

A-127 COMPLAINT: CFC Presentation

September 3, 2014





Introduction

CFC concerns

- Concerned about the expedited complaint process timeline
- Concerned about being unable to listen or respond to any new points complainants or complaint panel will raise later today
- Concerned about potential post-CFC decision information being presented
- As time is of essence, won't press these concerns at this time

CFC presentation

- > CFC will comment on the arguments and evidence (limited as it is) put forward by complainants
- > CFC's submission is based on complaint package as well as materials available to Directors (and FPCC) in A-127 process

CFC position

- To sum up, the complainants have provided no cogent and specific evidence to back up their complaints
- A-127 allocation decision was solidly grounded in market-based information and had the required double majority support
- The complaints should be dismissed and the A-127 allocation should be promptly prior approved



Arguments of the complainants

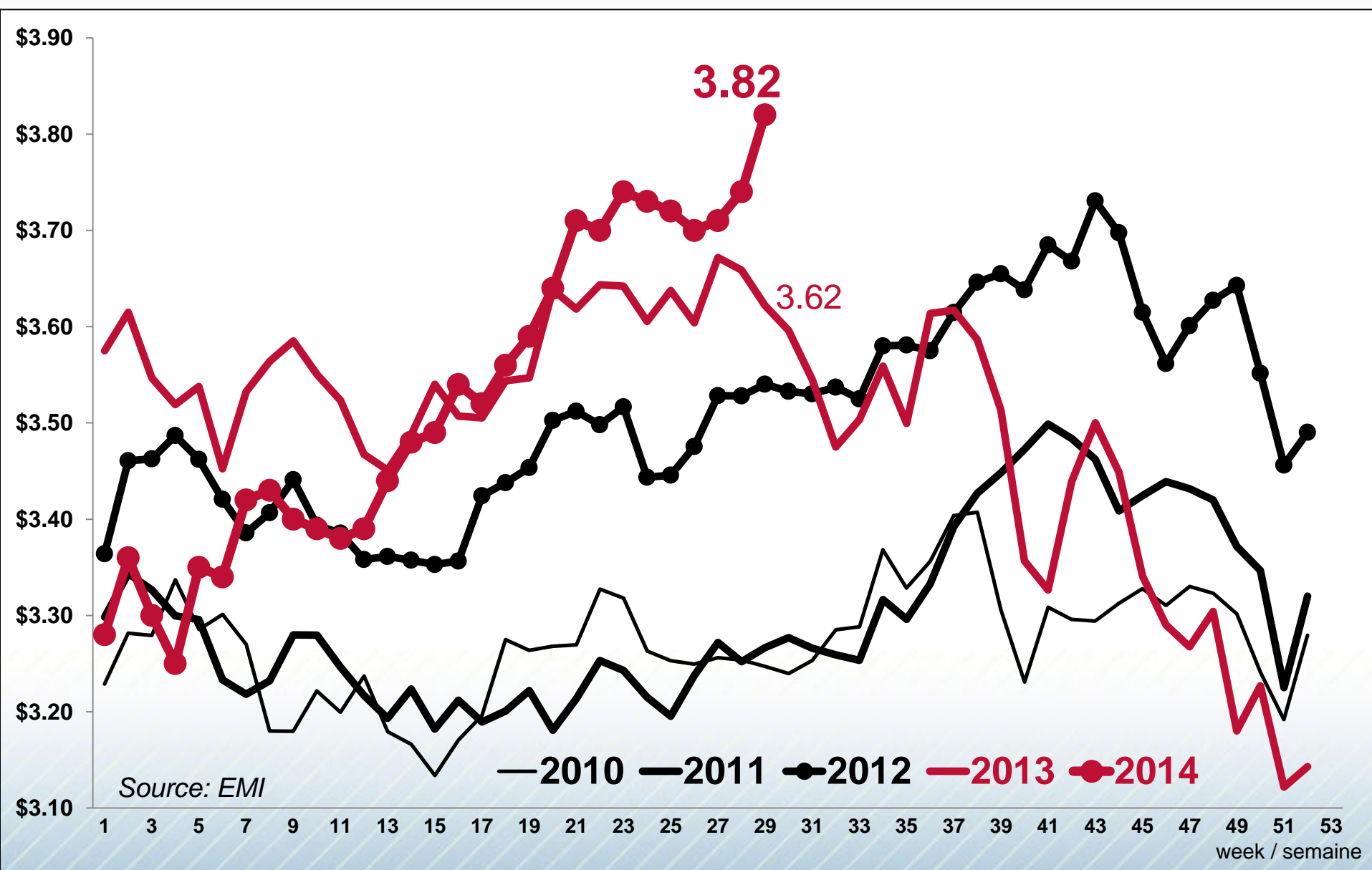
2014 vs 2013 – apples to oranges

- > CPEPC relies on market conditions in mid-2013 to claim the A-127 allocation in mid-2014 is too high
- > As the evidence before CFC Directors shows, mid-2014 conditions are fundamentally different than mid-2013

2014 vs 2013 – wholesale prices

- In mid-2014, wholesale prices were at record levels – much higher than a year earlier
- Wholesale composite price \$3.82 in week 29, 2014, and rising
- By contrast, price was \$3.62 in week 29, 2013 and falling

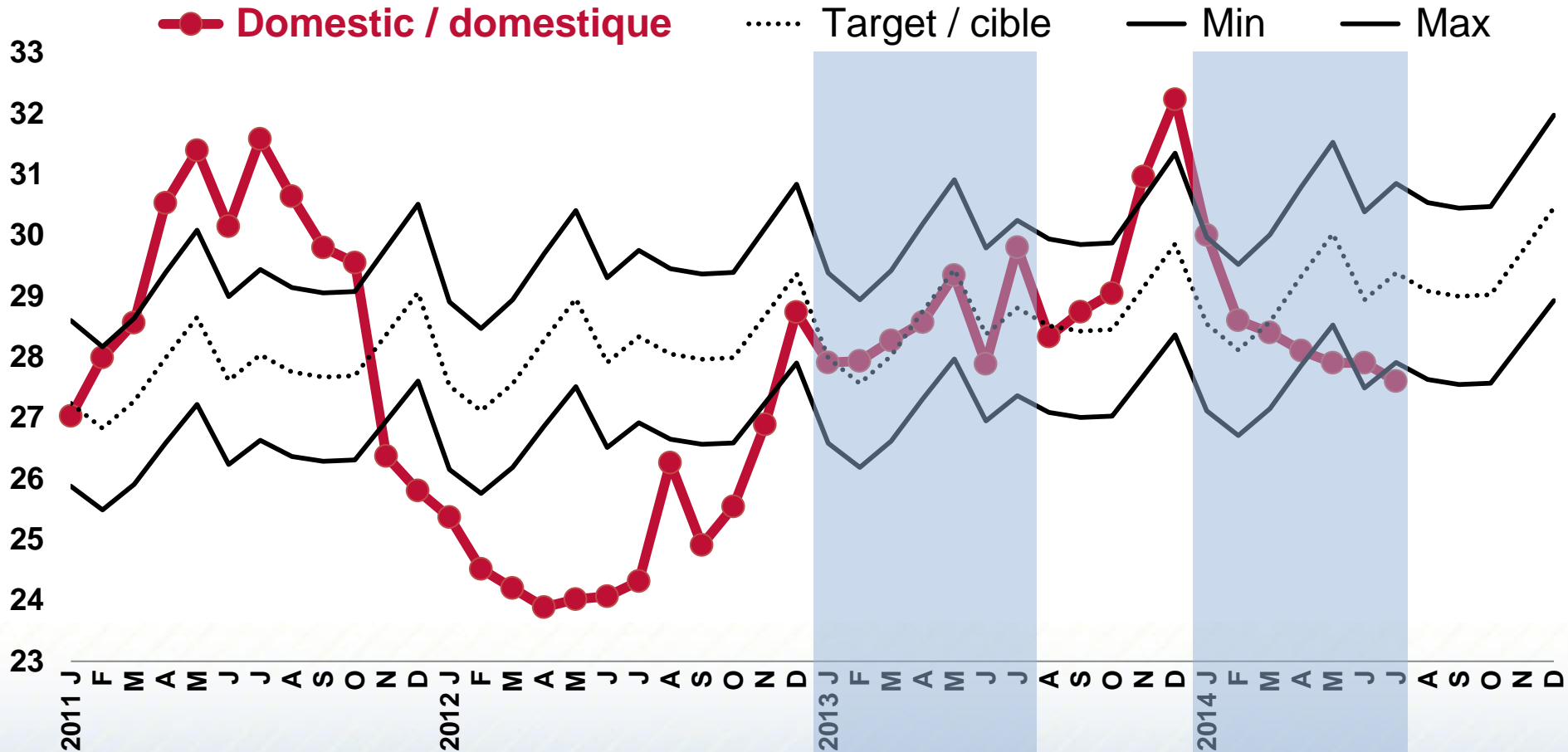
Wholesale prices - Market Composite (\$/kg)



2014 vs 2013 – storage stocks

- In 2014, storage stocks have declined sharply since the start of the year and have been below the healthy range 2 out of the last 3 months
- By contrast in 2013, storage stocks were trending upwards and generally on the target line within the healthy range

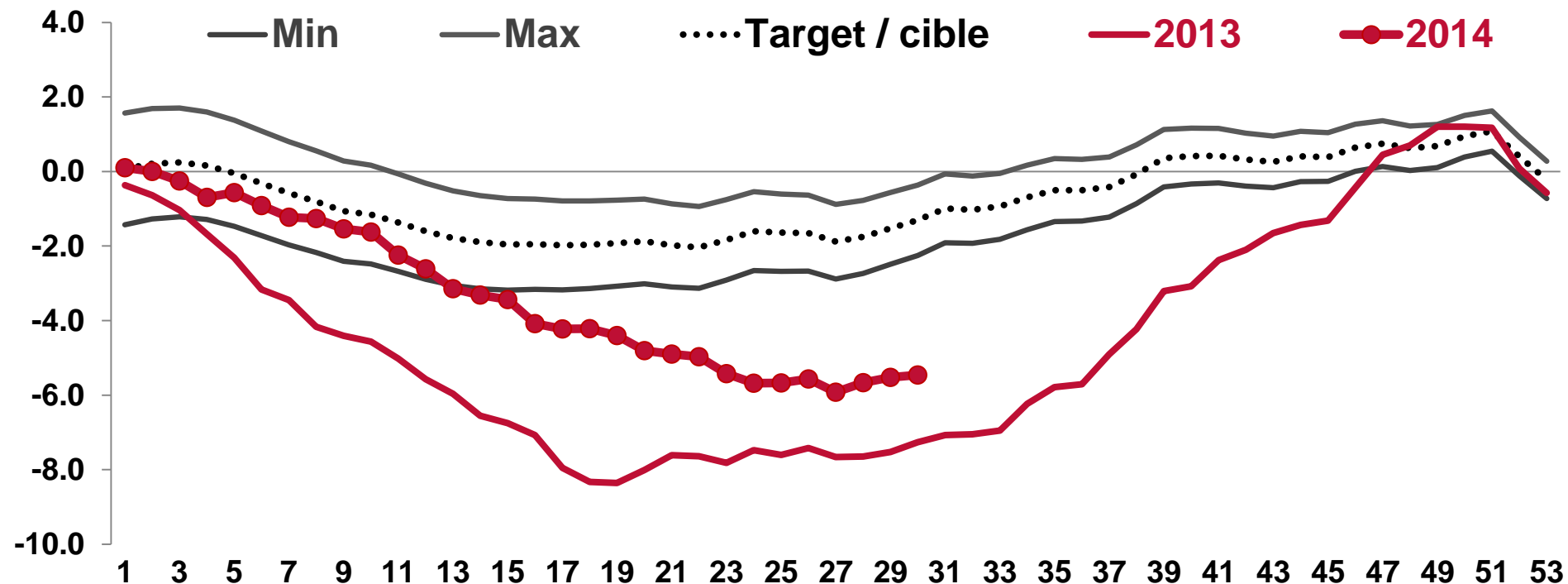
Chicken Storage Stocks (Mkg)



2014 vs 2013 - TRQ imports

- > TRQ imports are behind pro rata and below the healthy range
- > However, the gap is 1.8 mkg lower than in mid-2013

Global imports vs pro-rata (Mkg evis)



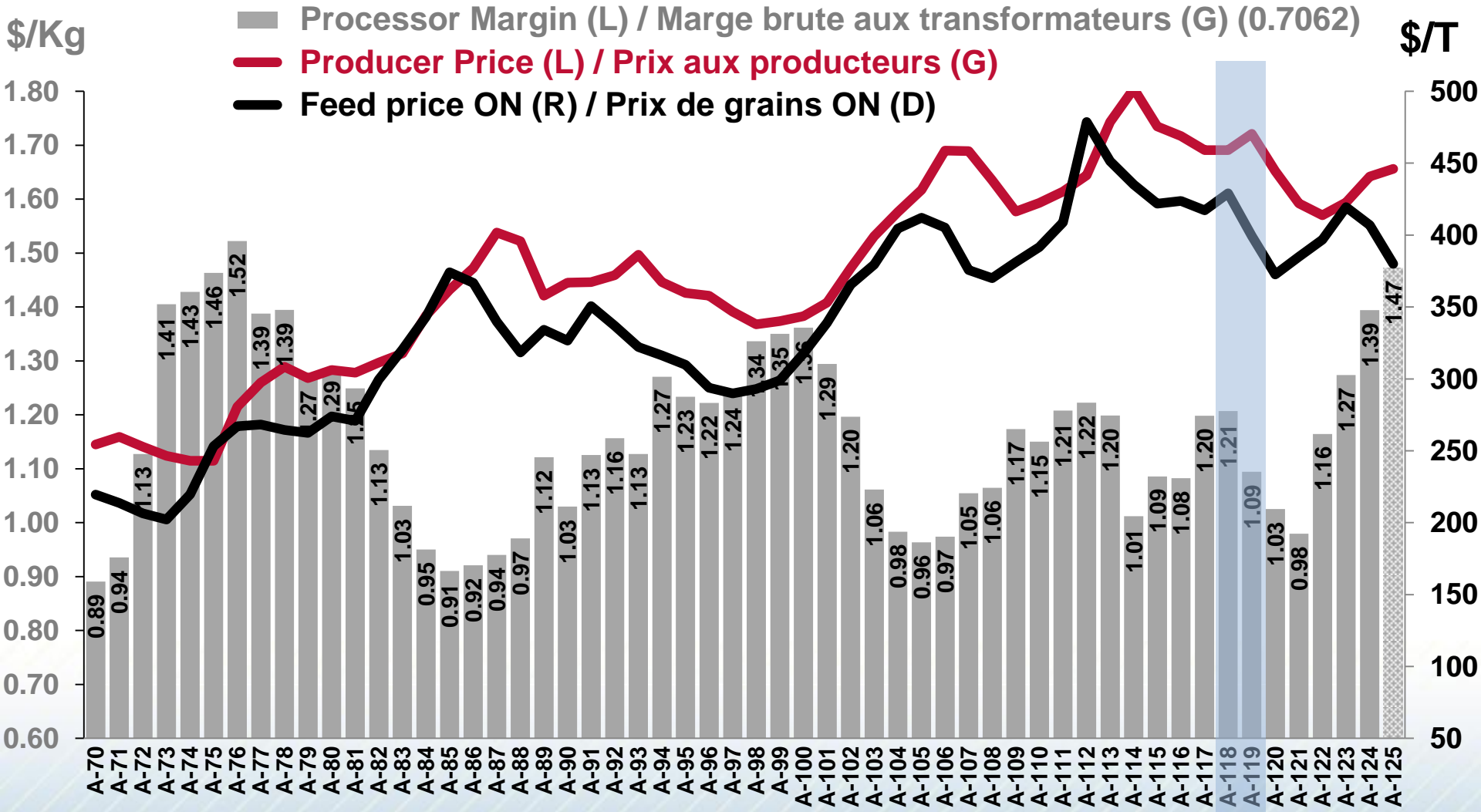
(as of July 26)

	2014	2013
Distance from target	4.2 Mkg	7.6 Mkg
Distance from pro-rata	5.5 Mkg	7.3 Mkg

2014 vs 2013 – processor margin

- > In A-125, processor margins \$1.47 (near record high)
- > By contrast, on year earlier (A-119) margin was \$1.09

Producer Prices, feed prices, estimated gross processor margin



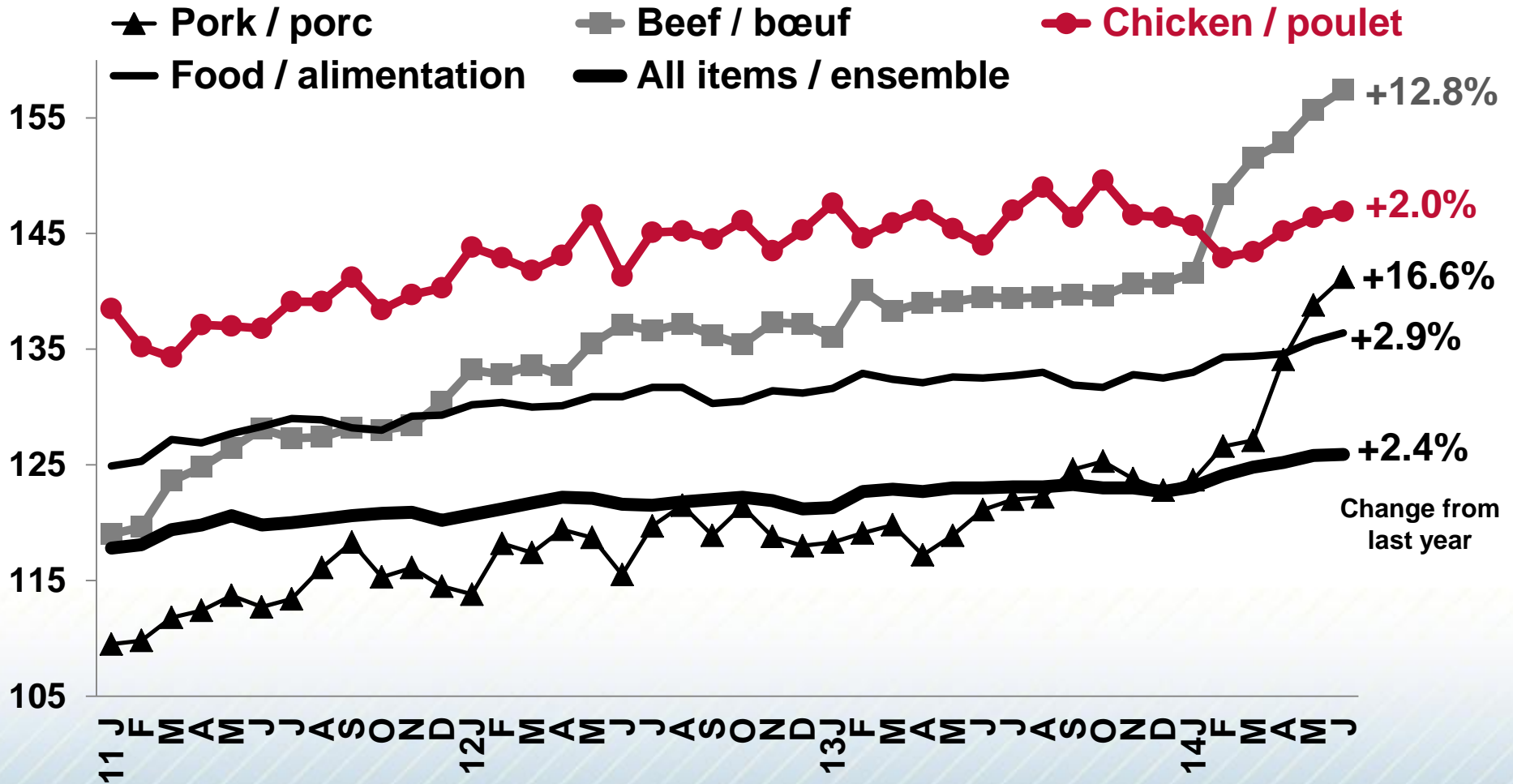
A-125 feed price and gross processor margin – 1 week of data

2014 vs 2013 – competing meats

- Competitive position of chicken better in mid-2014 vs mid-2013 as shown by relative CPI
- CPI for beef is up 12.8% in the past year
- CPI for pork is up 16.6% in the past year
- By comparison, CPI for chicken is only up 2.0% in the past year
- YTD fresh chicken retail purchases up 4.8%

Consumer Price Index (2002=100)

L'indice des prix à la consommation



Source – Statistics Canada / Statistique Canada

Domestic disappearance and retail sales

- > Calculated domestic disappearance of chicken during the first half of 2014 (January-June): + 4.8%
- > Nielsen fresh-track retail sales data for the last 52 weeks ending June 28, 2014:

	volume	\$	\$/kg
Chicken	+ 3.2%	+ 5.4%	+ 2.2%
Beef	- 2.0%	+ 3.1%	+ 5.3%
Pork	- 4.9%	0%	+ 5.1%

What CPEPC said re market conditions as of July 2014

- According to CPEPC:
 - » “most market conditions are positive”
 - » processor gross margin “above target”
 - » “weather has been very favourable for crops”
 - » feed prices “have been moving lower”
 - » “reasonable growing conditions should result in ... lower live prices”

What FPPAC said re market conditions as of July 2014

> According to FPPAC:

- » wholesale prices “in good shape... in record high territory”
- » “outlook is positive for lower live prices
- » “on the competitive meat front, the situation could not be better”

Statements by CPEPC and FPPAC undermine their complaint

- These concessions re strength of chicken market support reasonableness of the decision to allocate 4.25% above base
- These concessions undermine CPEPC/FPPAC claim that growth of 4.25% above base will destabilize the market
- Recall: growth of 4.25% above base equates to 3.2% higher total production compared to the same weeks in 2013

Market segment favouritism

- > RC expresses concern about facing competition from retailers as a consequence of the A-127 allocation and how restaurant chicken pricing formulas work
- > However, the allocation system should meet market needs, not hold supply back to favour one set of industry customers
- > To set allocations to reduce competition between retailers and restaurants would be quite improper

Chick supply

- The supply of hatching eggs/chicks is tight
- CPEPC/FPPAC concede: “the allocation for period A-127 should be set on the basis of market factors, not available chick supply”
- These issues are not a justification to short the market
- Similarly, it is speculative for RC to claim that chick supply issues will lead to out of spec chicken production



Allocation setting and voting

Requests, base & domestic allocations periods A122-127

Periods A-121 to A-127		vs base	vs LY prod
Base allocation (Mkg)	1,068.9		
Domestic allocation (Mkg)	1,089.7	+ 1.9%	+ 1.8%
Domestic production last year (Mkg)	1,070.0		
Initial industry recommendations (Mkg)	CPEPC	FPPAC	RC
	1,067.8	1,080.5	1,081.7

Production – 2012, 2013 & 2014

Annual production (Mkg)	2012	2013	2014*	'14/'13
Domestic production	984.0	1,001.0	1,021.5	+ 2.0%
Total production	1,024.7	1,044.2	1,068.7	+ 2.4%

* projection

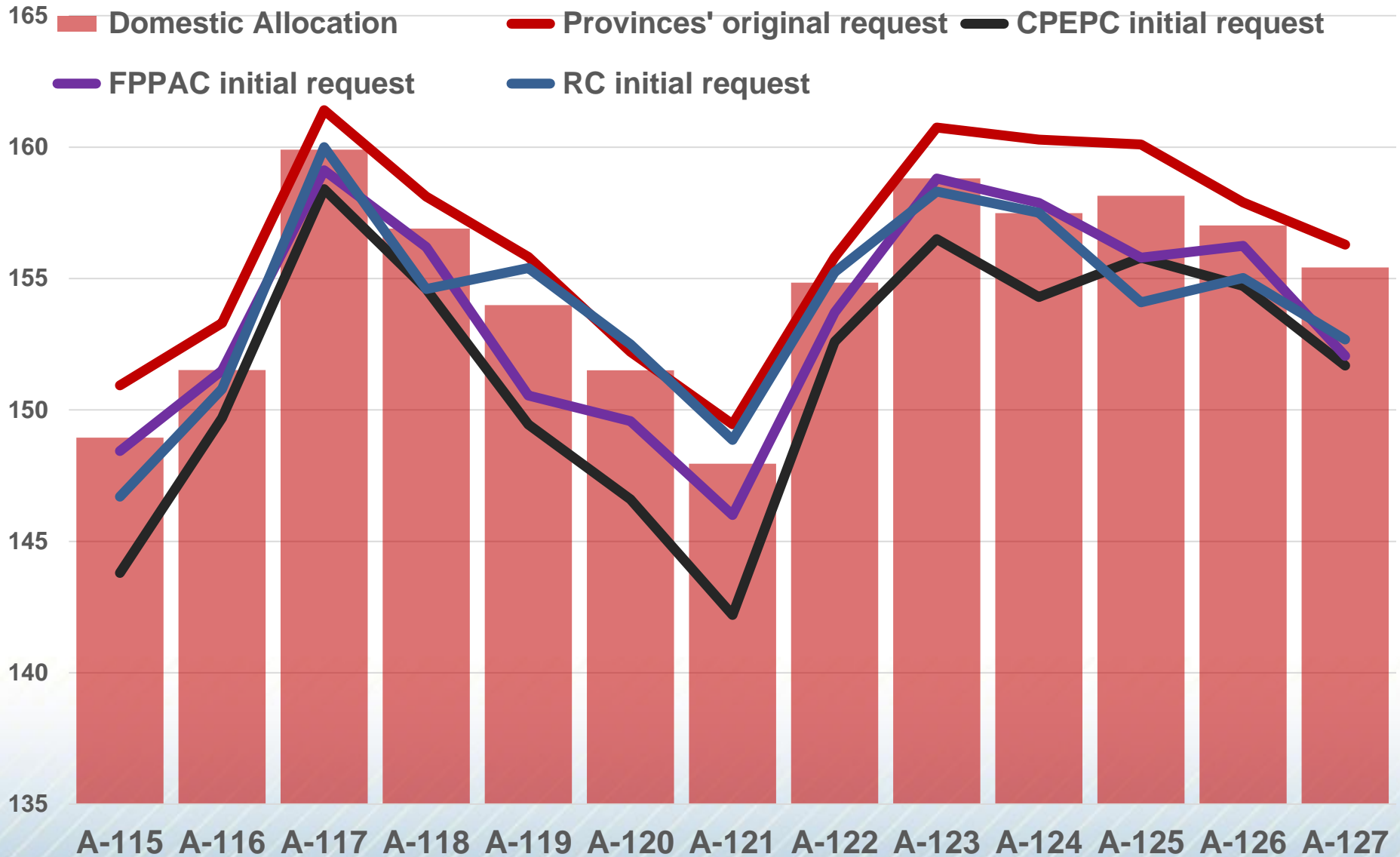
Supply management, not supply containment

- CFC's strategic plan vision: "To grow consumer demand for Canadian-grown chicken"
- Responsible, balanced growth is consistent with the statutory objects in our FPA
- Supply management means taking advantage of growth opportunities when the right conditions exist
- CPEPC and FPPAC, by contrast, seem to focus on constraining growth to maximize their margins

Supply management, not supply containment

- > A-127 is part of a disturbing pattern of submitting systematically low market estimates, in particular, by CPEPC
- > FPA objectives include working “in the balanced interest of producers, industry stakeholders and consumers”
- > That objective requires industry stakeholders to make balanced, factually-based supply estimates

Allocation decision history – 2013-2014



Supply management, not supply containment

- Allocations should meet the needs of the market, not hold back supply to drive up margins for certain sectors
- Keep in mind that the A-127 allocation was lower than the volume sought by boards in BC, AB, SK, MA, ON and QC

Double majority

- CFC would prefer unanimity in setting periodic allocations, but that is not always possible
- The requirement to set an allocation is double majority support, which A-127 satisfies
- The A-127 allocation is about meeting the needs of the marketplace in a reasonable manner
- The A-127 allocation is not about favouring producers or consumers over downstream industry customers

Allocation voting results 2013-2014

FINAL ALLOC	A-115	A-116	A-117	A-118	A-119	A-120	A-121	A-122	A-123	A-124	A-125	A-126	A-127
Mkg	148.9	151.5	159.9	156.9	154.0	151.5	148.0	154.8	158.8	157.5	158.1	157.0	155.4
vs base	1.5%	1.7%	2.0%	1.5%	1.0%	1.8%	2.0%	2.5%	1.5%	0.0%	1.0%	2.5%	4.3%
CPEPC	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
FPPAC	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
RC	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>



Conclusion

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- A-127 allocation is balanced and supported by ample market research
- The allocation takes advantage of legitimate growth opportunities in a carefully considered manner

Conclusion

- Complainants have not met the burden on them to show that A-127 allocation is unreasonable
- The evidence supporting the complaints is so thin as to be almost non-existent
- The complaints should be dismissed, and prior approval of A-127 should be granted as quickly as possible



***Chicken Farmers
of Canada***

***Les Producteurs de
poulet du Canada***

APPENDIX – allocation decision history 2013-2014

		A-115	A-116	A-117	A-118	A-119	A-120	A-121	A-122	A-123	A-124	A-125	A-126	A-127
Initial requests vs base	Prov	2.9%	2.9%	3.0%	2.3%	2.2%	2.3%	3.0%	3.1%	2.7%	1.8%	2.3%	3.1%	4.8%
	CPEPC	-2.0%	0.5%	1.0%	0.0%	-2.0%	-1.5%	-2.0%	1.0%	0.0%	-0.7% 1.3%	-0.5%	1.0%	1.8%
	FPPAC	1.2%	1.7%	1.5%	1.0%	-1.3%	0.5%	0.7%	1.7%	1.5%	0.2%	-0.5%	2.0%	2.0%
	RC	0.0%	1.2%	2.1%	0.0%	1.9%	2.5%	2.6%	2.8%	1.2%	0.0%	-1.6%	1.2%	2.4%
FINAL ALLOC		1.5%	1.7%	2.0%	1.5%	1.0%	1.8%	2.0%	2.5%	1.5%	0.0%	1.0%	2.5%	4.3%
CPEPC vs Final (Mkg)		-5.1	-1.8	-1.5	-2.3	-4.5	-4.9	-5.8	-2.2	-2.3	-3.2	-2.3	-2.3	-3.7
CPEPC vs Final (%)		-3.5%	-1.2%	-0.9%	-1.5%	-2.9%	-3.2%	-3.9%	-1.4%	-1.5%	-2.0%	-1.5%	-1.5%	-2.4%