



February 12, 2021

Dale Krahn
President
BC Chicken Growers Association

Re: Pricing Review Material

Thank you for your recent submissions of Return on Investment as well as High Level Questions regarding the BC Processors Submission to the FIRB Round Table. I would like to express the Chicken Board's appreciation of your active participation in the Round Tables and provision of material. I would also like to assure you that the Chicken Board is giving due consideration to all information, questions and concerns raised in the decision making process regarding a long-term pricing formula for BC chicken. This includes any data and information submitted by the Growers Association; response to questions posed by the Chicken Board to the Growers Association, as well as any questions or concerns raised by the Growers Association.

In its review of information and material submitted to date, the Chicken Board has identified a number of questions that we would like the Growers Association to address:

Reasonable Return to Growers:

- 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.
 - 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.

Processor Competitiveness

- Your submission has suggested that the process requires transparency of processors' costs and revenues and have recommended that the Chicken Board complete a detailed BC processors' margin study with actual processor data. BC processor cost and revenue data alone will not yield the comparison of processors in BC and Central Canada. As well, it is extremely unlikely that processors in Central Canada would share their financial data, even to an independent third party to enable the comparison. As such, what other measures would the Growers Association recommend to the Chicken Board to consider in assessing processor competitiveness in the Canadian market.
- How would the proposed measures tie into an Ontario based reference for comparison?
- 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.
 - 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.

- 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:
 - Catching and Live Haul
 - Kill
 - Evisceration
 - Chill (water or air)
- 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.

Pricing Formula

- If important to the pricing formula, suggest the methodology and metrics to establish guardrails that the Chicken Board consider.
- 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.

Health of the Chicken Industry in BC

- Provide specific measures you would consider to reflect the health of the BC chicken industry.
 - Grower demographics and the implications for industry sustainability.
 - Average farm land lease to support operations.
 - Percentage of farms with broiler production as the only agricultural activity.
- You have suggested high feed cost is the essential factor characterizing the BC chicken industry:
 - What measures are growers taking to manage the cost of feed in their operations?
 - What factors of production do you see BC growers having an advantage over other provinces and how significant is that advantage?
 - Taking into consideration the above points, provide data, information and analysis with respect to BC grower competitiveness with growers in other provinces.

Markets

- 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”.
- 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?

We have received a request from the Primary Poultry Processors Association of British Columbia to consider the prior work of the Pricing Working Group (the “PWG”). They have indicated that it would be of value to the Review Process. The Chicken Board is of the view that the work of the PWG should be



considered. The Chicken Board as a signatory to the Agreement to Mediate is bound to the Confidentiality and non-disclosure provisions, unless all parties consent to release of the information.

The Chicken Board is seeking the Growers Association's consent to allow the work of the PWG to be considered in the Review process. 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.

As we proceed beyond the Round Table sessions, the Chicken Board, as part of the "formal" decision making process will engage stakeholders to hear their perspectives and rationale on pricing and to follow-up on matters considered of importance to the Chicken Board in arriving at its final decision to recommend to BC FIRB.

The Chicken Board would like to schedule a meeting with you and your team. The next meeting of the Board is scheduled for Monday, February 22. Please confirm your availability with Bill Vanderspek, Executive Director and advise if you wish to make a presentation.

The Chicken Board intends to include Wendy Holm, Jim Collins and Stephanie Nelson as observers in the interest of maintaining an open and inclusive review process.

We would appreciate receiving your response to the questions by Friday, February 19. Board members may ask additional questions on the materials provided to date in order to be informed in arriving at its decision.

Your continued participation in and support for the review process is greatly appreciated.

Yours truly,

Harvey Sasaki
Chair

c.c. Jim Collins, BCBHEC
Wendy Holm, Pricing Review Liaison