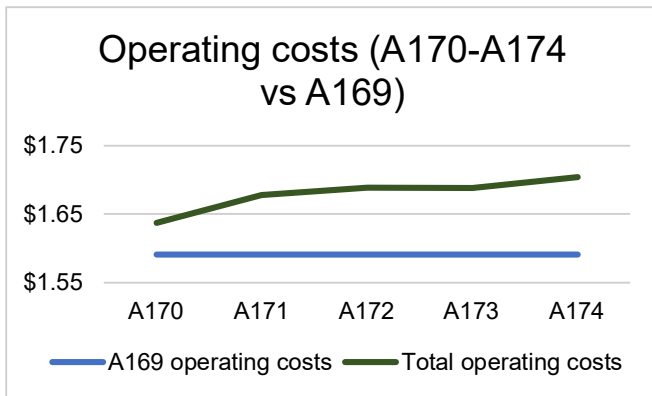
	A169	A170	Change \$	Change %
Total operating costs	1.5910	1.6372	0.05	2.90%
Live chicken price	1.9503	1.9509	0.00	0.03%

	A169	A171	Change \$	Change %
Total operating costs	1.5910	1.6777	0.09	5.45%
Live chicken price	1.9503	1.9958	0.05	2.33%

	A169	A172	Change \$	Change %
Total operating costs	1.5910	1.6888	0.10	6.15%
Live chicken price	1.9503	1.9658	0.02	0.79%

	A169	A173	Change \$	Change %
Total operating costs	1.5910	1.6883	0.10	6.12%
Live chicken price	1.9503	1.9408	(0.01)	-0.49%

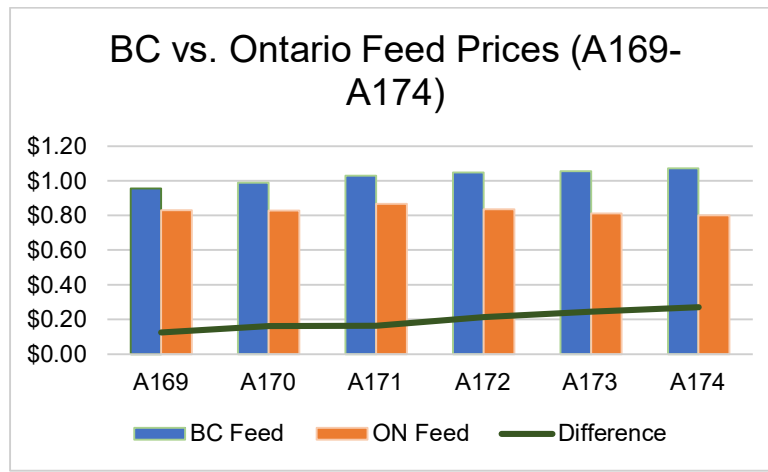
	A169	A174	Change \$	Change %
Total operating costs	1.5910	1.7043	0.11	7.12%
Live chicken price	1.9503	1.9478	(0.00)	-0.13%



Immediate Analysis (A-173 & A-174)

In A-173 and A-174, the difference between Ontario and BC feed costs has continued to diverge and are the highest they have ever been (a difference of 24.58 cents and 27.14 cents in these cycles, respectively, while the average difference in the long-term period under review was less than 10 cents).

The current live price formula, which is based on covering 75% of the provincial feed and chick cost difference, already results in BC growers not receiving 100% of their cost of production. As the provincial price differential increases, more strain is put on BC growers. Since A-169, the cost difference has increased steadily and the trend suggests the strain on BC growers will only increase unless prices are increased to reflect these rapid changes.



Impact of Upper Guardrail

In both the short-term and the long-term, pricing decisions have failed to reflect increases in growers' cost of production.

	Increase in operating costs	Increase in price
Long-term (A129-A174)	24.08%	19.90%
Short-term (A165-A174)	18.40%	15.67%

In 8 of the past 10 cycles, BC's live prices have been limited by the upper guardrail on the adjustment between Ontario's Cost of Production Formula and BC's chick and feed cost differential and as a result, the additional feed, chick and operating costs are being borne entirely by the growers.

The short-term analysis above illustrates that BC's feed costs have increased significantly, further intensifying the wheat/corn imbalance, and suggests that the upper guardrail is no longer effective at its current level. The current formula was not meant for such major differences in feed costs.

In the past two cycles alone, had the guardrails on the pricing formula not been in place, an average BC farm would have received 13.2 cents more per kg. For an average BC grower, this represents \$19,338 per cycle (or \$125,954 annually, based on 6.5 cycles per year), which is simply unsustainable, and even with the 13.2 increase the price is below the COP.

Chicken growers are not receiving a reasonable return in the current environment. Ultimately, BC growers are requesting that prices be increased to reflect their 100% cost of production. In the short-term, given the limitations in place with the interim pricing formula, and with the expectation that costs will *continue* to increase for A-175, a conservative request is to eliminate, or at the very least increase, the upper guardrail to ensure grower returns are moved *closer* to the cost of production, not further away.



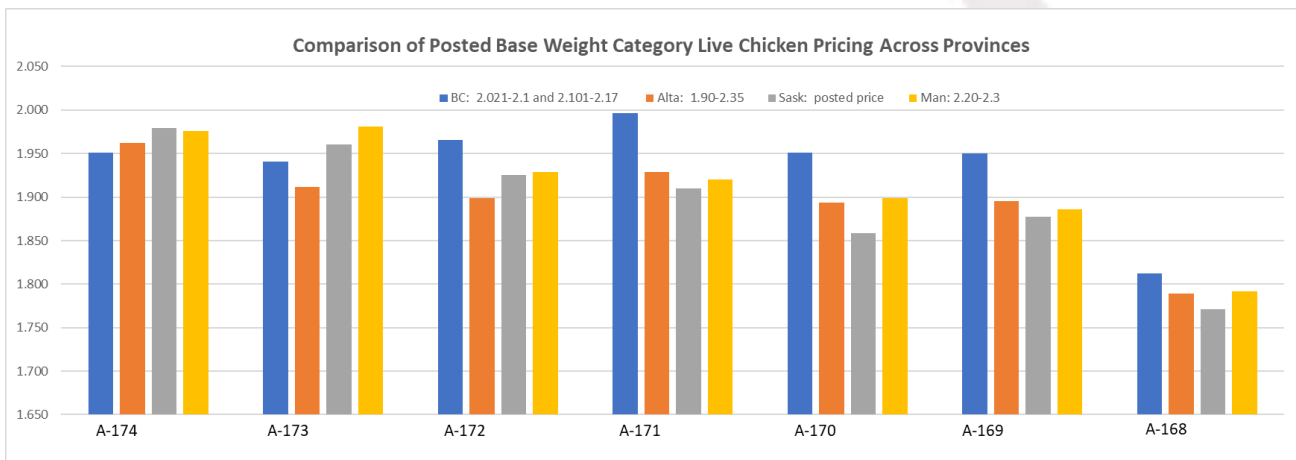
BCCGA Addendum to Potential Price Formula Changes for Period A-175 (March 13, 2022, to May 7, 2022)

1.0 Provincial Live Price Comparisons and Processor Competitiveness:

The following review of the live prices paid to growers in the Western provinces addresses the claims made by the Primary Poultry Processors' Association of BC (PPPABC) that they cannot compete at the current prices.

Historically, and well known, BC has the highest live price of the Western Provinces, in part, due to the BC chicken growers' great distance to the supply of grains.

The graph below shows that before period A173, the BC processors were paying higher BC live prices compared to Alberta, Saskatchewan, and Manitoba. Beginning in A173, Saskatchewan and Manitoba provinces raised their live price above the B.C. live price. In period A174, Alberta followed suit with all three Western provinces having higher live prices compared to BC. The Prairie provinces' authoritative bodies understood that the wheat/corn price imbalance would have a devastating effect on their growers and moved to correct the problem.



The historical price difference between the provinces has changed; BC now has the lowest live price of chicken of the Western provinces. Although our neighbouring Western provinces now have higher live prices compared to BC, the PPPABC are claiming that they cannot compete in the marketplace. Prior to A173, the BC chicken growers had a live price which was higher than the other provinces and the PPPABC claimed they could not pay higher prices due to them not being able to compete, even when allocations have increased steadily from A170 to A176. Now that BC live prices are lowest in the West, they still claim to be unable to compete. This shows their blatant disregard for the state of the chicken industry in BC.

APPROVED total allocation - KG LIVE				
	B.C. C.-B.	A.B. Alb.	Sask.	Man.
A-170	41,373,536	27,675,830	10,553,291	11,576,852
A-171	40,754,417	28,414,875	10,498,137	11,413,996
A-172	40,784,810	28,357,525	10,362,269	11,313,551
A-173	38,189,921	26,408,414	9,882,223	10,573,156
A-174	40,082,821	27,527,412	10,063,774	11,128,536
A-175	40,597,820	27,654,743	9,929,219	11,348,026
A-176	42,189,013	29,026,476	10,431,642	11,856,302

Even before the increased feed costs and changes in the Western provinces' live prices, the PPPABC claims do not reflect the true state of their competitiveness. Below are indications of processors' substantial profitability:

- *"Since the Notifiable Avian Influenza outbreak in 2004 the major BC processors made major investments through new construction and acquisitions of existing processing and facilities within and external to BC."*¹
- *"The processing sector in BC is vertically integrated, with most processors owning hatchery operations along with primary and further processing facilities. All primary processors, with the exception of Sofina Foods, hold broiler quota in BC. Collectively BC processors hold greater than 20% of broiler quota in British Columbia; with greater than 4.5 million kg of quota acquired since 2004 (12% of quota holdings in 2014)."*¹
- *"The provincial quota utilization has been close to 100% on average for the past four years, COVID notwithstanding. The Chicken Board would not expect that BC processors would continue to set chick placement levels to utilize 100% of the BC allocation if it were creating instability to their markets or adversely affecting their competitiveness or profitability."*¹ The increased allocations are shown above.
- The wholesale market prices clearly show 2021 prices being higher than the last two years with this trend continuing in 2022. The EMI - Canadian Wholesale Prices report dated February 15, 2022, below indicates that the processors are doing extremely well. *"The recent EMI data show strong wholesale prices, particularly during a low market period. Clearly, there is some recognition and response by the retail and wholesale market to higher live prices."*¹
- *"... estimates suggest that wholesale chicken pricing in BC is 7-8% over Ontario wholesale pricing. This is well above the western price spread assumed in the processing plant model, meaning the that the processor margins estimated for BC from the model are likely to be conservative, by perhaps 10¢/kg or more."*²

¹ [Final Decision - BCCMB Long Term Pricing formula for Mainstream Chicken Appendices.pdf](#)

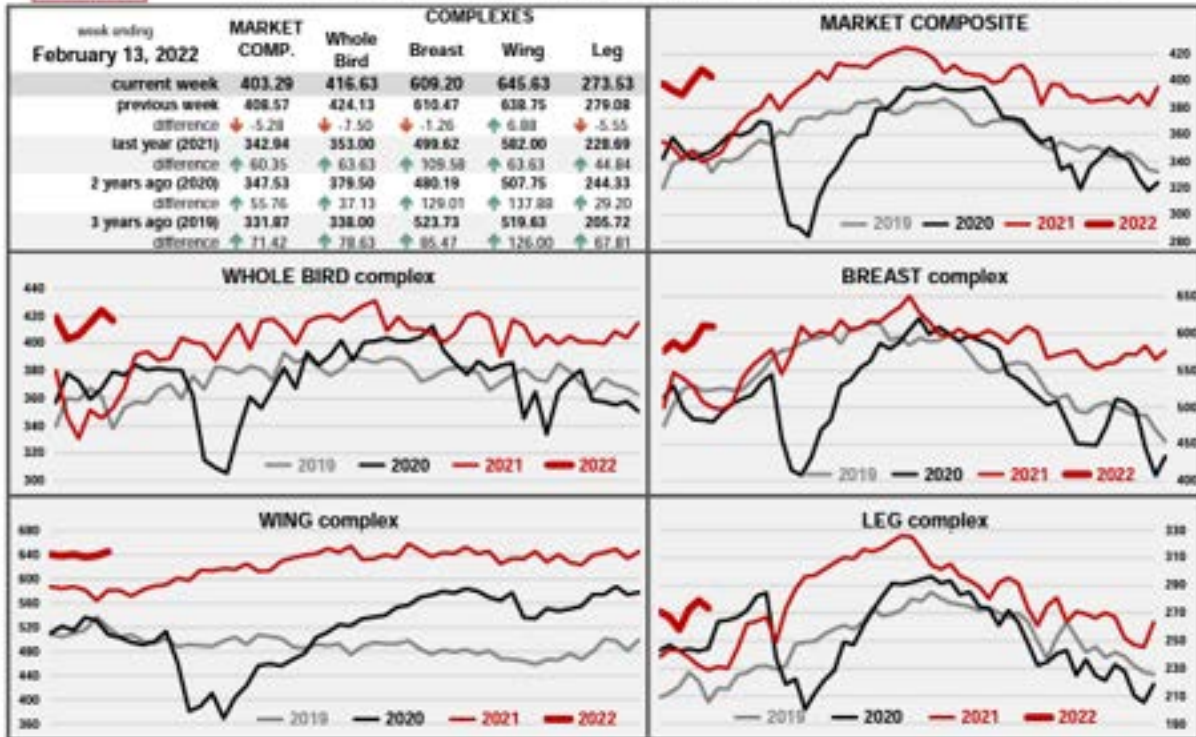
² [Costs and Returns in BC Chicken Marketing - Agri-Food Economic Systems 2020](#)



Canadian wholesale prices (Source: EMI Express Markets Inc.)

February 15, 2022

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2.0 Processors Conduct and Breach of Confidentiality


The BC Chicken Growers’ Association (BCCGA) is genuinely concerned about the conduct of the PPPABC. The PPABC has provided misleading information which they have been introducing to this Supervisory Review process for long term pricing as well as in the recent application by the BC Chicken Marketing Board (BCCMB) to increase A174 pricing. We are concerned this pattern will continue for the A175 request to adjust the interim live price formula.

The PPPABC letter, Draft final Pricing Decision - Feedback dated February 7, 2022, to the Chairs of the BC BCCMB and the BC Hatching Egg Commission (BCBHEC), broke the confidentiality agreement of the Pricing Working Group (PWG). The initial Terms of Reference, disseminated to the assigned members of the BCCGA and the PPPABC, highlighted the expectations clearly. The PWG discussions were without prejudice and confidential. The PPPABC suggests that there was an agreement to split any adjustments to the new Ontario COPF. This is typical of the tactics employed by the PPPABC in pricing matters, where data is cherry picked and the complete story is left out to suite their arguments. Throughout this process they have relied on hyperbole, cherry picking and withholding of data, never showing the whole story. The BCCGA is very concerned about due process and the PPPABC’s lack of regard for agreements made regarding confidentially. Trust is certainly lost with these tactics.

Additionally, the PPPABC has consistently scrutinized the grower returns and manipulated the data to reflect growers doing better than ever, even while other reputable firms confirm that BC's chicken farms are unsustainable. The growers' costs are completely transparent, and the processors are abusing this to their advantage. The PPPABC has been allowed to make these claims without any reference to their own revenues or margins. By doing this they have prolonged the pricing process completely to their benefit and this should be recognized as a tactic to ensure their returns.

These situations have made this process extremely difficult for the other stakeholders as it only benefits the processors. The actions of the processors confirms that their actual intentions are for their desired outcome, and this must be questioned in this process.

The BCCGA maintains that the Processors do not have the BC chicken industry's best interest in mind and are purely concerned with their profits at the expense of the other stakeholders.



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March 8, 2022

Mr. Peter Donkers
Chair
BC Farm Industry Review Board

Dear Mr. Donkers:

**Re: BC Chicken Marketing Board Request for Prior Approval to Amend the Quota Period A-175
Mainstream Pricing Formula**

The Primary Poultry Processors Association of BC (PPPABC) is in receipt of the BC Chicken Marketing Board (BCCMB) prior approval request to the BC Farm Industry Review Board (BCFIRB) to amend the A-175 mainstream pricing formula. It would have been beneficial for the BCCMB to have presented some of their rationale, information, and analysis in this request at the February 15, 2022 Pricing and Production Advisory Committee (PPAC) meeting. This would have allowed stakeholders to have a more fulsome and constructive discussion and conclude on the A-175 pricing issues. The BCCMB has not effectively used the PPAC to bring parties together to agree and conclude on data and analysis. The lack of structure has compromised the effectiveness of the PPAC and unfortunately has further divided the parties.

It is not clear to us, what the A-175 prior approval process looks like but given the time sensitivity of the issues we believe we need to provide a number of perspectives and concerns with respect to the rationale and analysis provided by the BCCMB. The PPPABC believes that the BCCMB request is incomplete, inaccurate, and misleading. The BCCMB's motivation appears to be to simply push their request through as quickly as possible by exaggerating the situation and manipulating the data to support their pre-determined conclusions and their proposal. Our specific concerns are outlined below:

1. **Reasonable Return to an Efficient Grower** – The BCCMB states that, “an efficient BC grower is not achieving cost recovery...” (Page 4) but presented no evidence to show that growers are currently losing money, or what a reasonable return is for an efficient grower. The BCCMB goes on further to say, “It is hampering the ability of growers to reinvest in their farms.” Again, there was no evidence provided to show that farm investment has declined because growers are not recovering costs.

The BCCMB stated in A-174 that feed prices were the reason for their formula amendment request. The BCCMB has changed their rationale and are now saying that “The source of the impact on broiler growers is not attributable to a single factor, rather the combination of a number of factors.” These factors included BC Grower Margin, Feed conversion ratio, Corn versus wheat supplies and pricing, and changes in the Ontario Farm Gate Minimum Live Price formula. We will comment below on each aspect of the BCCMB's new rationale.

2. **BC Grower Margin** – The BCCMB has finally acknowledged that BC growers will see a margin increase in A-174 and A-175 because of changes to the Ontario producer margin however they further state, “it is not equivalent to the increase realized by Ontario growers.” This is irrelevant as BCFIRB pointed out in their A-174 Prior Approval Decision, “Supply management is neither intended nor designed to guarantee equality of gross grower margins across the country.”¹ Further,
- a. Ontario growers are being compensated for margin declines caused by the annual adjustments in previous years. The BCCMB previously shielded growers from the full impact of the annual adjustments in the Ontario Live Price by transferring some of these costs onto BC processors. As the efficiency factors in Ontario grew, the BCCMB introduced new pricing formulas in BC which increased the live price differential with Ontario. The BCCMB can’t now claim to provide the same level of increases to BC growers as Ontario growers, when they were shielding BC growers from experiencing the same level of decrease that Ontario growers were experiencing in previous years.
 - b. The BCCMB still has not defined what is a “fair return” to a BC grower, which is required by BCFIRB.² The PPPABC has demonstrated below, with numbers readily available to the BCCMB, that BC growers will realize returns in A175 that are greater than those realized in many previous periods over the last 3 years, without any further assistance from the BCCMB. As such BC Growers will receive fair returns in A-175 without further adjustments to the BC formula.
 - c. The BCCMB compares BC grower margins with Ontario grower margins (Page 5) however they have misrepresented and inflated Ontario grower margins by using the Ontario 2.45 – 2.65 kg weight category which is 2 cents higher than the Ontario 2.15 – 2.45 kg reference category. The Ontario 2.15 – 2.45 kg reference category is used to develop the Ontario live price and compares to the BC 2.021 – 2.170 kg reference category.
 - d. The BCCMB is also using an outdated and incorrect feed conversion ratio when calculating the BC feed cost. This has inflated the BC live price and under stated the actual returns realized by BC growers. The feed conversion ratio in the BC Live Price Formula is based on a 2018 survey of 14 growers and is severely outdated and is distorting live pricing, grower returns and processor competitiveness.

Although the BCCMB mentions that BC growers will see a margin increase in A-175 they do not provide any proforma analysis to show what that grower margin could look like. This is despite the fact they know the following:

- The Ontario live price for A-175 has increased by 6.4 cents
- Ontario feed prices for A-175 have increased by 4.72 cents per kg³
- Ontario producer margins have increased an additional \$0.011 / kg over and above the increase in A-174

¹ British Columbia Farm Industry Review Board, Prior Approval Chicken Interim Pricing Formula for A-174, February 4, 2022, P.9

² Ibid, P.9

³ Chicken Farmers of Ontario Website

The PPPABC made requests of the BCCMB to get better visibility on BC feed prices for A-175 which have not been followed up. The PPPABC does not understand why the BCCMB has not received and provided this information to BC stakeholders which would provide a more complete picture of the A-175 pricing situation.⁴ What is particularly disturbing as illustrated below, is that the feed pricing information used in the BC pricing model is still not available and the feed reference period for A-175 ended January 15, 2022. When compared to Ontario, the BC industry is waiting longer to obtain older information that is fundamental to the BCCMB’s pricing proposal.

Feed Reference Periods - A-175

		Date W/E	ON Feed	BC Feed
A-173	1	27-Nov-21		
	2	04-Dec-21		
	3	11-Dec-21		
	4	18-Dec-21		
	5	25-Dec-21	0.51397	
	6	01-Jan-22	0.52449	
	7	08-Jan-22	0.53242	
	8	15-Jan-22	0.52884	
A-174	1	22-Jan-22	0.52794	
	2	29-Jan-22	0.52508	
	3	05-Feb-22	0.53348	
	4	13-Feb-22	0.54591	
	5	19-Feb-22		
	6	26-Feb-22		
	7	05-Mar-22		
	8	12-Mar-22		

3. **Feed Conversions** – The BCCMB is using an outdated and incorrect feed conversion rate. The 1.65 feed conversion is inflating the BC live price and understating actual BC grower returns. The BCCMB uses feed cost as a major component in its pricing model and thereby should be validating their feed calculation. The fact that the PPPABC are the ones bringing this up is a further signal that there is a problem with the current process. The chart below shows the impact of the feed conversion ratio (FCR) on the calculated A-174 BC live price as well as grower returns.

Impact of Feed Conversions	A-174 Current (1.65)	A-174 Ontario (1.609)	A-174 Efficient Grower (1.55)
Calculated BC Live Price	2.074	2.053	2.025
Net Grower Returns (After Feed Chick and Catching)	.4126	.4407	.4777

What this chart illustrates is that using a more accurate actual feed conversion would have reduced the BC live price by approximately 6 cents / kg. Using the Ontario COPF A-174 feed conversion (FCR = 1.069), grower returns are 7 % higher than current formula returns and while returns for an efficient grower (FCR = 1.55) would be over 15% higher.

The BCCMB is attempting explain away this fundamental error by suggesting “The current BC formula has already overcompensated for the “potentially” lower BC FCR by taking into consideration only 75% of the feed and chick cost difference in the Live Price formula” (Page 6). At no point previously has it been suggested that the 25% portion of the feed and chick cost difference was a buffer for the Board to allow errors in their formula to favor of BC grower returns. It is important to note that if the BCCMB was using the more accurate feed conversion in the current pricing formula, there would have been numerous periods where BC grower feed and chick costs would have been less than Ontario feed and chick costs. The reason for this situation was in those periods corn prices had

⁴ BC Feed data for A-175 is based off A-173 weekly feed prices

increased relative to wheat prices. The BCCMB never came forward with a proposal to reduce the live price differential in order to assist BC Processors vs. their Ontario counterparts.

The PPPABC has now had the opportunity to pull actual feed conversions from their corporate farms for the periods A-168 to A-173 with the average conversion being 1.598 for that time period.⁵ Given that these are corporate farms, it is generally accepted that owner / operator farms perform better than corporate farms. Given this verifiable data and information it is the PPPABC position that an efficient producer independently owned farm would realize a 1.55 FCR.

If we use these conversions rates to calculate actual BC grower returns, it becomes evident that the BCCMB’s margin comparison table in their request (Page 5) is exaggerating and overstating the BC grower margin difference with Ontario between 4.5 and 6.5 cents.

Cycle	BC Margin With Guardrail	Ontario Margin	BCCMB Difference	Ajusted Ontario Margin	Feed Conversion Impact		Adjusted Margin Differences			Margin Difference Overstatement		
					Adjusted BC Margin 1.6069	Adjusted BC Margin 1.55	BC - 1.65	BC - 1.6069	BC - 1.55	BC - 1.65	BC - 1.6069	BC - 1.55
A-170	0.4775	0.5841	-0.1066	0.5641	0.5033	0.5374	-0.0866	-0.0608	-0.0267	0.0200	0.0458	0.0799
A-171	0.4836	0.5842	-0.1006	0.5642	0.5105	0.5460	-0.0806	-0.0537	-0.0182	0.0200	0.0469	0.0824
A-172	0.4432	0.5861	-0.1429	0.5661	0.4706	0.5068	-0.1229	-0.0955	-0.0593	0.0200	0.0474	0.0836
A-173	0.4198	0.5862	-0.1664	0.5662	0.4474	0.4839	-0.1464	-0.1188	-0.0823	0.0200	0.0476	0.0841
A-174	0.4126	0.6061	-0.1935	0.5861	0.4406	0.4776	-0.1735	-0.1455	-0.1085	0.0200	0.0480	0.0850

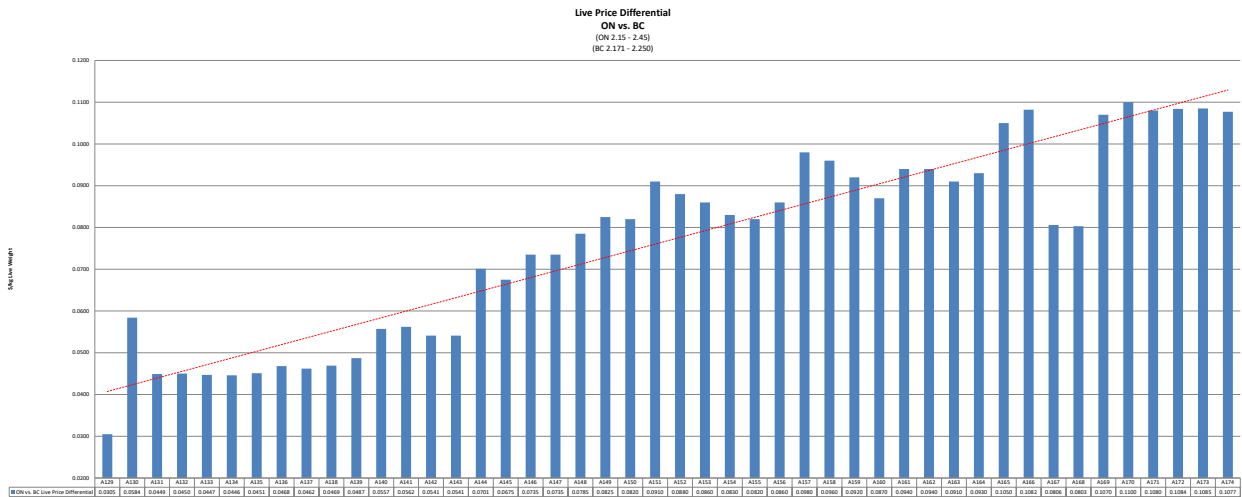
By using the Ontario 2.45 – 2.65 kg weight category for pricing (2 cents higher price) and the Ontario cost data for the 2.15 – 2.45 kg weight category the BCCMB has overstated Ontario grower margins by an additional 2 cents. Based on these two factors alone, the BCCMB has misrepresented and overstated the margin differences by using two different weight categories for their calculation. In addition, by using an outdated FCR to calculate BC margins, the BCCMB are understating actual grower returns while and at the same time increasing the live price differential with Ontario and reducing processor competitiveness.

4. **Corn versus Wheat** – The PPPABC has never disputed that the price balance between corn and wheat has changed, nor have we disputed that feed grain costs in general were increasing. We are concerned about the rapid cost increases in the commodities and the Ukraine / Russia situation has added further complexity and this issue must be carefully assessed.
5. **Ontario Farm Gate Minimum Live Price Formula** – The BCCMB has outlined some of the changes that have occurred in the ONCOPF but still fail to do the math to calculate that the actual impact on grower returns and processor competitiveness. As of A-175, as the PPPABC has pointed out in a number of its submissions, the changes to the ONCOPF, from A-169 to A-175, have provided BC growers with an additional 9 – 10 cents in producer margin, which have directly mitigated the wheat vs. corn current imbalance.
6. **Annual Adjustments** – The BCCMB fails to recognize and appear to be hiding in their recap of the “annual adjustments” that they increased the BC live price differential with Ontario increased with each increase in the annual adjustments as shown in the chart below. This insulated BC growers from realizing the full burden of the annual adjustments that were being realized by Ontario growers by forcing BC processors to pay a portion of them. When the annual adjustments were

⁵ These periods include higher feed conversions as a result the 2021 Heat Dome

eliminated in A-169, it was our understanding and only seemed fair to BC processors that a portion, of this incremental differential would be returned.

The BCCMB state in their submission (Page 14) that the PPPABC has not provided any verifiable evidence to support the claim that there was an agreement between PPPABC and the grower association that and benefits from a reduction in the ONCOPF would be shared equally between the parties (Appendix 1). This is completely incorrect as the BCCMB was made aware of this agreement in our correspondence to the BCCMB dated January 6, 2021 (Appendix 2). Irrespective of whether there was agreement with the Growers, the evidence is clear that BC Processors have been forced to pay a portion of the adjustments, which have now been removed. There is no reason or rationale for BC Processors to continue to pay for any portion of these.



7. Producer Margin Changes – The BCCMB maintains that they are not attempting to ensure BC growers margins are on par with Ontario growers (Page 11). However, this seems to be their key comparison as opposed to what is a reasonable return for an efficient grower, which the BCCMB has yet to determine. In fact, in the paragraph that follows this statement on the same page, the BCCMB is once again actually comparing the margin gap between BC and Ontario growers. This is because the BCCMB has failed to determine what is a reasonable return for an efficient grower.

Further to this, the BCCMB in their A-175 request has now introduced the notion that an increase in “grower margin” is not an increase in in “grower profit”. The PPPABC in its March 8, 2020 correspondence to the BCCMB indicated that returns to growers should be measured as returns after operating costs as there are several areas where BC growers have cost advantages. The BCCMB chose not to pursue this line of thinking previously as it did not support their intended outcome. Now they are supporting this line of thinking when it better suits them, however, the Board has chosen only certain aspects of this information to support its desired outcome instead of preparing an impartial analysis to fully assess the situation.

For example, in their A-175 request, the BCCMB introduces several new items into the discussion (capital costs, labour, sawdust, heat, etc..) that BC growers need to recover. The BCCMB has presented no evidence to show that growers currently are unable to cover these costs, nor have they compared the Serecon COP against the Ontario identified areas where BC growers have cost

advantages. As shown in the table below BC growers have labour and operating cost advantages over Ontario.

A-174 Cost Component	BC - Serecon	Ontario COPF
Labour	0.1197	0.1399
Operating Costs ⁶	.2059	.2315

Nowhere in any of the BCCMB’s analysis have they shown the BC grower operating cost advantages given that they hinder the Board’s desired outcome.

This is an example of the BCCMB trying to sensationalize the situation to push their agenda, by simply making broad statements and assumptions that cannot be substantiated, are not based on verifiable data, and are in fact, incorrect, once the numbers are properly presented. It is also a further indication that the BCCMB has not done a thorough analysis of the current situation.

8. **Processor Competitiveness in the Canadian Market** – The BCCMB position was very clear in the A-175 PPAC meeting that it was producers not processors that had a labour cost disadvantage to Ontario. Now the BCCMB is backtracking and saying that BC processors actually do have a labour disadvantage due to scale, which was only one aspect in the PPPABC “Processor Competitiveness Report” referred to by the BCCMB. They conveniently omit the other real and distinct cost disadvantages faced by BC processors outlined in the report, including wage rates and access to chicken TRQ. For example, the PPPABC report also concludes that, when Ontario labour is adjusted for product mix, that BC processors have a 33% labour disadvantage. The BCCMB is trying to oversimplify and minimize the very real processor cost differences BC processors have with Ontario by implying that it is based solely on production volume.

The BCCMB is relying on a model used by Kevin Grier and in his “Costs and Returns in BC Chicken Marketing” report which was built upon numerous inaccuracies. For example, this was built on the foundation that BC was a net exporter of chicken which was later reviewed, reconciled, and found to be completely incorrect. The Kevin Grier processor “analysis” is based on theoretical modelling, inaccurate and misleading information, and the inaccurate foundation that BC is a net exporter of chicken, unlike the PPPABC analysis which is based on actual verified processor costs. The PPPABC has provided in detail a number of concerns with respect to the accuracy of the Grier report and its portrayal of the Canadian Poultry Processing Industry (Appendix 2). Irrespective of these facts, the BCCMB continues to utilize this report as if it an accurate portrayal and representation of the BC processing sector and the BC processors competitive position.

The only reason for the BCCMB to use the Kevin Grier theoretical, inaccurate, and misleading data as opposed to the PPPABC’s actual verified data is because it better aligns with their pre-conceived assumption that their recommendation will not impact processor competitiveness.

The BCCMB is misleading and incorrectly implying that because catching is included in the BC live price, that BC processors are realizing increased returns from live price contracts because the catching costs are charged back to the grower (Page 13). The PPPABC in its submissions, at the “without prejudice meetings” and on several other occasions have explained how live price contracts

⁶ Serecon “Other Operating Costs” and CFO “Operating and Capital Costs” less Capital Components

in the chicken industry work with retailers. As we have mentioned in these instances, “all processors in all jurisdictions” when bidding on and establishing live price contracts include “all live, catching, processing, overhead, and delivery costs” for a specific period. Whether catching is included in the live price or not is completely irrelevant to establishing a base level of pricing and the reference jurisdiction for live price changes.

Once base level pricing is agreed to, then the customer’s price will fluctuate with “changes” the reference jurisdiction live price. As we have mentioned on several occasions, the challenge for BC processors is that most of our customers are based out of Ontario and certainly aware of the price differences between the provinces. As such, these customers will typically want to price and use live price changes off the lowest cost processor. This not only makes it very difficult to pass through all costs increases initially, but also when there are differences in the live price changes between jurisdictions. This is a well know fact throughout the industry and not just a BC Processor position. As reference we attach a letter from CPEPC which outlines this same position with respect to the marketplace that is *agreed upon by all Processors in Canada* (Appendix 2). The assertions made by the BCCMB that by including catching costs in our live price contracts gives us an advantage is simply not accurate.

The BCCMB also references “fixed price” contracts with customers but fail to mention that these are generally associated with frozen primary and further processed product. As we have discussed with BCCMB, BC is at a significant cost disadvantage to Central Canada processors who use TRQ, fowl, less expensive labour, and less expensive live birds to realize a significant cost advantage. Given most further processed products are frozen which provides longer shelf life and easier transportation options, the frozen primary and further processed market is clearly a national market. This aspect of the chicken business in BC requires stable and competitive raw material pricing in order to remain viable in the future.

The BCCMB, in order to support their A-175 request have, completely ignored that we operate in a national market, misrepresented how customer contracts work, incorrectly assessed the impact of catching in live price, and have completely underestimated the difficulty that BC processors have in passing cost increases through to customers.

The BCCMB submission attempts to draw conclusions from EMI data that are both erroneous and irrelevant. The BCCMB suggests that EMI data is used as the basis for National contract negotiations which is incorrect and simply not true. As has been stated in the current and previous Pricing Reviews, BC processors do not contribute data to the EMI because they simply do not sell into the wholesale commodity market. The BCCMB states that EMI wholesale prices have increased and given the trend of increases in live bird prices that would seem to be a logical conclusion. If live prices are increasing, then it is not a stretch to see wholesale prices increasing. The PPPABC would assert that the EMI data provided (Page 14) provides insight as to the general live price margin status of the processing industry but does not provide any insight on the competitiveness of BC processors in a regional or national Market. Also, these graphs are revenue based only and do not show the competitive cost and TRQ disadvantages experienced by BC Processors.

The BCCMB also state, “The PPPABC have provided more analysis of grower margins and information on defining reasonable returns to growers than they have on BC processor competitiveness.” and that processors as a “quid pro quo” should be providing the BCCMB with BC processor margins. The

PPPABC has put together and provided a tremendous amount of analysis and information throughout this entire review process. The issue is that the BCCMB does not view it objectively and refuses to accept any of it at face value. There is no question that BC Processors are significantly disadvantaged, and the BCCMB refused to acknowledge that.

Up to this point, the BCCMB has not done their own analysis of grower returns nor considered any of the PPPABC analysis on grower returns to understand the impact of their pricing proposals. The BCCMB is making these statements to deflect from the fact that they have not done the proper analysis to understand how their proposal will affect A-175 grower returns and processor competitiveness.

9. **PPPABC Analysis and Perspective on A-175** – The PPPABC has projected BC Live Price for A-175 based on the actual Ontario Live Price for A-175 projecting the same \$30 / tonne increase in BC feed pricing and holding the chick price steady. We have used this to show: the calculated BC live price, the BC posted live price, forecasted grower returns, and the live price differential with Ontario using the current formula, using the Ontario FCR, and the Efficient Grower FCR.

Current Formula	A-175 (Current)	A-175 (1.6033)	A-175 (1.55)
Calculated Live Price	2.135	2.116	2.084
Posted Live Price	2.015	2.015	2.015
Grower Returns	.4268	.4586	.4948
Live Price Differential	.0884	.0884	.0884
BC Proposed Formula	A-175 (Current)	A-175 (1.6033)	A-175 (1.55)
Proposed Live Price	2.055	2.055	2.055
Proposed Grower Returns	.4670	.4989	.5351
Proposed Price Differential	.1345	.1345	.1345

This chart clearly shows the impact of feed conversions on live price, grower returns and processor competitiveness. If the feed conversion for an efficient grower (1.55) is used in the current live price calculation, the live price would be reduced by 7 cents compared to the current formula. Even though the calculated live price hits the upper guard rail, and efficient grower can expect to realize returns of 49.48 cents. As shown in the second half of the chart, the BCCMB proposal would increase the live price by an additional 4 cents and an efficient grower would realize returns over 53 cents.

Our forecasts for A-175 indicate that grower returns even without the BCCMB’s proposed formula would be near record levels. If the BCCMB proposal is approved growers would be realizing excessive returns at the expense of processor competitiveness as the live price differential would increase to a record 13.45 cents after catching over Ontario.

In closing, the PPPABC believes that the economics that have been forecasted for the parties in A-175 do not warrant an alteration to the formula as grower returns remain in a reasonable range and the live price differential is at the upper guardrail. However, the PPPABC is very concerned about the commodity issues facing the industry and as was stated previously the Russia / Ukraine issues are likely to cause further complications going forward. On that basis only, the PPPABC believes potential amendments to pricing may be required in future periods, however this should only be permitted if:

1. The discussion between parties does not center solely on feed cost differentials but rather focuses on returns to growers, which incorporates both the ONCOPF factors and actual feed conversions.
2. The live price differential is reduced by 2.5 cents (representing 50% of the A-169 ONCOPF margin adjustments) as a base case from which any alterations to the formula might be considered.
3. The formula that is developed to amend the live price is transparent and fair to both parties. Any amendments should be robust enough that it would allow the live price to move up and down based on the key indicators.
4. There are clear and measurable guidelines in place as to when any formula amendments are no longer required.

The PPPABC remains optimistic that an amicable solution based on verifiable facts can be reached that benefits all stakeholders.

Sincerely,



Blair Shier
President
Primary Poultry Processors Association of BC

c. Harvey Sasaki – Chair BCCMB
Jim Collins – Chair – BCBHEC
Wendy Holm – BCFIRB Liaison

Appendix 1 – PPPABC Email Correspondence to PPAC Re: Price Working Group

From: Blair Shier <bshier@jdsweid.com>
Sent: January 9, 2020 6:21 PM
To: 'Paul Godin (pdgadr@gmail.com)'; 'Jim Byrne (jimbyrnebcc@gmail.com)'
Cc: 'Scott Cummings'
Subject: FW: BC Pricing - where are we headed ?
Attachments: Fwd: TCC (10.9 KB)

Jim and Paul....

Wanted to share with you a thought that I had on my way home from our last meeting. It is not a criticism so much as an observation on the process we have been going through. I've chatted w Scott and we are aligned on the issues/ observations.

Our pricing discussions have migrated to the development of a new pricing formula that "maintains the status quo" ... the mantra of "no party being advantaged / or disadvantaged" seems to have become the core attribute of the formula under development. We seem to have lost focus on the discussion of a price that delivers a "fair return for growers" and "allows processors to be competitive". We spent some time early on developing definitions (and I recognize I still owe the group the definition for processor competitiveness) but we have not spent any time looking at these issues since those original meetings. Both parties have put strong stakes in the ground that in essence says neither party is willing to accept a scenario where they accept less than what the current formula is delivering.

Where I think we have missed the opportunity to bring in the "fair return for farmers" and "processor competitiveness" would be in how we look to split the relief that is coming our way (we hope) from Ontario One could argue that the benefit that is forthcoming (from ON) should be split based on an assessment of which party is facing the bigger gap vs their declared objective (fair return vs competitiveness).

At this point I am not advocating we open up discussions on the "50/50" that has been agreed to (at least conceptually), but the reality is that these changes will embed new expectations on both sides of the discussion. I guess what I am saying is that we might come up with a formula that we will agree to – but it is not based on addressing the core issues, it is more of a bargained solution.

The email in the attachment from Bob outlines some of the items included in his gross margin calculations. There are still some problem areas that we see in this that we'd like to see rectified. This won't change how we approach the negotiated settlement and that commitment that we'll negotiate 50/50 on any upcoming Ontario increase but we want the gross margin to accurately reflect what growers actually face in terms of costs and what they realize on an operating margin basis. That is the required in order for the Board, or others, to assess whether the Growers are earning a fair return or not.

While the expected "relief" will assist processors and growers in arriving at an agreement for now, it is important that we get the fundamental questions answered for the Board so that future pricing discussions start from the same points we did; with no fundamental understanding of the two measures the Board is supposed to consider when setting live price: Fair return for Growers and Processor Competitiveness

Happy to discuss further but I don't want to de-rail the progress we've been making.

Blair

Appendix 2 – PPPABC Correspondence to BCCMB Re: Kevin
Grier Market Report and PWG



January 6, 2021

Chicken Sector Pricing Review – Market Submissions

List of Outstanding Questions and Concerns

We have had an opportunity to review the BCCGA submission, "Costs and Returns in BC Chicken Marketing" and have identified several areas: that require further clarification, assertions that are incorrect and not substantiated, and characterizations that are simply not applicable to the BC industry. We have summarized our issues below and contend that this document completely misrepresents the industry in BC.

Aspects of the BCCGA Submission that Require Clarification and/or Further Understanding

- BC is a net exporter of chicken
 - The Growers have agreed their calculations were incorrect. They did not include the portion of NMD that is exported out of the country nor did they account for the difference between actual exports and the export coefficients. Correcting these errors proved that BC is a net importer of chicken however the Growers continue to contest the magnitude of this imbalance.
- Require understanding and clarity on the hatchery and processor models (Pages 7 – 11 and Pages 12 – 17)
 - The grower's models have not been shared and validated with the BC industry although they are being used to support BCCGA conclusions.
 - Hatchery model makes no reference to the hatching egg imports required through trade agreements.
 - Data sources are not clear – for example Section 3.5 (Page 14) refers to a live chicken price for the weight category of 1.4 to 2.7 kgs – where is this from?
 - BCCGA needs to explain the relevance of these models to the pricing review process and market discussions?
- There is an analysis of Nielsen retail data (Pages 30 – 32) but it is not clear of its relevance and what conclusions are being derived from the analysis.
- Section 4.7 includes analysis of Live Prices between provinces and we require clarification as to what weight categories are being used for each Province.
- The concept of selling "Buy BC" chicken is suggested as a potential opportunity for processors, but it is not clear exactly what problem this will solve. We require the BCCGA to provide evidence to support this claim. We understand there is a segment of BC consumers that will be interested in this product claim and there is some potential benefit to smaller processors. However, the reality is that customers, not processors, determine what labels will appear on their product. Further, it is not clear how this strategy could receive substantive traction when most products are private label, customer buying offices are in Ontario, and purchasing practices and product distribution are not typically done on a provincial basis.

BCCGA Assertions that Need to be Substantiated

- Further processed is a “no growth and declining” market
 - Processors assert there is plenty of evidence that would suggest this has been, and continues to be, one of the largest growth areas for chicken.
 - How does the BCCGA explain continued investment in FP plants across the country over the past many years and FP innovations at retail?
 - Data to support the BCCGA’s assertion that FP is a no growth market has not been provided.
- Understanding of the retail and foodservice business in western Canada
 - Oversimplification of the industry with many conclusions based on retail fresh business, based on information drawn from Central Canada.
 - More analysis and detail are required from the BCCGA perspective on food service, deli, or other product categories in retail and food service. These segments have been largely overlooked.
- Inaccurate description of pricing arrangements in foodservice category (Page 22) and we request BCCGA provide evidence of these arrangements.
- Provinces as “unique markets” needs to be substantiated by BCCGA in the context of the customer base
 - Several references to BC being a unique market and exporting 9,000 tonnes of product to AB.
 - That MB and SK are unique markets and combined ship approximately 10,000 tonnes of product to AB.
 - We request that BCCGA explain how each province can be characterized as a unique market from a customer buying perspective.

BCCGA Assertions that are Misleading or Incorrect.

- Relevance of EMI “wholesale price” as a price indicator in western Canada
 - EMI reflects pricing for commodity product sold to a secondary market (i.e. deboners, packers, further processors) which is a large component of eastern industry, that is almost non-existent in the west. Because EMI wholesale pricing is not relevant in western Canada, any conclusions based on EMI data are not accurate.
- Processor pricing practices with customers
 - Pricing structure breakouts not supported and based more on the Central Canada industry – i.e. Spot market
 - A constant reference to “majority of chicken sold by processors is on a formula contract” which does not recognize the realities of market segments beyond the fresh tray pack category.
- Use of “anecdotal” sources of information and incomplete citing of sources
 - Over-reliance on and conclusions based on anecdotal information
 - Anecdotal industry and retail contacts should be identified
 - Proper citing of documents (i.e. CFC source documents should be referenced)

- Misrepresentation of the foodservice industry (Page 22) as the document completely excludes the largest food service chains (McDonalds, Tim Hortons, Subway, and others). By excluding these chains, it excludes the fact that all of this product is sourced from Central Canada and also ignores the direct relationships existing between processors and customers (eg. McDonalds and Cargill.)
- Live price-based pricing model is incorrect as it starts with a bid that captures processor costs then adjusts with changes to the live price (Page 27).
- Role of the processor in the industry is mis-represented
 - Significant influence over allocations (Page 19) – processors only have 2 out of 14 votes in the CFC double majority allocation system
 - Benefits of limited supply reviewed, no comments however on processor risk of over-supply or grower benefits to supply management
 - Leverage over retailers (Page 19 – 21) – no recognition of the evolution to central or regional purchasing practices
 - Oversimplification of retailers – no discussion on penalties & deductions
 - Inaccurate description of processor relationships with retail grocery customers in Western Canada (Page 21).
 - No basis or support for the assertion that TRQ is used by processors to augment grocery supplies (Page 21)
- Number of Processing Plants (Page 22)
 - Plant numbers by company is incorrect
- Characterization of large retailers having exclusive relationships with processors
 - None of the examples are correct (Page 21)

Additional Requirements to Effectively Participate in the Review Process

We are concerned about how this Supervisory Review is unfolding as it is unlike previous Supervisory Reviews in which we have been involved.

It appears that this process has lost sight of the fact that this review is the result of the Processors appealing the actions of the BCBHEC in December 2019. At that time, the PPPABC was concerned about changes the BCBHEC made to the price linkage. We were concerned that these changes would negatively impact the competitiveness of BC Processors.

It should also be noted that the BCBHEC withdrawing from the linkage was due to a disagreement with the BCCMB with respect to the exclusion of loyalty premiums in the linkage agreement. Therefore, what started as a dispute regarding the sharing of profits between these two parties has now evolved into both parties trying to use this process to increase grower and breeder margins at the expense of the processors.

We are currently participating in the Supervisory Review in good faith, however we have serious reservations about the current approach. Normally, we would be presenting our views and evidence in hearings directly to FIRB as an independent oversight body. In this review we are now presenting to the BCBHEC and BCCMB who primarily represent the growers and breeder producers. As noted above, this dispute was initiated between these two parties and now they

are adjudicating a process which now seems destined to increase their respective returns by increasing the live price. We believe this puts us at a distinct disadvantage in the review process.

Further demonstrating our contention is the fact that the BCBHEC clearly has a predetermined outcome in mind which is to continue to operate outside the linkage model and to implement a COP model for pricing. The BCBHEC's pursuit of this approach has now resulted in BCCGA throwing out the work of the PWG and pursuing their own COP model with no regard for the overall industry. If these changes were implemented, the combination of these actions would cost the processors more than \$41M annually, which would immediately make it impractical to grow chicken in BC. There is a requirement to ensure the BC chicken industry is competitive. The suggestions of implementing COP pricing schemes in the manner contemplated by the BCBHEC and BCCGA does not take this into account

One also must consider that this review is taking place at a time when both breeder and broiler grower quota has recently traded at record levels. (It should also be noted that processors were not involved in these transactions). How, on one hand, can we have Boards and producers trying to leverage increased returns based on not recovering their costs, when in reality, producers are willingly paying record prices for quota. One must surmise that they are achieving strong returns in order to justify these prices.

We therefore respectfully request:

1. The Board and Commission ensure that stakeholders remain focused on the objective and find a pricing solution that respects the needs of all stakeholders and ensures that the BC industry can be successful within the national system.
2. The PPPABC retains the right to a full hearing with the BCFIRB Review Panel which we believe is consistent with the Final Terms of Reference dated October 28, 2020. While we hope we can come to a resolution acceptable to all parties, the PPPABC needs to reserve its right to a hearing regarding the recommendations put forward by the BCCMB and the BCBHEC and our original December 2019 appeal.
3. We would ask that both the Commission and the Board be actively involved in the discussions at the various tables. While we understand the Board and Commission find some value in hearing the debate between the growers and the processors; ultimately it is critical for us to hear from the Board and Commission in these meetings and ensure they understand the positions being put forward.
4. We would recommend strongly that the work from the PWG be introduced into the discussions. The Processors and Growers agreed to several issues in those discussions and it is our opinion that by using the PWG material as a starting point we could be more productive in advancing the discussions.

Appendix 3 – CPEPC Correspondence to CFC Re: Live Chicken Prices and Industry Competitiveness



May 24, 2018

Michael Laliberté, Executive Director
Chicken Farmers of Canada
350 Sparks Street, Suite 1007
Ottawa, ON K1R 7S8

- Via e-mail -

Subject: Live chicken prices and industry competitiveness

Dear Michael,

THIS LETTER IS SENT ON BEHALF OF THE MEMBERS OF THE PRIMARY CHICKEN PROCESSING SECTOR OF THE CANADIAN POULTRY & EGG PROCESSORS COUNCIL

Following the implementation of the new Ontario COPF pricing methodology in 2015 many provinces started setting live prices at levels higher than the historical differential relative to Ontario. This in turn has created concerns for processors regarding the competitiveness of provincial chicken industries which could be disruptive to orderly marketing if this problem is not resolved.

Although price setting authority rests with the provinces, the impact that live pricing is having on provincial industry competitiveness should be of critical importance to CFC given the interests of its members to have a healthy national supply management system and CFC's responsibility identified in Section 21 of the Farm Products Agencies Act:

The objects of an agency are

(a) to promote a strong, efficient and competitive production and marketing industry for the regulated product or products in relation to which it may exercise its powers; and

(b) to have due regard to the interests of producers and consumers of the regulated product or products.

Farmers and processors must work together and jointly contribute to maintaining competitiveness in provincial chicken industries.

1. Why Action is Required

a) The Canadian Chicken Market

The chicken market can be broken down into three categories: fresh; frozen primary (whole birds, cuts etc.) and further processed. These products are sold and distributed interprovincially with fresh chicken estimated to represent approximately two thirds of the market and frozen one third.

Advances in packaging technology, combined with efficient supply chain management systems used by large food service and retail customers means fresh chicken can travel relatively long distances and still meet shelf life specifications. In addition, fresh chicken is transported interprovincially to further processors, who produce product for a national market and require competitively priced raw material. That being said, due to shelf life considerations, fresh chicken for retail accounts (i.e. tray pack) is mostly a regional market in Canada: a western market and an eastern market.

Frozen primary and further processed products have longer shelf life, allowing for national distribution in Canada. Further processed products for many large customers are sourced from a single supplier at one price nationally.

Given the changing dynamics of consumer preferences, and the changing buying patterns of large customers, significant shifts in business may occur in any of these three categories and may displace current sales of a processor in a specific province or region. In order to effectively compete and ensure their products find a home in the marketplace, processors in every province must have the ability to compete in fresh primary products within their regions and in the national frozen primary and further processing markets. Live prices in a province relative to the rest of Canada are a critical factor to a provincial chicken industry's ability to be competitive and ensure its chicken can be sold at a profitable price.

Increasing live-price differentials within a region or within Canada will marginalize a processor's ability to compete in fresh, frozen primary and further processed markets and over time will be detrimental to processors and farmers in provinces that are not competitive resulting in less investment, fewer jobs and in the long run loss of processing and production.

b) The Customer

Processors face on-going price pressures from grocery, foodservice and food distribution customers who are highly sophisticated and in many cases operate within global markets.

The Canadian retail grocery market is very consolidated. In 2012 the top three retailers (Loblaws, Sobeys, and Metro) represented 81% of the market¹. Since then there has been further consolidation and Walmart and Costco have become key competitors. More recent estimates from BMO indicate that traditional supermarkets share of food sales has declined to 74% in the

¹ George Morris Centre and Institute for Competitiveness and Prosperity, Improving Productivity in Canada's Food Processing Sector Through Greater Scale, February 2012.

fourth quarter of 2017 while Walmart and Costco's share of the market is 21%². The Weston Group, Empire, Metro Inc, Walmart and Costco are responsible for the lion share of the grocery retail market in Canada. Many of the products they sell are "private label", meaning that the customer owns the product specification, and as such works aggressively to reduce cost without impacting product quality. "Request for Proposals" (RFPs) are very common in the category with customers asking suppliers for 1-3 year contracts that are either fixed price contracts or linked to live prices. More recently grocery retailers are attempting to build into contracts guaranteed savings in year 2 and beyond. In addition, customer specification details are becoming increasingly complex and costly, but suppliers are not able to increase prices.

Growth in the food service market is relatively flat which is contributing to consolidation as restaurant operators grow through acquisition. Cara has been aggressively purchasing companies including several recent purchases (Pickle Barrel, St Hubert's and the Keg) to become the largest full-service restaurant player in Canada. According to NPD Group, Cara, MTY Food Group Inc and Restaurant Brands International Inc (RBI) are the three largest players in the Canadian market accounting for one-sixth of restaurant sales³. In 2017 RBI purchased Popeyes and MTY acquired Imvescor which managed five banners (Baton Rouge, Pizza Delight, Scores, Toujours Mikes and Ben & Florentine). Food service companies are requiring longer term contracts from their suppliers, in some cases up to two years, and are pushing them to provide savings.

The food distribution business is dominated by two players, Gordon Food Service (GFS) and Sysco. These two companies purchase and distribute across Canada, import chicken using import quota, and even have their own product lines.

The market that processors must operate within is dominated by large sophisticated retailers, food service and food distribution companies who are placing increasing demands on their suppliers including: business forecasting; order fulfillment and significant penalties; vendor-managed inventory programs; and product development for private label.

As these companies become more national in scope so has their approach to sourcing, which means that processors are competing with each other for business across Canada. These customers want the lowest price they can get from their supplier. They do not think in terms of provinces, rather they see Canada as one market. If a processor has to pay a higher live price for their product, that is not the concern of the buyer.

Buyers know which provinces have the lowest live costs and they know when costs between provinces change. This impacts customer purchasing behaviour and in some cases processors are required to quote for business based on the lowest live price in the region or country, regardless of where their plant is located. The ability of processors to pass on higher live costs to their customers can be extremely challenging, particularly if these increases are not occurring in other parts of the country.

²Hollie Shaw, business.financialpost.com. Why Walmart and Costco keep stealing market share from domestic giants Loblaw, Metro and Sobeys. May 8, 2018.

³Aleks Sagan, finance.yahoo.com/news/cara-apos-keg-asquisition, January 24, 2018.

The chicken market at the processing level is subject to supply and demand market factors, no different than other commodities. As such, there are times when the processing industry as a whole may be able to pass higher prices onto the marketplace (i.e. when supply levels are lower relative to demand), and times when processors must accept prices that are below acceptable levels, and in some instances, less than cost. What is important to note though is that retail and food service buying behavior forces processors in all provinces to accept similar selling prices.

When supply increases above demand, some provincial chicken industries with low live prices may be able to sustain lower selling prices, but processors in provinces with significant live price differentials above Ontario, could face unsustainable losses. This will undermine the ability of those processors to effectively compete, it will undermine the viability of the industry as a whole in those provinces and it will undermine a national system of orderly marketing.

2. Historical Differences in Live Prices

Live price spreads calculated below represent the difference in price relative to Ontario from 2010 to 2017 (quota periods A-95 to A-146) using consistent weight categories over time⁴.

Table 1: Average Annual Price Spreads Relative to Ontario (\$/kg) *

Annual Average Spreads								
Year	QP	BC	AB	SK	MB	QB	NS	NB
2010	A-95 to A-100	0.077	0.053	0.046	0.035	0.020	0.085	0.085
2011	A-101 to A-107	0.073	0.053	0.046	0.035	0.020	0.085	0.085
2012	A-108 to A-114	0.071	0.052	0.044	0.035	0.020	0.083	0.085
2013	A-115 to A-120	0.072	0.052	0.045	0.037	0.020	0.083	0.085
2014	A-121 to A-127	0.073	0.054	0.046	0.038	0.020	0.085	0.085
2015	A-128 to A-133	0.077	0.058	0.058	0.064	0.020	0.102	0.102
2016	A-134 to A-140	0.081	0.069	0.056	0.073	0.020	0.103	0.103
2017	A-141 to A-146	0.095	0.077	0.064	0.054	0.020	0.103	0.103
2018 YTD	A-147 to A-149	0.110	0.087	0.085	0.079	0.020	0.110	0.136
Pre-ON COPF	A-95 to A-128	0.073	0.053	0.045	0.036	0.020	0.084	0.085
After ON COPF	A-129 to A-149	0.088	0.071	0.063	0.033	0.020	0.105	0.108

*Note, in Ontario starting in period A-145 the regulated live price includes an additional 1.2 cents per kilogram to cover farmers' costs to transition to modular loading. Due to the specific purpose of the 1.2 cent adjustment, it has been excluded from this analysis. Also, live prices have not been adjusted for catching costs over the 7-year period of measurement.

⁴ BC: 2.251 – 2.50; AB: 1.90-2.35; SK minimum price; MN: 2.20-2.30 (prior to A-141, 1.65-2.2); ON: 2.15-2.45; QU: 2.15-2.45; NB: minimum price; NS: minimum price.

The data clearly shows a significant deviation in provincial live pricing relative to Ontario since the implementation of the COPF in that province in 2015. In several provinces the differential continues to grow each year.

3. Addressing Provincial Chicken Industry Competitiveness

The CPEPC Primary Processing sector is recommending two courses of action:

a) Consistent Pricing Methodology

Live price setting in every province must be transparent, credible, defensible and determined using a consistent methodology.

b) Live Price Caps

To maintain the competitiveness of provincial chicken industries there must be a cap on the maximum differential in live pricing in each province relative to the Ontario live price for the 2.15 to 2.45 weight category.

The Primary Chicken sector recommends that price caps be established based on historical price spreads prior to the 2015 Ontario COPF implementation as shown in the table below.

Table 2: Recommended Live Price Caps by Province (\$/kg)

Province	Cap*
BC	0.073
AB	0.053
SK	0.045
MN	0.036
QU	0.020
NB	0.085
NS	0.085

*Prices caps for each province are based on the weight categories identified in Table 1. Refer to footnote #4.

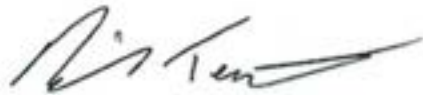
The objective is to develop a mechanism that provides transparent, stable, predictable and competitive live prices that allow farmers and processors the opportunity to invest and grow their businesses.

4. Next Steps

The Primary Chicken sector requests a meeting between our Committee and the CFC executive to discuss this matter at the CPEPC convention in Montreal June 3 – 5. CPEPC staff will be in contact with you to arrange a time and location.

Please confirm your availability so that we can arrange a meeting room.

Yours truly,

A handwritten signature in black ink, appearing to read "Mike Terpstra", with a long horizontal flourish extending to the right.

Mike Terpstra
Primary Chicken Sector Manager

cc: Mike Pickard, Interim Chair Farm Products Council of Canada
John Les, Chair National Association of Agri-Food Supervisory Agencies

BRITISH COLUMBIA FARM INDUSTRY REVIEW BOARD

IN THE MATTER OF THE *NATURAL PRODUCTS MARKETING (BC) ACT* AND
BC Chicken Marketing Board Interim Pricing Formula A-175 Prior Approval

March 9, 2022

Decision Summary

1. For period A-175 and A-176, the BC Chicken Marketing Board (the Chicken Board) interim formula is amended to include:

Plus

A provision to cover 50% of the current formula costs exceeding the upper guardrail after adjustment for the cumulative increase or decrease in Ontario grower margins arising from changes to the Ontario Cost of Production formula (COPF) starting in A-175.¹ If the resulting number is negative, no adjustment will be made to live weight price.

2. The Chicken Board is directed to provide a clear description of how the interim pricing formula is applied for periods A-175 and A-176 to BCFIRB and supply chain members.
3. The Chicken Board is not precluded from requesting future amendments the interim pricing formula until such time as the Panel amends or lifts its July 3, 2020 Interim Order.

Introduction

4. In March 2020, BCFIRB established a Chicken Sector Pricing Supervisory Review Panel (the Panel) to address the Broiler Hatching Egg Commission's (the Commission) notice to exit the price linkage agreement and any related supervisory matters the Panel deemed necessary.
5. In April 2020, given the Chicken Board's failure to issue a decision on a long-term pricing formula after it was granted two deadline extensions and the interconnected nature of broiler hatching egg and chicken pricing, the Panel decided to include the outstanding long-term chicken pricing formula² as a related supervisory matter in the review.
6. A full chronology of events leading to the Chicken Sector Pricing Supervisory Review is detailed in the Panel's supervisory decision of July 3, 2020, entitled "Interim Pricing in the BC Chicken Sector" (the Interim Pricing decision). That chronology will not be repeated here.

¹ For example, if the BC feed and chick cost gap over Ontario is such that BC growers are losing 12¢/kg because of the upper guardrail cap, and if in a given pricing period the Ontario COPF changes grower margins (e.g. the anticipated addition of 3.46 cents/kg in A-175), then the pricing amendment would add 4.27¢/kg to the BC live price (12¢/kg – 3.46¢/kg = 8.54¢/kg X 50% = 4.27¢/kg).

² The June 2018 Chicken Board interim formula was appealed by the Primary Poultry Processors Association of BC and the BC Chicken Growers Association, which proceeded to hearing in late 2018. In its May 16, 2019 decision, the BCFIRB appeal panel directed the Chicken Board to issue a decision on a long-term pricing formula no later than January 2020.

British Columbia Farm Industry Review Board
Prior Approval Chicken Interim Pricing Formula for A-175
March 9, 2022

7. In the Interim Pricing decision, the Panel made the following interim order to support industry stability and orderly marketing while discussions for a long-term pricing formula remained ongoing (the Interim Order):
 44. The Chicken Board and the Commission are directed not to change any aspect of the current pricing structures as defined in this decision, unless by the way of BCFIRB prior approval or until such time as BCFIRB determines otherwise.
 45. The Commission and the Chicken Board are directed not to exit the price linkage agreement without BCFIRB prior approval.
8. In the summer of 2021, the Panel reviewed the Interim Order and the state of industry stability at that time. After consultation with the Chicken Board, the Commission and supply chain members, the Panel decided on August 20, 2021, that it would not be amending or rescinding the Interim Order.
9. For quota period A-173 (November 21, 2021 to January 15, 2022), the BC Chicken Growers Association (the BCCGA) applied to the Chicken Board for a variation based on exceptional circumstances. BCCGA requested that the live price for chicken be set above the Chicken Board's interim pricing formula's upper guardrail due to rising costs. The Chicken Board found that the BCCGA did not provide sufficient and substantive new information to change the pricing formula. The Chicken Board set the A-173 price at the upper guardrail, as calculated under the interim pricing formula.
10. On January 20, 2022, the Chicken Board sought BCFIRB's prior approval to amend the interim pricing formula, commencing in quota period A-174 (January 16, 2022 to March 12, 2022). On February 4, 2022, the Panel denied the request for the reasons set out in its decision (the A-174 supervisory decision).
11. The Chicken Board now seeks BCFIRB's prior approval to amend the interim pricing formula commencing in quota period A-175 (March 13, 2022 to April 7, 2022).

Issue

12. Does the following amendment to the Chicken Board's interim pricing formula accord with sound marketing policy?

Ontario Price based on the weight category of 2.45 to 2.65 kilograms. It will NOT include the \$0.012 per kilogram CFO modular loading cost recovery of \$0.0120; CFO AI Insurance recovery of \$0.0015; or OBHEC chick levy of \$0.0006 if still applicable in quota period A-175.

Plus

75% of the difference in feed and chick costs per kilogram of live chicken between BC and Ontario. It will not be based on a 6-period rolling average.

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Plus

\$0.04 per kilogram which is the current catching cost. Increases or decreases in the price of catching must be approved by the BCCMB in advance. If approved, these increases or decreases will be reflected in the live price as was the case for quota period A-174 when the processors and catching crews reached an agreement to increase the price by \$0.0035 (an increase from \$0.0365 cents to \$0.0400/kg)

Plus

Guardrails will be set at a maximum of \$0.1284 and a minimum of \$0.1005 (reflecting the new catching costs effective in quota period A-174).

Plus [the proposed amendment]

A provision to cover 50% of the current formula costs exceeding the upper guardrail to address the continued escalation of feed ingredient costs facing BC growers.
[emphasis added]

Legal Authorities

13. Under s. 7.1 of the *Natural Products Marketing (BC) Act (NPMA)*, BCFIRB is responsible for the general supervision of all provincial marketing boards and commissions, including the Chicken Board. Section 7.1(2) of the *NPMA* provides for this supervisory authority to be exercised “at any time, with or without a hearing, and in the manner [BCFIRB] considers appropriate to the circumstances”.
14. Under s. 9 of the *NPMA*, BCFIRB “has exclusive jurisdiction to inquire into, hear and determine all those matters and questions of fact, law and discretion arising or required to be determined by [BCFIRB] under [the *NPMA*]”.
15. The Chicken Board has the authority to regulate the price of regulated products under s. 4.01(g) of the BC Chicken Marketing Scheme.

Process

16. Prior to the Chicken Board making its submission of February 25, 2022 to BCFIRB, it:
 - a. Engaged with the Pricing and Production Advisory Committee (PPAC) on February 16, 2022;³
 - b. Considered the A-174 submissions from the Primary Poultry Processors Association of BC (PPPABC) and the BCCGA together with the A-174 supervisory decision and other related documents; and
 - c. Considered two PPPABC letters received on February 24, 2022.

³ The BCFIRB Chicken Sector Pricing Liaison attended the meeting.

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17. The Chicken Board reported that the PPPABC committed to sending written recommendations but the Chicken Board did not receive anything from the PPPABC by February 25.
18. While the Chicken Board chose to pursue BCFIRB's prior approval before the Ontario price was set, it stated its decision to seek prior approval was not a barrier to having any meaningful dialogue or considering further written feedback.
19. The Panel determined it would not ask for submissions from the supply chain members given there was no substantial change in feed and chick costs between A-174 and A-175 and a timely decision is in the chicken sector's best interest. The supply chain members are responsible for providing information to the Chicken Board as its first instance regulator, unless requested directly by the Panel. Subsequently, the Panel received correspondence from PPPABC and BCCGA on March 8, 2022. The Panel did not consider their correspondence as part of this decision.

Analysis

20. Similar to the A-174 supervisory decision, this decision was not an easy one for the Panel to make. The Panel knows that the Chicken Board and all supply chain members continue to deal with substantive business and regulatory challenges in addition to cost pressures arising from circumstances beyond their direct control.

Process

21. In the A-174 supervisory decision, the Panel pointed out that the Chicken Board's request had not given supply chain members adequate time for consultation. Rather, the Chicken Board waited until the sector was well into period A-174 when payments and business contracts were already in play.
22. The Chicken Board remedied this process issue with its A-175 submission.
23. The Panel reminds all supply chain members that BCFIRB's role is to determine whether the amendment to the interim pricing formula accords with sound marketing policy and is in the public interest, based on the information it has before it. BCFIRB is not here to take sides on unproductive criticisms being leveled by supply chain members against each other.
24. The Panel is discouraged that supply chain members could not agree on a pricing approach. It appears that working relationships are deteriorating, not strengthening, in the face of industry pricing challenges. The Panel reminds the Chicken Board and all supply chain members of their expressed commitment and optimism at the outset of the Chicken Sector Pricing Supervisory Review for collaboration and cooperation that would benefit BC's entire chicken sector.

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Recommended formula amendment

25. Processors and growers are taking highly divisive positions on the business impact on growers in the current operating environment. Growers and all supply chain members (hatching egg producers, hatcheries, chicken growers and processors) are dealing with the impact of extraordinary feed costs, the continuing divergence in wheat-corn prices and generally escalating operating costs.
26. The interim formula is intended to ensure growers recover 75% of the feed and chick cost differential over Ontario. This formula component recognizes that BC is a higher cost production province than Ontario. The feed and chick cost differential plus catching costs are then added to the Ontario price to calculate the BC formula price for live chicken. To support the competitiveness of BC's chicken processors and ensure reasonable returns to BC growers, guardrails cap the live price to a minimum of 10.05¢/kg and a maximum of 12.84¢/kg. If the guardrails are triggered, the "posted price" for live chicken will differ from the "formula price".
27. The guardrails have been effective in balancing grower and processor business needs and providing price stability. The lower guardrail is intended to support a fair return for efficient growers. The upper guardrail is intended to support processor competitiveness.
28. Last summer's drought resulted in crop losses and lower wheat supplies, raising the price of BC's wheat-based feed and widening the price gap over corn-based feed (used by Ontario growers) to an unprecedented level. This gap has been escalating since A-170 (July 2021) and has pushed the BC formula price over the upper guardrail for multiple pricing periods. In an opposite situation, the lower guardrail would protect BC growers from falling wheat prices and escalating corn prices.
29. The Chicken Board argues that producers are not achieving cost recovery, primarily due to the diverging corn and wheat prices, and as a result, growers are unable to reinvest in their farms and highly leveraged new entrant growers are in a precarious financial situation.
30. Based on the Chicken Board's submission, the PPPABC argues that the price for live chicken set above the upper guardrail will negatively impact their competitiveness, and that grower margins at this time are adequate for managing current costs. The PPPABC points to factors that benefit BC growers such as the forecasted A-175 Ontario grower margin increase, an overstatement of feed costs in the interim pricing formula due to out-of-date feed conversion ratios, and the use of a higher Ontario weight category in the formula.
31. Extraordinary feed and escalating operating costs are not a BC anomaly. Cost pressures are being felt across the West, placing all western growers and processors in an analogous position. However, the on-going divergence in wheat-

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corn prices has a significant impact on BC growers due to the structure of the interim pricing formula, including the guardrails.

32. According to the Chicken Board, over five pricing periods (A-170 – A-174), growers have not recovered a portion of their feed costs due to the impact of the upper guardrail. The upper guardrail is doing its job by protecting processor competitiveness from increasing feed costs. However, this protection is occurring at the expense of growers.
33. According to the Chicken Board, neither the PPPABC nor BCCGA have put forward an alternative to the Chicken Board on its proposed amendment.
34. The Panel is satisfied that the Chicken Board provided sufficient evidence that, although gaps in data remain, the divergence in wheat-corn prices is not a one-off situation and the on-going impact on feed cost recovery is not sustainable for BC chicken growers under the current interim pricing formula. The Panel recognizes the difficulty facing the Chicken Board in trying to meet the competitive needs of the processing sector in the face of sharply escalating wheat prices that cannot be fully recovered through the Ontario-based interim pricing formula. The Panel is satisfied that, although gaps in data remain, the Chicken Board took the impact on processor competitiveness into consideration.
35. However, the Panel finds the Chicken Board has not adequately accounted for the impact on the BC live price due to the anticipated Ontario margin increase in A-175. As such, the Panel has revised the Chicken Board's proposed amendment to the interim pricing formula so that it more properly reflects the benefits to BC growers of Ontario margin changes.
36. Achieving some form of pricing stability is extremely challenging in these unpredictable times. However, it is not sound marketing policy, as proposed by the Chicken Board, for the Panel to approve *carte blanche* an amended interim formula "...until the wheat and corn imbalance is resolved...".
37. Overall, the Panel continues to be presented with conflicting information that contains substantive gaps in data when it comes to the impact on grower returns and processor competitiveness.

Decision

38. For period A-175 and A-176, the Chicken Marketing interim formula is amended to include:

Plus

A provision to cover 50% of the current formula costs exceeding the upper guardrail after adjustment for the cumulative increase or decrease in Ontario grower margins arising from changes to the Ontario Cost of Production formula

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(COPF) starting in A-175.⁴ If the resulting number is negative, no adjustment will be made to live weight price.

39. The Chicken Board is directed to provide a clear description of how the interim pricing formula is applied for periods A-175 and A-176 to BCFIRB and supply chain members.
40. The Chicken Board is not precluded from requesting future amendments the interim pricing formula until such time as the Panel amends or lifts its July 3, 2020 Interim Order.

In accordance with s. 57 of the *Administrative Tribunals Act*, “an application for judicial review of a final decision of (BCFIRB) must be commenced within 60 days of the date the decision is issued.”

Dated at Victoria, British Columbia, this 9th day of March 2022.



Peter Donkers
Chair, Chicken Sector Pricing Review Panel



Al Sakalauskas
Member, Chicken Sector Pricing Review Panel



Harveen Thauli
Member, Chicken Sector Pricing Review Panel

⁴ For example, if the BC feed and chick cost gap over Ontario is such that BC growers are losing 12¢/kg because of the upper guardrail cap, and if in a given pricing period the Ontario COPF changes grower margins (e.g. the anticipated addition of 3.46 cents/kg in A-175), then the pricing amendment would add 4.27¢/kg to the BC live price (12¢/kg – 3.46¢/kg = 8.54¢/kg X 50% = 4.27¢/kg).



BC Farm Industry Review Board

May 19, 2022

File: N2215

DELIVERED BY EMAIL

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Melanie Power
Dentons Canada
20th Fl, 250 Howe Street
Vancouver BC V6C 3R8

Claire Hunter
Hunter Litigation Chambers
2100 – 1040 W Georgia St
Vancouver BC V6E 4H1

Dear Parties:

RE: PPPABC V BRITISH COLUMBIA CHICKEN MARKETING BOARD

On April 8, 2022, the British Columbia Farm Industry Review Board (BCFIRB) received a notice of appeal from the Primary Poultry Processors Association of British Columbia (PPPABC) with respect to the British Columbia Chicken Marketing Board's (Chicken Board) decision dated March 10, 2022, establishing the Mainstream Pricing Order for Period A- 175. The appeal alleges that the Chicken Board failed to adjust the live price formula in the face of changes to the Ontario formula and amended the formula without due regard for processor competitiveness and reasonable grower return. The PPPABC alleges the Chicken Board relied on inaccurate data in their feed costs calculations which use outdated feed conversion ratios that overstate feed costs and understate grower returns.

By letter dated April 25, 2022, BCFIRB wrote to the parties seeking submissions as it was not clear that the notice of appeal raised an issue appealable under section 8 of the *Natural Products Marketing (BC) Act (NPMA)* given that the Chicken Board's decision implements BCFIRB's March 9, 2022 supervisory decision and it was not clear that there was an independent exercise of discretion that created a right of appeal to BCFIRB.

The parties were referred to BCFIRB's decision in *Salmon Arm Poultry v. British Columbia Egg Marketing Board*, (May 16, 2001) which states:

36. The proposition that a commodity board must have a degree of independent ownership over an order, determination or decision before it can be appealed to the BCMB is not a technical or legalistic requirement. The fundamental purpose of a right of appeal to the BCMB is to ensure that commodity boards remain accountable to the independent and specialised BCMB for their exercises of judgement. Where action taken by a commodity board is not "their" decision, but is rather an administrative action taken pursuant to a specific BCMB direction imposed upon them and which allows for no discretion on their part, the purpose of the appeal power is absent. It would be absurd and contrary to the legislation if the BCMB, in its appellate capacity,

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was effectively required to hear an appeal from its own supervisory decision. The absurdity is even more pronounced when one considers that, if the BCMB was required to hear such an appeal, the commodity board, which is supposed to appear to defend “its” decisions on BCMB appeals, would simultaneously have a right to seek judicial review of the very same BCMB substantive supervisory direction at issue on the appeal. This is not what the legislation intended.

Submissions of the Parties

The PPPABC argues that it is appealing the implementation of the Ontario pricing formula in the interim live price formula for period A-175, similar to its previous appeals for periods A-169 to A-174. It suggests this issue be deferred to the supervisory panel.

The PPPABC also argues that the Chicken Board amended the interim live price formula without due regard for PPPABC submissions on the Chicken Board’s feed conversion calculation. It says the feed conversion ratios are outdated and result in overstated feed costs and understated grower returns. It says this issue should be dealt with separately and immediately by BCFIRB in this appeal and not be deferred to the supervisory panel given the significant financial impact on processors.

Finally, the PPPABC distinguishes the decision in *Salmon Arm Poultry* arguing that while the Chicken Board was directed to seek prior approval for amendments to the interim live price formula, it was not directed to submit an amended live price formula. Further, once it obtained BCFIRB’s prior approval, it retained the discretion to maintain the existing interim live price formula rather than use the amended interim live price formula. Unlike *Salmon Arm Poultry*, BCFIRB did not direct the Chicken Board to draft an amended interim live price formula. Rather, the Chicken Board acting on its own accord, submitted a proposed amended interim live price formula for approval.

The Chicken Board disagrees with the appellant and says that the notice of appeal does not raise an appealable issue within the meaning of section 8 of the *NPMA*. The appeal purports to challenge the Chicken Board’s A-175 pricing order but the Chicken Board can only amend the pricing formula with BCFIRB’s prior approval pursuant to BCFIRB’s interim order dated July 3, 2020 (Interim Order).

BCFIRB approved the amended pricing formula in its March 9, 2022 decision. That decision does not invite or require the Chicken Board to exercise any independent discretion, and therefore, is not “an order, decision or determination of a marketing board”. BCFIRB exercised its supervisory authority to issue specific directions to the Chicken Board to issue an order, and as such, the appropriate remedy is to challenge the BCFIRB decision by way of judicial review.

Since there is no appeal properly brought before BCFIRB, the Chicken Board argues that the appeal or portions thereof cannot be deferred pursuant to s. 8(8) of the *NPMA*.

DECISION

By virtue of BCFIRB’s Interim Order, the Chicken Board can only amend the pricing formula where it receives prior approval from BCFIRB:

44. The Chicken Board and the Commission are directed not to change any aspect of

the current pricing structures as defined in this decision, unless by the way of BCFIRB prior approval or until such time as BCFIRB determines otherwise.

In this case, and as required by paragraph 44 above, having determined that the pricing order ought to be amended, the Chicken Board sought prior approval of its proposed amended formula from the supervisory panel. The panel declined to prior approve the Chicken Board's amended formula and instead issued its own amended interim formula which it felt better reflected the balancing of the interests of growers and processors. In turn, the Chicken Board used that amended interim formula to set the price for A-175, which price the PPPABC now challenges in this appeal as it says it is based on a faulty feed conversion ratios.

A review of the supervisory panel's March 9, 2022 decision confirms that it set a new interim formula.

38. For period A-175 and A-176, the Chicken Marketing interim formula is amended to include: Plus A provision to cover 50% of the current formula costs exceeding the upper guardrail after adjustment for the cumulative increase or decrease in Ontario grower margins arising from changes to the Ontario Cost of Production formula British Columbia Farm Industry Review Board Prior Approval Chicken Interim Pricing Formula for A-175 March 9, 2022 8 (COPF) starting in A-175.4 If the resulting number is negative, no adjustment will be made to live weight price.

The Chicken Board's March 10, 2022 pricing order applied the amended formula set by the supervisory panel:

The pricing formula that has been used to establish the minimum live price for period A-175 is comprised of the following components and has been amended for period A-175 and A-176 with prior approval of BCFIRB granted March 8, 2022

It follows then that any dispute about the prices set as a result of the application of that amended formula does not result from an independent exercise of the Chicken Board's discretion and does not raise an appealable issue. Rather, the Chicken Board applied the amended formula established by BCFIRB. Arguments that the amended formula does not properly reflect the Ontario formula or that relies on faulty feed conversion ratios which favour growers are arguments that should be directed at the BCFIRB decision through judicial review. Alternatively, if the PPPABC feels that the supervisory panel failed to consider its arguments, those are issues that should be taken up with the supervisory panel directly.

Further, as the Chicken Board decided it was necessary to amend the pricing formula, and in turn the supervisory panel did amend the formula albeit on different terms, I disagree it was open to the Chicken Board to continue to rely on the existing formula in the face of BCFIRB's direction.

Finally, it is not open to the PPPABC to use the appeal process to seek remedies from the appeal panel to direct the process of the supervisory panel. I find that to use BCFIRB's appeal processes in such a manner would be an abuse of process and is improper. As such, I dismiss the notice of appeal.

Any issues the PPPABC has with the amended formula need to be addressed through judicial review or taken up directly with the supervisory panel.

Regards,

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

Pawan Joshi
Presiding Member



March 12, 2022

DELIVERED VIA EMAIL

Woody Siemens, Executive Director, BC Chicken Marketing Board

RE: Inclusion of the adjustment of the Ontario grower margin in A-175 and A-176 Formula.

Dear Woody,

The BC Chicken Growers' Association (BCCGA) is writing in response to the BC Farm Industry Review Board's (BCFIRB) March 9, 2022, decision to amend the interim formula for period A-175 and A-176. BC Chicken growers are grateful to have received the 50% of the current formula costs exceeding the upper guardrail. This will help growers recoup some of their increased feed costs which are continuing to increase. However, we are very concerned with the inclusion of the adjustment in the Ontario grower margins in the A-175 Ontario Cost of Production formula (COPF).

The BC Chicken Marketing Board (BCCMB) sought prior approval through BCFIRB to amend the current pricing formula effective for A-175 with the following provision: "a provision to cover 50% of the current formula costs exceeding the upper guardrail to address the continued escalation of feed ingredients costs facing BC growers". This was a necessary step and was urgently needed to sustain BC chicken farms.

However, the exclusion of the Ontario grower margins, which covers increased grower's operational and capital costs ("working costs") excluding feed and chick costs, erodes the gains made by the 50% exceeding the upper guardrail. The submission by the board already accounted for only 50% of the increase of costs to growers and provided 50% as a benefit to the processors. It should be noted that when the grower margin changes in the Ontario live price it doesn't affect processor competitiveness, because all provinces price off the Ontario COPF.

The attached: Chicken Farmers of Ontario Quota Period A-175 Margins Report provides the details of their working costs. It is no secret that chicken growers are experiencing many increased costs, in BC and across Canada. Currently, the BC Chicken growers must rely on the Ontario grower margin component to cover these working costs.

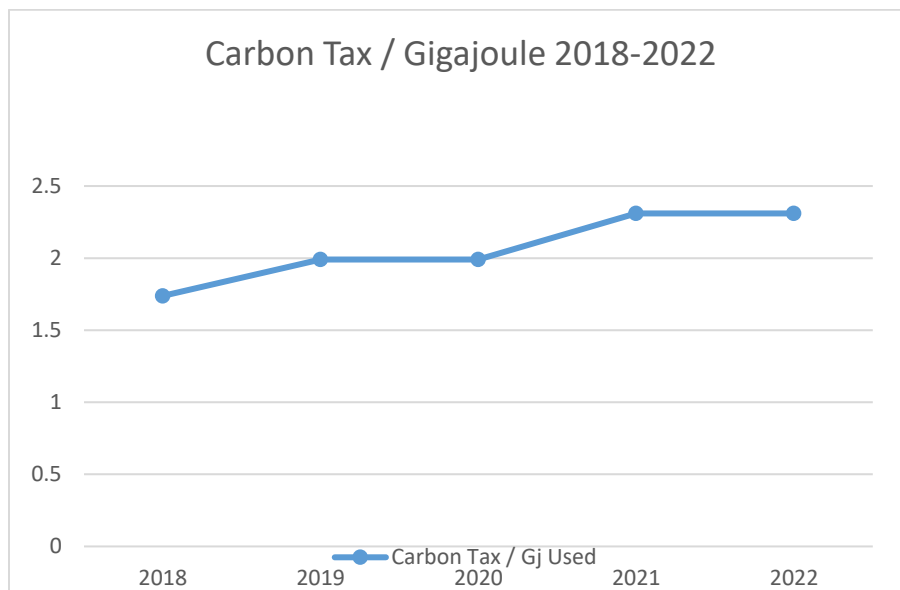
101 - 32450 Simon Avenue, Abbotsford, BC V2T 4J2

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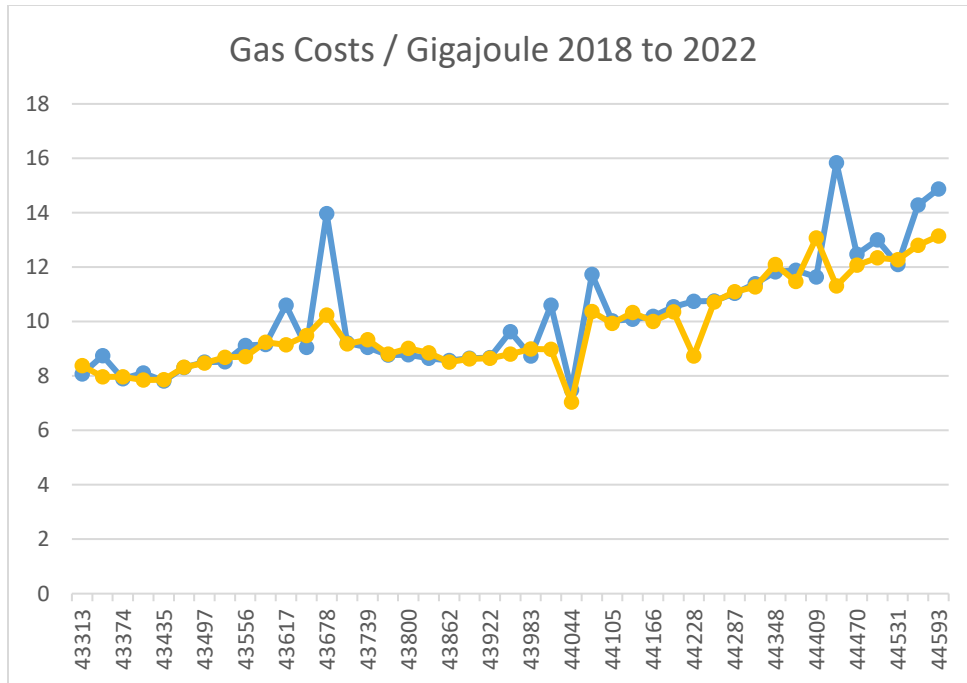
In the past, the BCCGA had not specifically tracked the BC broiler working costs. It seemed redundant as the BCCMB was already doing this with the Serecon Data. It now appears that the Serecon data may be insufficient as it was last updated in 2019. The BCCGA is currently collecting data on BC broiler working costs and other publicly available data that is transparent and verifiable. Obviously, the collection of this data will take some time and it will be provided as soon as possible.

Our preliminary findings have shown that:

- Although Revenue has increased, due to the live price adjustments, expenses have increased further causing net Income to drop.
- With the added disease challenges, since the removal of antibiotics and poorer chick quality, vaccine costs have increased.
- Wage expense per payable per Kg increased in 2021 and the 2022 wage expenses are forecasted to be higher.
- Natural carbon tax and natural gas prices have increased.

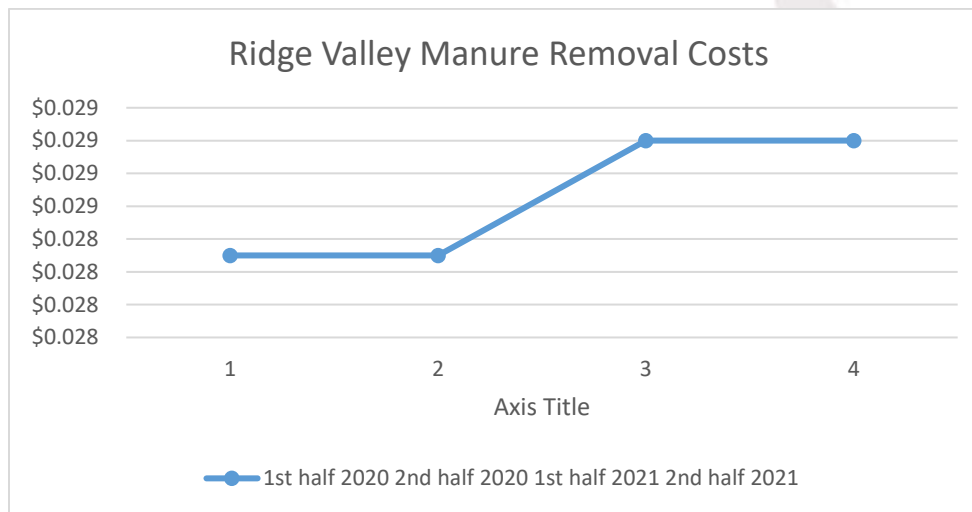


*Source: FortisBC



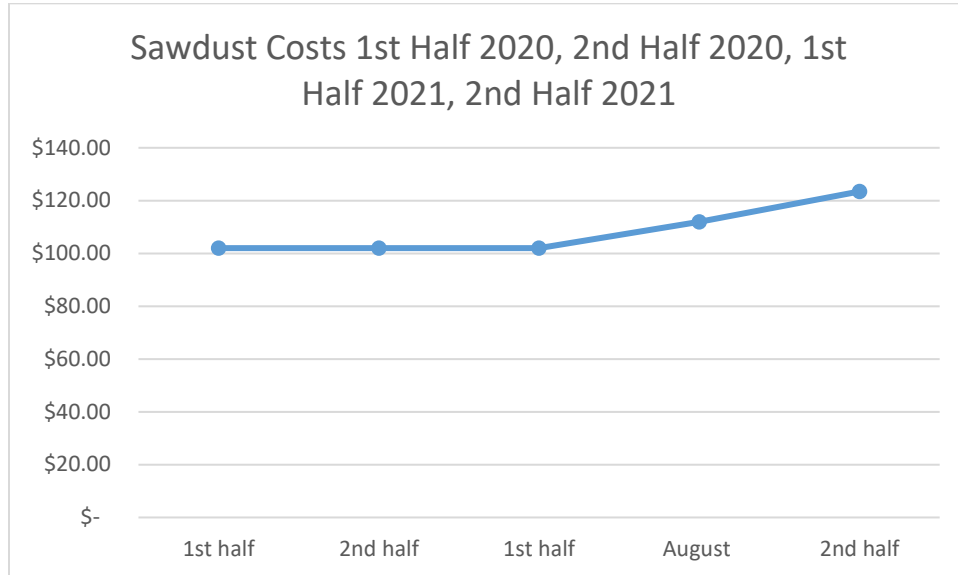
*Source: FortisBC

- Manure removal costs increased in 2021. Another increase coming in May 2022.



*Source: Ridge Valley Farms Ltd., trucking and manure haulers

- Denbow implemented a permanent price increase for sawdust in August 2021 from \$102.00 (9.8%) to \$112.00 and then a further increase in October by another 11.24%.



*Source: Denbow Transports Ltd.

Additionally, the BC catching price of \$0.04 per kilogram increased in period A-174, from \$0.0365 in period A-173. While this increase is included in the current BC live price formula, it is an example of increasing costs leading to a higher BC live price.

This BCCGA submission also includes the attached letter by MNP that reviews the operational costs increases.

The BCCGA is requesting that the inclusion of the adjustment in the Ontario grower margin be removed from the amended interim formula.

Sincerely,

Dale Krahn, President
BC Chicken Growers' Association

cc. Peter Donkers, Panel Chair, BC Farm Industry Review Board
Wendy Holm, FIRB Liaison, Supervisory Review on Long Term Price

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QUOTA PERIOD

A-175

8:01 PM on March 12, 2022 -
8:00 PM on May 07, 2022

MINIMUM LIVE PRICE

\$1.881/kg

Bird weight category of 2.15kg -
2.45kg

[CLICK HERE](#) to see the change in price from the last Quota Period

Overview

[Avian Influenza Resources](#)

[COVID-19 Information](#)

[Operational Production Updates for Farmer-Members](#)

[Advancing Modular Loading](#)

[Chick Supply Optimization](#)

Farm-Gate Minimum Live Price

Feed Cost

[Weekly Feed Prices](#)

Chick Cost

[Periodic Chick Price](#)

Avian Influenza (AI) Insurance

Modular Loading Cost Recovery

Producer Margin

Weight Category Pricing

Terms and Conditions

[A-175 vs. A-174](#)

Producer Margin

The table below shows the components of the producer margin as provided in Regulation 402 for quota period A-148 and as updated for A-175.

(\$/kg)

PRODUCER MARGIN ITEMS	A-148 (REG. 402)	A-175	CHANGE
Energy	0.0541	0.0577	0.0036
Repair & Maintenance	0.0134	0.0141	0.0007
Property Taxes & Insurance	0.0132	0.0166	0.0034
Office & Overhead	0.0230	0.0245	0.0015
Contract Services	0.0932	0.1073	0.0141
Labour - General & Management	0.1220	0.1399	0.0179
Return on Capital	0.0886	0.0970	0.0084
Working Capital Interest	0.0009	0.0009	0.0000
Farm Vehicle	0.0085	0.0089	0.0004
Depreciation	0.0726	0.0813	0.0087
Non-feed Additives	0.0022	0.0024	0.0002

Historical Farm-Gate Minimum Live Prices - A-169 to A-174

Historical Farm-Gate Minimum Live Prices - A-161 to A-168

Historical Farm-Gate Minimum Live Prices - 2019

Farmer-Member Meetings

Quality Chicken & On-Farm Programs

CFO Connects

CFO Cares Farmers to Food Banks Program

Market Development Program

Online Forms

Over Marketing Controls

Quota Info

PSA Calendar

CFO Publications

Levies and License Fees Before Recovery	0.0215	0.0217	0.0002
CFC Levy Accrual Recovery for Ontario		0.0010	0.0010
Avian Influenza Disease Insurance	0.0015	0.0015	0.0000
Modular Loading	0.0120	0.0120	0.0000
Capital Update		0.0200	0.0200
Phase-in Capital Cost		0.00424	0.00424
Total Producer Margin	0.5267	0.6110	0.0843

Notes

1. A-148 operational and capital cost items are updated to A-174 using changes of the following:
 - a. Prices and price indices available through Statistics Canada, Farm Credit Canada, Bank of Canada, Ontario Energy Board and Canada Revenue Agency
 - b. Productivity metrics, including:
 - i. Barn Utilization (kg/ft²)
 - ii. Cycle Length (Number of Weeks/Cycle)
 - iii. Annual Production Volume in the Barn (kg/ft²)
 - iv. Days in Barn (Days/Cycle)
 - v. Chick Conversion Ratio (Number of Chicks/kg Chicken)
 - vi. Farm volume (kg/quota holder)
2. A-148 Levies and License Fees, Avian Influenza Disease Insurance, and Modular Loading costs are updated to the effective corresponding costs in A-174.
3. For pricing periods up to and including A-168, the values for Operational and Capital Costs include Levies and License Fees. Starting in A-169, Levies and License Fees are now shown separately below the Operational and Capital Costs line.
4. The FGMLP for Quota Period **A-172 & A-173** includes an amount of \$0.002 per kg that represents a recovery of the emergency depopulation charge that was not applied to the base chick prices prior to A-171. For Quota Period **A-174**, a final recovery amount of \$0.00155 per kg is added to the FGMLP.
5. The increase to the capital cost elements of the producer margin in 2022 is intended to be phased in, and maybe subject to change, to the FGMLP in quota periods A-174 to A-180. The amount of increase for **A-175** is \$0.00424 per kg which is added to the FGMLP. A capital update amount of \$0.02, which is also subject to change, has been added to the FGMLP. The Total Producer Margin for **A-175** is: \$0.6110.

Chicken Farmers of Ontario (CFO) represents more than 1,300 family run farms that collectively ensure Ontario consumers enjoy a reliable supply of safe, healthy, high quality, Ontario-grown chicken.

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Burlington, Ontario, L7R 3Y8

April 12, 2022

Dale Krahn, President
BC Chicken Growers' Association
101-32450 Simon Avenue
Abbotsford, BC V2T 4J2

Dear Mr. Krahn,

RE: Review of operational and capital cost increases as of A-175

Thank you for the opportunity to use MNP LLP ("MNP") to provide BC Chicken Growers' Association ("BCCGA") with a review of increases in operational and capital cost (excluding feed and chick costs) as of quota period A-175, as well as to provide opinions and feedback for next steps in negotiating an increase to the BC minimum live price of broiler chickens.

The attached report describes our observations, an overview of our calculations, and a recommendation of how to proceed in going forward.

Should you have any questions regarding this letter, please feel free to contact us at 204.788.6063.

Yours truly,



Ian Craven, CPA, CMA, MBA, P.Ag.

Partner, Consulting Services

Introduction

It is our understanding that you recently have been granted an increase to the BC Chicken Marketing Board (BCCMB) Interim Pricing Formula used to establish the minimum live price for broiler chickens due to the substantial surge in both feed and chick costs that BC chicken growers are facing as of late. We further understand that you believe that other operational and capital cost, besides feed and chick costs, have increased significantly over the last few years. You further believe that the increase granted to cover the growth in feed and chick costs does not cover the increase in other operational and capital cost (that together with feed and chick costs make up producer margins). It is regarding this last aspect that you requested our analysis and recommendations.

Analysis

Since the BCCMB Interim Pricing Formula is dependent on the Ontario Cost of Production Formula (COPF) used to calculate producer margins for Ontario chicken growers, we started our analysis by further investigating the margin increases for Ontario. According to our analysis, a 16% increase was applied to the portion of the Ontario formula that cover operational and capital cost (as such, excluding feed and chick costs) over a time period of approximately four years (quota period A-148 to quota period A-175), as shown in Table 1. Examples of operational and capital cost include energy, property taxes and insurance, return on capital, and any applicable levies.

Table 1: Change in Ontario total producer margin between A-148 and A-175

Producer Margin Items	A-148	A-175	% Change
Operational and Capital Costs	\$0.4917	\$0.5506	12.0%
Levies and Other Fees	\$0.0350	\$0.0604	72.5%
Total Producer Margin	\$0.5267	\$0.6110	16.0%

When conducting a similar analysis for the BC market, although for a shorter time period (quota period A-160 to quota period A-175), thereby using the minimum live price for A-160 and A-175 minus feed and chick costs, respectively. To be more specific, the minimum live price for A-160 was determined at \$1.6970 per kg following Pricing Order #151, and feed and chick cost were estimated at \$0.8401 per kg and \$0.3928 per kg, respectively, following figures obtained from BCCMB. Similarly, the minimum live price for A-175 was determined at \$2.0631 following Pricing Order #166 and feed and chick cost were estimated at \$1.0984 per kg and \$0.4309 per kg, respectively. A shorter timeline compared to the Ontario analysis was used due to updated COP numbers being only available as of A-160 following the producer surveys. We found that, after removing feed and chick costs and the levies that are only

applicable to the Ontario market, the operational and capital cost portion had increased by 15%, as shown in Table 2.

Table 2: Change in BC operational and capital costs between A-160 and A-175

Producer Margin Items	A-160	A-175	% Change
Operational and Capital Costs	\$0.4641	\$0.5340	15.0%

To investigate the extent that operational and capital costs have increased over this time period (quota period A-160 to quota period A-175), we considered three known cost indices tracked by Statistics Canada and applied those changes to the A-160 cost level, which are presented in Table 3.

Table 3: BC A-160 operational and capital costs vs. several measures of inflation

Producer Margin Items	A-160	CPI for BC, all items, not seasonally adjusted ¹	Industrial Product Price Index for Canada, all items ²	Raw Materials Price Index for Canada, chicken ³
Operational and Capital Costs	\$0.4641	\$0.600	\$0.705	\$0.648
Percentage Change compared to A-160	NA	29.2%	51.9%	39.7%

¹ Statistics Canada, Table 18-10-0004-01, Consumer Price Index, not seasonally adjusted

² Statistics Canada, Table 18-10-0265-01, Industrial Product Price Index, by major product group, monthly

³ Statistics Canada, Table 18-10-0268-01, Raw Materials Price Index, monthly

A few observations should be noted to guide the interpretation of the table above. Both the Consumer Price Index (CPI) and the Industrial Product Price Index (IPPI), although transparent, may not relate well to the individual cost items covered in the Operational and Capital Costs, as both of these indices reflect a basket of goods at either the retail or the manufacturing level. However, both of these indices are, to a certain extent, a measure of inflation on items to be purchased, as well as a measure of the change in cost on many industrial items, to which both of these contain elements applicable to the production of chicken. This is to a degree reflected by the Raw Materials Price Index (RMPI) for chicken as its increase compared to A-160 falls in between those for the CPI and the IPPI, however it should be noted that the RMPI is a measure of value of acquiring the product and does not necessarily reflect the cost level that went into producing that certain product.

Recommendation

As such, it is our conclusion from our analysis above that BC chicken growers have faced an inflation rate of between 29.2% (following the CPI) and 51.9% (following the IPPI) over the time period analyzed, in addition to increases to feed and chick costs. It is our recommendation therefore to advocate for an

approximate increase of 40% to operational and capital cost (as opposed to a 15% increase), in addition to the granted increase to feed and chick costs for the next quota period.



April 11, 2022

Mr. Jim Byrne
Chair
Production and Pricing Advisory Committee

Dear Jim:

Re: BCCMB Prior Approval Chicken Interim Pricing Formula for A-175 BCFIRB March 9, 2022 Decision

The Primary Poultry Processors Association of BC (PPPABC) is in receipt of the BC Chicken Marketing Board (BCCMB) March 15, 2022 correspondence to the BC Farm Industry Review Board (BCFIRB) on the above matter. The PPPABC is also in receipt of the BCCMB email and submission to the Production and Pricing Advisory Committee, dated April 4, 2022 requesting feedback on their proposed modification to the BCFIRB Interim Pricing Formula A-175 Prior Approval decision (the Decision). Specifically, the BCCMB is requesting the BCFIRB to rescind the modification (below) included in the Decision.

“... after adjustment for the cumulative increase or decrease in [Ontario grower margins arising from changes to the] Ontario Cost of Production formula (COPF) starting in A-175. If the resulting number is negative, no adjustment will be made to the live weight price.”¹

The PPPABC did not support the BCCMB’s proposed A-175 live price amendments because it did not balance processor competitiveness and grower returns as outlined in our March 8, 2022 correspondence to BCFIRB.² The PPPABC did not support the A-175 amendment because the feed cost calculations presented by the BCCMB were inaccurate and did not reflect the current reality. The BCCMB tried to actualize the industry’s feed cost issues by using current feed prices with an outdated and theoretical feed conversion ratio, which is inflated as we have reminded them. As a result, the feed cost challenges and the BC Live Price are overstated, and BC grower returns are understated.

The BCCMB has presented no information or circumstances to justify the Decision being revisited. Thus, the PPPABC’s position remains unchanged and, consequently, it does not support the BCCMB’s A-176 amendment request. The BCCMB’s proposed amendments are focused solely on increasing grower returns, do not consider processor competitiveness, and ignore the broader pricing issues facing the industry.

The rationale and support for the PPPABC position on this matter are outlined below.

¹ British Columbia Chicken Marketing Board Prior Approval Chicken Interim Pricing Formula for A-175 British Columbia Farm Industry Review Board March 9, 2022 Decision, April 4, 2022, p. 1

² PPPABC correspondence to BCFIRB, Re: BC Chicken Marketing Board Request for Prior Approval to Amend the Quota Period A-175 Mainstream Pricing Formula, March 8, 2022

1. BCCMB Appears to be Expanding the Scope of Their Original Amendment

The BCCMB's amendment requests have typically focused on addressing "escalating feed costs" that are "impacting" grower returns. The BCCMB now appears to have expanded their amendment request to include "capturing operational, labour and capital cost increases." However, the data in the table below shows that BC growers have a \$0.04 labour and operating cost benefit over Ontario growers through the Ontario Cost of Production Formula (ONCOPF).

A-175 Cost Component	BC - Serecon	Ontario COPF
Labour	0.1202	0.1399
Operating Costs ³	0.2070	0.2324

The BCCMB goes on further to state that, "the use of the Ontario Live Price in the BC live price formula enables growers to capture all or a portion of the operational costs and expenses."⁴ The annual improvements to operational expenses in the ONCOPF have already been realized by BC growers as they were incorporated into the Ontario A-174 producer margin change. The producer margin changes subsequent to A-174 are primarily related to Ontario's phased in capital costs. It is well understood by all parties that capital costs are theoretical calculations that are different and not related to ongoing operating costs.

2. Concerns of Pricing Formula Complexity and Benefits Skewing to Processors

The BCCMB indicate that they are concerned that the BCFIRB amendment is complicating the live price formula and skewing benefits from the ONCOPF to processors. The PPPABC has always supported simplicity and transparency in the BC pricing formula as evidenced in our proposals. The BCCMB did in fact effectively include and calculate the BCFIRB amendment in their A-175 price bulletin. It does however seem ironic that the BCCMB would be concerned about the BCFIRB price amendment increasing the complexity of the interim pricing formula when their recommended long term pricing formula is significantly more complex.

It is also disappointing that the BCCMB believes, based on their own calculations, that the \$0.0054 of the change in the upper guardrail adjustment in A-174, is a "skewing of benefits" to BC processors when all the ONCOPF changes, and the elimination of the annual adjustments have provided BC growers with close to \$0.10 in margin improvements. Not only are BC Processors not benefitting from ONCOPF changes, they continue to pay for the ONCOPF annual adjustments that no longer exist.

The current BC live price differential in A-175, even as amended by the BCFIRB decision, has made BC Processors the least competitive processors in the country and the live price differential is widening. BC growers, on the other hand, in A-175 are realizing returns (after feed, chick and catching) of \$0.56 per kg based on an industry feed conversion ratio of 1.55 for the A-168 – A-173 production cycles.⁵ We also know that feed conversions continued to improve through the A-174 production cycle which means the A-175

³ Serecon "Other Operating Costs" and CFO "Operating and Capital Costs" less Capital Components

⁴ British Columbia Chicken Marketing Board Prior Approval Chicken Interim Pricing Formula for A-175 British Columbia Farm Industry Review Board March 9, 2022 Decision, April 4, 2022, p. 2

⁵ Industry Average Feed Conversion Ratio estimated based upon PPPABC corporate farms actual results

returns are likely higher. The BCCMB's current approach to addressing pricing issues is in no way equitable or balanced and the BCCMB should not be permitted to continue pursuing petty adjustments that favor of BC growers.

3. Summary

The PPPABC strongly encourages the BCCMB and BCFIRB to increase the urgency with respect to the introduction of a new live price formula for BC broiler chicken. The BCCMB's continued grower-centric approach to pricing with interim pricing is resulting in a lack of motivation for the BCCMB and BC growers to move to a new pricing structure. BC growers have realized significant increases in financial returns over the past two years and will continue to do so until a new pricing structure is in place.

The BCCMB's A-176 request is focused on a very minor aspect of the BC live price formula for a limited number of cycles, and they are not taking a broader perspective to the bigger live pricing issues facing the industry, and balancing processor competitiveness with grower returns.

The PPPABC's expectation is that the BCCMB would be providing a more fulsome analysis of BC feed costs by collecting and including current feed conversion ratios in their calculations, like what is being done in other provinces. The current situation is untenable for BC processors as factual, verifiable evidence continues to be ignored, mischaracterized, or simply not investigated by the BCCMB. The BCCMB's pricing formula decisions are favoring growers and have created a situation whereby other industry stakeholders, such as feed companies, can now claim part of the proceeds within the system. All of which comes at the expense of BC processors and their competitiveness.

The PPPABC has withdrawn its support of the interim pricing formula in the supervisory review until the feed conversion issue can be properly addressed and incorporated into the BC live price formula. We have heard nothing to date and, given its importance, we had hoped that the BCCMB would be putting as much effort into understanding BC feed conversions as they are trying to make frivolous amendments to a BCFIRB final decision.

For these reasons the PPPABC does not support the BCCMB's requested amendment to the A-176 pricing formula.

Sincerely,



Blair Shier
President
Primary Poultry Processors Association of BC

c. Harvey Sasaki – Chair, BCCMB
Jim Collins – Chair, BCBHEC
Wendy Holm – BCFIRB Liaison