

September 8, 2020

VIA EMAIL

To: All BC Hatcheries and Processors

PRICING OF SPENT FOWL – INTERIM DECISION

Introduction and Background

In February 2020, processors (Pollon Express Ltd. and Sofina Foods Inc.) wrote to the BC Broiler Hatching Egg Commission regarding fowl market conditions in Canada and requested relief in the pricing of BC fowl. On March 12, 2020, the Commission responded by requesting further information substantiating the issues raised in the processors' correspondence.

Such substantiation was not received prior to the impact of COVID-19. Notwithstanding this lack of information, the Commission determined, after consultation with its Pricing and Production Advisory Committee (PPAC), that COVID-19 market conditions warranted a temporary reduction in the fowl price. On April 17, 2020, the Commission advised:

...that the price of fowl (hens) will be amended to \$0.20 per kilogram live weight on a temporary basis, effective immediately. Subject also to the Commission's discretion, this price will remain in effect until the end of Period A163 (July 4, 2020), at which time it will revert to \$0.40 per kilogram live weight.

Subsequently, on June 29, 2020 and after further consultation with the PPAC, the Commission extended this temporary reduction to the end of Period A164 (August 29, 2020). The Commission advised that it continued to expect cooperation "in the management of both domestic and import production" and in "timely, proactive forecasting" as the hatching egg sector manages through COVID-19.

The Commission further advised that it:

...has not made any decision with respect to spent fowl pricing in the long-term. The Commission will need to further review that issue as part of its overall pricing strategy, with additional substantiation from the processors, as necessary.

In its letter of July 23, 2020, the Commission notified stakeholders that if a "further interim extension" was to be considered, "substantive, evidence-based rationale" would have to be provided by August 13, 2020 so that the PPAC and the Commission could consider this information prior to the end of Period A164.

Hallmark Farms (August 12, 2020), Sofina (August 13, 2020) and Rosstown Group of Companies (August 13, 2020) responded to this request for information. Earlier, by way of a July 10, 2020 letter, the BC Broiler Hatching Egg Producers' Association provided its views opposing the continued reduction in fowl price past Period A164. The Association also raised concerns about the hatchery margin and performance which it included with the fowl price in the overall financial impact on producers. Although the processors' submissions were provided to the PPAC, no comments were received prior to the Commission's August 20, 2020 meeting at which fowl pricing was reviewed. (As noted below the PPAC and stakeholders were provided further opportunity to comment on this issue.) At the August 20 meeting, the Commission board requested further information as to the current fowl pricing situation nationally, specifically in Ontario and Quebec. Hallmark also provided further information on Saskatchewan fowl pricing and the cost of transporting that fowl for further processing in BC.

The Commission further considered the issue of interim fowl pricing on August 26, 2020 in the larger context of "its overall pricing strategy" and the "upcoming supervisory review of pricing in the BC chicken industry". The previous linkage exposed pressure points in BC pricing that affected hatching egg producers, hatcheries (updating their margin, managing breeder chick and vaccine pricing) and processors (those slaughtering fowl subsidizing processors that do not). Addressing these and other flaws would be essential if the establishment of a new, revised linkage is to be considered by the Commission.

Jurisdiction

The processors have questioned the inclusion of fowl pricing in the Commission's Consolidated Order. To be clear, spent fowl are breeders that are a regulated product under the British Columbia Broiler Hatching Egg Scheme and as such it is appropriate for the Commission to regulate the pricing and marketing of spent fowl through its Consolidated Order. At the same time, the Commission recognizes the processors' concerns that the pricing of spent fowl be responsive to market conditions. The Commission has acted accordingly in response to COVID-19 market conditions and will continue to take other market conditions into consideration as part of its overall pricing strategy in consultation with the PPAC and through SAFETI-based decision-making.

Breeder fowl are a regulated product in BC and consequently the pricing, marketing and direction of breeder fowl fall within the statutory responsibility and authority of the Commission at its discretion.

Current Market Conditions

Although still not fully substantiated, the information provided by processors to date, primarily Hallmark to the extent substantiation was provided, and the Commission's review of current fowl situation in other provinces indicates that the spent fowl market in Canada is under pressure. As confirmed by the Commission's provincial counterparts, actual spent fowl prices in Ontario and Quebec have both been significantly reduced, with catching costs continued to be paid by producers (as is the case in BC). Hallmark is correct in stating that Ontario's price for spent fowl has gone effectively to zero (from about

\$0.22 kg) and it is not certain when that will change. Quebec's price went from \$0.50 kg to \$0.25 kg for a twelve-month period, with the price to be renegotiated at the end of that time. The smaller amount of production in other provinces, such as Saskatchewan which remains at \$0.13 kg (which fowl is shipped to BC for further processing at an additional transportation cost of 6-7 cents kg according to Hallmark) has less impact on the overall situation in terms of further processing in the three largest provinces. Overall, the current market situation does support a continued reduction in the BC price on at least an interim basis.

According to the latest Monthly National Fowl Statistics issued by Agriculture and Agri-Food Canada available to the Commission (May 2020), the landed (in Ontario) price for US fowl is \$0.32 kg. BC further processors would pay for the cost of transporting US fowl to BC, but primary processors would not incur the cost of slaughtering live BC fowl. While recognizing that the nature of the product is different the Commission notes that there is a pricing differential between Ontario (Quebec) and BC in the broiler market. Nor is it clear to the Commission at this time what the market value for BC spent fowl is in terms of the BC market or how the overall chicken market (including pricing) may or may not be affecting the fowl market. Hallmark and Sofina have refused to provide further substantiation about current US fowl pricing and transportation costs in support of their position. Another processor of spent fowl, Rosstown, provided no substantiation in support of its position other than to state that as it was no longer processing fowl for sale as it was uneconomical (even at the interim \$0.20 kg price).

Long-Term Pricing of Spent Fowl

As noted earlier, the Commission believes the issue of fowl pricing should be included in its overall approach to pricing. Any revenue from spent fowl in future would be offset in a standalone hatching egg cost of production formula. If producers lose revenue or experience higher costs in the disposition of fowl, the hatching egg price will increase to reflect that. Similarly, a regulated fowl price could again be an offset factor if a new, revised three-way linkage is established that included hatcheries. Addressing long-term fowl pricing during COVID-19 and in isolation from other market and pricing factors in BC is probably not in the best interests of finality.

The Commission also notes the August 25, 2020 letter of the Primary Poultry Processors Association of BC (PPPABC) about developing "a framework for understanding BC processor competitiveness". This is a positive step but only part of what is needed in substantiating appropriate pricing in the BC chicken sector, including with respect to fowl.

Interim Pricing of Spent Fowl

Given the current circumstances in Ontario and Quebec and the partial information provided by the processors, the Commission is of the view that an interim reduction from \$0.40 kg continues to be warranted. Having determined that an interim reduction continues to be warranted, the Commission must address the amount of that reduction. The \$0.40 kg price currently in the Consolidated Order was established in conjunction with the current hatchery margin. Although the Commission acknowledges that

there is a pricing impact on processors due to the current (non-COVID) fowl situation, the Commission also acknowledges that the earlier interim reduction in the fowl price has impacted directly on hatching egg producers. Hatching egg producers have borne that cost for two periods, A164 and A165 in recognition of COVID-19.

Again, although it has been established that the current national market for fowl warrants a response and a further interim reduction from the posted \$0.40 kg price, it is still not clear to the Commission exactly what the right, substantiated price for spent fowl is for BC. There is limited, third party information as to its market value in BC, whether there should be a differential from eastern Canada (e.g., from Quebec at \$0.25 kg) and the balance in costs between processing live fowl in BC versus transporting eviscerated fowl into BC. These, as well as processor competitiveness are issues to be considered as part of the overall pricing discussions. In principle, while stressing that substantiating data will be important, the Commission does not disagree with the PPPABC in its August 25, 2020 letter that:

...to understand what data is meaningful for understanding processor competitiveness, a theoretically sound definition of processor competitiveness needs to be established. Without a coherent definition of processor competitiveness, general requests for data will.... risk unsound pricing options.

In view of the foregoing, it was the Commission's initial assessment that a balancing of the interests between processors and producers would be to set the interim price for Periods A165 and A166 at \$0.30 kg. This over four periods would result in a \$0.15 average reduction in the fowl price, making it comparable to the Quebec price and equalizing the reduction between processors and producers. The Commission was satisfied with the limited evidence it had that a reduction from the \$0.40 kg price posted in its Consolidated Order was warranted, it was not satisfied that it had the fully substantiated evidence to support a specific interim price other than to propose this \$0.15 cent kg or 40 percent reduction on average over four periods. The Commission remains dissatisfied with the evidence available to it with respect to the actual market and in the absence of PPPABC's development of a processor competitiveness framework supported by data.

Consultation

On August 28, 2020, a draft of this document with the proposed \$0.30 kg price was provided to the PPAC and the responding processors for comment prior to the Commission making its final decision as to the interim reduction in the fowl price. Responses were received from Hallmark and Sofina. Although no response was received from the PPAC, the Association and the BC Egg Hatchery Association (BCEHA) members both provided submissions.

As noted above, Hallmark (August 31) and Sofina (September 1) refused to provide further substantiation of actual market information and transportation costs. Hallmark criticized the Commission for using May 2020 Agriculture Canada data but did not provide any updated data. Hallmark and Sofina both reiterated their position that any increase in fowl price would result in those processors joining Rosstown in refusing to accept the regulated product.

In its September 2 submission, the Association noted the ongoing financial impact on hatching egg producers with respect to this issue and more generally in terms of not “getting returns that accurately reflect our COP”. The Association expressed concerns about the potential consequences of processors refusing to accept fowl in the current circumstances. Even were the Commission to exercise its authority to direct the regulated product, fowl would still be in barns and producing eggs not required by the market while the situation resolved itself legally. The Association’s fundamental point was that this issue “continues to highlight the need for our own comprehensive COP formula to set pricing, of which spent fowl is incorporated”.

The BCEHA disputed that the fowl price and hatchery margin were “linked” and that the BCEHA had no historical documentation to that effect. Concerns were raised that the Commission was now trying to link the two to the advantage of hatching egg producers. As well, it was the BCEHA’s view that while grower and hatching egg producer “returns have improved since 2012...hatchery margins have stayed the same”. The BCEHA believes there are inconsistencies in pricing, including that prior to the Commission removing fowl from the linkage, processors slaughtering fowl were subsidizing processors that do not.

Final Commission Comments

First to address the BCEHA submission. In fact, the hatchery margin and fowl price issues were discussed concurrently in 2012 and an agreement was reached with the BC Chicken Marketing Board to include an increase in the hatchery margin on the understanding that the fowl price would also increase to \$0.40/kg. It is accepted that presently the margin and fowl price are not linked formally but as clearly understood by the Commission and the BCEHA in developing the proposed hatchery margin and breeder chick/vaccine pricing formulae, any movement in the linkage formula would reverberate through the chain. An increase in the hatchery margin would result in an increased chick price that would impact on growers and processors. The same is true of changes to the live price or kill age, the inclusion or exclusion of the fowl price in the linkage formula, etc. Whether formally linked or not changes in pricing along the supply chain are directly or indirectly “linked” through their impact on stakeholders. Although the Commission agrees with the BCEHA that the hatchery margin needs to be addressed, it is increasingly clear that attempting to deal with specific pricing issues in isolation is not in the best interest of certainty and finality.

The Commission agrees with the Association that the processors’ refusal to fully substantiate their pricing arguments simply confirms that the current pricing structure in BC is flawed. Going forward, the Commission can no longer accept that the pricing of a regulated product should be based on what processors say it should be. It further confirms to the Commission that pricing by a transparent and defensible COPF independent of the Ontario price is necessary. The purpose of supply management is to support hatching egg producers through such a COPF and not fulfilling that purpose at 100 percent should only be considered based on solid, verified substantiation that processor or hatchery competitiveness is really an issue. Here, we have another example of that substantiation not being provided.

The fowl price was removed from the linkage for reasons that the Commission has clearly articulated. The linkage and the approach to pricing in BC were flawed. The Commission is on record stating that it will accept the pricing outcomes of that decision pending the development of a full, independent COPF. Once that is accomplished and put into effect, fowl pricing will again be a factor. A rise in fowl revenue for producers will reduce the hatching egg price. A rise in fowl costs for producers will increase the hatching egg price. This will simply duplicate how the COPF's in other provinces operate and place BC hatching egg producers on an equal basis as their counterparts in those jurisdictions.

This is the position from which the Commission will discuss any possibility of a new pricing linkage.

Decision

The price of fowl (hens) will continue to be reduced from \$0.40 per kilogram to \$0.20 per kilogram live weight on an interim basis for Periods A165 through Period A168 (ending April 10, 2021). This reflects the interim pricing arrangement in Quebec and allows for the BC Farm Industry Review Board (BCFIRB) to complete its supervisory review of pricing in the BC chicken industry. The Commission continues to expect continued cooperation from hatcheries on proactive forecasting and production management as the sector works through the ongoing ramifications of COVID-19.

Having confirmed its statutory authority over the pricing and marketing of fowl as a regulated product, the Commission will continue to examine other marketing options and direct the regulated product as appropriate.

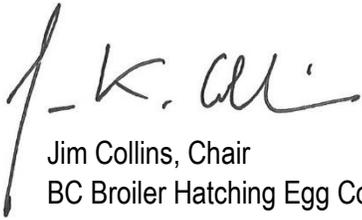
SAFETI Analysis

In making this interim decision the Commission is recognizing that the future of fowl pricing in BC is linked to the sustainability of producers and the competitiveness of processors as part of a strategic approach to pricing in BC. The Commission has been accountable to its stakeholders by addressing the interests of both, including with respect to production stability, in exercising its regulatory pricing authority in response to COVID-19 and now for other changing market conditions. Its process has been fair, transparent, and inclusive by offering opportunity for the PPAC and other stakeholders to repeatedly address this issue and provide feedback on the draft of this decision. It is effective in that it allows the Commission to focus on transitioning to COPF-based pricing and exploring the prospect of a new linkage with the Chicken Board that accommodates the hatcheries. Finally, it is also effective in that does not lead to costly and unproductive legal actions while providing certainty and stability in BC fowl pricing and production management while the larger issue of pricing in the BC chicken industry is addressed.

Right of Appeal

Any person who is aggrieved by or dissatisfied with this decision may appeal the decision to BCFIRB pursuant to subsection 8(1) of the *Natural Products Marketing (BC) Act*.

Yours truly,



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BC Broiler Hatching Egg Commission

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Hatching Egg Producers

Commission Website