Make Informed Decisions
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Ravi Bathe
B.C. Chicken Growers' Association

Dear Mr. Bathe

I am writing in response to our email conversations pertaining to definitions for processor competitiveness and reasonable returns to producers. This is part of the process associated with the B.C. Chicken Marketing Board's creation of a Price Working Group (PWG) to develop long-term guidelines for pricing chicken in B.C.

I have reviewed both the processor competitiveness definition and your initial example for reasonable returns, from your September 16 email. I believe both definitions contain the key goals and purposes for which they are designed. My professional bias is to keep the number of words to a minimum. This is especially the case here because these two definitions are starting point frameworks. You are going to build on these definitions with specifics in the PWG. I address each of the definitions provided in your email separately below.

<u>Processor Competitiveness Definition</u>
"Two or more parties acting to secure business of third parties and gain or maintain market share, by offering the most favourable terms, including quality standards and pricing, in a manner that provides adequate sustainable, long term, returns on the resources employed or consumed in producing them."

At the George Morris Centre, we used the following definition for competitiveness: The ability to profitably maintain or enhance market share.

That definition was inherited from the 1990 Food Industry Competitiveness Council and has been very useful given its clarity and succinctness. I recently used it for a study of the competitiveness of the Alberta beef industry.

The George Morris Centre's definition has been included and is actually the core of the processors' definition when they say, "gain or maintain market share" and "sustainable, long term returns."

My concerns with the current definition are the descriptive phrases such as "two or more parties acting to secure business of third parties," "favourable terms," and "in producing them." I find a great deal of the words in the definition to be unnecessary given that they do not add to the definition. Rather they distract from the core purpose.

Worse, all the added verbiage can complicate or even be used to manipulate future discussions. For example, what if the processor is not offering the most favorable terms including quality? Does that matter to competitiveness? Can this be used in negotiations with producers? Is a processor not competitive if they do not offer certain quality standards? Can this somehow relate to this producer-processor discourse? Whose definition of "favourable" will be used?

I suggest that you argue to use the GMC definition but add "sustainably" to the GMC definition. That might be useful because I assume the producers want that word in their own definition. It could read: The ability to profitably and sustainably maintain or enhance market share.

The bottom line is that I find the non-GMC words in the processor definition to be superfluous at best, and at worst, some of it could be used in an adversarial way.

<u>Reasonable Return to Grower</u>
The current example being used now is the following:
"To allow B.C. growers to remain sustainable in their farming businesses by ensuring a live price that covers their variable costs as well allows them the financial ability to replace their infrastructure in a timely manner with the use of adequate land space."

I discussed the concept of reasonable returns with a professor from Kansas State that I respect. His name is Glynn Tonsor. Here is his response:

> I think any effort to define "reasonable," "fair," etc. is problematic. These are subjective terms and in the eyes of the beholder. Conversely, one could attempt to derive risk-adjusted returns or equitable returns (that are not adjusted for risk) but a "reasonable" return is not something I would advocate anyone attempt to build and defend.

I also discussed the topic with J.P. Gervais, the lead economist at the Farm Credit Corporation (FCC). I asked if FCC had a working definition of reasonable returns. Here is his response:

> That's an excellent question – and I am afraid the answer is no. Internally, we only look back at historical trends for customer operations. But, I have never come across here or elsewhere a well-articulated vision of what "reasonable" means for the farm sector. That would be an excellent discussion paper!

I also discussed the issue with the former general manager of the Dairy Farmers of Ontario. He said they used the word "fair" instead of reasonable. Beyond that, however, they simply went by a cost of production (COP) and a defined return on top of that based on interest rates.

The point of the above, of course, is the subjectivity of "reasonable" and "fair," which I am sure you are aware. Others in the agricultural industry grapple with it, but do not successfully define the term. I am sure the growers and the processors each have a different view of what a reasonable return is for each other. Nevertheless, the task then becomes what the B.C. growers are going to define as "reasonable" for their own returns in negotiations. The risk is building acrimony into the negotiations from the outset.

Further to that, I believe a statement of reasonable returns to growers would be the following: "A profit over fixed and variable costs that allows for sustainably maintaining or enhancing production growth." This definition provides a symmetry with the suggested processor definition of competitiveness. The symmetry comes from the words, profit as well as sustainably maintaining or enhancing. Both definitions work towards similar goals which is important.

I believe that the word "efficient" could be included as a descriptor for the producer definition, but I would not start with that included. I suggest that growers should be willing to include it if it comes up in negotiations over these definitions.

I hope this was helpful and I look forward to helping the growers with the PWG.

Sincerely,

Kevin Grier