



## **THE HOLM TEAM** *Agriculture Economics Journalism Trade Cooperation*

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January 25, 2021

### REPORT TO BCFIRB + STAKEHOLDERS (Producers, Hatcheries, Growers and Processors) LONG TERM CHICKEN SECTOR PRICING STRATEGY

This is the fourth in a series of reports to Stakeholders to keep you informed as we move through this review process. I encourage any of you who have questions to contact me directly.

To recap, there have been four Stakeholder Round Tables so far in this process, summary notes from each are appended to this report:

- November 5<sup>th</sup> Introductory Round Table
- December 14<sup>th</sup> Round Table on Pricing Policy Options (Grower Returns and Processor Competitiveness)
- January 4<sup>th</sup> Round Table on Pricing Policy Options II and CFO Cost of Production Pricing
- January 12<sup>th</sup> Round Table on Some Pricing Options for LW Chicken

Upcoming Round Tables include:

- January 28<sup>th</sup> Round Table on Hatching Egg Cost of Production
- February 3<sup>rd</sup> Round Table on Breeder Hatchery Margins + Breeder chick/vaccine pricing formula
- Mid-February: Round Table to Discuss Linkage
- February-end: Round Table on Proposed Chicken Pricing Model
- Mid- March: Round Table to Review and Comment on Combined Pricing Model

As I am sure you know by now, the objective of the Round Tables is to encourage stakeholders to build a common understanding of industry problems and – by so doing – create a platform for cooperation and respect necessary to ensure long term stability and growth. See the Jan 13<sup>th</sup> [Statement on Stakeholder Roundtables](#) for more. Stakeholders are welcome at all of the Tables - please contact your Association to arrange to attend.

I think it is timely to review again the opening comment on BCFIRB's Chicken Pricing Review website:

*In BCFIRB's view, pricing uncertainty in the hatching egg and chicken sectors is negatively affecting the chicken supply chain (hatching egg producers, hatcheries, chicken growers, and processors). Pricing uncertainty for an indefinite period of time is not sound marketing policy nor is it sustainable. This uncertainty will continue until the Commission and Chicken Board find long-term solutions on pricing.*

*BCFIRB's first priority is to determine if interim measures need to be put in place pending resolution of the hatching egg linkage exit notice and a long-term live chicken price formula.*

*Until such time that the price linkage and chicken pricing formula questions are resolved, the BC Chicken Marketing Board (Chicken Board) and the BC Broiler Hatching Egg Commission (Commission) are expected to use consistent and transparent processes to manage any changes to the respective pricing tools.*

Kind regards:

Wendy Holm, P.Ag.(Ret'd), M.M.C.C.U.  
BCFIRB Liaison - Long Term Chicken Sector Pricing Review  
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## SUMMARY NOTES ATTACHED FOR

1. Round Table #1 Introduction (November 5<sup>th</sup>)
2. Round Table 2 Pricing Policy Options (December 14<sup>th</sup>)
3. Round Table #3 Pricing Policy Options II and CFO Cost of Production Pricing (January 4<sup>th</sup>)
4. Round Table #4 Some Pricing Options for LW Chicken (January 12<sup>th</sup>)

**ROUNDTABLE #1 – INTRODUCTION**  
**Long Term Chicken Sector Pricing Review**  
**3:00 p.m. Thursday November 5, 2020**  
**VIA ZOOM:**

**Meeting Notes:**

**PRESENT ON ZOOM:** J. Collins, H. Sasaki, B. Brandsma, Art Deruiter, D. Krahn, J. Curtis; E. Silveri, B. Shier, C. Evans, S. Nelson, B. Vanderspek, C. Rickson and W. Holm.

**ABSENT:** R. Whitmore.

**1. Housekeeping:**

- The ZOOM address will remain constant for all future roundtables at <https://zoom.us/j/92488012725>
- Meeting notes will be posted on website after review by W. Holm and all documents will be posted at <https://bcchickensectorpricingreview.com>

**2. Introductory Comments:**

W. Holm, as ZOOM host, welcomed the participants and provided introductory comments.

**3. Welcome comments from Chairs:**

- H. Sasaki (BCCMB) and J. Collins (BCBHEC) provide welcome comments to the roundtable participants.
- Process to reiterate that Board and Commission as first instance regulators embark on this process leading to forming recommendations to panel. Can only succeed if we can secure information and data to analyze and verify to assist in formulating decisions. Separate decision-making process for the Board and Commission but they will work closely together.

**4. Overview of Process and Engagement:**

- The Terms of Reference (ToR) and the stakeholder feedback on the ToR did not result in a revision to the text because the panel, BCBHEC & BCCMB believed the existing language already addressed or captured the identified issues.
- ToR is a living document – guide and roadmap – may be amended as required.

**a) Components and Engagement (C&E) Table:**

The C&E table was discussed, and the tentative deadlines highlighted as.

2020-11-05 – Roundtable #1 – Introductory Zoom: Process and next steps (terms of reference debrief)

2020-11-09 – Roundtable #2 -- Measures of Reasonable Returns to Growers and Producers

2020-11-13 – Roundtable #3 – Processor Competitiveness

2020-11-16 – Roundtable #4 – Unpacking the Ontario Live Weight Price

2020-11-17 – Roundtable #5 – Live Weight Pricing Models for BC

2020-11-30 – Roundtable #6 – BCBHEC draft COP Pricing Model

2020-12-09 – Roundtable #7 – Hatchery Margins &/or 3-way pricing

2021-01-11 – Roundtable #8 – Final Live Weight Chicken Pricing Model

2021-01-27 – Roundtable #9 – Draft SAFETI, BCBHEC pricing options + Linkage considerations

- Roundtables to provide information and proposals, ask/answer questions, and to seek clarity on matters before parties provide written submissions to Boards (formal process required) prior to the Boards decision making process. Roundtables not intended to be a negotiation; intended to be an information sharing session.
- After discussion, consensus was that Roundtable #2 and #3 may be combined and moved to early December
- Roundtable #5 will be moved to December after the BCCMB's submission deadline of November 24<sup>th</sup> to allow opportunity for discussion and clarification on submissions. Also, growers and processors who participated in the Pricing Working Group (PWG) will review their confidentiality agreement and the document prepared by the facilitator (Paul Godin) with a view to sharing all or part of the document at the Round Tables so the group does not have to start from scratch.
- Roundtable #4 does not require the presence of Bob Burden to discuss the Ontario live price model. In the final approval of the minutes it was decided to also move this to early December.
- W. Holm to be informed of the progress of discussion between the BCCGA and PPPABC respecting the PWG documentation and amend the meeting dates as required.

**b) Participation in the November Round Tables?**

- Growers and Processors both stressed the need to understand and have articulated focus of objective of each roundtable prior to choosing participants to attend round tables. Expectations currently are not clear on who is leading, what will be discussed and how roundtables will operate.

**c) Interest in broader engagement sessions(s) in December?**

- The group discussed opening the engagement process to interested hatching egg producers, chicken growers, BC hatcheries and BC processors. Consensus was processors are interested in broader engagement; grower associations felt that broader engagement through a general information session would be more useful than offering sessions on specific issues.

**6. Discussion and Next Steps:**

Next steps are:

- B. Shier and D. Krahn to discuss release of PWG document or creation of summary document & date for workshop. Wendy Holm to be informed of decision and amend the Roundtable meeting dates as required.
- Meeting summary notes to be posted on website after review of W. Holm.

**7. New Items:**

None.

The meeting adjourned at 4:15 p.m.

## **ROUNDTABLE #2 – Grower Return/Processor Competitiveness**

### **Long Term Chicken Sector Pricing Review**

**9:00 a.m. Monday December 14, 2020**

**VIA ZOOM:**

<https://zoom.us/j/92488012725>

#### **Meeting Notes:**

#### **PRESENT ON ZOOM:**

**Principles:** J. Collins (BCBHEC Chair), H. Sasaki (BCCMB Chair), Art Deruiter (BCHEPA), D. Krahn (BCCGA President), J. Curtis (BCCGA GM); E. Silveri (BCEHA), B. Shier (PPPABC), C. Evans (PPPABC), S. Nelson (BCBHEC ED), B. Vanderspek (BCCMB ED), C. Rickson (BCCMB EA) and W. Holm.

#### **Also Participating:**

R. Nickel (BCCMB), F. Redekop (BCCGA), R. Bathe (BCCGA), S. Cummings (PPPABC), K. Towel (PPPABC), K. Huttema (PPPABC), Joe Neels, Daniel Zylstra, Beata Kunze.

#### **Invited:**

H. Bell (Farmcrest Foods), E. Ng (WIngTat Game Bird Packers, K. Falk & Joe Falk (FVSP)

#### **ABSENT:**

H. Bell (Farmcrest Foods), E. Ng (WingTat Game Bird Packers), K. Falk & Joe Falk (FVSP) D. Wiebe (PPPABC), B. Brandsma (BCHEPA), R. Whitmore (BCEHA).

#### **Objective:**

To provide context and understanding of the dual pricing policy objectives of reasonable return to growers and processor competitiveness in the Canadian market and to receive input and advice on defining and measuring the policy objectives.

#### **Desired Outcome:**

Clear definitions and measures for the two pricing policy objectives. A 2<sup>nd</sup> session may be set up if required.

#### **AGENDA:**

##### **1. Review Agenda – Purpose and Objectives:**

The agenda, purpose and objective was reviewed.

The processors spoke to the sensitivity and confidentiality of their documents (45 page slide PowerPoint) – requesting that the document not be distributed outside of the Roundtable participants as it contained market information that would be of interest to their processing competitors across Canada.

J. Collins spoke about FIRB's responsibilities under FOIPPA, and internal Boards code of conduct. On-line participants were cautioned against further distribution or circulating the 45 page processor "2020 Supervisory Review BC Chicken Market – Overview – December 14<sup>th</sup> 2020" document.

## **2. Background – Chicken Board Discussion Paper on Pricing Policy Objectives:**

The BCCMB Chair spoke about the dual policy objective of reasonable returns and processor competitiveness originating from the BCFIRB's 1990 pricing sound marketing policy directives. They are not founded in the Scheme from which the Board's pricing power is drawn. The definitions and measures of the policy objectives have been elusive in pricing discussion to date and is the crux of today's discussion.

## **3. Definitions:**

### **a. Growers**

The BCCGA provided the following definition for grower return from the September 26, 2019 Kevin Grier document included in their submission.

#### **Grower returns:**

“Reasonable Returns to Growers – A profit over fixed and variable costs that allows for sustainability maintaining or enhancing production growth”. The PPPABC questioned what was meant by “profit” in the definition.”

After fulsome discussion, the group accepted this definition as a working framework to move forward with the need to explain what is meant by “profit”.

It was agreed that the BCCGA would come back with measures of “profit” for follow-up discussions by the end of next week.

### **b. Processors**

The Processors made reference to their “Processor Competitiveness” PowerPoint presentation which provided context for their proposed definition.

The BCCGA provided a definition of processor competitiveness that was contained in the September 26, 2019 Kevin Grier document included with their submission. The proposed definition was intended to provide some degree of parallelism with the grower “reasonable return” definition; “Processor Competitiveness: The ability to profitable and sustainably maintain or enhance market share.”

The PPPABC acknowledged the Grier proposed definition and provided the following working definition for Processor Competitiveness as contained in their power point presentation entitled “Processor Competitiveness”.

#### **Processor Competitiveness:**

“BC Processors offer a value proposition (price and quality) that allows them gain market share for chicken as a preferred protein source while gaining and and/or maintaining BC's market share of the Canadian chicken marketplace. Processors will achieve sustainable returns of the resources invested.”

“For the long term growth and development of the industry, Processors need to be able to effectively compete and maintain a level of “Competitive equivalence” relative other processors in Canada in what is essentially a commodity market.”

BCCGA representatives raised concern with respect to introducing the notion of “returns of the resources invested” in a definition of competitiveness. After fulsome discussion the PPPABC agreed to

take into account the discussion and prepare a revised “Processor competitiveness” definition to be circulated to group by the end of this week.

All agreed that both the definitions must be agreed upon before the group can go forward with a discussion of measures for the objectives.

#### **4. Presentations:**

##### **a. Growers**

The Growers took the group through the Executive Summary contained in the Agri-Food Economic Systems October 2020 document created by Al Mussell, Darryl Robinson and Kevin Grier entitled “Costs and Returns in BC Chicken Marketing.”

##### **b. Processors**

The PPPABC took the group through the confidential document dated December 14<sup>th</sup>, 2020 entitled “2020 Supervisory Review – BC Chicken Market – Overview.”

#### **6. Discussion/Questions:**

- The BCCGA and PPPABC identified issues with the findings and differing conclusions presented in each presentation.
- The key issue of discussion focused on the BCCGA and the PPPABC submissions assertions as to the supply/demand balance in BC; the BCCGA suggest that BC is a net exporter of chicken, while the PPPABC suggesting the opposite, BC is a net importer of chicken.
- Discussion ensued on the main points of difference which appear to be based on the assumptions used as well as the components of supply, i.e. TRQ, MD and fowl.
- The BCCMB indicated it needs a conclusion of whether BC is a net importer or exporter of chicken and the methodology by which this data was obtained.

The groups agreed to work towards common assumptions on data before moving to the next stage. W. Holm agreed to form a sub committee consisting of 1 grower and 1 processor to do a comparison and identify the differences and points of agreement and attempt to attain a conclusion. The processor member to participate is Craig Evans and the grower member will be named offline. Then the group will develop a timeline for bringing back a resolution.

#### **6. Closing comments/next steps/ summary of salient points:**

(1) Processors will revise the “Processor competitiveness” definition and circulate to group by the end of this week.

(2) Growers will come back with what constitutes “profit” by way of proposed measures.

(3) W. Holm to meet offline with Dale and Craig to try to work towards:

- Establish a common set of assumptions and flag differences to attempt to come to a conclusion of whether BC is a net importer or exporter of chicken.
- Establish a timeline to complete this work.

It was agreed that it was necessary to find common ground for answering the question of whether BC was a net exporter or imported of chicken prior to moving beyond the policy definition and measures stage for discussion.

(4) BCCMB has asked the processors to provide profiles of the big 3 BC Processors of the business they do across Canada and where.

(5) W. Holm to recanvas participants with a view to commencing Dec 18<sup>th</sup> Zoom at 9:00 a.m. instead of 10:00 a.m.

The Board agreed that the completion of the definitions, and measures should take priority at the next Roundtable before shifting the focus of discussion to the Ontario COPF.

The meeting adjourned at 12:00 noon.

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**ROUNDTABLE #3 – Pricing Review Part II/Ontario COPF**  
**Long Term Chicken Sector Pricing Review**  
**9:00 p.m. Tuesday January 5, 2021**  
**VIA ZOOM:**  
<https://zoom.us/j/92488012725>

**Meeting Notes:**

**PRESENT ON ZOOM:**

**Principals:** J. Collins (BCBHEC Chair), H. Sasaki (BCCMB Chair), Art Deruiter (BCHEPA), D. Krahn (BCCGA President), J. Curtis (BCCGA GM); E. Silveri (BCEHA), B. Shier (PPPABC), C. Evans (PPPABC), S. Nelson (BCBHEC ED), B. Vanderspek (BCCMB ED), C. Rickson (BCCMB EA) and W. Holm.

**Also Participating:**

R. Nickel (BCCMB), F. Redekop (BCCGA), R. Bathe (BCCGA), S. Cummings (PPPABC), K. Towle (PPPABC), K. Huttema (PPPABC), C. Breukelman (BCBHEC), D. Zylstra (BCBHEC), B. Kunze (BCBHEC), J. Neels (BCBHEC), A. Johnston (BCCMB), G. Hahn (BCCMB), DA Janzen (BCCMB).

**ABSENT:** H. Bell (Farmcrest Foods), E. Ng (WingTat Game Bird Packers, K. Falk & Joe Falk (FVSP), B. Brandsma (BCHEPA), R. Whitmore (BCEHA), D. Wiebe (PPPABC).

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## **A Pricing Review Roundtable Part II:**

**Objectives:**

Objective to provide context and understanding of the dual pricing policy objectives of reasonable return to growers and processor competitiveness in the Canadian Market and to receive input and advice on defining and measuring the policy objectives. To review and discuss grower and processor submissions with the intent of identifying issues/concerns requiring clarification/follow up and points of concurrence or convergence.

**Desired Outcome:**

Clear definitions and measures for the 2 pricing policy objectives.  
Clarity of understanding of the positions put forward by the BCCGA and PPPABC.

**AGENDA:**

**1. Review Agenda – Purposes and Objectives:**

The agenda, purpose and objective were reviewed. The Boards want to encourage fulsome discussion by industry participants and to develop a broader understanding and appreciation of different positions and identify information needs. The intent is not to establish whose position is right or wrong, rather to understand why there is a difference in views.

## **2. Review Purpose and Objective of Roundtables:**

The purpose and objective of the round table discussions was reviewed. This is a different approach than any previous pricing review with the intent of changing the dialogue from simply advocating a position towards developing understanding of each other's positions. The roundtables are intended to identify tension points, as well as points of agreement, information deficiencies to ensure that the first instance regulators have the information required to make decisions going forward.

## **3. Review December 14, 2020 Pricing Policy Objectives Round Table Summary:**

Minutes from the last RT were reviewed and approved.

## **4. Reasonable Return to Growers:**

Definition: *"A profit over fixed and variable costs that allows for sustainability maintaining or enhancing production growth."*

Growers provided an explanation of the word "profit" as contained in their definition. Profit refers to a return on capital and labour as per the COP; either the existing Serecon COP or a newly created COP.

Processors accepted the definitions of the word profit and COP, but indicated that they needed more definition and clearer metrics around profit.

The group agreed to review the methodologies used by Serecon as a starting point for further discussion and to subsequently identify and discuss issues and concerns relating to the Serecon methodology.

## **5. Processor Competitiveness:**

The processors agreed to the use of the Grier definition of processor competitiveness as part of a working framework to move forward.

Definition: *"The ability to profitable and sustainably maintain or enhance market share."*

Processors identified potential metrics such as market share and profitability, but acknowledged they would be hard to establish. Market share within industry is a complicated measurement and while technically, in a supply managed system, you should be able to sell all of your chicken, you do not want to be the supplier of last resort, selling the highest cost chicken into the lowest priced market. This becomes a "race to the bottom" for processors and the industry.

With respect to profitability, processors expressed that they are private businesses and are not willing, and do not see the need, to open their financials and provide profit and loss statements as part of the process. However, it was indicated that the cost side of the business is the most critical aspect of competing in a commodity-based market.

Processors expressed that cost comparisons to other processors across Canada was required to define the cost-gap and assess the relative competitive position of BC Processors. Cost metrics discussed could include:

- Live price
- Labour
- overheads

PPPABC agreed to work towards providing their initial recommendations for competitiveness metrics by mid-month, and an overview of what that is likely to look like to W Holm as soon as practical.

**6. Summary Review of some difference is BCCGA and PPPABC submissions:**

**a. Chicken Supply in BC (net exporter v net importer)**

After a working table meeting earlier this week, the discussions showed that each of the parties are correct with the data they used in their calculations having taken different approaches. Processors on the Zoom call shared a table outlining the difference in each approach. The growers in turn shared a document outlining their concerns with the processors approach. Based on the revised set of assumptions, i.e. inclusion/exclusion of specialty production, TRQ and fowl, the analysis showed BC being a net importer of chicken.

**b. Other concerns identified by PPPABC arising from the grower's written submission to BCCMB:**

The processors verbally identified a list of issues with the grower's written submission.

The Processors agreed to summarize the list in writing to allow the growers to bring back a written response, as these are important for the Board to understand. Further, the growers were requested to provide a list of what their outstanding questions and concerns are arising from the processor written submission and also communicate what information they feel is needed to go forward in this process.

**Required follow up:**

Submissions identifying issues/concerns with each other's written submission, along with a written response to the issues/concerns identified by the other side.

**Closing Comments/Summary:**

The BCCMB reiterated the importance of the identification issues and concerns and response to them for the consideration of the Board.

**B. CFO COPF:**

**Objective:**

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

**Desired Outcome:**

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

**1. Review Agenda – Purposes and Objectives** Approved.

The agenda, purpose and objective were reviewed.

**2. Background – Chicken Board discussion paper on CFO COPF:**

The BCCMB provided a background explanation/discussion document on the COPF and Ontario Regulation 402 Chicken - Marketing.

**3. BCCGA Perspectives - Discussion/Questions:**

Growers indicated that there is a need for a BC COP and that they cannot continue to price off of Ontario. They indicated a willingness to look at a Western pricing methodology but felt that pricing off Ontario has a negative impact on BC.

**4. PPPABC Perspectives - Discussion/Questions:**

Processors feel that the CFO COPF, while not perfect, is a tie to Ontario (and a metric for processor competitiveness). They cited its lack of transparency with the formula and information from CFO, the efficiency factors appear to be negotiated rather than set using a methodology and the efficiency factors appear to be overstated.

The relevance of the reference weight class for the CFO Minimum Farm Gate Live Price was discussed. What percentage of actual production is tied to the Minimum Farm Gate Live Price. It was suggested that the lack of transparency around the Ontario production by weight class makes it difficult to determine whether or which CFO Minimum Farm Gate Live Price is an appropriate competitiveness metric. It was discussed that a consistent weight grid could help to alleviate this concern. It was suggested that subject to the outcome of the current CFO COPF review the BC pricing grid could be revised to better mirror the COP weight classes. As well as a lack of transparency is around weight class, there is also a lack of transparency around how the efficiency adjustments are calculated. The group agreed to park this issue pending the outcome of the CFO COPF review.

**5. Required Follow up:**

The Board reiterated the need for feedback from the questions posed by the Board in the briefing note surrounding the annual adjustments and transparency issues.

**C. CLOSING COMMENTS THIS ROUND TABLE /NEXT STEPS SUMMARY:**

The group agreed with the need to identify key questions and concerns with the written submissions presented to date, in particular:

- What aspects of the other's submission are you having a problem understanding and/or processing?
- What assertions do you find difficult to believe and would like to see substantiated?
- What additional information do you need to participate effectively in the Round Table component of this Review Process?

The submissions are to be provided in writing to the two Chairs and W. Holm by **Friday January 8, 2021**. They will then be assessed and the group informed if a reset or any other measure is required at or prior to the next roundtable meeting scheduled for January 12, 2021.

The meeting adjourned at 11:50 a.m.

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**ROUNDTABLE #4 – Pricing Options  
Long Term Chicken Sector Pricing Review  
9:00 a.m. Tuesday January 12, 2021**

**VIA ZOOM:**

<https://zoom.us/j/92488012725>

**Meeting Notes:**

**PRESENT ON ZOOM:**

**Principles:** J. Collins (BCBHEC Chair), H. Sasaki (BCCMB Chair), Art Deruiter (BCHEPA), D. Krahn (BCCGA President), J. Curtis (BCCGA GM); E. Silveri (BCEHA), B. Shier (PPPABC), C. Evans (PPPABC), S. Nelson (BCBHEC ED), B. Vanderspek (BCCMB ED), and W. Holm.

**Also Participating:**

R. Nickel (BCCMB), F. Redekop (BCCGA), S. Cummings (PPPABC), K. Towle (PPPABC), K. Huttema (PPPABC), C. Breukelman (BCBHEC), B. Kunze (BCBHEC), J. Neels (BCBHEC), A. Johnston (BCCMB), G. Hahn (BCCMB), B. Brandsma (BCHEPA), R. Bathe (BCCGA).

**ABSENT:** C. Rickson (BCCMB EA), DA Janzen (BCCMB), D. Zylstra (BCBHEC)

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**Objectives:**

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

**Desired Outcome:**

Clear understanding of stakeholder option preferences.

**AGENDA:**

**1. Review Agenda – Purposes and Objectives:**

The agenda, purpose and objective was reviewed. The Boards want to encourage fulsome discussion by industry participants and to develop a broader understanding and appreciation of different positions. Participants were reminded that the roundtables provide the opportunity to develop shared understandings; this is different and distinct from the more formal regulatory appeal process .

**2. Background – options for a BC Live Price Formula:**

H. Sasaki led the group through the BCCMB Options paper containing the 5 preliminary, high-level options provided to industry on a without prejudice basis. It was acknowledged that variations of the options or sub-options were possible, but not presented.

**Review and comments on options advantages/disadvantages:**

**Option #1:**

- Processors explained that this option as it is straight-forward, transparent and provides stability to live pricing. The description does not acknowledge the flexibility in formula that exists, allowing for adjustments to the differential over time based on actual experience. Catching and

other cost differentials are recognized in this model. Also positions the grower to put pressure on feed companies by more aggressively negotiating feed pricing. Protected against changes in the hatching egg price formula as those changes flow to the chick price.

- Growers commented that their written submission speaks for itself. Options #1-3 are centered around negotiated pricing and nuances around competitiveness. Option #4 & 5 are tied to grower costs and expenses and not tied to defining processor competitiveness which is preferred by growers.
- It was noted that definitions or a formula for the differential would be required in order to enable transparency; catching costs and other defined components that could be included in the differential.

#### Option #2:

- Processors commented that this option created “peace in the valley” and worked well and has merit for consideration. It relies on Ontario which is crucial for processors to mitigate risk of being non-competitive. Challenge was Ontario formula went too far with efficiency adjustments which became aspirational and were not based on producer experiences.
- Growers indicated that the “peace” that ensued was due to the corn/wheat price relationship that was in BC’s favour for a period of approximately 3 years which allowed growers to make their COP or be above COP. Any formula would have allowed this to occur. The corn/wheat price relationship was skewed due to the heavy demand for corn to supply ethanol plants, most of which have since been shuttered, thus reducing competition for corn on the market.

#### Option #3:

- Processors indicated that the use of the guardrails is important in this formula. Think this is the correct approach structurally, as it recognizes some of the challenges of grower’s costs. This is consistent with where the PWG was headed before the supervisory review. Guardrails at the top end of the formula would protect processor competitiveness and the bottom guardrail protects grower returns (profitability/margin end).
- Growers commented that this is a step in the right direction, but major costs are not being considered if fluctuations occur in major input. Needs to have recognition of major costs, margins and requirements, and define margin and competitiveness. Growers not sure this is the option they want to land on. Problem is not all of cost differentials included and not the full amount (75% cap). Major costs (feed & chick) at anything less than 100% puts growers at a disadvantage.

#### Option #4:

- Serecon model is not based on actual costs and was created to administer the linkage and not for pricing of live chicken. Sets up unrealistic expectations with growers who would expect to receive 100% of COP. Processors indicated that implementing this COP could be a \$41 million hit (23 cents above Ontario) which would hurt the industry. Processors noted that decoupling from Ontario and ON COPF is a competitiveness disadvantage for processors and would be unsustainable for the industry. Think some merit in using actuals beyond feed and chick, which could be introduced in #3 Option.

- Growers feel that COP option is viable, a new COP could be created and factors in it agreed upon by both sides. COP includes return on capital and labour included in it which would be negotiated. They indicated that farming is unsustainable without 100% cost recovery. Growers are not in favour of following the Turkey model which is causing the industry to have a tough time surviving. Suggest looking at Table Eggs COP model (national). Growers recommend doing something different rather than rehashing systems used historically without success.

The Board noted that in 2017 the Serecon Linkage COP was revamped so it could be used on a stand-alone basis even though it's primary purpose is for the linkage. Depreciation and land values concerns of the processors were addressed in this new iteration, but did not address the issue of modeling versus actual costs for things such as labour. It was clarified that the Serecon COP model uses a weighted average COP based on methodologies that Serecon had applied to it using grower data where it was able to collect it and factoring it into the weighted average and in some cases using models rather than actuals (and provided rationale for these). The weighted average COP says 50% of the sample is lower than the weighted average and 50% is above the weighted average.

It was pointed out that the Serecon COP has been amended a number of times; however, over that period there has been a 94-95% recovery of COP generated.

In response to a question asking why COP worked for specialty and organic, it was stated that the competitive factors in the marketplace for mainstream chicken are very different than those for specialty and organic.

#### Option #5:

- Processors indicated a need to know more about this option prior to commenting upon it. Open to look at it but need to know how it impacts live price and the gap with Ontario.
- Growers supported a COP based approach but would like to understand better the mechanics of how a three-way grower, breeder and hatchery COP would work.
- Hatching Eggs indicated that Ontario remains important, but is also a problem as we race to the bottom. Need western strategy which could lead to a national strategy.

The notion of a 6<sup>th</sup> option, National COP was raised and whether BC could provide the lead. It was noted that Ontario, Quebec and Manitoba were very protective of their provincial authority and would provide strong opposition to such a move.

Processors have suggested in the past that CFC consider a national pricing methodology to which the response is always that pricing is a provincial jurisdiction.

### **3. BCCGA Preference:**

#### Discussion/Question

COP based pricing.

**4. PPPABC Preference:**

Discussion/Question

Need to be anchored to Ontario Pricing; recognizing there are some cost differences between the Provinces i.e. catching, feed, energy and other factors.

**5. Required Follow up:**

Processors to provide metrics on cost gaps with Ontario processors to address competitiveness measures.

Growers to provide measures of “profit”, including reference to COP measures such as return on capital; percent return on COP, as well as grower margins.

Submissions to be sent to the BCCMB by January 31, 2021.

The meeting adjourned at 11:50 a.m.

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