



Farm Products Council  
of Canada

Conseil des produits agricoles  
du Canada

# COMPLAINT COMMITTEE'S FINAL REPORT AND RECOMMENDATION

SEPTEMBER 2014

FARM PRODUCTS COUNCIL OF CANADA

Canada



# COMPLAINT COMMITTEE'S FINAL REPORT AND RECOMMENDATION

## IN THE MATTER OF THE INQUIRY INTO THE COMPLAINT BY THE CANADIAN POULTRY AND EGG PROCESSORS COUNCIL, THE FURTHER POULTRY PROCESSORS ASSOCIATION OF CANADA AND RESTAURANTS CANADA AGAINST THE CHICKEN FARMERS OF CANADA CONCERNING THE QUOTA ALLOCATION SET FOR PERIOD A-127

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The Committee was mandated to investigate the complaint brought forward by the Canadian Poultry and Egg Processors Council (CPEPC), the Further Poultry Processors Association of Canada (FPPAC) and Restaurants Canada (RC) that the allocation set by the Chicken Farmers of Canada (CFC) for A-127 allocation will result in oversupply of chicken which will unfairly favour competing sectors to the restaurant industry, cause instability and lead to significant challenges for buyers and sellers in the value chain.

The Complaint Committee has heard and collected all of the evidence presented during the course of the complaint<sup>1</sup>.

### **The Complaint Committee's Findings**

#### Tariff Rate Quotas

The Committee agrees with CFC and the interveners that the volume of imports under the Tariff Rate Quotas (TRQ) was, at the time of the allocation, in a more favourable condition than in 2013. The Committee is not of the view that for the A-127 allocation the level of TRQ versus the pro-rata volume of TRQ is an overriding factor when setting the domestic allocation for the A-127 period.

#### Wholesale Price

The Committee agrees with all parties that wholesale prices, after the drop in late 2013, have been strong throughout 2014, reaching the highest monthly average in July 2014.

The Committee is of the view, unlike the Complainants, that the wholesale prices will likely stay strong through November and December 2014, as indicated on page 6 and 7 of the George Morris Centre's August 2014 Canadian Chicken Market Review (see Annex 1). Wholesale prices are expected to continue to be above seasonal norms for November for breasts, legs and the composite wholesale prices, and well above the seasonal norms for the wing wholesale price.

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<sup>1</sup> The Complaint Committee's Compiled Summary of Evidence Report.

## 2014 Corn and Soybean Production

According to USDA's "World Agricultural Supply and Demand Estimates" released on September 11, 2014, corn and soybean production are expected to be at record high levels for 2014. Corn is expected to equal 13.9 billion bushels, up 29.2 percent from 2013. Soybean production is expected to equal 3.29 billion bushels for 2014, up 8.4 percent from last year.

The Committee agrees with CFC and the interveners that the estimated production totals will likely lead to price decreases in feed for the remainder of 2014 and into 2015, which will result in lower live chicken prices. These live chicken price decreases will likely help offset any potential decreases in wholesale prices during the A-127 period and will likely be beneficial to the processor gross margin.

## Storage Stocks

Total storage stocks, as reported by Agriculture and Agri-Food Canada, have dropped during 2014 from 37.3 million kg on January 1, 2014, to 32.1 million kg on September 1, 2014, a 13.9 percent decrease.

A common acceptable measure of stocks used by the industry as a market indicator is total storage stock minus leg quarters and miscellaneous cuts. The indicator is tracked and graphed monthly along with the healthy ranges<sup>2</sup> which are established by CFC, primary processors and further processors. This indicator has dropped 4.1 million from January 1 to September 1, 2014 a 13.6 percent decrease.

It is the Committee's opinion that stock levels have been drawn down as the supply of chicken has not kept up with the demand and stocks have been used to fill the gap. As such, stock levels have dropped below CFC's healthy range and the Committee's view is that, if the market becomes softer than CFC and the interveners anticipate in November and December, there will likely be room for surplus production to be moved into storage for use in 2015.

Annex 2 displays CFC's storage stock report for September 1, 2014 and the decreasing stock levels (without leg quarters and miscellaneous parts) can be seen in the graph at the bottom of the Chart. The healthy ranges are also displayed and the Committee notes that stock levels have been below the healthy ranges for the past three months.

## Projected Chicken Disappearance

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<sup>2</sup> Annual target values for domestic stocks are calculated using the ratio between annual domestic production and average yearly domestic stocks, using the most recent seven years of data. Monthly stock seasonality factors, also calculated using the most recent seven years (2007-2013) of data, are then applied to the annual target to calculate the monthly targets. Healthy ranges are set 5 percent above and below the monthly target (CFC's monthly Storage Stock reports).

The Committee notes that the market is in a positive trend, where projected domestic disappearance of chicken is above the volume seen last year. This view is further supported by the Nielsen retail sales data referenced by CFC, the Chicken Farmers of Ontario (CFO) and les Éleveurs de volailles du Québec (EVQ).

The Committee finds that this strong demand will likely continue through A-127 even with seasonal adjustments. This growth is in line with the medium growth rate target set by CFC during its July 10, 2014 conference call for the periods A-127 to A-132 of 2.5 percent.

The Committee acknowledges the Complainants' concern on the source of the export data used by CFC in calculating the projected domestic chicken disappearance.

#### The Tight Supply of Broiler Hatching Eggs

The Complainants argue that there will be a tight market for broiler hatching eggs and chicks for the A-127 period, which could cause producers to grow heavier birds to reach the allocation and not to the specification weights requested by RC members. The Committee agrees with CFC and the interveners that, when setting the allocation, it is the responsibility of the Agency to set an allocation which will satisfy the volume of chicken required in the market.

The Committee is also of the view that the chicken specification is not the responsibility of CFC but rather the responsibility of individual processors and producers.

#### Adjusted Base

A term frequently used in this report is adjusted base or base, as they can be used interchangeably.

CFC calculates for each province the initial base every year for a six period block. The current block runs from A-127 to A-132. The initial base for each period in the block equals the lesser of the domestic quota allocation CFC sets for a province or the domestic quota allotments made by the provincial commodity board to producers in the province during the same weeks in the previous year.

Each provincial commodity board has the opportunity to adjust the initial base allocation for one or more of the six periods in the block. The adjustments made for any period cannot exceed five percent of the initial base and the total of the adjusted bases for the six periods does not change.

After receiving input from the provincial commodity boards, the adjusted bases are put forward to CFC Directors for review and approval. Included in Annex 3 is the summary of base allocations for A-127 to A-132 that CFC Directors approved during its July 10, 2014 meeting.<sup>3</sup>

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<sup>3</sup> Alberta is not included in Annex 3, as they were not Members of the Agency at the time the adjusted bases were set.

The adjusted base for Canada during the A-127 period was 149.1 million kg, domestic production for the same weeks in 2013 was 151.2 million kg and the domestic allocation for A-127 was set by CFC at 155.4 million kg.<sup>4</sup>

The Committee noted that the adjusted base can differ significantly from domestic production from the previous year. As such, comparing the allocation with the adjusted base can, at times, be misleading when discussing growth. Growth above the base is quite a different measure than allocation growth over production from the previous year.

### A-127 Domestic Allocation

As noted by CFC and the interveners, if the A-127 domestic allocation is fully utilized, domestic production would be 2.8 percent or 4.2 million kg above domestic production for the same weeks in 2013.

The following table displays the A-127 domestic allocation as compared to 2013 production. Also included is the Adjusted Base for A-127.

### **2013 Domestic Production, Base and Domestic Allocation for A-127**

	2013 Domestic Production	Adjusted Base for A-127	A-127 Domestic Allocation	A-127 as a % of Base	A-127 as a % of 2013 Domestic Production
BC	22,002,905	21,286,650	22,023,559	3.46%	0.09%
AB	13,743,890	13,811,648	14,676,940	6.26%	6.79%
SK	5,519,694	5,317,246	5,533,763	4.07%	0.25%
MB	6,248,715	6,224,257	6,443,185	3.52%	3.11%
ON	49,510,246	49,679,985	52,004,504	4.68%	5.04%
QC	42,014,759	40,467,374	42,049,999	3.91%	0.08%
NB	4,302,502	4,277,281	4,411,528	3.14%	2.53%
NS	5,287,557	5,346,840	5,510,679	3.06%	4.22%
PE	587,702	580,780	599,567	3.23%	2.02%
NF	2,006,439	2,091,310	2,165,697	3.56%	7.94%
Canada	151,224,409	149,083,371	155,419,421	4.25%	2.77%

Source: CFC

In some provinces (British Columbia, Saskatchewan, Quebec, and Newfoundland and Labrador) there are significant differences when the percentage above the base is compared to the percentage above 2013 domestic production. For example, Quebec's increase above base was 3.91 percent but for production, the increase was 0.08 percent.

<sup>4</sup> All figures are in eviscerated weight and include data for Alberta.

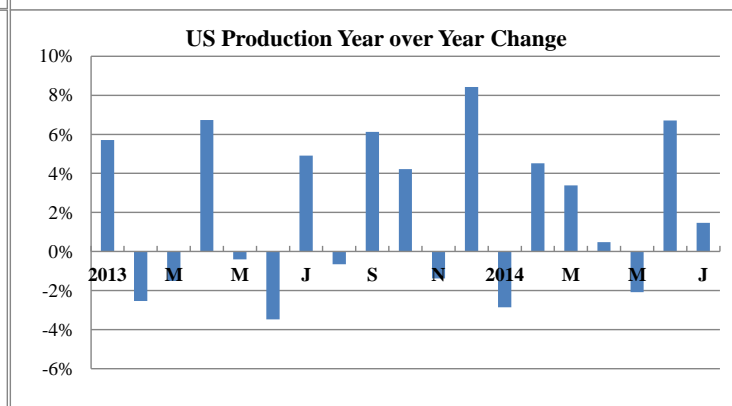
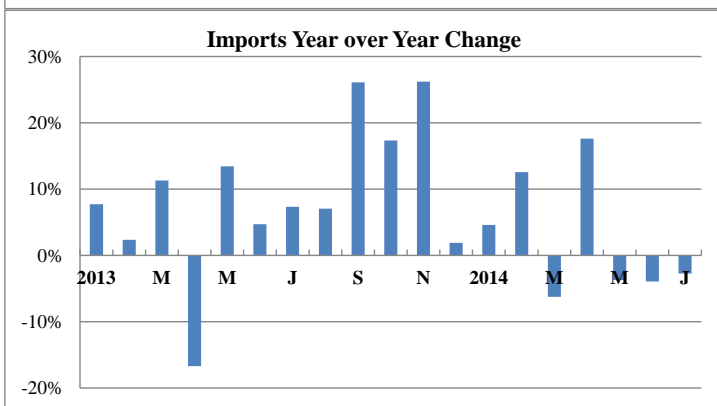
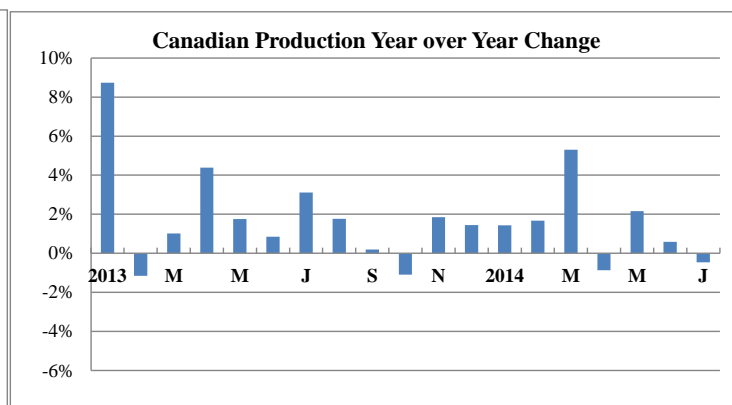
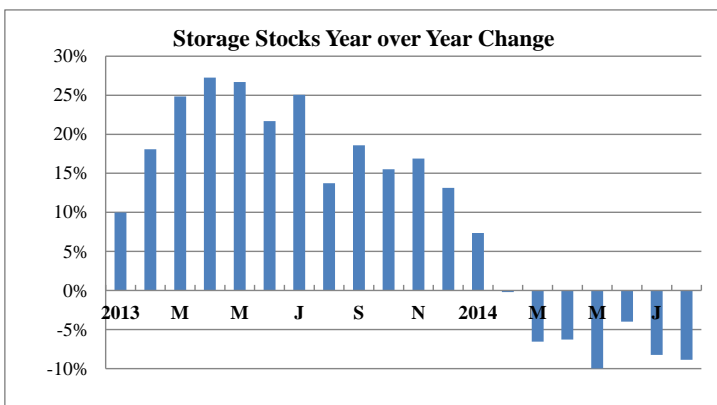
The Committee is of the view that not only do processors and producers need to look at the national number, but the implications of each allocation at the provincial level must also be considered. Newfoundland and Labrador and Nova Scotia both voted against the A-127 allocation as both provincial representatives indicated that the volume was too high for their provincial needs.

### **The Complaint Committee's Recommendation to Council**

Based on the evidence and the findings, the Complaint Committee recommends that the Council dismiss the complaint brought forward by CPEPC, FPPAC and RC.

## **Annex 1**





## The Market Argument for Canadian Wholesale Chicken Prices Through: *Nov 2014*

### BULLISH

1. Demand in Canada has been strong.
2. Beef and pork prices are skyrocketing.
3. Chicken is competitively priced compared to pork and beef.
4. Chicken features are aggressive.
5. Retail chicken margins are much better than the red meats.
6. US processors have been very cautious.
7. Cdn production changes from late summer going into the fall should be typical or what the change normally is for the time of year.
8. Storage stocks are declining.
9. Breeder flock growth is tepid.
10. C\$ is showing weakness.

### BEARISH

1. Seasonal trends are running lower.
2. Retail competition will make pricing gains hard to come by.
3. Retail meat margins are poor and they will be reluctant to accept pricing increases.
4. Imports should start to come in stronger than in recent years.
5. Strong margins in the U.S. could prompt more aggressive production.
6. A stronger US dollar might ease US exports.

**Breast prices should ease seasonally but from very firm peaks. Wings will bounce sharply off lows to advance stronger than seasonal norms.**

## Current Market Conditions

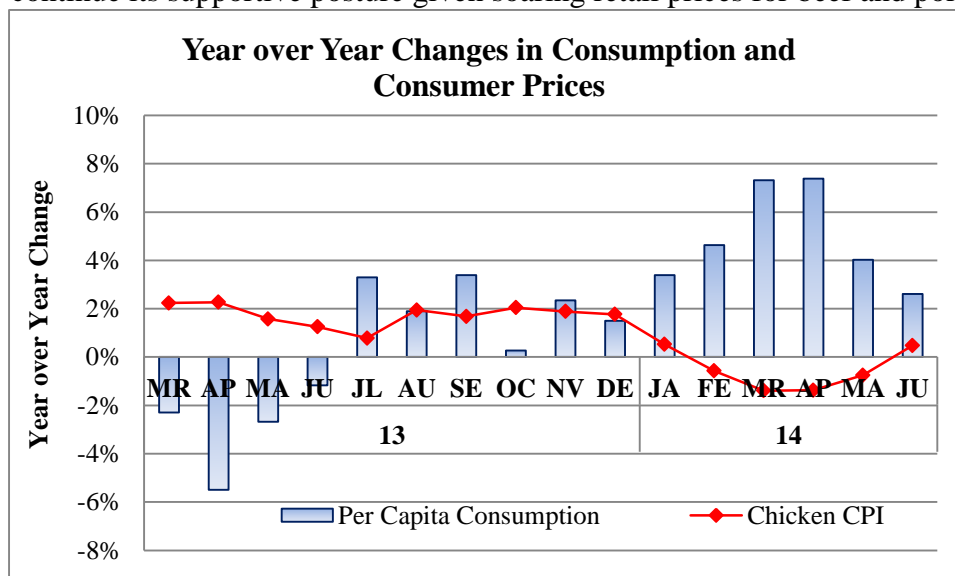
Market Factors 2014 vs 2013					
	Canada			United States	
% Change	July	Year to date		July	Year to date
<b>Production</b>	0	1		1.5	1.5
<b>Storage Stocks</b>	-9	-5		-13	-8
<b>Imports</b>	-3	2		--	--
<b>Exports (July)</b>	--	--		2	1
<b>Egg Sets</b>	0	0		2	1
<b>Chick Placements</b>	4	1		0	0
<b>Breast Prices</b>	5	2		6	2
<b>Wing Prices</b>	-6	-11		-9	-8
<b>Leg Prices</b>	5	-1		0	-10
<b>Beef Cutout Value</b>	39	30		--	--
<b>Pork Cutout Value</b>	31	33		--	--

### Current Market Commentary

Chicken processors in Canada continue to enjoy strong margins as a result of robust demand for chicken and a corresponding tight supply in both Canada and the U.S. Despite very good profits and soaring prices, processors in both Canada and the U.S. have shown a great deal of risk aversion regarding production increases. Chicken processors enjoy a great deal of market leverage given the unprecedented pricing levels in the competing meats. Despite material increases in chicken prices, the product remains very low priced relative to beef and pork. Beef and pork margins at retail continue to be very poor while chicken margins are close to the norm. As such, chicken continues to see strong featuring while gaining share in the meat case.

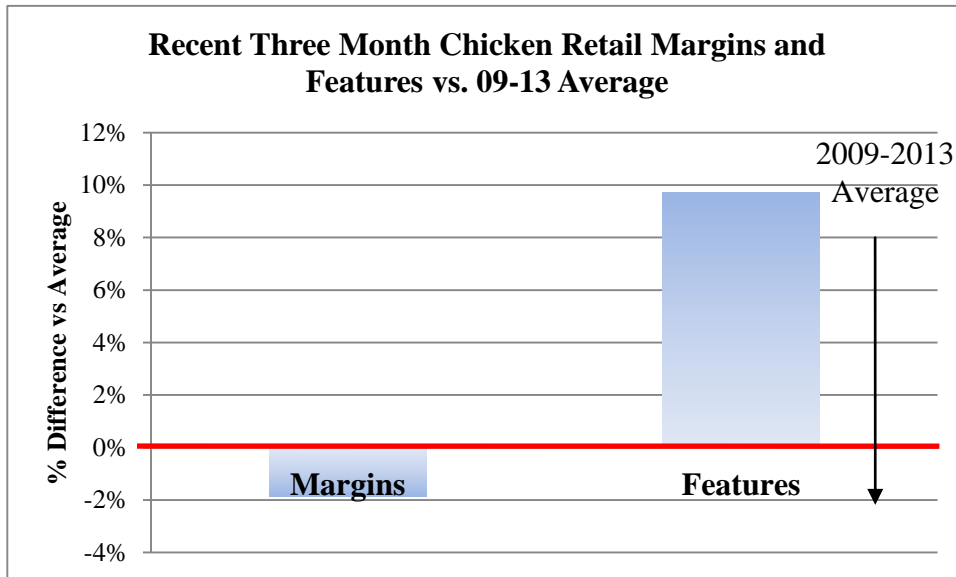
### Canadian Domestic Demand

Canadian chicken consumption has been increasing on a year over year basis from March 2013 to June (latest). The retail price of chicken, as measured by the Statistics Canada Consumer Price Index actually declined from February to May before increasing modestly in June compared to last year. That encouraged even stronger consumption. The consumption and pricing data shows that chicken demand has been increasing and robust which is supportive of the chicken market. Demand should be counted on to continue its supportive posture given soaring retail prices for beef and pork.



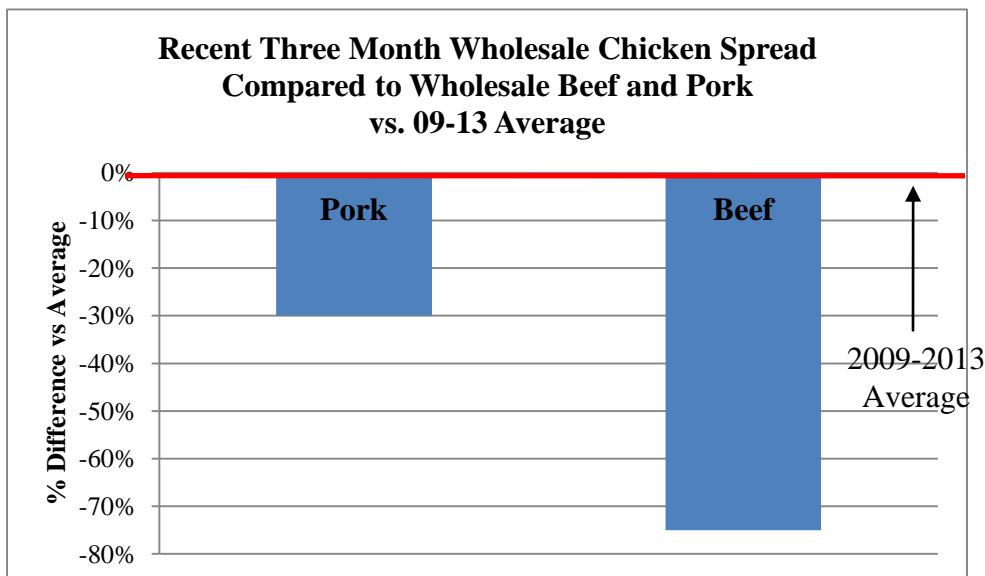
## Feature Tracking and Grocery Margins

Chicken has become the item of choice for featuring, given the soaring wholesale price points at beef and pork. Beef featuring continues to scrape down to record low levels of feature share based on George Morris Centre tracking. Beef items that do make the flyers tend to be featured at very high price levels. Retailers have also begun to show less pork. Pork that is shown has increased in price compared to recent features. Chicken is the feature item of choice and retailers are being aggressive with the meat. Chicken price points on features continue to be a levels consumers have seen for several years. Chicken margins at retail are running around average while beef and pork margins are very poor. Chicken features are running above the average levels of the previous five years.



## Competing Meat Spreads

Soaring price levels for beef and pork have dramatically changed their pricing relationship relative to chicken, compared to historical norms. Chicken wholesale price differentials compared to the red meats are averaging much lower and are much less expensive than competing beef and pork.



The summary point is that chicken remains very competitively priced relative to the red meats, despite the recent increases in chicken costs. Retailers and foodservice purveyors are struggling to deal with the red meat costing increases.

# Canadian Chicken Price Forecasts

## Competing Meats and Economic Conditions

The following table shows forecasts for competing meats and economic conditions:

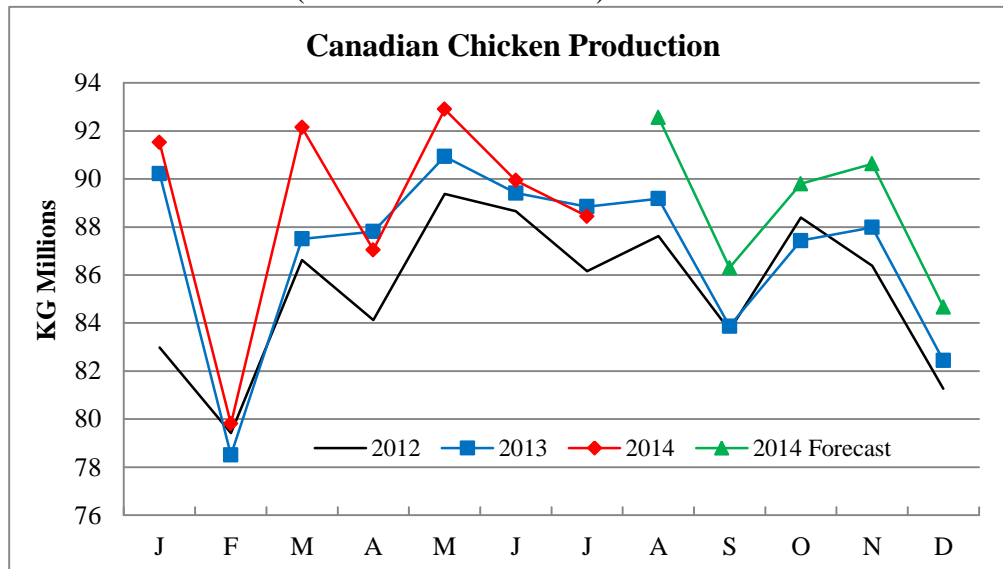
Production, Pricing and Economic Conditions			
(% change except where noted)	Q2 '14	Q3 '14	Q4 '14
<b>N. American Beef Production (YOY)</b>	-5	-2.5	-5.5
<b>N. American Pork Production (YOY)</b>	0	-2.8	-3.9
<b>Cdn Wholesale Beef Prices (YOY)</b>	18	25	20
<b>Cdn Wholesale Pork Prices (YOY)</b>	30	20	30
<b>Real GDP</b>	3.1	3.0	2.0
<b>Cdn Unemployment</b>	7.0	7.0	6.9
<b>Exchange Rate US¢/C\$</b>	91.7	92.0	91.1

Source: George Morris Centre, USDA and Bank of Montreal

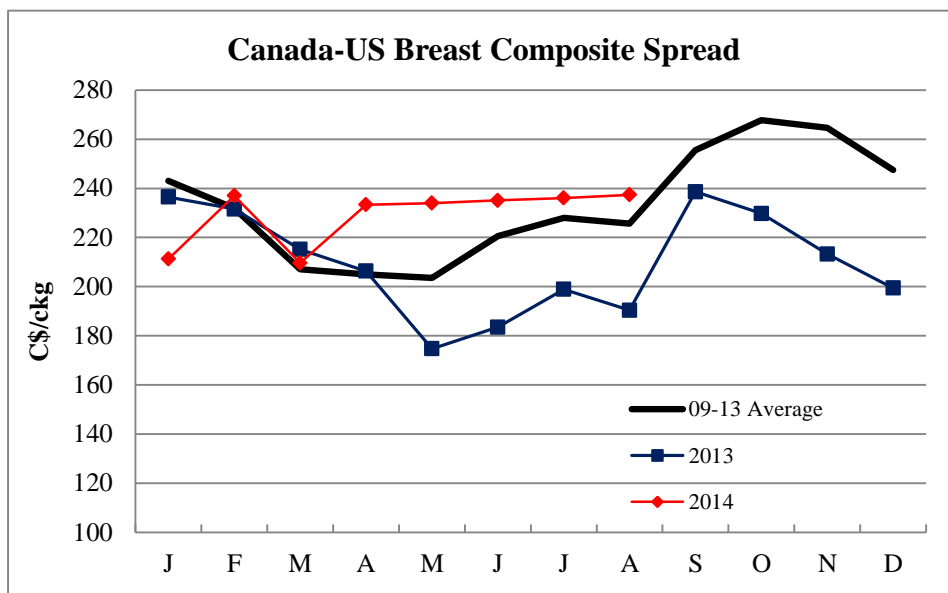
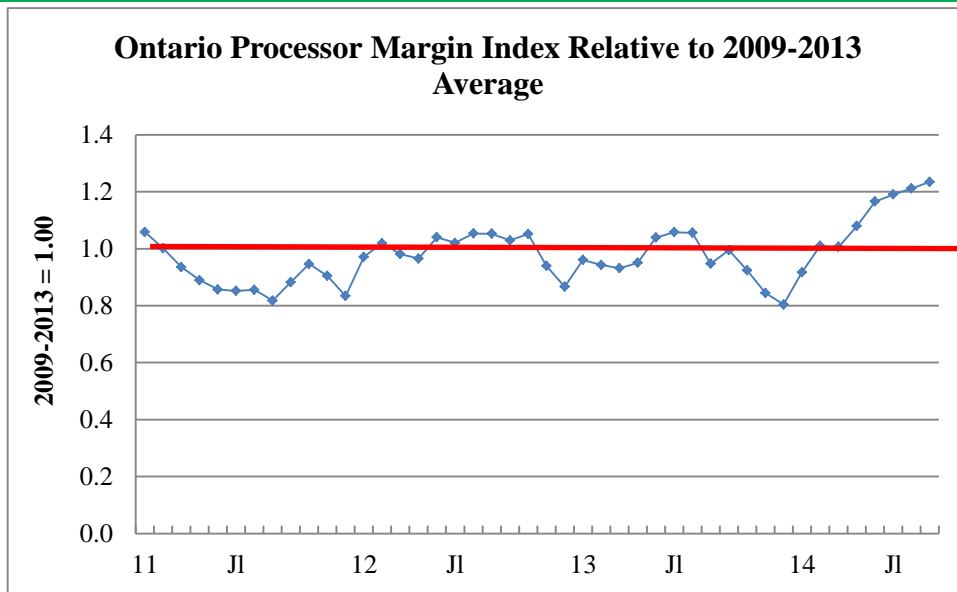
After three consecutive monthly declines, the Index of Consumer Confidence reversed course in August, rising 2.5 points to 88.4 (2002 = 100). Consumers were more optimistic about their future finances and were more willing to make a major purchase. (conferenceboard.ca)

## Forecasted Canadian Production and Imports

- Total allocations for A-125 (July 13 to September 6): 4.2%. Domestic allocations: 3.7%
- Total allocations for A-126 (September 7 to Nov 1): 2.7%. Domestic allocations: 2.3%
- Total allocations for A-127 (November 2 to Dec 27): 3.2%. Domestic allocations: 2.8%

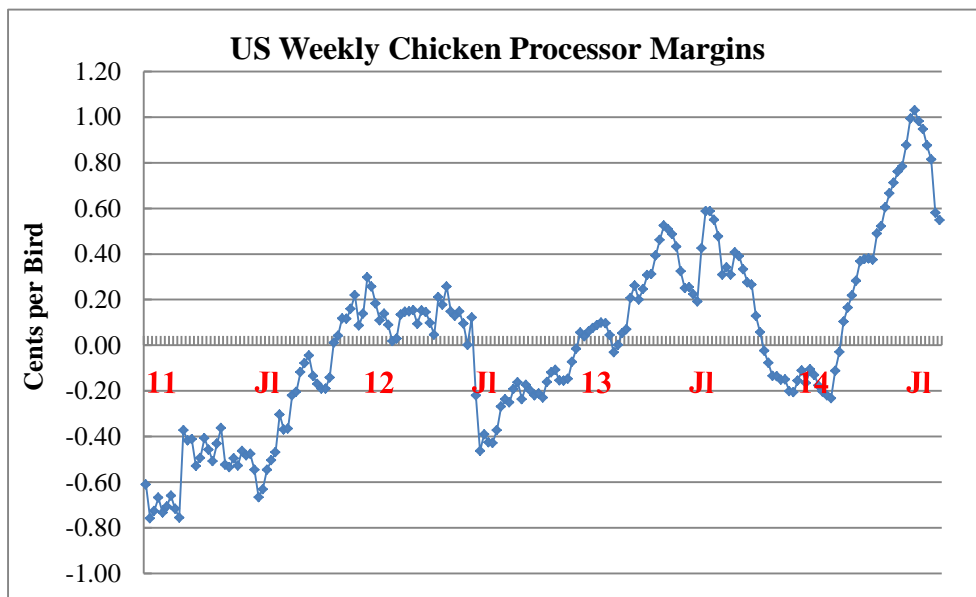
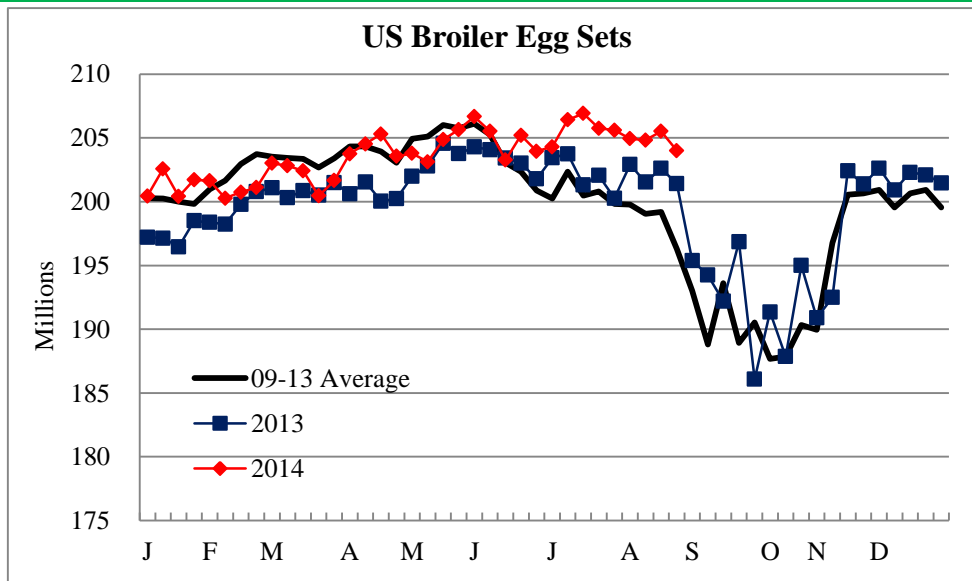


- Canadian processor margins are running well above average (see graph below).
- Average daily volume of fresh supplies (production plus forecast imports) during October and November 2014 are forecast to be down by about 1% relative to the average daily supplies in June and July 2014. That is a similar decline supplies over that period as has been the case on average during the past nine years. Based on the allocations and likely imports, supplies will be typical to what they normally are during the summer to fall period.
- Imports remain well below prorata but that is not unusual for the time of year. TRQ imports are well above year ago levels and price differentials between Canada and the U.S. are favoring more imports. Imports should be increasing sharply in the coming weeks.



**United States Production, Exports and Prices**

- USDA estimates the third and fourth quarter’s 2014 production should be up just 1% compared to last year. The department is scaling back its production increase estimates.
  - Based on the egg sets, it appears that USDA’s forecasts are reasonable.
    - The broiler type hatching egg layers flock was up 2% in July compared to 2013. On a year to date basis the flock is up 2%.
    - US production levels should be supportive to Canadian pricing.
- US processor margins have put in a strong performance in late July and August.
  - These strong production margins are usually an indicator of more robust production potential but the flock data shows no signs of any notable increases.
- USDA is forecasting that exports will be flat in the third quarter but down sharply in the fourth compared to last year. Last year was a record year for U.S. broiler exports.
  - U.S. exports should be neutral to the overall chicken market in the third and fourth quarters



### **Seasonal Pricing in Canada**

The following is a summary of the HISTORICAL seasonal changes in pricing from 2009 through 2013 for Canadian breasts, wings, legs and the total composite from July to Nov.

- Breasts: -2%
- Wings: 7%
- Legs: 3%
- Composite Cutout: 1%

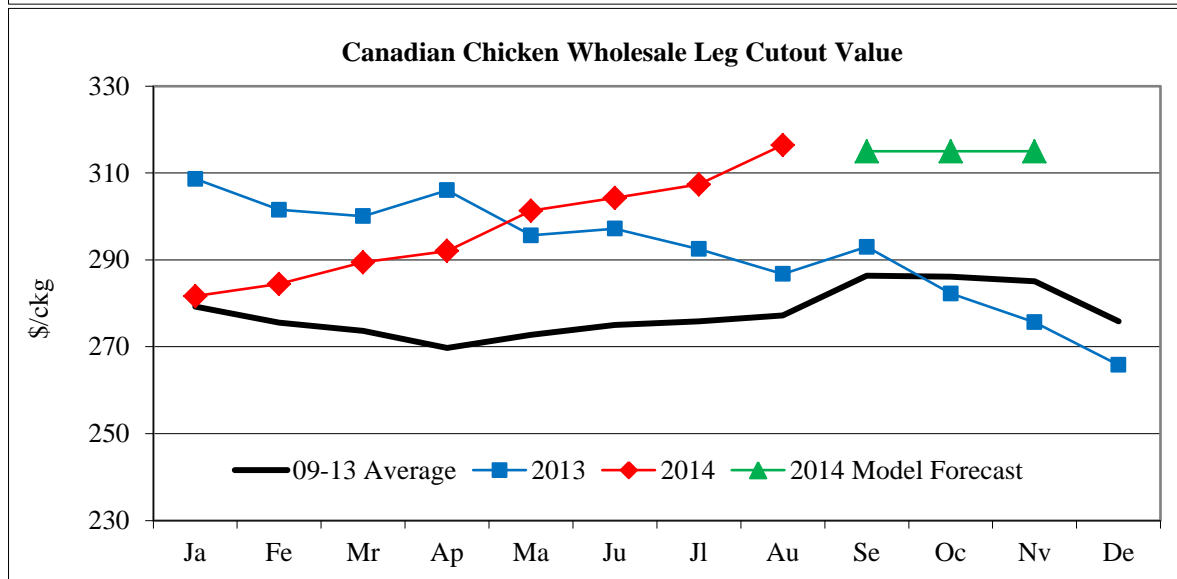
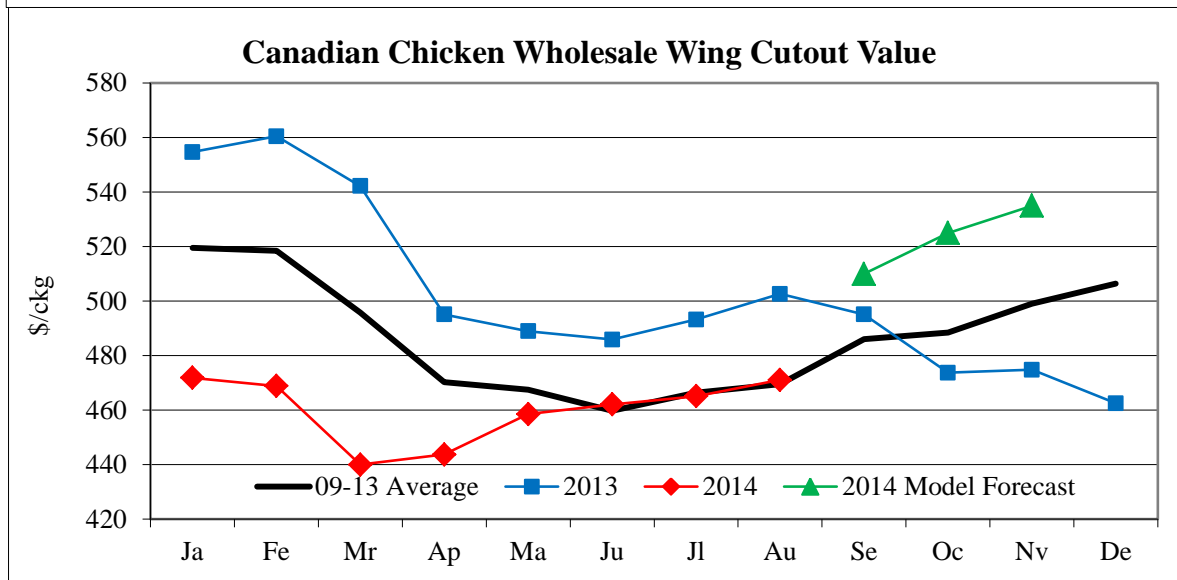
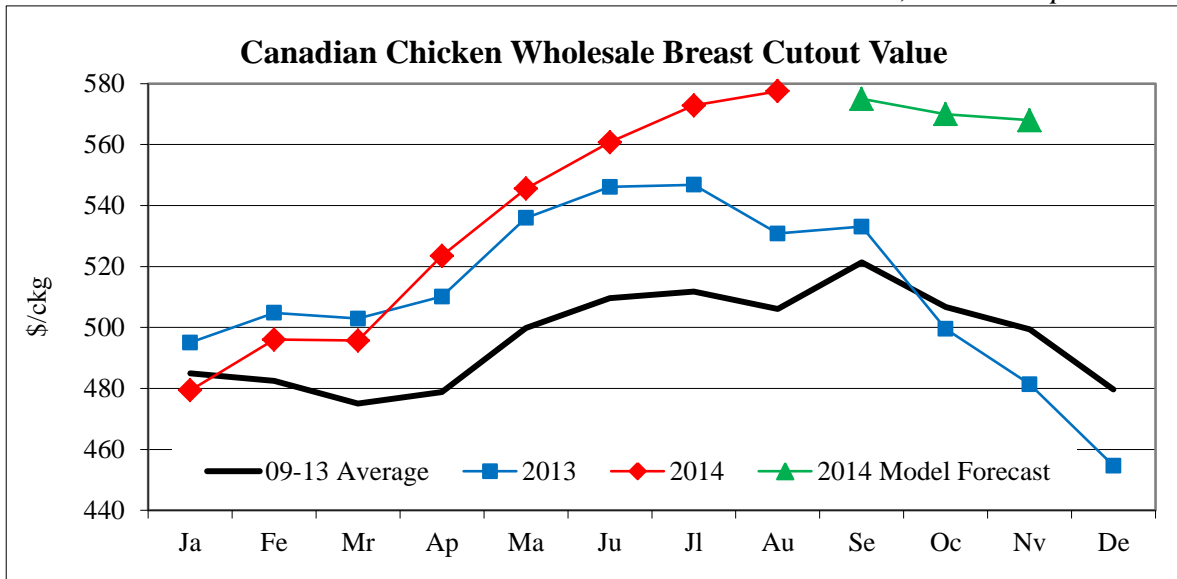
### **George Morris Centre Chicken Model Price Forecasts<sup>1</sup>**

The following are the George Morris Centre model forecasts for June to Oct:

- Breasts: -1% (at seasonal norms)
- Wings: 15% (well above seasonal norms)
- Legs: 2% (at seasonal norms)
- Composite: 0% (at seasonal norms)

<sup>1</sup> The George Morris Centre (GMC) has developed a model that incorporates previous price, supplies, demand, and US chicken prices as explanatory or predictive variables for chicken prices in Canada. The model is based on monthly CFC, Statistics Canada, and GMC data collected over the last ten years.

The graphs below show the trends in the whole leg, wing and breast cutouts for 2013, 2014, the five year average from 2009-2013 and the forecast for September through November 2014. The data and forecasts are based on the CFC data series and are index values, *not actual prices*.



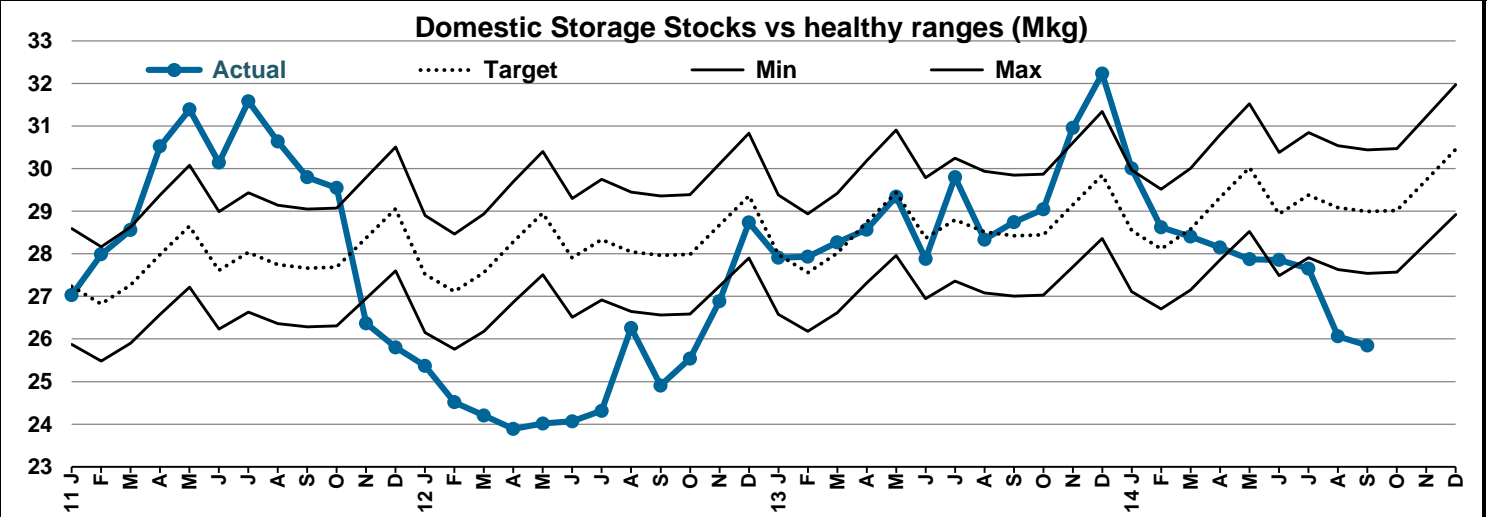
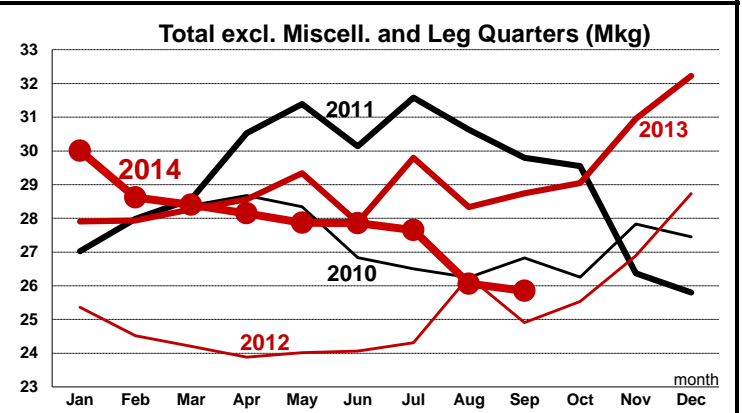
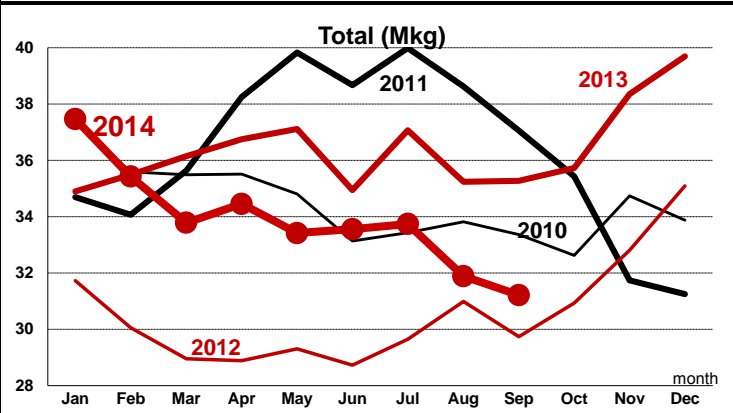
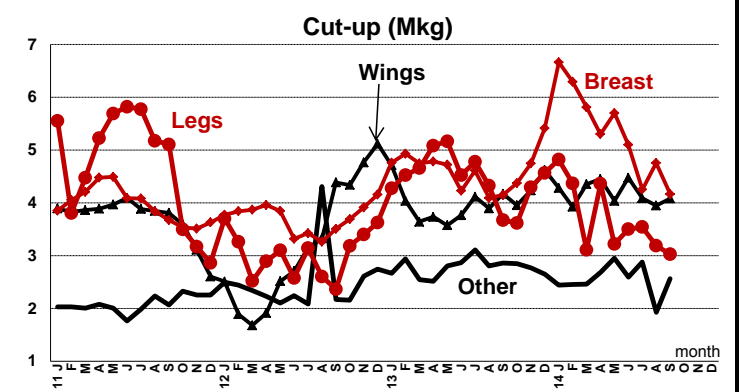
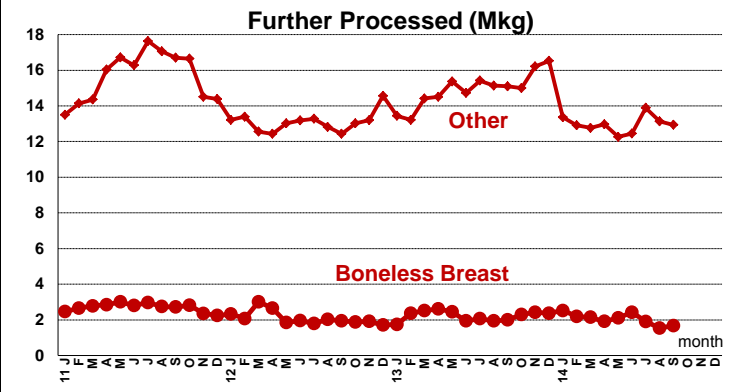
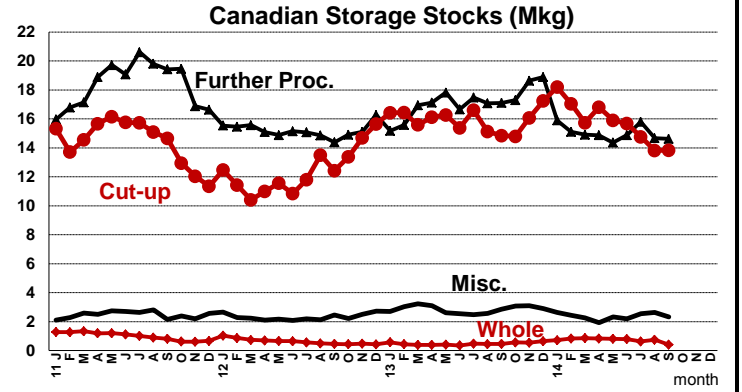
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## **Annex 2**



**Canadian Chicken Storage Stocks (Source: AAFC)**

000 KG	Sep-14	Aug-14	Change	Sep-13	Change	Sep-12
<b>TOTAL</b>	<b>31,213</b>	<b>31,885</b>	<b>-2.1%</b>	<b>35,271</b>	<b>-11.5%</b>	<b>29,742</b>
excl. Misc. & lq	25,847	26,062	-0.8%	28,740	-10.1%	24,907
Whole	417	758	-45.0%	459	-9.1%	458
Cut-Up	13,839	13,816	0.2%	14,849	-6.8%	12,432
CU - Legs	3,029	3,188	-5.0%	3,672	-17.5%	2,366
CU - Breasts	4,167	4,755	-12.4%	4,146	0.5%	3,506
- Bnls Breasts	3,249	3,654	-11.1%	2,708	20.0%	2,677
- Other Breasts	919	1,101	-16.6%	1,438	-36.1%	829
CU - Wings	4,081	3,948	3.4%	4,173	-2.2%	4,388
CU - Other	2,561	1,926	33.0%	2,858	-10.4%	2,172
Further Proc.	14,620	14,675	-0.4%	17,104	-14.5%	14,383
FP - Breasts	1,682	1,541	9.1%	2,004	-16.1%	1,945
FP - Other	12,938	13,134	-1.5%	15,101	-14.3%	12,437
Miscellaneous	2,337	2,635	-11.3%	2,858	-18.3%	2,469



September 19, 2014

\* Annual target values for domestic stocks are calculated using the ratio between annual domestic production and average yearly domestic stocks, using the most recent seven years of data. Monthly stock seasonality factors, also calculated using the most recent seven years (2007-2013) of data, are then applied to the annual target to calculate the monthly targets. **Healthy Ranges** are set 5% above and below the monthly target.

## **Annex 3**

# Summary of Base Allocations (kg evis.) for 2014-2015

	Period A-127 (November 2, 2014 - December 27, 2014)		Period A-128 (December 28, 2014 - February 21, 2015)		Period A-129 (February 22 - April 18, 2015)	
	Initial Base	Adjusted Base	Initial Base	Adjusted Base	Initial Base	Adjusted Base
BC	21,828,692	21,692,500	22,048,258	22,062,500	22,838,983	23,059,000
AB						
SK	5,362,246	5,317,246	5,436,743	5,411,743	5,631,724	5,631,724
MB	6,324,257	6,224,257	6,386,016	6,386,016	6,615,040	6,615,040
ON	49,715,045	49,679,985	50,238,778	50,232,197	52,040,512	51,370,122
QC	40,495,460	40,467,374	40,906,534	40,917,184	42,373,582	41,844,094
NB	4,281,517	4,277,281	4,322,446	4,324,824	4,477,464	4,422,796
NS	5,291,707	5,346,840	5,400,408	5,382,030	5,594,085	5,502,197
PE	566,771	580,780	567,747	580,780	588,109	580,780
NL	2,091,310	2,091,310	2,119,588	2,119,588	2,195,604	2,195,604
<b>CANADA</b>	<b>135,957,005</b>	<b>135,677,573</b>	<b>137,426,518</b>	<b>137,416,862</b>	<b>142,355,103</b>	<b>141,221,357</b>

	Period A-130 (April 19 - June 13, 2015)		Period A-131 (June 14 - August 8, 2015)		Period A-132 (August 9 - October 3, 2015)	
	Initial Base	Adjusted Base	Initial Base	Adjusted Base	Initial Base	Adjusted Base
BC	23,017,088	23,337,000	22,968,578	23,044,000	22,949,152	22,455,751
AB						
SK	5,675,003	5,710,003	5,663,041	5,698,041	5,658,890	5,658,890
MB	6,668,781	6,718,781	6,654,730	6,704,730	6,646,949	6,646,949
ON	52,444,522	53,467,528	52,333,987	52,361,648	52,291,541	51,952,905
QC	42,744,107	43,552,559	42,654,105	42,651,752	42,577,981	42,318,806
NB	4,519,216	4,603,375	4,509,706	4,508,163	4,499,061	4,472,971
NS	5,686,332	5,723,087	5,674,450	5,747,960	5,621,069	5,565,937
PE	586,179	580,780	584,929	580,780	590,945	580,780
NL	2,204,245	2,204,245	2,199,581	2,199,581	2,206,195	2,206,195
<b>CANADA</b>	<b>143,545,473</b>	<b>145,897,358</b>	<b>143,243,107</b>	<b>143,496,655</b>	<b>143,041,783</b>	<b>141,859,184</b>

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