



fPPac  
Further Poultry Processors  
Association of Canada

August 5, 2014

The Registrar  
c/o Laurent Pellerin, Chairman  
Farm Products Council of Canada  
Central Experimental Farm  
960 Carling Avenue, Building 59  
Ottawa, Ontario K1A 0C6

Subject: Complaint against CFC – Period A-127 Allocation Decision

Please accept this as the written complaint from Canadian Poultry & Egg Processors Council (CPEPC) and Further Poultry Processors Association of Canada (FPPAC) against the allocation decision made by Chicken Farmers of Canada (CFC) for period A-127. The members of our two organizations are directly affected by allocation decisions of CFC. All stakeholders benefit from predictable and stable pricing. Oversupply causes instability and significant challenges for buyers and sellers in the value chain. Although at the CFC level a response to oversupply might be to adjust allocation down for a couple of periods, it can take much longer to change the price expectations of market participants leading to a more prolonged period of adverse market conditions. The cost to the value chain is significant.

**No downstream stakeholders supported the CFC allocation decision.** During the discussion and debate at the CFC Board meeting of July 29, 2014 when the allocation for A-127 was set at 4.25% above base, the CFC Directors representing our two organizations, as well as Restaurants Canada and two Provincial Boards spoke and voted against the high allocation.

Downstream rationale for not supporting the CFC A-127 allocation decision includes:

- All primary processors represented by CPEPC believe that an allocation of 4.25% over base for period A-127 is too high and that the decision was driven by provincial growth agendas rather than market requirements.
- Individual processors in various provinces and regions had suggested different allocation levels, including a recommendation from a number of western processors for 3% over base. However, none had recommended an allocation to their Provincial Boards of more than 3% above base. CPEPC's majority recommendation was for base + 1.75%.
- The allocation needs to reflect market requirements, both regionally and nationally. CPEPC members believe that an allocation of 4.25% over base for

period A-127 is excessive and does not reflect market needs, either nationally or regionally.

- CPEPC Directors at the CFC Board meeting noted similar positive market conditions in mid-2013 prior to CFC setting allocations too aggressively for the last half of the calendar year. The market by mid-2013 had improved considerably, frozen inventories were in the healthy range, but TRQ utilization was below the healthy range. Allocations for the last half of the year were set too high resulting in the wholesale price crashing in the last five months of 2013 falling 47 cents per kg due to over-supply. This resulted in the need to set lower allocations for the first few periods of 2014, which, combined with lower than pro-rata use of TRQ, has resulted in strong wholesale markets and inventories that are in the healthy range by mid-2014.
- In 2014, the situation with tighter supply and higher wholesale prices for competing meats has also benefited the chicken market. All stakeholders acknowledged that the current market situation is very good, indeed better than at the same period last year. The recent CFC decision to set allocation at 4.25% above base causes processors to believe that there will be a more severe decline in wholesale prices than the 20 cents per kg that we had predicted assuming a more reasonable allocation.
- FPPAC's goal is for a stable market and predictable supply for further processors. FPPAC believes that the CFC decision to allocate at Base +4.25% was not substantiated factually and is expected to destabilize the market.
- FPPAC's Director at CFC spoke to the need for a responsible increase over base in allocation for period A-127, but noted his belief on behalf of FPPAC members that an allocation of 4.25% above base was much too aggressive and would result in a repeat of a similar cycle as last year with allocation cutbacks being required in the spring and early summer of 2015, which is the time when further processors traditionally require additional supply as they produce products and build inventory for the summer and fall.
- The Restaurants Canada Director at CFC spoke against the CFC decision and noted that a large increase in production over base in one period will have a detrimental effect on many members of Restaurants Canada, particularly the large Quick Service Restaurant chains that purchase chicken on a cost plus basis tied to live price, who will face increased competition from retailers who will purchase chicken at a discounted rate due to surplus supplies in the hands of processors.
- The tight supply of hatching eggs and chicks in North America was noted during the meeting. In response to a comment from a CFC Provincial Director suggesting that if chick supply was tight, birds could be grown to a higher live weight in order to achieve a higher production level the Director from Restaurants Canada pointed out the necessity for product to be in spec for the restaurant sector. Although the allocation for period A-127 should be set on the basis of market factors, not available chick supply, a high allocation combined with a short supply of chicks, will make in spec supply more difficult to achieve.

CPEPC and FPPAC request that FPCC not approve CFC's allocation request for period A-127.

Our organizations will be happy to elaborate on our rationale regarding why an allocation of 4.25% above base is much too high for period A-127, and how that will have a direct negative impact on our members as well on the Canadian chicken market, and to participate in any follow up meetings or alternative dispute resolution process if requested by FPCC.

We have informed CFC Chair Dave Janzen of our complaint and have forwarded a copy of this letter to him as well as Mike Dungate, Executive Director of CFC.



Robin Horel  
CPEPC



Robert DeValk  
FPPAC

Cc: Dave Janzen, Chair, Chicken Farmers of Canada  
Mike Dungate, Executive Director, Chicken Farmers of Canada