



June 25, 2021

Mr. Jim Collins
Chair
BC Broiler Hatching Egg Commission

VIA EMAIL

Dear Jim:

Re: BCBHEC Proposed COP-Based Pricing Package

Please accept the following comments with respect to the British Columbia Broiler Hatching Egg Commission's (BCBHEC) May 5, 2021, hatching egg pricing formula proposal and the BCBHEC's presentation at the June 2, 2021 industry roundtable.

The Primary Poultry Processors Association of (PPPABC) recognizes that the BCBHEC has an important role to play in the BC Live Price discussions. The industry has discussed for many years the challenges faced in the BC chicken industry and the need to find solutions that can work for all stakeholders. BC is a high-cost jurisdiction, which creates significant challenges for our industry. A balanced approach is required in order to have a sustainable value chain.

The PPPABC's priority at this point has been to focus on the Preliminary Pricing Decision (Preliminary Decision) brought forward by the BC Chicken Marketing Board (BCCMB). The Preliminary Decision by the BCCMB directly sets the Live Price for chicken in BC. However, the hatching egg/chick price is an input into the BC Live Price, and, as such, the PPPABC has a vested interest in how hatching eggs will be priced in BC.

Background

Over the last few years, the industry has had many discussions regarding the impact of the Ontario efficiency adjustments on the BC chicken industry. It was generally recognized that when the long anticipated reductions in the Ontario efficiency factors were implemented there would be an opportunity to "correct" the financial burden that was being experienced across the entire BC chicken industry.

The Chicken Farmers of Ontario has now established a new Cost of Production Formula (ONCOPF), which has effectively eliminated the annual adjustments and increased producer margins by 5 cents per kilogram. This resolved the very issue that created the pricing discord in the first place and led to ineffective pricing methodologies in BC. The elimination of the annual adjustments in the ONCOPF was an opportunity that could have benefitted all stakeholders in the BC chicken industry.

The BCCMB and BCBHEC had an opportunity to work collaboratively and introduce a pricing formula that:

- recognized the elimination of the annual adjustments and the margin increase in the ONCOPF;
- provided financial benefits to all stakeholders in the BC chicken industry; and

- met the BCFIRB policy objectives as set out in the terms of reference for the Chicken Sector Pricing Review.

With the elimination of the annual adjustments, the BCBHEC and BCCMB could have taken the opportunity to propose formulas that properly re-balanced the interests of hatching egg producers, broiler growers, hatcheries, and processors. Instead, and unbelievably, the formulas introduced by the BCBHEC and BCCMB allow the margin increase from the revised ONCOPF to flow 100% to hatching egg producers and broiler growers. Further, both regulators have now introduced formulas that will further increase returns for broiler growers and hatching egg producers at the direct expense of the competitive position of processors in BC. The BCBHEC and BCCMB ignored the opportunity created by the changes to the ONCOPF and used it instead to increase returns for growers and hatching egg producers at the expense of processors in BC.

The BCBHEC Proposal

The BCBHEC Pricing Proposal has been developed in isolation without regard to the impact it will have on other stakeholders in the industry, particularly BC processors. The proposal singularly meets the BCBHEC's predetermined outcome of exiting the Linkage Model and implementing a standalone COP to benefit hatching egg producers. The BCBHEC's predetermined goal and closed mind to all other outcomes has been well established and documented over the past few years.

The BCBHEC Pricing Proposal is extremely complex and relies heavily on the Serecon approach, which is in turn reliant on modeling theoretical costs rather than using actual costs. Based on the work done by the PPPABC in relation to the Serecon model for broiler growers, it is clear that the Serecon model inflates actual costs.

The Proposal has been brought forward without reasonable financial analysis

Industry stakeholders cannot provide useful and meaningful feedback on the proposed formula without a clear and common understanding of how it will impact their financial positions relative to the current formula. In providing this analysis, it is also critical that the BCBHEC to define its expectations on what constitutes a fair return for an efficient hatching egg producer.

The BCBHEC has not provided financial modelling on how its proposed changes would impact the hatching egg/chick price over a reasonable period of time. In the roundtable meetings, there was a reference to how the new formula may have impacted the chick price on single cycle, but this analysis was inadequate. There needs to be a more robust analysis on how the new formula can be expected to impact hatching egg/chick prices and grower returns. In our response to the BCCMB on their Preliminary Decision, the PPPABC has prepared a detailed analysis on how the BCCMB's formula would impact grower returns and the live price gap with Ontario (processor competitiveness). However, given the uncertainty in the BCBHEC's proposed pricing approach, we note that the PPPABC's analysis relies on assumed chick prices in order to re-calculate the BC Live Price.

The formula proposed by the BCBHEC is extremely complex. It was clear during the roundtable discussions that stakeholders (including PPPABC) could not follow all the details and nuances in the formula, nor did they have a clear view on where and how data would be sourced and updated. The degree of complexity in the proposed formula seriously challenges that ability of the BCBHEC to model how the formula will

impact grower returns and hatching egg/chick pricing, which will create unnecessary and unacceptable risk for industry stakeholders.

A critical element of the pricing discussions for processors relates to how the live price differential relative to Central Canada impacts the competitive position of BC processors in the Canadian market. While the BCCMB will set the BC Live Price and decide how the chick price is incorporated into the BC Live Price, it is critical for stakeholders to understand how hatching egg/chick pricing will be established in order to have a clear view of all the potential variables.

Linkage principles are being ignored

When the linkage model was established, it was designed to ensure broiler growers and hatching egg producers achieved equivalent “returns”. It was also designed to reduce the number of appeals that were taking place in the industry. These remain worthwhile objectives. We expect the elimination of the linkage agreement will result in an increase in pricing related disputes amongst hatcheries, processors, and the BCBHEC.

The linkage model has worked effectively for a number of years, and it eliminated pricing disputes between the parties. The linkage model remains a useful and viable model for the BC chicken industry. The real issue for the hatching egg producers wanting to pull out of the linkage was their displeasure with the BC growers refusing to recognize loyalty premiums paid by processors as part of their revenue stream and thus not sharing this with the hatching egg producers in the linkage. The fight between these two groups over the sharing of premiums has escalated into a dispute where completely new pricing concepts are now being introduced unnecessarily and with the expectation that they will all be simply paid for by downstream industry stakeholders. This is a similar situation to the chicken growers and their distaste for the Ontario annual adjustments which drove them to develop new live pricing formulas to capture these efficiency adjustments. The pattern has now become one of where if the boards do not like an issue, instead of resolving it through an appropriate negotiated sharing, they try and completely change and undermine what has worked in the past. This pattern has led to unsound marketing policies.

The PPPABC believes that there is merit in maintaining linkage principles in pricing going forward but it is clear that this concept has not been given due consideration by the BCBHEC given its predetermined goal to depart from the Linkage Agreement.

A balanced approach between stakeholders has been abandon by the BCBHEC

In past industry discussions, all stakeholders have acknowledged the cost issues in BC and that all stakeholders will need to share a portion of the financial burden faced by the industry in BC. The BCBHEC pricing proposal has unduly prioritized the returns to hatching egg producers ahead of other stakeholders in the industry. In doing so, the BCBHEC has increased the financial burden on both broiler growers and BC processors. The BCBHEC’s pricing proposal will leave little room for stakeholders to maneuver in developing pricing formulas that allow BC processors to be competitive in the Canadian market for chicken.

The Preliminary Decision that has been issued by the BCCMB will increase the Live Price Differential relative to Ontario by \$0.035 per kilogram while broiler grower returns will increase by in excess of \$0.10 per kilogram. Not included in these estimates are the impacts that will be experienced due to

changes in hatching egg/chick price increases. Despite the opportunity as a result in the changes in the ONCOPF, there is no balance in the proposals being brought forward by the BCBHEC or the BCCMB.

Sincerely

A handwritten signature in black ink, appearing to read 'B. Shier', with a stylized flourish at the end.

Blair Shier
President
Primary Poultry Processors of BC

c. PPPABC Members

Craig Evans – PPPABC
Harvey Sasaki – BCCMB
Wendy Holm – BCFIRB Liaison