

## **BC Chicken Growers' Association (BCCGA) Responses to Question by the BC Chicken Marketing Board – March 9, 2021**

This document provides the BC Chicken Growers' Association (BCCGA) response to the BC Chicken Marketing Board Letter: Pricing Review Material dated February 12, 2021. The BC Chicken Board (BCCMB) had identified the following points that they wanted the Growers Association to address. The content of these answers has been provided by the BCCGA and our consultants.

### **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.**

The BC Chicken Growers Association's (BCCGA) goal is a BC COP which covers all our costs and provides appropriate returns for capital, labour and management. The BCCGA endorses and requires Serecon to calculate the return portion of the COP. Serecon has the experience and the data needed to make this calculation. The BCCGA would gladly work with Serecon to achieve this profit amount.

The BCCGA's consultants, Al Mussel and Kevin Grier, provided the following:

- An aspect of production costs are opportunity costs for unpriced inputs. The owner/manager's time and effort are a case in point. In terms of retaining producers and production, the principal operator needs to make at least as much as they could in their next best form of employment.
- The capital costs in the Ontario COP are lumped in the Producer margin value. However, in concept they can be broken out as depreciation and interest on equipment tied to the chicken enterprise, or at custom rates.
- FPCC has not published a guideline for economic costs of production. But guidelines for the analysis of economic costs and returns were established by the American Agricultural Economics Association (available here<sup>1</sup>) It suggests that unpriced inputs must be accounted for in providing a true estimate of costs of production. For unpriced expense items supplied from within the farm and for expenses related to capital, equivalent market values serve as the best proxy. Opportunity costs are the preferred approach to estimate implicit value when market values are not available as a proxy.
- Research completed by Kevin Grier and building on work for all western chicken boards showed that BC has the higher gross chicken production costs.

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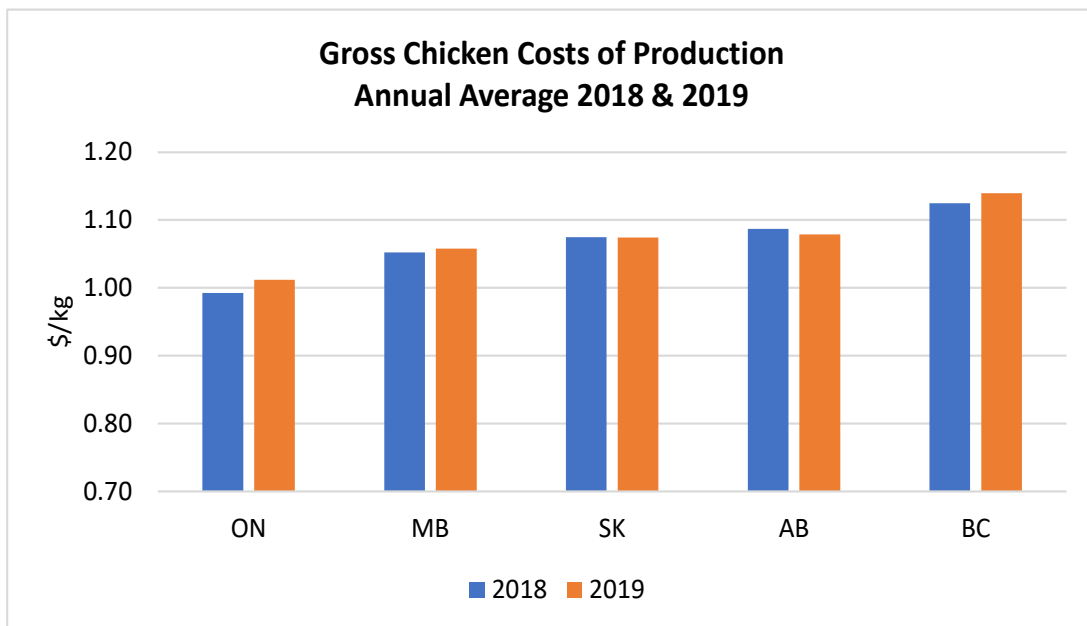
<sup>1</sup> [https://www.nrcs.usda.gov/wps/portal/nrcs/detail/national/technical/econ/references/?cid=nrcs143\\_009751](https://www.nrcs.usda.gov/wps/portal/nrcs/detail/national/technical/econ/references/?cid=nrcs143_009751)

**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.**

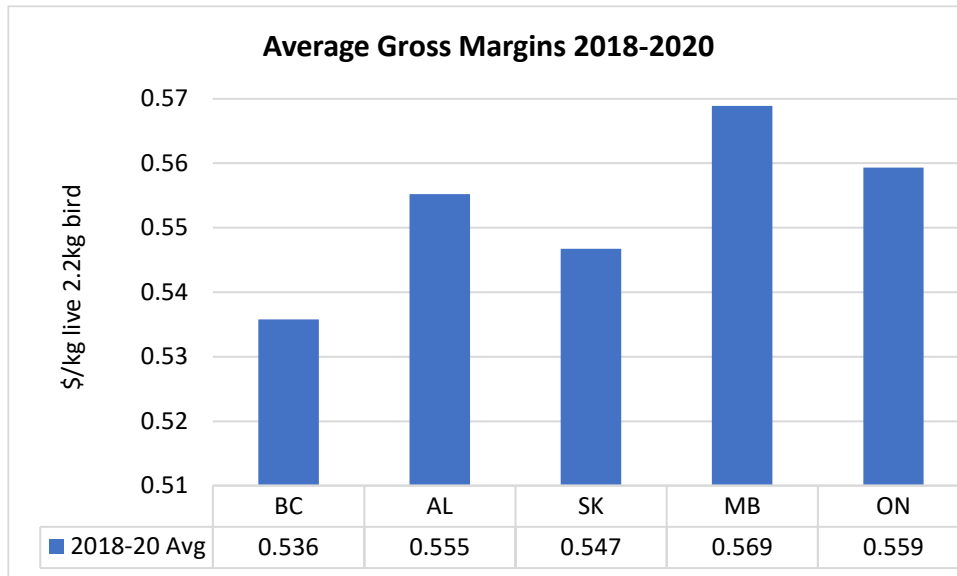
The current live price is below the BCCGA growers' COP resulting in BC Chicken growers not building barns and having difficulty planning succession to the next generation in the family farm. It no longer makes economic sense. Not only do we have our own farms as evidence, but we also believe Hugh Scolah's report, contracted by the BCCMB in Spring 2020, would support these findings.

The BCCGA recommends that the BC Chicken Marketing Board research who has built barns and bought quota during the past five years; excluding the new entrant data, as they receive most of their quota at no cost and are required to build a barn. We expect the results would show this data to be disproportionately weighted to processor owned farms. As processors own approximately 25% of BC chicken quota, one would assume that 25% of barns being built and quota being purchased would be by processors; we believe that this percentage is much higher. The vertical integration of processor owned farms and hatcheries has given them this competitive advantage compared to the family operated chicken farms in BC.

The BCCGA's consultants, Al Mussel and Kevin Grier, provided the following:



- The net results of the tabulation of the total costs in question show Ontario has the lowest costs and B.C. the highest. Across the prairies, total costs rise from east to west. B.C. costs are the highest in the west due primarily to the feed disadvantage.
- Further to that, after pricing, the same research showed that BC had the lowest gross margins of western provinces and Ontario.



The key summary point is that BC has the lowest producer gross margins of the five provinces in question. Furthermore, a case can easily be made that BC processors have the highest gross margins of the five provinces, by a significant measure.

### **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?**

The BCCGA had recommended that the BCCMB start the processors' margin study by comparing the Western provinces, which most BC processors have associated companies. If real processor data can not be obtained from Central Canada, the BCCGA recommends the board proceed by developing an appropriate model.

Other options that could be looked at include: East and West wholesale and retail pricing, transportation costs for live hauls and comparing all other input costs. In BC, most farms are within one hour distance from a processing plant, where other provinces have much longer live hauls.

The BCCGA's consultants, Al Mussel and Kevin Grier, provided the following:

Based on our research, we have shown that B.C. chicken processors likely price about 50% of production on a formula tied to the live price. Given that live prices in B.C. are about 4-5% more than in Ontario, our assertion is that the B.C. formula price is about 4-5% more than in Ontario.

In addition, retail price differentials between regions are a good gauge of relative processor prices between regions. That is because grocers generally take the cost of the goods and add a margin on regularly priced items. While it is true that the grocer margin reflects many factors, anecdotally grocers state that that over time the retail differential is a good measure of relative costs.

Based on Nielsen Market Track data, over the 2015-2020 period, B.C. chicken retail prices averaged about 2% less than Alberta prices: 3% higher than Saskatchewan and 9% higher than Ontario. Based on that Nielsen MarketTrack Data over the 2015-2020 timeframe, it is reasonable to assert that B.C. prices at the processor level are 2% less than Alberta prices, 3% higher than Saskatchewan and 9% higher than in Ontario. This is a reasonable assertion because it is based on annual average prices over a six-year time frame. This is consistent with anecdotal estimates from industry participants.

The key assertion is that while the BC live price is a higher cost for the BC processor, the BC wholesale price is also higher. When the two are combined, it can be shown that the BC processors have margins superior to the western and Ontario competitors. Again, the key point is that it is likely that BC growers have the lowest gross margins in the west and Ontario while it is likely that the BC processors have the strongest gross margins.

It is important that the processor competitiveness component does not focus solely on costs, but on revenues as well.

**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.**

The BCCGA disagrees with the shortlist of comparison costs provided above. This list overlooks the segment of secondary processing, where profits are made and where BC processors have a competitive advantage. BC processors benefit by cutting up, deboning and tray packing fresh chicken, all in-house. This adds value and profits for BC processors compared to a primary Ontario processor who cuts and sell blocks of whole chicken to a secondary chicken processor. Margins can be made in every step of the secondary processing. BC processors receive a consistent and reliable supply of fresh BC chicken directly from growers, which would be a lower supply risk compared to Ontario processors who do fewer

operations and depend on other processors for their supply. BC processors have a competitiveness advantage over Ontario primary processors because they also do secondary processing. It is important to see the advantages BC processors' have, just like the cheaper feed which is an advantage to Ontario growers and processors. The secondary processing operations that BC processors do can not be ignored, because it is a profit centre for BC processors that Ontario does not have.

The Chicken Processing Plant Model Update, provided in the Costs and Returns in BC Chicken Marketing - Agri-food economic Systems report by Al Mussell, Darryl Robinson, and Kevin Grier October 2020, captured the cost of kill, evisceration, chill and cut into 9 pieces. Not further processing.

### **Pricing Formula**

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

The BCCGA believes that by pricing off a COP, we would not need guardrails, just like the breeder COP. A COP for live price negates the need for grower guardrails.

**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.**

The BCCGA does not see the need to be concerned with the recent changes to the Ontario price formula when pricing off COP, just like we do not need real processor margin data if pricing off COP.

### **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 base to support operations.**
  - **Percentage of farms with broiler production as the only agricultural activity.**

The answers to these questions would require further studies including how many farms need to have a second job to support their farm operations, how many growers are buying quota and building barns compared to 20 years ago, what are the farmer demographics (increasing aging farmers and fewer younger farmers), the increased amount of free quota for the new entrant program, the number of family farms sold and the need to be larger to be more viable, etc.

The BCCGA's consultants, Al Mussel and Kevin Grier, provided the following:

This is a very complex issue. At the heart of what we are trying to accomplish in chicken supply management. The objectives of the federal regulations say:

- (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.

Each of (a) and (b) can have metrics. For (a) Strong could mean things like profitable, supporting of independent production, farms carrying on to next generation. Efficient seems to me more amenable to technical measurements- ADG, feed conversion, days from chick to x weight. Competitive means capable of profitably maintaining or growing market share. For (b) one could look at markets- growth of sales of

chicken in BC (retail, food service) versus other meats and fish availability and development of new products, etc.

**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?**

BC chicken growers have a powerful incentive to minimize feed costs from the standpoint of their own profitability. The issue is primarily geographic- chicken production in a feed deficit province means feed costs inclusive of freight charges are higher, which other provinces do not face.

Growers try to do all they can, but their options are limited. There are low margins in feed and feed is a quantity game. Processors have an advantage by having more purchasing power with the large number of farms they own. Small groups of growers have pooled together but this has only resulted in a minimal discount. The average savings is low (~\$5/tonne). Further discounts are difficult for the average family-owned farm to achieve with the bargaining power they have. Feed costs can best be managed through volumes purchased.

Growers do shop their business to different feed companies. There are only three main feed supplier options and a few smaller ones and any gains in pricing or quality tend to be short-lived. At times, one mill may outperform another, but in the long run this tends to even out. A small percentage of growers have their own feed mills, but these are not used much anymore. They are too inefficient and have no bulk ingredient buying power. Some growers have tried to enhance feed with additives, but this is not done much anymore due to limited results and higher costs. Growers work with their feed companies to come up with a better product and better feed conversion. After much trial and error this may or may not yield a superior product.

**What factors of production do you see BC growers having an advantage over other provinces and how significant is that advantage?**

**Taking into consideration these points, provide data, information, and analysis with respect to BC grower competitiveness with growers in other provinces.**

There are several factors that BC chicken growers have advantages over other provinces including the following:

- Distance travelled for feed companies and equipment dealers.
- Better overall climate.
- Utility costs are likely lower compared to other provinces, but the carbon tax outweighs this advantage.
- The Vancouver port could reduce costs in favourable times, but this does not occur often.
- Market development is an advantage to the grower, if the MD price is fair it allows the grower to grow a little more product. However, all provinces have access to this program.
- Cosmopolitan city of 2.5 million people located right next to production and processing, with strong push on local marketing.

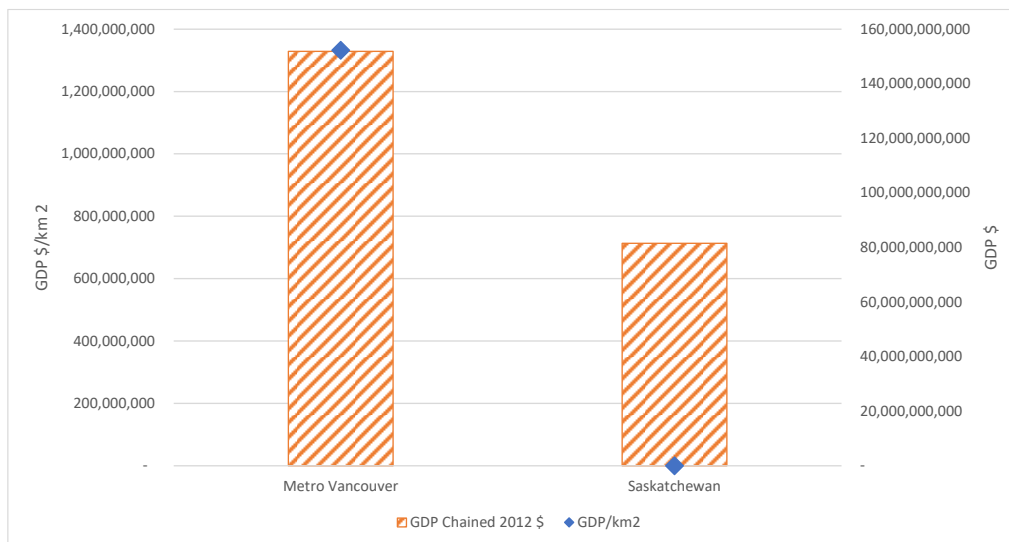
## Markets

**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 BCCGA’s consultants, Al Mussell and Kevin Grier, provided the following:

Broiler chicken production in BC is concentrated in the lower mainland, adjacent to Metro Vancouver. Vancouver is a major hub of economic activity and wealth. If Metro Vancouver were a province, it would be fifth in GDP in Canada. A large, nearby market is a distinct advantage in marketing and sales. A large market can justify investment in targeted marketing campaigns, and the proximity makes it feasible to interact with customers directly. Vancouver contains an ethnically diverse population that comprises large niches that marketing effort can be catered to- providing a market for different cuts, different types of birds, a large Asian market, a desire for organics, etc. - all of which present market differentiation opportunities for processors. BC also has a well-established “Buy BC” program in which support for featuring of product as local is available. Proximity is also a benefit from the perspective of transport cost and cost of service to customers.

The figure below contrasts marketing chicken to the Vancouver market as opposed to a more rural area such as Saskatchewan. According to the Conference Board<sup>2</sup>, estimated GDP for Metro Vancouver was \$151.8 Billion in 2019. Measured on a comparable basis, the GDP of Saskatchewan in 2019 was \$81.4 Billion.<sup>3</sup> When the cost of distribution and service is significant and the product is perishable, the density of economic activity and prospective market for chicken is important. Metro Vancouver comprises 114 square kilometres<sup>4</sup>; according to Google Maps the area of Saskatchewan is 651,900 square kilometres. A square kilometre in Vancouver contains about \$1.3 billion in GDP; a square kilometre in Saskatchewan contains about \$125,000 in GDP.



<sup>2</sup> Vancouver Economy Report <https://www.vancouvereconomic.com/blog/news/vancouver-economy-report-october-2020-edition/>

<sup>3</sup> Statistics Canada. [Table 36-10-0402-02 Gross domestic product \(GDP\) at basic prices, by industry, provinces and territories, growth rates \(x 1,000,000\)](#)

<sup>4</sup> <https://vancouver.ca/news-calendar/geo.aspx>

**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?**

The numbers are so closed to being balanced, whether net exporter or importer, depending on what numbers are used. Is specialty chicken included or excluded? Should TRQ be considered? Should production be compared to consumption or should total supply be compared to population percentage? The reality is that the numbers can be spun many different ways depending on which numbers are used and how they are compared. For example, BC would be a net exporter if you compared total net chicken available for consumption in BC vs consumption. This conversation at the roundtable was not complete and could never be complete as each side could change the outcome by adding or subtracting even one number.

Since one cannot deem BC to be a net importer or net exporter, the real question should be, "have the numbers changed?"

**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.**

This question was discussed and answered at the Feb 22 ,2021 meeting with the BCCMB.