

Allocating Growth in the Chicken Industry in Ontario

Stakeholder Consultation Workshop

Sponsored by Ontario Chicken Industry Advisory Committee

December 18, 2014

CFO District 6

Brantford, Ontario



Bryan Boyle & Associates

FACILITATING YOUR FUTURE

Table of Contents

	Page
Executive Summary	3
Purpose of Session	5
Current Perceptions	5
Desired Outcomes	8
Positives	9
Challenges	9
Consequences of Inaction	10
Key Objectives	10
Suggested Actions : Farmer-Member Allocation	12
Suggested Actions : Processor Supply Allocation	14
Workshop Summary	16

Executive Summary

On December 17, 2014 chicken producers from District 6 including Brant, Halton and Hamilton-Wentworth met at the Best Western Hotel in Brantford for a highly interactive workshop facilitated by Bryan Boyle. The purpose of the session was to solicit input, feedback and advice on how future growth should be distributed to farmers and processors (farmer – member allotment and processor supply distribution) so as to position the chicken industry for economic growth and success.

Producers were asked, “What are the first one or two words that come to your mind when you hear the allocation of growth in the chicken market in Ontario”. Their thoughts about farmer-member allocation were focused around positive perceptions, fairness and equity, expansion, production conditions, challenges and attributes. Their thoughts about processor-supply allocation could be summarized as positive perceptions, relation to the market, concerns and recommendations.

In general, the producers present felt slightly positive about both farmer-member allocation and processor supply allocation. There was a wide range of individual perspectives.

When asked to identify their desired outcomes for the allocation of growth in the chicken market in Ontario to be successful and effective, the following emerged: production features, market realities, stakeholder relationships and sustained growth. Participants identified some strengths or positives and negatives or challenges that exist for the allocation of growth in the chicken market in Ontario in both the farmer-member and the processor supply allocations. They identified these strengths and challenges in the areas of system characteristics, production, marketing and stakeholder relationships.

Participants reflected on the implications or consequences, if any, of maintaining current policies for the allocation of future growth to producers and processors (farmer – member allotment and processor supply distribution) in the Ontario chicken market. Several implications were identified in both components of the allocation system.

The producers present prioritized the objectives that had been created by the Ontario Chicken Industry Advisory Committee to assure strong and vibrant allocation of growth in the chicken market in Ontario. Highlights of the objectives listed from their highest to lowest priority are:

- 1st: Evolve the Allocation System of Farmers and Processors
- 2nd: Create Value Serving Growing and Emerging Markets
- 3rd: Encourage Innovation, New Business-Building Ideas
- 4th: Develop a Predictable and Stable System
- 5th: Serve Existing Markets
- 6th: Encourage Quality, Efficiency and Value Creation

Participants suggested actions that will help the industry move towards strong and effective allocation of growth to farmers and processors in the chicken market in Ontario. These actions are designed to build on the strengths, reduce or eliminate the challenges keeping the desired outcomes in mind.

Participants were encouraged to identify actions that will have a positive impact on the allocation of future growth in the chicken industry. They spent some time diverging or sharing a range of ideas for action and then some time converging or focusing in on which of those actions they felt would be most effective.

Their suggested actions were sorted by “To Whom” the market growth should be allocated. Any of the supporting information (Why? How? When? Objectives?) that participants provided was also noted.

With regard to farmer-member allocation of growth, the highest priority of the participants was to allocate the growth to all quota holders, with equal amounts slightly outweighing the pro rata approach. The younger generation of current quota holders was expressed as a strong priority as well. At substantially lower priority levels were new entrants, supplying new markets and large-scale research operations.

With regard to processor supply allocation of growth, the participants’ highest priority was processors who can prove that they have a specific market. The next five priorities and declining order were small, highest bidder, new, all and large producers.

The workshop was a productive event, where the participants were very engaged. Through their valued input, participants took an important step in their quest for the effective allocation of growth to farmers and processors in the chicken market in Ontario.

Allocating Growth in the Chicken Industry in Ontario

Stakeholder Consultation Workshop

Location: Best Western Hotel, Brantford, Ontario

December 17, 2014 Facilitated by Bryan Boyle

Purpose of the Session

To solicit input, feedback and advice on how future growth should be distributed to farmers and processors (farmer – member allotment and processor supply distribution) so as to position the chicken industry for economic growth and success

Throughout this report whenever two or more participants offered the same or very similar comments they are noted with an “x” and the number, i.e. (x3)

There are two different approaches for the allotment of growth in the chicken market. One relates to the farmer-member and one relates to the primary processor. Throughout this report, when participants made comments specifically about farmer-member allocation they are noted with an “F”. Comments about processor supply distribution are noted with a “P” and general comments that apply to both are noted with an “FP”.

In this report, any terms relating quota to processors, e.g. “plant quota”, “supply quota” or “processor’s quota” expressed by participants are a reference to the official terms of “assurance of supply” or “assured supply”.

Current Perceptions

Participants were asked to share the first one or two words that come to mind when they hear “Allocation of growth in the chicken market in Ontario”.

1) Relating to Farmer-Member Allocation (F):

Positive Perception

- Good for farmer
- Good to hear
- Good cooperation between farmers and processors

Fairness and Equity

- Fairness (x2)
- Fairness to all quota holders
- Every farmer get some allocation
- Equal
- Pro rata allocation is fair

Expansion

- Industry is growing

Production Considerations

- Production
- Not enough barn space

Attributes

- Profit
- What is it worth?

Challenges

- Problems
- Selfishness

2) Relating to Processor-Supply Allocation (P):Positive Perception

- Working good
- Processors and farmers are working better together
- Pro rata allocation is fair

Market Related

- Fill all markets

Concerns

- What is the cost?
- Possible change of processor allocation formula

Recommendations

- Need to be sure small processors get enough quota*

Participants' Perceptions of Allocation of Chicken Growth

On ballots numbered from 1 to 30, participants indicated the number that they feel most accurately describes the current status of the allocation of chicken growth.

#30 = "Top of our Game": A well-coordinated, effective and appropriate approach that provides strong value to its stakeholder groups, including producers, processors and consumers

#1 = "Dead in the Water": An uncoordinated, ineffective and inappropriate approach that provides limited value to its stakeholder groups, including producers, processors and consumers

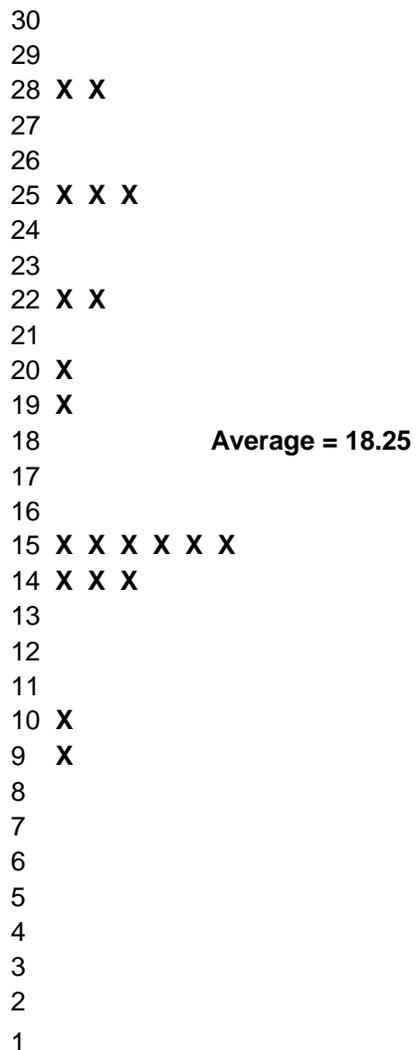
Participants' Perceptions of Farmer-Member Allocation of Chicken Growth (F)

30 X
29
28
27
26
25 X X X X
24 X X
23
22
21
20 X X
19
18
17 X X
16
15 X X X
14 X
13
12
11
10 X X X X
9 X
8
7
6
5
4
3
2
1

Average = 18.00

Scale: 30 = Top of our Game
1= Dead in the Water

Participants' Perceptions of Processor Supply Allocation of Chicken Growth (P)



Scale: 30 = Top of our Game
1= Dead in the Water

Desired Outcomes

Participants were asked, "When we look at our chicken industry in the future, how will we know that we "got it right" for the allocation of chicken growth?"

Production Features

- F Producers can fill Ontario's chicken markets
- F Allocation to each farm is equal

Market Realities

- P Reduced imports from outside the country
- P All markets get filled, e.g. kosher

Stakeholder Relationships

- FP Limited negative press

Sustained Growth

- F Current farmers benefit from growth
- FP Better bottom line to assure continued growth
- FP Small farms and small processors need to grow more quickly
- FP Our system promotes growth

What positives exist for the allocation of growth in the chicken market in Ontario?System Characteristics

- F Growth allows families to continue to farm and grow their businesses
- FP Pro rata
- FP More and consistent profitable (x2)
- FP Less limitation on allotments

Production

- F Farm expansion based on profitability

Marketing

- P Expansion of chicken markets

Stakeholder Relationships

- FP Self-sufficiency for both farmer and producer
- FP Growth of healthy food for consumers
- FP All farmers and processors benefit equally

What challenges exist for the allocation of growth in the chicken market in Ontario?System Characteristics

- FP Processors have too much influence over farmers
- FP Pro rata system is better
- FP Bigger farmers and processors become a monopoly; little guys get squeezed out
- FP Return on investment is low; building costs increase; returns decrease

Production

- F Farmer not penalized for when the consumer backs up

Marketing

- P Movement between provinces
- FP Markets do not get filled

Stakeholder Relationships

- FP Traditional relationships may not promote growth

What are the implications or consequences, if any, of maintaining current policies for the allocation of future growth to producers and processors?

Farmer-Member Allocation (F)

- Small farms will be gone
- Concern about quota cap
- Stagnant CFO Board

Processor Supply Allocation (P)

- Fewer processors
- Quota cap can be an issue

Both Growth Allocation Systems (FP)

- Imports become too large
- Loss of public support
- Proactive to change for the better
- Potential to lose the marking system because of big corporations
- The big get bigger and the rich get richer

Key Objectives

After considerable discussion, the Ontario Chicken Industry Advisory Committee has identified some objectives relating to the allocation of growth to farmers and processors in the chicken market in Ontario:

- 1) Evolve the allocation systems of both farmers and processors to improve the flexibility and responsiveness in capitalizing on growth opportunities in the chicken market place
- 2) Create value by serving the needs of growing and emerging markets
- 3) Encourage innovation, new business-building ideas
- 4) Serve the needs of existing markets taking into consideration their size, importance and historical investment

- 5) Develop a system that is predictable and stable that aligns the interests of key stakeholders in the chicken industry
- 6) Encourage quality, efficiency and value creation

The participants prioritized these objectives using the following method:

Each participant was given 100 points. They were asked to allocate their points to a number of objectives to show their relative importance. They based their allocation on where action would have the most positive impact on the allocation of growth to farmers and processors in the chicken market in Ontario. Each participant allocated a score between 0 and 40 for each objective.

Rank	Objective Number	Objective	Total Score
1 st	1	Evolve the Allocation System of Farmers and Processors	490
2 nd	2	Create Value Serving Growing and Emerging Markets	420
3 rd	3	Encourage Innovation, New Business-Building Ideas	410
4 th	5	Develop a Predictable and Stable System	330
5 th	4	Serve Existing Markets	275
6 th	6	Encourage Quality, Efficiency and Value Creation	175

Action Planning

Participants were encouraged to identify actions that will have a positive impact on the allocation of future growth in the chicken industry. They spent some time diverging or sharing a range of ideas for action and then some time converging or focusing in on which of those actions they felt would be most effective.

Participants were encouraged to answer the following questions relating to each allocation action:

To Whom?

Why?

How?

When?

Objectives? Which of the six objectives will this action help achieve?

Farmer-Member Allocation or Processor Supply Allocation? Participants focused on farmer-member allocation for the first part of this session and then focused on processor supply allocation for the second part of the session.

Participants' Suggested Actions

Their suggested actions were sorted by “To Whom” the market growth should be allocated. Any of the supporting information (Why? How? When? Objectives?) that participants provided was also noted.

The participants prioritized their actions based on the “To Whom” titles using the following method:

Each participant was given 100 points. They were asked to allocate their points to whom the allocation of growth to farmers and processors would have the most positive impact on the chicken market in Ontario. Each participant allocated a score between 0 and 100 for each action.

Rank	Farmer-Member Allocation of Growth (To Whom)	Total Score
1st	All (Equal Amounts)	645
2nd	All (Pro rata)	570
3rd	Younger Generation of Current Quota Holders	560
4th	New Entrants	170
5th	Supplying New or Specialty Markets	160
6th	Large Scale Research Operations	95

Any supporting information that the table discussion groups provided on farmer-member allocation of growth is noted below. Information can be found under the “To Whom” title where it fits most appropriately. The supporting information is provided in the same order as the ranking in the table above.

1. All Producers (Equal Amounts)

1.1

To Whom? All current farmers who are quota holders

Why? Equitable, encourages smaller and younger producers to develop more quickly

How? Exactly equal kilograms of growth is allocated to each farmer member

When? Every quota period

Objective? 5

2. All Producers (Pro Rata)

2.1

To Whom? All quota holders

Why? Equitable and relative to the size of the operation; allocation of growth relates to amount of investment and production

How? Allocate the exact same percentage of the growth to every quota holder; similar to the current system

When? Each quota period

Objectives? 1,2,3,5,6

2.2

To Whom? All existing farmers

Why? Promotes quota holder growth; we do not need a bottom up approach

How? Allocate the same percentage of the growth to every quota holder; similar to the current system; alternate years with equal amount to every quota holder

When? Alternate between pro rata and exact amount every second year

Objectives? 1,2,3

3. Younger Generation of Current Quota Holders

3.1

To Whom? To second generation family members of existing quota holders

Why? Helps young people get started in the business; assures that the chicken industry is sustainable; positive impact on succession planning

How? Allocate the growth to the sons and daughters of existing quota holders on a pro rata or exact amount basis

When? As soon as possible so families can start to make decisions around this option

Objectives? 1,3

4. New Entrants

4.1

To Whom? Producers who wish to become part of the chicken industry

Why? Assure market stability; protect the family farm

How? Accept applications; develop selection criteria or initiate a lottery; charge smaller entrance fees to these new entrants

When? As soon as possible; every quota period in the future

Objectives? 1,3,5

4.2

To Whom? New entrants into the chicken business

Why? We need to keep the industry sustainable involving the young people

How? Initiate a lease of quota program to help keep capital costs down; distribute to the new entrants on a pro rata basis

When? Annually

Objectives? 1,2,5,6

5. Supplying New or Specialty Markets

5.1

To Whom? Producers who have an agreement with their processor to supply new markets

Why? The demand of small and specialty markets would be met; we could supply our own

How? Provide a percentage (e.g. 20%) to producers supplying new or specialty markets; the remaining 80% would be allocated to all farmers on a pro rata basis

When? Whenever growth hits 5% over the base allocation

Objectives? 1,2,3

6. Producers Willing to Undertake Large Scale On-Farm Research

6.1

To Whom? To farmers who are willing to undertake large scale on-farm research

Why? Practical research is very important to the chicken industry; lack of available quota often limits the possibility of doing large on-farm research projects

How? Accept applications for long-term facilities that would be committed to research

When? Each quarter period

Objectives? 2,3, 5,6

Rank	Processor Supply Allocation of Growth (To Whom)	Total Score
1st	Processors Who Prove That They Have a Specific Market	540
2nd	Small	340
3rd	Highest Competitive Bidder	330
4th	New	225
5th	All	205
6th	Large	160

Any supporting information that the table discussion groups provided on processor supply allocation of growth is noted below. Information can be found under the “To Whom” title where it fits most appropriately. The supporting information is provided in the same order as the ranking in the table above.

1. Processors Who Prove That They Have a Specific Market

1.1

To Whom? Processors who prove that they have a specific market would get the initial percent of the growth and the rest would be allocated to all other processors pro rata

Why? Rewards those who create and serve new markets

How? Processors would apply for the new market component; the remainder would utilize the current system

When? Each quota period

Objectives? 1,2,3,5

2. Small Processors

2.1

To Whom? Small processors who are active in the market

Why? This would help make both them and the industry more competitive

How? Use the same system that is currently in place, but make a substantially higher percent of growth available to smaller processors

When? Every quota period

Objectives? 1,2,4,6

3. Highest Competitive Bidder

3.1

To Whom? Existing or new processors willing to bid the highest

Why? This would be a way for new processors to enter the market; processors could assure that they could access significant amount of quota to meet their changing marketing needs

How? Organized and transparent auction

When? Every quota period

Objectives? 1,2,3

4. New Processors

4.1

To Whom? Processors who currently do not have any quota but would like to market chicken into a specific market

Why? We need new processors to help keep the industry sustainable

How? Accept applications and grant quota to a specific number of processors so they can build business plans around that quota availability

When? Immediately

Objectives? 1,2,3,6

5. All Processors

5.1

To Whom? All existing processors

Why? Fair and equitable; processors can expect to share in any market growth within the industry

How? Continue the current system utilizing the pro rata allocation

When? Each quota period

Objectives? 1,4,5

6. Large Processors

6.1

To Whom? Large processors

Why? These processors often have the largest infrastructure and marketing systems in place to utilize additional growth; well-established and committed to the industry

How? Identify a specific threshold level in size and allocate the growth on a pro rata basis to all those processors above that size

When? Every quota period

Objectives? 1,3

Summary of the Workshop

The workshop was a productive event, where the participants were very engaged. Through their valued input, participants took an important step in their quest for the effective allocation of growth to farmers and processors in the chicken market in Ontario.