



February 7, 2022

VIA EMAIL

Mr. Harvey Sasaki  
Chair, BC Chicken Marketing Board

Mr. Jim Collins  
Chair, BC Broiler Hatching Egg Commission

### **Draft Final Pricing Decisions - Feedback**

The Primary Poultry Processors Association of BC (PPPABC) writes in response to your “Joint Letter to the Chicken Industry” dated January 7, 2022, and the follow up Industry Roundtable that was held January 28, 2022 (the Roundtable). We are responding to the request for feedback on the Draft Final Pricing Recommendations for the BC Chicken Marketing Board (BCCMB) and the BC Broiler Hatching Egg Commission (BCBHEC and together with the BCCMB, the Boards) included in the January 7, 2022, correspondence.

#### **Executive Summary**

In their two Pricing Decisions, (the May 2021 Preliminary Pricing Decision and now the Joint Letter to the Chicken Industry) the BCCMB has stated, “the long-term sustainability of the BC Chicken industry is in jeopardy”. The PPPABC believes this position is overstated and fails to recognize that the recent changes and updates to the Ontario Cost of Production Formula have created a significant opportunity (\$25M annually) to stabilize and address many of the issues being faced by the BC Industry in our high-cost environment.

While it is well understood that the current wheat / corn commodity situation is creating challenges for all stakeholders, those issues should not be a factor in the introduction of a long-term sustainable pricing solution that balances the needs of broiler growers, hatching egg producers, hatcheries, and BC Processors.

The PPPABC also fundamentally disagrees with the BCCMB when they suggest that the PPPABC “are not supportive of a collaborative approach to pricing jointly undertaken by the industry”. The PPPABC has been committed to all the BCCMB undertakings, having spent significant time and resources to bring forward substantive new data, detailed analysis, and new perspectives to the supervisory review discussions. As part of the engagement, the PPPABC brought forward and recommended a Live Price Formula option on September 16, 2021, which met the conditions set out in the supervisory review terms of reference which can be implemented almost immediately (the PPPABC pricing formula). More importantly, the PPPABC pricing formula significantly improves the financial positions of all stakeholders with a methodology that allowed all BC stakeholders to benefit

from the changes in the Ontario Live Price Formula. In fact, we note that, with normalized wheat / corn relationships, and the most recent changes in the ON COPF, the returns to broiler growers and hatching egg producers would have increased significantly under the PPPABC pricing formula.

### **The PPPABC's Position on the BCCMB Interim Pricing Formula:**

The PPPABC can support the introduction of the Interim Formula identified in BC Chicken Marketing Board Pricing Review Decision, provided that:

- The BCCMB clarify their intentions with respect to further actions that will be taken relating to the current wheat / corn commodity issues. The underlying concern is that, based on past and current actions, the BCCMB is pursuing actions that will delay the potential introduction of this formula to an undefined timeframe.
- Hatching Egg / Chick pricing continue to be established based on current practices (linkage model) until such time as the long-term pricing formula is established. This would be consistent with the terms of reference for the supervisory review. The introduction of the BCBHEC COP based pricing formula in advance of any changes to the Live Price Formula will create issues for the industry:
  - The COP methodology used by the BCBHEC may or may not be different than what is developed by the BCCMB for Broiler Chicken
  - It embeds improved returns for Hatching egg producers over the course of the interim formula which may / or may not be experienced by Broiler Producers.
- That the Boards seriously consider the PPPABC pricing formula and the benefits it would provide to all industry stakeholders in light of the changes and updates to the Ontario Live Price Formula.

The interim formula is problematic because it is an acceptance of further delays to the long-term pricing formula when the PPPABC has put forward a viable workable option that benefits all stakeholders. All stakeholders agree that this process has gone on long enough and needs to be brought to conclusion. Delaying the introduction of a long-term pricing formula for up to another two years with no guarantee of success cannot in anyway be seen as acceptable. The PPPABC will support the interim formula while the work is being done to assess their proposed pricing formula. While the BCCMB has not provided an estimate of the potential financial impact on stakeholders, it is the PPPABC's view that the financial position of all parties will improve relative to 2019 / 2020 under this interim formula.

### **The PPPABC's Position on the BCCMB "Final Draft Decision – Long-Term Pricing Formula"**

The PPPABC does not accept the BCCMB's proposed Long-Term Pricing Formula for the following reasons:

- The BCCMB Long-Term Pricing Formula is lacking detail, transparent analysis, and has not provided any information on how it will impact grower returns or processor competitiveness;
- The BCCMB Long-Term Pricing Formula has not fulfilled the supervisory review terms of reference which were prepared together by the Boards and agreed to by the stakeholders;

- The BCCMB Long-Term Pricing Formula, which is more of a work plan than a decision, relies heavily on methodologies that are not well defined. The PPPABC has gone on record with respect to the process issues we have experienced to date in the supervisory review. We are not confident that the approach to the Decision will be objective, thorough and without bias.
- The BCCMB is recommending a grower-cost based model which has been their intention from the outset. They have not provided any analysis on financial impact to stakeholders, nor have they objectively assessed alternative approaches.

The analysis and commentary provided in the BCCMB's Draft Final Pricing Decision document, dated January 7<sup>th</sup>, continues to build on patterns that have been identified in previous documents from the BCCMB. The material presented includes inaccurate facts, misrepresentations, and a pattern of bias and selective use of information to support the BCCMB's preferred outcomes, the details of which are provided in our response below.

The BCCMB continues to claim that they have addressed the need to BC processors to be competitive in a regional and national market, however their actions and analysis suggest processor competitiveness is not important. In fact, the BCCMB spend significant time in their recommendation mis-representing the market and processor data, and in doing so are attempting to discount the need for BC processors to be able to compete with processors in Central Canada who have a much lower cost base.

The regulators have not attempted to engage the stakeholders in areas where gaps, misunderstanding and differences exist. The process has deteriorated to merely an exchange of documents with no commitment to meaningful dialogue, which was also a component of the terms of reference.

The Boards are also claim their long-term pricing formulas will provide the platform for regional and national pricing formulas. However, over the past two years, there has been nothing presented to suggest this as a possibility, and it appears to be nothing more than a panacea to support the Boards' pre-determined COP outcomes.

The PPPABC believes that the supervisory review has gone on long enough and the BCCMB and the BCBHEC should introduce the Interim Formula with the caveats identified while they assess and analyze the PPPABC pricing formula. With the interim formula in place the Boards will have the opportunity to step back, re-focus on the terms of reference and the PPPABC pricing formula that meets the requirements of the terms of reference and provides clear benefit to all parties.

## **Introduction**

The Joint Letter to the Chicken Industry describes an evolving national marketplace, the pressure it is placing on BC as a high-cost province and suggests that a concerted focused effort is required by BC stakeholders to remain competitive with Ontario. The joint letter further states that both Boards are working closely with their western counterparts in developing approaches to pricing and other issues<sup>1</sup>. The BCCMB and the BCBHEC went on further to say that "The goal is to better position the BC industry in the western and national chicken and hatching egg sectors."

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<sup>1</sup> It should be noted at a meeting of Western Chicken Boards on January 27, 2022, it was stated by the meeting Chair that, "the Western Boards do not and have never discussed pricing"

The BCCMB stated in their May 2021 Preliminary Pricing Decision and reiterated again in their Draft Final Decision, "... the long-term sustainability of the BC chicken industry is in jeopardy."<sup>2</sup> The PPPABC believes this an overstatement as it fails to recognize that the changes to the ONCOPF are providing approximately \$25.0 million in incremental benefit to the BC industry.<sup>3</sup> The BCCMB currently has an opportunity to share this improvement for the betterment of all industry stakeholders.

It has also been recognized that the price differential between corn and wheat is creating challenges for all industry stakeholders. These issues, which are expected to be temporary need to be acknowledged and accounted for in the analysis but should not get in the way of the introduction of a pricing decision that balances the needs of all poultry industry stakeholders.

The PPPABC believes that the BCCMB has substantively failed in meeting the objectives of the Supervisory Pricing Review and have not satisfied the Terms of Reference (TOR). The BCCMB has abandoned any attempt to bring stakeholders together, have mischaracterized the market, and have failed to define reasonable returns for growers and processor competitiveness. Further, the PPPABC would submit that the BCCMB pricing decision has only delivered an aspirational concept with respect to the long-term pricing decision. The proposed methodologies put forward by the Boards have not been effectively analyzed against the current formulas to understand how industry parties will be impacted and how they will provide pricing stability. The Boards have failed to define and quantify a fair return for growers and processor competitiveness. The Boards have also not identified and put in place the components necessary to develop a pricing strategy that would satisfy fair returns and competitiveness.

The PPPABC takes exception to the BCCMB comments in the Decision that the PPPABC is not interested in finding a collaborative solution. The PPPABC has been an active and vocal participant in the supervisory review. The PPPABC provided substantive data and information to the BCCMB on grower returns and processor competitiveness that is both reliable and verifiable. However, this material was not objectively reviewed or discussed with the parties, nor did the Boards try to address and bridge the gaps and differences between different submissions.

The PPPABC also takes issue with the way in which the BCCMB characterizes our withdrawal from the PWG process. The PPPABC stated very clearly in their letters of April 23, 2020 and May 25, 2020 to the BCFIRB and the BCCMB respectively, that one of the main reasons the PPPABC stepped back from the PWG was because the BCBHEC had announced that they were unilaterally withdrawing from the Linkage Model.<sup>4</sup>

The PPPABC still remains unclear, as the BC Farm Industry Review Board (BCFIRB) set out in their January 14, 2022, correspondence to the Board Chairs (BCFIRB Letter), how after two years an "aspirational pricing formula" that does not deliver against the scope and outcomes of the original Terms of Reference<sup>5</sup> can be approved. The PPPABC response will focus primarily on the BCCMB Draft Final Pricing Decision (the Decision), however we will also provide our perspective on the BCBHEC Draft Final Pricing Decision.

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<sup>2</sup> BC Chicken Marketing Board Pricing Review Decision – January 7, 2022, p. 12

<sup>3</sup> Based on BC's 250 million kgs annual live production volume and 10 cent improvement in producer margins from the elimination of annual adjustments and producer margin increases in the ONCOPF.

<sup>4</sup> Appendix 1 – Price Working Group Correspondence, May 25, 2020

<sup>5</sup> Appendix 2 – Approved Chicken Live Pricing Supervisory Review Terms of Reference

## Background and Overview

Prior to the initiation of the Supervisory Review, it was well known by the industry that BC Processor's competitive position relative to Central Canada was in decline as a result of the increasing Live Price Differential. The competitiveness of BC processors had been declining since 2015, when the Ontario Live Price Formula (ONCOPF) introduced "annual efficiency adjustments" that resulted in the BCCMB increasing the live price differential with Ontario. In November 2019, the BCBHEC announced they had decided to exit the linkage pricing formula and pursue their own COP pricing model because of a dispute they had with the BCCMB over including premiums in the linkage. The BCBHEC decision would have increased BC's live price, and when combined with continued increases to the live price differential, the PPPABC had no choice but to appeal the BCBHEC decision to protect its competitive position.

The BCFIRB instituted a supervisory review on chicken live pricing in the spring of 2020 with the Terms of Reference (TOR) finalized on October 28, 2020 (Appendix 1). The scope of the TOR included but was not limited to:

- A review of factors affecting the pricing of regulated products by the Chicken Board and Commission, including **defining**: [emphasis added]
  - "reasonable returns to chicken growers and hatching egg producers" through verified costs of production or other mechanisms
  - "processor competitiveness in the Canadian market for chicken"

The goals / outcomes outlined in the TOR was for "**a long-term pricing approach for regulated products**" [emphasis added] in the mainstream chicken and broiler hatching egg sectors that included but was not limited to:

- Verified COP / reasonable returns-based pricing mechanism for BC hatching egg producers and chicken growers.
- BC chicken processors being competitive in the Canadian market for chicken.

The supervisory review process is more than one year overdue with no clear progress or results against the scope and goals outlined in the TOR and the Board is now recommending a new process without clearly defined timelines which is unacceptable.

## Supervisory Review Process Concerns

The supervisory review process was intended to bring the parties together to define reasonable grower returns and processor competitiveness which would be used to develop a long-term pricing formula for BC. The process was never clearly articulated by the BCCMB and resulted in the PPPABC on numerous occasions raising concerns pertaining to the review process. The PPPABC made significant effort to try and discuss and resolve these issues with the BCCMB.<sup>6</sup> The PPPABC initially brought forward its process concerns to the Boards in our correspondence, Chicken Sector Pricing Review – Market Submissions List of Outstanding Questions and Concerns, dated January 6, 2021<sup>7</sup> where we stated we were concerned with how the supervisory review is unfolding and requested the Boards keep stakeholders focused, be actively involved in the discussions at the

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<sup>6</sup> Appendix 3 –PPPABC correspondence to BCCMB regarding process concerns

<sup>7</sup> Appendix 4 - Chicken Sector Pricing Review – Market Submissions List of Outstanding Questions and Concerns, dated January 6, 2021

various tables, ensure understanding of the positions of the parties, and so stakeholders could hear from the Boards. The process has continued to deteriorate, and our concerns are outlined but not limited to below:

### **1. Pursuit of Pre-determined Outcome**

- The BCCMB pursued a COP or Grower Cost Pricing approach prior to concluding on market data, defining reasonable returns for growers and processor competitiveness, and developing measures to assess the impact of a COP formula on the parties;
- The BCCMB was content to follow the BCBHEC's lead in trying to develop a COP based pricing model;
- The BCCMB did not seriously consider pricing formula options and had no ability to effectively evaluate options without clear definitions around reasonable grower returns and processor competitiveness;
- In fact, the BCCMB Pricing and Linkage Review presentation<sup>8</sup> states 6 times that a "Stand Alone BC COP" does not or may not positively impact processor competitiveness. Other options showed benefits to all parties and yet these have been rejected.
- The BCCMB continues to pursue a COP pricing model as their preferred option despite not providing any substantive details on the pricing formula and seemingly being prepared to sacrifice processor competitiveness for the sake of a COP pricing mode.

### **2. Mischaracterization of the Market and the Industry**

- The BCCMB in the Decision, highlights the progression of live price formula changes in the province from 2015. However, what they fail to report on in this summary is that each of those live change formula changes further reduced processor competitiveness by increasing the BC live price differential with Ontario.<sup>9</sup> While the BCCMB acknowledged the formula changes were intended to increase grower returns, they fail to mention that the increases reduced the competitive position of BC Processors. The BCCMB fails to acknowledge the continual deterioration of BC processor's competitive position in their analysis.
- The BCCMB implies when looking at BC and Central Canada processing that Central Canada processors "sole focus" is to produce whole birds for the secondary market<sup>10</sup>. This is a complete misrepresentation of the industry in Central Canada as processors do make use of secondary processors to reduce costs, but they also have cut-up and tray pack lines similar to plants in BC.
- The BCCMB continues that the "structural difference" makes cost comparisons difficult, but they have over-stated the differences. The Agri-Stats data presented by in the PPPABC competitiveness submission conclusively shows that BC Processors have cost disadvantages related to input costs (primarily live bird costs landed at the plants), labour, plant scale and efficiencies which puts BC processors at a significant disadvantage to Central Canada processors. The BCCMB continues to discount the data as opposed understand and validate the conclusions.<sup>11</sup> This issue is particularly frustrating to the PPPABC as they were criticized in the last review for not providing enough transparent and verifiable data. The PPPABC has gone to great lengths in this review to provide the best competitive industry data available.

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<sup>8</sup> Appendix 5 - BCCMB presentation, Pricing and Linkage Review Preliminary Decision, Key Issues and Considerations, April 19, 2021, p. 10 – 19

<sup>9</sup> Appendix 6 – Live Price Differential Chart

<sup>10</sup> BC Chicken Marketing Board Pricing Review Decision – January 7, 2022, p. 10 - 11

<sup>11</sup> Ibid p.11

The data came from Agri-Stats a poultry analytics company that provides detailed cost comparisons for hundreds of processing plants in North America. The BCCMB rather than take advantage of the comprehensive, transparent, and factual data presented to draw their conclusions, chose to mischaracterize the “structural differences” of the industry to mitigate the impact of the data.

- The BCCMB is also unwilling to conclude that BC is a net importer of chicken despite conclusive evidence that chicken flows freely across the country, and that BC is a supply deficient province where substantially more chicken flows into the province than flows out. The only reference the BCCMB makes to this in the Decision is, “The [PPPABC] Market Overview also provided estimates of the amount of chicken that is sold in BC sourced from other provinces as well as BC chicken shipped to markets outside of BC.”<sup>12</sup> Even though the growers and processors came to agreement on this matter, the BCCMB has and continues to ignore this fundamental fact about the marketplace and the obvious need for BC processors to be competitive with other jurisdictions.

### **3. Failure to Effectively Engage the Parties and Conclude on the Data**

- Definitions for Reasonable Grower Returns and Processor Competitiveness – On several occasions, the PPPABC has raised the matter that these definitions were required, as part of the TOR, and necessary to effectively measure the impact of any pricing formula. There was little effort put forth by the BCCMB to bridge the gaps between growers and processors on these components which still have not been defined.
- The PPPABC is left to assume that had the BCCMB objectively concluded on the market data, it would have potentially compromised their ability to arrive at their pre-determined outcome of a BC based COP. In fact, when reviewing the Decision, it is apparent that mischaracterizing of the market, and “cherry picking” data was required to support their pre-determined outcome.
- The PPPABC takes strong exception to and disagrees with the BCCMB’s statement that we, “are not supportive of a collaborative approach to pricing jointly undertaken by the industry.”<sup>13</sup> The PPPABC has spent an inordinate amount of time, effort and money into bringing new verifiable third-party data and information to the supervisory review discussions. The PPPABC also agreed to release the results and progress made by the Price Working Group (PWG). The BC Chicken Growers Association (BCCGA) refused to allow the release of these results citing confidentiality.
- It can be argued that it is the BCCMB’s processes and approach to the supervisory review that undermined collaboration between the parties. The lack of working group meetings and the series of “without prejudice meetings” that excluded the BCFIRB Liaison did nothing to bridge information gaps and move the supervisory review forward. This aberration of process forced the parties to work in isolation with no framework or assumptions to frame their submissions.
- In addition, the BCCMB lost both processor representatives in September 2021, who were engaged on this file. While new board members were appointed, no one from the BCCMB has reached out to the PPPABC as our processor representatives, to review and understand our issues and position on the supervisory review and pricing matters. There is currently a lack of effective representation of PPPABC interests within the BCCMB’s board structure, and thus a gap in its democratic process.
- The PPPABC has clearly stated that it understands the need for a live price in BC that is higher than those in Central Canada, however we expect other stakeholders to recognize the need

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<sup>12</sup> BC Chicken Marketing Board Pricing Review Decision – January 7, 2022, p. 12

<sup>13</sup> Ibid p.37

for BC processors to be competitive in the regional and national marketplace. The BCCMB has done little to ensure the other stakeholders understand that this is a requirement of any BC pricing formula.

#### **4. Lack of Definition for Reasonable Grower Returns and Processor Competitiveness and Analysis to Evaluate Pricing Decisions**

- The BCCMB has provided no clear definitions on reasonable grower returns and processor competitiveness beyond some vague references. As a result, with no clear definitions, these concepts cannot be quantified and used to evaluate any pricing formula. Further to this, it is not clear how any analysis can be done on a formula that has not yet been delivered.
- Without these definitions, there is no definitive analysis to evaluate the pricing decisions against the TOR and determine whether it will deliver reasonable returns to growers or keep BC processors competitive in the Canadian market.
- None of the Board's pricing recommendations (May 2021 Preliminary Decision, A-174 Pricing Recommendation, January 7, 2022 Interim Decision, January 7, 2022 Long Term Decision) have included any analysis on the impact that these formulas will have on grower returns or the competitive position of BC processors.
- There is also no analysis or recognition of what impact the Boards' combined pricing decisions would have on hatcheries and broiler breeder producers in addition to the BC processors and growers.

These and other concerns, combined with the fact that a long-term pricing formula has not been delivered, have shown that BCCMB's execution of the supervisory review process was ineffective and unable to bring the parties together to reach a solution that balances the need for reasonable returns to growers and a competitive position for BC processors.

This was further demonstrated in period A-174, when the BCCMB tried to modify the pricing formula. The BCCMB showed a complete disregard for due process by again pursuing and communicating a predetermined outcome without stakeholder consultation or data analysis. The PPPABC has no confidence that the BCCMB is committed or even able to resolve the critical issues facing the industry and develop a "grower cost-based" pricing formula and over the next two years.

It has taken over two years for the BCCMB to come to "no decision" beyond an aspirational pricing concept and up to two more years to determine grower costs and deliver a pricing formula that has no guarantee of being accepted by the parties. The BCFIRB Letter, dated January 14, 2022, asked the BCCMB, "to critically evaluate its long-term pricing formula development process to date and clearly reflect in its final submission how any process deficiencies will be remedied..."<sup>14</sup>.

#### **BCCMB Interim Pricing Formula – The PPPABC Can Support the Interim Pricing Formula with Conditions**

The PPPABC believes that the interim formula can provide the supervisory review process an opportunity to reset and focus on delivering a timely workable long-term live pricing decision. The interim formula is basically the current formula using the lower Ontario weight category (2.15 – 2.45 kgs) which would provide a 2-cent improvement to processor competitiveness, and at the same time

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<sup>14</sup> BCFIRB correspondence, "Long-Term Chicken Pricing Supervisory Review – Draft Recommendations" January 14, 2022, p. 3



it allows the balance of the benefits from the ON COPF to flow to growers, hatching egg producers and hatcheries.

The pricing formulas also need to recognize the significant and material changes to the ONCOPF that are currently flowing to growers through the Ontario Live Price. The changes in the ONCOPF, including the elimination of the annual adjustments, changes to feed calculations, and improvements to producer margins were not all contemplated when the supervisory review began and have substantively increased the Ontario Live Price and changed industry economics. The PPPABC believes these changes to the ONCOPF need to be assessed not only in the interim pricing formula but also in the long-term pricing options previously dismissed by the BCCMB.

Prior to moving to the interim formula, it is also critical that the BCCMB clarify their intentions with respect to further actions that will be taken relating to the current wheat / corn commodity issues. The underlying concern is that, based on past and current actions, the BCCMB is pursuing actions that will delay the potential introduction of this formula to an undefined timeframe. The BCCMB recommendation for A-174 was open ended and if it was to be implemented it was not clear when it would be removed.

In order to support the Interim Pricing formula, the PPPABC believes the following modifications and caveats are required:

- Hatching Egg / Chick pricing should continue to be established based on current practices (linkage model) until such time as the long-term pricing formula is established. This would be consistent with the TOR. The introduction of the BCBHEC COP based pricing formula in advance of any changes to the Live Price Formula will create issues for the industry:
  - The COP methodology used by the BCBHEC may or may not be different than what is developed by the BCCMB for Broiler Chicken
  - It embeds improved returns for Hatching egg producers over the course of the interim formula which may / or may not be experienced by Broiler Producers.
- The interim pricing formula must be introduced without prejudice in relation to the long term pricing formula.
- That the Boards seriously consider the PPPABC pricing formula and the benefits it would provide to all industry stakeholders in light of the changes and updates to the ONCOPF.

## **BCCMB Pricing Review Decision**

The PPPABC understands and supports the need for the BC industry to have an accurate knowledge of their costs. However, that is only part of the information necessary to support a pricing formula that is supposed to balance grower returns and processor competitiveness. The PPPABC has significant concerns and offers the following comments with respect to the Decision and the BCCMB's intention to pursue a grower cost-based pricing formula with "appropriate guardrails".

## **There are Significant Challenges Related to the use of a COP based pricing formula which the BCCMB has not recognized**

- The PPPABC's experience with the Serecon COP and our understanding of the ONCOPF shows that "COP's" include components that are modelled, estimated, or negotiated and as such are not an accurate reflection of actual costs.
- To be effective, in a competitive marketplace, COP's or grower cost-based formulas need to use the same components and methodologies if they are to be comparable between competing jurisdictions and used to identify efficiencies. An example is the differences in capital charge calculations between Ontario and BC where there are significant differences and a lack of transparency in the calculations.
- It has been accepted that there needs to be a balance between grower returns and processor competitiveness. However, we are seeing growers rally around the mantra of recovering 100% of their COP (which is also the BCBHEC position) which will pressure guardrails and the live differential with Ontario. If the BC processors were to take the same unbalanced position on competitiveness, then they would be demanding the BC live price be the same as Ontario.
- COPs allow for a flow through of cost increases and do not necessarily promote efficiency and innovative approaches to cost reduction. There is no built-in incentive to promote efficiency, as where in a fixed differential model there is a built-in efficiency incentive. For example, the labour time studies in the BCBHEC formula can promote inefficiency where if tasks take longer, then labour costs increase and flow to live price.
- We again cite the BCCMB Preliminary Pricing decision from May 2021 where the BCCMB stated no less than six different times in their presentation that a COP does not recognize processor competitiveness. It is also interesting to note that in the January 7 document that shortfall of a COP has not been identified.
- The Board's suggestion that the new BC Cost based approach can be adopted nationally is aspirational at best

## **The Narrative in the Decision shows signs of Bias in order to arrive at a Pre-Determined Outcome.**

In the Decision, the BCCMB fails to consider all facts and submissions presented to it, and instead relies solely on those that support their position and disregards those that do not, in many cases going as far as misrepresenting the issues in order to support their position. In addition, they simply ignore submissions that contain points of view that complicate or contradict their Decision. This includes but is not limited to:

- The Decision states a "threat to the industry" is, "Higher production costs, in particular feed and labour..."<sup>15</sup> as it relates to producer costs. In stating this the Board is accepting that BC Growers have higher labour costs (which has not been verified or supported with data) but at the same time they are not willing to accept that BC Processors face a labour cost disadvantage as compared to processors in Central Canada.

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<sup>15</sup> Ibid p. 32

- The PPPABC provided third party verifiable data that confirmed BC Processors have higher labour costs than Processors in Central Canada
- There is no mention or consideration of the threat outlined by the third-party Agri-Stats data provided by PPPABC that shows processing costs in BC are 30% higher than our Central Canada counterparts.
- The Decision also references BC processors having an advantage, “The proximity of production to the markets not only provides transportation cost benefits but also provides visibility for the industry.”<sup>16</sup> We assume the BCCMB is basing their assertion on a model that was introduced in the 2018 Pricing Review. Over the course of this review the PPPABC provided third party Agri-Stats data that shows in fact we do not have a live haul advantage, and furthermore it clearly showed a significant disadvantage in the costs of live birds landed at our production facilities which is the more critical measure. None of this information appears in the decision as it does not support the Board’s direction.
- There is also no mention anywhere of the operating cost advantages that BC growers have over growers in other provinces. These costs were identified in the 2018 pricing review, however there is no mention whatsoever of these costs in the current pricing review. The BCCMB has focused solely the cost disadvantages facing BC growers.
- This statement also ignores the facts in the PPPABC market report showing BC as a net importer of chicken from other provinces. This is further evidence that demonstrates the BCCMB does not support this conclusion agreed upon by the growers and the processors during market review sessions.
- In the “Grower Margin” section of the Decision<sup>17</sup> the BCCMB attempts to assess BC Grower margin trends and identifies that the benefits from the changes in the ONCOPF have been short-lived. “However, the uplift was short-lived with grower margins in decline and retuning BC Grower margins to pre-quota period A-169 levels”.<sup>18</sup> While the statement is technically accurate, it completely mis-represents the facts of the situation. The sole reason that BC grower margins declined post A-169 was due to the corn / wheat commodity price imbalance which it was agreed will be a temporary issue. The BCCMB conveniently does not even mention the issue of the feed imbalance in this section of the report dealing with grower margins.
- The Decision includes an assertion based on Nielsen data that due to higher reported retail prices in BC that somehow BC processors are able to capture their higher costs. The statement is not based on any facts and at best it is a hypothesis being put forward by the BCCMB. The BCCMB is well aware that the PPPABC does not accept this hypothesis and have provided rationale as to why, but the views of the PPPABC continue to be ignored by the BCCMB.
- Similarly, the BCCMB articulates that transportation costs of moving from east to west are more expensive than from west to east. The inference being that BC Processors have a freight advantage. Again, while on the surface this freight assumption is accurate, the PPPABC has provided data to the BCCMB that shows the live bird cost differential that

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<sup>16</sup> Ibid p. 33

<sup>17</sup> Ibid. p. 19 - 21

<sup>18</sup> Ibid p. 20

disadvantages BC Processors far outweighs the freight advantage and confirms that BC Processors are at a disadvantage in terms of total costs. This is not a complex issue and an example where if the Board could be more effective in managing the process the gap should have been resolved.

- The Decision also dismissed the PPPABC's Grant Thornton Grower Return Model as complicated and not representative of the industry, when in fact it is created in a format that would be expected by Canadian banks. Also, the model was built using financial information provided by the BC Chicken Growers Association at the previous pricing review as being representative of the industry. This is exactly why the PPPABC chose to use this information. The information cannot be put forward in one review as representative and then dismissed in the next review.
- The PPPABC built this model to be interactive and easy to amend given the number of assumptions included. If there was constructive discussion around the assumptions in the model, these could have been easily modified to produce an agreeable picture of producer investment requirements and returns.
- There are additional examples of the BCCMB "cherry picking" comments made in the Scolah report which will be provided in the next section.
- Evidence that the Decision lacks a clear process and already has pre-determined outcomes is starting to surface as Deliverable 3 in the Decision states, "... the Committee will have four weeks to consider the requirements and provide the recommended benchmarks."<sup>19</sup> Later in the Decision, the BCCMB states, going forward that processor competitiveness measures "will be live cost difference and quota utilization."<sup>20</sup> In this case, the BCCMB has already decided the benchmarks to be used to measure processor competitiveness.
- Similarly, the Decision states that, "The Chicken Board has determined that the Grower Cost-Based formula that includes cost of land is important in determining "reasonable return to growers".<sup>21</sup> Again this is another pre-determined outcome that the BCCMB has communicated to stakeholders without any consultation or discussion.

### **The Engagement of a Third Party by the BCCMB Could Have Been Helpful but it is Being Mismanaged**

- The BCCMB engaged Hugh Scolah to assist with the assessment of a reasonable return to growers and prepare a report regarding same (titled the BC Chicken Grower Sustainability report (the Scolah Report)), which should be applauded. However, it would have been far more beneficial to have him engaged much earlier in the process to allow for dialogue between the parties.
  - The obvious observation then becomes, who will the board use to assist them in their assessment of Processor Competitiveness and in the absence of anyone doing this does it set up a potential bias in their decision.

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<sup>19</sup> Ibid p. 3

<sup>20</sup> Ibid p. 38

<sup>21</sup> Ibid p.38

- The Scolah report provides a number of comments that are worthy of discussion and there are a number of comments that require clarification. Scolah may have been a good resource to assist in bridging gaps between the parties.
- The PPPABC does not accept some of his comments with regard to the Grant Thornton Grower Return model, but that may relate to how the model was presented to him and the accompanying assumptions that were provided.
- The Scolah Report says the current approach to pricing provides reasonable returns on barns and equipment and all farms in the dataset are covering costs except for new entrants.<sup>22</sup> The report repeats this comment a number of times in the report, but the BCCMB does not seem to acknowledge this in their Decision.
- The Scolah Report warns that high prices and stronger cash flows lead to higher quota values and grower consolidation which the BCCMB does not mention in the Decision.
- The Scolah Report, further indicates that:
  - “land and quota” should be excluded from evaluating returns because they are “not productive” and “the returns of these assets are realized at the time of sale.”<sup>23</sup> Scolah continues later in the report, “Including the costs of these investments [land and quota] in a returns analysis without including the sale of these assets at the end amounts to double-dipping.”<sup>24</sup>
  - “for Cycle A-172 [when feed cost issues are reported to be disastrous for growers], using the Serecon data we again get a result that suggests the price is near to providing returns that achieve the hurdle rate. This suggests that the current pricing formula is delivering returns...”<sup>25</sup>
- But the BCCMB has concluded in the Decision that, “the Grower Cost-Based formula that includes cost of land is important in determining “reasonable return to growers”.<sup>26</sup> It is not clear how the BCCMB can this conclusion given the comments made by Scolah.
- Scolah brings forward issues related to the New Entrant Grower Program and Farm Succession which are real issues facing the industry, but the PPPABC believes that they are important, they are beyond the scope the TOR for the supervisory review.

### **The Decision consistently discounts the need for Processors to be competitive which is contrary to the TOR**

- The BCCMB spend significant time in their recommendation mis-representing the market and processor data, and in doing so are attempting to discount the need for BC processors to be able to compete with processors in Central Canada who have a much lower cost base.
- What is of particular concern to the PPPABC in the Decision, is the BCCMB statement, “It is not possible for the Chicken Board to be able to improve processor competitiveness based

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<sup>22</sup> BC Chicken Grower Sustainability, Prepared by Hugh Scolah, December 2021, p. 3

<sup>23</sup> Ibid p. 8

<sup>24</sup> Ibid p. 23

<sup>25</sup> Ibid p. 22

<sup>26</sup> BC Chicken Marketing Board Pricing Review Draft Final Decision – January 7, 2022, p. 38

solely on a comparison with the Ontario live price that is consistent with the policy objective of growers achieving a “reasonable return”.

- By making this statement, it appears that the BCCMB is prepared to abandon processor competitiveness in favor of reasonable grower returns and have now altered their mandate. It is evident that keeping BC processors competitive is no longer a part of the BCCMB’s objective.
- The BCCMB maintains that without revenue numbers from processors they cannot determine competitiveness. The approach being used by the PPPABC shows the change in cost bases that is occurring over time which is a core element of the competitive position between processors.
- The PPPABC has provided actual cost data through Agri-Stats, a reputable third-party industry expert, that shows BC processors having a close to \$35 - \$45 million total cost disadvantage with processors in Central Canada. Agri-Stats confirmed that BC Processors have higher costs related to live birds, labour, plant efficiency and scale. The PPPABC has also identified that processors in Central Canada also have a cost advantage based on their disproportionate share of TRQ which lowers their overall raw material costs.
- The BCCMB’s position on processor competitiveness is completely contrary to the direction that provided to them by BCFIRB on numerous occasions. In their June 9, 2010, Decision,<sup>27</sup> BCFIRB states, “All parties in this supervisory review agree that a workable pricing model must be consistent, predictable, transparent, and result in a live price that gives growers a reasonable return and allows processors to be competitive in the Canadian market.”
- BCFIRB reaffirms that processor competitiveness needs to be considered in live pricing models, in the supervisory review TOR, in their correspondence to the Board chairs dated January 7, 2022,<sup>28</sup> and most recently in their Interim Pricing Formula A-174 Prior Approval Decision<sup>29</sup> state, “Before making any future recommendations to amend the interim pricing formula, the Chicken Board must clearly demonstrate that it considered processor competitiveness beyond a mere statement...the Panel finds the Chicken Board has not adequately demonstrated how it assessed data, information, and rationale about what constitutes processor competitiveness.
- For the BCCMB to abandon processor competitiveness in the Decision can be seen as reckless to the industry it is supposed to represent and can in no way be acceptable in bringing forward any pricing formula.

### **The Decision Fails to Acknowledge the Benefits Flowing to Growers from Changes to the ONCOPF**

- The changes to the ONCOPF in A-169 resulted in the elimination of the annual adjustments that were reducing the Ontario live price. It was also well understood that processors have been paying for some of these adjustments by way of an increased BC live price differential

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<sup>27</sup> BCFIRB, In the Matter of the Natural Products Marketing (BC) Act and a Supervisory Review of BC Chicken Marketing Board Pricing-Related Recommendations, Decision, June 9, 2010, Paragraph 23

<sup>28</sup> BCFIRB correspondence, “Long-Term Chicken Pricing Supervisory Review – Draft Recommendations” January 14, 2022, p. 3

<sup>29</sup> BCFIRB, In the Matter of the Natural Products Marketing (BC) Act and BC Chicken Marketing Board Interim Pricing Formula A-174 Prior Approval, p.

with Ontario to help maintain and increase grower returns. There was an agreement between processors and growers at the Price Working Group (PWG) that these adjustments would be split 50 / 50 when they were repealed in A-169. The BCCMB by allowing the entire amounts of these adjustments to flow to the growers in the BC live price is in essence “double dipping” as growers are realizing the increased differential in BC and benefiting from the elimination of the annual adjustments and margin improvements in the ONCOPF.

- The BCCMB acknowledges that increases in the BC differential were, “resulting from increases in Alberta, Saskatchewan, and Manitoba live prices in response to the annual adjustment being applied in the Ontario Farm Gate Minimum Live Price.”<sup>30</sup> This would imply that while the BCCMB understands that the annual adjustments were being used to increase the live price differential with Ontario over the years, they are not prepared to acknowledge that the entirety of the benefits of the changes to the ONCOPF has flowed to growers. This is reaffirmed through the Decision as there is no discussion of the impact that the changes to the ONCOPF had on live pricing in BC.
- An additional producer margin increase in the ONCOPF occurred in A-174 and flowed to growers. There is a further 3.46 cent margin increase coming in A-175 which will again flow and improve grower returns.
- The Decision has not clearly articulated the impact of the current wheat / corn commodity challenges in its analysis. It is critical to separate the feed issues which are expected to be temporary from the changes in the ON COPF which are more permanent.

**The Process Going Forward is not Clearly Defined and Timelines Have not Been Identified.**

- The Decision does not provide a clear process as to how the long-term pricing formula will be determined beyond collecting farmer data and establishing benchmarks. It became clear during the Roundtable when questioned by stakeholders that the timeline to develop the long-term pricing formula is not well thought out and lacks clear outcomes and specific deadlines. The Decision does not provide the PPPABC any confidence that this process will be any different than what we have experienced in the supervisory review with pre-determined outcomes and confirmation bias.
- Due to the vague nature of the Decision, it is not clear to the PPPABC that the Decision and process associated with it will address the original TOR. The PPPABC believes it is important to understand costs throughout the entire chain which can be used to guide live pricing and that any pricing model needs to effectively balance reasonable grower returns with processor competitiveness. COP or grower cost-based pricing formulas are costly, time-consuming, complicated to administer, and do not accurately reflect all costs. The Decision presented by the BCCMB is focused only on understanding grower costs and appears to have abandoned the processor competitiveness portion of the pricing equation and their mandate.

To be effective, if a COP or grower cost-based pricing approach is used as part of a pricing methodology, then it needs to be consistent across jurisdictions in terms of components, calculations, and updating methodologies. These are the essential elements to establish effective benchmarks for efficiencies and comparison. To do this properly you would adopt and utilize an

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<sup>30</sup> Ibid p. 5

<sup>31</sup> Ibid p.13

existing recognized model as opposed to creating a new one with considerable up-front and on-going costs to the producers.

The PPPABC previously supported the Canadian Poultry and Egg Processors Council (CPEPC) proposal of a national approach and methodology to chicken live pricing which was shut down by the provincial boards. The CPEPC approach, which was a combination of COP and live price competitive guardrails would clearly meet the pricing objectives laid out by BCFIRB and the TOR, as it addressed both grower returns and processor competitiveness. We fail to see how the BCCMB and the BCBHEC plan to lead the country to regional or national pricing when their proposal only addresses grower returns.

### **Considerations and Issues Surrounding the BCBHEC Pricing Decision**

The BCBHEC have been very transparent and consistent in their recommendation of the use of the COP to be used for pricing of Hatchings Eggs. They have also been very clear that their intention is to ensure pricing moves to 100% recovery of their COP as soon as possible.

What the BCBHEC is less clear on is how their formula will impact downstream stakeholders and eventually the live price of chicken in BC.

The PPPABC is very concerned that the BCBHEC pricing decision is extremely complex which reduces its transparency and comprehension, and it can create challenges with implementation and administration.

The BCBHEC is advocating that their formula be introduced at the time of the Interim formula which we assume will result in improved returns for hatching egg producers. The PPABC is of the opinion that no single stakeholder should be experiencing an improved financial position until a new agreed upon long term formula is established.

- In addition, the implementation of a BCBHEC COP formula in isolation will create the following issues:
  - The BCBHEC proposal escalates to 100% COP recovery with no determination of what live price differential it would produce
  - The COP is not based on actual costs, and it incorporates many theoretical costs and return calculations which is open to inaccuracies.
  - This sets a pre-determined outcome for broiler growers that they can expect 100% COP recovery if the proposed grower-cost pricing formula is implemented.

The PPPABC was pleased to see the BCBHEC “pressure test” their pricing formula against the current formula with the results, “very much in line with current pricing” which is very encouraging. However, the PPPABC does not accept the methodologies used to develop the COP for the reasons outlined above which limit its ability for comparison and identifying efficiencies. More importantly though and if because the BCCMB is proposing a similar type of methodology, is that it creates a compounding cost increase effect where every downstream stakeholder will add costs to their revenue streams all at the expense of BC processors and their ability to compete.

The PPPABC also believes that accepting and implanting the BCBHEC pricing decision will bias the BCCMB pricing decision by setting a precedent on COP methodologies and unrealistic grower



expectations. This has the potential to create conflict in the industry if, and when there are different COP recovery rates between hatching egg producers and chicken growers. For this reason, we believe that the long-term pricing formulas need to be launched simultaneously which is implied also in the TOR. It does make sense to launch one half of an integrated live pricing approach when the other half has yet to be defined.

### **Fixed Differential Pricing Solution that Improved the Positions of Parties and Met Conditions in the TOR was Dismissed by the BCCMB.**

The PPPABC introduced fixed differential pricing option like what had been used successfully in the past, however with an increased differential.<sup>32</sup> The pricing proposal and the analysis of the impact of the formula clearly showed clear and meaningful improvements to grower returns, processor competitiveness as well as margin increases for hatching egg producers and hatcheries. The work and analysis done by PPPABC on this approach to pricing is consistent with the scope and outcomes outline in the TOR for the supervisory review.

The scope of the TOR includes defining reasonable returns for chicken growers and hatching egg producers through verified costs of production or other mechanisms. The work done by the PPPABC with their grower return model, which is based on actual grower data, provided an understanding of grower return and investment requirements. The work done by Agri-Stats, a well-respected industry benchmarking service, provided new insights on processor competitiveness and the cost differences between BC and Central Canada. This information was used by the PPPABC to develop a “fair” differential that balanced the interests of the industry. In fact, instead of advocating for a differential that reflected BC processors disadvantages, the PPPABC advocated for a pricing formula that addressed all parties’ interests in a manner to achieve a balanced outcome.

The scope of the TOR also includes reviewing and understanding cost of production factors including feed and chick costs, catching and other production costs. The PPPABC has reviewed, considered, and analyzed the changes that have and continue to take place with the ONCOPF, and analyzed BC grower returns based on information provided by the grower’s representative and Serecon. It is evident that grower returns are currently strong and based on the ONCOPF which is regularly updated for inflation, feed conversion and other cost increases will ensure BC growers receive fair returns going forward. As has been discussed, the current feed situation is clouding the pricing discussions and certainly needs to be addressed by the industry. However, it has been agreed that this situation is temporary and thereby cannot form the basis of a long-term pricing formula.

The TOR also considers processors competitiveness factors including the live differential with Ontario, the evolving markets, how product flows into and out of BC, catching costs and other factors. The PPPABC has clearly shown that BC is a net chicken importer with more product coming into the province from other jurisdictions than what leaves the province. We have also shown processor costs are substantively less in competing jurisdictions. The PPPABC understands that BC is a high cost of doing business province and believes the fixed differential will keep BC processors competitive and provide fair returns for growers.

The PPPABC believes that its fixed differential proposal meets the requirements and forms the basis for the outcome outlined in the TOR of a long-term pricing approach that:

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<sup>32</sup> Appendix 7 – PPPABC Fixed Differential Pricing Recommendation, September 16, 2021

- Provides reasonable returns for hatching egg producers and chicken growers;
- Chicken processors being competitive in the Canadian market and;
- BC hatcheries receiving a “reasonable” margin

The fixed differential pricing approach proposed by the PPPABC also provides additional benefits to the BC industry including:

- Encourages industry efficiency across the entire value chain which is required in a high-cost production environment and holds suppliers accountable (ie. feed companies for pricing mitigates the risk of costs simply passing through in the formula.
- Provides industry stability for growth and investment and provides confidence to all stakeholders when making decisions in their business.
- Growers will achieve improved returns relative to their history and the recent updates and improvements to the ONCOPF would increase producer returns beyond the original expectations.
- Any increases in catching costs can simply flow through the pricing model based on an approval by the BCCMB.
- The formula is straight-forward, transparent, and easy to understand, administer, and update. It is expected that this pricing formula could be introduced within one to two production cycles following approval.

Fixed differential pricing was in place in the industry prior to 2017 and the industry enjoyed strong growth and prosperity across all stakeholder groups. This pricing approach not only satisfies the conditions and outcomes of the supervisory review TOR but is also directionally consistent with what was discussed in the PWG. It is not clear to the PPPABC why the BCCMB would not more seriously consider the fixed differential pricing formula which has a proven track record in favor of a more complex process. Particularly when the BCCMB’s own analysis shows that a Stand-Alone COP or grower cost-based pricing model would be detrimental to processor competitiveness.

## **Conclusions**

It is concerning that the BCCMB brought forward a pricing decision that fails to meet the conditions and outcomes set out in the Terms of Reference. The BCCMB’s approach to the supervisory review after more than two years concludes by failing to bring the parties together, and a failure to bring a long-term pricing formula forward that balances grower returns and processor competitiveness. In fact, the Decision purports to spend the next two years moving to a grower cost-based pricing formula to increase grower returns at the expense of processor competitiveness. This can in no way be seen as acceptable to anyone in the industry.

The Decision proposed by the BCCMB was predetermined, came from a convoluted and confusing approach (lack of working groups, without prejudice meetings), and supported through confirmation bias when reviewing data, information, or submissions. The BCCMB also by engaging and sharing selected data and submissions with their own third party and not engaging stakeholders has contributed to these problems.

The BCCMB provides no assurances that the process going forward will be significantly different than what has been experienced to date. The BCCMB has not demonstrated an ability to create a productive forum for discussion and bridging gaps and disagreements. Where there was disagreement, the Boards tried to “divide and conquer” the parties by conducting without prejudice meetings or venturing off on their own and bringing in other resources without engaging stakeholders.

Essentially, the BCCMB’s initiatives and approach to the supervisory review lacked transparency, inclusiveness, consistency in process allowed and clearly caused them to lose sight of the mandate set out by BCFIRB.

There is also no doubt that there will be disagreements going forward with the BCCMB’s proposed grower cost-based formula process. We are left with little confidence in the process over the next two years, given the BCCMB’s inability to resolve disagreements and conclude on data and information to date.

The longer-term proposal put forward by the BCCMB is a loose concept and a vague workplan that has no guarantee of success in meeting and balancing processor competitiveness with reasonable grower returns. The interim pricing model is basically the same pricing formula in place today with a lower weight category that the PPPABC can support with the caveats outlined while the supervisory review process resets.

The PPPABC recommends that the BCFIRB not approve the Decision and request the Boards recommit to due process and revisit the PPPABC Fixed Differential Pricing option as it satisfies the TOR of the supervisory review and provides benefits to all stakeholders.

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 Association of BC

c. Ms. Wendy Holm – BCFIRB Liaison