



THE HOLM TEAM *Agriculture Economics Journalism Trade Cooperation*

292 Smuggler Cove Road, Bowen Island, B.C., Canada V0N 1G1
(604) 947-2893 (604) 417-2434 www.wendyholm.com wendy@wendyholm.com

February 23, 2021

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

This is the fifth in a series of reports to Stakeholders intended to keep you informed and engaged as we move through this Review process. Please feel free to reach out to me with any questions.

Even for those of us “inside” the process, keeping on top of its many moving parts is a challenge. I can only appreciate how difficult it must be for stakeholders looking in from outside the process to track what is happening.

And “not knowing where we are” can make it hard to “jump in” and “engage”.

But now is the time to do just that, because the most important discussions lie ahead. As one Chair noted on a recent Zoom, Phase Three discussions are “where the rubber hits the road”... Critically important to building trust and a pan-sectoral perspective amongst siloed market participants, your engagement can only enrich this dialogue.

So, to help you feel more confident “jumping in”, I offer the attached Review Schematic. Intended as a birds-eye view of the Review Process, it also contains (some) live links to allow a deeper dive. The Schematic will be updated as required.

Also attached is a draft table summarizing/comparing questions posed by the Chicken Board in their February 12th letters to BCCGA and PPPABC (linked on the Schematic).

Also attached is a work-in-progress diagram of the BC chicken industry.

I am developing an Issues and Opportunities table that captures concerns I have heard from stakeholders over the course of this Review. Although it is important to finalize the pricing review prior to re-opening the Chicken Industry Strategic Framework; this table will be circulated to Stakeholders on a confidential basis (not posted to the Review Website) to spark your thinking as to what needs to serve as a foundation for returning to those discussions. An upcoming Roundtable will be used to discuss stakeholder priorities and perspectives in order to prepare for a larger discussion of future opportunities and challenges once we have resolved pricing. You will be invited to identify what you feel are the most important concerns and to share your thinking on approaches and strategies to improve overall industry cooperation. The timing of this table will be posted to the Review website. Alternatively, contact your Association to be added to the list.

Kind regards

Wendy Holm, P.Ag.(Ret'd), M.M.C.C.U.
BCFIRB Liaison - Long Term Chicken Sector Pricing Review
wendyholm.com

ATTACHED

1. DRAFT REVIEW SCHEMATIC
2. SUMMARY/COMPARISON OF QUESTIONS POSED
FEBRUARY 12th BY CHICKEN BOARD TO BCCGA AND
PPPABC
3. WORK-IN-PROGRESS DRAFT DIAGRAM OF THE BC
CHICKEN INDUSTRY

Stakeholder Feedback + FIRB Approval of Terms of Reference: Long-Term Chicken Sector Pricing Review (Oct 6 – 28th 2020)

Call for Stakeholder feedback CMB Oct 30-Nov 2

Call for Stakeholder feedback HEC Dec 10- Jan 4

STAKEHOLDER ROUND TABLES

Nov 5th Introduction

Dec 14th Pricing Policy Objectives
Reasonable Returns + Proc Competitiveness

Jan 5th Pricing Policy Objectives II + Ontario Price

Jan 12th Some Liveweight Pricing Options (Table)

Jan 28th Hatching Egg Cost of Production (Serecon Report) (2 links)

Feb 3rd Hatchery Margins, Breeder chick and Vaccine formula

BCCGA
Feb 1 – High Level Questions Regarding BC Processor Submission

PPPABC
Jan 6 – Comments on CGA Submission *Costs/Returns BC Chicken Market*
Feb 12 – Comments on CGA Submission *Live Chicken Pricing in BC*

BCCGA
Feb 22 Presentation to CMB

CMB Request for Questions and Concerns re Submissions

CMB Request for Metrics on Reasonable Return + Competitiveness

BCCGA
Feb 2 – Return on Investment (attaching Serecon ROE fm HECOP)

PPPABC
Jan 28th **CONFIDENTIAL** Submission to CMB on advantages/ disadvantages for Ontario based on second-tier processor structure

PPPABC
Feb 18 **CONFIDENTIAL** Presentation to CMB on Processor Competitiveness

BCCMB ★
Feb 10 letter to PPPABC re Jan 6 Submission
Feb 12 [letter fm PPPABC](#) requesting further on: Processor Competitiveness, Reasonable Returns to Growers, Pricing Formula, Markets, Processing Structure, Health of Chicken Industry in BC
Feb 12 [letter to BCCGA](#) requesting further on: Reasonable Returns to Growers, Processor Competitiveness, Pricing Formula, Health of Chicken Industry in BC and Markets

SAFETI Analysis

Third Party Review

BCBHEC ★
Final Hatching Egg Pricing formula sent to Stakeholders for feedback on draft SAFETI, pricing options and linkage considerations

UPCOMING STAKEHOLDER ROUND TABLES

Draft LW Chicken Pricing Formula

Strategic Issues

Linkage

Draft Long Term Chicken Pricing Strategy

BCCMB and BCBHEC RECOMMENDATIONS TO BCFIRB

SHOULD BE ON WEBSITE

★ WE ARE HERE

SUMMARY OVERVIEW OF QUESTIONS TO GROWERS AND PROCESSORS FROM BCCMB

(excerpted/paraphrased from BCCMB's Feb 12 2021 correspondence to each by BCFIRB Liaison W. Holm)

BCCMB	QUESTIONS TO GROWERS	QUESTIONS TO PROCESSORS
<p>Reasonable Return to Growers:</p>	<p>While you have submitted the “return on investment” calculation by Serecon for the Broiler Hatching Egg Cost of Production as a measure of “profit”, the Chicken Board is interested in receiving additional information from the Growers Association that provides specific target measures for the live price of chicken.</p> <p>Other than stating that the current pricing formula not returning 100% of the Serecon COP is not providing a reasonable return to growers, provide further evidence and specific examples of how the pricing model is failing to provide a reasonable return..</p>	<p>Appropriate measures of reasonable return to growers.</p> <p>Evidence or examples that demonstrate that the current pricing formula is or is not providing a reasonable return to growers.</p>
<p>Processor Competitiveness and (To PPPABC) Processing Sector Structure:</p>	<p>Beyond your suggestion of margin analysis, what other measures would the Growers Association recommend to the Chicken Board to consider in assessing processor competitiveness in the Canadian market.</p> <p>How would the proposed measures tie into an Ontario based reference for comparison?</p> <p>In your submissions you have provided a comparison of processing costs between provinces. The Chicken Board understands that processor structure in Central Canada differs from BC and would like to ensure that any comparisons represent a consistent and comparable processor activity base.</p> <p>An example of this is the secondary processing tier prevalent in Central Canada where much of the boning and traypack operations that prepare and sell fresh chicken products directly to retailers are done by companies not owned or operated by the primary processors.</p> <p>The Chicken Board is of the view that a more accurate comparison of processing costs between BC and Central Canada would be comprised of the following segments of the operation of a poultry processing plant:</p> <ul style="list-style-type: none"> • Catching and Live Haul • Kill • Evisceration • Chill (water or air) <p>These components would provide a consistent measure of costs in poultry processing plants in Canada.</p>	<p>Measures of BC processor competitiveness in Canadian markets.</p> <p>A consistent and comparable processor activity base- in general refers to the costs from catching through to chilling the eviscerated carcass, including the cost of transporting the birds from the farm to the processing plant.</p> <p>In addition to... disadvantages that BC processors have, identify the cost advantages for BC processors and the impact and effect on BC processor competitiveness, i.e. transportation costs within the province and comparison of transportation costs to move product east versus west.</p> <p>The Chicken Board understands that processor structure in Central Canada differs from BC and would like to ensure that any comparisons represent a consistent and comparable base for comparison of cost advantages and disadvantages.</p> <p>e.g. secondary processing tier in Central Canada (boning and traypack operations that prepare and sell fresh chicken products directly to retailers) done by companies not owned or operated by the primary processors.</p> <p>The Chicken Board is of the view that a more accurate comparison of processing costs between BC and Central Canada would be comprised of the following segments of the operation of a poultry processing plant:</p> <ul style="list-style-type: none"> • Catching and Live Haul • Kill • Evisceration • Chill (water or air) <p>These components would provide a consistent measure of costs in poultry processing plants in Canada. Individual plant operations will vary greatly at the point of transfer from chill to the next steps in the process depending on the product mix (SKU's) of a given processor.</p>

<p>Pricing Formula</p>	<p>If important to the pricing formula, suggest the methodology and metrics to establish guardrails that the Chicken Board consider.</p> <p>What adjustments would you recommend the Chicken Board to consider, if any to the BC formula to account for the changes recently announced to the Ontario Farm Gate Minimum Live Price formula.</p>	<p>If important to the pricing formula, suggest the methodology and metrics to establish guardrails that the Chicken Board should consider.</p> <p>If a differential over Ontario is to be considered in the BC live price formula, what factors would you recommend the Chicken Board consider and account for in the differential?</p> <p>Rationale for a fixed differential versus a floating differential (with an example of floating differential being the current formula)?</p> <p>Evidence to support the claim that other components of the chicken value chain are taking advantage of the current pricing formula, in particular hatching eggs and the feed industry.</p> <p>Recommended adjustments if any to the BC formula to account for changes recently announced to the Ontario Farm Gate Minimum Live Price formula.</p>
<p>Heath of BC Chicken Industry</p>	<p>Provide specific measures you would consider to reflect the health of the BC chicken industry.</p> <ul style="list-style-type: none"> • Grower demographics + implications for industry sustainability. • Average farm land lase to support operations. • Percentage of farms with broiler production as the only agricultural activity. <p>You have suggested high feed cost is the essential factor characterizing the BC chicken industry:</p> <p style="padding-left: 40px;">What measures are growers taking to manage the cost of feed in their operations?</p> <p style="padding-left: 40px;">What factors of production do you see BC growers having an advantage over other provinces and how significant is that advantage?</p> <p>Taking into consideration the above points, provide data, information & analysis with respect to BC grower competitiveness with growers in other provinces.</p>	<p>Provide specific measures you would consider to reflect the health of the BC chicken industry.</p>
<p>Markets</p>	<p>You have referenced that the BC industry is well established with large urban markets and strong local demand, what metrics can you provide to substantiate this statement and what other measures do you have to support BC processors “finding themselves in a favourable position”.</p> <p>The question of whether BC was a net importer or net exporter of chicken was examined through the Round Table process, what is the impact and effect of whether BC is deemed to be a net importer or net exporter of chicken on pricing?</p>	<p>One of your submissions has indicated that the Growers submission has incorrectly described the live price-based pricing model used by processors. Provide:</p> <p>Comprehensive explanation of the live price-based contract model as well how much of BC production is based on live price-based contracts.</p> <p>Proportion of fresh versus further processed chicken products for BC and whether this is similar or differs from other provinces.</p>
<p>PWG</p>	<p>Please confirm in writing your consent to allow or rationale to deny consideration of the work of the PWG in the review and decision-making process</p>	<p>Please confirm in writing your consent to allow or rationale to deny consideration of the work of the PWG in the review and decision-making process.</p>

54 BROILER HATCHING EGG PRODUCERS

9 BROILER CHICK HATCHERIES

LILYDALE

Owner: SOFINA

WESTERN

Owner: HALLMARK

FRASER VAL

Owner: SUNRISE

ROSSDOWN

Owner: ROSSDOWN

ECHO HATCHERY

OKANAGAN
(Hallmark)

BRADNER
FARMS

FARMCREST
(Farmcrest)

GOLDEN
FEATHER

316 BROILER CHICKEN GROWERS

BC PRIMARY CHICKEN PROCESSORS - 9 FEDERAL (+ 15 PROVINCIAL)

SOFINA

1 plant BC, capacity ____
1 AB, 1 SK, capacity ____

HALLMARK

4 plants BC (Hallmark, Superior, United (FP), Colonial),
capacity ____ 1 SK, capacity ____

SUNRISE

1 plant BC, capacity ____
1 AB, 1 MB, capacity ____

ROSSDOWN

FARMFED

WINGTAT (Asian/Specialty)

BC FURTHER CHICKEN PROCESSORS (below are majors)

UNITED

(Hallmark -cutting/traypack)

J&L Beef

(cutting/traypack)

JD SWEID

(Hallmark)

Grand River Foods

(Sunrise)

Sofina FP Plant in Alberta

(supplied from BC)

RETAILERS- 58%

OVERWAITEA/
SAVE ON (Urban
Fare, Buy Low)

LOBLAWS/
SUPERSTORE
EXTRA FOODS

WALMART

COSTCO

THRIFTY's
SAFEWAY
SOBEY'S

IGA

Other

FOOD SERVICE – 42%

HRI – 13%

Restaurants 28%

QSR Restaurants
59%

* With the exception of Wingtat, the above work-in-progress diagram excludes Asian and Specialty birds, which are of course an important part of the BC chicken industry.