

BC Chicken Marketing Board 2020 Pricing Review Round Table

Title

- Chicken Farmers of Ontario – Farm-Gate Minimum Live Price (COPF)

Objective

- For all parties to gain a better understanding of what the CFO COPF represents as it applies to live pricing in British Columbia
- To receive input and advice of industry stakeholders on the impacts and effects of the COPF on the British Columbia chicken industry.

Desired Outcome

- Clearly defined benefits and limitations of the use of the CFO COPF in setting the BC live price for chicken.

Agenda

1. Review Agenda – Purpose and Objectives
2. Background – Chicken Board Discussion Paper on CFO COPF
 - a. Discussion/Questions
3. BC Chicken Growers Perspectives
 - a. Discussion/Questions
4. Primary Poultry Processors Perspectives
 - a. Discussion/Questions
5. Required Follow-up
6. Closing comments/next steps summary

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Background

Ontario Regulation 402 Chicken - Marketing

- Chicken marketing and pricing in Ontario is established by Regulation 402 Chicken – Marketing made under the Ontario *Farm Products Marketing Act* (Regulation 402), last amended in 2015.
 - Similar in some respects to BC Regulation 188/61, British Columbia Chicken Marketing Scheme. 1961
- Regulation 402 establishes the powers of the local board (CFO); establishes a “negotiating agency” consisting of the CFO and Association of Ontario Chicken Processors (AOCP) to “adopt or settle by agreement the minimum live prices for chickens”.
- Beginning with quota period A 129 in 2015 Regulation 402 set out the pricing formula to be applied to price negotiations - $MLP = (CP + FP + PM) - AA$, where
 - MLP means the minimum live price
 - CP means the live chick price set by the Ontario Broiler Hatching Egg and Chick Commission for each quota period
 - FP means the weighted average feed price derived from at least three independent Ontario feed mills with the largest volume of sales of chicken broiler feed
 - PM means the producer margin, being the sum of the costs and expenses described in the regulation.

1. Energy
2. Repairs and maintenance
3. Property taxes and insurance
4. Office and overhead
5. Contract services
6. Labour – general management
7. Return on capital
8. Working capital interest
9. Farm vehicle
10. Levies and licence fees
11. Depreciation of assets

Items 1 through 8 are subject to negotiation annually.

Items 9 through 11 are fixed values to reflect changes from quota period A-121 to A-129

- AA means the three annual adjustments described in the schedule to the regulation
 - Volume adjustment to reflect annual changes in the authorized volume of domestic production of chicken allocated to Ontario
 - Feed efficiency adjustment to reflect ongoing improvements in the amount of feed to produce one kilogram of live chicken.
 - Producer efficiency adjustment to reflect the exclusion of high costs of production (for 2015 to 2018 specified in Regulation 402).
- The negotiating agency negotiates the chick and feed price each quota period.
- Annually, the negotiating agency negotiates the value of the first eight of the eleven costs and expenses contained in the regulation.
- The three annual adjustments shall be agreed to annually by the negotiating agency.
- Regulation 402 also includes arbitration provisions in the event that the negotiating agency does not arrive at an agreement.
- Regulation 402 also establishes a “Chicken Industry Advisory Committee” to advise and make recommendations to CFO on a number of areas specified in the regulation:
 - Promotion of harmonious relationships
 - Promotion of greater efficiency
 - Prevention and correction of irregularities and inequities
 - Improvement in the quality and variety of chicken
 - Improvement of the circulation of market information
 - Any matter with respect to which CFO may be empowered to make regulations.

CFO – Farm-Gate Minimum Live Price – Current Status

- Since quota period A-129 in 2005, the COPF has been based on a cost of production formula developed in 2013 using 2012 costs.
- CFO completed grower surveys to updated costs of production and in the spring of 2018 began negotiations for a new COPF were initiated but failed to be completed. The

matter is now before the Ontario Farm Products Marketing Commission (the “Commission”) to amend the COPF.

- The Commission posted notice of the proposal to amend the COPF on October 22, 2020 and specifying comments were due to the Commission by December 7, 2020.
- It is not clear as to when a decision of the Commission with respect to amendment to the COPF will be made.
- The current version of the COPF under Regulation 402 continues to be used to determine the period by period Farm Gate Minimum Live Price.

CFO – Farm-Gate Minimum Live Price – Impacts and Effects

- The COPF was intended to be in place for 5 years, at which time a new cost of production based formula would be developed.
- Since 2015, the annual adjustments applied to the COPF total \$0.1323 per kilogram, in other words, there has been a downward adjustment in total cost of production and CFO COPF by \$0.1323 per kilogram or approximately 7 to 8% of the total cost of production over the past 6 years.
- In addition to the annual adjustments, CFO also adjusted the weight category for the COPF thus removing a further \$0.02 per kilogram from the COPF.
- Ontario’s receives one-third share of national allocation and as a result, most provinces in Canada use the CFO COPF as a reference for pricing, i.e.
 - Quebec uses the COPF + \$0.02 per kilogram for the adjusted weight category
 - Alberta and Saskatchewan use the COPF plus a fixed differential that includes \$0.02 per kilogram for the adjusted weight category, plus catching costs, plus an added differential.
 - British Columbia has used the COPF in the past formulas, as well as the current formula.
- While the annual adjustments to the COPF may have made sense for the Ontario chicken growers, they have served to erode some of the cost advantages in other provinces. For example, the feed efficiency adjustment.
 - Prior to the current COPF, the BC feed conversion ratio was significantly lower than used in the COPF. This served to off-set some of the higher feed cost faced by BC growers.
 - The reduction in the COPF feed conversion ratios as reflected in the feed efficiency adjustment have reduced the difference between Ontario and BC growers.
 - The result today is the recognition of feed cost differentials in the current pricing formula restoring some of the benefit by including 75% of the difference in the cost of feed between BC and Ontario. The 75% factor also applies to the difference in the cost of chicks between BC and Ontario. Higher chick prices in BC can be attributed in part to the higher cost of broiler breeder feed rations in BC as compared to Ontario.

- From a BC processor perspective, the current formula in providing relief to growers erodes their competitiveness relative to Ontario processors with the resulting higher live price differential over Ontario.
- A question that needs answering for the next generation of COPF is whether or not further annual adjustments are necessary or whether some of the current accrued adjustments can be reduced going forward.
 - As the annual adjustments were intended to drive efficiency and lower costs of production does the COPF after 6 years reflect an “efficient” grower or are further adjustments required?
 - If the desired outcome is an “efficient” grower, the current COPF lacks any benchmark references as to what would constitute “efficient” grower costs.
- Should the Commission decide to continue to include annual adjustments in Regulation 402, what are the implications for other provinces that utilize the COPF as a reference point in their pricing?
- While the posted COPF provides a reference point for interprovincial comparison to establish a measure of processor competitiveness, is this an appropriate benchmark given:
 - Lack of transparency.
 - While CFO cites the COPF as being transparent, there are significant gaps in data and information to enable a robust comparative analysis.
 - There is no indication or data available to show the percentage of provincial production at the weight category upon which the COPF is based.
 - The last two years of the COPF have not provided a detailed breakdown of the annual adjustments or producer margin costs
 - How do incentive and loyalty bonuses factor into grower returns and processor competitiveness?
 - It is not documented, but reported that Ontario processors use incentive bonuses which provide a greater return to growers.
 - While most BC processors have resumed the practice of offering loyalty bonuses effective with period A-167, it cannot be confirmed as to whether the loyalty bonus paid in BC is lesser or greater than the incentive bonuses paid in Ontario.
 - Catching and other costs and premiums.
 - Ontario processors pay catching contractors directly for the cost of catching.
 - In BC, the cost of catching is paid for by the growers which is offset by the inclusion of a value of catching in the BC live price, thereby inflating the differential in live price over Ontario by \$0.0365 per kilogram.
 - The COPF includes a \$0.012 per kilogram as a modular loading cost recovery which compensates Ontario growers for barn modification costs. The modular loading cost recovery is not included in the BC live price formula.

- AI Insurance Premium. The PIE insurance premium in respect of the avian influenza disease insurance of \$0.0015 per kilogram resumed in A-164 following a temporary suspension in A-163. The AI insurance premium is not included in the BC live price formula.
- Chick Price. Effective A-163, the Ontario Broiler Hatching Egg and Chick Commission (OBHECC) has applied a charge of \$0.00117 (plus HST) per chick related to emergency depopulation services. This charge has been added to the base chick price, but is not included in the BC live price formula.