



Canadian Poultry and Egg Processors Council
Conseil canadien des transformateurs d'œufs et de volailles

[This letter is being sent on behalf of the Chicken Primary Processing sector of CPEPC]

Ottawa, June 22, 2020

Sent by email

Registrar
Farm Products Council of Canada
960 Carling Avenue
Ottawa (Ontario)
K1A 0C6
Email: aaafc.fpcccomplaints-plaintescpac.aac@canada.ca

Re: Complaint pursuant to section 7(1)(f) of the Farm Products Agencies Act against the Chicken Farmers of Canada's allocation decision for period A-165

To whom it may concern,

In accordance with the By-Law for dealings with Complaints received by Farm Products Council of Canada dated November 7, 2016, the Chicken Primary Processing Sector of the Canadian Poultry and Egg Processors Council (CPEPC) tables this complaint against the June 16, 2020 decision by Chicken Farmers of Canada's (CFC) Board of Directors regarding the allocation for period A-165.

Since mid-March, we are all deeply impacted by the COVID-19 pandemic, which affected most Canadian industry sectors. In the agri-food sector, restaurants in all provinces have been deeply impacted with the closure of dining rooms. Before the COVID-19 pandemic, it was agreed that the food service sector accounted for approximately 40% of market demand, so it is evident that the drastic reduction of food service activity has an impact on the chicken industry. In terms of total sales, the reduction in food service demand was partially offset by an increase at the retail level. This shift in consumption patterns has had a significant impact for processors and has resulted in lower demand for the entire industry.

For A-163 and A-164, CFC adjusted their allocations to take into consideration the impact of the COVID-19 crisis. In a rapidly changing market environment, the allocation cutback for these two (2) periods were necessary and voted unanimously by the CFC Board of Directors. For these two (2) periods, the CFC board approved an allocation based on a regional approach. This demonstrates that all stakeholders recognized that a national allocation was not appropriate given current circumstances.

Since the beginning of the COVID-19 crisis, CPEPC Chicken Primary Processor members have worked together to avoid on-farm depopulation when several plants had to reduce processing capacity because of labour shortages related to COVID-19 cases and greater levels of employee absenteeism. Throughout this crisis, our members' priority has been to process as many birds as possible to minimize supply shortages at retail. This has been a success, even if it meant continuing to process while wholesale prices were very low at the peak of the crisis. We monitored market conditions very closely and when they began improving, we recommended a slight increase in the allocation for A-164.

The CPEPC Chicken Primary Processor members recommended an allocation based on a regional approach for these two (2) periods because of the different impact the COVID-19 crisis has had on processors in the two regions. For A-165, the CFC Board of Directors has not looked in detail at the possibility to set the allocation on a regional basis. This is the basis of our complaint.

As indicated above, a key reason for a regional approach used for A-163 and A-164 is related to the shift in demand from food service to retail. Each chicken processor has a specific customer mix. Some processors rely mostly on retail customers, some rely mostly on food service customers, and some rely on a balance of both. Further chicken processing activity is mostly done in Central Canada, and a large proportion of these products is destined to the food service sector. On average, supplying the food service sector accounts for a greater share of processors' income in the East than in the West. This is a key aspect that explains why processors in the West were not impacted by the reduction in food service demand at the same level as processors in the East.

When the food service industry was heavily impacted, eastern processors suddenly had no market for products that used to be destined to food service customers in all provinces. The increase of sales at retail was in relation to the size of the population in each province and that could not offset the drastic reduction of sales to food service customers.

For A-165, we clearly indicated in our submission that a national number was not the solution for A-165 (see appendix 1). We all know that restrictions are slowly being lifted in all provinces. This happens at different paces depending on the public health situation in each province. However, even if restrictions are being lifted, it seems obvious that the food service industry will not return to a pre-COVID-19 situation any time soon. The impact of the current crisis is going to be felt for a long period of time and the share of the food service industry will remain lower than before the COVID-19 crisis. The pace at which the food service industry will recover remain unknown and will depend on whether there are subsequent waves of COVID-19 cases, how big those waves will be, and how they impact consumer behaviour.

For A-163, the CFC Board of Directors agreed to allocate additional kgs to eastern provinces in future allocations period to offset the allocation set on a regional approach. When the allocation for A-164 was approved, we were concerned that if the same recovery process as A-163 is used for A-164, it will take a very long time to recover and/or it could create supply challenges as a result of this redistribution. We sent a letter to CFC to encourage them to look at quota leasing as the recovery process for A-164 (see appendix 2) because we are very concerned that if the same recovery process as the one agreed on for A-163 was used for A-164 it would represent too many kgs and could create some issues when these kgs will be regrown in Eastern provinces.

As of today, the CFC Board of Directors has not agreed on a recovery process for A-164. This creates uncertainty for eastern and western provinces and from our perspective, did not provide any guarantee to provinces on a possible recovery process if a regional-based allocation was used for A-165. When we started to discuss our allocation recommendation for A-165 and when we realized that a regional-based allocation was the only possible solution, we drafted a memo outlining how the quota leasing option could work for A-165 (see appendix 3). This document was shared by the CPEPC Chicken Primary Processor members with provincial boards. Unfortunately, that was not sufficient to convince all provinces that the quota leasing option was a valid option, but we believe that the lack of discussions at the CFC level about the recovery process for A-164 was the main factor for provinces not to support a regional-based allocation for A-165.

As explained above, we all expect that the food service industry will slightly recover, and that process has started in all provinces. However, it seems unrealistic to expect that markets will go back to their pre-COVID-19 situation anytime soon. In this context, the share of the retail sector for the chicken industry will remain higher than it used to be. The industry will need to adjust to this new reality because we would all prefer to set the allocation on a national basis. However, since mid-March we are facing an extraordinary situation and the allocation system must adapt to reflect this.

If we expect the food service industry to slowly recover in the coming months, there are at least two other factors to consider and that support a regional-based allocation for A-165: TRQ and storage stocks.

TRQ utilization has been very slow in 2020. The TRQ utilization is now 10 Mkg below pro-rata. It is a level of utilization that is way lower than any time before. We expect a higher utilization after July 1st when the CUSMA TRQ will become available, but we still forecast above pro-rata TRQ utilization for A-165. The TRQ is mostly utilized in Eastern Canada, so this will add a significant quantity to the supply for eastern processors.

The CUSMA TRQ allocation creates a shortfall of more than 7 Mkg between the non-ICL requests and what is allocated to non-ICL processors. This means that there is the possibility for imports on top of the TRQ under the Import to Compete Supplementary Imports. This is not taken into consideration in the 10 Mkg below pro-rata utilization assessment. As the rest of the TRQ, the non-ICL processors are mainly located in Central Canada and these additional imports would contribute to higher supply in the region.

A policy to re-allocate returned TRQ is also available for the CUSMA TRQ. This means that if CUSMA TRQ is returned by any TRQ holders, the TRQ will very likely be re-allocated. As a result, it is very probable that the CUSMA TRQ will be fully utilized.

Since the onset of the COVID-19 crisis, the increase of whole birds and breast meat inventories are a direct sign of the demand decrease. Total whole bird stocks (under and over 2kg combined) increased by 94% between March 1 and June 1. Breast meat inventories (cut-up boneless breast and breast other combined) increased by 18% during the same time frame. This is a very significant increase in inventories over a short period of time. As you know, we were already concerned with the level of inventories prior to the COVID-19 crisis and the situation is now worse. The products in inventories will need to be utilized in the coming months and this must be taken into consideration for the supply for A-165.

It is also important to note that the product specifications (particularly shelf life) for retail customers are very strict and it limits the possibility to move fresh products from one region to the other or to utilize imported products for these customers.

A national allocation a 2% below base for A-165 is not appropriate for the West and is not appropriate for the East. In the West, as it is explained above, the increase of sales at retail at the expense of food service requires a larger share of the supply for western provinces. In the East, the decline of the food service industry and TRQ utilization expected in the fall requires a smaller share of the supply for eastern provinces.

We acknowledge that an allocation set below the base is supposed to be set on a pro-rata basis. However, we are facing extraordinary circumstances and the allocation system must react. The first goal of the chicken industry should be to ensure that the markets are properly supplied. We also want to remind you that the regional-based allocation applies to only a very small proportion of the allocation. For A-163 and A-164, this was 3.2 Mkg evsic and 2.4 MKg evisc respectively, which represents only 1.8% and 1.4% of the domestic allocation. For A-165, our recommendation of -5% for the East and 0% for the

West has an impact of 2.1 Mkg evisc. or 1.1% of the domestic allocation. This is a small quantity that does not impact the long-term viability of the Supply Management system, but it is significant enough to create a market imbalance if a national allocation is chosen.

The Recommendation Being Sought

The CPEPC Chicken Primary Processing sector seeks a recommendation from the Complaint Committee that FPCC does not approve the allocation for A-165 that was decided by the CFC Board of Directors on June 16, 2020 and asks CFC to reconsider its allocation decision for A-165 using a regional approach.

Process Recommendations

The CPEPC Chicken Primary Processing sector requests an expedited hearing process to ensure that CFC can review the allocation decision in a timely manner to schedule production appropriately for A-165.

Sincerely,



Nicolas Paillat
Director, Chicken Primary Processing Sector

c.c.: CPEPC Chicken Primary Processor Members



Canadian Poultry and Egg Processors Council
Conseil canadien des transformateurs d'œufs et de volailles

[This letter is being sent on behalf of the Chicken Primary Processing sector of CPEPC]

Ottawa, June 12, 2020

Sent by email

Mr. Michael Laliberté
Chicken Farmers of Canada
350 Sparks Street, Suite 1007
Ottawa, Ontario K1R 7S8

Re: CPEPC Chicken Primary Processors Allocation Recommendation - A-165

Dear Michael,

The CPEPC Chicken Primary Processors are monitoring market conditions and the impact of the COVID-19 pandemic on Canada and the Chicken industry very closely. In discussing our recommendation for A-165, we looked at the chicken market last fall and what we expect for 2020 given the current context.

As it has been the case for A-163 and A-164, market conditions dictate that a regional approach be used again to set the allocation for A-165. There are several reasons to justify a regional-based approach for A-165:

- Decisions on re-opening the economy are made at the provincial level and at different paces. In the West, most restrictions are now lifted. In the East, restrictions remain in place in the Toronto and Montreal areas and may be lifted in the coming weeks and months. However, even with a new normal situation, the COVID-19 crisis will have long-term effects, particularly on the food service and tourism industries. This trend will disproportionately impact chicken processors in the East;
- Each processor has a specific mix of customers but on average, Eastern processors have a larger share of their business with food service customers. Considering the huge impact of the COVID-19 crisis on the food service industry, it explains why we expect demand to be different in the East and in the West;
- TRQ utilization in 2020 has been very low. At the beginning of June, TRQ utilization is more than 10 Mkg below pro-rata. This means that significant quantities will be imported in the coming weeks and during A-165. We all know that the TRQ is mostly imported in the East, and this will add to the supply in that region.

For these reasons, the CPEPC Chicken Primary Processors urge the CFC board to set the allocation for A-165 on a regional basis. A national allocation will not be acceptable to Eastern and Western processors. As we said from the beginning of the crisis, we recognize that this is not the perfect situation and the allocation should ideally be set on a national basis. However, we continue to face an extraordinary situation of significant market disruption. Our priority must therefore be to ensure we can collectively meet market demand throughout the country. The gap between the East and West remains too significant to be able to have a national allocation for A-165. Like everyone else, our preference is for a national allocation, and we hope to get back to the “normal” allocation setting methodology as soon as possible.

In terms of the allocation level, the CPEPC Chicken Primary Processors recommend an allocation 5% below base for Eastern and Central Canada and at base for Western Canada.

The rationale for these recommendations is:

- As a starting point, market conditions were difficult for primary processors last fall with an abundance of supply and quickly decreasing wholesale prices. That situation would need to be corrected even if we were facing normal market conditions;
- After significant allocation cutbacks for A-163 (11% below base) and A-164 (9.75% below base), we expect greater demand for A-165. As indicated above, the food service industry will continue to be impacted for a long period of time and we do not expect a return to pre-COVID-19 levels anytime soon;
- The economic situation is also going to be difficult for the foreseeable future. The unemployment rate has increased drastically and the return to the pre-COVID-19 levels will take a very long period of time. For many Canadians, family income will be lower than before March 2020. This will impact consumption throughout the economy, including the food sector;
- Wholesale prices have increased since we reached lows in the midst of the COVID-19 crisis, but remain significantly lower than in previous years. As of last week, the EMI market composite was 19 cents/kg lower than last year. For the first 4 weeks of A-163, the average EMI market composite is 30 cents/kg lower than last year. We are also very concerned that wholesale prices have not been stronger since the beginning of A-163, a period for which the allocation was set at 11% below base.
- Storage stocks have increased significantly in April. The June 1 stocks also indicate another increase for the whole bird (+0.5 Mkg or 24%) and cut-up breast (+0.6 Mkg or 4.5%) categories. After seeing an increase in April, we expected that - at the minimum - stocks would not increase in May. An increase of stocks in these two (2) categories is another sign that demand remains weak. These stocks will need to be used over the next few months and must be considered as being part of the supply;
- As of the beginning of June, only 29 Mkg of the 92 Mkg of TRQ have been utilized. This is more than 10 Mkg below pro-rata. For A-165, we expect close to 19 Mkg of TRQ to be utilized. In comparison, for A-163, after 4 weeks, only 4.4 Mkg of TRQ has been utilized and we expect a total of 10.4 Mkg for the entire period. As indicated above, the TRQ is mostly used by Eastern processors and this is one of the reasons why our recommendation for the East is lower than our recommendation for the West.

In conclusion, there is no doubt that the COVID-19 crisis has a significant impact on the Canadian chicken industry and that it will reduce demand for chicken products this fall. For processors, this impact remains significantly different in the East than in the West. For this reason, we strongly believe that a regional-based allocation is required for A-165.

Sincerely

A handwritten signature in blue ink, appearing to be 'N. Paillat', written in a cursive style.

Nicolas Paillat
Director, Chicken and Turkey Primary Processing Sectors

C.c.: CPEPC CPP Members
Jan Rus, CFC

A-165 White Meat Supply

	A-165
Base (Mkg)	192.0
Allocation vs base (%) - East	-5.0%
Allocation vs base (%) - West	0.0%
Domestic Allocation (Mkg)	185.4
Production Δ from LY (Mkg)	-6.9
Production Δ from LY (%)	-3.6%
Market Development (Mkg)	6.0
White Meat Supply from Domestic Allocation	
From Domestic Allocation (Mkg)	103.8
From MD Allocation (Mkg)	3.4
From Imports (TRQ - Mkg)	18.8
From Stocks (Mkg)	1.0
Total White Meat Supply (Mkg)	127.0
Change from last year (%)	0.1%
Change from last year (Mkg)	0.1



Canadian Poultry and Egg Processors Council
Conseil canadien des transformateurs d'œufs et de volailles

[This letter is being sent on behalf of the Chicken Primary Processing sector of CPEPC]

Ottawa, May 5, 2020

Sent by email

Mr. Michael Laliberté
Chicken Farmers of Canada
350 Sparks Street, Suite 1007
Ottawa, Ontario K1R 7S8

Re: Regional Based Allocation for A-164 and Recovery Process

Dear Michael,

First, I want to thank you and your team for your efforts to get a revised allocation that is based on a regional approach. As we indicated in our submission, we strongly believe that was the only reasonable solution for A-164 and we are pleased with the decision made by the CFC board earlier this week.

When the CFC board discussed the revised allocation, a motion was passed mandating the CFC Executive Committee to look at options for Eastern provinces to recover the kgs they are not going to produce during A-164.

We reviewed the framework that was agreed on by the CFC board for the 3.2 Mkg to be recovered by Eastern provinces related to the allocation for A-163. From our perspective, this process will work well when applied for one period.

For A-164 we strongly encourage the CFC Executive Committee to consider the leasing of quota as the recovery mechanism. If the same process was to be implemented it would be a total of over 5 Mkg for both periods which could have a significant impact to the marketplace, depending on the timeframe.

From our perspective the quota leasing option would ensure that there is no impact on the market for future allocation periods. The 2.1 Mkg from Eastern and Central provinces could be leased on a pro-rata basis to the 4 Western provinces. All producers would be impacted at the same level (% of quota). Provinces would have to agree on a lease rate but there are already guidelines that could be used, for instance the discount for MD production or the rate that is already currently being used by companies to lease quota to farmers, or a combination of the two.

We think that leasing of quota for A-164 would be the least disruptive to the marketplace, and ensures farmers detrimentally affected be treated fairly and expeditiously. We hope that the CFC Executive Committee will seriously consider this option to offset the impacts of the regional-based allocation for A-164.

Sincerely,



Nicolas Paillat
Director, Chicken and Turkey Primary Processing Sectors

C.c. : CPEPC CPP Members
Jan Rus



Canadian Poultry and Egg Processors Council
Conseil canadien des transformateurs d'œufs et de volailles

MEMO

To:	CPEPC Chicken Primary Processors
From:	Nicolas Paillat
Date:	Thursday, June 4, 2020
Subject:	A-165 and Quota Leasing

Context

COVID-19 has had a significant negative impact on poultry markets across Canada. Due to distinct regional market differences, this has had greater impact on central and eastern markets. This situation required flexibility in the approach and timing of allocation decisions. Chicken allocations in A-163 and A-164 recognized these differences and regional allocations were set with Central and Eastern Canada taking more dramatic cuts than Western Canada.

The CFC's operating agreement does not provide for an allocation set on a regional approach. While we support the need to get back to a national allocation, the unique circumstances brought on by the COVID-19 pandemic requires a more regional approach in situations where there are significant regional differences in allocation requests.

Allocation for A-165

For A-165, CPEPC's Chicken Primary Processors have initiated discussions regarding the allocation and while recommendations have not been reached, it is expected that there will significant regional differences. Market conditions remain unpredictable and unprecedented as restrictions ease in different parts of the country. This situation varies significantly from one province to another and from processor to processor which further adds to the need for flexibility in allocation.

Understanding the market impact and effectively setting an allocation as businesses and economies reopen at varying rates require that we keep an open mind and use creative thinking to effectively set allocations that align with market needs.

Processors also recognize that they are operating in a national system and that producers across the country must be treated in a fair and equitable manner.

From our sector's perspective, members noted that we are slowly moving towards a "new normal" situation where the market will get back into balance and a national approach can be used again to set the allocation. However, based on preliminary discussions within our sector, the gap between the Western and Central/Eastern regions remains significant for A-165 and it is very likely that a regional-based approach will again be necessary to align production with the market needs of each region.

Quota Leasing Proposal

If a regional-based approach is indeed necessary for A-165, we propose to use quota leasing as a means of ensuring producer fairness and equity. Western boards would pay a lease fee to Central/Eastern boards for the difference of kgs between the pro-rated allocation and the regional allocation. Provincial Boards would then distribute lease kilograms and lease fees to their growers.

The chart below provides an illustration of the calculations for A-165 and how kilograms and lease fees would be transferred. **The allocations numbers for the East (-10%) and for the West (-5%) are just for example and are not the allocation recommendations for the two regions.** We suggest a lease rate of \$0.26/kg but this as well is for illustration purposes and something the boards would have to negotiate.

	A-165 Adj. Base	Allocation (compared to base)	A-165 Allocation	Pro-rata allocation	Kgs Difference	Lease Payment (\$0.26/kg)	Lease Received (\$0.26/kg)
BC	26,550,900	-5.00%	25,223,355	24,311,704	911,651	\$237,029	
AB	19,151,295	-5.00%	18,193,730	17,536,152	657,578	\$170,970	
Sk	6,684,172	-5.00%	6,349,963	6,120,456	229,507	\$59,672	
MB	7,766,453	-5.00%	7,378,130	7,111,462	266,669	\$69,334	
ON	65,914,720	-10.00%	59,323,248	60,355,739	-1,032,491		-\$268,448
QC	50,948,532	-10.00%	45,853,679	46,651,739	-798,060		-\$207,496
NB	5,203,894	-10.00%	4,683,505	4,765,019	-81,514		-\$21,194
NS	6,515,461	-10.00%	5,863,915	5,965,973	-102,058		-\$26,535
PE	697,296	-10.00%	627,566	638,489	-10,922		-\$2,840
NL	2,576,568	-10.00%	2,318,911	2,359,271	-40,359		-\$10,493
Total	192,009,291		175,816,003	175,816,003	0	\$537,005	-\$537,005

Conclusion

We strongly believe that this quota leasing option ensures that the allocation meets the market needs of each region and, at the same time, ensures that all producers are treated fairly. It is very likely that a regional-based approach will be necessary for A-165 because the impact of the COVID-19 crisis is markedly different in the West than in the rest of the country.

We encourage you to seriously consider this quota leasing option in the context of the A-165 allocation if required. If a regional-based approach is necessary, the quota leasing option would then become part of our allocation proposal for A-165. We also encourage you to share and discuss this proposal with your provincial boards and seek their feedback, comments and concerns.