Chicken Farmers of Canada
Les Producteurs de poulet du Canada

FPCC / CPAC
File No. 1205-25
Registry ☐ Corporate ☐
AUG 14 2014
TO Marc, Nathalie, Lisette
CC Mike, Reg
ACTION BY / DUE DATE

August 14, 2014

Mr. Laurent Pellerin
Chairperson
Farm Products Council of Canada
Central Experimental Farm
960 Carling Avenue, Building 59
Ottawa, Ontario
K1A 0C6

Dear Laurent,

I am writing in response to the complaint by CPEPC, FPPAC and Restaurants Canada in respect of the July 29, 2014 decision by CFC Directors to set the allocation for A-127 at 4.25% above base.

CFC's complaint response should be read in conjunction with CFC's rationale letter of today's date respecting the A-127 allocation, and in the context of the July 8, 2014 Agreement in Principle regarding differential growth and allocation.

With the greatest of respect to the downstream stakeholder complainants, CFC's A-127 allocation is reasonable based on the information before them and should be prior approved.

CPEPC and FPPAC make the argument that the allocation was not supported by any downstream stakeholders.

There is always a range in market requirements provided by CFC member organizations for the setting of periodic allocations. For A-127, the range was from 1.75% over base recommended by CPEPC to 5% over base recommended by 6 provincial boards. I think it is fair to say that as a rule, CPEPC submits the lowest growth recommendations, while provinces in western and central Canada submit the highest. For the past two years, not including A-127 (A-115 to A-126), if CFC had set the allocation at the CPEPC recommendation, CFC would have set allocations at an average of half a percent below base each period. In fact, CFC set these same allocations at an average of 1.7% over base, and the result has been growth and a strong market.

350 rue Sparks Street
Suite/bureau 1007
Ottawa Ontario
K1R 7S8
tel (613) 241-2800
fax (613) 241-5999
www.chicken.ca
www.poulet.ca

It is true that there was not a unanimous vote to approve the allocation for A-127. While a unanimous vote is a laudable objective, it is not the CFC voting requirement to approve an allocation. Under the CFC Bylaw 25(2):

> "Motions with respect to quotas, levies, exceptional circumstance requests, changes to market development range under section 8.1 of the Market Development Policy, modifications to the Monitoring and Enforcement Policy and amendments to sections of these Bylaws as specified in Section 52, not including the motions referred to below in subsections (3), (4), (5) and (6), shall be supported by more than 50 percent of the members representing more than 50 percent of chicken production market share for the previous year, present for the vote."

The motion to approve the allocation for A-127 was supported by such a double majority vote of CFC Directors. While Alberta Chicken Producers (ACP) participated in the discussion and debate, the ACP Director did not vote.

CPEPC makes the argument that there will be direct negative impact to processors.

In making its recommendation for A-127 on July 16, 2014, CPEPC noted that wholesale prices have been stronger than expected and have remained above CPEPC's target range since May 2014. In fact, the gross processor margin is at its highest level in more than 7 years. In the two weeks between the submission of the CPEPC recommendation and the setting of A-127, the EMI wholesale market composite price increased another 5 cents to 379.23. Given the relationship between feed prices and live prices, with the latter following the former with a two-period lag, producer prices should begin to decline in A-126. CPEPC estimates that producer prices will be down more than 5 cents to $1.60 for A-126. With the record corn and soybean crops in North America this year, these price declines are likely to be even more significant for A-127 and beyond.

This is a markedly different situation than in 2013, when the gross processor margin averaged 20% less at $1.15 during the same weeks. An argument could be made that the significant gains on the processor margin side have been the result of setting the just completed A-124 allocation at base. In fact, with the A-127 allocation of 4.25%, CFC projects that production in 2014 will total 2.75% more than in 2013. This is only slightly above the medium term growth target of 2.5% that CFC Directors set on July 10, 2014.

In short, there is no specific and compelling evidence that processors we be unduly impacted by the A-127 allocation.

FPPAC makes the argument that the A-127 allocation will destabilize the market.

FPPAC argues that we are replicating the same pattern from 2013. However, there are some distinct and measurable differences. While TRQ imports remain behind pro rata and below the healthy range, on July 26, 2014 they were still 2.7 mkgs closer to pro rata than at the same time in 2013. As well, CFC cannot factor delayed TRQ imports into the allocation decision when those imports are being held back for other than market supply considerations. In terms of storage stocks, the first halves of 2013 and 2014 are a story of contrasts. From the peak of 28.7 mkgs on December 1, 2012 storage stocks dipped for one month then increased to 29.8 mkgs on July 1, 2013. By comparison, from the peak of 32.2 mkgs on December 1, 2013, storage stocks have declined every month to 27.6 mkgs on July 1, 2014. Storage stocks are at their lowest level since October 1, 2012 and have been below the healthy range two out of the last three months.

The A-127 allocation will put 4.2 mkgs more production on the domestic market than the same weeks in 2013. Reduced storage stocks and imports ahead of 2013 will more than offset this increase if required.

Restaurants Canada makes the argument that the birds will be out of specification because of a short supply of chicks.

The ongoing tightness in hatching egg and chick supply was discussed at length. It is not clear that there will or will not be enough chicks to produce the allocation for A-127 and meet the existing market requirements and specifications of customers. At this point, this is a speculative concern. CFC Directors are responsible for ensuring that there is adequate supply to meet customer needs; specific customer needs are the responsibility of individual processors and producers.

Restaurants Canada makes the argument that oversupply will result in lower prices that will favour retail over foodservice.

CFC Directors had a thorough discussion on the level of supply. While all Directors would likely agree that the increase in the allocation is substantially aggressive, the decision was not one of purposely oversupplying the market. Many CFC Directors believe that there is a market opportunity with competing meats and that chicken is well placed to take advantage of this opportunity.

The real challenge in setting A-127 was the judgment call that Directors were asked to make on the competitive meat situation. In the last year the consumer price index for beef has risen 12.8% and pork is up 16.6%, while chicken is only up a modest 2%. This gives chicken a real advantage in the marketplace as consumers move to lower-priced chicken from more expensive beef and pork. On top of this price advantage is the impact of tight beef supplies as the North American cattle industry tries to rebuild its herd and the effect of the PED virus on the supply of North American hogs. The latest USDA report is that the fourth quarter of 2014 will see the largest reduction in year over year hog slaughter numbers at -4.7% vs -2.3% in quarter 3, -0.2% in quarter 2 and +0.2% in quarter 1.

Additional submissions

CFC reserves the right to respond to any additional submissions or information relating to the complaint that may be brought forward, keeping in mind that complaints should normally be decided on the basis of the materials that were before the Board of Directors, and that no request for reconsideration has been submitted to CFC.

In conclusion, CFC asks that FPCC prior approve the allocation for A-127 set by CFC Directors on July 29, 2014.

Sincerely,

Mike Dungate

Mike Dungate
Executive Director