

Options:

1. Ontario posted price at a set weight category plus a fixed differential

- This option is used by a number of chicken boards in Canada, primarily the Atlantic Provinces.
- This approach was used in BC for a number of years prior to 2010. During this time the differentials ranged from ~~\$0.0435~~ \$0.02 to \$0.0585. During the period that this formula was in use, there was a BCFIRB ordered final offer arbitration process enshrined in the Scheme and BCCMB General Orders. It was left to the Joint Committee of the BCCMB Price and Production Advisory Committee (PPAC) to either agree to a live price each period or to proceed to final offer arbitration.
- The final offer arbitration process was set aside in 2010 in favour of the BCFIRB ordered pricing formula that is described in Option #2 later in this document.
- The pros and cons of a set differential over the Ontario live price:

Pros:

- Transparent
- Very simple to manage and update each eight week period
- Predictable. A fixed differential allows for stability in live prices between Central Canada and BC
- Maintains the principle of processor competitiveness to Central Canada **and grower returns assuming it has been set at a “balanced level”**
- **Required growers to monitor and negotiate with feed companies on pricing in order to improve return for growers**
- **It is set based on a COP formula due to the direct link to the ON COPF**
- **Can be set at a level that allows for a reasonable return for growers / and allows processors to be competitive when those elements are defined**
- **Catching costs are easily identified and can be accounted for in a manner consistent with the current formula.**
- **The fixed differential can be adjusted over time to account for recognized factors that are impacting grower returns / processor competitiveness.**
- **Provides processors a clear and consistent live price differential which allows for better decisions on long term price contracts and investment decisions.**
- **Requires BCBHEC to be disciplined on placement of breeders to ensure a steady flow of eggs that does not vary significantly from planned levels. (need to clarify status of linkage under this option)**

Cons:

- In past iterations of this model, the differential was negotiated and was not based on facts or actual cost differentials between BC and Ontario. **(but it was based on recognizing the competitive realities of the marketplace)**
- Made no reference to the cost of catching which lowered the actual differential to Ontario to approximately \$0.01 per kilogram. (In BC growers pay for the catching through a deduction in their payments from processors. In Ontario, processors pay for the cost of catching directly to the catching contractor. **This statement is a comment on how the formula was previously administered and is completely irrelevant – that being said, the differential was set knowing that the main portion of the differential was to account for the difference in catching costs.**

- Does not account for swings in feed prices between BC and Central Canada (wheat versus corn)
- Does not take in consideration any of the extra costs of production in BC. **This is not true, given the differential has been set above the catching costs, it has always recognized some portion of the difference in costs between BC and ON** Examples would be increased catching costs or adjustments to the pricing linkage such as moving from a 58 to 56 week breeder kill age. **But if ON went the other way – BC Growers would have benefitted....**
- The **specific formulas behind the Ontario COPF** is not transparent and since March 2015 (A-129). **Efficiency adjustments reduced the live price by ~~resulted in a reduction of~~ 12 cents per kilogram to chicken farmers across the country. (The efficiency adjustments recognize efficiency and feed conversion gains in the COP. Efficiency adjustments should be a part of any COP going forward. The issue we are encountering is the efficiency adjustments may be excessive and the specific calculation may need to be reviewed)**
- Continued reliance on the CFO COPF leaves BC growers at risk for further “efficiency and volume” reductions in margin. **A cost of production model should include formals that account for efficiency benefits achieved through increased volume and processing improvements. The Ontario COP was updated in large part due to the fact that feed efficiencies were not included in the previous COP. The issue isn’t that efficiency adjustments are applied. The issue is that the calculation for the efficiency adjustment needs to be reviewed.**
- Concern over what constitutes the “true” CFO live price, for example the level of premiums in addition to the posted live price that are available to Ontario chicken farmers. **Formula does not include premiums paid to BC Growers....**

2. Weighted average of Alberta, Saskatchewan, Manitoba and Ontario posted prices plus a fixed differential.

- This formula was in effect in BC from 2010 to 2016 and was mandated by BCFIRB following the 2009 Supervisory Review. During this time the \$0.0435 per kilogram differential was amended from time to time by mutual agreement of the chicken growers and processors.

Pros:

- Transparent
- Provides a benefit to BC growers if any of the Prairie Provinces increased their differentials to Ontario.
- Can temper the influence of exclusively relying on the Ontario price as the base.
- Was in effect from 2010 to 2016 as ordered by BCFIRB and was generally accepted by both growers and processors. This timeframe was referred to “peace in the valley” at the previous BC Pricing Review. During this 6 year period, there were no pricing arbitrations / reviews of any sort. It was by far the most stable pricing environment that has been experienced in BC over the last 15? + years.
- Maintains a balance across the west in the interest of regional processor competitiveness.
- ~~Does not rely solely on the Ontario COPF~~ Already stated above.
- Provides BC growers with the same inflationary factors that are included in the ON COPF as a base

Cons:

- Still relies on the Ontario COPF for 70% of the differential which is a concern for all of the reasons enunciated in Option 1. The corresponding benefit is that this approach allows the industry to be linked to the price setter in the National Market, ensuring we maintain a competitive position.
- The Ontario COPF is not fully transparent and has resulted in a loss of margin of 12 cents per kilogram since 2015 for BC chicken growers. This is a complete fallacy as pricing actions by Boards across the Prairies pushed a significant portion of the 12 cents of efficiency adjustments onto processors through the live price.
- Exposes the BC live price to the actions of the Prairie Marketing Boards which is outside our control / and the actions may / or may not be consistent with BC requirements and issues...

3. Ontario posted price plus:

- Cost of catching per kilogram charged to BC growers
- X percentage of the difference in cost per kilogram of chicks and feed between Ontario and BC.
- This is the formula currently in use and uses a factor of 75% to adjust for the difference per kilogram for the cost of feed and chicks between BC and Ontario.
- **Guardrails are a critical component of this formula**

Pros:

- Allows for a measure of recovery of variations in the cost of feed and chick costs between BC and Central Canada (wheat versus corn)
- Is transparent
- ~~Prevents manipulation of the catching price by processors.~~ **WOW**

Cons:

- Can result in excessive differentials between BC and Central Canada unless there are rigorous and defensible guard rails in place for minimum and maximum differentials.
- Could result in manipulation of the feed and chick prices by **feed** companies that understand that 75% of increases are automatically passed on to processors through the pricing formula.
- **Does not recognize the cost areas where BC Growers have an advantage over growers in Central Canada**
- **% age of feed and chick recovery can be easily changed based on pressures from growers**
- **Status of Linkage model ?**
- **Need to find a way to effectively (fact based ?) set the guardrails.**

4. Using the Serecon COP with a fixed or variable percentage of recovery.

- This option would serve to de-couple the BC chicken industry from Ontario pricing and the CFO Cost of Production Formula (COPF)

The concept of using the Serecon COP as a pricing model is fundamentally flawed as the model was not designed to be used for pricing. This approach will only re-enforce the perceptions of growers that they must attain 100% of the Sercon COP or they are losing money. Based on A-166, the Live Price differential would increase by 13.92 cents / kg costing processors and additional \$33.2M annually. If the same approach is used by the BCBHEC the chick price would increase by 3.44 cents / kg adding \$8.2M to the BC Live price. The combination of these two initiatives would increase costs to BC Processors by \$41.4M annually. (see attached for details).

The Serecon Model was not designed to be used for pricing and it has been rejected for use in pricing by independent arbitrators a number of times in the past.

Pros:

- Would provide growers with a predictable margin based on a theoretical model of their costs
- If set at 100%, would put mainstream chicken growers on an equal rate of recovery of their costs as certified organic and Taiwanese chicken growers.
- Would reflect the Serecon true cost of production in BC based on the linkage formula that has been used as the basis for equalizing cost recovery between chicken and hatching egg producers in BC for the past 25 years.
- Would take the Ontario COPF out of the equation and set the BC chicken industry on an independent path.
- May be a viable option to the BCBHEC as an alternative to exiting the linkage. May serve the BCHEC needs but they are not the aggrieved party in these discussions. The Processors are the ones who appealed their decision.

Cons:

- Some industry stakeholders have never accepted the Serecon COP as a true cost of production formula due to the calculations included for land value, labor and return on capital, etc.
 - The Serecon COP does not capture the benefits growers achieve through volume growth or other production efficiency gains
 - The Serecon model has been rejected a number of times in arbitrations as a true cost of production by certified arbitrators
 - The Sercon Model was never designed to be a model for pricing – it was designed as a model for linkage
 - The methodology of the Serecon COP is not consistent with methodologies used in other markets and is not based on actual costs and as such it will leave processors exposed to theoretical methodologies that will impact live price (increasing or decreasing the differentials)
- Presumably, using 100% cost recovery could increase the differential to the Ontario beyond a level that could be sustained by downstream stakeholders.
 - As stated above, the increase on broilers alone would add 13.92 cents to the current BC Live price, if this same approach is used by the BCBHEC there would be another 3.44 cents / kg added to the chick price (\$8.2M annually to processors)

- Unless Alberta, Saskatchewan and Manitoba adopted a similar approach, using the Serecon COP as the sole basis for setting the BC live price could cause BC's live price to be out of sync with the rest of the west.
- ~~Could~~ **Will** provide the opportunity for upstream suppliers such as feed companies and hatcheries to increase prices with the knowledge that increased costs would be passed directly through the live price.

5. A tripartite COP/Linkage with hatching eggs, hatcheries and chicken.

- This option would require hatcheries to be included in the current linkage between chicken and hatching eggs.
- The live price each period would determine the level of recovery of each respective COP.

We need a better explanation of the model being articulated / and the mechanics of the model.

Pros:

- Would provide hatcheries, hatching egg producers and chicken growers an opportunity to recover an equal percentage of their costs through a three-way linkage.

Cons:

- Would need to be combined with a formula that would establish the live price as a starting point for the linkage calculations.