LONG TERM CHICKEN SECTOR PRICING REVIEW – SOME OPTIONS FOR A BC LIVE PRICE FORMULA[1]

OPTION	CHARACTERISTICS	PROS	CONS
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 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:	• 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	• In past iterations of this model, the differential was negotiated and was not based on facts or actual cost differentials between BC and Ontario. • 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. • 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. Examples would be increased catching costs or adjustments to the pricing linkage such as moving from a 58 to 56-week breeder kill age. • The Ontario COPF is not transparent and since March 2015 (A-129) resulted in a reduction of 12 cents per kilogram in gross margin to chicken farmers across the country. • Continued reliance on the CFO COPF leaves BC growers at risk for further "efficiency and volume" reductions in margin. • 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.

[1] This three-page table created by BCFIRB Liaison Wendy Holm directly from the BC Chicken Marketing Board's October 30th document: *Pricing and Linkage Supervisory Review. The Options for a BC Live Price Formula* (the "Options") is meant to stimulate discussion and dialogue to assist the Chicken Board in making a decision on a long-term pricing formula for BC chicken. **The five options presented in this table are not intended to be the definitive list of options for consideration.** Rather, they are meant to provide a high-level range of options currently under consideration which can be expanded based on industry stakeholder input and feedback. It is recognized that a further range of sub-options exist. The options presented are in no particular order or intended to suggested priority or preference. The options include formulas used in the past as well as formulas used in other provinces.

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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.	• Transparent • Provides a benefit to BC growers if any of the Prairie Provinces increase 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. • Maintains a balance across the west in the interest of regional processor competitiveness. • Does not rely solely on the Ontario COPF.	• 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 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.
3. **Ontario posted price plus.**	• Cost of catching per kilogram charged to BC growers • X percentage of 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.	• 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.	• Can result in excessive differentials between BC and Central Canada unless there are rigorous and defendable guard rails in place for minimum and maximum differentials. • Could result in manipulation of the feed and chick prices by companies that understand that 75% of increases are automatically passed on to processors through the pricing formula.

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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)	• Would provide growers with a predictable margin based on 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 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.	• 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. • Presumably, using 100% cost recovery could increase the differential to the Ontario beyond a level that could be sustained by downstream stakeholders. • 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 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.	• Would provide hatcheries, hatching egg producers and chicken growers an opportunity to recover an equal percentage of their costs through a three-way linkage.	• Would need to be combined with a formula that would establish the live price as a starting point for the linkage calculations.

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