BC Chicken Marketing Board
January 12th ROUND TABLE ON PRICING OPTIONS 9 am- noon

PLEASE FIND ATTACHED

- AGENDA: Stakeholder Round Table on Pricing Options
- Table: Some Pricing Options
- BCCMB Discussion Document
- Feedback received from BCCGA
    - Cover letter and report
- Feedback received from PPPABC
    - email

BC Chicken Marketing Board
2020 Pricing Review Round Table

Title

- Pricing Options

Objective

- To receive input and advice on a broad range of pricing options.

Desired Outcome

- Clear understanding of stakeholder option preferences.

Agenda

1. Review Agenda – Purpose and Objectives
2. Background – Options for a BC Live Price Formula
    a. Review and comments on option advantages/disadvantages
3. BC Chicken Growers Preference
    a. Discussion/Questions
4. Primary Poultry Processors Preference
    a. Discussion/Questions
5. Required Follow-up
6. Closing comments/next steps summary

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.

LONG TERM CHICKEN SECTOR PRICING REVIEW – SOME OPTIONS FOR A BC LIVE PRICE FORMULA[2]

OPTION	CHARACTERISTICS	PROS	CONS
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.

[2] 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.

LONG TERM CHICKEN SECTOR PRICING REVIEW – SOME OPTIONS FOR A BC LIVE PRICE FORMULA[3]

OPTION	CHARACTERISTICS	PROS	CONS
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.

[3] 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.

October 30, 2020

BC Chicken Marketing Board
Pricing and Linkage Supervisory Review
Options for a BC Live Price Formula

October 30, 2020

Introduction:

In May 2019, the British Columbia Farm Industry Review Board (the "BCFIRB") Appeal Panel directed the British Columbia Chicken Marketing Board (the "Chicken Board") to issue a long-term pricing formula not later than period A-161 (January 2020). The Chicken Board established a Pricing Working Group (the "PWG") comprised of representatives of the British Columbia Chicken Growers' Association (the "Growers"), the Primary Poultry Processors Association of British Columbia (the "Processors"), the Chair of the Chicken Board's Pricing and Production Advisory Committee (the "PPAC") and an independent facilitator to provide a forum whereby the growers and processors are able to objectively and collectively research, examine and analyze the policy objectives of a live price formula for BC chicken and meeting and work to develop and attempt to recommend a long term agreement for the pricing of live mainstream chicken (regular broilers) in the Province of British Columbia to the PPAC.

As a result of the initiation of the Linkage Supervisory Review and the need to focus resources on managing the impact and effects of the COVID-19 provincial emergency, the work of the PWG was terminated. The Chicken Board and the British Columbia Broiler Hatching Egg Commission (the "Commission") have affirmed with the BCFIRB Supervisory Review Panel the authority of the Chicken Board and Commission to make pricing decisions for recommendation to the Supervisory Review Panel.

Purpose:

The Options for a BC Live Price Formula (the "Options") has been developed to stimulate discussion and dialogue to assist the Chicken Board in making a decision on a long-term pricing formula for BC chicken.

The Options is not intended to be considered the definitive list of options for consideration. Rather, the Options 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.

Request:

The Chicken Board is seeking industry stakeholder feedback and input on the options, including but not limited to:

- differing views on the pros and cons for each of the options;
- additional pros and cons for each of the options; and
- additional options, including pros and cons for consideration

The Chicken Board would like to meet with stakeholders individually, collectively or both with the assistance of the BCFIRB Review Liaison. Please contact Bill Vanderspek to arrange for a meeting.

Deadline for Response:

To ensure that your input is considered, the Chicken Board requests your submission be received at the Chicken Board office, by no later than 4:30 PM; November 24, 2020.

The input and feedback received will be used by the Chicken Board in its evaluation of the merits of each option in developing a final option for setting the live price of chicken in BC.

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 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

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.
- 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.

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 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.

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 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 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.

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.

Cons:

- 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.

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)

Pros:

- 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.

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.
- 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.

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.

November 24, 2020

BY EMAIL

Harvey Sasaki, Chair, BC Chicken Marketing Board - info@bcchicken.ca

Dear Harvey,

Thank you for your letter dated October 30, 2020 regarding the pricing review and the included initial draft of possible pricing options. The BC Chicken Growers' Association (BCGGA) is responding to the BC Chicken Marketing Board's (BCCMB) request for comments.

The BCCGA's responses to the definitions and quantifiable measures for reasonable return to BC chicken growers and BC processor competitiveness are included in the following (and attached) three documents. These documents also provide value chain information as well as pricing option analysis. We believe these documents will provide the BCCMB with an abundance of information on the issues at hand.

- **Definitions for Reasonable Returns to Growers and Processor Competitiveness, Kevin Grier September 26, 2019**
- **Costs and Returns in BC Chicken Marketing, Agri-food Economic Systems November 2020**
- **Live Chicken Pricing in BC: An Evaluation, Agri-food Economic Systems November 2020**

The BCCGA does not support the first three options: #1 Ontario posted price at a set weight category plus fixed differential, #2 Weighted average of Alberta, Saskatchewan, Manitoba and Ontario posted prices plus fixed differential and #3 Ontario posted price plus. These three options have had a long history of problems resulting in arbitration, supervisory review, and inability to set the long-term price negotiated through a producer/processor pricing working group. The result has been long-term instability and the current supervisory review that we face today.

The current chicken live pricing structures are unsustainable for the chicken industry. The BCCGA's members require a healthy industry with BC chicken growers receiving a fair (reasonable) return while processors remain competitive. At the present time, BC live chicken prices are significantly below our members' actual Cost of Production. While the processors have historically discounted the value of the Serecon COP, we believe it is a fair representation of the actual costs our members incur to grow chicken. Presently, that model suggests that the A-166 BC live price is 13.92 cents/Kg below the COP. The reality is that for several years depreciation has and continues to fund chicken farm operations and it is very difficult for BC chicken growers to re-invest in their farm business and the industry. The current live price formula is based on the Ontario live price formula that is neither transparent nor predictable. The 75% differentials in feed and chick prices are too low and have diminished the capital our members need for replenishment or refurbishment of their farm operations

The BCCGA supports option #4: Using the Serecon COP with 100% cost recovery. This COP based pricing model for both the BC broiler hatching egg producers and BC chicken growers would support a simultaneous move to a COP based pricing model. This would provide a verifiable and long-term price that yields cost recovery for BC chicken growers and will stem the long-term instability. The information analyzed, in section 4.7 Processor Prices in B.C in the attached Costs and Returns in BC Chicken Marketing report - Agri-food Economic Systems November 2020, provides information that supports the processors ability to stay profitable, considering retail information and would support 100% COP. The information analyzed, in the attached Live Chicken Pricing in BC: An Evaluation - Agri-food Economic Systems November 2020, supports the COP pricing environment as being a "robust concept", stable "as many of the costs are fixed" and "can be used as a mechanism to encourage improved efficiencies and collaboration."

To address cons identified in option #4:

- An independent COP model could be compiled and used as a comparison for Industry stakeholders who do not accept the Serecon COP.
- Benchmarks could be developed and maintained to compare the BC COP inputs with comparable data from the other western provinces and potentially with the Ontario COP. This would ensure the BC COP provides a reasonable return and is in sync with the other western provinces.
- Benchmarks for feed prices and chick quality could be established to ensure that upstream suppliers, such as feed suppliers and hatcheries do not increase prices with the knowledge that increased costs would be passed directly through the live price.

The BCCGA would consider option #5: a tripartite COP/Linkage with hatching eggs, hatcheries, and chicken, if verifiable and comparable data were achieved and an amicable agreement could be made.

The British Columbia Chicken Marketing Board and the British Columbia Broiler Hatching Egg Commission are reviewing their regulated pricing structures with the goal of making changes that will support a long-term pricing approach. This must be done by implementing a thoughtful and novel approach.

Thank you for your attention to these matters.

Sincerely,

Dale Krahn
President
BC Chicken Growers' Association

Cc: Wendy Holm, BCFIRB Liaison

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Live Chicken Pricing in BC: An Evaluation

AGRI-FOOD
ECONOMIC SYSTEMS

Al Mussell

November, 2020

1.0 Introduction

The BC Chicken Growers Association (BCCGA) is engaged in a supervisory review led by the BC Farm Industry Review Board (FIRB). In its regulatory review, FIRB will examine the nature and status of live chicken pricing in BC and a range of other matters. In preparation for the supervisory review, the BCCGA requires an understanding and assessment of alternative for live chicken pricing.

1.1 Purpose and Objectives

The purpose of this paper is to provide context and understanding, and to review prospective alternatives for live pricing.

The objectives are:

- To explore and elucidate the objectives and constraints framing live chicken pricing
- To compare alternatives for live pricing
- To place live pricing in the context of broader issues in chicken supply management

1.2 Organization of the Paper

Section 2 below presents concepts of objectives and constraints in pricing. Section 3 provides an evaluation of pricing proposals. Section 4 puts the matter of live pricing in the broader context of chicken marketing issues. Section 5 concludes the paper.

2.0 Objectives and Constraints in Live Pricing

This section provides a discussion of the essential considerations that characterize objectives, constraints, and choices in live chicken pricing.

2.1 Pricing and the Nuances of Supply Management

Pricing is markedly different in supply managed products compared with unregulated markets. In supply management, pricing is formally separate from volume/allocation. Allocation is established at the national level, and cascades down to a provincial and ultimately individual basis, given the current FPA in place. Allocation does not decrease because regulated prices are high- either based on the farm COP or retail.

Under a more general market organization, pricing is a residual outcome of the interaction among supply and demand, and is thus intrinsically tied to volume. This interaction among supply and demand has the effect of smoothing total revenue. Increases in price act to increase revenue, but this is offset to some degree but reduced volume demanded; conversely, the effect of decreases in price are buffered by increased volume that can be sold.

This form of revenue buffering cannot occur with price divorced from volume in supply management. Increases in price raise revenue in direct proportion, and decreases in price decrease revenue in direct proportion. It therefore requires that pricing have a robust basis from which to stand, and that the basis for pricing be stable and not highly subject to volatility. Cost of production (COP) as a basis from which to establish the live price is consistent with this.

However, COP is not implied by regulation, as most of the regulation governing supply managed systems deals with allocation. The objects and powers of agencies and marketing boards contemplate authorities that provide guidance for pricing. The federal Farm Products Agencies Act states the objects of an agency (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. An interpretation is that agencies are to promote producer interests, but to exercise restraint in doing so.

The BC Chicken Marketing Scheme, Section 4.01 (g) states as powers of the chicken board “to fix the price or prices, maximum price or prices, minimum prices or 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”.

Thus neither the federal nor provincial regulations imply COP as a basis in pricing, but they are consistent with COP as the basis for a live price. In addition, neither provincial nor federal regulations make reference to quota value as an authority or a motivation for action.

2.2 Elements of Cost of Production in Pricing

One way in which COP can be broken down conceptually is between costs that increase according to the volume produced (variable costs), and others that vary little or not at all with the volume produced and are really costs for the farm (fixed costs). In the former case, the live price per kg is critical because the costs increase in direct proportion to the volume produced. In the latter case, total revenue (price x volume) is more important, because the fixed costs do not change, or change much, with volume.[1]

Feed is a cost that increases in direct proportion with volume. Chick costs also increase with volume, with the implications differing somewhat based on improved chick conversion from feeding to heavier weights versus increased numbers of chicks. Operating and capital costs are essentially fixed costs. These are broken down in the Table 2.1 below.

The significance of fixed versus variable costs has implications for the structure of a COP. For A-165, Operating and capital costs were 32 percent of total costs; for Ontario they were closer to 36 percent. These are lump sum costs (at least mostly), while around two-thirds of the costs are proportional to kg produced. [2]

There are a number of means in which this could be more precisely reflected. One would be to have a fixed component, say $/sq ft barn space, and a variable component based on $/kg live. More generally, to protect the roughly one-third of costs that are fixed, it focuses emphasis on stability in the COP if all cost items are measured in $/kg. The greater the share of fixed costs, the greater the importance of revenue as opposed to unit price in compensating the producer.

Producers benefit from chicken supply management, and they also make important concessions to it and investment in it. Political science has taught us that in order for collective action to be sustainable among those subject to it, it needs to be seen as credible and effective, the process undertaken to develop and enact it just, and all of those affected by it treated equitably. These considerations apply to chicken supply management.

In this regard, cost of production in pricing is an important concept. The different aspects of chicken supply management impacting producers- variously benefits and constraints- are a package. Its robustness hinges to some degree on producers receiving what they recognize as a cost of production price that is relevant to them, and that is proportional to the individual sacrifices and investments they make- restraint in production, investment in quota, agreement to abide by certain production and marketing rules, etc. The worry is that, if COP pricing is not seen as credible- with some costs not appropriately covered, or the overall COP level insufficient or not indicative of their situation- it begins to undermine the basis in collective action of supply

[1] With increases in volume, there is a direct increase in levy because of the manner in which it is charged. Some increases in labour, energy, and working capital may occur but not in direct proportion to volume.
[2] For A-165 Operational and Capital Costs for Ontario were $.5586, total COP $1.553. For BC they were $.589; total COP $1.8287

Table 2.1 Constituents of Operating and Capital Costs

Operating:
Energy
Repairs and Maintenance
Property Tax and Insurance
Contract Services
Labour and General Management
Working Capital Interest
Farm Vehicle
Levies and License Fees
Capital:
Return on Capital
Depreciation

management as an institution.

A COP model in which a subset of producers are covered 100 percent but others are not; or a COP in which only a narrow spectrum of technology employed by a subset of farms is covered is thus not sustainable. A credible COP must establish agreed upon baseline standards for production that can be popularly supported by producers- yet not be such that anything goes- meets the needs of processors, customers, and other stakeholders, and yet challenges the industry for continuous improvement.

2.3 Aspects of the BC Chicken Market

BC producers and are committed to each other as a reality of geography and markets. Moreover, some BC processors are also producers. The wholesale pricing model for processed chicken between processors and retailers involves spot pricing, pricing to support promotions, and formula-based pricing. Of these, the formula-based pricing, which is a markup over the BC live price, is the most common among BC retailer, covering 50 percent or more of the fresh chicken purchased by retailers. Without overstating the point, the implication is that for this 50 percent or so of volume sold to retailers, the live price is a pass-through paid by retailers, with little impact on processors. This has limits, and this would probably become evident in the instance of a sudden increase in the live price. However, it should impact the position of the processors on increases in the live price as a significant share of the impact does not reside with them.

Because of the intimate relationship that exists inherently between BC producers and processors, the prospect exists for increasing levels of collaboration among producers and processors. Elements of this are already occurring, through specialty chicken, and probably elsewhere. The search for a suitable basis for live price can include mechanisms that create incentives for increasing efficiency and collaboration over time that are inclusive of but extend beyond the COP- such as consideration of quality premiums, or revenue sharing based on verifiable metrics of performance.

The values at stake in the chicken supply chain have been estimated, as presented in Figure 2.1 below, based on the study conducted by Agri-Food Economic Systems for the BC Chicken Growers Association. In BC, a conservative estimate is that the wholesale value to be split up among the supply chain segments is about $2.66/kg live, with the prospect that this could range up to $2.78/kg live. The value in the supply chain is in a tight cluster in western Canada, and slightly lower in Ontario. The processor margin presented as 25¢/kg in the figure is conservative, and could range up to 37¢/kg.[3] With a live price that appropriately represents producer COP, this margin represents the bounds of what can be split between broiler producers and processors.

2.4 Observations

Because pricing and allocation are formally separate processes in supply management, the choice of a pricing model must be robust and capable of standing on its own. It must also lend stability in producer returns in expectations, because there is no dampening of revenue through volume adjustments to changes in price in supply management. COP is consistent with this, but it is not a regulatory requirement.[4]

The COP as it is structured in pricing assumes that all costs are incremental in value; however, about one-third of costs contained in the COP are really fixed costs occur at the level of the farm. This suggests that opportunities may exist to more precisely deal with differences in fixed and variable costs in the COP, and that a distinct element of producer pricing is for revenue to offset fixed costs, in addition to costs that vary with output.

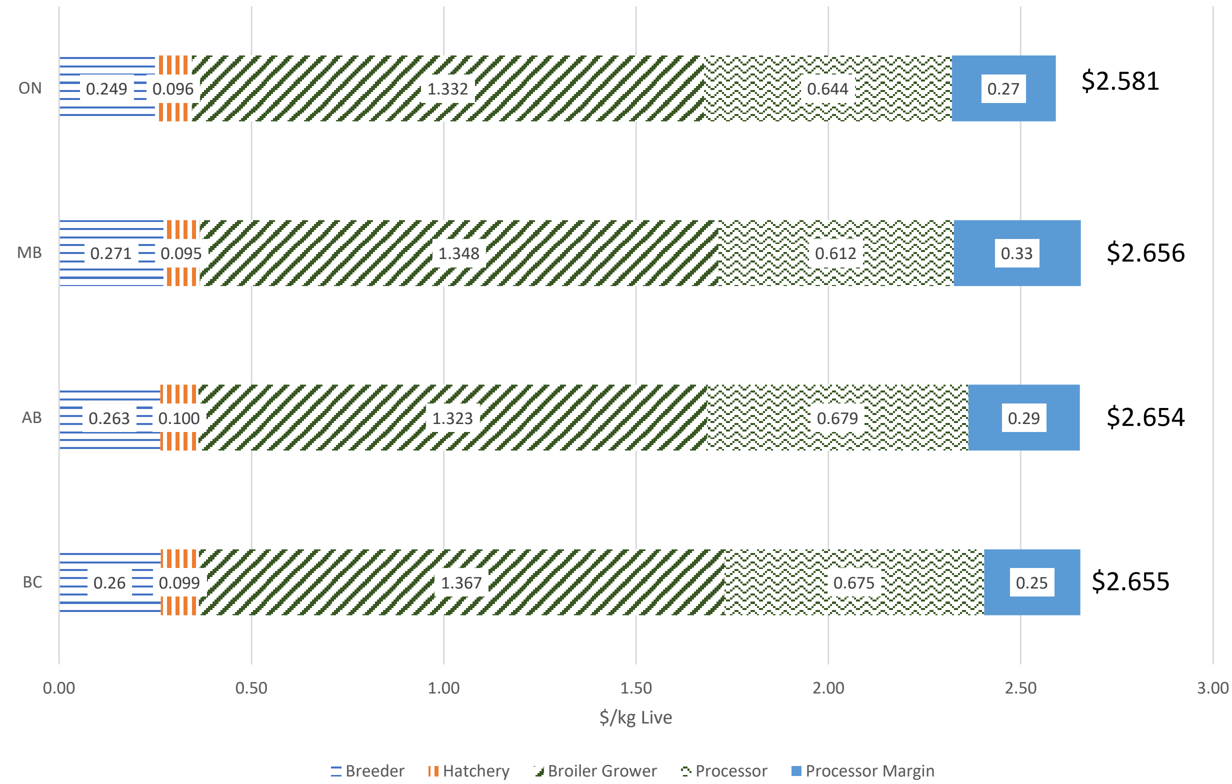
However, more fundamentally, a COP that is popularly supported as relevant to producer experience, treats producers equitably, meets the needs of customers and stakeholders, and challenges continuous improvement in efficiency is necessary for the robustness of chicken supply management in BC.

Producers and processors depend on each other. Incentives for improved efficiency can benefit both parties, and can be shared between parties within a COP environment. Much of the impact of live pricing actually passes through from the processor to the retailer. The rough metrics of the values at stake have been estimated- these provide an empirical framework against which to test the feasibility and desirability of alternative pricing proposals.

[3] *Costs and Returns in BC Chicken Marketing*; Report Prepared for the BC Chicken Growers Association by Agri-Food Economic Systems

[4] Section 4 will discuss some exception to this in the context of producer premiums

Figure 2.1 Chicken Supply Chain Segment Costs and Value



Source: *Costs and Returns in BC Chicken Marketing*; Report Prepared for the BC Chicken Growers Association by Agri-Food Economic Systems

3.0 Live Pricing Options

This section applies some of the considerations above in the interpretation and evaluation of alternatives for live pricing identified in the October 30, 2020 document circulated by the BC Chicken Marketing Board. It identified, without limitation, the following five options for live pricing:

1. Ontario posted price at a set weight category plus a fixed differential
2. Weighted average of Alberta, Saskatchewan, Manitoba and Ontario posted prices plus a fixed differential
3. Ontario posted price plus cost of catching per kilogram charged to BC growers and a percentage of the difference in cost per kilogram of chicks and feed between Ontario and BC.
4. Using the Serecon COP with a fixed or variable percentage of recovery.
5. A tripartite COP/Linkage with hatching eggs, hatcheries and chicken

3.1 Empirical Analysis

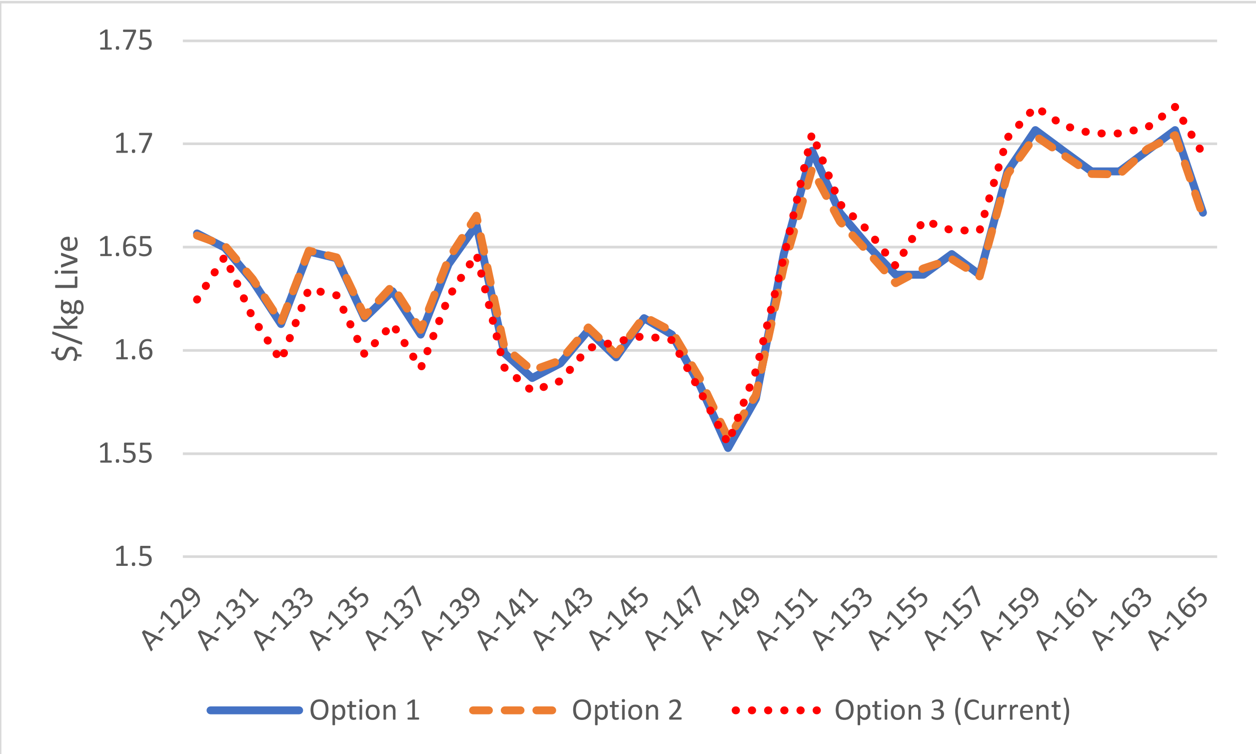
Based on the October 30th document, it is possible to examine the pattern of the first three pricing alternatives over time, had they applied in the past. To illustrate this, the following simplifying assumptions were made:

- To represent Option 1, the average price spread between BC and Ontario for the period A-129 to A-165 was calculated, with this average added back on an allocation period by allocation period basis. This price spread was 10.067¢/kg
- To represent Option 2, provincial weights were obtained based on allocation data from A-129 to A-165. This yielded weights for Alberta of .19, Saskatchewan .075, Manitoba .081, and Ontario .654. Using these weights, an allocation period weighted average price was constructed. This was then subtracted from the actual BC live price on an allocation period basis, and then averaged over the period A-129 to A-165. This spread 7.99¢/kg was then added to the BC live price on an allocation period basis
- Option 3 is the current live price

Using this procedure, the parameters are calibrated to give the same average live price over the period, however the prices can deviate allocation period by allocation period. This is illustrated in Figure 3.1 below. Each of the pricing options deviate from each other in a given allocation period, but Options 1 and 2 deviate so little as to be indistinguishable from one another. Current pricing (Option 3) appears to be somewhat more variable compared with Options 1 and 2, with the spread limited to about 2 ¢/kg. Comparing Option 1 with Option 2, there is very little difference apparently because of the dominance of Ontario pricing used in both cases. In Option 2, Ontario has a weight of about 65 percent, but it also has secondary significance as Alberta and Saskatchewan, and historically Manitoba, used an Ontario price reference- so in effect these are not independent price references from Ontario.

Changes to the parameters- price spreads- will generate different results in practice, and the procedure used here is constrained to generate precisely the same average price over the period examined.

Figure 3.1 Simulated Live Price with Calibrated Pricing Parameters



3.2 Conceptual Analysis

The discussion in Section 2 emphasized the following concepts:

- Because pricing is formally distinct from allocation, the basis for pricing must be robust and stable.
- Cost of production is a robust concept.
- It is important that pricing using COP reflect the detail of production costs and conditions faced in production.
- There is some value placed stability in the COP as many of the costs are fixed.
- The COP must be relevant and meaningful to producers and popularly supported. It should also have traction with processors and stakeholders.
- Pricing can be used as a mechanism to encourage improved efficiency and collaboration within a COP pricing environment.

Based on these considerations, the following can be observed regarding the proposed pricing options.

- The first three pricing options focus on an external price reference. In so doing, it focuses on pricing across geography, and competitiveness with other provinces.
- Option 4 focuses the most clearly on what the COP should reflect, and the detail of costs facing/borne by producers.
- Option 5 most clearly endorses the concept of collaboration and efficiency within a COP pricing environment. The parameters that embody this are yet to be developed, and presumably will require extensive work. Consideration of "guardrails" in mechanisms that help promote collaboration and efficiency will be important in ensuring that all perceive benefit from this approach to pricing.
- The pricing options presented do not contemplate a mechanism to address fixed versus variable costs in a COP

The competitiveness of pricing versus Ontario and Prairie provinces is not unimportant, and it is reasonable to expect that it could be very important for processors. However, it would appear that differentials relative to these regions are a blunt instrument with which to address the key cost issue for BC, which is the deficit in feed and thus cost disadvantage. Moreover, the relative disadvantage in feed costs applies across producers in BC, and also across segments including broiler breeding. Current discussions suggest that the live price in use covers less that 100 percent of the independently estimated BC COP, and that specialty and organic producers have a live price that is equivalent to 100 percent of COP. This suggests some lack of detail/accuracy in the current live price, and a sense of inequity in pricing across producers. This, in turn suggests, that Option 4 or 5 could be the preferred option for broiler producers.

4.0 The Broader Context for Live Pricing

Broiler live pricing fits into a complex dynamic, and the choice of preferred live price mechanism fits into this. Allocation is separate from pricing, and the existing FPA appears to treat BC relatively well. The BC allocation is sufficient to facilitate a net surplus of processed chicken shipped out of BC. With many of the same processors operating in BC and in the Prairies, there is little risk of major volumes moving into the BC market from elsewhere.

Anecdotally, price premiums occur around the level of 3¢/kg in BC. While pricing and allocation are distinct, price premiums provide a barometer of relative supply and demand in the market. Processor demand for live chicken is derived from the processor's sales and earnings in processing chicken. In competition with one another, competing processors bid for live chicken based on their respective sales/earnings/growth base. Aggregate allocation and the nature of processor demands thus defines market shares in a competitive allocation system.

When processor demands collectively exceed available allocation at the minimum price defined by the cost of production, price premiums commonly result. Excess demand at the minimum price can result from lags between aggregate demand and aggregate allocation, excess processing capacity in an area, and/or from rapidly growing demand for a processor's new or niche product. Price premiums are reduced by expanding allocation to accommodate excess demand at the minimum price. Conversely, softening demand reduces price premiums; for example, in the spring of 2020 many price premiums in BC disappeared with softening processor demand, only to return in the fall of 2020 with much stronger processor demand.

To illustrate the point, consider the situation of a processor with a product portfolio that is growing at double the rate of the aggregate national market. Based on overall market growth, this processor can expect allocation growth of about half the rate of his or her actual sales growth, and unfilled and lost orders are likely. However, if this processor is free to compete with rivals for the supply of live birds using competitive price premiums as a tool, the option exists to bid supply away from others with lower growth rates and/or profitability. This facilitates growth in the industry, and ultimately will spur growth in allocation to some degree.

4.1 2009-10 Supervisory Review

The context for the supervisory review of chicken marketing in BC in 2009/10 remains relevant today. At the time of the FIRB review, a regulated supply assurance mechanism was in place. The BC Chicken Marketing Board, argued in favour of dropping supply assurance in favour of open competition. The BC processors argued in favour of retaining supply assurance to allocate live chicken.

The FIRB panel went into detail in explaining its rationale for dropping regulated supply assurance in favour of open competition. The FIRB panel's observations included the following:

- There is a need for processors to compete in order to use provincial chicken allocation to its highest and best use
- Processors from BC that were operating under regulated supply assurance were not opposed to operating in Alberta and Saskatchewan under conditions of open competition. Had either Alberta or Saskatchewan operated supply assurance systems, BC processors would never have been able to expand into these provinces in the same way.
- Regulated supply assurance does not provide adequate incentives for producers and processors to work together. It also discourages new entrants in chicken processing from investing in BC
- Regulated supply assurance in Ontario has not effectively addressed price premium issues and has created a locked-in system
- Regulated assurance of supply tilts the balance of market power toward processors and away from producers.

5.0 Summary and Conclusions

Because pricing and allocation are formally separate processes in chicken supply management, the choice of a live pricing model must be robust and capable of standing on its own. It must also lend stability in producer returns and expectations. A COP that is popularly supported as relevant to producer experience, meets the needs of customers and stakeholders, and challenges continuous improvement in efficiency is consistent with this. Producers and processors depend on each other. Incentives for improved efficiency can benefit both parties, and can be shared between parties, within a COP environment.

Of the five alternatives proposed, the first three are amenable to empirical analysis. When simulated over history, with the parameters constrained, Options 1 and 2 generate only subtly different results. This appears due to the dominance of the Ontario reference used in either case. Option 3 is the current model, and experiences somewhat greater variability compared with Options 1 and 2.

The first three pricing options focus on an external price reference. In so doing, it focuses on pricing across geography, and competitiveness with other provinces. Option 4 focuses the most clearly on what the COP should reflect, and the detail of costs facing/borne by producers. Option 5 most clearly endorses the concept of collaboration and efficiency within a COP pricing environment.

The competitiveness of pricing versus Ontario and Prairie provinces is not unimportant, and it is reasonable to expect that it could be seen as very important for processors. However, it would appear that differentials relative to these regions are a blunt instrument with which to address the key cost issue for BC, which is the deficit in feed and thus cost disadvantage.

While pricing and allocation are distinct, price premiums provide a barometer of relative supply and demand in the market. Processor demand for live chicken is derived from the processor's sales and earnings in processing chicken. In competition with one another, competing processors bid for live chicken based on their respective sales/earnings/growth base. Aggregate allocation and the nature of processor demands thus defines market shares in a competitive allocation system.

Interruption to this competition mechanism through regulation of supply assurance is costly. It is costly for innovative processors attempting to secure chicken for products that are growing more rapidly than the national average. It is costly to producers attempting to collaborate more closely with processors to increase value. It is costly to the industry through overall market growth that is inhibited.

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~~ as 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 defendable 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 initiatitves 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.